THE POLICE RETIREMENT SYSTEM OF ST. LOUIS

FINANCIAL REPORT
(Audited)

Year Ended September 30, 2017

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 21, 2018

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of September 30, 2017 and 2016, 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 21, 2018 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, 2017. 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, 2017 and 2016, global economies have shown signs of strengthening. 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 years ended September 30, 2017 and 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 eight years ago and the returns from this portion of the System's portfolio have investment returns exceeding the actuarial assumption for the five years of that eight year period, including 2017 and 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 $777 million at September 30, 2017, which represents an increase of $67 million or 9.5% from September 30, 2016. This increase was primarily due to appreciation in the fair value of investments of $87 million resulting from a rebounding economy and investment markets.

Additions to net position for the fiscal year 2017 was $132 million as compared to additions of $88 million for fiscal year 2016. This figure is comprised of $94 million in net investment gain, $4 million in Members' contributions, and $34 million in employer's contributions. Additions to net position increased $44 million from 2016, a 50% increase principally due to the higher return on the System's investments. The employer's contributions were $34 and $31 million for the 2017 and 2016 fiscal years, respectively.

Deductions from net position were $65 and $64 million for fiscal years 2017 and 2016, respectively. Benefit payments and refunds of Member's contributions combined represents more than 98% of the total deductions from net position for both the 2017 and 2016 fiscal years.

The overall investment return for the System was 13.09% and 7.85% for fiscal years ended September 30, 2017 and 2016, respectively. The investment return for both of the years ended 2017 and 2016 were above the actuarial assumption investment rate of return of 7.5% (7.65% less 0.15% for administrative expenses) due to an improvement in the investment markets. Active oversight by the Board of Trustees continues to ensure the System retains top performing investment managers while maintaining a balanced investment portfolio.

Changes in active Members' benefits resulted from:

	For The Years Ended September 30	
	2017	2016
New entrants	**83**	109
Service retirements:		
Regular	**(29)**	(35)
Disability	**(3)**	(3)
Death	**(1)**	(2)
Members requesting a refund withdrawal	**(58)**	(42)
Net Change In Active Members	**(8)**	27

As of October 1, 2017, the date of the most recent actuarial valuation (aggregate actuarial cost method), the System's actuarial value of assets, including present value of future Members' contributions, were 75.39% of the actuarial present value of all future benefits which is an increase from the October 1, 2016 ratio of 73.9%. This ratio increased as a result of investment returns exceeding the actuarial assumption during three of the last five years. For actuarial valuation computations, investment returns are recognized over a 5-year period starting with the year originated. The ratio also increased 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 2058. 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 6.67% 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, 2017 were $778,347,914 and were mainly comprised of cash and investments. Total assets increased $67,154,733 or 9% from the prior year, mainly due to the appreciation in the fair value of investments of $86,915,524.

Total liabilities at September 30, 2017 were $1,860,923 and consisted of unsettled investment purchase transactions, net pension liability - System's staff pension related, Members' contributions refundable, and accrued expenses. Total liabilities decreased $202,841 or 10% from the prior year, mainly due to the decrease in unsettled investment transactions and accrued investment management fees offset by the increase in members' contributions refundable.

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.

Net position - restricted for pensions was $776,576,478 at September 30, 2017, an increase from the prior year of $67,341,834 or 9.5%. 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 2014 through 2016; however, in 2017, the System's investment earnings exceed benefits paid.

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

	September 30			Total Change: Amount		Total Change: Percentage	
	2017	2016	2015	**2017**	2016	**2017**	2016
ASSETS							
Investments	**$ 769,331**	701,567	678,895	**67,764**	22,672	**9.7 %**	3.3
Cash and cash equivalents	**7,739**	6,940	7,277	**799**	(337)	**11.5**	(4.6)
Receivables	**1,034**	2,390	1,602	**(1,356)**	788	**(56.7)**	49.2
Capital assets, net	**244**	296	345	**(52)**	(49)	**(17.6)**	(14.2)
Total Assets	**778,348**	711,193	688,119	**67,155**	23,074	**9.4**	3.4
DEFERRED OUTFLOWS							
System's staff pension related	**105**	125	26	**(20)**	99	**(16.0)**	380.8
LIABILITIES	**1,861**	2,064	3,223	**(203)**	(1,159)	**(9.8)**	(36.0)
DEFERRED INFLOWS							
System's staff pension related	**13**	17	27	**(4)**	(10)	**(23.5)**	(37.0)
NET POSITION	**$ 776,579**	709,237	684,895	**67,342**	24,342	**9.5 %**	3.6

Revenues - Additions to Net Position

Net investment income totaled $93,520,079 in fiscal year 2017 which represents an increase of $40,592,436 from the previous fiscal year of $52,927,643. The increase resulted mainly from appreciation in the fair value of investments being $40,494,094 more for fiscal year 2017 as compared to fiscal year 2016. Investment income (loss) above is net of investment expenses (management and custodial fees) totaling $2,785,200 which decreased by $236,194 or 8% from fiscal year 2016.

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 $38,480,496 ($33,826,528 from the employer and $4,653,968 from Members) for the year ended September 30, 2017, an increase of $3,324,965 or 9.5% 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 2017 were $64,658,741, an increase of $918,443 or 1.4% from fiscal year 2016. This increase is mainly due to an increase 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, and an increase in refunds of members' contributions.

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	
	2017	2016	2015	**2017**	2016	**2017**	2016
ADDITIONS							
Net investment income (loss)	**$ 93,520**	52,928	(8,326)	**40,592**	61,254	**76.7 %**	735.7
Employer's contributions	**33,826**	30,778	30,600	**3,048**	178	**9.9**	0.6
Members' contributions	**4,654**	4,377	4,488	**277**	(111)	**6.3**	(2.5)
Total Additions	**132,000**	88,083	26,762	**43,917**	61,321	**49.9**	229.1
DEDUCTIONS							
Benefits paid	**59,959**	59,674	67,108	**285**	(7,434)	**0.5**	(11.1)
Refunds of Members' contributions	**3,493**	2,964	2,425	**529**	539	**17.8**	22.2
Administrative expenses	**1,206**	1,103	1,125	**103**	(22)	**9.3**	(2.0)
Total Deductions	**64,658**	63,741	70,658	**917**	(6,917)	**1.4**	(9.8)
CHANGE IN NET POSITION	**67,342**	24,342	(43,896)	**43,000**	68,238	**176.6**	155.5
NET POSITION, BEGINNING OF YEAR	**709,237**	684,895	729,065	**24,342**	(44,170)	**3.6**	(6.1)
EFFECT OF GASB 68 IMPLEMENTATION	**-**	-	(274)	**-**	274	**-**	100.0
NET POSITION, END OF YEAR	**$ 776,579**	709,237	684,895	**67,342**	24,342	**9.5 %**	3.6

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:

Stephen G. Olish, Executive Director
The Police Retirement System of St. Louis
2020 Market Street
St. Louis, MO 63103-2210
or
steve.olish@stlouisprs.org

	September 30	
	2017	2016
ASSETS		
Investments at fair value:		
Equities:		
Collective investment funds	**$ 194,136,187**	178,090,002
Corporate stocks	**188,015,229**	167,740,235
Real estate securities fund	**59,907,314**	73,502,231
Fixed income:		
Corporate bonds	**51,693,576**	57,884,568
Mortgage backed securities	**20,157,533**	16,792,300
Collective investment funds	**15,338,624**	15,129,984
Government securities	**12,174,051**	24,795,244
Partnership interests	**146,544,244**	98,534,424
Money market funds	**43,466,941**	33,969,403
Hedge funds	**37,015,903**	34,102,373
Investment property	**881,629**	862,700
Commodity fund	**-**	163,567
Total Investments	**769,331,231**	701,567,031
Cash and cash equivalents	**7,738,903**	6,939,857
Receivables:		
Interest and dividends	**918,189**	1,040,410
Unsettled investment sale transactions	**116,056**	1,349,537
Total Receivables	**1,034,245**	2,389,947
Capital assets, net of accumulated depreciation	**243,535**	296,346
Total Assets	**778,347,914**	711,193,181
DEFERRED OUTFLOWS OF RESOURCES		
System's staff pension related	**105,338**	125,280
LIABILITIES		
Accrued investment management fees	**581,534**	702,743
Members' contributions refundable	**480,216**	106,140
Unsettled investment purchase transactions	**340,365**	795,422
Net pension liability - System's staff pension related	**333,568**	330,070
Accrued administrative expenses	**125,240**	129,389
Total Liabilities	**1,860,923**	2,063,764
DEFERRED INFLOWS OF RESOURCES		
System's staff pension related	**12,851**	17,053
NET POSITION - RESTRICTED FOR PENSIONS	**$ 776,579,478**	709,237,644

See notes to financial statements

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	For The Years Ended September 30	
	2017	2016
ADDITIONS TO NET POSITION ATTRIBUTED TO		
Investment income:		
Net appreciation in fair value of investments	**$ 86,915,524**	46,421,430
Interest:		
Government obligations	**2,556,621**	1,180,482
Corporate bonds	**934,070**	2,480,188
Real estate	**231,366**	-
Other	**875,276**	282,369
Dividends	**4,523,365**	5,246,648
Securities lending income	**219,904**	249,947
Recapture commissions	**44,353**	20,303
Class action settlements	**4,800**	67,670
Total Investment Income	**96,305,279**	55,949,037
Less - Investment management and custodial fees	**2,785,200**	3,021,394
Net Investment Income	**93,520,079**	52,927,643
Contributions:		
Employer	**33,826,528**	30,778,664
Members	**4,456,241**	4,320,337
Portability	**197,727**	56,530
Total Contributions	**38,480,496**	35,155,531
Total Additions	**132,000,575**	88,083,174
DEDUCTIONS FROM NET POSITION ATTRIBUTED TO		
Benefits paid to retirees and beneficiaries	**59,959,184**	59,673,662
Refunds of Members' contributions	**3,493,396**	2,963,770
Administrative expenses	**1,206,161**	1,102,866
Total Deductions	**64,658,741**	63,740,298
CHANGE IN NET POSITION	**67,341,834**	24,342,876
NET POSITION - RESTRICTED FOR PENSIONS, BEGINNING OF YEAR	**709,237,644**	684,894,768
NET POSITION - RESTRICTED FOR PENSIONS, END OF YEAR	**$ 776,579,478**	709,237,644

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 2017	September 30 2016	Increase (Decrease)
Retirees and beneficiaries currently receiving benefits	**1,908**	1,904	**4**
Current active Members:			
Vested - participating in DROP	**141**	147	**(6)**
Vested - non-DROP	**218**	214	**4**
Total Vested	**359**	361	**(2)**
Nonvested	**902**	908	**(6)**
Total Current Active Members	**1,261**	1,269	**(8)**
Total Membership	**3,169**	3,173	**(4)**

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, 2017 and 2016 were as follows:

	Currently Participating	Total DROP Accounts	DROP Account Balances
2017	**141**	**314**	**$ 39,941,906**
2016	147	333	37,819,386

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

Investments are reported at fair value. Short-term money market investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. On September 30 or on the last reported bid price if no sale was made on that date, fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, fair value is determined and certified by the investment managers as of the reporting date. Hedge funds, limited partnership units, and real estate investment trust are measured at net asset value (NAV). Real estate investments are valued at estimated fair value as determined by the general partner, based upon appraisals provided by the investment manager. Hedge funds and limited partnership units investments are reported at estimated fair value as determined by the general partner of the investment vehicle.

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Capital Assets (Continued)

Capital assets consists of the following:

	September 30	
	2017	2016
Furniture, equipment, and software - at cost	**$ 698,897**	694,838
Accumulated depreciation	**(455,362)**	(398,492)
Total Capital Assets, Net Of Accumulated Depreciation	**$ 243,535**	296,346

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

	For The Year Ended September 30, 2017			
	Balance September 30 2016	**Increases**	**Decreases**	**Balance September 30 2017**
Furniture, equipment, and software, net	$ 296,346	8,443	61,254	**243,535**

Depreciation expense for the years ended September 30, 2017 and 2016 was $61,254 and $60,039, 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, 2017 and 2016. 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, 2017 are pledged by a Federal Farm Credit Bank certificate (maturing January 18, 2018), Federal National Mortgage Association certificate (maturing March 1, 2045), and a Federal Home Loan Mortgage certificate (maturing October 15, 2032). The repurchase agreements at September 30, 2016 were pledged by a Federal National Mortgage Association certificate (maturing November 1, 2025) and a Federal Home Loan Board certificate (maturing March 9, 2018). All pledged collateral securities had an AA+ credit rating level.

Cash and cash equivalents consists of the following:

	September 30			
	2017		2016	
	Bank Balance	**Carrying Amount**	Bank Balance	Carrying Amount
Repurchase agreements	**$ 7,162,216**	**7,162,216**	6,189,733	6,189,733
Bank deposits	**780,670**	**576,687**	778,751	750,124
Total	**$ 7,942,886**	**7,738,903**	6,968,484	6,939,857

NOTE D - CONTRIBUTIONS RECEIVABLE - EMPLOYER

Contributions receivable - employer consists of the following:

NOTE D - CONTRIBUTIONS RECEIVABLE - EMPLOYER (Continued)

	September 30	
	2017	2016
Current year contributions due from the employer as calculated by the System's actuary	**$ 33,826,528**	30,778,664
Contributions received from the employer during the year	**(33,826,528)**	(30,778,664)
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, 2017 and 2016, 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	
	2017	2016
Allianz/NFJ Investment Group (domestic small cap equity - value):		
Corporate stocks	**$ -**	20,910,032
Money market fund	**-**	1,248,833
Commodity fund	**-**	163,567
	-	22,322,432
Brandes Investment Partners (international equity - small cap):		
Partnership interest - venture capital	**44,399,100**	46,468,039
CenterSquare Investment Management Company (real estate - equity):		
Real estate securities fund	**15,370,334**	34,643,040
Commerce Bank N.A. (fixed income):		
Corporate bonds	**51,693,576**	57,884,568
Government securities	**12,174,051**	24,795,244
Mortgage backed securities	**20,157,533**	16,792,300
Money market fund	**777,579**	2,695,086
Corporate stocks	**1,720,000**	935,558
	86,522,739	103,102,756
Crescent Capital Group (private equity - opportunistic fixed income):		
Partnership interest - venture capital	**36,809,397**	37,180,622
Dover Street IX (private equity - opportunistic fixed income):		
Partnership interest - venture capital	**3,699,214**	-

NOTE E - INVESTMENTS (Continued)

	September 30	
	2017	2016
ElmTree U.S. Net Lease Fund III, L.P. (real estate - private equity):		
Real estate securities fund	**5,372,261**	-
Entrust Capital Diversified Fund QP, Ltd. (multi-strategy hedge fund):		
Money market fund	**378,936**	-
Hedge fund	**1,109,339**	13,744,847
	1,488,275	13,744,847
Entrust Special Opportunities Fund III, L.P. (multi-strategy hedge fund):		
Hedge fund	**10,525,992**	5,571,635
Falcon E&P Opportunities Fund, L.P. (private equity):		
Partnership interest - oil and gas	**5,900,185**	4,634,317
GAM US Institutional Diversity, Inc. (multi-strategy hedge fund):		
Hedge fund	**15,101,224**	14,785,891
IFM Global Infrastructure (US), L.P. (private equity - opportunistic fixed income):		
Partnership interest - venture capital	**13,127,498**	-
Kennedy Capital Management, Inc. (domestic small cap equity - value):		
Corporate stocks	**22,082,566**	21,798,795
Money market fund	**664,534**	688,724
	22,747,100	22,487,519.00
Lazard Asset Management, Inc. (international equity - emerging markets):		
Corporate stocks	**51,414,000**	40,590,000
MFS Institutional Advisors, Inc. (domestic large cap equity - value):		
Corporate stocks	**45,006,474**	40,768,121
Money market fund	**604,404**	540,759
	45,610,878	41,308,880
Neuberger Berman Secondary Opportunities Fund III, L.P. (private equity):		
Partnership interest - venture capital secondary market	**6,335,479**	4,435,387
Money market fund	**162,048**	-
	6,497,527	4,435,387
Neuberger Berman U.S. Equity Index PutWrite Fund, LLC (multi-stategy hedge fund):		
Hedge fund	**10,279,348**	-

NOTE E - INVESTMENTS (Continued)

	September 30 2017	September 30 2016
Neumeier Poma Investment Counsel LLC (domestic small cap equity - value):		
Money market fund	**2,158,907**	-
Corporate stocks	**22,514,654**	-
	24,673,561	-
The Northern Trust Company (domestic large cap equity - core):		
Collective investment fund	**92,243,115**	92,970,215
Money market fund	**37,296,173**	26,047,565
Corporate stocks	**346,847**	280,620
	129,886,135	119,298,400
Pacific Investment Management Company (fixed income):		
Collective investment funds - government securities	**15,338,624**	15,129,984
Money market fund	**-**	505
	15,338,624	15,130,489
Parametric Defensive Equity Fund LLC (private equity):		
Partnership interest - venture capital	**10,336,608**	-
Petrocap Partners II, L.P. (private equity):		
Partnership interest - oil and gas	**5,155,672**	2,456,237
PNC Capital Advisors (domestic small cap equity - growth):		
Money market fund	**620,739**	-
Corporate stocks	**22,501,263**	-
	23,122,002	-
Principal U.S. Property Account (real estate - equity):		
Real estate securities fund	**39,164,719**	38,859,191
Salient Zarvona Energy Fund II-A, L.P. (private equity):		
Partnership interest - oil and gas	**6,070,376**	3,359,822
Trilogy Global Advisors, LLC (international equity - growth):		
Collective investment fund	**52,775,877**	43,695,697
Ullico Infrastructure Taxable Fund, L.P. (private equity):		
Partnership interest - oil and gas	**13,110,715**	-
Wasatch Advisors, Inc. (domestic small cap equity - growth):		
Corporate stocks	**-**	21,896,101
Money market fund	**-**	1,981,204
	-	23,877,305

NOTE E - INVESTMENTS (Continued)

	September 30 2017	September 30 2016
Wellington Trust Company, N.A. (international equity - growth):		
Collective investment fund	**49,117,195**	41,424,090
Westfield Capital Management Company, L.P. (domestic mid cap - growth):		
Corporate stocks	**22,429,425**	20,561,008
Money market fund	**803,621**	766,727
	23,233,046	21,327,735
Zarvonia III-A, L.P. (private equity):		
Partnership interest - oil and gas	**1,600,000**	-
Total Investments Managed	**768,449,602**	700,704,331
Investment property - real estate	**881,629**	862,700
Total Investments	**$ 769,331,231**	701,567,031

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.

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, 2017 and 2016:

NOTE E - INVESTMENTS (Continued)

	2017			
	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Corporate stocks:				
Domestic	$ 136,601,229	136,601,229	-	-
International	51,414,000	51,414,000	-	-
Government bonds, agencies, and mortgaged backed securities	32,331,584	-	32,331,584	-
Corporate bonds:				
Domestic	45,500,907	-	45,500,907	-
International	6,192,669	-	6,192,669	-
Collective investment funds:				
International equity	101,893,072	101,893,072	-	-
Domestic equity	92,243,115	92,243,115	-	-
Domestic fixed income	15,338,624	-	15,338,624	-
Derivatives:				
Commodity fund	-	-	-	-
Money market funds	43,466,941	43,466,941	-	-
Investment property	881,629	-	-	881,629
Total Investments By Fair Value Level	525,863,770	425,618,357	99,363,784	881,629
Investments measured at net asset value (NAV):				
Limited partnership units:				
Venture capital	114,707,296			
Energy	31,836,948			
Hedge funds	37,015,903			
Real estate investment trust	59,907,314			
Total Investments Measured At NAV	243,467,461			
Total Investments Measured At Fair Value	$ 769,331,231			

NOTE E - INVESTMENTS (Continued)

	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	-
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	495,428,003	379,963,207	114,602,096	862,700
Investments measured at net asset value (NAV):				
Limited partnership units:				
Venture capital	88,084,048			
Energy	10,450,376			
Hedge funds	34,102,373			
Real estate investment trust	73,502,231			
Total Investments Measured At NAV	206,139,028			
Total Investments Measured At Fair Value	$ 701,567,031			

For the investments measured at NAV at September 30, 2017 and 2016:

- 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	Maturities As Of September 30, 2017 Total	Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Corporate bonds	$ 51,693,576	825,318	16,512,985	20,226,362	14,128,911
Mortgage backed securities:					
Nongovernment	17,157,053	-	2,661,242	803,245	13,692,566
Government	3,000,480	1,231	-	36,787	2,962,462
Collective investment funds	15,338,624	4,518,759	6,742,859	862,031	3,214,975
Government securities	12,174,051	1,009,980	5,180,592	1,795,635	4,187,844
Total	$ 99,363,784	6,355,288	31,097,678	23,724,060	38,186,758

Fixed Income Investment Categories	Maturities As Of September 30, 2016 Total	Less Than One Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
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
Collective investment funds	15,129,984	3,564,624	3,452,662	3,383,064	4,729,634
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

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, 2017

Credit Rating Level	Total	Corporate Bonds	Nongovernment Mortgage Backed Securities	Government Mortgage Backed Securities	Collective Investment Funds	Government Securities
AAA	$ 14,646,329	1,711,022	6,896,586	3,000,480	-	3,038,241
AA	27,821,715	5,258,303	332,448	-	15,338,624	6,892,340
A	30,928,192	28,319,841	2,608,351	-	-	-
BBB	9,668,253	9,668,253	-	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
CCC	113,108	-	113,108	-	-	-
CC	-	-	-	-	-	-
D	174,376	-	174,376	-	-	-
Not rated	16,011,811	6,736,157	7,032,184	-	-	2,243,470
Total	$ 99,363,784	51,693,576	17,157,053	3,000,480	15,338,624	12,174,051

Credit Rating As Of September 30, 2016

Credit Rating Level	Total	Corporate Bonds	Nongovernment Mortgage Backed Securities	Government Mortgage Backed Securities	Collective Investment Funds	Government Securities
AAA	$ 17,589,396	1,824,449	3,287,652	1,661,656	-	10,815,639
AA	33,561,183	6,514,115	731,271	-	15,129,984	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	57,884,568	15,130,644	1,661,656	15,129,984	24,795,244

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, 2017

Currency	Equities	Fixed Income	Money Market Funds	Commodity Fund	Hedge Funds	Investment Property And Partnerships	Total
Barbadian Dollar	$ -	341,969	-	-	-	-	341,969
British Pound Sterling	917,364	2,317,305	-	-	-	-	3,234,669
Canadian Dollar	266,612	1,363,118	-	-	-	-	1,629,730
Euro	1,189,771	3,112,121	-	-	-	-	4,301,892
Indian Rupee	1,155,225	-	-	-	-	-	1,155,225
Israeli Shekel	1,518,323	-	-	-	-	-	1,518,323
Japanese Yen	-	-	-	-	-	-	-
Norwegian Kron	-	-	-	-	-	-	-
Swiss Franc	1,429,373	-	-	-	-	-	1,429,373
Taiwan Dollar	529,773	-	-	-	-	-	529,773
Total Foreign Currency	7,006,441	7,134,513	-	-	-	-	14,140,954
United States Dollar	435,052,289	92,229,271	43,466,941	-	37,015,903	147,425,873	755,190,277
Total	$ 442,058,730	99,363,784	43,466,941	-	37,015,903	147,425,873	769,331,231

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
Barbadian 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
Taiwan Dollar	-	-	-	-	-	-	-
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

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, 2017 are summarized in the following table:

Asset Class	Long-term Expected Real Rate Of Return
Fixed income	0.25%
Domestic equities	4.50
Foreign equities	4.50
Non-directional hedge funds	2.15
Real estate (REIT) equities	4.50
Private equity (partnerships)	7.95
Money market	(1.85)

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
ElmTree U.S. Net Lease Fund III, LP
EnTrust Capital Diversified Fund QP, Ltd.
EnTrust Special Opportunities Fund III, LP
Falcon E&P Opportunities Fund, L.P.
GAM US Institutional Diversity, Inc.
Neuberger Berman Secondary Opportunities Fund III, L.P.
Neuberger Berman US Equity Index PutWrite Fund, LLC
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:

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

	September 30	
	2017	2016
Collective funds:		
Trilogy International Group Trust I	**$ 52,775,877**	43,695,697
Lazard Emerging Markets Core Equity Trust	**51,414,000**	40,590,000
Wellington Trust Company International Opportunities Fund	**49,117,195**	41,424,090
MFB Northern Trust Collective Russell 1,000 Growth Index Fund	**46,864,632**	42,006,451
MFB Northern Trust Company Daily S&P 500 Equity Index Fund	**45,378,483**	50,963,764
Brandes Non-U.S. Small Cap Portfolio Fund	**44,399,100**	46,468,039
Principal Real Estate Investment Trust	**39,164,719**	38,859,191
Crescent Capital High Income Fund	**-**	37,180,662

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			
	2017		2016	
	Fair Value	**Cost**	Fair Value	Cost
Pending currency forwards purchases:				
United States dollar	**$ 26,003,834**	**26,003,834**	21,475,067	21,475,067
Foreign currency	**157,891**	**158,061**	-	-
Pending currency forwards sales:				
United States dollar	**158,061**	**158,061**	-	-
Foreign currency	**26,033,632**	**26,003,834**	21,474,941	21,475,067

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

	For The Years Ended September 30	
	2017	2016
Net realized gains (losses)	**$ (92,053)**	416,871
Net unrealized gains (losses)	**29,968**	(126)

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:

	For The Years Ended September 30		Covered Payroll Percentage	
	2017	2016	**2017**	**2016**
Employer's annual required contributions:				
Portion of normal cost attributable to the System's fiscal years	**$ 31,540,630**	30,644,718	**41.4 %**	42.2
Employer's Funding Policy Contributions Made	**$ 33,826,528**	30,778,664	**44.4 %**	42.3
Members' Contributions Made	**$ 4,456,241**	4,320,337	**5.9 %**	5.9

The covered payroll of active participants (including DROP participants) per the actuarial valuation amounted to $76,141,625 and $72,684,487 for the years ended September 30, 2017 and 2016, 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	
	2017	2016
Present value of all future benefits	**$ 1,075,932,180**	1,060,469,723
Actuarial value of assets, including present value of future Members' contributions	**810,155,971**	783,452,580
Present Value Of Future Normal Contributions Due From The City	**$ 265,776,209**	277,017,143

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, 2017 and 2016, 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, 2017 and 2016 are based on actuarial valuations performed as of September 30, 2016 and 2015, and projected to September 30, 2017 and 2016, using generally accepted actuarial procedures.

Schedules of Employer's Net Pension Liability

	September 30	
	2017	2016
Total pension liability	**$ 1,058,652,529**	1,089,316,843
System's fiduciary net position	**776,579,478**	709,237,644
Employer's Net Pension Liability	**$ 282,073,051**	380,079,199
System's Fiduciary Net Position as a Percentage of Total Pension Liability	**73.4%**	65.1
Covered Employee Payroll (including DROP participants)	**$ 76,141,625**	72,684,487
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	**370.5%**	522.9

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

	1% Decrease	**Current Discount Rate Assumption**	**1% Increase**
Discount rate	5.67%	6.67	7.67
Total pension liability	$ 1,179,802,565	1,058,652,529	958,751,676
Employer's net pension liability	$ 403,223,087	282,073,051	182,172,198
System's fiduciary net position/ total pension liability	65.8%	73.4	81.0

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 6.67%. 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 2058. A municipal bond rate of 3.64% was used in the development of the blended GASB discount rate after that point. The 3.64% 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 7.50% and the municipal bond rate of 3.64%, the blended GASB discount rate is 6.67%.

A similar calculation was made as of September 30, 2016 using a blend of the assumed long-term expected rate of return of 7.65% and a municipal bond index rate of 3.06%. This calculation resulted in a blended discount rate of 6.19%.

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

Actuarial methods:	
Valuation date	October 1, 2017 and 2016
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	7.5% net of 0.15% administrative expenses
Long-term municipal bond rate	2017 - 3.64% and 2016 - 3.06%
Rate of payroll growth	Varies by age 3% to 6.5%, including merit and promotions
Consumer price inflation	2.5%
Mortality (ordinary)	RP-2014 Blue collar projected generationally with MP-2015 with 1.15 adjustment
Mortality (accidental)	0.03% per year for all ages in addition to ordinary mortality
Mortality (disabled)	RP-2014 disabled retiree projected generationally with MP-2015 with 0.9 adjustment male and no adjustment female

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 $5,557 and $5,172 for the years ended September 30, 2017 and 2016, 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 $4,861 and $4,867 for the years ended September 30, 2017 and 2016, respectively.

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 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:

NOTE L - SYSTEM EMPLOYEES' PENSION PLAN (Continued)

Service Period	Contribution Rate
July 2017 to current	12.22%
July 2016 to June 2017	12.51
July 2015 to June 2016	13.93

Contributions to ERS from the System were $51,512 and $56,084 for the years ended September 30, 2017 and 2016, 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

Net pension expense is the sum of changes in the net pension liability and deferred inflows and outflows of resources. For fiscal years 2017 and 2016, the System's net pension expense was calculated as follows:

	For The Years Ended September 30	
	2017	2016
System's 50% share of employer contributions	**$ 25,756**	28,042
Increase in net pension liability	**3,498**	108,425
Decrease in deferred inflows of resources	**(4,202)**	(10,634)
(Increase) decrease in deferred outflows of resources	**19,942**	(99,446)
Net Pension Expense	**$ 44,994**	26,387

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, 2016 and 2015, 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 $333,568 (or 0.16%) and $330,070 (or 0.15%) for its proportionate share of the ERS' net pension liability for the years ended September 30, 2017 and 2016, 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.

NOTE L - SYSTEM EMPLOYEES' PENSION PLAN (Continued)

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, 2017		
	Outflows	**Inflows**	**Net Outflows**
Fiscal year 2017 paid contributions	**$ 25,756**	**-**	**25,756**
Net difference between expected and actual experience	**-**	**(6,724)**	**(6,724)**
Net difference from assumption changes	**-**	**(2,714)**	**(2,714)**
Net difference between projected and actual earnings on ERS' investments	**62,658**	**-**	**62,658**
Net impact from changes in proportion allocation between the participating employers	**16,924**	**(3,413)**	**13,511**
Total	**$ 105,338**	**(12,851)**	**92,487**

	For The Years Ending September 30				
	Total	**2018**	**2019**	**2020**	**2021**
Deferred outflows (inflows) future recognition	$ 92,487	44,829	27,022	24,765	(4,129)

Actuarial Assumptions

The total pension liability in the September 30, 2016, actuarial valuation was 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	7.5%, net of pension plan investment expense
Mortality rates - ordinary	RP-2000 healthy mortality 3 year set-forward with generational projections using scale AA
Mortality rates - disability	RP-2000 disabled mortality 3 year set-forward with generational projections using scale AA

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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.

NOTE L - SYSTEM EMPLOYEES' PENSION PLAN (Continued)

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	$ 490,740	333,568	199,227

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, 2017 and 2016, outstanding loans to borrowers were $51,097,071 and $67,526,467, respectively. The System earned income of $219,904 and $249,947 for its participation in the securities lending program for the years ended September 30, 2017 and 2016, 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 $65,376 and $65,062 at September 30, 2017 and 2016, 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, 2017 and 2016, was $261,815 and $261,443, 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, 2017 and 2016, of $340,365 and $795,422, 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, 2017 and 2016, the annual money-weighted rate of return on the System's investments, net of investment expenses, was 13.09% and 7.85%, 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.

While this new accounting pronouncement will affect the accounting measures, it 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 21, 2018, 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			
	2017	2016	2015	2014
Total Pension Liability (A)				
Service cost	**$ 17,988,134**	12,617,971	12,977,679	12,991,999
Interest on total pension liability, including service cost	**66,042,714**	67,036,489	66,579,275	65,906,383
Benefit changes	-	-	-	-
Differences between expected and actual experience	**3,911,067**	(3,684,265)	(2,041,444)	- (B)
Assumption changes	**(55,153,649)**	131,846,504	16,248,637	6,650,362
Benefit payments	**(59,959,184)**	(59,673,662)	(67,107,828)	(58,302,794)
Refunds of Members' contributions	**(3,493,396)**	(2,963,770)	(2,425,249)	(2,670,671)
Net Change In Total Pension Liability	**(30,664,314)**	145,179,267	24,231,070	24,575,279
Total Pension Liability Beginning	**1,089,316,843**	944,137,576	919,906,506	895,331,227
Total Pension Liability Ending (a)	**$ 1,058,652,529**	1,089,316,843	944,137,576	919,906,506
System Fiduciary Net Position				
Contributions - Employer	**$ 33,826,528**	30,778,664	30,600,069	32,324,823
Contributions - Members	**4,653,968**	4,376,867	4,487,942	4,438,346
Net investment income (loss)	**93,520,079**	52,927,643	(8,325,611)	48,094,636
Benefit payments	**(59,959,184)**	(59,673,662)	(67,107,828)	(58,302,794)
Refunds of Members' contributions	**(3,493,396)**	(2,963,770)	(2,425,249)	(2,670,671)
Administrative expenses	**(1,206,161)**	(1,102,866)	(1,125,310)	(1,095,653)
Net Change In System Fiduciary Net Position	**67,341,834**	24,342,876	(43,895,987)	22,788,687
System Fiduciary Net Position Beginning	**709,237,644**	684,894,768	728,790,755 (C)	706,276,668
System Fiduciary Net Position Ending (b)	**$ 776,579,478**	709,237,644	684,894,768	729,065,355
Net Pension Liability Ending (a-b)	**$ 282,073,051**	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				
	2017	2016	2015	2014	2013
Total pension liability	**$ 1,058,652,529**	1,089,316,843	944,137,576	919,906,506	895,331,227
System fiduciary net position	**776,579,478**	709,237,644	684,894,768	729,065,355	706,276,668
Employer's Net Pension Liability	**$ 282,073,051**	380,079,199	259,242,808	190,841,151	189,054,559
System Fiduciary Net Position as a Percentage of the Total Pension Liability	**73.4 %**	65.1	72.5	79.3	78.9
Covered Members' Payroll (including DROP participants)	**$ 76,141,625**	72,684,487	72,325,153	72,151,450	N/A
Employer's Net Pension Liability as a Percentage of Covered Members' Payroll	**370.5 %**	522.9	358.4	264.5	N/A

SCHEDULES OF EMPLOYER'S CONTRIBUTIONS

	For The Years Ended September 30				
	2017	2016	2015	2014	2013
Employer actuarially determined contributions	**$ 33,826,528**	30,778,664	30,600,069	32,324,823	32,629,036
Contributions in relation to the actuarially determined contribution	**(33,826,528)**	(30,778,664)	(30,600,069)	(32,324,823)	(32,629,036)
Contribution Excess	$ -	-	-	-	-
Covered Employee Payroll (including DROP participants)	**$ 76,141,625**	72,684,487	72,325,153	72,151,450	N/A
Contributions as a Percentage of Covered Members' Payroll	**44.4 %**	42.3	42.3	44.8	N/A

SCHEDULES OF ANNUAL MONEY-WEIGHTED RATE OF RETURN ON INVESTMENTS

	For The Years Ended September 30				
	2017	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expenses	**13.09 %**	7.85	(1.14)	7.08	11.90

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2017

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, 2017.

2. Changes in Actuarial Assumptions

The blended discount rate of 6.67% (previously 6.19%) was used to measure the total pension liability for the year ended September 30, 2017. This change resulted in a decrease of approximately $58 million to total pension liability.

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, 2016 actuarial valuation was made during the fiscal year ended September 30, 2017. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules of employer's contributions (schedule):

Actuarial methods:	
Valuation date	October 1, 2017 and 2016
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	7.5% net of 0.15% administrative expenses
Long-term municipal bond rate	2017 - 3.64% and 2016 - 3.06%
Rate of payroll growth	Varies by age 3% to 6.5%, including merit and promotions
Consumer price inflation	2.5%
Mortality (ordinary)	RP-2014 Blue collar projected generationally with MP-2015 with 1.15 adjustment
Mortality (accidental)	0.03% per year for all ages in addition to ordinary mortality
Mortality (disabled)	RP-2014 disabled retiree projected generationally with MP-2015 with 0.9 adjust- with 0.9 adjustment male and no adjustment female

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.

(Continued)

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2017 (Continued)

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 7.50% and expects assets will be sufficient to cover fiduciary net position until 2058. The muni-bond rate used in the valuation was 3.64% 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 6.67% 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		
	2017	2016	2015
Proportionate Share of the Employer's Contributions	**0.16 %**	0.15	0.14
Proportionate Share of the Collective Net Pension Liability	**$ 333,568**	330,070	221,645
Covered Employee Payroll	**$ 378,373**	348,595	343,651
Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Employee Payroll	**88.16 %**	94.69	64.50
ERS' Fiduciary Net Position as a Percentage of the Total Pension Liability	**78.52 %**	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, 2016, 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		
	2017	2016	2015
Contractually required contribution	**$ 51,217**	51,498	52,740
Contributions in relation to the contractually required contribution	**(51,217)**	(51,498)	(52,740)
Contribution Excess	**$ -**	-	-
Covered Employee Payroll	**$ 378,373**	348,595	343,651
Contributions as a Percentage of Covered Employee Payroll	**13.54 %**	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 AA
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.

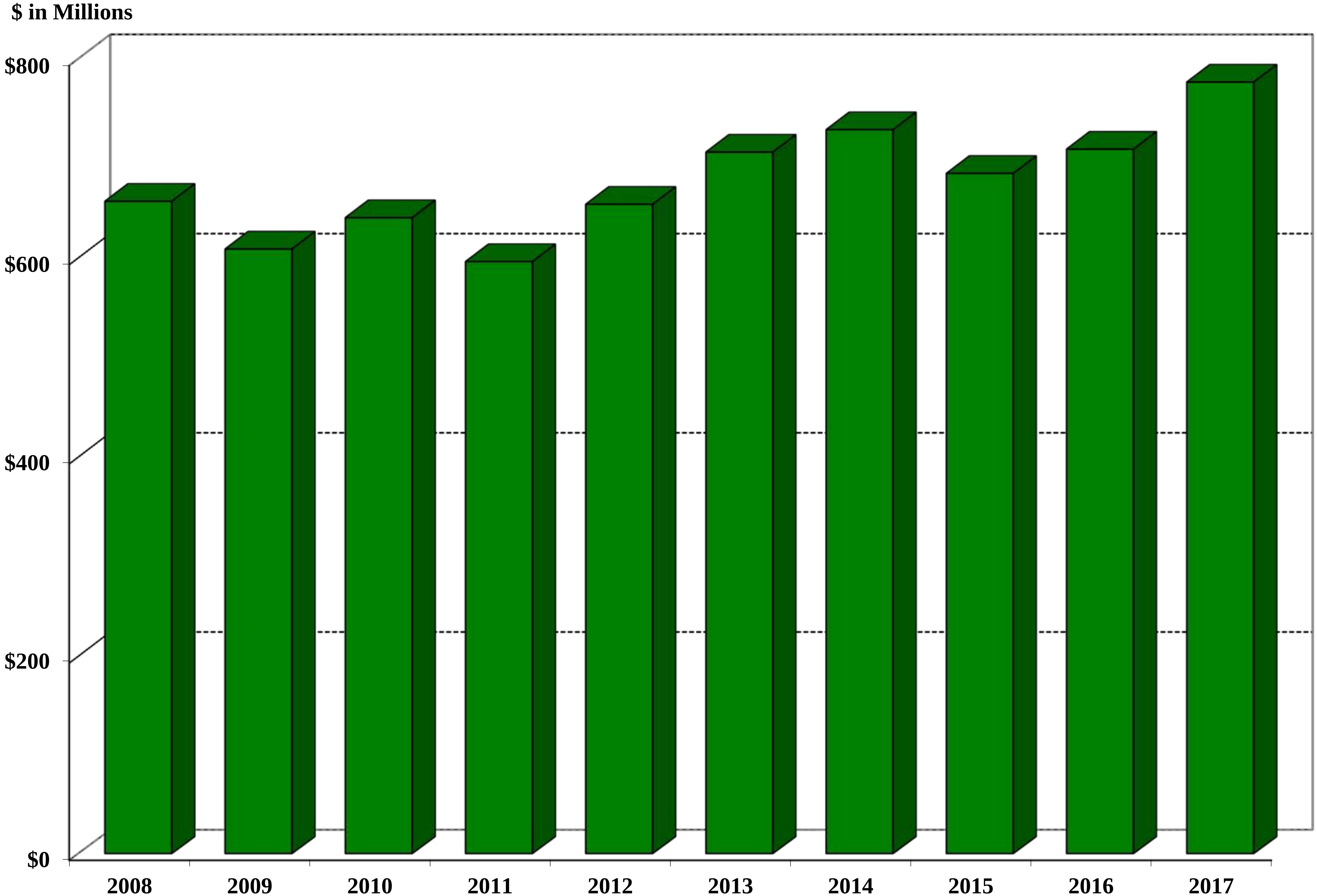
(B) The System elected to report pension elements using the beginning of the year actuarial valuation as allowed by GASB 68. Therefore, the amounts presented were determined as of the ERS' fiscal years ended September 30, 2016, 2015, and 2014 actuarial valuations and projected to the end of the years.

(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.

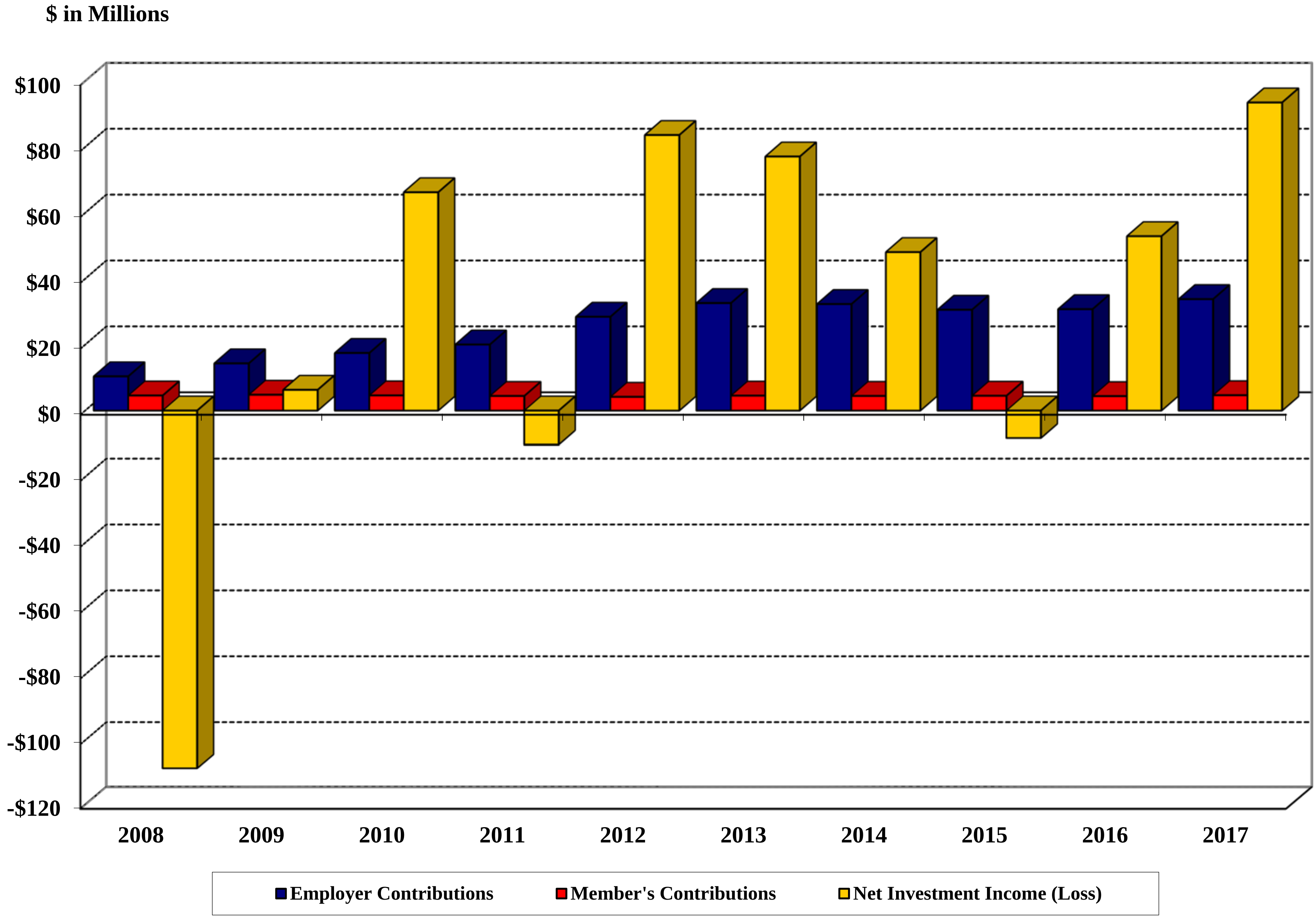
OTHER SUPPLEMENTAL INFORMATION SECTION

NET POSITION

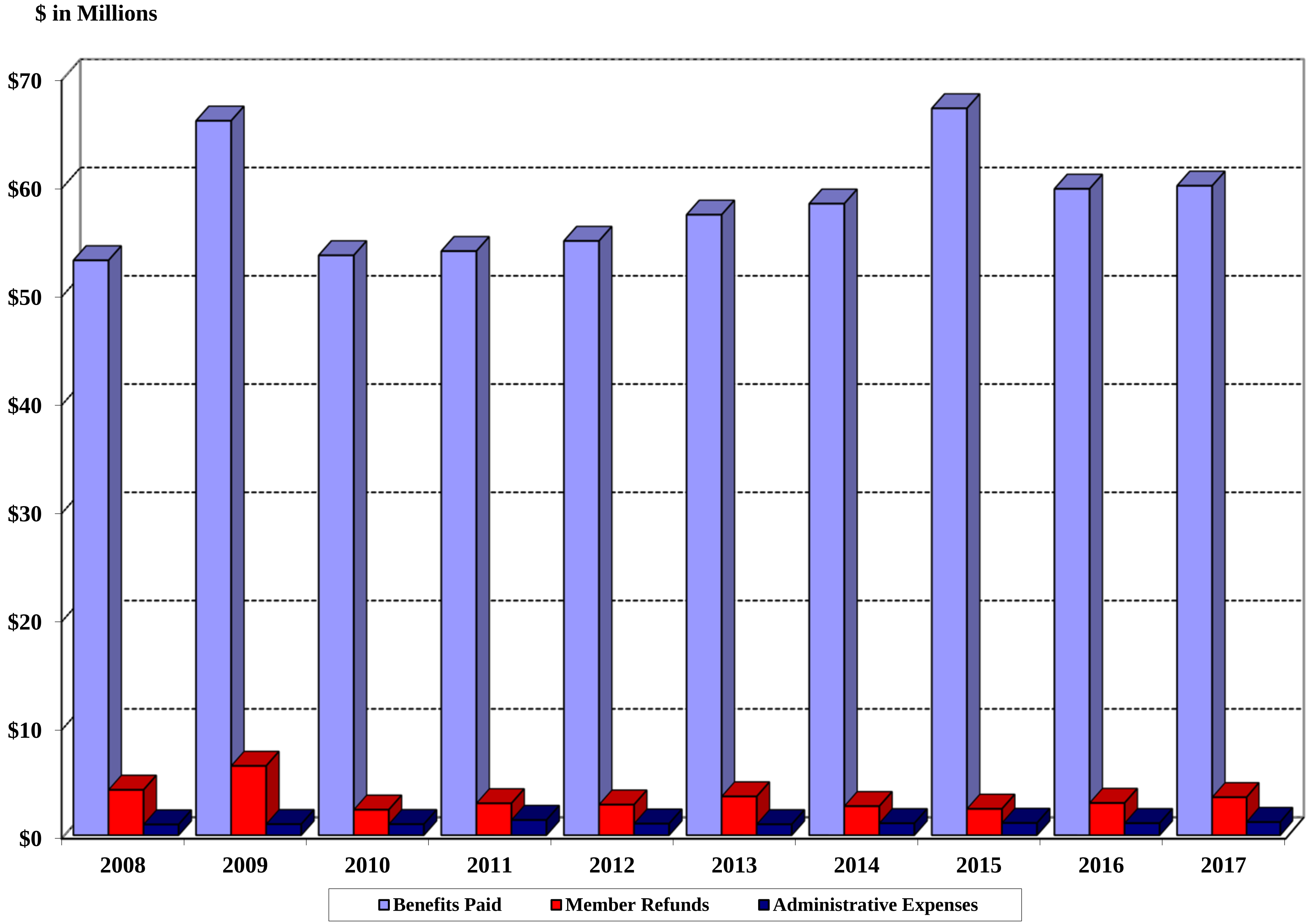
SEPTEMBER 30

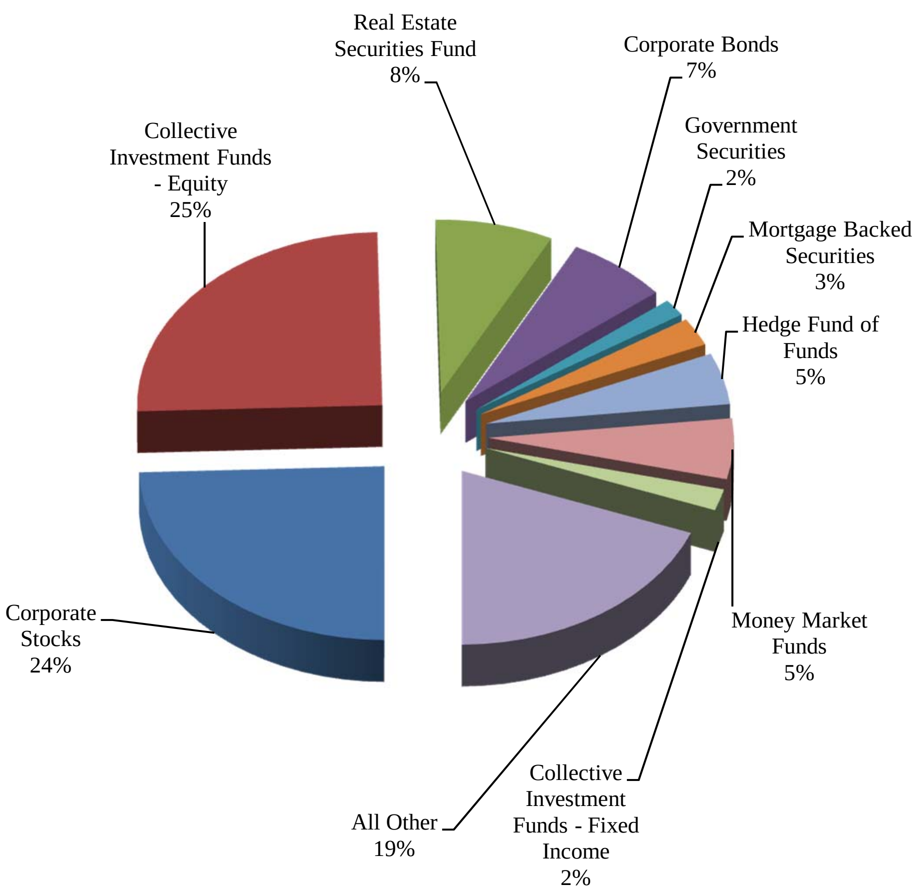


ADDITIONS TO NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30

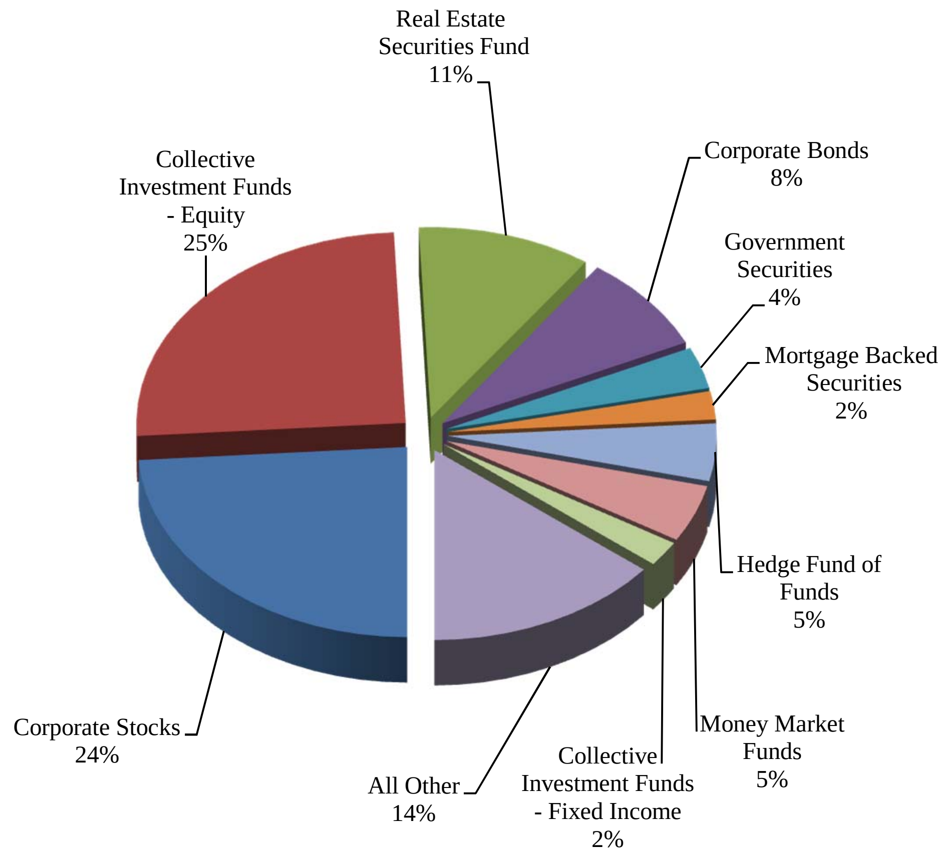


DEDUCTIONS FROM NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30





September 30, 2017



September 30, 2016

	For The Years Ended September 30	
	2017	2016
BENEFITS PAID TO RETIREES AND BENEFICIARIES		
Monthly annuity:		
Accidental disability and death	**$ 4,307,168**	4,261,676
Advisor fees	**2,167,450**	2,084,150
Consultant fees	**2,103,231**	2,123,060
Dependents monthly benefits	**5,102,071**	4,981,510
Medical, surgical, and hospital	**117,010**	153,189
Ordinary disability	**279,163**	206,078
Service retirees	**42,771,410**	42,282,455
Total Monthly Annuity	**56,847,503**	56,092,118
Lump sum:		
Accidental disability and death	**33,347**	165,411
Drop	**3,078,334**	3,416,133
Total Lump Sum	**3,111,681**	3,581,544
Total Benefits Paid To Retirees And Beneficiaries	**$ 59,959,184**	59,673,662
ADMINISTRATIVE EXPENSES		
Personnel costs:		
Salaries	**$ 179,982**	178,725
Payroll taxes	**13,283**	13,170
Insurance - workers compensation	**2,160**	2,145
Employee benefits:		
Group medical and life insurance	**18,036**	18,018
Pension expense	**44,994**	26,387
Total Personnel Costs	**258,455**	238,445
Bank charges	**12,214**	11,892
Board of Trustees account	**38,485**	39,377
Committee	**90,607**	66,117
Computer and website	**178,919**	97,323
Cost allocated from the City	**22,598**	21,343
Depreciation	**61,254**	60,039
Document management	**375**	985
Equipment rental and maintenance	**22,769**	12,899
Insurance	**76,029**	74,340
Medical reviews, consulting, and investigations	**63,184**	74,065
Office supplies and expenses	**27,631**	32,766
Post-retirement and employee health care benefits	**10,418**	10,039
Postage	**14,761**	15,036
Professional fees:		
Accounting	**60,093**	52,893
Actuary	**46,825**	106,711
Investment consultant	**145,000**	145,000
Outside general counsel	**44,551**	13,735
Telephone	**16,038**	11,838
Utilities	**15,955**	18,023
Total Administrative Expenses	**$ 1,206,161**	1,102,866

INVESTMENT MANAGEMENT AND CUSTODIAL FEES

	For The Years Ended September 30	
	2017	2016
Investment management fees:		
Allianz/NFJ Investment Group	**$ 40,694**	124,404
Brandes Investment Partners	**400,799**	376,914
CenterSquare Investment Management Company	**186,233**	281,431
Commerce Bank N.A.	**217,282**	258,338
Kennedy Capital Management, Inc.	**181,061**	135,053
Lazard Asset Management, Inc.	**224,424**	209,490
MFS Institutional Advisors, Inc.	**179,491**	184,621
Neumeier Poma Investment Counsel, LLC	**144,764**	-
PNC Capital Advisors	**26,603**	-
Trilogy Global Advisors, LLC	**320,558**	368,672
Wasatch Advisors, Inc.	**168,040**	204,158
Wellington Trust Company, N.A.	**313,039**	364,868
Wells Fargo Bank, N.A.	**-**	185,613
Westfield Capital Management Company, L.P.	**179,527**	132,406
	2,582,515	2,825,968
Custodial fees:		
The Northern Trust Company	**202,685**	195,426
Total Investment Management And Custodial Fees	**$ 2,785,200**	3,021,394

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)
Dover Street IX (Partnership Interest)
ElmTree U.S. Net Lease Fund III, L.P. (Real Estate Separate Account)
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)
IFM Global Infrastructure (U.S.), L.P. (Partnership Interest)
Neuberger Berman Secondary Opportunities Fund III, L.P. (Partnership Interest)
Neuberger Berman U.S. Equity Index PutWrite Fund, LLC (Hedge Fund)
Pacific Investment Management Company (Mutual Fund)
Parametric Defensive Equity Fund LLC (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)
Ullico Infrastructure Taxable Fund, L.P. (Partnership Interest)
Zarvonia III-A, L.P. (Partnership Interest)

SUMMARY OF INSURANCE COVERAGE

Policy term: November 1, 2016 to November 1, 2017

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	2,327,475
Personal property	1,639,229

HISTORICAL TREND INFORMATION - 10 YEARS

Additions to net assets:

For The Years Ended September 30	Contributions: Employer	Contributions: Members	Contributions: Portability And Restorations	Net Investment Income (Loss)	Total
2017	**$ 33,826,528**	**$ 4,456,241**	**$ 197,727**	**$ 93,520,079**	**$ 132,000,575**
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)

Deductions from net assets:

For The Years Ended September 30	Benefits Paid	Refunds To Members	Admini- strative Expenses	Total
2017	**$ 59,959,184**	**$ 3,493,396**	**$ 1,206,161**	**$ 64,658,741**
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

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 21, 2018

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, 2017, and the related notes to financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated February 21, 2018.

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.

☐ 15450 South Outer Forty Road, Suite 135, Chesterfield, Missouri 63017-2066, 636-532-9525, Fax 636-532-9055
☐ 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