EMPLOYEES RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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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, 2011. This section should be read in conjunction with the System's financial statements and supplementary information.

Financial Highlights

The System's investments earned 2.2% for the fiscal year. This return placed the System in the top 20% of public pension plans. The prospects of a strong double-digit return disappeared in the fourth quarter when investments declined over 9.0%. Investments decreased from a nine-month return of 12.5% or $651.2 million over concerns of the debt crisis, in both the U.S. and Europe. Only fixed income and real estate ended with positive returns for the fiscal year.

Pension and retirement benefits increased 3.0% or $1.4 million to $47.4 million. The number of retirees and beneficiaries receiving a monthly benefit increased 2.1% to 4,102. Net assets ended the year at $585.6 million, down $7.5 million. Employer contributions increased $2.2 million from the prior year to $29.3 million.

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.

Financial Analysis

Total assets at September 30, 2011 of $597.8 million were comprised of cash, investments, security lending collateral, receivables and currency exchange contracts. Total assets decreased $74.7 million or 11.0% from the prior year. Investments accounted for $10.1 million of the decrease. Securities lending collateral decreased $66.3 million to $11.7 million from a corresponding change in the amount of securities on loan. The System continues to work with its master custodian, State Street Bank and Trust, in a process which began in FY 2009 over liquidity concerns in the credit markets, to exit the security lending program in a manner to avoid or minimize losses. To date, the System has not incurred any losses in its exposure in securities lending and continues to receive income from the assets on loan. Securities lending income was $93,691 for the fiscal year.

Total liabilities at September 30, 2011 were $12.2 million and consisted of accounts payable and security lending collateral. Total liabilities decreased $67.1 million from the prior year. The securities lending decrease of $66.3 million corresponded to the similar decrease in securities lending collateral on the asset side. Currency exchange contracts ended the fiscal year as a receivable of $547,507 as compared to a liability of $905,057 in fiscal year 2010.

Net assets held in trust for pension benefits decreased $7.5 million or 1.3% to $585.6 million.

Condensed Statement of Plan Net Assets

	September 30,		Total Change	
	2011	2010	**Amount**	**Percentage**
Assets				
Investments	**$ 583,118,202**	$ 593,212,950	$ (10,094,748)	-1.7%
Cash	**167,436**	120,962	46,474	38.4%
Receivables	**2,281,580**	1,132,982	1,148,598	101.4%
Currency Exchange	**547,507**	-	547,507	n/a
Securities Lending	**11,678,491**	77,984,467	(66,305,976)	-85.0%
Total Assets	**597,793,216**	672,451,361	(74,658,145)	-11.0%
Liabilities				
Accounts Payable	**527,998**	454,741	73,257	16.1%
Securities Lending	**11,678,491**	77,984,467	(66,305,976)	-85.0%
Currency Exchange	**-**	905,057	(905,057)	-100.0%
Total Liabilities	**12,206,489**	79,344,265	(67,137,776)	-84.6%
Net Assets	**$ 585,586,727**	$ 593,107,096	$ (7,520,369)	-1.3%

Revenues – Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the receipt of employer contributions, member purchases of creditable service and earnings on investments. Employer contributions increased $2.2 million or 8.0% in FY 2011, resulting from a similar percentage increase in the employer contribution rate. Member contributions were comprised entirely of purchases of creditable service by active members.

Net investment income was $11.1 million for the fiscal year, down from $55.9 million for the previous year. Like many pension plans, the System’s investment return was adversely affected by the market downturn in the final quarter of FY 2011. Net investment income included deductions of $2.8 million and $2.4 million for custodial and investment management fees in FY 2011 and FY 2010.

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 refunds of member 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 $52,876 in FY 2011 and zero in FY 2010. Transfer payments were $50,114 in FY 2011 and $10,568 in FY 2010. Administrative expenses increased $26,814 in FY 2011 to $679,580.

Condensed Statements of Changes in Plan Net Assets

	Years Ended September 30,		Total Change	
	2011	2010	**Amount**	**Percentage**
Additions				
Net Investment Income	**$ 11,123,006**	$ 55,943,399	$ (44,820,393)	-80.1%
Employer contributions	**29,293,854**	27,116,763	2,177,091	8.0%
Member contributions	**102,978**	281,933	(178,955)	-63.5%
Total Additions	**40,519,838**	83,342,095	(42,822,257)	-51.4%
Deductions				
Retirement benefits	**47,360,627**	45,971,574	1,389,053	3.0%
Administrative expenses	**679,580**	652,766	26,814	4.1%
Total Deductions	**48,040,207**	46,624,340	1,415,867	3.0%
Changes in Net Assets	**$ (7,520,369)**	$ 36,717,755	$ (44,238,124)	-120.5%

Summary

The System experienced extreme fluctuations in the investment markets during the fiscal year. The first nine months saw a continuation of the recovery which began during FY 2009 and ran through much of FY 2010. However, in the final three months investments declined over 9% as global debt crisis issues dominated the headlines. The System ended the year with 2.2% return on investments. Net assets declined $7.5 million as investment income and employer contributions failed to match retirement benefits. Employer contributions actually increased $2.2 million in the fiscal year as the required employer contribution rate recommended by the actuary increased to 12.69% from 11.85%.

The System remains in a position to meet its current pension obligations, as confirmed by the recent actuarial valuation. Subsequent to September 30, 2011, the investment markets have steadied and the System’s investments have recovered some of the decrease in valuation experienced in the final quarter of the fiscal year.

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, Missouri 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, 2011 and 2010, 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 System'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, 2011 and 2010, 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.

INDEPENDENT AUDITORS' REPORT
Continued

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 19-20 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, 2011 and 2010. 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

May 1, 2012

FINANCIAL STATEMENTS

STATEMENTS OF PLAN NET ASSETS

Assets

	September 30, 2011	September 30, 2010
Cash	**$ 167,436**	$ 120,962
Receivables		
Accrued interest receivable	**939,203**	887,958
Accrued dividend receivable	**211,318**	237,104
Employers contribution receivable	**1,131,059**	7,920
Receivable Under Forward Foreign Currency Exchange Contracts	**547,507**	-
Total Receivables	**2,829,087**	1,132,982
Investments, at Fair Value		
Temporary cash investments	**9,002,793**	11,571,742
Bonds	**91,117,433**	88,769,995
Common stocks	**178,213,858**	233,499,672
Managed international equity funds	**165,281,685**	148,015,437
Real estate funds	**59,981,104**	50,650,587
Domestic bond funds	**57,716,899**	53,803,531
Managed hedge fund of funds	**21,804,430**	6,901,986
Total Investments	**583,118,202**	593,212,950
Securities Lending Collateral	**11,678,491**	77,984,467
Total Assets	**597,793,216**	672,451,361

Liabilities

	2011	2010
Accounts Payable	**527,998**	454,741
Securities Lending Collateral Liability	**11,678,491**	77,984,467
Payable Under Forward Foreign Currency Exchange Contracts	**-**	905,057
Total Liabilities	**12,206,489**	79,344,265
Net Assets Held in Trust for Pension Benefits	**$ 585,586,727**	$ 593,107,096

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Years Ended September 30,	
	2011	2010
Contributions		
Employer contributions	**$ 29,293,854**	$ 27,116,763
Member contributions	**102,978**	281,933
Total Contributions	**29,396,832**	27,398,696
Investment Activity		
Interest and dividends	**9,118,782**	9,039,963
Net appreciation		
in fair value of investments	**4,831,629**	49,257,932
	13,950,411	58,297,895
Less investment expenses	**2,827,405**	2,354,496
Net Investment Income	**11,123,006**	55,943,399
Deductions		
Retirement benefits	**47,360,627**	45,971,574
Administrative	**679,580**	652,766
Total Deductions	**48,040,207**	46,624,340
Net Increase (Decrease)	**(7,520,369)**	36,717,755
Net Assets Held in Trust For		
Pension Benefits		
Beginning of Year	**593,107,096**	556,389,341
End of Year	**$ 585,586,727**	$ 593,107,096

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

1. DESCRIPTION OF THE PLAN

General
The System is a cost-sharing, multiple-employer, defined benefit public employees' 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, 2011 and 2010, membership consisted of the following:

	2011	2010
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,504	6,370
Current employees		
Fully vested	3,800	3,809
Non-vested	1,493	1,736
	11,797	11,915

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. The Board of Trustees established the required employer contribution rates, based on active member payroll of 12.69% effective July 1, 2011 and 11.85% effective July 1, 2010.

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.

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.

Subsequent Events

The agency has evaluated subsequent events through May 1, 2012, the date which the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 employer payroll is paid.

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. At September 30, 2011 and 2010, 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, 2011 and 2010, the System had the following securities on loan at market value:

	2011	2010
US Corporate Bond and Equity		
Agency	**$ 22,418**	$ 96,230
Corporate bond	**1,200,991**	9,455,118
Equity	**7,671,277**	51,166,029
Total US Corporate Bond and Equity	**8,894,686**	60,717,377
US Government		
Agency	**733,449**	1,160,601
Treasury	**1,298,616**	14,135,051
Total US Government	**2,032,065**	15,295,652
Non-US Fixed Income	**288,888**	77,647
Total Securities on Loan	**$ 11,215,639**	$ 76,090,676

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.

At September 30, 2011 and 2010, the System had the following amounts under forward foreign currency exchange contracts:

	2011	2010
Receivable under forward foreign currency exchange contracts	**$ 682,822**	$ 43,870
Payable under forward foreign currency exchange contracts	**(135,314)**	(948,927)
Net Receivable (Payable) Under Forward Foreign Currency Exchange Contracts	**$ 547,507**	$ (905,057)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The System utilizes forward contract hedging to reduce the volatility in foreign currencies. Hedging techniques are traditionally used to limit exposure to price fluctuations. Management recognizes that fluctuations in foreign currencies could have a negative effect on the System's financial statements. Accordingly, the System entered into forward contracts in order to hedge this exposure.

Effective October 1, 2009, the System adopted GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" (GASB 53). GASB 53 requires the gain (loss) on the currency exchanges on forward contracts to be recorded in the Statement of Changes in Plan Net Assets. The change in fair value of the derivative is recorded as a deferred asset/liability in the Statement of Plan Net Assets, as appropriate. GASB 53 was adopted for plan year ended September 30, 2010 and was not adopted for the preceding fiscal year. The deferred derivative asset as of September 30, 2011 is valued at $682,822. The deferred derivative liability as of September 30, 2011 is valued at $135,314.

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;
- Real estate through discretionary commingled vehicles; and
- 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, 2011 and 2010 were $1,327,104 and $931,897, 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, 2011 and 2010 were held by the System's agent in the System's name.

At September 30, 2011 and 2010, 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:

	2011	
Acadian Asset Management		
Emerging Markets Fund	**$ 38,878,828**	**6.67%**
CastleArk Management		
U.S. Large Cap Growth Equity	**$ 35,824,771**	**6.14%**
INTECH Investment Management		
U.S. Large Cap Core Equity	**$ 70,499,209**	**12.09%**
LSV Asset Management		
U.S. Large Cap Value Equity	**$ 33,642,391**	**5.77%**
Payden & Rygel Investment Management		
Global Hedged Fixed Income	**$ 33,295,901**	**5.71%**
PNC Capital Advisors		
U.S. Broad Market Core Fixed Income	**$ 60,871,814**	**10.44%**
Principal Global Investors		
Real Estate Group Annuity Contract	**$ 59,981,104**	**10.29%**
Silchester International Advisors		
International Value Equity Group Trust	**$ 65,707,178**	**11.27%**
State Street Global Advisors		
Passive Bond Market Index Fund	**$ 30,652,808**	**5.26%**
Walter Scott & Partners		
International Growth Equity Group Trust	**$ 44,135,859**	**7.57%**

3. CASH AND INVESTMENTS (CONTINUED)

	2010	
CastleArk Management		
U.S. Large Cap Growth Equity	$ 42,499,940	7.16%
Columbia Partners Investment Management		
U.S. Small Cap Growth Equity	$ 31,999,908	5.39%
INTECH Investment Management		
U.S. Large Cap Core Equity	$ 79,268,760	13.36%
LSV Asset Management		
U.S. Large Cap Value Equity	$ 41,478,730	6.99%
Payden & Rygel Investment Management		
Global Hedged Fixed Income	$ 32,849,613	5.54%
PNC Capital Advisors		
U.S. Broad Market Core Fixed Income	$ 58,128,038	9.80%
Principal Global Investors		
Real Estate Group Annuity Contract	$ 50,650,587	8.54%
Rothschild Asset Management		
U.S. Small Cap Value Equity	$ 41,928,767	7.07%
Silchester International Advisors		
International Value Equity Group Trust	$ 90,604,456	15.27%
Walter Scott & Partners		
International Growth Equity Group Trust	$ 57,410,981	9.68%

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 at September 30, 2011 to foreign currency risk is presented on the following table:

Currency	Short-Term	Debt	Equity	Total
Polish Zloty	$ -	$ 142,030	$ -	**$ 142,030**
British Pound	23,258	1,587,161	-	**1,610,419**
Brazilian Real	-	375,230	-	**375,230**
Canadian Dollar	12,881	893,528	-	**906,409**
Euros	65,568	8,280,898	-	**8,346,466**
Mexican Peso	-	159,530	-	**159,530**
Japanese Yen	37,615	4,301,498	-	**4,339,113**
Swedish Krona	-	780,627	-	**780,627**
	$ 139,322	**$ 16,520,502**	**$ -**	**$ 16,659,824**

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 quality ratings:

Quality Rating		
Aaa/U.S. Governments	$	98,624,848
Aa		13,035,135
A		24,074,128
Baa		11,822,037
Below Baa		4,328,466
Total Credit Risk Debt	$	151,884,614

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	$	33,295,901	5.43 years
Allegiant (PNC)		60,871,814	5.92 years
SSGA		30,652,808	4.90 years
Vanguard		27,064,091	5.45 years
Total	$	151,884,614	

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. Total DROP expense was $5,821,266 and $6,407,386 for the years ended September 30, 2011 and 2010, respectively. 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, 2011 and 2010, approximately 791 and 763 members, respectively, have elected DROP participation and have DROP account balances of approximately $49,800,000 and $45,400,000, respectively.

6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2011, the report of the System's actuary indicated that 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
$ 661,932,240	$ 841,763,321	$ (179,831,081)	78.64%	$ 223,060,719	80.62%

The schedule 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, 2011
ACTUARIAL COST METHOD	Projected Unit Credit Method
AMORTIZATION METHOD	Level dollar open amortization period
REMAINING AMORTIZATION PERIOD FOR THE UAL	30 years
ASSET VALUATION METHOD	5 year smoothed market
SIGNFICANT ASSUMPTIONS	
Investment rate of return	8.00%
Projected salary increases	Varies by age from 3.50% to 7.017%.
Cost of living adjustments	3.125% simple with a 25% lifetime cap
Inflation	3.125%

8. COMMITMENTS AND CONTINGENCIES

The System has been served with a complaint filed by the unsecured creditor's committee of the bankrupt Tribune Company regarding the System's sale of Tribune Company securities during a levered takeover of the Tribune Company by an ESOP, the total proceeds of which are approximately $306,000. The unsecured creditor's committee has filed a petition alleging the sale of the securities to the ESOP or its affiliates worked a fraud upon the creditors who lent the ESOP the funds to purchase the securities based upon fraudulent or misrepresented information. The matter is currently pending in the United States Bankruptcy Court for the District of Delaware. See Tribune Company, et al. v. Official Committee of Unsecured Creditors of Tribune Company, et al. on behalf of Tribune Company, et al., Case No. 08-13141 (KJC), Adv. Pro. No. 10-54010. The System has engaged Armstrong Teasdale, LLP (Steven Cousins) to vigorously defend the System's interest. It is important to note that the litigation is currently stayed, however, the outcome of such litigation would be speculative. In the event of an outcome most favorable to the plaintiffs, damages would be limited to the amount of the total proceeds.

SUPPLEMENTAL INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded UAAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
10/1/2000	$ 507,655,329	$ 515,673,757	$ (8,018,428)	98.45%	$ 204,696,581	3.92%
10/1/2001	466,630,792	542,547,374	(75,916,582)	86.01%	216,527,124	35.06%
10/1/2002	432,590,313	574,817,702	(142,227,389)	75.26%	230,184,836	61.79%
10/1/2003	424,917,296	576,127,904	(151,210,608)	73.75%	228,550,406	66.16%
10/1/2004	431,853,406	602,795,470	(170,942,064)	71.64%	221,768,791	77.08%
10/1/2005	527,733,171	666,182,075	(138,448,904)	79.22%	223,837,003	61.85%
10/1/2006	554,065,539	695,889,716	(141,824,177)	79.62%	224,120,314	63.28%
10/1/2007	646,569,478	732,576,024	(86,006,546)	88.26%	231,029,237	37.23%
10/1/2008	674,016,719	765,842,026	(91,825,307)	88.01%	238,701,628	38.47%
10/1/2009	667,667,205	794,686,379	(127,019,174)	84.02%	240,409,390	52.83%
10/1/2010	671,608,995	820,669,641	(149,060,646)	81.84%	232,451,661	64.13%
10/1/2011	**$ 661,932,240**	**$ 841,763,321**	**$ (179,831,081)**	**78.64%**	**$ 223,060,719**	80.62%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Years Ended September 30,	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
2001	$ 17,492,110	$ 2,768,208	15.8%
2002	24,269,937	12,106,532	49.9%
2003	32,186,050	19,115,679	59.4%
2004	30,926,604	15,158,997	49.0%
2005	29,243,453	15,752,497	53.9%
2006	29,478,032	15,756,456	53.5%
2007	29,599,091	71,301,428	240.9%
2008	25,297,801	30,350,011	120.0%
2009	26,072,575	27,252,035	104.5%
2010	28,498,534	27,116,763	95.2%
2011	29,498,116	$ 29,293,854	99.3%
2012	**$ 31,839,522**	--	--