Meeting Date: **2/10/2015**

Report Type: Consent

Report ID: 2015-00090

City of SACRAMENTO **14**

City Council Report
915 I Street, 1st Floor
www.CityofSacramento.org

Title: Fiscal Year 2013/14 Sacramento City Employees Retirement System Annual Financial Report

Location: Citywide

Recommendation: Receive and file.

Contact: Russell Robertson, Accounting Manager, (916) 808-1712; Leyne Milstein, Director of Finance, (916) 808-8491, Department of Finance

Presenter: None

Department: Finance
Division: Accounting Division
Dept ID: 06001311
Attachments:
1-Description/Analysis
2-SCERS Annual Financial Report
3-SCERS Report to AIFM Board and Council Members

City Attorney Review

Approved as to Form
Gerald Hicks
2/4/2015 9:03:23 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 2/2/2015 2:06:18 PM

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Description/Analysis

Issue: The Fiscal Year (FY) 2013/14 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, 2014. The June 30, 2014, Auditor's Report to the Administration, Investment, and Fiscal Management Board (AIFM Board) and Members of City Council provides additional information about the FY2013/14 SCERS audit.

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

Environmental Considerations:

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

Sustainability: Not applicable.

Commission/Committee Action: None.

Rationale for Recommendation: It is in the best interest of the City Council to review the FY2013/14 SCERS Annual Financial Report and the June 30, 2014, 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 Vavrinek, Trine, Day & Co., LLP has audited the SCERS FY2013/14 financial statements and has rendered its unmodified 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.

Financial Considerations: The annual required contribution from the City to SCERS of $9.2 million for FY2014/15 is included in the approved budget.

Local Business Enterprise (LBE): Not applicable.

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SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento, California

Annual Financial Report

Fiscal Year Ended June 30, 2014
(With Comparative Totals as of June 30, 2013)

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento, California
Fiscal Year Ended June 30, 2014

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City of
SACRAMENTO
Office of the City Treasurer

915 I Street, HCH 3rd Floor
Sacramento CA 95814

Russell Fehr ~ City Treasurer

Phone 916-808-5168
Fax 916-808-5171

December 19, 2014

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, 2014.

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

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, Finance Operations Manager as his designee on the Board. Mr. Kauffman was appointed to the position of Finance Operations Manager in 2014 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, and the City enjoyed a contribution holiday. 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 the June 30, 2013, actuarial report the average age of SCERS active members is 59.3 years and the average years of service is 32.9 years. As of June 30, 2014, there are 27 active miscellaneous members and a total of 1,228 plan participants.

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, 2014

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. Pursuant to the Charter, the revised policy approved by the Board is then presented to the City Council for its approval.

ASSET ALLOCATION

On February 25, 2013, the Board voted to continue the balanced asset allocation policy approved the prior year.

Fixed Income	
Fixed Bond	45%
Equity	
Large Cap Growth	30%
Equity Income	15%
International	10%
	55%

On February 24, 2014, the Board adopted the following asset allocation policy to be implemented by June 30, 2014.

Fixed Income	
Fixed Bond	40%
Equity	
Large Cap Growth	35%
Equity Income	15%
International	10%
	60%

The Board typically revisits its asset allocation every February. It is expected to consider the allocation at its meeting in February 2015 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
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, 2014

FINANCIAL RESULTS

The plan net position of SCERS increased from $295.975 million to $312.414 million for the fiscal year ended June 30, 2014. This $16.439 million increase is summarized as follows:

SCERS PLAN NET POSITION	$ in thousands
Plan net position 6/30/13	$ 295,975
Members Contributions	161
City Contributions	9,649
Investment Income, net	40,317
Benefit Payments & Expenses	(33,688)
Plan net position 6/30/14	$ 312,414

SCERS' Total Pension Liability (TPL) as of June 30, 2014 was $ 372.670 million. TPL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio was 83.8 percent at June 30, 2014. The funding ratio is defined as that portion of the total TPL for which there are assets available for benefits. In general, this indicates that for every dollar of benefits due, SCERS has approximately $0.84 of assets available for payment.

An analysis of assets shows the rate of investment return for fiscal 2013-14 was 14.58 percent net of investment expense, which is above the assumed rate of 6.5 percent per annum.

TOTAL FUND PERFORMANCE

To accomplish the calculation of total investment return and investment performance measurement, the Board retained 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, 2014:

Table 1

SCERS Total Rate of Return
TOTAL FUND
For the periods ended June 30, 2014

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance	14.58%	9.33%	5.75%
Custom Index – Target	13.95%	8.88%	5.27%
Actuarial Assumption	6.50%	6.50%	6.68%

A review of the total fund investment performance for the fiscal year ended June 30, 2014 shows a 14.58 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 2014 during the annual asset allocation review, the Board decided to further reduce the allocation to fixed income in favor of equity investments. While staff would like to hold a higher portion of the portfolio in fixed-income securities, given the closed nature of the plan, but continuing low interest-rate environment has made it extremely difficult to meet a performance assumption target of 6.5%, when long Treasury bonds yielding less than 3% annually.

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

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

Fixed Income Performance

Based on Board policy, 45% of SCERS assets are to be allocated to fixed income investments (reduced to 40% in February 2014). 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. 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, 2014

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Fixed-Income Fund	7.93%	7.69%	7.12%
Fixed Portfolio Index*	4.37%	3.66%	4.86%

*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 7.93% compounded for the one-year period and 7.12% compounded for the ten-year period ended June 30, 2014. 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 10.44 years compared to the benchmark's average maturity of 7.69 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. The gradual, but sustained improvement of the U.S. economy has resulted in the Federal Reserve Board ending its quantitative easing programs and is no longer purchasing U.S. government and mortgage-backed securities. While initially this result in an upward move in bond yields, the lagging European and Japanese economies has many investors choosing to own U.S. securities in lieu of other sovereign debt. This coupled with geopolitical problems in the Ukraine and Syria has compounded the thirst for U.S. Treasuries. Going forward continued domestic economic improvements could result in a policy change in the Fed Funds rate. This tightening of the money supply will translate

into a flatting in the yield curve which could drastically affect short –term rates, but our belief is that the longer–term securities within the portfolio will continue to perform.

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 (increased to 60% in February 2014).

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, 2014

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance Total Equity	19.69%	12.85%	4.41%
Domestic Equity Index	22.83%	14.12%	5.84%
Individual Equity Managers			
Large Cap Growth	23.18%	13.30%	4.05%
Large Cap Index**	22.04%	14.07%	4.94%
Equity Income	12.39%	12.32%	8.81%
Equity Income Index***	24.54%	17.69%	7.78%
International	17.18%	-1.33%	NA
International Index****	18.69%	2.79%	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 19.69% compounded for the one-year period and 4.41% compounded for the ten-year period ended June 30, 2014. These overall equity returns

are primarily the result of staff's conservative investment strategy as well as the use of equity call options during an extremely strong market rally.

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 23.18% and 13.3% respectively. The portfolio ended up outperforming its benchmark throughout the year in which markets continued to reach historical levels. Staff maintained a very cautious investment strategy throughout the year given the uncertainty in the sustainability of the U.S. economic recovery, the economic slowdown in China, and the geopolitical issues affecting Eastern Europe and the Middle East. Without a clear driver for a continued bull market, staff chose to maintain equity exposure at index market cap weightings with minimal alpha bets by underweighting energy and technology and slightly overweighting defensive sectors like healthcare and consumer staples. This strategy proved prudent given that there was no real industry leader during the year. Instead the rising current seemed to raise all boats thereby enabling the index to outperform most active managers. The slight outperform can be attributed to stock picking in the consumer staples sector and the slight underweight in energy names. As would be expected in another strong equity market, the option overlay was definitely a drag on the portfolio's performance.

The Equity Income Fund produced a rate of return of 12.39% for the one-year period and 12.32% for the three-year period ended June 30, 2014. This portfolio continues to perform well as investors continue to buy dividend paying companies in lieu of bonds in order to derive income. Staff stayed its course by purchasing stocks in sectors that pay out a significant portion of their earnings in the form of dividends. The portfolio continues to underweight financial securities as they have yet to resume their pre-recession dividend payout levels. The main objective of this concentrated portfolio is to generate dividend income to offset the large monthly payments that the plan pays to beneficiaries with total return being a secondary objective. This is a very concentrated portfolio with only 26 names. Staff chooses portfolio constituents by screening stocks by dividend yield, increasing payout ratios and sustainable earnings growth. Therefore we are extremely pleased that the portfolio has a dividend yield of 3.83% and 11.65% in 5 year earnings per share (EPS) growth, in addition to returning more than 12%. The use of a benchmark is for illustration only and does not enter into any of our decision making. The Board realizes that the main objective of this portfolio is to produce dividend growth to offset plan expenses, and total return is secondary.

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 17.18% and -1.33% for the three-year period ending June 30, 2014. This portfolio bounced back well during the year as international developed markets significantly outperformed developing markets. Specifically Europe (29.95%) far outpaced Asia (13.33%) and other areas in the world including the United States (24.92%) during the year. Learning from last year and realizing that any upward movement in U.S. interest rates would have a negative effect on developing markets; staff chose to significantly reduce the portfolio exposure to international developing market. Instead funds were allocated to more developed markets with an emphasis on Europe economies. The slight underperformance can be attributed to staff's strategy to hold nearly 7% of the portfolio in cash equivalents. With equities rallying, the cash was a material drag on the portfolio's performance.

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, 2014

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, 2014, 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, 2013 rolled forward to June 30, 2014, is presented in this document. Very briefly, this report identifies a Net Pension Liability (NPL) of $60.256 million as of June 30, 2014. The 2014 actuarial 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, 2014

PROFESSIONAL SERVICES

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

Firm	Duties
Segal Rogerscasey	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

INDEPENDENT AUDITORS' REPORT

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

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento City Employees' Retirement System (SCERS), a component unit of the City of Sacramento, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sacramento City Employees' Retirement System, as of June 30, 2014 and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Actuarial Valuation

As discussed in Note F to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2014, SCERS' independent actuarial firm determined that the total pension liability of $372.7 million exceeded the fiduciary net position $312.4 million resulting in a net pension liability of $60.3 million and a funded status of 83.8%. Our opinion is not modified with respect to this matter.

2151 River Plaza Drive, Suite 308 Sacramento, CA 95833 Tel: 916.570.1880 Fax: 916.570.1875 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Implementation of New Accounting Standards

As described in Note 1 to the financial statements, the SCERS adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, as of July 1, 2013. Our opinion is not modified with respect to this matter.

Prior Period Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information to constitute a presentation in conformity with accounting principles generally accepted in the United State of America. Accordingly such information should be read in conjunction with the SCERS financial statements for the fiscal year ended June 30, 2013, from which such partial information was derived.

The financial statements of the SCERS as of June 30, 2013 were audited by other auditors whose report dated January 6, 2014, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SCERS' basic financial statements. The introductory section, schedule of changes in investment position, listing of investments, and actuarial section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of changes in investment position and listing of investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of changes in investment position and listing of assets are 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 audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 19, 2014

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2014

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, 2014 and 2013. 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 $312.4 million of net position restricted for pension benefits at June 30, 2014 and $296.0 million at June 30, 2013. All of the net position is restricted for SCERS' ongoing obligation to plan participants and their beneficiaries.
- SCERS' funding objective is to maintain sufficient net position through investments and contributions to meet long-term obligations for benefits. As of June 30, 2014, for every dollar of total pension liability, SCERS had approximately $0.838 available to pay those benefits. That number is based on the most recent actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014 and is calculated based on the requirements of GASB Statement No. 67. As of June 30, 2013, SCERS had a funded status, as defined under GASB Statement No. 25, of $0.76 which means that for every dollar of benefits due as of that date, SCERS had approximately $0.76 of assets available for payment. That number is based on the most recent actuarial valuation as of June 30, 2013.
- SCERS' employer contribution was $9.6 million for the fiscal year ended June 30, 2014, compared to $10.6 million in 2013.
- For the fiscal year ended June 30, 2014, SCERS' net income from investment activity was $40.3 million compared to net investment income of $22.3 million in the prior year. The increase in return was a result of greater appreciation in the fair value of the investments during fiscal year 2014 compared to fiscal year 2013.

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. ***Statement of Plan Net Position*** is a snapshot of account balances as of June 30, 2014 and 2013. It indicates the total assets and the total liabilities as well as the net position available for future payment of retirement benefits and investment expenses.
2. ***Statement of Changes in Plan Net Position*** provides a view of additions and deductions to SCERS' net position 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 statement of plan net position and the statement of changes in plan net position report information about SCERS' financial activities, prepared using the accrual basis of accounting. Contributions to SCERS are recognized when due, and benefits and refunds are recognized when due and payable. Investments are reported at fair value, except mortgage loans, which are reported at amortized cost. The estimated fair value of investments is the quoted market price. Purchases and sales of investments are recorded on a trade date basis.

Financial Analysis

SCERS' net position may serve over time as a useful indication of SCERS' financial position. All of SCERS' net position is restricted for SCERS ongoing obligation to plan participants and their beneficiaries.

SCERS' net position as of June 30, 2014 and 2013 is represented in the chart below.

NET POSITION SUMMARY
As of June 30, 2014 and 2013
(in thousands)

	2014	2013	Change	Percent
Cash and cash equivalents	$ 8,620	$ 20,658	$ (12,038)	-58%
Securities lending collateral	25,107	8,006	17,101	214%
Receivables	2,248	2,317	(69)	-3%
Investments at fair value	304,905	276,288	28,617	10%
Total assets	340,880	307,269	33,611	11%
Total liabilities	28,466	11,294	17,172	152%
Net position restricted for pension benefits	$ 312,414	$ 295,975	$ 16,439	6%

SCERS' net position restricted for pension benefits increased the fiscal year ended June 30, 2014 due primarily to the increased value of investments. Cash decreased as market conditions became more favorable for investment. The increase in total liabilities between June 30, 2014 and June 30, 2013 is mainly the result of a $17 million increase in securities lending obligations. Securities lending collateral also increased by $17 million. The increased securities lending activity during the fiscal year ended June 2014 was a result of more favorable market conditions.

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

HIGHLIGHTS OF CHANGES IN NET POSITION
Fiscal year ended June 30, 2014
(in thousands)

	2014	2013	Change	Percent
Additions:				
Employer contributions	$ 9,649	$ 10,573	$ (924)	-9%
Employee contributions	161	219	(58)	-26%
Net appreciation in the fair value of investments	29,717	11,612	18,105	156%
Interest	7,014	7,071	(57)	-1%
Dividends	4,680	4,798	(118)	-2%
Investment expenses	(1,246)	(1,242)	(4)	0%
Net securities lending activity	152	72	80	111%
Total additions	50,127	33,103	17,024	51%
Deductions:				
Benefit payments	33,487	33,180	307	1%
Refunds of employee contributions	201	57	144	253%
Total deductions	33,688	33,237	451	1%
Net increase/(decrease) in net position	16,439	(134)	16,573	-12368%
Net position restricted for pension benefits:				
Beginning of fiscal year	295,975	296,109	(134)	0%
End of fiscal year	$ 312,414	$ 295,975	$ 16,439	6%

- Required employer contributions decreased for the fiscal year ended June 30, 2014 due to improved performance of the investment portfolio over the past several years.
- Employee contributions for the fiscal year ended June 30, 2014 decreased slightly from 2013 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.
- Net appreciation in fair value of investments has increased by $18.1 million. Gains during the fiscal year ended June 30, 2014 were $27.9 million unrealized and $1.8 million realized compared to $8.5 million unrealized and $3.1 million realized during the fiscal year ended June 30, 2013. The largest gains were made in the equity portfolios, although the bond portfolios also experienced a gain this year. Current year interest income declined slightly compared to fiscal year 2013 due to low yields on bond investments.
- Benefit payments to plan participants increased because of annual inflation adjustments. The increase was somewhat offset by a decline in the number of retirees receiving benefits. Because the plan has been closed for nearly 35 years, the number of participants receiving benefits declines each year.

Changes in Funded Ratio

With the implementation of GASB Statement No. 67 on July 1, 2013, the components of the funded ratio have changed. Prior to the implementation of GASB Statement No, 67, the funded ratio was the ratio of the actuarial value of plan assets to the actuarial accrued liability, as defined in GASB Statement No. 25. Since the implementation of GASB Statement No. 67, the funded ratio is the ratio of fiduciary net position to total pension liability, as defined in GASB Statement No. 67.

Under both definitions, the funded ratio shows how much net position the plan has available to pay each dollar of benefit liability as of the measurement date. SCERS funded ratio for the years ended June 30, 2013 and 2014 is 76.4% and 83.8%, respectively. The increase between June 30, 2013 and June 30, 2014 is largely due to investment gains.

Currently Known Facts and Events

The overall risk profile of SCERS has remained unchanged since June 30, 2014, 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 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
Statement of Plan Net Position
June 30, 2014
(With Comparative Totals for June 30, 2013)
(Amounts Expressed in Thousands)

	2014	2013
Assets		
Cash and cash equivalents	$ 8,620	$ 20,658
Securities lending collateral	25,107	8,006
Receivables:		
Interest and dividends	2,248	2,317
Total receivables	2,248	2,317
Investments:		
U.S. agencies	2,413	2,856
Corporate bonds	68,535	67,993
Equities	118,027	105,821
Exchange traded funds	67,092	52,151
Mortgage loans	4,191	4,350
Municipal bonds	44,647	43,117
Total investments	304,905	276,288
Total assets	340,880	307,269
Liabilities		
Securities lending obligation	25,744	8,643
Benefits payable	2,695	2,632
Accounts payable	27	19
Total liabilities	28,466	11,294
Net position restricted for pensions	$ 312,414	$ 295,975

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statement of Changes in Plan Net Position
Fiscal Year Ended June 30, 2014
(With Comparative Totals as of June 30, 2013)
(Amounts Expressed in Thousands)

	2014	2013
Additions		
Contributions:		
Employer	$ 9,649	$ 10,573
Employees	161	219
Total contributions	9,810	10,792
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	29,717	11,612
Interest	7,014	7,071
Dividends	4,680	4,798
Total investment income	41,411	23,481
Less investment expense:		
Banking, interest, fiscal agent & other	111	100
Professional services	1,135	1,142
Total investment expense	1,246	1,242
Net income from investing activities	40,165	22,239
From securities lending activities:		
Securities lending income	202	96
Total securities lending income	202	96
Securities lending expenses:		
Management fees	50	24
Total securities lending expenses	50	24
Net income from securities lending activities	152	72
Total net investment income	40,317	22,311
Total net additions	50,127	33,103
Deductions		
Benefits	33,487	33,180
Refunds of employee contributions	201	57
Total deductions	33,688	33,237
Net increase/(decrease) in plan net position	16,439	(134)
Net position restricted for pensions		
Beginning of fiscal year	295,975	296,109
End of fiscal year	$ 312,414	$ 295,975

See accompanying notes to basic financial statements.

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. Active members contribute at a rate based upon entry age and type of employment.

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.

Note A – Plan Description (Continued)

Plan membership at June 30, 2014 consisted of the following:

	Section 399	Equal Shares	Section 175	Total
Inactive members or beneficiaries receiving benefits	1,020	90	73	1,183
Inactive members entitled to but not yet receiving benefits	16		2	18
Active plan members	27	-	-	27
Total plan members	1,063	90	75	1,228

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 year 2014. 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, 2014 are fully vested.

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 year ended June 30, 2014 active member contributions ranged from 3% to 10% of payroll. At June 30, 2014, active members' accumulated contributions, including interest, totaled approximately $5.7 million, respectively. For the fiscal year ended June 30, 2014, interest was credited to members' contributions at the rate of 3.5%. Members have an option to withdraw their accumulated contributions, including interest, upon termination of their employment with the City.

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 the plan.

Note B – Summary of Significant Accounting Policies (Continued)

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. The mortgage loans are collateralized loans whose market value is unknown. 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

Effective July 1, 2013, SCERS implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. 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. The Statement requires significant changes in note disclosures and Required Supplementary Information for the separately issued financial reports of the pension plan.

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 has a weighted average maturity of 2.27 years as of June 30, 2014.

Note C – Cash and Investments (Continued)

Securities Lending

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

Borrowers delivered collateral equal to 102% of the market value of the loaned securities. 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 year ended June 30, 2014, the weighted maturity of lent securities was zero, and the weighted maturity of the investments purchased with cash collateral was 1 day.

SCERS' securities loaned were equity and exchange traded funds and SCERS received cash collateral. At June 30, 2014, SCERS lent securities totaling $25,142 and received cash collateral of $25,628 . SCERS invested the cash collateral in securities that had a fair value at June 30, 2014 of $25,088 .

SCERS also reports its proportionate share of the securities lending activities of the City's investment pool. At June 30, 2014, SCERS' share of the investments purchased with cash collateral was $19; SCERS' share of the securities lending liability was $116. 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 $0 was recovered during the fiscal year ended June 30, 2014.

Investments

The City Charter vests the authority to adopt investment standards and asset allocation policies in the Board. 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.

Note C – Cash and Investments (Continued)

The Board reviews the asset allocation policy annually. On February 24, 2014, the Board adopted the following asset allocation policy to be implemented by June 30, 2014.

Fixed Income	40%
Large Cap Growth	35%
Equity Income	15%
International	10%

The policy adopted on February 24, 2014, incorporates an increase of 5% in the allocation for Large Cap Growth investments and a decrease of 5% in the allocation for Fixed Income investments.

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. The remaining maturity of the SCERS' investments included in the tables below is based on the stated maturity dates of the individual investments, except in the case of variable rate investments where the maturity date below is the next reset date. Variable rate securities are investments with terms that provide for the adjustment of interest rates on specified dates based on predefined mathematical formulas. The fair value of such investments can reasonably be expected to be affected at each interest rate reset date.

Note C – Cash and Investments (Continued)

At June 30, 2014, SCERS' investments have maturities as follows:

		Remaining Maturity in Years				
Investment Type	No Maturity	Under 1	1-5	Over 5/ 10 or less	Over 10	Fair Value
Cash and short-term investments:						
City of Sacramento Investment Pool	$ -	$ 8,620	$	$ -	$ -	$ 8,620
Securities Lending Collateral:						
City of Sacramento Investment Pool	-	19	-	-	-	19
Repurchase agreement	-	25,088	-	-	-	25,088
Total Securities Lending Collateral	-	25,107	-	-	-	25,107
Investments:						
U.S. agencies	-	-	22	65	2,326	2,413
Corporate bonds	-	5,199	45,547	6,038	11,751	68,535
Equities	118,027	-	-	-	-	118,027
Exchange traded funds	67,092	-	-	-	-	67,092
Mortgage loans	-	-	1,918	2,273	-	4,191
Municipal bonds	-	-	1,532	4,678	38,437	44,647
Total Investments	185,119	5,199	49,019	13,054	52,514	304,905
Total Cash and Investments	$ 185,19	$ 38,926	$ 49,019	$ 13,054	$ 52,514	$338,632

Note C – Cash and Investments (Continued)

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.

The fair values of the callable bonds held at June 30, 2014 by investment type are as follows:

Investment Type	Fair Value
Corporate bonds	$ 4,148
Municipal bonds	24,707

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, 2014, 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 $494 as of June 30, 2014.

Note C – Cash and Investments (Continued)

At June 30, 2014, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody	Fair Value
City of Sacramento Investment Pool	not rated	not rated	$ 8,620
City of Sacramento Investment Pool - Investments purchased with securities lending cash collateral	not rated	not rated	19
Corporate bonds	A	A	12,014
	A	Baa	14,202
	AA	A	29,113
	AA	Aaa	2,200
	B	Baa	5,313
	BBB	A	5,199
	not rated	WR	494
Equities (exempt from disclosure)	N/A	N/A	118,027
Exchange traded funds (exempt from disclosure)	N/A	N/A	67,092
Mortgage loans	not rated	not rated	4,191
Municipal bonds	A	A	1,240
	A	Aa	9,408
	A	Ba	9,247
	AA	A	13,383
	AA	Aa	3,432
	AA	Aaa	2,797
	AA	not rated	5,140
Repurchase agreement	AA	Aaa	25,088
U.S. agencies	N/A	N/A	2,413
Total			$338,632

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, 2014.

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, 2014, 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 $25,107 .

Concentration Risk

As of June 30, 2014, SCERS had the following investments in one issuer exceeding 5% of plan net position or 5% of total investments excluding investments issued or explicitly guaranteed by the U.S. government:

General Electric Capital Corporation	$26,739
iShares MSCI ACWI US ETF	$22,089

Money-weighted rate of return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.56%: The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note D – Related Party Transactions

At June 30, 2014, SCERS held revenue bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of $6,428. SCFA is also a blended component unit of the City of Sacramento because its Board is comprised of all City Council members, and there is a financial benefit/burden relationship between the City and SCFA.

Note E – Funding Policy

The City's funding policy provides for actuarially determined 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 year ended June 30, 2014, the City's annual required and actual contribution was $9.6 million.

Note F – Net Pension Liability of the City

The components of the net pension liability of the City at June 30, 2014 is shown below (dollars in millions). The total pension liability is based on an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014.

	June 30, 2014
Total pension liability	$ 372,670
Plan fiduciary net position	(312,414)
City's net pension liability	$ 60,256
Plan fiduciary net position as a percentage of the total pension liability	83.8%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.0%
Salary increases	3.0% CPI plus 0.5% merit, average
Discount rate	6.5%

Mortality rates for service retirements and beneficiaries were based on CalPERS 1997-2007 Mortality Table projected for future mortality improvement utilizing Society of Actuaries Scale AA. Mortality rates for disability retirements were based on CalPERS 1997-2007 Mortality Table for non-work Disabled Retirees for Miscellaneous and CalPERS 1997-2007 Mortality Table for work-related Disabled Retirees for Safety. Both tables were projected for future mortality improvement utilizing Society of Actuaries Scale AA.

Note F – Net Pension Liability of the City (Continued)

Discount rate

The Discount Rate was set equal to the long-term expected rate of return. The long-term expected rate of return was used since current assets, future City contributions, and future member contributions are projected to be sufficient to cover all future benefit payments and expenses. This "crossover test" was performed in accordance with the requirements specified in GASB Statement 67, including a projection that Plan's funding policy will remain unchanged.

The 6.5% long-term expected rate of return was derived based on the inflation assumption of 3.0% and a long-term asset allocation of 55% equities and 45% fixed income. The geometric real rates of return were assumed to be 5.35% for equities and 1.55% for fixed income. The sensitivity of the discount rate to a 1% change is shown below.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.5%) or 1 percentage-point higher (7.5%) than the current rate:

		1% decrease (5.5%)		Current Discount Rate (6.5%)		1% increase (7.5%)
City's net pension liability		$93,580		$60,256		$31,587

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.

Note G – Subsequent Event

The City has engaged an actuarial firm to review the accuracy of SCERS pension benefit calculations. The scope of the review includes recalculating the pension benefit amount for approximately 330 retirees who retired after January 1, 2005, or retired before 2005, and turned 62 years old after 2005, to determine whether the social security offset provision was applied accurately. The scope also includes reviewing the application of the annual cost of living adjustment (COLA) and associated COLA banks for all SCERS retirees. The actuarial review of the benefit calculations is expected to be completed by February 2015 and, as a result, the final determination of any overpayments or underpayments, and the resulting effects on the total pension liability, cannot be determined at this time. The City believes the results of the review will result in a net reduction of the total pension liability due to overpayments to retirees. The City believes the total amount due to retirees as a result of underpayments, as well as the total amount due to the plan for overpayments, would be immaterial to the SCERS net position at June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM
A Component Unit of the City of Sacramento
Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Fiscal Years
(in thousands)

		2014
Total pension liability		
Service cost	$	176
Interest		23,779
Benefit payments, including refunds of member contributions		(33,688)
Net change in total pension liability		(9,733)
Total pension liability -- beginning		382,403
Total pension liability -- ending (a)	$	372,670
Plan fiduciary net position		
Contributions -- employer	$	9,649
Contributions -- member		161
Net investment income		40,317
Benefits payments, including refunds of member contributions		(33,688)
Net change in fiduciary net position		16,439
Plan fiduciary net position -- beginning		295,975
Plan fiduciary net position -- ending (b)	$	312,414
Net pension liability -- ending (a) - (b)	$	60,256
Plan fiduciary net position as a percentage of the total pension liability		83.83%
Covered-employee payroll	$	2,279
Net pension liability as a percentage of covered-enmployee payroll		2643.97%

Notes to Schedule:

The information in this schedule is prepared in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans,* which SCERS implemented for the fiscal year ended June 30, 2014. Because this is the first year of implementation, prior year data is not available so only one fiscal year is presented.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM
A Component Unit of the City of Sacramento
Required Supplementary Information

Schedule of Employer Contributions
Last Ten Fiscal Years
(in thousands)

	Fiscal Year				
	2014	**2013**	**2012**	**2011**	**2010**
Actuarially determined contributions	$ 9,649	$ 10,573	$ 10,361	$ 10,547	$ 3,431
Contributions in relation to the actuarially determined contribution	9,649	10,573	10,361	10,547	3,431
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 2,279	$ 2,279	$ 2,959	$ 4,132	$ 5,302
Contributions as a percentage of covered-employee payroll	423%	464%	350%	255%	65%

Notes to Schedule

The actuarial valuation was rolled forward from 6/30/2013 to 6/30/2014. As a result, the covered employee payroll used to calculate the contributions as a percentage of covered employee payroll is the same for both years.

Valuation date:
Actuarilly determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar payments over 14 years, open period
Asset valuation method	3 year smoothed market value
Inflation	3%
Salary increases	3% CPI plus 0.5% merit
Investment rate of return	6.50%
Retirement age	Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under 175 are assumed to retire at age 65
Mortality	CalPERS 1997-2007 Mortality Tables with Scale AA

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM
A Component Unit of the City of Sacramento
Required Supplementary Information

Schedule of Employer Contributions (Continued)
Last Ten Fiscal Years
(in thousands)

	Fiscal Year				
	2009	**2008**	**2007**	**2006**	**2005**
Actuarially determined contributions	$ 3,159	$ 3,534	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	3,159	3,534	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 5,749	$ 8,869	$ 9,587	$ 10,277	$ 10,480
Contributions as a percentage of covered-employee payroll	55%	40%	0%	0%	0%

Notes to Schedule

The actuarial valuation was rolled forward from 6/30/2013 to 6/30/2014. As a result, the covered employee payroll used to calculate the contributions as a percentage of covered employee payroll is the same for both years.

Valuation date:
Actuarilly determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar payments over 14 years, open period
Asset valuation method	3 year smoothed market value
Inflation	3%
Salary increases	3% CPI plus 0.5% merit
Investment rate of return	6.50%
Retirement age	Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under 175 are assumed to retire at age 65
Mortality	CalPERS 1997-2007 Mortality Tables with Scale AA

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYTEM
A Component Unit of the City of Sacramento
Required Supplementary Information

Schedule of Investment Returns
Last Ten Fiscal Years

	2014
Annual money weighted rate of return, net of investment expense	14.56%

Notes to Schedule:

The information in this schedule is prepared in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans,* which SCERS implemented for the fiscal year ended June 30, 2014. Because this is the first year of implementation, prior year data is not available so only one fiscal year is presented.

ADDITIONAL INFORMATION

SACRAMENTO CITY EMPLOYEE'S RETIREMENT SYSTEM

Schedule of Changes in Investment Position

For the Year Ended June 30, 2014

(in thousands)

Description	Balance June 30, 2013 (Fair Value)	Additions	Disposals	Change In Unrealized Gains	Balance June 30, 2014 (Fair Value)
U.S. agencies	$ 2,856	$ -	$ (452)	$ 10	$ 2,413
Corporate bonds	67,993	996	(954)	500	68,535
Equities	105,821	37,673	(39,911)	14,443	118,026
Exchange traded funds	52,151	39,769	(35,847)	11,019	67,092
Mortgage loans	4,350	-	(158)	-	4,192
Municipal bonds	43,117	165	(510)	1,874	44,647
Total Investments	276,288	78,603	(77,832)	27,846	304,905
Cash and short-term investments	20,658	225,239	(237,277)	-	8,620
Security lending collateral	8,006	-	17,101	-	25,107
	$ 304,952	$ 303,842	$ (298,008)	$ 27,846	$ 338,632

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2014

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
US GOVERNMENT OBLIGATION				
Gnma Pool #256393	9/1/2036	242,918	242,121	274,682
Gnma Pool #439515	3/15/2027	22,180	21,750	23,837
Gnma Pool #450066	12/15/2026	6,255	6,214	6,281
Gnma Pool #550718	11/15/2035	1,223,903	1,191,011	1,355,754
Gnma Pool #150426	5/15/2016	411	451	413
Gnma Pool #157445	6/15/2016	4,870	4,935	4,921
Gnma Pool #167166	8/15/2016	1,089	1,123	1,094
Gnma Pool #208975	3/15/2017	5,981	6,014	6,006
Gnma Pool #211421	4/15/2017	9,418	9,470	9,459
Gnma Pool #320296	3/15/2022	25,471	25,009	26,643
Gnma Pool #329837	11/15/2022	35,165	34,627	38,771
Gnma Pool #648348	10/15/2035	585,040	583,029	665,442
Sub-total			**2,125,754**	**2,413,303**
CORPORATE BONDS				
Bank Of America Na	6/15/2017	4,762,000	4,680,173	5,372,393
Ford Motor Credit - Mtn	9/15/2015	5,000,000	4,997,780	5,313,150
General Electric Capital Corp	5/1/2018	15,000,000	14,756,558	17,187,450
General Electric Capital Corp	8/24/2037	3,000,000	3,028,771	2,955,630
General Electric Capital Corp	3/15/2032	5,000,000	5,103,350	6,595,800
Goldman Sachs Group Inc	4/1/2018	6,000,000	5,891,955	6,880,920
Goldman Sachs Group Inc	5/9/2025	2,000,000	2,000,000	1,948,460
Dps Lehman Brth Hld Escrow	4/4/2016	2,500,000	2,348,034	493,750
Lloyds Tsb Bk Plc	1/21/2021	5,000,000	5,233,423	6,037,600
M&i Marshall & Ilsley Bk Mtnbe	6/16/2015	5,000,000	5,005,874	5,198,850
Metlife Inc	8/15/2018	5,000,000	5,008,638	5,976,650
Pfizer Inc	3/15/2019	2,000,000	1,998,896	2,374,200
President&fellow Harvard Coll	10/1/2037	2,000,000	2,049,191	2,199,880
Sub-total			**62,102,643**	**68,534,733**
EQUITIES - LARGE CAP GROWTH				
Apple Inc.		22,400	929,913	2,081,632
Abbvie Inc. Com		30,000	1,005,430	1,693,200
Amazon.Com Inc.		5,800	1,627,430	1,883,724
Apache Corp Com		15,000	1,402,580	1,509,300
Boeing Co Com		8,000	1,021,152	1,017,840
Bank Of America Corp		120,000	1,752,660	1,844,400
Franklin Res Inc Com		24,000	1,133,945	1,388,160
Berkshire Hathaway Inc-Cl B		16,900	1,321,553	2,138,864
Citigroup Inc		25,000	1,215,079	1,177,500
Cummins Inc Com		10,000	1,113,777	1,542,900
Covidien Plc Shs		20,000	733,307	1,803,600
Chevron Corporation		10,000	863,307	1,305,500
3-D Sys Corp Del Com New		13,000	846,184	777,400
Disney (Walt) Com		18,000	1,167,289	1,543,320
Devon Energy Corporation		23,000	1,418,988	1,826,200
Emc Corp/Mass		65,000	1,555,503	1,712,100
Eastman Chem Co Com		22,000	1,049,273	1,921,700
Facebook Inc Cl A		20,000	1,159,635	1,345,800

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2014

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
EQUITIES - LARGE CAP GROUTH (CONTINUED)				
F5 Networks Inc		10,000	1,090,324	1,114,400
General Electric Co		60,000	1,169,068	1,576,800
Keurig Green Mountain Inc		10,000	1,063,957	1,246,100
Google Inc Cl C		3,000	1,291,859	1,725,840
Home Depot Inc		20,000	1,526,776	1,619,200
International Bus Mach		6,000	968,580	1,087,620
Intel Corp		47,000	1,067,976	1,452,300
Ingersoll-Rand Plc Shs		23,000	1,160,365	1,437,730
Johnson & Johnson		11,000	727,995	1,150,820
Jpmorgan Chase & Co		36,000	1,450,086	2,074,320
Coca Cola Co Com		30,000	659,250	1,270,800
Michael Kors Hldgs Ltd Shs		15,000	1,238,209	1,329,750
Mondelez Intl Inc Cl A		38,000	900,607	1,429,180
3m Company		12,000	1,052,179	1,718,880
Merck & Co Inc (new)		20,000	765,629	1,157,000
Procter & Gamble Co		15,000	977,744	1,178,850
Qualcomm Inc.		10,700	465,542	847,440
Raytheon Company		19,000	1,136,125	1,752,750
Schlumberger Ltd		18,000	1,296,136	2,123,100
Stratasys Ltd Shs		3,000	371,415	340,890
Skyworks Solutions Inc Com		33,000	853,199	1,549,680
At&t Inc		45,000	1,401,246	1,591,200
Tjx Companies Inc		26,500	1,092,148	1,408,475
U. S. Bancorp		35,000	1,088,947	1,516,200
United Technologies		14,000	1,020,992	1,616,300
Visa Inc Com Cl A		9,000	1,664,200	1,896,390
Valero Energy Corp New Com		32,000	689,264	1,603,200
Verizon Communications Inc		35,000	1,123,952	1,712,550
Wells Fargo & Company		42,000	1,373,315	2,207,520
Wal Mart Stores Inc		15,000	1,134,407	1,126,050
Sub-total			**53,138,497**	**72,374,475**
EQUITIES - FIXED ALTERNATIVE EQUITIES				
Dominion Res Va New Com		46,000	2,018,169	3,289,920
Duke Energy Corp New Com New		25,000	1,408,262	1,854,750
Ford Mtr Co		110,000	1,165,361	1,896,400
Goldman Sachs Group Com		8,000	1,130,811	1,339,520
Health Care Reit Inc Com		30,000	1,339,245	1,880,100
Hollyfrontier Corp Com		42,500	1,871,710	1,856,825
Jpmorgan Chase & Co		30,000	1,470,249	1,728,600
Kkr & Co L P Del Com Units		90,000	1,615,489	2,189,700
Kinder Morgan Energy Partners Ltd		32,000	1,638,216	2,630,720
Lockheed Martin Corp		7,500	1,016,037	1,205,475
Lowes Companies Inc		40,000	1,086,196	1,919,600
Altria Group Inc		65,000	1,729,851	2,726,100
Marathon Pete Corp Com		19,000	962,146	1,483,330
Microsoft Corp		40,000	1,065,368	1,668,000
Pepsico Inc		15,000	1,073,334	1,340,100

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2014

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
EQUITIES - FIXED ALTERNATIVE EQUITIES (CONTINUED)				
Pfizer Inc		95,000	2,334,922	2,819,600
Philip Morris Intl Inc Com		33,000	1,597,485	2,782,230
Pinnacle West Cap Corp		45,000	1,853,226	2,602,800
Reynolds American Inc Com		40,000	1,214,321	2,414,000
Donnelley R R & Sons Com		84,000	1,541,489	1,424,640
Travelers Companies Com		14,000	1,130,457	1,316,980
Texas Instruments Inc		28,000	1,037,502	1,338,120
Wells Fargo & Company		37,000	1,468,678	1,944,720
Sub-total			**32,768,524**	**45,652,230**
EXCHANGE TRADED FUNDS				
Alps Etf Tr Alerian Mlp		70,000	1,124,525	1,330,000
Vanguard Index Fds Reit Etf		26,000	1,799,749	1,945,840
Ishares Msci Acwi Us Etf		460,000	19,261,453	22,089,200
Ishares MSCI Emerging Markets Min Vol ET		10,000	583,773	600,700
Vanguard Ftse Europe Etf		20,000	1,063,475	1,199,000
Ishares Tr Nasdq Bio Indx		11,000	2,581,198	2,827,330
Ishares Russell 2000 ETF		22,500	1,925,095	2,673,225
Ishares US Healthcare ETF		24,000	1,425,374	3,077,040
Ishares US Basic Materials ETF		45,000	3,132,825	3,938,850
Ishares Tr Transp Ave Idx		10,000	1,134,903	1,470,100
Ishares US Technology ETF		20,000	1,083,741	1,937,600
Spdr Series Trust Kbw Regn Bk Etf		33,000	1,084,890	1,330,560
Market Vectors Etf Tr Oil Svcs Etf		35,000	1,318,551	2,021,600
Etf Guggenheim S&P500 Equal Wt		30,000	2,196,784	2,301,300
Spdr Tr Unit Ser 1		30,000	4,291,159	5,871,600
Spdr Series Trust S&p Homebuild		35,000	546,816	1,146,250
Select Sector Spdr Tr Sbi Int-Finl		135,000	1,788,372	3,069,900
Select Sector Spdr Tr Sbi Cons Stpls		50,000	2,142,500	2,231,000
Select Sector Spdr Tr Sbi Int-Utils		88,000	3,379,304	3,894,880
Select Sector Spdr Tr Sbi Cons Discr		32,000	905,770	2,135,680
Sub-total			**52,770,257**	**67,091,655**
MUNICIPAL BONDS				
Bay Area Toll Auth Calif Toll Toll Brid	4/1/2030	1,000,000	1,022,180	1,239,830
California St Build America Bonds	4/1/2034	500,000	475,307	711,750
California St Go Bds	3/1/2036	5,000,000	5,337,842	6,095,000
California St Go Bds	11/1/2026	2,000,000	2,000,000	2,601,060
Houston Tex Arpt Sys Rev Arpt Sys	1/1/2028	5,000,000	4,542,124	5,883,700
Millbrae Calif Sch Dist	7/1/2020	500,000	565,397	567,090
Pasadena Calif Wtr Rev	6/1/2031	3,000,000	2,952,424	3,078,150
Pasadena Calif Wtr Rev	6/1/2033	2,000,000	1,968,733	2,062,120
Riverside Calif Pub Fing Auth Tax Alloc	8/1/2017	1,070,000	1,045,122	1,072,194
Riverside Cnty Calif Redev Agy Tax Alloc	10/1/2037	3,000,000	3,014,211	3,175,530
Sacramento Calif City Fing Auth Rev	12/1/2020	4,000,000	3,790,841	4,110,320
Sacramento Calif City Fing Auth Rev Taxa	12/1/2025	1,855,000	1,855,000	1,857,393
Sacramento City Calif Fing Tax Alloc Rv	12/1/2016	450,000	448,983	459,819
San Francisco Calif City & Cnt Tax Alloc	8/1/2039	5,000,000	5,190,404	6,071,100
Univ Calif Regts Med Ctr Poole	5/15/2031	2,350,000	2,500,065	2,864,979

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2014

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
MUNICIPAL BONDS (CONTINUED)				
Vermont State Build America Bonds	8/15/2027	2,700,000	2,664,214	2,796,660
Sub-total			**39,372,847**	**44,646,695**
MORTGAGE LOANS				
Walgreens Drugs/Adahi, Inc	5/1/2024	2,273,359	2,273,359	2,273,359
2484 Natomas Park Dr.	7/1/2017	1,918,222	1,918,222	1,918,222
Sub-total			**4,191,581**	**4,191,581**
Total			**246,470,103**	**304,904,672**

APPENDIX A

BARTEL ASSOCIATES, LLC

December 2, 2014

Denise Deprato
Support Services Manager
Department of Human Resources
City of Sacramento
Historic City Hall
915 I Street, 1st Floor
Sacramento, CA 95814

Re: Final SCERS GASB 67 Actuarial Accounting and Disclosure Information

Dear Ms. Deprato:

Attached is information for the actuarial portions of Sacramento City Employees' Retirement System (SCERS) June 30, 2014 disclosures under Governmental Accounting Standards Board Statement No. 67 (GASB 67). Exhibit 1 contains the GASB 67 footnote disclosures, and Exhibit 2 contains the Required Supplementary Information. Exhibit 3 contains the actuarial methods and assumptions, a summary of the plan provisions, and the participant data on which the valuation is based.

The report provides information intended for reporting under GASB 67, but may not be appropriate for other purposes. Information provided in this report may be useful to the City for the Plan's financial management. Future valuations may differ significantly if the Plan'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 Plan provisions, participant data, and asset information provided by the Plan administrator, the City of Sacramento, as summarized in this report, which we relied on and did not audit. We reviewed the participant data for reasonableness. As permitted under GASB Statement 67, the total pension liability has been calculated from the June 30, 2013 actuarial valuation, projected forward to the June 30, 2014 reporting date.

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 67. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

411 Borel Avenue, Suite 101 • San Mateo, California 94402
main: 650/377-1600 • fax: 650/345-8057 • web: www.bartel-associates.com

Please let us know if you have any questions regarding these exhibits.

Sincerely,

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

Mary Elizabeth Redding,
FSA, EA, MAAA, FCA
Assistant Vice President

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EXHIBIT 1
GASB 67 DISCLOSURES

Exhibit 1: **Notes to Financial Statements** ***($000's)***

Net Pension Liability	6/30/2014
Discount Rate	6.5%
Total Pension Liability (TPL)	$ 372,670
Fiduciary Net Position (FNP)	(312,414)
Net Pension Liability (NPL)	60,256
Funded Status (FNP/TPL)	83.8%

Significant Assumptions and other Inputs Used to Measure Total Pension Liability

Discount Rate	6.5%, net of investment expenses
Inflation Rate	3.0%
Salary Scale	3.0% CPI, 0.5% Merit

The Discount Rate was set equal to the long-term expected rate of return. The long-term expected rate of return was used since current assets, future City contributions, and future member contributions are projected to be sufficient to cover all future benefit payments and expenses. This "crossover test" was performed in accordance with the requirements specified in GASB Statement 67, including a projection that the Plan's funding policy will remain unchanged[1].

The 6.5% long-term expected rate of return was derived based on the inflation assumption of 3.0% and a long-term asset allocation of 55% equities and 45% fixed income. The geometric real rates of return were assumed to be 5.35% for equities and 1.55% for fixed income. The sensitivity of the discount rate to a 1% change is shown below.

	1% Decrease 5.5%	Discount Rate 6.5%	1% Increase 7.5%
Net Pension Liability (NPL)	$ 93,580	$ 60,256	$ 31,587

Mortality Assumptions

Service retirements and beneficiaries	CalPERS 1997-2007 Post-Retirement Mortality Table projected for future mortality improvement utilizing Society of Actuaries Scale AA
Disability retirements	CalPERS 1997-2007 Mortality Table for non-work Disabled Retirees for Miscellaneous and CalPERS 1997-2007 Mortality Table for work-related Disabled Retirees for Safety. Both tables were projected for future mortality improvement utilizing Society of Actuaries Scale AA.

Date of Actuarial Valuation

The June 30, 2014 Total Pension Liability is based on a valuation as of June 30, 2013 rolled forward to June 30, 2014.

[1] The current policy includes a change in the amortization period from 14 years to 5 years when the average future life expectancy of plan participants is below 5 years.

EXHIBIT 2
REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 2: Required Supplementary Information ***($000's)***

Fiscal Year	**2013/14**
Total Pension Liability	
Service cost	$ 176
Interest	23,779
Changes of benefit terms	0
Differences between expected and actual experience	0
Changes of assumptions	0
Benefit payments	(33,688)
Net change in Total Pension Liability	(9,733)
Total Pension Liability at beginning of year	382,403
Total Pension Liability at end of year	372,670
Fiduciary Net Position	
Contributions - employer	$ 9,649
Contributions - member	161
Net investment income	40,317
Benefit payments	(33,688)
Administrative expenses	0
Other income	0
Net change in Fiduciary Net Position	16,439
Fiduciary Net Position at beginning of year	295,975
Fiduciary Net Position at end of year	312,414
Net Pension Liability (Asset) at end of year	60,256
Fiduciary Net Position as percentage of Total Pension Liability	83.8%
Covered-employee payroll	2,279
Net Pension Liability as percentage of Covered-employee Payroll	2643.9%

The Total Pension Liability as of the end of the year is based on a roll-forward Total Pension Liability determined in the June 30, 2013 actuarial valuation.

Employer Actuarially Determined Contribution

Fiscal Year	(1) Actuarially Determined Contribution (ADC)	(2) Employer Contributions in relation to the Actuarially Determined Contribution	(3) Contribution Deficiency (Excess) (1)-(2)	(4) Covered-Employee Payroll	(5) ADC / Covered-Employee Payroll (1)/(4)
2013/14	$ 9,649	$ 9,649	$ 0	$ 2,279	423.4%

The 2013/14 Actuarially Determined Contribution is based on the July 1, 2012 actuarial valuation which had the same discount rate and mortality rate assumptions as those used in the June 30, 2014 Total Pension Liability calculation.

EXHIBIT 3
BASIS OF VALUATION

The following pages document the basis of the valuation, which was performed as of June 30, 2013, and the pages are from our report on that valuation, dated December 2013. The amortization portion of the funding policy has been updated as noted on Exhibit 1 (page 1) above.

Attached are:

- Section 9 Plan Provisions Page numbers beginning at page 17
- Section 10 Methods and Assumptions Page numbers beginning at page 20
- Section 11 Participant Data Page numbers beginning at page 24

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:

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

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.

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.

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. 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 (2014/15). The June 30, 2012 valuation generated a contribution for fiscal year 2013/14.

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.

Data Quality

The City provided participant data as of 7/1/2013. We reviewed the data, but did not perform an audit. We performed a very limited audit in July 2013 that reviewed benefit calculations for 13 recent retirees that were not chosen at random, but chosen to cover a variety of different retirement situations. Based on review of the 7/1/2013 data and the limited audit, we have the following unresolved concerns regarding the data: incorrect or no Social Security offset being performed at age 62, incorrect status provided for reciprocal vested terminated participants, and incorrect optional forms of benefit reported. Due to the limited scope of the audit, we are unsure if there is a material impact or bias to the valuation results. We understand the System will perform an expanded audit.

Actuarial Assumptions

Assumptions used in the valuation are as follows:

- **Discount Rate**
  6.50%, net of investment expenses[7]

- **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. Sample rates follow:

Age	Male	Female
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:

Age	Non Sec 175
50	1%
55	6%
60	26%
65	40%
70	100%

[7] Administrative expenses are not paid from plan assets.

- **Disability**

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

	Job Related		Ordinary	
	Male	Female	Male	Female
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, 2013 valuation, the generational projection scale AA was applied. Sample rates are as follows:

	Pre-Retirement		Post-Retirement	
Age	Male	Female	Male	Female
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, 2013 valuation, the generational projection scale AA was applied to both tables. Sample rates are as follows:

	Non-Work-Related		Work-Related	
Age	Male	Female	Male	Female
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%

- **Social Security Offset**

  Monthly benefits for current retirees and vested terminated assumed to decrease at age 62 based on the average expected offset of future retirees. In the prior valuation, this offset was only valued for future retirees and not for current retirees and vested terminated.

- **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, 2012 and June 30, 2013 actuarial valuations.

	June 30, 2012	June 30, 2013
■ **Participant Counts**		
• Actives	48	35
• Terminated Vesteds	17	13
• Reciprocals	7	7
• Service Retirees	744	722
• Disableds	170	161
• Beneficiaries	326	335
• Total	1,312	1,273
■ **Actives**		
• Average Age	59.1	59.3
• Average Service	33.2	32.9
• Salary		
➢ Total	$ 2,959,189	$ 2,279,093
➢ Average	61,650	65,117
• Overall City Payroll	253,411,000	249,292,000
■ **Terminated Vesteds & Reciprocals**		
• Average Age	63.7	63.5
■ **Retirees, Disableds & Beneficiaries**		
• Average Age	75.9	76.3
• Average Monthly Benefit	$ 2,238	$ 2,304

SECTION 11
PARTICIPANT DATA

June 30, 2013 Participant Data

Following summarizes participant demographic information for the June 30, 2013 actuarial valuation, broken out by employee category and benefit section.

	Safety		Miscellaneous		
	Section 175	Section 302 & 399	Section 175	Section 302 & 399	Total
Actives					
• Count	-	-	-	35	35
• Average Age	n/a	n/a	n/a	59.3	59.3
• Average Service	n/a	n/a	n/a	32.9	32.9
• Salary					
➢ Average	$ -	$ -	$ -	$65,117	$65,117
➢ Total (000's)	-	-	-	2,279	2,279
Vested Terms & Reciprocals					
• Count	-	-	2	18	20
• Average Age	n/a	n/a	64.8	63.4	63.5
All Inactives					
• Count	39	224	40	915	1,218
• Average Age	83.4	80.3	79.2	74.9	76.3
• Avg. Monthly Benefit	$2,040	$2,867	$1,571	$2,210	$2,304
Service Retirees					
• Count	12	85	24	601	722
• Average Age	84.3	84.9	77.8	73.8	75.4
• Average Retirement Age	55.6	55.3	63.4	59.5	59.1
• Avg. Monthly Benefit	$2,881	$4,055	$1,862	$2,637	$2,782
Disabled Retirees					
• Count	8	58	5	90	161
• Average Age	81.4	73.2	81.7	71.0	72.6
• Average Retirement Age	46.0	42.2	54.7	48.4	46.3
• Avg. Monthly Benefit	$2,404	$2,402	$1,022	$1,828	$2,038
Beneficiaries					
• Count	19	81	11	224	335
• Average Age	83.6	80.5	81.1	79.6	80.1
• Avg. Monthly Benefit	$1,354	$1,954	$1,187	$1,218	$1,402

Data Reconciliation
6/30/2012 to 6/30/2013

	Actives	Terminated		Receiving Payments			Total
		Vested	Reciprocal	Disabled	Benefic.	Retirees	
■ **June 30, 2012**	48	17	7	170	326	744	1,312
• New Hires	-	-	-	-	-	-	-
• Disabled	-	-	-	-	-	-	-
• Terminated	-	-	-	-	-	-	-
• Deceased	-	(1)	-	(9)	(14)	(40)	(64)
• New Beneficiaries	-	-	-	-	19	-	19
• Retired	(13)	(1)	-	-	-	14	-
• Adjustment	-	(2)	-	-	4	4	6
■ **June 30, 2013**	35	13	7	161	335	722	1,273

Active Age/Service

Following are active counts by age and service groups:

	Service							
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 & Over**	**Total**
Under 25	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-
30-34	-	-	-	-	-	-	-	-
35-39	-	-	-	-	-	-	-	-
40-44	-	-	-	-	-	-	-	-
45-49	-	-	-	-	-	-	-	-
50-54	-	-	-	-	-	-	-	-
55-59	-	-	1	-	2	5	16	24
60-64	-	-	-	-	-	2	9	11
65 & Over	-	-	-	-	-	-	-	-
Total	-	-	1	-	2	7	25	35

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**	-	-	-	-
	Avg. Benefit	-	-	-	-
60-64	**Count**	-	3	2	5
	Avg. Benefit	-	2,364	1,468	2,006
65-69	**Count**	2	17	12	31
	Avg. Benefit	3,638	2,602	1,869	2,385
70-74	**Count**	4	20	11	35
	Avg. Benefit	2,658	2,056	2,053	2,124
75-79	**Count**	6	12	19	37
	Avg. Benefit	4,000	2,685	1,951	2,521
80-84	**Count**	34	9	19	62
	Avg. Benefit	4,145	2,540	2,046	3,269
85 & Over	**Count**	51	5	37	93
	Avg. Benefit	3,851	2,200	1,624	2,876
Total	**Count**	97	66	100	263
	Avg. Benefit	3,909	2,402	1,840	2,744

Miscellaneous

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
Under 50	**Count**	-	-	1	1
	Avg. Benefit	-	-	2,368	2,368
50-54	**Count**	-	-	1	1
	Avg. Benefit	-	-	1,711	1,711
55-59	**Count**	19	12	8	39
	Avg. Benefit	2,906	2,229	809	2,267
60-64	**Count**	79	18	14	111
	Avg. Benefit	3,269	2,000	1,451	2,834
65-69	**Count**	151	15	30	196
	Avg. Benefit	2,903	1,615	1,339	2,565
70-74	**Count**	115	16	21	152
	Avg. Benefit	2,411	1,895	1,515	2,233
75-79	**Count**	93	16	36	145
	Avg. Benefit	2,555	1,476	1,358	2,139
80-84	**Count**	88	14	39	141
	Avg. Benefit	2,298	1,697	1,213	1,938
85 & Over	**Count**	80	4	85	169
	Avg. Benefit	2,007	1,237	1,021	1,493
Total	**Count**	625	95	235	955
	Avg. Benefit	2,607	1,785	1,216	2,183

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

We have audited the financial statements of the Sacramento City Employees' Retirement System (SCERS), a component unity of the City of Sacramento, California (City) for the year ended June 30, 2014. 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 June 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the SCERS are described in Note B to the financial statements. As described in Note B to the financial statements, SCERS adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, effective July 1, 2013. We noted no transactions entered into by the SCERS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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, significance to financial statement users, and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the SCERS' financial statements was:

> As discussed in Note F to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2014, SCERS' independent actuarial firm determined that the total pension liability of $372.7 million exceeded the fiduciary net position $312.4 million resulting in net pension liability of $60.3 million and a funded status of 83.8%.

The most sensitive disclosure affecting the financial statements was:

> As discussed in Note G to the financial statements, the City has engaged an actuarial firm to review the accuracy of certain SCERS pension benefit calculations. The final determination of any overpayments or underpayments, and resulting effects on the total pension liability, is not available as this time. The City estimates the result of underpayments and overpayments will be immaterial to SCERS net position at June 30, 2014.

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

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Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 the 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 Matters

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

We were engaged to report on the schedule of changes in investment position and listing of investments, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine 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.

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

Restriction on Use

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

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 19, 2014