1-1-2006

Annual Report, 2005

Metropolitan St. Louis Sewer District

From: polysubfs
To: n:customersvc@stlmsd.com
Date: Tue, May 9, 2006 4:06 PM
Subject: 2005 Annual Report

In accordance with 105-145, RSMo, we acknowledge receipt of the financial report for the Metropolitan St. Louis Sewer District for the year ended December 31, 2005. Per your April 26, 2006 letter we have printed the report from your website at www.stlmsd.com.

Metropolitan
St. Louis Sewer
District

2350 Market Street
St. Louis, MO 63103-2555
(314) 768-6200

MSD

STATE AUDITOR'S OFFICE
RECEIVED
MAY 01 2006

April 26, 2006

The Metropolitan St. Louis Sewer District (MSD) has made its 2005 Annual Report available on its website at www.stlmsd.com. The 2005 Annual Report is a narrative on the state of the District for the calendar year ending December 31, 2005. Additionally, the report includes detailed financial and statistical information for the fiscal year ending June 30, 2005.

Since 2004, we have developed the annual report to be a web-based document that is specifically designed to be viewed and printed from the District's website. For members of the public that prefer a hardcopy or do not have access to the internet, we print a limited number of reports each year. By taking this approach - and producing only a limited number of print copies - the District has been able to save approximately $150,000 in developing and publishing the last three reports.

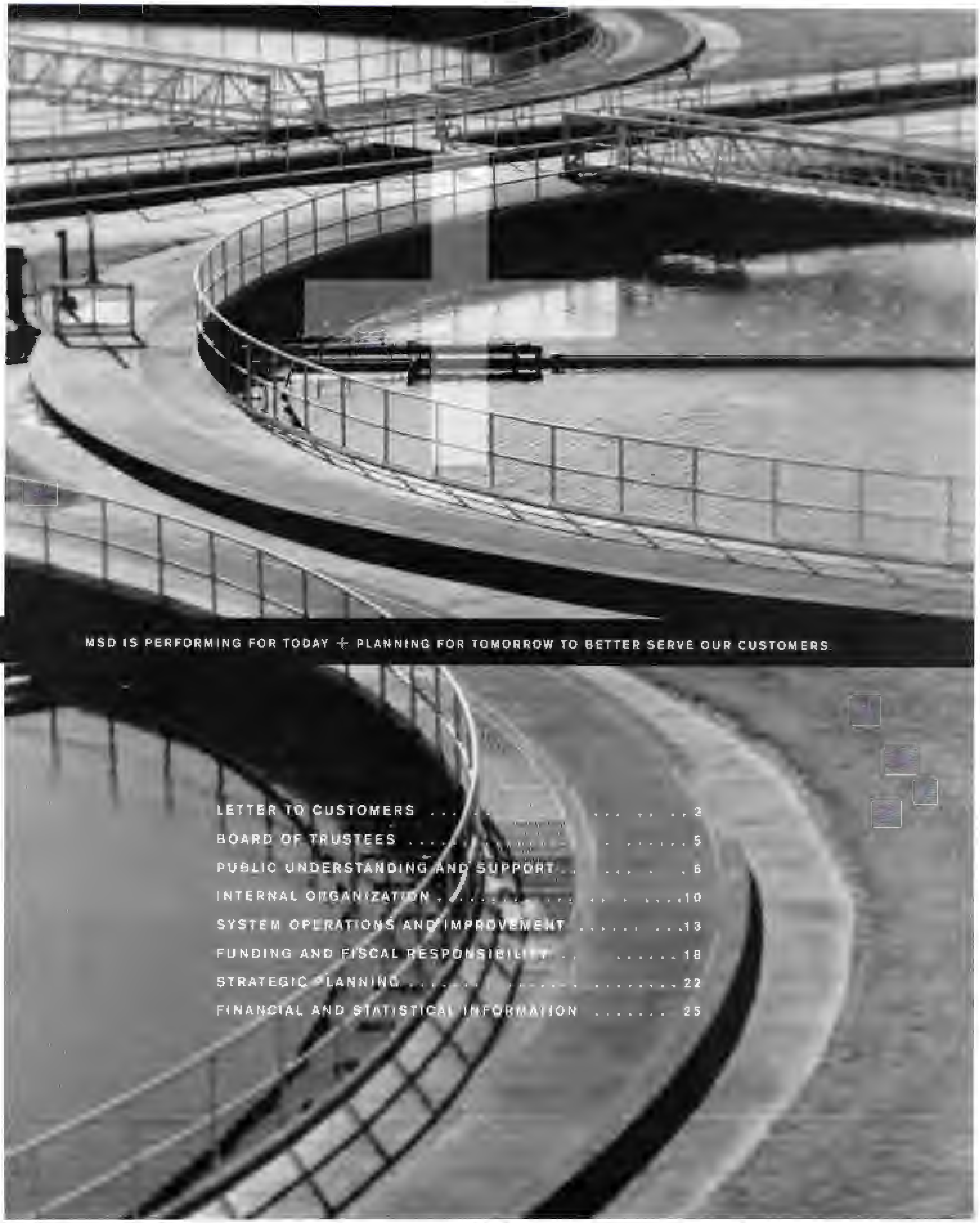
Please take the opportunity to review our 2005 Annual Report and learn more about MSD's mission to provide sewer service and stormwater management to protect the health and safety of our St. Louis community.

Sincerely,

Jeffrey Theerman

Jeffrey Theerman
Executive Director

PERFORMING FOR TODAY · PLANNING FOR TOMORROW



MSD IS PERFORMING FOR TODAY + PLANNING FOR TOMORROW TO BETTER SERVE OUR CUSTOMERS.

OUR VISION

Quality Service Always

+

OUR MISSION

To responsibly provide sewer service and
stormwater management to protect the public's health and safety.

+

OUR VALUES

Seek quality in what we do.

Strive for customer satisfaction.

Trust, respect and integrity in all we do.

Embrace change, continuous improvement and innovation.

Promote teamwork.

Understand that each employee is responsible for the District's success.

Create a safe, productive and rewarding work environment.

Develop a high-performing, diverse workforce.

Preserve and protect our water environment.

Build community partnerships.

=

OUR PROMISE TO YOU.

LETTER TO OUR CUSTOMERS

HAROLD CRUMPTON CHAIR + **CHARLES KARAM** VICE CHAIR

2005 was a highly successful year for the Metropolitan St. Louis Sewer District ... performing for the needs of today and planning for the challenges of tomorrow.

Performing for today, we continue to focus on being fully accountable to our ratepayers. We are working diligently toward continuous improvement in every area of our operations – intent not only on doing our job better, cheaper and faster with better environmental results, but on being able to clearly demonstrate that improvement to our customers. As the sole public provider of vital community services, it is essential that we make continued progress in meeting customer needs.

Planning for tomorrow, we are helping area residents navigate through the competing priorities facing the community to fund both enormous infrastructure and regulatory needs. As we have raised rates over the last several years, we must clearly articulate to stakeholders the necessity for the increases and that the money is being spent responsibly. As the experts on wastewater treatment in the St. Louis region, we need to exert our influence on the formation of regulations and their impact on our ratepayers.

CAPITAL IMPROVEMENT AND REPLACEMENT PROGRAM During fiscal year 2005, the District made substantial progress on the $3.7 billion Capital Improvement and Replacement Program (CIRP) – the largest, most aggressive capital program MSD has ever undertaken.

Unlike past capital programs, the current CIRP addresses the District's wastewater issues on a systemwide basis. By their very nature, solutions to wastewater issues take years to enact, so the CIRP is a broad-based, long-term approach to addressing our community's needs. The initial phase of the CIRP, with a projected cost of $647 million, is focused on expanding our wastewater treatment capabilities, aggressive problem identification and planning throughout the collection system, and expansion and rehabilitation of the current collection system. In later phases, the majority of work performed will focus more and more on expansion and rehabilitation activities.

REVENUE BOND ISSUE Following overwhelming voter approval of Proposition Y in February 2004, the District successfully issued a combined $336 million in revenue bonds during the following April and May for the express purpose of financing the first phase of the CIRP. The $175 million April bond offering was conducted solely by MSD, and the $161 million May offering was completed as part of a financial arrangement with the Missouri Department of Natural Resources' Clean Water State Revolving Fund. Combined, the two bond issues have an average interest rate of 3.66 percent – a highly competitive and extremely advantageous rate for MSD's customers. In 2006, we plan to issue the remaining $164 million in bonds authorized by Proposition Y.

BOND RATING Prior to the first bond issue authorized by the Proposition Y ballot initiative, the District received favorable 'AA' credit ratings or the equivalent from the

FINANCING FOR PHASE ONE OF THE CIRP
DOLLARS (IN MILLIONS)

175
+161
336

THE DISTRICT ISSUED A COMBINED $336 MILLION IN REVENUE BONDS FROM THE APRIL '04 AND MAY '04 BOND OFFERINGS.

leading national rating agencies. MSD is among the very few wastewater utilities known to have earned such a high rating, which will mean lower interest payments for our ratepayers over the life of the bonds.

The superior rating assigned to the bond issue was a direct reflection of the stability of our Board and the confidence in our District management team. Further, the rating recognized the District's capacity and capabilities and solid financial strength – no debt at the time, ample cash flow and affordable rates relative to similar communities across the country, together with the expertise to construct the projects and a track record of completing projects under budget.

CUSTOMER SATISFACTION The District continues to achieve significant improvements in customer service and these efforts are being recognized by our ratepayers. As detailed later in this report, our Annual Customer Satisfaction Survey showed increases in all of the seven customer service areas rated, with five areas receiving the highest satisfaction scores since the survey was begun in 1996.

While this survey validated our ongoing efforts to improve the quality of service we deliver to customers, it also revealed opportunities for improvement. Going forward, our challenge will be to build on the dramatic improvements achieved to date, to maintain the momentum under way and to initiate appropriate corrective action where needed.

FISCAL MANAGEMENT Following a comprehensive organizational review of District business practices, we identified ways MSD could operate more efficiently. One recommendation related specifically to our Internal Audit Department. Knowing the many important challenges the District would face over the next several years, we recognized that our audit needs would increase in both volume and variety, requiring specialized skills and expertise not available internally. In response, we contracted with KPMG LLP to serve as MSD's internal auditor. As a result, we will be able to keep our audit costs level or less than previous internal audit expenditures, while receiving the specialized audit skills we require going forward.

BILLING AND COLLECTIONS We recognize that managing our costs and increasing our revenues is only part of the equation. Equally important is ensuring that the District receives payment from customers for the services it provides. As a public entity that operates primarily on the funds generated from providing wastewater and stormwater service to the approximately 1.4 million residents that live in the City of St. Louis and St. Louis County, it is important that we be fair and evenhanded with all of our customers. After re-engineering the District's billing and collections systems and implementing new billing information systems technology a year ago, we continue to make measurable progress in collecting on overdue accounts. Through the implementation of this new technology and initiating more aggressive collection procedures, we have significantly improved our collections on overdue accounts – in fiscal years 2003, 2004 and 2005, we collected $4.3 million, $9.7 million and

$16.3 million, respectively, in overdue accounts. These numbers represent a 379 percent increase in collections on overdue accounts over the last three fiscal years.

DISTRICT PENSION PLAN In recent months, the national media have publicized the funding problems with pension plans at a number of major companies. We are pleased to report that the District's pension plan is soundly funded and well diversified.

Over the years, we have utilized extremely low actuarial assumptions and taken a very conservative investment approach. At the end of calendar year 2005, our pension plan will total nearly $160 million with a funding level between 90 percent and 95 percent of anticipated needs. During the next five years or more, we project that the inflow of funds into the plan will exceed the outflow.

BOARD OF TRUSTEES As trustees of public funds and stewards of public assets worth over $2.1 billion, the Board is responsible and accountable to the citizens we serve.

During the past year, the terms of Bart J. Margiotta, Joan M. Swartz and Marian Rhodes expired. We thank each of them for their valuable service and deep commitment to our St. Louis community. We welcome newly appointed Board members Charles Karam, president of RCW Corporation/America Homebuilders, Ellen Harshman, dean of the John Cook School of Business at St. Louis University, and John Goffstein of Bartley Goffstein, L.L.C., who were appointed to serve terms expiring in March 2008, March 2009 and March 2009, respectively.

Today, our Board consists of a diverse group of individuals with an impressive range of complementary expertise and experience in the public and private sectors, in business and academia. Equally important, the Board and District management are together on the same page with shared values and priorities. As a result of this cohesion, we are able to set longer-term goals and sustain our momentum to achieve results.

PUBLIC INPUT In our efforts to manage wastewater and stormwater issues for the St. Louis community, we are ultimately servants of the public. As such, we continually seek input from our ratepayers and other stakeholders. Later in this report, our ongoing efforts to reach out to customers, municipal leaders and vendors is described in detail.

We strongly encourage residents to be informed and involved in the District's efforts to serve the community. We invite you to attend our Board meetings, which are open to the public and usually held on the second Thursday of every month beginning at 5:00 p.m. at the District's offices at 2350 Market Street, St. Louis, Missouri. Please visit our website – www.stlmsd.com – for a calendar of meeting schedules and agendas.

IN CLOSING Going forward, we will continue the important changes initiated in recent years, and will continue to improve our efforts to inform the community about District operations and needs. We will persist in addressing the health and environment needs of the St. Louis community and make every effort to meet our goals. And we will be relentless in preparing the District and its customers for the challenges ahead.

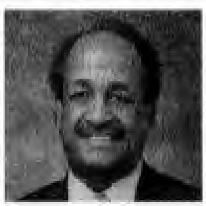
On behalf of all the Trustees and management of MSD, we appreciate the continued support of our individual and group stakeholders. And we pledge to be deserving of the trust and confidence placed in us ... as we perform for today and plan for tomorrow.

Harold Crumpton   Charles Karam

Harold Crumpton, Chair   **Charles Karam**, Vice Chair

MSD BOARD OF TRUSTEES

Established by area voters in 1954, the six-member Board of Trustees serves as the District's governing body with responsibility for public oversight and strategic management. Equally representing the City and County, three members are appointed by the Mayor of the City of St. Louis and three members are appointed by the St. Louis County Executive.



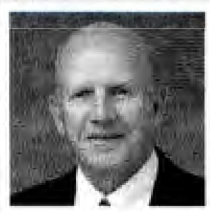
HAROLD CRUMPTON
CHAIR, ST. LOUIS CITY
Appointed to fill an unexpired term in 2004, Mr. Crumpton served as a commissioner of the Missouri Public Service Commission from 1993 to 2000 and was formerly employed by Southwestern Bell Telephone Company from 1973 until his retirement in 1992. He currently serves as chairman of the Paula J. Carter Charitable Foundation and as president of the St. Louis City Branch of the NAACP, and has also served on a number of Boards in Missouri, Florida and Washington, D.C. Committee assignments: 2, 3, 6. Term expires 3/15/06.

DEE JOYCE-HAYES
ST. LOUIS CITY
Ms. Joyce-Hayes, first appointed in March 2003 and reappointed in April 2004, is a trial attorney with the firm of Sonnenschein, Nath & Rosenthal. She is a former circuit attorney for the City of St. Louis, and prior to joining Sonnenschein, she served as the chief executive officer of the Family and Community Trust. She currently serves on and is president of the Board of Directors of the Family Violence Council Foundation. Committee assignments: 1, 5, 6. Term expires 3/15/08.

MARIAN A. RHODES
ST. LOUIS CITY
Ms. Rhodes was appointed in March 2003. She is the vice president of public affairs and employment for the St. Louis Cardinals, involved in public affairs, event planning, new ballpark development, employment, diversity and office administration. She currently serves as a member of the Boards of Downtown St. Louis Presents, Family Resource Center and Lifeskills. Committee assignments: 4, 5, 7. Term expires 3/15/05.*

* *John Goffstein was appointed on December 29, 2005 to fill the seat formerly held by Marian Rhodes. The term of his appointment expires in March 2009.*

CHARLES KARAM
VICE CHAIR, ST. LOUIS COUNTY
Appointed in March 2005, Mr. Karam is president of RCW Corporation/America Homebuilders, a family-owned home building and development company based in St. Louis County. A civil engineer, he formerly served as director of public works and administration with the City of Overland for 15 years. Committee assignments: 1, 6, 7. Term expires 3/14/08.



ROBERT J. BAER
ST. LOUIS COUNTY
Mr. Baer, appointed in March 2003, is president emeritus of UniGroup, Inc., the parent company of household goods transportation companies United Van Lines and Mayflower Transit. He retired as UniGroup president and chief operating officer in April 2002, following 25 years with the company. A past president of the City of St. Louis Board of Police Commissioners, he has also formerly served as executive director of the Bi-State Development Agency, chief of staff for the County Executive of St. Louis County and chairman of the St. Louis Regional Convention and Sports Authority Complex. He is a member emeritus of Civic Progress. Committee assignments: 3, 4. Term expires 3/14/06.

ELLEN HARSHMAN
ST. LOUIS COUNTY
Ms. Harshman, appointed in July 2005, is dean of the John Cook School of Business at St. Louis University (SLU). In 33 years at SLU, she has served as senior vice provost, interim CIO, assistant and associate dean in the Cook School of Business, and has held several positions in student development. Deeply involved in a number of community and professional efforts, she was recognized by the *St. Louis Business Journal* as one of our area's "Most Influential Business Women" in August 2004. Committee assignments: 2, 5. Term expires 3/14/09.

BOARD COMMITTEES: 1 Customer Relations - 2 Intergovernmental Relations - 3 Finance - 4 Audit - 5 Personnel and MWBE - 6 Program Management - 7 Pension

MSD REACHED ALL-TIME HIGHS IN 5 OF 7 CUSTOMER SERVICE RATINGS IN ITS 2005 CUSTOMER SATISFACTION SURVEY

PUBLIC UNDERSTANDING AND SUPPORT

The Metropolitan St. Louis Sewer District (MSD) manages the wastewater and stormwater needs for a community of over 1.4 million residents. Seeking a balance between the needs of our customers and the resources of the District, we continue our efforts to educate and partner with individual and group stakeholders to gain a better understanding of mutual needs on common issues and to build positive relationships.

CUSTOMER/COMMUNITY OUTREACH

In our efforts to meet the needs of area residents, we actively solicit input from our ratepayers and the community by developing an active and ongoing dialog with stakeholders.

CUSTOMER SATISFACTION SURVEY Annually beginning in 1996, MSD has conducted a Customer Satisfaction Survey to gather feedback on a broad range of issues that influence customer satisfaction. Using an independent professional polling firm to gather input, we use the survey results to gauge our delivery of customer service – determining specific areas where we meet customer expectations and identifying areas where improvement can be made.

In the latest survey, conducted from October to November 2005, the District generated strong momentum and achieved dramatic increases in customer satisfaction. In fact, we achieved increases in all seven of the customer service areas that were rated – and five of the seven customer service ratings reached the highest levels since the annual survey was established in 1996.

Among the major findings revealed by this latest survey, satisfaction with the overall quality of customer service increased significantly from 8.11 in 2004 to 8.59 in 2005 (all rankings on a 10-point scale, with 10 being the best). Overall satisfaction with wastewater services rose to 8.89 in 2005 from 8.71 the year before, and overall satisfaction with stormwater services jumped to 8.33 in 2005 from 7.93 the prior year. The most significant increase was in how MSD treats its customers, which received a rating of 8.89 in 2005 compared to 8.29 in 2004.

This year's survey also indicated that customers were 14 times more likely to think that the District's image had become more professional during the past year rather than less professional. Of customers surveyed, 22 percent felt MSD's image had become more professional in the past year, 50 percent thought the image remained the same and only 1.5 percent felt the image had become less professional.

Customers were six times more likely to think the way MSD treats its customers improved during the past year, with 19 percent of customers surveyed saying MSD was treating its customers better than a year ago, compared to just 3 percent who thought customers were treated worse.

STORMWATER SERVICE SATISFACTION
10-POINT SCALE, 10 BEING THE BEST

7.93
+0.40
8.33

OVERALL SATISFACTION WITH STORMWATER SERVICES JUMPED .4 POINTS TO 8.33 IN 2005 FROM 7.93 THE PRIOR YEAR.

POST-CONTACT CUSTOMER SURVEYING Initiated in calendar 2005, Post-Contact Customer Surveying is designed to gather input from customers immediately following contact with MSD, through either the District's customer service or billing telephone numbers, or following completion of requested services. Customers are asked about a wide range of issues – from the ease in determining the appropriate phone number and the length of wait to speak with an employee, to how technically competent, courteous and respectful the employee was. Quarterly survey results are giving us a valuable tool to measure the quality of service received by our customers today and to improve the service we deliver in the future.

Throughout the year, survey scores have consistently improved. In the first quarter of 2005, overall satisfaction with the quality of customer service provided by MSD was 7.57. In the last quarter of 2005, this same score was 8.62 – a dramatic increase by any standard. Additionally, as 2005 came to a close, positive ratings for many specific areas of service were well into the 90 percent range.

OVERALL CUSTOMER SATISFACTION

10-POINT SCALE, 10 BEING THE BEST

	8.11
+	0.48
	8.59

SATISFACTION WITH THE OVERALL QUALITY OF CUSTOMER SERVICE INCREASED SIGNIFICANTLY FROM 8.11 IN 2004, UP .48 POINTS TO 8.59 IN 2005.

In 2006 and beyond, we will continue to use surveying to gain a greater understanding of the services that we provide for our customers. As a public agency that is the sole provider of vital community services, it is incumbent upon us to deliver the highest level of customer service possible. While we have made great strides over the past year in this area, it is important that we not be satisfied with where we are today. Rather, we must focus on improvements that we can make tomorrow – and continuously work to make those improvements a reality.

COMMUNITY OUTREACH PROGRAM A grassroots Community Outreach Program was launched in November 2005 that is designed to improve the public's understanding of District goals and challenges. This initiative draws on the results of an assessment of the community's awareness and prevailing perceptions of MSD, conducted in the summer and fall of 2004. Our education effort targets existing gaps the District has in communicating with our customers and the community.

As part of this important effort, we are developing a speakers bureau to talk to and inform various community groups. Additionally, we are currently evaluating the use of print and electronic media in the St. Louis market as a means of further extending the program.

MUNICIPAL/LEGISLATIVE OUTREACH

We have in place several new and continuing programs designed to help the District communicate with elected officials and administrators at the state and local levels.

MUNICIPAL OUTREACH PROGRAM Initiated in December 2005, the District's Municipal Outreach Program is aimed at helping MSD proactively partner with the numerous municipalities throughout the area. During sessions with local officials, we are creating greater awareness of the Capital Improvement and Replacement Program (CIRP) by providing status updates on the overall program and specific projects that affect their municipalities and constituents. And, we are finding synergistic ways to coordinate our efforts with their public works projects.

LEGISLATIVE OUTREACH PROGRAM The District's ongoing Legislative Outreach Program continues to establish strong working relationships with elected officials at the federal, state and local levels, and provides a forum for articulating the District's goals and needs. As part of this effort, we work closely with state and federal lobbyists to investigate new sources of supplemental funding. In addition, the District actively participates in regulatory formulation through the state legislature, Missouri Department of Natural Resources, Environmental Protection Agency and other regulatory agencies.

VENDOR OUTREACH

During fiscal 2005, we held several networking events to help minority- and women-owned vendors and contractors better understand how to conduct business with the District. We are aggressively continuing our diversity initiatives throughout fiscal year 2006 and plan to expand our efforts to assist minority- and women-owned firms develop contacts with majority firms – efforts that include diversity networking functions, employee diversity awareness training and increased utilization of minority firms for material and supply procurement.

EMPLOYEE OUTREACH

Internally, our fundamental goal is to foster a business-focused, service-orientated culture. We understand that our employees at every level are the human face of MSD to the community. If they are to serve as capable ambassadors, we must keep them informed about the District's plans and progress.

OPEN COMMUNICATIONS To promote a knowledgeable workforce, management is focused on continuous and open two-way internal communications. We conduct frequent communications meetings with management staff, and managers/supervisors are required to hold monthly team meetings with their employees.

[redacted]

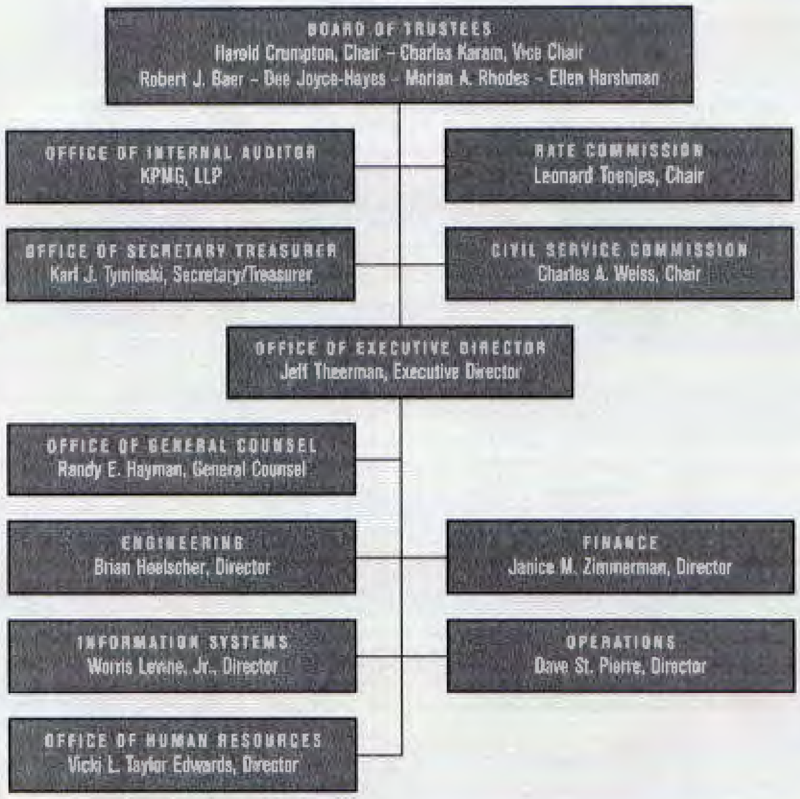
In an effort to improve communications at the manager/supervisor level, we conducted a communications survey among employees in October 2005. The results of that survey will help us identify and implement areas for improving our internal communications.

COMPETENCY FOCUS Also, we are focusing more on competencies as part of our staffing and employee development efforts. We are looking beyond educational background to a range of individual competencies as a better indicator of future job success. This initiative is critical to our succession planning, as well, in identifying the knowledge, skills and abilities in individuals who can be developed into future leaders. ▫

THE FINANCE DEPARTMENT EARNED ITS 18TH CONSECUTIVE AWARD FOR DISTINGUISHED BUDGET PRESENTATION

INTERNAL ORGANIZATION

The Metropolitan St. Louis Sewer District continues its broad initiative, begun in 2003, to forge a stronger, more businesslike and effective organization. As part of that successful effort, we have streamlined our operations for greater responsiveness and efficiency, and flattened our organizational structure to eliminate unnecessary layers of management. The District today is a highly effective organization led by an extremely capable management team with a shared commitment to continuous improvement in everything we do.



In our efforts to continually improve our operations and the service we deliver to customers, we are implementing various best practices and business concepts from the private sector – including installing a new performance management process, re-engineering our business processes, and replacing our information technology infrastructure and leveraging those systems for improved efficiency.

MSD'S PRIMARY FUNCTIONAL AREAS

ENGINEERING MSD's Engineering Department is responsible for the design, planning and management of all the District's wastewater and stormwater capital improvement projects, as well as all environmental compliance activities. These responsibilities include design work, construction inspection, administration of the District's Industrial Pretreatment Program, easement acquisitions, the issuance of connection permits, environmental laboratory work, plan review for new development, and a host of other engineering activities that are incumbent in serving a community of 1.4 million residents.

During fiscal 2005, the department identified 10,500 inflow/infiltration defects, collected data from 370 temporary flow meters and 50 temporary rain gauges, and reviewed and approved 846 private development plans and issued over 3,000 permits. The department also initiated the first phase of the 20-year CIRP, and completed, continued and began a number of major capital projects.

OPERATIONS The Operations Department has responsibility for the day-to-day operation of all District wastewater collection and treatment services, and for all stormwater management efforts.

Last year, our ongoing focus on preventive maintenance at our pump stations continued to deliver results and reduced levels of equipment failure. We initiated the use of spray applicator technology to apply corrosion-resistant chemicals as a means of improving structure rehabilitation versus the traditional remove-and-replace approach. This effort should improve production levels and increase structure life. To improve customer service and response time, we implemented a Global Positioning System to help schedule field crews more efficiently. The application of materials management processes is enabling us to operate our warehousing resources more effectively, leading to a 7 percent reduction in inventory stock levels during fiscal 2005.

Each year, the District's wastewater treatment plants earn peak performance awards from the National Association of Clean Water Agencies (NACWA), formerly known as the Association of Metropolitan Sewage Agencies (AMSA), for compliance with state and federal regulations. For the first time in 10 years, every one of our plants received a performance award in fiscal 2005, earning three gold and five silver awards.

In fiscal year 2005, the Customer Care Center function, the primary contact for all customer sewer complaints, handled over 15,000 service requests resulting primarily from three major rain events in the first half of the fiscal year.

FINANCE The Finance Department oversees the financial affairs of the District, including accounting and financial planning, purchasing, customer service, billing and collections.

During fiscal year 2005, the department processed more than 430,000 bills for sewer service-related charges each month, supported the processing and procurement of $217 million in goods and services needed for District operations, and continued to gain understanding and efficiencies with the new billing and collection system implemented the prior year.

During the year, the department earned the Government Finance Officers Association award for Distinguished Budget Presentation and the award for Excellence in Financial Reporting – for the 18th and 17th consecutive years, respectively.

HUMAN RESOURCES The Human Resources Department is responsible for all personnel-related issues throughout the District, including employment, classification and compensation, training, employee benefits, diversity and risk management.

Last year, the department redesigned the medical program for District employees and dependents and implemented a four-tier rate structure, saving over $650,000; designed a loss control and prevention program for all categories of losses and developed a report to consolidate all loss data, giving management a blueprint for future action; and initiated a plan to develop competency models for job descriptions, evaluation, interviewing and selection processes, and skill assessment.

INFORMATION SYSTEMS The Information Systems Department provides all the computer services for the District, including general computer operations such as billing and records maintenance, application development and network operations.

In fiscal 2005, the department implemented a decision-support system and developed a customized project management methodology. An Information Systems strategic plan was developed to ensure that appropriate technologies are identified and available when needed and to leverage architecture to improve IT efficiency, effectiveness and quality going forward.

BY CALENDAR 2005 YEAR-END, MSD WILL HAVE COMPLETED OR HAVE IN-PROGRESS 94 OF 132 INITIALLY IDENTIFIED CIRP PROJECTS

SYSTEM OPERATIONS AND IMPROVEMENT

January 2006 marks 50 years of service to the St. Louis community and its residents. Formed by voter approval in February 1954, the Metropolitan St. Louis Sewer District began operation and maintenance activities in January 1956. Today, the District is responsible for the interception, collection and treatment of wastewater and for stormwater management in all of St. Louis City and 95 percent of St. Louis County – a service area covering 524 square miles and a population of approximately 1.4 million residents.

TOTAL SEWER MILEAGE

4,495
2,617
+1,847
8,950

THE DISTRICT IS RESPONSIBLE FOR MORE THAN 8,950 MILES OF SEWERS INCLUDING 4,495 MILES OF SANITARY, 2,617 MILES OF STORMWATER AND 1,847 MILES OF COMBINED SEWERS.

SCOPE OF OUR SYSTEM

To meet the needs of homeowners and businesses within its service area, MSD operates and maintains one of the five largest collection and treatment systems in the nation. Currently, the District is responsible for more than 8,950 miles of sewers including 4,495 miles of sanitary sewers, 2,617 miles of stormwater sewers and 1,847 miles of combined sewers that handle both wastewater and stormwater flows. Operating 24 hours a day, 365 days a year, this extensive system also includes 267 pump stations and eight treatment facilities that treat an average of more than 312 million gallons of sewage every day.

While among the largest systems in the country, our system is also among the oldest. Parts of the District's collection system are more than 150 years old, and some portions are even built of brick and wooden flooring. Of the sewers MSD maintains, 311 miles were built prior to 1890 and another 524 miles are more than 80 years old.

In addition to its primary mission of operating the sewer system, the District performs a broad range of related services. These include sanitary sewer maintenance, stormwater sewer maintenance, floodwater control, pump station operation and maintenance, monitoring of industrial waste, issuance of pretreatment discharge permits, engineering design and specification, construction of sewer lines, plan review and approvals, issuance of connection permits and customer service.

MAJOR CAPITAL PROJECTS

In conjunction with our mission to deliver cost-effective wastewater and stormwater management services that protect the public's health and safety and contribute to the quality of life throughout the region, MSD continues to improve the overall efficiency and stability of our system. This ongoing improvement effort includes numerous active projects of all sizes and durations, such as the following major projects completed or currently under way.

GRAND AND BATES TUNNEL During fiscal 2005, the District completed construction of the 6,000-foot-long, 11-foot-diameter Grand and Bates Tunnel at a cost of approximately $32.9 million. Begun in March 2002, this project is designed to alleviate ongoing problems in the system that date back to the 1930s and that were exacerbated by severe flooding in 1995. In fiscal 2006, construction began on collection sewers that will collect and divert stormwater to the tunnel, providing a stormwater outfall to the Mississippi River.

LOWER MERAMEC WASTEWATER TREATMENT PLANT Throughout the year, progress continued on the largest construction program currently under way at MSD – the $230 million Lower Meramec Program. This program is comprised of the Lower Meramec Wastewater Treatment Plant, an associated tunnel and lift station and related sewer work. Begun in 2003 and scheduled for completion by the end of 2006, this facility is being constructed on a 200-acre site near the intersection of Telegraph Road and

Fine Road near the confluence of the Mississippi and Meramec Rivers. Initially, the plant will be capable of receiving and treating 15 million gallons of sewage flows per day, with an ultimate maximum capacity of 60 million gallons.

As currently planned and designed, the Lower Meramec Program will eventually lead to the elimination of all treatment plant discharges into the Meramec River. The current $230 million phase of the program will replace two existing treatment lagoons and subsequent phases will eliminate two existing interim treatment plants along the Meramec River, conveying treated water into the Mississippi River instead of the more environmentally sensitive Meramec.

As of December 31, 2005, the District has appropriated $226.5 million for the Lower Meramec Program. Planned future components of the program include extension of the tunnel to carry wastewater from the entire far south St. Louis County area to the new plant, and a wetlands education and recreational center at the site of the Lower Meramec Wastewater Treatment Plant.

FUTURE NEEDS One of the largest new capital issues the District must address is surface flooding in the combined sewer service area, primarily in the City of St. Louis and adjacent municipalities. Solutions are challenging and will require a substantial investment for infrastructure improvements that will need to be coordinated with the long- and short-term development strategies of multiple local governments.

CAPITAL IMPROVEMENT AND REPLACEMENT PROGRAM

In 2003, the District launched the largest and most ambitious capital program in its history – the Capital Improvement and Replacement Program (CIRP), projected to take 20-plus years with an estimated cost of $3.7 billion (as measured in 2002 dollars). By calendar 2005 year-end, we had initiated 94 projects at a cost of $345 million. These projects cover replacement, rehabilitation and expansion of our area's collection system, improvements at five of the District's eight treatment facilities, continued construction of the Lower Meramec Program, and extensive problem identification and planning work. 2005 represents a transitional year in the CIRP, with the amount of design work diminishing and actual construction increasing. In 2006 and beyond, we anticipate that construction will account for roughly 80 percent of program expenditures.

Overall, only 20 percent of our CIRP costs will go toward non-construction costs, compared to a national average of approximately 30 percent for similar programs. This favorably reflects on not only the District's prudent use of funds, but our efficiency in the design and engineering phases of projects and our use of outside service vendors.

During fiscal year 2006, we are scheduled to begin 123 additional projects at a total cost of $283 million, including both infrastructure engineering and construction projects and stormwater engineering and construction projects. Infrastructure projects relate to constructing, rehabilitating, maintaining and repairing sanitary or combined sewers, improvements to existing treatment plants, and the reduction of inflow and infiltration in the separate sewer area. These types of projects help alleviate basement backups, address regulatory issues and rebuild parts of the system's aging infrastructure. Stormwater projects relate to constructing storm sewers, channels and creek bank stabilization to help alleviate flooding and erosion problems.

The District's far-reaching CIRP is designed to proactively address infrastructure and regulatory issues that impact our sanitary sewer system and affect the entire region and its residents. Expanding the community's sanitary collection and treatment capacity, the CIRP will help alleviate residential basement backups and overflows of untreated sewage into area waterways, and help ensure compliance with the federal Clean Water Act. Ultimately, the CIRP will improve the quality of life for area residents.

SEWER OVERFLOWS

MSD continues its system investigation and modeling efforts to determine cost-effective solutions to sewer overflows both in the sanitary sewers and the combined sewers. These efforts are focused on areas with the highest incidents of basement backups and sewer overflows.

As the District makes significant progress in eliminating sewer overflows, we need to also expand the wet-weather capacity of our treatment plants to accept the additional flows that we will be bringing to these facilities. We have initiated $81 million in projects at three treatment plants and have begun upgrading some of the main trunk sewers that feed directly into the treatment plants. Concurrently, we are addressing other overflow issues in the upper portions of the watersheds by eliminating sources of inflow and infiltration. Inflow results from stormwater connections that are improperly connected to the sanitary system; infiltration results from groundwater seeping through cracked sewer pipes and water from private property.

COMBINED SEWER OVERFLOWS St. Louis is among more than 750 cities across the nation with combined sewers, where wastewater and stormwater flow through the same pipes to treatment plants. Combined sewers were once considered a major advance in protecting the public's health and safety. Though combined sewers were widely constructed throughout the United States prior to World War II, they have since fallen into disfavor. Today, MSD is responsible for combined sewers that serve 82 square miles of our community, including all of the City of St. Louis and parts of 22 municipalities in St. Louis County. Within this 82-square-mile combined sewer service area, the District has identified 205 combined sewer overflows or outfalls.

LONG-TERM CONTROL PLAN MSD is addressing combined sewer overflows through its Long-Term Control Plan, as required by the regulations and guidance provided under the federal Clean Water Act. As part of the Long-Term Control Plan, the District has committed to removing approximately 50 combined sewer overflows. The District will develop several alternatives and identify associated costs to provide various levels of protection for the receiving streams of the remaining combined sewer outfalls – including the Mississippi River, the River Des Peres and Maline Creek. In the public participation phase of the Long-Term Control Plan, the District will present these alternatives and costs to the public, seeking input from a broad cross section of the community. The preferred alternatives will be presented to the Missouri Department of Natural Resources for approval as required.

This entire process will take many years to complete. We have already begun collecting water-quality data and baseline technical information as part of this process, and will continue to implement specific steps for public participation in 2006.

CONSTRUCTED WET-WEATHER BYPASSES Currently, the District has over 300 constructed wet-weather bypasses in its separate sanitary sewer system. Many of these were acquired when the District assumed responsibility for pre-existing sewer entities within its present service area. These bypasses activate during wet weather as stormwater enters the sanitary system and overloads the sewers. In lieu of causing widespread basement backups, these bypasses allow the overloaded system to be relieved into area waterways. The District is progressively working toward the systematic elimination of constructed overflows through new sanitary sewer relief and sewer rehabilitation projects. Since 1992, MSD has reduced the number of

ELIMINATING CONSTRUCTED OVERFLOWS

537
–229
308

SINCE 1992, MSD HAS REDUCED THE NUMBER OF CONSTRUCTED OVERFLOWS FROM APPROXIMATELY 537 TO 308.

constructed overflows from approximately 537 to 308. This has been accomplished through $750 million of infrastructure and facilities projects addressing basement backups and constructed overflows. These projects were identified and prioritized from information provided by MSD's Operations Department, customer complaints, and facility and watershed studies.

STORMWATER

STORMWATER MANAGEMENT MSD has overall regulatory responsibility for stormwater management issues throughout the region, in addition to providing wastewater collection and treatment services.

Our stormwater management responsibility relates to surface streets and local highways throughout the City and County. Stormwater management relating to the area's interstate highway system and other local roadways owned and maintained by the state are the responsibility of the Missouri Department of Transportation.

Currently, all development plans that require stormwater facilities must be reviewed and approved by the District. After construction, the facilities are turned over to the District to be maintained. MSD also manages taxes collected from various subdistricts which are used in large part to expand the sewer system to address stormwater problems.

However, our current program for stormwater efforts is insufficient to maintain the existing stormwater system, including storm sewers, inlets, manholes and improved channels. A new program would enable us to provide a preventive maintenance and renewal program, rather than the reactive program we are currently restricted to due to the limited resources collected.

In the near future, MSD's staff plans to take a proposal to the Board of Trustees that would lay out a possible new method of fulfilling our stormwater responsibilities and to provide additional stormwater services. The proposal may include an option through which ratepayers could decide they want additional services beyond the base maintenance of the public stormwater system. This option would allow ratepayers to choose to address issues specific to their particular areas. Furthermore, the District will need additional review and inspection forces to implement the stormwater quality provisions of our Phase II Stormwater permit related to water quality of stormwater runoff.

Any changes to our current stormwater program would require the approval of the District's Board of Trustees. Acting on behalf of the public, the Trustees will review the staff's proposal and make a decision as to whether the proposal is appropriate, should remain the same or warrants further review. The final form of any future proposal will be based on the Board's determination and input. ▫

OBTAINING 'AA' CREDIT RATINGS FOR THE 2004A BOND ISSUE WILL SAVE RATEPAYERS APPROXIMATELY $5 MILLION

FUNDING AND FISCAL RESPONSIBILITY

The Metropolitan St. Louis Sewer District is committed to accountability and responsibility in all its activities, none more important than finance. We are intently focused on sound fiscal practices and professional financial management – from ensuring accurate billing for our customers to monitoring hundreds of millions of dollars under the Capital Improvement and Replacement Program.

FISCAL 2006 BUDGET

The fiscal year 2006 operating budget outlines the expected cost of District services and the sources of funding. For the fiscal year beginning July 1, 2005 and ending June 30, 2006, MSD's budget totals $458.2 million, including operating expenses of $128.3 million, infrastructure projects of $283.4 million, stormwater projects of $22.9 million and debt service costs of $23.6 million.

The projected operating expense of $128.3 million includes $117.1 million for day-to-day operations, a 4.95 percent increase over the prior year, $7.2 million for the District's System Overcapacity Insurance Program and $4.0 million for proposed initiatives identified in the Strategic Business and Operating Plan (SBOP).

As initiated with the prior year's budget process, the District's fiscal year 2006 budget incorporates zero-based budgeting methodology designed to directly reduce operating expenses. Using zero-based budgeting, expenditures in the incremental budget must clearly support a business objective specified in the SBOP – a like expenditure in a previous year alone is not sufficient justification.

PROJECTED OPERATING EXPENSE

DOLLARS (IN MILLIONS)

117.1
+11.2
128.3

THE PROJECTED OPERATING EXPENSE OF $128.3 MILLION INCLUDES $117.1 MILLION FOR DAY-TO-DAY OPERATIONS PLUS $11.2 MILLION FOR THE DISTRICT'S WATER BACKUP PROGRAM AND PROPOSED INITIATIVES.

IN FISCAL YEAR 2005, WE FINISHED THE YEAR WITHIN 1 PERCENT OF OUR NEARLY $115 MILLION OPERATING BUDGET.

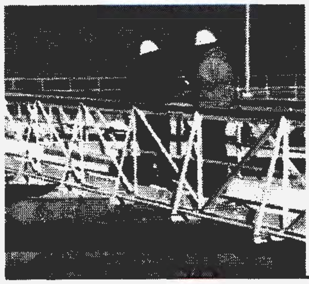
Our tight fiscal controls and intensified focus on accurate forecasting and budgeting appropriately continue to improve. In fiscal year 2005, we finished the year within 1 percent of our nearly $115 million operating budget.

INCREASED FUNDING NEEDS

Over the past decade, MSD financed more than $1 billion of capital improvements using a pay-as-you-go approach funded primarily by rates collected from customers. By 2004, the District was debt-free and average rates charged to residential customers were relatively low.

As the District embarked on its substantial $3.7 billion Capital Improvement and Replacement Program (CIRP), we reviewed various funding options to support the first phase of this long-term effort. Continuing our traditional pay-as-you-go approach would result in severe rate increases for customers, possibly doubling or tripling the rate over a few short years. Instead, we felt that issuing revenue bonds was fairest to the community, spreading payments out over an average of 25 years so that users of the system during that time period would share the cost rather than burdening only today's users. Under this "generational equity," future year ratepayers will pay their fair share for using the system.

Over the coming years and decades, our St. Louis community will have to make a large number of investments to rehabilitate and improve our region's existing infrastructure system. These investments – which are needed nationally as well as regionally – go beyond wastewater and stormwater system improvements and extend to roads, bridges, public buildings, drinking water systems, power generation and transmission networks, dams and water-based transportation networks ... the list literally goes on and on. In light of these and many more important needs, we recognize that tough decisions will need to be made by the public in allocating scarce resources to address any number of worthy issues. For our part, the District is committed to develop financing solutions that provide maximum value for the least amount of expense – financing solutions that work for our St. Louis community.



REVENUE BOND ISSUE

DOLLARS (IN MILLIONS)

5.0
+102.8
107.8

'AA' AND 'AAA' CREDIT RATINGS WILL SAVE RATEPAYERS APPROXIMATELY $107.8 MILLION: $5 MILLION FOR ISSUE 2004A AND $102.8 MILLION FOR ISSUE 2004B.

REVENUE BOND ISSUE

In February 2004, voters approved Proposition Y by a margin of more than two-to-one. Proposition Y authorized the District to issue a total of $500 million in revenue bonds, with proceeds to be used to finance the first phase of the CIRP.

Sales of the first two issues of Proposition Y bonds, representing $338.7 million of the total $500 million authorized, were completed in spring 2004. Wastewater System Revenue Bonds Series 2004A have an average interest rate of 4.82 percent and a maturity of 30 years. Wastewater System Revenue Bonds Series 2004B have an average interest rate of 2.41 percent and a maturity of 23 years.

In issuing these revenue bonds, our fundamental focus was to minimize the interest costs the District's ratepayers would pay over the life of the bonds. Anticipating a rise in interest rates, we increased the size of the Series 2004A issue from the planned $150 million to $175 million, saving ratepayers an estimated $25 million in interest costs. We were also successful in obtaining favorable 'AA' ratings for the 2004A issue from the various credit rating agencies, saving District ratepayers approximately $5 million in interest costs compared to the bonds being assigned the lower 'A' rating.

We issued the Series 2004B bonds through the Missouri Department of Natural Resources' (MDNR) Clean Water State Revolving Fund. MDNR successfully obtained an 'AAA' rating for the bonds on our behalf, resulting in significantly lower interest costs. We estimate that this approach and the favorable 'AAA' rating will save ratepayers approximately $102.8 million versus issuing the 2004B bonds in a similar process as the 2004A bonds.

Interest rates have moved favorably for the District since issuing these bonds. We borrowed at lower interest rates than we could borrow at today, plus the interest we receive by investing the unused bond proceeds currently exceeds the borrowing cost.

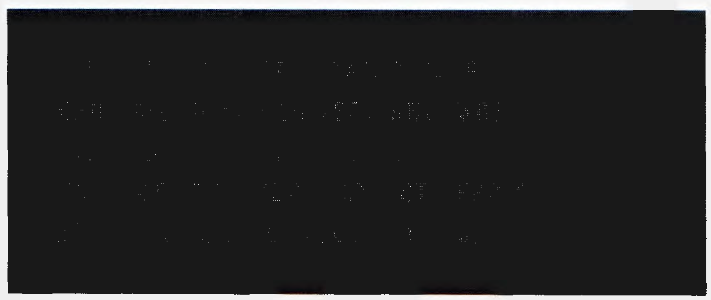
The District has been accountable and responsible with the bond issues to date. We used the lowest cost financing techniques possible and have spent the funds prudently. The bond process also required that we closely monitor and coordinate the District's cash flow and working capital, audit the projects and expenditures, and conduct cost-benefit analyses of projects.

We plan to issue the $164 million balance of revenue bonds remaining under the Proposition Y authorization in the spring or summer 2006. We have a commitment from the State of Missouri for a $43 million issue at a subsidized rate, and are actively seeking to secure additional state funding at the same subsidized rate for up to $30 million more. The balance will be privately financed. We are reviewing the options available for this issue and will make a decision that reflects the best interests of our community.

RATE INCREASES

Historically, MSD's rates have been among the lowest and most stable when compared to a peer group of 10 sewer districts from the nation's 50 largest cities. A rate increase initiated in July 2004 raised the average single-family rate from $16.87 to $20.85. This rate increase was part of a funding mechanism designed to primarily finance the construction of needed capital improvements. In July 2005, another rate increase was initiated, raising the average single-family rate to $22.38. Without the approval of Proposition Y and the subsequent bond issues, the average single-family rate would have increased from $16.87 to $37.73 over the same time frame.

As the District moves through the various phases of the long-term CIRP, deals with issues we are aware of today and confronts challenges that emerge in the future, funding levels will need to increase over time. We are committed to developing solutions that minimize the impact of these anticipated increases and will constantly review financing alternatives to provide the greatest benefit to our ratepayers. Fully recognizing that the pocketbooks of our ratepayers are not bottomless and that there are other pressing needs that our community will have to pay for over the coming years, we are working to keep rate increases as low as possible.



Being accountable to ratepayers and exercising prudent financial management is just one part of our efforts. Another is to deliver value for every public dollar spent. The regulatory and legacy infrastructure issues of our region cannot be ignored, and addressing them entails bearing a sizable cost for our community. If these dollars must be raised and spent, it is incumbent upon the District to earn and keep the community's trust, and to be responsible stewards of the public funds entrusted to it. ¤

MSD HAS OUTLINED SEVEN BUSINESS-FOCUSED STRATEGIES TO BETTER SERVE OUR RATEPAYERS

STRATEGIC PLANNING

The Metropolitan St. Louis Sewer District is totally committed to the concept of running this utility like a business and making it fully accountable to ratepayers and other community stakeholders. Realizing that the decisions we make today will impact our community and its residents well into the future, we are committed to developing strategies that best match the needs and resources of the entire region.

STRATEGIC BUSINESS AND OPERATING PLAN 2006-11

Amendments to MSD's original charter that were approved by voters in 2000 require that a continuing five-year Strategic Business and Operating Plan (SBOP) be adopted on an annual basis by the Board of Trustees. The SBOP is a business-focused blueprint for serving our ratepayers today and into the future.

Prior to introducing the first SBOP in 2001, the District established an Advisory Committee of 50 individual and group stakeholders who developed priority initiatives and strategic goals that have served as the foundation for updating and revising the SBOP an a yearly basis.

GOALS AND STRATEGIES Over a period of six months in fiscal 2005, MSD's management reviewed and restructured the existing SBOP, and identified five strategic goals that provide the foundation for all District initiatives. These revised strategic goals for the fiscal 2006 SBOP are:

1. Comply with all legal and regulatory requirements and schedules.
2. Strengthen stakeholder support.
3. Deliver consistent, high-quality customer service.
4. Minimize customer rate increases.
5. Achieve a learning-oriented, accountable culture.

To achieve these goals, the fiscal 2006 SBOP articulates seven business-focused strategies:

1. Educate and partner with stakeholders to build positive relationships – *recognizing that an active dialogue with various groups that fosters a better understanding of District and stakeholder needs is essential for our success.*
2. Manage the District's operational budget increases to the rate of inflation – *exercising sound fiscal management assures that administration and operating costs are controlled, user rates are kept manageable and rate increases are minimized.*
3. Review the District's business processes and integrate appropriate technology – *enhancing organizational collaboration and adopting a structure that eliminates bureaucracy and facilitates high performance execution, with IT as a key component of these efforts.*
4. Enhance the District's opportunities for success through continuous and open two-way internal communications – *helping employees understand how they contribute to the organization's success and imparting knowledge of District efforts and successes to serve as ambassadors internally and externally.*
5. Promote appropriate regulatory standards through proactive government involvement – *serving as authorities on wastewater and stormwater management and providing sound technical input into the development of regulations that achieve desired results.*
6. Address regulatory requirements and customer service levels and needs through comprehensive operational and capital improvements – *using appropriate planning to ensure the necessary combinations of resources are brought together to achieve our strategic objectives.*
7. Develop and train employees to create a learning and business-oriented culture based on accountability – *assessing available skills and introducing appropriate training opportunities to foster a culture of continuous improvement.*

The fiscal year 2006 SBOP is designed to be easily understood, with goals and resulting strategies that are actionable with measurable impact. Furthermore, this latest SBOP continues our philosophy of closely linking budgetary expenditures with strategic goals.

Internally, the SBOP gives our departments and managers a shared roadmap of the direction we are headed as an organization and how we intend to move forward. This shared understanding helps us drive our performance by focusing on the business of serving our customers.

BALANCED SCORECARD

In conjunction with the fiscal year 2006 SBOP, we have launched a District-wide balanced scorecard process designed to gauge our success in executing the seven business-focused strategies. Simply put, this balanced scorecard will make the SBOP truly actionable and measurable.

Unlike former performance standards that were mostly financial in nature, the balanced scorecard will include performance measures that cover a broader range of areas that are essential to organizational success. These performance measures will assess our execution in areas of customer and employee relations, overall mission accomplishment and financial management – cutting across the entire organization to measure our performance as a whole instead of on a departmental basis.

In the customer area, for example, the scorecard measures elements such as survey response scores and average response times; employee measures include attitude survey results, formal Equal Employment Opportunity complaints, hours of training received and safety results. Mission accomplishment measures involve peak performance awards, CIRP schedule performance and work hours devoted to preventative maintenance; financial measures include budgetary compliance, revenue versus projections, receivables outstanding and return on investments.

We plan to continuously review and revise the balanced scorecard to ensure that the measures accurately reflect our true performance and lead to organizational success.

PERFORMANCE DASHBOARD As part of the balanced scorecard, we are currently developing and implementing a performance management dashboard. The dashboard gives us the ability to view critical data and performance measures on a PC – from preventive maintenance to environmental compliance, from collections to customer service. For example, the dashboard will show our operations staff the amount of pipe that has been cleaned, the number of repairs made, the average response time and much more. We will understand the elements that are important to our operations because we keep score. And by measuring our performance, we will be better able to improve our performance.

LOOKING TO THE FUTURE

Going forward, we will continue our focus on elevating our business practices and processes, improving our customer service and response time, strengthening our regulatory compliance and being increasingly accountable to our stakeholders.

Performing for today and planning for tomorrow, we will continue to improve our system and our performance – providing cost-effective wastewater and stormwater management services that protect the health and safety of residents and enhance the quality of life throughout the region. ◘

FINANCIAL STATISTICAL INFORMATION

MSD ANNUAL REPORT – LETTER OF INTEGRITY

The management of the Metropolitan St. Louis Sewer District is responsible for the quality and objectivity of the financial data contained in these financial statements. They have been prepared in conformity with generally accepted accounting principles and, where necessary, reflect informed judgments and estimates of the effects of certain events and transactions based on currently available information at the date the financial statements were prepared. MSD management maintains a system of internal accounting controls designed to provide reasonable assurance that financial statements are fairly presented, transactions are executed in accordance with management's authorizations, assets are safeguarded, and transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

To further safeguard assets, MSD's Board of Trustees provides oversight of financial reporting through its Audit Committee. The Audit Committee meets with independent public accountants and with management to review the scope of the internal audit process, audit engagements, external auditor independence, and financial reporting matters.

Finally, MSD's independent auditors are engaged to provide an objective and independent review of MSD's financial statements in accordance with generally accepted auditing standards. Their opinion is included in this annual report.

JANICE ZIMMERMAN
DIRECTOR OF FINANCE

KARL TYMINSKI
SECRETARY-TREASURER

JEFFREY THEERMAN
EXECUTIVE DIRECTOR

Metropolitan St. Louis Sewer District
2350 Market Street
St. Louis MO 63103-2555
(314) 768-6200

INDEPENDENT AUDITOR'S REPORT

BOARD OF TRUSTEES
THE METROPOLITAN ST. LOUIS SEWER DISTRICT

We have audited the basic financial statements of The Metropolitan St. Louis Sewer District, as of June 30, 2005 and 2004 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board Statement No. 40, "Deposit and Investment Risk Disclosures," as of and for the year ended June 30, 2005.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan St. Louis Sewer District as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that 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. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of The Metropolitan St. Louis Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

RubinBrown LLP

RubinBrown LLP

September 2, 2005
St. Louis, Missouri

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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

Management of the District has provided this discussion and analysis 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.

2005 FINANCIAL HIGHLIGHTS

- Cash and cash equivalents balances decreased by $158.0 million, while investment balances increased by $111.5 million, from fiscal year 2004 to fiscal year 2005 due to bond proceeds held as cash in 2004 being invested in 2005.
- Net capital assets increased by $116.5 million due to increased levels of spending related to the Capital Improvement and Replacement Program (CIRP).

Construction in Progress (CIP)	$83.8 million
Collection and pumping plant	$77.0 million
Treatment and disposal plant and equipment	$ (0.1) million
General Plant and Equipment	$ 1.9 million
Land	$ (3.0) million
Less: Depreciation	$43.1 million

- Operating revenues increased $31.0 million as a result of the rate increase that took affect in July 2004. The increased revenue is the driving force behind the $26.6 million operating income achieved in fiscal year 2005, which was a significant improvement over the $7.4 million operating income in fiscal year 2004.
- Clean water capital improvement surcharge refund payable increased from zero in fiscal year 2004 to $5.7 million in fiscal year 2005 reflecting the refund to customers scheduled to be issued in November 2005.

2004 FINANCIAL HIGHLIGHTS

Investment balances and cash and cash equivalents balances increased by $146.5 million and $184.0 million, respectively, from fiscal year 2003 to fiscal year 2004 due to the sale of bonds totaling $354.8 million.

Debt payable went from zero in fiscal year 2003 to $337.8 million as of the end of fiscal year 2004 as a result of the bond issuance.

Net capital assets increased by $77.6 million due to increased levels of spending related to the Capital Improvement and Replacement Program (CIRP).

CIP	$56.1 million
Collection and pumping plant	$58.3 million
Treatment and disposal plant and equipment	$ 2.6 million
General Plant and Equipment	$ .6 million
Land	$ .2 million
Less: Depreciation	$40.2 million

Operating revenues increased $28.5 million as a result of the rate increase that took affect in August 2003. The increased revenue is the driving force behind the $7.4 million operating income achieved in fiscal year 2004, which was a big improvement over the $14.8 million operating loss in fiscal year 2003.

Capital contributions increased $6.8 million over the previous fiscal year.

REQUIRED FINANCIAL STATEMENTS

The financial statements presented by the management of the District include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement 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 Statement of Net Assets provides a report of the District's current, restricted and other non-current assets such as cash, investments, receivables, and property. Also, the Statement of Net Assets provides a summary of the District's current, restricted and non-current liabilities, including contracts and accounts payable, deposits and accrued expenses, and bond and notes payable. The final section of the Statement 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. The 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 Statement 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 Statement 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 contributions of $43.6 million in fiscal year 2005, compared to $35.3 million in 2004 and $20.1 million in 2003. 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."

CONDENSED STATEMENT OF NET ASSETS

(000'S)	2005	2004	INCREASE (DECREASE) 2005-2004	2003	INCREASE (DECREASE) 2004-2003
Current, Restricted and Other Assets	$ 523,666	$ 562,503	$(38,837)	$ 228,752	$333,751
Capital Assets (net of accumulated depreciation) depreciation)	1,742,683	1,626,139	116,544	1,548,524	77,615
Total Assets	2,266,349	2,188,642	77,707	1,777,276	411,366
Current Liabilities	57,586	42,054	15,532	32,420	9,634
Non-current Liabilities	344,535	340,789	3,746	3,036	337,753
Total Liabilities	402,121	382,843	19,278	35,456	347,387
Net Assets:					
Invested in capital assets, net of related debt related debt	1,643,668	1,589,612	54,056	1,548,524	41,088
Restricted	119,426	163,592	(44,166)	139,489	24,103
Unrestricted	101,134	52,595	48,539	53,807	(1,212)
Total Net Assets	$1,864,228	$1,805,799	$ 58,429	$1,741,820	$ 63,979

2005 ANALYSIS

Total net assets increased $58.4 million, or 3.2%, over prior year. This change is the result of an increase in total assets of $77.7 million and an increase in liabilities of only $19.3 million.

Current, restricted and other assets decreased by $38.8 million from prior year. Most of this decrease is attributable to restricted assets. Restricted assets decreased $33.1 million below prior year as a result of CIRP spending. The restricted assets affected were cash and cash equivalents, which decreased $152.0 million, investments increased $118.5 million, and accrued income on investments increased $1.2 million. In addition to the decreases caused by CIRP, grants receivable fell by $0.8 million.

Net capital assets increased by $116.5 million due to increased levels of spending for CIRP. Contributing factors include an increase in CIP of $83.8 million, an increase in collection and pumping plant assets of $77.0 million, an increase in general plant and equipment of $1.9 million, a decrease in land of $3.0 million, a decrease in treatment and disposal plant equipment of $0.1 million and an increase in accumulated depreciation of $43.1 million.

The $19.3 million increase in liabilities represents a 5% change over the prior year. One factor to consider is the $5.7 million clean water capital improvement surcharge refund payable that did not exist in the prior year. This refund, planned for payment in November 2005, represents the unused clean water capital improvement surcharge revenues. Bonds and notes payable increased $6.0 million. Contracts and accounts payable increased by $5.7 million over prior year. Retainage payable increased by $2.8 million due to the increased level of CIRP projects, and Deposits and Accrued Expenses decreased a total of $1.1 million.

2004 ANALYSIS

Total net assets increased $64.0 million, or 3.7%, over prior year. This change is the result of an increase in total assets of $411.4 million and an increase in liabilities of $347.4 million.

Restricted assets increased $331.7 million over prior year due to the issuance of the bonds. The restricted assets affected were cash and cash equivalents that increased $181.3 million, investments increased $153.6 million, and accrued income on investments increased $1.2 million. In addition to the bond related increases, grants receivable fell by $4.4 million.

Net capital assets increased by $77.6 million due to increased levels of spending for CIRP. Contributing to this increase were collection and pumping plant assets which increased $58.3 million, CIP increased $56.1 million, depreciation rose $40.2 million, treatment, disposal plant and equipment assets grew by $2.6 million, and general plant, equipment and land combined to increase $0.8 million.

Current assets increased $5.6 million over prior year. Net increases in net sewer service charges receivable and unbilled sewer service charges receivable of $3.8 million and $2.9 million, respectively, accounted for most of the $5.6 million change. Those increases are due to a change in the accounting treatment of lien interest and fees as well as the rate increase that took affect in August of 2003. Cash and cash equivalents and investments combined for an offsetting drop in balance compared to prior year of $0.9 million

The $347.4 million increase in liabilities can be traced to two significant areas of change. The most notable is the $337.8 million in bonds payable, which did not exist in the prior year. Contracts and accounts payable increased by $6.2 million over prior year. Finally, deposits and accrued expenses and retainage payable combined to increase $3.3 million, and all remaining lines combined increased a total of $0.1 million.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

(000'S)	2005	2004	INCREASE (DECREASE) 2005-2004	2003	INCREASE (DECREASE) 2004-2003
Operating revenues:					
Sewer service charges	$ 183,513	$ 150,519	$ 32,994	$ 123,694	$ 26,825
Recovery of (provision for) doubtful sewer service charge accounts	(1,546)	385	(1,931)	(2,700)	3,085
Licenses, permits and other fees	6,549	6,297	252	5,436	861
Other	478	770	(292)	3,039	(2,269)
	188,994	157,971	31,023	129,469	28,502
Operating expenses:					
Pumping and treatment	35,514	30,788	4,726	33,945	(3,157)
Collection system maintenance	25,225	23,408	1,817	21,947	1,461
Engineering	6,851	6,728	123	6,801	(73)
General and administrative	37,047	40,199	(3,152)	37,082	3,117
Depreciation	44,443	42,592	1,851	41,912	680
Other	13,294	6,878	6,416	2,590	4,288
	162,374	150,593	11,781	144,277	6,316
Operating income (loss)	26,620	7,378	19,242	(14,808)	22,186
Non-operating revenues:					
Property taxes levied by the District	22,016	21,744	272	21,020	724
Investment income	5,502	2,060	3,442	6,790	(4,730)
Recovery of doubtful Clean Water Capital Improvement Surcharge Accounts	–	116	(116)	140	(24)
Grant revenue	1,553	7,787	(6,234)	6,604	1,183
Other	1,038	1,010	28	1,125	(115)
	30,109	32,717	(2,608)	35,679	(2,962)
Non-operating expenses:					
Capital improvement surcharge refund	5,667	–	5,667	–	–

Continued on page 31

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Net loss (gain) on disposal and sale of utility plant	3,139	548	2,591	(3,566)	4,114
Nonrecurring projects and studies	4,292	4,027	265	4,329	(302)
Other	—	184	(184)	—	184
	13,098	4,759	8,339	763	3,996
Income before contributions	43,631	35,336	8,295	20,108	15,228
Capital contributions	14,798	28,643	(13,845)	21,888	6,755
Change in net assets	58,429	63,979	(5,550)	41,996	21,983
Net assets—beginning of year	1,805,799	1,741,820	63,979	1,692,377	49,443
Prior period adjustments	—	—	—	7,447	(7,447)
Net assets—end of year	$1,864,228	$1,805,799	$ 58,429	$1,741,820	$ 63,979

2005 ANALYSIS

Operating revenues increased $31.0 million from 2004 to 2005. A rate increase in July 2004 caused the change. During the fiscal year, the District's operating expenses increased $11.8 million to $162.4 million primarily due to a $6.4 million rise in other operating expenses. Other operating expenses increased due to an increased level of infrastructure repair and data collection projects. Pumping and treatment expenses experienced an increase of $4.7 million, collection system maintenance expenses increased $1.8 million, depreciation increased $1.9 million, and general and administrative expenses decrease $3.2 million. The final result was an operating income of $26.6 million in 2005. This was an increase of $19.2 million or 261% over the operating income of $7.4 million that was recorded in 2004.

Net income from non-operating activities fell $10.9 million from prior year levels due to several factors. Grant revenue declined $6.2 million as the grant funding for the Meramec treatment plant was fully utilized and the availability of State stormwater grant money ended. A refund of approximately $5.7 million of the unused clean water capital improvement surcharge is scheduled for November of 2005, and investment income increased by $3.4 million as a result of higher investment balances and improving market conditions. The major reason for an increase in the net loss on disposal and sale of utility plant of $2.6 million is due to the gifting of land costing $3.0 million to the City of Maplewood to be used as a park. The land was purchased as part of a flood mitigation project.

2004 ANALYSIS

Operating revenues increased $28.5 million from 2003 to 2004. A rate increase in August 2003 caused the change. During the fiscal year, the District's operating expenses increased $6.3 million to $150.6 million primarily due to a $4.3 million rise in other operating expenses. Other operating expenses increased due to an increased level of infrastructure repair projects. Less significant changes in pumping and treatment expenses, collection system maintenance expenses, general and administrative expenses and depreciation expenses netted to a $2.0 million increase. The final result was an operating income of $7.4 million in 2004. This was an increase of $22.2 million or 150% over the operating loss of $14.8 million that was recorded in 2003.

A drop in investment income of $4.7 million and an increase in the net loss on disposal and sale of utility plant of $4.1 million combined to make up the $7.0 million drop in net income from non-operating activities.

CONDENSED STATEMENT OF CASH FLOWS

(000'S)	2005	2004	INCREASE (DECREASE) 2005-2004	2003	INCREASE (DECREASE) 2004-2003
Cash Flows from Operating Activities	$71,563	$ 45,189	$ 26,374	$28,029	$ 17,160
Cash Flows from Noncapital Financing Activities	22,016	21,744	272	21,020	724
Cash Flows from Capital and Related Financing Activities	(145,635)	261,115	(406,750)	(82,941)	344,056
Cash Flows from Investing Activities	(105,948)	(144,063)	38,115	33,198	(177,261)
Net Increase (Decrease) in Cash & Cash Equivalents	(158,004)	183,985	(341,989)	(694)	184,679
Cash and Cash Equivalents at Beginning of Year	224,592	40,607	183,985	41,301	(694)
Cash and Cash Equivalents at End of Year	$66,588	$224,592	$(158,004)	$40,607	$183,985

2005 ANALYSIS

Cash flows from operating activities increased $26.4 million during fiscal year 2005. The rate change effective in July 2004, increased funds received from customers by $32.7 million, which was partially offset by a $6.6 million increase in payments for goods and services. Payments to employees for services decreased by $0.2 million.

Cash flows from capital and related financing activities decreased by $406.8 million from fiscal year 2004 to fiscal year 2005. Proceeds from the issuance of debt declined by $400.8 million, or 98%, while payments for capital improvements increased by $51.5 million, reflecting the higher level of CIRP spending compared to the prior year.

Cash flows from investing activities were a negative $105.9 million in fiscal year 2005 and a negative $144.1 million in fiscal year 2004. In both years, the cash outflow for the purchase of investments exceeded inflows from the sale and maturity of investments. The net outflow was greater in fiscal year 2004 than in fiscal year 2005 as a result of the large amount of bond proceeds that were received and invested in fiscal year 2004.

2004 ANALYSIS

Cash flows from operating activities increased $17.2 million during fiscal year 2004. The rate change effective in August 2003, increased funds received from customers by $21.4 million. Payments to employees for services increased $1.9 million. Payments to suppliers for goods and services also increased by $2.3 million.

Proceeds from the sale of bonds of $408.4 million and the increased proceeds from capital contributions of $8.3 million increased cash flows from capital and related financing activities, while payments of $69.5 million of principal on short-term debt and interest and fees paid on long-term debt of $1.8 million decreased cash flows from capital and related financing activities. Other changes netting to $1.3 million contributed to a net increase of $344.1 million.

Funds from the bonds sold were used to purchase investments, which increased the purchase of investments by $174.4 million. Proceeds from the sale and maturity of investments and investment income decreased by $1.2 million and $1.7 million, respectively. Resulting in a change in cash flows from investing activities of $177.3 million.

CAPITAL ASSETS

(000'S)	2005	2004	INCREASE (DECREASE) 2005-2004	2003	INCREASE (DECREASE) 2004-2003
Land	$ 26,912	$ 29,888	$ (2,976)	$ 29,701	$ 187
Construction in Progress	275,615	191,769	83,846	135,628	56,141
Treatment and Disposal Plant and Equipment	290,262	305,977	(15,715)	318,476	(12,499)
Collection and Pumping Plant	1,134,222	1,081,597	52,625	1,046,548	35,049
General Plant and Equipment	15,671	16,908	(1,237)	18,171	(1,263)
Total	$1,742,682	$1,626,139	$116,543	$1,548,524	$77,615

2005 ANALYSIS

The District's total capital assets net of depreciation increased $116.5 million over the prior year. The most significant change was an increase in construction in progress of $83.8 million. Another significant change was an increase in collection and pumping plant assets of $52.6 million, net of depreciation. Additions to collection and pumping plant consisted of $62.1 million in constructed assets, $14.8 million in contributed assets, and $0.2 million in purchased assets, while disposals and depreciation totaled $0.1 million and $24.4 million, respectively. A decrease in land of $3.0 million is a result of gifting land purchased for flood mitigation purposes to the City of Maplewood. Treatment, disposal plant and equipment assets fell $15.7 million due to $0.1 million in additions, $0.2 million in disposals, and net depreciation of $15.6 million. General plant and equipment assets fell $1.2 million resulting from additions of $3.0 million, disposals of $1.1 million, and net depreciation of $3.1 million.

2004 ANALYSIS

The District's total capital assets net of depreciation increased $77.6 million over prior year. The most significant change was an increase in construction in progress of $56.1 million. Additions to assets under construction amounted to $89.5 million and completed projects transferred to other asset classes amounted to a decrease of $33.4 million. Another significant change was an increase in collection and pumping plant assets of $58.3 million net of depreciation totaling $23.3 million. Additions consisted of $29.9 million in constructed assets, $28.6 million in contributed assets, $0.4 million in purchased assets, and disposals of $0.6 million. An increase in land of $0.2 million is a result of property buy-out programs aimed at flood mitigation. Treatment, disposal plant and equipment assets fell $12.5 million due to $3.7 million in additions and $16.2 million in depreciation and disposals. General plant and equipment assets fell $1.3 million resulting from additions of $2.0 million, disposals of $1.4 million, and net depreciation of $1.9 million.

For additional information related to the District's capital assets, see Note 4 to the financial statements.

LONG-TERM DEBT

(000'S)	2005	2004	INCREASE (DECREASE) 2005-2004	2003	INCREASE (DECREASE) 2004-2003
Revenue Bonds:					
Series 2004A	$175,000	$175,000	$ –	$ –	$175,000
Series 2004B	160,152	161,280	(1,128)	–	161,280
Series 2005A	6,800	–	6,800	–	–
West Watson and Nanell	536	–	536	–	–
Ozark and Tablerock Loan Agreement	147	375	(228)	–	375
Energy Loan Program	89	98	(9)	–	98
	$342,724	$336,753	$5,971	$ –	$336,753

2005 ANALYSIS

At the end of 2005, the District had $342.7 million of long-term debt outstanding, consisting mainly of revenue bonds. The increase of $6.0 million is due to new issuances of $7.3 million and retirements of $1.3 million. The issuance of this debt will help to fund the first phase of the District's Capital Improvement and Replacement Program.

2004 ANALYSIS

At the end of 2004, the District had $336.8 million of long-term debt outstanding, consisting mainly of revenue bonds. The District did not have outstanding debt in the prior year. The issuance of this debt will help to fund the first phase of the District's Capital Improvement and Replacement Program.

For additional information related to the District's long-term debt, see Note 6 to the financial statements.

DECISIONS IMPACTING THE FUTURE

In the upcoming fiscal year, the District intends to issue the remaining $155.9 million in bonds previously approved by the voters. In addition, a rate increase was implemented for sewer services rendered on or after July 1, 2005. These bonds and rate increases will continue to fund the first of four phases of a 20-year wastewater capital improvement program projected to total $3.7 billion in expenditures. The remaining phases are expected to be funded through a combination of additional bonds, if approved by the voters, and additional rate increases. Also planned, is a refund of the unused revenues collected as a Clean Water Capital Improvement Surcharge. The amount of this refund will be approximately $5.7 million, and is scheduled to appear on the bills mailed in January of 2006.

The District plans to secure increased funding for the operation and maintenance of the stormwater infrastructure. A 20-year program with an estimated cost of $1.2 billion is required to renew and replace the existing stormwater systems. Over the next year, District management will propose modifying the current fixed rate to a variable rate based on impervious area. This rate proposal will be subject to review by the District's Board of Trustees and Rate Commission.

STATEMENT OF NET ASSETS

JUNE 30, 2005 AND 2004	2005	2004
Current Assets:		
Cash and cash equivalents	$ 10,624,709	$ 16,629,704
Investments	5,844,714	7,080,024
Sewer service charges receivable, less allowance of $2,713,000 in 2005 and $1,991,000 in 2004	23,530,547	20,690,760
Unbilled sewer service charges receivable	14,628,465	12,593,397
Accrued income on investments	182,936	339,838
Grants receivable	410,662	112,527
Other receivables, less allowance of $32,473 in 2005 and $6,252 in 2004	946,812	346,683
Supplies inventory	8,039,067	6,349,562
	64,207,912	64,142,495
Non-current Assets:		
Restricted Assets:		
Cash and cash equivalents	55,963,332	207,961,836
Investments	387,428,934	268,911,390
Accrued income on investments	2,471,441	1,312,930
Grants receivable	1,492,997	2,276,750
Other receivables	53,754	84,712
	447,410,458	480,547,618
Other Assets:		
Long-term investments	12,047,814	17,812,654
Capital Assets:		
Depreciable:		
Treatment and disposal plant and equipment	566,802,423	566,876,959
Collection and pumping plant	1,514,563,636	1,437,525,264
General plant and equipment	52,201,691	50,295,189
	2,133,567,750	2,054,697,412
Less accumulated depreciation	693,412,288	650,215,263
	1,440,155,462	1,404,482,149
Nondepreciable:		
Land	26,911,933	29,887,872
Construction in progress	275,615,002	191,769,427
Net capital assets	1,742,682,397	1,626,139,448
Total non-current assets	2,202,140,669	2,124,499,720
Total Assets	$2,266,348,581	$2,188,642,215

See the accompanying notes to the financial statements.

LIABILITIES

	2005	2004
Current Liabilities:		
Contracts and accounts payable	$ 9,665,837	$ 6,586,958
Deposits and accrued expenses	16,952,103	18,443,769
Retainage payable	197,572	180,785
	26,815,512	25,211,512
Current Liabilities--Payable From Restricted Assets:		
Contracts and accounts payable	14,899,449	12,249,016
Deposits and accrued expenses	1,392,523	1,269,290
Retainage payable	6,108,025	3,278,479
Clean Water Capital Improvement Surcharge refund	5,667,330	–
Current portion of bonds and notes payable	2,702,568	46,384
	30,769,895	16,843,169
Total current liabilities	57,585,407	42,054,681
Non-current Liabilities:		
Deposits and accrued expenses	3,295,637	2,998,808
Bonds and notes payable	341,239,433	337,790,107
	344,535,070	340,788,915
Total Liabilities	402,120,477	382,843,596

NET ASSETS

Invested in capital assets, net of related debt	1,643,667,706	1,589,612,093
Restricted for:		
Debt service	15,493,176	15,116,114
Real property purchase and improvement	2,774,628	2,664,238
Subdistrict construction and improvement	43,735,215	40,035,096
Construction	57,423,499	105,776,289
Unrestricted	101,133,880	52,594,789
Total Net Assets	$1,864,228,104	$1,805,798,619

See the accompanying notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004	2005	2004
Operating revenues:		
Sewer service charges	$ 183,512,398	$ 150,518,591
Recovery of (provision for) doubtful sewer service charge accounts	(1,545,971)	384,657
Licenses, permits and other fees	6,549,221	6,297,166
Other	478,025	769,968
	188,993,673	157,970,382
Operating expenses:		
Pumping and treatment	35,514,218	30,787,763
Collection system maintenance	25,225,163	23,407,955
Engineering	6,850,679	6,727,503
General and administrative	37,046,813	40,199,094
Depreciation	44,442,903	42,591,870
Other	13,294,119	6,878,185
	162,373,895	150,592,370
Operating income	26,619,778	7,378,012
Non-operating revenues:		
Recovery of doubtful Clean Water Capital Improvement Surcharge accounts	–	115,763
Property taxes levied by the District	22,015,870	21,743,767
Investment income	5,501,708	2,060,259
Grant revenue	1,552,839	7,786,751
Other	1,038,074	1,010,125
	30,108,491	32,716,665
Non-operating expenses:		
Capital improvement surcharge refund	5,667,330	–
Net loss on disposal and sale of utility plant	3,138,531	548,133
Nonrecurring projects and studies	4,291,874	4,027,238
Other	–	183,773
	13,097,735	4,759,144
Income before contributions	43,630,534	35,335,533
Capital Contributions	14,798,951	28,642,950
Change in Net Assets	58,429,485	63,978,483
Net Assets-Beginning of Year	1,805,798,619	1,741,820,136
Net Assets–End of Year	$1,864,228,104	$1,805,798,619

See the accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004	2005	2004
Cash flows from operating activities:		
Received from customers	$184,049,092	$151,314,400
Paid to employees for services	(54,002,673)	(54,241,546)
Paid to suppliers for goods and services	(58,483,089)	(51,884,136)
Net cash provided by operating activities	71,563,330	45,188,718
Cash flows provided by noncapital financing activities		
Taxes levied	22,015,870	21,743,767
Cash flows from capital and related financing activities		
Proceeds from capital grants	2,829,296	12,411,042
Clean Water Capital Improvement Surcharge collected	—	115,763
Proceeds from sale of utility plant	35,618	446,372
Proceeds from issuance of debt	7,567,844	408,357,652
Principal paid on debt	(1,365,276)	(69,506,836)
Interest and fees paid on debt	(14,299,185)	(1,785,736)
Payments for capital improvements	(140,402,733)	(88,923,498)
Net cash provided by (used in) capital and related financing activities	(145,634,436)	261,114,759
Cash flows from investing activities:		
Purchase of investments	(366,502,840)	(310,189,875)
Proceeds from sale and maturity of investments	253,728,335	159,481,565
Investment income	5,788,168	5,631,519
Proceeds from rents	1,038,074	1,014,034
Net cash provided by (used in) investing activities	(105,948,263)	(144,062,757)
Net increase (decrease) in cash & cash equivalents	(158,003,499)	183,984,487
Cash and cash equivalents at beginning of year	224,591,540	40,607,053
Cash and cash equivalents at end of year	$ 66,588,041	$224,591,540
Noncash capital and investing activities:		
Utility plant contributed by other governments and developers	$ 14,798,951	$ 28,642,950
Fair value investment adjustment	$ (1,220,574)	$ (1,612,531)
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 26,619,778	$ 7,378,012
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	44,442,903	42,591,870
Change in operating assets and liabilities		
Increase in billed and unbilled sewer service charges receivable	(4,874,855)	(6,636,270)
Increase in other receivables	(600,129)	(32,148)
(Increase) decrease in inventory	(1,689,505)	48,382
Increase in accounts payable	8,859,975	784,184
Increase (decrease) in deposits and accrued expenses	(1,194,837)	1,054,688
Net cash provided by operating activities	$ 71,563,330	$ 45,188,718

See the accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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, since income determination and capital maintenance are critical. Unbilled sewer 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 non-operating 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 non-operating 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 non-exchange transactions into the following four classes, based upon their principal characteristics: derived tax revenues, imposed non-exchange revenues, government mandated non-exchange transactions, and voluntary non-exchange transactions. For the District, the following non-exchange transactions are applicable.

The District recognizes assets from imposed non-exchange 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 non-exchange 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.

During 2005, the District adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3 (GASB 40). The adoption of GASB 40 modifies certain financial statement disclosures requirements. The new standard enhances the deposit and investment risk disclosures by updating the custodial credit risk disclosure requirements of GASB 3 and addressing other common risks, including concentrations of credit risk, interest rate risk, and foreign currency risk. The implementation of GASB 40 had no effect on financial statement amounts.

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 within three months of the date acquired by the District. "Investments" consist of those investments with maturity dates greater than three months at the time of purchase by the District. Investments are stated at fair value based upon quoted market prices.

CLEAN WATER CAPITAL IMPROVEMENT SURCHARGE

In connection with the Consent Decree (as discussed in Note 11), 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, 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 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 $9,200,000 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 will refund approximately $5,667,000 from the Trust Fund to its customers during 2006.

UTILITY PLANT

Utility plant is 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 2005 and 2004, the District capitalized $8,358,236 and $1,122,583 of net interest expense, respectively.

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

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 percent 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 non-current Deposits and Accrued Expenses payable.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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: United States Treasury Notes, certificates of deposit, obligations of any agency or instrumentality of the United States, repurchase agreements, banker's acceptances, and commercial paper rated in the three highest classifications, for terms specified in the policy. At June 30, 2005, all of the District's investments were in compliance with the District's investment policy and charter.

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, 2005 and 2004 is as follows:

	2005 COST	2005 FAIR VALUE	2004 COST	2004 FAIR VALUE
Deposits	$ 13,217,342	$ 13,217,342	$ 14,222,516	$ 14,222,516
Repurchase Agreements (Collateralized)	17,923,038	17,923,038	26,879,803	26,879,803
U.S. Treasury and Agency Obligations	396,743,935	395,119,629	389,568,375	388,373,907
Commercial Paper	45,574,411	45,649,494	88,892,647	88,919,382
	$473,458,726	$471,909,503	$519,563,340	$518,395,608

As of June 30, 2005, the District had the following investments and maturities:

WEIGHTED AVERAGE MATURITY

INVESTMENT TYPE	FAIR VALUE	MATURITY (YEARS)
Repurchase Agreement (Collateralized)	$ 17,923,038	0.00
Certificates of Deposit	14,200,000	0.82
U.S. Treasuries	144,280,068	0.70
U.S. Agencies	250,839,561	1.41
Commercial Paper	45,649,494	0.06
Total	$472,892,161	1.03

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:

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. Pre-qualifying 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, 2005, 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 U.S. agencies that do not carry the explicit guarantee of the U.S. government all carry a rating assigned by S&P of "AAA," with the exception of one agency security for $3,035,156 that carries a rating of "AA."

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, 2005:

ISSUER	PERCENT OF TOTAL INVESTMENTS
Federal Home Loan Bank	19.1%
Federal Home Loan Mortgage Corporation	11.7%
Federal National Mortgage Association	19.2%

3. 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 non-operating 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.

4. CHANGE IN CAPITAL ASSETS

The following is a summary of capital assets changes for the fiscal years ended June 30, 2005 and June 30, 2004.

	BALANCE JUNE 30, 2004	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2005
Capital assets not being depreciated:				
Land	$ 29,887,872	$ 97,282	$ 3,073,221	$ 26,911,933
Construction in progress	191,769,427	147,322,627	63,477,052	275,615,002
Total capital assets not being depreciated	221,657,299	147,419,909	66,550,273	302,526,935
Capital assets being depreciated:				
Treatment and disposal plant and equipment	566,876,959	110,851	185,387	566,802,423
Collection and pumping plant	1,437,525,264	77,141,920	103,548	1,514,563,636
General plant and equipment	50,295,189	2,964,373	1,057,871	52,201,691
Total capital assets being depreciated	2,054,697,412	80,217,144	1,346,806	2,133,567,750
Less accumulated depreciation:				
Treatment and disposal plant and equipment	(260,899,518)	(15,824,532)	(183,856)	(276,540,194)
Collection and pumping plant	(355,928,728)	(24,439,479)	(26,302)	(380,341,905)
General plant and equipment	(33,387,017)	(4,178,892)	(1,035,720)	(36,530,189)
Total accumulated depreciation	(650,215,263)	(44,442,903)	(1,245,878)	(693,412,288)
Total capital assets being depreciated, net	1,404,482,149	35,774,241	100,928	1,440,155,462
Total Utility Plant	$1,626,139,448	$183,194,150	$66,651,201	$ 1,742,682,397

	BALANCE JUNE 30, 2004	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2005
Capital assets not being depreciated:				
Land	$ 29,701,381	$ 464,491	$ 278,000	$ 29,887,872
Construction in progress	135,628,014	89,502,428	33,361,015	191,769,427
Total capital assets not being depreciated	165,329,395	89,966,919	33,639,015	221,657,299
Capital assets being depreciated:				
Treatment and disposal plant and equipment	564,237,493	3,719,048	1,079,582	566,876,959
Collection and pumping plant	1,379,198,159	58,918,275	591,170	1,437,525,264
General plant and equipment	49,740,135	1,958,468	1,403,414	50,295,189
Total capital assets being depreciated	1,993,175,787	64,595,791	3,074,166	2,054,697,412
Less accumulated depreciation:				
Treatment and disposal plant and equipment	(245,761,698)	(15,858,532)	(720,712)	(260,899,518)
Collection and pumping plant	(332,649,802)	(23,560,237)	(281,311)	(355,928,728)
General plant and equipment	(31,569,555)	(3,173,101)	(1,355,639)	(33,387,017)
Total accumulated depreciation	(609,981,055)	(42,591,870)	(2,357,662)	(650,215,263)
Total capital assets being depreciated, net	1,383,194,732	22,003,921	716,504	1,404,482,149
Total Utility Plant	$1,548,524,127	$111,970,840	$34,355,519	$1,626,139,448

5. SHORT-TERM DEBT

During 2004, the Missouri Department of Natural Resources (MDNR) loaned $69,506,836 to the District in order to finance an ongoing improvement project. This note provided for temporary funds. The outstanding balance on this note was repaid upon the issuance of the Series 2004B revenue bonds in 2004.

6. LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the year ended June 30, 2005:

	ORIGINAL ISSUANCE AMOUNTS	BALANCE JULY 1, 2004	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2005	CURRENT PORTION
Bonds and Notes Payable:						
Revenue Bonds:						
Series 2004A	$175,000,000	$175,000,000	$ –	$ –	$175,000,000	$1,500,000
Series 2004B	161,280,000	161,280,000	–	1,127,500	160,152,500	1,127,500
Series 2005A	6,800,000	–	6,800,000	–	6,800,000	–
Missouri Department of Natural Resources:						
Ozark and Table Rock	374,680	374,680	–	227,893	146,787	15,200
Energy Loan Program	98,595	98,595	–	9,883	88,712	9,768
West Watson and Nanell	535,600	–	535,600	–	535,600	50,100
	$344,088,875	$336,753,275	$7,335,600	$1,365,276	$342,723,599	$2,702,568
Add: Unamortized Premium, net					6,314,820	
Less: Bond issue costs, net					(5,096,418)	
					$343,942,001	
Deposits and Accrued Expenses: Compensated Absences	$ –	$ 3,748,510	$ 766,129	$ (395,092)	$ 4,119,547	$ 823,910

WASTEWATER SYSTEM REVENUE BONDS PAYABLE

In May 2004, the District authorized and issued $175,000,000 of Wastewater System Revenue Bonds Series 2004 A (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 2004A Bonds maturing on May 1 in the years 2006 through 2034, inclusive, when due are guaranteed under a financial guaranty insurance policy.

WATER POLLUTION CONTROL AND DRINKING WATER REVENUE BONDS PAYABLE

In May 2005, the State Environmental Improvement and Energy Resources Authority (the Authority) authorized and issued $53,060,000 of Water Pollution Control and Drinking Water Revenue Bonds (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 subordinate Participant Revenue Bonds (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 State Environmental Improvement and Energy Resources Authority (the Authority) authorized and issued $179,780,000 of Water Pollution Control and Drinking Water Revenue Bonds (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 subordinate Participant Revenue Bonds (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 and 2005A 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 and 2005A 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 and Series 2005A 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. 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 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 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 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, 2005 and 2004, the District was in compliance with this covenant.

PRINCIPAL AND INTEREST REQUIREMENTS ON REVENUE BONDS PAYABLE

The following is a summary of capital assets changes for the fiscal years ended June 30, 2005 and June 30, 2004.

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	TOTAL
2006	$ 2,627,500	$ 16,283,717	$ 18,911,217
2007	7,065,000	16,325,093	23,390,093
2008	8,095,000	16,057,043	24,152,043
2009	8,995,000	15,735,343	24,730,343
2010	8,220,000	15,364,987	23,584,987
2011-2015	48,515,000	70,735,477	119,250,477
2016-2020	60,680,000	58,021,663	118,701,663
2021-2025	76,750,000	41,369,207	118,119,207
2026-2030	64,300,000	23,081,919	87,381,919
2031-2034	56,705,000	7,261,000	63,966,000
	$341,952,500	$280,235,449	$622,187,949

WEST WATSON AND NANELL LOAN AGREEMENT

During fiscal year 2005, the Department of Natural Resources 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 has not been determined as of June 30, 2005.

OZARK AND TABLE ROCK LOAN AGREEMENT

During fiscal year 2004, the Department of Natural Resources 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, 2005 are as follows:

SPECIAL ASSESSMENT LOAN AGREEMENTS

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2006	$ 65,300	$ 9,746	$ 75,046
2007	66,400	8,759	75,159
2008	67,400	7,755	75,155
2009	68,400	6,736	75,136
2010	69,400	5,703	75,103
2011-2014	345,487	12,595	358,082
	$682,387	$51,294	$733,681

ENERGY EFFICIENCY LEVERAGED NOTE PAYABLE

In April 2004, the Department of Natural Resources loaned $98,596 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, 2005 are as follows:

ENERGY EFFICIENCY LEVERAGED NOTE PAYABLE

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2006	$ 9,768	$ 2,718	$ 12,486
2007	10,078	2,408	12,486
2008	10,398	2,088	12,486
2009	10,728	1,758	12,486
2010	11,069	1,417	12,486
2011-2014	36,671	2,119	38,790
	$88,712	$12,508	$101,220

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 Funds 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 fulfill 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.

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 notes, 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, 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, 2005 and 2004, cash and investments in the Debt Service Reserve Fund totaled $15,415,733 and $15,058,307, respectively.

Special Participant Bond Reserve Account For both the Series 2004B and Series 2005A 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. No monies were deposited into this account at June 30, 2004. At June 30, 2005, cash and investments in the Special Participant Bond Reserve Account held on behalf of the District totaled $45,769,030. 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, 2005 and 2004.

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 bonds, shall be deposited into the Project Fund. At June 30, 2005 and 2004, cash and investments in the Project Funds total $244,927,310 and $301,309,136, 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. No monies have been deposited into these accounts at June 30, 2005 and 2004.

Administrative Fee Funds The Administrative Fee Fund 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, 2005 were $343,942,001 and $357,579,126, respectively. The carrying amount and estimated fair value of the District's long-term debt as of June 30, 2004 were $337,836,491 and $338,823,231, respectively.

7. CHANGES IN RESTRICTED NET ASSETS

Details of changes in restricted net assets for the fiscal years ended June 30, 2005 and 2004 are:

	DEBT SERVICE	REAL PROPERTY PURCHASE & IMPROVEMENT	SUBDISTRICT CONSTRUCTION & IMPROVEMENT	CONSTRUCTION	TOTAL
Balances, June 30, 2003	$ –	$2,358,148	$39,917,938	$ 97,212,964	$139,489,050
Additions:					
Proceeds from bonds and loans	–	–	–	407,885,353	407,885,353
Recovery of doubtful Clean Water Capital Improvement Surcharge accounts	–	–	–	115,763	115,763
Property taxes levied by the District	56,525	–	10,110,052	--	10,166,577
Investment income	68,057	30,174	399,857	1,613,189	2,111,277
Grant revenue	–	–	341,905	–	341,905
Connection fees	–	–	–	818,283	818,283
Sale of real property	–	381,651	–	–	381,651
Transfers from other accounts	15,048,057	–	–	55,303,846	70,351,903
Other	–	1,010,125	–	–	1,010,125
Total additions	15,172,639	1,421,950	10,851,814	465,736,434	493,182,837
Deductions:					
Unspent bond proceeds	–	–	–	301,309,136	301,309,136
Principal payments on long-term debt	–	–	–	69,506,836	69,506,836
Net additions to utility plant	–	–	9,663,459	62,949,445	72,612,904
Other contractual expenses	–	1,115,860	1,071,197	6,659,899	8,846,956
Transfers to other accounts	56,525	–	–	15,048,057	15,104,582
Other	–	–	–	1,699,736	1,699,736
Total deductions	56,525	1,115,860	10,734,656	457,173,109	469,080,150
Balances, June 30, 2004	$ 15,116,114	$2,664,238	$40,035,096	$105,776,289	$ 163,591,737
Additions:					
Proceeds from bonds and loans	–	–	–	7,032,244	7,032,244
Property taxes levied by the District	17,875	–	10,218,924	–	10,236,799
Investment income	377,062	96,994	1,145,065	9,322,438	10,941,559
Grant revenue	–	–	79,681	492,266	571,947
Connection fees	–	–	–	431,648	431,648
Transfers from other accounts	15,551,069	–	–	73,458,690	89,009,759
Other	–	1,038,074	–	–	1,038,074
Total additions	15,946,006	1,135,068	11,443,670	90,737,286	119,262,030
Deductions:					
Principal payments on long-term debt	1,127,500	–	–	–	1,127,500
Interest Payments	14,423,569	–	–	–	14,423,569
Net additions to utility plant	–	–	7,411,253	118,704,329	126,115,582
Other contractual expenses	–	1,024,678	332,298	11,752,348	13,109,324
Clean Water Capital Improvement Refund Payable				5,667,330	5,667,330
Transfers to other accounts	17,875	–	–	2,966,069	2,983,944
Total deductions	15,568,944	1,024,678	7,743,551	139,090,076	163,427,249
Balances, June 30, 2005	$ 15,493,176	$ 2,774,628	$ 43,735,215	$ 57,423,499	$119,426,518

8. 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 thirty-five 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 thirty-five years without including accrued sick leave. A member who retires between August 1, 2004 and July 1, 2007 is entitled to select the greater of the above or the benefit calculated under the 1.45%/1.85% benefit formula including accrued sick leave. Sick leave is paid out at 1.25% per year of service times the amount of leave accrued. 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 anyone 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 $6,775,520 and $5,994,027, excluding certain professional fees paid by the District, were made to the Plan during the Plan's calendar years ended December 31, 2004 and 2003, respectively. These contributions were made in accordance with actuarially determined contribution requirements based on actuarial valuations performed at January 1, 2004 and 2003, respectively, and for 2004 consisted of (a) $4,223,796 normal cost plus (b) $2,079,013 amortization of the actuarial accrued assets in excess of the actuarial accrued liability and prior changes (c) multiplied by an inflation 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.

Significant actuarial assumptions used in the valuations are as follows:

Latest valuation date – January 1, 2005
Actuarial cost method – Entry Age Normal
Amortization method – Level dollar closed
Amortization period – 20-year period, re-established each year
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 3.0%

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
2004	$6,775,520	100%	–
2003	$5,994,027	100%	–
2002	$4,777,117	100%	–

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS

(000'S)

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)
01/01/05	$142,986	$168,237	$(25,251)	85.0	$39,382	(64.1)%
01/01/04	$133,966	$159,444	$(25,478)	84.0	$37,637	(67.7)%
01/01/03	$129,783	$150,405	$(20,622)	86.3	$38,868	(53.1)%

9. 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 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. 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.

10. 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, 2005 and 2004, 105 and 115 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 2005 and 2004, expenses of $363,249 and $469,958, respectively, were recognized for post-retirement health care premiums as those premiums were paid.

11. 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. At June 30, 2005 and 2004, these liabilities amounted to $3,050,225 and $3,227,972, respectively.

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 2005 and 2004, were as follows:

	2005	2004
Liability, beginning of year	$ 3,227,973	$2,779,598
Current year claims and changes in estimates	15,383,529	5,331,635
Claim payments	(15,561,277)	(4,883,260)
Liability, end of year	$3,050,225	$3,227,973

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.

12. 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 post-closure 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 post-closure care costs as an operating expense in each period based on landfill capacity used as of the end of the fiscal year. The $470,256 and $447,863 reported as landfill closure and post-closure care liabilities at June 30, 2005 and 2004, respectively, represent the cumulative amounts reported at fiscal year end based on the use of 75% and 71% of the estimated capacity of the landfill for fiscal years ended 2005 and 2004, respectively. The District will recognize the remaining estimated cost of closure and post-closure care of $156,754 at June 30, 2005 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2005. 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 technology and applicable laws and regulations. If closure cost estimates change, the liability currently reported on the balance sheet will be adjusted accordingly.

13. 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 District is the current owner of a piece of property located adjacent to the Great Lakes Container Corporation Superfund Site and the Bissell facility. As part of the Great Lakes Container Corporation Superfund clean up, the Environmental Protection

Agency (EPA) removed approximately 800 buried drums from the MSD property. The total cost of the site clean up was $9,127,244, distributed among several responsible parties. As the current owner of the property, MSD's assigned share of the total was $365,090. On August 14, 2002 the U.S. Department of Justice confirmed an agreement in principle with the District.

Under this agreement in principle, the District was to pay $230,000 in exchange for contribution protection under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and a covenant not to sue for past response costs. Appropriate monies were set aside from the fiscal year 2002 budget to pay said fine. The consent decree was reviewed by DOJ, EPA-Region 7 and MDNR, and timely placed in the Federal Register for comments.

On November 19, 2003, the proposed consent decree was filed with the U.S. District Court for the Eastern District for Missouri. Subsequently, on March 30, 2004, co-defendant Mallinckrodt, Inc. intervened in the case arguing primarily that the District's settlement was not fair and reasonable under the totality of the facts presented.

On August 11, 2004, DOJ's and the District's Motion to Support the consent decree was heard by the court. The Court granted said Motion on September 9, 2004. Based upon entry of the Consent Decree, MSD wired a payment to DOJ for $230,000 on October 8, 2004.

On October 7, 2004 co-defendant Mallinckrodt, Inc. filed a Motion to Alter the Judgment Based on Newly Discovered Evidence. This Motion was denied by the Court on December 22, 2004. On January 25, 2005 Mallinckrodt Inc. filed a Rule 60 (b)(3) Motion for Relief from Judgment. On February 1, 2005 the Court denied this Motion. On February 17, 2005 Mallinckrodt Inc. appealed to the US Court of Appeals. MSD, DOJ and Mallinckrodt Inc. submitted briefs on June 13, 2005. A decision from the US Court of Appeals may be rendered by early 2006. The District expects to prevail on this matter.

EPA and MDNR are considering initiating legal action against MSD on the grounds that 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. At this time the District's senior staff and Office of General Counsel are in preliminary discussions with EPA and MDNR and have presented the District's Capital Improvement Plan to both organizations for their review and consideration. 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. Currently, no lawsuits have been filed in this matter. Since July 22, 2003, MSD has met a number of times with EPA, DOJ and DOJ's technical consultant. 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 a response to the Section 308 letter. No substantive further action has taken place as of September 2, 2005.

The District has been named as a defendant in several other lawsuits, some of which seek substantial damages. In the opinion of District management, none of these lawsuits will have a material impact on the financial position of the District.

The District has entered into construction and other contracts amounting to approximately $169,691,000 and $124,750,000 at June 30, 2005 and 2004, respectively. Grants to be received from various governmental agencies and entities to partially offset the cost of the contract commitments amounted to approximately $2,990,000 and $2,588,000 at June 30, 2005 and 2004, respectively.

STATISTICAL SECTION

SEWER USER CHARGE RATES (COMPOSITE – ANNUAL) FOR THE LAST TEN FISCAL YEARS

	2005	2004(1)	2003	2002	2001	2000	1999	1998(2)	1997	1996
Residential:										
Single Family/Unit	$249.84	$205.32	$170.52	$170.52	$170.52	$170.52	$170.52	$170.52	$147.00	$147.00
Multi-Family/Unit	210.00	173.16	145.32	145.32	145.32	145.32	145.32	145.32	123.24	123.24
Commercial/Industrial:										
Service Charge/Unit	236.28	218.28	172.44	172.44	172.44	172.44	172.44	172.44	140.76	140.76
Usage Charge/CCF	1.66	1.34	1.05	1.05	1.05	1.05	1.05	1.05	0.99	0.99
Extra Strength Surcharges:										
Suspended Solids over 300 parts per million/ton	200.15	162.88	87.20	87.20	87.20	87.20	87.20	87.20	127.40	127.40
Biological Oxygen Demand (BOD's) over 300 parts per million/ton	412.58	319.24	217.90	217.90	217.90	217.90	217.90	217.90	244.10	244.10
Chemical Oxygen Demand (COD's) over 600 parts per million/ton	206.29	159.62	108.95	108.95	108.95	108.95	108.95	108.95	122.05	122.05

The above rates are based on actual rates and budgeted units.

(1) Ordinance 11553, effective August 1, 2003, changed all rates. It also changed the level of suspended solids and chemical oxygen demand at which extra strength surcharges are incurred from 350 to 300 and 300 to 600 parts per million/ton, respectively.

(2) Ordinance 10177, effective October 1, 1997, changed all rates.

OPERATING EXPENSES BY TYPE

(000'S)	2005	2004	2003	2002	2001
Wages(1)	$ 36,276,985	$ 38,295,422	$ 41,789,338	$ 38,166,193	$ 38,382,899
Benefits	16,379,524	15,964,137	10,747,654	13,599,358	11,808,858
Electricity	7,237,962	7,239,238	6,942,998	7,250,710	7,220,916
Other Utilities	4,006,293	3,082,470	3,398,676	2,775,221	4,021,445
Materials & Supplies	7,231,297	9,453,919	10,096,136	9,851,643	9,679,471
Contracted Services	30,424,935	21,148,553	20,841,068	20,956,310	16,986,941
Chemical Supplies	946,182	843,259	919,906	759,712	941,970
Insurance	2,968,245	2,837,587	2,689,408	1,581,623	1,425,360
Other	12,459,569	9,135,915	5,349,920	5,510,335	4,654,794
Depreciation	44,442,903	42,591,870	41,911,871	41,940,987	41,946,627
	$162,373,895	$150,592,370	$144,686,975	$142,392,092	$137,069,281

	2000	1999	1998	1997	1996
Wages(1)	$ 37,625,329	$ 36,507,632	$ 34,183,681	$ 33,113,481	$ 32,470,007
Benefits	10,292,300	9,572,216	8,607,997	7,582,766	7,795,061
Electricity	6,764,846	7,659,576	8,022,628	7,523,867	8,085,248
Other Utilities	2,559,822	2,603,547	2,394,480	2,725,272	2,513,189
Materials & Supplies	9,537,871	10,021,190	10,349,808	15,318,520	12,302,836
Contracted Services	19,597,432	15,758,921	13,709,730	10,829,684	10,038,277
Chemical Supplies	1,046,559	1,076,881	1,197,728	899,689	1,145,271
Insurance	1,099,946	1,166,578	1,426,585	1,289,674	1,377,362
Other	5,166,263	2,651,982	3,398,833	2,324,834	2,771,235
Depreciation	40,178,227	38,894,040	37,714,864	35,885,642	34,181,079
	$133,868,596	$125,912,563	$121,006,334	$ 117,493,429	$112,679,565

Note: Fiscal year 2003 was restated to reflect the change in inventory value from.

(1) Wages includes vacation, holiday and sick pay

USER CHARGES

AS OF JUNE 30, 2005

TYPE OF MONTHLY CHARGE	UNMETERED	METERED RESIDENTIAL	METERED NON-RESIDENTIAL
Wastewater User Charge:			
Billing & Collection Charge	$0.85	$0.85	$0.85
System Availability Charge	6.45	6.45	6.45
Compliance Charge	–	–	12.15
Volume Charges:			
per CCF	–	1.66	1.66
per room	1.08	–	–
per water closet	4.04	–	–
per bath	3.37	–	–
per separate shower	3.37	–	–
Extra Strength Surcharges:			
SS over 300 ppm per ton	–	–	200.15
BOD over 300 ppm per ton	–	–	412.58
COD over 600 ppm per ton	–	–	206.29
Stormwater Service Charge			
per account	0.24	0.24	0.24

STATEMENT OF BOND DEBT

AS OF JUNE 30, 2005

January 1, 2005 assessed valuation	$21,481,536,873
Statutory debt limit rate per MSD plan	5%
Statutory debt limit	$ 1,074,076,844
General obligation indebtedness	$ –
Statutory debt margin	$ 1,074,076,844
Percent of debt capacity remaining	100%

TEN LARGEST CUSTOMERS' USER CHARGES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CUSTOMER	USER CHARGES	PERCENT OF TOTAL
Anheuser-Busch Incorporated	$ 6,803,995	3.74%
Mallinckrodt, Inc.	1,985,401	1.09
Washington University	1,306,720	0.72
Zoological Gardens	709,049	0.39
Chrysler Corporation	684,877	0.38
Boeing Company	679,444	0.37
St. Louis City	624,699	0.34
Sigma Chemical Company	611,368	0.34
Sensient Colors Inc.	591,443	0.33
St. Louis University	588,460	0.32
	$14,585,456	8.02%

FINANCIAL RESOURCES OF COMMERCIAL BANKS CITY OF ST. LOUIS AND ST. LOUIS COUNTY FOR THE LAST TEN FISCAL YEARS

JUNE 30,	TOTAL DEPOSITS (000'S)	TOTAL ASSETS (000'S)
2005	$17,264,098	$21,972,219
2004	16,589,270	21,566,232
2003	15,838,931	19,754,765
2002	12,559,029	15,195,792
2001	11,173,203	13,488,408
2000	21,979,239	32,163,791
1999	22,843,388	34,753,307
1998	14,637,800	18,106,513
1997	13,644,298	16,617,370
1996	25,596,567	35,930,893

Source: Federal Reserve Bank of St. Louis

COMPUTATION OF OVERLAPPING DEBT

AS OF JUNE 30, 2005

GOVERNMENTAL UNIT	DEBT OUTSTANDING	AMOUNT OF DEBT WITHIN DISTRICT BOUNDARY	PERCENTAGE OF DEBT WITHIN DISTRICT BOUNDARY
City of St. Louis	$ 48,464,742	$ 48,464,742	100.0%
St. Louis County	98,505,000	97,716,960	99.2%
Municipalities	118,881,098	118,631,098	99.8%
City of St. Louis School District	233,830,000	233,830,000	100.0%
St. Louis County School Districts	815,213,012	802,165,839	98.4%
Fire Districts	59,783,827	55,389,512	92.6%
		$1,356,198,151	

Source: City of St. Louis, Office of Comptroller
St. Louis County, Department of Revenue
Missouri Department of Education, School Finance
Polled Governments

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(000'S)	2005	2004	2003 RESTATED	2002 RESTATED	2001 RESTATED
Operating revenues:					
Sewer service charges, net	$181,966,427	$150,903,248	$120,994,703	$120,500,816	$123,985,768
Licenses, permits and other fees	6,549,221	6,297,166	5,435,878	5,706,843	6,049,589
Other	478,025	769,968	3,038,981	2,232,268	1,739,921
	188,993,673	157,970,382	129,469,562	128,439,927	131,775,278
Operating expenses:					
Pumping and treatment	35,514,218	30,787,763	33,945,361	34,014,206	34,654,912
Collection system maintenance	25,225,163	23,407,955	21,947,360	24,089,640	23,588,374
Engineering	6,850,679	6,727,503	6,801,153	6,458,322	5,218,013
General & administrative	37,046,813	40,199,094	37,082,165	33,062,394	29,525,888
Depreciation	44,442,903	42,591,870	41,911,871	41,940,987	41,946,627
Other	13,294,119	6,878,185	2,589,501	2,826,545	2,135,467
	162,373,895	150,592,370	144,277,411	142,392,093	137,069,281
Operating income (loss)	26,619,778	7,378,012	(14,807,848)	(13,952,165)	(5,294,003)
Nonoperating revenues:					
Property taxes levied by the District for debt service and construction	22,015,870	21,743,767	21,020,043	23,451,036	22,557,934
Investment income	5,501,708	2,060,259	6,790,455	9,622,027	13,867,375
Clean Water Capital Improvement Surcharge (refund)	(5,667,330)	–	–	–	–
Sewer service charges refund settlement	–	–	–	–	–
Recovery of doubtful Clean Water Improvement surcharge accounts	–	115,763	139,675	233,006	204,452
Grant revenue	1,552,839	7,786,751	6,603,771	6,522,849	6,182,514
Other	1,038,074	1,010,125	1,124,569	3,319,269	3,408,668
	24,441,161	32,716,665	35,678,513	43,148,186	46,220,943
Nonoperating expenses:					
Interest expense	–	–	–	213,376	331,343
Net (gain) loss on disposal and sale of utility plant	3,138,531	548,133	(3,565,868)	299,720	884,654
Nonrecurring projects & studies	4,291,874	4,027,238	4,328,951	2,997,263	6,383,723
Other	–	183,773	–	42,116	24,832
	7,430,405	4,759,144	763,083	3,552,475	7,624,552
Net Income Before Contributions	$ 43,630,534	$ 35,335,533	$ 20,107,582	$ 25,643,546	$ 33,302,388

Note: Prior years were restated due to a reclassification of tax revenue from operating revenue to nonoperating revenue.

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(000'S)	2000 RESTATED	1999 RESTATED	1998 RESTATED	1997 RESTATED	1996 RESTATED
Operating revenues:					
Sewer service charges, net	$125,040,650	$124,249,321	$124,619,683	$115,581,114	$115,687,470
Licenses, permits and other fees	2,465,775	2,453,656	2,368,531	2,116,588	2,142,062
Other	1,892,568	1,567,880	1,812,316	2,470,118	3,133,765
	129,398,993	128,270,857	128,800,530	120,167,820	120,963,297
Operating expenses:					
Pumping and treatment	32,960,304	32,881,402	33,438,892	33,407,123	32,734,416
Collection system maintenance	20,673,330	19,659,048	16,191,700	18,458,862	17,825,772
Engineering	4,043,330	4,426,537	4,355,559	4,470,667	4,193,124
General & administrative	27,415,360	22,572,535	22,461,133	20,105,963	19,493,227
Depreciation	40,178,227	38,894,040	37,714,864	35,885,642	34,181,079
Other	8,598,045	7,479,001	6,844,186	5,165,152	4,251,947
	133,868,596	125,912,563	121,006,334	117,493,429	112,679,565
Operating income (loss)	(4,469,603)	2,358,294	7,794,196	2,674,391	8,283,732
Nonoperating revenues:					
Property taxes levied by the District for debt service and construction	22,295,911	21,873,747	21,581,854	21,302,053	20,891,965
Investment income	11,422,085	10,837,465	11,453,307	13,402,872	12,417,638
Clean Water Capital Improvement Surcharge (refund)	–	9,200,000	(5,450,000)	(3,750,000)	(25,000,000)
Sewer service charges refund settlement	–	7,476,387	–	–	–
Recovery of doubtful Clean Water Improvement surcharge accounts	375,353	410,224	903,482	943,399	390,853
Grant revenue	868,218	541,009	732,680	2,798,273	2,781,801
Other	217,401	96,800	99,367	90,469	115,365
	35,178,968	50,435,632	29,320,690	34,787,066	11,597,622
Nonoperating expenses:					
Interest expense	440,408	541,050	633,713	718,606	824,953
Net (gain) loss on disposal and sale of utility plant	699,772	766,265	85,180	(985)	1,356,584
Nonrecurring projects & studies	7,175,721	7,214,442	8,675,511	9,752,718	5,393,302
Other	24,832	24,633	24,908	24,984	24,565
	8,340,733	8,546,390	9,419,312	10,495,323	7,599,404
Net Income Before Contributions	$ 22,368,632	$ 44,247,536	$ 27,695,574	$ 26,966,134	$ 12,281,950

Note: Prior years were restated due to a reclassification of tax revenue from operating revenue to nonoperating revenue.

PROPERTY TAX RATES – DIRECT AND OVERLAPPING GOVERNMENTS PER $100 OF ASSESSED VALUATION FOR THE LAST TEN CALENDAR YEARS

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
City of St. Louis:										
Direct:										
General	$1.441	$1.411	$1.457	$1.599	$1.633	$1.620	$1.450	$1.420	$1.400	$1.360
Debt Service	0.151	0.151	0.151	–	–	–	–	0.110	0.110	0.110
Overlapping Governments:										
School	4.304	4.190	4.300	4.300	4.300	4.300	4.300	4.300	4.250	4.190
Sewer	0.069	0.069	0.069	0.089	0.090	0.090	0.090	0.090	0.090	0.090
Other	1.337	1.266	1.283	1.281	1.302	1.297	1.302	1.302	1.302	1.298
Total Tax Rate	$7.302	$7.087	$7.260	$7.269	$7.325	$7.307	$7.142	$7.222	$7.152	$7.048
St. Louis County:										
Direct:										
General	$0.495	$0.495	$0.495	$0.495	$0.495	$0.495	$0.495	$0.495	$0.495	$0.495
Debt Service	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085
Overlapping Governments (averages):										
Schools	4.467	4.383	4.350	4.258	4.211	4.120	4.300	4.030	3.948	3.826
Cities	0.453	0.430	0.353	0.342	0.431	0.426	0.413	0.410	0.424	0.434
Service Districts (1)	1.501	1.530	1.463	1.403	1.354	1.290	1.300	1.233	1.336	1.260
Other	1.683	1.610	2.907	2.864	2.576	1.864	1.367	1.347	1.357	1.343
Total Tax Rate	$8.684	$8.533	$9.653	$9.447	$9.152	$8.280	$7.960	$7.600	$7.645	$7.443

(1) Service Districts include fire, light, and sewer

CITY OF ST. LOUIS AND ST. LOUIS COUNTY LABOR FORCE STATISTICS

	ANNUAL AVERAGE			UNEMPLOYMENT RATE	
YEAR	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	CITY AND COUNTY	ST. LOUIS NATIONAL AVERAGE
2005	718,044	672,674	45,370	6.3%	5.0%
2004	740,906	697,301	43,605	5.9	5.8
2003	734,517	692,791	41,726	5.7	5.9
2002	723,505	685,965	37,540	5.2	5.9
2001	732,933	705,476	27,457	3.7	4.5
2000	711,453	689,915	21,538	3.0	4.3
1999	719,620	693,342	26,278	3.7	4.4
1998	736,969	707,123	29,846	4.0	4.7
1997	752,187	721,272	30,915	4.1	5.2
1996	743,132	712,766	30,366	4.1	5.6

Source: Missouri Division of Employment Security, Research and Analysis Section

NUMBER OF CUSTOMER ACCOUNTS FOR THE LAST TEN FISCAL YEARS

JUNE 30,	SINGLE FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL/ INDUSTRIAL	TOTAL ACCOUNTS
2005	356,805	44,506	25,581	426,892
2004	356,069	44,969	25,806	426,844
2003	353,935	44,632	25,672	424,239
2002	353,166	44,581	25,664	423,411
2001	352,656	45,074	25,779	423,509
2000	351,367	45,348	25,918	422,633
1999	349,759	45,787	25,939	421,485
1998	348,605	46,154	26,030	420,789
1997	351,983	47,265	26,289	425,537
1996	350,660	47,839	26,444	424,943

ASSESSED VALUATION OF TAXABLE PROPERTY FOR THE LAST TEN CALENDAR YEARS

JANUARY 1,	REAL PROPERTY	PERSONAL PROPERTY	TOTAL
2004	$17,131,490,109	$4,350,046,764	$21,481,536,873
2003	16,983,706,341	4,935,755,162	21,919,461,503
2002	15,874,508,131	4,764,376,248	20,638,884,379
2001	15,732,604,677	5,165,974,547	20,898,579,224
2000	14,007,715,706	4,745,309,821	18,753,025,527
1999	13,766,536,789	4,394,358,334	18,160,895,123
1998	12,861,343,822	4,356,254,957	17,217,598,779
1997	12,632,298,131	4,202,051,550	16,834,349,681
1996	11,922,495,621	4,089,465,078	16,011,960,699
1995	11,792,441,068	3,654,889,114	15,447,330,182

A state-wide reassessment of all property values was completed in 1991, 1993, 1995, 1997, and 1999, with a resulting increase in assessed values. Property has an assessed value to estimated value ratio as follows:
Real Estate-Commercial 32%; Real Estate Residential 19%; Real Estate-Agricultural 12%; and Personal Property 33-1/3%

Adjustments were made to exclude areas not served by the District.

Source: City of St. Louis Assessor's Office
St. Louis County Department of Revenue

TEN LARGEST TAXPAYERS

ASSESSED VALUATIONS AS OF JANUARY 1, 2004

ENTITY	TYPE OF BUSINESS	ASSESSED VALUE	PERCENTAGE OF TOTAL ASSESSED VALUE
Ameren UE	Electric Utility	$ 326,160,288	1.58%
DaimlerChrysler Group	Automobile Manufacturer	173,860,230	0.84
Boeing Company	Aerospace, Technology	169,405,173	0.82
Southwestern Bell Telephone Company	Telecommunications	158,654,860	0.77
Laclede Gas Company	Natural Gas Utility	131,616,768	0.64
Duke Realty LP	Property Ownership Management	129,172,640	0.63
Westfield Corporation	Shopping Malls	109,293,920	0.53
Monsanto Company	Agriculture/Chemical	83,710,794	0.41
Anheuser-Busch Companies	Brewer	65,116,370	0.32
Ford Motor Company	Automobile Manufacturer	62,963,860	0.31
		$1,409,954,903	6.85%

Source: City of St. Louis, Office of Comptroller
St. Louis County, Collector of Revenue

MISCELLANEOUS STATISTICS FOR THE LAST TEN FISCAL YEARS

NUMBER OF EMPLOYEES AT JUNE 30:	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Administrative	122	111	123	140	148	150	158	159	155	158
Office/Clerical	76	81	82	84	97	103	111	114	108	110
Plant Operation & Laboratory	231	231	237	234	233	248	206	216	221	219
Engineering & Technical	114	117	118	110	131	126	128	126	115	109
Sewer Construction & Maintenance	258	259	253	273	257	276	327	315	302	302
Total	801	799	813	841	866	903	930	930	901	898

SCHEDULE OF INSURANCE IN FORCE (UNAUDITED)

ASSESSED VALUATIONS AS OF JANUARY 1, 2005

INSURANCE AND PERIOD OF COVERAGE	TYPE	COVERAGE AMOUNT	PREMIUM
FM Global Insurance Company, July 1, 2004 to July 1, 2005	Property Insurance includes Boiler & Machinery Earthquake (primary)	$1,000,000,000 50,000,000	$1,024,102
Zurich Insurance November 16, 2004 to November 15, 2005	Sewer Backup Blocked Main Sewer Backup Overcharged Sewer	4,000,000 Aggregate 4,000,000 Aggregate	1,015,021
MOPERM January 1, 2005 to December 31, 2005	Combined Liability includes General Liability Automobile and Errors & Omissions	2,000,000	418,051
United Health Care Ins. Co., July 1, 2004 to July 1, 2005	Medical Stop Loss Insurance (Aggregate)	Claims in excess of 125% of est. claims	23,409
	Medical Stop Loss Insurance (Individual)	Claims in excess of $100,000 for any one person	337,522
Lexington Insurance Co., July 1, 2004 to July 1, 2005	Excess Flood Insurance All Zones Excess Flood Insurance Zones A & B	5,000,000 7,500,000	285,000
Great American Insurance Co. July 1, 2004 to July 1, 2005	Excess Flood Insurance All Zones Excess Flood Insurance Zones A & B	4,000,000 7,500,000	144,428
Greenwich Insurance Co. July 1, 2004 to July 1, 2005	Excess Flood Insurance All Zones Excess Flood Insurance Zones A & B	1,000,000 7,500,000	36,107
FEMA National Flood Insurance, July 1, 2004 to July 1, 2005	Flood Insurance Zone A & B (By location) (First Layer)	1,000,000	67,854
Claredon America Insurance Co. July 1, 2004 to July 1, 2005	Excess General Liability	5,000,000	150,000
Princeton Excess and Surplus Insurance Co. July 1, 2004 to July 1, 2005	Excess General Liability	5,000,000	178,0000
Midwest Employers Casualty Co July 1, 2004 to July 1, 2005	Excess Workers' Compensation	2,000,000	207,015
Federal Insurance Co.(Chubb). July 1, 2004 to July 1, 2005	Public Entity Fiduciary Liability	25,000,000	49,050
Federal Insurance Co.(Chubb), July 1, 2004 to July 1, 2005	Commercial Crime Insurance (Primary)	10,000,000	31,185
Indian Harbor Insurance Co., July 1, 2004 to July 1, 2005	Major Facility Pollution Liability	10,000,000	177,876
Liberty Mutual Insurance Co., July 1, 2004 to July 1, 2005	Public Official Performance Bond	5,000,000	3,250
Missouri Petroleum Storage Tank Insurance Fund July 1, 2004 to July 1, 2005	Under Ground Storage Tank (By location)	2,000,000	2,125