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Financial Statements, 2005

Metropolitan St. Louis Sewer District

THE METROPOLITAN ST. LOUIS SEWER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2005

RubinBrown

THE METROPOLITAN ST. LOUIS SEWER DISTRICT

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June 30, 2005 and 2004

RubinBrown

RubinBrown LLP
Certified Public Accountants
& Business Consultants

One North Brentwood
Saint Louis, MO 63105

T 314.290.3300
F 314.290.3400

W rubinbrown.com
E info@rubinbrown.com

Independent Auditors' 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 audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 on pages 3 - 12 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.

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 grants 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

September 2, 2005

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).

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

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

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

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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 Financial Statements and Analysis

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

	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)	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	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.

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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.

MD&A

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

	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 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 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	--	--
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

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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.

MD&A

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

	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.

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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 contribute 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

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

	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.

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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

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

	2005	2004	Increase (Decrease) 2005-2004	2003	Increase 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.

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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.

Financial Statements

Statement of Net Assets
June 30, 2005 and 2004

ASSETS

	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)

See the accompanying notes to the financial statements.

Statements of Cash Flows *(Continued)*
for the years ended June 30, 2005 and 2004

	2005	2004
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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

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

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

Clean Water Capital Improvement Surcharge (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

Utility Plant

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

Net Assets (continued)

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.

Compensated Absences

Vacation

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

2. Deposits and Investments (continued)

A summary of deposits and investments as of June 30, 2005 and 2004 is as follows:

	2005		2004	
	Cost	Fair Value	Cost	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

Interest Rate Risk

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

2. Investments (continued)

Custodial / Credit Risk (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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, 2003	Additions	Deletions	Balance June 30, 2004
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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

6. Long-term Liabilities (continued)

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.

6. Long-term Liabilities (continued)

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

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

6. Long-term Liabilities (continued)

Principal and Interest Requirements on Revenue Bonds Payable

The annual principal and interest requirements to maturity on revenue bonds payable outstanding as of June 30, 2005 are as follows:

Wastewater System Revenue Bonds Payable/ Water Pollution Control and Drinking Water Revenue Bonds Payable			
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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

6. Long-term Liabilities (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

6. Long-term Liabilities (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

6. Long-term Liabilities (continued)

Restricted Cash and Investments (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

6. Long-term Liabilities (continued)

Restricted Cash and Investments (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 and 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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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.

8. Defined Benefit Pension Plan (continued)

Plan Description (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

8. Defined Benefit Pension Plan (continued)

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%	—

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

8. Defined Benefit Pension Plan (continued)

Required Supplementary Information (unaudited)

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Entry Age Actuarial Accrued Liability (2)	(Unfunded) Actuarial Accrued Liability (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Annual Covered Payroll (3)	(UAAL) as a Percentage of Covered Payroll (1-2)/(3)
01/01/05	$ 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Commitments and Contingencies (continued)

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Commitments and Contingencies (continued)

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.