The Metropolitan Sewer District of Greater Cincinnati

Basic Financial Statements

For the Years Ended
December 31, 2009 and 2008

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 16, 2010

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PLATTENBURG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners, Hamilton County, Ohio
Owner of the County Sewer District known as the
Metropolitan Sewer District of Greater Cincinnati

We have audited the accompanying financial statements of the Metropolitan Sewer District of Greater Cincinnati, (MSD) an enterprise fund of the County of Hamilton, Ohio, as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the MSD, as of December 31, 2009, and the respective changes in financial position, and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2010, on our consideration of the MSD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 25, 2010

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that explain in more detail some of the information in the financial statements.

Required Financial Statements

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.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the nature and the amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, there are several outside nonfinancial factors that need to be considered. Factors such as changing economic conditions, population and customer growth, and new or changed rules and regulations.

All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its cost through its user fees.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by $637,141,000 at the close of the most recent fiscal year. As can be seen in Table A , on the next page, the largest portion of the District's net assets (52%) reflect its investment in capital assets (e.g., buildings and structures, processing systems, and office and service 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.

Table A
Condensed Summary of Net Assets
(In Thousands)

	2009	Percentage Increase (Decrease) over 2008	2008	Percentage Increase (Decrease) over 2007	2007
Current and other assets	$ 432,594	18.0%	$ 366,553	-9.6%	$ 405,424
Capital assets, net	1,052,321	10.4%	953,040	9.2%	872,661
Total assets	$ 1,484,915	12.5%	$ 1,319,593	3.2%	$ 1,278,085
Noncurrent liabilities	$ 788,448	18.3%	$ 666,520	-1.0%	$ 673,482
Current liabilities	59,326	7.3%	55,290	4.7%	52,825
Total liabilities	$ 847,774	17.5%	$ 721,810	-0.6%	$ 726,307
Invested in capital assets					
Net of related debt	$ 328,398	-3.3%	$ 339,661	25.0%	$ 271,762
Restricted	6,460	23.4%	5,234	-9.9%	5,810
Unrestricted	302,283	19.5%	252,888	-7.8%	274,206
Total net assets	$ 637,141	6.6%	$ 597,783	8.3%	$ 551,778

Net assets increased $39.4 million in 2009 and $46.0 million in 2008. The increases are a combination of income before contributions and contributions in the form of connection fees, assessments, and developer contributions.

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Table B
Condensed Summary of Revenues, Expenses and Changes in Net Assets
(In Thousands)

	2009	Percentage Increase (Decrease) over 2008	2008	Percentage Increase (Decrease) over 2007	2007
Operating revenues	$ 201,273	6.5%	$ 189,069	6.9%	$ 176,933
Nonoperating revenues	4,830	-54.1%	10,519	-30.3%	15,101
Total revenues	206,103	3.3%	199,588	3.9%	192,034
Depreciation and amortization expense	38,623	20.5%	32,064	1.8%	31,507
Other operating expenses	103,825	2.8%	101,033	-2.4%	103,531
Nonoperating expenses	30,527	17.0%	26,087	2.3%	25,489
Total expenses	172,975	8.7%	159,184	-0.8%	160,527
Income from operations	33,128	-18.0%	40,404	28.2%	31,507
Capital contributions	6,230	11.2%	5,601	-20.9%	7,081
Change in net assets	39,358	-14.4%	46,005	19.2%	38,588
Beginning net assets	597,783	8.3%	551,778	7.5%	513,190
Ending net assets	$ 637,141	6.6%	$ 597,783	8.3%	$ 551,778

While the Summary of Net Assets (Table A) shows the change in financial position of net assets, the Summary of Revenues, Expenses, and Changes In Net Assets provides details as to the nature and source of these changes. Table B shows that during 2009 total revenues increased 3.3 percent or $6.5 million and expenses increased 8.7 percent or $13.8 million. During 2008 total revenues increased 3.9 percent or $7.6 million and expenses decreased 0.8 percent or $1.3 million. The major factors which contributed to these results include:

- Operating revenues reflect a 11 percent rate increase implemented January 9, 2009 and a 12 percent rate increase implemented January 9, 2008.
- Nonoperating revenues decreased in 2009 and 2008 are due to decreases in interest rates.
- Operating expenses increased 2.8 percent or $2.8 million in 2009 mainly due to the increase in purchased services. Operating expenses decreased 2.4 percent or $2.5 million in 2008 due to a greater amount of personnel costs being charged to capital projects. Increases in pension contribution and utilities were offset by decreases in equipment repairs and contract services.

- Nonoperating expense for 2009 increased 17.0 percent or $4.4 million due to the change (decrease) in the fair market value of investments. Nonoperating expense for 2008 increased 2.3 percent or $0.6 million due to an increase in interest expense.
- Capital contributions will fluctuate depending on building activity and assessment projects completed.

BUDGETARY HIGHLIGHTS

The District has an annual operating budget that is approved by the Hamilton County Board of County Commissioners. Capital budgets are approved on a project basis, however; annually a current year and a five year plan is presented to the Board. The 2009 operating expenses and certifications were 6.6 percent under the approved budget. The principal areas of savings in 2009 were reduced personnel costs and reduced debt service due to a debt issuance originally planned for late 2008 (and included in the 2009 budget) being delayed until 2009. The 2008 operating expenses and certifications were 5.5 percent under the approved budget. The principal areas of savings in 2008 were reduced personnel costs and reduced debt service due to debt issuance being delayed until 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, the District's investment in capital assets (net of accumulated depreciation) amounted to $1,052 million and $953 million as shown in Table C for 2009 and 2008, respectively. In 2009, the District spent about $138 million on capital improvement projects and equipment replacement and received about $6.2 million in capital contributions. In 2008, the District spent about $112 million on capital improvement projects and equipment replacement and received about $5.6 million in capital contributions.

Sewer replacement and improvement projects were about three-fourths of the program in 2009 and in 2008. Additional information on the District's capital assets can be found in Note 5 to the financial statements.

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Table C
Capital Assets
(In Thousands)

	2009	Percentage Increase (Decrease) over 2008	2008	Percentage Increase (Decrease) over 2007	2007
Land	$ 4,977	0.0%	$ 4,977	0.0%	$ 4,977
Construction in progress	285,769	-19.2%	353,601	29.5%	273,101
Buildings and structures	956,572	13.9%	839,541	3.3%	812,974
Processing systems	351,791	29.8%	271,126	0.5%	269,811
Office and service equipment	43,929	7.0%	41,067	5.7%	38,854
Subtotal	1,643,038	8.8%	1,510,312	7.9%	1,399,717
Less accumulated depreciation	590,717	6.0%	557,272	5.7%	527,056
Net capital assets	$ 1,052,321	10.4%	$ 953,040	9.2%	$ 872,661

Debt Administration

The District finances its construction program primarily through the issuance of revenue bonds. In addition, the District will utilize low interest loan programs through the State of Ohio where appropriate.

The District's revenue bond ratings are:

Moody's Investors Services	Aa3
Standard & Poor's Corporation	AA+

Additional information on the District's long-term debt can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The service area of the District is best described as mature. The District is not in a growth situation but one in which the system, generally, is being upgraded and replaced to comply with increasing regulatory requirements. The operating budget for 2010 is $196,753,630 which is $5.9 million more than the 2009 budget. The increase of the 2010 operating budget reflects increased debt service as well as increases for personnel costs and employee benefits.

A rate increase of 11 percent was approved effective January 9, 2010. The capital plan was submitted and accepted for the years 2010 through 2014. The plan contemplates issuing an average of about $200 million in debt each year to finance the capital improvement program. Each project must be individually approved before proceeding.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF NET ASSETS
December 31, 2009 and 2008
(all amounts expressed in thousands)

	2009	2008
ASSETS		
Current assets:		
Cash, cash equivalents and pooled investments held by the City of Cincinnati (Note 2)	$17,056	$16,874
Accounts receivable (Note 3)	35,872	32,590
Prepaid expenses and other	3,018	1,602
Total current assets	55,946	51,066
Noncurrent assets:		
Restricted assets:		
Cash, cash equivalents, and pooled investments held by the City of Cincinnati:		
Construction account (Note 2)	11,332	30,264
Amount to be transferred to surplus account (Note 2)	36,201	31,432
Held by trustee: (Note 4)		
Cash and cash equivalents (Note 2)	50,259	36,385
Investments - Held to maturity (Note 2)	270,836	210,935
Total restricted assets	368,628	309,016
Other assets:		
Unamortized financing costs	7,438	5,785
Other	582	686
Total other assets	8,020	6,471
Capital assets: (Note 5)		
Land	4,977	4,977
Buildings and structures	956,572	839,541
Processing systems	351,791	271,126
Office and service equipment	43,929	41,067
Construction in progress	285,769	353,601
Total capital assets	1,643,038	1,510,312
Less:		
Accumulated depreciation	(590,717)	(557,272)
Net capital assets	1,052,321	953,040
Total noncurrent assets	1,428,969	1,268,527
Total assets	$1,484,915	$1,319,593

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF NET ASSETS
December 31, 2009 and 2008
(all amounts expressed in thousands)

	2009	2008
LIABILITES		
Current liabilities:		
Payable from current assets:		
Current portion of long-term debt (Note 6)	$34,975	$33,164
Current portion of compensated absences (Note 7)	3,372	2,969
Accounts payable	4,881	4,043
Accrued payroll expenses	2,357	2,055
Total current liabilities payable from current assets	45,585	42,231
Payable from restricted assets:		
Construction accounts payable	10,612	10,570
Accrued interest payable	3,129	2,489
Total current liabilities payable from restricted assets	13,741	13,059
Total current liabilities	59,326	55,290
Noncurrent liabilities:		
Accrued compensated absences (Note 7)	5,121	4,627
Long-term debt (Note 6)	767,360	650,835
Net Pension Obligation	10,870	7,559
Net Other Post Employment Benefit Obligation	5,097	3,499
Total noncurrent liabilities	788,448	666,520
Total liabilities	847,774	721,810
Net assets:		
Invested in capital assets, net of related debt	328,398	339,661
Restricted	6,460	5,234
Unrestricted	302,283	252,888
Total net assets	$637,141	$597,783

See 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 NET ASSETS
December 31, 2009 and 2008
(all amounts expressed in thousands)

	2009	2008
REVENUES		
Operating revenues:		
Sewerage service charges	$182,945	$169,571
Sewer surcharges	13,280	15,754
All other revenues	5,048	3,744
Total operating revenues	201,273	189,069
EXPENSES		
Operating expenses:		
Personnel services	45,882	43,932
Purchased services	27,566	25,219
Utilities, fuel and supplies	21,362	22,935
Depreciation and amortization	38,623	32,064
Other expenses	9,015	8,947
Total operating expenses	142,448	133,097
Operating income	58,825	55,972
NONOPERATING		
Nonoperating revenues (expenses):		
Interest income	4,714	8,545
Change in fair value of investments	(4,988)	1,861
Interest expense	(25,539)	(26,087)
Retirement of capital assets	116	113
Total nonoperating revenues	(25,697)	(15,568)
Income from operations	33,128	40,404
Capital contributions	6,230	5,601
Change in net assets	39,358	46,005
Total net assets, beginning	597,783	551,778
Total net assets, ending	$637,141	$597,783

See 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, 2009 and 2008
(all amounts expressed in thousands)

	2009	2008
Cash Flows from Operating Activities:		
Cash received from customers	$194,471	$186,145
Cash payments for goods and services	(56,685)	(57,984)
Cash payments for personnel costs	(39,785)	(38,391)
Other operating revenues	3,431	602
Net Cash Provided by Operating Activities	101,432	90,372
Cash Flows from Capital and Related Financing Activities:		
Principal and interest payments on long-term debt	(65,355)	(63,741)
Acquisition and construction of capital assets	(128,394)	(99,666)
Loan proceeds	0	21,283
Transfer into construction account from trustee investment account	105,940	87,782
Transfer from operating cash account to trustee investment account	(31,432)	(20,877)
Revenue bond proceeds	151,546	0
Revenue bond issuance costs	(1,944)	0
Tap-in fees	1,965	3,024
Gain/loss from sale of property, plant and equipment	116	113
Net Cash (Used) by Capital and Related Financing Activities	32,442	(72,082)
Cash Flows from Investing Activities:		
Purchase of government securities	(135,728)	(4,656)
Maturity of redemption of government securities	0	0
Net increase in fair value of pooled cash and investments held by City of Cincinnati	(285)	181
Interest earned on investments	2,032	4,625
Net Cash Provided (Used) by Investing Activities	(133,981)	150
Net Increase (Decrease) in Cash and Cash Equivalents	(107)	18,440
Cash and Cash Equivalents at January 1	114,955	96,515
Cash and Cash Equivalents at December 31	$114,848	$114,955
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from operations	58,825	55,972
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	38,623	32,064
Changes in assets and liabilities:		
Net change in customer accounts receivable	(3,282)	820
Net change in other assets	320	(3,142)
Net change in operating accounts payable	838	(883)
Net change in accrued payroll and related expenses	1,199	(242)
Net Pension Obligation	3,311	3,643
Net Other Post Employment Benefit Obligation	1,598	2,140
Net Cash Provided by Operating Activities	$101,432	$90,372
Non-cash Transactions:		
Structures donated as contributed capital in aid of construction	$3,256	$2,566

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

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.

Enterprise Fund Activity Accounting and Financial Reporting

In accordance with GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Government, the District applies all GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued after November 30, 1989, unless they conflict with GASB pronouncements.

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.

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 and structures, processing systems and office and service 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 4 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 and structures	40 years
Processing systems	25 years
Office and service equipment	5-15 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. MSD's policy is to fund pension costs accrued.

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 Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets less accumulated depreciation and any outstanding long-term debt related to the acquisition, construction or improvement of those assets. Net assets 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 assets 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 assets are available. MSD did not have net assets 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.

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 $64,589,000 and $78,570,000 at December 31, 2009 and 2008, 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 December 31, 2009 for the City of Cincinnati.

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which 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 and board Resolutions 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.

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 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. 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, 2009.

Investment Type	Fair Value	% of Total
Investments held by the City of Cincinnati	$ 64,589	16.75
U. S. Government Security	270,836	70.22
Money Market Funds	50,259	13.03
	$ 385,684	100.00

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)

December 31, 2009	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 114,848	$ 270,836
Money Market Funds	(50,259)	50,259
Total	$ 64,589	$ 321,095

(all amounts in thousands)

December 31, 2008	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 114,955	$ 210,935
Money Market Funds	(36,385)	36,385
Total	$ 78,570	$ 247,320

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(all amounts in thousands)

	2009	2008
Sewer charges and surcharges:		
Unbilled amount	$ 18,721	$ 18,223
Billed amount	22,668	19,493
Less allowance for doubtful accounts	(7,000)	(6,000)
Other	1,483	874
Total	$ 35,872	$ 32,590

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 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, 2009 and 2008 the following balances (at fair value) were maintained in the trust accounts:

(all amounts in thousands)

	2009	2008
Held by trustee:		
Reserve	$ 72,809	$ 65,031
Replacement and improvement	5,603	5,588
Bond retirement	6,460	5,234
Surplus	236,223	171,467
Total	$ 321,095	$ 247,320

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NOTE 5 - CAPITAL ASSETS

The following summarizes the changes in capital assets during 2009:

(all amounts in thousands)

December 31, 2009	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, not being depreciated:				
Land	$4,977	$ -	$ -	$4,977
Construction in progress	353,601	129,873	(197,705)	285,769
	358,578	129,873	(197,705)	290,746
Capital Assets, being depreciated:				
Buildings and structures	839,541	117,031	-	956,572
Processing systems	271,126	84,718	(4,053)	351,791
Office and service equipment	41,067	3,695	(833)	43,929
	1,151,734	205,444	(4,886)	1,352,292
Total Capital Assets	1,510,312	335,317	(202,591)	1,643,038
Less accumulated depreciation:				
Buildings and structures	354,857	20,827	-	375,684
Processing systems	169,214	10,873	-	180,087
Office and service equipment	33,201	2,578	(833)	34,946
Total Accumulated Depreciation	557,272	34,278	(833)	590,717
Net capital assets	$ 953,040	$ 301,039	$ (201,758)	$ 1,052,321

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The following summarizes the changes in capital assets during 2008:

(all amounts in thousands)

December 31, 2008	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, not being depreciated:				
Land	$4,977	$ -	$ -	$4,977
Construction in progress	273,101	114,205	(33,705)	353,601
	278,078	114,205	(33,705)	358,578
Capital Assets, being depreciated:				
Buildings and structures	812,974	26,567	-	839,541
Processing systems	269,811	2,020	(705)	271,126
Office and service equipment	38,854	3,052	(839)	41,067
	1,121,639	31,639	(1,544)	1,151,734
Total Capital Assets	1,399,717	145,844	(35,249)	1,510,312
Less accumulated depreciation:				
Buildings and structures	335,832	19,025	-	354,857
Processing systems	159,630	9,584	-	169,214
Office and service equipment	31,594	2,442	(835)	33,201
Total Accumulated Depreciation	527,056	31,051	(835)	557,272
Net capital assets	$ 872,661	$ 114,793	$ (34,414)	$ 953,040

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NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following:

(all amounts in thousands except percents)

	Principal Issue	Interest Rate %	Year of Maturity	2009	2008
Revenue Bonds					
2009 (a)	$ 149,815	4.00-6.50	2034	$ 149,815	$ -
2007 (b)	72,385	3.50-5.25	2032	69,010	70,770
2006 (c)	83,045	4.00-5.00	2031	77,345	79,380
2005 (d)	170,560	2.50-5.00	2030	151,690	159,265
2004 (e)	46,385	2.00-5.00	2017	37,415	39,675
2003 (f)	215,575	1.50-5.25	2028	203,200	204,700
2001 (g)	76,000	2.30-5.25	2026	29,260	30,920
2000 (h)	40,085	4.50-5.75	2025	3,995	5,200
1997 (i)	105,245	3.85-5.13	2017	11,595	11,595
1993 (j)	171,790	2.45-5.60	2016	-	12,240
				733,325	613,745
Ohio Water Development Authority Contracts	41,830	2.00-7.49	2016	574	633
Ohio Water and Sewer					
Rotary Com Rotary Commission	-	-	-	50	50
Ohio Public Works Commssion	-	3.54-4.80	2017	3,065	3,208
Water Pollution Control Loan Fund	-	0.00-3.00	2018	41,029	42,279
Total obligations				778,043	659,915
Bond discounts				(12)	(48)
Bond premiums				28,355	29,645
Deferred loss on defeasance				(4,051)	(5,514)
Current maturities				(34,975)	(33,164)
Long-term portion				$ 767,360	$ 650,834

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

(all amounts in thousands except percents)

	Revenue Bonds		OWDA		OPWC		WPCLF*	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 31,845	$ 34,663	$ 119	$ 21	$ 291	$ 61	$ 2,720	$ 1,754
2011	33,310	33,204	124	17	297	55	3,632	2,313
2012	34,830	31,571	129	12	300	49	4,266	2,550
2013	36,300	29,893	134	8	304	43	4,413	2,403
2014	38,015	28,131	68	2	310	37	4,565	2,251
2015-2019	173,760	112,472	-	-	1,204	97	22,041	9,000
2020-2024	142,700	77,030	-	-	359	17	23,144	5,317
2025-2029	157,065	40,753	-	-	-	-	18,187	1,827
2030-2034	85,500	9,699	-	-	-	-	3,130	86
	$ 733,325	$ 397,416	$ 574	$ 60	$ 3,065	$ 359	$ 86,098	$ 27,501

*This amount represents the total amount of the loans, some of which have not been fully drawndown or finalized.

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

December 31, 2009	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond discount	$ (48)	$ 36	$ -	$ -	$ (12)
Bond premium	29,645	(3,021)	-	1,731	28,355
Loss on defeasance	(5,514)	1,463	-	-	(4,051)
Total	$ 24,083	$ (1,522)	$ -	$ 1,731	$ 24,292

December 31, 2008	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond discount	$ (111)	$ 63	$ -	$ -	$ (48)
Bond premium	32,699	(3,054)	-	-	29,645
Loss on defeasance	(7,168)	1,654	-	-	(5,514)
Total	$ 25,420	$ (1,337)	$ -	$ -	$ 24,083

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Long-term debt activity for the year:

December 31, 2009	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds	$ 613,745	$ 149,815	$ 30,235	$ 733,325
Ohio Water Development Authority	633	-	59	574
Ohio Water and Sewer Rotary Commission	50	-	-	50
Ohio Public Works Commission	3,208	-	143	3,065
Water Pollution Control Loan Fund	42,279	-	1,250	41,029
Total	$ 659,915	$ 149,815	$ 31,687	$ 778,043

December 31, 2008	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds	$ 642,570	$ -	$ 28,825	$ 613,745
Ohio Water Development Authority	747	-	114	633
Ohio Water and Sewer Rotary Commission	50	-	-	50
Ohio Public Works Commission	3,491	-	283	3,208
Water Pollution Control Loan Fund	23,429	21,283	2,433	42,279
Total	$ 670,287	$ 21,283	$ 31,655	$ 659,915

Revenue Bonds

a) 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.

b) 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.

c) 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, secures equally and ratably under the Trust Agreement.

d) 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 form 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 and 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, secures equally and ratably under the Trust Agreement.

e) 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.

f) 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.

g) 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.

h) Effective June 29, 2000, MSD issued $40,085,000 County of Hamilton, Ohio 2000 Series A Sewer System Improvement Revenue bonds dated June 1, 2000. The proceeds from the 2000 bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirement and pay the cost of issuance. The 2000 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 and 1997 Series A bonds, secured equally and ratably under the Trust Agreement.

i) 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 were issued on a parity with the 1993 and 1995 Series A bonds, secured equally and ratably under the Trust Agreement.

j) 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, secured equally and ratably under the Trust Agreement.

The 2009, 2007, 2006, 2005, 2004, 2003, 2001, 2000, and 1997 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.

For both December 31, 2009 and December 31, 2008 the amount of defeased debt outstanding was $46,345,000.

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

(all amounts in thousands)

Year	2009 Bonds	2007 Bonds	2006 Bonds	2005 Bonds	2004 Bonds	2003 Bonds	2001 Bonds	2000 Bonds	1997 Bonds
2010	$ -	$ 1,820	$ 2,115	$ 2,355	$ -	$ 16,910	$ 1,740	$ 1,265	$ 5,640
2011	-	1,885	2,200	2,445	-	17,690	1,805	1,330	5,955
2012	-	1,950	2,290	2,560	6,165	18,585	1,880	1,400	-
2013	-	2,020	2,380	9,065	1,360	19,510	1,965	-	-
2014	-	2,090	2,475	10,985	1,420	20,495	550	-	-
2015-2019	12,725	11,695	14,225	56,055	28,470	50,530	60	-	-
2020-2024	36,920	14,740	17,940	35,685	-	24,550	12,865	-	-
2025-2029	44,925	18,970	22,885	26,960	-	34,930	8,395	-	-
2030-2034	55,245	13,840	10,835	5,580	-	-	-	-	-
	$ 149,815	$ 69,010	$ 77,345	$ 151,690	$ 37,415	$ 203,200	$ 29,260	$ 3,995	$ 11,595

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)

	2009	2008
Revenues:		
Total operating revenues	$ 201,273	$ 189,069
Interest income	4,714	8,545
Capitalized interest income	1,121	1,768
Tap-in/connection fees	1,965	3,024
Total pledged revenue	209,073	202,406
Total operating and maintenance expenses less depreciation and amortization	(103,825)	(101,033)
Half of pledged revenues transferred to surplus account	18,100	15,716
Net income available for debt service (a)	$ 123,348	$ 117,089
Principal and interest requirement on revenue bonds (b)	$ 61,626	$ 59,862
Principal and interest requirements on obligations (c)	$ 64,169	$ 64,536
Debt service coverage		
Revenue bonds (a) divided by (b)	200%	196%
All obligations (a) divided (c)	192%	181%
Maximum debt service coverage required on revenue bonds	125%	125%

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)

	2009	2008
Interest incurred	$ 31,611	$ 31,435
Less Interest capitalization	(6,072)	(5,348)
Interest expense	$ 25,539	$ 26,087

NOTE 7 – COMPENSATED ABSENCES

Compensated Absences

Compensated absences consist of vacation time, sick pay and compensatory time. The following is a summary of activity for 2009 and 2008. $3,372 is considered due within one year for compensated absences as of December 31, 2009.

(all amounts in thousands)

	Beginning Balance	Increase	Decrease	Ending Balance
2009	$ 7,596	$ 4,533	$ 3,636	$ 8,493
2008	$ 6,821	$ 4,368	$ 3,593	$ 7,596

NOTE 8 - 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, 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 2009, the required contribution rates were 17.00 percent for MSD and 7 percent for employees. For 2008, the required contribution rates were 17.00 percent for MSD and 7 percent for employees. MSD's contributions to CRS for the years ending December 31, 2009, 2008 and 2007 were $4,941,000, $4,555,000 and $5,993,000, respectively. The full amount has been contributed for 2008 and 2007 and 95% of the required contributions for 2009. The City's and (MSD's) contribution rate for 2007 was equal to the required contribution rate based on the City's actuarial report. The City's (and MSD's) contribution rate for 2009 and 2008 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, 2009 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 4,299 active contributing participants of which 576 are MSD employees. For 2009, MSD's contribution was 17.9 percent of the total employers' contribution.

NOTE 9 - RELATED PARTY TRANSACTIONS

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 2009 and 2008 were $4,899,000 and $5,308,000 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 2009 and 2008 were $2,405,000 and $2,220,000 respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were $1,383,000 and $1,595,000 for 2009 and 2008, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio are parties to an Interim Partial Consent Decree on Sanitary Sewer Overflows, which was lodged on February 15, 2002, with the U.S. District Court for the Southern District of Ohio, Western Division. This Decree provides for, among other things, the scheduled elimination of sixteen "highly active" sanitary sewer overflows. On December 4, 2003, a Global Consent Decree was lodged 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. On June 5, 2009 MSD's Revised Wet Weather Improvement Plan was conditionally 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 $300 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.

MSD is involved in litigation with the City of Loveland, Ohio regarding termination of the 1985 Agreement. MSD is also involved in various other lawsuits. The outcomes of these lawsuits are undeterminable at this time.

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 $157 million as of December 31, 2009.

NOTE 11 - 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 three years.

NOTE 13 - SUBSEQUENT EVENTS

The Hamilton County Board of Commissioners has approved a 11 percent sewerage rate increase effective January 9, 2010.

Metropolitan Sewer District of Greater Cincinnati

Single Audit Reports

December 31, 2009

METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor/Pass - Through Grantor, Program Title	Pass Through Entity Number	CFDA	Disbursements
US Environmental Protection Agency			
Passed Through Programs from OWDA:			
Capitalization Grants for State Revolving Funds	CS392746-01	66.458	$1,736,100
Capitalization Grants for State Revolving Funds	CS392446-01	66.458	19,488,327
Capitalization Grants for State Revolving Funds	CS392878-01	66.458	121,714
Capitalization Grants for State Revolving Funds	CS392878-01	66.458	277,385
TOTAL EXPENDITURES OF FEDERAL AWARDS			$21,623,526

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
NOTE A -- SIGNIFICANT ACCOUNTING POLICIES
The accompanying schedule of federal awards expenditures is a summary of the activity of the MSD's federal award programs.
The schedule has been prepared on the cash basis of accounting.

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

Board of County Commissioners, Hamilton County, Ohio
Owner of the County Sewer District known as the
Metropolitan Sewer District of Greater Cincinnati

We have audited the financial statements of the Metropolitan Sewer District of Greater Cincinnati, (MSD) an enterprise fund of the County of Hamilton, Ohio, as of and for the year ended December 31, 2009 and 2008, and have issued our report thereon dated June 25, 2010. The financial statements present only the financial position of MSD and are not intended to present fairly the financial position of Hamilton County, Ohio, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the MSD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MSD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MSD's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MSD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the MSD in a separate letter dated June 25, 2010.

This report is intended solely for the information and use of management, the Auditor of State, County Commissioners, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 25, 2010

PLATTENBURG
Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners, Hamilton County, Ohio
Owner of the County Sewer District known as the
Metropolitan Sewer District of Greater Cincinnati

Compliance

We have audited the compliance of the Metropolitan Sewer District of Greater Cincinnati, (MSD) an enterprise fund of the County of Hamilton, Ohio, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The MSD's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the MSD's management. Our responsibility is to express an opinion on the MSD's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the MSD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the MSD's compliance with those requirements.

In our opinion, the MSD complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

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Internal Control Over Compliance

Management of the MSD is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the MSD's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the MSD'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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the MSD as of and for the year ended December 31, 2009 and 2008, and have issued our report thereon dated June 25, 2010, which contained an unqualified opinion on the financial statements. The financial statements present only the financial position of MSD and are not intended to present fairly the financial position of Hamilton County, Ohio, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Auditor of State, County Commissioners, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
June 25, 2010

METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

Section I – Summary of Auditor's Results

(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(d)(1)(ii)	*Were there any material control weakness conditions reported at the financial statement level (GAGAS)?*	No
(d)(1)(ii)	*Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?*	No
(d)(1)(iii)	*Was there any material reported non-compliance at the financial statement level (GAGAS)?*	No
(d)(1)(iv)	*Were there any material internal control weakness conditions reported for major federal programs?*	No
(d)(1)(iv)	*Were the any other significant control deficiencies reported for major federal programs?*	No
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Unqualified
(d)(1)(vi)	*Are there any reportable findings under Section .510?*	No
(d)(1)(vii)	*Major Programs (list):*	CFDA #66.458 Capitalization Grants for State Revolving Funds
(d)(1)(viii)	*Dollar Threshold: Type A/B Programs*	Type A: > $300,000 Type B: all others
(d)(1)(ix)	*Low Risk Auditee?*	No

Section II – Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary of Prior Audit Findings and Questioned Costs

None

Mary Taylor, CPA
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
AUGUST 31, 2010

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