



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
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8

Meeting Date: 3/29/2011

Report Type: Consent

Title: Fiscal Year 2009/10 Sacramento City Employees' Retirement System Annual Financial Report

Report ID: 2011-00288

Location: Citywide

Recommendation: Receive and file.

Contact: Dennis Kauffman, Accounting Manager, (916) 808-5843; Leyne Milstein, Director of Finance, (916) 808-8491, Department of Finance

Presenter: None

Department: Finance

Division: Accounting Division

Dept ID: 06001311

Attachments:

- 1-Description/Analysis
- 2-SCERS Annual Financial Report.pdf

City Attorney Review

Approved as to Form
Larry Duran
3/24/2011 11:47:26 AM

City Treasurer Review

Prior Council Financial Policy Approval or
Outside City Treasurer Scope
Russell Fehr
3/18/2011 11:46:29 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 3/24/2011 9:54:23 AM

Assistant City Manager: Patti Bisharat - 3/24/2011 11:37:54 AM



Description/Analysis

Issue: The FY 2009/10 Sacramento City Employees' Retirement System (SCERS) Annual Financial Report has been prepared to present the financial results of SCERS for the fiscal year that ended June 30, 2010. The June 30, 2010 Auditor's Report to the Administration, Investment, and Fiscal Management Board (AIFM Board) provides additional information about the Fiscal Year 2009/10 SCERS audit.

Policy Considerations: This report is consistent with the City's fiscal transparency and accountability principles.

Environmental Considerations: Not Applicable

California Environmental Quality Act (CEQA): This recommendation does not constitute a "project" and is therefore exempt from the California Environmental Quality Act according to CEQA guidelines Section 15061 (b)(1) and 15378(b)(3).

Sustainability: Not Applicable

Commission/Committee Action: None

Rationale for Recommendation: It is in the best interest of the City Council to review the FY 2009/10 Sacramento City Employees' Retirement System (SCERS) Annual Financial Report and the June 30, 2010 Auditor's Report to the AIFM Board in order to understand the structure, obligations and liabilities of the City's SCERS retirement program:

- SCERS is a defined benefit plan in which retirement benefits for City member employees are based upon age, final compensation and length of service. In 1977, with the passage of Measure E, SCERS became a closed system. Since that time, all full-time and eligible part-time employees of the City participate in the California Public Employees Retirement System (CalPERS) rather than SCERS.
- Assets for SCERS are held in trust. Trust monies are used to pay benefits to plan participants and their beneficiaries. The trust is managed pursuant to the City Charter under the direction of the AIFM Board.
- The public accounting firm of Macias, Gini & O'Connell, LLP, has audited the SCERS FY2009/10 financial statements and has rendered its unqualified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles.
- The auditor's Report to the AIFM Board reflects no significant audit adjustments or disagreements with management in connection with this year's audit. The report includes one recommendation to improve review and approval procedures for retirement benefit calculations.

Financial Considerations: The annual required contribution (ARC) from the City to SCERS of \$10.5 million for FY 2010/11 is included in the approved budget. The ARC for FY 2011/12 of \$10.4 million will be included in the proposed budget.

Emerging Small Business Development (ESBD): No goods or services are being purchased under this report.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Fiscal Years Ended June 30, 2010 and 2009

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**OFFICE OF THE
CITY TREASURER**

**RUSSELL T. FEHR
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December 14, 2010

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TO: Members of the Sacramento City Employees' Retirement System
Members of the Sacramento City Council

Transmitted herewith is the annual report of the Administration, Investment and Fiscal Management Board (Board) for the Sacramento City Employees' Retirement System (SCERS). This report addresses Board membership, history, investment objectives, asset allocation, financial results, members' interest credit, fund performance, administration highlights, independent auditor's report and the actuarial report for the fiscal year ended June 30, 2010.

The Annual Financial Report consists of three sections: an Introductory Section which contains the letter of transmittal and the identification of the administrative organization and consulting services utilized by SCERS; the Financial Section which contains the Independent Auditor's Report; Management's Discussion and Analysis (MD&A), and the financial statements of SCERS; and the Actuarial Section which contains the independent consulting actuary's valuation along with related actuarial data and statements.

The accuracy and completeness of the data contained in this report is the sole responsibility of the management of the Sacramento City Employees' Retirement System.

BOARD MEMBERSHIP

As set out in the Sacramento City Charter, the Board is comprised of five members, three of whom are City officials (or their designees), and two of whom are public citizen members appointed by the City Council. The Sacramento City Manager, City Treasurer and Director of Finance are the City officials designated to serve on this Board. By City Charter, the public citizen members must be residents of the City of Sacramento, not connected with City government, and at least one of these members must be qualified by training and experience in the management and investment of funds.

The following are the current members of the Board:

City Officials

Gus Vina, Interim City Manager (Dennis Kauffman, Designee)
Russell Fehr, City Treasurer
Leyne Milstein, Director of Finance

Public Citizen Members

David DeCamilla - President, DeCamilla Capital Management
Donald E. Sperling - Retired City Employee

David DeCamilla was re-elected by the Board in January 2009 to serve as Board Chair, a position he has held since January 1988. Mr. DeCamilla has served on the Board since February 1985, when he was initially appointed to serve the remainder of the term of another public citizen member who resigned when he moved out of the City of Sacramento. Mr. DeCamilla's first full-term appointment as a public citizen member was made in January 1988. Mr. DeCamilla is currently serving his sixth consecutive term appointment as a public citizen member.

Donald E. Sperling, retired City employee, was appointed to the Board in August 1993 as a public citizen Board member and has served as the Vice-Chair since January 2009. Mr. Sperling's City employment spanned approximately 33 years with the Office of the City Treasurer, where he advanced to the position of Assistant City Treasurer. Mr. Sperling was re-appointed to a third term.

Russell Fehr, City Treasurer, was appointed to his current position in May 2008. Mr. Fehr has been an active participant on the Board since January 2006, when he assumed his position as Finance Director and has been a City employee since 2004.

Gus Vina, Interim City Manager, was appointed to his current position in March 2010 and assumed the Board membership position. Mr. Vina appointed Dennis Kauffman, Accounting Manager as his designee on the Board. Mr. Kauffman was appointed to the position of Accounting Manager in June 2003 and has been a City employee since 2000.

Leyne Milstein, Finance Director, assumed Board membership at the time she was appointed to her current position in October 2008. Prior to this appointment, Ms. Milstein held the position of Budget Manager and has been a City employee since 2005.

HISTORY

SCERS (the System) is a defined benefit plan in which retirement benefits for City member employees are based upon age, final compensation and length of service. City employee members make contributions to the System and, until 1993, the City made a normal contribution which is a percentage of total City payrolls. These cash payments plus the income they earn are held in trust to meet the retirement benefits of members. However, if these assets prove inadequate to meet the defined benefits, the City of Sacramento must find additional sources of monies to pay benefits. Between fiscal year 1988/1989 and fiscal year 2006/2007, the System was fully funded or in an actuarial surplus condition, and the City enjoyed a contribution holiday. The City has been required to make contributions for the past three years.

In 1977, with the passage of Measure E, SCERS became a closed system. Since that time, all full-time and eligible part-time employees of the City participate in the California Public Employees' Retirement System (CalPERS) rather than SCERS. In 1977 the average age of SCERS active members was 36 years.

In June 1989, the voters of Sacramento approved the transfer of SCERS active safety members to CalPERS. Effective December 30, 1989, SCERS active safety members were transferred to CalPERS with a cash transfer of \$103.3 million in January 1990.

As of June 30, 2010, the average age of SCERS active members is 57.9 years and the average years of service are 31.9 years. There are 85 active miscellaneous members and a total of 1,418 plan participants.

INVESTMENT OBJECTIVES

The primary investment objective of SCERS is to prudently maximize income after giving consideration to plan benefit requirements. To accomplish this objective, the Board has adopted an investment policy which emphasizes the use of cash income and fixed-income investments structured to meet the actual and estimated benefit payments. Consequently, equity investments as a percentage of total plan assets are less in SCERS than in most retirement plans. All SCERS investments are held by a third-party trustee, except for real estate trust deeds.

This policy was adopted because there are no new entrants to the system. Cash payments for benefits have exceeded contributions since 1989. Further, volatility in investment markets could create investment losses, if the portfolio is not structured to meet benefit payments. The Board's investment policy is reviewed from time-to-time. In November, 2010, the Board considered a restated and revised investment policy. The Board is expected to give its final approval of the investment policy in January, 2011. Pursuant to the Charter, the revised policy approved by the Board will be presented to the City Council for its approval.

ASSET ALLOCATION

In February 2010, the Board voted to continue the balanced asset allocation policy approved the prior year.

<u>Fixed Income</u>	
Fixed Bond	50%
<u>Equity</u>	
Large Cap Growth	30%
Equity Income	10%
International	<u>10%</u>
	50%

The Board typically revisits its asset allocation every February. It is expected to consider the allocation at its meeting in February, 2011 to govern investments in the following fiscal year.

ACTUARIAL EARNING ASSUMPTION

During the fiscal year, SCERS actuarial earnings assumption was 6.5 percent.

FINANCIAL RESULTS

The plan net assets of SCERS increased from \$272.895 million to \$279.750 million for the fiscal year ended June 30, 2010. This \$6.855 million increase is identified as follows:

SCERS PLAN NET ASSETS	\$ in thousands
Plan net assets 6/30/09	\$272,895
Members Contributions	377
City Contributions	3,431
Investment Income	34,766
Benefit Payments & Expenses	(31,719)
Plan net assets 6/30/10	\$ 279,750

SCERS' Actuarial Accrued Liability (AAL) as of June 30, 2010 was \$ 394.658 million. AAL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio was 75.2 percent for this fiscal year. The funding ratio is defined as that portion of the total AAL for which there are assets available for benefits. In general, this indicates that for every dollar of benefits due, SCERS has approximately \$0.752 of assets available for payment.

An analysis of assets shows the rate of investment return for fiscal 2010 was 13.4 percent net of investment expense, which is above the assumed rate of 6.5 percent per annum.

TOTAL FUND PERFORMANCE

To accomplish the calculation of total investment return and investment performance measurement, the Board retained Rogerscasey (formerly CRA/Rogers Casey). Rogerscasey is an independent fund evaluation and performance measurement service that calculates and reports the investment results of over 2,500 managed pension investment portfolios in the U.S. Rogerscasey calculates the investment results of the managed portfolios and compares such results to the database of predetermined industry benchmarks.

Table 1 below shows investment return results of SCERS for the specified periods ended June 30, 2010:

Table 1			
SCERS Total Rate of Return TOTAL FUND For periods ended June 30, 2010			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance	12.43%	-1.75%	2.21%
Custom Index – Target	11.25%	0.08%	4.08%
Actuarial Assumption	6.50%	6.50%	7.08%

A review of the total fund investment performance for the fiscal year ended June 30, 2010 shows a 12.43 percent overall return on SCERS assets.

In response to the unique nature of SCERS pension plan, the Board adopted an asset allocation program which emphasized the preservation of principal, asset liquidity and the accumulation of interest and dividend income to sufficiently meet the benefit payments to SCERS retirees. Specifically, beginning in January 1990 and completed in February 1995, the Board adopted an annual asset allocation strategy which increased the fixed-income assets (primarily corporate bonds) by 2% per year, until bonds accounted for 70% of plan's total assets. The investment strategy emphasized the purchase of fixed-income securities with income streams and yields that equal or exceed the actuarial earnings assumption of the plan, if available, which is 6.5%. To offset somewhat the effect of the significant portion of fixed income allocation, the Board had also approved a "fixed income alternative investment plan" (equity investments with fixed income-like characteristics) equal to 20% of the total portfolio. The emphasis of this program is to provide for dividend income growth over time; with increased valuation the return will exceed straight bond performance. The name of this plan was changed to Equity Income Fund in February 2008 and reallocated to the equity component of the plan. Currently, the target for this component of the portfolio is 10% of the total portfolio.

For SCERS, this asset allocation plan regarding fixed income is a departure from the overwhelming majority of other retirement fund asset allocation models, none of which are closed to new members. Therefore, while "Total System" performance is of interest, it is not necessarily the critical tool in assessing the total return performance of SCERS to other active plans. The issue of greater concern to the Board is the actuarial soundness of SCERS and the ability to pay member benefits from SCERS assets. In February 2008 during the annual asset allocation review, the Board decided to amend the strategy to a balanced portfolio in which there was an equal weighting of fixed-income and equity securities. This revision was in response to a prolonged low interest-rate environment in which long Treasury bonds have been earning around 3% annually.

The asset allocation and fixed-income investment strategy of SCERS is deemed prudent by the Board, because of the closed-fund nature of SCERS as it moves toward a pay-out of benefits to retirees approaching retirement age. Therefore, fixed income performance now and in the future will be measured more by (1) the ability to earn a greater cash rate-of-return than the actuarial earnings assumption, (2) fixed-income investments having maturity schedules which allow benefit payments to be made without having to liquidate investments at market risk, and (3) growth of dividend income

on the equity income investment portfolio. In implementing this strategy, SCERS' equity managers are directed to maximize total return with their asset allocations.

The Board strongly believes this investment strategy provides System members with greater assurance that System assets can make benefit payments and, minimizes the risk to the City of having to make retirement contributions with City resources due to fluctuating market value of investment securities during normal economic cycles.

Fixed Income Performance

Based on Board policy, 50% of SCERS assets are to be allocated to fixed income investments. The portfolio is allocated to corporate bonds, private placements, second trust deeds and other short-term investments awaiting long-term placement in some other form of fixed income investment. In addition, the Real Estate portfolio has been folded into the fixed bond portfolio as the investments are structured notes and the fund was no longer actively managed given the retirement of the manager W.J.S Associates. These assets are managed internally by the City Treasurer's Office.

Table 2 reflects SCERS' performance of all fixed income investments as follows.

Table 2			
SCERS Total Rate of Return FIXED INCOME For the ten year period ended June 30, 2010			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Fixed-Income Fund	14.32%	8.65%	6.86%
Fixed Portfolio Index*	9.50%	7.53%	6.29%

*Fixed Portfolio Index = 100% Barclays US Aggregate from March 2008 to present; prior to March 2008, 100% Barclays US Intermediate Aggregate.

Fixed-income investment is a broad term used to categorize investments purchased for their income potential as opposed to principal growth or equity (ownership) potential. As an example, fixed or variable rate bonds, notes, debentures, mortgages, etc., are generally recognized as the most common forms of fixed-income investments. Different investment plans, however, may include other investment assets in this diversification mix such as public utility common stocks, second trust deeds, mortgages, and short-term interest-bearing instruments. Therefore, when comparing the investment results of a plan to a universe, it is necessary to understand the composition and the diversification of these assets. Knowledge of these differences makes it possible to better understand and evaluate performance.

Table 2 reveals that SCERS' Fixed Income investments produced total rates of return of 14.32% compounded for the one-year period and 6.86% compounded for the ten-year period ended June 30, 2010. The Fixed Bond portfolio outperformed its benchmark because the portfolio held high-quality corporate and municipal securities that appreciated as investors rebalanced their portfolios towards riskier assets and corporate bonds appreciated as spreads narrowed. The historically low interest-rate environment made it extremely difficult to find investments that yielded anywhere near the actuarial assumption of 6.50% without forfeiting credit quality. For this reason staff elected to hold short-term assets in lieu of locking up capital over time in securities yielding less than the inflation rate.

TOTAL FUND PERFORMANCE

Equity Investment Performance

Equity investment is a broad term used to describe investments purchased for growth potential of principal or ownership as opposed to income potential. Common stocks, convertible bonds, and real estate ownership (landlord as opposed to lender) are investments commonly referred to as equity investments. Other investments that could be characterized as equity investments are gold/silver, commodities and covered options. Although not all of these investments are owned by all investment funds, they can all be included in the asset diversification base of those funds that purchase this type of investment.

By Board policy, 50% of SCERS assets are to be allocated to equity investment.

Table 3 shows the overall equity performance of SCERS' investment assets for various periods, the performance of SCERS total equity program, the performance as compared to industry benchmarks and the performance of the individual SCERS equity managers.

Table 3			
SCERS Total Rate of Return EQUITY INVESTMENTS For the ten year period ended June 30, 2010			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance			
Total Equity	10.58%	-12.11%	-7.63%
Domestic Equity Index	13.50%	-11.37%	-3.28%
Individual Equity Managers			
Large Cap Growth	8.13%	-13.60%	-8.86%
Large Cap Index**	12.12%	-11.82%	-7.30%
Equity Income	17.92%	-4.79%	1.81%
Equity Income Index***	25.42%	-11.67%	7.46%
International	16.33%	-9.47%	NA
International Index****	10.43%	-10.70%	NA

**Large Cap Index = Dec 1992 – June 2007 = 100% Russell 1000 Growth, June 2007 to present = 100% S&P 500

***Equity Income Index = Apr 1986 – Feb 1992 = 100% Fixed Portfolio, Mar 1992 to present = 100% Dow Jones Select Dividend Index

****International Index = Feb 2006 – Jun 2007 = 33% Nikkei, 67% MSCI EAFE, Jul 2007 to present = 100% MSCI ACWI ex US

Table 3 reveals that the overall SCERS equity performance was 10.58% compounded for the one-year period and -7.63% compounded for the ten-year period ended June 30, 2010. These overall equity returns are primarily the result of the stock selection within the approved asset allocation.

The Large Cap Growth portfolio was initiated by the Board in November 1992. The Board selected the City Treasurer to manage this portfolio with internal management. One-year and three-year rates of returns were 8.13% and -13.60% respectively. The underperformance in the Large Cap Growth portfolio can be directly attributed to the portfolio being underweight in financial companies and overweight in cash throughout the year. In both instances, the investment staff took a conservative approach in the investment of the plan's funds. The decision to underweight financials was due to the fact that the sector still had considerable overhang from the housing crisis. These companies were relying on government bailouts to maintain solvency as well as continuing to carry non-performing assets on their balance sheet. As far as the decision to hold up to 10% in cash and equivalents, staff believed that the market had run up significantly through the first six months of the fiscal year. It was the Board's intent to cushion the portfolio against a market pullback that could substantially impact performance similarly to what we witnessed in 2008 when the final two months of the fiscal year eroded all of the plan's positive returns.

The Equity Income Fund produced a rate of return of 17.92% for the one-year period and -4.79% for the three-year period ended June 30, 2010. Once again, the underperformance can be attributed to the portfolio underweighting financial companies and overweighting energy companies during the year. A consequence of the housing market crisis was the write-off of assets by many financial institutions that held mortgage-backed debt. As a result, these companies needed to discontinue paying out dividends in order to keep cash in-house; thereby no longer meeting the investment objective of the portfolio. Yet from a total return position, the sector was a strong performer during the fiscal year. Alternately, the energy sector names within the portfolio that were yielding in excess of 7% did not perform as well as the benchmark in terms of total return. Thus, given the portfolio's objective, staff will always prioritize dividend income over total return when making investment decisions.

In February 2006 the Board authorized the City Treasurer's Office to manage an international portfolio in-house. The portfolio was initially allocated 5% of the portfolio or approximately \$17 million, but the strong growth potential outside the U.S. caused the Board to increase the allocation to 10%. The one-year return was 16.33% and -9.47% for the three-year period ending June 30, 2010.

INDEPENDENT AUDIT

SCERS receives an independent audit on the annual financial report. An independent audit has been performed for the fiscal year ended June 30, 2010, and the auditor's opinion is included in this report. The City of Sacramento is responsible for establishing and maintaining internal controls designed to ensure the protection of assets from loss, theft, or misuse, and for ensuring the accounting information generated is adequate to prepare financial statements in conformity with accounting principles generally accepted in the U.S. The design of the internal controls is to provide reasonable assurance, although not absolute assurance, of achieving these objectives. The accuracy and completeness of the data outlined in this report is the sole responsibility of the management of SCERS.

ACTUARIAL VALUATION

The actuarial valuation report for SCERS as of June 30, 2010 is presented in this document. Very briefly, this report identifies an accumulated actuarial deficit of \$97.792 million as of June 30, 2010. The 2010 actuarial valuation report provides a comprehensive review of SCERS financial worth and is deserving of thoughtful reading.

PROFESSIONAL SERVICES

SCERS engages the following consultants to assist in the management and investment of assets:

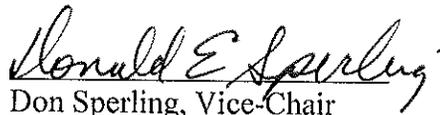
<u>Firm</u>	<u>Duties</u>
Rogerscasey Bartel Associates	Performance evaluation Actuarial evaluation and asset allocation (since 6/30/06)
Bank of New York	Custody and master trust (since 3/1/96)

CLOSING

Interest and input from active members and retirees of SCERS assist the Board in accomplishing its goals and is very much appreciated. Regular meetings of the Board are held in City Treasurer's Conference Room 2nd Floor, 915 "I" Street, at 1:30 p.m., the fourth working Monday of each month, January through November. No regular meeting of the Board is held during the month of December. An additional regular meeting of the Board is held at 1:30 p.m. on the first working Monday of January. In the event that the fourth Monday of the month falls on a holiday, the regular meeting will be held on the third working Monday of that month. Ideas and comments regarding areas of interest and concern will be appreciated.



David DeCamilla, Chair
Administration, Investment and
Fiscal Management Board



Don Sperling, Vice-Chair
Administration, Investment and
Fiscal Management Board

POLICY STATEMENT

It is hereby resolved by the Administration, Investment and Fiscal Management Board that it is the policy of the Board to include the following schedules as addenda to the Annual Financial Report of the Sacramento City Employees' Retirement System:

1. A letter of transmittal to the City Council from the Board Chair;
2. An independent auditor's report;
3. A statement of the System's financial position;

4. A summary schedule of changes in the investment position during the year by security type;
5. A detailed listing of investments (by security) as of the end of the fiscal year;
6. A statement from the Actuary showing the estimated position of the Fund based on latest actuarial projections; and
7. The policy statement of the Board. The Board shall notify recognized employee organizations and the City Council of any changes in the policy statement that are to be made.

Adopted May 1978

Administration, Investment and Fiscal
Management Board
Sacramento City Employees' Retirement System
Sacramento, California

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCERS as of June 30, 2010 and 2009, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note F, based on the most recent actuarial valuation as of June 30, 2010, SCERS' independent actuaries determined that, at June 30, 2010, the value of the actuarial accrued liability exceeded the actuarial value of its assets by \$98 million.

The Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions as listed in the table of contents are not required parts of the basic financial statements of SCERS, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, the data designated as additional information and the actuarial section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the actuarial section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macinn Sini & O'Connell LLP

Certified Public Accountants

Sacramento, California

December 16, 2010

Management's Discussion and Analysis (Unaudited)

The management of the Sacramento City Employees' Retirement System (SCERS) is pleased to provide this overview and analysis of the financial activities of SCERS for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the Financial Statements and Supplemental Schedules that follow this discussion.

Financial Highlights

- SCERS held \$ 279.8 million of net assets in trust for pension benefits at June 30, 2010 and \$272.9 million at June 30, 2009. All of the net assets are available to meet SCERS' ongoing obligation to plan participants and their beneficiaries.
- SCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2010, the date of the last actuarial valuation, the funded ratio for SCERS was 75 percent, compared to 79 percent funded ratio at June 30, 2009. In general, this indicates that for every dollar of benefits due, SCERS has approximately \$0.75 of assets available for payment. SCERS' employer contribution was \$3.4 million for the fiscal year ended June 30, 2010, compared to \$3.2 million in 2009.
- For the fiscal year ended June 30, 2010, SCERS' net income from investment activity was \$34.1 million compared to net investment losses of \$54.6 million in the prior year.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the SCERS' financial statements, which are comprised of the following components:

1. *Statements of Plan Net Assets* are a snapshot of account balances as of June 30, 2010 and 2009. It indicates the total assets and the total liabilities as well as the net assets available for future payment of retirement benefits and operating expenses.
2. *Statements of Changes in Plan Net Assets* provide a view of additions and deductions to SCERS' net assets during each of the fiscal years.
3. *Notes to Financial Statements* and *Required Supplementary Information* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The statements of plan net assets and the statements of changes in plan net assets report information about SCERS' financial activities, prepared using the accrual basis of accounting. Contributions to SCERS are recognized when due, and benefits and refunds are recognized when due and payable. Investments are reported at fair value, except mortgage loans, which are reported at amortized cost. The estimated fair value of investments is the quoted market price. Purchases and sales of investments are recorded on a trade date basis.

Financial Analysis

SCERS' net assets may serve over time as a useful indication of SCERS' financial position. All of SCERS' net assets are available to meet SCERS ongoing obligation to plan participants and their beneficiaries.

SCERS' net assets for the fiscal years ended June 30, 2010, 2009, and 2008 are represented in the charts below.

NET ASSETS SUMMARY
Fiscal years ended June 30, 2010 and 2009
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percent</u>
Cash and cash equivalents	\$ 27,074	\$ 19,593	\$ 7,481	38%
Securities lending collateral	29,379	53,083	(23,704)	-45%
Receivables	1,976	2,003	(27)	-1%
Investments at fair value	253,876	255,409	(1,533)	-1%
Total assets	<u>\$ 312,305</u>	<u>\$ 330,088</u>	<u>\$ (17,783)</u>	<u>-5%</u>
Total liabilities	<u>\$ 32,555</u>	<u>\$ 57,193</u>	<u>\$ (24,638)</u>	<u>-43%</u>
Net assets held in trust for pension benefits	<u>\$ 279,750</u>	<u>\$ 272,895</u>	<u>\$ 6,855</u>	<u>3%</u>

SCERS' net assets held in trust for pension benefits increased during the fiscal year ended June 30, 2010. SCERS' investments at fair value decreased by \$1.5 million from June 30, 2009 and total liabilities decreased by \$25 million. The decrease in total liabilities between June 30, 2010 and June 30, 2009 is mainly the result of a \$24 million decrease in securities lending obligations and a \$515 thousand reduction in amounts payable for investments purchased.

NET ASSETS SUMMARY
Fiscal years ended June 30, 2009 and 2008
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent</u>
Cash and cash equivalents	\$ 19,593	\$ 64,708	\$ (45,115)	-70%
Securities lending collateral	53,083	97,641	(44,558)	-46%
Receivables	2,003	6,623	(4,620)	-70%
Investments at fair value	255,409	295,825	(40,416)	-14%
Total assets	<u>\$ 330,088</u>	<u>\$ 464,797</u>	<u>\$ (134,709)</u>	<u>-29%</u>
Total liabilities	<u>\$ 57,193</u>	<u>\$ 109,593</u>	<u>\$ (52,400)</u>	<u>-48%</u>
Net assets held in trust for pension benefits	<u>\$ 272,895</u>	<u>\$ 355,204</u>	<u>\$ (82,309)</u>	<u>-23%</u>

SCERS' net assets held in trust for pension benefits decreased during the fiscal year ended June 30, 2009. SCERS' investments at fair value decreased by \$40.4 million from June 30, 2008. This represents a significant decline in market values of financial instruments during the fiscal year ended June 30, 2009. The decrease in total liabilities between June 30, 2009 and June 30, 2008 is mainly the result of a \$43.3 million decrease in securities lending obligations and a \$9.1 million dollar reduction in amounts payable for investments purchased.

The following table shows the changes in the various additions and deductions:

HIGHLIGHTS OF CHANGES IN NET ASSETS
Fiscal years ended June 30, 2010 and 2009
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 3,431	\$ 3,159	\$ 272	9%
Employee contributions	377	607	(230)	-38%
Net appreciation (depreciation) in the fair value of investments	23,107	(67,339)	90,446	-134%
Interest	8,090	10,021	(1,931)	-19%
Dividends	3,982	3,859	123	3%
Investment expenses	(1,113)	(1,131)	18	-2%
Net securities lending activity	700	(778)	1,478	-190%
Total net additions	<u>\$ 38,574</u>	<u>\$ (51,602)</u>	<u>\$ 90,176</u>	<u>-175%</u>
Deductions:				
Benefit payments	\$ 31,719	\$ 30,609	\$ 1,110	4%
Refunds of employee contributions	-	98	(98)	-100%
Total deductions	<u>\$ 31,719</u>	<u>\$ 30,707</u>	<u>\$ 1,012</u>	<u>3%</u>
Net increase (decrease) in Plan net assets	6,855	(82,309)	89,164	-108%
Net assets held in trust for pension benefits:				
Beginning of fiscal year	<u>272,895</u>	<u>355,204</u>	<u>(82,309)</u>	<u>-23%</u>
End of fiscal year	<u>\$ 279,750</u>	<u>\$ 272,895</u>	<u>\$ 6,855</u>	<u>3%</u>

- Employee contributions for the fiscal year ended June 30, 2010 decreased from 2009 partly because there were no retroactive contributions during 2010 compared to \$113 thousand in 2009. Regular contributions declined as the system is closed to new members and the number of active members is decreasing each year.
- The net appreciation in fair value of investments has increased by \$90 million, due largely to the recovery of the financial markets during the fiscal year ended June 30, 2010. The \$23 million gain consists of increases in market values of \$34 million and net realized losses on sales of stocks, bonds and other investments of \$11 million.
- Current year interest income decreased 19% compared to fiscal year 2009 due to declining interest rates. Dividends increased slightly in response to recovery in the financial markets during the fiscal year.
- Benefit payments to plan participants increased because of annual inflation adjustments and due to higher average salaries of recent retirees, translating to higher average monthly benefit payments.

HIGHLIGHTS OF CHANGES IN NET ASSETS
Fiscal years ended June 30, 2009 and 2008
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 3,159	\$ 3,534	\$ (375)	-11%
Employee contributions	607	596	11	2%
Net depreciation in fair value of investments	(67,339)	(10,603)	(56,736)	535%
Interest	10,021	9,607	414	4%
Dividends	3,859	4,902	(1,043)	-21%
Investment expenses	(1,131)	(1,403)	272	-19%
Net securities lending activity	(778)	555	(1,333)	-240%
Total net additions	<u>\$ (51,602)</u>	<u>\$ 7,188</u>	<u>\$ (58,790)</u>	<u>-818%</u>
Deductions:				
Benefit payments	\$ 30,609	\$ 29,696	\$ 913	3%
Refunds of employee contributions	98	201	(103)	-51%
Total deductions	<u>\$ 30,707</u>	<u>\$ 29,897</u>	<u>\$ 810</u>	<u>3%</u>
Net decrease in Plan net assets	(82,309)	(22,709)	(59,600)	262%
Net assets held in trust for pension benefits:				
Beginning of fiscal year	355,204	377,913	(22,709)	-6%
End of fiscal year	<u>\$ 272,895</u>	<u>\$ 355,204</u>	<u>\$ (82,309)</u>	<u>-23%</u>

- Employee contributions for the fiscal year ended June 30, 2009 increased overall due to payments of retroactive contributions totaling \$113. Regular contributions declined as the system is closed to new members and the number of active members is decreasing each year.
- The net depreciation in fair value of investments has increased by \$57 million. This represents the severe decline in the financial markets during the fiscal year ended June 30, 2009. The \$67 million loss consists of declines in market values of \$36 million and net realized losses on sales of stocks, bonds and other investments of \$31 million.
- Current year interest income increased only slightly over fiscal year 2008 and dividends declined in response to economic uncertainty in the markets during the year.
- Benefit payments to plan participants increased because of annual inflation adjustments and due to higher average salaries of recent retirees, translating to higher average monthly benefit payments.

Changes in Funded Status

Over the last two years, the actuarial value of SCERS' assets has declined by \$63 million due to general market conditions. During the same period, the actuarial accrued liability has increased by \$3 million. As a result, the funded status of SCERS – the amount of the actuarial accrued liability funded by SCERS' existing assets -- has gone from 92% at June 30, 2008 to 75% at June 30, 2010.

Currently Known Facts and Events

The overall risk profile of the SCERS has remained unchanged since June 30, 2010, and the volatility of the investment portfolio remains in line with the overall financial markets. The global capital markets are highly dynamic and the value of the SCERS changes every day.

Requests for Information

This financial report is designed to provide a general overview of SCERS' finances, and to demonstrate SCERS' accountability for the money it receives and distributes. If you have questions about this report, or need additional financial information, contact the City of Sacramento Department of Finance, Accounting Division, 915 I Street, 4th floor, Sacramento, CA 95814.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Assets
As of June 30, 2010 and 2009
(Amounts Expressed in Thousands)

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 27,074	\$ 19,593
Securities lending collateral	29,379	53,083
Receivables:		
Interest and dividends	1,976	2,003
Investments:		
U.S. agencies	23,085	33,152
Corporate bonds	70,474	67,587
Equities	89,983	95,452
Exchange traded funds	30,461	28,025
Mortgage loans	8,054	8,322
Municipal bonds	31,819	22,871
Total investments	<u>253,876</u>	<u>255,409</u>
Total assets	<u>312,305</u>	<u>330,088</u>
Liabilities		
Securities lending obligation	30,055	54,260
Payable for investments purchased	-	515
Benefits payable	2,486	2,404
Accounts payable	14	14
Total liabilities	<u>32,555</u>	<u>57,193</u>
Net assets held in trust for pension benefits	<u>\$ 279,750</u>	<u>\$ 272,895</u>

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets
Fiscal Years Ended June 30, 2010 and 2009
(Amounts Expressed in Thousands)

	<u>2010</u>	<u>2009</u>
Additions		
Contributions:		
Employer	\$ 3,431	\$ 3,159
Employees	377	607
Total contributions	<u>3,808</u>	<u>3,766</u>
Investment income (loss):		
From investment activities:		
Net appreciation (depreciation) in fair value of investments	23,107	(67,339)
Interest	8,090	10,021
Dividends	3,982	3,859
Total investment income (loss)	<u>35,179</u>	<u>(53,459)</u>
Less investment expense:		
Banking, interest, fiscal agent & other	59	73
Professional services	1,054	1,058
Total investment expense	<u>1,113</u>	<u>1,131</u>
Net income (loss) from investing activities	<u>34,066</u>	<u>(54,590)</u>
From securities lending activities:		
Net appreciation (depreciation) in fair value of investments	501	(1,037)
Securities lending income	271	830
Total securities lending income (loss)	<u>772</u>	<u>(207)</u>
Securities lending expenses:		
Borrower rebates	4	424
Management fees	68	147
Total securities lending expenses	<u>72</u>	<u>571</u>
Net income (loss) from securities lending activities	<u>700</u>	<u>(778)</u>
Total net investment income (loss)	<u>34,766</u>	<u>(55,368)</u>
Total net additions	<u>38,574</u>	<u>(51,602)</u>
Deductions		
Benefits	31,719	30,609
Refunds of employee contributions	-	98
Total deductions	<u>31,719</u>	<u>30,707</u>
Net increase (decrease) in plan net assets	6,855	(82,309)
Net assets held in trust for pension benefits		
Beginning of fiscal year	272,895	355,204
End of fiscal year	<u>\$ 279,750</u>	<u>\$ 272,895</u>

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note A – Plan Description

The City of Sacramento, California, (City) sponsors and administers a defined benefit contributory pension system known as the Sacramento City Employees' Retirement System (SCERS). The fiscal management of SCERS is vested in the five member Administration, Investment, and Fiscal Management Board (Board), consisting of the City Manager, Director of Finance, City Treasurer and two public members who are appointed by the City Council. Because of this relationship with the City, SCERS is reported as a component unit of the City.

SCERS is a single-employer system and an integral part of the City. The accompanying financial statements are included as a pension trust fund in the Comprehensive Annual Financial Report of the City. The system covers all City employees hired before January 29, 1977 and is closed to new members. Employee contribution rates are generally frozen (with minor exceptions) and the City is responsible for any actuarially determined unfunded obligation of the plan. SCERS is comprised of the individual plans listed below. The City Charter establishes plan membership, contributions, and benefit provisions. Any changes must be approved by the electorate of the City.

1. Charter Section 399 Plan – This defined benefit plan was established effective January 1, 1977 to provide retirement, disability and death benefits. At June 30, 2010 and 2009, 84 and 94 active employees, respectively, were participating in this plan, contributing at a rate based upon entry age and type of employment. The City is required to fund all costs in excess of employees' contributions and investment earnings.
2. Equal Shares Plan – This defined benefit plan was established July 1, 1970 to provide retirement, disability and death benefits to all City employees electing coverage at that date and to all employees who were hired from that date through January 1, 1977. At June 30, 2010 and 2009, no active employee was participating in this plan.
3. Charter Section 175 Plans – These defined benefits were established in 1953 and provide for retirement, disability and death benefits at a lower amount than the successor Equal Shares Plan. At June 30, 2010 and 2009, 1 active employee was participating in this plan. Members' normal rates of contribution may be changed by the Board, on the basis of periodic actuarial valuations and investigations.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note A – Plan Description (Continued)

4. Cost-of-Living Adjustment – This adjustment, established in 1969, provides for annual retirement benefit increases of up to 3% of normal benefits based on a corresponding rise in the consumer price index. Cost-of-living benefits are payable to retirees and beneficiaries of all of the above plans after one year of retirement. The cost of living adjustment was 3.0% for fiscal years 2010 and 2009. Members contribute to this adjustment at a rate of 1% of their normal retirement contributions. The City is required to fund all costs in excess of members' contributions and investment earnings.

SCERS reports the assets and activities of all plans in one trust fund. All assets accumulated for the payment of benefits may be used to pay benefits to any of the plan members or beneficiaries.

Since benefits fully vest after five years of service and admission to the plan was restricted in 1976 and closed in 1980, all accumulated benefits at June 30, 2010 and 2009 are fully vested. The chart below indicates changes in the membership of SCERS during the fiscal years ended June 30, 2010 and 2009.

	Actives	Terminated Employees Entitled to Benefits	Retirees	Beneficiaries	Total
June 30, 2008	143	40	1,003	338	1,524
Retirement	(47)	(1)	49	-	1
Deaths	-	-	(49)	(22)	(71)
Other	(1)	(1)	-	22	20
June 30, 2009	95	38	1,003	338	1,474
Retirement	(10)	(4)	14	-	-
Deaths	-	-	(42)	(27)	(69)
Other	-	-	(1)	14	13
June 30, 2010	85	34	974	325	1,418

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2010 and 2009
(Dollars in thousands, except as otherwise noted)

Note B – Summary of Significant Accounting Policies

Basis of Accounting

SCERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments

SCERS' investments are recorded at fair value, except mortgage loans which are recorded at amortized cost. Investments reported at fair value are based on quoted market prices.

Administrative Costs

The City charter requires all costs of administration, excluding investment activity, to be paid by the City. These costs are, therefore, excluded from the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note C – Cash and Investments

Cash and Cash Equivalents

SCERS participates in the City of Sacramento's investment pool, which is not rated by a nationally recognized statistical rating organization. The City Treasurer is granted authority for managing the pool by City Charter, City Council ordinances and resolutions. The City Treasurer reports investment activity quarterly to the City Council and quarterly the investment policy is reaffirmed by the City Council. The pool is accounted for on an amortized cost basis during the year. The value of the pool shares that may be withdrawn at any time is determined on an amortized cost basis, which is different than the fair value of SCERS' position in the pool. Information regarding the investments within the City's pool, including the related risks, can be found in the City's Comprehensive Annual Financial Report (CAFR).

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2010 and 2009
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Securities Lending

SCERS engages in securities lending transactions, whereby SCERS has authorized its bank to loan its securities to approved counterparties for collateral (cash or securities). Such loans are short-term and SCERS retains the right to sell, without penalty, its initial investment in the securities. SCERS' arrangement with the bank requires the bank to indemnify SCERS for failure of any counterparties to return the securities loaned. There are no restrictions on the amount of securities that may be lent.

Borrowers delivered collateral equal to 102% of the market value of the loaned securities. There have been no losses resulting from borrower or lending agent default. During the fiscal years ended June 30, 2010 and 2009, the weighted maturity of lent securities was 160 and 409 days respectively, and the weighted maturity of the investments purchased with cash collateral was 132 and 178 days respectively.

SCERS' securities loaned were corporate bonds, equity, and exchange traded funds. Cash collateral was received. At June 30, 2010 and 2009, SCERS lent securities totaling \$27,717 and \$47,943 respectively and received cash collateral of \$28,808 and \$49,870, respectively. SCERS invested the cash collateral in securities that had a fair market value at June 30, 2010 and 2009 of \$28,133 and \$48,848 respectively.

SCERS also reports its proportionate share of the securities lending activities of the City's investment pool. At June 30, 2010 and 2009, SCERS' share of the investments purchased with cash collateral was \$1,246 and \$4,235, respectively; SCERS' share of the securities lending liability was \$1,247 and \$4,390, respectively.

Investments

Investment standards adopted by the Board authorize the City Treasurer to invest in debt securities, equity securities, promissory notes, mortgage loans or other securities and investments deemed to be prudent by the Board. Other securities and investments cannot exceed 25% of the total assets (cost basis). In addition, promissory notes (cost basis) cannot exceed 25% of the investment portfolio, while mortgage loans (cost basis) cannot exceed 10% of total assets of SCERS.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SCERS manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of SCERS' investments to market interest rate fluctuations is provided by the following tables that shows the distribution of SCERS' investments by maturity.

At June 30, 2010, SCERS' investments have maturities as follows:

Investment Type	Remaining Maturity in Years					Fair Value
	No Maturity	Under 1	1-5	Over 5 / 10 or less	Over 10	
Cash and cash equivalents:						
City of Sacramento Investment Pool	\$ -	\$ -	\$ 27,074	\$ -	\$ -	\$ 27,074
Securities Lending Collateral:						
City of Sacramento Investment Pool	-	-	1,246	-	-	1,246
Asset backed securities	-	100	-	-	350	450
Corporate bonds	-	2,002	-	-	-	2,002
Repurchase agreement	-	25,681	-	-	-	25,681
Total Securities Lending Collateral	-	27,783	1,246	-	350	29,379
Investments:						
U.S. agencies	-	-	-	15,678	7,407	23,085
Corporate bonds	-	-	14,498	48,331	7,645	70,474
Equities	89,983	-	-	-	-	89,983
Exchange traded funds	30,461	-	-	-	-	30,461
Mortgage loans	-	-	5,204	-	2,850	8,054
Municipal bonds	-	2,578	2,700	7,016	19,525	31,819
Total Investments	120,444	2,578	22,402	71,025	37,427	253,876
Total Cash and Investments	\$ 120,444	\$ 30,361	\$ 50,722	\$ 71,025	\$ 37,777	\$ 310,329

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2009, SCERS' investments have maturities as follows:

Investment Type	No Maturity	Remaining Maturity in Years				Fair Value
		Under 1	1-5	Over 5 / 10 or less	Over 10	
Cash and cash equivalents:						
City of Sacramento Investment Pool	\$ -	\$ -	\$ 19,593	\$ -	\$ -	\$ 19,593
Securities Lending Collateral:						
City of Sacramento Investment Pool	-	-	4,235	-	-	4,235
Asset backed securities	-	2,264	355	-	144	2,763
Bank notes	-	1,994	2,998	-	-	4,992
Certificates of deposit	-	1,933	-	-	-	1,933
Corporate bonds	-	16,770	4,877	-	-	21,647
Repurchase agreement	-	17,513	-	-	-	17,513
Total Securities Lending Collateral	-	40,474	12,465	-	144	53,083
Investments:						
U.S. agencies	-	-	-	8,418	24,734	33,152
Corporate bonds	-	-	8,937	52,122	6,528	67,587
Equities	95,452	-	-	-	-	95,452
Exchange traded funds	28,025	-	-	-	-	28,025
Mortgage loans	-	-	5,350	-	2,972	8,322
Municipal bonds	-	-	5,229	4,761	12,881	22,871
Total Investments	123,477	-	19,516	65,301	47,115	255,409
Total Cash and Investments	\$ 123,477	\$ 40,474	\$ 51,574	\$ 65,301	\$ 47,259	\$ 328,085

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2010 and 2009
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yields than the original bonds. As a result, the fair value of the callable bonds is highly sensitive to changes in interest rates.

At June 30, 2010 and 2009, SCERS' investments that are highly sensitive to interest rate fluctuations are as follows:

	<u>Fair Value June 30, 2010</u>
Bank of America securities that have a maturity of 11/15/2015 and are callable monthly from 7/15/2010 to 10/15/2015.	\$2,004
Harvard President and Fellow securities that have a maturity of 10/1/2037 and are callable continuously beginning 4/1/2016.	2,264
Housing and Urban Development (HUD) securities that have a maturity of 8/1/2015 and are callable semi-annually from 8/1/2010 to 2/1/2015.	631
Houston Texas Airport Revenue securities that have a maturity of 1/1/2028 and are callable annually from 1/1/2011 to 1/1/2021.	5,217
Riverside County Redevelopment Agency Tax Allocation securities that have a maturity date of 10/1/2037 and are callable annually from 10/1/2020 to 10/1/2036.	3,009
Sacramento City Financing Authority securities that have a maturity of 12/1/2016 and are callable on 12/1/2015.	750
Sacramento City Financing Authority securities that have a maturity of 12/1/2020 and are callable annually from 12/1/2015 to 12/1/2019.	3,822
Sacramento City Financing Authority securities that have a maturity of 12/1/2025 and are callable annually from 12/1/2015 to 12/1/2024.	1,456

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2010 and 2009
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

	<u>Fair Value</u> <u>June 30, 2009</u>
Caterpillar Financial Services Corp securities that have a maturity of 11/15/2015 and are callable semi-annually from 11/15/2009 to 5/15/2015.	\$1,999
Oakland California Revenue Bond securities that have a maturity of 1/1/2029 and are callable continuously from 1/1/2010.	5,891
Sacramento City Financing Authority securities that have a maturity of 12/1/2016 and are callable on 12/1/2015.	721
Sacramento City Financing Authority securities that have a maturity of 12/1/2025 and are callable annually from 12/1/2015 to 12/1/2024.	1,394
Bank of America securities that have a maturity of 11/15/2015 and are callable monthly from 7/15/2009 to 10/15/2015.	1,902
Harvard President and Fellows securities that have a maturity of 10/1/2037 and are callable continuously from 4/1/2016.	2,040
Housing and Urban Development (HUD) securities that have a maturity of 8/1/2015 and are callable semi-annually from 8/1/2009 to 2/1/2015.	773

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2010, SCERS held a bond that is currently in default of the semi-annual interest payments. The bond issuer Lehman Brothers filed for Chapter 11 bankruptcy protection on September 15, 2008. The bond has a maturity date of April 4, 2016 and a market value of \$494,000 as of June 30, 2010.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2010, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody	Fair Value
City of Sacramento Investment Pool	not rated	not rated	\$ 27,074
City of Sacramento Investment Pool- Investments			
purchased with securities lending cash collateral	not rated	not rated	1,246
Asset backed securities	AA	Aa	100
	CCC	Ba	194
	CCC	Caa	156
Corporate bonds	A	A	18,872
	A	Aa	2,002
	AA	A	8,201
	AA	Aa	21,323
	AAA	Aaa	2,264
	B	Ba	4,823
	BBB	A	9,847
	BBB	Baa	4,650
	D	WR	494
Equities (exempt from disclosure)	N/A	N/A	89,983
Exchange traded funds (exempt from disclosure)	N/A	N/A	30,461
Mortgage loans	not rated	not rated	8,054
Municipal bonds	A	A	19,525
	A	Aa	4,362
	A	Baa	4,110
	A	WR	3,822
Repurchase agreement	AAA	Aaa	25,681
U.S. agencies	AAA	Aaa	14,982
	N/A	N/A	8,103
Total			\$ 310,329

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2009, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody	Fair Value
City of Sacramento Investment Pool	not rated	not rated	\$ 19,593
City of Sacramento Investment Pool- Investments			
purchased with securities lending cash collateral	not rated	not rated	4,235
Asset backed securities	AAA	Aa	268
	AAA	Aaa	1,996
	AAA	BAA	355
	CCC	Caa	144
Bank notes	A1	P1	1,994
	AA	Aa	2,998
Certificates of deposit	A2	Aa	1,933
Corporate bonds	A	A	18,974
	A	Aa	1,916
	A1	P1	14,778
	A2	P1	1,992
	AA	A	5,331
	AA	Aa	21,636
	AAA	Aa	2,187
	AAA	Aaa	2,040
	BBB	A	16,885
	CCC	Caa	3,126
	D	WR	369
Equities (exempt from disclosure)	N/A	N/A	95,452
Exchange traded funds (exempt from disclosure)	N/A	N/A	28,025
Mortgage loans	not rated	not rated	8,322
Municipal bonds	A	A	14,407
	A	Baa	2,573
	BBB	Baa	5,891
Repurchase agreement	AAA	Aaa	17,513
U.S. agencies	AAA	Aaa	22,583
	N/A	N/A	10,569
Total			\$ 328,085

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Notes to the Basic Financial Statements (Continued)
Fiscal Years Ended June 30, 2010 and 2009
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. SCERS had no deposits at June 30, 2010 or June 30, 2009.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2010 and 2009, investments purchased with cash collateral from securities lending transactions that were held by the same broker-dealer (counterparty) that was used for the purchase of securities was \$29,379 and \$53,083, respectively.

Concentration of Credit Risk

As of June 30, 2010 and 2009, SCERS had the following fixed income investments in one issuer exceeding 5% of plan net assets excluding investments issued or explicitly guaranteed by the U.S. government, investments in exchange traded funds, and the City's investment pool:

2010

General Electric Capital Corporation	\$21,322
--------------------------------------	----------

2009

General Electric Capital Corporation	\$18,675
--------------------------------------	----------

Paribus Securities Corporation	\$17,513
--------------------------------	----------

Note D – Related Party Transactions

At June 30, 2010 and 2009, SCERS held revenue bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of \$6,028 and \$2,118 respectively. SCFA is also a blended component unit of the City of Sacramento because its Board is comprised of all City Council members.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note E – Funding Policy

The City's funding policy provides for actuarially determined periodic contributions under the entry age normal method which are discounted and adjusted annually to assure that sufficient assets will be available to pay benefits when due. The City Council established and may amend the obligations of the plan members and the City to contribute to the plan. For the fiscal years ended June 30, 2010 and 2009, the City's annual required and actual contribution was \$3.4 million and \$3.2 million, respectively.

Since the plans included in SCERS are closed to new members, the number of active members in the system is declining. Member contributions have declined as members retire. During the fiscal years ended June 30, 2010 and 2009, active member contributions ranged from 3% to 10% of payroll. At June 30, 2010 and 2009, active members' accumulated contributions, including interest, totaled approximately \$18 million and \$25 million, respectively. For the fiscal years ended June 30, 2010 and 2009, interest was credited to members' contributions at the rate of 2.25% and 5.75%, respectively. Members have an option to withdraw their accumulated contributions, including interest, upon termination of their employment with the City.

Note F – Funded Status

The Plan's funded status as of June 30, 2010, the most recent actuarial valuation date is as follows (dollars in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) (B)</u>	<u>Unfunded (Funded) AAL (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Total Plan Payroll (C)</u>	<u>Unfunded (Funded) AAL as a Percentage of Covered Plan Payroll ((B-A)/C)</u>
June 30, 2010	\$ 297	\$ 395	\$ 98	75%	\$ 5.302	1,848%

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Notes to the Basic Financial Statements (Continued)

Fiscal Years Ended June 30, 2010 and 2009

(Dollars in thousands, except as otherwise noted)

Note F – Funded Status (Continued)

The fiscal year 2009 and 2010 annual required contributions for the Plan were determined as part of the June 30, 2008 and June 30, 2009 actuarial valuations, respectively. The table below summarizes the actuarial methods and assumptions for the actuarial valuations of those years and the fiscal year ended June 30, 2010:

	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2010</u>
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Percent of payroll	Percent of payroll	Level dollar
Amortization period	15 rolling years	15 rolling years	15 year open
Asset valuation method	3-year smoothed market value	3-year smoothed market value	3-year smoothed market value
Actuarial assumptions:			
Investment rate of return	6.50%	6.50%	6.50%
Projected annual salary increases	3.50%	3.50%	3.50%
Cost-of-living adjustments	3.00%	3.00%	3.00%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of assets are increasing or decreasing over time relative to AALs for benefits. Additional information as of the latest actuarial valuation follows:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effect of legal or contractual funding limitations.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Required Supplementary Information

Fiscal Years Ended June 30, 2010 and 2009

(unaudited)

**Schedule of Funding Progress
(Dollars in Millions)**

Actuarial Valuation Date (June 30)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded (Funded) AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Funded) AAL as a Percentage of Covered Payroll ((B-A)/C)
2005	\$374	\$370	\$(4)	101%	\$10.5	(382)%
2006	365	395	30	92	10.3	292
2007	365	395	30	92	9.6	313
2008	360	392	32	92	8.9	361
2009	314	398	84	79	5.7	1,461
2010	297	395	98	75	5.3	1,848

Beginning in FY10, the actuarial accrued liability was calculated using CalPERS 1997-2007 Mortality Tables. Previously the calculation was made using the 1994 Group Annuity Mortality Table.

**Schedule of Employer Contributions
(Dollars in Thousands)**

Year Ended June 30	Annual Required Contribution	Percentage Contribution
2005	\$ -	-
2006	-	-
2007	-	-
2008	3,534	100%
2009	3,159	100%
2010	3,431	100%

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Schedule of Changes in Investment Position
For the Year Ended June 30, 2010
(in thousands)

<u>Description</u>	<u>Balance June 30, 2009 (Fair Value)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Change In Unrealized Gains/(Losses)</u>	<u>Balance June 30, 2010 (Fair Value)</u>
U.S. agencies	\$ 33,152	\$ -	\$ (9,688)	\$ (379)	\$ 23,085
Corporate bonds	67,587	5	(6,784)	9,666	70,474
Equities	95,452	102,063	(126,577)	19,045	89,983
Exchange traded funds	28,025	36,271	(37,794)	3,959	30,461
Mortgage loans	8,322	-	(268)	-	8,054
Municipal bonds	22,871	13,962	(6,192)	1,178	31,819
Total Investments	255,409	152,301	(187,303)	33,469	253,876
Cash and short-term investments	19,593	504,988	(497,507)	-	27,074
Security lending collateral	53,083	-	(23,168)	(536)	29,379
	<u>\$ 328,085</u>	<u>\$ 657,289</u>	<u>\$ (707,978)</u>	<u>\$ 32,933</u>	<u>\$ 310,329</u>

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2010

Investments	Date	Quantity	Amortized Cost	Market Value
US GOVERNMENT OBLIGATION				
Gnma Pool #150426	05/15/16	2,913	\$ 3,199	\$ 3,213
Gnma Pool #157445	06/15/16	21,049	21,327	23,301
Gnma Pool #167166	08/15/16	2,642	2,723	2,950
Gnma Pool #208975	03/15/17	12,222	12,290	13,888
Gnma Pool #211421	04/15/17	18,917	19,022	21,496
Gnma Pool #320296	03/15/22	33,576	32,967	38,715
Gnma Pool #329837	11/15/22	61,742	60,797	69,744
Gnma Pool #450066	12/15/26	8,410	8,354	9,550
Gnma Pool #439515	03/15/27	38,647	37,899	43,868
Gnma Pool #648348	10/15/35	2,169,605	2,162,147	2,356,257
Gnma Pool #550718	11/15/35	2,705,288	2,632,583	2,899,392
Gnma Pool #256393	09/01/36	1,828,036	1,822,038	1,989,525
Housing Urban Development	08/01/15	630,000	630,000	631,378
Fannie Mae	06/10/20	15,000,000	14,945,677	14,982,000
Sub-total			\$ 22,391,023	\$ 23,085,277
CORPORATE BONDS				
American Express Credit Corp	05/02/13	9,000,000	\$ 8,777,371	\$ 9,847,170
M&i Marshall & Ilsley Bk Mtnbe	06/16/15	5,000,000	5,027,744	4,650,000
Ford Motor Credit - Mtn	09/15/15	5,000,000	4,991,672	4,823,000
Bank Amer Corp Sub Intnts Be	11/15/15	2,000,000	2,000,000	2,003,720
Lehman Bros Hldgs Inc Mtn Be 5.5% Defaul	04/04/16	2,500,000	2,465,338	493,750
Bank Of America Na	06/15/17	4,762,000	4,592,202	4,928,099
Goldman Sachs Group Inc	04/01/18	6,000,000	5,802,691	6,285,120
General Electric Capital Corp	05/01/18	15,000,000	14,555,820	15,940,650
Metlife Inc	08/15/18	5,000,000	5,015,031	5,655,250
Roche Holdings Inc	03/01/19	5,000,000	4,929,471	5,824,450
Pfizer Inc	03/15/19	2,000,000	1,998,177	2,376,800
General Electric Capital Corp	03/15/32	5,000,000	5,114,367	5,381,200
President&fellow Harvard Coll	10/01/37	2,000,000	2,052,641	2,264,375
Sub-total		31,500,000	\$ 67,322,525	\$ 70,473,584
EQUITIES - LARGE CAP GROWTH				
Apple Inc.		4,500	\$ 1,093,379	\$ 1,131,885
Archer Daniels Midland Com		50,000	1,402,223	1,291,000
At&t Inc		71,000	2,171,761	1,717,490
Bank Of America Corp		90,000	1,386,600	1,293,300
Broadcom Corp Cl A		45,000	1,534,718	1,483,650
Campbell Soup Co Com		35,000	1,157,975	1,254,050
Chesapeake Energy Corp Com		45,000	1,092,132	942,750
Cisco Sys Inc Com		60,000	1,439,691	1,278,600
Citigroup Inc		350,000	1,348,787	1,316,000
Cme Group Inc Com		5,000	1,516,376	1,407,750
Coca Cola Co Com		30,000	1,318,500	1,503,600
Colgate Palmolive Co Com		18,000	1,218,971	1,417,680
Conagra Inc Com		65,000	1,571,118	1,515,800
Du Pont E I De Nemours Com		40,000	1,562,136	1,383,600
Freeport-Mcmoran Cop & G Cl B		22,000	1,658,882	1,300,860
General Dynamics Corp		24,000	1,311,696	1,405,440
General Electric Co		65,000	1,362,599	937,300

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2010

Investments	Date	Quantity	Amortized Cost	Market Value
Goldman Sachs Group Com		13,000	2,060,733	1,706,510
Google Inc Cl A		3,500	1,978,293	1,557,325
Green Mtn Coffee Roast Com		75,000	1,902,050	1,927,500
Home Depot Inc		50,000	1,372,055	1,403,500
Intuitive Surgical Inc Com New		3,000	989,375	946,860
Johnson & Johnson		30,000	1,660,779	1,771,800
Jpmorgan Chase & Co		25,000	1,136,112	915,250
L3 Communications Hldgs		15,000	1,181,329	1,062,600
Massey Energy Corp Com		35,000	1,640,355	957,250
Mcdonald's Corp		25,000	1,369,141	1,646,750
Merck & Co Inc (new)		40,000	1,531,258	1,398,800
Microsoft Corp		40,000	1,016,952	920,400
Monsanto C0 New Com		30,000	2,288,380	1,386,600
Novartis Ag-Adr		35,000	1,619,298	1,691,200
Oracle Corp Com		60,000	1,559,496	1,287,600
Philip Morris Intl Inc Com		34,000	1,257,909	1,558,560
Procter & Gamble Co		20,000	1,306,145	1,199,600
Qualcomm Inc.		30,000	1,305,258	985,200
Raytheon Company		30,000	1,350,900	1,451,700
Statoil Asa Sponsored ADR		50,000	1,586,248	957,500
Transocean Ltd.		28,000	2,176,733	1,297,240
Verizon Communications Inc		51,000	1,632,378	1,429,020
Visa Inc Com Cl A		20,000	1,487,028	1,415,000
Petroleo Brasileiro Sa Sponsored ADR		33,000	1,945,063	1,132,560
Sub-total			\$ 61,500,812	\$ 54,587,080
EQUITIES - FIXED ALTERNATIVE EQUITIES				
Altria Group Inc		62,000	\$ 1,343,017	\$ 1,242,480
Annaly Cap Mgmt Inc Com		100,000	1,562,345	1,715,000
Dominion Res Va New Com		46,000	2,018,169	1,782,040
Duke Energy Corp		106,000	1,990,343	1,696,000
Enerplus Res Fd Unit Tr G New		25,000	998,475	539,250
Exelon Corp		35,000	2,478,727	1,328,950
Frontier Communication Com		110,000	1,511,845	782,100
Health Care Reit Inc Com		30,000	1,339,245	1,263,600
Kinder Morgan Energy Partners Ltd		60,000	3,071,655	3,903,600
Penn West Energy Tr Tr Unit		36,000	989,147	684,720
Pfizer Inc		80,000	2,054,126	1,140,800
Philip Morris Intl Inc Com		41,000	1,984,754	1,879,440
Pinnacle West Cap Corp		69,000	2,841,613	2,508,840
Provident Energy Tr Tr Unit		100,000	1,045,580	687,000
Reynolds American Inc Com		24,000	1,457,186	1,250,880
Barclays Bank Plc ADR Pfd Sr 5		45,000	1,097,667	1,102,500
Jpmorgan Chase & Co		60,000	1,500,000	1,597,800
Wells Fargo Capital Xii		60,000	1,481,789	1,539,000
Sub-total			\$ 30,765,683	\$ 26,644,000

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2010

Investments	Date	Quantity	Amortized Cost	Market Value
EQUITIES - INTERNATIONAL EQUALITIES				
Agrium Inc Com		20,000	\$ 1,130,855	\$ 978,800
Barrick Gold Corp Com		45,000	1,742,121	2,043,450
Bhp Billiton Plc Sponsored Adr		20,000	1,260,737	1,028,800
Cf Industries Holdings Inc.		15,000	1,068,648	951,750
Research In Motion Ltd		25,000	1,650,335	1,231,500
Teva Pharmaceutical Ind		25,000	1,440,984	1,299,750
Vale S.A		50,000	1,630,818	1,217,500
Sub-total			\$ 9,924,498	\$ 8,751,550
EXCHANGE TRADED FUNDS				
Ishares Tr Dj Us Healthcr		30,000	\$ 1,781,718	\$ 1,746,900
Ishares Tr Dj Us Tech Sec		45,000	1,828,780	2,322,000
Ishares Tr Transp Ave Idx		18,000	1,434,728	1,302,480
Market Vectors Etf Tr Coal Etf		30,000	790,365	894,300
Oil Svc Holdrs Tr Depostry Rcpt		9,000	1,031,182	851,760
Select Sector Spdr Tr Sbi Cons Discr		40,000	997,184	1,165,200
Select Sector Spdr Tr Sbi Int-Finl		323,000	4,006,546	4,460,630
Semiconductor Hldrs Tr Dep Rcpt		45,000	1,117,555	1,166,400
Spdr Gold Trust Gold Shs		10,000	1,148,200	1,216,800
Spdr Series Trust S&p Homebuild		90,000	1,410,399	1,288,800
Spdr Series Trust Spdr Kbw Ins Etf		33,000	1,176,431	1,163,250
Wisdomtree Trust India Erngs Fd		70,000	1,527,199	1,592,500
Market Vectors Etf Tr Gold Miner Etf		20,000	1,063,154	1,039,200
Ishares Inc Msci Brazil		31,000	2,501,781	1,916,730
Ishares Inc Msci Cda Index		85,000	1,985,553	2,113,950
Ishares Inc Msci Emu Index		30,000	968,511	856,500
Ishares Inc Msci Taiwan		90,000	1,031,907	1,008,000
Ishares Tr Ftse Xnhua Idx		40,000	1,776,301	1,565,200
Ishares Tr Msci Eafe Idx		60,000	3,412,067	2,790,600
Sub-total			\$ 30,989,561	\$ 30,461,200
MUNICIPAL BONDS				
San Francisco City & County Int'l Airpor	05/01/11	2,500,000	\$ 2,510,870	\$ 2,578,500
San Francisco City & County Int'l Airpor	05/01/12	2,500,000	2,502,060	2,699,925
Peralta Calif Cmnty College Di Go Bds	11/01/15	4,000,000	4,000,000	4,361,960
Sacramento City Calif Fing Tax Alloc Rv	12/01/16	710,000	706,149	750,307
Riverside Calif Pub Fing Auth Tax Alloc	08/01/17	2,005,000	1,909,459	1,903,407
Sacramento Calif City Fing Auth Rev	12/01/20	4,000,000	3,698,126	3,822,080
Sacramento Calif City Fing Auth Rev Taxa	12/01/25	1,855,000	1,855,000	1,456,027
Houston Tex Arpt Sys Rev Arpt Sys	01/01/28	5,000,000	4,476,717	5,217,000
California St Build America Bonds	04/01/34	500,000	473,516	533,600
Riverside Cnty Calif Redev Agy Tax Alloc	10/01/37	3,000,000	3,014,983	3,009,060
San Francisco Calif City & Cnt Tax Alloc	08/01/39	5,000,000	5,198,655	5,487,250
Sub-total			\$ 30,345,535	\$ 31,819,116
MORTGAGE LOANS				
2484 Natomas Park Dr.	07/01/12	2,046,026	\$ 2,046,026	\$ 2,046,026
2660 W. Covell Blvd/West Davis Assoc	08/01/12	3,158,076	3,158,077	3,158,077
Walgreens Drugs/Adahi, Inc	05/01/24	2,849,746	2,849,746	2,849,746
Sub-total			\$ 8,053,849	\$ 8,053,849
Total			\$ 261,293,486	\$ 253,875,656

APPENDIX A



BARTEL
ASSOCIATES, LLC

City of Sacramento

Sacramento City Employees' Retirement System

**June 30, 2010
Actuarial Valuation**

November 2010

ACTUARIAL VALUATION
CITY OF SACRAMENTO
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM (SCERS)
DEFINED BENEFIT PLAN

We are pleased to present the results of our June 30, 2010 actuarial valuation of the Sacramento City Employees' Retirement System (SCERS).

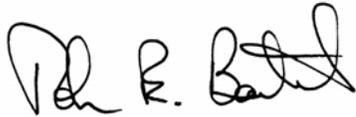
The purpose of this valuation is to:

- determine June 30, 2010 System actuarial liabilities and funded status pursuant to Governmental Accounting Standards Board Statement No. 25 (GASB 25), as amended by GASB 50, and
- calculate the 2011/12 fiscal year Annual Pension Cost under GASB 27, as amended by GASB 50.

The report is based on the System's benefit provisions summarized in Section 7, employee data furnished by the City, and on the System's financial information. We reviewed the financial and employee data for reasonableness but did not perform an audit. The valuation was prepared using generally accepted actuarial principles and practices, and methods and assumptions summarized in Section 9.

As members of the American Academy of Actuaries, meeting Academy Qualification Standards, we certify the actuarial results and opinions in this report.

Sincerely,



John E. Bartel, ASA, MAAA, EA, FCA
President



Deanna Van Valer, ASA, MAAA, EA, FCA
Assistant Vice President

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SECTION 1

EXECUTIVE SUMMARY

Following are the valuation results. See notes following the table for a description of terms. Results from the June 30, 2009 valuation are provided for comparative purposes.

	-----amounts in \$000's-----		
	June 30, 2009	June 30, 2010	% change
■ Participant Counts			
• Actives	95	85	-10.5%
• Terminated Vesteds	25	24	-4.0%
• Reciprocals	13	10	-28.6%
• Service Retirees	814	796	-2.2%
• Disableds	189	178	-5.8%
• Beneficiaries	338	325	-3.8%
• Total	1,474	1,418	-3.9%
■ Actuarial Liabilities			
• Present Value of Projected Benefits	\$ 399,860	\$ 395,975	-1.0%
• Actuarial Accrued Liability	398,233	394,658	-0.9%
■ Assets			
• Market Value of Assets	272,895	279,750	2.5%
• Approximate Annual Rate of Return	-16.2%	13.4%	
• Actuarial Value of Assets	313,829	296,866	-5.7%
• Approximate Annual Rate of Return	-5.5%	3.7%	
■ Plan Funded Status			
• Actuarial Accrued Liability	398,233	394,658	-0.9%
• Actuarial Value of Plan Assets	313,829	296,866	-5.7%
• Unfunded Actuarial Accrued Liability	84,404	97,792	13.7%
• Funded Ratio	78.8%	75.2%	-4.8%
• Funded Ratio, Market Value Basis	68.5%	70.9%	3.3%
	2010/11	2011/12	% change
■ Annual Cost¹	10,547	10,361	-1.8%
■ Annual Cost (% Proj. Plan Payroll)¹	213.1%	233.0%	
■ Annual Cost (% Proj. City Payroll)	3.2%	3.3%	

¹ See page 10 for details.

SECTION 1

EXECUTIVE SUMMARY

Purpose of Actuarial Valuation

The actual costs of a defined benefit plan are determined entirely by the amount of the benefit promise, the actual salaries and service of the plan participants, and how long they and their beneficiaries live to receive payments. An actuarial valuation is a mathematical model which attempts to quantify this actual cost by setting assumptions that, it is hoped, duplicate reality as closely as possible. In addition, the actuarial methodology provides a reasonable plan, or method, towards funding the expected plan costs. This information assists the plan trustees so they can make informed decisions regarding plan investments and how much in contributions will be required from the employer to eventually fully pay the plan's costs.

Summary Information

The Sacramento City Employees' Retirement System (SCERS) is a closed defined benefit pension plan. It has not accepted new members since January 28, 1977, and only 85 active members (out of a total plan membership of 1,418) remain.

Results

Since the last valuation, experience gains on liabilities and market assets led to a slight decrease in the contribution rate. Plan liabilities decreased slightly more than expected, by approximately \$0.6 million, due primarily to fewer retirements than expected. Asset losses not fully recognized from last year's economic downturn was the primary factor contributing to losses of \$8.6 million on the actuarial value of assets. The resulting July 1, 2010 total plan Unfunded Actuarial Accrued Liability (UAAL), prior to assumption changes, is \$93.8 million, as compared to an expected UAAL of \$85.8 million.

The plan's mortality assumptions were updated to the most recent CalPERS mortality experience based on 1997-2007 data. The prior assumptions were based on 1994 data. The modest improvement in mortality resulted in a \$4.0 million increase to liabilities, for a final July 1, 2010 UAAL of \$97.8 million. The plan's funded ratio based on the actuarial value of assets is 75.2%, a decrease from 78.8% in the prior valuation.

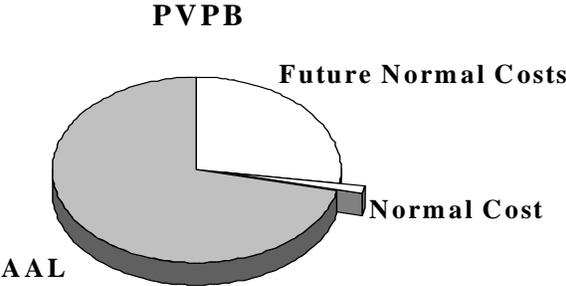
Due to the very modest changes in experience and assumptions since the prior valuation, the City's contribution has slightly decreased from the previous year. The employer contribution for fiscal year 2011/12 is \$10.4 million, down from \$10.5 million in the previous year.

SECTION 1

EXECUTIVE SUMMARY

Definitions

The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits. Therefore, the AAL is equal to the PVPB for current retirees. The Normal Cost is the portion of the PVPB allocated or earned during the year following the valuation date.



SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

A comparison of the Present Value of Benefits, Actuarial Accrued Liability, Employer Normal Cost, and the Funded Ratio for the current and prior valuations follows. Note that numbers throughout the report may not add due to rounding.

(amounts in \$000's)

	June 30, 2009	June 30, 2010
Present Value of Projected Benefits		
■ Active Employees	\$ 37,084	\$ 35,747
■ Vested Terminated & Reciprocal	6,637	4,898
■ Service Retirees	265,068	265,939
■ Disabled Participants	46,551	45,273
■ Beneficiaries	44,519	44,118
■ Total	399,860	\$395,975

Actuarial Accrued Liability

■ Active Employees	\$ 35,457	\$ 34,430
■ Vested Terminated & Reciprocal	6,637	4,898
■ Service Retirees	265,068	265,939
■ Disabled Participants	46,551	45,273
■ Beneficiaries	44,519	44,118
■ Total	398,233	394,658

2009/10

2010/11

Normal Cost

■ Employer Normal Cost (beg. of yr.)	\$ 150	\$ 125
--------------------------------------	--------	--------

June 30, 2009

June 30, 2010

Plan Funded Status

■ Total Actuarial Accrued Liability	\$ 398,233	\$ 394,658
■ Actuarial Value of Plan Assets	313,829	296,866
■ Unfunded Actuarial Accrued Liability	84,404	97,792
■ Funded Ratio	78.8%	75.2%
■ Market Value of Assets	272,895	279,750
■ Funded Ratio – Market Value Basis	68.5%	70.9%



SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2010 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by employee category:

(amounts in \$000's)

	Safety	Miscellaneous	Total
Present Value of Projected Benefits			
■ Active Employees	\$ -	\$ 35,747	\$ 35,747
■ Vested Terminated & Reciprocals	44	4,854	4,898
■ Service Retirees	40,988	224,950	265,939
■ Disabled Participants	23,627	21,645	45,273
■ Beneficiaries	18,242	25,876	44,118
■ Total	82,902	313,073	395,975

Actuarial Accrued Liability

■ Active Employees	\$ -	\$ 34,430	\$ 34,430
■ Vested Terminated & Reciprocals	44	4,854	4,898
■ Service Retirees	40,988	224,950	265,939
■ Disabled Participants	23,627	21,645	45,273
■ Beneficiaries	18,242	25,876	44,118
■ Total	82,902	311,756	394,658

	Safety	Miscellaneous	Total
Normal Cost			
■ Employer Normal Cost (on 6/30/10)	\$ -	\$ 125	\$ 125

SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2010 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by benefit section:

(amounts in \$000's)

	Section 175	Sections 302 & 399	Total
Present Value of Projected Benefits			
■ Active Employees	\$ 488	\$ 35,259	\$ 35,747
■ Vested Terminated & Reciprocals	419	4,479	4,898
■ Service Retirees	9,708	256,231	265,939
■ Disabled Participants	2,865	42,407	45,273
■ Beneficiaries	4,808	39,310	44,118
■ Total	18,289	377,687	395,975

Actuarial Accrued Liability

■ Active Employees	\$ 480	\$ 33,950	\$ 34,430
■ Vested Terminated & Reciprocals	419	4,479	4,898
■ Service Retirees	9,708	256,231	265,939
■ Disabled Participants	2,865	42,407	45,273
■ Beneficiaries	4,808	39,310	44,118
■ Total	18,281	376,377	394,658

Normal Cost

	Section 175	Sections 302 & 399	Total
■ Employer Normal Cost (on 6/30/10)	\$ 2	\$ 123	\$ 125

SECTION 3

ASSET INFORMATION

Assets for SCERS are held in trust. Trust monies may be used to pay benefits to plan participants and their beneficiaries. The trust is managed under the direction of the Administration, Investment, and Fiscal Management Board. Asset information is provided by the City of Sacramento, and has not yet been audited.

Asset Reconciliation – Market Value of Assets

Following reconciles the June 30, 2008 through June 30, 2009 and the June 30, 2009 through June 30, 2010 market value of assets.

	(amounts in \$000's)	
	2008/09	2009/10
■ Beginning of Year Balance:	\$ 355,246	\$ 272,895
■ Adjustment from prior year ²	(42)	0
■ Net Assets at Beginning of Year	355,204	272,895
• Member Contributions	607	377
• City Contributions	3,159	3,431
• Investment Income	(53,666)	35,951
■ Total Additions	(49,900)	39,759
• Benefit Payments	30,609	31,719
• Member Refunds	98	0
• Expenses	1,702	1,185
■ Total Deductions	32,409	32,904
■ Net Assets at End of Year	272,895	279,750
■ Approximate Return on Assets	-16.2%	13.4%

² Final asset value for 6/30/2008 reported after valuation completed.

SECTION 3

ASSET INFORMATION

Asset Allocation – Market Value of Assets

Asset allocation of trust assets as of June 30, 2010 is provided by the City of Sacramento and is based on an allocation strategy of 50% fixed income and 50% equity. Details are shown below.

(amounts in \$000's)

	Market Value	Percentage
■ Cash & Short Term Investments	\$ 27,074	9.7%
■ Receivables	1,976	0.7%
■ Investments		
• US Agencies	\$ 23,085	8.2%
• Corporate Bonds	70,474	25.2%
• Equities	89,983	32.1%
• Exchange Traded Funds	30,461	10.9%
• Mortgage Loans	8,054	2.9%
• Municipal Bonds	31,819	11.4%
■ Total Investments	253,876	
■ Total Assets	282,926	
■ Liabilities	(3,176)	(1.1%)
■ Net Pension Benefit Trust Assets	279,750	100.0%

These figures do not take into account securities lending collateral of \$29,379 and liabilities of (\$29,379).

Target Allocation by Asset Class

The Administration, Investment and Fiscal Management Board of the Sacramento City Employees' Retirement System last adopted a new asset allocation on February 23, 2009, as shown below. The fund is rebalanced each year.

■ Fixed Bonds/Real Estate	50%	
Total Fixed		50%
■ Large Cap Growth	30%	
■ Equity Income	10%	
■ International Equities	10%	
Total Equity		50%
Total Fixed & Equity		100%

SECTION 3

ASSET INFORMATION

Development of Actuarial Value of Assets

The Actuarial Value of Assets is based upon a three year smoothing of market assets. This method reduces volatility in contribution rates, and also reduces volatility in the size of the actuarial gains and losses due to asset returns. Because the plan is frozen to new membership and the membership is primarily composed of retirees and beneficiaries, it is important from a cash flow perspective that asset values used in calculating contribution rates not stray too far from market value. For this reason, a corridor of 15% around the market value is imposed upon the actuarial value.

	(amounts in \$000's)
■ Actuarial Value of Assets 6/30/2009	\$ 313,829
• Contributions	3,808
• Expected Earnings	19,506
• Benefit Payments	(31,719)
■ Expected Actuarial Value of Assets 6/30/2010	305,424
■ Market Value of Assets 6/30/2010	279,750
■ Difference between MVA & Expected AVA	(25,674)
■ Preliminary Actuarial Value of Assets 6/30/2010 <i>(Expected AVA+ 1/3 Difference)</i>	\$ 296,866
■ Actuarial Value of Assets Corridor	
• Cap: 115% of Market Value	321,713
• Min: 85% of Market Value	237,788
■ Actuarial Value of Assets 6/30/2010 <i>(No greater than Cap, not less than Min)</i>	\$ 296,866
■ Approximate Annual Rate of Return	3.7%

SECTION 4

CONTRIBUTION DEVELOPMENT

Annual Required Contribution

Following is the development of the 2011/12 Annual Required Contribution. The 2010/11 Annual Required Contribution, which was calculated in the June 30, 2009 actuarial valuation, is shown for comparison.

(amounts in \$000's)

Contribution Year	2010/11	2011/12
■ Annual Required Contribution		
• Normal Cost	\$ 133	\$ 108
• UAL Amortization	10,414	10,253
• Total Cost	10,547	10,361
■ Projected Plan Payroll	4,950	4,446
■ Annual Required Contribution (as a percent of plan payroll)		
• Normal Cost	2.7%	2.4%
• UAL Amortization	210.4%	230.6%
• Total Contribution	213.1%	233.0%
■ Projected Total City Payroll	323,399	307,719
■ Annual Required Contribution (as a percent of total City payroll)		
• Normal Cost	0.0%	0.1%
• UAL Amortization	3.2%	3.3%
• Total Contribution	3.2%	3.4%

SECTION 5

SCHEDULE OF FUTURE CONTRIBUTIONS

Year Ending ³	Member Contributions	City Contributions	Benefit Payments
6/30/1985	4,021,000	14,240,000	13,113,000
6/30/1986	3,953,000	14,143,000	14,693,000
6/30/1987	4,178,000	15,415,000	15,973,000
6/30/1988	4,233,000	14,057,000	17,400,000
6/30/1989	4,146,000	12,188,000	19,000,000
6/30/1990	3,305,000	9,664,000	20,000,000
6/30/1991	1,704,000	6,017,000	20,400,000
6/30/1992	1,818,000	2,984,000	22,000,000
6/30/1993	1,672,000	857,000	23,042,000
6/30/1994	1,432,000	0	24,165,000
6/30/1995	1,320,000	0	24,565,000
6/30/1996	1,228,000	0	25,027,000
6/30/1997	1,080,000	0	23,274,000
6/30/1998	1,090,000	0	23,825,000
6/30/1999	1,136,000	0	24,249,000
6/30/2000	1,079,000	0 ⁴	24,901,000
6/30/2001	989,000	0	25,087,000
6/30/2002	1,011,000	0	25,588,000
6/30/2003	978,000	0	26,619,000
6/30/2004	1,056,000	0	26,772,000
6/30/2005	809,000	0	27,524,000
6/30/2006	789,000	0	28,749,000
6/30/2007	699,000	0	29,604,000
6/30/2008	596,000	3,534,000	29,896,000
6/30/2009	607,000	3,159,000	30,707,000
6/30/2010	377,000	3,431,000	31,719,000
6/30/2011	<i>348,000</i>	10,547,000	<i>32,800,000</i>
6/30/2012	<i>292,000</i>	10,361,000	<i>32,925,000</i>
6/30/2013	<i>242,000</i>	<i>10,364,000</i>	<i>33,301,000</i>
6/30/2014	<i>194,000</i>	<i>10,238,000</i>	<i>33,468,000</i>
6/30/2015	<i>150,000</i>	<i>10,026,000</i>	<i>33,586,000</i>

³ Information prior to 6/30/2006 valuation is taken from prior actuary's valuation report. Member contributions and benefit payments for years ending 6/30/2011 and later are estimated. City contributions for years ending 6/30/2013 and later are estimated (assuming 6/30/11 and subsequent market value of assets earn 6.5%).

⁴ Shown as a negative 1.367 million by prior actuary.

SECTION 6

ACTUARIAL (GAIN)/LOSS ANALYSIS

The gain/loss analysis of plan assets, actuarial liability, and unfunded actuarial liability for the one year period between valuation dates:

	(amounts in 000's)		
	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability
■ June 30, 2009 Actual Value	\$ 398,233	\$ 313,829	\$ 84,404
■ June 30, 2010 Expected Value	391,221	305,424	85,797
• Demographic (Gain)/Loss	(566)		
■ Total Liability (Gain)/Loss	(566)		
■ Investment Gain/(Loss)		(8,558)	
■ Total (Gain)/Loss			7,992
■ June 30, 2010 Actual Value Prior to Changes in Assumptions	\$ 390,655	\$ 296,866	\$ 93,789
• Change to CalPERS Mortality	4,003	-	4,003
■ June 30, 2010 Actual Value After Changes in Assumptions	\$ 394,658	\$ 296,866	\$ 97,792

SECTION 7

HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Headcount and Benefit Payment Projection

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2011	85	34	1,299	\$ 32,800
2012	68	34	1,267	32,925
2013	55	34	1,232	33,301
2014	42	34	1,194	33,468
2015	32	34	1,154	33,586
2016	23	33	1,111	33,256
2017	16	33	1,067	32,835
2018	11	33	1,022	32,457
2019	7	33	976	31,952
2020	5	32	929	31,357
2021	3	32	882	30,668
2022	2	32	836	29,918
2023	1	31	789	29,111
2024	1	31	743	28,254
2025	0	31	698	27,358
2026	0	30	653	26,423
2027	0	29	610	25,458
2028	0	29	568	24,464
2029	0	28	527	23,443
2030	0	27	487	22,396
2031	0	26	449	21,323
2032	0	25	412	20,225
2033	0	24	376	19,103
2034	0	23	342	17,960
2035	0	21	310	16,800
2036	0	20	278	15,627
2037	0	18	249	14,447
2038	0	17	221	13,265
2039	0	15	195	12,093
2040	0	14	170	10,940

SECTION 7

HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2040	0	12	148	\$ 9,818
2041	0	11	127	8,738
2042	0	9	108	7,711
2043	0	8	92	6,745
2044	0	7	77	5,848
2045	0	6	64	5,024
2046	0	4	53	4,277
2047	0	4	44	3,609
2048	0	3	36	3,017
2049	0	2	29	2,501
2050	0	2	23	2,057
2051	0	1	19	1,680
2052	0	1	15	1,366
2053	0	1	12	1,108
2054	0	0	10	900
2055	0	0	8	733
2056	0	0	7	602
2057	0	0	5	501
2058	0	0	5	423
2059	0	0	4	365

SECTION 8 PLAN PROVISIONS

A. Plan Effective Date

Originally established effective April 1, 1935.

B. Plan Year

July 1 to June 30.

C. Participation

The plan is closed with no new members since January 28, 1977.

D. Eligibility to Retire

Section 175: Age 70, or age 55 and 20 years of service.

Sections 302 and 399: Age 70, or age 50 and 5 years of service.

E. Vesting

100% vesting with five years of participation.

F. Average Monthly Compensation

Average monthly salary for the 36 months prior to termination.

G. Employee Contributions

Each participant contributes a certain percentage based on his or her age at entry into the plan.

H. Service Retirement Benefit

Section 175:

Average Monthly Compensation times years of service times Benefit Factor. For retirement after age 65 with 20 years of service, benefit is a minimum of \$60 per month.

Sections 302 and 399:

Average Monthly Compensation times years of service times Benefit Factor, but no larger than 75% of final average earnings.

Benefit Factors at sample ages:

<u>Retirement Age</u>	<u>Section 175</u>	<u>Sections 302 and 399</u>
50	n/a	1.10%
55	1.10%	1.75%
60	1.67%	2.40%
65	2.44%	2.40%

SECTION 8 PLAN PROVISIONS

I. Vested Termination Benefit

Return of employee contributions with interest, or if the value is greater than \$500, the member may choose to leave the contributions in the system. The member may become eligible in the future for retirement, disability or death benefits.

J. Non-Industrial (Ordinary) Disability Benefit

Eligibility is ten years of service.

Section 175:

With 16 2/3 years of service: 1½% of final average salary times years of service to disability.

Less than 16 2/3 years of service: Minimum of 1½% of final average salary times years of service would have earned to age 60, or 25% of final average earnings.

Sections 302 and 399:

Not Eligible for Retirement: Lesser of 1½% of Final Average Earnings times years of service or final average earnings times benefit factor at age 50 times years of service at age 50, minimum of 25% of final average earnings.

Eligible for Retirement: Maximum of retirement allowance or 25% of final average earnings.

K. Industrial Disability Benefit

Sections 302 and 399:

Not Eligible for Retirement: 50% of final average earnings.

Eligible for retirement: Maximum of retirement allowance or 50% of final average earnings.

L. Death Benefit – Pre Retirement Eligibility

Return of employee contributions with interest, plus 1/12 of salary in the year preceding death multiplied by the smaller of 6 or years of service.

M. Death Benefit – Post Retirement Eligibility

50% of the member's benefit as if the member retired at the time of death, paid as a lifetime benefit to the spouse.

N. Death Benefit – Post Retirement Death

\$500 paid to the member's estate upon death.

SECTION 8 PLAN PROVISIONS

O. Social Security Reduction at age 62

For members who retired for service, their benefit will be reduced at the later of age 62 or actual retirement age. The amount of the reduction is one half of the PIA from Social Security, multiplied by the ratio of the sum of salary earned from the City to the sum of salary from all sources used in the calculation of the Social Security amount. The member's benefit under the System plus the amount received from Social Security cannot be less than the member's benefit under the System calculated with no reductions as of his retirement age.

P. Reduction Account

A member can choose to reduce his normal contributions to the System by an amount equal to the taxes paid for Social Security coverage. At the time of retirement, the regular retirement benefit will be reduced by the actuarial equivalent of the accumulated value of the reduction of contributions.

Q. Cost of Living

Benefits will be increased each July 1 by the change in the CPI for the San Francisco/Oakland area for the preceding calendar year limited to 3% (with COLA bank).

R. Benefit Forms

Section 175:

Lifetime benefit to the member, which may be actuarially reduced to provide a continuance to a beneficiary.

Section 302 and 399:

Lifetime benefit to the member, with an automatic 50% continuance to the spouse.

SECTION 9

METHODS AND ASSUMPTIONS

Actuarial Methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) method. The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits.

The current unfunded AAL will be amortized, over a 15 year rolling period, as a level dollar amount.

Plan funded status based on excess of

- 1) Value of Normal Retirement Benefit in excess of employee contributions over
- 2) Actuarial Value of Assets

The contribution generated by the current valuation will be payable for the City's fiscal year beginning one year later (2011/12). The June 30, 2009 valuation generated a contribution for fiscal year 2010/11.

The Actuarial Value of Assets is a 3-year smoothed market value. Gains and losses will be recognized over a three year period. For June 30, 2006, the first year of this method, the Actuarial Asset Value was set equal to the Market Value. The Actuarial Value of Assets will be limited by a 15% corridor. The Actuarial Value of Assets will be no greater than 115% of Market Value of Assets and no less than 85% of Market Value of Assets.

SECTION 9

METHODS AND ASSUMPTIONS

Actuarial Assumptions

Assumptions used in the valuation are as follows:

- **Discount rate**

6.50%, net of expenses

- **Inflation**

3.0%

- **Salary Scale**

3.00% CPI

0.50% Merit

- **Social Security Wage Base**

3.25%

- **Termination**

Rates vary based on age and gender. Rates only apply to non Section 175 actives employees as all Section 175 employees are currently eligible to retire. Sample rates follow:

<u>Age</u>	<u>Male</u>	<u>Female</u>
30	9.56%	11.32%
35	6.92%	8.58%
40	4.48%	5.82%
45	2.28%	3.08%
50	0.00%	0.00%

- **Retirement**

Rates vary based on age. Sample rates follow:

	<u>Sec 175</u>	<u>Non Sec 175</u>
50	0%	1%
55	6%	6%
60	26%	26%
65	40%	40%
70	100%	100%

SECTION 9

METHODS AND ASSUMPTIONS

■ **Disability**

Rates vary based on age, gender and if the disability is job-related or not. Sample rates follow:

	<u>Job Related</u>		<u>Ordinary</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
40	.00075	.00045	.00204	.00123
45	.00192	.00093	.00525	.00252
50	.00351	.00180	.00966	.00495
55	.00502	.00273	.01374	.00747
60	.00639	.003512	.01761	.00969

■ **Healthy Mortality**

CalPERS 1997-2007 Pre-Retirement Mortality table for males and females and CalPERS 1997-2007 Post-Retirement Mortality table for males and females. These rates are non-generational rates. The prior valuation used the 1994 Group Annuity Mortality Static table for males and females. Sample rates are as follows

<u>Age</u>	<u>Pre-Retirement</u>		<u>Post-Retirement</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50	0.2%	0.1%	0.2%	0.1%
60	0.4%	0.3%	0.7%	0.4%
70	0.9%	0.6%	1.7%	1.2%
80	1.5%	1.1%	5.3%	3.7%
90	1.5%	1.1%	16.7%	12.4%
100	1.5%	1.1%	34.6%	31.9%

■ **Post-Retirement Disabled Mortality**

For Miscellaneous retirees, CalPERS 1997-2007 Non-Work-Related Disability table for males and females. For Safety retirees, CalPERS 1997-2007 Work-Related Disability table for males and females. The prior valuation used the 1994 Group Annuity Mortality (GAM94) table for males and females, set forward 4 years. Sample rates are as follows

<u>Age</u>	<u>Non-Work-Related</u>		<u>Work-Related</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50	1.6%	1.2%	0.4%	0.4%
60	2.3%	1.6%	0.8%	0.8%
70	3.9%	3.0%	2.2%	1.7%
80	8.4%	5.6%	6.9%	4.5%
90	21.6%	14.9%	16.6%	13.8%
100	45.9%	37.7%	40.9%	35.2%

SECTION 9

METHODS AND ASSUMPTIONS

- **Marriage**

85% of male employees and 60% of female employees are assumed to be married. Wives are assumed to be four years younger than husbands.

- **Retirement Age**

Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under Section 175 are assumed to retire at age 65.

SECTION 10 PARTICIPANT DATA

Data Summary

Following summarizes participant demographic information for the June 30, 2009 and June 30, 2010 actuarial valuations.

	June 30, 2009	June 30, 2010
■ Participant Counts		
• Actives	95	85
• Terminated Vesteds	25	24
• Reciprocals	13	10
• Service Retirees	814	796
• Disableds	189	178
• Beneficiaries	338	325
• Total	1,474	1,418
■ Actives		
• Average Age	57.3	57.9
• Average Service	30.6	31.9
• Salary		
> Total	\$ 5,749,307	\$ 5,302,299
> Average	60,519	62,380
• Overall City Payroll	312,463,000	287,259,000
■ Terminated Vesteds & Reciprocals		
• Average Age	60.5	61.6
■ Retirees, Disableds & Beneficiaries		
• Average Age	74.7	75.2
• Average Monthly Benefit	\$1,986	\$2,065

SECTION 10 PARTICIPANT DATA

June 30, 2010 Participant Data

Following summarizes participant demographic information for the June 30, 2010 actuarial valuation, broken out by employee category and benefit section.

	Safety		Miscellaneous		Total
	Section 175	Section 302 & 399	Section 175	Section 302 & 399	
■ Actives:					
• Count	-	-	1	84	85
• Average Age	n/a	n/a	63.3	57.8	57.9
• Average Service	n/a	n/a	40.9	31.8	31.9
• Salary					
➤ Average	\$ -	\$ -	\$ 48,385	\$ 62,547	\$ 62,380
➤ Total (000's)	-	-	48	5,254	5,302
■ Vested Terms & Reciprocals:					
• Count	-	1	3	30	34
• Average Age	n/a	70.0	62.2	61.3	61.6
■ All Inactives					
• Count	47	259	48	945	1,299
• Average Age	81.4	78.1	77.7	73.9	75.2
• Avg. Monthly Bnft.	\$1,796	\$2,623	\$1,362	\$1,962	\$2,065
■ Service Retirees					
• Count	14	105	27	650	796
• Average Age	81.8	81.9	77.7	73.2	74.7
• Avg. Monthly Bnft.	\$2,697	\$3,656	\$1,613	\$2,300	\$2,463
■ Disabled Retirees					
• Count	8	69	8	93	178
• Average Age	78.4	71.4	78.2	69.4	71.0
• Avg. Monthly Bnft.	\$2,200	\$2,196	\$895	\$1,570	\$1,811
■ Beneficiaries					
• Count	25	85	13	202	325
• Average Age	82.2	79.0	77.2	78.3	78.8
• Avg. Monthly Bnft.	\$1,162	\$1,692	\$1,127	\$1,053	\$1,231

SECTION 10 PARTICIPANT DATA

Data Reconciliation 6/30/2009 to 6/30/2010

	Actives	Terminated		Receiving Payments			Total
		Vested	Reciprocal	Disabled	Benefic.	Retirees	
■ June 30, 2009	95	25	13	189	338	814	1,474
• New Hires	-	-	-	-	-	-	-
• Disabled	-	-	-	-	-	-	-
• Terminated	-	-	-	-	-	-	-
• Deceased	-	-	-	(11)	(27)	(31)	(69)
• New Beneficiaries	-	-	-	-	13	-	13
• Adjustment	-	-	-	-	1	(1)	-
• Retired	<u>(10)</u>	<u>(1)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>
■ June 30, 2010	85	24	10	178	325	796	1,418

SECTION 10 PARTICIPANT DATA

Active Age/Service/Pay

Following are active counts and 2008/09 average pay by age and service groups:

		Service							
Age		0-4	5-9	10-14	15-19	20-24	25-29	30 & Over	Total
Under 25	Count	-	-	-	-	-	-	-	-
	Average Pay	-	-	-	-	-	-	-	-
25-29	Count	-	-	-	-	-	-	-	-
	Average Pay	-	-	-	-	-	-	-	-
30-34	Count	-	-	-	-	-	-	-	-
	Average Pay	-	-	-	-	-	-	-	-
35-39	Count	-	-	-	-	-	-	-	-
	Average Pay	-	-	-	-	-	-	-	-
40-44	Count	-	-	-	-	-	-	-	-
	Average Pay	-	-	-	-	-	-	-	-
45-49	Count	-	-	-	-	-	-	-	-
	Average Pay	-	-	-	-	-	-	-	-
50-54	Count	-	-	-	-	1	1	6	8
	Average Pay	-	-	-	-	50,323	110,785	62,266	66,838
55-59	Count	-	-	1	-	8	4	45	58
	Average Pay	-	-	45,635	-	58,220	73,627	64,738	64,123
60-64	Count	-	-	-	-	1	2	11	14
	Average Pay	-	-	-	-	50,710	59,414	57,099	56,973
65 & Over	Count	-	-	-	-	1	-	4	5
	Average Pay	-	-	-	-	45,997	-	51,210	50,168
Total	Count	-	-	1	-	11	7	66	85
	Average Pay	-	-	45,635	-	55,708	74,875	62,420	62,380

SECTION 11

GASB REPORTING AND DISCLOSURE

The Government Accounting Standards Board Statement Numbers 25 and 50 (GASB 25 and 50), requires defined benefit *plans* to disclose certain information. Government Accounting Standards Board Statement Number 27 (GASB 27), as amended by GASB 50, requires financial statement note disclosure and supplementary information by the *employer*.

The following sections contain information suitable for use in the SCERS' and the City's required disclosures for the fiscal year ending June 30, 2010.

A. Notes to the Financial Statements

Plan Description and Contribution Information

The City of Sacramento (City) sponsors and administers a defined benefit contributory pension system known as the Sacramento City Employees' Retirement System (SCERS). The fiscal management of SCERS is vested in the five member Administration, Investment, and Fiscal Management Board (Board), consisting of the City Manager, Director of Finance, City Treasurer and two public members who are appointed by the City Council. SCERS was established effective April 1, 1935.

SCERS is a single employer system accounted for as a separate pension trust fund of the City. The system covers all City employees hired before January 29, 1977 and is closed to new members. Employee contribution rates, based on age at entry into the plan, are generally frozen and the City is responsible for any actuarially determined unfunded obligation of the plan. SCERS is comprised of the individual plans listed below. The City Charter establishes plan membership, contributions, and benefit provisions. Any changes must be approved by the electorate of the City.

1. Charter Section 399 Plan – This defined benefit plan was established effective January 1, 1977 to provide retirement, disability and death benefits.
2. Equal Shares Plan – This defined benefit plan was established July 1, 1970 to provide retirement, disability and death benefits to all City employees electing coverage at that date and to all employees who were hired from that date through January 1, 1977.
3. Charter Section 175 Plans – These defined benefits were established in 1953 and provide for retirement, disability and death benefits at a lower amount than the successor Equal Shares Plan.

The Plan benefit is a lifetime monthly annuity equal to a benefit factor times final average pay times years of service. The benefit factor depends on the employee's age and Plan. Current participants are vested after 5 years of service and employees are always vested in their employee contributions.

Membership in the plan consists of the following as of June 30, 2010:

Retirees and beneficiaries receiving payments	1,299
Terminated plan members entitled to, but not yet receiving, benefits	34
Active plan members	<u>85</u>
Total	1,418

The City's funding policy is to make the contribution as determined by the Plan's actuary. The following information describes the calculation methodology:

SECTION 11

GASB REPORTING AND DISCLOSURE

- The Plan’s annual pension cost (APC) for the fiscal year ending June 30, 2010 is based on the June 30, 2008 actuarial valuation. The APC for this period was \$3.431 million.
- The Plan’s annual pension cost (APC) for the fiscal year ending June 30, 2011 is based on the June 30, 2009 actuarial valuation. The APC for this period is \$10.547 million.
- The Plan’s annual pension cost (APC) for the fiscal year ending June 30, 2012 is based on the June 30, 2010 actuarial valuation. The APC for this period is \$10.361 million, the same amount contributed for this period.
- The actuarial liabilities and assets are valued as of the valuation date.
- The actuarial funding method used is the entry age normal method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate.

The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. In determining the Plan’s actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years.

The unfunded actuarial liability is the difference between the actuarial accrued liability and Plan assets. This difference is amortized as a level dollar amount (over an open 15 year period) to determine the unfunded actuarial liability contribution.

Annual Pension Cost and Net Pension Obligation

The Annual Pension Cost for the current year and the two preceding years is:

Fiscal Year Ending <u>June 30</u>	Annual Pension Cost (APC) <u>(000’s omitted)</u>	Percentage of APC <u>Contributed</u>	Net Pension Obligation <u>(000’s omitted)</u>
2008	\$3.534	100%	0
2009	\$3.159	100%	0
2010	\$3.431	100%	0

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 75.2% funded. The actuarial accrued liability for benefits was \$394.7 million, and the actuarial value of assets was \$296.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$97.8 million. The covered plan payroll was \$5.3 million.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SECTION 11

GASB REPORTING AND DISCLOSURE

Actuarial Methods and Assumptions

The following is a summary of significant June 30, 2010 actuarial assumptions and methods, which are the same as those used in the June 30, 2009 actuarial valuation except that the mortality assumption has been updated from the 1994 Group Annuity Mortality Table:

Interest rate:	6.5%
Mortality:	CalPERS 1997-2007 Mortality Tables
Retirement:	Sample rates are:
Section 175	Non 175
Age Retirement	Age Retirement
50 0%	50 1%
55 6%	55 6%
60 26%	60 26%
65 40%	65 40%
70 100%	70 100%
Inflation:	3.0%
Salary Scale:	3.0% CPI plus 0.5% Merit
Cost of living:	3% per year increases
Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	3-year smoothed market value
Amortization:	Level Dollar Payments over 15 years, open period

There only change to assumptions in the 2010 valuation was to the mortality tables (pre-retirement, post-retirement, and post-retirement disabled).

B. Required Supplementary Information

Schedule of Employer Contribution (dollars in millions)

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Annual</u> <u>Pension Costs</u>	<u>Actual</u> <u>Contribution</u>	<u>Percentage</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2004	-	-	100%	-
2005	-	-	100%	-
2006	-	-	100%	-
2007	-	-	100%	-
2008	\$3.534	\$3.534	100%	-
2009	\$3.159	\$3.159	100%	-
2010	\$3.431	\$3.431	100%	-
2011	\$10.547	n/a	n/a	n/a

SECTION 11

GASB REPORTING AND DISCLOSURE

Schedule of Funding Progress (dollars in millions)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded (Funded) AAL (B-A)	Funded Ratio (A/B)	Covered Total Plan Payroll (C)	Unfunded/ (Funded) AAL as a Percentage of Covered Plan Payroll ((B-A)/C)
2004	394	363	(31)	108%	12.794	(242%)
2005	374	370	(4)	101%	10.480	(382%)
2006	365	395	30	92%	10.277	292%
2007	365	395	30	92%	9.587	313%
2008	360	392	32	92%	8.869	361%
2009	314	398	84	79%	5.749	1461%
2010	297	395	98	75%	5.302	1848%

A summary of the actuarial assumptions and methods used to calculate the Annual Required Contribution (ARC) for the current year follows:

Actuarial Cost Method:	Entry Age Normal cost method																																			
Asset Valuation Method:	3 year smoothed market value																																			
Amortization:	Level Dollar Payments over 15 years, open period																																			
Discount rate:	6.5%																																			
Mortality:	CalPERS 1997-2007 Mortality Tables																																			
Inflation:	3%																																			
Salary Scale:	3.0% CPI plus 0.5% Merit																																			
Retirement:	Sample rates are:																																			
	<table> <tr> <td></td> <td style="text-align: center;">Section 175</td> <td style="text-align: center;">Non 175</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">Age Retirement</td> <td style="text-align: center;">Age Retirement</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">50</td> <td style="text-align: center;">0%</td> <td style="text-align: center;">50</td> <td style="text-align: center;">1%</td> </tr> <tr> <td></td> <td style="text-align: center;">55</td> <td style="text-align: center;">6%</td> <td style="text-align: center;">55</td> <td style="text-align: center;">6%</td> </tr> <tr> <td></td> <td style="text-align: center;">60</td> <td style="text-align: center;">26%</td> <td style="text-align: center;">60</td> <td style="text-align: center;">26%</td> </tr> <tr> <td></td> <td style="text-align: center;">65</td> <td style="text-align: center;">40%</td> <td style="text-align: center;">65</td> <td style="text-align: center;">40%</td> </tr> <tr> <td></td> <td style="text-align: center;">70</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">70</td> <td style="text-align: center;">100%</td> </tr> </table>		Section 175	Non 175				Age Retirement	Age Retirement				50	0%	50	1%		55	6%	55	6%		60	26%	60	26%		65	40%	65	40%		70	100%	70	100%
	Section 175	Non 175																																		
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