THE POLICE RETIREMENT SYSTEM OF ST. LOUIS

FINANCIAL REPORT
(Audited)

Year Ended September 30, 2014

Founded in 1957 -- The mission of
THE POLICE RETIREMENT SYSTEM OF ST. LOUIS
is to provide retirement benefits for all commissioned members of the St. Louis Metropolitan Police Department and their legal survivors and dependents. The Board of Trustees and its staff shall act as fiduciaries to the trust fund, utilizing all the powers granted under Missouri state statutes to protect the fund from fraud or any other adverse action.

Hochschild, Bloom & Company LLP
Certified Public Accountants
Consultants and Advisors

INDEPENDENT AUDITOR'S REPORT

January 28, 2015

The Board of Trustees
THE POLICE RETIREMENT SYSTEM OF ST. LOUIS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **THE POLICE RETIREMENT SYSTEM OF ST. LOUIS** (the System), a component unit of the City of St. Louis, Missouri, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of September 30, 2014 and 2013, and the respective changes in fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Hochschild, Bloom & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

The following Management's Discussion and Analysis of The Police Retirement System of St. Louis (the System) provides an overview of the System's financial activities for the fiscal year ended September 30, 2014. We encourage you to consider the information presented here in conjunction with additional information presented in the financial statements and supplemental information.

FINANCIAL HIGHLIGHTS

During the System's fiscal years ended September 30, 2014 and 2013, global economic recovery continued, although volatility persisted, driven in large measure by political uncertainties. The global low rate environment has resulted in limited returns from fixed income investments and has caused investors to focus on finding income returns in equity markets. With this in mind the System is well diversified and the portfolio is continually managed and monitored to an investment policy established to minimize market risks. Economic indicators remain strong with falling unemployment, active consumers, and growth in manufacturing. The System's overall investment returns were marginally below expectations for the fiscal year ending September 30, 2014. This followed the September 30, 2013, fiscal year where the System's investments had a significant increase. The current U.S. equity bull market began five years ago and the returns from this portion of the System's portfolio have investment returns exceeding the actuarial assumption for that period. The System is a long-range proposition and is responsible for administering benefits to police officers of the City of St. Louis (the City) who have dedicated their careers as public servants to the residents and businesses of the St. Louis metropolitan area. The System has and will continue to provide benefits in a prudent and professional manner to its active and retired members and their beneficiaries.

The System's net position was $729 million at September 30, 2014, which represents an increase of $23 million over September 30, 2013. This increase was primarily due to appreciation in the fair value of investments of $38 million resulting from improved investment markets.

The overall investment return for the System was 7.08% and 11.9% for fiscal years ended September 30, 2014 and 2013, respectively. The investment returns for the year ended 2014 were slightly below, while the investment returns for the year ended 2013 were above the actuarial assumption for investment rate of return of 7.75% due to a leveling of the investment markets. Active oversight by the Board of Trustees continues to ensure the System retains top performing investment managers while maintaining a balanced investment portfolio.

Additions to net position for the fiscal year 2014 was $85 million. This figure is comprised of $48 million of net investment income, $4 million in Members contributions, and $32 million in employer contribution. Additions to net position decreased $29 million from 2013, a 26% decrease principally due to the lower return on the System's investments. The City's contribution was $32 million for both 2014 and 2013.

Deductions from net position were $62 million for both fiscal years 2014 and 2013. Benefit payments and refunds of member contributions combined represents more than 98% of the total deductions from net position for both the 2014 and 2013 fiscal years.

Changes in active Members' benefits resulted from:

	For The Years Ended September 30	
	2014	2013
New entrants	**51**	31
Return to active	**-**	3
Retirements:		
Service	**30**	37
Disability	**4**	4
Members requesting a refund withdrawal	**30**	30
Lump-sum death benefits	**-**	3
Net Change In Active Members	**(13)**	(40)

As of October 1, 2014, the date of the most recent actuarial valuation (aggregate actuarial cost method), the System's actuarial value of assets, including present value of future Members' contributions, were 75.7% of the actuarial present value of all future benefits which is an improvement over the October 1, 2013 ratio of 74.1%. This ratio increased as a result of investment returns exceeding the actuarial assumption during three of the last five years. For actuarial valuation computations, investment returns are recognized over a 5-year period starting with the year originated.

FINANCIAL STATEMENTS

The 2014 financial statements, notes to financial statements, and required supplemental information (RSI) were prepared in conformity with GASB Statement No. 67 (GASB 67), *Financial Reporting for Pension Plans*. GASB 67 replaces GASB 25 and GASB 50 as reporting standards for governmental employer pension systems.

Highlights of the changes to these financial statements as a result of implementing GASB 67 are as follows:

- GASB 67 only affects reporting requirements and does not prescribe funding methods which could be different. The System will continue to use a funding policy that computes contribution amounts normal cost over the future working lifetime of current participants (the aggregate actuarial cost method). For financial reporting purposes the System is required to use the entry age actuarial cost valuation method in determining the normal cost of system benefits, expressed as a percent of active covered payroll for service retirement benefits, disability benefits, survivor benefits, and administrative expenses (excluding expenses related to the investment of system assets, all of which are covered by investment return). The contribution amount required to amortize any unfunded actuarial liability is determined annually and as a percentage of participants covered payroll. The required contribution amounts are to be determined by regular annual actuarial valuations, conducted by the System's actuary.
- Statement of net assets and statements of changes in net assets have now been retitled as statements of fiduciary net position and statements of changes in fiduciary net position, respectively.
- GASB 67 classifies the System as a single-employer public pension plan for reporting purposes.

- The discount rate used to calculate the present value of future benefit payments for reporting purposes is based upon the projected plan net position (PNP) using actuarial assumptions about contributions, benefit payments, and the long-term rate of return. If the projected PNP is not sufficient to cover projected benefit payments, a blended discount rate is required using both the weighted average of the long-term rate of return and the muni-bond rate for periods after the PNP is exhausted. The System currently uses the long-term discount rate of 7.9% and expects assets will be sufficient to cover PNP until 2057. Since the PNP was projected to be insufficient to make all projected benefit payments of current plan members, a blended discount rate of 7.48% was used to calculate the System's present value of future benefit payments.
- New footnote requirements include the target asset allocation including long-term expected real rate of return, investments representing 5% or more of the System's fiduciary net position, employers' net pension liability, summary of actuarial assumptions, and sensitivity of net pension liability to changes in the discount rate.
- New required supplemental information includes a schedule of changes in employer net pension liability, schedule of employer net pension liability, schedule of employer contributions, and schedule of annual money-weighted rate of return on investments. Notes to the RSI include significant methods and assumptions used in calculating the actuarially determined contributions.

The basic financial statements contained in this section of the annual financial report consist of:

- The statements of fiduciary net position which report the pension trust funds' assets, liabilities, and resulting net position where Assets - Liabilities = Net Position held in trust for pension benefits available at the end of the fiscal year. It is a snapshot of the financial position of the pension trust funds at that specific point in time.
- The statement of changes in fiduciary net position which summarize the pension trust funds' financial transactions that have occurred during the fiscal year where Additions - Deductions = Net Change in Net Position. It supports the change that has occurred to the prior year's net position on the statement of fiduciary net position.
- The notes to financial statements are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.
- The required supplemental management discussion and analysis information, the RSI, and other supplemental information following the notes to financial statements provide detailed historical information considered useful in evaluation the condition of the System.

FINANCIAL ANALYSIS

Total assets at September 30, 2014 were $731,557,600 and were mainly comprised of cash and investments. Total assets increased $23,070,460 or 3% over the prior year, mainly due to the appreciation in the fair value of investments of $38,110,801 and the employer contribution of $32,324,823 for the year ended September 30, 2014.

Total liabilities at September 30, 2014 were $2,492,245 and consisted of unsettled investment transactions, Members contributions refundable, and accrued expenses. Total liabilities increased $281,773 or 12.7% from the prior year, mainly due to refunds due to retiring and terminated members increasing at September 30, 2014. Net position - assets held in trust for pension benefits were $729,065,355 at September 30, 2014, an increase from the prior year of $22,788,687 or 3%. This increase mainly resulted from the increase in the fair value of investments. The System has been able to fund benefit payments from its investment earnings during six of the last ten fiscal years ending with 2014.

Following is a condensed version of the statements of fiduciary net position (dollars in thousands):

	September 30			Total Change Amount		Total Change Percentage	
	2014	2013	2012	**2014**	2013	**2014**	2013
ASSETS							
Investments	**$722,381**	699,724	646,861	**22,657**	52,863	**3.2%**	8.2
Cash and cash equivalents	**7,398**	7,367	6,937	**31**	430	**0.4**	6.2
Receivables	**1,382**	966	1,683	**416**	(717)	**43.1**	(42.6)
Capital assets, net	**396**	430	484	**(34)**	(54)	**(7.9)**	(11.2)
Total Assets	**731,557**	708,487	655,965	**23,070**	52,522	**3.3**	8.0
LIABILITIES	**2,492**	2,210	2,102	**282**	108	**12.7**	5.1
NET POSITION	**$729,065**	706,277	653,863	**22,788**	52,414	**3.2%**	8.0

Revenues - Additions to Net Position

Net investment income totaled $48,094,636 in fiscal year 2014 which represents a decrease of $29,017,612 from the previous fiscal year in which there was investment income of $77,112,248. The decrease resulted mainly from appreciation in the fair value of investments being $28,565,754 less for fiscal year 2014 as compared to fiscal year 2013. Investment income above is net of investment expenses (management and custodial fees) totaling $3,327,889 which increased by $284,808 or 9.4% from fiscal year 2013.

The reserves needed to finance retirement benefits as well as death and disability benefits are accumulated through the collection of employer and Members contributions and through earnings on investments. Members, excluding Members participating in the DROP, contribute 7% of their salary to fund future retirement benefits. This percentage is set by State Statute and was unchanged from the prior fiscal year. Contributions income totaled $36,763,169 ($32,324,823 from the City and $4,438,346 from Members) for the year ended September 30, 2014, an decrease of $387,438 or 1% from the prior year.

Expenses - Deductions from Net Position

The primary expenses of the System include the payment of pension benefits to retirees and beneficiaries, refunds of Members contributions, and administrative expenses to operate the System. Total expenses for fiscal year 2014 were $62,069,118, an increase of $219,938 or 0.4% from fiscal year 2013. The increase is mainly due to an increase in benefits paid to retirees and beneficiaries, which is a function of the number of Members who retire during the year and their respective years of service, average final compensation, and DROP account when elected as a lump-sum distribution.

Following is a condensed version of the statements of changes in fiduciary net position (dollars in thousands):

	For The Years Ended September 30			Total Change Amount		Total Change Percentage	
	2014	2013	2012	**2014**	2013	**2014**	2013
ADDITIONS							
Investment income	**$ 48,094**	77,112	83,638	**(29,018)**	(6,526)	**(37.6%)**	(7.8)
Employer's contribution	**32,325**	32,629	28,474	**(304)**	4,155	**(1.0)**	14.6
Members' contributions	**4,438**	4,522	4,161	**(84)**	361	**(1.9)**	8.7
Total Additions	**84,857**	114,263	116,273	**(29,406)**	(2,010)	**(25.7)**	(1.7)
DEDUCTIONS							
Benefits paid	**58,303**	57,283	54,863	**1,020**	2,420	**1.8**	4.4
Refunds of Members' contributions	**2,671**	3,567	2,813	**(896)**	754	**(25.1)**	26.8
Administrative expenses	**1,095**	999	1,059	**96**	(60)	**9.6**	(5.7)
Total Deductions	**62,069**	61,849	58,735	**220**	3,114	**0.4**	5.3
CHANGE IN NET POSITION	**22,788**	52,414	57,538	**(29,626)**	(5,124)	**(56.5)**	(8.9)
NET POSITION, BEGINNING OF YEAR	**706,277**	653,863	596,325	**52,414**	57,538	**8.0**	9.6
NET POSITION, END OF YEAR	**$729,065**	706,277	653,863	**22,788**	52,414	**3.2%**	8.0

SUMMARY

The System's net position - restricted for pensions has increased in seven out of the past ten years. The decreases, which occurred in fiscal years 2011, 2009, and 2008, were the result of investment losses due to an economic slowdown that detrimentally affected most pension systems in those years. The Trustees believe, and the actuarial calculations confirm, that the System is in a financial position to meet its current and projected obligations. With a continued focus on a prudent investment program, cost controls, and strategic planning, the System should over time improve its current financial position.

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 the money it receives. If you have any questions about this report or need additional financial information, contact:

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St. Louis, MO 63103-2210
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STATEMENTS OF FIDUCIARY NET POSITION

	September 30	
	2014	2013
ASSETS		
Investments at fair value:		
Equities:		
Collective investment funds	**$ 283,934,886**	275,080,027
Corporate stocks	**143,160,300**	144,234,079
Real estate securities fund	**28,428,066**	26,551,846
Fixed income:		
Collective investment funds	**97,448,383**	92,714,829
Corporate bonds	**47,637,519**	45,401,579
Mortgage backed securities	**17,729,060**	16,603,605
Government securities	**14,417,884**	14,599,909
Short-term notes	**2,499,793**	3,699,715
Money market funds	**46,505,139**	45,625,720
Hedge fund of funds	**30,342,485**	28,172,779
Partnership interests	**9,073,779**	5,855,683
Investment property	**1,204,100**	1,184,000
Total Investments	**722,381,394**	699,723,771
Cash and cash equivalents	**7,398,225**	7,366,765
Receivables:		
Interest and dividends	**928,455**	900,003
Unsettled investment transactions	**453,452**	66,214
Total Receivables	**1,381,907**	966,217
Capital assets, net of accumulated depreciation	**396,074**	430,387
Total Assets	**731,557,600**	708,487,140
LIABILITIES		
Members' contributions refundable	**1,041,035**	670,896
Accrued investment management fees	**792,921**	743,800
Unsettled investment transactions	**487,185**	644,878
Accrued administrative expenses	**171,104**	150,898
Total Liabilities	**2,492,245**	2,210,472
NET POSITION - RESTRICTED FOR PENSIONS	**$ 729,065,355**	706,276,668

See notes to financial statements

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	For The Years Ended September 30	
	2014	2013
ADDITIONS TO NET POSITION ATTRIBUTED TO:		
Investment income:		
Net appreciation (depreciation) in fair value of investments	**$ 38,110,801**	66,676,555
Interest:		
Corporate bonds	**3,481,631**	4,268,229
Government obligations	**1,770,306**	2,487,849
Other	**100,594**	132,425
Dividends	**7,768,581**	6,316,304
Securities lending income	**161,252**	228,919
Recapture commissions	**17,446**	12,248
Class action settlements	**11,914**	32,800
Total Investment Income	**51,422,525**	80,155,329
Less - Investment management and custodial fees	**3,327,889**	3,043,081
Net Investment Income	**48,094,636**	77,112,248
Contributions:		
Employer	**32,324,823**	32,629,036
Members	**4,202,765**	4,270,446
Portability	**235,581**	198,736
Restoration	**-**	52,389
Total Contributions	**36,763,169**	37,150,607
Total Additions	**84,857,805**	114,262,855
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO:		
Benefits paid to retirees and beneficiaries	**58,302,794**	57,283,047
Refunds of Members' contributions	**2,670,671**	3,566,809
Administrative expenses	**1,095,653**	999,324
Total Deductions	**62,069,118**	61,849,180
CHANGE IN NET POSITION	**22,788,687**	52,413,675
NET POSITION - RESTRICTED FOR PENSIONS, BEGINNING OF YEAR	**706,276,668**	653,862,993
NET POSITION - RESTRICTED FOR PENSIONS, END OF YEAR	**$ 729,065,355**	706,276,668

See notes to financial statements

NOTE A - DESCRIPTION OF PLAN

THE POLICE RETIREMENT SYSTEM OF ST. LOUIS (the System) administers a single employer defined benefit pension plan providing pension benefits to the City of St. Louis Police Officers (the Members). Membership in the System consists of:

	September 30		Increase
	2014	2013	**(Decrease)**
Retirees and beneficiaries currently receiving benefits	**1,883**	1,891	**(8)**
Current active Members:			
Vested - In DROP	**185**	167	**18**
Vested - Not in DROP	**164**	151	**13**
Total Vested	**349**	318	**31**
Nonvested	**932**	976	**(44)**
Total Current Active Members	**1,281**	1,294	**(13)**
Total Members	**3,164**	3,185	**(21)**

The System provides retirement benefits as well as death and disability benefits. Members can voluntarily retire after a minimum of 20 years of service or attaining age 55. The monthly allowance consists of 40% of the two-year average final compensation for the first 20 years of service, plus 2% of such final average compensation for each of the next five years of service, plus 4% of average final compensation for each additional year of service after 25 years up to a maximum of 30 years. The monthly allowance of Members who have in excess of 30 years of service is increased by 5%. The maximum pension is 75% of average final compensation.

Covered Members contribute 7% of their salary as specified by RSMo 86.320. Upon leaving employment due to service retirement, death, or disability due to an accident in the actual performance of duty, the Member's contributions are refunded. Terminated Members receive interest credited at the 10-year U.S. Treasury Bill rate plus 1%.

The System implemented a Deferred Retirement Option Plan (DROP) feature during the System's fiscal year ending September 30, 1996. The DROP option is available to Members of the System who have at least 20 years of creditable service and have achieved eligibility for retirement. Those Members who elect to participate will continue active employment, will have a service retirement allowance credited monthly in the DROP account, and will no longer make contributions to the System. During participation in DROP, the Member will not receive credit for service and the Member shall not share in any benefit improvement that is enacted or becomes effective while such Member is participating in DROP. A Member may participate in DROP only once for any period up to five years, at which point the Member may re-enter the System. At retirement the funds in the Member's DROP account plus interest is available to the Member in a lump sum or in installments. The number of active members with DROP account balances were 336 and 307 at September 30, 2014 and 2013, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies consistently applied by the System in the preparation of the accompanying financial statements are summarized below:

1. Reporting Entity

The System is a pension trust fund of the City of St. Louis, Missouri (the City). As such, the System is included in the City's Comprehensive Annual Financial Report as a pension trust fund. The System and its Board of Trustees (Board) are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

2. Board of Trustees Composition

The Board shall consist of nine (9) Trustees, three (3) of whom are elected by the active members of the System, three (3) of whom are elected by the retired members of the System, two (2) of whom are appointed by the Mayor of the City of St. Louis, and one (1) of whom are Trustees by virtue of offices (comptroller of the City of St. Louis or designee by either the deputy comptroller or the first assistant comptroller).

3. Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated).

4. New GASB Accounting Model

GASB 67 was adopted during the year ended September 30, 2014, addressing accounting and financial reporting requirements for governmental pension systems. GASB 67 requires changes in presentation of the financial statements, notes to financial statements, and RSI. Significant changes include an actuarial calculation of the total and net pension liability as defined in the accounting standard. Comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures are also included. The implementation of this standard did not significantly impact the accounting for accounts receivable and investment balances. The total employers' projected net pension liability is presented in the notes to financial statements. Related GASB 67 disclosures can be found in the RSI section of the report.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Investment Valuation

Marketable securities are stated at fair value. Fair values are based on the last reported sales price on September 30th or on the last reported bid price if no sale was made on that date. The real estate investment fund is valued by the fund manager based on independent real estate appraisals of the fund's holdings. The hedge fund of funds are carried at the value reported by the funds custodians based upon underlying investments. Investment property is reported at estimated fair value as determined by an independent real estate appraisal of the property.

6. Cash

Cash on deposit with Commerce Bank N.A. in 2014 and 2013 is maintained for the System by the Treasurer of the City.

7. Operating Expenses

Benefits paid and administrative expenses are approved by the Board and paid by the System.

8. Use of Estimates

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

9. Capital Assets

Expenditures for furniture, equipment, and software exceeding $1,000 are capitalized and depreciated over the estimated useful lives of the property on the straight-line method as follows:

Asset	Years
Furniture, equipment, and software	3 - 10

Expenditures for repairs and maintenance are expensed as incurred. Gains and losses on disposition of capital assets are included in income as realized.

Capital assets consists of the following:

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Capital Assets (Continued)

	September 30 2014	September 30 2013
Furniture, equipment, and software - at cost	**$698,884**	672,356
Accumulated depreciation	**(302,810)**	(241,969)
Total Capital Assets, Net Of Accumulated Depreciation	**$396,074**	430,387

Capital assets, net of accumulated depreciation, is summarized by major classification as follows:

	For The Year Ended September 30, 2014			
	Book Value September 30 2013	**Net Additions**	**Depreciation**	**Book Value September 30 2014**
Furniture, equipment, and software, net	$430,387	26,528	60,841	**396,074**

Depreciation expense for the years ended September 30, 2014 and 2013 were $60,841 and $62,440, respectively.

NOTE C - CASH AND CASH EQUIVALENTS

The System's bank deposits and repurchase agreements are required by state law to be secured by the deposit of certain securities specified by RSMo 30.270. The collateralized securities are held by a trustee institution. The value of the securities must amount to the total of the System's cash not insured by the Federal Deposit Insurance Corporation (FDIC). The System's bank deposits were fully secured or collateralized at September 30, 2014. The System's bank deposits were under secured or collateralized at September 30, 2013 in the amount of $517,588. The System's bank deposits and repurchase agreements were insured by the FDIC, collateralized with securities held by the Federal Reserve Bank in the System's name. The repurchase agreements at September 30, 2014 are pledged by Federal National Mortgage Association certificates (maturing December 24, 2020; October 1, 2025; and May 1, 2026). The repurchase agreements at September 30, 2013 were pledged by Federal National Mortgage Association certificates (maturing December 1, 2025; May 25, 2026; and October 1, 2026). All pledged collateral securities had an AA+ credit rating level.

NOTE C - CASH AND CASH EQUIVALENTS (Continued)

Cash and cash equivalents consists of the following:

	September 30			
	2014		2013	
	Bank Balance	**Carrying Amount**	Bank Balance	Carrying Amount
Repurchase agreements	**$6,921,125**	**6,921,125**	6,730,758	6,730,758
Bank deposits	**750,750**	**477,100**	767,588	636,007
Total	**$7,671,875**	**7,398,225**	7,498,346	7,366,765

NOTE D - CONTRIBUTIONS RECEIVABLE - EMPLOYER

Contributions receivable - employer consists of the following:

	September 30	
	2014	2013
Current year contribution due from the City as calculated by the System's actuary	**$32,324,823**	32,629,036
Contributions received from the City during the year	**(32,324,823)**	(32,629,036)
Total Contributions Receivable - Employer At End Of Year	$ -	-

The State of Missouri revised statutes requires the City's contributions to be paid to the System in six equal monthly payments starting on July 1 and ending on December 1, 2014 and 2013, respectively.

NOTE E - INVESTMENTS

Investments of the System are managed by various Investment Managers hired by the Board to invest according to guidelines established by the Board. The fair value of investments managed consisted of the following:

	September 30	
	2014	2013
Allianz/NFJ Investment Group (domestic small cap equity - value):		
Corporate stocks	$ **19,911,648**	20,055,114
Money market fund	**466,813**	799,831
	20,378,461	20,854,945

NOTE E - INVESTMENTS (Continued)

	September 30 2014	September 30 2013
CenterSquare Investment Management Company (real estate - equity):		
Real estate securities fund	**28,428,066**	26,551,846
Money market fund	**106,556**	106,529
	28,534,622	26,658,375
Commerce Bank N.A. (fixed income):		
Corporate bonds	**47,637,519**	45,401,579
Government securities	**14,417,884**	14,599,909
Mortgage backed securities	**17,681,814**	16,545,895
Money market fund	**584,799**	1,231,520
	80,322,016	77,778,903
Entrust Capital Diversified Fund QP, Ltd. (multi-strategy hedge fund):		
Hedge fund of funds	**15,285,216**	14,047,937
Falcon E&P Opportunities Fund, L.P. (private equity):		
Partnership interest - oil and gas	**7,327,240**	5,855,683
Money market fund	**4,151,252**	1,787,151
	11,478,492	7,642,834
GAM US Institutional Diversity, Inc. (multi-strategy hedge fund):		
Hedge fund of funds	**15,057,269**	14,124,842
JP Morgan Investment Management, Inc. (international equity - emerging markets):		
Collective investment fund	**44,852,409**	43,255,065
Money market fund	**89**	89
	44,852,498	43,255,154
MFS Institutional Advisors, Inc. (domestic large cap equity - value):		
Corporate stocks	**51,670,991**	50,726,556
Money market fund	**723,632**	652,490
	52,394,623	51,379,046
Neuberger Berman (private equity):		
Partnership interest - venture capital secondary market	**1,746,539**	-
The Northern Trust Company (domestic large cap equity - core):		
Collective investment fund	**51,610,017**	51,533,011
Money market fund	**36,634,231**	36,497,970
Corporate stocks	**238,451**	47,323
	88,482,699	88,078,304

NOTE E - INVESTMENTS (Continued)

	September 30 2014	September 30 2013
Pacific Investment Management Company (fixed income):		
Collective investment funds - government securities	**53,526,263**	49,384,868
Collective investment funds - corporate bonds	**43,922,120**	43,329,961
Short-term notes	**2,499,793**	3,699,715
Money market fund	**2,178,507**	2,108,055
Mortgage backed securities	**47,246**	57,710
	102,173,929	98,580,309
Trilogy Global Advisors, LLC (international equity - growth):		
Collective investment fund	**94,660,382**	92,638,505
Money market fund	**454**	454
	94,660,836	92,638,959
Wasatch Advisors, Inc. (domestic small cap equity - growth):		
Corporate stocks	**19,669,647**	21,128,307
Money market fund	**908,236**	1,542,121
	20,577,883	22,670,428
Wellington Trust Company, N.A. (international equity - growth):		
Collective investment fund	**92,812,078**	87,653,446
Wells Fargo Bank, N.A. (domestic large cap equity - growth):		
Corporate stocks	**51,669,563**	52,276,779
Money market fund	**750,570**	899,510
	52,420,133	53,176,289
Total Investments Managed	**721,177,294**	698,539,771
Investment property - real estate	**1,204,100**	1,184,000
Total Investments	**$ 722,381,394**	699,723,771

The System's investments are continuously exposed to various types of inherent risks. These risks are mitigated by the System's development and continual monitoring of sound investment policies. The investment maturities, credit rating by investment, and foreign currency exposures by asset class schedules are presented as follows to provide an illustration of the System's current level of exposure to various risks.

The following schedule provides a summary of the fixed income investment maturities by investment category, which helps demonstrate the current level of interest rate risk assumed by the System:

NOTE E - INVESTMENTS (Continued)

Fixed Income Investment Categories	Total	Maturities As of September 30, 2014 Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Collective investment funds	$ 97,448,383	25,031,109	19,933,866	37,425,409	15,057,999
Corporate bonds	47,637,519	3,644,185	27,266,637	16,726,697	-
Mortgage backed securities:					
Nongovernment	14,866,097	-	2,437,912	606,449	11,821,736
Government	2,862,963	-	320,757	38,671	2,503,535
Government securities	14,417,884	1,044,056	8,389,202	4,959,172	25,454
Short-term notes	2,499,793	2,499,793	-	-	-
Total	$ 179,732,639	32,219,143	58,348,374	59,756,398	29,408,724

Fixed Income Investment Categories	Total	Maturities As of September 30, 2013 Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Collective investment funds	$ 92,714,829	17,605,501	43,762,986	21,695,231	9,651,111
Corporate bonds	45,401,579	2,422,095	28,879,411	13,141,971	958,102
Mortgage backed securities:					
Nongovernment	12,886,936	-	2,422,935	918,143	9,545,858
Government	3,716,669	1,068	538,614	47,184	3,129,803
Government securities	14,599,909	-	7,506,347	7,027,181	66,381
Short-term notes	3,699,715	3,699,715	-	-	-
Total	$ 173,019,637	23,728,379	83,110,293	42,829,710	23,351,255

NOTE E - INVESTMENTS (Continued)

The System's fixed income investments current level of exposure to credit risk, or the risk that an issuer or other counterparty to an investment will not fulfill its obligations, is demonstrated by the following table:

Credit Rating By Investment As Of September 30, 2014

Credit Rating Level	Total	Collective Invest-ment Funds	Corporate Bonds	Nongovern-ment Mortgage Backed Securities	Government Mortgage Backed Securities	Govern-ment Securities	Short-term Notes
AAA	$ 50,223,628	36,617,292	1,627,925	3,351,378	2,841,814	3,285,426	2,499,793
AA	34,788,936	16,542,525	7,799,535	486,310	-	9,960,566	-
A	79,457,718	42,637,533	31,258,212	5,561,973	-	-	-
BBB	6,430,652	1,651,033	4,779,619	-	-	-	-
BB	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
CCC	670,862	-	-	670,862	-	-	-
CC	-	-	-	-	-	-	-
D	289,335	-	-	289,335	-	-	-
Not Rated	7,871,508	-	2,172,228	4,506,239	21,149	1,171,892	-
Total	$ 179,732,639	97,448,383	47,637,519	14,866,097	2,862,963	14,417,884	2,499,793

Credit Rating By Investment As Of September 30, 2013

Credit Rating Level	Total	Collective Invest-ment Funds	Corporate Bonds	Nongovern-ment Mortgage Backed Securities	Government Mortgage Backed Securities	Govern-ment Securities	Short-term Notes
AAA	$ 57,981,538	44,120,908	845,115	2,476,265	3,716,669	3,122,866	3,699,715
AA	29,995,841	12,296,390	6,333,276	1,202,651	-	10,163,524	-
A	71,793,507	36,297,531	30,624,537	4,707,673	-	163,766	-
BBB	6,364,633	-	6,364,633	-	-	-	-
BB	123,259	-	-	123,259	-	-	-
B	-	-	-	-	-	-	-
CCC	894,878	-	-	894,878	-	-	-
CC	224,568	-	-	224,568	-	-	-
Not Rated	5,641,413	-	1,234,018	3,257,642	-	1,149,753	-
Total	$ 173,019,637	92,714,829	45,401,579	12,886,936	3,716,669	14,599,909	3,699,715

NOTE E - INVESTMENTS (Continued)

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's policy is to allow the individual Investment Managers to decide what action to take regarding their respective portfolio's foreign currency exposure. The following table demonstrates the System's current level of foreign currency exposure:

Foreign Currency Exposures By Asset Class In U.S. Dollars As Of September 30, 2014

Currency	Equities	Fixed Income	Money Market	Hedge Fund Of Funds	Investment Property And Partnership	Total
Austrailian Dollar	$ -	517,975	-	-	-	517,975
British Pound Sterling	1,409,164	1,648,009	-	-	-	3,057,173
Canadian Dollar	1,939,891	3,194,926	-	-	-	5,134,817
Euro	1,091,635	2,648,980	-	-	-	3,740,615
Indian Rupee	756,188	-	-	-	-	756,188
Israeli Shekel	229,733	-	-	-	-	229,733
Japanese Yen	-	286,287	-	-	-	286,287
Swiss Franc	1,229,788	717,378	-	-	-	1,947,166
Total Foreign Currency	6,656,399	9,013,555	-	-	-	15,669,954
United States Dollar	448,866,853	170,719,084	46,505,139	30,342,485	10,277,879	706,711,440
Total	$ 455,523,252	179,732,639	46,505,139	30,342,485	10,277,879	722,381,394

Foreign Currency Exposures By Asset Class In U.S. Dollars As Of September 30, 2013

Currency	Equities	Fixed Income	Money Market	Hedge Fund Of Funds	Investment Property And Partnership	Total
Austrailian Dollar	$ -	496,975	-	-	-	496,975
British Pound Sterling	1,745,632	1,126,822	-	-	-	2,872,454
Canadian Dollar	1,775,491	2,502,787	-	-	-	4,278,278
Euro	912,038	2,614,154	-	-	-	3,526,192
Indian Rupee	657,508	-	-	-	-	657,508
Israeli Shekel	165,757	-	-	-	-	165,757
Japanese Yen	-	285,884	-	-	-	285,884
Swiss Franc	1,129,193	721,238	-	-	-	1,850,431
Total Foreign Currency	6,385,619	7,747,860	-	-	-	14,133,479
United States Dollar	439,480,333	165,271,777	45,625,720	28,172,779	7,039,683	685,590,292
Total	$ 445,865,952	173,019,637	45,625,720	28,172,779	7,039,683	699,723,771

NOTE E - INVESTMENTS (Continued)

Investments Policies

Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fixed income portfolio must have an average rating of "A" or better in the aggregate as measured by at least one credit rating service. In cases where the yield spread adequately compensates for additional risk, securities rated lower than an "A" may be purchased provided overall fixed income quality is maintained. All issues will be of investment grade quality (BBB or Baa rated) or higher at the time of purchase. Up to 15% of the total fair value of fixed income securities may be invested in BBB or Baa rated securities. In cases where credit rating agencies assign different quality ratings a security, the lower rating will be used. Should the rating of a fixed income security fall below minimum investment grade, the Investment Manager may continue to hold the security if they believe the security will be upgraded in the future, there is low risk of default, and buyers will continue to be available throughout the anticipated holding period. The Investment Manager has the responsibility of notifying the Board through their designee whenever an issue falls below investment grade.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The average effective duration of the aggregate portfolio, reflecting all instruments including CMO and Asset-Backed Securities, must be maintained at plus or minus one year of the duration of the respective Investment Manager's benchmark index.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. It is the System's current policy to invest in each asset class ranging between a minimum and maximum of total trust assets as shown below:

	Asset Class As A Percent Of Total Assets		
Asset Class	**Minimum**	**Target**	**Maximum**
Fixed Income	25%	28	31
Domestic Equities:			
Large Cap	17	21	25
Small Cap	4	5	6
Foreign Equities:			
Non-U.S. developing markets	20	26	32
Emerging markets	4	7	10
Non-Directional Hedge Funds of Funds	3	4	5
Real Estate Equities	3	4	5
Private Equity	-	4	8
Other	-	1	5

Long-term Expected Rate of Return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

NOTE E - INVESTMENTS (Continued)

Asset Class	Long-term Expected Real Rate Of Return
Fixed income	(0.75%)
Domestic equity	4.85
Foreign equity	5.25
Non-directional hedge fund of funds	2.75
Real estate (REIT)	5.35
Private equity (partnerships)	9.95
Money market	-

The above long-term expected real rate of returns represents best estimates of geometric rates of return for each major asset class included. These rate of returns are shown net of inflation (assumed at 2.5%) and net of investment expenses (assumed at 0.45%).

Liquidity Risk is the risk that redemption notice periods are required and longer periods may be imposed before payment of redemption proceeds are settled for the following investments:

Bank of New York Mellon EB Global Real Estate Securities Fund
EnTrust Capital Diversified Fund QP, Ltd.
Falcon E&P Opportunities Fund, L.P.
GAM US Institutional Diversity, Inc.
NB Secondary Opportunities Fund III, L.P.
Wellington Trust Company International Opportunities Fund

NOTE F - INVESTMENTS GREATER THAN 5% OF NET POSITION HELD IN TRUST FOR PENSION BENEFITS

Investments which exceed 5% or more of net position held in trust for pension benefits are as follows:

	September 30	
	2014	2013
Collective funds:		
Trilogy International Group Trust I	**$94,660,382**	92,638,505
Wellington Trust Company International Opportunities Fund	**92,812,078**	87,653,446
MFB Daily S&P 500 Equity Index Fund	**51,610,017**	51,533,011
JP Morgan CB Emerging Market Equity Focused Fund	**44,852,409**	43,255,065

NOTE G - CURRENCY FORWARDS

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such

NOTE G - CURRENCY FORWARDS (Continued)

contracts is included in net appreciation (depreciation) in fair value of investments on the System's statements of changes in fiduciary net position. The net unrealized gains (losses) is included in the System's statements of fiduciary net position in unsettled investment transactions. Pending foreign exchange contracts were as follows:

	September 30			
	2014		2013	
	Fair Value	**Cost**	Fair Value	Cost
Pending currency forwards purchases:				
United States dollar	**$48,625,027**	**48,625,027**	43,333,106	43,333,106
Pending currency forwards sales:				
Foreign currency	**48,315,750**	**48,625,027**	43,567,505	43,333,106

Net realized and unrealized gains (losses) were as follows:

	For The Years Ended September 30	
	2014	2013
Net realized gains (losses)	**$2,163,756**	3,333,494
Net unrealized gains (losses)	**309,277**	(234,399)

NOTE H - CONTRIBUTIONS

Contributions for the System are calculated using the aggregate method, and as a result, the System does not have an unfunded actuarial accrued liability amortization payment.

Actuarially determined contributions in accordance with GASB Accounting Standards requirements are as shown in the following table:

	For The Years Ended September 30		Covered Payroll Percentage	
	2014	2013	**2014**	2013
Employer's annual required contributions:				
Portion of normal cost attributable to the System's fiscal years	**$32,552,983**	29,512,755		
Amortization of prior liability	**-**	-		
Total Employer's Annual Required Contributions	**$32,552,983**	29,512,755	**47.8%**	42.0
Employer's Contributions Made	**$32,324,823**	32,629,036	**47.5%**	46.4
Members' Contributions Made	**$4,202,765**	4,270,446	**6.2%**	6.1

NOTE H - CONTRIBUTIONS (Continued)

The covered payroll of active participants (excluding DROP participants) expected to be paid amounted to $68,073,148 and $70,327,982 for the years ended September 30, 2014 and 2013, respectively.

Annual Required Contribution (ARC) - The ARC is calculated using the aggregate actuarial cost method. The ARC applicable to the System's fiscal year ended September 30 each year in accordance with GASB 25 requires blending of the actuarial valuations. The ARC is presented each year using the aggregate of the City's ARCs for the portions of the City's fiscal year that overlap the System's fiscal year.

NOTE I - FUNDING STATUS AND PROGRESS - AGGREGATE ACTUARIAL COST METHOD

The System uses the aggregate actuarial cost method for funding requirements.

A summary of the actuarial computations under the aggregate actuarial cost method is as follows:

	Valuation For The Actuarial Years Beginning October 1	
	2014	2013
Present value of all future benefits	**$981,568,536**	968,737,075
Actuarial value of assets, including present value of future Members' contributions	**743,170,471**	717,383,879
Present Value Of Future Normal Contributions Due From The City	**$238,398,065**	251,353,196

Actuarial value of assets was calculated assuming the City will continue to fund the actuarially determined contributions in future fiscal years.

NOTE J - EMPLOYER'S NET PENSION LIABILITY - ENTRY AGE NORMAL ACTUARIAL COST METHOD

The components of the net pension liability (the retirement system's liability determined in accordance with GASB 67 less the fiduciary net position) as of September 30, 2014 and 2013, are shown in the schedule of net pension liability below.

Actuarial valuation of an ongoing plan involves estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in employer's net pension liability presents multi-year trend information about whether the Plan's fiduciary net positions are increasing or decreasing over time relative to the total pension

NOTE J - EMPLOYER'S NET PENSION LIABILITY - ENTRY AGE NORMAL ACTUARIAL COST METHOD (Continued)

liability. These schedules are presented in the RSI. The total pension liability as of September 30, 2014 and 2013 are based on an actuarial valuation performed as of September 30, 2013, and a measurement date of September 30, 2013 using generally accepted actuarial procedures.

Schedule of Employer's Net Pension Liability

	September 30	
	2014	2013
Pension liability	**$919,906,506**	895,331,227
Plan fiduciary net pension	**729,065,355**	706,276,668
Employer's Net Pension Liability	**$190,841,151**	189,054,559
Plan fiduciary net position as a percentage of pension liability	**79.3%**	78.9
Covered employee payroll (including DROP participants)	**$71,092,936**	72,353,122
Employer's net pension liability as a percent of covered employee payroll	**268.4%**	261.3

Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to expenses are reported this year.

Sensitivity of the net pension liability to changes in the discount rate:

	1% Decrease	**Current**	**1% Increase**
Discount rate	6.48%	7.48	8.48
Net pension liability	$282,418,249	190,841,151	113,881,349

Discount Rate Used to Calculate the Present Value of Future Benefit Payments

The blended discount rate used to measure the total pension liability was 7.48%. The projection of cash flows used to determine the discount rate assumed that employer contributions will continue to follow the current funding policy. Based on those assumptions, the Plan's net position was projected to be insufficient to make all projected future benefit payments of current plan members. A municipal bond rate of 4.11% was used in the development of the blended GASB discount rate after that point. The 4.11% rate is based on the Bond Buyer General Obligation 20 Year High Grade Rate Municipal Bond Index (AA/Aa or higher). Based on the Plan's long-term investment rate of return of 7.9% and the municipal bond rate of 4.11%, the blended GASB discount rate is 7.48%.

NOTE J - EMPLOYER'S NET PENSION LIABILITY - ENTRY AGE NORMAL ACTUARIAL COST METHOD (Continued)

Methods and assumptions used in calculations of actuarially determined contributions and pension liability:

Method:	
Valuation date	October 1, 2013
Actuarial cost method:	
GASB 67 Reporting	Entry Age Normal
Funding	Aggregate, reduced by employee contributions
Amortization method/period	None - Aggregate is funded over the future working lifetime of current participants
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%, net of 0.15% administrative expense
Long-term municipal bond rate	4.11%
Rate of payroll growth	Varies by age 3% to 6.5%, including merit and promotions
Consumer price inflation	2.5%
Mortality (ordinary	RP-2000 Blue collar combined projected to 2018
Mortality (accidental)	0.03% per year for all ages in addition to ordinary mortality
Mortality (disabled)	RP-2000 disabled retiree mortality projected to 2018

NOTE K - SYSTEM EMPLOYEES AND POST-RETIREMENT BENEFITS

Current System employees are reimbursed up to $1,000 per year for validated claims for vision and dental costs. Reimbursed health care benefits totaled $4,772 and $4,089 for the years ended September 30, 2014 and 2013, respectively.

The System provides post-retirement health care benefits to all employees and their spouses who were employed as of February 26, 1992 and who retired from the System on or after attaining age 65. Those who are insured by another entity do not qualify for this benefit. Currently, one retiree qualifies to receive post-retirement benefits.

The System pays the premiums of retired System employees for the Medicare Supplemental Insurance Program. The System also reimburses retired System employees up to $1,000 per year for validated claims for vision and dental costs. Expenditures for post-retirement health care benefits are recognized as the premiums are paid or as retirees report claims. Due to only one eligible retiree and the limited exposure, no provision for estimated claims incurred but not yet reported has been made. Expenditures for post-retirement health care were $4,867 and $4,481 for the years ended September 30, 2014 and 2013, respectively.

NOTE L - SECURITIES LENDING

The System participates in The Northern Trust Company's securities lending program in order to enhance the investment yield. In a securities lending transaction, the System transfers possession--but not title--of the security to the borrower. Collateral consisting of cash, letter of credit, or government securities is received and held by The Northern Trust Company. The broker/dealer collateralizes their borrowing (usually in cash) to 102% of

NOTE L - SECURITIES LENDING (Continued)

the security value plus accrued interest and this collateral is adjusted daily to maintain the 102% level. The collateral is increased to 105% if the borrowed securities and collateral are denominated in a foreign currency. The System maintains all the rights in the collateral of a secured lender under the Uniform Commercial Code. The System continues to earn income on the loaned security. In addition, the System receives 70% of the net lending fees generated by each loan of securities. The Northern Trust Company receives the remaining 30% of the net lending fees as compensation for its services provided in the securities lending program. The Northern Trust Company indemnifies operational risk and counter party risk. The System authorizes the lending and loans of the following: domestic securities, U.S. Treasuries, corporate bonds, and equities. The System does not have the ability to pledge or sell collateral securities without borrower default. Therefore, for accounting purposes, the statements of fiduciary net position and changes in fiduciary net position do not reflect an increase in assets or liabilities associated with securities lent.

At September 30, 2014 and 2013, outstanding loans to borrowers were $58,224,882 and $54,224,635, respectively. The System earned income of $161,252 and $228,919 for its participation in the securities lending program for the years ended September 30, 2014 and 2013, respectively.

NOTE M - RISK MANAGEMENT

The System is exposed to various risks of loss related to natural disasters; errors and omissions; and/or loss of assets, torts, etc. The System has chosen to cover such losses through the purchase of commercial insurance. There have been no material insurance claims filed or paid during the past three years.

NOTE N - RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the statements of fiduciary net position.

Actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE O - RELATED PARTY TRANSACTIONS

The System owed the City $66,561 and $65,299 at September 30, 2014 and 2013, respectively, for salaries, payroll taxes, payroll processing, and employee fringe benefits for System employees. The System reimburses 50% of the total of these items and the System's expense for the years ended September 30, 2014 and 2013 was $267,506 and $259,863, respectively.

NOTE P - COMMITMENTS AND CONTINGENCIES

The System was committed to the future settlement of investments purchased (accounted for by trade date) at September 30, 2014 and 2013 of $487,185 and $644,878, respectively. These amounts are reflected in the statements of fiduciary net position as a liability for unsettled investment transactions.

NOTE Q - DETERMINATION LETTER

The System has received a favorable determination letter dated October 1, 2012 from the Internal Revenue Service (IRS) stating that the System is qualified as a government plan under Section 414(d) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the System is required to operate in conformity with the Code to maintain its qualification.

NOTE R - RATE OF RETURN

For the years ended September 30, 2014 and 2013, the annual money-weighted rate of return on pension plan investments, net of investment expenses, was 7.08% and 11.9%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

NOTE S - NEW ACCOUNTING PRONOUNCEMENTS

In 2012 GASB issued a new statement that directly affect pension plans and the way pension liabilities are calculated as well as the reporting of those values in financial statements. This statement has a future implementation date; however, it poses significant changes for the System and are mentioned below with a summary of its purpose and impact.

GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, was issued June 2012 and is effective for fiscal years beginning after June 15, 2014. GASB 68 amends GASB 27 and GASB 50 as they relate to governmental employers that provide pensions through trusts. GASB 68 establishes procedures for measuring and recognizing the obligations associated with pensions as well as identifies methods for attributing the associated costs to the appropriate period as they are earned over an employee's career. Also included in GASB 68 are amendments to note and required supplemental information requirements as well as details to address special funding situations.

While this new accounting pronouncement will affect the accounting measures, it does not have an effect on the actuarial methods and assumptions used by the System to determine the employer contributions needed to fund the System as required under State Statute. The new accounting pronouncement will, however, impact the financial statement presentation for pension accounting and related disclosures for the System.

NOTE T - SUBSEQUENT EVENTS

The System has performed an evaluation of subsequent events through January 28, 2015, the date the basic financial statements were available to be issued. No material events were identified by the System.

REQUIRED SUPPLEMENTAL INFORMATION SECTION

Schedule of Changes in Employer's Net Pension Liability

	For The Year Ended September 30, 2014
Pension liability:	
Service cost	$ 12,991,999
Interest	65,906,383
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	6,650,362
Benefit payments	(58,302,794)
Refunds of Members' contributions	(2,670,671)
Net Change In Total Pension Liability	24,575,279
Pension liability, beginning	895,331,227
Pension Liability, Ending (a)	$ 919,906,506
Plan fiduciary net position:	
Contributions - Employer	$ 32,324,823
Contributions - Members	4,438,346
Net investment income	48,094,636
Benefit payments	(58,302,794)
Refunds of Members' contributions	(2,670,671)
Administrative expense	(1,095,653)
Other	-
Net Change In Plan Fiduciary Net Position	22,788,687
Plan fiduciary net position, beginning	706,276,668
Plan Fiduciary Net Position, Ending (b)	$ 729,065,355
Employer's Net Pension Liability, Ending (a-b)	$ 190,841,151

Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to expenses are reported this year.

Schedule of Employer's Net Pension Liability

	September 30	
	2014	2013
Pension liability	**$ 919,906,506**	895,331,227
Plan fiduciary net position	**729,065,355**	706,276,668
Employer's Net Pension Liability	**$ 190,841,151**	189,054,559
Plan fiduciary net position as a percentage of pension liability	**79.3 %**	78.9
Covered employee payroll (including DROP participants)	**$ 71,092,936**	72,353,122
Employer's net pension liability as a percentage of covered employee payroll	**268.4 %**	261.3

Schedule of Employer's Contributions

	For The Years Ended September 30	
	2014	2013
Statutory employer actuarially determined contributions	**$ 32,324,823**	32,629,036
Contributions in relation to the actuarially determined contribution	**(32,324,823)**	(32,629,036)
Contribution Surplus (Deficiency)	**$ -**	-
Covered employee payroll (including DROP participants)	**$ 71,092,936**	72,353,122
Contributions as a percentage of covered employee payroll	**45.47 %**	45.10

Schedule of Investment Return

	For The Years Ended September 30	
	2014	2013
Annual money-weighted rate of return, net of investment expenses	**7.08** %	11.90

Notes to Required Supplemental Information for the Year Ended September 30, 2014

1. Changes in benefit terms

There were no changes in benefits during the year ended September 30, 2014.

2. Changes in assumptions

The blended discount rate of 7.48% was used to measured the total pension liability. There were no other major assumption changes from the September 30, 2013 actuarial valuation.

3. Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined employer contribution was calculated as of the September 30 preceding the fiscal year in which contributions are made. That is, the contribution calculated as of the September 30, 2013 actuarial valuation was made during the fiscal year ended September 30, 2014. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule of employer contribution (schedule):

Method:	
Valuation date	October 1, 2014
Actuarial cost method:	
GASB 67 Reporting	Entry Age Normal
Funding	Aggregate, reduced by employee contributions
Amortization method/period	None - Aggregate is funded over the future working lifetime of current participants
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%, net of 0.15% administrative expense
Long-term municipal bond rate	4.11%
Rate of payroll growth	Varies by age 3% to 6.5%, including merit and promotions
Consumer price inflation	2.5%
Mortality (ordinary	RP-2000 Blue collar combined projected to 2018
Mortality (accidental)	0.03% per year for all ages in addition to ordinary mortality
Mortality (disabled)	RP-2000 disabled retiree mortality projected to 2018

4. GASB 67 ten-year required supplemental schedules

Required supplemental schedules are required to present 10 years of information. However, the information in the schedules are not required to be presented retroactively. Years will be added to these schedules in future fiscal years until 10 years of information is presented.

(Continued)

Notes to Required Supplemental Information for the Year Ended September 30, 2014 (Continued)

5. Money-weighted rate of return

The annual money-weighted rate of return is computed assuming investment yield is received at end of each month and on the actual or approximate date of contributions, benefit payments, and expenses.

6. Discount rate used to calculate the present value of future benefits

The discount rate used to calculate the present value of future benefit payments for reporting purposes is based upon the projected plan net position (PNP) using actuarial assumptions about contributions, benefit payments, and the long-term rate of return. If the projected PNP is not sufficient to cover projected benefit payments, a blended discount rate is required using both the weighted average of the long-term rate of return and the high grade bond muni-bond rate for periods after the PNP is exhausted. The Plan currently uses the long-term discount rate of 7.75% and expects assets will be sufficient to cover PNP until 2057. The muni-bond rate used in the valuation was 4.11% and is based on the Bond Buyers General Obligation 20 Year High Grade Rate Municipal Bond Index (AA/Aa or higher). Since the PNP was projected to be insufficient to make all projected benefit payments of current plan members, a blended discount rate of 7.48% was used to calculate the Plan's present value of future benefit payments.

OTHER SUPPLEMENTAL INFORMATION SECTION

HISTORICAL TREND INFORMATION

Additions to net assets:

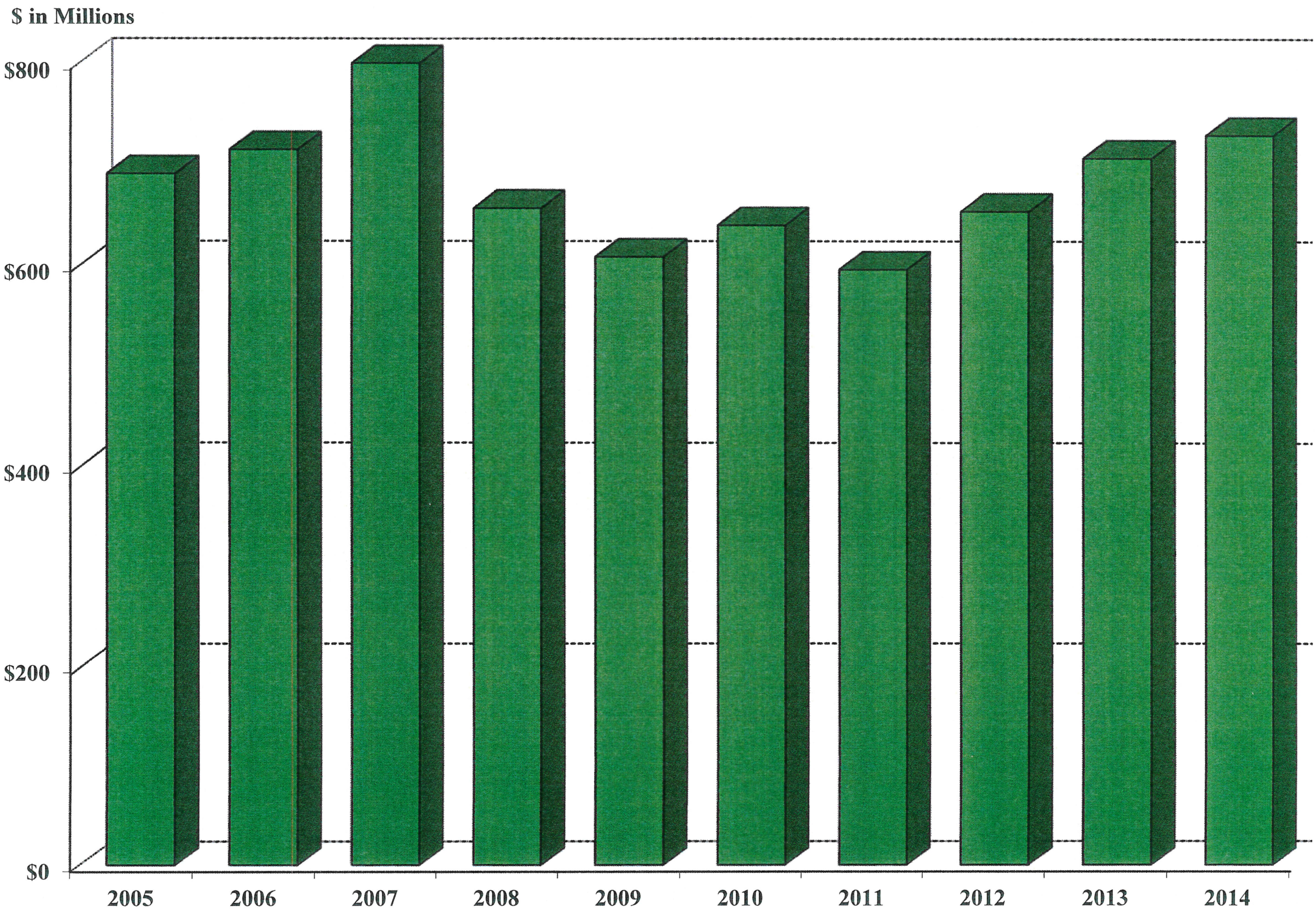
For The Years Ended September 30	Contributions: Employer		Contributions: Members	Contributions: Portability And Restorations	Net Investment Income (Loss)	Total
2014	**$ 32,324,823**		**$ 4,202,765**	**$ 235,581**	**$ 48,094,636**	**$ 84,857,805**
2013	32,629,036		4,270,446	251,125	77,112,248	114,262,855
2012	28,473,995		4,154,589	6,753	83,638,329	116,273,666
2011	20,036,918		4,155,488	269,071	(10,291,650)	14,169,827
2010	17,476,138		4,463,218	133,240	66,266,056	88,338,652
2009	14,318,031		4,497,970	293,950	6,293,776	25,403,727
2008	10,384,025		4,333,303	230,818	(108,705,744)	(93,757,598)
2007	42,289,488	(1)	4,337,586	194,601	102,401,388	149,223,063
2006	8,093,226		4,102,077	-	58,331,159	70,526,462
2005	8,093,226		3,993,182	245,176	73,102,117	85,433,701

Deductions from net assets:

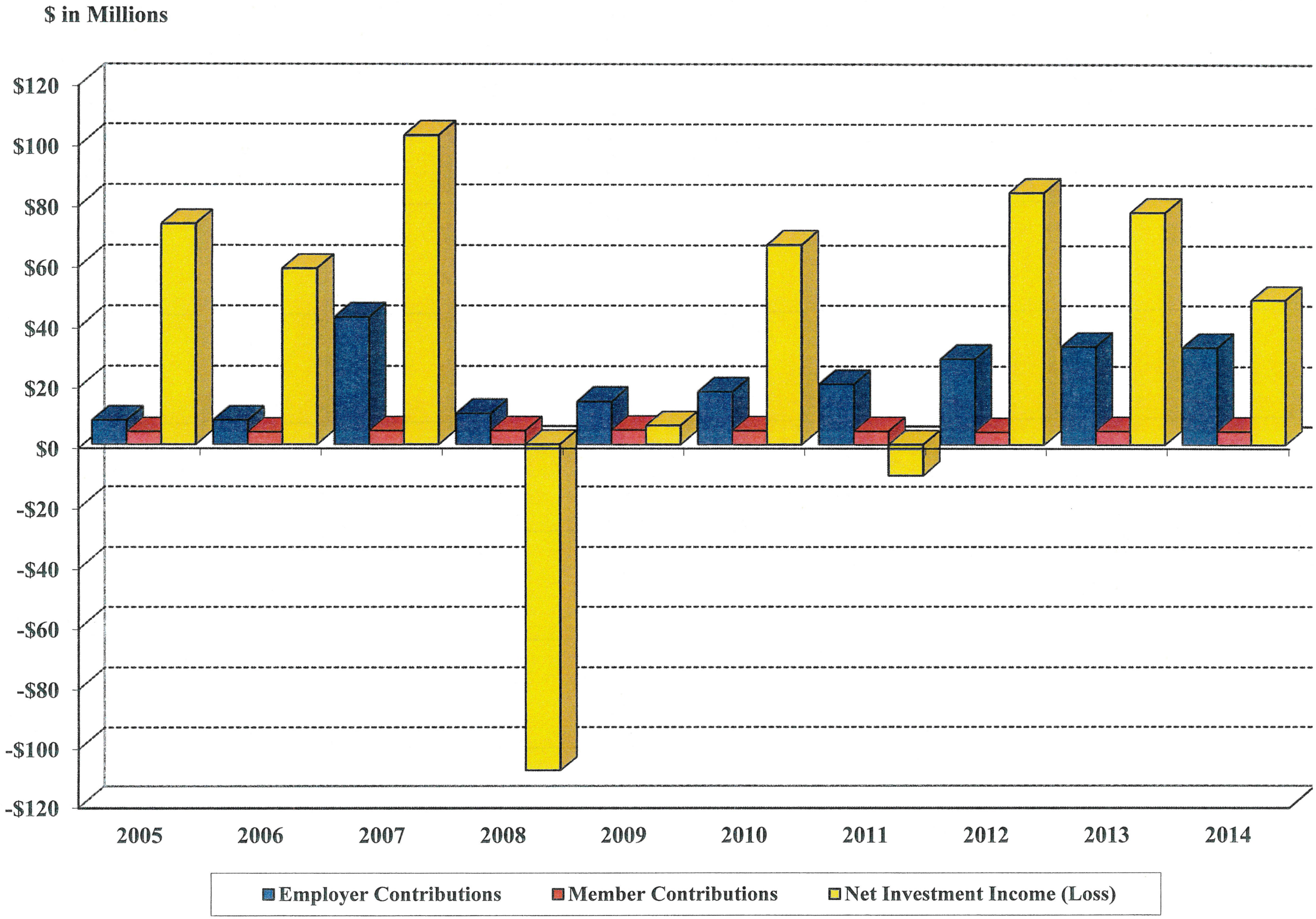
For The Years Ended September 30	Benefits Paid	Refunds To Members	Administrative Expenses	Total
2014	**$ 58,302,794**	**$ 2,670,671**	**$ 1,095,653**	**$ 62,069,118**
2013	57,283,047	3,566,809	999,324	61,849,180
2012	54,862,523	2,813,393	1,059,515	58,735,431
2011	53,922,117	2,932,312	1,396,293	58,250,722
2010	53,534,229	2,344,280	1,010,532	56,889,041
2009	65,960,835	6,379,326	1,011,183	73,351,344
2008	53,069,013	4,175,645	980,371	58,225,029
2007	49,302,567	4,336,463	934,792	54,573,822
2006	43,338,646	2,443,129	991,565	46,773,340
2005	45,947,523	4,930,840	1,046,647	51,925,010

(1) The City's contribution for the year ended September 30, 2007 includes delinquent contributions for the previous four fiscal years and related interest charges totaling $29,586,639.

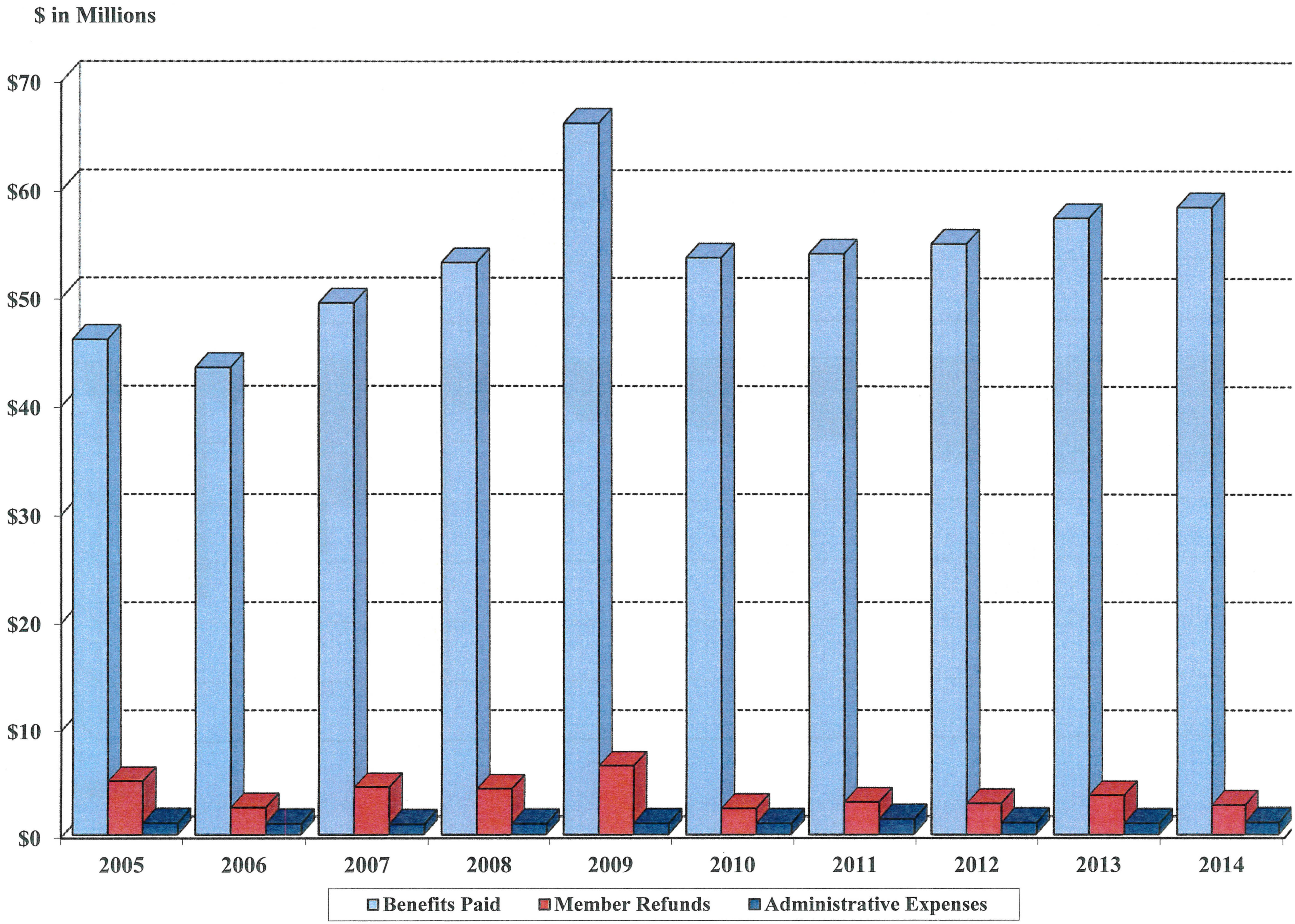
NET POSITION
SEPTEMBER 30

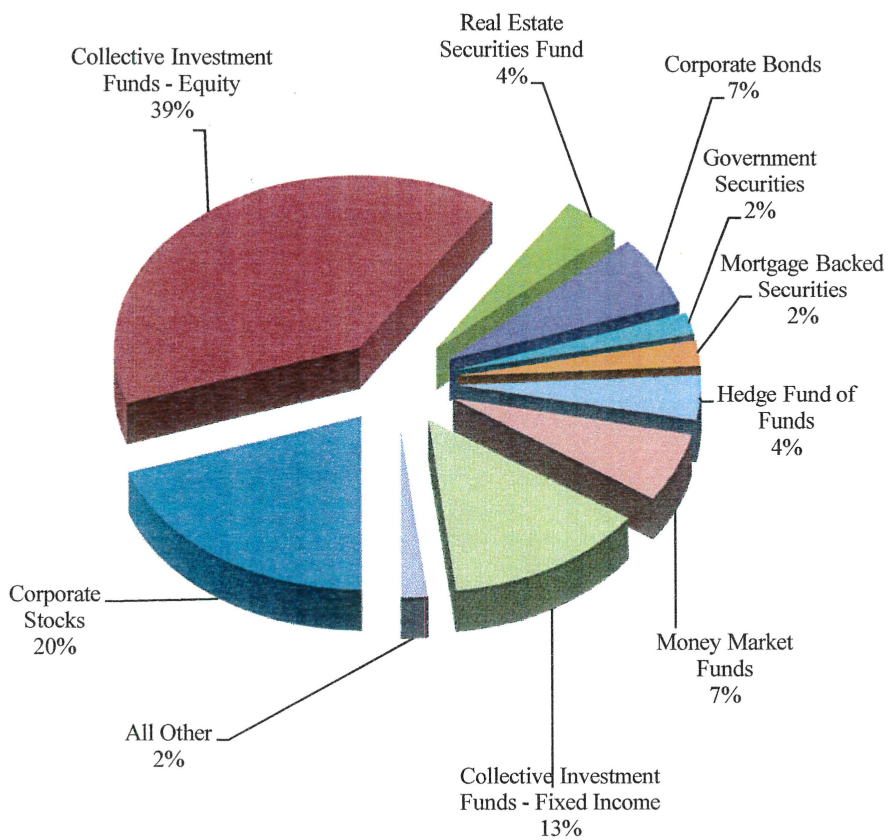


ADDITIONS TO NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30

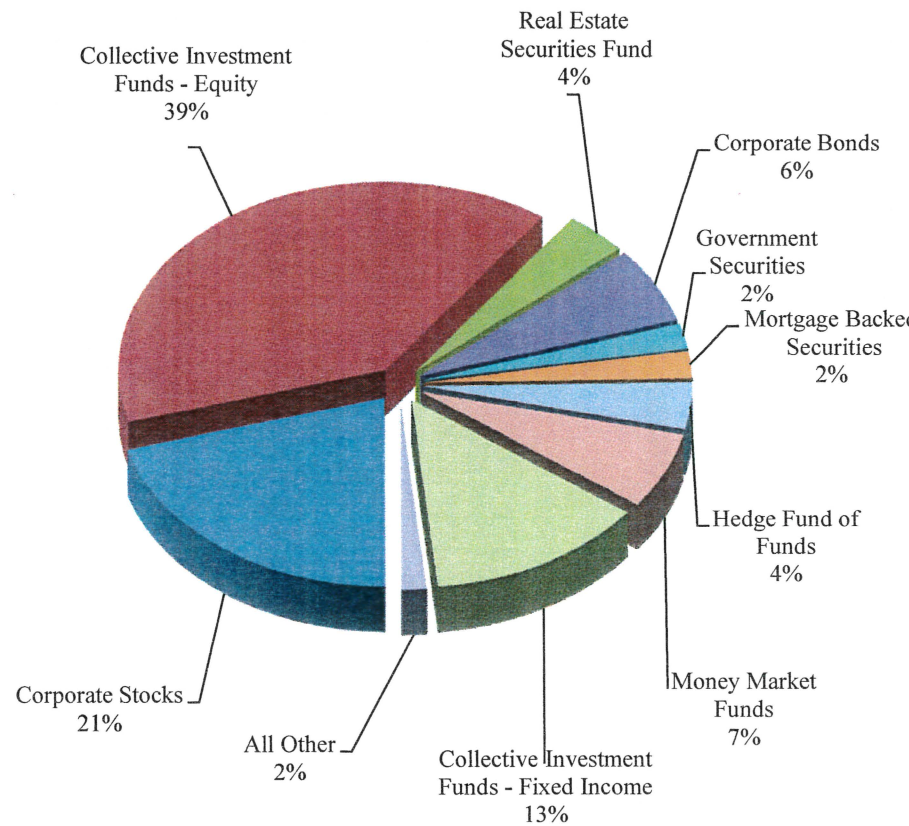


DEDUCTIONS FROM NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30





September 30, 2014



September 30, 2013

	For The Years Ended September 30	
	2014	2013
BENEFITS PAID TO RETIREES AND BENEFICIARIES		
Monthly annuity:		
Accidental disability and death	**$ 3,957,936**	3,921,303
Advisor fees	**1,992,220**	1,962,050
Consultant fees	**2,198,316**	2,193,186
Dependents monthly benefits	**4,797,036**	4,719,647
Medical, surgical, and hospital	**136,182**	124,494
Ordinary disability	**194,705**	122,034
Service retirees	**40,608,537**	39,662,983
Total Monthly Annuity	**53,884,932**	52,705,697
Lump-sum:		
Accidental disability and death	**50,272**	274,057
Drop	**4,367,590**	4,303,293
Total Lump-sum	**4,417,862**	4,577,350
Total Benefits Paid To Retirees And Beneficiaries	**$ 58,302,794**	57,283,047
ADMINISTRATIVE EXPENSES		
Salaries, payroll taxes, and employee fringe benefits paid to City	**$ 267,506**	259,863
Bank charges	**10,484**	10,303
Board of Trustees account	**47,697**	44,640
Committee	**62,826**	91,824
Computer and website	**81,112**	7,229
Depreciation	**60,841**	62,440
Document management	**1,750**	662
Equipment rental and maintenance	**14,480**	35,753
Insurance	**69,982**	66,626
Medical reviews, consulting, and investigations	**102,724**	75,936
Office supplies and expenses	**54,833**	29,466
Post-retirement and employee health care benefits	**9,639**	8,570
Postage	**15,280**	10,884
Professional fees:		
Accounting	**48,623**	46,765
Actuary	**59,868**	70,190
Investment consultant	**141,071**	115,804
Outside general counsel	**20,119**	38,038
Telephone	**11,533**	11,833
Utilities	**15,285**	12,498
Total Administrative Expenses	**$ 1,095,653**	999,324

SCHEDULES OF INVESTMENT MANAGEMENT AND CUSTODIAL FEES

	For The Years Ended September 30	
	2014	2013
Investment management fees:		
Allianz/NFJ Investment Group	$ **133,237**	111,890
Boston Safe Deposit and Trust Company	-	172,194
CenterSquare Investment Management Company	**244,700**	248,986
Commerce Bank N.A.	**198,660**	206,801
JP Morgan Investment Management, Inc.	**381,103**	373,667
MFS Institutional Advisors, Inc.	**210,701**	202,584
Pacific Investment Management Company	**226,814**	224,098
Trilogy Global Advisors, LLC	**725,652**	633,150
Wasatch Advisors, Inc.	**207,992**	178,166
Wellington Trust Company, N.A.	**590,502**	320,325
Wells Fargo Bank, N.A.	**234,714**	209,874
	3,154,075	2,881,735
Custodial fees:		
The Northern Trust Company	**173,814**	161,346
Total Investment Management And Custodial Fees	**$ 3,327,889**	3,043,081

The System bears its share of fund operating expenses (including the investment management fees) which are deducted directly from each individual fund's assets for the following investment funds:

EnTrust Capital Diversified Fund QP, Ltd. (Hedge Fund)
Falcon E&P Opportunities Fund, L.P. (Partnership Interest)
GAM US Institutional Diversity, Inc. (Hedge Fund)
NB Secondary Opportunities Fund III, L.P. (Partnership Interest)

SUMMARY OF INSURANCE COVERAGE

Policy term: November 1, 2013 to November 1, 2014

Type	Coverage
Fiduciary liability	$ 10,000,000
Directors and Officers liability	10,000,000
Commercial general liability	2,000,000
Umbrella liability	1,000,000
Employee dishonesty, forgery, and computer fraud	1,000,000
Non-owned Automobile	1,000,000
Property:	
Building	2,193,869
Personal property	1,555,465

INTERNAL CONTROL AND COMPLIANCE SECTION

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Hochschild, Bloom & Company LLP
Certified Public Accountants
Consultants and Advisors

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

January 28, 2015

The Board of Trustees
THE POLICE RETIREMENT SYSTEM OF ST. LOUIS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States, the statements of fiduciary net position and the related statements of changes in fiduciary net position of **THE POLICE RETIREMENT SYSTEM OF ST. LOUIS** (the System), a component unit of the City of St. Louis, Missouri, as of and for the year ended September 30, 2014, which collectively comprise the System's basic financial statements and have issued our report thereon dated January 28, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of de-

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ficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hochschild, Bloom & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS