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***THE METROPOLITAN ST. LOUIS  
SEWER DISTRICT DEFERRED  
COMPENSATION PLAN AND TRUST***  
*FINANCIAL STATEMENTS  
DECEMBER 31, 2001*

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## Independent Auditors' Report

Board of Trustees  
The Metropolitan St. Louis Sewer District

We have audited the accompanying Statements of Plan Net Assets of The Metropolitan St. Louis Sewer District Deferred Compensation Plan and Trust as of December 31, 2001 and 2000, and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of the Plan Administrator. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of The Metropolitan St. Louis Sewer District Deferred Compensation Plan and Trust as of December 31, 2001 and 2000, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, The Metropolitan St. Louis Sewer District Deferred Compensation Plan and Trust adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," Statement No. 37, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*," and Statement No. 38, "*Certain Financial Statement Note Disclosures*" as of and for the year ended December 31, 2001. This results in a change in the format and content of the basic financial statements and accompanying notes to the financial statements.

The Management's Discussion and Analysis on pages 3 - 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Rubin, Brown, Gornstein & Co. LLP*

St. Louis, Missouri  
September 12, 2002

# **METROPOLITAN ST. LOUIS SEWER DISTRICT**

## **Deferred Compensation Plan and Trust**

### *Management Discussion and Analysis*

This report consists of a series of financial statements related to The Metropolitan St. Louis Sewer District's Deferred Compensation Plan and Trust ("Plan"). The Statements of Plan Net Assets and the Statements of Changes in Plan Net assets (pages 6 and 7) provide information about this plan. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's additions to and deductions from Plan net assets are taken into account regardless of when cash is received or paid.

Our discussion and analysis of The Metropolitan St. Louis Sewer District's Deferred Compensation Plan and Trust financial performance provides an overview of the Plan's financial activities for the fiscal year ended December 31, 2001. Please read it in conjunction with the plan's financial statements and notes to the financial statements.

### **FINANCIAL HIGHLIGHTS**

#### *Plan Assets, Deferrals and Deductions*

Net assets held in trust for Plan benefits exceeded \$14.4 million at the end of 2001 and the net asset value remained virtually unchanged from that of December 31, 2000 due to the combined impact of a decline in the overall value of the equity markets that was offset by additional employee contributions during the year. Contributions from participants were approximately \$2.0 million, which was approximately \$358 thousand or 15% below contributions in the prior year. This reduction along with the reduction of approximately 69% for interest and dividends resulted from an overall decline in the equity markets, which as measured by the S&P 500 Index declined 11.89% in 2001.

#### *Plan Additions for 2001 and 2000 (in thousands)*

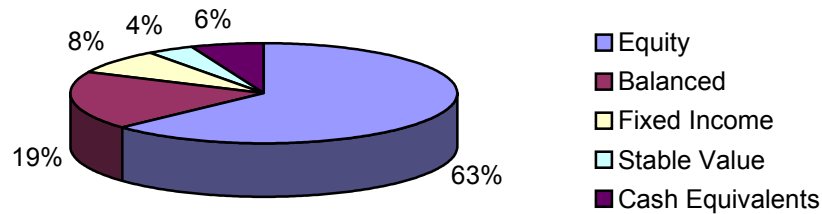
	<b>2001</b>	<b>2000</b>	<b>% Change</b>
Employee Contributions	\$1,987	\$2,345	(15.3% )
Interest and Dividends	327	1,041	(68.6% )
Depreciation in fair value - net	(1,521 )	(1,288 )	18.1%
Investment Expense	(1 )	(11 )	(94.4% )

#### *Plan Deductions for 2001 and 2000 (in thousands)*

	<b>2001</b>	<b>2000</b>	<b>% Change</b>
Distributions to Participants	\$793	\$851	(6.7%)

**Investment Aspects**

Employee participation in the Plan is on a voluntary basis. As of December 31, 2001 there were 807 Plan participants comprised of active employees of the District, retirees or surviving spouses and terminated employees with account balances. Investment decisions are participant directed. The participants are offered a diversified series of investment options. These investment options represent a series of mutual funds primarily sponsored and managed by the Vanguard Group. A breakdown of the participant directed asset allocation is as follows.



An independent investment consultant, Yanni Partners, monitors investment performance of the various options offered to the participants. For 2001, the investment consultant reported that all actively managed funds with the exception of the large capitalization growth fund met or exceeded the appropriate benchmarks. For the balanced or lifestyle funds, three of the five investment options met or exceeded their benchmarks. Performance of the funds are measured net of the corresponding expense ratios.

Certain participants with assets valued at \$1,391,656 are invested in a series of fixed and variable rate annuity contracts sponsored by Lincoln National Life Insurance Company. The Lincoln National Life option was phased out in 1992, and any balances represent undistributed participant balances. This option is no longer available to new participants or for current deferrals.

**Fiduciary Responsibilities**

The Board of Trustees and senior management are fiduciaries of the Plan and Trust. Fiduciaries are charged with the responsibility of assuring that the assets of the Plan are used exclusively for the benefit of plan participants and the beneficiaries.

***Request for Information***

This financial report is designed to provide the Board of Trustees, participants, investment managers, and other interested parties with an overview of the Plans finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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2000 Hampton Avenue  
St. Louis, MO 63139  
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THE METROPOLITAN ST. LOUIS SEWER DISTRICT  
DEFERRED COMPENSATION PLAN AND TRUST

STATEMENTS OF PLAN NET ASSETS

December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Investments at Fair Value	\$ 14,467,791	\$ 14,469,161
Net Assets Held in Trust for Plan Benefits	<u>\$ 14,467,791</u>	<u>\$ 14,469,161</u>

See accompanying notes to financial statements.

**THE METROPOLITAN ST. LOUIS SEWER DISTRICT  
DEFERRED COMPENSATION PLAN AND TRUST**

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**

**For the Years Ended December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
Additions:		
Employee Contributions	\$ 1,986,726	\$ 2,345,212
Investment Income (Loss):		
Dividends and Interest	327,241	1,040,602
Net Depreciation in Fair Value of Investments	(1,521,368)	(1,287,777)
Less: Investment Expenses	(600)	(10,733)
Net Investment Income (Loss)	<u>(1,194,727)</u>	<u>(257,908)</u>
Total Additions	<u>791,999</u>	<u>2,087,304</u>
Deductions:		
Distributions to Participants	793,369	850,507
Net Increase (Decrease)	<u>(1,370)</u>	<u>1,236,797</u>
Net Assets Held in Trust for Plan Benefits, Beginning of Year	14,469,161	13,232,364
Net Assets Held in Trust for Plan Benefits, End of Year	<u>\$ 14,467,791</u>	<u>\$ 14,469,161</u>

See accompanying notes to financial statements.

**THE METROPOLITAN ST. LOUIS SEWER DISTRICT  
DEFERRED COMPENSATION PLAN AND TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2001 and 2000**

1. Plan Description:

General: The Plan is a defined contribution benefit plan covering substantially all employees of the District. The District's Board of Trustees established the Plan in September 1996. The first contributions were made in October 1996. The Metropolitan St. Louis Sewer District (District) does not contribute to the plan. All assets of the Plan are the sole property of The Metropolitan St. Louis Sewer District Deferred Compensation Plan and Trust and are not subject to the claims of the creditors of the District.

The Plan Administrator issues a publicly available Summary Plan Description. That information may be obtained by writing: The Metropolitan St. Louis Sewer District, 2000 Hampton Avenue, St. Louis, MO 63139-2979.

Contributions: Under the plan provisions, employees of the District are eligible to contribute into the Plan, through payroll deferral, any amount not previously reduced or withheld from their total compensation. In accordance with The Revenue Act of 1978, the Plan limits an individual's annual contribution to 25% of annual gross taxable compensation, not to exceed \$8,500 for the year ended December 31, 2001 and \$8,000 for the year ended December 31, 2000. Amounts contributed by participants are deferred for federal and state income tax purposes until received as a withdrawal or distribution from the Plan.

Effective January 1, 2002, the Plan was amended and restated to comply with the Economic Growth and Tax Relief Reconciliation act of 2001. The Act made significant changes to Section 457(b) of the Internal Revenue Code of 1986, as previously amended, such as; increasing the maximum allowable dollar contribution to \$11,000 for 2002, increasing the maximum deferral percentage of taxable compensation to 100% as well as other changes.

Participant contributions may be allocated to the Vanguard Group accounts only, in 1% increments as the participant directs. No contributions are currently made to the Lincoln National accounts:

- Equity option: Vanguard Windsor II Fund, Vanguard Index 500 Fund, and Vanguard U.S. Growth Fund - Investment objective is long-term capital growth.
- Diversification option: Vanguard Small-Cap and Mid-Cap Index Funds and Vanguard International Growth Fund - Investment objective is long-term capital growth.

NOTES TO FINANCIAL STATEMENTS: Continued

1. Plan Description, continued:

- Life Strategy option: Vanguard Life Strategy Growth, Vanguard Life Strategy Moderate Growth, Vanguard Life Strategy Conservative Growth, and Vanguard Life Strategy Income Funds - Investment objective is long-term capital growth and/or Income.
- Bond option: Vanguard Total Bond Index Fund - Investment objective is income stability and conservation of principal.
- Balanced option: Vanguard Balanced Index Fund - Investment objective is income, conservation of principal, and long-term growth.
- Stable Value option: Vanguard Retirement Savings Trust - Investment objective is income stability and conservation of principal.
- Money Market option: Vanguard Money Market Portfolio Fund - Investment objective is safety of principal.

Participant Accounts: Each participant's account is credited with the participant's contribution and allocations of plan earnings. Allocations are based on participants' account balances, as defined. There are no forfeitures applicable to the Plan. Participants' contributions are immediately fully vested.

At December 31, 2001 and 2000, approximately 807 and 759 District employees, respectively, actively participated in the Plan.

Distributions: Participants contributing to the Plan may receive benefits, or withdraw the present value of funds contributed to the Plan, upon retirement, disability, or termination of employment from the District or due to financial hardship as defined by the Plan, if approved by the Plan Administrator.

Participants may select various payout options including lump sum or equal annual payments over various periods. Participants may also elect to have the value of their account converted into fixed or variable annuity contracts. All investments, including annuity contracts, remain assets of the Plan until payments are made to the participants.

Tax Status: The Plan received a favorable determination letter from the Internal Revenue Service on June 23, 1999, indicating the Plan and its underlying trust are qualified under Section 457 of the code.

2. Summary of Significant Accounting Policies and Plan Asset Matters:

New Accounting Pronouncement: In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments (GASB 34)*. In addition the GASB issued Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments: Omnibus*, which amended certain provisions of GASB 34 and Statement 38, *Certain Financial Statement Note Disclosures*. GASB 34 and related statements have no monetary impact on the financial statements of the Plan, but does require additional disclosure. As a result of the adoption of GASB 34, the Management's Discussion and Analysis has been included as required supplementary information and precedes the financial statements.

Basis of Accounting: The financial statements of the Plan are prepared under the accrual method of accounting. Benefit payments to participants are recorded upon distribution.

Accounting Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan Administrator to make certain estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

Investment Valuation: Purchases and sales of mutual funds are recorded on the settlement date. Investments in mutual funds are valued at fair value based on quoted market prices. Investments in annuity contracts are valued at amounts reported by the custodians, which approximate fair value. These values are based on actuarial assumptions as to anticipated mortality, withdrawals, and investment yield.

Administrative Expenses: All general administrative costs of the Plan are paid by the District, except those attributable to participants' choice of optional investments or optional forms of benefit payments. These expenses are charged to the respective participants' account balance.

3. Investments in Mutual Funds:

Investments in mutual funds held by the custodians in the Plan's name at December 31, 2001 and 2000, were as follows:

	<u>2001</u>	<u>2000</u>
<b>Vanguard Group, Inc.</b>		
Vanguard Retirement Savings Trust	\$ 489,266	\$ 444,878
Vanguard 500 Index Fund	2,036,037 *	2,003,575 *
Vanguard Balanced Index Fund	2,192,281 *	2,305,638 *
Vanguard FederalMoney Market Fund	866,192 *	555,484
Vanguard International Growth Fund	146,219	173,956

NOTES TO FINANCIAL STATEMENTS: Continued

3. Investments in Mutual Funds, continued:

Vanguard LifeStrategy Conservative Growth	37,672	29,919
Vanguard LifeStrategy Growth Fund	118,807	99,039
Vanguard LifeStrategy Income Fund	22,972	1,396
Vanguard LifeStrategy Moderate Growth Fund	58,053	25,423
Vanguard Mid-Cap Index Fund	8,425	-
Vanguard Small-Cap Index Fund	230,725	194,590
Vanguard Total Bond Market Index Fund	996,282 *	687,186
Vanguard U.S. Growth Fund	1,894,857 *	2,572,772 *
Vanguard Windsor II Fund	<u>3,978,347 *</u>	<u>3,821,555 *</u>
	<u>13,076,135</u>	<u>12,915,410</u>

**Lincoln National Life:**

Fixed earnings option:

Lincoln National Fixed	\$ 790,993 *	\$ 841,897 *
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Variable earnings option:

Growth & Income Fund	256,489	309,024
Special Opportunity Fund	99,242	100,498
Managed Fund	46,414	57,586
Equity-Income Fund	43,418	56,967
Money Market Fund	8,680	8,440
Bond Fund	42,434	45,407
Aggressive Growth Fund	13,058	23,393
International Fund	36,866	45,851
Social Awareness Fund	11,392	13,522
Global Asset (Putnam) Fund	5,283	7,606
Trend Fund	18,575	22,161
Capital Appreciation Fund	4,799	6,545
AFIS Growth Fund	6,035	7,447
DGPF Real Estate (REIT) Series	<u>7,978</u>	<u>7,408</u>

1,391,656

1,553,750

\$14,467,791

\$ 14,469,160

\* Represents 5% or more of the Plan's net assets.