



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: 1/29/2013

Report Type: Consent

Title: Fiscal Year 2011/12 Sacramento City Employees Retirement System Annual Financial Report

Report ID: 2013-00082

Location: Citywide

Recommendation: Receive and file.

Contact: Dennis Kauffman, Finance Manager, (916) 808-5843, Finance Department

Presenter: None

Department: Finance

Division: Accounting Division

Dept ID: 06001311

Attachments:

1-Description/Analysis

2-SCERS Annual Financial Report

3-SCERS Report to AIFM Board and Council Members

City Attorney Review

Approved as to Form
Grace Arupo
1/23/2013 11:37:06 AM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
1/22/2013 10:28:04 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein 1/23/2013; 11:18:40 a.m.

Description/Analysis

Issue: The Fiscal Year (FY) 2011/12 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, 2012. The June 30, 2012 Auditor's Report to the Administration, Investment, and Fiscal Management Board (AIFM Board) and Members of City Council provides additional information about the FY2011/12 SCERS audit.

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

Environmental Considerations: Not Applicable.

Sustainability: Not Applicable.

Commission/Committee Action: None.

Rationale for Recommendation: It is in the best interest of the City Council to review the FY2011/12 SCERS Annual Financial Report and the June 30, 2012 Auditor's Report to the AIFM Board and Members of City Council, 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 FY2011/12 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 and Members of City Council provides communication required by audit standards and include statements specifying that there were no significant audit adjustments or disagreements with management in connection with this year's audit. The report also provides information about new accounting and financial reporting standards effective for SCERS in FY2013/14.

Financial Considerations: The annual required contribution (ARC) from the City to SCERS of \$10.6 million for FY2012/13 is included in the approved budget. The ARC for FY2013/14 of \$9.6 million will be included in the proposed budget for that period.

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, California

Annual Financial Report

Fiscal Years Ended June 30, 2012 and 2011



SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Fiscal Years Ended June 30, 2012 and 2011

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CITY TREASURER

RUSSELL T. FEHR
CITY TREASURER

CITY OF SACRAMENTO
CALIFORNIA

December 28, 2012

915 I STREET, HCH
3RD FLOOR
SACRAMENTO, CA
95814-2709

PH 916-808-5168
FAX 916-808 5171

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, 2012.

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), the financial statements of SCERS, Required Supplementary Information, and Additional Information; 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

John F. Shirey, 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

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Letter to the Members of the Sacramento City Employees'
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David DeCamilla was re-elected by the Board in January 2010 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.

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.

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.

John F. Shirey, City Manager, was appointed to his current position on September 1, 2011 and assumed the Board membership position. Mr. Shirey 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 was 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.. The City has been required to make contributions for the past five 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, 2012, the average age of SCERS active members is 59.1 years and the average years of service is 33.2 years. There are 48 active miscellaneous members and a total of 1,312 plan participants as of June 30, 2012.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

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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 annually. The Board approved the investment policy at their meeting on July 23, 2011. Pursuant to the Charter, the revised policy approved by the Board will be presented to the City Council for its approval.

ASSET ALLOCATION

On February 27, 2012, the Board voted to continue the balanced asset allocation policy approved the prior year.

<u>Fixed Income</u>	
Fixed Bond	45%
<u>Equity</u>	
Large Cap Growth	30%
Equity Income	15%
International	<u>10%</u>
	55%

The Board typically revisits its asset allocation every February. It is expected to consider the allocation at its meeting in February 2013 to govern investments in the following fiscal year.

ACTUARIAL EARNING ASSUMPTION

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

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

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FINANCIAL RESULTS

The plan net assets of SCERS decreased from \$304.001 million to \$296.109 million for the fiscal year ended June 30, 2012. This \$7.892 million decrease is summarized as follows:

SCERS PLAN NET ASSETS	\$ in thousands
Plan net assets 6/30/11	\$ 304,001
Members Contributions	332
City Contributions	10,361
Investment Income	15,763
Benefit Payments & Expenses	(34,348)
Plan net assets 6/30/12	\$ 296,109

SCERS' Actuarial Accrued Liability (AAL) as of June 30, 2012 was \$ 388.862 million. AAL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio was 75.6 percent at June 30, 2012. 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 \$0.76 of assets available for payment based on the actuarial value of assets as of the valuation date.

An analysis of assets shows the rate of investment return for fiscal 2012 was 5.5 percent net of investment expense, which is below 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 Segal Rogerscasey (formerly Rogerscasey). Segal 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. Segal 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, 2012:

SCERS Total Rate of Return			
TOTAL FUND			
For the periods ended June 30, 2012			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance	5.48%	11.37%	5.32%
Custom Index – Target	4.26%	10.57%	4.56%
Actuarial Assumption	6.50%	6.50%	6.88%

Table 1

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Letter to the Members of the Sacramento City Employees'
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Fiscal Year Ended June 30, 2012

A review of the total fund investment performance for the fiscal year ended June 30, 2012 shows a 5.48 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 15% 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 relative 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.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

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Fixed Income Performance

Based on Board policy, 45% 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. 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 periods ended June 30, 2012			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Fixed-Income Fund	11.10%	10.62%	6.52%
Fixed Portfolio Index*	7.47%	6.93%	5.46%

*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 11.10% compounded for the one-year period and 6.52% compounded for the ten-year period ended June 30, 2012. The Fixed Bond portfolio continued to outperform the Barclays US Aggregate Index due to its weighting in high-quality corporate and municipal securities that appreciated as investors rebalanced their portfolios towards riskier assets and spreads narrowed. In addition, given the normal upward rising yield curve, the portfolio's average maturity of over eleven years compared to the benchmark's average maturity of just over five years added to the outperformance. Given the historically low interest-rate environment, it has become extremely difficult to reinvest maturing assets into fixed-income instruments that yield anywhere near the actuarial assumption of 6.50% without forfeiting credit quality. Consequently, staff recommended and received approval from the Board to reduce SCERS' allocation to fixed income by five percent and reallocation the funds to the SCERS Equity Income portfolio.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
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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, 55% of SCERS assets are to be allocated to equity investments.

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 periods ended June 30, 2012			
Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance Total Equity	5.48%	14.24%	3.84%
Domestic Equity Index	1.72%	14.48%	3.36%
Individual Equity Managers			
Large Cap Growth	2.99%	12.41%	2.53%
Large Cap Index**	3.14%	14.00%	2.94%
Equity Income	12.68%	19.53%	6.89%
Equity Income Index***	10.50%	21.66%	5.95%
International	-16.39%	7.42%	NA
International Index****	-17.17%	4.07%	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 5.48% compounded for the one-year period and 3.84% compounded for the ten-year period ended June 30, 2012. These overall equity returns are primarily the result of the stock selection within the approved asset allocation.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

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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 2.99% and 12.41% respectively. The portfolio ended up performing in line with its benchmark throughout a year in which volatility was commonplace. The significant amount of volatility enabled staff to strategically implement the covered call strategy that netted the portfolio nearly \$800,000 in income and 108 basis points in performance. Staff followed a very cautious investment strategy throughout the year given the continuing sovereign issues in Europe and the lack of significant economic growth here in the states. Given these uncertainties, the investment staff chose to overweight non-cyclical sectors such as consumer staples, healthcare and cash in an effort to insulate the portfolio against the volatility. The strategy was extremely successful until the equity markets rallied 11% to start the calendar year. Nevertheless, staff stayed vigilant in its discipline as the market closed the fiscal year up only 3.14%.

The Equity Income Fund produced a rate of return of 12.68% for the one-year period and 19.53% for the three-year period ended June 30, 2012. This portfolio was a stellar performer as investors poured money into dividend paying companies that derive their profits domestically. By overweighting the portfolio in high-dividend paying securities in the consumer staples and avoiding the financial sector, staff was able to outperform the benchmark by over 200 basis points.

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 -16.39% and 7.42% for the three-year period ended June 30, 2012. Unfortunately, this portfolio was the worst performer. International markets could not find a foothold as sovereign debt issues continued in Europe and the global slowdown threatened to derail China's double-digit growth and undermine the economies of developing countries. Staff once again utilized a cover call strategy to add \$344,000 of income and 48 basis point of performance.

INDEPENDENT AUDIT

SCERS receives an independent audit of the basic financial statements. An independent audit has been performed for the fiscal year ended June 30, 2012, 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, 2012 is presented in this document. Very briefly, this report identifies an accumulated actuarial deficit of \$94.751 million as of June 30, 2012. The 2012 actuarial valuation report provides a comprehensive review of SCERS financial worth and is deserving of thoughtful reading.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Letter to the Members of the Sacramento City Employees'
Retirement System and the Sacramento City Council
Fiscal Year Ended June 30, 2012

PROFESSIONAL SERVICES

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

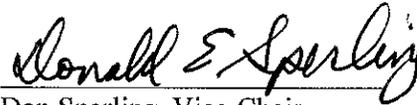
<u>Firm</u>	<u>Duties</u>
Segal Rogercasey	Performance evaluation
Bartel Associates	Actuarial evaluation and asset allocation (since 6/30/06)
Bank of New York	Custody and master trust (since 3/1/96)

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 January, February, April, July, October and November. 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, 2012 and 2011, 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 previously present fairly, in all material respects, the plan net assets of SCERS as of June 30, 2012 and 2011, and the changes in plan net assets for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note F to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2012, SCERS' independent actuaries determined that as of June 30, 2012, the value of the actuarial accrued liability exceeded the actuarial value of its assets by \$95 million.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and employer contributions, listed as required supplementary information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the SCERS' basic financial statements 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and actuarial sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Maciar Mini & O'Connell LLP

Sacramento, California
December 28, 2012

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2012 and 2011

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, 2012 and 2011. 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 \$ 296.1 million of net assets in trust for pension benefits at June 30, 2012 and \$304.0 million at June 30, 2011. 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, 2012, the date of the last actuarial valuation, the funded ratio for SCERS was 76 percent at June 30, 2012 and 75 percent at June 30, 2011. In general, this indicates that for every dollar of benefits due, SCERS has approximately \$0.76 of assets available for payment based on the actuarial value of assets as of June 30, 2012.
- SCERS' employer contribution was \$10.4 million for the fiscal year ended June 30, 2012, compared to \$10.5 million in 2011.
- For the fiscal year ended June 30, 2012, SCERS' net income from investment activity was \$14.5 million compared to net investment income of \$46.4 million in the prior year. The decrease in return was a results of a much smaller appreciation in the fair value of the investments during fiscal year 2012 compared to fiscal year 2011.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to 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, 2012 and 2011. It indicates the total assets and the total liabilities as well as the net assets available for future payment of retirement benefits and investment 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.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2012 and 2011

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 as of June 30, 2012, 2011, and 2010 are represented in the chart below.

NET ASSETS SUMMARY As of June 30, 2012 and 2011 (in thousands)

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percent</u>
Cash and cash equivalents	\$ 21,051	\$ 13,540	\$ 7,511	55%
Securities lending collateral	29,364	54,209	(24,845)	-46%
Receivables	2,246	2,241	5	0%
Investments at fair value	273,864	291,588	(17,724)	-6%
Total assets	<u>326,525</u>	<u>361,578</u>	<u>(35,053)</u>	<u>-10%</u>
Total liabilities	<u>30,416</u>	<u>57,577</u>	<u>(27,161)</u>	<u>-47%</u>
Net assets held in trust for pension benefits	<u>\$ 296,109</u>	<u>\$ 304,001</u>	<u>\$ (7,892)</u>	<u>-3%</u>

SCERS' net assets held in trust for pension benefits decreased during the fiscal year ended June 30, 2012, due largely to benefit payments during that period exceeding investment earnings and contributions for the same period. The decrease in total liabilities between June 30, 2012 and June 30, 2011 is mainly the result of a \$25 million decrease in securities lending obligations. Securities lending collateral also decreased by \$25 million.

Cash increased, mostly from the bond portfolio, as a result of maturing investments and lack of suitable reinvestment opportunity.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2012 and 2011

NET ASSETS SUMMARY
As of June 30, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percent</u>
Cash and cash equivalents	\$ 13,540	\$ 27,074	\$ (13,534)	-50%
Securities lending collateral	54,209	29,379	24,830	85%
Receivables	2,241	1,976	265	13%
Investments at fair value	291,588	253,876	37,712	15%
Total assets	<u>\$ 361,578</u>	<u>\$ 312,305</u>	<u>\$ 49,273</u>	<u>16%</u>
Total liabilities	<u>\$ 57,577</u>	<u>\$ 32,555</u>	<u>\$ 25,022</u>	<u>77%</u>
Net assets held in trust for pension benefits	<u>\$ 304,001</u>	<u>\$ 279,750</u>	<u>\$ 24,251</u>	<u>9%</u>

SCERS' net assets held in trust for pension benefits increased during the fiscal year ended June 30, 2011, due largely to an increase in the fair value of invested assets. The increase in total liabilities between June 30, 2011 and June 30, 2010 is mainly the result of a \$25 million increase in securities lending obligations. Securities lending collateral also increased by \$25 million.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
 Management's Discussion and Analysis (Unaudited)
 Fiscal Years Ended June 30, 2012 and 2011

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

HIGHLIGHTS OF CHANGES IN NET ASSETS
Fiscal years ended June 30, 2012 and 2011
 (in thousands)

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 10,361	\$ 10,547	\$ (186)	-2%
Employee contributions	332	342	(10)	-3%
Net appreciation in the fair value of investments	3,277	34,829	(31,552)	-91%
Interest	7,985	8,356	(371)	-4%
Dividends	4,302	4,204	98	2%
Investment expenses	(1,241)	(1,202)	(39)	3%
Net securities lending activity	149	178	(29)	-16%
Total net additions	<u>25,165</u>	<u>57,254</u>	<u>(32,089)</u>	<u>-56%</u>
Deductions:				
Benefit payments	32,769	32,388	381	1%
Refunds of employee contributions	288	615	(327)	-53%
Total deductions	<u>33,057</u>	<u>33,003</u>	<u>54</u>	<u>0%</u>
Net (decrease) increase in Plan net assets	(7,892)	24,251	(32,143)	-133%
Net assets held in trust for pension benefits:				
Beginning of fiscal year	304,001	279,750	24,251	9%
End of fiscal year	<u>\$ 296,109</u>	<u>\$ 304,001</u>	<u>\$ (7,892)</u>	<u>-3%</u>

- Employee contributions for the fiscal year ended June 30, 2012 decreased slightly from 2011 due to retirements. Contributions are expected to decline as the system is closed to new members and the number of active members is decreasing each year.
- Required employer contributions have increased over the last few years to offset the reduction in portfolio value that occurred between the fiscal years ended June 30, 2008 and June 30, 2009. Due to actuarial smoothing, the contributions required during the fiscal year ended June 30, 2012 were approximately the same as those required during the fiscal year ended June 30, 2011.
- Net appreciation in fair value of investments has decreased by \$31.6 million. Gains during the fiscal year ended June 30, 2012 were \$1.7 million unrealized and \$1.6 million realized compared to \$28 million unrealized and \$7 million realized during the fiscal year ended June 30, 2011. The gains were made in the bond portfolios, while the equity portfolios experienced losses.
- Current year interest income declined slightly compared to fiscal year 2011 due to low yields on bond investments.
- Benefit payments to plan participants increased because of annual inflation adjustments.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2012 and 2011

HIGHLIGHTS OF CHANGES IN NET ASSETS Fiscal years ended June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 10,547	\$ 3,431	\$ 7,116	207%
Employee contributions	342	377	(35)	-9%
Net appreciation in the fair value of investments	34,829	23,107	11,722	51%
Interest	8,356	8,090	266	3%
Dividends	4,204	3,982	222	6%
Investment expenses	(1,202)	(1,113)	(89)	8%
Net securities lending activity	178	700	(522)	-75%
Total net additions	<u>57,254</u>	<u>38,574</u>	<u>18,680</u>	<u>48%</u>
Deductions:				
Benefit payments	32,388	31,719	669	2%
Refunds of employee contributions	615	-	615	Not applicable
Total deductions	<u>33,003</u>	<u>31,719</u>	<u>1,284</u>	<u>4%</u>
Net increase in Plan net assets	24,251	6,855	17,396	254%
Net assets held in trust for pension benefits:				
Beginning of fiscal year	<u>279,750</u>	<u>272,895</u>	<u>6,855</u>	<u>3%</u>
End of fiscal year	<u><u>\$ 304,001</u></u>	<u><u>\$ 279,750</u></u>	<u><u>\$ 24,251</u></u>	<u><u>9%</u></u>

- Employee contributions for the fiscal year ended June 30, 2011 decreased slightly from 2010 due to retirements. Contributions are expected to decline as the system is closed to new members and the number of active members is decreasing each year.
- Required employer contributions have increased to offset the reduction in portfolio value that occurred between the fiscal years ended June 30, 2008 and June 30, 2009. Due to actuarial smoothing, the contributions required during the fiscal year ended June 30, 2010 were lower than those required during the fiscal year ended June 30, 2011.
- The net appreciation in fair value of investments has increased by \$12 million, due to recovery of the financial markets during the fiscal year ended June 30, 2011. The \$35 million gain consists of increases in fair values of \$28 million and net realized gains on sales of stocks, bonds and other investments of \$7 million. The gains were primarily a result of increases in the value of equity portfolio holdings.
- Current year interest income increased slightly compared to fiscal year 2010 due to higher yields on bond investments. 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.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2012 and 2011

Changes in Funded Status

Between June 30, 2008 and June 30, 2012, the actuarial value of SCERS' assets has declined by \$66 million due to general market conditions. During the same period, the actuarial accrued liability has decreased 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 76% at June 30, 2012.

Currently Known Facts and Events

The overall risk profile of the SCERS has remained unchanged since June 30, 2012, 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 investments 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
A Component Unit of the City of Sacramento
Statements of Plan Net Assets
As of June 30, 2012 and 2011
(Amounts Expressed in Thousands)

	2012	2011
Assets		
Cash and cash equivalents	\$ 21,051	\$ 13,540
Securities lending collateral	29,364	54,209
Receivables:		
Interest and dividends	2,026	2,241
Other	220	-
Total receivables	2,246	2,241
Investments:		
U.S. agencies	4,309	8,599
Corporate bonds	62,694	77,907
Equities	109,132	105,793
Exchange traded funds	46,019	49,292
Mortgage loans	7,457	7,766
Municipal bonds	44,253	42,231
Total investments	273,864	291,588
Total assets	326,525	361,578
Liabilities		
Securities lending obligation	30,024	54,889
Payable for investments purchased	-	136
Benefits payable	361	2,536
Accounts payable	31	16
Total liabilities	30,416	57,577
Net assets held in trust for pension benefits	\$ 296,109	\$ 304,001

See accompanying notes to basic financial statements.

Sacramento City Employees' Retirement System
A Component Unit of the City of Sacramento
Statements of Changes in Plan Net Assets
Fiscal Years Ended June 30, 2012 and 2011
(Amounts Expressed in Thousands)

	2012	2011
Additions		
Contributions:		
Employer	\$ 10,361	\$ 10,547
Employees	332	342
Total contributions	10,693	10,889
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	3,277	34,829
Interest	7,985	8,356
Dividends	4,302	4,204
Total investment income	15,564	47,389
Less investment expense:		
Banking, interest, fiscal agent and other	63	63
Professional services	1,178	1,139
Total investment expense	1,241	1,202
Net income from investing activities	14,323	46,187
From securities lending activities:		
Net appreciation (depreciation) in fair value of investments	-	(4)
Securities lending income	199	242
Total securities lending income	199	238
Securities lending expenses:		
Management fees	50	60
Total securities lending expenses	50	60
Net income from securities lending activities	149	178
Total net investment income	14,472	46,365
Total net additions	25,165	57,254
Deductions		
Benefits	32,769	32,388
Refunds of employee contributions	288	615
Total deductions	33,057	33,003
Net increase (decrease) in plan net assets	(7,892)	24,251
Net assets held in trust for pension benefits		
Beginning of year	304,001	279,750
End of year	\$ 296,109	\$ 304,001

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, 2012 and 2011
(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 basic financial statements 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, 2012 and 2011, 47 and 67 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

Note A – Plan Description (Continued)

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 2012 and 2011. 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, 2012 and 2011 are fully vested. The chart below indicates changes in the membership of SCERS during the fiscal years ended June 30, 2012 and 2011.

	Terminated Employees Entitled to				
	Actives	Benefits	Retirees	Beneficiaries	Total
June 30, 2010	85	34	974	325	1,418
Retirement	(15)	(4)	19	-	-
Deaths	(1)	-	(53)	(18)	(72)
Other	(1)	(4)	(1)	21	15
June 30, 2011	68	26	939	328	1,361
Retirement	(18)	(2)	20	-	-
Deaths	(1)	-	(46)	(20)	(67)
Other	(1)	-	1	18	18
June 30, 2012	48	24	914	326	1,312

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, 2012 and 2011
(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. Purchases and sales of investments are recorded on a trade date basis.

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.

New Pronouncements

SCERS is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of GASB Statements No. 67 issued in June 30, 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

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, 2012 and 2011
(Dollars in thousands, except as otherwise noted)

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). The City's investment pool is not rated and has a weighted average maturity of 1.89 years as of June 30, 2012.

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 100% of the market value of the loaned securities. At year-end, the City has no credit risk exposure to borrowers because the amounts the City owes the borrowers exceed the amounts the borrowers owe the City. There have been no losses resulting from borrower or lending agent default. During the fiscal years ended June 30, 2012 and 2011, the weighted maturity of lent securities was zero and 137 days, respectively, and the weighted maturity of the investments purchased with cash collateral was 2 days and 1 day, respectively.

SCERS' securities loaned were equity and exchange traded funds and SCERS received cash collateral. At June 30, 2012 and 2011, SCERS lent securities totaling \$29,810 and \$53,646, respectively, and received cash collateral of \$29,804 and \$54,717, respectively. SCERS invested the cash collateral in securities that had a fair value at June 30, 2012 and 2011 of \$29,265 and \$54,177 respectively.

SCERS also reports its proportionate share of the securities lending activities of the City's investment pool. At June 30, 2012 and 2011, SCERS' share of the investments purchased with cash collateral was \$99 and \$32, respectively; SCERS' share of the securities lending liability was \$220 and \$172, respectively. A Lehman Brothers bond held by the City's investment pool was written down from a value of \$140 to \$0 during the fiscal year ended June 30, 2009, of which \$20 was recovered during the fiscal year ended June 30, 2012.

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, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

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.

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, 2012, 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 short-term investments:						
City of Sacramento Investment Pool	\$ -	\$ -	\$ 21,051	\$ -	\$ -	\$ 21,051
Securities Lending Collateral:						
City of Sacramento Investment Pool	-	99	-	-	-	99
Asset backed securities	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Repurchase agreement	-	29,265	-	-	-	29,265
Total Securities Lending Collateral	-	29,364	-	-	-	29,364
Investments:						
U.S. agencies	-	-	44	31	4,234	4,309
Corporate bonds	-	-	16,156	38,019	8,519	62,694
Equities	109,132	-	-	-	-	109,132
Exchange traded funds	46,019	-	-	-	-	46,019
Mortgage loans	-	4,877	-	-	2,580	7,457
Municipal bonds	-	-	733	5,649	37,871	44,253
Total Investments	155,151	4,877	16,933	43,699	53,204	273,864
Total Cash and Investments	\$ 155,151	\$ 34,241	\$ 37,984	\$ 43,699	\$ 53,204	\$ 324,279

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, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2011, 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 short-term investments:						
City of Sacramento Investment Pool	\$ -	\$ -	\$ 13,540	\$ -	\$ -	\$ 13,540
Securities Lending Collateral:						
City of Sacramento Investment Pool	-	32	-	-	-	32
Asset backed securities	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Repurchase agreement	-	54,177	-	-	-	54,177
Total Securities Lending Collateral	-	54,209	-	-	-	54,209
Investments:						
U.S. agencies	-	-	46	33	8,520	8,599
Corporate bonds	-	-	22,968	47,195	7,744	77,907
Equities	105,793	-	-	-	-	105,793
Exchange traded funds	49,292	-	-	-	-	49,292
Mortgage loans	-	-	5,047	-	2,719	7,766
Municipal bonds	-	2,617	4,238	6,241	29,135	42,231
Total Investments	155,085	2,617	32,299	53,469	48,118	291,588
Total Cash and Investments	\$ 155,085	\$ 56,826	\$ 45,839	\$ 53,469	\$ 48,118	\$ 359,337

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, 2012 and 2011
(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, 2012 and 2011, SCERS' investments that are highly sensitive to interest rate fluctuations are as follows:

	<u>Fair Value</u> <u>June 30, 2012</u>
Harvard President and Fellow securities that have a maturity of 10/01/2037 and are callable continuously beginning 4/01/2016.	\$ 2,327
Riverside County Redevelopment Agency Tax Allocation securities that have a maturity date of 10/01/2037 and are callable annually from 10/01/2020 to 10/01/2036.	\$ 3,274
Sacramento City Financing Authority bonds that have a maturity of 12/01/2016 and are callable on 12/01/2015.	\$ 734
Sacramento City Financing Authority bonds that have a maturity of 12/01/2020 and are callable annually from 12/01/2015 to 12/01/2019.	\$ 4,095
Sacramento City Financing Authority bonds that have a maturity of 12/01/2025 and are callable annually from 12/01/2015 to 12/01/2024.	\$ 1,859

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, 2012 and 2011
(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

	<u>Fair Value</u> <u>June 30, 2011</u>
Bank of America securities that have a maturity of 11/15/2015 and are callable monthly from 7/15/2011 to 10/15/2015.	\$ 2,004
Harvard President and Fellow securities that have a maturity of 10/01/2037 and are callable continuously beginning 4/01/2016.	\$ 2,188
Housing Urban Development (HUD) securities that have a maturity of 8/01/2015 and are callable semi-annually from 8/01/2011 to 2/01/2015	\$ 23
Houston Texas Airport Revenue securities that have a maturity of 1/01/2028 and are callable annually from 1/01/2012 to 1/01/2021.	\$ 5,008
Riverside County Redevelopment Agency Tax Allocation securities that have a maturity date of 10/01/2037 and are callable annually from 10/01/2020 to 10/01/2016.	\$ 3,002
Sacramento City Financing Authority bonds that have a maturity of 12/01/2016 and are callable on 12/01/2015.	\$ 709
Sacramento City Financing Authority bonds that have a maturity of 12/01/2020 and are callable annually from 12/01/2015 to 12/01/2019.	\$ 3,778
Sacramento City Financing Authority bonds that have a maturity of 12/01/2025 and are callable annually from 12/01/2015 to 12/01/2024.	\$ 1,636

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, 2012, 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 fair value of \$569 as of June 30, 2012.

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, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2012, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody	Fair Value
City of Sacramento Investment Pool	not rated	not rated	\$ 21,051
City of Sacramento Investment Pool - Investments			
purchased with securities lending cash collateral	not rated	not rated	\$ 99
Corporate Bonds	A	A	23,600
	A	Baa	5,092
	AA	A	25,941
	AAA	A	2,327
	B	Baa	5,165
	NR	WR	569
Equities (exempt from disclosure)	N/A	N/A	109,132
Exchange traded funds (exempt from disclosure)	N/A	N/A	46,019
Mortgage loans	not rated	not rated	7,457
Municipal bonds	A	A	15,955
	A	Ba	9,186
	A	Baa	2,593
	A	WR	4,095
	A	not rated	5,153
	AA	AA	2,879
	AA	Aaa	2,838
	BBB	Baa	1,554
Repurchase agreement	A	A	6,948
	A	Baa	13,902
	AA	Aaa	6,951
	BBB	Baa	1,464
U.S. agencies	N/A	N/A	4,309
Total			\$ 324,279

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, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2011, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody	Fair Value
City of Sacramento Investment Pool	not rated	not rated	\$ 13,540
City of Sacramento Investment Pool- Investments			
purchased with securities lending cash collateral	not rated	not rated	32
Corporate bonds	A	A	24,760
	A	Aa	5,205
	AA	A	8,101
	AA	Aa	21,961
	AAA	Aaa	2,188
	B	Ba	5,350
	BBB	A	9,689
	D	WR	653
Equities (exempt from disclosure)	N/A	N/A	105,793
Exchange traded funds (exempt from disclosure)	N/A	N/A	49,292
Mortgage loans	not rated	not rated	7,766
Municipal bonds	A	A	25,160
	A	Aa	4,238
	A	Baa	2,345
	A	WR	3,778
	AA	AA	2,465
	AA	Aaa	2,490
	BBB	Baa	1,755
Repurchase agreement	not rated	not rated	54,177
U.S. agencies	AAA	Aaa	2,955
	not rated	not rated	23
	N/A	N/A	5,621
Total			\$ 359,337

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, 2012 and 2011
(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, 2012 or June 30, 2011.

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, 2012 and 2011, 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 \$29,364 and \$54,209, respectively.

Concentration of Credit Risk

As of June 30, 2012 and 2011, SCERS had the following 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:

2012

General Electric Capital Corporation	\$25,101
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2011

General Electric Capital Corporation	\$23,847
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Note D – Related Party Transactions

At June 30, 2012 and 2011, SCERS held revenue bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of \$6,688 and \$6,123, 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, 2012 and 2011
 (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 ensure 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, 2012 and 2011, the City’s annual required and actual contribution was \$10.4 million and \$10.5 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, 2012 and 2011, active member contributions ranged from 3% to 10% of payroll. At June 30, 2012 and 2011, active members’ accumulated contributions, including interest, totaled approximately \$10.6 million and \$15 million, respectively. For the fiscal years ended June 30, 2012 and 2011, interest was credited to members’ contributions at the rate of 0.00% and 2.25%, 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, 2012, the most recent actuarial valuation date is as follows (dollars in millions):

Actuarial Valuation Date	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)
June 30, 2012	\$ 294	\$ 389	\$ 95	76%	\$ 2.959	3,211%

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, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

Note F – Funded Status (Continued)

The fiscal year 2011 and 2012 annual required contributions for the Plan were determined as part of the June 30, 2009 and June 30, 2010 actuarial valuations, respectively. The table below summarizes the actuarial methods and assumptions for the actuarial valuations of those years and as for June 30, 2012:

	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2012</u>
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	15 year open	15 year open	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 accrued actuarial liabilities for benefits.

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 (Unaudited)
 Fiscal Years Ended June 30, 2012 and 2011
 (Dollars in thousands, except as otherwise noted)

Schedule of Funding Progress
 (dollars in millions)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded AAL as a Percentage of Covered Payroll [(B-A)/C]
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
2011	297	397	100	75	4.1	2,420
2012	294	389	95	76	3.0	3,211

Beginning in Fiscal Year 2010, 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
2006	\$ -	-
2007	-	-
2008	3,534	100%
2009	3,159	100%
2010	3,431	100%
2011	10,547	100%
2012	10,361	100%

ADDITIONAL INFORMATION

SACRAMENTO CITY EMPLOYEE'S RETIREMENT SYSTEM
A Component Unit of the City of Sacramento
Schedule of Changes in Investment Position
For the Fiscal Year Ended June 30, 2012
(Amounts Expressed in Thousands)

Description	Balance June 30, 2011 (Fair Value)	Additions	Disposals	Change In Unrealized Gains	Balance June 30, 2012 (Fair Value)
U.S. agencies	\$ 8,599	\$ -	\$ (4,230)	\$ (60)	\$ 4,309
Corporate bonds	77,907	2,440	(18,224)	571	62,694
Equities	105,793	50,135	(48,693)	1,897	109,132
Exchange traded funds	49,292	19,806	(18,695)	(4,384)	46,019
Mortgage loans	7,766	-	(309)	-	7,457
Municipal bonds	42,231	4,914	(6,678)	3,786	44,253
Total Investments	<u>291,588</u>	<u>77,295</u>	<u>(96,829)</u>	<u>1,810</u>	<u>273,864</u>
Cash and short-term investments	13,540	275,720	(268,209)	-	21,051
Security lending collateral	54,209	-	(24,846)	-	29,364
	<u>\$ 359,337</u>	<u>\$ 353,015</u>	<u>\$ (389,884)</u>	<u>\$ 1,810</u>	<u>\$ 324,279</u>

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Listing of Investments

As of June 30, 2012

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
US AGENCY OBLIGATIONS				
Gnma Pool #150426	05/15/16	1,736	\$ 1,906	\$ 1,793
Gnma Pool #157445	06/15/16	14,681	14,875	16,030
Gnma Pool #167166	08/15/16	1,943	2,002	1,952
Gnma Pool #208975	03/15/17	9,411	9,463	9,455
Gnma Pool #211421	04/15/17	14,639	14,720	14,707
Gnma Pool #320296	03/15/22	29,865	29,324	31,535
Gnma Pool #329837	11/15/22	49,877	49,113	58,685
Gnma Pool #450066	12/15/26	7,418	7,369	7,441
Gnma Pool #439515	03/15/27	24,561	24,085	29,297
Gnma Pool #648348	10/15/35	962,867	959,557	1,080,241
Gnma Pool #550718	11/15/35	1,934,350	1,882,364	2,134,961
Gnma Pool #256393	09/01/36	837,769	835,020	923,221
Sub-total			\$ 3,829,799	\$ 4,309,317
CORPORATE BONDS				
M&i Marshall & Ilsley Bk Mtnbe	06/16/15	5,000,000	\$ 5,017,312	5,331,200
Ford Motor Credit - Mtn	09/15/15	5,000,000	4,994,507	5,164,550
Dps Lehman Brth Hld Escrow	04/04/16	2,500,000	2,417,471	568,750
Bank Of America Na	06/15/17	4,762,000	4,633,300	5,091,673
Goldman Sachs Group Inc	04/01/18	6,000,000	5,844,414	6,504,480
General Electric Capital Corp	05/01/18	15,000,000	14,650,224	17,243,100
Metlife Inc	08/15/18	5,000,000	5,012,045	6,098,450
Pfizer Inc	03/15/19	2,000,000	1,998,514	2,506,700
Lloyds Tsb Bk Plc	01/21/21	5,000,000	5,289,484	5,666,400
General Electric Capital Corp	03/15/32	5,000,000	5,109,210	6,190,900
President&fellow Harvard Coll	10/01/37	2,000,000	2,051,019	2,327,340
Sub-total			\$ 57,017,500	\$ 62,693,543
EQUITIES - LARGE CAP GROWTH				
3m Company		15,000	\$ 1,315,224	1,344,000
Abbott Laboratories Com		20,000	1,082,479	1,289,400
Amazon.Com Inc.		6,500	1,429,631	1,484,275
Apache Corp Com		15,000	1,402,580	1,318,350
Apple Inc.		4,500	1,093,379	2,628,000
Archer Daniels Midland Com		40,000	1,151,634	1,180,800
At&t Inc		45,000	1,401,246	1,604,700
Bank Of America Corp		150,000	2,190,825	1,227,000
Berkshire Hathaway Inc-CI B		24,000	1,876,761	1,999,920
Bristol Myers Squibb Com		36,000	1,019,106	1,294,200
Broadcom Corp Cl A		43,000	1,376,999	1,451,680
Caterpillar Inc Del Com		13,000	933,052	1,103,830
Chevron Corporation		15,000	1,294,960	1,582,500
Clorox Co		15,000	1,045,551	1,086,900
Coca Cola Co Com		15,000	659,250	1,172,850
Colgate Palmolive Co Com		12,000	1,027,578	1,249,200
Conagra Inc Com		40,000	959,004	1,037,200
Covidien Plc Shs		30,000	1,208,042	1,605,000
Cummins Inc Com		12,000	1,242,945	1,162,920
Devon Energy Corporation		17,000	1,100,183	985,830
Dollar Tree Inc Com		24,000	1,201,382	1,291,200
Eastman Chem Co Com		26,000	1,240,049	1,309,620
Emc Corp/Mass		65,000	1,555,503	1,665,950

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Listing of Investments

As of June 30, 2012

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
Exxon Mobil Corporation		15,000	1,013,824	1,283,550
Freeport-Mcmoran Cop & G Cl B		45,000	1,682,825	1,533,150
General Electric Co		80,000	1,558,757	1,667,200
Google Inc Cl A		3,500	1,978,294	2,030,245
Green Mtn Coffee Roast Com		45,000	1,120,198	980,100
Intel Corp		59,500	1,352,012	1,585,675
International Bus Mach		10,000	1,614,300	1,955,800
Johnson & Johnson		16,000	1,058,901	1,080,960
Jpmorgan Chase & Co		40,000	1,618,158	1,429,200
Kraft Foods Inc Cl A		30,000	1,039,081	1,158,600
Mcdonald's Corp		15,000	1,095,594	1,327,950
Merck & Co Inc (new)		40,000	1,531,258	1,670,000
Monsanto C0 New Com		17,000	1,296,748	1,407,260
Oracle Corp Com		52,000	1,351,563	1,544,400
Philip Morris Intl Inc Com		17,000	628,955	1,483,420
Procter & Gamble Co		22,000	1,434,024	1,347,500
Qualcomm Inc.		30,000	1,305,258	1,670,400
Tjx Companies Inc		29,000	1,195,181	1,244,970
U. S. Bancorp		35,000	1,088,947	1,125,600
United Technologies		14,000	1,020,992	1,057,420
Valero Energy Corp New Com		30,000	692,882	724,500
Verizon Communications Inc		35,000	1,123,952	1,555,400
Wells Fargo & Company		45,000	1,450,794	1,504,800
Sub-total			\$ 58,059,860	\$ 64,443,425
EQUITIES - FIXED ALTERNATIVE EQUITIES				
Altria Group Inc		65,000	\$ 1,729,851	2,245,750
American Cap Agy Corp Com		45,000	1,471,144	1,512,450
Annaly Cap Mgmt Inc Com		100,000	1,715,598	1,678,000
Dominion Res Va New Com		46,000	2,018,169	2,484,000
Duke Energy Corp New Com New		106,000	1,990,343	2,444,360
Enerplus Corp Com		25,000	998,475	321,750
Exelon Corp		35,000	2,478,727	1,316,700
Ford Mtr Co		150,000	1,589,128	1,438,500
Health Care Reit Inc Com		30,000	1,339,245	1,749,000
Kinder Morgan Energy Partners Ltd		57,500	2,943,669	4,518,350
Microsoft Corp		40,000	1,008,548	1,223,600
Penn West Pete Ltd New Com		36,000	989,146	482,040
Pfizer Inc		95,000	2,334,922	2,185,000
Philip Morris Intl Inc Com		41,000	1,984,754	3,577,660
Pinnacle West Cap Corp		69,000	2,841,613	3,570,060
Reynolds American Inc Com		48,000	1,457,186	2,153,760
Barclays Bank Plc Adr Pfd Sr 5		45,000	1,097,667	1,142,100
Jpmorgan Chase & Co		60,000	1,500,000	1,627,800
Wells Fargo Capital Xii		60,000	1,481,789	1,553,400
Sub-total			\$ 32,969,973	\$ 37,224,280
EQUITIES - INTERNATIONAL EQUALITIES				
Barrick Gold Corp Com		30,000	\$ 1,237,144	1,127,100
Cf Industries Holdings Inc.		6,700	619,645	1,298,058
Potash Corp Sask Inc Com		12,000	647,104	524,280
Weatherford Intl Ltd Reg Shs		70,000	1,333,462	884,100
Baidu Inc Spon Adr Rep A		13,000	1,514,689	1,494,740
Bhp Billiton Plc Sponsored Adr		20,000	1,260,737	1,143,800
Vale S.A		50,000	1,599,165	992,500
Sub-total			\$ 8,211,946	\$ 7,464,578

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the City of Sacramento

Listing of Investments

As of June 30, 2012

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
Ishares Tr Dj Us Energy		42,000	\$ 1,648,254	1,610,280
Ishares Tr Dj Us Healthcr		30,000	1,781,718	2,385,000
Ishares Tr Dj Us Tech Sec		45,000	2,438,416	3,205,350
Ishares Tr Russell 2000		19,900	1,338,087	1,583,244
Ishares Tr Transp Ave Idx		15,000	1,195,606	1,399,950
Market Vectors Etf Tr Oil Svcs Etf		35,000	1,318,551	1,247,400
Oil Svc Holdrs Tr Depostry Rcpt		8,000	984,034	854,480
Select Sector Spdr Tr Sbi Cons Discr		43,000	1,217,129	1,882,540
Select Sector Spdr Tr Sbi Int-Finl		165,000	2,083,088	2,414,775
Spdr Series Trust S&p Biotech		20,000	1,605,614	1,769,400
Spdr Series Trust S&p Homebuild		82,800	1,293,611	1,767,366
Spdr Tr Unit Ser 1		40,000	5,047,060	5,444,200
Barclays Bk Plc Ipth S&p Vix New		45,000	733,334	684,450
Ishares Inc Msci Brazil		21,000	1,694,755	1,085,595
Ishares Inc Msci Cda Index		70,000	1,635,161	1,808,800
Ishares Inc Msci German		60,000	1,411,210	1,188,000
Ishares Inc Msci Japan		115,000	1,156,996	1,082,150
Ishares Inc Msci Pac J Idx		27,000	1,142,414	1,100,250
Ishares Inc Msci S Korea		28,000	1,768,191	1,534,680
Ishares Tr Ftse Xnhua Idx		52,000	2,247,309	1,750,580
Ishares Tr Msci Eafe Idx		40,000	2,274,711	1,998,400
Ishares Tr Msci Emerg Mkt		30,000	1,247,935	1,174,050
Ishares Tr S&p Ltn Am 40		45,000	2,291,031	1,865,250
Market Vectors Etf Tr Gold Miner Etf		18,000	976,660	805,860
Spdr Gold Trust Gold Shs		15,000	2,098,132	2,327,850
Wisdomtree Trust India Erngs Fd		54,000	1,178,125	930,420
Alps Etf Tr Alerian Mlp		70,000	1,124,525	1,118,600
Sub-total			\$ 44,931,658	\$ 46,018,920
MUNICIPAL BONDS				
Bay Area Toll Auth Calif Toll Toll Brid	04/01/30	1,000,000	\$ 1,023,700	1,261,580
California St Build America Bonds	04/01/34	500,000	474,342	624,620
California St Go Bds	11/01/26	2,000,000	2,000,000	2,483,260
California St Go Bds	03/01/36	5,000,000	5,349,892	6,016,100
Houston Tex Arprt Sys Rev Arprt Sys	01/01/28	5,000,000	4,506,881	5,569,950
Pasadena Calif Wtr Rev	06/01/31	3,000,000	2,948,524	3,076,710
Pasadena Calif Wtr Rev	06/01/33	2,000,000	1,966,568	2,076,600
Riverside Calif Pub Fing Auth Tax Alloc	08/01/17	1,555,000	1,498,751	1,554,145
Riverside Cnty Calif Redev Agy Tax Alloc	10/01/37	3,000,000	3,014,626	3,274,230
Sacramento Calif City Fing Auth Rev	12/01/20	4,000,000	3,741,530	4,094,760
Sacramento Calif City Fing Auth Rev Taxa	12/01/25	1,855,000	1,855,000	1,859,471
Sacramento City Calif Fing Tax Alloc Rv	12/01/16	710,000	707,214	733,537
San Francisco Calif City & Cnt Tax Alloc	08/01/39	5,000,000	5,194,852	5,911,550
Univ Calif Regts Med Ctr Poole	05/15/31	2,350,000	2,510,041	2,879,126
Vermont State Build America Bonds	08/15/27	2,700,000	2,660,324	2,837,673
Sub-total			\$ 39,452,245	\$ 44,253,311
MORTGAGE LOANS				
2484 Natomas Park Dr.	07/01/12	1,918,222	\$ 1,918,222	1,918,222
2660 W. Covell Blvd/West Davis Assoc	08/01/12	2,958,921	2,958,921	2,958,921
Walgreens Drugs/Adahi, Inc	05/01/24	2,580,208	2,580,208	2,580,208
Sub-total			\$ 7,457,351	\$ 7,457,351
Total			\$ 251,930,333	\$ 273,864,725

APPENDIX A



BARTEL
ASSOCIATES, LLC

City of Sacramento

Sacramento City Employees' Retirement System

June 30, 2012

Actuarial Valuation

November 2012

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, 2012 actuarial valuation of the Sacramento City Employees' Retirement System (SCERS).

The purpose of this valuation is to:

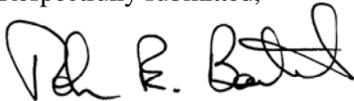
- Determine the Governmental Accounting Standards Board Statement No. 25 (GASB 25), as amended by GASB 50, June 30, 2012 Benefit Obligations,
- Determine the System's June 30, 2012 Funded Status, and
- Calculate the 2013/14 fiscal year Annual Pension Cost under GASB 27, as amended by GASB 50.

The report provides information intended for reporting under GASB 25 and 27, but may not be appropriate for other purposes. Information provided in this report may be useful to the City for the System's financial management. Future valuations may differ significantly if the System's experience differs from our assumptions or if there are changes in plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

The valuation is based on the System's benefit provisions summarized in Section 9, employee data, and on the System's financial information, all furnished by the City. We reviewed the financial and employee data for reasonableness but did not perform an audit.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASB Statements 25, 27, and 50. As members of the American Academy of Actuaries, meeting Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,



John E. Bartel, ASA, MAAA, 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, 2011 valuation are provided for comparative purposes.

	-----amounts in \$000's-----		
	June 30, 2011	June 30, 2012	% change
■ Participant Counts			
• Actives	68	48	-29.4%
• Terminated Vesteds	17	17	0.0%
• Reciprocal	9	7	-22.2%
• Service Retirees	766	744	-2.9%
• Disableds	173	170	-1.7%
• Beneficiaries	328	326	-0.6%
• Total	1,361	1,312	-3.6%
■ Actuarial Liabilities			
• Present Value of Projected Benefits	\$ 397,941	\$ 389,527	-2.1%
• Actuarial Accrued Liability	396,968	388,862	-2.0%
■ Assets			
• Market Value of Assets	304,001	296,109	-2.6%
• Approximate Annual Rate of Return	17.3%	4.9%	
• Actuarial Value of Assets	296,894	294,111	-0.9%
• Approximate Annual Rate of Return	7.7%	6.9%	
■ Plan Funded Status			
• Actuarial Accrued Liability	396,968	388,862	-2.0%
• Actuarial Value of Plan Assets	296,894	294,111	-0.9%
• Unfunded Actuarial Accrued Liability	100,074	94,751	-5.3%
• Funded Ratio	74.8%	75.6%	1.1%
• Funded Ratio, Market Value Basis	76.6%	76.1%	-0.7%
	2012/13	2013/14	% change
■ Annual Cost¹	10,573	9,649	-8.7%
■ Annual Cost (% Proj. Plan Payroll)¹	312.9%	404.9%	
■ Annual Cost (% Proj. City Payroll)	3.7%	3.6%	

¹ See page 11 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 48 active members (out of a total plan membership of 1,312) remain.

Results

Since the last valuation, the plan experienced small gains on liabilities and losses on market assets. Plan liabilities increased slightly less than expected, by approximately \$44 thousand. Market value return on assets was less than expected, but recognition of gains from fiscal year 2010/11 contributed to a gain of \$1.1 million on the actuarial value of assets. The resulting July 1, 2012 total plan Unfunded Actuarial Accrued Liability (UAAL) is \$94.8 million, as compared to an expected UAAL of \$95.9 million.

The plan's funded ratio on an actuarial value of assets basis is 75.6%, an increase from 74.8% in the prior valuation. The plan's funded ratio on a market value of assets basis is 76.1%, a decrease from 76.6% in the prior valuation.

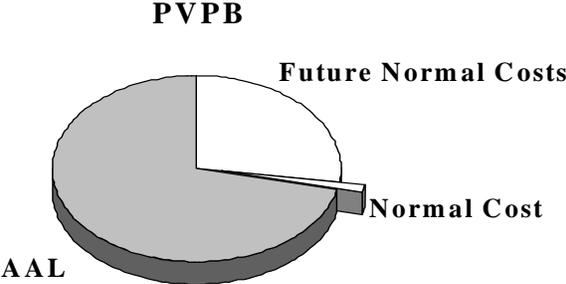
No assumption changes were made since the prior valuation. The amortization method was changed from a rolling 15 year period to a rolling 14 year period. Due to the changes in experience, the City's contribution has decreased from the previous year. The employer contribution for fiscal year 2013/14 is \$9.6 million, down from \$10.6 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, 2011	June 30, 2012
Present Value of Projected Benefits		
■ Active Employees	\$ 28,794	\$ 20,301
■ Vested Terminated & Reciprocal	3,977	2,527
■ Service Retirees	271,746	271,838
■ Disabled Participants	46,815	47,163
■ Beneficiaries	46,609	47,698
■ Total	397,941	389,527

Actuarial Accrued Liability

■ Active Employees	\$ 27,821	\$ 19,636
■ Vested Terminated & Reciprocal	3,977	2,527
■ Service Retirees	271,746	271,838
■ Disabled Participants	46,815	47,163
■ Beneficiaries	46,609	47,698
■ Total	396,968	388,862

2011/12

2012/13

Normal Cost

■ Employer Normal Cost (beginning of year)	\$ 67	\$ 52
--	-------	-------

June 30, 2011

June 30, 2012

Plan Funded Status

■ Total Actuarial Accrued Liability	\$ 396,968	\$ 388,862
■ Actuarial Value of Plan Assets	296,894	294,111
■ Unfunded Actuarial Accrued Liability	100,074	94,751
■ Funded Ratio	74.8%	75.6%
■ Market Value of Assets	304,001	296,109
■ Funded Ratio – Market Value Basis	76.6%	76.1%

SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2012 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	\$ -	\$ 20,301	\$ 20,301
■ Vested Terminated & Reciprocals	42	2,484	2,527
■ Service Retirees	36,073	235,765	271,838
■ Disabled Participants	22,616	24,546	47,163
■ Beneficiaries	17,956	29,742	47,698
■ Total	76,688	312,838	389,527

Actuarial Accrued Liability

■ Active Employees	-	19,636	19,636
■ Vested Terminated & Reciprocals	42	2,484	2,527
■ Service Retirees	36,073	235,765	271,838
■ Disabled Participants	22,616	24,546	47,163
■ Beneficiaries	17,956	29,742	47,698
■ Total	76,688	312,174	388,862

	Safety	Miscellaneous	Total
Normal Cost			
■ Employer Normal Cost (on June 30, 2012)	\$ -	\$ 52	\$ 52

SECTION 2

LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2012 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	\$ 496	\$ 19,804	\$ 20,301
■ Vested Terminated & Reciprocal	458	2,069	2,527
■ Service Retirees	9,276	262,562	271,838
■ Disabled Participants	2,629	44,534	47,163
■ Beneficiaries	4,103	43,595	47,698
■ Total	16,962	372,564	389,527

Actuarial Accrued Liability

■ Active Employees	489	19,147	19,636
■ Vested Terminated & Reciprocal	458	2,069	2,527
■ Service Retirees	9,276	262,562	271,838
■ Disabled Participants	2,629	44,534	47,163
■ Beneficiaries	4,103	43,595	47,698
■ Total	16,955	371,907	388,862

Normal Cost

	Section 175	Sections 302 & 399	Total
■ Employer Normal Cost (on 6/30/12)	\$ 2	\$ 50	\$ 52

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, 2010 through June 30, 2011 and the June 30, 2011 through June 30, 2012 market value of assets.

	(amounts in \$000's)	
	2010/11	2011/12
■ Beginning of Year Balance:	\$ 279,750	\$ 304,001
• Member Contributions	\$ 342	\$ 332
• City Contributions	10,547	10,361
• Investment Income	47,627	15,763
■ Total Additions	58,516	26,456
• Benefit Payments	32,388	32,769
• Member Refunds	615	288
• Expenses	1,262	1,291
■ Total Deductions	34,265	34,348
■ Net Assets at End of Year	304,001	296,109
■ Approximate Return on Assets	17.3%	4.9%

SECTION 3

ASSET INFORMATION

Asset Allocation – Market Value of Assets

The July 1, 2012 trust asset allocation is provided by the City of Sacramento and based on an allocation strategy of 45% fixed income and 55% equity. Details are shown below.

(amounts in \$000's)

	Market Value	Percentage
■ Cash & Short Term Investments	\$ 21,051	7.1%
■ Securities Lending Collateral	29,364	9.9%
■ Receivables	2,246	0.8%
■ Investments		
• US Agencies	\$ 4,309	1.5%
• Corporate Bonds	62,694	21.2%
• Equities	109,132	36.9%
• Exchange Traded Funds	46,019	15.5%
• Mortgage Loans	7,457	2.5%
• Municipal Bonds	<u>44,253</u>	14.9%
■ Total Investments	<u>273,864</u>	
■ Total Assets	326,525	
■ Securities Lending Obligation	(30,024)	-10.2%
■ Other Liabilities	<u>(392)</u>	<u>-0.1%</u>
■ Net Pension Benefit Trust Assets	296,109	100.0%

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 in February 2012, effective July 1, 2012, as shown below. The fund is rebalanced each year.

	Prior Allocation	Current Allocation
■ Fixed Bonds/Real Estate	<u>50%</u>	<u>45%</u>
Total Fixed	50%	45%
■ Large Cap Growth	30%	30%
■ Equity Income	10%	15%
■ International Equities	<u>10%</u>	<u>10%</u>
Total Equity	<u>50%</u>	<u>55%</u>
Total Fixed & Equity	100%	100%

SECTION 3

ASSET INFORMATION

Discount Rate Development

We recommend the following discount rate assumption for the June 30, 2012 valuation, based upon a 55% confidence level:

Confidence Level	50%	55%	60%
■ Inflation Adjusted Return	6.95%	6.70%	6.44%
■ Investment Expenses ²	<u>0.30%</u>	<u>0.30%</u>	<u>0.30%</u>
■ Net Return after Expenses	6.65%	6.40%	6.14%
■ Discount Rate Assumption		6.50%	

² Based on average investment expenses for a typical passive investment strategy. This is not plan specific.

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 6/30/2011	\$ 296,894
• Contributions	10,693
• Expected Earnings	18,583
• Benefit Payments	(33,057)
■ Expected Actuarial Value of Assets 6/30/2012	293,113
■ Market Value of Assets 6/30/2012	296,109
■ Difference between MVA & Expected AVA	2,996
■ Preliminary Actuarial Value of Assets 6/30/2012 <i>(Expected AVA+ 1/3 Difference)</i>	294,111
■ Actuarial Value of Assets Corridor	
• Cap: 115% of Market Value	340,525
• Min: 85% of Market Value	251,693
■ Actuarial Value of Assets 6/30/2012 <i>(No greater than Cap, not less than Min)</i>	294,111
■ Approximate Annual Rate of Return	6.9%

SECTION 4

CONTRIBUTION DEVELOPMENT

Annual Required Contribution

Following is the development of the 2013/14 Annual Required Contribution. The 2012/13 Annual Required Contribution, which was calculated in the June 30, 2011 actuarial valuation, is shown for comparison.

	(amounts in \$000's)	
Contribution Year	2012/13	2013/14
■ Annual Required Contribution		
• Normal Cost	\$ 56	\$ 43
• UAL Amortization ³	10,517	9,606
• Total Cost	10,573	9,649
■ Projected Plan Payroll	3,379	2,383
■ Annual Required Contribution (as a percent of plan payroll)		
• Normal Cost	1.7%	1.8%
• UAL Amortization	311.2%	403.1%
• Total Contribution	312.9%	404.9%
■ Projected Total City Payroll	288,489	271,460
■ Annual Required Contribution (as a percent of total City payroll)		
• Normal Cost	0.0%	0.0%
• UAL Amortization	3.7%	3.6%
• Total Contribution	3.7%	3.6%

³ The Unfunded Actuarial Liability is being amortized as a level dollar amount over a fifteen year period for the 2012/13 ARC and over a fourteen year period for the 2013/14 ARC. As the plan continues to mature, this amortization period should be reviewed.

SECTION 5
SCHEDULE OF FUTURE CONTRIBUTIONS

Year Ending ⁴	Member Contributions	City Contributions	Benefit Payments
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 ⁵	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	342,000	10,547,000	33,003,000
6/30/2012	332,000	10,361,000	33,057,000
6/30/2013	<i>238,000</i>	10,573,000	<i>33,535,000</i>
6/30/2014	<i>191,000</i>	9,649,000	<i>33,486,000</i>
6/30/2015	<i>150,000</i>	<i>9,145,000</i>	<i>33,446,000</i>
6/30/2016	<i>111,000</i>	<i>8,680,000</i>	<i>33,348,000</i>
6/30/2017	<i>82,000</i>	<i>8,248,000</i>	<i>33,033,000</i>

⁴ Information prior to 6/30/2006 valuation is taken from prior actuary's valuation report. Member contributions and benefit payments for years ending 6/30/2013 and later are estimated. City contributions for years ending 6/30/2015 and later are estimated (assuming 6/30/13 and subsequent market value of assets earn 6.5%).

⁵ 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, 2011 Actual Value	\$ 396,968	\$ 296,894	\$ 100,074
■ June 30, 2012 Expected Value	388,906	293,019	95,887
• Demographic (Gain)/Loss	(44)		
■ Total Liability (Gain)/Loss	(44)		
■ Investment Gain/(Loss)		1,092	
■ Total (Gain)/Loss			(1,136)
■ June 30, 2012 Actual Value	388,862	294,111	94,751

SECTION 7

SENSITIVITY ANALYSIS

The Plan's June 30, 2012 funded status and 2013/14 fiscal year contribution are shown below at 6.25% and 6.50% discount rates.

Discount Rate	6.25%	6.50%
■ Present Value of Projected Benefits	\$ 398,126	\$ 389,527
■ Funded Status		
• Actuarial Accrued Liability	397,407	388,862
• Actuarial Value of Assets	294,111	294,111
• Unfunded Actuarial Accrued Liability	103,296	94,751
■ Funded Ratio	74.0%	75.6%
■ 2013/14 Annual Required Contribution		
• Normal Cost	\$ 56	\$ 43
• UAL Amortization	10,386	9,606
• Total Contribution	10,442	9,649
• Total Contribution (as a percent of Plan payroll)	438.2%	404.9%
• Total Contribution (as a percent of total City payroll)	3.8%	3.6%

The Plan's 2013/14 fiscal year contribution would change if the amortization period of the Unfunded Actuarial Accrued Liability were shorter. Shown below are results based on the current 14-year period, as well as for 15, 12 and 10 year periods.

Amortization Years	15	14	12	10
■ 2013/14 Annual Required Contribution				
• Normal Cost	\$ 43	\$ 43	\$ 43	\$ 43
• UAL Amortization	9,208	9,606	10,612	12,044
• Total Contribution	9,252	9,649	10,656	12,087
• Total Contribution (as a percent of Plan payroll)	388.2%	404.9%	447.1%	507.2%
• Total Contribution (as a percent of total City payroll)	3.4%	3.6%	3.9%	4.5%

SECTION 8

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)
2013	48	24	1,239	\$ 33,535
2014	37	24	1,216	33,486
2015	28	24	1,188	33,446
2016	20	24	1,157	33,348
2017	14	24	1,122	33,033
2018	10	23	1,084	32,688
2019	6	23	1,044	32,255
2020	4	23	1,002	31,737
2021	3	23	959	31,133
2022	2	23	916	30,475
2023	1	23	872	29,768
2024	1	22	829	29,015
2025	0	22	786	28,227
2026	0	22	744	27,403
2027	0	21	702	26,549
2028	0	21	661	25,665
2029	0	20	622	24,752
2030	0	20	583	23,809
2031	0	19	545	22,835
2032	0	19	508	21,827
2033	0	18	472	20,785
2034	0	17	437	19,709
2035	0	16	403	18,600
2036	0	15	369	17,459
2037	0	14	337	16,291
2038	0	13	306	15,102
2039	0	12	276	13,899
2040	0	11	248	12,695
2041	0	10	221	11,501
2042	0	9	195	10,328

SECTION 8

HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2043	0	8	171	\$ 9,190
2044	0	7	148	8,100
2045	0	6	128	7,070
2046	0	5	109	6,109
2047	0	4	92	5,225
2048	0	3	77	4,421
2049	0	2	64	3,701
2050	0	2	53	3,067
2051	0	1	43	2,516
2052	0	1	34	2,045
2053	0	1	27	1,650
2054	0	0	21	1,323
2055	0	0	17	1,059
2056	0	0	13	847
2057	0	0	10	680
2058	0	0	7	552
2059	0	0	6	454
2060	0	0	4	381
2061	0	0	3	328
2062	0	0	3	289

SECTION 9 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 9 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 9 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 10

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 14 year rolling period, as a level dollar amount. In the prior valuation, a 15 year rolling period was used. Because the plan is closed the amortization period should be regularly reviewed.

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 (2013/14). The June 30, 2011 valuation generated a contribution for fiscal year 2012/13.

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 10 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 10

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. For the June 30, 2012 valuation, the generational projection scale AA was applied. 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. For the June 30, 2012 valuation, the generational projection scale AA was applied to both tables. 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 10

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 11 PARTICIPANT DATA

Data Summary

Following summarizes participant demographic information for the June 30, 2011 and June 30, 2012 actuarial valuations.

	June 30, 2011	June 30, 2012
■ Participant Counts		
• Actives	68	48
• Terminated Vesteds	17	17
• Reciprocal	9	7
• Service Retirees	766	744
• Disableds	173	170
• Beneficiaries	328	326
• Total	1,361	1,312
■ Actives		
• Average Age	58.6	59.1
• Average Service	32.8	33.2
• Salary		
> Total	\$ 4,132,330	\$ 2,959,189
> Average	60,770	61,650
• Overall City Payroll	269,307,000	253,411,000
■ Terminated Vesteds & Reciprocal		
• Average Age	62.6	63.7
■ Retirees, Disableds & Beneficiaries		
• Average Age	75.6	75.9
• Average Monthly Benefit	\$ 2,155	\$ 2,238

SECTION 11 PARTICIPANT DATA

June 30, 2012 Participant Data

Following summarizes participant demographic information for the June 30, 2012 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	47	48
• Average Age	n/a	n/a	65.3	58.9	59.1
• Average Service	n/a	n/a	42.9	33.0	33.2
• Salary					
➤ Average	\$ -	\$ -	\$45,635	\$61,991	\$61,650
➤ Total (000's)	-	-	46	2,914	2,959
■ Vested Terms & Reciprocals:					
• Count	-	1	3	20	24
• Average Age	n/a	72.1	64.2	63.2	63.7
■ All Inactives					
• Count	41	236	42	921	1,240
• Average Age	82.5	79.5	79.3	74.5	75.9
• Avg. Monthly Benefit	\$1,978	\$2,808	\$1,475	\$2,139	\$2,238
■ Service Retirees					
• Count	13	92	24	615	744
• Average Age	83.4	83.7	78.5	73.7	75.3
• Average Retirement Age	55.8	55.3	62.8	59.6	59.1
• Avg. Monthly Benefit	\$2,866	\$3,946	\$1,777	\$2,527	\$2,684
■ Disabled Retirees					
• Count	8	62	6	94	170
• Average Age	80.4	72.6	80.1	70.2	71.9
• Average Retirement Age	46.0	42.6	52.4	48.4	46.3
• Avg. Monthly Benefit	\$2,334	\$2,381	\$935	\$1,762	\$1,986
■ Beneficiaries					
• Count	20	82	12	212	326
• Average Age	82.7	80.0	80.3	78.7	79.3
• Avg. Monthly Benefit	\$1,259	\$1,855	\$1,143	\$1,179	\$1,353

SECTION 11 PARTICIPANT DATA

Data Reconciliation 6/30/2011 to 6/30/2012

	Actives	Terminated		Receiving Payments			Total
		Vested	Reciprocal	Disabled	Benefic.	Retirees	
■ June 30, 2011	68	17	9	173	328	766	1,361
• New Hires	-	-	-	-	-	-	-
• Disabled	(1)	-	-	1	-	-	-
• Terminated	-	-	-	-	-	-	-
• Deceased	(1)	-	-	(5)	(20)	(41)	(67)
• New Beneficiaries	-	-	-	-	18	-	18
• Retired	(18)	-	(2)	-	-	20	-
• Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
■ June 30, 2012	48	17	7	170	326	744	1,312

SECTION 11 PARTICIPANT DATA

Active Age/Service/Pay

Following are active counts by age and service groups:

Age	Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over	
Under 25	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-
30-34	-	-	-	-	-	-	-	-
35-39	-	-	-	-	-	-	-	-
40-44	-	-	-	-	-	-	-	-
45-49	-	-	-	-	-	-	-	-
50-54	-	-	-	-	-	1	1	2
55-59	-	-	1	-	3	3	25	32
60-64	-	-	-	-	1	2	9	12
65 & Over	-	-	-	-	-	-	2	2
Total	-	-	1	-	4	6	37	48

SECTION 11 PARTICIPANT DATA

Inactives Age/Status/Monthly Benefit

Following are inactive counts and monthly benefit by age and status.

Safety

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
Under 50	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
50-54	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
55-59	Count	1	-	-	1
	Avg. Benefit	4,502	-	-	4,502
60-64	Count	-	5	4	9
	Avg. Benefit	-	2,545	1,637	2,141
65-69	Count	3	18	9	30
	Avg. Benefit	3,330	2,353	1,876	2,308
70-74	Count	3	20	13	36
	Avg. Benefit	2,466	2,281	2,037	2,209
75-79	Count	11	12	21	44
	Avg. Benefit	3,731	2,540	1,686	2,430
80-84	Count	48	12	20	80
	Avg. Benefit	4,361	2,459	1,911	3,463
85 & Over	Count	39	3	35	77
	Avg. Benefit	3,283	1,871	1,535	2,434
Total	Count	105	70	102	277
	Avg. Benefit	3,812	2,376	1,738	2,685

SECTION 11 PARTICIPANT DATA

Miscellaneous

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
Under 55	Count	-	-	1	1
	Avg. Benefit	-	-	2,299	2,299
Under 55	Count	-	1	2	3
	Avg. Benefit	-	2,699	1,251	1,733
55-59	Count	20	14	9	43
	Avg. Benefit	3,322	1,994	964	2,396
60-64	Count	96	18	18	132
	Avg. Benefit	3,029	2,056	1,261	2,656
65-69	Count	137	15	25	177
	Avg. Benefit	2,688	1,405	1,530	2,416
70-74	Count	107	18	23	148
	Avg. Benefit	2,461	1,863	1,283	2,205
75-79	Count	97	14	32	143
	Avg. Benefit	2,509	1,400	1,354	2,142
80-84	Count	103	16	39	158
	Avg. Benefit	2,207	1,540	1,145	1,877
85 & Over	Count	79	4	75	158
	Avg. Benefit	1,735	1,201	957	1,352
Total	Count	639	100	224	963
	Avg. Benefit	2,499	1,713	1,177	2,110

SECTION 12

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, 2012.

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, 2012:

Retirees and beneficiaries receiving payments	1,240
Terminated plan members entitled to, but not yet receiving, benefits	24
Active plan members	48
Total	1,312

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 12

GASB REPORTING AND DISCLOSURE

- 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 was \$10.361 million.
- The Plan’s annual pension cost (APC) for the fiscal year ending June 30, 2013 is based on the June 30, 2011 actuarial valuation. The APC for this period is \$10.573 million.
- The Plan’s annual pension cost (APC) for the fiscal year ending June 30, 2014 is based on the June 30, 2012 actuarial valuation. The APC for this period is \$9.649 million, the same amount to be 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, changing to open 14 year period for 2013/14) 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>
2010	\$3.431	100%	0
2011	\$10.547	100%	0
2012	\$10.361	100%	0

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 75.6% funded. The actuarial accrued liability for benefits was \$388.9 million, and the actuarial value of assets was \$294.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$94.8 million. The covered plan payroll was \$3.0 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 12

GASB REPORTING AND DISCLOSURE

Actuarial Methods and Assumptions

The following is a summary of significant June 30, 2012 actuarial assumptions and methods:

Interest rate:	6.5%			
Mortality:	CalPERS 1997-2007 Mortality Tables with Scale AA			
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			

No changes in assumptions were made since the prior valuation.

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	\$10.547	100%	-
2012	\$10.361	\$10.361	100%	-
2013	\$10.573	n/a	n/a	n/a

SECTION 12

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%
2011	297	397	100	75%	4.132	2420%
2012	294	389	95	76%	2.959	3211%

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 with Scale AA																												
Inflation:	3%																												
Salary Scale:	3.0% CPI plus 0.5% Merit																												
Retirement:	Sample rates are:																												
	<table> <tr> <th colspan="2">Section 175</th> <th colspan="2">Non 175</th> </tr> <tr> <th>Age</th> <th>Retirement</th> <th>Age</th> <th>Retirement</th> </tr> <tr> <td>50</td> <td>0%</td> <td>50</td> <td>1%</td> </tr> <tr> <td>55</td> <td>6%</td> <td>55</td> <td>6%</td> </tr> <tr> <td>60</td> <td>26%</td> <td>60</td> <td>26%</td> </tr> <tr> <td>65</td> <td>40%</td> <td>65</td> <td>40%</td> </tr> <tr> <td>70</td> <td>100%</td> <td>70</td> <td>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																											
Age	Retirement	Age	Retirement																										
50	0%	50	1%																										
55	6%	55	6%																										
60	26%	60	26%																										
65	40%	65	40%																										
70	100%	70	100%																										
Cost of Living:	3% per year increases																												



**SACRAMENTO CITY EMPLOYEES'
RETIREMENT SYSTEM**

Report to the Administration, Investment and
Fiscal Management Board and Members of City Council

Fiscal Year Ended June 30, 2012

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

Report to the Administration, Investment and Fiscal Management Board and Members of City Council
Fiscal Year Ended June 30, 2012

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

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

LA/Century City
Newport Beach

We have audited the statement of plan net assets of the Sacramento City Employees' Retirement System (SCERS), a component unit of the City of Sacramento, California (City), as of June 30, 2012 and the related statement of changes in plan net assets for the fiscal year then ended, in accordance with auditing standards generally accepted in the United States of America, and have issued our report thereon dated December 28, 2012.

In planning and performing our audit in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as it relates to SCERS as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting as it relates to SCERS. Accordingly, we express no opinion on the effectiveness of the City's internal control over financial reporting as it relates to SCERS.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

This letter does not affect our report dated December 28, 2012, on the financial statements of SCERS.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 9, 2012. Professional standards also require that we communicate to you information related to our audit as discussed in the required communications section of this report.

We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

This report is intended solely for the information and use of the Administration, Investment and Fiscal Management Board, the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Macinn Meiri & O'Connell LLP

Sacramento, California
December 28, 2012

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

Report to the Administration, Investment and Fiscal Management Board and Members of City Council
Required Communications
Fiscal Year Ended June 30, 2012

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SCERS are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2012. We noted no transactions entered into by SCERS during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the actuarial pension data contained in Note F to the financial statements and required supplementary information. The actuarial pension data contained in Note F to the financial statements and required supplementary information is based on actuarial calculations performed in accordance with the parameters set forth in Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. We evaluated the key factors and assumptions used to develop the actuarial pension data in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified during the audit.

Disagreements with Management

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

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

Report to the Administration, Investment and Fiscal Management Board and Members of City Council
Required Communications (Continued)
Fiscal Year Ended June 30, 2012

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 28, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

Report to the Administration, Investment and Fiscal Management Board and Members of City Council
General Information Regarding New Accounting Standard
Fiscal Year Ended June 30, 2012

In June 2012, GASB approved Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Statement No. 67 addresses reporting by pension plans that administer benefits for governments and is effective for financial statements for periods beginning after June 15, 2013. Statement No. 68, which primarily relates to reporting by governments that provide pensions to their employees, is effective for fiscal years beginning after June 15, 2014. These standards were subsequently published in August 2012.

Significant provisions of the standards that will either directly or indirectly impact SCERS are as follows:

- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six attribution methods.
- Requiring more extensive note disclosures and required supplementary information.
- Requiring the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.