THE POLICE RETIREMENT SYSTEM OF ST. LOUIS

FINANCIAL REPORT
(Audited)

Year Ended September 30, 2016

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.

Contents

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

INDEPENDENT AUDITOR'S REPORT

February 14, 2017

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 Pension Trust Fund of the City of St. Louis, Missouri, as of and for the years ended September 30, 2016 and 2015, 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.

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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, 2016 and 2015, 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 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 February 14, 2017 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 (MD&A) 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, 2016. The MD&A should be read in conjunction with the System's financial statements and supplemental information.

FINANCIAL HIGHLIGHTS

During the System's fiscal years ended September 30, 2016 and 2015, global economic recovery continued, although volatility persisted, driven in large measure by political uncertainties and threats of terrorist attacks. 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 and alternative investments. 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 in the U.S. remain strong with falling unemployment, active consumers, growth in manufacturing, and a strong U.S. dollar. The System's overall investment returns were above expectations for the fiscal year ended September 30, 2016. This followed the September 30, 2015 fiscal year where the System's investments had a significant decrease. The current U.S. equity bull market began seven years ago and the returns from this portion of the System's portfolio have investment returns exceeding the actuarial assumption for the five years (2010 - 2014) of that period and the current year 2016. 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 $709 million at September 30, 2016, which represents an increase of $24 million or 3.6% from September 30, 2015. This increase was primarily due to appreciation in the fair value of investments of $46 million resulting from a rebounding economy and investment markets.

Additions to net position for the fiscal year 2016 was $88 million as compared to additions of $27 million for fiscal year 2015. This figure is comprised of $53 million in net investment gain, $4 million in Members' contributions, and $31 million in employer's contributions. Additions to net position increased $61 million from 2015, a 229% increase principally due to the higher return on the System's investments. The employer's contributions were $31 million for both the 2016 and 2015 fiscal years.

Deductions from net position were $64 and $71 million for fiscal years 2016 and 2015, respectively. Benefit payments and refunds of Member's contributions combined represents more than 98% of the total deductions from net position for both the 2016 and 2015 fiscal years.

The overall investment return for the System was 7.85% and (1.14%) for fiscal years ended September 30, 2016 and 2015, respectively. The investment return for the year ended 2016 was above the actuarial assumption for investment rate of return of 7.5% (7.65% less 0.15% for administrative expenses) due to an improvement in the investment markets. The investment returns for the year ended 2015 was below the actuarial assumption for investment rate of return of 7.75% (7.9% less 0.15% for administrative expenses) due to a leveling of the investment markets in September 2015. Active oversight by the Board of Trustees continues to ensure the System retains top performing investment managers while maintaining a balanced investment portfolio.

Changes in active Members' benefits resulted from:

	For The Years Ended September 30	
	2016	2015
New entrants	**109**	60
Service retirements:		
Regular	**(35)**	(53)
Disability	**(3)**	(9)
Death	**(2)**	(1)
Members requesting a refund withdrawal	**(42)**	(36)
Net Change In Active Members	**27**	(39)

As of October 1, 2016, 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 73.9% of the actuarial present value of all future benefits which is a decrease from the October 1, 2015 ratio of 75.6%. This ratio decreased as a result of investment returns not exceeding the actuarial assumption during three of the last six years. For actuarial valuation computations, investment returns are recognized over a 5-year period starting with the year originated. The ratio also decreased due to changes in actuarial assumptions made following the experience study performed after the October 1, 2015 valuation.

FINANCIAL STATEMENTS

The financial statements, notes to financial statements, and required supplemental information (RSI) were prepared in conformity with Governmental Accounting Standards Board 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 the System's 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 the System's 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.
- Statements 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 7.5% investment return (7.65% less 0.15% administrative expenses) and expects assets will be sufficient to cover PNP until 2054. Since the PNP was projected to be insufficient to make all projected benefit payments of current plan Members and their beneficiaries, a blended discount rate of 6.19% was used to calculate the System's present value of future benefit payments.
- 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, employer's net pension liability, summary of actuarial assumptions, and sensitivity of net pension liability to changes in the discount rate.
- RSI includes a schedule of changes in employer's net pension liability, schedule of employer's net pension liability, schedule of employer's 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 financial statements section of the annual financial report consist of:

- The statements of fiduciary net position includes the System's assets, deferred outflows, liabilities, deferred inflows, and resulting net position. The net position is restricted for pensions. It is a snapshot of the financial position of the System at that specific point in time.
- The statements of changes in fiduciary net position summarizes the System's financial transactions that have occurred during the current and previous fiscal years.
- 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.

Other items included in the annual financial report are the MD&A, RSI, and other supplemental information which provide other information considered useful in evaluating the condition of the System.

FINANCIAL ANALYSIS

Total assets at September 30, 2016 were $711,193,181 and were mainly comprised of cash and investments. Total assets increased $23,073,665 or 3% from the prior year, mainly due to the appreciation in the fair value of investments of $46,421,430.

Total liabilities at September 30, 2016 were $2,063,764 and consisted of unsettled investment transactions, net pension liability - System's staff pension related, Members' contributions refundable, and accrued expenses. Total liabilities decreased $1,159,131 or 36% from the prior year, mainly due to the decrease in unsettled investment transactions.

The System implemented GASB 68, *Accounting and Financial Reporting by State and Local Governments* at September 30, 2015. The System's staff participate in the Employees Retirement System of the City of St. Louis (ERS), a cost-sharing, multi-employer defined benefit plan. The System elected to report pension elements based on ERS' September 30, 2015 actuarial valuation beginning of the year as allowed by GASB 68. The pension elements required to be reported in the statements of fiduciary net position include: 1) net pension liability and 2) deferred outflows/inflows of resources. The net effect of GASB 68 increased net position at September 30, 2016 and 2015 by $1,655 and $51,102, respectively.

Net position - restricted for pensions was $709,237,644 at September 30, 2016, an increase from the prior year of $24,342,876 or 3.6%. This increase mainly resulted from the increase in the fair value of investments. Benefits paid by the System have exceeded investment earnings in six of the last ten fiscal years, including the last three years (2014 through 2016).

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

	September 30			Total Change – Amount		Total Change – Percentage	
	2016	2015	2014	**2016**	2015	**2016**	2015
ASSETS							
Investments	**$ 701,567**	678,895	722,381	**22,672**	(43,486)	**3.3 %**	(6.0)
Cash and cash equivalents	**6,940**	7,277	7,398	**(337)**	(121)	**(4.6)**	(1.6)
Receivables	**2,390**	1,602	1,382	**788**	220	**49.2**	15.9
Capital assets, net	**296**	345	396	**(49)**	(51)	**(14.2)**	(12.9)
Total Assets	**711,193**	688,119	731,557	**23,074**	(43,438)	**3.4**	(5.9)
DEFERRED OUTFLOWS							
System's staff pension related	**125**	26	-	**99**	26	**380.8**	100.0
LIABILITIES	**2,064**	3,223	2,492	**(1,159)**	731	**(36.0)**	29.3
DEFERRED INFLOWS							
System's staff pension related	**17**	27	-	**(10)**	27	**(37.0)**	100.0
NET POSITION	**$ 709,237**	684,895	729,065	**24,342**	(44,170)	**3.6 %**	(6.1)

Revenues - Additions to Net Position

Net investment income totaled $52,927,643 in fiscal year 2016 which represents an increase of $61,253,254 from the previous fiscal year in which there was an investment loss of ($8,325,611). The increase resulted mainly from appreciation in the fair value of investments being $63,572,618 more for fiscal year 2016 as compared to fiscal year 2015. Investment income (loss) above is net of investment expenses (management and custodial fees) totaling $3,021,394 which decreased by $285,057 or 9% from fiscal year 2015.

The reserves needed to finance retirement benefits as well as death and disability benefits are accumulated through the collection of employer's 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 $35,155,531 ($30,778,664 from the employer and $4,376,867 from Members) for the year ended September 30, 2016, an increase of $67,520 or 0.2% 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 2016 were $63,740,298, a decrease of $6,918,089 or 9.8% from fiscal year 2015. The decrease is mainly due to a decrease in benefits paid to retirees and beneficiaries, which is a function of the number of Members who retired 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		Percentage	
	2016	2015	2014	**2016**	2015	**2016**	2015
ADDITIONS							
Net investment income (loss)	**$ 52,928**	(8,326)	48,094	**61,254**	(56,420)	**735.7 %**	(117.3)
Employer's contributions	**30,778**	30,600	32,325	**178**	(1,725)	**0.6**	(5.3)
Members' contributions	**4,377**	4,488	4,438	**(111)**	50	**(2.5)**	1.1
Total Additions	**88,083**	26,762	84,857	**61,321**	(58,095)	**229.1**	(68.5)
DEDUCTIONS							
Benefits paid	**59,674**	67,108	58,303	**(7,434)**	8,805	**(11.1)**	15.1
Refunds of Members' contributions	**2,964**	2,425	2,671	**539**	(246)	**22.2**	(9.2)
Administrative expenses	**1,103**	1,125	1,095	**(22)**	30	**(2.0)**	2.7
Total Deductions	**63,741**	70,658	62,069	**(6,917)**	8,589	**(9.8)**	13.8
CHANGE IN NET POSITION	**24,342**	(43,896)	22,788	**68,238**	(66,684)	**155.5**	(292.6)
NET POSITION, BEGINNING OF YEAR	**684,895**	729,065	706,277	**(44,170)**	22,788	**(6.1)**	3.2
EFFECT OF GASB 68 IMPLEMENTATION	**-**	(274)	-	**274**	(274)	**100.0**	(100.0)
NET POSITION, END OF YEAR	**$ 709,237**	684,895	729,065	**24,342**	(44,170)	**3.6 %**	(6.2)

SUMMARY

The System's net position - restricted for pensions has increased in six out of the past ten years. The decreases (which occurred in fiscal years 2015, 2011, 2009, and 2008) were the result of investment losses due to economic slowdowns that detrimentally affected most pension systems in those years. The Board of Trustees believe, and the actuarial calculations confirm, that the System is in a financial position to meet its current and projected obligations in the immediate future. However, current actuarial projections using the GASB method indicate that the System may have an insufficient net position to make all projected future benefit payments of current Members of the System and their beneficiaries if there are no contributions for future members. 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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STATEMENTS OF FIDUCIARY NET POSITION

	September 30	
	2016	2015
ASSETS		
Investments at fair value:		
Equities:		
Collective investment funds	**$ 178,090,002**	181,636,059
Corporate stocks	**167,740,235**	181,925,840
Real estate securities fund	**73,502,231**	29,918,990
Fixed income:		
Corporate bonds	**57,884,568**	54,741,285
Government securities	**24,795,244**	24,448,429
Mortgage backed securities	**16,792,300**	20,064,759
Collective investment funds	**15,129,984**	24,487,573
Partnership interests	**98,534,424**	87,005,322
Hedge funds	**34,102,373**	31,320,286
Money market funds	**33,969,403**	42,362,246
Investment property	**862,700**	850,000
Commodity fund	**163,567**	134,493
Total Investments	**701,567,031**	678,895,282
Cash and cash equivalents	**6,939,857**	7,276,823
Receivables:		
Unsettled investment transactions	**1,349,537**	574,892
Interest and dividends	**1,040,410**	1,027,027
Total Receivables	**2,389,947**	1,601,919
Capital assets, net of accumulated depreciation	**296,346**	345,492
Total Assets	**711,193,181**	688,119,516
DEFERRED OUTFLOWS OF RESOURCES		
System's staff pension related	**125,280**	25,834
LIABILITIES		
Unsettled investment transactions	**795,422**	2,020,913
Accrued investment management fees	**702,743**	702,774
Net pension liability - System's staff pension related	**330,070**	221,645
Accrued administrative expenses	**129,389**	168,304
Members' contributions refundable	**106,140**	109,259
Total Liabilities	**2,063,764**	3,222,895
DEFERRED INFLOWS OF RESOURCES		
System's staff pension related	**17,053**	27,687
NET POSITION - RESTRICTED FOR PENSIONS	**$ 709,237,644**	684,894,768

See notes to financial statements

	For The Years Ended September 30	
	2016	2015
ADDITIONS TO NET POSITION ATTRIBUTED TO		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	**$ 46,421,430**	(17,151,188)
Interest:		
Corporate bonds	**2,480,188**	3,404,015
Government obligations	**1,180,482**	1,658,676
Other	**282,369**	115,855
Dividends	**5,246,648**	6,774,664
Securities lending income	**249,947**	161,101
Class action settlements	**67,670**	4,800
Recapture commissions	**20,303**	12,917
Total Investment Income (Loss)	**55,949,037**	(5,019,160)
Less - Investment management and custodial fees	**3,021,394**	3,306,451
Net Investment Income (Loss)	**52,927,643**	(8,325,611)
Contributions:		
Employer	**30,778,664**	30,600,069
Members	**4,320,337**	4,202,023
Portability	**56,530**	249,154
Restoration	**-**	36,765
Total Contributions	**35,155,531**	35,088,011
Total Additions, Net	**88,083,174**	26,762,400
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO		
Benefits paid to retirees and beneficiaries	**59,673,662**	67,107,828
Refunds of Members' contributions	**2,963,770**	2,425,249
Administrative expenses	**1,102,866**	1,125,310
Total Deductions	**63,740,298**	70,658,387
CHANGE IN NET POSITION	**24,342,876**	(43,895,987)
NET POSITION - RESTRICTED FOR PENSIONS, BEGINNING OF YEAR	**684,894,768**	728,790,755
NET POSITION - RESTRICTED FOR PENSIONS, END OF YEAR	**$ 709,237,644**	684,894,768

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
	2016	2015	**(Decrease)**
Retirees and beneficiaries currently receiving benefits	**1,904**	1,903	**1**
Current active Members:			
Vested - participating in DROP	**147**	165	**(18)**
Vested - non-DROP	**214**	202	**12**
Total Vested	**361**	367	**(6)**
Nonvested	**908**	875	**33**
Total Current Active Members	**1,269**	1,242	**27**
Total Membership	**3,173**	3,145	**28**

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 at 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 contributed 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. In addition, terminated Members receive interest.

The System implemented a Deferred Retirement Option Plan (DROP) feature during the System's fiscal year ended 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 of the Member, 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 and currently participating at September 30, 2016 and 2015 were as follows:

	Currently Participating	Total DROP Accounts	DROP Account Balances
2016	147	333	$37,819,386
2015	165	373	34,133,010

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 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, and one (1) of whom are Trustees by virtue of offices (Comptroller of the City or the Comptroller's designee -- Deputy Comptroller or the first Assistant Comptroller).

3. Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Members' and employer's 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 System's benefit provisions. 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. Investment purchases and sales are recorded on a trade-date basis (the date upon which the transaction is initiated).

4. GASB 67 Financial Reporting Model

The System's financial statements are prepared in conformity with GASB 67's financial reporting requirements for governmental pension systems. GASB 67 includes required presentation of the financial statements, notes to financial statements, and RSI. An actuarial calculation of the total and net pension liability as defined in the accounting standard is included in the notes to financial statements and RSI. Other comprehensive footnote disclosures include the sensitivity of the net pension liability to the discount rate and investment activity disclosures. The total employer's projected net pension liability is presented in the notes to financial statements and is calculated using a discount rate (long-term or blended) depending on the sufficiency of projected net position to cover projected benefit payments of retirees and beneficiaries.

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 30 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's manager based on independent real estate appraisals of the fund's holdings. The hedge 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 and Cash Equivalents

Cash on deposit with Commerce Bank N.A. 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 capital assets 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 changes in fiduciary net position as realized.

Capital assets consists of the following:

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Capital Assets (Continued)

	September 30	
	2016	2015
Furniture, equipment, and software - at cost	**$ 715,669**	704,776
Accumulated depreciation	**(419,323)**	(359,284)
Total Capital Assets, Net Of Accumulated Depreciation	**$ 296,346**	345,492

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

	For The Year Ended September 30, 2016			
	Balance September 30 2015	**Increases**	**Decreases**	**Balance September 30 2016**
Furniture, equipment, and software, net	$ 345,492	10,893	60,039	**296,346**

Depreciation expense for the years ended September 30, 2016 and 2015 was $60,039 and $60,075, respectively.

10. Staff Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Employees Retirement System of the City of St. Louis (ERS), a cost-sharing, multi-employer defined benefit plan and additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, contributions from employers and net pension liability are recognized on an accrual basis of accounting.

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The System currently has deferred inflows and outflows from GASB 68 pension elements from the System's staff participation in ERS which is reported on the statement of fiduciary net position.

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, 2016 and 2015. The System's bank deposits and repurchase agreements were insured by the FDIC and collateralized with securities held by the Federal Reserve Bank in the System's name. The repurchase agreements at September 30, 2016 are pledged by a Federal National Mortgage Association certificate (maturing November 1, 2025) and a Federal Home Loan Board certificate (maturing March 9, 2018). The repurchase agreements at September 30, 2015 were pledged by a Federal Home Loan Board certificate (maturing April 30, 2018) and a Treasury Inflation - Protected Security (maturing January 15, 2025). All pledged collateral securities had an AA+ credit rating level.

Cash and cash equivalents consists of the following:

	September 30			
	2016		2015	
	Bank Balance	**Carrying Amount**	Bank Balance	Carrying Amount
Repurchase agreements	**$ 6,189,733**	**6,189,733**	6,538,957	6,538,957
Bank deposits	**778,751**	**750,124**	765,467	737,866
Total	**$ 6,968,484**	**6,939,857**	7,304,424	7,276,823

NOTE D - CONTRIBUTIONS RECEIVABLE - EMPLOYER

Contributions receivable - employer consists of the following:

NOTE D - CONTRIBUTIONS RECEIVABLE - EMPLOYER (Continued)

	September 30	
	2016	2015
Current year contributions due from the employer as calculated by the System's actuary	**$ 30,778,664**	30,600,069
Contributions received from the employer during the year	**(30,778,664)**	(30,600,069)
Total Contributions Receivable - End Of Year	**$ -**	-

Missouri revised state statutes require the City's contributions to be paid to the System in six equal monthly payments starting on July 1 and ending on December 1, 2016 and 2015, respectively.

NOTE E - INVESTMENTS

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

	September 30	
	2016	2015
Allianz/NFJ Investment Group (domestic small cap equity - value):		
Corporate stocks	**$ 20,910,032**	18,782,980
Money market fund	**1,248,833**	987,233
Commodity fund	**163,567**	134,493
	22,322,432	19,904,706
Brandes Investment Partners (international equity - small cap):		
Partnership interest - venture capital	**46,468,039**	40,658,097
CenterSquare Investment Management Company (real estate - equity):		
Real estate securities fund	**34,643,040**	29,918,990
Commerce Bank N.A. (fixed income):		
Corporate bonds	**57,884,568**	54,741,285
Government securities	**24,795,244**	24,448,429
Mortgage backed securities	**16,792,300**	20,064,759
Money market fund	**2,695,086**	7,327,966
Corporate stocks	**935,558**	914,242
	103,102,756	107,496,681
Crescent Capital Group (private equity - opportunistic fixed income):		
Partnership interest - venture capital	**37,180,622**	35,153,536
Entrust Capital Diversified Fund QP, Ltd. (multi-strategy hedge fund):		
Hedge fund	**13,744,847**	14,310,143

NOTE E - INVESTMENTS (Continued)

	September 30	
	2016	2015
Entrust Special Opportunities Fund III, L.P. (multi-strategy hedge fund):		
Hedge fund	**5,571,635**	2,241,488
Falcon E&P Opportunities Fund, L.P. (private equity):		
Partnership interest - oil and gas	**4,634,317**	4,760,532
Money market fund	**-**	172,583
	4,634,317	4,933,115
GAM US Institutional Diversity, Inc. (multi-strategy hedge fund):		
Hedge fund	**14,785,891**	14,768,655
Kennedy Capital Management, Inc. (domestic small cap equity - value):		
Corporate stocks	**21,798,795**	-
Money market fund	**688,724**	-
	22,487,519	-
Lazard Asset Management, Inc. (international equity - emerging markets):		
Corporate stocks	**40,590,000**	36,572,000
MFS Institutional Advisors, Inc. (domestic large cap equity - value):		
Corporate stocks	**40,768,121**	52,071,082
Money market fund	**540,759**	534,198
	41,308,880	52,605,280
Neuberger Berman Secondary Opportunities Fund III, L.P. (private equity):		
Partnership interest - venture capital secondary market	**4,435,387**	3,656,644
Money market fund	**-**	186,311
	4,435,387	3,842,955
The Northern Trust Company (domestic large cap equity - core):		
Collective investment fund	**92,970,215**	51,357,447
Money market fund	**26,047,565**	30,594,513
Corporate stocks	**280,620**	245,263
	119,298,400	82,197,223
Pacific Investment Management Company (fixed income):		
Collective investment funds - government securities	**15,129,984**	24,487,573
Money market fund	**505**	12,560
	15,130,489	24,500,133
Petrocap Partners II, L.P. (private equity):		
Partnership interest - oil and gas	**2,456,237**	685,428
Money market fund	**-**	4
	2,456,237	685,432

NOTE E - INVESTMENTS (Continued)

	September 30 2016	2015
Principal U.S. Property Account (real estate - equity):		
Real estate securities fund	**38,859,191**	-
Salient Zarvona Energy Fund II-A, L.P. (private equity):		
Partnership interest - oil and gas	**3,359,822**	2,091,085
Money market fund	**-**	65,224
	3,359,822	2,156,309
Trilogy Global Advisors, LLC (international equity - growth):		
Collective investment fund	**43,695,697**	58,621,392
Wasatch Advisors, Inc. (domestic small cap equity - growth):		
Corporate stocks	**21,896,101**	19,500,698
Money market fund	**1,981,204**	1,638,786
	23,877,305	21,139,484
Wellington Trust Company, N.A. (international equity - growth):		
Collective investment fund	**41,424,090**	71,657,220
Wells Fargo Bank, N.A. (domestic large cap equity - growth):		
Corporate stocks	**-**	53,839,575
Money market fund	**-**	842,868
	-	54,682,443
Westfield Capital Management Company, L.P. (domestic mid cap - growth):		
Corporate stocks	**20,561,008**	-
Money market fund	**766,727**	-
	21,327,735	-
Total Investments Managed	**700,704,331**	678,045,282
Investment property - real estate	**862,700**	850,000
Total Investments	**$ 701,567,031**	678,895,282

Money market funds are invested in Northern Trust's Collective Government Short-term Investment Fund.

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 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.

NOTE E - INVESTMENTS (Continued)

The System categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The inputs and methodologies used for valuing investment securities are not necessarily an indication of the risk associated with investing in those securities.

The System has the following recurring fair value level measurements as of September 30, 2016 and 2015:

	2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Corporate stocks:				
Domestic	**$ 127,150,235**	**127,150,235**	**-**	**-**
International	**40,590,000**	**40,590,000**	**-**	**-**
Government bonds, agencies, and mortgaged backed securities	**41,587,544**	**-**	**41,587,544**	**-**
Corporate bonds:				
Domestic	**50,883,290**	**-**	**50,883,290**	**-**
International	**7,001,278**	**-**	**7,001,278**	**-**
Collective investment funds:				
International equity	**85,119,787**	**85,119,787**	**-**	**-**
Domestic equity	**92,970,215**	**92,970,215**	**-**	**-**
Domestic fixed income	**15,129,984**	**-**	**15,129,984**	**-**
Limited partnership units:				
Venture capital	**88,084,048**	**-**	**-**	**88,084,048**
Energy	**10,450,376**	**-**	**-**	**10,450,376**
Derivatives:				
Commodity fund	**163,567**	**163,567**	**-**	**-**
Money market funds	**33,969,403**	**33,969,403**	**-**	**-**
Investment property	**862,700**	**-**	**-**	**862,700**
Total Investments By Fair Value Level	**593,962,427**	**379,963,207**	**114,602,096**	**99,397,124**
Investments measured at net asset value (NAV):				
Hedge funds	**34,102,373**			
Real estate investment trust	**73,502,231**			
Total Investments Measured At NAV	**107,604,604**			
Total Investments Measured At Fair Value	**$ 701,567,031**			

NOTE E - INVESTMENTS (Continued)

	2015			
	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Corporate stocks:				
Domestic	145,353,840	145,353,840	-	-
International	36,572,000	36,572,000	-	-
Government bonds, agencies, and mortgaged backed securities	44,513,188	-	44,513,188	-
Corporate bonds:				
Domestic	46,581,951	-	46,581,951	-
International	8,159,334	-	8,159,334	-
Collective investment funds:				
International equity	130,278,612	130,278,612	-	-
Domestic equity	51,357,447	51,357,447	-	-
Domestic fixed income	24,487,573	-	24,487,573	-
Limited partnership units:				
Venture capital	79,468,277	-	-	79,468,277
Energy	7,537,045	-	-	7,537,045
Derivatives:				
Commodity fund	134,493	134,493	-	-
Money market funds	42,362,246	42,362,246	-	-
Investment property	850,000	-	-	850,000
Total Investments By Fair Value Level	617,656,006	406,058,638	123,742,046	87,855,322
Investments measured at net asset value (NAV):				
Hedge funds	31,320,286			
Real estate investment trust	29,918,990			
Total Investments Measured At NAV	61,239,276			
Total Investments Measured At Fair Value	$ 678,895,282			

For the investments measured at NAV at September 30, 2016 and 2015:

- There were no unfunded purchase commitments.
- Redemption frequency, when currently eligible, is quarterly.
- Notice period for redemptions is 1 to 90 days.

Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the System's custodian bank. Debt and equity securities held in Collective Trust Funds are held in those funds on behalf of the System and there is no restriction on the use and or liquidation of those assets.

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, 2016 Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Collective investment funds	$ 15,129,984	3,564,624	3,452,662	3,383,064	4,729,634
Corporate bonds	57,884,568	9,469,315	13,910,673	19,670,440	14,834,140
Mortgage backed securities:					
Nongovernment	15,130,644	-	3,139,136	815,023	11,176,485
Government	1,661,656	-	57,243	47,177	1,557,236
Government securities	24,795,244	3,030,474	16,606,566	1,567,168	3,591,036
Total	$ 114,602,096	16,064,413	37,166,280	25,482,872	35,888,531

Fixed Income Investment Categories	Total	Maturities As Of September 30, 2015 Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Collective investment funds	$ 24,487,573	8,325,775	6,121,893	6,121,893	3,918,012
Corporate bonds	54,741,285	9,277,554	19,836,687	20,452,681	5,174,363
Mortgage backed securities:					
Nongovernment	17,895,012	-	2,415,720	2,435,432	13,043,860
Government	2,169,747	3,092	145,746	-	2,020,909
Government securities	24,448,429	3,376,238	16,252,700	3,591,856	1,227,635
Total	$ 123,742,046	20,982,659	44,772,746	32,601,862	25,384,779

Certain collective investment funds are classified by average maturities of the portfolios.

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:

NOTE E - INVESTMENTS (Continued)

Credit Rating As Of September 30, 2016

Credit Rating Level	Total	Collective Invest-ment Funds	Corporate Bonds	Nongovern-ment Mortgage Backed Securities	Government Mortgage Backed Securities	Govern-ment Securities
AAA	$ 17,589,396	-	1,824,449	3,287,652	1,661,656	10,815,639
AA	33,561,183	15,129,984	6,514,115	731,271	-	11,185,813
A	34,552,273	-	30,167,241	4,385,032	-	-
BBB	10,428,416	-	10,428,416	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
CCC	166,705	-	-	166,705	-	-
CC	-	-	-	-	-	-
D	199,145	-	-	199,145	-	-
Not rated	18,104,978	-	8,950,347	6,360,839	-	2,793,792
Total	$ 114,602,096	15,129,984	57,884,568	15,130,644	1,661,656	24,795,244

Credit Rating As Of September 30, 2015

Credit Rating Level	Total	Collective Invest-ment Funds	Corporate Bonds	Nongovern-ment Mortgage Backed Securities	Government Mortgage Backed Securities	Govern-ment Securities
AAA	$ 18,239,828	-	1,674,288	3,610,084	2,169,747	10,785,709
AA	43,097,714	24,487,573	7,303,204	1,050,968	-	10,255,969
A	36,310,787	-	30,095,951	6,214,836	-	-
BBB	6,099,460	-	6,099,460	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
CCC	521,864	-	-	521,864	-	-
CC	-	-	-	-	-	-
D	253,465	-	-	253,465	-	-
Not rated	19,218,928	-	9,568,382	6,243,795	-	3,406,751
Total	$ 123,742,046	24,487,573	54,741,285	17,895,012	2,169,747	24,448,429

Certain collective investment funds are classified by average credit rating levels of the portfolio.

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, 2016

Currency	Equities	Fixed Income	Money Market Funds	Commodity Fund	Hedge Funds	Investment Property And Partnerships	Total
Australian Dollar	$ -	-	-	-	-	-	-
British Pound Sterling	624,772	936,844	-	-	-	-	1,561,616
Canadian Dollar	874,404	2,854,805	-	-	-	-	3,729,209
Euro	1,191,267	2,130,969	-	-	-	-	3,322,236
Indian Rupee	961,440	-	-	-	-	-	961,440
Israeli Shekel	655,801	-	-	-	-	-	655,801
Japanese Yen	-	1,078,659	-	-	-	-	1,078,659
Norwegian Kron	12,497	-	-	-	-	-	12,497
Swiss Franc	861,756	-	-	-	-	-	861,756
Total Foreign Currency	5,181,937	7,001,277	-	-	-	-	12,183,214
United States Dollar	414,150,531	107,600,819	33,969,403	163,567	34,102,373	99,397,124	689,383,817
Total	$ 419,332,468	114,602,096	33,969,403	163,567	34,102,373	99,397,124	701,567,031

Foreign Currency Exposures By Asset Class In U.S. Dollars As Of September 30, 2015

Currency	Equities	Fixed Income	Money Market Funds	Commodity Fund	Hedge Funds	Investment Property And Partnerships	Total
Australian Dollar	$ -	519,523	-	-	-	-	519,523
British Pound Sterling	1,382,771	1,217,772	-	-	-	-	2,600,543
Canadian Dollar	956,736	2,984,761	-	-	-	-	3,941,497
Euro	1,258,985	2,048,544	-	-	-	-	3,307,529
Indian Rupee	753,708	-	-	-	-	-	753,708
Israeli Shekel	246,213	-	-	-	-	-	246,213
Japanese Yen	-	1,075,547	-	-	-	-	1,075,547
Norwegian Kron	20,674	-	-	-	-	-	20,674
Swiss Franc	1,286,117	713,188	-	-	-	-	1,999,305
Total Foreign Currency	5,905,204	8,559,335	-	-	-	-	14,464,539
United States Dollar	387,575,685	115,182,711	42,362,246	134,493	31,320,286	87,855,322	664,430,743
Total	$ 393,480,889	123,742,046	42,362,246	134,493	31,320,286	87,855,322	678,895,282

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 System's investments as shown below:

Asset Class As A Percent Of Total Assets			
Asset Class	Minimum	Target Mix	Maximum
Fixed income	14%	19	24
Domestic equities:			
Large cap	13	18	23
Mid cap	1	6	11
Small cap	1	6	11
Foreign equities:			
Developed markets	8	13	18
Emerging markets	1	6	11
Non-U.S. small cap markets	1	6	11
Non-directional hedge funds	-	5	10
Real estate equities	3	8	13
Private equity	3	8	13
Other	-	4	9
Money market	-	1	6

Long-term Expected Rate of Return on the System's 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

NOTE E - INVESTMENTS (Continued)

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 System's target asset allocation as of September 30, 2016 are summarized in the following table:

Asset Class	Long-term Expected Real Rate Of Return
Fixed income	(0.35%)
Domestic equity	4.45
Foreign equity	4.25
Non-directional hedge funds	1.60
Real estate (REIT)	4.15
Private equity (partnerships)	7.90
Money market	-

The above long-term expected real rates of return represent best estimates of mathematical rates of return for each major asset class included. These rates of return are shown net of inflation (assumed at 2.5%) and net of investment expenses (assumed at 1% for non-directional hedge funds and real estate asset classes and 0.45% for all other asset classes).

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.
Neuberger Berman Secondary Opportunities Fund III, L.P.
Principal U.S. Property Account
Wellington Trust Company International Opportunities Fund

NOTE F - INVESTMENTS GREATER THAN 5% OF NET POSITION - RESTRICTED FOR PENSIONS

Investments which exceed 5% or more of net position - restricted for pensions are as follows:

	September 30	
	2016	2015
Collective funds:		
MFB Northern Trust Company Daily S&P 500 Equity Index Fund	$ **50,963,764**	51,357,447
Brandes Non-U.S. Small Cap Portfolio Fund	**46,468,039**	40,658,097
Trilogy International Group Trust I	**43,695,697**	58,621,393
MFB Northern Trust Collective Russell 1,000 Growth Index Fund	**42,006,451**	-
Wellington Trust Company International Opportunities Fund	**41,424,090**	71,657,221
Lazard Emerging Markets Core Equity Trust	**40,590,000**	36,572,000
Principal Real Estate Investment Trust	**38,859,191**	-
Crescent Capital High Income Fund	**37,180,622**	35,153,536

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 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			
	2016		2015	
	Fair Value	**Cost**	Fair Value	Cost
Pending currency forwards purchases:				
United States dollar	**$ 21,475,067**	**21,475,067**	30,864,561	30,864,561
Pending currency forwards sales:				
Foreign currency	**21,474,941**	**21,475,067**	30,862,692	30,864,561

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

	For The Years Ended September 30	
	2016	2015
Net realized gains (losses)	**$ 416,871**	4,925,526
Net unrealized gains (losses)	**(126)**	(1,869)

NOTE H - FUNDING POLICY CONTRIBUTIONS

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

Actuarially determined funding policy contributions requirements are as shown in the following table:

NOTE H - FUNDING POLICY CONTRIBUTIONS (Continued)

	For The Years Ended September 30		Covered Payroll Percentage	
	2016	2015	**2016**	**2015**
Employer's annual required contributions:				
Portion of normal cost attributable to the System's fiscal years	**$ 30,644,718**	31,893,635		
Amortization of prior liability	**-**	-		
Total Employer's Annual Required Contributions	**$ 30,644,718**	31,893,635	**42.2 %**	44.1
Employer's Funding Policy Contributions Made	**$ 30,778,664**	30,600,069	**42.3 %**	42.3
Members' Contributions Made	**$ 4,320,337**	4,202,023	**5.9 %**	5.8

The covered payroll of active participants (including DROP participants) per the actuarial valuation amounted to $72,684,487 and $72,325,153 for the years ended September 30, 2016 and 2015, respectively.

Funding Policy Contribution (FPC) - The FPC is calculated using the aggregate actuarial cost method. The FPC applicable to the System's fiscal year ended September 30 each year in accordance with GASB 25 requires blending of the actuarial valuations. The FPC is presented each year using the aggregate of the City's FPCs 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:

	Actuarial Valuation October 1	
	2016	2015
Present value of all future benefits	**$ 1,060,469,723**	987,864,901
Actuarial value of assets, including present value of future Members' contributions	**783,452,580**	746,695,427
Present Value Of Future Normal Contributions Due From The City	**$ 277,017,143**	241,169,474

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 employer's net pension liability (the System's liability determined in accordance with GASB 67 less the fiduciary net position) as of September 30, 2016 and 2015, are shown in the schedules of employer's 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 schedules of changes in employer's net pension liability presents multi-year trend information about whether the System's fiduciary net position is increasing or decreasing over time relative to the total pension liability. These schedules are presented in the RSI. The total pension liability as of September 30, 2016 and 2015 are based on actuarial valuations performed as of September 30, 2015 and 2014, and projected to September 30, 2016 and 2015 using generally accepted actuarial procedures.

Schedules of Employer's Net Pension Liability

	September 30	
	2016	2015
Total pension liability	**$ 1,089,316,843**	944,137,576
System's fiduciary net position	**709,237,644**	684,894,768
Employer's Net Pension Liability	**$ 380,079,199**	259,242,808
System's Fiduciary Net Position as a Percentage of Total Pension Liability	**65.1%**	72.5
Covered Employee Payroll (including DROP participants)	**$72,684,487**	72,325,153
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	**522.9%**	358.4

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

	1% Decrease	**Current Discount Rate Assumption**	**1% Increase**
Discount rate	5.19%	6.19	7.19
Total pension liability	$1,220,622,401	1,089,316,843	981,738,046
Employer's net pension liability	$511,384,757	380,079,199	272,500,402
System's fiduciary net position/ total pension liability	58.1%	65.1	72.2

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

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

The blended discount rate used to measure the total pension liability was 6.19%. The projection of cash flows used to determine the discount rate assumed that employer's contributions will continue to follow the current funding policy. Based on those assumptions, the System's net position was projected to be insufficient to make all projected future benefit payments of current plan Members and beneficiaries after 2054. A municipal bond rate of 3.06% was used in the development of the blended GASB discount rate after that point. The 3.06% rate is based on the Bond Buyer General Obligation 20 Year High Grade Rate Municipal Bond Index (AA/Aa or higher). Based on the System's long-term investment rate of return of 7.65% and the municipal bond rate of 3.06%, the blended GASB discount rate is 6.19%.

A similar calculation was made as of September 30, 2015 using a blend of the assumed long-term expected rate of return of 7.9% and a municipal bond index rate of 3.71%. This calculation resulted in a blended discount rate of 7.29%.

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

Actuarial method:	
Valuation date	October 1, 2016 and 2015
Actuarial cost method:	
GASB reporting	Entry Age Normal
Funding requirements	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	2016 - 7.5% and 2015 - 7.75%, net of 0.15% administrative expenses
Long-term municipal bond rate	2015 - 3.06% and 2014 - 3.71%
Rate of payroll growth	Varies by age 3% to 6.5%, including merit and promotions
Consumer price inflation	2.5%
Mortality (ordinary) - 2016	RP-2014 Blue collar projected generally with MP-2015 with 1.15 adjustment
Mortality (ordinary) - 2015	RP-2000 Blue collar combined projected to 2018
Mortality (accidental)	0.03% per year for all ages in addition to ordinary mortality
Mortality (disabled) - 2016	RP-2014 disabled retiree projected generally with MP-2015 with 0.9 adjustment male and no adjustment female
Mortality (disabled) - 2015	RP-2000 disabled retiree mortality projected to 2018

Changes in Actuarial Assumptions Effect on Total Pension Liability

The mortality tables used in the October 1, 2016 valuation were updated to better reflect actual experience. The mortality table changes and the demographic changes resulted from a five year cost study performed by Cheiron, the System's consulting actuary.

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

These changes in actuarial assumptions used in the System's October 1, 2016 valuation increased (decreased) the total pension liability at September 30, 2016 as follows:

Assumption Changes	Effect On Total Pension Liability (Change In Millions)
Discount rate	$ 120
Mortality tables	13
Other demographic	(1)
Increase In Total Pension Liability	$ 132

Change in Covered Payroll

The definition of covered payroll was changed by GASB 82 issued March 2016. Covered payroll is the payroll on which contributions to the System are based.

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 $5,172 and $6,771 for the years ended September 30, 2016 and 2015, 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 each year for the years ended September 30, 2016 and 2015.

NOTE L - SYSTEM EMPLOYEES' PENSION PLAN

General Information about the Pension Plan

Plan Description

All full-time staff at the System are provided with pension benefits through the Employees Retirement System of the City of St. Louis (ERS), a cost-sharing, multiple-employer defined benefit pension plan.

Benefits Provided

ERS 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. 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 years. 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 of ERS based on an actuarial study. The Board of Trustees established the required employer contribution rates, based on active employees payroll as follows:

Service Period	Contribution Rate
July 2016 to current	12.51%
July 2015 to June 2016	13.93
July 2014 to June 2015	15.17

Contributions to ERS from the System were $56,084 and $58,398 for the years ended September 30, 2016 and 2015, respectively. The System pays 50% of these contributions and the City pays the other 50%.

Employees who became members of ERS prior to October 14, 1977 and continued to make contributions may make voluntary contributions to ERS 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.

Net Pension Expense (Income)

Net pension expense (income) is the sum of changes in the net pension liability and deferred inflows and outflows of resources. For fiscal years 2016 and 2015, the System's net pension expense (income) was calculated as follows:

NOTE L - SYSTEM EMPLOYEES' PENSION PLAN (Continued)

	For The Years Ended September 30 2016	2015
System's 50% share of employer contributions	$ 28,042	29,199
Increase (decrease) in net pension liability	108,425	(52,955)
Increase (decrease) in deferred inflows of resources	(10,634)	27,687
(Increase) decrease in deferred outflows of resources	(99,446)	(25,834)
Net Pension Expense (Income)	$ 26,387	(21,903)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of the beginning of the System's fiscal years September 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System had a liability of $330,070 (or 0.15%) and $221,645 (or 0.14%) for its proportionate share of the ERS' net pension liability for the years ended September 30, 2016 and 2015, respectively. The System's proportionate share of the net pension liability was based on a projection of the System's long-term share of contributions to ERS relative to the projected contributions of all the participating employers, actuarially determined.

The actuarially determined deferred outflows of resources and deferred inflows of resources related to ERS were from the following sources:

	For The Year Ended September 30, 2016		
	Outflows	**Inflows**	**Net Outflows**
Fiscal year 2016 paid contributions	$ 28,042	-	28,042
Net difference between expected and actual experience	-	(5,280)	(5,280)
Net difference from assumption changes	-	(4,948)	(4,948)
Net difference between projected and actual earnings on ERS' investments	95,092	-	95,092
Net impact from changes in proportion allocation between the participating employers	2,146	(6,825)	(4,679)
Total	$ 125,280	(17,053)	108,227

	For The Years Ending September 30				
	Total	**2017**	**2018**	**2019**	**2020**
Deferred outflows (inflows) future recognition	$108,227	43,504	15,464	22,918	26,341

NOTE L - SYSTEM EMPLOYEES' PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability in the September 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.5% plus merit component based on employee's years of service
Investment rate of return	2016 - 7.5% and 2015 - 8%, net of pension plan investment expense
Mortality rates - ordinary - 2016	RP-2000 healthy mortality 3 year set-forward with generational projections using scale A
Mortality rates - ordinary - 2015	1994 Group Annuity Mortality Table
Mortality rates - disability - 2016	RP-2000 disabled mortality 3 year set-forward with generational projections using scale AA
Mortality rates - disability - 2015	1953 Railroad Retirement Board disabled life mortality table

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to follow the current funding policy. Based on those assumptions, the ERS's fiduciary net position was projected to be sufficient to make all projected future benefits payments of current plan employees and their beneficiaries.

Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.5%) or 1% point higher (8.5%) than the current rate:

	1% Decrease	Current Discount Rate Assumption	1% Increase
Discount rate	6.5 %	7.5	8.5
Net pension liability	$ 470,820	330,070	209,740

Detailed information about the ERS' fiduciary net position is available in the separately issued ERS' financial report.

NOTE M - SECURITIES LENDING

The System participated in The Northern Trust Company's (NTC) 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 NTC. The broker/dealer collateralizes their borrowing (usually in cash) to 102% of 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. NTC receives the remaining 30% of the net lending fees as compensation for its services provided in the securities lending program. NTC 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, 2016 and 2015, outstanding loans to borrowers were $67,526,467 and $67,558,392, respectively. The System earned income of $249,947 and $161,101 for its participation in the securities lending program for the years ended September 30, 2016 and 2015, respectively.

NOTE N - 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 O - RELATED PARTY TRANSACTIONS

The System owed the City $65,062 and $63,865 at September 30, 2016 and 2015, respectively, for personnel costs (salaries, payroll taxes, payroll processing, and employee fringe benefits for System employees). The System reimburses 50% of personnel costs, plus actual directly allocated expenses. The total of these items and the System's expense for the years ended September 30, 2016 and 2015 was $261,443 and $252,764, 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, 2016 and 2015 of $795,422 and $2,020,913, respectively. These amounts are reflected in the statements of fiduciary net position as a liability for unsettled investment transactions.

NOTE Q - RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, foreign currency, regulatory, 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 R - RATE OF RETURN

For the years ended September 30, 2016 and 2015, the annual money-weighted rate of return on the System's investments, net of investment expenses, was 7.85% and (1.14%), respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

NOTE S - DETERMINATION LETTER

The System has received a favorable determination letter dated March 12, 2014 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 T - NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2016, the System adopted GASB 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain pension issues raised regarding: 1) presentation of payroll-related measures and the definition of covered payroll, 2) selection of actuarial assumptions used on determining the total pension liability and related measures, and 3) classification of employer-paid Members contributions as Member contributions. There was no material impact on the System's financial statements as a result of the implementation of GASB 82.

In fiscal year 2015, the System adopted GASB 68, which was issued June 2012 and is effective for fiscal years beginning after June 15, 2014 (System's year ended September 30, 2015). 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 a staff's career. The System implemented GASB 68 for the System's staff retirement benefits provided through ERS, a cost-sharing, multi-

NOTE T - NEW ACCOUNTING STANDARDS ADOPTED (Continued)

employer defined benefit system for the fiscal year ended September 30, 2015. The System's net position decreased by $274,600 from implementing GASB 68 in fiscal year 2015.

In fiscal year 2015, the System adopted GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, An Amendment of GASB Statement No. 68*. This statement addresses contributions made after an employer's liability measurement date, which may not have been reported as deferred outflows of resources at transition under GASB 68. As a result, GASB 71 reduces the risk of an understatement of an employer's beginning fiduciary net position and expenses in the initial period of implementation. It is required that the statement be applied simultaneously with the provisions of GASB 68. There was no material impact on the System's financial statements as a result of the implementation of GASB 71.

In fiscal year 2015, the System adopted GASB 72, *Fair Value Measurement and Application*. GASB 72 requires the System to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or an income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the System's financial statements as a result of the implementation of GASB 72.

While these new accounting pronouncements will affect the accounting measures, they did 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 Missouri state statutes. The new accounting pronouncements did, however, impact the financial statement presentation for pension accounting and related disclosures for the System.

NOTE U - SUBSEQUENT EVENTS

The System has performed an evaluation of subsequent events through February 14, 2017, the date the basic financial statements were available to be issued. No material events were identified by the System.

REQUIRED SUPPLEMENTAL INFORMATION SECTION

SCHEDULES OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY

	For The Years Ended September 30		
	2016	2015	2014
Total Pension Liability (A)			
Service cost	**$ 12,617,971**	12,977,679	12,991,999
Interest on total pension liability, including service cost	**67,036,489**	66,579,275	65,906,383
Benefit changes	**-**	-	-
Differences between expected and actual experience	**(3,684,265)**	(2,041,444)	- (B)
Assumption changes	**131,846,504**	16,248,637	6,650,362
Benefit payments	**(59,673,662)**	(67,107,828)	(58,302,794)
Refunds of Members' contributions	**(2,963,770)**	(2,425,249)	(2,670,671)
Net Change In Total Pension Liability	**145,179,267**	24,231,070	24,575,279
Total Pension Liability Beginning	**944,137,576**	919,906,506	895,331,227
Total Pension Liability Ending (a)	**$ 1,089,316,843**	944,137,576	919,906,506
System Fiduciary Net Position			
Contributions - Employer	**$ 30,778,664**	30,600,069	32,324,823
Contributions - Members	**4,376,867**	4,487,942	4,438,346
Net investment income (loss)	**52,927,643**	(8,325,611)	48,094,636
Benefit payments	**(59,673,662)**	(67,107,828)	(58,302,794)
Refunds of Members' contributions	**(2,963,770)**	(2,425,249)	(2,670,671)
Administrative expenses	**(1,102,866)**	(1,125,310)	(1,095,653)
Net Change In System Fiduciary Net Position	**24,342,876**	(43,895,987)	22,788,687
System Fiduciary Net Position Beginning	**684,894,768**	728,790,755 (C)	706,276,668
System Fiduciary Net Position Ending (b)	**$ 709,237,644**	684,894,768	729,065,355
Net Pension Liability Ending (a-b)	**$ 380,079,199**	259,242,808	190,841,151

Notes:

(A) The total pension liability as of the end of each measurement year is measured as of the measurement date (October 1) at the beginning of each year and projected to the end of each year.

(B) Because the beginning and ending values are based on the same actuarial valuation (September 30, 2013) and there were no significant events, no liability gains or losses due to experience are reported for the year ended September 30, 2014.

(C) The September 30, 2014 System fiduciary net position was restated (decreased) by $274,600 from recording the beginning net pension liability resulting from implementing GASB 68 for the System's staff participation in ERS during the year ended September 30, 2015.

SCHEDULES OF EMPLOYER'S NET PENSION LIABILITY

	September 30				
	2016		2015	2014	2013
Total pension liability	**$ 1,089,316,843**		944,137,576	919,906,506	895,331,227
System fiduciary net position	**709,237,644**		684,894,768	729,065,355	706,276,668
Employer's Net Pension Liability	**$ 380,079,199**		259,242,808	190,841,151	189,054,559
System Fiduciary Net Position as a Percentage of the Total Pension Liability	**65.1**	**%**	72.5	79.3	78.9
Covered Members' Payroll (including DROP participants)	**$ 72,684,487**		72,325,153	72,151,450	N/A
Employer's Net Pension Liability as a Percentage of Covered Members' Payroll	**522.9**	**%**	358.4	264.5	N/A

SCHEDULES OF EMPLOYER'S CONTRIBUTIONS

	For The Years Ended September 30			
	2016	2015	2014	2013
Employer actuarially determined contributions	**$ 30,778,664**	30,600,069	32,324,823	32,629,036
Contributions in relation to the actuarially determined contribution	**(30,778,664)**	(30,600,069)	(32,324,823)	(32,629,036)
Contribution Excess	**$ -**	-	-	-
Covered Employee Payroll (including DROP participants)	**$ 72,684,487**	72,325,153	72,151,450	N/A
Contributions as a Percentage of Covered Members' Payroll	**42.3 %**	42.3	44.8	N/A

SCHEDULES OF ANNUAL MONEY-WEIGHTED RATE OF RETURN ON INVESTMENTS

	For The Years Ended September 30			
	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expenses	7.85 **%**	(1.14)	7.08	11.90

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. Changes in Benefit Terms

Changes in benefit terms must be enacted by the General Assembly of the State of Missouri. There were no changes in benefits during the year ended September 30, 2016.

2. Changes in Actuarial Assumptions

The blended discount rate of 6.19% (previously 7.29%) was used to measure the total pension liability for the year ended September 30, 2016. The mortality tables used in the October 1, 2016 valuation were updated to better reflect actual experience. The mortality table changes and the demographic changes resulted from a five year cost study performed by Cheiron, the System's consulting actuary.

These changes in actuarial assumptions used in the System's October 1, 2016 valuation increased (decreased) the total pension liability at September 30, 2016 as follows:

Assumption Changes	Effect On Total Pension Liability (Change In Millions)
Discount rate	$ 120
Mortality tables	13
Other demographic	(1)
Increase In Total Pension Liability	$ 132

3. Changes in Actuarial Method

None

4. Method and Assumptions used in Calculations of Actuarially Determined Contributions

The actuarially determined employer's contributions were calculated as of the September 30 preceding the fiscal year in which contributions are made. That is, the contributions calculated as of the September 30, 2015 actuarial valuation was made during the fiscal year ended September 30, 2016. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules of employer's contributions (schedule):

(Continued)

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016 (Continued)

4. Method and Assumptions used in Calculations of Actuarially Determined Contributions (Continued)

Actuarial method:	
Valuation date	October 1, 2016 and 2015
Actuarial cost method:	
GASB reporting	Entry Age Normal
Funding requirements	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	2016 - 7.5% and 2015 - 7.75%, net of 0.15% administrative expenses
Long-term municipal bond rate	2015 - 3.06% and 2014 - 3.71%
Rate of payroll growth	Varies by age 3% to 6.5%, including merit and promotions
Consumer price inflation	2.5%
Mortality (ordinary) - 2016	RP-2014 Blue collar projected generally with MP-2015 with 1.15 adjustment
Mortality (ordinary) - 2015	RP-2000 Blue collar combined projected to 2018
Mortality (accidental)	0.03% per year for all ages in addition to ordinary mortality
Mortality (disabled) - 2016	RP-2014 disabled retiree projected generally with MP-2015 with 0.9 adjustment male and no adjustment female
Mortality (disabled) - 2015	RP-2000 disabled retiree mortality projected to 2018

5. 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.

6. 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.

7. 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 fiduciary net position using actuarial assumptions about contributions, benefit payments, and the long-term rate of return. If the projected fiduciary net position 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 fiduciary net position is exhausted. The System currently uses the long-term discount rate of 7.65% and expects assets will be sufficient to cover fiduciary net position until 2054. The muni-bond rate used in the valuation was 3.06% and is based on the Bond Buyers General Obligation 20 Year High Grade Rate Municipal Bond Index (AA/Aa or higher). Since the fiduciary net position was projected to be insufficient to make all projected benefit payments of current System Members and beneficiaries, a blended discount rate of 6.19% was used to calculate the System's present value of future benefit payments.

8. Covered Payroll

The covered payroll for active Members is the payroll on which contributions to the System are based.

SCHEDULES OF THE SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF THE EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS (ERS), A COST-SHARING, MULTI-EMPLOYER DEFINED BENEFIT PENSION PLAN

	September 30	
	2016	2015
Proportionate Share of the Employer's Contributions	**0.15 %**	0.14
Proportionate Share of the Collective Net Pension Liability	**$ 330,070**	221,645
Covered Employee Payroll	**$ 348,595**	343,651
Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Employee Payroll	**94.69 %**	64.50
ERS' Fiduciary Net Position as a Percentage of the Total Pension Liability	**76.22 %**	83.47

Notes:

(A) The System elected to report pension elements using the beginning of the year actuarial valuation as allowed by GASB 68. Therefore, the amounts presented were determined as of the ERS' fiscal years ended September 30, 2015 and 2014 actuarial valuations and projected to the end of the years.

(B) The System implemented GASB 68 for the fiscal year ended September 30, 2015. Years will be added to this schedule in future fiscal years until 10 years of information is provided.

SCHEDULES OF THE SYSTEM'S CONTRIBUTIONS TO THE EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS (ERS), A COST-SHARING, MULTI-EMPLOYER DEFINED BENEFIT PENSION PLAN

	For The Years Ended September 30	
	2016	2015
Contractually required contribution	**$ 51,498**	52,740
Contributions in relation to the contractually required contribution	**(51,498)**	(52,740)
Contribution Excess	**$ -**	-
Covered Employee Payroll	**$ 348,595**	343,651
Contributions as a Percentage of Covered Employee Payroll	**14.77 %**	15.35

Notes to schedule:

Valuation date	Actuarially determined contributions are calculated as of October 1, 2016 and 2015
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Rolling 30-year level dollar amortization of unfunded liability
Asset valuation method	5-year smoothing
Inflation	2016 - 2.5% and 2015 - 3.125%
Salary increases	3.5% plus merit component based on employee's years of service
Investment rate of return	2016 - 7.5% and 2015 - 8%, net of pension plan investment expenses
Mortality rates - ordinary - 2016	RP-2000 healthy mortality 3 year set-forward with generational projections using scale A
Mortality rates - ordinary - 2015	1994 Group Annuity Mortality Table
Mortality rates - disability - 2016	RP-2000 disabled mortality 3 year set-forward with generational projections using scale AA
Mortality rates - disability - 2015	1953 Railroad Retirement Board disabled life mortality table

Notes:

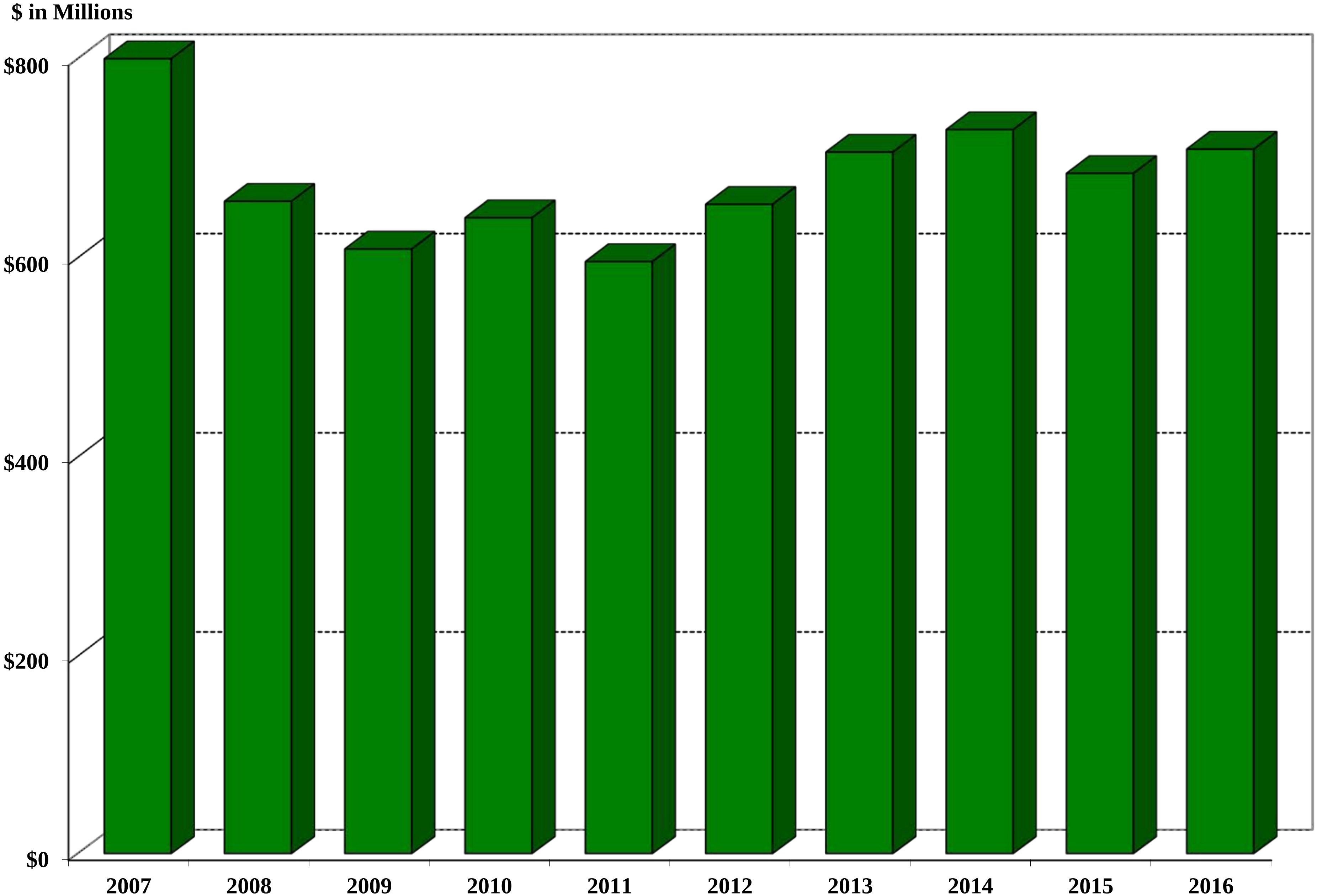
(A) The actuarial cost method changed from entry age normal to projected unit credit cost method for the September 30, 2015 actuarial valuation.

(B) The System elected to report pension elements using the beginning of the year actuarial valuation as allowed by GASB 68 Therefore, the amounts presented were determined as of the ERS' fiscal years ended September 30, 2015 and 2014 actuarial valuations and projected to the end of the years.

(C) The System implemented GASB 68 for the fiscal year ended September 30, 2015. Years will be added to this schedule in future fiscal years until 10 years of information is provided.

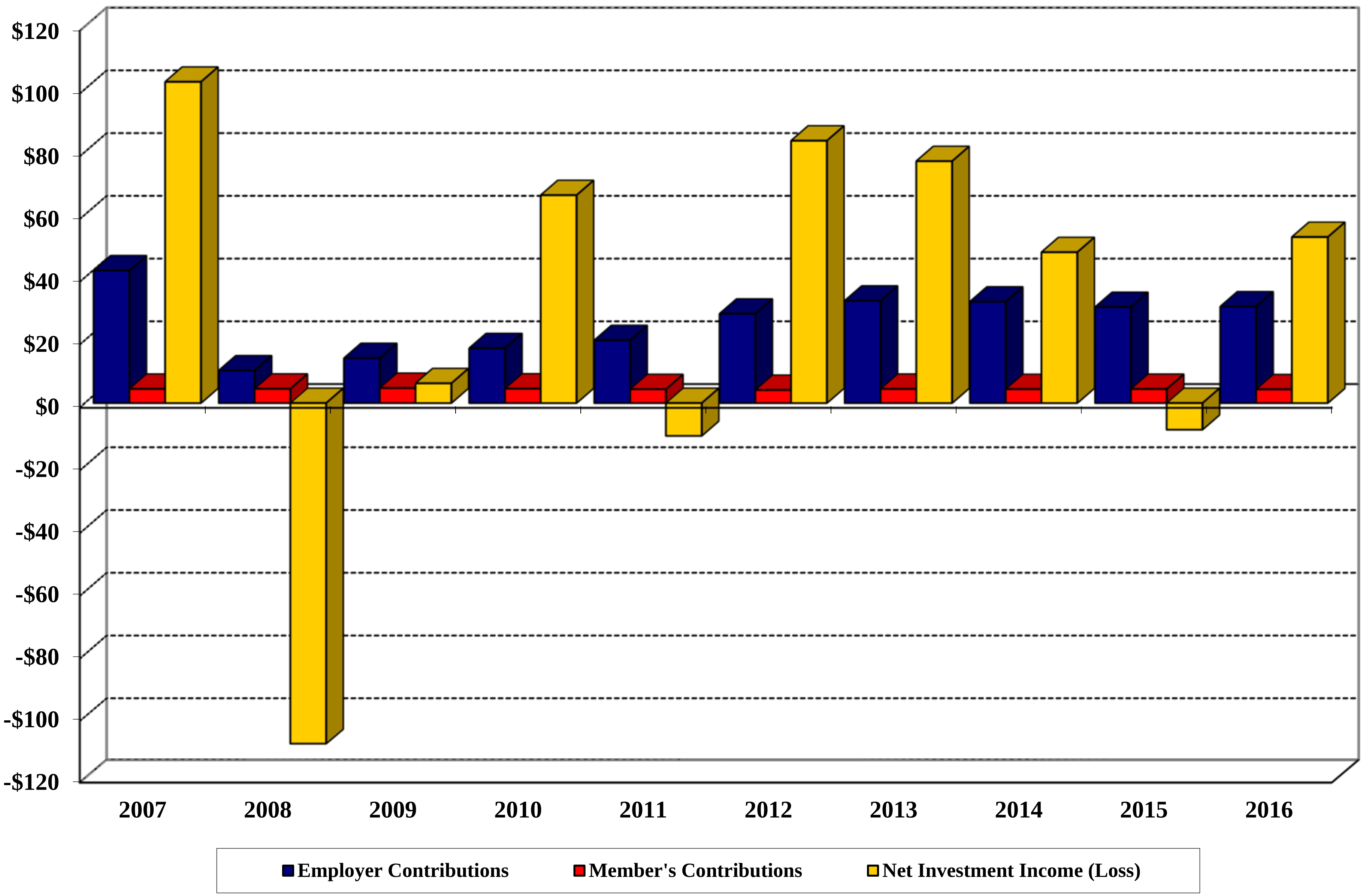
OTHER SUPPLEMENTAL INFORMATION SECTION

NET POSITION
SEPTEMBER 30



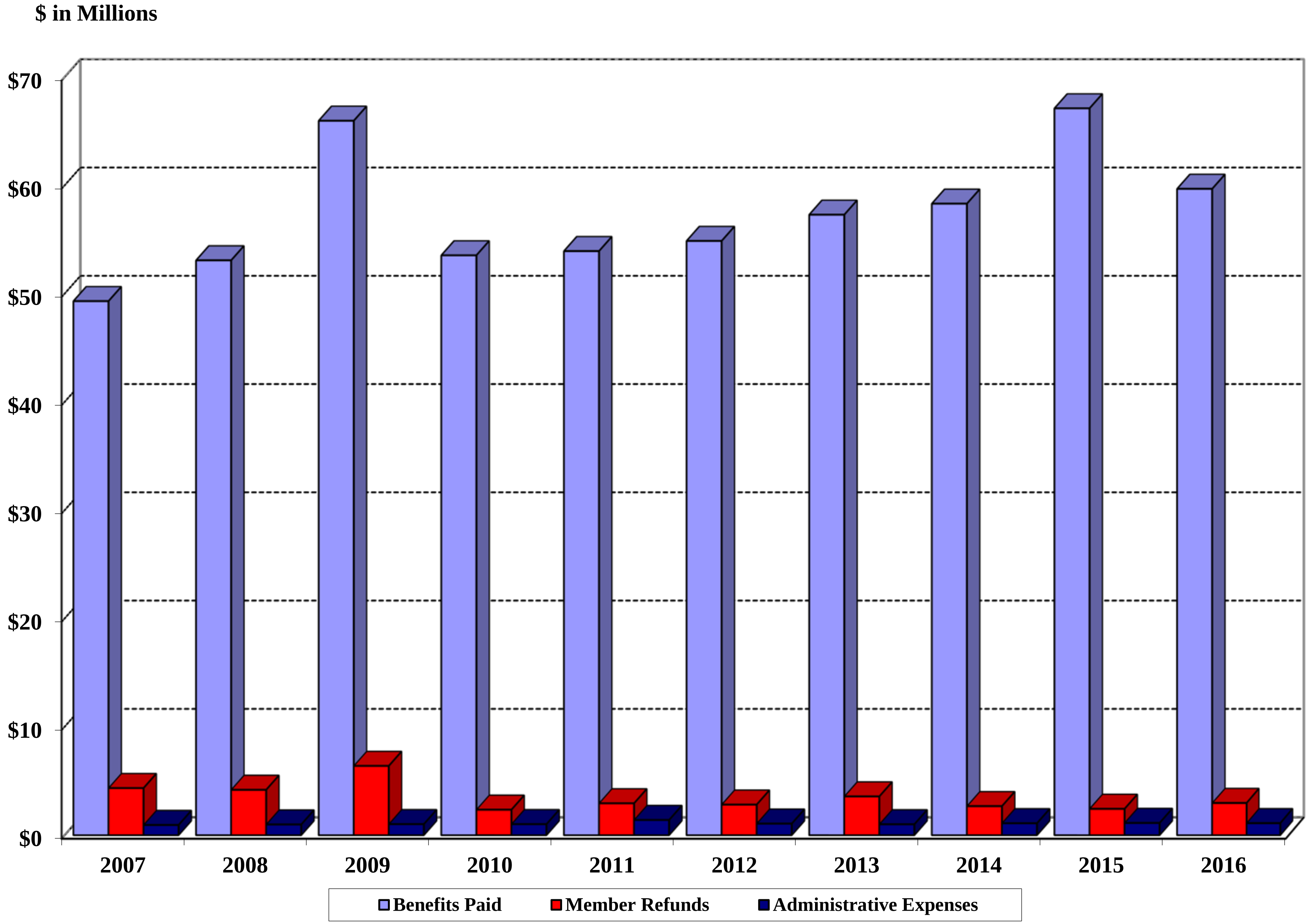
ADDITIONS TO NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30

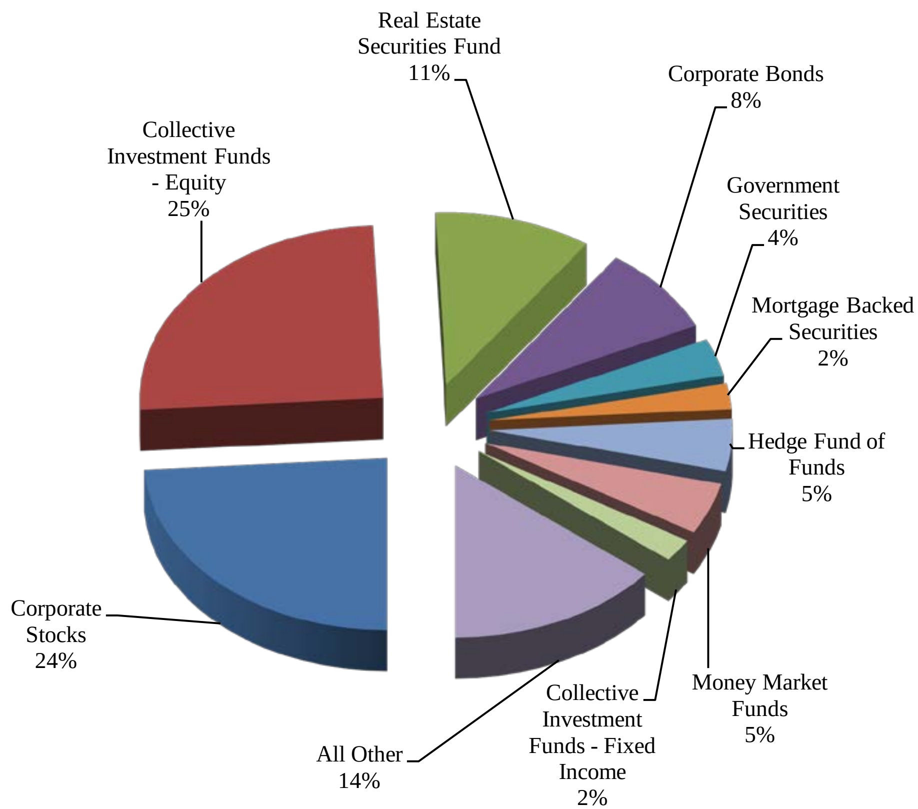
$ in Millions



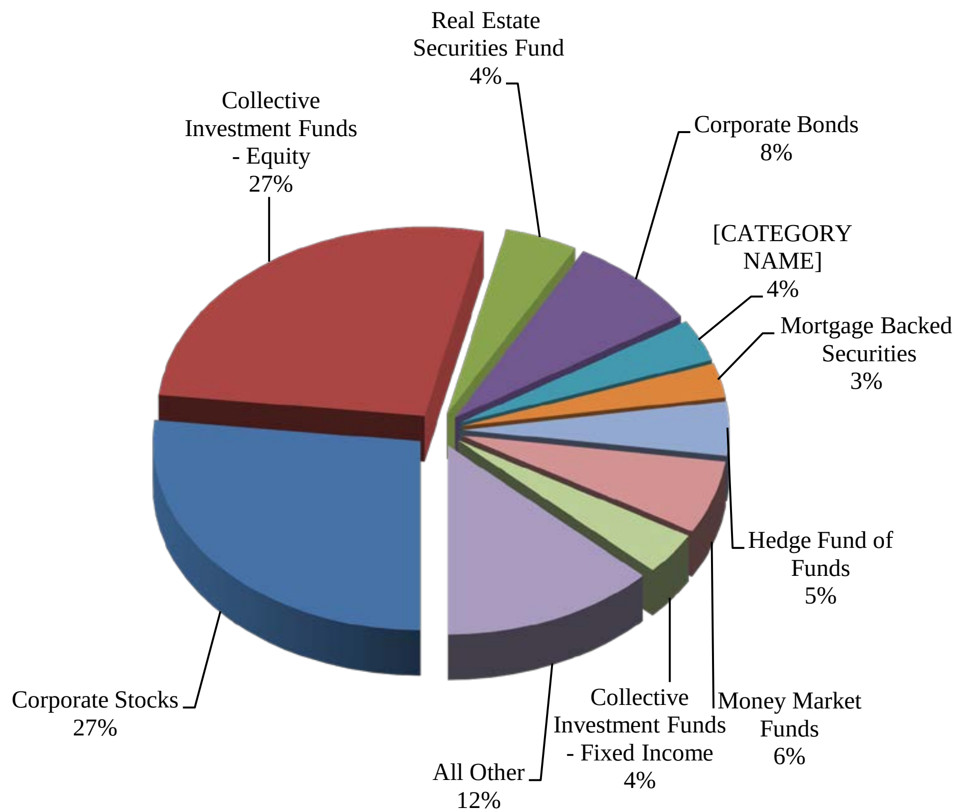
DEDUCTIONS FROM NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30





September 30, 2016



September 30, 2015

	For The Years Ended September 30	
	2016	2015
BENEFITS PAID TO RETIREES AND BENEFICIARIES		
Monthly annuity:		
Accidental disability and death	**$ 4,261,676**	4,127,040
Advisor fees	**2,084,150**	2,039,010
Consultant fees	**2,123,060**	2,154,361
Dependents monthly benefits	**4,981,510**	4,932,290
Medical, surgical, and hospital	**153,189**	362,610
Ordinary disability	**206,078**	194,509
Service retirees	**42,282,455**	41,480,193
Total Monthly Annuity	**56,092,118**	55,290,013
Lump sum:		
Accidental disability and death	**165,411**	243,093
Drop	**3,416,133**	11,574,722
Total Lump Sum	**3,581,544**	11,817,815
Total Benefits Paid To Retirees And Beneficiaries	**$ 59,673,662**	67,107,828
ADMINISTRATIVE EXPENSES		
Personnel costs:		
Salaries	**$ 178,725**	171,358
Payroll taxes	**13,170**	12,710
Insurance - workers compensation	**2,145**	2,048
Employee benefits:		
Group medical and life insurance	**18,018**	16,385
Pension expense (income)	**26,387**	(21,903)
Total Personnel Costs	**238,445**	180,598
Bank charges	**11,892**	11,009
Board of Trustees account	**39,377**	46,909
Committee	**66,117**	105,512
Computer and website	**97,323**	133,087
Cost allocated from the City	**21,343**	21,064
Depreciation	**60,039**	60,075
Document management	**985**	16,692
Equipment rental and maintenance	**12,899**	17,282
Insurance	**74,340**	72,119
Medical reviews, consulting, and investigations	**74,065**	71,815
Office supplies and expenses	**32,766**	28,827
Post-retirement and employee health care benefits	**10,039**	11,638
Postage	**15,036**	13,919
Professional fees:		
Accounting	**52,893**	49,977
Actuary	**106,711**	69,790
Investment consultant	**145,000**	169,167
Outside general counsel	**13,735**	16,149
Telephone	**11,838**	11,044
Utilities	**18,023**	18,637
Total Administrative Expenses	**$ 1,102,866**	1,125,310

INVESTMENT MANAGEMENT AND CUSTODIAL FEES

	For The Years Ended September 30	
	2016	2015
Investment management fees:		
Allianz/NFJ Investment Group	**$ 124,404**	125,865
Brandes Investment Partners	**376,914**	55,863
CenterSquare Investment Management Company	**281,431**	268,588
Commerce Bank N.A.	**258,338**	221,011
JP Morgan Investment Management, Inc.	**-**	313,660
Kennedy Capital Management, Inc.	**135,053**	-
Lazard Asset Management, Inc.	**209,490**	31,156
MFS Institutional Advisors, Inc.	**184,621**	213,993
Pacific Investment Management Company	**-**	177,541
Trilogy Global Advisors, LLC	**368,672**	684,086
Wasatch Advisors, Inc.	**204,158**	207,447
Wellington Trust Company, N.A.	**364,868**	580,877
Wells Fargo Bank, N.A.	**185,613**	242,753
Westfield Capital Management Company, L.P.	**132,406**	-
	2,825,968	3,122,840
Custodial fees:		
The Northern Trust Company	**195,426**	183,611
Total Investment Management And Custodial Fees	**$ 3,021,394**	3,306,451

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:

Crescent Capital Group (Partnership Interest)
EnTrust Capital Diversified Fund QP, Ltd. (Hedge Fund)
EnTrust Special Opportunities Fund III, L.P. (Hedge Fund)
Falcon E&P Opportunities Fund, L.P. (Partnership Interest)
GAM US Institutional Diversity, Inc. (Hedge Fund)
Neuberger Berman Secondary Opportunities Fund III, L.P. (Partnership Interest)
Petrocap Partners II, L.P. (Partnership Interest)
Principal U.S. Property Account (Real Estate Separate Account)
Salient Zarvona Energy Fund II-A, L.P. (Partnership Interest)

SUMMARY OF INSURANCE COVERAGE

Policy term: November 1, 2015 to November 1, 2016

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	2,259,685
Personal property	1,596,728

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
2016	**$ 30,778,664**		**$ 4,320,337**	**$ 56,530**	**$ 52,927,643**	**$ 88,083,174**
2015	30,600,069		4,202,023	285,919	(8,325,611)	26,762,400
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

Deductions from net assets:

For The Years Ended September 30	Benefits Paid	Refunds To Members	Administrative Expenses	Total
2016	**$ 59,673,662**	**$ 2,963,770**	**$ 1,102,866**	**$ 63,740,298**
2015	67,107,828	2,425,249	1,125,310	70,658,387
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

(1) The employer'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.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

INDEPENDENT AUDITOR'S 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*

February 14, 2017

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, 2016, and the related notes to financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated February 14, 2017.

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 deficiencies, 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.

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☐ 1000 Washington Square, P. O. Box 1457, Washington, Missouri 63090-8457, 636-239-4785, Fax 636-239-5448
www.hbclp.com

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