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**EMPLOYEES RETIREMENT SYSTEM  
OF THE CITY OF ST. LOUIS  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

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FINANCIAL STATEMENTS  
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**EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2007**

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The following Management's Discussion and Analysis of the Employees Retirement System of the City of St. Louis (the System) provides an overview of the System's financial activities for the fiscal year ended September 30, 2007. This section should be read in conjunction with the System's financial statements and supplementary information.

**Financial Highlights**

The System's net assets were \$688.1 million at September 30, 2007, which represents an increase of \$120.2 million from September 30, 2006. The increase can be primarily attributed to appreciation in the fair market value of investments, and significant additional employer contributions.

The overall investment return for the System was 15.9% for FY 2007 and 11.4% for FY 2006. These investment returns were due to the continued strength in the financial markets and active management by the Board of Trustees in retaining quality investment managers while focusing on the long-term objectives of the System. The returns were well above the assumed actuarial rate of return of 8.0% used in both fiscal years.

Additions to net assets were \$157.9 million and \$75.4 million in fiscal years 2007 and 2006, respectively. The major components of the above figures are investment income, \$86.4 million and \$59.4 million for the same fiscal years. Employer contributions were \$71.3 million in 2007 and \$15.8 million in fiscal years 2006. Member contributions, which include member purchase of creditable service, were \$121,211 in FY 2007 and \$238,533 in FY 2006.

Deductions from net assets were \$37.7 million in FY 2007 and \$35.2 million in FY 2006. The increase is directly associated with increased pension benefits.

The System retained UBP Asset Management to manage \$25.0 million in FY 2007 to increase fixed income return.

**Financial Statements**

The financial report of the System consists of two financial statements: the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The Statement of Plan Net Assets provides the detail of the System's assets and related liabilities other than benefit obligations. The net assets of the System reflect the resources available for future benefit payments. The Statement of Changes in Plan Net Assets provides the details of the System's activity during the year that lead to the change in plan net assets from the prior year.

In addition to the financial statements, the financial report contains the notes to the financial statements and supplemental information, which provide additional information for use in analyzing the financial statements and actuarial information related to the funded status of the System.

**EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2007**

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**Financial Analysis**

Total assets at September 30, 2007 were \$804.5 million and were comprised of cash, investments, securities lending collateral and receivables. Total assets increased \$150.2 million or 22.9% over the prior year. Investment valuation accounted for \$114.4 million of the increase. Securities Lending Collateral increased \$29.6 million due to a corresponding change in the amount of securities currently on loan. Receivables increased over \$6.1 million mainly from the recording of any underpayments in employer contributions.

Total liabilities at September 30, 2007 were \$116.4 million and consisted mainly of accounts payable, securities lending collateral liability and net payable under forward foreign currency exchange contracts. Total liabilities increased \$30.0 million or 34.7% from the prior year, primarily from an increase in securities lending collateral liability.

Net assets held in trust for pension benefits increased 21.2% from the prior year.

**Condensed Statement of Plan Net Assets**

	September 30,		Total Change	
	2007	2006	Amount	Percentage
<b>Assets</b>				
Investments	\$ 681,558,053	\$ 567,143,483	\$ 114,414,570	20.2%
Cash	129,867	142,984	(13,117)	-9.2%
Receivables	7,356,011	1,224,922	6,131,089	500.5%
Securities Lending	115,490,970	85,848,546	29,642,424	34.5%
<b>Total Assets</b>	<b>804,534,901</b>	<b>654,359,935</b>	<b>150,174,966</b>	<b>23.0%</b>
<b>Liabilities</b>				
Accounts Payable	655,766	566,843	88,923	15.7%
Securities Lending	115,490,970	85,848,546	29,642,424	34.5%
Currency Exchange	255,579	(9,868)	265,447	n/a
<b>Total Liabilities</b>	<b>116,402,315</b>	<b>86,405,521</b>	<b>29,996,794</b>	<b>34.7%</b>
<b>Net Assets</b>	<b>\$ 688,132,586</b>	<b>\$ 567,954,414</b>	<b>\$ 120,178,172</b>	<b>21.2%</b>

**Revenues – Additions to Plan Net Assets**

The assets needed to finance retirement benefits are accumulated through employer and member contributions and earnings on investments. Employer contributions of \$71.3 million for FY 2007 included receipt of \$46.7 million from the City of St. Louis in September. Member contributions, employees who became members prior to October 14, 1977 and continue to make voluntary contributions, and member purchases of creditable service were \$121,211 in FY 2007.

**EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2007**

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**Revenues – Additions to Plan Net Assets (Continued)**

Net investment income totaled \$86.4 million in FY 2007 and \$59.4 million in FY 2006. The difference is attributed to a higher investment return in FY 2007, 15.9% versus 11.4%. Net investment income includes deductions of \$3.1 million for investment management and custodial fees in both years.

**Expenses – Deductions from Plan Net Assets**

The major expenses of the System include the payment of pension benefits to retirees and beneficiaries and administrative expenses. Other expenses within retirement benefits include refund of contributions and pension service transfer payments to other public retirement plans within the State of Missouri which have a portability agreement with the System. Transfer payments were \$128,108 in FY 2007 and \$52,682 in FY 2006. Total expenses were \$37.7 million in FY 2007, an increase of \$2.5 million when compared to the \$35.2 million in FY 2006.

**Condensed Statements of Changes in Plan Net Assets**

	Years Ended September 30,		Total Change	
	2007	2006	Amount	Percentage
<b>Additions</b>				
Net Investment Income	\$ 86,431,896	\$ 59,403,489	\$ 27,028,407	45.5%
Employer Contributions	71,301,428	15,756,456	55,544,972	352.5%
Member Contributions	121,211	238,533	(117,322)	-49.2%
<b>Total Additions</b>	<b>157,854,535</b>	<b>75,398,478</b>	<b>82,456,057</b>	<b>109.4%</b>
<b>Deductions</b>				
Retirement Benefits	36,991,146	34,608,936	2,382,210	6.9%
Administrative Expenses	685,217	568,299	116,918	20.6%
<b>Total Deductions</b>	<b>37,676,363</b>	<b>35,177,235</b>	<b>2,499,128</b>	<b>7.1%</b>
<b>Changes in Net Assets</b>	<b>\$ 120,178,172</b>	<b>\$ 40,221,243</b>	<b>\$ 79,956,929</b>	<b>198.8%</b>

**Summary**

The System's Net Assets Held in Trust for Pension Benefits has increased in seven out of the past ten years. Major decreases, which occurred in fiscal years 2002 and 2001, were the result of investment losses due to an economic slowdown that detrimentally affected most pension systems. The Trustees believe, and the actuarial calculations confirm, that the System is in a financial position to meet its current pension obligations. The System's financial condition should continue to improve with a prudent investment policy, cost containment and a sound economic environment.

**EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2007**

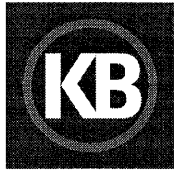
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**Summary (Continued)**

The System is considered as a qualified governmental plan under Section 401(a) of the Internal Revenue Code.

**Requests for Information**

This financial report is designed to provide the Board of Trustees, our members and other users of our financial report with a general overview of the System's finances and to demonstrate the System's accountability for its funds. If you have any questions about this report or need additional financial information, contact the Employees Retirement System of the City of St. Louis, 1114 Market Street, Suite 900, St. Louis, MO 63101.



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## INDEPENDENT AUDITORS' REPORT

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To the Board of Trustees of the **Employees Retirement System of the City of St. Louis**  
St. Louis, Missouri

We have audited the accompanying statement of plan net assets of the Employees Retirement System of the City of St. Louis (the "System", a component unit of the City of St. Louis, Missouri), as of September 30, 2007 and the related statement of changes in plan net assets for the year then ended. The financial statements of Employees Retirement System of the City of St. Louis as of September 30, 2006 and for the year then ended were audited by other auditors whose report dated January 4, 2007 expressed an unqualified opinion on those statements. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Employees Retirement System of the City of St. Louis as of September 30, 2007, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The management discussion and analysis on Pages 1 - 4, and the supplemental schedules of funding progress, employer contributions, and actuarial assumptions and actuarial cost method on Pages 18 - 19 are not a required part of the basic financial statements of the System, but are supplemental information required by the Governmental Accounting Standards Board. For the management discussion and analysis, and schedules of funding progress, employer contributions, and actuarial assumptions and actuarial cost, we have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Kiefer Bonfanti & Co. LLP*

April 16, 2008



**EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS**

**STATEMENTS OF PLAN NET ASSETS**

	<b>Assets</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash</b>	\$ 129,867	\$ 142,984
<b>Receivables</b>		
Accrued interest receivable	879,783	785,747
Accrued dividend receivable	219,937	208,315
Employers contribution receivable	6,256,291	230,860
<b>Total Receivables</b>	<b>7,356,011</b>	<b>1,224,922</b>
<b>Investments, at Fair Value</b>		
Temporary cash investments	48,439,488	2,205,036
United States Government and Agency securities	37,498,001	41,161,737
Corporate bonds and debentures	17,089,462	19,134,914
Foreign governmental and corporate obligations.	23,593,373	17,556,374
Stocks	266,480,664	237,187,452
Managed international equity funds	141,245,849	139,834,726
Real estate funds	75,596,754	65,002,882
Domestic bond funds	45,100,603	45,060,362
Managed hedge fund	26,513,859	-
<b>Total Investments</b>	<b>681,558,053</b>	<b>567,143,483</b>
<b>Securities Lending Collateral</b>	<b>115,490,970</b>	<b>85,848,546</b>
<b>Total Assets</b>	<b>804,534,901</b>	<b>654,359,935</b>
	<b>Liabilities</b>	
<b>Accounts Payable</b>	655,766	566,843
<b>Securities Lending Collateral Liability</b>	115,490,970	85,848,546
<b>Payable (Receivable) Under Forward</b>		
Foreign Currency Exchange Contracts	255,579	(9,868)
<b>Total Liabilities</b>	<b>116,402,315</b>	<b>86,405,521</b>
<b>Net Assets Held in Trust for Pension Benefits</b>	\$ <b>688,132,586</b>	\$ <b>567,954,414</b>

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EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Years Ended September 30,	
	2007	2006
<b>Additions</b>		
<b>Contributions</b>		
Employer Contributions	\$ 71,301,428	\$ 15,756,456
Member Contributions	121,211	238,533
<b>Total Contributions</b>	<b>71,422,639</b>	<b>15,994,989</b>
<b>Investment Income</b>		
Interest and dividends	9,127,855	7,718,797
Net appreciation in fair value of investments	80,387,569	54,812,134
	<b>89,515,424</b>	<b>62,530,931</b>
Less investment expenses	3,083,528	3,127,442
<b>Net Investment Income</b>	<b>86,431,896</b>	<b>59,403,489</b>
<b>Total additions</b>	<b>157,854,535</b>	<b>75,398,478</b>
<b>Deductions</b>		
Retirement benefits	36,991,146	34,608,936
Administrative	685,217	568,299
<b>Total Deductions</b>	<b>37,676,363</b>	<b>35,177,235</b>
<b>Net Increase</b>	<b>120,178,172</b>	<b>40,221,243</b>
<b>Net Assets Held in Trust</b>		
<b>For Pension Benefits</b>		
Beginning of Year	567,954,414	527,733,171
End of Year	\$ 688,132,586	\$ 567,954,414

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007 AND 2006

1. DESCRIPTION OF THE PLAN

**General**

The System is a cost-sharing multiple-employer defined benefit public employee's retirement system for all non-uniformed employees of the City of St. Louis and certain other public entities funded by or providing services to residents of the City of St. Louis. These additional employee groups covered by the System are the employees of the St. Louis Public Library, the Art Museum of St. Louis, the St. Louis Zoological Park, the City of St. Louis Water Division, the Airport Authority, the City Mental Health Board, the Metropolitan Taxicab Commission, the System, and civilian employees of the police department and police and firemen's retirement systems. The System became operative April 1, 1960 by municipal ordinance establishing the System under the authority of Senate Bill No. 329 of the 70th General Assembly of the State of Missouri. Responsibility for operation and administration of the System is vested in its Board of Trustees. The Board of Trustees consists of the Comptroller of the City of St. Louis, two members appointed by the Mayor of the City of St. Louis, two members elected by the membership of the System, and one member elected by the retired members of the System.

**Membership**

At September 30, 2007 and 2006, membership consisted of the following:

	<u>2007</u>	<u>2006</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,254	6,192
Current employees		
Fully vested	4,103	4,058
Non-vested	1,609	1,616
	<u>11,966</u>	<u>11,866</u>

**Benefits**

The System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the System after the employee has attained five years of creditable service.

# EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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## Notes to Financial Statements Continued

### ***Benefits (Continued)***

Employees retire with full retirement benefits after the age of 65 or if an employee's age and creditable service combined equal or exceed 85. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service, age 55 with at least 20 years of creditable service, or any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

### ***Contributions***

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. Deductions from plan net assets are financed from plan additions. The Board of Trustees established the required employer contribution rates, based on active member payroll, of 13.21% effective July 1, 2007, 13.17% effective July 1, 2006, and 13.19% effective July 1, 2005.. The City of St. Louis contributed 6% of active member payroll beginning July 2003 through June 2006 and 7.55% of active member payroll beginning July 2006 through the present. In September 2007, the City of St. Louis made an additional contribution of \$46,699,058.

Employees, who became members of the System prior to October 14, 1977 and continued to make contributions, may make voluntary contributions to the System equal to 3% of their compensation until the compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year.

### ***Funding Policy***

The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Estimates***

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

## EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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### Notes to Financial Statements Continued

#### ***Basis of Accounting***

The financial statements were prepared using the accrual basis of accounting except that retirement benefits are recorded when due to the beneficiary. Employee contributions are recognized as additions in the period in which employee services are performed

Administrative deductions are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

#### ***Tax Status***

The System has been determined to be exempt from federal income taxes under Section 115 of the Internal Revenue Code. In 2005, the System became a qualified retirement plan in accordance with Internal Revenue Service regulations.

#### ***Investments***

A list of allowable investments is included in Note 3. Investments are reported at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Commingled funds are valued at the unit value quoted by the investee entity. Security transactions and any resulting realized gains or losses are accounted for on a completed transaction basis.

The System participates in a securities lending program administered by State Street Bank and Trust, the custodian. Brokers who borrow the securities provide collateral equal to 102% for domestic securities loaned. There are no restrictions on the amount of securities that can be lent at one time. At September 30, 2007 and 2006, the term to maturity of the securities lent is matched with the term to maturity of the investment of the cash collateral. These loans can be terminated on demand by either the lender or borrower. The System cannot pledge or sell non-cash collateral unless the borrower defaults. As of September 30, 2007 and 2006, the System has lending arrangements outstanding with a market value for securities lent of \$112,377,843 and \$83,520,962, respectively, and a total market value for securities received as collateral of \$115,490,970 and \$85,848,546, respectively, resulting in no credit risk for the System.

#### ***Furniture and Equipment***

Acquisitions of furniture and equipment are charged to administrative expense.

## EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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### Notes to Financial Statements Continued

#### ***Derivatives***

The System currently retains Payden & Rygel Investment Counsel as a global fixed income investment manager. The System permits Payden & Rygel to utilize financial derivative instruments such as forwards, futures, and options. The use of these financial derivatives is defensive in nature; that is, used only to manage duration and foreign currency exposure and bond exposure. The System's investment policy requires that open currency exposure shall not exceed 10 percent of the global fixed income portfolio.

As of September 30, 2007 and 2006, the system had a net payable of \$255,579 and a net receivable of \$9,868 (cost is \$0 both years), respectively, based on current market values.

### **3. CASH AND INVESTMENTS**

The System is authorized to invest in:

- U.S. government securities;
- Non-U.S. fixed income securities;
- Common stocks of corporations organized under the laws of the United States;
- Common stocks of foreign corporations through separate accounts as commingled vehicles;
- Publicly-issued corporate bonds, debentures, notes, or other evidences of indebtedness assumed or guaranteed by corporations organized under the laws of the United States with ratings of "A" or better by Moody's Investors Service;
- Short-term securities with a maximum maturity of one year including institutional liquid assets, U.S. Treasury obligations, Federal Agency obligations, discount and interest-bearing notes from corporations, and certificates of deposit; and
- Real estate through discretionary commingled vehicles.
- Hedge funds through either separate or commingled fund of funds vehicles

## EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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### Notes to Financial Statements Continued

#### 3. CASH AND INVESTMENTS (CONTINUED)

Financial instruments that potentially subject the System to concentrations of credit risk and market risk consist principally of cash and investments. The System places its cash with a major financial institution.

The bank balances of the System at September 30, 2007 and 2006, were \$712,805 and \$1,004,191, respectively. These balances were insured by the Federal Deposit Insurance Corporation up to \$100,000. The remaining balances were collateralized by securities held by the pledging financial institution's trust department in the System's name.

The System has a significant amount of investments that are subject to market risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable.

All investments at September 30, 2007 and 2006 were held by the System's agent in the System's name.

At September 30, 2007, the System has the following concentrations, defined as investments (other than those issued or guaranteed by the U.S. government) in any one organization, that represent five percent or more of total investments:

State Street Global Advisors		
Passive Bond Market Index Fund	<u>\$ 45,100,603</u>	<u>6.62%</u>
Silchester International Investors		
International Value Equity Group Trust	<u>\$ 81,395,211</u>	<u>11.94%</u>
Walter Scott & Partners Limited		
Group Trust International	<u>\$ 59,850,636</u>	<u>8.78%</u>
Principal Global Investors		
Real Estate Group Annuity Contract	<u>\$ 75,596,754</u>	<u>11.09%</u>

## EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

### Notes to Financial Statements Continued

#### 3. CASH AND INVESTMENTS (CONTINUED)

At September 30, 2007 and 2006, investments at fair value consisted of the following:

	2007	2006
Temporary cash investments	\$ 48,439,488	\$ 2,205,036
United States Government and Agency securities	37,498,001	41,161,737
Corporate bonds and debentures	17,089,462	19,134,914
Foreign governmental and corporate obligations	23,593,373	17,556,374
Stocks	266,480,664	237,187,452
Managed international equity fund	141,245,849	139,834,726
Real estate funds	75,596,754	65,002,882
Domestic bond funds	45,100,603	45,060,362
Managed hedge fund	26,513,859	-
	\$ 681,558,053	\$ 567,143,483

#### ***Foreign Currency Risk***

The System does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table:

Currency	Short-Term	Debt	Equity	Total
British Pound	\$ 735,905	\$ 817,729	\$ -	\$ 1,553,634
Brazilian Real	-	158,220	-	158,220
Canadian Dollar	-	1,016,953	-	1,016,953
Euros	108,915	9,630,749	-	9,739,664
Japanese Yen	4,906	3,508,956	-	3,513,862
	\$ 849,726	\$ 15,132,607	\$ -	\$ 15,982,333



# EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

## Notes to Financial Statements Continued

### 3. CASH AND INVESTMENTS (CONTINUED)

#### ***Credit Risk of Debt Securities***

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation to the System. Below is a list of fixed income credit qualities.

<b>Quality Rating</b>	
Aaa/U.S. governments	\$ 90,673,526
Aa	8,416,206
A	11,930,726
Baa	7,383,261
Below Baa	4,877,720
<b>Total Credit Risk Debt</b>	<b>\$ 123,281,439</b>

All temporary cash investments held by the System at September 30, 2007 were unrated.

#### ***Interest Rate Risk***

The System does not have a formal policy to limit interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price

<b>Investment</b>	<b>Fair Value</b>	<b>Effective Duration</b>
Payden and Rygel	\$ 34,840,855	5.5 years
Allegiant	43,339,981	5.2 years
SSGA	45,100,603	4.7 years
<b>TOTAL</b>	<b>\$ 123,281,439</b>	

### 4. PLAN TERMINATION

The System is administered in accordance with the provisions of the Revised Code of the City of St. Louis. There are currently no plans to terminate the System.

# EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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## Notes to Financial Statements Continued

### 5. DEFERRED RETIREMENT OPTION PLAN

On June 8, 2000, the Mayor of the City of St. Louis approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost of living increases as the normal retirement benefits are.

The DROP account earns interest at the actuarial valuation rate of return and at the 10 year U.S. Treasury Bond yield as of each September 30, for DROP participants enrolling February 1, 2003 and thereafter.

After the members completely terminate employment, they can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan. At September 30, 2007, approximately 613 members have elected to DROP participation and have DROP account balances.

### 6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2007, the System's Funded status was as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
\$646,569,478	\$732,576,024	(\$86,006,546)	88.26%	\$231,029,237	37.23%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

# EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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## Notes to Financial Statements Continued

### 7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

<b>VALUATION DATE</b>	October 1, 2007
<b>ACTUARIAL COST METHOD</b>	Projected Unit Credit Cost Method
<b>AMORTIZATION METHOD</b>	Level dollar amount for unfunded liability, open
<b>REMAINING AMORTIZATION PERIOD</b>	30 years as of October 1, 2007
<b>ASSET VALUATION METHOD</b>	The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value. The actuarial asset value was initialized as the market value as of October 1, 2005.
<b>SIGNIFICANT ASSUMPTIONS</b>	
Investment rate of return	8.00%
Projected salary increases	Varies by age, ranging from 3.825% to 7.226%.
Cost of living adjustments	5.00% per year; maximum cumulative increase of 25%.

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**SUPPLEMENTARY INFORMATION**

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EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF FUNDING PROGRESS

SEPTEMBER 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded)/ Overfunded UAAL	Funded Ratio	Overfunded AAL as a % of		Unfunded AAL as a % of	
					Covered Payroll	Uncovered Payroll	Covered Payroll	Uncovered Payroll
9/30/1992	\$ 325,143,300	\$ 297,156,900	\$ 27,986,400	109.42%	\$ 133,682,464	20.93%		
9/30/1993	342,416,800	309,350,000	33,066,800	110.69%	143,239,904	23.08%		
9/30/1994	342,486,700	327,020,600	15,466,100	104.73%	153,577,040	10.07%		
9/30/1995	353,305,600	344,306,400	8,999,200	102.61%	161,157,602	5.58%		
9/30/1996	382,377,898	364,020,306	18,357,592	105.04%	170,077,631	10.79%		
9/30/1997	415,345,946	381,345,566	34,000,380	108.92%	176,908,292	19.22%		
9/30/1998	460,683,063	390,780,537	69,902,526	117.89%	188,141,151	37.15%		
9/30/1999	482,750,053	415,594,927	67,155,126	116.16%	193,273,578	34.75%		
9/30/2000	507,655,329	515,673,757	(8,018,428)	98.45%	204,696,581		3.92%	
9/30/2001	466,630,792	542,547,374	(75,916,582)	86.01%	216,527,124		35.06%	
9/30/2002	432,590,313	574,817,702	(142,227,389)	75.26%	230,184,836		61.79%	
9/30/2003	424,917,296	576,127,904	(151,210,608)	73.75%	228,550,406		66.16%	
9/30/2004	431,853,406	602,795,470	(170,942,064)	71.64%	221,768,791		77.08%	
9/30/2005	527,733,171	666,182,075	(138,448,904)	79.22%	223,837,003		61.85%	
9/30/2006	554,065,539	695,889,716	(141,824,177)	79.62%	224,120,314		63.28%	
<b>9/30/2007</b>	<b>646,569,478</b>	<b>732,576,024</b>	<b>(86,006,546)</b>	<b>88.26%</b>	<b>231,029,237</b>		<b>37.23%</b>	

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

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SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2007

Plan Year End	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
1994	\$ -	\$ -	N/A
1995		353,964	N/A
1996		1,277,465	N/A
1997		407,168	N/A
1998		1,816,739	N/A
1999		1,651,025	N/A
2000		284,910	N/A
2001	17,492,110	2,768,208	15.83%
2002	24,269,937	12,106,532	49.88%
2003	32,186,050	19,115,679	59.39%
2004	30,926,604	15,158,997	49.02%
2005	29,243,453	15,752,497	53.87%
2006	29,478,032	15,756,456	53.45%
<b>2007</b>	<b>29,599,091</b>	<b>71,301,428</b>	<b>240.89%</b>