EMPLOYEES RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

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Table of Contents

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, 2008. This section should be read in conjunction with the System's financial statements and supplementary information.

Financial Highlights

The System's net assets were $590.9 million at September 30, 2008, a decrease of $97.2 million from September 30, 2007. The decrease is attributed to the global economic crisis adversely affecting all financial markets in the fiscal year.

The investment return of (-12.4%) in the fiscal year reverses the trend of positive returns of greater than 10 percent experienced in the previous five years. The System's equity holdings declined almost 20 percent in the fiscal year. The economic crisis has continued into early 2009 with further declines in the equity and real estate markets. The System is currently maintaining larger than normal balances in short-term investments to reduce the need for redemption of investment assets at depressed prices.

Benefits and expenses were $41.4 million in FY 2008 and $37.7 million in FY 2007. Pension benefits accounted for $3.5 million of the increase. Net investment income reduced net assets by $86.3 million in FY 2008 and increased net assets by $86.4 million in FY 2007. Employer contributions were $30.4 million and $71.3 million in fiscal years 2008 and 2007, respectively.
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Financial Statements

The financial report of the System consists of two financial statements: the Statement of Net Plan Assets and the Statement of Changes in Plan Net Assets. The Statement of Net Plan 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.

Financial Analysis

Total assets at September 30, 2008 of $699.8 million were comprised of cash, investments, securities lending collateral and receivables. Total assets decreased $104.7 million over the prior year. Net investment losses accounted for $86 million of the decrease. Securities Lending Collateral decreased $7 million due to a corresponding change in the amount of securities on loan. Receivables decreased $4.6 million as underpayments in employer contributions from prior years were paid. A stronger dollar, compared to other major currencies, resulted in a net receivable from forward foreign currency exchange contracts.

Total liabilities at September 30, 2008 were $108.9 million and consisted mainly of accounts payable and securities lending collateral liability. Total liabilities decreased $7.5 million from the prior year due to the decrease in securities lending collateral liability.

Net assets held in trust for pension benefits were $590.9 million at September 30, 2008, a decrease of $97.3 million or 14.1% from the prior year.

Condensed Statement of Plan Net Assets

	September 30,		Total Change	
	2008	2007	**Amount**	**Percentage**
Assets				
Investments	**$ 588,617,569**	$ 681,558,053	$ (92,940,484)	-13.6%
Cash	**48,611**	129,867	(81,256)	-62.6%
Receivables	**2,837,825**	7,356,011	(4,518,186)	-61.4%
Securities Lending	**108,304,311**	115,490,970	(7,186,659)	-6.2%
Total Assets	**699,808,316**	804,534,901	(104,726,585)	-12.9%
Liabilities				
Accounts Payable	**622,442**	655,766	(33,324)	-5.1%
Securities Lending	**108,304,311**	115,490,970	(7,186,659)	-6.2%
Currency Exchange	**-**	255,579	(255,579)	n/a
Total Liabilities	**108,926,753**	116,402,315	(7,475,562)	-6.4%
Net Assets	**$ 590,881,563**	$ 688,132,586	$ (97,251,023)	-14.1%

Revenues – Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the receipt of employer and member contributions and the earnings on investments. Employer contributions of $30.3 million in FY 2008 and $71.3 million in FY 2007 included additional contributions of $14.2 million and $46.7 million from the City of St. Louis. Member contributions, employees who became members prior to October 14, 1977 and continue to make voluntary contributions and member purchases of creditable service were $90,934 and $121,211 in FY 2008 and FY 2007, respectively.

Revenues – Additions to Plan Net Assets (Continued)

Net investment activity resulted in a loss of $86.3 million in FY 2008 as the System incurred a (-12.4%) return on investment. Investment expenses included deductions for custodial and investment management fees of slightly more than $3.1 million 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. Contribution refunds were zero in both years. Transfer payments were $50,208 in FY 2008 and $128,108 in FY 2007. Total expenses were $41,360,205 in FY 2008, an increase of $3,683,842 from the FY 2007 total of $37,676,363.

Condensed Statements of Changes in Plan Net Assets

	Years Ended September 30,		Total Change	
	2008	2007	**Amount**	**Percentage**
Contributions				
Employer contributions	**$ 30,350,011**	$ 71,301,428	$ (40,951,417)	-57.4%
Member contributions	**90,934**	121,211	(30,277)	-25.0%
Total Contributions	**30,440,945**	71,422,639	(40,981,694)	-57.4%
Investment Activity				
Interest and dividends less investments expenses	**7,667,432**	6,044,327	1,623,105	26.9%
Net appreciation (depreciation) in fair value of investments	**(93,999,195)**	80,387,569	(174,386,764)	-216.9%
Total Investment Income (Loss)	**(86,331,763)**	86,431,896	(172,763,659)	-199.9%
Deductions				
Retirement benefits	**40,542,025**	36,991,146	3,550,879	9.6%
Administrative expenses	**818,180**	685,217	132,963	19.4%
Total Deductions	**41,360,205**	37,676,363	3,683,842	9.8%
Changes in Net Assets	**$ (97,251,023)**	$ 120,178,172	$ (217,429,195)	-180.9%

Summary

The System's Net Assets Held in Trust for Pension Benefits has increased in eight out of the past twelve years. Major decreases also occurred in fiscal years 2002 and 2001 resulting from an economic slowdown that detrimentally affected most pension systems. In FY 1998, the System experienced a decrease of less than 3 percent or $12 million. The financial markets continue to adversely impact the System. However, the System remains in a position to meet its current pension obligations, as confirmed by the recent actuarial calculations. The Trustees, working in conjunction with the staff, investment consultant and managers, believe the System is positioned to benefit from any improvement in the financial markets.

The System is 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

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

We have audited the accompanying statements 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, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. 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 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 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 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 Employees Retirement System of the City of St. Louis as of September 30, 2008 and 2007, 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.

Our audits were 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 and employer contributions, on Pages 20-21 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, and employer contributions, 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 for the years ended September 30, 2008 and 2007. However, we did not audit the information and express no opinion on it. Limited procedures were applied by other auditors to the required supplementary information for the years ended September 30, 2006 and prior years.

Kiefer Bonfanti & Co. LLP

April 20, 2009

STATEMENTS OF PLAN NET ASSETS

Assets

	September 30, 2008	2007
Cash	**$ 48,611**	$ 129,867
Receivables		
Accrued interest receivable	**1,020,546**	879,783
Accrued dividend receivable	**264,742**	219,937
Employers contribution receivable	**1,434,753**	6,256,291
Receivable under forward foreign currency exchange contracts	**117,784**	-
Total Receivables	**2,837,825**	7,356,011
Investments, at Fair Value		
Temporary cash investments	**17,792,233**	48,439,488
United States Government and Agency securities	**35,078,767**	37,498,001
Corporate bonds and debentures	**28,770,751**	17,089,462
Foreign governmental and corporate obligations	**18,681,079**	23,593,373
Stocks	**229,422,153**	266,480,664
Managed international equity funds	**114,075,537**	141,245,849
Real estate funds	**74,835,092**	75,596,754
Domestic bond funds	**46,180,167**	45,100,603
Managed hedge fund of funds	**23,781,790**	26,513,859
Total Investments	**588,617,569**	681,558,053
Securities Lending Collateral	**108,304,311**	115,490,970
Total Assets	**699,808,316**	804,534,901

Liabilities

	2008	2007
Accounts Payable	**622,442**	655,766
Securities Lending Collateral Liability	**108,304,311**	115,490,970
Payable Under Forward Foreign Currency Exchange Contracts	**-**	255,579
Total Liabilities	**108,926,753**	116,402,315
Net Assets Held in Trust for Pension Benefits	**$ 590,881,563**	$ 688,132,586

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Years Ended September 30,	
	2008	2007
Contributions		
Employer contributions	**$ 30,350,011**	$ 71,301,428
Member contributions	**90,934**	121,211
Total Contributions	**30,440,945**	71,422,639
Investment Activity		
Interest and dividends	**10,895,381**	9,127,855
Net appreciation (depreciation)		
in fair value of investments	**(93,999,195)**	80,387,569
	(83,103,814)	89,515,424
Less investment expenses	**3,227,949**	3,083,528
Net Investment Income (Loss)	**(86,331,763)**	86,431,896
Deductions		
Retirement benefits	**40,542,025**	36,991,146
Administrative	**818,180**	685,217
Total Deductions	**41,360,205**	37,676,363
Net Increase (Decrease)	**(97,251,023)**	120,178,172
Net Assets Held in Trust For		
Pension Benefits		
Beginning of Year	**688,132,586**	567,954,414
End of Year	**$ 590,881,563**	$ 688,132,586

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

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, 2008 and 2007, membership consisted of the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,312	6,254
Current employees		
Fully vested	4,002	4,103
Non-vested	1,754	1,609
	12,068	11,966

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.

1. DESCRIPTION OF THE PLAN (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 10.95% effective July 1, 2008, 13.21% effective July 1, 2007, and 13.17% effective July 1, 2006. The City of St. Louis contributed 6% of active member payroll beginning July 2003 through June 2006, 7.55% of active member payroll beginning July 2006 through the June 2008, and 10.95% of active member payroll beginning July 2008 through the present. The City of St. Louis made additional contributions of $46,699,058 in September 2007 and $14,221,889 in July 2008.

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.

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 value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Security transactions and any resulting realized gains or losses are accounted for on a completed transaction basis. Commingled funds are valued at the unit value quoted by the investee entity based on the underlying asset values. Real estate funds and other managed funds are valued based on valuations of underlying investments as reported by fund managers.

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, resulting in no credit risk for the System. There are no restrictions on the amount of securities that can be lent at one time. At September 30, 2008 and 2007, the term to maturity of the securities on loan 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

As of September 30, 2008, the System had the following securities on loan:

		Securities on Loan, at Market Value
US Corporate Bond and Equity		
Agency	$	255,880
Corporate bond		7,731,245
Equity		81,620,443
Total US Corporate Bond and Equity		89,607,568
US Government		
Agency		1,589,452
Treasury		16,676,621
Total US Government		18,266,073
Non-US Fixed Income		306,776
Total Securities on Loan	**$**	**108,180,417**

Subsequent to September, 2008, the System has instructed State Street Bank and Trust to limit the value of securities loaned to $100 million and refrain from any additional lending. As of September 30, 2007, the System had lending arrangements outstanding with a market value for securities loaned of $112,377,843, and a total market value for securities received as collateral of $115,490,970.

Furniture and Equipment

Acquisitions of furniture and equipment are charged to administrative expense.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives (continued)

At September 30, 2008 and 2007, the System had the following amounts under forward foreign currency exchange contracts:

	2008	2007
Receivable under forward foreign currency exchange contracts	$ 6,156	$ 120,429
Payable under forward foreign currency exchange contracts	111,628	(376,008)
Net receivable (payable) under forward foreign currency exchange contracts	**$ 117,784**	$ (255,579)

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

3. CASH AND INVESTMENTS (CONTINUED)

The bank balances of the System at September 30, 2008 and 2007 were $817,472 and $712,805, respectively. These balances were insured by the Federal Deposit Insurance Corporation up to $250,000. 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, 2008 and 2007 were held by the System's agent in the System's name.

At September 30, 2008, 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	$ 46,180,167	7.85%
Silchester International Investors International Value Equity Group Trust	$ 65,784,807	11.18%
Walter Scott & Partners Limited Group Trust International	$ 48,290,730	8.20%
Principal Global Investors Real Estate Group Annuity Contract	$ 74,835,092	12.71%

3. CASH AND INVESTMENTS (CONTINUED)

At September 30, 2008 and 2007, investments at fair value consisted of the following:

	2008	2007
Temporary cash investments	**$ 17,792,233**	$ 48,439,488
United States Government and Agency securities	**35,078,767**	37,498,001
Corporate bonds and debentures	**28,770,751**	17,089,462
Foreign governmental and corporate obligations	**18,681,079**	23,593,373
Stocks	**229,422,153**	266,480,664
Managed international equity fund	**114,075,537**	141,245,849
Real estate funds	**74,835,092**	75,596,754
Domestic bond funds	**46,180,167**	45,100,603
Managed hedge fund	**23,781,790**	26,513,859
	$ 588,617,569	$ 681,558,053

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	$ 51,437	$ 1,271,179	$ -	**$ 1,322,616**
Brazilian Real	-	132,196	-	**132,196**
Canadian Dollar	2,984	1,140,258	-	**1,143,242**
Euros	837,369	11,011,412	-	**11,848,780**
Mexican Peso	-	202,474	-	**202,474**
Uruguayan Peso	-	75,745	-	**75,745**
Japanese Yen	30,750	4,905,335	-	**4,936,085**
	$ 922,539	**$ 18,738,599**	**$ -**	**$ 19,661,138**

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.

Quality Rating		
Aaa/U.S. Governments	$	85,321,212
Aa		12,002,365
A		21,314,128
Baa		8,466,023
Below Baa		1,607,036
Total Credit Risk Debt	$	128,710,764

All temporary cash investments held by the System at September 30, 2008 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.

Investment		Fair Value	Effective Duration
Payden and Rygel	$	31,066,695	5.6 years
Allegiant		51,463,902	5.2 years
SSGA		46,180,167	4.5 years
TOTAL	$	128,710,764	

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.

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.

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, 2008, approximately 621 members have elected to DROP participation and have DROP account balances.

6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2008, the System's funded status was as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
$674,016,719	$765,842,026	($91,825,307)	88.01%	$238,701,628	38.47%

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

7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

VALUATION DATE	October 1, 2008
ACTUARIAL COST METHOD	Projected Unit Credit Cost Method
AMORTIZATION METHOD	Level dollar amount for unfunded liability, open
REMAINING AMORTIZATION PERIOD	30 years remaining as of October 1, 2008
ASSET VALUATION METHOD	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 market value. The actuarial asset value was initialized as the market value as of October 1, 2005.
SIGNFICANT ASSUMPTIONS	
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%.

8. COMMITMENTS AND CONTINGENCIES

The System is a party to two pending lawsuits. In the first lawsuit, Zoological Subdistrict, et al. vs. Darlene Green, et al., St. Louis City Circuit Court Cause No. 0722-CC07132, the Zoo claims the System's trustees violated their fiduciary obligations by failing to provide each employer with a separate employer contribution rate based upon its employees' demographics as opposed to the uniform employer contribution rate approved by the trustees. If the separate employer rate is granted and assuming all the participating employers pay at the separate employer contribution rate, there should be no material change in the System's finances, except for a slight increase in administrative expenses for each separate calculation. The St. Louis Public Library has filed a separate petition in the above mentioned lawsuit alleging the System has been improperly administered for several years. The Library is seeking an agent multiple employer plan where each participating employer's assets and liabilities would be administered and accounted for separately. If the Library's request is granted, there would be a significant change in the way the System is administered and the System would need to be reorganized. The System is vigorously defending the claims of the Zoo and Library and has filed a counterclaim against the Zoo seeking approximately $1.3 Million in unpaid contributions to enforce the uniform employer contribution rates approved by the Board of Trustees for the City Fiscal Years of 2007 and 2008.

The System is the plaintiff in another lawsuit styled Darlene Green, et al., v. Travelers Casualty and Surety Company of America, et al. which is also pending in the St. Louis City Circuit Court. After the Zoo filed its lawsuit the System made a claim for indemnification and defense under its fiduciary insurance policy with Travelers. Travelers denied coverage and this lawsuit was brought by the System to seek a declaratory judgment that the terms of the policy provide coverage. After the Library filed its separate petition in the Zoo lawsuit, the System re-tendered the defense of the Zoo and Library lawsuit to Travelers. As a result, Travelers has agreed to provide a defense subject to a reservation of rights as of July 2, 2008, the date of the re-tender. The System is vigorously pursuing the lawsuit for payment of defense costs prior to the date of the re-tender. Any adverse decision by the court is not expected to materially affect the System's finances, but will cause the System to pay its costs attributable to the litigation of both cases.

9. SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the fair value of investments decreased significantly due to continuing fluctuations in the national and global economies.

SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded)/ Overfunded UAAL	Funded Ratio	Covered Payroll	Overfunded AAL as a % of Covered Payroll	Unfunded AAL as a % of Covered 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%
9/30/2007	646,569,478	732,576,024	(86,006,546)	88.26%	231,029,237		37.23%
9/30/2008	**674,016,719**	**765,842,026**	**(91,825,307)**	**88.01%**	**238,701,628**		**38.47%**

See accompanying independent auditors' report.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2008

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%
2007	29,599,091	71,301,428	240.89%
2008	**25,297,801**	**30,350,011**	**119.97%**