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**BEFORE THE  
PUBLIC SERVICE COMMISSION OF KENTUCKY**

In the Matter of:

No. 2009-2009-00336

Application of the  
Louisville and Jefferson County Metropolitan Sewer District  
For an Order Approving a Transfer of Ownership and Control

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**APPLICATION**

Applicant, the Louisville and Jefferson County Metropolitan Sewer District (“MSD”) hereby applies to the Kentucky Public Service Commission (“PSC”) for (a) approval pursuant to KRS 278.020(5) of a transfer of ownership and control of a jurisdictional utility, and (b) any other approval necessary relating to the acquisition of the Shadowwood Wastewater Treatment Plant. In support of its request, MSD states as follows:

**THE APPLICANT**

1. MSD is a public body corporate created and organized pursuant to KRS Chapter 76 of the Kentucky Revised Statutes, whose address is 700 West Liberty Street, Louisville, Kentucky.
2. MSD’s statutory responsibilities include the providing of sewage and drainage facilities to the public; the regulation of public and private sewers and drains and the discharge of waste and waters into the sewer system, and is authorized to provide for wastewater discharge permits and abatement of and liabilities and penalties for the violations of MSD’s regulations and Metro Government ordinances.
3. In order to carry out these responsibilities MSD owns and operates wastewater treatment plants and pump stations which comprise part of the sanitary sewer system throughout Jefferson County.
4. Pursuant to KRS 76.070 and KRS 76.110, MSD has the legal authority to acquire land and existing facilities.

5. Copies of all orders, pleadings and other communications regarding this Application should be directed to:

Douglas Scott Porter  
Louisville and Jefferson County  
Metropolitan Sewer District  
700 West Liberty Street  
Louisville, Kentucky 40203-1911

### **THE TRANSACTION**

6. MSD was created in 1946 as a public body corporate and subdivision of the Commonwealth of Kentucky. It has complete control, possession, and supervision of the sewer and drainage system within the City of Louisville and within large portions of Jefferson County that it has annexed into its service area. KRS Chapter 76 authorizes MSD to construct facilities within its service area and to recover the cost of its services in accordance with rate schedules adopted by its governing Board. Due to the merger of the City of Louisville and the Jefferson County Governments, MSD is now considered a component unit of the new Louisville Metro Government.
7. Shadowwood Waste Environmental, LLC (“Shadowwood”) is a Kentucky limited liability company whose mailing address was 13404 Creekwood Road, Prospect, Kentucky, 40059 who owned and operated the Shadowwood Wastewater Treatment Plant and collection system (“Shadowwood WTP”) which was located on property described in a deed recorded in Deed Book 8578, Page 950 in the Jefferson County Clerk’s Office.
8. Shadowwood WTP was originally acquired by a developer who initially acquired the plant because it was needed to provide sewer service for a condominium complex that the developer’s firm was constructing. Subsequently, MSD and Shadowwood entered into an agreement for MSD to operate the plant with a clause that gave MSD the right to purchase it. MSD operated the plant for approximately 2 years and decided to exercise the right to purchase it. By MSD exercising its option to purchase the

WTP, the Transaction will serve the public interest by enabling the continued operation of the facility without any interruption of service by a public utility with the manpower and resources to operate the plant in compliance with all environmental laws. Additionally, the merger is consistent with the State's environmental policy of regionalization and consolidation of sewer services and the elimination of private ownership of treatment plants. A copy of Operation Agreement between Shadowwood and MSD is attached as Exhibit A.

9. Through Bill of Sale and Transfer of Deed ( collectively referred to as the "Agreement") executed on September 17, 2008, Shadowwood transferred to MSD, and MSD has acquired all the utility assets and liabilities of Shadowwood pursuant to an agreement between Shadowwood and MSD (hereinafter, "the Transaction"). This Transaction is a transfer within the meaning of KRS 278.020(5).
10. The terms and conditions of the Transaction are set out in the Shadowwood Disposal Systems, LLC Wastewater Treatment Plant and System Bill of Sale and Deed of Transfer which comprise the purchase agreement. These documents are collectively referred to as "the Agreement" and are attached as Exhibit B.
11. Pursuant to Section 1B-1(a) of MSD's Procurement Code, because the acquisition was less than \$50,000, the purchase did not need to be approved by the MSD Board and the Executive Director is vested with the authority to execute the purchase agreement.
12. On September 17, 2008, MSD's Executive Director executed the Agreement and had a check tendered to Shadowwood in the amount of \$44,038.48 to effectuate the transfer and acquisition of the Shadowwood.
13. On October 1, 2008, MSD submitted the necessary "Change in Ownership" information to the Division of Water, KPDES Branch of the Environment and Energy Cabinet. A copy of the change of ownership form is attached as Exhibit C.
14. On November 6, 2008, MSD received a notice from the PSC inquiring if

the transfer of the Shadowwood WTP to MSD had been approved by the PSC.

15. MSD provided the PSC with information concerning the acquisition and on November 14, the PSC notified MSD that neither Shadowwood nor MSD had applied for or obtained the approval of the transfer as per KRS 278.020(5).
16. On December 3, 2009, MSD tendered a formal appeal to the PSC requesting a ruling on the applicability of the KRS 278.020 to MSD since MSD is not a utility as defined by KRS 278.010(3)(f). A copy of MSD's letter is attached as Exhibit D.
17. On April 1, 2009, MSD received a response from the PSC setting forth the rationale behind the PSC's interpretation that the provisions of KRS 278.020 are applicable to the transaction. A copy of the PSC's response letter, without the attachments, is attached as Exhibit E.
18. Upon receipt and review of the PSC's advisory letter, counsel for MSD contacted the Assistant General Counsel for the PSC and requested samples of the necessary forms to proceed with the approval process.
19. On May 21, 2009, the Assistant General Counsel for the PSC forwarded the necessary checklist along with sample applications to MSD counsel.
20. Although the Agreement between Shadowwood and MSD has been executed, MSD tenders this application in order to secure the necessary regulatory approval of the PSC and is providing a full executed copy of the Agreement along with this Application.
21. As per the Agreement, on September 17, 2008, Shadowwood transferred to MSD all properties owned and operated by Shadowwood used in the operation of the Shadowwood wastewater collection and treatment system. The properties transferred included the wastewater treatment plant and all sewer pipes, lines, man holes, force mains, treatment plants, pumping and lift stations, easements, rights-of-ways, licenses, privileges, improvement and appurtenances necessary to the operation of the wastewater treatment plant and the attendant system. See Exhibit B.

**KRS 278.020(5) Transfer Requirements**

22. The Commission should approve the transfer by Shadowwood pursuant to KRS 278.020(5). MSD has the financial, technical, and managerial abilities to continue to provide reasonable service to the customers as was done through prior agreement with Shadowwood and has been doing since the Transaction. MSD currently has a workforce of over 600 employees. 73 are employed as certified operators. Because MSD is a public utility created to manage and operate the sewer and drainage system in Jefferson County, MSD's workforce is trained to handle specific job functions directly related to the operation of the sewer and drainage system. Additionally, MSD's employees are on-call 24 hours a day, 7 days a week to handle immediate emergencies and MSD has an Emergency Response Unit in the event of crisis.
23. Since the transfer occurred on September 17, 2008, MSD has continued to operate the utility and has otherwise borne all regulatory and financial responsibility for the operation and maintenance of the facilities, and there has been no disruption of service.
24. Since MSD took over ownership of the Shadowwood utility facilities on September 17, 2009 MSD has continued to receive all income and pay all expenses relating to the operation of the treatment plant, and otherwise, has borne all financial and staffing responsibility for the operation and maintenance of the facilities as well as assuming all legal permitting responsibility for the plant.
25. Prior to the Transfer, although MSD was operating the plant pursuant to an agreement with Shadowwood, the facility was under the jurisdiction of the PSC who was ultimately responsible for compliance with all PSC regulations, including those which require the timely filing of any information, notice, or reports as well as environmental permitting and reporting requirements.

26. As demonstrated by its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008, attached as Exhibit F, and a copy of MSD's 2008 Annual Report, attached as Exhibit G, and its control and operation of the sewer and drainage system within the City of Louisville and portions of Jefferson County for more than 55 years, MSD has the financial, managerial, and technical abilities to provide reasonable service to the persons currently served by Shadowwood. The reports detail the various features of MSD's facilities and workforce which should illustrate the agency's expertise and financial capability in operating and managing, not only this plant, but the entire Jefferson County sewer and drainage system.
27. The merger is consistent with the Commonwealth's policy of regionalization and consolidation. The purchase will produce greater economies of scale, eliminate wasteful duplication of costs and efforts, result in a sounder and more businesslike degree of management, and produce a higher degree of service at a lesser cost.
28. Since the merger, Shadowwood customers have been subject to one rate increase of 6.5 %. This was not a special rate increase but was a standard rate increase assessed to all Jefferson County customers of MSD. However, since the transfer, MSD has done a significant amount of repairs and upgrades to the plant. These include replacing the commutator motor, blower controls, diffusers, the control on the stabilization tank pump, and timers on the controls. Additionally, leaking headers were either repaired or replaced and the skimmer lines from the digester to the clarifier were repaired and extended. MSD also repaired and extended the fence around the plant and made repairs to handrails and walkways around the plant. These repairs and upgrades have helped the plant function more efficiently and in compliance with the environmental regulations, and improved the quality of service to the customers.

### **Other Requirements**

29. The Transaction does not include an acquisition within the meaning of KRS 278.020(5) or an acquisition of control as defined by KRS 278.020(6), because MSD is not subject to the jurisdiction of the Commission.
30. If the Commission nonetheless applies KRS 278.020(5) to the Transaction, the Commission should approve the acquisition by MSD of control of the utility assets of Shadowwood. As demonstrated by this Application, the Transaction is in accordance with law, for a proper purpose, and is consistent with the public interest. Therefore, the Commission should approve the acquisition by MSD of the utility assets of Shadowwood.
31. Through this transaction, although Shadowwood has transferred all of its utility assets to MSD and ceased to be responsible for providing utility services after September 17, 2008, it is not abandoning the utility or its assets within the meaning of KRS 278.021 because the transfer was to MSD, an entity with the capability to provide reasonable service and which is agreeing to take on the responsibility of providing service to the customers. However, if the Commission nonetheless applies the KRS 278.020(5) provisions relating to abandonment of ownership or control to the Transaction, the Commission should approve Shadowwood's transfer of all of its utility assets to MSD and cessation of providing utility service.

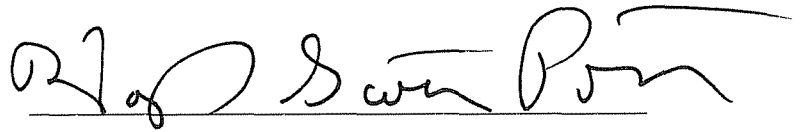
### **CONCLUSION**

WHEREFORE, Applicant MSD requests an Order of the Commission within 60 days of the filing of the Application which:

- a) Grants approval pursuant to KRS 278.020(5) for the transfer to MSD by Shadowwood of ownership and control of the Shadowwood utility assets in the Proposed Transaction; and
- b) Declares that KRS 278.020(6) is inapplicable or, in the alternative, grants approval pursuant to KRS 278.020(6) for the acquisition by MSD of

- control of the Shadowwood utility assets in the Transaction; and
- c) Declares that no other Commission approvals are necessary for the Transaction or, in the alternative, grants any other approvals necessary.

Respectfully submitted,

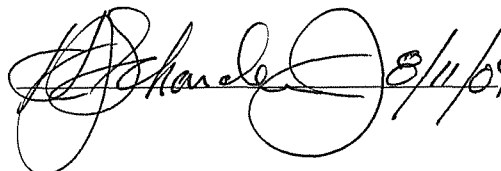
A handwritten signature in black ink, appearing to read "Douglas Scott Porter", written over a horizontal line.

Douglas Scott Porter  
Louisville and Jefferson County  
Metropolitan Sewer District  
700 West Liberty Street  
Louisville, Kentucky 40203-1911  
Phone: (502) 540-6623  
(Fax): (502) 540-6565




VERIFICATION

I, Herbert J. Schardein, Jr., Executive Director, Louisville and Jefferson County Metropolitan Sewer District, do hereby swear or affirm that the contents of the foregoing Application are true and accurate to the best of my knowledge.



COMMONWEALTH OF KENTUCKY )  
)  
COUNTY OF JEFFERSON )

Signed and sworn to before me this 11 day of August, 2009 by Herbert J. Schardein, Jr. as Executive Director, Louisville and Jefferson County Metropolitan Sewer District.

  
Notary Public  
My Commission expires 2/10/2011

CERTIFICATE OF FILING AND MAILING

I hereby certify that on the 12<sup>th</sup> day of August 2009, the original and ten(10) copies of this Application were hand delivered to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Blvd., Frankfort, KY 40602, and that a copy was sent via U.S. Mail, to

Assistant Attorney General  
Office of Rate Intervention  
1024 Capital Center Drive, Suite 200

  
Attorney for the Applicant

**SHADOWWOOD WASTE WASTEWATER COLLECTION AND TREATMENT  
SYSTEM**

**AGREEMENT**

This AGREEMENT, made and entered into at Louisville, Kentucky, this 28<sup>th</sup> day of February, 2005, by and between SHADOWWOOD WASTE ENVIRONMENTAL, LLC, a Kentucky limited liability company with its principal office at 13404 Creekview Road, Louisville, KY 40059, (hereinafter referred to as "SHADOWWOOD WASTE") and the LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT, 700 West Liberty Street, Louisville, Kentucky 40203, a public body corporate and political subdivision organized pursuant to Chapter 76 of the Kentucky Revised Statutes (hereinafter referred to as "MSD").

**Whereas**, SHADOWWOOD WASTE owns and operates a wastewater treatment plant, specifically *Shadowwood Wastewater Treatment Plant* (hereinafter referred to as "SHADOWWOOD WTP") and

**Whereas**, SHADOWWOOD WASTE desires to grant additional sewer taps to one or more third parties prior to MSD's acquisition of the SHADOWWOOD WTP; and

**Whereas**, neither the Public Service Commission nor the Jefferson County Health Department will permit SHADOWWOOD WASTE to enlarge its customer base without first cleaning and upgrading its wastewater treatment lagoon; and

**Whereas**, SHADOWWOOD WASTE would like to avoid the costs associated with the cleaning and upgrade of its wastewater treatment lagoon; and

**Whereas**, MSD would like to manage the SHADOWWOOD WTP and prepare

SHADOWWOOD WASTE's customers and facilities for the time when MSD's comprehensive collection and treatment system becomes available to the SHADOWWOOD WASTE Development; and

**Whereas**, in the interest of public health and safety SHADOWWOOD WASTE desires to have MSD operate the SHADOWWOOD WASTE SYSTEM while SHADOWWOOD WASTE maintains ownership of the SHADOWWOOD WASTE SYSTEM; and

**Whereas**, MSD is willing, under the conditions set forth in this AGREEMENT, to operate the SHADOWWOOD WASTE SYSTEM in the general interest of public health, safety and general welfare; and

**Whereas**, SHADOWWOOD WASTE and MSD have negotiated this AGREEMENT whereas ownership, maintenance and operations responsibilities for the SHADOWWOOD WASTE SYSTEM are clearly delineated and both parties are adequately compensated for their investments and responsibilities;

Now, therefore, in consideration of the mutual undertakings and obligations hereinafter set forth, SHADOWWOOD WASTE and MSD agree to the following:

1. The following definitions will apply throughout this AGREEMENT.

A. OPERATIONS DATE shall be the <sup>1st</sup>~~2nd~~ day of <sup>March</sup>~~February~~, 2005 and shall be the date on which MSD assumes operational and maintenance responsibilities for the SHADOWWOOD WASTE SYSTEM.

B. EXECUTION DATE shall be the date on which this AGREEMENT is fully executed by both parties.

C. FINAL DATE shall be when MSD diverts the wastewater flow from SHADOWWOOD WTP to MSD's comprehensive collection and treatment system.

D. SHADOWWOOD WASTE SYSTEM shall mean all properties, real, personal or mixed, which are owned and operated by SHADOWWOOD WASTE and which are used in the operation of the Shadowwood wastewater collection and treatment system that flows to SHADOWWOOD WTP, as of the EXECUTION DATE and subsequent thereto. This shall include all FACILITIES and the SHADOWWOOD WTP.

E. FACILITIES shall include sewer pipes, lines, force mains, pumping and lift stations, and all other real and/or personal property used in the collection and conveyance of sanitary sewerage to the SHADOWWOOD WTP.

2. SHADOWWOOD WASTE and MSD agree that as of the OPERATIONS DATE, MSD shall assume operation and maintenance responsibilities for the SHADOWWOOD WASTE SYSTEM. MSD's operations and maintenance responsibilities shall include the following

A. MSD shall provide an Operator, Class I or higher if appropriate for the design capacity of the SHADOWWOOD WTP. The MSD Operator, if below Class IV, shall be under the supervision of a Class IV Operator. The MSD Operator shall perform the following services:

1) Conduct a daily inspection of the SHADOWWOOD WTP.

2) Make adjustments to the chemical feed system and change out the chlorine and sulfur dioxide cylinders as needed.

- 3) Supervise the sludge wasting operations.
- 4) Maintain an on-site log of daily activities.
- 5) Collect samples as necessary.
- 6) Operate the SHADOWWOOD WTP in a good workman like fashion.

- B. MSD shall operate the SHADOWWOOD WTP according to standards designed to consistently comply with Kentucky Pollutant Discharge Elimination System (KPDES) Permit requirements. MSD will strive to comply with all KPDES Permit limits, however MSD cannot guarantee that permit limits will not, on occasion, be exceeded.
- C. MSD shall provide for the collection and analysis of samples necessary for the proper operation of the SHADOWWOOD WTP. MSD shall also perform those tasks necessary to meet the reporting requirements of the KPDES Permit.
- D. MSD shall operate and maintain the SHADOWWOOD WASTE SYSTEM in a manner consistent with MSD's current practices in use throughout the MSD service area.
- E. MSD shall be responsible for all costs associated with the operation and maintenance of the SHADOWWOOD WASTE SYSTEM, including but not limited to electricity, water, chemical, operators, reports, fees to the health department or any other applicable government agency, and capital improvements & repairs necessary to maintain the SHADOWWOOD WASTE SYSTEM in compliance with applicable government regulations. MSD shall oversee the project management of the Lagoon Clean up Contract for no additional project fee. MSD shall not be responsible for property taxes associated with the

SHADOWWOOD WASTE SYSTEM.

3. MSD and SHADOWWOOD WASTE agree that SHADOWWOOD WASTE shall retain ownership of the SHADOWWOOD WTP and all FACILITIES for the duration of this AGREEMENT.
4. On the OPERATIONS DATE, SHADOWWOOD WASTE shall provide MSD with a list of properties serviced by the SHADOWWOOD WTP and the amount charged for each property. SHADOWWOOD WASTE agrees to provide, in a timely manner, updated information for the aforementioned list as may be necessary. SHADOWWOOD WASTE shall be responsible for the collection of all billings for properties served by the SHADOWWOOD WTP until the FINAL DATE. Prior to the 10th day of the month, SHADOWWOOD WASTE shall tender to MSD; 1) a list of all billing received from the Louisville Water Company for the previous month, and 2) a check equal to the amount of billings received for the month minus a One Thousand Dollar retainage due SHADOWWOOD WASTE on a bi-monthly basis. SHADOWWOOD WASTE'S retainage amount shall be \$6,000 annually. All payments due MSD under this Agreement received after the 10<sup>th</sup> of the month shall be subject to a 7 ½% interest charge. In the event MSD does not receive payment by the 10th day, MSD shall notify SHADOWWOOD WASTE via the United State Postal Service. Payments not received by the 10th day of the following month shall constitute a material breach of this Agreement. MSD acknowledges that SHADOWWOOD WASTE has a contractual relationship with the Louisville Water Company for the collection of sewer bills. SHADOWWOOD WASTE shall take all actions that the Louisville Water Company may deem reasonably necessary for the collection of delinquent billings, including but not limited to the granting of permission to the Louisville Water Company to discontinue water service for delinquent bills.
5. MSD agrees that SHADOWWOOD WASTE may authorize one or more parties, at different times on or before the FINAL DATE, to connect sixty-six (66) sewer taps to the

SHADOWWOOD WASTE SYSTEM. MSD agrees to waive all capacity charges and connection fees for these additional sewer taps.

6. When MSD determines that the MSD comprehensive collection and treatment system is available to the SHADOWWOOD WTP, then SHADOWWOOD WASTE authorizes MSD to take such steps as MSD deems necessary to divert the wastewater flow from the SHADOWWOOD WTP to the MSD comprehensive collection and treatment system. MSD agrees to provide SHADOWWOOD WASTE with thirty (30) days notice prior to the diversion of flow. SHADOWWOOD WASTE agrees to provide, on or before the FINAL DATE, without charge, all third party perpetual easements then in SHADOWWOOD WASTE's possession, and all perpetual easements across the remaining lands of SHADOWWOOD WASTE, that MSD reasonably deems necessary for the diversion of wastewater from the SHADOWWOOD WTP to the MSD comprehensive collection and treatment system. SHADOWWOOD WASTE agrees to provide, on or before the FINAL DATE, without charge, all third party perpetual easements then in SHADOWWOOD WASTE's possession, and all perpetual easements across the remaining lands of SHADOWWOOD WASTE, that MSD reasonably deems necessary for the operation and maintenance of the SHADOWWOOD WASTE SYSTEM.
  
7. At any time on or after one year from the OPERATIONS DATE, SHADOWWOOD WASTE may, at its discretion and upon not less than ninety (90) days prior written notice to MSD, assign or terminate this AGREEMENT; provided that MSD, upon receipt of such notice of termination may elect to purchase the SHADOWWOOD WTP FOR \$45,000.00. If MSD makes such an election, MSD shall notify SHADOWWOOD WASTE of such election within thirty (30) days of MSD's receipt of SHADOWWOOD WASTE'S notice of termination. MSD shall thereafter close on the purchase within thirty (30) days of giving such notice to purchase. In the event of such a closing, the remaining provisions of this AGREEMENT which do not conflict with this section 7, regarding the parties' respective authority, obligations, and rights/obligations to

indemnify as of the FINAL DATE, shall remain in force. This is a material provision of the agreement.

8. Upon the diversion of wastewater flow, SHADOWWOOD WASTE shall tender to MSD all security deposits and credits, agreements and billing records which SHADOWWOOD WASTE may hold in consequence of the operation of the SHADOWWOOD WTP.
9. Upon the diversion of wastewater flow, SHADOWWOOD WASTE shall assume all responsibility for the SHADOWWOOD WTP, except as provided in this section. Following the diversion of wastewater flow, MSD shall either remove or neutralize all remaining waste material existing on the SHADOWWOOD WTP site, backfill the existing lagoons or depressions to allow for positive drainage, and demolish the SHADOWWOOD WTP structures at MSD's expense. The demolition shall consist of removing all structures to a depth of three (3) feet below rough grade. The bottoms of the structure will be cored to minimize ground water uplift and the void area backfilled. MSD will make reasonable efforts to return the site to its predevelopment condition, but due to the difficulties associated with removing and restoring to grade treatment plants of this nature and the future settling of backfill, MSD does not warrant that the site will be suitable for future development. SHADOWWOOD WASTE agrees that MSD shall be authorized to dispose of any and all equipment, material and fixtures located on the SHADOWWOOD WTP property in any manner MSD deems fit.
10. SHADOWWOOD WASTE agrees that if this Agreement remains effective as of the FINAL DATE, SHADOWWOOD WASTE shall not be entitled to any compensation for the diversion of wastewater from the SHADOWWOOD WTP to the MSD comprehensive collection and treatment system. SHADOWWOOD WASTE agrees that it is not entitled to any additional compensation from either MSD or MSD's customers, related to SHADOWWOOD WASTE continuing ownership of the SHADOWWOOD WASTE FACILITIES. SHADOWWOOD WASTE further agrees that it has not, and will not, bring legal action for the loss of customers, as a result of MSD's diversion of flow



from SHADOWWOOD WTP to MSD's comprehensive collection system or for the use of the SHADOWWOOD WASTE FACILITIES.

11. Prior to FINAL DATE, customers serviced by the SHADOWWOOD WTP shall be charged sewer service charges according to rates established by the Public Service Commission. All fees paid by customers serviced by the SHADOWWOOD WTP shall be paid directly to SHADOWWOOD WASTE or SHADOWWOOD WASTE designated agent SHADOWWOOD WASTE agrees to provide notice to all customers serviced by the SHADOWWOOD WTP that all service is being transferred to MSD not less than fourteen (14) days prior to the FINAL DATE. Effective with the first full Louisville Water Company meter reading period following FINAL DATE, MSD shall receive charges from all customers of the SHADOWWOOD WTP in accordance with MSD's regular schedule of rates, rentals and charges. SHADOWWOOD WASTE shall be paid all collections of billings for services rendered prior to and including the FINAL DATE. MSD shall receive all collections of billing rendered after the FINAL DATE.
12. Prior to the OPERATIONS DATE, SHADOWWOOD WASTE agrees to provide MSD with a copy of all flow, water quality, DMR's and any other relevant operating data on influent and effluent of the SHADOWWOOD WTP currently in the possession of SHADOWWOOD WASTE or its agents. In addition, SHADOWWOOD WASTE agrees to provide, if available, monthly records of digested sludge quantity removed from the SHADOWWOOD WTP for the past three years and all operating manuals which pertain to this plant. SHADOWWOOD WASTE agrees to provide MSD with any and all "As Built" drawings which SHADOWWOOD WASTE has in its possession.
13. All responsibilities and obligations incurred under this AGREEMENT shall be binding to the successors and assigns of the parties.
14. This AGREEMENT embodies the whole agreement of the parties. No other promises, terms, conditions or obligations shall be binding unless contained herein. This

AGREEMENT supersedes all previous communication, representation or agreements whether verbal or written between the parties.

15. To the fullest extent permitted by law, MSD shall indemnify, hold harmless, and defend SHADOWWOOD WASTE and its agents and employees from and against claims, damages, losses, and expenses, arising out of or resulting from performance of the services of this Agreement, including loss or expense attributable to bodily injury, sickness, disease, or death, to injury to or destruction of tangible property, including loss of use resulting therefrom, but only to the extent caused in whole or in part by the negligent acts or omissions of MSD or anyone directly or indirectly employed by MSD or anyone for whose acts MSD may be liable. Such obligation shall not be construed to negate, abridge, or reduce other rights or obligations of indemnification which would otherwise exist as to a party or person described in this paragraph.
16. In claims against any person or entity indemnified under § 15 by an employee of MSD or anyone directly or indirectly employed by MSD or anyone for whose acts MSD may be liable, the indemnification obligation under § 15 shall not be limited by a limitation on amount or type of damages, compensation, or benefits payable by or for MSD under worker's or workmen's compensation acts, disability benefits acts, or their employee benefits acts.
17. To the fullest extent permitted by law, SHADOWWOOD WASTE shall indemnify, hold harmless, and defend (with counsel subject to MSD's approval, which approval shall not be unreasonably withheld) MSD and its agents and employees from and against claims, damages, losses, and expenses, arising out of or resulting from performance of SHADOWWOOD WASTE's obligations under this Agreement, including loss or expense attributable to bodily injury, sickness, disease, or death, to injury to or destruction of tangible property, including loss of use resulting therefrom, but only to the extent caused in whole or in part by the negligent acts or omissions of SHADOWWOOD WASTE or anyone directly or indirectly employed by SHADOWWOOD WASTE or

anyone for whose acts SHADOWWOOD WASTE may be liable, regardless of whether or not such claim, damage, loss, or expense is caused in part by MSD. Such obligation shall not be construed to negate, abridge, or reduce other rights or obligations of indemnification, which would otherwise exist as to a party or person described in this paragraph.

18. In claims against any person or entity indemnified under § 17 by an employee of SHADOWWOOD WASTE or anyone directly or indirectly employed by SHADOWWOOD WASTE or anyone for whose acts SHADOWWOOD WASTE may be liable, the indemnification obligation under § 17 shall not be limited by a limitation on amount or type of damages, compensation, or benefits payable by or for SHADOWWOOD WASTE under worker's or workmen's compensation acts, disability benefits acts, or their employee benefits acts.
19. SHADOWWOOD WASTE warrants that SHADOWWOOD WASTE has no knowledge that the SHADOWWOOD WASTE SYSTEM contains any hazardous or toxic materials other than those wastes associated with a residential waste disposal system. SHADOWWOOD WASTE acknowledges that it has not authorized or permitted, nor will it authorize or permit during the duration of this AGREEMENT, the disposal of waste other than that waste associated with normal residential waste disposal. SHADOWWOOD WASTE agrees that, should it gain knowledge that waste, other than that normally associated with normal residential waste disposal, is being disposed of in the SHADOWWOOD WASTE SYSTEM, then SHADOWWOOD WASTE shall notify MSD immediately.
20. Nonmaterial provisions of this AGREEMENT are severable. In the event that any nonmaterial provision of this AGREEMENT shall be held invalid or unenforceable by any court of competent jurisdiction, such finding shall not invalidate and render unenforceable any other provisions herein except to the extent required by law.

21. Material provisions of this AGREEMENT are nonseverable. In the event that any material provision of this AGREEMENT shall be held invalid or unenforceable by any court of competent jurisdiction, this Agreement shall terminate. However, if this AGREEMENT is terminated by operation of law, then the parties agree that MSD will continue to provide the services set out in § 2. MSD will continue to collect fees for its services for a period of not less than 180 days from the date of a court's ruling to allow time for the parties to re-negotiate this AGREEMENT. The parties acknowledge that the requirements of this provision of the AGREEMENT shall survive the termination of the AGREEMENT.
22. This Agreement shall be interpreted pursuant to the laws of the Commonwealth of Kentucky. The Jefferson Circuit Court, Jefferson County, Kentucky, shall have exclusive jurisdiction and venue to interpret the terms of this Agreement, to settle disputes arising under this Agreement, and to enforce this Agreement. The parties to this Agreement agree and hereby submit themselves to the jurisdiction of the Jefferson Circuit Court for these purposes.
23. MSD shall obtain any and all necessary approvals for this AGREEMENT from any applicable authority. SHADOWWOOD WASTE shall provide such assistance, as reasonably necessary, for MSD to gain the necessary approvals from the applicable authorities.
24. SHADOWWOOD WASTE shall obtain any and all necessary approvals for this AGREEMENT from any applicable authority. MSD shall provide such assistance, as reasonably necessary, for SHADOWWOOD WASTE to gain the necessary approval from the applicable authorities.
25. SHADOWWOOD WASTE and MSD agree that this AGREEMENT is contingent upon the Jefferson County Health Department, the Kentucky Division of Water, and all other agencies whose permission is required, permitting SHADOWWOOD WASTE to allow

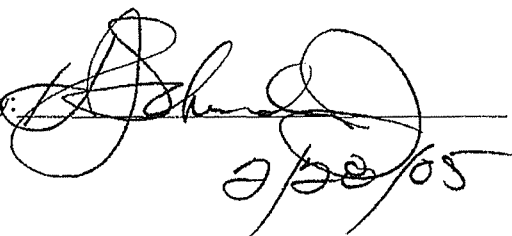
up to sixty-six (66) sewer taps to one or more parties, at such times and under such circumstances as SHADOWWOOD WASTE shall determine, at such cost as SHADOWWOOD WASTE shall determine, prior to the FINAL DATE. Should SHADOWWOOD WASTE be prohibited from granting such additional sewer taps, then this AGREEMENT shall terminate.

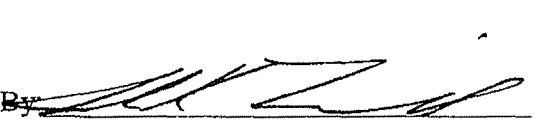
26. Upon the diversion of flow from the SHADOWWOOD WASTE WTP to the MSD comprehensive collection and treatment system or upon material breach of this Agreement by SHADOWWOOD WASTE, MSD may remove any property that was installed at the SHADOWWOOD WTP as part of a capital improvement that MSD deemed necessary to maintain the SHADOWWOOD WASTE SYSTEM in compliance with applicable government regulations. MSD shall make available to SHADOWWOOD WASTE any original property removed from the SHADOWWOOD WASTE WTP as part of a capital improvement.
27. Upon the latter of the EXECUTION DATE or SHADOWWOOD WASTE's acquisition of the SHADOWWOOD WASTE SYSTEM, SHADOWWOOD WASTE agrees to permit MSD personnel or their agents to enter onto the property of SHADOWWOOD WASTE for the purpose of determining the condition and state of repair for the SHADOWWOOD WASTE WTP.

IN WITNESS THEREOF, MSD and SHADOWWOOD WASTE have executed this Agreement in their respective names, effective on the dates indicated.

LOUISVILLE AND JEFFERSON COUNTY  
METROPOLITAN SEWER DISTRICT

SHADOWWOOD WASTE  
ENVIRONMENTAL, LLC

By:   
2/28/05

By:   
Member 2/28/05

Executive Director

Member/Manager

STATE OF KENTUCKY )  
 )  
COUNTY OF JEFFERSON )

I, the undersigned notary public within and for the state and county aforesaid, do hereby certify that the foregoing instrument was this day presented to me by Herbert J. Schardein, Jr. , who, being by me first duly sworn, did acknowledge and declare that he signed the foregoing instrument as Executive Director of the Louisville and Jefferson County Metropolitan Sewer District, by authority and direction of its Board of Directors, as his free and authorized act and deed. Witness my hand this 28 day of February, 2005.

My commission expires: 2/10/07

Rebecca A. Bennett  
NOTARY PUBLIC, State at Large, Kentucky

STATE OF KENTUCKY )  
 )  
COUNTY OF JEFFERSON )

I, the undersigned notary public within and for the state and county aforesaid, do hereby certify that the foregoing instrument was this day presented to me by Julie Tinnell, who, being by me first duly sworn, did acknowledge and declare that he/she signed the foregoing instrument as Member of SHADOWWOOD WASTE ENVIRONMENTAL, LLC, as his/her free and authorized act and deed. Witness my hand this 28 day February, 2005.

My commission expires: 1/18/2007

[Signature]  
NOTARY PUBLIC, State at Large, Kentucky

This instrument was reviewed by:

---

Carolyn F. Shain  
Attorney at Law  
Louisville and Jefferson County  
Metropolitan Sewer District  
700 West Liberty Street  
Louisville, KY 40203

**BILL OF SALE**

**THIS BILL OF SALE**, made and entered into this 17<sup>th</sup> day of September, 2008, by and between **SHADOWWOOD WASTE ENVIRONMENTAL, LLC**, a Kentucky Limited Liability Company, having an address of 13404 CREEKWOOD ROAD, Prospect, Kentucky 40059 (“GRANTOR”), and the **LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**, a public body corporate and political subdivision, 700 West Liberty Street, Louisville, Kentucky (“GRANTEE”),

**WITNESSETH:**

That for a valuable consideration, the receipt of which is hereby acknowledged, Grantor does hereby grant, bargain, sell, transfer and deliver unto the Grantee, all its right, title and interest in and to all of the fixtures and equipment used in connection with the operation and maintenance of the wastewater treatment plant known as SHADOWWOOD WASTEWATER TREATMENT PLANT, located on the property described in a deed recorded in Deed Book 8578, Page 950, in the office of the Clerk of Jefferson County, Kentucky, including, but not limited to, its improvements, sewers, manholes, fixtures, equipment, supplies, pumps, pumping stations, lines, appurtenances, and other personal property located at, connected to, a part of, or necessary to the ordinary operation of the SHADOWWOOD WASTEWATER TREATMENT PLANT and its related wastewater collection system.

The Grantor covenants and agrees that it is the lawful owner of all items herein conveyed, that it is free and clear of all encumbrances, that it has full right and power to sell and convey same, and that it will warrant and defend the title hereby conveyed against all claims and demands whatsoever against same.

IN TESTIMONY WHEREOF, Grantor has hereunto subscribed its signature by its duly authorized officer the date first above written.

SHADOWWOOD WASTE ENVIRONMENTAL, LLC  
A Kentucky Limited Liability Company

By: \_\_\_\_\_

Julie K. Tinnell, Member

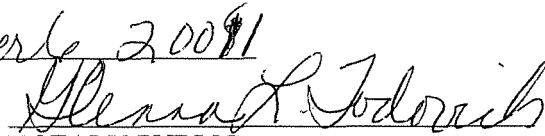
**EXHIBIT B**



COMMONWEALTH OF KENTUCKY     )  
  )SS:  
COUNTY OF JEFFERSON         )

The foregoing Deed was subscribed, sworn to and acknowledged before me this 17<sup>th</sup> day of September 2008, by Julie Tinnell, as a Member of Shadowwood Waste Environmental, LLC, a Kentucky limited liability company on behalf of the company.

My Commission expires: November 6, 2009

  
NOTARY PUBLIC

**DEED**

**THIS DEED** ("Deed") is made and entered into this 17<sup>th</sup> day of September, 2008, by and between (i) **SHADOWWOOD WASTE ENVIRONMENTAL, LLC**, a Kentucky limited liability company ("Grantor"), whose mailing address is 13404 Creekwood Road, Prospect, Kentucky 40059, and (ii) **LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**, a public body corporate ("Grantee"), whose mailing address is 700 West Liberty Street, Louisville, Kentucky, 40203,

**WITNESSETH:**

For good and valuable consideration, including the payment by Grantee of Forty-Five Thousand Dollars (\$45,000.00), the receipt of which is hereby acknowledged, Grantor hereby grants and conveys, with covenant of GENERAL WARRANTY, to Grantee in fee simple, all of Grantor's right, title and interest in and to that certain real property located in Jefferson County, Kentucky and more particularly described as follows (the "Property"):

PARCEL 1:

BEGINNING at an iron post in the Southeast corner of Lot 45 of SHADOW WOOD SUBDIVISION as recorded in Plat Book 24, Page 25, in the Office of the Clerk of Jefferson County, Kentucky; thence North 66 degrees 10 minutes 25 seconds West 168.05 feet to an iron post; thence North 30 degrees 56 minutes 35 seconds East 75.08 feet to an iron post; thence North 31 degrees 00 minutes 00 seconds East 76.00 feet to an iron pin; thence North 54 degrees 34 minutes 29 seconds East 125.00 feet to an iron pin; thence South 66 degrees 10 minutes 25 seconds East 150.00 feet to an iron pin; thence South 54 degrees 34 minutes 29 seconds West 125.00 feet to an iron pin; thence South 23 degrees 49 minutes 35 seconds West 150.00 feet to the point of beginning. Containing 1.01 acre.

PARCEL 2:

BEING Lot No. 45 of SHADOW WOOD SUBDIVISION, plat of which is Recorded in Plat and Subdivision Book 24, Page 25, in the Office of the Clerk of the County Court of Jefferson County, Kentucky together with sewage collection system of Shadow Wood Subdivision, including appurtenances such as but not limited to effluent lines, pumping stations, manholes, etc., as constructed, and including all easements incident to the ownership and operation of said sewage collection system.

Being that same property acquired by Grantor by Deed dated February 28, 2005, of record in Deed Book 8578, Page 950, in the Office of the Clerk of Jefferson County, Kentucky;

This conveyance also includes all of the right, title and interest of the Grantor in and to all improvements located on the above described property, together with all of the right, title and interest of Grantor in and to the Shadowwood Wastewater Treatment System, including all easements, rights-of-way, licenses, privileges and all sewers, sewer lines, mains, manholes, and other appurtenances and connections connected to the sewer system and the wastewater treatment plant located at the above described property, and any other interest existing in the favor of Grantor for the passage or placement of the system and its appurtenances. This

conveyance also includes all rights of easements for sanitary and storm sewer facilities or for drainage retention basins.

**TO HAVE AND TO HOLD**, in fee simple, the Property, together with all rights, privileges, appurtenances and improvements thereunto belonging, unto Grantee and its successors and assigns forever.

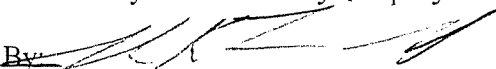
Grantor covenants, warrants and represents that Grantor is lawfully seized of the estate hereby conveyed, has full right and power to convey same, and that the Property is free and clear of all taxes, liens and encumbrances except, and this conveyance is made subject to, (i) the lien of ad valorem real property taxes due and payable in and for the calendar year 2008, which Grantor hereby assumes and agrees to pay, (ii) all applicable laws, rules and regulations, including, without limitation, the rules and regulations of the Louisville Metro Planning Commission, and (iii) easements, covenants, conditions, restrictions and stipulations of record affecting said Property.

In furtherance of the purposes of KRS 382.135, Grantor and Grantee further hereby **certify** that the consideration stated in this Deed is the full consideration paid for the Property. This conveyance is exempt from transfer tax pursuant to KRS 142.050(7)(b).

IN TESTIMONY WHEREOF, witness the signatures of the parties through their authorized representative as of the date and year first written above.


**GRANTOR:**

**SHADOWWOOD WASTE ENVIRONMENTAL, LLC,**  
a Kentucky limited liability company

By:   
Julie K. Tinnell, Member

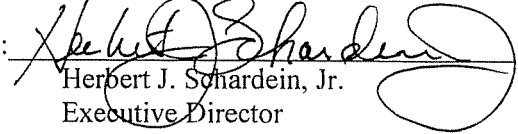
COMMONWEALTH OF KENTUCKY            )  
  )  
COUNTY OF JEFFERSON                )SS:

The foregoing Deed was subscribed, sworn to and acknowledged before me this 17<sup>th</sup> day of September 2008, by Julie K. Tinnell, as a Member of Shadowwood Waste Environmental, LLC, a Kentucky limited liability company on behalf of the company.

My Commission expires: November, 2011  
  
NOTARY PUBLIC

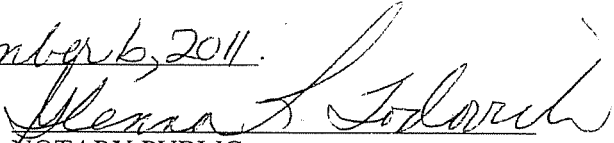
**GRANTEE:**

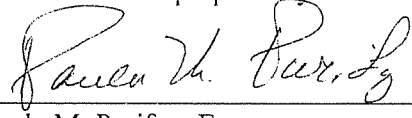
**LOUISVILLE AND JEFFERSON COUNTY  
METROPOLITAN SEWER DISTRICT**

By:   
Herbert J. Schardein, Jr.  
Executive Director

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

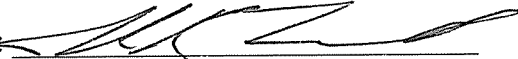
The foregoing Deed was subscribed, sworn to and acknowledged before me this 17<sup>th</sup> day of September, 2008 by Louisville and Jefferson County Metropolitan Sewer District, a public body corporate, by and through Herbert J. Schardein, Jr., Executive Director, to be the voluntary act and deed of the District.

My Commission expires: November 6, 2011.  
  
NOTARY PUBLIC

This instrument prepared by:  
  
Paula M. Purifoy, Esq.  
Louisville & Jefferson County  
Metropolitan Sewer District  
700 W. Liberty Street  
Louisville, Kentucky 40203-1911  
(502) 540-6000



**Shadowwood Waste Environmental, LLC,  
a Kentucky limited liability company**

By:   
Julie K. Tinnell, Managing Member

The foregoing Mechanic's and Materialmen's Lien and Title Affidavit was sworn to and acknowledged before me a Notary in and for the State and County aforesaid, on this the 17<sup>th</sup> day of September —, 2008, by Julie K. Tinnell, as managing member of Shadowwood Waste Environmental, LLC, a Kentucky limited liability company, to be her act and deed on behalf of the said company.

My Commission expires: November 6, 2011

  
Notary Public

## **EXHIBIT A**

### **PARCEL 1:**

BEGINNING at an iron post in the Southeast corner of Lot 45 of SHADOW WOOD SUBDIVISION as recorded in Plat Book 24, Page 25, in the Office of the Clerk of Jefferson County, Kentucky; thence North 66 degrees 10 minutes 25 seconds West 168.05 feet to an iron post; thence North 30 degrees 56 minutes 35 seconds East 75.08 feet to an iron post; thence North 31 degrees 00 minutes 00 seconds East 76.00 feet to an iron pin; thence North 54 degrees 34 minutes 29 seconds East 125.00 feet to an iron pin; thence South 66 degrees 10 minutes 25 seconds East 150.00 feet to an iron pin; thence South 54 degrees 34 minutes 29 seconds West 125.00 feet to an iron pin; thence South 23 degrees 49 minutes 35 seconds West 150.00 feet to the point of beginning. Containing 1.01 acre.

### **PARCEL 2:**

BEING Lot No. 45 of SHADOW WOOD SUBDIVISION, plat of which is Recorded in Plat and Subdivision Book 24, Page 25, in the Office of the Clerk of the County Court of Jefferson County, Kentucky together with sewage collection system of Shadow Wood Subdivision, including appurtenances such as but not limited to effluent lines, pumping stations, manholes, etc., as constructed, and including all easements incident to the ownership and operation of said sewage collection system.

Being that same property acquired by Grantor by Deed dated February 28, 2005, of record in Deed Book 8578, Page 950, in the Office of the Clerk of Jefferson County, Kentucky;





## CHANGE IN OWNERSHIP CERTIFICATION

Facility Name	NPDES No.
Shadowwood Wastewater Treatment Plant	KY0031810
Previous Name (if changed)	County
	Jefferson

I hereby certify that I will assume ownership and all responsibility for meeting the permit conditions of the Commonwealth of Kentucky relating to water quality at the permitted facility listed above on the effective date indicated.

Name of New Owner or Authorized Representative	Louisville & Jefferson County Metropolitan Sewer District
Company Name	Louisville & Jefferson County Metropolitan Sewer District
Address of New Owner (Street, City, State, Zip Code)	700 West Liberty Street
Telephone No. of Owner/Authorized Representative	( 502 ) 540 - 6000
Location Address of Facility	6523 River Road; Louisville, KY 40059
Effective Date of Transfer	9/17/08
Previous Owner Name	Shadowwood Waste Environmental, LLC

Indicate the address where the Discharge Monitoring Report (DMR) forms should be sent. **(Complete only if different from owner name and address listed above.)** These DMR forms are preprinted with permit limitations and mailed out each quarter (semi-annually for individual residences).

Alternate DMR Mailing Name	John Kessel
Alternate DMR Mailing Address	Hite Creek Wastewater Treatment Plant Attn: John Kessel 5512 Hitt Lane Louisville, KY 40241

Signature of New Owner or Authorized Representative	Date
<i>Maurice M. Lee</i>	10/1/08

Acknowledged before me this 1st day of OCTOBER, 2008

Notary Public JANICE L. COX Commission Expires: AUGUST 21, 2010  
*Janice L. Cox*

*Notary Seal*

**Questions on completing this form?** Contact the KPDES Branch at (502) 564-3410.

**Complete and return this form to:** Division of Water, KPDES Branch  
 Frankfort Office Park  
 14 Reilly Road  
 Frankfort, KY 40601



MSD

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

December 3, 2008

Mr. Gerald E. Wuetcher  
Assistant General Counsel  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, KY 40601

Subject: Shadowwood Wastewater Treatment Plant Acquisition

Dear Mr. Wuetcher:

I am writing on behalf of Louisville Metropolitan Sewer District (MSD) concerning the applicability of KRS 278.020 to the acquisition of the Shadowwood Wastewater Treatment Plant. Per your emails, the Public Service Commission (PSC) has no records that MSD approved the acquisition and transfer to MSD. I have had the opportunity to review the acquisition documents, and although, I have found the change of ownership forms which were submitted to the Kentucky Division of Water, I have not found any documents that were submitted to the PSC. However, it is the position of MSD that the Shadowwood transfer and acquisition was handled identically to all other MSD acquisitions of waste water treatment plant, and that these acquisitions by MSD are exempt from the requirements of KRS 278.020. The support for this position is set forth below.

The jurisdiction of the PSC is set forth in KRS 278.040 (2) which states as follows:

(2) The jurisdiction of the commission shall extend to all utilities in this state. The commission shall have exclusive jurisdiction over the regulation of rates and service of utilities, **but with that exception, nothing in this chapter is intended to limit or restrict the police jurisdiction, contract rights or powers of cities or political subdivisions.**

MSD is created under the terms of KRS Chapter 76. Specifically, KRS 76.010 establishes that MSD is a body corporate and a "political subdivision" of the state. As a political subdivision of the state, it is certainly arguable that MSD is excluded from the jurisdiction of the PSC under the terms of KRS 278.040 (2).

Upon review of the applicable definitions in KRS Chapter 278, it does not appear that the General Assembly specifically included metropolitan sewer districts such as MSD in the provisions of this chapter. "Utility", as defined by KRS 278.010(3), makes reference to sewage treatment facilities belonging to first class cities being excluded from the definition



Beneficial Use of Louisville's Biosolids  
www.louisvillegreen.com

EXHIBIT D

of "Utility". This then, would suggest that a metro sewer agency, created by city/county governments would likewise be excluded.

This position is supported by authority of Attorney General's Opinions and case law. In OAG 77-140, the Office relied upon *McClelland v. Louisville Water Co.*, Ky., 351 S.W. 2d 197 (1961) and *City of Georgetown v. Public Service Commission*, Ky., 516 S.W.2d 842 (1974) to opine that the PSC has no jurisdiction or control over the operation or management of a municipally owned water system. Further the opinion did state that the term "Utility" does not include a city which owns controls and operates its own public utility. A year later, the Attorney General reaffirmed this holding in OAG 78-656. This authority certainly supports MSD's contention that it is exempt from the oversight of the PSC and the provisions of KRS Chapter 278.

Based upon a 1997 State Supreme Court opinion, there is even more support for MSD's position that it is excluded from the provisions of KRS Chapter 278. *Boone County Water & Sewer District v. Public Serv. Comm'n*, Ky., 949 S.W.2d 588 (1997). This case involved the appeal of PSC's decision requiring Boone County Water and Sewer District ("Boone") to refund unpublished fees. The Court did an analysis of PSC own review of whether it had jurisdiction over sanitation districts created under KRS Chapter 220. PSC concluded that it did not have jurisdiction over these statutory sanitation districts because they are specifically governed by KRS Chapter 220. The Court reiterated that PSC noted a significant difference between such sanitation districts and water districts when it made and published the following policy statement:

After reexamining KRS Chapter 278, the Commission concludes that the failure of the legislature to make specific reference to sanitation districts within Chapter 278 is persuasive evidence that the legislature intended to deny the Commission jurisdiction over sanitation districts. By comparison, KRS Chapter 278 has been amended to bring under Commission jurisdiction both water associations organized pursuant to KRS 273 (KRS 278.012), and water districts organized pursuant to KRS Chapter 74 (KRS 278.015). Based upon this analysis, the Commission has concluded that sanitation districts are not utilities within the meaning of KRS 278.010(3) (f), and are therefore exempt from regulation by the PSC. (Letter from Forest M. Skaggs, Executive Director the Public Service Commission, to all Sanitation Districts (April 5, 1988)). *Id. at 591.*

Accordingly, the Court concluded that Sanitation districts are excluded from the provisions of KRS Chapter 278 and consequent PSC regulation, not only by omission, but also by precise placement in another chapter of the Kentucky Revised Statutes. Therefore, a

sanitation district is not a utility within the context of KRS Chapter 278. *Id* at 591.

Although the General Assembly amended the definition of KRS 278.010 (3), it chose never to include or reference those metropolitan sewer districts, such as MSD, that were created and organized under KRS Chapter 76. Due to this omission, MSD relies upon on the exact rationale propounded by the Supreme Court in the *Boone Co.* case:

It is logical to conclude that the legislature did not mention collection and transmission of sewage because the legislature intended that these operations not be regulated by KRS Chapter 278. If the legislature had wanted activities pertaining to sewage collection and transportation to be regulated by the Public Service Commission, it would have specifically so stated in Chapter 278 of the Kentucky Revised Statutes. The legislature did not do so. *Id.* at 591.

In fact, when KRS 278.020 was amended, the General Assembly recognized the metropolitan sewer districts exist as separate entities. The current version of KRS 278.020 (3) (f) specifically excludes facilities “**not regulated by a metropolitan sewer district** or any other sanitation district created pursuant to KRS Chapter 220.” This statutory definition explicitly acknowledges the existence of metropolitan sewer districts. Accordingly, based upon the logic of the Supreme Court in *Boone Co.*, the failure to include sanitation districts created under KRS Chapter 76 demonstrates the General Assembly’s intent not to include Chapter 76 metropolitan sewer districts under the jurisdiction of the PSC.

The same argument could be made due to the statutory definition of “Person” contain in KRS 278.010 (2). “Person” is defined to include natural persons, partnerships, corporations, and two or more persons having a joint or common interest. As per the terms of KRS 76.010, MSD is a political subdivision and falls outside the statutory definition of “person”. Again, this evidences the intent of the General Assembly not to include metropolitan sewer districts created under KRS Chapter 76 within the jurisdiction of the PSC.

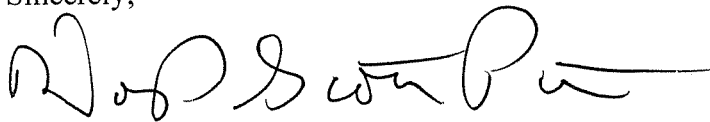
With the existence of three statutory chapters, KRS 76, 220 and 278, pertaining to the regulation of rates, services, construction, etc., it certainly appears that the General Assembly intended for these bodies to co-exist separately from each other. If the General Assembly would have wanted to vest sole jurisdiction upon one entity it certainly would have, and would have been legally mandated to, specifically stated so in KRS Chapter 278, as per the holding of *Boone Co.* It is the position of MSD that the General Assembly has thus far, not chosen to do so. This position is consistent with the rules of statutory construction. The enumeration of particular things means that other things not mentioned are **excluded**. *Smith v. Wedding*, Ky., 303 S.W.2d 322 (1957).

Mr. Gerald E. Wuetcher  
Public Service Comm. Kentucky  
December 3, 2008  
Page 4

Accordingly, for the reasons set forth above, MSD contends that it is neither a "Person" or a "Utility" under the terms of KRS Chapter 278. Therefore, it is the position of MSD that it did not violate KRS 278.020 (5) when it acquired the Shadowwood WWTP because it is exempt from KRS Chapter 278. After you have had the opportunity to review MSD's arguments, we would be happy to meet with you and discuss our position. IF necessary, perhaps MSD and the PSC could jointly request an opinion from the Attorney General's Office to reconcile these apparent differences in interpretations of statutes.

I look forward to your response. If you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas Scott Porter". The signature is fluid and cursive, with a long horizontal line extending to the right.

Douglas Scott Porter  
MSD Environmental Counsel

cc: Paula Purifoy  
Brian Bingham  
Marion Gee  
Dennis Thomasson



REC'D APR 01 2009

Steven L. Beshear  
Governor

Leonard K. Peters  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

John W. Clay  
Commissioner

March 30, 2009

Douglas Scott Porter, Esq.  
Louisville Metropolitan Sewer District  
700 West Liberty Street  
Louisville, Kentucky 40203-1911

Re: Shadowwood Wastewater Treatment Plant Acquisition

Dear Mr. Porter:

This letter responds to your letter of December 3, 2008 regarding the above-referenced matter. I apologize for the delay in responding.

In your letter, you state that "it is the position of MSD [Metropolitan Sewer District] that the Shadowwood transfer and acquisition was handled identically to all other MSD acquisitions of wastewater treatment plant, and that these acquisitions by MSD are exempt from the requirements of KRS 278.020."

This position is not supported by the facts or the law. Public Service Commission records indicate that, during the last 23 years, Public Service Commission approval of MSD's acquisition of the public sewer utility's assets was sought on at least 32 occasions. In most instances, MSD either jointly or individually applied for such approval. For your reference, I am enclosing a copy of the Public Service Commission's decision in these cases.

While MSD is not a utility as defined in KRS 278.010(3)(f) and is not subject to Public Service Commission jurisdiction, its status as a non-utility is irrelevant in the present circumstances. The applicable sections of KRS Chapter 278 do not limit the requirement for Commission approval solely to utilities. KRS 278.020(5) states:

**No person** shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission by sale of assets, transfer of stock, or otherwise, or abandon the same, without prior approval by the commission. The commission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service.

KRS 278.020(6) in pertinent part states:

**No individual, group, syndicate, general or limited partnership, association, corporation, joint stock company, trust, or other entity** (an "acquirer"), whether or not organized under the laws of this state, shall acquire control, either directly or indirectly, of any utility furnishing utility service in this state, without having first obtained the approval of the commission. **Any acquisition of control without prior authorization shall be void and of no effect.** As used in this subsection, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a utility, whether through the ownership of voting securities, by effecting a change in the composition of the board of directors, by contract or otherwise.

KRS 278.010(2) defines a person as including "natural persons, partnerships, corporations, and two (2) or more persons having a joint or common interest." A "corporation" includes "private, quasipublic, and public corporations, and all boards, agencies, and instrumentalities thereof, associations, joint-stock companies, and business trusts." KRS 278.010(1).

As a municipal corporation, MSD clearly meets the definition of a "person" and is thus subject to the requirements of KRS 278.020(5).<sup>1</sup> KRS 278.020(6), moreover, refers only to an "entity," a term that would include a public corporation.

Please note that the Public Service Commission has not and does not assert any jurisdiction to regulate the rates and service of MSD. It does, however, assert that no person may acquire the assets of a public utility and thus remove the customers of such utility from the protections afforded by KRS Chapter 278 without following the procedures set forth in KRS Chapter 278. Furthermore, while the Public Service Commission lacks jurisdiction over the assets of MSD, the assets in question were not MSD assets at the time of the acquisition and, unless Public Service Commission approval is obtain, cannot legally become the assets of MSD.

The Public Service Commission respectfully declines MSD's invitation to jointly seek an opinion from the Attorney General. The law is well-settled on this point and requires no opinion. The Public Service Commission has consistently maintained the same position for more than 25 years. MSD, through its numerous applications to the Public Service Commission and through the representations of its previous general counsels, has long accepted this position. Its sister agency, Louisville Water Company, which has long been exempted from most Public Service Commission regulation as a

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<sup>1</sup> See *Louisville-Jefferson County Metro Ethics Com'n v. Schardein*, 259 S.W.3d 510, 513 (Ky.App. 2008) ("the MSD is 'a public body corporate, and political subdivision'"); *Fawbush v. Louisville-Jefferson County Metropolitan Sewer District*, 240 S.W.622, 623 (Ky. 1951) (holding that MSD "is an independent public corporation").

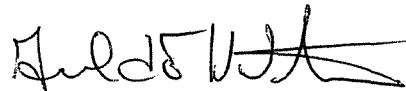
Douglas Scott Porter, Esq.  
March 30, 2009  
Page 3

municipal utility, has also recognized the statutory requirement for Public Service Commission approval of the acquisition of a public utility's assets and complied with it.<sup>2</sup>

Based upon the above, the Public Service Commission respectfully requests that MSD take the necessary actions to obtain approval of the acquisition of the assets of the Shadowwood Wastewater Treatment Plant. Please note that failure to obtain the required approval renders the purported acquisition void and may subject MSD to administrative sanctions.

If you have any questions regarding the approval process or require assistance in the preparation of an application, please contact me at (502) 564-3940, Extension 259.

Sincerely,



Gerald E. Wuetcher  
Executive Advisor

Enclosures

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<sup>2</sup> *Application of the Louisville Water Company for Approval of Merger and Acquisition of Ownership of Kentucky Turnpike Water District, Case No. 2000-306 (Ky.PSC Sep. 6, 2000); Application of Louisville Water Company For Approval of Acquisition of Stock of Goshen Utilities, Inc., Case No. 2002-00088 (Ky.PSC June 13, 2002).*





# MSD

Louisville and Jefferson County  
Metropolitan Sewer District

Louisville, Kentucky USA

*A component unit of the Louisville KY Metro Government*



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008

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

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

***COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT***

**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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## ***INTRODUCTORY SECTION***

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November 16, 2008

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

Ladies and Gentlemen:

The Comprehensive Annual Financial Report ("CAFR") of the Louisville and Jefferson County, Kentucky, Metropolitan Sewer District ("MSD") for the fiscal year ended June 30, 2008 ("2008") is submitted herewith. Responsibility for both the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with MSD. To provide a reasonable basis for making these representations, the management of MSD has established a comprehensive internal control framework that is designed to both protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of MSD's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, MSD's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of MSD's knowledge and belief, the accompanying data is accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of MSD. All disclosures necessary to enable the reader to understand MSD's financial activities have been included. We encourage readers to review the narrative introduction, overview, and analysis found in Management's Discussion and Analysis (MD&A) along with the footnotes that accompany the financial statements.

### **Profile of MSD**

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

MSD is now 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 City 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 2008 was \$1.45 million.

### **Economic Condition and Outlook**

MSD's sanitary sewer and drainage service areas lie within Jefferson County which, with a 2007 population of approximately 709,300, is Kentucky's largest and the center of the seven Kentucky and Indiana counties which comprise the Louisville metropolitan area ("Greater Louisville").

The total non-farm employment count for the Louisville Metropolitan Statistical Area (MSA) increased in June 2008 to 632,000; a slight increase from the June 2007 level of 631,900. The June 2008 unemployment rate for the Louisville MSA was 6.4% compared to a national average of 5.7% and a state average of 6.6% for this same time period.

During 2008, construction began on a 22,000 seat arena that will host University of Louisville basketball, major concerts, and other events. Despite the national real estate slump, demand for downtown Louisville residential and commercial properties continued to remain high. Approximately \$420 million is being invested in luxury condominiums, loft apartments, office space and retail space. In 2007, an announcement was made that additional retail and residential establishments would be developed in the 3<sup>rd</sup> Street corridor that is adjacent to the Fourth Street Live entertainment district. The city recently finalized an agreement with a national development firm that will allow this project to come to fruition.

Louisville has developed a reputation as a business friendly city. In 2007, Expansion Management Magazine ranked it among the top 25 cities in the nation as a desirable location for business expansion. It also ranked #9 on the list of Top 20 hot headquarters cities for the 21<sup>st</sup> century by Business Facilities. Entrepreneur Magazine deemed Louisville to be the best city for small business growth and ranked it 15<sup>th</sup> for best cities for entrepreneurship. In addition to its business rankings, the city also received accolades for its quality of life. In 2008, the U.S. Conference of Mayors named Louisville as the "most livable" large city in the United States. Louisville topped a list of more than 200 applicants for the award.

During 2008, MSD continued to benefit from the diversity of the area economy. Fifty-one percent (51%) of its service charge revenue came from business customers. During 2008, sewer accounts increased by 1,776 or 0.8% from 2007.

Residential construction permitting within Jefferson County has remained remarkably steady since 1990, averaging approximately 2,500 to 3,000 units per year. During the calendar year ended 2007, approximately 2,500 residential building permits were issued. Growth in the number of new residential units is consistent with the trend of resumed population growth within the County since 1990. Building permitting is a key barometer of MSD's prospects for long-term growth and the main contributor to its system development revenue. Since 1986, system development charges have become an increasingly significant component of MSD's operating revenue. In 2008, revenue from these charges amounted to 1.6% of total revenues and it was 1.9% of the total in 2007. This source of revenue is extremely sensitive to changes in the economic climate which affect homebuilding.

### **Major Initiatives**

#### *Project WIN – Waterway Improvements Now*

In order to meet the requirements of the consent decree that MSD signed with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the U.S. Environmental Protection Agency (EPA) in 2005 to address sanitary and combined sewer overflows; Project WIN – or Waterway Improvements Now – was created. Project WIN is a comprehensive sewer improvement plan and it will include the implementation of sewer improvement projects to minimize the impact of combined sewer overflows, eliminate sanitary sewer overflows, and rehabilitate the community's aging sewer system.

Project WIN is estimated to cost approximately \$843 million over a twenty-year period. During the fourth quarter of 2008, MSD will submit detailed plans to the KEPPC and the EPA outlining the capital improvement program designed to minimize and/or abate overflows.

#### *Project D.R.I. Continues to Keep the Community Dry*

On January 27, 2003, Mayor Jerry Abramson outlined a plan to tackle Louisville's most pressing drainage problems. The first phase of the plan – dubbed Project D.R.I. (Drainage Response Initiative) identified 380 of the worst drainage problems in the Louisville Metro area. Phase I of Project D.R.I. was completed in FY 2006 and Phase II ended during FY 2007. Since January 2003, MSD has invested over \$100 million to complete approximately 700 neighborhood projects. In addition, this investment allowed MSD to complete in excess of 16,000 construction work orders related to drainage issues throughout its service area. During 2008, plans for Phase III of Project DRI were announced. These plans called for an additional investment of \$25 million over 30 months, beginning in January 2008.

### *Continued Focus on Flood Protection and Flood Control Systems*

One of MSD's core business functions is flood protection. The aftermath of Hurricane Katrina directed the nation's attention to its aging flood protection systems. Flood protection and control has always been a high priority with MSD. During 2008, MSD moved forward with its plans to invest more than \$150 million over the next 15 years to upgrade its pumping stations, rehabilitate its floodwall gates, and repair its floodwalls. MSD along with the U.S. Army Corps of Engineers perform annual inspection and maintenance activities of the system. These activities allowed FEMA to recognize the flood protection system as nationally certified and thereby incorporated into the flood insurance rate maps. This certification should lead to lower flood insurance premiums for citizens of Louisville Metro.

### *Louisville Green Continues to Provide Benefits*

In FY 2004, MSD received the necessary approvals to market and distribute its dried biosolid pellets. The pellets were given the name of Louisville Green and are being sold as a usable soil-enhancing product. Until 2004, all of the biosolids produced by MSD were hauled to a landfill for disposal at an annual cost of approximately \$600,000. During FY 2008, MSD produced 82 tons of the fertilizer on a daily basis and sold it to customers in eleven states. MSD is currently selling 100 percent of the product it produces thus savings local ratepayers the disposal cost. The product is sold to homeowners in 40 pound bags. In addition, Louisville Metro's golf courses, Kentucky's Department of Highways, and fertilizer blenders utilize Louisville Green in bulk. The agriculture market continues to be the largest user of the product.

MSD recently received verification of its quality assurance and safety standards by the National Biosolids Partnership through its Environmental Management System (EMS). The EMS auditing process used an independent, third-party audit firm that verified MSD's biosolids production process as safe and dependable for its customers and the environment.

## **Factors Affecting Financial Condition**

### *Cash and Investment Management*

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

Gross 2008 investment income of \$6.1 million represented a return of 6.1% on average balances available for investment of \$99.8 million, which compares with

gross earnings of \$8.4 million, representing a 5.6% return on available balances of \$151.2 million in 2007.

Gross 2008 interest expense of \$66.9 million represented a 4.96% cost of funds on average outstanding indebtedness of \$1.35 billion, which compares with gross interest expense of \$70.5 million, representing a 5.34% cost of funds on average 2007 debt of \$1.32 billion.

### *Risk Management, Insurance, and Employee Benefits*

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

MSD employees participate in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit plan administered by the Kentucky Retirement System. MSD contributed 16.17% of participating employees' compensation in 2008 and 13.19% in 2007, which amounted to \$5.5 and \$4.2 million in 2008 and 2007, respectively. Employees currently are required to contribute 5% of their compensation which totaled \$1.8 million in 2008 and \$1.60 million in 2007.

### **Other Information**

#### *Independent Audit*

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. A joint venture of Strothman & Company PSC and Toni Levy, CPA, was selected by the MSD Board to conduct the 2008 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal year ended June 30, 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MSD's financial statements for the fiscal year ended June 30, 2008 are fairly presented in conformity with GAAP. The auditors' opinion and report on the basic financial statements is included in the Financial section of this report.

## **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MSD for the eighteenth consecutive time for its CAFR for the year ended June 30, 2007. In order to be awarded a Certificate of Achievement, MSD published an easily readable and efficiently organized CAFR. The report satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "Marion M. Gee". The signature is written in a cursive style with a large initial 'M'.

Marion M. Gee

Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Louisville and Jefferson County  
Metropolitan Sewer District  
Kentucky

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

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



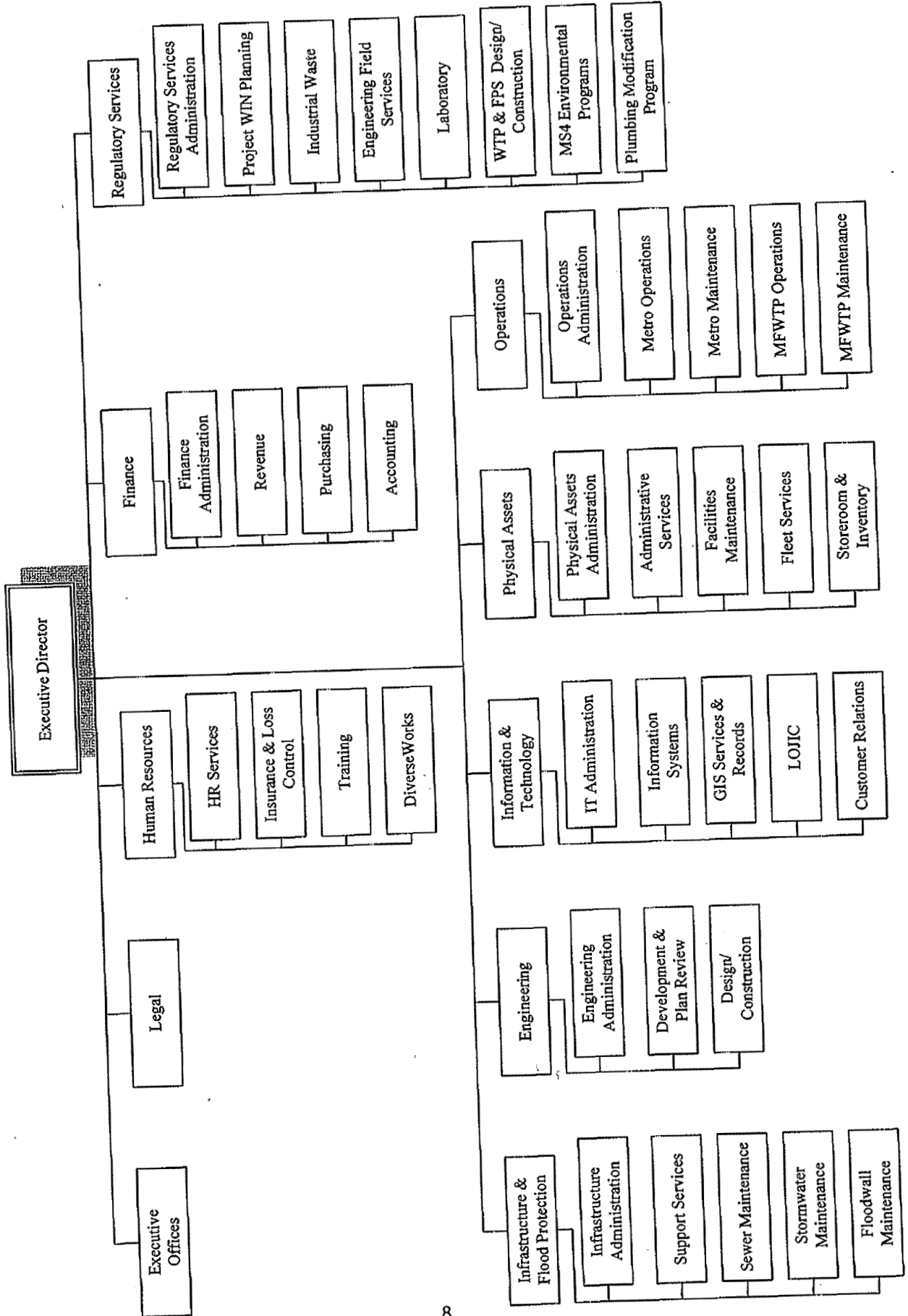
*Oliver S. Cox*

President

*Jeffrey R. Emery*

Executive Director

Louisville and Jefferson County  
Metropolitan Sewer District  
Organization Chart





***MSD BOARD***

Beverly A. Wheatley, Chairperson

Audwin A. Helton, Vice Chairperson

Benjamin K. Richmond

Martin D. Hoehler

Jerome L. Clark

Marvin D. Stacy

Charles E. Weiter

Arnold J. Celentano

Herbert J. Schardein, Jr., Secretary/Treasurer

***PRINCIPAL OFFICERS***

Herbert J. Schardein, Jr., Executive Director

Mark Johnson, Director  
Engineering

James J. Hunt, Director  
Physical Assets

Kathy J. Cooksie, Director  
Human Resources

Bruce Seigle, Director  
Information Technology

Paula Purifoy  
Legal Counsel

W. Brian Bingham, Director  
Regulatory Management Services

Saeed Assef, Sr. Manager  
Infrastructure & Flood Protection

Marion Gee, Director  
Budget and Finance

***FINANCIAL OFFICERS***

Marion Gee, Chief Financial Officer

Maria Mullaney  
Controller

Renee Thomas  
Purchasing Manager

Sharon Dawson  
Revenue Manager

Sherry Knox  
Budget Administrator

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## ***FINANCIAL SECTION***

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**Strothman & Company P S C**  
Certified Public Accountants & Advisors

1600 Waterfront Plaza  
325 West Main Street  
Louisville, Kentucky 40202-4251

502 585 1600  
502 585 1601 Fax  
www.strothman.com

## Independent Auditors' Report

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



We have audited the accompanying financial statements of the Louisville and Jefferson County Metropolitan Sewer District ("MSD"), a component unit of the Louisville-Jefferson County Metro Government, as of and for the years ended June 30, 2008 and 2007, as indicated in the accompanying table of contents. These financial statements are the responsibility of MSD management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSD as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 11 through 18 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of MSD. The information presented in the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2008 on our consideration of MSD'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*STROTHMAN & COMPANY PSC*

Louisville, Kentucky  
October 21, 2008



## **Management's Discussion and Analysis**

As management of the Louisville and Jefferson County Metropolitan Sewer District (MSD), we offer readers of MSD's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

### **Financial Highlights**

- MSD's net assets decreased by \$855.7 thousand (0.2%) as a result of this year's operations.
- Operating revenues increased by \$28.8 million (21.8%) to \$161.3 million.
- Operating expenses excluding depreciation increased by \$6.9 million (10.8%).
- Non-operating revenues (investment income) decreased by \$224.8 thousand (4.8%) and non-operating expenses decreased by \$20.6 thousand (0.03%).

### **Overview of the Financial Statements**

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

### **Required Financial Statements**

#### **The Statement of Net Assets**

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

#### **The Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets identify 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

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

### Financial Information

MSD's net assets decreased by \$855.7 thousand in FY 2007 to \$550.5 million. In the early 1990's, less than 30% of MSD's capitalization was in the form of long-term debt. In 1997, for the first time, long-term debt exceeded 50% of MSD's capital structure. This change in capitalization can be attributed to the aggressive capital construction plan that MSD initiated in order to eliminate small neighborhood sewer treatment plants and septic tanks and to expand and rehabilitate its drainage and sewer infrastructure. At June 30, 2008, total long-term liabilities represented 70% of MSD's capitalization.

MSD's total assets increased by approximately \$90.6 million in 2008. This increase can be attributed to the sale of \$105 million of revenue bonds as a result of the 2008A series bond issue. Noncurrent assets increased by approximately \$35.6 million during fiscal year 2008.

	FY 2008	FY 2007	Dollar Change	Percent Change	FY 2006
Unrestricted Current Assets	\$ 46,504	\$ 46,517	\$ (13)	0.0%	\$ 57,477
Restricted Current Assets	131,985	76,934	55,051	71.6%	134,874
Noncurrent Assets	1,828,874	1,793,305	35,569	2.0%	1,761,502
<b>Total Assets</b>	<b>2,007,363</b>	<b>1,916,756</b>	<b>90,607</b>	<b>4.7%</b>	<b>1,953,853</b>
Current Liabilities	14,758	16,639	(1,881)	-11.3%	22,619
Current Liab. from Restr. Assets	35,102	33,253	1,849	5.6%	28,778
Noncurrent Liabilities	1,406,984	1,315,490	91,494	7.0%	1,332,993
<b>Total Liabilities</b>	<b>1,456,844</b>	<b>1,365,382</b>	<b>91,462</b>	<b>6.7%</b>	<b>1,384,390</b>
Invested in Capital Assets, net	482,094	479,305	2,789	0.6%	489,973
Restricted Assets, net	12,228	7,034	5,194	73.8%	8,927
Unrestricted	56,197	65,035	(8,838)	-13.6%	70,563
<b>Total Net Assets</b>	<b>550,519</b>	<b>551,374</b>	<b>(855)</b>	<b>-0.2%</b>	<b>569,463</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,007,363</b>	<b>\$ 1,916,756</b>	<b>\$ 90,607</b>	<b>4.7%</b>	<b>\$ 1,953,853</b>

Unrestricted current assets experienced a slight decrease of \$13 thousand.

Total liabilities increased by \$91.5 million in 2008. This increase was due to the issuance of \$105 million of revenue bonds.

### **Capital Assets and Long-term Debt**

MSD's net investment in plant, lines, and other facilities increased by \$38.0 million in FY 2008. Major additions include the completion of \$34.5 million of sewer line installations and \$24.0 million of stormwater drainage facilities. Readers are encouraged to review the Comparative Schedules of Plant, Lines, and Other Facilities that is contained in the statistical section of the CAFR for additional information regarding changes to capital assets. Also, readers should review Note 5 to the financial statements which provides additional information relating to MSD's capital assets.

In December 2007, MSD issued \$61.1 million in Revenue Bonds to currently refund a portion of its then outstanding Series 1997B bond issue.

In May 2008, MSD issued \$105 million in Revenue Bonds to finance its capital program. As of June 30, 2008, approximately \$94.8 million of these bond proceeds remained. The remaining funds are expected to be used for additional expansions to the wastewater and drainage systems, plant expansions, flood protection systems, and other wastewater and stormwater projects. Note 7 to the financial statements provides readers with a comparative schedule of long-term debt outstanding at June 30, 2008 and June 30, 2007.

### **Results of Operations**

Total Operating Revenues as of June 30, 2008 were \$161.3 million compared to \$132.4 million for the same period last year, an increase of \$28.8 million or 21.8%. This increase in operating revenues was primarily driven by a surcharge enacted in August 2007 to help the fund the expected cost of a consent decree that MSD signed with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency (see the Other Significant Matters section of the MD&A). During FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amount to \$2.2 million in FY 2008 and \$1.45 million in FY 2007.

Wastewater Service Charges totaled \$125.8 million as of June 30, 2008. This represents an increase of \$29,188,000 or 30.2% from a year ago. This increase was due to the consent decree surcharge described in the previous paragraph which effectively raised wastewater rates by 33%. Free wastewater services provided to the Louisville Metro Government amounted to \$1.8 million during the fiscal year. The majority of MSD's wastewater customers are billed based on the amount of water used. Since substantially all of MSD's customers are also



customers of the Louisville Water Company, this charge is billed and collected by the Louisville Water Company on behalf of MSD.

Stormwater service charges were \$31.1 million as of June 30, 2008. This represents an increase of \$1,211,000 or 4.1% from the same period one year ago. This increase is net of the \$355,400 of free services provided to the Louisville Metro Government.

	FY 2008	FY 2007	Dollar Change	Percent Change	FY 2006
Operating Revenues	\$ 161,283	\$ 132,446	\$ 28,837	21.8%	\$ 129,765
Nonoperating Revenues	4,895	4,670	225	4.8%	3,964
<b>Total Revenues</b>	<b>166,178</b>	<b>137,116</b>	<b>29,062</b>	<b>21.2%</b>	<b>133,729</b>
Depreciation Expense	55,485	52,177	3,308	6.3%	51,174
Other Operating Expenses	70,335	63,479	6,856	10.8%	61,046
Nonoperating Expenses	56,388	56,408	(20)	0.0%	50,404
<b>Total Expenses</b>	<b>182,208</b>	<b>172,064</b>	<b>10,144</b>	<b>5.9%</b>	<b>162,624</b>
<b>Net income (loss) before contributions</b>	<b>(16,030)</b>	<b>(34,948)</b>	<b>18,918</b>	<b>-54.1%</b>	<b>(28,895)</b>
Contributions	15,175	16,859	(1,684)	-10.0%	20,083
<b>Change in net assets</b>	<b>(855)</b>	<b>(18,089)</b>	<b>17,234</b>	<b>-95.3%</b>	<b>(8,812)</b>
Beginning Net Assets	551,374	569,463	(18,089)	-3.2%	578,275
<b>Ending Net Assets</b>	<b>\$ 550,519</b>	<b>\$ 551,374</b>	<b>\$ (855)</b>	<b>-0.2%</b>	<b>\$ 569,463</b>

Other operating income was \$1.6 million less than the amount recorded in FY 2007. This decrease can be attributed to a decrease in proceeds from the sale of assets of \$1.4 million or 100.4% from FY 2007 levels. In FY 2007, MSD sold property that was declared surplus for approximately \$1.4 million.

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the last three fiscal years. Gross service and administrative costs increased by \$8.0 million above the FY 2007 level. An increase in labor (\$2.4 million), utilities (\$2.0 million), and billing and collection expenses (\$2.4 million) resulted in this change. Labor expenses comprise the bulk of service and administrative costs, approximately 50% and 52% in FY 2008 and FY 2007, respectively. As of June 30, 2008, labor costs were \$49,431,000 compared to \$47,079,000 for the same period last year. The increase in labor in FY 2008 can be attributed to an increase in regular salaries and wages of \$1,589,000. In addition, retirement contributions increased by \$1,261,000. The increase in utility expenses was driven by increases in electricity and natural gas costs of \$714,000 and \$913,000; respectively. The change in billing and

collection expenses was due to an increase of \$2.3 million in the allowance for doubtful accounts balance.

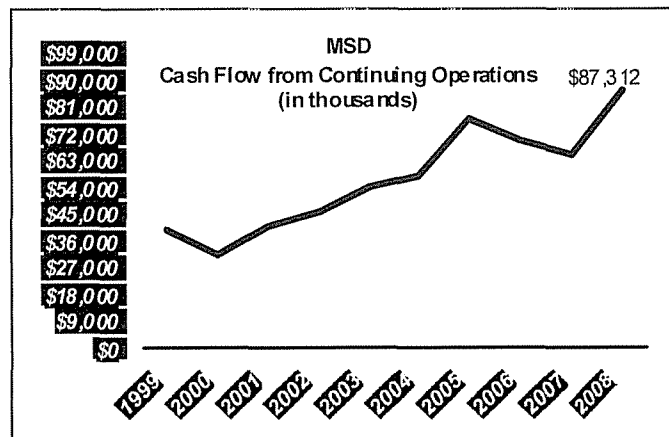
**Table 3  
Gross Service and Administration Costs  
(000's)**

	2008		2007		Variance	%	2006
<b>Service and administrative costs:</b>							
Labor	\$ 49,431	50%	\$ 47,079	52%	\$ 2,352	5.0%	\$ 42,287
Utilities	12,989	13%	10,976	12%	2,013	18.3%	12,518
Materials and supplies	8,707	9%	8,197	9%	510	6.2%	7,745
Professional services	3,126	3%	2,797	3%	329	11.8%	2,543
Maintenance and repairs	8,926	9%	8,035	9%	891	11.1%	7,762
Billing and collections	5,318	5%	2,889	3%	2,429	84.1%	3,869
Chemicals	3,805	4%	3,585	4%	220	6.1%	4,128
Fuel	1,344	1%	1,240	1%	104	8.4%	960
Biosolids disposal	1,661	2%	1,412	2%	249	17.6%	1,554
All other	2,800	3%	3,947	4%	(1,147)	-29.1%	3,067
<b>Gross service and admin. costs</b>	<b>\$ 98,107</b>	<b>100%</b>	<b>\$ 90,157</b>	<b>100%</b>	<b>\$ 7,950</b>	<b>8.8%</b>	<b>\$ 86,433</b>

Net Operating Expenses excluding depreciation were \$70,334,000 in FY 2008 compared to \$63,479,000 in FY 2007. This change reflects an increase of \$6,856,000 or 10.8%.

Depreciation expense of \$55.5 million was \$3.3 million more than the FY 2007 amount. This increase in depreciation is consistent with the growth in Capital Assets that MSD has experienced.

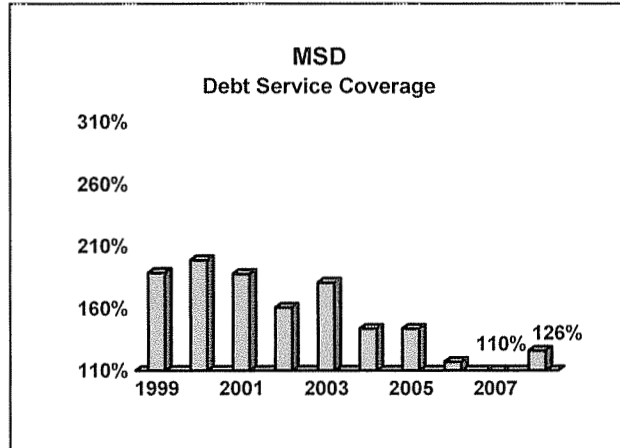
In FY 2008, net cash provided by operating activities increased by \$22.7 million primarily due to an increase of \$25.4 million in cash received from customers.



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

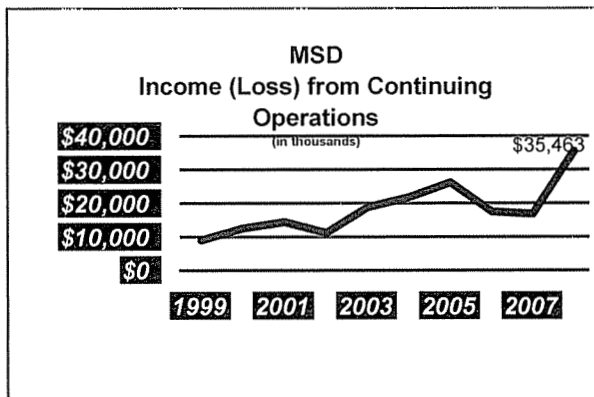
under the several debt service ratio tests of the 1993 Sewer and Drainage System Revenue Bond Resolution.

The 1993 Resolution and its supplements require MSD to provide “available revenues”, as defined in the Resolution, sufficient to pay 110% of each year’s “aggregate net debt service” on Revenue Bonds and 100% of “operating expenses”. “Available revenues,” as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of bonds issued pursuant to the Resolution, but excludes any interest income which is capitalized in accordance with generally



accepted accounting principles. “Operating expenses” include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. “Operating expenses” do not include reserves for extraordinary maintenance and repair, or administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from proceeds of such debt. “Aggregate net debt service” is aggregate debt service on all bonds issued pursuant to the Resolution (in 2008, all of MSD outstanding debt), excluding (i) interest expense which, in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt and (ii) other amounts, if any, available or expected to be available in the ordinary course for payment of debt service. MSD debt service coverage, calculated on the foregoing basis, was 126% in 2008 and 110% in 2007.

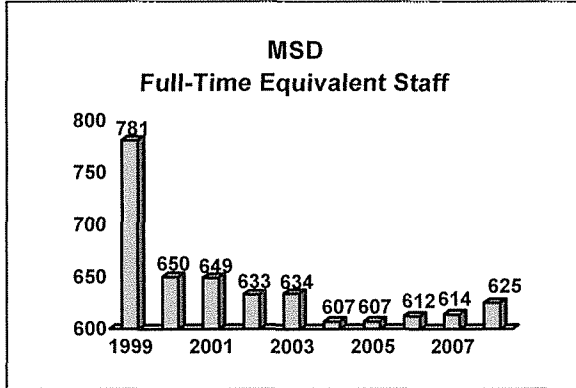
MSD is not allowed to include depreciation expense in the formula authorized by the Louisville Metro Government to calculate allowable rate increases. The



applicable rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate net principal and interest requirements on Revenue Bonds that MSD covenants in the Revenue Bond Resolution. However, the straight-line depreciation of plant, lines and

other facilities substantially exceeds scheduled principal amortization on the Revenue Bonds.

MSD recorded a net operating income of \$35.5 million compared to \$16.8 million in FY 2007, an increase of \$18,673,000 or 111.2%. The increase was primarily due to a 33% wastewater rate increase initiated in August 2007.



MSD's employee count increased slightly to 625 in 2008 compared to 614 full-time equivalent positions in 2007.

Since 1999, the most significant reduction of staff costs has been achieved in operations and maintenance and their support activities, which are reflected in the "service and administrative costs" category in the financial statements.

Net interest expense totaled \$56,388,000 in FY 2008 and \$56,408,000 in FY 2007; a decrease of \$20,600.

### Other Significant Matters

In April 2005, MSD agreed to enter into a 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 combined sewer overflows in its service area. The cost of the projects has yet to be determined but the preliminary estimate is \$843 million over the next two decades. MSD will submit a long-term control plan that will contain a list of proposed projects to the KEPPC and the EPA by December 31, 2008.

On August 9, 2007, the Louisville Metro Council authorized MSD to add an EPA Consent Decree surcharge to its bills. Residential customers pay a surcharge of \$6.95 per month and commercial and industrial customers pay rates based on volume that range from \$0.49 to \$0.93 per thousand gallons of water used or sewage discharged. In addition to the rate increase, the Metro Council also authorized MSD to implement a senior citizens discount program that provides customers 65 and older with household income of less than \$25,000, a 30% discount off sewer charges.

### Requests For Additional Information

This report is intended to provide readers with a general overview of MSD's finances and to provide information regarding the receipts and uses of funds. If

you need clarification regarding a statement(s) made in the report or need additional information, please contact the Louisville and Jefferson County Metropolitan Sewer District, 700 West Liberty Street, Louisville Kentucky 40203. You can also submit a request for additional information via MSD's website at [www.msdlouky.org](http://www.msdlouky.org).

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

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<u>Assets</u>		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 10,524	\$ 1,912
Restricted cash and cash equivalents	105,299	3,133
Unrestricted investments	14,843	24,935
Restricted investments	26,686	73,801
Accounts receivable, less allowance for doubtful accounts of \$1,568 (2008), \$281 (2007)	16,732	15,398
Inventories	3,020	3,091
Prepaid expenses and other current assets	<u>1,385</u>	<u>1,181</u>
Total current assets	<u>178,489</u>	<u>123,451</u>
Noncurrent assets:		
Long-term assessment receivables	26,334	28,749
Plant, lines and other facilities, net	<u>1,802,540</u>	<u>1,764,556</u>
Total noncurrent assets	<u>1,828,874</u>	<u>1,793,305</u>
Total assets	<u>2,007,363</u>	<u>1,916,756</u>
<u>Liabilities</u>		
Current liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	14,758	16,639
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor's retainages of \$818 (2008), \$388 (2007)	5,250	4,239
Accrued interest	8,597	10,824
Current maturities of bonds payable	<u>21,255</u>	<u>18,190</u>
Total current liabilities	<u>49,860</u>	<u>49,892</u>
Long-term liabilities:		
Accounts payable	2,375	2,632
Unearned revenue	14,824	5,622
Bonds payable, net	<u>1,389,785</u>	<u>1,307,236</u>
Total long-term liabilities	<u>1,406,984</u>	<u>1,315,490</u>
Total liabilities	<u>1,456,844</u>	<u>1,365,382</u>
<u>Net Assets</u>		
Invested in plant, lines and other facilities, net of related debt	482,094	479,305
Restricted for payment of bond principal and interest	12,228	7,034
Unrestricted	<u>56,197</u>	<u>65,035</u>
Total net assets	<u>\$ 550,519</u>	<u>\$ 551,374</u>

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

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

	Year Ended	
	June 30, 2008	June 30, 2007
Operating revenues:		
Service charges	\$ 156,889	\$ 126,490
Other operating income	4,394	5,956
Total operating revenues	161,283	132,446
Operating expenses:		
Service and administrative costs	70,335	63,479
Depreciation	55,485	52,177
Total operating expenses	125,820	115,656
Income from operations	35,463	16,790
Non-operating revenue (expenses):		
Investment income	4,895	4,670
Interest expense	(56,388)	(56,408)
Total non-operating revenue (expenses) - net	(51,493)	(51,738)
Net loss before contributions	(16,030)	(34,948)
Contributions		
Property owner assessments	164	7,634
All other	15,011	9,225
Decrease in net assets	(855)	(18,089)
Net assets, beginning of year	551,374	569,463
Net assets, end of year	\$ 550,519	\$ 551,374

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

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

	Year Ended	
	June 30, 2008	June 30, 2007
Cash flows from operating activities:		
Cash received from customers	\$ 159,539	\$ 134,160
Cash paid to suppliers	(37,186)	(36,216)
Cash paid to employees	(35,041)	(33,320)
Net cash provided by operating activities	87,312	64,624
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	166,125	-
Capital contributed by governments, property owners & developers	15,174	16,861
Assessments receivable	2,703	(645)
Interest income - assessments	1,405	1,670
Unamortized loss on refundings	2,504	-
Principal paid on revenue bonds	(84,350)	(17,250)
Interest paid on revenue bonds	(69,145)	(70,180)
Acquisition and construction of capital assets	(83,548)	(65,669)
Retainage payable	430	(33)
Acquisition of non-operating property	(257)	(258)
Net cash used in capital and related financing activities	(48,959)	(135,504)
Cash flows from investing activities:		
Purchase of investments	(62,392)	(72,800)
Proceeds from sale of maturities of investments	120,084	137,908
Interest received on investments	4,807	7,642
Unamortized gain on termination of swap agreements	9,926	-
Net cash provided by investing activities	72,425	72,750
Net increase in cash and cash equivalents	110,778	1,870
Cash and cash equivalents, including cash and cash equivalents in restricted assets, beginning of year	5,045	3,176
Cash and cash equivalents, including cash and cash equivalents in restricted assets, end of year	\$ 115,823	\$ 5,045

(CONTINUED)

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



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

	Year Ended	
	June 30, 2008	June 30, 2007
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 35,463	\$ 16,790
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation	55,297	51,991
Amortization	65	65
Loss from retired assets	122	120
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(1,622)	1,677
(Increase) decrease in inventories	71	(216)
Decrease (increase) in prepaid expenses	(203)	178
Decrease (increase) in other current assets	(121)	37
Decrease in accounts payable and accrued expenses	<u>(1,760)</u>	<u>(6,018)</u>
Net cash provided by operating activities	<u>\$ 87,312</u>	<u>\$ 64,624</u>
Non-cash capital financing activities:		
Contribution of plant, lines and other facilities by developers and property owners	<u>\$ 15,175</u>	<u>\$ 16,859</u>
Increase in accounts payable incurred for construction	<u>\$ 1,011</u>	<u>\$ 3,167</u>
Decrease in fair value of investments	<u>\$ (478)</u>	<u>\$ (81)</u>
(Increase) decrease in interest rate swap deferred revenue	<u>\$ (9,202)</u>	<u>\$ 475</u>

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT**  
**NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**  
*(in thousands)*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**A. Reporting Entity**

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)*  
*(in thousands)*

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

**Reporting Entity** - (Continued)

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

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

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

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)  
(in thousands)*

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

**Reporting Entity** - (Continued)

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 coverage 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 seven percent during the twelve months succeeding the period in which the deficiency was identified.

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

**B. Basis of Accounting**

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)  
(in thousands)*

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

**C. Cash and Cash Equivalents**

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

**D. Investments**

Investments are reported at fair value based on quoted market value. Investment income consists of interest income, and the change in fair value of investments.

**E. Operating Revenues and Receivables**

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

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 warrants 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.

**F. Inventories**

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)*  
*(in thousands)*

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

**G. Contributed Capital and Construction Grants**

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

**H. Plant, Lines and Other Facilities**

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

Estimated useful lives on depreciable assets are as follows:

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

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.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)  
(in thousands)*

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

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

Plant, lines and other facilities includes capitalized amounts of bond issuance costs. Bond issuance costs are amortized to expense on a straight line basis over the term of the related indebtedness.

**I. Capitalized Interest**

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

**J. Impairment of Capital Assets**

In accordance with GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. 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, 2008 and 2007.

**K. Bonds Payable**

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)*  
*(in thousands)*

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

**K. Bonds Payable** – (Continued)

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.

**L. Compensated Absences**

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

**M. Allocation of Overhead**

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

**N. Use of Estimates**

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

**O. Reclassifications**

Certain reclassifications have been made to the 2007 financial statements to conform to those used in 2008.



**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS

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

June 30, 2008

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	\$ 36,118	0.15	Aaa
U.S. Treasury Obligations	2,633	0.13	Aaa
Corporate Bonds	25	0.02	Aaa
Municipal Bonds	25	0.02	Aaa
Money Market Funds	112,907	0.08	Aaa
Repurchase Agreement	8,012		
Certificate of Deposit	101		
Total fair market value of cash equivalents and investments	159,821	0.10	
Accrued interest from cash equivalents and investments	638		
Checks drawn in excess of cash on deposit in banks	(3,107)		
Total cash, cash equivalents and investments	\$ 157,352		

June 30, 2007

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Treasury Obligations	\$ 420	0.36	Aaa
Corporate Bonds	12,019	0.02	Aa
Commercial Paper	36,432	0.36	P1
Money Market Funds	3,330	0.09	Aaa
Repurchase Agreement	52,475		
Certificate of Deposit	101		
Total cash equivalents and investments	104,777		
Checks drawn in excess of cash on deposit in banks	(996)		
Total cash, cash equivalents and investments	\$ 103,781		

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)*  
*(in thousands)*

**NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)**

Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. With this strategy, investments would be expected to reach maturity with limited realized gains or losses. If the yield of the portfolio can be improved upon by the sale of an investment, prior to its maturity, with the reinvestment of the proceeds, then this provision is also allowed. Chapter 76 of the Kentucky Revised Statutes authorizes MSD to invest in obligations of the United States and its agencies and instrumentalities; bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky and insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to MSD. MSD bond resolutions and covenants contain similar restrictions.

MSD's Investment Policy requires that investments be divided to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Section 2.0 of the Investment Policy outlines the permitted investments and identifies the limitations placed on the types of investments to minimize the risk. The Policy also requires that all investments have the highest category of ratings by the nationally recognized rating agencies. Where applicable, all of the above investments have such ratings. Custodial credit risk is the risk that, in the event of the failure of the counterparty, MSD would be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The collateral provided by financial institutions is considered adequate to cover all balances in excess of limits set forth by the Federal Deposit Insurance Corporation. All of MSD's investments are held by MSD or in the name of MSD by a Trustee.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

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

	June 30	
	2008	2007
Cash and cash equivalents - unrestricted \$	10,524 \$	1,912
Investments - unrestricted	14,843	24,935
Cash and cash equivalents - restricted	105,299	3,133
Investments - restricted	26,686	73,801
	\$ 157,352	\$ 103,781

NOTE 3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

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

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

	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
Payment of bond principal and interest	\$ 41,392	\$ 36,759
Authorized construction	<u>90,593</u>	<u>40,175</u>
Total restricted cash, cash equivalents and investments	<u>\$ 131,985</u>	<u>\$ 76,934</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

NOTE 4. CHANGES IN NET ASSETS

A comparative schedule of changes in net assets follows:

	<u>2008</u>	<u>June 30</u>	<u>2007</u>
Net assets invested in plant, lines and other facilities			
Plant, lines and other facilities net of depreciation	\$ 1,802,540	\$	1,764,556
Outstanding debt that applies to plant, lines and other facilities	(1,411,040)		(1,325,426)
Unspent bond proceeds	<u>90,594</u>		<u>40,175</u>
Invested in plant, lines and other facilities, net	<u>482,094</u>		<u>479,305</u>
Cash and investments restricted for bond principal and interest	42,080		36,048
Current maturities on bonds	(21,255)		(18,190)
Accrued interest on bonds	<u>(8,597)</u>		<u>(10,824)</u>
Net assets restricted for payment of bond principal and interest, net	<u>12,228</u>		<u>7,034</u>
Unrestricted	<u>56,197</u>		<u>65,035</u>
Total net assets	<u>\$ 550,519</u>	\$	<u>551,374</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2008 and 2007 follows:

Year ended June 30, 2008

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Capital assets:				
Sewer lines	\$ 963,799	\$ 59,161	\$ (101)	\$ 1,022,859
Wastewater treatment facilities	422,483	34,472		456,955
Stormwater drainage facilities	366,745	23,955	(1)	390,699
Pumping and lift stations	60,877	6,113	-	66,990
Administrative facilities	45,347	214	-	45,561
Maintenance facilities	7,313	520	-	7,833
Machinery and equipment	62,526	13,347	-	75,873
Capitalized interest and bond issuance costs	<u>220,690</u>	<u>12,384</u>	-	<u>233,074</u>
Total capital assets	2,149,780	150,166	(102)	2,299,844
Less accumulated depreciation and amortization:				
Sewer lines	(171,959)	(12,385)	7	(184,337)
Wastewater treatment facilities	(187,135)	(19,685)	-	(206,820)
Stormwater drainage facilities	(82,162)	(5,686)	-	(87,848)
Pumping and lift stations	(22,913)	(2,839)	-	(25,752)
Administrative facilities	(21,011)	(2,873)	-	(23,884)
Maintenance facilities	(3,667)	(346)	-	(4,013)
Machinery and equipment	(50,712)	(5,856)	-	(56,568)
Capitalized interest and bond issuance costs	<u>(39,085)</u>	<u>(5,692)</u>	-	<u>(44,777)</u>
Total accumulated depreciation and amortization	(578,644)	(55,362)	7	(633,999)
Construction in progress	<u>193,420</u>	<u>70,387</u>	<u>(127,112)</u>	<u>136,695</u>
	<u>\$ 1,764,556</u>	<u>\$ 165,191</u>	<u>\$ (127,207)</u>	<u>\$ 1,802,540</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

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

Year ended June 30, 2007

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Capital assets:				
Sewer lines	\$ 915,527	\$ 48,272	\$ -	\$ 963,799
Wastewater treatment facilities	418,997	3,486	-	422,483
Stormwater drainage facilities	337,039	29,706	-	366,745
Pumping and lift stations	55,407	5,470	-	60,877
Administrative facilities	45,347	-	-	45,347
Maintenance facilities	7,470	-	(157)	7,313
Machinery and equipment	58,613	5,085	(1,172)	62,526
Capitalized interest and bond issuance costs	<u>211,362</u>	<u>9,328</u>	<u>-</u>	<u>220,690</u>
Total capital assets	<u>2,049,762</u>	<u>101,347</u>	<u>(1,329)</u>	<u>2,149,780</u>
Less accumulated depreciation and amortization:				
Sewer lines	(160,278)	(11,681)	-	(171,959)
Wastewater treatment facilities	(167,757)	(19,378)	-	(187,135)
Stormwater drainage facilities	(76,652)	(5,510)	-	(82,162)
Pumping and lift stations	(20,350)	(2,563)	-	(22,913)
Administrative facilities	(18,012)	(2,999)	-	(21,011)
Maintenance facilities	(3,393)	(312)	38	(3,667)
Machinery and equipment	(47,697)	(4,187)	1,172	(50,712)
Capitalized interest and bond issuance costs	<u>(33,660)</u>	<u>(5,425)</u>	<u>-</u>	<u>(39,085)</u>
Total accumulated depreciation and amortization	<u>(527,799)</u>	<u>(52,055)</u>	<u>1,210</u>	<u>(578,644)</u>
Construction in progress	<u>211,761</u>	<u>73,678</u>	<u>(92,019)</u>	<u>193,420</u>
	<u>\$ 1,733,724</u>	<u>\$ 122,970</u>	<u>\$ (92,138)</u>	<u>\$ 1,764,556</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

NOTE 6. CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized in 2008 and 2007 follows:

<u>Year ended June 30, 2008</u>	<u>Capitalized</u>	Included in <u>Operations</u>	<u>Total</u>
Investment earnings	\$ 1,190	\$ 4,895	\$ 6,085
Interest cost	<u>(10,530)</u>	<u>(56,388)</u>	<u>(66,918)</u>
Net	<u>\$ (9,340)</u>	<u>\$ (51,493)</u>	<u>\$ (60,833)</u>
<u>Year ended June 30, 2007</u>	<u>Capitalized</u>	<u>Operations</u>	<u>Total</u>
Investment earnings	\$ 3,747	\$ 4,670	\$ 8,417
Interest cost	<u>(14,140)</u>	<u>(56,408)</u>	<u>(70,548)</u>
Net	<u>\$ (10,393)</u>	<u>\$ (51,738)</u>	<u>\$ (62,131)</u>



**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

**NOTE 7. LONG-TERM DEBT**

A comparative schedule of long-term debt outstanding at June 30, 2008  
and June 30, 2007, follows:

	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding As Of June 30</u>	
			<u>2008</u>	<u>2007</u>
REVENUE BONDS				
1997 Sewer and Drainage System Revenue Bonds Series 1997A	5.25% - 6.00%	2027	\$ 24,815	\$ 24,815
1997 Sewer and Drainage System Revenue Bonds Series 1997B	4.00% - 5.20%	2007	-	65,940
1998 Sewer and Drainage System Revenue Bonds Series 1998A	4.25% - 9.00%	2030	236,940	240,700
1999 Sewer and Drainage System Revenue Bonds Series 1999A	5.25% - 6.50%	2033	288,030	290,700
2001 Sewer and Drainage System Revenue Bonds Series 2001A	5.00% - 5.50%	2036	293,705	295,415
2003 Sewer and Drainage System Revenue Bonds Series 2003A and 2003B	Variable Rate	2023	157,265	164,580
2004 Sewer and Drainage System Revenue Bonds Series 2004A	5.00% - 5.25%	2038	100,000	100,000
2005 Sewer and Drainage System Revenue Bonds Series 2005A	3.00% - 5.00%	2026	61,640	63,135
2006 Sewer and Drainage System Revenue Bonds Series 2006A	4.00% - 5.00%	2038	100,000	100,000
2007 Sewer and Drainage System Revenue Bonds Series 2007A	4.00% - 5.00%	2025	59,665	-
2008 Sewer and Drainage System Revenue Bonds Series 2008A	4.00% - 5.00%	2038	105,000	-
			<u>1,427,060</u>	<u>1,345,285</u>
Less current maturities			(21,255)	(18,190)
Unamortized loss on refunding			(16,020)	(19,859)
Total - MSD Long-Term Debt			<u>\$ 1,389,785</u>	<u>\$ 1,307,236</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

(Continued)  
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

A schedule of future debt service requirements after June 30, 2008 follows:

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 21,255	\$ 72,379	\$ 93,634
2010	22,965	71,199	94,164
2011	23,990	70,161	94,151
2012	25,100	69,040	94,140
2013	26,275	67,853	94,128
2014-2018	151,515	318,892	470,407
2019-2023	191,460	278,324	469,784
2024-2028	243,380	225,956	469,336
2029-2033	313,245	156,092	469,337
2034-2038	<u>407,875</u>	<u>61,689</u>	<u>469,564</u>
	<u>\$ 1,427,060</u>	<u>\$ 1,391,585</u>	<u>\$ 2,818,645</u>

A comparative summary of long-term debt activity for the years ended June 30, 2008 and June 30, 2007 follows:

	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
Long term debt - beginning of year	\$ 1,325,426	\$ 1,341,256
Bonds issued	166,125	-
Deferred gain on refunding, net of amortization	3,839	-
Principal paid on bonds	(22,450)	(15,830)
Bonds refunded	<u>(61,900)</u>	<u>-</u>
Long term debt - end of year	<u>\$ 1,411,040</u>	<u>\$ 1,325,426</u>

Amortization of loss on prior refunds totaled \$1,336.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)*  
*(in thousands)*

NOTE 7. LONG-TERM DEBT (CONTINUED)

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 income will be amortized annually until 2019, the original termination date on the agreement. The unamortized portion is recorded as a long-term liability.

In April 2001, MSD entered into a forward interest rate swap agreement with an aggregate notional amount of \$282,165. Under this agreement, MSD will be the fixed rate payer on the swap and the swap-counter party will be the floating rate payer. MSD will pay a fixed rate of 4.4215% and will receive 67% of the 30-day London InterBank Offered Rate (LIBOR) Index. The forward start date begins November 15, 2009 and terminates on May 15, 2033. MSD initiated the swap to synthetically convert a portion of its floating rate debt expected to be issued November 15, 2009 for the refinancing of its Sewer and Drainage System Revenue Bonds, Series 1999A, to a fixed rate. MSD reserved the right to terminate the swap agreement at any time at the then current market value. This may result in MSD making or receiving a termination payment. This swap transaction exposes MSD to tax event risk due to the possibility that municipal bonds could be taxable when MSD needs to issue debt. In addition, there is a risk (market-access risk) that MSD will not be able to enter credit markets in November 2009 thus the expected cost savings may not be realized. The negative fair value of this swap for the years ending June 30, 2008 and 2007 was \$(34,253) and \$(15,799) respectively.

On January 25, 2008, MSD terminated a Floating to Floating (Basis) Interest Rate Swap agreement with a notional amount of \$282,165. MSD entered into this agreement in April 2006 and paid 67% of the 1-Month LIBOR index and received 62.2% of the 5-Year LIBOR Index. MSD received a termination payment of \$5,756 that will be amortized until 2033.

In October 2002, MSD entered into a Floating to Fixed (Synthetic Fixed) Forward Starting Interest Rate Swap Agreement with a notional amount of \$190,790. MSD executed this agreement to synthetically convert a portion of its floating rate debt that was issued on May 15, 2003 for the refinancing of its Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B, to a fixed rate. MSD pays a fixed rate of 4.075% and receives a

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

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

floating rate equivalent to the Securities Industry and Financial Markets Association Index (formerly the Bond Market Association (BMA) Municipal Bond Index). MSD reserves the exclusive right to terminate the swap agreement at any time at the then current market value. This agreement took effect on May 15, 2003 and terminates on May 15, 2023. The negative fair value of this swap for the years ending June 30, 2008 and 2007 was \$(6,907) and \$(583) respectively.

In March 2003, MSD entered into a swap agreement with a notional amount of \$190,790 that in essence changed the terms of the October 2002 agreement. The terms of this agreement call for MSD to receive 78.78% of the 3-month LIBOR Index and to pay the Securities Industry and Financial Markets Association (SIFMA) Index. MSD reserves the exclusive right to terminate the swap agreement at any time at the then current market value. This agreement took effect on May 15, 2003 and terminates on May 15, 2023. The positive fair value of this swap for the years ending June 30, 2008 and 2007 was \$1,479 and \$4,516 respectively.

In April 2006, MSD entered into a swap agreement with 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.

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

The aforementioned swap transactions also expose MSD to basis risk, the risk that arises when variable interest rates on a derivative and an

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**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

*(Continued)*  
*(in thousands)*

NOTE 7. LONG-TERM DEBT (CONTINUED)

associated bond are based on different indexes. The payment terms of the October 2002 and March 2003 swaps coincide with the 2003 variable rate bond issue that was executed to refinance the Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B. The positive and negative fair value amounts above were provided by a third-party financial advisor.

NOTE 8. RETIREMENT PLAN

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

*Funding Policy.* Plan members are required to contribute 5% of creditable compensation and MSD is required to contribute at an actuarially determined rate. The employer contribution rates for the years ending June 30, 2008; 2007; and 2006 were 16.17%, 13.19%, and 10.98% respectively, of participating employees' compensation.

The contribution requirements of plan members and MSD are established and may be amended by the CERS Board of Trustees. MSD's contributions to the CERS for the years ending June 30, 2008, 2007, and 2006 were \$5,482; \$4,221; and \$3,288 respectively, equal to the required contributions for each year.

NOTE 9. 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 permitted by the Commonwealth of Kentucky to practice as a "group self-insurance trust," was created on

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
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(Continued)  
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NOTE 9. RISK MANAGEMENT (CONTINUED)

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, liability coverage up to \$7,000 per occurrence. The amount of coverage available to MSD could be limited by the total assets of the Trust. At June 30, 2008, MSD has no claims that are payable from the Trust's assets.

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

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

	June 30	
	2008	2007
Liability - beginning of year	\$ 1,913	\$ 1,249
Claims and changes in estimates	808	1,893
Payments	(972)	(1,229)
Liability - end of year	\$ 1,749	\$ 1,913

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

**NOTE 9. RISK MANAGEMENT (CONTINUED)**

MSD joined the Louisville Area Governmental General Insurance Trust (Property Insurance Trust) in September 2002. The Property Insurance Trust was created to provide lower cost to participants for property insurance. MSD is responsible for property damage up to \$100. The Property Insurance Trust provides coverage for the next \$900 and a reinsurance plan with a third party carrier covers claims in excess of \$1 million. MSD has had no settled claim that has exceeded the above coverages, in any of the past three fiscal years.

**NOTE 10. 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 11. COMMITMENTS AND CONTINGENCIES**

Forward Purchase Agreements

MSD previously entered into forward purchase agreements to invest the debt service account of its bond fund at specified times in the future at fixed interest rates. MSD entered into these agreements in order to receive a guaranteed interest rate and lock in current long-term investment rates for the investment of its debt service payments. In December 2007 and January 2008, MSD terminated these agreements and received a net payment of \$1,466,000 that will be amortized over the original life of the agreements.

Prior to the termination of the agreements, MSD was exposed to market risk, since it was possible that interest rates may be higher than the rate at which MSD was committed on the purchase of eligible securities as defined in the agreements. MSD was also exposed to the failure of the counterparty to fulfill the agreement.



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

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Sale of Sewer Assessments

MSD has entered into agreements to sell sanitary sewer assessments to a local bank. These assessments reflect the portion of the cost that residents pay to have sewer lines installed in their neighborhood. Residents are given the opportunity to pay the assessment in full or to finance it over a twenty-year period at 7% interest per annum. The original agreement called for the bank to accept up to \$25 million of outstanding assessments and for MSD to receive 104% of the face value of the assessments. The subsequent agreement allows an additional \$5 million of assessments to be sold to the bank at face value. These agreements give the bank the option to place the assessments back to MSD if the payments of the property owner are ninety days in arrears or the property owner does not respond to the bank's demand for payment within a ninety day period after the issuance of the assessment. Sales to the bank are net of any subsequent repurchases of warrants by MSD. The unpaid principal balance of loans held by the bank at June 30, 2008 was \$7,464

Activity under these assessment agreements for the years ending June 30, 2008 and 2007 was as follows:

	June 30	
	2008	2007
Balance - beginning of year	\$ 31,538	\$ 25,792
Assessments sold to bank	12	7,089
Assessments repurchased by MSD	(1,788)	(1,343)
Balance - end of year	\$ 29,762	\$ 31,538

EPA Consent Decree

In May 2003, MSD received a request for information from the United States Environmental Protection Agency, Region 4 (EPA), under Section 308 of the Clean Water Act. MSD provided the requested information. EPA representatives conducted an inspection of part of MSD's combined and separate collection systems during the week of August 25 through August 29,

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

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

2003. On December 1, 2003, MSD received the inspection report from the EPA. This report contains findings that asserted violations by MSD of the Clean Water Act. The report identified significant violations of the Clean Water Act due to the discharge of sanitary sewer overflows into the navigable waters of the United States. It also found violations of the Clean Water Act for MSD's combined sewer overflows. Representatives of EPA returned to MSD the week of December 8, 2003 for further information. MSD clarified certain information contained in the report and provided the EPA with comments and corrections to the report.

On February 27, 2004, the Kentucky Environmental and Public Protection Cabinet filed suit against MSD in Franklin Circuit Court alleging violations of Federal and State laws with respect to the discharge of pollutants. The suit alleged unauthorized discharges by MSD in the form of sanitary sewer overflows. The suit sought damages and abatement of the unauthorized discharges.

In April 2005, MSD agreed to enter into a Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency. 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. The final LTCP must include schedules, deadlines, and timetables for projects to be completed by December 31, 2020. In addition, a Sanitary Sewer Discharge Plan (SSDP) is due by December 31, 2008. The SSDP will include schedules and deadlines for capital projects to be completed by the end of 2024. The cost of the projects is estimated to be \$843 million. 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 and is now final.

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT  
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*(Continued)  
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**NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

resolution of any violations will not result in material adverse affect on the operation, property or finances of MSD.

IRS Inquiry

In 1998, MSD purchased with the proceeds of its Sewer and Drainage System Revenue Bonds, Series 1997B, United States Treasury obligations for an escrow fund for certain defeased bonds, and at the same time, purchased a put option that allowed it to sell those obligations for an agreed-upon period of time to a counterparty. In 2003, MSD became aware that the Internal Revenue Service (the "IRS") was scrutinizing similar transactions and encouraging issuers who had engaged in such transactions to contact the IRS under the IRS's voluntary compliance agreement program ("VCAP"). While MSD believed it had complied in all respects with applicable provisions of the tax laws, it contacted the IRS promptly with a request for a VCAP settlement. During FY 2007, MSD entered into a closing agreement with the IRS. The agreement provided that the holders of the 1997B bonds are not required to include any interest on the bonds in gross income for federal income tax purposes and no income is required to be recognized by any holder of the bonds as a result of the closing agreement or any payments made pursuant to the agreement. The closing agreement required MSD to redeem \$2,800 of the bonds on November 15, 2007 using funds other than proceeds of tax-exempt bonds. MSD complied with this requirement in FY 2008.

Other Matters

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

The value of construction contracts signed, where work has not yet been performed at June 30, 2008, amounted to \$20,569.

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## **STATISTICAL SECTION**

***The schedules and reports shown in the Statistical Section are not considered necessary for the fair presentation of MSD's financial statements in order for them to be in conformity with Generally Accepted Accounting Principles.***

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Revenues:</b>										
Service charges	\$ 156,889	\$ 126,490	\$ 122,643	\$ 113,561	\$ 103,571	\$ 99,546	\$ 90,255	\$ 87,641	\$ 85,162	\$ 79,635
Other operating income	4,394	5,966	7,122	9,288	7,216	6,696	5,713	6,013	6,569	5,194
Assessments	2,251	8,237	6,796	10,731	12,064	27,290	14,020	12,558	7,539	1,793
Investment income	6,085	8,417	5,558	14,503	23,916	9,377	11,610	14,363	11,748	8,459
Less: capitalized investment income	(1,190)	(3,747)	(1,594)	(6,245)	(18,201)	(5,087)	(6,428)	(10,146)	(9,625)	(7,196)
<b>Total revenues</b>	<b>168,429</b>	<b>145,363</b>	<b>140,525</b>	<b>141,838</b>	<b>128,566</b>	<b>137,822</b>	<b>115,170</b>	<b>110,429</b>	<b>101,393</b>	<b>87,885</b>
<b>Operating expenses:</b>										
Service and administrative costs	96,845	89,194	86,433	78,835	74,972	77,829	74,734	74,417	74,823	71,836
Less: capitalized project costs	(26,510)	(25,715)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)	(19,822)	(26,494)
<b>Total operating expenses</b>	<b>70,335</b>	<b>63,479</b>	<b>61,046</b>	<b>53,549</b>	<b>51,301</b>	<b>52,045</b>	<b>50,727</b>	<b>51,799</b>	<b>55,001</b>	<b>45,342</b>
<b>Net Revenues</b>	<b>98,094</b>	<b>81,884</b>	<b>79,479</b>	<b>88,289</b>	<b>77,265</b>	<b>85,777</b>	<b>64,443</b>	<b>58,630</b>	<b>46,392</b>	<b>42,543</b>
<b>Aggregate debt service:</b>										
Current maturities of long-term debt	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559	6,210	5,909
Interest expense	66,918	70,548	66,162	72,395	65,370	64,797	61,220	50,950	44,363	33,572
Less: capitalized interest expense	(10,530)	(14,140)	(15,758)	(26,603)	(26,940)	(30,490)	(32,891)	(29,352)	(27,242)	(17,029)
<b>Aggregate net debt service</b>	<b>77,643</b>	<b>74,598</b>	<b>67,654</b>	<b>61,477</b>	<b>53,733</b>	<b>47,399</b>	<b>40,005</b>	<b>31,157</b>	<b>23,331</b>	<b>22,452</b>
<b>Debt service coverage ratio</b>	<b>126%</b>	<b>110%</b>	<b>117%</b>	<b>144%</b>	<b>144%</b>	<b>181%</b>	<b>161%</b>	<b>188%</b>	<b>199%</b>	<b>189%</b>

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

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

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Assets</b>										
<b>Current Assets:</b>										
Cash and cash equivalents	\$ 10,524	\$ 1,912	\$ 17,198	\$ 28,732	\$ 20,572	\$ 15,072	\$ 11,920	\$ 23,408	\$ 7,515	\$ 18,495
Investments	14,843	24,935	18,645	7,163	56	9,176	1,006	217	302	233
Accounts receivable	16,732	15,398	17,401	13,716	14,136	12,904	12,233	13,235	11,610	8,075
Recovery of insured loss receivable									453	941
Inventories	3,020	3,091	2,874	3,090	2,685	2,676	2,466	2,530	2,372	2,338
Prepaid expenses and other current assets	1,385	1,181	1,359	803	796	667	394	154	288	306
<b>Total Current Assets</b>	<b>46,504</b>	<b>46,517</b>	<b>57,477</b>	<b>53,504</b>	<b>38,245</b>	<b>40,495</b>	<b>28,019</b>	<b>39,544</b>	<b>22,540</b>	<b>30,388</b>
<b>Restricted Assets:</b>										
Cash and cash equivalents	105,299	3,133	24	65,423	110,942	117,226	216,890	67,500	230,198	70,263
Investments	26,686	73,801	134,850	33,934	74,112	51,220	52,400	25,457	24,872	22,911
Miscellaneous Receivables										
<b>Total Restricted Assets</b>	<b>131,985</b>	<b>76,934</b>	<b>134,874</b>	<b>99,357</b>	<b>185,054</b>	<b>168,446</b>	<b>269,290</b>	<b>92,957</b>	<b>255,070</b>	<b>93,174</b>
<b>Long-term Assessments Receivable</b>	<b>26,334</b>	<b>28,749</b>	<b>27,778</b>	<b>29,712</b>	<b>27,964</b>	<b>30,327</b>	<b>37,538</b>	<b>26,723</b>	<b>17,415</b>	<b>7,605</b>
<b>Deferred Compensation Plan</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plant, Lines and Other Facilities:</b>										
Completed projects	2,299,844	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498	1,199,210	1,066,648	1,025,187
Less: Accumulated depreciation	(633,999)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)	(334,249)	(310,451)
	1,665,845	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294	838,194	732,399	714,736
<b>Construction in progress</b>	<b>136,695</b>	<b>193,420</b>	<b>211,761</b>	<b>297,705</b>	<b>423,823</b>	<b>405,035</b>	<b>411,570</b>	<b>433,324</b>	<b>377,506</b>	<b>249,727</b>
<b>Net Plant, Lines and Other Facilities</b>	<b>1,802,540</b>	<b>1,764,556</b>	<b>1,733,724</b>	<b>1,694,956</b>	<b>1,619,999</b>	<b>1,532,918</b>	<b>1,436,864</b>	<b>1,271,518</b>	<b>1,109,905</b>	<b>964,463</b>
<b>Total Assets</b>	<b>\$ 2,007,363</b>	<b>\$ 1,916,756</b>	<b>\$ 1,953,853</b>	<b>\$ 1,877,529</b>	<b>\$ 1,871,262</b>	<b>\$ 1,772,186</b>	<b>\$ 1,771,711</b>	<b>\$ 1,430,742</b>	<b>\$ 1,404,930</b>	<b>\$ 1,095,630</b>



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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Liabilities and Net Assets</b>										
<b>Liabilities:</b>										
<b>Current Liabilities (Payable from Current Assets):</b>										
Accounts payable and accrued expenses	\$ 14,758	\$ 16,639	\$ 22,619	\$ 17,781	\$ 9,671	\$ 9,492	\$ 7,969	\$ 7,912	\$ 7,285	\$ 9,187
Early retirement incentive plan payable	-	-	-	-	-	-	-	-	-	8,392
<b>Total Current Liabilities (Payable from Current Assets)</b>	<b>14,758</b>	<b>16,639</b>	<b>22,619</b>	<b>17,781</b>	<b>9,671</b>	<b>9,492</b>	<b>7,969</b>	<b>7,912</b>	<b>7,285</b>	<b>17,579</b>
<b>Current Liabilities (Payable from Restricted Assets):</b>										
Accounts payable and accrued expenses	5,250	4,239	1,072	5,863	11,846	17,588	16,231	14,942	10,945	7,445
Accrued interest	8,597	10,824	10,456	9,768	9,916	9,454	10,922	8,444	8,478	4,873
Current maturities of bonds payable	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559	6,210	5,909
Current maturities of other long-term debt	-	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>35,102</b>	<b>33,253</b>	<b>28,778</b>	<b>31,316</b>	<b>37,065</b>	<b>40,134</b>	<b>38,829</b>	<b>32,945</b>	<b>25,633</b>	<b>18,227</b>
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>1,389,785</b>	<b>1,307,236</b>	<b>1,324,006</b>	<b>1,240,966</b>	<b>1,256,228</b>	<b>1,170,141</b>	<b>1,184,993</b>	<b>895,973</b>	<b>904,839</b>	<b>610,353</b>
Long-Term Debt:										
Bonds payable	17,199	8,254	8,987	9,191	6,495	6,917	7,338	7,759	-	-
Other long-term debt	1,406,984	1,315,490	1,332,993	1,250,157	1,262,723	1,177,058	1,192,331	903,732	904,839	610,353
<b>Total Long-Term Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Compensation</b>	<b>1,456,844</b>	<b>1,365,382</b>	<b>1,384,390</b>	<b>1,299,254</b>	<b>1,309,459</b>	<b>1,225,684</b>	<b>1,239,129</b>	<b>944,589</b>	<b>937,757</b>	<b>646,159</b>
<b>Total Liabilities</b>	<b>482,094</b>	<b>479,305</b>	<b>489,973</b>	<b>497,314</b>	<b>490,458</b>	<b>476,849</b>	<b>450,966</b>	<b>428,688</b>	<b>428,688</b>	<b>428,688</b>
<b>Net Assets:</b>										
Invested in plant, lines, & other facilities, net of related debt	12,228	7,034	8,927	14,133	17,850	18,884	35,482	10,810	10,810	10,810
Restricted for payment of bond principal & interest	56,197	65,035	70,563	66,828	53,495	49,769	46,134	46,655	46,655	46,655
Unrestricted	550,519	561,374	569,463	578,275	561,803	545,502	532,582	486,153	486,153	486,153
<b>Total Net Assets</b>	<b>2,007,363</b>	<b>1,916,756</b>	<b>1,953,853</b>	<b>1,877,529</b>	<b>1,871,262</b>	<b>1,772,186</b>	<b>1,771,711</b>	<b>1,430,742</b>	<b>1,430,742</b>	<b>1,430,742</b>
<b>Total Liabilities and Net Assets</b>	<b>3,446,147</b>	<b>3,396,081</b>	<b>3,343,826</b>	<b>3,174,495</b>	<b>3,161,720</b>	<b>3,249,035</b>	<b>3,222,687</b>	<b>2,919,491</b>	<b>2,919,491</b>	<b>2,919,491</b>
<b>Equity:</b>										
<b>Contributed Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>334,345</b>
<b>Retained Earnings:</b>										
Reserved for payment of bond principal and interest	-	-	-	-	-	-	-	-	12,129	12,891
Unreserved	-	-	-	-	-	-	-	-	109,050	102,235
<b>Total Retained Earnings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>121,179</b>	<b>115,126</b>
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>467,173</b>	<b>449,471</b>
<b>Total Liabilities and Equity</b>	<b>3,446,147</b>	<b>3,396,081</b>	<b>3,343,826</b>	<b>3,174,495</b>	<b>3,161,720</b>	<b>3,249,035</b>	<b>3,222,687</b>	<b>2,919,491</b>	<b>2,919,491</b>	<b>2,919,491</b>

Note: FY 2001 - 2007 statements are presented in accordance with GASB 34

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Operating revenue:</b>										
Wastewater service charges	\$ 125,782	\$ 96,594	\$ 93,907	\$ 87,653	\$ 79,933	\$ 77,778	\$ 69,856	\$ 68,228	\$ 66,637	\$ 62,306
Stormwater service charges	31,107	29,896	28,736	25,908	23,638	21,768	20,399	19,413	18,525	17,329
Other operating income	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013	6,569	5,194
<b>Total operating revenue</b>	<b>161,283</b>	<b>132,446</b>	<b>129,765</b>	<b>122,849</b>	<b>110,787</b>	<b>106,242</b>	<b>95,968</b>	<b>93,654</b>	<b>91,731</b>	<b>84,829</b>
<b>Operating expenses:</b>										
Service and administrative costs	96,845	90,157	86,433	78,835	74,972	77,829	74,734	74,417	74,823	71,836
Capitalization/recovery of cost	(26,510)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)	(19,822)	(26,494)
Depreciation and amortization	55,485	52,177	51,174	43,161	37,718	35,401	34,131	27,448	24,266	30,497
<b>Total operating expenses</b>	<b>125,820</b>	<b>115,656</b>	<b>112,220</b>	<b>96,710</b>	<b>89,019</b>	<b>87,446</b>	<b>84,858</b>	<b>79,247</b>	<b>79,267</b>	<b>75,839</b>
<b>Income (loss) from operations</b>	<b>35,463</b>	<b>16,790</b>	<b>17,545</b>	<b>26,139</b>	<b>21,768</b>	<b>18,796</b>	<b>11,110</b>	<b>14,407</b>	<b>12,464</b>	<b>8,990</b>
<b>Non-operating revenue (expense):</b>										
Investment income	4,895	4,670	3,964	8,259	5,715	4,290	5,182	4,217	2,123	1,263
Interest expense	(56,388)	(56,408)	(50,404)	(45,792)	(38,495)	(34,307)	(28,330)	(21,598)	(17,121)	(16,543)
Early retirement incentive plan expenses	-	-	-	-	-	-	-	-	-	(10,114)
Contributed capital	-	-	-	-	-	-	-	-	20,236	14,470
<b>Total non-operating revenue (expenses) - net</b>	<b>(51,493)</b>	<b>(51,738)</b>	<b>(46,440)</b>	<b>(37,533)</b>	<b>(32,780)</b>	<b>(30,017)</b>	<b>(23,148)</b>	<b>(17,381)</b>	<b>5,238</b>	<b>(10,924)</b>
<b>Net loss before contributions</b>	<b>(16,030)</b>	<b>(34,948)</b>	<b>(28,895)</b>	<b>(11,394)</b>	<b>(11,012)</b>	<b>(11,221)</b>	<b>(12,038)</b>	<b>(2,974)</b>		
<b>Contributions</b>										
Property owner assessments	164	7,634	4,862	12,478	9,701	20,079	24,786	21,865		
All other	15,011	9,225	15,221	15,388	17,612	4,062	33,681	89		
<b>Increase (decrease) in net assets</b>	<b>(855)</b>	<b>(18,089)</b>	<b>(8,812)</b>	<b>16,472</b>	<b>16,301</b>	<b>12,920</b>	<b>46,429</b>	<b>18,980</b>		
<b>Net assets, beginning of year</b>	<b>551,374</b>	<b>569,463</b>	<b>578,275</b>	<b>561,803</b>	<b>545,502</b>	<b>532,582</b>	<b>486,153</b>	<b>467,173</b>		
<b>Net assets, end of year</b>	<b>550,519</b>	<b>551,374</b>	<b>569,463</b>	<b>578,275</b>	<b>561,803</b>	<b>545,502</b>	<b>532,582</b>	<b>486,153</b>		
									<b>17,702</b>	<b>(1,934)</b>
<b>Net income (loss)</b>									<b>449,471</b>	<b>451,405</b>
<b>Beginning equity</b>										
<b>Ending equity</b>										
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Note: FY 2001 - 2008 statements are presented in accordance with GASB 34

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Cash flows from operating activities:</b>										
Cash received from customers	159,539	134,160	125,918	123,269	109,938	105,571	96,970	92,029		
Cash paid to suppliers and employees	(72,227)	(69,536)	(56,548)	(45,851)	(51,643)	(51,005)	(50,846)	(51,196)		
Income/(loss) from operations									\$ 12,464	\$ 8,990
Depreciation									24,266	30,497
Change in operating assets and liabilities:									(3,535)	139
Decrease (increase) in accounts receivable									(34)	861
Decrease (increase) in inventories									18	422
Decrease (increase) in prepaid expenses									(1,902)	(434)
Increase (decrease) in accounts payable										
<b>Net cash provided by operating activities</b>	<b>87,312</b>	<b>64,624</b>	<b>69,370</b>	<b>77,418</b>	<b>58,295</b>	<b>54,566</b>	<b>46,124</b>	<b>40,833</b>	<b>31,277</b>	<b>40,475</b>
<b>Cash flows from non-capital financing activities:</b>										
Early retirement incentive plan									(8,392)	(1,722)
<b>Cash flows from capital and related financing activities:</b>										
Proceeds from issuance of long-term debt	166,125	-	100,000	64,740	100,000	191,000	300,000	-	300,000	-
Defeasance of bonds and other long-term debt								2,313	6,282	3,769
Capital contributed by governments, property owners and developers	15,174	16,861	1,460	2,638	4,031	948	864	-	-	-
Refunding of long-term bonds				(65,600)		(185,230)				
Assessments receivable	2,703	(645)	-	-	-	-	-	-	-	-
Interest income - assessments	1,405	1,670	-	-	-	-	-	-	-	-
Unamortized loss on refundings	2,504	(84,350)	(16,815)	(14,020)	(11,702)	(19,206)	(8,863)	(6,210)	(5,909)	(5,654)
Principal paid on revenue bonds	(69,145)	(70,180)	(65,474)	(26,751)	(26,478)	(31,958)	(30,408)	(50,986)	(40,668)	(36,245)
Interest paid on revenue bonds	(83,548)	(65,689)	(67,035)	(109,200)	(126,365)	(127,057)	(164,959)	(165,857)	(150,809)	(118,808)
Acquisition and construction of capital assets	430	(33)	-	-	-	-	-	-	-	-
Retainage payable	(257)	(258)	-	-	-	-	-	453	488	6,087
Acquisition of non-operating property										
Recovery of insured loss										
<b>Net cash (used in) provided from capital and related financing activities</b>	<b>(48,959)</b>	<b>(135,504)</b>	<b>(47,864)</b>	<b>(147,993)</b>	<b>(60,514)</b>	<b>(171,503)</b>	<b>96,634</b>	<b>(220,287)</b>	<b>109,384</b>	<b>(150,851)</b>
<b>Cash flows from investing activities:</b>										
Assessment principal payments			8,621	10,301	12,792	27,495	13,997	10,897	6,174	1,831
Interest received on termination of swap agreement			-	(421)	(422)	(421)	(421)	7,759	(49,820)	(32,249)
Purchase of investment securities	(62,392)	(72,800)	(303,998)	(100,889)	(370,182)	(79,864)	(77,980)	(65,918)	49,871	39,384
Proceeds from sale and maturities of investment securities	120,084	137,908	177,341	110,070	329,655	63,592	48,160	65,093	10,461	10,273
Interest received on investments	4,807	7,642	5,551	14,155	29,592	9,623	11,388	14,818		
Unamortized gain on termination of swap agreements	9,926									
<b>Net cash (used in) provided from investing activities</b>	<b>72,425</b>	<b>72,750</b>	<b>(112,485)</b>	<b>33,216</b>	<b>1,435</b>	<b>20,425</b>	<b>(4,856)</b>	<b>32,649</b>	<b>16,686</b>	<b>19,239</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>110,778</b>	<b>1,870</b>	<b>(90,979)</b>	<b>(37,359)</b>	<b>(784)</b>	<b>(96,512)</b>	<b>137,902</b>	<b>(146,805)</b>	<b>148,955</b>	<b>(62,859)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>5,045</b>	<b>3,176</b>	<b>94,155</b>	<b>131,514</b>	<b>132,298</b>	<b>228,810</b>	<b>90,908</b>	<b>237,713</b>	<b>88,758</b>	<b>181,617</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 115,823</b>	<b>\$ 5,045</b>	<b>\$ 3,176</b>	<b>\$ 94,155</b>	<b>\$ 131,514</b>	<b>\$ 132,298</b>	<b>\$ 228,810</b>	<b>\$ 90,908</b>	<b>\$ 237,713</b>	<b>\$ 88,758</b>

Note: FY 2001 - FY 2008 statements are prepared utilizing the direct method. Please see the cash flow statement in the financial section for the reconciliation of operating income to net cash provided by operating activities.

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Service charges:</b>										
<b>Wastewater service charges:</b>										
Residential	\$ 64,978	\$ 48,338	\$ 47,555	\$ 43,320	\$ 39,394	\$ 37,730	\$ 33,106	\$ 31,469	\$ 31,785	\$ 27,304
Commercial	38,935	28,892	27,619	25,274	23,761	23,071	21,220	20,339	20,412	18,855
Industrial	21,324	18,431	17,279	17,142	15,182	15,380	13,992	14,935	14,845	15,263
Bulk dumpers	-	-	-	-	1,597	1,597	1,538	1,485	-	17
Other - net	2,382	1,993	1,454	1,917	-	-	-	-	(422)	571
Free Sewer to Metro Government	(1,837)	(1,060)	-	-	-	-	-	-	-	-
<b>Total wastewater service charges</b>	<b>125,782</b>	<b>96,594</b>	<b>93,907</b>	<b>87,653</b>	<b>79,934</b>	<b>77,778</b>	<b>69,856</b>	<b>68,228</b>	<b>66,637</b>	<b>62,306</b>
<b>Stormwater service charges:</b>										
Residential	12,198	11,617	11,205	10,304	9,223	8,657	8,134	7,865	7,398	6,973
Commercial	17,276	16,741	15,683	13,854	12,735	11,533	10,765	10,052	9,579	8,876
Industrial	1,988	1,930	1,848	1,750	1,679	1,578	1,500	1,496	1,548	1,480
Free Drainage to Metro Government	(355)	(392)	-	-	-	-	-	-	-	-
<b>Total stormwater service charges</b>	<b>31,107</b>	<b>29,896</b>	<b>28,736</b>	<b>25,908</b>	<b>23,637</b>	<b>21,768</b>	<b>20,399</b>	<b>19,413</b>	<b>18,525</b>	<b>17,329</b>
<b>Total stormwater service charges</b>	<b>156,889</b>	<b>126,490</b>	<b>122,643</b>	<b>113,561</b>	<b>103,571</b>	<b>99,546</b>	<b>90,255</b>	<b>87,641</b>	<b>85,162</b>	<b>79,635</b>
<b>Total service charges</b>										
Capacity charges	2,521	2,538	4,772	6,925	5,176	4,272	2,549	3,754	4,373	3,067
Connection fees	172	146	220	411	601	675	1,458	927	839	895
Regional facilities fees	-	(11)	357	513	301	374	354	276	324	506
Reserve capacity charges	37	5	22	40	18	1	58	13	23	33
Wastewater miscellaneous	1,606	3,220	1,693	1,342	1,062	1,344	1,244	994	967	632
Stormwater miscellaneous	58	58	58	57	58	30	50	49	43	61
City sewer bonds	-	-	-	-	-	-	-	-	-	-
<b>Total other operating income</b>	<b>4,394</b>	<b>5,956</b>	<b>7,122</b>	<b>9,288</b>	<b>7,216</b>	<b>6,696</b>	<b>5,713</b>	<b>6,013</b>	<b>6,569</b>	<b>5,194</b>
<b>Total operating revenue</b>	<b>\$ 161,283</b>	<b>\$ 132,446</b>	<b>\$ 129,765</b>	<b>\$ 122,849</b>	<b>\$ 110,787</b>	<b>\$ 106,242</b>	<b>\$ 95,968</b>	<b>\$ 93,654</b>	<b>\$ 91,731</b>	<b>\$ 84,829</b>

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Service and administrative costs:</b>										
Labor	\$ 49,431	\$ 47,079	\$ 42,287	\$ 40,948	\$ 40,206	\$ 40,947	\$ 40,068	\$ 39,185	\$ 40,049	\$ 43,800
Utilities	12,989	10,976	12,518	10,119	8,870	7,967	6,979	7,984	7,017	6,451
Materials and supplies	8,707	8,197	7,745	6,625	7,237	7,479	7,043	8,400	8,730	6,469
Professional services	3,126	2,797	2,543	2,698	2,530	3,821	4,543	4,425	4,185	3,651
Maintenance and repairs	8,926	8,035	7,762	5,874	4,976	5,672	4,660	4,056	4,212	3,111
Billing and collections	5,319	2,889	3,869	3,371	3,209	2,812	3,164	3,628	3,578	2,996
Chemicals and fuel	5,148	4,825	5,088	4,099	3,828	3,701	3,636	2,825	2,403	2,060
Biosolids disposal	1,661	1,412	1,554	1,451	1,359	1,442	2,438	1,584	1,565	1,424
All other	2,800	3,947	3,067	3,650	2,757	3,988	3,081	3,163	3,084	1,874
Adjustment for encumbrances	-	-	-	-	-	-	-	-	-	-
<b>Gross service and administrative costs</b>	<b>98,107</b>	<b>90,157</b>	<b>86,433</b>	<b>78,835</b>	<b>74,972</b>	<b>77,829</b>	<b>75,512</b>	<b>75,250</b>	<b>74,823</b>	<b>71,836</b>
<b>Less: Recovery of cost</b>										
Capitalized project cost	(26,510)	(25,715)	(24,450)	(24,419)	(23,158)	(25,302)	(24,007)	(22,620)	(19,000)	(25,743)
Revenue recoveries	(1,262)	(963)	(937)	(867)	(513)	(482)	(778)	(831)	(822)	(751)
FEMA flooding cost recoveries	-	-	-	-	-	-	-	-	-	-
<b>Recovery of cost</b>	<b>(27,772)</b>	<b>(26,678)</b>	<b>(25,387)</b>	<b>(25,286)</b>	<b>(23,671)</b>	<b>(25,784)</b>	<b>(24,785)</b>	<b>(23,451)</b>	<b>(19,822)</b>	<b>(26,494)</b>
<b>Net service and administrative costs</b>	<b>\$ 70,335</b>	<b>\$ 63,479</b>	<b>\$ 61,046</b>	<b>\$ 53,549</b>	<b>\$ 51,301</b>	<b>\$ 52,045</b>	<b>\$ 50,727</b>	<b>\$ 51,799</b>	<b>\$ 55,001</b>	<b>\$ 45,342</b>

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Completed Projects</b>											
Sewer lines	\$ 1,022,859	\$ 963,798	\$ 915,527	\$ 819,349	\$ 762,241	\$ 694,851	\$ 619,077	\$ 527,412	\$ 452,743	\$ 444,098	\$ 420,389
Wastewater treatment facilities	456,954	422,483	418,997	389,747	273,187	262,073	242,549	214,818	207,124	205,266	225,304
Stormwater drainage facilities	390,699	366,745	337,039	308,282	288,277	278,739	265,294	236,526	217,427	213,382	206,737
Pumping and lift stations	66,991	60,877	55,407	51,389	46,752	42,620	39,454	32,315	29,834	29,743	29,626
Administrative facilities	45,561	45,347	45,347	45,239	30,724	22,859	20,867	20,479	18,973	18,379	26,933
Maintenance facilities	7,833	7,313	7,470	7,395	4,785	4,048	4,048	3,359	3,210	3,189	2,697
Machinery, equipment and other	75,872	62,526	58,613	56,749	47,815	47,703	46,553	40,744	32,986	31,509	20,964
Capitalized interest and issuance cost	233,074	220,690	211,362	196,725	178,557	173,717	153,556	123,557	104,351	79,621	71,561
<b>Total Completed Projects</b>	<b>2,299,843</b>	<b>2,149,779</b>	<b>2,049,762</b>	<b>1,874,875</b>	<b>1,632,338</b>	<b>1,526,610</b>	<b>1,391,498</b>	<b>1,199,210</b>	<b>1,066,648</b>	<b>1,025,187</b>	<b>1,004,211</b>
<b>Less accumulated depreciation</b>	<b>(633,999)</b>	<b>(578,643)</b>	<b>(527,799)</b>	<b>(477,624)</b>	<b>(436,162)</b>	<b>(398,727)</b>	<b>(366,204)</b>	<b>(361,016)</b>	<b>(334,249)</b>	<b>(310,451)</b>	<b>(295,929)</b>
<b>Total Completed projects - net</b>	<b>1,665,844</b>	<b>1,571,136</b>	<b>1,521,963</b>	<b>1,397,251</b>	<b>1,196,176</b>	<b>1,127,883</b>	<b>1,025,294</b>	<b>838,194</b>	<b>732,399</b>	<b>714,736</b>	<b>708,282</b>
<b>Construction in progress</b>											
Sewer lines	91,561	83,613	161,586	175,694	202,021	189,116	199,910	187,546	140,901	101,754	
Wastewater treatment facilities	12,974	23,232	19,964	61,790	153,019	140,498	131,661	145,196	104,789	64,755	
Stormwater drainage facilities	22,319	25,717	16,812	27,107	24,880	17,904	19,861	38,823	38,750	28,249	
Pumping and lift stations	3,171	2,833	2,550	9,333	8,561	8,283	9,150	10,645	11,362	6,364	
Administrative facilities	3,209	10,064	10,000	21,337	31,860	48,836	49,898	50,374	43,233	22,129	
Maintenance facilities	-	-	-	-	-	-	-	740	1,066	642	
Machinery, equipment and other	3,462	47,961	849	2,444	3,462	398	1,070	-	37,405	25,834	
<b>Total Construction in progress</b>	<b>136,696</b>	<b>193,420</b>	<b>211,761</b>	<b>297,705</b>	<b>423,823</b>	<b>405,035</b>	<b>411,570</b>	<b>433,324</b>	<b>377,506</b>	<b>249,727</b>	<b>157,279</b>
<b>Total Net Plant, Lines and Other Facilities</b>	<b>\$ 1,802,540</b>	<b>\$ 1,764,556</b>	<b>\$ 1,733,724</b>	<b>\$ 1,694,956</b>	<b>\$ 1,619,999</b>	<b>\$ 1,532,918</b>	<b>\$ 1,436,864</b>	<b>\$ 1,271,518</b>	<b>\$ 1,109,905</b>	<b>\$ 984,463</b>	<b>\$ 865,561</b>

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY  
 METROPOLITAN SEWER DISTRICT  
 WASTEWATER TREATMENT PLANT CAPACITY  
 2008

Plant	Design	Avg Daily	Eventual	Residential	Customer Base		Total	Year Built	Treatment Process
	Capacity MGD	Flow MGD	Capacity MGD		Commercial	Industrial			
Morris Forman	120.0	107.9	120.0	122,663	13,838	353	136,854	1958	Secondary added in 1972.
West County	30.0	26.8	30.0	55,010	3,114	17	58,141	1986	Secondary
Jeffersontown	4.0	4.3	4.0	6,682	905	14	7,601	1956	Secondary
Hite Creek	6.0	4.4	8.0	6,653	474	5	7,132	1970	Tertiary: sand filter
Cedar Creek	7.5	4.3	7.5	6,960	167	-	7,127	1995	Tertiary: sand filter
Floyd's Fork	3.3	2.1	9.8	4,170	99	-	4,269	2001	Tertiary: sand filter
15 Small Treatment Plants	2.7	2.3	-	5,105	201	-	5,306	Most 1970s	Various: developer-built package plants
<b>Total Treatment System</b>	<b>173.5</b>	<b>152.1</b>	<b>179.3</b>	<b>207,243</b>	<b>18,798</b>	<b>389</b>	<b>226,430</b>		

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

2007 Rank	2006 Rank	2005 Rank	2004 Rank	2003 Rank	2002 Rank	Type of business
1	20,560	20,674	18,938	17,543	17,206	P Air cargo transport and distribution
2	13,917	13,593	13,281	13,235	13,420	G Primary and secondary education
3	9,854	8,775	7,458	8,550	4,785	P Group health insurance/HMOs
4	7,978	6,680	7,783	8,525	7,850	N Hospital and health care facilities
5	6,203	6,229	5,907	5,405	5,467	N Hospital and health care facilities
6	5,929	7,586	5,972	5,405	9,807	P Vehicle manufacturing
7	5,866	5,763	5,563	5,236	9,303	G Higher education
8	5,639	5,698	5,893	5,236	4,943	G City/County Government
9	5,000	5,000	5,000	5,000	5,744	P Appliance manufacturing
10	4,784	4,644	4,177	4,827	4,960	P Retail grocer
11	4,488	4,555	4,700	4,952	5,045	G General purpose government
12	3,089	3,536	3,140	3,179	2,204	N Hospital and health care facilities
13	2,853	2,822	2,826	2,841	2,806	G General purpose government
14	2,651	2,653	2,674	2,902	3,137	G Mail distribution
15	2,351	2,348	2,437	2,680	2,468	N Religious, educational, social services
16	2,314	2,417	2,346	1,972	2,115	N Nonprofit health care
17	2,248	1,638	1,810	1,672	2,170	G Federal Government
18	2,243	2,219	2,123	2,195	2,194	P Food service provider
19	2,079	3,033	2,349	2,342	1,952	P Long-term health care, facilities
20	1,860	1,689	1,702	1,633	1,600	P Trade, professional, special printing
21	1,858	1,895	1,942	1,918	2,076	P Gaming and entertainment resort
22	1,680	1,561	1,476	1,423	1,395	P Telecommunications
23	1,615	1,560	1,009	1,423	1,438	P Manufacturer - inland river barges & towboats
24	1,589	1,700	1,473	1,376	1,238	G Primary and secondary education
25	1,519	1,448	1,407	1,320	1,720	G Primary and secondary education
26	1,500	1,500	1,500	1,495	1,720	P Diversified commercial banking
27	1,491	1,600	1,588	1,509	1,438	G Primary and secondary education
28	1,480	1,130	1,234	1,195	1,130	P Quick-service restaurants
29	1,406	1,406	1,234	1,195	1,181	G Hospital and health care facilities
30	1,400	1,400	1,215	1,209	1,213	G Primary and secondary education
31	1,381	1,438	1,575	1,687	1,744	P Health insurance sales and services
32	1,350	1,251	1,250	1,151	1,725	P Hog slaughtering and pork processing
33	1,316	1,409	1,337	1,412	1,151	P Hospital and health services provider
34	1,265	1,520	1,450	1,075	1,249	P Home Improvement Products & Services
35	1,209	1,317	1,264	1,075	1,584	P Distilled spirits manufacturing
36	1,184	1,317	1,312	1,336	1,315	P Benefits administration
37	1,175	1,355	1,098	1,411	1,358	P Banking, insurance, investments
38	1,175	1,060	1,098	1,411	1,015	N Hospital and health care services
39	1,160	1,100	1,137	1,159	1,132	P Restaurants
40	1,110	1,214	1,100	1,300	1,130	N Health care provider
41	1,081	1,214	1,100	1,300	1,130	P Full-service hotel
	140,941	140,606	132,867	127,624	120,197	
						125-112

P=for-profit organization N=not-for-profit organization G=governmental organization  
Source: Business First, Louisville, KY

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



GREATER LOUISVILLE, KENTUCKY/INDIANA  
POPULATION TREND  
1970-2020

	Census				Projected	
	1970	1980	1990	2000	2010	2020
City of Louisville	361,700	298,500	269,200	256,231	270,000	270,000
Jefferson County, KY (outside City)	334,500	385,800	396,000	437,373	438,000	462,000
<b>Subtotal Jefferson County, KY</b>	<b>696,200</b>	<b>684,300</b>	<b>665,200</b>	<b>693,604</b>	<b>708,000</b>	<b>732,000</b>
<b>Clark County, IN</b>	<b>76,200</b>	<b>88,900</b>	<b>87,900</b>	<b>96,472</b>	<b>100,000</b>	<b>106,600</b>
<b>Floyd County, IN</b>	<b>55,600</b>	<b>61,400</b>	<b>64,600</b>	<b>70,823</b>	<b>82,700</b>	<b>92,800</b>
<b>Bullitt County, KY</b>	<b>26,500</b>	<b>43,500</b>	<b>47,800</b>	<b>61,236</b>	<b>61,400</b>	<b>68,900</b>
<b>Oldham County, KY</b>	<b>14,700</b>	<b>27,900</b>	<b>33,600</b>	<b>46,178</b>	<b>53,900</b>	<b>65,500</b>
<b>Harrison County, IN</b>	<b>20,500</b>	<b>27,400</b>	<b>30,000</b>	<b>34,325</b>	<b>40,600</b>	<b>46,700</b>
<b>Scott County, IN</b>	<b>17,200</b>	<b>20,400</b>	<b>21,000</b>	<b>22,960</b>	<b>34,600</b>	<b>40,400</b>
<b>Total Greater Louisville</b>	<b>906,900</b>	<b>953,800</b>	<b>950,100</b>	<b>1,025,598</b>	<b>1,081,200</b>	<b>1,152,900</b>

Source: "Greater Louisville Forecasts of Jobs, Population and Income: 1995-2020"  
Cornerstone 2020 & U.S. Census Bureau

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

Rank	Customer Name	FY '08 Wastewater Billed	Percent Total Wastewater Revenue	Customer Name	FY '01 Wastewater Billed	Percent Total Wastewater Revenue
1	Solae LLC*	\$ 3,426,871	2.72%	Protein Technologies	\$ 1,848,000	2.71%
2	Opta Foods	\$ 1,732,934	1.38%	E.I. Dupont	\$ 1,535,437	2.25%
3	Oxy Vinyls	\$ 1,688,374	1.34%	Swift & Company	\$ 1,068,293	1.57%
4	Swift & Company	\$ 1,645,651	1.31%	Oxy Vinyls	\$ 998,618	1.46%
5	E.I. Dupont	\$ 1,536,790	1.22%	Ford Motor Co.	\$ 934,068	1.37%
6	Brown Forman Corp.	\$ 1,504,167	1.20%	Opta Food	\$ 750,000	1.10%
7	Jefferson Co. Bd. of Educ	\$ 1,404,805	1.12%	Jefferson Co. Bd. of Educ.	\$ 626,709	0.92%
8	Heaven Hill Distilleries	\$ 994,958	0.79%	Louisville Mun. Housing	\$ 541,479	0.79%
9	Rohm & Haas	\$ 876,608	0.70%	Rohm & Haas	\$ 536,701	0.79%
10	Lou. Metro Housing Auth.	\$ 778,370	0.62%	General Electric	\$ 464,768	0.68%
	<b>Total</b>	<b>\$ 15,589,528</b>	<b>12.39%</b>	<b>Total</b>	<b>\$ 9,304,073</b>	<b>13.64%</b>

Total FY '08 Wastewater Revenue: \$125,782,000

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

Rank	Customer Name	FY '08 Stormwater Billed	Percent Total Stormwater Revenue	Customer Name	FY '01 Stormwater Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	\$ 810,221	2.60%	Regional Airport Authority	\$ 265,009	1.37%
2	United Parcel Service	\$ 532,838	1.71%	United Parcel Service	\$ 234,484	1.21%
3	Jefferson Co. Bd. of Educ.	\$ 282,936	0.91%	Jefferson Co. Bd. of Educ.	\$ 192,397	0.99%
4	Ford Motor Company	\$ 278,681	0.90%	Ford Motor Company	\$ 164,945	0.85%
5	LIT Industrial Limited**	\$ 208,303	0.67%	University of Louisville	\$ 109,536	0.56%
6	Churchill Downs	\$ 160,661	0.52%	Churchill Downs	\$ 108,570	0.56%
7	KY State Fair Board	\$ 137,987	0.44%	Trammell Crow Co.	\$ 91,683	0.47%
8	Norfolk Southern Corp.	\$ 137,143	0.44%	KY State Fair Board	\$ 86,690	0.45%
9	Louisville Gas & Electric	\$ 133,662	0.43%	Norfolk Southern Corp.	\$ 82,503	0.42%
10	University of Louisville	\$ 124,094	0.40%	Seaboard Systems, Inc.	\$ 78,141	0.40%
	<b>Total</b>	<b>\$ 2,806,526</b>	<b>9.02%</b>	<b>Total</b>	<b>\$ 1,413,958</b>	<b>7.28%</b>

Total FY '08 Stormwater Revenue: \$31,107,000

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

Note: MSD switched billing systems in FY '01 thus this fiscal year was used to compare billings against FY '08

\* Solae LLC was formerly known as Protein Technologies

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