



MSD

Louisville and Jefferson County
Metropolitan Sewer District
Louisville, Kentucky USA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004

**LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION



October 27, 2004

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, 2004 (“2004”) is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with MSD. To provide a reasonable basis for making these representations, the management of MSD has established a comprehensive internal control framework that is designed to both protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of MSD’s financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, MSD’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of MSD’s knowledge and belief, the accompanying data 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 basic financial statements, together with the independent auditors’ report concerning them and management’s discussion and analysis of the operating and financial results of the agency. We encourage readers to review the narrative introduction, overview, and analysis found in management’s discussion and analysis (MD&A). 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 systems within the majority of Louisville Metro, which now comprises all of Jefferson County, Kentucky. Chapter 76 of the Kentucky Revised Statutes authorizes MSD to construct additions, betterments, and extensions within its service area and to

recover the cost of its services in accordance with rate schedules adopted by its Board.

Due to the merger of the City of Louisville and the Jefferson County governments, MSD is now considered a component unit of the new Louisville Metro government. The Louisville Metro Mayor appoints, with the approval of the Louisville Metro City Council, the members to MSD's governing Board. The Board, which has statutory authority to enter into contracts and agreements for the management, regulation and financing of MSD, manages its business and activities. The Board has full statutory responsibility for approving and revising MSD's budgets, for financing deficits and for disposition of surplus funds. MSD has no special financial relationship with the Louisville Metro government.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within the County which, with a 2003 population of 699,017, is Kentucky's largest and the center of the seven Kentucky and Indiana counties which comprise the Louisville metropolitan area ("Greater Louisville"). Louisville Metro's current population makes it the nation's 16th largest city.

Louisville's private employment count remained relatively constant in 2004 totaling 494,800 which is a slight decrease of .1% from 2003 levels. The June 2004 unemployment rate for the Greater Louisville area was 5.1% compared to a national average of 5.6% and a state average of 5.6% for this same time period.

In 2003, Entrepreneur Magazine ranked Louisville #1 for "Best City for Small Business Growth." This independent ranking confirms that Louisville's efforts to attract and grow new business are succeeding. In addition to attracting businesses, Louisville has also catered to the needs of its residents. The U.S. Conference of Mayors named Louisville one of the nation's five most livable cities with populations of 100,000 or more. In addition, Places Rated Almanac has ranked Louisville in the top 15 best places to live out of 354 cities in the U.S. and Canada. This marks the fifth time in the six Places Rated editions published since 1981 that Louisville has ranked in the top 15. Louisville is one of only 12 U.S. cities with resident professional opera, theater, orchestra, ballet and children's theater.

Louisville residents also benefit from having one of the best public school systems in the nation. Louisville's Jefferson County Public Schools (JCPS) is the 28th largest school district in the United States and was recently named one of the top five most outstanding urban school districts in the U.S. by the Broad Foundation.

MSD benefits not only from the cyclical strength, but also from the diversity of the area economy. Fifty-two percent (52%) of its service charge revenue comes from business customers. During 2004, active sewer accounts increased by 5,229 or 2.5% from 2003.

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. 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 2004, revenue from these charges amounted to 4.7% of the total. This source of revenue is extremely sensitive to changes in the economic climate which affect homebuilding.

Major Initiatives

Progress Continues Towards Addressing Drainage Challenges

On January 27, 2003, Mayor Jerry Abramson outlined a \$67 million, two-and-half year plan to tackle Louisville's most pressing drainage problems. The plan – dubbed Project D.R.I. (Drainage Response Initiative) identified 380 of the worst drainage problems in the Louisville Metro area. The project is expected to be completed by mid-2005.

More than 60 percent of Project D.R.I.'s identified projects are concentrated in the seven Metro Council districts that constitute the southwest quadrant of the new Louisville Metro because this area has a disproportionate share of serious drainage problems. As of October 2004, 64% of the projects have been completed or are currently under construction.

Louisville Green Prepares for Market Distribution

In FY 2004, MSD received the necessary approvals to market and distribute its dried biosolid pellets. The pellets were given the name of Louisville Green and will be sold as a usable soil-enhancing product. Until 2004, all of the biosolids produced by MSD were hauled to a landfill for disposal at an annual cost of \$600,000. As of August 2004, approximately 3,445 tons of biosolids have been diverted from landfill disposal resulting in a savings of \$80,000 in landfill costs.

During 2004, MSD in conjunction with a local agricultural extension agent, implemented a testing program with four local farmers to assess the impact of pellet application to crops and pasture land. Preliminary observations have revealed that Louisville Green had a positive impact on the growth patterns of the crops. MSD hopes to complete more extensive testing after these crops are harvested.

MSD also conducted tests of Louisville Green with blenders/resellers as well as producers of topsoil and compost. Thus far, over 2,900 tons of Louisville Green have been shipped to these markets. A request for proposal will be generated in

the fourth quarter of 2004 for the procurement of a Biosolids Marketing Manager to market, transport, and distribute the pellets.

Factors Affecting Financial Condition

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, 2004 were classified in category 2 of risk as defined by the Governmental Accounting Standards Board.

Gross 2004 investment income of \$23.9 million represented a return of 12.2% on average balances available for investment of \$196.0 million, which compares with gross earnings of \$9.4 million, representing a 3.8% return on available balances of \$249.0 million in 2003.

Gross 2004 interest expense of \$65.4 million represented a 5.4% cost of funds on average outstanding indebtedness of \$1.21 billion, which compares with gross interest expense of \$64.8 million, representing a 5.34% cost of funds on average 2003 debt of \$1.2 billion.

Risk Management, Insurance, and Employee Benefits

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

MSD employees participate in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit plan administered by the Kentucky Retirement System. MSD contributed 8.48% of participating employees' compensation in 2004 and 6.34% in 2003, which amounted to \$2.2 and \$1.93 million in 2004 and 2003, respectively. Employees currently are required to contribute 5% of their compensation which totaled \$1.5 million in 2004 and \$1.7 million in 2003.

Other Information

Independent Audit

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. A joint venture of Strothman & Company PSC and Toni Levy, CPA, was selected by the MSD Board to conduct the 2004 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MSD's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The auditors' opinion and report on the basic financial statements is included in the Financial section of this report.

The independent audit of the financial statements of MSD was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in MSD's separately issued Single Audit 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 fourteenth consecutive time for its CAFR for the year ended June 30, 2003. 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.

Acknowledgements

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

To the staff of MSD's Budget and Finance Division, I express my sincerest appreciation for your dedicated service and your continued commitment to excellence without which this report could not have been presented in 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, stylized 'M' and 'G'.

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, 2003

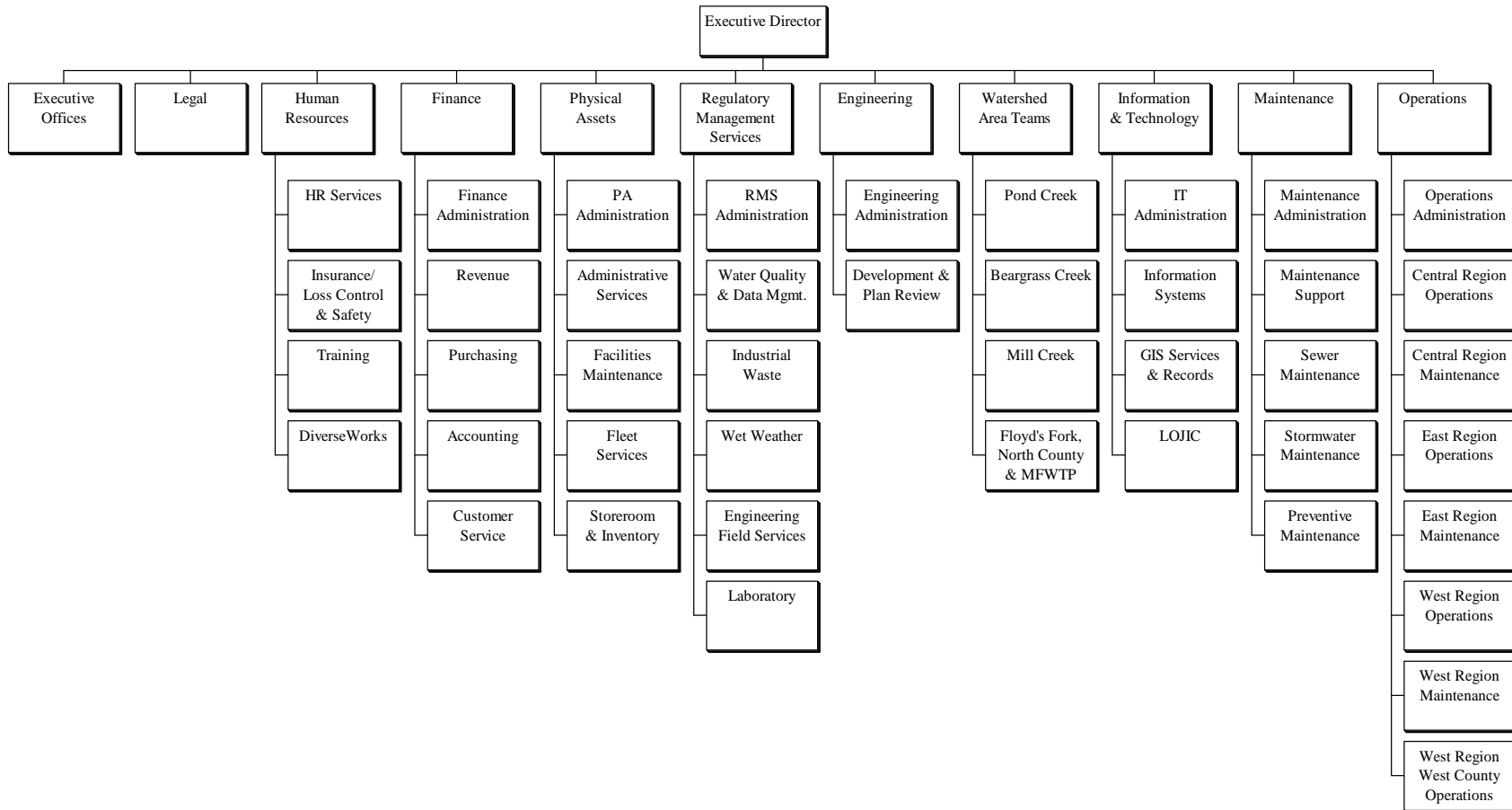
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT Organization Chart



BOARD OF DIRECTORS

Fred R. Dallenbach, Chairperson Beverly A. Wheatley, Vice Chairperson

Benjamin K. Richmond
Clyde H. Foshee, Jr.
Audwin A. Helton

Martin D. Hoehler
Alvin A. Brunner
William T. Gray

Herbert J. Schardein, Jr., Secretary/Treasurer

PRINCIPAL OFFICERS

Herbert J. Schardein, Jr., Executive Director

Derek Guthrie, Director
Engineering

James J. Hunt, Director
Physical Assets

Kathy J. Cooksie, Director
Human Resources

Bruce Seigle, Director
Information Technology

Carolyn Shain
Legal Counsel

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 years ended June 30, 2004 and 2003, as indicated in the accompanying table of contents. These financial statements are the responsibility of MSD management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSD as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 11 through 17 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004 on our consideration of MSD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Strothman & Company P S C

Louisville, Kentucky
October 15, 2004



Management's Discussion and Analysis

As management of the Louisville and Jefferson County Metropolitan Sewer District (MSD), we offer readers of MSD's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- MSD's net assets increased by \$16.3 million (3.0%) as a result of this year's operations.
- Operating revenues increased by \$4.5 million (4.3%) to \$110.8 million.
- Operating expenses excluding depreciation decreased by \$744,000 (-1.4%).
- Non-operating revenues (investment income) increased by \$1.4 million (33.2%) and non-operating expenses increased by \$4.1 million (12.0%).

Overview of the Financial Statements

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

Required Financial Statements

The Statement of Net Assets

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

The Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets identifies the revenues generated and expenses incurred during the fiscal year.

This statement helps the user to assess the profitability of MSD during the time period for which the statement relates.

Statement of Cash Flows

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

Financial Information

MSD's net assets increased by \$16.3 million in FY 2004 to \$561.8 million. The change in net assets 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. In the early 1990's, less than 30% of MSD's capitalization was in the form of long-term debt. In 1997, for the first time, long-term debt exceeded 50% of MSD's capital structure. At June 30, 2004, total long-term liabilities represented 67% of MSD's capitalization.

MSD's total assets increased by approximately \$99.1 million in 2004. Capital assets increased by approximately \$84.7 million as a result of capital projects that were completed during the fiscal year. Total restricted assets increased by \$16.6 million as a result of a bond issue in the amount of \$100 million.

Total liabilities increased by \$82.8 million in 2004. This increase was driven by the issuance of \$100 million of bonds during the fiscal year.

	FY 2004	FY 2003	Dollar Change	Percent Change	FY 2002
Operating Revenues	110,787	106,242	4,545	4.3%	95,968
Nonoperating Revenues	5,715	4,290	1,425	33.2%	5,182
Total Revenues	116,502	110,532	5,970	5.4%	101,150
Depreciation Expense	37,718	35,401	2,317	6.5%	34,131
Other Operating Expenses	51,301	52,045	(744)	-1.4%	50,727
Nonoperating Expenses	38,495	34,307	4,188	12.2%	28,330
Total Expenses	127,514	121,753	5,761	4.7%	113,188
Contributions	27,313	24,141	3,172	13.1%	58,467
Change in net assets	16,301	12,920	3,381	26.2%	46,429
Beginning Net Assets	545,502	532,582	12,920	2.4%	486,153
Ending Net Assets	561,803	545,502	16,301	3.0%	532,582

Capital Assets and Long-term Debt

MSD's net investment in plant, lines, and other facilities increased by \$87.1 million in FY 2004. Major additions include the completion of \$67.4 million of sewer line installations, \$11.1 million of wastewater treatment facilities and \$9.5 million of stormwater drainage facilities. Readers are encouraged to review the Comparative Schedules of Plant, Lines, and Other Facilities that is contained in the statistical section of the CAFR for additional information regarding changes to fixed assets.

In January 2004, the District issued \$100 million in Revenue Bonds to fund expansion and improvements of the District's sewer and drainage systems. As of June 30, 2004, approximately \$145 million of proceeds from the 2004 and 2001 bond issues excluding Debt Service Reserve accounts remained to be spent. The remaining funds are expected to be used for additional expansions to the wastewater and drainage systems, plant expansions, flood protection systems, and other wastewater and stormwater projects.

Results of Operations

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. Total Operating Revenues as of June 30, 2004 were \$110.8 million compared to

	FY 2004	FY 2003	Dollar Change	Percent Change	FY 2002
Operating Revenues	110,787	106,242	4,545	4.3%	95,968
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Ending Net Assets	561,803	545,502	16,301	3.0%	532,582

\$106.2 million for the same period last year, an increase of \$4.5 million or 4.3%.

Wastewater Service Charges totaled \$79.9 million as of June 30, 2004. This represents an increase of \$2,156,000 or 2.8% from a year ago. The majority of MSD's wastewater customers are billed based on the amount of water used. Since substantially all of MSD's customers are also customers of the Louisville Water Company, this charge is billed and collected by the Louisville Water Company on behalf of MSD. Wastewater Service Charges were less than expected due to a decline in water usage from FY 2003 of approximately 1.4 billion gallons which equates to approximately \$2.6 million in wastewater revenues.

Stormwater service charges were \$23.6 million as of June 30, 2004. This represents an increase of \$1,869,000 or 8.6% from the same period one year ago. This increase is due to a rate increase of 6.5% which was implemented on August 1, 2003 as well as growth in the number of stormwater units that were billed. The rate increase generated approximately \$1.3 million.

Other income was \$520,000 more than the amount recorded in FY 2003. Capacity charges were \$904,000 or 21.2% more than the June 2003 amount. Capacity charges are collected when a developer of property wishes to provide sewer service by extension of or connection to MSD's sewer system.

The following table shows the composition of gross service and administrative costs by major classification of expense for the last three years:

	<u>2004</u>		<u>2003</u>		<u>Variance</u>	<u>%</u>	<u>2002</u>				
Service and administrative costs:											
Labor	\$	40,206	54%	\$	40,947	53%	\$	(741)	-1.8%	\$	40,068
Utilities		8,870	12%		7,967	10%		903	11.3%		6,979
Materials and supplies		7,237	10%		7,479	10%		(242)	-3.2%		7,043
Professional services		2,530	3%		3,821	5%		(1,291)	-33.8%		4,543
Maintenance and repairs		4,976	7%		5,672	7%		(696)	-12.3%		4,660
Billing and collections		3,209	4%		2,812	4%		397	14.1%		3,164
Chemicals		3,076	4%		3,070	4%		6	0.2%		2,961
Fuel		752	1%		631	1%		121	19.2%		575
Biosolids disposal		1,359	2%		1,442	2%		(83)	-5.8%		2,438
All other		2,757	4%		3,988	5%		(1,231)	-30.9%		2,303
Gross service and admin. costs		74,972	100%		77,829	100%		\$ (2,857)	-3.7%		74,734

MSD was able to reduce its service and administrative costs by \$2.9 million from FY 2003 levels. Labor expenses comprise the bulk of service and administrative costs, approximately 54% and 53% in FY 2004 and FY 2003, respectively. As of June 30, 2004, labor costs were \$40,206,000 compared to \$40,947,000 for the

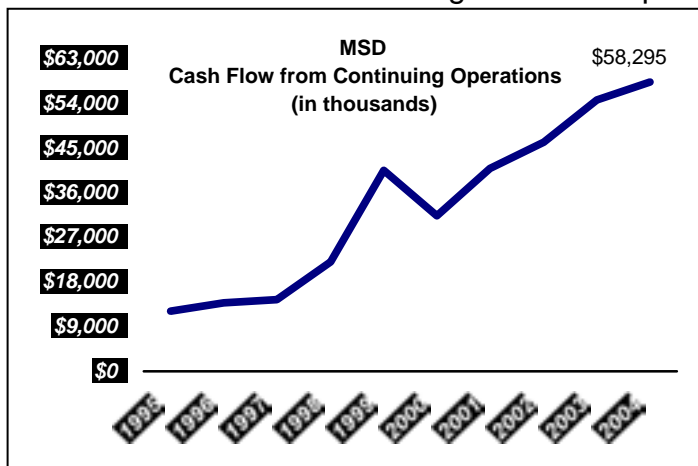
same period last year, a decrease of \$741,000. In October 2003, MSD eliminated approximately 48 budgeted full-time positions and approximately 12 temporary positions. The annual savings from the staff reductions is expected to be \$3.4 million. In addition to reductions in labor, expenditures on material & supplies, professional services, maintenance & repairs, biosolids disposal, and other miscellaneous expenses decreased by a total of \$3.5 million.

Net Operating Expenses excluding depreciation were \$51,301,000 in FY 2004 compared to \$52,045,000 in FY 2003. This change reflects a decrease of \$744,000 or 1.4%.

Depreciation expense of \$37.7 million was \$2.3 million more than the FY 2003. This increase in depreciation is consistent with the growth in Capital Assets that MSD has experienced.

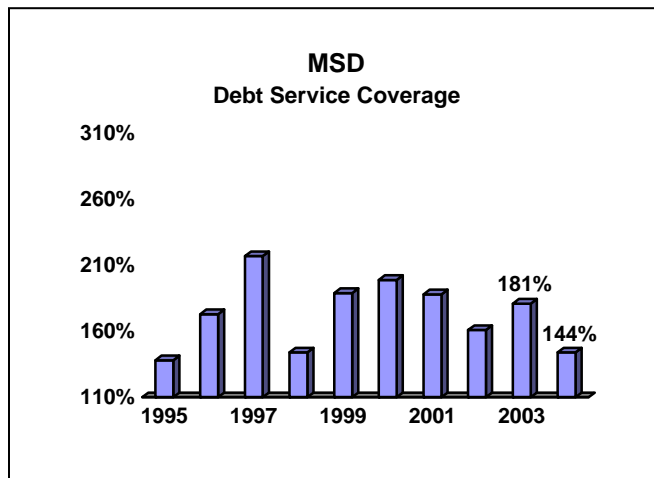
MSD recorded progress in 2004 improving its bottom line operating performance. This improvement was in part the result of MSD's continuing efforts to improve process and labor productivity.

Although net operating income is the most significant component of the factors which go into determining MSD debt service coverage, other sources, including investment income and current period payments of property owner



assessments also are included in "available revenues" and "net revenues" for purposes of demonstrating MSD's performance under the several debt service ratio tests of the 1993 Sewer and Drainage System Revenue Bond Resolution.

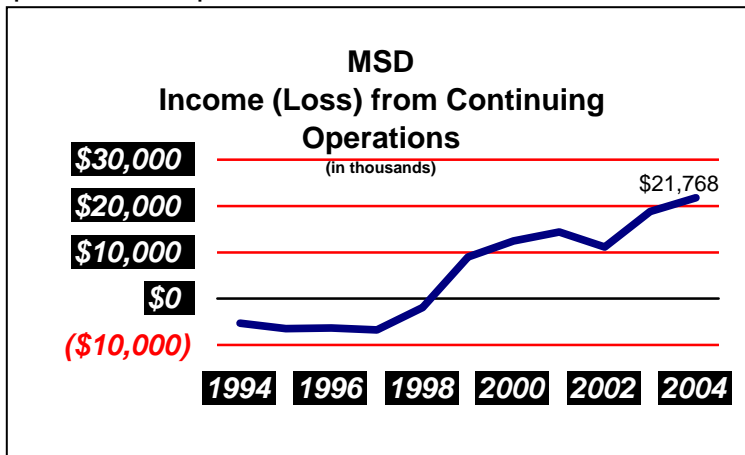
The 1993 Resolution and its supplements require MSD to provide "available revenues", as defined in the Resolution, sufficient to pay 110% of each year's "aggregate net debt service" on Revenue Bonds and 100% of "operating expenses". "Available revenues," as used only for purposes of the Resolution, means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



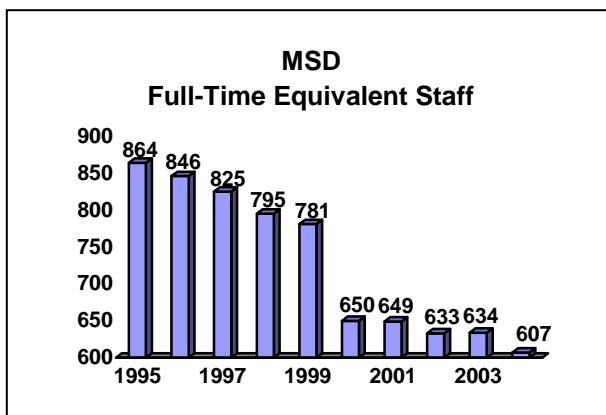
issued pursuant to the Resolution, but excludes any interest income which is capitalized in accordance with generally accepted accounting principles. "Operating expenses" include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating expenses" do not include reserves for extraordinary maintenance and repair, or administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from proceeds of such debt. "Aggregate net debt service" is aggregate debt service on all bonds issued pursuant to the Resolution (in 2004, 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 144% in 2004 and 181% in 2003.

MSD is not allowed to include depreciation expense in the formula authorized by the Louisville Metro government to calculate allowable rate increases. The applicable rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate net principal and interest requirements on Revenue Bonds that MSD covenants in the Revenue Bond Resolution. However, the straight-line depreciation of plant, lines and other facilities substantially exceeds scheduled

principal amortization on the Revenue Bonds.



MSD recorded a net operating income of \$21.8 million. Excluding all discontinued and non-recurring revenue, the improvement from prior years continues to be strong. This resurgence reflects the success of MSD's



strategy to use "pricing power" to raise rates moderately, while increasing customer base and dramatically reducing operating cost.

MSD's employee count decreased from 634 full-time equivalent

positions at June 30, 2003 to 607 at June 30, 2004.

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 as identified in its five year capital plan.

Net interest expense increased \$4.2 million (12.2%) from 2003 due to additional interest expense incurred as a result of a \$100 million bond issue in January 2004.

Other Significant Matters

In FY 2003, the District signed an agreement to sell \$25 million of sanitary sewer assessments to a local bank. These assessments reflect the portion of the cost that residents pay to have sewer lines installed in their neighborhood. Residents are given the opportunity to pay the warrant in full or to finance it over a twenty-year period at 7% interest per annum. The agreement calls for the district to receive 100.04% of the face value of the warrants. As of June 30, 2004, the district had sold \$22.5 million of these warrants.

Requests For Additional Information

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

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<i>Assets</i>		
Current Assets:		
Cash and cash equivalents	\$ 20,572	\$ 15,072
Investments	56	9,176
Accounts receivable, less allowance for doubtful accounts of \$242 (2004), \$342 (2003)	14,136	12,904
Inventories	2,685	2,676
Prepaid expenses and other current assets	796	667
Total current assets	38,245	40,495
Current Restricted Assets:		
Cash and cash equivalents	110,942	117,226
Investments	74,112	51,220
Total restricted assets	185,054	168,446
Long-term assessment receivables	27,964	30,327
Plant, lines and other facilities, net	1,619,999	1,532,918
Total assets	1,871,262	1,772,186
<i>Liabilities</i>		
Current liabilities (payable from current assets):		
Accounts payable and accrued expenses	9,671	9,492
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor's retainages of \$2,848 (2004) and \$4,619 (2003)	11,846	17,588
Accrued interest	9,916	9,454
Current maturities of bonds payable	15,303	13,092
Total current liabilities (payable from restricted assets)	37,065	40,134
Long-term liabilities:		
Unearned revenue	6,495	6,917
Bonds payable, net	1,256,228	1,170,141
Total long-term liabilities	1,262,723	1,177,058
Total liabilities	1,309,459	1,226,684
<i>Net Assets</i>		
Invested in plant, lines and other facilities, net of related debt	490,458	476,849
Restricted for payment of bond principal and interest	17,850	18,884
Unrestricted	53,495	49,769
Total net assets	\$ 561,803	\$ 545,502

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

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating revenues:		
Service charges	\$ 103,571	\$ 99,546
Other operating income	<u>7,216</u>	<u>6,696</u>
Total operating revenues	<u>110,787</u>	<u>106,242</u>
Operating expenses:		
Service and administrative costs	51,301	52,045
Depreciation	<u>37,718</u>	<u>35,401</u>
Total operating expenses	<u>89,019</u>	<u>87,446</u>
Income from operations	<u>21,768</u>	<u>18,796</u>
Non-operating revenue (expenses):		
Investment income	5,715	4,290
Interest expense	<u>(38,495)</u>	<u>(34,307)</u>
Total non-operating revenue (expenses) - net	<u>(32,780)</u>	<u>(30,017)</u>
Net loss before contributions	(11,012)	(11,221)
Contributions		
Property owner assessments	9,701	20,079
All other	<u>17,612</u>	<u>4,062</u>
Increase in net assets	<u>16,301</u>	<u>12,920</u>
Net assets, beginning of year	<u>545,502</u>	<u>532,582</u>
Net assets, end of year	\$ <u><u>561,803</u></u>	\$ <u><u>545,502</u></u>

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

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

	Year Ended	
	June 30, 2004	June 30, 2003
Cash flows from operating activities:		
Cash received from customers	\$ 109,938	\$ 105,571
Cash paid to suppliers and employees	(51,643)	(51,005)
Net cash provided by operating activities	58,295	54,566
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	100,000	191,000
Capital contributed by governments, property owners and developers	4,031	948
Refunding of long-term bonds	-	(185,230)
Principal paid on revenue bonds	(11,702)	(19,206)
Interest paid on revenue bonds	(26,478)	(31,958)
Acquisition and construction of plant, lines and other facilities and bond issuance costs	(126,365)	(127,057)
Net cash used in capital and related financing activities	(60,514)	(171,503)
Cash flows from investing activities:		
Assessment principal payments	12,792	27,495
Interest received on termination of swap agreement	(422)	(421)
Purchase of investments securities	(370,182)	(79,864)
Proceeds from sale and maturities of investment securities	329,655	63,592
Interest received on investments	29,592	9,623
Net cash provided by investing activities	1,435	20,425
Net decrease in cash and cash equivalents	(784)	(96,512)
Cash and cash equivalents, including cash and cash equivalents in restricted assets, beginning of year	132,298	228,810
Cash and cash equivalents, including cash and cash equivalents in restricted assets, end of year	\$ 131,514	\$ 132,298

(CONTINUED)

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

	Year Ended	
	June 30, 2004	June 30, 2003
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 21,768	\$ 18,796
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation	37,718	35,401
Change in operating assets and liabilities:		
Increase in accounts receivable	(1,232)	(671)
Increase in inventories	(9)	(210)
Increase in prepaid expenses and other current assets	(129)	(273)
Increase in accounts payable and accrued expenses	179	1,523
Net cash provided by operating activities	\$ 58,295	\$ 54,566
Non-cash capital financing activities:		
Contribution of plant, lines and other facilities by developers and property owners	\$ 25,645	\$ 23,186
Accounts payable incurred for construction	\$ (5,742)	\$ 1,357
(Decrease) increase in fair value of investments	\$ (765)	\$ 94

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, 2004 AND 2003**

(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements follow the provisions of GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards. These new standards adopted effective July 1, 2001 provided for changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Assets; including of a management discussion and analysis as supplementary information; and other changes. The more significant of MSD's accounting policies are described hereinafter.

A. Reporting Entity

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

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

Reporting Entity - (Continued)

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

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

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

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

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

Reporting Entity - (Continued)

to provide revenues for the operation and maintenance of the system and for debt service. By ordinance, the Louisville Metro Government has provided that MSD's Board may amend its service charge schedule to maintain a debt service coverage ratio of 1.10 for MSD's sewer and drainage revenue bonds, and that such amendments will be effective within the Metropolitan area when adopted by MSD's Board, so long as the amended rates do not generate additional revenue from service charges in excess of seven percent during the twelve months succeeding the period in which the deficiency was identified.

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

B. Basis of Accounting

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

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

C. Cash and Cash Equivalents

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

D. Investments

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

E. 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 a receivable and revenues from contributions at the time the related expenditures are incurred. The revenues from contributions are then added to Net Assets.

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. Capital assets are defined by MSD

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

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

G. Plant, Lines and Other Facilities - (Continued)

as assets with an initial, individual cost of more than \$20 or renewal and replacement cost of a component of an existing assets with a cost of more than \$20. It is MSD's policy to depreciate the costs of these assets over their estimated useful lives on a straight line basis.

Estimated useful lives on depreciable assets are as follows:

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

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

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.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

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

I. Long-term Debt

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

MSD enters into interest rate swap agreements to modify interest rates on outstanding debt. MSD records the net interest expenditures resulting from these agreements and amortizes gains/losses resulting from the termination of these agreements until the original termination date of the agreement.

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, 2004 AND 2003**

*(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, 2004, MSD's carrying amount of deposits was \$(1,253) and the bank balance was \$373. Of this amount, \$241 was covered by federal depository insurance and \$132 was uninsured and collateralized with securities held by the pledging depository but not in MSD's name.

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, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

	CARRYING AMOUNT			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	
<u>June 30, 2004</u>				
Investments and cash equivalents:				
U.S. Government and agencies	\$	\$ 183,985	\$	\$ 183,985
Commercial paper		5,066		5,066
Repurchase agreements		<u>17,884</u>		<u>17,884</u>
	<u>\$ -</u>	<u>\$ 206,935</u>	<u>\$ -</u>	
Total investments and cash equivalents				<u>\$ 206,935</u>
Cash in banks				<u>(1,253)</u>
Total cash, cash equivalents and investments				<u>\$ 205,682</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

	CARRYING AMOUNT CREDIT RISK CATEGORY			Fair Value
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>
<u>June 30, 2003</u>				
Investments and cash equivalents:				
U.S. Government and agencies	\$	\$ 52,644	\$	\$ 52,644
Commercial paper		5,071		5,071
Repurchase agreements	<u> </u>	<u>129,932</u>	<u> </u>	<u>129,932</u>
	<u>\$ -</u>	<u>\$ 187,647</u>	<u>\$ -</u>	<u>\$ 187,647</u>
Investments not subject to categorization:				
Interest bearing deposit with Kentucky Infrastructure Authority				<u>6,250</u>
Total investments and cash equivalents				193,897
Cash in banks				<u>(1,203)</u>
Total cash, cash equivalents and investments				<u>\$ 192,694</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

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

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 20,572	\$ 15,072
Investments	56	9,176
Cash and cash equivalents - restricted	110,942	117,226
Investments - restricted	74,112	51,220
	\$ 205,682	\$ 192,694

NOTE 3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

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

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

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Payment of bond principal and interest	\$ 43,064	\$ 41,430
Authorized construction	<u>141,990</u>	<u>127,016</u>
Total restricted cash, cash equivalents and investments	\$ <u><u>185,054</u></u>	\$ <u><u>168,446</u></u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 4. CHANGES IN NET ASSETS

A comparative schedule of changes in net assets follows:

	<u>2004</u>	<u>June 30</u>	<u>2003</u>
Net assets invested in plant, lines and other facilities			
Plant, lines and other facilities net of depreciation	\$ 1,619,999	\$	1,532,918
Outstanding debt that applies to plant, lines and other facilities	(1,271,531)		(1,183,232)
Unspent bond proceeds	<u>141,990</u>		<u>127,163</u>
Invested in plant, lines and other facilities, net	<u>490,458</u>		<u>476,849</u>
Net assets restricted for payment of bond principal and interest			
Cash, cash equivalents and investments restricted for payment of bond principal and interest	43,069		41,430
Current maturities on bonds	(15,303)		(13,092)
Accrued interest on bonds	<u>(9,916)</u>		<u>(9,454)</u>
Restricted for payment of bond principal and interest, net	<u>17,850</u>		<u>18,884</u>
Unrestricted	<u>53,495</u>		<u>49,769</u>
Total net assets	<u>\$ 561,803</u>	\$	<u>545,502</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2004 and 2003 follows:

Year ended June 30, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Sewer lines	\$ 694,851	\$ 67,390	\$ -	\$ 762,241
Wastewater treatment facilities	262,073	11,114	-	273,187
Stormwater drainage facilities	278,739	9,538	-	288,277
Pumping and lift stations	42,620	4,132	-	46,752
Administrative facilities	22,859	7,865	-	30,724
Maintenance facilities	4,048	736	-	4,784
Machinery and equipment	47,702	113	-	47,815
Capitalized interest and bond issuance costs	173,717	4,841	-	178,558
	<u>1,526,609</u>	<u>105,729</u>	<u>-</u>	<u>1,632,338</u>
Less accumulated depreciation and amortization	<u>(398,727)</u>	<u>(37,435)</u>	<u>-</u>	<u>(436,162)</u>
	1,127,882	68,294	-	1,196,176
Construction in progress	405,036	119,675	(100,888)	423,823
	<u>\$ 1,532,918</u>	<u>\$ 187,969</u>	<u>\$ (100,888)</u>	<u>\$ 1,619,999</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

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

Year ended June 30, 2003

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Sewer lines	\$ 619,077	\$ 75,774	\$ -	\$ 694,851
Wastewater treatment facilities	242,549	20,055	(531)	262,073
Stormwater drainage facilities	265,294	13,445	-	278,739
Pumping and lift stations	39,454	3,705	(539)	42,620
Administrative facilities	20,867	1,992	-	22,859
Maintenance facilities	4,048	-	-	4,048
Machinery and equipment	46,653	1,054	(5)	47,702
Capitalized interest and bond issuance costs	<u>153,556</u>	<u>25,404</u>	<u>(5,243)</u>	<u>173,717</u>
	1,391,498	141,429	(6,318)	1,526,609
Less accumulated depreciation and amortization	<u>(366,204)</u>	<u>(35,117)</u>	<u>2,594</u>	<u>(398,727)</u>
	1,025,294	106,312	(3,724)	1,127,882
Construction in progress	<u>411,570</u>	<u>109,491</u>	<u>(116,025)</u>	<u>405,036</u>
	<u>\$ 1,436,864</u>	<u>\$ 215,803</u>	<u>\$ (119,749)</u>	<u>\$ 1,532,918</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 6. CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized in 2004 and 2003 follows:

<u>Year ended June 30, 2004</u>	<u>Capitalized</u>	Included in <u>Operations</u>	<u>Total</u>
Investment earnings	\$ 18,201	\$ 5,715	\$ 23,916
Interest cost	<u>(26,940)</u>	<u>(38,495)</u>	<u>(65,435)</u>
Net	<u>\$ (8,739)</u>	<u>\$ (32,780)</u>	<u>\$ (41,519)</u>
 <u>Year ended June 30, 2003</u>			
Investment earnings	\$ 5,086	\$ 4,290	\$ 9,376
Interest cost	<u>(30,490)</u>	<u>(34,307)</u>	<u>(64,797)</u>
Net	<u>\$ (25,404)</u>	<u>\$ (30,017)</u>	<u>\$ (55,421)</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2004
and June 30, 2003, follows:

	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding As Of June 30</u>	<u>2004</u>	<u>2003</u>
REVENUE BONDS					
1994 Sewer and Drainage System Revenue Bonds Series 1994A	6.75% - 8.00%	2025	\$	685	\$ 1,375
1996 Sewer and Drainage System Revenue Bonds Series 1996A	5.20% - 8.00 %	2026		44,260	44,820
1997 Sewer and Drainage System Revenue Bonds Series 1997A	5.25% - 6.00%	2027		48,590	49,080
1997 Sewer and Drainage System Revenue Bonds Series 1997B	4.00% - 5.20%	2025		68,185	68,215
1998 Sewer and Drainage System Revenue Bonds Series 1998A	4.25% - 9.00%	2030		251,380	254,790
1999 Sewer and Drainage System Revenue Bonds Series 1999A	5.25% - 6.50%	2033		297,070	298,740
2001 Sewer and Drainage System Revenue Bonds Series 2001A	5.00% - 5.50%	2036		300,000	300,000
2003 Sewer and Drainage System Revenue Bonds Series 2003A and 2003B	Variable Rate	2023		184,800	191,000
2004 Sewer and Drainage System Revenue Bonds Series 2004A	5.00% - 5.25%	2038		100,000	-
				<u>1,294,970</u>	<u>1,208,020</u>
Less current maturities				(15,280)	(13,050)
Unamortized loss on refunding				<u>(23,462)</u>	<u>(24,852)</u>
MSD Revenue Bonds Payable - Long-Term				<u>1,256,228</u>	<u>1,170,118</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

	<u>Interest Rates</u>	<u>Final Payment In</u>	<u>Outstanding As Of June 30</u>	
REVENUE BONDS			<u>2004</u>	<u>2003</u>
SUBORDINATED DEBT				
SUBORDINATED BONDS				
Subordinated Sewer Revenue Bonds	5.0% - 5.25%	2004	\$ 23	\$ 65
Less current maturities			<u>(23)</u>	<u>(42)</u>
MSD Subordinated Bonds Payable - Long-Term			<u>-</u>	<u>23</u>
Total MSD Long-Term Debt			<u>\$ 1,256,228</u>	<u>\$ 1,170,141</u>

The current year addition to long term debt totaled \$100 million and was a result of the issuance of the 2004 Sewer and Drainage System Revenue Bonds Series 2004A. Retirements of MSD Revenue Bonds and other subordinated bonds totaled \$13,092. Amortization of the loss on prior refundings totaled \$1,390.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

A schedule of future debt service requirements after June 30, 2004 follows:

Year Ending June 30,	MSD Revenue Bonds		MSD Subordinated Debt		MSD Total
	Principal	Interest	Bonds	Interest	
2005	\$ 15,280	\$ 67,438	\$ 23	\$ 1	\$ 82,742
2006	16,170	66,539	-	-	82,709
2007	17,105	65,581	-	-	82,686
2008	18,090	64,567	-	-	82,657
2009	19,125	63,520	-	-	82,645
2010-2014	110,025	302,843	-	-	412,868
2015-2019	139,000	273,215	-	-	412,215
2020-2024	179,765	235,052	-	-	414,817
2025-2029	233,085	183,785	-	-	416,870
2030-2034	302,150	114,801	-	-	416,951
2035-2038	245,175	28,906	-	-	274,081
	<u>\$ 1,294,970</u>	<u>\$ 1,466,247</u>	<u>\$ 23</u>	<u>\$ 1</u>	<u>\$ 2,761,241</u>

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

As of June 30, 2004, 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:

<u>Defeased Issue:</u>	<u>Amount outstanding:</u>
Sewer Revenue Bonds, Series 1965	\$ 225
Kentucky Association of Counties Leasing Trust Loan Agreement, Series 1990A	11,985
Kentucky Municipal Finance Corporation Lease Purchase Agreement, Series 1991A	6,940
Lease Purchase Agreement, Series 1991G	<u>42,990</u>
 Total refunded and economically defeased	 <u>\$ 62,140</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.

In April 2001, MSD entered into a forward interest rate swap agreement with an aggregate notional amount of \$282,165. Under this agreement, MSD will be the fixed rate 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 London InterBank Offered Rate (LIBOR) Index. The forward start date begins November 15, 2009 and terminates on May 15, 2033. MSD initiated the swap to synthetically convert a portion of its floating rate debt expected to be issued November 15, 2009 for the refinancing of its Sewer and Drainage System Revenue Bonds, Series 1999A to a fixed rate. MSD reserved the right to terminate the swap agreement at any time at the then current market value. This may result in MSD making or receiving a termination payment. This swap transaction exposes MSD to tax event risk due to the possibility that municipal bonds could be taxable when MSD needs to issue debt.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

In addition, there is a risk (market-access risk) that MSD will not be able to enter credit markets in November 2009 thus the expected cost savings may not be realized. The negative fair value of this swap for the years ending June 30, 2004 and 2003 were \$(6,463) and \$(16,393) respectively.

In October 2002, MSD entered into a Floating to Fixed (Synthetic Fixed) Forward Starting Interest Rate Swap Agreement with a notional amount of \$190,790. MSD executed this agreement to synthetically convert a portion of its floating rate debt that was issued on May 15, 2003 for the refinancing of its Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B to a fixed rate. MSD pays a fixed rate of 4.075% and receives a floating rate equivalent to the Bond Market Association (BMA) Municipal Bond Index. MSD reserves the exclusive right to terminate the swap agreement at any time at the then current market value. This agreement took effect on May 15, 2003 and terminates on May 15, 2023. The negative fair value of this swap for the years ending June 30, 2004 and 2003 were \$(2,083) and \$(11,423) respectively.

In March 2003, MSD entered into a swap agreement with a notional amount of \$190,790 that in essence changed the terms of the October 2002 agreement. The terms of this agreement call for MSD to receive 78.78% of three-month LIBOR and to pay the BMA index. MSD reserves the exclusive right to terminate the swap agreement at any time at the then current market value. This agreement took effect on May 15, 2003 and terminates on May 15, 2023. The fair value of this swap for the years ending June 30, 2004 and 2003 were \$1,560 and \$(2,493) respectively.

MSD has implemented steps to safeguard it against the risks associated with the aforementioned swap transactions. In order to reduce its exposure to credit risk, the risk that a counter-party will not fulfill its obligations, MSD requires the counter-party to be rated "AA" or better by at least two nationally recognized rating agencies. If the counter-party does not maintain the required rating, the swaps contain provisions that require the swap to be marked to market weekly with monthly statements sent to MSD and the value will be collateralized with U.S. Treasury and Agency securities with the securities held by a tri-party custodian approved by MSD. All costs of collateralization will be borne by the downgraded party who must post the collateral. In addition, the April 2001 and October 2002 swaps were awarded

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 7. LONG-TERM DEBT (CONTINUED)

to multiple firms to further mitigate the credit risk associated with the transactions.

The aforementioned swap transactions also expose MSD to basis risk, the risk that arises when variable interest rates on a derivative and an associated bond are based on different indexes. The payment terms of the October 2002 and March 2003 swaps coincide with the 2003 variable rate bond issue that was executed to refinance the Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B.

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 7.34% 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, 2004, 2003 and 2002 were \$2,201, \$1,927 and \$1,877 respectively, equal to the required contributions for each year.

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

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 Louisville Metro Government, six smaller cities, and six government agencies. The trust was formed to provide better risk protection and lower cost liability insurance by sharing the risk with all of its members.

MSD's payments to the Trust are reflected on the financial statements as an expense. The trust provides, after a \$300 deductible, liability coverage up to \$5,000 per occurrence. The amount of coverage available to MSD could be limited by the total assets of the Trust. At June 30, 2004, 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 joined the Louisville Area Governmental General Insurance (Property) Trust in September, 2002. This Trust was created to provide lower cost to Trust participants for property insurance.

MSD is responsible for property damage up to \$100. The Insurance Trust provides coverage for the next \$900 and a reinsurance plan with a third party carrier covers claims in excess of \$1 million.

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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 9. RISK MANAGEMENT (CONTINUED)

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

	June 30		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Liability - beginning of year	\$ 875	\$ 944	\$ 792
Claims and changes in estimates	247	475	793
Claims and payments	(534)	(544)	(641)
Liability - end of year	\$ 588	\$ 875	\$ 944

NOTE 10. DEFERRED COMPENSATION

MSD offers its employees deferred compensation plans created in accordance with Internal Revenue Service Code Sections 401(k) and 457. These plans, available to all MSD employees, permit them to defer the payment of a portion of their salary until future years. 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

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

(Continued)
(in thousands)

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

agreement include provisions for termination of the agreement in the event of default.

MSD has an agreement to sell sanitary sewer assessments to a local bank. These assessments reflect the portion of the cost that residents pay to have sewer lines installed in their neighborhood. Residents are given the opportunity to pay the assessment in full or to finance it over a twenty-year period at 7% interest per annum. The agreement calls for MSD to receive 100.04% of the face value of the assessments. The bank will only accept up to \$25 million of outstanding assessments at any point in time. The agreement gives the bank the option to place the assessments back to MSD if the payments of the property owner are ninety days in arrears or the property owner does not respond to the bank's demand for payment within a ninety day period after the issuance of the assessment. Activity under this agreement for the years ending June 30, 2004 and 2003 was as follows:

	June 30	
	<u>2004</u>	<u>2003</u>
Balance - beginning of year	\$ 17,900	\$ -
Assessments sold to bank	9,700	17,900
Assessments repurchased by MSD	<u>(5,100)</u>	<u>-</u>
Balance - end of year	<u>\$ 22,500</u>	<u>\$ 17,900</u>

In May 2003, MSD received a request for information from the United States Environmental Protection Agency, Region 4 (EPA), under Section 308 of the Clean Water Act. MSD provided the requested information. EPA representatives conducted an inspection of part of MSD's combined and separate collection systems during the week of August 25 through August 29, 2003. On December 1, 2003, MSD received the inspection report from the EPA. This report contains findings that assert violations by MSD of the Clean Water Act. The report identified significant violations of the Clean Water Act due to the discharge of sanitary sewer overflows into the navigable waters of the United States. It also found violations of the Clean Water Act for MSD's combined sewer overflows. Representatives of EPA returned to MSD the week of December 8, 2003 for further information. MSD clarified certain

**LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
NOTES TO THE COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

*(Continued)
(in thousands)*

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

information contained in the report and provided the EPA with comments and corrections to the report.

In February 2004, MSD signed an Agreed Order with the Commonwealth of Kentucky Environmental and Public Protection Cabinet (The Cabinet). The provisions of the Agreed Order called for MSD to complete all current construction at its Morris Forman Wastewater Treatment Plant and to be in compliance with KPDES Permit No. KY0022411, Kentucky Revised Statute Chapter 224 and the regulations promulgated pursuant thereto by February 1, 2004. MSD met these requirements of the Agreed Order. In addition, MSD agreed to complete supplemental environmental projects estimated to cost \$1,020. The Cabinet and MSD are currently in negotiations to develop a plan to mitigate sewer overflows.

At this time, it is impossible to determine with certainty the ultimate outcome of EPA's investigations and assertions of violations of the Clean Water Act. In the opinion of MSD, the resolution of any violations will not result in material adverse affect on the operation, property, or finances of MSD.

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, 2004, amounted to \$43,171.

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)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Revenues:											
Service charges	\$ 103,571	\$ 99,546	\$ 90,255	\$ 87,641	\$ 85,162	\$ 79,635	\$ 74,808	\$ 70,074	\$ 67,913	\$ 63,957	\$ 60,281
Other operating income	7,216	6,696	5,713	6,013	6,569	5,194	5,274	5,716	7,387	3,334	4,408
Assessments	12,064	27,290	14,020	12,558	7,539	1,793	4,326	14,305	2,170	1,482	8,143
Investment income	23,916	9,377	11,610	14,363	11,748	8,459	7,054	4,520	7,529	6,075	3,293
Less: capitalized investment income	(18,201)	(5,087)	(6,428)	(10,146)	(9,625)	(7,196)	(4,518)	(2,562)	(2,531)	(1,515)	(1,105)
Total revenues	128,566	137,822	115,170	110,429	101,393	87,885	86,944	92,053	82,468	73,333	75,020
Operating expenses:											
Service and administrative costs	74,972	77,829	74,734	74,417	74,823	71,836	72,232	70,713	64,717	60,978	58,205
Less: capitalized project costs	(23,671)	(25,784)	(24,007)	(22,618)	(19,822)	(26,494)	(12,556)	(10,368)	(7,340)	(6,571)	(6,602)
Total operating expenses	51,301	52,045	50,727	51,799	55,001	45,342	59,676	60,345	57,377	54,407	51,603
Net Revenues	77,265	85,777	64,443	58,630	46,392	42,543	27,268	31,708	25,091	18,926	23,417
Aggregate debt service:											
Current maturities of long-term debt	15,303	13,092	11,676	9,559	6,210	5,909	5,654	4,997	4,775	4,619	2,937
Interest expense	65,370	64,797	61,220	50,950	44,363	33,572	26,845	21,492	19,590	15,898	13,293
Less: capitalized interest expense	(26,940)	(30,490)	(32,891)	(29,352)	(27,242)	(17,029)	(13,585)	(11,859)	(9,897)	(6,813)	(5,932)
Aggregate net debt service	53,733	47,399	40,005	31,157	23,331	22,452	18,914	14,630	14,468	13,704	10,298
Debt service coverage ratio	144%	181%	161%	188%	199%	189%	144%	217%	173%	138%	227%

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 STATEMENT OF NET ASSETS -- ASSETS
 JUNE 30
 (in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Assets										
Current Assets:										
Cash and cash equivalents	\$ 20,572	\$ 15,072	\$ 11,920	\$ 23,408	\$ 7,515	\$ 18,495	\$ 4,826	\$ 12,958	\$ 2,573	\$ 713
Investments	56	9,176	1,006	217	302	233	7,365	2,136	5,128	11,777
Accounts receivable	14,136	12,904	12,233	13,235	11,610	8,075	8,214	9,111	7,574	6,233
Recovery of insured loss receivable	-	-	-	-	453	941	-	-	-	-
Inventories	2,685	2,676	2,466	2,530	2,372	2,338	3,199	3,284	3,620	3,162
Prepaid expenses and other current assets	796	667	394	154	288	306	728	248	394	217
Total Current Assets	38,245	40,495	28,019	39,544	22,540	30,388	24,332	27,737	19,289	22,102
Restricted Assets:										
Cash and cash equivalents	110,942	117,226	216,890	67,500	230,198	70,263	174,274	3,827	2,350	3,826
Investments	74,112	51,220	52,400	25,457	24,872	22,911	27,245	84,920	72,068	40,021
Miscellaneous Receivables	-	-	-	-	-	-	-	-	44	45
Total Restricted Assets	185,054	168,446	269,290	92,957	255,070	93,174	201,519	88,747	74,462	43,892
Long-term Assessments Receivable	27,964	30,327	37,538	26,723	17,415	7,605	7,595	3,790	3,563	1,926
Deferred Compensation Plan	-	-	-	-	-	-	-	6,715	5,176	4,002
Plant, Lines and Other Facilities:										
Completed projects	1,632,338	1,526,610	1,391,498	1,199,210	1,066,648	1,025,187	1,004,211	858,702	840,201	785,673
Less: Accumulated depreciation	(436,162)	(398,727)	(366,204)	(361,016)	(334,249)	(310,451)	(295,929)	(280,439)	(260,116)	(239,060)
	1,196,176	1,127,883	1,025,294	838,194	732,399	714,736	708,282	578,263	580,085	546,613
Construction in progress	423,823	405,035	411,570	433,324	377,506	249,727	157,279	207,419	152,985	145,630
Net Plant, Lines and Other Facilities	1,619,999	1,532,918	1,436,864	1,271,518	1,109,905	964,463	865,561	785,682	733,070	692,243
Total Assets	\$ 1,871,262	\$ 1,772,186	\$ 1,771,711	\$ 1,430,742	\$ 1,404,930	\$ 1,095,630	\$ 1,099,007	\$ 912,671	\$ 835,560	\$ 764,165

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

Liabilities and Net Assets	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Liabilities:										
Current Liabilities (Payable from Current Assets):										
Accounts payable and accrued expenses	\$ 9,671	\$ 9,492	\$ 7,969	\$ 7,912	\$ 7,285	\$ 9,187	\$ 9,621	\$ 8,556	\$ 7,194	\$ 6,208
Early retirement incentive plan payable	-	-	-	-	-	8,392	-	-	-	-
Total Current Liabilities (Payable from Current Assets)	9,671	9,492	7,969	7,912	7,285	17,579	9,621	8,556	7,194	6,208
Current Liabilities (Payable from Restricted Assets):										
Accounts payable and accrued expenses	11,846	17,588	16,231	14,942	10,945	7,445	8,519	5,965	5,222	3,482
Accrued interest	9,916	9,454	10,922	8,444	8,478	4,873	8,246	4,466	3,253	2,831
Current maturities of bonds payable	15,303	13,092	11,676	9,559	6,210	5,909	5,654	4,962	4,709	4,169
Current maturities of other long-term debt	-	-	-	-	-	-	-	35	66	450
Total Current Liabilities (Payable from Restricted Assets)	37,065	40,134	38,829	32,945	25,633	18,227	22,419	15,428	13,250	10,932
Long-Term Debt:										
Bonds payable	1,256,228	1,170,141	1,184,993	895,973	904,839	610,353	615,562	359,080	312,285	268,773
Other long-term debt	6,495	6,917	7,338	7,759	-	-	-	70,000	50,035	25,101
Total Long-Term Debt	1,262,723	1,177,058	1,192,331	903,732	904,839	610,353	615,562	429,080	362,320	293,874
Deferred Compensation	-	-	-	-	-	-	-	6,715	5,176	4,002
Total Liabilities	1,309,459	1,226,684	1,239,129	944,589	937,757	646,159	647,602	459,779	387,940	315,016
Net Assets:										
Invested in plant, lines, & other facilities, net of related debt	490,458	476,849	450,966	428,688						
Restricted for payment of bond principal & interest	17,850	18,884	35,482	10,810						
Unrestricted	53,495	49,769	46,134	46,655						
Total Net Assets	561,803	545,502	532,582	486,153						
Total Liabilities and Net Assets	1,871,262	1,772,186	1,771,711	1,430,742						
Equity:										
Contributed Capital	-	-	-	-	345,994	334,345	333,437	330,710	321,864	324,986
Retained Earnings:										
Reserved for payment of bond principal and interest	-	-	-	-	12,129	12,891	10,890	13,014	13,444	10,350
Unreserved	-	-	-	-	109,050	102,235	107,078	109,168	112,312	113,813
Total Retained Earnings	-	-	-	-	121,179	115,126	117,968	122,182	125,756	124,163
Total Equity	-	-	-	-	467,173	449,471	451,405	452,892	447,620	449,149
Total Liabilities and Equity	\$ -	\$ -	\$ -	\$ -	\$ 1,404,930	\$ 1,095,630	\$ 1,099,007	\$ 912,671	\$ 835,560	\$ 764,165

Note: FY 2001 - 2003 statements are presented in accordance with GASB 34

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

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Operating revenue:										
Wastewater service charges	\$ 79,933	\$ 77,778	\$ 69,856	\$ 68,228	\$ 66,637	\$ 62,306	\$ 58,840	\$ 55,441	\$ 54,060	\$ 50,225
Stormwater service charges	23,638	21,768	20,399	19,413	18,525	17,329	15,968	14,633	13,853	13,732
Other operating income	7,216	6,696	5,713	6,013	6,569	5,194	5,274	5,716	7,387	3,334
Total operating revenue	110,787	106,242	95,968	93,654	91,731	84,829	80,082	75,790	75,300	67,291
Operating expenses:										
Service and administrative costs	74,972	77,829	74,734	74,417	74,823	71,836	72,232	70,713	64,717	60,978
Capitalization/recovery of cost	(23,671)	(25,784)	(24,007)	(22,618)	(19,822)	(26,494)	(12,556)	(10,368)	(7,340)	(6,571)
Depreciation and amortization	37,718	35,401	34,131	27,448	24,266	30,497	22,289	20,896	21,120	19,492
Total operating expenses	89,019	87,446	84,858	79,247	79,267	75,839	81,965	81,241	78,497	73,899
Income (loss) from operations	21,768	18,796	11,110	14,407	12,464	8,990	(1,883)	(5,451)	(3,197)	(6,608)
Non-operating revenue (expense):										
Investment Income	5,715	4,290	5,182	4,217	2,123	1,263	2,536	1,958	4,998	4,560
Interest expense	(38,495)	(34,307)	(28,330)	(21,598)	(17,121)	(16,543)	(13,260)	(9,633)	(9,693)	(9,085)
Early retirement incentive plan expenses	-	-	-	-	-	(10,114)	-	-	-	-
Contributed capital	-	-	-	-	20,236	14,470	11,120	18,398	6,364	9,954
Total non-operating revenue (expenses) - net	(32,780)	(30,017)	(23,148)	(17,381)	5,238	(10,924)	396	10,723	1,669	5,429
Net loss before contributions	(11,012)	(11,221)	(12,038)	(2,974)						
Contributions										
Property owner assessments	9,701	20,079	24,786	21,865						
All other	17,612	4,062	33,681	89						
Increase in net assets	16,301	12,920	46,429	18,980						
Net assets, beginning of year	545,502	532,582	486,153	467,173						
Net assets, end of year	561,803	545,502	532,582	486,153						
Net income (loss)	-	-	-	-	17,702	(1,934)	(1,487)	5,272	(1,528)	(1,179)
Beginning equity	-	-	-	-	449,471	451,405	452,892	447,620	449,148	450,327
Ending equity	\$ -	\$ -	\$ -	\$ -	\$ 467,173	\$ 449,471	\$ 451,405	\$ 452,892	\$ 447,620	\$ 449,148

Note: FY 2001 - 2004 statements are presented in accordance with GASB 34

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

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Cash flows from operating activities:										
Cash received from customers	109,938	105,571	96,970	92,029						
Cash paid to suppliers and employees	(51,643)	(51,005)	(50,846)	(51,196)						
Income/(loss) from operations					\$ 12,464	\$ 8,990	\$ (1,883)	\$ (5,451)	\$ (3,197)	\$ (6,608)
Depreciation					24,266	30,497	22,289	20,896	21,120	19,492
Change in operating assets and liabilities:										
Decrease (increase) in accounts receivable					(3,535)	139	897	(1,537)	(1,341)	(932)
Decrease (increase) in inventories					(34)	861	85	336	(458)	(87)
Decrease (increase) in prepaid expenses					18	422	(480)	146	(177)	8
Increase (decrease) in accounts payable					(1,902)	(434)	1,065	1,362	986	86
Net cash provided from operating activities	58,295	54,566	46,124	40,833	31,277	40,475	21,973	15,752	16,933	11,959
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	100,000	191,000	300,000	-	300,000	-	328,275	121,245	119,215	114,815
Defeasance of bonds and other long-term debt	-	-	-	-	-	-	(66,835)	(50,000)	(46,500)	(46,500)
Capital contributed by governments, property owners and developers	4,031	948	864	2,313	6,282	3,769	4,841	15,496	4,630	585
Refunding of long-term bonds	-	(185,230)	-	-	-	-	-	-	-	-
Increase in long-term assessments receivable	-	-	-	-	-	-	-	(227)	(1,637)	(945)
Principal paid on revenue bonds and other long-term debt	(11,702)	(19,206)	(8,863)	(6,210)	(5,909)	(5,654)	(74,997)	(4,775)	(4,619)	(2,997)
Interest paid on revenue bonds and other long-term debt	(26,478)	(31,958)	(30,408)	(50,986)	(40,668)	(36,245)	(22,369)	(19,268)	(18,635)	(14,878)
Acquisition and construction of plant, lines and other facilities	(126,365)	(127,057)	(164,959)	(165,857)	(150,809)	(118,808)	(92,659)	(56,501)	(46,894)	(67,624)
Recovery of insured loss	-	-	-	453	488	6,087	-	-	-	-
Net cash provided from capital and related financing activities	(60,514)	(171,503)	96,634	(220,287)	109,384	(150,851)	76,256	5,970	5,560	(17,544)
Cash flows from investing activities:										
Assessment principal payments	12,792	27,495	13,997	10,897	6,174	1,831	4,586	-	-	-
Interest received on termination of swap agreement	(422)	(421)	(421)	7,759						
Purchase of investment securities	(370,182)	(79,864)	(77,980)	(65,918)	(49,820)	(32,249)	(57,062)	(178,331)	(125,207)	(104,595)
Proceeds from sale and maturities of investment securities	329,655	63,592	48,160	65,093	49,871	39,384	108,956	164,407	98,712	104,290
Interest received on investments	29,592	9,623	11,388	14,818	10,461	10,273	10,123	4,064	4,386	6,016
Net cash provided from investing activities	1,435	20,425	(4,856)	32,649	16,686	19,239	66,603	(9,860)	(22,109)	5,711
Net increase (decrease) in cash and cash equivalents	(784)	(96,512)	137,902	(146,805)	148,955	(92,859)	164,832	11,862	384	126
Cash and cash equivalents, beginning of year	132,298	228,810	90,908	237,713	88,758	181,617	16,785	4,923	4,539	4,413
Cash and cash equivalents, end of year	\$ 131,514	\$ 132,298	\$ 228,810	\$ 90,908	\$ 237,713	\$ 88,758	\$ 181,617	\$ 16,785	\$ 4,923	\$ 4,539

Note: FY 2001 - FY 2004 statements are prepared utilizing the direct method. Please see the cash flow statement in the financial section for the reconciliation of operating income to net cash provided by operating activities.

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

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Service charges:										
Wastewater service charges:										
Residential	\$ 39,394	\$ 37,730	\$ 33,106	\$ 31,469	\$ 31,785	\$ 27,304	\$ 25,310	\$ 23,795	\$ 22,928	\$ 20,934
Commercial	23,761	23,071	21,220	20,339	20,412	18,855	17,069	15,580	14,220	12,899
Industrial	15,182	15,380	13,992	14,935	14,845	15,263	15,536	15,343	16,503	15,299
Bulk dumpers	-	-	-	-	17	313	436	431	473	835
Other - net	1,597	1,597	1,538	1,485	(422)	571	489	292	(64)	261
Total wastewater service charges	79,934	77,778	69,856	68,228	66,637	62,306	58,840	55,441	54,060	50,228
Stormwater service charges:										
Residential	9,223	8,657	8,134	7,865	7,398	6,973	6,586	6,276	6,068	6,057
Commercial	12,735	11,533	10,765	10,052	9,579	8,876	8,005	7,122	6,616	6,503
Industrial	1,679	1,578	1,500	1,496	1,548	1,480	1,377	1,235	1,169	1,172
Total stormwater service charges	23,637	21,768	20,399	19,413	18,525	17,329	15,968	14,633	13,853	13,732
Total service charges	103,571	99,546	90,255	87,641	85,162	79,635	74,808	70,074	67,913	63,960
Other operating income:										
Capacity charges	5,176	4,272	2,549	3,754	4,373	3,067	3,076	2,709	2,515	1,857
Connection fees	601	675	1,458	927	839	895	559	474	456	389
Regional facilities fees	301	374	354	276	324	506	608	545	397	407
Reserve capacity charges	18	1	58	13	23	33	75	35	26	137
Acquisition surcharges	-	-	-	-	-	-	-	-	-	-
Wastewater miscellaneous	1,062	1,344	1,244	994	967	632	881	1,897	4,009	615
Stormwater miscellaneous	58	30	50	49	43	61	75	56	59	81
City sewer bonds	-	-	-	-	-	-	-	-	(75)	(152)
Total other operating income	7,216	6,696	5,713	6,013	6,569	5,194	5,274	5,716	7,387	3,334
Total operating revenue	\$ 110,787	\$ 106,242	\$ 95,968	\$ 93,654	\$ 91,731	\$ 84,829	\$ 80,082	\$ 75,790	\$ 75,300	\$ 67,294

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

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Service and administrative costs:										
Labor	\$ 40,206	\$ 40,947	\$ 40,068	\$ 39,185	\$ 40,049	\$ 43,800	\$ 41,629	\$ 41,129	\$ 38,966	\$ 36,856
Utilities	8,870	7,967	6,979	7,984	7,017	6,451	6,733	7,035	6,423	6,093
Materials and supplies	7,237	7,479	7,043	8,400	8,730	6,469	6,085	5,867	4,598	4,267
Professional services	2,530	3,821	4,543	4,425	4,185	3,651	6,291	4,900	3,468	4,089
Maintenance and repairs	4,976	5,672	4,660	4,056	4,212	3,111	2,958	3,186	3,048	2,539
Billing and collections	3,209	2,812	3,164	3,628	3,578	2,996	2,861	2,633	2,611	2,316
Chemicals and fuel	3,828	3,701	3,536	2,825	2,403	2,060	2,410	2,446	1,903	1,593
Biosolids disposal	1,359	1,442	2,438	1,584	1,565	1,424	1,354	1,358	1,287	1,325
All other	2,757	3,988	3,081	3,163	3,084	1,874	1,841	2,159	2,413	1,900
Adjustment for encumbrances	-	-	-	-	-	-	-	-	-	-
Gross service and administrative costs	74,972	77,829	75,512	75,250	74,823	71,836	72,162	70,713	64,717	60,978
Less: Recovery of cost										
Capitalized project cost	(23,158)	(25,302)	(24,007)	(22,620)	(19,000)	(25,743)	(11,584)	(8,406)	(6,857)	(6,089)
Revenue recoveries	(513)	(482)	(778)	(831)	(822)	(751)	(902)	(768)	(483)	(482)
FEMA flooding cost recoveries						-	-	(1,194)	-	-
Recovery of cost	(23,671)	(25,784)	(24,785)	(23,451)	(19,822)	(26,494)	(12,486)	(10,368)	(7,340)	(6,571)
Net service and administrative costs	\$ 51,301	\$ 52,045	\$ 50,727	\$ 51,799	\$ 55,001	\$ 45,342	\$ 59,676	\$ 60,345	\$ 57,377	\$ 54,407

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

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Completed Projects										
Sewer lines	\$ 762,241	\$ 694,851	\$ 619,077	\$ 527,412	\$ 452,743	\$ 444,098	\$ 420,389	\$ 358,448	\$ 354,440	\$ 338,795
Wastewater treatment facilities	273,187	262,073	242,549	214,818	207,124	205,266	225,304	197,704	197,517	190,064
Stormwater drainage facilities	288,277	278,739	265,294	236,526	217,427	213,382	206,737	178,865	177,269	165,439
Pumping and lift stations	46,752	42,620	39,454	32,315	29,834	29,743	29,626	27,543	27,406	17,108
Administrative facilities	30,724	22,859	20,867	20,479	18,973	18,379	26,933	18,687	18,163	19,944
Maintenance facilities	4,785	4,048	4,048	3,359	3,210	3,189	2,697	3,019	2,839	2,758
Machinery, equipment and other	47,815	47,703	46,653	40,744	32,986	31,509	20,964	19,747	19,156	17,032
Capitalized interest and issuance cost	178,557	173,717	153,556	123,557	104,351	79,621	71,561	54,689	43,411	34,533
Total Completed Projects	1,632,338	1,526,610	1,391,498	1,199,210	1,066,648	1,025,187	1,004,211	858,702	840,201	785,673
Less accumulated depreciation	(436,162)	(398,727)	(366,204)	(361,016)	(334,249)	(310,451)	(295,929)	(280,439)	(260,116)	(239,060)
Total Completed projects - net	1,196,176	1,127,883	1,025,294	838,194	732,399	714,736	708,282	578,263	580,085	546,613
Construction in progress										
Sewer lines	202,021	189,116	199,910	187,546	140,901	101,754				
Wastewater treatment facilities	153,019	140,498	131,681	145,196	104,789	64,755				
Stormwater drainage facilities	24,880	17,904	19,861	38,823	38,750	28,249				
Pumping and lift stations	8,561	8,283	9,150	10,645	11,362	6,364				
Administrative facilities	31,880	48,836	49,898	50,374	43,233	22,129				
Maintenance facilities	-	-	-	740	1,066	642				
Machinery, equipment and other	3,462	398	1,070	-	37,405	25,834				
Total Construction in progress	423,823	405,035	411,570	433,324	377,506	249,727	157,279	207,419	152,985	145,630
Total Net Plant, Lines and Other Facilities	\$ 1,619,999	\$ 1,532,918	\$ 1,436,864	\$ 1,271,518	\$ 1,109,905	\$ 964,463	\$ 865,561	\$ 785,682	\$ 733,070	\$ 692,243

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
 METROPOLITAN SEWER DISTRICT
 WASTEWATER TREATMENT PLANT CAPACITY
 2004

Plant	Design	Avg Daily	Eventual	Customer Base			Total	Year Built	Treatment Process
	Capacity	Flow	Capacity	Residential	Commercial	Industrial			
	MGD	MGD	MGD						
Morris Forman	120.0	110.3	120.0	124,488	13,896	542	138,926	1958	Secondary added in 1972.
West County	19.5	21.2	30.0	48,782	2,486	21	51,289	1986	Secondary
Jeffersontown	4.0	3.7	4.0	6,188	810	36	7,034	1956	Secondary
Hite Creek	4.4	2.9	8.0	5,847	307	7	6,161	1970	Tertiary: sand filter
Cedar Creek	7.5	3.6	7.5	5,588	99	-	5,687	1995	Tertiary: sand filter
Floyd's Fork	3.3	1.0	9.8	2,175	73	-	2,248	2001	Secondary: extended aeration
19 Small Treatment Plants	3.2	2.7	-	4,995	211	-	5,206	Most 1970s	Various: developer-built package plants
Total Treatment System	161.9	145.4	179.3	198,063	17,882	606	216,551		

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

	2003 Rank	2002 Rank	2001 Rank	2000 Rank	1999 Rank	1998 Rank	Type of business							
United Parcel Service, Inc.	1	17,206	1	20,424	1	22,303	1	15,339	P	Air cargo transport and distribution				
Jefferson County, KY Public Schools	2	13,420	2	14,329	2	12,690	2	12,465	2	13,467	2	12,702	G	Primary and secondary education
Ford Motor Company	3	9,303	3	9,807	3	9,856	3	10,300	3	9,832	3	8,903	P	Vehicle manufacturing
Norton Healthcare (formerly Alliant Health)	4	7,850	4	7,575	4	7,034	4	6,495	5	5,877	10	3,911	N	Hospital and health care facilities
Louisville-Jefferson County Metro Government	5	5,744	5	5,995	N/A - formerly listed as City of Louisville & Jefferson County Fiscal Court								G	City/County Government
Jewish Hospital Healthcare Services	6	5,450	7	5,467	10	4,352	10	4,332	7	4,995	6	5,138	N	Hospital and health care facilities
General Electric Company	7	5,200	6	5,800	6	5,800	6	6,000	4	7,446	4	8,290	P	Appliance manufacturing
Kroger Company	8	4,960	10	5,045	5	6,655	8	4,837	9	4,700	9	4,430	P	Retail grocer
Commonwealth of Kentucky	9	4,952	8	5,328	7	5,374	7	5,358	6	5,405	5	5,807	G	General purpose government
University of Louisville	10	4,943	9	5,133	8	5,017	5	6,078	8	4,898	7	4,737	G	Higher education
Humana, Inc.	11	4,889	11	4,785	9	4,672	9	4,626	10	4,665	8	4,523	P	Group health insurance/HMOs
U.S. Postal Service	12	2,872	12	3,137	12	3,284	12	3,444	12	3,117	13	3,094	G	Mail distribution
U.S. Federal Government	13	2,806	13	2,949	14	2,671	15	2,673	14	2,643	21	2,194	G	General purpose government
Roman Catholic Archdiocese of Louisville	14	2,468	14	2,485	15	2,560	16	2,434	18	2,295	19	2,275	N	Religious, educational, social services
Baptist Hospital East	15	2,308	15	2,204	18	2,149	18	2,235	19	2,220	22	2,086	N	Hospital and health care facilities
Yum! Brands Inc. (formerly Tricon)	16	2,194	17	2,170	23	1,752	28	1,589	NR		NR		P	Food service provider
Caritas Health Services	17	2,147	16	2,200	16	2,380	17	2,345	17	2,344	20	2,216	N	Hospital and health care facilities
University Hospital	18	2,115	19	2,006	20	1,953	24	1,748	NR		NR		N	Nonprofit health care
Ceasars Indiana	19	1,968	18	2,076	17	2,221	21	2,100	NR		NR		P	Gaming and entertainment resort
Kindred Healthcare (Formerly Vencor Inc.)	20	1,957	20	1,952	19	2,003	19	2,229	23	1,710	25	1,916	P	Long-term health care, facilities
Anthem, Inc.	21	1,744	21	1,725	22	1,767	23	1,803	24	1,697	29	1,710	P	Health Insurance sales and services
Bank One, Kentucky NA	22	1,630	22	1,720	21	1,807	20	2,161	20	2,078	24	1,974	P	Diversified commercial banking
Publishers Printing Company	23	1,595	24	1,600	24	1,650	22	1,840	22	1,785	28	1,800	P	Trade, professional, special printing
Greater Clark County, IN School Corp.	24	1,459	26	1,438	28	1,312	32	1,392	33	1,319	37	1,324	G	Primary and secondary education
BellSouth	25	1,438	27	1,395	29	1,300	30	1,484	28	1,573	33	1,494	P	Telecommunications
Clark Memorial Hospital	26	1,358	38	1,015	31	1,214	38	1,163	39	1,097	41	1,144	N	Hospital and health care services
SHPS	27	1,315											P	Benefits administration
National Processing Company	28	1,289	28	1,377	26	1,397	31	1,396	38	1,100	26	1,900	P	Automated item processing
National City Bank, Kentucky/So. Indiana, Inc.	29	1,278	37	1,056	29	1,300	25	1,682	27	1,580	32	1,525	P	Diversified commercial banking
Oldham County, KY Board of Education	30	1,250	30	1,238	31	1,214	36	1,185	37	1,131	42	1,100	G	Primary and secondary education
New Albany/Floyd County, IN School Corp.	31	1,213	32	1,200	34	1,210	34	1,235	35	1,212	38	1,204	G	Primary and secondary education
U.S. Veterans Affairs Medical Center	32	1,181	36	1,130	40	1,070	42	1,084	36	1,132	40	1,167	G	Hospital and health care facilities
Swift & Co.	33	1,151	34	1,151	35	1,200	NR		NR		35	1,450	P	Hog slaughtering and pork processing
Brown-Forman Corp.	34	1,145	25	1,584	36	1,194	40	1,101	29	1,515	34	1,457	P	Distilled spirits manufacturing
Seven Counties Services	35	1,132	39	1,005	31	1,214	37	1,164	42	962	44	1,056	N	Health care provider
A.J. Schneider Co.	36	1,130	35	1,130	38	1,120	41	1,095	NR		NR		P	Full-service hotel
Floyd Memorial Hospital & Health Services	37	1,113	29	1,249	41	1,039	35	1,228	NR		NR		P	Hospital and health services provider
Courier Journal	38	1,015											P	Newspaper Publisher
		<u>128,188</u>		<u>131,880</u>		<u>125,734</u>		<u>123,573</u>		<u>110,133</u>		<u>107,866</u>		

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