REPORT OF

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2016

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Suite 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800
3220 West Edgewood, Suite E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240
www.williamskeepers.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Missouri Department of Transportation and
Highway Patrol Employees' Retirement System

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System), as of June 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System at June 30, 2016, and the changes in fiduciary net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 6 and the schedules of employers' net pension liability, changes in the employers' net pension liability, employers' contributions, investment returns, OPEB funding progress, and related notes on pages 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements as a whole. The additional information presented on pages 36 through 38 are presented for purposes of additional analysis and are not a required part of the financial statements.

The additional information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information presented on pages 36 through 38 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Williams-Keepers LLC

November 8, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System, or MPERS) provides this discussion and analysis of the System's financial performance for the fiscal year ended June 30, 2016. While this discussion is intended to summarize the financial status of MPERS, readers should consider this information in conjunction with the information that is furnished in the more detailed financial statements and corresponding notes.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

As required by the Governmental Accounting Standards Board (GASB) accounting standards, this financial report consists of *Management's Discussion and Analysis* (this section), the basic financial statements (including notes to the basic financial statements), and other required supplementary information.

Financial Statements report information about MPERS, using accounting methods similar to those used by private-sector companies, by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the System's overall financial status. These statements follow this *Management's Discussion and Analysis* section:

- The *Statement of Fiduciary Net Position* includes all the System's assets and liabilities, with the difference between the two reported as net position.
- The *Statement of Changes in Fiduciary Net Position* accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

Notes to the Financial Statements are included following the financial statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required Supplementary Information follows the notes and further supports the information in the financial statements.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Overall, the financial position of MPERS weakened by $17 million, reported as the "net decrease." This is primarily a result of lower than expected investment returns for the year ended June 30, 2016. Even with this net decrease in net position restricted for pensions in FY2016, the funded status of the plan showed an increase of 2.6%, primarily due to actuarial gains and MPERS' accelerated funding policy.

The following schedules present summarized comparative data from the System's financial statements for each of the fiscal years ended June 30, 2016 and 2015. Following each schedule is a brief summary providing explanation and analyses of the major reasons for changes in the condensed financial statements.

Summarized Comparative Statements of Fiduciary Net Position

	As of June 30, 2016	As of June 30, 2015	% Change 2016/2015
Cash and Receivables	$ 20,195,007	$ 23,606,579	-14
Investments	1,982,820,836	1,991,396,397	0
Invested Securities Lending Collateral	51,560,512	80,780,418	-36
Capital Assets	1,569,100	1,921,467	-18
Other Assets	0	6,366	-100
Total Assets	2,056,145,455	2,097,711,227	-2
Accounts Payable	10,668,117	3,994,860	167
OPEB Obligation	680,169	643,809	6
Securities Lending Collateral	52,723,223	83,705,424	-37
Total Liabilities	64,071,509	88,344,093	-27
Net Position	**$ 1,992,073,946**	**$ 2,009,367,134**	**-1**

The decrease in cash and receivables is primarily attributable to lower investment sales receivables as of June 30, 2016. Some fluctuations in this area are normal, based on investment activity.

The System's investments represent the main component of total assets. These investments include holdings of stock, government-sponsored enterprises, bonds, mortgages, real estate, timber, hedge funds, securities lending collateral, limited partnerships, and other fixed income investments. The decrease in fair value of investments as of June 30, 2016 is primarily due to the payment of benefits that exceeded the receipt of employer contributions for the fiscal year, offset by the FY2016 investment return of 1.01% as calculated on a time-weighted rate of return methodology.

Capital assets decreased in FY2016 due to depreciation of existing assets and only minimal purchases of new equipment during the year.

The increase in accounts payable for FY2016 is primarily attributable to higher investment purchases payable. Some fluctuations in this area are normal, based on investment activity.

The OPEB obligation liability of $680,169 at June 30, 2016 and $643,809 at June 30, 2015 reflects the System's provision of post-employment health care benefits through its participation in the MoDOT and MSHP Medical and Life Insurance Plan. This plan is an internal service fund of the Missouri Department of Transportation (MoDOT); therefore, assets have not been set aside. With this, the increase from FY2015 to FY2016 is expected.

The largest component of liabilities is securities lending collateral. This represents the amount owed for collateral to be returned as the result of securities lent. The decrease in securities lending collateral liability from FY2015 to FY2016 is due to the decrease in the fair value of investments and fewer securities being utilized for lending. The corresponding securities lending collateral asset is valued at a lower amount at June 30, 2016 due to the market value of the securities on loan being less than the par value.

The System's total net position was $1.992 billion at June 30, 2016, a $17 million decrease from the $2.009 billion at June 30, 2015. This is an offset to the increase of the previous year, when net position increased $52 million from the June 30, 2014 amount of $1.957 billion to the June 30, 2015 amount of $2.009 billion.

Summarized Comparative Statements of Changes in Fiduciary Net Position

	Year Ended June 30, 2016	Year Ended June 30, 2015	% Change 2016/2015
Contributions	$ 205,821,588	$ 205,047,170	0
Net Investment Income	21,432,090	92,645,423	-77
Other Income	5	148	-97
Net Additions	227,253,683	297,692,741	-24
Benefits	240,176,011	241,714,876	-1
Administrative Expenses	4,370,860	4,066,944	7
Total Deductions	244,546,871	245,781,820	-1
Net Increase (Decrease)	(17,293,188)	51,910,921	-133
Net Position-Beginning	2,009,367,134	1,957,456,213	3
Net Position-Ending	**$ 1,992,073,946**	**$ 2,009,367,134**	**-1**

The main component of the changes in contributions to MPERS is employer contributions. In FY2016 the contribution rate for the non-uniformed Highway Patrol and MoDOT decreased by 0.71% and the contribution rate for the uniformed Highway Patrol decreased by 0.43% from the FY2015 rates. This slight decrease in rates kept contributions consistent with the prior year.

Net investment income, a primary component of plan additions, resulted in income of $21 million for FY2016. The income represented a 1.01% return for the fiscal year ended June 30, 2016. In comparison, the FY2015 gain of over $92 million represented an investment return of 6.62%. Annual fluctuations within the broad investment markets are outside of the control of the System and are expected to fluctuate from year to year. The Board of Trustees has approved a diversified asset allocation that, over long periods of time, is expected to realize the assumed actuarial rate of investment return of 7.75%.

Benefits decreased due to fewer retirements in FY2016 and of those retirements, fewer individuals electing backDROP, which provides a partial lump sum payment option.

Administrative expenses increased in FY2016 due to career progression for achieving professional designations, employee education assistance and a pay-out of accrued leave at retirement.

CURRENTLY KNOWN FACTS AND RECENT EVENTS

Based on the June 30, 2015 actuarial valuation, the Board of Trustees approved a change in the required state contribution rate, effective July 1, 2016. The rate applied to non-uniformed payroll (MoDOT, civilian patrol, and MPERS) will decrease slightly from 58.05% to 58.00%. The rate applied to uniformed patrol payroll will increase from 57.76% to 58.00%. The decrease in the non-uniformed rate is primarily due to positive investment returns. The increase in the uniformed rate is primarily due to liability experience losses.

Based on the June 30, 2016 actuarial valuation, the Board of Trustees approved no change in the required state contribution, effective July 1, 2017. The rate applied to both non-uniformed payroll (MoDOT, civilian patrol and MPERS) and uniformed patrol payroll will stay at 58.00%.

CONTACTING THE RETIREMENT SYSTEM'S MANAGEMENT

This financial report is designed to provide a general overview of the System's finances. Questions about this report or requests for additional financial information should be sent to:

MoDOT and Patrol Employees' Retirement System
PO Box 1930
Jefferson City, MO 65102-1930
mpers@mpers.org

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2016

ASSETS:		
Cash	$	492,832
Receivables		
Contributions		8,526,185
Accrued Interest and Income		6,406,558
Investment Sales		4,733,058
Other		36,374
Total Receivables		19,702,175
Investments, at Fair Value		
Stocks and Rights/Warrants		389,770,000
Government Obligations		193,263,285
Corporate Bonds		15,073,506
Real Estate		211,308,244
Mortgages and Asset-Backed Securities		260,915,613
Hedge Funds		155,893,985
Short-Term Investments		128,659,065
Limited Partnerships		627,937,138
Total Investments		1,982,820,836
Invested Securities Lending Collateral		51,560,512
Net Investment in Capital Assets		
Land		84,000
Building		581,619
Furniture, Equipment and Software		3,517,189
Accumulated Depreciation		(2,613,708)
Net Investment in Capital Assets		1,569,100
TOTAL ASSETS	**$**	**2,056,145,455**
LIABILITIES:		
Accounts Payable		1,755,294
OPEB Obligation		680,169
Security Lending Collateral		52,723,223
Investment Purchases		8,912,823
TOTAL LIABILITIES	**$**	**64,071,509**
NET POSITION RESTRICTED FOR PENSIONS	**$**	**1,992,073,946**

See accompanying Notes to the Financial Statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2016

ADDITIONS:		
Contributions-Employer	$	199,609,396
Contributions-Employee		2,503,824
Contributions-Service Transfers from Other System		2,729,679
Contributions-Other		978,689
Total Contributions		205,821,588
Investment Income from Investing Activities		
Net (Depreciation) in Fair Value of Investments		(10,145,015)
Interest and Dividends		55,077,632
Less: Investment Expenses		23,703,885
Net Investment Income		21,228,732
Income from Securities Lending Activities		
Securities Lending Gross Income		369,159
Less: Securities Lending Expenses (Income), net		165,801
Net Income from Securities Lending Activities		203,358
Other Income		5
NET ADDITIONS	**$**	**227,253,683**
DEDUCTIONS:		
Monthly Benefits		
Retiree and Survivor Annuity Benefits		224,098,038
BackDROP Payments		10,677,166
Disability Benefits		2,461,250
Death Benefits		820,000
Service Transfer Payments		1,921,451
Employee Contribution Refunds		198,106
Administrative Expenses		4,370,860
TOTAL DEDUCTIONS	**$**	**244,546,871**
NET (DECREASE)		(17,293,188)
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of Year		**2,009,367,134**
End of Year	**$**	**1,992,073,946**

See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As established under Section 104.020 of the Revised Statutes of Missouri (RSMo), the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) is a body corporate and an instrumentality of the State of Missouri (State). Due to the nature of MPERS' reliance on funding from the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP) and control of the overall plan document by the legislative and executive branches of state government, MPERS is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a component unit shown as a pension trust fund.

Note 1 (a) - Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Contributions are due to MPERS when employee services have been performed and paid. Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits are recognized when due and payable and expenses are recorded when the corresponding obligations are incurred. Dividend income is recognized when dividends are declared. Interest income is recognized when earned.

The Governmental Accounting Standards Board (GASB) approved a new accounting and reporting standard, GASB Statement 72, Fair Value Measurement and Application. GASB 72 applies to any and all governmental entities and is effective for fiscal years beginning after June 15, 2015.

GASB 72 addresses accounting and reporting issues related to fair value measurements. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Comprehensive footnote disclosure regarding this statement is presented in Note 3 (f).

Note 1 (b) - Method Used to Value Investments

Investments are reported at fair value on a trade date basis. Bonds and stocks traded on a national or international exchange are valued at the reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate and timber investments are based on net asset value estimates provided by the general partners' administrators or portfolio managers, which are compared to independent appraisals. Investments that do not have an established market are reported at estimated fair value. The fair value of some of the hedge fund portfolios and partnership portfolios are based on valuations of the underlying assets as reported by the general partner or portfolio manager.

Note 1 (c) - Net Investment in Capital Assets

MPERS capitalizes assets with an expected useful life greater than one year and a cost greater than $1,000. Capital assets are depreciated on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Furniture, Equipment and Software	3 - 10 years
Building and Improvements	30 years

Note 1 (d) - Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

MPERS is a body corporate and an instrumentality of the state as a multiple-employer, public employee retirement system with one plan that has three benefit structures known as the Closed Plan, the Year 2000 Plan, and the Year 2000 Plan-2011 Tier. The plan provides retirement, survivor, and disability benefits for employees of MoDOT, MSHP, and MPERS. The plan is administered in accordance with the requirements of a cost sharing, multiple-employer, public employee retirement plan under the Revised Statutes of Missouri. In MPERS are vested the powers and duties specified in sections 104.010 to 104.312, 104.601 to 104.805, and 104.1003 to 104.1093, RSMo., and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes outlined pursuant to these sections. Responsibility for the operation and administration of the System is vested in the Board of Trustees, which consists of eleven members, four elected by the active and retired plan members, three Highway and Transportation Commissioners, a State Senator appointed by the President Pro-Tem of the Senate, a State Representative appointed by the Speaker of the House, and the Director of the MoDOT and Superintendent of the MSHP who serve as ex-officio members. Detailed information regarding contributions can be found in Note 5.

Generally, all covered employees hired before July 1, 2000, are eligible for membership in the Closed Plan. All covered employees hired on or after July 1, 2000, and before January 1, 2011, are eligible for membership in the Year 2000 Plan. All covered employees hired on or after January 1, 2011 are eligible for membership in the Year 2000 Plan's 2011 Tier.

Membership in the Closed Plan, Year 2000 Plan, and 2011 Tier as of June 30, 2016

	Closed	Year 2000	2011 Tier	Total
Retirees, Beneficiaries, and Disabilities Currently Receiving Benefits	5,040	3,687	0	8,727
Terminated Employees Entitled to But Not Yet Receiving Benefits	1,509	820	0	2,329
Active Employees				
Vested	2,864	2,552	0	5,416
Non-Vested	2	92	1,963	2,057
Total Membership	**9,415**	**7,151**	**1,963**	**18,529**

Closed Plan Description

Employees covered by the Closed Plan are fully vested for benefits upon receiving 5 years of creditable service. Under the Closed Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 65 with 4 or more years of creditable service (active);
- Age 65 with 5 or more years of creditable service (terminated & vested);
- Age 60 with 15 or more years of creditable service (active or terminated & vested); or
- "Rule of 80" - at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested).

The following provisions apply for uniformed patrol members of the Closed Plan:

- Age 55 with 4 or more years of creditable service (active);
- Age 55 with 5 or more years of creditable service (terminated & vested);
- "Rule of 80" - at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested); or
- Mandatory retirement at age 60 (active).

All non-uniformed members may retire early, with reduced benefits, at age 55 with at least 10 years of creditable service.

The base benefit in the Closed Plan is equal to 1.6% multiplied by the final average pay multiplied by years of creditable service. For members of the uniformed patrol, the base benefit is calculated by applying the same formula, then multiplying the product by 1.333333.

Retired uniformed members will receive an additional benefit of $90 per month, plus cost-of-living adjustments (COLAs), until attainment of age 65. This payment, however, is reduced by any amount earned during gainful employment. This benefit is not available to uniformed members hired after January 1, 1995, or to vested deferred members.

For members employed prior to August 28, 1997, COLAs are provided annually based on 80% of the increase in the consumer price index for all urban consumers for the United States (CPI-U). The minimum rate is 4% and the maximum rate is 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated and the annual COLA rate will be equal to 80% of the increase in the CPI-U (annual maximum of 5%). For members employed on or after August 28, 1997, COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that is available to eligible members upon retirement. This option provides for a benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

The life income annuity payment option (which contains no provision for survivorship) and the life income with 60 or 120 month guaranteed payment options are available to all members. Joint and 50% or 100% survivor options are available if married at the time of retirement. In the Closed Plan, the reduction for the joint & 100% survivor option is based on the difference between the age of the member and the survivor. There is no reduction for the joint and 50% survivor option.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse as beneficiary if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect a payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving normal or work-related disability benefits, on or after September 28, 1985, are provided a $5,000 death benefit payable to designated beneficiaries.

Year 2000 Plan Description

Employees covered by the Year 2000 Plan are fully vested for benefits upon earning 5 years of creditable service. Under the Year 2000 Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 62 and with 5 or more years of creditable service (active or terminated & vested);
- "Rule of 80" - at least age 48 with sum of member's age and service equaling 80 or more (active).

The following provisions apply for uniformed patrol members of the Year 2000 Plan:

- "Rule of 80" - at least age 48 with sum of member's age and service equaling 80 or more (active);
- Mandatory retirement at age 60 (active only).

All members may retire early with reduced benefits at age 57 with at least 5 years of creditable service.

The base benefit in the Year 2000 Plan is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service. Members retiring under the Rule of 80, and uniform patrol members retiring at the mandatory retirement age (currently 60), receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that may be available to members upon retirement. This option provides for a monthly benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any temporary benefits, COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member's age at retirement, as well as the age difference between the member and the survivor.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after July 1, 2000, are provided a $5,000 death benefit payable to designated beneficiaries.

Year 2000 Plan-2011 Tier Description

Employees covered by the 2011 Tier are fully vested for benefits upon earning 10 years of creditable service. Under the 2011 Tier, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 67 and with 10 or more years of creditable service (active or terminated & vested);
- "Rule of 90" - at least age 55 with sum of member's age and service equaling 90 or more (active only).

Active MoDOT and civilian employees may retire early with reduced benefits at age 62 with at least 10 years of creditable service.

The following provisions apply for uniformed patrol members of the 2011 Tier:

- Age 55 and with 10 or more years of creditable service (active only);
- Mandatory retirement at age 60 with no minimum service amount (active only).

Terminated and vested uniformed patrol employees may retire at age 67 with 10 or more years of creditable service.

The base benefit in the 2011 Tier is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service. Members retiring under the Rule of 90, and uniform patrol members retiring at the mandatory retirement age (currently 60) or at age 55 with 10 years of creditable service, receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the change in the CPI-U, up to a maximum rate of 5%.

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member's age at retirement, as well as the age difference between the member and the survivor.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after January 1, 2011, are provided a $5,000 death benefit payable to designated beneficiaries.

Contributions

Beginning January 1, 2011, employee contributions of 4% of gross pay are required for those covered by the Year 2000 Plan-2011 Tier.

Employer contributions are determined through annual actuarial valuations. Administrative expenses are financed through contributions from participating employers and investment earnings.

Participating employers are required to make contributions to the plan based on the actuarially determined rate. Prior to August 13, 1976, contributions by all plan members were required. Accumulated employee contributions made prior to that time, plus interest, were refunded to applicable members. Maximum contribution rates were eliminated August 13, 1976. Detailed information regarding contributions can be found in Note 5.

NOTE 3 - DEPOSITS AND INVESTMENTS

The Board of Trustees has established policies and procedures by which funds are invested. Section 104.150, RSMo, provides the authority for the Board to invest MPERS funds. Plan assets are invested in a diversified portfolio following prudent standards for preservation of capital, with the goal of achieving the highest possible rate of return consistent with MPERS' tolerance for risk. The Board of Trustees establishes MPERS' asset allocation policy, and may amend the policy. The following is MPERS current asset allocation policy:

Asset Class	Target Allocation
Global Equity	30%
Private Equity	15%
Fixed Income	25%
Real Assets	5%
Real Estate	10%
Hedge Funds	15%
Cash	0%

Note 3 (a) - Deposit and Investment Risk Policies

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Within the traditional asset classes (equities and fixed income), the consultant will aggregate exposures across asset classes to create measures of concentration including industries, countries and security issuer for Investment staff review.

Investment Custodial Credit Risk

Custodial credit risk is an investment risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or the collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the System's name. It is the policy of the System to require that all investments be clearly marked as to ownership and, to the extent possible, shall be registered in the name of the System.

Cash Deposit Custodial Credit Risk

Cash deposit custodial credit risk is the risk that, in the event of the failure of depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Missouri state law requires that all public funds must be collateralized with acceptable securities having market values of at least 100% of the amount of funds on deposit (less any amount covered by FDIC insurance).

Market Risk

Market risk is the risk that the fair value of an investment will be adversely impacted due to a change in value of the underlying market. The three primary market risks prevalent in the System's investment portfolio are equity prices, interest rates, and foreign currencies. Equity risk is the risk that stock prices fall and/or the volatility in the equity market increases. Interest rate risk is the risk that fixed income securities (or any investment primarily valued on a yield basis) will drop in value due to an increase in interest rates. Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The System protects the portfolio against market risks by adopting a diversified asset allocation that limits the amount of exposure to each underlying market risk. Market risks are also controlled by monitoring the types, amounts, and degree of risk that each investment manager takes for their specific mandate.

Investment Credit Risk

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Unless authorized under a separate Investment Management Agreement or operating agreement, it is the policy of the System to limit fixed income managers to purchasing securities that possess a minimum credit rating of "Baa" by Moody's and "BBB" by Standard & Poor's. Issues subsequently downgraded below these ratings must be brought to the attention of the Chief Investment Officer. Where counterparty risk is present, the System's investment managers seek to control credit risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures.

Note 3 (b) - Cash Deposits

Cash balances include short-term securities held by the custodial bank to meet future obligations and operating balances held by the depository bank. As of June 30, 2016, MPERS had a carrying amount of deposits of ($239,341), and a bank balance of $15. The FDIC covered the bank balances. To maximize investment income, cash is invested in overnight repurchase agreements, thus causing the negative cash amounts disclosed above. The balances in these repurchase agreements at June 30, 2016, was $732,173. As of June 30, 2016, no investments were held as repurchase agreements that were uninsured or unregistered, with securities held by the counterparty or by its trust department or agent but not in MPERS' name.

Note 3 (c) - Concentrations

No investments in any one organization (other than those issued or sponsored by the U.S. government and those in pooled investments) represent 5% of plan net position.

Note 3 (d) - Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 3 (e) - Investments

The following table shows MPERS' investments by type.

Summary of Investments by Type as of June 30, 2016

	Carrying Amount	Fair Value
Government Obligations	$176,034,794	$193,263,285
Corporate Bonds	14,639,836	15,073,506
Stock and Rights/Warrants	307,683,227	389,770,000
Real Estate	189,502,775	211,308,244
Mortgages & Asset-Backed Securities	266,297,511	260,915,613
Hedge Funds	137,161,208	155,893,985
Limited Partnerships	592,666,416	627,937,138
Short-Term Investments	129,386,494	129,391,238
Securities Lending Collateral	51,560,512	51,560,512
Total Investments	$1,864,932,773	2,035,113,521

Reconciliation to Statement of Fiduciary Net Position:	
Less: Repurchase Agreements	(732,173)
Less: Securities Lending Collateral	(51,560,512)
Investments per Statement of Fiduciary Net Position	$1,982,820,836

Certain investments are not listed on national exchanges, over-the-counter markets, nor do they have quoted market prices. Their valuation is based on the most current net asset values, independent appraisals, and/or good faith estimates of the investment's fair value provided by the general partner or portfolio manager, cash flow adjusted through fiscal year end. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed. The following investments were priced using those methods and comprised 50% of the total fair value of the System's investments as of June 30, 2016:

Real Estate	$211,308,244
Hedge Funds	155,893,985
Limited Partnerships	627,937,138
	$995,139,367

Note 3 (f) - Fair Value Measurements

MPERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles in accordance with GASB 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1: Unadjusted quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3: Values derived from valuation techniques in which significant inputs are unobservable.

Investments listed as level 1 include equity securities and futures contracts where the price comes from an exchange.

Investments listed as level 2 include debt securities where an independent pricing evaluator had direct observable information including: trading volume, multiple sources of market data and benchmark spreads. FX forwards are included due to the valuation coming from observable forward rates on the underlying currencies. The equity index swap is included because the valuation inputs include an observable interest rate and the underlying index.

Investments listed as level 3 include debt securities where an independent pricing evaluator did not have direct observable information and had limited market information for comparable securities. Significant inputs used in the valuation are not available aside from the evaluator providing the price. Direct investments in private equity, real estate, credit, and real assets are included because the valuation techniques utilize discounted cash flows or other non-observable market information by manager.

Investments Measured at Fair Value as of June 30, 2016

Investments by Fair Value Level	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt Securities				
Collateralized debt obligations	$141,878,429	$0	$55,178,144	$86,700,285
Commercial mortgage-backed securities	67,615,054	0	9,792,196	57,822,859
Corporate Bonds	8,075,097	0	8,075,097	0
Government commercial mortgage-backed securities	7,080,970	0	0	7,080,970
Government mortgage-backed securities	57,483,954	0	31,274,870	26,209,084
Municapal Bonds	112,892,111	0	48,678,797	64,213,314
U.S. Government Agencies	40,779,342	0	40,779,342	0
U.S. Treasury securities	37,158,715	0	37,158,715	0
Total Debt Securities	472,963,673	0	230,937,162	242,026,511
Equity Securities				
Consumer Discretionary	16,978,581	16,978,581	0	0
Conumer Staples	6,633,251	6,621,231	0	12,020
Enery	67,581,281	67,581,281	0	0
Equity Other	19,830,383	19,830,383	0	0
Financials	31,146,749	31,146,749	0	0
Health Care	9,122,032	9,122,032	0	0
Industrials	10,677,403	10,677,403	0	0
Information Technology	18,328,810	18,289,887	38,923	0
Materials	3,267,337	3,267,337	0	0
Telecommunication Services	2,908,187	2,908,187	0	0
Utilities	2,406,428	2,406,428	0	0
Total Equity Securities	188,880,441	188,829,498	38,923	12,020
Private Markets				
Private Equity	348,785,990	0	0	348,785,990
Real Estate	219,041,442	0	0	219,041,442
Real Assets	148,141,065	0	0	148,141,065
Opportunistic Debt	125,457,604	0	0	125,457,604
Total Private Markets	841,426,101	0	0	841,426,101
Investment Derivative Instruments				
Equity Futures	2,079,715	2,079,715	0	0
Equity Swaps	(909,425)	0	(909,425)	0
FX Forwards (assets)	322,967	0	322,967	0
FX Forwards (liabilities)	(31)	0	(31)	0
Total Investment Derivative Instruments	1,493,226	2,079,715	(586,489)	0
Total Investments by Fair Value Level	1,504,763,440	**$190,909,213**	**$230,389,596**	**$1,083,464,631**
Investments Exempt from Fair Value Hierarchy				
Short-term securities	122,520,259			
Total Investments Exempt	122,520,259			
Investments Measured at Net Asset Value				
Equity Long/Short	33,717,440			
Multi-Strategy	21,035,203			
In Liquidation	762,727			
Commodity Trading Advisors	20,750,222			
Activist Equity	22,308,494			
Event	8,931,627			
Fundamental Equity Market Nuetral	14,242,397			
Global Asset Allocation	15,655,289			
Structured Credit -Relative Value	10,925,108			
Global Macro	7,428,062			
Commingled International Equity Funds	201,948,840			
Total Investments Measured at Net Asset Value	357,705,409			
Total Investments	**$1,984,989,108**			
Reconciliation to Statement of Fiduciary Net Position				
Total Investments Measured at Fair Value and Derivatives	$1,984,989,108			
Investment Sales Receivable	(4,733,058)			
Investment Purshases Payable	8,912,823			
Accrued Interest and Income	(6,406,558)			
Accrued Expenses	58,521			
Total Investments per Statement of Fiduciary Net Position	**$1,982,820,836**			

Investments Measured at Net Asset Value as of June 30, 2016

Investments by Fair Value Level	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Fund				
Equity Long/Short	$33,717,440	$0	Quarterly	45-60 Days
Multi-Strategy	21,035,203	0	Quarterly	60-90 Days
In Liquidation	762,727	0	n/a	n/a
Commodity Trading Advisors	20,750,222	0	Monthly	30 Days
Activist Equity	22,308,494	0	Yearly, Every 3 Years	90 Days
Event	8,931,627	0	Monthly	90 Days
Fundamental Equity Market Neutral	14,242,397	0	Monthly	90 Days
Global Asset Allocation	15,655,289	0	Monthly	5 Days
Structured Credit - Relative Value	10,925,108	0	Quarterly	60 Days
Global Macro	7,428,062	0	Quarterly	90 Days
Total Hedge Fund	155,756,569	0		
Commingled International Equity Funds	51,553,081	0	Daily	30 Days
Commingled International Equity Funds	150,395,759	0	Monthly	5-10 Days
Total Commingled International Equity Funds	201,948,840	0		
Total Investments at Net Asset Value	**$357,705,409**	**$0**		
Private Markets				
Private Equity	$348,785,990	$117,761,399		
Real Estate	219,041,442	61,654,503		
Real Assets	148,141,065	63,499,033		
Opportunistic Debt	125,457,604	98,962,258		
Total Private Markets	$841,426,101	$341,877,193		

Hedge Funds

Equity Long/Short: Consisting of three funds, this strategy invests in both long and short in U.S. and global equity securities, with a goal of adding growth and minimizing market exposure. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next six to nine months.

Multi-Strategy: The four funds that make up this group aim to pursue varying strategies in order to diversify risks and reduce volatility. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next six to nine months.

Hedge Funds in Liquidation: MPERS currently has a small investment in three hedge funds that are in liquidation. These funds have closed and MPERS is awaiting the sale of final assets.

Commodity Trading Advisors: Consisting of two funds, one fund focuses on a systematic strategy that follows medium-term trends, while the second focuses on more short-term trading and tends to be counter-trend. The value of these investments is eligible for redemption in the next two months.

Activist: Consisting of two funds, this strategy focuses on obtaining publicly traded shares of companies and effecting changes within the companies that it owns whether that be value creation through operational, financial or corporate governance changes. One fund's focus is on North American companies and the other fund's focus is on European and Nordic companies. Due to contractual lock-up restrictions and the necessity for activist managers to retain capital in order to realize the desired company changes, 50% of this strategy's investments are eligible for redemption on a rolling three-year basis. The remaining 50% are eligible for redemption on a rolling one-year basis.

Event Driven: Consisting of one fund, this strategy seeks to gain an advantage from pricing inefficiencies that may occur at the onset or aftermath of a merger, corporate action or related event. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next four months.

Fundamental Equity Market Neutral: Consisting of one fund, this strategy invests in both long/short equities capturing price differences and seeks to maintain a neutral exposure to the market by having no sector, industry, market capitalization, or country biases. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next four months.

Global Asset Allocation: Consisting of one fund, this strategy is highly diversified and uses fundamental research to developing systematic rules for trading positions. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next four months.

Relative Value Hedge Funds: Consisting of one fund, this strategy's main focus is to benefit from valuation discrepancies that may be present in related financial instruments by simultaneously purchasing or selling these instruments. Due to contractual lock-up restrictions, all funds are eligible for redemption within the next six months.

Global Macro: Consisting of one fund, this strategy focuses on capturing inefficiencies in the market that exist as a result of interest rate differences and foreign exchange rate differences. The fund trades a highly diversified portfolio using a range of assets. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next four months.

Commingled International Equity Funds

MPERS invests in four international equity funds that are considered to be commingled in nature. Due to contractual lock-up restrictions, 70% of this capital is eligible for redemption in one month; the remaining 30% has daily liquidity.

Private Markets

Private equity, real estate, real assets and opportunistic debt are the four asset classes that fall into the category of private market funds. These funds invest in the equity or debt of private companies.

Private Equity: The private equity portfolio includes 11 direct fund investments and two fund of fund investments. These funds invest in private companies adding value through operational or industry expertise and vast networks. The majority of the private equity allocation is in buyout funds with a smaller portion in venture capital funds. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years.

Real Estate: The real estate portfolio consists of 19 real estate funds. The noncore real estate book includes 16 real estate funds and invests in value-add or opportunistic strategies. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years. The remaining three investments are in core real estate funds. These funds are open-ended and are eligible for redemption on a daily basis.

Real Assets: The real asset portfolio contains 18 funds that invest in private energy, mining and shipping companies. The timber portfolio, which includes both ownership in timber funds and direct timber investments, is also within the real assets portfolio. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years.

Opportunistic Debt: The opportunistic debt portfolio, comprised of 20 funds, invests mainly in U.S. private credit providing financing to private companies. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of three to five years.

Note 3 (g) – Investment Interest Rate Risk

The following table summarizes the maturities of government obligations, corporate bonds, convertible corporate bonds, mortgages, and asset-backed securities which are exposed to interest rate risk.

Summary of Weighted Average Maturities as of June 30, 2016

	Fair	Investment Maturities (in years)			
Investment Type	**Value**	**less than 1**	**1 - 5**	**6 - 10**	**more than 10**
Asset-Backed Securities	$142,508,044	$0	$9,669,100	$74,785,810	$58,053,134
Commercial Mortgage-Backed Securities	46,951,848	0	1,423,267	0	45,528,581
Corporate Bonds	15,073,506	1,565,876	0	2,946,312	10,561,318
Government Agencies	54,761,733	0	1,295,360	3,673,153	49,793,220
Government Bonds	12,509,745	0	0	0	12,509,745
Government Mortgage-Backed Securities	42,438,635	0	0	2,876,621	39,562,014
Government-issued Commercial Mortgage-Backed	6,893,018	214,104	1,506,692	0	5,172,222
Index Linked Govt Bonds	24,384,853	0	16,375,046	8,009,807	0
Municipal/Provincial Bonds	102,162,022	0	2,508,710	11,607,034	88,046,278
Non-Govt Backed C.M.O.s	21,569,000	0	146,367	0	21,422,633
Short Term Bills and Notes	6,797,169	6,797,169	0	0	0
Grand Total	**$476,049,573**	$8,577,149	$32,924,542	$103,898,737	$330,649,145

Note 3 (h) - Investment Credit Ratings

The following table summarizes the credit ratings of the government obligations, corporate bonds, mortgages, and asset-backed securities.

Summary of Credit Ratings as of June 30, 2016

Investment Type	Quality Rating	Fair Value
Asset-Backed Securities	AAA	$49,563,957
Asset-Backed Securities	AA	31,596,084
Asset-Backed Securities	A	7,624,874
Asset-Backed Securities	BB	3,736,600
Asset-Backed Securities	B	1,521,283
Asset-Backed Securities	not rated	48,465,246
Commercial Mortgage-Backed Securities	AAA	3,735,932
Commercial Mortgage-Backed Securities	BBB	2,692,537
Commercial Mortgage-Backed Securities	BB	544,258
Commercial Mortgage-Backed Securities	B	10,229,003
Commercial Mortgage-Backed Securities	CCC	4,141,597
Commercial Mortgage-Backed Securities	D	1,076,236
Commercial Mortgage-Backed Securities	not rated	23,244,051
Commercial Mortgage-Backed Securities	us gov guar	1,288,234
Corporate Bonds	AAA	2,946,312
Corporate Bonds	AA	2,735,196
Corporate Bonds	BBB	213,525
Corporate Bonds	not rated	9,178,473
Government Agencies	AA	52,516,533
Government Agencies	us gov guar	2,245,200
Government Bonds	us gov guar	12,509,745
Government Mortgage-Backed Securities	not rated	4,954,187
Government Mortgage-Backed Securities	us gov guar	37,484,448
Govt issue Commercial Mortgage-Backed Securities	AAA	214,104
Govt issue Commercial Mortgage-Backed Securities	us gov guar	6,678,914
Index Linked Government Bonds	us gov guar	24,384,853
Municipal/Provincial Bonds	AAA	22,091,858
Municipal/Provincial Bonds	AA	72,246,243
Municipal/Provincial Bonds	A	322,621
Municipal/Provincial Bonds	not rated	7,501,300
Non-Government Backed C.M.O.s	AA	430,996
Non-Government Backed C.M.O.s	A	1,085,895
Non-Government Backed C.M.O.s	BBB	344,616
Non-Government Backed C.M.O.s	BB	141,330
Non-Government Backed C.M.O.s	B	603,609
Non-Government Backed C.M.O.s	CCC	1,219,705
Non-Government Backed C.M.O.s	CC	172,970
Non-Government Backed C.M.O.s	D	8,926,201
Non-Government Backed C.M.O.s	not rated	8,643,678
Short Term Bills and Notes	us gov guar	6,797,169
Total		**$476,049,573**

Note 3 (i) – Investment Foreign Currency Risk

Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The following table summarizes MPERS' exposure to foreign currencies for all assets that are held in custody at the System's custodial bank. MPERS' has exposure to foreign currencies in other area of the portfolio, such as commingled international funds, hedge funds and private partnerships, which are held in the custody of other banks acting as administrators for the funds.

Exposure to Foreign Currency Risk as of June 30, 2016

Foreign Currency	Equities	Real Estate/ Partnerships	Total
Australian Dollar	$1,408,944	$0	$1,408,944
British Pound Sterling	1,117,683	14,585,002	15,702,685
Euro	2,273,156	17,781,145	20,054,301
Japanese Yen	767,285	0	767,285
Total Exposure Risk	**$5,567,068**	**$32,366,147**	**$37,933,215**

Note 3 (j) – Securities Lending

In accordance with the Board of Trustees' investment policy, MPERS participates in a securities lending program. The Northern Trust Company administers the program. There are no restrictions on the amount of securities that may be lent.

Securities that may be loaned include U.S. government and agency securities, corporate equity, and fixed income securities. Collateral may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned in exchange for collateral valued at 102% of the fair value of the securities, plus any accrued interest. Non-U.S. securities are loaned in exchange for collateral valued at 105% of the fair value of the securities, plus any accrued interest. On June 30, 2016, MPERS had no credit risk exposure to borrowers, since the amount of collateral exceeded the amount of the loans.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. The average term of the System's loans was approximately 78 days as of June 30, 2016. Cash open collateral is invested in a short-term investment pool, which had an interest sensitivity of 30 days as of June 30, 2016. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. There were no known violations of legal or contractual provisions, or borrower or lending agent default losses. There were no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited on approximately the fifteenth day of the following month.

Indemnification deals with a situation in which a client's securities would not be returned due to the insolvency of a borrower and Northern Trust would fail to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses and demanding adequate types and levels of collateral.

The collateral held (including both cash collateral recognized in the Statement of Fiduciary Net Position and non-cash collateral) is as follows as:

Collateral Held as of June 30, 2016

Investment Type	
Equities	$48,877,305
Government & government sponsored securities	3,845,928
	$52,723,233

Note 3 (k) - Derivatives

A derivative financial instrument is an investment whose value depends on the values of one or more underlying assets, financial indexes, or commodity prices. These investments include futures contracts, options contracts, and forward foreign currency exchange. Derivative financial instruments involve credit risk and market risk, as described in Note 3 (a), in varying levels.

Through MPERS' external managers, MPERS holds investments in futures contracts, swap contracts, options contracts, and forward foreign currency exchange contracts. MPERS enters futures and swaps contracts to gain exposure to certain markets and enters into forward foreign exchange contracts primarily to hedge foreign currency exposure.

The notional value related to these derivative instruments are generally not recorded on the financial statements; however, the change in fair value of these instruments is incorporated in performance. The notional/fair value of $169,556,349 for the various contracts in MPERS' portfolio as of June 30, 2016, is recorded in investments on the Statement of Fiduciary Net Position. The change in fair value of $5,366,682 for the year ended June 30, 2016, is recorded in investment income on the Statement of Changes in Fiduciary Net Position.

Investment Derivatives as of June 30, 2016

Type	Classification	Notional/ Fair Value	Unrealized Gain (Loss)
Futures Contracts	Investments, at fair value	$171,676,807	$5,803,902
Swap Contracts	Investments, at fair value	22,543,212	(761,530)
Rights/Warrants	Investments, at fair value	12,020	0
Foreign Currency Forward Contracts	Investments, at fair value	(24,675,690)	324,310
		$169,556,349	**$5,366,682**

Through the use of derivatives, MPERS is exposed to risk that the counterparties involved in the contracts are unable to meet the terms of their obligation. MPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MPERS anticipates the counterparties will be able to satisfy their obligations under the contracts. The associated counterparty's credit rating is an A-.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2016

Type	
Contributions-MoDOT	$5,224,282
Contributions-MSHP Non-Uniformed	1,161,624
Contributions-MSHP Uniformed	1,972,326
Contributions-Retirement System	167,953
Commission Recapture	169
Securities Lending	36,205
Investment Interest & Income	6,406,558
Investment Sales	4,733,058
	$19,702,175

NOTE 5 - CONTRIBUTIONS

MoDOT, MSHP, and MPERS make contributions to the System, as do employees covered under the Year 2000 Plan-2011 Tier. MPERS permanent funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 30-year period, beginning July 1, 2006). (The objective is to reduce the period by one year each year.) A temporary accelerated policy has been adopted where the total contribution is based on entry-age normal cost plus a 15-year amortization period for unfunded retiree liabilities and a 30-year amortization period for other unfunded liabilities. Both amortization periods are closed periods starting July 1, 2010. This temporary accelerated policy was adopted by the MPERS' Board of Trustees on September 17, 2009, and will remain in effect until such time as the retiree liability becomes 100% funded or the permanent policy produces a higher contribution rate. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by state statute to be funded in advance. Actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation. The employee contribution rate for members of the Year 2000 Plan-2011 Tier is set by statute.

Required employer contributions totaling $199,609,396 for fiscal year 2016, represent funding of normal costs and amortization of the unfunded accrued liability. Actual contributions made were 100% of required contributions. Contribution rates as determined by the System's actuary for the year ended June 30, 2016, are shown in the following table. The Board established actual rates to be the same as the actuarially determined rates.

Contribution Rates

MoDOT, MPERS & Civilian Patrol	Uniformed Patrol	2011 Tier Employee
58.05%	57.76%	4.00%

At the September 26, 2014 Board meeting, the Board adopted the use of a contribution rate stabilization reserve that would result in an MPERS employer contribution rate similar to the fiscal year 2015 rates. The reserve is intended to keep the contribution relatively level over time and may be used if the market experiences a downturn in the future. The Board further adopted (in February 2015) that the employer contribution rate would not fall below 58% unless 1) the fund became fully funded or 2) the contribution stabilization reserve reached $250 million. The balance of the reserve as of June 30, 2016, was $188,315,769.

NOTE 6 - DEFERRED RETIREMENT OPTION PROGRAM

MPERS currently provides a BackDROP option. This is an election made at the time of actual retirement. In effect, it provides members an option to elect to receive a portion of their benefits as cash. Since the election is not made until the member actually retires, the option is not treated as a DROP provision in accordance with generally accepted accounting principles.

NOTE 7- NET PENSION LIABILITY OF EMPLOYERS

The components of the net pension liability of the employers at June 30, 2016, were as follows:

Total pension liability	$3,761,733,004
Plan fiduciary net position	(1,992,073,946)
Employers' net pension liability	$1,769,659,058

Plan fiduciary net position as a percentage of the total pension liability	52.96%
Covered Employee Payroll	$344,635,441
Employers' net pension liability as a percentage of covered employee payroll	513.49%

Actuarial Assumptions

The total pension liability amounts were determined by actuarial valuations as of June 30, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0%
Salary Increases	3.5% to 11%
Investment Rate of Return	7.75%

The mortality tables, for post-retirement mortality, used in evaluating allowances to be paid to non-disabled pensioners were the R-P 2000 Combined Healthy Mortality Tables projected 16 years and set back 1 year for males and females. Pre-retirement mortality used was 70% for males and 50% for females of the post-retirement tables set back 1 year for males and set back 1 year for females. Disabled pension mortality was based on PBGC Disabled Mortality Tables. The healthy mortality tables include a margin for mortality improvement. The margin is in the 16-year projection. The disabled mortality tables do not include a margin for mortality improvement.

The long-term (30 year) expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultants and actuary. These estimates for each major asset class included in MPERS' target asset allocation as of June 30, 2016, (see NOTE 3) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Global Equity	4.80%
Private Equity	6.50%
Fixed Income	0.50%
Real Assets	4.75%
Real Estate	2.75%
Hedge Funds	2.75%

Discount Rate

A single discount rate of 7.75% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The employers pay the same contribution rate for each employee regardless of the plan the employee was hired under. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.75%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

Current Single Discount	1% Decrease 6.75%	Rate Assumption 7.75%	1% Increase 8.75%
2016 Net Pension Liability	$2,210,589,058	$1,769,659,058	$1,401,144,062

NOTE 8 - EMPLOYER PROPORTIONATE SHARE

MPERS, as the administrative agent for the pension system, is also an employer of the pension system. The administrative expenses of the pension system are included in the deductions to the pension system's fiduciary net position. While the employer contributions of the other participating employers are funded from outside revenue sources, the employer contributions of MPERS are funded from sources already recognized as revenues, such as earnings on plan investments or contributions paid by the other participating employers. Attempting to allocate a portion of the net pension liability to MPERS as an employer would result in an allocation of the net pension liability to the other participating employers. Accordingly, MPERS excludes its contributions from the employer proportionate share calculation for the reporting of a net pension liability, by assigning itself a proportionate share of 0%. This exclusion in essence shifts the portion of the net pension liability that would accrue to MPERS to the other participating employers.

NOTE 9 - PERSONAL SERVICES AND RETIREMENT PLAN

MPERS employed 16 full-time employees on June 30, 2016. Seven former MPERS employees have retired. Full-time employees are members of the System (see Note 8). For these employees, MPERS accrued 58.05% of payroll during FY16, amounting to $996,378. The amounts for FY16 and the three preceding years are shown below. These amounts are recorded as both a contribution and administrative expense. Information regarding the retirement plans can be found in Notes 2 and 5.

Net Obligations

Year Ended June 30	Annual Contribution Accrual	
	Percent	Dollars
2013	50.92%	562,535
2014	54.25%	739,002
2015	58.76%	907,064
2016	58.05%	996,378

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In addition to the retirement benefits described previously, MPERS provides a portion of health care insurance through the MoDOT and MSHP Medical and Life Insurance Plan (Insurance Plan) in accordance with Missouri State statutes. The Insurance Plan is considered an agent multiple-employer defined benefit plan administered by MoDOT. Medical insurance benefits are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Benefits include general inpatient and outpatient medical services; mental, nervous and substance abuse care; and prescriptions. Eligible members are employees who retired from the System with a minimum of 5 years of service and who participate in the Insurance Plan. MoDOT issues a publicly available financial report that includes financial statements and required supplementary information for the Insurance Plan. Requests for this report should be addressed to MoDOT, Controller's Division, P.O. Box 270, Jefferson City, MO 65102.

Employer and member contributions are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Premiums vary by coverage categories, which include retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees. Member and employer required contribution rates average approximately 31.7% and 68.3%, respectively. The Insurance Plan is financed on a pay-as-you-go basis and is an internal service fund of MoDOT.

MoDOT's actuarial valuations for the Insurance Plan are performed biennially. The July 1, 2015 actuarial valuation was used for the FY16 financial statements. For this period the annual required contribution (ARC) is equal to the annual OPEB cost. MPERS contributed $45,293 in FY16 (49.38% of the ARC), including implicit rate subsidies. Although funding is not related to payroll amounts, an equivalent ARC rate would be 5.25% of annual covered payroll of $1,744,734 for FY16. MPERS' share of the net OPEB obligation was $680,169 at June 30, 2016. MPERS' share of the changes in the

Insurance Plan's net OPEB obligation is shown as follows:

OPEB Cost and Obligation for the Year Ended June 30, 2016

Type	
Normal Cost	$37,661
Amortization Payment	50,520
Interest	29,279
Adjustment to ARC	(35,807)
Annual OPEB Cost	81,653
Contributions	(45,293)
Increase in Net OPEB Obligation	36,360
Net OPEB Obligation - Beginning of Year	643,809
Net OPEB Obligation - End of Year	$680,169
% of Annual OPEB Cost Contributed	55.5%

Because the Insurance Plan is an internal service fund of MoDOT, the Insurance Plan's assets have not been set aside. Because of this, there is no actuarial value of assets, so the entire actuarial accrued liability (AAL) is unfunded. Based on an actuarial report dated July 1, 2015, MPERS' portion of the AAL is $908,347, which is equal to MPERS' portion of the unfunded actuarial accrued liability (UAAL), as shown below.

Actuarial Accrued Liability

Actuarial Accrued Liability	$908,347
Actuarial Value of Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	$908,347
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	$1,744,734
UAAL as a Percentage of Covered Payroll	52%

Actuarial valuations of an ongoing plan reflect long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. These calculations are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. A schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule of funding progress represents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the AAL for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employers and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and assumptions utilized in the valuation are shown on the following table.

Actuarial Methods and Assumptions

Actuarial Cost Method	Projected Unit Credit
UAAL Amortization Method	Level Dollar Amount
UAAL Amortization Period	30 Years
UAAL Amortization Approach	Open
Investment Return (Discount) Rate	4.0%
Healthcare Cost Trend Rate	7%, Decreasing to 4.5% in 2025
Admin Expense Trend (Inflation) Rate	4.0%

NOTE 11 - CAPITAL ASSETS

Summary of Changes in Capital Assets

	6/30/2015 Balance	Additions	Deletions/ Retirements	6/30/2016 Balance
Land	$84,000	$0	$0	$84,000
Buildings	581,619	0	0	581,619
Furniture, Equipment and Software	3,508,917	8,272	0	3,517,189
Less: Accumulated Depreciation	(2,253,069)	(360,639)	0	(2,613,708)
Total	**$1,921,467**	**($352,367)**	**$0**	**$1,569,100**

NOTE 12 - RISK MANAGEMENT

MPERS is exposed to various risks of loss related to natural disasters, asset theft or damage, errors and omissions, torts, and employee injuries.

MPERS has purchased commercial insurance related to capital asset loss and damage. Ancillary coverage provided through the property policy includes coverage for accounts receivable, loss of money and securities, employee dishonesty, and forgery and alterations. MPERS carries a $2 million umbrella liability policy. MPERS has coverage through Missouri Highway and Transportation Commission's Self-Insurance Fund related to workers' compensation. MPERS' has also purchased an executive risk insurance package that includes directors and officers liability ($1 million aggregate coverage), employment practices liability ($1 million aggregate coverage) and fiduciary liability coverage ($5 million aggregate coverage). These coverages are inclusive of legal defense costs and each policy carries a $25,000 deductible. The State's Legal Expense Fund covers all state employees and officers, and MPERS has purchased surety bonds for the executive director and staff. Settlements have not exceeded coverages for each of the past three fiscal years.

MPERS has a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Employers' Net Pension Liability

As of June 30,

	2016	2015	2014	2013
Total Pension Liability	$3,761,733,004	$3,715,845,651	$3,650,241,741	$3,583,975,559
Plan Fiduciary Net Position	1,992,073,946	2,009,367,134	1,957,456,213	1,685,732,710
Employers' Net Pension Liability	**$1,769,659,058**	**$1,706,478,517**	**$1,692,785,528**	**$1,898,242,849**
Plan Fiduciary Net Position as a % of Total Pension Liability	52.96%	54.08%	53.63%	47.04%
Covered Employee Payroll	$344,635,441	$342,264,593	$336,590,797	$323,205,767
Employers' Net Pension Liability as a % of Employee Covered Payroll	513.49%	498.58%	502.92%	587.32%

Note: These schedules are intended to present information for 10 years, but may be built prospectively. Additional years will be displayed as they become available.

Schedule of Changes in the Employers' Net Pension Liability

Year Ended June 30,

	2016	2015	2014	2013
Total Pension Liability				
Service Cost	$ 45,441,305	$ 45,358,095	$ 44,739,603	$ 44,446,279
Interest on the Total Pension Liability	280,432,068	275,284,910	270,525,608	265,339,848
Difference Between Expected and Actual Experience	(39,810,009)	(13,324,219)	(17,614,321)	(13,690,794)
Assumption Change	0	0	0	204,396,180
Benefit Payments	(236,488,629)	(236,905,323)	(227,958,108)	(220,623,394)
Refunds	(198,106)	(107,395)	(18,686)	(29,300)
Disability Premiums	(1,567,825)	(1,554,676)	(1,531,578)	(1,512,685)
Transfers to Other Retirement Systems	(1,921,451)	(3,147,482)	(1,876,336)	(629,246)
Net Change in Total Pension Liability	**45,887,353**	**65,603,910**	**66,266,182**	**277,696,888**
Total Pension Liability - Beginning	3,715,845,651	3,650,241,741	3,583,975,559	3,306,278,671
Total Pension Liability - Ending (a)	**$ 3,761,733,004**	**$ 3,715,845,651**	**$ 3,650,241,741**	**$ 3,583,975,559**
Plan Fiduciary Net Position				
Contributions - Employer	$ 199,609,396	$ 200,638,571	$ 183,353,841	$ 170,836,117
Contributions - Employee	3,482,513	3,294,162	2,260,563	1,139,450
Pension Plan Net Investment Income	21,432,095	92,645,571	319,445,780	198,141,088
Benefit Payments	(236,488,629)	(236,905,323)	(227,958,108)	(220,619,035)
Refunds	(198,106)	(107,395)	(18,686)	(29,300)
Disabilty Premiums	(1,567,825)	(1,554,676)	(1,531,578)	(1,512,685)
Pension Plan Administrative Expense	(4,370,860)	(4,066,944)	(3,736,355)	(2,997,225)
Net Transfers	808,228	(2,033,045)	(91,954)	(629,246)
Net Change in Plan Fiduciary Net Position	**(17,293,188)**	**51,910,921**	**271,723,503**	**144,329,164**
Plan Fiduciary Net Position - Beginning	**2,009,367,134**	**1,957,456,213**	**1,685,732,710**	**1,541,403,546**
Plan Fiduciary Net Position - Ending (b)	**$ 1,992,073,946**	**$ 2,009,367,134**	**$ 1,957,456,213**	**$ 1,685,732,710**
Employers' Net Pension Liability - Ending (a) - (b)	**$ 1,769,659,058**	**$ 1,706,478,517**	**$ 1,692,785,528**	**$ 1,898,242,849**

Note: These schedules are intended to present information for 10 years, but may be built prospectively. Additional years will be displayed as they become available.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employers' Contributions
Last 10 Fiscal Years

	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Employee Covered Payroll
2007	$121,243,361	$121,243,361	$0	$372,140,457	32.58%
2008	123,323,265	123,323,265	0	375,527,604	32.84
2009	122,613,975	122,613,975	0	379,140,306	32.34
2010	124,052,534	124,052,534	0	376,258,823	32.97
2011	149,952,750	149,952,750	0	363,345,651	41.27
2012	164,884,467	164,884,467	0	344,514,139	47.86
2013	170,836,117	170,836,117	0	329,863,134	51.79
2014	183,353,841	183,353,841	0	336,799,855	54.44
2015	200,638,571	200,638,571	0	342,211,446	58.63
2016	199,609,396	199,609,396	0	344,154,131	58.00

Schedule of Investment Returns
Last 10 Fiscal Years

Fiscal Year Ended June 30	Annual Money-Weighted Rate of Return
2007	17.87%
2008	-2.29%
2009	-24.88%
2010	12.72%
2011	21.57%
2012	2.80%
2013	13.37%
2014	17.58%
2015	6.62%
2016	1.02%

REQUIRED SUPPLEMENTARY INFORMATION

Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date .... June 30, 2016
Actuarial Cost Method .... Entry Age
Amortized Method .... Level Percentage of Payroll, Closed
Remaining Amortization Period .... 16 Years (single equivalent period)
Asset Valuation Method .... 3-Year Smoothed Market: 20% Corridor
Inflation .... 3.5% (price inflation)
Actuarial Assumptions:
- Investment Rate of Return 7.75%
- Projected Salary Increase .... 3.5% to 11% (including 3.5% wage inflation)
- Cost-of-Living Adjustments .... 2.4% Compound

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefit Plan (OPEB)
Schedule of Funding Progress
for MoDOT and MSHP Medical and Life Insurance Plan

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2008	$0	$1,178,303	$1,178,303	0%
2010[1]	0	1,036,681	1,036,681	0%
2012	0	1,048,333	1,048,333	0%
2014	0	857,676	857,676	0%
2016	0	908,347	908,347	0%

[1]New assumptions adopted.

Actuarial valuations are performed biennially. The July 1, 2015 actuarial valuation was used for FY16 financial statements, the July 1, 2013 actuarial valuation was used for FY15 and FY14 financial statements, the July 1, 2011 actuarial valuation was used for FY12 and FY13 financial statements, the July 1, 2009 actuarial valuation was used for FY10 and FY11 financial statements, and the July 1, 2007 actuarial valuation was used for FY08 and FY09 financial statements. This reporting requirement is being implemented prospectively, as prior years' data is not available.

Because this plan is an internal service fund of MoDOT, assets have not been set aside. Therefore, there is no actuarial value of assets. This results in a calculated funded ratio of zero percent.

Notes to the OPEB Schedule of Funding Progress

The information presented in the above schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date .... July 1, 2015
Actuarial Cost Method .... Projected Unit Credit
UAAL Amortization Method .... Level Dollar Amount
UAAL Amortization Period .... 30 Years
UAAL Amortization Approach .... Open
Investment Return (discount) Rate 4.0%
Healthcare Cost Trend Rate .... 7.0%, Decreasing
to 4.5% in 2025
Admin Expense Trend (Inflation) Rate 4.0%

Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

Personal Services:	
Salary Expense	$1,744,734
Employee Benefit Expense	1,357,290
Total Personal Services	$3,102,024
Professional Services:	
Actuarial Services	$98,888
Audit Services	48,840
Disability Administrative Services	13,504
Legislative Consultant	30,000
Investment Special Consulting	11,486
Insurance Consultant	6,000
Other Consultant Fees	4,559
Fiduciary Insurance	76,618
IT Hosting and Support	309,669
Other	4,291
Total Professional Services	$603,855
Miscellaneous:	
Depreciation	$360,639
Meetings/Travel/Education	105,663
Equipment/Supplies	51,275
Printing/Postage	34,534
Bank Service Charge	8,801
Building Expenses	46,917
Other	57,152
Total Miscellaneous	$664,981
Total Administrative Expenses	$4,370,860

Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

Investment Income Expenses:	
Management and Performance Fees	
Global Equity	$2,808,173
Fixed Income Core	142,170
Opportunistic Debt	2,007,229
Real Estate	8,397,610
Private Equity	3,159,368
Real Assets	885,006
Hedge Funds	4,316,966
Cash	510,000
Total Management and Performance Fees	$22,226,522
Investment Custodial Fee	53,679
Performance Management	164,208
General Consultant (monitoring) Fee	318,871
Other Investment Expenses	940,605
Total Investment Income Expenses	$23,703,885
Securities Lending Expenses:	
Borrower Rebates (Refunds)	$77,831
Bank Fees	87,970
Total Securities Lending Expenses	$165,801

Supplementary Information

SCHEDULE OF CONSULTANT AND PROFESSIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

Professional/Consultant	Nature of Service	
Levi, Ray & Shoup, Inc.	Information Technology	$250,394
Gabriel, Roeder, Smith & Co.	Actuarial	98,888
Alliant Insurance Services, Inc.	Fiduciary Insurance	69,684
Williams-Keepers, LLC	Financial Audit	48,840
Huber & Associates	Information Technology	44,085
Michael G. Winter Consultants, LLC	Legislative Consulting	30,000
Sikich, LLP	Information Technology	15,190
The Standard Insurance Co.	Disability Administration	13,504
ISI Group, Inc.	Market Research	11,486
Charlesworth Benefits	Risk Management Consulting	6,000
Alliant Insurance Services, Inc.	Director's & Officer's Insurance	5,816
Thompson Coburn, LLP	Legal Consulting	4,559
Pension Benefit Information	Death Audit Services	2,628
MO Dept. of Health & Senior Services	Death Audit Services	1,518
Alliant Insurance Services, Inc.	Employee Crime Bond	1,118
The Berwyn Group	Death Audit Services	145
Total Operating Consultant and Professional Expenses		$603,855

New England Pension Consultants	General Consulting/Monitoring	$318,871
The Northern Trust Company	Performance Management	164,208
The Northern Trust Company	Investment Custodian	53,679
Total Investment Consultant and Professional Expenses		$536,758

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

COMMUNICATION OF AUDIT RELATED MATTERS

JUNE 30, 2016

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Suite 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800
3220 West Edgewood, Suite E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240
www.williamskeepers.com

November 8, 2016

To the Audit Committee of the Board of Trustees of the
Missouri Department of Transportation and
Highway Patrol Employees' Retirement System

We have audited the financial statements of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System) for the year ended June 30, 2016, and have issued our report thereon dated November 8, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to the System's Chairman of the Audit Committee of the Board of Trustees in a letter dated June 20, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Plan are described in Note 1 to the financial statements. Except as noted below, no new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

For the year ended June 30, 2016, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. As a result of implementing GASB 72, the System included additional disclosures regarding fair value measurements, the level of the fair value hierarchy in which investments fall, and the valuation techniques used to level such investments.

For the year ending June 30, 2018, the System will be required to implement Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expenses/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In general, this Statement will require the System to record and report the net liability for postemployment benefits other than pensions, along with deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It also requires significant changes to the footnote disclosures and required supplementary information.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: fair value of investments, useful lives of capital assets, and employers' net pension liability and related disclosures.

Management's estimate of the fair value of investments is based on quoted market prices; input from outside investment managers, consultants, and general partners; and current economic conditions. Estimated useful lives of capital assets are generally based on past experience with similar assets. Employers' net pension liability and related disclosures are based on actuarial methods and assumptions determined in consultation with the System's actuary. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were investments, the funded status of the plan, and the net pension liability of employers.

Difficulties Encountered in Performing the Audit

We are pleased to report that we encountered no difficulties in dealing with management in performing and completing our audit. All system personnel cooperated with us fully during the conduct of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management. For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the System that potentially cause future financial statements to be materially misstated, even though we have concluded that such an adjustment is not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually, or in the aggregate, have a significant effect on the System's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter issued in connection with our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the schedules of employers' net pension liability, changes in the net pension liability, employer contributions, investment returns, and OPEB funding progress, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedules of administrative expenses, investment expenses, and professional/consultant expenses, which accompany the basic financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine the information complies with U.S. generally accepted auditing standards, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial and statistical sections, which accompany the basic financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

We thank System management and staff for their assistance during the course of our audit. We will be pleased to discuss these or any other matters at your convenience. This information is intended solely for the use of the Board of Trustees and management of the System and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Williams-Keepers LLC

WILLIAMS-KEEPERS LLC

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT LETTER

JUNE 30, 2016

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Suite 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800
3220 West Edgewood, Suite E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240
www.williamskeepers.com

November 8, 2016

To the Board of Trustees and Management of the
Missouri Department of Transportation and
Highway Patrol Employees' Retirement System

In planning and performing our audit of the financial statements of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System) for the year ended June 30, 2016, in accordance with U.S. generally accepted auditing standards, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Systems' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, we did become aware of certain deficiencies in internal control that we consider to be significant deficiencies. The following items summarize our comments and suggestions regarding those deficiencies.

CONTINUING RECOMMENDATIONS

3rd PARTY IT PROVIDER CONTROLS

During the 2014 fiscal year, the System contracted with a 3rd party IT provider to host the System's pension administration system and associated lines of business applications. We noted the System has not received a Service Organization Controls (SOC) 2 report from this IT provider. SOC 2 reports are examination engagements undertaken by a service auditor to report on controls at an organization that provides services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting. These reports specifically address controls related to security, availability, processing integrity, confidentiality, and privacy. As such, we were unable to determine if the controls in place at the 3rd party IT provider adequately address risks related to physical security, change management, and backup & recovery. The System could be putting its information at risk if the IT provider has not implemented proper controls. We recommend the System request the IT provider make available a SOC 2, Type 2 report. The System can then use this information to assess the adequacy of controls in place at the IT provider as well as determine the extent of controls the System should implement to minimize its risk in this area.

Status: MPERS has initiated discussions with the 3rd party provider requesting they have the necessary testing performed to issue a SOC report. The 3rd party provider plans to issue a SOC 2, Type 2 audit report by June 2017.

PRIOR YEAR RECOMMENDATIONS PARTIALLY IMPLEMENTED

DISASTER RECOVERY PLAN

The System does not presently have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities. We suggest management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage;
- A listing of all data files that would have to be obtained from the off-site storage location;
- Identification of a back-up location (name and telephone number) with similar or compatible equipment for emergency processing (Management should make arrangements for such back-up with another company, a computer vendor, or a service center. The agreement should be in writing.);
- Responsibilities of various personnel in an emergency;
- Priority of critical applications and reporting requirements during the emergency period.

Status: MPERS' staff is developing a full disaster recovery and business continuity plan. The full disaster recovery and business continuity plan is expected to be completed and appropriately documented and tested during fiscal year 2017.

We will be pleased to discuss these or any other matters deemed appropriate at your convenience. This report is intended solely for the information and use of the Board of Trustees, management, and others within the System and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Williams-Keepers

WILLIAMS- KEEPERS LLC