

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
Report of Independent Auditors
and Financial Statements with
Required Supplementary Information
and Additional Information

December 31, 2014 and 2013

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
FINANCIAL STATEMENTS	
Statements of Plan Net Position	10
Statements of Changes in Plan Net Position	11
Notes to Financial Statements	12-26
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in Net Pension Liability and Related Ratios	27
Schedule of Employer Contributions	28
Schedule of Investment Returns	29
ADDITIONAL INFORMATION	
Schedule of Administrative Expenses	30
Schedule of Investment Expenses	31

INDEPENDENT AUDITORS' REPORT

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Seattle City Employees' Retirement System (SCERS), which comprise the statements of plan net position as of December 31, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCERS as of December 31, 2014 and 2013, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in net pension liability and related ratios, employer contributions and investment returns, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Report on Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 information has been subjected to the auditing procedures applied in the audits 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, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Baltimore, Maryland
June 22, 2015

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013**

This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System or SCERS) financial performance during the years ended December 31, 2014 and 2013. Please read it in conjunction with the accompanying financial statements and the related notes.

The City of Seattle is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Seattle, the Seattle City Employees' Retirement System is subject to this internal control structure. In addition, section 4.36.140.D of the Seattle Municipal Code requires the Board of Administration to annually transmit a report of the financial condition of the System to the City Council.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair value, and revenues include the recognition of unrealized gains and losses. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Milliman Consultants and Actuaries, the consulting actuary, evaluates the funding status of the System.

This report contains the following information:

- 1. Basic Financial Statements** including:
 - a. Statements of Plan Net Position
 - b. Statements of Changes in Plan Net Position
 - c. Notes to the Financial Statements

- 2. Required Supplementary Information** including:
 - a. Schedule of Changes in Net Pension Liability and Related Ratios
 - b. Schedule of Employer Contributions
 - c. Schedule of Investment Returns

- 3. Additional Information** including:
 - a. Schedule of Administrative Expenses
 - b. Schedule of Investment Expenses

The basic financial statements are described as follows:

- The Statement of Plan Net Position shows the account balances at year-end and includes the net position available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the Schedule of Changes in Net Pension Liability and Related Ratios that is included in the Required Supplementary Information.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013**

- The Statement of Changes in Plan Net Position shows the sources and uses of funds during the year and illustrates the change in net position from the previous year.
- The Notes to the Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing plan perspective and the long-term nature of the defined benefit plan.

- The Schedule of Changes in Net Pension Liability and Related Ratios contains actuarial information about the status of the plan.
- The Schedule of Employer Contributions contains historical trend information regarding the value of the total annual contributions the employer must pay and the actual contributions paid by employers in meeting this requirement.

Financial Highlights

- SCERS assets that are held in trust for the payment of future benefits do not exceed the estimate of actuarially accrued liabilities as of December 31, 2014.
- Net position increased by \$106 million (4.8%) during 2014. The primary driver was a \$117 million increase in investment assets and receivables. Net position increased by \$265 million (13.6%) during 2013. The primary driver was a \$266 million increase in investment assets.
- Revenue additions to net position for 2014 were \$276 million which includes member and employer contributions of \$154 million and revenue from investment activity totaling \$122 million. Revenue additions to net position for 2013 were \$427 million which includes member and employer contributions of \$137.4 million and revenue from investment activity totaling \$289.8 million.
- Expenses (deductions from net position) for 2014 increased by \$8.9 million (5.5%) from 2013. This can be primarily attributed to an \$8.8 million increase in retiree benefits. In 2014, the net increase in the number of retirees receiving benefits was 2.4%. Expenses for 2013 increased by \$9.4 million (6.1%) from 2012. This can be primarily attributed to a \$7.3 million increase in retiree benefits. In 2014, the net increase in the number of retirees receiving benefits was 2.9%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013**

Plan Net Position

The table below provides a summary of assets and current liabilities for the years ended December 31:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash, short-term investments and receivables	\$ 133,327,132	\$ 58,102,260	\$ 61,177,463
Investments at fair value	2,222,396,685	2,180,184,714	1,914,325,374
Securities lending collateral	<u>25,231,590</u>	<u>13,595,048</u>	<u>10,154,781</u>
Total assets	<u>2,380,955,407</u>	<u>2,251,882,022</u>	<u>1,985,657,618</u>
Securities lending payable	28,228,622	16,750,032	13,404,350
Other payables	<u>30,023,090</u>	<u>18,223,505</u>	<u>20,817,994</u>
Total liabilities	<u>58,251,712</u>	<u>34,973,537</u>	<u>34,222,344</u>
Total net assets	<u>\$ 2,322,703,695</u>	<u>\$ 2,216,908,485</u>	<u>\$ 1,951,435,274</u>

Changes in Plan Net Position

The table below provides a summary of the changes in plan net position and reflects the activities of the fund for the years ended December 31:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Additions:			
Employer contributions	\$ 89,988,898	\$ 77,073,667	\$ 62,515,432
Member contributions	63,969,504	60,342,581	57,086,346
Net investment and other	<u>122,510,195</u>	<u>289,817,661</u>	<u>230,702,333</u>
Total additions	<u>276,468,597</u>	<u>427,233,909</u>	<u>350,304,111</u>
Deductions:			
Retiree benefits	150,239,008	141,424,206	134,135,553
Refunds of contributions	15,103,615	15,278,136	14,913,574
Administrative expenses	<u>5,330,764</u>	<u>5,058,356</u>	<u>3,343,924</u>
Total deductions	<u>170,673,387</u>	<u>161,760,698</u>	<u>152,393,051</u>
Net increase (decrease)	<u>\$ 105,795,210</u>	<u>\$ 265,473,211</u>	<u>\$ 197,911,060</u>

Revenues - Additions to Net Plan Assets

- In 2014, employer contributions increased by \$12.9 million (16.8%) compared to 2013. In 2013, employer contributions increased by \$14.6 million (23.3%) compared to 2012.
- Member contributions increased by \$3.6 million (6.0%) compared to 2013. In 2013, member contributions increased by \$3.3 million (5.7%) compared to 2012.
- Net investment income was \$122.5 million in 2014 compared to \$289.8 million in 2013 and \$230.7 million in 2012.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013**

Expenses - Deductions from Net Plan Assets

- Retiree benefits increased in 2014 by \$8.8 million (6.2%) compared to 2013, primarily due to the increased number of members making application for retirement and a mandatory 1.5% COLA (Cost of Living Adjustment). As a comparison, retiree benefits increased \$7.3 million (5.4%) in 2013.
- Refunds of contributions decreased in 2014 by \$0.2 million (-1.1%) compared to amounts paid in 2013. In 2013, refunds increased \$0.4 million (2.4%) compared to amounts paid in 2012.

Changes in Plan Membership

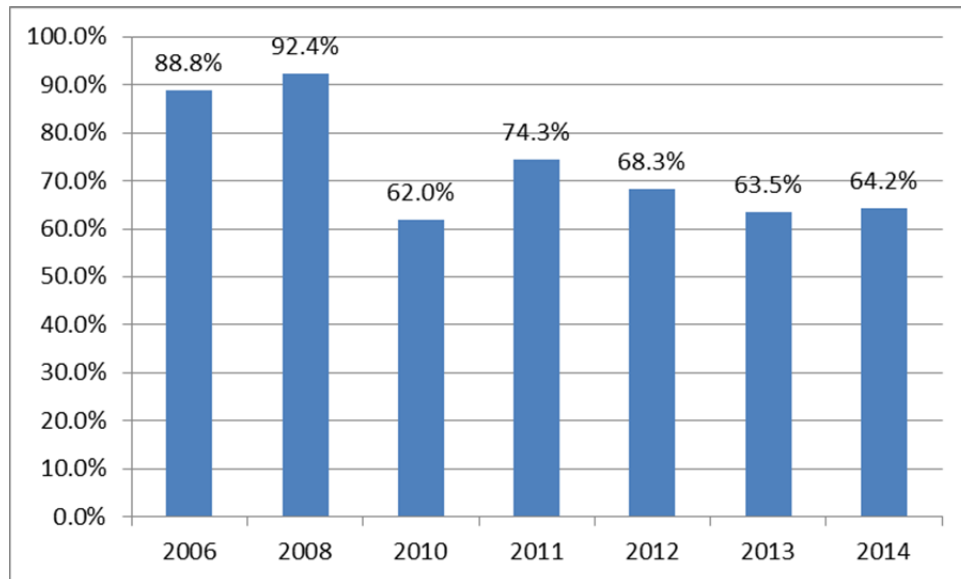
The table below reflects the active membership and retiree changes for the years ended December 31:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Retirees and beneficiaries receiving benefits	<u>6,020</u>	<u>5,880</u>	2.4%
Current and terminated employees:			
Current employee members	8,746	8,604	1.7%
Terminated members entitled to, but not yet receiving benefits, Vested	1,188	1,170	1.5%
Terminated members not entitled to benefits beyond contributions and accumulated interest, Non-Vested	<u>935</u>	<u>866</u>	8.0%
Total	<u>10,869</u>	<u>10,640</u>	2.2%

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013

Funding Status

Schedule of Funding Progress
Funding Ratio
As of January 1st Valuation Date



With the January 1, 2011 Valuation and the 2007-2010 Experience Study, the Board of Administration adopted a policy of asset smoothing over a 5-year period. The reported funding ratio as of January 1, 2012 reflects that change. Prior to January 1, 2011, all funding ratios were reported on a marked-to-market basis.

Funds are accumulated from employer and employee contributions and investment earnings, and are used to pay present and future benefit obligations and administrative expenses. We continue to make a constant effort to achieve a fully funded status, thereby assuring the participants of a financially sound retirement system. In 2014, most active members contributed 10.03% of their salaries to the retirement fund and the City contributed 14.31%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013**

Investment Activities

One-year returns on asset classes and comparative benchmarks are presented in the table below for the years ended December 31:

2014 Investment Performance

Total Portfolio	5.7%
Domestic Equities	13.1%
Benchmark: U.S. Equities Custom Index	10.1%
International Equities	(5.3%)
Benchmark: MSCI ACWI ex US IM/ND	(3.9%)
Fixed Income	5.6%
Benchmark: Barclays U.S. Universal Index	5.6%
Real Return	7.6%
Benchmark: CPI + 3%	3.7%
Private Equity	(2.1%)
Benchmark: ASP Custom Private Equity Index	16.8%
Real Estate	11.2%
Benchmark: Russell NCREIF Property Index	12.4%
Cash	5.8%
Benchmark: Citigroup 3-Month T-Bills	0.0%

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2014 and 2013**

2013 Investment Performance

Total Portfolio	15.5%
Domestic Equities	32.7%
Benchmark: U.S. Equities Custom Index	29.5%
International Equities	17.3%
Benchmark: MSCI ACWI ex US IM/ND	15.8%
Fixed Income	(1.0%)
Benchmark: Barclays U.S. Universal Index	(1.4%)
Real Return	1.9%
Benchmark: CPI + 3%	4.6%
Private Equity	5.6%
Benchmark: Russell 3000 + 3%	25.2%
Real Estate	11.8%
Benchmark: Russell NCREIF Property Index	13.0%
Cash	(0.7%)
Benchmark: Citigroup 3-Month T-Bills	0.1%

The investments of the System are governed primarily by the prudent investor rule. The prudent investor rule, as set forth by the Revised Code of Washington, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The System invests retirement funds for the long-term, anticipating both good and poor performing financial markets. The overall investment portfolio is positioned in a diversified manner to maximize return given the System's risk tolerance.

Contacting the Seattle City Employees' Retirement System

If you have questions about this report or need additional information, please contact us by telephone at: 206.386.1293 or by e-mail at: city.retirement@seattle.gov or you may mail your questions to:

Seattle City Employees' Retirement System
720 Third Avenue, Suite 900
Seattle, WA 98104

FINANCIAL STATEMENTS

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$ 2,726,099	\$ 41,672
Short-term investments	<u>113,206,404</u>	<u>42,433,040</u>
Total cash and short-term investments	<u>115,932,503</u>	<u>42,474,712</u>
Receivables:		
Members	2,901,009	2,737,213
Employer	4,203,851	2,991,610
Interest and dividends	4,052,719	4,171,873
Sales proceeds receivable	<u>6,237,050</u>	<u>5,726,852</u>
Total receivables	<u>17,394,629</u>	<u>15,627,548</u>
Investments, at fair value:		
Fixed income:		
U.S. government obligations	175,685,948	170,500,534
Domestic Corporate bonds	181,902,501	168,108,438
Mortgage-backed	118,076,247	115,343,657
Foreign sovereign	62,846,773	63,253,024
Domestic stocks	743,020,216	700,186,774
International stocks	590,547,932	624,912,362
Real estate	243,557,977	231,616,985
Alternative	<u>106,759,091</u>	<u>106,262,940</u>
Total investments, at fair value	<u>2,222,396,685</u>	<u>2,180,184,714</u>
Securities lending collateral	<u>25,231,590</u>	<u>13,595,048</u>
Total assets	<u>2,380,955,407</u>	<u>2,251,882,022</u>
Liabilities:		
Pensions payable and other	2,286,308	1,876,818
Obligations under securities lending	28,228,622	16,750,032
Investment commitments payable	<u>27,736,782</u>	<u>16,346,687</u>
Total liabilities	<u>58,251,712</u>	<u>34,973,537</u>
Net position held in trust for pension benefits	<u>\$ 2,322,703,695</u>	<u>\$ 2,216,908,485</u>

The accompanying notes are an integral part of these financial statements.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
Additions:		
Contributions:		
Employer	\$ 89,988,898	\$ 77,073,667
Member	<u>63,969,504</u>	<u>60,342,581</u>
Total contributions	<u>153,958,402</u>	<u>137,416,248</u>
Investment activities:		
Investment income:		
Net change in fair value of investments	93,680,606	267,444,451
Interest	11,584,482	8,377,595
Dividends	<u>25,542,523</u>	<u>22,327,842</u>
Net investment income	<u>130,807,611</u>	<u>298,149,888</u>
Securities lending activities:		
Securities lending income	23,941	11,511
Borrowing rebates	<u>216,063</u>	<u>64,217</u>
Total securities lending income	240,004	75,728
Securities lending management fees	<u>(59,989)</u>	<u>(18,925)</u>
Net income from securities lending	<u>180,015</u>	<u>56,803</u>
Investment activity expenses:		
Investment management fees	(7,802,096)	(7,606,049)
Investment consultant fees	(333,389)	(499,140)
Investment custodial fees	<u>(341,946)</u>	<u>(283,841)</u>
Total investment activity expenses	<u>(8,477,431)</u>	<u>(8,389,030)</u>
Net income from investment activities	<u>122,510,195</u>	<u>289,817,661</u>
Total additions	<u>276,468,597</u>	<u>427,233,909</u>
Deductions:		
Benefits	150,239,008	141,424,206
Refunds of contributions	15,103,615	15,278,136
Administrative expenses	<u>5,330,764</u>	<u>5,058,356</u>
Total deductions	<u>170,673,387</u>	<u>161,760,698</u>
Net change	105,795,210	265,473,211
Net position held in trust for pension benefits		
Beginning of year	<u>2,216,908,485</u>	<u>1,951,435,274</u>
End of year	<u>\$ 2,322,703,695</u>	<u>\$ 2,216,908,485</u>

The accompanying notes are an integral part of these financial statements.

Note 1 - Plan Description

The Seattle City Employees' Retirement System (the System) is a single-employer defined benefit public employee retirement plan, covering employees of the City of Seattle and administered in accordance with Chapter 4.36 of the Seattle Municipal Code. The System is a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City of Seattle are eligible for membership in the System with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments were allowed to continue their System membership (there are currently fewer than 50 members in this category). There are currently 6,020 retirees and beneficiaries receiving benefits, and 8,746 active members of the System. There are 1,188 terminated, vested employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - These financial statements have been prepared with an "economic resources" measurement focus on the accrual basis of accounting in accordance with generally accepted accounting principles, as prescribed by the Government Accounting Standards Board.

Government Accounting Standards Board Standard No. 67, *Financial Reporting for Pension Plans*, is effective to fiscal years ending after June 15, 2014 and has been implemented in the financial statements prepared by SCERS for the year ended December 31, 2014. This statement addresses accounting and financial reporting requirements for pension plans that are administered through trusts. GASB 67 requires a change in actuarial calculation of total and net pension liability in addition to changes in the presentation of plan financial statements, expanded note disclosures and additional required supplementary information.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

Use of Estimates in Preparing Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Cash and Short Term Investments - The System classifies cash on deposit in financial institutions and cash on deposit in the City of Seattle's internal cash management pool as cash. The System also recognizes certain short-term highly liquid securities with an original maturity of three months or less as short-term investments.

Method Used to Value Investments - Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of hedge funds, real estate and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investments is based on estimated current values and independent appraisals. The fair value of private equity is based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis. Investments are made in accordance with the Prudent Person Rule as defined by the State of Washington RCW 35.39.060.

Federal Income Tax Status - The System is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under section 501(a).

Contributions - Employee and employer contributions are reported in the year they are due to the System.

Benefits and Refunds of Contributions - Benefits and refunds of contributions are recognized when due and payable in accordance with the System's policy.

Note 3 - Contributions

Member and employer contributions rates are established by the Seattle Municipal Code Chapter 4.36.

The employer contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations.

Actuarially determined contribution rates were 10.03% for most members in 2014 and 2013 and 14.31% and 12.89% for the employer in 2014 and 2013, respectively. There are no long-term contracts for contributions outstanding and currently no legally required reserves. See pg. 28 in the RSI for additional information on assumptions used in calculating the actuarially determined contribution rates.

Note 4 - Cash

SCERS' policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation (FDIC) and Washington Public Deposit Protection Commission (PDPC) insurance. FDIC insures the cash deposits up to \$250,000. As provided by the State of Washington RCW 43.84, the PDPC collateralizes deposits in excess of \$100,000. The bank balances of deposits of a FDIC institution as of the balance sheet date are insured.

Note 5 - Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the SCERS Board by a majority vote of its members. It is the policy of the SCERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2014:

Asset Class	Target Allocation
Equity: Public	51.0%
Equity: Private	7.0%
Fixed Income: Broad	20.0%
Fixed Income: Inflation Linked	5.0%
Real Assets: Real Estate	13.0%
Diversifying Strategies	4.0%
Total	100.0%

Note 5 – Investments (Continued)

Money-weighted rate of return – As of December 31, 2014, the return for the System, based on a money-weighted rate of return methodology was 5.67%.

Short-term investments include a Short-term Investment Fund (STIF), which is a collective trust that may include certificates of deposit, treasury bills, and mutual funds. Alternative investments, as presented in the statement of plan net position, currently include private equity and hedge funds.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of a financial institution or a bank, the System will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The System mitigates custodial credit risk by having its investment securities held by the System's custodian (BNY Mellon) and the investments are registered in the System's name. The System's short-term investments are created through daily sweeps of excess cash by the System's custodian, and invested in a vehicle managed by the custodian.

Credit Risk - Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. In accordance with the System's Investment Policy, the Retirement Board provides each of the System's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that at least 70 percent of the net asset value of a manager's portfolio be invested in investment-grade securities. Managers do not have authority to depart from their guidelines. A summary of the credit ratings of the System's fixed income investments is provided on pages 22 and 23.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the System's Investment Policy, the Retirement Board provides each of the System's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that investments in any one issuer may not exceed 5 percent of the net asset value of a manager's portfolio. Managers do not have authority to depart from their guidelines.

Note 5 – Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. In accordance with the System's Investment Policy, the Retirement Board provides each of the System's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that the weighted average duration of the security holdings of a manager's portfolio not vary from that of the applicable benchmark by more than 20 percent. Managers do not have authority to depart from their guidelines. A summary of the maturities of the System's fixed income investments is provided on pages 20 and 21.

The fixed income portfolio is primarily managed by four external money management firms, hired through a competitive bid process, to manage a diversified portfolio of fixed income securities. Managers have agreed to a set of guidelines that provide ranges and limits for varying types of securities that may be held within the portfolio. A consultant is hired to measure performance and monitor the investment style. The Investment Committee reviews the consultant's results quarterly.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily reside within the non-U.S. equity and fixed income investment holdings. The System expects these managers to maintain adequately diversified portfolios to limit foreign currency and security risk.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 – Investments (Continued)

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2014, is summarized in the following table.

<u>Currency Type</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Derivatives</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$ 1,141,827	\$ -	\$ 4,062,374	\$ 19,059	\$ 5,223,260
Brazil Real	-	(1,476)	(27,623)	-	(29,099)
Canadian Dollar	-	717,850	8,700,730	6,590	9,425,170
Columbian Peso	-	560,553	(555,224)	-	5,329
Danish Krone	2,434,401	2,336,600	(3,303,226)	3,584	1,471,359
Euro Currency Unit	22,713,984	12,006,124	(10,570,506)	155,743	24,305,345
Hong Kong Dollar	6,842,068	-	(4,054,212)	24,289	2,812,145
Hungarian Forint	-	-	5,514	-	5,514
Indian Rupee	-	-	1,158,506	-	1,158,506
Israeli Shekel	-	-	531,078	62	531,140
Japanese Yen	5,325,096	201,102	11,251,909	14,039	16,792,146
Mexican New Peso	-	4,331,428	(1,278,420)	170,947	3,223,955
New Zealand Dollar	-	2,199,187	(1,624,088)	27,934	603,033
Norwegian Krone	8,215,377	-	(6,929,488)	231	1,286,120
Polish Zloty	-	-	2,290	-	2,290
Pound Sterling	23,151,493	17,901,666	(21,728,329)	1,315	19,326,145
Singapore Dollar	1,050,744	-	248,905	2,999	1,302,648
South Korean Won	-	-	2,904	-	2,904
Swedish Krona	2,048,254	759,310	54,935	485	2,862,984
Swiss Franc	6,032,773	-	2,379,905	49,834	8,462,512
Total	\$ 78,956,017	\$ 41,012,344	\$ (21,672,066)	\$ 477,111	\$ 98,773,406

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2013, is summarized in the following table.

<u>Currency Type</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Derivatives</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$ -	\$ 1,087,191	\$ 5,882,599	\$ (4)	\$ 6,969,786
Brazil Real	-	-	5,433	-	5,433
Canadian Dollar	-	2,719,197	6,516,322	43,669	9,279,188
Swiss Franc	10,138,640	-	(863,285)	332	9,275,687
Danish Krone	3,467,391	1,511,621	(3,944,188)	465	1,035,289
Euro Currency Unit	29,419,691	9,085,820	(8,351,423)	161,609	30,315,697
Mexican New Peso	-	-	-	-	-
New Zealand Dollar	-	-	-	-	-
Pound Sterling	26,906,355	21,503,088	(27,240,340)	31,695	21,200,798
Hong Kong Dollar	6,231,414	-	(3,380,084)	24	2,851,354
Israeli Shekel	-	-	453,355	-	453,355
Japanese Yen	7,432,956	6,792	-	40,151	7,479,899
Swedish Krona	-	-	-	-	-
Total	\$ 83,596,447	\$ 35,913,709	\$ (30,921,611)	\$ 277,941	\$ 88,866,486

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 – Investments (Continued)

Derivatives - Foreign exchange forward contracts are periodically employed by the System to hedge currency risk of investments in foreign currencies. Generally, derivatives are subject both to market and to counterparty risk. The derivatives used by the System typically have no greater risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the “other party” to a contract will default, is managed by careful screening of counterparties. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System’s pending derivative transactions as of December 31, 2014 are summarized in the following table.

<u>Currency Type</u>	<u>Purchases</u>	<u>Unrealized Gain/Loss</u>	<u>Sells</u>	<u>Unrealized Gain/Loss</u>	<u>Total Unrealized Gain/Loss</u>
Australian Dollar	\$ 7,184,808	\$ 14,308	\$ 11,507,361	\$ (274,487)	\$ (260,179)
Brazil Real	89,956	2,408	60,957	(1,032)	1,376
Canadian Dollar	1,201,114	6,422	10,016,444	(121,026)	(114,604)
Columbian Peso	591,210	25,669	12,873	(2,556)	23,113
Danish Krone	3,713,259	108,031	309,197	(7,195)	100,836
Euro Currency Unit	34,931,154	702,124	24,100,289	(441,765)	260,359
Hong Kong Dollar	4,054,998	786	-	-	786
Hungarian Forint	300,858	22,123	303,124	(18,876)	3,247
Indian Rupee	-	-	1,175,662	(17,155)	(17,155)
Israeli Shekel	-	-	535,587	(4,509)	(4,509)
Japanese Yen	15,773,777	74,557	27,145,273	(194,143)	(119,586)
Mexican New Peso	1,354,593	66,262	9,962	(50)	66,212
New Zealand Dollar	3,484,950	(12,763)	1,862,745	10,880	(1,883)
Norwegian Krone	9,085,550	798,836	1,430,071	(72,846)	725,990
Polish Zloty	194,131	11,869	196,132	(11,581)	288
Pound Sterling	39,983,884	65,809	18,129,997	59,747	125,556
Singapore Dollar	-	-	256,200	(7,295)	(7,295)
South Korean Won	228,900	1,100	227,851	2,851	3,951
Swedish Krona	765,917	41,626	831,525	(52,300)	(10,674)
Swiss Franc	300,064	4,936	2,751,374	(76,341)	(71,405)
Total	<u>\$ 123,239,123</u>	<u>\$ 1,934,103</u>	<u>\$ 100,862,624</u>	<u>\$ (1,229,679)</u>	<u>\$ 704,424</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 – Investments (Continued)

The System's pending derivative transactions as of December 31, 2013 are summarized in the following table.

<u>Currency Type</u>	<u>Purchases</u>	<u>Unrealized Gain/Loss</u>	<u>Sells</u>	<u>Unrealized Gain/Loss</u>	<u>Total Unrealized Gain/Loss</u>
Australian Dollar	\$ 9,686,759	\$ (38,879)	\$ 15,681,130	\$ (72,893)	\$ (111,772)
Brazil Real	281,246	6,968	281,246	(1,535)	5,433
Canadian Dollar	3,592,050	9,004	10,128,543	(29,175)	(20,171)
Swiss Franc	916,574	(18,853)	68,843	3,299	(15,554)
Danish Krone	5,949,187	(141,444)	2,131,998	14,445	(126,999)
Euro Currency Unit	18,421,729	(224,559)	10,279,455	15,410	(209,149)
Mexican New Peso	-	-	-	-	-
New Zealand Dollar	-	-	-	-	-
Pound Sterling	49,859,003	(922,795)	23,174,228	367,230	(555,565)
Hong Kong Dollar	6,760,529	587	3,380,095	(237)	350
Israeli Shekel	-	-	448,679	4,676	4,676
Japanese Yen	-	-	-	-	-
Swedish Krona	-	-	-	-	-
Total	<u>\$ 95,467,077</u>	<u>\$ (1,329,971)</u>	<u>\$ 65,574,217</u>	<u>\$ 301,220</u>	<u>\$ (1,028,751)</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 - Investments (Continued)

As of December 31, 2014, the fixed income portfolio of the System had the following investment maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u><1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>>10</u>
Fixed income					
U.S. Government:					
Treasury Notes and Bonds	\$ 118,202,355	\$ 20,439,937	\$ 55,823,557	\$ 31,534,478	\$ 10,404,383
Treasury Inflation-Protected Securities	47,100,605	16,841,953	5,498,120	9,596,321	15,164,211
Agencies	5,432,209	-	2,339,627	868,768	2,223,814
Municipal	4,950,780	1,455,033	438,169	402,215	2,655,363
Mortgage-Backed:					
Government Pass Through	78,783,268	27,206,174	-	3,673,761	47,903,333
Corporate Pass Through	12,958,250	-	-	-	12,958,250
Government CMO's	26,334,729	1,857,512	4,460,189	2,152,034	17,864,994
Corporate:					
Bonds	112,564,098	55,499,919	25,801,218	16,668,296	14,594,665
Asset-Backed	11,243,209	3,154,405	3,240,332	2,674,324	2,174,148
Private Placement	58,095,195	1,939,694	15,196,111	13,494,777	27,464,613
Foreign Sovereign:					
Bonds	62,846,772	20,388,618	3,846,310	18,547,894	20,063,950
Total Fixed Income	<u>\$ 538,511,470</u>	<u>\$ 148,783,245</u>	<u>\$ 116,643,633</u>	<u>\$ 99,612,868</u>	<u>\$ 173,471,724</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 - Investments (Continued)

As of December 31, 2013, the fixed income portfolio of the System had the following investment maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u><1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>>10</u>
Fixed income					
U.S. Government:					
Treasury Notes and Bonds	\$ 122,316,986	\$ 610,638	\$ 36,785,971	\$ 49,300,987	\$ 35,619,390
Treasury Inflation-Protected Securities	37,842,158	-	-	30,323,082	7,519,076
Agencies	4,678,602	-	1,803,905	844,951	2,029,746
Municipal	4,454,752	-	390,736	1,640,468	2,423,548
Mortgage-Backed:					
Government Pass Through	76,560,976	-	29,645,181	3,608,396	43,307,399
Corporate Pass Through	12,794,720	-	-	-	12,794,720
Government CMO's	17,223,784	-	3,269,207	637,059	13,317,518
Corporate:					
Bonds	129,670,754	13,436,569	55,415,593	43,032,277	17,786,315
Asset-Backed	16,419,562	-	6,841,407	3,306,782	6,271,373
Private Placement	23,547,117	1,719,885	13,829,186	1,090,964	6,907,082
Foreign Sovereign:					
Bonds	<u>63,364,293</u>	<u>1,262,527</u>	<u>23,326,020</u>	<u>27,091,473</u>	<u>11,684,273</u>
Total Fixed Income	<u>\$ 508,873,704</u>	<u>\$ 17,029,619</u>	<u>\$ 171,307,206</u>	<u>\$ 160,876,439</u>	<u>\$ 159,660,440</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 - Investments (Continued)

As of December 31, 2014, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed income									
U.S. Government:									
Treasury Notes and Bonds	\$ 118,202,356	\$ -	\$ 99,993,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,209,262
Treasury Inflation-Protected Securities	47,100,605	-	30,258,652	-	-	-	-	-	16,841,953
Agencies	5,432,208	-	5,362,816	-	-	-	-	-	69,392
Municipal	4,950,780	858,210	1,184,991	1,452,546	-	-	-	-	1,455,033
Mortgage-Backed:									
Government Pass Through	78,783,268	-	51,577,094	-	-	-	-	-	27,206,174
Corporate Pass Through	12,958,250	2,333,186	563,710	1,965,771	1,502,852	21,218	-	-	6,571,513
Government CMO's	26,334,729	-	14,307,194	261,999	281,352	827	-	426,067	11,057,290
Corporate:									
Bonds	112,564,098	1,794,396	6,355,841	35,936,301	29,849,036	1,283,586	-	-	37,344,938
Asset-Backed	11,243,209	5,162,148	1,942,647	23,483	-	-	94,137	728,351	3,292,443
Private Placement	58,095,195	2,729,565	11,054,997	17,036,954	13,098,009	3,159,011	2,361,999	701,647	7,953,013
Foreign Sovereign:									
Bonds	62,846,773	2,579,623	2,199,187	4,724,281	2,141,182	-	-	-	51,202,500
Total Fixed Income	\$ 538,511,471	\$ 15,457,128	\$ 224,800,223	\$ 61,401,335	\$ 46,872,431	\$ 4,464,642	\$ 2,456,136	\$ 1,856,065	\$ 181,203,511

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Note 5 - Investments (Continued)

As of December 31, 2013, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed income									
U.S. Government:									
Treasury Notes and Bonds	\$ 122,316,986	\$ -	\$ 104,679,740	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,637,246
Treasury Inflation-Protected Securitie	37,842,158	-	21,566,245	-	-	-	-	-	16,275,913
Agencies	4,678,602	-	4,663,347	-	-	-	-	-	15,255
Municipal	4,454,752	793,166	667,915	1,711,606	-	-	-	-	1,282,065
Mortgage-Backed:									
Government Pass Through	76,560,976	-	38,158,570	-	-	-	-	-	38,402,406
Corporate Pass Through	12,794,720	1,849,834	570,061	1,280,598	1,975,063	165,427	-	-	6,953,737
Government CMO's	17,223,784	218,278	12,076,920	872,270	680,557	1,652,353	243,944	970,027	509,435
Corporate:									
Bonds	129,670,754	665,800	9,459,943	42,601,229	36,483,968	2,778,653	-	-	37,681,161
Asset-Backed	16,419,562	6,524,717	2,966,689	265,540	161,712	431,980	1,049,170	904,321	4,115,433
Private Placement	23,547,117	2,578,620	3,819,344	5,365,272	5,591,885	67,950	-	394,075	5,729,971
Foreign Sovereign:									
Bonds	63,364,293	5,922,992	3,144,595	3,023,151	1,957,227	599,910	-	-	48,716,418
Total Fixed Income	\$ 508,873,704	\$ 18,553,407	\$ 201,773,369	\$ 55,119,666	\$ 46,850,412	\$ 5,696,273	\$ 1,293,114	\$ 2,268,423	\$ 177,319,040

Note 6 – Securities Lending Transactions

Under the authority of State of Washington RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Through a custodial agent, the System participates in a securities lending program whereby securities are lent for the purpose of generating additional income to the System. The System lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent, providing a margin against a decline in the market value of the collateral, and is limited to a volume of less than \$75 million. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income it is due on the securities lent. Cash and U.S. government securities were received as collateral for these loans. The System invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the System must return the cash collateral to the borrower upon the expiration of the loan. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity.

As of December 31, 2014, the fair value of securities on loan was \$27,013,522. Associated cash collateral totaling \$28,228,622 was received. The fair market value of the reinvested collateral was \$25,231,590 at December 31, 2013, which includes an unrealized loss totaling \$2,997,032.

As of December 31, 2013, the fair value of securities on loan was \$16,366,597. Associated cash collateral totaling \$16,750,032 was received. The fair market value of the reinvested collateral was \$13,595,048 at December 31, 2012, which includes an unrealized loss totaling \$3,154,984.

Note 7 – Commitments

The System has entered into capital commitments to fund partnership interests in certain alternative investments. At December 31, 2014, the System has unfunded commitments of \$296,265,806 to these partnerships.

Note 8 – Net Pension Liability

The components of the net pension liability as of December 31, 2014 were as follows:

Total Pension Liability	\$3,430,722,236
Plan Fiduciary Net Position	<u>2,322,703,695</u>
Net Pension Liability	<u>\$1,108,018,541</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.7%
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Note 8 – Net Pension Liability (Continued)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2014, and rolled forward using generally accepted actuarial procedures to December 31, 2014, using the following actuarial assumptions, applied to all periods including the measurement period:

Investment Rate of Return:	7.50% compounded annually, net of expenses
Salary Increases:	4.00%
Mortality:	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

- * The investment return assumption was changed from 7.75% from the prior year valuation to 7.50% for the current year valuation.
- * The annual assumed membership growth was reduced from 1.0% to 0.5% for the current year valuation.
- * The actuarial assumptions used in the January 1, 2014 valuation, and the mortality tables included in Appendix A of the valuation, were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 (see discussion of pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity: Public	4.93%
Equity: Private	6.50%
Fixed Income: Broad	1.35%
Fixed Income: Inflation Linked	1.25%
Real Assets: Real Estate	3.25%
Diversifying Strategies	3.75%

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014 and 2013

Note 8 – Net Pension Liability (Continued)

The above table reflects the expected (30 year) real rate of return for each major asset class. The expected inflation rate is projected at 3.25% for the same time period.

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the discount rate of 7.50%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
\$1,529,053,497	\$1,108,018,741	\$753,951,334

REQUIRED SUPPLEMENTARY INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
(Dollar Amounts in Millions)

	<u>December 31, 2014</u>
Total pension liability	
Service Cost	\$ 94,017,562
Interest	241,885,785
Benefit changes	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefits payments	(150,239,008)
Refunds of contributions	<u>(15,103,615)</u>
Net change in total pension liability	170,560,724
Total pension liability - beginning	<u>3,260,161,712</u>
Total pension liability - ending (a)	<u>3,430,722,436</u>
Plan net position	
Contributions - employer	89,988,898
Contributions - member	63,969,504
Net investment income	122,510,195
Benefits payments	(150,239,008)
Administrative expense	(5,330,764)
Refunds of contributions	(15,103,615)
Other	-
Net change in plan net position	<u>105,795,210</u>
Plan net position - beginning	<u>2,216,908,485</u>
Plan net position - ending (b)	<u>2,322,703,695</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,108,018,741</u>
Ratio of plan net position to total pension liability -- (b) / (a)	67.70%
Covered employee payroll	\$ 630,926,000
Net pension liability as a percentage of covered-employee payroll	175.62%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar Amounts in Millions)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	\$ 94,018,000	\$ 83,770,119	\$ 67,061,747	\$ 72,346,935	\$ 93,923,454	\$ 46,933,422	\$ 46,245,324	\$ 40,114,562	\$ 37,754,849	\$ 34,094,865
Actual employer contributions	89,988,898	77,073,667	62,515,432	50,301,263	45,224,787	46,650,169	45,961,040	40,299,506	37,939,358	35,897,345
Annual contribution deficiency (excess)	4,029,102	6,696,452	4,546,315	22,045,672	48,698,667	283,253	284,284	(184,944)	(184,509)	(1,802,480)
Covered-employee payroll	630,926,000	597,900,000	567,800,000	557,000,000	563,200,000	580,900,000	572,400,000	501,900,000	472,500,000	447,000,000
Actual contributions as a percentage of covered-employee payroll	14.26%	12.89%	11.01%	9.03%	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, one year prior to the fiscal year in which the contributions will apply.

Methods and Assumptions used to determine contribution rates for fiscal year 2014 are:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Remaining amortization period	Closed 30 years as of January 1, 2013 Valuation
Asset valuation method	5 years smoothed, Non-asymptotic
Inflation	3.25%
Salary increases	4.00%, differs slightly from actuarial valuation due to exclusion of 0.50% active membership growth assumption for GASB calculations.
Investment rate of return	7.50%, net of pension plan investment expense, and gross of administrative expenses
Cost of Living Adjustments	As noted in the January 1, 2014 actuarial valuation.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS
(Dollar Amounts in Millions)

2014

Total Portfolio	5.67%
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Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

ADDITIONAL INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
Years Ended December 31, 2014 and 2013

	Budget	Actual Expense	
	2014	2014	2013
Personnel Services			
Salaries	\$ 1,668,433	\$ 1,799,299	\$ 1,503,736
Benefits	<u>590,786</u>	<u>591,828</u>	<u>824,854</u>
Total Personnel Services	<u>2,259,219</u>	<u>2,391,127</u>	<u>2,328,590</u>
Maintenance and Operations			
Professional Services	682,341	1,132,389	1,022,691
Office rent	215,853	209,299	229,996
Data processing and central costs	1,230,825	1,270,343	1,197,169
Office supplies and other expenses	272,187	236,716	188,758
Postage and telephone	56,533	45,673	46,096
Travel	65,387	34,004	31,360
Training	<u>18,782</u>	<u>11,213</u>	<u>13,696</u>
Total Maintenance and Operations	<u>2,541,908</u>	<u>2,939,637</u>	<u>2,729,766</u>
Total Administrative Expenses	<u>\$ 4,801,127</u>	<u>\$ 5,330,764</u>	<u>\$ 5,058,356</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT EXPENSES
Year Ended December 31, 2014

Investment Management Fees:

Attucks Cap	\$	38
Babson Tower Square Partners II		37,916
BlackRock		517,220
Bison Capital Equity Partners II		13,899
Capri		15,932
Carlyle Mezzanine Partners		136,834
Dimensional		321,957
Enhanced RAFI International		344,270
Fisher Investments		766,927
Jp Morgan		2,204,661
Nogales Investors Fund II		41,416
Oaktree Capital Mezzanine Fund II		60,073
Parametic		365,201
PCCP		79,241
PIMCO		1,305,773
Pugh Capital		194,538
Reams Asset Management		345,146
Rhumbine		113,707
Russell		225,673
Smith Whiley Pelham Fund III		70,939
TA Associates		282,790
Western Asset Management		357,945
Total Investment Management Fees		7,802,096

Performance Measurement:

Pension Consulting Alliance		114,570
NEPC		218,819

Custodial Services:

Bank of New York Mellon		341,946
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Total Investment Expenses

\$ 8,477,431

Securities Lending Services:

Bank of New York Mellon		\$ 59,989
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