City of Chicago
Department of Water Management
Water 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 Powers, Commissioner

Water 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 Support

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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, Water 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 MD & A and should be read in conjunction with it.

REPORTING ENTITY

The Department of Water has been accounted for as a separate enterprise fund of the City of Chicago (City) which operates and maintains the City's Water system. Effective January 1, 2003 Water Department merged with the Sewer Department to form the Department of Water Management. The Water system treats and distributes water to the City's residential and commercial businesses, and suburban customers. The water system provides water intake, filtration and treatment. Water is then distributed through over 4,368 miles of mains which covers a service area of roughly 806 square miles and is inhabited by approximately 5.3 million people or 44% of the State of Illinois.

ECONOMIC CONDITION AND OUTLOOK

Department of Water Management's primary source of revenue is a water service charge which is set by City ordinance. The water service charge covers the costs of operations, maintenance and debt service.

As of January 1, 2014, the metered water rate is set at $24.80 per 1,000 cubic feet or $3.31 per 1,000 gallons. The metered rate is also applicable to the system's suburban customers. It is not expected that there will be a significant change in the population, either industrial or suburban that would lead to a significant change in revenues.

1000 EAST OHIO STREET, CHICAGO, ILLINOIS 60611

MAJOR INITIATIVE

The Department of Water Management's Five-Year Capital Improvement Program (CIP) 2014 – 2018 is forecasted to be approximately $2.2 billion. The CIP addresses the renewal and replacement of the Water System's infrastructure, and continues to focus on three major areas: purification plants, pumping stations and water distribution system.

The primary capital expenditures are for the annual water main replacement program. The department is planning to replace 85 miles in 2014 with proposed increases annually bringing the 5 year total to over 445 miles of water mains to be replaced in this period. Automatic meter reading devices will continue to be installed to customers who have meters and the Meter Save Program will target installation of meters to non-metered customers on a volunteer basis.

The CIP includes work for the rehabilitation and upgrade of the two purification plants – the world's two largest purification facilities. The work will include replacement/upgrading of the chemical storage tanks, instrumentation and processing equipment; installation of permanent stand by generators; full replacement of filter controls; and roof replacement at the South Water Purification Plant. At the Jardine Water Purification Plant the medium voltage electrical switchgear will be upgraded and the laboratory will be modernized.

The 5 year CIP also includes design and construction work on three of the departments' four steam powered pumping station to convert them to electric power. During this period construction will be completed on one of these stations, the second one will be partially constructed and the third one will be partially designed. Additionally, the 5 year CIP includes work for upgrades of pumps and motors at various existing electric powered stations; Structural and façade restoration at the two active waster intake cribs and the development of work plans for the demolition of the two inactive water intake cribs.

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 most efficient operation of the Water System. In all, the 5-year CIP Program is annually updated to ensure continued economic and reliable delivery of water to all customers.

PROPRIETARY OPERATIONS

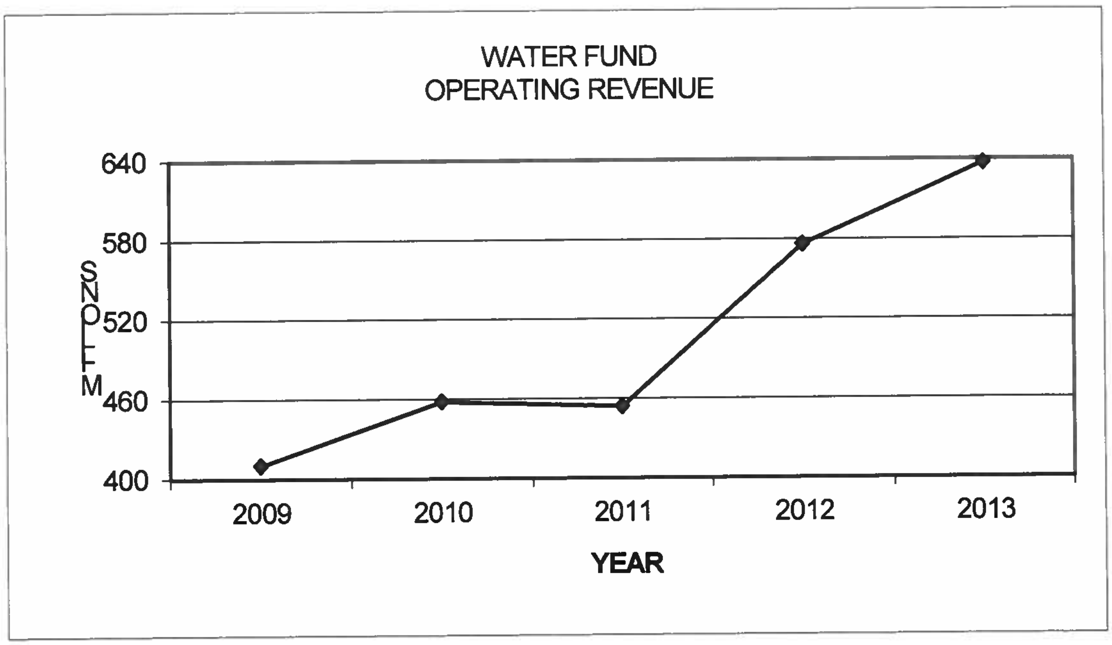
The Department of Water Management, Water Fund, is responsible for implementing and maintaining an internal control structure to ensure the integrity of the Water Fund's operations and to allow for the preparation of financial statements in conformity with accounting principles generally accepted in 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, Water Fund, are handled in a manner that protects against waste, theft or neglect that may hinder or impair the financial operations of the Fund. This objective is being met by adequate supervision of employees, segregation of duties and multiple approval and budgetary controls over all expenditures.

The Water 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 Department of Water Management, Water Fund, will have adequate funding to meet its operational objectives. The Department of Water Management, Water 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 Department of Water Management, Water Fund, to insure that its expenditures do not exceed its revenues collections. The Water Fund uses encumbrances to control expenditures by preventing appropriated dollars from being used for any purpose other than that which they have been legally appropriated.

OPERATING REVENUES

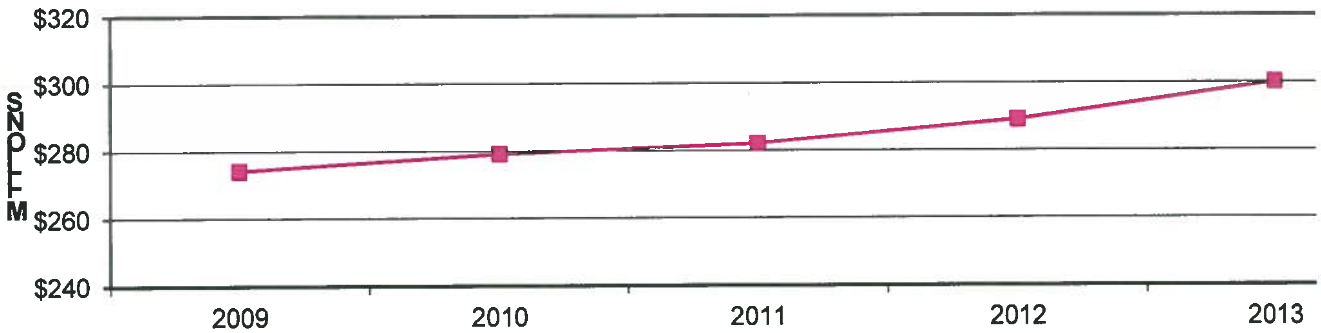
Gross operating revenues for 2013 reflect an increase of 10.6% over 2012 resulting from a water rate increase of 15% offset by a decrease in water usage resulting from a cooler summer in 2013 and the conversion of 17,425 non-metered accounts to metered. For the year 2012 the rate increase was 25%. There was no rate increase during the year 2011. For the years 2010 and 2009 the rate increases were 14% and 15% respectively. Below is a graph representing gross operating revenues for the years 2009 through 2013.



OPERATING EXPENSES

Operating expenses for the year ended December 31, 2013 increased by 3.8% compared to the year ended December 31, 2012. This increase is primarily due to increases in Provision for doubtful accounts, overtime and natural gas and electrical charges resulting from an extremely cold winter offset by a decrease in fuel consumption charges and an increase in capitalized in-house construction costs.

WATER FUND
OPERATING EXPENSES



DEBT ADMINISTRATION

The Department of Water Management, Water Fund, issues bonds to finance its capital improvements program. The City has covenanted to establish, maintain and collect at all times the fees, charges and rates sufficient to produce net revenues available for bonds, as adjusted, at least equal the greater of (A) 120 percent of the aggregate current annual debt service on the senior lien revenue bonds, or (B) the sum of the aggregate current annual debt service on the senior lien revenue bonds plus 110 percent of the aggregate current annual second lien revenue bonds debt service, and that the City management maintain all covenant reserve account balances at specified amounts. The City conducts an annual review of the water service charge to ensure revenue is being generated to comply with the covenant. The ordinances authorizing the issuances 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 Water Rate Stabilization Fund to be used for any lawful purpose of the Water Fund. The Department of Water Management, Water 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, Water Fund's capital activities are funded through Water Fund revenue bonds and Water fund revenue. The Department of Water Management, Water Fund has realized savings through advance refunding as interest rates have changed.

INDEPENDENT AUDIT

City ordinances require the Department of Water Management's, Water Fund, financial statements to be audited by independent certified accountants. The audit was conducted by Deloitte & Touche, LLP and a consortium of Chicago-based 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 a Certificate of Achievement for Excellence in Financial Reporting to the Water Fund, an Enterprise Fund of the City of Chicago, for its CAFR for the fiscal year ended December 31, 2012. This was the fourteenth year that the government unit 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 must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that our current CAFR 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 Department of Water Management and Department of Finance. I wish to express my appreciation to them, and particularly those who contributed directly to the preparation of the report.

Respectfully submitted,

THOMAS H. POWERS, P.E.
Commissioner

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

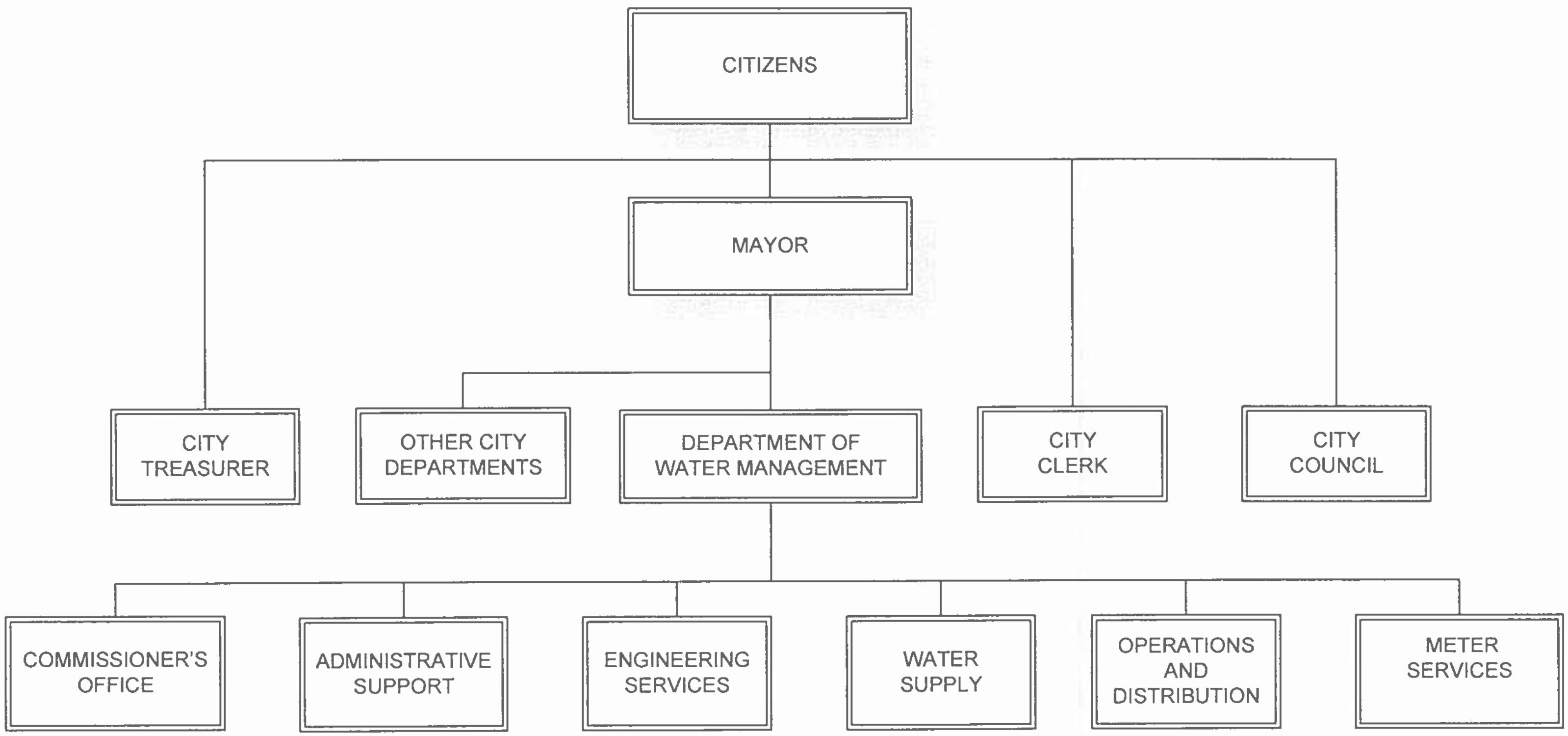
Water Fund, an Enterprise Fund of the City of Chicago, Illinois

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

Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA
Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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 Water Fund ("Water 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 Water 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 Water Fund as of December 31, 2013 and 2012, and the changes in its financial position 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 Water 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, 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 Water 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 Water Fund's basic financial statements. The additional information, introductory section, and statistical section, 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.

The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have 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 them.

Deloitte & Touche LLP

June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of Chicago, Illinois (the "City"), Water Fund's ("Water Fund") financial performance provides an introduction and overview of the Water Fund's financial activities for the years ended December 31, 2013 and 2012. Please read this discussion in conjunction with the Water 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 $60.8 million compared to 2012 operating revenues. This increase is primarily due to a water rate increase of 15% offset by a decrease in consumption and the conversion in 2013 of 17,427 accounts from non-metered to metered.

- Operating expenses before depreciation and amortization for 2013 increased by $11.1 million compared to 2012 mainly due to increases in provision for doubtful accounts resulting from an increase in accounts receivable; overtime and natural gas and electric charges resulting from an extremely cold winter; offset by an increase in capitalized in-house construction costs and a decrease in fuel consumption.

- The Water Fund's net position at December 31, 2013, was $1,447 million. This is an increase of $195.6 million over net position at December 31, 2012.

- Utility plant additions in 2013 were $377.4 million due to the continuing capital improvement program.

2012

- Operating revenues for 2012 increased by $122.1 million compared to 2011 operating revenues. This increase is primarily due to a water rate increase of 25% and increase in usage in the drought summer of 2012.

- Operating expenses before depreciation and amortization for 2012 increased by $7.3 million compared to 2011 mainly due to increase in costs of fringe benefits to employees, Water Fund's share of indirect costs, and diesel and gasoline costs offset by decrease in costs of sediment disposals.

- The Water Fund's restated net position at December 31, 2012, was $1,251.4 million. This is an increase of $158.1 million over net position at December 31, 2011.

- Utility plant additions in 2012 were $318.9 million due to the continuing capital improvement program.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Water Fund's basic financial statements. The Water Fund's basic financial statements comprise the financial statements and the notes to

Basic financial statements. In addition to the basic financial statements, this report also presents additional information after the notes to basic financial statements.

The statements of net position present all of the Water Fund's assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting. The difference between assets, deferred outflows, liabilities, and deferred inflows is reported as net position. The increase or decrease in net position may serve as an indicator, over time, as to whether the Water Fund's financial position is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present all current-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 are provided and used by the Water Fund's operating, capital financing, and investing activities. These statements 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 calculation and includes certain unaudited information related to the Water Fund's historical financial and nonfinancial operating results and capital activities.

FINANCIAL ANALYSIS

At December 31, 2013, the Water Fund's financial position continued to be strong with total assets and deferred outflows of $3,827.7 million, total liabilities of $2,380.7 million, and net position of $1447.0 million. A comparative condensed summary of the Water Fund's net position at December 31, 2013, 2012 and 2011, is as follows:

	Net Assets		
(In thousands)	**2013**	**2012**	**2011**
Current assets	$ 310,830	$ 294,077	$ 196,738
Restricted and other assets	223,135	441,220	229,599
Utility plant — net	3,181,856	2,861,340	2,594,391
Deferred outflows	111,907	162,570	167,064
Total assets and deferred outflows	$ 3,827,728	$ 3,759,207	$ 3,187,792
Current liabilities	$ 134,443	$ 147,844	$ 132,903
Long-term liabilities and payable from restricted assets	2,246,308	2,359,989	1,961,607
Total liabilities	$ 2,380,751	$ 2,507,833	$ 2,094,510
Net position:			
Net investment in capital assets	$ 1,233,185	$ 1,062,234	$ 1,046,104
Restricted for capital projects	719	1,308	209
Unrestricted	213,073	187,832	46,969
Total net position	$ 1,446,977	$ 1,251,374	$ 1,093,282

2013

Current assets of $310.8 million at December 31, 2013, increased by $16.7 million (5.7%) over 2012 as a result of increases in investments of $85.3 million and accounts receivable of $9.0 million resulting from an increase in water rate offset by a decrease in cash and cash equivalents of $80.8 million. Restricted and other assets decreased by $218.1 million (49.4%) primarily due to the funding of the capital improvement program and utility plant — net increased by $320.5 million (11.2%). The decrease in deferred outflows of $50.7 million (31.2%) during 2013 is mainly due to a change in the fair value of interest rate swaps.

The decrease in current liabilities of $13.4 million (9.1%) during 2013 is directly related to the timing of payments of accounts payable and a decrease in unearned revenue offset by an increase in due to other city funds. Long-term liabilities and payable from restricted assets decreased by $113.7 million (4.8%) mainly due to principal payments in 2012.

Net position may serve as a useful indicator, over a period of time, of the Water Fund's basic financial position. At December 31, 2013, net position was $1,447.0 million, an increase of $195.6 million (15.6%) over 2012.

2012

Current assets of $294.1 million at December 31, 2012, increased by $97.3 million (49.5%) over 2011 as a result of increases in cash and cash equivalents of $56.6 million, investments of $10.2 million, and accounts receivable of $26.5 million resulting from an increase in water rates. Restricted and other assets increased by $213.7 million (89.6%) primarily due to the funding of the capital improvement program through the issuance of long-term debt and utility plant — net increased by $266.9 million (10.3%) due to the ongoing capital improvement.

The increase in current liabilities of $14.9 million (11.2%) during 2012 is directly related to the timing of payments of accounts payable and increases in accrued liabilities and unearned revenue offset by decrease in due to other city funds. Long-term liabilities and payable from restricted assets increased by $400.9 million (20.8%) mainly due to debt issuances in 2012.

Net position may serve as a useful indicator, over a period of time, of the Water Fund's basic financial position. At December 31, 2012, net position was $1,251.4 million, an increase of $158.1 million (14.5%) over 2011.

The primary sources of the Water Fund's operating revenues are water usage fees. These revenues fund all Water Fund operating expenses, fund deposits, capital construction, and debt service requirements. A comparative condensed summary of the Water Fund's revenues, expenses, and changes in net position for the years ended December 31, 2013, 2012, and 2011, is as follows:

	Revenues, Expenses, and Changes in Net Position		
(In thousands)	**2013**	**2012**	**2011**
Revenues:			
Operating revenues			
Water sales	$ 620,498	$ 562,572	$ 441,769
Other operating revenues	16,616	13,715	12,452
Total operating revenues	637,114	576,287	454,221
Nonoperating revenues	963	1,429	4,163
Total revenues	638,077	577,716	458,384
Expenses:			
Operating expenses	300,592	289,465	282,164
Depreciation and amortization	49,630	48,408	47,112
Interest expense	92,252	81,751	86,522
Total expenses	442,474	419,624	415,798
Change in net position	195,603	158,092	42,586
Net position — beginning of year, as restated	1,251,374	1,093,282	1,050,696
Net position — end of year	$ 1,446,977	$ 1,251,374	$ 1,093,282

2013

Water sales and other operating revenues comprise the Water Fund's $637.1 million operating revenues. Water sales and other operating revenues for 2013 were $620.5 million and $16.6 million, respectively. The increase in 2013 operating revenues of $60.8 million (10.6%) from 2012 was primarily due to a 15% water rate increase offset by the conversion of 17,427 non-metered accounts to metered and a decrease in consumption resulting from a cooler summer in 2013.

In 2013, net nonoperating revenues of $1.0 million were composed of net interest income, grants and net forced account totaling $0.5 million.

2012

Water sales and other operating revenues comprise the Water Fund's $576.3 million operating revenues. Water sales and other operating revenues for 2012 were $562.6 million and $13.7 million, respectively. The increase in 2012 operating revenues of $122.1 million (26.9%) from 2011 was primarily due to a 25% increase in water rates and increase in usage resulting from a drought summer in 2012.

In 2012, net nonoperating revenues of $1.4 million were composed mainly of federal grants received for water mains replacement and net forced account totaling $1.2 million.

A comparative summary of the Water 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
Source of supply	$ 99	$ 168	$ 185
Power and pumping	43,230	41,728	38,182
Purification	60,836	56,136	66,471
Transmission and distribution	29,496	36,494	38,985
Provision for doubtful accounts	25,400	15,714	13,947
Customer accounting and collection	11,615	10,004	10,663
Administrative and general	21,188	21,861	17,143
Central services and General Fund reimbursements	108,728	107,360	96,588
Operating expenses before depreciation and amortization	300,592	289,465	282,164
Depreciation and amortization	49,630	48,408	47,112
Total operating expenses	$ 350,222	$ 337,873	$ 329,276

2013

Operating expenses before depreciation and amortization for the year ended 2013 increased by $11.1 million (3.8%) from the year ended 2012 due to increases in provision for doubtful accounts of $9.7 million (61.6%) and in purification of about $4.7 million (8.4%) due to increases in salaries and overtime. This was offset by a decrease in transmission and distribution of about $7.0 million (19.2%) resulting from a decrease in fuel consumption costs and an increase in capitalized in-house construction costs.

2012

Operating expenses before depreciation and amortization for the year ended 2012 increased by $7.3 million (2.6%) from the year ended 2011 due to an increase in central services and General Fund reimbursements of $10.8 million (11.2%) primarily due to an increase in fringe benefits to employees of about $6.3 million, increase in the Water Fund's share of indirect costs of about $4.7 million, increase in power and pumping of about $3.5 million (9.3%) and increase in administrative and general of about $4.7 million (27.5%) this was offset by a decrease in purification of about $10.3 million (15.5%) resulting from a decrease in costs of sediment disposals of about $11.7 million.

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2012, 2011, and 2010, is as follows:

	Cash Flows		
(In thousands of dollars)	**2013**	**2012**	**2011**
Cash from activities:			
Operating	$ 310,205	$ 270,821	$ 176,651
Capital and related financing	(520,166)	4,282	(265,251)
Investing	122,961	(209,656)	(33,168)
Net change in cash and cash equivalents	(87,000)	65,447	(121,768)
Cash and cash equivalents:			
Beginning of year	123,531	58,084	179,852
End of year	$ 36,531	$ 123,531	$ 58,084

2013

As of December 31, 2013, the Water Fund's cash and cash equivalents of $36.5 million decreased from December 31, 2012, by $87.0 million mainly due to the cash provided of $310.2 million from operating activities, cash outflow of $520.2 million and cash inflow of $123.0 million. Total cash and cash equivalents at December 31, 2013, are composed of unrestricted and restricted cash and cash equivalents of $3.6 million and $32.9 million, respectively.

2012

As of December 31, 2012, the Water Fund's cash and cash equivalents of $123.5 million increased from December 31, 2011, by $65.4 million mainly due to the cash provided of $270.8 from operating activities, cash provided by issuance of bonds and notes of $447.5 million offset by cash used in acquisition and construction of capital assets of $254.8 million and net cash used in investing activities of $209.7 million. Total cash and cash equivalents at December 31, 2012, are composed of unrestricted and restricted cash and cash equivalents of $84.4 million and $39.1 million, respectively.

UTILITY PLANT AND DEBT ADMINISTRATION

2013

At the end of 2013 and 2012, the Water Fund had $3,181.9 million and $2,861.3 million, respectively, invested in utility plant, net of accumulated depreciation. During 2013, the Water Fund expended $377.4 million on capital activities. This included $0.4 million for structures and improvements, $156.5 million for distribution plant, $7.3 million for equipment, and $213.1 million for construction in progress.

During 2013, net completed projects totaling $158.3 million were transferred from construction in progress to applicable capital accounts. The major completed projects relate to installation and replacements of water mains ($92.0 million), auto meter reading installation project ($39.6 million), and Lexington pumping station electrical generation and capital improvements ($14.1 million).

2012

At the end of 2012 and 2011, the Water Fund had $2,861.3 million and $2,594.4 million, respectively, invested in utility plant, net of accumulated depreciation. During 2012, the Water Fund expended $318.9 million on capital activities. This included $2.2 million for structures and improvements, $133.9 million for distribution plant, $5.8 million for equipment, and $177.2 million for construction in progress.

During 2012, net completed projects totaling $63.7 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to installation and replacements of water mains ($63.4 million).

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

	Net Utility Plant at Year-End		
(In thousands)	**2013**	**2012**	**2011**
Utility plant not depreciated:			
Land and land rights	$ 5,083	$ 5,083	$ 5,083
Construction in progress	317,086	262,280	148,871
Total utility plant not depreciated	322,169	267,363	153,954
Utility plant being depreciated:			
Structures and improvements	535,802	535,710	534,472
Distribution plant	2,590,751	2,305,803	2,111,790
Equipment	647,530	620,775	617,159
Total utility plant being depreciated	3,774,083	3,462,288	3,263,421
Less accumulated depreciation:			
Structures and improvements	(197,555)	(190,278)	(182,537)
Distribution plant	(394,281)	(372,090)	(351,343)
Equipment	(322,560)	(305,943)	(289,104)
Total accumulated depreciation	(914,396)	(868,311)	(822,984)
Total utility plant being depreciated — net	2,859,687	2,593,977	2,440,437
Total utility plant — net	$ 3,181,856	$ 2,861,340	$ 2,594,391

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

The Water Fund's long-term liabilities at December 31, 2013, 2012, and 2011, are summarize as follows:

(In thousands)	Long-Term Liabilities at Year-End 2013	2012	2011
Revenue bonds and notes payable	$ 1,996,858	$ 2,030,177	$ 1,721,188
Add:			
Accretion of Capital Appreciation Bonds	43,885	47,658	46,946
Bond discount/premium	66,934	71,041	30,498
Total revenue bonds/notes payable — net	2,107,677	2,148,876	1,798,632
Less current portion of accretion	(9,169)	(8,749)	(4,493)
Less current bonds/notes payable	(43,846)	(42,232)	(44,448)
Total long-term revenue bonds/notes payable — net	2,054,662	2,097,895	1,749,691
Derivative instrument liability	78,246	126,371	128,386
Long-term purchase obligations		1,027	3,290
Water pipe extension certificates	1,577	1,576	1,590
Total long-term liabilities	$ 2,134,485	$ 2,226,869	$ 1,882,957

Additional information on the Water Fund's long-term debt is presented in Note 4 of the notes to basic financial statements.

The Water Fund's revenue bonds at December 31, 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 Water Revenue Bonds	A1	AA	AA+
Second Lien Water Revenue Bonds	A2	AA-	AA

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

At December 31, 2013, the Water Fund was in compliance with the debt covenants as stated within the bond ordinances. Additional information on certain of the Water Fund's debt covenants is presented in Note 4 of the notes to the basic financial statements.

Requests for Information

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

CITY OF CHICAGO, ILLINOIS WATER FUND

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

ASSETS AND DEFERRED OUTFLOWS	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 3,616	$ 84,429
Investments (Note 2)	129,496	44,188
Accounts receivable — net of allowance for doubtful accounts of approximately $85,277 in 2013 and $64,161 in 2012	136,367	127,390
Interest receivable	77	107
Due from other City funds	19,435	20,607
Inventories	21,839	17,356
Current unrestricted assets	310,830	294,077
Restricted assets (Notes 2 and 3):		
Cash and cash equivalents	32,915	39,102
Investments	184,367	395,439
Interest receivable	719	1,308
Total restricted assets	218,001	435,849
NONCURRENT ASSETS:		
Other assets	5,134	5,371
Utility plant (Note 5):		
Land and land rights	5,083	5,083
Structures and improvements	535,802	535,710
Distribution plant	2,590,751	2,305,803
Equipment	647,530	620,775
Construction in progress	317,086	262,280
Total utility plant	4,096,252	3,729,651
Less accumulated depreciation	(914,396)	(868,311)
Utility plant — net	3,181,856	2,861,340
Total noncurrent assets	3,186,990	2,866,711
Total assets	3,715,821	3,596,637
DEFERRED OUTFLOWS	111,907	162,570
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 3,827,728	$ 3,759,207

LIABILITIES	2013	2012
CURRENT LIABILITIES:		
Accounts payable	$ 20,650	$ 30,299
Due to other City funds	14,147	8,503
Accrued liabilities	78,396	82,296
Unearned revenue	21,250	26,746
Total current liabilities	134,443	147,844
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable	41,764	63,094
Due to other City funds	1,070	2,693
Interest payable	15,974	16,352
Current portion of long-term debt (Note 4)	53,015	50,981
Total liabilities payable from restricted assets	111,823	133,120
NONCURRENT LIABILITIES:		
Long-term debt — net of current maturities (Note 4)	2,054,662	2,097,895
Derivative instrument liability	78,246	126,371
Long-term purchase obligation (Note 4)		1,027
Water pipe extension certificates	1,577	1,576
Total noncurrent liabilities	2,134,485	2,226,869
Total liabilities	2,380,751	2,507,833
NET POSITION (Note 1):		
Net investment in capital assets	1,233,185	1,062,234
Restricted for capital projects	719	1,308
Unrestricted	213,073	187,832
Total net position	1,446,977	1,251,374
TOTAL	$ 3,827,728	$ 3,759,207

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS WATER FUND

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

	2013	2012
OPERATING REVENUES:		
Water sales	$ 620,498	$ 562,572
Other operating revenues	16,616	13,715
Total operating revenues	637,114	576,287
OPERATING EXPENSES:		
Source of supply	99	168
Power and pumping	43,230	41,728
Purification	60,836	56,136
Transmission and distribution	29,496	36,494
Provision for doubtful accounts	25,400	15,714
Customer accounting and collection	11,615	10,004
Administrative and general	21,188	21,861
Central services and General Fund reimbursements	108,728	107,360
Total operating expenses before depreciation and amortization	300,592	289,465
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	336,522	286,822
DEPRECIATION AND AMORTIZATION	49,630	48,408
OPERATING INCOME	286,892	238,414
NONOPERATING REVENUES (EXPENSES):		
Interest income	420	270
Interest expense	(92,252)	(81,751)
Other	543	1,159
Total nonoperating expenses — net	(91,289)	(80,322)
CHANGE IN NET POSITION	195,603	158,092
TOTAL NET POSITION — Beginning of year, as restated	1,251,374	1,093,282
TOTAL NET POSITION — End of year	$ 1,446,977	$ 1,251,374

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS WATER FUND

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	$ 596,613	$ 546,056
Transactions with other City funds	(61,653)	(80,972)
Payments to vendors	(113,227)	(84,738)
Payments to employees	(111,528)	(109,525)
Net cash provided by operating activities	310,205	270,821
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(370,228)	(254,843)
Interest paid	(107,900)	(91,514)
Proceeds from issuance of bonds and IEPA loans	276	447,538
Principal paid on bonds	(42,439)	(59,859)
Payments of refunded bonds		(35,595)
Payments of bonds issuance costs	(418)	(2,604)
Construction reimbursements	543	1,159
Net cash (used in) provided by capital and related financing activities	(520,166)	4,282
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	125,764	(212,113)
Investment interest	(2,803)	2,457
Net cash provided by (used in) investing activities	122,961	(209,656)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(87,000)	65,447
CASH AND CASH EQUIVALENTS — Beginning of year	123,531	58,084
CASH AND CASH EQUIVALENTS — End of year	$ 36,531	$ 123,531
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED IN THE STATEMENTS OF NET POSITION:		
Unrestricted	$ 3,616	$ 84,429
Restricted	32,915	39,102
TOTAL	$ 36,531	$ 123,531

(Continued)

CITY OF CHICAGO, ILLINOIS WATER FUND

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

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 286,892	$ 238,414
Adjustments to reconcile:		
Depreciation and amortization	49,630	48,408
Provision for doubtful accounts	25,400	15,714
Changes in assets and liabilities:		
Increase in accounts receivable	(35,005)	(42,570)
Increase in inventories	(4,483)	(1,011)
Decrease (increase) in due from other City funds	1,172	(3,100)
(Decrease) increase in unrestricted accounts payable	(9,649)	1,160
Increase (decrease) in due to other City funds	5,644	(9,709)
(Decrease) increase in accrued liabilities	(3,900)	11,176
Decrease in water pipe extension certificate		(13)
(Decrease) increase in unearned revenue	(5,496)	12,352
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 310,205	$ 270,821

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS — Property additions in 2013 and 2012 of $42,834 and $65,787, respectively, have outstanding accounts payable.

See notes to basic financial statements.

(Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Water Fund uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when the liability is incurred.

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

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

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

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

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

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

The Water Fund values its investments at fair value or amortized cost as applicable. U.S. government securities purchased at a price other than par with a maturity of less than one year are reported at amortized cost. 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 fair value equal to the cost of the repurchase agreements, 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 Allowance — Management has provided an allowance for amounts recorded at year-end, which may be uncollectible.

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

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

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

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

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

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 consist of assets for which constraints are placed thereon 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 Water Fund enters into interest rate swap agreements to hedge interest rates and cash flows on outstanding variable interest rate 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, net of interest income, on construction bond proceeds is capitalized during construction of those capital projects paid for from the bond proceeds and are being amortized over the depreciable life of the related assets on a straight-line basis. Interest capitalized in 2013 and 2012 totaled $17.0 million and $23.0 million, respectively.

Revenue Recognition — Revenue from water sales is recognized when the water is consumed by customers. Of the accounts receivable balances, $63.6 million and $50.0 million represent revenue recognized on water sales, which had not yet been billed to customers at December 31, 2013 and 2012, respectively. Unearned revenue represents amounts billed to nonmetered customers prior to usage.

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

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) and certain other assets have been written off as of January 1, 2012. GASB 65 is effective for the Water Fund's financial statements for the fiscal year ending 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 Water Fund's financial statements as a result of the implementation of GASB 66.

Upcoming Accounting Standards — Other accounting standards that the Water 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 Water 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 Water 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 Water 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 Water 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 — The Water Fund's cash equivalents and investments as of December 31, 2013, are as follows (in thousands):

	Investment Maturities (in Years)				
	Less than 1	1–5	6–10	More than 10	Fair Value
U.S. agencies	$ 11,525	$ 101,600	$ 118,854	$ -	$ 231,979
Certificates of deposit and other short-term	17,701				17,701
Corporate bonds	8,001	4,379			12,380
Municipal bonds		11,496			11,496
Subtotal	$ 37,227	$ 117,475	$ 118,854	$ -	273,556
Share in City's pooled funds					75,466
Total					$ 349,022

Cash Equivalents and Investments — The Water Fund's cash equivalents and investments as of December 31, 2012, are as follows (in thousands):

	Less than 1	1–5	6–10	More than 10	Fair Value
U.S. agencies	$ 11,519	$ 186,844	$ 157,329	$ -	$ 355,692
Certificates of deposit and other short-term	39,559				39,559
Commercial paper	1,300				1,300
Corporate bonds		12,507			12,507
Municipal bonds		19,212	8,029		27,241
Subtotal	$ 52,378	$ 218,563	$ 165,358	$ -	436,299
Share in City's pooled funds					60,431
Total					$ 496,730

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

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

Credit Risk — The Code limits investments in commercial paper to banks whose senior obligations are rated in the top two rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of deposit are also limited by the Code to national banks, which provide collateral of at least 105% by marketable U.S. government securities marked to market at least monthly; or secured by a corporate surety bond issued by an insurance company licensed to do business in the State 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 Water Fund's exposure to credit risk as of December 31, 2013 and 2012, is as follows (in thousands):

Quality Rating	2013	2012
Aaa/AAA	$ -	$ 8,018
Aa/AA	246,556	373,085
A/A	4,378	4,417
P1/A1		1,300
Not rated	22,622	49,479
Total	$ 273,556	$ 436,299

The Water Fund participates in the City's pooled cash and investments account, which includes amounts from other City funds and is maintained by the City Treasurer. Individual cash or investments are not specifically identifiable to any participant in the pool. The City 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. Of the bank balance, 99% 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.

Investments reported in the basic financial statements as of December 31, 2013 and 2012, are summarized as follows (in thousands):

	2013	2012
Per Note 2:		
Investments — Water Fund	$ 273,556	$ 436,299
Investments — City Treasurer Pooled Fund	75,466	60,431
	$ 349,022	$ 496,730
Per financial statements:		
Restricted investments	$ 184,367	$ 395,439
Unrestricted investments	129,496	44,188
Investments included as cash and cash equivalents on the statements of net assets	35,159	57,103
	$ 349,022	$ 496,730

3. RESTRICTED ASSETS AND ACCOUNTS

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

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

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

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

Series 2001 Second Lien Revenue Bonds is being met with a deposit of a portion of the proceeds of the Series 2001 Senior Lien Revenue Bonds.

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

Water Revenue Bonds, Series 2000, 2006A, 2008, 2010A, 2010B, 2010C, and Refunding Bonds, Series 2004 and 2001 (Second Lien Revenue Bonds):

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

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

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

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

For accounts established by ordinances with balances, the amounts at December 31, 2013 and 2012, are as follows (in thousands):

	2013	**2012**
Senior lien debt service reserve	$ -	$ 3,563
Second lien revenue bonds	17,276	30,472
Water rate stabilization	88,397	74,897
Construction	111,609	325,609
Total	$ 217,282	$ 434,541

At December 31, 2013 and 2012, management is not aware of any instances of noncompliance with the funding requirements and restrictions on assets as stated in the ordinances.

4. LONG-TERM DEBT

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

	2013	2012
$49,880 Series 1993 Water Revenue Refunding Bonds, issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	$ 15,810	$ 20,635
$277,911 Series 1997 Water Revenue Bonds, issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	14,019	17,389
$100,000 Series 2000 Second Lien Water Revenue Bonds, issued December 22, 1999, due 2030, variable floating interest rate; interest at 3.8694%	100,000	100,000
$156,819 Series 2000 Senior Lien Water Revenue Bonds, issued May 2, 2000, due 2030; interest at 4.375% to 5.875%	19,153	22,664
$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds, issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	80,900	80,945
$2,292 Illinois Environmental Protection Agency Loan Agreement, signed June 30, 2003, due 2025; interest at 2.57%	1,799	1,926
$3,605 Illinois Environmental Protection Agency Loan Agreement, signed October 16, 2003, due 2022; interest at 2.905%	1,912	2,095
$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds, issued August 5, 2004, due through 2031, variable floating interest rate;	366,150	376,300
$215,400 Series 2006A Second Lien Water Revenue Bonds, issued July 26, 2006, due through 2036; interest at 4.5% to 5.0%	188,985	193,330
$549,915 Series 2008 Second Lien Water Revenue Bonds, issued April 2, 2008, due through 2038; interest at 4.0% to 5.25%	485,745	500,710
$313,580 Series 2010A-C Second Lien Water Revenue Bonds, issued November 10, 2010, due through 2040; interest at 2.0% to 6.742%	300,355	300,355
$6,000 Illinois Environmental Protection Agency Loan Agreement, signed January 21, 2011, due 2031; interest at 2.57%	5,465	5,734
$9,077 Illinois Environmental Protection Agency Loan Agreement, issued February 2, 2010, due 2031; noninterest bearing	8,206	8,649
$399,445 Series 2012 Second Lien Water Revenue Bonds, issued May 17, 2012, due through 2042; interest at 4.0% to 5.0%	399,445	399,445
$1,527 Illinois Environmental Protection Agency Loan Agreement, issued July 8, 2010, due 2032; interest at 1.25%	1,493	
$1,502 Illinois Environmental Protection Agency Loan Agreement, issued September 15, 2013, due 2032; interest at 1.25%	1,468	
$6,092 Illinois Environmental Protection Agency Loan Agreement, issued October 25, 2013, due 2032; interest at 1.25%	5,953	
	1,996,858	2,030,177
Add accretion of capital appreciation bonds	43,885	47,658
Less current portion of accretion	(9,169)	(8,749)
Less current portion of long-term debt	(43,846)	(42,232)
Add unamortized bond discount/premium — net	66,934	71,041
Long-term portion — net	$ 2,054,662	$ 2,097,895

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

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due within One Year
Revenue bonds/notes payable	$ 2,030,177	$ 9,121	$ (42,440)	$ 1,996,858	$ 43,846
Accretion of capital appreciation bonds	47,658	4,976	(8,749)	43,885	9,169
Unamortized bond discount/premium — net	71,041		(4,107)	66,934	
Total	$ 2,148,876	$ 14,097	$ (55,296)	$ 2,107,677	$ 53,015

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due within One Year
Revenue bonds/notes payable	$ 1,721,188	$399,950	$ (90,961)	$ 2,030,177	$ 42,232
Accretion of capital appreciation bonds	46,946	5,205	(4,493)	47,658	8,749
Unamortized bond discount/premium — net	30,498	47,588	(7,045)	71,041	
Total	$ 1,798,632	$452,743	$ (102,499)	$ 2,148,876	$ 50,981

Interest expense includes amortization of the deferred loss on bond refunding for 2013 and 2012 of $2.5 million; amortization of bond discount of $4.1 million and $7.0 million, respectively; and accretion of Series 1997 and Series 2000 capital appreciation bonds of $9.2 million and $8.7 million, respectively.

As defined in the bond ordinances, net revenues are pledged for the payment of principal and interest on the bonds. Ordinances include covenants, which require that net revenues available for bonds, as adjusted, at least equal the greater of (i) 120% of the aggregate current annual debt service on the Senior Lien Revenue Bonds or (ii) the sum of the aggregate current annual debt service of the Senior Lien Revenue Bonds, plus 110% of the aggregate current annual Second Lien Revenue Bonds debt service, and that City management maintain all covenant reserve account balances at specified amounts. The above requirements were met in 2013 and 2012.

Rate Increase — Water rates are set by ordinance and established in an amount designed to pay the costs of Water Fund operations and capital improvements, including any related debt service. The water rate effective January 1, 2013, was $21.56 per 1,000 cubic feet.

Issuance of Debt — On July 8, 2010, a loan agreement was signed with the Illinois Environment Protection Agency to install water meters. In 2013, the Water Fund initiated a $1.5 million loan from this loan agreement. The loan has an interest rate of 1.25% with maturity dates from November 1, 2013, to November 1, 2032.

On September 15, 2013, a loan agreement was signed with the Illinois Environment Protection Agency to install water meters. In 2013, the Water Fund initiated a $1.5 million loan from this loan agreement. The loan has an interest rate of 1.25% with maturity dates from November 1, 2013, to November 1, 2032.

On October 25, 2013, a loan agreement was signed with the Illinois Environment Protection Agency to install water mains. In 2013, the Water Fund initiated a $6.0 million loan from this loan agreement. The loan has an interest rate of 1.25% with maturity dates from December 27, 2013, to December 27, 2032.

A schedule of bond and note debt service requirements to maturity at December 31, 2013, is as follows (in thousands):

Years Ending December 31	Principal	Interest	Total Debt Service
2014	$ 43,846	$ 105,592	$ 149,438
2015	45,107	104,344	149,451
2016	54,308	102,876	157,184
2017	56,243	100,959	157,202
2018	58,273	98,980	157,253
2019–2023	375,468	411,084	786,552
2024–2028	433,647	309,608	743,255
2029–2033	399,692	204,055	603,747
2034–2038	359,160	109,240	468,400
2039–2043	171,114	19,881	190,995
Total	$ 1,996,858	$ 1,566,619	$ 3,563,477

Debt service requirements above exclude commercial paper issues, as the timing of payments is not certain. There was no commercial paper outstanding at December 31, 2013.

The Water Fund's variable rate bonds may bear interest from time to time at a flexible rate, a daily rate, a weekly rate, an adjustable long rate, or the fixed rate as determined from time to time by the remarketing agent, in consultation with the City. At December 31, 2013, the variable rate bonds were in the weekly rate interest mode. For the requirements calculated above, interest on variable rate debt was calculated at the rate in effect at December 31, 2013, or the effective rate of a related swap agreement, if applicable. An irrevocable letter of credit provides for the timely payment of principal and interest on the Series 2000 until August 18, 2014. An irrevocable letter of credit provides for the timely payment of principal and interest on the Series 2004 bonds until November 15, 2014. At December 31, 2013, there were no outstanding letter of credit advances. In the event the bonds are put back to the bank and not successfully remarketed, or if the letter of credit expires without an extension or substitution, the bank 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 changes in cash flows, which includes the potential of rising interest rates, the Water Fund has entered into various separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Water Fund would have paid to issue fixed-rate debt.

	Changes in Fair Value		Fair Value at December 31, 2013		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges — pay-fixed interest rate swaps	Deferred outflow of resources	$ (48,125)	Deferred outflow of resources	$ 78,246	$476,300

Terms, Fair Values, and Credit Risk — The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2013, are as follows (in thousands). The notional amounts of the swaps match the principal amounts of the associated debt. The Water Fund's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category. Under the swap, the Water Fund pays the counterparty a fixed payment and receives a variable payment computed according to the London InterBank Offered Rate (LIBOR).

Associated Bond Issue	Notional Amounts	Effective Date	Terms	Fair Values	Maturity Date	Counterparty Credit Rating
Hedging instruments:						
Bonds (Series 2004)	$185,780	August 5, 2004	Pay 3.8694%; receive 67% of 1-month LIBOR	$(28,148)	November 1, 2025	A2/A
Bonds (Series 2004)	190,520	August 5, 2004	Pay 3.8669%; receive 67% of 1-month LIBOR	(30,124)	November 1, 2031	Aa3/AA-
Bonds (Series 2000)	100,000	April 16, 2008	Pay 3.8694%; receive 67% of 1-month LIBOR	(19,974)	November 1, 2030	A2/A
Total	$476,300			$(78,246)		

Fair Value — As of December 31, 2013 and 2012, the swaps had a negative fair value of $78.2 million and $126.4 million, respectively. As per industry convention, the fair values of the Water Fund's outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution, the Water Fund's swaps had negative values.

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

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

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

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

Swap Payments and Associated Debt — Debt service requirements for the Water Fund's outstanding variable-rate debt and net swap payments, assuming current interest rates (December 31, 2013) remain the same for their term, are as follows (in thousands):

Years Ending December 31	Principal	Interest	Swaps — Net	Total
2014	$ 10,575	$ 506	$ 17,526	$ 28,607
2015	11,000	597	17,026	28,623
2016	11,450	587	16,611	28,648
2017	11,925	576	16,179	28,680
2018	12,425	564	15,730	28,719
2019–2023	159,525	2,483	65,680	227,688
2024–2028	161,810	1,634	32,916	196,360
2029–2033	87,440	293	5,217	92,950
Total	$ 466,150	$ 7,240	$ 186,885	$ 660,275

Defeased Bonds — Defeased bonds are removed from the statements of net position when related assets have been placed in irrevocable trusts that, together with interest earned thereon, provide amounts sufficient for payment of all principal and interest. There were no defeased bonds outstanding at December 31, 2013.

5. UTILITY PLANT

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

	Balance — January 1, 2013	Additions	Disposals and Transfers	Balance — December 31, 2013
Utility plant not depreciated:				
Land and land rights	$ 5,083	$ -	$ -	$ 5,083
Construction in progress	262,280	213,134	(158,328)	317,086
Total utility plant not depreciated	267,363	213,134	(158,328)	322,169
Utility plant being depreciated:				
Structures and improvements	535,710	427	(335)	535,802
Distribution plant	2,305,803	156,514	128,434	2,590,751
Equipment	620,775	7,290	19,465	647,530
Total utility plant being depreciated	3,462,288	164,231	147,564	3,774,083
Less accumulated depreciation:				
Structures and improvements	(190,278)	(7,277)		(197,555)
Distribution plant	(372,090)	(23,750)	1,559	(394,281)
Equipment	(305,943)	(18,185)	1,568	(322,560)
Total accumulated depreciation	(868,311)	(49,212)	3,127	(914,396)
Utility plant being depreciated — net	2,593,977	115,019	150,691	2,859,687
Utility plant — net	$ 2,861,340	$328,153	$ (7,637)	$ 3,181,856

	Balance — January 1, 2012	Additions	Disposals and Transfers	Balance — December 31, 2012
Utility plant not depreciated:				
Land and land rights	$ 5,083	$ -	$ -	$ 5,083
Construction in progress	148,871	177,152	(63,743)	262,280
Total utility plant not depreciated	153,954	177,152	(63,743)	267,363
Utility plant being depreciated:				
Structures and improvements	534,472	2,165	(927)	535,710
Distribution plant	2,111,790	133,871	60,142	2,305,803
Equipment	617,159	5,759	(2,143)	620,775
Total utility plant being depreciated	3,263,421	141,795	57,072	3,462,288
Less accumulated depreciation:				
Structures and improvements	(182,537)	(7,741)		(190,278)
Distribution plant	(351,343)	(21,804)	1,057	(372,090)
Equipment	(289,104)	(18,730)	1,891	(305,943)
Total accumulated depreciation	(822,984)	(48,275)	2,948	(868,311)
Utility plant being depreciated — net	2,440,437	93,520	60,020	2,593,977
Utility plant — net	$ 2,594,391	$270,672	$ (3,723)	$ 2,861,340

6. PENSION PLANS

Eligible Water 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 Plans 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 the Plans as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Water Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of Water Fund employees. These reimbursements, recorded as expenses of the Water Fund, were $13.0 million in 2013 and $12.7 million in 2012. 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' and 1% for the Laborers' and Retirement Board Employees' Annuity and Benefit Funds, respectively. 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):

	Annual Pension Cost	Percent of Annual Pension Cost Contributed	Annual Required Contribution	Percent of Required Contributions Contributed	Net Pension Obligation (Asset)
Municipal employees:					
2011	$ 609,491	24.12 %	$ 611,756	24.00 %	$ 1,469,886
2012	687,519	21.65	690,823	21.50	2,008,546
2013	812,463	18.24	820,023	18.10	2,672,812
Laborers:					
2011	$ 57,651	22.17 %	$ 57,259	22.30 %	$ (129,712)
2012	77,858	15.22	77,566	15.30	(63,707)
2013	106,439	10.88	106,199	10.90	31,148

The pension benefits information pertaining expressly to Water 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 asset or obligation of these plans. Amounts for the City are recorded within the City's government-wide basic 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 in 2013 and 2012.

The annuitants who retired prior to July 1, 2005 received a 55 percent subsidy from the City and the annuitants who retired on or after July 1, 2005 received a 50, 45, 40 and zero percent subsidy from the City based on the annuitant's length of actual employment with the City for the gross cost of retiree health care under a court approved settlement agreement, known as the "Settlement Plan". The pension funds contributed $65 per month for each Medicare eligible annuitant and $95 per month 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 below-referenced settlement agreement.

The City's net expense and the annuitants' contribution indicated above are preliminary and subject to the reconciliation per the court-approved settlement agreement described below.

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 Plans, the amount actually contributed to the Plans and changes in the City's net OPEB obligation to the retiree Health Plan. The net OPEB obligation is the amount entered upon the City's statement of net position as of year-end as the net liability for the other postemployment benefits — the retiree Health Plan. The amount of the annual cost for the retiree Health Plan, which is to be recorded in the statement of changes in net position for 2013 in the City CAFR, is the annual OPEB cost (expense).

	Annual OPEB Cost and Contributions Made (In thousands)	
	2013 Health Plan	**2012 Health Plan**
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	(25,531)	(179,586)
Annual OPEB cost	117,166	76,977
Contributions made	139,336	115,961
Decrease in net OPEB obligation	(22,170)	(38,984)
Net OPEB obligation — beginning of year	215,361	254,345
Net OPEB obligation — end of year	$ 193,191	$ 215,361

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

	Schedule of Contributions, OPEB Costs, and Net Obligations		
Fiscal Years Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
December 31, 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 Plan 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 Plan. 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 Plan sunset so as to completely phase out in December 2016. The Korshak category is entitled to lifetime benefits.

Summary of Assumptions and Methods

	Health Plan	
Item	**2013**	**2012**
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 benefit information pertaining expressly to the Water Fund employees is not available as the obligation is the responsibility of the general government. Accordingly, no obligation has been recorded in the accompanying basic financial statements. Amounts for the City are recorded within the City's government-wide basic financial statements.

8. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the General Fund of the City for services provided by other City departments, employee fringe benefits, and certain payments made on behalf of the Water Fund. Such reimbursements amounted to $68.5 million and $68.2 million in 2013 and 2012, respectively.

9. COMMITMENTS AND CONTINGENCIES

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

The Water Fund provides workers' compensation benefits and employee health benefits under self-insurance programs administered by the City. Such claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities in the 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 of claims that have been incurred but not reported. Changes in the claims liability amounts for the years ended December 31, 2013 and 2012, are as follows (in thousands):

	2013	2012
Balance — January 1	$ 33,211	$ 33,172
Claims incurred on current and prior-year events	33,572	33,458
Claims pain on current and prior-year events	(31,690)	(33,419)
Balance — December 31	$ 35,093	$ 33,211

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

The City, who has a 40-year agreement with the DuPage Water Commission (DWC) to provide water service to the DWC and its 24 suburbs commencing on May 1, 1992, has signed an agreement with the DWC to share equally in the aggregate costs in the construction, operation, and maintenance of electrical generation facilities and other capital improvements at the Lexington Pumping station, of which neither party's share will exceed $15 million without an amendment to the agreement approved by both parties. Payments for the City's share will be in the form of credits against the charges for water supplied to the facility. Total cumulative credits as of December 31, 2013, amounted to $14.6 million.

At December 31, 2013 and 2012, the Water Fund entered into contracts with outstanding commitments of approximately $831.7 million and $109.6 million, respectively, for construction projects.

10. RESTATEMENT DUE TO IMPLEMENTATION OF NEW ACCOUNTING STANDARD

As a result of implementing GASB 65, net position was restated at January 1, 2012. With the adoption of GASB 65, the Water Fund is reporting deferred loss on debt refunding as deferred outflow. 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):

	As Originally Reported	Adjustment	As Restated
Statement of financial position:			
Other assets	$ 16,446	$ (11,075)	$ 5,371
Deferred outflows	126,371	36,199	162,570
Long-term debt — net of current maturities	2,061,696	36,199	2,097,895
Net investment in capital assets	1,073,309	(11,075)	1,062,234
Statement of revenues, expenses, and changes in net position:			
Depreciation and amortization	48,887	(479)	48,408
Interest expense	79,147	2,604	81,751
Total net position —beginning of year	1,102,232	(8,950)	1,093,282
Statement of cash flows — reconciliation of operating income to net cash provided by operating activities:			
Operating income	237,935	479	238,414
Depreciation and amortization	48,887	(479)	48,408

11. SUBSEQUENT EVENT

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

* * * * * *

CITY OF CHICAGO, ILLINOIS WATER FUND

ADDITIONAL SUPPLEMENTARY INFORMATION
SCHEDULE OF UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2013
(In thousands)

	Assets					Accumulated Depreciation				
	Balance — January 1, 2013	Additions	Adjustments/ Disposals	Transfers	Balance — December 31, 2013	Balance — January 1, 2013	Provision	Adjustments/ Disposals	Balance — December 31, 2013	Net Balance — December 31, 2013
LAND AND LAND RIGHTS:										
Power and pumping	$ 2,367	$ -	$ -	$ -	$ 2,367	$ -	$ -	$ -	$ -	$ 2,367
Distribution reservoir	300				300					300
Purification	1,739				1,739					1,739
General and maintenance	677				677					677
Total land and land rights	5,083	-	-	-	5,083	-	-	-	-	5,083
STRUCTURES AND IMPROVEMENTS:										
Cribs	17,337				17,337	5,027	168		5,195	12,142
Lake and land tunnels	118,377				118,377	37,612	1,184		38,796	79,581
Intake structures	9,531				9,531	4,470	95		4,565	4,966
Power and pumping structures	127,542	115		302	127,959	32,560	1,600		34,160	93,799
Purification buildings	205,890	183			206,073	98,461	3,171		101,632	104,441
Distribution reservoirs	16,979				16,979	5,230	226		5,456	11,523
Offices, maintenance, and general	39,417				39,417	6,918	833		7,751	31,666
Contract retainage	637	129	(637)		129					129
Total structures and improvements	535,710	427	(637)	302	535,802	190,278	7,277	-	197,555	338,247
DISTRIBUTION PLANT:										
Mains and accessories	2,237,372	151,678	(1,338)	91,984	2,479,696	329,484	22,374	(1,317)	350,541	2,129,155
Meters and installations	49,572			39,643	89,215	32,166	1,114		33,280	55,935
Hydrants and valves	17,247		(243)		17,004	10,440	262	(242)	10,460	6,544
Contract retainage	1,612	4,836	(1,612)		4,836					4,836
Total distribution plant	2,305,803	156,514	(3,193)	131,627	2,590,751	372,090	23,750	(1,559)	394,281	2,196,470
EQUIPMENT:										
Power production	61,671				61,671	44,531	1,239		45,770	15,901
Pumping	197,986	1,487		19,936	219,409	85,785	6,050		91,835	127,574
Purification	312,315	1,799		1,446	315,560	142,799	8,482		151,281	164,279
Heavy machinery	23,886	2,594	(1,035)		25,445	13,970	1,511	(931)	14,550	10,895
Transportation	7,732	1,007	(707)		8,032	5,426	390	(637)	5,179	2,853
Miscellaneous	17,010				17,010	13,432	513		13,945	3,065
Contract retainage	175	403	(175)		403					403
Total equipment	620,775	7,290	(1,917)	21,382	647,530	305,943	18,185	(1,568)	322,560	324,970
Total structures and improvements, distribution plant, and equipment	3,462,288	164,231	(5,747)	153,311	3,774,083	868,311	49,212	(3,127)	914,396	2,859,687
CONSTRUCTION IN PROGRESS:										
Filtration plants	25,020	17,093		(1,446)	40,667					40,667
Pumping stations	50,487	28,295		(20,238)	58,544					58,544
Water mains	181,756	163,534		(131,627)	213,663					213,663
Contract retainage	5,017	4,212	(5,017)		4,212					4,212
Total construction in progress	262,280	213,134	(5,017)	(153,311)	317,086	-	-	-	-	317,086
TOTAL UTILITY PLANT	$3,729,651	$377,365	$(10,764)	$ -	$4,096,252	$868,311	$49,212	$(3,127)	$914,396	$3,181,856

STATISTICAL DATA

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

Financial Trends Information

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

Revenue Capacity Information

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

Debt Capacity Information

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

Operating Information

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

Demographic and Economic Information

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

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
CHANGES IN NET POSITION (UNAUDITED)
THREE YEARS ENDED DECEMBER 31, 2011–2013
(In millions)

	2011 (As Restated)	2012 (As Restated)	2013
OPERATING REVENUES:			
Water sales	$ 441.8	$ 562.6	$ 620.5
Other operating revenues	12.4	13.7	16.6
Total operating revenues	454.2	576.3	637.1
OPERATING EXPENSES:			
Source of supply	0.2	0.2	0.1
Power and pumping	38.2	41.7	43.2
Purification	66.5	56.1	60.9
Transmission and distribution	39.0	36.5	29.5
Provision for doubtful accounts	14.0	15.7	25.4
Customer accounting and collection	10.6	10.0	11.6
Administrative and general	17.1	21.9	21.2
Central services and General Fund reimbursements	96.6	107.4	108.7
Total operating expenses	282.2	289.5	300.6
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	172.0	286.8	336.5
DEPRECIATION AND AMORTIZATION	47.1	48.4	49.6
OPERATING INCOME	124.9	238.4	286.9
NONOPERATING REVENUES (EXPENSES):			
Interest income	2.0	0.3	0.4
Interest expenses	(86.5)	(81.7)	(92.2)
Other operating revenues	2.2	1.1	0.5
Total nonoperating expenses — net	(82.3)	(80.3)	(91.3)
CHANGE IN NET POSITION	42.6	158.1	195.6
TOTAL NET POSITION — Beginning of year, as restated	1,050.7	1,093.3	1,251.4
TOTAL NET POSITION — End of year	$ 1,093.3	$ 1,251.4	$ 1,447.0

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

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
NET POSITION BY COMPONENTS (UNAUDITED)
FOUR YEARS ENDED DECEMBER 31, 2010–2013
(In millions)

	2010 (As Restated)	2011 (As Restated)	2012 (As Restated)	2013
NET POSITION:				
Net investment in capital assets	$ 964.9	$ 1,046.1	$ 1,062.3	$ 1,233.2
Restricted net assets for capital projects	0.4	0.2	1.3	0.7
Unrestricted net assets	85.4	47.0	187.8	213.1
TOTAL NET POSITION	$ 1,050.7	$ 1,093.3	$ 1,251.4	$ 1,447.0

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

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2004–2013
(In millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
OPERATING REVENUES:										
Water sales (1)	$ 307.6	$ 333.7	$ 317.2	$ 323.6	$ 358.0	$ 396.9	$ 445.5	$ 441.8	$ 562.6	$ 620.5
Other operating revenues	13.0	10.6	13.2	10.8	12.2	13.3	12.9	12.4	13.7	16.6
Total operating revenues	320.6	344.3	330.4	334.4	370.2	410.2	458.4	454.2	576.3	637.1
OPERATING EXPENSES:										
Source of supply	0.4	0.2	0.2	0.3	0.2	0.1	0.1	0.2	0.2	0.1
Power and pumping	42.1	50.6	49.8	52.2	54.7	47.5	42.9	38.2	41.7	43.2
Purification	40.6	43.3	41.9	44.2	48.4	49.4	49.7	66.5	56.1	60.9
Transmission and distribution	39.1	39.4	41.6	47.0	47.1	40.9	38.7	39.0	36.5	29.5
Provision for doubtful accounts	3.7	2.7	3.6	3.7	8.3	10.4	15.9	14.0	15.7	25.4
Customer accounting and collection	14.9	16.3	16.9	14.8	12.8	11.2	10.3	10.6	10.0	11.6
Administrative and general	11.5	13.2	15.1	14.9	18.1	16.1	18.5	17.1	21.9	21.2
Central services and General Fund reimbursements	72.3	80.2	74.0	83.7	87.2	98.5	103.0	96.6	107.4	108.7
Total operating expenses	224.6	245.9	243.1	260.8	276.8	274.1	279.1	282.2	289.5	300.6
INTEREST INCOME (OTHER THAN FROM CONSTRUCTIONAL ACCOUNT)	1.0	2.6	3.8	4.9	3.7	1.0	(0.3)	2.0	0.3	0.4
NET REVENUES — As defined (Note 4)	$ 97.0	$ 101.0	$ 91.1	$ 78.5	$ 97.1	$ 137.1	$ 179.0	$ 174.0	$ 287.1	$ 336.9

(1) Operating revenues are net of credits to JAWA and DWC during the year 2004.

Source: City of Chicago Comptroller’s Office.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
WATER SYSTEM ACCOUNTS (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2004–2013

Years Ended December 31	Nonmetered	Metered	Total
2004	324,689	167,545	492,234
2005	323,740	169,664	493,404
2006	322,193	171,861	494,054
2007	320,579	175,256	495,835
2008	319,205	178,457	497,662
2009	318,088	179,649	497,737
2010	314,002	183,618	497,620
2011	304,519	192,304	496,823
2012	290,863	205,097	495,960
2013	273,426	220,759	494,185

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
TEN LARGEST SUBURBAN CUSTOMERS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2013
(In thousands)

Customer	Amount of Sales
Dupage Water Commission	$ 80,944
Oak Lawn, Illinois	32,408
Northwest Suburban Municipal Joint Action Water Agency	30,482
Bedford Park, Illinois	23,167
Harvey, Illinois	9,251
Melrose Park, Illinois	9,016
Cicero, Illinois	7,442
Alsip, Illinois	6,778
McCook, Illinois	5,443
City of Des Plaines	5,310
Total	$ 210,241

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
REVENUE BOND COVERAGE (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2004–2013
(In millions)

PRIOR BONDS COVERAGE CALCULATION

COMBINED PRIOR BONDS, SENIOR LIEN, AND SECOND LIEN DEBT SERVICE CALCULATION	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined (Note 4)	$97.0	$101.0	$91.1	$78.5	$97.1	$137.1	$179.0	$174.0	$287.1	$336.9
Transfer from (to) Water Rate Stabilization account & PAYGO Fund			(7.0)	7.9			(10.0)		(13.5)	(13.5)
NET REVENUES AVAILABLE FOR BONDS	$97.0	$101.0	$84.1	$86.4	$97.1	$137.1	$169.0	$174.0	$273.6	$323.4
DEBT SERVICE REQUIREMENTS:										
Senior debt service requirements	$45.8	$ 30.1	$29.7	$38.0	$27.5	$ 33.8	$ 29.1	$ 14.1	$ 13.9	$ 21.5
Senior debt service coverage ratio	2.1	3.4	2.8	2.3	3.5	4.1	5.8	12.3	19.7	15.0
Second lien debt service requirements	$10.3	$ 27.3	$30.5	$43.2	$62.5	$ 75.7	$ 82.1	$106.6	$116.5	$125.6
Subordinate lien debt service requirements	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4	1.2	1.3
Total second and subordinate lien debt service requirements	$10.5	$ 27.5	$30.8	$43.6	$62.9	$ 76.1	$ 82.5	$107.0	$117.7	$126.9
TOTAL COMBINED SENIOR, SECOND, AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS	$56.3	$ 57.6	$60.5	$81.6	$90.4	$109.9	$111.6	$121.1	$131.6	$148.4
TOTAL COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE RATIO	1.7	1.8	1.4	1.1	1.1	1.2	1.5	1.4	2.1	2.2
WATER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	$52.3	$ 52.3	$59.3	$51.4	$51.4	$ 51.4	$ 61.4	$ 61.4	$ 74.9	$ 88.4

Source: City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
LONG-TERM DEBT (UNAUDITED)
FOUR YEARS ENDED DECEMBER 31, 2010–2013
(In millions)

	2010	2011	2012	2013
Senior lien bonds	$ 83.4	$ 68.9	$ 60.7	$ 49.0
Second lien bonds	1,614.3	1,586.9	1,951.1	1,921.6
Commercial paper	51.5	46.5	0.0	0.0
Subordinate lien — IEPA loan	4.6	18.9	18.4	26.3
Total long-term debt	$ 1,721.2	$ 1,721.2	$ 2,030.2	$ 1,996.9

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

CITY OF CHICAGO, ILLINOIS WATER FUND

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

Years	Amount
2014	$ 444,975
2015	378,011
2016	439,801
2017	451,502
2018	465,249
Total	$ 2,179,538

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

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
WATER SYSTEM PUMPAGE AND CAPACITY (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2004–2013

Years	Total Pumpage (MGD)	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)	System's Rated Pumpage Capacity (MGD)	Maximum Daily Pumpage as % of Capacity
2004	320,069	875	1,134	2,160	53
2005	337,682	925	1,377	2,160	64
2006	310,527	851	1,373	2,160	64
2007	315,916	866	1,200	2,160	56
2008	301,912	827	1,136	2,160	53
2009	295,121	809	1,112	2,160	51
2010	282,368	773	1,012	2,160	47
2011	281,506	771	1,317	2,160	61
2012	289,545	793	1,248	2,160	58
2013	276,039	756	1,095	2,160	51

Note: Million Gallons Daily (MGD).

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
AREA SERVED (IN SQUARE MILES):		
Chicago	228	228
125 suburbs	578	578
Total area served	806	806
WATER WORKS FACILITIES:		
Filtration plants	2	2
Continuous service capacity:		
South Water Filtration Plant (MGD)	720	720
Jardine Water Purification Plant (MGD)	1,440	1,440
Pumping stations — steam	4	4
Pumping stations — electric	8	8
Installed pumping capacity (MGD)	3,661	3,661
Crib intakes in service	2	2
Shore intakes (filtration plants)	2	2
Water supply tunnels (6 to 20 feet in diameter) — miles	64	64
DISTRIBUTION SYSTEM:		
Water mains (miles)	4,321	4,369
Fire hydrants	48,614	48,243
Valves	49,447	47,189

Note: Million Gallons Daily (MGD).

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
OPERATING INFORMATION BY FUNCTION (UNAUDITED)
FOUR YEARS ENDED DECEMBER 31, 2010–2013
(Number of employees)

Function	2010	2011	2012	2013
Administration	65	63	62	61
Agency management	37	39	37	37
Safety and security	19	17	16	16
Capital design and construction services	10	10	8	8
Engineering services	4	4	4	4
Inspection services	32	32	30	29
Water quality	48	48	48	47
Water pumping	233	231	234	222
Water treatment	324	326	323	336
Systems installation	39	39	34	75
Systems maintenance	582	581	583	542
Billings and customer service	65	66	50	50
Water meter installation and repair	76	78	82	84
Total	1,534	1,534	1,511	1,511

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

CITY OF CHICAGO, ILLINOIS WATER FUND

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

Years	Chicago		Suburban Customers		Total	Number of Suburbs Served
1970	3,369,357	(1)	1,127,446	(1)	4,496,803	72
1980	3,005,072	(1)	1,152,614	(1)	4,157,686	75
1990	2,783,726	(1)	1,589,557	(2)	4,373,283	95
2000	2,896,016	(1)	2,410,021		5,306,037	125
2010	2,695,598	(1)	2,600,496		5,296,094	125

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

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
PRINCIPAL EMPLOYERS (NONGOVERNMENT) (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2013, AND NINE YEARS AGO

	2013 (1)			2004 (1)		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
J.P. Morgan Chase (2)	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	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			.00
ABM Janitorial Services — North Central	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			.00
American Airlines	2,749	10	0.25	3,985	5	0.38
SBC Ameritech (3)			.00	4,803	3	0.45
Target Corporation			.00	2,940	8	0.28
ABN Amro			.00	2,923	9	0.28

(1) Source: City of Chicago, Department of Revenue, Employer's Expenses Tax Returns.
(2) J.P. Morgan Chase, formerly known as Banc One
(3) Ameritech currently known as SBC/AT&T

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
POPULATION AND INCOME STATISTICS (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2004–2013

Year	Population (1)	Median Age (2)	Number of Households (2)	Unemployment Rate (3)	Per Capita Income (4)	Total Income (6)
2004	2,896,016	32.6	1,051,018	7.2	37,169	$ 107,642,018,704
2005	2,896,016	33.0	1,045,282	7.0	38,439	111,319,959,024
2006	2,896,016	33.5	1,040,000	5.2	41,887	121,305,422,192
2007	2,896,016	33.7	1,033,328	5.7	43,714	126,596,443,424
2008	2,896,016	34.1	1,032,746	6.4	45,328	131,270,613,248
2009	2,896,016	34.5	1,037,069	10.0	43,727	126,634,091,632
2010	2,695,598	34.8	1,045,666	10.1	45,957	123,881,597,286
2011	2,695,598	33.2	1,048,222	9.3	N/A (5)	123,935,509,246
2012	2,695,598	33.0	1,030,746	8.9	N/A (5)	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 & 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