

LOUISVILLE AND
JEFFERSON COUNTY
METROPOLITAN
SEWER DISTRICT

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2011



LOUISVILLE, KENTUCKY USA
A COMPONENT UNIT OF THE
LOUISVILLE KY METRO GOVERNMENT

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

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

***COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT***

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**Prepared by the Division of Budget and Finance
Maria B. Mullaney, Interim Director**

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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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*

November 28, 2011

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, 2011 ("2011") 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 2011 was \$3.2 million.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County, which, with a 2010 population of approximately 741,096, 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 2011 to 594,959; an increase of 15,864 from the June 2010 level of 579,095. The June 2011 unemployment rate for the Louisville MSA was 9.5% compared to a national average of 9.3% and a state average of 9.7% for this same time period.

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

Despite the economic downturn in recent years, there has still been development and a number of notable accomplishments in Metro Louisville. The KFC Yum! Center, Louisville's new downtown arena, officially opened in October 2010. The arena cost \$238 million to build and will be home to the University of Louisville's basketball teams. The arena is also available for other events such as concerts and conventions. In August 2010, Governor Beshear and Mayor Abramson announced a \$10 million commitment to the Parklands of Floyd's Fork, a project to create a new system of public parks covering approximately 4,000 acres in Jefferson County. In September 2010, developers broke ground on a \$55 million apartment and retail complex at Third Street and Cardinal Boulevard. This new development adjacent to the University of Louisville includes living space for 373 students, as well as restaurants and retail stores.

Despite the national real estate slump, demand for Louisville residential properties continues to remain steady in 2011. In 2011, Forbes magazine ranked Louisville as the second best housing market in the United States.

Louisville's reputation as a great place to live and to conduct business continues to flourish. In 2011, Forbes magazine ranked Louisville as the fourteenth best city for business and careers. Business Facilities ranked Louisville tenth in the nation for economic growth potential, eighth in the nation as an alternative

energy industry leader, and ranked Louisville as having the 7th lowest cost of living among all major cities in its “Top 10 Metro” rankings in the July/August 2010 issue. Additionally, In 2011 Parenting magazine ranked Louisville in the top ten American cities to live and raise a family based on great schools, affordable homes, low crime rates, jobs and parkland.

During 2011, MSD continued to benefit from a diversified customer base. Fifty-four percent (54%) of its service charge revenue came from residential customers with the remaining forty-six percent (46%) coming from commercial and industrial customers. During 2011, sewer accounts increased by 1,660 or 0.7% to 230,240.

Major Initiatives

Project DRI — Drainage Response Initiative

Project DRI was conceived of as a way to more effectively move drainage projects from concept to construction. The basic idea is eliminating the time consuming and extremely expensive process of a traditional formal design. By utilizing experienced project managers, construction inspectors and contractors, MSD can bid and build most drainage projects on an accelerated schedule. The two advantages to this approach are the speed at which the projects can be built, and the fact that the limited drainage resources are being used almost entirely for actual construction. The first phase of Project DRI began in early 2003. This phase committed \$67 million to address the most severe problems on record. The effort included 428 capital drainage projects constructed by private contractors, and 2,592 work orders completed by MSD crews during a period of 2½ years. The endeavor was a huge success because it resolved drainage problems for thousands of Louisville Metro residents. Phase 2 of Project DRI started in June 2005 with the next cycle of 374 capital projects at a value of \$35 million, as well as 1,641 maintenance work orders for an additional \$20 million. Phase 2 began to address chronic standing water problems in older subdivisions with inadequate or nonexistent storm collection systems. The third phase of Project DRI began in January 2008 and will extend through the summer of 2012. This phase involves investing another \$25 million in Louisville Metro drainage infrastructure. The fourth phase of Project DRI, which is scheduled to start in July 2012, will keep building on the previous success of the program.

Project WIN – Waterway Improvements Now

Project WIN is a comprehensive sewer improvement plan designed to meet the requirements of the consent decree that MSD signed with the Commonwealth of Kentucky’s Environmental and Public Protection Cabinet (“KEPPC”) and the U.S. Environmental Protection Agency (“EPA”) in 2005. It includes the implementation of sewer improvement projects to minimize the impact of combined sewer

overflows, eliminate sanitary sewer overflows, and rehabilitate the community's aging sewer system. In addition, it also involves keeping the public informed of potential health risks, financial impacts, and construction project activity. Project WIN is estimated to cost approximately \$850 million over a twenty-year period. In April 2009, MSD entered into an amended consent decree to address sanitary sewer overflows and unauthorized discharges from MSD's sanitary sewer system, combined sewer system, water quality treatment centers, and discharges from MSD's combined sewer overflow locations identified in the Kentucky Pollutant Discharge Elimination System permit for the Morris Forman Water Quality Treatment Center ("WQTC").

"Green" Infrastructure Projects

During the fourth quarter of 2008, MSD submitted detailed plans to the KEPPC and the EPA outlining the capital improvement program designed to minimize and/or abate overflows. In September 2009, MSD received preliminary approval to proceed with the projects identified in the plans. These plans call for MSD to invest in both "green" and traditional concrete infrastructure, which will work to increase the amount of stormwater absorbed into the ground thus reducing the amount of sewage overflow into area streams. Planned green infrastructure projects will be evaluated for determining the total benefit received by MSD and the community based on the size of various technologies used. MSD believes that "green" infrastructure projects will be as effective as traditional concrete or "gray" infrastructure projects but they can be constructed at a lower cost. To date, 22% of the conveyance, storage and water treatment infrastructure projects are either bid, under construction or completed.

System Inspections

MSD is entering its third year of proactively inspecting its entire 3,200-mile sewer system during a 10-year period. In the past two years, MSD has inspected approximately 615 miles of sewer through closed-circuit television and other means. We have additionally begun rehabilitating the most deteriorated sewer lines, as well as cleaning and performing root and grease removal on those lines indicating the need. MSD also monitors industrial waste that discharges into the sewer system and could negatively impact the system. Of 286 pumping stations, 80 targeted station investigations and performance tests have helped identify poorly functioning equipment and prompted repair or replacement. Coupled with sewer and manhole inspection, MSD is ensuring that the sewer collection system is able to convey as much water as possible. This conveyance performance will keep improving as the inspection, maintenance and rehabilitation programs continue.

Eliminations

MSD is committed to eliminating smaller water quality treatment centers by diverting wastewater to regional treatment centers in an effort to improve the water quality of receiving streams in the Louisville Metro area. The Yorktown WQTC was eliminated as part of the Northern Ditch Project. Flow was diverted to the Guthrie WQTC in December 2010. Future eliminations to meet Amended Consent Decree requirements include the elimination of Prospect treatment plants by diverting flow to the Hite Creek WQTC.

Factors Affecting Financial Condition

Investment Policy and Performance

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

Gross investment income in 2011 was \$33.7 million compared to gross earnings of \$36.0 million in 2010.

Other Information

Independent Audit

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. A joint venture of Crowe Horwath, LLP and Janice Porter, CPA, was selected by the MSD Board to conduct the 2011 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MSD's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The auditors' opinion and report on the basic financial statements is included in the Financial Section of this report.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MSD for the 21st consecutive time for its CAFR for the year ended June 30, 2010. In order to be awarded a Certificate of Achievement, MSD published an easily readable and efficiently organized CAFR. The report satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,

A handwritten signature in dark ink, reading "Maria B. Mullaney". The signature is written in a cursive, flowing style with a prominent loop at the end of the last name.

Maria B. Mullaney

Interim Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Louisville and Jefferson County
Metropolitan Sewer District
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

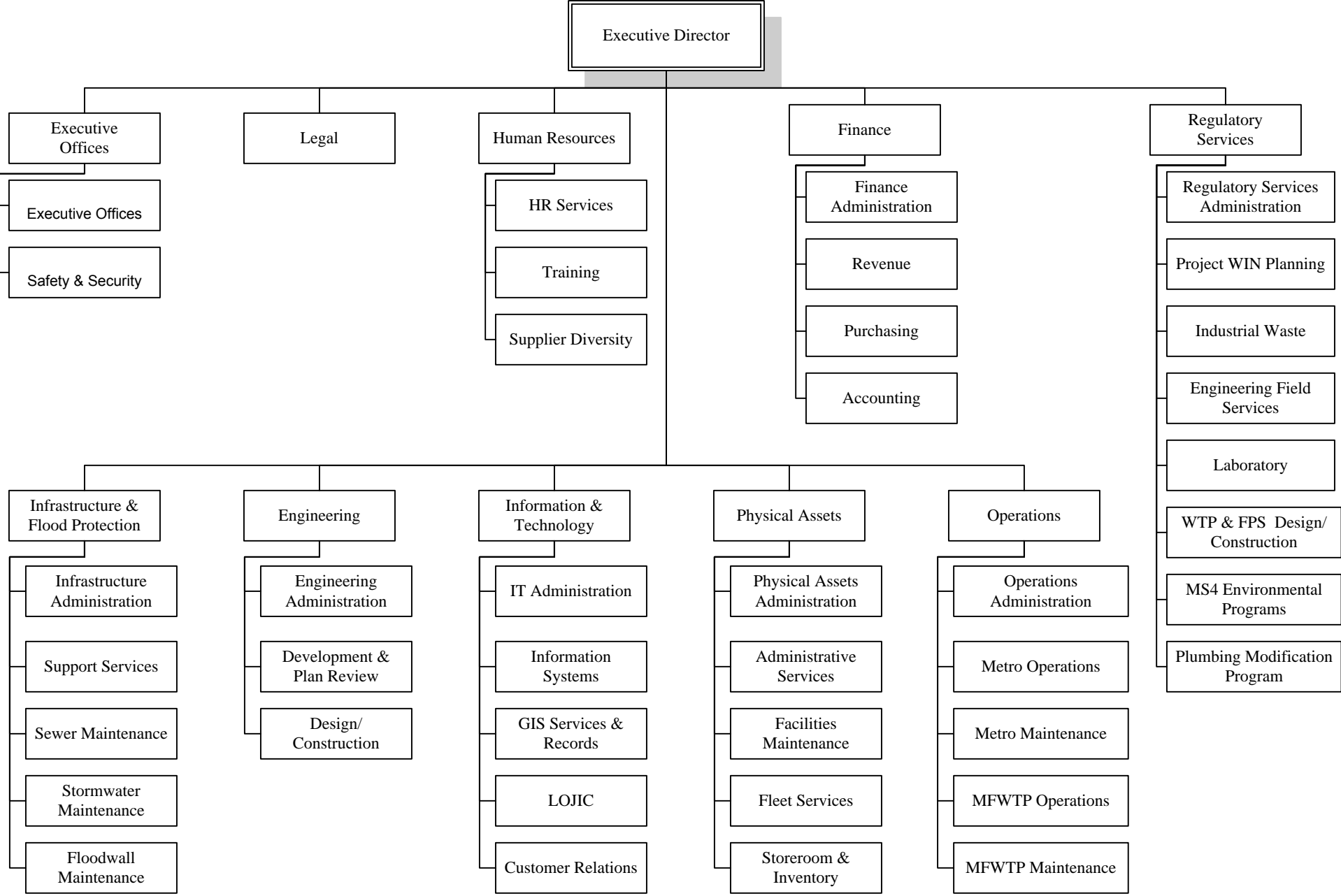
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Louisville and Jefferson County
Metropolitan Sewer District
Organization Chart



MSD BOARD

Arnold J. Celentano, Chairperson

Benjamin K. Richmond, Vice Chairperson

Tom Austin
Jerome L. Clark
James Craig

Marvin D. Stacy
Charles E. Weiter
Yvonne Wells-Hatfield

Herbert J. Schardein, Jr., Secretary/Treasurer

PRINCIPAL OFFICERS

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

Mark Johnson, Director
Engineering

James Hunt, Director
Physical Assets

Paula Purifoy
Legal Counsel
Co-Human Resources Director

Bruce Seigle, Director
Information Technology

Alex Novak, Director
Operations

W. Brian Bingham, Director
Regulatory Management Services

Saeed Assef, Director
Infrastructure & Flood Protection

Dennis Thomasson, Director
Emergency Response & Metro Operations

Maria B. Mullaney, Interim Director
Finance

FINANCIAL OFFICERS

Maria B. Mullaney, Interim Chief Financial Officer

Maria B. Mullaney
Controller

Renee Thomas
Purchasing Manager

Sharon Dawson
Revenue Manager

Kim Decker
Budget Administrator

Jenni Schelling
Internal Auditor

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

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

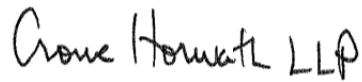
We have audited the accompanying financial statements of the Louisville and Jefferson County Metropolitan Sewer District, a component unit of the Louisville-Jefferson County Metro Government, as of June 30, 2011 and 2010 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Louisville and Jefferson County Metropolitan Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville and Jefferson County Metropolitan Sewer District, as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 12 through 18 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Louisville, Kentucky
November 15, 2011



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

Management's Discussion and Analysis

As management of the Louisville and Jefferson County Metropolitan Sewer District (MSD), we offer readers of MSD's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- MSD's net assets increased by \$43 million (8.7%) as a result of this year's operations
- Operating revenues increased by \$14.1 million (8.2%) to \$185.7 million.
- Operating expenses excluding depreciation increased by \$6.9 million (9.8%)
- Non-operating revenues (investment income) decreased by \$2.3 million (7.0%) and non-operating expenses decreased by \$97.8 million (88.1%).

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

The Statement of Net Assets

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(Continued)**

The Statement of Revenues, Expenses and Changes in Net Assets

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

The Statement of Cash Flows

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

Financial Information

MSD's net assets increased by \$43.0 million in FY 2011 to \$535.8 million.

MSD's total assets increased by approximately \$91.5 million in 2011. This overall increase can be attributed primarily to an increase in plant, lines and other facilities of \$124.8 million which was driven by increased construction activity and a decrease in current assets of \$33.9 million.

Total liabilities increased by \$48.5 million in 2011. This increase was due to the issuance of \$330 million of Build America Bonds in November 2010 to fund capital projects, offset by the retirement of bond anticipation notes of \$226 million in May 2011, and an increase in the fair value of swap agreements of \$22.6 million. In addition, current liabilities increased by \$4.6 million due to an increase in contract retainage.

Table 1 Condensed Statement of Net Assets (000's)							
	FY 2011	FY 2010	Prior Year Variance	%	FY 2009	Prior Year Variance	%
Unrestricted Current Assets	\$ 58,673	\$ 46,202	\$ 12,471	27.0%	\$ 53,342	\$ (7,140)	-13.4%
Restricted Current Assets	407,427	453,803	(46,376)	-10.2%	97,291	356,512	366.4%
Noncurrent Assets	2,039,393	1,913,957	125,436	6.6%	1,916,360	(2,403)	-0.1%
Total Assets	2,505,493	2,413,962	91,531	3.8%	2,066,993	346,969	16.8%
Current Liabilities	15,732	11,141	4,591	41.2%	11,035	106	1.0%
Current Liab. from Restr. Assets	279,986	506,480	(226,494)	-44.7%	42,461	464,019	1092.8%
Noncurrent Liabilities	1,673,983	1,403,545	270,438	19.3%	1,456,410	(52,865)	-3.6%
Total Liabilities	1,969,701	1,921,166	48,535	2.5%	1,509,906	411,260	27.2%
Invested in Capital Assets, net	432,689	450,754	(18,065)	-4.0%	470,445	(19,691)	-4.2%
Restricted Assets, net	411,841	455,899	(44,058)	-9.7%	100,225	355,674	354.9%
Unrestricted	(308,738)	(413,857)	105,119	-25.4%	(13,583)	(400,274)	2946.9%
Total Net Assets	535,792	492,796	42,996	8.7%	557,087	(64,291)	-11.5%
Total Liabilities and Net Assets	\$ 2,505,493	\$ 2,413,962	\$ 91,531	3.8%	\$ 2,066,993	346,969	16.8%

Results of Operations

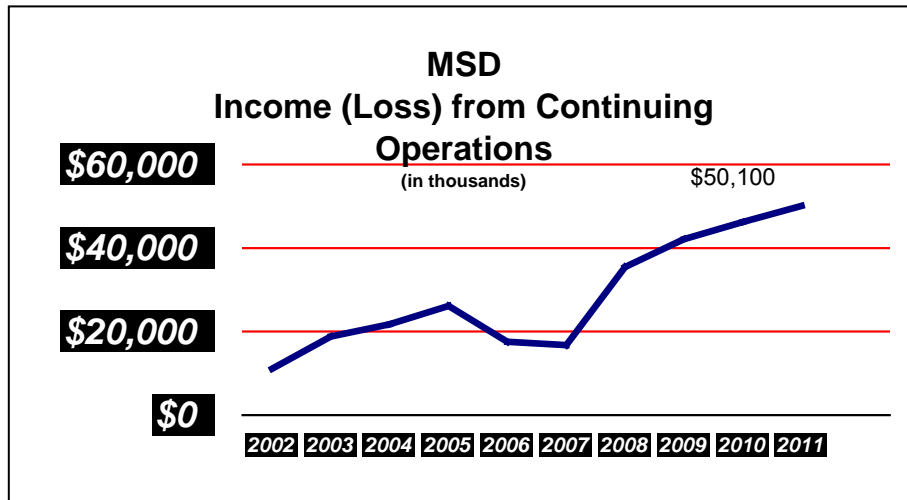
Revenues

Total Operating Revenues as of June 30, 2011 were \$185.7 million compared to \$171.6 million for the same period last year, an increase of \$14.1 million or 8.2%. This increase in operating revenues was primarily driven by a Board-approved rate increase of 6.5% on wastewater and stormwater fees that were enacted on August 1, 2010. During FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to \$3.2 million in FY 2011 and \$3.3 million in FY 2010.

Wastewater Service Charges totaled \$145.9 million as of June 30, 2011. This represents an increase of \$12.0 million or 9.0% from a year ago. Free wastewater services provided to the Louisville Metro Government amounted to \$2.6 million during FY 2011 and \$2.8 million during FY 2010. The majority of MSD's wastewater customers are billed based on the amount of water used. Since substantially all of MSD's customers are also customers of the Louisville Water Company, this charge is billed and collected by the Louisville Water Company on behalf of MSD.

Stormwater service charges were \$37.4 million as of June 30, 2011. This represents an increase of \$2.7 million or 7.7% from the same period one year ago. This increase is net of the \$571,500 of free stormwater services provided during FY 2011 and \$477,600 during FY 2010 to the Louisville Metro Government. Other operating income was \$600,000 less than the amount recorded in FY 2010.

Table 2 Condensed Statements of Revenues, Expenses, and Changes in Net Assets (000's)							
	FY 2011	FY 2010	Prior Year Variance	%	FY 2009	Prior Year Variance	%
Service Charges	\$ 183,297	\$ 168,610	\$ 14,687	8.7%	\$ 163,004	\$ 5,606	3.4%
Other Operating Income	2,379	2,980	(601)	-20.2%	4,552	(1,572)	-34.5%
Total Operating Revenues	185,676	171,590	14,086	8.2%	167,556	4,034	2.4%
Investment Income	33,700	36,045	(2,345)	-6.5%	25,568	10,477	41.0%
Total Revenues	219,376	207,635	11,741	5.7%	193,124	14,511	7.5%
Depreciation & Amortization Expense	58,741	58,513	228	0.4%	56,727	1,786	3.1%
Other Operating Expenses	76,806	69,951	6,855	9.8%	68,742	1,209	1.8%
Nonoperating Expenses	67,218	68,577	(1,359)	-2.0%	72,776	(4,199)	-5.8%
Decrease upon Hedge Termination	-	58,556	(58,556)	-	-	58,556	-
Change in Fair Value - Swaps	(22,638)	19,889	(42,527)	-	-	19,889	-
Total Expenses	180,127	275,486	(95,359)	-34.6%	198,245	77,241	39.0%
Net Income (Loss) before Contributions	39,249	(67,851)	107,100	-157.8%	(5,121)	(62,730)	1225.0%
Contributions	3,747	3,560	187	5.3%	11,689	(8,129)	-69.5%
Change in Net Assets	42,996	(64,291)	107,287	-166.9%	6,568	(70,859)	-1078.9%
Beginning Net Assets	492,796	557,087	(64,291)	-11.5%	550,519	6,568	1.2%
Ending Net Assets	\$ 535,792	\$ 492,796	\$ 42,996	8.7%	\$ 557,087	(64,291)	-11.5%



MSD recorded a net operating income of \$50.1 million in FY 2011 compared to \$43.1 million in FY 2010, an increase of \$7.0 million or 16.2%. Increases in service charges of \$14.7 million from FY 2010 levels resulted in this change. Net cash provided by operating activities increased from \$99.2 million in FY 2010 to \$110.4 million in FY 2011.

Expenses

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the last three fiscal years. These costs are reported net of capitalized overhead and reimbursed expenses of \$30.7 million in FY 2011 and \$31.5 million in FY 2010 in the Statement of Revenues, Expenses, and Changes in Net Assets. Gross service and administrative costs increased by \$6.2 million in FY 2011 from FY 2010 levels. Labor cost increased by \$4.6 million of which the majority of this change was due to increases in salary and wages (\$1.8 million), medical insurance (\$771,000), worker's compensation insurance (\$770,000), and retirement contributions (\$766,000). An increase in electricity expenses of \$1.9 million was the primary driver for the \$2.0 million increase in utilities. The increase in electricity expense was due to activating all 16 flood pumping stations during heavy rain events this fiscal year.

Table 3 Gross Service and Administrative Costs (000's)														
	2011			2010			Prior year Variance		%	2009	Prior year Variance		%	
Service and administrative costs:														
Labor	\$	57,543	53%	\$	52,945	52%	\$	4,598	8.7%	\$	49,354	\$	3,591	7.3%
Utilities		13,853	13%		11,879	12%		1,974	16.6%		10,818		1,061	9.8%
Materials and supplies		9,043	8%		9,031	9%		12	0.1%		8,742		289	3.3%
Professional services		2,624	2%		2,363	2%		261	11.0%		2,730		(367)	-13.4%
Maintenance and repairs		10,054	9%		8,847	9%		1,207	13.6%		9,675		(828)	-8.6%
Billing and collections		4,318	4%		4,461	4%		(143)	-3.2%		3,623		838	23.1%
Chemicals		4,059	4%		4,781	5%		(722)	-15.1%		4,372		409	9.4%
Fuel		1,643	2%		1,318	1%		325	24.7%		1,315		3	0.2%
Biosolids disposal		2,035	2%		2,186	2%		(151)	-6.9%		2,063		123	6.0%
All other		2,509	2%		3,638	4%		(1,129)	-31.0%		2,817		821	29.1%
Gross service and admin. costs	\$	107,681	100%	\$	101,449	100%	\$	6,232	6.1%	\$	95,509		5,940	6.2%

Note: the gross service and administrative costs in the above table do not include mapping recoveries.

Depreciation and Amortization

Depreciation and amortization expenses of \$58.7 million was \$228,000 more than the FY 2010 amount. These expenses are expected to increase in future years as MSD adds additional capital assets to its wastewater and stormwater systems.

Capital Assets, Short-term and Long-term Debt

MSD's total gross capital assets increased by \$25.9 million in FY 2011. Major additions include the completion of \$24.8 million of sewer line installations. Readers are encouraged to review the Comparative Schedules of Plant, Lines, and Other Facilities that are contained in the Statistical Section of the CAFR for additional information regarding changes to capital assets. Also, readers should review Note 5 to the financial statements which provides additional information relating to MSD's capital assets.

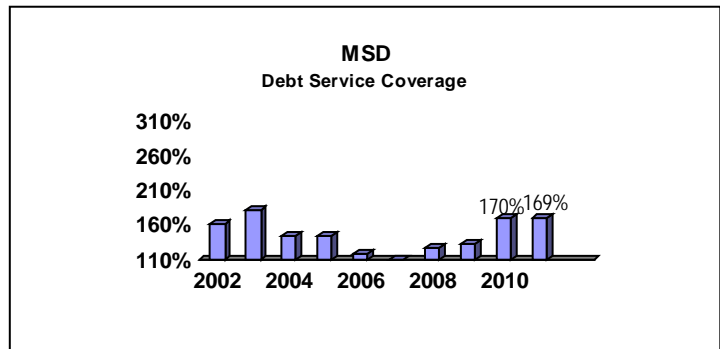
In February 2011, MSD issued \$226.3 million of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011A. The proceeds of the notes were used to refinance the 2010A Notes. The 2010A Notes were paid off on May 26, 2011.

In November 2010, MSD issued \$330 million in Build America Bonds to finance its capital program. Build America Bonds allow the issuer to receive a subsidy equal to 35% of future interest payments from the federal government. As of June 30, 2011, approximately \$260.6 million of these bond proceeds remained. The remaining funds are expected to be used for additional expansions to the wastewater and drainage systems, plant expansions, flood protection systems, and other wastewater and stormwater projects. Note 7 to the financial statements provides readers with a comparative schedule of long-term debt outstanding at June 30, 2011 and June 30, 2010.

Debt Service Ratio

Net interest expense totaled \$67.2 million in FY 2011 and \$71.7 million in FY 2010, a decrease of \$4.5 million. This decrease occurred because an increase in capitalized interest expense of \$11.3 million.

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

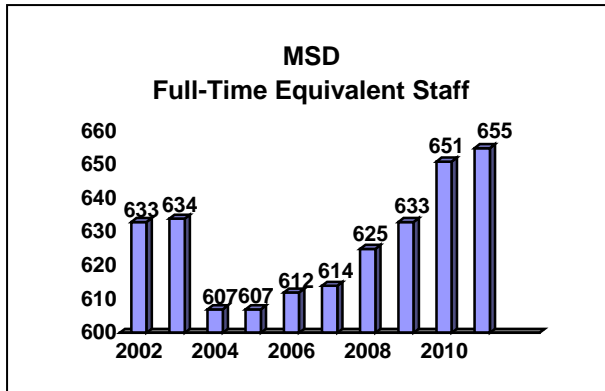


The 1993 Resolution and its supplements require MSD to provide "available revenues," as defined in the Resolution, sufficient to pay 110% of each year's "aggregate net debt service" on Revenue Bonds and 100% of "operating expenses." "Available revenues," as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of bonds issued pursuant to the Resolution, but exclude any interest income which is capitalized in accordance with generally accepted accounting principles. "Operating expenses" include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating expenses" do not include reserves for extraordinary maintenance and repair, or administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from proceeds of such debt. "Aggregate net debt service" is aggregate debt service on all bonds issued pursuant to the Resolution, excluding (i) interest expense which, in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt and (ii) other amounts, if any, available or expected to be available in the ordinary course of business for payment of debt service. MSD's debt service coverage, calculated on the foregoing basis, was 169% in 2011 and 170% in 2010.

MSD is not allowed to include depreciation expense in the formula authorized by the Louisville Metro Government to calculate allowable rate increases. The applicable rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate net principal and interest requirements on Revenue

Bonds that MSD covenants in the Revenue Bond Resolution. However, the straight-line depreciation of plant, lines and other facilities substantially exceeds scheduled principal amortization on the Revenue Bonds.

Other Information



MSD's employee count, including vacant positions, increased to 655 in 2011 compared to 651 full-time equivalent positions in 2010. Labor cost was 54% of gross service and administrative costs in 2011 and 52% in 2010.

Other Significant Matters

In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet ("KEPPC") and the U.S. Environmental Protection Agency ("EPA"). The agreement calls for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. The cost of the projects has yet to be determined but the preliminary estimate is \$850 million over the next two decades. MSD has submitted plans to finance the projects through additional bonds and future rate increases. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree (see Note 13 to the financial statements.)

Requests for Additional Information

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

www.msdlouky.org

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Assets</u>		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 34,508	\$ 24,700
Unrestricted investments	100	100
Restricted cash and cash equivalents	112,559	58,923
Restricted investments	294,868	394,880
Accounts receivable, less allowance for doubtful accounts of \$408 (2011), \$342 (2010)	17,789	15,779
Inventories	3,435	3,110
Accrued interest receivable	1,472	1,140
Prepaid expenses and other current assets	1,369	1,373
Total current assets	<u>466,100</u>	<u>500,005</u>
Noncurrent assets:		
Long-term assessment receivables	21,260	22,527
Unamortized bond closing costs	15,351	13,418
Plant, lines and other facilities, net	2,002,782	1,878,012
Total noncurrent assets	<u>2,039,393</u>	<u>1,913,957</u>
Total assets	<u><u>\$ 2,505,493</u></u>	<u><u>\$ 2,413,962</u></u>
<u>Liabilities & Net Assets</u>		
Current liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	\$ 15,732	\$ 11,141
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor retainage of \$5,946 (2011), \$1,307 (2010)	15,105	13,692
Accrued interest payable	12,360	14,701
Refundable deposits	1,341	1,622
Bond anticipation notes	226,340	452,680
Current maturities of bonds payable	24,840	23,785
Total current liabilities	<u>295,718</u>	<u>517,621</u>
Non-current liabilities:		
Bonds payable, net of loss on refunding	1,574,828	1,283,493
Unamortized debt premium / discount	25,647	26,675
Bonds payable, net of premium / discount	1,600,475	1,310,168
Deferred debits and credits	12,139	13,301
Interest rate swaps	55,808	78,446
Arbitrage rebate liability accrued	4,153	-
Other liabilities	1,408	1,630
Total non-current liabilities	<u>1,673,983</u>	<u>1,403,545</u>
Total liabilities	<u><u>\$ 1,969,701</u></u>	<u><u>\$ 1,921,166</u></u>
Net Assets:		
Invested in plant, lines and other facilities, net of related debt	\$ 432,689	\$ 450,754
Restricted for payment of bond principal and interest	411,841	455,899
Unrestricted	(308,738)	(413,857)
Total net assets	<u><u>\$ 535,792</u></u>	<u><u>\$ 492,796</u></u>
Total Liabilities and Net Assets	<u><u>\$ 2,505,493</u></u>	<u><u>\$ 2,413,962</u></u>

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

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

	Year Ended <u>June 30, 2011</u>	Year Ended <u>June 30, 2010</u>
Operating revenues:		
Service charges	\$ 183,297	\$ 168,610
Other operating income	<u>2,379</u>	<u>2,980</u>
Total operating revenues	185,676	171,590
Operating expenses:		
Service and administrative costs	76,999	69,951
Loss on disposal of assets	(194)	-
Depreciation and amortization	<u>58,741</u>	<u>58,513</u>
Total operating expenses	<u>135,546</u>	<u>128,464</u>
Income from operations	<u>50,130</u>	<u>43,126</u>
Non-operating revenue (expenses):		
Investment income	25,722	33,785
Build America Bond refund	7,978	2,260
Interest expense - bonds	(78,954)	(69,949)
Interest expense - swaps	(11,627)	(8,815)
Interest expense - other	(4,896)	(6,819)
Amortization of debt discount / premium	3,063	3,096
Capitalized interest	25,195	13,910
Decrease upon hedge termination	-	(58,556)
Change in fair value - swaps	<u>22,638</u>	<u>(19,889)</u>
Total non-operating revenue (expenses) - net	<u>(10,881)</u>	<u>(110,977)</u>
Income (loss) before contributions	39,249	(67,851)
Contributions:		
Property owner assessments	334	(545)
All other	<u>3,413</u>	<u>4,105</u>
Increase (decrease) in net assets	42,996	(64,291)
Net assets, beginning of year	<u>492,796</u>	<u>557,087</u>
Net assets, end of year	<u><u>\$ 535,792</u></u>	<u><u>\$ 492,796</u></u>

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

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

	Year Ended June 30, 2011	Year Ended June 30, 2010
Cash flows from operating activities:		
Cash received from customers	\$ 182,976	\$ 171,641
Cash paid to suppliers	(32,960)	(35,107)
Cash paid to employees	(39,606)	(37,319)
	<u>110,410</u>	<u>99,215</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	330,000	405,770
Proceeds from bond anticipation notes	226,340	452,680
Build America Bond refund	7,978	2,260
Assessments receivable	1,676	2,998
Interest income - assessments	994	1,588
Unamortized loss on refundings	1,665	(3,764)
Amortization of loss on refunding	(1,665)	(1,341)
Principal paid on revenue bonds	(39,275)	(488,275)
Interest paid on revenue bonds	(86,191)	(70,192)
Bond anticipation notes principal payments	(452,680)	-
Acquisition and construction of capital assets	(168,708)	(78,880)
Retainage payable	4,639	955
Acquisition of non-operating property	(221)	(484)
	<u>(175,448)</u>	<u>223,315</u>
Net cash, provided by / (used in), capital and related financing activities		
Cash flows from investing activities:		
Restricted investments	100,012	(333,577)
Unrestricted investments	-	7,633
Income on investments	40,287	37,519
Interest expense - swap agreements	(11,627)	(8,832)
Unamortized premium on forward delivery agreement	(190)	(190)
	<u>128,482</u>	<u>(297,447)</u>
Net cash (used in) provided by investing activities		
Net increase (decrease) in cash and cash equivalents	63,444	25,083
Cash and cash equivalents, beginning of year	<u>83,623</u>	<u>58,540</u>
Cash and cash equivalents, end of year	<u>\$ 147,067</u>	<u>\$ 83,623</u>

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

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

	Year Ended <u>June 30, 2011</u>	Year Ended <u>June 30, 2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 50,130	\$ 43,126
Depreciation & Amortization	58,741	58,513
Gain on disposal of retired assets	(194)	-
Capital expense over/under applied	164	(2,988)
Accounts receivable	(2,419)	1,906
Inventories	(325)	(83)
Deferred charges (prepaids)	4	490
Accounts payable	130	(751)
Customer deposits	(281)	(1,856)
Accrued liabilities	4,460	858
Net cash provided by operating activities	<u>\$ 110,410</u>	<u>\$ 99,215</u>
Non-cash capital financing and investing activities:		
Contribution of plant, lines and other facilities by developers and property owners	<u>\$ 3,747</u>	<u>\$ 3,560</u>
Increase in accounts payable incurred for construction	<u>\$ 927</u>	<u>\$ 5,002</u>
Change in fair value of investments	<u>\$ (1,896)</u>	<u>\$ 557</u>
Decrease in interest rate swap deferred revenue	<u>\$ 972</u>	<u>\$ 972</u>
Change in fair value - swap agreements	<u>\$ 22,638</u>	<u>\$ (19,889)</u>
Decrease upon hedge termination	<u>\$ -</u>	<u>\$ 58,556</u>

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

(in thousands)

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

A. Reporting Entity - (Continued)

Chapter 76 authorizes MSD to provide sewer and drainage facilities and services. MSD is further authorized by the statute to establish and collect service charges and to budget 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.

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

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(in thousands)

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

A. Reporting Entity - (Continued)

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

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

B. Basis of Accounting

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

C. Cash and Cash Equivalents

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(in thousands)

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

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

E. Investment Securities

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

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

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

Non-operating revenues and expenses are comprised of investment and financing earnings and costs, changes in the fair value of investment 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.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

(in thousands)

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

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

– (Continued)

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, and consist of supplies and parts used in the operation of MSD's treatment plants and for the maintenance of automobiles, sewers and other related equipment.

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 assets.

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. 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 COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(in thousands)

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

I. Plant, Lines and Other Facilities – (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 cost of the borrowing less interest earned on undisbursed invested proceeds during the construction period. Interest is not capitalized on project costs that are reimbursed by contributions of capital from government, property owners and developers.

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, or other changes in environmental factors, technology changes or evidence of

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(in thousands)

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

K. Impairment of Capital Assets – (Continued)

obsolescence, changes in the manor 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, 2011 and 2010.

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 and amortized as a component of interest expense over the average remaining life of the old debt. The unamortized loss on refunding is reported as a deduction from the new debt liability.

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

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

Original Issue Discount/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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(in thousands)

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

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 unamortized premium and discount on debt in the 2010 financial statements to conform to those used in 2011. These reclassifications had no impact on total net assets or the change in net assets.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS

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

June 30, 2011

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	\$ 27,826	0.38	Aaa
U.S. Treasury Obligations	180,000	11.40	Aaa
Municipal Bonds	87,042	27.20	Aa
Money Market Funds	141,508	0.12	Aaa
Repurchase Agreement/Cash	5,559		
Certificate of Deposit	100		
Total fair market value of cash equivalents and investments	442,035	10.19	
Accrued interest from cash equivalents and investments	1,472		
Total cash, cash equivalents and investments	<u>\$ 443,507</u>		

June 30, 2010

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	\$ 27,864	0.37	Aaa
U.S. Treasury Obligations	328,311	15.86	Aaa
U.S. Treasury Bills	19,791	0.01	Aaa
Municipal Bonds	38,269	27.37	Aa
Money Market Funds	52,393	0.09	Aaa
Repurchase Agreement/Cash	11,875		
Certificate of Deposit	100		
Total fair market value of cash equivalents and investments	478,603	13.43	
Accrued interest from cash equivalents and investments	1,140		
Total cash, cash equivalents and investments	<u>\$ 479,743</u>		

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

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

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.

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 2.0 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 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.

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

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

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, 2011 and 2010.

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

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash and cash equivalents - unrestricted	\$ 34,508	\$ 24,700
Investments - unrestricted	100	100
Cash and cash equivalents - restricted	112,559	58,923
Investments - restricted (includes accrued interest receivable)	<u>296,340</u>	<u>396,020</u>
	<u><u>\$ 443,507</u></u>	<u><u>\$ 479,743</u></u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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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.

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Payment of bond / BAN principal and interest and reserves	\$ 136,802	\$ 332,090
Authorized construction	<u>270,625</u>	<u>121,713</u>
Total restricted cash, cash equivalents and investments	<u>\$ 407,427</u>	<u>\$ 453,803</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 4. SCHEDULE OF NET ASSETS

A comparative schedule of net assets follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Net assets invested in plant, lines and other facilities:		
Plant, lines and other facilities net of depreciation	\$ 2,002,782	\$ 1,878,012
Outstanding debt that applies to plant, lines and other facilities	(1,842,850)	(1,552,125)
Unamortized discount / (premium)	2,132	3,154
Unspent bond proceeds	<u>270,625</u>	<u>121,713</u>
Invested in plant, lines and other facilities, net	<u><u>432,689</u></u>	<u><u>450,754</u></u>
Restricted net assets:		
Funds held in bank	434,435	466,004
Reimbursements due from construction	(27,008)	(12,201)
Unamortized discount / (premium)	<u>4,414</u>	<u>2,096</u>
Net assets, restricted	<u><u>411,841</u></u>	<u><u>455,899</u></u>
Unrestricted net assets	<u>(308,738)</u>	<u>(413,857)</u>
Total net assets	<u><u>\$ 535,792</u></u>	<u><u>\$ 492,796</u></u>

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

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years
2011 and 2010 follows:

Year ended June 30, 2011

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Capital assets:				
Sewer lines	\$ 1,134,637	\$ 24,800	\$ -	\$ 1,159,437
Wastewater treatment facilities	470,527	1,738	(193)	472,072
Stormwater drainage facilities	427,431	7,512	-	434,943
Pumping and lift stations	70,643	478	-	71,121
Administrative facilities	45,561	517	-	46,078
Maintenance facilities	7,827	210	-	8,037
Machinery and equipment	93,240	7,021	(43,613)	56,648
Miscellaneous	-	54	14,338	14,392
Capitalized interest	222,564	13,061	-	235,625
Total capital assets	2,472,430	55,391	(29,468)	2,498,353
Less accumulated depreciation:				
Sewer lines	(210,949)	(15,839)	1	(226,787)
Wastewater treatment facilities	(246,470)	(19,985)	148	(266,307)
Stormwater drainage facilities	(99,311)	(5,122)	-	(104,433)
Pumping and lift stations	(32,002)	(3,184)	-	(35,186)
Administrative facilities	(27,082)	(1,102)	-	(28,184)
Maintenance facilities	(4,633)	(293)	-	(4,926)
Machinery and equipment	(64,280)	(8,925)	33,385	(39,820)
Miscellaneous	-	(10,497)	3,134	(7,363)
Capitalized interest	(49,825)	(5,591)	-	(55,416)
Total accumulated depreciation	(734,552)	(70,538)	36,668	(768,422)
Construction in progress	140,134	224,055	(91,338)	272,851
	<u>\$ 1,878,012</u>	<u>\$ 208,908</u>	<u>\$ (84,138)</u>	<u>\$ 2,002,782</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 5. PLANT, LINES AND OTHER FACILITIES - (CONTINUED)

Year ended June 30, 2010

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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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 2011 and 2010 follows:

<u>Year ended June 30, 2011</u>	<u>Capitalized</u>	<u>Included in Non- Operations</u>	<u>Total</u>
Investment earnings	\$ 12,134	\$ 33,700	\$ 45,834
Interest cost	<u>(25,195)</u>	<u>(67,219)</u>	<u>(92,414)</u>
Net interest	<u>\$ (13,061)</u>	<u>\$ (33,519)</u>	<u>\$ (46,580)</u>

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 7. LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2011
and June 30, 2010, follows:

	<u>Original Issue Amt</u>	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding As Of:</u>	
				<u>June 30, 2011</u>	<u>June 30, 2010</u>
REVENUE BONDS					
1998 Sewer and Drainage System Revenue Bonds Series 1998A	260,000	4.25% - 9.00%	2030	139,495	154,985
2001 Sewer and Drainage System Revenue Bonds Series 2001A	300,000	5.00% - 5.50%	2036	288,015	289,990
2004 Sewer and Drainage System Revenue Bonds Series 2004A	100,000	5.00% - 5.25%	2038	100,000	100,000
2005 Sewer and Drainage System Revenue Bonds Series 2005A	64,740	3.00% - 5.00%	2026	56,790	58,470
2006 Sewer and Drainage System Revenue Bonds Series 2006A	100,000	4.00% - 5.00%	2038	94,965	96,705
2007 Sewer and Drainage System Revenue Bonds Series 2007A	61,125	4.00% - 5.00%	2025	54,305	56,185
2008 Sewer and Drainage System Revenue Bonds Series 2008A	105,000	4.00% - 5.00%	2038	103,485	104,265
2009A Sewer and Drainage System Revenue Bonds Series 2009A	76,275	5.00%	2022	67,555	72,020
2009B Sewer and Drainage System Revenue Bonds Series 2009B	225,770	2.00% - 5.00%	2023	201,900	213,165
2009C Sewer and Drainage System Revenue Bonds Series 2009C	180,000	5.98%	2040	180,000	180,000
2010A Sewer and Drainage System Revenue Bonds Series 2010A	330,000	6.25%	2043	330,000	-
Total Long-Term Debt				1,616,510	1,325,785
Less: Current Maturities				(24,840)	(23,785)
Add : Unamortized Premium/Discount				25,647	26,675
Less: Unamortized Loss on Refunding				(16,842)	(18,507)
Total Long-Term Debt, net				<u>\$ 1,600,475</u>	<u>\$ 1,310,168</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

A schedule of future debt service requirements after June 30, 2011 follows:

Year Ending June 30,			
2012	\$ 24,840	\$ 81,146	\$ 105,986
2013	26,120	83,670	109,790
2014	27,480	82,551	110,031
2015	29,035	81,245	110,280
2016	30,685	79,834	110,519
2017-2021	181,425	375,005	556,430
2022-2026	205,095	327,015	532,110
2027-2031	187,095	272,581	459,676
2032-2036	254,370	235,923	490,293
2037-2041	449,960	142,621	592,581
2042-2043	200,405	18,908	219,313
	<u>\$ 1,616,510</u>	<u>\$ 1,780,499</u>	<u>\$ 3,397,009</u>

* Debt service requirements do not include the effect of bonds issued after June 30, 2011.

A comparative summary of current and long-term revenue bond activity for the years ended June 30, 2011 and June 30, 2010 follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenue Bonds - beginning of year, net	\$ 1,310,168	\$ 1,393,547
Bonds issued	330,000	405,770
Principal paid on bonds, net of amortization	(24,203)	(25,479)
Bonds refunded	<u>(15,490)</u>	<u>(463,670)</u>
Revenue Bonds - end of year, net	<u>\$ 1,600,475</u>	<u>\$ 1,310,168</u>

Amortization totaled (\$418) and \$4,231 for the years ended June 30, 2011 and 2010, respectively.

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NOTE 7. LONG-TERM DEBT - (CONTINUED)

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

New Debt Transactions:

On November 17, 2010 MSD issued \$330,000 of Sewer and Drainage System Revenue Bonds, "Build America Bonds" ("BAB"), Series 2010A. The proceeds of the bonds are being used to fund sewer and drainage projects for construction. MSD may apply to receive interest subsidy payments of 35% of the corresponding interest payable on the current BAB on any interest payment date. During fiscal year 2011, MSD received a \$7,076 refund from the federal government for interest payments on its Series 2009C and Series 2010A BAB's.

On June 13, 2011, MSD's Board adopted the Seventeenth Supplemental Sewer and Drainage System Revenue Bond Resolution approving the issuance of up to \$455,000 in bonds to currently refund all or a portion of Series 1998A and Series 2001A Revenue Bonds. The closing date for this issuance was August 24, 2011.

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, 2011 and 2010.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Swap Terminations:

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

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

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

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

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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives:

On June 30, 2011, MSD had the following investment derivative instruments outstanding:

Item	Counter-Party	Initial Notional Amount	Current Notional Amount	Payment Start Date	Termination Date	MSD Payment Terms	MSD Receipt Terms	6/30/2011 Fair Value	6/30/2010 Fair Value	Change in Fair Value
A	Wells Fargo	\$ 225,732	\$ 225,396	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	\$ (55,112)	\$ (64,380)	9,268
B	Bank of America	56,433	56,349	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	(13,775)	(16,093)	2,318
C	Deutsche Bank	103,673	87,945	5/15/2003	5/15/2023	4.075%	SIFMA	(10,128)	(10,967)	839
D	Bank of America	64,869	45,305	5/15/2003	5/15/2023	4.075%	SIFMA	(5,219)	(5,650)	431
E	Deutsche Bank	149,465	133,250	8/15/2009	5/15/2023	SIFMA	2.78%	4,428	4,187	241
F	Wells Fargo	50,376	50,040	11/15/2009	5/15/2023	SIFMA	2.9235%	2,118	2,026	92
G	Deutsche Bank	12,594	12,510	11/15/2009	5/15/2023	SIFMA	2.924%	530	507	23
H	Morgan Stanley	190,790	133,250	5/15/2003	5/15/2023	SIFMA	78.78% of 3-month LIBOR	(215)	(1,419)	1,204
I	Deutsche Bank	281,745	281,745	11/15/2011	5/15/2033	SIFMA	100.30% of 3-month LIBOR	21,565	13,343	8,222
Total		\$ 1,135,677	\$ 1,025,790					\$ (55,808)	\$ (78,446)	22,638

LIBOR = London Interbank Offering Rate

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

A comparative summary of the change in fair value of swaps for the years ended June 30, 2011 and June 30, 2010 follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Fair value - beginning of year	\$ 78,446	\$ 58,557
Change in fair value	<u>(22,638)</u>	<u>19,889</u>
Fair value - end of year	<u>\$ 55,808</u>	<u>\$ 78,446</u>

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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives - (Continued)

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

In August 2009, MSD issued Bond Anticipation Notes to refund the portion of its Series 1999 Bonds maturing from 2024 to 2033 and issued fixed-rate Series 2009B Bonds to refund its variable-rate Series 2003 Bonds and that portion of its Series 1999 Bonds maturing in 2023 and earlier years. In conjunction with these refundings, MSD entered into three reversal swaps (E, F, and G) to eliminate the hedge for the portion of the refunded bonds retired with proceeds of long-term, fixed-rate bonds. One reversal swap (E) has offsetting payment/receipt terms with those on two outstanding swaps (C and D) so that MSD is required to make a net payment of 1.295% (4.075% minus 2.78%) on the same declining notional amounts. The other two reversal swaps (F and G) offset the portion corresponding to the declining notional amounts in 2009 through and including 2023 of outstanding swaps (A and B), so that MSD is required to make a net payment of 1.4975% (4.4215% minus 2.924%), plus or minus the difference between 67% of 30-day LIBOR and SIFMA, on those declining notional amounts of that portion of those two swaps.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives - (Continued)

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

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk:

MSD has implemented steps to safeguard it against the risks associated with the aforementioned swap transactions. If the counter-party does not maintain A1/A+ ratings from Moody's and Standard and Poor's, the swaps contain provisions that require them to be marked to market weekly with monthly statements sent to MSD and the value will be collateralized with U.S. Treasury and Agency securities with the securities held by a tri-party custodian approved by MSD. All costs of collateralization will be borne by the downgraded party who must post the collateral. In addition, the April 2001 (E and F) and 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 6/30/2011 for the counter-parties are as follows:

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

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NOTE 7. LONG-TERM DEBT - (CONTINUED)

Credit Risk – (Continued)

Effective September 21, 2011, Moody's downgraded the rating of Wells Fargo to Aa3 and downgraded the rating of Bank of America to A2.

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

Basis Risk:

The aforementioned swap transactions also expose MSD to basis risk, the risk that arises when variable interest rates on a derivative and an associated bond are based on different indices. The payment terms of the October 2002 (E and F) and March 2003 (D) swaps coincide with the 2003 variable-rate bond issue that was executed to refinance the Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B. The positive and negative fair values of the swap agreements were provided by a third-party financial advisor. The net swap payments made in FY 2011 and FY 2010 were \$11,627 and \$8,815 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, 2011, MSD's accrued liability for arbitrage rebate was \$4,153.

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NOTE 8. OTHER NON-CURRENT LIABILITIES

Amortization schedules as of June 30, 2011, for various deferred debits related to long-term debt follow:

Unamortized Premium/Discount on Forward Delivery Agreements

Year Ending June 30,	<u>Amortization of Premium</u>	<u>Amortization of Discount</u>	<u>Unamortized Balance</u>
2012	\$ 215	\$ (25)	\$ (41)
2013	215	(25)	149
2014	215	(25)	339
2015	196	(25)	510
2016	-	(25)	485
2017-2021	-	(125)	360
2022-2026	-	(125)	235
2027-2031	-	(125)	110
2032-2036	-	(110)	-

Deferred Income on Swap Agreements

Year Ending June 30,	<u>Amortization of Premium</u>	<u>Unamortized Balance</u>
2012	\$ 972	\$ (10,936)
2013	972	(9,964)
2014	972	(8,992)
2015	932	(8,060)
2016	918	(7,142)
2017-2021	3,925	(3,217)
2022-2026	1,651	(1,566)
2027-2031	1,132	(434)
2032-2036	434	-

Unamortized Premium on Sale of Bonds

Year Ending June 30,	<u>Amortization of Premium</u>	<u>Unamortized Balance</u>
2012	\$ 4,016	\$ (30,096)
2013	2,373	(27,723)
2014	2,373	(25,350)
2015	2,373	(22,977)
2016	2,373	(20,604)
2017-2021	11,865	(8,739)
2022-2026	5,042	(3,697)
2027-2031	1,905	(1,792)
2032-2036	1,385	(407)
2037-2041	407	-

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(in thousands)

NOTE 9. SHORT TERM DEBT

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

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

On March 2, 2011, MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011A Notes. The proceeds of the notes were used to refinance the 2010A Notes. The 2011A Notes mature on March 1, 2012.

A comparative summary of short term debt for the years ended June 30, 2011 and June 30, 2010 follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Short-term debt - beginning of year	\$ 452,680	\$ -
Debt issued	226,340	452,680
Principal paid on debt	<u>(452,680)</u>	<u>-</u>
Short-term debt - end of year	<u><u>\$ 226,340</u></u>	<u><u>\$ 452,680</u></u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 10. RETIREMENT PLAN AND POSTRETIREMENT BENEFITS

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

Funding Policy: Plan members hired before September 1, 2008 are required to contribute 5% of creditable compensation and MSD is required to contribute at an actuarially determined rate. Plan members hired after September 1, 2008 contribute 6%. The employer contribution rates for the years ending June 30, 2011, 2010, and 2009 were 16.93%, 16.16%, and 13.50% respectively, of participating employees' compensation.

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, 2011, 2010, and 2009 were \$6,394, \$5,628, and \$4,677, respectively, equal to the required contributions for each year.

Healthcare Plan: The Kentucky Retirement Systems Insurance Fund ("Fund") was established to provide hospital and medical insurance for members receiving benefits from CERS, the Kentucky Employees Retirement System and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2010, insurance premiums withheld from benefit payments for members of CERS were \$29,182.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 11. 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 2011, MSD has had no claims paid from the Trust's assets.

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 11. RISK MANAGEMENT – (CONTINUED)

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Liability - beginning of year	\$ 1,340	\$ 1,433
Claims and changes in estimates	1,502	732
Payments	<u>(1,119)</u>	<u>(825)</u>
Liability - end of year	<u>\$ 1,723</u>	<u>\$ 1,340</u>

MSD joined the Louisville Area Governmental General Insurance Trust ("Property Self-Insurance Trust") in September 2002. The Property Self-Insurance Trust was created to provide lower cost to participants and broader coverage for property risks. MSD is responsible for covered property damage up to \$100, except for flood and vehicle collision coverage, which have separate deductibles. The Property Self-Insurance Trust provides coverage for the next \$900. An excess insurance policy with a third-party carrier covers claims in excess of \$1,000.

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 12. 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 13. COMMITMENTS AND CONTINGENCIES

Forward Purchase Agreements:

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

Sale of Sewer Assessments:

MSD has entered into agreements to sell sanitary sewer assessments to a local bank. These assessments reflect the portion of the cost that residents pay to have sewer lines installed in their neighborhood. Residents are given the opportunity to pay the assessment in full or to finance it over a twenty-year period at 7% interest per annum. The original agreement called for the bank to accept up to \$25,000 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, 2011 and 2010 was \$4,573 and \$5,499, respectively.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 13. COMMITMENTS AND CONTINGENCIES - (CONTINUED)

EPA Consent Decree

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

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

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

NOTE 13. COMMITMENTS AND CONTINGENCIES - (CONTINUED)

Other Matters:

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

The value of construction contracts signed, where work has not yet been performed at June 30, 2011, amounted to \$64,902, and was \$126,032 at June 30, 2010.

NOTE 14. SUBSEQUENT EVENTS

On August 1, 2011, MSD's rates for wastewater and stormwater charges increased by 6.5%.

On August 24, 2011, MSD issued \$263,360 of Sewer and Drainage System Revenue Bonds, Series 2011A. The proceeds of the bonds, net of issuance cost, were used to currently refund MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 1998A, and to refund a portion of the outstanding Revenue Bonds, Series 2001A. The net proceeds of the refunding issue were placed in an irrevocable escrow account and used to purchase U.S. Government securities. The U. S. Government securities, together with investment income earned thereon and the beginning cash deposit provided amounts sufficient for future payment of interest and principal on the refundable issues. The refunding was completed to reduce debt service payments over the next 24 years and it resulted in a present value savings of \$37,607.

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.

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

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

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

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

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

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:										
Service charges	\$ 183,297	\$ 168,610	\$ 163,004	\$ 156,889	\$ 126,490	\$ 122,643	\$ 113,561	\$ 103,571	\$ 99,546	\$ 90,255
Other operating income	2,379	2,980	4,552	4,394	5,966	7,122	9,288	7,216	6,696	5,713
Assessments	2,740	7,093	4,387	2,251	8,237	6,796	10,731	12,064	27,290	14,020
Investment income	33,700	36,045	25,568	6,085	8,417	5,558	14,503	23,916	9,377	11,610
Less: capitalized investment income	(12,134)	(5,990)	-	(1,190)	(3,747)	(1,594)	(6,245)	(18,201)	(5,087)	(6,428)
Total revenues	209,982	208,738	197,511	168,429	145,363	140,525	141,838	128,566	137,822	115,170
Operating expenses:										
Service and administrative costs	107,307	101,068	93,935	96,845	89,194	86,433	78,835	74,972	77,829	74,734
Less: capitalized project costs	(30,472)	(28,129)	(24,401)	(26,510)	(25,715)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)
Total operating expenses	76,835	72,939	69,534	70,335	63,479	61,046	53,549	51,301	52,045	50,727
Net revenues	133,147	135,799	127,977	98,094	81,884	79,479	88,289	77,265	85,777	64,443
Aggregate debt service:										
Current maturities of long-term debt	24,840	23,785	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676
Interest expense	78,954	69,949	72,776	66,918	70,548	66,162	72,395	65,370	64,797	61,220
Less: capitalized interest expense	(25,195)	(13,910)	-	(10,530)	(14,140)	(15,758)	(26,603)	(26,940)	(30,490)	(32,891)
Aggregate net debt service	\$ 78,599	\$ 79,824	\$ 95,881	\$ 77,643	\$ 74,598	\$ 67,654	\$ 61,477	\$ 53,733	\$ 47,399	\$ 40,005
Debt service coverage ratio	169%	170%	133%	126%	110%	117%	144%	144%	181%	161%

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 SCHEDULES OF DEBT SERVICE COVERAGE
YEARS ENDED JUNE 30
(\$ in thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Assets										
Current Assets:										
Unrestricted cash and cash equivalents	\$ 34,508	\$ 24,700	\$ 22,552	\$ 10,524	\$ 1,912	\$ 17,198	\$ 28,732	\$ 20,572	\$ 15,072	\$ 11,920
Unrestricted investments	100	100	7,733	14,379	24,935	18,645	7,163	56	9,176	1,006
Restricted cash and cash equivalents	112,559	58,923	35,988	105,299	3,133	24	65,423	110,942	117,226	216,890
Restricted investments	294,868	394,880	61,303	27,202	73,801	134,850	33,934	74,112	51,220	52,400
Accounts receivable	17,789	15,779	18,065	16,732	15,398	17,401	13,716	14,136	12,904	12,233
Recovery of insured loss receivable	-	-	-	-	-	-	-	-	-	-
Inventories	3,435	3,110	3,027	3,020	3,091	2,874	3,090	2,685	2,676	2,466
Prepaid expenses and other current assets	2,841	2,513	1,965	2,020	1,181	1,359	803	796	667	394
Total current assets	466,100	500,005	150,633	179,176	123,451	192,351	152,861	223,299	208,941	297,309
Long-term receivables	21,260	22,527	25,146	26,334	28,749	27,778	29,712	27,964	30,327	37,538
Deferred debits	15,351	13,418	74,477	32,705	-	-	-	-	-	-
Plant, Lines and Other facilities:										
Completed projects	2,498,355	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498
Less: Accumulated depreciation	(768,423)	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)
	1,729,932	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294
Construction in progress	272,850	140,134	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570
Net plant, lines and other facilities	2,002,782	1,878,012	1,816,737	1,789,812	1,764,556	1,733,724	1,694,956	1,619,999	1,532,918	1,436,864
Total assets	\$ 2,505,493	\$ 2,413,962	\$ 2,066,993	\$ 2,028,027	\$ 1,916,756	\$ 1,953,853	\$ 1,877,529	\$ 1,871,262	\$ 1,772,186	\$ 1,771,711

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Liabilities and net assets										
Liabilities:										
Current liabilities (payable from current assets):										
Accounts payable and accrued expenses	\$ 15,732	\$ 11,141	\$ 11,035	\$ 10,548	\$ 16,639	\$ 22,619	\$ 17,781	\$ 9,671	\$ 9,492	\$ 7,969
Total current liabilities (payable from current assets)	15,732	11,141	11,035	10,548	16,639	22,619	17,781	9,671	9,492	7,969
Current liabilities (payable from restricted assets):										
Accounts payable and accrued expenses	15,105	13,692	7,735	5,250	4,239	1,072	5,863	11,846	17,588	16,231
Accrued interest	12,360	14,701	8,143	8,597	10,824	10,456	9,768	9,916	9,454	10,922
Bond Anticipation Notes	226,340	452,680								
Current maturities of bonds payable	24,840	23,785	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676
Refundable Deposits	1,341	1,622	3,478	4,209						
Total Current liabilities (payable from restricted assets)	279,986	506,480	42,461	39,311	33,253	28,778	31,316	37,065	40,134	38,829
Non-current liabilities:										
Bonds payable	1,574,828	1,283,493	1,370,442	1,405,805	1,307,236	1,324,006	1,240,966	1,256,228	1,170,141	1,184,993
Unamortized debt premium / discount	25,647	26,675								
Other long-term liabilities	73,508	93,377	85,968	21,844	8,254	8,987	9,191	6,495	6,917	7,338
Total long-term debt	1,673,983	1,403,545	1,456,410	1,427,649	1,315,490	1,332,993	1,250,157	1,262,723	1,177,058	1,192,331
Deferred compensation		-	-	-	-	-	-	-	-	-
Total liabilities	1,969,701	1,921,166	1,509,906	1,477,508	1,365,382	1,384,390	1,299,254	1,309,459	1,226,684	1,239,129
Net assets:										
Invested in plant, lines, & other facilities, net of related debt	432,689	450,754	470,445	478,833	479,305	489,973	497,314	490,458	476,849	450,966
Restricted for payment of bond principal & interest	411,841	455,899	100,225	135,537	7,034	8,927	14,133	17,850	18,884	35,482
Unrestricted	(308,738)	(413,857)	(13,583)	(63,851)	65,035	70,563	66,828	53,495	49,769	46,134
Total net assets	535,792	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582
Total liabilities and net assets	\$ 2,505,493	\$ 2,413,962	\$ 2,066,993	\$ 2,028,027	\$ 1,916,756	\$ 1,953,853	\$ 1,877,529	\$ 1,871,262	\$ 1,772,186	\$ 1,771,711

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating revenue:										
Wastewater service charges	\$ 145,880	\$ 133,853	\$ 130,661	\$ 125,782	\$ 96,594	\$ 93,907	\$ 87,653	\$ 79,933	\$ 77,778	\$ 69,856
Stormwater service charges	37,417	34,757	32,343	31,107	29,896	28,736	25,908	23,638	21,768	20,399
Other operating income	2,379	2,980	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713
Total operating revenue	185,676	171,590	167,556	161,283	132,446	129,765	122,849	110,787	106,242	95,968
Operating expenses:										
Service and administrative costs	107,307	101,068	93,935	96,845	90,157	86,433	78,835	74,972	77,829	74,734
Capitalization/recovery of cost	(30,472)	(28,129)	(24,401)	(26,510)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)
Capitalized overhead (over) under applied	164	(2,988)	(856)	-	-	-	-	-	-	-
Depreciation and amortization	58,741	58,513	56,727	55,363	52,177	51,174	43,161	37,718	35,401	34,131
Loss on disposal of assets	(194)	-	64	122	-	-	-	-	-	-
Total operating expenses	135,546	128,464	125,469	125,820	115,656	112,220	96,710	89,019	87,446	84,858
Income (loss) from operations	50,130	43,126	42,087	35,463	16,790	17,545	26,139	21,768	18,796	11,110
Non-operating revenue (expense):										
Investment Income	33,700	36,045	25,568	4,895	4,670	3,964	8,259	5,715	4,290	5,182
Interest expense - bonds	(78,954)	(69,949)	(69,893)	(56,388)	(56,408)	(50,404)	(45,792)	(38,495)	(34,307)	(28,330)
Interest expense - swaps	(11,627)	(8,815)	(2,883)	-	-	-	-	-	-	-
Interest expense - other	(1,833)	(3,723)	-	-	-	-	-	-	-	-
Capitalized Interest	25,195	13,910	-	-	-	-	-	-	-	-
Decrease upon hedge termination	-	(58,556)	-	-	-	-	-	-	-	-
Change in fair values - swaps	22,638	(19,889)	-	-	-	-	-	-	-	-
Total non-operating revenue (expenses), net	(10,881)	(110,977)	(47,208)	(51,493)	(51,738)	(46,440)	(37,533)	(32,780)	(30,017)	(23,148)
Net income / (loss) before contributions	39,249	(67,851)	(5,121)	(16,030)	(34,948)	(28,895)	(11,394)	(11,012)	(11,221)	(12,038)
Contributions										
Property owner assessments	334	(545)	2,239	164	7,634	4,862	12,478	9,701	20,079	24,786
All other	3,413	4,105	9,450	15,011	9,225	15,221	15,388	17,612	4,062	33,681
Increase (decrease) in net assets	42,996	(64,291)	6,568	(855)	(18,089)	(8,812)	16,472	16,301	12,920	46,429
Net assets, beginning of year	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153
Net assets, end of year	\$ 535,792	\$ 492,796	\$ 557,087	\$ 550,519	\$ 551,374	\$ 569,463	\$ 578,275	\$ 561,803	\$ 545,502	\$ 532,582

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Cash flows from operating activities:										
Cash received from customers	\$ 182,976	\$ 171,641	\$ 166,123	\$ 159,539	\$ 134,160	\$ 125,918	\$ 123,269	\$ 109,938	\$ 105,571	\$ 96,970
Cash paid to suppliers and employees	(72,566)	(72,426)	(66,297)	(72,227)	(69,536)	(56,548)	(45,851)	(51,643)	(51,005)	(50,846)
Net cash provided by operating activities	110,410	99,215	99,826	87,312	64,624	69,370	77,418	58,295	54,566	46,124
Cash flows from capital and related financing activities:										
Proceeds from issuance of revenue bonds	330,000	405,770	76,275	166,125	-	100,000	64,740	100,000	191,000	300,000
Proceeds from bond anticipation notes	226,340	452,680	-	-	-	-	-	-	-	-
Capital contributed by governments, property owners & developers	3,747	3,560	11,689	15,174	16,861	1,460	2,838	4,031	948	864
Build America Bond Interest Income	7,978	2,260	-	-	-	-	-	-	-	-
Refunding of long-term bonds	-	-	-	-	-	-	(65,600)	-	(185,230)	-
Assessments receivable	1,676	2,998	557	2,703	(645)	-	-	-	-	-
Interest income - assessments	994	1,588	1,471	1,405	1,670	-	-	-	-	-
Amortization of loss on refundings	1,665	(3,764)	1,277	2,504	-	-	-	-	-	-
Unamortized loss on refundings	(1,665)	(1,341)	(1,277)	-	-	-	-	-	-	-
Principal paid on revenue bonds	(39,275)	(488,275)	(95,045)	(84,350)	(17,250)	(16,815)	(14,020)	(11,702)	(19,206)	(8,863)
Interest paid on revenue bonds	(86,191)	(70,192)	(69,063)	(69,145)	(70,180)	(65,474)	(26,751)	(26,478)	(31,958)	(30,408)
Acquisition and construction of capital assets	(172,455)	(82,440)	(75,504)	(83,548)	(65,669)	(67,035)	(109,200)	(126,365)	(127,057)	(164,959)
Retainage payable	4,639	955	(466)	430	(33)	-	-	-	-	-
Acquisition of non-operating property	(221)	(484)	(261)	(257)	(258)	-	-	-	-	-
Principal paid on bond anticipation notes	(452,680)	-	-	-	-	-	-	-	-	-
Net cash (used in) provided from capital and related financing activities	(175,448)	223,315	(150,347)	(48,959)	(135,504)	(47,864)	(147,993)	(60,514)	(171,503)	96,634
Cash flows from investing activities:										
Restricted Investments	100,012	(333,577)	(34,101)	45,656	-	-	-	-	-	-
Unrestricted Investments	-	7,633	6,646	10,555	-	-	-	-	-	-
Assessment principal payments	-	-	-	-	-	8,621	10,301	12,792	27,495	13,997
Interest received on termination of swap agreement	-	-	-	-	-	-	(421)	(422)	(421)	(421)
Purchase of investment securities	-	-	-	-	(72,800)	(303,998)	(100,889)	(370,182)	(79,864)	(77,980)
Proceeds from sale and maturities of investment securities	-	-	-	-	137,908	177,341	110,070	329,655	63,592	48,160
Income received on investments	40,287	37,519	24,936	4,889	7,642	5,551	14,155	29,592	9,623	11,388
Interest expense - swap agreements	(11,627)	(8,832)	(4,166)	-	-	-	-	-	-	-
Unamortized premium on forward delivery agreement	(190)	(190)	(77)	1,399	-	-	-	-	-	-
Unamortized gain on termination of swap agreements	-	-	-	9,926	-	-	-	-	-	-
Net cash (used in) provided from investing activities	128,482	(297,447)	(6,762)	72,425	72,750	(112,485)	33,216	1,435	20,425	(4,856)
Net increase (decrease) in cash and cash equivalents	63,444	25,083	(57,283)	110,778	1,870	(90,979)	(37,359)	(784)	(96,512)	137,902
Cash and cash equivalents, beginning of year	83,623	58,540	115,823	5,045	3,176	94,155	131,514	132,298	228,810	90,908
Cash and cash equivalents, end of year	\$ 147,067	\$ 83,623	\$ 58,540	\$ 115,823	\$ 5,045	\$ 3,176	\$ 94,155	\$ 131,514	\$ 132,298	\$ 228,810

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Service charges:										
Wastewater service charges:										
Residential	\$ 78,552	\$ 73,228	\$ 71,159	\$ 64,978	\$ 48,338	\$ 47,555	\$ 43,320	\$ 39,394	\$ 37,730	\$ 33,106
Commercial	46,598	42,741	42,312	38,935	28,892	27,619	25,274	23,761	23,071	21,220
Industrial	21,498	18,948	18,216	21,324	18,431	17,279	17,142	15,182	15,380	13,992
Other - net	1,847	1,756	1,601	2,382	1,993	1,454	1,917	1,597	1,597	1,538
Free sewer to Metro Government	(2,615)	(2,820)	(2,627)	(1,837)	(1,060)					
Total wastewater service charges	145,880	133,853	130,661	125,782	96,594	93,907	87,653	79,934	77,778	69,856
Stormwater service charges:										
Residential	14,776	13,613	12,709	12,198	11,617	11,205	10,304	9,223	8,657	8,134
Commercial	20,862	19,433	18,012	17,276	16,741	15,683	13,854	12,735	11,533	10,765
Industrial	2,351	2,189	2,064	1,988	1,930	1,848	1,750	1,679	1,578	1,500
Free drainage to Metro Government	(572)	(478)	(442)	(355)	(392)					
Total stormwater service charges	37,417	34,757	32,343	31,107	29,896	28,736	25,908	23,637	21,768	20,399
Total service charges	183,297	168,610	163,004	156,889	126,490	122,643	113,561	103,571	99,546	90,255
Other operating income:										
Capacity charges	446	564	820	2,521	2,538	4,772	6,925	5,176	4,272	2,549
Connection fees	71	68	47	172	146	220	411	601	675	1,458
Regional facilities fees	-	-	-	-	(11)	357	513	301	374	354
Reserve capacity charges	-	11	28	37	5	22	40	18	1	58
Wastewater miscellaneous	1,804	2,279	3,599	1,606	3,220	1,693	1,342	1,062	1,344	1,244
Stormwater miscellaneous	58	58	58	58	58	58	57	58	30	50
Total other operating income	2,379	2,980	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713
Total operating revenue	\$ 185,676	\$ 171,590	\$ 167,556	\$ 161,283	\$ 132,446	\$ 129,765	\$ 122,849	\$ 110,787	\$ 106,242	\$ 95,968

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Service and administrative costs:										
Labor	\$ 57,543	\$ 52,945	\$ 49,354	\$ 49,431	\$ 47,079	\$ 42,287	\$ 40,948	\$ 40,206	\$ 40,947	\$ 40,068
Utilities	13,853	11,879	10,818	12,989	10,976	12,518	10,119	8,870	7,967	6,979
Materials and supplies	9,043	9,031	8,742	8,707	8,197	7,745	6,625	7,237	7,479	7,043
Professional services	2,624	2,363	2,730	3,126	2,797	2,543	2,698	2,530	3,821	4,543
Maintenance and repairs	10,054	8,847	9,675	8,926	8,035	7,762	5,874	4,976	5,672	4,660
Billing and collections	4,318	4,461	3,623	5,319	2,889	3,869	3,371	3,209	2,812	3,164
Chemicals and fuel	4,059	6,099	5,687	5,148	4,825	5,088	4,099	3,828	3,701	3,536
Biosolids disposal	2,035	2,186	2,063	1,661	1,412	1,554	1,451	1,359	1,442	2,438
All other	4,152	3,638	2,817	2,800	3,947	3,067	3,650	2,757	3,988	3,081
Adjustment for encumbrances	-	-	-	-	-	-	-	-	-	-
Gross service and administrative costs	107,681	101,449	95,509	98,107	90,157	86,433	78,835	74,972	77,829	75,512
Less: Recovery of cost										
Capitalized project cost	(30,472)	(28,129)	(24,401)	(26,510)	(25,715)	(24,450)	(24,419)	(23,158)	(25,302)	(24,007)
Revenue recoveries	(374)	(381)	(1,574)	(1,262)	(963)	(937)	(867)	(513)	(482)	(778)
Recovery of cost	(30,846)	(28,510)	(25,975)	(27,772)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,785)
Net service and administrative costs	\$ 76,835	\$ 72,939	\$ 69,534	\$ 70,335	\$ 63,479	\$ 61,046	\$ 53,549	\$ 51,301	\$ 52,045	\$ 50,727

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Completed projects										
Sewer lines	\$ 1,159,437	\$ 1,134,637	\$ 1,042,742	\$ 1,022,859	\$ 963,798	\$ 915,527	\$ 819,349	\$ 762,241	\$ 694,851	\$ 619,077
Wastewater treatment facilities	471,190	470,527	459,238	456,955	422,483	418,997	389,747	273,187	262,073	242,549
Stormwater drainage facilities	434,943	427,431	400,118	390,699	366,745	337,039	308,282	288,277	278,739	265,294
Pumping and lift stations	71,122	70,643	69,301	66,990	60,877	55,407	51,389	46,752	42,620	39,454
Administrative facilities	46,078	45,561	45,561	45,561	45,347	45,347	45,239	30,724	22,859	20,867
Maintenance facilities	8,037	7,827	7,827	7,833	7,313	7,470	7,395	4,785	4,048	4,048
Machinery, equipment and other	71,923	93,240	74,975	75,872	62,526	58,613	56,749	47,815	47,703	46,653
Capitalized interest and issuance cost	235,624	222,564	214,644	214,644	220,690	211,362	196,725	178,557	173,717	153,556
Total completed projects	2,498,354	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498
Less accumulated depreciation	(768,423)	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)
Total completed projects - net	1,729,931	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294
Total construction in progress	272,850	140,134	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570
Total net plant, lines and other facilities	\$ 2,002,781	\$ 1,878,012	\$ 1,816,737	\$ 1,789,812	\$ 1,764,556	\$ 1,733,724	\$ 1,694,956	\$ 1,619,999	\$ 1,532,918	\$ 1,436,864

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

Plant	Design Capacity MGD	Avg Daily Flow MGD	Eventual Capacity MGD	Residential	Customer Base			Total	Year Built	Treatment Process
					Commercial	Industrial				
Morris Forman	120.0	96.7	120.0	118,056	14,200	347		132,603	1958	Secondary added in 1972.
Derek R. Guthrie*	30.0	27.7	45.0	58,490	3,606	19		62,115	1986	Secondary
Jeffersontown	4.0	3.9	4.0	6,579	879	14		7,472	1956	Secondary
Hite Creek	6.0	3.7	8.0	6,852	492	5		7,349	1970	Tertiary: sand filter
Cedar Creek	7.5	5.0	7.5	8,743	204	-		8,947	1995	Tertiary: sand filter
Floyd's Fork	3.3	3.3	9.8	5,309	205	-		5,514	2001	Tertiary: sand filter
14 Small Treatment Plants**	2.6	2.0	-	6,102	138	-		6,240	Most 1970s	Various: developer-built package plants
Total treatment system	173.4	142.3	194.3	210,131	19,724	385		230,240		

* - Formerly known as the West County WTP

** - Yorktown WQTC was eliminated and flow diverted to Derek R. Guthrie WQTC in December 2010. Flow for this facility reported in DRGWQTC averages.

Source: MSD Engineering Department

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

	2011 Rank	2010 Rank	2009 Rank	2008 Rank	2007 Rank	2006 Rank	2005 Rank	2004 Rank	Type of business									
United Parcel Service, Inc.	1	20,388	1	20,125	1	20,560	1	20,674	1	18,398	1	17,543	1	17,206	P	Air cargo transport and distribution		
Jefferson County, KY Public Schools	2	13,840	2	13,964	2	13,326	2	13,917	2	13,593	2	13,281	2	13,420	G	Primary and secondary education		
Humana, Inc.	3	10,017	3	9,400	3	10,096	3	9,854	3	8,775	5	7,458	6	5,850	11	4,889	P	Group health insurance/HMOs
Norton Healthcare (formerly Alliant Health)	4	9,421	4	8,698	4	8,142	4	7,978	4	7,690	4	7,783	4	8,525	4	7,850	N	Hospital and health care facilities
Jewish Hospital & St. Mary's Healthcare Inc.	5	5,819	6	5,782	5	6,500	5	6,203	6	6,229	7	5,907	7	5,405	6	5,450	N	Hospital and health care facilities
University of Louisville	6	5,746	5	6,352	6	6,135	7	5,866	7	5,763	8	5,563	8	5,236	10	4,943	G	Higher education
Louisville-Jefferson County Metro Government*	7	5,706	7	5,765	7	5,811	8	5,639	8	5,698	6	5,993	5	5,893	5	5,744	G	City/County Government
Kroger Company	8	5,313	8	5,692	9	5,263	10	4,784	10	4,644	9	5,177	11	4,827	8	4,960	P	Retail grocer
Commonwealth of Kentucky	9	4,488	10	4,361	10	4,253	11	4,498	11	4,535	11	4,700	10	4,952	9	4,952	G	General purpose government
General Electric Company	10	3,988	11	4,100	11	4,000	9	5,000	9	5,000	10	5,000	9	5,000	7	5,200	P	Appliance manufacturing
Ford Motor Company	11	3,847	9	5,397	8	5,624	6	5,929	5	7,586	3	8,745	3	8,972	3	9,303	P	Vehicle manufacturing
Baptist Healthcare System	12	3,752	12	3,889	12	3,305	12	3,089	12	3,536	12	3,140	12	3,179	15	2,308	N	Hospital and health care facilities
U.S. Federal Government	13	2,855	13	3,575	13	2,985	13	2,853	14	2,822	13	2,826	13	2,941	13	2,806	G	General purpose government
U.S. Postal Service	14	2,653	18	1,991	14	2,626	14	2,651	15	2,653	14	2,674	14	2,902	12	2,872	G	Mail distribution
Roman Catholic Archdiocese of Louisville	15	2,416	17	2,142	17	2,343	15	2,351	17	2,348	15	2,437	15	2,680	14	2,468	N	Religious, educational, social services
Zappo's Fulfillment Centers, Inc	16	2,415															P	Fulfillment services for Zappos.com
University of Louisville Hospital	17	2,307	15	2,645	15	2,573	16	2,314	16	2,417	17	2,346	19	1,972	18	2,115	N	Nonprofit healthcare
Kindred Healthcare (formerly Vencor Inc.)	18	2,297	16	2,224	18	2,153	19	2,079	13	3,033	16	2,349	16	2,342	20	1,957	P	Long-term health care, facilities
LG&E and KU Energy (formerly EON)	19	1,976	19	1,976	20	1,902											P	Gas & Electric Utility
U.S. Bureau of the Census	20	1,862	14	3,106	16	2,491	17	2,248	22	1,638	20	1,810	22	1,672			G	General purpose government
Oldham County, KY Board of Education	21	1,689	28	1,500	25	1,568	25	1,519	28	1,448	28	1,407	31	1,320	30	1,250	G	Primary and secondary education
Robley Rex VA Medical Center	22	1,671	24	1,596													N	Hospital and health care facilities
Yum! Brands Inc. (formerly Tricon)	23	1,640	21	1,757	19	2,076	18	2,243	18	2,219	18	2,123	18	2,195	16	2,194	P	Food service provider
Floyd Memorial Hospital & Health Services	24	1,546	29	1,473	32	1,338	33	1,316	30	1,409	29	1,337	27	1,412	37	1,113	P	Hospital and health services provider
Insight Communications	25	1,457	34	1,340													P	Telecommunications
Rescare Inc.	26	1,378	35	1,314	33	1,314											P	Health & human services
Publishers Printing Company	27	1,367	27	1,500	23	1,600	20	1,860	21	1,689	21	1,702	23	1,633	23	1,595	P	Trade, professional, special printing
Greater Clark County, IN School Corp.	28	1,364	30	1,395	27	1,409	27	1,491	23	1,600	22	1,598	24	1,509	24	1,459	G	Primary and secondary education
JBS	29	1,310															P	Pork Processing
BF Cos (formerly Manna Inc.)	30	1,300	20	1,830													P	Food service provider
Horseshoe Southern IN (formerly Caesars')	31	1,244	26	1,540	22	1,697	21	1,858	19	1,895	19	1,942	20	1,918	19	1,968	P	Gaming and entertainment resort
Seven Counties Services	32	1,202	40	1,187	36	1,118	40	1,110	39	1,100	37	1,137	36	1,159	35	1,132	N	Health care provider
Securitas Security Services USA Inc.	33	1,191	41	1,150	35	1,150											P	Security Services
Brown-Forman Corp.	34	1,184	37	1,240	37	1,081	35	1,256	34	1,317	33	1,264	39	1,075	34	1,145	P	Distilled spirits manufacturing
Anthem, Inc.	35	1,150	36	1,276	29	1,358	31	1,381	29	1,438	23	1,575	21	1,687	21	1,744	P	Health Insurance sales and services
SHPS	36	1,140	38	1,225	31	1,349	36	1,209	37	1,200	30	1,315	30	1,336	27	1,315	P	Benefits administration
Clark Memorial Hospital	37	1,133	39	1,225	34	1,270	38	1,175	40	1,060	39	1,098	28	1,411	26	1,358	N	Hospital and health services provider
Texas Roadhouse Inc	38	1,000															P	Restaurant
		<u>135,072</u>		<u>133,732</u>		<u>128,369</u>		<u>124,231</u>		<u>125,009</u>		<u>122,085</u>		<u>119,781</u>		<u>114,716</u>		

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

Source: Business First of Louisville, KY

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

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

Employer	Employees	2011 Rank	Percentage of Total Employment	Employer	Employees	2002 Rank	Percentage of Total Employment
United Parcel Service, Inc.	20,388	1	3.43%	United Parcel Service, Inc.	22,303	1	3.85%
Jefferson County, KY Public Schools	13,840	2	2.33%	Jefferson County, KY Public Schools	12,690	2	2.19%
Humana, Inc.	10,017	3	1.68%	Ford Motor Company	9,856	3	1.70%
Norton Healthcare (formerly Alliant Health)	9,421	4	1.58%	Norton Healthcare (formerly Alliant Health)	7,034	4	1.21%
Jewish Hospital & St. Mary's Healthcare Inc.	5,819	5	0.98%	Kroger Company	6,655	5	1.15%
University of Louisville	5,746	6	0.97%	General Electric Company	5,800	6	1.00%
Louisville-Jefferson County Metro Government	5,706	7	0.96%	Commonwealth of Kentucky	5,374	7	0.93%
Kroger Company	5,313	8	0.89%	University of Louisville	5,017	8	0.87%
Commonwealth of Kentucky	4,488	9	0.75%	Humana, Inc.	4,672	9	0.81%
GE Appliances & Lighting	3,988	10	0.67%	Jewish Hospital & St. Mary's Healthcare Inc.	4,352	10	0.75%
Total	<u>84,726</u>		<u>14.24%</u>		<u>83,753</u>		<u>14.44%</u>
Total Employment	594,959				579,964		

Source: Business First of Louisville
Workforce Kentucky

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

<u>Fiscal Year</u>	<u>Revenue Bond</u>	<u>Bond Anticipation Notes</u>	<u>Total Debt</u>	<u>Population</u>	<u>Personal Income</u>	<u>Percentage of Personal Income</u>	<u>Unemployment Rate</u>	<u># of MSD Employees</u>
2003	\$ 1,183,233	\$ -	\$ 1,183,233	695,843	\$ 23,791,641	4.97%	5.20%	634
2004	1,271,531	-	1,271,531	698,059	24,184,881	5.26%	5.10%	607
2005	1,256,651	-	1,256,651	698,903	25,470,269	4.93%	5.70%	607
2006	1,341,256	-	1,341,256	699,827	25,949,674	5.17%	5.70%	612
2007	1,325,426	-	1,325,426	701,500	27,122,740	4.89%	5.00%	614
2008	1,427,060	-	1,427,060	709,264	29,497,015	4.84%	6.40%	625
2009	1,393,547	-	1,393,547	713,877	31,274,740	4.46%	10.60%	633
2010	1,307,278	452,680	1,759,958	721,594	29,834,474	5.90%	10.30%	651
2011	1,599,668	226,340	1,826,008	741,096*	Not Available	N/A	9.5%	655

* - Estimate

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

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

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

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

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

<u>Rank</u>	<u>Customer Name</u>	<u>FY '11 Wastewater Billed</u>	<u>Percent Total Wastewater Revenue</u>	<u>Customer Name</u>	<u>FY '02 Wastewater Billed</u>	<u>Percent Total Wastewater Revenue</u>
1	Solae LLC*	\$ 3,886,720	2.66%	Protein Technologies	\$ 2,371,174	3.39%
2	Jefferson Co. Bd. of Educ	\$ 1,714,247	1.18%	E.I. Dupont	\$ 1,598,991	2.29%
3	Opta Food	\$ 1,643,161	1.13%	Oxy Vinyls	\$ 1,107,514	1.59%
4	Lubrizol Advanced Material***	\$ 1,553,211	1.06%	Opta Food	\$ 1,020,000	1.46%
5	Brown Forman Corp.	\$ 1,479,597	1.01%	Ford Motor Co.	\$ 833,378	1.19%
6	Heaven Hill Distilleries	\$ 1,324,026	0.91%	Swift & Company	\$ 673,208	0.96%
7	Swift & Company	\$ 1,275,360	0.87%	Jefferson Co. Bd. of Educ.	\$ 593,963	0.85%
8	Lou. Metro Housing Auth.	\$ 1,120,912	0.77%	Louisville Mun. Housing	\$ 586,966	0.84%
9	Ford Motor Co.	\$ 920,322	0.63%	Rohm & Haas	\$ 490,420	0.70%
10	General Electric	\$ 849,465	0.58%	Brown Foreman Corp	\$ 475,427	0.68%
Total		\$ 15,767,021	10.81%	Total	\$ 9,751,041	13.96%
Total FY '11 Wastewater Revenue:		\$ 145,880,000		Total FY '02 Wastewater Revenue:		\$ 69,855,885

<u>Rank</u>	<u>Customer Name</u>	<u>FY '11 Stormwater Billed</u>	<u>Percent Total Stormwater Revenue</u>	<u>Customer Name</u>	<u>FY '02 Stormwater Billed</u>	<u>Percent Total Stormwater Revenue</u>
1	Regional Airport Authority	\$ 964,910	2.58%	Regional Airport Authority	\$ 276,876	1.36%
2	United Parcel Service	\$ 634,736	1.70%	United Parcel Service	\$ 244,982	1.20%
3	Jefferson Co. Bd. of Educ.	\$ 340,377	0.91%	Jefferson Co. Bd. of Educ.	\$ 201,003	0.99%
4	Ford Motor Company	\$ 329,914	0.88%	Ford Motor Company	\$ 172,338	0.84%
5	KY State Fair Board	\$ 218,799	0.58%	University of Louisville	\$ 114,441	0.56%
6	Churchill Downs	\$ 189,668	0.51%	Churchill Downs	\$ 113,438	0.56%
7	Norfolk Southern Corp.	\$ 162,370	0.43%	Trammell Crow Co.	\$ 95,768	0.47%
8	Louisville Gas & Electric	\$ 158,956	0.42%	KY State Fair Board	\$ 90,576	0.44%
9	LIT Industrial Limited Partnership**	\$ 158,869	0.42%	Norfolk Southern Corp.	\$ 86,213	0.42%
10	U of L Belknap Campus	\$ 149,793	0.40%	Seaboard Systems, Inc.	\$ 81,632	0.40%
Total		\$ 3,308,392	8.84%	Total	\$ 1,477,267	7.24%
Total FY '11 Stormwater Revenue:		\$ 37,417,000		Total FY '02 Stormwater Revenue:		\$ 20,399,000

* Solae LLC was formerly known as Protein Technologies

** LIT Industrial Limited was formerly known as Trammell Crow Co.

***Lubrizol Advanced Material was formerly known as Oxy Vinyls



LOUISVILLE, KENTUCKY USA

*A COMPONENT UNIT OF THE
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