

**City of Chicago  
Department of Water Management  
Sewer Fund**

**Comprehensive Annual Financial Report  
For the Years Ended December 31, 2013 and 2012**



**Rahm Emanuel, Mayor  
Lois Scott, Chief Financial Officer  
Daniel Widawsky, City Comptroller  
Thomas H. Powers, Commissioner**

**Sewer Fund**  
An Enterprise Fund of  
The City of Chicago

**Comprehensive Annual Financial Report  
For the Years Ended December 31, 2013 and 2012**



Prepared By:  
The Department of Water Management  
Bureau of Administrative Services

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# **INTRODUCTORY SECTION**



**DEPARTMENT OF WATER MANAGEMENT  
CITY OF CHICAGO**

June 30, 2014

To the Honorable Mayor Rahm Emanuel,  
Members of the City Council and Citizens of the City of Chicago:

I am pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the City of Chicago Department of Water Management, Sewer Fund, for the year ended December 31, 2013. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with management. The purpose of the CAFR is to provide complete and accurate information, which complies with the requirements of the Municipal Code of the City of Chicago.

The CAFR is presented in three sections: introductory, financial and statistical. The financial section includes management's discussion and analysis (MD & A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

**REPORTING ENTITY**

The Department of Water Management, Sewer Fund, has been accounted for as a separate enterprise fund of the City of Chicago (City) which operates and maintains the City's Sewer system. Effective January 1, 2003 the Sewer Department merged with the Water Department to form the Department of Water Management. The Sewer system collects and transports sanitary and industrial waste and storm water to the interceptor sewers of the Metropolitan Water Reclamation District of Greater Chicago. The system provides sewage and drainage collection and conveyance through over 4,400 miles of sewers and a service area of roughly 230 square miles inhabited by approximately 2.9 million people.

**ECONOMIC CONDITION AND OUTLOOK**

The Sewer Fund's primary source of revenue is a sewer service charge which is set by City ordinance. The sewer service charge is billed through the water usage charge on customer billings. The sewer service charge covers the costs of operations, maintenance and debt service.

Because of its rate structure, sewer fund revenue is largely dependent upon water usage. As of January 1, 2013, the sewer service charge is set at 89 percent of the water service charge and the metered water rate is set at \$21.56 per 1,000 per cubic feet. There are no large industrial or commercial users that account for more than five percent of sewer system revenues. It is not expected that there will be a significant change in the population base of the City that would lead to a significant change in revenues.

## **MAJOR INITIATIVES**

As of December 31, 2013, the Department of Water Management, Sewer Fund, has forecasted approximately \$1,570M under its Capital Improvement Program (CIP) over the next five years, (2014-2018). The Sewer Fund's five-year CIP addresses the aggressive efforts to increase the renewal and replacement of the Sewer System's infrastructure and continue to focus on two major areas: sewer replacement and sewer lining.

The Department of Water Management, Sewer Fund, will support the increased effort of infrastructure renewal by replacing 21 miles of new sewers and lining 55 miles of existing sewers and lining approximately 14,000 structures in 2014. The Chicago Department of Water Management estimates spending \$139 million on new sewers, \$67 million in lining existing sewers and \$17 million in lining catch basins and manholes structures to prevent failures leading to cave-ins in the street.

The Department of Water Management may revise the list of specific improvements and revise cost allocations among improvements, as well as make substitutions to meet current needs and to provide for the efficient operation of the Sewer System. A master plan for large trunk sewer improvements to provide regional solutions to the sewer system was completed in 2013. This plan will describe not only the current conditions, but present solutions to solve regional flooding problems in a strategic fashion. The plan will provide justification for funding large capital expenditures related to regional solutions. A request for proposals will be issued in 2014 to start Phase I design of the regional solutions.

In all, the 5-year CIP is reevaluated annually updated to ensure that areas of the City with the greatest need are given priority.

## **PROPRIETARY OPERATIONS**

The Department of Water Management, Sewer Fund, is responsible for implementing and maintaining an internal control structure to ensure the integrity of the Sewer Fund's operations and to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The internal control structure is designed to provide reasonable assurance that the assets, resources and operations of the Department of Water Management, Sewer Fund, are handled in a manner that protects against waste, theft or neglect that may hinder the financial operations of the Sewer Fund. This objective is being met by adequate supervision of employees, segregation of duties and multiple approval and budgetary controls over all expenditures.

The Sewer Fund's budget is developed and implemented along with the City's annual budget based upon an analysis of its historical operations and maintenance costs. The Commissioner of

the Department of Water Management recommends the final proposed budget to the Budget Director. After approval by the Budget Director, the proposed budget is recommended to the Mayor for submission to the City Council for its approval following public hearings.

The budget process is designed to ensure that the Department of Water Management, Sewer Fund, will have adequate funding to meet its operational objectives. The Department of Water Management, Sewer Fund, cannot by law exceed the level of funding as established by the City Council-approved budget. The Budget Director uses an allotment system to manage each department's expenditures against its respective annual appropriation.

The Budget Director, through the allotment system, has the authority to institute economic measures for the Department of Water Management, Sewer Fund, to ensure that its expenditures do not exceed its revenue collections. The Sewer Fund uses encumbrances to control expenditures by preventing appropriated dollars from being used for any purpose other than that for which they have been legally appropriated.

## **DEBT ADMINISTRATION**

The Department of Water Management, Sewer Fund, issues bonds to finance its capital improvement program. The City has covenanted to establish, maintain and collect at all times fees, charges and rates sufficient to produce net revenues available for bonds equal to at least 115 percent of current annual debt service requirements on the outstanding senior lien bonds and equal to at least 100 percent of the maximum annual senior and second lien debt service requirement. The City conducts an annual review of the sewer service charge to ensure that sufficient revenue is being generated to comply with the rate covenant. The ordinances authorizing the issuance of revenue bonds provide for the creation of separate accounts into which net revenues, as defined, or bond proceeds are to be credited, as appropriate.

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

The Department of Water Management, Sewer Fund, has entered into continuing disclosure undertakings with respect to bonds issued after July 3, 1995. The Sewer Fund has provided certain annual financial information disclosure for its revenue bonds in the statistical section of this report.

## **LONG TERM FINANCIAL PLANNING**

The Department of Water Management, Sewer Fund's, capital activities are funded through the Sewer Fund revenue bonds and Sewer Fund revenue. The Department of Water Management, Sewer Fund, has realized savings through advance refunding as interest rates have changed.

## **INDEPENDENT AUDIT**

City ordinances require the Department of Water Management's, Sewer Fund, financial statements to be audited by independent certified public accountants. The audit was conducted by Deloitte & Touche LLP and a consortium of Chicago-based of minority and women-owned certified public accounting firms. An unmodified audit opinion rendered by Deloitte & Touche, LLP, is included in

the financial section of this report.

## **AWARD**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to Chicago Department of Water Management - Sewer Fund, an Enterprise Fund of the City of Chicago, for its CAFR for the fiscal year ended December 31, 2012.

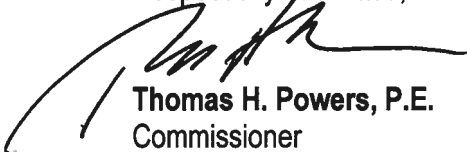
This was the eighteenth year that the government has achieved this prestigious award, which is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. I believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **ACKNOWLEDGMENTS**

This report could not have been prepared without the dedication and effective assistance of the entire staff of the Department of Water Management and the Department of Finance. I wish to express my appreciation to them, and particularly those who contributed directly to the preparation of this report.

Respectfully submitted,



**Thomas H. Powers, P.E.**  
Commissioner





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

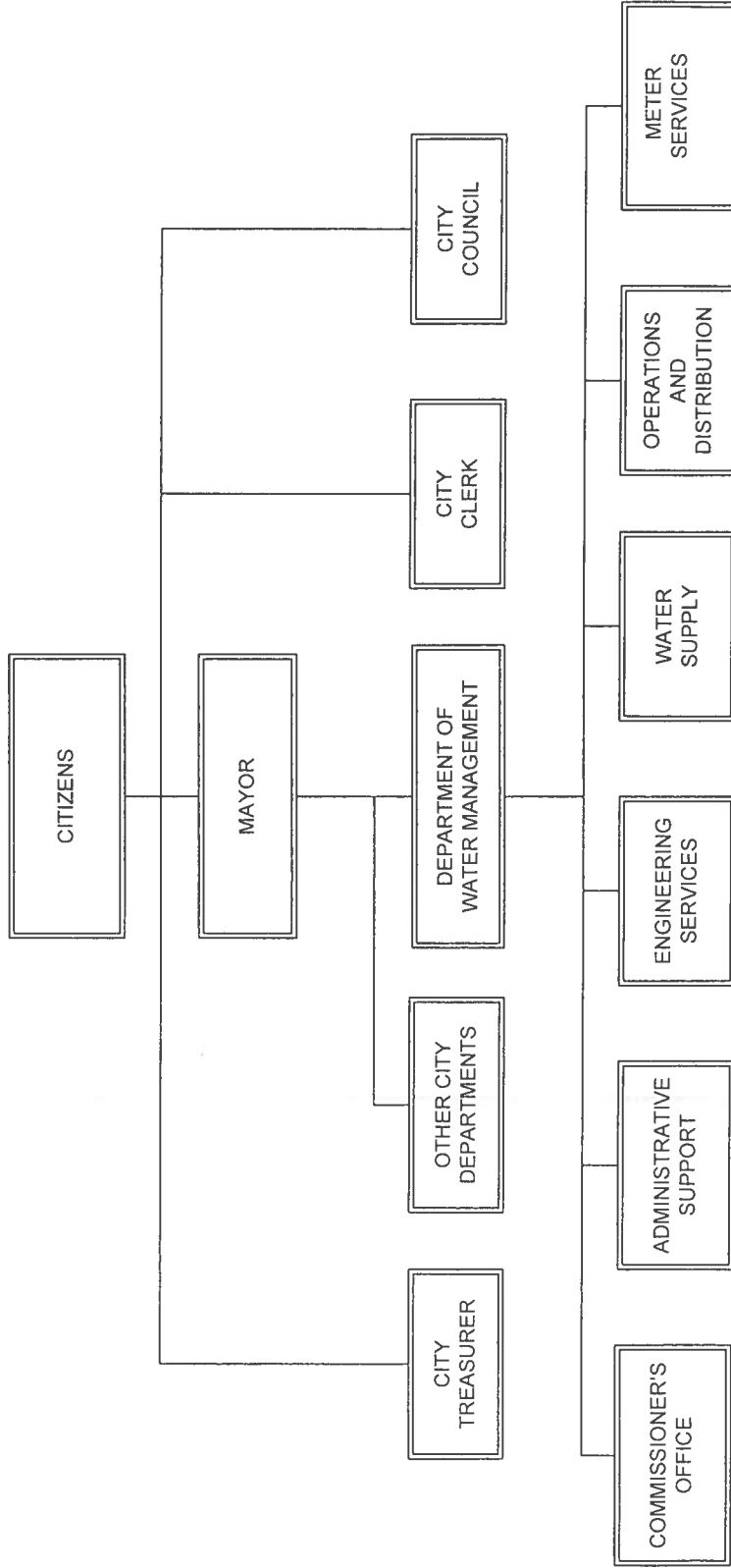
**Sewer Fund, an Enterprise Fund  
of the City of Chicago, Illinois**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2012**

Executive Director/CEO

CITY OF CHICAGO  
 DEPARTMENT OF WATER MANAGEMENT  
 As of 12/31/13



List of Principal Officials

Rahm Emanuel Mayor  
 Thomas H. Powers, P.E. Commissioner

## **FINANCIAL SECTION**

## 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 (the "Sewer Fund"), an enterprise fund of the City of Chicago, Illinois (the "City"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Sewer Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter**

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, 2013 and 2012, changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Notes 1 and 10 to the basic financial statements, prior year amounts were restated due to the Sewer Fund's adoption of Statement 65 of the Governmental Accounting Standards Board (GASB), *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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 Governmental Accounting Standards Board 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.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Sewer Fund's basic financial statements. The introductory section and statistical data, as listed in the foregoing table of contents, are presented for purposes of additional analysis and are 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 30, 2014

# CITY OF CHICAGO, ILLINOIS SEWER FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2013 and 2012. Please read this discussion in conjunction with the Sewer Fund's basic financial statements and the notes to basic financial statements following this section. Due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), in fiscal year 2013, as described in Note 10 to the basic financial statements, 2012 and 2011 numbers within the management's discussion and analysis have been restated retroactively.

### FINANCIAL HIGHLIGHTS

#### 2013

- Operating revenues for 2013 increased by \$38.4 million (15.1%) compared to prior-year operating revenues due to an increase in sewer billing rates.
- Operating expenses before depreciation and amortization for 2013 increased \$8.2 million compared to 2012. This increase of 7.24% is primarily due to an increase in repairs, maintenance and administrative and general.
- The Sewer Fund's total net position for 2013 increased by \$75.4 million or 13.5% compared to 2012.
- The Sewer Fund's total assets and deferred outflows were greater than total liabilities by \$634.3 million (net position) at December 31, 2013. Net position comprises \$481.9 million of net investment in capital assets, \$73.9 million of restricted for capital projects, and \$78.5 million of unrestricted.
- Capital asset additions, net, being depreciated for 2013 were \$212.5 million, principally due to completion of sewer construction and rehabilitation projects.

#### 2012

- Operating revenues for 2012 increased by \$50.6 million (24.9%) compared to prior-year operating revenues due to changes in sewer billing rates.
- Operating expenses before depreciation and amortization for 2012 remained consistent with 2011.
- The Sewer Fund's total net position for 2012 increased by \$59.9 million or 12.0% compared to 2011.
- The Sewer Fund's total assets and deferred outflows were greater than total liabilities by \$558.9 million (net position) at December 31, 2012. Net position comprises \$448.4 million of net investment in capital assets, \$50.0 million of restricted for capital projects, and \$60.5 million of unrestricted.
- Capital asset additions, net, being depreciated for 2012 were \$246.6 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 position present all of the Sewer Fund's assets, deferred outflows, and liabilities using the accrual basis of accounting. The difference between assets, deferred outflows, and liabilities is reported as net position. The increase or decrease in net position 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 position present all current fiscal year revenues and expenses, regardless of when cash is received or paid, and the ensuing change in net position.

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 for 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, 2013, the Sewer Fund's financial position continues to be strong with total assets and deferred outflows of \$2,290.8 million, total liabilities of \$1,656.5 million, and net position of \$634.3 million. A comparative condensed summary of the Sewer Fund's net position at December 31, 2013, 2012, and 2011, is as follows:

(In thousands)	Net Position		
	2013	2012	2011
Current assets	\$ 167,963	\$ 128,442	\$ 106,166
Restricted and other assets	209,566	347,565	139,359
Utility plant — net	1,838,328	1,671,339	1,494,682
Deferred outflows	<u>74,973</u>	<u>116,448</u>	<u>123,989</u>
Total assets and deferred outflows	<u>2,290,830</u>	<u>2,263,794</u>	<u>1,864,196</u>
Current liabilities	64,452	64,007	87,203
Derivative instrument liability	52,705	89,955	91,713
Long-term and liabilities payable from restricted assets	<u>1,539,360</u>	<u>1,550,428</u>	<u>1,186,362</u>
Total liabilities	<u>1,656,517</u>	<u>1,704,390</u>	<u>1,365,278</u>
Net position:			
Net invested in capital assets	481,946	448,414	448,720
Restricted for capital projects	73,858	50,014	24,610
Unrestricted	<u>78,509</u>	<u>60,436</u>	<u>25,588</u>
Total net position	<u>\$ 634,313</u>	<u>\$ 558,864</u>	<u>\$ 498,918</u>

### 2013

Current assets increased by \$39.5 million (30.8%) due to an increase in cash and cash equivalents, accounts receivable and due from other funds. Restricted and other assets decreased by \$138.0 million (39.7%) and utility plant — net increased by \$167.0 million (10.0%) due principally to capital activities for sewer construction and rehabilitation projects. Deferred outflows decreased in the amount of \$41.5 million (35.6%) due to changes in the fair value of interest rate swaps. During 2013, the Sewer Fund lined an additional 45.6 miles of sewers.

Current liabilities remained consistent overall with a slight increase of \$0.4 million (0.7%) which is primarily related to increases related to due to other funds and accrual liabilities with offsetting decrease in unearned revenue. Derivative instrument liability decreased \$37.3 million (41.4%) due to changes in the fair value of interest rate swaps. Long-term and restricted liabilities decreased by \$11.6 million (0.7%).

Net position may serve, over a period of time, as a useful indicator of the Sewer Fund's financial position. As of December 31, 2013, total net position was \$634.3 million, an increase of \$74.5 million (13.5%) from 2012.

### 2012

Current assets increased by \$22.3 million (21.0%) due to an increase in cash and cash equivalents and accounts receivable. Restricted and other assets increased by \$208.2 million (149.4%) and utility plant — net increased by \$176.7 million (11.8%) due principally to capital activities for sewer construction and



rehabilitation projects. Deferred outflows decreased in the amount of \$7.5 million (6.1%) due to changes in the fair value of interest rate swaps. During 2012, the Sewer Fund increased its lining program, lining an additional 51.4 miles of sewers.

The decrease in current liabilities of \$23.2 million (26.6%) is primarily related to the decrease in accounts payable due to the timing of payments and an increase in unearned revenue as related to increased deferred billings, and accrued liabilities as related to an Illinois Environmental Protection Agency (IEPA) loan received during 2012. Derivative instrument liability decreased \$1.8 million (1.9%) due to changes in the fair value of interest rate swaps. Long-term and restricted liabilities increased by \$364.6 million (30.7%) due to debt issuance.

Net position may serve, over a period of time, as a useful indicator of the Sewer Fund's financial position. As of December 31, 2012, total net position was \$558.9 million, an increase of \$59.9 million (12.2%) from 2011.

A summary of revenues, expenses, and changes in net position for the years ended December 31, 2012, 2011, and 2010, is as follows:

(In thousands)	<u>Revenues, Expenses, and Changes in Net Position</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Operating revenues:			
Sewer service	\$ 291,110	\$ 252,943	\$ 202,323
Other operating revenues	<u>1,180</u>	<u>969</u>	<u>1,026</u>
Total operating revenues	292,290	253,912	203,349
Nonoperating revenues	(2,754)	867	3,198
Capital grants	<u>2,500</u>	<u>2,500</u>	<u>1,864</u>
Total revenues	<u>292,036</u>	<u>257,279</u>	<u>208,411</u>
Expenses:			
Operating expenses before depreciation and amortization	121,794	113,575	113,930
Depreciation and amortization	31,280	27,187	25,074
Interest expense	<u>63,513</u>	<u>56,571</u>	<u>54,991</u>
Total expenses	<u>216,587</u>	<u>197,333</u>	<u>193,995</u>
Change in net position	75,449	59,946	14,416
Net position — beginning of year, as restated	<u>558,864</u>	<u>498,918</u>	<u>484,502</u>
Net position — end of year	<u>\$ 634,313</u>	<u>\$ 558,864</u>	<u>\$ 498,918</u>

## 2013

Sewer service revenues for the years ended 2013 and 2012 were \$291.1 million and \$252.9 million, respectively. Other revenue, which consists primarily of inspection fees and house drain fees, for the years ended 2013 and 2012 was \$1.2 and \$0.9 million, respectively. The increase in 2013 sewer service revenue of \$38.2 million (15.1%) is primarily due to an increase in water and sewer rates of 15% and 3%, respectively.

Nonoperating revenues decreased by \$3.6 million compared to 2012 as a result of proceeds from the tax increment financing of \$1.5 million and a decrease of investment earnings of \$4.9 million as a result of unrealized losses.

## 2012

Sewer service revenues for the years ended 2012 and 2011 were \$252.9 million and \$202.3 million, respectively. Other revenue, which consists primarily of inspection fees and house drain fees, for the years ended 2012 and 2011 was \$0.9 million and \$1.0 million, respectively. The increase in 2012 sewer service revenue of \$50.6 million (25.0%) is primarily due to an increase in water and sewer rates of 25% and 3%, respectively.

Nonoperating revenues decreased by \$2.3 million primarily as a result a decrease in investment income.

A comparative summary of the Sewer Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2013, 2012, and 2011, is as follows:

(In thousands)	Operating Expenses		
	2013	2012	2011
Repairs	\$ 38,910	\$ 35,708	\$ 38,805
General Fund reimbursements	32,144	31,709	29,124
Maintenance	23,004	21,819	23,655
Engineering	3,267	3,085	3,544
Administrative and general	<u>24,469</u>	<u>21,254</u>	<u>18,802</u>
Operating expenses before depreciation and amortization	121,794	113,575	113,930
Depreciation and amortization	<u>31,280</u>	<u>27,187</u>	<u>25,074</u>
Total operating expenses	<u>\$ 153,074</u>	<u>\$ 140,762</u>	<u>\$ 139,004</u>

## 2013

Overall, operating expenses before depreciation and amortization for 2013 increased by \$8.2 million (7.2%) in 2013 due primarily to increases in repairs, maintenance and administrative and general. Depreciation and amortization increased slightly due to an increase in utility plant.

## 2012

Overall, operating expenses before depreciation and amortization for 2012 remained consistent with 2011. 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, 2013, 2012, and 2011, is as follows:

(In thousands)	Cash Flows		
	2013	2012	2011
Cash from activities:			
Operating	\$ 155,991	\$ 143,573	\$ 81,012
Capital and related financing	(264,353)	76,755	(202,867)
Investing	<u>64,130</u>	<u>(160,955)</u>	<u>(4,359)</u>
Net change in cash and cash equivalents	(44,232)	59,373	(126,214)
Cash and cash equivalents:			
Beginning of year	<u>88,938</u>	<u>29,565</u>	<u>155,779</u>
End of year	<u>\$ 44,706</u>	<u>\$ 88,938</u>	<u>\$ 29,565</u>

### 2013

As of December 31, 2013, the Sewer Fund's cash and cash equivalents of \$44.7 million represented a decrease of \$44.2 million from December 31, 2012, as compared to an increase of \$59.4 million from December 31, 2011 to December 31, 2012, primarily due to construction related activities in 2013. Total cash and cash equivalents at December 31, 2013, were composed of unrestricted and restricted cash and cash equivalents of \$1.6 million and \$43.1 million, respectively.

### 2012

As of December 31, 2012, the Sewer Fund's cash and cash equivalents of \$88.9 million represented an increase of \$59.4 million from December 31, 2011, as compared to a decrease of \$126.2 million from December 31, 2010 to December 31, 2011, primarily due to positive cash flows from bonds issued in 2012. Total cash and cash equivalents at December 31, 2012, were composed of unrestricted and restricted cash and cash equivalents of \$17.7 million and \$71.2 million, respectively.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### 2013

At the end of 2013 and 2012, the Sewer Fund had net utility plant of \$1,838.3 million and \$1,671.3 million, respectively. During 2013, the Sewer Fund had capital additions being depreciated of \$212.5 million, and completed projects totaling \$ 33.0 million were transferred from construction in progress to applicable facilities and structures capital accounts.

### 2012

At the end of 2012 and 2011, the Sewer Fund had net utility plant of \$1,671.3 million and \$1,494.7 million, respectively. During 2012, the Sewer Fund had capital additions being depreciated of \$246.6 million, and completed projects totaling \$79.2 million were transferred from construction in progress to applicable facilities and structures capital accounts.

The Sewer Fund's net utility plant at December 31, 2013, 2012, and 2011, is summarized as follows:

(In thousands)	Net Utility Plant at Year-End		
	2013	2012	2011
Utility plant not depreciated:			
Land and land rights	\$ 560	\$ 560	\$ 560
Construction in progress	<u>16,294</u>	<u>33,011</u>	<u>79,210</u>
Total utility plant not depreciated	<u>16,854</u>	<u>33,571</u>	<u>79,770</u>
Utility plant being depreciated:			
Facilities and structures	2,252,341	2,041,833	1,794,330
Furniture and equipment	<u>32,742</u>	<u>30,709</u>	<u>31,630</u>
Total utility plant being depreciated	<u>2,285,083</u>	<u>2,072,542</u>	<u>1,825,960</u>
Less accumulated depreciation:			
Facilities and structures	(442,064)	(413,425)	(388,554)
Furniture and equipment	<u>(21,545)</u>	<u>(21,349)</u>	<u>(22,494)</u>
Total accumulated depreciation	<u>(463,609)</u>	<u>(434,774)</u>	<u>(411,048)</u>
Utility plant being depreciated — net	<u>1,821,474</u>	<u>1,637,768</u>	<u>1,414,912</u>
Utility plant — net	<u>\$ 1,838,328</u>	<u>\$ 1,671,339</u>	<u>\$ 1,494,682</u>

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

The Sewer Fund's outstanding debt at December 31, 2013, 2012, and 2011, is summarized as follows:

(In thousands)	Long-Term Outstanding Debt at Year-End		
	2013	2012	2011
Revenue bonds	\$ 1,369,459	\$ 1,363,774	\$ 1,112,089
Add interest accretion on Series 1998 capital appreciation bonds	45,272	41,151	37,242
Unamortized net bond discount/premium	<u>34,707</u>	<u>37,701</u>	<u>16,142</u>
Outstanding debt — net	<u>\$ 1,449,438</u>	<u>\$ 1,442,626</u>	<u>\$ 1,165,473</u>

The Sewer Fund's revenue bonds at December 31, 2013, 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	A1	AA-	NR
Second Lien Wastewater Revenue Bonds	A2	A+	AA

In March 2014, Moody's Investors Service downgraded the ratings of the Wastewater senior lien revenue bonds from A1 to A2 and the Wastewater second lien revenue bonds from A2 to A3, each with a negative outlook.

At December 31, 2013, 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 Department of Finance.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATEMENTS OF NET POSITION  
AS OF DECEMBER 31, 2013 AND 2012  
(In thousands)**

	2013	2012		2013	2012
<b>ASSETS AND DEFERRED OUTFLOWS</b>			<b>LIABILITIES</b>		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 2)	\$ 1,558	\$ 17,722	Accounts payable	\$ 4,793	\$ 4,639
Investments (Note 2)	59,476	16,952	Due to other City funds	14,925	12,113
Accounts receivable — net of allowance for doubtful accounts of approximately \$41,013 in 2013 and \$30,662 in 2012	78,735	73,465	Unearned revenue	15,770	19,387
Due from other City funds	26,927	18,840	Unearned swap up-front payment	960	999
Inventories	<u>1,267</u>	<u>1,463</u>	Accrued liabilities	<u>28,004</u>	<u>26,869</u>
			Total current liabilities	<u>64,452</u>	<u>64,007</u>
Total current unrestricted assets	<u>167,963</u>	<u>128,442</u>			
RESTRICTED ASSETS (Notes 2 and 3):			LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	43,148	71,216	Accounts payable	44,344	52,940
Investments (Note 2)	161,623	270,573	Accrued liabilities	18,224	31,281
Interest receivable	<u>353</u>	<u>863</u>	Current portion of revenue bonds payable (Note 4)	37,929	29,690
Total restricted assets	<u>205,124</u>	<u>342,652</u>	Accrued interest payable	<u>27,354</u>	<u>24,121</u>
NONCURRENT ASSETS:			Total liabilities payable from restricted assets	<u>127,851</u>	<u>138,032</u>
Other assets	<u>4,442</u>	<u>4,913</u>	NONCURRENT LIABILITIES:		
Utility plant:			Derivative instrument liability	52,705	89,955
Land and land rights	560	560	Revenue bonds payable (Note 4) — net of premium/discount	<u>1,411,509</u>	<u>1,412,936</u>
Facilities and structures	2,252,341	2,041,833	Total noncurrent liabilities	<u>1,464,214</u>	<u>1,502,891</u>
Furniture and equipment	32,742	30,709	Total liabilities	<u>1,656,517</u>	<u>1,704,930</u>
Construction in progress	<u>16,294</u>	<u>33,011</u>	NET POSITION:		
Total utility plant	2,301,937	2,106,113	Net investment in capital assets	481,946	448,414
Less accumulated depreciation	<u>(463,609)</u>	<u>(434,774)</u>	Restricted for capital projects	73,858	50,014
Utility plant — net	<u>1,838,328</u>	<u>1,671,339</u>	Unrestricted	<u>78,509</u>	<u>60,436</u>
Total noncurrent assets	<u>1,842,770</u>	<u>1,676,252</u>	Total net position	634,313	558,864
Total assets	2,215,857	2,147,346			
DEFERRED OUTFLOWS	<u>74,973</u>	<u>116,448</u>	TOTAL	<u>\$2,290,830</u>	<u>\$2,263,794</u>
TOTAL	<u>\$2,290,830</u>	<u>\$2,263,794</u>			

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(In thousands)**

	<b>2013</b>	<b>2012</b>
OPERATING REVENUES:		
Sewer service	\$ 291,110	\$ 252,943
Other	<u>1,180</u>	<u>969</u>
Total operating revenues	<u>292,290</u>	<u>253,912</u>
OPERATING EXPENSES:		
Repairs	38,910	35,708
General Fund reimbursements	32,144	31,709
Maintenance	23,004	21,819
Engineering	3,267	3,085
Administrative and general	<u>24,469</u>	<u>21,254</u>
Total operating expenses before depreciation and amortization	121,794	113,575
Depreciation and amortization	<u>31,280</u>	<u>27,187</u>
Total operating expenses	<u>153,074</u>	<u>140,762</u>
OPERATING INCOME	<u>139,216</u>	<u>113,150</u>
NONOPERATING REVENUE (EXPENSES):		
Investment (loss) income	(4,965)	1,021
Interest expense	(63,513)	(56,571)
Other	2,173	(192)
Interest rate swap income — net (Note 4)	<u>38</u>	<u>38</u>
Total nonoperating expenses — net	<u>(66,267)</u>	<u>(55,704)</u>
CAPITAL GRANTS	<u>2,500</u>	<u>2,500</u>
CHANGE IN NET POSITION	75,449	59,946
TOTAL NET POSITION — Beginning of year, as restated (Note 10)	<u>558,864</u>	<u>498,918</u>
TOTAL NET POSITION — End of year	<u>\$ 634,313</u>	<u>\$ 558,864</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(In thousands)**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Received from customers	\$ 270,903	\$ 242,313
Transactions with other City funds	(39,208)	(26,720)
Payments to vendors	(32,455)	(28,740)
Payments to employees	<u>(43,249)</u>	<u>(43,280)</u>
Net cash provided by operating activities	<u>155,991</u>	<u>143,573</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(210,747)	(149,441)
Proceeds from issuance of bonds and IEPA loans	35,000	309,487
Interest paid on revenue bonds	(63,627)	(55,427)
Proceeds from tax increment financing	1,535	
Payment of bond issuance and discount costs		(1,973)
Capital grant	2,500	2,500
Principal paid on bonds and notes	(29,690)	(28,429)
Other	<u>676</u>	<u>38</u>
Net cash (used in) provided by capital and related financing activities	<u>(264,353)</u>	<u>76,755</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales and purchases of investments — net	66,427	(162,467)
Investment interest	<u>(2,297)</u>	<u>1,512</u>
Net cash provided by (used in) investing activities	<u>64,130</u>	<u>(160,955)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(44,232)	59,373
CASH AND CASH EQUIVALENTS — Beginning of year	<u>88,938</u>	<u>29,565</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 44,706</u>	<u>\$ 88,938</u>

(Continued)



**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(In thousands)**

	<b>2013</b>	<b>2012</b>
RECONCILIATION TO CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET POSITION:		
Unrestricted	\$ 1,558	\$ 17,722
Restricted	<u>43,148</u>	<u>71,216</u>
<b>TOTAL</b>	<u><u>\$ 44,706</u></u>	<u><u>\$ 88,938</u></u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 139,216	\$ 113,150
Adjustments to reconcile:		
Depreciation and amortization	31,280	27,187
Provision for uncollectible accounts	12,460	8,842
Changes in assets and liabilities:		
(Increase) decrease in due from other City funds	(8,086)	4,305
Increase in accounts receivable	(17,730)	(22,658)
Decrease in inventories	196	859
Increase (decrease) in accrued liabilities	1,135	(991)
Increase in accounts payable and due to other City funds	1,177	1,820
(Decrease) increase in unearned revenue	<u>(3,657)</u>	<u>11,059</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u><u>\$ 155,991</u></u>	<u><u>\$ 143,573</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH  
ITEMS — Property additions in 2013 and 2012 of \$64,452  
and \$63,913 respectively, have outstanding accounts payable  
and accrued liabilities.

See notes to basic financial statements.

(Concluded)

# CITY OF CHICAGO, ILLINOIS SEWER FUND

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

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

**Organization** — The Sewer Fund (the “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 or 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.

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, the 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. The fair value of U.S. agency securities, corporate bonds, and municipal bonds are estimated using recently executed transactions, market price quotations (where observable), or bond spreads.

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 result 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, composed 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.

**Deferred Outflows** — Deferred outflows represent the fair value of derivative instruments that are deemed to be effective hedges and unamortized loss on bond refundings.

**Net Position** — Net position is composed of net earnings from operating and nonoperating revenues, expenses, and capital grants. Net position is displayed in three components: net investment in capital assets; restricted for capital projects; and unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt, net of debt service reserve, and unspent bond proceeds. Restricted for capital projects consists of assets on which constraints are placed by external parties (such as lenders and grantors) and laws, regulations, and enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted consists of the net amount of all other assets, deferred outflows, liabilities, and deferred inflows 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 related to bond insurance 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 hedge interest rates and cash flows 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. Interest expense capitalized for 2013 and 2012 totaled \$6.7 million and \$5.9 million, respectively.

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

**Revenue Recognition** — Sewer service revenue is billed as a percentage of the City's water billings and is recorded as revenue when the water is consumed by the customers. Of the accounts receivable balances, \$26.8 million and \$19.4 million represent revenue recognized on sewer service that had not yet been billed to customers at December 31, 2013 and 2012, respectively. Unearned 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 March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”). The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The financial reporting impact resulting from the implementation of GASB 65 is primarily the change in terminology from long term liabilities to deferred outflows for unamortized loss on refundings. Bond issuance costs (excluding costs related to bond insurance) have been written off as of January 1, 2012. GASB 65 is effective for the Sewer Fund’s financial statements for the fiscal year ended December 31, 2013, resulting in a restatement of net position as of January 1, 2012, see Note 10.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections -2012- an amendment of GASB Statements No. 10 and No. 62* (“GASB 66”). The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no impact on the Sewer Fund’s financial statements as a result of the implementation of GASB 66.

**Upcoming Accounting Standards** — Other accounting standards that the Sewer Fund is currently reviewing for applicability and potential impact on the financial statements include:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”), establishes new financial reporting requirements for most governments that provide their employees with pension benefits through these types of plans. GASB 68 will be effective for the Sewer Fund beginning with its year ending December 31, 2015. GASB 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”), establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 will be effective for the Sewer Fund beginning with its year ending December 31, 2014. GASB 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”), establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 will be effective for the Sewer Fund beginning with its year ending December 31, 2014. GASB 70 requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize

revenue as a result of being relieved of the obligation. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. Requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68* (“GASB 71”), relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. GASB 71 will be effective for the Sewer Fund beginning with its year ending December 31, 2015. This statement amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and requires that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

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

**Cash Equivalents and Investments** — As of December 31, 2013, the Sewer Fund had the following cash equivalents and investments (in thousands):

	<b>Investment Maturities (in Years)</b>				<b>Fair Value</b>
	<b>Less than 1</b>	<b>1–5</b>	<b>6–10</b>	<b>More than 10</b>	
U.S. agencies	\$ 7,500	\$ 69,017	\$ 67,847	\$ -	\$ 144,364
Certificates of deposits and other short-term	73,305				73,305
Corporate bonds	3,990	11,436			15,426
Municipal bonds		4,985			4,985
Subtotal	<u>\$ 84,795</u>	<u>\$ 85,438</u>	<u>\$ 67,847</u>	<u>\$ -</u>	238,080
Share of City’s pooled funds					<u>30,376</u>
Total					<u>\$ 268,456</u>

As of December 31, 2012, the Sewer Fund had the following cash equivalents and investments (in thousands):

	<b>Investment Maturities (in Years)</b>				<b>Fair Value</b>
	<b>Less than 1</b>	<b>1–5</b>	<b>6–10</b>	<b>More than 10</b>	
U.S. agencies	\$ 15,909	\$ 112,952	\$ 121,258	\$ -	\$ 250,119
Certificates of deposits and other short-term	71,339				71,339
Commercial paper		2,984			2,984
Corporate bonds		11,603			11,603
Municipal bonds	<u>100</u>	<u>7,980</u>	<u>995</u>	<u>—</u>	<u>9,075</u>
Subtotal	<u>\$ 87,348</u>	<u>\$ 135,519</u>	<u>\$ 122,253</u>	<u>\$ -</u>	345,120
Share of City's pooled funds					<u>18,796</u>
Total					<u>\$ 363,916</u>

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

**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 102% 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, 2013 and 2012, is as follows (in thousands):

<b>Quality Rating</b>	<b>2013</b>	<b>2012</b>
Aaa/AAA	\$ 1,476	\$ 8,508
Aa/AA	154,504	258,168
A/A	7,000	7,106
Not rated	<u>75,100</u>	<u>71,338</u>
Total	<u>\$ 238,080</u>	<u>\$ 345,120</u>

The Sewer Fund participates in the City's pooled cash and investments account, which includes amounts from other City funds and is maintained by the City Treasurer. Individual cash or investments are not specifically identifiable to any participant in the pool. The Treasurer's pooled fund is included in the City's 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 102% 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 \$490.6 million as of December 31, 2013. Of the bank balance, 99.2% was either insured or collateralized with securities held by City agents in the City’s name. \$4.0 million was uncollateralized at December 31, 2013, and thus was subject to custodial credit risk.

A schedule summarizing the investments reported in the basic financial statements as of December 31, 2013 and 2012, is as follows (in thousands):

	<b>2013</b>	<b>2012</b>
Per Note 2:		
Investments — Sewer Fund	\$ 238,080	\$ 345,120
Investments — City Treasurer pooled fund	<u>30,376</u>	<u>18,796</u>
	<u>\$ 268,456</u>	<u>\$ 363,916</u>
Per financial statements:		
Restricted investments	\$ 161,623	\$ 270,573
Unrestricted investments	59,476	16,952
Investments included as cash and cash equivalents on the statements of net position	<u>47,357</u>	<u>76,391</u>
	<u>\$ 268,456</u>	<u>\$ 363,916</u>

### 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 to be credited, are as follows:

Wastewater Revenue Bonds, Refunding Bonds Series 1993 (the “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.

*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 2012, 2010, 2008, 2004, 2001, 1998 B (the “Second Lien Bond”), Refunding Series 2004, and Refunding Series 2006 (the “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.

*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, 2013 and 2012, are as follows (in thousands):

	<b>2013</b>	<b>2012</b>
Construction	\$ 106,859	\$ 258,349
Bond principal and interest	65,283	53,811
Sewer rate stabilization	<u>32,629</u>	<u>29,629</u>
Total	<u>\$ 204,771</u>	<u>\$ 341,789</u>

At December 31, 2013 and 2012, management was not aware of any instances of noncompliance with the above terms of the ordinances.

#### 4. LONG-TERM DEBT

As of December 31, 2013 and 2012, long-term debt consisted of the following (in thousands):

	2013	2012
\$232,880 Series 1993 Wastewater Transmission Revenue Bonds Refunding issued March 1, 1993, due through 2013; interest at 5.125% to 6.5%	\$ -	\$ 8,760
\$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
\$73,100 Series 2001 Wastewater Transmission Revenue Bonds issued December 6, 2001, due through 2031; interest at 4.0% to 5.5%	65,420	68,570
\$61,925 Series 2004B Wastewater Transmission Revenue Bonds issued July 29, 2004, due through 2016; interest at 3.0% to 5.25%	41,940	45,125
\$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%	139,240	147,135
\$167,635 Series 2008A Wastewater Transmission Revenue Bonds issued November 5, 2008, due through 2038; interest at 3.5% to 5.5%	157,025	160,110
\$332,230 Series 2008C Wastewater Transmission Revenue Bonds (2004A Refunded) issued October 16, 2008, due through 2039; variable floating interest rate	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%	272,030	274,810
\$1,546 Illinois Environmental Protection Agency Loan Agreement signed May 28, 2008, due through 2027; interest at 2.50%	1,172	1,242
\$276,470 Series 2012 Wastewater Transmission Revenue Bonds issued September 13, 2012, due through 2042; interest at 3.0% to 5.0%	276,470	276,470
\$15,000 Illinois Environmental Protection Agency Loan Agreement signed January 20, 2010, due through 2031; interest at 0%	13,388	14,154
\$17,812 Illinois Environmental Protection Agency Loan Agreement signed October 8, 2010, due through 2032; interest at 1.25%	17,812	
\$17,564 Illinois Environmental Protection Agency Loan Agreement signed September 22, 2011, due through 2033; interest at 1.25%	<u>17,564</u>	<u>14,154</u>
Total revenue bonds	1,369,459	1,363,774
Add accretion of Series 1998 Capital Appreciation Bonds	45,272	41,151
Add unamortized net bond (discount)/premium	34,707	37,701
Less current portion (payable from restricted assets)	<u>(37,929)</u>	<u>(29,690)</u>
Long-term portion — net	<u>\$ 1,411,509</u>	<u>\$ 1,412,936</u>

During the years ended December 31, 2013 and 2012, long-term debt changed as follows (in thousands):

	<b>Balance January 1, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2013</b>	<b>Due within One Year</b>
Revenue bonds	\$ 1,363,774	\$ 35,375	\$(29,690)	\$ 1,369,459	\$ 37,929
Accretion of series 1998 capital appreciation bonds	41,151	4,121		45,272	
Unamortized net discount/premium	<u>37,701</u>	<u>          </u>	<u>(2,994)</u>	<u>34,707</u>	<u>          </u>
Total revenue bonds	<u>\$ 1,442,626</u>	<u>\$ 39,496</u>	<u>\$(32,684)</u>	<u>\$ 1,449,438</u>	<u>\$ -</u>

	<b>Balance January 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2012</b>	<b>Due within One Year</b>
Revenue bonds	\$ 1,112,089	\$ 280,182	\$(28,497)	\$ 1,363,774	\$ 29,690
Accretion of series 1998 capital appreciation bonds	37,242	3,909		41,151	
Unamortized net discount/premium	<u>16,142</u>	<u>29,305</u>	<u>(7,746)</u>	<u>37,701</u>	<u>          </u>
Total revenue bonds	<u>\$ 1,165,473</u>	<u>\$ 313,396</u>	<u>\$(36,243)</u>	<u>\$ 1,442,626</u>	<u>\$ 29,690</u>

Interest expense includes amortization of the loss on bond refunding for 2013 of \$4.2 million and 2012 of \$5.8 million; amortization of net bond discount/premium of \$3.0 million and \$7.7 million, respectively; and accretion of Series 1998 capital appreciation bonds of \$4.1 million and \$3.9 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 2013 and 2012.

**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 2013 and 2012, the charge for sewer service was increased and was an amount equal to 92% of the gross amount charged for water service, whether such water service is metered or nonmetered. The rate charged for water was increased and was \$21.56 per 1,000 cubic feet and \$18.75 per 1,000 cubic feet during 2013 and 2012, respectively.

**Issuance of Debt** — On September 22, 2011, a loan agreement was signed with the Illinois Environment Protection Agency to line existing sewer pipes throughout the city. In 2013, the Sewer Fund drew \$17.6 million from this loan agreement. The loan has an interest rate of 1.25% with maturity dates from March 20, 2014 to March 20, 2033.

On October 8, 2010, a loan agreement was signed with the Illinois Environment Protection Agency to line existing sewer pipes throughout the city. In 2013, the Sewer Fund drew \$17.8 million from this loan agreement. The loan has an interest rate of 1.25% with maturity dates from December 30, 2013 to December 30, 2032.

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

Years Ending December 31	Principal	Interest	Total Debt Service
2014	\$ 37,929	\$ 65,229	\$ 103,158
2015	39,237	63,571	102,808
2016	41,094	61,714	102,808
2017	42,977	59,808	102,785
2018	44,860	58,008	102,868
2019–2023	216,964	299,129	516,093
2024–2028	230,716	286,872	517,588
2029–2033	272,987	164,974	437,961
2034–2038	312,060	88,333	400,393
2039–2043	<u>130,635</u>	<u>13,815</u>	<u>144,450</u>
Total	<u>\$ 1,369,459</u>	<u>\$ 1,161,453</u>	<u>\$ 2,530,912</u>

The Sewer 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, a fixed rate or an index rate as determined from time to time by the City in consultation with the remarketing agent, as applicable. At December 31, 2013, the variable-rate bonds were in the index rate interest mode. For the requirements calculated above, interest on variable-rate debt was calculated at the swap rate in effect at December 31, 2013. The City has entered into continuing covenant agreements with the direct purchase providers, which expire December 1, 2014. In the event the bonds are not successfully remarketed upon expiration, the bonds will convert to a term loan. There is no principal due on potential term loans within the next fiscal year.

### Derivatives

#### *Pay-Fixed, Receive-Variable Interest Rate Swaps:*

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

Governmental Activities	Changes in Fair Value		December 31, 2013		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges — pay-fixed interest rate swaps	Deferred outflow of resources	<u>\$(37,250)</u>	Deferred outflow of resources	<u>\$52,705</u>	<u>\$332,230</u>

**Terms, Fair Values, and Credit Risk** — 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 Securities Industry and Financial Markets Association (SIFMA). The terms, including the fair value and credit ratings of the outstanding swaps, as of December 31, 2013, are as follows (in thousands):

Associated Bond Issue	Notional Amount	Effective Date	Terms	Fair Values	Maturity Date	Counter-Party Credit Rating
Hedging instruments:						
Wastewater transmission variable revenue						
Series 2008C:	\$232,560	1/3/2011	Pay 3.886%; receive 95% LIBOR	\$(36,187)	1/1/2039	A2/A
	49,835	7/29/2004	Pay 3.886%; receive SIFMA	(8,368)	1/1/2039	A2/A
	<u>49,835</u>	7/29/2004	Pay 3.886%; receive SIFMA	<u>(8,150)</u>	1/1/2039	Aa3/A+
Total	<u>\$332,230</u>			<u>\$(52,705)</u>		

**Fair Value** — As of December 31, 2013 and 2012, the swaps had a negative fair value of \$52.7 million and \$89.9 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 Securities Industry and Financial Markets Association (SIFMA) 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. SIFMA ratios (or spreads) may create basis risk if SIFMA swaps of the Sewer Fund’s bonds trade higher than the SIFMA 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, 2013, 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):

<b>Years Ending December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Swaps — Net</b>	<b>Total</b>
2014	\$ -	\$ 3,009	\$ 9,902	\$ 12,911
2015		3,009	9,902	12,911
2016		3,009	9,902	12,911
2017	16,980	2,855	9,395	29,230
2018	17,695	2,695	8,868	29,258
2019–2023	85,205	11,237	36,977	133,419
2024–2028	77,240	7,088	23,324	107,652
2029–2033	56,025	4,743	15,606	76,374
2034–2038	67,170	1,670	5,492	74,332
2039–2042	<u>11,915</u>	<u>          </u>	<u>          </u>	<u>11,915</u>
<b>Total</b>	<b><u>\$ 332,230</u></b>	<b><u>\$ 39,315</u></b>	<b><u>\$ 129,368</u></b>	<b><u>\$ 500,913</u></b>

## 5. UTILITY PLANT

During the years ended December 31, 2013 and 2012, utility plant changed as follows (in thousands):

	Balance January 1, 2013	Additions	Disposals and Transfers	Balance December 31, 2013
Utility plant not depreciated:				
Land and land rights	\$ 560	\$ -	\$ -	\$ 560
Construction in progress	<u>33,011</u>	<u>16,294</u>	<u>(33,011)</u>	<u>16,294</u>
Total utility plant not depreciated	<u>33,571</u>	<u>16,294</u>	<u>(33,011)</u>	<u>16,854</u>
Utility plant being depreciated:				
Facilities and structures	2,041,833	221,941	(11,433)	2,252,341
Furniture and equipment	<u>30,709</u>	<u>3,757</u>	<u>(1,724)</u>	<u>32,742</u>
Total utility plant being depreciated	<u>2,072,542</u>	<u>225,698</u>	<u>(13,157)</u>	<u>2,285,083</u>
Less accumulated depreciation:				
Facilities and structures	(413,425)	(28,639)		(442,064)
Furniture and equipment	<u>(21,349)</u>	<u>(1,794)</u>	1,598	<u>(21,545)</u>
Total accumulated depreciation	<u>(434,774)</u>	<u>(30,433)</u>	1,598	<u>(463,609)</u>
Utility plant being depreciated — net	<u>1,637,768</u>	<u>195,265</u>	<u>(11,559)</u>	<u>1,821,474</u>
Utility plant — net	<u>\$1,671,339</u>	<u>\$211,559</u>	<u>\$ (44,570)</u>	<u>\$1,838,328</u>
	Balance January 1, 2012	Additions	Disposals and Transfers	Balance December 31, 2012
Utility plant not depreciated:				
Land and land rights	\$ 560	\$ -	\$ -	\$ 560
Construction in progress	<u>79,210</u>	<u>33,011</u>	<u>(79,210)</u>	<u>33,011</u>
Total utility plant not depreciated	<u>79,770</u>	<u>33,011</u>	<u>(79,210)</u>	<u>33,571</u>
Utility plant being depreciated:				
Facilities and structures	1,794,330	257,349	(9,846)	2,041,833
Furniture and equipment	<u>31,630</u>	<u>2,895</u>	<u>(3,816)</u>	<u>30,709</u>
Total utility plant being depreciated	<u>1,825,960</u>	<u>260,244</u>	<u>(13,662)</u>	<u>2,072,542</u>
Less accumulated depreciation:				
Facilities and structures	(388,554)	(24,871)		(413,425)
Furniture and equipment	<u>(22,494)</u>	<u>(1,729)</u>	2,874	<u>(21,349)</u>
Total accumulated depreciation	<u>(411,048)</u>	<u>(26,600)</u>	2,874	<u>(434,774)</u>
Utility plant being depreciated — net	<u>1,414,912</u>	<u>233,644</u>	<u>(10,788)</u>	<u>1,637,768</u>
Utility plant — net	<u>\$1,494,682</u>	<u>\$266,655</u>	<u>\$ (89,998)</u>	<u>\$1,671,339</u>

## 6. PENSION PLANS

Eligible Sewer Fund employees participate in one of two of the City's single-employer defined benefit pension plans, which are separate units of government established under State law. These plans are the Municipal Employees' and the Laborers' and Retirement Board Employees' Annuity and Benefit Funds

(Plans). 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. However, the State passed legislation in 2010 providing less generous benefits for employees who join one of the Plans after January 1, 2011.

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 \$4.9 million and \$4.7 million in 2013 and 2012, respectively. The annual pension costs are determined using the entry-age normal actuarial cost method and the level-dollar amortization method.

Historically, State law required 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, 2013 and 2012, 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.

Beginning in 2016, State law requires significantly increased contributions by the City to the Municipal Employees' Annuity and Benefit Fund and the Laborers' and Retirement Board Employees' Annuity and Benefit Fund.

The following table as of December 31, 2013, 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, which includes all City employees within each respective annuity and benefit fund, is as follows (dollars in thousands):

	<b>Annual Pension Cost</b>	<b>Percent of Pension Cost Contributed</b>	<b>Annual Required Contribution</b>	<b>Required Actual Contribution</b>	<b>Net Pension Obligation (Asset)</b>
<b>Municipal employees:</b>					
2011	\$ 609,491	24.1 %	\$ 462,482	24.0 %	\$ 1,469,886
2012	687,519	21.7	690,823	21.5	2,008,546
2013	812,463	18.2	820,023	18.1	2,672,812
<b>Laborers:</b>					
2011	\$ 57,651	22.2 %	\$ 57,259	22.3 %	\$ (129,712)
2012	77,858	15.2	77,566	15.3	(63,707)
2013	106,439	10.9	106,199	10.9	31,148



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 24,408 annuitants and their dependents was approximately \$97.5 million and \$97.5 million in 2013 and 2012, 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 2013 and 2012, 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 \$66.6 million and \$67.8 million in 2013 and 2012, respectively, to the gross cost of their retiree health care pursuant to premium amounts set forth in the Settlement Agreement discussed below.

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 of Chicago was 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. Although the agreement did not extend continuation of the Plans after June 30, 2013, a phase out of three years to end the program was announced in 2013, with annual subsidy modifications and a final sunset of subsidies at December 31, 2016, for all but the Korshak class of members. As a result of the extension, the post settlement plan subsidized retiree medical benefits will cease for members as of December 31, 2016, except for the Korshak class who shall have lifetime benefits. Duty disabled retirees who have statutory pre-63/65 coverage will continue to have fully subsidized coverage under the active health plan.

The City administers a single employer, self-funded defined benefit healthcare plan (the Health Plan), for which the City pays a portion of the costs on a pay as you go method. The City sponsors health benefit plans for employees, former employees and retired former employees. The provisions of the post settlement benefit 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, recently revised to end December 31, 2016. The percentage subsidies were revised to reduce by approximately 25% in 2014. Additional step downs in subsidy levels for 2015 and 2016 have not yet been decided.

In addition, State Law authorizes the four respective Pension Funds (Police, Fire, Municipal, and Laborers) to provide a fixed monthly dollar subsidy to each annuitant who has elected coverage under the Health Plan through December 31, 2016. 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 actuarial valuation reports of the respective four Pension Funds.

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

**Annual OPEB Cost and Net OPEB Obligation** — The City’s annual other 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 one year (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 position 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 position in the City CAFR is the annual OPEB cost (expense) (in thousands).

	<b>Annual OPEB Cost and Contributions Made (In thousands)</b>	
	<b>2013 Health Plan</b>	<b>2012 Health Plan</b>
Contribution rates:		
City	Pay as you go	Pay as you go
Plan members	N/A	N/A
Annual required contribution	\$ 134,083	\$ 252,747
Interest on net OPEB obligation	8,614	3,816
Adjustment to annual required contribution	<u>(25,531)</u>	<u>(179,586)</u>
Annual OPEB cost	117,166	76,977
Contributions made	<u>139,336</u>	<u>115,961</u>
Decrease in net OPEB obligation	(22,170)	(38,984)
Net OPEB obligation — beginning of year	<u>215,361</u>	<u>254,345</u>
Net OPEB obligation — end of year	<u>\$ 193,191</u>	<u>\$ 215,361</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for fiscal years 2013, 2012, and 2011 are as follows (in thousands):

Fiscal Years Ended	Schedule of Contributions, OPEB Costs, and Net Obligations		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 117,166	118.9 %	\$ 193,191
December 31, 2012	76,977	150.6	215,361
December 31, 2011	48,954	202.4	254,345

**Funded Status and Funding Progress** — As of December 31, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$997.3 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plans) was approximately \$2,385.2 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 41.8%.

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 Plans and the annual required contributions of the employer are subject to continual revisions as the results are compared with past expectations and new estimates are made about the future.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2012	\$ -	\$ 997,281	\$ 997,281	- %	\$ 2,385,198
December 31, 2011		470,952	470,952		2,518,735

**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 AALs and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the Settlement Agreement benefits (not provided by the Pension Funds) in the actuarial valuation for the fiscal year ended December 31, 2013, the Entry Age Normal actuarial cost method was used. The actuarial method was changed in 2013 from Projected Unit Credit due to the phase out of the Settlement Agreement. The actuarial assumptions included an annual healthcare cost trend rate of 9.5% initially, reduced by decrements to an ultimate rate of 5.0% in 2031. The range of rates included a 3% inflation assumption. The plan has not accumulated assets and does not hold assets in a segregated trust. However, the funds expected to be used to pay benefits are assumed to be invested for durations which will yield an annual return rate of 3.0%. The UAAL is amortized as a level dollar amount over ten years. The benefits include an extension of the Settlement Agreement sunset so as to completely phase out in December 2016. The Korshak category is entitled to lifetime benefits.

<b>Summary of Assumptions and Methods</b>		
<b>Item</b>	<b>Health Plan</b>	
	<b>2013</b>	<b>2012</b>
Actuarial valuation date	December 31, 2012	December 31, 2011
Actuarial cost method	Entry Age Normal	Projected unit credit
Amortization method	Level dollar, open	Level dollar, closed
Remaining amortization period	10 years	1 to 5 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	3.00%	1.50%
Projected salary increases	3.00%	3.00%
Healthcare inflation rate	9.5% initial to 5.0% ultimate	10.5% initial to 5% ultimate

The OPEB 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 \$32.1 million and \$31.7 million in 2013 and 2012, 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, 2013 and 2012, are as follows (in thousands):

	<b>2013</b>	<b>2012</b>
Balance — January 1	\$ 15,943	\$ 16,794
Claims incurred on current and prior-year events	13,108	11,919
Claims paid on current and prior-year events	<u>(12,267)</u>	<u>(12,770)</u>
Balance — December 31	<u>\$ 16,784</u>	<u>\$ 15,943</u>

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

At December 31, 2013 and 2012, the Sewer Fund entered into contracts with outstanding commitments of approximately \$64.5 million and \$63.9 million, respectively, for construction projects.

#### **10. RESTATEMENT DUE TO IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

As a result of implementing GASB 65, net position was restated at January 1, 2012. With the adoption of GASB 65, the Sewer Fund is reporting deferred loss on debt refunding as deferred outflows and bond issuance costs (excluding the portion related to bond insurance) are expensed and no longer amortized annually. The following is a reconciliation of the 2012 amounts that have been restated as a result of the implementation of GASB 65 (dollars in thousands):

	<b>As Originally Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
Statement of financial position:			
Other assets	\$ 11,694	\$ (6,781)	\$ 4,913
Deferred outflows	89,955	26,493	116,448
Revenue bonds payable — net of discount	1,386,443	26,493	1,412,936
Net investment in capital assets	455,195	(6,781)	448,414
Statement of revenues, expenses, and changes in net position:			
Depreciation and amortization	\$ 27,735	\$ (548)	\$ 27,187
Interest expense	54,601	1,970	56,571
Total net position — beginning of year	504,277	(5,359)	498,918
Statement of cash flows:			
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 112,602	\$ 548	\$ 113,150
Depreciation and amortization	27,735	(548)	27,187

## 11. SUBSEQUENT EVENT

In March 2014, Moody's Investors Service downgraded the ratings of the Wastewater senior lien revenue bonds from A1 to A2 and the Wastewater second lien revenue bonds from A2 to A3, each with a negative outlook.

\* \* \* \* \*

## **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 POSITION BY COMPONENT  
FIVE YEARS ENDED DECEMBER 31, 2008–2013  
(In thousands)  
(Unaudited)**

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	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
NET POSITION:						
Net investment in capital assets	\$ 413,481	\$ 391,248	\$ 408,564	\$ 448,720	\$ 448,414	\$ 481,946
Restricted for capital projects		9,533	11,110	24,610	50,014	73,858
Unrestricted	<u>54,333</u>	<u>52,920</u>	<u>64,828</u>	<u>25,588</u>	<u>60,436</u>	<u>78,509</u>
<b>TOTAL</b>	<u>\$ 467,814</u>	<u>\$ 453,701</u>	<u>\$ 484,502</u>	<u>\$ 498,918</u>	<u>\$ 558,864</u>	<u>\$ 634,313</u>

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



**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**CHANGES IN NET POSITION  
FIVE YEARS ENDED DECEMBER 31, 2008–2013  
(In thousands)  
(Unaudited)**

	2008	2009	2010	2011	2012	2013
OPERATING INCOME:						
Operating revenues	\$160,005	\$175,163	\$198,229	\$203,349	\$253,912	\$292,290
Operating expenses	98,487	109,643	113,881	113,930	113,575	121,794
Depreciation and amortization	<u>20,982</u>	<u>21,878</u>	<u>23,775</u>	<u>25,074</u>	<u>27,187</u>	<u>31,280</u>
Total operating income	40,536	43,642	60,573	64,345	113,150	139,216
NONOPERATING EXPENSES	<u>(37,849)</u>	<u>(57,755)</u>	<u>(26,706)</u>	<u>(51,793)</u>	<u>(55,704)</u>	<u>(66,267)</u>
INCOME BEFORE CAPITAL GRANTS	2,687	(14,113)	33,867	12,552	57,446	72,949
CAPITAL GRANTS	<u>          </u>	<u>          </u>	<u>3,136</u>	<u>1,864</u>	<u>2,500</u>	<u>2,500</u>
CHANGE IN NET POSITION	<u>\$ 2,687</u>	<u>\$ (14,113)</u>	<u>\$ 37,003</u>	<u>\$ 14,416</u>	<u>\$ 59,946</u>	<u>\$ 75,449</u>

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, 2004–2013  
(In thousands) (Unaudited)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
OPERATING REVENUES:										
Sewer sales	\$142,680	\$141,314	\$134,323	\$137,021	\$158,698	\$173,906	\$197,455	\$202,323	\$252,943	\$291,110
Other operating revenue	<u>2,308</u>	<u>2,208</u>	<u>2,114</u>	<u>1,660</u>	<u>1,307</u>	<u>1,257</u>	<u>774</u>	<u>1,026</u>	<u>969</u>	<u>1,180</u>
Total operating revenues	<u>144,988</u>	<u>143,522</u>	<u>136,437</u>	<u>138,681</u>	<u>160,005</u>	<u>175,163</u>	<u>198,229</u>	<u>203,349</u>	<u>253,912</u>	<u>292,290</u>
OPERATING EXPENSES:										
Repairs	31,023	33,981	34,770	35,759	37,786	42,110	42,509	38,805	35,708	38,910
Maintenance	19,315	18,966	18,964	19,034	18,626	24,380	24,075	23,655	21,819	23,004
Administrative and general	5,605	5,454	6,499	7,796	15,746	14,403	17,179	18,802	21,254	24,469
General Fund reimbursements	25,272	26,823	22,569	22,973	23,287	25,431	27,065	29,124	31,709	32,144
Engineering	<u>4,505</u>	<u>3,587</u>	<u>1,213</u>	<u>732</u>	<u>3,042</u>	<u>3,319</u>	<u>3,053</u>	<u>3,544</u>	<u>3,085</u>	<u>3,267</u>
Total operating expenses	<u>85,720</u>	<u>88,811</u>	<u>84,015</u>	<u>86,294</u>	<u>98,487</u>	<u>109,643</u>	<u>113,881</u>	<u>113,930</u>	<u>113,575</u>	<u>121,794</u>
NONOPERATING REVENUES	<u>140</u>	<u>802</u>	<u>1,063</u>	<u>939</u>	<u>817</u>	<u>234</u>	<u>643</u>	<u>2,870</u>	<u>867</u>	<u>(2,754)</u>
NET REVENUES — As defined	<u>\$ 59,408</u>	<u>\$ 55,513</u>	<u>\$ 53,485</u>	<u>\$ 53,326</u>	<u>\$ 62,335</u>	<u>\$ 65,754</u>	<u>\$ 84,991</u>	<u>\$ 92,289</u>	<u>\$141,204</u>	<u>\$167,742</u>

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

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	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Amount of</b>	<b>Amount of</b>	<b>Amount of</b>	<b>Amount of</b>	<b>Amount of</b>	<b>Amount of</b>
	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>
Department of Aviation	\$ 1,230	\$ 1,331	\$ 1,744	\$ 1,593	\$ 1,927	\$ 2,165
Humboldt Park	494	754	435	1,842	1,179	1,393
WR Grace and Company	285	347				
Calumet Park		270	315	316		635
Pepsi Cola General Bottlers		237				
Lincoln Park	692			310	745	1,418
Northwestern University	541					
Columbus Park			258			
Cook County Sheriff						1,141
University of Chicago — HCC				339	1,428	
University of Illinois at Chicago					1,647	
Hometown			546			
	<u>\$ 3,242</u>	<u>\$ 2,939</u>	<u>\$ 3,298</u>	<u>\$ 4,400</u>	<u>\$ 6,926</u>	<u>\$ 6,752</u>

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

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

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	<b>2008 Amount of Sales</b>	<b>2009 Amount of Sales</b>	<b>2010 Amount of Sales</b>	<b>2011 Amount of Sales</b>	<b>2012 Amount of Sales</b>	<b>2013 Amount of Sales</b>
Residential	\$ 105,072	\$ 124,600	\$ 144,145	\$ 139,598	\$ 178,399	\$ 195,542
Industrial/ commercial	34,363	38,376	44,540	50,915	57,598	74,696
Governmental	<u>8,931</u>	<u>10,930</u>	<u>9,544</u>	<u>12,836</u>	<u>17,915</u>	<u>22,052</u>
	<u>\$ 148,366</u>	<u>\$ 173,906</u>	<u>\$ 198,229</u>	<u>\$ 203,349</u>	<u>\$ 253,912</u>	<u>\$ 292,290</u>

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

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

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<b>Effective Date</b>	<b>Gross Water Rate Per 1,000 Cubic Feet</b>	<b>Sewer Rate</b>	
		<b>Percent of Water Bill</b>	<b>Per 1000 Cubic Feet</b>
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
January 1, 2012	18.75	89	16.69
January 1, 2013	21.56	92	19.84

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATISTICAL DATA  
SEWER SYSTEM ACCOUNTS  
TEN YEARS ENDED DECEMBER 31, 2004–2013  
(Unaudited)**

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<b>Years Ended December 31</b>	<b>Water Accounts</b>			<b>Exempt</b>	<b>Sewer Accounts</b>
	<b>Non- Metered</b>	<b>Metered</b>	<b>Total</b>		
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
2012	290,863	205,097	495,960	61,502	434,458
2013	273,426	220,759	494,185	62,393	431,792

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATISTICAL DATA  
REVENUE BOND COVERAGE  
TEN YEARS ENDED DECEMBER 31, 2004–2013  
(In thousands) (Unaudited)**

<b>Combined Senior Lien and Second Lien Debt Service Calculation</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined	\$59,408	\$55,513	\$53,485	\$53,326	\$62,335	\$65,754	\$84,991	\$92,289	\$141,204	\$167,742
Deposits to prior lien accounts										
Transfer (from) to sewer rate stabilization account	<u>2,500</u>		<u>4,000</u>				<u>10,000</u>		<u>5,000</u>	<u>3,000</u>
Net revenues available for bonds	56,908	55,513	49,485	53,326	62,335	65,754	74,991	92,289	136,204	164,742
PRIOR LIEN DEBT SERVICE REQUIREMENT										
NET REVENUES AVAILABLE FOR BONDS	<u>\$56,908</u>	<u>\$55,513</u>	<u>\$49,485</u>	<u>\$53,326</u>	<u>\$62,335</u>	<u>\$65,754</u>	<u>\$74,991</u>	<u>\$92,289</u>	<u>\$136,204</u>	<u>\$164,742</u>
DEBT SERVICE REQUIREMENTS:										
Senior lien debt service requirement	<u>\$25,576</u>	<u>\$18,523</u>	<u>\$19,010</u>	<u>\$16,784</u>	<u>\$16,753</u>	<u>\$16,777</u>	<u>\$15,970</u>	<u>\$15,287</u>	<u>\$ 9,231</u>	<u>\$ -</u>
Senior lien debt service coverage (1.15 required)	<u>2.23</u>	<u>3.00</u>	<u>2.60</u>	<u>3.18</u>	<u>3.72</u>	<u>3.92</u>	<u>4.70</u>	<u>6.04</u>	<u>11.43</u>	
DEBT SERVICE REQUIREMENTS:										
1997 second lien bonds	4,193									
1998 second lien bonds	2,863	2,879	2,861	173	999	1,000	47			
2000 second lien bonds	4,155	743	2,643	748	2,707	2,710	2,711			
2001 second lien bonds	4,045	4,079	4,190	4,195	4,193	4,200	4,196	6,920	5,036	6,923
2001A second lien bonds	7,107	1,792	3,244	352	2,043	2,050	2,047	2,055	1,886	
2004A and B second lien bonds	4,393	6,698	16,048	18,947	20,387	5,505	17,558	17,448	17,301	26,910
2006A and B second lien bonds				8,570	8,759	8,768	8,770	8,765	15,184	15,201
2008A second lien bonds						11,539	11,528	11,537	11,537	8,650
2008C second lien bonds					2,291	11,792	542	485	2,732	2,786
IEPA Loans							101	383	665	866
2010A & B second lien bonds							2,284	19,332	21,036	21,039
2012A & B second lien bonds										17,485
Second lien debt service requirement	<u>26,756</u>	<u>16,191</u>	<u>28,986</u>	<u>32,985</u>	<u>41,379</u>	<u>47,564</u>	<u>49,784</u>	<u>66,925</u>	<u>75,377</u>	<u>99,860</u>
COMBINED SENIOR AND SECOND LIEN DEBT SERVICE REQUIREMENTS	<u>\$52,332</u>	<u>\$34,714</u>	<u>\$47,996</u>	<u>\$49,769</u>	<u>\$58,132</u>	<u>\$64,341</u>	<u>\$65,754</u>	<u>\$82,212</u>	<u>\$ 84,608</u>	<u>\$ 99,860</u>
COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE (1.0 REQUIRED)	<u>1.09</u>	<u>1.60</u>	<u>1.03</u>	<u>1.07</u>	<u>1.07</u>	<u>1.02</u>	<u>1.14</u>	<u>1.12</u>	<u>1.61</u>	<u>1.65</u>
SEWER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	<u>\$10,629</u>	<u>\$10,629</u>	<u>\$14,629</u>	<u>\$14,629</u>	<u>\$14,629</u>	<u>\$14,629</u>	<u>\$25,629</u>	<u>\$25,703</u>	<u>\$ 29,629</u>	<u>\$ 32,629</u>

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATISTICAL DATA  
LONG-TERM DEBT  
FIVE YEARS ENDED DECEMBER 31, 2008–2013  
(In thousands) (Unaudited)**

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	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
First Lien	\$ 60,815	\$ 48,825	\$ 36,175	\$ 22,820	\$ 8,760	\$ -
Second Lien	863,234	854,015	1,089,817	1,077,981	1,340,860	1,320,695
Subordinate lien — IEPA loan	<u>          </u>	<u>          </u>	<u>          </u>	<u>11,288</u>	<u>28,308</u>	<u>48,764</u>
Total	<u>\$924,049</u>	<u>\$902,840</u>	<u>\$1,125,992</u>	<u>\$1,112,089</u>	<u>\$1,377,928</u>	<u>\$1,369,459</u>

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



**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATISTICAL DATA  
CAPITAL IMPROVEMENT PROGRAM  
2014–2018  
(In thousands) (Unaudited)**

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<b>Years</b>	<b>Amount</b>
2014	\$ 291,900
2015	276,500
2016	288,600
2017	358,600
2018	<u>354,400</u>
Total	<u>\$1,570,000</u>

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

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

**STATISTICAL DATA  
FULL-TIME EQUIVALENT SEWER FUND EMPLOYEES BY FUNCTION  
FIVE YEARS ENDED DECEMBER 31, 2008–2013  
(Unaudited)**

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<b>Function</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Agency management	5	5	5	5	4	4
Capital design and construction services	21	21	21	23	23	24
Engineering services						
Inspection services	18	18	18	18	18	18
System installation	10	10	9	8	8	8
System maintenance and evaluations	517	521	521	521	523	523
Communications and coordination	<u>29</u>	<u>31</u>	<u>27</u>	<u>26</u>	<u>17</u>	<u>16</u>
	<u>600</u>	<u>606</u>	<u>601</u>	<u>601</u>	<u>593</u>	<u>593</u>

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

Source: City of Chicago’s 2013, 2012, 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)**

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	<b>2012</b>	<b>2013</b>
Catch basins repaired	3,685	3,073

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

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	<b>2012</b>	<b>2013</b>
Sewers lined	51.4	45.6
New construction	17.4	19.0

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

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

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

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

Employer	2013 (1)			2004 (1)		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
J.P. Morgan Chase (2)	8,499	1	0.78 %	9,437	1	0.89 %
United Airlines	8,199	2	0.75	6,448	2	0.61
Accenture LLP	5,821	3	0.53	3,869	6	0.36
Northern Trust Corporation	5,353	4	0.49	4,659	4	0.44
Ford Motor Company	5,103	5	0.47	2,662	10	0.25
Jewel Food Stores, Inc.	4,441	6	0.41			
ABM Janitorial Midwest, Inc.	3,399	7	0.31			
Bank of America NT & SA	3,392	8	0.31	3,139	7	0.30
Walgreen's Co.	2,869	9	0.26			
American Airlines	2,749	10	0.25	3,985	5	0.38
SBC Ameritech (3)				4,803	3	0.45
Target Corporation				2,940	8	0.28
ABN Amro				2,923	9	0.28

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

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

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

**CITY OF CHICAGO, ILLINOIS  
SEWER FUND**

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

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<b>Year</b>	<b>Population (1)</b>	<b>Median Age (2)</b>	<b>Number of Households (2)</b>	<b>Unemployment Rate (3)</b>	<b>Per Capita Income (4)</b>	<b>Total Income</b>
2010	2,695,598	34.8	1,045,666	10.1	45,957	\$123,881,597,286
2011	2,695,598	33.2	1,048,222	9.3	45,977	123,935,509,246
2012	2,695,598	33.2	1,054,488	8.9	48,305	130,210,861,390
2013	2,695,598	33.5	1,062,029	8.3	N/A (5)	N/A (5)

Notes:

- (1) Source: U.S. Census Bureau.
- (2) Source: World Business Chicago Website and Environmental System Research Institute data estimates.
- (3) Source: Bureau of Labor Statistics 2013, 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 2013 dollars).
- (5) N/A means not available at time of publication.