

**THE METROPOLITAN SEWER DISTRICT
OF GREATER CINCINNATI**

SINGLE AUDIT REPORTS

for the year ended December 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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The Honorable Board of County Commissioners
Metropolitan Sewer District of Greater Cincinnati
1600 Guest Street
Cincinnati, Ohio 45204

We have reviewed the Independent Auditor's Report of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, prepared by Foxx & Company, for the audit period January 1, 2001 through December 31, 2001. 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.

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JIM PETRO
Auditor of State

June 24, 2002

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THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

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Foxx & Company
Certified Public Accountants

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

The Honorable Board of County Commissioners
Hamilton County, Ohio

We have audited the financial statements of the Metropolitan Sewer District of Greater Cincinnati (MSD), as of and for the year ended December 31, 2001, and have issued our report thereon dated March 29, 2002. The financial statements present only the financial position of MSD and are not intended to present fairly the financial position of Hamilton County, and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles. 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.

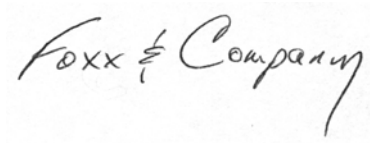
Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of management, the Ohio Auditor of State and 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.

A handwritten signature in black ink that reads "Fox & Company". The signature is written in a cursive style with a large, stylized 'F' and 'C'.

Cincinnati, Ohio
March 29, 2002



Foxx & Company
Certified Public Accountants

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

The Honorable Board of County Commissioners
Hamilton County, Ohio

Compliance

We have audited the compliance of the the Metropolitan Sewer District of Greater Cincinnati (MSD), 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 its major federal program for the year ended December 31, 2001. MSD's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of MSD's management. Our responsibility is to express an opinion on 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 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 on MSD's compliance with those requirements.

In our opinion, MSD complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

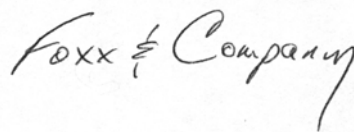
The management of MSD is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered MSD's internal control over compliance with 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of MSD, as of and for the year ended December 31, 2001 and have issued our report thereon dated March 29, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Ohio Auditor of State 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.

A handwritten signature in cursive script that reads "Fox & Company". The signature is written in dark ink on a light-colored background.

Cincinnati, Ohio
March 29, 2002

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended December 31, 2001

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Disbursements</u>
U.S. Environmental Protection Agency			
<i>Pass-through programs from Ohio Environmental Protection Agency</i>			
Capitalization Grants for State Revolving Funds	66.458	CS391859-02	<u>\$2,114,195</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,114,195</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended December 31, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

This schedule of expenditures of federal awards includes the federal grant/loan activity of MSD and is presented on an accrual basis of accounting in accordance with generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2001

1. Summary of Auditors' Results

Type of financial statement opinion	Unqualified
Where there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any other reported noncompliance at the financial statement level (GAGAS)?	No
Was there any material internal control weakness conditions reported for major federal programs?	No
Where there any other reported internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' compliance opinion	Unqualified
Are there any reportable findings under § .510?	No
Major programs	Capitalization Grants for State Revolving Funds CFDA #66.458
Dollar threshold for Type A/B programs	Type A: Over \$300,000 Type B: All others
Low risk auditee?	Yes

**2. Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS**

None

3. Findings and Questioned Costs for Federal Awards

None

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

December 31, 2001

There were no prior audit findings or questioned costs relative to federal awards for the audit of MSD for the year ended December 31, 2000.

**THE METROPOLITAN SEWER DISTRICT
OF GREATER CINCINNATI**

FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

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THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI

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Foxx & Company
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners
Hamilton County, Ohio

We have audited the accompanying financial statements of the Metropolitan Sewer District of Greater Cincinnati (MSD), as of and for the years ended December 31, 2001 and 2000 as listed in the table of contents. These financial statements are the responsibility of MSD's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Sewer District of Greater Cincinnati, at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2002 on our consideration of MSD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Foxx & Company

Cincinnati, Ohio
March 29, 2002

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
BALANCE SHEETS
December 31, 2001 and 2000
(all amounts expressed in thousands)

ASSETS

	<u>2001</u>	<u>2000</u>
Current Assets		
Cash, cash equivalents and pooled investments held by the City of Cincinnati	\$ 11,869	\$ 11,239
Accounts receivable	17,968	17,979
Prepaid expenses and other	<u>3,100</u>	<u>2,807</u>
Total current assets	<u>32,937</u>	<u>32,025</u>
Restricted Assets		
Cash, cash equivalents and pooled investments held by the City of Cincinnati:		
Construction account	4,247	2,990
Amount to be transferred to surplus account	10,539	10,304
Held by trustee:		
Cash and cash equivalents	22,549	3,515
Investments - Held to maturity	<u>142,742</u>	<u>114,905</u>
Total restricted assets	<u>180,077</u>	<u>131,714</u>
Property, Plant and Equipment		
Land	4,932	4,925
Building and structures	600,363	567,218
Processing systems	258,181	259,089
Office and service equipment	28,225	25,996
Construction in progress	<u>150,511</u>	<u>145,667</u>
Total property plant and equipment	1,042,212	1,002,895
Accumulated depreciation	<u>(373,647)</u>	<u>(347,981)</u>
Net property, plant and equipment	<u>668,565</u>	<u>654,914</u>
Other Assets		
Unamortized financing costs	5,484	7,233
Other	<u>2,631</u>	<u>2,798</u>
Total other assets	<u>8,115</u>	<u>10,031</u>
Total assets	<u>\$ 889,694</u>	<u>\$ 828,684</u>

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

**THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
BALANCE SHEETS**

**December 31, 2001 and 2000
(all amounts expressed in thousands)**

LIABILITIES AND EQUITY

	<u>2001</u>	<u>2000</u>
Current Liabilities		
Current portion of long-term debt	\$ 17,026	\$ 15,601
Accounts payable	4,094	2,926
Accrued payroll expenses	<u>1,017</u>	<u>1,700</u>
Total current liabilities	<u>\$ 22,137</u>	<u>\$ 20,227</u>
Payable From Restricted Assets		
Construction accounts payable	3,410	4,746
Accrued interest	<u>2,044</u>	<u>1,901</u>
Total payable from restricted assets	<u>5,454</u>	<u>6,647</u>
Long-Term Liabilities		
Accrued compensated absences	5,799	5,833
Long-term debt	<u>438,670</u>	<u>392,928</u>
Total long-term liabilities	<u>444,469</u>	<u>398,761</u>
Total liabilities	<u>472,060</u>	<u>425,635</u>
Equity		
Contributions in aid of construction	170,579	169,178
Retained earnings	<u>247,055</u>	<u>233,871</u>
Total equity	<u>417,634</u>	<u>403,049</u>
Total liabilities and equity	<u>\$ 889,694</u>	<u>\$ 828,684</u>

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
for the years ended December 31, 2001 and 2000
(all amounts expressed in thousands)

	<u>2001</u>	<u>2000</u>
Operating Revenues		
Sewerage service charges	\$ 101,634	\$ 94,441
Sewerage surcharges	9,716	11,403
Other revenues	<u>2,759</u>	<u>2,228</u>
Total operating revenues	<u>114,109</u>	<u>108,072</u>
Operating Expenses		
Personnel services	33,351	32,605
Utilities, fuel and supplies	15,807	14,820
Depreciation and amortization	27,212	26,266
Purchased services	15,823	15,528
Other expenses	<u>5,331</u>	<u>4,554</u>
Total operating expenses	<u>97,524</u>	<u>93,773</u>
Income from operations	<u>16,585</u>	<u>14,299</u>
Other Income (Expenses)		
Interest income	7,930	6,592
Gain on disposal of property, plant and equipment	72	55
Interest expense	(19,525)	(17,173)
Net (decrease) increase in fair value of investments	<u>(723)</u>	<u>3,816</u>
Total other income (expenses)	<u>(12,246)</u>	<u>(6,710)</u>
Net Income	4,339	7,589
Amortization of contributions in aid of construction	8,845	8,593
Retained earnings at beginning of year	<u>233,871</u>	<u>217,689</u>
Retained earnings at end of year	<u>247,055</u>	<u>233,871</u>
Contributions in Aid of Construction at beginning of year	169,178	170,594
Additions to contributions in aid of construction	10,246	7,177
Amortization of contributions in aid of construction	<u>(8,845)</u>	<u>(8,593)</u>
Contributions in aid of construction at end of year	<u>170,579</u>	<u>169,178</u>
Total Fund Equity at End of Year	<u>\$ 417,634</u>	<u>\$ 403,049</u>

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2001 and 2000
(all amounts expressed in thousands)

	<u>2001</u>	<u>2000</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 111,361	\$ 105,525
Cash payments for goods and services	(35,869)	(34,461)
Cash payments for personnel costs	(34,068)	(32,506)
Other operating revenues	<u>2,169</u>	<u>2,287</u>
Net Cash Provided by Operating Activities	<u>43,593</u>	<u>40,845</u>
Cash Flows from Capital and Related Financing Activities		
Principal and interest payments on long-term debt	(51,126)	(35,399)
Acquisition and construction of capital assets	(34,619)	(38,021)
Grant and loan proceeds	2,175	3,619
Revenue bond proceeds	76,128	40,254
Revenue bond issuance costs	(667)	(670)
Tap-in fees	4,486	4,373
Proceeds from sale of property, plant and equipment	<u>72</u>	<u>56</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(3,551)</u>	<u>(25,788)</u>
Cash Flows from Investing Activities		
Purchase of government securities	(143,186)	(212,974)
Maturity or redemption of government securities	114,463	182,659
Net increase in fair value of pooled cash and investments held by City of Cincinnati	163	258
Interest earned on investments	<u>9,674</u>	<u>7,310</u>
Net Cash (Used) by Investing Activities	<u>(18,886)</u>	<u>(22,747)</u>
Net Change in Cash and Cash Equivalents	21,156	(7,690)
Cash and Cash Equivalents at January 1	<u>28,048</u>	<u>35,738</u>
Cash and Cash Equivalents at December 31	<u>\$ 49,204</u>	<u>\$ 28,048</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from operations	16,585	14,299
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	27,212	26,266
Change in assets and liabilities:		
Net change in customer accounts receivable	11	(317)
Net change in other assets	(666)	186
Net change in operating accounts payable	1,168	312
Net change in accrued payroll and related expenses	<u>(717)</u>	<u>99</u>
Net Cash Provided by Operating Activities	<u>\$ 43,593</u>	<u>\$ 40,845</u>
Noncash Investing and Financing Transactions		
Structures donated as contributed capital in aid of construction	<u>5,160</u>	<u>2,500</u>
Total Noncash Investing and Financing Transactions	<u>\$ 5,160</u>	<u>\$ 2,500</u>

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

THE METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS
for the years ended December 31, 2001 and 2000

NOTE 1 - ACCOUNTING POLICIES

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

Organization

The Metropolitan Sewer District of Greater Cincinnati (MSD), an enterprise fund of the County of Hamilton, Ohio, collects and treats industrial and residential wastewater for municipalities and unincorporated areas of Hamilton County. MSD was established pursuant to an agreement dated May 1, 1968 between the Board of Commissioners of Hamilton County and the City of Cincinnati. Under a contract with the City of Cincinnati, the Board designated the City as its agent for the maintenance and operation of MSD. The annual budget, prepared on the cash basis of accounting, is approved by the Board and administered by the City. Budgetary control is exercised at the divisional level, and between personnel and all other costs. The County issues a separate Comprehensive Annual Financial Report which includes MSD as a separate enterprise fund of the County.

Basis of Accounting

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

Enterprise Fund Activity Accounting and Financial Reporting

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

Use of Estimates

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

Statement of Cash Flows

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

Investments

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

Investment securities are stated at fair value in accordance of GASB Statement No. 31.

Inventory

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

Property, Plant and Equipment

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

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

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

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

Unamortized Financing Costs

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

Pension Plans

Employees participate in either the City of Cincinnati's Retirement System or the Public Employees Retirement System administered by the State of Ohio. Pension costs reflect a percentage of employees' gross pay, as defined by the terms of pension plans in which employees participate. MSD's policy is to fund pension costs accrued.

Claims Liabilities

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

Compensated Absences

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits: At December 31, 2001 and 2000, the carrying amount of MSD's deposits held by the City of Cincinnati total \$26,655,000 and \$24,533,000, respectively. Amounts held by the City of Cincinnati are invested on MSD's behalf in accordance with the Cincinnati Municipal Code. Amounts held by the City are collateralized as part of the City's cash and investment balances.

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

Investments made by MSD are summarized below. Trustee account investments are categorized according to credit risk into the following categories: (1) insured or registered, or securities held by MSD's or its agent (bank trust department) in the MSD's name; or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the MSD's name; or (3) uninsured, unregistered securities held by the counterparty, or its trust department or agent but not

in MSD's name. Money market funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

(all amounts in thousands)

<u>December 31, 2001</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government Securities	\$ 142,742	\$ -	\$ -	\$ 142,742	\$ 142,742
Money Market Funds	<u> </u>	<u> </u>	<u> </u>	<u>22,549</u>	<u>22,549</u>
Total	<u>\$ 142,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,291</u>	<u>\$ 165,291</u>

(all amounts in thousands)

<u>December 31, 2000</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government Securities	\$ 114,905	\$ -	\$ -	\$ 114,905	\$ 114,905
Money Market Funds	<u> </u>	<u> </u>	<u> </u>	<u>3,515</u>	<u>3,515</u>
Total	<u>\$ 114,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,420</u>	<u>\$ 118,420</u>

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

(all amounts in thousands)

<u>December 31, 2001</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 49,204	\$ 142,742
Money Market Funds	<u>(22,549)</u>	<u>22,549</u>
GASB Statement No. 3	<u>\$ 26,655</u>	<u>\$ 165,291</u>
<u>December 31, 2000</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 28,049	\$ 114,905
Money Market Funds	<u>(3,515)</u>	<u>3,515</u>
GASB Statement No. 3	<u>\$ 24,534</u>	<u>\$ 118,420</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(all amounts in thousands)

December 31,

	<u>2001</u>	<u>2000</u>
Sewerage charges and surcharges:		
Unbilled amount	\$ 10,484	\$ 7,995
Billed amount	8,329	10,765
Less allowance for doubtful accounts	(1,600)	(1,900)
Other	<u>755</u>	<u>1,119</u>
Total	<u>\$ 17,968</u>	<u>\$ 17,979</u>

NOTE 4 - RESTRICTIONS ON ASSETS

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

In August 1985, the Federal District Court entered a consent order in an action with MSD and others (see Commitments and Contingencies Note). In complying with the consent order, MSD is required to maintain amounts on deposit in an environmental security account. Expenditures from this account must be approved by the U.S. Environmental Protection Agency. The balance of this account, which is included in other assets, was \$1,144,000 and \$1,092,000 at December 31, 2001 and 2000, respectively.

The Trust Agreement for the Series A Revenue Bonds (see Long-Term Debt Note) requires the establishment of certain trust accounts including a Bond Account, Bond Reserve Account, Replacement and Improvement Account, and a Surplus Account to be held by the Trustee. The Bond Account will be used to accumulate periodic principal and interest payments. The Bond Reserve Account will be funded in an amount equal to the highest annual future debt service requirement. The Replacement and Improvement Account is to be maintained with a balance of \$5,000,000. The Surplus Account is available to be used for any other Sewer System purpose. The Trust Agreement also requires the creation of a Construction Account to be held by the City to pay for project costs. At December 31, 2001 and 2000 the following balances (at fair value) were maintained in the trust accounts:

(all amounts in thousands)

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
Held by trustee:		
Reserve	\$ 41,933	\$ 39,793
Replacement and improvement	5,109	5,099
Bond retirement	3,736	3,665
Surplus	<u>114,513</u>	<u>69,863</u>
Total	<u>\$ 165,291</u>	<u>\$ 118,420</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following:

(all amounts in thousands except percents)

	<u>Principal Issue</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>December 31,</u>	
				<u>2001</u>	<u>2000</u>
Series A Revenue Bonds					
2001	\$ 76,000	2.30-5.25	2026	\$ 76,000	\$ -
2000	40,085	4.50-5.75	2025	39,260	40,085
1997	105,245	3.85-5.13	2017	91,255	94,985
1995	85,800	3.70-6.05	2017	68,510	73,605
1993	171,790	2.45-5.60	2016	161,780	162,755
1991	90,950	4.80-6.70	2013	-	18,840
Ohio Water Development Authority Contracts	41,830	2.00-7.49	2019	1,656	2,509
Ohio Water and Sewer Rotary Commission	-	-	-	50	50
Ohio Public Works Commission	-	3.54-4.80	2017	4,677	4,865
Water Pollution Control Loan Fund	-	0.00-3.00	2018	<u>12,508</u>	<u>10,889</u>
Total obligations				455,696	408,583
Less current maturities				<u>(17,026)</u>	<u>(15,601)</u>
Long-term portion				438,670	392,982
Less deferred loss on refunding				<u>-</u>	<u>(54)</u>
Long-term portion				<u>\$ 438,670</u>	<u>\$ 392,928</u>

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

(all amounts in thousands)

2002	\$ 17,026
2003	17,931
2004	18,773
2005	19,721
2006	20,730
Thereafter	<u>361,515</u>
Total	<u>\$455,696</u>

Series A Revenue Bonds

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 are issued on a parity until the 1993, 1995, 1997 and 2000.

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 are issued on a parity with the 1993, 1995 and 1997 Series A bonds, secured equally and ratably under the Trust Agreement.

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

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

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

The 2001, 2000, 1997, 1995, and 1993 Bonds may be redeemed prior to their maturities in accordance with provisions of the bond resolutions. The redemption process for the bonds include declining premiums up to 2 percent of principal.

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

(all amounts in thousands)

	<u>2001</u> <u>Bonds</u>	<u>2000</u> <u>Bonds</u>	<u>1997</u> <u>Bonds</u>	<u>1995</u> <u>Bonds</u>	<u>1993</u> <u>Bonds</u>
2002	\$ 4,795	\$ 865	\$ 3,900	\$ 3,920	\$ 2,440
2003	5,225	905	4,075	4,160	2,565
2004	5,470	950	4,280	4,410	2,695
2005	5,720	995	4,495	4,680	2,830
2006	11,480	1,040	4,720	1,990	10,465
Thereafter	<u>43,310</u>	<u>34,505</u>	<u>69,785</u>	<u>49,350</u>	<u>140,785</u>
	<u>\$ 76,000</u>	<u>\$ 39,260</u>	<u>\$ 91,255</u>	<u>\$ 68,510</u>	<u>\$ 161,780</u>

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

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

(all amounts in thousands except percents)

	<u>2001</u>	<u>2000</u>
Revenues:		
Total operating revenues	\$ 114,109	\$ 108,072
Interest income	7,929	6,592
Capitalized interest income	1,183	1,564
Tap-in/connection fees	4,486	4,373
Total pledged revenues	<u>127,707</u>	<u>120,601</u>
Total operating and maintenance expenses less depreciation and amortization	(70,312)	(67,507)
Half of pledged revenues transferred to surplus account	<u>5,350</u>	<u>5,117</u>
Net income available for debt service (a)	<u>\$ 62,745</u>	<u>\$ 58,211</u>
Principal and interest requirements on revenue bonds (b)	<u>\$ 34,743</u>	<u>\$ 32,833</u>
Principal and interest requirements on all obligations (c)	<u>\$ 36,923</u>	<u>\$ 35,325</u>
Debt service coverage:		
Revenue Bonds (a) divided (b)*	<u>181%</u>	<u>177%</u>
All obligations (a) divided (c)*	<u>170%</u>	<u>165%</u>
Basic coverage required on bonds	<u>125%</u>	<u>125%</u>

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 property, plant, and equipment.

	(all amounts in thousands)	
	<u>2001</u>	<u>2000</u>
Interest incurred	\$ 22,437	\$ 21,804
Less interest capitalization	<u>(2,912)</u>	<u>(4,631)</u>
Interest expense	<u>\$ 19,525</u>	<u>\$ 17,173</u>

NOTE 6 - DEFEASED DEBT

In prior years, MSD defeased various general obligation serial bonds and revenue serial bonds through refinancing and operations. Separate irrevocable trust funds were established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At December 31, 2001 and 2000, the amount of defeased debt outstanding amounted to \$0 and \$44,285,000, respectively.

NOTE 7 - CONTRIBUTIONS IN AID OF CONSTRUCTION

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

Net contributions in aid of construction consisted of the following:

(all amounts in thousands)

	December 31,	
	2001	2000
United States Government Grants	\$ 129,772	\$ 129,772
City of Cincinnati	68,356	68,356
Ohio Water Development Authority Grants	46,761	46,761
Customers	107,330	97,083
Hamilton County	<u>1,738</u>	<u>1,738</u>
	353,957	343,710
Less accumulated amortization of contributions in aid of construction	<u>(183,378)</u>	<u>(174,532)</u>
	<u>\$ 170,579</u>	<u>\$ 169,178</u>

NOTE 8 - PENSION AND RETIREMENT

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

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 2001 and 2000, the required, actuarially determined contribution rates were 7 percent for MSD and 7 percent for employees. MSD's contributions to CRS for the years ending December 31,

2001, 2000 and 1999 were \$1,931,000, \$1,809,000 and \$1,875,000, respectively, equal to the required contribution for each year.

Other Postemployment Benefit Information

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

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

The actuarial assumptions used for the December 31, 2000, valuation of unfunded liabilities (latest information available) included an assumption recognizing medical benefits at current premium costs with projected increases of 7 percent per annum. The cost of coverage is recognized as an expense as claims are paid. CRS has 5,561 active contributing participants of which 619 are MSD employees. For 2000, MSD's contribution was 16 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 2001 and 2000 were \$3,996,000 and \$3,689,000 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 2001 and 2000 were \$2,099,000 and \$1,800,000 respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were \$1,050,000 and \$1,072,000 for 2001 and 2000, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The City of Cincinnati and the Board of County Commissioners of Hamilton County, Ohio, are parties to a Federal Consent Order which was entered in settlement of United States of America vs. The Board of County Commissioners of Hamilton, County, Ohio et al., Case No. C-1-85-0693. The City and County have continued in their efforts to negotiate an amendment to change certain construction schedules appearing in exhibits to that order. The City and County believe these changes are due to circumstances beyond the control of either, and are seeking approval of those schedule modifications from the United States Environmental Protection Agency. The consent order provides for stipulated penalties for failure to meet certain construction schedule deadlines but

specifically contemplates that no such penalties will be collected from either defendant where the non-compliance was beyond the reasonable control of the defendants. In addition, according to MSD's Chief Legal Counsel, EPA has requested the payment of \$290,000 in stipulated penalties under the Consent Order for certain effluent limit excursions between 1988 and January 1, 1991. The Consent order provides for stipulated penalties under certain conditions, and although the City and County have argued that no substantial penalties are appropriate, it appears that EPA does intend to extract some monetary payment for excursions. Currently, the City is awaiting EPA's response to certain defenses presented during 1992. The EPA has also claimed additional stipulated damages are appropriate for exceedences at the Mill Creek Plant, sanitary sewer overflows, and other MSD facilities at various times since January 1, 1991. Currently the EPA and the Justice Department are seeking to negotiate a new Consent Order to replace the initial Order which deals with a wider range of issues, including the Mill Creek Plant, sanitary and combined sewer overflows, and a number of other components of the wastewater collection and treatment system. Concurrently, with these negotiations the City and County are negotiating with federal and state agencies for an administrative order dealing with existing sanitary sewer overflow issues in the wastewater collection system.

As part of MSD's capital improvement program, MSD has entered into a number of contracts for construction, design, and other services. Commitments under these contracts aggregate approximately \$21 million as of December 31, 2001.

NOTE 11 - RISK MANAGEMENT

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

NOTE 12 - SUBSEQUENT EVENTS

The Hamilton County Board of Commissioners have approved a six percent sewerage rate increase effective January 9, 2002.

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.



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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
JULY 9, 2002**