

*Louisville and Jefferson County  
Metropolitan Sewer District*

## *Comprehensive Annual Financial Report*

*For Fiscal Years Ended June 30, 2014 and 2013*



LOUISVILLE, KENTUCKY USA

A COMPONENT UNIT OF THE  
LOUISVILLE KY METRO GOVERNMENT

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

**A COMPONENT UNIT OF THE LOUISVILLE/JEFFERSON  
COUNTY METRO GOVERNMENT  
LOUISVILLE, KENTUCKY**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE YEARS ENDED  
JUNE 30, 2014 AND 2013**

**Prepared by the Division of Budget and Finance  
Chad Collier, CFO, Secretary/Treasurer**

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

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## ***INTRODUCTORY SECTION***



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

## **Letter of Transmittal**

October 27, 2014

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, 2014 ("2014") 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 2014 was \$6.3 million.

## Letter of Transmittal

### Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County, which, with a 2013 population of approximately 756,980, 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") increased in June 2014 to 607,080; an increase of 6,590 from the June 2013 level of 600,490. The June 2014 unemployment rate for the Louisville MSA was 6.8% compared to a rate in June 2013 of 8.4%, a national average rate of 6.3% and a state average rate of 7.4% 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.

According to Greater Louisville Inc., The Metro Chamber of Commerce, economic indicators show Louisville moving in a positive direction. Louisville's housing sector has been in various stages of recovery since 2011 with particularly rapid growth over the past year. In 2014, housing remains one of the stronger sectors in the Louisville economy. Also, industrial real estate is booming in the area. There is more than 3.8 million square feet of industrial space—a record amount—currently under construction in the MSA.

Through November 2013, the Louisville area has more than regained the number of jobs lost during the recession. Manufacturing employment, representing about 12 percent of total nonfarm employment in Louisville, has been a particularly strong growth driver. Generally on trend with the U.S., Louisville's manufacturing employment began largely outpacing U.S. growth over the past year. In fact, manufacturing employment contributed one-third of the new jobs in Louisville over the 12 months. This strong growth from manufacturing employment and the consistency from Louisville's traditionally strong sectors such as health care and logistics have contributed to an overall positive current outlook for our economy. The Louisville MSA is expected to see above average job growth in 2014, positioning the Louisville MSA to add nearly 20,000 jobs in 2014. This job growth should also result in additional declines to the unemployment rate, reversing the small increases of 2013.

Louisville's economy has benefited in recent years from significant hires at the two Ford plants, GE Appliances, and UPS. In addition, the \$2.6 billion Ohio River Bridges Project is expected to have a positive impact on construction employment and generate significant economic benefits over the next three-plus years. Another economic development effort is the Bluegrass Economic Advancement Movement, or BEAM. Louisville Mayor Greg Fischer and Lexington Mayor Jim Gray launched it with the goal of attracting more advanced manufacturing jobs to the 22-county region around and between Louisville and Lexington. In late November, Gray and Fischer unveiled a BEAM strategic plan around the ideas of embracing innovation, increasing Kentucky exports and improving education and workforce development.

During 2014, MSD continued to benefit from a diversified customer base. Fifty-two percent (52%) of its service charge revenue came from residential customers with the remaining forty-eight percent (48%) coming from commercial and industrial customers. During 2014, sewer accounts increased by 840, or 0.6%, to 240,174.



## Letter of Transmittal

### Major Initiatives:

#### Strategic Planning

MSD's last multiyear strategic plan was completed in the year 2000 and allowed MSD to focus its resources toward improving the environment, providing customer service and empowering employees, while also building and maintaining the existing wastewater, stormwater and flood protection infrastructure. Starting in 2003, MSD directed its attention to compliance with the Clean Water Act and began a series of communications with the U. S. Environmental Protection Agency towards signing the initial Consent Decree in 2005 and subsequent amendments in 2009 and 2013. The activities of the Amended Consent Decree have been MSD's major strategic focus during the past 5 years.

With almost half the Consent Decree completed, MSD was positioned to once again pursue a multiyear strategic business plan to accomplish a broader array of strategies including the continuation of the Amended Consent Decree. During the spring of 2013, MSD began working on a new strategic plan with employee groups across all divisions and members of the Board of Directors. The 2014-2018 Strategic Business Plan was approved for implementation by the Board on January 27, 2014. This plan provides MSD with a broader focus designed to move towards a new Vision Statement – ***Achieving Clean, Safe Waterways for a Healthy and Vibrant Community*** and incorporates MSD's three statutory business requirements into a new Mission Statement – ***Providing Exceptional Wastewater, Drainage and Flood Protection Services for Our Community***. Included in the plan are eight strategies incorporating numerous initiatives and objectives that will drive MSD's activities over the next 5 years. The Board also requested semiannual updates on progress towards meeting these strategic objectives.

#### New Organization Structure

During February of 2014, the senior management team announced a new organizational structure aligned to meet both MSD's strategic objectives and operational requirements. The primary changes involve placing all engineering activities under the Chief Engineer and aligning the operating areas into Treatment, Collections and Drainage and Flood Protections Departments under the Chief of Operations. This new alignment will facilitate MSD's transition from 18 wastewater plants to 5 regional plants by 2016. It will also optimize operations, ensure compliance with the Amended Consent Decree and allow for partnering opportunities with the Louisville Water Company on the Mayor's One Water initiative. The new management structure is shown on the organizational chart following this section, and a complete organizational chart can be found on MSD's web site.

#### Comprehensive 20-Year Facilities Plan

The intent of the Comprehensive 20-Year Facilities Plan is to identify and prioritize the future capital program and rate structure of MSD over the next 20-year period. A public outreach and external stakeholder involvement component is included to help shape the values-based risk management approach, gain insight on community needs, and provide information to customers on the relationship between the level of protection requested and the corresponding cost of service that is acceptable. The Plan will aid MSD in defining the extent of utility-wide infrastructure needs, the schedule for which they should be accomplished to achieve the desired level of protection, and the associated cost of service for short and long-term budgeting purposes. An engineering consulting firm has been hired to complete this plan over the next 18 months.

## **Letter of Transmittal**

### **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, commercial paper 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 2014 was \$20.2 million compared to gross earnings of \$16.3 million in 2013.

### **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 2014 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal years ended June 30, 2014 and 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.



## Letter of Transmittal

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MSD's financial statements for the fiscal years ended June 30, 2014 and 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.

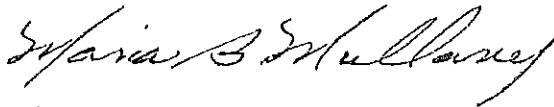
## Awards and Acknowledgements

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, 2013. This was the 24th 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

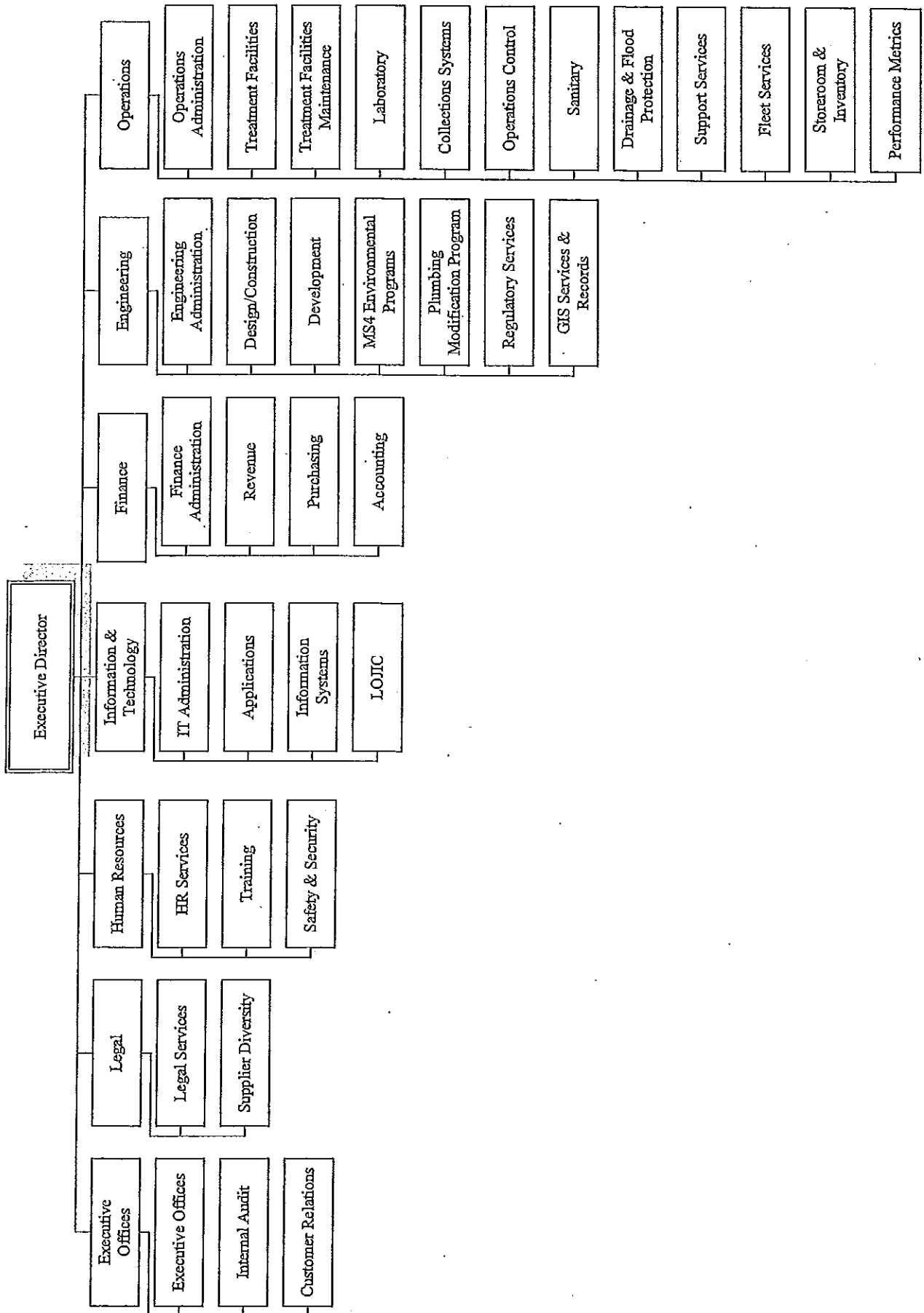
**Louisville and Jefferson County  
Metropolitan Sewer District  
Kentucky**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

Louisville and Jefferson County  
Metropolitan Sewer District  
Organization Chart



**MSD BOARD:**

James Craig, Chairperson

Tom Austin, Vice Chairperson

Yvonne Wells-Hatfield

Daniel Arbough

John Phelps

Cyndi Caudill

Joyce Horton Mott

Lonnie Calvert

**PRINCIPAL OFFICERS:**

Greg Heitzman, Executive Director

Steve Emly, Chief Engineer

Chad Collier, Chief Financial Officer  
Secretary/Treasurer

Paula Purifoy, General Counsel

W. Brian Bingham, Chief of Operations

Lynne Fleming, Human Resources Director

Tom Luckett, Information Technology Director

**FINANCIAL MANAGERS:**

Maria B. Mullaney, Controller

Rene' Thomas, Purchasing Manager

Sharon Dawson, Revenue Manager

Patrick Meador, 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 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, 2014 and 2013, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville and Jefferson County Metropolitan Sewer District, as of June 30, 2014 and 2013, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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 11-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 basic 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 basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 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 27, 2014





*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 years ended June 30, 2014 and 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 \$35.8 million (6.3%) as a result of this year's operations
- Operating revenues increased by \$6.6 million (3.1%) to \$217 million.
- Operating expenses excluding depreciation decreased by \$1.6 million (2.2%)
- Non-operating revenues:
  - Investment income and sale of assets increased by \$4.0 million (24.4%)
  - The fair value of swaps decreased 2014 revenue by \$1.2 million, compared to an increase of \$36.2 million in 2013
- Non-operating expenses:
  - Interest and capital related expenses and reimbursements decreased by \$5.1 million (6.7%)

### **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, 2014 and 2013**

**FINANCIAL INFORMATION**

**Statement of Net Position:** MSD's net position increased by \$35.8 million in FY 2014 to \$602.7 million.

- MSD's total assets and deferred outflow of resources increased by \$112.4 million in FY 2014. This overall increase can be attributed primarily to additions to plant, lines and other facilities and bond proceeds to be used for capital construction. In FY 2013, total assets and deferred outflows decreased by \$29.4 million from FY 2012. The decrease was primarily due to funds used to retire debt and a reduction in receivables.
- Total liabilities and deferred inflow of resources increased by \$76.5 million in 2014. This increase was due to the \$100 million issuance of 2013A Revenue Bonds. During FY 2013 there was a decrease of \$87.8 million from FY 2012 due to an increase in the fair value of swaps agreements of \$36.3 million and retirement of \$59.4 million of debt.
- Unrestricted net position increased \$21.2 million during FY 2014 and has increased \$48.0 million since FY 2012.

<p style="text-align: center;"><b>TABLE 1</b> <b>Condensed Statement of Net Position</b> (000's)</p>			
	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>
<b>Assets</b>			
Unrestricted Current Assets	\$ 111,934	\$ 89,403	\$ 66,465
Restricted Current Assets	161,922	154,050	289,653
Noncurrent Assets	2,304,003	2,226,327	2,141,424
<b>Total Assets</b>	<b>2,577,859</b>	<b>2,469,780</b>	<b>2,497,542</b>
 <b>Deferred Outflow of Resources</b>	 17,811	 13,511	 15,176
 <b>Total Assets and Deferred Outflows</b>	 <b>2,595,670</b>	 <b>2,483,291</b>	 <b>2,512,718</b>
 <b>Current Liabilities</b>	 13,653	 12,693	 16,470
Current Liab. from Restricted Assets	286,240	285,489	279,708
Noncurrent Liabilities	1,610,724	1,535,962	1,586,274
<b>Total Liabilities</b>	<b>1,910,617</b>	<b>1,834,144</b>	<b>1,884,452</b>
 <b>Deferred Inflow of Resources</b>	 82,293	 82,233	 119,680
 <b>Total Liabilities and Deferred Inflows</b>	 <b>1,992,910</b>	 <b>1,916,377</b>	 <b>2,004,132</b>
 <b>Net Investment in Capital Assets</b>	 368,346	 365,225	 313,575
Restricted, net	148,451	136,939	157,002
Unrestricted	85,963	64,750	38,009
<b>Total Net Position</b>	<b>602,760</b>	<b>566,914</b>	<b>508,586</b>
 <b>Total Liab, Deferred Inflows &amp; Net Position</b>	 <b>\$ 2,595,670</b>	 <b>\$ 2,483,291</b>	 <b>\$ 2,512,718</b>

**Louisville and Jefferson County Metropolitan Sewer District  
Management's Discussion and Analysis  
June 30, 2014 and 2013**

**Results of Operations**

**Revenues:**

- **Total Operating Revenues** as of June 30, 2014 were \$216.6 million compared to \$210.0 million for the same period last year and \$192.2 million in FY 2012. An increase of \$6.5 million, or 3.1%, and \$24.4 million, or 12.7%, respectively. This increase in operating revenues is primarily driven by Board-approved rate increases of 5.8% in FY 2013 and 6.5% in FY 2012.
- **Wastewater Service Charges** totaled \$165.6 million as of June 30, 2014. This represents an increase of \$5.8 million or 3.6% from a year ago. Wastewater Services charges for FY 2013 and FY 2012 were \$159.8 million and \$149.6 million respectively. 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.
- **Stormwater Service Charges** were \$48.5 million as of June 30, 2014. This represents an increase of \$3.0 million, or 6.7%, from the same period one year ago. Stormwater service charges for FY 2013 and FY 2012 were \$45.4 million and \$40.9 million respectively.
- **Other Operating Income** was \$4.8 million in FY 2014, which is \$2.2 million less than FY 2013. FY 2013 and FY 2012 were \$4.8 million and \$1.8 million respectively.
- **Free Services:** In FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to \$6.3 million in FY 2014, \$6.6 million in FY 2013 and \$5.2 million in FY 2012.

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

	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>
Service Charges	\$ 214,058	\$ 205,222	\$ 190,482
Other Operating Income	2,576	4,823	1,756
<b>Total Operating Revenues</b>	<b>216,632</b>	<b>210,045</b>	<b>192,238</b>
Investment Income	20,330	18,301	42,352
<b>Total Revenues</b>	<b>236,962</b>	<b>228,346</b>	<b>234,590</b>
Depreciation & Amortization Expense	83,516	60,335	60,527
Other Operating Expenses	73,353	74,931	75,126
Nonoperating Expenses	71,128	76,172	75,341
Change in Fair Value - Swaps	1,222	(36,286)	52,897
<b>Total Expenses</b>	<b>209,219</b>	<b>175,162</b>	<b>263,891</b>
<b>Net Income (Loss) before Contributions</b>	<b>27,743</b>	<b>51,194</b>	<b>(29,301)</b>
Contributions	6,103	7,134	2,095
<b>Change in Net Position</b>	<b>35,846</b>	<b>58,328</b>	<b>(27,206)</b>
Beginning Net Position	566,914	508,586	535,792
<b>Ending Net Position</b>	<b>\$ 602,760</b>	<b>\$ 566,914</b>	<b>\$ 508,586</b>

**Louisville and Jefferson County Metropolitan Sewer District  
Management's Discussion and Analysis  
June 30, 2014 and 2013**

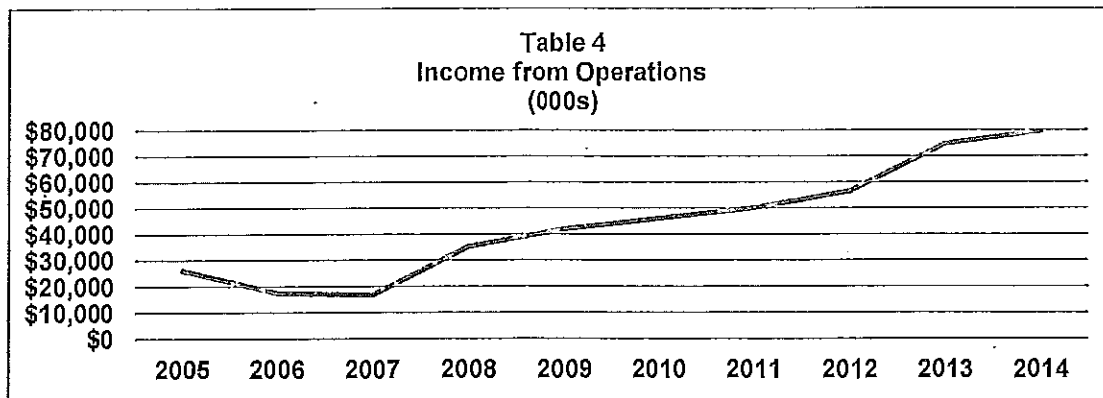
**Expenses:**

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 \$1.2 million in FY 2014 from FY 2013 level and decreased by \$.2 million in FY 2013 from FY 2012 level. MSD's employee count, including vacant positions, increased from 649 in FY 2013 to 660 full-time equivalent positions in FY 2014. Labor cost was 52% of gross service and administrative costs in FY 2014 and 51% in both FY 2013 and FY 2012.

	2014	%	2013	%	2012	%
<b>Gross Service and Administrative Costs:</b>						
Labor	\$ 55,356	52%	\$ 55,028	51%	\$ 55,010	51%
Utilities	14,563	14%	12,821	12%	14,555	13%
Materials and supplies	8,151	8%	8,990	8%	8,972	8%
Professional services	1,932	2%	3,942	4%	2,416	2%
Maintenance and repairs	9,096	8%	10,866	10%	11,090	10%
Billing and collections	4,095	4%	4,904	5%	4,309	4%
Chemicals	3,306	3%	4,082	4%	3,894	4%
Fuel	1,837	2%	1,825	2%	1,820	2%
Biosolids disposal	1,795	2%	1,709	2%	1,759	2%
All other	7,238	7%	4,369	4%	4,901	5%
<b>Total</b>	<b>\$ 107,369</b>	<b>100%</b>	<b>\$ 108,536</b>	<b>100%</b>	<b>\$ 108,726</b>	<b>100%</b>

**Income from Operations:**

MSD recorded a net operating income of \$79.8 million in FY 2014 compared to \$74.8 million in FY 2013, an increase of \$5.0 million or 6.7%. Increases in revenues of \$6.6 million from FY 2013 accounted for the majority of this change. Net cash provided by operating activities increased \$12.1 million from \$128.0 million in FY 2013 to \$140.0 million in FY 2014. The increase from FY 2012 to FY 2013 was \$10.6 million.



**Louisville and Jefferson County Metropolitan Sewer District  
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**Capital Assets:**

MSD's total gross capital assets (additions) increased by \$51.3 million in FY 2014. Major additions include:

- \$8.7 million completion of sewer line installations,
- \$9.3 million in wastewater treatment facilities,
- \$12.6 million in sewer, drain & pump facilities and
- \$19.1 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 and Note 5 for additional information regarding changes to capital assets.

Depreciation expense was \$62.2 million, or \$3.2 million more than FY 2013. 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 6, 2013, MSD issued \$100,000 of Sewer and Drainage System Revenue Bonds, Series 2013C. Proceeds of the 2013C bonds, net of issuance cost were used to pay the cost of improvements to MSD's sewer and drainage system.
- On November 6, 2013 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2013A Notes with an interest rate of 2.00%. The proceeds of the notes were used to refinance the 2012A Notes. The 2013A Notes mature on November 26, 2014.

Net interest expense totaled \$71.1 million in FY 2014, a decrease of \$5.0 million from \$74.6 million in FY 2013.

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

**Debt Service Ratio:**

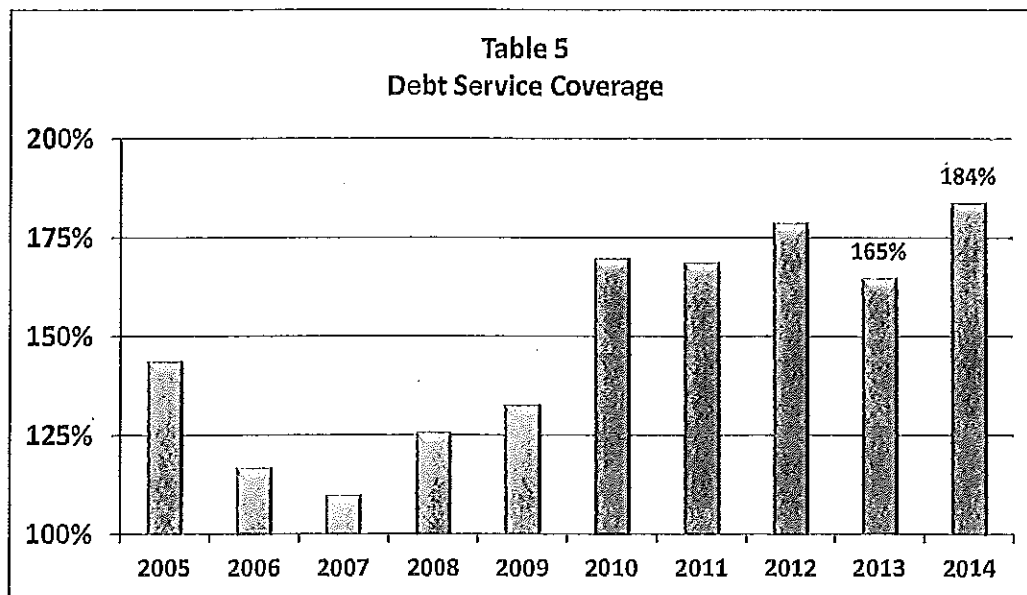
Although net operating income is the most significant component of determining MSD's debt service coverage ratio, other sources, including investment income and current period payments of property owner assessments also are included in "available revenues" and "net revenues" for purposes of demonstrating 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 184% in 2014 and 163% in 2013. 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.

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- "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.

**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 is estimated to be \$850 million over the next two decades. MSD has submitted plans to finance the projects through additional bonds and future rate increases. In a letter dated June 6, 2014, MSD requested approval from the KEPPC and the EPA for the IOAP 2012 Modifications, dated May 2014. The IOAP 2012 Modifications represents a revision to 28 separate projects set forth in the original IOAP, dated September 30, 2009. The IOAP Modifications were approved and will supersede and replace the 2009 IOAP. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree (see Note 13 to the financial statements.)

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In December 2011, Kentucky's Auditor of Public Accounts (APA) 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. A year later on December 16, 2012, MSD presented a final report on the status of MSD's initiatives related to the Examination. The report was accepted by the APA, closing this matter. The MSD Executive Director advised that the initiatives have strengthened the utility.

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 (ILA) 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 due diligence analysis recommended pursuing a Comprehensive ILA approach and implementation began in mid-February, 2014 after the Mayor and both Boards approved the recommendation. *Onewater* is the initiative outlined in the Comprehensive ILA which was approved by the Kentucky Attorney General on April 2014. The administration of the various service agreements will be the key to successfully providing consolidated services to both LWC and MSD. The goal of the Comprehensive ILA is to *create coordinated teams of employees from both companies with the capability of delivering superior customer service at lower costs than the existing two corporate entities combined.*

The implementation plan will consist of two phases. The first phase will entail the sharing of services in five functional groups plus one specialty area of focus. The five functional groups to be addressed in this phase include Procurement, Fleet, Human Resources, Information Technology, and Customer Service and the specialty area will be focused on energy savings. It is anticipated that phase II will begin in the fourth quarter of 2015. This phase will include the consolidation of additional back office functions and may also include operational areas.

#### **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](http://www.msdlouky.org)



**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**COMPARATIVE STATEMENT OF NET POSITION**  
**June 30, 2014 and 2013**  
*(Dollars in thousands)*

	<u>2014</u>	<u>2013</u>
<b>Current Assets:</b>		
Unrestricted cash and cash equivalents	\$ 84,780	\$ 66,376
Unrestricted investments	100	100
Restricted cash and cash equivalents	39,507	62,249
Restricted investments	121,218	90,574
Accounts receivable, less allowance for doubtful accounts of \$1,029 (2014), \$1,080 (2013)	21,809	18,465
Inventories	3,808	3,579
Accrued interest receivable	1,199	1,226
Prepaid expenses and other current assets	1,437	884
Total current assets	<u>273,858</u>	<u>243,453</u>
<b>Noncurrent Assets:</b>		
Long-term assessment receivables	18,358	17,549
Unamortized bond closing costs	17,143	18,713
Plant, lines and other facilities, net	2,270,502	2,180,065
Total noncurrent assets	<u>2,304,003</u>	<u>2,226,327</u>
<b>Total Assets</b>	<u>\$ 2,577,861</u>	<u>\$ 2,469,780</u>
<b>Deferred Outflow of Resources:</b>		
Unamortized loss on refunding	17,811	13,511
<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 2,595,672</u>	<u>\$ 2,483,291</u>
<b>Current Liabilities:</b>		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	\$ 13,653	\$ 12,693
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor retainage of \$8,169 (2014), \$5,444 (2013)	14,712	16,168
Accrued interest payable	12,834	12,458
Refundable deposits	1,568	1,137
Subordinated Debt	228,601	228,691
Current maturities of bonds payable	28,525	27,035
Total current liabilities	<u>299,893</u>	<u>298,182</u>
<b>Non-current Liabilities:</b>		
Bonds payable	1,549,700	1,478,225
Unamortized debt premium / discount	60,263	58,764
Other long term liabilities	761	973
Total non-current liabilities	<u>1,610,724</u>	<u>1,535,962</u>
<b>Total Liabilities</b>	<u>\$ 1,910,617</u>	<u>\$ 1,834,144</u>
<b>Deferred Inflow of Resources:</b>		
Interest rate swaps	73,840	72,418
Other deferred inflows	8,653	9,815
Total deferred inflow of resources	<u>82,493</u>	<u>82,233</u>
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>\$ 1,992,910</u>	<u>\$ 1,916,377</u>
<b>Net Position:</b>		
Net investment in capital assets	\$ 368,346	\$ 365,225
Restricted for payment of bond principal and interest	148,451	138,939
Unrestricted	85,983	64,750
Total net position	<u>602,760</u>	<u>568,914</u>
<b>Total Liabilities, Deferred Inflow of Resources and Net Position</b>	<u>\$ 2,595,670</u>	<u>\$ 2,483,291</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2014 and 2013**  
*(Dollars in thousands)*

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Service charges, net of free services of \$6,300 and \$6,600	\$ 214,056	\$ 205,222
Other operating income	2,576	4,823
Total operating revenues	<u>216,632</u>	<u>210,045</u>
<b>Operating Expenses</b>		
Service and administrative costs	73,353	74,931
Depreciation and amortization	63,516	60,335
Total operating expenses	<u>136,869</u>	<u>135,266</u>
<b>Income from Operations</b>	<u>79,763</u>	<u>74,779</u>
<b>Non-operating Revenue (Expenses)</b>		
Gain / loss on disposal of assets	-	45
Investment income	10,234	5,315
Build America Bond refund	10,096	10,986
Interest expense - bonds	(80,613)	(92,616)
Interest expense - swaps	(9,733)	(10,200)
Interest expense - other	(4,629)	(4,829)
Amortization of debt discount / premium	7,296	6,735
Amortization of loss on refunding	(2,552)	(1,665)
Capitalized interest	19,103	26,358
Change in fair value - swaps	(1,222)	36,286
Total non-operating revenue (expenses) - net	<u>(52,020)</u>	<u>(23,585)</u>
<b>Income (loss) before Contributions</b>	27,743	51,194
<b>Contributions:</b>	<u>8,103</u>	<u>7,134</u>
<b>Change in net position</b>	35,846	58,328
<b>Net position, beginning of year</b>	566,914	508,586
<b>Net position, end of year</b>	<u><u>\$ 602,760</u></u>	<u><u>\$ 566,914</u></u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**Years Ended June 30, 2014 and 2013**  
*(Dollars in thousands)*

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 213,215	\$ 207,905
Cash paid to suppliers	(34,446)	(42,003)
Cash paid to employees	<u>(38,729)</u>	<u>(37,923)</u>
Net cash provided by operating activities	<u>140,040</u>	<u>127,979</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from issuance of revenue bonds	100,000	115,790
Proceeds from subordinated debt	226,340	228,735
Build America Bond refund	10,096	10,986
Assessments receivable	1,695	1,833
Interest income - assessments	687	731
Principal paid on revenue bonds	(27,035)	(173,040)
Interest paid on revenue bonds	(91,719)	(98,944)
Subordinated debt principal payments	(226,430)	(226,384)
Acquisition and construction of capital assets	(113,859)	(105,915)
Retainage payable	725	(95)
Acquisition of non-operating property	<u>(211)</u>	<u>(223)</u>
Net cash, provided by / (used in), capital and related financing activities	<u>(119,711)</u>	<u>(246,526)</u>
<b>Cash Flows from Investing Activities:</b>		
Restricted investments	(30,642)	4,064
Income on investments	15,897	14,130
Interest expense - swap agreements	(9,733)	(10,200)
Unamortized premium on forward delivery agreement	<u>(189)</u>	<u>(189)</u>
Net cash (used in) provided by investing activities	<u>(24,667)</u>	<u>7,805</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(4,338)</b>	<b>(110,742)</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>128,625</u>	<u>239,367</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 124,287</u></u>	<u><u>\$ 128,625</u></u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**Years Ended June 30, 2014 and 2013**  
*(Dollars in thousands)*

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating Income to Net Cash provided by Operating Activities:</b>		
Income from operations	\$ 79,763	\$ 74,779
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,516	60,335
Capital expense over/under applied	-	(910)
Accounts receivable	(3,848)	(2,265)
Inventories	(229)	(95)
Prepaid expense	(553)	(214)
Accounts payable	1,076	(4,082)
Customer deposits	431	125
Accrued liabilities	(116)	306
Net cash provided by operating activities	<u>\$ 140,040</u>	<u>\$ 127,979</u>
<b>Non-cash capital financing and investing activities:</b>		
Contribution of plant, lines and other facilities by developers and property owners	<u>\$ 8,103</u>	<u>\$ 7,134</u>
Increase in accounts payable incurred for construction	<u>\$ (2,181)</u>	<u>\$ (861)</u>
Change in fair value of investments	<u>\$ (3,201)</u>	<u>\$ 2,706</u>
Decrease in interest rate swap deferred revenue	<u>\$ 972</u>	<u>\$ 972</u>
Change in fair value - swap agreements	<u>\$ (1,222)</u>	<u>\$ 36,286</u>
Advance refunding of bonds	<u>\$ -</u>	<u>\$ 119,515</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars In thousands)*

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**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). 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.

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"*

MSD has adopted or is evaluating the following GASBs during the current year:

- GASB Statement No. 67, *"Financial Reporting for Pension Plans"*, is effective for periods beginning after June 15, 2013 and GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"*, and GASB Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68"*, are effective for periods beginning after June 15, 2014.

With the implementation of GASB 68 and GASB 71 in the year ending June 30, 2015, MSD will be required to report a net pension liability on the Statement of Net Position as a retroactive prior period adjustment for the beginning net pension liability. Any annual changes in the net pension liability will be recorded in the Statement of Revenues, Expenses and Changes in Net Position.

- GASB Statement No. 69, *"Government Combinations and Disposals of Government Operations"* is effective for the year ending June 30, 2015. MSD has not yet adopted this standard and is evaluating the impact they may have on its financial statements.
- MSD has determined that GASB Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, effective for the fiscal year ended June 30, 2014, had no effect on its financial statements.

The significant MSD accounting policies are described hereinafter.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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 activities 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.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 net investment in capital assets, 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.

**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.



**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**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, 2014 and 2013.

**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.

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**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 2013 financial statements to conform to those used in 2014. These reclassifications had no impact on total net position or the change in net position.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
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**NOTE 2      DEPOSITS AND INVESTMENTS**

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

June 30, 2014

Investment Type	Fair Value	Weighted Average Maturity In Years	Credit Rating
U S Agency Securities	\$ 27,953	0.95	Aaa
Municipal Bonds	93,263	24.44	Aa
Money Market Funds	66,256	0.13	Aaa
Commercial Paper	29,993	0.14	A-1 / P-1
Repurchase Agreement/Cash	26,038		
Certificate of Deposit	100		
Total	245,603	10.57	
Accrued interest	1,199		
Total cash, cash equivalents and investments	<u>\$ 246,802</u>		

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	A-1 / 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	<u>\$ 220,525</u>		

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.

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**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, 2014 and 2013.

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, 2014</u>	<u>June 30, 2013</u>
Cash and cash equivalents - unrestricted	\$ 84,780	\$ 66,376
Investments - unrestricted	100	100
Cash and cash equivalents - restricted	39,507	62,249
Investments - restricted	121,216	90,574
	<u>\$ 245,603</u>	<u>\$ 219,299</u>

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**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>Restriction</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Payment of bond / BAN principal and interest and reserves	\$ 148,451	\$ 134,701
Authorized construction	12,272	18,122
Total restricted cash, cash equivalents and investments	<u>\$ 160,723</u>	<u>\$ 152,823</u>

**NOTE 4      SCHEDULE OF NET POSITION**

A comparative schedule of net position follows:

<u>Net Position</u>	<u>2014</u>	<u>2013</u>
<b>Net investment in capital assets:</b>		
Plant, lines and other facilities net of depreciation	\$ 2,270,502	\$ 2,190,065
Outstanding debt that applies to plant, lines and other facilities	(1,806,826)	(1,733,951)
Other capital related debt	(107,602)	(109,011)
Unspent bond proceeds	12,272	18,122
Total	<u>368,346</u>	<u>365,225</u>
<b>Restricted:</b>		
Funds held in bank	160,723	152,822
less: Unspent bond proceeds	(12,272)	(18,122)
Other	-	2,239
Total	<u>148,451</u>	<u>136,939</u>
<b>Unrestricted net position</b>	<u>85,963</u>	<u>64,750</u>
Total net position	<u>\$ 602,760</u>	<u>\$ 566,914</u>

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**NOTE 5 CAPITAL ASSETS - PLANT, LINES AND OTHER FACILITIES**

A comparative schedule of plant, lines and other facilities for the years 2014 and 2013 follows:

Year ended June 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
<b>Capital assets:</b>				
Sewer lines	\$ 1,265,437	\$ 4,596	\$ 4,147	\$ 1,274,180
Wastewater treatment facilities	479,998	143	9,148	489,289
Stormwater drainage facilities	443,577	2,503	2,819	448,899
Pumping and lift stations	89,503	769	6,547	96,819
Administrative facilities	49,317	30	(5)	49,342
Maintenance facilities	8,037	-	-	8,037
Machinery and equipment	56,840	4	1,491	58,335
Miscellaneous	27,042	21	(3)	27,060
Capitalized interest	282,697	19,103	-	301,800
Total capital assets	<u>2,702,448</u>	<u>27,169</u>	<u>24,144</u>	<u>2,753,761</u>
<b>Less accumulated depreciation:</b>				
Sewer lines	(255,797)	(15,620)	-	(271,417)
Wastewater treatment facilities	(306,365)	(20,100)	-	(326,465)
Stormwater drainage facilities	(114,582)	(5,135)	-	(119,717)
Pumping and lift stations	(41,809)	(4,339)	-	(46,148)
Administrative facilities	(30,457)	(1,759)	-	(32,216)
Maintenance facilities	(5,480)	(244)	-	(5,724)
Machinery and equipment	(48,472)	(3,943)	-	(52,415)
Miscellaneous	(13,330)	(3,980)	-	(17,310)
Capitalized interest	(67,907)	(7,107)	-	(75,014)
Total accumulated depreciation	<u>(884,199)</u>	<u>(62,227)</u>	<u>-</u>	<u>(946,426)</u>
<b>Construction in progress</b>	<u>371,816</u>	<u>115,495</u>	<u>(24,144)</u>	<u>463,167</u>
	<u>\$ 2,190,065</u>	<u>\$ 80,437</u>	<u>\$ -</u>	<u>\$ 2,270,502</u>

Capital assets include non-depreciable assets for land related to the facilities, and pumping and lift stations. The carrying value was \$14,889,222 and \$12,962,037 at June 30, 2014 and 2013.



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**NOTE 5 CAPITAL ASSETS - PLANT, LINES AND OTHER FACILITIES (Continued)**

Year ended June 30, 2013

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
<b>Capital assets:</b>				
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>
<b>Less accumulated depreciation:</b>				
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>
<b>Construction in progress</b>	<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>

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**NOTE 6 CAPITALIZED INTEREST**

A comparative schedule of net interest cost capitalized and net interest expense reported in non-operating revenues in 2014 and 2013 follows:

<u>Year ended June 30, 2014</u>	<u>Capitalized</u>	<u>Included in Non- Operating</u>	<u>Total</u>
Investment earnings	\$ -	\$ 20,330	\$ 20,330
Interest cost	(19,103)	(71,129)	(90,232)
Net interest	<u>\$ (19,103)</u>	<u>\$ (50,799)</u>	<u>\$ (69,902)</u>

<u>Year ended June 30, 2013</u>	<u>Capitalized</u>	<u>Included in Non- Operating</u>	<u>Total</u>
Investment earnings	\$ 3,818	\$ 16,301	\$ 20,119
Interest cost	(26,358)	(76,217)	(102,575)
Net interest	<u>\$ (22,540)</u>	<u>\$ (59,916)</u>	<u>\$ (82,456)</u>

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**NOTE 7      LONG-TERM DEBT**

A comparative schedule of long-term debt outstanding at June 30, 2014 and 2013 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>2014</u>	<u>2013</u>
2005 Sewer and Drainage System Revenue Bonds Series 2005A	64,740	3.00% - 5.00%	2026	\$ 18,820	\$ 20,770
2006 Sewer and Drainage System Revenue Bonds Series 2006A	100,000	4.00% - 5.00%	2038	89,325	91,280
2007 Sewer and Drainage System Revenue Bonds Series 2007A	61,125	4.00% - 5.00%	2025	48,080	50,240
2008 Sewer and Drainage System Revenue Bonds Series 2008A	105,000	4.00% - 5.00%	2038	100,860	101,810
2009A Sewer and Drainage System Revenue Bonds Series 2009A	76,275	5.00%	2022	52,720	57,945
2009B Sewer and Drainage System Revenue Bonds Series 2009B	225,770	2.00% - 5.00%	2023	164,785	177,785
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	258,330	260,125
2013A Sewer and Drainage System Revenue Bonds Series 2013A	115,790	4%	2036	115,790	115,790
2013B Sewer and Drainage System Revenue Bonds Series 2013B	119,515	4.00% - 5.00%	2038	119,515	119,515
2013C Sewer and Drainage System Revenue Bonds Series 2013C	100,000	3.00% - 5.00%	2044	100,000	-
Total Long-Term Debt				1,578,225	1,505,260
Less: Current Maturities				(28,525)	(27,035)
Add : Unamortized Premium/Discount				60,263	56,764
Total Long-Term Debt, net				<u>\$ 1,609,963</u>	<u>\$ 1,534,989</u>

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**NOTE 7      LONG-TERM DEBT (Continued)**

A schedule of future debt service requirements after June 30, 2014 follows:

Year Ending June 30,	Revenue Bonds		
	Principal	Interest	Total
2015	\$ 28,650	\$ 81,603	\$ 110,253
2016	30,100	80,189	110,289
2017	31,775	78,707	110,482
2018	33,550	77,140	110,690
2019	35,440	75,466	110,906
2020-2024	200,820	348,756	549,576
2025-2029	229,580	296,250	525,830
2030-2034	143,080	250,097	393,177
2035-2039	426,780	190,514	617,294
2040-2044	418,450	66,143	484,593
	<u>\$ 1,578,225</u>	<u>\$ 1,544,865</u>	<u>\$ 3,123,090</u>

A comparative summary of current and long-term revenue bond activity for the years ended June 30, 2014 and 2013 follows:

	2014	2013
Revenue Bonds - beginning of year, net	\$ 1,505,260	\$ 1,562,510
Bonds issued	100,000	235,305
Principal paid on bonds and bond refunding	(27,035)	(292,555)
Revenue Bonds - end of year, net	<u>\$ 1,578,225</u>	<u>\$ 1,505,260</u>

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

A summary of significant debt transactions follows:

New Debt Transactions: On November 6, 2013, MSD issued \$100,000 of Sewer and Drainage System Revenue Bonds, Series 2013C. Proceeds of the 2013C bonds, net of issuance cost were used to pay the cost of improvements to MSD's sewer and drainage system.

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**NOTE 7      LONG-TERM DEBT (Continued)**

2013 Refunding Transaction: 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, 2014 and 2013.

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 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.
- 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.

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**NOTE 7 LONG-TERM DEBT (Continued)**

Derivatives:

At June 30, 2014 MSD had the following derivative instruments outstanding:

<u>Item</u>	<u>Counter-Party</u>	<u>Initial Notional Amount</u>	<u>Current Notional Amount</u>	<u>Payment Start Date</u>	<u>Termination Date</u>	<u>MSD Payment Terms</u>	<u>MSD Receipt Terms</u>	<u>6/30/2014 Fair Value</u>	<u>6/30/2013 Fair Value</u>	<u>Change in Fair Value</u>
A	Wells Fargo	\$ 225,732	\$ 180,716	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	\$ (58,897)	\$ (57,923)	\$ (974)
B	Bank of America	56,433	45,284	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	(14,743)	(14,495)	(248)
Total		<u>\$ 282,165</u>	<u>\$ 226,000</u>					<u>\$ (73,640)</u>	<u>\$ (72,418)</u>	<u>\$ (1,222)</u>

LIBOR = London Interbank Offering Rate

SIFMA = Securities Industry and Financial Markets Association

A comparative summary of the change in fair value of swaps for the years ended June 30, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Fair value - beginning of year	\$ (72,418)	\$ (108,704)
Change in fair value	<u>(1,222)</u>	<u>36,286</u>
Fair value - end of year	<u>\$ (73,640)</u>	<u>\$ (72,418)</u>

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.

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**NOTE 7      LONG-TERM DEBT (Continued)**

Derivatives - (Continued)

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 6/30/2014 for the counter-parties are as follows:

<u>Rating Agency</u>	<u>Credit Ratings</u>	
	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Bank of America	A2	A
Wells Fargo	Aa3	AA -

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 2014 and FY 2013 were \$9,733 and \$10,200 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, 2014 and 2013, MSD's accrued liability for arbitrage rebate was \$0 and \$0 respectively.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

**NOTE 8      SHORT TERM DEBT**

A summary of short term debt activity is provided below:

- On November 6, 2013 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2013A Notes with an interest rate of 2.00%. The proceeds of the notes were used to refinance the 2012A Notes. The 2013A Notes mature on November 26, 2014.

A comparative summary of short term debt for the years ended June 30, 2014 and 2013 follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Short-term debt - beginning of year	\$ 228,691	\$ 226,340
Debt incurred	226,340	228,735
Principal paid on debt	(226,430)	(226,384)
Short-term debt - end of year	<u>\$ 228,601</u>	<u>\$ 228,691</u>

**NOTE 9      RETIREMENT PLAN AND POSTRETIREMENT BENEFITS**

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

Funding Policy: Plan members hired before September 1, 2008 are required to contribute 5% of 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, 2014, 2013, and 2012 were 18.89%, 19.55% and 18.96% 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, 2014, 2013 and 2012 were \$7,122, \$7,219 and \$7,156 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, 2014 and 2013, insurance premiums withheld from benefit payments for members of CERS were approximately \$27,800 each year.



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

**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 2014, the LAGIT Trust did not make any MSD claim payments.

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.

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Liability - beginning of year	\$ 1,832	\$ 1,757	\$ 1,723
Claims and changes in estimates	760	1,433	977
Payments	<u>(864)</u>	<u>(1,358)</u>	<u>(943)</u>
Liability - end of year	<u>\$ 1,728</u>	<u>\$ 1,832</u>	<u>\$ 1,757</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 (2012-2014), 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 and \$112 on another MSD hail claim that exceeded MSD's deductibles under the Trusts. There have been no changes in MSD's self-insurance coverage from the prior year.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

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**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.

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, 2014 and 2013 was \$2,544 and \$3,101, 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 called for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. In a letter dated June 6, 2014, MSD requested approval from the

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
*(Dollars in thousands)*

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KEPPC and the EPA for the IOAP 2012 Modifications, dated May 2014. The IOAP 2012 Modifications represents a revision to 28 separate projects set forth in the original IOAP, dated September 30, 2009. The IOAP Modifications were approved and will supersede and replace the 2009 IOAP. 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 effect 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, 2014, amounted to \$108,823, and was \$46,450 at June 30, 2013.

**NOTE 13      SUBSEQUENT EVENTS**

On August 1, 2014, MSD's rates for wastewater and stormwater charges increased by 5.5%.

MSD plans to issue \$80,000 of Revenue Bonds in November 2014 to fund capital projects.

MSD plans to issue \$226,340 of Bond Anticipation Notes in November 2014 to refinance the 2013A Notes.

## 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>	43
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>	44
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>	48
This schedule contains information to help readers assess MSD's most significant revenue sources.	
<i>Operating Information</i>	49
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>	52
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)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Revenues:</b>										
Service charges	\$ 214,056	\$ 205,222	\$ 190,482	\$ 183,297	\$ 168,610	\$ 163,004	\$ 156,889	\$ 126,490	\$ 122,643	\$ 113,561
Other operating income	2,576	4,823	1,756	2,379	2,980	4,552	4,394	5,966	7,122	9,288
Assessments	2,129	2,392	2,405	2,740	7,093	4,387	2,251	8,237	6,796	10,731
Investment income	20,330	20,119	40,687	33,700	36,045	25,568	6,085	8,417	5,558	14,503
Less: capitalized investment income	-	(3,817)	(1,851)	(12,134)	(5,990)	-	(1,190)	(3,747)	(1,594)	(6,245)
<b>Total revenues</b>	<b>239,091</b>	<b>228,739</b>	<b>233,479</b>	<b>209,982</b>	<b>208,738</b>	<b>197,511</b>	<b>168,429</b>	<b>145,363</b>	<b>140,525</b>	<b>141,838</b>
<b>Operating expenses:</b>										
Service and administrative costs	106,921	108,041	108,325	107,307	101,068	93,935	96,845	89,194	86,433	78,835
Less: capitalized project costs	(33,568)	(33,110)	(33,200)	(30,308)	(28,129)	(25,257)	(26,510)	(25,715)	(25,387)	(25,286)
<b>Total operating expenses</b>	<b>73,353</b>	<b>74,931</b>	<b>75,125</b>	<b>76,999</b>	<b>72,939</b>	<b>68,678</b>	<b>70,335</b>	<b>63,479</b>	<b>61,046</b>	<b>53,549</b>
<b>Net revenues</b>	<b>165,738</b>	<b>153,808</b>	<b>158,354</b>	<b>132,983</b>	<b>135,799</b>	<b>128,833</b>	<b>98,094</b>	<b>81,884</b>	<b>79,479</b>	<b>88,289</b>
<b>Aggregate debt service:</b>										
Current maturities of long-term debt	28,525	27,035	25,740	24,840	23,785	23,105	21,255	18,190	17,250	15,685
Interest expense	80,673	92,616	89,243	78,954	69,949	72,776	66,918	70,548	66,162	72,395
Less: capitalized interest expense	(19,103)	(26,358)	(26,384)	(25,195)	(13,910)	-	(10,530)	(14,140)	(15,758)	(26,603)
<b>Aggregate net debt service</b>	<b>\$ 90,035</b>	<b>\$ 93,293</b>	<b>\$ 88,599</b>	<b>\$ 78,599</b>	<b>\$ 79,824</b>	<b>\$ 95,881</b>	<b>\$ 77,643</b>	<b>\$ 74,598</b>	<b>\$ 67,654</b>	<b>\$ 61,477</b>
<b>Debt service coverage ratio</b>	<b>184%</b>	<b>165%</b>	<b>179%</b>	<b>169%</b>	<b>170%</b>	<b>134%</b>	<b>126%</b>	<b>110%</b>	<b>117%</b>	<b>144%</b>

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  
JUNE 30  
(\$ in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Current Assets:</b>										
Unrestricted cash and cash equivalents	\$ 84,780	\$ 66,376	\$ 12,040	\$ 34,508	\$ 24,700	\$ 22,552	\$ 10,524	\$ 1,912	\$ 17,198	\$ 28,732
Unrestricted investments	100	100	100	100	100	7,733	14,379	24,935	18,645	7,163
Restricted cash and cash equivalents	39,507	62,249	227,327	112,559	58,923	35,988	105,299	3,133	24	65,423
Restricted investments	121,216	90,574	94,639	294,868	394,880	61,303	27,202	73,801	134,850	33,934
Accounts receivable	21,809	18,485	16,666	17,789	15,779	18,065	16,732	15,398	17,401	13,716
Inventories	3,808	3,579	3,484	3,435	3,110	3,027	3,020	3,091	2,874	3,090
Prepaid expenses and other current assets	2,636	2,110	1,862	2,841	2,513	1,965	2,020	1,181	1,359	803
<b>Total current assets</b>	<b>273,856</b>	<b>243,453</b>	<b>356,118</b>	<b>466,100</b>	<b>500,005</b>	<b>150,633</b>	<b>179,176</b>	<b>123,451</b>	<b>192,351</b>	<b>152,861</b>
<b>Long-term receivables</b>	<b>18,358</b>	<b>17,549</b>	<b>18,917</b>	<b>21,260</b>	<b>22,527</b>	<b>25,146</b>	<b>26,334</b>	<b>28,749</b>	<b>27,778</b>	<b>29,712</b>
<b>Unamortized bond issuance costs</b>	<b>17,143</b>	<b>18,713</b>	<b>16,959</b>	<b>15,351</b>	<b>13,418</b>	<b>74,477</b>	<b>32,705</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plant, Lines and Other facilities:</b>										
Completed projects	2,753,762	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
Less: Accumulated depreciation	(946,427)	(884,199)	(825,205)	(768,423)	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)
	1,807,335	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
<b>Construction in progress</b>	<b>483,167</b>	<b>371,816</b>	<b>370,350</b>	<b>272,850</b>	<b>140,134</b>	<b>182,711</b>	<b>136,695</b>	<b>193,420</b>	<b>211,761</b>	<b>297,705</b>
<b>Net plant, lines and other facilities</b>	<b>2,270,502</b>	<b>2,190,065</b>	<b>2,105,548</b>	<b>2,002,782</b>	<b>1,851,337</b>	<b>1,816,737</b>	<b>1,789,812</b>	<b>1,764,556</b>	<b>1,733,724</b>	<b>1,694,956</b>
<b>Total assets</b>	<b>\$ 2,577,859</b>	<b>\$ 2,469,780</b>	<b>\$ 2,497,542</b>	<b>\$ 2,505,493</b>	<b>\$ 2,387,287</b>	<b>\$ 2,066,993</b>	<b>\$ 2,028,027</b>	<b>\$ 1,916,756</b>	<b>\$ 1,953,853</b>	<b>\$ 1,877,529</b>
<b>Deferred outflow of resources</b>	<b>17,811</b>	<b>13,511</b>	<b>15,176</b>	<b>16,842</b>	<b>18,507</b>	<b>14,743</b>	<b>16,020</b>	<b>19,859</b>	<b>21,779</b>	<b>22,699</b>
<b>Total assets and deferred outflows</b>	<b>\$ 2,595,670</b>	<b>\$ 2,483,291</b>	<b>\$ 2,512,718</b>	<b>\$ 2,522,335</b>	<b>\$ 2,405,794</b>	<b>\$ 2,081,736</b>	<b>\$ 2,044,047</b>	<b>\$ 1,936,615</b>	<b>\$ 1,975,632</b>	<b>\$ 1,900,228</b>

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY  
METROPOLITAN SEWER DISTRICT  
COMPARATIVE STATEMENT OF NET POSITION  
JUNE 30  
(\$ in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Liabilities:</b>										
<b>Current liabilities (payable from current assets):</b>										
Accounts payable and accrued expenses	\$ 13,653	\$ 12,693	\$ 16,470	\$ 15,732	\$ 11,141	\$ 11,035	\$ 10,548	\$ 16,639	\$ 22,619	\$ 17,781
<b>Total current liabilities (payable from current assets)</b>	<b>13,653</b>	<b>12,693</b>	<b>16,470</b>	<b>15,732</b>	<b>11,141</b>	<b>11,035</b>	<b>10,548</b>	<b>16,639</b>	<b>22,619</b>	<b>17,781</b>
<b>Current liabilities (payable from restricted assets):</b>										
Accounts payable and accrued expenses	14,712	16,168	12,656	15,105	13,692	7,735	5,250	4,239	1,072	5,863
Accrued interest	12,834	12,458	13,959	12,360	14,701	8,143	8,597	10,824	10,456	9,768
Subordinated Debt	228,601	228,691	226,340	226,340	452,680					
Current maturities of bonds payable	28,525	27,035	25,740	24,840	23,785	23,105	21,255	18,190	17,250	15,685
Refundable Deposits	1,568	1,137	1,013	1,341	1,622	3,478	4,209			
<b>Total Current liabilities (payable from restricted assets)</b>	<b>286,240</b>	<b>285,489</b>	<b>279,708</b>	<b>279,986</b>	<b>506,480</b>	<b>42,461</b>	<b>39,311</b>	<b>33,253</b>	<b>28,778</b>	<b>31,316</b>
<b>Non-current liabilities:</b>										
Bonds payable	1,549,700	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
Unamortized debt premium/discount	60,263	56,764	45,841	25,646	9,562	8,912	16,685	14,312	14,975	15,637
Other long-term liabilities	761	973	5,663	5,561	1,630	2,114	2,375	2,632	2,890	3,117
<b>Total long-term debt</b>	<b>1,610,724</b>	<b>1,535,962</b>	<b>1,588,274</b>	<b>1,622,877</b>	<b>1,313,192</b>	<b>1,396,211</b>	<b>1,440,885</b>	<b>1,344,039</b>	<b>1,363,650</b>	<b>1,282,419</b>
<b>Total liabilities</b>	<b>1,910,617</b>	<b>1,834,144</b>	<b>1,884,452</b>	<b>1,918,595</b>	<b>1,830,813</b>	<b>1,449,707</b>	<b>1,490,744</b>	<b>1,393,931</b>	<b>1,415,047</b>	<b>1,331,516</b>
<b>Deferred inflow of resources</b>	<b>82,293</b>	<b>82,233</b>	<b>119,680</b>	<b>67,948</b>	<b>82,185</b>	<b>74,942</b>	<b>2,784</b>	<b>(8,690)</b>	<b>(8,878)</b>	<b>(9,563)</b>
<b>Net position:</b>										
Net investment in capital assets	368,346	365,225	313,575	363,334	450,753	470,445	478,833	479,305	489,973	497,314
Restricted for payment of bond principal & interest	148,451	136,939	157,002	141,217	334,186	100,225	135,537	7,034	8,927	14,133
Unrestricted	85,963	64,750	38,009	31,241	(292,143)	(13,583)	(63,851)	65,035	70,563	66,828
<b>Total net position</b>	<b>602,760</b>	<b>566,914</b>	<b>508,586</b>	<b>535,792</b>	<b>492,796</b>	<b>557,087</b>	<b>550,519</b>	<b>551,374</b>	<b>569,463</b>	<b>578,275</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 2,595,670</b>	<b>\$ 2,483,291</b>	<b>\$ 2,512,718</b>	<b>\$ 2,522,335</b>	<b>\$ 2,405,794</b>	<b>\$ 2,081,736</b>	<b>\$ 2,044,047</b>	<b>\$ 1,936,615</b>	<b>\$ 1,975,632</b>	<b>\$ 1,900,228</b>

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Operating revenue:</b>										
Wastewater service charges	\$ 165,599	\$ 159,791	\$ 149,626	\$ 145,880	\$ 133,853	\$ 130,661	\$ 125,782	\$ 96,594	\$ 93,907	\$ 87,653
Stormwater service charges	48,457	45,431	40,856	37,417	34,757	32,343	31,107	29,896	28,736	25,908
Other operating income	2,576	4,823	1,756	2,379	2,980	4,552	4,394	5,956	7,122	9,288
<b>Total operating revenue</b>	<b>216,632</b>	<b>210,045</b>	<b>192,238</b>	<b>185,676</b>	<b>171,590</b>	<b>167,556</b>	<b>161,283</b>	<b>132,446</b>	<b>129,765</b>	<b>122,849</b>
<b>Operating expenses:</b>										
Service and administrative costs	106,921	108,041	108,326	107,307	101,068	93,935	96,845	90,157	86,433	78,835
Capitalization/recovery of cost	(33,568)	(32,200)	(30,860)	(30,472)	(28,129)	(24,401)	(26,510)	(26,678)	(25,387)	(25,286)
Capitalized overhead (over) under applied	-	(910)	(2,340)	164	(2,988)	(856)	-	-	-	-
Depreciation and amortization	63,516	60,335	60,527	58,741	58,513	56,727	55,363	52,177	51,174	43,161
<b>Total operating expenses</b>	<b>136,869</b>	<b>135,266</b>	<b>135,653</b>	<b>135,740</b>	<b>128,464</b>	<b>125,405</b>	<b>125,698</b>	<b>115,656</b>	<b>112,220</b>	<b>96,710</b>
<b>Income from operations</b>	<b>79,763</b>	<b>74,779</b>	<b>56,585</b>	<b>49,936</b>	<b>43,126</b>	<b>42,151</b>	<b>35,585</b>	<b>16,790</b>	<b>17,545</b>	<b>26,139</b>
<b>Non-operating revenue (expense):</b>										
Gain (loss) on disposal of assets	-	45	(19)	194	-	(64)	(122)	-	-	-
Investment Income	20,330	16,301	40,687	33,700	36,045	25,568	4,895	4,670	3,964	8,259
Interest expense - bonds	(80,613)	(92,616)	(89,243)	(78,954)	(69,949)	(69,893)	(56,386)	(56,408)	(50,404)	(45,792)
Interest expense - swaps	(9,733)	(10,200)	(11,235)	(11,627)	(8,815)	(2,883)	-	-	-	-
Interest expense - other	115	241	437	(1,833)	(3,723)	-	-	-	-	-
Capitalized Interest	19,103	26,358	26,384	25,195	13,910	-	-	-	-	-
Decrease upon hedge termination	-	-	-	-	(58,556)	-	-	-	-	-
Change in fair values - swaps	(1,222)	36,286	(52,897)	22,638	(19,889)	-	-	-	-	-
<b>Total non-operating revenue (expenses)</b>	<b>(52,020)</b>	<b>(23,585)</b>	<b>(85,886)</b>	<b>(10,687)</b>	<b>(110,977)</b>	<b>(47,272)</b>	<b>(51,615)</b>	<b>(51,738)</b>	<b>(46,440)</b>	<b>(37,533)</b>
<b>Income / (loss) before contributions</b>	<b>27,743</b>	<b>51,194</b>	<b>(29,301)</b>	<b>39,249</b>	<b>(67,851)</b>	<b>(5,121)</b>	<b>(16,030)</b>	<b>(34,948)</b>	<b>(28,895)</b>	<b>(11,394)</b>
<b>Contributions</b>										
Property owner assessments	-	-	-	334	(545)	2,239	164	7,634	4,862	12,478
All other	8,103	7,134	2,095	3,413	4,105	9,450	15,011	9,225	15,221	15,388
<b>Change in net position</b>	<b>35,846</b>	<b>58,328</b>	<b>(27,206)</b>	<b>42,996</b>	<b>(64,291)</b>	<b>6,568</b>	<b>(855)</b>	<b>(18,089)</b>	<b>(8,812)</b>	<b>16,472</b>
<b>Net position, beginning of year</b>	<b>566,914</b>	<b>508,586</b>	<b>535,792</b>	<b>492,796</b>	<b>557,087</b>	<b>550,519</b>	<b>551,374</b>	<b>569,463</b>	<b>578,275</b>	<b>561,803</b>
<b>Net position, end of year</b>	<b>\$ 602,760</b>	<b>\$ 566,914</b>	<b>\$ 508,586</b>	<b>\$ 535,792</b>	<b>\$ 492,796</b>	<b>\$ 557,087</b>	<b>\$ 550,519</b>	<b>\$ 551,374</b>	<b>\$ 569,463</b>	<b>\$ 578,275</b>



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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Cash flows from operating activities:</b>										
Cash received from customers	\$ 213,215	\$ 207,905	\$ 193,446	\$ 182,976	\$ 171,641	\$ 166,123	\$ 159,539	\$ 134,160	\$ 125,918	\$ 123,269
Cash paid to suppliers and employees	(73,175)	(79,926)	(76,077)	(72,566)	(72,426)	(66,297)	(72,227)	(69,536)	(56,548)	(45,851)
<b>Net cash provided by operating activities</b>	<b>140,040</b>	<b>127,979</b>	<b>117,369</b>	<b>110,410</b>	<b>99,215</b>	<b>99,826</b>	<b>87,312</b>	<b>64,624</b>	<b>69,370</b>	<b>77,418</b>
<b>Cash flows from capital and related financing activities:</b>										
Proceeds from issuance of revenue bonds	100,000	115,790	263,360	330,000	405,770	76,275	166,125	-	100,000	64,740
Proceeds from subordinated debt	226,340	228,735	226,340	226,340	452,680	-	-	-	-	-
Capital contributed by governments, property owners & developers	8,103	7,134	2,095	3,747	3,560	11,689	15,174	16,861	1,460	2,838
Build America Bond Interest Income	10,096	10,986	10,986	7,978	2,260	-	-	-	-	-
Assessments receivable	1,695	1,833	1,930	1,676	2,998	557	2,703	(645)	-	-
Interest income - assessments	687	731	852	994	1,588	1,471	1,405	1,670	-	-
Principal paid on revenue bonds	(27,035)	(173,040)	(317,360)	(39,275)	(483,275)	(95,045)	(84,350)	(17,250)	(16,815)	(79,620)
Interest paid on revenue bonds	(91,719)	(98,944)	(94,240)	(86,191)	(70,192)	(69,063)	(69,145)	(70,180)	(65,474)	(26,751)
Acquisition and construction of capital assets	(121,962)	(113,049)	(119,581)	(172,455)	(87,545)	(75,504)	(81,044)	(65,669)	(67,035)	(109,200)
Retainage payable	725	(95)	(407)	4,639	955	(466)	430	(33)	-	-
Acquisition of non-operating property	(211)	(223)	(213)	(221)	(484)	(261)	(257)	(258)	-	-
Principal paid on subordinated debt	(226,430)	(226,384)	(226,340)	(452,680)	-	-	-	-	-	-
<b>Net cash (used in) provided from capital &amp; related financing activities</b>	<b>(119,711)</b>	<b>(246,526)</b>	<b>(252,578)</b>	<b>(175,448)</b>	<b>223,315</b>	<b>(150,347)</b>	<b>(48,959)</b>	<b>(135,504)</b>	<b>(47,864)</b>	<b>(147,993)</b>
<b>Cash flows from investing activities:</b>										
Restricted Investments	(30,642)	4,064	200,229	100,012	(333,577)	(34,101)	45,656	-	-	-
Unrestricted Investments	-	-	-	-	7,633	6,846	10,555	-	-	-
Assessment principal payments	-	-	-	-	-	-	-	-	8,621	10,301
Interest received on termination of swap agreement	-	-	-	-	-	-	-	-	-	(421)
Purchase of investment securities	-	-	-	-	-	-	-	(72,800)	(303,998)	(100,889)
Proceeds from sale and maturities of investment securities	-	-	-	-	-	-	-	137,908	177,341	110,070
Income received on investments	15,887	14,130	38,705	40,287	37,519	24,936	4,889	7,642	5,551	14,155
Interest expense - swap agreements	(9,733)	(10,200)	(11,235)	(11,627)	(8,832)	(4,166)	-	-	-	-
Unamortized premium on forward delivery agreement	(189)	(189)	(190)	(190)	(190)	(77)	1,399	-	-	-
Unamortized gain on termination of swap agreements	-	-	-	-	-	-	9,926	-	-	-
<b>Net cash (used in) provided from investing activities</b>	<b>(24,667)</b>	<b>7,805</b>	<b>227,509</b>	<b>128,482</b>	<b>(297,447)</b>	<b>(6,762)</b>	<b>72,425</b>	<b>72,750</b>	<b>(112,485)</b>	<b>33,216</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,338)</b>	<b>(110,742)</b>	<b>92,300</b>	<b>63,444</b>	<b>25,083</b>	<b>(57,283)</b>	<b>110,778</b>	<b>1,870</b>	<b>(90,979)</b>	<b>(37,359)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>128,625</b>	<b>239,367</b>	<b>147,067</b>	<b>83,623</b>	<b>58,540</b>	<b>115,823</b>	<b>5,045</b>	<b>3,176</b>	<b>94,155</b>	<b>131,514</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 124,287</b>	<b>\$ 128,625</b>	<b>\$ 239,367</b>	<b>\$ 147,067</b>	<b>\$ 83,623</b>	<b>\$ 58,540</b>	<b>\$ 115,823</b>	<b>\$ 5,045</b>	<b>\$ 3,176</b>	<b>\$ 94,155</b>

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Service charges:</b>										
<b>Wastewater service charges:</b>										
Residential	\$ 89,691	\$ 86,409	\$ 80,779	\$ 78,552	\$ 73,228	\$ 71,159	\$ 64,978	\$ 48,338	\$ 47,555	\$ 43,320
Commercial	58,812	57,192	53,116	46,598	42,741	42,312	38,935	28,892	27,619	25,274
Industrial	19,738	19,536	18,063	21,498	18,948	18,216	21,324	18,431	17,279	17,142
Other - net	2,611	2,267	2,219	1,847	1,756	1,601	2,382	1,993	1,454	1,917
Free sewer to Metro Government	(5,253)	(5,613)	(4,551)	(2,615)	(2,820)	(2,627)	(1,837)	(1,060)		
<b>Total wastewater service charges</b>	<b>165,599</b>	<b>159,791</b>	<b>149,626</b>	<b>145,880</b>	<b>133,653</b>	<b>130,661</b>	<b>125,782</b>	<b>96,594</b>	<b>93,907</b>	<b>87,653</b>
<b>Stormwater service charges:</b>										
Residential	18,522	17,372	15,907	14,776	13,613	12,709	12,198	11,617	11,205	10,304
Commercial	27,910	26,123	23,017	20,862	19,433	18,012	17,276	16,741	15,683	13,854
Industrial	3,112	2,956	2,575	2,351	2,189	2,064	1,988	1,930	1,848	1,750
Free drainage to Metro Government	(1,087)	(1,020)	(643)	(572)	(478)	(442)	(355)	(392)		
<b>Total stormwater service charges</b>	<b>48,457</b>	<b>45,431</b>	<b>40,856</b>	<b>37,417</b>	<b>34,757</b>	<b>32,343</b>	<b>31,107</b>	<b>29,896</b>	<b>28,736</b>	<b>25,908</b>
<b>Total service charges</b>	<b>214,056</b>	<b>205,222</b>	<b>190,482</b>	<b>183,297</b>	<b>168,610</b>	<b>163,004</b>	<b>156,889</b>	<b>126,490</b>	<b>122,643</b>	<b>113,561</b>
<b>Other operating income:</b>										
Capacity charges	1,620	1,624	335	446	564	820	2,521	2,538	4,772	6,925
Connection fees	133	93	64	71	68	47	172	146	220	411
Regional facilities fees	-	-	-	-	-	-	-	(11)	357	513
Reserve capacity charges	-	64	-	-	11	28	37	5	22	40
Wastewater miscellaneous	323	2,984	1,299	1,804	2,279	3,599	1,606	3,220	1,693	1,342
Stormwater miscellaneous	-	58	58	58	58	58	58	58	58	57
<b>Total other operating income</b>	<b>2,576</b>	<b>4,823</b>	<b>1,756</b>	<b>2,379</b>	<b>2,980</b>	<b>4,552</b>	<b>4,394</b>	<b>5,956</b>	<b>7,122</b>	<b>9,288</b>
<b>Total operating revenue</b>	<b>\$ 216,632</b>	<b>\$ 210,045</b>	<b>\$ 192,238</b>	<b>\$ 185,676</b>	<b>\$ 171,590</b>	<b>\$ 167,556</b>	<b>\$ 161,283</b>	<b>\$ 132,446</b>	<b>\$ 129,765</b>	<b>\$ 122,849</b>

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Service and administrative costs:</b>										
Labor	\$ 55,356	\$ 55,028	\$ 55,010	\$ 56,358	\$ 52,945	\$ 49,354	\$ 49,431	\$ 47,079	\$ 42,287	\$ 40,948
Utilities	14,563	12,821	14,555	13,853	11,879	10,818	12,989	10,976	12,518	10,119
Materials and supplies	8,151	8,990	8,972	9,043	9,031	8,742	8,707	8,197	7,745	6,625
Professional services	1,932	3,942	2,416	2,624	2,363	2,730	3,126	2,797	2,543	2,698
Maintenance and repairs	9,096	10,866	11,090	10,054	8,847	9,675	8,926	8,035	7,762	5,874
Billing and collections	4,095	4,904	4,309	4,318	4,461	3,623	5,319	2,889	3,869	3,371
Chemicals and fuel	5,143	5,907	5,714	5,702	6,099	5,687	5,148	4,825	5,088	4,099
Biosolids disposal	1,795	1,709	1,759	2,035	2,186	2,063	1,661	1,412	1,554	1,451
All other	7,238	4,369	4,901	3,694	3,638	2,817	2,800	3,947	3,067	3,650
<b>Gross service and administrative costs</b>	<b>107,369</b>	<b>108,536</b>	<b>108,726</b>	<b>107,681</b>	<b>101,449</b>	<b>95,509</b>	<b>98,107</b>	<b>90,157</b>	<b>86,433</b>	<b>78,835</b>
<b>Less: Recovery of cost</b>										
Capitalized project cost	(33,568)	(33,110)	(33,200)	(30,472)	(28,129)	(24,401)	(26,510)	(25,715)	(24,450)	(24,419)
Revenue recoveries	(448)	(495)	(400)	(374)	(381)	(1,574)	(1,262)	(963)	(937)	(867)
<b>Recovery of cost</b>	<b>(34,016)</b>	<b>(33,605)</b>	<b>(33,600)</b>	<b>(30,846)</b>	<b>(28,510)</b>	<b>(25,975)</b>	<b>(27,772)</b>	<b>(26,678)</b>	<b>(25,387)</b>	<b>(25,286)</b>
<b>Net service and administrative costs</b>	<b>\$ 73,353</b>	<b>\$ 74,931</b>	<b>\$ 75,126</b>	<b>\$ 76,835</b>	<b>\$ 72,939</b>	<b>\$ 69,534</b>	<b>\$ 70,335</b>	<b>\$ 63,479</b>	<b>\$ 61,046</b>	<b>\$ 53,549</b>

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Completed projects</b>										
Sewer lines										
Wastewater treatment facilities	\$ 1,274,180	\$ 1,265,437	\$ 1,179,885	\$ 1,159,437	\$ 1,134,637	\$ 1,042,742	\$ 1,022,859	\$ 963,798	\$ 915,527	\$ 819,349
Stormwater drainage facilities	489,289	479,998	479,226	471,190	470,527	459,238	456,955	422,483	418,997	389,747
Pumping and lift stations	448,899	443,577	437,139	434,943	427,431	400,118	390,699	366,745	337,039	308,282
Administrative facilities	96,819	89,503	73,023	71,122	70,643	69,301	66,990	60,877	55,407	51,389
Maintenance facilities	49,342	49,317	46,068	46,078	45,561	45,561	45,561	45,347	45,347	45,239
Machinery, equipment and other	8,037	8,037	8,037	8,037	7,827	7,827	7,833	7,313	7,470	7,395
Capitalized interest	85,395	83,882	77,068	71,923	93,240	74,975	75,872	62,526	58,613	56,749
	301,800	282,697	260,157	235,624	222,564	214,644	214,644	220,690	211,362	196,725
<b>Total completed projects</b>	<b>2,753,761</b>	<b>2,702,448</b>	<b>2,560,403</b>	<b>2,498,354</b>	<b>2,472,430</b>	<b>2,314,406</b>	<b>2,281,413</b>	<b>2,149,779</b>	<b>2,049,762</b>	<b>1,874,875</b>
<b>Less accumulated depreciation</b>	<b>(946,426)</b>	<b>(884,199)</b>	<b>(825,205)</b>	<b>(768,423)</b>	<b>(734,552)</b>	<b>(680,380)</b>	<b>(628,296)</b>	<b>(578,643)</b>	<b>(527,799)</b>	<b>(477,624)</b>
<b>Total completed projects - net</b>	<b>1,807,335</b>	<b>1,818,249</b>	<b>1,735,198</b>	<b>1,729,931</b>	<b>1,737,878</b>	<b>1,634,026</b>	<b>1,653,117</b>	<b>1,571,136</b>	<b>1,521,963</b>	<b>1,397,251</b>
<b>Total construction in progress</b>	<b>463,167</b>	<b>371,816</b>	<b>370,350</b>	<b>272,850</b>	<b>140,134</b>	<b>182,711</b>	<b>136,695</b>	<b>193,420</b>	<b>211,761</b>	<b>297,705</b>
<b>Total net plant, lines and other facilities</b>	<b>\$ 2,270,502</b>	<b>\$ 2,190,065</b>	<b>\$ 2,105,548</b>	<b>\$ 2,002,781</b>	<b>\$ 1,878,012</b>	<b>\$ 1,816,737</b>	<b>\$ 1,789,812</b>	<b>\$ 1,764,556</b>	<b>\$ 1,733,724</b>	<b>\$ 1,694,956</b>

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY  
METROPOLITAN SEWER DISTRICT  
WASTEWATER TREATMENT PLANT CAPACITY  
YEARS ENDED JUNE 30  
(\$ in thousands)

Plant	Design Capacity	Avg Daily Flow	Eventual Capacity	Customer Base		Year Built	Treatment Process
	MGD	MGD	MGD	Residential	Commercial Industrial		
Morris Forman	120.0	92.9	120.0	122,935	14,674	410	138,019
Derek R. Guthrie*	30.0	32.3	45.0	61,456	3,826	24	65,306
Jeffersonton	4.0	3.6	4.0	5,844	891	14	6,749
Hile Creek	6.0	4.5	8.0	7,441	519	5	7,965
Cedar Creek	7.5	3.8	7.5	10,140	234	-	10,374
Floyd's Fork	6.5	2.7	9.8	7,270	323	1	7,594
13 Small WQTC**	2.6	1.3	-	4,046	121	-	4,167
Total treatment system	176.6	141.1	194.3	219,132	20,588	454	240,174

\* Formerly known as the West County WTP

\*\* Lake Forest / Chenoweth Run WQTC eliminated in July 2012

Source: MSD Engineering Department

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY  
METROPOLITAN SEWER DISTRICT  
GREATER LOUISVILLE/KENTUCKIANA  
EMPLOYERS OF 1,000 EMPLOYEES OR MORE

2014 Rank	2013 Rank	2012 Rank	2011 Rank	2010 Rank	2009 Rank	2008 Rank	2007 Rank	2006 Rank	2005 Rank	Type of business		
1	20,931	20,047	1	20,388	1	20,513	1	20,674	1	17,543	P Air cargo transport and distribution	
2	14,676	14,269	2	13,840	2	13,326	2	13,593	2	13,235	G Primary and secondary education	
3	12,371	11,235	3	10,917	3	10,095	3	9,854	3	5,950	P Group health insurance/HMOs	
4	10,245	9,866	4	9,421	4	8,693	4	7,690	4	7,783	N Hospital and health care facilities	
5	8,987	8,512	5	8,247	5	7,597	5	6,929	5	8,972	P Vehicle manufacturing	
6	6,230	6,000	6	3,988	6	5,824	6	5,396	6	5,000	P Appliance manufacturing	
7	6,161	5,187	7	5,746	7	4,000	7	5,000	7	5,000	G Higher education	
8	5,954	5,691	8	5,706	8	6,273	8	5,763	8	5,298	G City/County Government	
9	5,822	5,893	9	5,765	9	5,911	9	5,698	9	5,405	N Hospital and health care facilities	
10	5,417	5,152	10	5,819	10	6,500	10	5,229	10	5,907	P Grocery Retailer	
11	5,339	4,854	11	3,752	11	3,305	11	3,530	11	3,179	N Hospital and health care facilities	
12	4,942	4,151	12	4,488	12	4,253	12	4,535	12	4,952	G General purpose government	
13	2,546	2,509	13	2,653	13	2,626	13	2,653	13	2,674	G Mail distribution	
14	2,260	2,345	14	2,416	14	2,343	14	2,348	14	2,680	N Religious, educational, social services	
15	2,252	2,191	15	2,855	15	2,985	15	2,822	15	2,941	G General purpose government	
16	2,250	NR	16	2,297	16	2,153	16	3,093	16	2,342	P Food services provider	
17	2,249	17	2,297	17	2,224	17	2,079	17	2,349	17	2,342	P Long-term health care, facilities
18	2,178	18	2,086	18	1,976	18	1,902	18	1,337	18	1,412	P Gas & Electric Utility
19	1,768	1,711	19	1,546	19	1,473	19	1,409	19	1,337	P Hospital and health services provider	
20	1,703	1,799	20	1,671	20	1,728	20	1,409	20	1,337	G Hospital and health care facilities	
21	1,648	1,640	21	1,640	21	1,596	21	1,409	21	1,337	G Primary and secondary education	
22	1,633	1,626	22	1,626	22	1,596	22	1,409	22	1,337	G Primary and secondary education	
23	1,576	23	1,602	23	1,639	23	1,513	23	1,407	23	1,320	G Primary and secondary education
24	1,503	24	1,357	24	1,364	24	1,491	24	1,598	24	1,509	G Primary and secondary education
25	1,503	25	1,143	25	918	25	1,491	25	1,598	25	1,509	P Quick service restaurant
26	1,476	26	1,598	26	1,191	26	1,150	26	1,598	26	1,509	P Security Services
27	1,435	27	1,389	27	1,191	27	1,150	27	1,598	27	1,509	P Security Services
28	1,432	28	1,316	28	1,387	28	1,860	28	1,639	28	1,639	P Home improvement Retailer
29	1,404	29	1,418	29	1,387	29	1,860	29	1,639	29	1,639	P Trade, professional, special printing
30	1,270	30	1,544	30	1,437	30	1,697	30	1,855	30	1,918	P Gaming and entertainment resort
31	1,256	31	1,244	31	1,553	31	2,076	31	2,219	31	2,195	P Food services provider
32	1,139	32	1,100	32	1,196	32	1,081	32	1,317	32	1,075	P Distilled spirits manufacturing
33	1,129	33	1,122	33	1,150	33	1,381	33	1,438	33	1,687	P Health insurance sales and services
34	1,085	34	1,215	34	1,276	34	1,391	34	1,358	34	1,575	P Health insurance sales and services
35	1,054	35	1,111	35	1,167	35	1,110	35	1,100	35	1,159	N Health care provider
36	1,050	36	1,468	36	3,105	36	2,491	36	1,638	36	1,672	G General purpose government
												P Health care provider
												P Hotel / Restaurants
	144,255	138,954	122,832	116,319	118,461	116,600	114,748	115,898	112,146	110,235		

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

Sources: Business First of Louisville, KY

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY  
METROPOLITAN SEWER DISTRICT  
LOUISVILLE/JEFFERSON COUNTY PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO

Employer	Employees	2014 Rank	Percentage of Total Employment	Employer	Employees	2005 Rank	Percentage of Total Employment
United Parcel Service, Inc.	20,047	1	3.30%	United Parcel Service, Inc.	17,543	1	3.00%
Jefferson County, KY Public Schools	14,269	2	2.35%	Jefferson County, KY Public Schools	13,235	2	2.25%
Humana, Inc.	11,235	3	1.85%	Ford Motor Company	8,972	3	1.53%
Norton Healthcare (formerly Alliant Health)	9,866	4	1.59%	Norton Healthcare (formerly Alliant Health)	8,525	4	1.46%
Kentucky One Health Inc (formerly Jewish Hosp)	8,893	5	1.46%	Louisville-Jefferson County Metro Government	5,893	5	1.01%
Ford Motor Company	8,512	6	1.40%	Humana, Inc.	5,850	6	1.00%
University of Louisville	6,187	7	1.02%	Kentucky One Health Inc (formerly Jewish Hosp)	5,405	7	0.92%
General Electric Company	6,000	8	0.99%	University of Louisville	5,236	8	0.89%
Louisville-Jefferson County Metro Government	5,651	9	0.93%	General Electric Company	5,000	9	0.85%
The Kroger Company	5,152	10	0.85%	Commonwealth of Kentucky	4,952	10	0.85%
Total	95,612		15.75%		80,611		13.77%

Total Employment (MSA) Louisville, KY-IN 607,080

Total Employment (MSA) Louisville, KY-IN 585,530

Source: Business First of Louisville  
Workforce Kentucky

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY  
 METROPOLITAN SEWER DISTRICT  
 RATIO OF OUTSTANDING DEBT AND MISC. DEMOGRAPHIC INFORMATION  
 YEARS ENDED JUNE 30  
 (\$ 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
2005	\$ 1,279,350	\$ -	\$ 1,279,350	710,018	\$ 26,913,343	4.75%	6.00%	607	220,599	3,035
2006	1,363,035	-	1,363,035	715,149	28,754,463	4.74%	5.70%	612	222,698	3,099
2007	1,345,285	-	1,345,285	723,040	29,594,360	4.55%	5.10%	614	224,654	3,133
2008	1,443,080	-	1,443,080	730,194	30,196,557	4.78%	6.40%	625	226,430	3,200
2009	1,408,290	-	1,408,290	736,705	29,191,601	4.82%	10.40%	633	226,711	3,197
2010	1,325,785	452,680	1,778,465	742,324	29,921,911	5.94%	9.80%	651	228,580	3,207
2011	1,616,510	226,340	1,842,850	746,372	31,154,544	5.92%	9.9%	655	230,240	3,200
2012	1,562,510	226,340	1,788,850	750,828	32,592,092	5.49%	8.4%	666	235,136	3,232
2013	1,505,260	226,340	1,731,600	756,980	N/A	N/A	8.3%	649	239,334	3,240
2014	1,578,225	226,340	1,804,565	N/A	N/A	N/A	6.8%	606	240,174	3,263

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  
METROPOLITAN SEWER DISTRICT  
TOP 10 WASTEWATER AND STORMWATER CUSTOMERS  
CURRENT YEAR AND NINE YEARS AGO

Rank	Customer Name	FY '14 Wastewater Billed	Percent Total Wastewater Revenue	Customer Name	FY '05 Wastewater Billed	Percent Total Wastewater Revenue
1	Lubrizol Advanced Material***	\$ 2,403,315	1.45%	Protein Technologies	\$ 2,743,539	3.13%
2	Early Times Distillery	\$ 1,993,992	1.20%	E.I. Dupont	\$ 1,998,488	2.28%
3	Swift & Company	\$ 1,671,739	1.01%	Opta Food	\$ 1,402,448	1.60%
4	Heaven Hill Distilleries	\$ 1,479,429	0.89%	OXY Vinal	\$ 1,314,795	1.50%
5	Ford Motor Co.	\$ 1,443,638	0.87%	Ford Motor Co.	\$ 937,887	1.07%
6	Louisville Metro Housing Authority	\$ 1,297,997	0.78%	Lou. Metro Housing Auth.	\$ 867,765	0.99%
7	UPS Air District	\$ 1,108,602	0.67%	Jefferson Co. Bd. of Educ.	\$ 771,346	0.88%
8	Sunopta Ingredients Group	\$ 957,081	0.58%	Swift & Company	\$ 709,989	0.81%
9	General Electric	\$ 824,136	0.50%	Brown Forman Corp.	\$ 631,102	0.72%
10	BYK Additives Inc	\$ 444,961	0.27%	Rohm & Haas	\$ 613,571	0.70%
	Total	\$ 13,629,890	8.23%	Total	\$ 11,990,930	13.68%
	Total FY '14 Wastewater Revenue:	\$ 165,599,000		Total FY '05 Wastewater Revenue:	\$ 87,653,000	

Rank	Customer Name	FY '14 Stormwater Billed	Percent Total Stormwater Revenue	Customer Name	FY '05 Stormwater Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	\$ 1,152,439	2.38%	Regional Airport Authority	\$ 487,070	1.88%
2	United Parcel Service	\$ 611,250	1.26%	United Parcel Service	\$ 336,804	1.30%
3	Jeff Co Board of Education	\$ 498,098	1.03%	Ford Motor Company	\$ 248,717	0.96%
4	Ford Motor Company	\$ 397,235	0.82%	Jefferson Co. Bd. of Educ.	\$ 238,354	0.92%
5	KY State Fair Board	\$ 248,975	0.51%	University of Louisville	\$ 183,947	0.71%
6	Churchill Downs	\$ 226,679	0.47%	Churchill Downs	\$ 142,494	0.55%
7	LIT Industrial Limited Partnership**	\$ 200,558	0.41%	Trammell Crow Co.	\$ 124,358	0.48%
8	U of L Belknap Campus	\$ 179,562	0.37%	KY State Fair Board	\$ 121,768	0.47%
9	Seaboard Syst RR-00822	\$ 168,402	0.35%	Norfolk Southern Corp.	\$ 108,814	0.42%
10	Lou/Jeff Cty Redev Auth	\$ 165,284	0.34%	Louisville Gas & Electric	\$ 106,223	0.41%
	Total	\$ 3,848,482	7.94%	Total	\$ 2,098,548	8.10%
	Total FY '14 Stormwater Revenue:	\$ 48,457,000		Total FY '05 Stormwater Revenue:	\$ 25,908,000	



*Providing Exceptional Wastewater,  
Drainage and Flood Protection Services  
for Our Community*



700 West Liberty Street  
Louisville, KY 40203-1911

24/7 Customer Relations  
502-587-0603

[LouisvilleMSD.org](http://LouisvilleMSD.org)

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