



Dave Yost • Auditor of State

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

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Auditor's Report | 1 |
| Management Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Statement of Net Position | 11 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position..... | 13 |
| Statement of Cash Flows | 14 |
| Notes to the Financial Statements | 15 |
| Required Supplementary Information: | |
| Schedule of MSD's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System | 49 |
| Schedule of MSD's Contributions - Ohio Public Employees Retirement System..... | 50 |
| Schedule of MSD's Changes in Net Pension Liability And Related Ratios – Cincinnati Retirement System..... | 51 |
| Schedule of MSD's Contributions - Cincinnati Retirement System | 52 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 53 |
| Schedule of Findings..... | 55 |
| Schedule of Prior Audit Findings..... | 61 |

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Hamilton County Board of Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, Ohio (the District), as of and for the years ended December 31, 2015 and December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, Ohio (the District), as of December 31, 2015 and December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the year ended December 31, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2016 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2016

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

This section of the Metropolitan Sewer District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal years ended December 31, 2015 and December 30, 2014. Please read it in conjunction with the District's basic financial statements, beginning on page 12.

The ending net position for December 31, 2014, has been restated to reflect the implementation of the GASB 68 Pension calculations. A discussion of these adjustments is included in Note 13.

FINANCIAL HIGHLIGHTS FOR THE YEAR

- Assets exceeded liabilities by \$764,180,000 at the close of the 2015 fiscal year.
- The District's net position increased by \$54.9 million, or 7.7%, during FY 2015 (restated), and by \$92.2 million, or 11.3%, in FY 2014 (restated).
- Total long-term liabilities had a net increase of \$167,074 million. There was an issuance of \$52,520 million of refunding revenue bonds.
- Current Liabilities –In fiscal year 2015, total current liabilities increased by \$6.7 million

FINANCIAL STATEMENTS OVERVIEW

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

Financial Statement Structure–

In addition to the Independent Auditor's Report, the annual financial report consists of three segments:

- The Management's Discussion and Analysis provides explanations for and analysis of the Department's financial activities based upon currently known facts, conditions, and decisions of the Department's management. While primarily focused on current year results compared with prior years, this discussion also addresses certain long-term issues, which may, in management's opinion, impact the District's financial performance.
- Basic Financial Statements, which depict the District's financial position as of December 31, 2015 and 2014, along with earnings performance and cash flow information. These statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows.
- The accompanying notes explain some of the financial statement data and provide more detailed information.

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

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

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

FINANCIAL ANALYSIS

Table A below shows 78% of the District's net positions reflect its investment in capital assets (e.g., buildings, sewer laterals, and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used primarily in the collection and treatment of wastewater throughout the District's service area.

- The related debt will be repaid with resources provided by system users through rates and fees. Long-term debt (net of the current portion) decreased by \$50.3 million, or -5.3%, in FY 2015 and, decreased by \$41.8 million, or -4.5%, in FY 2014.

Net position increased \$54.9 million in 2015. The increase is a combination of income before contributions and contributions in the form of connection fees, assessments and developer contributions.

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

Table A
Condensed Summary of Net Position
(In Thousands)

| | 2015 | Percentage Increase (Decrease) over 2014 | 2014 | Percentage Increase (Decrease) over 2013 |
|----------------------------------|---------------------|---|---------------------|---|
| Current and other assets | \$ 535,742 | -7.0% | \$ 576,227 | 4.1% |
| Capital assets, net | 1,504,444 | 4.4% | 1,440,415 | 2.6% |
| Total assets | 2,040,186 | 1.2% | 2,016,642 | 3.0% |
| Deferred Outflows | 42,413 | 177.5% | 15,283 | 912.1% |
| Noncurrent liabilities | \$ 1,203,939 | 16.1% | \$ 1,036,865 | -2.5% |
| Current liabilities | 93,606 | 7.7% | 86,901 | 8.6% |
| Total liabilities | \$ 1,297,545 | 15.5% | \$ 1,123,766 | -1.7% |
| Deferred Inflows | \$ 20,874 | 100.0% | - | |
| Net investment in capital assets | \$ 597,418 | 19.2% | \$ 501,260 | 14.0% |
| Restricted | 8,238 | -2.6% | 8,454 | 0.4% |
| Unrestricted | 158,524 | -60.2% | 398,445 | 8.5% |
| Total Net Position | \$ 764,180 | -15.9% | \$ 908,159 | 11.3% |

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

Table B below shows that total operating revenues in FY 2015 totaled \$278.2 million, (an increase of \$13.0 million or 4.9%), compared with \$265.2 million in FY 2014, (an increase of \$5.9 million or 2.3% from the previous year) primarily due to increased revenues from sewerage service charges received from a January 2015 rate increase of 6% and a January 2014 increase of 6%. Meanwhile total expenses increased \$50.6M (or 27.1%) during 2015, while 2014 expenses decreased \$63.9M (or -25.5%).

Table B

Condensed Summary of Revenues
Expenses and Changes in Net Position
(In Thousands)

| | 2015 | Percentage Increase (Decrease) over 2014 | 2014 | Percentage Increase (Decrease) over 2013 |
|---------------------------------------|-------------------|---|-------------------|---|
| Operating revenues | \$ 278,226 | 4.9% | \$ 265,211 | 2.3% |
| Nonoperating revenues | 9,530 | -0.2% | 9,548 | -1.9% |
| Total revenues | <u>287,756</u> | <u>4.7%</u> | <u>274,759</u> | <u>2.1%</u> |
| Depreciation and amortization expense | \$ 55,581 | -1.0% | \$ 56,121 | -10.8% |
| Other operating expenses | \$ 115,271 | -4.0% | \$ 120,021 | -5.0% |
| Nonoperating expenses | 66,264 | 536.3% | 10,414 | -83.0% |
| Total expenses | <u>\$ 237,116</u> | <u>27.1%</u> | <u>\$ 186,556</u> | <u>-25.5%</u> |
| Income from operations | \$ 50,640 | -42.6% | \$ 88,203 | 375.4% |
| Capital contributions | \$ 4,267 | 7.8% | \$ 3,957 | -21.4% |
| Change in net position | \$ 54,907 | -40.4% | \$ 92,160 | 290.7% |
| Total Net Position, beginning | 709,273 | -13.1% | 815,999 | 3.0% |
| Total Net Position, ending | <u>\$ 764,180</u> | <u>-15.9%</u> | <u>\$ 908,159</u> | <u>11.3%</u> |

- Operating expenses, excluding depreciation and amortization, decreased by \$4.8 million to \$115.3 million, or -4.0% primarily to decreased lower purchased services and other expenses. Operating expenses decreased by \$6.3M (or -5.0%) in 2014 primarily because of the decreased purchased services and other expenses.
- Depreciation expenses decreased -1.0% or \$.5 million in 2015, and decreased -10.8% or \$6.8 million in 2014, due to a significant number of assets becoming fully depreciated during this period. The Fixed Assets are now in PeopleSoft Asset System.
- Nonoperating expenses for 2015 increased \$55.9M (or 536.3%) due to change in interest expense and change in the fair value of investments. 2014 decreased by \$50.9M (or -83.0%) due to increased interest expense from the 2014 bond issuance as well as change in the fair value of investments.

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

CAPITAL ASSETS, DEBT AND RATES

Change In Capital Asset Determination - -As of December 31, the District's investment in capital assets (net of accumulated depreciation) amounted to \$1,504 million and \$1,440 million as shown in Table C for 2015 and 2014, respectively. In 2015, the District's depreciable capital assets increased by about \$26.3 million on capital improvement projects and equipment replacement and received about \$4.3 million in capital contributions. In 2014, the District spent about \$60.1 million on capital improvement projects and equipment replacement and received about \$1.3 million in capital contributions.

Sewer replacement and improvement projects were about eighty-six percent of the program in 2015, and one-half of the program in 2014. Additional information on the District's capital assets can be found in Note 5 to the financial statements.

Table C
Capital Assets
(In Thousands)

| | | Percentage Increase (Decrease) over 2014 | | Percentage Increase (Decrease) over 2013 |
|-------------------------------|--------------|---|--------------|---|
| | 2015 | | 2014 | |
| Land | \$ 6,481 | 0.0% | \$ 6,481 | 0.0% |
| Buildings | 351,707 | 0.0% | 351,707 | 0.6% |
| Equipment | 492,247 | 0.6% | 489,492 | 5.1% |
| Sewer Laterals | 1,095,898 | 1.1% | 1,083,889 | 2.3% |
| Construction in progress | 412,382 | 29.1% | 319,389 | 10.1% |
| Subtotal | \$ 2,358,715 | 4.8% | \$ 2,250,958 | 3.7% |
| Less accumulated depreciation | 854,271 | 5.4% | 810,543 | 5.6% |
| Net capital assets | \$ 1,504,444 | 4.4% | \$ 1,440,415 | 2.6% |

Bond Issuances

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

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

On March 3, 2015, the District completed a successful municipal issuance of \$52.52 million in new tax exempt bonds and refinanced a portion of the 2005A series bonds for a total of \$60.36 million. In addition, the Eighteenth Supplemental Trust Agreement between Hamilton County, Ohio and U.S. Bank National Association, dated November 12, 2014, redefined the calculation for net income available for debt service. Revenue bond service Debt Coverage in 2015 was 221%, compared to an Agency policy of 150%, (25% higher than indenture requirements). The total debt coverage was 166% compared to the indenture requirement of 125%.

On November 19, 2014, the District completed a successful municipal issuance of \$162.7 million in new tax exempt bonds and refinanced the 2003A, a portion of the 2005B, a portion of 2006A a portion of 2007A, and a portion of 2009A series bonds for a total of \$181.9 million. In addition, the Eighteenth Supplemental Trust Agreement between Hamilton County, Ohio and U.S. Bank National Association,

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

dated November 12, 2014, redefined the calculation for net income available for debt service. Revenue bond service Debt Coverage in 2014 was 202%, compared to an Agency policy of 150%, (25% higher than indenture requirements). The total debt coverage was 159% compared to the indenture requirement of 125%.

Rate Increase – The Hamilton County Commissioners did not approve a rate increase in 2016 of the District’s sewer fee. An increase would provide additional revenues necessary to ensure that all expenses (including debt service) are covered as well as meeting all bond indenture requirements. Debt service necessary to cover the issuance of municipal bonds required to pay for the District’s large capital program will require annual rate increases into the near future.

GASB 68

During 2015, the Metropolitan Sewer District of Greater Cincinnati adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Metropolitan Sewer District of Greater Cincinnati’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Metropolitan Sewer District of Greater Cincinnati’s proportionate share of each plan’s collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees’ past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Metropolitan Sewer District of Greater Cincinnati is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as *against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

**MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Metropolitan Sewer District of Greater Cincinnati's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Metropolitan Sewer District of Greater Cincinnati is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$908,159,000 to \$709,273,000.

The City of Cincinnati offered an Early Retirement Incentive Program (ERIP) in 2007. The City Retirement System requested MSD's share of the remaining liability in the amount of \$8,723,061. This amount represents in full the liability for 2015-2023 years. The payment was processed in March 2016. The District is currently undergoing a special audit. The effects of the outcome of this special audit on the information reported and disclosed are currently unknown.

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

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

This page intentionally left blank.

Metropolitan Sewer District
Statement of Net Position
For The Periods Ended December 31, 2015 And December 31, 2014
(All amounts expressed in thousands)

| | 2015 | 2014 |
|--|------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash, cash equivalents and pooled investments held by the City of Cincinnati (Note 2) | \$27,424 | \$53,018 |
| Accounts receivable (Note 3) | 42,100 | 75,634 |
| Prepaid expenses and other | 1,451 | 1,483 |
| Total current assets | 70,975 | 130,135 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash, cash equivalents, and pooled investments held by the City of Cincinnati | | |
| Construction account (Note 2) | 53,832 | 6,295 |
| Amount to be transferred to surplus account (Note 2) | 70,757 | 33,513 |
| Held by trustee: (Note 4) | | |
| Cash and cash equivalents (Note 2) | 8,260 | 1,696 |
| Investments - Held to maturity (Note 2) | 331,762 | 404,431 |
| Total restricted assets | 464,611 | 445,935 |
| Other assets: | | |
| Other | 156 | 157 |
| Total other assets | 156 | 157 |
| Capital assets: (Note 5) | | |
| Land | 6,481 | 6,481 |
| Buildings | 351,707 | 351,707 |
| Sewer Laterals | 1,095,898 | 1,083,889 |
| Equipment | 492,247 | 489,492 |
| Construction in progress | 412,382 | 319,389 |
| Total capital assets | 2,358,715 | 2,250,958 |
| Less: | | |
| Accumulated depreciation | (854,271) | (810,543) |
| Net capital assets | 1,504,444 | 1,440,415 |
| Total noncurrent assets | 1,969,211 | 1,886,507 |
| Total assets | 2,040,186 | 2,016,642 |
| Deferred outflow of resources | | |
| Deferred charges on refunding | 14,890 | 15,283 |
| Deferred Pension Outflows Cincinnati Retirement System | 27,523 | 0 |
| Total Deferred Outflow of Resources | \$42,413 | \$15,283 |

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

Metropolitan Sewer District
Statement of Net Position
For The Periods Ended December 31, 2015 And December 31, 2014
(All amounts expressed in thousands)

| | 2015 | 2014 |
|--|-----------|-----------|
| LIABILITIES | | |
| Current liabilities: | | |
| Payable from current assets: | | |
| Current portion of long-term debt (Note 6) | \$61,898 | \$61,765 |
| Current portion of compensated absences (Note 8) | 3,756 | 3,786 |
| Accounts payable | 8,901 | 6,257 |
| Accrued payroll expenses | 1,636 | 2,633 |
| Total current liabilities payable from current assets | 76,191 | 74,441 |
| Payable from restricted assets: | | |
| Construction accounts payable | 14,579 | 9,552 |
| Accrued interest payable | 2,836 | 2,908 |
| Total current liabilities payable from restricted assets | 17,415 | 12,460 |
| Total current liabilities | 93,606 | 86,901 |
| Noncurrent liabilities: | | |
| Accrued compensated absences (Note 8) | 5,160 | 4,746 |
| Long-term debt (Note 6) | 921,736 | 972,844 |
| Net Pension Obligation | 0 | 46,819 |
| Net Pension Liability CRS | 265,050 | 0 |
| Net Pension Liability OPERS | 1,825 | 0 |
| Net Other Post Employment Benefit Obligation | 10,168 | 12,456 |
| Total noncurrent liabilities | 1,203,939 | 1,036,865 |
| Total liabilities | 1,297,545 | 1,123,766 |
| Deferred Inflow of resources | | |
| Deferred Pension Inflows Cincinnati Retirement System | 20,874 | 0 |
| Net position: | | |
| Net investment in capital assets | 597,418 | 501,260 |
| Restricted | 8,238 | 8,454 |
| Unrestricted | 158,524 | 398,445 |
| Total Net Position | \$764,180 | \$908,159 |

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

Metropolitan Sewer District
Statement of Revenue, Expenses and Changes in Fund Net Position
For The Periods Ended December 31, 2015 And December 31, 2014
(All amounts expressed in thousands)

| | 2015 | 2014 |
|---|-----------|-----------|
| REVENUES | | |
| Operating revenues: | | |
| Sewerage service charges | \$258,455 | \$237,346 |
| Sewer surcharges | 14,052 | 20,119 |
| All other revenues | 5,719 | 7,746 |
| Total operating revenues | 278,226 | 265,211 |
| EXPENSES | | |
| Operating expenses: | | |
| Personnel services | 56,474 | 55,487 |
| Purchased services | 31,549 | 35,707 |
| Utilities, fuel and supplies | 18,783 | 19,668 |
| Depreciation and amortization | 55,581 | 56,121 |
| Other expenses | 8,465 | 9,156 |
| Total operating expenses | 170,852 | 176,139 |
| Operating income | 107,374 | 89,072 |
| NONOPERATING | | |
| Nonoperating revenues (expenses): | | |
| Interest income | 9,530 | 9,548 |
| Change in fair value of investments | (29,053) | 33,010 |
| Interest expense | (37,211) | (43,427) |
| Total nonoperating revenues | (56,734) | (869) |
| Income (Loss) before contributions | 50,640 | 88,203 |
| Capital contributions | 4,267 | 3,957 |
| Change in net position | 54,907 | 92,160 |
| Total net position, beginning - as restated (NOTE 13) | 709,273 | 815,999 |
| Total net position, ending | \$764,180 | \$908,159 |

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

Metropolitan Sewer District
Statement of Cash Flow
For The Periods Ended December 31, 2015 And December 31, 2014

| | 2015 | 2014 |
|---|------------------|------------------|
| Cash flows from Operating Activities: | | |
| Cash received from customers | \$272,603 | \$262,681 |
| Cash payments for goods and services | (56,993) | (58,550) |
| Cash payments for personnel costs | (43,642) | (45,514) |
| Other operating revenues | 3,521 | 3,346 |
| Net Cash Provided by Operating Activities | <u>175,489</u> | <u>161,963</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Principal and interest payments on long-term debt | (102,356) | (96,536) |
| Acquisition and construction of capital assets | (95,299) | (75,910) |
| Loan proceeds | 3,762 | 2,434 |
| Transfer into construction account from trustee investment account 2013 Year | 0 | (32,048) |
| Transfer into construction account from trustee investment account | 139,074 | 24,000 |
| Transfer from operating cash account to trustee investment account | (67,026) | (24,000) |
| Tap-in fees | 2,955 | 2,855 |
| Gain/loss from sale of property, plant and equipment | 182 | 189 |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(118,708)</u> | <u>(199,016)</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of government securities | 0 | 1,446 |
| Net decrease in fair value of pooled cash and investments held by City of Cincinnati | 0 | 209 |
| Interest earned on investments | 1,399 | 989 |
| Net Cash Provided (Used) by Investing Activities | <u>1,399</u> | <u>2,644</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 58,180 | (34,409) |
| Cash and Cash Equivalents at January 1 | 94,522 | 128,931 |
| Cash and Cash Equivalents at December 31 | <u>152,702</u> | <u>94,522</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Income from operations | 107,374 | 89,072 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 55,581 | 56,121 |
| Capital Expenses moved to Operating | 2,135 | 5,130 |
| Changes in assets and liabilities: | | |
| Net change in customer accounts receivable | 33,534 | 5,914 |
| Net change in other assets | 32 | (74) |
| Net change in operating accounts payable | 2,644 | (1,535) |
| Net change in accrued payroll and related expenses | (613) | 960 |
| Net Pension Obligation/Liability | (21,170) | 8,862 |
| Net Other Post Employment Benefit Obligation | (2,288) | 820 |
| Net Change in cash received from customers | 1,282 | (1,617) |
| Net Change in Cash in Transit | 0 | 36 |
| Net Change in Accrued Payroll Change | 0 | (307) |
| Net Change in OWDA Loan Forgiveness 2014 | 0 | (841) |
| Net Change in Cash Held by US Trustee Bond Accounts | 6,564 | 0 |
| Net Change in Deferred Charges on Refunding Outflows | 393 | 0 |
| Net Change in Deferred Pension Outflows | (27,523) | 0 |
| Net Change in Deferred Pension Inflows | 20,874 | 0 |
| Net Change in Capital Expenses 7600 moved to Fixed Assets in Fund 701 | (3,330) | (578) |
| Net Cash Provide by Operating Activities | <u>175,489</u> | <u>161,963</u> |
| Non-cash Transactions: | | |
| Structures donated as contributed capital in aid of construction | 2,586 | 2,182 |
| Acquisition and construction of capital asset paid directly by WPCLF loan proceeds | 16,297 | 16,955 |
| Construction accounts payable related to acquisition of capital assets | <u>\$14,579</u> | <u>\$9,552</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

1. ACCOUNTING POLICIES

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

Organization

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

Basis of Accounting

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

Use of Estimates

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

Statement of Cash Flows

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

Investments

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

1. ACCOUNTING POLICIES (Continued)

Prepays

Payments made for services that will benefit periods beyond December 31, 2015, are recorded as prepaids using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Inventory

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

Capital Assets

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

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

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

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

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

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

Unamortized Financing Costs

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

1. ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition of assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For MSD, deferred outflows of resources are reported on the statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 9.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For MSD, deferred inflows of resources have been recorded in the statement of net position for pension, as explained in Note 9.

Pension Plans

Employees participate in either the City of Cincinnati's Retirement System or the Ohio Public Employees Retirement System. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair values.

Compensated Absences

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

Net Position

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

1. ACCOUNTING POLICIES (Continued)

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

2. DEPOSITS AND INVESTMENTS

Deposits

State statutes 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 \$152,013,000 and \$93,172,000 at December 31, 2015 and 2014, respectively.

Amounts held by the City of Cincinnati are invested on MSD's behalf in accordance with the Cincinnati Municipal Code. Amounts held by the City are collateralized as part of the City's cash and investment balances. For GASB 40 disclosure requirements, refer to the financial statements as of June 30, 2015 for the City of Cincinnati.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

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

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

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

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

Concentration of Credit Risk: The Metropolitan Sewer District uses the City of Cincinnati's Investment Policy which addresses concentration of credit risk by requiring investments to be diversified to reduce risk of loss resulting from over concentration of assets in a specific issue or class of security. The following table includes the percentage of each investment type held by MSD at December 31, 2015.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

| <u>Investment Type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|--|-------------------|-------------------|
| Investments held by the City of Cincinnati | \$ 152,013 | 30.89 |
| U. S. Government Security | 331,762 | 67.43 |
| Money Market Funds | 8,260 | 1.68 |
| | <u>\$ 492,035</u> | <u>100.00</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, 2015</u> | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|--------------------------|--------------------------------------|--------------------|
| GASB Statement No. 9 | \$ 160,273 | \$ 331,762 |
| Money Market Funds | (8,260) | 8,260 |
| Total | <u>\$ 152,013</u> | <u>\$ 340,022</u> |

(all amounts in thousands)

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

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(all amounts in thousands)

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|------------------|------------------|
| Sewer charges and surcharges: | | |
| Unbilled amount | \$ 23,372 | \$ 25,026 |
| Billed amount | 21,558 | 27,062 |
| Less allowance for doubtful accounts | (4,925) | (10,768) |
| Other | 2,095 | 34,314 |
| Total | <u>\$ 42,100</u> | <u>\$ 75,634</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

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, and a Surplus Account to be held by the Trustee. The Bond Account will be used to accumulate periodic principal and interest payments. The Bond Reserve Account will be funded in an amount equal to the highest annual future debt service requirement. The Surplus Account is available to be used for any other Sewer System purpose. The Trust Agreement also requires the creation of a Construction Account to be held by the City to pay for project costs. At December 31, 2015 and 2014 the following balances (at fair value) were maintained in the trust accounts:

(all amounts in thousands)

| | 2015 | 2014 |
|------------------|-------------|-------------|
| Held by trustee: | | |
| Reserve | \$ 62,363 | \$ 81,848 |
| Bond retirement | 8,241 | 4,531 |
| Surplus | 269,418 | 319,748 |
| Total | \$ 340,022 | \$ 406,127 |

5. CAPITAL ASSETS

(all amounts in thousands)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|------------------------------|-----------------|-----------------|---------------------------|
| December 31, 2015 | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 6,481 | \$ - | | \$ 6,481 |
| Construction in progress | 319,389 | 126,585 | (33,592) | 412,382 |
| | \$ 325,870 | \$ 126,585 | \$ (33,592) | \$ 418,863 |
| Capital Assets, being depreciated: | | | | |
| Buildings | 351,707 | | - | 351,707 |
| Equipment | 489,492 | 3,554 | (799) | 492,247 |
| Sewer Laterals | 1,083,889 | 22,725 | (10,716) | 1,095,898 |
| | 1,925,088 | 26,279 | (11,515) | 1,939,852 |
| Total Capital Assets | 2,250,958 | 152,864 | (45,107) | 2,358,715 |
| Less accumulated depreciation: | | | | |
| Buildings | 125,133 | 7,914 | | 133,047 |
| Equipment | 293,389 | 12,083 | (796) | 304,676 |
| Sewer Laterals | 392,021 | 24,527 | | 416,548 |
| Total Accumulated Depreciation | 810,543 | 44,524 | (796) | 854,271 |
| Net Capital Assets | \$ 1,440,415 | \$ 108,340 | \$ (44,311) | \$ 1,504,444 |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

5. CAPITAL ASSETS (Continued)

(all amounts in thousands)

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

Reclassifications

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

Adjustments

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT

Long-term debt consisted of the following:

| | (all amounts in thousands) | | | | |
|-----------------------------------|----------------------------|--------------------|---------------------|-------------------|-------------------|
| | Principal Issue | Interest Rate % | Year of Maturity | 2015 | 2014 |
| Revenue Bonds | | | | | |
| 2015 | 52,520 | 3.00-5.00 | 2025 | \$ 45,710 | |
| 2014 | 162,650 | 4.00-5.00 | 2032 | \$ 162,650 | \$ 162,650 |
| 2013 (a) | 258,695 | 0.45-5.00 | 2038 | 207,405 | 233,620 |
| 2010 (b) | 130,675 | 2.00-5.37 | 2035 | 122,265 | 122,690 |
| 2009 (c) | 149,815 | 4.00-6.50 | 2034 | 143,025 | 143,025 |
| 2007 (d) | 72,385 | 3.50-5.25 | 2032 | 4,575 | 6,740 |
| 2006 (e) | 83,045 | 4.00-5.00 | 2031 | 2,690 | 5,265 |
| 2005 (f) | 170,560 | 2.50-5.00 | 2030 | - | 63,090 |
| | | | | <u>688,320</u> | <u>737,080</u> |
| Ohio Water and Sewer | | | | | |
| Rotary Commission | - | - | - | 50 | 50 |
| Ohio Public Works Commission | - | 0.00-3.00 | 2041 | 1,359 | 1,687 |
| Water Pollution Control Loan Fund | - | 2.50-3.50 | | 221,961 | 221,262 |
| Capital Lease Payable | 15,000 | 2.00-5.00 | 2029 | <u>11,515</u> | <u>12,135</u> |
| Total obligations | | | | 923,205 | 972,214 |
| Bond Premiums | | | | 60,429 | 62,022 |
| Deferred loss on defeasance | | | | (14,890) | (15,282) |
| Current maturities | | | | <u>(61,898)</u> | <u>(61,765)</u> |
| Long-term portion | | | | <u>\$ 906,846</u> | <u>\$ 957,189</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

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

(all amounts in thousands)

| Year | Revenue Bonds | | WPCLF* | | OPWC | | Capital Lease | |
|-----------|------------------|-------------------|-------------------|------------------|-----------------|--------------|------------------|-----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 43,125 | \$ 34,037 | \$ 18,447 | \$ 7,980 | \$ 248 | \$ 21 | \$ 635 | \$ 480 |
| 2017 | 44,865 | 32,450 | 16,958 | 6,396 | 252 | 17 | 650 | 462 |
| 2018 | 22,830 | 32,024 | 17,232 | 5,883 | 185 | 12 | 670 | 443 |
| 2019 | 29,905 | 30,600 | 16,679 | 5,319 | 158 | 9 | 690 | 423 |
| 2020 | 38,290 | 29,114 | 12,040 | 4,811 | 161 | 6 | 720 | 395 |
| 2021-2025 | 179,260 | 98,584 | 63,804 | 18,238 | 187 | 6 | 4,145 | 1,424 |
| 2026-2030 | 189,850 | 79,187 | 63,102 | 10,342 | 52 | - | 4,005 | 452 |
| 2031-2035 | 116,795 | 31,463 | 13,484 | 951 | 52 | - | - | - |
| 2036-2040 | 23,400 | 4,219 | 215 | 10 | 52 | - | - | - |
| 2041-2045 | | | | | 12 | | | |
| | <u>\$688,320</u> | <u>\$ 371,678</u> | <u>\$ 221,961</u> | <u>\$ 59,930</u> | <u>\$ 1,359</u> | <u>\$ 71</u> | <u>\$ 11,515</u> | <u>\$ 4,079</u> |

* This represents the WPCLF loan balances outstanding at 12/31/2015. The total WPCLF loan availability is \$230,280.

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

| December 31, 2015 | Beginning | | | | Ending |
|--------------------|------------------|-------------------|-------------------|------------------|------------------|
| | Balance | Amortized | Refunded | Issued | Balance |
| Bond Premium | \$ 62,395 | \$ (8,541) | \$ - | \$ 6,575 | \$ 60,429 |
| Loss on defeasance | (15,282) | 1,856 | - | (1,464) | (14,890) |
| Total | <u>\$ 47,113</u> | <u>\$ (6,685)</u> | <u>\$ -</u> | <u>\$ 5,111</u> | <u>\$ 45,539</u> |
| December 31, 2014 | Beginning | | | | Ending |
| | Balance | Amortized | Refunded | Issued | Balance |
| Bond Premium | \$ 34,245 | \$ (2,865) | \$ (5,815) | \$ 36,830 | \$ 62,395 |
| Loss on defeasance | (1,510) | 1,177 | - | (14,949) | (15,282) |
| Total | <u>\$ 32,735</u> | <u>\$ (1,688)</u> | <u>\$ (5,815)</u> | <u>\$ 21,881</u> | <u>\$ 47,113</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

Long-term debt activity for the year:

(all amounts in thousands)

| <u>December 31, 2015</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|-------------------|---------------------------|
| Revenue Bonds | \$ 737,080 | \$ 52,520 | \$ 101,280 | \$ 688,320 |
| Ohio Water and Sewer Rotary Commission | 50 | - | - | \$ 50 |
| Ohio Public Works Commission | 1,687 | - | 328 | \$ 1,359 |
| Water Pollution Control Loan Fund | 221,262 | 18,361 | 17,662 | \$ 221,961 |
| Capital Lease Payable | 12,135 | - | 620 | 11,515 |
| Total | <u>\$ 972,214</u> | <u>\$ 70,881</u> | <u>\$ 119,890</u> | <u>\$ 923,205</u> |

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

Revenue Bonds

- a) Effective March 3, 2015, MSD issued \$52,520,000 Series A, Sewer System Refunding Revenue Bonds dated March 3, 2015. The proceeds from the 2015 Series A Bonds were used to defease portions of the 2005A revenue bonds and pay for the cost of issuance. The 2015A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1997, 2000, 2001, 2003A, 2003B, 2004, 2005A, 2005B, 2006, 2007, 2009A, and 2009B bonds, secured equally and ratably under the Trust Agreement.

A portion of the proceeds was used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service to refund \$60,360,000 of outstanding 2005A 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 \$1,464,000 in accordance with GASB 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, MSD has, in effect, reduced its aggregate debt service payments by \$16,845,000, and obtained a present value of savings of \$6,363,000.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

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

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

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

- e) 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.
- f) 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.
- g) Effective November 15, 2006, MSD issued \$83,045,000 Series A Sewer System Improvement Revenue Bonds dated November 1, 2006. The proceeds from the 2005 Series B bonds were used to permanently fund certain previous capital expenditures, fund the new bond reserve requirements and pay the cost of issuance. The 2006 Series A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on a parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B, 2004, 2005A and 2005B bonds, secured equally and ratably under the Trust Agreement.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

- h) Effective March 30, 2005, MSD issued \$86,960,000 Series A, Sewer System Refunding Revenue Bonds dated March 1, 2005. The proceeds from the 2005 bonds were used to defease portions of the 1997, 2000 and 2001 revenue bonds and pay for the cost of issuance. The 2005A bonds are special obligations of the District, payable solely from the net revenues of the District and were issued on parity with the 1993, 1995, 1997, 2000, 2001, 2003A, 2003B and 2004 bonds, secured equally and ratably under the Trust Agreement.

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

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

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

- i) 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

j) 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.

The 2010, 2009, 2007, 2006, 2005, 2004, 2003 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.

At December 31, 2015 and December 31, 2014, the amount of defeased debt outstanding was \$60,360,000 and \$181,855,000 respectively.

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

(all amounts in thousands)

| Year | 2015 Bonds | 2014 Bonds | 2013 Bonds | 2010 Bonds | 2009 Bonds | 2007 Bonds | 2006 Bonds | Total |
|-----------|-----------------|------------------|-------------------|------------------|------------------|----------------|----------------|------------------|
| 2016 | \$9,330 | \$ 2,120 | \$ 23,300 | \$ 3,440 | - | \$2,245 | \$2,690 | \$ 43,125 |
| 2017 | 11,535 | 5,170 | 23,895 | 1,935 | - | 2,330 | - | \$ 44,865 |
| 2018 | 4,280 | 7,675 | 3,090 | 7,785 | - | - | - | \$ 22,830 |
| 2019 | 4,560 | 8,065 | 3,240 | 8,105 | 5,935 | - | - | \$ 29,905 |
| 2020 | 4,545 | 15,255 | 3,415 | 8,285 | 6,790 | - | - | \$ 38,290 |
| 2021-2025 | 11,460 | 49,115 | 42,920 | 37,380 | 38,385 | - | - | \$179,260 |
| 2026-2030 | 0 | 63,415 | 52,015 | 27,595 | 46,825 | - | - | \$189,850 |
| 2031-2035 | - | 11,835 | 32,130 | 27,740 | 45,090 | - | - | \$116,795 |
| 2036-2040 | - | - | 23,400 | - | - | - | - | \$ 23,400 |
| | <u>\$45,710</u> | <u>\$162,650</u> | <u>\$ 207,405</u> | <u>\$122,265</u> | <u>\$143,025</u> | <u>\$4,575</u> | <u>\$2,690</u> | <u>\$688,320</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

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)

| | 2015 | 2014 |
|---|-------------|-------------|
| Revenues: | | |
| Total operating revenues | \$ 278,226 | \$ 265,211 |
| Interest income | 9,530 | 9,548 |
| Tap-in/connection fees | 2,675 | 2,182 |
| Total pledged revenue | 290,431 | 276,941 |
| | | |
| Total operating and maintenance expenses less depreciation and amortization | (115,271) | (120,018) |
| Net income available for debt service (a) | \$ 175,160 | \$ 156,923 |
| Principal and interest requirement on revenue bonds (b) | \$ 79,182 | \$ 77,646 |
| Principal and interest requirements on obligations (c) | \$ 105,268 | \$ 98,527 |
| | | |
| Debt service coverage | | |
| Revenue bonds (a) divided by (b) | 221% | 202% |
| All obligations (a) divided by (c) | 166% | 159% |
| 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

6. LONG-TERM DEBT (Continued)

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)

| | 2015 | 2014 |
|------------------------------|-------------|-------------|
| Interest incurred | \$ 37,349 | \$ 44,106 |
| Less Interest capitalization | (138) | (635) |
| Interest expense | \$ 37,211 | \$ 43,471 |

7. CAPITAL LEASE

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

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

(all amounts in thousands)

| Fiscal Year Ending December 31, | Long-Term Debt |
|---|-------------------|
| 2016 | \$ 1,115 |
| 2017 | 1,112 |
| 2018 | 1,113 |
| 2019 | 1,113 |
| 2020 | 1,115 |
| 2021-2025 | 5,568 |
| 2026-2030 | 4,458 |
| Total Minimum Lease Payments | 15,594 |
| Less: Amount Representing Interest | (4,079) |
| Present value of Minimum Lease Payments | \$ 11,515 |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

7. CAPITAL LEASE (Continued)

Capital assets acquired under capital leases are as follows:

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

8. COMPENSATED ABSENCES

Compensated Absences

Compensated absences consist of vacation time, sick pay and compensatory time. The following is a summary of activity for 2015 and 2014. \$3,756 is considered due within one year for compensated absences as of December 31, 2015.

(all amounts in thousands)

| | | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|------|----|------------------------------|-----------------|-----------------|---------------------------|
| 2015 | \$ | 8,532 | \$ 2,811 | \$ 2,427 | \$ 8,916 |
| 2014 | \$ | 8,885 | \$ 3,433 | \$ 3,786 | \$ 8,532 |

9. PENSION AND RETIREMENT

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the MSD’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

City of Cincinnati Retirement System (CRS)

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

Plan Description and Plan Benefits

The majority of MSD full-time employees participate in the Retirement System of the City of Cincinnati (CRS). CRS is accounted for as a single employer defined benefit pension plan. CRS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. CRS is considered part of the City of Cincinnati's financial reporting entity and is included in the City's financial report as a pension trust fund. The financial report that includes financial statements, required supplementary information and detailed information about CRS' fiduciary net position may be obtained by visiting <http://www.cincinnati-oh.gov/finance/cafr/>. Article XV of the Administrative Code of the City of Cincinnati provides the statutory authority vesting the general administration and responsibility for the proper operation of the System in the Board of Trustees of the City of Cincinnati Retirement System.

Information in the remainder of this footnote is provided for the MSD's portion, being reported as an agency fund of the City, which also participates and contributes to CRS, with a measurement date of June 30, 2015.

A major plan revision was approved by the City Council on March 16, 2011 and adopted by the Board. 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 as described below.

A Collaborative Settlement Agreement was executed on May 7, 2015 and approved by the United States District Court on October 5, 2015. The Settlement Agreement impacts employees who were in service on July 1, 2011 and who were vested (had 5 years' service credit) on that date. Employees who are members of the Cincinnati Retirement System who did not meet those criteria remained subject to the plan provisions adopted in Ordinances #84-2011 and #85-2011. The disclosures and financial statements were not impacted by the agreement since the agreement was reached after the June 30, 2015 measurement period.

Prior Benefits

Pensioners that retired prior to July 1, 2014, the annual retirement allowance was equal to 2.5% or 2.22% of the average of the three highest years' compensation multiplied by the number of years of membership service. Employees hired before July 12, 1998 elected either the 2.5% or a 2.22% formula, which factors in overtime pay and lump sum payments for vacation, sick leave and compensatory balances. All new employees hired July 12, 1998 and thereafter are subject to the 2.5% formula.

Pensions are increased by 3% compounded annually, commencing one year after retirement. The System also provides death and disability benefits. These benefit provisions and all other requirements, are established by the Cincinnati Municipal Code.

Current Plan Benefits

Active members who are not eligible to 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 METROPOLITAN SEWER DISTRICT OF GREATER CINCINNATI
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

The annual retirement allowance through June 30, 2011 will be the same as 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 the 2% for every year after 30 years of creditable service. Benefits will be calculated using the average of highest 60 consecutive months' compensation.

Pensions are increased based on the CPI-U with a maximum of 2% annually and will be based on simple interest, commencing one year after retirement. The System will not provide death benefits but will continue to provide all retirees and all retirees will be on MSD's 80/20 health plan. Premiums are charged for all retirees retiring after disability benefits. The Medical benefits changed on January 1, 2011. Medicare reimbursements are eliminated for January 1, 2007 except for Carve out plan where we have approximately 300 remaining participants.

The service retirement allowance vesting after five years of creditable service. Medical care benefits are provided after fifteen years of creditable service, or if hired before January 9, 1997 after reaching age sixty with at least five years of creditable service. The 15 year requirement is universal for all members who retired on or after July 1, 2011.

Funding Policy

Each member contributes at a rate of 9.0% of his salary for fiscal year 2015. The percent contributed by employees is provided by Chapter 203 Section 73 of the Cincinnati Municipal Code.

The MSD makes employer contributions based on a percentage of the covered payroll of all CRS members. For 2015, the contribution rate was 14% on covered payroll. MSD's contributions (including ERIP) to the City of Cincinnati Retirement System's Pension Fund for the fiscal year ending June 30, 2015 were \$5,703,000.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CRS

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. MSD reported a net pension liability of \$265,050,000 and pension expense of \$14,527,000.

Actuarial Assumptions: Total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

| | |
|--------------------------------------|--|
| Inflation | 3.0% |
| Salary increases | 3.0% to 7.0%, including inflation for five-year select period beginning December 31, 2011; 4.0% to 7.5%, including inflation thereafter |
| Long-term investment rate of return | 7.5%, net of pension plan investment expense, including inflation |
| Municipal bond index rate | |
| Prior measurement date | 4.35% |
| Measurement date | 3.82% |
| Year FNP is projected to be Depleted | 2031 |
| Single equivalent interest rate | |
| Prior measurement date | 5.59%, net of pension plan investment expense, including inflation |
| Measurement date | 5.08%, net of pension plan investment expense, including inflation |
| Mortality | Both pre-retirement and post-retirement mortality rates were based on the RP 2000 combined mortality table, male rates set forward 2 years and female rates set forward 1 year and using a Scale AA projection to 2020. Post-disability mortality rates were based on the RP 2000 disabled retiree mortality table, female rates set back 5 years. |

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the last actuarial experience study, dated October 28, 2011.

Long Term Expected Rate of Return: The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as listed in the last actuarial experience study, dated October 28, 2011 are summarized in the following table:

| CRS Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------------|-------------------|--|
| Broad Fixed Income | 14.00% | 1.10% |
| High Yield | 3.00% | 5.60% |
| Broad US Equity | 19.50% | 6.60% |
| US Mid-Cap Growth | 5.00% | 7.80% |
| US Small-Cap Value | 5.00% | 10.60% |
| Developed Large-Cop | 11.00% | 7.80% |
| Non-US Small-Cap | 5.00% | 11.90% |
| Emerging Market | 5.00% | 11.30% |
| Hedge Fund – Hedged Equity | 15.00% | 4.70% |
| Real Estate – Core | 7.50% | 5.10% |
| Infrastructure | 5.00% | 8.30% |
| Private Equity – FOF | <u>5.00%</u> | 13.20% |
| Total | 100.00% | |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

Discount Rate: The blended discount rate used to measure the total pension liability was 5.08% as of June 30, 2015. The discount rate determination used a municipal bond rate of 3.82% as of June 30, 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions and employer contributions will be made at the current contribution rates as set out in City Council ordinance. Projected future benefit payments for all current plan members were projected through 2031.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following chart represents MSD's proportionate share in thousands of the net pension liability at the 5.08% blended discount rate as well as the sensitivity to a 1% increase and 1% decrease in the current discount rate (in thousands):

| | 1% Decrease (4.08%) | Current Discount Rate (5.08%) | 1% Increase (6.08%) |
|-----------------------------|------------------------|-------------------------------------|------------------------|
| MSD's Net Pension Liability | \$ 331,562 | \$ 265,050 | \$ 209,269 |

Change in the Net Pension Liability: Changes in the MSD' net pension liability for the year ended June 30, 2015 were as follows (amounts in thousands):

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|--|----------------------------|--------------------------------|--------------------------|
| Balances at June 30, 2014 | \$ 520,989 | \$ 299,410 | \$ 221,579 |
| Changes for the year: | | | |
| Service cost | 5,346 | - | 5,346 |
| Interest | 28,680 | - | 28,680 |
| Changes of assumptions | 30,007 | - | 30,007 |
| Difference between expected and actual experience | (2,698) | - | (2,698) |
| Contributions - employer | - | 5,596 | (5,596) |
| Contributions - employee | - | 3,115 | (3,115) |
| Net investment income | - | 9,455 | (9,455) |
| Benefit payments, including refunds of employee contributions | (31,057) | (31,057) | - |
| Administrative expense | - | (302) | 302 |
| Other changes | - | - | - |
| Net changes | 30,278 | (13,193) | 43,471 |
| Balances at June 30, 2015 | \$ 551,267 | \$ 286,217 | \$ 265,050 |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

The date of the actuarial valuation upon which the total pension liability (TPL) is based is December 31, 2014. An expected TPL is determined as of June 30, 2015 using standard roll forward techniques. The roll forward calculation adds the normal cost for the first half of 2015 (also called the service cost), subtracts the actual benefit payments and refunds for the six months, and then applies the expected single equivalent interest rate (SEIR) (5.59% as of June 30, 2014 and 5.08% as of June 30, 2015) for the period. This procedure was used to determine the TPL as of June 30, 2015, as shown in the following table (amounts in thousands):

| MSD's portion of CRS TPL Rollforward | | |
|---|------------------------|------------------------|
| | Old Assumptions (1) | New Assumptions (2) |
| (a) Interest Rate (SEIR) | 5.59% | 5.08% |
| (b) TPL as of December 31, 2014 | \$ 527,309 | \$ 557,512 |
| (c) Entry Age Normal Cost for the period January 1, 2015 - June 30, 2015 | 2,747 | 3,084 |
| (d) Actual Benefit Payments and Refunds for the period January 1, 2015 - June 30, 2015 | 15,529 | 15,529 |
| (e) TPL as of June 30, 2015 = [(c) x (1 + (a)) ^{1/2}] + (d) - [(e) x (1 + (a)) ^{1/4}] | 528,888 | 558,895 |
| (f) June 30, 2014 TPL Rolled Forward to June 30, 2015 | 531,586 | |
| (g) Experience (Gain)/Loss: (1e) - (1f) | \$ (2,698) | |
| (h) Assumption (Gain)/Loss: (2e) - (1e) | | \$ 30,007 |

At June 30, 2015, MSD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net |
|--|--------------------------------------|-------------------------------------|----------|
| MSD contributions subsequent to the measurement date | \$ 2,132 | \$ - | \$ 2,132 |
| Differences between expected and actual experience | - | (1,349) | (1,349) |
| Net difference between projected and actual investment earnings | 9,983 | (17,679) | (7,696) |
| Change in assumptions | 15,003 | (1,805) | 13,198 |
| | \$ 27,118 | \$ (20,833) | \$ 6,285 |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

\$2,132,000 reported as deferred outflows of resources related to pension resulting from MSD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows (amounts in thousands):

| Year Ended December 31: | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> | Pension <u>Expense</u> |
|-------------------------|---|--|---------------------------|
| 2016 | \$ 17,499 | \$ (8,030) | \$ 9,469 |
| 2017 | 2,496 | (6,681) | (4,185) |
| 2018 | 2,496 | (6,122) | (3,626) |
| 2019 | <u>2,495</u> | <u>-</u> | <u>2,495</u> |
| | <u>\$ 24,986</u> | <u>\$ (20,833)</u> | <u>\$ 4,153</u> |

Plan Description – Ohio Public Employees Retirement System (OPERS)

Ohio Revised Code limits the MSD’s obligation for this liability to annually required payments. MSD cannot control benefit terms or the manner in which pensions are financed; however, MSD does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description – A limited number of MSD employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. MSD employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| Group A | Group B | Group C |
|--|--|--|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| State and Local | State and Local | State and Local |
| Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by year of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by year of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by year of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions were 10 percent and 14 percent, respectively. Effective January 1, 2015, the portion of employer contributions allocated to health care was 2 percent, with the remaining 12 percent allocated to pension benefits.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The MSD's contractually required contribution was \$280,000 for 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MSD's proportion of the net pension liability was based on the MSD's share of contributions to the pension plan relative to the contributions of all participating entities. MSD's proportion and proportionate share of the net pension liability was 0.015177505 percent and \$1,825,000, respectively. Pension expense for MSD was \$8,000.

At December 31, 2015, MSD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> | <u>Net</u> |
|---|---|--|---------------|
| MSD contributions subsequent to the measurement date | \$ 280 | \$ - | \$ 280 |
| Net difference between projected and actual investment earnings | 125 | - | 125 |
| Change in assumptions | - | (42) | (42) |
| | <u>\$ 405</u> | <u>\$ (42)</u> | <u>\$ 363</u> |

\$280,000 reported as deferred outflows of resources related to pension resulting from MSD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ended December 31: | Net Deferred Outflows/ (Inflows) of <u>Resources</u> |
|-------------------------|---|
| 2016 | \$ 13 |
| 2017 | \$ 12 |
| 2018 | \$ 28 |
| 2019 | <u>\$ 31</u> |
| | <u>\$ 84</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--|
| Wage inflation | 3.75 percent |
| Future salary increases, including inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent, simple |
| Investment rate of return | 8 percent |
| Actuarial cost method | Individual entry age |

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------|------------------------------|---|
| Fixed income | 23.00% | 2.31% |
| Domestic equities | 19.90% | 5.84% |
| Real estate | 10.00% | 4.25% |
| Private equity | 10.00% | 9.25% |
| International equities | 19.10% | 7.40% |
| Other investments | <u>18.00%</u> | <u>4.59%</u> |
| Total | <u>100.00%</u> | <u>5.28%</u> |

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MSD's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents MSD's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what MSD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| | <u>1% Decrease (7.00%)</u> | <u>Current Discount Rate (8.00%)</u> | <u>1% Increase (9.00%)</u> |
|--|--------------------------------|--|--------------------------------|
| MSD' proportionate share of the net pension liability | \$ 3,369 | \$ 1,825 | \$ 525 |

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

City of Cincinnati Retirement System

GASB 27

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

The Cincinnati Municipal Code provides statutory authority for employee and employer contribution rates. For 2015, there were two required contribution rates 14 and 16.25, percent for MSD and 9.0 percent for employees. For 2014, the required contribution rates were 22 and 14 percent for MSD and 9.0 percent for employees. MSD's contributions to CRS for the years ending December 31, 2015, 2014, 2013 were \$5,703,000, \$6,487,000, \$7,224,000, respectively. The full amount has been contributed for 2011 and 2010 and 98% of the required contributions for 2012. The City's (and MSD's) contribution rate for 2012, 2011 and 2010 was not equal to the required contribution rate based on the City's actuarial report.

Other Postemployment Benefit Information - CRS

GASB 27

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, 2015 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 3,842 active contributing participants of which 559 are MSD employees. For 2015, MSD's contribution was 18.9 percent of the total employers' contribution.

GASB 68

The CRS System provides hospital and surgical insurance to retired members who have earned fifteen years credited service at the time of termination and a group who terminated after age sixty with five years credited service. Those who are receiving optionee benefits of eligible members are entitled to have their hospital and surgical insurance as continued through the System.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

The health care coverage provided by the System is considered an Other Postemployment Benefit (OPEB) as described in GASB statement 45. It is advance-funded on an actuarially determined basis as a portion of the employer contribution requirement to the System. The Cincinnati Municipal Code provides authority for employer contributions. The City of Cincinnati Retirement System's healthcare coverage was established under, and is administrated in accordance with, Internal Revenue Code 401(h).

The actuarial assumptions used for the December 31, 2013 valuation included an assumption for hospital and surgical benefits recognizing adjusted premiums based on experience for recent years. The actuarial valuations for OPEB plans are estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The cost of OPEB is recognized as an expense as claims are paid. No employer contribution was used to fund postemployment benefits for the fiscal years ended June 30, 2014 and June 30, 2015. As of the December 31, 2013, the Citywide valuation, the healthcare plan's unfunded actuarial accrued liability was (\$56,201,000). The actuarial value of assets was \$674,709,000. The Actuarial Accrued Liability was \$618,508,000. The unfunded actuarial accrued liability as a percentage of covered payrolls of \$163,477,000 was (34.4%). Calculations are based on the OPEB benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of cost sharing between the employer and the plan members at that point. The actuarial calculations of the OPEB plan reflect a long term perspective. The required supplementary schedule, which immediately follows the notes, contains multiyear trend information about the actuarial value of plan assets and if it is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual OPEB Cost and Net OPEB Obligation. The MSD's annual OPEB cost and net OPEB obligation to CRS for the current fiscal period and prior fiscal years were as follows:

| <i>Annual OPEB Costs and Net OPEB Obligation</i> | Fiscal | Fiscal | Fiscal |
|--|------------|------------|------------|
| (Amounts in Thousands) | 2015 | 2014 | 2013 |
| Annual required contribution | \$249 | \$1,352 | \$1,072 |
| Interest on net obligation | \$1,195 | \$1,184 | \$514 |
| Adjustment to annual required contribution | \$ (1,349) | \$ (1,339) | \$ (1,347) |
| Annual OPEB Costs | \$95 | \$1,197 | \$239 |
| Actual Contribution | \$ (2,381) | \$ (377) | \$ (338) |
| Increase (decrease) in net OPEB obligation | \$(2,286) | \$820 | \$(99) |
| Net OPEB Obligation beginning of year | \$12,456 | \$11,636 | \$11,735 |
| Net OPEB Obligation end of year | \$10,170 | \$12,456 | \$11,636 |
| Annual OPEB costs | \$95 | \$1,197 | \$239 |
| Percentage of annual OPEB cost contribution | 2506.32% | 31.50% | 141.42% |

Other Postemployment Benefit Information - OPERS

GASB 27

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

9. PENSION AND RETIREMENT (Continued)

GASB 68

Plan Description: OPERS provides postemployment health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment healthcare coverage. OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment healthcare coverage. In order to qualify for postemployment healthcare coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB statement 45. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Funding Policy: The Ohio Revised Code provides statutory authority requiring public employers to fund post employment healthcare through their contributions to OPERS. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. The City's contribution rate for fiscal year 2015 was 14% of covered payroll. The portion of the employer contribution allocated to health care was 1.0% for both the Traditional Plan and Combined Plan beginning on January 1, 2013. The portion of employer contributions was then raised to 2% on January 1, 2014. The portion of the MSD's employer contributions that were used to fund postemployment benefits for the year ended June 30, 2015 was \$47,000. For the year ended June 30, 2014, the contribution was \$50,000. For the year ended June 30, 2013, the MSD contributed \$24,000 toward the health care program.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment healthcare benefits. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the healthcare benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

On September 19, 2012 the OPERS board of trustees adopted a set of changes to the OPERS health care plan that will allow the plan to continue offering retirees access to health care coverage. These changes will be implemented in 2014.

10. RELATED PARTY TRANSACTIONS

Cincinnati Water Works provides billing and collection services on customers' accounts for MSD. Fees for these services for 2015 and 2014 were \$3,358,931 and \$4,772,000 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 2015 and 2014 were \$2,544,382 and \$2,867,000 respectively. In addition, the City's Municipal Garage provides gasoline and repairs vehicles for MSD. Fees for these services were \$1,677,955 and \$1,678,000 for 2015 and 2014, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

11. COMMITMENTS AND CONTINGENCIES

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

As part of MSD's capital improvement program, MSD has entered into a number of contracts for construction, design, and other services. Commitments under these contracts aggregate approximately \$59 million as of December 31, 2015.

12. RISK MANAGEMENT

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

13. RESTATEMENT OF NET POSITION

Restatement of Net Position

For 2015, MSD implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense. The implementation of this pronouncement had the following effect on net position reported December 31, 2014:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

13. RESTATEMENT OF NET POSITION (Continued)

| | | |
|--|----------------|----------------|
| Net position, December 31, 2014 | | 908,159 |
| Adjustments: | | |
| Net pension obligation - CRS | 46,819 | |
| Net pension liability - CRS | (221,579) | |
| Deferred outflows-payment subsequent to measurement date - CRS | 3,506 | |
| Deferred inflows -net difference between project and actual investment earnings - CRS | (23,571) | |
| Deferred inflow - changes in assumptions - CRS | <u>(2,593)</u> | (197,418) |
| Net pension liability - OPERS | (1,766) | |
| Deferred outflows-payment subsequent to measurement date - OPERS | <u>298</u> | <u>(1,468)</u> |
| Restated net position, December 31,2014 | | 709,273 |

Comparative Years statements for 2014 were not restated as the information was not available.

14. SUBSEQUENT EVENTS

The Hamilton County Board of Commissioners did not approve a rate increase in 2016 of the Districts sewer fee.

The City of Cincinnati offered an Early Retirement Incentive Program (ERIP) in 2007. The City of Cincinnati Retirement System requested MSD's share of the remaining liability in the amount of \$8,723,061. This amount represents the full liability for 2015-2023 years. The payment was processed in March 2016.

The District is currently undergoing a special audit. The effects of the outcome of this special audit on the information reported and disclosed are currently unknown.

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

REQUIRED SUPPLEMENTARY INFORMATION

**Metropolitan Sewer District of Greater Cincinnati (MSD), Hamilton County, Ohio
Required Supplementary Information
Schedule of the MSD's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Pension Plan
Last Two Measurement Years (1) (2)
Table 1
(Amounts in thousands)**

| | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|
| MSD's Proportion of the Net Pension Liability | 0.015177505% | 0.014994790% |
| MSD's Proportionate Share of the Net Pension Liability (Asset) | \$ 1,825 | \$ 1,766 |
| MSD's Covered-Employee Payroll | \$ 2,479 | \$ 2,443 |
| MSD's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | 73.63% | 72.29% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 86.45% | 86.36% |

(1) Information presented based on measurement periods ended December 31.

(2) Information prior to 2013 is not available.

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

REQUIRED SUPPLEMENTARY INFORMATION

Metropolitan Sewer District of Greater Cincinnati (MSD), Hamilton County, Ohio
Required Supplementary Information
Schedule of MSD Contributions
Ohio Public Employees Retirement System - Traditional Pension Plan
Last Ten Years
Table 2
(Amounts in thousands)

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Contractually Required Contributions | \$ 280 | \$ 297 | \$ 318 | \$ 275 | \$ 237 | \$ 196 | \$ 156 | \$ 134 | \$ 145 | \$ 146 |
| Contributions in Relation to the Contractually Contractually Required Contributions | \$ (280) | \$ (297) | \$ (318) | \$ (275) | \$ (237) | \$ (196) | \$ (156) | \$ (134) | \$ (145) | \$ (146) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| MSD Covered-Employee Payroll | \$ 2,336 | \$ 2,479 | \$ 2,443 | \$ 2,750 | \$ 2,371 | \$ 2,200 | \$ 1,893 | \$ 1,914 | \$ 1,740 | \$ 1,591 |
| Contributions as a Percentage of Covered- Employee Payroll | 12.00% | 12.00% | 13.00% | 10.00% | 10.00% | 8.92% | 8.25% | 7.00% | 8.35% | 9.20% |

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

REQUIRED SUPPLEMENTARY INFORMATION

| Metropolitan Sewer District of Greater Cincinnati (MSD), Hamilton County, Ohio | | |
|---|--------------------|-------------------|
| Required Supplementary Information | | |
| Schedule of MSD's Changes in Net Pension Liability and Related Ratios | | |
| Cincinnati Retirement System | | |
| Last Two Measurement Years (2) | | |
| Table 3 | | |
| (Amounts in thousands) | | |
| | 2015 | 2014 |
| Total pension liability | | |
| Service cost | \$ 5,346 | \$ 4,919 |
| Interest | 28,680 | 28,146 |
| Difference between expected and actual experience | (2,698) | - |
| Changes of assumptions | 30,007 | (3,381) |
| Benefit payments | (30,628) | (29,614) |
| Refunds of contributions | (429) | (339) |
| Net change in total pension liability | \$ 30,278 | \$ (269) |
| Total pension liability - beginning | \$ 520,989 | \$ 521,258 |
| Total pension liability - ending (a) | \$ 551,267 | \$ 520,989 |
| Plan net position | | |
| Contributions - employer | \$ 5,596 | \$ 7,252 |
| Contributions - member | 3,115 | 2,761 |
| Net investment income | 9,455 | 49,002 |
| Benefit payments | (30,628) | (29,614) |
| Administrative expense | (302) | (262) |
| Refunds of contributions | (429) | (333) |
| Net change in plan net position | \$ (13,193) | \$ 28,806 |
| Plan net position - beginning | \$ 299,410 | \$ 270,609 |
| Plan net position - ending (b) | \$ 286,217 | \$ 299,410 |
| Net pension liability - ending (a) - (b) | \$ 265,050 | \$ 221,579 |
| Ratio of plan net position to total pension liability | 51.92% | 57.47% |
| Covered-employee payroll | \$ 31,232 | \$ 30,550 |
| Net pension liability as a percentage of covered- employee payroll | 848.65% | 725.30% |
| (1) Information prior to 2014 was not available. MSD will continue to present information for years available until a full ten-year trend is available. | | |
| (2) The measurement year is from July 1 through June 30. | | |

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

REQUIRED SUPPLEMENTARY INFORMATION

Metropolitan Sewer District of Greater Cincinnati (MSD), Hamilton County, Ohio
Required Supplementary Information
Schedule of MSD's Contributions
Cincinnati Retirement System
Last Ten Calendar Years
Table 4
(Amounts in thousands)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Actuarially determined employer contributions | \$ 13,756 | \$ 16,087 | \$ 13,051 | \$ 9,923 | \$ 10,792 | \$ 15,289 | \$ 7,765 | \$ 6,527 | \$ 6,349 | \$ 3,810 |
| Actual employer contributions | <u>\$ (4,328)</u> | <u>\$ (5,303)</u> | <u>\$ (6,179)</u> | <u>\$ (6,676)</u> | <u>\$ (6,128)</u> | <u>\$ (5,676)</u> | <u>\$ (4,805)</u> | <u>\$ (4,201)</u> | <u>\$ (5,228)</u> | <u>\$ (4,092)</u> |
| Contribution Deficiency (Excess) | <u>\$ 9,428</u> | <u>\$ 10,784</u> | <u>\$ 6,872</u> | <u>\$ 3,247</u> | <u>\$ 4,664</u> | <u>\$ 9,613</u> | <u>\$ 2,960</u> | <u>\$ 2,326</u> | <u>\$ 1,121</u> | <u>\$ (282)</u> |
| MSD Covered-Employee Payroll | \$ 31,232 | \$ 30,550 | \$ 31,369 | \$ 33,671 | \$ 31,651 | \$ 30,976 | \$ 29,549 | \$ 26,694 | \$ 28,957 | \$ 28,768 |
| Actual contributions as a Percentage of Covered- Employee Payroll | 13.86% | 17.36% | 19.70% | 19.83% | 19.36% | 18.32% | 16.26% | 15.74% | 18.05% | 14.22% |



Dave Yost • Auditor of State

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

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

To the Hamilton County Board of Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Metropolitan Sewer District of Greater Cincinnati, Hamilton County, Ohio (the District) as of and for the years ended December 31, 2015 and December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 16, 2016; wherein we noted that the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-003 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2015-001 and 2015-002.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2016

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

FINDING NUMBER 2015-001

Finding for Recovery Repaid Under Audit

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The City of Cincinnati (the City) is the fiscal agent for the Metropolitan Sewer District of Greater Cincinnati (MSD). The City maintained fund 701 to account for MSD activity. The City erroneously charged fund 701 in 2015 for certain payroll expenses related to twelve City Police employees in the amount of \$46,311. The erroneous charges were made in 2015 pay periods 3, 15, 24 and 25. The City identified and adjusted these charges to the proper City fund with the exception of the charges in pay period 3 and 25 in the amount of \$682. The City also, erroneously charged fund 701 in 2015 for certain payroll expenses related to a stormwater employee in pay period 14 in the amount of \$1,939. The total of these amounts (\$2,621) are due to MSD from the City.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money is hereby issued against the City of Cincinnati, in favor of the Metropolitan Sewer District of Greater Cincinnati, in the amount of \$2,621. The City of Cincinnati repaid the Metropolitan Sewer District of Greater Cincinnati \$2,621 through an inter-departmental billing while under audit.

Officials’ Response:

The Police Overtime in the amount of \$12,866.49 was charged to fund 701. It is important to note that \$12,183.98 was reversed by the CHRIS (City’s payroll system) during the same pay period. The Metropolitan Sewer District has billed the Cincinnati Police department to recover \$682.51.

To ensure the entries to the MSD payroll processing accurately reflects the payroll entries, MSD will enhance its internal audit process to include a report from the Cincinnati Human Resources Information System (CHRIS) that indicates all the payroll transactions that affect the MSD fund 701. The Cinsy Pay Register by Account Code Report will be reviewed internally on a regular basis. This finding is resolved.

FINDING NUMBER 2015-002

Finding for Recovery Repaid Under Audit

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

**FINDING NUMBER 2015-002
 (Continued)**

The City of Cincinnati (the City) is the fiscal agent for the Metropolitan Sewer District of Greater Cincinnati (MSD). The City and MSD shared certain services, and the City billed MSD for their portion of the shared services through interdepartmental billings and using a cost allocation percentage. The cost allocation was based on the loaded salary amount (actual payroll plus fringe benefit factor) times the percentage from the Joint Utility Management cost allocation plan (December 2013). The City overcharged MSD in 2015 for Engineering Shared Services by \$58,666 due to the use of an incorrect cost allocation percentage calculation as follows:

| Loaded Salary | MSD calculated (80%) | AOS calculated (70% from CAP) | Overpayment to City by MSD |
|---------------|----------------------|-------------------------------|----------------------------|
| \$586,666 | \$469,333 | \$410,666 | \$58,666 |

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money is hereby issued against the City of Cincinnati, in favor of the Metropolitan Sewer District of Greater Cincinnati, in the amount of \$58,666. The City of Cincinnati repaid the Metropolitan Sewer District of Greater Cincinnati \$58,666 through an Inter-departmental billing while under audit.

Officials' Response:

The Metropolitan Sewer District reviewed the ID Bills and have forwarded an ID Bill to the Greater Cincinnati Water Works to recover the overpayment of \$58,666.65. This finding is resolved.

FINDING NUMBER 2015-003

Material Weakness

Lack of internal controls over Accounting and Financial Reporting

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

We identified the following conditions related to the District financial statements:

- The District did not fully and properly implement Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which was effective for fiscal years beginning after June 15, 2014. Deficiencies in the implementation of new GASB statements included: the District presented no required supplementary information; the District omitted significant required footnote disclosure; the financial statement presentation was not correct (see descriptions of the pension reporting errors in the following section), and the Management Discussion and Analysis (MD&A) did not include a complete and accurate discussion of the GASB 68 implementation.
- The District's financial statements presented subsequent to the initial financial statements that were submitted for audit, were not complete and accurate:
 - Management Discussion and Analysis (MD&A):
 - The District omitted the Statement of Net Position comparative table/information
 - Various numbers that did not agree to the financial statements and/or the notes to the financial statements

**FINDING NUMBER 2015-003
(Continued)**

- Financial Statements - Statement of Net Position:
 - There was no total line for Deferred Outflows. The two line items in this category should have totaled to \$42.4 million
 - Deferred outflows were reported below Net Position as the last item on the statements instead of after Total Assets
 - The total Net Pension Liability at December 31, 2015 of \$266.9 million was reported as Net Pension Obligation and compared to the 2014 GASB 27 Net Pension Obligation
 - The Net Pension Liability at December 31, 2015 was reported as a lump sum of \$266.9 million instead of identifying separate amounts for the Ohio Public Employee Retirement System (OPERS) of \$1.8 million and the Cincinnati Retirement System CRS of \$265.1 million
- Cash Flow Statements:
 - Income from operations was reported as \$50.6 million, but should have agreed with the operating statement amount of \$107.4 million
 - The Cash and Cash Equivalents amount was reported as \$152.7 million, which did not the Statement of Net Position or Notes to the financial statements amount of \$160.2 million.
 - The reconciliation section contained errors in various numbers and items noted as reconciling items: certain reconciling items in listed in this section were not supported by related ledger and worksheets prepared by the District.
- Notes to the Financial Statements:
 - Capital Asset depreciation columns not consistent with prior year disclosure: amount were presented in the wrong columns, positive numbers were presented as negative numbers, and vice versa.
 - OPERS information was missing from the restatement note
 - Various numbers throughout the notes did not agree to other areas of the report, the notes contained information that was no longer relevant, and the notes did not include all required pension disclosures. For example, long term debt that no longer applied was included in the tables with a zero balance, and descriptions for these debt issues continued to be disclosed; 2013 fund balance restatement information continued to be disclosed; and the other post-employment benefit disclosure was not included in the pension section.

The District has posted material audit adjustments to the financial statements and made significant corrections to the notes to the financial statements where appropriate.

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

FINDING NUMBER 2015-003
(Continued)

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

The District should consider preparing detailed written procedures for their financial report preparation. The procedure should address consistent application of the accounting and financial reporting standards, the review of the prior financial report and supporting documentation for consistent reporting, implementations of new accounting standards and compliance issues, and Auditor of State bulletins for the current reporting period. The procedures should also include performing a final review of the financial report as a whole by the preparer and someone independent of the preparation to reduce the risk of errors such as totals not footing, numbers not agreeing between the different sections of the report, missing information, inconsistencies in reporting, and inaccurate implementation of new standards.

The District should consider preparing a working trial balance to summarize the flow of information for the preparation of their financial statement. The trial balance would be a useful tool in the review of the financial information to be presented in the financial statements by reducing the risk of errors and omissions. A trial balance would also provide a guide for consistent reporting in subsequent years. A working trial balance would include the following information:

- prior year amounts for the Statement of Net position
- cash activity for the report period for the operating statement
- reversing entries
- adjustments to the cash activity prior the GAAP adjustments
- accrual entry amounts
- calculation to the amounts that tie directly to the financial statements

Officials' Response:

▪ **GASB 68**

The City of Cincinnati's Retirement Department manages the contributions into the Cincinnati Retirement System. The Retirement and Finance Departments work together to prepare the required annual documents. The Finance Department prepared the documents for GASB No. 27 and once notified worked with a professional service to prepare the required documents to properly implement GASB No. 68. The District is taking the necessary measures to implement all existing and future GASB statements as they are implemented.

▪ **Management Discussion and Analysis (MD&A)**

The Statement of Net Position comparative table/information will be included in future financial statements.

▪ **Financial Statements – Statement of Net Position**

The District made the requested changes to formatting and presentation of the reported Deferred Outflows of \$42.4 million.

**FINDING NUMBER 2015-003
(Continued)**

Employees of the District are enrolled in two retirement systems. The overall majority of the employees are enrolled in the Cincinnati Retirement System (CRS) whereas a small number of employees are enrolled in the Ohio Public Employees Retirement System (OPERS). The total Net Pension Liability was included in the financial statements for both retirement systems. The District made the requested changes to the presentation of the Net Pension Liability.

▪ **Cash Flow Statements**

The Income from Operations was originally reported as \$50.6 million on the accrual basis which should have been reported on a Cash basis at \$107.4 million.

The Cash and Cash Equivalents difference is the US Bank Trustee Cash Amount for the Bond Escrow accounts for Principal and Interest in the amount of \$8,260 and an accrual entry for the Cash in Transit in the amount of (\$760) for the 1st day and Last day of 2015 Cash Receipts.

The Cash Flow Statements is completed using CFS Trail Balance, and the Peachtree Trail Balance, and the Peachtree Cash Flow Statement, and an excel spreadsheet of calculations.

▪ **Notes to the Financial Statements**

The 2015 numbers were placed under the wrong column headers. The District made the correction.

▪ **OPERS information was missing from the restatement note**

A limited number of MSD employees participate in OPERS Retirement System. OPERS was not considered to be material to the Districts Financial Statements in prior years. The OPERS information was obtained and included in District's current year Financial Statements.

The zero balance lines and columns were removed from the Districts Financial Notes, along with the related debt service notes. The post-employment benefit disclosures were obtained, and included in the Districts Financial Notes.

The District has posted material audit adjustments to the financial statements and made significant corrections to the notes to the financial statements where appropriate. The District is researching the use of "WebGAAP" system to assist with the future preparation of the financial statements.

This page intentionally left blank.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2014-001 | Lack of internal controls over Accounting and Financial Reporting | No | Not Corrected. Reissued as Finding 2015-003. |

This page intentionally left blank.



Dave Yost • Auditor of State

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 25, 2016**