

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

MSD

Metropolitan Sewer District
Louisville, Kentucky USA

A Component Unit Of The Louisville KY Metro Government

***LOUISVILLE AND JEFFERSON COUNTY, KY
METROPOLITAN SEWER DISTRICT (MSD)***

**A COMPONENT UNIT OF THE LOUISVILLE KY METRO
GOVERNMENT**

***COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT***

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**Prepared by the Division of Budget and Finance
Marion Gee, Director**

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION



Louisville and Jefferson County Metropolitan Sewer District
700 West Liberty
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Louisville Kentucky 40203-1911
502-540-6000
www.msdlouky.org

October 26, 2010

Customers, Investors and Board
Louisville and Jefferson County Metropolitan Sewer District

Ladies and Gentlemen:

The Comprehensive Annual Financial Report ("CAFR") of the Louisville and Jefferson County, Kentucky, Metropolitan Sewer District ("MSD") for the fiscal year ended June 30, 2010 ("2010") is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with MSD. To provide a reasonable basis for making these representations, the management of MSD has established a comprehensive internal control framework that is designed to both protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of MSD's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, MSD's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of MSD's knowledge and belief, the accompanying data is accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of MSD. All disclosures necessary to enable the reader to understand MSD's financial activities have been included. We encourage readers to review the narrative introduction, overview, and analysis found in Management's Discussion and Analysis (MD&A) along with the footnotes that accompany the financial statements.

Profile of MSD

MSD was created in 1946 as a public body corporate and subdivision of the Commonwealth of Kentucky ("the Commonwealth"). MSD has complete control, possession and supervision of the sewer and drainage systems within the majority of Louisville Metro, which now comprises all of Jefferson County, Kentucky. Chapter 76 of the Kentucky Revised Statutes authorizes MSD to construct additions, betterments, and extensions within its service area and to recover the cost of its services in accordance with rate schedules adopted by its Board.

MSD is considered a component unit of the Louisville-Jefferson County Metro government ("Louisville Metro government"). The Louisville Metro Mayor appoints, with the approval of the Louisville Metro Council, the members to MSD's governing Board. The Board, which has statutory authority to enter into contracts and agreements for the management, regulation and financing of MSD, manages its business and activities. The Board has full statutory responsibility for approving and revising MSD's budgets, for financing deficits and for disposition of surplus funds. MSD has no special financial relationship with the Louisville Metro government; however effective July 1, 2006 MSD began providing free sewer and drainage services to the Metro government. The value of these services in 2010 was \$3.3 million.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County which, with a 2009 population of approximately 722,000, is Kentucky's largest and the center of the seven Kentucky and Indiana counties which comprise the Louisville metropolitan area ("Greater Louisville"). The employment count (not seasonally adjusted) for the Louisville Metropolitan Statistical Area (MSA) decreased in June 2010 to 579,095; a decrease of 4,799 from the June 2009 level of 583,894. The June 2010 unemployment rate for the Louisville MSA was 10.3% compared to a national average of 9.6% and a state average of 10.0% for this same time period.

During 2010, construction continued on a 22,000 seat arena that will host University of Louisville basketball, major concerts, and other events. The KFC Yum! Center officially opened on October 10, 2010. Two of Louisville's largest employers, Ford Motor Company and General Electric, announced plans to expand their workforce. In June 2010, Ford announced that production of the Ford Escape would be moved to the Louisville Assembly Plant from Missouri. The plant is being retooled to accommodate the production of smaller vehicles. General Electric announced plans to add an additional 300 jobs at its Louisville Appliance Park to meet the expected demand for its energy efficient appliances.

During 2009, Louisville's reputation as a great place to live and to conduct business continued to flourish. Business Facilities ranked Louisville as having the 7th lowest cost of living among all major cities in its "Top 10 Metro" rankings in the July/August 2010 issue. It also named Louisville as one of the top 10 major cities for "Economic Growth Potential". In addition, Louisville was named one of the "Most Livable U.S. Cities for Workers" by WomenCo.com and one of the "Cities to Watch" in the Smarter Cities environmental survey. America's Promise Alliance, the nation's largest partnership organization dedicated to youth and children, named Louisville one of the nation's "100 Best Communities for Young People."

During 2010, MSD continued to benefit from a diversified customer base. Fifty-two percent (52%) of its service charge revenue came from residential customers with the remaining forty-eight percent (48%) coming from commercial and industrial customers. During 2010, sewer accounts increased by 1,869 or 0.8% to 228,580.

Despite the national real estate slump, demand for Louisville residential properties continued to remain steady in 2009. Forbes magazine ranked Louisville as the second best housing market in the United States. Construction permitting within Louisville Metro is projected to also remain steady in calendar year 2010. According to Business First magazine, residential permit filings are on pace to reach 1,643 which would be 21 short of the total in 2009. However, commercial permit filings are on pace to hit 564, which would be nearly ten percent (10%) more than the total of 512 in 2009. Building permitting is a key barometer of MSD's prospects for long-term growth and the main contributor to its system development revenue. In 2010, revenue from system development charges amounted to .4% of total operating revenues and it was .5% of the total in FY 2009. This source of revenue is extremely sensitive to changes in the economic climate which affect homebuilding.

Major Initiatives

Project WIN goes Green

In order to meet the requirements of the consent decree that MSD signed with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the U.S. Environmental Protection Agency (EPA) in 2005 to address sanitary and combined sewer overflows; Project WIN – or Waterway Improvements Now – was created. Project WIN is a comprehensive sewer improvement plan and it includes the implementation of sewer improvement projects to minimize the impact of combined sewer overflows, eliminate sanitary sewer overflows, and rehabilitate the community's aging sewer system. In addition, it also involves keeping the public informed of potential health risks, financial impacts, and construction project activity. Project WIN is estimated to cost approximately \$850 million over a twenty-year period. In April 2009, MSD entered into an amended consent decree to address sanitary sewer overflows and unauthorized discharges from MSD's sanitary sewer system, combined sewer system, water quality treatment centers, and discharges from MSD's combined sewer overflow locations identified in the Kentucky Pollutant Discharge Elimination System permit for the Morris Forman Water Quality Treatment Center.

During the fourth quarter of 2008, MSD submitted detailed plans to the KEPPC and the EPA outlining the capital improvement program designed to minimize and/or abate overflows. In September 2009, MSD received preliminary approval to proceed with the projects identified in the plans. These plans call for MSD to

invest in both “green” and traditional concrete infrastructure, which will work to increase the amount of stormwater absorbed into the ground thus reducing the amount of sewage overflow into area streams. As part of its consent decree, MSD committed to implementing Green Infrastructure demonstration projects at 19 locations within the Louisville Metro area during the next two calendar years. The Integrated Overflow Abatement Plan (IOAP) requires that 12 of the projects be finished in calendar year 2010. A study summarizing the business case value of green initiatives was developed as part of the IOAP. It assigned a value per unit of installed green practice to MSD, which is based on the reduction of overflows, decreased plant flows and the “right sizing” of IOAP gray projects. Planned green infrastructure projects will be evaluated for determining the total benefit received by MSD and the community based on the size of various technologies used. MSD believes that green infrastructure projects will be as effective as traditional concrete or “gray” infrastructure projects but they can be constructed at a lower cost.

MSD Operations among the Nation’s Best

The National Association of Clean Water Agencies (NACWA) awarded 2009 Gold and Silver Peak Performance Awards to MSD’s 21 treatment centers. This extraordinary achievement surpassed the combination of 19 Gold and Silver Awards with which MSD facilities were honored in 2008. Fourteen MSD treatment centers earned 2009 Gold Awards, which reflect 100 percent compliance for a full year with the National Pollutant Discharge Elimination System (NPDES) permits. Seven facilities won consistent-compliance Silver Awards, which represent five or fewer NPDES permit violations within a year.

In addition to the recognition by NACWA, the Kentucky-Tennessee Water Environment Association honored 20 MSD water quality treatment centers with the Operational Excellence Award for 2009. The award represents one or fewer National Pollutant Discharge Elimination System permit violations for a calendar year.

Factors Affecting Financial Condition

Cash and Investment Management

Cash temporarily idle during the year was invested in insured certificates of deposit, repurchase agreements and obligations of the U.S. Treasury. MSD’s investment policy is to minimize credit and market risks, while maintaining a competitive yield on its portfolio. Accordingly, deposits either were insured by federal depository insurance or collateralized.

Gross investment income in 2010 was \$36.0 million compared to gross earnings of \$25.6 million in 2009. The additional investment income is due to an increase in the amount of funds available for investment as a result of bond issues and increased revenue funds.

Gross 2010 interest expense of \$85.6 million represented a 5.63% cost of funds on average outstanding indebtedness of \$1.52 billion, which compares with gross interest expense of \$72.8 million, representing a 5.11% cost of funds on average 2009 debt of \$1.42 billion. Gross interest expense does not include rebates from the federal government of interest paid relating to Build America Bonds which amounted to \$2.3 million in 2010. No rebates were received in FY 2009.

Risk Management, Insurance, and Employee Benefits

MSD maintains a comprehensive risk management program, utilizing third-party and self-insurance. Basic workers compensation is self-insured, while excess coverage is provided through third-party insurance. MSD participates in the Louisville Area Governmental Self-Insurance Trust (LAGIT), a pooled municipal self-insurance program, for comprehensive general and automobile liability and property coverage. All other risks (including public employees and blanket bond, life and accidental death and dismemberment, long-term disability, travel accident and group medical/dental) are insured by third parties. MSD self-insures employees' short-term disability in lieu of compensated sick leave.

MSD employees participate in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit plan administered by the Kentucky Retirement System. MSD contributed 16.16% of participating employees' compensation in 2010 and 13.50% in 2009, which amounted to \$5.6 and \$4.7 million in 2010 and 2009, respectively. Employees hired prior to September 1, 2008 are required to contribute 5% of their compensation and those hired after September 1, 2008 are required to contribute 6% of their compensation. Employee contributions totaled \$1.8 million in 2010 and \$1.7 million in 2009.

Other Information

Independent Audit

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. A joint venture of Crowe Horwath, LLP and Janice Porter, CPA, was selected by the MSD Board to conduct the 2010 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal year ended June 30, 2010 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MSD's financial statements for the fiscal year ended June 30, 2010 are fairly presented in conformity with GAAP. The auditors' opinion and report on the basic financial statements is included in the Financial section of this report.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MSD for the 20th consecutive time for its CAFR for the year ended June 30, 2009. In order to be awarded a Certificate of Achievement, MSD published an easily readable and efficiently organized CAFR. The report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. MSD believes that its current CAFR continues to meet the Certificate of Achievement Program's requirements and will submit the current report to GFOA to determine its eligibility for another Certificate.

I wish to take this opportunity to thank the MSD Board and Executive Director Herbert J. Schardein, Jr., for their continued support and fiscally responsible management of MSD's financial resources.

I also express my deepest appreciation to the staff of MSD's Budget and Finance Division. This report could not have been completed in a timely manner without your commitment and dedication.

Respectfully submitted,

A handwritten signature in black ink that reads "Marion M. Gee". The signature is written in a cursive, flowing style.

Marion M. Gee

Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Louisville and Jefferson County
Metropolitan Sewer District
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



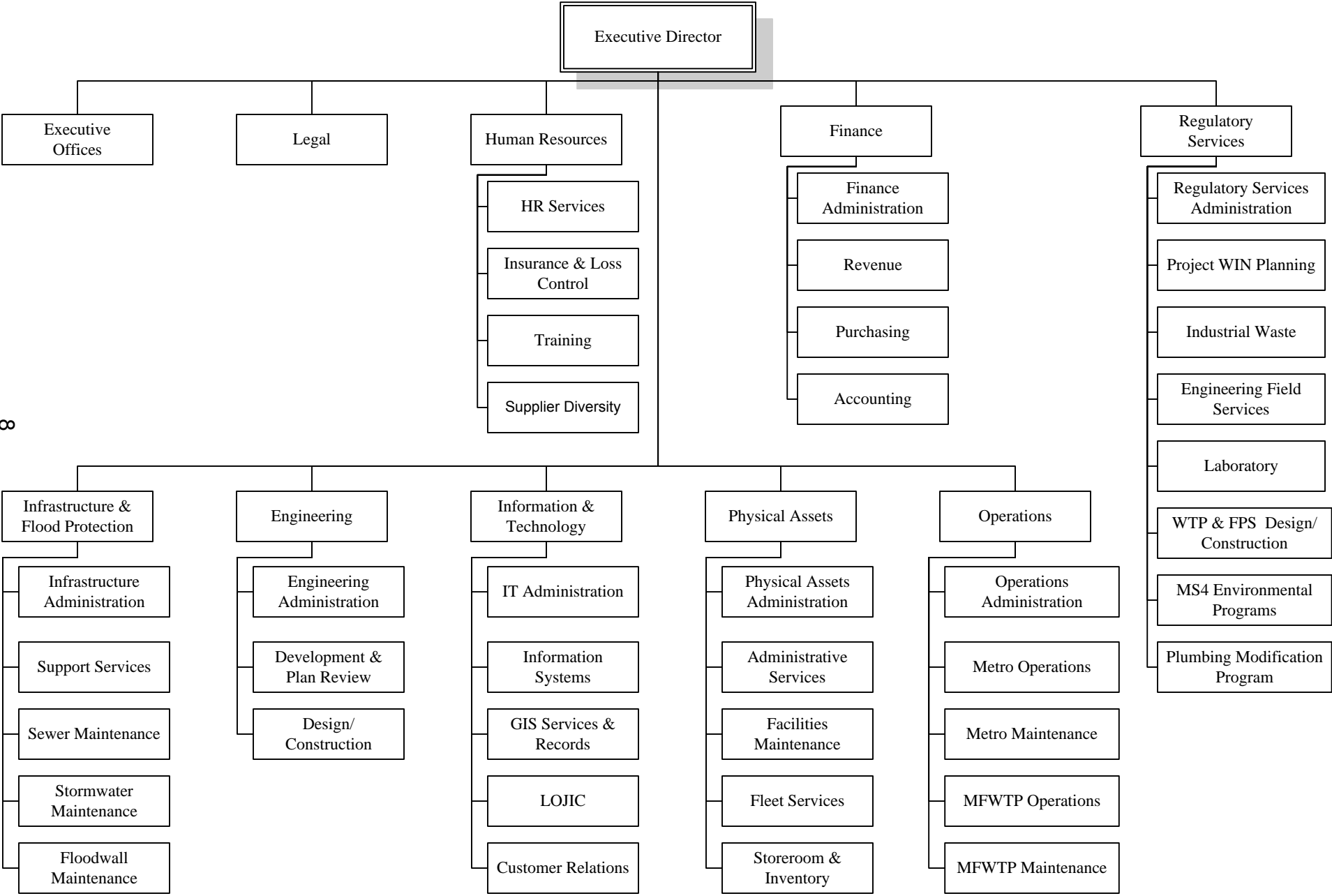
A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Louisville and Jefferson County
Metropolitan Sewer District
Organization Chart



MSD BOARD

Audwin A. Helton, Chairperson

Martin D. Hoehler, Vice Chairperson

Arnold J. Celentano

Marvin D. Stacy

Jerome L. Clark

Charles E. Weiter

Benjamin K. Richmond

Beverly A. Wheatley

Herbert J. Schardein, Jr., Secretary/Treasurer

PRINCIPAL OFFICERS

Herbert J. Schardein, Jr., Executive Director
Co-Human Resources Director

Mark Johnson, Director
Engineering

James Hunt, Director
Physical Assets

Paula Purifoy
Legal Counsel
Co-Human Resources Director

Bruce Seigle, Director
Information Technology

Alex Novak, Director
Operations

W. Brian Bingham, Director
Regulatory Management Services

Saeed Assef, Director
Infrastructure & Flood Protection

Dennis Thomasson, Director
Emergency Response & Metro Operations

Marion Gee, Director
Finance

FINANCIAL OFFICERS

Marion Gee, Chief Financial Officer

Maria Mullaney
Controller

Renee Thomas
Purchasing Manager

Sharon Dawson
Revenue Manager

Kim Decker
Budget Administrator

Jenni Schelling
Internal Auditor

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Louisville and Jefferson County Metropolitan Sewer District
Louisville, Kentucky

We have audited the accompanying financial statements of the Louisville and Jefferson County Metropolitan Sewer District, a component unit of the Louisville-Jefferson County Metro Government, as of June 30, 2010 and 2009 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Louisville and Jefferson County Metropolitan Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville and Jefferson County Metropolitan Sewer District, as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, item R to the financial statements, the Louisville and Jefferson County Metropolitan Sewer District restated its July 1, 2008 net asset balances to properly account for the fair value of derivative instruments in accordance with accounting principles generally accepted in the United States of America and to properly classify net assets. This change was required for adoption of GASB 53 as of June 30, 2010.

The Management's Discussion and Analysis on pages 12 through 19 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Louisville and Jefferson County Metropolitan Sewer District taken as a whole. The information presented in the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Crowe Horwath LLP

Louisville, Kentucky
October 25, 2010



*Louisville and Jefferson County Metropolitan Sewer District
700 West Liberty
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502-540-6000
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Management's Discussion and Analysis

As management of the Louisville and Jefferson County Metropolitan Sewer District (MSD), we offer readers of MSD's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- MSD's net assets decreased by \$64.3 million (-11.5%) as a result of this year's operations and implementation of GASB Statement No. 53.
- Operating revenues increased by \$4.0 million (2.4%) to \$171.6 million.
- Operating expenses excluding depreciation increased by \$1.2 million (1.8%).
- Non-operating revenues (investment income) increased by \$10.5 million (41.0%) and non-operating expenses (including changes due to the implementation of GASB Statement No. 53) increased by \$77.3 million (106.3%).

Overview of the Financial Statements

This annual report consists of three parts: Introductory Section, Financial Section, and Supplementary Information. The Financial Section includes notes that provide additional information relating to MSD's financial condition. Readers are encouraged to read the notes to better understand the financial statements.

Required Financial Statements

The Statement of Net Assets

The Statement of Net Assets includes all of MSD's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of MSD and assessing the liquidity and financial flexibility of the organization.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

The Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets identifies the revenues generated and expenses incurred during the fiscal year. This statement helps the user to assess the profitability of MSD during the time period for which the statement relates.

The Statement of Cash Flows

The Statement of Cash Flows provides information relating to MSD's cash receipts and cash expenditures during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Information

MSD's net assets decreased by \$64.3 million in FY 2010 to \$492.8 million. This change in net assets was due to a \$78.4 million decline in the fair value of various swap agreements. MSD implemented GASB Statement No. 53 during FY 2010 which required changes in swap values to be reported in its financial statements which in turn impacted MSD's net assets.

MSD's total assets increased by approximately \$345.7 million in 2010. This increase was the result of proceeds that were received from a \$180 million Build America bond issue as well as a \$226.3 million bond anticipation note issue. In addition, this increase can be attributed to a \$61.2 million increase in plant, lines, and other facilities which was driven by increased construction activity.

Table 1 Condensed Statement of Net Assets (000's)					
	FY 2010	Restated FY 2009	Dollar Change	Percent Change	FY 2008
Unrestricted Current Assets	\$ 46,202	\$ 53,342	\$ (7,140)	-13.4%	\$ 46,675
Restricted Current Assets	453,803	97,291	356,512	366.4%	132,501
Noncurrent Assets	1,912,731	1,916,360	(3,629)	-0.2%	1,848,851
Total Assets	2,412,736	2,066,993	345,743	16.7%	2,028,027
Current Liabilities	11,141	11,035	106	1.0%	10,548
Current Liab. from Restr. Assets	506,480	42,461	464,019	1092.8%	39,311
Noncurrent Liabilities	1,402,319	1,456,410	(54,091)	-3.7%	1,427,649
Total Liabilities	1,919,940	1,509,906	410,034	27.2%	1,477,508
Invested in Capital Assets, net	450,754	470,445	(19,691)	-4.2%	478,833
Restricted Assets, net	455,899	100,225	355,674	354.9%	135,537
Unrestricted	(413,857)	(13,583)	(400,274)	2946.9%	(63,851)
Total Net Assets	492,796	557,087	(64,291)	-11.5%	550,519
Total Liabilities and Net Assets	\$ 2,412,736	\$ 2,066,993	\$ 345,743	16.7%	\$ 2,028,027

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

Total liabilities increased by \$410.0 million in 2010. This increase was due to the issuance of a bond anticipation note (\$226.3 million) in May 2010 that was used to retire the bond anticipation note issued in August 2009. In addition, MSD also issued \$180 million of Build America bonds to fund capital improvements.

Results of Operations

Revenues

Total Operating Revenues as of June 30, 2010 were \$171.6 million compared to \$167.6 million for the same period last year, an increase of \$4.0 million or 2.4%. This increase in operating revenues was primarily driven by a board approved rate increase of 6.5% on wastewater and stormwater fees that was enacted on August 1, 2009. During FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to \$3.3 million in FY 2010 and \$3.1 million in FY 2009.

Wastewater Service Charges totaled \$133.8 million as of June 30, 2010. This represents an increase of \$3.2 million or 2.4% from a year ago. Free wastewater services provided to the Louisville Metro Government amounted to \$2.8 million during FY 2010 and \$2.6 million during FY 2009. The majority of MSD's wastewater customers are billed based on the amount of water used. Since substantially all of MSD's customers are also customers of the Louisville Water Company, this charge is billed and collected by the Louisville Water Company on behalf of MSD.

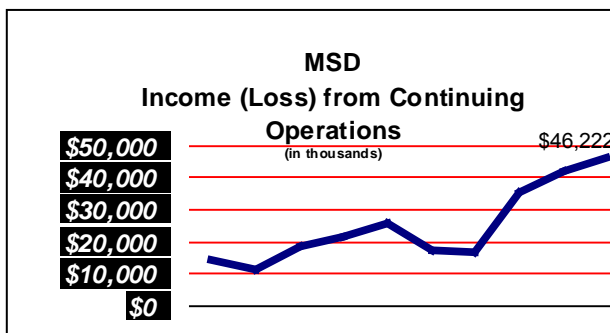
Stormwater service charges were \$34.8 million as of June 30, 2010. This represents an increase of \$2.4 million or 7.5% from the same period one year ago. This increase is net of the \$477,600 of free stormwater services provided during FY 2010 and \$422,400 during FY 2009 to the Louisville Metro Government.

Other operating income was \$1.6 million less than the amount recorded in FY 2009. This decrease was due to approximately \$1.5 million that was recorded in FY 2009 for reimbursement of expenses incurred due to natural disasters. In addition, capacity charges decreased by \$256,000. This revenue source is driven by construction activity which within the community at large remained stagnant in FY 2010.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

Table 2 Condensed Statements of Revenues, Expenses, and Changes in Net Assets (000's)					
	FY 2010	FY 2009	Dollar Change	Percent Change	FY 2008
Service Charges	\$ 168,610	\$ 163,004	\$ 5,606	3.4%	\$ 156,889
Other Operating Income	2,980	4,552	(1,572)	-34.5%	4,394
Total Operating Revenues	171,590	167,556	4,034	2.4%	161,283
Investment Income	36,045	25,568	10,477	41.0%	4,895
Total Revenues	207,635	193,124	14,511	7.5%	166,178
Depreciation & Amortization Expense	55,417	56,727	(1,310)	-2.3%	55,363
Other Operating Expenses	69,951	68,742	1,209	1.8%	70,457
Nonoperating Expenses	71,673	72,776	(1,103)	-1.5%	56,388
Decrease upon hedge termination	58,556	-	58,556		-
Change in Fair Value - Swaps	19,889	-	19,889		-
Total Expenses	275,486	198,245	77,241	39.0%	182,208
Net income (loss) before contributions	(67,851)	(5,121)	(62,730)	1225.0%	(16,030)
Contributions	3,560	11,689	(8,129)	-69.5%	15,175
Change in net assets	(64,291)	6,568	(70,859)	-1078.9%	(855)
Beginning Net Assets	557,087	550,519	6,568	1.2%	551,374
Ending Net Assets	\$ 492,796	\$ 557,087	\$ (64,291)	-11.5%	\$ 550,519

MSD recorded a net operating income of \$46.2 million compared to \$42.1 million in FY 2009, an increase of \$4.1 million or 9.8%. Increases in service



charges of \$5.6 million from FY 2009 levels resulted in this change. In FY 2010, net cash provided by operating activities decreased slightly from \$99.9 million in FY 2009 to \$99.2 million in FY 2010.

Expenses

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the last three fiscal years. These costs are reported net of capitalized overhead and reimbursed expenses of \$31.5 million in

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

FY 2010 and \$26.8 million in FY 2009 in the Statement of Revenues, Expenses, and Changes in Net Assets. Gross service and administrative costs increased by \$5.9 million in FY 2010 from FY 2009 levels. Labor cost increased by \$3.6 million of which the majority of this change was due to increases in salary and wages (\$1.5 million), medical insurance (\$567,000), and retirement contributions (\$950,000). Increases in electricity expenses of \$1.8 million which was partially offset by a decline in natural gas expenses of \$885,000 was the primary driver for the \$1.1 million increase in utilities. In addition, bad debt expenses increased by \$834,000 which lead to additional billing and collection expenses in FY 2010.

Table 3 Gross Service and Administration Costs (000's)											
	2010			2009			Variance	%	2008		
Service and administrative costs:											
Labor	\$	52,945	52%	\$	49,354	52%	\$	3,591	7.3%	\$	49,431
Utilities		11,879	12%		10,818	11%		1,061	9.8%		12,989
Materials and supplies		9,031	9%		8,742	9%		289	3.3%		8,707
Professional services		2,363	2%		2,730	3%		(367)	-13.4%		3,126
Maintenance and repairs		8,847	9%		9,675	10%		(828)	-8.6%		8,926
Billing and collections		4,461	4%		3,623	4%		838	23.1%		5,318
Chemicals		4,781	5%		4,372	5%		409	9.4%		3,805
Fuel		1,318	1%		1,315	1%		3	0.2%		1,344
Biosolids disposal		2,186	2%		2,063	2%		123	6.0%		1,661
All other		3,638	4%		2,817	3%		821	29.1%		2,800
Gross service and admin. costs	\$	101,449	100%	\$	95,509	100%	\$	5,940	6.2%	\$	98,107

Depreciation and Amortization

Depreciation and amortization expense of \$55.4 million was \$1.3 million less than the FY 2009 amount. This expense is expected to increase in future years as MSD adds additional capital assets to its wastewater and stormwater systems.

Capital Assets, Short-term and Long-term Debt

MSD's total gross capital assets increased by \$158.0 million in FY 2010. Major additions include the completion of \$91.9 million of sewer line installations and \$27.3 million of stormwater drainage facilities. Readers are encouraged to review the Comparative Schedules of Plant, Lines, and Other Facilities that are contained in the statistical section of the CAFR for additional information regarding changes to capital assets. Also, readers should review Note 5 to the

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

financial statements which provides additional information relating to MSD's capital assets.

In August 2009, MSD issued \$226.3 million of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2009A. The proceeds of the notes were used to refund and refinance on a short-term basis certain of the District's outstanding Sewer and Drainage System Revenue Bonds, Series 1999A and a portion of its 1997A and 1998A Revenue Bonds until the District issues long-term debt to provide permanent financing for such refunding.

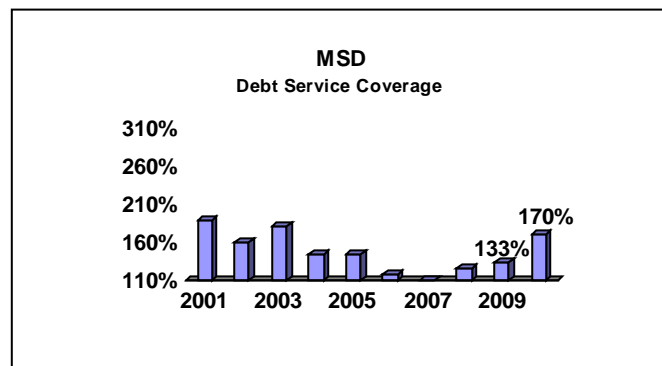
In May 2010, MSD issued \$226.3 million of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A. The proceeds of the notes were used to refinance the 2009A Notes at a lower interest cost to MSD. The 2009A Notes were paid off on August 19, 2010.

In August 2009, MSD issued \$225.8 million of revenue bonds to current refund a portion of its Series 1997A, 1999A, 2003A, and 2003B bond issues.

In November 2009, MSD issued \$180 million in Build America Bonds to finance its capital program. Build America Bonds allow the issuer to receive a subsidy equal to 35% of future interest payments from the federal government. As of June 30, 2010, approximately \$133.9 million of these bond proceeds remained. The remaining funds are expected to be used for additional expansions to the wastewater and drainage systems, plant expansions, flood protection systems, and other wastewater and stormwater projects. Note 7 to the financial statements provides readers with a comparative schedule of long-term debt outstanding at June 30, 2010 and June 30, 2009.

Net interest expense totaled \$71.7 million in FY 2010 and \$72.8 million in FY 2009; a decrease of \$1.1 million. This decrease occurred because of debt refundings in FY 2010 (see Note 7 to the financial statements) and capitalized interest expense that was recorded in FY 2010 but not in FY 2009.

Although net operating income is the most significant component of the factors which go into determining MSD's debt service coverage, other sources, including investment income and current period payments of property owner assessments also are included in "available revenues" and "net revenues" for purposes of demonstrating MSD's performance under the several debt service ratio tests of the 1993 Sewer and



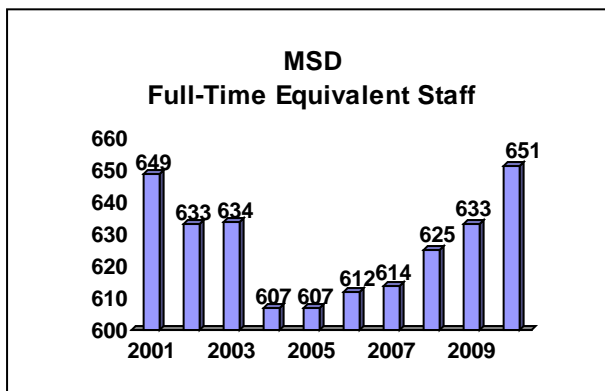
**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

Drainage System Revenue Bond Resolution (the Resolution).

The 1993 Resolution and its supplements require MSD to provide "available revenues", as defined in the Resolution, sufficient to pay 110% of each year's "aggregate net debt service" on Revenue Bonds and 100% of "operating expenses". "Available revenues," as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of bonds issued pursuant to the Resolution, but exclude any interest income which is capitalized in accordance with generally accepted accounting principles. "Operating expenses" include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating expenses" do not include reserves for extraordinary maintenance and repair, or administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from proceeds of such debt. "Aggregate net debt service" is aggregate debt service on all bonds issued pursuant to the Resolution, excluding (i) interest expense which, in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt and (ii) other amounts, if any, available or expected to be available in the ordinary course for payment of debt service. MSD's debt service coverage, calculated on the foregoing basis, was 170% in 2010 and 133% in 2009.

MSD is not allowed to include depreciation expense in the formula authorized by the Louisville Metro Government to calculate allowable rate increases. The applicable rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate net principal and interest requirements on Revenue Bonds that MSD covenants in the Revenue Bond Resolution. However, the straight-line depreciation of plant, lines and other facilities substantially exceeds scheduled principal amortization on the Revenue Bonds.

Other Information



MSD's employee count, including vacant positions, increased to 651 in 2010 compared to 633 full-time equivalent positions in 2009. Labor cost was 52% of gross service and administrative costs in 2010 and 2009.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Continued)**

Other Significant Matters

In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the U.S. Environmental Protection Agency (EPA). The agreement calls for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. The cost of the projects has yet to be determined but the preliminary estimate is \$850 million over the next two decades. MSD has submitted plans to finance the projects through additional bonds and future rate increases. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree (see Note 12 to the financial statements).

Requests For Additional Information

This report is intended to provide readers with a general overview of MSD's finances and to provide information regarding the receipts and uses of funds. If you need clarification regarding a statement(s) made in the report or need additional information, please contact the Louisville and Jefferson County Metropolitan Sewer District, 700 West Liberty Street, Louisville Kentucky 40203. You can also submit a request for additional information via MSD's website at www.msdlouky.org.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS
(in thousands)

	<u>June 30, 2010</u>	<u>Restated June 30, 2009</u>
<u>Assets</u>		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 24,700	\$ 22,552
Unrestricted investments	100	7,733
Restricted cash and cash equivalents	58,923	35,988
Restricted investments	394,880	61,303
Accounts receivable, less allowance for doubtful accounts of \$342 (2010), \$414 (2009)	15,779	18,065
Inventories	3,110	3,027
Accrued interest receivable	1,140	102
Prepaid expenses and other current assets	<u>1,373</u>	<u>1,863</u>
Total current assets	<u>500,005</u>	<u>150,633</u>
Noncurrent assets:		
Long-term assessment receivables	22,527	25,146
Unamortized debt discount & expense	12,192	15,921
Deferred outflow on hedging interest rate swaps		58,556
Plant, lines and other facilities, net	<u>1,878,012</u>	<u>1,816,737</u>
Total noncurrent assets	<u>1,912,731</u>	<u>1,916,360</u>
Total assets	<u>\$ 2,412,736</u>	<u>\$ 2,066,993</u>
<u>Liabilities</u>		
Current liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	\$ 11,141	\$ 11,035
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor's retainages of \$1,307 (2010), \$352 (2009)	13,692	7,735
Accrued interest payable	14,701	8,143
Refundable deposits	1,622	3,478
Bond Anticipation Notes	452,680	-
Current maturities of bonds payable	<u>23,785</u>	<u>23,105</u>
Total current liabilities	<u>517,621</u>	<u>53,496</u>
Non-current liabilities:		
Other liabilities	1,630	2,114
Deferred debits and credits	13,301	14,463
Unamortized debt premium	25,449	10,835
Interest rate swaps	78,446	58,556
Bonds payable, net of loss on refunding	<u>1,283,493</u>	<u>1,370,442</u>
Total non-current liabilities	<u>1,402,319</u>	<u>1,456,410</u>
Total liabilities	<u>\$ 1,919,940</u>	<u>\$ 1,509,906</u>
<u>Net Assets</u>		
Invested in plant, lines and other facilities, net of related debt	\$ 450,754	\$ 470,445
Restricted for payment of bond principal and interest	455,899	100,225
Unrestricted	<u>(413,857)</u>	<u>(13,583)</u>
Total net assets	<u>\$ 492,796</u>	<u>\$ 557,087</u>
Total Liabilities and Net Assets	<u>\$ 2,412,736</u>	<u>\$ 2,066,993</u>

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended June 30, 2010	Year Ended June 30, 2009
Operating revenues:		
Service charges	\$ 168,610	\$ 163,004
Other operating income	<u>2,980</u>	<u>4,552</u>
Total operating revenues	171,590	167,556
Operating expenses:		
Service and administrative costs	69,951	68,678
Loss on disposal of assets	-	64
Depreciation and amortization	<u>55,417</u>	<u>56,727</u>
Total operating expenses	<u>125,368</u>	<u>125,469</u>
Income from operations	<u>46,222</u>	<u>42,087</u>
Non-operating revenue (expenses):		
Investment income	36,045	25,568
Interest expense - Bonds	(69,949)	(69,893)
Interest expense - Swaps	(8,815)	(2,883)
Interest expense - Other	(6,819)	-
Capitalized Interest	13,910	-
Decrease upon hedge termination	(58,556)	-
Change in Fair Value - Swaps	<u>(19,889)</u>	<u>-</u>
Total non-operating revenue (expenses) - net	<u>(114,073)</u>	<u>(47,208)</u>
Net income (loss) before contributions	(67,851)	(5,121)
Contributions		
Property owner assessments	(545)	2,239
All other	<u>4,105</u>	<u>9,450</u>
Increase (decrease) in net assets	(64,291)	6,568
Net assets, beginning of year	557,087	550,519
Net assets, end of year	<u><u>\$ 492,796</u></u>	<u><u>\$ 557,087</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended June 30, 2010	Restated Year Ended June 30, 2009
Cash flows from operating activities:		
Cash received from customers	\$ 171,641	\$ 166,123
Cash paid to suppliers	(35,107)	(30,573)
Cash paid to employees	(37,319)	(35,724)
Net cash provided by operating activities	<u>99,215</u>	<u>99,826</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	405,770	76,275
Proceeds from bond anticipation notes	452,680	-
BAB refund	2,260	-
Assessments receivable	2,998	557
Interest income - assessments	1,588	1,471
Unamortized loss on refundings	(3,764)	1,277
Amortization of loss on refunding	(1,341)	(1,277)
Principal paid on revenue bonds	(488,275)	(95,045)
Interest paid on revenue bonds	(70,192)	(69,063)
Acquisition and construction of capital assets	(78,880)	(63,815)
Retainage payable	955	(466)
Acquisition of non-operating property	(484)	(261)
Net cash (used in) capital and related financing activities	<u>223,315</u>	<u>(150,347)</u>
Cash flows from investing activities:		
Restricted Investments	(333,577)	(34,101)
Unrestricted Investments	7,633	6,646
Income on investments	37,519	24,936
Interest expense - Swap agreements	(8,832)	(4,166)
Unamortized premium on forward delivery agreement	(190)	(77)
Net cash (used in) provided by investing activities	<u>(297,447)</u>	<u>(6,762)</u>
Net increase (decrease) in cash and cash equivalents	25,083	(57,283)
Cash and cash equivalents beginning of year	<u>58,540</u>	<u>115,823</u>
Cash and cash equivalents, end of year	<u>\$ 83,623</u>	<u>\$ 58,540</u>

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
(CONTINUED)
(in thousands)

	Year Ended June 30, 2010	Restated Year Ended June 30, 2009
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 46,221	\$ 42,087
Depreciation & Amortization	55,417	56,727
Loss from retired assets	-	64
Capital expense over/under applied	(2,988)	(856)
Accounts receivable	1,906	(702)
Inventories	(83)	(6)
Deferred charges (prepaids)	490	(479)
Accounts payable	(751)	2,945
Customer deposits	(1,856)	(731)
Accrued liabilities	859	777
Net cash provided by operating activities	<u>\$ 99,215</u>	<u>\$ 99,826</u>
Non-cash capital financing and investing activities:		
Contribution of plant, lines and other facilities by developers and property owners	<u>\$ 3,560</u>	<u>\$ 11,689</u>
Increase in accounts payable incurred for construction	<u>\$ 5,002</u>	<u>\$ 2,484</u>
Increase in fair value of investments	<u>\$ 557</u>	<u>\$ 83</u>
(Increase) decrease in interest rate swap deferred revenue	<u>\$ 972</u>	<u>\$ 972</u>
Change in Fair value - swap agreements	<u>\$ 19,889</u>	<u>\$ 18,874</u>
Decrease upon hedge termination	<u>\$ 58,556</u>	<u>\$ -</u>

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Louisville and Jefferson County Metropolitan Sewer District (MSD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, MSD has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." MSD has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

These financial statements follow the provisions of GASB Statement No. 34, "Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments" and related standards. These new standards provided for changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Assets; including a management discussion and analysis as supplementary information; and other changes. The significant MSD accounting policies are described hereinafter.

A. Reporting Entity

MSD is a public body corporate, and political subdivision of the Commonwealth of Kentucky. MSD was created in 1946 pursuant to Chapter 76 of the Kentucky Revised Statutes, in the interest of the public health and for the purpose of providing adequate sewer and drainage facilities in the urbanized area of the Louisville Metropolitan Area. Pursuant to Chapter 76, MSD is governed by a Board which consists of eight members who are appointed by the Mayor of the Louisville Metro government, subject to approval of the Louisville Metro Council. Not more than five Board members may be of the same political party. However, there is not a continuing supervisory relationship exercised by the Louisville Metro government over MSD with respect to MSD's statutory public functions.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

A. Reporting Entity - (Continued)

Chapter 76 authorizes MSD to provide sewer and drainage facilities and services. MSD is further authorized by the statute to establish and collect service charges and to budget therefrom for operations and maintenance, capital outlays and debt service on obligations it is authorized by the statute to incur. No special financing relationship exists between the Louisville Metro government and MSD, nor is the Louisville Metro government empowered by law or custom to approve MSD operating or capital budgets; nor are they responsible for financing deficits or disposing of surplus funds.

MSD has complete control, possession and supervision of the sewer and drainage system in large portions of Jefferson County, and has statutory authority to construct additions, betterments and extensions within its service area. Additionally, MSD has statutory responsibility for approval of the design and proper construction of sewer and drainage facilities within the County's boundaries. There are cities within the County that, by statute, have the option of using MSD sewer services on a contractual basis. Third and fourth class cities also have the option of obtaining drainage services from MSD.

The enterprise business and activities of MSD are managed by its Board, which has statutory authority to elect officers, enact by-laws and enter into agreements and contracts for the management and regulation of MSD's affairs.

MSD's revenue is derived from sewer and drainage service charges which are collected from residential, commercial and industrial customers. MSD controls the collection of all revenue, disbursement of payables and title to all sewer and drainage assets. Sewer service charges are distributed among customer classes on the basis of actual costs incurred to collect and treat wastewater. Drainage service charges are distributed among customer classes on the basis of actual costs of drainage services per equivalent unit of impervious surface. Changes in MSD's service charges are implemented by MSD's Board, but no change in the service charge schedule is final within the Louisville Metro area until approval by the Louisville Metro Council. However, the statute provides that such approval may not be arbitrarily withheld and that the schedule shall be sufficient to provide revenues for the operation and maintenance of the system and for debt service. By ordinance, the Louisville Metro Government has provided that MSD's Board may amend its service charge schedule to maintain a debt service ratio of 1.10 for MSD's sewer and drainage revenue bonds, and that

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

A. Reporting Entity - (Continued)

such amendments will be effective within the Metropolitan area when adopted by MSD's Board, so long as the amended rates do not generate additional revenue from service charges in excess of 7% during the twelve months succeeding the period in which the deficiency was identified.

Chapter 76 permits MSD to finance sewer and drainage system construction, acquisition and other capital improvements through the issuance of its revenue bonds and with the proceeds of governmental grants, property owner contributions in aid of construction and bonds and loans for which pledge of repayment is subordinated to the pledge of revenues given by MSD for the security of its revenue bond holders. MSD indebtedness does not constitute indebtedness of the Louisville Metro government or the Commonwealth, but the Louisville Metro government must authorize by ordinance the issuance by MSD of revenue bonds to finance projects within the Metropolitan area.

B. Basis of Accounting

The sewer and drainage system owned and operated by MSD is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the system are included on the statement of net assets. Total net assets are segregated into amounts invested in plant, lines and other facilities, net of related debt, restricted for payment of bond principal and interest and unrestricted. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. MSD utilizes the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time the liability is incurred.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, MSD includes repurchase agreements and other investments, except restricted assets, with an original maturity of three months or less in cash and cash equivalents.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

D. Investment Securities

Investments are stated at fair value. Investment income consists of interest income and the change in fair value of investments.

E. Operating/Non-Operating Revenues, Expenses & Receivables

Operating revenues are those revenues that are generated directly from the primary activity of MSD. These revenues are wastewater and stormwater service charges. The Louisville Water Company is responsible for billing and collection of these charges on a monthly basis. Operating expenses are expenses incurred through the activities of operating and maintaining MSD facilities.

Non-operating revenues and expenses are comprised of investment and financing earnings and costs, changes in the fair value of investment derivatives, as well as contributions from outside sources.

MSD's practice is to use revenue from operations to finance construction then reimburse from net assets restricted for construction as they are needed.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances are considered past due 30 days from the invoice date. Management provides an allowance for probable uncollectible amounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Assessment receivables represent amounts billed to residents to have sewer lines installed in their neighborhood. Assessment receivables are considered past due once the balance is 90 days in arrears. Management considers all amounts collectible on the basis that liens are placed on properties at the time of assessment.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

F. Inventories

Inventories are stated at the lower of cost (principally weighted average cost) or market, and consist of supplies and parts used in the operation of MSD's treatment plants and for the maintenance of automobiles, sewers and other related equipment.

G. Contributed Capital and Construction Grants

Construction and acquisition of sewer and drainage plant, lines and other facilities are financed in part by governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the estimated portion of construction costs incurred for which grants are expected to be paid to MSD by the governmental grantor. These amounts are recorded as a receivable and revenues from contributions at the time the related expenditures are incurred. The revenues from contributions are part of the change in net assets.

H. Plant, Lines and Other Facilities

Plant, lines and other facilities are recorded at historical cost or, if contributed, at fair value as determined by engineering estimates on the date the contribution is received. Capital assets are defined by MSD as assets with an initial, individual cost of more than \$20 or renewal and replacement cost of a component of existing assets with a cost of more than \$20. It is MSD's policy to depreciate the costs of these assets over their estimated useful lives on a straight line basis.

Estimated useful lives on depreciable assets are as follows:

Buildings and other structures	30 - 50 years
Land improvements	10 - 30 years
Miscellaneous machinery	10 - 20 years
Vehicles	6 - 12 years
Equipment, heavy	15 - 30 years
Equipment, light	5 - 15 years
Sewer lines and major drainage Channels	80 years

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

H. Plant, Lines and Other Facilities – (Continued)

Costs incurred for capital construction and acquisition are carried in construction in progress until disposition or completion of the related projects. The major components of construction in progress are sewer lines, wastewater treatment and stormwater facilities. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as plant, lines and other facilities.

I. Capitalized Interest

Interest capitalized on projects funded from bond proceeds is recorded as the difference between the interest cost of the borrowing less interest earned on undisbursed invested proceeds during the construction period. Interest is not capitalized on project costs that are reimbursed by contributions of capital from government, property owners and developers.

J. Impairment of Capital Assets

In accordance with GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment of approval of laws or regulations or other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manner of duration of use of a capital asset, and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2010 and 2009.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

K. Bonds Payable

Bonds payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

Refunding: Bonds outstanding which have been refunded and economically defeased are not included in long-term debt. The related assets are not included in investments. The loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, is deferred and amortized as a component of interest expense over the average remaining life of the old debt. The unamortized loss on refunding is reported as a deduction from the new debt liability.

Derivatives: MSD enters into interest rate swap agreements to modify interest rates on outstanding debt. MSD records the net interest expenditures resulting from these agreements and amortizes gains/losses resulting from the termination of these agreements until the original termination date of the agreement. Derivative instruments are reported at fair value. Changes in fair value of investment derivative instruments are reported in non-operating revenue (expenses) on the Statement of Revenues, Expenses and Changes in Net Assets.

Issue Cost: Bond issue cost are deferred and amortized over the life of the respective bond issue using the straight-line method, which approximates the effective interest method.

Original Issue Discount: Original issue discounts on bonds are amortized using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.

L. Compensated Absences

Vacation and personal pay benefits are accrued as vested by MSD employees.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

*(Continued)
(in thousands)*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

M. Allocation of Overhead

MSD allocates overhead costs to its core business processes which are: operations and maintenance (service and administrative costs); design, construction and acquisition of plant lines and other facilities; and subsidiary business enterprises.

N. Use of Estimates

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

O. Income Tax Status

MSD is exempt from federal income tax under the Internal Revenue Code as a political subdivision of the state of Kentucky.

P. Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to those used in 2010.

Q. Adoption of Accounting Policies

In June 2007, the GASB issued Statement No. 51 Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009. GASB 51 establishes accounting and financial reporting requirements for intangible assets. MSD adopted GASB 51 on July 1, 2009 with no material impact on the June 30, 2010 financial statements or disclosures.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Q. Adoption of Accounting Policies – (Continued)

In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which is effective for years beginning after June 15, 2009. GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments. MSD adopted GASB 53 on July 1, 2009 and reported retroactively. See Item R regarding adoption of this policy.

R. Restatement of Prior Period Net Assets

During fiscal year 2010, MSD adopted GASB Statement No. 53 regarding accounting and financial reporting for derivative instruments. This change in accounting principle requires that the changes in fair value of derivatives be reported in the financial statements of state and local governments. To comply with this requirement, MSD booked the cumulative change in fair value of these instruments as of July 1, 2008, of \$39,682, as an adjustment to FY 2009 Statement of Net Assets, and the change during FY 2009 of \$18,874 as a change to FY 2009 Statement of Net Assets.

The June 30, 2009 Statement of Net Assets has been restated as follows:

<u>Statement of Net Assets</u>	<u>As Previously Reported FY 2009</u>	<u>Effect of Reclassification</u>	<u>Changes</u>	<u>FY 2009 As Restated</u>
Deferred outflow on hedging interest rate swaps	\$ -	\$ -	\$ 58,556	\$ 58,556
Total noncurrent assets	\$ 1,872,547	\$ (14,743)	\$ 58,556	\$ 1,916,360
Total Assets	\$ 2,023,180	\$ (14,743)	\$ 58,556	\$ 2,066,993
Interest Rate Swaps	\$ -	\$ -	\$ 58,556	\$ 58,556
Total Non-current Liabilities	\$ 1,412,597	\$ (14,743)	\$ 58,556	\$ 1,456,410
Total Liabilities	\$ 1,466,093	\$ (14,743)	\$ 58,556	\$ 1,509,906

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
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(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS

A comparative statement of cash, cash equivalents and investments held in MSD's portfolio follows:

June 30, 2010

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	\$ 27,864	0.37	Aaa
U.S. Treasury Obligations	328,311	15.86	Aaa
U.S. Treasury Bills	19,791	0.01	Aaa
Municipal Bonds	38,269	27.37	Aa
Money Market Funds	52,393	0.09	Aaa
Repurchase Agreement	17,911		
Certificate of Deposit	100		
Total fair market value of cash equivalents and investments	484,639	13.43	
Accrued interest from cash equivalents and investments	1,140		
Checks issued against cash on deposit	(6,036)		
Total cash, cash equivalents and investments	<u>\$ 479,743</u>		

June 30, 2009

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	\$ 27,870	0.37	Aaa
U.S. Treasury Obligations	15,486	6.70	Aaa
U.S. Treasury Bills	5,446	0.03	Aaa
Municipal Bonds	12,501	28.56	Aa
Money Market Funds	51,217	0.12	Aaa
Repurchase Agreement	15,260		
Certificate of Deposit	100		
Total fair market value of cash equivalents and investments	127,880	4.24	
Accrued interest from cash equivalents and investments	102		
Checks issued against cash on deposit	(304)		
Total cash, cash equivalents and investments	<u>\$ 127,678</u>		

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
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(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

Chapter 76 of the Kentucky Revised Statutes authorizes MSD to invest in obligations of the United States and its agencies and instrumentalities; bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky and insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to MSD. MSD bond resolutions and covenants contain similar restrictions.

Concentration of Credit Risk:

MSD's Investment Policy requires that investments be divided to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Section 2.0 of the Investment Policy outlines the permitted investments and identifies the limitations placed on the types of investments to minimize the risk.

Interest Rate Risk:

The Policy also requires that all investments have the highest category of ratings by the nationally recognized rating agencies. The credit ratings are shown in the preceding table. Where applicable, all of the above investments have such ratings. The weighted average maturity in years represents the interest rate risk for MSD.

Custodial Credit Risk:

This is the risk that, in the event of the failure of the counterparty, MSD would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The collateral provided by financial institutions is considered adequate to cover all balances in excess of limits set forth by the Federal Deposit Insurance Corporation. All of MSD's investments are held by MSD or in the name of MSD by a Trustee.

Foreign Currency Risk:

This risk relates to any potential adverse effects on the fair value of an investment from changes in exchange rates. MSD did not hold any foreign currency as of June 30, 2010 and 2009.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. With this strategy, investments would be expected to reach maturity with limited realized gains or losses. If the yield of the portfolio can be improved upon by the sale of an investment, prior to its maturity, with the reinvestment of the proceeds, then this provision is also allowed.

A reconciliation of cash, cash equivalents and investments as shown on the Comparative Statement of Net Assets for MSD is as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and cash equivalents - unrestricted	\$ 24,700	\$ 22,552
Investments - unrestricted	100	7,733
Cash and cash equivalents - restricted	58,923	35,988
Investments - restricted	<u>396,020</u>	<u>61,405</u>
	<u><u>\$ 479,743</u></u>	<u><u>\$ 127,678</u></u>

NOTE 3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

MSD's revenue bond resolution provides that MSD shall maintain in a Debt Service Reserve Account a balance equal to the maximum annual aggregate gross principal and interest due on all outstanding revenue bonds; or, in lieu of cash and investments in that amount, a letter of credit or policy of bond insurance payable in that amount. Resolutions adopted in connection with the issuance of MSD First Mortgage Bonds, and of subdistrict sewer revenue bonds and municipal improvement assessment bonds whose obligation MSD has assumed, also provide for the maintenance of debt service reserve accounts.

Cash, cash equivalents and investments segregated as accounts restricted for authorized construction include proceeds from issuance of MSD bonds

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS -
(CONTINUED)

Cash, cash equivalents and investments segregated and restricted are
as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Payment of bond / BAN principal and interest and Reserves	\$ 332,090	\$ 52,188
Authorized construction	<u>121,713</u>	<u>45,103</u>
Total restricted cash, cash equivalents and investments	<u>\$ 453,803</u>	<u>\$ 97,291</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 4. SCHEDULE OF NET ASSETS

A comparative schedule of net assets follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Net assets invested in plant, lines and other facilities:		
Plant, lines and other facilities net of depreciation	\$ 1,878,012	\$ 1,816,737
Outstanding debt that applies to plant, lines and other facilities	(1,552,125)	(1,408,290)
Unamortized Discount / (Premium)	3,154	16,895
Unspent bond proceeds	<u>121,713</u>	<u>45,103</u>
Invested in plant, lines and other facilities, net	<u><u>450,754</u></u>	<u><u>470,445</u></u>
Restricted Net Assets:		
Funds held in bank	466,004	104,887
Reimbursements due from Construction	(12,201)	(7,596)
Unamortized Discount / (Premium)	<u>2,096</u>	<u>2,934</u>
Net assets, restricted	<u><u>455,899</u></u>	<u><u>100,225</u></u>
Unrestricted Net Assets	<u>(413,857)</u>	<u>(13,583)</u>
Total net assets	<u><u>\$ 492,796</u></u>	<u><u>\$ 557,087</u></u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2010 and 2009 follows:

Year ended June 30, 2010

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Capital assets:				
Sewer lines	\$ 1,042,742	\$ 91,895	\$ -	\$ 1,134,637
Wastewater treatment facilities	459,238	11,289	-	470,527
Stormwater drainage facilities	400,118	27,313	-	427,431
Pumping and lift stations	69,301	1,342	-	70,643
Administrative facilities	45,561	-	-	45,561
Maintenance facilities	7,827	-	-	7,827
Machinery and equipment	74,975	20,455	(2,190)	93,240
Capitalized interest	214,644	7,920	-	222,564
Total capital assets	2,314,406	160,214	(2,190)	2,472,430
Less accumulated depreciation:				
Sewer lines	(197,155)	(13,794)	-	(210,949)
Wastewater treatment facilities	(226,683)	(19,787)	-	(246,470)
Stormwater drainage facilities	(93,750)	(5,561)	-	(99,311)
Pumping and lift stations	(28,870)	(3,132)	-	(32,002)
Administrative facilities	(25,977)	(1,105)	-	(27,082)
Maintenance facilities	(4,337)	(296)	-	(4,633)
Machinery and equipment	(59,167)	(7,303)	2,190	(64,280)
Capitalized interest	(44,441)	(5,384)	-	(49,825)
Total accumulated depreciation	(680,380)	(56,362)	2,190	(734,552)
Construction in progress	182,711	91,270	(133,847)	140,134
	<u>\$ 1,816,737</u>	<u>\$ 195,122</u>	<u>\$ (133,847)</u>	<u>\$ 1,878,012</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES - (CONTINUED)

Year ended June 30, 2009

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Capital assets:				
Sewer lines	\$ 1,022,859	\$ 19,883	\$ -	\$ 1,042,742
Wastewater treatment facilities	456,955	2,454	(171)	459,238
Stormwater drainage facilities	390,699	9,419	-	400,118
Pumping and lift stations	66,990	2,311	-	69,301
Administrative facilities	45,561	-	-	45,561
Maintenance facilities	7,833	-	(6)	7,827
Machinery and equipment	75,872	3,051	(3,948)	74,975
Capitalized interest	214,644	-	-	214,644
Total capital assets	2,281,413	37,118	(4,125)	2,314,406
Less accumulated depreciation:				
Sewer lines	(184,337)	(12,821)	3	(197,155)
Wastewater treatment facilities	(206,821)	(19,975)	113	(226,683)
Stormwater drainage facilities	(87,846)	(5,904)	-	(93,750)
Pumping and lift stations	(25,752)	(3,118)	-	(28,870)
Administrative facilities	(23,884)	(2,093)	-	(25,977)
Maintenance facilities	(4,013)	(324)	-	(4,337)
Machinery and equipment	(56,568)	(6,543)	3,944	(59,167)
Capitalized interest	(39,075)	(5,366)	-	(44,441)
Total accumulated depreciation	(628,296)	(56,144)	4,060	(680,380)
Construction in progress	136,695	77,424	(31,408)	182,711
	<u>\$ 1,789,812</u>	<u>\$ 58,398</u>	<u>\$ (31,473)</u>	<u>\$ 1,816,737</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 6. CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized and net interest expense reported in non-operating revenues in 2010 and 2009 follows:

<u>Year ended June 30, 2010</u>	<u>Capitalized</u>	<u>Included in Non- Operations</u>	<u>Total</u>
Investment earnings	\$ 5,990	\$ 36,045	\$ 42,035
Interest cost	<u>(13,910)</u>	<u>(71,673)</u>	<u>(85,583)</u>
Net interest	<u>\$ (7,920)</u>	<u>\$ (35,628)</u>	<u>\$ (43,548)</u>

<u>Year ended June 30, 2009</u>	<u>Capitalized</u>	<u>Included in Non- Operations</u>	<u>Total</u>
Investment earnings	\$ -	\$ 25,568	\$ 25,568
Interest cost	<u>-</u>	<u>(72,776)</u>	<u>(72,776)</u>
Net interest	<u>\$ -</u>	<u>\$ (47,208)</u>	<u>\$ (47,208)</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2010
and June 30, 2009, follows:

	<u>Original Issue Amt</u>	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding As Of:</u>	
REVENUE BONDS				<u>June 30, 2010</u>	<u>June 30, 2009</u>
1997 Sewer and Drainage System Revenue Bonds Series 1997A	\$ 51,245	5.25% - 6.00%	2027	\$ -	\$ 24,815
1998 Sewer and Drainage System Revenue Bonds Series 1998A	260,000	4.25% - 9.00%	2030	154,985	159,135
1999 Sewer and Drainage System Revenue Bonds Series 1999A	300,000	5.25% - 6.50%	2033	-	285,060
2001 Sewer and Drainage System Revenue Bonds Series 2001A	300,000	5.00% - 5.50%	2036	289,990	291,890
2003 Sewer and Drainage System Revenue Bonds Series 2003A and 2003B	191,000	Variable Rate	2023	-	149,645
2004 Sewer and Drainage System Revenue Bonds Series 2004A	100,000	5.00% - 5.25%	2038	100,000	100,000
2005 Sewer and Drainage System Revenue Bonds Series 2005A	64,740	3.00% - 5.00%	2026	58,470	60,090
2006 Sewer and Drainage System Revenue Bonds Series 2006A	100,000	4.00% - 5.00%	2038	96,705	98,385
2007 Sewer and Drainage System Revenue Bonds Series 2007A	61,125	4.00% - 5.00%	2025	56,185	57,995
2008 Sewer and Drainage System Revenue Bonds Series 2008A	105,000	4.00% - 5.00%	2038	104,265	105,000
2009A Sewer and Drainage System Revenue Bonds Series 2009A	76,275	5.00%	2022	72,020	76,275
2009B Sewer and Drainage System Revenue Bonds Series 2009B	225,770	2.00% - 5.00%	2023	213,165	-
2009C Sewer and Drainage System Revenue Bonds Series 2009C	180,000	5.98%	2040	180,000	-
Total Long-Term Debt				1,325,785	1,408,290
Less: Current Maturities				(23,785)	(23,105)
Less: Unamortized Loss on Refunding				(18,507)	(14,743)
Total Long-Term Debt, net				<u>\$ 1,283,493</u>	<u>\$ 1,370,442</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
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(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

A schedule of future debt service requirements after June 30, 2010 follows:

Year Ending June 30,	Revenue Bonds		
	Principal	Interest	Total
2011	\$ 23,785	\$ 67,251	\$ 91,036
2012	24,840	66,312	91,152
2013	26,120	65,203	91,323
2014	27,480	64,022	91,502
2015	29,035	62,649	91,684
2016-2020	171,730	289,807	461,537
2021-2025	204,420	242,334	446,754
2026-2030	198,350	194,859	393,209
2031-2035	183,235	154,801	338,036
2036-2040	436,790	73,639	510,429
	<u>\$ 1,325,785</u>	<u>\$ 1,280,877</u>	<u>\$ 2,606,662</u>

A comparative summary of current and long-term revenue bond activity for the years ended June 30, 2010 and June 30, 2009 follows:

	June 30, 2010	June 30, 2009
Revenue Bonds - beginning of year	\$ 1,393,547	\$ 1,411,040
Bonds issued	405,770	76,275
Principal paid on bonds, net of loss on refunding	(28,369)	(19,978)
Bonds refunded	<u>(463,670)</u>	<u>(73,790)</u>
Revenue Bonds - end of year	<u>\$ 1,307,278</u>	<u>\$ 1,393,547</u>

Amortization of loss on prior refunds totaled \$1,341 and \$1,277 for the years ended June 30, 2010 and 2009, respectively.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

MSD long-term debt is issued to provide sufficient funding for sewer and drainage projects approved for construction. MSD has arbitrage calculations performed as needed by an independent third party to comply with federal regulations. A summary of significant debt transactions follows:

New Debt Transactions:

On August 15, 2009, MSD issued \$225,770 of Sewer and Drainage System Revenue Bonds, Series 2009B. The proceeds of the bonds, net of issuance cost, were used to currently refund MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 1997A, 1999A, 2003A and 2003B, and to refund a portion of the outstanding Revenue Bonds, Series 1998A. The net proceeds of the refunding issue were placed in an irrevocable escrow account and used to purchase U.S. Government securities. The U. S. Government securities, together with interest earned thereon and the beginning cash deposit provided amounts sufficient for future payment of interest and principal on the refundable issues. The refunding was completed to reduce debt service payments over the next 24 years and it resulted in a present value savings of \$20,700.

On November 18, 2009 MSD issued \$180,000 of Sewer and Drainage System Revenue Bonds "Build America Bonds" (BAB), Series 2009C. The proceeds of the bonds are being used to fund sewer and drainage projects for construction. MSD may apply to receive interest subsidy payments of 35% of the corresponding interest payable on the current BAB on any interest payment date. MSD received a refund of interest payments made in the amount of \$2,260 from the federal government. As of June 30, 2010 approximately \$133.9 million of these bond proceeds remained unspent.

Debt Service

A debt ratio covenant has been established under the 1993 Sewer and Drainage System Revenue Bond Resolution. MSD was in compliance with the ratio covenant as of June 30, 2010 and 2009.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Swap Terminations:

MSD enters into swaps and other derivative contracts to lock in long term rates in advance of issuing long term debt; to create and manage variable rate exposure in its debt portfolio, and to take advantage of market opportunities that hedge embedded interest rate and tax regulation risk that exists on its balance sheet.

Upon a termination of a swap, any termination receipt or payment is amortized into income or expense until the original expiration date of that swap. Any unamortized portion of the receipt or payment is recorded as a deferred debit or credit in long term liabilities. MSD has three swap agreement terminations with outstanding balances accreting to non-operating revenue as follows:

On January 24, 2001, MSD terminated a nineteen-year interest rate swap agreement for \$100,000 of its fixed-rate 1999 Series Sewer and Drainage Revenue Bonds. The termination of this swap agreement resulted in the receipt of a payment in the amount of \$7,935. This payment will be amortized annually into income until 2019, the original termination date on the agreement. The amortized portion is recorded as a reduction of long-term debt.

In April 2006, MSD entered into a swap agreement with Deutsche Bank AG for an initial notional amount of \$171,405 which provided that beginning May 15, 2006, a net payment will be made based on MSD paying 78.78% of the 3-month LIBOR Index on the notional amount and receiving 73.45% of the 5-year LIBOR Index on the notional amount. On January 23, 2008, MSD terminated this swap agreement and received a termination payment of \$4,170 that will be amortized until 2023, the original termination date of the agreement. The amortized portion is recorded as a reduction of long-term debt.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Swap Terminations – (Continued)

On January 25, 2008, MSD terminated a twenty-seven year Floating to Floating (Basis) Interest Rate Swap agreement with a notional amount of \$282,165. MSD entered into this agreement with Morgan Stanley in April 2006 and paid 67% of the 1-Month LIBOR index and received 62.2% of the 5-Year LIBOR Index. The termination of this Swap agreement resulted in the receipt of a payment in the amount of \$5,756. This payment will be amortized annually into income until 2033, the original termination date of the agreement. The amortized portion is recorded as a reduction of long-term debt.

Derivatives:

On June 30, 2010 MSD had the following investment derivative instruments outstanding:

Item	Counter-Party	Initial Notional Amount	Current Notional Amount	Effective Date	Termination Date	MSD Payment Terms	MSD Receipt Terms	Fair Value	Change in Fair Value
A	Wells Fargo	\$ 225,732	\$ 225,732	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	\$ (64,380)	\$ (15,681)
B	Bank of America	56,433	56,433	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	(16,093)	(3,922)
C	Deutsche Bank	103,673	93,407	5/15/2003	5/15/2023	4.075%	SIFMA	(10,967)	(3,415)
D	Bank of America	64,869	48,119	5/15/2003	5/15/2023	4.075%	SIFMA	(5,649)	(1,759)
E	Deutsche Bank	149,465	141,525	8/15/2009	5/15/2023	SIFMA	2.78%	4,187	4,187
F	Wells Fargo	50,376	50,376	11/15/2009	5/15/2023	SIFMA	2.9235%	2,026	2,026
G	Deutsche Bank	12,594	12,594	11/15/2009	5/15/2023	SIFMA	2.924%	507	507
H	Morgan Stanley	190,790	141,525	5/15/2003	5/15/2023	SIFMA	78.78% of 3-month LIBOR	(1,419)	663
I	Deutsche Bank	281,745	281,745	11/15/2011	5/15/2033	SIFMA	100.30% of 3-month LIBOR	13,343	(2,495)
Total		\$ 1,135,677	\$ 1,051,456					\$ (78,445)	\$ (19,889)

LIBOR = London Interbank Offering Rate

SIFMA = Securities Industry and Financial Markets Association (formerly the Bond Market Association (BMA) Municipal Bond Index)

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives - (Continued)

MSD originally entered into interest rate swaps as a hedging derivative instrument. The interest rate swaps were found to be ineffective as of June 30, 2010, based on evaluation and consideration of consistent critical terms and quantitative methods. The total of investment derivatives are reported as interest rate swaps on the statement of net assets. All changes in fair value of the derivatives are recorded as a separate component of non-operating revenue (expense). MSD's outstanding swaps as of June 30, 2009 were found to be effective hedging derivative instruments, and as such, the deferred outflows of \$18,874 for the change in fair value of the hedging derivative instruments are reported in the Statement of Net Assets. Upon termination of the effectiveness of the derivative instruments, the deferred outflows were expensed to non-operating revenue. MSD's outstanding swaps consist of three types: Floating-to-Fixed swaps (A, B, C, and D), Swap Reversals (E, F, and G) and Basis Swaps (H and I).

Floating-to-Fixed swaps are structured so that the notional amount of the swap decreases over time corresponding to the maturity and sinking fund schedule of the actual or expected bond issue being hedged. The Floating-to-Fixed Swaps have been done on a forward basis with the swap payments starting at a future date when MSD anticipates refunding outstanding debt, which can be issued as variable rate bonds or short term notes. In 2001, MSD entered into two swaps (A and B) for a synthetic advance refunding of its Series 1999 A Bonds. In 2002, MSD entered into two swaps (C and D) for a synthetic advance refunding of its Series 1993 Bonds, and subsequently issued variable rate Series 2003 Bonds to complete the refunding.

In August 2009, MSD issued Bond Anticipation Notes to refund the portion of its Series 1999 Bonds maturing from 2024 to 2033 and issued fixed rate Series 2009B Bonds to refund its variable rate Series 2003 Bonds and that portion of its Series 1999 Bonds maturing in 2023 and earlier years. In conjunction with these refundings, MSD entered into three reversal swaps (E, F, and G) to eliminate the hedge for the portion of the refunded bonds retired with proceeds of long term, fixed rate bonds. One reversal swap (E) has offsetting payment/receipt terms with those on two outstanding swaps (C and D) so that MSD is required to make a net payment of 1.295% (4.075% minus 2.78%) on the same declining notional amounts. The other two reversal swaps (F and G) offset the portion corresponding to the declining notional amounts in 2009 through and including 2023 of outstanding swaps (A and B), so that MSD is required to make a net payment of 1.4975% (4.4215% minus

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives - (Continued)

2.924%), plus or minus the difference between 67% of 30 day LIBOR and SIFMA, on those declining notional amounts of that portion of those two swaps.

The non-reversed portions of the floating-to-fixed swaps (A and B) provide a hedge against future higher rates on any long term debt or renewal bond anticipation notes used to refinance MSD's Bond Anticipation Note.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest 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 on the swaps.

Credit Risk:

MSD has implemented steps to safeguard it against the risks associated with the aforementioned swap transactions. If the counter-party does not maintain A1/A+ ratings from Moody's and Standard and Poor's, the swaps contain provisions that require them to be marked to market weekly with monthly statements sent to MSD and the value will be collateralized with U.S. Treasury and Agency securities with the securities held by a tri-party custodian approved by MSD. All costs of collateralization will be borne by the downgraded party who must post the collateral. In addition, the April 2001 (E&F) and October 2002 (A&B) swaps were awarded to multiple firms to further mitigate the credit risk associated with the transactions.

The credit ratings for the counter-parties are as follows:

	Moody's Rating	Standard and Poor's
Bank of America	Aa3	A+
Deutsche Bank	Aa3	A+
Morgan Stanley	A2	A
Wells Fargo	Aa2	AA

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Credit Risk – (Continued)

The agreements also provide for automatic termination if MSD's unenhanced bond rating is downgraded below BBB/Baa. MSD's obligations under all of its outstanding swap agreements are unsecured and subordinate to all bonds issued and outstanding.

Basis Risk:

The aforementioned swap transactions also expose MSD to basis risk, the risk that arises when variable interest rates on a derivative and an associated bond are based on different indexes. The payment terms of the October 2002 (E&F) and March 2003 (D) swaps coincide with the 2003 variable rate bond issue that was executed to refinance the Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B. The positive and negative fair values of the swap agreements were provided by a third-party financial advisor. The net swap payments made in FY 2010 and FY 2009 were \$8,815 and \$2,883; respectively.

NOTE 8. SHORT TERM DEBT

On August 19, 2009, MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2009A Notes. The proceeds of the notes were used to refund and refinance on a short-term basis certain of the District's outstanding Sewer and Drainage System Revenue Bonds, Series 1999A and a portion of its 1997A and 1998A Revenue Bonds until the District issues long-term debt to provide permanent financing for such refunding. The 2009A Notes were paid off on August 19, 2010.

On May 26, 2010, MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A Notes. The proceeds of the notes were used to refinance the 2009A Notes at a lower interest cost to MSD. The 2010A Notes mature on May 26, 2011.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 8. SHORT TERM DEBT – (CONTINUED)

A comparative summary of short term debt for the years ended June 30, 2010 and June 30, 2009 follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Short term debt - beginning of year	\$ -	\$ -
Debt issued	452,680	-
Principal paid on debt	-	-
Debt refunded	<u>-</u>	<u>-</u>
Short term debt - end of year	<u><u>\$ 452,680</u></u>	<u><u>\$ -</u></u>

NOTE 9. RETIREMENT PLAN AND POSTRETIREMENT BENEFITS

Plan Description: MSD contributes to the County Employees Retirement System (CERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Funding Policy: Plan members hired before September 1, 2008 are required to contribute 5% of creditable compensation and MSD is required to contribute at an actuarially determined rate. Plan members hired after September 1, 2008 contribute 6%. The employer contribution rates for the years ending June 30, 2010; 2009; and 2008 were 16.16%, 13.50%, and 16.17% respectively, of participating employees' compensation.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

(Continued)
(in thousands)

NOTE 9. RETIREMENT PLAN AND POSTRETIREMENT BENEFITS – (CONTINUED)

The contribution requirements of plan members and MSD are established and may be amended by the CERS Board of Trustees. MSD's contributions to the CERS for the years ending June 30, 2010, 2009, and 2008 were \$5,628; \$4,677; and \$5,482; respectively, equal to the required contributions for each year.

Healthcare Plan: The Kentucky Retirement Systems Insurance Fund ("Fund") was established to provide hospital and medical insurance for members receiving benefits from CERS, the Kentucky Employees Retirement System and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2009, insurance premiums withheld from benefit payments for members of CERS were \$27,594.

NOTE 10. RISK MANAGEMENT

MSD is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to MSD's employees. These risks are provided for through various programs.

MSD participates in the Louisville Area Governmental Self-Insurance Trust (the Trust). The Trust, which is certified by the Kentucky Department of Insurance to practice as a "group liability self-insurance trust," was created on January 1, 1987. Trust members currently include the Louisville Metro Government, six smaller cities, and six government agencies. The Trust was formed to provide better risk protection and lower cost liability insurance by sharing the risk with all of its members.

MSD's payments to the Trust are reflected on the financial statements as an expense. The Trust provides, after a \$300 deductible, various liability coverages up to \$5,000 per occurrence. Excess insurance may provide an additional \$2,000 of coverage, above the Trust \$5 million, to MSD. The amount of coverage available to MSD could be limited by the total assets of the Trust. For fiscal year 2010, MSD has had no claims paid from the Trust's assets.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 10. RISK MANAGEMENT – (CONTINUED)

MSD has chosen to self-insure the basic worker's compensation. Claims administration is handled by a third party administrator and includes claims monitoring, check issuance, settlement negotiations and loss control services. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. A separate insurance policy provides coverage in excess of \$300 for catastrophic injury claims by an employee or several employees as a result of a single occurrence.

A comparative schedule of changes in liabilities for worker's compensation claims follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Liability - beginning of year	\$ 1,433	\$ 1,749
Claims and changes in estimates	732	558
Payments	<u>(825)</u>	<u>(874)</u>
Liability - end of year	<u>\$ 1,340</u>	<u>\$ 1,433</u>

MSD joined the Louisville Area Governmental General Insurance Trust (Property Self-Insurance Trust) in September 2002. The Property Self-Insurance Trust was created to provide lower cost to participants and broader coverage for property risks. MSD is responsible for covered property damage up to \$100, except for flood and vehicle collision coverage; which have separate deductibles. The Property Self-Insurance Trust provides coverage for the next \$900. An excess insurance policy with a third party carrier covers claims in excess of \$1 million.

MSD has had two settled liability claims and one property claim that exceeded the liability coverage in the past three fiscal years. There have been no changes in MSD's self-insurance coverage from prior year.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Continued)
(in thousands)

NOTE 11. DEFERRED COMPENSATION

MSD offers its employees deferred compensation plans created in accordance with Internal Revenue Service Code Sections 401(k) and 457. These plans, available to all MSD employees, permit them to defer the payment of a portion of their salary until future years. Participation in these plans is voluntary and MSD makes no contributions to these plans on behalf of the employee. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts of compensation deferred, including the investments and earnings thereon, vest with the employee and are not subject to the claims of MSD's general creditors.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Forward Purchase Agreements

MSD previously entered into forward purchase agreements to invest the debt service account of its bond fund at specified times in the future at fixed interest rates. MSD entered into these agreements in order to receive a guaranteed interest rate and lock in current long-term investment rates for the investment of its debt service payments. In December 2007 and January 2008, MSD terminated these agreements and received a net payment of \$1,466 that will be amortized over the original life of the agreements.

Sale of Sewer Assessments

MSD has entered into agreements to sell sanitary sewer assessments to a local bank. These assessments reflect the portion of the cost that residents pay to have sewer lines installed in their neighborhood. Residents are given the opportunity to pay the assessment in full or to finance it over a twenty-year period at 7% interest per annum. The original agreement called for the bank to accept up to \$25 million of outstanding assessments and for MSD to receive 104% of the face value of the assessments. The subsequent agreement allows an additional \$5 million of assessments to be sold to the bank at face value. These agreements give the bank the option to place the assessments back to MSD if the payments of the property owner are ninety days in arrears or the property owner does not respond to the bank's demand for payment within a ninety day period after the issuance of the assessment. Sales to the bank are net of any subsequent repurchases of warrants by MSD. The unpaid principal balance of loans held by the bank at June 30, 2010 and 2009 was \$5,499 and \$6,262 respectively.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

*(Continued)
(in thousands)*

NOTE 12. COMMITMENTS AND CONTINGENCIES - (CONTINUED)

EPA Consent Decree

In April 2005, MSD agreed to enter into a Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency (EPA). The Consent Decree calls for MSD to submit a final Long-Term Control Plan (LTCP) to the Cabinet/EPA for review and joint approval by December 31, 2008, which was completed. The final LTCP includes schedules, deadlines, and timetables for projects to be completed by December 31, 2020. In addition, a Sanitary Sewer Discharge Plan (SSDP) was due by December 31, 2008, which was completed. The SSDP includes schedules and deadlines for capital projects to be completed by the end of 2024. The cost of the projects is estimated to be \$850,000.

Also, MSD agreed to pay a civil penalty to the Commonwealth of Kentucky in the amount of one million dollars (\$1,000) to resolve the violations alleged in the Cabinet's and EPA's complaints up through the date of entry of the Consent Decree. The agreement also calls for MSD to perform supplemental environmental projects (SEPS) at an amount of not less than \$2,250. MSD neither admitted nor denied the alleged violations but acknowledged that discharges occurred and accepted the obligations imposed in the Consent Decree. The Consent Decree, as negotiated, was entered by the U.S. District Court Judge on August 12, 2005. In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the EPA. The agreement calls for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree.

The enforcement actions initiated by the EPA are not unique in the wastewater treatment industry. Several wastewater utilities have signed, or are in the process of signing, Consent Decrees. In the opinion of MSD, the resolution of any violations will not result in material adverse affect on the operation, property or finances of MSD.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

*(Continued)
(in thousands)*

NOTE 12. COMMITMENTS AND CONTINGENCIES - (CONTINUED)

Other Matters

MSD is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the MSD's management that resolution of these matters will not have a material adverse effect on the financial condition of MSD.

The value of construction contracts signed, where work has not yet been performed at June 30, 2010, amounted to \$126,032, and was \$16,883 at June 30, 2009.

NOTE 13. SUBSEQUENT EVENTS

On July 12, 2010, MSD's Board adopted the Sixteenth Supplemental Sewer and Drainage System Revenue Bond Resolution approving the issuance of \$330,000 in bonds. MSD intends to issue the bonds in November 2010.

In August 2010, MSD elected to refund a portion of the 1998A bond series by making a payment of \$5,690.

On August 1, 2010, MSD's rates for wastewater and stormwater charges increased by 6.5%.

STATISTICAL SECTION

This section of the Louisville & Jefferson County Metropolitan Sewer District's (MSD) Comprehensive Annual Financial Report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing MSD's overall financial health.

Contents	Page
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Debt Capacity	55
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This schedule presents information to help readers assess MSD's debt burden and MSD's ability to issue additional debt in the future.

Financial Trends	56
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These schedules contain trend information to help readers understand how MSD's financial performance and position have changed over time. The information presented includes changes in net assets, an analysis of revenues and expenses and a comparative statement of cash flows

Revenue Capacity	60
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This schedule contains information to help readers assess MSD's most significant revenue source.

Operating Information	61
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These schedules contain service and infrastructure data to help the reader understand how the information in MSD's financial report relates to the services that it provides.

Demographic and Economic Information	64
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These schedules offer demographic and economic indicators to help readers understand the environment within which MSD operates.

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SCHEDULES OF DEBT SERVICE COVERAGE
YEARS ENDED JUNE 30
(\$ in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues:										
Service charges	\$ 168,610	\$ 163,004	\$ 156,889	\$ 126,490	\$ 122,643	\$ 113,561	\$ 103,571	\$ 99,546	\$ 90,255	\$ 87,641
Other operating income	2,980	4,552	4,394	5,966	7,122	9,288	7,216	6,696	5,713	6,013
Assessments	7,093	4,387	2,251	8,237	6,796	10,731	12,064	27,290	14,020	12,558
Investment income	36,045	25,568	6,085	8,417	5,558	14,503	23,916	9,377	11,610	14,363
Less: capitalized investment income	(5,990)		(1,190)	(3,747)	(1,594)	(6,245)	(18,201)	(5,087)	(6,428)	(10,146)
Total revenues	208,738	197,511	168,429	145,363	140,525	141,838	128,566	137,822	115,170	110,429
Operating expenses:										
Service and administrative costs	101,068	93,935	96,845	89,194	86,433	78,835	74,972	77,829	74,734	74,417
Less: capitalized project costs	(28,129)	(24,401)	(26,510)	(25,715)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)
Total operating expenses	72,939	69,534	70,335	63,479	61,046	53,549	51,301	52,045	50,727	51,799
Net Revenues	135,799	127,977	98,094	81,884	79,479	88,289	77,265	85,777	64,443	58,630
Aggregate debt service:										
Current maturities of long-term debt	23,785	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559
Interest expense	69,949	72,776	66,918	70,548	66,162	72,395	65,370	64,797	61,220	50,950
Less: capitalized interest expense	(13,910)		(10,530)	(14,140)	(15,758)	(26,603)	(26,940)	(30,490)	(32,891)	(29,352)
Aggregate net debt service	79,824	95,881	77,643	74,598	67,654	61,477	53,733	47,399	40,005	31,157
Debt service coverage ratio	170%	133%	126%	110%	117%	144%	144%	181%	161%	188%

This table has been prepared using the definitions of revenue, expense and debt service contained in MSD's 1993 Sewer & Drainage System Revenue Bond Resolution. Accordingly, for years prior to 1994, certain reclassifications have been made which result in coverage ratios which differ from those reported under the 1989 and 1971 Bond Resolutions.

The 1993 Resolution and its supplements require MSD to provide "Available Revenues", as defined in the Resolution, sufficient to pay 110% of each fiscal year's "Aggregate Net Debt Service" on Revenue Bonds and 100% of "Operating Expenses". "Available Revenues", as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of Bonds issued pursuant to the Resolution, but excludes any interest income which is capitalized in accordance with generally accepted accounting principles. "Operating Expenses" includes all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating Expenses" does not include reserves for extraordinary maintenance and repair, nor does it include administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from the proceeds of such debt. "Aggregate Net Debt Service" is aggregate current principal and interest requirements on all Bonds issued pursuant to the Resolution, excluding (i) interest expense, which in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt, and (ii) other amounts, if any, available, or expected to become available in the ordinary course for payment of principal and interest, and not included in "Available Revenues".

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS -- ASSETS
JUNE 30
(in thousands)

	Restated										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	
Assets											
Current Assets:											
Unrestricted cash and cash equivalents	\$ 24,700	\$ 22,552	\$ 10,524	\$ 1,912	\$ 17,198	\$ 28,732	\$ 20,572	\$ 15,072	\$ 11,920	\$ 23,408	
Unrestricted investments	100	7,733	14,379	24,935	18,645	7,163	56	9,176	1,006	217	
Restricted cash and cash equivalents	58,923	35,988	105,299	3,133	24	65,423	110,942	117,226	216,890	67,500	
Restricted investments	394,880	61,303	27,202	73,801	134,850	33,934	74,112	51,220	52,400	25,457	
Accounts receivable	15,779	18,065	16,732	15,398	17,401	13,716	14,136	12,904	12,233	13,235	
Recovery of insured loss receivable	-	-	-	-	-	-	-	-	-	-	
Inventories	3,110	3,027	3,020	3,091	2,874	3,090	2,685	2,676	2,466	2,530	
Prepaid expenses and other current assets	2,513	1,965	2,020	1,181	1,359	803	796	667	394	154	
Total Current Assets	500,005	150,633	179,176	123,451	192,351	152,861	223,299	208,941	297,309	132,501	
Long-term Receivables	22,527	25,146	26,334	28,749	27,778	29,712	27,964	30,327	37,538	26,723	
Deferred Debits	12,192	74,477	32,705	-	-	-	-	-	-	-	
Plant, Lines and Other Facilities:											
Completed projects	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498	1,199,210	
Less: Accumulated depreciation	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)	
	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294	838,194	
Construction in progress	140,134	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570	433,324	
Net Plant, Lines and Other Facilities	1,878,012	1,816,737	1,789,812	1,764,556	1,733,724	1,694,956	1,619,999	1,532,918	1,436,864	1,271,518	
Total Assets	\$ 2,412,736	\$ 2,066,993	\$ 2,028,027	\$ 1,916,756	\$ 1,953,853	\$ 1,877,529	\$ 1,871,262	\$ 1,772,186	\$ 1,771,711	\$ 1,430,742	

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS -- LIABILITIES AND NET ASSETS
JUNE 30
(in thousands)

	Restated										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	
Liabilities and Net Assets											
Liabilities:											
Current Liabilities (Payable from Current Assets):											
Accounts payable and accrued expenses	\$ 11,141	\$ 11,035	\$ 10,548	\$ 16,639	\$ 22,619	\$ 17,781	\$ 9,671	\$ 9,492	\$ 7,969	\$ 7,912	
Total Current Liabilities (Payable from Current Assets)	11,141	11,035	10,548	16,639	22,619	17,781	9,671	9,492	7,969	7,912	
Current Liabilities (Payable from Restricted Assets):											
Accounts payable and accrued expenses	13,692	7,735	5,250	4,239	1,072	5,863	11,846	17,588	16,231	14,942	
Accrued interest	14,701	8,143	8,597	10,824	10,456	9,768	9,916	9,454	10,922	8,444	
Bond Anticipation Notes	452,680										
Current maturities of bonds payable	23,785	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559	
Refundable Deposits	1,622	3,478	4,209								
Total Current Liabilities (Payable from Restricted Assets)	506,480	42,461	39,311	33,253	28,778	31,316	37,065	40,134	38,829	32,945	
Non-current liabilities:											
Bonds payable	1,283,493	1,370,442	1,405,805	1,307,236	1,324,006	1,240,966	1,256,228	1,170,141	1,184,993	895,973	
Other long-term liabilities	118,826	85,968	21,844	8,254	8,987	9,191	6,495	6,917	7,338	7,759	
Total Long-Term Debt	1,402,319	1,456,410	1,427,649	1,315,490	1,332,993	1,250,157	1,262,723	1,177,058	1,192,331	903,732	
Deferred Compensation	-	-	-	-	-	-	-	-	-	-	
Total Liabilities	1,919,940	1,509,906	1,477,508	1,365,382	1,384,390	1,299,254	1,309,459	1,226,684	1,239,129	944,589	
Net Assets:											
Invested in plant, lines, & other facilities, net of related debt	450,754	470,445	478,833	479,305	489,973	497,314	490,458	476,849	450,966	428,688	
Restricted for payment of bond principal & interest	455,899	100,225	135,537	7,034	8,927	14,133	17,850	18,884	35,482	10,810	
Unrestricted	(413,857)	(13,583)	(63,851)	65,035	70,563	66,828	53,495	49,769	46,134	46,655	
Total Net Assets	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153	
Total Liabilities and Net Assets	2,412,736	2,066,993	2,028,027	1,916,756	1,953,853	1,877,529	1,871,262	1,772,186	1,771,711	1,430,742	

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating revenue:										
Wastewater service charges	\$ 133,853	\$ 130,661	\$ 125,782	\$ 96,594	\$ 93,907	\$ 87,653	\$ 79,933	\$ 77,778	\$ 69,856	\$ 68,228
Stormwater service charges	34,757	32,343	31,107	29,896	28,736	25,908	23,638	21,768	20,399	19,413
Other operating income	2,980	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013
Total operating revenue	171,590	167,556	161,283	132,446	129,765	122,849	110,787	106,242	95,968	93,654
Operating expenses:										
Service and administrative costs	101,068	93,935	96,845	90,157	86,433	78,835	74,972	77,829	74,734	74,417
Capitalization/recovery of cost	(28,129)	(24,401)	(26,510)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)
Capitalized Overhead (over) under applied	(2,988)	(856)	-	-	-	-	-	-	-	-
Depreciation and amortization	55,417	56,727	55,363	52,177	51,174	43,161	37,718	35,401	34,131	27,448
Loss on disposal of assets	-	64	122	-	-	-	-	-	-	-
Total operating expenses	125,368	125,469	125,820	115,656	112,220	96,710	89,019	87,446	84,858	79,247
Income (loss) from operations	46,222	42,087	35,463	16,790	17,545	26,139	21,768	18,796	11,110	14,407
Non-operating revenue (expense):										
Investment Income	36,045	25,568	4,895	4,670	3,964	8,259	5,715	4,290	5,182	4,217
Interest expense - bonds	(69,949)	(69,893)	(56,388)	(56,408)	(50,404)	(45,792)	(38,495)	(34,307)	(28,330)	(21,598)
Interest expense - swaps	(8,815)	(2,883)	-	-	-	-	-	-	-	-
Interest expense - other	(6,819)	-	-	-	-	-	-	-	-	-
Capitalized Interest	13,910	-	-	-	-	-	-	-	-	-
Decrease upon hedge termination	(58,556)	-	-	-	-	-	-	-	-	-
Change in Fair Values - Swaps	(19,889)	-	-	-	-	-	-	-	-	-
Total non-operating revenue (expenses) - net	(114,073)	(47,208)	(51,493)	(51,738)	(46,440)	(37,533)	(32,780)	(30,017)	(23,148)	(17,381)
Net loss before contributions	(67,851)	(5,121)	(16,030)	(34,948)	(28,895)	(11,394)	(11,012)	(11,221)	(12,038)	(2,974)
Contributions										
Property owner assessments	(545)	2,239	164	7,634	4,862	12,478	9,701	20,079	24,786	21,865
All other	4,105	9,450	15,011	9,225	15,221	15,388	17,612	4,062	33,681	89
Increase (decrease) in net assets	(64,291)	6,568	(855)	(18,089)	(8,812)	16,472	16,301	12,920	46,429	18,980
Net assets, beginning of year	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153	467,173
Net assets, end of year	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Cash flows from operating activities:										
Cash received from customers	171,641	166,123	159,539	134,160	125,918	123,269	109,938	105,571	96,970	92,029
Cash paid to suppliers and employees	(72,426)	(66,297)	(72,227)	(69,536)	(56,548)	(45,851)	(51,643)	(51,005)	(50,846)	(51,196)
Net cash provided by operating activities	99,215	99,826	87,312	64,624	69,370	77,418	58,295	54,566	46,124	40,833
Cash flows from capital and related financing activities:										
Proceeds from issuance of revenue bonds	405,770	76,275	166,125	-	100,000	64,740	100,000	191,000	300,000	-
Proceeds from bond anticipation notes	452,680	-	-	-	-	-	-	-	-	-
Capital contributed by governments, property owners & developers	3,560	11,689	15,174	16,861	1,460	2,838	4,031	948	864	2,313
Build America Bond Interest Income	2,260	-	-	-	-	-	-	-	-	-
Refunding of long-term bonds	-	-	-	-	-	(65,600)	-	(185,230)	-	-
Assessments receivable	2,998	557	2,703	(645)	-	-	-	-	-	-
Interest income - assessments	1,588	1,471	1,405	1,670	-	-	-	-	-	-
Amortization of loss on refundings	(3,764)	1,277	2,504	-	-	-	-	-	-	-
Unamortized loss on refundings	(1,341)	(1,277)	-	-	-	-	-	-	-	-
Principal paid on revenue bonds	(488,275)	(95,045)	(84,350)	(17,250)	(16,815)	(14,020)	(11,702)	(19,206)	(8,863)	(6,210)
Interest paid on revenue bonds	(70,192)	(69,063)	(69,145)	(70,180)	(65,474)	(26,751)	(26,478)	(31,958)	(30,408)	(50,986)
Acquisition and construction of capital assets	(82,440)	(75,504)	(83,548)	(65,669)	(67,035)	(109,200)	(126,365)	(127,057)	(164,959)	(165,857)
Retainage payable	955	(466)	430	(33)	-	-	-	-	-	-
Acquisition of non-operating property	(484)	(261)	(257)	(258)	-	-	-	-	-	-
Recovery of insured loss	-	-	-	-	-	-	-	-	-	453
Net cash (used in) provided from capital and related financing activities	223,315	(150,347)	(48,959)	(135,504)	(47,864)	(147,993)	(60,514)	(171,503)	96,634	(220,287)
Cash flows from investing activities:										
Restricted Investments	(333,577)	(34,101)	45,656	-	-	-	-	-	-	-
Unrestricted Investments	7,633	6,646	10,555	-	-	-	-	-	-	-
Assessment principal payments	-	-	-	-	8,621	10,301	12,792	27,495	13,997	10,897
Interest received on termination of swap agreement	-	-	-	-	-	(421)	(422)	(421)	(421)	7,759
Purchase of investment securities	-	-	-	(72,800)	(303,998)	(100,889)	(370,182)	(79,864)	(77,980)	(65,918)
Proceeds from sale and maturities of investment securities	-	-	-	137,908	177,341	110,070	329,655	63,592	48,160	65,093
Income received on investments	37,519	24,936	4,889	7,642	5,551	14,155	29,592	9,623	11,388	14,818
Interest expense - Swap agreements	(8,832)	(4,166)	-	-	-	-	-	-	-	-
Unamortized premium on forward delivery agreement	(190)	(77)	1,399	-	-	-	-	-	-	-
Unamortized gain on termination of swap agreements	-	-	9,926	-	-	-	-	-	-	-
Net cash (used in) provided from investing activities	(297,447)	(6,762)	72,425	72,750	(112,485)	33,216	1,435	20,425	(4,856)	32,649
Net increase (decrease) in cash and cash equivalents	25,083	(57,283)	110,778	1,870	(90,979)	(37,359)	(784)	(96,512)	137,902	(146,805)
Cash and cash equivalents, beginning of year	58,540	115,823	5,045	3,176	94,155	131,514	132,298	228,810	90,908	237,713
Cash and cash equivalents, end of year	\$ 83,623	\$ 58,540	\$ 115,823	\$ 5,045	\$ 3,176	\$ 94,155	\$ 131,514	\$ 132,298	\$ 228,810	\$ 90,908

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SUMMARIES OF OPERATING REVENUE
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service charges:										
Wastewater service charges:										
Residential	\$ 73,228	\$ 71,159	\$ 64,978	\$ 48,338	\$ 47,555	\$ 43,320	\$ 39,394	\$ 37,730	\$ 33,106	\$ 31,469
Commercial	42,741	42,312	38,935	28,892	27,619	25,274	23,761	23,071	21,220	20,339
Industrial	18,948	18,216	21,324	18,431	17,279	17,142	15,182	15,380	13,992	14,935
Bulk dumpers	-	-	-	-	-	-	-	-	-	-
Other - net	1,756	1,601	2,382	1,993	1,454	1,917	1,597	1,597	1,538	1,485
Free Sewer to Metro Government	(2,820)	(2,627)	(1,837)	(1,060)						
Total wastewater service charges	133,853	130,661	125,782	96,594	93,907	87,653	79,934	77,778	69,856	68,228
Stormwater service charges:										
Residential	13,613	12,709	12,198	11,617	11,205	10,304	9,223	8,657	8,134	7,865
Commercial	19,433	18,012	17,276	16,741	15,683	13,854	12,735	11,533	10,765	10,052
Industrial	2,189	2,064	1,988	1,930	1,848	1,750	1,679	1,578	1,500	1,496
Free Drainage to Metro Government	(478)	(442)	(355)	(392)						
Total stormwater service charges	34,757	32,343	31,107	29,896	28,736	25,908	23,637	21,768	20,399	19,413
Total service charges	168,610	163,004	156,889	126,490	122,643	113,561	103,571	99,546	90,255	87,641
Other operating income:										
Capacity charges	564	820	2,521	2,538	4,772	6,925	5,176	4,272	2,549	3,754
Connection fees	68	47	172	146	220	411	601	675	1,458	927
Regional facilities fees	-	-	-	(11)	357	513	301	374	354	276
Reserve capacity charges	11	28	37	5	22	40	18	1	58	13
Wastewater miscellaneous	2,279	3,599	1,606	3,220	1,693	1,342	1,062	1,344	1,244	994
Stormwater miscellaneous	58	58	58	58	58	57	58	30	50	49
Total other operating income	2,980	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013
Total operating revenue	\$ 171,590	\$ 167,556	\$ 161,283	\$ 132,446	\$ 129,765	\$ 122,849	\$ 110,787	\$ 106,242	\$ 95,968	\$ 93,654

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SUMMARIES OF SERVICE AND ADMINISTRATIVE COSTS
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service and administrative costs:										
Labor	\$ 52,945	\$ 49,354	\$ 49,431	\$ 47,079	\$ 42,287	\$ 40,948	\$ 40,206	\$ 40,947	\$ 40,068	\$ 39,185
Utilities	11,879	10,818	12,989	10,976	12,518	10,119	8,870	7,967	6,979	7,984
Materials and supplies	9,031	8,742	8,707	8,197	7,745	6,625	7,237	7,479	7,043	8,400
Professional services	2,363	2,730	3,126	2,797	2,543	2,698	2,530	3,821	4,543	4,425
Maintenance and repairs	8,847	9,675	8,926	8,035	7,762	5,874	4,976	5,672	4,660	4,056
Billing and collections	4,461	3,623	5,319	2,889	3,869	3,371	3,209	2,812	3,164	3,628
Chemicals and fuel	6,099	5,687	5,148	4,825	5,088	4,099	3,828	3,701	3,536	2,825
Biosolids disposal	2,186	2,063	1,661	1,412	1,554	1,451	1,359	1,442	2,438	1,584
All other	3,638	2,817	2,800	3,947	3,067	3,650	2,757	3,988	3,081	3,163
Adjustment for encumbrances	-	-	-	-	-	-	-	-	-	-
Gross service and administrative costs	101,449	95,509	98,107	90,157	86,433	78,835	74,972	77,829	75,512	75,250
Less: Recovery of cost										
Capitalized project cost	(28,129)	(24,401)	(26,510)	(25,715)	(24,450)	(24,419)	(23,158)	(25,302)	(24,007)	(22,620)
Revenue recoveries	(381)	(1,574)	(1,262)	(963)	(937)	(867)	(513)	(482)	(778)	(831)
Recovery of cost	(28,510)	(25,975)	(27,772)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,785)	(23,451)
Net service and administrative costs	\$ 72,939	\$ 69,534	\$ 70,335	\$ 63,479	\$ 61,046	\$ 53,549	\$ 51,301	\$ 52,045	\$ 50,727	\$ 51,799

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SCHEDULES OF PLANT, LINES AND OTHER FACILITIES
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Completed Projects										
Sewer lines	\$ 1,134,637	\$ 1,042,742	\$ 1,022,859	\$ 963,798	\$ 915,527	\$ 819,349	\$ 762,241	\$ 694,851	\$ 619,077	\$ 527,412
Wastewater treatment facilities	469,645	459,238	456,955	422,483	418,997	389,747	273,187	262,073	242,549	214,818
Stormwater drainage facilities	427,431	400,118	390,699	366,745	337,039	308,282	288,277	278,739	265,294	236,526
Pumping and lift stations	70,644	69,301	66,990	60,877	55,407	51,389	46,752	42,620	39,454	32,315
Administrative facilities	45,561	45,561	45,561	45,347	45,347	45,239	30,724	22,859	20,867	20,479
Maintenance facilities	7,827	7,827	7,833	7,313	7,470	7,395	4,785	4,048	4,048	3,359
Machinery, equipment and other	94,122	74,975	75,872	62,526	58,613	56,749	47,815	47,703	46,653	40,744
Capitalized interest and issuance cost	222,563	214,644	214,644	220,690	211,362	196,725	178,557	173,717	153,556	123,557
Total Completed Projects	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498	1,199,210
Less accumulated depreciation	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)
Total Completed projects - net	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294	838,194
Total Construction in progress	140,134	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570	433,324
Total Net Plant, Lines and Other Facilities	\$ 1,878,012	\$ 1,816,737	\$ 1,789,812	\$ 1,764,556	\$ 1,733,724	\$ 1,694,956	\$ 1,619,999	\$ 1,532,918	\$ 1,436,864	\$ 1,271,518

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
WASTEWATER TREATMENT PLANT CAPACITY
2010

Plant	Design Capacity MGD	Avg Daily Flow MGD	Eventual Capacity MGD	Residential	Customer Base			Total	Year Built	Treatment Process
					Commercial	Industrial				
Morris Forman	120.0	100.4	120.0	122,243	13,729	348		136,320	1958	Secondary added in 1972.
Derek R. Guthrie*	30.0	26.5	30.0	55,558	3,158	16		58,732	1986	Secondary
Jeffersontown	4.0	3.5	4.0	6,735	917	14		7,666	1956	Secondary
Hite Creek	6.0	3.1	8.0	7,065	490	5		7,560	1970	Tertiary: sand filter
Cedar Creek	7.5	5.1	7.5	7,388	170	-		7,558	1995	Tertiary: sand filter
Floyd's Fork	3.3	2.7	9.8	4,523	112	-		4,635	2001	Tertiary: sand filter
15 Small Treatment Plants	2.7	2.0	-	5,891	218	-		6,109	Most 1970s	Various: developer-built package plants
Total Treatment System	173.5	143.3	179.3	209,403	18,794	383		228,580		

* - Formerly known as the West County WTP

Source: MSD Engineering Department

GREATER LOUISVILLE, KENTUCKY/INDIANA
EMPLOYERS OF 1,000 EMPLOYEES OR MORE

	2009 Rank	2008 Rank	2007 Rank	2006 Rank	2005 Rank	2004 Rank	2003 Rank	Type of business								
United Parcel Service, Inc.	1	20,125	1	20,513	1	20,674	1	17,543	1	17,206	P	Air cargo transport and distribution				
Jefferson County, KY Public Schools	2	13,964	2	13,326	2	13,917	2	13,235	2	13,420	G	Primary and secondary education				
Humana, Inc.	3	9,400	3	10,096	3	9,854	3	8,775	5	7,458	6	5,850	11	4,889	P	Group health insurance/HMOs
Norton Healthcare (formerly Alliant Health)	4	8,698	4	8,142	4	7,978	4	7,690	4	7,783	4	8,525	4	7,850	N	Hospital and health care facilities
University of Louisville	5	6,352	6	6,135	7	5,866	7	5,763	8	5,563	8	5,236	10	4,943	G	Higher education
Jewish Hospital & St. Mary's Healthcare Inc.	6	5,782	5	6,500	5	6,203	6	6,229	7	5,907	7	5,405	6	5,450	N	Hospital and health care facilities
Louisville-Jefferson County Metro Government*	7	5,765	7	5,811	8	5,639	8	5,698	6	5,993	5	5,893	5	5,744	G	City/County Government
Kroger Company	8	5,692	9	5,263	10	4,784	10	4,644	9	5,177	11	4,827	8	4,960	P	Retail grocer
Ford Motor Company	9	5,397	8	5,624	6	5,929	5	7,586	3	8,745	3	8,972	3	9,303	P	Vehicle manufacturing
Commonwealth of Kentucky	10	4,361	10	4,253	11	4,498	11	4,535	11	4,700	10	4,952	9	4,952	G	General purpose government
General Electric Company	11	4,100	11	4,000	9	5,000	9	5,000	10	5,000	9	5,000	7	5,200	P	Appliance manufacturing
Baptist Healthcare System	12	3,889	12	3,305	12	3,089	12	3,536	12	3,140	12	3,179	15	2,308	N	Hospital and health care facilities
U.S. Federal Government	13	3,575	13	2,985	13	2,853	14	2,822	13	2,826	13	2,941	13	2,806	G	General purpose government
U.S. Bureau of the Census	14	3,106	16	2,491	17	2,248	22	1,638	20	1,810	22	1,672			G	General purpose government
University Hospital	15	2,645	15	2,573	16	2,314	16	2,417	17	2,346	19	1,972	18	2,115	N	Nonprofit healthcare
Kindred Healthcare (Formerly Vencor Inc.)	16	2,224	18	2,153	19	2,079	13	3,033	16	2,349	16	2,342	20	1,957	P	Long-term health care, facilities
Roman Catholic Archdiocese of Louisville	17	2,142	17	2,343	15	2,351	17	2,348	15	2,437	15	2,680	14	2,468	N	Religious, educational, social services
U.S. Postal Service	18	1,991	14	2,626	14	2,651	15	2,653	14	2,674	14	2,902	12	2,872	G	Mail distribution
EON	19	1,976	20	1,902											P	Gas & Electric Utility
Manna Inc.	20	1,830													P	Food service provider
Yum! Brands Inc. (formerly Tricon)	21	1,757	19	2,076	18	2,243	18	2,219	18	2,123	18	2,195	16	2,194	P	Food service provider
AT&T (Formerly BellSouth)	22	1,700	21	1,700	22	1,680	24	1,561	25	1,476	26	1,423	25	1,438	P	Telecommunications
Papa John's International Inc.	23	1,602	26	1,530	28	1,480	38	1,130							P	Quick-service restaurants
Robley Rex VA Medical Center	24	1,596													N	Hospital and health care facilities
Bullitt County Public Schools	25	1,591	24	1,591	24	1,589	20	1,700	26	1,473	29	1,376			G	Primary and secondary education
Horseshoe Southern IN (formerly Caesars')	26	1,540	22	1,697	21	1,858	19	1,895	19	1,942	20	1,918	19	1,968	P	Gaming and entertainment resort
Publishers Printing Company	27	1,500	23	1,600	20	1,860	21	1,689	21	1,702	23	1,633	23	1,595	P	Trade, professional, special printing
Oldham County, KY Board of Education	28	1,500	25	1,568	25	1,519	28	1,448	28	1,407	31	1,320	30	1,250	G	Primary and secondary education
Floyd Memorial Hospital & Health Services	29	1,473	32	1,338	33	1,316	30	1,409	29	1,337	27	1,412	37	1,113	P	Hospital and health services provider
Greater Clark County, IN School Corp.	30	1,395	27	1,409	27	1,491	23	1,600	22	1,598	24	1,509	24	1,459	G	Primary and secondary education
New Albany/Floyd County, IN School Corp.	31	1,390	28	1,390	30	1,400	32	1,400	36	1,215	34	1,209	31	1,213	G	Primary and secondary education
Lowe's Cos. Inc.	32	1,358													P	Home Improvement Retailer
Swift & Co.	33	1,350	30	1,350	32	1,350	35	1,251	34	1,250	38	1,151	33	1,151	P	Hog slaughtering and pork processing
Insight Communications	34	1,340													P	Telecommunications
Rescare Inc.	35	1,314	33	1,314											P	Health & human services
Anthem, Inc.	36	1,276	29	1,358	31	1,381	29	1,438	23	1,575	21	1,687	21	1,744	P	Health Insurance sales and services
Brown-Forman Corp.	37	1,240	37	1,081	35	1,256	34	1,317	33	1,264	39	1,075	34	1,145	P	Distilled spirits manufacturing
SHPS	38	1,225	31	1,349	36	1,209	37	1,200	30	1,315	30	1,336	27	1,315	P	Benefits administration
Clark Memorial Hospital	39	1,225	34	1,270	38	1,175	40	1,060	39	1,098	28	1,411	26	1,358	N	Hospital and health services provider
Seven Counties Services	40	1,187	36	1,118	40	1,110	39	1,100	37	1,137	36	1,159	35	1,132	N	Health care provider
Securitas Security Services USA Inc.	41	1,150	35	1,150											P	Security Services
Shelby County Public Schools	42	1,071													G	Primary and secondary education
		143,794		135,930		131,730		132,051		127,499		124,940		118,518		

P=for-profit organization N=not-for-profit organization G=governmental organization

Source: Business First of Louisville, KY

*The City of Louisville & Jefferson County Governments merged in January 2003.

**Louisville/Jefferson County Government
Principal Employers
Current Year and Nine Years Ago**

Employer	Employees	2009 Rank	Percentage of Total Employment	Employer	Employees	2000 Rank	Percentage of Total Employment
United Parcel Service, Inc.	20,125	1	3.48%	United Parcel Service, Inc.	16,338	1	2.72%
Jefferson County, KY Public Schools	13,964	2	2.41%	Jefferson County, KY Public Schools	13,467	2	2.25%
Humana, Inc.	9,400	3	1.62%	Ford Motor Company	9,832	3	1.64%
Norton Healthcare (formerly Alliant Health)	8,698	4	1.50%	General Electric Company	7,446	4	1.24%
University of Louisville	6,352	5	1.10%	Norton Healthcare (formerly Alliant Health)	5,877	5	0.98%
Jewish Hospital & St. Mary's Healthcare Inc.	5,782	6	1.00%	Commonwealth of Kentucky	5,405	6	0.90%
Louisville-Jefferson County Metro Government*	5,765	7	1.00%	Jewish Hospital & St. Mary's Healthcare Inc.	4,995	7	0.83%
Kroger Company	5,692	8	0.98%	University of Louisville	4,898	8	0.82%
Ford Motor Company	5,397	9	0.93%	Kroger Company	4,700	9	0.78%
Commonwealth of Kentucky	4,361	10	0.75%	Humana, Inc.	4,665	10	0.78%
Total	<u>85,536</u>		<u>14.77%</u>		<u>77,623</u>		<u>12.95%</u>
Total Employment	579,095				599,600		

Source: Business First of Louisville
Bureau of Labor Statistics

Ratio of Outstanding Debt and Misc. Demographic Information
Last Eight Fiscal Years
(dollar amounts in thousands)

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<u>Fiscal Year</u>	<u>Revenue Bond</u>	<u>Bond Anticipation Notes</u>	<u>Total Debt</u>	<u>Population</u>	<u>Personal Income</u>	<u>Percentage of Personal Income</u>	<u>Unemployment Rate</u>
2003	\$ 1,183,233	\$ -	\$ 1,183,233	695,843	\$ 23,791,641	4.97%	5.20%
2004	1,271,531	-	1,271,531	698,059	24,184,881	5.26%	5.10%
2005	1,256,651	-	1,256,651	698,903	25,470,269	4.93%	5.70%
2006	1,341,256	-	1,341,256	699,827	25,949,674	5.17%	5.70%
2007	1,325,426	-	1,325,426	701,500	27,122,740	4.89%	5.00%
2008	1,427,060	-	1,427,060	709,264	29,497,015	4.84%	6.40%
2009	1,393,547	-	1,393,547	713,877	31,274,740	4.46%	10.60%
2010	1,307,278	452,680	1,759,958	721,594*	Not Available	N/A	10.30%

* - Estimate

Source: U.S. Census Bureau and Workforce Kentucky Website (www.workforcekentucky.ky.gov)

Source: Workforce Kentucky Website (www.workforcekentucky.ky.gov)

Source: Bureau of Economic Analysis website (www.bea.gov)

Note: Data is presented since the merger of the Louisville and Jefferson County governments in 2003

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
TOP 10 WASTEWATER AND STORMWATER CUSTOMERS

<u>Rank</u>	<u>Customer Name</u>	<u>FY '10 Wastewater Billed</u>	<u>Percent Total Wastewater Revenue</u>	<u>Customer Name</u>	<u>FY '01 Wastewater Billed</u>	<u>Percent Total Wastewater Revenue</u>
1	Solae LLC*	\$ 3,583,835	2.68%	Protein Technologies	\$ 1,848,000	2.71%
2	Opta Foods	\$ 1,937,885	1.45%	E.I. Dupont	\$ 1,535,437	2.25%
3	Oxy Vinyls	\$ 1,666,230	1.24%	Swift & Company	\$ 1,068,293	1.57%
4	Jefferson Co. Bd. of Educ	\$ 1,531,702	1.14%	Oxy Vinyls	\$ 998,618	1.46%
5	Brown Forman Corp.	\$ 1,228,625	0.92%	Ford Motor Co.	\$ 934,068	1.37%
6	Heaven Hill Distilleries	\$ 1,207,513	0.90%	Opta Food	\$ 750,000	1.10%
7	Swift & Company	\$ 1,157,736	0.86%	Jefferson Co. Bd. of Educ.	\$ 626,709	0.92%
8	Lou. Metro Housing Auth.	\$ 972,227	0.73%	Louisville Mun. Housing	\$ 541,479	0.79%
9	General Electric	\$ 950,706	0.71%	Rohm & Haas	\$ 536,701	0.79%
10	Ford Motor Co.	\$ 865,050	0.65%	General Electric	\$ 464,768	0.68%
Total		\$ 15,101,509	11.28%	Total	\$ 9,304,073	13.64%

Total FY '10 Wastewater Revenue: \$133,853,000

Total FY '01 Wastewater Revenue: \$68,288,000

<u>Rank</u>	<u>Customer Name</u>	<u>FY '10 Stormwater Billed</u>	<u>Percent Total Stormwater Revenue</u>	<u>Customer Name</u>	<u>FY '01 Stormwater Billed</u>	<u>Percent Total Stormwater Revenue</u>
1	Regional Airport Authority	\$ 910,813	2.62%	Regional Airport Authority	\$ 265,009	1.37%
2	United Parcel Service	\$ 676,173	1.95%	United Parcel Service	\$ 234,484	1.21%
3	Jefferson Co. Bd. of Educ.	\$ 319,617	0.92%	Jefferson Co. Bd. of Educ.	\$ 192,397	0.99%
4	Ford Motor Company	\$ 309,789	0.89%	Ford Motor Company	\$ 164,945	0.85%
5	Churchill Downs	\$ 178,493	0.51%	University of Louisville	\$ 109,536	0.56%
6	KY State Fair Board	\$ 162,588	0.47%	Churchill Downs	\$ 108,570	0.56%
7	Norfolk Southern Corp.	\$ 150,677	0.43%	Trammell Crow Co.	\$ 91,683	0.47%
8	LIT Industrial Limited	\$ 149,178	0.43%	KY State Fair Board	\$ 86,690	0.45%
9	Louisville Gas & Electric	\$ 148,516	0.43%	Norfolk Southern Corp.	\$ 82,503	0.42%
10	U of L Belknap Campus	\$ 140,145	0.40%	Seaboard Systems, Inc.	\$ 78,141	0.40%
Total		\$ 3,145,989	9.05%	Total	\$ 1,413,958	7.28%

Total FY '10 Stormwater Revenue: \$34,757,000

Total FY '01 Stormwater Revenue: \$19,413,000

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

C O M P R E H E N S I V E
ANNUAL FINANCIAL REPORT

MSD

Metropolitan Sewer District

Louisville, Kentucky USA

A Component Unit Of The Louisville KY Metro Government