

**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, 2013

**Prepared by the Division of Budget and Finance
Chad Collier, Director**

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS

	<u>Page No.</u>
<i>INTRODUCTORY SECTION</i>	
Letter of Transmittal	1-5
GFOA Certificate of Achievement for Excellence in Financial Reporting	6
Organization Chart	7
List of Board Members and Principal Officers	8
<i>FINANCIAL SECTION</i>	
Independent Auditors' Report	9-10
Management Discussion and Analysis	11-17
Basic Financial Statements	
Comparative Statement of Net Position	18
Comparative Statement of Revenues, Expenses and Changes in Net Position	19
Comparative Statement of Cash Flows	20-21
Notes to the Comparative Financial Statements	22-43
<i>STATISTICAL SECTION</i>	
Schedule of Debt Service Coverage	44
Ten Year Comparative Statement of Net Assets	45-46
Ten Year Comparative Statement of Revenues, Expenses, and Changes in Net Assets	47
Ten Year Comparative Statement of Cash Flow	48
Ten Year Comparative Summary of Operating Revenue	49
Ten Year Comparative Summary of Service and Administrative Costs	50
Ten Year Comparative Schedule of Plant, Lines, and Other Facilities	51
Wastewater Treatment Plant Capacity	52
Employers of One Thousand or more in Greater Louisville	53
Principal Employers – Current Year & Nine Years Ago	54
Outstanding Debt & Misc. Demographic Information	55
Top Ten Customers	56

INTRODUCTORY SECTION



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

October 29, 2013

Customers, Investors and MSD 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, 2013 ("2013") 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 are 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 2013 was \$6.6 million.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County, which, with a 2011 population of approximately 742,176, 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 ("Louisville MSA") decreased in June 2013 to 595,763; an decrease of 1,618 from the June 2012 level of 597,381. The June 2013 unemployment rate for the Louisville MSA was 8.5% compared to a national average of 7.6% and a state average of 8.4% for this same time period.

The Metro Mayor is Greg Fischer, who began his term as Mayor in January 2011. Mayor Fischer replaced former Mayor Jerry E. Abramson, who served as Mayor of the city of Louisville for 13 years, from January 1986 through 1998 and as Mayor of Louisville Metro from January 2003 through 2010.

Despite the economic downturn in recent years, there have still been a number of positive developments in Metro Louisville during this past fiscal year. The University of Louisville had an estimated \$1.7 billion economic impact on the state of Kentucky in fiscal 2013, according to a recent study from a state economist. Factors considered in determining the economic impact included employment, construction spending and taxes generated. U of L employed 6,900 faculty and staff in 2013, the study said. An estimated 13,800 additional jobs were created from the combined direct and indirect effect of the university. The cumulative impact of university-related construction activity was \$106 million, according to the report. That resulted in 1,970 construction jobs during fiscal 2013, which ended June 30. U of L generated \$132.9 million in state and local taxes in the recently completed fiscal year. That included \$27.3 million in taxes to Jefferson County.

GE Appliances plans to invest \$1 million in a technical training center in Louisville to help it build a pipeline of skilled workers for its expanding operations. The training center would allow current and future hourly employees at GE to obtain associate degrees in applied science while also pursuing apprenticeships in skilled trades. The degrees would be issued by a yet-to-be-selected educational partner. GE Appliances, a division of Fairfield, Conn.-based General Electric Co., is one of the area's largest employers. It operates Louisville's Appliance Park, where it designs and manufactures dishwashers, refrigerators, washing machines and other appliances. It has about 6,000 employees there.

Louisville Distilling Co. LLC, producers of Angel's Envy bourbon, unveiled plans to construct a new a \$12 million distillery, bottling line and visitor center at an old Vermont American property on West Main Street, that will create 40 new jobs. Plans are to have construction finished by fall 2014.

The editors of ConventionSouth magazine have recognized Louisville among 15 "Southern Hospitality Cities." The national publication for event and convention planners named Louisville among its Hot Picks for 2013. The magazine selected one city from each state in the South, considering factors such as historical/quintessential tourism areas, service standards and politeness, visitor-friendly traditions, and community pride. ConventionSouth editor and associate publisher Marlane Bundock said "From its quintessential ambiance to its genuinely cordial people, Louisville especially stands out as a destination with Southern hospitality. Meeting planners from across the country who are seeking a charming destination where true Southern hospitality makes their attendees feel safe and welcomed will find that Louisville is an excellent option for their meetings and events."

During 2013, MSD continued to benefit from a diversified customer base. Fifty-four percent (54%) of its service charge revenue came from residential customers with the remaining forty-six percent (46%) coming from commercial and industrial customers. During 2013, sewer accounts increased by 4,198 or 1.8% to 239,334

Major Initiatives

Project WIN – Waterway Improvements Now

Project WIN is a comprehensive sewer improvement plan designed 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. 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 further address sanitary sewer overflows and unauthorized discharges from MSD 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 protecting the health of our citizens and future generations. The Integrated Overflow Abatement Plan (IOAP), which has been developed under Project WIN, is a long-term plan to control discharges from MSD's sewer system. Sixteen projects are currently under construction. These initiatives vary from the massive Derek R. Guthrie Water Quality Treatment Center (WQTC) to flood pumping stations and sanitary sewer improvements; green demonstration projects; and large interceptor projects in the coming years. As projects are completed, MSD is implementing a rigorous performance monitoring program for the individual projects and systematic performance to confirm and report compliance within intended objectives and to develop remedial measures where necessary.

Integrated Overflow Abatement Plan (IOAP)

The Final Sanitary Sewer Discharge Plan and the CSO Long Term Control Plan were submitted and certified on December 19, 2008, concurrently, under the title of the Integrated Overflow Abatement Plan (IOAP). In response to questions from EPA and KDEP, MSD revised and clarified portions of the IOAP and resubmitted all three volumes with a revision date of June 19, 2009. The Final IOAP was submitted with a date of September 30, 2009. Approval was received on October 23, 2009.

The IOAP is a major part of MSD's response to the Consent Decree and is the federally enforceable action plan for sewer overflow abatement. The scope of the IOAP is limited to commitments that directly relate to MSD programs and activities to address CSO and SSO issues. The IOAP is a long term plan to control CSOs and eliminate sanitary sewer overflows (SSOs) and other unauthorized discharges from the MSD's sewer system. The IOAP is expected to improve water quality in both Beargrass Creek and the Ohio River through and downstream of Jefferson County. The expected water quality benefits of the IOAP include: (1) reductions in the peak levels of bacteria in the Ohio River and Beargrass Creek; and (2) a substantial (greater than 95 percent) reduction in the amount of time that CSOs may cause bacteria levels to exceed water quality standards.

The IOAP specifically addresses the following:

- **CSO Benefits:** A 96 percent capture and treatment of wet weather CSOs during an average year, which equates to an 85 percent reduction in CSO volume compared to the conditions in 2008.
- **SSO Benefits:** Elimination of an average of 145 SSO events per year. In terms of water quality, this equates to elimination of 100 tons of 5-day biochemical oxygen demand (BOD5) and approximately 200 tons of suspended solids annually.
- **Integration with Other Water Quality Programs:** Coordinating IOAP implementation with water quality improvement initiatives of Louisville Metro Government and other public and private entities.

Values-Based Performance Evaluation Framework

In accordance with the Consent Decree, MSD established a Wet Weather Team (WWT) comprised of a broad range of community stake holders, MSD staff, and consultants. Through a series of meetings over two years, the WWT developed a values-based performance evaluation framework to use in evaluating, selecting, and prioritizing alternative approaches to overflow abatement. Using the structured decision-making process as framed by the WWT, MSD developed and evaluated overflow abatement control options for the IOAP centered on managing risks to these community values. Projects were analyzed by technical teams in terms of benefits (quantified using the anticipated reduction in risks to the community values) and costs (quantified as total capital and operational costs).

Components of the IOAP include the following:

- Green Infrastructure Program;
- Source Control and Gray Solutions;
- Control of Private Sources of Infiltration/Inflow (I/I);
- Public Information, Education, and Involvement Program;
- Post-Construction Compliance Monitoring;
- Future Development Considerations; and,
- IOAP Funding Plan.

MSD has developed the IOAP in conformance with the Consent Decree, the CSO Control Policy, and other applicable regulations.

Factors Affecting Financial Condition

Investment Policy and Performance

In November 2012, MSD's Board approved a new Investment Policy to insure that all investment activity regarding all MSD's funds be in conformance with KRS 66.480. The primary objectives contained in MSD's Investment Policy, in priority order, are safety, liquidity and yield.

- Safety - safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- Liquidity – the investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The portfolio shall be structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity) and, to meet unanticipated cash demands, the portfolio should consist largely of securities with active secondary markets (dynamic liquidity).
- Yield – the investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed with securities generally being held to maturity.

MSD's Investment Policy identifies the types of investments permitted as those defined by KRS 66.480. The investment portfolio will be managed in accordance with the parameters specified within the policy and monthly reports will be provided to the Board for their review to insure that appropriate measures have been implemented to minimize investment risks.

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 2013 was \$14.6 million compared to gross earnings of \$40.7 million in 2012.

Other Information

Independent Audit

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. Crowe Horwath, LLP was selected by the MSD Board to conduct the 2013 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, 2013 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, 2013 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 its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 23rd consecutive year that MSD has achieved this prestigious award. In order to be awarded a Certificate of Achievement, MSD must publish 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 Greg Heitzman, for their continued support and fiscally responsible management of MSD's financial resources.

Respectfully submitted,



Maria B. Mullaney

Controller



Government Finance Officers Association

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

Presented to

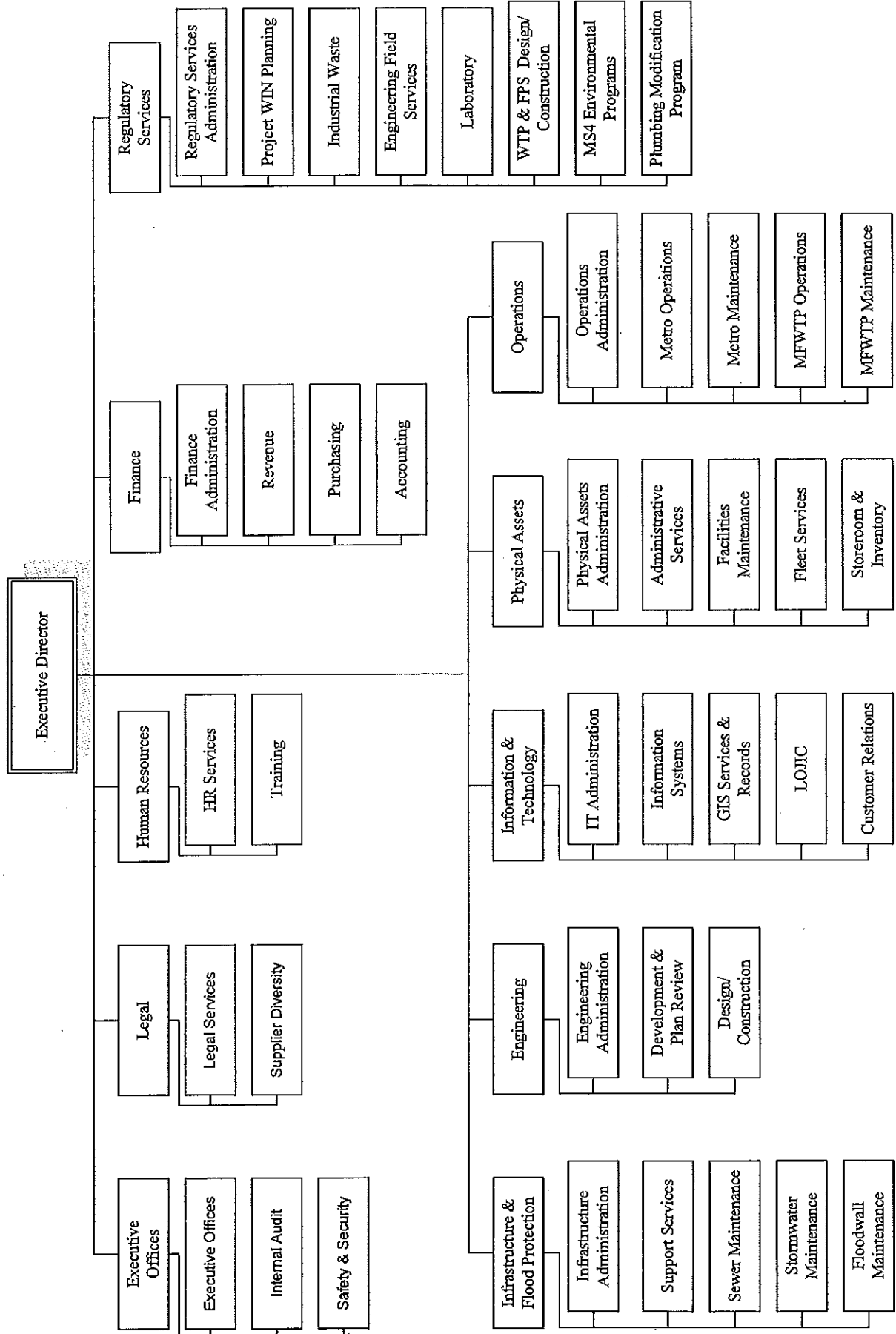
**Louisville and Jefferson
County Metropolitan Sewer
District, Kentucky**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Louisville and Jefferson County
Metropolitan Sewer District
Organization Chart



MSD BOARD:

James Craig, Chairperson

Tom Austin, Vice Chairperson

Daniel Arbough
Lonnie Calvert
Cyndi Caudill

Joyce Horton Mott
John Phelps
Yvonne Wells-Hatfield

PRINCIPAL OFFICERS:

Greg Heitzman, Executive Director
Steve Emly, Chief Engineer
Chad Collier, Secretary/Treasurer

James Hunt, Director
Physical Assets

Paula Purifoy
Legal Counsel

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
Metro Operations

Lynne Fleming, Director
Human Resources

FINANCIAL OFFICERS:

Chad Collier, Finance Director

Maria B. Mullaney
Controller

Renee Thomas
Purchasing Manager

Sharon Dawson
Revenue Manager

Patrick Meader
Budget Administrator

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Louisville and Jefferson County Metropolitan Sewer District, a component unit of the Louisville-Jefferson County Metro Government, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Louisville and Jefferson County Metropolitan Sewer District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Louisville and Jefferson County Metropolitan Sewer District, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11-18 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisville and Jefferson County Metropolitan Sewer District's financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 on our consideration of Louisville and Jefferson County Metropolitan Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisville and Jefferson County Metropolitan Sewer District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 29, 2013



*Louisville and Jefferson County Metropolitan Sewer District
700 West Liberty Street
Louisville Kentucky 40203-1911
502-540-6000*

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, 2013. 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 1-5 of this report.

FINANCIAL HIGHLIGHTS

- MSD's net position increased by \$58.3 million (11.5%) as a result of this year's operations
- Operating revenues increased by \$17.8 million (9.3%) to \$210 million.
- Operating expenses excluding depreciation decreased by \$.4 million (.3%)
- Non-operating revenues:
 - Investment income and sale of assets decreased by \$26.0 million (64.0%)
 - The fair value of swaps increased 2013 revenue by \$36.2 million, compared to a expense of \$52.9 million in 2012
- Non-operating expenses
 - Interest and capital related expenses and reimbursements increased by \$.9 million (1.2%).

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Introductory Section, Financial Section, and Statistical Section. 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

- **Statement of Net Position** - This financial statement includes all of MSD's assets, liabilities and deferred outflow & inflow of resources. It also provides information about the nature and amounts of investments in assets and the obligations to creditors. In addition, it provides the basis for computing rate of return, evaluating the capital structure of MSD and assessing the liquidity and financial flexibility of the organization.
- **Statement of Revenues, Expenses and Changes in Net Position** - This financial statement 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.
- **Statement of Cash Flows** - This financial statement 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.

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2013 and 2012**

FINANCIAL INFORMATION

Statement of Net Position: MSD's net position increased by \$58.3 million in FY 2013 to \$566.9 million.

- MSD's total assets and deferred outflow of resources decreased by \$29.4 million in 2013. This overall decrease can be attributed primarily to funds used to retire debt and a reduction in receivables.
- Total liabilities and deferred inflow of resources decreased by \$87.8 million in 2013. This decrease was due to an increase in the fair value of swap agreements of \$36.3 million, and retirement of \$59.4 million of debt.
- Unrestricted net position increased \$26.7 million during FY 2013 and has increased \$33.5 million since FY 2011. This increase in unrestricted net position is largely due to a reduction in bonds payable and an increase in the fair value of swap agreements.

	FY 2013	FY 2012	FY 2011
Current Assets - Unrestricted	\$ 89,403	\$ 68,465	\$ 57,201
Current Assets - Restricted	154,050	289,653	408,899
Noncurrent Assets	2,228,327	2,141,424	2,039,393
Total Assets	2,469,780	2,497,542	2,505,493
Deferred Outflow of Resources	13,511	15,176	16,842
Total Assets and Deferred Outflows	2,483,291	2,512,718	2,522,335
Current Liabilities	12,693	16,470	15,732
Current Liabilities - Restricted Assets	285,489	279,708	279,986
Noncurrent Liabilities	1,535,962	1,688,274	1,591,670
Total Liabilities	1,834,144	1,884,452	1,887,388
Deferred Inflow of Resources	82,233	119,680	99,155
Total Assets and Deferred Outflows	1,918,377	2,004,132	1,986,643
Net investment in capital assets	365,225	313,575	363,334
Restricted	136,939	157,002	141,217
Unrestricted	64,750	38,009	31,241
Total Net Position	566,914	508,686	536,792
Total Liabilities, Deferred Outflows & Net Position	\$ 2,483,291	\$ 2,512,718	\$ 2,522,335

Results of Operations

Revenues:

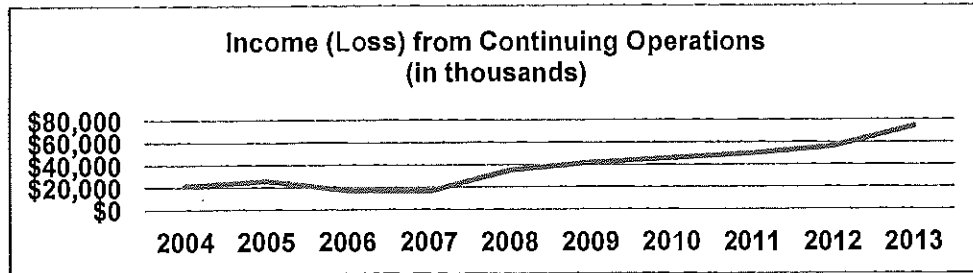
- **Total Operating Revenues** as of June 30, 2013 were \$210.0 million compared to \$192.2 million for the same period last year, an increase of \$17.8 million or 9.3%. This increase in operating revenues was primarily driven by a Board-approved rate increase of 6.5% on wastewater and stormwater fees that were enacted on August 1, 2012, in addition to draught conditions early in FY 2013 which significantly increased revenues for volume charges
- **Wastewater Service Charges** totaled \$159.8 million as of June 30, 2013. This represents an increase of \$10.2 million or 6.8% from a year ago. The majority of MSD's wastewater customers are billed based on the volume of water used. Because 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.

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2013 and 2012**

- **Stormwater Service Charges** were \$45.4 million as of June 30, 2013. This represents an increase of \$4.6 million or 11.2% from the same period one year ago.
- **Other Operating Income** was \$4.8 million, which is \$3.1 million more than FY 2012. This increase can be attributed largely to an increase in capacity charges and inflow & infiltration fees of \$2.2 million, as well as claim settlements of \$0.9 million.

In FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to \$6.6 million in FY 2013, \$5.2 million in FY 2012 and \$3.2 million in FY 2011. Free wastewater services provided to Louisville Metro Government amounted to \$5.6 million in FY 2013, \$4.6 million during FY 2012 and \$2.6 million during FY 2011.

Net Operating Income - MSD recorded a net operating income of \$74.8 million in FY 2013 compared to \$56.6 million in FY 2012, an increase of \$18.2 million or 32.2%. Increases in service charges of \$14.7 million from FY 2012 accounted for the majority of this change. Net cash provided by operating activities increased \$10.6 million from \$117.4 million in FY 2012 to \$128.0 million in FY 2013.



**TABLE 2
Condensed Statements of Revenues,
Expenses, and Changes in Net Position
(000's)**

	FY 2013	FY 2012	FY 2011
Service Charges	\$ 205,222	\$ 190,482	\$ 183,297
Other Operating Income	4,823	1,756	2,379
Total Operating Revenues	210,045	192,238	185,676
Investment Income	14,636	40,687	33,700
Total Revenues	224,681	232,925	219,376
Depreciation & Amortization Expense	60,335	60,527	58,741
Other Operating Expenses	74,931	75,126	76,999
Nonoperating Expenses	74,507	73,676	67,025
Decrease upon Hedge Termination	-	-	-
Change in Fair Value - Swaps	(36,286)	52,897	(22,638)
Total Expenses	173,487	262,226	180,127
Net Income (Loss) before Contributions	51,194	(29,301)	39,249
Contributions	7,134	2,095	3,747
Change in Net Position	58,328	(27,206)	42,996
Beginning Net Position	508,586	535,792	492,796
Ending Net Position	\$ 566,914	\$ 508,586	\$ 535,792

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2013 and 2012**

Expenses:

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the past three fiscal years. Gross service and administrative costs decreased by \$.2 million in FY 2013 from FY 2012 level and increased by \$1.0 million in FY 2012 from FY 2011 level. Other expenses lines highlighted include:

- Labor cost remained relatively unchanged in FY 2013 compared to FY 2012.
- Utilities - A decrease in utility expenses of \$1.7 million was due to electricity decreasing by \$1.8 million.
- Professional Services increased by \$1.5 million. This increase can be attributed to the early buy-out of a revenue enhancement contract of \$.7 million, professional fees of \$.5 million related to the termination of several swap agreements, and Due Diligence activities, relating to the feasibility of consolidation with Louisville Water Company, of \$.2 million.
- Maintenance and repairs decreased by \$.2 million and all other operating expenses decreased by approximately \$.4 million. These costs are reported net of capitalized overhead and reimbursed expenses of \$33.6 million in FY 2013 and \$33.6 million in FY 2012 in the Statement of Revenues, Expenses, and Changes in Net Position.
- Billing and collections increased during FY 2013 by \$.6 million due to the implementation of a new billing contract with Louisville Water Company.

MSD's employee count, including vacant positions, decreased from 666 in FY 2012 to 649 full-time equivalent positions in FY 2013. Labor cost was 51% of gross service and administrative costs in both FY 2013 and FY 2012.

TABLE 3						
Gross Service and Administrative Costs						
(000's)						
	2013		2012		2011	
Service and administrative costs:						
Labor	\$ 55,028	51%	\$ 55,010	51%	\$ 56,358	52%
Utilities	12,821	12%	14,555	13%	13,853	13%
Materials and supplies	8,990	8%	8,972	8%	9,043	8%
Professional services	3,942	4%	2,416	2%	2,624	2%
Maintenance and repairs	10,866	10%	11,090	10%	10,054	9%
Billing and collections	4,904	5%	4,309	4%	4,318	4%
Chemicals	4,082	4%	3,894	4%	4,059	4%
Fuel	1,825	2%	1,820	2%	1,643	2%
Biosolids disposal	1,709	2%	1,759	2%	2,035	2%
All other	4,369	4%	4,901	5%	3,694	3%
Gross service and admin. costs	\$ 108,536	100%	\$ 108,726	100%	\$ 107,681	100%

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2013 and 2012**

Capital Assets:

MSD's total gross capital assets (additions) increased by \$142 million in FY 2013. Major additions include:

- \$85.8 million completion of sewer line installations,
- \$23.7 million in sewer, drain & pump facilities and
- \$22.5 million in capitalized interest expense.

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.

Depreciation expense was \$59.0 million, or \$.1 million more than FY 2012. These expenses are expected to increase in future years as MSD adds additional capital assets to its wastewater and stormwater systems.

Short-term and Long-term Debt:

Significant debt transactions included the following:

- On November 15, 2012 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2012A Notes. The proceeds of the notes were used to refinance the 2011B Notes. The 2012A Notes mature on December 4, 2013.
- On April 23, 2013, MSD issued \$115,790 of Sewer and Drainage System Revenue Bonds, Series 2013A. Proceeds of the 2013A bonds, net of issuance cost and together with funds released from the Reserve Account were used to currently refund \$131,670 of MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 2001A.
- On April 23, 2013, MSD issued \$119,515 of Sewer and Drainage System Revenue Bonds, Series 2013B. Proceeds of the 2013B bonds, net of issuance cost and together with funds released from the Reserve Account were deposited into an Escrow Fund with the Paying Agent to advance refund \$100,000 of MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 2004A and to advance refund \$34,345 of Series 2005A. As a result, the refunded bonds are considered to be defeased and the liability has been removed from MSD's Statement of Net Position.
- In May and June of 2013 MSD terminated two Floating to Fixed Interest Rate swap agreements, two Basis swap agreements and three Reversal swap agreements. Additionally, MSD partially terminated two Floating to Fixed Interest Rate swap agreements. The termination value of all swap agreements resulted in a net payment by MSD of \$152.

Net interest expense totaled \$74.6 million in FY 2013 and \$73.7 million in FY 2012, an increase of \$.9 million.

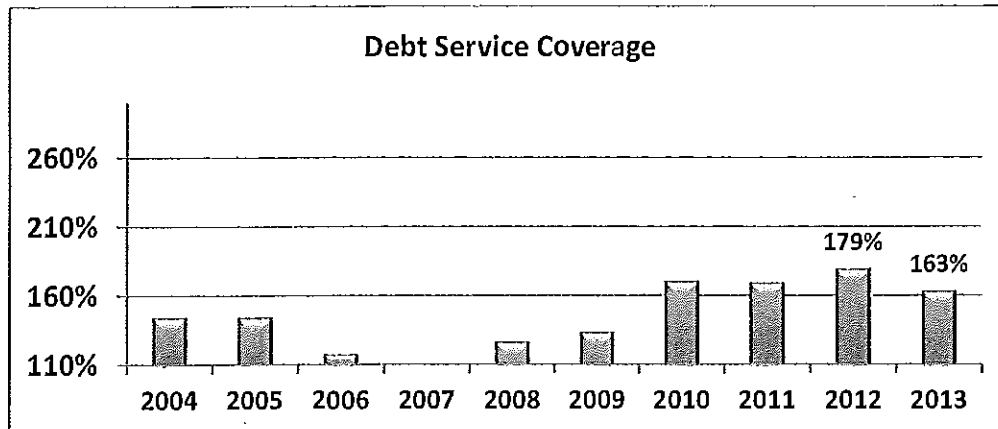
Additional information on MSD long-term debt can be found in Note 7 on pages 34-39 of this report.

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2013 and 2012**

Debt Service Ratio:

Although net operating income is the most significant component of determining MSD's debt service coverage ratio, 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 compliance with debt service ratio tests of the 1993 Sewer and Drainage System Revenue Bond Resolution (the Resolution). MSD's debt service coverage, calculated on the foregoing basis, was 163% in 2013 and 179% in 2012. Key aspects include:

- The 1993 Resolution and its supplements require MSD to provide "available revenues," 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 of business for payment of debt service.



The formula authorized by the Louisville Metro Government to calculate allowable rate increases does not allow for the inclusion of depreciation expense. 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.

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2013 and 2012**

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 13 to the financial statements.)

In December 2011, Kentucky's Auditor of Public Accounts issued the findings of a management audit of MSD containing administrative recommendations, including updating management policies, improving Board oversight and strengthening internal controls. The audit contained no findings regarding MSD's financial statements, nor were there any findings regarding illegal or unethical practices by MSD's Board or staff. Shortly after the audit report was issued Louisville Water Company (LWC) President and CEO, Greg Heitzman, began serving in a part-time capacity as the Interim Executive Director of MSD pursuant to a Loaned Executive Agreement with LWC. Mr. Heitzman served in the Interim role until May 1, 2013 when he retired from LWC and assumed the Executive Director role for MSD. MSD had fully responded to all state audit findings by December 2012 with specific actions which either had resolved the findings or an action plan to address them.

In January 2012, Mayor Greg Fischer formed The Louisville Utility and Public Works Advisory Group (Advisory Group) to examine the operations of MSD, LWC and Louisville Metro Department of Public Works and Assets (DWP). The Advisory Group was tasked to determine whether synergies existed between the entities that would allow for improved service or reduced costs. The evaluation was intended to consider an array of potential business scenarios ranging from current state where the entities essentially operate separately to a full consolidation. The Advisory Group found that there were potential cost savings from pursuing Inter-local Agreements to a full consolidation of the two agencies. However, the findings had not included consideration of consolidation structures allowable under current law based on the statutory governance structure of each entity. MSD is a not-for-profit political subdivision of the Commonwealth of Kentucky and governed under state statutes, while LWC is a private for-profit company of which Metro Louisville owns 100% of the stock.

In April 2013, the Boards of MSD and LWC signed a Letter of Intent to pursue a thorough due diligence evaluation of various consolidation structures. This effort was in response to the Advisory Group and the Mayor's recommendation that a complete legal, financial and environmental analysis be undertaken to determine the full risk and opportunity of a potential consolidation. As a result, both MSD and LWC formed a due diligence team consisting of internal senior management from both entities, with the assistance of outside experts when needed. The results of this analysis along with recommendations are to be delivered to the Mayor during the fall of 2013.

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. www.msdlouky.org

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2013 and 2012
(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Current Assets:		
Unrestricted cash and cash equivalents	\$ 66,376	\$ 45,545
Unrestricted investments	100	100
Restricted cash and cash equivalents	62,249	193,822
Restricted investments	90,574	94,639
Accounts receivable, less allowance for doubtful accounts of \$1,080 (2013), \$654 (2012)	18,465	16,666
Inventories	3,579	3,484
Accrued interest receivable	1,226	1,192
Prepaid expenses and other current assets	884	670
Total current assets	<u>243,453</u>	<u>356,118</u>
Noncurrent Assets:		
Long-term assessment receivables	17,549	18,917
Unamortized bond issuance costs	18,713	16,959
Plant, lines and other facilities, net	2,190,065	2,105,548
Total noncurrent assets	<u>2,226,327</u>	<u>2,141,424</u>
Total Assets	<u>\$ 2,469,780</u>	<u>\$ 2,497,542</u>
Deferred Outflow of Resources:		
Unamortized loss of refunding	13,511	15,176
Total Assets and Deferred Outflow of Resources	<u>\$ 2,483,291</u>	<u>\$ 2,512,718</u>
Current Liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	\$ 12,693	\$ 16,470
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor retainage of \$5,444 (2013), \$5,536 (2012)	16,168	12,656
Accrued interest payable	12,458	13,959
Refundable deposits	1,137	1,013
Subordinated Debt	228,691	226,340
Current maturities of bonds payable	27,035	25,740
Total current liabilities	<u>298,182</u>	<u>296,178</u>
Non-current Liabilities:		
Bonds payable	1,478,225	1,536,770
Unamortized debt premium/discount	56,764	45,841
Arbitrage rebate liability accrued	-	4,467
Other long term liabilities	973	1,196
Total non-current liabilities	<u>1,535,962</u>	<u>1,588,274</u>
Total Liabilities	<u>\$ 1,834,144</u>	<u>\$ 1,884,452</u>
Deferred Inflow of Resources:		
Interest rate swaps	72,416	108,704
Other deferred inflows - swaps	9,815	10,976
Total deferred inflow of resources	<u>82,233</u>	<u>119,680</u>
Total Liabilities and Deferred Inflow of Resources	<u>\$ 1,916,377</u>	<u>\$ 2,004,132</u>
Net Position:		
Net investment in capital assets	\$ 365,225	\$ 313,575
Restricted for payment of bond principal and interest	136,939	157,002
Unrestricted	64,750	38,009
Total net position	<u>566,914</u>	<u>508,586</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 2,483,291</u>	<u>\$ 2,512,718</u>

See accompanying notes to financial statements.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012
(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Service charges	\$ 205,222	\$ 190,482
Other operating income	4,823	1,756
Total operating revenues	<u>210,045</u>	<u>192,238</u>
Operating Expenses		
Service and administrative costs	74,931	75,126
Depreciation and amortization	60,335	60,527
Total operating expenses	<u>135,266</u>	<u>135,653</u>
Income from Operations	<u>74,779</u>	<u>56,585</u>
Non-operating Revenue (Expenses)		
Gain / loss on disposal of assets	45	(19)
Investment income	3,650	29,701
Build America Bond refund	10,986	10,986
Interest expense - bonds	(92,616)	(89,243)
Interest expense - swaps	(10,200)	(11,235)
Interest expense - other	(4,829)	(6,595)
Amortization of debt discount / premium	6,735	7,032
Capitalized interest	26,358	26,384
Change in fair value - swaps	36,286	(52,897)
Total non-operating revenue (expenses) - net	<u>(23,585)</u>	<u>(85,886)</u>
Income (loss) before Contributions	51,194	(29,301)
Contributions:	<u>7,134</u>	<u>2,095</u>
Increase (decrease) in net position	58,328	(27,206)
Net position, beginning of year	508,586	535,792
Net position, end of year	<u>\$ 566,914</u>	<u>\$ 508,586</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2013 and 2012
(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 207,905	\$ 193,446
Cash paid to suppliers	(42,003)	(36,242)
Cash paid to employees	(37,923)	(39,835)
Net cash provided by operating activities	<u>127,979</u>	<u>117,369</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of revenue bonds	115,790	263,360
Proceeds from subordinated debt	228,735	226,340
Build America Bond refund	10,986	10,986
Assessments receivable	1,833	1,930
Interest income - assessments	731	852
Unamortized loss on refundings	1,665	1,665
Amortization of loss on refunding	(1,665)	(1,665)
Principal paid on revenue bonds	(173,040)	(317,360)
Interest paid on revenue bonds	(98,944)	(94,240)
Subordinated debt principal payments	(226,384)	(226,340)
Acquisition and construction of capital assets	(105,915)	(117,486)
Retainage payable	(95)	(407)
Acquisition of non-operating property	(223)	(213)
Net cash, provided by / (used in), capital and related financing activities	<u>(246,526)</u>	<u>(252,578)</u>
Cash Flows from Investing Activities:		
Restricted investments	4,064	200,229
Income on investments	14,130	38,705
Interest expense - swap agreements	(10,200)	(11,235)
Unamortized premium on forward delivery agreement	(189)	(190)
Net cash (used in) provided by investing activities	<u>7,805</u>	<u>227,509</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(110,742)	92,300
Cash and cash equivalents, beginning of year	239,367	147,067
Cash and cash equivalents, end of year	\$ <u>128,625</u>	\$ <u>239,367</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2013 and 2012
(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Income to Net Cash provided by Operating Activities:		
Income from operations	\$ 74,780	\$ 56,585
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	60,335	60,527
Capital expense over/under applied	(910)	(2,340)
Accounts receivable	(2,265)	1,536
Inventories	(95)	(50)
Prepaid expense	(214)	699
Accounts payable	(4,082)	8,539
Customer deposits	125	(328)
Accrued liabilities	305	(7,800)
Net cash provided by operating activities	<u>\$ 127,979</u>	<u>\$ 117,368</u>
Non-cash capital financing and investing activities:		
Contribution of plant, lines and other facilities by developers and property owners	<u>\$ 7,134</u>	<u>\$ 2,095</u>
Increase in accounts payable incurred for construction	<u>\$ (861)</u>	<u>\$ (1,727)</u>
Change in fair value of investments	<u>\$ 2,706</u>	<u>\$ 8,598</u>
Decrease in interest rate swap deferred revenue	<u>\$ 972</u>	<u>\$ 972</u>
Change in fair value - swap agreements	<u>\$ 36,286</u>	<u>\$ (52,897)</u>
Advance refunding of bonds	<u>\$ 119,515</u>	<u>\$ -</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Louisville and Jefferson County Metropolitan Sewer District ("MSD") are prepared in conformity with accounting principles generally accepted in the United States of America 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. MSD follows GASB Pronouncements as codified under GASB 62 including electing to report as a regulated operation. MSD uses proprietary fund accounting (enterprise fund).

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 standards provided for changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Position, including a management discussion and analysis as required supplementary information; and other changes.

Beginning July 1, 2012, MSD adopted or early adopted GASB:

- Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements"
- Statement No. 61, "The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34."
- Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position"
- Statement No. 65, "Items Previously Reported as Assets and Liabilities."
- Statement No. 66, "Technical Corrections"

Some items previously reported as assets or liabilities on the Statement of Net Assets have been reclassified as deferred inflows or deferred outflows of resources on the new Statement of Net Position. Due to the election as a regulated operation under GASB 62, to meet industry accounting standards and follow transactional intent, MSD uses, as applicable, ASC 980, Regulated Accounting.

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.

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 there from 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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity – (continued)

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. MSD's enterprise business and activities of MSD are managed by its Board, which has statutory authority to elect officers, enact bylaws 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 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 position. Total net position is 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 position. MSD utilizes the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time the liability is incurred.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, MSD includes repurchase agreements and other investments with an original maturity of three months or less in cash and cash equivalents.

D. Restricted and Unrestricted Funds

Restricted funds are reserved for the purpose of bond debt service, funding of capital construction, cost of issuance, and debt service reserves. Unrestricted funds, generated from service fees and other operating income, are used to pay for operating expenses. When an expense or outlay is incurred for which both restricted and unrestricted net position is available, it is MSD's practice is to use revenue from operations to finance construction, then to reimburse from net position restricted for construction as it is needed.

E. Investment Securities

Investments are stated at fair value. Investment income consists of interest income and the change in fair value of investments. Investment income is reduced by estimated federal arbitrage liability.

F. 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 behalf of MSD 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 derivatives, as well as contributions from outside sources.

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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories

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

H. 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 position.

I. 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, which extends the life of an asset beyond its original useful life. 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 drainage channels	80 years

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.

J. Capitalized Interest

Interest capitalized on projects funded from bond proceeds is recorded as the difference between the interest costs 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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 or approval of laws or regulations, 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, 2013 and 2012.

L. 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 outflow of resources and amortized as a component of interest expense over the average remaining life of the old debt.

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 as deferred inflow of resources. Changes in fair value of derivative instruments are reported in non-operating revenue (expenses) on the Statement of Revenues, Expenses and Changes in Net Position.

Bond Issuance Costs: Bond issue costs are capitalized and amortized over the life of the respective bond issue using the straight-line method, which approximates the effective interest method, pursuant to the election of regulatory operation under GASB 62, as they are deemed recoverable through future rates.

Original Issue Discount/Premium: Original issue discounts and premiums on bonds are amortized as a component of interest expense using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.

M. Compensated Absences

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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.

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

P. Income Tax Status

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

Q. Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to those used in 2013. These reclassifications had no impact on total net position or the change in net position.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 2 DEPOSITS AND INVESTMENTS

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

June 30, 2013

Investment Type	Fair Value	Weighted Average Maturity In Years	Credit Rating
Fed Nat'l MTGE Assn Pool	\$ 22,639	0.32	Aaa
Municipal Bonds	90,575	26.20	Aa
Money Market Funds	53,162	0.13	Aaa
Commercial Paper	29,992	0.11	P-1
Repurchase Agreement/Cash	22,831		
Certificate of Deposit	100		
Total	219,299	12.17	
Accrued Interest	1,226		
Total cash, cash equivalents and investments	\$ 220,525		

June 30, 2012

Investment Type	Fair Value	Weighted Average Maturity In Years	Credit Rating
Fed Nat'l MTGE Assn Pool	\$ 26,942	0.09	Aaa
Municipal Bonds	94,639	26.21	Aa
Money Market Funds	200,384	0.13	Aaa
Repurchase Agreement/Cash	12,041		
Certificate of Deposit	100		
Total	334,106	7.79	
Accrued Interest	1,192		
Total cash, cash equivalents and investments	\$ 335,298		

Section 66.480 of the Kentucky Revised Statutes and the District's bond resolutions authorize the District to invest money subject to its control in, among other securities, (i) obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, (ii) certificates of deposit or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or, to the extent not so insured, collateralized by obligations described in clause (i) above, (iii) securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in either of the two highest categories by a nationally recognized rating agency, and (iv) money-market mutual funds investing in any of the securities described above. MSD bond resolutions and covenants contain similar restrictions.

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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk:

MSD's Investment Policy ("The 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 VIII of The 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 among 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, 2013 and 2012.

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Cash and cash equivalents - unrestricted	\$ 66,376	\$ 45,545
Investments - unrestricted	100	100
Cash and cash equivalents - restricted	62,249	193,822
Investments - restricted	90,574	94,639
	<u>\$ 219,299</u>	<u>\$ 334,106</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Payment of bond / BAN principal and interest and reserves	\$ 134,700	\$ 154,689
Authorized construction	<u>18,123</u>	<u>133,772</u>
Total restricted cash, cash equivalents and investments	<u>\$ 152,823</u>	<u>\$ 288,461</u>

NOTE 4 SCHEDULE OF NET POSITION

A comparative schedule of net position follows:

	<u>2013</u>	<u>2012</u>
Invested in plant, lines and other facilities:		
Plant, lines and other facilities net of depreciation	\$ 2,190,065	\$ 2,105,548
Outstanding debt that applies to plant, lines and other facilities	(1,816,184)	(1,909,726)
Unamortized discount / (premium)	(26,778)	(16,019)
Unspent bond proceeds	<u>18,122</u>	<u>133,772</u>
Invested in plant, lines and other facilities, net	<u>365,225</u>	<u>313,575</u>
Restricted:		
Funds held in bank	152,822	288,461
less: Unspent bond proceeds	(18,121)	(133,772)
Unamortized discount / (premium)	<u>2,238</u>	<u>2,313</u>
Net position, restricted	<u>136,939</u>	<u>157,002</u>
Unrestricted net position	<u>64,750</u>	<u>38,009</u>
Total net position	<u>\$ 566,914</u>	<u>\$ 508,586</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 5 PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2013 and 2012 follows:

Year ended June 30, 2013

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Capital assets:				
Sewer lines	\$ 1,179,685	\$ 12,756	\$ 72,996	\$ 1,265,437
Wastewater treatment facilities	479,226	565	207	479,998
Stormwater drainage facilities	437,139	650	5,788	443,577
Pumping and lift stations	73,023	2,135	14,345	89,503
Administrative facilities	46,068	896	2,353	49,317
Maintenance facilities	8,037	-	-	8,037
Machinery and equipment	55,390	202	1,248	56,840
Miscellaneous	21,678	549	4,815	27,042
Capitalized interest	260,157	22,540	-	282,697
Total capital assets	<u>2,560,403</u>	<u>40,293</u>	<u>101,752</u>	<u>2,702,448</u>
Less accumulated depreciation:				
Sewer lines	(241,161)	(14,636)	-	(255,797)
Wastewater treatment facilities	(286,257)	(20,108)	-	(306,365)
Stormwater drainage facilities	(109,499)	(5,083)	-	(114,582)
Pumping and lift stations	(38,384)	(3,425)	-	(41,809)
Administrative facilities	(29,292)	(1,165)	-	(30,457)
Maintenance facilities	(5,210)	(270)	-	(5,480)
Machinery and equipment	(43,885)	(4,587)	-	(48,472)
Miscellaneous	(10,161)	(3,169)	-	(13,330)
Capitalized interest	(61,356)	(6,551)	-	(67,907)
Total accumulated depreciation	<u>(825,205)</u>	<u>(58,994)</u>	<u>-</u>	<u>(884,199)</u>
Construction in progress	<u>370,350</u>	<u>103,218</u>	<u>(101,752)</u>	<u>371,816</u>
	<u>\$ 2,105,548</u>	<u>\$ 84,517</u>	<u>\$ -</u>	<u>\$ 2,190,065</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 5 PLANT, LINES AND OTHER FACILITIES (Continued)

Year ended June 30, 2012

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Capital assets:				
Sewer lines	\$ 1,159,437	\$ 20,248	\$ -	\$ 1,179,685
Wastewater treatment facilities	472,072	7,176	(22)	479,226
Stormwater drainage facilities	434,943	2,196	-	437,139
Pumping and lift stations	71,121	1,972	(70)	73,023
Administrative facilities	46,078	-	(10)	46,068
Maintenance facilities	8,037	-	-	8,037
Machinery and equipment	56,648	770	(2,028)	55,390
Miscellaneous	14,392	7,286	-	21,678
Capitalized interest	235,625	24,532	-	260,157
Total capital assets	<u>2,498,353</u>	<u>64,180</u>	<u>(2,130)</u>	<u>2,560,403</u>
Less accumulated depreciation:				
Sewer lines	(226,787)	(14,374)	-	(241,161)
Wastewater treatment facilities	(266,307)	(19,972)	22	(286,257)
Stormwater drainage facilities	(104,433)	(5,066)	-	(109,499)
Pumping and lift stations	(35,186)	(3,249)	51	(38,384)
Administrative facilities	(28,184)	(1,118)	10	(29,292)
Maintenance facilities	(4,926)	(284)	-	(5,210)
Machinery and equipment	(39,820)	(6,093)	2,028	(43,885)
Miscellaneous	(7,363)	(2,798)	-	(10,161)
Capitalized interest	(55,416)	(5,941)	1	(61,356)
Total accumulated depreciation	<u>(768,422)</u>	<u>(58,895)</u>	<u>2,112</u>	<u>(825,205)</u>
Construction in progress	<u>272,851</u>	<u>130,512</u>	<u>(33,013)</u>	<u>370,350</u>
	<u>\$ 2,002,782</u>	<u>\$ 135,797</u>	<u>\$ (33,031)</u>	<u>\$ 2,105,548</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 6 CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized and net interest expense reported in non-operating revenues in 2013 and 2012 follows:

<u>Year ended June 30, 2013</u>	<u>Capitalized</u>	<u>Included in Non- Operating</u>	<u>Total</u>
Investment earnings	\$ 3,818	\$ 14,636	\$ 18,454
Interest cost	(26,358)	(74,552)	(100,910)
Net interest	<u>\$ (22,540)</u>	<u>\$ (59,916)</u>	<u>\$ (82,456)</u>

<u>Year ended June 30, 2012</u>	<u>Capitalized</u>	<u>Included in Non- Operating</u>	<u>Total</u>
Investment earnings	\$ 1,851	\$ 40,687	\$ 42,538
Interest cost	(26,384)	(73,657)	(100,041)
Net interest	<u>\$ (24,533)</u>	<u>\$ (32,970)</u>	<u>\$ (57,503)</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2013 and 2012 follows:

<u>Revenue Bonds</u>	<u>Original Issue Amount</u>	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding as of:</u>	
				<u>2013</u>	<u>2012</u>
2001 Sewer and Drainage System Revenue Bonds Series 2001A	300,000	5.00% - 5.50%	2036	-	134,420
2004 Sewer and Drainage System Revenue Bonds Series 2004A	100,000	5.00% - 5.25%	2038	-	100,000
2005 Sewer and Drainage System Revenue Bonds Series 2005A	64,740	3.00% - 5.00%	2026	20,770	55,020
2006 Sewer and Drainage System Revenue Bonds Series 2006A	100,000	4.00% - 5.00%	2038	91,280	93,160
2007 Sewer and Drainage System Revenue Bonds Series 2007A	61,125	4.00% - 5.00%	2025	50,240	52,305
2008 Sewer and Drainage System Revenue Bonds Series 2008A	105,000	4.00% - 5.00%	2038	101,810	102,690
2009A Sewer and Drainage System Revenue Bonds Series 2009A	76,275	5.00%	2022	57,945	62,870
2009B Sewer and Drainage System Revenue Bonds Series 2009B	225,770	2.00% - 5.00%	2023	177,785	190,165
2009C Sewer and Drainage System Revenue Bonds Series 2009C	180,000	5.98%	2040	180,000	180,000
2010A Sewer and Drainage System Revenue Bonds Series 2010A	330,000	6.25%	2043	330,000	330,000
2011A Sewer and Drainage System Revenue Bonds Series 2011A	263,360	3.00% - 5.00%	2034	260,125	261,880
2013A Sewer and Drainage System Revenue Bonds Series 2011A	115,790	4%	2036	115,790	-
2013B Sewer and Drainage System Revenue Bonds Series 2011A	119,515	4.00% - 5.00%	2038	119,515	-
Total Long-Term Debt				1,505,260	1,562,510
Less: Current Maturities				(27,035)	(25,740)
Add : Unamortized Premium/Discount				56,764	45,841
Total Long-Term Debt, net				<u>\$ 1,534,989</u>	<u>\$ 1,582,611</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

A schedule of future debt service requirements after June 30, 2013 follows:

Year Ending June 30,	Revenue Bonds		
	Principal	Interest	Total
2014	\$ 27,035	\$ 78,076	\$ 105,111
2015	28,525	76,985	105,510
2016	29,975	75,574	105,549
2017	31,650	74,096	105,746
2018	33,425	72,533	105,958
2019-2023	197,695	335,661	533,356
2024-2028	210,635	285,080	495,715
2029-2033	104,890	235,392	340,282
2034-2038	366,430	193,474	559,904
2039-2043	475,000	90,529	565,529
	\$ 1,505,260	\$ 1,517,400	\$ 3,022,660

A comparative summary of current and long-term revenue bond activity for the years ended June 30, 2013 and 2012 follows:

	2013	2012
Revenue Bonds - beginning of year, net	\$ 1,582,611	\$ 1,617,317
Bonds issued	235,305	263,360
Principal paid on bonds and bond refunding	(282,927)	(298,066)
Revenue Bonds - end of year, net	\$ 1,534,989	\$ 1,582,611

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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

A summary of significant debt transactions follows:

New Debt Transactions:

On April 23, 2013, MSD issued \$115,790 of Sewer and Drainage System Revenue Bonds, Series 2013A. Proceeds of the 2013A bonds, net of issuance cost and together with funds released from the Reserve Account were used to currently refund \$131,670 of MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 2001A.

On April 23, 2013, MSD issued \$119,515 of Sewer and Drainage System Revenue Bonds, Series 2013B. Proceeds of the 2013B bonds, net of issuance cost and together with funds released from the Reserve Account were deposited into an Escrow Fund with the Paying Agent to advance refund \$100,000 of MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 2004A and to advance refund \$34,345 of Series 2005A. As a result, the refunded bonds are considered to be defeased and the liability has been removed from MSD's Statement of Net Position.

Both refundings were undertaken to reduce debt service payments over the next 26 years by \$111,513 and resulted in a present value savings of \$43,779.

Debt Service Covenant:

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, 2013 and 2012.

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 statement of net position.

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.
- 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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars In thousands)

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.
- In May and June of 2013, MSD terminated two Floating to Fixed Interest Rate swap agreements, two Basis swap agreements and three Reversal swap agreements. Additionally, MSD partially terminated two Floating to Fixed Interest Rate swap agreements. The termination value of all swap agreements resulted in a net payment by MSD of \$152. This action will result in a savings of \$13.5 million over the next ten years.

Derivatives:

At June 30, 2013 MSD had the following derivative instruments outstanding:

Item	Counter-Party	Initial Notional Amount	Current Notional Amount	Payment Start Date	Termination Date	MSD Payment Terms	MSD Receipt Terms	6/30/2013 Fair Value	6/30/2012 Fair Value	Change in Fair Value
A	Wells Fargo	\$ 225,732	\$ 180,716	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	\$ (67,923)	\$ (90,144)	\$ 32,221
B	Bank of America	56,433	45,284	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	(14,495)	(22,536)	8,041
C	Deutsche Bank	103,673		5/15/2003	6/12/2013	4.075%	SIFMA	-	(14,490)	14,490
D	Bank of America	64,869		5/15/2003	6/12/2013	4.075%	SIFMA	-	(7,465)	7,465
E	Deutsche Bank	149,465		8/15/2009	6/12/2013	SIFMA	2.78%	-	12,099	(12,099)
F	Wells Fargo	50,376		11/15/2009	6/12/2013	SIFMA	2.9235%	-	4,974	(4,974)
G	Deutsche Bank	12,594		11/15/2009	6/12/2013	SIFMA	2.924%	-	1,244	(1,244)
H	Morgan Stanley	190,790		5/15/2003	6/12/2013	SIFMA	78.78% of 3-month LIBOR	-	(352)	352
I	Deutsche Bank	281,745		11/15/2011	5/29/2013	SIFMA	100.30% of 3-month LIBOR	-	7,966	(7,966)
Total		\$ 1,135,677	\$ 226,000					\$ (72,418)	\$ (108,704)	\$ 36,286

LIBOR = London Interbank Offering Rate
SIFMA = Securities Industry and Financial Markets Association

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars In thousands)

NOTE 7 LONG-TERM DEBT (Continued)

Derivatives - (Continued)

A comparative summary of the change in fair value of swaps for the years ended June 30, 2013 and 2012 follows:

	2013	2012
Fair value - beginning of year	\$(108,704)	\$ (55,808)
Change in fair value	36,286	(52,896)
Fair value - end of year	\$ (72,418)	\$ (108,704)

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 Position. All changes in fair value of the derivatives are recorded as a separate component of non-operating revenue (expense).

MSD's outstanding swaps consist of two Floating-to-Fixed swaps described as follows:

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 1999A 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.

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 October 2002 (A and B) swaps were awarded to multiple firms to further mitigate the credit risk associated with the transactions. The credit ratings as of 6/30/2013 for the counter-parties are as follows:

	Credit Ratings	
	Moody's	Standard & Poor's
Bank of America	Baa2	A
Wells Fargo	Aa3	AA -

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

Derivatives - (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.

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 2013 and FY 2012 were \$10,200 and \$11,235 respectively.

Arbitrage Rebate Liability:

Federal tax regulations generally require the periodic payment to the U.S. Treasury of investment earnings on the proceeds of an issue of tax-exempt municipal bonds to the extent those earnings exceed the yield on the bonds. Such payments, known as arbitrage rebate, are normally payable every fifth year following the issuance of a series of bonds and upon the retirement of the bond issue. As of June 30, 2013 and 2012, MSD's accrued liability for arbitrage rebate was \$0 and \$4,467 respectively. The 2012 accrued liability was reversed in 2013 and MSD was not required to rebate any funds back to the US Treasury.

NOTE 8 SHORT TERM DEBT

A summary of short term debt activity is provided below:

- On December 7, 2011 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011B Notes with an interest rate of 2.50%. The proceeds of the notes were used to refinance the 2011A Notes. The 2011B Notes matured on December 12, 2012.
- On November 15, 2012 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2012A Notes with an interest rate of 2.00%. The proceeds of the notes were used to refinance the 2011B Notes. The 2012A Notes mature on December 4, 2013.
- On October 1, 2012 MSD received \$5,000 in American Recovery and Reinvestment Act funds from KY Infrastructure Authority of which \$2,395 is a loan repayable over 20 years at a 3% interest rate and \$2,605 is principal forgiven. The funds received were a reimbursement for equipment purchased as part of a capital project.

A comparative summary of short term debt for the years ended June 30, 2013 and 2012 follows:

	June 30, 2013	June 30, 2012
Short-term debt - beginning of year	\$ 226,340	\$ 226,340
Debt incurred	228,735	226,340
Principal paid on debt	(226,384)	(226,340)
Short-term debt - end of year	\$ 228,691	\$ 226,340

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

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 their creditable compensation. 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, 2013, 2012, and 2011 were 18.89%, 18.96%, and 16.93% respectively, of participating employees' compensation.

Annual Pension Cost: 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, 2013, 2012 and 2011 were \$7,219, \$7,156 and \$6,394 respectively, equal to 100% of 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, 2012, insurance premiums withheld from benefit payments for members of CERS were \$27,541.

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 coverage 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 2013, the LAGIT Trust paid \$10 on one MSD claim from the Trust's assets.

MSD has chosen to self-insure the basic worker's compensation insurance. 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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 10 RISK MANAGEMENT (Continued)

A roll forward of for worker's compensation claims follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Liability - beginning of year	\$ 1,757	\$ 1,723	\$ 1,340
Claims and changes in estimates	1,433	977	1,502
Payments	<u>(1,358)</u>	<u>(948)</u>	<u>(1,119)</u>
Liability - end of year	<u>\$ 1,832</u>	<u>\$ 1,757</u>	<u>\$ 1,723</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 per occurrence, except for Flood Zone A locations. An excess insurance policy with a third-party carrier covers claims in excess of \$1,000.

In the past three fiscal years, the LAGIT Trust has paid a total of \$470 on two MSD liability claims and the LAGGIT Trust paid \$602 on one MSD property claim that exceeded MSD's deductibles under the Trusts. There have been no changes in MSD's self-insurance coverage from the prior year.

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

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 \$25,000 of outstanding assessments and for MSD to receive 104% of the face value of the assessments.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 12 **COMMITMENTS AND CONTINGENCIES (Continued)**

The subsequent agreement allows an additional \$5,000 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, 2013 and 2012 was \$3,101 and \$3,755, respectively.

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 ("The 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 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.

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 statements of MSD.

The value of construction contracts signed, where work has not yet been performed at June 30, 2013, amounted to \$46,450, and was \$55,580 at June 30, 2012.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

NOTE 13 SUBSEQUENT EVENTS

On August 1, 2013, MSD's rates for wastewater and stormwater charges increased by 5.8%.

MSD plans to issue \$100,000 of Revenue Bonds in November 2013 to fund capital projects.

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
<i>Debt Service Coverage</i>	44
This schedule presents information to help readers assess MSD's debt burden and MSD's ability to issue additional debt in the future.	
<i>Financial Trends</i>	45
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	
<i>Revenue Capacity</i>	49
This schedule contains information to help readers assess MSD's most significant revenue sources.	
<i>Operating Information</i>	50
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.	
<i>Demographic and Economic Information</i>	53
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)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Service charges	\$ 205,222	\$ 190,482	\$ 183,297	\$ 188,610	\$ 163,004	\$ 156,889	\$ 126,490	\$ 122,643	\$ 113,561	\$ 103,571
Other operating income	4,823	1,756	2,379	2,980	4,552	4,394	5,966	7,122	9,288	7,216
Assessments	2,392	2,405	2,740	7,093	4,387	2,251	8,237	6,796	10,731	12,064
Investment income	18,454	40,587	33,700	36,045	25,568	6,085	8,417	5,558	14,503	23,916
Less: capitalized investment income	(3,817)	(1,851)	(12,134)	(5,990)	-	(1,190)	(8,747)	(1,594)	(6,245)	(18,201)
Total revenues	227,074	233,479	209,982	208,738	197,511	168,429	145,363	140,525	141,838	128,566
Operating expenses:										
Service and administrative costs	108,041	108,325	107,307	101,068	93,935	96,845	89,194	86,433	78,835	74,972
Less: capitalized project costs	(33,110)	(33,200)	(30,308)	(31,117)	(25,257)	(26,510)	(25,715)	(25,387)	(25,286)	(23,671)
Total operating expenses	74,931	75,125	76,999	69,951	68,678	70,335	63,479	61,046	53,549	51,301
Net revenues	152,143	158,354	132,983	138,787	128,833	98,094	81,884	79,479	88,289	77,265
Aggregate debt service:										
Current maturities of long-term debt	27,035	25,740	24,840	23,765	23,105	21,255	18,190	17,250	15,685	15,303
Interest expense	92,616	89,243	78,954	69,949	72,776	66,918	70,548	66,162	72,395	65,370
Less: capitalized interest expense	(26,358)	(26,384)	(25,195)	(13,910)	-	(10,530)	(14,140)	(15,758)	(26,603)	(26,940)
Aggregate not debt service	\$ 98,293	\$ 88,599	\$ 78,599	\$ 79,824	\$ 95,881	\$ 77,843	\$ 74,598	\$ 67,654	\$ 61,477	\$ 59,733
Debt service coverage ratio	163%	179%	169%	174%	134%	126%	110%	117%	144%	144%

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.

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 POSITION
 ASSETS AND DEFERRED OUTFLOW OF RESOURCES
 JUNE 30
 (in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Current Assets:										
Unrestricted cash and cash equivalents	\$ 64,436	\$ 12,040	\$ 34,508	\$ 24,700	\$ 22,552	\$ 10,524	\$ 1,912	\$ 17,198	\$ 28,732	\$ 20,572
Unrestricted investments	100	100	100	100	7,793	14,379	24,935	18,645	7,163	56
Restricted cash and cash equivalents	64,188	227,327	112,559	58,923	35,988	105,299	3,133	24	65,423	110,942
Restricted investments	90,575	94,639	294,868	394,880	61,303	27,202	73,801	134,850	33,934	74,112
Accounts receivable	18,465	16,686	17,789	15,779	18,065	16,732	15,398	17,401	13,716	14,136
Inventories	3,579	3,484	3,435	3,110	3,027	3,020	3,091	2,874	3,090	2,685
Prepaid expenses and other current assets	2,110	1,862	2,841	2,513	1,965	2,020	1,181	1,359	803	796
Total current assets	243,453	356,118	466,100	500,005	150,633	179,176	123,451	192,351	152,861	223,239
Long-term receivables	17,549	18,917	21,260	22,527	25,146	26,334	28,749	27,778	29,712	27,964
Unamortized bond issuance costs	18,713	16,959	15,351	13,418	74,477	32,705	-	-	-	-
Plant, Lines and Other facilities:										
Completed projects	2,702,448	2,560,403	2,498,355	2,445,755	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338
Less: Accumulated depreciation	(884,198)	(825,205)	(768,423)	(734,552)	(680,380)	(628,296)	(578,643)	(527,795)	(477,624)	(436,162)
	1,818,249	1,735,198	1,729,932	1,711,203	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176
Construction in progress	371,816	370,350	272,850	140,134	182,711	136,695	193,420	211,761	297,705	423,823
Net plant, lines and other facilities	2,196,065	2,105,548	2,002,782	1,851,337	1,816,737	1,789,812	1,764,556	1,733,724	1,694,956	1,619,999
Total assets	\$ 2,489,780	\$ 2,497,542	\$ 2,505,493	\$ 2,387,287	\$ 2,066,993	\$ 2,028,027	\$ 1,916,756	\$ 1,953,853	\$ 1,877,529	\$ 1,871,262
Deferred outflow of resources	13,511	15,176	16,842	18,507	14,743	16,020	19,859	21,779	22,699	23,462
Total assets and deferred outflows	\$ 2,483,291	\$ 2,512,718	\$ 2,522,335	\$ 2,405,794	\$ 2,081,736	\$ 2,044,047	\$ 1,936,615	\$ 1,975,632	\$ 1,900,228	\$ 1,894,724

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION
JUNE 30
(In thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Liabilities:										
Current liabilities (payable from current assets):										
Accounts payable and accrued expenses	\$ 12,693	\$ 16,470	\$ 15,732	\$ 11,141	\$ 11,035	\$ 10,548	\$ 16,639	\$ 22,619	\$ 17,781	\$ 9,671
Total current liabilities (payable from current assets)	12,693	16,470	15,732	11,141	11,035	10,548	16,639	22,619	17,781	9,671
Current liabilities (payable from restricted assets):										
Accounts payable and accrued expenses	16,168	12,656	15,105	13,692	7,735	5,250	4,239	1,072	5,863	11,346
Accrued interest	12,458	13,959	12,360	14,701	8,142	8,597	10,824	10,456	9,768	9,916
Subordinated Debt	228,691	226,340	226,340	452,680						
Current maturities of bonds payable	27,035	25,740	24,840	23,795	23,105	21,255	18,190	17,250	15,685	15,303
Refundable Deposits	1,137	1,013	1,341	1,622	3,478	4,208				
Total Current liabilities (payable from restricted assets)	285,489	279,708	279,986	506,480	42,461	39,311	33,253	28,778	31,316	37,065
Non-current liabilities:										
Bonds payable	1,478,225	1,536,770	1,591,670	1,302,000	1,385,185	1,421,825	1,327,095	1,345,785	1,263,665	1,279,690
Unamortized debt premium/discount	56,764	45,841	25,646	9,562	8,912	16,685	14,312	14,375	15,637	17,895
Other long-term liabilities	873	5,663	5,561	1,630	2,114	2,375	2,632	2,890	3,117	-
Total long-term debt	1,535,862	1,588,274	1,622,877	1,313,192	1,396,211	1,440,885	1,344,039	1,363,050	1,282,419	1,297,585
Total liabilities	1,834,144	1,884,452	1,918,595	1,830,813	1,449,707	1,490,744	1,393,931	1,445,047	1,331,516	1,344,321
Deferred inflow of resources	82,233	119,580	67,948	82,185	74,942	2,784	(8,690)	(8,878)	(9,563)	(11,400)
Net position:										
Invested in plant, lines, & other facilities, net of related debt	365,225	313,575	363,334	450,753	470,445	478,333	479,305	489,973	497,314	490,458
Restricted for payment of bond principal & interest	136,939	157,002	141,217	334,186	100,225	135,537	7,034	8,327	14,133	17,950
Unrestricted	64,750	38,009	31,241	(292,143)	(13,533)	(63,851)	65,035	70,563	66,828	53,495
Total net assets	566,914	508,586	535,792	492,796	557,087	550,519	551,374	569,463	578,275	561,803
Total liabilities, deferred inflows and net position	\$ 2,483,291	\$ 2,512,718	\$ 2,522,335	\$ 2,405,794	\$ 2,081,736	\$ 2,044,047	\$ 1,936,615	\$ 1,975,632	\$ 1,900,238	\$ 1,894,724

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating revenue:										
Wastewater service charges	\$ 159,791	\$ 149,626	\$ 145,880	\$ 133,853	\$ 130,661	\$ 125,782	\$ 96,594	\$ 93,907	\$ 87,653	\$ 79,953
Stormwater service charges	45,431	40,856	37,417	34,757	32,343	31,107	29,886	28,736	25,908	23,638
Other operating income	4,823	1,756	2,379	2,980	4,552	4,394	5,956	7,122	9,288	7,216
Total operating revenue	210,045	192,238	185,676	171,590	167,556	161,283	132,446	129,765	122,849	110,787
Operating expenses:										
Service and administrative costs	108,041	108,326	107,307	101,068	93,935	96,845	90,157	86,433	78,835	74,972
Capitalization/recovery of cost	(32,200)	(30,860)	(30,472)	(28,129)	(24,401)	(26,510)	(26,678)	(25,387)	(25,286)	(23,671)
Capitalized overhead (over) under applied	(910)	(2,340)	164	(2,988)	(856)	-	-	-	-	-
Depreciation and amortization	60,335	60,527	58,741	58,513	56,727	55,363	52,177	51,174	43,161	37,718
Total operating expenses	135,266	135,653	135,740	128,464	125,405	125,698	115,656	112,220	96,710	89,019
Income (loss) from operations	74,779	56,585	49,936	43,126	42,151	35,585	16,790	17,545	26,139	21,768
Non-operating revenue (expense):										
Gain (loss) on disposal of assets	45	(19)	194	-	(64)	(122)	-	-	-	-
Investment income	14,636	40,687	33,700	36,045	25,568	4,895	4,670	3,964	8,259	5,715
Interest expense - bonds	(92,616)	(89,243)	(78,954)	(89,949)	(89,893)	(56,388)	(56,408)	(50,404)	(45,792)	(38,495)
Interest expense - swaps	(10,200)	(11,235)	(11,627)	(8,815)	(2,883)	-	-	-	-	-
Interest expense - other	1,906	437	(1,883)	(3,723)	-	-	-	-	-	-
Capitalized interest	26,358	26,384	25,195	13,910	-	-	-	-	-	-
Decrease upon hedge termination	-	-	-	(58,556)	-	-	-	-	-	-
Change in fair values - swaps	36,286	(52,897)	22,638	(19,889)	-	-	-	-	-	-
Total non-operating revenue (expenses), net	(23,585)	(85,886)	(10,687)	(110,977)	(67,272)	(51,815)	(51,738)	(46,440)	(37,533)	(32,780)
Net income / (loss) before contributions	51,194	(29,301)	39,249	(67,851)	(5,121)	(16,030)	(34,948)	(28,895)	(11,394)	(11,012)
Contributions										
Property owner assessments	-	-	334	(545)	2,289	164	7,694	4,862	12,478	9,701
All other	7,134	2,095	3,413	4,105	9,450	15,011	9,225	15,221	15,388	17,612
Increase (decrease) in net position	58,328	(27,206)	42,996	(64,291)	6,568	(855)	(18,069)	(8,912)	16,472	16,301
Net position, beginning of year	508,586	535,792	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502
Net position, end of year	\$ 566,914	\$ 508,586	\$ 535,792	\$ 492,796	\$ 557,087	\$ 550,519	\$ 551,374	\$ 569,463	\$ 578,275	\$ 561,803

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Cash flows from operating activities:										
Cash received from customers	\$ 207,905	\$ 193,446	\$ 192,976	\$ 171,641	\$ 166,123	\$ 159,539	\$ 134,160	\$ 125,918	\$ 123,269	\$ 105,938
Cash paid to suppliers and employees	(79,926)	(76,077)	(72,566)	(72,426)	(66,297)	(72,227)	(69,536)	(58,548)	(45,851)	(51,643)
Net cash provided by operating activities	127,979	117,369	110,410	99,215	99,826	87,312	64,624	69,370	77,418	58,295
Cash flows from capital and related financing activities:										
Proceeds from issuance of revenue bonds	115,790	263,360	330,000	405,770	76,275	166,125	-	100,000	64,740	100,000
Proceeds from subordinated debt	228,735	226,340	226,340	452,680	-	-	-	-	-	-
Capital contributed by governments, property owners & developers	7,134	2,095	3,747	3,560	11,689	15,174	16,261	1,460	2,838	4,031
Build America Bond Interest Income	10,986	10,986	7,978	2,260	-	-	-	-	-	-
Assessments receivable	1,833	1,930	1,676	2,988	557	2,703	(645)	-	-	-
Interest income - assessments	781	852	994	1,588	1,471	1,405	1,670	-	-	-
Principal paid on revenue bonds	(173,040)	(317,360)	(39,275)	(488,275)	(95,045)	(64,350)	(17,250)	(16,815)	(79,620)	(11,702)
Interest paid on revenue bonds	(94,944)	(94,240)	(96,191)	(70,192)	(89,063)	(88,145)	(70,180)	(65,474)	(26,751)	(26,478)
Acquisition and construction of capital assets	(113,049)	(119,581)	(172,459)	(87,345)	(75,904)	(81,044)	(65,669)	(67,035)	(109,200)	(126,365)
Retainage payable	(95)	(407)	4,639	955	(466)	430	(93)	-	-	-
Acquisition of non-operating property	(223)	(213)	(221)	(484)	(261)	(257)	(258)	-	-	-
Principal paid on subordinated debt	(226,384)	(226,340)	(452,580)	-	-	-	-	-	-	-
Net cash (used in) provided from capital and related financing activities	(246,526)	(252,578)	(175,448)	223,315	(150,347)	(48,659)	(135,504)	(47,864)	(147,993)	(60,514)
Cash flows from investing activities:										
Restricted investments	4,064	200,229	100,012	(383,577)	(34,101)	45,656	-	-	-	-
Unrestricted investments	-	-	-	7,633	6,646	10,555	-	-	-	-
Assessment principal payments	-	-	-	-	-	-	-	8,621	10,301	12,792
Interest received on termination of swap agreement	-	-	-	-	-	-	-	-	(421)	(422)
Purchase of investment securities	-	-	-	-	-	-	(72,800)	(908,888)	(100,869)	(370,182)
Proceeds from sale and maturities of investment securities	-	-	-	-	-	-	137,908	177,341	110,070	329,655
Income received on investments	14,130	38,705	40,287	37,519	24,936	4,889	7,642	5,551	14,155	29,592
Interest expense - swap agreements	(10,200)	(11,235)	(11,627)	(9,832)	(4,166)	-	-	-	-	-
Unamortized premium on forward delivery agreement	(189)	(190)	(190)	(77)	(77)	1,399	-	-	-	-
Unamortized gain on termination of swap agreements	-	-	-	-	-	9,526	-	-	-	-
Net cash (used in) provided from investing activities	7,805	227,509	128,482	(287,447)	(6,762)	72,425	- 72,750	(112,485)	33,216	1,435
Net increase (decrease) in cash and cash equivalents	(110,742)	92,300	63,444	25,083	(57,263)	110,778	1,870	(90,979)	(37,359)	(784)
Cash and cash equivalents, beginning of year	239,367	147,067	83,623	58,540	115,823	5,045	3,176	94,155	131,514	132,298
Cash and cash equivalents, end of year	\$ 128,625	\$ 239,367	\$ 147,067	\$ 83,623	\$ 58,540	\$ 115,823	\$ 5,045	\$ 3,176	\$ 94,155	\$ 131,514

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Service charges:										
Wastewater service charges:										
Residential	\$ 86,409	\$ 80,779	\$ 78,552	\$ 73,228	\$ 71,159	\$ 64,978	\$ 48,338	\$ 47,555	\$ 43,320	\$ 39,394
Commercial	57,192	53,116	46,598	42,741	42,312	38,935	28,892	27,619	25,274	23,761
Industrial	19,536	18,063	21,498	18,948	18,216	21,324	18,431	17,279	17,142	15,182
Other - net	2,267	2,219	1,847	1,756	1,601	2,382	1,993	1,454	1,917	1,597
Free sewer to Metro Government	(5,613)	(4,551)	(2,615)	(2,820)	(2,627)	(1,837)	(1,060)			
Total wastewater service charges	159,791	149,626	145,880	133,853	130,661	125,782	96,594	93,907	87,653	79,934
Stormwater service charges:										
Residential	17,372	15,907	14,776	13,613	12,709	12,198	11,617	11,205	10,304	9,223
Commercial	26,123	23,017	20,862	19,433	18,012	17,276	16,741	15,683	13,854	12,735
Industrial	2,956	2,575	2,351	2,189	2,064	1,988	1,930	1,848	1,750	1,679
Free drainage to Metro Government	(1,020)	(643)	(572)	(478)	(442)	(355)	(392)			
Total stormwater service charges	45,431	40,856	37,417	34,757	32,343	31,107	29,896	28,736	25,908	23,637
Total service charges	205,222	190,482	183,297	168,610	163,004	156,889	126,490	122,643	113,561	103,571
Other operating income:										
Capacity charges	1,624	335	446	564	820	2,521	2,538	4,772	6,925	5,176
Connection fees	93	64	71	68	47	172	146	220	411	601
Regional facilities fees	-	-	-	-	-	-	(11)	357	513	301
Reserve capacity charges	64	-	-	11	28	37	5	22	40	18
Wastewater miscellaneous	2,984	1,299	1,804	2,279	3,599	1,606	3,220	1,893	1,342	1,062
Stormwater miscellaneous	58	58	58	58	58	58	58	58	57	58
Total other operating income	4,823	1,756	2,379	2,980	4,552	4,394	5,956	7,122	9,288	7,216
Total operating revenue	\$ 210,045	\$ 192,238	\$ 185,676	\$ 171,590	\$ 167,556	\$ 161,283	\$ 132,446	\$ 129,765	\$ 122,849	\$ 110,787

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Service and administrative costs:										
Labor	\$ 55,028	\$ 55,010	\$ 56,358	\$ 52,945	\$ 49,354	\$ 49,431	\$ 47,079	\$ 42,287	\$ 40,948	\$ 40,206
Utilities	12,821	14,555	13,853	11,879	10,818	12,989	10,976	12,518	10,119	8,870
Materials and supplies	8,990	8,972	9,043	9,081	8,742	8,707	8,197	7,745	6,625	7,237
Professional services	3,942	2,416	2,624	2,363	2,730	3,126	2,797	2,543	2,698	2,530
Maintenance and repairs	10,866	11,090	10,054	8,847	9,675	8,926	8,035	7,762	5,874	4,976
Billing and collections	4,904	4,309	4,318	4,461	3,623	5,319	2,889	3,869	3,371	3,209
Chemicals and fuel	5,907	5,714	5,702	6,099	5,687	5,148	4,825	5,088	4,099	3,828
Biosolids disposal	1,709	1,759	2,035	2,188	2,063	1,661	1,412	1,554	1,451	1,359
All other	4,369	4,901	3,694	3,638	2,817	2,800	3,947	3,067	3,650	2,757
Gross service and administrative costs	108,536	108,726	107,681	101,449	95,509	98,107	90,157	86,433	78,835	74,972
Less: Recovery of cost										
Capitalized project cost	(33,110)	(33,200)	(30,472)	(28,129)	(24,401)	(26,510)	(25,715)	(24,450)	(24,419)	(23,153)
Revenue recoveries	(495)	(400)	(374)	(381)	(1,574)	(1,262)	(963)	(937)	(867)	(613)
Recovery of cost	(33,605)	(33,600)	(30,846)	(28,510)	(25,975)	(27,772)	(26,678)	(25,387)	(25,286)	(23,671)
Net service and administrative costs	\$ 74,931	\$ 75,126	\$ 76,835	\$ 72,939	\$ 69,534	\$ 70,335	\$ 63,479	\$ 61,046	\$ 53,549	\$ 51,301

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Completed projects										
Sewer lines	\$ 1,265,437	\$ 1,179,685	\$ 1,159,437	\$ 1,134,637	\$ 1,042,742	\$ 1,022,859	\$ 963,798	\$ 915,527	\$ 819,349	\$ 762,241
Wastewater treatment facilities	479,998	479,226	471,190	470,527	459,238	456,955	422,483	418,997	389,747	273,187
Stormwater drainage facilities	443,577	437,139	434,943	427,431	400,118	390,699	366,745	337,039	308,282	288,277
Pumping and lift stations	89,503	73,023	71,122	70,643	69,301	66,990	60,877	55,407	51,389	46,752
Administrative facilities	49,317	46,068	46,078	45,561	45,561	45,561	45,347	45,347	45,239	30,724
Maintenance facilities	8,037	8,037	8,037	7,827	7,827	7,833	7,313	7,470	7,395	4,785
Machinery, equipment and other	83,882	77,068	71,923	93,240	74,975	75,872	62,526	58,613	56,749	47,815
Capitalized interest	282,697	260,157	235,624	222,564	214,644	214,644	220,690	211,362	196,725	178,557
Total completed projects	2,702,448	2,560,403	2,498,354	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338
Less accumulated depreciation	(884,199)	(825,205)	(768,423)	(734,552)	(690,390)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)
Total completed projects - net	1,818,249	1,735,198	1,729,931	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176
Total construction in progress	371,816	370,350	272,850	140,134	182,711	136,695	193,420	211,761	297,705	423,823
Total net plant, lines and other facilities	\$ 2,190,065	\$ 2,105,548	\$ 2,002,781	\$ 1,878,012	\$ 1,816,737	\$ 1,789,812	\$ 1,764,556	\$ 1,733,724	\$ 1,694,956	\$ 1,619,999

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
 METROPOLITAN SEWER DISTRICT
 WASTEWATER TREATMENT PLANT CAPACITY
 2013

Plant	Design Capacity	Avg Daily Flow	Eventual Capacity	Customer Base			Total	Year Built	Treatment Process
	MGD	MGD	MGD	Residential	Commercial	Industrial			
Morris Forman	120.0	89.2	120.0	122,936	14,688	416	138,040	1958	Secondary added in 1972.
Derek R. Guthrie*	30.0	26.3	45.0	60,674	3,827	24	64,525	1986	Secondary
Jeffersortown	4.0	3.5	4.0	6,637	889	14	7,540	1956	Secondary
Hite Creek	6.0	4.1	8.0	7,253	507	-	7,760	1970	Tertiary: sand filter
Cedar Creek	7.5	3.2	7.5	9,097	221	-	9,318	1995	Tertiary: sand filter
Floyd's Fork	6.5	3.0	9.8	7,080	276	1	7,357	2001	Tertiary: sand filter
13 Small WQTC**	2.6	1.3	-	4,675	119	-	4,794	Most 1970s	Various: developer-built package plants
Total treatment system	176.6	130.6	194.3	218,352	20,527	455	239,334		

* Formerly known as the West County WTP
 ** Lake Forest / Chenoweth Run WQTC eliminated in July 2012
 Source: MSD Engineering Department

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

2013 Rank	2012 Rank	2011 Rank	2010 Rank	2009 Rank	2008 Rank	2007 Rank	2006 Rank	2005 Rank	2004 Rank	Type of business
1	20,047	1	20,388	1	20,513	1	20,674	1	17,206	P Air cargo transport and distribution
2	14,266	2	13,840	2	13,236	2	13,593	2	13,420	G Primary and secondary education
3	11,235	3	10,077	3	10,386	3	9,775	6	4,889	P Group health insurance/HMOs
4	9,686	4	9,421	4	8,142	4	7,990	4	8,325	N Hospital and health care facilities
5	8,883	5	8,919	5	6,500	5	6,223	7	5,450	N Hospital and health care facilities
6	8,512	7	8,647	6	6,352	6	7,598	3	9,303	P Vehicle manufacturing
7	6,187	6	5,746	8	6,155	7	5,763	3	4,943	G Higher education
8	5,000	10	3,989	11	4,100	9	5,000	10	5,200	P Appliances manufacturing
9	5,651	8	5,689	7	5,814	8	5,698	5	5,744	G City/County Government
10	5,152	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	P Grocery Retailer
11	4,654	11	3,752	12	3,305	12	3,536	12	2,308	N Hospital and health care facilities
12	4,161	10	4,468	10	4,252	11	4,498	11	4,652	G General purpose government
13	2,500	n/a	2,653	18	1,991	14	2,653	14	2,872	G Mail distribution
14	2,345	13	2,418	17	2,343	15	2,348	15	2,680	N Religious, educational, social services
15	2,191	12	2,675	13	2,955	13	2,653	13	2,906	G General purpose government
16	2,131	16	2,096	19	1,978	20	1,902	16	1,957	P Gas & Electric Utility
17	2,130	15	2,252	18	2,153	19	2,079	13	2,342	P Long-term health care facilities
18	1,789	18	1,728	22	1,568	24	1,568	29	1,113	N Hospital and health care facilities
19	1,711	20	1,612	24	1,473	32	1,409	29	1,412	P Hospital and health services provider
20	1,640	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	G Primary and secondary education
21	1,629	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	G Primary and secondary education
22	1,602	19	1,639	23	1,500	25	1,448	28	1,250	G Primary and secondary education
23	1,544	24	1,558	23	1,577	19	2,243	18	2,194	P Food service provider
24	1,516	22	1,450	27	1,500	23	1,688	21	1,595	P Trade, professional, special printing
25	1,476	21	1,598	33	1,150	35	1,150	23	1,595	P Security Services
26	1,418	25	1,457	31	1,457	21	1,358	19	1,860	P Gaming and entertainment resort
27	1,388	n/a	1,244	28	1,540	22	1,885	19	1,942	P Home Improvement Retailer
28	1,372	23	1,852	14	3,106	16	2,248	22	1,810	G General purpose government
29	1,369	29	1,133	34	1,270	38	1,060	36	1,359	N Hospital and health services provider
30	1,357	27	1,346	28	1,395	27	1,491	23	1,456	G Primary and secondary education
31	1,271	32	1,188	25	1,340	34	1,600	22	1,509	P Telecommunications
32	1,244	31	1,158	34	1,240	37	1,317	33	1,145	P Distilled spirits manufacturing
33	1,206	33	1,128	35	1,091	35	1,264	39	1,075	G Primary and secondary education
34	1,152	36	1,092	n/a	n/a	n/a	n/a	n/a	n/a	P Financial services, investments
35	1,143	n/a	918	n/a	n/a	n/a	n/a	n/a	n/a	P Quick service restaurant
36	1,111	30	1,215	30	1,118	40	1,100	37	1,159	N Health care provider
37	1,100	34	1,122	35	1,358	31	1,438	23	1,744	P Health insurance sales and services
38	1,052	37	1,004	n/a	n/a	n/a	n/a	n/a	n/a	P Manufacturing
39	1,026	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	P Technical customer service call center
<hr/>										
148,043										
<hr/>										
128,440										
<hr/>										
118,909										
<hr/>										
121,026										
<hr/>										
115,824										
<hr/>										
115,743										
<hr/>										
113,247										
<hr/>										
111,648										
<hr/>										
108,326										

Peter-profit organization Non-for-profit organization G-governmental organization
Source: Business First of Louisville, KY

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

Employer	2013 Employees	2013 Rank	Percentage of Total Employment	Employer	2004 Employees	2004 Rank	Percentage of Total Employment
United Parcel Service, Inc.	20,047	1	3.36%	United Parcel Service, Inc.	17,206	1	2.99%
Jefferson County, KY Public Schools	14,269	2	2.40%	Jefferson County, KY Public Schools	13,420	2	2.33%
Humana, Inc.	11,235	3	1.89%	Ford Motor Company	9,303	3	1.61%
Norton Healthcare (formerly Alliant Health)	9,666	4	1.62%	Norton Healthcare (formerly Alliant Health)	7,850	4	1.36%
Kentucky One Health Inc (formerly Jewish Hosp)	8,893	5	1.49%	Louisville-Jefferson County Metro Government	5,744	5	1.00%
Ford Motor Company	8,512	6	1.43%	Kentucky One Health Inc (formerly Jewish Hosp)	5,450	6	0.90%
University of Louisville	6,187	7	1.04%	General Electric Company	5,200	7	0.86%
General Electric Company	6,000	8	1.01%	Kroger Company	4,960	8	0.86%
Louisville-Jefferson County Metro Government	5,651	9	0.95%	Commonwealth of Kentucky	4,952	9	0.86%
The Kroger Company	5,152	10	0.86%	University of Louisville	4,943	10	0.86%
Total	95,612		16.05%		79,028		13.72%

Total Employment

595,763

576,125

Source: Business First of Louisville
Workforce Kentucky

www.workforcekentucky.ky.gov

Ratio of Outstanding Debt and Misc. Demographic Information
(dollar amounts in thousands)

Fiscal Year	Revenue Bond	Bond Anticipation Notes	Total Debt	Population	Personal Income	Percentage of Personal Income	Unemployment Rate	# of MSD Employees	# of MSD Service Connections	Miles of Sewer Line
2004	1,294,993	-	1,294,993	703,970	\$24,369,994	5.31%	5.60%	607	216,551	2,959
2005	1,279,350	-	1,279,350	706,828	25,471,303	5.02%	6.00%	607	220,599	3,035
2006	1,363,035	-	1,363,035	710,018	26,310,353	5.18%	5.70%	612	222,698	3,099
2007	1,345,285	-	1,345,285	715,149	28,352,508	4.74%	5.10%	614	224,654	3,133
2008	1,443,080	-	1,443,080	723,040	29,372,937	4.91%	6.40%	625	226,430	3,200
2009	1,408,290	-	1,408,290	730,194	30,194,724	4.66%	10.40%	633	226,711	3,197
2010	1,325,785	452,680	1,778,465	736,705	28,993,060	6.13%	9.80%	651	228,580	3,207
2011	1,616,510	226,340	1,842,850	742,176	29,244,583	6.30%	9.9%	655	230,240	3,200
2012	1,562,510	226,340	1,788,850	N/A	N/A	N/A	8.3%	666	235,136	3,232
2013	1,505,260	226,340	1,731,600	N/A	N/A	N/A	8.5%	649	239,334	3,240

Source: U.S. Census Bureau (census.gov)

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

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

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

Rank	Customer Name	FY '13 Wastewater Billed	Percent Total Wastewater Revenue	Customer Name	FY '04 Wastewater Billed	Percent Total Wastewater Revenue
1	Jefferson Co. Bd. of Educ	\$ 1,929,823	1.21%	Protein Technologies	\$ 2,501,934	3.13%
2	Swift & Company	\$ 1,573,400	0.98%	E.I. Dupont	\$ 1,822,495	2.28%
3	Ford Motor Co.	\$ 1,433,881	0.90%	Opta Food	\$ 1,278,944	1.60%
4	Lubrizol Advanced Material***	\$ 1,413,783	0.88%	OXY Vinal	\$ 1,199,010	1.50%
5	Lou. Metro Housing Auth.	\$ 1,234,490	0.77%	Ford Motor Co.	\$ 855,294	1.07%
6	Early Times Distillery	\$ 1,234,392	0.77%	Lou. Metro Housing Auth.	\$ 791,347	0.99%
7	UPS Air District	\$ 1,222,215	0.76%	Jefferson Co. Bd. of Educ.	\$ 703,419	0.88%
8	Heaven Hill Distilleries	\$ 838,761	0.52%	Swift & Company	\$ 647,465	0.81%
9	General Electric	\$ 745,842	0.47%	Brown Forman Corp.	\$ 575,525	0.72%
10	University of Louisville	\$ 683,748	0.43%	Rohim & Haas	\$ 559,538	0.70%
	Total	\$ 12,320,333	7.71%	Total	\$ 10,934,971	13.66%
	Total FY '13 Wastewater Revenue:	\$ 159,791,000		Total FY '04 Wastewater Revenue:	\$ 79,534,000	

Rank	Customer Name	FY '13 Stormwater Billed	Percent Total Stormwater Revenue	Customer Name	FY '04 Stormwater Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	\$ 1,089,756	2.40%	Regional Airport Authority	\$ 444,394	1.88%
2	United Parcel Service	\$ 684,202	1.51%	United Parcel Service	\$ 307,284	1.30%
3	Ford Motor Company	\$ 376,902	0.83%	Ford Motor Company	\$ 226,925	0.96%
4	KY State Fair Board	\$ 249,472	0.55%	Jefferson Co. Bd. of Educ.	\$ 217,470	0.92%
5	Jeff Co Board of Education	\$ 229,446	0.51%	University of Louisville	\$ 187,830	0.71%
6	Churchill Downs	\$ 215,181	0.47%	Churchill Downs	\$ 130,009	0.55%
7	Louisville Gas & Electric	\$ 212,663	0.47%	Trammell Crow Co.	\$ 113,452	0.48%
8	Norfolk Southern Corp.	\$ 197,091	0.43%	KY State Fair Board	\$ 111,089	0.47%
9	LIT Industrial Limited Partnership**	\$ 188,119	0.41%	Norfolk Southern Corp.	\$ 99,280	0.42%
10	U of L Belknap Campus	\$ 168,160	0.37%	Louisville Gas & Electric	\$ 96,916	0.41%
	Total	\$ 3,611,993	7.95%	Total	\$ 1,914,678	8.10%
	Total FY '13 Stormwater Revenue:	\$ 45,431,000		Total FY '04 Stormwater Revenue:	\$ 23,638,000	

* Solae LLC was formerly known as Protein Technologies
 ** LIT Industrial Limited was formerly known as Trammell Crow Co.
 ***Lubrizol Advanced Material was formerly known as Oxy Vinyls