

**SEATTLE CITY EMPLOYEES'  
RETIREMENT SYSTEM**

**Report of Independent Auditors  
and Financial Statements with  
Required Supplementary Information  
and Additional Information**

**December 31, 2011 and 2010**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of plan net assets of the Seattle City Employees' Retirement System (the "System"), a pension trust fund of the City of Seattle, as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System'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 audits 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 the System's 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 status of the System as of December 31, 2011 and 2010, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Employer Contributions be presented to supplement the financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 audit 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of administrative and investment expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The schedules of administrative and investment expenses have 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 schedules of administrative and investment expenses are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory, actuarial, and statistical sections included in the Annual Report are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

*Moss Adams LLP*

Seattle, Washington  
June 28, 2012

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

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This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System) financial performance during the year ended December 31, 2011. 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 Assets
  - b. Statements of Changes in Plan Net Assets
  - c. Notes to the Financial Statements
- 2. Required Supplementary Information** including:
  - a. Schedule of Funding Progress
  - b. Schedule of Employer Contributions
- 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 Assets shows the account balances at year-end and includes the net assets 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 Funding Progress that is included in the Required Supplementary Information.
- The Statement of Changes in Plan Net Assets shows the sources and uses of funds during the year and illustrates the change in net assets from the previous year.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**

- 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 Funding Progress 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 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, 2011.
- Net assets decreased by \$59 million (3.3%) during 2011. The primary drivers were a \$119 million decrease in investment assets and a 9.2% increase in retiree benefits.
- Revenue for 2011 was \$85 million which includes member and employer contributions of \$100.7 million and loss from investment activity totaling \$15.8 million.
- Expenses (deductions from net assets) for 2011 increased by \$12.6 million (9.5%) from 2010. This can be primarily attributed to a \$10.4 million increase in retiree benefits and a \$1.9 million increase in contribution refunds compared to 2010. In 2011, the net increase in the number of retirees receiving benefits was 2.8%.

**Plan Net Assets**

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

	2011	2010	2009
Cash, short-term investments and receivables	\$ 70,582,367	\$ 21,115,635	\$ 34,520,842
Investments at fair value	1,687,864,677	1,806,418,126	1,624,966,184
Securities lending collateral	3,489,721	33,896,148	36,491,886
Equipment	-	-	2,273
<b>Total assets</b>	<b>1,761,936,765</b>	<b>1,861,429,909</b>	<b>1,695,981,185</b>
Securities lending payable	6,911,249	37,295,301	40,437,944
Other payables	1,501,302	11,380,120	10,245,892
<b>Total liabilities</b>	<b>8,412,551</b>	<b>48,675,421</b>	<b>50,683,836</b>
<b>Total net assets</b>	<b>\$ 1,753,524,214</b>	<b>\$ 1,812,754,488</b>	<b>\$ 1,645,297,349</b>



**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**

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**Changes in Plan Net Assets**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Additions</b>			
Employer contributions	\$ 50,301,263	\$ 45,224,787	\$ 46,650,169
Member contributions	50,415,119	45,364,624	46,613,886
Net investment and other	<u>(15,740,371)</u>	<u>208,528,529</u>	<u>194,905,072</u>
Net additions	<u>84,976,011</u>	<u>299,117,940</u>	<u>288,169,127</u>
<b>Deductions</b>			
Retiree benefits	124,061,630	113,650,795	108,138,820
Refunds of contributions	16,677,021	14,715,000	9,742,692
Administrative expenses	<u>3,467,634</u>	<u>3,295,006</u>	<u>2,416,745</u>
Total deductions	<u>144,206,285</u>	<u>131,660,801</u>	<u>120,298,257</u>
Net increase (decrease)	<u>\$ (59,230,274)</u>	<u>\$ 167,457,139</u>	<u>\$ 167,870,870</u>

**Revenues - Additions to Net Plan Assets**

- In 2011, employer contributions increased by \$5.1 million (11.2%) compared to 2010. In 2010, employer contributions decreased by \$1.4 million (3.1%) compared to 2009.
- Member contributions increased by \$5.1 million (11.1%) compared to 2010. In 2010 member contributions decreased by \$1.3 million (2.7%) compared to 2009.
- Net investment change and other income was a loss of \$15.8 million in 2011 compared to a gain of \$209 million in 2010.

**Expenses - Deductions from Net Plan Assets**

- Retiree benefits increased in 2011 by \$10.4 million (9.2%) compared to 2010, 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 \$5.5 million (5.1%) in 2010.
- Refunds of contributions increased in 2011 by \$2 million (13.3%) compared to amounts paid in 2010. In 2010, refunds increased \$5 million (51%) compared to amounts paid in 2009.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

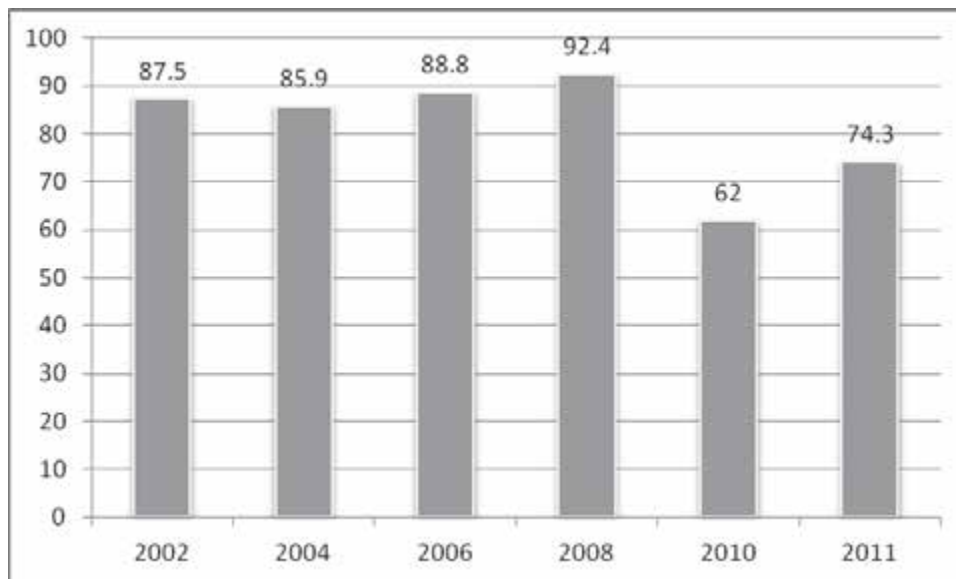
**Changes in Plan Membership**

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Retirees and beneficiaries receiving benefits	<u>5,580</u>	<u>5,428</u>	2.8%
Current and terminated employees entitled to, but not yet receiving benefits			
Current employee members	8,426	8,599	(2.0%)
Vested employee members	<u>2,051</u>	<u>1,998</u>	2.7%
Total	<u>10,477</u>	<u>10,597</u>	(1.1%)

**Funding Status**

**Schedule of Funding Progress  
Funding Ratio  
As of January 1<sup>st</sup> Valuation Date**



With the January 1, 2011 Valuation and the 2007-2010 Experience Study; the Board of Administration adopted a policy of asset smoothing the funding ratio over a 5 year period. The reported funding ratio as of January 1, 2011 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 2011, most active members contributed 9.03% of their salaries to the retirement fund and the City contributes 9.03%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**

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**Investment Activities**

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

2011 Investment Performance

Total Portfolio	(0.0%)
Domestic Equities	0.4%
Benchmark: Russell 3000 Index	1.0%
International Equities	(12.8%)
Benchmark: MSCI EAFE Index ND	(12.1%)
Fixed Income	7.0%
Benchmark: Barclays U.S. Universal Index	7.4%
Real Return	0.7%
Benchmark: CPI + 3%	6.3%
Private Equity	12.3%
Benchmark: Russell 3000 + 3%	3.6%
Real Estate	11.9%
Benchmark: Russell NCREIF Property Index	18.3%
Cash	1.0%
Benchmark: 91-Day T-bills	0.1%

2010 Investment Performance

Total Portfolio	13.2%
Domestic Equities	21.4%
Benchmark: Russell 3000 Index	16.9%
International Equities	12.8%
Benchmark: MSCE EAFE Index	8.2%
Fixed Income	7.4%
Benchmark: Barclays Capital Aggregate	7.2%
Real Estate	0.1%
Benchmark: Russell NCREIF Property Index	5.8%
Alternative Investments	6.8%
Benchmark: Treasury Bills + 5%	3.3%
Mezzanine Debt	10.8%
Benchmark: 9% Assumption	9.0%
Cash	2.7%
Benchmark: 91-Day T-bills	0.1%

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

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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.

In 2011, the SCERS portfolio experienced a flat return on investment assets. The broader equity markets (e.g., the S&P 500; the Russell 3000, etc.) all experienced a flat return on performance. 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](mailto:City.Retirement@Seattle.gov) or you may mail your questions to:

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

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENTS OF PLAN NET ASSETS  
DECEMBER 31, 2011 AND 2010

	2011	2010
Assets		
Cash and equity in pooled investments	\$ 1,775,988	\$ 12,882,916
Short-term investment funds	62,878,234	3,183,239
Securities lending collateral held	3,489,721	33,896,148
Total cash and short-term investments	68,143,943	49,962,303
Receivables		
Member contributions	2,110,074	1,864,510
Employer contributions	1,536,698	1,438,899
Interest and dividends	2,281,373	1,746,071
Total receivables	5,928,145	5,049,480
Investments, at fair value		
Fixed income		
U.S. Government obligations	82,648,609	75,344,540
Corporate bonds	137,745,087	95,241,727
Mortgage backed	130,049,800	86,955,883
Government related and other	21,303,889	22,296,344
Domestic stocks	506,950,005	757,207,813
International stocks	417,843,380	368,335,407
Real estate	208,281,171	191,755,600
Alternative	183,042,736	209,280,812
Total investments	1,687,864,677	1,806,418,126
Total assets	1,761,936,765	1,861,429,909
Liabilities		
Pensions payable and other	1,501,302	11,380,120
Securities lending obligation	6,911,249	37,295,301
Total liabilities	8,412,551	48,675,421
Net assets held in trust for pension benefits	\$ 1,753,524,214	\$ 1,812,754,488

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 50,301,263	\$ 45,224,787
Member	50,415,119	45,364,624
Total contributions	100,716,382	90,589,411
Investment activities		
Investment income		
Net change in fair value of investments	(36,063,232)	201,147,296
Interest	8,585,693	8,542,125
Dividends	19,183,795	7,063,945
Net investment income (loss)	(8,293,744)	216,753,366
Investment activity expenses		
Investment management fees	(6,983,854)	(7,806,465)
Performance consultant fees	(364,140)	(370,810)
Investment custodial fees	(144,093)	(111,851)
Total investment activity expenses	(7,492,087)	(8,289,126)
Net income (loss) from investment activities	(15,785,831)	208,464,240
Securities lending activities		
Securities lending income	60,594	85,693
Securities lending expenses		
Management fees	(15,134)	(21,404)
Net income from securities lending activities	45,460	64,289
Net additions	84,976,011	299,117,940
<b>DEDUCTIONS</b>		
Benefits	124,061,630	113,650,795
Refunds of contributions	16,677,021	14,715,000
Administrative expenses	3,467,634	3,295,006
Total deductions	144,206,285	131,660,801
<b>NET CHANGE</b>	(59,230,274)	167,457,139
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	1,812,754,488	1,645,297,349
End of year	\$ 1,753,524,214	\$ 1,812,754,488

### 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 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 5,580 retirees and beneficiaries receiving benefits, and 8,426 active members of the System. There are 2,051 terminated 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** - The financial statements were prepared using the accrual basis of accounting.

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

**Method Used to Value Investments** - U.S. equities, non-U.S. equities, U.S. fixed income, non-U.S. fixed income, and short-term investments are reported at fair market value, which is based on the quoted market price. Private equity and real estate equities are reported at fair value which has been determined by independent appraisers and, to a limited extent, in-house appraisers. The investment portfolio includes a \$12.85 million reserve for potential losses on certain investments. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. 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.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

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

**Contributions** - Member and employer contributions are reported in the period and for the calendar year in which the contributions are due.

**Equipment and Fixtures** - Equipment and fixtures are stated at actual cost less accumulated depreciation. Estimated useful lives of major classes include three years for computer equipment and 15 years for office furniture and equipment. The straight-line method of depreciation method is used.

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

**Reclassifications** - Certain reclassifications have been made to prior year amounts to conform to the presentation used in the current year. These reclassifications had no effect on the change in net assets held in trust for pension benefits.

**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 biannual actuarial valuations.

Actuarially determined contribution rates were 9.03% for most members and 9.03% for the employer. There are no long-term contracts for contributions outstanding and currently no legally required reserves.

As of January 1, 2011, the most recent valuation date, the funded status of the fund was 74.3%. The schedule of funding progress, immediately following the notes to the financial statements, presents multi-year trend information about the funded status, actuarial value of assets, and actuarial accrued liability.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	January 1, 2011
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	Does not amortize at current rate
Asset valuation method	Five-year asset smoothing applied retroactively, effective January 1, 2011



**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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**Note 3 - Contributions (Continued)**

Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	4.00%
Post-retirement benefit increases	1.50% annual COLA and 65% Restoration of Purchasing Power
Funding progress:	
Actuarial value of assets	\$ 2,013.7 million
Actuarial accrued liability	\$ 2,709.0 million
Unfunded actuarial accrued liability	\$ 695.4 million

\* Includes inflation as a cost-of-living adjustment at 3.5%.

**Note 4 - Cash and Equity in Pooled Investments**

The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to \$250,000. As provided by the State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (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**

The System's investments include investments that are insured or registered or securities and interests held by the System or its agents in the System's name.

Short-term investment funds (STIF) represent a collective trust that may include certificates of deposit, treasury bills, and mutual funds. The Alternative Investments category currently includes private equity, hedge funds and real estate funds.

**Custodial Credit Risk** - 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. Additionally, the System keeps on hand with the City of Seattle such cash dollar amounts to support two months equivalent of pension payments and other administrative expenses.

**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.

**Note 5 - Investments** (Continued)

**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.

**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.

**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 international equity investment holdings. The System expects these managers to maintain adequately diversified portfolios to limit foreign currency and security risk.

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.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**Note 5 - Investments (Continued)**

As of December 31, 2011, the fixed income portfolio of the System had the following investment maturities and ratings:

Investment	Fair Value	Investment Maturities (in years)			
		< 1	1 - 5	6 - 10	> 10
<b>Fixed Income</b>					
U.S. Government					
Treasury Notes and Bonds	\$ 53,835,379	\$ 12,578,673	\$ 13,747,836	\$ 1,633,357	\$ 25,875,513
Treasury Inflation-Protected Securities	14,966,305	686,532	-	14,279,773	-
Agencies	13,846,925	6,038,432	3,470,347	3,079,654	1,258,492
Mortgage-Backed					
Government Pass Through	102,253,384	-	32,067,788	7,563,747	62,621,849
Corporate Pass Through	10,216,034	943,657	-	-	9,272,377
Government CMO's	17,580,381	4,423,168	473,156	585,593	12,098,464
Corporate					
Bonds	102,610,281	1,115,698	16,560,939	70,435,808	14,497,836
Asset-Backed	33,535,103	10,699,036	10,516,455	6,447,022	5,872,590
Private Placements	1,599,704	531,732	696,522	356,014	15,436
Government Related and Other					
Foreign Sovereign	16,150,802	794,472	-	-	15,356,330
Municipal	5,050,915	388,738	298,214	1,015,477	3,348,486
Other	102,172	68,945	-	-	33,227
	<u>\$ 371,747,385</u>	<u>\$ 38,269,083</u>	<u>\$ 77,831,257</u>	<u>\$ 105,396,445</u>	<u>\$ 150,250,600</u>

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**Note 5 - Investments (Continued)**

Investment	Fair Value	Ratings										Not Rated
		AAA	AA	A	BBB	BB	B	CCC & Below				
<b>Fixed Income</b>												
U.S. Government Treasury Notes and Bonds	\$ 53,835,379	\$ -	\$ 53,835,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Treasury Inflation-Protected Securities Agencies	14,966,305 13,846,925	13,708,618 -	1,257,687 12,785,884	- 1,061,041	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage-Backed Government Pass Through	102,253,384	32,067,787	35,347,995	-	-	-	-	-	-	-	-	34,837,602
Corporate Pass Through Government CMO's	10,216,034 17,580,381	7,407,662 2,340,672	55,562 12,305,934	2,015,255 201,689	649,073 364,638	88,482 380,037	- 145,390	- 1,702,699	- -	- -	- -	- 139,322
Corporate Bonds	102,610,281	30,446	8,890,865	33,028,035	45,372,073	13,739,557	1,549,305	-	-	-	-	-
Asset-Backed Private Placements	33,535,103 1,599,704	16,952,519 1,546,605	3,729,708 -	4,259,021 -	4,608,230 -	890,745 -	481,598 -	1,252,152 53,099	-	-	-	1,361,130 -
Government Related and Other												
Foreign Sovereign Municipal	16,150,802 5,050,915	- -	9,613,193 827,747	794,472 4,223,168	- -	- -	- -	- -	- -	5,743,137	- -	- -
Other	102,172	-	-	-	-	95,528	-	-	-	-	-	6,644
	<u>\$ 371,747,385</u>	<u>\$ 74,054,309</u>	<u>\$ 138,649,954</u>	<u>\$ 45,582,681</u>	<u>\$ 50,994,014</u>	<u>\$ 15,194,349</u>	<u>\$ 7,919,430</u>	<u>\$ 3,007,950</u>	<u>\$ 36,344,698</u>			

Fixed income portfolio investments are included in U.S. Government obligations and corporate bonds on the Statements of Plan Net Assets as of December 31, 2011 and 2010 along with related investments held in other federal and corporate securities, mutual funds and short-term investments.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**Note 6 - Securities Lending Transactions**

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. The value of the collateral that is being held is represented as an asset and a liability on the Statement of Plan Net Assets.

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. As of December 31, the System has no credit risk exposure to borrowers; amounts owed to borrowers exceeds the amount the borrower owes the System.

	2011		2010	
	Fair Value of Securities Lent	Collateral	Fair Value of Securities Lent	Collateral
Types of Securities Lent				
U.S. Government and Agencies	\$ 99,983	\$ 102,000	\$ 14,338,459	\$ 14,630,175
U.S. Corporate Fixed Income	1,660,266	1,705,250	2,866,505	2,936,675
U.S. Equities	4,970,161	5,103,594	19,274,570	19,728,451
Total Securities Lent	\$ 6,730,410	\$ 6,910,844	\$ 36,479,534	\$ 37,295,301
		2011		2010
Collateral Report				
U.S. Corporate Obligations		\$ 3,500,438		\$ 3,500,438
Repurchase Agreements		1,828,565		31,796,237
Asset Backed Securities		1,581,841		1,998,626
Total Collateral		\$ 6,910,844		\$ 37,295,301
Fair Value of Collateral Held		\$ 3,489,721		\$ 33,896,148

**Note 7 - Commitments**

The System has entered into capital commitments to fund partnership interests in certain alternative investments. At December 31, 2011, the System has unfunded commitments of approximately \$28 million to these partnerships.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
(Dollar Amounts in Millions)  
**YEAR ENDED DECEMBER 31, 2011**

Actuarial Valuation Date January 1	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) - Entry Age <sup>1</sup> (b)	Unfunded AAL (UAAL) <sup>2</sup> (b-a)	Funded Ratio (a/b)	Covered Payroll <sup>3</sup> (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2002	\$ 1,383.7	\$ 1,581.4	\$ 197.7	87.5%	\$ 405.1	48.8%
2004	\$ 1,527.5	\$ 1,778.9	\$ 251.4	85.9%	\$ 424.7	59.2%
2006	\$ 1,791.8	\$ 2,017.5	\$ 225.7	88.8%	\$ 447.0	50.5%
2008	\$ 2,119.4	\$ 2,294.6	\$ 175.2	92.4%	\$ 501.9	34.9%
2010	\$ 1,645.3	\$ 2,653.8	\$ 1,008.5	62.0%	\$ 580.9	173.6%
2011 <sup>4</sup>	\$ 2,013.7	\$ 2,709.0	\$ 695.3	74.3%	\$ 563.2	123.5%

<sup>1</sup> Actuarial present value of benefits less actuarial present value of future normal cost based on Entry Age Actuarial Cost Method.

<sup>2</sup> Actuarial accrued liabilities less actuarial value of assets.

<sup>3</sup> Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

<sup>4</sup> Beginning with the January 1, 2011 Actuarial Valuation and 2007 - 2010 Experience Study, SCERS has adopted five-year asset smoothing.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**(Dollar Amounts in Millions)**  
**YEAR ENDED DECEMBER 31, 2011**

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<u>Year Ended December 31</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>
2006	\$ 37.9	100%
2007	\$ 40.3	100%
2008	\$ 46.0	100%
2009	\$ 46.6	100%
2010	\$ 45.2	100%
2011	\$ 50.3	100%

For additional information regarding employer contributions, see the notes to the financial statements.



## ADDITIONAL INFORMATION

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**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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	Budget	Actual Expenses	
	2011	2011	2010
Personnel Services			
Salaries	\$ 1,265,424	\$ 1,144,068	\$ 966,058
Payroll Taxes and Benefits	408,346	391,299	319,243
Total Personnel Services	<u>1,673,770</u>	<u>1,535,367</u>	<u>1,285,301</u>
Maintenance and Operations			
Professional Services	585,060	784,138	854,285
Office Rent	95,000	89,278	136,143
Data Processing	993,063	796,481	663,589
Office Supplies	167,336	147,078	259,730
Postage	60,000	48,622	41,205
Telephone	17,825	37,966	33,350
Travel	77,691	22,461	11,250
Training	34,000	6,243	7,880
Gain/Loss Disposition Fixed Asset	-	-	2,273
Total Maintenance and Operations	<u>2,029,975</u>	<u>1,932,267</u>	<u>2,009,705</u>
 Total Administrative Expenses	 <u>\$ 3,703,745</u>	 <u>\$ 3,467,634</u>	 <u>\$ 3,295,006</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF INVESTMENT EXPENSES  
YEAR ENDED DECEMBER 31, 2011

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Investment Services	
Advent	\$ 113,675
American Core Realty Fund	121,824
Attalus	127,254
Attucks Cap	753,086
Babson Tower Square Partners II	80,265
Bison Capital Equity Partners II	45,556
BlackRock	692,518
Capital Point Partners	66,656
Capri Select Income Fund	19,909
Carlyle Mezzanine Partners	42,580
Carlyle Realty Fund IV	190,788
Coast Diversified Fund	18,931
Dimensional	705,799
Fisher Investments	450,757
Hearthstone M.S.R. Value Added Fund III	3,951
JP Morgan	1,289,384
Nogales Investors Fund II	40,334
Oaktree Capital Mezzanine Fund II	132,235
PCCP Mezzanine Recovery Fund I	104,789
PIMCO	318,978
PIMCO Liquidating	7,179
Pugh	118,867
Reams Asset Management	156,935
Rhumblin	84,060
Smith Whiley Pelham Fund III	166,452
TA Associates	601,161
TCW Crescent Mezzanine Partners IV	125,688
Washington Capital Management	103,944
Western Asset Management	300,299
	<hr/>
	6,983,854
Performance Measurement	
Pension Consulting Alliance	364,140
Custodial Services	
Bank of New York Mellon	144,093
Securities Lending Services	
Bank of New York Mellon	15,134
	<hr/>
Total Investment Expenses	<u><u>\$ 7,507,221</u></u>