

**THE METROPOLITAN SEWER DISTRICT
OF GREATER CINCINNATI**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

for the years ended December 31, 1999 and 1998

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The Honorable Board of County Commissioners
Hamilton County, Ohio

We have reviewed the independent auditor's report of The Metropolitan Sewer District of Greater Cincinnati, Hamilton County, prepared by Foxx & Company, Certified Public Accountants, for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Metropolitan Sewer District of Greater Cincinnati is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

May 30, 2000



Foxx & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Hamilton County, Ohio

We have audited the accompanying financial statements of the Metropolitan Sewer District of Greater Cincinnati (MSD), as of and for the years ended December 31, 1999 and 1998 as listed in the table of contents. These financial statements are the responsibility of MSD's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the financial position of MSD and are not intended to present fairly the financial position of Hamilton County, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

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, at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2000 on our consideration of MSD's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Cincinnati, Ohio
April 10, 2000

Foxx & Company

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

BALANCE SHEETS

December 31, 1999 and 1998

(all amounts expressed in thousands)

ASSETS

	<u>1999</u>	<u>1998</u>
Current Assets		
Cash, cash equivalents and pooled investments held by the City of Cincinnati	\$ 10,293	\$ 11,108
Accounts receivable	17,662	16,539
Prepaid expenses and other	<u>2,001</u>	<u>2,297</u>
Total current assets	<u>29,956</u>	<u>29,944</u>
Restricted Assets		
Cash and cash equivalents held by the City of Cincinnati		
Construction account	10,735	5,062
Amount to be transferred to surplus account	10,544	9,824
Held by trustee		
Cash and cash equivalents	4,166	12,867
Investments - Held to maturity	<u>81,032</u>	<u>127,599</u>
Total restricted assets	<u>106,477</u>	<u>155,352</u>
Property, Plant and Equipment		
Land	4,925	4,925
Building and structures	557,667	544,995
Processing systems	231,857	218,974
Office and service equipment	24,695	23,065
Construction in progress	<u>138,672</u>	<u>105,259</u>
Total property plant and equipment	957,816	897,218
Accumulated depreciation	<u>(323,321)</u>	<u>(299,363)</u>
Net property, plant and equipment	<u>634,495</u>	<u>597,855</u>
Other Assets		
Unamortized financing costs	7,184	7,789
Other	<u>2,801</u>	<u>2,957</u>
Total other assets	<u>9,985</u>	<u>10,746</u>
Total assets	<u>\$780,913</u>	<u>\$793,897</u>

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
BALANCE SHEETS
December 31, 1999 and 1998
(all amounts expressed in thousands)

LIABILITIES AND EQUITY

	<u>1999</u>	<u>1998</u>
Current Liabilities		
Current portion of long-term debt	\$ 14,284	\$ 13,737
Accounts payable	2,614	2,977
Accrued payroll expenses	<u>1,696</u>	<u>1,482</u>
Total current liabilities	<u>18,594</u>	<u>18,196</u>
Payable From Restricted Assets		
Construction accounts payable	1,922	9,458
Accrued interest	<u>1,606</u>	<u>1,657</u>
Total payable from restricted assets	<u>3,528</u>	<u>11,115</u>
Long-Term Liabilities		
Accrued compensated absences	5,738	5,737
Long-term debt	<u>364,770</u>	<u>378,839</u>
Total long-term liabilities	<u>370,508</u>	<u>384,576</u>
Total liabilities	<u>392,630</u>	<u>413,887</u>
Equity		
Contributions in aid of construction	170,594	170,650
Retained earnings	<u>217,689</u>	<u>209,360</u>
Total equity	<u>388,283</u>	<u>380,010</u>
Total liabilities and equity	<u>\$780,913</u>	<u>\$793,897</u>

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
for the years ended December 31, 1999 and 1998
(all amounts expressed in thousands)

	<u>1999</u>	<u>1998</u>
Operating Revenues		
Sewerage service charges	\$ 90,283	\$ 89,837
Sewerage surcharges	9,471	10,128
Other revenues	<u>3,168</u>	<u>2,889</u>
Total operating revenues	<u>102,922</u>	<u>102,854</u>
Operating Expenses		
Personnel services	31,821	34,246
Utilities, fuel and supplies	13,327	13,114
Depreciation and amortization	25,435	25,096
Purchased services	14,342	15,656
Other expenses	<u>3,889</u>	<u>3,589</u>
Total operating expenses	<u>88,814</u>	<u>91,701</u>
Income from operations	<u>14,108</u>	<u>11,153</u>
Other Income (Expenses)		
Interest income	5,929	9,083
Gain on disposal of property, plant and equipment	63	41
Interest expense	(16,405)	(18,136)
Net (decrease) increase in fair value of investments	<u>(3,887)</u>	<u>1,475</u>
Total other income (expenses)	<u>(14,300)</u>	<u>(7,537)</u>
Net Income (Loss)	(192)	3,616
Amortization of contributions in aid of construction	8,521	8,152
Retained earnings at beginning of year	<u>209,360</u>	<u>197,592</u>
Retained earnings at end of year	<u>217,689</u>	<u>209,360</u>
Contributions in Aid of Construction at beginning of year	170,650	170,626
Additions to contributions in aid of construction	8,465	8,176
Amortization of contributions in aid of construction	<u>(8,521)</u>	<u>(8,152)</u>
Contributions in aid of construction at end of year	<u>170,594</u>	<u>170,650</u>
Total Fund Equity at End of Year	<u>\$388,283</u>	<u>\$380,010</u>

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

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF CASH FLOWS**

for the years ended December 31, 1999 and 1998
(all amounts expressed in thousands)

	<u>1999</u>	<u>1998</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 98,582	\$100,825
Cash payments for goods and services	(31,920)	(33,984)
Cash payments for personnel costs	(31,607)	(33,908)
Other operating revenues	<u>3,368</u>	<u>3,123</u>
Net Cash Provided by Operating Activities	<u>38,423</u>	<u>36,056</u>
Cash Flows from Capital and Related Financing Activities		
Principal and interest payments on long-term debt	(34,301)	(34,348)
Acquisition and construction of capital assets	(62,838)	(37,253)
Grant and loan proceeds	455	910
Tap-in fees	4,416	4,653
Proceeds from sale of property, plant and equipment	<u>64</u>	<u>81</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(92,204)</u>	<u>(65,957)</u>
Cash Flows from Investing Activities		
Purchase of government securities	(147,972)	(91,260)
Maturity or redemption of government securities	191,056	111,862
Net increase (decrease) in fair value of pooled cash and investments held by City of Cincinnati	(404)	134
Interest earned on investments	<u>7,978</u>	<u>11,004</u>
Net Cash Provided (Used) by Investing Activities	<u>50,658</u>	<u>31,740</u>
Net Change in Cash and Cash Equivalents	(3,123)	1,839
Cash and Cash Equivalents at January 1	<u>38,861</u>	<u>37,022</u>
Cash and Cash Equivalents at December 31	<u>\$ 35,738</u>	<u>\$ 38,861</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from operations	\$ 14,108	\$ 11,153
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	25,435	25,096
Change in assets and liabilities:		
Allowance for doubtful accounts	-	400
Net change in customer accounts receivable	(1,123)	460
Net change in other assets	151	193
Net change in operating accounts payable	(363)	(1,584)
Net change in accrued payroll and related expenses	<u>215</u>	<u>338</u>
Net Cash Provided by Operating Activities	<u>\$ 38,423</u>	<u>\$ 36,056</u>
Noncash Investing and Financing Transactions		
Assets received for settlement receivable	\$ 28	\$ 225
Structures donated as contributed capital in aid of construction	<u>3,593</u>	<u>2,623</u>
Total Noncash Investing and Financing Transactions	<u>\$ 3,621</u>	<u>\$ 2,848</u>

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
for the years ended December 31, 1999 and 1998

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 established pursuant to an agreement dated May 1, 1968 between the Board of Commissioners of Hamilton County and the City of Cincinnati. 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 the cash 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.

Enterprise Fund Activity Accounting and Financial Reporting

Enterprise funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

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 in accordance of GASB Statement No. 31.

Inventory

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

Property, Plant and Equipment

Property, plant and equipment 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 property, plant and equipment 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.

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 and structures	40 years
Processing systems	25 years
Office and service equipment	5-15 years

Depreciation expense on property, plant and equipment acquired through contributions is reported as an offset against contributions in aid of construction in fund equity. Any gain or loss arising from the disposal of property, plant and equipment has been credited or charged to income.

Unamortized Financing Costs

The unamortized financing costs include bond discount, consulting and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the interest method and the straight-line method, respectively, 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. MSD's policy is to fund pension costs accrued.

Claims Liabilities

MSD records an estimated liability for indemnity health care, workers' compensation, torts and other claims against them. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience claims liabilities include specific, incremental claim adjustment expenses, allocated loss adjustment expenses, and are reduced for estimated recoveries on unsettled claims such as salvage or subrogation.

Compensated Absences

Compensated absences are accrued in accordance with GASB Statement No. 16. Components of the liability include accrued vacation time, sick leave, compensatory time and other related payments.

NOTE 2 - DEPOSITS AND INVESTMENTS

The following information classifies deposits and investments by category of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Repurchase Agreements"

Deposits: At December 31, 1999 and 1998, the carrying amount of MSD's deposits held by the City of Cincinnati total \$31,572,000 and \$25,994,000, 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.

Investments: Funds held by trustees 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.

(all amounts in thousands)

	<u>Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
<u>December 31, 1999</u>					
U.S. Government Securities	\$81,032	\$ -	\$ -	\$81,032	\$81,032
Money Market Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,166</u>	<u>4,166</u>
Total	<u>\$81,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$85,198</u>	<u>\$85,198</u>
 <u>December 31, 1998</u>					
U.S. Government Securities	\$127,599	\$ -	\$ -	\$127,599	\$127,599
Money Market Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,867</u>	<u>12,867</u>
Total	<u>\$127,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$140,466</u>	<u>\$140,466</u>

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)

<u>December 31, 1999</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$35,738	\$81,032
Money Market Funds	<u>(4,166)</u>	<u>4,166</u>
GASB Statement No. 3	<u>\$31,572</u>	<u>\$85,198</u>
 <u>December 31, 1998</u>		
	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 38,861	\$127,599
Money Market Funds	<u>(12,867)</u>	<u>12,867</u>
GASB Statement No. 3	<u>\$ 25,994</u>	<u>\$140,466</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(all amounts in thousands)

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Sewerage charges and surcharges:		
Unbilled amount	\$ 8,905	\$ 8,905
Billed amount	9,350	8,540
Less allowance for doubtful accounts	(1,900)	(1,900)
Other	<u>1,307</u>	<u>994</u>
Total	<u>\$17,662</u>	<u>\$16,539</u>

NOTE 4 - RESTRICTIONS ON 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.

In August 1985, the Federal District Court entered a consent order in an action with MSD and others (see Commitments and Contingencies Note). In complying with the consent order, MSD is required to maintain amounts on deposit in an environmental security account. Expenditures from this account must be approved by the U.S. Environmental Protection Agency. The balance of this account, which is included in other assets, was \$1,038,000 and \$993,000 at December 31, 1999 and 1998, respectively.

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 Replacement and Improvement Account is to be maintained with a balance of \$5,000,000. 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, 1999 and 1998 the following balances (at fair value) were maintained in the trust accounts:

(all amounts in thousands)

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
<i>Held by trustee:</i>		
Reserve	\$30,138	\$ 35,551
Replacement and improvement	4,994	4,972
Bond retirement	2,978	3,129
Surplus	<u>47,088</u>	<u>96,814</u>
Total	<u>\$85,198</u>	<u>\$140,466</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following:

(all amounts in thousands except percents)

	<u>Principal Issue</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>December 31,</u>	
				<u>1999</u>	<u>1998</u>
Series A Revenue Bonds					
1997	\$105,245	3.85-5.13	2017	\$ 98,555	\$101,975
1995	85,800	3.70-6.05	2017	76,405	79,090
1993	171,790	2.45-5.60	2016	163,685	164,570
1991	90,950	4.80-6.70	2013	24,015	28,890
Loveland Sewer District	200	5.75	2000	10	20
Ohio Water Development Authority Contracts	41,830	2.00-7.49	2019	3,666	4,823
Ohio Water and Sewer Rotary Commission	-	-	-	124	124
Ohio Public Works Commission	-	3.54-4.80	2017	2,866	3,001
Water Pollution Control Loan Fund	-	0.00-3.00	2018	<u>9,912</u>	<u>10,397</u>
Total obligations				379,238	392,890
Less current maturities				<u>(14,284)</u>	<u>(13,737)</u>
Long-term portion				364,954	379,153
Less deferred loss on refunding				<u>(184)</u>	<u>(314)</u>
Long-term portion				<u>\$364,770</u>	<u>\$378,839</u>

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

(all amounts in thousands)

2000	\$ 14,284
2001	14,643
2002	14,801
2003	15,441
2004	16,210
Thereafter	<u>303,859</u>
Total	<u>\$379,238</u>

Series A Revenue Bonds

Effective October 22, 1997, MSD issued \$105,245,000 County of Hamilton, Ohio 1997 Series A Sewer System Improvement Revenue bonds dated October 1, 1997. The proceeds from the 1997 bonds were used to permanently fund certain previous expenditures, fund the new bond reserve requirement and pay the cost of issuance. The 1997 bonds are special obligations of the District, payable solely from the net revenues of the District and are issued on a parity with the 1991, 1993, and 1995 Series A bonds, secured equally and ratably under the Trust Agreement.

Effective August 31, 1995, MSD issued \$85,800,000 county of Hamilton, Ohio 1995 Series A Sewer System Improvement and Refunding Revenue bonds dated August 15, 1995. The proceeds from the 1995 bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1986 and 1991 Series A bond issues, fund the new bond reserve requirement and pay the cost of issuance. The 1995 bonds are special obligations of the District payable solely from the net revenues of the District and are issued on a parity with the 1991 and 1993 Series A bonds, secured equally and ratably under the Trust Agreement.

Effective May 4, 1993, MSD issued \$171,790,000 county of Hamilton, Ohio 1993 Series A Sewer System Improvement and Refunding Revenue bonds dated April 15, 1993. The proceeds from the 1993 Bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1986 and 1991 Series A bond issues, fund the new bond reserve requirement, and pay the cost of issuance. The 1993 bonds are special obligations of the District payable solely from the net revenues of the District and are issued on a parity with the 1991 Series A bonds, secured equally and ratably under the Trust Agreement.

Effective February 26, 1991, MSD issued \$90,950,000 County of Hamilton, Ohio, 1991 Series A Sewer System Improvement and Refunding Revenue Bonds dated January 15, 1991. The proceeds from the 1991 Bonds were used to permanently fund certain previous capital expenditures, provide funds for new projects, defease a portion of the 1985 Series A bond issue, fund the new bond reserve requirement, and pay the cost of issuance.

The 1997, 1995, 1993 and 1991 Bonds may be redeemed prior to their maturities in accordance with provisions of the bond resolutions. The redemption process for the bonds include declining premiums up to 3 percent of principal.

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

(all amounts in thousands)

	<u>1997</u> <u>Bonds</u>	<u>1995</u> <u>Bonds</u>	<u>1993</u> <u>Bonds</u>	<u>1991</u> <u>Bonds</u>
2000	\$ 3,570	\$ 2,800	\$ 930	\$ 5,175
2001	3,730	5,095	975	3,325
2002	3,900	3,920	2,440	3,530
2003	4,075	4,160	2,565	3,750
2004	4,280	4,410	2,695	3,990
Thereafter	<u>79,000</u>	<u>56,020</u>	<u>154,080</u>	<u>4,245</u>
	<u>\$98,555</u>	<u>\$76,405</u>	<u>\$163,685</u>	<u>\$24,015</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 Serial 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 except percents)

	<u>1999</u>	<u>1998</u>
Revenues:		
Total operating revenues	\$102,922	\$102,854
Interest income	5,929	9,083
Capitalized interest income	1,749	1,905
Tap-in/connection fees	<u>4,416</u>	<u>4,653</u>
Total pledged revenues	115,016	118,495
Total operating and maintenance expenses less depreciation and amortization	(63,379)	(66,605)
Half of pledged revenues transferred to surplus account	<u>5,272</u>	<u>4,912</u>
Net income available for debt service (a)	<u>\$56,909</u>	<u>\$ 56,802</u>
Principal and interest requirements on revenue bonds (b)	<u>\$31,747</u>	<u>\$ 31,743</u>
Principal and interest requirements on all obligations (c)	<u>\$34,291</u>	<u>\$ 34,326</u>
Debt service coverage:		
Revenue Bonds (a) divided (b)	<u>179%</u>	<u>179%</u>
All obligations (a) divided (c)	<u>166%</u>	<u>165%</u>
Basic coverage required on bonds	<u>125%</u>	<u>125%</u>

Loveland Sewer District

Sewer Improvement Bonds in the amount \$200,000 were issued by the City of Loveland in 1974. MSD assumed this debt upon merger of the Loveland Sewer District into MSD in March, 1985.

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.

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 property, plant, and equipment.

(all amounts in thousands)

	<u>1999</u>	<u>1998</u>
Interest incurred	\$21,244	\$21,913
Less interest capitalization	<u>(4,839)</u>	<u>(3,777)</u>
Interest expense	<u>\$16,405</u>	<u>\$18,136</u>

NOTE 6 - DEFEASED DEBT

Other Defeasance

In prior years, MSD defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 1999 and 1998, the amount of defeased debt outstanding amounted to \$44,353,000 and \$44,420,000, respectively.

NOTE 7 - CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions have been received from the OWDA and the United States Government in accordance with agreements transacted between MSD and these two entities. The City of Cincinnati and Hamilton County provided working capital to MSD upon formation, and those capital contributions are included in the amounts below. Other contributions have been received in connection with the expansion of sewerage services.

Net contributions in aid of construction consisted of the following:

(all amounts in thousands)

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
United States Government Grants	\$129,772	\$129,722
City of Cincinnati	68,356	68,356
Ohio Water Development Authority Grants	46,761	46,761
Customers	89,906	81,491
Hamilton County	<u>1,738</u>	<u>1,738</u>
	336,533	328,068
Less accumulated amortization of contributions in aid of construction	<u>(165,939)</u>	<u>(157,418)</u>
	<u>\$170,594</u>	<u>\$170,650</u>

NOTE 8 - PENSION AND RETIREMENT

A limited number of MSD employees participate in the Public Employee' Retirement System administrated by the State of Ohio. PERS is not material to the financial statements of MSD and additional disclosures concerning PERS, including other postemployment 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.

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, multiple-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 1999 and 1998, the required, actuarially determined contribution rates are 7 percent and 14 percent, respectively for MSD and 7 percent for employees. MSD's contributions to CRS for the years ending December 31, 1999, 1998 and 1997 were \$1,875,000, \$3,687,000 and \$5,095,000, respectively, equal to the required contribution for each year.

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. Health care coverage has been included in the calculation of the pension benefit obligation, and assets and liabilities are not separately determined.

The actuarial assumptions used for the December 31, 1998 valuation of unfunded liabilities (latest information available) included an assumption recognizing medical benefits at current premium costs with projected increases of 7 percent per annum. The cost of coverage is recognized as an expense as claims are paid. CRS has 5,896 active contributing participants of which 635 are MSD employees. For 1998 MSD's contribution was 17 percent of the total employer contribution.

NOTE 9 - RELATED PARTY TRANSACTIONS

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 1999 and 1998 were \$3,451,000 and \$3,535,000 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 1999 and 1998 were \$1,812,000 and \$1,673,000 respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were \$934,000 and \$820,000 for 1999 and 1998, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio, are parties to a Federal Consent Order which was entered in settlement of United States of America vs. The Board of County Commissioners of Hamilton, County, Ohio et al., Case No. C-1-85-0693. The City and County have continued in their efforts to negotiate an amendment to change certain construction schedules appearing in exhibits to that order. The City and County believe these changes are due to circumstances beyond the control of either, and are seeking approval of those schedule modifications from the United States Environmental Protection Agency. The consent order provides for stipulated penalties for failure to meet certain construction schedule deadlines but specifically contemplates that no such penalties will be collected from either defendant where the non-compliance was beyond the reasonable control of the defendants. In addition, according to MSD's Chief Legal Counsel, EPA has requested the payment of \$290,000 in stipulated penalties under the Consent Order for certain effluent limit excursions between 1988 and January 1, 1991. The Consent order provides for stipulated penalties under certain conditions, and although the City and County have argued that no substantial penalties are appropriate, it appears that EPA does intend to extract some monetary payment for excursions. Currently, the City is awaiting EPA's response to certain defenses presented during 1992. The EPA has also claimed additional stipulated damages are appropriate for exceedences at the Mill Creek Plant, sanitary sewer overflows, and other MSD facilities at various times since January 1, 1991. Currently the EPA and the Justice Department are seeking to negotiate a new Consent Order to replace the initial Order which deals with a wider range of issues, including the Mill Creek Plant, sanitary and combined sewer overflows, and a number of other components of the wastewater collection and treatment system. Concurrently, with these negotiations the City and County are negotiating with federal and state agencies for an administrative order dealing with existing sanitary sewer overflow issues in the wastewater collection system.

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 \$50 million as of December 31, 1999.

NOTE 11 - SUBSEQUENT EVENTS

The Hamilton County Board of Commissioners have approved a nine and one-half percent sewerage rate increase effective January 17, 2000. In addition, MSD is in the process of issuing additional revenue bonds of approximately \$40 million.



Foxx & Company
Certified Public Accountants

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Board of County Commissioners
Hamilton County, Ohio

We have audited the financial statements of The Metropolitan Sewer District of Greater Cincinnati (MSD), Hamilton County, Ohio, as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated April 10, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether MSD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MSD's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Foxx & Company

Cincinnati, Ohio
April 10, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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THE 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.

By: Susan Babbitt

Date: JUNE 13, 2000