



MSD

Louisville and Jefferson County
Metropolitan Sewer District
Louisville, Kentucky USA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001

**LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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(CONTINUED)**

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INTRODUCTORY SECTION



September 7, 2001

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, 2001 ("2001") is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with MSD. To 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.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory section includes this transmittal letter, MSD's organizational chart and a list of principal officers. The Financial section includes MSD's general purpose financial statements, together with the independent auditors' report concerning them. The Statistical section includes selected financial and demographic information, generally presented on a multiyear comparative basis.

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 system within the City of Louisville ("the City") and within large portions of Jefferson County ("the County"), which it has annexed into its service area. 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 not a component unit of the City, the County or the Commonwealth. The elected chief executives of the City and the County appoint, with the approval of their respective legislative bodies, equal numbers of 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

MSD Customers, Investors and Board

September 7, 2001

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disposition of surplus funds. MSD has no special financial relationship with the City or the County.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within the County which, with a 2000 population of 693,600, is Kentucky's largest and the center of the seven Kentucky and Indiana counties which comprise the Louisville metropolitan area ("Greater Louisville"). Greater Louisville's 2000 population was approximately 1,026,000, representing an 8.1% increase since 1990 and making it the nation's 50th-largest urban area.

Greater Louisville Wage and Salary Jobs			
	2000	Increase from 1998	
Transportation and public utilities	46,800	2,967	6.8%
Construction and mining	31,200	33	0.1%
Services	179,900	12,700	7.6%
Wholesale and retail trade	144,500	4,767	3.4%
Government	75,500	4,867	6.9%
Manufacturing	86,400	(2,733)	-3.1%
Finance, insurance and real estate	35,300	5,800	19.7%
Greater Louisville total	599,600	28,401	5.0%

Greater Louisville continues to provide an economic environment which is conducive to MSD's growth. Job growth was 5.0% (28,401) since 1998. Louisville job growth in the transportation and public utilities sector, reflected in the table

above, far surpassed the national growth rate of 1.3% in that category. Similarly, Louisville growth in service, wholesale and retail trade, and finance, insurance and real estate jobs comfortably exceeded growth in these sectors of the U.S. economy. The June 2001 unemployment rate for the Greater Louisville area was 3.4% compared to a national average of 4.5% for this same time period. During 1996 through 2000, the Greater Louisville region added more than 50,000 net jobs, \$3 billion in payroll growth and well over \$1.5 billion in business investment. Inc. Magazine ranked Louisville the 16th best large city in the U.S. for starting and growing a company.

In order to attract more high-tech jobs to the Louisville area, Mayor David Armstrong created a new high tech business corridor on East Main Street – now commonly known as "eMain USA". This corridor will be home to an innovative combination of knowledge based businesses and support services. This idea was brought to fruition through an impressive partnership between local and state government, businesses, and Bellarmine University. The corridor is anchored by Bellarmine University's Center for E-Business and E-Commerce.

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MBA Jungle recently named Louisville one of three cities worldwide – along with Hong Kong and Malmo, Sweden – poised to become the next Silicon Valley.

MSD benefits not only from the cyclical strength, but also from the diversity of the area economy. Fifty-five percent (55%) of its service charge revenue comes from business customers. As recently as 1990, one-third (33%) of all wastewater service charges were billed to MSD's twenty largest business customers. Reflecting the diversification of business activity visible in the area employment data, MSD has experienced a shift in its business customer mix, with the twenty largest sewer customers providing 17% of total revenue in 2001, while its remaining commercial and industrial customers accounted for 37%. During 2001, active sewer accounts increased by 3,624 or 2% from 2000.

Greater Louisville building permits reached \$786.5 million in 2001 -- down 14% from 2000 and the seventh consecutive \$785 million-plus year for this key economic indicator.

Residential construction permitting within Jefferson County has remained remarkably steady since 1990, averaging approximately 2,500 to 3,000 units per year. Growth in the number of new residential units is consistent with the trend of resumed population growth within the County since 1990. MSD is at the center of community development planning with its present and planned investments in sewer expansion in eastern Jefferson County's Floyds Fork Watershed and in neighboring Oldham County -- the fastest growing and most affluent county in Kentucky.

Building permitting is a key barometer of MSD's prospects for long-term growth and the main contributor to its burgeoning system development revenue. Since 1986, system development charges have become an increasingly significant component of MSD's operating revenue. In 2001, revenue from these charges amounted to 5.0% of the total. This source of revenue is extremely sensitive to changes in the economic climate which affect homebuilding. Although MSD has no track record for the performance of these charges from previous business cycles, historical permit data and current demographic projections suggest a "floor" of about \$2.0 million annually in a moderate recession like the 1990-1991 downturn.

MSD Customers, Investors and Board

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Major Initiatives

Adoption of the Strategic Business Plan

On August 14, 2000, the MSD Board endorsed MSD's strategic plan which was developed by staff, management, and other partners. Seven critical success factors were identified in the plan: (1) customer first, (2) environment, (3) employees, (4) performance, (5) economic growth, (6) public awareness and involvement, and (7) financial resources. Achievement of these seven factors must be obtained if MSD is to provide the quality of service that customers expect and deserve.

The Strategic Business Plan process does not end in strategic planning. It is part of a continuous improvement cycle that involves planning, implementing, assessing results and realigning. While intended to be a five-year outlook, the plan will be refined and updated as it is implemented. The Strategic Business Plan will allow the organization to strengthen its partnerships and to pursue continuous quality improvements while consistently providing the highest level of service at the lowest possible cost.

2001: Record Investment in New Collectors and Surface Drainage

Fiscal year 2001 marked another record investment by MSD in sewer and drainage facilities. At \$165.9 million, 2001 capital investment exceeded the previous record investment of \$151.0 million in 2000. The principal focus of immediate action continues to be in the Mill Creek Watershed where collector projects currently under way are connecting approximately 20,000 new customers during the current five-year investment planning period. Most of the businesses and residences in the Mill Creek area currently rely on obsolete or failing on-site treatment devices. At current rates, this Mill Creek customer base represents a \$4 million annual service charge revenue stream, and virtually all of the \$100 million cost of connecting it will be recoverable from property owner assessments.

Opening of Floyds Fork Wastewater Treatment Facility

Construction was completed in 2001 of the \$15 million, 3.25 million gallons per day (MGD) capacity Floyds Fork Wastewater Treatment Plant, which will serve the County's fastest-growing residential/commercial corridor – U.S.60/I-64. The plant was built with the intent of replacing 11 existing small neighborhood

MSD Customers, Investors and Board

September 7, 2001

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wastewater plants in eastern Jefferson County. The facility features an environmental education center developed in conjunction with the Jefferson County Public School system. The Kentucky Chapter of the American Public Works Association named the plant the utility project of year.

The treatment facility is the first municipally owned design/build wastewater treatment facility in Kentucky. Treatment components include influent pumping, screening, grit removal, oxidation ditch/biological treatment, biological/chemical nutrient removal, clarification, tertiary filtration, ultraviolet disinfection, post-aeration, and aerated biosolids holdings.

Installation of Electronic Rainfall gauges

During 2001, MSD continued the installation of a network of 45 rain gauges throughout Jefferson County. Currently, eleven of the gauges have been connected to MSD's Wastewater Operations radio telemetry system. The telemetry system is used by MSD to get real-time data from its various pumping stations and treatment plants. MSD's system of pipe networks and drainage facilities are very sensitive to rainfall. Since Jefferson County is so large (390 sq. miles), it can be raining in one area and dry in another. Rainfall data is obtained from a "tipping bucket type rain gauge." It gets that name because rainfall that hits the top of the gauge is funneled down to a small opening where it empties into a small "bucket" that will tip and empty when 0.01 inches of rain is collected. This tipping action is measured by the electronics in the rain gauge which is transmitted over phone lines or a very high frequency radio signal to a central receiving station at MSD. The amount of rain (tips) is accumulated and every 5 minutes the data is stored in MSD's database for an accurate history of the rainstorm. This data is shared via the internet with MSD's customers and local radio and television stations.

Financial Information

MSD's management is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should

MSD Customers, Investors and Board

September 7, 2001

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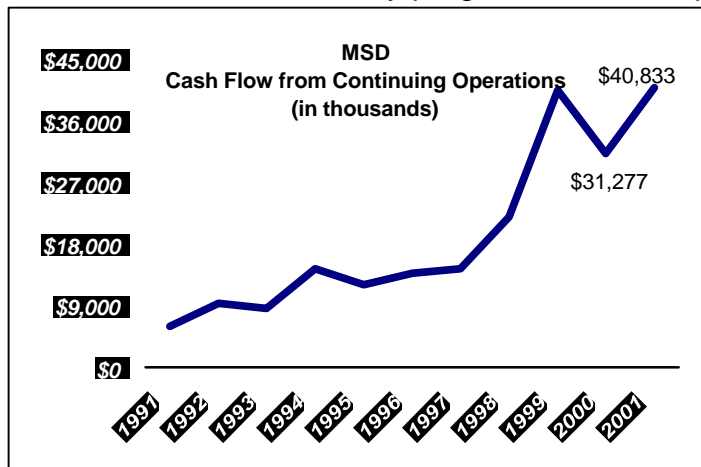
not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

MSD operates its general activities in accordance with a budget adopted by its Board. Furthermore, MSD is required by its Revenue Bond Resolutions to adopt an annual fixed-dollar appropriation budget for its general operating activities. As demonstrated by the statements included in the financial section of this report, MSD continues to meet its responsibility for sound financial management.

Results of Operations

MSD recorded extraordinary progress in 2001 improving its bottom line



operating performance. This improvement was in part the result of MSD's continuing efforts to improve process and labor productivity, and in part the result of more accurate cost accounting information systems allocating payroll costs to operating and design construction accounts. Total operating revenues increased by 2.1%.

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.

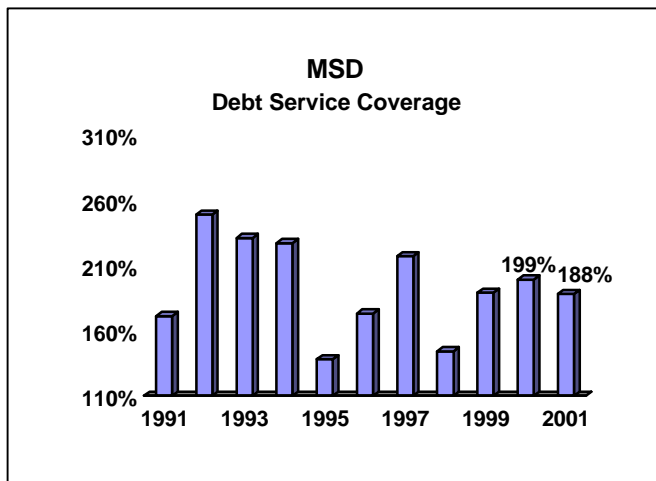
The 1993 Resolution and its supplements require MSD to provide "available revenues", as defined in the Resolution, sufficient to pay 110% of each year's "aggregate net debt service" on Revenue Bonds and 100% of "operating expenses". "Available revenues," as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of bonds issued pursuant to the Resolution, but excludes

MSD Customers, Investors and Board

September 7, 2001

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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 2001, 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 188% in 2001 and 199% in 2000.

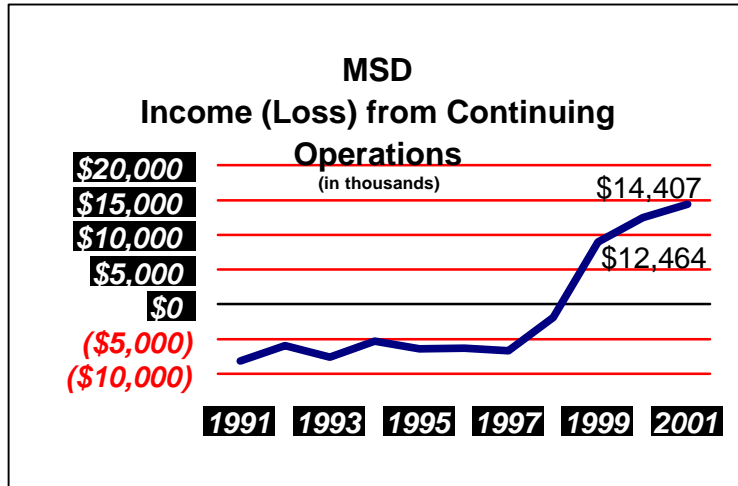
MSD is not allowed to include depreciation expense in the formula authorized by the City and County to calculate allowable rate increases. The City/County rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate 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 \$14.4 million. Excluding all discontinued and non-recurring revenue; the improvement from prior years continues to be dramatic. This resurgence was lead by improvements in cost accounting accuracy; but the change from recurring losses to income also reflects the success of MSD's strategy to use "pricing power" to raise rates

MSD Customers, Investors and Board

September 7, 2001

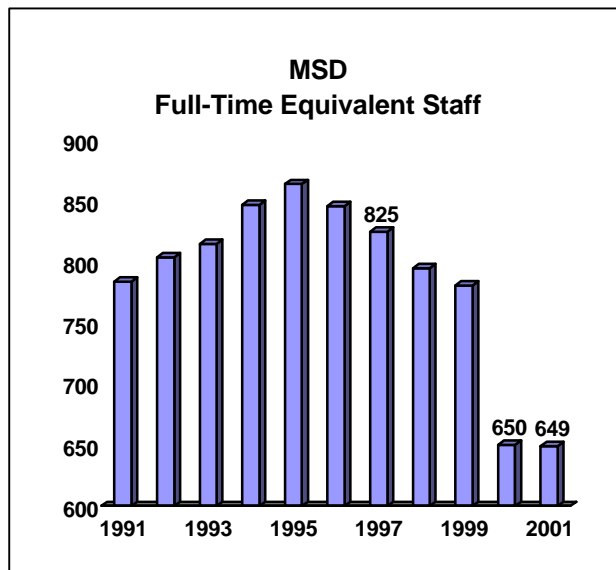
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moderately, while increasing customer base and dramatically reducing operating cost.

MSD's workforce remained stable in 2001 following a 17% reduction in full-time equivalent positions in 2000.

Since 1999, the most significant reduction of

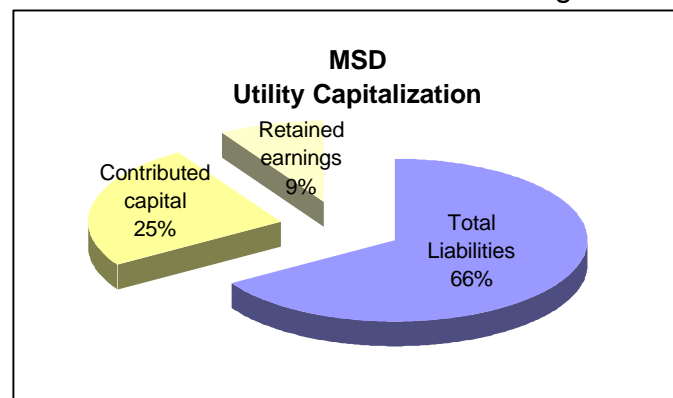


staff costs has been achieved in operations and maintenance and their support activities, which are reflected in the "service and administrative costs" category in the financial statements. MSD expects to reduce design/construction staff and their support activities as it completes the build-out of sewer facilities during the five years ending 2004.

Net interest expense increased \$4.5 million (26%) from 2000 due to additional interest expense incurred as a result of a \$300

million bond issue in December 1999. MSD equity increased by \$19.0 million (4.1%) in fiscal year 2001. Retained earnings grew by \$6.3 million (5.2%).

The change in the equity accounts reflects to a considerable degree the fundamental change in utility capitalization that has been central to MSD's long-range planning since the early 1990's. As recently as 1990, more than 70% of MSD's capitalization was in the form of contributed capital -- most of it from federal and state grants or from local government direct asset transfers. In 1996, for the



MSD Customers, Investors and Board

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first time, long-term debt capitalization exceeded contributed capital, and in 1997, for the first time, exceeded 50% of the total. At June 30, 2001, total liabilities represented 66% of MSD's capitalization.

Cash and Investment Management

Cash temporarily idle during the year was invested in insured certificates of deposit, obligations of the U.S. Treasury and collateralized repurchase agreements. 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. All of MSD's investments at June 30, 2001 were classified in category 2 of risk as defined by the Governmental Accounting Standards Board.

Gross 2001 investment income of \$14.4 million represented a return of 7.0% on average balances available for investment of \$204.4 million, which compares with gross earnings of \$11.7 million, representing a 6.2% return on available balances of \$189.7 million in 2000.

Gross 2001 interest expense of \$50.9 million represented a 5.49% cost of funds on average outstanding indebtedness of \$928.7 million, which compares with gross interest expense of \$44.4 million, representing a 5.47% cost of funds on average 2000 debt of \$809.7 million.

Risk Management, Insurance, 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 coverage. All other risks (including automobile physical damage, scheduled and major property, 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 currently contributes 7.17% of participating employees' compensation, which amounted to \$2.0 and

MSD Customers, Investors and Board

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\$2.1 million in 2001 and 2000, respectively. Employees currently are required to contribute 5% of their compensation -- \$1.4 million in both 2001 and 2000.

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 Tony Levy, CPA, was selected by the MSD Board to conduct the 2001 audit. The auditors' opinion and report on the general purpose comparative financial statements is included in the Financial section of this report.

Awards

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 eleventh consecutive time for its CAFR for the year ended June 30, 2000. 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.

MSD Customers, Investors and Board

September 7, 2001

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Acknowledgments

I wish to take this opportunity to thank the MSD Board and MSD Executive Director Gordon R. Garner for their support and attentive management of MSD's financial resources. To the staff of MSD's Finance Division, I express my sincere appreciation for your dedicated service without which this report could not have been presented on a timely basis.

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' and a long, sweeping tail on the 'Gee'.

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, 2000

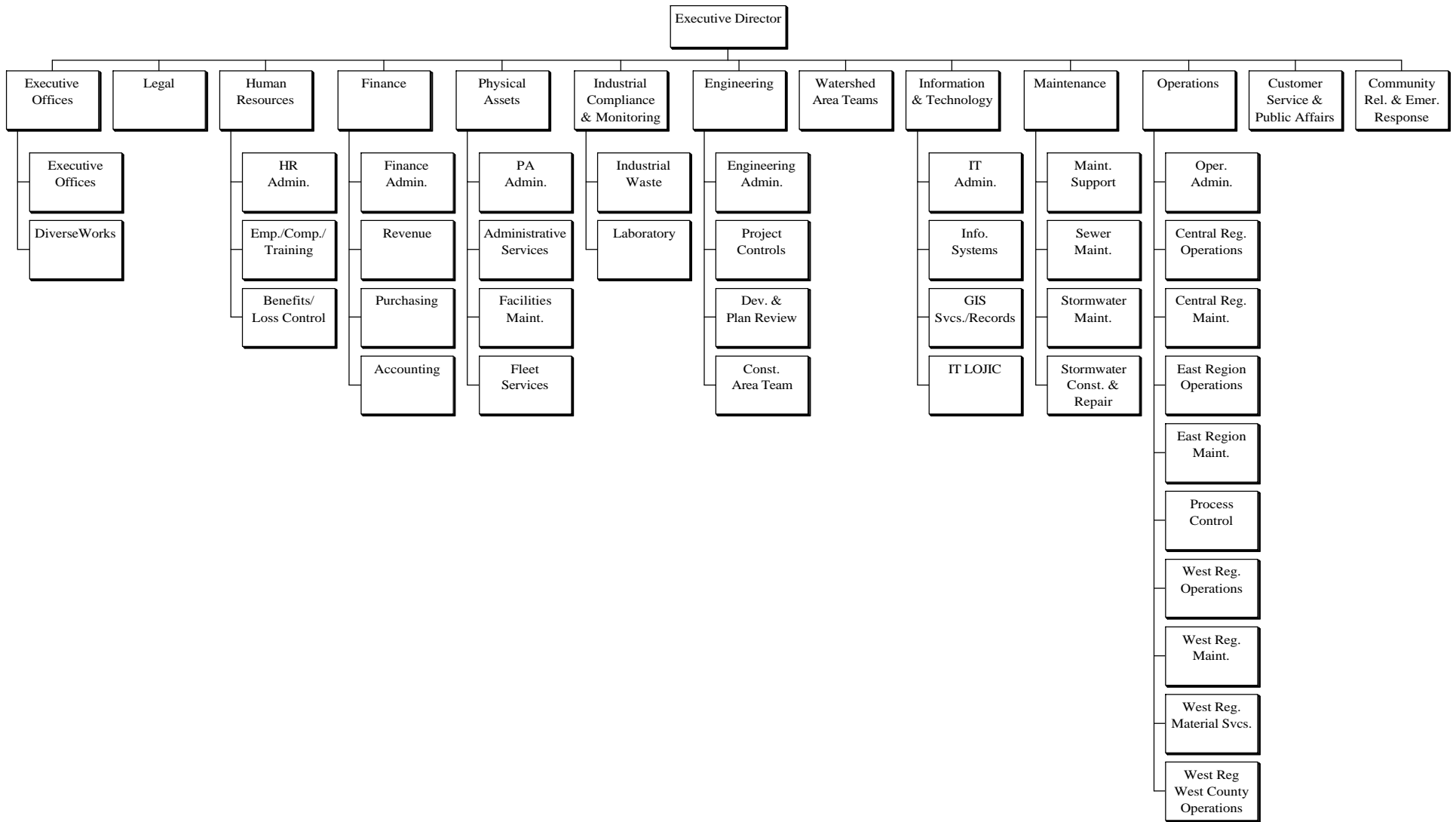
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Imelda Arce
President

Jeffrey L. Esser
Executive Director

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT Organization Chart



BOARD OF DIRECTORS

Reba Doutrick, Chairperson

Dan R. Ison, Vice Chairperson

Beverly A. Wheatley
Fred R. Dallenbach
Roy L. Turner

Benjamin K. Richmond
Alvin A. Brunner

Gordon R. Garner, Secretary/Treasurer

PRINCIPAL OFFICERS

Gordon R. Garner, Executive Director

Derek Guthrie, Director
Engineering

James J. Hunt, Director
Physical Assets

H. Michael Crawford, Director
Human Resources

David B. Johnson, Director
Maintenance

Carolyn Shain
Legal Counsel

Mike Sweeney, Director
Research/Prod. & Assessment

Patricia S. Burke, Director
Customer Svc./Public Affairs

Herbert J. Schardein, Director
Comm. Rel./Emergency Response

Bruce Seigle, Director
Information & Technology

Marion Gee, Director
Budget and Finance

FINANCIAL OFFICERS

Marion Gee, Chief Financial Officer
Connie Davis, Chief Internal Auditor

Timothy M. Wallen
Controller

Rebecca L. Gardner
Purchasing Manager

Paul Hollensead
Revenue Manager

Sherry Knox
Budget Administrator

FINANCIAL SECTION

Independent Auditors' Report

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

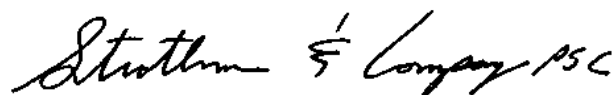
We have audited the accompanying financial statements of the Louisville and Jefferson County Metropolitan Sewer District ("MSD"), as of and for the year ended June 30, 2001, as indicated in the accompanying table of contents. These financial statements are the responsibility of MSD management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MSD as of and for the year ended June 30, 2000 were audited by other auditors whose report, dated November 13, 2000, expressed an unqualified opinion on those statements.

We conducted our audit 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 audit provides 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, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 7, 2001 on our consideration of MSD's internal control and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information presented in the Statistical Section is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.



Louisville, Kentucky
September 7, 2001

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 COMPARATIVE BALANCE SHEETS
 (in thousands)

	<u>2001</u>	<u>June 30</u>	<u>2000</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 23,408	\$	7,515
Investments	217		302
Accounts receivable, less allowance for doubtful accounts of \$771 (2001), \$843 (2000)	13,235		11,610
Recovery of insured loss receivable	-		453
Inventories	2,530		2,372
Prepaid expenses and other current assets	<u>154</u>		<u>288</u>
Total current assets	<u>39,544</u>		<u>22,540</u>
Restricted Assets:			
Cash and cash equivalents	67,500		230,198
Investments	<u>25,457</u>		<u>24,872</u>
Total restricted assets	92,957		255,070
Long-term assessment receivables	26,723		17,415
Plant, lines and other facilities, net	<u>1,271,518</u>		<u>1,109,905</u>
Total Assets	<u>\$ 1,430,742</u>	\$	<u>1,404,930</u>

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 COMPARATIVE BALANCE SHEETS
 (in thousands)

	<u>2001</u>	<u>June 30</u> <u>2000</u>
<i>Liabilities and Equity</i>		
Current liabilities (payable from current assets):		
Accounts payable and accrued expenses	\$ <u>7,912</u>	\$ <u>7,285</u>
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses (includes contractor's retainages of \$4,068 (2001) and \$34 (2000))	14,942	10,945
Accrued interest	8,444	8,478
Current maturities of bonds payable	<u>9,559</u>	<u>6,210</u>
Total current liabilities (payable from restricted assets)	32,945	25,633
Long-term liabilities:		
Unearned revenue	7,759	-
Long-term debt:		
Bonds payable, net	<u>895,973</u>	<u>904,839</u>
Total long-term liabilities	903,732	904,839
Total liabilities	<u>944,589</u>	<u>937,757</u>
Equity:		
Contributed capital, less amortization of \$194,623 (2001) and \$185,341 (2000)	<u>358,666</u>	<u>345,994</u>
Retained earnings:		
Reserved for:		
Payment of bond principal and interest	10,810	12,129
Unreserved	<u>116,677</u>	<u>109,050</u>
Total retained earnings	<u>127,487</u>	<u>121,179</u>
Total equity	<u>486,153</u>	<u>467,173</u>
Total Liabilities and Equity	\$ <u><u>1,430,742</u></u>	\$ <u><u>1,404,930</u></u>

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

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
(in thousands)

	Years Ended June 30	
	<u>2001</u>	<u>2000</u>
Operating revenues:		
Service charges	\$ 87,641	\$ 85,162
Other operating income	<u>6,013</u>	<u>6,569</u>
Total operating revenues	<u>93,654</u>	<u>91,731</u>
Operating expenses:		
Service and administrative costs	51,799	55,001
Depreciation	<u>27,448</u>	<u>24,266</u>
Total operating expenses	<u>79,247</u>	<u>79,267</u>
Income from operations	<u>14,407</u>	<u>12,464</u>
Non-operating revenue (expenses):		
Investment income	4,217	2,123
Interest expense	<u>(21,598)</u>	<u>(17,121)</u>
Total non-operating revenue (expenses) - net	<u>(17,381)</u>	<u>(14,998)</u>
Net loss	(2,974)	(2,534)
Add back depreciation on assets acquired with contributed capital	<u>9,282</u>	<u>8,587</u>
Net increase in retained earnings	<u>6,308</u>	<u>6,053</u>
Retained earnings, beginning of year	<u>121,179</u>	<u>115,126</u>
Retained earnings, end of year	\$ <u><u>127,487</u></u>	\$ <u><u>121,179</u></u>

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

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

	<i>Years Ended</i>	
	<i>June 30</i>	
	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Income from operations	\$ 14,407	\$ 12,464
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation	27,448	24,266
Change in operating assets and liabilities:		
Increase in accounts receivable	(1,625)	(3,535)
Increase in inventories	(158)	(34)
Decrease in prepaid expenses and other current assets	134	18
Increase (decrease) in accounts payable and accrued expenses	627	(1,902)
Net cash provided by operating activities	40,833	31,277
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	300,000
Capital contributed by governments, property owners and developers	2,313	6,282
Principal paid on revenue bonds and other long-term debt	(6,210)	(5,909)
Interest paid on revenue bonds and other long-term debt	(50,986)	(40,668)
Acquisition and construction of plant, lines and other facilities and bond issuance costs	(165,857)	(150,809)
Recovery of insured loss	453	488
Net cash (used in) provided by capital and related financing activities	(220,287)	109,384
Cash flows from investing activities:		
Assessment principal payments	10,897	6,174
Interest received on termination of swap agreement	7,759	-
Purchase of investments securities	(65,918)	(49,820)
Proceeds from sale and maturities of investment securities	65,093	49,871
Interest received on investments	14,818	10,461
Net cash provided by investing activities	32,649	16,686
Net (decrease) increase in cash and cash equivalents	(146,805)	148,955
Cash and cash equivalents, including cash and cash equivalents in restricted assets, beginning of year	237,713	88,758

(CONTINUED)

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

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

	<i>Years Ended</i>	
	<u>June 30</u>	
	<u>2001</u>	<u>2000</u>
Cash and cash equivalents, including cash and cash equivalents in restricted assets, end of year	\$ <u>90,908</u>	\$ <u>237,713</u>
Non-cash capital financing activities:		
Contribution of plant, lines and other facilities by developers and property owners	\$ <u>19,641</u>	\$ <u>13,954</u>
Accounts payable incurred for construction	\$ <u>3,997</u>	\$ <u>3,500</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, 2001 AND 2000**

(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. 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 Louisville and Jefferson County, Kentucky. Pursuant to Chapter 76, MSD is governed by a Board which consists of eight members -- four of whom are appointed by the Mayor of the City of Louisville, subject to approval of the Louisville Board of Aldermen, and four by the Jefferson County Judge/Executive, subject to approval of the Jefferson County Fiscal Court. Not more than five Board members may be of the same political party. However, there is not a continuing supervisory relationship exercised by the City and County government over MSD with respect to MSD's statutory public functions.

Chapter 76 authorizes MSD to provide sewer and drainage facilities and services. MSD is further authorized by the statute to establish and collect service charges and to budget 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 City and County government and MSD, nor are the City and County empowered by law or custom to approve MSD operating or capital

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

*(Continued)
(in thousands)*

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

Reporting Entity - (Continued)

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 the City of Louisville and in large portions of the 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 City, or within the County outside the City, until approval, respectively, by the City and County legislative bodies. However, the statute provides that such approval may not be arbitrarily withheld and that the schedule shall be sufficient to provide revenues for the operation and maintenance of the system and for debt service. By ordinance, the City and County have 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 their respective jurisdictions when

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

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

Reporting Entity - (Continued)

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 City, the County or the Commonwealth, but the City and County must authorize by ordinance the issuance by MSD of revenue bonds to finance projects within their respective jurisdictions.

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 balance sheet. Equity (i. e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in retained earnings. MSD utilizes the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time the liability is incurred.

C. Cash and Cash Equivalents

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

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

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. 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.

F. 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 receivable and as contributed capital at the time the related expenditures are incurred. MSD reduces contributed capital by depreciation taken on assets arising from contributed capital with a corresponding increase in retained earnings.

G. 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. It is MSD's policy to depreciate the costs of these assets over their estimated useful lives on a straight line basis.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

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

Plant, Lines and Other Facilities - (Continued)

Estimated useful lives on depreciable assets are as follows:

Buildings and other structures	30 - 50 years
Land and 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.

Bond issuance costs are amortized to expense on a straight line basis over the term of the related indebtedness.

H. 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.

I. Long-term Debt

Debt outstanding which has been refunded and economically defeased is 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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

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

Long-Term Debt - (Continued)

remaining life of the old debt. The unamortized loss on refunding is reported as a deduction from the new debt liability.

MSD enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

J. Compensated Absences

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

K. 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.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS

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.

At June 30, 2001, MSD's carrying amount of deposits was \$(3,062) and the bank balance was \$398. Of this amount, \$200 was covered by federal depository insurance, \$198 was uninsured and collateralized with securities held by the pledging depository but not in MSD's name.

MSD has money on deposit with the Kentucky Infrastructure Authority, an agency of the Commonwealth. This money represents the balance of debt service reserve funds set aside for a loan issued to MSD in 1973. This loan has been legally defeased and monies deposited in escrow to pay the balance of the loan. MSD retains the right to receive the funds in the debt service reserve account upon final payment of the loan. Investments are made in accordance with the investment policies established by the Commonwealth which includes obligations of the United States and its corporations. The balance recorded represents the original deposit amount plus the accrued interest.

MSD's investments are categorized below to provide an indication of the level of the credit risk assumed. Category 1 includes investments that are insured or registered, or securities held by MSD or its agent in MSD's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department (if a bank) or agent in MSD's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent but not in MSD's name.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
 (in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

	CARRYING AMOUNT			Fair Value
	1	2	3	
June 30, 2001				
Investments and cash equivalents:				
U.S. Government and agencies	\$	\$ 4,020	\$	\$ 4,020
Commercial paper		4,626		4,626
Repurchase agreements	<u> </u>	<u>90,357</u>	<u> </u>	<u>90,357</u>
	<u>\$ -</u>	<u>\$ 99,003</u>	<u>\$ -</u>	\$ 99,003
Investments not subject to categorization:				
Guaranteed investment contracts				14,604
Interest bearing deposit with Kentucky Infrastructure Authority				<u>6,037</u>
Total investments and cash equivalents				119,644
Cash in banks				<u>(3,062)</u>
Total cash, cash equivalents and investments				<u>\$ 116,582</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
 (in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

	CARRYING AMOUNT			Fair Value
	1	2	3	
<u>June 30, 2000</u>				
Investments and cash equivalents:				
U.S. Government and agencies	\$	\$ 5,894	\$	\$ 5,894
Commercial paper		1,236		1,236
Repurchase agreements	<u> </u>	<u>238,919</u>	<u> </u>	<u>238,919</u>
	<u>\$ -</u>	<u>\$ 246,049</u>	<u>\$ -</u>	\$ 246,049
Investments not subject to categorization:				
Guaranteed investment contracts				14,597
Interest bearing deposit with Kentucky Infrastructure Authority				<u>5,731</u>
Total investments and cash equivalents				266,377
Cash in banks				<u>(3,490)</u>
Total cash, cash equivalents and investments				<u>\$ 262,887</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

A reconciliation of cash and investments as shown on the Comparative Balance Sheets for MSD is as follows:

	June 30	
	2001	2000
Cash and cash equivalents	\$ 23,408	\$ 7,515
Investments	217	302
Cash and cash equivalents - restricted	67,500	230,198
Investments - restricted	25,457	24,872
	\$ 116,582	\$ 262,887

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. Pursuant to MSD's assistance agreement with the Kentucky Infrastructure Authority (KIA), the trustee for KIA's revenue bonds, which were issued to finance municipal assistance agreements, holds a debt service reserve account for payment of principal and interest due on MSD's allocated portion of the total amount of KIA revenue bonds outstanding.

Cash and investments segregated as accounts restricted for authorized construction include proceeds from issuance of MSD bonds and other long-term debt.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
 (in thousands)

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

Cash and investments segregated and restricted are as follows:

	June 30	
	2001	2000
Payment of bond principal and interest	\$ 29,070	\$ 26,923
Authorized construction	63,887	228,147
Total restricted cash and investments	\$ 92,957	\$ 255,070

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 4. CHANGES IN EQUITY

A comparative schedule of changes in equity follows:

	Contributed	<u>Retained Earnings</u>		<u>Total</u>	Total Equity
	<u>Capital</u>	<u>Reserved</u>	<u>Unreserved</u>		
Balances, July 1, 1999	\$ 334,345	\$ 12,891	\$ 102,235	\$ 115,126	\$ 449,471
Net loss			(2,534)	(2,534)	(2,534)
Transfers:					
Depreciation	(8,587)		8,587	8,587	
Fixed assets contributed by government, property owners and developers	20,236				20,236
Changes in retained earnings reserved for:					
Payment of bond principal and interest		<u>(762)</u>	<u>762</u>		
Balances, June 30, 2000	<u>345,994</u>	<u>12,129</u>	<u>109,050</u>	<u>121,179</u>	<u>467,173</u>
Net loss			(2,974)	(2,974)	(2,974)
Transfers:					
Depreciation	(9,282)		9,282	9,282	
Fixed assets contributed by government, property owners and developers	21,954				21,954
Changes in retained earnings reserved for:					
Payment of bond principal and interest		<u>(1,319)</u>	<u>1,319</u>		
Balances, June 30, 2001	<u>\$ 358,666</u>	<u>\$ 10,810</u>	<u>\$ 116,677</u>	<u>\$ 127,487</u>	<u>\$ 486,153</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities follows:

	June 30	
	2001	2000
Sewer lines	\$ 527,412	\$ 452,742
Wastewater treatment facilities	214,818	207,124
Stormwater drainage facilities	236,526	217,427
Pumping and lift stations	32,315	29,834
Administrative facilities	20,479	18,973
Maintenance facilities	3,359	3,210
Machinery and equipment	40,744	32,987
Capitalized interest and bond issuance cost	123,557	104,351
	1,199,210	1,066,648
Less accumulated depreciation and amortization	(361,016)	(334,249)
	838,194	732,399
Construction in progress	433,324	377,506
	\$ 1,271,518	\$ 1,109,905

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 6. CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized in 2001 and 2000 follows:

Year ended June 30, 2001	Capitalized	Included in Operations	Total
Investment earnings	\$ 10,146	\$ 4,217	\$ 14,363
Interest cost	<u>(29,352)</u>	<u>(21,598)</u>	<u>(50,950)</u>
Net	<u>\$ (19,206)</u>	<u>\$ (17,381)</u>	<u>\$ (36,587)</u>
 Year ended June 30, 2000			
Investment earnings	\$ 9,625	\$ 2,123	\$ 11,748
Interest cost	<u>(27,242)</u>	<u>(17,121)</u>	<u>(44,363)</u>
Net	<u>\$ (17,617)</u>	<u>\$ (14,998)</u>	<u>\$ (32,615)</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2001
and June 30, 2000, follows:

	Interest Rates	Final Payment In	Outstanding As Of June 30	
REVENUE BONDS			2001	2000
1993 Sewer and Drainage System Revenue Bonds	4.80 % - 5.3%	2019	\$ 99,285	\$ 102,480
1993 Sewer and Drainage System Revenue Bonds Series 1993A and 1993B	5.00% - 5.4%	2023	97,430	98,935
1994 Sewer and Drainage System Revenue Bonds Series 1994A	6.75% - 8.00%	2025	2,595	3,155
1996 Sewer and Drainage System Revenue Bonds Series 1996A	5.20% - 8.00 %	2026	45,815	46,260
1997 Sewer and Drainage System Revenue Bonds Series 1997A	5.25% - 6.00%	2027	50,000	50,430
1997 Sewer and Drainage System Revenue Bonds Series 1997B	4.00% - 5.20%	2025	68,275	68,300
1998 Sewer and Drainage System Revenue Bonds Series 1998A	4.25% - 9.00%	2030	260,000	260,000
1999 Sewer and Drainage System Revenue Bonds Series 1999A	5.25% - 6.50%	2033	<u>300,000</u>	<u>300,000</u>
			923,400	929,560
Less current maturities			(9,515)	(6,160)
Unamortized loss on refunding			<u>(18,018)</u>	<u>(18,711)</u>
MSD Revenue Bonds Payable - Long-Term			<u>895,867</u>	<u>904,689</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

	Interest Rates	Final Payment In	Outstanding As Of June 30	
			2001	2000
REVENUE BONDS				
SUBORDINATED DEBT				
SUBORDINATED BONDS				
Subordinated Sewer Revenue Bonds	5.0% - 5.25%	2004	\$ 150	\$ 200
Less current maturities			<u>(44)</u>	<u>(50)</u>
MSD Subordinated Bonds Payable - Long-Term			<u>106</u>	<u>150</u>
Total MSD Long-Term Debt			<u>\$ 895,973</u>	<u>\$ 904,839</u>

A schedule of future debt service requirements after June 30, 2001 follows:

Year Ending June 30,	MSD Revenue Bonds		MSD Subordinated Debt		MSD Total
	Principal	Interest	Bonds	Interest	
2002	\$ 9,515	\$ 50,650	\$ 44	\$ 7	\$ 60,216
2003	11,635	50,036	41	4	61,716
2004	12,340	49,303	42	2	61,687
2005	13,130	48,460	23	1	61,614
2006	13,955	47,628	-	-	61,583
Thereafter	<u>862,825</u>	<u>798,647</u>	<u>-</u>	<u>-</u>	<u>1,661,472</u>
	<u>\$ 923,400</u>	<u>\$ 1,044,724</u>	<u>\$ 150</u>	<u>\$ 14</u>	<u>\$ 1,968,288</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

As of June 30, 2001, the principal amount of long-term debt of MSD, outstanding but economically defeased and refunded in prior years, and therefore excluded from long-term debt, consisted of the following:

Deceased Issue:	Amount outstanding:
Sewer Revenue Bonds, Series 1965	\$ 860
Kentucky Association of Counties Leasing Trust Loan Agreement, Series 1990A	16,290
Kentucky Municipal Finance Corporation Lease Purchase Agreement, Series 1991A	9,075
Lease Purchase Agreement, Series 1991G	<u>45,310</u>
Total refunded and economically defeased	<u>\$ 71,535</u>

On January 24, 2001, MSD terminated a nineteen-year interest rate swap agreement for \$100 million 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.

MSD has 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 payor on the swap and the Swap-counter party will be the floating rate payor. This swap will be based on 67% of the 30 day LIBOR Index. The forward start date begins November 15, 2009 and terminates on May 15, 2033. MSD reserves the right to terminate the swap agreement at any time at the then current market value. This may result in MSD's making or receiving a termination payment.

(Continued)

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

(in thousands)

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 current rate is 7.17% 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, 2001, 2000 and 1999 were \$1,993, \$2,083 and \$2,662 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 January 1, 1987. Trust members currently include the City of Louisville, 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.

(Continued)
(in thousands)

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

NOTE 9. RISK MANAGEMENT (CONTINUED)

MSD's payments to the Trust are reflected on the financial statements as an expense. The trust provides, after a \$250 deductible, liability coverage up to \$5,000 per occurrence. The amount of coverage available to MSD could be limited by the total assets of the Trust. At June 30, 2001, 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 to an employee or several employees as a result of a single occurrence.

MSD has also purchased insurance from private insurance companies. This includes comprehensive coverage for the fleet of vehicles, property insurance for coverage of structures, major equipment and facilities and a policy for Public Employee's blanket bond.

MSD has had no settled claim that has exceeded the above coverages in any of the past three fiscal years.

A comparative schedule of changes in liabilities for uninsured claims follows:

	June 30		
	2001	2000	1999
Liability - beginning of year	\$ 648	\$ 558	\$ 738
Claims and changes in estimates	580	538	561
Claims and payments	<u>(436)</u>	<u>(448)</u>	<u>(741)</u>
Liability - end of year	<u>\$ 792</u>	<u>\$ 648</u>	<u>\$ 558</u>

(Continued)
(in thousands)

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

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, permits them to defer the payment of a portion of their salary until future years. 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

MSD has 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 enters 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.

MSD is exposed to market risk, since it is possible that interest rates may be higher than the rate at which MSD has committed on the purchase of eligible securities as defined in the agreements. MSD is also exposed to the failure of the counterparty to fulfill the agreement. The terms of the agreement include provisions for termination of the agreement in the event of default.

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, 2001 amounted to approximately \$85,059.

(Continued)
(in thousands)

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

NOTE 12. IMPACT OF NEW ACCOUNTING STANDARDS

In December 1998, the Governmental Accounting Standards Board issued GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and in June 1999 issued GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Management has determined that GASB Statement No. 33 has no significant effect on the financial statements for the fiscal year ending June 30, 2001. Additionally, Management and staff are assessing GASB Statement No. 34 and developing a plan to implement this effective June 30, 2002.

**NOTE 13. CHANGE IN CITY OF LOUISVILLE AND JEFFERSON COUNTY
GOVERNMENT STRUCTURE**

On November 7, 2000, the citizens of the City of Louisville and Jefferson County approved a referendum to merge the governments of the City and County. This merger will be effective January 6, 2003.

The present City government (Mayor and board of twelve aldermen) and the County government (Judge/Executive and three commissioners) will be combined into one entity consisting of a metro mayor and board of 26 council members.

The Board of MSD, in accordance with the provisions of the Kentucky statute pursuant to which MSD is organized, now includes four members appointed by the Mayor and four members appointed by the Jefferson County Judge/Executive subject to the approval of the Board of Aldermen of the City, and the Fiscal Court of the County, respectively. The Kentucky statute pursuant to which the new consolidated local government of Greater Louisville will be organized provides generally that the Mayor of the consolidated local government shall have all the power and authority exercised by the Mayor of the City of Louisville and the Jefferson County Judge/Executive prior to the consolidation.

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.

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

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Revenues:											
Service charges	\$ 87,641	\$ 85,162	\$ 79,635	\$ 74,808	\$ 70,074	\$ 67,913	\$ 63,957	\$ 60,281	\$ 58,012	\$ 55,682	\$ 52,380
Other operating income	6,013	6,569	5,194	5,274	5,716	7,387	3,334	4,408	3,023	3,552	1,837
Assessments	12,558	7,539	1,793	4,326	14,305	2,170	1,482	8,143	-	-	-
Investment income	14,363	11,748	8,459	7,054	4,520	7,529	6,075	3,293	4,378	5,890	7,133
Less: capitalized investment income	(10,146)	(9,625)	(7,196)	(4,518)	(2,562)	(2,531)	(1,515)	(1,105)	(1,578)	(3,283)	(4,341)
Total revenues	110,429	101,393	87,885	86,944	92,053	82,468	73,333	75,020	63,835	61,841	57,009
Operating expenses:											
Service and administrative costs	74,417	74,823	71,836	72,232	70,713	64,717	60,978	58,205	55,236	50,118	49,131
Less: capitalized project costs	(22,618)	(19,822)	(26,494)	(12,556)	(10,368)	(7,340)	(6,571)	(6,602)	(3,725)	(2,325)	(1,675)
Total operating expenses	51,799	55,001	45,342	59,676	60,345	57,377	54,407	51,603	51,511	47,793	47,456
Net Revenues	58,630	46,392	42,543	27,268	31,708	25,091	18,926	23,417	12,324	14,048	9,553
Aggregate debt service:											
Current maturities of long-term debt	9,559	6,210	5,909	5,654	4,997	4,775	4,619	2,937	2,050	3,615	3,084
Interest expense	50,950	44,363	33,572	26,845	21,492	19,590	15,898	13,293	11,274	10,571	7,675
Less: capitalized interest expense	(29,352)	(27,242)	(17,029)	(13,585)	(11,859)	(9,897)	(6,813)	(5,932)	(7,992)	(8,541)	(5,185)
Aggregate net debt service	31,157	23,331	22,452	18,914	14,630	14,468	13,704	10,298	5,332	5,645	5,574
Debt service coverage ratio	188%	199%	189%	144%	217%	173%	138%	227%	231%	249%	171%

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 incident 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 BALANCE SHEETS -- ASSETS
 JUNE 30
 (in thousands)

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Assets											
Current Assets:											
Cash and cash equivalents	\$ 23,408	\$ 7,515	\$ 18,495	\$ 4,826	\$ 12,958	\$ 2,573	\$ 713	\$ 2,584	\$ 3,118	\$ 8,238	\$ 2,429
Investments	217	302	233	7,365	2,136	5,128	11,777	20,132	19,558	14,020	13,378
Accounts receivable	13,235	11,610	8,075	8,214	9,111	7,574	6,233	5,301	6,120	4,134	5,336
Recovery of insured loss receivable	-	453	941	-	-	-	-	-	-	-	-
Inventories	2,530	2,372	2,338	3,199	3,284	3,620	3,162	3,075	3,171	3,171	2,768
Prepaid expenses and other current assets	154	288	306	728	248	394	217	225	170	880	688
Total Current Assets	39,544	22,540	30,388	24,332	27,737	19,289	22,102	31,317	32,137	30,443	24,599
Restricted Assets:											
Cash and cash equivalents	67,500	230,198	70,263	174,274	3,827	2,350	3,826	1,829	5,319	9,251	8,617
Investments	25,457	24,872	22,911	27,245	84,920	72,068	40,021	37,377	34,384	61,628	54,835
Miscellaneous Receivables	-	-	-	-	-	44	45	46	64	995	863
Total Restricted Assets	92,957	255,070	93,174	201,519	88,747	74,462	43,892	39,252	39,767	71,874	64,315
Long-term Assessments Receivable	26,723	17,415	7,605	7,595	3,790	3,563	1,926	981			
Deferred Compensation Plan	-	-	-	-	6,715	5,176	4,002	3,210	2,854	2,387	2,025
Plant, Lines and Other Facilities:											
Completed projects	1,199,210	1,066,648	1,025,187	1,004,211	858,702	840,201	785,673	758,972	672,253	639,909	605,327
Less: Accumulated depreciation	(361,016)	(334,249)	(310,451)	(295,929)	(280,439)	(260,116)	(239,060)	(219,422)	(201,739)	(184,986)	(169,400)
	838,194	732,399	714,736	708,282	578,263	580,085	546,613	539,550	470,514	454,923	435,927
Construction in progress	433,324	377,506	249,727	157,279	207,419	152,985	145,630	90,587	96,696	66,897	51,879
Net Plant, Lines and Other Facilities	1,271,518	1,109,905	964,463	865,561	785,682	733,070	692,243	630,137	567,210	521,820	487,806
Total Assets	\$ 1,430,742	\$ 1,404,930	\$ 1,095,630	\$ 1,099,007	\$ 912,671	\$ 835,560	\$ 764,165	\$ 704,897	\$ 641,968	\$ 626,524	\$ 578,745

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE BALANCE SHEETS -- LIABILITIES AND EQUITY
JUNE 30
(in thousands)

Liabilities and Equity	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Liabilities:											
Current Liabilities (Payable from Current Assets):											
Accounts payable and accrued expenses	\$ 7,912	\$ 7,285	\$ 9,187	\$ 9,621	\$ 8,556	\$ 7,194	\$ 6,208	\$ 6,122	\$ 5,522	\$ 4,845	\$ 5,811
Early retirement incentive plan payable	-	-	8,392	-	-	-	-	-	-	-	-
Total Current Liabilities (Payable from Current Assets)	7,912	7,285	17,579	9,621	8,556	7,194	6,208	6,122	5,522	4,845	5,811
Current Liabilities (Payable from Restricted Assets):											
Accounts payable and accrued expenses	14,942	10,945	7,445	8,519	5,965	5,222	3,482	10,543	5,869	4,043	2,491
Accrued interest	8,444	8,478	4,873	8,246	4,466	3,253	2,831	2,027	3,788	3,121	1,826
Current maturities of bonds payable	9,559	6,210	5,909	5,654	4,962	4,709	4,169	2,573	1,186	1,447	1,352
Current maturities of other long-term debt	-	-	-	-	35	66	450	364	864	2,168	1,350
Total Current Liabilities (Payable from Restricted Assets)	32,945	25,633	18,227	22,419	15,428	13,250	10,932	15,507	11,707	10,779	7,019
Long-Term Debt:											
Bonds payable	895,973	904,839	610,353	615,562	359,080	312,285	268,773	206,740	110,696	64,261	66,018
Other long-term debt	7,759	-	-	-	70,000	50,035	25,101	22,991	59,965	95,174	50,922
Total Long-Term Debt	903,732	904,839	610,353	615,562	429,080	362,320	293,874	229,731	170,661	159,435	116,940
Deferred Compensation	-	-	-	-	6,715	5,176	4,002	3,210	2,854	2,387	2,025
Total Liabilities	944,589	937,757	646,159	647,602	459,779	387,940	315,016	254,570	190,744	177,446	131,795
Equity:											
Contributed Capital	358,666	345,994	334,345	333,437	330,710	321,864	324,986	324,611	324,587	324,056	327,413
Retained Earnings:											
Reserved for payment of bond principal and interest	10,810	12,129	12,891	10,890	13,014	13,444	10,350	13,682	10,650	10,385	10,276
Unreserved	116,677	109,050	102,235	107,078	109,168	112,312	113,813	112,034	115,987	114,637	109,261
Total Retained Earnings	127,487	121,179	115,126	117,968	122,182	125,756	124,163	125,716	126,637	125,022	119,537
Total Equity	486,153	467,173	449,471	451,405	452,892	447,620	449,149	450,327	451,224	449,078	446,950
Total Liabilities and Equity	\$ 1,430,742	\$ 1,404,930	\$ 1,095,630	\$ 1,099,007	\$ 912,671	\$ 835,560	\$ 764,165	\$ 704,897	\$ 641,968	\$ 626,524	\$ 578,745

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

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Operating revenue:											
Wastewater service charges	\$ 68,228	\$ 66,637	\$ 62,306	\$ 58,840	\$ 55,441	\$ 54,060	\$ 50,225	\$ 46,746	\$ 46,903	\$ 47,101	\$ 43,842
Stormwater service charges	19,413	18,525	17,329	15,968	14,633	13,853	13,732	13,535	11,109	8,581	8,538
Other operating income	6,013	6,569	5,194	5,274	5,716	7,387	3,334	4,408	3,023	3,552	1,838
Total operating revenue	93,654	91,731	84,829	80,082	75,790	75,300	67,291	64,689	61,035	59,234	54,218
Operating expenses:											
Service and administrative costs	74,417	74,823	71,836	72,232	70,713	64,717	60,978	58,203	55,236	50,118	49,131
Capitalization/recovery of cost	(22,618)	(19,822)	(26,494)	(12,556)	(10,368)	(7,340)	(6,571)	(6,600)	(3,725)	(2,325)	(1,675)
Depreciation and amortization	27,448	24,266	30,497	22,289	20,896	21,120	19,492	18,242	16,833	15,919	14,761
Total operating expenses	79,247	79,267	75,839	81,965	81,241	78,497	73,899	69,845	68,344	63,712	62,217
Income (loss) from operations	14,407	12,464	8,990	(1,883)	(5,451)	(3,197)	(6,608)	(5,156)	(7,309)	(4,478)	(7,999)
Non-operating revenue (expense):											
Early retirement incentive plan expenses	-	-	(10,114)	-	-	-	-	-	-	-	-
Contributed capital	21,954	20,236	14,470	11,120	18,398	6,364	9,954	9,432	9,937	5,775	12,778
Investment income	14,363	11,748	8,459	7,054	4,520	7,529	6,075	3,293	4,378	5,890	7,133
Capitalized investment income	(10,146)	(9,625)	(7,196)	(4,518)	(2,562)	(2,531)	(1,515)	(1,105)	(1,578)	(3,283)	(4,341)
Interest expense	(50,950)	(44,363)	(33,572)	(26,845)	(21,492)	(19,590)	(15,898)	(13,293)	(11,274)	(10,571)	(7,675)
Capitalized interest expense	29,352	27,242	17,029	13,585	11,859	9,897	6,813	5,932	7,992	8,795	5,439
Net non-operating revenue (expense)	4,573	5,238	(10,924)	396	10,723	1,669	5,429	4,259	9,455	6,606	13,334
Net income (loss)	18,980	17,702	(1,934)	(1,487)	5,272	(1,528)	(1,179)	(897)	2,146	2,128	5,335
Beginning equity	467,173	449,471	451,405	452,892	447,620	449,148	450,327	451,224	449,078	446,950	441,615
Ending equity	\$ 486,153	\$ 467,173	\$ 449,471	\$ 451,405	\$ 452,892	\$ 447,620	\$ 449,148	\$ 450,327	\$ 451,224	\$ 449,078	\$ 446,950

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

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Cash flows from operating activities:											
Income/(loss) from operations	\$ 14,407	\$ 12,464	\$ 8,990	\$ (1,883)	\$ (5,451)	\$ (3,197)	\$ (6,608)	\$ (5,156)	\$ (7,309)	\$ (4,478)	\$ (7,999)
Depreciation	27,448	24,266	30,497	22,289	20,896	21,120	19,492	18,242	16,833	15,919	14,761
Change in operating assets and liabilities:											
Decrease (increase) in accounts receivable	(1,625)	(3,535)	139	897	(1,537)	(1,341)	(932)	819	(1,986)	999	(462)
Decrease (increase) in inventories	(158)	(34)	861	85	336	(458)	(87)	96	-	(403)	(472)
Decrease (increase) in prepaid expenses	134	18	422	(480)	146	(177)	8	(55)	710	(244)	11
Increase (decrease) in accounts payable	627	(1,902)	(434)	1,065	1,362	986	86	600	677	(1,018)	270
Net cash provided from operating activities	40,833	31,277	40,475	21,973	15,752	16,933	11,959	14,546	8,925	10,775	6,109
Cash flows from non-capital financing activities:											
Early retirement incentive plan	-	(8,392)	(1,722)	-	-	-	-	-	-	-	-
Cash flows from capital and related financing activities:											
Proceeds from issuance of long-term debt	-	300,000	-	328,275	121,245	119,215	114,815	127,905	120,025	46,420	16,417
Defeasance of bonds and other long-term debt	-	-	-	(66,835)	(50,000)	(46,500)	(46,500)	(67,407)	(110,627)	-	-
Capital contributed by governments, property owners and developers	2,313	6,282	3,769	4,841	15,496	4,630	585	8,495	5,001	748	1,467
Increase in long-term assessments receivable	-	-	-	-	(227)	(1,637)	(945)	(981)	-	-	-
Principal paid on revenue bonds and other long-term debt	(6,210)	(5,909)	(5,654)	(74,997)	(4,775)	(4,619)	(2,997)	(1,525)	(1,668)	(2,707)	(2,274)
Interest paid on revenue bonds and other long-term debt	(50,986)	(40,668)	(36,245)	(22,369)	(19,268)	(18,635)	(14,878)	(11,031)	(8,727)	(9,276)	(7,301)
Acquisition and construction of plant, lines and other facilities	(165,857)	(150,809)	(118,808)	(92,659)	(56,501)	(46,894)	(67,624)	(70,459)	(48,439)	(37,973)	(38,508)
Recovery of insured loss	453	488	6,087	-	-	-	-	-	-	-	-
Net cash provided from capital and related financing activities	(220,287)	109,384	(150,851)	76,256	5,970	5,560	(17,544)	(15,003)	(44,435)	(2,788)	(30,199)
Cash flows from investing activities:											
Assessment principal payments	10,897	6,174	1,831	4,586	-	-	-	-	-	-	-
Interest received on termination of swap agreement	7,759	-	-	-	-	-	-	-	-	-	-
Purchase of investment securities	(65,918)	(49,820)	(32,249)	(57,062)	(178,331)	(125,207)	(104,595)	(241,961)	(122,024)	(127,236)	(67,449)
Proceeds from sale and maturities of investment securities	65,093	49,871	39,384	108,956	164,407	98,712	104,290	234,431	143,730	118,978	91,144
Interest received on investments	14,818	10,461	10,273	10,123	4,064	4,386	6,016	3,965	4,752	6,713	7,690
Net cash provided from investing activities	32,649	16,686	19,239	66,603	(9,860)	(22,109)	5,711	(3,565)	26,458	(1,545)	31,385
Net increase (decrease) in cash and cash equivalents	(146,805)	148,955	(92,859)	164,832	11,862	384	126	(4,022)	(9,052)	6,442	7,295
Cash and cash equivalents, beginning of year	237,713	88,758	181,617	16,785	4,923	4,539	4,413	8,435	17,487	11,045	3,750
Cash and cash equivalents, end of year	\$ 90,908	\$ 237,713	\$ 88,758	\$ 181,617	\$ 16,785	\$ 4,923	\$ 4,539	\$ 4,413	\$ 8,435	\$ 17,487	\$ 11,045

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

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Service charges:											
Wastewater service charges:											
Residential	\$ 31,469	\$ 31,785	\$ 27,304	\$ 25,310	\$ 23,795	\$ 22,928	\$ 20,934	\$ 19,899	\$ 22,633	\$ 22,805	\$ 20,310
Commercial	20,339	20,412	18,855	17,069	15,580	14,220	12,899	12,266	8,310	8,163	7,361
Industrial	14,935	14,845	15,263	15,536	15,343	16,503	15,299	13,462	14,493	14,817	15,121
Bulk dumpers	-	17	313	436	431	473	835	1,121	1,133	929	663
Other - net	1,485	(422)	571	489	292	(64)	261	(2)	334	387	387
Total wastewater service charges	68,228	66,637	62,306	58,840	55,441	54,060	50,228	46,746	46,903	47,101	43,842
Stormwater service charges:											
Residential	7,865	7,398	6,973	6,586	6,276	6,068	6,057	5,936	4,767		
Commercial	10,052	9,579	8,876	8,005	7,122	6,616	6,503	6,341	5,194		
Industrial	1,496	1,548	1,480	1,377	1,235	1,169	1,172	1,258	1,148		
Total stormwater service charges	19,413	18,525	17,329	15,968	14,633	13,853	13,732	13,535	11,109	8,581	8,538
Total service charges	87,641	85,162	79,635	74,808	70,074	67,913	63,960	60,281	58,012	55,682	52,380
Other operating income:											
Capacity charges	3,754	4,373	3,067	3,076	2,709	2,515	1,857	2,060	1,347	932	473
Connection fees	927	839	895	559	474	456	389	250	453	486	696
Regional facilities fees	276	324	506	608	545	397	407	275	162	1,086	-
Reserve capacity charges	13	23	33	75	35	26	137	23	52	18	12
Acquisition surcharges	-	-	-	-	-	-	-	303	454	525	314
Wastewater miscellaneous	994	967	632	881	1,897	4,009	615	1,572	668	626	459
Stormwater miscellaneous	49	43	61	75	56	59	81	81	47	43	52
City sewer bonds	-	-	-	-	-	(75)	(152)	(156)	(160)	(164)	(168)
Total other operating income	6,013	6,569	5,194	5,274	5,716	7,387	3,334	4,408	3,023	3,552	1,838
Total operating revenue	\$ 93,654	\$ 91,731	\$ 84,829	\$ 80,082	\$ 75,790	\$ 75,300	\$ 67,294	\$ 64,689	\$ 61,035	\$ 59,234	\$ 54,218

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

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Service and administrative costs:											
Labor	\$ 39,185	\$ 40,049	\$ 43,800	\$ 41,629	\$ 41,129	\$ 38,966	\$ 36,856	\$ 34,909	\$ 32,737	\$ 30,737	\$ 28,674
Utilities	7,984	7,017	6,451	6,733	7,035	6,423	6,093	6,148	6,164	5,571	6,210
Materials and supplies	8,400	8,730	6,469	6,085	5,867	4,598	4,267	4,338	4,473	3,898	3,686
Professional services	4,425	4,185	3,651	6,291	4,900	3,468	4,089	3,934	2,758	1,129	1,929
Maintenance and repairs	4,056	4,212	3,111	2,958	3,186	3,048	2,539	2,360	2,451	1,773	1,765
Billing and collections	3,628	3,578	2,996	2,861	2,633	2,611	2,316	2,137	2,292	2,211	2,061
Chemicals and fuel	2,825	2,403	2,060	2,410	2,446	1,903	1,593	1,359	1,212	1,113	1,429
Biosolids disposal	1,584	1,565	1,424	1,354	1,358	1,287	1,325	1,111	1,148	1,205	1,131
All other	3,163	3,084	1,874	1,841	2,159	2,413	1,900	1,907	1,584	1,688	1,410
Adjustment for encumbrances	-	-	-	-	-	-	-	-	417	793	836
Gross service and administrative costs	75,250	74,823	71,836	72,162	70,713	64,717	60,978	58,203	55,236	50,118	49,131
Less: Recovery of cost											
Capitalized project cost	(22,620)	(19,000)	(25,743)	(11,584)	(8,406)	(6,857)	(6,089)	(6,128)	(3,249)	(1,845)	(1,208)
Revenue recoveries	(831)	(822)	(751)	(902)	(768)	(483)	(482)	(472)	(476)	(480)	(467)
FEMA flooding cost recoveries			-	-	(1,194)	-	-	-	-	-	-
Recovery of cost	(23,451)	(19,822)	(26,494)	(12,486)	(10,368)	(7,340)	(6,571)	(6,600)	(3,725)	(2,325)	(1,675)
Net service and administrative costs	\$ 51,799	\$ 55,001	\$ 45,342	\$ 59,676	\$ 60,345	\$ 57,377	\$ 54,407	\$ 51,603	\$ 51,511	\$ 47,793	\$ 47,456

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

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Completed Projects											
Sewer lines	\$ 527,412	\$ 452,743	\$ 444,098	\$ 420,389	\$ 358,448	\$ 354,440	\$ 338,795	\$ 327,853	\$ 290,554	\$ 281,563	\$ 273,917
Wastewater treatment facilities	214,818	207,124	205,266	225,304	197,704	197,517	190,064	190,049	174,079	172,460	156,415
Stormwater drainage facilities	236,526	217,427	213,382	206,737	178,865	177,269	165,439	159,300	146,945	136,509	132,710
Pumping and lift stations	32,315	29,834	29,743	29,626	27,543	27,406	17,108	15,814	11,187	10,763	10,779
Administrative facilities	20,479	18,973	18,379	26,933	18,687	18,163	19,944	19,903	13,438	13,426	12,762
Maintenance facilities	3,359	3,210	3,189	2,697	3,019	2,839	2,758	2,744	2,687	2,672	2,640
Machinery, equipment and other	40,744	32,986	31,509	20,964	19,747	19,156	17,032	16,065	12,594	11,013	11,009
Capitalized interest and issuance cost	123,557	104,351	79,621	71,561	54,689	43,411	34,533	27,244	20,769	11,503	5,095
Total Completed Projects	1,199,210	1,066,648	1,025,187	1,004,211	858,702	840,201	785,673	758,972	672,253	639,909	605,327
Less accumulated depreciation	(361,016)	(334,249)	(310,451)	(295,929)	(280,439)	(260,116)	(239,060)	(219,422)	(201,739)	(184,936)	(169,400)
Total Completed projects - net	838,194	732,399	714,736	708,282	578,263	580,085	546,613	539,550	470,514	454,973	435,927
Construction in progress											
Sewer lines	187,546	140,901	101,754								
Wastewater treatment facilities	145,196	104,789	64,755								
Stormwater drainage facilities	38,823	38,750	28,249								
Pumping and lift stations	10,645	11,362	6,364								
Administrative facilities	50,374	43,233	22,129								
Maintenance facilities	740	1,066	642								
Machinery, equipment and other	-	37,405	25,834								
Total Construction in progress	433,324	377,506	249,727	157,279	207,419	152,985	145,630	90,587	96,696	66,897	51,879
Total Net Plant, Lines and Other Facilities	\$ 1,271,518	\$ 1,109,905	\$ 964,463	\$ 865,561	\$ 785,682	\$ 733,070	\$ 692,243	\$ 630,137	\$ 567,210	\$ 521,870	\$ 487,806

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
 METROPOLITAN SEWER DISTRICT
 WASTEWATER TREATMENT PLANT CAPACITY
 2001

Plant	Design Capacity MGD	Avg Daily Flow MGD	Eventual Capacity MGD	Customer Base			Total	Year Built	Treatment Process
				Residential	Commercial	Industrial			
Morris Forman	120.0	95.8	120.0	123,692	13,910	567	138,169	1958	Secondary
West County	19.5	14.6	30.0	36,920	2,018	21	38,959	1986	Secondary: extended aeration
Jeffersontown	4.0	2.8	4.0	5,564	774	40	6,378	1956	Secondary: extended aeration
Hite Creek	4.4	3.5	8.0	4,559	243	8	4,810	1970	Tertiary: sand filter
Cedar Creek	2.5	2.4	7.5	3,675	94	-	3,769	1995	Tertiary: sand filter
Floyd's Fork	3.3	0.6	9.8	1,104	53	1	1,158	2001	Secondary: extended aeration
28 Small Treatment Plants	4.3	2.5	-	5,766	217	-	5,983	Most 1970s	Various: developer-built package plants
Total Treatment System	158.0	122.2	179.3	181,280	17,309	637	199,226		

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

	2000 Rank	1999 Rank	1998 Rank	1997 Rank	1996 Rank	Employees	Type of business					
United Parcel Service, Inc.	1	21,272	1	16,338	1	15,339	1	15,236	1	14,409	P	Air cargo transport and distribution
Jefferson County, KY Public Schools	2	12,465	2	13,467	2	12,702	2	12,181	2	12,565	G	Primary and secondary education
Ford Motor Company	3	10,300	3	9,832	3	8,903	4	7,942	4	8,580	P	Vehicle manufacturing
Norton Healthcare (formerly Alliant Health)	4	6,495	5	5,877	10	3,911	10	3,738	10	3,756	N	Hospital and health care facilities
University of Louisville	5	6,078	8	4,898	7	4,737	7	4,647	7	4,619	G	Higher education
General Electric Company	6	6,000	4	7,446	4	8,290	3	9,750	3	10,000	P	Appliance manufacturing
Commonwealth of Kentucky	7	5,358	6	5,405	5	5,807	5	5,884	5	5,893	G	General purpose government
Kroger Company	8	4,837	9	4,700	9	4,430	14	2,721	16	2,500	P	Retail grocer
Humana, Inc.	9	4,626	10	4,665	8	4,523	9	4,150	9	3,807	P	Group health insurance/HMOs
Jewish Hospital Healthcare Services	10	4,332	7	4,995	6	5,138	6	5,148	6	5,387	N	Hospital and health care facilities
City of Louisville	11	3,780	11	3,472	12	3,465	11	3,432	11	3,432	G	General purpose government
U.S. Postal Service	12	3,444	12	3,117	13	3,094	13	3,058	14	2,683	G	Mail distribution
U.S. Bureau of Census	13	3,327	13	2,917	15	2,614	36	1,309	31	1,349	G	Census and survey data preparation
Jefferson County, KY Fiscal Court	14	2,728	15	2,579	17	2,531	16	2,557	15	2,524	G	General purpose government
U.S. Federal Government	15	2,673	14	2,643	21	2,194	15	2,713	13	2,713	G	General purpose government
Roman Catholic Archdiocese of Louisville	16	2,434	18	2,295	19	2,275	19	2,130	18	2,085	N	Religious, educational, social services
Caritas Health Services	17	2,345	17	2,344	20	2,216	21	1,904	26	1,650	N	Hospital and health care facilities
Baptist Hospital East	18	2,235	19	2,220	22	2,086	18	2,200	20	2,022	N	Hospital and health care facilities
Kindred Healthcare (Formerly Vencor Inc.)	19	2,229	23	1,710	25	1,916	35	1,318	N/R	N/A	P	Long-term health care, facilities
Bank One, Kentucky NA	20	2,161	20	2,078	24	1,974	20	2,004	22	1,891	P	Diversified commercial banking
Ceasars Indiana	21	2,100	NR	NR	NR	NR	NR	NR	NR	NR	P	Gaming and entertainment resort
Publishers Printing Company	22	1,840	22	1,785	28	1,800	24	1,780	24	1,675	P	Trade, professional, special printing
Anthem, Inc.	23	1,803	24	1,697	29	1,710	N/R	N/A	N/R	N/A	P	Health insurance sales and services
University Hospital	24	1,748	NR	NR	NR	NR	NR	NR	NR	NR	N	Nonprofit health care
National City Bank, Kentucky/So. Indiana, Inc.	25	1,682	27	1,580	32	1,525	27	1,660	23	1,723	P	Diversified commercial banking
LG&E Energy Corp.	26	1,636	16	2,400	16	2,600	12	3,100	12	2,747	P	Utility; diversified energy services
Sears, Roebuck & Co.	27	1,628	21	1,923	23	1,985	N/R	N/A	N/R	N/A	P	Retailer
Tricon Global Restuarants	28	1,589	NR	NR	NR	NR	NR	NR	NR	NR	P	Food service provider
Papa John's International, Inc.	29	1,488	34	1,263	39	1,200	N/R	N/A	N/R	N/A	P	Pizza carry-out and delivery
BellSouth	30	1,484	28	1,573	33	1,494	29	1,550	28	1,503	P	Telecommunications
National Processing Company	31	1,396	38	1,100	26	1,900	23	1,840	19	2,024	P	Automated item processing
Greater Clark County, IN School Corp.	32	1,392	33	1,319	37	1,324	34	1,324	33	1,294	G	Primary and secondary education
Bullitt County, KY Public Schools	33	1,271	30	1,490	36	1,450	38	1,240	38	1,121	G	Primary and secondary education
New Albany/Floyd County, IN School Corp.	34	1,235	35	1,212	38	1,204	39	1,196	36	1,186	G	Primary and secondary education
Floyd Memorial Hospital & Health Services	35	1,228	NR	NR	NR	NR	NR	NR	NR	NR	P	Hospital and health services provider
Oldham County, KY Board of Education	36	1,185	37	1,131	42	1,100	44	1,010	N/R	997	G	Primary and secondary education
Seven Counties Services	37	1,164	42	962	44	1,056	N/R	N/A	N/R	N/A	N	Health care provider
Clark Memorial Hospital	38	1,163	39	1,097	41	1,144	42	1,041	39	1,079	N	Hospital and health care services
American Commercial Lines Inc.	39	1,161	31	1,475	14	2,814	32	1,459	N/R	N/A	P	River transportation, shipbuilding, stevedoring
Brown-Forman Corp.	40	1,101	29	1,515	34	1,457	31	1,515	29	1,449	P	Distilled spirits manufacturing
Home Supply Co. (Galt House & Exec. Inn)	41	1,095	NR	NR	NR	NR	NR	NR	NR	NR	P	Full-service hotel
U.S. Veterans Affairs Medical Center	42	1,084	36	1,132	40	1,167	40	1,192	37	1,135	G	Hospital and health care facilities
The Courier-Journal	43	950	40	1,006	46	1,035	43	1,021	N/R	N/A	P	Metropolitan daily newspaper
Beach Mold & Tool, Inc.	44	950	43	875	N/R	925	41	1,050	40	1,000	P	Plastics injection molding
PNC Bank Corp.	45	900	31	1,475	31	1,650	22	1,878	21	1,953	P	Diversified commercial banking
YMCA of Greater Louisville, Inc.	46	631	25	1,673	47	1,031	N/R	885			N	Community and human services
Philip Morris U.S.A., Inc.			26	1,590	18	2,400	17	2,400	17	2,400	P	Cigarette manufacturing
Reynolds Metals Company			41	980	43	1,061	26	1,664	25	1,664	P	Metals manufacturing
Louisville Healthcare Network (1)					11	3,500	8	4,506	8	4,450	P	Hospital and health care facilities
Manpower, Inc.					27	1,857	25	1,755	30	1,400	P	Temporary employee placement
Bacons					30	1,680	28	1,648	27	1,621	P	Retail department stores
Swift & Co.					35	1,450	37	1,250	35	1,250	P	Hog slaughtering and pork processing
Aegon Insurance Group					45	1,050	33	1,370	32	1,325	P	Diversified insurance, investment management
Winn Dixie Midwest, Inc.					N/R	N/A	30	1,524	N/R	N/A	P	Retail grocer
U. S. Naval Ordnance Station						N/A	N/R	330	34	1,280	G	Maintenance/repair naval weapon systems
		<u>144,023</u>		<u>135,251</u>		<u>142,714</u>		<u>135,210</u>		<u>128,141</u>		

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

(1) Merged with Norton Healthcare
Source: *Business First*, Louisville, KY

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
Subtotal Jefferson County, KY	696,200	684,300	665,200	693,604	708,000	732,000
Clark County, IN	76,200	88,900	87,900	96,472	100,000	106,600
Floyd County, IN	55,600	61,400	64,600	70,823	82,700	92,800
Bullitt County, KY	26,500	43,500	47,800	61,236	61,400	68,900
Oldham County, KY	14,700	27,900	33,600	46,178	53,900	65,500
Harrison County, IN	20,500	27,400	30,000	34,325	40,600	46,700
Scott County, IN	17,200	20,400	21,000	22,960	34,600	40,400
Total Greater Louisville	906,900	953,800	950,100	1,025,598	1,081,200	1,152,900

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