

City of Chicago, Illinois Sewer Fund

Basic Financial Statements as of and for the Years
Ended December 31, 2010 and 2009, Required
Supplementary Information, Statistical Data, and
Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS SEWER FUND

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INDEPENDENT AUDITORS' REPORT

The Honorable Rahm Emanuel, Mayor,
and Members of the City Council
City of Chicago, Illinois

We have audited the accompanying basic financial statements of the Sewer Fund ("Sewer Fund") of the City of Chicago, Illinois ("City") as of December 31, 2010 and 2009, 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 basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Sewer Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the basic financial statements referred to above present only the Sewer 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 Sewer Fund as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 GASB. 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 on it.

Our audit was conducted for the purpose of forming an opinion on the Sewer Fund's respective financial statements that collectively comprise the Sewer Fund's basic financial statements. The statistical data, as listed in the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statistical data is the responsibility of the City's management. Such statistical data has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

June 29, 2011

CITY OF CHICAGO, ILLINOIS

SEWER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of Chicago, Illinois, Sewer Fund (Sewer Fund) financial performance provides an introduction and overview of the Sewer Fund's basic financial activities for the fiscal years ended December 31, 2010 and 2009. Please read this discussion in conjunction with the Sewer Fund's basic financial statements and the notes to basic financial statements following this section.

FINANCIAL HIGHLIGHTS

2010

- Operating revenues for 2010 increased by \$23.1 million compared to prior-year operating revenues. This increase of 13.2% is primarily due to an increase of sewer service revenues as a result of an increase of water rates of 15% and sewer rates of 1% offset by a reduction in water usage.
- Operating expenses before depreciation and amortization for 2010 increased by \$4.2 million compared to 2009. This increase of 3.9% is primarily due to an increase in general fund reimbursement expenses and administrative and general.
- The Sewer Fund's total net assets for 2010 increased by \$37.0 million or 8.2% compared to 2009.
- The Sewer Fund's total assets were greater than total liabilities by \$490.7 million (net assets) at December 31, 2010. Total net assets comprise \$414.8 million of investment in capital assets, net of related debt, \$11.1 million restricted for capital project, and \$64.8 million of unrestricted net assets.
- Capital asset additions, net, being depreciated for 2010 were \$133.0 million, principally due to completion of sewer construction and rehabilitation projects.

2009

- Operating revenues for 2009 increased by \$15.2 million compared to prior-year operating revenues. This increase of 9.5% is primarily due to an increase of sewer service revenues as a result of an increase of water rates of 15% and sewer rates of 1% offset by a reduction in water usage.
- Operating expenses before depreciation and amortization for 2009 increased by \$11.2 million compared to 2008. This increase of 11.3% is primarily due to an increase in repairs, maintenance, engineering, and general fund reimbursement expenses.
- The Sewer Fund's total net assets for 2009 decreased by \$14.1 million or 3.0% compared to 2008.
- The Sewer Fund's total assets were greater than total liabilities by \$453.7 million (net assets) at December 31, 2009. Total net assets comprise \$391.3 million of investment in capital assets, net of related debt, \$9.5 million restricted for capital project, and \$52.9 million of unrestricted net assets.
- Capital asset additions, net, being depreciated for 2009 were \$112.0 million, principally due to completion of sewer construction and rehabilitation projects.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Sewer Fund's basic financial statements. The Sewer 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 statistical data after the notes to basic financial statements.

The statements of net assets present all of the Sewer Fund's assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by private-sector companies. The difference between assets, deferred outflows, and liabilities is reported as net assets. The increase or decrease in net assets may serve as an indicator, over time, whether the Sewer Fund's financial position is improving or deteriorating. However, the consideration of other nonfinancial factors may be necessary in the assessment of overall financial position and health of the Sewer Fund.

The statements of revenues, expenses, and changes in net assets present all current fiscal 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 were provided and used by the Sewer 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 basic 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. The statistical data section presents unaudited debt service coverage calculations and includes certain unaudited information related to the Sewer Fund's historical financial and nonfinancial operating results and capital activities.

FINANCIAL ANALYSIS

At December 31, 2010, the Sewer Fund's financial position continues to be strong with total assets and deferred outflows of \$1,784.1 million, total liabilities of \$1,293.4 million, and net assets of \$490.7 million. A comparative condensed summary of the Sewer Fund's net assets at December 31, 2010, 2009, and 2008, is as follows:

(In thousands)	Net Assets		
	2010	2009	2008
Current assets	\$ 109,889	\$ 103,032	\$ 81,603
Restricted and other assets	262,764	97,376	212,281
Utility plant — net	1,362,328	1,269,497	1,163,496
Deferred outflows	<u>49,116</u>	<u>36,084</u>	<u>81,112</u>
Total assets and deferred outflows	<u>1,784,097</u>	<u>1,505,989</u>	<u>1,538,492</u>
Current liabilities	92,251	98,629	59,513
Derivative instrument liability	49,116	36,084	81,112
Long-term and restricted liabilities	<u>1,152,026</u>	<u>917,575</u>	<u>930,053</u>
Total liabilities	<u>1,293,393</u>	<u>1,052,288</u>	<u>1,070,678</u>
Net assets:			
Invested in capital — net of related debt	414,766	391,248	413,481
Restricted for capital projects	11,110	9,533	
Unrestricted	<u>64,828</u>	<u>52,920</u>	<u>54,333</u>
Total net assets	<u>\$ 490,704</u>	<u>\$ 453,701</u>	<u>\$ 467,814</u>

2010

Current assets increased by \$6.9 million (6.7%) due to an increase in cash and cash equivalents with a slight increase in accounts receivable. Restricted and other assets increased by \$165.4 million (169.8%) and utility plant — net increased by \$92.8 million (7.3%) due principally to capital activities for sewer construction and rehabilitation projects. Deferred outflows in the amount of \$49.1 million were recorded to the Sewer Fund basic financial statements in connection with the adoption of Government Accounting Standards Board (GASB) Statement No. 53 during 2010. During 2010, the Sewer Fund increased its lining program, lining an additional 37.7 miles of sewers.

The decrease in current liabilities of \$6.4 million (6.5%) is primarily related to the decrease in deferred swap upfront payment with increase in accounts payable, due to other City funds, deferred revenue, and accrued liabilities. Derivative instrument liability in the amount of \$49.1 was recorded to the Sewer Fund basic financial Statement in connection with adoption of GASB Statement No. 53. Long-term and restricted liabilities increased by \$234.5 million (25.6%) due to the issuance of revenue bonds during 2010.

Net assets may serve, over a period of time, as a useful indicator of the Sewer Fund's financial position. As of December 31, 2010, total net assets were \$490.7 million, an increase of \$37.0 million (8.2%) from 2009.

2009

Current assets increased by \$21.4 million (26.3%) due to an increase in accounts receivables and due from other City funds. Restricted and other assets decreased by \$114.9 million (54.1%) and capital assets — net increased by \$106 million (9.1%) due principally to capital activities for sewer construction and rehabilitation projects. During 2009 the Sewer Fund increased its lining program, lining an additional 15.7 miles of sewers (57.5%). Deferred outflows in the amount of \$36.1 million were recorded to the Sewer Fund basic financial statements in connection with the retroactive application of the provisions of GASB Statement No. 53.

The increase in current liabilities of \$39.1 million (65.7%) is primarily related to the increase in accounts payable, due to other City funds, deferred revenue, and accrued liabilities. Derivative instrument liability in the amount of \$36.1 million was recorded to the Sewer Fund basic financial statements in connection with the retroactive application of GASB Statement No. 53. Long-term and restricted liabilities decreased by \$12.5 million (1.3%).

Net assets may serve, over a period of time, as a useful indicator of the Sewer Fund's financial position. As of December 31, 2009, total net assets were \$453.7 million, a decrease of \$14.1 million (3%) from 2008.

The primary sources of the Sewer Fund's operating revenues are sewer service revenues which are derived from a percentage of water billings. These revenues fund all Sewer Fund expenses, fund deposits, and debt service requirements. A comparative condensed summary of the Sewer Fund's revenues, expenses, and changes in net assets for the years ended December 31, 2010, 2009, and 2008, is as follows:

(In thousands)	Revenues, Expenses, and Changes in Net Assets		
	2010	2009	2008
Revenues:			
Operating revenues:			
Sewer service	\$ 197,455	\$ 173,906	\$ 158,698
Other operating revenues	<u>774</u>	<u>1,257</u>	<u>1,307</u>
Total operating revenues	198,229	175,163	160,005
Nonoperating revenues	20,526	18,815	974
Capital grants	<u>3,136</u>	<u> </u>	<u> </u>
Total revenues	<u>221,891</u>	<u>193,978</u>	<u>160,979</u>
Expenses:			
Operating expenses before depreciation and amortization	113,881	109,643	98,487
Depreciation and amortization	23,775	21,878	20,982
Interest rate swap expense		38,109	
Interest expense	<u>47,232</u>	<u>38,461</u>	<u>38,823</u>
Total expenses	<u>184,888</u>	<u>208,091</u>	<u>158,292</u>
Change in net assets	37,003	(14,113)	2,687
Net assets — beginning of year	<u>453,701</u>	<u>467,814</u>	<u>465,127</u>
Net assets — end of year	<u>\$ 490,704</u>	<u>\$ 453,701</u>	<u>\$ 467,814</u>

2010

Sewer service revenues for the years ended 2010 and 2009 were \$197.5 million and \$173.9 million, respectively. Other revenue, which consists primarily of inspection fees and house drain fees, for the years ended 2010 and 2009, was \$0.8 million and \$1.3 million, respectively. The increase in 2010 sewer service revenues of \$23.5 million (13.5%) is primarily due to an increase in water and sewer rates.

Nonoperating revenues increased by \$1.7 million as a result of construction activities for other City funds of \$1.5 million compared to .1 million for 2009; a decrease of investment earnings of \$1.2 million as a result of unrealized losses; and an increase in other revenue as a result of the amortization of upfront swap payments of \$19.9 million compared to \$18.7 for 2009. The upfront payments are amortized over the life of the respective swap.

2009

Sewer service revenues for the years ended 2009 and 2008 were \$173.9 million and \$158.7 million, respectively. Other revenue, which consists primarily of inspection fees and house drain fees, for the years ended 2009 and 2008 was \$1.3 million and \$1.3 million, respectively. The increase in 2009 sewer service revenues of \$15.2 million (9.6%) is primarily due to an increase in water and sewer rates.

Nonoperating revenues decreased by \$.4 million as a result of a decrease in interest income. Nonoperating expense increased \$19.9 million as a result of swap termination where the City received \$38.7 million and paid \$38.1 to execute a new swap. The payment of \$38.1 million is treated as an expense in the current year while the amount received is amortized into nonoperating revenue over the period of the new swap.

A comparative summary of the Sewer Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2010, 2009, and 2008 is as follows:

(In thousands)	Operating Expenses		
	2010	2009	2008
Repairs	\$ 42,509	\$ 42,110	\$ 37,786
General Fund reimbursements	27,065	25,431	23,287
Maintenance	24,075	24,380	18,626
Engineering	3,053	3,319	3,042
Administrative and general	17,179	14,403	15,746
Operating expenses before depreciation and amortization	113,881	109,643	98,487
Depreciation and amortization	23,775	21,878	20,982
Total operating expenses	<u>\$ 137,656</u>	<u>\$ 131,521</u>	<u>\$ 119,469</u>

2010

Overall, operating expenses before depreciation and amortization increased by \$4.2 million (3.9%) in 2010 primarily due to increases in General Fund reimbursements and administrative and general. Depreciation and amortization increased slightly due to an increase in utility plant.

2009

Overall, operating expenses before depreciation and amortization increased by \$11.2 million (11.3%) in 2009 primarily due to increases in repairs, maintenance, engineering, and General Fund reimbursements offset by a decrease in administrative. Depreciation and amortization increased slightly due to an increase in utility plant.

A comparative summary of the Sewer Fund's cash flows for the years ended December 31, 2010, 2009, and 2008, is as follows:

(In thousands)	Cash Flows		
	2010	2009	2008
Cash from activities:			
Operating	\$ 98,291	\$ 59,640	\$ 56,760
Capital and related financing	81,440	(171,799)	26,215
Investing	<u>(85,935)</u>	<u>91,316</u>	<u>(88,656)</u>
Net change in cash and cash equivalents	93,796	(20,843)	(5,681)
Cash and cash equivalents:			
Beginning of the year	<u>61,983</u>	<u>82,826</u>	<u>88,507</u>
End of the year	<u>\$ 155,779</u>	<u>\$ 61,983</u>	<u>\$ 82,826</u>

2010

As of December 31, 2010, the Sewer Fund's cash and cash equivalents of \$155.8 million represents an increase of \$93.8 million compared to \$62.0 million at December 31, 2009, primarily due to positive cash flows from bonds issued in 2010. Total cash and cash equivalents at December 31, 2010, are comprised of unrestricted and restricted cash and cash equivalents of \$18.0 million and \$137.8 million, respectively.

2009

As of December 31, 2009, the Sewer Fund's cash and cash equivalents of \$62.0 million represents a decrease of \$20.8 million compared to \$82.8 million at December 31, 2008, primarily due to acquisition and construction of capital projects. Total cash and cash equivalents at December 31, 2009, are comprised of unrestricted and restricted cash and cash equivalents of \$4.5 million and \$57.5 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

2010

At the end of 2010 and 2009, the Sewer Fund had net utility plant of \$1,362.3 million and \$1,269.5 million, respectively. During 2010, the Sewer Fund had capital additions being depreciated of \$133.0 million, and completed projects totaling \$29.5 million were transferred from construction in progress to applicable facilities and structures capital accounts.

2009

At the end of 2009 and 2008, the Sewer Fund had net utility plant of \$1,269.5 million and \$1,163.5 million, respectively. During 2009, the Sewer Fund had capital additions being depreciated of \$112.0 million, and completed projects totaling \$14.3 million were transferred from construction in progress to applicable facilities and structures capital accounts.

The Sewer Fund's net utility plant at December 31, 2010, 2009, and 2008, are summarized as follows:

(In thousands)	Net Utility Plant at Year-End		
	2010	2009	2008
Utility plant not depreciated:			
Land and land rights	\$ 560	\$ 560	\$ 560
Construction in progress	<u>11,709</u>	<u>29,490</u>	<u>14,321</u>
Total utility plant not depreciated	<u>12,269</u>	<u>30,050</u>	<u>14,881</u>
Utility plant being depreciated:			
Facilities and structures	1,709,455	1,576,503	1,464,548
Furniture and equipment	<u>27,880</u>	<u>27,726</u>	<u>27,847</u>
Total utility plant being depreciated	<u>1,737,335</u>	<u>1,604,229</u>	<u>1,492,395</u>
Less accumulated depreciation:			
Facilities and structures	(368,099)	(345,283)	(325,609)
Furniture and equipment	<u>(19,177)</u>	<u>(19,499)</u>	<u>(18,171)</u>
Total accumulated depreciation	<u>(387,276)</u>	<u>(364,782)</u>	<u>(343,780)</u>
Total utility plant being depreciated — net	<u>1,350,059</u>	<u>1,239,447</u>	<u>1,148,615</u>
Total utility plant — net	<u>\$ 1,362,328</u>	<u>\$ 1,269,497</u>	<u>\$ 1,163,496</u>

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

The Sewer Fund's outstanding debt at December 31, 2010, 2009, and 2008, is summarized as follows:

(In thousands of dollars)	Long-Term Outstanding Debt at Year-End		
	2010	2009	2008
Revenue bonds	\$ 1,125,992	\$ 902,840	\$ 924,049
Add accretion of Series 1998			
Capital Appreciation Bonds	33,532	30,013	26,673
Less unamortized deferred loss on bond refunding	(38,063)	(43,332)	(45,376)
Unamortized net bond discount/premium	<u>15,883</u>	<u>14,240</u>	<u>14,791</u>
Total outstanding debt — net	<u>\$ 1,137,344</u>	<u>\$ 903,761</u>	<u>\$ 920,137</u>

The Sewer Fund's revenue bonds at December 31, 2010, 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 Wastewater Revenue Bonds	Aa2	AA-	n/a
Junior Lien Wastewater Revenue Bonds	Aa3	A+	AA

At December 31, 2010, the Sewer Fund was in compliance with the debt covenants as stated in the Master Trust Indentures. Details regarding the Sewer Fund's long-term debt are in Note 4 of the notes to the basic financial statements.

On January 28, 2009, the City terminated the interest rate swap agreement with Lehman Brothers for the Series 2008C Wastewater Transmission Revenue Bonds. At that time, the City paid \$38.1 million to terminate the swap and received an up-front payment to execute a new swap of \$38.7 million. The termination fee and the 2009 portion of the upfront payment are recorded within nonoperating expense-swap within the statements of revenues, expenses, and changes in net assets. In 2010, the remaining upfront payment was amortized as nonoperation revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Sewer 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
SEWER FUND**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)**

	2010	2009		2010	2009
ASSETS AND DEFERRED OUTFLOWS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 2)	\$ 17,999	\$ 4,505	Accounts payable	\$ 22,611	\$ 16,802
Investments (Note 2)	4,803	3,439	Due to other City funds	13,312	10,017
Accounts receivable — net of allowance for doubtful account: of approximately \$16,352 in 2010 and \$11,216 in 2009	58,714	58,353	Deferred revenue	14,549	14,125
Due from other City funds	26,937	35,440	Deferred swap upfront payment	1,365	21,248
Inventories	<u>1,436</u>	<u>1,295</u>	Accrued liabilities	<u>40,414</u>	<u>36,437</u>
			Total current unrestricted liabilities	<u>92,251</u>	<u>98,629</u>
Total current unrestricted assets	<u>109,889</u>	<u>103,032</u>			
RESTRICTED ASSETS (NOTES 2 AND 3):			LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	137,780	57,478	Current portion of revenue bonds payable (Note 4)	25,257	24,030
Investments (Note 2)	112,971	28,834	Accrued interest payable	<u>14,682</u>	<u>13,814</u>
Interest receivable	<u>117</u>	<u>168</u>	Total liabilities payable from restricted assets	<u>39,939</u>	<u>37,844</u>
Total restricted assets	<u>250,868</u>	<u>86,480</u>			
NONCURRENT ASSETS:			NONCURRENT LIABILITIES :		
Other assets	<u>11,896</u>	<u>10,896</u>	Derivative instrument liability	49,116	36,084
Utility Plant:			Revenue bonds payable (Note 4) — net of discount and deferred loss on bond refunding	<u>1,112,087</u>	<u>879,731</u>
Land and land rights	560	560	Total noncurrent liabilities	<u>1,161,203</u>	<u>915,815</u>
Facilities and structures	1,709,455	1,576,503	Total liabilities	<u>1,293,393</u>	<u>1,052,288</u>
Furniture and equipment	27,880	27,726	NET ASSETS:		
Construction in progress	<u>11,709</u>	<u>29,490</u>	Invested in capital assets — net of related debt	414,766	391,248
Total utility plant	1,749,604	1,634,279	Restricted for capital projects	11,110	9,533
Less accumulated depreciation	<u>(387,276)</u>	<u>(364,782)</u>	Unrestricted net assets	<u>64,828</u>	<u>52,920</u>
Utility plant — net	<u>1,362,328</u>	<u>1,269,497</u>	Total net assets	490,704	453,701
Total noncurrent assets	<u>1,374,224</u>	<u>1,280,393</u>			
Deferred outflows	<u>49,116</u>	<u>36,084</u>	TOTAL	<u>\$1,784,097</u>	<u>\$1,505,989</u>
TOTAL	<u>\$1,784,097</u>	<u>\$1,505,989</u>			

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(In thousands)

	2010	2009
OPERATING REVENUES:		
Sewer service	\$ 197,455	\$ 173,906
Other	<u>774</u>	<u>1,257</u>
Total operating revenues	<u>198,229</u>	<u>175,163</u>
OPERATING EXPENSES:		
Repairs	42,509	42,110
General Fund reimbursements	27,065	25,431
Maintenance	24,075	24,380
Engineering	3,053	3,319
Administrative and general	<u>17,179</u>	<u>14,403</u>
Total operating expenses before depreciation and amortization	113,881	109,643
Depreciation and amortization	<u>23,775</u>	<u>21,878</u>
Total operating expenses	<u>137,656</u>	<u>131,521</u>
OPERATING INCOME	<u>60,573</u>	<u>43,642</u>
NONOPERATING REVENUE (EXPENSES):		
Interest income	(922)	234
Interest expense	(47,232)	(38,461)
Other	1,565	90
Interest rate swap income (expense) — net (Note 4)	<u>19,883</u>	<u>(19,618)</u>
Total nonoperating expenses — net	<u>(26,706)</u>	<u>(57,755)</u>
CAPITAL GRANTS	<u>3,136</u>	<u> </u>
CHANGE IN NET ASSETS	37,003	(14,113)
TOTAL NET ASSETS — Beginning of year	<u>453,701</u>	<u>467,814</u>
TOTAL NET ASSETS — End of year	<u>\$ 490,704</u>	<u>\$ 453,701</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 190,357	\$ 158,741
Transactions with other City funds — net	(15,345)	(28,615)
Payments to vendors	(34,077)	(26,447)
Payments to employees	(42,644)	(44,039)
	<u>98,291</u>	<u>59,640</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(103,347)	(113,414)
Proceeds from sale of capital assets	1,565	90
Proceeds from issuance of bonds	275,865	
Payment of refunded bonds	(29,223)	
Interest paid on revenue bonds	(40,567)	(38,897)
Payment of bond issuance and discount costs	(1,959)	
Capital grant	3,136	
Principal paid on bonds	(24,030)	(21,208)
Proceeds from Loop Financial swap		1,076
Termination of swap with Lehman Brothers		(38,109)
Upfront swap payment with Duetsch Bank		38,663
	<u>81,440</u>	<u>(171,799)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	(86,729)	89,115
Investment interest	794	2,201
	<u>(85,935)</u>	<u>91,316</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	93,796	(20,843)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>61,983</u>	<u>82,826</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 155,779</u>	<u>\$ 61,983</u>
RECONCILIATION TO CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET ASSETS:		
Unrestricted	\$ 17,999	\$ 4,505
Restricted	137,780	57,478
TOTAL	<u>\$ 155,779</u>	<u>\$ 61,983</u>

(Continued)

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)**

	2010	2009
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 60,573	\$ 43,642
Adjustments to reconcile:		
Depreciation and amortization	23,775	21,878
Provision for uncollectible accounts	7,936	5,803
Changes in assets and liabilities:		
Decrease (increase) in due from other City funds	8,503	(7,569)
Increase in accounts receivable	(8,296)	(15,210)
(Increase) decrease in inventories	(141)	6
Increase in accrued liabilities	1,305	8,038
Increase in accounts payable and due to other City funds	4,212	4,264
Increase (decrease) in deferred revenue	<u>424</u>	<u>(1,212)</u>
 CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 98,291</u>	 <u>\$ 59,640</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH
ITEMS — Property additions in 2010 and 2009 of \$29,849
and \$42,168, respectively, are included in accounts payable
and accrued liabilities

See notes to basic financial statements.

(Concluded)

CITY OF CHICAGO, ILLINOIS

SEWER FUND

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The Sewer Fund (“Sewer Fund”) collects and transmits wastewater to the treatment facilities of the Metropolitan Water Reclamation District of Greater Chicago. The Sewer Fund is included in the City of Chicago, Illinois’ (“City”) reporting entity as an enterprise fund.

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

Basis of Accounting — The accounting policies of the Sewer Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Sewer Fund are reported using the flow of economic resources measurement focus.

The Sewer 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 Sewer 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 Sewer Fund has a legally adopted annual budget that 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, 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 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 Sewer 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 agreement, 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 — The Sewer Fund accounts receivable results from billings and collections for sewer services processed by the Department of Water Management. Management has provided an allowance for amounts recorded at year-end that 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 Sewer 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 first-in, first-out 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 Sewer Fund as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased. 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:

Facilities and structures	75 years
Furniture and equipment	5–20 years
Sewer rehabilitation	50 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 the net earnings from operating and nonoperating revenues, expenses, and capital grants. Net assets are displayed in three components — invested in capital assets, net of related debt; restricted for capital assets; and unrestricted net assets. Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt, net of debt service reserve, and unspent bond proceeds. Restricted net assets consist of net assets

for which constraints are placed thereon by external parties (such as lenders and grantors) and laws, regulations, and enabling legislation. Unrestricted net assets consist of all other net assets not categorized as either of the above.

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

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

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

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

Derivatives — The Sewer Fund enters into interest rate swap agreements to modify interest rates on outstanding debt. For existing swaps the net interest expenditures resulting from these arrangements are recorded as interest expense. The fair value of derivative instruments that are deemed to be effective is accounted for as deferred outflows. Derivative instruments that are deemed not effective are adjusted to fair value with the change in fair value recorded to investment earnings. All interest rate swaps are approved by City Council.

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

Capital Grants — Capital grants are reported as revenue rather than as additions to fund equity on the statements of revenues, expenses, and changes in net assets.

Revenue Recognition — Sewer service revenue is billed as a percentage of the City water billings and is recorded as revenue when the water is consumed by the customers. Of the accounts receivable balances, \$14.6 million and \$13.9 million represent revenue recognized on sewer service that had not yet been billed to customers at December 31, 2010 and 2009, respectively. Deferred revenue represents amounts billed to nonmetered customers prior to usage.

Revenues and Expenses — The Sewer 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 Sewer Fund's principal ongoing operations. The principal operating revenues of the Sewer Fund are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Adopted Accounting Standards — In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. The Sewer Fund implemented GASB Statement No. 53 on January 1, 2010. This statement enhances the usefulness and comparability of derivative instrument information reported by providing for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments, such as interest rate and commodity swaps, swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their financial statements.

The financial reporting impact resulting from the implementation of GASB Statement No. 53 is the recognition within the financial statements of a liability for hedging derivative instruments whose negative fair value at December 31, 2010, totaled \$49.1 million with a corresponding amount being reported as deferred outflows of resources in the statement of net assets. As a result of retroactively applying this statement, the Sewer Fund restated the statement of net assets as of December 31, 2009, and recorded a liability for hedging derivative instruments whose negative fair value at December 31, 2009 totaled \$36.1 million with a corresponding amount being reported as deferred outflows of resources in the statement of net assets. Refer to Note 4 for additional disclosures related to this statement.

Reclassification — The Sewer Fund has reclassified restricted assets and liabilities payable from restricted assets in the Statements of Net Assets as of December 31, 2009, to be excluded from noncurrent assets and noncurrent liabilities, respectively, in order to conform with the December 31, 2010 presentation and to further clarify the short term nature of certain liabilities payable from restricted assets.

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

Cash Equivalents and Investments — As of December 31, 2010, the Sewer Fund had the following cash equivalents and investments (in thousands):

	Investment Maturities (in Years)				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
U.S. treasuries	\$ 39,998	\$ -	\$ -	\$ -	\$ 39,998
U.S. agencies	19,487	98,118	7,963		125,568
Certificates of deposits and other short-term	<u>88,440</u>				<u>88,440</u>
Subtotal	<u>\$ 147,925</u>	<u>\$ 98,118</u>	<u>\$ 7,963</u>	<u>\$ -</u>	254,006
Share of City's pooled funds					<u>13,754</u>
Total					<u>\$ 267,760</u>

As of December 31, 2009, the Sewer Fund had the following cash equivalents and investments (in thousands):

	Investment Maturities (in Years)				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
U.S. agencies	\$ 10,198	\$ 32,022	\$ -	\$ -	\$ 42,220
Certificates of deposits and other short-term	<u>36,770</u>	<u> </u>	<u> </u>	<u> </u>	<u>36,770</u>
Subtotal	<u>\$ 46,968</u>	<u>\$ 32,022</u>	<u>\$ -</u>	<u>\$ -</u>	78,990
Share of City’s pooled funds					<u>4,591</u>
Total					<u>\$ 83,581</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 ten 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 that 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. A schedule summarizing the Sewer Fund’s exposure to credit risk as of December 31, 2010 and 2009, is as follows (in thousands):

Quality Rating	2010	2009
Aaa/AAA	<u>\$ 254,006</u>	<u>\$ 78,990</u>

The Sewer 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% 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 \$211.0 million. Of the bank balance, 100% was either insured or collateralized with securities held by City agents in the City’s name.

A schedule summarizing the investments reported in the basic financial statements as of December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009
Per Note 2:		
Investments — Sewer Fund	\$ 254,006	\$ 78,990
Investments — City Treasurer Pooled Fund	<u>13,754</u>	<u>4,591</u>
	<u>\$ 267,760</u>	<u>\$ 83,581</u>
Per financial statements:		
Restricted investments	\$ 112,971	\$ 28,834
Unrestricted investments	4,803	3,439
Investments included as cash and cash equivalents on the statements of net assets	<u>149,986</u>	<u>51,308</u>
	<u>\$ 267,760</u>	<u>\$ 83,581</u>

3. RESTRICTED ASSETS AND ACCOUNTS

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

Wastewater Revenue Bonds, Refunding Bonds Series 1993 (Senior Lien Bonds) and 1998A Wastewater Capital Appreciation Bonds:

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

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 in this account was met by the purchase of surety bonds.

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.

Construction Account — 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.

Wastewater Revenue Bonds, Series 2010, 2008, 2004, 2001, 2000, 1998 B (Second Lien Bond), Refunding Series 2004, and Refunding Series 2006 (Second Lien Bonds):

Bond Principal and Interest Account — No later than the business day immediately preceding January 1 and July 1, an amount to pay principal; redemption premium, if any; and interest on the bonds. The City is also required to make deposits in the second lien bonds account to meet other payment obligations under the indenture authorizing Second Lien Parity Bonds.

Debt Service Reserve Account — For each series, an amount equal to the least of (i) the highest future 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 in this account was met by the purchase of a surety bond.

Rebate Account — Amounts required to make rebate payments, if any, to the United States of America related to the Second Lien Bonds regarding matters described previously for the Senior Lien Bonds.

Construction Account — Proceeds of the Second Lien Bonds were deposited in this account for the purpose of paying construction cost of projects as defined in the ordinance.

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

For accounts established by ordinances with balances, the amounts as of December 31, 2010 and 2009, are as follows (in thousands):

	2010	2009
Construction	\$ 185,183	\$ 33,839
Bond principal and interest	39,939	37,844
Sewer rate stabilization	<u>25,629</u>	<u>14,629</u>
Total	<u>\$ 250,751</u>	<u>\$ 86,312</u>

At December 31, 2010 and 2009, the Sewer Fund was not aware of any instances of noncompliance with the above terms of the ordinances.

4. LONG-TERM DEBT

As of December 31, 2010 and 2009, long-term debt consisted of the following (in thousands):

	2010	2009
\$232,880 Series 1993 Wastewater Transmission Revenue Bonds Refunding issued March 1, 1993, due through 2013; interest at 5.125% to 6.5%	\$ 36,175	\$ 48,825
\$109,998 Series 1998A and B Wastewater Transmission Revenue Bonds issued March 18, 1998, due through 2030; interest at 4.0% to 5.25%	35,168	64,858
\$115,000 Series 2000 Wastewater Transmission Revenue Bonds issued February 24, 2000, due through 2030; interest at 5.0% to 6.0%	2,570	5,005
\$114,585 Series 2001A Wastewater Transmission Revenue Bonds issued December 6, 2001, due through 2036; interest at 3.5% to 5.5%	3,800	5,565
\$73,100 Series 2001 Wastewater Transmission Revenue Bonds issued December 6, 2001, due through 2011; interest at 4.0% to 5.5%	71,805	72,050
\$61,925 Series 2004B Wastewater Transmission Revenue Bonds issued July 29, 2004, due through 2016; interest at 3.0% to 5.25%	51,145	53,995
\$155,030 Series 2006A & B Wastewater Transmission Revenue Bonds issued November 1, 2006, due through 2039; Series A interest at 4.0% to 5.0% (4.0% at December 31, 2006); Series B interest at 4.0% to 5.0%	149,925	151,235
\$167,635 Series 2008A Wastewater Transmission Revenue Bonds issued November 5, 2008, due through 2038; interest at 3.5% to 5.5%	165,932	167,635
\$332,230 Series 2008C Wastewater Transmission Revenue Bonds (2004A Refunded) issued October 16, 2008, due through 2039; variable floating interest rate 0.28% at December 31, 2010	332,230	332,230
\$275,865 Series 2010A & B Wastewater Transmission Revenue Bonds issued November 16, 2010, due through 2040; interest at 2.0% to 6.0%	275,865	
\$1,546 Illinois Environmental Protection Agency Loan Agreement signed May 28, 2008, due through 2027; interest at 2.50%	<u>1,377</u>	<u>1,442</u>
	1,125,992	902,840
Add accretion of Series 1998 Capital Appreciation Bonds	33,532	30,013
Add unamortized net bond discount/premium	15,883	14,240
Less current portion (payable from restricted assets)	(25,257)	(24,030)
Less unamortized deferred loss on bond refunding	<u>(38,063)</u>	<u>(43,332)</u>
Long-term portion — net	<u>\$ 1,112,087</u>	<u>\$ 879,731</u>

During the years ended December 31, 2010 and 2009, long-term debt changed as follows (in thousands):

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Due Within One Year
Revenue bonds	\$902,840	\$276,920	\$ (53,768)	\$ 1,125,992	\$ 25,257
Accretion of Series 1998 Capital Appreciation Bonds	30,013	3,519		33,532	
Unamortized net discount/premium	14,240	1,940	(297)	15,883	
Deferred loss on bond refunding	<u>(43,332)</u>	<u>(1,881)</u>	<u>7,150</u>	<u>(38,063)</u>	
Total revenue bonds	<u>\$903,761</u>	<u>\$280,498</u>	<u>\$ (46,915)</u>	<u>\$ 1,137,344</u>	<u>\$ 25,257</u>
	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009	Due Within One Year
Revenue bonds	\$924,049	\$ -	\$ (21,209)	\$ 902,840	\$ 24,030
Accretion of Series 1998 Capital Appreciation Bonds	26,673	3,340		30,013	
Unamortized net discount/premium	14,791		(551)	14,240	
Deferred loss on bond refunding	<u>(45,376)</u>		<u>2,044</u>	<u>(43,332)</u>	
Total revenue bonds	<u>\$920,137</u>	<u>\$ 3,340</u>	<u>\$ (19,716)</u>	<u>\$ 903,761</u>	<u>\$ 24,030</u>

Interest expense capitalized for 2010 and 2009 totaled \$4.1 million and \$9.2 million, respectively. Interest income capitalized for 2010 and 2009 totaled \$0.4 million and \$2.0 million, respectively.

Interest expense includes amortization of the loss on bond refunding for 2010 and 2009 of \$5.7 million and \$2.0 million, respectively; amortization of net bond discount/premium of \$0.5 million and \$0.6 million, respectively; and accretion of Series 1998 Capital Appreciation Bonds of \$3.5 million and \$3.3 million, respectively.

As defined in the ordinances, net revenues are pledged for the payment of principal and interest on the bonds. The ordinances require that net revenues available for bonds equal 115% of the senior lien debt service requirement and that net revenues available for bonds equal the sum of 100% of the aggregate annual senior lien debt service requirement and 100% of the aggregate annual second lien debt service requirement. The above requirements were met for 2010 and 2009.

Rate Increases — Sewer service rates are set by ordinance. The sewer service charge is established in an amount designed to pay the costs of Sewer Fund operations and capital improvements, including any related debt service. During 2010 and 2009, the charge for sewer service was an amount equal to 86% and 85%, respectively, of the gross amount charged for water service, whether such water service is metered or nonmetered. The rate charged for water was \$15.00 per 1,000 cubic feet during 2010 and \$13.16 per 1,000 cubic feet during 2009.

Issuance of Debt — Second Lien Wastewater Revenue Project and Refunding Bonds, Series 2010A-B (\$275.9 million) were sold at a premium in November 2010. The bonds have interest rates ranging from 2.0 percent to 6.742 percent and maturity dates from January 1, 2012 to January 1, 2040. Series B bonds (\$250.0 million) are Build America Bonds. Net proceeds of \$275.8 million will be used to finance certain costs of improvements and extensions to the wastewater system (\$248.2 million) and advance refund a certain maturities of wastewater revenue bonds outstanding (\$27.6 million). The advance

refunding of the bonds decreased the Wastewater system's total debt service payments by \$5.2 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$3.3 million.

Following is a schedule of debt service requirements to maturity (in thousands):

Years Ending December 31	Principal	Interest	Total Debt Service
2011	\$ 25,257	\$ 48,616	\$ 73,873
2012	27,583	54,173	81,756
2013	28,925	52,816	81,741
2014	30,332	51,374	81,706
2015	31,878	49,813	81,691
2016–2020	177,298	230,835	408,133
2021–2025	183,430	226,970	410,400
2026–2030	172,017	209,238	381,255
2031–2035	232,260	97,550	329,810
2036–2040	<u>217,012</u>	<u>29,261</u>	<u>246,273</u>
Total	<u>\$ 1,125,992</u>	<u>\$ 1,050,646</u>	<u>\$ 2,176,638</u>

Derivatives —

Pay-Fixed, Receive-Variable Interest Rate Swaps —

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

Governmental Activities	Changes in Fair Value		Fair Value at December 31, 2010		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	<u>\$(13,032)</u>	Deferred outflow of resources	<u>\$(49,116)</u>	<u>\$332,230</u>

On January 28, 2009, the City terminated the interest rate swap agreement with Lehman Brothers for the Series 2008C Wastewater Transmission Revenue Bonds. The City paid \$38.1 million to terminate the swap and received an upfront payment to execute a new swap of \$38.7 million. The upfront payment is amortized over the life of the swap. The termination fee and the 2009 portion of the upfront payment are recorded within interest rate swap expense, net within the statements of revenues, expenses and changes in net assets.

Terms, Fair Values, and Credit Risk — The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2010, are as follows (in thousands). The notional amounts of the swaps match the principal amounts of the associated debt. The Sewer 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 Sewer Fund pays the counterparty a fixed payment and receives a variable payment computed according to the London InterBank Offered Rate (LIBOR) and/or The Bond Market Association (BMA) Municipal Swap Index.

Associated Bond Issue	Notional Amounts	Effective Date	Terms	Fair Values	Maturity Date	Counter-Party Credit Rating
Hedging instruments:						
Wastewater transmission	\$232,560	1/3/2011	Pay 3.886%; receive SIFMA	\$(34,121)	1/1/2039	Aa3/A+ Aa1/AA-
Variable rate revenue bonds	49,835	7/29/2004	Pay 3.886%; receive SIFMA	(7,806)	1/1/2039	Aa3/A+ Aa1/AA-
Series 2008C	<u>49,835</u>	7/29/2004	Pay 3.886%; receive SIFMA	<u>(7,189)</u>	1/1/2039	Aa3/A+ Aa1/AA-
Total	<u>\$332,230</u>			<u>\$(49,116)</u>		

Fair Value — As of December 31, 2010 and 2009, the swaps had a negative fair value of \$49.1 million and \$36.1 million, respectively. As per industry convention, the fair values of the Sewer 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 Sewer Fund’s swaps had negative values.

Credit Risk — The Sewer 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 Sewer Fund by mitigating the credit risk and therefore, the ability to pay a termination payment, inherent in a swap. Collateral on all swaps is to be in the form of cash or eligible collateral held by a third-party custodian. Upon credit events, the swaps also allow transfers, credit support, and termination, if the counterparty is unable to meet the said credit requirements.

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

Swap Risk — The swap exposes the Sewer 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 exemption of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of the Sewer Fund’s swap transactions.

Termination Risk — The risk that the swap 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, 2010, debt service requirements for the Sewer 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	
2011	\$ -	\$ 930	\$ 11,980	\$ 12,910
2012		930	11,980	12,910
2013		930	11,980	12,910
2014		930	11,980	12,910
2015		930	11,980	12,910
2016–2020	66,225	4,189	53,938	124,352
2021–2025	106,040	2,957	38,081	147,078
2026–2030	41,310	1,904	24,523	67,737
2031–2035	68,785	1,115	14,362	84,262
2036–2040	49,870	207	2,660	52,737
Total	<u>\$ 332,230</u>	<u>\$ 15,022</u>	<u>\$ 193,464</u>	<u>\$ 540,716</u>

5. UTILITY PLANT

During the years ended December 31, 2010 and 2009, utility plant changed as follows (in thousands):

	Balance January 1, 2010	Additions	Disposals and Transfers	Balance December 31, 2010
Utility plant not depreciated:				
Land and land rights	\$ 560	\$ -	\$ -	\$ 560
Construction in progress	<u>29,490</u>	<u>11,709</u>	<u>(29,490)</u>	<u>11,709</u>
Total utility plant not depreciated	<u>30,050</u>	<u>11,709</u>	<u>(29,490)</u>	<u>12,269</u>
Utility plant being depreciated:				
Facilities and structures	1,576,503	139,799	(6,847)	1,709,455
Furniture and equipment	<u>27,726</u>	<u>867</u>	<u>(713)</u>	<u>27,880</u>
Total utility plant being depreciated	<u>1,604,229</u>	<u>140,666</u>	<u>(7,560)</u>	<u>1,737,335</u>
Less accumulated depreciation:				
Facilities and structures	(345,283)		(22,816)	(368,099)
Furniture and equipment	<u>(19,499)</u>	<u>672</u>	<u>(350)</u>	<u>(19,177)</u>
Total accumulated depreciation	<u>(364,782)</u>	<u>672</u>	<u>(23,166)</u>	<u>(387,276)</u>
Utility plant being depreciated — net	<u>1,239,447</u>	<u>141,338</u>	<u>(30,726)</u>	<u>1,350,059</u>
Utility plant — net	<u>\$ 1,269,497</u>	<u>\$ 153,047</u>	<u>\$ (60,216)</u>	<u>\$ 1,362,328</u>
	Balance January 1, 2009	Additions	Disposals and Transfers	Balance December 31, 2009
Utility plant not depreciated:				
Land and land rights	\$ 560	\$ -	\$ -	\$ 560
Construction in progress	<u>14,321</u>	<u>29,490</u>	<u>(14,321)</u>	<u>29,490</u>
Total utility plant not depreciated	<u>14,881</u>	<u>29,490</u>	<u>(14,321)</u>	<u>30,050</u>
Utility plant being depreciated:				
Facilities and structures	1,464,548	144,451	(32,496)	1,576,503
Furniture and equipment	<u>27,847</u>	<u>206</u>	<u>(327)</u>	<u>27,726</u>
Total utility plant being depreciated	<u>1,492,395</u>	<u>144,657</u>	<u>(32,823)</u>	<u>1,604,229</u>
Less accumulated depreciation:				
Facilities and structures	(323,947)		(21,336)	(345,283)
Furniture and equipment	<u>(19,833)</u>	<u>334</u>	<u> </u>	<u>(19,499)</u>
Total accumulated depreciation	<u>(343,780)</u>	<u>334</u>	<u>(21,336)</u>	<u>(364,782)</u>
Utility plant being depreciated — net	<u>1,148,615</u>	<u>144,991</u>	<u>(54,159)</u>	<u>1,239,447</u>
Utility plant — net	<u>\$ 1,163,496</u>	<u>\$ 174,481</u>	<u>\$ (68,480)</u>	<u>\$ 1,269,497</u>

6. PENSION PLANS

Eligible Sewer 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 that may be obtained at the respective fund's office.

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

Participating employees contribute 8.5% of their salary to these funds as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Sewer Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of the Sewer Fund employees. These reimbursements, recorded as expenses of the Sewer Fund, were \$2.6 million in 2010 and \$2.3 million in 2009. 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, 2010 and 2009, 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, 2010, assists users in assessing each fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund is as follows (dollars in thousands):

	Annual Pension Cost	Percent of Pension Cost Contributed	Required Contribution	Contributions Contributed	Net Pension Obligation
Municipal employees:					
2008	\$ 359,933	40.8 %	\$ 360,387	40.7 %	\$ 415,207
2009	412,575	35.9	413,509	35.8	679,736
2010	482,421	32.1	483,948	32.0	1,007,406
Laborers:					
2008	18,166	83.9	17,652	86.3	(225,759)
2009	34,025	43.0	33,517	43.6	(206,361)
2010	47,129	32.6	46,665	32.9	(175,585)

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

7. OTHER POSTEMPLOYMENT BENEFITS — CITY OBLIGATION

In addition to providing pension benefits, under State law, the City provides certain health benefits to employees who retire from the City based upon their participation in the City's pension plans. Substantially all employees who qualify as Municipal Employees' or Laborers' pension plan participants older than age 55 with at least 20 years of service may become eligible for postemployment benefits if they eventually become annuitants. Health benefits include basic benefits for annuitants and supplemental benefits for Medicare-eligible annuitants. Currently, the City does not segregate benefit payments to annuitants by fund. The cost of health benefits is recognized as claims are reported and are funded on a pay-as-you-go basis. The total cost to the City for providing health benefits to approximately 24,000 annuitants and their dependents was approximately \$107.4 million and \$98.0 million in 2010 and 2009, respectively.

The annuitants who retired prior to July 1, 2005, received a 55% subsidy from the City and the annuitants who retired on or after July 1, 2005, received a 50%, 45%, 40%, and 0% subsidy from the City based on the annuitant's length of actual employment with the City for the gross cost of retiree health care under a court approved settlement agreement (the "Settlement Agreement"). During 2010 and 2009 the pension funds contributed \$65 for each Medicare eligible annuitant and \$95 for each Non-Medicare eligible annuitant to their gross cost, respectively. The annuitants contributed a total of \$64.1 million in 2010 and \$60.8 million in 2009, 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 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 Settlement 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 employees. The provisions of the program provide, in general, that the City pay a percentage of the cost (based upon an employee's service) for hospital and medical coverage to eligible retired employees and their dependents for a specified period, until June 30, 2013.

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

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

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

Annual OPEB Cost and Net OPEB Obligation — The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding, that if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period of three 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 postemployment benefits. The amount of the annual cost for the Health Plan that is to be recorded in the statements of changes in net assets is the annual OPEB cost (expense) (in thousands).

	Annual OPEB Cost and Contributions Made (In thousands)	
	2010 Health Plan	2009 Health Plan
Contribution rates:		
City	Pay as you go	Pay as you go
Plan members	By schedule	By schedule
Annual required contribution	\$ 189,328	\$ 220,891
Interest on net OPEB obligation	9,871	11,713
Adjustment to annual required contribution	<u>(116,325)</u>	<u>(74,795)</u>
Annual OPEB cost	82,874	157,809
Contributions made	<u>107,431</u>	<u>98,044</u>
Increase in net OPEB obligation	(24,557)	59,765
Net OPEB obligation — beginning of year	<u>329,040</u>	<u>269,275</u>
Net OPEB obligation — end of year	<u>\$ 304,483</u>	<u>\$ 329,040</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 2010, 2009, and 2008 are as follows (in thousands):

Fiscal Years Ended	Schedule of Contributions, OPEB Costs, and Net Obligations		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 82,874	129.6 %	\$ 304,483
December 31, 2009	157,809	62.1	329,040
December 31, 2008	218,897	44.8	269,275

Funded Status and Funding Progress — As of December 31, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$533.4 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Health Plan) was approximately \$2,547.0 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 21%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the 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 Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2009	\$ -	\$ 533,387	\$ 533,387	- %	\$ 2,546,961
December 31, 2008		787,395	787,395		2,475,107

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 years ended December 31, 2010 and 2009, 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 10.5%. 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 3%. The Unfunded Accrued Actuarial Liability, as of December 31, 2010, is being amortized as a level dollar amount over three years.

Item	Summary of Assumptions and Methods	
	2010 Health Plan	2009 Health Plan
Actuarial valuation date	December 31, 2009	December 31, 2008
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar
Remaining amortization period	3 years	4 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	3.0%	4.35%
Projected salary increases	2.5%	2.5%
Healthcare inflation rate	12% initial to 10.5% ultimate	12% initial to 9% ultimate

The OPEB benefit information pertaining expressly to the Sewer Fund employees is not available. Accordingly, no amounts have been recorded in the accompanying financial statements. Amounts for the City are recorded within the City's government wide financial statements.

8. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the General Fund of the City and certain other funds for services provided by other City departments, employee fringe benefits, and certain payments made on behalf of the Sewer Fund. Such reimbursements amounted to \$27.1 million and \$25.4 million in 2010 and 2009, respectively.

9. COMMITMENTS AND CONTINGENCIES

The Sewer 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 Sewer Fund.

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

Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. Changes in the claims liability amount for the years ended December 31, 2010 and 2009, are as follows (in thousands):

	2010	2009
Balance — January 1	\$ 17,320	\$ 16,246
Claims incurred on current and prior year events	11,300	10,355
Claims paid on current and prior year events	<u>(10,216)</u>	<u>(9,281)</u>
Balance — December 31	<u>\$ 18,404</u>	<u>\$ 17,320</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 Sewer Fund are transferred to commercial insurers. Claims have not exceeded the purchased insurance coverage in the past three years.

At December 31, 2010 and 2009, the Sewer Fund entered into contracts for approximately \$29.8 million and \$42.2 million, respectively, for construction projects.

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STATISTICAL DATA

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

Financial Trends — These schedules contain trend information to help the reader understand how the Sewer Fund's financial performance and well being have changed over time.

Revenue Capacity — These schedules contain information to help the reader assess the Sewer Fund's most significant revenue source, sewer sales.

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

Operating Information — These schedules contain service and infrastructure data to help the reader understand how the information in the Sewer Fund's financial report relates to the services the Sewer Fund provides and the activities it performs.

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

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**NET ASSETS BY COMPONENT
FIVE YEARS ENDED DECEMBER 31, 2010
(In thousands) (Unaudited)**

	2006	2007	2008	2009	2010
NET ASSETS:					
Invested in capital assets — net of related debt	\$ 417,998	\$ 417,138	\$ 413,481	\$ 391,248	\$ 414,766
Restricted for capital projects	751	4,544		9,533	11,110
Unrestricted net assets	<u>43,290</u>	<u>43,445</u>	<u>54,333</u>	<u>52,920</u>	<u>64,828</u>
TOTAL	<u>\$ 462,039</u>	<u>\$ 465,127</u>	<u>\$ 467,814</u>	<u>\$ 453,701</u>	<u>\$ 490,704</u>

The Sewer Fund intends to provide ten years of information as it becomes available.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**CHANGES IN NET ASSETS
FIVE YEARS ENDED DECEMBER 31, 2010
(In thousands) (Unaudited)**

	2006	2007	2008	2009	2010
OPERATING INCOME:					
Operating revenues	\$ 136,437	\$ 138,681	\$ 160,005	\$ 175,163	\$ 198,229
Operating expenses	84,015	86,294	98,487	109,643	113,881
Depreciation and amortization	<u>19,330</u>	<u>19,897</u>	<u>20,982</u>	<u>21,878</u>	<u>23,775</u>
Total operating income	33,092	32,490	40,536	43,642	60,573
NONOPERATING EXPENSES	<u>(25,966)</u>	<u>(29,723)</u>	<u>(37,849)</u>	<u>(57,755)</u>	<u>(26,706)</u>
CAPITAL INCOME BEFORE CONTRIBUTIONS	7,126	2,767	2,687	(14,113)	33,867
CAPITAL GRANTS	_____	<u>321</u>	_____	_____	<u>3,136</u>
CHANGE IN NET ASSETS	<u>\$ 7,126</u>	<u>\$ 3,088</u>	<u>\$ 2,687</u>	<u>\$ (14,113)</u>	<u>\$ 37,003</u>

The Sewer Fund intends to provide ten years of information at it becomes available.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS
TEN YEARS ENDED DECEMBER 31, 2010
(In thousands) (Unaudited)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
OPERATING REVENUES:										
Sewer sales	\$142,631	\$139,793	\$140,754	\$142,680	\$141,314	\$134,323	\$137,021	\$158,698	\$173,906	\$197,455
Other operating revenue	<u>1,593</u>	<u>1,537</u>	<u>1,619</u>	<u>2,308</u>	<u>2,208</u>	<u>2,114</u>	<u>1,660</u>	<u>1,307</u>	<u>1,257</u>	<u>774</u>
Total operating revenues	<u>144,224</u>	<u>141,330</u>	<u>142,373</u>	<u>144,988</u>	<u>143,522</u>	<u>136,437</u>	<u>138,681</u>	<u>160,005</u>	<u>175,163</u>	<u>198,229</u>
OPERATING EXPENSES:										
Repairs	38,814	39,079	35,196	31,023	33,981	34,770	35,759	37,786	42,110	42,509
Maintenance	22,253	22,499	23,772	19,315	18,966	18,964	19,034	18,626	24,380	24,075
Administrative and general	7,548	6,068	4,551	5,605	5,454	6,499	7,796	15,746	14,403	17,179
General Fund reimbursements	26,275	26,299	25,779	25,272	26,823	22,569	22,973	23,287	25,431	27,065
Engineering	<u>6,736</u>	<u>6,464</u>	<u>6,461</u>	<u>4,505</u>	<u>3,587</u>	<u>1,213</u>	<u>732</u>	<u>3,042</u>	<u>3,319</u>	<u>3,053</u>
Total operating expenses	<u>101,626</u>	<u>100,409</u>	<u>95,759</u>	<u>85,720</u>	<u>88,811</u>	<u>84,015</u>	<u>86,294</u>	<u>98,487</u>	<u>109,643</u>	<u>113,881</u>
NONOPERATING REVENUES	<u>878</u>	<u>355</u>	<u>276</u>	<u>140</u>	<u>802</u>	<u>1,063</u>	<u>939</u>	<u>817</u>	<u>234</u>	<u>643</u>
NET REVENUES — As defined	<u>\$ 43,476</u>	<u>\$ 41,276</u>	<u>\$ 46,890</u>	<u>\$ 59,408</u>	<u>\$ 55,513</u>	<u>\$ 53,485</u>	<u>\$ 53,326</u>	<u>\$ 62,335</u>	<u>\$ 65,754</u>	<u>\$ 84,991</u>

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
FIVE LARGEST CUSTOMERS
(In thousands) (Unaudited)**

	2007	2008	2009	2010
	Amount of	Amount of	Amount of	Amount of
	Sales	Sales	Sales	Sales
Department of Aviation	\$ 848	\$ 1,230	\$ 1,331	\$ 1,744
Humboldt Park	263	494	754	435
WR Grace and Company		285	347	
Calumet Park			270	315
Pepsi Cola General Bottlers			237	
Lincoln Park	810	692		
Northwestern University		541		
Columbus Park				258
Chicago Park District	247			
Hometown	<u>212</u>			<u>546</u>
	<u>\$2,380</u>	<u>\$3,242</u>	<u>\$2,939</u>	<u>\$3,298</u>

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
CUSTOMERS BY COMPONENT
(In thousands) (Unaudited)**

	2007 Amount of Sales	2008 Amount of Sales	2009 Amount of Sales	2010 Amount of Sales
Residential	\$ 97,909	\$ 105,072	\$ 124,600	\$ 144,145
Industrial/commercial	32,313	34,363	38,376	44,540
Governmental	<u>8,459</u>	<u>8,931</u>	<u>10,930</u>	<u>9,544</u>
	<u>\$ 138,681</u>	<u>\$ 148,366</u>	<u>\$ 173,906</u>	<u>\$ 198,229</u>

The Sewer Fund intends to provide ten years of information as it becomes available.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
RECENT SEWER SERVICE RATES
(Unaudited)**

Effective Date	Gross Water Rate Per 1,000 Cubic Feet	Sewer Rate	
		Percent of Water Bill	Per 1000 Cubic Feet
January 1, 2001	\$ 8.67	83 %	\$ 7.20
January 1, 2002	9.02	83	7.49
January 1, 2003	9.38	83	7.79
January 1, 2004	9.66	83	8.02
January 1, 2005	9.95	83	8.26
January 1, 2006	9.95	83	8.26
January 1, 2007	9.95	83	8.26
January 1, 2008	11.44	84	9.61
January 1, 2009	13.16	85	11.18
January 1, 2010	15.00	86	12.90

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
SEWER SYSTEM ACCOUNTS
TEN YEARS ENDED DECEMBER 31, 2010
(Unaudited)**

Years Ended December 31	Water Accounts			Exempt	Sewer Accounts
	Non- Metered	Metered	Total		
2001	327,276	163,051	490,327	69,994	420,333
2002	326,778	164,067	490,845	80,615	410,230
2003	325,789	165,440	491,229	55,064	436,165
2004	324,689	167,545	492,234	54,809	437,425
2005	323,740	169,664	493,404	55,797	437,607
2006	322,193	171,861	494,054	58,599	435,455
2007	320,579	175,256	495,835	61,700	434,135
2008	319,205	178,457	497,662	63,929	433,733
2009	318,088	179,649	497,737	64,965	432,772
2010	314,002	183,618	497,620	65,450	432,170

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS SEWER FUND

STATISTICAL DATA REVENUE BOND COVERAGE TEN YEARS ENDED DECEMBER 31, 2010 (In thousands) (Unaudited)

COMBINED SENIOR LIEN AND SECOND LIEN DEBT SERVICE CALCULATION	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined	\$43,476	\$41,276	\$46,890	\$59,408	\$55,513	\$53,485	\$53,326	\$62,335	\$65,754	\$84,991
Deposits to prior lien accounts										
Transfer (from) to sewer rate stabilization account			(1,050)	2,500		4,000				10,000
Net revenues available for bonds	43,476	41,276	47,940	56,908	55,513	49,485	53,326	62,335	65,754	74,991
PRIOR LIEN DEBT SERVICE REQUIREMENT										
NET REVENUES AVAILABLE FOR BONDS	43,476	41,276	47,940	56,908	55,513	49,485	53,326	62,335	65,754	74,991
DEBT SERVICE REQUIREMENTS:										
Senior lien debt service requirement	25,581	25,577	25,579	25,576	18,523	19,010	16,784	16,753	16,777	15,970
Senior lien debt service coverage (1.15 required)	1.70	1.61	1.87	2.23	3.00	2.60	3.18	3.72	3.92	4.70
DEBT SERVICE REQUIREMENTS:										
1997 second lien bonds	4,195	4,194	4,195	4,193						47
1998 second lien bonds	2,862	2,862	2,861	2,863	2,879	2,861	173	999	1,000	2,711
2000 second lien bonds	8,165	1,264	4,155	4,155	743	2,643	748	2,707	2,710	4,196
2001 second lien bonds		2,276	4,037	4,045	4,079	4,190	4,195	4,193	4,200	2,047
2001A second lien bonds		3,337	7,108	7,107	1,792	3,244	352	2,043	2,050	17,558
2004B second lien bonds				4,393	6,698	16,048	18,947	20,387	5,505	8,770
2006A and B second lien bonds							8,570	8,759	8,768	11,528
2008A second lien bonds									11,539	542
2008C second lien bonds								2,291	11,792	101
IEPA Loans										2,284
2010A & B second lien bonds										49,784
Second lien debt service requirement	15,222	13,933	22,356	26,756	16,191	28,986	32,985	41,379	47,564	49,784
COMBINED SENIOR AND SECOND LIEN DEBT SERVICE REQUIREMENTS	\$40,803	\$39,510	\$47,935	\$52,332	\$34,714	\$47,996	\$49,769	\$58,132	\$64,341	\$65,754
COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE (1.0 REQUIRED)	1.07	1.04	1.00	1.09	1.60	1.03	1.07	1.07	1.02	1.14
SEWER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	\$ 9,179	\$ 9,179	\$ 8,129	\$10,629	\$10,629	\$14,629	\$14,629	\$14,629	\$14,629	\$25,629

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
LONG-TERM DEBT
FIVE YEARS ENDED DECEMBER 31, 2010
(In thousands) (Unaudited)**

	2006	2007	2008	2009	2010
First Lien	\$ 82,790	\$ 72,130	\$ 60,815	\$ 48,825	\$ 36,175
Second Lien	<u>707,248</u>	<u>698,398</u>	<u>863,234</u>	<u>854,015</u>	<u>1,089,817</u>
Total	<u>\$ 790,038</u>	<u>\$ 770,528</u>	<u>\$ 924,049</u>	<u>\$ 902,840</u>	<u>\$ 1,125,992</u>

The Sewer Fund intends to provide ten years of information as it becomes available.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
CAPITAL IMPROVEMENT PROGRAM
2011–2015
(In thousands) (Unaudited)**

Years	Amount
2011	\$ 133,357
2012	132,610
2013	150,929
2014	159,186
2015	<u>161,344</u>
Total	<u>\$ 737,426</u>

Note: The information presented in the table above reflects the Sewer 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
SEWER FUND**

**STATISTICAL DATA
FULL-TIME EQUIVALENT SEWER FUND EMPLOYEES BY FUNCTION
FIVE YEARS ENDED DECEMBER 31, 2010
(Unaudited)**

Function	2006	2007	2008	2009	2010
Agency management	6	7	5	5	5
Capital design and construction services	21	22	21	21	21
Engineering services	16	13			
Inspection services	17	17	18	18	18
System installation	10	10	10	10	9
System maintenance	587	566	517	521	521
Communications and coordination	<u>32</u>	<u>32</u>	<u>29</u>	<u>31</u>	<u>27</u>
	<u>689</u>	<u>667</u>	<u>600</u>	<u>606</u>	<u>601</u>

The Sewer Fund intends to provide ten years of information as it becomes available.

Source: City of Chicago's 2010, 2009, 2008, and 2007 Program and Budget Summary.

Note: Schedule includes only Department of Water Management Employees.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
OPERATING INDICATORS BY FUNCTION
(Unaudited)**

	2009	2010
Catch basins repaired	15,124	18,036

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
CAPITAL ASSET STATISTICS BY FUNCTION
(In miles) (Unaudited)**

	2009	2010
Sewers lined	43.0	37.7
New construction	8.1	8.6

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

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

Years	Population
1970	3,369,357
1980	3,005,072
1990	2,783,726
2000	2,896,016
2010	2,695,598

Source: U.S. Department of Commerce — Census Bureau.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
PRINCIPAL EMPLOYERS (NON-GOVERNMENT)
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Employer	2010 (1)			2001 (1)		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
J.P. Morgan Chase (2)	8,094	1	0.81 %	-	-	- %
United Airlines	5,585	2	0.58	9,282	1	0.81
Northern Trust	5,833	3	0.56	5,769	2	0.51
Jewel Food Stores, Inc.	5,307	4	0.52			
Bank of America NT	4,668	5	0.44			
Walgreen's Co.	4,552	6	0.33			
Accenture LLP	4,224	7	0.32			
CVS Corporation	4,067	8	0.30			
ABM Janitorial Midwest, Inc.	3,840	9	0.30			
American Airlines	3,153	10	0.27	5,317	4	0.46
Fist National Bank of Chicago				5,565	3	0.49
Ameritech (3)				5,303	5	0.46
Arthur Andersen, LLP				4,972	6	0.44
M O Hill & Robert Prince				4,686	7	0.41
Ford Motor Company				3,197	8	0.28
Dominick's Finer Foods, LLC				3,167	9	0.28
Commonwealth Edison Company				3,146	10	0.28

(1) Source: City of Chicago, Department of Revenue, Employer's Expense Tax Return, June 30, 2010.

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

(3) SBC/AT&T, formerly known as Ameritech.

(4) Harris Trust and Saving Bank, formerly known as Harris Trust.

**CITY OF CHICAGO, ILLINOIS
SEWER FUND**

**STATISTICAL DATA
POPULATION AND INCOME STATISTICS
(Unaudited)**

Year	Population (1)	Median Age (2)	Number of Households (2)	Unemployment Rate (3)	Per Capita Income (4)	Total Income (5)
2008	2,896,016	34.1	1,032,746	6.40	45,328	131,270,613,248
2009	2,896,016	34.5	1,037,069	10.0	43,727	126,634,091,632
2010	2,695,598	34.8	1,045,666	10.1	N/A (5)	N/A (5)

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 2010, 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 2010 dollars).
- (5) N/A means not available at time of publication.