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Financial Report (Audited), 2007

Metropolitan St. Louis Sewer District

Hochschild, Bloom & Company LLP
Certified Public Accountants
Consultants and Advisors

THE METROPOLITAN ST. LOUIS SEWER DISTRICT

FINANCIAL REPORT
(Audited)

Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

October 9, 2007

Board of Trustees
THE METROPOLITAN ST. LOUIS SEWER DISTRICT

We have audited the basic financial statements of **THE METROPOLITAN ST. LOUIS SEWER DISTRICT** (the District) as of June 30, 2007 and 2006 and for the years then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Hochschild Bloom & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

The annual report of The Metropolitan St. Louis Sewer District (the District) includes the independent auditors' report, management's discussion and analysis (MD&A), and the financial statements accompanied by notes essential to the user's understanding of the financial statements.

Management of the District has provided this MD&A to be used in combination with the District's financial statements. This narrative is intended to provide the reader with more insight into management's knowledge of the transactions, events, and conditions reflected in the accompanying financial statements and the fiscal policies that govern the District's operations.

2007 Financial Highlights

- Net capital assets increased by $118.4 million due to continued high levels of spending related to the regulatory required Capital Improvement and Replacement Program (CIRP).
  - Treatment and disposal plant and equipment $ 221.7 million
  - Less: Construction in progress (CIP) $ 116.5 million
  - Collection and pumping plant $ 54.9 million
  - General plant and equipment $ 1.3 million
  - Less: Change in accumulated depreciation $ 43.0 million
- Cash and cash equivalents balances increased by $89.5 million, while investment balances decreased by $44.5 million, from fiscal year 2006 to fiscal year 2007. The overall increase is due to the issuance of Series 2006B and Series 2006C bonds. The high level of cash compared to investment balances is due to the more favorable short-term rates available to the District.
- Bonds and notes payable balances, net of unamortized premium and issue costs, increased by $68.6 million in most part due to the issuance of Series 2006B and Series 2006C bonds in the amounts of $14.2 million and $60.0 million respectively. Retirements of $8.2 million and changes in the unamortized premium balance and the balance of bond issuance costs netting to $2.6 million combine for the remaining $5.6 million in change.
- Operating income declined by $12.5 million compared to prior year. The decline stems from lowered billed volumes and higher operating expenses.
- Investment income rose by $9.3 million due to favorable rates and larger investment balances.

2006 Financial Highlights

- Net capital assets increased by $143.8 million due to continued high levels of spending related to the CIRP.
  - Collection and pumping plant $ 92.1 million
  - Construction in progress (CIP) $ 90.0 million
  - Treatment and disposal plant and equipment $ 2.9 million
  - General plant and equipment $ 1.0 million
  - Land $ 0.1 million
  - Less: Change in accumulated depreciation $ 42.3 million
- Cash and cash equivalents balances increased by $36.5 million, while investment balances decreased by $41.1 million, from fiscal year 2005 to fiscal year 2006. The shift from longer-term investments to cash and cash equivalents occurred as a result of the current interest rate environment in which an in-

verted yield curve makes short-term investments more attractive than long-term investments and to provide sufficient liquid assets to fund the CIRP.

- Bonds and notes payable balances, net of unamortized premium and issue costs, increased by $37.6 million in most part due to the issuance of Series 2006A bonds in the amount of $42.7 million. Retirements of $5.5 million and changes in the unamortized premium balance and the balance of bond issuance costs netting to $0.4 million combine for the remaining $5.1 million in change.
- Capital contributions increased by $36.7 million due to the transfer of assets related to 293 developments in fiscal year 2006 versus 194 in fiscal year 2005.
- Operating revenues increased by $17.8 million or 9.4% as a result of the rate increase that took affect in July 2005.

Required Financial Statements

The financial statements presented by the management of the District include the Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These statements are prepared using the accrual basis of accounting. This method of accounting recognizes revenues at the time they are earned and expenses when the related liability occurs. As a result of using this method of accounting, the District's performance over the time period being reported is more easily determinable.

The Statements of Net Assets provides a report of the District's current, restricted, and other noncurrent assets such as cash, investments, receivables, and property. Also, the Statements of Net Assets provides a summary of the District's current, restricted, and noncurrent liabilities, including contracts and accounts payable, deposits and accrued expenses, and bond and notes payable. The final section of the Statements of Net Assets, the net assets section, contains earnings retained for use by the District. Increases or decreases in the net assets section may be indicative of an improving or declining financial position. This statement provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The Statements of Revenues, Expenses, and Changes in Net Assets summarizes all of the year's revenues and expenses. This statement indicates how successful the District was at maintaining expenses below the level of revenues earned.

The Statements of Cash Flows accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. This statement assists the user in determining the sources of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

Financial Analysis

The overall financial condition of the District is strong as indicated by the increase in net assets over the past year. The District had income before capital contributions of $56.5 million in fiscal year 2007, compared to $59.2 million in 2006 and $42.1 million in 2005. Plans for maintaining the District's ability to meet future spending needs are discussed in greater detail in the section of the MD&A entitled "Decisions Impacting the Future."

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

Condensed Financial Statements and Analysis

The Metropolitan St. Louis Sewer District
Condensed Statements of Net Assets
(000s)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Assets:					
Current, Restricted, and Other Assets	$ 566,700	$ 523,948	$ 42,752	$ 523,666	$ 282
Capital Assets (net of accumulated depreciation)	2,004,792	1,886,435	118,357	1,742,683	143,752
Total assets	2,571,492	2,410,383	161,109	2,266,349	144,034
Liabilities:					
Current Liabilities	68,285	52,685	15,600	57,115	(4,430)
Noncurrent Liabilities	446,023	381,333	64,690	345,006	36,327
Total liabilities	514,308	434,018	80,290	402,121	31,897
Net Assets:					
Invested in capital assets, net of related debt	1,723,093	1,652,348	70,745	1,625,673	26,675
Restricted	276,069	273,062	3,084	193,803	79,259
Unrestricted	58,022	50,955	6,990	44,752	6,203
Total Net Assets	$ 2,057,184	$ 1,976,365	$ 80,819	$ 1,864,228	$ 112,137

2007 Analysis

Total net assets increased $80.8 million, or 4.1%, over prior year. This change is due to an increase in total assets of $161.1 million and an increase in liabilities of $80.3 million.

Net capital assets increased by $118.4 million, while current, restricted, and other assets increased by $42.8 million. The increase in capital assets can be attributed to an increase in treatment and disposal plant of $221.7 million, collection and pumping plant of $54.9 million, general plant and equipment of $1.3 million, and off-setting decrease in construction in progress of $116.5 million and an increase in accumulated depreciation of $43.0 million. The increase in current, restricted, and other assets is mostly attributable to the increase in cash equivalents and investment of $45.0 million as a result of investing funds made available by the issuance of new debt.

The change in total liabilities breaks down to increases in current and noncurrent liabilities of $15.6 million and $64.7 million, respectively. The increase in noncurrent liabilities is the result of the issuance of new debt. Current liabilities are up in large part due to an increase in contracts and accounts payable of $7.3 million due to the timing of some large construction progress payments. The current portion of bonds and notes payable also contributed $3.7 million towards the $15.6 million increase. The remaining $4.6 million is a combination of deposits and accrued expenses and retainage payable.

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

2006 Analysis

Total net assets increased $112.1 million, or 6.0%, over prior year. This change is the result of an increase in total assets of $144.0 million and an increase in liabilities of $31.9 million.

Net capital assets increased by $143.8 million in fiscal year 2006 from fiscal year 2005 accounting for the overwhelming majority of the change in total assets. Current, restricted, and other assets account for the other $0.2 million of the $144.0 million dollar increase. The change in net capital assets can be attributed to an increase in collection and pumping plant of $92.1 million and an increase in construction in progress of $90.0 million with an offsetting increase in accumulated depreciation of $42.3 million. The remaining increase of $4.0 million is a combination of treatment and disposal plant and equipment, general plant and equipment, and land.

The change in total liabilities of $31.9 million is representative of an increase in noncurrent liabilities of $36.3 million and a decrease of current liabilities of $4.4 million. Noncurrent liabilities increased by $36.3 million almost exclusively due to the issuance of Series 2006A bonds through the state revolving fund (SRF) in the amount of $42.7 million. The retirement of bonds totaling $5.5 million, less a net change in unamortized premium and accretion of bond issuance costs of $0.4 million, and a $1.7 million change in the current portion of bonds payable combine to offset the $42.7 million and account for the change in noncurrent bonds and notes payable. An increase in deposits and accrued expenses of $0.4 million rounds out the variance in noncurrent liabilities from fiscal year 2005 to fiscal year 2006.

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

The Metropolitan St. Louis Sewer District
Statements of Revenues, Expenses, and Changes in Net Assets
(000s)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Operating Revenues:					
Sewer service charges	$ 198,993	$ 203,880	($ 4,887)	$ 183,513	$ 20,367
Recovery of (provision for) doubtful sewer service charge accounts	(4,194)	(3,161)	(1,033)	(1,546)	(1,615)
Licenses, permits, and other fees	6,031	5,210	821	6,549	(1,339)
Other	1,376	873	503	478	395
Total operating revenues	202,206	206,802	(4,596)	188,994	17,808
Nonoperating Revenues:					
Property taxes levied by the District	24,401	23,211	1,190	22,016	1,195
Investment income	16,946	7,610	9,336	5,502	2,108
Rent income	878	1,027	(149)	1,038	(11)
Total nonoperating revenues	42,225	31,848	10,377	28,556	3,292
Total revenues	244,431	238,650	5,781	217,550	21,100
Operating Expenses:					
Pumping and treatment	37,848	38,316	(468)	35,514	2,802
Collection system maintenance	27,718	27,792	(74)	25,225	2,567
Engineering	8,864	8,737	127	6,851	1,886
General and administrative	39,200	37,055	2,145	37,047	8
Depreciation	45,721	43,980	1,741	44,443	(463)
Other	24,460	20,009	4,451	13,294	6,715
Total operating expenses	183,811	175,889	7,922	162,374	13,515
Nonoperating Expenses:					
Capital improvement surcharge refund	15	95	(80)	5,667	(5,572)
Net loss on disposal and sale of utility plant	97	95	2	3,139	(3,044)
Nonrecurring projects and studies	3,999	3,375	624	4,292	(917)
Total nonoperating expenses	4,111	3,565	546	13,098	(9,533)
Total expenses	187,922	179,454	8,468	175,472	3,982
Income before Capital Contributions	56,509	59,196	(2,687)	42,078	17,118
Capital Contributions	24,310	52,941	(28,631)	16,351	36,590
Change in Net Assets	80,819	112,137	(31,318)	58,429	53,708
Net Assets-Beginning of Year	1,976,365	1,864,228	112,137	1,805,799	58,429
Net Assets-End of Year	$ 2,057,184	$ 1,976,365	$ 80,819	$ 1,864,228	$ 112,137

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

2007 Analysis

Net assets increased $80.8 million or $31.3 million less than in the prior year. While income before capital contributions remained very close to prior year levels, capital contributions declined significantly. Capital contributions declined by $28.6 million due to a fall in the number of developments gifted to the District of $30.4 million offset partially by $1.8 million increase in grant revenues.

Total revenues increased $5.8 million thanks to increases in investment income of $9.3 million. Sewer service charges declined by $4.9 million in comparison to prior year as a result of lower billed volumes. Other revenues, such as property taxes and other revenue, netted to a $1.4 million increase in revenue.

Operating expenses increased by $7.9 million. Other expenses, general and administrative expenses, and depreciation expense increased by $4.5 million, $2.1 million, and $1.7 million, respectively. Increased spending in combined sewer area and separate sewer area inflow and infiltration studies account for the $4.5 million increase in other expenses. General and administrative expenses increased in most part as a result of a lawsuit filed by the EPA and the State of Missouri for which the District booked a $1.0 million reserve for judgment and claims settlement. Depreciation expense rose most significantly as a result of the new treatment plant being capitalized in fiscal year 2007. Pumping and treatment, collection system maintenance, and engineering expenses netted a decrease of $0.4 million in operating expenses.

2006 Analysis

Net assets increased $112.1 million, which was $53.7 million over 2005. The largest contributing factor in the increase in net assets is the increased level of capital contributions. In fiscal year 2006, capital contributions totaled $52.9 million while in fiscal year 2005 they were $16.4 million. This change accounts for $36.5 million of the total change in net assets, and is a result of a larger number of developments being gifted to the District.

Another significant factor in the $53.7 million increase in net assets over 2005 was the increase in sewer service charge revenues totaling $20.4 million as a result of the rate increase that took affect in July of 2005.

Operating expenses increased by $13.5 million or 8.3% over prior year. The largest increase in operating expenses occurred in other operating expenses in the amount of $6.7 million. This increase is a result of greater spending on infrastructure repair and data collection projects. Additionally, pumping and treatment, collection system maintenance, and engineering expenses increased by $2.8 million, $2.6 million, and $1.9 million, respectively, while depreciation expense decreased by $0.5 million.

Nonoperating expenses decreased by $9.5 million or 72.8% over prior year. The decrease can be attributed to the capital improvement surcharge refund. $5.7 million of the refund was expensed in fiscal year 2005, while only $0.1 million was charged in fiscal year 2006. The other major contributing factor to the $9.5 million decrease is a drop in the net loss on disposal and sale of utility plant in the amount of $3.0 million. In fiscal year 2005, land valued at over $3.0 million was gifted to the City of Maplewood.

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

The Metropolitan St. Louis Sewer District Condensed Statements of Cash Flows (000s)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Cash flows from operating activities	$ 72,214	$ 69,033	$ 3,181	$ 71,563	($ 2,530)
Cash flows from noncapital financing activities	24,401	23,211	1,190	22,016	1,195
Cash flows from capital and related financing activities	(68,948)	(105,123)	36,175	(145,635)	40,512
Cash flows from investing activities	61,784	49,380	12,404	(105,948)	155,328
Net increase (decrease) in cash and cash equivalents	89,451	36,501	52,950	(158,004)	194,505
Cash and cash equivalents at beginning of year	103,089	66,588	36,501	224,592	(158,004)
Cash and Cash Equivalents at End of Year	$ 192,540	$ 103,089	$ 89,451	$ 66,588	$ 36,501

2007 Analysis

Cash and cash equivalents at the end of the year increased by $89.5 million. The most significant increase occurred in cash flows from capital and related financing activities. These cash outflows of $68.9 million were favorable to prior year by $36.2 million, and they were most significantly affected by an increase in proceeds from issuance of debt and the prior year refund of the Clean Water Capital Improvement Trust Fund. Also significant was the cash flows from investing activities which were $61.8 million or $12.4 million more than in the prior year, as a result of increased investment balances and a favorable rate environment. Cash flows from operating activities increased $3.2 million over last year in large part due to a decline in payments to suppliers for goods and services of $2.9 million. Finally, the increase in cash flows from noncapital financing activities is related to the increase in assessed property values resulting in increased tax revenue for the District.

2006 Analysis

The net increase in cash and cash equivalents experienced a $194.5 million increase in relation to fiscal year 2005. The most significant reason for that increase is the cash flow from investing activities. In fiscal year 2006, cash flow from investing activities was a positive $49.4 million while in fiscal year 2005 the District had a negative cash flow from investing activities of $105.9 million. Bond proceeds originally converted to long-term investments have been converted to cash to cover CIRP expenses and to take advantage of better interest rates on short-term investments.

Management's Discussion and Analysis
for the years ended June 30, 2007 and 2006

Cash outflows from capital and related financing activities increased by $40.5 million in fiscal year 2006. In fiscal year 2006, the District's proceeds from issuance of debt increased by $35.6 million. Payments for capital improvements decreased by $14.8 million, principal and interest and fees paid on debt increased by a combined $3.7 million, cash refunded for the clean water capital improvement surcharge increased by $5.8 million, and proceeds from capital grants and sale of utility plant declined by a net of $0.4 million.

Capital Assets

The Metropolitan St. Louis Sewer District
Capital Assets
Net of Depreciation (000s)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Land	$ 26,976	$ 26,976	$ --	$ 26,912	$ 64
Construction in progress	249,127	365,628	(116,501)	275,615	90,013
Treatment and disposal plant and equipment	483,762	278,200	205,562	290,262	(12,062)
Collection and pumping plant	1,228,821	1,200,494	28,327	1,134,222	66,272
General plant and equipment	16,107	15,137	970	15,671	(534)
Total	$ 2,004,793	$ 1,886,435	$ 118,358	$ 1,742,682	$ 143,753

2007 Analysis

Total capital assets, net of depreciation, increased $118.4 million over prior year. Treatment and disposal plant and equipment incurred the most significant change. It increased $205.6 million mostly due to the capitalization of the District's newest treatment plant. Also significant is the decrease in construction in progress of $116.5 million resulting from a new treatment plant placed into service offset by continued high levels of CIRP spending. Collection and pumping plant increased by $28.3 million or $38.0 million less than it had in prior year as a result of lower levels of contributed capital assets, and general plant and equipment increased by $1.0 million.

2006 Analysis

Total capital assets, net of depreciation, increased $143.8 million over prior year. The most significant increase was to construction in progress, which rose by $90.0 million. Collection and pumping plant also increased by a significant amount of $66.3 million in large part due to the increase in contributed assets. Treatment and disposal plant and equipment decreased by $12.1 million as depreciation outpaced additions in this asset category. Finally, general plant and equipment decreased by $0.5 million in relation to the prior year, and land increased by less than $0.1 million.

For additional information related to the District's capital assets, see Note 3 to the financial statements.

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

Long-term Debt

The Metropolitan St. Louis Sewer District
Long-term Debt
(000s)

	2007	2006	Increase (Decrease) 2007-2006	2005	Increase (Decrease) 2006-2005
Revenue Bonds:					
Series 2004A	$ 171,995	$ 173,500	$ (1,505)	$ 175,000	$ (1,500)
Series 2004B	150,312	156,245	(5,933)	160,152	(3,907)
Series 2005A	6,520	6,800	(280)	6,800	--
Series 2006A	42,615	42,715	(100)	--	42,715
Series 2006B	14,205	--	14,205	--	--
Series 2006C	60,000	--	60,000	--	--
West Watson and Nanell	175	486	(311)	536	(50)
Ozark and Tablerock	94	116	(22)	147	(31)
Energy Loan Program	69	79	(10)	89	(10)
	$ 445,985	$ 379,941	$ 66,044	$ 342,724	$ 37,217

2007 Analysis

The District ended fiscal year 2007 with $446.0 million in long-term debt outstanding, consisting mainly of revenue bonds. The increase of $66.0 million is a result of new issues in the amount of $74.2 million and retirements of $8.2 million.

2006 Analysis

The District ended fiscal year 2006 with $379.9 million in long-term debt outstanding, consisting mainly of revenue bonds. The increase of $37.2 million is a result of new issues in the amount of $42.7 million and retirements of $5.5 million.

For additional information related to the District's long-term debt, see Note 5 to the financial statements.

Decisions Impacting the Future

In the upcoming fiscal year, the District intends to begin the wet weather expansion of the Lemay treatment plant and begin the second phase of its multi-decade wastewater capital improvement and replacement program. Both of these efforts will be funded primarily on a pay-as-you go basis and supplemented as necessary by the remaining $40.0 million proceeds of the $500 million in bonds authorized by St. Louis voters in February 2004.

The District will begin implementation of an expanded stormwater maintenance and infrastructure improvement program in fiscal year 2008. This stormwater initiative is possible due to the adoption of new stormwater rate structure based on customer impervious area which will yield a projected additional $28 million over the

Management's Discussion and Analysis for the years ended June 30, 2007 and 2006

next 5 years. This funding will provide a projected total of $92 million in stormwater improvements by fiscal year 2012.

The District will also respond to a lawsuit filed on June 11, 2007 by the U.S. Environmental Protection Agency and the Missouri Department of Natural Resources. See Note 12 for additional information regarding this litigation.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed or e-mailed to:

Janice M. Zimmerman, Director of Finance
The Metropolitan St. Louis Sewer District
2350 Market Street
St. Louis, MO 63103-2555
or
jzimmer@stlmsd.com

MSD

Statements of Net Assets
June 30, 2007 and 2006

ASSETS

	2007	2006
Current Assets:		
Cash and cash equivalents	$ 22,545,737	$ 11,919,000
Investments	9,806,705	8,701,028
Sewer service charges receivable, less allowance of $2,922,000 in 2007 and $2,906,000 in 2006	27,030,264	27,151,790
Unbilled sewer service charges receivable, less allowance of $312,000 in 2007 and $326,000 in 2006	15,599,712	15,961,693
Accrued income on investments	302,762	241,174
Grants receivable	20,166	10,434
Other receivables, less allowance of $27,853 in 2007 and $6,934 in 2006	744,596	1,945,845
Supplies inventory	7,437,689	7,972,849
Total current assets	83,487,631	73,903,813
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents	169,994,047	91,169,876
Investments	295,587,011	346,775,935
Accrued income on investments	2,994,002	2,721,930
Grants receivable	--	530,602
Other receivables	248,771	54,161
	468,823,831	441,252,504
Other Assets:		
Long-term investments	14,388,086	8,792,859
Capital Assets:		
Depreciable:		
Treatment and disposal plant and equipment	791,451,221	569,721,790
Collection and pumping plant	1,661,514,054	1,606,656,767
General plant and equipment	54,483,299	53,194,761
	2,507,448,574	2,229,573,318
Less: Accumulated depreciation	778,759,044	735,742,465
	1,728,689,530	1,493,830,853
Nondepreciable:		
Land	26,976,107	26,976,107
Construction in progress	249,126,873	365,627,566
Net capital assets	2,004,792,510	1,886,434,526
Total noncurrent assets	2,488,004,427	2,336,479,889
Total Assets	2,571,492,058	2,410,383,702

See the accompanying notes to the financial statements.

LIABILITIES

	2007	2006
Current Liabilities:		
Contracts and accounts payable	13,123,349	8,623,266
Deposits and accrued expenses	17,616,037	16,518,268
Retainage payable	23,768	33,970
	30,763,154	25,175,504
Current Liabilities--Payable From Restricted Assets:		
Contracts and accounts payable	18,527,848	15,685,704
Deposits and accrued expenses	3,634,222	2,411,785
Retainage payable	6,773,031	5,052,722
Current portion of bonds and notes payable	8,053,048	4,359,578
	36,988,149	27,509,789
Total current liabilities	67,751,303	52,685,293
Noncurrent Liabilities:		
Deposits and accrued expenses	4,434,462	4,154,065
Bonds and notes payable	442,122,110	377,178,944
	446,556,572	381,333,009
Total Liabilities	514,307,875	434,018,302

NET ASSETS

	2007	2006
Net Assets:		
Invested in capital assets, net of related debt	1,723,093,113	1,652,348,133
Restricted for:		
Debt service	28,790,300	20,198,822
Real property purchase and improvement	2,519,150	2,544,713
Subdistrict construction and improvement	56,657,281	46,774,026
Construction	188,102,445	203,544,388
Unrestricted	58,021,894	50,955,318
Total Net Assets	$ 2,057,184,183	$ 1,976,365,400

See the accompanying notes to the financial statements.

Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2007 and 2006

	2007	2006
Operating Revenues:		
Sewer service charges	$ 198,992,581	$ 203,880,320
Recovery of (provision for) doubtful sewer service charge accounts	(4,193,703)	(3,160,972)
Licenses, permits, and other fees	6,030,583	5,210,321
Other	1,376,071	873,353
Total operating revenues	202,205,532	206,803,022
Operating Expenses:		
Pumping and treatment	37,848,292	38,316,092
Collection system maintenance	27,718,099	27,791,675
Engineering	8,863,847	8,737,413
General and administrative	39,199,349	37,055,565
Depreciation	45,720,978	43,979,819
Other	24,459,942	20,008,972
Total operating expenses	183,810,507	175,889,536
Operating Income	18,395,025	30,913,486
Nonoperating Revenues:		
Property taxes levied by the District	24,401,167	23,210,982
Investment income	16,946,145	7,610,461
Rent income	878,319	1,026,547
Total nonoperating revenues	42,225,631	31,847,990
Nonoperating Expenses:		
Capital improvement surcharge refund	15,000	95,372
Net loss on disposal and sale of utility plant	96,630	95,064
Nonrecurring projects and studies	3,999,673	3,375,189
Total nonoperating expenses	4,111,303	3,565,625
Income before Capital Contributions	56,509,353	59,195,851
Capital Contributions:		
Utility plant contributed	21,131,633	51,516,525
Grant revenue	3,177,797	1,424,920
Total capital contributions	24,309,430	52,941,445
Change in Net Assets	80,818,783	112,137,296
Net Assets-Beginning of Year	1,976,365,400	1,864,228,104
Net Assets-End of Year	$ 2,057,184,183	$ 1,976,365,400

See the accompanying notes to the financial statements.

MSD

Statements of Cash Flows
for the years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Received from customers	$ 203,155,790	$ 201,059,008
Paid to employees for services	(59,876,278)	(58,033,022)
Paid to suppliers for goods and services	(71,065,344)	(73,992,802)
Net cash provided by operating activities	72,214,168	69,033,184
Cash flows provided by noncapital financing activities:		
Taxes levied	24,401,167	23,210,982
Cash flows from capital and related financing activities:		
Proceeds from capital grants	3,698,667	2,142,401
Clean water capital improvement surcharge refunded	(15,000)	(5,762,702)
Proceeds from issuance of debt	77,190,257	43,193,659
Principal paid on debt	(8,160,308)	(5,498,061)
Interest and fees paid on debt	(7,190,721)	(13,848,925)
Payments for capital assets	(134,588,843)	(125,572,530)
Proceeds from sale of utility plant	117,307	223,313
Net cash used in capital and related financing activities	(68,948,641)	(105,122,845)
Cash flows from investing activities:		
Purchase of investments	(355,303,670)	(224,477,577)
Proceeds from sale and maturity of investments	401,621,990	263,696,471
Investment income	14,587,575	9,134,073
Proceeds from rents	878,319	1,026,547
Net cash provided by investing activities	61,784,214	49,379,514
Net Increase in Cash and Cash Equivalents	89,450,908	36,500,835
Cash and Cash Equivalents at Beginning of Year	103,088,876	66,588,041
Cash and Cash Equivalents at End of Year	$ 192,539,784	$ 103,088,876
Noncash capital and investing activities:		
Utility plant contributed by other governments and developers	$ 21,131,633	$ 51,516,525
Fair value investment adjustment	($ 454,961)	($ 1,549,223)

See the accompanying notes to the financial statements.

	2007	2006
Reconciliation of operating income to net cash flows provided by operating activities:		
Operating income	$ 18,395,025	$ 30,913,486
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	45,720,978	43,979,819
Change in operating assets and liabilities:		
(Increase) decrease in billed and unbilled sewer service charges receivable	483,507	(4,954,471)
(Increase) decrease in other receivables	1,201,249	(999,033)
(Increase) decrease in supplies inventory	535,160	66,218
Increase (decrease) in contracts and accounts payable	3,277,646	(1,416,690)
Increase (decrease) in deposits and accrued expenses	2,600,603	1,443,855
Net Cash Provided by Operating Activities	$ 72,214,168	$ 69,033,184

See the accompanying notes to the financial statements.

Notes to Financial Statements
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies

Organization

The Metropolitan St. Louis Sewer District (the District) was authorized by the voters, established and chartered under the provisions of the Constitution of Missouri, as a municipal corporation and a political subdivision of the State. Upon creation in 1954, the District assumed responsibilities to provide for the construction, operation, and maintenance of the sewer facilities within its defined boundaries. The District's service area now comprises all of the City of St. Louis and most of St. Louis County. Subdistricts within the District's total service area represent separate geographic areas within which specific taxes are levied for the retirement of indebtedness issued to finance construction of sanitary or stormwater facilities within the area or to operate, maintain, or construct improvements within the subdistrict. The District also maintains all of the publicly owned stormwater sewers within its original boundaries and is continuing to accept maintenance of the stormwater sewers in the remainder of its service area.

Pursuant to provisions of its charter and subject to limitations imposed by the Constitution of Missouri, all powers of the District are vested in a six-member Board of Trustees (the Board), three of whom are appointed by the Mayor of the City of St. Louis and three of whom are appointed by the County Executive of St. Louis County.

Reporting Entity

The District defines its financial reporting entity to include all component units for which the District's governing body is financially accountable. To be considered financially accountable, the organization must be fiscally dependent on the District and the District must either 1) be able to impose its will on the organization or 2) the relationship must have the potential for creating a financial benefit or imposing a financial burden on the District.

Based on the foregoing, the District's financial statements include all funds that are established under the authority of the District's charter. There are no agencies, boards, commissions, or authorities that are controlled by or dependent on the District.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Throughout the year, the District maintains its detailed accounting records on the modified accrual basis of accounting. In order to account for the transactions related to certain subdistricts and restricted resources, separate fund accounting records are maintained. For financial reporting purposes, the District reports its operations as a single enterprise fund. Accordingly, the accounting records are converted to the accrual basis of accounting and all interfund transactions are eliminated. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The District's measurement focus is on the flow of economic resources. Unbilled sewer

Notes to Financial Statements
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

service charge revenues are accrued by the District based on estimated billings for services provided through the end of the current fiscal year.

Revenues and expenses are divided into operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are user fees, licenses, and permits for wastewater treatment services. Operating expenses include the costs associated with the conveyance and treatment of wastewater, stormwater, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The District follows GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions* (GASB 33), which establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources.

GASB 33 groups nonexchange transactions into the following four classes, based upon their principal characteristics: derived tax revenues, imposed nonexchange revenues, government mandated non-exchange transactions, and voluntary nonexchange transactions. For the District, the following non-exchange transactions are applicable.

The District recognizes assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Revenues are recognized in the period when the resources are required to be used or the first period that use is permitted. The District recognizes revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied. Imposed nonexchange revenues also include licenses, permits, and other fees.

Intergovernmental revenues, representing grants and assistance received from other governmental units, are generally recognized as revenues in the period when all eligibility requirements, as defined by GASB 33, have been met. Any resources received before eligibility requirements are met are reported as deferred revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Notes to Financial Statements
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The District follows all Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the District also applies all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents and Investments

The District's "cash and cash equivalents" consist of all highly liquid investments (including restricted assets) with maturity dates of 89 days or less from the date acquired by the District. "Investments" consist of those investments with maturity dates 90 days or greater at the time of purchase by the District. Investments are stated at fair value based upon quoted market prices.

The District's investment disclosures follow GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3* (GASB 40). This standard's disclosure requirements addresses custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk.

Clean Water Capital Improvement Surcharge

In connection with the Consent Decree, on August 2, 1988, the voters within the District approved a schedule of capital improvement surcharges to be added to each customer's user charge.

The collections from the surcharges, as well as investment income and proceeds from various grants, are financing upgrades to certain sewage treatment facilities and other capital improvements required by the Federal Clean Water Act and the Missouri Clean Water Law (required projects). The ballot proposition stated that all surcharges, investment income, and grant proceeds collected were to be deposited in a Clean Water Capital Improvement Trust Fund (the Trust Fund). All funds of the Trust Fund are included in the financial statements of the District. The District issues a publicly available financial report on the Trust Fund that includes financial statements and supplementary information. That report may be obtained by writing: The Metropolitan St. Louis Sewer District, Director of Finance, 2350 Market Street, St. Louis, MO 63103-2555.

The District was entitled to levy and collect the surcharges until one of the following three events occurred: 1) the cumulative collections totaled $436,000,000; 2) the intended construction and improvements were complete; or 3) until December 31, 1995, regardless of whether the construction was complete or whether the

Notes to Financial Statements
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies (continued)

Clean Water Capital Improvement Surcharge (continued)

cumulative collections totaled $436,000,000. The surcharge was eliminated in April 1995. This was made possible by favorable construction bids, higher than expected investment earnings, and increased federal and state grant participation. In January 1997, the District refunded approximately $25 million to its customers. In 1998, the District determined that approximately $9.2 million would also be available for refund to customers.

In 1999, the District identified additional projects to be completed reducing the amount available for refund. In 2005, the District identified all remaining allowable projects to be completed. The District refunded $15,000 and $5,762,702 from the Trust Fund to its customers during 2007 and 2006, respectively.

Capital Assets

Capital assets are valued at historical cost or estimated historical cost based in part upon a study performed in 1981. Interest cost is capitalized as part of the historical cost of acquiring certain assets when the effect of such capitalization is material to the financial statements. Interest is not capitalized on assets constructed with contributions from other governmental sources. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Treatment and disposal plant and equipment	10 to 50 years
Collection and pumping plant	10 to 100 years
General plant and equipment	3 to 50 years

When designing user charge rates, the District includes funding for replacement cost of assets, which may differ from depreciation expense recorded for financial reporting purposes.

Normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Betterments are capitalized and depreciated over the remaining useful lives of the related assets, as applicable. The District defines capital assets as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of three years.

Capitalization of Interest

Interest costs are capitalized as part of the costs of capital assets during the period of construction based on the related weighted average net borrowing costs incurred. Interest earned on temporary investments acquired with the proceeds of such borrowed funds from the date of the borrowing until the assets are ready for their intended use is used to reduce the interest costs capitalized on the constructed assets. Interest is not capitalized for outlays financed by capital grants (or other outside parties) externally restricted for the acquisition of specified assets. In 2007 and 2006, the District capitalized $10,095,195 and $8,182,438 of net interest expense, respectively.

Notes to Financial Statements
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies (continued)

Supplies Inventory

Supplies inventory consists of parts and supplies to be used to operate and maintain treatment facilities and various treatment-related equipment at the District. This inventory is stated at the lower of cost or market, determined on the average cost method. Expenses are recognized when the inventory is consumed.

Net Assets

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, laws, or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net assets represent those portions of equity set aside for specific purposes. Proceeds from the sale of real property no longer necessary in the operation of the District and rental income from District-owned properties have been restricted for the purchase and improvement of real property and expenses related to the use of 2350 Market Street. Property taxes levied by the various subdistricts and other revenues received for construction in those subdistricts have also been restricted for that use. Clean water capital improvement surcharges, sewer extension and connection fees, grants, and other revenues received for construction within certain subdistricts have been restricted for that use. In addition, a portion of sanitary sewer charges have been restricted for the payment of principal and interest on certain debt of the District.

Unrestricted net assets: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Capital Contributions

Capital contributions to the District represent government grants and other aid used to fund capital projects. In accordance with GASB 33, capital contributions are recognized as revenue when the expenditure is made and the amount becomes subject to claim for reimbursement.

Bond Issuance Costs/Bond Premiums and Discounts

Bond issuance costs incurred, as well as bond premiums and discounts, and paid from the proceeds of revenue bond issues are deferred and amortized using the straight-line method over the term of the bonds.

Notes to Financial Statements
June 30, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies (continued)

Compensated Absences

Vacation

Under the terms of the District's personnel policies, employees are allowed to carry a maximum of 30 to 45 days of vacation (depending on length of service) from one calendar year to the next. Since vacation accrued at year-end is expected to be used by the employee during the following fiscal year, the accrual is reported as a component of current deposits and accrued expenses payable.

Sick Leave

Employees earn sick pay benefits at accrual rates ranging from 10 days per year to 12 days per year (depending on length of service). Unused sick leave can be carried over at year-end without limitation. An employee retiring from the District with five or more years of service, who has unused accrued sick leave remaining, will be compensated for that portion of unused accrued sick leave at the rate of 1-1/4% for each year of District service. The District has recorded a liability, which has been actuarially determined to be equal to the accumulated expense charge that will amortize the employees' benefits over their period of District service. The liability, included in current deposits and accrued expenses payable, includes vested accumulated rights to receive sick leave benefits estimated to be paid within one year. The portion of sick leave expected to be paid after one year is recorded as a component of noncurrent deposits and accrued expenses payable.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

2. Deposits and Investments

With the approval of the District's Board of Trustees, the Secretary-Treasurer is authorized to invest excess cash in any investment authorized by the District's charter. The District's investment policy conforms to the investment policy guidelines for the State of Missouri. The District's investment policy authorizes the District to invest in the following instruments: U.S. Treasury notes, certificates of deposit, obligations of any agency or instrumentality of the U.S., repurchase agreements, banker's acceptances, and commercial paper rated in the three highest classifications, for terms specified in the policy. At June 30, 2007 and 2006, all of the District's investments were in compliance with the District's investment policy and charter.

Notes to Financial Statements
June 30, 2007 and 2006

2. Deposits and Investments (continued)

In accordance with the District's investment policy, the District also invests in mortgage-backed securities such as collateralized mortgage obligations. These securities are reported at fair value and are based on the cash flows from interest payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

A summary of deposits and investments as of June 30, 2007 and 2006, is as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Deposits	$ 105,918,805	$ 105,918,805	$ 60,784,313	$ 60,784,313
Repurchase agreements (collateralized)	18,583,974	18,583,974	9,074,525	9,074,525
U.S. Treasury and Agency obligations	323,030,205	322,418,113	370,388,893	366,358,187
Commercial paper	64,800,645	64,956,887	31,023,546	31,141,673
Bankers acceptance notes	442,914	443,808	--	--
	$ 512,776,543	$ 512,321,587	$ 471,271,277	$ 467,358,698

Interest Rate Risk

As of June 30, 2007 and 2006, the District had the following investments and maturities:

	2007		2006	
Investment Type	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Repurchase agreements (collateralized)	$ 18,583,974	0.00	$ 9,074,525	0.00
Certificates of deposit	12,100,000	0.63	11,200,000	0.33
U.S. Treasuries	89,405,468	0.36	116,409,742	0.24
U.S. Agencies	233,012,645	1.82	249,948,445	1.37
Commercial paper	64,956,887	0.04	31,141,673	0.11
Bankers acceptance notes	443,808	0.01	--	0.00
Total	$ 418,502,782	1.21	$ 417,774,385	0.93

The District will minimize the risk that the fair value of debt securities in the portfolio will fall due to increases in general interest rates by:

Notes to Financial Statements
June 30, 2007 and 2006

2. Deposits and Investments (continued)

Interest Rate Risk (continued)

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
2. Investing operating funds primarily in short-term securities.
3. State law limits the maximum stated maturities to five years on any investment from the date of purchase.

Custodial/Credit Risk

The District will minimize credit risk, the risk of loss due to failure of the security issuer or backer, by:
1. Prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business; and
2. Diversifying the portfolio so that potential losses on individual securities will be minimized.

In accordance with its investment policy, the District limits its investments in these investment types to the top rating issued by NRSROs. As of June 30, 2007, the District's investments in commercial paper were rated A1 by Standard & Poor's, F-1 by Fitch ratings, and P-1 by Moody's Investors Service. The District's investments in repurchase agreements carry the explicit guarantee of the U.S. Government. The District's investments in U.S. agencies that do not carry the explicit guarantee of the U.S. government all carry a rating assigned by Standard & Poor's of "AAA". All cash deposits of the District were fully collateralized with securities held by a third party financial institution in the District's name.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer with respect to U.S. Treasury Securities and collateralized time and demand deposits. U.S. Government agencies and government-sponsored enterprises are limited to 60% of the portfolio; and collateralized repurchase agreements are limited to 50% of the portfolio. U.S. Government agency callable securities, commercial paper, and bankers' acceptances are limited to 30% of the portfolio, each. The following table lists investments in issuers that represent 5% or more of total investments at June 30, 2007 and 2006:

	Percent of Total Investments	
Issuer	**2007**	**2006**
Federal Home Loan Bank	23.8%	24.1
Federal National Mortgage Association	12.4	18.8
Federal Home Loan Mortgage Corporation	6.4	7.3

Notes to Financial Statements
June 30, 2007 and 2006

3. Change in Capital Assets

The following is a summary of capital assets changes for the fiscal years ended June 30, 2007 and June 30, 2006:

	for the year ended June 30, 2007			
	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not being depreciated:				
Land	$ 26,976,107	$ --	$ --	$ 26,976,107
Construction in progress	365,627,566	139,477,160	255,977,853	249,126,873
Total capital assets not being depreciated	392,603,673	139,477,160	255,977,853	276,102,980
Capital assets being depreciated:				
Treatment and disposal plant and equipment	569,721,790	221,729,431	--	791,451,221
Collection and pumping plant	1,606,656,767	55,232,810	375,523	1,661,514,054
General plant and equipment	53,194,761	3,831,350	2,542,812	54,483,299
Total capital assets being depreciated	2,229,573,318	280,793,591	2,918,335	2,507,448,574
Less: Accumulated depreciation:				
Treatment and disposal plant and equipment	(291,521,309)	(16,167,623)	--	(307,688,932)
Collection and pumping plant	(406,163,408)	(26,705,002)	(174,472)	(432,693,938)
General plant and equipment	(38,057,748)	(2,848,351)	(2,529,925)	(38,376,174)
Total accumulated depreciation	(735,742,465)	(45,720,976)	(2,704,397)	(778,759,044)
Total capital assets being depreciated, net	1,493,830,853	235,072,615	213,938	1,728,689,530
Total Capital Assets	$ 1,886,434,526	$ 374,549,775	$ 256,191,791	$ 2,004,792,510

	for the year ended June 30, 2006			
	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	$ 26,911,933	$ 64,174	$ --	$ 26,976,107
Construction in progress	275,615,002	134,326,899	44,314,335	365,627,566
Total capital assets not being depreciated	302,526,935	134,391,073	44,314,335	392,603,673
Capital assets being depreciated:				
Treatment and disposal plant and equipment	566,802,423	3,490,424	571,057	569,721,790
Collection and pumping plant	1,514,563,636	92,156,109	62,978	1,606,656,767
General plant and equipment	52,201,691	2,327,055	1,333,985	53,194,761
Total capital assets being depreciated	2,133,567,750	97,973,588	1,968,020	2,229,573,318
Less: Accumulated depreciation:				
Treatment and disposal plant and equipment	(276,540,194)	(15,309,480)	(328,365)	(291,521,309)
Collection and pumping plant	(380,341,905)	(25,882,705)	(61,202)	(406,163,408)
General plant and equipment	(36,530,189)	(2,787,635)	(1,260,076)	(38,057,748)
Total accumulated depreciation	(693,412,288)	(43,979,820)	(1,649,643)	(735,742,465)
Total capital assets being depreciated, net	1,440,155,462	53,993,768	318,377	1,493,830,853
Total Capital Assets	$ 1,742,682,397	$ 188,384,841	$ 44,632,712	$ 1,886,434,526

Notes to Financial Statements
June 30, 2007 and 2006

4. Property Tax

On or before May 1 of each year, the District levies ad valorem taxes on all taxable tangible property, real and personal, within its boundaries based on assessed valuations established by the City of St. Louis and St. Louis County assessors. Tax rates vary by subdistrict and purpose. Taxes levied are used for operations and stormwater maintenance, debt service, and construction. Taxes are recorded as nonoperating revenues. Property tax bills are mailed in October. They become delinquent and represent a lien on the related property if not paid by December 31. All property taxes are billed and collected by the City of St. Louis and St. Louis County Collectors of Revenue and are distributed to the District monthly.

5. Long-term Liabilities

The following is a summary of changes in the District's long-term liabilities for the year ended June 30, 2007:

	Original Issuance Amounts	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Current Portion
Bonds and notes payable:						
Revenue bonds:						
Series 2004A	$ 175,000,000	$ 173,500,000	$ --	$ 1,505,000	$ 171,995,000	$ 1,510,000
Series 2004B	161,280,000	156,245,000	--	5,932,500	150,312,500	6,150,416
Series 2005A	6,800,000	6,800,000	--	280,000	6,520,000	256,667
Series 2006A	42,715,000	42,715,000	--	100,000	42,615,000	91,667
Series 2006B	14,205,000	--	14,205,000	--	14,205,000	--
Series 2006C	60,000,000	--	60,000,000	--	60,000,000	--
Missouri Department of Natural Resources:						
West Watson and Nanell	535,600	485,500	--	310,606	174,894	21,100
Ozark and Table Rock	374,680	116,094	--	22,124	93,970	12,800
Energy Loan Program	98,595	78,944	--	10,078	68,866	10,398
	$ 461,008,875	$ 379,940,538	$ 74,205,000	$ 8,160,308	445,985,230	$ 8,053,048
Add: Unamortized premium, net					10,514,133	
Less: Bond issue costs, net					(6,324,205)	
					$ 450,175,158	
Deposits and accrued expenses:						
Landfill closure and postclosure costs		$ 498,421	$ 35,416	$ --	$ 533,837	$ --
Compensated absences		4,569,555	804,480	498,253	4,875,782	975,157
		$ 5,067,976	$ 839,896	$ 498,253	$ 5,409,619	$ 975,157

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

Wastewater System Revenue Bonds Payable

In November 2006, the District authorized and issued $60,000,000 of Wastewater System Revenue Bonds Series 2006C (Series 2006C) for the purpose of providing funds to finance the initial phase of its capital improvements and replacement program, including constructing, repairing, and replacing new wastewater facilities. These senior bonds have interest rates ranging from 4.125% to 5% and are payable in semiannual installments at varying amounts through 2036. The revenue bonds do not constitute a legal debt or liability for the District, the State of Missouri, or for any political subdivision thereof and do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

In May 2004, the District authorized and issued $175,000,000 of Wastewater System Revenue Bonds Series 2004A (Series 2004A) for the purpose of providing funds to finance the initial phase of its capital improvements and replacement program, including constructing, repairing, and replacing new wastewater facilities. These senior bonds have interest rates ranging from 2% to 5% and are payable in semiannual installments at varying amounts through 2034. The revenue bonds do not constitute a legal debt or liability for the District, the State of Missouri, or for any political subdivision thereof and do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The issuance of the revenue bonds does not obligate the District to levy any form of taxation therefore or to make any appropriation for their payments in any fiscal year. The principal and interest on the bonds are expected to be paid from future wastewater revenues. The scheduled payment of the principal of and interest on the Series 2006C and 2004A Bonds maturing on May 1 when due are guaranteed under a financial guaranty insurance policy.

Water Pollution Control and Drinking Water Revenue Bonds Payable

In November 2006, the State Environmental Improvement and Energy Resources Authority (the Authority) authorized and issued $22,105,000 of Water Pollution Control and Drinking Water Revenue Bonds (State Revolving Funds Programs) Series 2006B (Series 2006B). The Series 2006B bonds provided funds to make loans to 7 Missouri political subdivisions that will be used to finance water pollution control and drinking water projects. A portion of the proceeds of the Series 2006B bonds issued by the Authority were used to purchase subordinate Participant Revenue Bonds (Participant Bonds) authorized and issued by the District in the aggregate principal amount of $14,205,000, the proceeds of which will be used for constructing, repairing, and equipping new and existing wastewater facilities. The District's Participant Bonds have interest rates ranging from 4% to 5% and are payable in semiannual installments at varying amounts through 2030.

In May 2006, the Authority authorized and issued $87,505,000 of State Revolving Funds Programs Series 2006A (Series 2006A). The Series 2006A bonds provided funds to make loans to 13 Missouri political subdivisions that will be used to finance water pollution control and drinking water projects.

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

Water Pollution Control and Drinking Water Revenue Bonds Payable (continued)

A portion of the proceeds of the Series 2006A bonds issued by the Authority were used to purchase subordinate Participant Bonds authorized and issued by the District in the aggregate principal amount of $42,715,000, the proceeds of which will be used for constructing, repairing, and equipping new and existing wastewater facilities. The District's Participant Bonds have interest rates ranging from 3.5% to 4.5% and are payable in semiannual installments at varying amounts through 2025.

In May 2005, the Authority authorized and issued $53,060,000 of State Revolving Funds Programs Series 2005A (Series 2005A). The Series 2005A bonds provided funds to make loans to ten Missouri political subdivisions and one Missouri nonprofit corporation that will be used to finance water pollution control and drinking water projects. A portion of the proceeds of the Series 2005A bonds issued by the Authority were used to purchase Participant Bonds authorized and issued by the District in the aggregate principal amount of $6,800,000, the proceeds of which will be used for constructing, repairing, and equipping new and existing wastewater facilities. The District's Participant Bonds have interest rates ranging from 3% to 5% and are payable in semiannual installments at varying amounts through 2026.

In May 2004, the Authority authorized and issued $179,780,000 of State Revolving Funds Programs Series 2004B (Series 2004B). The Series 2004B bonds provided funds to make loans to seven Missouri political subdivisions that will be used to finance water pollution control projects. A portion of the proceeds of the Series 2004B bonds issued by the Authority were used to purchase Participant Bonds authorized and issued by the District in the aggregate principal amount of $161,280,000, the proceeds of which will be used to finance the District's three water pollution control construction projects outlined in the agreement. The District's Participant Bonds have interest rates ranging from 2% to 5.25% and are payable in semiannual installments at varying amounts through 2027.

The Series 2004B, 2005A, 2006A, and 2006B bonds do not constitute a legal debt or liability for the District, the State of Missouri, or for any political subdivision thereof and do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The issuance of the Series 2004B, 2005A, 2006A, and 2006B bonds does not obligate the District to levy any form of taxation therefore or to make any appropriation for their payments in any fiscal year. The principal and interest on the bonds are expected to be paid from future wastewater revenues.

In connection with the District's issuance of the Participant Bonds, which were purchased with the proceeds of the Series 2004B, Series 2005A, 2006A, and 2006B bonds issued by the Authority, the District participates in the State Revolving Loan Program established by the Missouri Department of Natural Resources (DNR). Monies from federal capitalization grants and state matching funds are used to fund a reserve account for each participant.

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

Water Pollution Control and Drinking Water Revenue Bonds Payable (continued)

As the District incurs approved capital expenses, the DNR reimburses the District for the expenses from the bond proceeds account and deposits in a bond reserve fund in the District's name an additional 60% of the expenditure amount for the Series 2004B bonds or 70% for the Series 2005A, Series 2006A, and Series 2006B bonds. Interest earned from this reserve fund can be used by the District to fund interest payments on the bonds.

On the date of each payment of the principal amount of the District's Participant Bonds, the trustee transfers from this reserve account to the master trustee an amount equal to 60% of the principal payment for the Series 2004B bonds or 70% for the Series 2005A, Series 2006A, and Series 2006B bonds. The costs of operation and maintenance of the wastewater treatment and sewerage facilities and the debt service is payable from wastewater revenues.

In accordance with the Series 2006A, Series 2006B, Series 2005A, Series 2004A, and Series 2004B bond issuances, the District's annual net operating revenues from wastewater activities, as defined in the agreement, coupled with investments earnings must be at least 125% of the current portion of principal and interest due on all senior bonds and at least 115% of the current portion of principal and interest due on all bonds. At June 30, 2007 and 2006, the District was in compliance with this covenant.

Principal and Interest Requirements on Revenue Bonds Payable

The annual principal and interest requirements to maturity on revenue bonds payable outstanding as of June 30, 2007 are as follows:

	Wastewater System Revenue Bonds Payable/ Water Pollution Control and Drinking Water Revenue Bonds Payable		
Years ending June 30,	**Principal**	**Interest**	**Total**
2008	$ 8,008,750	$ 21,565,882	$ 29,574,632
2009	11,094,583	21,162,568	32,257,151
2010	11,209,167	20,736,911	31,946,078
2011	11,857,500	20,278,719	32,136,219
2012	12,137,500	19,747,380	31,884,880
2013-2017	67,582,917	90,303,843	157,886,760
2018-2022	83,516,667	72,662,463	156,179,130
2023-2027	91,550,416	50,444,300	141,994,716
2028-2032	87,465,000	28,483,575	115,948,575
2033-2036	61,225,000	6,617,000	67,842,000
Total	$ 445,647,500	$ 352,002,641	$ 797,650,141

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

West Watson and Nanell Loan Agreement

During fiscal year 2005, the DNR loaned $535,600 to the District. The West Watson and Nanell Loan bears interest at a rate of 1.5% and is payable through November 1, 2014. The purpose of this note is to finance the planning, acquisition, construction, improvement, repair, rehabilitation, and extension of the sewer system of a certain regional subdistrict. This note is classified as special assessment debt by the District; therefore, the principal and interest on this note will be repaid from additional tax assessments on property values within the subdistrict. The additional assessment to be paid by the property owners is 54.78 cents per square foot over the next ten years, with interest accruing at a rate of 2.5% per annum.

Ozark and Table Rock Loan Agreement

During fiscal year 2004, the DNR loaned $374,680 to the District. The Ozark and Table Rock Loan bears interest at a rate of 1.5% and is payable through November 1, 2013. The purpose of this note is to finance the planning, acquisition, construction, improvement, repair, rehabilitation, and extension of the sewer system of a certain regional subdistrict. This note is classified as special assessment debt by the District; therefore, the principal and interest on this note will be repaid from additional tax assessments on property values within the subdistrict. The additional assessment to be paid by the property owners is 61.2 cents per square foot over the next ten years, with interest accruing at a rate of 2.5% per annum.

Principal and Interest Requirements on Ozark and Table Rock and West Watson and Nanell Loan Agreements

The annual principal and interest requirements to maturity on the Ozark and Table Rock Loan Agreement and the West Watson and Nanell Loan Agreement outstanding as of June 30, 2007 are as follows:

	Special Assessment Loan Agreements		
Years ending June 30,	**Principal**	**Interest**	**Total**
2008	$ 33,900	$ 3,779	$ 37,679
2009	34,100	3,269	37,369
2010	34,600	2,753	37,353
2011	35,100	2,231	37,331
2012	35,600	1,700	37,300
2013-2015	95,564	1,948	97,512
Total	$ 268,864	$ 15,680	$ 284,544

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

Energy Efficiency Leveraged Note Payable

In April 2004, the DNR loaned $98,595 to the District. The Energy Efficiency Leveraged Note Payable bears interest at a rate of 3.15% per annum and is payable through August 1, 2013. The purpose of this note is to finance the design, acquisition, installation, and implementation of energy conservation measures. The principal and interest on this note will be repaid from wastewater revenues.

Principal and Interest on Energy Efficiency Leveraged Note Payable

The annual principal and interest requirements to maturity on the Energy Efficiency Leveraged Note Payable outstanding as of June 30, 2007 are as follows:

Energy Efficiency Leveraged Note Payable

Years ending June 30,	Principal	Interest	Total
2008	$ 10,398	$ 2,088	$ 12,486
2009	10,728	1,758	12,486
2010	11,069	1,417	12,486
2011	11,420	1,066	12,486
2012	11,783	703	12,486
2013-2014	13,468	350	13,818
Total	$ 68,866	$ 7,382	$ 76,248

Restricted Cash and Investments

The following trustee held accounts have been established in accordance with bond ordinances and financing agreements that require receipts generated from operations be segregated and certain reserve accounts be established:

Revenue Fund

The Revenue Fund will be used for the purpose of depositing wastewater operating revenues, providing funds to pay for expenses related to the operation and maintenance of the District, and fulfilling Sinking Fund requirements in accordance with the bond ordinances.

Sinking/Repayment Funds

The bond ordinances provide for deposits to and the use of monies in the Sinking Fund to be used for the sole purpose of principal and interest payments on the bonds. Sufficient monies shall be paid in periodic installments from the Revenue Funds.

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

Restricted Cash and Investments (continued)

Debt Service Fund

The Debt Service Fund shall be used by the Trustee for the sole purpose of paying the principal of and interest on the bonds, as and when the same become due.

Debt Service Reserve Fund

After initial deposit of the amount required pursuant to the bond ordinances and financing agreements of the Series 2004A bonds and 2006C bonds, monies in the Debt Service Reserve Fund shall be disbursed and expensed by the District solely for the payment of the principal and interest on the bonds and notes to the extent of any deficiency in the Debt Service Fund for such purpose. The District may disburse and expend monies from the Debt Service Reserve Fund for such purpose immediately. At June 30, 2007 and 2006, cash and investments in the Debt Service Reserve Fund totaled $22,378,626 and $15,770,431, respectively.

Special Participant Bond Reserve Account

For the Series 2004B, Series 2005A, Series 2006A, and Series 2006B bonds, the District shall deposit into the Special Participant Bond Reserve Account amounts in accordance with the bond ordinance, if any, which shall be disbursed and expensed by the District solely for the payment of the principal and interest on the Participant Bonds to the extent of any deficiency in the Repayment Fund for such purpose. At June 30, 2007 and 2006, cash and investments in the Special Participant Bond Reserve Account held on behalf of the District totaled $103,996,804 and $80,982,438, respectively. Monies in this account are not considered to be District funds. However, interest earnings on this account may be used by the District to reduce interest payments on the bonds outstanding.

Renewal and Extension Fund

All sums accumulated and retained in the Renewal And Extension Fund shall be first used to prevent default in the payment of interest on or principal of the bonds when due and shall then be applied by the District from time to time, as and when the District shall determine, for purposes pursuant to the trust indenture. No monies have been deposited into this account at June 30, 2007 and 2006.

Notes to Financial Statements
June 30, 2007 and 2006

5. Long-term Liabilities (continued)

Restricted Cash and Investments (continued)

Project Funds

The Project Funds for all bond issuances outstanding will be used for the purpose of providing monies to pay project costs. The proceeds from the bonds and notes, after a deposit into the Debt Service Reserve Fund for the amounts required pursuant to the bond ordinances and note agreements of just the Series 2004A and Series 2006C bonds, shall be deposited into the Project Fund. At June 30, 2007 and 2006, cash and investments in the Project Funds totaled $87,496,017 and $170,405,547, respectively.

Rebate Funds

The bond ordinances provide for the creation of a Rebate Fund into which shall be deposited such amounts as are required to be deposited therein pursuant to the arbitrage instructions regarding the calculation and payment of rebate amounts due. The District does not have any rights in or claims to such money; provided, however, any funds remaining in the Rebate Fund after redemption and payment of all bonds and payment of any rebatable arbitrage amount, or provision having been made therefore, shall be remitted to the District. At June 30, 2007 and 2006, cash and investments in the Rebate Funds totaled $0 and $502,675, respectively.

Administrative Fee Funds

The Administrative Fee Funds will be used for the payment of the Trustee's fees and other administrative fees pursuant to the note agreement. The Trustee shall immediately withdraw the fee amounts when due. Monies held in this account shall not be invested.

Fair Value of Financial Instruments

The value of the District's long-term debt is estimated based on the current rates offered to the District for debt of the same remaining maturities. The carrying amount and estimated fair value of the District's long-term debt as of June 30, 2007 were $450,175,158 and $454,689,986, respectively. The carrying amount and estimated fair value of the District's long-term debt as of June 30, 2006 were $381,538,522 and $388,317,214, respectively.

Notes to Financial Statements
June 30, 2007 and 2006

6. Changes in Restricted Net Assets

Details of changes in restricted net assets for the fiscal years ended June 30, 2007 and 2006, are:

		Restricted by Enabling Legislation			
	Debt Service	Real Property Purchase and Improvement	Subdistrict Construction and Improvement	Construction	Total
Balances, June 30, 2005	$ 15,493,176	$ 2,774,628	$ 43,735,215	$ 131,800,378	$ 193,803,397
Additions:					
Proceeds from bonds and loans	--	--	--	43,193,659	43,193,659
Unspent prior year bond proceeds	--	--	--	226,932,257	226,932,257
Property taxes levied by the District	5,111	--	10,793,675	--	10,798,786
Investment income	375,740	86,043	1,475,114	11,375,498	13,312,395
Grant revenue	--	--	33,765	396,777	430,542
Connection fees	--	--	--	402,187	402,187
Transfers from other accounts	23,572,172	--	--	63,264,585	86,836,757
Proceeds from rents	--	1,026,547	--	--	1,026,547
Total additions	23,953,023	1,112,590	12,302,554	345,564,963	382,933,130
Deductions:					
Unused bond proceeds	--	--	--	147,452,130	147,452,130
Principal payments on long-term debt	5,407,500	--	--	--	5,407,500
Interest payments	13,834,766	--	--	--	13,834,766
Capital asset additions	--	--	8,492,063	110,564,678	119,056,741
Other contractual expenses	--	1,342,505	771,680	15,708,773	17,822,958
Clean Water Capital Improvement Refund	--	--	--	95,372	95,372
Transfers to other accounts	5,111	--	--	--	5,111
Total deductions	19,247,377	1,342,505	9,263,743	273,820,953	303,674,578
Balances, June 30, 2006	20,198,822	2,544,713	46,774,026	203,544,388	273,061,949
Additions:					
Proceeds from bonds and loans	--	--	--	77,190,257	77,190,257
Unspent prior year bond proceeds	--	--	--	147,452,130	147,452,130
Property taxes levied by the District	5,351	--	11,269,726	--	11,275,077
Investment income	1,002,270	183,813	3,444,394	20,331,574	24,962,051
Grant revenue	--	--	2,271,782	179,930	2,451,712
Connection fees	--	--	--	907,215	907,215
Transfers from other accounts	31,951,019	--	--	44,460,640	76,411,659
Proceeds from rents	--	878,319	--	--	878,319
Total additions	32,958,640	1,062,132	16,985,902	290,521,746	341,528,420
Deductions:					
Unused bond proceeds	--	--	--	168,475,761	168,475,761
Principal payments on long-term debt	7,817,500	--	--	--	7,817,500
Interest payments	16,512,429	--	--	--	16,512,429
Capital asset additions	--	--	6,137,279	117,585,378	123,722,657
Other contractual expenses	31,882	1,087,695	965,368	19,887,550	21,972,495
Clean Water Capital Improvement Refund	--	--	--	15,000	15,000
Transfers to other accounts	5,351	--	--	--	5,351
Total deductions	24,367,162	1,087,695	7,102,647	305,963,689	338,521,193
Balances, June 30, 2007	$ 28,790,300	$ 2,519,150	$ 56,657,281	$ 188,102,445	$ 276,069,176

7. Defined Benefit Pension Plan

Plan Description

The Metropolitan St. Louis Sewer District Employees' Pension Plan (the Plan) is a noncontributory single employer defined benefit plan providing retirement benefits as well as death and disability benefits to members. As a condition of employment, all full-time employees of the District are covered by the Plan. The financial statements for the Plan are produced using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing: The Metropolitan St. Louis Sewer District, 2350 Market Street, St. Louis, MO 63103-2555.

The Plan, established on November 1, 1967, is amended from time to time by the District's Board of Trustees, primarily to improve benefits to members. A Pension Committee consisting of two members of the District's Board of Trustees, two elected employee members, and four members of the District's management staff administer the Plan. A committee of the District's Board of Trustees, with the aid of an investment advisor, reviews and evaluates the Plan's investments and the related rates of return on a periodic basis. The Plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974 and, as such, is not subject to the Act's reporting requirements.

All benefits vest after five years of credited service. Members retiring at or after age 65 with five or more years credited service are entitled to a pension benefit. The Plan permits early retirement with reduced benefits beginning at age 55 if the member has completed 60 months of employment. A member whose combined age and term of service is equal to 75 may retire early with unreduced benefits.

The annual benefit accrued by a member is equal to 1.45% of final average earnings plus 0.40% of final average earnings that are in excess of covered earnings multiplied by the period of years and months of credited service not to exceed 35 years. A survivor's benefit for vested members who have not yet reached their normal retirement date or earned 75 points is provided for. The survivor's benefit is equal to the greater of 50% of the member's monthly-accrued retirement benefit as of the date of death, or 15% of the monthly earnings and the member's monthly-accrued retirement benefit actuarially reduced under the 100% joint and survivor annuity option. Members are also able to select a Contingent Annuity Pop-Up option. This option allows the member to elect a survivor annuity for life, with the provision that if the beneficiary should predecease the member, the benefit shall increase to the amount payable had the survivor option not been selected.

Ordinance Number 10872, effective January 1, 2001, further amended the Plan to extend the cost of living increases for retirees from a maximum of 30% to 45% of the original benefit.

Effective August 1, 2004, Ordinance No. 11781 amended the Plan to change the benefit formula to 1.70% of final average earnings plus 0.40% of final average earnings that are in excess of covered earnings multiplied by the period of years and months of credited service not to exceed 35 years without in-

Notes to Financial Statements
June 30, 2007 and 2006

7. Defined Benefit Pension Plan (continued)

Plan Description (continued)

cluding accrued sick leave. Effective July 1, 2007, Ordinance No. 12395 amended the Plan for members whose annual retirement benefit , as of July 1, 2007, is determined to be higher under the formula using the definition of "Final Average Earnings" in effect prior to August 1, 2004. Under the interim rule, if such a member retires on his normal retirement date of or after July 1, 2007 and or before June 1, 2009 (the "window period"), he may elect to have his benefit determined using the 1.45%/0.40% of final average earnings formula including accrued sick leave or the 1.70%/0.40% of final average earnings formula without using accrued sick leave. The interim rule will not apply if at any time during the window period a member's benefit is determined to be higher under the 1.70%/0.40% formula. Sick leave is paid out at 1.25% per year of service times the amount of leave accrued not to exceed $50,000 unless the employee accrued an amount greater than $50,000 as of July 1, 2004, and retires or dies while in active service prior to July 1, 2007. Also, the Plan was amended to provide the retiring member with a 10% partial lump sum payment option. The balance of the distribution will be paid in accordance with any one of the other payment options available under the Plan.

The retirement benefit payable to a member who retires after his or her normal retirement date is the greater of a) the benefit that would have been payable on the normal retirement date plus a special annual retirement benefit provided by the accumulated value, at 4% per annum interest, of the monthly benefit that would have been received prior to the postponed retirement date or b) the benefit determined as of the postponed retirement date under the normal formula.

Funding Policy

The District's employees do not contribute to the Plan. Ordinances establishing the Plan provide for actuarially determined annual contributions, paid solely by the District, that are sufficient to pay benefits when due. The Entry Age Normal actuarial funding method is used to determine contributions.

Annual Pension Cost

Contributions of $6,847,278 and $7,184,531, excluding certain professional fees paid by the District, were made to the Plan during the Plan's calendar years ended December 31, 2006 and 2005, respectively. These contributions were made in accordance with actuarially determined contribution requirements based on actuarial valuations performed at January 1, 2006 and 2005, respectively, and for 2006 consisted of a) $4,660,812 normal cost plus b) $1,708,749 amortization of the actuarial accrued assets in excess of the actuarial accrued liability and prior changes c) multiplied by an interest factor of 1.075.

The District provides certain professional fees, office space, utilities, and other services to the Plan at no cost. Other costs of administering the Plan are financed from plan net assets.

Notes to Financial Statements
June 30, 2007 and 2006

7. Defined Benefit Pension Plan (continued)

Significant actuarial assumptions used in the valuations are as follows:

Latest valuation date	January 1, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Amortization period	20-year period
Asset valuation method	Three-year average of adjusted market values
Post-retirement benefit increases	3.0% of current benefit, or $50, if less
Investment rate of return	7.5% per annum (1)
Projected salary increases	5.5% per annum (1)
Social Security wage base	4.5% per annum increase (1)

(1) Includes inflation component of 4%

Three-Year Trend Information

Historical trend information about the District's participation in the Plan is presented below to help readers assess the Plan's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due.

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	$ 6,847,278	100%	--
2005	7,184,531	100	--
2004	6,775,520	100	--

Required Supplementary Information

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Entry Age Actuarial Accrued Liability (2)	(Unfunded) Actuarial Accrued Liability (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Annual Covered Payroll (3)	(UAAL) as a Percentage of Covered Payroll (1-2)/(3)
01/01/2007	$ 170,757	$ 187,432	($ 16,675)	91.1%	$ 42,113	(39.6)%
01/01/2006	158,321	177,630	(19,309)	89.1	40,144	(48.1)
01/01/2005	142,986	168,237	(25,251)	85.0	39,382	(64.1)

Notes to Financial Statements
June 30, 2007 and 2006

8. Deferred Compensation Plan

The District offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Deferred Compensation Plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or due to financial hardship as defined by the Deferred Compensation Plan.

The Deferred Compensation Plan was amended and restated to comply with the Economic Growth and Tax Relief Reconciliation Act of 2001 (the Act). The Act made significant changes to Section 457(b) of the Internal Revenue Code of 1986, as previously amended. The Deferred Compensation Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries under Section 1448 of the Small Business Job Protection Act of 1996. As a result, the assets and liabilities of the Deferred Compensation Plan are not included in the accompanying financial statements.

The Deferred Compensation Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing: The Metropolitan St. Louis Sewer District, 2350 Market Street, St. Louis, MO 63103-2555.

9. Post-Employment Health Care Benefits

In addition to providing pension benefits, the District provides post-employment health care benefits, in accordance with District policy, to employees who elect early retirement from the District or who retire from the District on or after attaining age 62. As of June 30, 2007 and 2006, 109 and 109 retirees, respectively, met the eligibility requirements. The District pays the monthly group health insurance premium for the individual until the retiree becomes eligible for Medicare at age 65. During fiscal 2007 and 2006, expenses of $527,352 and $444,648, respectively, were recognized for post-retirement health care premiums as those premiums were paid.

10. Self-Insurance Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has established a risk management program and retains the risk related to officers', directors', and general liability; to its obligation to provide workers' compensation and medical and hospitalization benefits to its employees; and to pay water backup claims to its customers. The estimated liabilities for payment of incurred (both reported and unreported) but unpaid claims relating to these matters are included as a component of current deposits and accrued expenses, and as such are expected to be paid within one year of the date of the statement of net assets. At June 30, 2007 and 2006, these liabilities amounted to $2,482,566 and $2,733,584, respectively.

10. Self-Insurance Programs (continued)

The claims liabilities reported are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information obtained prior to the issuance of the financial statements indicates it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Changes in the balance of claims liabilities during fiscal 2007 and 2006 were as follows:

	2007	2006
Liability, beginning of year	$ 2,733,584	$ 3,050,225
Current year claims and changes in estimates	11,176,003	10,959,988
Claim payments	(11,427,021)	(11,276,629)
Liability, End of Year	$ 2,482,566	$ 2,733,584

The District obtains periodic funding valuations from the third-party administrators managing the self-insurance programs and adjusts the charges as required to maintain the appropriate level of estimated claims liability. The District also maintains excess liability insurance coverage for workers' compensation and medical and hospitalization claims; general liability; and water backup damage to customers' property.

The District purchases commercial insurance for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

11. Closure and Postclosure Care Costs

State and federal laws and regulations require the District to place a final cover on its Prospect Hill Reclamation Project landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the District reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of the end of the fiscal year. The $533,837 and $498,421 reported as landfill closure and postclosure care liabilities at June 30, 2007 and 2006, respectively, represent the cumulative amounts reported at fiscal year-end based on the use of 75% and 75% of the estimated capacity of the landfill for fiscal years ended 2007 and 2006, respectively. The District will recognize the remaining estimated cost of closure and postclosure care of $177,081 at June 30, 2007 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007. The District expects to close the landfill in the year 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The District is required to demonstrate that it has the financial capability to close the landfill to the State of Missouri through the use of a financial test as specified in 10 CSR 80-2.030(4)(D)6 of the Missouri Solid Waste Management Rules. The District has complied with the State's requirement. The District recognizes that estimates of closure costs may change as a result of inflation, deflation, and/or changes in

Notes to Financial Statements
June 30, 2007 and 2006

11. Closure and Postclosure Care Costs (continued)

technology and applicable laws and regulations. If closure cost estimates change, the liability currently reported on the balance sheet will be adjusted accordingly.

12. Commitments and Contingencies

On or about July 29, 2002, the District entered into a Settlement Agreement with Missouri Department of Natural Resources (MDNR), the Missouri Clean Water Commission (Commission), and the Missouri Attorney General regarding the Baumgartner Sewage Treatment Facility (Baumgartner).

Previously, the State filed the case of State of Missouri ex rel. William L. Webster, et al. v. The Metropolitan St. Louis Sewer District, No. 864-00250, against MSD with respect to certain alleged past and continuing violations of the Federal Water Pollution Control Act, 33 U.S.C. §§1251 et seq., the Missouri Clean Water Law §§ 644.006, et seq., RSMo, and Missouri State Operating Permits issued to various sewage treatment facilities and other facilities owned and operated by MSD. An Amended Consent Judgment was entered by the circuit court on January 20, 1989.

Paragraph XXIV of the Amended Consent Judgment further provided, in pertinent part, that the Amended Consent Judgment shall terminate when MSD has achieved substantial compliance with the final effluent limitations for the Bissell Point and Baumgartner Sewage Treatment Facilities for a period of one year. One of the purposes of the Amended Consent Judgment was for MSD to achieve and then continue to achieve compliance with its Missouri State Operating Permit effluent limitations at Baumgartner.

Under said settlement agreement the District agreed to take certain measures to achieve temporary compliance with fecal coliform permit limits at Baumgartner. Ultimately, the District is to take the Baumgartner lagoon offline on or before December 31, 2006. This will be done by connecting the sewage flow going to Baumgartner to a new Meramec Wastewater treatment facility. Furthermore, the parties agreed that MSD will complete closure of the Baumgartner lagoon pursuant to 10 CSR 20-6.010(12) within 24 months of taking the Baumgartner lagoon offline. As of May 31, 2003, a moratorium on further sewer connects to Baumgartner will be enacted should the District be unable to meet identified effluent limits.

In addition, should the District fail to meet any of the deadlines set out in the Settlement Agreement or violate any of the terms contained therein, the penalties for each missed deadline could reach a maximum of $10,000 per day, per violation.

The July 29, 2002 Settlement Agreement was modified on January 3, 2007. In compliance with the Modification to the July 29, 2002 Settlement Agreement the Baumgartner Lagoon was taken offline on March 1, 2007. The District will complete closure of the Baumgartner lagoon pursuant to 10 CSR 20-6.010(12) within 24 months of taking the Baumgartner lagoon offline.

Notes to Financial Statements
June 30, 2007 and 2006

12. Commitments and Contingencies (continued)

Since July 22, 2003, the District's senior staff and Office of General Counsel have met numerous times with EPA and MDNR regarding alleged, unpermitted discharges of untreated wastewater from combined sewer overflows (CSO's) and sanitary sewer overflows (SSO's) constitute violations of the Clean Water Act 33 U.S.C. § 1311. The District has presented the Capital Improvement Plan to both organizations for their review and consideration.

On August 20, 2004, MSD received a Section 308 letter from EPA Region VII, which is an official request for information and documentation. On January 19, 2005 MSD provided an initial response to the Section 308 letter. The District continues to submit deliverables required by the Section 308 letter in a timely manner. On September 22, 2006, MSD received a Section 308 letter from EPA Region VII focusing on MSD's SSO program. MSD submitted its response on December 22, 2006. Pursuant to EPA's request additional clarification was provided on March 15, 2007.

On April 12, 2007, the Washington University School of Law, on behalf of the Missouri Coalition for the Environment provided a Notice of Intent to MSD, stating that it intends to file suit against MSD for violations of the Federal Clean Water Act.

On May 22, 2007 the MSD received an Amended Administrative Order from EPA, requiring the posting of signs on all streams, creeks, drainage ditches, and swales receiving SSO discharges; notice to customers; notice on the website; and a quarterly report.

On June 11, 2007 the EPA and the State of Missouri filed a lawsuit against MSD, alleging that MSD has violated the Clean Water Act and terms of its NPDES permits.

By statute each day of an unlawful discharge represents a day of violation, and the Missouri Clean Water Law provides for a civil penalty with a maximum of $10,000 per day, per violation. The District recorded a reserve for judgment and claims settlement of $1,000,000 at June 30, 2007.

The District has entered into construction and other contracts amounting to approximately $227,458,000 and $215,070,000 at June 30, 2007 and 2006, respectively. Grants to be received from various governmental agencies and entities to partially offset the cost of the contract commitments amounted to approximately $633,000 and $772,000 at June 30, 2007 and 2006, respectively.

At June 30, 2007, the District had $40,000,000 bonds authorized, but unissued. These bonds will continue to fund the first of four phases of a 20-year wastewater capital improvement program.

13. Future Accounting Pronouncements

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* (GASB 45), establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures,

Notes to Financial Statements
June 30, 2007 and 2006

13. Future Accounting Pronouncements (continued)

and, if applicable, required supplementary information in the financial reports of state and local government employers. As part of a total compensation package, the District provides health care benefits OPEB to employees who elect early retirement from the District or who retire from the District on or after age 62. GASB 45 will be effective for the District for the fiscal year ending June 30, 2008. Accordingly, the District's net OPEB obligation is currently zero. In fiscal year 2008, the District's unfunded accrued liability may be approximately $25,500,000 (active participants $18,000,000 and retired participants $7,500,000), assuming a 5% return on investment. The annual required contribution is estimated to be $2,500,000 and is equal to the normal cost ($900,000) plus an amortization (maximum of 30 years) of the unfunded actuarial liability ($1,600,000). The District, however, has not yet completed its assessment of the statements or the potential impact of the statements on its financial liability and, therefore, this estimate is subject to change.