The Metropolitan Sewer District of Greater Cincinnati

Basic Financial Statements

For the Years Ended
December 31, 2010 and 2009

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, 2010 and 2009. 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, 2010, 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 30, 2011, 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 30, 2011

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 $674,113,000 at the close of the most recent fiscal year. As can be seen in Table A, on the next page, 49% of the District's net assets 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)

	2010	Percentage Increase (Decrease) over 2009	2009	Percentage Increase (Decrease) over 2008	2008
Current and other assets	$ 486,942	12.6%	$ 432,594	18.0%	$ 366,553
Capital assets, net	1,167,641	11.0%	1,052,321	10.4%	953,040
Total assets	$ 1,654,583	11.4%	$ 1,484,915	12.5%	$ 1,319,593
Noncurrent liabilities	$ 918,828	16.5%	$ 788,448	18.3%	$ 666,520
Current liabilities	61,642	3.9%	59,326	7.3%	55,290
Total liabilities	$ 980,470	15.7%	$ 847,774	17.5%	$ 721,810
Invested in capital assets					
Net of related debt	$ 330,623	0.7%	$ 328,398	-3.3%	$ 339,661
Restricted	8,408	30.2%	6,460	23.4%	5,234
Unrestricted	335,082	10.9%	302,283	19.5%	252,888
Total net assets	$ 674,113	5.8%	$ 637,141	6.6%	$ 597,783

Net assets increased $37.0 million in 2010 and $39.4 million in 2009. 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)

	2010	Percentage Increase (Decrease) over 2009	2009	Percentage Increase (Decrease) over 2008	2008
Operating revenues	$ 221,287	9.9%	$ 201,273	6.5%	$ 189,069
Nonoperating revenues	6,605	36.7%	4,830	-54.1%	10,519
Total revenues	227,892	10.6%	206,103	3.3%	199,588
Depreciation and amortization expense	44,674	15.7%	38,623	20.5%	32,064
Other operating expenses	120,368	15.9%	103,825	2.8%	101,033
Nonoperating expenses	29,905	-2.0%	30,527	17.0%	26,087
Total expenses	194,947	12.7%	172,975	8.7%	159,184
Income from operations	32,945	-0.6%	33,128	-18.0%	40,404
Capital contributions	4,027	-35.4%	6,230	11.2%	5,601
Change in net assets	36,972	-6.1%	39,358	-14.4%	46,005
Beginning net assets	637,141	6.6%	597,783	8.3%	551,778
Ending net assets	$ 674,113	5.8%	$ 637,141	6.6%	$ 597,783

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 2010 total revenues increased 10.6 percent or $21.8 million and expenses increased 12.7 percent or $22.0 million. During 2009 total revenues increased 3.3 percent or $6.5 million and expenses increased 8.7 percent or $13.8 million. The major factors which contributed to these results include:

- Operating revenues reflect a 11 percent rate increase implemented January 9, 2010 and a 12 percent rate increase implemented January 9, 2009.
- Nonoperating revenues increased in 2010 due to increases in fair value of investments.
- Operating expenses increased 15.9 percent or $16.5 million in 2010 mainly due to the increases in pension contributions and employee healthcare costs. Operating expenses increased 2.8 percent or $2.8 million in 2009 mainly due to the increase in purchased services.
- Depreciation expense increased 15.7 percent or $6.1 million in 2010 due to a significant number of large dollar capital assets being placed in service during the year.
- Nonoperating expense for 2010 decreased 2.0 percent or $622 thousand due to the change in (increase) the fair market value of investments, offset by an increase in interest expense. Nonoperating expense for 2009 increased 17.0 percent or $4.4 million due to the change (decrease) in the fair market value of investments.
- 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 2010 operating expenses and certifications were 6.9 percent under the approved budget. The principal areas of savings in 2010 were reduced personnel costs and reduced debt service due to savings from the increased use of low interest loans made available from the state. 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, the District's investment in capital assets (net of accumulated depreciation) amounted to $1,168 million and $1,052 million as shown in Table C for 2010 and 2009, respectively. In 2010, the District spent about $139 million on capital improvement projects and equipment replacement and received about $4.0 million in capital contributions. In 2009, the District spent about $125 million on capital improvement projects and equipment replacement and received about $6.2 million in capital contributions.

Sewer replacement and improvement projects were about three-fourths of the program in 2010 and in 2009. Additional information on the District's capital assets can be found in Note 5 to the financial statements.

Table C
Capital Assets
(In Thousands)

	2010	Percentage Increase (Decrease) over 2009	2009	Percentage Increase (Decrease) over 2008
Land	$ 4,977	0.0%	$ 4,977	0.0%
Construction in progress	266,674	-6.7%	285,769	-19.2%
Buildings and structures	1,115,330	16.6%	956,572	13.9%
Processing systems	361,254	2.7%	351,791	29.8%
Office and service equipment	49,002	11.5%	43,929	7.0%
Subtotal	1,797,237	9.4%	1,643,038	8.8%
Less accumulated depreciation	629,596	6.6%	590,717	6.0%
Net capital assets	$ 1,167,641	11.0%	$ 1,052,321	10.4%

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	Aa2
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 2011 is $196,917,630 which is $0.2 million more than the 2010 budget. The increase of the 2011 operating budget reflects increased debt service as well as increases for employee benefits offset by nonpersonnel reductions in the Treatment division. A rate increase of 8 percent was approved effective January 9, 2011.

The capital plan was submitted and accepted for the years 2011 through 2015. 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, 2010 and 2009
(all amounts expressed in thousands)

	2010	2009
ASSETS		
Current assets:		
Cash, cash equivalents and pooled investments held by the City of Cincinnati (Note 2)	$20,113	$17,056
Accounts receivable (Note 3)	38,786	35,872
Prepaid expenses and other	2,710	3,018
Total current assets	61,609	55,946
Noncurrent assets:		
Restricted assets:		
Cash, cash equivalents, and pooled investments held by the City of Cincinnati:		
Construction account (Note 2)	40,185	11,332
Amount to be transferred to surplus account (Note 2)	36,835	36,201
Held by trustee: (Note 4)		
Cash and cash equivalents (Note 2)	90,008	50,259
Investments - Held to maturity (Note 2)	250,028	270,836
Total restricted assets	417,056	368,628
Other assets:		
Unamortized financing costs	7,806	7,438
Other	471	582
Total other assets	8,277	8,020
Capital assets: (Note 5)		
Land	4,977	4,977
Buildings and structures	1,115,330	956,572
Processing systems	361,254	351,791
Office and service equipment	49,002	43,929
Construction in progress	266,674	285,769
Total capital assets	1,797,237	1,643,038
Less:		
Accumulated depreciation	(629,596)	(590,717)
Net capital assets	1,167,641	1,052,321
Total noncurrent assets	1,592,974	1,428,969
Total assets	$1,654,583	$1,484,915

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, 2010 and 2009
(all amounts expressed in thousands)

	2010	2009
LIABILITES		
Current liabilities:		
Payable from current assets:		
Current portion of long-term debt (Note 6)	$38,712	$34,975
Current portion of compensated absences (Note 7)	3,739	3,372
Accounts payable	3,765	4,881
Accrued payroll expenses	2,886	2,357
Total current liabilities payable from current assets	49,102	45,585
Payable from restricted assets:		
Construction accounts payable	9,113	10,612
Accrued interest payable	3,427	3,129
Total current liabilities payable from restricted assets	12,540	13,741
Total current liabilities	61,642	59,326
Noncurrent liabilities:		
Accrued compensated absences (Note 7)	4,700	5,121
Long-term debt (Note 6)	880,329	767,360
Net Pension Obligation	24,957	10,870
Net Other Post Employment Benefit Obligation	8,842	5,097
Total noncurrent liabilities	918,828	788,448
Total liabilities	980,470	847,774
Net assets:		
Invested in capital assets, net of related debt	330,623	328,398
Restricted	8,408	6,460
Unrestricted	335,082	302,283
Total net assets	$674,113	$637,141

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, 2010 and 2009
(all amounts expressed in thousands)

	2010	2009
REVENUES		
Operating revenues:		
Sewerage service charges	$198,435	$182,945
Sewer surcharges	19,480	13,280
All other revenues	3,372	5,048
Total operating revenues	221,287	201,273
EXPENSES		
Operating expenses:		
Personnel services	62,198	45,882
Purchased services	23,952	27,566
Utilities, fuel and supplies	24,030	21,362
Depreciation and amortization	44,674	38,623
Other expenses	10,188	9,015
Total operating expenses	165,042	142,448
Operating income	56,245	58,825
NONOPERATING		
Nonoperating revenues (expenses):		
Interest income	3,045	4,714
Change in fair value of investments	3,434	(4,988)
Interest expense	(29,905)	(25,539)
Retirement of capital assets	126	116
Total nonoperating revenues	(23,300)	(25,697)
Income from operations	32,945	33,128
Capital contributions	4,027	6,230
Change in net assets	36,972	39,358
Total net assets, beginning	637,141	597,783
Total net assets, ending	$674,113	$637,141

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, 2010 and 2009
(all amounts expressed in thousands)

	2010	2009
Cash Flows from Operating Activities:		
Cash received from customers	$217,449	$194,471
Cash payments for goods and services	(59,375)	(56,685)
Cash payments for personnel costs	(43,941)	(39,785)
Other operating revenues	2,407	3,431
Net Cash Provided by Operating Activities	116,540	101,432
Cash Flows from Capital and Related Financing Activities:		
Principal and interest payments on long-term debt	(75,035)	(65,355)
Acquisition and construction of capital assets	(116,924)	(128,394)
Loan proceeds	30,438	0
Transfer into construction account from trustee investment account	108,348	105,940
Transfer from operating cash account to trustee investment account	(36,201)	(31,432)
Revenue bond proceeds	137,004	151,546
Revenue bond issuance costs	(1,240)	(1,944)
Tap-in fees	2,027	1,965
Gain/loss from sale of property, plant and equipment	126	116
Net Cash (Used) by Capital and Related Financing Activities	48,543	32,442
Cash Flows from Investing Activities:		
Purchase of government securities	(96,015)	(135,728)
Net increase in fair value of pooled cash and investments held by City of Cincinnati	300	(285)
Interest earned on investments	2,925	2,032
Net Cash Provided (Used) by Investing Activities	(92,790)	(133,981)
Net Increase (Decrease) in Cash and Cash Equivalents	72,293	(107)
Cash and Cash Equivalents at January 1	114,848	114,955
Cash and Cash Equivalents at December 31	$187,141	$114,848
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from operations	56,245	58,825
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	44,674	38,623
Changes in assets and liabilities:		
Net change in customer accounts receivable	(2,914)	(3,282)
Net change in other assets	923	320
Net change in operating accounts payable	(1,116)	838
Net change in accrued payroll and related expenses	896	1,199
Net Pension Obligation	14,087	3,311
Net Other Post Employment Benefit Obligation	3,745	1,598
Net Cash Provided by Operating Activities	$116,540	$101,432
Non-cash Transactions:		
Structures donated as contributed capital in aid of construction	$1,517	$3,256

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.

Prepaids

Payments made for services that will benefit periods beyond December 31, 2010, are recorded as prepaids using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Inventory

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

Capital Assets

Capital assets include land, construction in progress, buildings 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 5 for more information on capital assets.

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

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

Building 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 $97,133,000 and $64,589,000 at December 31, 2010 and 2009, 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, 2010 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, 2010.

Investment Type	Fair Value	% of Total
Investments held by the City of Cincinnati	$ 97,133	22.22
U. S. Government Security	250,028	57.19
Money Market Funds	90,008	20.59
	$ 437,169	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, 2010	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 187,141	$ 250,028
Money Market Funds	(90,008)	90,008
Total	$ 97,133	$ 340,036

(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

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(all amounts in thousands)

	2010	2009
Sewer charges and surcharges:		
Unbilled amount	$ 19,466	$ 18,721
Billed amount	24,359	22,668
Less allowance for doubtful accounts	(8,000)	(7,000)
Other	2,961	1,483
Total	$ 38,786	$ 35,872

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, 2010 and 2009 the following balances (at fair value) were maintained in the trust accounts:

(all amounts in thousands)

	2010	2009
Held by trustee:		
Reserve	$ 76,408	$ 72,809
Replacement and improvement	5,611	5,603
Bond retirement	8,408	6,460
Surplus	249,609	236,223
Total	$ 340,036	$ 321,095

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NOTE 5 - CAPITAL ASSETS

The following summarizes the changes in capital assets during 2010:

(all amounts in thousands)

December 31, 2010	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, not being depreciated:				
Land	$4,977	$ -	$ -	$4,977
Construction in progress	285,769	135,306	(154,401)	266,674
	290,746	135,306	(154,401)	271,651
Capital Assets, being depreciated:				
Buildings and structures	956,572	158,758	-	1,115,330
Processing systems	351,791	13,929	(4,466)	361,254
Office and service equipment	43,929	6,053	(980)	49,002
	1,352,292	178,740	(5,446)	1,525,586
Total Capital Assets	1,643,038	314,046	(159,847)	1,797,237
Less accumulated depreciation:				
Buildings and structures	375,684	24,283	-	399,967
Processing systems	180,087	12,363	-	192,450
Office and service equipment	34,946	3,212	(979)	37,179
Total Accumulated Depreciation	590,717	39,858	(979)	629,596
Net capital assets	$ 1,052,321	$ 274,188	$ (158,868)	$ 1,167,641

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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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NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following:

	Issue	Rate %	Maturity	2010	2009
Revenue Bonds					
2010 (a)	$ 130,675	2.00-5.37	2035	$ 130,675	$ -
2009 (b)	149,815	4.00-6.50	2034	149,815	149,815
2007 (c)	72,385	3.50-5.25	2032	67,190	69,010
2006 (d)	83,045	4.00-5.00	2031	75,230	77,345
2005 (e)	170,560	2.50-5.00	2030	149,335	151,690
2004 (f)	46,385	2.00-5.00	2017	37,415	37,415
2003 (g)	215,575	1.50-5.25	2028	169,255	203,200
2001 (h)	76,000	2.30-5.25	2026	2,230	29,260
2000 (i)	40,085	4.50-5.75	2025	-	3,995
1997 (j)	105,245	3.85-5.13	2017	5,955	11,595
				787,100	733,325
Ohio Water Development Authority Contracts	41,830	2.00-7.49	2016	393	574
Ohio Water and Sewer Rotary Commission	-	-	-	50	50
Ohio Public Works Commssion	-	3.54-4.80	2017	2,626	3,065
Water Pollution Control Loan Fund	-	0.00-3.00	2018	90,748	41,029
Capital Lease Payable	15,000	2.00-500	2029	14,460	-
Total obligations				895,377	778,043
Bond discounts				(4)	(12)
Bond premiums				29,991	28,355
Deferred loss on defeasance				(6,323)	(4,051)
Current maturities				(38,712)	(34,975)
Long-term portion				$ 880,329	$ 767,360

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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		WPCLF*		OPWC		Capital Lease	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 33,520	$ 27,932	$ 4,321	$ 2,636	$ 311	$ 52	$ 560	$ 553
2012	35,250	26,148	4,927	2,833	312	46	575	536
2013	36,645	24,846	8,119	5,315	318	40	590	525
2014	38,325	23,456	8,079	5,044	324	34	600	512
2015	28,170	22,024	8,166	4,779	331	27	620	495
2016-2020	175,630	90,877	42,691	19,818	1,007	64	3,365	2,202
2021-2025	171,515	65,493	46,840	12,636	192	7	4,145	1,424
2026-2030	174,635	33,705	42,775	5,409	56	-	4,005	453
2031-2035	93,410	8,805	11,691	458	56	-	-	-
2036-2040	-	-	-	-	56	-	-	-
	$ 787,100	$ 323,286	$ 177,609	$ 58,928	$ 2,963	$ 270	$ 14,460	$ 6,700

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

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

December 31, 2010	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond discount	$ (12)	$ 8	$ -	$ -	$ (4)
Bond premium	28,355	(4,693)	-	6,329	29,991
Loss on defeasance	(4,051)	1,107	-	(3,379)	(6,323)
Total	$ 24,292	$ (3,578)	$ -	$ 2,950	$ 23,664

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

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Long-term debt activity for the year:

December 31, 2010	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds	$ 733,325	$ 130,675	$ 76,900	$ 787,100
Ohio Water Development Authority	574	-	181	393
Ohio Water and Sewer Rotary Commission	50	-	-	50
Ohio Public Works Commission	3,065	-	439	2,626
Water Pollution Control Loan Fund	41,029	53,982	4,263	90,748
Capital Lease Payable	-	15,000	540	14,460
Total	$ 778,043	$ 199,657	$ 82,323	$ 895,377

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

Revenue Bonds

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

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

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

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

b) 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.

c) 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.

d) 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.

e) 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.

f) 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.

g) 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.

h) 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.

i) 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.

j) 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.

The 2010, 2009, 2007, 2006, 2005, 2004, 2003, 2001, 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, 2010 and December 31, 2009 the amount of defeased debt outstanding was $61,605,000 and $46,345,000, respectively.

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

(all amounts in thousands)

Year	2010 Bonds	2009 Bonds	2007 Bonds	2006 Bonds	2005 Bonds	2004 Bonds	2003 Bonds	2001 Bonds	1997 Bonds	Total
2011	$ 1,540	$ -	$ 1,885	$ 2,200	$ 2,445	$ -	$ 17,690	$ 1,805	$ 5,955	$ 33,520
2012	3,275	-	1,950	2,290	2,560	6,165	18,585	425	-	35,250
2013	2,310	-	2,020	2,380	9,065	1,360	19,510	-	-	36,645
2014	860	-	2,090	2,475	10,985	1,420	20,495	-	-	38,325
2015	425	-	2,165	2,575	-	1,495	21,510	-	-	28,170
2016-2020	29,550	19,515	12,195	14,895	56,055	26,975	16,445	-	-	175,630
2021-2025	37,380	38,385	15,500	18,845	35,685	-	25,720	-	-	171,515
2026-2030	27,595	46,825	19,935	24,020	26,960	-	29,300	-	-	174,635
2031-2035	27,740	45,090	9,450	5,550	5,580	-	-	-	-	93,410
	$ 130,675	$ 149,815	$ 67,190	$ 75,230	$ 149,335	$ 37,415	$ 169,255	$ 2,230	$ 5,955	$ 787,100

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)

	2010	2009
Revenues:		
Total operating revenues	$ 221,287	$ 201,273
Interest income	3,045	4,714
Capitalized interest income	681	1,121
Tap-in/connection fees	2,027	1,965
Total pledged revenue	227,040	209,073
Total operating and maintenance expenses less depreciation and amortization	(120,368)	(103,825)
Half of pledged revenues transferred to surplus account	18,418	18,100
Net income available for debt service (a)	$ 125,090	$ 123,348
Principal and interest requirement on revenue bonds (b)	$ 69,391	$ 61,626
Principal and interest requirements on obligations (c)	$ 77,127	$ 64,169
Debt service coverage		
Revenue bonds (a) divided by (b)	180%	200%
All obligations (a) divided (c)	162%	192%
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)

	2010	2009
Interest incurred	$ 36,471	$ 31,611
Less Interest capitalization	(6,566)	(6,072)
Interest expense	$ 29,905	$ 25,539

NOTE 7 – CAPITAL LEASE

The District issued a capital lease for a new engineering building. The District's lease obligation meet the criteria of a capital lease as defined by FASB Guidance. The leased assets have been capitalized for the amount of the present value of the minimum lease payments at the inception of the lease.

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

(all amounts in thousands)

Fiscal Year Ending December 31,	Long-Term Debt
2011	$ 1,113
2012	1,111
2013	1,115
2014	1,112
2015	1,115
2016-2020	5,567
2021-2025	5,569
2026-2029	4,458
Total Minimum Lease Payments	21,160
Less: Amount Representing Interest	(6,700)
Present Value of Minimum Lease Payments	$ 14,460

Capital assets acquired under capital leases in accordance with FASB Guidance are as follows:

Buildings and structures	$15,000,000

NOTE 8 – COMPENSATED ABSENCES

Compensated Absences

Compensated absences consist of vacation time, sick pay and compensatory time. The following is a summary of activity for 2010 and 2009. $3,739 is considered due within one year for compensated absences as of December 31, 2010.

(all amounts in thousands)

	Beginning Balance	Increase	Decrease	Ending Balance
2010	$ 8,493	$ 4,127	$ 4,181	$ 8,439
2009	$ 7,596	$ 4,533	$ 3,636	$ 8,493

NOTE 9 - PENSION AND RETIREMENT

City of Cincinnati Retirement System

The majority of MSD full-time employees participate in the Retirement System of the City of Cincinnati (CRS). CRS is a cost-sharing, 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 2010, the required contribution rates were 17.00 percent for MSD and 7.5 percent for employees. For 2009, 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, 2010, 2009 and 2008 were $6,005,000, $4,941,000 and $4,555,000, respectively. The full amount has been contributed for 2009 and 2008 and 95% of the required contributions for 2010. The City's (and MSD's) contribution rate for 2010, 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, 2010 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 3,143 active contributing participants of which 532 are MSD employees. For 2010, MSD's contribution was 19 percent of the total employers' contribution.

NOTE 10 - RELATED PARTY TRANSACTIONS

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 2010 and 2009 were $5,056,000 and $4,899,000 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 2010 and 2009 were $2,471,000 and $2,405,000 respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were $1,372,000 and $1,383,000 for 2010 and 2009, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio are parties to a Global Consent Decree, which was lodged, in 2003, with the U.S. District Court for the Southern District of Ohio, Western Division. This decree focuses on combined sewer overflows, the implementation of the Sanitary Sewer Overflow Correction plan established in the Interim Partial Consent Decree, and other wet weather issues. The court approved the decrees on June 9, 2004. In August 2010, MSD's Revised Wet Weather Improvement Plan was approved by the federal government. The Plan commits MSD to complete a Phase 1 group of projects totaling $1.145 billion (in 2006 dollars and including $400 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 $161 million as of December 31, 2010.

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - SUBSEQUENT EVENTS

The Hamilton County Board of Commissioners has approved an 8 percent sewerage rate increase effective January 9, 2011.

On March 16, 2011, the City of Cincinnati's City Council approved a major plan revision to the City of Cincinnati Retirement System (CRS), which includes MSD. The plan allows for a two and half year transition period from July 1, 2011 to January 1, 2014. Active members who are eligible or become eligible to retire and elect to retire during this transition period can retire with 30 years of creditable service or at age 60 with at least five years of creditable service and will receive benefits according to the current plan.

Active members who are not eligible to retire and retire before January 1, 2014 will be subject to the new plan benefits. To be eligible to retire, an active employee must have completed 30 years of creditable service and have reached age 60 or older or an employee must have 5 years of creditable service and have reached age 65 or older.

The annual retirement allowance through June 30, 2011 will be the same as the current plan. For years of service beginning July 1, 2011 all active employees will receive 2.2% per year of creditable service through 30 years and 2% for every year after 30 years of creditable service. Benefits will be calculated using the average of the highest five years compensation.

Under the new plan pensions are increased based on CPI-U with a maximum of 2% annually and will be based on simple interest.