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

Annual Financial Report

Fiscal Years Ended June 30, 2011 and 2010

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento
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OFFICE OF THE CITY TREASURER

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December 20, 2011

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, 2011.

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

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

BOARD MEMBERSHIP

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

The following are the current members of the Board:

City Officials
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

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David DeCamilla was re-elected by the Board in January 2010 to serve as Board Chair, a position he has held since January 1988. Mr. DeCamilla has served on the Board since February 1985, when he was initially appointed to serve the remainder of the term of another public citizen member who resigned when he moved out of the City of Sacramento. Mr. DeCamilla's first full-term appointment as a public citizen member was made in January 1988.

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

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

John F. Shirey, City Manager, was appointed to his current position on September 1, 2011 and assumed the Board membership position. Mr. Shirey appointed Dennis Kauffman, Accounting Manager as his designee on the Board. Mr. Kauffman was appointed to the position of Accounting Manager in June 2003 and has been a City employee since 2000.

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

HISTORY

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

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

In June 1989, the voters of Sacramento approved the transfer of SCERS active safety members to CalPERS. Effective December 30, 1989, SCERS active safety members were transferred to CalPERS with a cash transfer of $103.3 million in January 1990. As of June 30, 2011, the average age of SCERS active members is 58.6 years and the average years of service is 32.8 years. There are 68 active miscellaneous members and a total of 1,361 plan participants.

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INVESTMENT OBJECTIVES

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

This policy was adopted because there are no new entrants to the system. Cash payments for benefits have exceeded contributions since 1989. Further, volatility in investment markets could create investment losses, if the portfolio is not structured to meet benefit payments. The Board's investment policy is reviewed from time-to-time. In November, 2010, the Board considered a restated and revised investment policy. The Board approved the investment policy at their meeting on January 24, 2011. Pursuant to the Charter, the revised policy approved by the Board will be presented to the City Council for its approval.

ASSET ALLOCATION

In February 2011, the Board voted to continue the balanced asset allocation policy approved the prior year.

Fixed Income	
Fixed Bond	50%
Equity	
Large Cap Growth	30%
Equity Income	10%
International	10%
	50%

The Board typically revisits its asset allocation every February. It is expected to consider the allocation at its meeting in February, 2012 to govern investments in the following fiscal year.

ACTUARIAL EARNING ASSUMPTION

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

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FINANCIAL RESULTS

The plan net assets of SCERS increased from $279.750 million to $304.001 million for the fiscal year ended June 30, 2011. This $24.251 million increase is summarized as follows:

SCERS PLAN NET ASSETS	$ in thousands
Plan net assets 6/30/10	$ 279,750
Members Contributions	342
City Contributions	10,547
Investment Income	47,627
Benefit Payments & Expenses	(34,265)
Plan net assets 6/30/11	$ 304,001

SCERS' Actuarial Accrued Liability (AAL) as of June 30, 2011 was $ 396.968 million. AAL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio was 74.8 percent at June 30, 2011. The funding ratio is defined as that portion of the total AAL for which there are assets available for benefits. In general, this indicates that for every dollar of benefits due, SCERS has approximately $0.748 of assets available for payment.

An analysis of assets shows the rate of investment return for fiscal 2010 was 17.3 percent net of investment expense, which is above the assumed rate of 6.5 percent per annum.

TOTAL FUND PERFORMANCE

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

Table 1 below shows investment return results of SCERS for the specified periods ended June 30, 2011:

Table 1

SCERS Total Rate of Return
TOTAL FUND
For the periods ended June 30, 2011

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance	17.47%	3.11%	4.09%
Custom Index – Target	13.51%	4.64%	4.69%
Actuarial Assumption	6.50%	6.50%	6.98%

A review of the total fund investment performance for the fiscal year ended June 30, 2011 shows a 17.47 percent overall return on SCERS assets.

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

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

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

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

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Fixed Income Performance

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

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

Table 2

SCERS Total Rate of Return
FIXED INCOME
For the periods ended June 30, 2011

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Fixed-Income Fund	7.10%	9.18%	6.64%
Fixed Portfolio Index*	3.90%	6.46%	5.57%

*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 7.10% compounded for the one-year period and 6.64% compounded for the ten-year period ended June 30, 2011. The Fixed Bond portfolio outperformed its benchmark because the portfolio held high-quality corporate and municipal securities that appreciated as investors rebalanced their portfolios towards riskier assets and corporate bonds appreciated as spreads narrowed. The historically low interest-rate environment made it extremely difficult to find investments that yielded anywhere near the actuarial assumption of 6.50% without forfeiting credit quality. To add value, staff took the opportunity to swap some shorter dated corporate holdings into similar longer corporate issues and recognize significant capital gains.

TOTAL FUND PERFORMANCE

Equity Investment Performance

Equity investment is a broad term used to describe investments purchased for growth potential of principal or ownership as opposed to income potential. Common stocks, convertible bonds, and real estate ownership (landlord as opposed to lender) are investments commonly referred to as equity investments. Other investments that could be characterized as equity investments are gold/silver, commodities and covered options. Although not all of these investments are owned by all investment funds, they can all be included in the asset diversification base of those funds that purchase this type of investment. By Board policy, 50% of SCERS assets are to be allocated to equity investments.

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

Table 3

SCERS Total Rate of Return
EQUITY INVESTMENTS
For the periods ended June 30, 2011

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Performance Total Equity	28.23%	-3.39%	-1.20%
Domestic Equity Index	29.95%	1.83%	1.01%
Individual Equity Managers			
Large Cap Growth	28.06%	-5.89%	-1.92%
Large Cap Index**	28.13%	1.05%	-0.57%
Equity Income	28.68%	2.34%	3.95%
Equity Income Index***	29.92%	7.77%	5.43%
International	27.90%	-5.44%	NA
International Index****	26.35%	-3.03%	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 28.23% compounded for the one-year period and -1.20% compounded for the ten-year period ended June 30, 2011. These overall equity returns are primarily the result of the stock selection within the approved asset allocation.

The Large Cap Growth portfolio was initiated by the Board in November 1992. The Board selected the City Treasurer to manage this portfolio with internal management. One-year and three-year rates of returns were 28.06% and -5.89% respectively. The portfolio ended up performing in line with its benchmark after outperforming for most of the year. For the first three quarters of the year, the investment staff continued to overweight cyclical securities like materials and industrials at the expense of the riskier non-cyclicals. With the market peaking in late March management decided take the foot off the pedal and reposition the portfolio into less riskier assets such as cash, healthcare, utilities and consumer staples. In the past we have been hurt by large market pullbacks near fiscal year ends that have eroded performance. The market remained resilient and had a late rally through June 30, 2011 causing earlier outperformance to dissipate. In hind sight, management is very pleased with the strategy given that July was a dismal month for equities and management's strategy, while initiated a little early, was prudent. In addition, management has added more than $1.7 million in income to the portfolio through a managed equity option program that was approved by the Board in October 2009.

The Equity Income Fund produced a rate of return of 28.68% for the one-year period and 2.34% for the three-year period ended June 30, 2011. Management very pleased with the performance of this portfolio given that it has been managed with a primary emphasis on income generation with capital appreciation being a bonus. With 30-year U.S. Treasuries only yielding three percent, this concentrated portfolio of just 20 securities is yielding in excess of 6.25%.

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 27.90% and -5.44% for the three-year period ending June 30, 2011. Again management is very pleased with the performance of this portfolio. Outperformance can be attributed to the overweighting of emerging market securities versus the benchmark as well as holding around 12% of the portfolio in gold related stocks.

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, 2011, 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, 2011 is presented in this document. Very briefly, this report identifies an accumulated actuarial deficit of $100.074 million as of June 30, 2011. The 2011 actuarial valuation report provides a comprehensive review of SCERS financial worth and is deserving of thoughtful reading.

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PROFESSIONAL SERVICES

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

Firm	Duties
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 each month, January through November. No regular meeting of the Board is held during the month of December. An additional regular meeting of the Board is held at 1:30 p.m. on the first working Monday of January. In the event that the fourth Monday of the month falls on a holiday, the regular meeting will be held on the third working Monday of that month. Ideas and comments regarding areas of interest and concern will be appreciated.

David DeCamilla, Chair
Administration, Investment and
Fiscal Management Board

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

POLICY STATEMENT

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

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

Adopted May 1978

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

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the Sacramento City Employees' Retirement System (SCERS), a component unit of the City of Sacramento, California (the City), as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCERS as of June 30, 2011 and 2010, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note F, based on the most recent actuarial valuation as of June 30, 2011, SCERS' independent actuaries determined as of June 30, 2011, the value of the actuarial accrued liability exceeded the actuarial value of its assets by $100 million.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and employer contributions, listed as required supplementary information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, the data designated as additional information and the actuarial section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the 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.

Macias Gini & O'Connell LLP

Sacramento, California
December 20, 2011

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento
Management's Discussion and Analysis (Unaudited)
Fiscal Years Ended June 30, 2011 and 2010

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, 2011 and 2010. 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 $ 304.0 million of net assets in trust for pension benefits at June 30, 2011 and $279.8 million at June 30, 2010. All of the net assets are available to meet SCERS' ongoing obligation to plan participants and their beneficiaries.
- SCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2011, the date of the last actuarial valuation, the funded ratio for SCERS was 75 percent, the same as the funded ratio at June 30, 2010. In general, this indicates that for every dollar of benefits due, SCERS has approximately $0.75 of assets available for payment.
- SCERS' employer contribution was $10.5 million for the fiscal year ended June 30, 2011, compared to $3.4 million in 2010. The increase is the result of a $55 million decline in the value of SCERS' investments that occurred in fiscal year 2009 due to market conditions.
- For the fiscal year ended June 30, 2011, SCERS' net income from investment activity was $46.2 million compared to net investment income of $34.1 million in the prior year.

Overview of Financial Statements

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

1. ***Statements of Plan Net Assets*** are a snapshot of account balances as of June 30, 2011 and 2010. It indicates the total assets and the total liabilities as well as the net assets available for future payment of retirement benefits and operating expenses.
2. ***Statements of Changes in Plan Net Assets*** provide a view of additions and deductions to SCERS' net assets during each of the fiscal years.
3. ***Notes to Financial Statements*** and ***Required Supplementary Information*** provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

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

Financial Analysis

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

SCERS' net assets for the fiscal years ended June 30, 2011, 2010, and 2009 are represented in the charts below.

NET ASSETS SUMMARY
Fiscal years ended June 30, 2011 and 2010
(in thousands)

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

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

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

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

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

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

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

	2011	2010	Change	Percent
Additions:				
Employer contributions	$ 10,547	$ 3,431	$ 7,116	207%
Employee contributions	342	377	(35)	-9%
Net appreciation in the fair value of investments	34,829	23,107	11,722	51%
Interest	8,356	8,090	266	3%
Dividends	4,204	3,982	222	6%
Investment expenses	(1,202)	(1,113)	(89)	8%
Net securities lending activity	178	700	(522)	-75%
Total net additions	57,254	38,574	18,680	48%
Deductions:				
Benefit payments	32,388	31,719	669	2%
Refunds of employee contributions	615	-	615	n/a
Total deductions	33,003	31,719	1,284	4%
Net increase in Plan net assets	24,251	6,855	17,396	254%
Net assets held in trust for pension benefits:				
Beginning of fiscal year	279,750	272,895	6,855	3%
End of fiscal year	$ 304,001	$ 279,750	$ 24,251	9%

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

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

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

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

Changes in Funded Status

Between June 30, 2008 and June 30, 2011, the actuarial value of SCERS' assets has declined by $63 million due to general market conditions. During the same period, the actuarial accrued liability has increased by $5 million. As a result, the funded status of SCERS – the amount of the actuarial accrued liability funded by SCERS' existing assets -- has gone from 92% at June 30, 2008 to 75% at June 30, 2011.

Currently Known Facts and Events

The overall risk profile of the SCERS has remained unchanged since June 30, 2011, and the volatility of the investment portfolio remains in line with the overall financial markets. The global capital markets are highly dynamic and the value of the SCERS changes every day.

Requests for Information

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

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statements of Plan Net Assets
As of June 30, 2011 and 2010
(Amounts Expressed in Thousands)

	2011	2010
Assets		
Cash and cash equivalents	$ 13,540	$ 27,074
Securities lending collateral	54,209	29,379
Receivables:		
Interest and dividends	2,241	1,976
Investments:		
U.S. agencies	8,599	23,085
Corporate bonds	77,907	70,474
Equities	105,793	89,983
Exchange traded funds	49,292	30,461
Mortgage loans	7,766	8,054
Municipal bonds	42,231	31,819
Total investments	291,588	253,876
Total assets	361,578	312,305
Liabilities		
Securities lending obligation	54,889	30,055
Payable for investments purchased	136	-
Benefits payable	2,536	2,486
Accounts payable	16	14
Total liabilities	57,577	32,555
Net assets held in trust for pension benefits	$ 304,001	$ 279,750

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statements of Changes in Plan Net Assets
Fiscal Years Ended June 30, 2011 and 2010
(Amounts Expressed in Thousands)

	2011	2010
Additions		
Contributions:		
Employer	$ 10,547	$ 3,431
Employees	342	377
Total contributions	10,889	3,808
Investment income:		
From investment activities:		
Net appreciation in fair value of investments	34,829	23,107
Interest	8,356	8,090
Dividends	4,204	3,982
Total investment income	47,389	35,179
Less investment expense:		
Banking, interest, fiscal agent & other	63	59
Professional services	1,139	1,054
Total investment expense	1,202	1,113
Net income from investing activities	46,187	34,066
From securities lending activities:		
Net appreciation (depreciation) in fair value of investments	(4)	501
Securities lending income	242	271
Total securities lending income	238	772
Securities lending expenses:		
Borrower rebates	-	4
Management fees	60	68
Total securities lending expenses	60	72
Net income from securities lending activities	178	700
Total net investment income	46,365	34,766
Total net additions	57,254	38,574
Deductions		
Benefits	32,388	31,719
Refunds of employee contributions	615	-
Total deductions	33,003	31,719
Net increase in plan net assets	24,251	6,855
Net assets held in trust for pension benefits		
Beginning of fiscal year	279,750	272,895
End of fiscal year	$ 304,001	$ 279,750

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 Comprehensive Annual Financial Report of the City. The system covers all City employees hired before January 29, 1977 and is closed to new members. Employee contribution rates are generally frozen (with minor exceptions) and the City is responsible for any actuarially determined unfunded obligation of the plan. SCERS is comprised of the individual plans listed below. The City Charter establishes plan membership, contributions, and benefit provisions. Any changes must be approved by the electorate of the City.

1. Charter Section 399 Plan – This defined benefit plan was established effective January 1, 1977 to provide retirement, disability and death benefits. At June 30, 2011 and 2010, 67 and 84 active employees, respectively, were participating in this plan, contributing at a rate based upon entry age and type of employment. The City is required to fund all costs in excess of employees' contributions and investment earnings.

2. Equal Shares Plan – This defined benefit plan was established July 1, 1970 to provide retirement, disability and death benefits to all City employees electing coverage at that date and to all employees who were hired from that date through January 1, 1977. At June 30, 2011 and 2010, no active employee was participating in this plan.

3. Charter Section 175 Plans – These defined benefits were established in 1953 and provide for retirement, disability and death benefits at a lower amount than the successor Equal Shares Plan. At June 30, 2011 and 2010, 1 active employee was participating in this plan. Members' normal rates of contribution may be changed by the Board, on the basis of periodic actuarial valuations and investigations.

(Dollars in thousands, except as otherwise noted)

Note A – Plan Description (Continued)

Cost-of-Living Adjustment – This adjustment, established in 1969, provides for annual retirement benefit increases of up to 3% of normal benefits based on a corresponding rise in the consumer price index. Cost-of-living benefits are payable to retirees and beneficiaries of all of the above plans after one year of retirement. The cost of living adjustment was 3.0% for fiscal years 2011 and 2010. 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, 2011 and 2010 are fully vested. The chart below indicates changes in the membership of SCERS during the fiscal years ended June 30, 2011 and 2010.

	Actives	**Terminated Employees Entitled to Benefits**	**Retirees**	**Beneficiaries**	**Total**
June 30, 2009	95	38	1,003	338	1,474
Retirement	(10)	(4)	14	-	-
Deaths	-	-	(42)	(27)	(69)
Other	-	-	(1)	14	13
June 30, 2010	85	34	974	325	1,418
Retirement	(15)	(4)	19	-	-
Deaths	(1)	-	(53)	(18)	(72)
Other	(1)	(4)	(1)	21	15
June 30, 2011	68	26	939	328	1,361

Note B – Summary of Significant Accounting Policies

Basis of Accounting

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

Investments

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

Administrative Costs

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

Use of Estimates

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

Note C – Cash and Investments

Cash and Cash Equivalents

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

Note C – Cash and Investments

Securities Lending

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

Borrowers delivered collateral equal to 102% of the market value of the loaned securities. There have been no losses resulting from borrower or lending agent default. During the fiscal years ended June 30, 2011 and 2010, the weighted maturity of lent securities was 137 and 160 days respectively, and the weighted maturity of the investments purchased with cash collateral was 1 and 132 days respectively.

SCERS' securities loaned were corporate bonds, equity, and exchange traded funds and received cash collateral. At June 30, 2011 and 2010, SCERS lent securities totaling $53,646, and $27,717 respectively and received cash collateral of $54,717 and $28,668, respectively. SCERS invested the cash collateral in securities that had a fair market value at June 30, 2011 and 2010 of $54,177 and $28,133 respectively. Two of the securities purchased with the cash collateral were sold during for a realized loss of $540 during the fiscal year ended June 30, 2011.

SCERS also reports its proportionate share of the securities lending activities of the City's investment pool. At June 30, 2011 and 2010, SCERS' share of the investments purchased with cash collateral was $32 and $1,246, respectively; SCERS' share of the securities lending liability was $172 and $1,387, respectively. A Lehman Brothers bond held by the City's investment pool was written down from a value of $140 to $0 during the fiscal year ended June 30, 2011.

Investments

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

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Interest Rate Risk

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

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

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

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

At June 30, 2010, 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 cash equivalents:						
City of Sacramento Investment Pool	$ -	$ -	$ 27,074	$ -	$ -	$ 27,074
Securities Lending Collateral:						
City of Sacramento Investment Pool	-	-	1,246	-	-	1,246
Asset backed securities	-	100	-	-	350	450
Corporate bonds	-	2,002	-	-	-	2,002
Repurchase agreement	-	25,681	-	-	-	25,681
Total Securities Lending Collateral	-	27,783	1,246	-	350	29,379
Investments:						
U.S. agencies	-	-	-	15,678	7,407	23,085
Corporate bonds	-	-	14,498	48,331	7,645	70,474
Equities	89,983	-	-	-	-	89,983
Exchange traded funds	30,461	-	-	-	-	30,461
Mortgage loans	-	-	5,204	-	2,850	8,054
Municipal bonds	-	2,578	2,700	7,016	19,525	31,819
Total Investments	120,444	2,578	22,402	71,025	37,427	253,876
Total Cash and Investments	$ 120,444	$ 30,361	$ 50,722	$ 71,025	$ 37,777	$ 310,329

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

At June 30, 2011 and 2010, SCERS' investments that are highly sensitive to interest rate fluctuations are as follows:

	Fair Value June 30, 2011
Bank of America securities that have a maturity of 11/15/2015 and are callable monthly from 7/15/2011 to 10/15/2015.	$2,004
Harvard President and Fellow securities that have a maturity of 10/1/2037 and are callable continuously beginning 4/1/2016.	2,188
Housing and Urban Development (HUD) securities that have a maturity of 8/1/2015 and are callable semi-annually from 8/1/2011 to 2/1/2015.	23
Houston Texas Airport Revenue securities that have a maturity of 1/1/2028 and are callable annually from 1/1/2012 to 1/1/2021.	5,008
Riverside County Redevelopment Agency Tax Allocation securities that have a maturity date of 10/1/2037 and are callable annually from 10/1/2020 to 10/1/2036.	3,002
Sacramento City Financing Authority securities that have a maturity of 12/1/2016 and are callable on 12/1/2015.	709
Sacramento City Financing Authority securities that have a maturity of 12/1/2020 and are callable annually from 12/1/2015 to 12/1/2019.	3,778
Sacramento City Financing Authority securities that have a maturity of 12/1/2025 and are callable annually from 12/1/2015 to 12/1/2024.	1,636

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

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

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, 2011, SCERS held a bond that is currently in default of the semi-annual interest payments. The bond issuer Lehman Brothers filed for Chapter 11 bankruptcy protection on September 15, 2008. The bond has a maturity date of April 4, 2016 and a market value of $653,000 as of June 30, 2011.

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

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

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

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

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

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

On August 5, 2011, Standard & Poor's lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That action affected Standard & Poor's view of U.S. public finance debt instruments that are directly or indirectly backed by the U.S. As a result, on August 8, 2011, Standard & Poor's lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with SCERS' investments in U.S. Agency securities.

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. SCERS had no deposits at June 30, 2011 or June 30, 2010.

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, 2011 and 2010, 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 $54,209 and $29,379, respectively.

Concentration of Credit Risk

As of June 30, 2011 and 2010, SCERS had the following fixed income investments in one issuer exceeding 5% of plan net assets excluding investments issued or explicitly guaranteed by the U.S. government, investments in exchange traded funds, and the City's investment pool:

2011	
General Electric Capital Corporation	$21,961
2010	
General Electric Capital Corporation	$21,322

Note D – Related Party Transactions

At June 30, 2011 and 2010, SCERS held revenue bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of $6,123 and $6,028 respectively. SCFA is also a blended component unit of the City of Sacramento because its Board is comprised of all City Council members.

Note E – Funding Policy

The City's funding policy provides for actuarially determined periodic contributions under the entry age normal method which are discounted and adjusted annually to ensure that sufficient assets will be available to pay benefits when due. The City Council established and may amend the obligations of the plan members and the City to contribute to the plan. For the fiscal years ended June 30, 2011 and 2010, the City's annual required and actual contribution was $10.5 million and $3.4 million, respectively.

Since the plans included in SCERS are closed to new members, the number of active members in the system is declining. Member contributions have declined as members retire. During the fiscal years ended June 30, 2011 and 2010, active member contributions ranged from 3% to 10% of payroll. At June 30, 2011 and 2010, active members' accumulated contributions, including interest, totaled approximately $15 million and $18 million, respectively. For the fiscal years ended June 30, 2011 and 2010, interest was credited to members' contributions at the rate of 2.25% and 5.75%, respectively. Members have an option to withdraw their accumulated contributions, including interest, upon termination of their employment with the City.

Note F – Funded Status

The Plan's funded status as of June 30, 2011, the most recent actuarial valuation date is as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded (Funded) AAL (B-A)	Funded Ratio (A/B)	Covered Total Plan Payroll (C)	Unfunded (Funded) AAL as a Percentage of Covered Plan Payroll ([B-A]/C)
June 30, 2011	$ 297	$ 397	$ 100	75%	$ 4.132	2,420%
June 30, 2010	$ 297	$ 395	$ 98	75%	$ 5.302	1,848%

(Dollars in thousands, except as otherwise noted)

Note F – Funded Status (Continued)

The fiscal year 2010 and 2011 annual required contributions for the Plan were determined as part of the June 30, 2008 and June 30, 2009 actuarial valuations, respectively. The table below summarizes the actuarial methods and assumptions for the actuarial valuations of those years and the fiscal year ended June 30, 2011:

	June 30, 2008	**June 30, 2009**	**June 30, 2011**
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Percent of payroll	Level dollar	Level dollar
Amortization period	15 rolling years	15 year open	15 year open
Asset valuation method	3-year smoothed market value	3-year smoothed market value	3-year smoothed market value
Actuarial assumptions:			
Investment rate of return	6.50%	6.50%	6.50%
Projected annual salary increases	3.50%	3.50%	3.50%
Cost-of-living adjustments	3.00%	3.00%	3.00%

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento
Required Supplementary Information
Fiscal Years Ended June 30, 2011 and 2010
(Dollars in thousands, except as otherwise noted)

Schedule of Funding Progress
(dollars in millions)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded (Funded) AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Funded) AAL as a Percentage of Covered Payroll ([B-A]/C)
2006	$365	$395	$30	92%	$10.3	292%
2007	365	395	30	92	9.6	313
2008	360	392	32	92	8.9	361
2009	314	398	84	79	5.7	1,461
2010	297	395	98	75	5.3	1,848
2011	297	397	100	75	4.1	2,420

Beginning in Fiscal Year 2010, the actuarial accrued liability was calculated using CalPERS 1997-2007 Mortality Tables. Previously the calculation was made using the 1994 Group Annuity Mortality Table.

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contribution
2005	$ -	-
2006	-	-
2007	-	-
2008	3,534	100%
2009	3,159	100%
2010	3,431	100%
2011	10,547	100%

ADDITIONAL INFORMATION

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento
Schedule of Changes in Investment Position
Fiscal Year Ended June 30, 2011
(Amounts Expressed in Thousands)

Description	Balance June 30, 2010 (Fair Value)	Additions	Disposals	Change in Unrealized Gains	Balance June 30, 2011 (Fair Value)
U.S agencies	$ 23,085	$ 2,993	$ (17,324)	$ (155)	$ 8,599
Corporate bonds	70,474	5,479	-	1,954	77,907
Equities	89,983	53,887	(58,278)	20,201	105,793
Exchange traded funds	30,461	27,640	(14,809)	6,000	49,292
Mortgage loans	8,054	-	(288)	-	7,766
Municipal Bonds	31,819	13,629	(2,758)	(459)	42,231
Total investments	253,876	103,628	(93,457)	27,541	291,588
Cash and short-term investments	27,074	314,723	(328,257)	-	13,540
Securities lending collateral	29,379	24,830	-	-	54,209
	$ 310,329	$ 443,181	$ (421,714)	$ 27,541	$ 359,337

APPENDIX A

BARTEL ASSOCIATES, LLC

City of Sacramento

Sacramento City Employees' Retirement System

June 30, 2011
Actuarial Valuation

November 2011

BARTEL ASSOCIATES, LLC

ACTUARIAL VALUATION

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

We are pleased to present the results of our June 30, 2011 actuarial valuation of the Sacramento City Employees' Retirement System (SCERS).

The purpose of this valuation is to:

- determine June 30, 2011 System actuarial liabilities and funded status pursuant to Governmental Accounting Standards Board Statement No. 25 (GASB 25), as amended by GASB 50, and
- calculate the 2012/13 fiscal year Annual Pension Cost under GASB 27, as amended by GASB 50.

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

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

Sincerely,

John E. Bartel, ASA, MAAA, FCA
President

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

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SECTION 1
EXECUTIVE SUMMARY

Following are the valuation results. See notes following the table for a description of terms. Results from the June 30, 2010 valuation are provided for comparative purposes.

	--------*amounts in $000's*---------		
	June 30, 2010	**June 30, 2011**	**% change**
■ **Participant Counts**			
• Actives	85	68	-20.0%
• Terminated Vesteds	24	17	-29.2%
• Reciprocals	10	9	-10.0%
• Service Retirees	796	766	-3.8%
• Disableds	178	173	-2.8%
• Beneficiaries	325	328	0.9%
• Total	1,418	1,361	-4.0%
■ **Actuarial Liabilities**			
• Present Value of Projected Benefits	$ 395,975	$ 397,941	0.5%
• Actuarial Accrued Liability	394,658	396,968	0.6%
■ **Assets**			
• Market Value of Assets	279,750	304,001	8.7%
• Approximate Annual Rate of Return	13.4%	17.3%	
• Actuarial Value of Assets	296,866	296,894	0.0%
• Approximate Annual Rate of Return	3.7%	7.7%	
■ **Plan Funded Status**			
• Actuarial Accrued Liability	394,658	396,968	0.6%
• Actuarial Value of Plan Assets	296,866	296,894	0.0%
• Unfunded Actuarial Accrued Liability	97,792	100,074	2.3%
• Funded Ratio	75.2%	74.8%	-0.5%
• Funded Ratio, Market Value Basis	70.9%	76.6%	8.0%

	2011/12	**2012/13**	**% change**
■ **Annual Cost**[1]	10,361	10,573	2.0%
■ **Annual Cost (% Proj. Plan Payroll)**[1]	233.0%	312.9%	
■ **Annual Cost (% Proj. City Payroll)**	3.3%	3.7%	

1 See page 10 for details.

SECTION 1
EXECUTIVE SUMMARY

Purpose of Actuarial Valuation

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

Summary Information

The Sacramento City Employees' Retirement System (SCERS) is a closed defined benefit pension plan. It has not accepted new members since January 28, 1977, and only 68 active members (out of a total plan membership of 1,361) remain.

Results

Since the last valuation, the plan experienced small losses on liabilities and a gain on market assets. Plan liabilities increased slightly more than expected, by approximately $1.5 million, due primarily to the fact that the retirees who died since the prior valuation had a lower average benefit than expected. Higher than expected investment returns was the primary factor contributing to gains of $14.2 million on the actuarial value of assets. The resulting July 1, 2011 total plan Unfunded Actuarial Accrued Liability (UAAL), prior to assumption changes, is $91.5 million, as compared to an expected UAAL of $104.2 million.

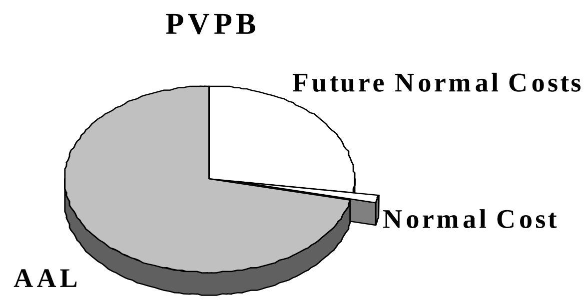
The plan's mortality assumptions were updated to account for future expected mortality improvement by applying the Scale AA projection on the post-retirement CalPERS mortality tables. The modest improvement in mortality resulted in a $8.6 million increase to liabilities, for a final July 1, 2011 UAAL of $100.1 million. The plan's funded ratio on an actuarial value of assets basis is 74.8%, a slight decrease from 75.2% in the prior valuation. The plan's funded ratio on a market value of assets basis is 76.6%, an increase from 70.9% in the prior valuation.

Due to the changes in experience and assumptions since the prior valuation, the City's contribution has slightly increased from the previous year. The employer contribution for fiscal year 2012/13 is $10.6 million, up from $10.4 million in the previous year.

SECTION 1
EXECUTIVE SUMMARY

Definitions

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



SECTION 2
LIABILITY INFORMATION & FUNDED STATUS

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

(amounts in $000's)

	June 30, 2010	June 30, 2011
Present Value of Projected Benefits		
■ Active Employees	$ 35,747	$ 28,794
■ Vested Terminated & Reciprocals	4,898	3,977
■ Service Retirees	265,939	271,746
■ Disabled Participants	45,273	46,815
■ Beneficiaries	44,118	46,609
■ Total	395,975	397,941
Actuarial Accrued Liability		
■ Active Employees	$ 34,430	$ 27,821
■ Vested Terminated & Reciprocals	4,898	3,977
■ Service Retirees	265,939	271,746
■ Disabled Participants	45,273	46,815
■ Beneficiaries	44,118	46,609
■ Total	394,658	396,968

	2010/11	2011/12
Normal Cost		
■ Employer Normal Cost (beginning of year)	$ 125	$ 67

	June 30, 2010	June 30, 2011
Plan Funded Status		
■ Total Actuarial Accrued Liability	$ 394,658	$ 396,968
■ Actuarial Value of Plan Assets	296,866	296,894
■ Unfunded Actuarial Accrued Liability	97,792	100,074
■ Funded Ratio	75.2%	74.8%
■ Market Value of Assets	279,750	304,001
■ Funded Ratio – Market Value Basis	70.9%	76.6%

SECTION 2
LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2011 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by employee category:

(amounts in $000's)

	Safety	Miscellaneous	Total
Present Value of Projected Benefits			
■ Active Employees	$ -	$ 28,794	$ 28,794
■ Vested Terminated & Reciprocals	44	3,934	3,977
■ Service Retirees	38,195	233,551	271,746
■ Disabled Participants	23,251	23,564	46,815
■ Beneficiaries	18,365	28,244	46,609
■ Total	79,854	318,087	397,941
Actuarial Accrued Liability			
■ Active Employees	-	27,821	27,821
■ Vested Terminated & Reciprocals	44	3,934	3,977
■ Service Retirees	38,195	233,551	271,746
■ Disabled Participants	23,251	23,564	46,815
■ Beneficiaries	18,365	28,244	46,609
■ Total	79,854	317,114	396,968

	Safety	Miscellaneous	Total
Normal Cost			
■ Employer Normal Cost (on June 30, 2011)	$ -	$ 67	$ 67

SECTION 2
LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2011 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by benefit section:

(amounts in $000's)

	Section 175	Sections 302 & 399	Total
Present Value of Projected Benefits			
■ Active Employees	$ 522	$ 28,272	$ 28,794
■ Vested Terminated & Reciprocals	452	3,525	3,977
■ Service Retirees	9,686	262,059	271,746
■ Disabled Participants	2,653	44,161	46,815
■ Beneficiaries	4,549	42,060	46,609
■ Total	17,863	380,077	397,941
Actuarial Accrued Liability			
■ Active Employees	514	27,307	27,821
■ Vested Terminated & Reciprocals	452	3,525	3,977
■ Service Retirees	9,686	262,059	271,746
■ Disabled Participants	2,653	44,161	46,815
■ Beneficiaries	4,549	42,060	46,609
■ Total	17,855	379,113	396,968

	Section 175	Sections 302 & 399	Total
Normal Cost			
■ Employer Normal Cost (on 6/30/11)	$ 2	$ 65	$ 67

SECTION 3
ASSET INFORMATION

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

Asset Reconciliation – Market Value of Assets

Following reconciles the June 30, 2009 through June 30, 2010 and the June 30, 2010 through June 30, 2011 market value of assets.

(amounts in $000's)

	2009/10		2010/11	
■ Beginning of Year Balance:		$272,895		$ 279,750
• Member Contributions	$ 377		$ 342	
• City Contributions	3,431		10,547	
• Investment Income	35,951		47,627	
■ Total Additions		39,759		58,516
• Benefit Payments	31,719		32,388	
• Member Refunds	0		615	
• Expenses	1,185		1,262	
■ Total Deductions		32,904		34,265
■ Net Assets at End of Year		279,750		304,001
■ Approximate Return on Assets		13.4%		17.3%

SECTION 3
ASSET INFORMATION

Asset Allocation – Market Value of Assets

June 30, 2011 trust asset allocation is provided by the City of Sacramento and based on an allocation strategy of 50% fixed income and 50% equity. Details are shown below.

(amounts in $000's)

		Market Value	Percentage
■ Cash & Short Term Investments		$ 13,540	4.5%
■ Securities Lending Collateral		54,209	17.8%
■ Receivables		2,241	0.7%
■ Investments			
• US Agencies	$ 8,599		2.8%
• Corporate Bonds	77,907		25.6%
• Equities	105,793		34.8%
• Exchange Traded Funds	49,292		16.2%
• Mortgage Loans	7,766		2.6%
• Municipal Bonds	42,231		13.9%
■ Total Investments		291,588	
■ Total Assets		361,578	
■ Securities Lending Obligation		(54,889)	(18.1%)
■ Other Liabilities		(2,688)	(0.9%)
■ Net Pension Benefit Trust Assets		304,001	100.0%

Target Allocation by Asset Class

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

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

SECTION 3
ASSET INFORMATION

Development of Actuarial Value of Assets

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

	(amounts in $000's)
■ **Actuarial Value of Assets 6/30/2010**	**$ 296,866**
• Contributions	10,889
• Expected Earnings	18,589
• Benefit Payments	(33,003)
■ Expected Actuarial Value of Assets 6/30/2011	293,341
■ Market Value of Assets 6/30/2011	304,001
■ Difference between MVA & Expected AVA	10,660
■ **Preliminary Actuarial Value of Assets 6/30/2011** *(Expected AVA+ 1/3 Difference)*	296,894
■ Actuarial Value of Assets Corridor	
• Cap: 115% of Market Value	349,601
• Min: 85% of Market Value	258,401
■ **Actuarial Value of Assets 6/30/2011** *(No greater than Cap, not less than Min)*	**296,894**
■ Approximate Annual Rate of Return	7.7%

SECTION 4
CONTRIBUTION DEVELOPMENT

Annual Required Contribution
Following is the development of the 2012/13 Annual Required Contribution. The 2011/12 Annual Required Contribution, which was calculated in the June 30, 2010 actuarial valuation, is shown for comparison.

(amounts in $000's)

Contribution Year	2011/12	2012/13
■ Annual Required Contribution		
• Normal Cost	$ 108	$ 56
• UAL Amortization[2]	10,253	10,517
• Total Cost	10,361	10,573
■ Projected Plan Payroll	4,446	3,379
■ Annual Required Contribution (as a percent of plan payroll)		
• Normal Cost	2.4%	1.7%
• UAL Amortization	230.6%	311.2%
• Total Contribution	233.0%	312.9%
■ Projected Total City Payroll	307,719	288,489
■ Annual Required Contribution (as a percent of total City payroll)		
• Normal Cost	0.1%	0.0%
• UAL Amortization	3.3%	3.7%
• Total Contribution	3.4%	3.7%

2 The Unfunded Actuarial Liability is being amortized over a fifteen year rolling amortization period as a level dollar amount. As the plan continues to mature, this amortization period should be reviewed.

SECTION 5
SCHEDULE OF FUTURE CONTRIBUTIONS

Year Ending[3]	Member Contributions	City Contributions	Benefit Payments
6/30/1986	$ 3,953,000	$ 14,143,000	$ 14,693,000
6/30/1987	4,178,000	15,415,000	15,973,000
6/30/1988	4,233,000	14,057,000	17,400,000
6/30/1989	4,146,000	12,188,000	19,000,000
6/30/1990	3,305,000	9,664,000	20,000,000
6/30/1991	1,704,000	6,017,000	20,400,000
6/30/1992	1,818,000	2,984,000	22,000,000
6/30/1993	1,672,000	857,000	23,042,000
6/30/1994	1,432,000	0	24,165,000
6/30/1995	1,320,000	0	24,565,000
6/30/1996	1,228,000	0	25,027,000
6/30/1997	1,080,000	0	23,274,000
6/30/1998	1,090,000	0	23,825,000
6/30/1999	1,136,000	0	24,249,000
6/30/2000	1,079,000	0[4]	24,901,000
6/30/2001	989,000	0	25,087,000
6/30/2002	1,011,000	0	25,588,000
6/30/2003	978,000	0	26,619,000
6/30/2004	1,056,000	0	26,772,000
6/30/2005	809,000	0	27,524,000
6/30/2006	789,000	0	28,749,000
6/30/2007	699,000	0	29,604,000
6/30/2008	596,000	3,534,000	29,896,000
6/30/2009	607,000	3,159,000	30,707,000
6/30/2010	377,000	3,431,000	31,719,000
6/30/2011	342,000	10,547,000	33,003,000
6/30/2012	*267,000*	10,361,000	*33,148,000*
6/30/2013	*218,000*	10,573,000	*33,312,000*
6/30/2014	*175,000*	*10,573,000*	*33,494,000*
6/30/2015	*135,000*	*10,446,000*	*33,572,000*
6/30/2016	*100,000*	*10,233,000*	*33,375,000*

3 Information prior to 6/30/2006 valuation is taken from prior actuary's valuation report. Member contributions and benefit payments for years ending 6/30/2012 and later are estimated. City contributions for years ending 6/30/2014 and later are estimated (assuming 6/30/12 and subsequent market value of assets earn 6.5%).

4 Shown as a negative 1.367 million by prior actuary.

SECTION 6
ACTUARIAL (GAIN)/LOSS ANALYSIS

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

(amounts in 000's)

	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability
■ **June 30, 2010 Actual Value**	$ 394,658	$ 296,866	$ 97,792
■ **June 30, 2011 Expected Value**	386,882	282,655	104,227
• Demographic (Gain)/Loss	1,532		
■ Total Liability (Gain)/Loss	1,532		
■ Investment Gain/(Loss)		14,239	
■ **Total (Gain)/Loss**			(12,707)
■ **June 30, 2011 Actual Value Prior to Changes in Assumptions**	388,414	296,894	91,520
• Change to Mortality tables with Scale AA	8,554		8,554
■ **June 30, 2011 Actual Value After Changes in Assumptions**	396,968	296,894	100,074

SECTION 7
HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Headcount and Benefit Payment Projection

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2012	68	26	1,267	$ 33,148
2013	53	26	1,234	33,312
2014	41	26	1,198	33,494
2015	31	26	1,159	33,572
2016	22	26	1,118	33,375
2017	15	26	1,076	33,031
2018	10	25	1,033	32,696
2019	7	25	989	32,272
2020	4	25	945	31,758
2021	3	25	900	31,156
2022	2	25	855	30,499
2023	1	24	811	29,791
2024	1	24	767	29,034
2025	0	24	724	28,240
2026	0	24	682	27,408
2027	0	23	641	26,544
2028	0	23	600	25,650
2029	0	22	561	24,727
2030	0	22	523	23,774
2031	0	21	485	22,790
2032	0	20	449	21,776
2033	0	20	414	20,728
2034	0	19	380	19,648
2035	0	18	348	18,538
2036	0	17	316	17,399
2037	0	16	286	16,235
2038	0	15	257	15,051
2039	0	14	229	13,856
2040	0	13	203	12,661
2041	0	11	178	11,476

SECTION 7
HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2042	0	10	155	$ 10,315
2043	0	9	134	9,189
2044	0	8	115	8,113
2045	0	7	98	7,095
2046	0	6	82	6,146
2047	0	5	69	5,272
2048	0	4	57	4,477
2049	0	3	47	3,764
2050	0	2	38	3,135
2051	0	2	31	2,587
2052	0	1	25	2,116
2053	0	1	20	1,720
2054	0	1	16	1,391
2055	0	1	13	1,123
2056	0	0	10	907
2057	0	0	8	736
2058	0	0	7	603
2059	0	0	6	501
2060	0	0	5	425
2061	0	0	4	368

SECTION 8
PLAN PROVISIONS

A. Plan Effective Date

Originally established effective April 1, 1935.

B. Plan Year

July 1 to June 30.

C. Participation

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

D. Eligibility to Retire

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

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

E. Vesting

100% vesting with five years of participation.

F. Average Monthly Compensation

Average monthly salary for the 36 months prior to termination.

G. Employee Contributions

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

H. Service Retirement Benefit

Section 175:

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

Sections 302 and 399:

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

Benefit Factors at sample ages:

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%

SECTION 8
PLAN PROVISIONS

I. Vested Termination Benefit

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

J. Non-Industrial (Ordinary) Disability Benefit

Eligibility is ten years of service.

Section 175:

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

<u>Less than 16 2/3 years of service</u>: 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:

<u>Not Eligible for Retirement</u>: 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.

<u>Eligible for Retirement</u>: Maximum of retirement allowance or 25% of final average earnings.

K. Industrial Disability Benefit

Sections 302 and 399:

<u>Not Eligible for Retirement</u>: 50% of final average earnings.

<u>Eligible for retirement</u>: 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.

SECTION 9
METHODS AND ASSUMPTIONS

Actuarial Methods

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

The current unfunded AAL will be amortized, over a 15 year rolling period, as a level dollar amount. 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 (2012/13). The June 30, 2010 valuation generated a contribution for fiscal year 2011/12.

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 then 115% of Market Value of Assets and no less then 85% of Market Value of Assets.

Actuarial Assumptions

Assumptions used in the valuation are as follows:

- **Discount rate**

  6.50%, net of expenses

- **Inflation**

  3.0%

- **Salary Scale**

  3.00% CPI

  0.50% Merit

- **Social Security Wage Base**

  3.25%

- **Termination**

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

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:

	Sec 175	Non Sec 175
50	0%	1%
55	6%	6%
60	26%	26%
65	40%	40%
70	100%	100%

- **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, 2011 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, 2011 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%

- **Marriage**

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

- **Retirement Age**

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

SECTION 10
PARTICIPANT DATA

Data Summary

Following summarizes participant demographic information for the June 30, 2010 and June 30, 2011 actuarial valuations.

	June 30, 2010	June 30, 2011
■ **Participant Counts**		
• Actives	85	68
• Terminated Vesteds	24	17
• Reciprocals	10	9
• Service Retirees	796	766
• Disableds	178	173
• Beneficiaries	325	328
• Total	1,418	1,361
■ **Actives**		
• Average Age	57.9	58.6
• Average Service	31.9	32.8
• Salary		
➢ Total	$ 5,302,299	$4,132,330
➢ Average	62,380	60,770
• Overall City Payroll	287,259,000	269,307,000
■ **Terminated Vesteds & Reciprocals**		
• Average Age	61.6	62.6
■ **Retirees, Disableds & Beneficiaries**		
• Average Age	75.2	75.6
• Average Monthly Benefit	$2,065	$2,155

June 30, 2011 Participant Data

Following summarizes participant demographic information for the June 30, 2011 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	-	-	1	67	68
• Average Age	n/a	n/a	64.3	58.6	58.6
• Average Service	n/a	n/a	41.9	32.7	32.8
• Salary					
➢ Average	$ -	$ -	$ 48,385	$ 60,954	$60,770
➢ Total (000's)	-	-	48	4,084	4,132
■ **Vested Terms & Reciprocals:**					
• Count	-	1	3	22	26
• Average Age	n/a	71.1	63.2	62.1	62.6
■ **All Inactives**					
• Count	45	245	44	933	1,267
• Average Age	82.3	78.8	78.6	74.3	75.6
• Avg. Monthly Benefit	$1,872	$2,715	$1,449	$2,055	$2,155
■ **Service Retirees**					
• Count	14	95	26	631	766
• Average Age	82.8	82.9	78.5	73.6	75.1
• Average Retirement Age	55.9	55.4	62.9	59.6	59.1
• Avg. Monthly Benefit	$2,778	$3,872	$1,687	$2,423	$2,584
■ **Disabled Retirees**					
• Count	8	65	6	94	173
• Average Age	79.4	71.9	79.1	69.4	71.1
• Average Retirement Age	46.0	42.6	47.5	48.2	46.0
• Avg. Monthly Benefit	$2,266	$2,283	$908	$1,666	$1,899
■ **Beneficiaries**					
• Count	23	85	12	208	328
• Average Age	82.9	79.4	78.3	78.5	79.0
• Avg. Monthly Benefit	$1,183	$1,753	$1,205	$1,114	$1,288

SECTION 10
PARTICIPANT DATA

Data Reconciliation
6/30/2010 to 6/30/2011

	Actives	Terminated		Receiving Payments			Total
		Vested	Reciprocal	Disabled	Benefic.	Retirees	
June 30, 2010	85	24	10	178	325	796	1,418
• **New Hires**	-	-	-	-	-	-	-
• **Disabled**	(1)	-	-	6	-	(5)	-
• **Terminated**	-	-	-	-	-	-	-
• **Deceased**	(1)	-	-	(10)	(18)	(43)	(72)
• **New Beneficiaries**	-	-	-	-	18	-	18
• **Retired**	(15)	(4)	-	(1)	-	20	-
• **Adjustment**	-	(3)	(1)	-	3	(2)	(3)
June 30, 2011	68	17	9	173	328	766	1,361

SECTION 10
PARTICIPANT DATA

Active Age/Service/Pay

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	-	-	-	-	1	-	4	5
55-59	-	-	1	-	5	4	37	47
60-64	-	-	-	-	1	1	10	12
65 & Over	-	-	-	-	-	-	4	4
Total	-	-	1	-	7	5	55	68

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 55	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
55-59	Count	-	-	1	1
	Avg. Benefit	-	-	1,676	1,676
60-64	Count	-	9	7	16
	Avg. Benefit	-	2,639	1,586	2,178
65-69	Count	5	22	9	36
	Avg. Benefit	2,854	2,045	1,869	2,113
70-74	Count	3	16	12	31
	Avg. Benefit	4,013	2,275	2,032	2,349
75-79	Count	14	14	21	49
	Avg. Benefit	3,397	2,519	1,640	2,393
80-84	Count	58	8	20	86
	Avg. Benefit	4,203	2,331	1,801	3,470
85 & Over	Count	29	4	38	71
	Avg. Benefit	3,071	1,876	1,363	2,090
Total	Count	109	73	108	290
	Avg. Benefit	3,731	2,282	1,632	2,584

SECTION 10
PARTICIPANT DATA

Miscellaneous

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
Under 55	**Count**	-	1	4	5
	Avg. Benefit	-	2,620	1,280	1,548
55-59	**Count**	23	14	8	45
	Avg. Benefit	3,407	1,690	995	2,444
60-64	**Count**	109	20	20	149
	Avg. Benefit	2,818	1,911	1,346	2,499
65-69	**Count**	129	16	19	164
	Avg. Benefit	2,627	1,371	1,419	2,364
70-74	**Count**	110	16	21	147
	Avg. Benefit	2,352	1,849	1,286	2,145
75-79	**Count**	99	17	39	155
	Avg. Benefit	2,363	1,340	1,128	1,940
80-84	**Count**	100	12	42	154
	Avg. Benefit	2,121	1,544	1,095	1,796
85 & Over	**Count**	87	4	67	158
	Avg. Benefit	1,650	1,166	930	1,332
Total	**Count**	657	100	220	977
	Avg. Benefit	2,394	1,620	1,119	2,028

SECTION 11
GASB REPORTING AND DISCLOSURE

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

The following sections contain information suitable for use in the SCERS' and the City's required disclosures for the fiscal year ending June 30, 2011.

A. Notes to the Financial Statements

Plan Description and Contribution Information

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

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

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

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

Membership in the plan consists of the following as of June 30, 2011:

Retirees and beneficiaries receiving payments	1,267
Terminated plan members entitled to, but not yet receiving, benefits	26
Active plan members	68
Total	1,361

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

- The Plan's annual pension cost (APC) for the fiscal year ending June 30, 2011 is based on the June 30, 2009 actuarial valuation. The APC for this period was $10.547 million.

- The Plan's annual pension cost (APC) for the fiscal year ending June 30, 2012 is based on the June 30, 2010 actuarial valuation. The APC for this period is $10.361 million.

- The Plan's annual pension cost (APC) for the fiscal year ending June 30, 2013 is based on the June 30, 2011 actuarial valuation. The APC for this period is $10.573 million, the same amount contributed for this period.

- The actuarial liabilities and assets are valued as of the valuation date.

- The actuarial funding method used is the entry age normal method. Under this method the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate.

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

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

Annual Pension Cost and Net Pension Obligation

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

Fiscal Year Ending June 30	Annual Pension Cost (APC) (000's omitted)	Percentage of APC Contributed	Net Pension Obligation (000's omitted)
2009	$3.159	100%	0
2010	$3.431	100%	0
2011	$10.547	100%	0

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 74.8% funded. The actuarial accrued liability for benefits was $397.0 million, and the actuarial value of assets was $296.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of $100.1 million. The covered plan payroll was $4.1 million.

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

Actuarial Methods and Assumptions

The following is a summary of significant June 30, 2011 actuarial assumptions and methods:

Interest rate:	6.5%
Mortality:	CalPERS 1997-2007 Mortality Tables with Scale AA
Retirement:	Sample rates are:

Section 175		Non 175	
Age	Retirement	Age	Retirement
50	0%	50	1%
55	6%	55	6%
60	26%	60	26%
65	40%	65	40%
70	100%	70	100%

Inflation:	3.0%
Salary Scale:	3.0% CPI plus 0.5% Merit
Cost of living:	3% per year increases
Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	3-year smoothed market value
Amortization:	Level Dollar Payments over 15 years, open period

There only change to assumptions in the 2011 valuation was to the mortality tables (post-retirement, and post-retirement disabled).

B. Required Supplementary Information

Schedule of Employer Contribution
(dollars in millions)

Fiscal Year Ending June 30	Annual Pension Costs	Actual Contribution	Percentage Contribution	Net Pension Obligation
2004	-	-	100%	-
2005	-	-	100%	-
2006	-	-	100%	-
2007	-	-	100%	-
2008	$3.534	$3.534	100%	-
2009	$3.159	$3.159	100%	-
2010	$3.431	$3.431	100%	-
2011	$10.547	$10.547	100%	-
2012	$10.361	n/a	n/a	n/a

Schedule of Funding Progress
(dollars in millions)

Actuarial Valuation Date (June 30)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded (Funded) AAL (B-A)	Funded Ratio (A/B)	Covered Total Plan Payroll (C)	Unfunded/ (Funded) AAL as a Percentage of Covered Plan Payroll ([B-A]/C)
2004	394	363	(31)	108%	12.794	(242%)
2005	374	370	(4)	101%	10.480	(382%)
2006	365	395	30	92%	10.277	292%
2007	365	395	30	92%	9.587	313%
2008	360	392	32	92%	8.869	361%
2009	314	398	84	79%	5.749	1461%
2010	297	395	98	75%	5.302	1848%
2011	297	397	100	75%	4.132	2420%

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

Actuarial Cost Method:	Entry Age Normal cost method
Asset Valuation Method:	3 year smoothed market value
Amortization:	Level Dollar Payments over 15 years, open period
Discount rate:	6.5%
Mortality:	CalPERS 1997-2007 Mortality Tables with Scale AA
Inflation:	3%
Salary Scale:	3.0% CPI plus 0.5% Merit
Retirement:	Sample rates are:

Section 175		Non 175	
Age	Retirement	Age	Retirement
50	0%	50	1%
55	6%	55	6%
60	26%	60	26%
65	40%	65	40%
70	100%	70	100%

Cost of Living: 3% per year increases