

City of Chicago, Illinois Water Fund

Basic Financial Statements as of and for the
Years Ended December 31, 2009 and 2008,
Required Supplementary Information,
Additional Information, Statistical Data, and
Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS WATER FUND

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3–12
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008:	
Statements of Net Assets	13
Statements of Revenues, Expenses, and Changes in Net Assets	14
Statements of Cash Flows	15–16
Notes to Basic Financial Statements	17–34
ADDITIONAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009 — Schedule of Utility Plant	35
STATISTICAL SECTION CONTENTS:	36
Changes in Net Assets, Three Years Ended December 31, 2009	37
Net Assets by Components, Three Years Ended December 31, 2009	38
Historical Financial Operations, Ten Years Ended December 31, 2009	39
Water System Accounts, Ten Years Ended December 31, 2009	40
Ten Largest Suburban Customers, for the Year Ended December 31, 2009	41
Revenue Bond Coverage, Ten Years Ended December 31, 2009	42
Long Term Debt, Three Years Ended December 31, 2009	43
Capital Improvement Program, 2010–2014	44
Water System Pumpage and Capacity, Ten Years Ended December 31, 2009	45
Miscellaneous Statistical Data, for the Years Ended December 31, 2009 and 2008	46
Operating Information by Function, Three Years Ended December 31, 2009	47
Population of Service Area Last Five Census Periods, 1960–2000	48
Principal Employers (Non-Government), For the Year Ended December 31, 2009	49
Population and Income Statistics, Three Years Ended December 31, 2009	50

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Water Fund (Water Fund) of the City of Chicago, Illinois (City) as of December 31, 2009 and 2008, and for the years then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of the Water Fund as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the Water Fund's respective financial statements that collectively comprise the Water Funds 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.

Deloitte & Touche LLP

June 29, 2010

CITY OF CHICAGO, ILLINOIS WATER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of City of Chicago, Illinois, Water Fund's financial performance provides an introduction and overview of the Water Fund's financial activities for the fiscal years ended December 31, 2009 and 2008. Please read this discussion in conjunction with the Water Fund's Basic Financial Statements and the Notes to Basic Financial Statements following this section.

FINANCIAL HIGHLIGHTS

2009

- Operating revenues for 2009 increased by \$40.0 million compared to prior year operating revenues. This increase is primarily due to the 15% increase in water rate effective January 1, 2009, offset by a decrease in pumpage.
- Operating expenses before depreciation and amortization for 2009 decreased by \$2.7 million compared to 2008 due to decrease in salaries and overtime, natural gas charges and insurance premiums offset by an increase in chemical costs, electric charges, provision for doubtful accounts, and indirect costs.
- The Water Fund's total net assets at December 31, 2009 were \$997.5 million. This is an increase of \$31.2 million over total net assets at December 31, 2008.
- Utility plant increased in 2009 by \$181.3 million due to the continuing capital improvement program.

2008

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

In addition to the basic financial statements, this report includes Statistical Data. The Statistical Data section presents unaudited debt service coverage calculation and includes certain unaudited information related to the Water Funds historical financial and non-financial operating results and capital activities.

FINANCIAL ANALYSIS

At December 31, 2009, the Water Fund's financial position continued to be strong with total assets of \$2,686.8 million, total liabilities of \$1,689.3 million and net assets of \$997.5 million. A comparative condensed summary of the Water Fund's net assets at December 31, 2009, 2008, and 2007 is as follows:

(In thousands)	Net Assets		
	2009	2008	2007
Current assets	\$ 152,522	\$ 144,847	\$ 141,405
Restricted and other assets	135,548	285,576	162,854
Utility plant — net	<u>2,398,742</u>	<u>2,254,892</u>	<u>2,042,784</u>
Total assets	<u>\$ 2,686,812</u>	<u>\$ 2,685,315</u>	<u>\$ 2,347,043</u>
Current liabilities	\$ 146,555	\$ 125,916	\$ 123,185
Long-term and restricted liabilities	<u>1,542,750</u>	<u>1,593,148</u>	<u>1,266,000</u>
Total liabilities	<u>\$ 1,689,305</u>	<u>\$ 1,719,064</u>	<u>\$ 1,389,185</u>
Net assets:			
Invested in capital assets — net of related debt	\$ 958,723	\$ 911,500	\$ 892,711
Restricted net assets — capital projects	350	1,690	972
Unrestricted net assets	<u>38,434</u>	<u>53,061</u>	<u>64,175</u>
Total net assets	<u>\$ 997,507</u>	<u>\$ 966,251</u>	<u>\$ 957,858</u>

2009

Current assets of \$152.5 million at December 31, 2009, increased by \$7.7 million (5.3%) over 2008 as a result of an increase in receivables of \$14.4 million, offset by a decrease in cash and cash equivalents of \$3.9 million and due from other funds of \$2.8 million. Restricted and other assets decreased by \$150.0 million (52.5%) primarily due to the funding of capital improvement program and utility plant — net increased by \$143.8 million (6.4%).

The increase in current liabilities of \$20.6 million (16.4%) is directly related to the timing of payments of accounts payable, an increase in accounts payable and due to other City funds during 2009. Long-term liabilities and restricted liabilities decreased by \$50.4 million (3.2%) due to principal payments made in 2009.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's financial position. At December 31, 2009, total net assets were \$997.5 million, an increase of \$31.3 million (3.2%) over 2008.

2008

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

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

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

The primary sources of the Water Fund's operating revenues are water usage fees. These revenues fund all Water Fund operating expenses, fund deposits and debt service requirements. A comparative condensed summary of the Water Fund's revenues, expenses, and changes in net assets for the years ended December 31, 2009, 2008, and 2007 is as follows:

(In thousands)	<u>Revenues, Expenses, and Changes in Net Assets</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Operating revenues			
Water sales	\$ 396,954	\$ 358,067	\$ 323,588
Other operating revenues	<u>13,259</u>	<u>12,177</u>	<u>10,789</u>
Total operating revenues	410,213	370,244	334,377
Nonoperating revenues	<u>3,545</u>	<u>9,590</u>	<u>12,796</u>
Total revenues	<u>413,758</u>	<u>379,834</u>	<u>347,173</u>
Expenses:			
Operating expenses	274,107	276,850	260,840
Depreciation and amortization	38,748	37,546	34,686
Interest expense	<u>69,647</u>	<u>57,045</u>	<u>54,655</u>
Total expenses	<u>382,502</u>	<u>371,441</u>	<u>350,181</u>
Change in net assets	31,256	8,393	(3,008)
Net assets, beginning of year	<u>966,251</u>	<u>957,858</u>	<u>960,866</u>
Net assets, end of year	<u>\$ 997,507</u>	<u>\$ 966,251</u>	<u>\$ 957,858</u>

2009

Water sales and other operating revenues comprise the Water Fund's \$410.2 million operating revenues. Water sales and other operating revenues for 2009 were \$396.9 million and \$13.3 million, respectively. The increase in 2009 operating revenues of \$40.0 million (10.8%) from 2008 was primarily due to a 15% increase in water rates effective January 1, 2009, offset by a decrease in pumpage of 2.2%.

Fiscal year 2009 nonoperating revenues of \$3.5 million are comprised mainly of interest income of \$1.0 million and other revenue that relates to construction done by Department of Water Management for other City departments and private companies amounting to \$2.5 million. The increase in interest expense of \$12.6 million (22.1%) is primarily due to the issuance of the Series 2008 Second Lien Water Revenue Bonds in 2008.

2008

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

Fiscal year 2008 nonoperating revenues of \$9.6 million are comprised mainly of interest income of \$3.7 million and other revenue that relates to construction done by Department of Water Management for other City departments and private companies amounting to \$5.9 million. The increase in interest expense of \$2.3 million (4.2%) is primarily due to the issuance of the Series 2008 Second Lien Water Revenue Bonds in 2008.

A comparative summary of the Water Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2009, 2008 and 2007, is as follows:

(In thousands)	Operating Expenses		
	2009	2008	2007
Source of supply	\$ 127	\$ 194	\$ 275
Power and pumping	47,497	54,722	52,184
Purification	49,396	48,448	44,208
Transmission and distribution	40,872	47,100	47,037
Provision for doubtful accounts	10,396	8,274	3,724
Customer accounting and collection	11,154	12,831	14,824
Administrative and general	16,149	18,127	14,859
Central services and General Fund reimbursements	<u>98,516</u>	<u>87,154</u>	<u>83,729</u>
Operating expenses before depreciation and amortization	274,107	276,850	260,840
Depreciation and amortization	<u>38,748</u>	<u>37,546</u>	<u>34,686</u>
Total operating expenses	<u>\$ 312,855</u>	<u>\$ 314,396</u>	<u>\$ 295,526</u>

2009

Operating expenses before depreciation and amortization for the year ended 2009 decreased by \$2.7 million (1.0%) from the year ended 2008 due to a decrease in Power and pumping of \$7.2 million (13.2%) resulting from decreases in natural gas charges, salaries and overtime offset by an increase in electricity charges; a decrease in Transmission and distribution of \$6.2 million (13.2%) primarily due to a decrease in salaries and overtime; an increase in Central services and General Fund reimbursement expense of \$11.4 (13.0%) million primarily due to increases in health insurance premiums, police, fire, indirect costs, and workmen's compensation; and an increase in the Provision for doubtful accounts of \$2.1 million (25.6%).

2008

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

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2009, 2008 and 2007, is as follows:

(In thousands of dollars)	Cash Flows		
	2009	2008	2007
Cash from activities:			
Operating	\$ 144,835	\$ 83,057	\$ 73,296
Capital and related financing	(300,840)	14,123	(173,755)
Investing	<u>135,335</u>	<u>(116,318)</u>	<u>107,914</u>
Net change in cash and cash equivalents	(20,670)	(19,138)	7,455
Cash and cash equivalents:			
Beginning of year	<u>75,321</u>	<u>94,459</u>	<u>87,004</u>
End of year	<u>\$ 54,651</u>	<u>\$ 75,321</u>	<u>\$ 94,459</u>

2009

As of December 31, 2009, the Water Fund's cash and cash equivalents of \$54.6 million decreased by \$20.7 million due to the cash provided of \$144.8 million from operating activities and cash outflow of \$300.8 million from capital and related financing activities and \$135.3 million cash inflow from investing activities. Total cash and cash equivalents at December 31, 2009 are comprised of unrestricted and restricted cash and cash equivalents of \$20.0 million and \$34.6 million, respectively.

2008

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

UTILITY PLANT AND DEBT ADMINISTRATION

2009

At the end of 2009 and 2008, the Water Fund had \$2,398.7 million and \$2,254.9 million, respectively, invested in utility plant, net of accumulated depreciation. During 2009, the Water Fund expended \$186.7 million on capital activities. This included \$11.5 million for structures and improvements, \$95.4 million for distribution plant, \$11.0 million for equipment, and \$68.8 million for construction in progress.

During 2009, net completed projects totaling \$73.0 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to Jardine Water Purification Plant (JWPP) South roadway drainage (\$16.8 million), JWPP administration roofing replacement (\$6.4 million), scada system replacement (\$5.9 million), technology initiatives related to the automated referral management system (\$4.2 million) and installation and replacements of water mains (\$33.4 million).

2008

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

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

The Water Fund's utility plant at December 31, 2009, 2008 and 2007, is summarized as follows:

(In thousands)	Net Utility Plant at Year-End		
	2009	2008	2007
Utility plant not depreciated:			
Land and land rights	\$ 5,083	\$ 5,083	\$ 5,083
Construction in progress	<u>172,718</u>	<u>176,908</u>	<u>129,999</u>
Total utility plant not depreciated	<u>177,801</u>	<u>181,991</u>	<u>135,082</u>
Utility plant being depreciated:			
Structures and improvements	523,528	488,308	478,260
Distribution plant	1,896,552	1,770,525	1,598,233
Equipment	<u>537,294</u>	<u>513,069</u>	<u>493,716</u>
Total utility plant being depreciated	<u>2,957,374</u>	<u>2,771,902</u>	<u>2,570,209</u>
Less accumulated depreciation:			
Structures and improvements	(167,450)	(161,144)	(154,632)
Distribution plant	(312,130)	(294,507)	(278,505)
Equipment	<u>(256,853)</u>	<u>(243,350)</u>	<u>(229,370)</u>
Total accumulated depreciation	<u>(736,433)</u>	<u>(699,001)</u>	<u>(662,507)</u>
Total utility plant being depreciated — net	<u>2,220,941</u>	<u>2,072,901</u>	<u>1,907,702</u>
Total utility plant — net	<u>\$ 2,398,742</u>	<u>\$ 2,254,892</u>	<u>\$ 2,042,784</u>

The Water Fund's capital activities are funded through Water Fund revenue bonds and Water Fund revenue. Additional information on the Water Fund's capital assets is presented in Note 5 of the Notes to Basic Financial Statements.

The Water Fund's long-term liabilities at December 31, 2009, 2008 and 2007, are summarized as follows:

(In thousands)	Long-Term Liabilities at Year-End		
	2009	2008	2007
Revenue bonds and notes payable	\$ 1,464,839	\$ 1,503,925	\$ 1,225,811
Add:			
Accretion of Capital Appreciation Bonds	44,481	42,684	40,517
Bond discount/premium	29,736	30,654	8,308
Less unamortized:			
Deferred loss on bond refunding	<u>(42,440)</u>	<u>(44,689)</u>	<u>(41,426)</u>
 Total revenue bonds/notes payable — net	 1,496,616	 1,532,574	 1,233,210
Less current portion of accretion	(4,034)	(3,767)	(3,488)
Less current bonds/notes payable	<u>(40,521)</u>	<u>(39,086)</u>	<u>(30,008)</u>
 Total long-term revenue bonds/notes payable — net	 1,452,061	 1,489,721	 1,199,714
Long-term purchase obligations	14,291	14,513	
Water pipe extension certificates	<u>1,595</u>	<u>1,595</u>	<u>1,595</u>
 Total long-term liabilities	 <u>\$ 1,467,947</u>	 <u>\$ 1,505,829</u>	 <u>\$ 1,201,309</u>

Additional information on the Water Fund's long-term debt is presented in Note 4 of the Notes to Basic Financial Statements.

The Water Fund's revenue bonds at December 31, 2009, have underlying credit ratings with each of the three major rating agencies as follows:

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

At December 31, 2009, the Water Fund was in compliance with the debt covenants as stated within the bond ordinances. Additional information on certain of the Water Fund's debt covenants is presented in Note 4 of the Notes to the Basic Financial statements.

Requests for Information

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2009 AND 2008
(In thousands)**

	2009	2008		2009	2008
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 2)	\$ 20,012	\$ 23,924	Accounts payable	\$ 20,317	\$ 14,990
Investments (Note 2)	1,532	855	Due to other City funds	44,426	34,235
Accounts receivable — net of allowance for doubtful accounts of approximately \$28,261 in 2009 and \$20,044 in 2008	99,431	85,035	Accrued liabilities	60,648	54,071
Interest receivable	189	326	Deferred revenue	<u>21,164</u>	<u>22,620</u>
Due from other City funds	17,541	20,312			
Inventories	<u>13,817</u>	<u>14,395</u>	Current unrestricted liabilities	<u>146,555</u>	<u>125,916</u>
Current unrestricted assets	<u>152,522</u>	<u>144,847</u>	Liabilities payable from restricted assets:		
Restricted assets (Notes 2 and 3):			Accounts payable	21,023	33,903
Cash and cash equivalents	34,639	51,397	Due to other City funds	919	919
Investments	86,384	217,767	Interest payable	8,306	9,644
Interest receivable	<u>350</u>	<u>1,690</u>	Current portion of long-term debt (Note 4)	<u>44,555</u>	<u>42,853</u>
Current restricted assets	<u>121,373</u>	<u>270,854</u>	Current liabilities payable from restricted assets	<u>74,803</u>	<u>87,319</u>
Total current assets	<u>273,895</u>	<u>415,701</u>	Total current liabilities	<u>221,358</u>	<u>213,235</u>
NONCURRENT ASSETS:			NONCURRENT LIABILITIES :		
Other assets	<u>14,175</u>	<u>14,722</u>	Long-term debt — net of current maturities (Note 4)	1,452,061	1,489,721
Utility plant (Note 5):			Long-term purchase obligation (Note 4)	14,291	14,513
Land and land rights	5,083	5,083	Water pipe extension certificates	<u>1,595</u>	<u>1,595</u>
Structures and improvements	523,528	488,308	Total noncurrent liabilities	<u>1,467,947</u>	<u>1,505,829</u>
Distribution plant	1,896,552	1,770,525	Total liabilities	<u>1,689,305</u>	<u>1,719,064</u>
Equipment	537,294	513,069	NET ASSETS (Note 1):		
Construction in progress	<u>172,718</u>	<u>176,908</u>	Invested in capital assets — net of related debt	958,723	911,500
Total utility plant	3,135,175	2,953,893	Restricted net assets — capital projects	350	1,690
Less accumulated depreciation	<u>(736,433)</u>	<u>(699,001)</u>	Unrestricted net assets	<u>38,434</u>	<u>53,061</u>
Utility plant — net	<u>2,398,742</u>	<u>2,254,892</u>	Total net assets	997,507	966,251
Total noncurrent assets	<u>2,412,917</u>	<u>2,269,614</u>			
TOTAL	<u>\$2,686,812</u>	<u>\$2,685,315</u>	TOTAL	<u>\$2,686,812</u>	<u>\$2,685,315</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

(In thousands)

	2009	2008
OPERATING REVENUES:		
Water sales	\$ 396,954	\$ 358,067
Other operating revenues	<u>13,259</u>	<u>12,177</u>
Total operating revenues	<u>410,213</u>	<u>370,244</u>
OPERATING EXPENSES:		
Source of supply	127	194
Power and pumping	47,497	54,722
Purification	49,396	48,448
Transmission and distribution	40,872	47,100
Provision for doubtful accounts	10,396	8,274
Customer accounting and collection	11,154	12,831
Administrative and general	16,149	18,127
Central services and General Fund reimbursements	<u>98,516</u>	<u>87,154</u>
Total operating expenses before depreciation and amortization	<u>274,107</u>	<u>276,850</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	136,106	93,394
DEPRECIATION AND AMORTIZATION	<u>38,748</u>	<u>37,546</u>
OPERATING INCOME	<u>97,358</u>	<u>55,848</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	961	3,698
Interest expense	(69,647)	(57,045)
Other	<u>2,584</u>	<u>5,892</u>
Total nonoperating expenses — net	<u>(66,102)</u>	<u>(47,455)</u>
CHANGE IN NET ASSETS	31,256	8,393
TOTAL NET ASSETS — Beginning of year	<u>966,251</u>	<u>957,858</u>
TOTAL NET ASSETS — End of year	<u>\$ 997,507</u>	<u>\$ 966,251</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands)**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 383,102	\$ 356,393
Transactions with other City funds — net	(47,752)	(61,931)
Payments to vendors	(85,965)	(97,294)
Payments to employees	<u>(104,550)</u>	<u>(114,111)</u>
Cash flows provided by operating activities	<u>144,835</u>	<u>83,057</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(188,733)	(209,897)
Interest paid	(72,479)	(57,890)
Proceeds from issuance of bonds and notes		571,048
Principal paid on bonds	(42,853)	(33,497)
Payments of refunded bonds		(254,370)
Payments of bonds issuance costs		(7,163)
Construction reimbursements	<u>3,225</u>	<u>5,892</u>
Cash flows (used in) provided by capital and related financing activities	<u>(300,840)</u>	<u>14,123</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	130,706	(126,624)
Investment interest	<u>4,629</u>	<u>10,306</u>
Cash flows provided by (used in) investing activities	<u>135,335</u>	<u>(116,318)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,670)	(19,138)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>75,321</u>	<u>94,459</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 54,651</u>	<u>\$ 75,321</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET ASSETS:		
Unrestricted	\$ 20,012	\$ 23,924
Restricted	<u>34,639</u>	<u>51,397</u>
TOTAL	<u>\$ 54,651</u>	<u>\$ 75,321</u>

(Continued)

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands)**

	2009	2008
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 97,358	\$ 55,848
Adjustments to reconcile:		
Depreciation and amortization	38,748	37,546
Provision for doubtful accounts	10,396	8,274
Changes in assets and liabilities:		
Increase in accounts receivable	(25,655)	(18,406)
Decrease in inventories	578	476
Decrease (increase) in due from other City funds	2,771	(3,412)
Increase (decrease) in unrestricted accounts payable	5,327	(2,720)
Increase (decrease) in due to other City funds	10,191	(3,002)
Increase in accrued liabilities	6,577	3,900
(Decrease) increase in deferred revenue	<u>(1,456)</u>	<u>4,553</u>
CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 144,835</u>	<u>\$ 83,057</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS — Property additions in 2009 and 2008 of \$21,942 and \$34,823, respectively, are included in accounts payable.

See notes to basic financial statements.

(Concluded)

CITY OF CHICAGO, ILLINOIS

WATER FUND

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Assets — Net assets are comprised of net earnings from operating and non-operating revenues, expenses and capital grants. Net assets are displayed in three components — invested in capital assets, net of related debt; restricted net assets, capital projects; and unrestricted net assets. Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt, net of debt service reserve, and unspent bond proceeds. Restricted net assets, capital projects consists of net assets for which constraints are placed thereon by external parties (such as

lenders and grantors) and laws, regulations, and enabling legislation. Unrestricted net assets consists of all other net assets not categorized as either of the above.

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

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

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

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

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

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

Revenue Recognition — Revenue from water sales is recognized when the water is consumed by customers. Of the accounts receivable balances, \$41.2 million and \$39.1 million represent revenue recognized on water sales which had not yet been billed to customers at December 31, 2009 and 2008, respectively. Deferred revenue represents amounts billed to non-metered customers prior to usage.

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

2. RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash Equivalents and Investments — As of December 31, 2009, the Water Fund had the following cash equivalents and investments (in thousands):

	<u>Investment Maturities (in Years)</u>				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
U.S. agencies	\$ 13,561	\$ 72,823	\$	\$	\$ 86,384
Commercial paper					
Certificates of deposit and other short-term	<u>40,160</u>	<u> </u>	<u> </u>	<u> </u>	<u>40,160</u>
Subtotal	<u>\$ 53,721</u>	<u>\$ 72,823</u>	<u>\$</u>	<u>\$</u>	126,544
Share of City’s pooled funds					<u>27,908</u>
Total					<u>\$ 154,452</u>

Cash Equivalents and Investments — As of December 31, 2008, the Water Fund had the following cash equivalents and investments (in thousands):

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

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy requires that investments generally may not have a maturity date in excess of ten years from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable ordinances.

Credit Risk — The Code limits investments in commercial paper to banks whose senior obligations are rated in the top two rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of Deposit are also limited by the Code to national banks, which provide collateral of at least 105% by marketable U.S. government securities marked to market at least monthly; or secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized statistical rating organization maintaining such rating during the term of such investment. The following schedule summarizes the Water Fund's exposure to credit risk (in thousands):

Quality Rating	2009	2008
Aaa/AAA	\$ 123,967	\$ 273,964
Not Rated	<u>2,577</u>	<u>9,753</u>
 Total	 <u>\$ 126,544</u>	 <u>\$ 283,717</u>

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

Custodial Credit Risk — Cash and Certificates of Deposit — This is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's Investment Policy states that in order to protect the City's deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 105% 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 \$301.9 million. Of the bank balance, 100% was either insured or collateralized with securities held by City agents in the City's name. The following schedule summarizes the investments reported in the basic financial statements (in thousands):

	2009	2008
Per Note 2:		
Investments — Water Fund	\$ 126,544	\$ 283,717
Investments — City Treasurer Pooled Fund	<u>27,908</u>	<u>9,478</u>
	<u>\$ 154,452</u>	<u>\$ 293,195</u>
 Per financial statements:		
Restricted investments	\$ 86,384	\$ 217,767
Unrestricted investments	1,532	855
Investments included as cash and cash equivalents on the statements of net assets	<u>66,536</u>	<u>74,573</u>
	<u>\$ 154,452</u>	<u>\$ 293,195</u>

3. RESTRICTED ASSETS AND ACCOUNTS

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

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

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

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

Construction Account — Certain proceeds of the Senior Lien Revenue Bonds were deposited in this account for the purpose of paying construction costs of projects as defined in the ordinance.

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

Water Revenue Bonds, Series 2000, 2006A, 2008, and Refunding Bonds, Series 2004 and 2001 (Second Lien Revenue Bonds):

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

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

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

Construction Account — Certain proceeds of the Second Lien Revenue Bonds were deposited in this account for the purpose of paying construction costs of projects as defined in the ordinance.

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

For accounts established by ordinances with balances, the amounts at December 31, 2009 and 2008, are as follows (in thousands):

	2009	2008
Senior lien debt service reserve	\$ 7,101	\$ 7,187
Second lien revenue bonds	26,830	28,042
Water rate stabilization	51,397	51,397
Construction	<u>35,695</u>	<u>182,538</u>
Total	<u>\$ 121,023</u>	<u>\$ 269,164</u>

At December 31, 2009 and 2008, Management is not aware of any instances of non-compliance with the funding requirements and restrictions on assets as stated in the ordinances.

4. LONG-TERM DEBT

At December 31, 2009 and 2008, long-term debt consisted of the following (in thousands):

	2009	2008
\$49,880 Series 1993 Water Revenue Refunding Bonds issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	\$ 33,695	\$ 37,525
\$157,805 Series 1995 Water Revenue Bonds issued December 1, 1995, due through 2022; interest at 3.6% to 5.75%	22,100	26,570
\$277,911 Series 1997 Water Revenue Bonds issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	28,835	33,153
\$100,000 Series 2000 Second Lien Water Revenue Bonds issued December 22, 1999, due 2030, variable floating interest rate (3.8694% at December 31, 2009)	100,000	100,000
\$156,819 Series 2000 Senior Lien Water Revenue Bonds issued May 2, 2000, due 2030; interest at 4.375% to 5.875%	35,809	41,849
\$272,405 Series 2001 Senior Lien Water Revenue Bonds issued December 13, 2001, due 2031; interest at 4.0% to 5.5%	19,185	24,955
\$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	81,075	81,115
\$2,292 Illinois Environmental Protection Agency Loan Agreement signed June 30, 2003, due 2025; interest at 2.57%	2,286	2,401
\$3,605 Illinois Environmental Protection Agency Loan Agreement signed October 16, 2003, due 2022; interest at 2.905%	2,614	2,777
\$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds issued August 5, 2004, due through 2031; interest at 3.867%	392,225	394,925
\$215,400 Series 2006A Second Lien Water Revenue Bonds issued July 26, 2006, due thru 2036; interest at 4.5% to 5.0%	205,165	208,740
\$549,915 Series 2008 Second Lien Water Revenue Bonds issued April 2, 2008, due thru 2038; interest at 4.0% to 5.25%	<u>541,850</u>	<u>549,915</u>
	1,464,839	1,503,925
Add accretion of Capital Appreciation Bonds	44,481	42,684
Less current portion of accretion	(4,034)	(3,767)
Less current portion of long-term debt	(40,521)	(39,086)
Add unamortized bond discount/premium — net	29,736	30,654
Less unamortized deferred loss on bond refunding	<u>(42,440)</u>	<u>(44,689)</u>
Long-term portion — net	<u>\$ 1,452,061</u>	<u>\$ 1,489,721</u>

During the years ended December 31, 2009 and 2008, long-term debt changed as follows (in thousands):

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009	Due Within One Year
Revenue bonds/notes payable	\$ 1,503,925	\$	\$ (39,086)	\$ 1,464,839	\$ 40,521
Accretion of Capital Appreciation Bonds	42,684	5,564	(3,767)	44,481	4,034
Unamortized bond (discount) premium — net	30,654		(918)	29,736	
Unamortized deferred loss on bond refunding	<u>(44,689)</u>		<u>2,249</u>	<u>(42,440)</u>	
Total	<u>\$ 1,532,574</u>	<u>\$ 5,564</u>	<u>\$ (41,522)</u>	<u>\$ 1,496,616</u>	<u>\$ 44,555</u>

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

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

	2009	2008
Non-interest bearing obligation	<u>\$ 14,291</u>	<u>\$ 14,513</u>

Interest expense capitalized in 2009 and 2008 totaled \$9.3 million and \$21.0 million, respectively. Interest income capitalized in 2009 and 2008 totaled \$2.2 million and \$7.6 million, respectively.

Interest expense includes amortization of the deferred loss on bond refunding for 2009 and 2008 of \$2.2 million and \$2.4 million; amortization of bond discount of \$0.9 million and \$0.9 million; and accretion of Series 1997 and Series 2000 capital appreciation bonds of \$5.6 million and \$5.7 million, respectively.

As defined in the bond ordinances, net revenues are pledged for the payment of principal and interest on the bonds. Ordinances include covenants which require that net revenues available for bonds, as adjusted, at least equal the greater of (i) 120% of the aggregate current annual debt service on the Senior Lien Revenue Bonds or (ii) the sum of the aggregate current annual debt service of the Senior Lien Revenue Bonds plus 110% of the aggregate current annual Second Lien Revenue Bonds debt service, and that City management maintain all covenant reserve account balances at specified amounts. The above requirements were met in 2009 and 2008.

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

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

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

A schedule of bond and note debt service requirements to maturity at December 31, 2009, is as follows (in thousands):

Years Ending December 31	Principal	Interest	Total Debt Service
2010	\$ 40,521	\$ 70,044	\$ 110,565
2011	42,202	68,371	110,573
2012	44,023	66,581	110,604
2013	41,521	69,089	110,610
2014	42,699	67,941	110,640
2015–2019	241,071	312,518	553,589
2020–2024	342,486	213,400	555,886
2025–2029	345,436	130,359	475,795
2030–2034	213,090	55,277	268,367
2035–2039	<u>111,790</u>	<u>13,510</u>	<u>125,300</u>
Total	<u>\$1,464,839</u>	<u>\$1,067,090</u>	<u>\$2,531,929</u>

Debt service requirements above exclude commercial paper issues as the timing of payments is not certain. The Water Fund’s variable rate bonds may bear interest from time to time at a flexible rate, a daily rate, a weekly rate, an adjustable long rate, or the fixed rate as determined from time to time by the remarketing agent, in consultation with the City. At December 31, 2009, the variable rate bonds were in the weekly rate interest mode. For the requirements calculated above, interest on variable rate debt was calculated at the rate in effect at December 31, 2009, or the effective rate of a related swap agreement, if applicable.

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

Terms, Fair Values and Credit Risk — The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2009, are as follows (in thousands). The notional amounts of the swaps match the principal amounts of the associated debt. The Water Fund’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category. Under the swap, the Water Fund pays the counterparty a fixed payment and receives a variable payment computed according to the Securities Industry in Financial Markets Association/London InterBank Offered Rate, (SIFMA/LIBOR).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Rating
Bonds (Series 2004)	\$195,335	4/16/08	3.8694 %	SIFMA	\$(21,938)	11/1/25	Aa3/A+
Bonds (Series 2004)	196,890	8/5/04	3.8669	SIFMA	(22,501)	11/1/31	Aaa/AA-
Bonds (Series 2000)	<u>100,000</u>	4/16/08	3.8694	SIFMA	<u>(13,443)</u>	11/1/30	Aa3/A+
	<u>\$492,225</u>				<u>\$(57,882)</u>		

Fair Value — As of December 31, 2009, the swaps had a negative fair value of \$57.9 million. As per industry convention, the fair values of the Water Fund’s outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution, the Water Fund’s swaps had negative values.

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

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

Tax Risk — The swap exposes the Water Fund to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds

due to tax law changes such that the Federal or State tax exception of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of this swap agreement.

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

Swap Payments and Associated Debt — As of December 31, 2009, debt service requirements for the Water Fund's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands):

Years Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps — Net	
2010	2,800	1,437	17,605	21,842
2011	2,925	1,428	17,505	21,858
2012	10,200	1,419	17,400	29,019
2013	10,150	1,389	17,036	28,575
2014	10,575	1,358	16,674	28,607
2015-2019	67,775	6,290	77,393	151,458
2020-2024	181,425	4,608	57,385	243,418
2025-2029	158,475	2,007	26,284	186,766
2030-2034	47,900	151	1,976	50,027
Total	<u>\$ 492,225</u>	<u>\$ 20,087</u>	<u>\$ 249,258</u>	<u>\$ 761,570</u>

Defeased Bonds — Defeased bonds have been removed from the Statements of Net Assets because related assets have been placed in irrevocable trusts that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at December 31, 2009, are as follows (in thousands):

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

5. UTILITY PLANT

During the years ended December 31, 2009 and 2008, utility plant changed as follows (in thousands):

	Balance January 1, 2009	Additions	Disposals and Transfers	Balance December 31, 2009
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$	\$	\$ 5,083
Construction in progress	<u>176,908</u>	<u>68,795</u>	<u>(72,985)</u>	<u>172,718</u>
Total utility plant not depreciated	<u>181,991</u>	<u>68,795</u>	<u>(72,985)</u>	<u>177,801</u>
Utility plant being depreciated:				
Structures and improvements	488,308	11,461	23,759	523,528
Distribution plant	1,770,525	95,411	30,616	1,896,552
Equipment	<u>513,069</u>	<u>11,003</u>	<u>13,222</u>	<u>537,294</u>
Total utility plant being depreciated	<u>2,771,902</u>	<u>117,875</u>	<u>67,597</u>	<u>2,957,374</u>
Less accumulated depreciation:				
Structures and improvements	(161,144)	(6,306)		(167,450)
Distribution plant	(294,507)	(18,255)	632	(312,130)
Equipment	<u>(243,350)</u>	<u>(14,558)</u>	<u>1,055</u>	<u>(256,853)</u>
Total accumulated depreciation	<u>(699,001)</u>	<u>(39,119)</u>	<u>1,687</u>	<u>(736,433)</u>
Total utility plant being depreciated — net	<u>2,072,901</u>	<u>78,756</u>	<u>69,284</u>	<u>2,220,941</u>
Total utility plant — net	<u>\$2,254,892</u>	<u>\$147,551</u>	<u>\$ (3,701)</u>	<u>\$2,398,742</u>
	Balance January 1, 2008	Additions	Disposals and Transfers	Balance December 31, 2008
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$	\$	\$ 5,083
Construction in progress	<u>129,999</u>	<u>123,504</u>	<u>(76,595)</u>	<u>176,908</u>
Total utility plant not depreciated	<u>135,082</u>	<u>123,504</u>	<u>(76,595)</u>	<u>181,991</u>
Utility plant being depreciated:				
Structures and improvements	478,260	2,745	7,303	488,308
Distribution plant	1,598,233	116,330	55,962	1,770,525
Equipment	<u>493,716</u>	<u>8,872</u>	<u>10,481</u>	<u>513,069</u>
Total utility plant being depreciated	<u>2,570,209</u>	<u>127,947</u>	<u>73,746</u>	<u>2,771,902</u>
Less accumulated depreciation:				
Structures and improvements	(154,632)	(6,512)		(161,144)
Distribution plant	(278,505)	(16,520)	518	(294,507)
Equipment	<u>(229,370)</u>	<u>(14,505)</u>	<u>525</u>	<u>(243,350)</u>
Total accumulated depreciation	<u>(662,507)</u>	<u>(37,537)</u>	<u>1,043</u>	<u>(699,001)</u>
Total utility plant being depreciated — net	<u>1,907,702</u>	<u>90,410</u>	<u>74,789</u>	<u>2,072,901</u>
Total utility plant — net	<u>\$2,042,784</u>	<u>\$213,914</u>	<u>\$ (1,806)</u>	<u>\$2,254,892</u>

6. PENSION PLANS

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

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

Participating employees contribute 8.5% of their salary to these funds as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Water Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of Water Fund employees. These reimbursements, recorded as expenses of the Water Fund, were \$12.1 million in 2009 and \$13.5 million in 2008. 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, 2009 and 2008 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, 2009 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 Annual Pension Cost Contributed	Required Contribution	Percent of Required Contributions Contributed	Net Pension Obligation
Municipal Employees'					
2007	\$ 343,123	40.7 %	\$ 343,123	40.7 %	\$ 202,077
2008	\$ 359,933	40.8 %	\$ 360,387	40.7 %	\$ 415,207
2009	\$ 412,575	35.9 %	\$ 413,509	35.8 %	\$ 679,736
Laborers'					
2007	\$ 22,260	59.6 %	\$ 21,726	61.0 %	\$ (228,692)
2008	\$ 18,166	83.9 %	\$ 17,652	86.3 %	\$ (225,759)
2009	\$ 34,025	43.0 %	\$ 33,517	43.6 %	\$ (206,361)

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

7. OTHER 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 \$98.0 million and \$89.3 million in 2009 and 2008, 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 2009 and 2008 the pension funds contributed \$65 for each Medicare eligible annuitant and \$95 for each Non-Medicare eligible annuitant to their gross cost. The annuitants contributed a total of \$60.8 million in 2009 and \$59.6 million in 2008 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.

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 four years (the remaining years of coverage under the Settlement Agreement).

The following table shows the components of the City’s annual OPEB costs for the year for the Health Plan, the amount actually contributed to the Health Plan and changes in the City’s net OPEB obligation to the Health Plan. The Net OPEB Obligation is the amount entered upon the City’s Statement of Net Assets as of year end as the net liability for the other post employment benefits. The amount of the annual cost for the Health Plan that is to be recorded in the Statement of Changes in Net Assets is the Annual OPEB Cost (Expense) (in thousands):

Annual OPEB Cost and Contributions Made	Health Plan	
	2009	2008
Contribution rates:		
City	Pay As You Go	Pay As You Go
Plan members	By Schedule	N/A
Annual required contribution	\$ 220,891	\$ 244,692
Interest on net OPEB obligation	11,713	6,453
Adjustment to annual required contribution	<u>(74,795)</u>	<u>(32,248)</u>
Annual OPEB cost	157,809	218,897
Contributions made	<u>98,044</u>	<u>97,968</u>
Increase in net OPEB obligation	59,765	120,929
Net OPEB obligation — beginning of year	<u>269,275</u>	<u>148,346</u>
Net OPEB obligation — end of year	<u>\$ 329,040</u>	<u>\$ 269,275</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 year 2009, 2008, and 2007 are as follows (in thousands):

Schedule of Contributions, OPEB Costs and Net Obligations			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 157,809	62.1 %	\$ 329,040
December 31, 2008	218,897	44.8	269,275
December 31, 2007	245,591	39.6	148,346

Funded Status and Funding Progress — As of December 31, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$0.8 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Health Plan) was approximately \$2.5 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 32%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in to the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Health Plan and the ARC of the employer are subject to continual revisions as the results are compared with past expectations and new estimates are made about the future.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2008	\$	\$ 787,395	\$ 787,395	%	\$2,475,107
December 31, 2007		1,062,864	1,062,864		2,562,067

Actuarial Method and Assumptions — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. For the Health Plan benefits (not provided by the Pension Funds) in the actuarial valuation for the fiscal year ended December 31, 2009, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual health care cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 9%. Both rates included a 3% inflation assumption. The Health Plan has not accumulated assets and does not hold assets in a segregated trust. However, the funds expected to be used to pay benefits are assumed to be invested for durations which will yield an annual return rate of 4.35%. The Unfunded Accrued Actuarial Liability, as of December 31, 2009, is being amortized as a level dollar amount over four years.

Summary of Assumptions and Methods		
Item	Health Plan	
	2009	2008
Actuarial valuation date	December 31, 2008	December 31, 2007
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level dollar	Level dollar — closed
Remaining amortization period	4 years	5.5 years
Asset valuation method	Market Value	Market value
Actuarial assumptions:		
Investment rate of return	4.35 %	4.35%
Projected salary increases	2.5 %	2.5%
Healthcare inflation rate	12% initial to 9% ultimate	12% initial to 7% ultimate

The OPEB benefit information pertaining expressly to the Water 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 for services provided by other City departments, employee fringe benefits, and certain payments made on behalf of the Water Fund. Such reimbursements amounted to \$60.7 million and \$55.5 million in 2009 and 2008, respectively.

9. COMMITMENTS AND CONTINGENCIES

The Water Fund has certain contingent liabilities resulting from litigation, claims, or commitments incident to the ordinary course of business. Management expects that final resolution of these contingencies will not have a material adverse effect on the financial position or results of operations of the Water Fund.

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

Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the claims liability amounts for the years ended December 31, 2009 and 2008, are as follows (in thousands):

	2009	2008
Balance — January 1	\$ 28,373	\$ 26,127
Claims incurred on current and prior year events	32,383	31,519
Claims paid on current and prior year events	<u>(30,140)</u>	<u>(29,273)</u>
Balance — December 31	<u>\$ 30,616</u>	<u>\$ 28,373</u>

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

The City, who has a 40 year agreement with the DuPage Water Commission (DWC) to provide water service to the DWC and its 24 suburbs commencing on May 1, 1992, has signed an agreement with the DWC to share equally in the aggregate costs in the construction, operation and maintenance of electrical generation facilities and other capital improvements at the Lexington Pumping station of which neither party's share will not exceed \$15 million without an amendment to the agreement approved by both parties. Payments for the City's share will be in the form of credits against the charges for water supplied to the facility. Total cumulative credits as of December 2009 amounted to \$709,567.

At December 31, 2009 and 2008, the Water Fund entered into contracts for approximately \$54.3 million and \$267.3 million, respectively, for construction projects.

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**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**ADDITIONAL INFORMATION
SCHEDULE OF UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2009
(In thousands)**

	Assets				Balance — December 31, 2009	Accumulated Depreciation			Net Balance — December 31, 2009	
	Balance — January 1, 2009	Additions	Disposals	Transfers		Balance — January 1, 2009	Provision	Disposals		Balance — December 31, 2009
LAND AND LAND RIGHTS:										
Power and pumping	\$ 2,367	\$	\$	\$	\$ 2,367	\$	\$	\$	\$	\$ 2,367
Distribution reservoir	300				300					300
Purification	1,739				1,739					1,739
General and maintenance	677				677					677
Total land and land rights	<u>5,083</u>				<u>5,083</u>					<u>5,083</u>
STRUCTURES AND IMPROVEMENTS:										
Cribs	17,337				17,337	4,363	166		4,529	12,808
Lake and land tunnels	118,152				118,152	32,885	1,182		34,067	84,085
Intake structures	9,531				9,531	4,090	95		4,185	5,346
Power and pumping structures	120,481	444			120,925	26,365	1,493		27,858	93,067
Purification buildings	175,012	9,028		17,817	201,857	85,336	2,556		87,892	113,965
Distribution reservoirs	16,979				16,979	4,326	226		4,552	12,427
Offices, maintenance, and general	30,304	1,925		6,454	38,683	3,779	588		4,367	34,316
Contract retainage	512	65	(513)		64					64
Total structures and improvements	<u>488,308</u>	<u>11,462</u>	<u>(513)</u>	<u>24,271</u>	<u>523,528</u>	<u>161,144</u>	<u>6,306</u>		<u>167,450</u>	<u>356,078</u>
DISTRIBUTION PLANT:										
Mains and accessories	1,705,786	93,436	(556)	33,362	1,832,028	256,596	17,058	(535)	273,119	1,558,909
Meters and installations	45,022				45,022	28,153	932		29,085	15,937
Hydrants and valves	17,624		(97)		17,527	9,758	265	(97)	9,926	7,601
Contract retainage	2,093	1,975	(2,093)		1,975					1,975
Total distribution plant	<u>1,770,525</u>	<u>95,411</u>	<u>(2,746)</u>	<u>33,362</u>	<u>1,896,552</u>	<u>294,507</u>	<u>18,255</u>	<u>(632)</u>	<u>312,130</u>	<u>1,584,422</u>
EQUIPMENT:										
Power production	56,901				56,901	39,409	1,222		40,631	16,270
Pumping	170,494	6,746		8,346	185,586	63,624	4,764		68,388	117,198
Purification	243,902	1,553		2,674	248,129	110,113	7,173		117,286	130,843
Heavy machinery	19,703	1,803	(793)		20,713	11,595	1,059	(714)	11,940	8,773
Transportation	8,556	363	(379)	114	8,654	6,733	234	(341)	6,626	2,028
Miscellaneous	12,555	134		4,218	16,907	11,876	106		11,982	4,925
Contract retainage	958	404	(958)		404					404
Total equipment	<u>513,069</u>	<u>11,003</u>	<u>(2,130)</u>	<u>15,352</u>	<u>537,294</u>	<u>243,350</u>	<u>14,558</u>	<u>(1,055)</u>	<u>256,853</u>	<u>280,441</u>
Total structures and improvements, distribution plant, and equipment	<u>2,771,902</u>	<u>117,876</u>	<u>(5,389)</u>	<u>72,985</u>	<u>2,957,374</u>	<u>699,001</u>	<u>39,119</u>	<u>(1,687)</u>	<u>736,433</u>	<u>2,220,941</u>
CONSTRUCTION IN PROGRESS:										
Filtration plants	79,684	13,152		(26,739)	66,097					66,097
Pumping stations	28,412	7,953		(8,666)	27,699					27,699
Water mains	68,812	47,690		(37,580)	78,922					78,922
Contract retainage										
Total construction in progress	<u>176,908</u>	<u>68,795</u>		<u>(72,985)</u>	<u>172,718</u>					<u>172,718</u>
TOTAL UTILITY PLANT	<u>\$2,953,893</u>	<u>\$ 186,671</u>	<u>\$(5,389)</u>	<u>\$</u>	<u>\$3,135,175</u>	<u>\$ 699,001</u>	<u>\$ 39,119</u>	<u>\$(1,687)</u>	<u>\$ 736,433</u>	<u>\$ 2,398,742</u>

STATISTICAL SECTION CONTENTS

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

Financial Trends Information

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

Revenue Capacity Information

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

Debt Capacity Information

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

Operating Information

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

WATER FUND

STATISTICAL DATA

CHANGES IN NET ASSETS

THREE YEARS ENDED DECEMBER 31, 2009

(In millions) (Unaudited)

	2007	2008	2009
OPERATING REVENUES:			
Water sales	\$ 323.6	\$ 358.0	\$ 396.9
Other operating revenues	<u>10.8</u>	<u>12.2</u>	<u>13.3</u>
Total operating revenues	<u>334.4</u>	<u>370.2</u>	<u>410.2</u>
OPERATING EXPENSES:			
Source of supply	0.3	0.2	0.1
Power and pumping	52.2	54.7	47.5
Purification	44.2	48.4	49.4
Transmission and distribution	47.0	47.1	40.9
Provision for doubtful accounts	3.7	8.3	10.4
Customer accounting and collection	14.8	12.8	11.2
Administrative and general	14.9	18.1	16.1
Central services and General Fund reimbursements	<u>83.7</u>	<u>87.2</u>	<u>98.5</u>
Total operating expenses before depreciation and amortization	<u>260.8</u>	<u>276.8</u>	<u>274.1</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	73.6	93.4	136.1
DEPRECIATION AND AMORTIZATION	<u>34.7</u>	<u>37.5</u>	<u>38.7</u>
OPERATING INCOME	<u>38.9</u>	<u>55.9</u>	<u>97.4</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	4.9	3.7	0.9
Interest expenses	(54.7)	(57.0)	(69.7)
Other operating revenues	<u>7.9</u>	<u>5.8</u>	<u>2.6</u>
Total nonoperating expenses- net	<u>(41.9)</u>	<u>(47.5)</u>	<u>(66.2)</u>
CHANGE IN NET ASSETS	(3.0)	8.4	31.2
TOTAL NET ASSETS — Beginning of year	<u>960.9</u>	<u>957.9</u>	<u>966.3</u>
TOTAL NET ASSETS — End of year	<u>\$ 957.9</u>	<u>\$ 966.3</u>	<u>\$ 997.5</u>

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

WATER FUND

STATISTICAL DATA

NET ASSETS BY COMPONENTS

THREE YEARS ENDED DECEMBER 31, 2009

(In millions) (Unaudited)

	2007	2008	2009
NET ASSETS:			
Invested in capital assets — net of related debt	\$ 892.7	\$ 911.5	\$ 958.7
Restricted net assets — capital projects	1.0	1.7	0.4
Unrestricted net assets	<u>64.2</u>	<u>53.1</u>	<u>38.4</u>
TOTAL NET ASSETS	<u>\$ 957.9</u>	<u>\$ 966.3</u>	<u>\$ 997.5</u>

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS
TEN YEARS ENDED DECEMBER 31, 2009
(In millions) (Unaudited)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
OPERATING REVENUES:										
Water sales ⁽¹⁾	\$ 289.6	\$ 290.3	\$ 296.5	\$ 296.9	\$ 307.6	\$ 333.7	\$ 317.2	\$ 323.6	\$ 358.0	\$ 396.9
Other operating revenues	<u>7.5</u>	<u>7.5</u>	<u>8.7</u>	<u>10.2</u>	<u>13.0</u>	<u>10.6</u>	<u>13.2</u>	<u>10.8</u>	<u>12.2</u>	<u>13.3</u>
Total operating revenues	<u>297.1</u>	<u>297.8</u>	<u>305.2</u>	<u>307.1</u>	<u>320.6</u>	<u>344.3</u>	<u>330.4</u>	<u>334.4</u>	<u>370.2</u>	<u>410.2</u>
OPERATING EXPENSES:										
Source of supply	1.0	1.3	0.5	0.3	0.4	0.2	0.2	0.3	0.2	0.1
Power and pumping	41.9	50.9	43.7	43.8	42.1	50.6	49.8	52.2	54.7	47.5
Purification	47.2	49.5	40.3	44.2	40.6	43.3	41.9	44.2	48.4	49.4
Transmission and distribution	46.8	46.8	52.9	53.0	39.1	39.4	41.6	47.0	47.1	40.9
Provision for doubtful accounts	3.0	2.0	3.0	3.9	3.7	2.7	3.6	3.7	8.3	10.4
Customer accounting and collection	16.2	17.9	15.5	16.3	14.9	16.3	16.9	14.8	12.8	11.2
Administrative and general	12.5	10.6	12.5	13.8	11.5	13.2	15.1	14.9	18.1	16.1
Central services and General Fund reimbursements	<u>63.3</u>	<u>64.6</u>	<u>70.1</u>	<u>72.6</u>	<u>72.3</u>	<u>80.2</u>	<u>74.0</u>	<u>83.7</u>	<u>87.2</u>	<u>98.5</u>
Total operating expenses	<u>231.9</u>	<u>243.6</u>	<u>238.5</u>	<u>247.9</u>	<u>224.6</u>	<u>245.9</u>	<u>243.1</u>	<u>260.8</u>	<u>276.8</u>	<u>274.1</u>
INTEREST INCOME (Other than from Constructional Account)	<u>4.2</u>	<u>4.1</u>	<u>1.0</u>	<u>1.8</u>	<u>1.0</u>	<u>2.6</u>	<u>3.8</u>	<u>4.9</u>	<u>3.7</u>	<u>1.0</u>
NET REVENUES — As defined (Note 4)	<u>\$ 69.4</u>	<u>\$ 58.3</u>	<u>\$ 67.7</u>	<u>\$ 61.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 91.1</u>	<u>\$ 78.5</u>	<u>\$ 97.1</u>	<u>\$ 137.1</u>

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

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
WATER SYSTEM ACCOUNTS
TEN YEARS ENDED DECEMBER 31, 2009
(Unaudited)**

Years Ended December 31	Nonmetered	Metered	Total
2000	328,327	160,895	489,222
2001	327,276	163,051	490,327
2002	326,778	164,067	490,845
2003	325,789	165,440	491,229
2004	324,689	167,545	492,234
2005	323,740	169,664	493,404
2006	322,193	171,861	494,054
2007	320,579	175,256	495,835
2008	319,205	178,457	497,662
2009	318,088	179,649	497,737

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
TEN LARGEST SUBURBAN CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31, 2009
(In thousands) (Unaudited)**

Customer	Amount of Sales
Dupage Water Commission	\$ 50,786
Oak Lawn, Illinois	20,395
Northwest Suburban Municipal Joint Action Water Agency	19,872
Bedford Park, Illinois	14,702
Harvey, Illinois	5,974
Melrose Park, Illinois	4,878
Cicero, Illinois	4,823
Alsip, Illinois	4,150
Niles, Illinois	4,058
McCook, Illinois	<u>3,627</u>
Total	<u>\$ 133,265</u>

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA REVENUE BOND COVERAGE TEN YEARS ENDED DECEMBER 31, 2009 (In millions) (Unaudited)

PRIOR BONDS COVERAGE CALCULATION

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined (Note 4)	\$ 69.4	\$ 58.3	\$ 67.7	\$ 61.0	\$ 97.0	\$ 101.0	\$ 91.1	\$ 78.5	\$ 97.1	\$ 137.1
Transfer from (to) Water Rate Stabilization Account	<u>8.1</u>	<u> </u>	<u>12.6</u>	<u>10.0</u>	<u> </u>	<u> </u>	<u>(7.0)</u>	<u>7.9</u>	<u> </u>	<u> </u>
NET REVENUES AVAILABLE FOR BONDS	<u>\$ 77.5</u>	<u>\$ 58.3</u>	<u>\$ 80.3</u>	<u>\$ 71.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 84.1</u>	<u>\$ 86.4</u>	<u>\$ 97.1</u>	<u>137.1</u>
DEBT SERVICE REQUIREMENTS:										
Senior debt service requirements	<u>\$ 42.9</u>	<u>\$ 47.7</u>	<u>\$ 52.7</u>	<u>\$ 56.9</u>	<u>\$ 45.8</u>	<u>\$ 30.1</u>	<u>\$ 29.7</u>	<u>\$ 38.0</u>	<u>\$ 27.5</u>	<u>\$ 33.8</u>
Senior debt service coverage ratio	<u>1.8</u>	<u>1.2</u>	<u>1.5</u>	<u>1.2</u>	<u>2.1</u>	<u>3.4</u>	<u>2.8</u>	<u>2.3</u>	<u>3.5</u>	<u>4.1</u>
Second lien debt service requirements	\$ 3.3	\$ 2.9	\$ 5.9	\$ 5.7	\$ 10.3	\$ 27.3	\$ 30.5	\$ 43.2	\$ 62.5	\$ 75.7
Subordinate lien debt service requirements	<u> </u>	<u> </u>	<u> </u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
TOTAL SECOND AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS	<u>\$ 3.3</u>	<u>\$ 2.9</u>	<u>\$ 5.9</u>	<u>\$ 5.8</u>	<u>\$ 10.5</u>	<u>\$ 27.5</u>	<u>\$ 30.8</u>	<u>\$ 43.6</u>	<u>\$ 62.9</u>	<u>\$ 76.1</u>
TOTAL COMBINED SENIOR, SECOND, AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS	<u>\$ 46.2</u>	<u>\$ 50.6</u>	<u>\$ 58.6</u>	<u>\$ 62.7</u>	<u>\$ 56.3</u>	<u>\$ 57.6</u>	<u>\$ 60.5</u>	<u>\$ 81.6</u>	<u>\$ 90.4</u>	<u>\$ 109.9</u>
TOTAL COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE RATIO	<u>1.6</u>	<u>1.2</u>	<u>1.4</u>	<u>1.1</u>	<u>1.7</u>	<u>1.8</u>	<u>1.4</u>	<u>1.1</u>	<u>1.1</u>	<u>1.2</u>
WATER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	<u>\$ 74.9</u>	<u>\$ 74.9</u>	<u>\$ 62.3</u>	<u>\$ 52.3</u>	<u>\$ 52.3</u>	<u>\$ 52.3</u>	<u>\$ 59.3</u>	<u>\$ 51.4</u>	<u>\$ 51.4</u>	<u>\$ 51.4</u>

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

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

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

	2007	2008	2009
Senior lien bonds	\$ 273.3	\$ 164.0	\$ 139.6
Second lien bonds	890.8	1,334.7	1,320.3
Commercial paper	56.4		
Subordinate lien — IEPA loan	<u>5.2</u>	<u>5.2</u>	<u>4.9</u>
Total long term debt	<u>\$ 1,225.7</u>	<u>\$ 1,503.9</u>	<u>\$ 1,464.8</u>

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
CAPITAL IMPROVEMENT PROGRAM
2010–2014
(In thousands) (Unaudited)**

Years	Amount
2010	\$ 190,197
2011	204,536
2012	199,837
2013	201,612
2014	<u>202,997</u>
Total	<u>\$ 999,179</u>

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

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
WATER SYSTEM PUMPAGE AND CAPACITY
TEN YEARS ENDED DECEMBER 31, 2009
(Unaudited)**

Years	Total Pumpage (MGD)	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)	System's Rated Pumpage Capacity (MGD)	Maximum Daily Pumpage as % of Capacity
2000	353,767	969	1,768	2,160	82
2001	351,719	964	1,368	2,160	63
2002	342,974	940	1,346	2,160	62
2003	326,743	895	1,234	2,160	57
2004	320,069	875	1,134	2,160	53
2005	337,682	925	1,377	2,160	64
2006	310,527	851	1,373	2,160	64
2007	315,916	866	1,200	2,160	56
2008	301,912	827	1,136	2,160	53
2009	295,121	809	1,112	2,160	51

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**MISCELLANEOUS STATISTICAL DATA
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Unaudited)**

	2009	2008
AREA SERVED (IN SQUARE MILES):		
Chicago	228	228
125 suburbs	<u>578</u>	<u>578</u>
Total area served	<u><u>806</u></u>	<u><u>806</u></u>
WATER WORKS FACILITIES:		
Filtration plants	2	2
Continuous service capacity:		
South Water Filtration Plant (MGD)	720	720
Jardine Water Purification Plant (MGD)	1,440	1,440
Pumping stations — steam	4	4
Pumping stations — electric	8	8
Installed pumping capacity (MGD)	3,661	3,661
Crib intakes in service	2	2
Shore intakes (filtration plants)	2	2
Water supply tunnels (6 to 20 feet in diameter) — miles	64	64
DISTRIBUTION SYSTEM:		
Water mains (miles)	4,368	4,235
Fire hydrants	48,112	47,743
Valves	47,243	47,711

Note: Million Gallons Daily (MGD).

Source: City of Chicago Department of Water Management.

WATER FUND

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

Function	2007	2008	2009
Administration	11	8	67
Agency management	124	102	43
Safety and security	28	40	20
Capital design and construction services	14	11	11
Engineering services	18	4	4
Inspection services	33	31	31
Water quality	47	50	50
Water pumping	236	232	235
Water treatment	332	327	327
Systems installation	67	55	39
Systems maintenance	586	553	585
Billings and customer service	144	117	115
Water meter install and repair	<u>87</u>	<u>81</u>	<u>75</u>
Total	<u>1,727</u>	<u>1,611</u>	<u>1,602</u>

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

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

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

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

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
PRINCIPAL EMPLOYERS (NON-GOVERNMENT)
FOR THE YEAR ENDED DECEMBER 31, 2009 AND NINE YEARS AGO
(Unaudited)**

Employer	2009 (1)			2000 (1)		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
J. P. Morgan Chase (2)	8,431	1	0.81	5,149	2	0.45
United Airlines	6,019	2	0.58	4,368	4	0.38
Jewel Food Stores, Inc	5,833	3	0.56			
Northern Trust	5,394	4	0.52	6,160	1	0.53
Bank of America	4,631	5	0.44			
American Airlines	3,394	6	0.33			
Accenture LLP	3,341	7	0.32			
SBC/AT&T (3)	3,136	8	0.30	4,745	3	0.41
CVS Corporation	3,120	9	0.30			
Ford Motor Company	2,764	10	0.27			
Andersen Consulting				4,329	5	0.37
Arthur Andersen, LLP				3,904	6	0.34
Commonwealth Edison Co.				3,197	7	0.28
Harris Trust & Savings Bank (4)				3,047	8	0.26
Dayton Hudson Corp.				2,885	9	0.25
United Parcel Service				2,839	10	0.25

(1) Source: City of Chicago, Department of Revenue, Employer's Expenses Tax Return, June 30, 2009

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

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

(4) Harris Trust and Savings Bank formerly knows as Harris Trust.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
POPULATION AND INCOME STATISTICS
THREE YEARS ENDED DECEMBER 31, 2009
(Unaudited)**

Year	Population(1)	Median Age (2)	Number of Households (2)	Unemployment Rate (3)	Per Capita Income (4)	Total Income (6)
2007	2,896,016	33.7	1,033,328	5.70	\$ 43,714 (4)	\$ 126,596,443,424
2008	2,896,016	34.1	1,032,746	6.40	45,328 (5)	131,270,613,248
2009	2,896,016	34.5	1,037,069	10.0	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 2008, Unemployment rate for Chicago-Naperville-Illinois Metropolitan Area.
- (4) Source: U.S. Department of Commerce, Bureau of Economic Analysis, Per Capita Personal Income for Chicago-Naperville-Illinois Metropolitan Area (in 2008 dollars).
- (5) N/A means not available at time of publication.
- (6) Population multiplied by the Per Capita Income.