



Dave Yost • Auditor of State



**METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management Discussion and Analysis .....	5
Basic Financial Statements:	
Statement of Net Position .....	9
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	11
Statement of Cash Flows.....	12
Notes to the Financial Statements .....	13
Schedule of Federal Awards Expenditures.....	35
Notes to the Schedule of Federal Awards Expenditures .....	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	37
Independent Auditor's Report on Compliance with Requirements Applicable to The Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	39
Schedule of Findings.....	41

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Metropolitan Sewer District of Greater Cincinnati  
Hamilton County  
1600 Gest Street  
Cincinnati, Ohio 45204

To the Hamilton County Board of Commissioners:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, Ohio (the District), as of and for the years ended December 31, 2014 and December 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, as of December 31, 2014 and December 31, 2013, and the changes in financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 5 to the financial statements, during the year ended December 31, 2013, the District reclassified their Capital Assets categories.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Award Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2015

**This page intentionally left blank.**

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
MANAGEMENT DISCUSSION AND ANALYSIS  
(UNAUDITED)**

This section of the Metropolitan Sewer District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal years ended December 31, 2014 (FY 2014) and December 30, 2013 (FY 2013). Please read it in conjunction with the District's basic financial statements, beginning on page 10.

The ending net position for December 31, 2013, has been restated to reflect the implementation of the People Soft Fixed Asset System. A discussion of these adjustments is included in Note 5.

**FINANCIAL HIGHLIGHTS FOR THE YEAR**

- Assets exceeded liabilities by \$908,159,000 at the close of the 2014 fiscal year.
- The District's net position increased by \$92.2 million, or 11.3%, during FY 2014 and by \$23.6 million, or 2.9%, in FY 2013 (restated).
- Total long-term liabilities had a net decrease of \$26.5 million. There was an issuance of \$162.7 million of refunding revenue bonds.
- Current Liabilities –In fiscal year 2014, total current liabilities increased by \$6.9 million

**FINANCIAL STATEMENTS OVERVIEW**

Financial Reporting Entity– The Metropolitan Sewer District of Greater Cincinnati (District) is a Hamilton County enterprise fund managed and operated by the City of Cincinnati. The District is operated pursuant to the authority of the Revised Code authorizing the formation of joint sewer districts, agreements between counties and municipal corporations. The District provides sewage treatment within a service area of approximately 400 square miles and encompasses portions of four counties in southwestern Ohio. The District provides wastewater removal and treatment to over 220,000 residential, commercial, and industrial sewer connections and operates and maintains over 3,000 miles of sanitary and combined sewers, seven major wastewater treatment plants and 140 pump stations. As an enterprise fund, operations are reported on the full accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. The County issues a separate Comprehensive Annual Financial Report which includes the District as a separate enterprise fund of the County. The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the District's overall financial status.

**Financial Statement Structure–**

In addition to the preceding report from the Auditor of the State of Ohio, the annual financial report consists of three segments:

- The Management's Discussion and Analysis provides explanations for and analysis of the Department's financial activities based upon currently known facts, conditions, and decisions of the Department's management. While primarily focused on current year results compared with prior years, this discussion also addresses certain long-term issues, which may, in management's opinion, impact the District's financial performance.
- Basic Financial Statements, which depict the District's financial position as of December 31, 2014 and 2013, along with earnings performance and cash flow information. These statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows.
- The accompanying notes explain some of the financial statement data and provide more detailed information.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
MANAGEMENT DISCUSSION AND ANALYSIS  
(UNAUDITED)**

Required Basic Financial Statements -- The Statement of Net Position is the first required statement; it includes the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities) with the difference being reported as net position. It also provides the basis for computing the rates of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation also need to be considered in assessing the District's financial condition. The Statement of Revenues, Expenses, and Change in Net Position is the second required financial statement which demonstrates the changes in net position from one fiscal period to the next by accounting for revenues and expenditures and measuring the financial results of operations. This statement measures the profitability (i.e. change in net position) of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and capital and noncapital financing activities. It also provides information regarding sources of cash, uses of cash, and changes in cash balances during the reporting period.

Notes to the audited financial statements contain information essential to understanding them, such as the District's significant accounting policies and information about certain financial statement account balances.

#### FINANCIAL ANALYSIS

As can be seen in Table A, 54% of the District's net positions reflect its investment in capital assets (e.g., buildings, sewer laterals, and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used primarily in the collection and treatment of wastewater throughout the District's service area.

- The related debt will be repaid with resources provided by system users through rates and fees. Long-term debt (net of the current portion) decreased by \$41.8 million, or -4.5%, in FY 2014 and, increased by \$97.1 million, or 10.6%, in FY 2013.

Net position increased \$134 million in 2014. The increase is a combination of income before contributions and contributions in the form of connection fees, assessments and developer contributions.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
MANAGEMENT DISCUSSION AND ANALYSIS  
(UNAUDITED)**

Table B below shows that total operating revenues in FY 2014 totaled \$265.2 million, (an increase of \$5.9 million or 2.3%), compared with \$259.3 million in FY 2013, (an increase of \$10.2 million or 4.1% from the previous year) primarily due to increased revenues from sewerage service charges received from a January 2014 rate increase of 6% and a January 2013 increase of 5%. Meanwhile total expenses decreased by \$63.9M, (or -25.5%) during 2014, while 2013 expenses increased 31.5 % (or \$60.6M).

Condensed Summary of Revenues Expenses and Changes in Net Position (In Thousands)				
	<b>2014</b>	<b>Percentage Increase (Decrease) over 2013</b>	<b>Restated 2013</b>	<b>Percentage Increase (Decrease) over 2012</b>
Operating revenues	\$ 265,211	2.3%	\$ 259,329	4.1%
Nonoperating revenues	9,548	-1.9%	9,734	11.4%
<b>Total revenues</b>	<b>274,759</b>	<b>2.1%</b>	<b>269,063</b>	<b>4.3%</b>
Depreciation and amortization expense	\$ 56,121	-10.8%	\$ 62,938	15.8%
Other operating expenses	\$ 120,018	-5.0%	\$ 126,289	24.5%
Nonoperating expenses	10,417	-83.0%	61,284	76.8%
<b>Total expenses</b>	<b>\$ 186,556</b>	<b>-25.5%</b>	<b>\$ 250,511</b>	<b>31.5%</b>
Income before contributions	\$ 88,203	375.4%	\$ 18,552	-73.1%
Capital contributions	\$ 3,957	-21.4%	\$ 5,037	-20.0%
Change in net position	\$ 92,160	290.7%	\$ 23,589	-68.6%
Total Net Position, beginning	815,999	3.0%	792,410	10.2%
<b>Total Net Position, ending</b>	<b>\$ 908,159</b>	<b>11.3%</b>	<b>\$ 815,999</b>	<b>2.9%</b>

- Operating expenses, excluding depreciation and amortization, decreased by \$6.3 million to \$120.0 million, or -5.0% primarily to decreased lower purchased services and other expenses. Operating expenses increased by 126.3% (or \$24.9M) in 2013 primarily because of the increase in personnel and pension costs, contract costs originally approved as capital costs that were reclassified as operating expenses, and costs related to a one-time chemical remediation requirement.
- Depreciation expenses decreased -10.8% or \$6.8 million in 2014 and increased 15.8% or \$8.7 million in 2013. The Fixed Assets are now in PeopleSoft Asset System.
- Nonoperating expenses for 2014 decreased \$50.9M (or -83.0%) due to change in interest expense and change in the fair value of investments. 2013 increased by \$27.0M (or 77.9%) due to increased interest expense from the 2013 bond issuance as well as change in the fair value of investments. \$16M of the increase was due to a loss on impairment of assets.

**CAPITAL ASSETS, DEBT AND RATES**

Change In Capital Asset Determination - -As of December 31, the District's investment in capital assets (net of accumulated depreciation) amounted to \$1,440 million and \$1,404 million as shown in Table C for 2014 and 2013, respectively. In 2014, the District spent about \$60.1 million on capital improvement projects and equipment replacement and received about \$1.3 million in capital contributions. In 2013, the District spent about \$121 million on capital improvement projects and equipment replacement and received about \$5.0 million in capital contributions.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
MANAGEMENT DISCUSSION AND ANALYSIS  
(UNAUDITED)**

Sewer replacement and improvement projects were about one-half of the program in 2014, and three-fourths of the program in 2013. Additional information on the District's capital assets can be found in Note 5 to the financial statements.

TABLE C  
Capital Assets  
(In Thousands)

	2014	Percentage Increase (Decrease) over 2013	Restated 2013	Percentage Increase (Decrease) over 2012
Land	\$ 6,481	0.0%	\$ 6,481	1.8%
Buildings	351,707	0.6%	348,490	4.8%
Equipment	489,492	5.1%	469,229	11.5%
Sewer Laterals	1,083,889	2.3%	1,057,847	4.8%
Construction in progress	319,389	10.1%	290,128	-9.4%
Subtotal	<u>\$ 2,250,958</u>	<u>3.7%</u>	<u>\$ 2,172,175</u>	<u>0.2%</u>
Less accumulated depreciation	810,543	5.6%	767,766	6.8%
Net capital assets	<u>\$ 1,440,415</u>	<u>2.6%</u>	<u>\$ 1,404,409</u>	<u>-3.2%</u>

#### 2014 Bond Issuance

The District finances its construction program through a combination of revenue bonds, state revolving loans through the State of Ohio and cash, with the primary source being tax-exempt revenue bonds. The District's revenue bond rates are:

- Moody's Investors Services                      Aa2
- Standard & Poor's Corporation                      AA+

On November 19, 2014, the District completed a successful municipal issuance of \$162.7 million in new tax exempt bonds and refinanced the 2003A, a portion of the 2005B, a portion of 2006A a portion of 2007A, and a portion of 2009A series bonds for a total of \$181.9 million. In addition, the Eighteenth Supplemental Trust Agreement between Hamilton County, Ohio and U.S. Bank National Association, dated November 12, 2014, redefined the calculation for net income available for debt service. Revenue bond service Debt Coverage in 2014 was 202%, compared to an Agency policy of 150%, (25% higher than indenture requirements). The total debt coverage was 159% compared to the indenture requirement of 125%.

Rate Increase – Effective January 9, 2015, the Hamilton County Commissioners approved an increase of the District's sewer fee by 6%. This increase provides additional revenues necessary to ensure that all expenses (including debt service) are covered as well as meeting all bond indenture requirements. Debt service necessary to cover the issuance of municipal bonds required to pay for the District's large capital program will require annual rate increases into the near future.

Effective March 2015, MSD issued a Sewer System Refunding Revenue Bonds, 2015 Series A, in the amount of \$52,520,000.

For additional information on the Management Discussion and Analysis please contact:

Metropolitan Sewer District of Greater Cincinnati  
Office of the Director  
1600 Gest Street  
Cincinnati, OH 45204

**Metropolitan Sewer District**  
**Statement of Net Position**  
**For The Periods Ended December 31, 2014 And December 31, 2013**  
**( All amounts expressed in thousands)**

	2014	Restated 2013
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents and pooled investments held by the City of Cincinnati (Note 2)	\$ 53,018	\$ 20,551
Accounts receivable (Note 3)	75,634	49,462
Prepaid expenses and other	1,483	1,409
Total current assets	130,135	71,422
Noncurrent assets:		
Restricted assets:		
Cash, cash equivalents, and pooled investments held by the City of Cincinnati		
Construction account (Note 2)	6,295	52,084
Amount to be transferred to surplus account (Note 2)	33,513	56,048
Held by trustee: (Note 4)		
Cash and cash equivalents (Note 2)	1,696	250
Investments - Held to maturity (Note 2)	404,431	373,450
Total restricted assets	445,935	481,832
Other assets:		
Other	157	158
Total other assets	157	158
Capital assets: (Note 5)		
Land	6,481	6,481
Buildings	351,707	348,490
Sewer Laterals	1,083,889	1,057,847
Equipment	489,492	469,229
Construction in progress	319,389	290,128
Total capital assets	2,250,958	2,172,175
Less:		
Accumulated depreciation	(810,543)	(767,766)
Net capital assets	1,440,415	1,404,409
Total noncurrent assets	1,886,507	1,886,399
Total assets	\$ 2,016,642	\$ 1,957,821
Deferred outflow of resources		
Deferred charges on refunding	\$ 15,283	\$ 1,510

(Continued)

The notes to the financial statements are an integral part of the financial statements

**Metropolitan Sewer District**  
**Statement of Net Position**  
**For The Periods Ended December 31, 2014 And December 31, 2013**  
**( All amounts expressed in thousands)**  
**(Continued)**

	2014	Restated 2013
<b>LIABILITIES</b>		
Current liabilities:		
Payable from current assets:		
Current portion of long-term debt (Note 6)	\$ 61,765	\$ 55,759
Current portion of compensated absences (Note 8)	3,786	3,761
Accounts payable	6,257	7,792
Accrued payroll expenses	2,633	1,320
Total current liabilities payable from current assets	74,441	68,632
Payable from restricted assets:		
Construction accounts payable	9,552	8,556
Accrued interest payable	2,908	2,815
Total current liabilities payable from restricted assets	12,460	11,371
Total current liabilities	86,901	80,003
Noncurrent liabilities:		
Accrued compensated absences (Note 8)	4,746	5,124
Long-term debt (Note 6)	972,844	1,008,612
Net Pension Obligation	46,819	37,957
Net Other Post Employment Benefit Obligation	12,456	11,636
Total noncurrent liabilities	1,036,865	1,063,329
Total liabilities	\$ 1,123,766	\$ 1,143,332
Net position:		
Net investment in capital assets	\$ 501,260	\$ 426,159
Restricted	8,454	8,423
Unrestricted	398,445	381,417
Total net position	\$ 908,159	\$ 815,999

The notes to the financial statements are an integral part of the financial statements

**Metropolitan Sewer District**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For The Periods Ended December 31, 2014 And December 31, 2013**  
**( All amounts expressed in thousands)**

	<u>2014</u>	<u>Restated 2013</u>
<b>REVENUES</b>		
Operating revenues:		
Sewerage service charges	\$ 237,346	\$ 231,958
Sewer surcharges	20,119	18,424
All other revenues	7,746	8,947
Total operating revenues	<u>265,211</u>	<u>259,329</u>
<b>EXPENSES</b>		
Operating expenses:		
Personnel services	55,487	51,291
Purchased services	35,707	42,274
Utilities, fuel and supplies	19,668	20,579
Depreciation and amortization	56,121	62,938
Other expenses	9,156	12,145
Total operating expenses	<u>176,139</u>	<u>189,227</u>
Operating income	<u>89,072</u>	<u>70,102</u>
<b>NONOPERATING</b>		
Nonoperating revenues (expenses):		
Interest income	9,548	9,445
Change in fair value of investments	33,010	(5,132)
Interest expense	(43,427)	(40,049)
Loss on impairment of assets	0	(16,103)
Retirement of capital assets	0	289
Total nonoperating revenues	<u>(869)</u>	<u>(51,550)</u>
Income (Loss) before contributions	88,203	18,552
Capital contributions	3,957	5,037
Change in net position	<u>92,160</u>	<u>23,589</u>
Total net position, beginning - as restated (NOTE 5)	815,999	792,410
Total net position, ending	<u>\$ 908,159</u>	<u>\$ 815,999</u>

The notes to the financial statements are an integral part of the financial statements

**Metropolitan Sewer District  
Statement of Cash Flows  
For The Periods Ended December 31, 2014 And December 31, 2013**

	2014	Restated 2013
<b>Cash flows from Operating Activities:</b>		
Cash received from customers	\$ 262,681	\$ 245,155
Cash payments for goods and services	(58,550)	(58,473)
Cash payments for personnel costs	(45,514)	(46,047)
Other operating revenues	3,346	8,267
<b>Net Cash Provided by Operating Activities</b>	<u>161,963</u>	<u>148,902</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Principal and interest payments on long-term debt	(96,536)	(89,944)
Acquisition and construction of capital assets	(75,910)	(105,688)
Loan proceeds	2,434	9,287
Grant Proceeds	0	1,183
Transfer into construction account from trustee investment account 2013 Year	(32,048)	
Transfer into construction account from trustee investment account	24,000	73,070
Transfer from operating cash account to trustee investment account	(24,000)	(73,070)
Tap-in fees	2,855	3,056
Gain/loss from sale of property, plant and equipment	189	289
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(199,016)</u>	<u>(181,817)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of government securities	1,446	122
Net increase in fair value of pooled cash and investments held by City of Cincinnati	209	(901)
Interest earned on investments	989	1,096
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>2,644</u>	<u>317</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(34,409)</u>	<u>(32,598)</u>
<b>Cash and Cash Equivalents at January 1</b>	<u>128,931</u>	<u>161,529</u>
<b>Cash and Cash Equivalents at December 31</b>	<u>\$ 94,522</u>	<u>\$ 128,931</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Income from operations	\$ 89,072	\$ 70,102
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation and amortization	56,121	62,938
Capital Expenses moved to Operating	5,130	10,879
<b>Changes in assets and liabilities:</b>		
Net change in customer accounts receivable	5,914	(4,451)
Net change in other assets	(74)	(57)
Net change in operating accounts payable	(1,535)	4,327
Net change in accrued payroll and related expenses	960	(231)
Net Pension Obligation	8,862	5,494
Net Other Post Employment Benefit Obligation	820	(99)
Net Change in cash received from customers	(1,617)	0
Net Change in Cash in Transit	36	0
Net Change in Accrued Payroll Change	(307)	0
Net Change in OWDA Loan Forgiveness 2014	(841)	0
Net Change in Capital Expenses 7600 not moved to Fixed Assets in Fund 701	(578)	0
<b>Net Cash Provide by Operating Activities</b>	<u>\$ 161,963</u>	<u>\$ 148,902</u>
<b>Non-cash Transactions:</b>		
Structures donated as contributed capital in aid of construction	\$ 2,182	\$ 2,169
Acquisition and construction of capital asset paid directly by WPCLF loan proceeds	16,955	16,182
Construction accounts payable related to acquisition of capital assets	9,552	8,556

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 1 - ACCOUNTING POLICIES**

A summary of the significant accounting policies applied in the accompanying financial statements follows:

**Organization**

The Metropolitan Sewer District of Greater Cincinnati (MSD), an enterprise fund of the County of Hamilton, Ohio, collects and treats industrial and residential wastewater for municipalities and unincorporated areas of Hamilton County. MSD was formed on April 10, 1968, pursuant to resolutions of the Board of County Commissioners of Hamilton County and Ordinances of the City of Cincinnati, providing for a consolidation of the City Sewer Department and the County Sewer District. Under a contract with the City of Cincinnati, the Board designated the City as its agent for the maintenance and operation of MSD. The annual budget, prepared on a non-GAAP budgetary basis of accounting, is approved by the Board and administered by the City. Budgetary control is exercised at the divisional level, and between personnel and all other costs. The County issues a separate Comprehensive Annual Financial Report which includes MSD as a separate enterprise fund of the County.

**Basis of Accounting**

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

**Use of Estimates**

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

**Statement of Cash Flows**

For purposes of the Statements of Cash Flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. Pooled cash and investments held by the City of Cincinnati are considered cash equivalents by MSD.

**Investments**

MSD is required by Ohio law to invest in only United States obligations; federal agency securities; Ohio bonds and other obligations or such obligations of political subdivisions of the state, provided that the subdivisions are located within Hamilton County; time certificates of deposit or deposit accounts in an eligible institution; and no load money market mutual funds consisting only of investments mentioned above. Investments are required to mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of MSD.

Investment securities are stated at fair value, which is based on the quoted market prices or current share prices.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 1 - ACCOUNTING POLICIES (Continued)**

**Prepays**

Payments made for services that will benefit periods beyond December 31, 2014, are recorded as prepaids using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**Inventory**

Supplies and materials are stated at the lower cost or market on a first-in, first-out (FIFO) basis.

**Capital Assets**

Capital assets include land, construction in progress, buildings, sewer laterals and studies, and equipment. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Capital assets are stated at historical cost for assets acquired after MSD's inception in 1968. Assets which were acquired prior to 1968 and not identifiable with specific historical costs are not included in the capital assets balance. Assets acquired by MSD through contributions, such as contributions from land developers and federal and state grants, are capitalized and recorded in the plant records at the contributors' reported cost. Construction costs include interest capitalized on debt during the period of construction and the cost of in-force labor. See note 5 for more information on capital assets.

Land acquired for MSD's use is titled to either the City of Cincinnati or Hamilton County. The cost of this land has been recorded on the books of MSD since it has the full benefit of the land as an economical resource.

Depreciation expense is computed on the straight-line method over the estimated useful lives of the respective assets. The estimated lives are as follows:

Building	40 years
Sewer Laterals	40 years
Equipment	5-25 years

Any gain or loss arising from the disposal of capital assets has been credited or charged to income.

**Unamortized Financing Costs**

The unamortized financing costs include insurance, consulting and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the straight-line method over the lives of the revenue bonds. Bond premiums and discounts are being amortized on the interest method over the lives of the revenue bonds.

**Pension Plans**

Employees participate in either the City of Cincinnati's Retirement System or the Public Employees Retirement System administered by the State of Ohio. Pension costs reflect a percentage of employees' gross pay, as defined by the terms of pension plans in which employees participate. While MSD's policy is to fund pension costs accrued, this did not occur in 2013 or 2014. See Note 9.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 1 - ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

Compensated absences include accrued vacation time, sick leave, compensatory time and other related payments. Compensatory time and vacation time are paid out in full upon termination and are expensed in the year earned. Sick leave is paid out at various levels. The liability for sick leave is computed with the Termination Payment Method using an historical average of total years worked and total amount paid. The current amounts are an average of the annual expenditures. The entire compensated absence liability is reported on the financial statements.

**Net Position**

Net positions are the difference between assets and liabilities. Net investment in capital assets are capital assets less accumulated depreciation and any outstanding long-term debt related to the acquisition, construction or improvement of those assets. Net positions are reported as restricted when there are legal limitations that are imposed on their use by county legislation or external restrictions by other governments, creditors or grantors. Restricted net positions of the MSD relate to debt service.

MSD applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. MSD does not have net position restricted by enabling legislation.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for wastewater treatment. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

**Contributions of Capital**

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Deposits**

State statues classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the District has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required. The District is required to categorize deposits and investments according to GASB Statement No. 3 *Deposits with Financial Institutions, Investments, and Reverse Purchase Agreements*. The carrying value of the District's deposits was \$92,826,000 and \$128,682,000 at December 31, 2014 and 2013, respectively.

Amounts held by the City of Cincinnati are invested on MSD's behalf in accordance with the Cincinnati Municipal Code. Amounts held by the City are collateralized as part of the City's cash and investment balances. For GASB 40 disclosure requirements, refer to the financial statements as of June 30, 2014 for the City of Cincinnati.

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized and subject to custodial credit risk.

**Investments**

State Statute, board of county commissioners resolutions, and the 1985 Trust Indenture as amended authorize the District to invest in obligations of U. S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository funds, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily. Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the finance director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The District has no investment policy that addresses interest rate risk.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Funds held by the trustee are eligible investments as defined by the Trust Agreement and are in the name of the trustee for the benefit of MSD.

Investments made by MSD are summarized below. Trustee account investments are categorized according to credit risk into the following categories: (1) insured or registered, or securities held by MSD’s or its agent (bank trust department) in the MSD’s name; or (2) uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the MSD’s name; or (3) uninsured, unregistered securities held by the counterparty, or its trust department or agent but not in MSD’s name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. As stated in GASB Statement No. 40, obligations of the U. S. government or obligations explicitly guaranteed by the U. S. government are not considered to have credit risk and do not require disclosure of credit quality.

The money market funds are invested in a treasury obligation fund with a Moody’s credit rating of Aaa.

*Concentration of Credit Risk:* The Metropolitan Sewer District uses the City of Cincinnati’s Investment Policy which addresses concentration of credit risk by requiring investments to be diversified to reduce risk of loss resulting from over concentration of assets in a specific issue or class of security. The following table includes the percentage of each investment type held by MSD at December 31, 2014.

<b>Investment Type</b>	<b>Fair Value</b>	<b>% of Total</b>
Investments held by the City of Cincinnati	\$ 93,172	18.66
U. S. Government Security	404,431	81.00
Money Market Funds	1,696	0.34
	<u>\$ 499,299</u>	<u>100.00</u>

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

(all amounts in thousands)

<b>December 31, 2014</b>	<b>Cash and Cash Equivalents</b>	<b>Investments</b>
GASB Statement No. 9	\$ 94,868	\$ 404,431
Money Market Funds	<u>(1,696)</u>	<u>1,696</u>
Total	<u>\$ 93,172</u>	<u>\$ 406,127</u>

(all amounts in thousands)

<b>December 31, 2013</b>	<b>Cash and Cash Equivalents</b>	<b>Investments</b>
GASB Statement No. 9	\$ 128,931	\$ 373,452
Money Market Funds	<u>(249)</u>	<u>249</u>
Total	<u>\$ 128,682</u>	<u>\$ 373,701</u>

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

(all amounts in thousands)

	<b>2014</b>	<b>2013</b>
Sewer charges and surcharges:		
Unbilled amount	\$ 25,026	\$ 23,795
Billed amount	27,062	26,449
Less allowance for doubtful accounts	(10,768)	(9,717)
Other	<u>34,314</u>	<u>8,935</u>
Total	<u>\$ 75,634</u>	<u>\$ 49,462</u>

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 4 - RESTRICTED ASSETS**

The Trust Agreement for the Series A Revenue Bonds (see Long-Term Debt Note) requires the establishment of certain trust accounts including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, and a Surplus Account to be held by the Trustee. The Bond Account will be used to accumulate periodic principal and interest payments. The Bond Reserve Account will be funded in an amount equal to the highest annual future debt service requirement. The Surplus Account is available to be used for any other Sewer System purpose. The Trust Agreement also requires the creation of a Construction Account to be held by the City to pay for project costs. At December 31, 2014 and 2013 the following balances (at fair value) were maintained in the trust accounts:

(all amounts in thousands)

	<b>2014</b>	<b>2013</b>
<b>Held by trustee:</b>		
Reserve	\$ 81,848	\$ 81,020
Replacement and improvement	-	5,665
Bond retirement	4,531	8,423
Surplus	319,748	278,593
<b>Total</b>	\$ 406,127	\$ 373,701

**NOTE 5 - CAPITAL ASSETS**

(all amounts in thousands)

	Beginning Balance 12/31/13	Adjustment	Reclassification	Revised Balance 12/31/13	Increase	Decrease	Ending Balance 12/31/2014
Capital Assets, not being depreciated:							
Land	\$ 6,481			\$ 6,481	\$ -		\$ 6,481
Construction in progress	290,128			290,128	90,808	(61,547)	319,389
	\$ 296,609			\$ 296,609	\$ 90,808	\$ (61,547)	\$ 325,870
Capital Assets, being depreciated:							
Buildings & Structures	1,345,176		(1,345,176)	0	-	-	-
Buildings			348,490	348,490	3,217		351,707
Sewer Laterals			1,057,847	1,057,847	37,041	(10,999)	1,083,889
Process Systems	477,004		(477,004)	0	-	-	-
Office and service Equipment	52,831	555	(53,386)	0			-
Equipment			469,229	469,229	21,100	(837)	489,492
	1,875,011	555	-	1,875,566	61,358	(11,836)	1,925,088
<b>Total Capital Assets</b>	\$ 2,171,620	\$ 555	\$ -	\$ 2,172,175	\$ 152,166	\$ (73,383)	\$ 2,250,958
Less accumulated depreciation:							
Buildings & Structures	488,036		(488,036)	0	-	-	-
Buildings			117,769	117,769	7,364		125,133
Sewer Laterals			368,120	368,120	23,901	-	392,021
Equipment			281,877	281,877	12,349	(837)	293,389
Process Systems	235,632		(235,632)	0	-	-	-
Office and service Equipment	44,107	(9)	(44,098)	0	-	-	-
<b>Total Accumulated Depreciation</b>	767,775	(9)	-	767,766	43,614	(837)	810,543
<b>Net Capital Assets</b>	\$ 1,403,845	\$ 564	\$ -	\$ 1,404,409	\$ 108,552	\$ (72,546)	\$ 1,440,415

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 5 - CAPITAL ASSETS (Continued)**

**Reclassifications**

The Fixed Asset record system was converted from Excel spreadsheet to the PeopleSoft Fixed Asset Computer System in 2014. As a result, capital asset classifications were updated to better align the assets with reality and accuracy.

**Adjustments**

During the implementation of the People Soft Fixed Asset System, the ending net position for 2013 was adjusted to correct the Peachtree General Ledger Capital Asset Balances to the 2013 Audit Report in the amount of \$555 in Capital Assets and \$9 in Accumulated Depreciation.

**Net Positions**

As a result of the capital asset adjustments, the net position was restated by \$564,000, from \$815,435,000 to \$815,999,000.

Ending Net Position at 12/31/13	\$815,435
Restated Ending Net Position at 12/31/13	<u>\$815,999</u>
Adjustments	\$ 564

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 5 - CAPITAL ASSETS (Continued)**

The following summarizes the changes in capital assets during 2013:

(all amounts in thousands)

<u>December 31, 2013</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital Assets, not being depreciated:				
Land	\$6,364	\$ 117	\$ -	\$6,481
Construction in progress	<u>320,353</u>	<u>130,278</u>	<u>(160,503)</u>	<u>290,128</u>
	326,717	130,395	(160,503)	296,609
Capital Assets, being depreciated:				
Buildings and structures	1,294,889	50,287	-	1,345,176
Processing systems	417,342	70,660	(10,998)	477,004
Office and service equipment	<u>51,239</u>	<u>2,871</u>	<u>(1,279)</u>	<u>52,831</u>
	1,763,470	123,818	(12,277)	1,875,011
Total Capital Assets	2,090,187	254,213	(172,780)	2,171,620
Less accumulated depreciation:				
Buildings and structures	456,714	31,322	-	488,036
Processing systems	220,038	15,594	-	235,632
Office and service equipment	<u>41,795</u>	<u>3,580</u>	<u>(1,268)</u>	<u>44,107</u>
Total Accumulated Depreciation	<u>718,547</u>	<u>50,496</u>	<u>(1,268)</u>	<u>767,775</u>
Net Capital Assets	<u>\$ 1,371,640</u>	<u>\$ 203,717</u>	<u>\$ (171,512)</u>	<u>\$ 1,403,845</u>

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT**

Long-term debt consisted of the following:

	(all amounts in thousands except percents)				
	<b>Principal Issue</b>	<b>Interest Rate %</b>	<b>Year of Maturity</b>	<b>2014</b>	<b>2013</b>
Revenue Bonds					
2014	\$ 162,650	4.00-5.00	2032	\$ 162,650	
2013 (a)	258,695	0.45-5.00	2038	233,620	\$ 258,225
2010 (a)	130,675	2.00-5.37	2035	122,690	123,550
2009 (b)	149,815	4.00-6.50	2034	143,025	149,815
2007 (c)	72,385	3.50-5.25	2032	6,740	61,335
2006 (d)	83,045	4.00-5.00	2031	5,265	68,360
2005 (e)	170,560	2.50-5.00	2030	63,090	135,265
2004 (f)	46,385	2.00-5.00	2017	-	1,420
2003 (g)	215,575	1.50-5.25	2028	-	750
2001 (h)	76,000	2.30-5.25	2026	-	-
				<u>737,080</u>	<u>798,720</u>
Ohio Water and Sewer					
Rotary Commission	-	-	-	50	50
Ohio Public Works Commission	-	0.00-3.00	2041	1,687	2,012
Water Pollution Control Loan Fund	-	2.50-3.50	2037	221,262	216,609
Capital Lease Payable	15,000	2.00-5.00	2029	<u>12,135</u>	<u>12,735</u>
Total obligations				972,214	1,030,126
Bond premiums				62,022	34,245
Deferred loss on defeasance				(15,282)	(1,510)
Current maturities				<u>(61,765)</u>	<u>(55,759)</u>
Long-term portion				<u>\$ 957,189</u>	<u>\$ 1,007,102</u>

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Principal and interest payments on long-term debt for the next five years and thereafter are as follows:

(all amounts in thousands)

Year	Revenue Bonds		WPCLF*		OPWC		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 43,470	\$ 34,900	\$ 17,136	\$ 7,477	\$ 330	\$ 27	\$ 620	\$ 495
2016	43,615	33,871	16,993	6,904	248	21	635	480
2017	45,330	32,648	16,958	6,396	252	17	650	462
2018	23,320	32,199	17,232	5,883	185	12	670	443
2019-2023	137,595	137,011	66,462	22,262	470	22	3,790	1,779
2024-2028	194,670	89,793	64,109	12,295	67	-	4,705	867
2029-2033	164,795	39,686	45,402	3,152	52	-	1,065	48
2034-2038	84,285	7,485	902	47	52	-	-	-
2039-2042	-	-	-	-	32	-	-	-
	<u>\$ 737,080</u>	<u>\$ 407,593</u>	<u>\$ 245,194</u>	<u>\$ 64,416</u>	<u>\$ 1,688</u>	<u>\$ 99</u>	<u>\$ 12,135</u>	<u>\$ 4,574</u>

\* - This amount represents the total amount of the loans, some of which have not been fully drawdown or finalized and includes OWDA Loans.

Bond discount, premium, loss on defeasance activity for the year:

<u>December 31, 2014</u>	<u>Beginning Balance</u>	<u>Amortized</u>	<u>Refunded</u>	<u>Issued</u>	<u>Ending Balance</u>
Bond premium	\$ 34,245	\$ (3,237)	\$ (5,815)	\$ 36,830	\$ 62,023
Loss on defeasance	(1,510)	1,177	-	(14,949)	(15,282)
Total	<u>\$ 32,735</u>	<u>\$ (2,060)</u>	<u>\$ (5,815)</u>	<u>\$ 21,881</u>	<u>\$ 46,741</u>
<u>December 31, 2013</u>	<u>Beginning Balance</u>	<u>Amortized</u>	<u>Refunded</u>	<u>Issued</u>	<u>Ending Balance</u>
Bond premium	\$ 23,801	\$ (3,288)	\$ (6,303)	\$ 20,035	\$ 34,245
Loss on defeasance	(3,019)	26	-	1,483	(1,510)
Total	<u>\$ 20,782</u>	<u>\$ (3,262)</u>	<u>\$ (6,303)</u>	<u>\$ 21,518</u>	<u>\$ 32,735</u>

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Long-term debt activity for the year:

(all amounts in thousands)

<u>December 31, 2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue Bonds	\$ 798,720	\$ 162,650	\$ 224,290	\$ 737,080
Ohio Water Development Authority	-	-	-	-
Ohio Water and Sewer Rotary Commiss	50	-	-	50
Ohio Public Works Commission	2,012	-	325	1,687
Water Pollution Control Loan Fund	216,609	16,113	11,460	221,262
Capital Lease Payable	<u>12,735</u>	<u>-</u>	<u>600</u>	<u>12,135</u>
Total	<u>\$ 1,030,126</u>	<u>\$ 178,763</u>	<u>\$ 236,675</u>	<u>\$ 972,214</u>

  

<u>December 31, 2013</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Revenue Bonds	\$ 718,330	\$ 258,695	\$ 178,305	\$ 798,720
Ohio Water Development Authority	136	-	136	-
Ohio Water and Sewer Rotary Commiss	50	-	-	50
Ohio Public Works Commission	2,328	-	316	2,012
Water Pollution Control Loan Fund	201,526	25,468	10,385	216,609
Capital Lease Payable	<u>13,325</u>	<u>-</u>	<u>590</u>	<u>12,735</u>
Total	<u>\$ 935,695</u>	<u>\$ 284,163</u>	<u>\$ 189,732</u>	<u>\$ 1,030,126</u>

**Revenue Bonds**

- a) Effective November 19, 2014, MSD issued \$162,650,000 Series A, Sewer System Refunding Revenue Bonds dated November 19, 2014. The proceeds from the 2014 Series A Bonds were used to defease portions of the 2003, 2005, and 2006 revenue bonds and pay for the cost of issuance. The 2014A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1997, 2000, 2001, 2003A, 2003B 2004 2005A, 2005B, 2006, 2007 2009A, and 2009B bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$750,000 of outstanding 2003 Series A Bonds, \$61,190,000, of outstanding 2005 Series B Bonds, \$60,620,000 of outstanding 2006 Series A Bonds, \$52,505,000 of outstanding 2007 Series A Bonds, and \$6,790,000 of outstanding 2009 Series A Bonds. As a result, these bonds are considered defeased and the liability for those bonds removed from the balance sheet.

Although the refunding resulted in the recognition of an accounting loss of \$14,949,000 in accordance with GASB 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, MSD has, in effect, reduced its aggregate debt service payments by \$70,966,000, and obtained a present value of savings of \$24,543,000.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

- b) Effective July 31, 2013, MSD issued \$178,760,000 Series A, Sewer System Refunding Revenue Bonds and \$79,935,000 Series B, Sewer System Refunding Revenue Bonds dated July 31, 2013. A portion of the proceeds from the 2013 Series A and 2013 Series B Bonds were used to defease portions of the 2003 and 2004 revenue bonds and pay for the cost of issuance. The 2013A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1997, 2000, 2001, 2003A, 2003B 2004 2005A, 2005B, 2006, 2007 2009A, 2009B, 2010A, and 2010B bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$112,720,000 of outstanding 2003 Series A Bonds, and \$28,470,000 of outstanding 2004 Series A Bonds. As a result, these bonds are considered defeased and the liability for those bonds removed from the balance sheet.

The remaining proceeds from the 2013 Series A and 2013 Series B bonds were used to permanently fund certain previous capital expenditures and fund the new bond reserve requirements.

- c) Effective November 3, 2010, MSD issued \$43,595,000 Series A, Sewer System Refunding Revenue Bonds dated November 3, 2010. The proceeds from the 2010 Series A Bonds were used to defease portions of the 2000, 2001, and 2003 revenue bonds and pay for the cost of issuance. The 2010A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1997, 2000, 2001, 2003A, 2003B 2004 2005A, 2005B, 2006, 2007 2009A, and 2009B bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$2,730,000 of outstanding 2000 Series A Bonds, \$25,290,000 of outstanding 2001 Series A Bonds, and \$17,035,000 of outstanding 2003 Series A Bonds. As a result, these bonds are considered defeased and the liability for those bonds removed from the balance sheet.

Although the refunding resulted in the recognition of an accounting loss of \$3,379,000 in accordance with GASB 23, the District in effect reduced its aggregate debt service payments by \$8,824,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$5,304,000.

Effective November 3, 2010, MSD issued \$87,080,000 Series B Sewer System Improvement Revenue Bonds (Build America Bonds) dated November 3, 2010. The proceeds from the 2010 Series B bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirements and pay the cost of issuance. The 2010 Series B bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1997, 2000, 2001, 2003A, 2003B, 2004, 2005A, 2005B, 2006, 2007, 2009A, and 2009B bonds, secured equally and ratably under the Trust Agreement.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

- d) Effective August 25, 2009, MSD issued \$19,515,000 Series A Sewer System Improvement Revenue Bonds dated August 11, 2009, and \$130,300,000 Series B Sewer System Improvement Revenue Bonds (Build America Bonds) dated August 11, 2009. The proceeds from the 2009 Series A bonds and 2009 Series B bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirements and pay the cost of issuance. The 2009 Series A bonds and 2009 Series B bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B, 2004, 2005A, 2005B, 2006 and 2007 bonds, secured equally and ratably under the Trust Agreement.
- e) Effective December 20, 2007, MSD issued \$72,385,000 Series A Sewer System Improvement Revenue Bonds dated December 1, 2007. The proceeds from the 2007 Series A bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirements and pay the cost of issuance. The 2007 Series A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B, 2004, 2005A, 2005B and 2006 bonds, secured equally and ratably under the Trust Agreement.
- f) Effective November 15, 2006, MSD issued \$83,045,000 Series A Sewer System Improvement Revenue Bonds dated November 1, 2006. The proceeds from the 2005 Series B bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirements and pay the cost of issuance. The 2006 Series A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B, 2004, 2005A and 2005B bonds, secured equally and ratably under the Trust Agreement.
- g) Effective March 30, 2005, MSD issued \$86,960,000 Series A, Sewer System Refunding Revenue Bonds dated March 1, 2005. The proceeds from the 2005 bonds were used to defease portions of the 1997, 2000 and 2001 revenue bonds and pay for the cost of issuance. The 2005A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B and 2004 bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$46,980,000 of outstanding 1997 Series A Bonds, \$20,665,000 of outstanding 2000 Series A Bonds and \$19,280,000 of outstanding 2001 Series A Bonds. As a result, these bonds are considered defeased and the liability for those bonds removed from the balance sheet.

Although the refunding resulted in the recognition of an accounting loss of \$5,211,000 in accordance with GASB 23, the District in effect reduced its aggregate debt service payments by \$5,201,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$3,748,000.

Effective November 9, 2005, MSD issued \$83,600,000 Series B Sewer System Improvement Revenue Bonds dated November 1, 2005. The proceeds from the 2005 Series B bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirements and pay the cost of issuance. The 2005 Series B bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B, 2004 and 2005A bonds, secured equally and ratably under the Trust Agreement.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

- h) Effective October 5, 2004, MSD issued \$46,385,000 Series A, Sewer System Refunding Revenue Bonds dated September 1, 2004. The proceeds from the 2004 bonds were used to defease portions of the 1995, 1997 and 2000 revenue bonds and pay for the cost of issuance. The 2004 bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1993, 1995, 1997, 2000, 2001, and 2003 Series A and 2003 Series B bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$34,215,000 of outstanding 1995 Series A Bonds, \$6,280,000 of outstanding 1997 Series A Bonds, and \$6,400,000 of outstanding 2000 Series A Bonds. As a result, these bonds are considered defeased and the liability for those bonds removed from the balance sheet.

Although the advance refunding resulted in the recognition of an accounting loss of \$3,163,000 to be amortized over future periods in accordance with GASB 23, the District in effect reduced its aggregate debt service payments by \$3,850,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$3,001,000.

- i) Effective July 9, 2003 and September 4, 2003, MSD issued \$160,065,000 Series A, dated June 1, 2003 and \$55,510,000 Series B, dated September 1, 2003, respectively, County of Hamilton, Ohio Sewer System Improvement and Refunding Revenue Bonds. The proceeds from the 2003 bonds were used to permanently fund certain previous capital expenditures, defease portions of the 1993 and 1995 Series A bond issues, provide funds for new projects, fund the new bond reserve requirement and pay for the cost of issuance. The 2003 bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1993, 1995, 1997, 2000, and 2001 Series A bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$111,430,000 of outstanding 1993 Series A Bonds and \$17,125,000 of outstanding 1995 Series A Bonds. As a result, these bonds are considered defeased and the liability for those bonds removed from the balance sheet.

Although the advance refunding resulted in the recognition of an accounting loss of \$7,154,000 to be amortized over future periods in accordance with GASB 23, the District in effect reduced its aggregate debt service payments by \$19,250,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$14,719,000.

- j) Effective November 14, 2001, MSD issued \$76,000,000 County of Hamilton, Ohio 2001 Series A Sewer System Improvement and Refunding Revenue bonds dated November 1, 2001. The proceeds from the 2001 bonds were used to permanently fund certain previous capital expenditures, defease a portion of the 1991 Series A bond issue, fund the new bond reserve requirement and pay for the cost of issuance. The 2001 bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1993, 1995, 1997 and 2000 Series A bonds, secured equally and ratably under the Trust Agreement.

The 2010, 2009, 2007, 2006, 2005, 2004, 2003, and 2001 Bonds may be redeemed prior to their maturities in accordance with provisions of the bond resolutions. The redemption process for the bonds includes declining premiums up to 2 percent of principal.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

At December 31, 2014 and December 31, 2013, the amount of defeased debt outstanding was \$181,855,000 and \$141,190,000 respectively.

Maturities for bonds over the next five years and thereafter are shown below:

Year	(all amounts in thousands)								
	2014 Bonds	2013 Bonds	2010 Bonds	2009 Bonds	2007 Bonds	2006 Bonds	2005 Bonds	2004 Bonds	2003 Bonds
2015		\$ 26,215	\$ 425	-	\$ 2,165	\$ 2,575	\$ 12,090	-	-
2016	\$ 2,120	23,300	3,440	-	2,245	2,690	9,820	-	-
2017	5,170	23,895	1,935	-	2,330		12,000	-	-
2018	7,675	3,090	7,785	-	-		4,770	-	-
2019	8,065	3,240	8,105	5,935	-		5,030	-	-
2020-2024	53,560	36,890	37,375	36,920	-		16,655	-	-
2025-2029	60,440	55,920	30,880	44,925	-		2,725	-	-
2030-2034	25,620	30,605	26,815	55,245	-		-	-	-
2035-2038		30,465	5,930	-	-		-	-	-
	<u>\$ 162,650</u>	<u>\$ 233,620</u>	<u>\$ 122,690</u>	<u>\$ 143,025</u>	<u>\$ 6,740</u>	<u>\$ 5,265</u>	<u>\$ 63,090</u>	<u>\$ -</u>	<u>\$ -</u>

Under the terms of the amended revenue bond trust indenture, MSD has agreed to certain covenants, among other things, to restrict additional borrowing, maintain rates sufficient to meet debt service requirements, and maintain specified fund balances under trust agreements.

The Revenue bond issues as discussed above contain covenants which require the MSD to maintain a level of debt service coverage. The following calculation reflects MSD's debt service coverage.

	(all amounts in thousands)	
	<u>2014</u>	<u>2013</u>
Revenues:		
Total operating revenues	\$ 265,211	\$ 259,329
Interest income	9,548	9,445
Tap-in/connection fees	<u>2,182</u>	<u>2,145</u>
Total pledged revenue	276,941	270,919
Total operating and maintenance expenses less depreciation and amortization	(120,018)	(126,289)
Net income available for debt service (a)	<u>\$ 156,923</u>	<u>\$ 144,630</u>
Principal and interest requirement on revenue bonds (b)	<u>\$ 77,646</u>	<u>\$ 74,538</u>
Principal and interest requirements on obligations (c)	<u>\$ 98,527</u>	<u>\$ 93,005</u>
Debt service coverage		
Revenue bonds (a) divided by (b)	<u>202%</u>	<u>194%</u>
All obligations (a) divided (c)	<u>159%</u>	<u>156%</u>
Maximum debt service coverage required on revenue bonds	<u>125%</u>	<u>125%</u>

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 6 - LONG-TERM DEBT (Continued)**

**Ohio Water Development Authority Contracts**

All contracts between the Ohio Water Development Authority (OWDA) and the Metropolitan Sewer District require MSD to prescribe and charge such rates for sewer usage which are sufficient (after expenses of operation and maintenance) to pay principal and interest on OWDA contracts. The principal is repayable in equal semi-annual installments to maturity.

**Ohio Water and Sewer Rotary Commission**

Advances from Ohio Water and Sewer Rotary Commission represent tap-in fees and acreage assessments to be forwarded to the Commission upon collection from customers. Such advances do not bear interest unless they are determined to be in default.

**Ohio Public Works Commission**

The MSD has entered into agreements with the Ohio Public Works Commission (OPWC) for financing of certain qualified capital projects. As the projects progress the commitments are drawn down as funds are paid by OPWC directly to the contractors. The principal is repayable in semi-annual installments to the date of maturity for each project.

**Water Pollution Control Loan Fund**

The MSD has received low interest loan commitments from the Ohio Water Pollution Control Loan fund for certain qualified projects. As the projects progress the commitments are drawn down. The principal is repayable in semi-annual installments to the date of maturity for each project.

**Interest on Long-Term Obligations**

The following interest costs were incurred and expensed or capitalized as part of the cost of MSD's additions to capital assets.

(all amounts in thousands)

	<b>2014</b>	<b>2013</b>
Interest incurred	\$ 44,106	\$ 41,849
Less Interest capitalization	(635)	(1,048)
Interest expense	\$ 43,471	\$ 40,801

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 7 – CAPITAL LEASE**

The District issued a capital lease for a new engineering building in FY2010. The District's lease obligation meets the criteria of a capital lease. The leased assets have been capitalized for the amount of the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

(all amounts in thousands)

Fiscal Year Ending December 31,	Long-Term Debt
2015	\$ 1,115
2016	1,115
2017	1,112
2018	1,113
2019	1,113
2020-2024	5,569
2025-2029	5,571
Total Minimum Lease Payments	16,708
Less: Amount Representing Interest	(4,573)
Present Value of Minimum Lease Payments	\$ 12,135

Capital assets acquired under capital leases are as follows:

Buildings and Sewer Laterals	\$15,000,000
------------------------------	--------------

**NOTE 8 – COMPENSATED ABSENCES**

**Compensated Absences**

Compensated absences consist of vacation time, sick pay and compensatory time. The following is a summary of activity for 2014 and 2013. \$3,786 is considered due within one year for compensated absences as of December 31, 2014.

(all amounts in thousands)

	Beginning Balance	Increase	Decrease	Ending Balance
2014	\$ 8,885	\$ 3,433	\$ 3,786	\$ 8,532
2013	\$ 9,180	\$ 3,466	\$ 3,761	\$ 8,885

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 9 - PENSION AND RETIREMENT**

**City of Cincinnati Retirement System**

The majority of MSD full-time employees participate in the Retirement System of the City of Cincinnati (CRS). CRS is a cost-sharing, single-employer, defined benefit, public employee retirement system. The plan provides retirement, disability and death benefits to plan members and beneficiaries. CRS also provides health care benefits to vested retirees. Benefits provided under the plan are established by the Cincinnati Municipal Code. CRS issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the City of Cincinnati Retirement System, 801 Plum Street, Cincinnati, Ohio 45202 or by calling (513) 352-3227.

The Cincinnati Municipal Code provides statutory authority for employee and employer contribution rates. For 2014, there were two required contribution rates 22 and 14, percent for MSD and 9.0 percent for employees. For 2013, the required contribution rates were 20.0 percent for MSD and 9.0 percent for employees. MSD's contributions to CRS for the years ending December 31, 2014, 2013 and 2012 were \$6,487,000, \$7,224,000, and \$6,893,000, respectively. The full amount has been contributed for 2011 and 2010 and 98% of the required contributions for 2012. The City's (and MSD's) contribution rate for 2012, 2011 and 2010 was not equal to the required contribution rate based on the City's actuarial report.

**Ohio Public Employees' Retirement System**

A limited number of MSD employees participate in the Ohio Public Employee' Retirement System administrated by the State of Ohio. OPERS is not material to the financial statements of MSD and additional disclosures concerning OPERS, including other post-employment benefit information, can be found in the plan's annual financial statements. Interested parties may obtain a copy by written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

**Other Postemployment Benefit Information**

CRS provides hospital and surgical insurance to retired members who have earned fifteen years credited service at the time of termination or terminate after age sixty with five years credited service. Those who are receiving survivor benefits of eligible members are entitled to have their hospital and surgical insurance premiums paid by the CRS. When benefits would be reduced by reason of the retired member's eligibility for hospital and medical benefits under federal social security laws, CRS will pay whatever additional fees are required for the Federal medical coverage.

The health care coverage provided by the CRS is advance-funded on an actuarial determined basis as a portion of the employer contribution requirement to the System. The Cincinnati Municipal Code provides authority for employer contributions.

The actuarial assumptions used for the December 31, 2014 valuation included an assumption for hospital and surgical benefits recognizing adjusted premiums, based on experience from recent years, adjusted to current year by assumed annual increases in premium costs. The cost of coverage is recognized as an expense as claims are paid. CRS has 2,985 active contributing participants of which 552 are MSD employees. For 2014, MSD's contribution was 18.9 percent of the total employers' contribution.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 10 - RELATED PARTY TRANSACTIONS**

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 2014 and 2013 were \$4,772,000 and \$4,878,000 respectively. Fees are also paid to other municipalities and villages within Hamilton County for collection of sewerage bills.

The City of Cincinnati provides "overhead" services to MSD, such as check disbursement, investment and legal services, etc. The fees for these services for 2014 and 2013 were \$2,867,000 and \$1,937,000 respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were \$1,678,000 and \$1,558,000 for 2014 and 2013, respectively.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio are parties to a Global Consent Decree, which was lodged, in 2003, with the U.S. District Court for the Southern District of Ohio, Western Division. This decree focuses on combined sewer overflows, the implementation of the Sanitary Sewer Overflow Correction plan established in the Interim Partial Consent Decree, and other wet weather issues. The court approved the decrees on June 9, 2004. In August 2010, MSD's Revised Wet Weather Improvement Plan was approved by the federal government. The Plan commits MSD to complete a Phase 1 group of projects totaling \$1.145 billion (in 2006 dollars and including \$526 million that MSD has already spent on projects) by 2018 before scheduling future work (Phase 2). The consent decree documents are posted on the MSD web site, msdgc.org, under consent decree.

As part of MSD's capital improvement program, MSD has entered into a number of contracts for construction, design, and other services. Commitments under these contracts aggregate approximately \$72 million as of December 31, 2014.

**NOTE 12 - RISK MANAGEMENT**

MSD is part of the City of Cincinnati Risk Management Program. The City purchases commercial insurance to cover losses due to: theft of, damage to, or destruction of assets and purchases general liability insurance for specific operations and professional liability insurance for certain operations. All other risks of loss are self-insured. Separately, MSD carries property insurance pursuant to an all-risk policy on MSD's buildings and equipment per the revenue bond trust agreement. There has been no reduction in insurance coverage from coverage in 2003. Insurance settlements for claims resulting from risks covered by commercial insurance have not exceeded the insurance coverage in any of the past four years.

**NOTE 13 – LOSS ON IMPAIRMENT OF ASSETS**

During the negotiation of the Wet Weather Improvement Program – Phase 1 (\$1.2B, to be completed in 2018) there was a need for a large solution in the Lower Mill Creek. The submitted project was a large diameter tunnel and treatment facility with a total cost of more than \$400M. The USEPA, during negotiations, allowed for an alternative project to be submitted. Due to the complexity of the projects and the mandated completion schedule, both the large diameter tunnel and the alternative projects had to be planned and designed concurrently knowing that one project would not go forward. Both projects started incurring planning and design costs in 2010. In May 2013, the USEPA approved the alternative which halted the tunnel project. Per GASB 42 this was recorded as an impairment loss of \$16M, as the losses were permanent.

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)**

**NOTE 14 - SUBSEQUENT EVENTS**

The Hamilton County Board of Commissioners has approved a 6 percent sewerage rate increase effective January 9, 2015.

Effective March 2015, MSD issued a Sewer System Refunding Revenue Bonds, 2015 Series A, in the amount of \$52,520,000.

**This page intentionally left blank.**

**Metropolitan Sewer District of Greater Cincinnati  
Hamilton County**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED December 31, 2014**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> <b>Program / Cluster Title</b>	<b>Pass Through</b> <b>Entity</b> <b>Number</b>	<b>Federal</b> <b>CFDA</b> <b>Number</b>	<b>Expenditures</b>
<b><u>US Environmental Protection Agency</u></b>			
<i>Passed Through Programs from Ohio Water Development Authority:</i>			
Capitalization Grants for State Revolving Funds	CS392686-01	66.458	\$788,900
Capitalization Grants for State Revolving Funds	CS391525-0062	66.458	172,215
Capitalization Grants for State Revolving Funds	CS391525-0063	66.458	1,143,064
Capitalization Grants for State Revolving Funds	CS391525-0048	66.458	9,285
Capitalization Grants for State Revolving Funds	CS391525-0089	66.458	175,944
Capitalization Grants for State Revolving Funds	CS391525-0090	66.458	1,384,230
Capitalization Grants for State Revolving Funds	CS391525-0110	66.458	5,254,723
Capitalization Grants for State Revolving Funds	CS391525-0106	66.458	2,457,619
Capitalization Grants for State Revolving Funds	CS391525-0098	66.458	1,698,514
Capitalization Grants for State Revolving Funds	CS391525-0091	66.458	174,888
Capitalization Grants for State Revolving Funds	CS391525-0093	66.458	2,250,343
Capitalization Grants for State Revolving Funds	CS391525-0108	66.458	882,709
Capitalization Grants for State Revolving Funds	CS391525-0088	66.458	562,124
Total Ohio Water Development Authority			<b>16,954,558</b>
Total US Environmental Protection Agency			<b>16,954,558</b>
<b>Total Federal Awards Expenditures</b>			<b>\$16,954,558</b>

*The accompanying notes are an integral part of this schedule.*

**METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED DECEMBER 31, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the Metropolitan Sewer District of Greater Cincinnati (the District's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE F - MATCHING REQUIREMENTS**

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Metropolitan Sewer District of Greater Cincinnati  
Hamilton County  
1600 Gest Street  
Cincinnati, Ohio 45204

To the Hamilton County Board of Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, (the District) as of and for the years ended December 31, 2014 and December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 25, 2015 wherein we noted the District reclassified their Capital Assets.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts.

However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2015



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Metropolitan Sewer District of Greater Cincinnati  
Hamilton County  
1600 Gest Street  
Cincinnati, Ohio 45204

To the Board of County Commissioners:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Metropolitan Sewer District of Greater Cincinnati's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Metropolitan Sewer District of Greater Cincinnati's major federal program for the year ended December 31, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Metropolitan Sewer District of Greater Cincinnati complied, in all material respects with the compliance requirements referred to above that could directly and materially affects its major federal program for the year ended December 31, 2014.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2015

**METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2014**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>1AW2(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Capitalization Grant for State Revolving Loan. CFDA # 66.458
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2014-001**

**Material Weakness**

District management is responsible for preparing and fairly presenting their financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal controls relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

**FINDING NUMBER 2014-001  
(Continued)**

We noted the following conditions related to the District's financial statements (amounts in thousands):

- The District failed to include \$319,389 of Construction In Progress into their calculation of Net Investments in Capital Assets thereby understating Net Investments in Capital Assets and overstating Unrestricted Equity in the same amount.
- The District incorrectly reported the defeasance of prior year debt, resulting in the Current Portion of Long-Term Debt to be understated by \$19,041 and the Long Term Portion of Debt to be understated by \$24,163.
- The District reclassified and adjusted [\$555] their Capital Assets for fiscal year 2014; however the District failed to properly report the changes in the comparative financial statements for 2013, and also failed to properly disclose the reclassification in the notes to the financial statements.
- The District also failed to accurately update Note 2 Deposit and Investments, Note 5 Capital Assets, and Note 6 Long Term Debt.

Lack of internal controls over accounting and financial reporting increases the risk that errors, theft or fraud could occur and not be detected in a timely manner.

We recommend that the District exercise due care when posting entries to the financial records and during financial statement preparation to accurately reflect the District's financial activity and financial position, and to ensure that the notes to the financial statements are complete and accurate.

The District has posted audit adjustments to the financial statements and corrected the notes to the financial statements where appropriate.

**Officials' Response:**

We did not receive a response from Officials to this finding.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

**None**



# Dave Yost • Auditor of State

**METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI  
HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 20, 2015**