EMPLOYEES RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Kiefer | Bonfanti & Co. LLP
Certified Public Accountants & Business Advisors

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Table of Contents

The following Management's Discussion and Analysis of the Employees Retirement System of the City of St. Louis (the System) provides an overview of the System's financial activities for the fiscal year ended September 30, 2010. This section should be read in conjunction with the System's financial statements and supplementary information.

Financial Highlights

The System's net assets were $593.1 million at September 30, 2010, an increase of $36.7 million from FY 2009. The increase is attributable to the $73.3 million turnaround in net investment income achieved in a challenging investment market. The market recovery which began in 2009 continued through FY 2010. The overall annual return on investments of 10.6% was highlighted by domestic and international equity returns in excess of 10%. Fixed income investments had a healthy 8.7% return. Real estate returned to positive territory with a 6.7% performance.

Employer contributions remained steady at $27 million for fiscal years 2010 and 2009. Retirement benefits and operating expenses increased 5.0% or $2.3 million to $46.6 million in the fiscal year. The number of retirees and beneficiaries receiving a monthly benefit increased at a rate of 2.2% to 4,019.

Financial Statements

The financial report of the System consists of two financial statements: the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The Statement of Plan Net Assets provides the detail of the System's assets and related liabilities other than benefit obligations. The net assets of the System reflect the resources available for future benefit payments. The Statement of Changes in Plan Net Assets provides the details of the System's activity during the year that lead to the change in plan net assets from the prior year.

In addition to the financial statements, the financial report contains the notes to the financial statements and supplemental information, which provide additional information for use in analyzing the financial statements and actuarial information related to the funded status of the System.

Financial Analysis

Total assets at September 30, 2010 of $672.5 million were comprised of cash, investments, security lending collateral and receivables. Total assets increased $53.3 million or 8.7% from the prior year. Investments accounted for $37.3 million of the increase. Securities lending collateral increased $16.1 million to $78.0 million from a corresponding change in the amount of securities on loan. The System is working with its master custodian, State Street Bank and Trust, to exit the security lending program in a manner to avoid or minimize losses. To date, the System has not incurred any losses in its exposure in securities lending and continues to receive income from the assets on loan. Securities lending income was $169,067 for the fiscal year.

Financial Analysis (Continued)

Total liabilities at September 30, 2010 were $79.3 million and consisted of accounts payable, securities lending collateral liability and forward foreign currency exchange contracts. Total liabilities increased $16.6 million from the prior year with securities lending collateral liability and currency exchange contracts accounting for $16.1 million and $513,580 of the change, respectively.

Net assets held in trust for pension benefits increased $36.7 million or 6.6% to $593.1 million.

Condensed Statement of Plan Net Assets

	September 30,		Total Change	
	2010	2009	**Amount**	**Percentage**
Assets				
Investments	**$ 593,212,950**	$ 555,905,954	$ 37,306,996	6.7%
Cash	**120,962**	214,803	(93,841)	-43.7%
Receivables	**1,132,982**	1,105,416	27,566	2.5%
Securities Lending	**77,984,467**	61,898,255	16,086,212	26.0%
Total Assets	**672,451,361**	619,124,428	53,326,933	8.7%
Liabilities				
Accounts Payable	**454,741**	445,355	9,386	2.1%
Securities Lending	**77,984,467**	61,898,255	16,086,212	26.0%
Currency Exchange	**905,057**	391,477	513,580	131.2%
Total Liabilities	**79,344,265**	62,735,087	16,609,178	26.5%
Net Assets	**$ 593,107,096**	$ 556,389,341	$ 36,717,755	6.6%

Revenues – Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the receipt of employer contributions, member purchases of creditable service and earnings on investments. Employer contributions decreased $135,272 in FY 2010, as employers reduced payroll. Member contributions were entirely purchases of creditable service by active members.

Net investment income reversed the downward trend of the previous two years, (-$17.3) million in FY 2009 and (-$86.3) million in FY 2008, and came in at $55.9 million. Net investment income was net of deductions of $2.4 million and $2.2 million for custodial and investment management fees in FY 2010 and FY 2009, respectively.

Expenses – Deductions from Plan Net Assets

The major expenses of the System include the payment of pension benefits to retirees and beneficiaries and administrative expenses. Other expenses within retirement benefits include refunds of contributions and pension service transfer payments to other public retirement plans within the State of Missouri which have a portability agreement with the System. Contribution refunds were zero in FY 2010 and $7,504 in FY 2009. Transfer payments were $10,568 in FY 2010 and $40,546 in FY 2009. Administrative expenses decreased $19,332 in FY 2010 to $652,766.

Condensed Statements of Changes in Plan Net Assets

	Years Ended September 30,		Total Change	
	2010	2009	**Amount**	**Percentage**
Contributions				
Employer contributions	**$ 27,116,763**	$ 27,252,035	$ (135,272)	-0.5%
Member contributions	**281,933**	501	281,432	56174.1%
Total Contributions	**27,398,696**	27,252,536	146,160	0.5%
Investment Activity				
Interest and dividends net of investment expenses	**6,685,467**	7,654,518	(969,051)	-12.7%
Net appreciation (depreciation) in fair value of investments	**49,257,932**	(24,996,490)	74,254,422	-297.1%
Total Investment Income (Loss)	**55,943,399**	(17,341,972)	73,285,371	-422.6%
Deductions				
Retirement benefits	**45,971,574**	43,730,688	2,240,886	5.1%
Administrative expenses	**652,766**	672,098	(19,332)	-2.9%
Total Deductions	**46,624,340**	44,402,786	2,221,554	5.0%
Changes in Net Assets	**$ 36,717,755**	$ (34,492,222)	$ 71,209,977	-206.5%

Summary

Net assets increased in FY 2010 as the investment markets continue to recover. The System's investments returned 10.6% in FY 2010 and 11.3% in last nine months of FY 2009. However, the return for the first quarter of FY 2009 was (-12.1%). The required employer contribution rate recommended by the actuary increased from 10.92% to 11.85%. Actual employer contributions decreased slightly as the System's employers reduce payroll as other areas of the economy continue to struggle. The System remains in a position to meet its current pension obligations, as confirmed by the recent actuarial valuation.

The System is a qualified governmental plan under Section 401(a) of the Internal Revenue Code.

Requests for Information

This financial report is designed to provide the Board of Trustees, our members and other users of our financial report with a general overview of the System's finances and to demonstrate the System's accountability for its funds. If you have any questions about this report or need additional financial information, contact the Employees Retirement System of the City of St. Louis, 1114 Market Street, Suite 900, St. Louis, MO 63101.

Kiefer | Bonfanti & Co. LLP
Certified Public Accountants & Business Advisors

701 Emerson Road
Suite 201
St. Louis, MO
63141

314.812-1100
f.314.812-1199

kieferbonfanti.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of **the Employees Retirement System of the City of St. Louis** (the System), a component unit of the City of St. Louis, Missouri, as of September 30, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the **Employees Retirement System of the City of St. Louis** as of September 30, 2010 and 2009, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
Continued

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The management discussion and analysis on Pages 1-4, and the supplemental schedules of funding progress and employer contributions, on Pages 21-22 are not a required part of the basic financial statements of the System, but are supplemental information required by the Governmental Accounting Standards Board. For the management discussion and analysis and schedules of funding progress, and employer contributions, we have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information for the years ended September 30, 2010 and 2009. However, we did not audit the information and express no opinion on it. Limited procedures were applied by other auditors to the required supplementary information for the years ended September 30, 2006 and prior years.

Kiefer Bonfanti & Co. LLP

March 21, 2011

FINANCIAL STATEMENTS

STATEMENTS OF PLAN NET ASSETS

Assets

	September 30, 2010	September 30, 2009
Cash	**$ 120,962**	$ 214,803
Receivables		
Accrued interest receivable	**887,958**	859,828
Accrued dividend receivable	**237,104**	205,693
Employers contribution receivable	**7,920**	39,895
Total Receivables	**1,132,982**	1,105,416
Investments, at Fair Value		
Temporary cash investments	**11,571,742**	13,886,129
Bonds	**88,769,995**	82,381,909
Common stocks	**233,499,672**	217,761,831
Managed international equity funds	**148,015,437**	134,651,721
Real estate funds	**50,650,587**	47,906,951
Domestic bond funds	**53,803,531**	49,290,491
Managed hedge fund of funds	**6,901,986**	10,026,922
Total Investments	**593,212,950**	555,905,954
Securities Lending Collateral	**77,984,467**	61,898,255
Total Assets	**672,451,361**	619,124,428

Liabilities

	2010	2009
Accounts Payable	**454,741**	445,355
Securities Lending Collateral Liability	**77,984,467**	61,898,255
Payable Under Forward		
Foreign Currency Exchange Contracts	**905,057**	391,477
Total Liabilities	**79,344,265**	62,735,087
Net Assets Held in Trust for Pension Benefits	**$ 593,107,096**	$ 556,389,341

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Years Ended September 30,	
	2010	2009
Contributions		
Employer contributions	**$ 27,116,763**	$ 27,252,035
Member contributions	**281,933**	501
Total Contributions	**27,398,696**	27,252,536
Investment Activity		
Interest and dividends	**9,039,963**	9,839,090
Net appreciation (depreciation) in fair value of investments	**49,257,932**	(24,996,490)
	58,297,895	(15,157,400)
Less investment expenses	**2,354,496**	2,184,572
Net Investment Income (Loss)	**55,943,399**	(17,341,972)
Deductions		
Retirement benefits	**45,971,574**	43,730,688
Administrative	**652,766**	672,098
Total Deductions	**46,624,340**	44,402,786
Net Increase (Decrease)	**36,717,755**	(34,492,222)
Net Assets Held in Trust For		
Pension Benefits		
Beginning of Year	**556,389,341**	590,881,563
End of Year	**$ 593,107,096**	$ 556,389,341

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

1. DESCRIPTION OF THE PLAN

General

The System is a cost-sharing, multiple-employer, defined benefit public employee's retirement system for all non-uniformed employees of the City of St. Louis and certain other public entities funded by or providing services to residents of the City of St. Louis. These additional employee groups covered by the System are the employees of the St. Louis Public Library, the Art Museum of St. Louis, the St. Louis Zoological Park, the City of St. Louis Water Division, the Airport Authority, the City Mental Health Board, the Metropolitan Taxicab Commission, the System, and civilian employees of the police department and police and firemen's retirement systems. The System became operative April 1, 1960 by municipal ordinance establishing the System under the authority of Senate Bill No. 329 of the 70th General Assembly of the State of Missouri. Responsibility for operation and administration of the System is vested in its Board of Trustees. The Board of Trustees consists of the Comptroller of the City of St. Louis, two members appointed by the Mayor of the City of St. Louis, two members elected by the membership of the System, and one member elected by the retired members of the System.

Membership

At September 30, 2010 and 2009, membership consisted of the following:

	2010	2009
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,370	6,435
Current employees		
Fully vested	3,809	3,876
Non-vested	1,736	1,765
	11,915	12,076

Benefits

The System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the System after the employee has attained five years of creditable service.

1. DESCRIPTION OF THE PLAN (CONTINUED)

Benefits (Continued)

Employees retire with full retirement benefits after the age of 65 or if an employee's age and creditable service combined equal or exceed 85. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service, age 55 with at least 20 years of creditable service, or any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

Contributions

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. The Board of Trustees established the required employer contribution rates, based on active member payroll of 11.85% effective July 1, 2010 and 10.92% effective July 1, 2009.

Employees, who became members of the System prior to October 14, 1977 and continued to make contributions, may make voluntary contributions to the System equal to 3% of their compensation until the compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year.

Funding Policy

The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

Estimates

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

Subsequent Events

The agency has evaluated subsequent events through March 21, 2011, the date which the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting except that retirement benefits are recorded when due to the beneficiary. Employee contributions are recognized as additions in the period in which employer payroll is paid.

Administrative deductions are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Tax Status

The System has been determined to be exempt from federal income taxes under Section 115 of the Internal Revenue Code. In 2005, the System became a qualified retirement plan in accordance with Internal Revenue Service regulations.

Investments

A list of allowable investments is included in Note 3. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Security transactions and any resulting realized gains or losses are accounted for on a completed transaction basis. Commingled funds are valued at the unit value quoted by the investee entity based on the underlying asset values. Real estate funds and other managed funds are valued based on valuations of underlying investments as reported by fund managers.

The System participates in a securities lending program administered by State Street Bank and Trust, the custodian. Brokers who borrow the securities provide collateral equal to 102% for domestic securities loaned, resulting in no credit risk for the System. During 2009, the Board of Trustees decided to reduce the amount of securities that can be loaned at one time. At September 30, 2010 and 2009, the term to maturity of the securities on loan is matched with the term to maturity of the investment of the cash collateral. These loans can be terminated on demand by either the lender or borrower. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

As of September 30, 2010 and 2009, the System had the following securities on loan at market value:

	2010	2009
US Corporate Bond and Equity		
Agency	**$ 96,230**	$ 123,917
Corporate bond	**9,455,118**	11,088,761
Equity	**51,166,029**	29,103,107
Total US Corporate Bond and Equity	**60,717,377**	40,315,785
US Government		
Agency	**1,160,601**	452,177
Treasury	**14,135,051**	19,370,928
Total US Government	**15,295,652**	19,823,105
Non-US Fixed Income	**77,647**	253,459
Total Securities on Loan	**$ 76,090,676**	$ 60,392,349

Furniture and Equipment

Acquisitions of furniture and equipment are charged to administrative expense.

Derivatives

The System currently retains Payden & Rygel Investment Counsel as a global fixed income investment manager. The System permits Payden & Rygel to utilize financial derivative instruments such as forwards, futures, and options. The use of these financial derivatives is defensive in nature; that is, used only to manage duration and foreign currency exposure and bond exposure. The System's investment policy requires that open currency exposure shall not exceed 10 percent of the global fixed income portfolio.

At September 30, 2010 and 2009, the System had the following amounts under forward foreign currency exchange contracts:

	2010	2009
Receivable under forward foreign currency exchange contracts	**$ 43,870**	$ 25,034
Payable under forward foreign currency exchange contracts	**(948,927)**	(416,511)
Net Receivable (Payable) Under Forward Foreign Currency Exchange Contracts	**$ (905,057)**	$ (391,477)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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

Effective October 1, 2009, the System has adopted GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" (GASB 53). GASB 53 requires the gain (loss) on the currency exchanges on forward contracts to be recorded in the Statement of Changes in Plan Net Assets. The change in fair value of the derivative is recorded as a deferred asset/liability in the Statement of Plan Net Assets as appropriate. GASB 53 was adopted for plan year ended September 30, 2010 and was not adopted for the preceding fiscal year. The deferred derivative asset as of September 30, 2010 is valued at $43,870. The deferred derivative liability as of September 30, 2010 is valued at $948,927.

3. CASH AND INVESTMENTS

The System is authorized to invest in:

- U.S. government securities;
- Non-U.S. fixed income securities;
- Common stocks of corporations organized under the laws of the United States;
- Common stocks of foreign corporations through separate accounts as commingled vehicles;
- Publicly-issued corporate bonds, debentures, notes, or other evidences of indebtedness assumed or guaranteed by corporations organized under the laws of the United States with ratings of "A" or better by Moody's Investors Service;
- Short-term securities with a maximum maturity of one year including institutional liquid assets, U.S. Treasury obligations, Federal Agency obligations, discount and interest-bearing notes from corporations, and certificates of deposit;

3. CASH AND INVESTMENTS (CONTINUED)

- Real estate through discretionary commingled vehicles; and
- Hedge funds through either separate or commingled fund of funds vehicles.

The bank balances of the System at September 30, 2010 and 2009 were $931,897 and $1,558,422, respectively. These balances were insured by the Federal Deposit Insurance Corporation up to $250,000. The remaining balances were collateralized by securities held by the pledging financial institution's trust department in the System's name.

The System has a significant amount of investments that are subject to market risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable.

All investments at September 30, 2010 and 2009 were held by the System's agent in the System's name.

At September 30, 2010, the System has the following concentrations, defined as "investments (other than those issued or guaranteed by the U.S. government)" in any one organization, that represent five percent or more of total investments:

Silchester International Investors International Value Equity Group Trust	$ 90,604,456	15.27%
Walter Scott & Partners Limited Group Trust International	$ 57,410,981	9.68%
Principal Global Investors Real Estate Group Annuity Contract	$ 50,650,587	8.54%

3. CASH AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

The System does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The System's exposure at September 30, 2010 to foreign currency risk is presented on the following table:

Currency	Short-Term	Debt	Equity	Total
Australian Dollar	$ 190	$ -	$ -	$ **190**
British Pound	41,437	1,773,126	-	**1,814,563**
Brazilian Real	-	208,085	-	**208,085**
Canadian Dollar	14,573	764,703	-	**779,276**
Euros	24,872	9,384,956	-	**9,409,828**
Mexican Peso	-	183,683	-	**183,683**
Japanese Yen	21,343	4,742,881	-	**4,764,224**
Swedish Krona	-	2,431,183	-	**2,431,183**
	$ 102,415	**$ 19,488,617**	**$ -**	**$ 19,591,032**

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation to the System. Below is a list of fixed income credit quality ratings:

Quality Rating	
Aaa/U.S. Governments	$ 88,064,629
Aa	15,152,949
A	23,383,064
Baa	14,567,083
Below Baa	3,613,457
Total Credit Risk Debt	$ 144,781,182

3. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

The System does not have a formal policy to limit interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price.

Investment	Fair Value	Effective Duration
Payden and Rygel	$ 32,849,613	5.90 years
Allegiant (PNC)	58,128,038	5.60 years
SSGA	29,124,756	4.67 years
Vanguard	24,678,775	4.90 years
Total	$ 144,781,182	

4. PLAN TERMINATION

The System is administered in accordance with the provisions of the Revised Code of the City of St. Louis. There are currently no plans to terminate the System.

5. DEFERRED RETIREMENT OPTION PLAN

On June 8, 2000, the Mayor of the City of St. Louis approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. Total DROP expense was $6,407,386 and $6,133,957 for the years ended September 30, 2010 and 2009, respectively. The DROP account will not be adjusted for cost of living increases.

The DROP account earns interest at the actuarial valuation rate of return and at the 10 year U.S. Treasury Bond yield as of each September 30, for DROP participants enrolling February 1, 2003 and thereafter.

5. DEFERRED RETIREMENT OPTION PLAN (CONTINUED)

After the members completely terminate employment, they can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan. At September 30, 2010 and 2009, approximately 763 and 698 members, respectively, have elected DROP participation and have DROP account balances of approximately $45,400,000 and $43,800,000, respectively.

6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2010, the report of the System's actuary indicated that the System's funded status was as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
$ 671,608,995	$ 820,669,641	$ (149,060,646)	81.84%	$ 232,451,661	64.13%

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

7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

VALUATION DATE	October 1, 2010
ACTUARIAL COST METHOD	Projected Unit Credit Method
AMORTIZATION METHOD	Level dollar open amortization period
REMAINING AMORTIZATION PERIOD FOR THE UAL	30 years
ASSET VALUATION METHOD	The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Initial unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of market value. The actuarial asset value was initialized as the market value as of October 1, 2005.
SIGNFICANT ASSUMPTIONS	
Investment rate of return	8.00%
Projected salary increases	Varies by age from 3.500% to 7.0174%.
Cost of living adjustments	3.125% simple with a 25% lifetime cap
Inflation	3.125%

8. COMMITMENTS AND CONTINGENCIES

The Employees Retirement System of the City of St. Louis (the "System") was a party to three lawsuits. In the first lawsuit, Zoological Subdistrict, et al. vs. Darlene Green, et al., St. Louis City Circuit Court Cause No. 0722-CC07132, the Zoo claimed the System's trustees violated their fiduciary obligations by failing to provide each employer with a separate employer contribution rate based upon its employees' demographics as opposed to the uniform employer contribution rate approved by the trustees. This claim was settled prior to September 30, 2009 with no admission of liability and no payments from the System. Simultaneously, the System's counterclaim against the Zoo for approximately $1.3 Million in unpaid employer contributions for the City Fiscal Years of 2007 and 2008 was settled with the Zoo making full payment (but without interest).

The St. Louis Public Library had filed a separate petition in the above mentioned lawsuit alleging the System had been improperly administered for several years. The Library sought an agent multiple employer plan where each participating employer's assets and liabilities would be administered and accounted for separately and damages to the Library resulting from the System's alleged improper administration. These claims were settled in April 2010 with no admission of liability and no payments from the System.

The System was the plaintiff in another lawsuit styled Darlene Green, et al., v. Travelers Casualty and Surety Company of America, et al., which was filed in the St. Louis City Circuit Court. After the Zoo filed its lawsuit, the System made a claim for indemnification and defense under its fiduciary insurance policy with Travelers. Travelers denied coverage and this lawsuit was brought by the System to seek a declaratory judgment that the terms of the policy provide coverage. After the Library filed its separate petition in the Zoo lawsuit, the System re-tendered the defense of the Zoo and Library lawsuit to Travelers. As a result, Travelers agreed to provide a defense subject to a reservation of rights as of July 2, 2008, the date of the re-tender. The System sought payment of defense costs not paid by Travelers. The litigation was settled during July 2010 with no admission of liability by any party and any defense costs borne by the System reflected in the financial statements for the period in which said defense costs were paid.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The System has also been advised by State Street Bank and Trust Company, its master custodian, that the unsecured creditor's committee of the bankrupt Tribune Company has subpoenaed information from it regarding the System's sale of Tribune Company securities during a levered takeover of the Tribune Company by an ESOP, the total proceeds of which total approximately $306,000. The unsecured creditor's committee has filed a petition against certain sellers of said securities alleging the sale of the securities to the ESOP or its affiliates worked a fraud upon the creditors who lent the ESOP the funds to purchase the securities based upon fraudulent or misrepresented information. The matter is currently pending in the United States Bankruptcy Court for the District of Delaware. See Tribune Company, et al. v. Official Committee of Unsecured Creditors of Tribune Company, et al. on behalf of Tribune Company, et al., Case No. 08-13141 (KJC), Adv. Pro. No. 10-54010. However, the System has yet to be served with a petition. In the event the System is served with a petition similar to the one mentioned above, the System would act vigorously to defend itself. The outcome of such litigation would be speculative, but any negative outcome would be limited to the proceeds of the sale.

SUPPLEMENTAL INFORMATION

SCHEDULE OF FUNDING PROGRESS

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Years Ended September 30,	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
2001	$ 17,492,110	$ 2,768,208	15.8%
2002	24,269,937	12,106,532	49.9%
2003	32,186,050	19,115,679	59.4%
2004	30,926,604	15,158,997	49.0%
2005	29,243,453	15,752,497	53.9%
2006	29,478,032	15,756,456	53.5%
2007	29,599,091	71,301,428	240.9%
2008	25,297,801	30,350,011	120.0%
2009	26,072,575	27,252,035	104.5%
2010	28,498,534	27,116,763	95.2%
2011	**$ 29,504,043**	--	--