City of Chicago, Illinois
Sewer Fund

Basic Financial Statements as of and
for the Years Ended December 31, 2011
and 2010, Statistical Data, and
Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS
SEWER FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Sewer Fund ("Sewer Fund"), an enterprise fund of the City of Chicago, Illinois (the "City"), as of December 31, 2011 and 2010, and for the years then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

As discussed in Note 1 to the basic financial statements, the basic financial statements referred to above present only the Sewer Fund, an enterprise fund of the City, and do not purport to, and do not, present the financial position of the City as of December 31, 2011 and 2010, changes in its financial position, or where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of the Sewer Fund as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the foregoing table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sewer Fund's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

June 29, 2012

CITY OF CHICAGO, ILLINOIS
SEWER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of Chicago, Illinois (the "City"), Sewer Fund (the "Sewer Fund") financial performance provides an introduction and overview of the Sewer Fund's basic financial activities for the fiscal years ended December 31, 2011 and 2010. Please read this discussion in conjunction with the Sewer Fund's basic financial statements and the notes to basic financial statements following this section.

FINANCIAL HIGHLIGHTS

2011

- Operating revenues for 2011 increased by $5.1 million (2.6%) compared to prior-year operating revenues.

- Operating expenses before depreciation and amortization for 2011 remained consistent with 2010.

- The Sewer Fund's total net assets for 2011 increased by $13.6 million or 2.8% compared to 2010.

- The Sewer Fund's total assets were greater than total liabilities by $504.3 million (net assets) at December 31, 2011. Total net assets comprise $454.1 million of investment in capital assets, net of related debt, $24.6 million restricted for capital projects, and $25.6 million of unrestricted net assets.

- Capital asset additions, net, being depreciated for 2011 were $88.6 million, principally due to completion of sewer construction and rehabilitation projects.

2010

- Operating revenues for 2010 increased by $23.1 million compared to prior-year operating revenues. This increase of 13.2% is primarily due to an increase of sewer service revenues as a result of an increase of water rates of 15% and sewer rates of 1% offset by a reduction in water usage.

- Operating expenses before depreciation and amortization for 2010 increased by $4.2 million compared to 2009. This increase of 3.9% is primarily due to an increase in general fund reimbursement expenses and administrative and general.

- The Sewer Fund's total net assets for 2010 increased by $37 million or 8.2% compared to 2009.

- The Sewer Fund's total assets were greater than total liabilities by $490.7 million (net assets) at December 31, 2010. Total net assets comprise $414.8 million of investment in capital assets, net of related debt, $11.1 million restricted for capital project, and $64.8 million of unrestricted net assets.

- Capital asset additions, net, being depreciated for 2010 were $133 million, principally due to completion of sewer construction and rehabilitation projects.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Sewer Fund's basic financial statements. The Sewer Fund's basic financial statements comprise the basic financial statements and the notes to basic financial statements. In addition to the basic financial statements, this report also presents statistical data after the notes to basic financial statements.

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

The statements of revenues, expenses, and changes in net assets present all current fiscal year revenues and expenses, regardless of when cash is received or paid, and the ensuing change in net assets.

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

The notes to basic financial statements are an integral part of the basic financial statements; accordingly, such disclosures are essential to a full understanding of the information provided in the basic financial statements.

In addition to the basic financial statements, this report includes statistical data. The statistical data section presents unaudited debt service coverage calculations and includes certain unaudited information related to the Sewer Fund's historical financial and nonfinancial operating results and capital activities.

FINANCIAL ANALYSIS

At December 31, 2011, the Sewer Fund's financial position continues to be strong with total assets and deferred outflows of $1,837.3 million, total liabilities of $1,333 million, and net assets of $504.3 million. A comparative condensed summary of the Sewer Fund's net assets at December 31, 2011, 2010, and 2009, is as follows:

	Net Assets		
(In thousands)	**2011**	**2010**	**2009**
Current assets	$ 106,166	$ 109,889	$ 103,032
Restricted and other assets	144,718	262,764	97,376
Utility plant — net	1,494,682	1,362,328	1,269,497
Deferred outflows	91,713	49,116	36,084
Total assets and deferred outflows	1,837,279	1,784,097	1,505,989
Current liabilities	87,203	92,251	98,629
Derivative instrument liability	91,713	49,116	36,084
Long-term and restricted liabilities	1,154,086	1,152,026	917,575
Total liabilities	1,333,002	1,293,393	1,052,288
Net assets:			
Invested in capital — net of related debt	454,079	414,766	391,248
Restricted for capital projects	24,610	11,110	9,533
Unrestricted	25,588	64,828	52,920
Total net assets	$ 504,277	$ 490,704	$ 453,701

2011

Current assets decreased by $3.7 million (3.4%) due to a decrease in cash and cash equivalents and due from other City funds. Restricted and other assets decreased by $118 million (44.9%) and utility plant — net increased by $132.4 million (9.7%), due principally to capital activities for sewer construction and rehabilitation projects. Deferred outflows increased in the amount of $42.6 million (86.7%) due to changes in the fair value of interest rate swaps. During 2011, the Sewer Fund increased its lining program, lining an additional 42.9 miles of sewers.

The decrease in current liabilities of $5 million (5.5%) is primarily related to the decrease in deferred revenue and due to other City funds with a slight increase in accounts payables and accrued liabilities. Derivative instrument liability increased $42.6 million (86.7%) due to changes in the fair value of interest rate swaps. Long-term and restricted liabilities increased by $2.1 million (0.2%).

Net assets may serve, over a period of time, as a useful indicator of the Sewer Fund's financial position. As of December 31, 2011, total net assets were $504.3 million, an increase of $13.6 million (2.8%) from 2010.

2010

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

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

Net assets may serve, over a period of time, as a useful indicator of the Sewer Fund's financial position. As of December 31, 2010, total net assets were $490.7 million, an increase of $37 million (8.2%) from 2009.

A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2011, 2010, and 2009, is as follows:

	Revenues, Expenses, and Changes in Net Assets		
(In thousands)	**2011**	**2010**	**2009**
Revenues:			
Operating revenues:			
Sewer service	$ 202,323	$ 197,455	$ 173,906
Other operating revenues	1,026	774	1,257
Total operating revenues	203,349	198,229	175,163
Nonoperating revenues	3,198	20,526	18,815
Capital grants	1,864	3,136	
Total revenues	208,411	221,891	193,978
Expenses:			
Operating expenses before deprecation and amortization	113,930	113,881	109,643
Depreciation and amortization	25,917	23,775	21,878
Interest rate swap expense			38,109
Interest expense	54,991	47,232	38,461
Total expenses	194,838	184,888	208,091
Change in net assets	13,573	37,003	(14,113)
Net assets — beginning of year	490,704	453,701	467,814
Net assets — end of year	$ 504,277	$ 490,704	$ 453,701

2011

Sewer service revenues for the years ended 2011 and 2010 were $202.3 million and $197.5 million, respectively. Other revenue, which consists primarily of inspection fees and house drain fees, for the years ended 2011 and 2010 was $1.0 and $0.8 million, respectively.

Nonoperating revenues decreased by $17.3 million as a result of the amortization of up-front swap payments received during 2010 and 2009; the up-front payments are amortized over the life of the respective swap. On January 28, 2009, the City terminated the interest rate swap agreement with Lehman Brothers for the Series 2008C Wastewater Transmission Revenue Bonds. At that time, the City paid $38.1 million to terminate the swap and received an up-front payment to execute a new swap of $38.7 million. The termination fee and the 2009 portion of the up-front payment are recorded within nonoperating expense-swap within the statements of revenues, expenses, and changes in net assets. In 2010, the remaining up-front payment was amortized as nonoperating revenues.

2010

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

Nonoperating revenues increased by $1.7 million as a result of construction activities for other City funds of $1.5 million compared to 0.1 million for 2009, a decrease of investment earnings of $1.2 million as a result of unrealized losses, and an increase in other revenue as a result of the amortization of up-front swap payments of $19.9 million compared to $18.7 for 2009. The up-front payments are amortized over the life of the respective swap.

A comparative summary of the Sewer Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2011, 2010, and 2009, is as follows:

	Operating Expenses		
(In thousands)	**2011**	**2010**	**2009**
Repairs	$ 38,805	$ 42,509	$ 42,110
General Fund reimbursements	29,124	27,065	25,431
Maintenance	23,655	24,075	24,380
Engineering	3,544	3,053	3,319
Administrative and general	18,802	17,179	14,403
Operating expenses before depreciation and amortization	113,930	113,881	109,643
Depreciation and amortization	25,917	23,775	21,878
Total operating expenses	$ 139,847	$ 137,656	$ 131,521

2011

Overall, operating expenses before depreciation and amortization for 2011 remained consistent with 2010. Depreciation and amortization increased slightly due to an increase in utility plant.

2010

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

A comparative summary of the Sewer Fund's cash flows for the years ended December 31, 2011, 2010, and 2009, is as follows:

	Cash Flows		
(In thousands)	**2011**	**2010**	**2009**
Cash from activities:			
Operating	$ 81,012	$ 98,291	$ 59,640
Capital and related financing	(202,867)	81,440	(171,799)
Investing	(4,359)	(85,935)	91,316
Net change in cash and cash equivalents	(126,214)	93,796	(20,843)
Cash and cash equivalents:			
Beginning of year	155,779	61,983	82,826
End of year	$ 29,565	$ 155,779	$ 61,983

2011

As of December 31, 2011, the Sewer Fund's cash and cash equivalents of $29.5 million represent a decrease of $126.2 million compared to $155.8 million at December 31, 2010, primarily due to acquisition and construction of capital projects. Total cash and cash equivalents at December 31, 2011, are composed of unrestricted and restricted cash and cash equivalents of $6.5 million and $23.0 million, respectively.

2010

As of December 31, 2010, the Sewer Fund's cash and cash equivalents of $155.8 million represent an increase of $93.8 million compared to $62 million at December 31, 2009, primarily due to positive cash flows from bonds issued in 2010. Total cash and cash equivalents at December 31, 2010, are composed of unrestricted and restricted cash and cash equivalents of $18 million and $137.8 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

2011

At the end of 2011 and 2010, the Sewer Fund had net utility plant of $1,494.7 million and $1,362.3 million, respectively. During 2011, the Sewer Fund had capital additions being depreciated of $88.6 million, and completed projects totaling $11.7 million were transferred from construction in progress to applicable facilities and structures capital accounts.

2010

At the end of 2010 and 2009, the Sewer Fund had net utility plant of $1,362.3 million and $1,269.5 million, respectively. During 2010, the Sewer Fund had capital additions being depreciated of $133 million, and completed projects totaling $29.5 million were transferred from construction in progress to applicable facilities and structures capital accounts.

The Sewer Fund's net utility plant at December 31, 2011, 2010, and 2009, is summarized as follows:

	Net Utility Plant at Year-End		
(In thousands)	**2011**	**2010**	**2009**
Utility plant not depreciated:			
Land and land rights	$ 560	$ 560	$ 560
Construction in progress	79,210	11,709	29,490
Total utility plant not depreciated	79,770	12,269	30,050
Utility plant being depreciated:			
Facilities and structures	1,794,330	1,709,455	1,576,503
Furniture and equipment	31,630	27,880	27,726
Total utility plant being depreciated	1,825,960	1,737,335	1,604,229
Less accumulated depreciation:			
Facilities and structures	(388,554)	(368,099)	(345,283)
Furniture and equipment	(22,494)	(19,177)	(19,499)
Total accumulated depreciation	(411,048)	(387,276)	(364,782)
Utility plant being depreciated — net	1,414,912	1,350,059	1,239,447
Utility plant — net	$1,494,682	$1,362,328	$1,269,497

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

The Sewer Fund's outstanding debt at December 31, 2011, 2010, and 2009, is summarized as follows:

	Long-Term Outstanding Debt at Year-End		
(In thousands of dollars)	**2011**	**2010**	**2009**
Revenue bonds	$ 1,112,089	$ 1,125,992	$ 902,840
Add interest accretion on Series 1998 Capital Appreciation Bonds	37,242	33,532	30,013
Less unamortized deferred loss on bond refunding	(32,276)	(38,063)	(43,332)
Unamortized net bond discount/premium	16,142	15,883	14,240
Outstanding debt — net	$ 1,133,197	$ 1,137,344	$ 903,761

The Sewer Fund’s revenue bonds at December 31, 2011, have underlying credit ratings with each of the three major rating agencies as follows:

	Moody’s Investor Services	Standard & Poor’s	Fitch Ratings
Senior Lien Wastewater Revenue Bonds	Aa2	AA-	N/A
Junior Lien Wastewater Revenue Bonds	Aa3	A+	AA

At December 31, 2011, the Sewer Fund was in compliance with the debt covenants as stated in the Master Trust Indentures. Details regarding the Sewer Fund’s long-term debt are in Note 4 of the notes to the basic financial statements.

REQUESTS FOR INFORMATION

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010
(In thousands)

ASSETS AND DEFERRED OUTFLOWS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 6,528	$ 17,999
Investments (Note 2)	14,521	4,803
Accounts receivable — net of allowance for doubtful accounts of approximately $23,755 in 2011 and $16,352 in 2010	59,650	58,714
Due from other City funds	23,145	26,937
Inventories	2,322	1,436
Total current unrestricted assets	106,166	109,889
RESTRICTED ASSETS (Notes 2 and 3):		
Cash and cash equivalents (Note 2)	23,037	137,780
Investments (Note 2)	110,536	112,971
Interest receivable	252	117
Total restricted assets	133,825	250,868
NONCURRENT ASSETS:		
Other assets	10,893	11,896
Utility plant:		
Land and land rights	560	560
Facilities and structures	1,794,330	1,709,455
Furniture and equipment	31,630	27,880
Construction in progress	79,210	11,709
Total utility plant	1,905,730	1,749,604
Less accumulated depreciation	(411,048)	(387,276)
Utility plant — net	1,494,682	1,362,328
Total noncurrent assets	1,505,575	1,374,224
Deferred outflows	91,713	49,116
TOTAL	$1,837,279	$1,784,097

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES:		
Accounts payable	$ 23,798	$ 22,611
Due to other City funds	11,385	13,312
Deferred revenue	9,328	14,549
Deferred swap up-front payment	1,037	1,365
Accrued liabilities	41,655	40,414
Total current liabilities	87,203	92,251
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current portion of revenue bonds payable (Note 4)	28,429	25,257
Accrued interest payable	20,889	14,682
Total liabilities payable from restricted assets	49,318	39,939
NONCURRENT LIABILITIES:		
Derivative instrument liability	91,713	49,116
Revenue bonds payable (Note 4) — net of discount and deferred loss on bond refunding	1,104,768	1,112,087
Total noncurrent liabilities	1,196,481	1,161,203
Total liabilities	1,333,002	1,293,393
NET ASSETS:		
Invested in capital assets — net of related debt	454,079	414,766
Restricted for capital projects	24,610	11,110
Unrestricted net assets	25,588	64,828
Total net assets	504,277	490,704
TOTAL	$1,837,279	$1,784,097

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
OPERATING REVENUES:		
Sewer service	$ 202,323	$ 197,455
Other	1,026	774
Total operating revenues	203,349	198,229
OPERATING EXPENSES:		
Repairs	38,805	42,509
General Fund reimbursements	29,124	27,065
Maintenance	23,655	24,075
Engineering	3,544	3,053
Administrative and general	18,802	17,179
Total operating expenses before depreciation and amortization	113,930	113,881
Depreciation and amortization	25,917	23,775
Total operating expenses	139,847	137,656
OPERATING INCOME	63,502	60,573
NONOPERATING REVENUE (EXPENSES):		
Investment income (loss)	3,039	(922)
Interest expense	(54,991)	(47,232)
Other	(169)	1,565
Interest rate swap income — net (Note 4)	328	19,883
Total nonoperating expenses — net	(51,793)	(26,706)
CAPITAL GRANTS	1,864	3,136
CHANGE IN NET ASSETS	13,573	37,003
TOTAL NET ASSETS — Beginning of year	490,704	453,701
TOTAL NET ASSETS — End of year	$ 504,277	$ 490,704

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	$ 186,323	$ 190,357
Transactions with other City funds	(27,210)	(15,345)
Payments to vendors	(34,064)	(34,077)
Payments to employees	(44,037)	(42,644)
Net cash provided by operating activities	81,012	98,291
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(129,104)	(103,347)
Proceeds from issuance of bonds		275,865
Payment of refunded bonds		(29,223)
Interest paid on revenue bonds	(50,164)	(40,567)
Payment of bond issuance and discount costs		(1,959)
Capital grant	1,864	3,136
Principal paid on bonds	(25,257)	(24,030)
Other	(206)	1,565
Net cash (used in) provided by capital and related financing activities	(202,867)	81,440
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	(7,284)	(86,729)
Investment interest	2,925	794
Net cash used in investing activities	(4,359)	(85,935)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(126,214)	93,796
CASH AND CASH EQUIVALENTS — Beginning of year	155,779	61,983
CASH AND CASH EQUIVALENTS — End of year	$ 29,565	$ 155,779
RECONCILIATION TO CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET ASSETS:		
Unrestricted	$ 6,528	$ 17,999
Restricted	23,037	137,780
TOTAL	$ 29,565	$ 155,779

(Continued)

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 63,502	$ 60,573
Adjustments to reconcile:		
Depreciation and amortization	25,917	23,775
Provision for uncollectible accounts	9,792	7,936
Changes in assets and liabilities:		
Decrease in due from other City funds	3,792	8,503
Increase in accounts receivable	(10,728)	(8,296)
Increase in inventories	(886)	(141)
(Decrease) increase in accrued liabilities	(1,540)	1,305
(Decrease) increase in accounts payable and due to other City funds	(2,540)	4,212
(Decrease) increase in deferred revenue	(6,297)	424
CASH FLOWS FROM OPERATING ACTIVITIES	$ 81,012	$ 98,291

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS — Property additions in 2011 and 2010 of $35,178 and $29,849, respectively, have outstanding accounts payable and accrued liabilities

See notes to basic financial statements.

(Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Annual Appropriated Budget — The Sewer Fund has a legally adopted annual budget that is not required to be reported.

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

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

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

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

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

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

Investments, generally, may not have a maturity in excess of 10 years from the date of purchase. Certain other investment balances are held in accordance with the specific provisions of applicable bond ordinances.

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

Accounts Receivable — The Sewer Fund accounts receivable results from billings and collections for sewer services processed by the Department of Water Management. Management has provided an allowance for amounts recorded at year-end that may be uncollectible.

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

Inventories — Inventories, comprised mainly of materials and supplies, are stated at cost, determined principally on the first-in, first-out method.

Utility Plant — Utility plant is recorded at cost or, for donated assets, at fair value at the date of acquisition. Utility plant is defined by the Sewer Fund as assets with an initial cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased. Depreciation is provided using the straight-line method and begins in the year following the year of acquisition or completion. Estimated useful lives are as follows:

Facilities and structures	75 years
Furniture and equipment	5–20 years
Sewer rehabilitation	50 years

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

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

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

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

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

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

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

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

Capital Grants — Capital grants are reported as contributed revenue in the statements of revenues, expenses, and changes in net assets.

Revenue Recognition — Sewer service revenue is billed as a percentage of the City water billings and is recorded as revenue when the water is consumed by the customers. Of the accounts receivable balances, $20.1 million and $14.6 million represent revenue recognized on sewer service that had not yet been billed to customers at December 31, 2011 and 2010, respectively. Deferred revenue represents amounts collected from nonmetered customers prior to usage.

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

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

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

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

Cash Equivalents and Investments — As of December 31, 2011, the Sewer Fund had the following cash equivalents and investments (in thousands):

	Investment Maturities (in Years)				
	Less than 1	1–5	6–10	More than 10	Fair Value
U.S. agencies	$ 3,001	$ 101,161	$ 4,001	$ -	$ 108,163
Certificates of deposits and other short-term	61,073				61,073
Corporate bonds		5,488			5,488
Municipal bonds		101			101
Subtotal	$ 64,074	$ 106,750	$ 4,001	$ -	174,825
Share of City's pooled funds					14,391
Total					$ 189,216

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

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

U.S. agencies include investments in government-sponsored enterprises, such as Federal National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corp.

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy requires that investments generally may not have a maturity date in excess of 10 years from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable ordinances.

Credit Risk — The Code limits investments in commercial paper to banks whose senior obligations are rated in the top 10 rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of deposit are also limited by the Code to national banks that provide collateral of at least 105% by marketable U.S. government securities marked to market at least monthly; or secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized statistical rating organization maintaining such rating during the term of such investment. A schedule summarizing the Sewer Fund's exposure to credit risk as of December 31, 2011 and 2010, is as follows (in thousands):

Quality Rating	2011	2010
Aaa/AAA	$ 41,613	$ 254,006
Aa/AA	113,753	
Not rated	19,459	
Total	$ 174,825	$ 254,006

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

Custodial Credit Risk — Cash and Certificates of Deposit — This is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's investment policy states that in order to protect the City's deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 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. The bank balance of cash and certificates of deposit with the City's various municipal depositories was $478.9 million. Of the bank balance, 100% was either insured or collateralized with securities held by City agents in the City's name.

A schedule summarizing the investments reported in the basic financial statements as of December 31, 2011 and 2010, is as follows (in thousands):

	2011	2010
Per Note 2:		
Investments — Sewer Fund	$ 174,825	$ 254,006
Investments — City Treasurer pooled fund	14,391	13,754
	$ 189,216	$ 267,760
Per financial statements:		
Restricted investments	$ 110,536	$ 112,971
Unrestricted investments	14,521	4,803
Investments included as cash and cash equivalents on the statements of net assets	64,159	149,986
	$ 189,216	$ 267,760

3. RESTRICTED ASSETS AND ACCOUNTS

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

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

Bond Principal and Interest Account — No later than 10 days prior to each principal or interest payment date, an amount to pay principal; premium, if any; and interest becoming due, whether upon maturity, redemption, or otherwise.

Debt Service Reserve Account — For each series, an amount equal to the least of (i) the maximum annual debt service requirement; (ii) 10% of the original principal amount, less original issue discount; or (iii) 125% of the average annual debt service requirement. The required balance in this account was met by the purchase of surety bonds.

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

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

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

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

Debt Service Reserve Account — For each series, an amount equal to the least of (i) the highest future debt service requirement; (ii) 10% of the original principal amount, less original issue discount; or (iii) 125% of the average annual debt service requirement. The required balance in this account was met by the purchase of a surety bond.

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

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

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

For accounts established by ordinances with balances, the amounts as of December 31, 2011 and 2010, are as follows (in thousands):

	2011	**2010**
Construction	$ 58,552	$ 185,183
Bond principal and interest	49,318	39,939
Sewer rate stabilization	25,703	25,629
Total	$ 133,573	$ 250,751

At December 31, 2011 and 2010, management was not aware of any instances of noncompliance with the above terms of the ordinances.

4. LONG-TERM DEBT

As of December 31, 2011 and 2010, long-term debt consisted of the following (in thousands):

	2011	2010
$232,880 Series 1993 Wastewater Transmission Revenue Bonds Refunding issued March 1, 1993, due through 2013; interest at 5.125% to 6.5%	$ 22,820	$ 36,175
$109,998 Series 1998A and B Wastewater Transmission Revenue Bonds issued March 18, 1998, due through 2030; interest at 4.0% to 5.25%	35,168	35,168
$115,000 Series 2000 Wastewater Transmission Revenue Bonds issued February 24, 2000, due through 2030; interest at 5.0% to 6.0%		2,570
$114,585 Series 2001A Wastewater Transmission Revenue Bonds issued December 6, 2001, due through 2036; interest at 3.5% to 5.5%	1,950	3,800
$73,100 Series 2001 Wastewater Transmission Revenue Bonds issued 4.0% to 5.5% December 6, 2001, due through 2011; interest at	71,556	71,805
$61,925 Series 2004B Wastewater Transmission Revenue Bonds issued July 29, 2004, due through 2016; interest at 3.0% to 5.25%	48,190	51,145
$155,030 Series 2006A & B Wastewater Transmission Revenue Bonds issued November 1, 2006, due through 2039; Series A interest at 4.0% to 5.0% (4.0% at December 31, 2006); Series B interest at 4.0% to 5.0%	148,555	149,925
$167,635 Series 2008A Wastewater Transmission Revenue Bonds issued November 5, 2008, due through 2038; interest at 3.5% to 5.5%	163,090	165,932
$332,230 Series 2008C Wastewater Transmission Revenue Bonds (2004A Refunded) issued October 16, 2008, due through 2039; variable floating interest rate 0.28% at December 31, 2010	332,230	332,230
$275,865 Series 2010A & B Wastewater Transmission Revenue Bonds issued November 16, 2010, due through 2040; interest at 2.0% to 6.0%	275,865	275,865
$1,546 Illinois Environmental Protection Agency Loan Agreement signed May 28, 2008, due through 2027; interest at 2.50%	1,377	1,377
$11,288 Illinois Environmental Protection Agency Loan Agreement signed January 20, 2010, due through 2031; interest at 2.50%	11,288	
	1,112,089	1,125,992
Add accretion of Series 1998 Capital Appreciation Bonds	37,242	33,532
Add unamortized net bond discount/premium	16,142	15,883
Less current portion (payable from restricted assets)	(28,429)	(25,257)
Less unamortized deferred loss on bond refunding	(32,276)	(38,063)
Long-term portion — net	$ 1,104,768	$ 1,112,087

During the years ended December 31, 2011 and 2010, long-term debt changed as follows (in thousands):

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011	Due within One Year
Revenue bonds	$1,125,992	$ 11,288	$ (25,191)	$1,112,089	$28,429
Accretion of Series 1998 Capital Appreciation Bonds	33,532	3,710		37,242	
Unamortized net discount/premium	15,883	259		16,142	
Deferred loss on bond refunding	(38,063)		5,787	(32,276)	
Total revenue bonds	$1,137,344	$ 15,257	$ (19,404)	$1,133,197	$28,429

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Due within One Year
Revenue bonds	$ 902,840	$276,920	$ (53,768)	$1,125,992	$25,257
Accretion of Series 1998 Capital Appreciation Bonds	30,013	3,519		33,532	
Unamortized net discount/premium	14,240	1,940	(297)	15,883	
Deferred loss on bond refunding	(43,332)	(1,881)	7,150	(38,063)	
Total revenue bonds	$ 903,761	$280,498	$ (46,915)	$1,137,344	$25,257

Interest expense capitalized for 2011 and 2010 totaled $11.4 million and $3.7 million, respectively.

Interest expense includes amortization of the loss on bond refunding for 2011 and 2010 of $5.8 million and $5.3 million; amortization of net bond discount/premium of $0.3 million and $0.5 million; and accretion of Series 1998 Capital Appreciation Bonds of $3.7 million and $3.5 million, respectively.

As defined in the ordinances, net revenues are pledged for the payment of principal and interest on the bonds. The ordinances require that net revenues available for bonds equal 115% of the senior lien debt service requirement and that net revenues available for bonds equal the sum of 100% of the aggregate annual senior lien debt service requirement and 100% of the aggregate annual second lien debt service requirement. The above requirements were met for 2011 and 2010.

Rate Increases — Sewer service rates are set by ordinance. The sewer service charge is established in an amount designed to pay the costs of Sewer Fund operations and capital improvements, including any related debt service. During 2011 and 2010, the charge for sewer service was unchanged and was an amount equal to 86% of the gross amount charged for water service, whether such water service is metered or nonmetered. The rate charged for water was unchanged and was $15 per 1,000 cubic feet during 2011 and 2010.

Issuance of Debt — On January 20, 2010, a loan agreement was signed with the Illinois Environment Protection Agency to replace antiquated, damaged, and/or inadequate combined sewers. In 2011, the Sewer Fund drew $11.3 million from this loan agreement. The loan has an interest rate of 2.5% with maturity dates from December 14, 2011 to June 14, 2031.

Second Lien Wastewater Revenue Project and Refunding Bonds, Series 2010A-B ($275.9 million) were sold at a premium in November 2010. The bonds have interest rates ranging from 2% to 6.742% and maturity dates from January 1, 2012 to January 1, 2040. Series B bonds ($250.0 million) are Build America Bonds. Net proceeds of $275.8 million will be used to finance certain costs of improvements and extensions to the wastewater system ($248.2 million) and advance refund a certain maturities of wastewater revenue bonds outstanding ($27.6 million). The advance refunding of the bonds decreased the wastewater system's total debt service payments by $5.2 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of $3.3 million.

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

Years Ending December 31	Principal	Interest	Total Debt Service
2012	$ 28,429	$ 54,162	$ 82,591
2013	29,490	52,760	82,250
2014	30,896	51,314	82,210
2015	32,443	49,737	82,180
2016	34,075	48,097	82,172
2017–2021	178,973	232,118	411,091
2022–2026	184,188	229,359	413,547
2027–2031	186,248	180,662	366,910
2032–2036	243,605	80,343	323,948
2037–2041	163,742	14,213	177,955
Total	$1,112,089	$ 992,765	$2,104,854

Derivatives:

Pay-Fixed, Receive-Variable Interest Rate Swaps:

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

	Changes in Fair Value		Fair Value at December 31, 2011		
Governmental Activities	Classification	Amount	Classification	Amount	Notional
Cash flow hedges — pay-fixed interest rate swaps	Deferred outflow of resources	$ 42,597	Deferred outflow of resources	$ 91,713	$332,230

Terms, Fair Values, and Credit Risk — The terms, including the fair value and credit ratings of the outstanding swaps, as of December 31, 2011, are as follows (in thousands). The notional amounts of the swaps match the principal amounts of the associated debt. The Sewer Fund's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category. Under the swap, the Sewer Fund pays the counterparty a fixed payment and receives a variable payment computed according to the London InterBank Offered Rate (LIBOR) and/or The Bond Market Association (BMA) Municipal Swap Index.

Associated Bond Issue	Notional Amounts	Effective Date	Terms	Fair Values	Maturity Date	Counter-Party Credit Rating
Hedging instruments:						
Wastewater transmission	$232,560	1/3/2011	Pay 3.886%; receive SIFMA	$ 64,294	1/1/2039	Aa3/A+ Aa1/AA-
Variable rate revenue bonds	49,835	7/29/2004	Pay 3.886%; receive SIFMA	13,916	1/1/2039	Aa3/A+ Aa1/AA-
Series 2008C	49,835	7/29/2004	Pay 3.886%; receive SIFMA	13,503	1/1/2039	Aa3/A+ Aa1/AA-
Total	$332,230			$ 91,713		

Fair Value — As of December 31, 2011 and 2010, the swaps had a negative fair value of $91.7 million and $49.1 million, respectively. As per industry convention, the fair values of the Sewer Fund's outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution, the Sewer Fund's swaps had negative values.

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

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

Swap Risk — The swap exposes the Sewer Fund to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds due to tax law changes such that the federal or state tax exemption of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of the Sewer Fund's swap transactions.

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

Swap Payments and Associated Debt — As of December 31, 2011, debt service requirements for the Sewer Fund's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (in thousands):

Years Ending December 31	Variable-Rate Bonds		Interest Rate	
	Principal	Interest	Swaps — Net	Total
2012	$ -	$ 2,824	$ 10,087	$ 12,911
2013		2,824	10,087	12,911
2014		2,824	10,087	12,911
2015		2,824	10,087	12,911
2016		2,824	10,087	12,911
2017–2021	81,215	12,034	42,983	136,232
2022–2026	98,985	8,130	29,039	136,154
2027–2031	46,030	5,393	19,261	70,684
2032–2036	71,660	2,778	186,101	260,539
2037–2041	34,340	316	1,128	35,784
Total	$ 332,230	$ 42,771	$ 328,947	$ 703,948

5. UTILITY PLANT

During the years ended December 31, 2011 and 2010, utility plant changed as follows (in thousands):

	Balance January 1, 2011	Additions	Disposals and Transfers	Balance December 31, 2011
Utility plant not depreciated:				
Land and land rights	$ 560	$ -	$ -	$ 560
Construction in progress	11,709	79,210	(11,709)	79,210
Total utility plant not depreciated	12,269	79,210	(11,709)	79,770
Utility plant being depreciated:				
Facilities and structures	1,709,455	94,712	(9,837)	1,794,330
Furniture and equipment	27,880	5,287	(1,537)	31,630
Total utility plant being depreciated	1,737,335	99,999	(11,374)	1,825,960
Less accumulated depreciation:				
Facilities and structures	(368,099)	(20,455)		(388,554)
Furniture and equipment	(19,177)	(4,459)	1,142	(22,494)
Total accumulated depreciation	(387,276)	(24,914)	1,142	(411,048)
Utility plant being depreciated — net	1,350,059	75,085	(10,232)	1,414,912
Utility plant — net	$ 1,362,328	$ 154,295	$ (21,941)	$ 1,494,682

	Balance January 1, 2010	Additions	Disposals and Transfers	Balance December 31, 2010
Utility plant not depreciated:				
Land and land rights	$ 560	$ -	$ -	$ 560
Construction in progress	29,490	11,709	(29,490)	11,709
Total utility plant not depreciated	30,050	11,709	(29,490)	12,269
Utility plant being depreciated:				
Facilities and structures	1,576,503	139,799	(6,847)	1,709,455
Furniture and equipment	27,726	867	(713)	27,880
Total utility plant being depreciated	1,604,229	140,666	(7,560)	1,737,335
Less accumulated depreciation:				
Facilities and structures	(345,283)	(22,816)		(368,099)
Furniture and equipment	(19,499)	672	(350)	(19,177)
Total accumulated depreciation	(364,782)	(22,144)	(350)	(387,276)
Utility plant being depreciated — net	1,239,447	118,522	(7,910)	1,350,059
Utility plant — net	$ 1,269,497	$ 130,231	$ (37,400)	$ 1,362,328

6. PENSION PLANS

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

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

Participating employees contribute 8.5% of their salary to these funds as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Sewer Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of the Sewer Fund employees. These reimbursements, recorded as expenses of the Sewer Fund, were $4.3 million in 2011 and $2.6 million in 2010. 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, 2011 and 2010, were 1.25 for the Municipal Employees' Annuity and Benefit Fund and 1.00 for the Laborers' and Retirement Board Employees' Annuity and Benefit Fund. The City has made the required contributions under State law.

The following table as of December 31, 2011, assists users in assessing each pension fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund is as follows (dollars in thousands):

	Annual Pension Cost	Percent of Pension Cost Contributed	Required Contribution	Contributions Contributed	Net Pension Obligation (Asset)
Municipal employees:					
2009	$ 412,576	35.9 %	$ 413,509	35.8 %	$ 679,738
2010	482,420	32.1	483,948	32.0	1,007,406
2011	609,491	24.1	462,482	24.0	1,469,886
Laborers:					
2009	34,024	43.0	33,517	43.6	(206,362)
2010	47,129	32.6	46,665	32.9	(175,585)
2011	57,651	22.2	44,872	22.3	(129,712)

The pension benefits information pertaining expressly to the Sewer Fund employees is not available as the obligation is the responsibility of the general government. Accordingly, no amounts have been recorded in the accompanying basic financial statements for the net pension assets or liabilities of these Plans. Amounts for the City are recorded within the City's government-wide financial statements.

7. OTHER POSTEMPLOYMENT BENEFITS — CITY OBLIGATION

In addition to providing pension benefits, under State law, the City provides certain health benefits to employees who retire from the City based upon their participation in the City's pension plans. Substantially, all employees who qualify as municipal employees' or laborers' pension plan participants older than age 55 with at least 20 years of service may become eligible for postemployment benefits, if they eventually become annuitants. Health benefits include basic benefits for annuitants and supplemental benefits for Medicare-eligible annuitants. Currently, the City does not segregate benefit payments to annuitants by fund. The cost of health benefits is recognized as claims are reported and are funded on a pay-as-you-go basis. The total cost to the City for providing health benefits to approximately 24,000 annuitants and their dependents was approximately $99.1 million and $107.4 million in 2011 and 2010, 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 2011 and 2010, 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 $68.3 million in 2011 and $64.1 million in 2010, 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 health care plan (the "Health Plan"), for which the City pays a portion of the costs on a pay-as-you-go method. Under the Settlement Agreement, the City sponsors health benefit plans for employees, former employees, and retired employees. The provisions of the program provide, in general, that the City pay a percentage of the cost (based upon an employee's service) for hospital and medical coverage to eligible retired employees and their dependents for a specified period, until June 30, 2013.

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

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

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

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

	Annual OPEB Cost and Contributions Made (In thousands)	
	2011 Health Plan	2010 Health Plan
Contribution rates:		
City	Pay as you go	Pay as you go
Plan members	N/A	N/A
Annual required contribution	$ 200,062	$ 189,328
Interest on net OPEB obligation	4,567	9,871
Adjustment to annual required contribution	(155,675)	(116,325)
Annual OPEB cost	48,954	82,874
Contributions made	99,091	107,431
Decrease in net OPEB obligation	(50,137)	(24,557)
Net OPEB obligation — beginning of year	304,482	329,040
Net OPEB obligation — end of year	$ 254,345	$ 304,483

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for fiscal years 2011, 2010, and 2009 are as follows (in thousands):

	Schedule of Contributions, OPEB Costs, and Net Obligations		
Fiscal Years Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
December 31, 2011	$ 48,954	202.4 %	$ 254,345
December 31, 2010	82,874	129.6	304,483
December 31, 2009	157,809	62.1	329,040

Funded Status and Funding Progress — As of December 31, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits for all eligible City employees and retirees was $390.6 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Health Plan) was approximately $2,475.1 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the 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, 2010	$ -	$ 390,611	$ 390,611	- %	$ 2,475,080
December 31, 2009		533,387	533,387		2,546,961

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

For the Health Plan benefits (not provided by the Pension Funds) in the actuarial valuation for the fiscal years ended December 31, 2011 and 2010, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual health care cost trend rate of 11.5% initially, reduced by decrements to an ultimate rate of 10.5%. Both rates included a 3% inflation assumption. The Health Plan has not accumulated assets and does not hold assets in a segregated trust. However, the funds expected to be used to pay benefits are assumed to be invested for durations, which will yield an annual return rate of 1.5%. The unfunded accrued actuarial liability, as of December 31, 2011, is being amortized as a level-dollar amount over two years.

	Summary of Assumptions and Methods	
Item	2011 Health Plan	2010 Health Plan
Actuarial valuation date	December 31, 2010	December 31, 2009
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar
Remaining amortization period	2 years	3 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	1.50%	3.0%
Projected salary increases	2.5%	2.5%
Healthcare inflation rate	11.5% initial to 10.5% ultimate	12% initial to 10.5% ultimate

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

8. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the General Fund of the City and certain other funds for services provided by other City departments, employee fringe benefits, and certain payments made on behalf of the Sewer Fund. Such reimbursements amounted to $29.1 million and $27.1 million in 2011 and 2010, respectively.

9. COMMITMENTS AND CONTINGENCIES

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

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

Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. Changes in the claims liability amount for the years ended December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010
Balance — January 1	$ 18,404	$ 17,320
Claims incurred on current and prior-year events	9,870	11,300
Claims paid on current and prior-year events	(11,480)	(10,216)
Balance — December 31	$ 16,794	$ 18,404

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

At December 31, 2011 and 2010, the Sewer Fund entered into contracts with outstanding commitments of approximately $35.2 million and $29.8 million, respectively, for construction projects.

* * * * * *

STATISTICAL DATA

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

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

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

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

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

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

NET ASSETS BY COMPONENT
FIVE YEARS ENDED DECEMBER 31, 2007 — 2011
(In thousands) (Unaudited)

	2007	2008	2009	2010	2011
NET ASSETS:					
Invested in capital assets — net of related debt	$ 417,138	$ 413,481	$ 391,248	$ 414,766	$ 454,079
Restricted for capital projects	4,544		9,533	11,110	24,610
Unrestricted net assets	43,445	54,333	52,920	64,828	25,588
TOTAL	$ 465,127	$ 467,814	$ 453,701	$ 490,704	$ 504,277

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

CHANGES IN NET ASSETS
FIVE YEARS ENDED DECEMBER 31, 2007 — 2011
(In thousands) (Unaudited)

	2007	2008	2009	2010	2011
OPERATING INCOME:					
Operating revenues	$ 138,681	$ 160,005	$ 175,163	$ 198,229	$ 203,349
Operating expenses	86,294	98,487	109,643	113,881	113,930
Depreciation and amortization	19,897	20,982	21,878	23,775	25,917
Total operating income	32,490	40,536	43,642	60,573	63,502
NONOPERATING EXPENSES	(29,723)	(37,849)	(57,755)	(26,706)	(51,793)
INCOME BEFORE CAPITAL GRANTS	2,767	2,687	(14,113)	33,867	11,709
CAPITAL GRANTS	321			3,136	1,864
CHANGE IN NET ASSETS	$ 3,088	$ 2,687	$ (14,113)	$ 37,003	$ 13,573

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS
TEN YEARS ENDED DECEMBER 31, 2002 — 2011
(In thousands) (Unaudited)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING REVENUES:										
Sewer sales	$ 139,793	$ 140,754	$ 142,680	$ 141,314	$ 134,323	$ 137,021	$ 158,698	$ 173,906	$ 197,455	$ 202,323
Other operating revenue	1,537	1,619	2,308	2,208	2,114	1,660	1,307	1,257	774	1,026
Total operating revenues	141,330	142,373	144,988	143,522	136,437	138,681	160,005	175,163	198,229	203,349
OPERATING EXPENSES:										
Repairs	39,079	35,196	31,023	33,981	34,770	35,759	37,786	42,110	42,509	38,805
Maintenance	22,499	23,772	19,315	18,966	18,964	19,034	18,626	24,380	24,075	23,655
Administrative and general	6,068	4,551	5,605	5,454	6,499	7,796	15,746	14,403	17,179	18,802
General Fund reimbursements	26,299	25,779	25,272	26,823	22,569	22,973	23,287	25,431	27,065	29,124
Engineering	6,464	6,461	4,505	3,587	1,213	732	3,042	3,319	3,053	3,544
Total operating expenses	100,409	95,759	85,720	88,811	84,015	86,294	98,487	109,643	113,881	113,930
NONOPERATING REVENUES	355	276	140	802	1,063	939	817	234	643	2,870
NET REVENUES — As defined	$ 41,276	$ 46,890	$ 59,408	$ 55,513	$ 53,485	$ 53,326	$ 62,335	$ 65,754	$ 84,991	$ 92,289

Source: City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

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

	2007 Amount of Sales	2008 Amount of Sales	2009 Amount of Sales	2010 Amount of Sales	2011 Amount of Sales
Department of Aviation	$ 848	$ 1,230	$ 1,331	$ 1,744	$ 1,593
Humboldt Park	263	494	754	435	1,842
WR Grace and Company		285	347		
Calumet Park			270	315	316
Pepsi Cola General Bottlers			237		
Lincoln Park	810	692			310
Northwestern University		541			
Columbus Park				258	
Chicago Park District	247				
University of Chicago-HCC					339
Hometown	212			546	
	$ 2,380	$ 3,242	$ 2,939	$ 3,298	$ 4,400

CITY OF CHICAGO, ILLINOIS
SEWER FUND

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

	2007 Amount of Sales	2008 Amount of Sales	2009 Amount of Sales	2010 Amount of Sales	2011 Amount of Sales
Residential	$ 97,909	$ 105,072	$ 124,600	$ 144,145	$ 139,598
Industrial/commercial	32,313	34,363	38,376	44,540	50,915
Governmental	8,459	8,931	10,930	9,544	12,836
	$ 138,681	$ 148,366	$ 173,906	$ 198,229	$ 203,349

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
RECENT SEWER SERVICE RATES
(Unaudited)

Effective Date	Gross Water Rate Per 1,000 Cubic Feet	Sewer Rate	
		Percent of Water Bill	Per 1000 Cubic Feet
January 1, 2002	9.02 %	83 %	$ 7.49
January 1, 2003	9.38	83	7.79
January 1, 2004	9.66	83	8.02
January 1, 2005	9.95	83	8.26
January 1, 2006	9.95	83	8.26
January 1, 2007	9.95	83	8.26
January 1, 2008	11.44	84	9.61
January 1, 2009	13.16	85	11.18
January 1, 2010	15.00	86	12.90
January 1, 2011	15.00	86	12.90

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
SEWER SYSTEM ACCOUNTS
TEN YEARS ENDED DECEMBER 31, 2002 ─ 2011
(Unaudited)

	Water Accounts				
Years Ended December 31	**Non-Metered**	**Metered**	**Total**	**Exempt**	**Sewer Accounts**
2002	326,778	164,067	490,845	80,615	410,230
2003	325,789	165,440	491,229	55,064	436,165
2004	324,689	167,545	492,234	54,809	437,425
2005	323,740	169,664	493,404	55,797	437,607
2006	322,193	171,861	494,054	58,599	435,455
2007	320,579	175,256	495,835	61,700	434,135
2008	319,205	178,457	497,662	63,929	433,733
2009	318,088	179,649	497,737	64,965	432,772
2010	314,002	183,618	497,620	65,450	432,170
2011	304,519	192,304	496,823	65,903	430,920

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
REVENUE BOND COVERAGE
TEN YEARS ENDED DECEMBER 31, 2002 — 2011
(In thousands) (Unaudited)

COMBINED SENIOR LIEN AND SECOND LIEN DEBT SERVICE CALCULATION	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined	$41,276	$46,890	$59,408	$55,513	$53,485	$53,326	$62,335	$65,754	$84,991	$92,289
Deposits to prior lien accounts										
Transfer (from) to sewer rate stabilization account		(1,050)	2,500		4,000				10,000	
Net revenues available for bonds	41,276	47,940	56,908	55,513	49,485	53,326	62,335	65,754	74,991	92,289
PRIOR LIEN DEBT SERVICE REQUIREMENT										
NET REVENUES AVAILABLE FOR BONDS	$41,276	$47,940	$56,908	$55,513	$49,485	$53,326	$62,335	$65,754	$74,991	$92,289
DEBT SERVICE REQUIREMENTS:										
Senior lien debt service requirement	$25,577	$25,579	$25,576	$18,523	$19,010	$16,784	$16,753	$16,777	$15,970	$15,287
Senior lien debt service coverage (1.15 required)	1.61	1.87	2.23	3.00	2.60	3.18	3.72	3.92	4.70	6.04
DEBT SERVICE REQUIREMENTS:										
1997 second lien bonds	4,194	4,195	4,193							
1998 second lien bonds	2,862	2,861	2,863	2,879	2,861	173	999	1,000	47	
2000 second lien bonds	1,264	4,155	4,155	743	2,643	748	2,707	2,710	2,711	
2001 second lien bonds	2,276	4,037	4,045	4,079	4,190	4,195	4,193	4,200	4,196	6,920
2001A second lien bonds	3,337	7,108	7,107	1,792	3,244	352	2,043	2,050	2,047	2,055
2004A and B second lien bonds			4,393	6,698	16,048	18,947	20,387	5,505	17,558	17,448
2006A and B second lien bonds						8,570	8,759	8,768	8,770	8,765
2008A second lien bonds								11,539	11,528	11,537
2008C second lien bonds							2,291	11,792	542	485
IEPA Loans									101	383
2010A & B second lien bonds									2,284	19,332
Second lien debt service requirement	13,933	22,356	26,756	16,191	28,986	32,985	41,379	47,564	49,784	66,925
COMBINED SENIOR AND SECOND LIEN DEBT SERVICE REQUIREMENTS	$39,510	$47,935	$52,332	$34,714	$47,996	$49,769	$58,132	$64,341	$65,754	$82,212
COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE (1.0 REQUIRED)	1.04	1.00	1.09	1.60	1.03	1.07	1.07	1.02	1.14	1.12
SEWER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	$ 9,179	$ 8,129	$10,629	$10,629	$14,629	$14,629	$14,629	$14,629	$25,629	$25,703

Source: City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
LONG-TERM DEBT
FIVE YEARS ENDED DECEMBER 31, 2007 ─ 2011
(In thousands) (Unaudited)

	2007	2008	2009	2010	2011
First Lien	$ 72,130	$ 60,815	$ 48,825	$ 36,175	$ 22,820
Second Lien	698,398	863,234	854,015	1,089,817	1,089,269
Total	$ 770,528	$ 924,049	$ 902,840	$ 1,125,992	$ 1,112,089

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
CAPITAL IMPROVEMENT PROGRAM
2012–2016
(In thousands) (Unaudited)

Years	Amount
2012	$ 186,200
2013	199,700
2014	223,100
2015	234,100
2016	244,900
Total	$ 1,088,000

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

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
FULL-TIME EQUIVALENT SEWER FUND EMPLOYEES BY FUNCTION
FIVE YEARS ENDED DECEMBER 31, 2007 — 2011
(Unaudited)

Function	2007	2008	2009	2010	2011
Agency management	7	5	5	5	5
Capital design and construction services	22	21	21	21	23
Engineering services	13				
Inspection services	17	18	18	18	18
System installation	10	10	10	9	8
System maintenance	566	517	521	521	521
Communications and coordination	32	29	31	27	26
	667	600	606	601	601

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

Source: City of Chicago's 2011, 2010, 2009, and 2008 Program and Budget Summary.

Note: Schedule includes only Department of Water Management Employees.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
OPERATING INDICATORS BY FUNCTION
(Unaudited)

	2010	2011
Catch basins repaired	18,036	20,557

CITY OF CHICAGO, ILLINOIS
SEWER FUND

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

	2010	2011
Sewers lined	37.7	42.9
New construction	8.6	11.8

CITY OF CHICAGO, ILLINOIS
SEWER FUND

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

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

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

CITY OF CHICAGO, ILLINOIS
SEWER FUND

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

	2011 (1)			2002 (1)		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
J.P. Morgan Chase (2)	7,993	1	0.77 %	6,320	4	0.57 %
United Airlines	6,366	2	0.62	8,656	2	0.79
Northern Trust	5,485	3	0.53	5,312	2	0.48
Jewel Food Stores, Inc.	4,799	5	0.46	5,249	7	0.48
Bank of America NT	4,557	6	0.44			
Walgreen's Co.	4,429	7	0.43			
Accenture LLP	5,014	4	0.48	4,399	10	0.40
CVS Corporation	4,159	8	0.40			
ABM Janitorial Midwest, Inc.	3,629	9	0.35			
American Airlines				4,666	8	0.42
Ameritech (3)				17,165	1	1.56
Arthur Andersen, LLP				4,570	9	0.41
M O Hill & Robert Prince						
Ford Motor Company	3410	10	0.33	5,269	6	0.48
Dominick's Finer Foods, LLC						
Exelon Corporation				7,538	3	0.68

(1) Source: City of Chicago, Department of Revenue, Employer's Expense Tax Return, June 30, 2011.
(2) J.P. Morgan Chase, formerly known as Banc One.
(3) SBC/AT&T, formerly known as Ameritech.
(4) Harris Trust and Saving Bank, formerly known as Harris Trust.

CITY OF CHICAGO, ILLINOIS
SEWER FUND

STATISTICAL DATA
POPULATION AND INCOME STATISTICS
(Unaudited)

Year	Population (1)	Median Age (2)	Number of Households (2)	Unemployment Rate (3)	Per Capita Income (4)	Total Income (5)
2008	2,896,016	34.1	1,032,746	6.40	45,328	$ 131,270,613,248
2009	2,896,016	34.5	1,037,069	10.0	43,727	126,634,091,632
2010	2,695,598	34.8	1,045,666	10.1	45957	123,881,597,286
2011	2,695,598	33.2	1,048,222	9.3	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 2011, 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 2011 dollars).
(5) N/A means not available at time of publication.