

**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 YEARS ENDED JUNE 30, 2015 AND 2014

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014**

TABLE OF CONTENTS

	<u>Page No.</u>
<i>INTRODUCTORY SECTION</i>	
Letter of Transmittal	1-6
GFOA Certificate of Achievement for Excellence in Financial Reporting	7
Organization Chart	8
List of Board Members and Principal Officers	9
<i>FINANCIAL SECTION</i>	
Independent Auditors' Report	10-11
Management Discussion and Analysis	12-20
Basic Financial Statements	
Comparative Statement of Net Position	21
Comparative Statement of Revenues, Expenses and Changes in Net Position	22
Comparative Statement of Cash Flows	23-24
Notes to the Comparative Financial Statements	24-51
Required Supplementary Information	52-53
<i>STATISTICAL SECTION</i>	
Schedule of Debt Service Coverage	54
Ten Year Comparative Statement of Net Assets	55-56
Ten Year Comparative Statement of Revenues, Expenses, and Changes in Net Assets	57
Ten Year Comparative Statement of Cash Flow	58
Ten Year Comparative Summary of Operating Revenue	59
Ten Year Comparative Summary of Service and Administrative Costs	60
Ten Year Comparative Schedule of Plant, Lines, and Other Facilities	61
Wastewater Treatment Plant Capacity	62
Employers of One Thousand or more in Greater Louisville	63
Principal Employers – Current Year & Nine Years Ago	64
Outstanding Debt & Misc. Demographic Information	65
Top Ten Customers	66

INTRODUCTORY SECTION



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

Letter of Transmittal

October 26, 2015

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 years ended June 30, 2015 ("2015") and June 30, 2014 ("2014") is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with MSD. To provide a reasonable basis for making these representations, the management of MSD has established a comprehensive internal control framework that is designed to both protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of MSD's financial statements in conformity with Generally Accepted Accounting Principles ("GAAP").

Because the cost of internal controls should not outweigh their benefits, MSD's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of MSD's knowledge and belief, the accompanying data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of MSD. All disclosures necessary to enable the reader to understand MSD's financial activities have been included. We encourage readers to review the narrative introduction, overview, and analysis found in Management's Discussion and Analysis ("MD&A") along with the footnotes that accompany the financial statements.

Profile of MSD

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

MSD is considered a component unit of the Louisville/Jefferson County Metro Government ("Louisville Metro Government"). The Louisville Metro Mayor appoints, with the approval of the Louisville Metro Council, the members to MSD's governing Board. The Board, which has statutory authority to enter into contracts and agreements for the management, regulation and financing of MSD, manages its business and activities. The Board has full statutory responsibility for approving and revising MSD's budgets, for financing deficits and for disposition of surplus funds. MSD has no special financial relationship with the Louisville Metro Government; however, effective July 1, 2006, MSD began providing free sewer and drainage services to the Metro government. The value of these services in 2015 was \$5.8 million.

Letter of Transmittal

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County, which, with a 2014 population of approximately 760,026, 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 2015 to 602,845; an increase of 2,010 from the June 2014 level of 600,835. The June 2015 unemployment rate for the Louisville MSA was 4.7% compared to a rate in June 2014 of 6.8%, a national average rate of 5.5% and a state average rate of 5.4% for this same time period.

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

The Louisville area experienced significant economic prosperity during the 1990s. Louisville's growth was driven primarily by the manufacturing and service sectors. In the 1990s, Louisville saw major investments at the two Ford Motor plants and at General Electric's Appliance Park. Other notable developments in the 1990s included an expanded airport, several new industrial parks, an expanded convention center, a new football stadium, a large riverboat casino in nearby Harrison County, Indiana, a new minor league baseball stadium, a revived downtown, a redeveloped riverfront, and a thriving real estate market.

While the national trend of economic expansion stalled, local economic investment continued, but at a slower pace than in previous years. Investment in the service sector is still ongoing. The service sector includes healthcare, insurance, restaurants, and the like, and the distribution industry, which may be the single most important economic growth industry in Louisville Metro today and for the foreseeable future. The most notable local example is United Parcel Service (UPS). UPS completed a \$1.1 billion, automated sorting facility, UPS Worldport, at Louisville International Airport in September 2002. Worldport is UPS's all points, worldwide sorting facility for express mail packages. Continued UPS expansion of Worldport for an additional \$1+ billion was completed in May 2010. This expansion included the addition of two aircraft load/unload "wings" to the hub, followed by the installation of a high-speed conveyor and computer control system and increased Worldport by 1.2 million square feet to 5.2 million square feet.

The local transportation infrastructure and distribution network continues to attract other businesses to the area. Louisville International Airport ranked third in 2013 among U.S. airports for air cargo volume and seventh worldwide. The airport handled over 2.29 metric tons of cargo, freight and mail in 2014, up from 2.22 metric tons in 2013. (1)

Letter of Transmittal

Economic Condition and Outlook (continued)

The following are examples of recent and continuing local development activities and accomplishments:

- In September 2014, the International Trade Administration released its 2014 rankings for U.S. metropolitan area exports. Exports were stable compared to 2013 at \$8.9 Million. Louisville ranked 37 overall for total exports. (2)
- Greater Louisville, Inc. the Metro Chamber of Commerce, tracks how Louisville Metro is viewed from the outside. Several notable observations are: (3):
 - ✓ Louisville ranked 22nd out of 373 MSAs on “Area Development Magazine’s” Leading Locations for 2015 list after coming in at 120 last year.
 - ✓ *TIME* magazine named Louisville in its top 20 for America’s Best Food Cities; *Fodor’s* “2015 Places to Go” listed Louisville; *Trivago* named Louisville among “America’s 50 Best Value Destinations”; *National Geographic Traveler* named Louisville one of its “Best of the World destinations”; *Zagat Restaurant Digest* named Louisville’s NuLu as one of the “Top 20 Hot Food Neighborhoods.”
 - ✓ Louisville was ranked in the top 10 cities for first-time homebuyers by *Business Insider* and 8th in *Forbes’* 2014 “America’s Most Affordable Cities.”
 - ✓ The State Entrepreneurship Index ranked Kentucky No. 4 for its ability to create new businesses and *Site Selection Magazine* placed Kentucky 8th in the country in its 2014 Top State Business Climate ranking.
 - ✓ *Rolling Stone Magazine* ranked Louisville’s KFC Yum! Center as the seventh-best arena or stadium for concerts in America, and Louisville Slugger Field ranked #2 in *USA Today Travel’s* “10 Best Minor League Ballparks in U.S.”

Six hotel projects have begun or been announced in downtown Louisville in 2014/2015.(4) The largest project is a \$261 million development that includes a 600-room Omni Hotel, 200 apartments, and a grocery store. (5) In July 2014, the Kentucky International Convention Center announced a \$176 million dollar expansion.(6)

In September 2014, GE announced it would sell its appliance division located in Louisville’s Appliance Park to Electrolux for \$3.3 billion. Employment at Appliance Park remains stable and a \$250 million investment is planned.(7) Electrolux and GE continue negotiations, but the deal faces regulatory hurdles, as the U.S. Justice Department has sued to stop the deal. (8)

- (1) Preliminary World Airport Traffic and Rankings 2014. Airports Council International – North America. March 26, 2015
- (2) Exports from U.S. Metropolitan Areas. International Trade Association, U.S. Department of Commerce. Accessed August 13, 2015, from <http://tse.export.gov/metro/SelectReports.aspx?DATA=Metro>
- (3) Source -- http://www.greaterlouisville.com/Templates/ED/ed_2rows.aspx?pageid=1286
- (4) Louisville Could Be Getting Another Downtown Hotel. Louisville Business First. September 9, 2014
- (5) Omni Hotel Headlines \$261 Million Downtown Development Project. Louisville Business First. March 6, 2014
- (6) Tourism Officials Excited About Convention Center Upgrade, Downtown Hotel Developments, Louisville Business First, July 18, 2014
- (7) GE in midst of spending \$250 million on Appliance Park upgrades. Louisville Business First. Apr 23, 2015
- (8) U.S. sues to stop Electrolux acquiring GE’s appliance business. Reuters. July 1, 2015

During 2015, MSD continued to benefit from a diversified customer base. Fifty-two percent (52%) of its service charge revenue came from residential customers with the remaining forty-eight percent (48%) coming from commercial and industrial customers. During 2015, sewer accounts increased by 13,288, or 5.5%, to 253,462.

Letter of Transmittal

Major Initiatives:

MSD Strategic Business Plan

In 2014, MSD completed a new Strategic Business Plan for 2014 -2018. The Strategic Business Plan resulted in new MSD vision and mission statements, as well as eight strategies that “are the road map of the future.”

Vision

- Achieving Clean, Safe Waterways for a Healthy and Vibrant Community
- Mission
- Providing Exceptional Wastewater, Drainage, and Flood Protection Services for Our Community

Strategies

- Build MSD's Brand Promise
- Provide Premium Customer Care and Service
- Improve Information Technology Systems
- Invest in Infrastructure and Ensure Compliance with Amended Consent Decree
- Develop Disaster Response and Business Continuity Plan
- Develop and Invest in Employees
- Implement Partnerships
- Ensure Financial Viability

New Organization Structure

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

Comprehensive 20-Year Facilities Plan

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

Letter of Transmittal

Factors Affecting Financial Condition

Investment Policy and Performance

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

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

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

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

Gross investment earnings in 2015 was \$17.6 million compared to gross investment earnings of \$20.3 million in 2014.

Other Information

Independent Audit

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. Crowe Horwath, LLP was selected by the MSD Board to conduct the 2015 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal years ended June 30, 2015 and 2014 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 unmodified opinion that MSD's financial statements for the fiscal years ended June 30, 2015 and 2014 are fairly presented in conformity with Generally Accepted Accounting Principles in the United State. The auditors' opinion and report on the basic financial statements is included in the Financial Section of this report.

Letter of Transmittal

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MSD for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the 25th consecutive year that MSD has achieved this prestigious award. In order to be awarded a Certificate of Achievement, MSD must publish an easily readable and efficiently organized CAFR. The report satisfied both generally accepted accounting principles and applicable legal requirements.

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

I wish to take this opportunity to thank the MSD Board and Executive Management for their continued support and fiscally responsible management of MSD's financial resources.

Respectfully submitted,



Maria B. Mullaney

Controller



Government Finance Officers Association

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

Presented to

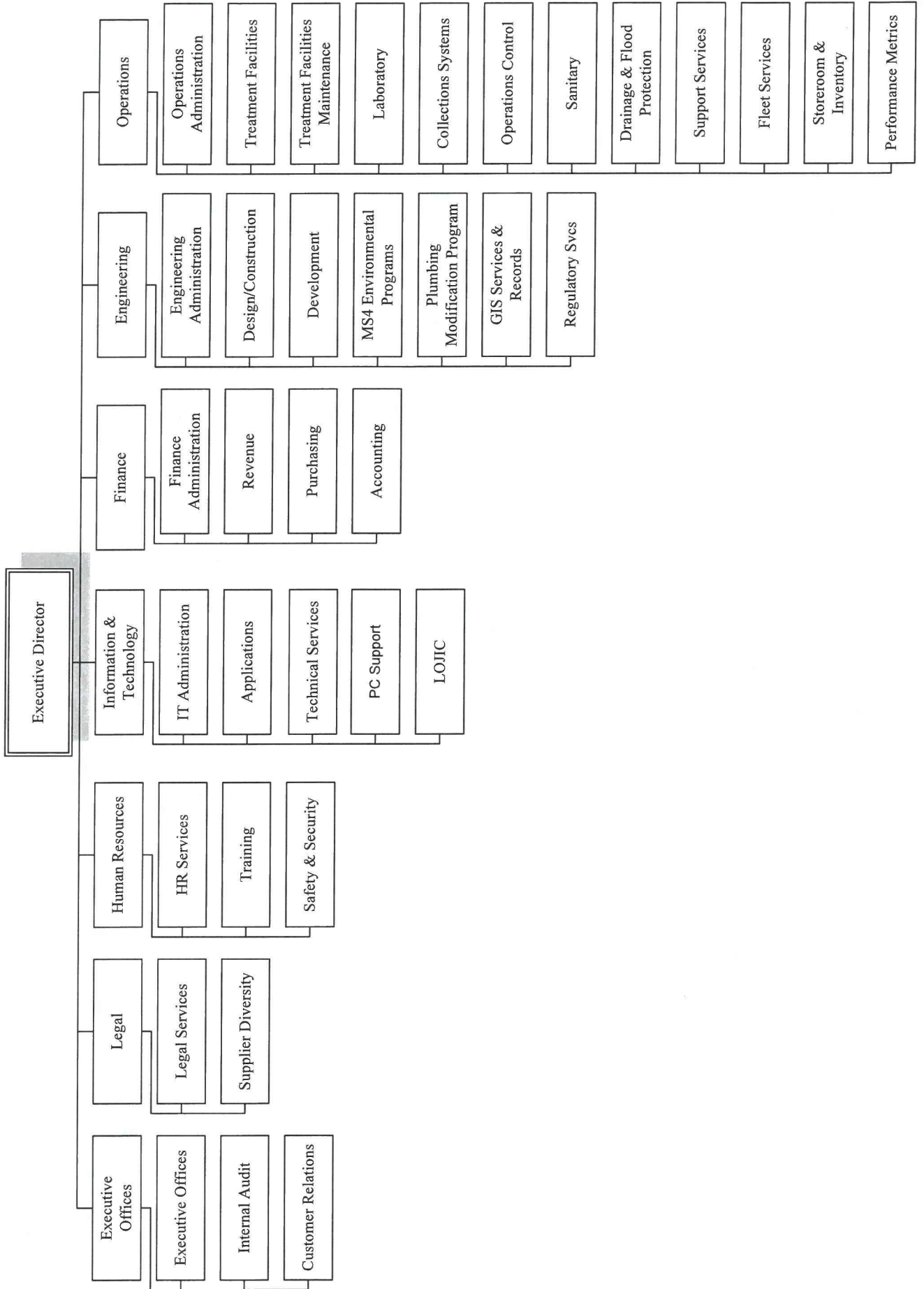
**Louisville and Jefferson County
Metropolitan Sewer District
Kentucky**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Louisville and Jefferson County
Metropolitan Sewer District
Organization Chart



MSD BOARD:

Cyndi Caudill, Chair, term expires 8/31/17

Daniel Arbough, Vice Chair, term expires 6/30/18

Yvonne Wells-Hatfield, term expires 6/30/16

John Phelps, term expires 7/31/16

Joyce Horton Mott, term expires 8/31/17

Sujata Barai Chugh, term expires 2/28/18

J.T. Sims, term expires 7/31/17

Andrew Bailey, term expires 7/31/18

Lonnie Calvert (resigned 5/22/15)

Tom Austin (resigned 12/23/14)

James Craig (resigned 11/24/15)

PRINCIPAL OFFICERS:

Greg Heitzman, Executive Director (retired 9/30/15)

Tony Parrott, Executive Director (effective 9/14/15)

Angela Akridge, Chief Engineer

Chad Collier, Chief Financial Officer
Secretary/Treasurer

Paula Purifoy, General Counsel

W. Brian Bingham, Chief of Operations

Lynne Fleming, Human Resources Director

Tom Lockett, Information Technologies Director

FINANCIAL MANAGERS:

Maria B. Mullaney, Controller

Rene' Thomas, Purchasing Manager

Sharon Dawson, Revenue Manager

Patrick Meador, Budget Administrator

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisville and Jefferson County Metropolitan Sewer District, a component unit of the Louisville-Jefferson County Metro Government, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Louisville and Jefferson County Metropolitan Sewer District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville and Jefferson County Metropolitan Sewer District, as of June 30, 2015 and 2014, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Louisville and Jefferson County Metropolitan Sewer District restated July 1, 2014 net position, liabilities, and deferred outflows of resources for the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The adoption resulted in increases in net pension liability of approximately \$58,825,00 and deferred outflows of resources of approximately \$5,051,000, respectively, and reduction of net position of \$53,774,000 at July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 12 through 20, the schedule of proportionate share of the net pension liability and the schedule of employer contributions on pages 52 and 53 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtain during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of Louisville and Jefferson County Metropolitan Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisville and Jefferson County Metropolitan Sewer District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 26, 2015



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

Management's Discussion and Analysis

As management of the Louisville and Jefferson County Metropolitan Sewer District (MSD), a component unit of the Louisville/Jefferson County Metro Government, we offer readers of MSD's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2015 and 2014. 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 position increased by \$36.1 million (6.6%) as a result of operations.
- Operating revenues increased by \$13.2 million (6.1%) to \$230 million.
- Operating expenses excluding depreciation increased by \$.9 million (1.2%).
- Non-operating revenues:
 - Investment income and sale of assets decreased by \$2.7 million (13.3%)
 - The fair value of swaps decreased 2015 revenue by \$5.2 million, compared to a decrease of \$1.2 million in 2014.
- Non-operating expenses:
 - Interest and capital related expenses and reimbursements increased by \$3.7 million (5.9%)
- MSD recorded a net pension liability of \$58.8 million as of June 30, 2014 reflected as a prior period adjustment.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

- **Statement of Net Position** - This financial statement includes all of MSD's assets, liabilities and deferred outflow & inflow of resources. It also provides information about the nature and amounts of investments in assets and the obligations to creditors. In addition, it provides the basis for computing rate of return, evaluating the capital structure of MSD and assessing the liquidity and financial flexibility of the organization.
- **Statement of Revenues, Expenses and Changes in Net Position** - This financial statement identifies the revenues generated and expenses incurred during the fiscal year. This statement helps the user to assess the profitability of MSD during the time period for which the statement relates.
- **Statement of Cash Flows** - This financial statement provides information relating to MSD's cash receipts and cash expenditures during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

FINANCIAL INFORMATION

Adoption of GASB Statements 68 and 71

- Beginning July 1, 2014, MSD implemented GASB Statement 68, "Accounting and Financial Reporting for Pensions" and GASB Statement 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date". With the implementation of GASB 68 and GASB 71, MSD is required to report a net pension liability on the Statement of Net Position as a retroactive prior period adjustment for the beginning net pension liability and related deferred outflows of resources. Any annual changes in the net position liability will be recorded in the Statement of Revenues, Expenses and Changes in Net Position.
- The net pension liability, deferred outflow of resources, deferred inflow of resources for MSD's participation in the County Employee Retirement System ("CERS") have been determined on the same basis as they are reported by Kentucky Retirement System ("KRS") for the CERS plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability as of June 30, 2015 and 2014, was \$52 million. MSD's net pension liability for this period was \$52 million and \$58.8 million.
- With the implementation of GASB 68, MSD has chosen to restate the financial statements for prior period ending June 30, 2014 to reflect the ending net position inclusive of the net pension liability for this period. Periods prior to this date have not been restated.

A summary of the restated net position as of June 30, 2014 follows:

Statement of Net Position	As Previously Reported FY 2014	Changes	FY 2014 As Restated
Deferred outflow - CERS contributions	\$ -	\$ 5,051	\$ 5,051
Total deferred outflow of resources	\$ 17,811	\$ 5,051	\$ 22,862
Total Assets and Deferred Outflows	\$ 2,595,670	\$ 5,051	\$ 2,600,721
Net Pension Liability	\$ -	\$ 58,825	\$ 58,825
Total Non-current Liabilities	\$ 1,610,724	\$ 58,825	\$ 1,669,549
Total Liabilities	\$ 1,910,617	\$ 58,825	\$ 1,969,442
Total Liabilities and Deferred Inflows	\$ 1,992,910	\$ 58,825	\$ 2,051,735
Unrestricted Net Position	\$ 85,963	\$ (53,774)	\$ 32,189
Total Net Position	\$ 602,760	\$ (53,774)	\$ 548,986
Total Liabilities, Deferred Inflows & Net Position	\$ 2,595,670	\$ 5,051	\$ 2,600,721

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

Statement of Net Position: MSD's net position increased by \$36.0 million in FY 2015 to \$585.1 million.

- MSD's total assets and deferred outflow of resources increased by \$91.8 million in FY 2015. This overall increase can be attributed primarily to additions to plant, lines and other facilities. In FY 2014, total assets and deferred outflows increased by \$117.4 million from FY 2013. The increase was primarily due to an increase in capital assets of \$80 million and an increase in construction funds from the issuance of Revenue Bonds.
- Total liabilities and deferred inflow of resources increased by \$55.8 million in 2015. This increase was due to an increase in accounts payable for construction of \$16 million, a decrease in the fair value of swaps of \$5.2 million, deferred inflow related to pension of \$5.8 million and an increase in bonds payable due to the issuance of 2014A Revenue Bonds. During FY 2014 there was an increase of \$135.4 million from FY 2013 due to implementing GASB 68, resulting in a net pension liability of \$58.8 million and the issuance 2013A Revenue Bonds
- Unrestricted net position decreased \$27.4 million during FY 2015; and has decreased \$110.4 million since FY 2013, primarily due to the net pension liability implementation in 2014.

	FY 2015	Restated FY 2014	FY 2013
Unrestricted Current Assets	\$ 92,568	\$ 111,934	\$ 89,403
Restricted Current Assets	156,315	161,922	154,050
Capital Assets	2,392,466	2,270,502	2,190,065
Other Noncurrent Assets	30,807	33,501	36,262
Total Assets	2,672,156	2,577,859	2,469,780
Deferred Outflow of Resources	20,407	22,862	13,511
Total Assets and Deferred Outflows	2,692,563	2,600,721	2,483,291
Current Liabilities	14,936	13,653	12,693
Current Liab. from Restricted Assets	303,205	286,240	285,489
Noncurrent Liabilities	1,697,119	1,669,549	1,535,962
Total Liabilities	2,015,260	1,969,442	1,834,144
Deferred Inflow of Resources	92,233	82,293	82,233
Total Liabilities and Deferred Outflows	2,107,493	2,051,735	1,916,377
Invested in Capital Assets, net	475,580	418,784	365,225
Restricted, net	155,121	148,451	136,939
Unrestricted	(45,631)	(18,249)	64,750
Total Net Position	585,070	548,986	566,914
Total Liab, Deferred Inflow & Net Position	\$ 2,692,563	\$ 2,600,721	\$ 2,483,291

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

Results of Operations

Revenues:

- **Total Operating Revenues** as of June 30, 2015 were \$229.9 million compared to \$216.6 million for the same period last year and \$210.0 million in FY 2013. An increase of \$13.2 million, or 6.1%, and \$6.6 million, or 3.1%, respectively. This increase in operating revenues is primarily driven by Board-approved rate increases of 5.5% in FY 2014 and 5.8% in FY 2013.
- **Wastewater Service Charges** totaled \$173.9 million as of June 30, 2015. This represents an increase of \$8.3 million or 5.0% from a year ago. Wastewater Services charges for FY 2014 and FY 2013 were \$165.6 million and \$159.8 million respectively. The majority of MSD's wastewater customers are billed based on the volume of water used. Because substantially all of MSD's customers are also customers of the Louisville Water Company, this charge is billed and collected by the Louisville Water Company on behalf of MSD.
- **Stormwater Service Charges** were \$51.6 million as of June 30, 2015. This represents an increase of \$3.1 million, or 6.4%, from the same period one year ago. Stormwater service charges for FY 2014 and FY 2013 were \$48.5 million and \$45.4 million respectively.
- **Other Operating Income** was \$4.4 million in FY 2015, which is \$1.8 million more than FY 2014. FY 2014 and FY 2013 were \$2.6 million and \$4.8 million respectively.
- **Free Services:** In FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to \$5.8 million in FY 2015, \$6.3 million in FY 2014 and \$6.3 million in FY 2013.

	FY 2015	Restated FY 2014	FY 2013
Service Charges	\$ 225,462	\$ 214,056	\$ 205,222
Other Operating Income	4,407	2,576	4,823
Total Operating Revenues	229,869	216,632	210,045
Investment Income	17,623	20,330	16,301
Total Revenues	247,492	236,962	226,346
Depreciation & Amortization Expense	63,321	63,516	60,335
Other Operating Expenses, net	76,118	75,246	74,931
Nonoperating Expenses	71,334	71,128	76,172
Change in Fair Value - Swaps	5,240	1,222	(36,286)
Total Expenses	216,013	211,112	175,152
Net Income (Loss) before Contributions	31,479	25,850	51,194
Contributions	4,605	8,103	7,134
Change in Net Position	36,084	33,953	58,328
Beginning Net Position	548,986	515,033	508,586
Ending Net Position	\$ 585,070	\$ 548,986	\$ 566,914

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

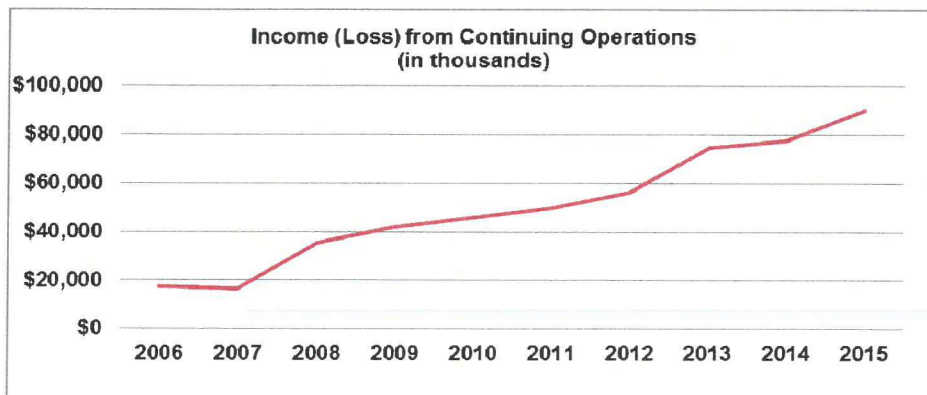
Expenses:

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the past three fiscal years. Gross service and administrative costs decreased by \$0.2.6 million in FY 2015 from FY 2014 level and decreased by \$.7 million in FY 2014 from FY 2013 level. MSD's employee count, including vacant positions, decreased from 660 in FY 2014 to 591 full-time equivalent positions in FY 2015. Labor cost was 51% of gross service and administrative costs in FY 2015, 52% in FY 2014 and 51 % in FY 2013.

TABLE 3						
Gross Service and Administrative Costs						
(000's)						
	2015	%	2014	%	2013	%
Service and administrative costs:						
Labor	\$ 54,251	51%	\$ 57,249	52%	\$ 55,028	51%
Utilities	13,817	13%	14,563	13%	12,821	12%
Materials and supplies	9,706	9%	8,151	7%	8,990	8%
Professional services	2,839	3%	1,932	2%	3,942	4%
Maintenance and repairs	7,915	7%	9,096	8%	10,866	10%
Billing and collections	4,327	4%	4,095	4%	4,904	5%
Chemicals	3,681	3%	3,306	3%	4,082	4%
Fuel	1,616	2%	1,837	2%	1,825	2%
Biosolids disposal	1,967	2%	1,795	2%	1,709	2%
All other	6,520	6%	7,238	7%	4,369	4%
Gross service and admin. costs	\$ 106,639	100%	\$ 109,262	100%	\$ 108,536	100%

Income from Operations:

MSD recorded a net operating income of \$90.4 million in FY 2015 compared to \$77.9 million in FY 2014, an increase of \$12.5 million or 16.1%. Increases in revenues of \$13.2 million from FY 2014 accounted for the majority of this change. Net cash provided by operating activities increased \$12.6 million from \$140.0 million in FY 2014 to \$152.6 million in FY 2015. The increase from FY 2013 to FY 2014 was \$12.1 million.



**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

Capital Assets:

MSD's total gross capital assets (additions) increased by \$24.0 million in FY 2015. Major additions include:

- \$8.73.6 million completion of sewer line installations,
- \$20.5 million in capitalized interest expense.

Readers are encouraged to review the Comparative Schedules of Plant, Lines, and Other Facilities that are contained in the Statistical Section of the CAFR and Note 5 for additional information regarding changes to capital assets.

Depreciation expense was \$62.0 million, or \$0.2 million more than FY 2014. These expenses are expected to increase in future years as MSD adds additional capital assets to its wastewater and stormwater systems.

Short-term and Long-term Debt:

Significant debt transactions included the following:

- On November 4, 2014, MSD issued \$80,000 of Sewer and Drainage System Revenue Bonds, Series 2014A. Proceeds of the 2014A bonds, net of issuance cost were used to pay the cost of improvements to MSD's sewer and drainage system.
- On November 4, 2014 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2013A Notes with an interest rate of 2.00%. The proceeds of the notes were used to refinance the 2013A Notes. The 2014A Notes mature on November 24, 2015.

Net interest expense totaled \$71.3 million in FY 2015, an increase of \$0.2 million from \$71.1 million in FY 2014. Additional information on MSD long-term debt can be found in Note 7 on pages 38-42 of this report.

Debt Service Ratio:

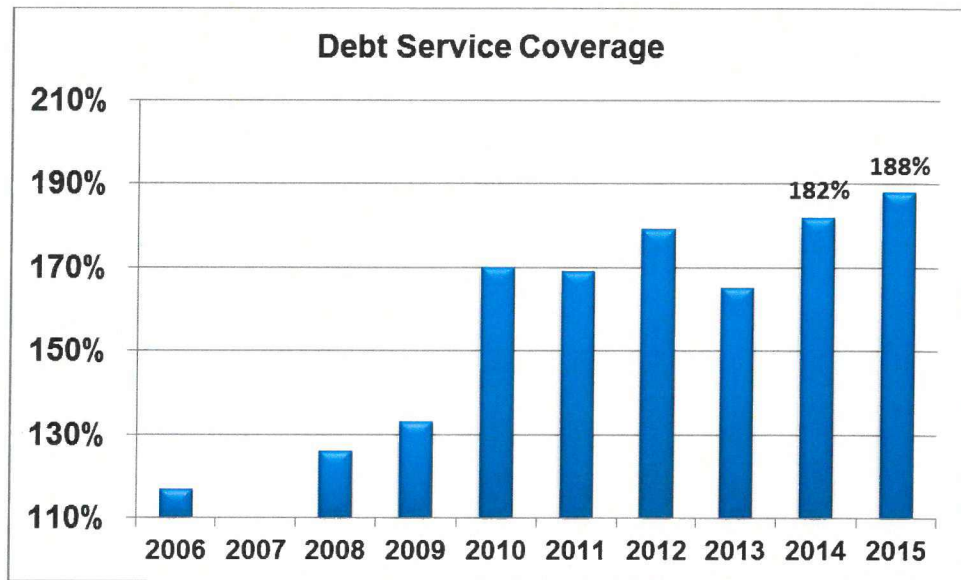
Although net operating income is the most significant component of determining MSD's debt service coverage ratio, other sources, including investment income and current period payments of property owner assessments also are included in "available revenues" and "net revenues" for purposes of demonstrating MSD's compliance with debt service ratio tests of the 1993 Sewer and Drainage System Revenue Bond Resolution (the Resolution). MSD's debt service coverage, calculated on the foregoing basis, was 188% in 2015 and 182% in 2014. Key aspects include:

- The 1993 Resolution and its supplements require MSD to provide "available revenues," sufficient to pay 110% of each year's "aggregate net debt service" on Revenue Bonds and 100% of "operating expenses." "Available revenues," as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of bonds issued pursuant to the Resolution, but exclude any interest income which is capitalized in accordance with generally accepted accounting principles.
- "Operating expenses" include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating expenses" do not include reserves for extraordinary maintenance and repair, or administrative and engineering expenses of MSD which are necessary or incidental to

**Louisville and Jefferson County Metropolitan Sewer District
Management’s Discussion and Analysis
June 30, 2015 and 2014**

capital improvements for which debt has been issued and which may be paid from proceeds of such debt.

- “Aggregate net debt service” is aggregate debt service on all bonds issued pursuant to the Resolution, excluding (i) interest expense which, in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt and (ii) other amounts, if any, available or expected to be available in the ordinary course of business for payment of debt service.



The formula authorized by the Louisville Metro Government to calculate allowable rate increases does not allow for the inclusion of depreciation expense. The applicable rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate net principal and interest requirements on Revenue Bonds that MSD covenants in the Revenue Bond Resolution.

Other Significant Matters:

Consent Decree: In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky’s Environmental and Public Protection Cabinet (“KEPPC”) and the U.S. Environmental Protection Agency (“EPA”). The agreement calls for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. The cost of the projects is estimated to be \$850 million over the next two decades. MSD has submitted plans to finance the projects through additional bonds and future rate increases. In a letter dated June 6, 2014, MSD requested approval from the KEPPC and the EPA for the IOAP 2012 Modifications, dated May 2014. The IOAP 2012 Modifications represents a revision to 28 separate projects set forth in the original IOAP, dated September 30, 2009. The IOAP Modifications were approved and will supersede and replace the 2009 IOAP. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree (see Note 13 to the financial statements.)

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

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

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

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

The Original ILA, effective through June 30, 2033 (unless earlier terminated by either party on six months' notice), provided for, among other items, the joint and/or cooperative development, provision, sharing and management of certain back-office, administrative and/or support services to include one or more of the following ("One Water"):

- Information Technology Services;
- Business Development Services;
- Engineering Services;
- Internal/External Communications Services;
- Finance Services;
- Risk Management Services;
- Human Resources; and
- Operations.

On August 24, 2015, the District and the Board of Waterworks of the Louisville Water Company entered into an Amended and Restated Inter-local Cooperation Agreement (the "Amended ILA," and together with the Original ILA, the "ILA"), as approved by the Kentucky Attorney General on September 17, 2015, in order to provide for more efficient implementation and expansion of the services provided in the Original ILA. The ILA, as so amended, is now effective through June 30, 2035 (unless earlier terminated by either party on 180 days' notice).

**Louisville and Jefferson County Metropolitan Sewer District
Management's Discussion and Analysis
June 30, 2015 and 2014**

Phase I of the ILA was implemented in May 2014 with the establishment of a joint services steering committee comprised of an equal number of staff from the District and the Louisville Water Company. The Joint Services Steering Committee is responsible for the oversight of the operation, administration and maintenance of the services pending the formation of a collaborative administrative body known as "One Water" comprised of two members appointed by the District's Board from among its members, and two appointed by the Board of Waterworks from among its members, along with a designee of the Mayor of Louisville and Jefferson County Metro Government. The administration of the various service agreements will be the key to successfully providing consolidated services to both Louisville Water Company and the District. The goal of the ILA is to create coordinated teams of employees from both entities with the capability of delivering superior customer service at lower costs than the existing two entities combined.

The first phase entails the sharing of services in five functional groups plus one specialty area of focus. The five functional groups addressed in this phase include Procurement, Fleet, Human Resources, Information Technology, and Customer Service. The specialty area that will be evaluated will focus on energy savings as highlighted in the Black and Veatch report. It is anticipated that work on Phase I will continue through 2016 and that Phase II will begin in the fourth quarter of 2015. That phase will include the consolidation of additional back office functions and may also include operational areas as well. The effort of identifying and prioritizing these subsequent functions will be performed during Phase I and a detailed plan will be developed prior to starting that work.

At a joint board meeting of the District and the Board of Waterworks of the Louisville/Jefferson County Metro Government held on August 18, 2015, it was announced the One Water initiative will produce over \$1 million in savings for 2015. The savings come from sharing resources and consolidating jobs. Louisville Water Company and the District recently hired a joint fleet manager and now utilize one fuel bid and a joint contract for parts and supplies. For Information Technology (IT), Louisville Water Company and the District are hiring a Chief Information Officer to oversee the IT efforts at both organizations. Louisville Water Company and the District have also found savings with joint purchases in other areas of the organization and sharing resources for the customer call centers. The savings for employment come through attrition. The organizations also realized a one-time savings of \$10 million through a partnership with a new customer billing system.

Requests for Additional Information

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION

June 30, 2015 and 2014

(Dollars in thousands)

	<u>2015</u>	<u>RESTATED 2014</u>
Current Assets:		
Unrestricted cash and cash equivalents	\$ 63,013	\$ 84,780
Unrestricted investments	100	100
Restricted cash and cash equivalents	34,958	39,507
Restricted investments	120,164	121,216
Accounts receivable, less allowance for doubtful accounts of \$913 (2015), \$1,029 (2014)	23,787	21,809
Inventories	3,981	3,808
Accrued interest receivable	1,193	1,199
Prepaid expenses and other current assets	1,687	1,437
Total current assets	<u>248,883</u>	<u>273,856</u>
Noncurrent Assets:		
Capital Assets - Plant, lines and other facilities, net	2,392,466	2,270,502
Other Non-current assets	30,807	33,501
Total noncurrent assets	<u>2,423,273</u>	<u>2,304,003</u>
Total Assets	<u>\$ 2,672,156</u>	<u>\$ 2,577,859</u>
Deferred Outflow of Resources:		
Deferred outflow - pension contributions	4,576	5,051
Unamortized loss on refunding	15,831	17,811
Total deferred outflow of resources	<u>20,407</u>	<u>22,862</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 2,692,563</u>	<u>\$ 2,600,721</u>
Current Liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	\$ 14,936	\$ 13,653
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses (capital), includes contractor retainage of \$8,893 (2015), \$6,169 (2014)	30,607	14,712
Accrued interest payable	13,036	12,834
Refundable deposits	1,639	1,568
Subordinated Debt	228,508	228,601
Current maturities of bonds payable	29,415	28,525
Total current liabilities	<u>318,141</u>	<u>299,893</u>
Non-current Liabilities:		
Bonds payable, net	1,644,187	1,609,963
Net pension liability	51,988	58,825
Other long term liabilities	944	761
Total non-current liabilities	<u>1,697,119</u>	<u>1,669,549</u>
Total Liabilities	<u>\$ 2,015,260</u>	<u>\$ 1,969,442</u>
Deferred Inflow of Resources:		
Interest rate swaps	78,880	73,640
Deferred inflow - pension liability	5,803	-
Other deferred inflows	7,550	8,653
Total deferred inflow of resources	<u>92,233</u>	<u>82,293</u>
Total Liabilities and Deferred Inflow of Resources	<u>\$ 2,107,493</u>	<u>\$ 2,051,735</u>
Net Position:		
Net investment in capital assets	\$ 475,580	\$ 418,784
Restricted for payment of bond principal and interest	155,121	148,451
Unrestricted	(45,631)	(18,249)
Total net position	<u>585,070</u>	<u>548,986</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 2,692,563</u>	<u>\$ 2,600,721</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2015 and 2014
(Dollars in thousands)

	<u>2015</u>	<i>RESTATED</i> <u>2014</u>
Operating Revenues		
Service charges	\$ 225,462	\$ 214,056
Other operating income	4,407	2,576
Total operating revenues	<u>229,869</u>	<u>216,632</u>
 Operating Expenses		
Service and administrative costs	76,118	75,246
Depreciation and amortization	63,321	63,516
Total operating expenses	<u>139,439</u>	<u>138,762</u>
 Income from Operations	 <u>90,430</u>	 <u>77,870</u>
 Non-operating Revenue (Expenses)		
Investment income	7,527	10,234
Build America Bond refund	10,096	10,096
Interest expense - bonds	(83,404)	(80,613)
Interest expense - swaps	(9,737)	(9,733)
Interest expense - other	(4,611)	(4,629)
Amortization of debt discount / premium	7,887	7,296
Amortization of loss on refunding	(1,980)	(2,552)
Capitalized interest	20,511	19,103
Change in fair value - swaps	(5,240)	(1,222)
Total non-operating revenue (expenses) - net	<u>(58,951)</u>	<u>(52,020)</u>
 Income before capital contributions	 31,479	 25,850
 Capital contributions:	 <u>4,605</u>	 <u>8,103</u>
 Increase in net position	 36,084	 33,953
 Net position, beginning of year	 548,986	 515,033
Net position, end of year	<u>\$ 585,070</u>	<u>\$ 548,986</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2015 and 2014
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 227,976	\$ 213,215
Cash paid to suppliers	(37,077)	(34,446)
Cash paid to employees	<u>(38,309)</u>	<u>(38,729)</u>
Net cash provided by operating activities	<u>152,590</u>	<u>140,040</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of revenue bonds	80,000	100,000
Proceeds from subordinated debt	226,340	226,340
Build America Bond refund	10,096	10,096
Assessments receivable proceeds	2,050	1,695
Interest received - assessments	340	687
Principal payments on revenue bonds	(45,420)	(27,035)
Interest paid on revenue bonds	(87,813)	(91,719)
Subordinated debt principal payments	(226,433)	(226,430)
Acquisition and construction of capital assets	(147,714)	(121,237)
Capital contributions	4,605	8,103
Acquisition of non-operating property	<u>(247)</u>	<u>(211)</u>
Net cash, provided by / (used in), capital and related financing activities	<u>(184,196)</u>	<u>(119,711)</u>
Cash Flows from Investing Activities:		
Change in restricted investments	1,052	(30,642)
Income received on investments	13,975	15,708
Interest payments - swap agreements	<u>(9,737)</u>	<u>(9,733)</u>
Net cash (used in) provided by investing activities	<u>5,290</u>	<u>(24,667)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(26,316)	(4,338)
Cash and cash equivalents, beginning of year	<u>124,287</u>	<u>128,625</u>
Cash and cash equivalents, end of year	<u>\$ 97,971</u>	<u>\$ 124,287</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2015 and 2014
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to Net Cash provided by Operating Activities:		
Income from operations	\$ 90,430	\$ 77,870
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,321	63,516
Accounts receivable	(1,964)	(3,848)
Inventories	(173)	(229)
Prepaid expense	(250)	(553)
Accounts payable	1,117	1,076
Customer deposits	71	431
Accrued liabilities	1,931	1,777
Net cash provided by operating activities	<u>\$ 154,483</u>	<u>\$ 140,040</u>
 Non-cash capital financing and investing activities:		
Contribution of plant, lines and other facilities by developers and property owners	<u>\$ 4,605</u>	<u>\$ 8,103</u>
Construction costs in accounts payable	<u>\$ 30,607</u>	<u>\$ 14,712</u>
Change in fair value of investments	<u>\$ 979</u>	<u>\$ 3,201</u>
Decrease in interest rate swap deferred revenue	<u>\$ 932</u>	<u>\$ 972</u>
Change in fair value - swap agreements	<u>\$ (5,240)</u>	<u>\$ (1,222)</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Louisville and Jefferson County Metropolitan Sewer District ("MSD"), a component unit of the Louisville/Jefferson County Metro Government, are prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. MSD follows GASB Pronouncements as codified under GASB 62, including electing to report as a regulated operation. MSD uses proprietary fund accounting (enterprise fund). Due to the election as a regulated operation under GASB 62, to meet industry accounting standards and follow transactional intent, MSD uses, as applicable, ASC 980, Regulated Accounting.

Beginning July 1, 2014, MSD adopted the following GASB pronouncements:

- **Statement No. 68**, *"Accounting and Financial Reporting for Pensions"*
- **Statement No. 69**, *"Government Combinations and Disposals of Government Operations"*
- **Statement No. 70**, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees"*
- **Statement No. 71**, *"Pension Transition for Contributions Made Subsequent to the Measurement Date"*

With the implementation of GASB 68 and GASB 71, MSD was required to report a net pension liability on the Statement of Net Position as a retroactive prior period adjustment for the beginning net pension liability. Any annual changes in the net pension liability will be recorded in the Statement of Revenues, Expenses and Changes in Net Position. The other pronouncements did not have an impact on financial reporting.

The following GASB Pronouncements are being evaluated for future year implementation:

- **Statement No. 72**, *"Fair Value Measurement and Application"* (FY2016)
- **Statement No. 73**, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (FY2018)
- **Statement No. 74**, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (FY2017)
- **Statement No. 75**, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (FY2018)
- **Statement No. 76**, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (FY2016)
- **Statement No. 77**, Tax Abatement Disclosures (FY2017)

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity

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

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

MSD has complete control, possession and supervision of the sewer and drainage system in large portions of Jefferson County, and has statutory authority to construct additions, betterments and extensions within its service area. Additionally, MSD has statutory responsibility for approval of the design and proper construction of sewer and drainage facilities within the County's boundaries. There are cities within the County that, by statute, have the option of using MSD sewer services on a contractual basis. Third and fourth class cities also have the option of obtaining drainage services from MSD. MSD's enterprise business activities are managed by its Board, which has statutory authority to elect officers, enact bylaws and enter into agreements and contracts for the management and regulation of MSD's affairs.

MSD's revenue is derived from sewer and drainage service charges which are collected from residential, commercial and industrial customers. MSD controls the collection of all revenue, disbursement of payables and title to all sewer and drainage assets. Sewer service charges are distributed among customer classes on the basis of actual costs incurred to collect and treat wastewater. Drainage service charges are distributed among customer classes on the basis of actual costs of drainage services per equivalent unit of impervious surface.

Changes in MSD's service charges are implemented by MSD's Board, but no change in the service charge schedule is final within the Louisville Metro area until approval by the Louisville Metro Council. However, the statute provides that such approval may not be arbitrarily withheld and that the schedule shall be sufficient to provide revenues for the operation and maintenance of the system and for debt service. By ordinance, the Louisville Metro Government has provided that MSD's Board may amend its service charge schedule to maintain a debt service ratio of 1.10 for MSD's sewer and drainage revenue bonds, and that such Amendments will be effective within the Metropolitan area when adopted by MSD's Board, so long as the amended rates do not generate additional revenue from service charges in excess of 7% during the twelve months succeeding the period in which the deficiency was identified.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Basis of Accounting

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

C. Cash and Cash Equivalents

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

D. Restricted and Unrestricted Funds

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

E. Investment Securities

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

G. Inventories

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

H. Contributed Capital and Construction Grants

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

I. Capital Assets - Plant, Lines and Other Facilities

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated useful lives on depreciable assets are as follows:

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

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

J. Capitalized Interest

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

K. Impairment of Capital Assets

In accordance with GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manner of duration of use of a capital asset, and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2015 and 2014.

L. Bonds Payable

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

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

M. Compensated Absences

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

N. Allocation of Overhead

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

O. Use of Estimates

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

P. Income Tax Status

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

Q. Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to those used in 2015.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Change in Accounting Principle

Effective July 1, 2014, MSD adopted Government Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, to more comprehensively and comparably measure the annual cost of pension benefits. Cost-sharing government employers, such as MSD, are required to report a net pension liability, pension expense and pension related deferred inflows & outflows of resources based on the employer's proportionate share of the collective amount for all employers in the plan.

MSD's beginning net position for fiscal year 2014 has been restated to reflect the inclusion of the pension liability required by GASB Statement 68, "Accounting and Financial Reporting for Pensions".

The June 30, 2014 Statement of Net Position has been restated as follows:

<u>Statement of Net Position</u>	<u>As Previously Reported FY 2014</u>	<u>Changes</u>	<u>FY 2014 As Restated</u>
Deferred outflow - CERS contributions	\$ -	\$ 5,051	\$ 5,051
Total deferred outflow of resources	\$ 17,811	\$ 5,051	\$ 22,862
Total Assets and Deferred Outflows	\$ 2,595,670	\$ 5,051	\$ 2,600,721
Net Pension Liability	\$ -	\$ 58,825	\$ 58,825
Total Non-current Liabilities	\$ 1,610,724	\$ 58,825	\$ 1,669,549
Total Liabilities	\$ 1,910,617	\$ 58,825	\$ 1,969,442
Total Liabilities and Deferred Inflows	\$ 1,992,910	\$ 58,825	\$ 2,051,735
Unrestricted Net Position	\$ 85,963	\$ (53,774)	\$ 32,189
Total Net Position	\$ 602,760	\$ (53,774)	\$ 548,986
Total Liabilities, Deferred Inflows & Net Position	\$ 2,595,670	\$ 5,051	\$ 2,600,721

Information was not available to allow the restatement of the 2013 financial statements at the time of their initial publication as KRS had not yet measured the June 30, 2013 pension liability of the participants.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 2 DEPOSITS AND INVESTMENTS

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

June 30, 2015

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U S Agency Discount Notes	\$ 22,751	0.38	
U S Agency Securities	5,211	2.45	Aaa
Municipal Bonds	92,202	23.42	Aa
Money Market Funds	69,938	0.11	Aaa
Commercial Paper	19,996	0.10	A-1 / P-1
Repurchase Agreement/Cash	8,037		
Certificate of Deposit	100		
Total	218,235	10.43	
Accrued interest	1,193		
Total cash, cash equivalents and investments	\$ 219,428		

June 30, 2014

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U S Agency Securities	\$ 27,953	0.95	Aaa
Municipal Bonds	93,263	24.44	Aa
Money Market Funds	68,256	0.13	Aaa
Commercial Paper	29,993	0.14	A-1 / P-1
Repurchase Agreement/Cash	26,038		
Certificate of Deposit	100		
Total	245,603	10.57	
Accrued interest	1,199		
Total cash, cash equivalents and investments	\$ 246,802		

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

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk:

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

Interest Rate Risk:

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

Custodial Credit Risk:

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

Foreign Currency Risk:

This risk relates to any potential adverse effects on the fair value of an investment from changes in exchange rates. MSD did not hold any foreign currency as of June 30, 2015 and 2014.

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

<u>Classification</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Cash and cash equivalents - unrestricted	\$ 63,013	\$ 84,780
Investments - unrestricted	100	100
Cash and cash equivalents - restricted	34,958	39,507
Investments - restricted	120,164	121,216
	<u>\$ 218,235</u>	<u>\$ 245,603</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 3 RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

MSD's revenue bond resolution provides that MSD shall maintain in a Debt Service Reserve Account a balance equal to the maximum annual aggregate gross principal and interest due on all outstanding revenue bonds; or, in lieu of cash and investments in that amount, a letter of credit or policy of bond insurance payable in that amount. Cash, cash equivalents and investments segregated as accounts restricted for authorized construction include proceeds from issuance of MSD bonds.

	June 30, 2015	June 30, 2014
Payment of bond / BAN principal and interest and reserves	\$ 155,121	\$ 148,451
Authorized construction	-	12,272
Total restricted cash, cash equivalents and investments	\$ 155,121	\$ 160,723

NOTE 4 SCHEDULE OF NET POSITION

A comparative schedule of net position follows:

Net Position Classifications	2015	Restated 2014
Net investment in capital assets:		
Plant, lines and other facilities, net	\$ 2,392,466	\$ 2,270,502
Outstanding debt that applies to plant, lines and other facilities	(1,902,110)	(1,867,089)
Contractor retainage payable and AP	(30,607)	(14,712)
Deferred outflows and inflows	15,831	17,811
Unspent bond proceeds	-	12,272
Net investment in capital assets	475,580	418,784
Restricted:		
Funds held in bank	155,121	160,723
less: Unspent bond proceeds	-	(12,272)
Restricted net position	155,121	148,451
Unrestricted net position	(45,631)	(18,249)
Total net position	\$ 585,070	\$ 548,986

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 5 CAPITAL ASSETS - PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2015 and 2014 follows:

Year ended June 30, 2015

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Capital assets:				
Sewer lines	\$ 1,274,180	\$ 3,565	\$ -	\$ 1,277,745
Wastewater treatment facilities	489,289	4	(1)	489,292
Stormwater drainage facilities	448,899	-	(46)	448,853
Pumping and lift stations	96,819	-	(7)	96,812
Administrative facilities	49,342	-	-	49,342
Maintenance facilities	8,037	-	-	8,037
Machinery and equipment	58,335	-	-	58,335
Miscellaneous	27,060	-	-	27,060
Capitalized interest	301,800	20,512	-	322,312
Total capital assets	<u>2,753,761</u>	<u>24,081</u>	<u>(54)</u>	<u>2,777,788</u>
Less accumulated depreciation:				
Sewer lines	(271,417)	(15,669)	-	(287,086)
Wastewater treatment facilities	(326,465)	(20,161)	-	(346,626)
Stormwater drainage facilities	(119,717)	(5,125)	-	(124,842)
Pumping and lift stations	(46,148)	(4,680)	-	(50,828)
Administrative facilities	(32,216)	(1,746)	-	(33,962)
Maintenance facilities	(5,724)	(195)	-	(5,919)
Machinery and equipment	(52,415)	(3,281)	-	(55,696)
Miscellaneous	(17,310)	(3,632)	-	(20,942)
Capitalized interest	(75,014)	(7,588)	-	(82,602)
Total accumulated depreciation	<u>(946,426)</u>	<u>(62,077)</u>	<u>-</u>	<u>(1,008,503)</u>
Construction in progress	463,167	159,960	54	623,181
	<u>\$ 2,270,502</u>	<u>\$ 121,964</u>	<u>\$ -</u>	<u>\$ 2,392,466</u>

Capital assets include non-depreciable assets for land related to the facilities, and pumping and lift stations. The carrying value was \$14,854 and \$14,889 at June 30, 2015 and 2014.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

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

Year ended June 30, 2014

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 6 CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized and net interest expense reported in non-operating revenues in 2015 and 2014 follows:

<u>Year ended June 30, 2015</u>	<u>Capitalized</u>	<u>Included in Non- Operating</u>	<u>Total</u>
Investment earnings	\$ -	\$ 17,623	\$ 17,623
Interest cost	(20,511)	(71,334)	(91,845)
Net interest	<u>\$ (20,511)</u>	<u>\$ (53,711)</u>	<u>\$ (74,222)</u>

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2015 and 2014 follows:

<u>Revenue Bonds</u>	<u>Original Issue Amount</u>	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding as of:</u>	
				<u>2015</u>	<u>2014</u>
2005 Sewer and Drainage System Revenue Bonds Series 2005A	64,740	3.00% - 5.00%	2026	-	18,820
2006 Sewer and Drainage System Revenue Bonds Series 2006A	100,000	4.00% - 5.00%	2038	87,290	89,325
2007 Sewer and Drainage System Revenue Bonds Series 2007A	61,125	4.00% - 5.00%	2025	45,815	48,080
2008 Sewer and Drainage System Revenue Bonds Series 2008A	105,000	4.00% - 5.00%	2038	99,850	100,860
2009A Sewer and Drainage System Revenue Bonds Series 2009A	76,275	5.00%	2022	47,280	52,720
2009B Sewer and Drainage System Revenue Bonds Series 2009B	225,770	2.00% - 5.00%	2023	150,900	164,785
2009C Sewer and Drainage System Revenue Bonds Series 2009C	180,000	5.98%	2040	180,000	180,000
2010A Sewer and Drainage System Revenue Bonds Series 2010A	330,000	6.25%	2043	330,000	330,000
2011A Sewer and Drainage System Revenue Bonds Series 2011A	263,360	3.00% - 5.00%	2034	256,490	258,330
2013A Sewer and Drainage System Revenue Bonds Series 2013A	115,790	4%	2036	115,790	115,790
2013B Sewer and Drainage System Revenue Bonds Series 2013B	119,515	4.00% - 5.00%	2038	119,515	119,515
2013C Sewer and Drainage System Revenue Bonds Series 2013C	100,000	3.00% - 5.00%	2044	99,875	100,000
2014A Sewer and Drainage System Revenue Bonds Series 2014A	100,000	4.00% - 5.00%	2045	80,000	-
Total Long-Term Debt				1,612,805	1,578,225
Less: Current Maturities				(29,415)	(28,525)
Add : Unamortized Premium/Discount				60,797	60,263
Total Long-Term Debt, net				<u>\$ 1,644,187</u>	<u>\$ 1,609,963</u>

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

A schedule of future debt service requirements after June 30, 2015 follows:

Year Ending June 30,	Revenue Bonds		
	Principal	Interest	Total
2016	\$ 29,415	\$ 82,749	\$ 112,164
2017	31,050	81,302	112,352
2018	32,790	79,772	112,562
2019	34,640	78,135	112,775
2020	36,590	76,406	112,996
2021-2025	202,970	352,848	555,818
2026-2030	223,230	298,824	522,054
2031-2035	200,795	255,638	456,433
2036-2040	458,020	180,920	638,940
2041-2045	363,305	47,656	410,961
	<u>\$ 1,612,805</u>	<u>\$ 1,534,250</u>	<u>\$ 3,147,055</u>

A comparative summary of current and long-term revenue bond activity for the years ended June 30, 2015 and 2014 follows:

	2015	2014
Revenue Bonds - beginning of year, net	\$ 1,578,225	\$ 1,505,260
Bonds issued	80,000	100,000
Principal paid on bonds	(45,420)	(27,035)
Revenue Bonds - end of year, net	<u>\$ 1,612,805</u>	<u>\$ 1,578,225</u>

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

A summary of significant debt transactions follows:

On November 4, 2014, MSD issued \$80,000 of Sewer and Drainage System Revenue Bonds, Series 2014A. Proceeds of the 2014A bonds, net of issuance cost were used to pay the cost of improvements to MSD's sewer and drainage system.

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

Debt Service Covenant: A debt service coverage ratio covenant has been established under the 1993 Sewer and Drainage System Revenue Master Bond Resolution. MSD was in compliance with the ratio covenant as of June 30, 2015 and 2014.

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

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

- On January 24, 2001, MSD terminated a nineteen-year interest rate swap agreement for \$100,000 of its fixed-rate 1999 Series Sewer and Drainage Revenue Bonds. The termination of this swap agreement resulted in the receipt of a payment in the amount of \$7,935. This payment will be amortized annually into income until 2019, the original termination date on the agreement.
- In April 2006, MSD entered into a swap agreement with Deutsche Bank AG for an initial notional amount of \$171,405 which provided that beginning May 15, 2006, a net payment will be made based on MSD paying 78.78% of the 3-month LIBOR Index on the notional amount and receiving 73.45% of the 5-year LIBOR Index on the notional amount. On January 23, 2008, MSD terminated this swap agreement and received a termination payment of \$4,170 that will be amortized until 2023, the original termination date of the agreement.
- On January 25, 2008, MSD terminated a twenty-seven year Floating to Floating (Basis) Interest Rate Swap agreement with a notional amount of \$282,165. MSD entered into this agreement with Morgan Stanley in April 2006 and paid 67% of the 1-Month LIBOR index and received 62.2% of the 5-Year LIBOR Index. The termination of this Swap agreement resulted in the receipt of a payment in the amount of \$5,756. This payment will be amortized annually into income until 2033, the original termination date of the agreement.
- In May and June of 2013, MSD terminated two Floating to Fixed Interest Rate swap agreements, two Basis swap agreements and three Reversal swap agreements. Additionally, MSD partially terminated two Floating to Fixed Interest Rate swap agreements. The termination value of all swap agreements resulted in a net payment by MSD of \$152. This action will result in a savings of \$13.5 million over the next ten years.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

Derivatives:

At June 30, 2015 MSD had the following derivative instruments outstanding:

<u>Item</u>	<u>Counter-Party</u>	<u>Initial Notional Amount</u>	<u>Current Notional Amount</u>	<u>Payment Start Date</u>	<u>Termination Date</u>	<u>MSD Payment Terms</u>	<u>MSD Receipt Terms</u>	<u>6/30/2015 Fair Value</u>	<u>6/30/2014 Fair Value</u>	<u>Change in Fair Value</u>
A	Wells Fargo	\$ 180,716	\$ 180,716	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	\$ (63,086)	\$ (58,897)	\$ (4,189)
B	Bank of America	56,433	45,284	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	(15,794)	(14,743)	(1,051)
Total		<u>\$ 237,149</u>	<u>\$ 226,000</u>					<u>\$ (78,880)</u>	<u>\$ (73,640)</u>	<u>\$ (5,240)</u>

LIBOR = London Interbank Offering Rate

SIFMA = Securities Industry and Financial Markets Association

A comparative summary of the change in fair value of swaps for the years ended June 30, 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Fair value - beginning of year	\$ (73,640)	\$ (72,418)
Change in fair value	<u>(5,240)</u>	<u>(1,222)</u>
Fair value - end of year	<u>\$ (78,880)</u>	<u>\$ (73,640)</u>

MSD originally entered into interest rate swaps as a hedging derivative instrument. The interest rate swaps were found to be ineffective as of June 30, 2010, based on evaluation and consideration of consistent critical terms and quantitative methods. The total of investment derivatives are reported as interest rate swaps on the Statement of Net Position. All changes in fair value of the derivatives are recorded as a separate component of non-operating revenue (expense). MSD's outstanding swaps consist of two Floating-to-Fixed swaps described as follows:

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

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.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 7 LONG-TERM DEBT (Continued)

All costs of collateralization will be borne by the downgraded party who must post the collateral. In addition, the October 2002 (A and B) swaps were awarded to multiple firms to further mitigate the credit risk associated with the transactions. The credit ratings as of 6/30/2015 for the counter-parties are as follows:

Rating Agency	Credit Ratings	
	Moody's	Standard & Poor's
Bank of America	A2	A
Wells Fargo	Aa3	AA -

The agreements also provide for automatic termination if MSD's unenhanced bond rating is downgraded below BBB/Baa. MSD's obligations under all of its outstanding swap agreements are unsecured and subordinate to all bonds issued and outstanding. The positive and negative fair values of the swap agreements were provided by a third-party financial advisor. The net swap payments made in FY 2015 and FY 2014 were \$9,737 and \$9,733 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, 2015 and 2014, MSD's accrued liability for arbitrage rebate was \$0 and \$0 respectively.

NOTE 8 SHORT TERM DEBT

A summary of short term debt activity is provided below:

- On November 4, 2014 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2014A Notes with an interest rate of 2.00%. The proceeds of the notes were used to refinance the 2013A Notes. The 2014A Notes mature on November 24, 2015.
- On November 6, 2013 MSD issued \$226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2013A Notes with an interest rate of 2.00%. The proceeds of the notes were used to refinance the 2012A Notes. The 2013A Notes matured on November 24, 2014.

A comparative summary of short term debt for the years ended June 30, 2015 and 2014 follows:

	June 30, 2015	June 30, 2014
Short-term debt - beginning of year	\$ 228,601	\$ 228,691
Debt incurred	226,340	226,340
Principal paid on debt	(226,433)	(226,430)
Short-term debt - end of year	\$ 228,508	\$ 228,601

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 9 RETIREMENT PLAN AND POSTRETIREMENT BENEFITS

Plan Description: MSD contributes to the County Employees Retirement System (CERS) which is a cost-sharing multiple-employer defined benefit pension plan (The 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.

Under the provisions of Kentucky Revised Statute Section 78.520, the Board of Trustees (the Board) of KRS administers CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs. Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole.

KRS and the Commonwealth have statutory authority to determine Plan benefits and employer contributions for the pension and insurance plan. Administrative costs of KRS are financed through employer contributions and investments earnings.

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, or it may be found at the KRS website at www.kyret.ky.gov.

Basis of Accounting: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided: Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. MSD employees fall under the nonhazardous normal retirement employee category for benefits. The information below summarizes the major retirement benefit provisions of CERS-Nonhazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Members whose participation began before 8/1/2004:

Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.20% times final average compensation times years of service depending on participation and retirement dates. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)**

NOTE 9 RETIREMENT PLAN AND POSTRETIREMENT BENEFITS (Continued)

Members whose participation began on or after 8/1/2004, but before 9/1/2008:

Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Members whose participation began on or after 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5% of creditable compensation, and the member's employer contributes 4.00% of creditable compensation, which is a portion of the total employer contribution, into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 9 RETIREMENT PLAN AND POSTRETIREMENT BENEFITS (Continued)

Contributions: MSD was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

For the fiscal years ended June 30, 2015, 2014 and 2013, participating employers contributed 17.67%, 18.89% and 19.55% as set by KRS, respectively, of each Nonhazardous employee's creditable compensation.. These percentages are inclusive of both pension and insurance payments for employers.

MSD's pension portion contributions to the CERS for the years ending June 30, 2015 and 2014 were \$4,576 and \$5,051 respectively, equal to 100% of the statutorily required contributions for each year.

Members whose participation began before 9/1/2008:

Nonhazardous contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Member entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Nonhazardous contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

Members whose participation on or after 1/1/2014

Nonhazardous contribution equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Members entitled to a full refund of contributions and interest on the member's portion of the hypothetical account, however, the 1% contributed to the insurance fund is non-refundable.

Healthcare Plan: The Kentucky Retirement Systems Insurance Fund ("Fund") was established to provide hospital and medical insurance for members receiving benefits from CERS, the Kentucky Employees Retirement System and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2014 and 2013, insurance premiums withheld from benefit payments for members of CERS were approximately \$24,206 and \$27,804 respectively.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 9 RETIREMENT PLAN AND POSTRETIREMENT BENEFITS (Continued)

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

Discount rate assumptions:

- (a) **Discount rate:** The discount rate used to measure the total pension liability was 7.75%.
- (b) **Projected cash flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The statutorily determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) **Long term rate of return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis prepared as of June 30, 2008, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
- (d) **Municipal bond rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of projected benefit payments:** Projected future benefit payments for all current plan members were projected through 2116.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 9 RETIREMENT PLAN AND POSTRETIREMENT BENEFITS (Continued)

(f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	30.00%	8.45%
International equity	22.00%	8.85%
Emerging market equity	5.00%	10.50%
Private equity	7.00%	11.25%
Real estate	5.00%	7.00%
Core U.S. fixed income	10.00%	5.25%
High-Yield U.S. fixed income	5.00%	7.25%
Non-U.S. fixed income	5.00%	5.50%
Commodities	5.00%	7.75%
Treasury Inflation Protected Securities	5.00%	5.00%
Cash	1.00%	3.25%
Total	<u>100.00%</u>	

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 7.75% based on a blending of the factors described above.

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the Authority's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 7.75 percent, as well as what the Authority's allocated portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate:

	1% Increase (8.75%)	Current Discount Rate (7.75%)	1% Decrease (6.75%)
Authority's net position liability - Nonhazardous	\$ 37,476	\$ 51,988	\$ 68,413

Employer's portion of the collective Net Pension Liability: MSD's proportionate share of the Plan's net pension liability is \$51,988. MSD's proportionated share of the CERS plan was approximately 1.602% for Nonhazardous service employees. The liability was distributed based on 2014 actual employer contributions to the plan.

Measurement date: June 30, 2014 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013 using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service costs), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2013, is shown in the GASB 67 report for CERS submitted on November 17, 2014.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 9 RETIREMENT PLAN AND POSTRETIREMENT BENEFITS (Continued)

Changes in assumptions and benefit terms: There were no changes in assumptions or benefit terms since the prior measurement date.

Changes since measurement date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension expense: The Authority's proportionated share of Plan pension expense was \$4,161 for Nonhazardous service employees.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

The table below provides a summary of the deferred inflows and outflows as of the Measurement Date.

	Deferred Outflow of Resources	Deferred Inflow of Resources
Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ 5,803
Employer Contributions made Subsequent to Measurement Date	4,576	-
Total	\$ 4,576	\$ 5,803

Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5 year period. Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2016. Deferred inflows of resource amortization is shown below:

2016	\$	1,161
2017		1,161
2018		1,161
2019		1,160
2020		1,160
	\$	5,803

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 10 RISK MANAGEMENT

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

MSD participates in the Louisville Area Governmental Self-Insurance Trust ("The Trust"). The Trust, which is certified by the Kentucky Department of Insurance to practice as a "group liability self-insurance trust," was created on January 1, 1987. Trust members currently include the Louisville Metro Government, six smaller cities, and six government agencies. The Trust was formed to provide better risk protection and lower cost liability insurance by sharing the risk with all of its members. MSD's payments to the Trust are reflected on the financial statements as an expense. The Trust provides, after a \$300 deductible various liability coverage up to \$5,000 per occurrence. Excess insurance may provide an additional \$2,000 of coverage, above the Trust \$5 million, to MSD. The amount of coverage available to MSD could be limited by the total assets of the Trust. For fiscal year 2015, the LAGIT Trust did not make any MSD claim payments.

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

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Liability - beginning of year	\$ 1,728	\$ 1,832	\$ 1,757
Claims and changes in estimates	1,063	760	1,433
Payments	<u>(1,036)</u>	<u>(864)</u>	<u>(1,358)</u>
Liability - end of year	<u>\$ 1,755</u>	<u>\$ 1,728</u>	<u>\$ 1,832</u>

MSD joined the Louisville Area Governmental General Insurance Trust ("Property Self-Insurance Trust") in September 2002. The Property Self-Insurance Trust was created to provide lower cost to participants and broader coverage for property risks.

MSD is responsible for covered property damage up to \$100, except for flood and vehicle collision coverage, which have separate deductibles. The Property Self-Insurance Trust provides coverage for the next \$900 per occurrence, except for Flood Zone A locations. An excess insurance policy with a third-party carrier covers claims in excess of \$1,000.

In the past three fiscal years (2013-2015), the LAGIT Trust has paid a total of \$10 on one MSD liability claim and the LAGGIT Trust paid \$602 on one MSD property claim, \$112 on another MSD hail claim and \$1,000 on a lightning/flood claim, all of which exceeded MSD's deductibles under the Trusts. There have been no changes in MSD's self-insurance coverage from the prior year.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 11 DEFERRED COMPENSATION

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

NOTE 12 COMMITMENTS AND CONTINGENCIES

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, 2015 and 2014 was \$2,064 and \$2,544, respectively.

EPA Consent Decree:

In April 2005, MSD agreed to enter into a Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet ("The Cabinet") and the U.S. Environmental Protection Agency ("EPA").

The Consent Decree calls for MSD to submit a final Long-Term Control Plan ("LTCP") to The Cabinet/EPA for review and joint approval by December 31, 2008, which was completed. The final LTCP includes schedules, deadlines, and timetables for projects to be completed by December 31, 2020. In addition, a Sanitary Sewer Discharge Plan ("SSDP") was due by December 31, 2008, which was completed. The SSDP includes schedules and deadlines for capital projects to be completed by the end of 2024. The cost of the projects is estimated to be \$850,000.

Also, MSD agreed to pay a civil penalty to the Commonwealth of Kentucky in the amount of one million dollars (\$1,000) to resolve the violations alleged in the Cabinet's and EPA's complaints up through the date of entry of the Consent Decree. The agreement also calls for MSD to perform supplemental environmental projects (SEPS) at an amount of not less than \$2,250. MSD neither admitted nor denied the alleged violations but acknowledged that discharges occurred and accepted the obligations imposed in the Consent Decree. The Consent Decree, as negotiated, was entered by the U.S. District Court Judge on August 12, 2005. In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet and the EPA. The agreement called for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. In a letter dated June 6, 2014, MSD requested approval from the

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

NOTE 12 COMMITMENTS AND CONTINGENCIES (Continued)

KEPPC and the EPA for the IOAP 2012 Modifications, dated May 2014. The IOAP 2012 Modifications represents a revision to 28 separate projects set forth in the original IOAP, dated September 30, 2009. The IOAP Modifications were approved and will supersede and replace the 2009 IOAP. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree. The enforcement actions initiated by the EPA are not unique in the wastewater treatment industry. Several wastewater utilities have signed, or are in the process of signing, Consent Decrees. In the opinion of MSD, the resolution of any violations will not result in material adverse effect on the operation, property or finances of MSD.

Other Matters:

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

The value of construction contracts signed, where work has not yet been performed at June 30, 2015, amounted to \$169,112, and was \$108,823 at June 30, 2014.

NOTE 13 SUBSEQUENT EVENTS

Management reported the following subsequent event disclosures:

- On July 27, 2015, the Board unanimously approved an employment agreement with Mr. James Parrott to serve as Executive Director of the District effective September 14, 2015 through September 13, 2018. Mr. Parrott replaces Greg Heitzman who retired effective September 30, 2015. Mr. Chad Collier and Ms. Angela Akridge similarly have employment agreements each effective through September 30, 2016.
- On August 1, 2015, MSD's rates for wastewater and stormwater charges increased by 5.8%.
- In October 2015, MSD entered into a \$25,000 line of credit facility with a financial institution.
- In October 2015, MSD plans to issue \$175,000 of Revenue Bonds (Series 2015A) to fund capital projects and also issue \$87,485 of Revenue Refunding Bonds (Series 2015B) to refund in advance of maturity the outstanding principal amount of the Series 2006A Bonds maturing on or after May 15, 2017.
- In November 2015, MSD plans to issue \$226,340 of Bond Anticipation Notes to refinance the 2014A Bond Anticipation Notes.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
 June 30, 2015
(Dollars in thousands)

	<u>Nonhazardous</u>
MSD's proportion of the net pension liability	1.602%
MSD's proportionate share of the net pension liability	\$ 51,988
MSD's covered employee payroll	\$ 37,900
MSD's proportion of the net pension liability as a percentage of its covered employee payroll	137.2%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Notes:

- 1) The amounts presented for each fiscal year were determined as of the prior year end.
- 2) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years, which information is available.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM
 June 30, 2015
(Dollars in thousands)

	<u>Nonhazardous</u>
Statutorily required contribution for pension	\$ 4,576
MSD contributions in relation to the statutorily required contribution	<u>(4,576)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>
MSD contributions as a percentage of statutorily required contribution for pension	100.00%
MSD covered employee payroll	\$ 37,900
Contributions as a percentage of its covered employee payroll	12.07%

Notes:

- 1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years, which information is available.

STATISTICAL SECTION

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

Contents	Page
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<i>Debt Service Coverage</i>	54
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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.

<i>Financial Trends</i>	55
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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

<i>Revenue Capacity</i>	59
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This schedule contains information to help readers assess MSD's most significant revenue sources.

<i>Operating Information</i>	60
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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.

<i>Demographic and Economic Information</i>	63
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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
METROPOLITAN SEWER DISTRICT
COMPARATIVE SCHEDULES OF DEBT SERVICE COVERAGE
YEARS ENDED JUNE 30
(\$ in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Service charges	\$ 225,462	\$ 214,056	\$ 205,222	\$ 190,482	\$ 183,297	\$ 168,610	\$ 163,004	\$ 156,889	\$ 126,490	\$ 122,643
Other operating income	4,407	2,576	4,823	1,756	2,379	2,980	4,552	4,394	5,966	7,122
Assessments	1,901	2,129	2,392	2,405	2,740	7,093	4,387	2,251	8,237	6,796
Investment income	17,623	20,330	20,119	40,687	33,700	36,045	25,568	6,085	8,417	5,558
Less: capitalized investment income	-	-	(3,817)	(1,851)	(12,134)	(5,990)	-	(1,190)	(3,747)	(1,594)
Total revenues	249,393	239,091	228,739	233,479	209,982	208,738	197,511	168,429	145,363	140,525
Operating expenses:										
Service and administrative costs	106,174	108,814	108,041	108,325	107,307	101,068	93,935	96,845	89,194	86,433
Less: capitalized project costs	(30,056)	(33,568)	(33,110)	(33,200)	(30,308)	(28,129)	(25,257)	(26,510)	(25,715)	(25,387)
Total operating expenses	76,118	75,246	74,931	75,125	76,999	72,939	68,678	70,335	63,479	61,046
Net revenues	173,275	163,845	153,808	158,354	132,983	135,799	128,833	98,094	81,884	79,479
Aggregate debt service:										
Current maturities of long-term debt	29,415	28,525	27,035	25,740	24,840	23,785	23,105	21,255	18,190	17,250
Interest expense	83,404	80,613	92,616	89,243	78,954	69,949	72,776	66,918	70,548	66,162
Less: capitalized interest expense	(20,511)	(19,103)	(26,358)	(26,384)	(25,195)	(13,910)	-	(10,530)	(14,140)	(15,758)
Aggregate net debt service	\$ 92,308	\$ 90,035	\$ 93,293	\$ 88,599	\$ 78,599	\$ 79,824	\$ 95,881	\$ 77,643	\$ 74,598	\$ 67,654
Debt service coverage ratio	188%	182%	165%	179%	169%	170%	134%	126%	110%	117%

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
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
ASSETS AND DEFERRED OUTFLOW OF RESOURCES

JUNE 30
(in thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Current Assets:		Restated								
Unrestricted cash and cash equivalents	\$ 63,013	\$ 84,780	\$ 66,376	\$ 12,040	\$ 34,508	\$ 24,700	\$ 22,552	\$ 10,524	\$ 1,912	\$ 17,198
Restricted investments	100	100	100	100	100	100	7,733	14,379	24,935	18,645
Restricted cash and cash equivalents	34,958	39,507	62,249	227,327	112,559	58,923	35,988	105,299	3,133	24
Accounts receivable	120,164	121,216	90,574	94,639	294,868	394,880	61,303	27,202	73,801	134,850
Inventories	23,787	21,809	18,465	16,666	17,789	15,779	18,065	16,732	15,388	17,401
Prepaid expenses and other current assets	3,981	3,808	3,579	3,484	3,435	3,110	3,027	3,020	3,091	2,874
	2,880	2,636	2,110	1,862	2,841	2,513	1,965	2,020	1,181	1,359
Total current assets	248,883	273,856	243,453	356,118	466,100	500,005	150,633	179,176	123,451	192,351
Plant, Lines and Other facilities:										
Completed projects	2,777,788	2,753,762	2,702,448	2,560,403	2,498,355	2,445,755	2,314,406	2,281,413	2,149,779	2,049,762
Less: Accumulated depreciation	(1,008,503)	(946,427)	(884,199)	(825,205)	(768,423)	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)
	1,769,285	1,807,335	1,818,249	1,735,198	1,729,932	1,711,203	1,634,026	1,653,117	1,571,136	1,521,963
Construction in progress	623,181	463,167	371,816	370,350	272,850	140,134	182,711	136,695	193,420	211,761
Net plant, lines and other facilities	2,392,466	2,270,502	2,190,065	2,105,548	2,002,782	1,851,337	1,816,737	1,789,812	1,764,566	1,733,724
Other Non-current assets	30,807	33,501	36,262	35,876	36,611	35,945	99,623	59,039	28,749	27,778
Total non-current assets	2,423,273	2,304,003	2,226,327	2,141,424	2,039,393	1,887,282	1,916,360	1,848,851	1,793,305	1,761,502
Total assets	\$ 2,672,156	\$ 2,577,859	\$ 2,469,780	\$ 2,497,542	\$ 2,505,493	\$ 2,387,287	\$ 2,066,993	\$ 2,028,027	\$ 1,916,756	\$ 1,953,853
Deferred outflow of resources	20,407	22,862	13,511	15,176	16,842	18,507	14,743	16,020	19,859	21,779
Total assets and deferred outflows	\$ 2,692,563	\$ 2,600,721	\$ 2,483,291	\$ 2,512,718	\$ 2,522,335	\$ 2,405,794	\$ 2,081,736	\$ 2,044,047	\$ 1,936,615	\$ 1,975,632

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Liabilities:										
Current liabilities (payable from current assets):										
Accounts payable and accrued expenses	\$ 14,936	\$ 13,653	\$ 12,693	\$ 16,470	\$ 15,732	\$ 11,141	\$ 11,035	\$ 10,548	\$ 16,639	\$ 22,619
Total current liabilities (payable from current assets)	14,936	13,653	12,693	16,470	15,732	11,141	11,035	10,548	16,639	22,619
Current liabilities (payable from restricted assets):										
Accounts payable and accrued expenses	30,607	14,712	16,168	12,656	15,105	13,692	7,735	5,250	4,239	1,072
Accrued interest	13,036	12,834	12,458	13,959	12,360	14,701	8,143	8,597	10,824	10,456
Subordinated Debt	228,508	228,601	228,691	226,340	226,340	452,680				
Current maturities of bonds payable	29,415	29,525	27,035	25,740	24,840	23,785	23,105	21,255	18,190	17,250
Refundable Deposits	1,639	1,568	1,137	1,013	1,341	1,622	3,478	4,209		
Total Current liabilities (payable from restricted assets)	303,205	286,240	285,489	279,708	279,986	506,480	42,461	39,311	33,253	28,778
Non-current liabilities:										
Bonds payable	1,583,390	1,549,700	1,478,225	1,536,770	1,591,670	1,302,000	1,385,185	1,421,825	1,327,095	1,345,785
Unamortized debt premium/discount	60,797	60,263	56,764	45,841	25,646	9,562	8,912	16,685	14,312	14,975
Net Pension Liability	51,988	58,825								
Other long-term liabilities	944	761	973	5,663	5,561	1,630	2,114	2,375	2,632	2,890
Total long-term debt	1,697,119	1,669,549	1,535,962	1,588,274	1,622,877	1,313,192	1,396,211	1,440,865	1,344,039	1,363,650
Total liabilities	2,015,260	1,969,442	1,834,144	1,884,452	1,918,595	1,830,813	1,449,707	1,490,744	1,393,931	1,415,047
Deferred inflow of resources	92,233	82,293	82,233	119,680	67,948	82,185	74,942	2,784	(8,690)	(8,678)
Net position:										
Invested in plant, lines, & other facilities, net of related debt	475,580	418,784	365,225	313,575	363,334	450,753	470,445	478,833	479,305	489,973
Restricted for payment of bond principal & interest	155,121	148,451	136,939	157,002	141,217	334,186	100,225	135,537	7,034	8,927
Unrestricted	(45,631)	(18,249)	64,750	38,009	31,241	(292,143)	(13,583)	(63,851)	65,035	70,563
Total net assets	585,070	548,986	566,914	508,586	535,792	492,796	557,087	550,519	551,374	589,463
Total liabilities, deferred inflows and net position	\$ 2,692,563	\$ 2,600,721	\$ 2,483,291	\$ 2,512,718	\$ 2,522,335	\$ 2,405,794	\$ 2,081,736	\$ 2,044,047	\$ 1,936,615	\$ 1,975,632

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
		Restated								
Operating revenue:										
Wastewater service charges	\$ 173,895	\$ 165,599	\$ 159,791	\$ 149,626	\$ 145,880	\$ 133,853	\$ 130,661	\$ 125,782	\$ 96,594	\$ 93,907
Stormwater service charges	51,567	48,457	45,431	40,856	37,417	34,757	32,343	31,107	29,896	28,736
Other operating income	4,407	2,576	4,823	1,756	2,379	2,980	4,552	4,394	5,956	7,122
Total operating revenue	229,869	216,632	210,045	192,238	185,676	171,590	167,556	161,283	132,446	129,765
Operating expenses:										
Service and administrative costs	106,174	108,814	108,041	108,326	107,307	101,068	93,935	96,845	90,157	86,433
Capitalization/recovery of cost	(30,056)	(33,568)	(32,200)	(30,860)	(30,472)	(28,129)	(24,401)	(26,510)	(26,678)	(25,387)
Capitalized overhead (over) under applied	-	-	(910)	(2,340)	164	(2,988)	(856)	-	-	-
Depreciation and amortization	63,321	63,516	60,335	60,527	58,741	58,513	56,727	55,363	52,177	51,174
Total operating expenses	139,439	138,762	135,266	135,653	135,740	128,464	125,405	125,698	115,656	112,220
Income (loss) from operations	90,430	77,870	74,779	56,585	49,936	43,126	42,151	35,585	16,790	17,545
Non-operating revenue (expense):										
Gain (loss) on disposal of assets	-	-	45	(19)	194	-	(64)	(122)	-	-
Investment income	17,623	20,330	16,301	40,887	33,700	36,045	25,568	4,895	4,670	3,964
Interest expense - bonds	(83,404)	(80,613)	(92,616)	(89,243)	(78,954)	(69,949)	(69,893)	(56,388)	(56,408)	(50,404)
Interest expense - swaps	(9,737)	(9,733)	(10,200)	(11,235)	(11,627)	(8,815)	(2,883)	-	-	-
Interest expense - other	1,296	115	241	437	(1,833)	(3,723)	-	-	-	-
Capitalized interest	20,511	19,103	26,358	26,384	25,195	13,910	-	-	-	-
Decrease upon hedge termination	-	-	-	-	-	(56,556)	-	-	-	-
Change in fair values - swaps	(5,240)	(1,222)	36,286	(52,897)	22,638	(19,889)	-	-	-	-
Total non-operating revenue (expenses), net	(58,951)	(52,020)	(23,585)	(85,886)	(10,687)	(110,977)	(47,272)	(51,615)	(51,738)	(46,440)
Net income / (loss) before contributions	31,479	25,850	51,194	(29,301)	39,249	(67,851)	(5,121)	(16,030)	(34,948)	(28,895)
Contributions										
Property owner assessments	-	-	-	-	334	(545)	2,239	164	7,634	4,862
All other	4,605	8,103	7,134	2,095	3,413	4,105	9,450	15,011	9,225	15,221
Increase (decrease) in net position	36,084	33,953	58,328	(27,206)	42,996	(64,291)	6,568	(855)	(18,089)	(8,812)
Net position, beginning of year	548,986	515,033	508,586	535,792	492,796	557,087	550,519	551,374	569,463	578,275
Net position, end of year	\$ 585,070	\$ 548,986	\$ 566,914	\$ 508,586	\$ 535,792	\$ 492,796	\$ 557,087	\$ 550,519	\$ 551,374	\$ 569,463

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Cash flows from operating activities:										
Cash received from customers	\$ 227,976	\$ 213,215	\$ 207,905	\$ 193,446	\$ 182,976	\$ 171,641	\$ 166,123	\$ 159,539	\$ 134,160	\$ 125,918
Cash paid to suppliers and employees	(75,366)	(73,175)	(79,926)	(76,077)	(72,566)	(72,426)	(66,297)	(72,227)	(69,536)	(56,548)
Net cash provided by operating activities	152,590	140,040	127,979	117,369	110,410	99,215	99,826	87,312	64,624	69,370
Cash flows from capital and related financing activities:										
Proceeds from issuance of revenue bonds	80,000	100,000	115,790	263,360	330,000	405,770	76,275	166,125	-	100,000
Proceeds from subordinated debt	226,340	226,340	228,735	226,340	228,340	452,680	-	-	-	-
Capital contributed by governments, property owners & developers	4,605	8,103	7,134	2,095	3,747	3,580	11,689	15,174	16,861	1,460
Build America Bond Interest Income	10,096	10,096	10,986	10,986	7,978	2,260	-	-	-	-
Assessments receivable	2,050	1,695	1,833	1,930	1,676	2,988	557	2,703	(645)	8,621
Interest income - assessments	340	687	731	852	994	1,588	1,471	1,405	1,670	-
Principal paid on revenue bonds	(45,420)	(27,035)	(173,040)	(317,360)	(39,275)	(488,275)	(95,045)	(84,350)	(17,250)	(16,815)
Interest paid on revenue bonds	(87,813)	(91,719)	(98,944)	(94,240)	(86,191)	(70,192)	(69,063)	(69,145)	(70,180)	(65,474)
Acquisition and construction of capital assets	(147,714)	(121,237)	(113,144)	(119,988)	(167,816)	(86,590)	(75,970)	(90,614)	(65,702)	(67,035)
Acquisition of non-operating property	(247)	(211)	(223)	(213)	(221)	(484)	(261)	(257)	-	-
Principal paid on subordinated debt	(226,433)	(226,430)	(226,384)	(226,340)	(452,680)	-	-	-	-	-
Net cash (used in) provided from capital and related financing activities	(184,196)	(119,711)	(246,526)	(252,578)	(175,448)	223,315	(150,347)	(48,959)	(135,504)	(39,243)
Cash flows from investing activities:										
Restricted Investments	1,052	(30,642)	4,064	200,229	100,012	(333,577)	(34,101)	45,656	65,108	(126,657)
Unrestricted Investments	-	-	-	-	-	7,633	6,646	10,555	-	-
Income received on investments	13,975	15,708	13,941	38,515	40,097	37,329	24,859	16,214	7,642	5,551
Interest expense - swap agreements	(9,737)	(9,733)	(10,200)	(11,235)	(11,627)	(8,832)	(4,166)	-	-	-
Net cash (used in) provided from investing activities	5,290	(24,667)	7,805	227,509	128,482	(297,447)	(6,762)	72,425	7,642	5,551
Net increase (decrease) in cash and cash equivalents	(26,316)	(4,338)	(110,742)	92,300	63,444	25,083	(57,283)	110,778	(63,238)	35,678
Cash and cash equivalents, beginning of year	124,287	128,625	239,367	147,067	83,623	58,540	115,823	5,045	3,176	94,155
Cash and cash equivalents, end of year	\$ 97,971	\$ 124,287	\$ 128,625	\$ 239,367	\$ 147,067	\$ 83,623	\$ 58,540	\$ 115,823	\$ (60,063)	\$ 129,833

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Service charges:										
Wastewater service charges:										
Residential	\$ 96,563	\$ 89,691	\$ 86,409	\$ 80,779	\$ 78,552	\$ 73,228	\$ 71,159	\$ 64,978	\$ 48,338	\$ 47,555
Commercial	62,257	58,812	57,192	53,116	46,598	42,741	42,312	38,935	28,892	27,619
Industrial	17,605	19,738	19,536	18,063	21,498	18,948	18,216	21,324	18,431	17,279
Other - net	2,806	2,611	2,267	2,219	1,847	1,756	1,601	2,382	1,993	1,454
Free sewer to Metro Government	(5,336)	(5,253)	(5,613)	(4,551)	(2,615)	(2,820)	(2,627)	(1,837)	(1,060)	
Total wastewater service charges	173,895	165,599	159,791	149,626	145,880	133,853	130,661	125,782	96,594	93,907
Stormwater service charges:										
Residential	20,090	18,522	17,372	15,907	14,776	13,613	12,709	12,198	11,617	11,205
Commercial	28,936	27,910	26,123	23,017	20,862	19,433	18,012	17,276	16,741	15,683
Industrial	3,030	3,112	2,956	2,575	2,351	2,189	2,064	1,988	1,930	1,848
Free drainage to Metro Government	(489)	(1,087)	(1,020)	(643)	(572)	(478)	(442)	(355)	(392)	
Total stormwater service charges	51,567	48,457	45,431	40,856	37,417	34,757	32,343	31,107	29,896	28,736
Total service charges	225,462	214,056	205,222	190,482	183,297	168,610	163,004	156,889	126,490	122,643
Other operating income:										
Capacity charges	2,667	1,620	1,624	335	446	564	820	2,521	2,538	4,772
Connection fees	379	133	93	64	71	68	47	172	146	220
Regional facilities fees	34	-	-	-	-	-	-	-	(11)	357
Reserve capacity charges	-	-	64	-	-	11	28	37	5	22
Wastewater miscellaneous	1,327	823	2,984	1,299	1,804	2,279	3,599	1,606	3,220	1,693
Stormwater miscellaneous	-	-	58	58	58	58	58	58	58	58
Total other operating income	4,407	2,576	4,823	1,756	2,379	2,980	4,552	4,394	5,956	7,122
Total operating revenue	\$ 229,869	\$ 216,632	\$ 210,045	\$ 192,238	\$ 185,676	\$ 171,590	\$ 167,556	\$ 161,283	\$ 132,446	\$ 129,765

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Service and administrative costs:										
Labor	\$ 54,251	\$ 57,249	\$ 55,028	\$ 55,010	\$ 56,358	\$ 52,945	\$ 49,354	\$ 49,431	\$ 47,079	\$ 42,287
Utilities	13,817	14,563	12,821	14,555	13,853	11,879	10,818	12,989	10,976	12,518
Materials and supplies	9,706	8,151	8,990	8,972	9,043	9,031	8,742	8,707	8,197	7,745
Professional services	2,839	1,932	3,942	2,416	2,624	2,363	2,730	3,126	2,797	2,543
Maintenance and repairs	7,915	9,096	10,866	11,090	10,054	8,847	9,675	8,926	8,035	7,762
Billing and collections	4,327	4,095	4,904	4,309	4,318	4,461	3,623	5,319	2,889	3,869
Chemicals and fuel	5,297	5,143	5,907	5,714	5,702	6,099	5,687	5,148	4,825	5,088
Biosolids disposal	1,967	1,795	1,709	1,759	2,035	2,186	2,063	1,661	1,412	1,554
All other	6,520	7,238	4,369	4,901	3,694	3,638	2,817	2,800	3,947	3,067
Gross service and administrative costs	106,639	109,262	108,536	108,726	107,681	101,449	95,509	98,107	90,157	86,433
Less: Recovery of cost										
Capitalized project cost	(30,056)	(33,568)	(33,110)	(33,200)	(30,472)	(28,129)	(24,401)	(26,510)	(25,715)	(24,450)
Revenue recoveries	(465)	(448)	(495)	(400)	(374)	(381)	(1,574)	(1,262)	(963)	(937)
Recovery of cost	(30,521)	(34,016)	(33,605)	(33,600)	(30,846)	(28,510)	(25,975)	(27,772)	(26,678)	(25,387)
Net service and administrative costs	\$ 76,118	\$ 75,246	\$ 74,931	\$ 75,126	\$ 76,835	\$ 72,939	\$ 69,534	\$ 70,335	\$ 63,479	\$ 61,046

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Completed projects										
Sewer lines	\$ 1,277,745	\$ 1,274,180	\$ 1,265,437	\$ 1,179,685	\$ 1,159,437	\$ 1,134,637	\$ 1,042,742	\$ 1,022,859	\$ 963,798	\$ 915,527
Wastewater treatment facilities	489,292	489,289	479,998	479,226	471,190	470,527	459,238	456,955	422,483	418,997
Stormwater drainage facilities	448,853	448,899	443,577	437,139	434,943	427,431	400,118	390,699	366,745	337,039
Pumping and lift stations	96,812	96,819	89,503	73,023	71,122	70,643	69,301	66,990	60,877	55,407
Administrative facilities	49,342	49,342	49,317	46,068	46,078	45,561	45,561	45,561	45,347	45,347
Maintenance facilities	8,037	8,037	8,037	8,037	8,037	7,827	7,827	7,833	7,313	7,470
Machinery, equipment and other	85,395	85,395	83,882	77,068	71,923	93,240	74,975	75,872	62,526	58,613
Capitalized interest	322,312	301,800	282,697	260,157	235,624	222,584	214,644	214,644	220,690	211,362
Total completed projects	2,777,788	2,753,761	2,702,448	2,560,403	2,498,354	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762
Less accumulated depreciation	(1,008,503)	(946,426)	(884,199)	(825,205)	(788,423)	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)
Total completed projects - net	1,769,285	1,807,335	1,818,249	1,735,198	1,729,931	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963
Total construction in progress	623,181	463,167	371,816	370,350	272,850	140,134	182,711	136,695	193,420	211,761
Total net plant, lines and other facilities	\$ 2,392,466	\$ 2,270,502	\$ 2,190,065	\$ 2,105,548	\$ 2,002,781	\$ 1,878,012	\$ 1,816,737	\$ 1,789,812	\$ 1,764,556	\$ 1,733,724

LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT
WASTEWATER TREATMENT PLANT CAPACITY
2015

Plant	Design Capacity MGD	Avg Daily Flow MGD	Eventual Capacity MGD	Customer Base		Total	Year Built	Treatment Process
				Residential	Commercial			
Morris Forman	120.0	92.9	120.0	130,176	16,031	357	1958	Secondary
Derek R. Guthrie*	30.0	34.9	45.0	64,571	4,142	21	1986	Secondary added in 1972.
Jeffersontown	4.0	3.2	-	6,024	936	9	1986	Secondary
Hite Creek	6.0	4.3	8.0	7,724	595	7	1970	Tertiary: sand filter
Cedar Creek	7.5	4.0	7.5	11,054	326	-	1995	Tertiary: sand filter
Floyd's Fork	6.5	2.8	9.8	7,586	390	-	2001	Tertiary: sand filter
10 Small WQTC**	2.6	1.0	-	3,369	144	-	Most 1970s	Various: developer-built package plants
Total treatment system	176.6	143.1	190.3	230,504	22,564	394	253,462	

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
Louisville- Jefferson County Principal Employers
Current Year and Nine Years Ago

Employer	2015		Percentage of Total Employment		Employer	2006		Percentage of Total Employment	
	Employees	Rank	Employees	Rank		Employees	Rank	Employees	Rank
United Parcel Service, Inc.	22,189	1	3.68%	1	United Parcel Service, Inc.	18,398	1	3.22%	1
Jefferson County, KY Public Schools	14,719	2	2.44%	2	Jefferson County, KY Public Schools	13,281	2	2.32%	2
Humana, Inc.	12,900	3	2.14%	3	Ford Motor Company	8,745	3	1.53%	3
Norton Healthcare (formerly Alliant Health)	10,739	4	1.78%	4	Norton Healthcare (formerly Alliant Health)	7,783	4	1.36%	4
Ford Motor Company	9,028	5	1.50%	5	Louisville-Jefferson County Metro Government	7,458	5	1.30%	5
University of Louisville	6,264	6	1.04%	6	Jewish Hospital	5,993	6	1.05%	6
General Electric Company	6,000	7	1.00%	7	University of Louisville	5,907	7	1.03%	7
Kentucky One Health Inc (formerly Jewish Hosp)	6,000	8	1.00%	8	Kroger	5,563	8	0.97%	8
Amazon.com	6,000	9	1.00%	9	General Electric Company	5,177	9	0.91%	9
Louisville-Jefferson County Metro Government	5,584	10	0.93%	10	Commonwealth of Kentucky	5,000	10	0.87%	10
Total	99,423		16.49%			83,305		14.56%	

Total Employment (MSA) Louisville, KY-IN 602,845
 Total Employment (MSA) Louisville, KY-IN 572,010

Source: Business First of Louisville
 Workforce Kentucky

**LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
Ratio of Outstanding Debt and Misc. Demographic Information
(dollar amounts in thousands)**

Fiscal Year	Revenue Bond	Population	Personal Income	Percentage of Personal Income	Unemployment Rate	# of MSD Employees	# of MSD Service Connections	Miles of Sewer Line
2006	1,363,035	715,149	28,754,463	4.74%	5.7%	612	222,698	3,099
2007	1,345,285	723,040	29,594,360	4.55%	5.1%	614	224,654	3,133
2008	1,443,080	730,194	30,196,557	4.78%	6.4%	625	226,430	3,200
2009	1,408,290	736,705	29,191,601	4.82%	10.4%	633	226,711	3,197
2010	1,325,785	742,324	29,921,911	4.43%	9.8%	651	228,580	3,207
2011	1,616,510	746,372	31,154,544	5.19%	9.9%	655	230,240	3,200
2012	1,562,510	750,828	32,592,092	4.79%	8.4%	666	235,136	3,232
2013	1,505,260	756,832	33,314,513	4.52%	8.2%	649	239,334	3,240
2014	1,578,225	760,026	N/A	N/A	6.4%	606	240,174	3,263
2015	1,612,805	N/A	N/A	N/A	4.9%	591	253,462	3,288

Source: U.S. Census Bureau (census.gov)
Source: Workforce Kentucky Website (www.workforcekentucky.ky.gov)
Source: Bureau of Economic Analysis website (www.bea.gov)

**LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT
TOP 10 WASTEWATER AND STORMWATER CUSTOMERS**

Rank	Customer Name	FY '15 Wastewater Billed	Percent Total Wastewater Revenue	Customer Name	FY '06 Wastewater Billed	Percent Total Wastewater Revenue
1	Lubrizol Advanced Material***	\$ 2,403,315	1.38%	Solae LLC (Protein Technologies)	\$ 2,554,270	2.72%
2	Early Times Distillery	\$ 1,993,992	1.15%	Opta Food	\$ 1,295,917	1.38%
3	Swift & Company	\$ 1,671,739	0.96%	OXY Vinal	\$ 1,258,354	1.34%
4	Heaven Hill Distilleries	\$ 1,479,429	0.85%	Swift & Company	\$ 1,230,182	1.31%
5	Ford Motor Co.	\$ 1,448,638	0.83%	E.I. Dupont	\$ 1,145,665	1.22%
6	Louisville Metro Housing Authority	\$ 1,297,997	0.75%	Brown Forman Corp.	\$ 1,126,884	1.20%
7	UPS Air District	\$ 1,108,602	0.64%	Jefferson Co. Bd. of Educ.	\$ 1,051,758	1.12%
8	Sunopta Ingredients Group	\$ 957,081	0.55%	Heaven Hill Distilleries	\$ 741,865	0.79%
9	General Electric	\$ 824,136	0.47%	Rohm & Haas	\$ 657,349	0.70%
10	BYK Additives Inc	\$ 444,961	0.26%	Lou. Metro Housing Auth.	\$ 582,223	0.62%
	Total	\$ 13,629,890	7.84%	Total	\$ 11,644,468	12.40%
	Total FY '15 Wastewater Revenue:	\$ 173,895,000		Total FY '06 Wastewater Revenue:	\$ 93,907,000	

Rank	Customer Name	FY '15 Stormwater Billed	Percent Total Stormwater Revenue	Customer Name	FY '06 Stormwater Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	\$ 1,152,439	2.23%	Regional Airport Authority	\$ 747,136	2.60%
2	United Parcel Service	\$ 611,250	1.19%	United Parcel Service	\$ 491,386	1.71%
3	Jeff Co Board of Education	\$ 498,098	0.97%	Jefferson Co. Bd. of Educ.	\$ 261,498	0.91%
4	Ford Motor Company	\$ 397,235	0.77%	Ford Motor Company	\$ 258,624	0.90%
5	KY State Fair Board	\$ 248,975	0.48%	LIT Industrial Limited	\$ 192,531	0.67%
6	Churchill Downs	\$ 226,679	0.44%	Churchill Downs	\$ 149,427	0.52%
7	LIT Industrial Limited Partnership**	\$ 200,558	0.39%	KY State Fair Board	\$ 126,438	0.44%
8	U of L Belknap Campus	\$ 179,562	0.35%	Norfolk Southern Corp.	\$ 123,565	0.43%
9	Seaboard Syst RR-00822	\$ 168,402	0.33%	Louisville Gas & Electric	\$ 120,691	0.42%
10	Lou/Jeff Cty Redevel Auth	\$ 165,284	0.32%	University of Louisville	\$ 114,944	0.40%
	Total	\$ 3,848,482	7.46%	Total	\$ 2,586,240	9.00%
	Total FY '15 Stormwater Revenue:	\$ 51,567,000		Total FY '06 Stormwater Revenue:	\$ 28,736,000	

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

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