
**FIREMEN'S RETIREMENT
SYSTEM OF ST. LOUIS**

FINANCIAL REPORT
(Audited)

Year Ended September 30, 2010

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
FINANCIAL REPORT

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

INDEPENDENT AUDITORS' REPORT

February 15, 2011

The Board of Trustees
FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS

We have audited the accompanying statements of plan net assets of the **FIREMEN'S RETIREMENT SYSTEM 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 U.S. generally accepted auditing standards. 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 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 as of September 30, 2010 and 2009, and the changes in plan net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and required supplemental information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited proce-

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dures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hochschild Blooms & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

FINANCIAL HIGHLIGHTS

During the System's fiscal years ended September 30, 2010 and 2009, global economies have started to show signs of economic recovery. The System is well diversified and the portfolio is continually managed and monitored to an investment policy established to minimize market risks. This resulted in the System's portfolios being well positioned to take advantage of the positive investment market shifts seen during the last eighteen months, which resulted in a favorable increase in the fair value of the System's investments. The System's portfolio experienced improvements in market conditions during the 2010 fiscal year exceeding the actuarial assumption for investment return. Improvement has continued since first showing signs of improvement during the last half of the 2009 fiscal year. The System is a long-range proposition and is responsible for administering benefits to firefighters of the City of St. Louis 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 assets were \$398 million at September 30, 2010, which represents an increase of \$17 million from September 30, 2009.

Additions to net assets for fiscal year 2010 were \$54 million as compared to negative additions of (\$4) million for fiscal year 2009. The current period additions are comprised of \$33 million of net investment income, \$18 million in employer contributions, and \$3 million in Members contributions.

Deductions from net assets were \$37 million for fiscal year 2010 and \$36 million for fiscal year 2009.

The overall investment return for the System was 8.56% for fiscal year 2010 as compared to (4.70%) for fiscal year 2009. The negative investment return during 2009 is due to the general downturn in the economy which started in 2008, however, 2010 has shown recovering investment markets. The Board of Trustees acts to ensure the System retains the top performing Investment Managers while maintaining a balanced investment portfolio.

FINANCIAL STATEMENTS

The financial report of the System consists of two financial statements: the statements of plan net assets and the statements of changes in plan net assets. The statements of plan net assets provide 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 statements of changes in plan net assets provide the detail 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 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 were \$399,183,413 and were mainly comprised of cash, investments, and other receivables. Total assets increased \$15,909,179 or 4.15% from September 30, 2009.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Total liabilities at September 30, 2010 were \$1,254,870 and consisted mainly of unsettled investment transactions and accrued expenses. Total liabilities decreased \$711,412 or 36.18% from September 30, 2009.

Net assets held in trust for pension benefits were \$397,928,543 at September 30, 2010, an increase of \$16,620,591 or 4.36% from the prior period. This increase mainly resulted from an increase in investments of \$24 million, the majority of which was the result of a \$31 million increase in the market value of the investments.

Following is a condensed version of the statements of plan net assets (dollars in thousands):

| | September 30 | | | Total Change | | | |
|---------------------|-------------------|---------|---------|---------------|----------|---------------|--------|
| | | | | Amount | | Percentage | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2010 | 2009 |
| ASSETS | | | | | | | |
| Investments | \$ 392,009 | 367,654 | 413,644 | 24,355 | (45,990) | 6.6 % | (11.1) |
| Cash | 3,727 | 14,152 | 7,841 | (10,425) | 6,311 | (73.7) | 80.5 |
| Receivables | 2,934 | 1,091 | 1,515 | 1,843 | (424) | 168.9 | (28.0) |
| Capital assets, net | 513 | 377 | 391 | 136 | (14) | 36.1 | (3.6) |
| Total Assets | 399,183 | 383,274 | 423,391 | 15,909 | (40,117) | 4.2 | (9.5) |
| LIABILITIES | 1,254 | 1,966 | 1,915 | (712) | 51 | (36.2) | 2.7 |
| NET ASSETS | \$ 397,929 | 381,308 | 421,476 | 16,621 | (40,168) | 4.4 % | (9.5) |

Revenues - Additions to Plan Net Assets

The reserves needed to finance retirement benefits as well as death and disability benefits are accumulated through the collection of employer and employee (members) contributions and through earnings on investments. Members contribute 8% (1% while in DROP status) of their salary to fund future retirement benefits. This percentage is set by state statute and was unchanged from the prior year. Total contribution income (employer and members) totaled \$20,796,919 for the year ended September 30, 2010 as compared to \$15,111,832 for the prior year.

Net investment income totaled \$33,298,179 in fiscal year 2010 as compared to net investment losses of (\$18,864,872) in the prior period. Investment income (loss) is net of investment expenses (management and custodial fees) totaling \$1,562,092 and \$1,178,471 for the years ended September 30, 2010 and 2009, respectively.

Expenses - Deductions from Plan Net Assets

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 2010 were \$37,474,507, an increase of \$1,059,796 from the prior year.

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

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

| | For The Years | | | Total Change | | | |
|------------------------------------|--------------------|----------------|-----------------|-----------------|------------------|----------------|---------------|
| | Ended September 30 | | | Amount | | Percentage | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2010 | 2009 |
| ADDITIONS | | | | | | | |
| Employer contributions | \$ 17,855 | 12,194 | 7,485 | 5,661 | 4,709 | 46.4 % | 62.9 |
| Members contributions | 2,942 | 2,918 | 2,845 | 24 | 73 | 0.8 | 2.6 |
| Net investment income (loss) | 33,298 | (18,865) | (81,990) | 52,163 | 63,125 | 276.5 | 77.0 |
| Total Additions (Net) | <u>54,095</u> | <u>(3,753)</u> | <u>(71,660)</u> | <u>57,848</u> | <u>67,907</u> | <u>1,541.4</u> | <u>94.8</u> |
| DEDUCTIONS | | | | | | | |
| Benefits paid | 34,661 | 34,230 | 29,908 | 431 | 4,322 | 1.3 | 14.5 |
| Refund of Members contributions | 1,639 | 1,207 | 1,152 | 432 | 55 | 35.8 | 4.8 |
| Administrative expenses | 1,174 | 978 | 917 | 196 | 61 | 20.0 | 6.7 |
| Total Deductions | <u>37,474</u> | <u>36,415</u> | <u>31,977</u> | <u>1,059</u> | <u>4,438</u> | <u>2.9</u> | <u>13.9</u> |
| NET INCREASE (DECREASE) | | | | | | | |
| IN PLAN NET ASSETS | 16,621 | (40,168) | (103,637) | 56,789 | 63,469 | 141.4 | 61.2 |
| NET ASSETS, BEGIN- | | | | | | | |
| NING OF YEAR | <u>381,308</u> | <u>421,476</u> | <u>525,113</u> | <u>(40,168)</u> | <u>(103,637)</u> | <u>(9.5)</u> | <u>(19.7)</u> |
| NET ASSETS, END | | | | | | | |
| OF YEAR | <u>\$ 397,929</u> | <u>381,308</u> | <u>421,476</u> | <u>16,621</u> | <u>(40,168)</u> | <u>4.4 %</u> | <u>(9.5)</u> |

SUMMARY

The System's net assets held in trust for pension benefits have increased in six out of the past ten years. The decreases, which occurred in fiscal years 2009, 2008, 2002, and 2001, were the result of investment losses due to economic slowdowns that detrimentally affected most pension systems in those years. The Trustees believe, and the actuarial calculations confirm, that the System is in a financial position to meet its current and projected obligations. With a continued focus on a prudent investment program, cost controls, and strategic planning, the System should continue to improve its current financial position.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Board of Trustees, our Members, and other users of our financial report with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

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FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
STATEMENTS OF PLAN NET ASSETS

| | September 30 | |
|---|----------------|-------------|
| | 2010 | 2009 |
| ASSETS | | |
| Investments, at fair value: | | |
| Equities: | | |
| Corporate stocks | \$ 207,452,820 | 176,765,102 |
| Collective investment funds | 37,719,002 | 36,430,835 |
| Fixed income: | | |
| Collective investment funds | 78,574,414 | 102,410,954 |
| Corporate bonds | 13,350 | 103,919 |
| Real estate investment trust | 32,371,035 | 30,617,564 |
| Money market funds | 21,989,753 | 12,694,780 |
| Hedge funds | 13,888,613 | 8,631,221 |
| Total Investments | 392,008,987 | 367,654,375 |
| Cash and cash equivalents | 3,727,202 | 14,152,045 |
| Receivables: | | |
| Employer contributions | 1,785,455 | - |
| Unsettled investment transactions | 711,984 | 606,300 |
| Interest and dividends | 226,474 | 167,389 |
| Other receivables | 210,324 | 203,404 |
| Members contributions | - | 114,051 |
| Total Receivables | 2,934,237 | 1,091,144 |
| Capital assets, less accumulated depreciation | 512,987 | 376,670 |
| Total Assets | 399,183,413 | 383,274,234 |
| LIABILITIES | | |
| Unsettled investment transactions | 856,865 | 1,515,632 |
| Accrued investment management fees | 350,794 | 308,871 |
| Members contributions refundable | 31,198 | 79,960 |
| Accrued administrative expenses | 16,013 | 61,819 |
| Total Liabilities | 1,254,870 | 1,966,282 |
| NET ASSETS HELD IN TRUST FOR PENSION | | |
| BENEFITS (a schedule of funding progress for the System is presented on page 26) | \$ 397,928,543 | 381,307,952 |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
STATEMENTS OF CHANGES IN PLAN NET ASSETS

| | For The Years | |
|---|-------------------------------------|----------------------------------|
| | Ended September 30 | |
| | 2010 | 2009 |
| ADDITIONS TO NET ASSETS ATTRIBUTED TO: | | |
| Contributions: | | |
| Employer | \$ 17,854,546 | 12,193,989 |
| Members | 2,942,373 | 2,917,843 |
| Total Contributions | <u>20,796,919</u> | <u>15,111,832</u> |
| Investment income (loss): | | |
| Net appreciation (depreciation) in fair value of investments | 30,776,364 | (21,737,952) |
| Dividends | 3,922,034 | 3,598,051 |
| Securities lending income | 112,579 | 305,670 |
| Class action settlements | 28,909 | - |
| Recapture commissions | 10,205 | 13,142 |
| Interest | 10,180 | 134,688 |
| Total Investment Income (Loss) | <u>34,860,271</u> | <u>(17,686,401)</u> |
| Less - Investment management and custodial fees | <u>1,562,092</u> | <u>1,178,471</u> |
| Net Investment Income (Loss) | <u>33,298,179</u> | <u>(18,864,872)</u> |
| Total Additions - Net | <u>54,095,098</u> | <u>(3,753,040)</u> |
| DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO: | | |
| Benefits paid to retirees and beneficiaries | 34,661,065 | 34,230,413 |
| Refunds of Members contributions | 1,639,211 | 1,206,585 |
| Administrative expenses | 1,174,231 | 977,713 |
| Total Deductions | <u>37,474,507</u> | <u>36,414,711</u> |
| NET INCREASE (DECREASE) IN PLAN NET ASSETS | 16,620,591 | (40,167,751) |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR | <u>381,307,952</u> | <u>421,475,703</u> |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR | <u><u>\$ 397,928,543</u></u> | <u><u>381,307,952</u></u> |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF PLAN

The **FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS** (the System) administers a single employer defined benefit pension plan providing pension benefits to the City of St. Louis firemen (the Members). Membership in the System consists of:

| | <u>September 30</u> | | <u>Increase (Decrease)</u> |
|---|---------------------|------------------|--------------------------------|
| | <u>2010</u> | <u>2009</u> | |
| Retirees and beneficiaries currently receiving benefits | <u>1,012</u> | <u>1,010</u> | <u>2</u> |
| Current Members: | | | |
| Vested - DROP | 56 | 63 | (7) |
| Vested - Non-DROP | 136 | 118 | 18 |
| Nonvested | <u>514</u> | <u>547</u> | <u>(33)</u> |
| Total Current Members | <u>706</u> | <u>728</u> | <u>(22)</u> |
| Total Membership | <u>1,718</u> | <u>1,738</u> | <u>(20)</u> |

The System provides retirement benefits as well as death and disability benefits. Members can voluntarily retire after a minimum of 20 years of service. The monthly allowance consists of 40% of the final two-year average monthly compensation at 20 years of service, plus 2% of such final average compensation for each of the next five years of service, plus 5% of final average compensation for each additional year of service after 25 years with a maximum pension of 75%. Unused accrued sick pay accumulated before September 20, 2010 may increase the maximum pension beyond this limitation.

Covered Members contribute 8% of their salary. Upon leaving employment, the Member's contributions are refunded. In addition, terminated Members receive interest.

The System, in accordance with Ordinance 62994 of the City of St. Louis, initiated during the fiscal year ended August 31, 1994, a Deferred Retirement Option Plan (DROP). 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 the Member's contributions will be reduced to 1% from the normal 8%. During participation in the DROP, the Member will not receive credit for City contributions or credit for service. A Member may participate in the DROP only once for any period up to five years. At retirement the funds in the Member's DROP account plus 1) interest and 2) accrued sick leave if elected is available to the Member in a lump sum or in installments. The number of Members with DROP account balances was 163 and 170 at September 30, 2010 and 2009, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Reporting Entity

The System is a pension trust fund of the City of St. Louis, Missouri (the City). As such, the System is considered part of the City and 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. Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Members and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Investment purchases and sales are recorded on a trade-date basis.

3. Investment Valuation

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

4. Cash

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

5. Operating Expenditures

Benefits paid and administrative expenses are approved by the Board. Payments are processed by the Treasurer of the City.

6. Net Assets Held in Trust for Pension Benefits

The System's net assets held in trust for pension benefits consist of:

Member's Savings Fund - Members contribute 8% of their compensation to the System. Such contributions are credited to the Member's Savings Fund. Interest, at a rate determined by the Board, is credited annually on the balance in each Member's account during the preceding year. Withdrawal refunds of Member's accumulated con-

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Net Assets Held in Trust for Pension Benefits (Continued)

tributions are charged to this fund. Upon retirement or death in service of a Member with a surviving beneficiary, the Member's own contributions are refunded. Upon termination of employment or death in service with no survivor, the Member's contributions, including interest, are refunded. The balance at September 30, 2010 and 2009 was \$71,139,024 and \$67,194,513, respectively.

Benefit Reserve Fund -- Upon retirement or death, the Benefit Reserve Fund is payable to the Member or their beneficiaries. This amount is determined by the actuaries, in accordance with Ordinances 49623, 56444, 57603, 58242, 58651, 58652, and 59018. An amount is transferred from the General Reserve Fund which, when added to the amount transferred from Member's Savings Fund, brings the balance of the Benefit Reserve Fund to an amount equal to the present value of future benefits. The balance at September 30, 2010 and 2009 was \$294,536,666 and \$292,710,197, respectively.

General Reserve Fund -- Contributions made by the City are credited to the General Reserve Fund. The present value of all future estimated benefits payable to active Members on death or retirement not provided by Member's contributions are accumulated in this fund. The balance at September 30, 2010 and 2009 was \$26,917,625 and \$16,346,643, respectively.

Future Benefit Fund -- The Future Benefit Fund was established June 29, 1990 by City ordinance as a method to fund increased benefits for retired Members. The funding of the Future Benefit Fund was terminated per the City ordinance after fiscal year ended August 31, 1993. The balance in the fund will be used for future benefits until it is exhausted. Benefits of \$0 were paid from the Future Benefit Fund during the years ended September 30, 2010 and 2009. The Future Benefit Fund is excluded from the assets used in determining the City's contribution requirement. The balance at September 30, 2010 and 2009 was \$5,036,507 and \$4,636,821, respectively.

System Employees Benefit Fund -- On August 28, 1997, the Board approved a resolution to provide additional benefits for the administrative employees of the System in the form of severance pay and a limited retirement package. The severance pay applies to employees who are dismissed for any reason other than for just cause based on the wrongful conduct of the employee. The dismissed employee would be entitled to one months pay for each year or part of year that the employee has been employed by the System. The retirement package is for employees who have completed five years of service. Upon completing five years of service, the employee will have five months of salary credited to him or her. Thereafter the employee will be credited with a month of salary upon completion of each additional year of service. Employees' accrued additional benefits of \$13,237 and \$24,669 for the years ended September 30, 2010 and 2009, respectively. The employees' must make a one-time election as to

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Net Assets Held in Trust for Pension Benefits (Continued)

how their accounts will be credited each anniversary date with interest on the account. Benefits of \$181,775 and \$0 were paid from the System Employees Benefit Fund during the years ended September 30, 2010 and 2009, respectively. The System Employees Benefit Fund is excluded from the assets used in determining the City's contribution requirement. The balance at September 30, 2010 and 2009 was \$298,721 and \$419,778, respectively.

7. Use of Estimates

The preparation of the System's financial statements in conformity with U.S. generally accepted accounting principles 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 assets during the reporting period. Actual results could differ from those estimates.

8. Capital Assets

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

| Asset | Years |
|-------------------------|---------|
| Building | 40 |
| Building improvements | 10 - 15 |
| Furniture and equipment | 5 - 7 |

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

Capital asset activity was as follows:

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Capital Assets (Continued)

| | For The Year Ended September 30, 2010 | | | |
|---|---------------------------------------|-------------------------------|-------------------------------|---------------------------------|
| | Balance September 30 2009 | Additions And Transfers | Deletions And Transfers | Balance September 30 2010 |
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 83,086 | - | - | 83,086 |
| Construction in progress | - | 150,000 | - | 150,000 |
| Total Capital Assets Not Being Depreciated | 83,086 | 150,000 | - | 233,086 |
| Capital assets being depreciated: | | | | |
| Building | 205,417 | - | - | 205,417 |
| Building improvements | 213,182 | - | - | 213,182 |
| Furniture and equipment | 81,266 | 2,830 | 2,769 | 81,327 |
| Total Capital Assets Being Depreciated | 499,865 | 2,830 | 2,769 | 499,926 |
| Less - Accumulated depreciation for: | | | | |
| Building | 41,938 | 5,136 | - | 47,074 |
| Building improvements | 83,678 | 10,837 | - | 94,515 |
| Furniture and equipment | 80,665 | 540 | 2,769 | 78,436 |
| Total Accumulated Depreciation | 206,281 | 16,513 | 2,769 | 220,025 |
| Total Capital Assets Being Depreciated, Net | 293,584 | (13,683) | - | 279,901 |
| Governmental Activities Capital Assets, Net | \$ 376,670 | 136,317 | - | 512,987 |

Depreciation expense for the years ended September 30, 2010 and 2009 was \$16,513 and \$20,350, respectively.

NOTE C - CASH AND CASH EQUIVALENTS

The System's bank deposits 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. The System's bank deposits as of September 30, 2010 were \$3,811,122 and 2009 balances

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH AND CASH EQUIVALENTS (Continued)

were \$14,158,401. Both years' balances were insured by the FDIC or collateralized with securities held by the pledging financial institution's trust department in the System's name. The System's carrying amount of bank deposits was \$3,727,202 and \$14,152,045 as of September 30, 2010 and 2009, respectively.

NOTE D - CONTRIBUTION RECEIVABLE - EMPLOYER

Employer contributions are calculated by the System's actuary (Gabriel Roeder Smith & Company). The employer contribution due to the System for the year ended September 30, 2010 was \$17,854,546 and \$16,069,091 was paid prior to year-end; the employer contribution due to the System from the City for the year ended September 30, 2009 was \$12,193,989 and was paid prior to year-end.

Contribution receivable - employer consists of the following:

| | September 30 | |
|---|----------------------------|----------------------------|
| | 2010 | 2009 |
| Current year contribution due from the City as calculated by the System's actuary | \$17,854,546 | 12,193,989 |
| Received from the City during current year | <u>(16,069,091)</u> | <u>(12,193,989)</u> |
| Total Contribution Receivable | <u>\$ 1,785,455</u> | <u> -</u> |

NOTE E - INVESTMENTS

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

| | September 30 | |
|---|--------------------------|---------------------------|
| | 2010 | 2009 |
| Aberdeen Asset Management, Inc.: | | |
| Collective investment fund - fixed income | \$ 71,516,380 | 102,410,954 |
| Money market fund | <u>4,000,017</u> | <u> -</u> |
| | <u>75,516,397</u> | <u>102,410,954</u> |
| New York Life Investment Management: | | |
| Corporate stocks | 64,566,678 | 54,208,223 |
| Money market fund | <u>25,518</u> | <u>98,137</u> |
| | <u>64,592,196</u> | <u>54,306,360</u> |
| Fisher Investments, Inc.: | | |
| Corporate stocks | 53,236,168 | 49,645,062 |
| Money market fund | <u>540,149</u> | <u>195,689</u> |
| | <u>53,776,317</u> | <u>49,840,751</u> |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE E - INVESTMENTS (Continued)

| | <u>September 30</u> | |
|---|----------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| Artisan Partners LP: | | |
| Collective investment fund - equity (International) | 37,719,002 | 36,430,835 |
| Money market fund | <u>329</u> | <u>329</u> |
| | <u>37,719,331</u> | <u>36,431,164</u> |
| Principal Real Estate: | | |
| Real estate investment trust | <u>32,371,035</u> | <u>30,617,564</u> |
| Pinnacle Associates, LTD: | | |
| Corporate stocks | 26,821,635 | 18,168,558 |
| Money market fund | <u>586,481</u> | <u>720,200</u> |
| | <u>27,408,116</u> | <u>18,888,758</u> |
| Integrity Asset Management, LLC: | | |
| Corporate stocks | 24,011,312 | - |
| Money market fund | <u>700,749</u> | <u>-</u> |
| | <u>24,712,061</u> | <u>-</u> |
| The Northern Trust Company: | | |
| Money market fund | 13,259,395 | 6,882,272 |
| Collective investment fund - fixed income | 7,058,034 | - |
| Corporate stocks | 34,032 | 44,010 |
| Corporate bonds | <u>13,350</u> | <u>103,919</u> |
| | <u>20,364,811</u> | <u>7,030,201</u> |
| Castleark Management, LLC: | | |
| Corporate stocks | 19,903,442 | 18,372,029 |
| Money market fund | <u>458,687</u> | <u>631,323</u> |
| | <u>20,362,129</u> | <u>19,003,352</u> |
| Pzena Investment Management: | | |
| Corporate stocks | 18,879,553 | 14,697,372 |
| Money market fund | <u>628,149</u> | <u>334,629</u> |
| | <u>19,507,702</u> | <u>15,032,001</u> |
| Entrust Partners Offshore, LLC | | |
| Hedge fund (multi-strategy) | <u>8,033,040</u> | <u>-</u> |
| UBP Asset Management, LLC: | | |
| Hedge fund (multi-strategy) | 5,855,573 | 8,631,221 |
| Money market fund | <u>1,760,096</u> | <u>3,246,970</u> |
| | <u>7,615,669</u> | <u>11,878,191</u> |
| Oppenheimer Capital: | | |
| Money market fund | <u>29,054</u> | <u>15,358</u> |
| Brandywine Asset Management: | | |
| Money market fund | 1,129 | 569,873 |
| Corporate stocks | <u>-</u> | <u>21,629,848</u> |
| | <u>1,129</u> | <u>22,199,721</u> |
| Total | <u>\$392,008,987</u> | <u>367,654,375</u> |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE E - INVESTMENTS (Continued)

The System's investments are continuously exposed to various types of inherent risks. These risks are mitigated by the System's development and continual monitoring of sound investment policies. The Investment Maturities, Credit Rating by Investment, and Foreign Currency Exposures by Asset Class schedules are presented as follows to provide an illustration of the System's current level of exposure to various risks.

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

| Maturities As Of September 30, 2010 | | | | | | |
|-------------------------------------|-------------------------|--------------------|-----------------------|-------------------|-------------------|--------------------------|
| | Fair Market Value | No Maturity | Less Than One Year | 1 - 5 Years | 6 - 10 Years | More Than 10 Years |
| Equities: | | | | | | |
| Corporate stocks | \$ 207,452,820 | 207,452,820 | - | - | - | - |
| Collective investment funds | 37,719,002 | 37,719,002 | - | - | - | - |
| Fixed income: | | | | | | |
| Collective investment funds | 78,574,414 | - | - | 39,820,320 | 28,698,891 | 10,055,203 |
| Corporate bonds | 13,350 | - | - | - | - | 13,350 |
| Real estate investment trust | 32,371,035 | 32,371,035 | - | - | - | - |
| Money market funds | 21,989,753 | 21,989,753 | - | - | - | - |
| Hedge funds | 13,888,613 | 13,888,613 | - | - | - | - |
| Total | <u>\$ 392,008,987</u> | <u>313,421,223</u> | <u>-</u> | <u>39,820,320</u> | <u>28,698,891</u> | <u>10,068,553</u> |
| Maturities As Of September 30, 2009 | | | | | | |
| | Fair Market Value | No Maturity | Less Than One Year | 1 - 5 Years | 6 - 10 Years | More Than 10 Years |
| Equities: | | | | | | |
| Corporate stocks | \$ 176,765,102 | 176,765,102 | - | - | - | - |
| Collective investment funds | 36,430,835 | 36,430,835 | - | - | - | - |
| Fixed income: | | | | | | |
| Collective investment funds | 102,410,954 | - | - | 36,683,604 | 51,461,504 | 14,265,846 |
| Corporate bonds | 103,919 | - | - | - | - | 103,919 |
| Real estate investment trust | 30,617,564 | 30,617,564 | - | - | - | - |
| Money market funds | 12,694,780 | 12,694,780 | - | - | - | - |
| Hedge fund | 8,631,221 | 8,631,221 | - | - | - | - |
| Total | <u>\$ 367,654,375</u> | <u>265,139,502</u> | <u>-</u> | <u>36,683,604</u> | <u>51,461,504</u> | <u>14,369,765</u> |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE E - INVESTMENTS (Continued)

Certain collective investment funds are classified by average maturities and credit rating levels of the portfolios.

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

| Credit Rating By Investment Category As Of September 30, 2010 | | | | | | |
|---|-----------------------|-----------------------------|-----------------|--------------------|-------------------|------------------------------|
| Credit Rating Level | Corporate Stocks | Collective Investment Funds | Corporate Bonds | Money Market Funds | Hedge Funds | Real Estate Investment Trust |
| AAA | \$ - | 45,884,277 | 13,350 | - | - | - |
| AA | - | 5,399,487 | - | - | - | - |
| A | - | 9,061,125 | - | - | - | - |
| BBB | - | 13,688,235 | - | - | - | - |
| N/A | 207,452,820 | - | - | - | - | - |
| Not rated | - | 42,260,292 | - | 21,989,753 | 13,888,613 | 32,371,035 |
| Total | <u>\$ 207,452,820</u> | <u>116,293,416</u> | <u>13,350</u> | <u>21,989,753</u> | <u>13,888,613</u> | <u>32,371,035</u> |

| Credit Rating By Investment Category As Of September 30, 2009 | | | | | | |
|---|-----------------------|-----------------------------|-----------------|--------------------|------------------|------------------------------|
| Credit Rating Level | Corporate Stocks | Collective Investment Funds | Corporate Bonds | Money Market Funds | Hedge Fund | Real Estate Investment Trust |
| AAA | \$ - | 57,841,707 | 103,919 | - | - | - |
| AA | - | 6,052,487 | - | - | - | - |
| A | - | 16,365,270 | - | - | - | - |
| BBB | - | 15,402,608 | - | - | - | - |
| N/A | 176,765,102 | - | - | - | - | - |
| Not rated | - | 43,179,717 | - | 12,694,780 | 8,631,221 | 30,617,564 |
| Total | <u>\$ 176,765,102</u> | <u>138,841,789</u> | <u>103,919</u> | <u>12,694,780</u> | <u>8,631,221</u> | <u>30,617,564</u> |

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:

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

NOTE E - INVESTMENTS (Continued)

Foreign Currency Exposures By Asset Class In U.S. Dollars As Of September 30, 2010

| Currency | Money Market Funds | Equities | Fixed Income | Hedge Funds | Real Estate Investment Trust | Total |
|---------------------------|--------------------------|--------------------|-------------------|-------------------|------------------------------------|--------------------|
| Australian Dollar | \$ - | 1,894,783 | - | - | - | 1,894,783 |
| Brazilian Real | - | 240,231 | - | - | - | 240,231 |
| British Pound Sterling | - | 5,064,798 | - | - | - | 5,064,798 |
| Canadian Dollar | 1,142 | 1,466,064 | - | - | - | 1,467,206 |
| Danish Krone | - | 313,225 | - | - | - | 313,225 |
| Euro | - | 19,821,941 | - | - | - | 19,821,941 |
| Hong Kong Dollar | - | 1,088,921 | - | - | - | 1,088,921 |
| Indonesian Rupiah | - | 525,344 | - | - | - | 525,344 |
| Japanese Yen | - | 8,417,759 | - | - | - | 8,417,759 |
| Malaysian Ringgit | - | 195,847 | - | - | - | 195,847 |
| Mexican Peso | - | 500,281 | - | - | - | 500,281 |
| Norwegian Krone | - | 347,995 | - | - | - | 347,995 |
| Singapore Dollar | - | 924,915 | - | - | - | 924,915 |
| South Korean Won | - | 1,422,053 | - | - | - | 1,422,053 |
| Swedish Krona | - | 1,766,201 | - | - | - | 1,766,201 |
| Swiss Franc | - | 4,694,282 | - | - | - | 4,694,282 |
| Total Foreign Currency | 1,142 | 48,684,640 | - | - | - | 48,685,782 |
| United States Dollar | 21,988,611 | 196,487,182 | 78,587,764 | 13,888,613 | 32,371,035 | 343,323,205 |
| Total | <u>\$ 21,989,753</u> | <u>245,171,822</u> | <u>78,587,764</u> | <u>13,888,613</u> | <u>32,371,035</u> | <u>392,008,987</u> |

Foreign Currency Exposures By Asset Class In U.S. Dollars As Of September 30, 2009

| Currency | Money Market Funds | Equities | Fixed Income | Hedge Fund | Real Estate Investment Trust | Total |
|---------------------------|--------------------------|--------------------|--------------------|------------------|------------------------------------|--------------------|
| Australian Dollar | \$ - | 2,079,933 | - | - | - | 2,079,933 |
| Brazilian Real | - | 208,442 | - | - | - | 208,442 |
| British Pound Sterling | - | 3,610,818 | - | - | - | 3,610,818 |
| Canadian Dollar | 2,284 | 1,340,332 | - | - | - | 1,342,616 |
| Danish Krone | - | 599,300 | - | - | - | 599,300 |
| Euro | - | 18,850,969 | - | - | - | 18,850,969 |
| Hong Kong Dollar | - | 1,082,703 | - | - | - | 1,082,703 |
| Indonesian Rupiah | - | 588,907 | - | - | - | 588,907 |
| Japanese Yen | - | 8,901,628 | - | - | - | 8,901,628 |
| Malaysian Ringgit | - | 118,665 | - | - | - | 118,665 |
| Mexican Peso | - | 327,530 | - | - | - | 327,530 |
| Norwegian Krone | - | 371,837 | - | - | - | 371,837 |
| Singapore Dollar | - | 718,080 | - | - | - | 718,080 |
| South Korean Won | - | 254,666 | - | - | - | 254,666 |
| Swedish Krona | - | 1,198,624 | - | - | - | 1,198,624 |
| Swiss Franc | - | 4,077,875 | - | - | - | 4,077,875 |
| Total Foreign Currency | 2,284 | 44,330,309 | - | - | - | 44,332,593 |
| United States Dollar | 12,692,496 | 168,865,628 | 102,514,873 | 8,631,221 | 30,617,564 | 323,321,782 |
| Total | <u>\$ 12,694,780</u> | <u>213,195,937</u> | <u>102,514,873</u> | <u>8,631,221</u> | <u>30,617,564</u> | <u>367,654,375</u> |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

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 System's minimum credit quality for each issue shall be "BBB" (or its equivalent) at the time of purchase. In the event of a split-rating, the higher rating shall apply.

The fixed income portfolio should have an average quality rating of at least "A" (or its equivalent). Commercial paper issues must be rated at least "A1" (or its equivalent) at the time of purchase. In the event of a split-rating, the higher rating shall apply. In the event of a downgrade below investment grade by any rating agency, the Investment Manager is required to notify the Board and Investment Consultant as soon as possible and to refrain from any further investment in the downgraded issue.

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 effective duration of any fixed income portfolio shall not exceed 120% of the effective duration of the Investment Manager's broad market benchmark.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's policy does not allow the concentration per issuer to exceed 5% of the portfolio's market value at cost, with the exception of cash, cash equivalents, U.S. Treasury, or U.S. Agency securities. Furthermore, the Investment Manager may not hold more than 5% of the outstanding shares of any single issuer with the exception of U.S. Treasuries or Agencies. Investment in any single fund of hedge funds shall not exceed 10% of the fund's market value.

It is the System's policy to invest in each asset class ranging between a minimum and maximum as shown below:

| Asset Class As A Percent Of Total Assets | | | |
|---|----------------|-------------------|----------------|
| <u>Asset Class</u> | <u>Minimum</u> | <u>Target Mix</u> | <u>Maximum</u> |
| Domestic Equity: | | | |
| Large Cap | 24% | 29 | 34 |
| Small-Mid Cap | 10 | 15 | 20 |
| Fixed Income | 25 | 20 | 35 |
| International Equities | 16 | 21 | 26 |
| Real Estate Trust | - | 10 | 15 |
| Hedge Funds | - | 5 | 10 |

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:

- EnTrust Capital Diversified Fund QP, Ltd. (Hedge Fund)
- Select Investment Institutional Multi-Strategy Ltd. Series R 0409 Fund (Hedge Fund)
- The Principal U.S. Property Account (REIT)

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

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

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

| | September 30 | |
|---|---------------------|-------------|
| | 2010 | 2009 |
| Aberdeen Core Plus Fixed Income Portfolio | \$71,516,380 | 102,410,954 |
| Artisan International Stock Fund | 37,719,002 | 36,430,835 |
| The Principal U.S. Property Account | 32,371,035 | 30,617,564 |

NOTE G - NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

The net appreciation (depreciation) in fair value of investments consists of:

| | For The Years Ended September 30 | |
|------------------------------|---|---------------------|
| | 2010 | 2009 |
| Equities: | | |
| Corporate stocks | \$ 16,696,350 | (9,271,727) |
| Collective investment funds | 780,039 | 1,378,873 |
| Fixed income: | | |
| Collective investment funds | 11,165,032 | 4,219,408 |
| Corporate bonds | (4,621) | 4,363 |
| Real estate investment trust | 1,753,471 | (17,209,904) |
| Hedge funds | 386,093 | (858,965) |
| | \$ 30,776,364 | (21,737,952) |

NOTE H - GASB STATEMENT NO. 25 ANNUAL REQUIRED CONTRIBUTION

The actuarial funding method used is the entry age frozen liability method. Under this method, the initial unfunded accrued liability is amortized over 30 years from August 31, 1977 with increases in the unfunded accrued liability subsequent to that date amortized over 30 years from the date the liability is added.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE H - GASB STATEMENT NO. 25 ANNUAL REQUIRED CONTRIBUTION (Continued)

Actuarially determined contributions in accordance with GASB Statement No. 25 requirements are as shown in the following table:

| | For The Years | | Covered Payroll | |
|---|---------------------------|-------------------|------------------------|-------------|
| | Ended September 30 | | Percentage | |
| | 2010 | 2009 | 2010 | 2009 |
| Required contributions - employer: | | | | |
| Portion of normal cost attributable to the System's fiscal year | \$ 10,480,098 | 5,532,860 | 25.7 % | 13.2 |
| Unfunded actuarial accrued liability amortization payment | <u>3,129,030</u> | <u>3,129,030</u> | <u>7.7</u> | <u>7.4</u> |
| Total Employer Required Contribution | <u>\$ 13,609,128</u> | <u>8,661,890</u> | <u>33.4 %</u> | <u>20.6</u> |
| Contribution made by employer during System's fiscal year | <u>\$ 17,854,546</u> | <u>12,193,989</u> | <u>43.8 %</u> | <u>29.0</u> |

The City made an extraordinary contribution in the amount of \$27,943,654 in May 1998 of the scheduled unfunded accrued liability amortization payments through August 31, 2010. Therefore, the above required contributions for unfunded actuarial accrued liability amortization payments for the years ended September 30, 2010 and 2009 do not include amortization payments of the remaining unfunded accrued liability prior to 1998. Starting with the year ending September 30, 2011, the remaining balance of the unfunded actuarial accrued liability prior to 1998 will be amortized over the remainder of the 30-year amortization period from the year the liability was added.

NOTE I - FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of October 1, 2010, the most recent actuarial valuation date, and October 1, 2009 is as follows (dollar amounts in thousands):

| Valuation For The Actuarial Years Beginning October 1 | Actuarial Value Of Assets | Entry Age Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL As A Percentage Of Covered Payroll |
|--|----------------------------------|--|----------------------------|---------------------|-------------------------------|--|
| 2010 | \$407,028 | \$439,352 | \$32,324 | 92.6% | \$40,789 | 79.2% |
| 2009 | 449,655 | 487,312 | 37,657 | 92.3 | 42,052 | 89.5 |

The schedules of funding progress, presented as required supplemental information following the notes to 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.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE I - FUNDED STATUS AND FUNDING PROGRESS (Continued)

The information presented in the schedule of funding progress and the schedule of employer contributions was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|--|
| Valuation date | October 1, 2010 |
| Actuarial cost method | Entry-age - Frozen Initial Liability |
| Amortization method | 30-year closed period from establishment |
| Remaining amortization period | Various |
| Asset valuation method | 3-year smoothed market |

Actuarial assumptions:

| | |
|----------------------------|--------|
| Investment rate of return | 7.625% |
| Projected salary increases | 4.0% |
| Inflation | 3.5% |

Cost-of-living adjustments:

| Under Age 60 | |
|--|-------------|
| Service Years | COLA |
| 20 - 24 | 1.5% |
| 25 - 29 | 2.25% |
| 30 or more | 3.0% |
| Over Age 60 | |
| 3% with a maximum of 25% in increases after age 60 | |

NOTE J - SECURITIES LENDING

The System participated in Northern Trust Company's securities lending program in order to enhance the investment yield. In a securities lending transaction, the System transfers possession--but not title--of the security to the borrower. Borrowers shall be rated AA, A, or higher by Moodys or Standard and Poors. Collateral consisting of cash, letter of credit, U.S. government or agency securities, or floating rate notes of U.S. issuers is received and held by Northern Trust Company. The collateral maintained is at least 102% of loan value for domestic securities and 105% of loan value for international securities of the market value of the securities lent. 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 60% of the net lending fees generated by each loan of securities.

Northern Trust Company receives the remaining 40% of the net lending fees as compensation for its services provided in the securities lending program. The Northern Trust Company indemnifies operational risk and counter party risk. The System authorizes the lending and loans of the following: domestic securities, U.S. Treasuries, corporate bonds, and equities. The System does not have the ability to pledge or sell collateral securities without borrower default. Therefore, for accounting purposes, the statements of net assets and changes in net assets do not reflect an increase in assets or liabilities associated with securities lent. At September 30, 2009, the System has recorded a liability of \$573,652, due to collateral deficiency resulting from a borrower's bankruptcy. During fiscal year 2010, the Northern Trust Company recognized the entire collateral deficiency as a realized loss.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE J - SECURITIES LENDING (Continued)

At September 30, 2010 and 2009, outstanding loans to borrowers were \$45,764,646 and \$8,673,088, respectively. The System earned income of \$112,579 and \$305,670 for its participation in the securities lending program for the years ended September 30, 2010 and 2009, respectively.

NOTE K - RELATED PARTY TRANSACTIONS

The System reimburses the City 100% of the total salaries, payroll taxes, and employee fringe benefits for System employees. The System's expense for the years ended September 30, 2010 and 2009 was \$593,040 and \$416,020, respectively.

NOTE L - RISK MANAGEMENT

The System is exposed to various risks of loss related to natural disasters, errors and omissions, and 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 fiscal years.

NOTE M - COMMITMENTS AND CONTINGENCIES

Unsettled Investment Transactions

The System was committed to the future settlement of investments purchased (accounted for by trade date) at September 30, 2010 and 2009 of \$856,865 and \$1,515,632, respectively. These amounts are reflected in the statements of plan net assets as a liability for unsettled investment transactions.

Construction in Progress

The System entered into an agreement to purchase a new computer software system. The software will be developed and implemented over several years. The System has paid \$150,000 through September 30, 2010, with \$275,946 remaining on the contract.

Lawsuit

The City, as employer, enacted City ordinances on September 20, 2010 eliminating the future accrual of unused sick leave by St. Louis Firefighters.

The System filed a petition for declaratory judgment, temporary restraining order, and preliminary and permanent injunction in the Circuit Court of the City of St. Louis, Missouri on October 27, 2010 relating to St. Louis Firefighters', as members of the System, contractual rights to continue accumulating sick leave as set out in RSMo Sections 87.120 to 87.130 for determining retirement benefits upon a firefighter reaching retirement status. The System also challenges the validity of the recent City ordinances

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE M - COMMITMENTS AND CONTINGENCIES (Continued)

which eliminated accrual of unused sick leave as being improperly enacted, and therefore void, since they do not conform with the State enabling statutes.

The City filed a counterclaim on November 16, 2010 which asserts that increased benefits resulting from accrued sick leave should have been funded from the Future Benefit Fund which was established in 1990 by City ordinance as a method to fund increased benefits for retired members. The Future Benefit Fund is the current source of funding to certain retirees in the form of an Ad Hoc COLA in certain years. Based on the City's assertion, the Future Benefits Fund would have been depleted and sick leave benefits would be capped or eliminated. Other issues may also be addressed by the court in this lawsuit.

Since the suit and counterclaims were so recently filed, the outcome of the litigation is uncertain at this time. The System's Management and Board of Trustees believe there is a good chance of prevailing and are aggressively litigating the lawsuit.

NOTE N - RISKS AND UNCERTAINTIES

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

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.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS

NOTE O - SYSTEM RESERVES

Changes in the System's reserves for the years ended September 30, 2010 and 2009 are as follows:

| | <u>Total</u> | <u>Member's Savings Fund</u> | <u>Benefit Reserve Fund</u> | <u>General Reserve Fund</u> | <u>Future Benefit Fund</u> | <u>System Employees Benefit Fund</u> |
|---|-----------------------|--------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|--|
| Balance, September 30, 2008 | \$ 421,475,703 | 62,476,638 | 287,631,676 | 66,091,258 | 4,871,856 | 404,275 |
| Contributions | 15,111,832 | 2,917,843 | - | 12,193,989 | - | - |
| Net investment income (loss) less administrative expenses | (19,842,585) | (3,055,262) | (13,050,270) | (3,517,521) | (235,035) | 15,503 |
| Transfer due to (surplus) deficit | - | 6,061,879 | 52,359,204 | (58,421,083) | - | - |
| Benefits paid to retirees and beneficiaries | (34,230,413) | - | (34,230,413) | - | - | - |
| Refunds of Members contributions | (1,206,585) | (1,206,585) | - | - | - | - |
| Net increase (decrease) | (40,167,751) | 4,717,875 | 5,078,521 | (49,744,615) | (235,035) | 15,503 |
| Balance, September 30, 2009 | 381,307,952 | 67,194,513 | 292,710,197 | 16,346,643 | 4,636,821 | 419,778 |
| Contributions | 20,796,919 | 2,942,373 | - | 17,854,546 | - | - |
| Net investment income (loss) less administrative expenses | 32,123,948 | 5,848,390 | 23,737,991 | 2,077,163 | 399,686 | 60,718 |
| Transfer due to (surplus) deficit | - | (3,207,041) | 12,749,543 | (9,542,502) | - | - |
| Adjustment for benefits paid to System employees | - | - | - | 181,775 | - | (181,775) |
| Benefits paid to retirees and beneficiaries | (34,661,065) | - | (34,661,065) | - | - | - |
| Refunds of Members contributions | (1,639,211) | (1,639,211) | - | - | - | - |
| Net increase (decrease) | 16,620,591 | 3,944,511 | 1,826,469 | 10,570,982 | 399,686 | (121,057) |
| Balance, September 30, 2010 | \$ 397,928,543 | 71,139,024 | 294,536,666 | 26,917,625 | 5,036,507 | 298,721 |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
REQUIRED SUPPLEMENTAL INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION SECTION

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
REQUIRED SUPPLEMENTAL INFORMATION

Ten-year historical trend information about the System is presented herewith as required supplemental information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other plans.

SCHEDULE OF FUNDING PROGRESS

| <u>For The Actuarial Valuation</u> | <u>Actuarial Value Of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL As A Percentage Of Covered Payroll ((b-a)/c)</u> |
|--|--|--|--|-----------------------------------|--------------------------------|--|
| October 1, 2010 | \$ 407,027,843 | \$ 439,351,827 | \$ 32,323,984 | 92.6 % | \$ 40,788,947 | 79.2 % |
| October 1, 2009 | 449,655,366 | 487,312,779 | 37,657,413 | 92.3 | 42,052,210 | 89.5 |
| October 1, 2008 | 485,138,953 | 523,035,764 | 37,896,811 | 92.8 | 41,648,953 | 91.0 |
| October 1, 2007 | 495,116,340 | 533,235,588 | 38,119,248 | 92.9 | 37,690,439 | 101.1 |
| October 1, 2006 | 410,775,345 | 440,486,134 | 29,710,789 | 93.3 | 35,726,289 | 83.2 |
| October 1, 2005 | 391,181,701 | 429,764,156 | 38,582,455 | 91.0 | 35,433,943 | 108.9 |
| October 1, 2004 | 369,893,135 | 408,660,044 | 38,766,909 | 90.5 | 33,847,826 | 114.5 |
| September 1, 2003 | 391,020,699 | 429,972,716 | 38,952,017 | 90.9 | 34,648,486 | 112.4 |
| September 1, 2002 | 427,199,947 | 466,310,235 | 39,110,288 | 91.6 | 34,520,010 | 113.3 |
| September 1, 2001 | 456,143,883 | 470,607,738 | 14,463,855 | 96.9 | 32,626,002 | 44.3 |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <u>For The Years Ended</u> | <u>GASB Statement No. 25 Annual Required Contribution</u> | | | <u>Statutory Annual Required Contribution</u> | | |
|--------------------------------|---|-----------------------------------|--|---|-----------------------------------|--|
| | <u>Per Actuarial Valuation</u> | <u>Percentage Contributed</u> | <u>Percentage Of Covered Payroll</u> | <u>Per Actuarial Valuation</u> | <u>Percentage Contributed</u> | <u>Percentage Of Covered Payroll</u> |
| September 30, 2010 | \$ 13,609,128 | 131.2 % | 33.4 % | \$ 17,854,546 | 100.0 % | 43.8 % |
| September 30, 2009 | 8,661,890 | 140.8 | 20.6 | 12,193,989 | 100.0 | 29.0 |
| September 30, 2008 | 12,585,106 | 59.5 | 30.2 | 7,484,524 | 100.0 | 18.0 |
| September 30, 2007 | 17,206,230 | 394.0 | 45.7 | 14,285,300 | 474.6 | 37.9 |
| September 30, 2006 | 17,871,455 | 23.0 | 50.0 | 18,179,873 | 22.6 | 50.9 |
| September 30, 2005 | 14,766,270 | 27.8 | 41.7 | 17,768,649 | 23.1 | 50.1 |
| September 30, 2004 | 9,721,831 | 21.1 | 28.7 | 13,765,477 | 14.9 | 40.7 |
| August 31, 2003 | 4,289,688 | 48.4 | 12.4 | 8,913,102 | 23.3 | 25.7 |
| August 31, 2002 | 3,514,488 | 95.7 | 10.2 | 3,365,007 | 100.0 | 9.7 |
| August 31, 2001 | 3,300,380 | 107.4 | 10.1 | 3,544,385 | 100.0 | 10.9 |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
REQUIRED SUPPLEMENTAL INFORMATION

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

Actuarial Accrued Liability

The actuarial accrued liability at September 30, 2010 and 2009 equals the outstanding balance of the initial unfunded actuarial liability under the entry age frozen initial liability cost method, plus the actuarial value of assets as follows:

| | October 1 | |
|--------------------------------------|-----------------------------|--------------------|
| | 2010 | 2009 |
| Actuarial value of assets | \$407,027,843 | 449,655,366 |
| Initial unfunded actuarial liability | <u>32,323,984</u> | <u>37,657,413</u> |
| Actuarial Accrued Liability | <u>\$439,351,827</u> | <u>487,312,779</u> |

Covered Payroll

The covered payroll for the System's years ended September 30, 2010 and 2009 were as follows:

| | For The Years Ended September 30 | |
|--------------------------------------|---|-------------------|
| | 2010 | 2009 |
| Active Members non-DROP | \$36,817,961 | 37,618,833 |
| Active Members participating in DROP | <u>3,970,986</u> | <u>4,433,377</u> |
| Total Covered Payroll | <u>\$40,788,947</u> | <u>42,052,210</u> |

Annual Required Contribution (ARC)

The ARC applicable to the System's year ended September 30, 2010 and each prior year-end is presented in accordance with GASB Statement No. 25's requires blending of the actuarial valuations. The ARC is presented each year using the aggregate of the City's ARCs for the portions of the City's fiscal years that overlap the System's fiscal year.

SUPPLEMENTAL INFORMATION SECTION

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
SUPPLEMENTAL INFORMATION

For The Years
 Ended September 30

2010 2009

BENEFITS PAID TO RETIREES AND BENEFICIARIES

Monthly annuity:

| | | |
|---------------------------------|---------------|------------|
| Accidental disability | \$ 13,104,610 | 12,928,795 |
| Service retirees | 12,288,317 | 12,473,263 |
| Beneficiaries | 3,196,489 | 3,122,816 |
| Ordinary disability | 355,068 | 384,309 |
| Death | 58,000 | 60,000 |
| Medical, surgical, and hospital | 18,869 | 18,259 |
| Total Monthly Annuity | 29,021,353 | 28,987,442 |

Lump sum:

| | | |
|------|-----------|-----------|
| DROP | 5,639,712 | 5,242,971 |
|------|-----------|-----------|

Total Benefits Paid To Retirees And
 Beneficiaries

\$ 34,661,065 34,230,413

ADMINISTRATIVE EXPENSES

| | | |
|---|------------|---------|
| Salaries, payroll taxes, and employee fringe benefits | \$ 593,040 | 416,020 |
| Investment consultant's fees | 145,776 | 144,332 |
| Legal fees | 108,692 | 54,570 |
| Office supplies and expenses | 77,204 | 87,296 |
| Medical reviews, consulting, and investigations | 66,456 | 84,669 |
| Actuary fees | 52,898 | 66,821 |
| Accounting and auditing fees | 41,360 | 40,360 |
| Insurance | 34,660 | 28,788 |
| Travel and seminars | 23,305 | 12,017 |
| Depreciation | 16,513 | 20,350 |
| Building operations | 14,327 | 22,490 |

Total Administrative Expenses

\$ 1,174,231 977,713

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
SUPPLEMENTAL INFORMATION

SCHEDULE OF INVESTMENT MANAGEMENT AND CUSTODIAL FEES

| | For The Years | |
|---|---------------------------|------------------|
| | Ended September 30 | |
| | 2010 | 2009 |
| Investment management fees: | | |
| Fisher Investments, Inc. | \$ 354,017 | 283,273 |
| Aberdeen Capital | 259,359 | 268,874 |
| Pinnacle Associates, Ltd. | 222,448 | 126,884 |
| New York Life Investment Management | 205,301 | 151,870 |
| Integrity Asset Management, LLC | 118,102 | - |
| Castleark Management, LLC | 74,873 | 38,042 |
| Pzena Investment Management | 74,180 | 40,656 |
| Brandywine Asset Management | 57,409 | 98,869 |
| Total Investment Management Fees | 1,365,689 | 1,008,468 |
| Custodial fees: | | |
| The Northern Trust Company | 196,403 | 170,003 |
| Total Investment Management And Custodial Fees | \$ 1,562,092 | 1,178,471 |

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:

- Artisan Partners, L.P. (International Equity)
- The Principal U.S. Property Account (REIT)
- UBS Asset Management, L.L.C. (Hedge Fund)
- EnTrust Partners Offshore, LLC (Hedge Fund)

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
SUPPLEMENTAL INFORMATION

SUMMARY OF INSURANCE COVERAGE

| <u>Type</u> | <u>Coverage</u> |
|--|---------------------------|
| Fiduciary Liability | \$ 5,000,000 |
| Property: | |
| Building | \$ 398,858 |
| Contents | \$ 418,808 |
| General Liability: | |
| Per occurrence | \$ 1,000,000 |
| Aggregate | \$ 3,000,000 |
| Workers' Compensation and Employers Liability | Statutory \$ 1,000,000 |
| Umbrella Liability: | |
| Per occurrence | \$ 1,000,000 |
| Aggregate | \$ 1,000,000 |
| Non-owned Automobile | \$ 1,000,000 |

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
SUPPLEMENTAL INFORMATION

HISTORICAL TREND INFORMATION

Additions to net assets:

| For The Years Ended | Contributions | | Net Investment Income | Total |
|--------------------------------|----------------------|------------------|--------------------------------------|-------------------|
| | Employer | Members | (Loss) | |
| September 30, 2010 | \$ 17,854,546 | 2,942,373 | 33,298,179 | 54,095,098 |
| September 30, 2009 | 12,193,989 | 2,917,843 | (18,864,872) | (3,753,040) |
| September 30, 2008 | 7,484,524 | 2,845,174 | (81,989,764) | (71,660,066) |
| September 30, 2007 (A) | 63,689,991 | 2,796,286 | 65,629,492 | 132,115,769 |
| September 30, 2006 | 4,110,402 | 2,853,058 | 34,103,149 | 41,066,609 |
| September 30, 2005 | 4,110,402 | 2,644,335 | 47,975,057 | 54,729,794 |
| September 30, 2004 (B) | 2,055,201 | 2,873,886 | 47,359,907 | 52,288,994 |
| August 31, 2003 | 2,078,155 | 2,625,526 | 36,632,933 | 41,336,614 |
| August 31, 2002 | 3,365,007 | 2,511,580 | (46,833,960) | (40,957,373) |
| August 31, 2001 | 3,544,385 | 2,344,970 | (29,027,981) | (23,138,626) |

Deductions from net assets:

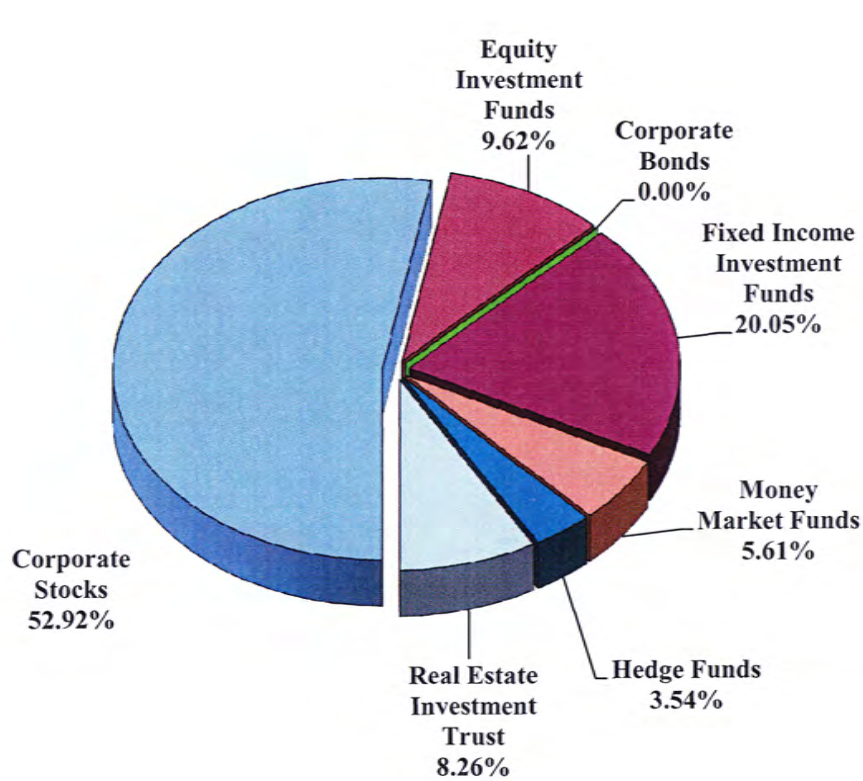
| For The Years Ended | Benefits Paid | Refunds Of Members Contributions | Admini- strative Expenses | Total |
|--------------------------------|--------------------------|---|--|-------------------|
| September 30, 2010 | \$ 34,661,065 | 1,639,211 | 1,174,231 | 37,474,507 |
| September 30, 2009 | 34,230,413 | 1,206,585 | 977,713 | 36,414,711 |
| September 30, 2008 | 29,908,146 | 1,152,581 | 916,706 | 31,977,433 |
| September 30, 2007 | 29,742,364 | 1,390,936 | 903,835 | 32,037,135 |
| September 30, 2006 | 28,615,532 | 1,685,199 | 894,487 | 31,195,218 |
| September 30, 2005 | 27,624,677 | 1,380,787 | 766,082 | 29,771,546 |
| September 30, 2004 (B) | 29,288,492 | 945,481 | 826,258 | 31,060,231 |
| August 31, 2003 | 26,722,702 | 688,451 | 829,334 | 28,240,487 |
| August 31, 2002 | 27,063,392 | 508,336 | 721,915 | 28,293,643 |
| August 31, 2001 | 26,538,890 | 1,390,435 | 844,263 | 28,773,588 |

(A) The City's contribution for the year ended September 30, 2007 includes delinquent contributions for the previous four fiscal years and related interest charges totaling \$49,404,691.

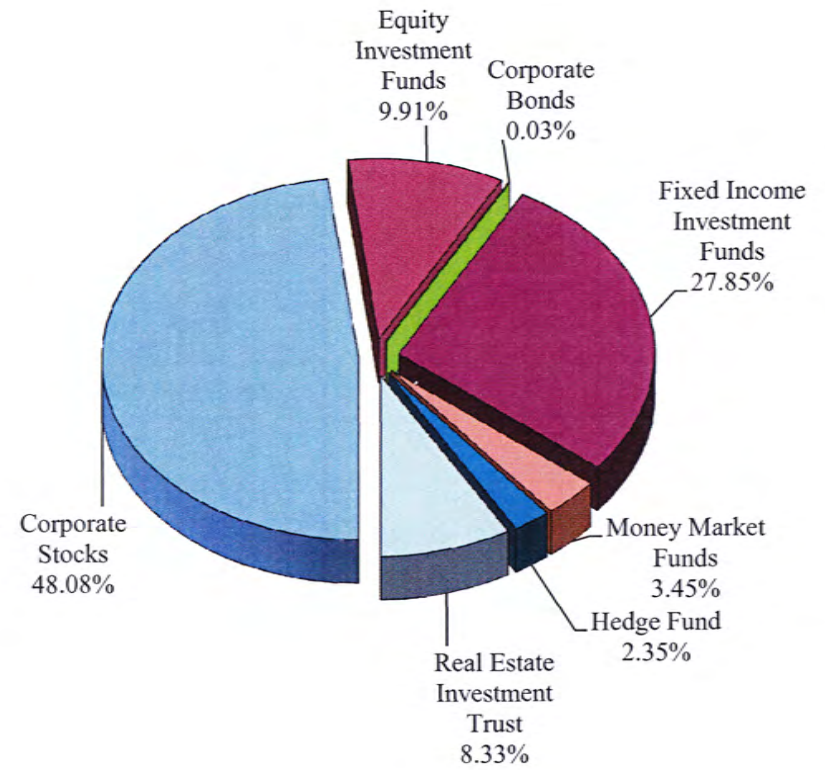
(B) Period includes 13 months.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS

INVESTMENTS

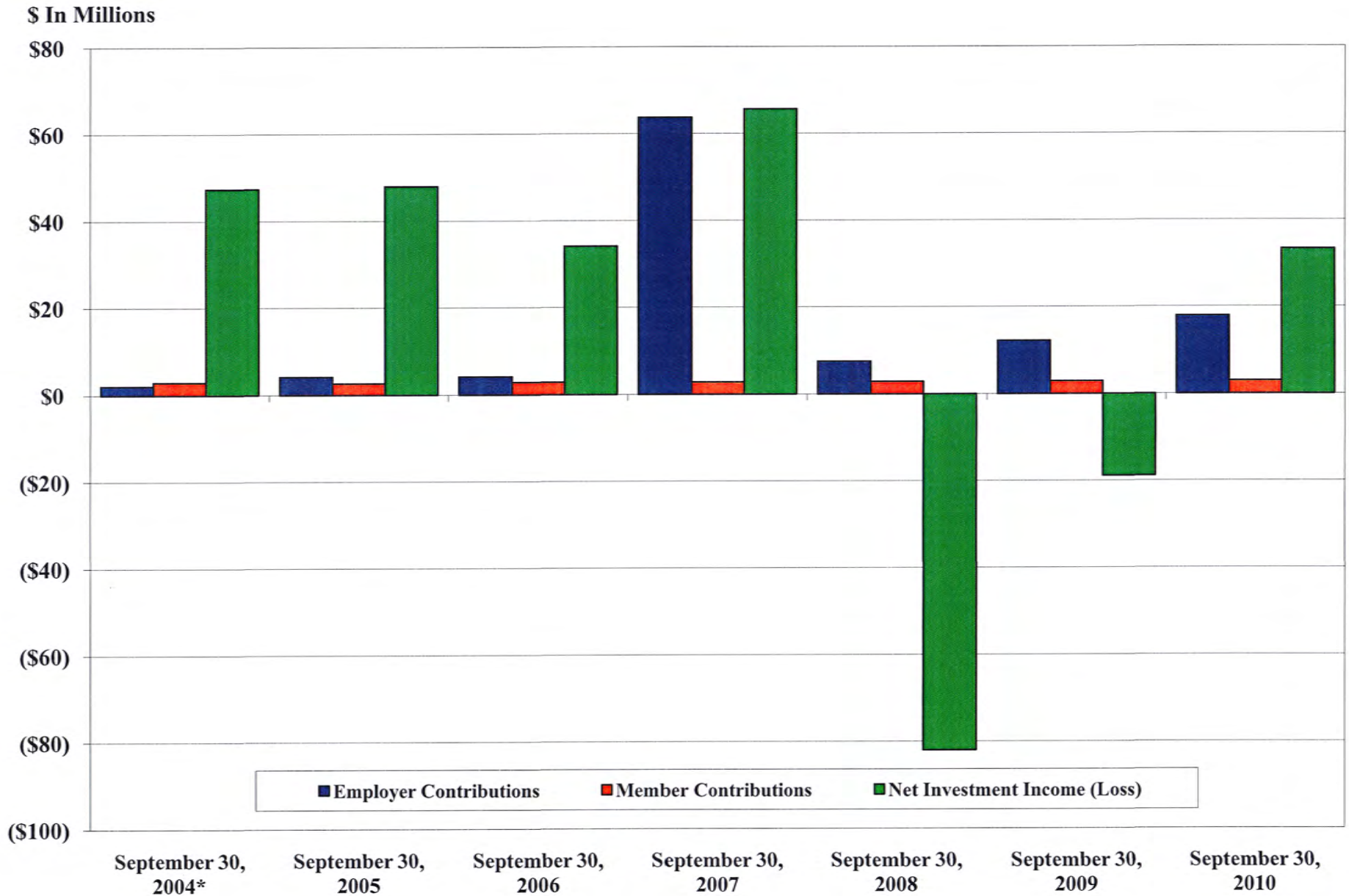


September 30, 2010



September 30, 2009

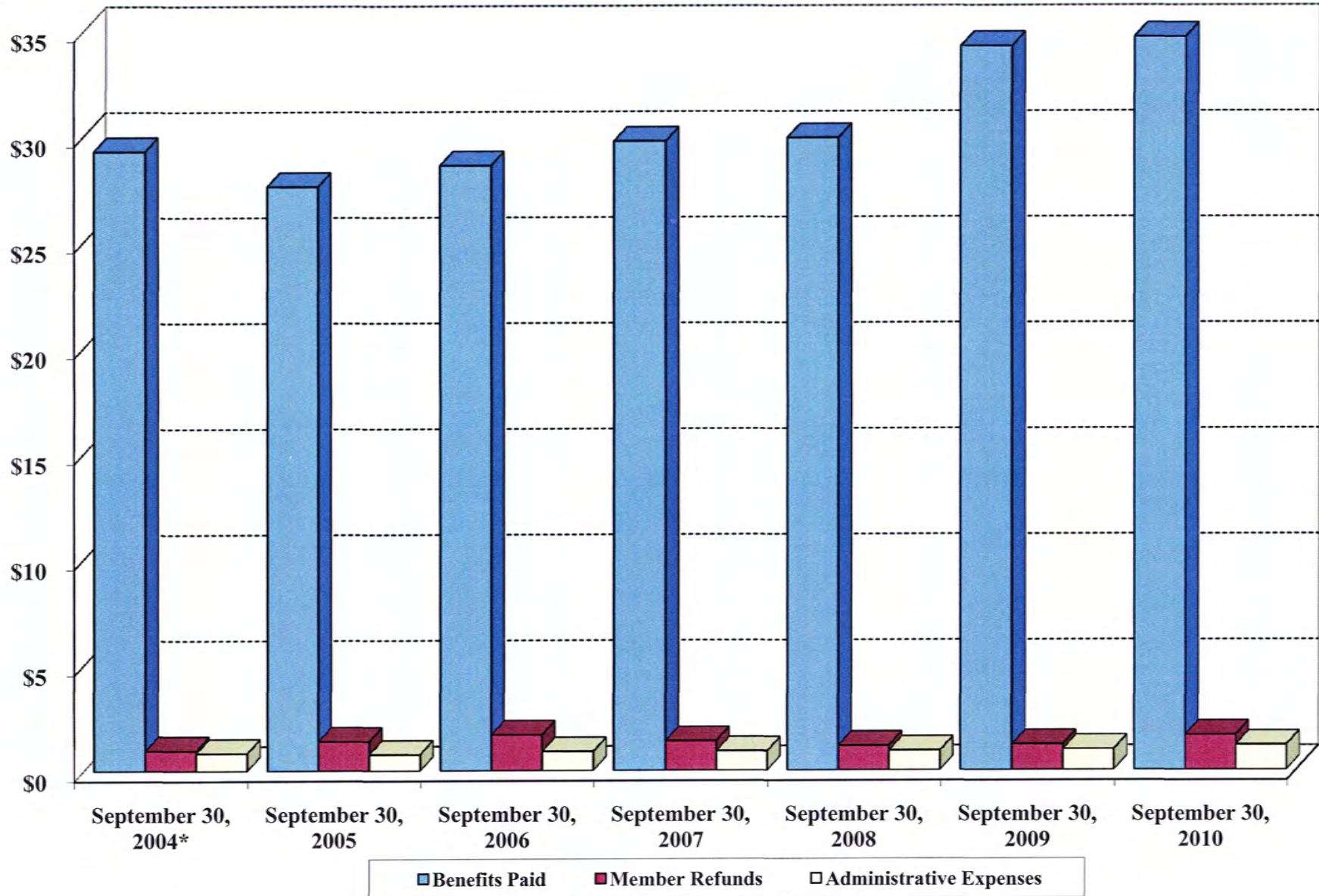
FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
ADDITIONS TO NET ASSETS
FOR THE YEARS ENDED



*Period includes 13 months.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
DEDUCTIONS FROM NET ASSETS
FOR THE YEARS ENDED

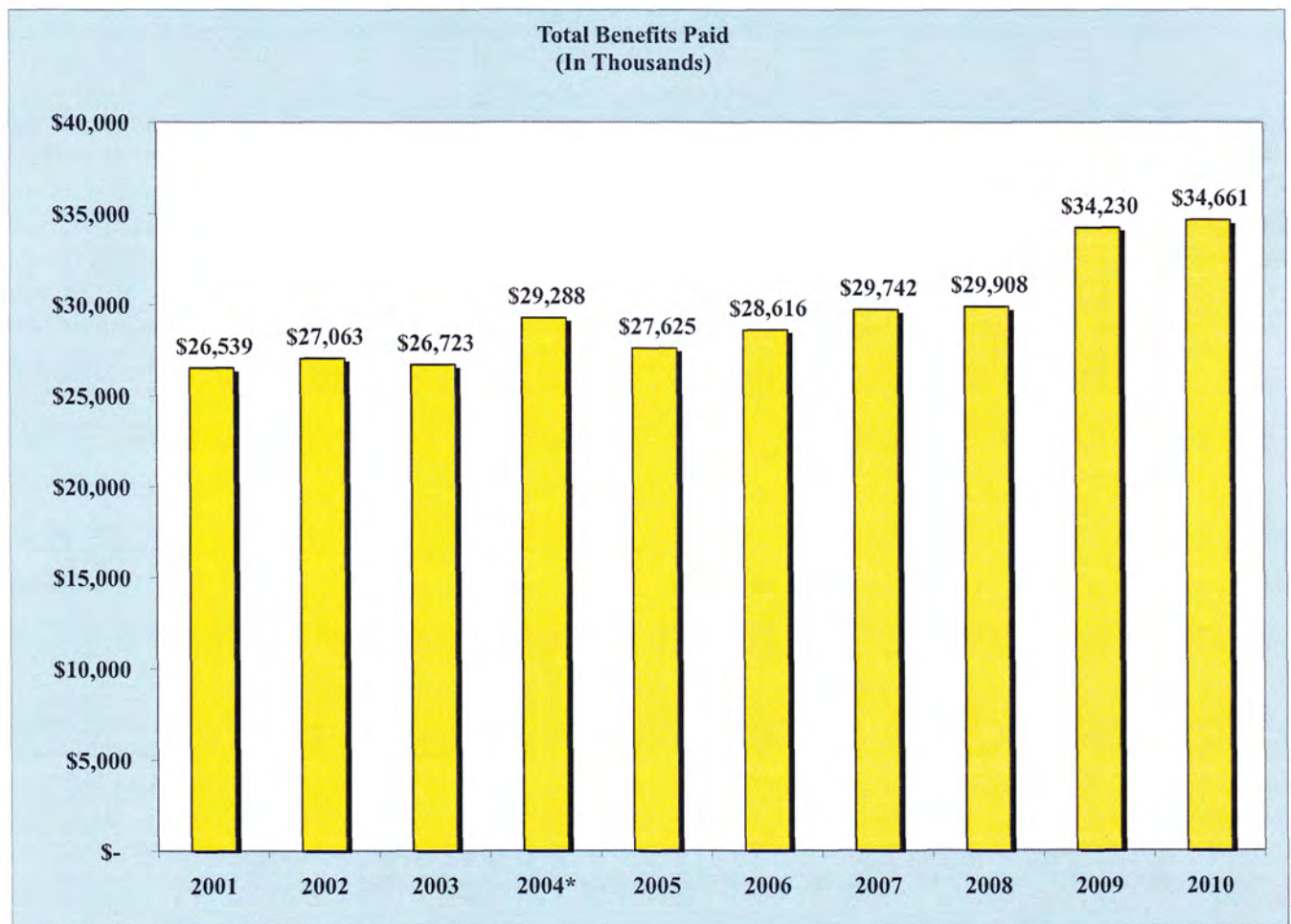
\$ In Millions



*Period includes 13 months.

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
BENEFITS PAID BY TYPE

| For The Fiscal Years Ended | Service Retirees** | Accidental Disability | Beneficiaries | Ordinary Disability | Death | Medical, Surgical, And Hospital | Total |
|---|-------------------------------|----------------------------------|----------------------|--------------------------------|---------------|--|-------------------|
| 2001 | \$ 13,354,573 | 10,303,677 | 2,505,783 | 308,204 | 46,000 | 20,653 | 26,538,890 |
| 2002 | 13,678,554 | 10,513,535 | 2,474,508 | 301,130 | 70,000 | 25,665 | 27,063,392 |
| 2003 | 13,107,963 | 10,658,381 | 2,573,454 | 305,554 | 50,000 | 27,350 | 26,722,702 |
| 2004* | 14,115,447 | 11,728,689 | 3,012,175 | 332,409 | 54,000 | 45,772 | 29,288,492 |
| 2005 | 13,026,477 | 11,220,188 | 2,955,585 | 342,667 | 48,000 | 31,760 | 27,624,677 |
| 2006 | 13,526,512 | 11,682,680 | 3,032,113 | 319,198 | 32,000 | 23,029 | 28,615,532 |
| 2007 | 14,136,541 | 12,095,190 | 3,063,714 | 384,633 | 46,000 | 16,286 | 29,742,364 |
| 2008 | 13,718,137 | 12,542,278 | 3,207,773 | 370,467 | 56,000 | 13,491 | 29,908,146 |
| 2009 | 17,716,234 | 12,928,795 | 3,122,816 | 384,309 | 60,000 | 18,259 | 34,230,413 |
| 2010 | 17,928,029 | 13,104,610 | 3,196,489 | 355,068 | 58,000 | 18,869 | 34,661,065 |



*Period includes 13 months.

**Includes DROP benefit payments.