Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 16

MEETING DATE: **December 6, 2023**

SUBJECT: **Annual Independent Financial Statement Audit**

SUBMITTED FOR: __ **Consent** ___ **Deliberation and Action** _X_ **Receive and File**

RECOMMENDATION

Receive and file the SCERS audited financial statements and auditor reports as of and for the fiscal year ended June 30, 2023, issued by SCERS' independent auditor, Brown Armstrong Accountancy Corporation (Brown Armstrong).

PURPOSE

This item supports the Strategic Management Plan by maintaining transparent communications to stakeholders and promoting fiscal responsibility and stewardship.

DISCUSSION

This item fulfils the requirements of Sections 25250 and 25253 of the Government Code of the State of California to prepare an Annual Financial Report. This report is prepared and audited in consult with external auditors selected by the Sacramento County Employees' Retirement System's Board of Retirement.

On November 14, 2023, Brown Armstrong presented the June 30, 2023, SCERS financial statement audit results to the Audit Committee. The presentation included significant audit matters required by professional standards and the audit results. Brown Armstrong rendered an unmodified (or "clean") opinion on SCERS' financial statements.

FINANCIAL HIGHLIGHTS

- SCERS' net position restricted for pension benefits as of June 30, 2023, totaled $12,363.3 million, an increase of $532.9 million or 4.5% from the $11,830.4 million in net position as of June 30, 2022.

- For the fiscal year ended June 30, 2023, SCERS' total fund net return of 6.1% was 0.5% lower than the investment policy benchmark return of 6.6%. During fiscal year 2022-23, investments with the strongest returns came from global equity, real assets, and private credit investments. Net investment income after investment fees and expenses was $710.9 million for the fiscal year ended June 30, 2023.

- As of June 30, 2023, SCERS' total pension liability was $14.4 billion, up slightly from $13.6 billion as of June 30, 2022. The employers' Net Pension Liability (NPL) was $2.0 billion as of June 30, 2023, an increase from the $1.7 billion as of June 30, 2022. The increase in employers' net pension liability is primarily a result of lower investment returns than benchmarked.

- For the fiscal years ended June 30, 2023 and 2022, the combined employer and member contributions were $510.7 and $438.8 million, respectively, for an increase of $71.9 million or 16.4%. The increase in employer contributions for the fiscal year ended June 30, 2023, was $64.9 million, or by about 21.2%, over the fiscal year ended June 30, 2022. Accordingly, there was an increase in employee contributions of $7.0 million, or by about 5.3%, over the fiscal year ended June 30, 2022.

- For the fiscal year ended June 30, 2023, total deductions of $725.2 million comprised of benefit payments, withdrawal of contributions, and administrative expenses. Total deductions increased by $64.8 million, or 9.8%, in the fiscal year end. The primary cause of the increase was due to the increase in monthly benefit payments resulting from an increase in the number of retired members, benefit amounts, and the annual cost-of-living adjustment paid to retirees and beneficiaries.

The Annual Comprehensive Financial Report is being finalized and will be presented to the Board in January 2024.

ATTACHMENTS

- Board Order
- SCERS Financial Statements for year ended June 30, 2023 with Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and
- Report to the Audit Committee and Board of Retirement
  - Required Communication to the Members of the Audit Committee and Board of Retirement in Accordance with Professional Standards (SAS 114)

/S/

Margo Allen
Chief Operations Officer

/S/

Eric Stern
Chief Executive Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
December 6, 2023

AGENDA ITEM:

Annual Independent Financial Statement Audit

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to receive and file the SCERS audited financial statements and auditor reports as of and for the fiscal year ended June 30, 2023, issued by SCERS' independent auditor, Brown Armstrong Accountancy Corporation (Brown Armstrong).

I HEREBY CERTIFY that the above order was passed and adopted on December 6, 2023 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:
(Present but not voting)

____
James Diepenbrock
Board President

____
Eric Stern
Chief Executive Officer and
Board Secretary

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

A PENSION TRUST FUND OF THE COUNTY OF SACRAMENTO, CALIFORNIA

ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2023

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE COUNTY OF SACRAMENTO, CALIFORNIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Statement of Fiduciary Net Position of the Sacramento County Employees' Retirement System (SCERS), a pension trust fund of the County of Sacramento, as of June 30, 2023, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the basic financial statements, which collectively comprise SCERS' basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of SCERS as of June 30, 2023, and the changes in fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SCERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SCERS' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Management is also responsible for maintaining a current plan instrument, including all SCERS plan amendments; administering SCERS; and determining that SCERS' transactions that are presented and disclosed in the financial statements are in conformity with SCERS' plan provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SCERS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SCERS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SCERS' basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the other supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited SCERS' June 30, 2022, basic financial statements, and our report dated November 17, 2022, expressed an unmodified opinion on those audited basic financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2022, is consistent in all material respects, with the audited basic financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, on our consideration of SCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Stockton, California
November 17, 2023

MANAGEMENT’S DISCUSSION AND ANALYSIS

INTRODUCTION

This section presents Management's Discussion and Analysis (MD&A) of the financial activities of the Sacramento County Employees' Retirement System (SCERS, the System, or the Plan) for the fiscal year ended June 30, 2023. Readers are encouraged to consider the narrative overview and information presented in this MD&A in conjunction with the Letter of Transmittal beginning on page 8 of this report and the Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information.

Financial Highlights

As of June 30, 2023, SCERS' fiduciary net position restricted for pension benefits and program administration (net position) totaled $12,363.3 million. This represented an increase of $532.9 million or 4.5% from the $11,830.4 million in SCERS' net position as of June 30, 2022.

Additions to net position were $1,258.1 million and -$73.3 million for the fiscal years ended June 30, 2023 and 2022, respectively. The total additions for the fiscal year ended June 30, 2023, increased by $1,331.4 million, or 1,816.4%, over the fiscal year ended June 30, 2022. The primary reason for the increase in additions was the investment performance.

Deductions from net position were $725.2 million and $660.4 million for the fiscal years ended June 30, 2023 and 2022, respectively. The total deductions for the fiscal year ended June 30, 2023, increased by $64.8 million or 9.8% over the fiscal year ended June 30, 2022. The primary reason for the increase in total deductions is due to impairment of the pension administration system, the increased annual cost-of-living adjustment, and the increased number of retirees.

SCERS' funding objective is to meet long-term benefit obligations through contributions and investment earnings. To achieve level and predictable contribution costs from one year to the next, SCERS bases the determination of contribution rates on an actuarial asset valuation method that gradually adjusts to the market (fair) value of assets (asset smoothing). Under this actuarial asset valuation methodology, investment market returns for the fiscal year above or below the assumed investment return rate (6.75% which was used to determine the contribution rates for the fiscal year ended June 30, 2023) are recognized over seven years (the asset smoothing period). This smoothed value is referred to as the Actuarial Value of Assets. By using the Actuarial Value of Assets to determine the contribution rates, SCERS is able to lower the year-to-year volatility in contribution rates that would come from using the fair value of assets.

As of June 30, 2023, SCERS' total pension liability was $14,358.9 million, an increase from $13,579.0 million as of June 30, 2022. The employers' net pension liability was $1,995.6 million as of June 30, 2023, which increased from $1,748.6 million as of June 30, 2022. The fiduciary net position as a percentage of total pension liability decreased to 86.1% as of June 30, 2023, from 87.1% as of June 30, 2022.

Overview of the Financial Statements

This MD&A serves as an introduction to the basic financial statements and other information accompanying the basic financial statements, which are comprised of the following components:

- Statement of Fiduciary Net Position – Pension Trust Fund and Custodial Fund,
- Statement of Changes in Fiduciary Net Position – Pension Trust Fund and Custodial Fund,
- Notes to the Basic Financial Statements,
- Required Supplementary Information, and
- Other Supplementary Information.

A Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position are presented for the fiduciary funds as of and for the fiscal year ended June 30, 2023, along with comparative total information as of and for the fiscal year ended June 30, 2022. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries as of year-end, and the changes in those resources during the year.

The fiduciary fund statements report SCERS' net position restricted for pension benefits and program administration. Over time, increases or decreases in net position serve as one indicator of whether SCERS' financial health is improving or deteriorating. Other factors, such as market conditions or the System's fiduciary net position as a percentage of the employers' total pension liability, should also be considered in measuring the System's overall health.

The Notes to the Basic Financial Statements are an integral part of the financial reports and provide additional information that is essential for a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, this report presents certain **Required Supplementary Information** which includes the employers' changes in net pension liability and related ratios, actuarially determined contributions (ADC), actuarial assumptions used to calculate the ADC, historical money-weighted rate of return and other required supplementary information related to SCERS' defined benefit pension plan as required by Governmental Accounting Standards Board (GASB) Statement No. 67.

Schedules of administrative expenses, investment fees and expenses, and payments to consultants are presented as **Other Supplementary Information** following the Required Supplementary Information.

FINANCIAL ANALYSIS

Fiduciary Net Position

SCERS' net position restricted for pension benefits and program administration as of June 30, 2023, totaled $12,363.3 million, an increase of $532.9 million or 4.5% from the $11,830.4 million in net position as of June 30, 2022. The increase in net position for the fiscal year ended June 30, 2023, was due to investment income offset to the benefits and expenses paid, which exceeded the contributions received, during the fiscal year.

For the fiscal year ended June 30, 2023, the total fund return, net of fees, of 6.1% was 0.5% lower than the return of the investment policy benchmark of 6.6%. During fiscal year 2022-23, investments with the strongest returns came from the global equity, real assets and private credit investments.

In the fiscal year ended June 30, 2023, the increase in cash and short-term investments was the result of an increase in other cash and cash equivalents due to the dedicated 2% target allocation to cash per the approved asset allocation policy. The increase in receivables and investment purchases and other as of June 30, 2023, was the result of an increase in trading activity at year-end by the external investment managers. The decrease in securities lending collateral and securities lending liability as of June 30, 2023, reflected a lower level of activity in the securities lending industry.

The table below compares SCERS' fiduciary net position as of June 30, 2023, and 2022:

FIDUCIARY NET POSITION

AS OF FISCAL YEARS ENDED JUNE 30

(Amounts Expressed in Millions)

	2023	2022	Increase/ (Decrease)	% Change
Assets				
Cash and short-term investments	$591.3	$533.5	$57.8	10.8%
Receivables	382.7	246.6	136.1	55.2
Investments	11,997.9	11,304.2	693.7	6.1
Securities lending collateral	195.2	250.3	(55.1)	(22.0)
Other assets	1.2	1.3	(0.1)	(7.7)
Capital assets, net	4.9	21.4	(16.5)	(77.1)
Total assets	13,173.2	12,357.3	815.9	6.6
Liabilities				
Other liabilities	31.0	47.8	(16.8)	(35.1)
Investment purchases and other	587.3	234.6	352.7	150.3
Securities lending obligation	191.6	244.5	(52.9)	(21.6)
Total liabilities	809.9	526.9	283.0	53.7
Net position restricted for pension benefits and program administration	**$12,363.3**	**$11,830.4**	**$532.9**	**4.5%**

Governmental Accounting Standards Board (GASB) Statement No. 67 replaced Governmental Accounting Standards Board (GASB) Statement No. 25 and redefined pension liability and expense for financial reporting purposes but does not apply to contribution amounts for pension funding purposes. When measuring the total pension liability, Governmental Accounting Standards Board (GASB) uses the same actuarial cost method and the same type of discount rate as SCERS uses for funding. Therefore, the employers' total pension liability measured for financial reporting purposes shown in this report is determined on the same basis as SCERS' actuarial accrued liability measured for funding purposes.

SCERS retains an independent actuarial firm, Segal, to perform the annual actuarial valuations to determine the employers' total pension liability (expected future benefits) and Actuarially Determined Contribution (ADC). The annual actuarial valuation measures the current and projected assets and liabilities of the retirement system, as well as the System's funded status. This information forms the basis for establishing the actuary's recommendations for the employer and member contribution rates for the upcoming fiscal year to pay the expected future benefits.

As of June 30, 2023, the employers' total pension liability was $14,358.9 million, and the net pension liability (the total pension liability less the Plan's fiduciary net position) was $1,995.6 million. The Plan's fiduciary net position as a percentage of the total pension liability was 86.1%. In general terms, this ratio means that as of June 30, 2023, SCERS had approximately 86 cents available for each dollar of anticipated future liability.

The Required Supplementary Information presents additional information regarding the net pension liability.

Reserves

SCERS' reserves are established in accordance with the requirements of the County Employees Retirement Law of 1937 (1937 Act), utilizing contributions and the accumulation of investment income, after recognition of administrative and investment expenses. Under GASB Statement No. 67, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses. However, for actuarial funding purposes, SCERS utilizes a seven-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. The difference between the fair value of assets (equivalent to the net position restricted for pension benefits and program administration) and the smoothed actuarial value of assets is tracked in the market stabilization reserve.

Lower than expected investment performance resulted in a reduction of gains to the SCERS' market stabilization reserve from $182.5 million as of June 30, 2022, to -$59.8 million as of June 30, 2023.

The following table presents a reserve summary as of fiscal years ended June 30, 2023, and 2022:

NET POSITION RESTRICTED FOR PENSION BENEFITS

AS OF FISCAL YEAR ENDED JUNE 30

(Amounts Expressed in Millions)

	2023	2022
Member reserve	$1,100.5	$1,059.2
Employer reserve	3,286.0	3,278.7
Retiree and death benefit reserve	7,665.7	6,955.1
Contingency reserve	370.9	354.9
Total allocated reserves and designations	12,423.1	11,647.9
Market stabilization reserve	(59.8)	182.5
Net position restricted for pension benefits and program administration	**$12,363.3**	**$11,830.4**

Changes in Fiduciary Net Position

The following table presents the changes in fiduciary net position for the fiscal years ended June 30, 2023, and 2022.

CHANGES IN FIDUCIARY NET POSITION

FOR THE FISCAL YEARs ENDED JUNE 30

(Amounts Expressed in Millions)

	2023	2022	Increase/ (Decrease)	% Change
Additions				
Member contributions	$139.5	$132.5	$7.0	5.3%
Employer contributions	371.2	306.3	64.9	21.2
Net investment income (loss)	786.9	(339.1)	1,126.0	332.1
Net securities lending income	1.3	1.6	(0.3)	(18.8)
Investment fees and expenses	(77.3)	(210.3)	133.0	63.2
Other income	1.9	3.1	(1.2)	(38.7)
Health premiums collected from members and employers	34.6	32.6	2.0	6.1
Total additions	1,258.1	(73.3)	1,331.4	1,816.4
Deductions				
Benefits paid	655.6	614.3	41.3	6.7
Withdrawal of contributions	6.8	4.5	2.3	51.1
Administrative expenses	28.2	9.0	19.2	213.3
Health premiums remitted to health carriers	34.6	32.6	2.0	6.1
Total deductions	725.2	660.4	64.8	9.8
Increase (decrease) in net position	532.9	(733.7)	1,266.6	172.6
Net position, beginning	**11,830.4**	**12,564.1**	**(733.7)**	**(5.8)**
Net position, ending	**$12,363.3**	**$11,830.4**	**$532.9**	**4.5%**

Additions to Net Position

Financing for the benefits that SCERS provides to its members is derived primarily through the collection of employer contributions and member contributions, and investment earnings. For the fiscal years ended June 30, 2023 and 2022, total additions were $1,258.1 million and -$73.3 million, respectively.

For the fiscal years ended June 30, 2023 and 2022, the combined employer and member contributions were $510.7 million and $438.8 million, respectively, for an increase of $71.9 million. Individually, there was an increase in employer contributions for the fiscal year ended June 30, 2023, of $64.9 million or 21.2% over the fiscal year ended June 30, 2022. There was an increase in member contributions of $7.0 million or 5.3% over the fiscal year ended June 30, 2022.

Net investment income (loss) after investment fees and expenses was $710.9 million and -$547.8 million for the fiscal years ended June 30, 2023 and 2022, respectively. The net investment gains were primarily driven by the investment performance of the portfolio. The Investment Section of this report provides a detailed discussion of the investment markets and investment performance.

Deductions from Net Position

SCERS' net position was primarily used for the payment of benefits to members and beneficiaries, for the payment of contribution refunds to terminated employees, and for the cost of administering the System. For the fiscal years ended June 30, 2023 and 2022, total deductions were $725.2 million and $660.4 million, respectively.

Deductions increased by $64.9 million or 9.8% in the fiscal year ended June 30, 2023. The primary cause of the increase in deductions was due to impairment of the pension administration system, the increase in monthly benefit payments resulting from an increase in the number of retired members and the annual cost-of-living adjustment paid to retirees and beneficiaries.

The Board of Retirement approves SCERS' annual administrative budget. The 1937 Act limits SCERS' annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of the System's actuarial accrued liability. Administrative expenses of $27.4 million for the fiscal year ended June 30, 2023, excluding IT costs, were 0.19% of the System's actuarial accrued liability. SCERS' administrative expenses have historically been below the limitation.

Currently Known Facts, Conditions, or Decisions

On July 30, 2020, the California Supreme Court issued a decision in the case of Alameda County Deputy Sheriffs' Association et al. v. Alameda County Employees' Retirement Association and Board of Retirement of SCERS ("Alameda"). SCERS processed corrections during the 2022-23 fiscal year. SCERS is in the process of making additional corrections during the 2023-24 fiscal year. SCERS determined that the contribution and pension payment adjustments, in aggregate, will be immaterial to the System.

SCERS' Fiduciary Responsibilities

SCERS' Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution and California state law, the net position must be used exclusively for the benefit of plan participants and their beneficiaries.

Requests for Information

This report is designed to provide the Board of Retirement, SCERS members, participating employers, taxpayers, and other stakeholders and interested parties with a general overview of SCERS' finances and to show accountability for the money SCERS receives.

Questions about this report or requests for additional financial information may be addressed to:

Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

Copies of this report are available at the above address and on the System's website at https://www.scers.org/post/annual-comprehensive-financial-report-acfr.

BASIC FINANCIAL STATEMENTS

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(Amounts Expressed in Thousands)

	2023			2022
	Pension Trust Fund	Custodial Fund	Total Fund	Total Fund
Assets				
Cash and short-term investments				
Cash invested with Sacramento County Treasurer	$7,776	$2,734	$10,510	$14,195
Other cash and cash equivalents	203,853	-	203,853	138,585
Short-term investments with fiscal agents	376,949	-	376,949	380,751
Total cash and short-term investments	588,578	2,734	591,312	533,531
Receivables				
Member and employer contributions	37,869	-	37,869	29,617
Accrued investment income	30,450	-	30,450	22,476
Investment sales and other	314,364	-	314,364	194,525
Total receivables	382,683	-	382,683	246,618
Investments				
Equity	4,781,134	-	4,781,134	3,900,492
Fixed income	2,242,284	-	2,242,284	2,225,639
Real assets	1,060,383	-	1,060,383	1,037,564
Real estate	999,559	-	999,559	1,090,302
Absolute return	845,895	-	845,895	955,803
Private credit	415,913	-	415,913	330,188
Private equity	1,652,724	-	1,652,724	1,764,212
Total investments	11,997,892	-	11,997,892	11,304,200
Securities lending collateral	195,198	-	195,198	250,331
Other assets	1,196	-	1,196	1,267
Capital assets, net	4,883	-	4,883	21,433
Total assets	13,170,430	2,734	13,173,164	12,357,380
Liabilities				
Warrants payable	3,329	-	3,329	2,074
Accounts payable and other accrued liabilities	19,780	2,734	22,514	40,132
Current lease liability	450	-	450	444
Long-term lease liability	4,797	-	4,797	5,287
Investment purchases and other	587,250	-	587,250	234,559
Securities lending obligation	191,566	-	191,566	244,533
Total liabilities	807,172	2,734	809,906	527,029
Net position restricted for pension benefits and program administration	**$12,363,258**	**$ -**	**$12,363,258**	**$11,830,351**

The notes to the basic financial statements are an integral part of these statements.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(Amounts Expressed In Thousands)

	2023			2022
Additions	**Pension Trust Fund**	**Custodial Fund**	**Total Fund**	**Total Fund**
Contributions				
Member	$139,521	$ -	$139,521	$132,526
Employer	371,248	-	371,248	306,335
Total contributions	510,769	-	510,769	438,861
Investment income (loss)				
Net appreciation (depreciation) in fair value of investments	503,818	-	503,818	(574,873)
Other investment income	283,126	-	283,126	235,754
Less: Investment fees and expenses	(77,347)	-	(77,347)	(210,286)
Net investment income (loss)	709,597	-	709,597	(549,405)
Securities lending income	10,753	-	10,753	2,048
Securities lending expense				
Borrower rebate expense	(9,114)	-	(9,114)	(229)
Securities lending management fees	(330)	-	(330)	(200)
Net income from securities lending	1,309	-	1,309	1,619
Other income	1,816	-	1,816	2,990
Health premiums collected from members and employers	-	34,620	34,620	32,644
Total additions	1,223,491	34,620	1,258,111	(73,291)
Deductions				
Benefits paid	655,591	-	655,591	614,345
Withdrawal of contributions	6,815	-	6,815	4,547
Administrative expenses	28,178	-	28,178	8,971
Health premiums remitted to health carriers	-	34,620	34,620	32,644
Total deductions	690,584	34,620	725,204	660,507
Net increase (decrease) in net position	532,907	-	532,907	(733,798)
Net position restricted for pension benefits and Program administration				
Beginning of year	11,830,351	-	11,830,351	12,564,149
Ending of year	**$12,363,258**	**$ -**	**$ 12,363,258**	**$11,830,351**

The notes to the basic financial statements are an integral part of these statements.

NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System (SCERS, the System, or the Plan) is a cost-sharing multiple-employer defined benefit pension plan, which operates under the County Employees Retirement Law of 1937 (Section 31450 et seq of the California Government Code) (1937 Act) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The System was created by resolution of the Sacramento County (the County) Board of Supervisors on July 1, 1941, to provide retirement, disability, and death benefits for qualified employees of the County and participating Special Districts (Special Districts or Member Districts). SCERS is governed by an eleven member Board of Retirement. Four are appointed by the County Board of Supervisors; six are elected by the members of the System (two by the Miscellaneous members, two by the Safety members and two by the Retiree members); and the County Director of the Department of Finance serves as an Ex-Officio member. An alternate Safety member and an alternate Retiree member are also elected by those respective member groups. The System is legally and fiscally independent of the County.

At June 30, 2023, participating local government employers consisted of the County of Sacramento (and its Elected Officials); Superior Court of California; and nine special districts.

The System's membership consists of the following categories:

- Safety Tier 1 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date prior to June 25, 1995.
- Safety Tier 2 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date on or after June 25, 1995, but prior to January 1, 2012.
- Safety Tier 3 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date on or after January 1, 2012, but prior to January 1, 2013.
- Safety Tier 4 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date on or after January 1, 2013.
- Miscellaneous Tier 1 - Includes all members other than Safety who have a membership start date prior to September 27, 1981.
- Miscellaneous Tier 2 - Includes all members other than Safety who have a membership start date on or after September 27, 1981, and prior to June 27, 1993, and who elected not to become members of Miscellaneous Tier 3.
- Miscellaneous Tier 3 - Includes all members other than Safety who have a membership start date on or after June 27, 1993, and prior to January 1, 2013, and those Miscellaneous Tier 2 members who elected to become members of this class. The Miscellaneous Tier 3 is closed to employees of Sacramento County who have a membership start date on or after January 1, 2012.
- Miscellaneous Tier 4 - Includes members other than Safety who are employees of Sacramento County and have a membership start date on or after January 1, 2012, but prior to January 1, 2013.
- Miscellaneous Tier 5 - Includes all members other than Safety who have a membership start date on or after January 1, 2013.

System's Membership

At June 30, 2023, the System's membership consisted of:

	2023	2022	Increase/(Decrease)
Active Members:			
Vested			
Miscellaneous Tier 1	7	13	(6)
Miscellaneous Tier 2	28	32	(4)
Miscellaneous Tier 3	4,424	4,829	(405)
Miscellaneous Tier 4	264	271	(7)
Miscellaneous Tier 5	2,222	1,999	223
Total Miscellaneous	6,945	7,144	(199)
Safety Tier 1	14	17	(3)
Safety Tier 2	762	849	(87)
Safety Tier 3	112	112	-
Safety Tier 4	540	438	102
Total Safety	1,428	1,416	12
Total Vested	**8,373**	**8,560**	**(187)**
Non-Vested			
Miscellaneous Tier 3	25	30	(5)
Miscellaneous Tier 4	28	37	(9)
Miscellaneous Tier 5	4,063	3,492	571
Total Miscellaneous	4,116	3,559	557
Safety Tier 1	1		1
Safety Tier 2	2	-	2
Safety Tier 3	11	11	-
Safety Tier 4	664	627	37
Total Safety	678	638	40
Total Non-Vested	**4,794**	**4,197**	**597**
Total Active Members	**13,167**	**12,757**	**410**

	2023	2022	Increase/(Decrease)
Retirees and beneficiaries currently receiving benefits:			
Miscellaneous - Service	8,939	8,730	209
Miscellaneous - Beneficiary	1,605	1,588	17
Miscellaneous - Nonservice-Connected Disability	237	250	(13)
Miscellaneous - Service-Connected Disability	178	181	(3)
Total Miscellaneous	10,959	10,749	210
Safety - Service	2,153	2,068	85
Safety - Beneficiary	564	558	6
Safety - Nonservice-Connected Disability	18	17	1
Safety - Service-Connected Disability	240	243	(3)
Total Safety	2,975	2,886	89
Total Retirees and Beneficiaries	**13,934**	**13,635**	**299**
Terminated employees entitled to benefits but not yet receiving them:			
Miscellaneous Tier 1	17	23	(6)
Miscellaneous Tier 2	71	84	(13)
Miscellaneous Tier 3	2,160	2,298	(138)
Miscellaneous Tier 4	133	133	-
Miscellaneous Tier 5	1,886	1,451	435
Total Miscellaneous	4,267	3,989	278
Safety Tier 1	12	17	(5)
Safety Tier 2	283	312	(29)
Safety Tier 3	14	14	-
Safety Tier 4	126	91	35
Total Safety	435	434	1
Total Terminated Members	**4,702**	**4,423**	**279**
Grand Total	**31,803**	**30,815**	**988**

Pension Benefits

The System's benefits are established by the provisions of the 1937 Act and PEPRA and provide for retirement, death, and disability benefits. All permanent full-time and part-time employees of the County, Superior Court and Special Districts are eligible to participate in the System. Upon reaching five years of service, participants have earned the right to receive a retirement benefit, subject to certain restrictions if retirement is prior to attaining age 50 or if less than 10 years of service has been achieved for Miscellaneous Tiers 1, 2, 3 and 4 and Safety Tiers 1, 2, and 3, or prior to attaining age 52 or if less than 5 years of service has been achieved for Miscellaneous Tier 5, or prior to attaining age 50 or if less than 5 years of service has been achieved for Safety Tier 4.

Effective June 29, 2003, the County Board of Supervisors adopted new benefit formulas for all SCERS members, including the employees of Special Districts, for service credit prospectively from June 29, 2003, and for County employees, retroactively to service credit which precedes that date. In accordance with applicable retirement law, each SCERS Special District's governing body determined whether or not to apply these formulas retroactively for service credit earned prior to June 29, 2003, by their employees.

Retirement benefits under Safety Tiers 1 and 2 and Miscellaneous Tiers 1, 2 and 3 are as follows:

- Members covered under Safety Tier 1 who retire at age 50, or thereafter, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final average salary is the member's average salary for the highest twelve consecutive months of credited service.
- Members covered under Safety Tier 2 who retire at age 50, or thereafter, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.47 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final average salary is the member's average salary for the highest twelve consecutive months of credited service.
- Members covered under Miscellaneous Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.47 percent of their final average salary for each year of credited service. There is no cost-of-living adjustment. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.47 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Miscellaneous Tiers 1, 2, and 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.61 percent of final average salary for each year of credited service at age 62.

Members whose employers determined not to retroactively apply the formulas to service credit earned prior to June 29, 2003 will continue to have their retirement benefits for that service calculated pursuant to the formulas in effect at the time the service was earned (i.e., Safety and Miscellaneous members who retire at age 50 earn 2 percent and 1.1 percent, respectively, of their final average salary for each year of credited service).

Effective January 1, 2012, the County Board of Supervisors adopted new tiers for County employees hired on or after January 1, 2012, but before January 1, 2013. Retirement benefits under these tiers are as follows:

- Members covered under Safety Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2.29 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member’s average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 4 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.18 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member’s average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 3 percent of final average salary for each year of credited service at age 55. The retirement benefits of Miscellaneous Tier 4 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.43 percent of final average salary for each year of credited service at age 65.

Effective January 1, 2013, with the implementation of PEPRA, the County Board of Supervisors adopted new tiers for employees of the County, Superior Court and Special Districts who are eligible to participate in the System and who were hired on or after January 1, 2013. Retirement benefits under these new tiers are as follows:

- Members covered under Safety Tier 4 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member’s average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 5 who retire at age 52 are entitled to a retirement benefit, payable monthly for life, equal to 1 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member’s average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 4 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.7 percent of final average salary for each year of credited service at age 57. The retirement benefits of Miscellaneous Tier 5 members who retire after age 52 are increased by an age factor for each quarter year of age up to a maximum of 2.5 percent of final average salary for each year of credited service at age 67.

Member Termination

Upon separation from employment with a participating employer, members’ accumulated contributions are refundable with interest accrued through the prior six-month period ended June 30 or December 31. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of the related benefits.

Financing

Benefits payable by the System are financed through member contributions, employer contributions, and earnings from investments. Member contributions are required by law. Contribution rates, which are actuarially determined, are based on age at entry into the System (a single rate is used for members entering the System after January 1, 1975). County, Superior Court and Special Districts' contributions are actuarially determined to provide for the balance of contributions needed to fund benefits. All contribution rates are reviewed and revised annually. The authority for both benefit provisions and contribution obligations are derived from the 1937 Act and PEPRA.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCERS reports fiduciary funds at June 30, 2023, which include pension trust and custodial funds. The pension trust fund and custodial fund are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. The custodial fund accounts for assets held by SCERS in a custodial capacity on behalf of the participating employers to fund the Retiree Medical and Dental Insurance Program. See Note 8 for a detailed description of the program.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB).

Valuation of Investments

The majority of the investments held at June 30, 2023 are in the custody of, or controlled by, State Street Bank, the System's custodian bank. The System's investment portfolio consists of domestic and international equities, domestic and international fixed income, real assets, real estate, absolute return, private credit, and private equity. The diversity of the System's investment portfolio requires a wide range of techniques to determine fair value. Investments are valued at their fair values in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which results in the recognition of fair value gains and losses. See Note 3, Section 2 for disclosures related to investment classification and valuation.

Contributions and Benefits

Member and employer contributions are recognized when due pursuant to statutory requirements. Benefits and refunds are recognized when the benefits are currently due and payable in accordance with the terms of the Plan.

Income and Expenses

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as net appreciation (depreciation) in the fair value of investments. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investment purchases and sales are recorded based on trade date accounting.

Securities Lending

Securities lending transactions are short-term collateralized loans of the System's securities for the purpose of generating additional investment income. For each lending transaction, the System receives either cash collateral or non-cash collateral. The underlying securities out on loan are reported on the System's Statement of Fiduciary Net Position as if the lending transactions had not occurred. Cash collateral received for the loaned securities is reported as securities lending obligation on the Statement of Fiduciary Net Position. Cash collateral is reinvested in the lending agent's cash collateral investment pool, is valued at fair value, and is reported as securities lending collateral on the Statement of Fiduciary Net Position. Non-cash collateral held is not reported on the Statement of Fiduciary Net Position nor is there a corresponding liability reported on the financial statement as the System does not have the ability to pledge or sell them without a borrower default. See Note 3, Section 3 for disclosures related to securities lending transactions.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation and amortization. SCERS' capitalization threshold is an initial cost of $10,000 and two years of useful life. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the depreciable assets or over the term of the lease. The estimated useful lives for the assets in each category are as follows:

Capital Asset	Estimated useful lives
Computer Software	3 years
Computer Hardware	5 years
Office Equipment	5 years
Office Furniture	5 years
Office Lease (Right-to-Use Lease Assets)	20 years (lease term)
Building Improvements	7 years
Information System	15 years

SCERS updated the capital asset policy and revised the useful lives of assets.

Impairment of Pension Administration System (PAS): Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Asset* require impaired capital assets that are no longer in use to be reported at the lower of carrying value or fair value. SCERS fully impaired the capitalized cost of $17.13 million related to the Board of Retirement's decision to decommission the Pension Administration System (PAS).

Total Net Capital Assets of $4.88 million include $4.77 million related to the right-to-use lease asset. SCERS' office located at 980 9th Street, Suite 1900, Sacramento, CA 95814 is the only current lease reported under Governmental Accounting Standards Board (GASB) Statement No. 87 concurrently exceeding the $10,000 capitalization threshold. The original lease period from March 1, 2011 to April 30, 2021, was extended to April 30, 2031. SCERS does not plan to extend the lease after April 30, 2031. There are no outstanding lease commitments nor impairment losses recognized, and other payments or variables excluded in the previous lease liability are not recognized this year.

The rental amount is expected to increase annually by 3% approximately from $58,021 to $75,769 per month during the renewal lease term from May 1, 2021, to April 30, 2031. SCERS determined a 5% annual interest rate based on researching the average calculation of present value of minimum lease payment in lieu of the lessor not providing an interest rate.

Future Lease Payment Maturity Schedule under GASB Statement No. 87

As of June 30, 2023 (Amounts Expressed in Thousands)

Year	Interest	Principal	Total Payment
2023-24	$ 231	$ 450	$ 681
2024-25	228	538	766
2025-26	200	588	788
2026-27	169	642	811
2027-28	136	700	836
2028-29	99	761	860
2029-30	60	827	887
2030-31	17	741	758
Total	**$ 1,140**	**$ 5,247**	**$ 6,387**

Other Assets

Other assets consist of other accounts receivable, prepaid expenses, and security deposits.

Administrative Expenses

Administrative costs are financed through employer contributions, member contributions and earnings from investments.

Estimates

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

Comparative Totals

The Basic Financial Statements include prior year summarized comparative information in total but not at the level of detail required for presentation in conformity with generally accepted accounting principles in the U.S. Accordingly, such information should be read in conjunction with SCERS' financial statements for the fiscal year ended June 30, 2022, from which the summarized information was derived.

New Accounting Pronouncements

GASB Statement No. 93, Replacement of Interbank Offered Rates, was issued in March 2020. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of the IBOR (Inter Bank Offered Rate). The global reference to LIBOR (the London Inter Bank Offered Rate) will cease at the end of 2021. Statement No. 93, removes LIBOR as an appropriate benchmark interest rate and identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates. The Statement also provides exceptions for hedge accounting termination provisions of Statement No, 53 and lease modification guidance in Statement No, 87, which will result from replacement of the reference rate. The provisions of Statement No. 93, are effective for reporting periods beginning after June 15, 2021. This Statement did not have an impact on SCERS.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued in May 2020. This statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs). The guidance requires the recognition of a right-to-use subscription asset and a corresponding subscription liability for contracts that convey control of the right-to-use another party's information technology software alone or in conjunction with tangible capital assets for a specified time period in an exchange or exchange-like transaction. The requirements of this statement are similar to those of Statement No. 87, *Leases*. The provisions of this statement are effective with fiscal years beginning after June 15, 2022, SCERS does not have any SBITAs that meet the criteria of this GASB Statement and concurrently exceed the $10,000 capitalization threshold.

GASB Statement No. 99, *Omnibus*, was issued in April 2022. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. The practice issues addressed with this Statement that are applicable to SCERS are clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives. The requirements related to leases are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. SCERS reviewed the applicable provisions but it did not impact the financial statements as of June 30, 2023.

GASB Statement No. 100, *Accounting Changes and Error Corrections*-an amendment of GASB Statement No. 62, was issued in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement also requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature and quantitative effects should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective with fiscal years beginning after June 15, 2023, and reporting periods thereafter. SCERS will implement the applicable provision of this Statement for the fiscal year ending June 30, 2024.

GASB Statement No. 101, *Compensated Absences*, was issued in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurements guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for certain types of compensated absences including parental leave, military leave, and jury duty leave not be recognized until the leave commences. The requirements of this Statement are effective with fiscal years beginning after December 15, 2023, and reporting periods thereafter. SCERS will implement the applicable provision of this Statement for the fiscal year ending June 30, 2025.

NOTE 3 - CASH AND INVESTMENTS

SECTION 1: INVESTMENT POLICIES

Article XVI, Section 17 of the Constitution of the State of California provides that "…notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system…" Article XVI, Section 17(a) further provides that "…the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets…" The investment authority for the System rests primarily through the "prudent person rule," as set forth in Section 31595 of the 1937 Act, which establishes a standard for all fiduciaries, including anyone with investment authority on behalf of the System.

Asset Allocation

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio. An integral part of the investment policy is the strategic asset allocation, which is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities. The strategic asset allocation also emphasizes maximum diversification of the portfolio to reduce the range of outcomes to which the portfolio is subject, and to protect the System from the possibility that a particular asset class may experience poor investment performance in a given period. The System's adopted asset allocation policy as of June 30, 2023, is as follows:

Asset Class	Target Allocation	
Equity	40	%
Fixed Income	18	
Private Equity	11	
Real Estate	9	
Real Assets	7	
Absolute Return	7	
Private Credit	5	
Cash	2	
Liquid Real Return	1	
	100	**%**

SECTION 2: INVESTMENT SUMMARY

Cash Invested with Sacramento County Treasurer

The System invests cash held for benefit payments and general operations in the County Treasurer's pool. The County Treasury Oversight Committee is responsible for regulatory oversight of the pool. The System's share of the County Treasurer's pool is separately accounted for, and interest earned, net of related expenses, is apportioned quarterly based on the proportion of the System's average daily cash balance to the total of the pooled cash and investments.

The value of the System's pooled shares is determined on an amortized cost basis, which approximates fair value. The fair value of the System's cash invested with the County Treasurer for both pension trust and custodial funds totaled $10,510 at June 30, 2023. The pool was not rated, and the weighted-average maturity of the pool was 267 days at June 30, 2023.

Interest earned but not received from the County Treasurer at year end is reported as a component of accrued investment income on the Statement of Fiduciary Net Position. Cash and investments included within the County Treasurer's pool are described in the County's Annual Comprehensive Financial Report.

Other Cash and Cash Equivalents

At June 30, 2023, other cash and cash equivalents constituted balances in bank demand deposit accounts of $203,853.

Short-Term Investments with Fiscal Agents

Short-term investments, which include highly-liquid investments expected to be utilized by the System within 30-90 days, are reported at fair value. These investments may include securities that have a maturity in excess of 90 days but are readily marketable. At June 30, 2023, the fair value of the System's short-term investments with fiscal agents was $376,949. These totals consisted of investments in the State Street Short-Term Investment Fund (STIF). The STIF is designed to provide qualified benefit plans with an investment vehicle that may be accessed on a daily basis. The STIF is limited to investing in securities that are rated A-1 by Moody's Investors Services (Moody's) and P-1 by Standard & Poor's Corporation (S&P) at the time of issuance. As of June 30, 2023, the STIF is not rated by credit rating agencies. Most investments range in maturity from overnight to 90 days with 32% of the investment over 90 days. For the fiscal year ended June 30, 2023, the weighted-average maturity was 25 days. Investments in the STIF from all participating custodial clients of State Street Bank were $54.9 billion on June 30, 2023.

Fair Value of Investments

The System measures and records its investments using fair value measurement guidelines established by U.S. generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities accessible on the measurement date.
- Level 2 – Fair value is determined using quoted prices in inactive markets or significant observable inputs (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly. These inputs may be derived principally from, or corroborated by, observable market data through correlation or by other means.
- Level 3 – Fair value is determined using unobservable inputs, including situations where there is little market activity, if any, for the asset or liability.

The System had the following recurring fair value measurements at June 30, 2023:

June 30, 2023
Fair Value of Equity and Fixed Income Securities
(Amounts expressed in thousands)

		Fair Value Measurements by Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Equity Securities				
Communication Services	$269,908	$269,908	$-	$ -
Consumer Discretionary	415,607	415,404	203	-
Consumer Staples	223,950	223,950	-	-
Energy	161,042	161,042	-	-
Financials	474,467	474,467	-	-
Health Care	460,563	460,563	-	-
Industrials	566,190	566,190	-	-
Information Technology	648,517	648,517	-	-
Materials	140,892	140,747	145-	-
Private Placement	572	311	261	-
Real Estate	96,762	96,762	-	-
Utilities	74,826	74,826	-	-
Total Equity Securities	**$3,533,296**	**$3,532,687**	**$609**	**$-**
Fixed Income Securities				
Securitized Obligations				
Asset-Backed Securities	$339,928	$-	$339,928	$-
Credit Obligations				
Corporate Bonds	321,086	344	320,742	-
Municipals	7,843	-	7,843	-
Yankees	61,408	-	61,408	-
Private Placement	204		204	-
U.S. Government & Agency Obligations				
Agency Securities	44,648	-	44,648	-
U.S. Treasury	849,491	-	849,491	-
International Government	3,347	-	3,347	-
Collateralized Mortgage Obligations	127,109	-	127,109	-
Mortgage Pass-Through				
FHLMC	90,641	-	90,641	-
FNMA	314,976	-	314,976	-
GNMA	67,450	-	67,450	-
Total Fixed Income Securities	**2,228,131**	**344**	**2,227,787**	**-**
Total Investments by Fair Value Level	**$5,761,427**	**$3,533,031**	**$2,228,396**	**$-**

June 30, 2023

Investments Measured at the Net Asset Value (NAV)

(Amounts expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)*	Redemption Notice Period
Equity Commingled Funds	$1,247,838	$-	Daily, monthly	1 - 60 days
Fixed Income Commingled Funds	14,153	-	Monthly, quarterly	30 - 90 days
Real Assets	1,060,383	307,065	Quarterly and 3-Years	90 days
Real Estate	999,559	217,155	Monthly and quarterly	30 - 90 days
Absolute Return	845,895	-	Monthly and quarterly	30 - 90 days
Private Credit	415,913	292,183	Not applicable	-
Private Equity	1,652,724	820,879	Not applicable	-
Securities Lending Collateral	195,198	-	Not applicable	-
Total Investments Measured at the NAV	**6,431,663**			
Total Investments	**$12,193,090**			

*Not applicable for closed end real assets, real estate, private credit, and private equity funds.

Note: In the event of significant asset outflows for a particular fund, the timing of redemption proceeds could extend beyond those disclosed.

June 30, 2023

Investment Derivative Instruments

(Amounts expressed in thousands)

		Fair Value Measurements by Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Forwards	$868	$868	$-	$-
Options	21	-	21	-
Swaps	73,809	-	73,809	-
Liabilities				
Forwards	(321)	(321)	-	-
Options	(190)	-	(190)	-
Swaps	(73,187)	-	(73,187)	-
Total Investment Derivative Instruments	**$1,000**	**$547**	**$453**	**$-**

Equity Securities

The majority of the System's domestic and international equity securities are actively traded on major stock exchanges or over-the-counter (OTC). Investments listed or traded on a securities exchange are valued at fair value as of the close of trading on the valuation day. Fair value is determined based on the last reported trade price on the exchange considered to be the primary market for such security. Listed investments that are not traded on a particular day are valued at the last known price which is deemed best to reflect their fair value. Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Fixed Income Securities

Debt securities consist of investments in customized separate accounts and commingled funds which primarily invest in negotiable obligations of the U.S. Government and U.S. Government-sponsored agencies, U.S. and non-U.S. corporations, securitized offerings backed by residential and commercial mortgages, and non-dollar denominated sovereign states. Debt securities that are not actively traded are valued by pricing vendors, which use modeling techniques that include market observable inputs required to develop a fair value, and are classified in Level 2. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings, and other assumptions based upon the specifics of the asset type.

Equity and Fixed Income Commingled Funds

Certain equity and fixed income investments are invested in a commingled fund to provide dedicated exposure to a specific segment of the market and are valued at the Net Asset Value (NAV). An example would be an emerging market equity mandate invested through a commingled fund, or a core plus fixed income mandate where SCERS receives the high yield credit exposure through a commingled fund that is managed by the investment manager. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the fund manager on a continuous basis and audited annually. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment.

Investments Measured at the Net Asset Value (NAV)

Investments valued using the net asset value (NAV) per share (or its equivalent) are investments in non-governmental pooled investment vehicles (i.e., limited partner or non-managing member interest or LP/LLC interest). These alternative investments, unlike more traditional investments, generally do not have readily obtainable fair values and are generally valued at the most recent net asset value per unit or based on capital account information available from the general partners of such vehicles. If the June 30 valuations are not available, the value is derived from the most recent available valuation taking into account of subsequent cash flow activities.

Absolute Return

Absolute return investments are made on a direct basis in limited partnerships, commingled funds, separate accounts, and through externally managed customized separate accounts (CSA). Each CSA manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund.

Absolute return investments include commingled funds that invest in domestic and international investment strategies including: (1) Market neutral strategies such as equity or fixed income market neutral, fixed income arbitrage, and convertible bond arbitrage; (2) Event driven strategies such as risk arbitrage, merger arbitrage, distressed debt, credit and other event-driven strategies; (3) Equity and credit long/short strategies where there is a combination of long and short positions primarily in exchange traded securities, with a net market exposure less than 100% of that of the overall equity or fixed income market (strategies may be focused on U.S., non-U.S., and/or specialty mandates); (4) Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies; and (5)

Multi-strategies where absolute return managers invest using a combination of previously described strategies.

Absolute return investments are generally less liquid as compared to equity and fixed income and more liquid as compared to private market investments, such as real assets, real estate, private credit, and private equity. Direct absolute return investments consist of securities traded on national security exchanges, as well as securities that do not have readily determinable fair values (illiquid securities). For CSAs, the fund manager's evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided to them by the portfolio funds, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any.

Typically, the fair value of investments is determined by the fund manager in good faith and in compliance with the following guidelines:

- The value of illiquid investments is determined by the fund manager in good faith and in compliance with the definition of fair value under U.S. GAAP (Financial Accounting Standards Board (FASB) Accounting Standards Codification, Topic 820, *Fair Value Measurements and Disclosures*); however, in some circumstances certain illiquid investments may require reporting financial information and valuations in accordance with accounting standards other than U.S. GAAP, such as under International Financial Reporting Standards.
- Securities that are traded on a national securities exchange are valued at their last reported sales prices on the valuation date on the national securities exchange on which such securities are principally traded or on a consolidated tape which includes such exchange, or, if there are no sales on such date on such exchange or consolidated tape, securities are typically valued at the mean between the last "bid" and "ask" prices at the close of trading on such date on the largest national securities exchange on which such securities are traded.
- Securities not traded on a national securities exchange, but traded over-the-counter, are valued at the last reported sales price as reported by the Nasdaq National Market of the Nasdaq Stock Market, or if such prices are not reported by the Nasdaq Stock Market, as reported by the National Quotation Bureau, Inc., or if such prices are not reported by the National Quotation Bureau, the valuation of options or notional principal contracts not traded on a national securities exchange may be determined in good faith by a reliable source selected by the fund manager.
- Commodity interests traded on a United States or foreign exchange are valued at their last reported settlement price on the valuation date on the exchange on which such interests were purchased or sold. Commodity interests not traded on a United States or foreign exchange are valued at the mean between their last "bid" and "asked" prices on the date as of which the value is being determined, as reported by a reliable source selected in good faith by the fund manager.
- Short-term money market instruments and bank deposits are valued at cost plus accrued interest to the date of valuation.

Real Assets and Real Estate

Real assets and real estate investments are held in limited partnerships. Limited partner interest is valued using the NAV of the partnership. Core and core plus real estate is held typically as a limited partner in a commingled fund and is valued at NAV. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a recurring basis, audited annually, and periodically appraised by an independent third party. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment. Real assets and real estate investments are held in open-ended and closed-ended commingled funds. Closed-ended commingled funds are long-term and illiquid in nature. As a result, investors are subject to redemption restrictions, which generally limit distributions and restrict the ability of limited partners to exit a partnership investment. These investments cannot be redeemed with the funds unless sold in a secondary market. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over 2 to 15 years.

Private Credit and Private Equity

Private credit investments include direct limited partnerships, commingled funds, and separate accounts that invest in direct lending, and opportunistic lending strategies. Private equity investments include limited partnerships, commingled funds and fund of funds (FoF) that invest in domestic and international private buyouts, venture capital, growth equity and distressed debt. Private credit and private equity investments are made both on a direct basis in limited partnerships, commingled funds, separate accounts, and through externally managed FoF. Each FoF manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund.

These investments are long-term and illiquid in nature. As a result, limited partners are constrained in their ability to exit a partnership investment prior to its dissolution, other than selling their interest in a private equity secondary market. Distributions are received through cash flows and the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund would be liquidated over 8 to 15 years.

Limited partner interest in commingled funds is valued by using the NAV of the partnership. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a recurring basis, audited annually, and periodically appraised by an independent third party.

Typically, the fair value of all investments is determined by the fund manager in good faith and in compliance with the definition of fair value under U.S. GAAP (FASB Accounting Standards Codification, Topic 820, *Fair Value Measurements and Disclosures*). In some circumstances, partnership agreements require reporting financial information and valuations in accordance with accounting standards other than U.S. GAAP, such as under International Financial Reporting Standards. The measure of fair value by the fund manager is typically conducted on a quarterly basis. Marketable securities are valued according to the most recent public market price with appropriate discounts to reflect any contractual or regulatory restriction upon sale.

The fair value of each investment as reported does not necessarily represent the amount that may ultimately be realized, since such amounts depend upon future circumstances that cannot reasonably be determined until the position is actually liquidated. The evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided by each fund, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any. The evaluation of the fair value of co-investments is based on the most recent information available at the time of valuation ascribed to such investments by the sponsor partnership. If the manager does not agree with this valuation, holds different securities than the sponsor partnership, is unable to obtain the sponsor partnership's valuation, or has information that results in a different valuation, the manager may use their own internal evaluation of fair value. The assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment.

Investment Derivative Instruments

The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected return, liquidity and other factors. The majority of the System's derivative instruments are traded in the OTC derivative market and are classified within Level 2. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The fair values of OTC derivatives for swaps and forward contracts are determined using discounted cash flow models. The fair values of option contracts and warrants are determined using Black-Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yield, volatility, and other factors. The fair value of rights is calculated using the same parameters used for pricing options, including the rights' subscription price, prevailing interest rates, time to expiration, and the share price of the underlying stock, taking into consideration the level of its volatility. Futures positions are exchange traded and settled in cash on a daily basis and thus have no fair value.

Annual Money-Weighted Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 5.97%.

SECTION 3: SECURITIES LENDING

State statutes permit the System to participate in securities lending transactions and, pursuant to a Securities Lending Authorization Agreement, the System has authorized State Street Bank and Trust Company (State Street) to act as its agent in lending the System's securities to broker-dealers and banks pursuant to an approved loan agreement.

During the fiscal year ended June 30, 2023, on behalf of the System, State Street loaned securities held by State Street as custodian, including U.S. government and agency obligations, domestic corporate bonds, and domestic and international equities and received, as collateral, U.S. and foreign currency, U.S. government bonds, U.S. corporate bonds, U.S. equity, and international equity securities. The System does not have the ability to pledge or sell security collateral absent a borrower default. Borrowers are required to deliver collateral for each loan equal to a minimum of 100% of the fair value of the loaned security.

During the fiscal year ended June 30, 2023, SCERS did not impose any restrictions on the amount of the loans that State Street made on its behalf. During the fiscal year ended June 30, 2023, there were no failures to return loaned securities or pay distributions thereon by any borrowers. Moreover, there were no losses resulting from a default of the borrowers or State Street.

SCERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Since the collateral received from the borrowers was greater than the amounts borrowed, the System had minimal credit risk exposure to the borrowers. Furthermore, the lending agreement with State Street requires the custodian to indemnify the System if the borrower fails to return the loaned securities.

Additional information regarding the cash collateral investment pool (collateral pool) follows:

Method for Determining Fair Value. The fair value of investments held by the collateral pool is based upon valuations provided by a recognized pricing service.

Policy for Utilizing Amortized Cost Method. Because the collateral pool does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the collateral pool investments at fair value for reporting purposes.

Regulatory Oversight. The collateral pool is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors (including the collateral pool), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the System's position in the collateral pool is the same as the System's pro rata share of the collateral pool.

Collateral and related securities on loan at June 30, 2023, were as follows:

(Amounts expressed in thousands)

Security Description	Fair Value of Reinvested Cash Collateral	Cash Collateral Value	Non-Cash Collateral Value	Fair Value of Securities on Loan
Fixed Income	$126,015	$123,727	$181,133	$305,948
Equity	69,182	67,838	28,296	96,434
Total	**$195,197**	**$191,565**	**$209,429**	**$402,382**

Securities Lending Collateral Credit Risk

All of the cash collateral received for securities lending is invested in the State Street Compass Fund Liquidity Pool (The Compass Fund), which is not rated by credit rating agencies. At the time of purchase, all securities with maturities of 13 months or less must be rated at least A1, P1 or F1 and all securities with maturities in excess of 13 months must be rated A- or A3 by any two of the nationally-recognized statistical rating organizations or, if unrated, be of comparable quality. The fund may invest in other State Street managed vehicles provided they conform to the guidelines.

Securities Lending Collateral Interest Rate Risk

The Compass Fund's Investment Policy Guidelines provide that the lending agent shall maintain the dollar-weighted average maturity of The Compass Fund in a manner that the lending agent believes is appropriate to the objective of The Compass Fund, provided that (i) in no event shall any Eligible Security be acquired with a remaining legal final maturity of greater than 18 months, (ii) the lending agent shall maintain a dollar-weighted average maturity of The Compass Fund not to exceed 75 calendar days and (iii) the lending agent shall maintain a dollar-weighted average maturity to final of The Compass Fund not to exceed 180 calendar days. As of June 30, 2023, the weighted average maturity was 7.15 days.

SECTION 4: DEPOSIT AND INVESTMENT RISKS

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosure,* the following schedules disclose the System's investments subject to certain types of risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally-recognized statistical rating organizations. The ratings used to determine the quality of the individual securities are the ratings provided by Standard & Poor's (S&P). If there are no ratings provided by S&P, then the ratings provided by Moody's and Fitch Group are used, respectively.

SCERS utilizes external investment managers to manage its portfolios. SCERS' Investment Policy specifies that fixed income investments will include both active and passive index investments in U.S. Treasury and agency securities, corporate bonds, mortgage-backed and asset-backed securities and non-dollar denominated sovereign and corporate debt.

SCERS' portfolio is comprised of actively-managed investment strategies in which each strategy will have a minimum average credit quality rating by a Nationally Recognized Statistical Rating Organization (NRSRO). Portfolio diversification is constrained by investment guideline parameters for each individual strategy in order to minimize overall market and credit risk.

The following table depicts the fixed income assets by credit rating as of June 30, 2023:
(Amounts expressed in thousands)

								Mortgage Pass-Through		
Credit Rating	**Total**	**Securitized Obligations**	**Credit Obligations**	**Commingled Funds**	**U.S. Government & Agency Obligations**	**International Government**	**Collateralized Mortgage Obligations**	**FHLMC**	**FNMA**	**GNMA**
Aaa	$189,217	$98,620	$1,652	$-	$6,250	$-	$82,695	$-	$-	$-
AA+	471,185	95	266	-	57,325	-	7,882	90,641	314,976	-
AA-1	1,095	1,095	-	-	-	-	-	-	-	-
AA	7,117	5,346	1,745	-	-	-	26	-	-	-
AA-2	527	144	383	-	-	-	-	-	-	-
AA-	6,998	192	6,608	-	-	-	198	-	-	-
AA-3	1,901	698	410	-	-	-	793	-	-	-
A+	18,558	642	17,337	-	321	-	258	-	-	-
A-1	2,206	758	1,241	-	-	-	207	-	-	-
A	25,773	2,907	22,823	-	-	-	43	-	-	-
A-2	2,667	834	1,833	-	-	-	-	-	-	-
A-3	918	-	582	-	-	-	336	-	-	-
A-	74,248	74	74,037	-	-	-	137	-	-	-
BBB+	73,141	-	71,586	-	-	-	1,555	-	-	-
BAA-1	625	-	450	-	-	-	175	-	-	-
BBB	80,609	917	77,675	-	-	1,833	184	-	-	-
BAA-2	942	184	-	-	-	-	758	-	-	-
BBB-	56,398	699	52,429	-	-	495	2,775	-	-	-
BAA-3	2,134	415	862	-	-	-	857	-	-	-
BB+	19,711	1,344	16,568	-	199	402	1,198	-	-	-
BA-1	299	-	-	-	-	-	299	-	-	-
BB	12,540	572	10,055	-	-	-	1,913	-	-	-
BA-2	2,502	443	198	-	-	501	1,360	-	-	-
BB-	14,091	-	11,884	-	176	-	2,031	-	-	-
BA-3	1,070	-	-	-	-	-	1,070	-	-	-
B+	8,065	1,129	6,136	-	-	-	800	-	-	-
B-1	304	-	304	-	-	-	-	-	-	-
B	6,579	-	6,216	-	-	-	363	-	-	-
B-2	853	-	853	-	-	-	-	-	-	-
B-	2,671	9	2,447	-	-	-	215	-	-	-
CCC+	507	-	507	-	-	-	-	-	-	-
Caa1	1,282	-	1,282	-	-	-	-	-	-	-
CCC	1,604	631	356	-	70	116	431	-	-	-
CCC-	680	-	680	-	-	-	-	-	-	-
Caa3	237	-	237	-	-	-	-	-	-	-
CC	1,880	1,880	-	-	-	-	-	-	-	-
D	456	456	-	-	-	-	-	-	-	-
NA*	897,248	-	-	-	829,798	-	-	-	-	67,450
NR**	253,446	219,844	899	14,153	-	-	18,550	-	-	-
Total	**$2,242,284**	**$339,928**	**$390,541**	**$14,153**	**$894,139**	**$3,347**	**$127,109**	**$90,641**	**$314,976**	**$67,450**

*NA represents securities explicitly guaranteed by the U.S. government, which are not subject to the GASB Statement No. 40 credit risk disclosure requirements.

**NR represents those securities that are not rated.

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. As of June 30, 2023, the System had no single issuer that exceeds 5% of total investments per GASB Statement No. 40 disclosure requirements or any one issuer which represents 5% or more of total fiduciary net position in accordance with GASB Statement No. 67. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from the disclosure requirements.

The System's investment policy does not allow more than 5% of the total portfolio fair value to be invested in any one issuer, and as of June 30, 2023, the System had no issuer that exceeds 5% of total portfolio fair value. As noted in the previous discussion of credit risk, manager investment guidelines place limitations on the maximum holdings in any one issuer.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2023, the bank balance of cash and cash equivalents on deposit with SCERS' custodian bank and financial institutions totaled $182,871, of which $182,621 was not insured by the Federal Deposit Insurance Corporation (FDIC) and was exposed to custodial credit risk. The System believes that the risk is not significant because the cash is held with major financial institutions.

As of June 30, 2023, deposits held in the System's name for the margin accounts of $21,366 were not insured or not collateralized, and these deposits were exposed to custodial credit risk.

As of June 30, 2023, 100% of the System's investments held with the custodian were held in the System's name, and the System is not exposed to custodial credit risk related to these investments. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment guidelines negotiated with the actively-managed external portfolio managers give each of the managers the discretion to deviate within a particular range from the effective duration of the relevant Bloomberg Aggregate Bond Index benchmark.

The following tables depict the duration in years of the long-term fixed income portfolio vs. the benchmark as of June 30, 2023.

(Amounts expressed in thousands)

Type of Securities		Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations					
	Asset-Backed Securities	$339,928	0.34	2.42	(2.08)
Credit Obligations					
	Corporate Bonds	321,086	5.33	7.33	(2.00)
	Municipals	7,843	0.25	9.94	(9.69)
	Yankee	61,408	0.61	5.57	(4.96)
	Private Placement	204	-	3.75	(3.75)
U.S. Government & Agency Obligations					
	Agency Securities	44,648	0.17	3.25	(3.08)
	U.S. Treasury	849,491	7.17	7.43	(0.26)
International Government		3,347	4.08	6.50	(2.42)
Collateralized Mortgage Obligations		127,109	2.92	4.11	(1.19)
Mortgage Pass-Through					
	FHLMC	90,641	6.34	5.01	1.33
	FNMA	314,976	6.21	5.78	0.43
	GNMA	67,450	5.40	5.29	0.11
No Effective Duration					
	Commingled Fund	14,153	NA	NA	NA
Total Fair Value with Weighted Average		**$2,242,284**	**5.05**	**6.18**	**(1.13)**

NA represents securities that have no effective duration.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following tables represent cash and investments held in a foreign currency as of June 30, 2023:

(Amounts expressed in thousands)

Local Currency Name	Cash and Cash Equivalents	Equity	Fixed Income	Real Assets	Real Estate	Private Credit	Private Equity	Total
Australian Dollar	$716	$55,779	$-	$-	$-	$-	$-	$56,495
Brazilian Real	2	1,433	-	-	-	-	-	1,435
Canadian Dollar	1,158	100,041	144	-	-	-	-	101,343
Chilean Peso	-	306	-	-	-	-	-	306
Czech Koruna	62	-	-	-	-	-	-	62
Danish Krone	1,091	79,048	-	-	-	-	-	80,139
Euro Currency	3,712	436,866	18,193	5,454	174,550	24,225	117,305	780,305
Hong Kong Dollar	1,101	44,543	-	-	-	-	-	45,644
Hungarian Forint	(362)	-	-	-	-	-	-	(362)
Japanese Yen	2,109	284,546	-	-	7,109	-	-	293,764
Mexican Peso	(588)	-	-	-	-	-	-	(588)
New Israeli Sheqel	50	11,342	-	-	-	-	-	11,392
New Zealand Dollar	(343)	1,115	-	-	-	-	-	772
Norwegian Krone	(55)	10,474	-	-	-	-	-	10,419
Polish Zloty	(510)	-	-	-	-	-	-	(510)
Pound Sterling	573	154,236	3,150	-	471	-	-	158,430
Singapore Dollar	57	17,892	-	-	-	-	-	17,949
South African Rand	202	-	-	-	-	-	-	202
Swedish Krona	99	31,613	-	-	-	-	-	31,712
Swiss Franc	20	120,162	-	-	-	-	-	120,182
Yuan Renminbi	11	-	-	-	-	-	-	11
Total	$9,105	$1,349,396	$21,487	$5,454	$182,130	$24,225	$117,305	$1,709,102

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. The System does not have a foreign currency risk policy.

Highly Sensitive Investments

As of June 30, 2023, SCERS' investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling $600,176. These securities are highly sensitive to interest rate fluctuations in that they are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities.

As of June 30, 2023, total commodities investments was $996. The investments consist of commodity futures hedge fund-of-funds and exposure through a customized, diversified real assets strategy.

Spot commodity prices have historically been a poor investment and have declined in real terms. However, investment in collateralized commodity futures can provide higher returns. The futures market is an efficient way for producers to hedge price risk by forward-selling commodities at lower prices relative to spot prices to investors and speculators generating a roll yield (backwardation).

In general, commodities are volatile investments that are prone to large price spikes. By investing in commodity futures, investors get exposure to short-term price movement and risk, as well as long-term price trends. This price volatility and the need for producers to hedge their production provides the fundamental rationale for why investment managers pay the risk premium to speculators and long-only investors in the commodity markets.

SECTION 5: DERIVATIVE INSTRUMENTS

The System's investment portfolios contain individual securities as well as investments in external investment pools. The System's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include futures contracts, currency forward contracts, option contracts, swap agreements, and rights and warrants. The System uses derivatives to minimize the exposure of certain investments to adverse fluctuations in financial and currency markets, as an alternative to investments in the cash market in which the manager is permitted to invest, and as an additional yield curve and/or duration management strategy. The System does not use derivatives for speculative purposes or to create leverage, however, this does not apply to investments in external pools. As of June 30, 2023, the derivative instruments held by the System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

The table below presents the related net appreciation/(depreciation) in fair value of investments, the fair value and the notional value of derivative instruments outstanding at June 30, 2023:

(Amounts expressed in thousands)

Investment Derivative Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments	Financial Statement Classification	Fair Value	Notional
Forwards	$308	Investment Sales and Other	$547	$77,193
Futures	53,198	Investment Sales and Other	-	378,430
Options	(260)	Investment Purchases and Other	(169)	(2,979)
Rights/Warrants	20	Investment Sales and Other	-	2*
Swaps	17,064	Investment Purchases and Other	622	73,280
Total Derivative Instruments	**$70,330**		**$1,000**	

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the instruments themselves have no fair value at June 30, 2023, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation/(depreciation) in fair value of investments as they are incurred.

Forward contracts are obligations to buy or sell a currency or other commodity at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2023.

Counterparty Credit Risk

The table below presents the counterparty credit ratings of the System's non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2023:

(Amounts expressed in thousands)

S&P Rating	Forwards	Swaps	Total
A	$61	$-	$61
A-	315	-	315
A+	451	-	451
AA-	22	-	22
BBB+	-	1,051	1,051
Investments in Asset Position	849	1,051	1,900
Investments in Liability Position	(302)	(415)	(717)
Total Investments in Asset/(Liability) Position	**$547**	**$636**	**$1,183**

The System could be exposed to risk if the counterparties to derivative contracts are unable to meet the terms of the contracts. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty risk at June 30, 2023, was $1,899. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The System did not have any master netting agreements with its counterparties at June 30, 2023, except that certain investment managers used netting arrangements at their discretion to minimize counterparty risks. The above schedules present exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2023, the System did not have any significant exposure to counterparty credit risk with any single party.

Interest Rate Risk

At June 30, 2023, the System is exposed to interest rate risk on its derivative instruments as presented in the following tables:

(Amounts expressed in thousands)

		Investment Maturities (in years)			
Investment Type	**Total Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More than 10**
Credit Default Swaps Bought	$(425)	$0	$(425)	$0	$0
Credit Default Swaps Written	523	-	523	-	-
Fixed Income Options Bought	-		-	-	-
Fixed Income Options Written	(1)	(1)	-	-	-
Interest Rate Swaps	524	-	373	100	51
Total	**$621**	**$(1)**	**$471**	**$100**	**$51**

Derivative Instruments Highly Sensitive to Interest Changes

(Amounts expressed in thousands)

Investment Type	**Reference Rate**	**Fair Value**	**Notional**
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1%	$352	$2,911
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.15%	100	426
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.2%	51	197
Interest Rate Swaps	Pay Variable 0-month SOFR, Receive Fixed 4.94625%	(4)	4,028
Interest Rate Swaps	Pay Variable 0-month SOFR, Receive Fixed 5.11%	8	5,300
Interest Rate Swaps	Pay Variable 0-month SOFR, Receive Fixed 5.088%	17	13,206
Total Interest Rate Swaps		**$524**	**$26,068**

Foreign Currency Risk

At June 30, 2023, the System was exposed to foreign currency risk on its investments in forward contracts and swaps denominated in foreign currencies as presented in the following tables:

(Amounts expressed in thousands)

	Forward Contracts			
Currency Name	**Net Receivables**	**Net Payables**	**Swaps**	**Total Exposure**
Australian Dollar	$5	$6	$-	$11
Brazilian Real	18	3	-	21
Canadian Dollar	140	(39)	-	101
Chilean Peso	-	(9)	-	(9)
Colombian Peso	64	-	-	64
Euro Currency	(13)	217	(15)	189
Hungarian Forint	45	(10)	-	35
Indian Rupee	-	(11)	-	(11)
Indonesian Rupiah	(13)	-	-	(13)
Japanese Yen	(16)	-	-	(16)
Mexican Peso (new)	13	-	-	13
New Israeli Shekel	(2)	2	-	-
New Taiwan Dollar	(14)	1	-	(13)
New Zealand Dollar	(2)	2	-	-
Polish Zloty	26	(40)	-	(14)
Pound Sterling	6	(62)	503	447
Singapore Dollar	0	13	-	13
Peruvian Sol	2	-	-	2
South African Rand	58	(4)	-	54
South Korean Won	(16)	39	-	23
Thailand Baht	-	20	-	20
Yuan Renminbi Offshore	(33)	151	-	118
Total	**$268**	**$279**	**$488**	**$1,035**

The System has investments in futures contracts. As indicated on the preceding pages, futures variation margin accounts are settled each trading day and recognized as realized gains/(losses) as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2023.

NOTE 4 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS

The employers' net pension liability (i.e., the total pension liability determined in accordance with GASB Statement No. 67 less the System's fiduciary net position) as of June 30, 2023 is shown below:

(Amounts expressed in thousands)

	2023
Total Pension Liability	$ 14,358,854
Less: Fiduciary Net Position	12,363,258
Net Pension Liability	**$1,995,596**
Fiduciary Net Position as a % of Total Pension Liability	86.1%

The actuarial valuation of the System involves estimates of the amounts reported and assumptions about the probability of occurrence of events far into the future. Some examples include future salary increases and future employee mortality. The net pension liability is subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Triennially, the System requests that its actuary, Segal, perform an analysis of the appropriateness of all economic and non-economic assumptions. The last triennial analysis was performed as of June 30, 2023, and as a result of that analysis, the Board of Retirement approved certain changes to the actuarial assumptions, which were incorporated in the actuarial valuation report as of June 30, 2023.

Disclosure of Information about Actuarial Methods and Assumptions

The required Schedule of Changes in Net Pension Liability and Related Ratios, immediately following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the employers' net pension liability is increasing or decreasing over time.

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

Actuarial Methods and Renewal Application Part A and B:

The following significant actuarial assumptions were used to measure the total pension liability as of June 30, 2023:

	June 30, 2023
Discount rate:	6.75%
Inflation rate:	2.50%
Real across-the-board salary increase:	0.25%
Projected salary increases*:	4.25% - 9.75%

* Includes inflation at 2.50% plus real across-the-board salary increase of 0.25% plus merit and promotional increases as of June 30, 2023.

	June 30, 2023
Assumed post-retirement benefit increase:	
Miscellaneous Tier 1	2.75%
Miscellaneous Tier 2	0.00%
Miscellaneous Tier 3	2.00%
Miscellaneous Tier 4	2.00%
Miscellaneous Tier 5	2.00%

Safety Tier 1	2.75%
Safety Tier 2	2.00%
Safety Tier 3	2.00%
Safety Tier 4	2.00%

Post-Retirement Mortality:	
a) Service	**For Miscellaneous Members -** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021. **For Safety Members -** Pub-2010 Safety Healthy Retiree Amount- Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021.
b) Disability	**For Miscellaneous Disabled Members -** Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), with rates unadjusted for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021. **For Safety Disabled Members -** Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), with rates increased by 5% for males and unadjusted for females, projected generationally with the two-dimensional mortality improvement scale MP-2021.
Member Contribution Rate:	**For Miscellaneous Members -** Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10% for males and 5% for females, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2021, weighted 40% male and 60% female. **For Safety Members -** Pub-2010 Safety Healthy Retiree Amount- Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2021, weighted 75% male and 25% female.
Pre-Retirement Mortality:	**For Miscellaneous Members -** Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021, updated from MP-2019. **For Safety Members -** Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2021, updated from MP-2019.
Other Assumptions:	Analysis of actuarial experience studies for the periods of July 1, 2019, through June 30, 2022, as of June 30, 2023.

Assumed Asset Allocation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption, as of June 30, 2023, are summarized in the table below:

Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
Global Equity	40.0 %	7.1 %
Private Equity	11.0	10.1
Public Credit – High Yield	1.0	4.6
Public Credit – Leveraged Loan	1.0	4.1
Private Credit	5.0	6.7
Fixed Income – Core	12.0	2.0
Fixed Income – U.S. Treasury	4.0	1.3
Core Real Estate	6.0	3.9
Value Added Real Estate	1.5	6.7
Opportunistic Real Estate	1.5	8.6
Absolute Return	7.0	3.0
Real Assets	7.0	7.3
Liquid Real Return	2.0	4.4
Cash	1.0	0.6
	100.0%	5.9%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2023. The projection of cash flows used to determine the discount rate assumed that member contributions will be made based on the current contribution rate and that employer contributions will be made at the end of each pay period based on the actuarially determined contribution rates. For this purpose, only the employer contributions that are intended to fund benefits for current Plan members and their beneficiaries are included.

Projected employer contributions that are intended to fund the service cost for future Plan members and their beneficiaries, as well as projected contributions from future Plan members, are not included.

Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments for current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2023.

In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the employers' net pension liability as of June 30, 2023, calculated using the discount rate, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

(Amounts expressed in thousands)

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability	$3,925,717	$1,995,596	$410,690

NOTE 5 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contributions to the Plan are made pursuant to Section 31584 of the 1937 Act. The System's funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Members of the System are required to contribute, and such contributions range from 4.16% to 23.72% of annual covered salary for fiscal year 2022-23 depending on the member's tier, employer, and bargaining unit. Each employer of the System is obligated by State law to make all required contributions to the Plan and, depending on the participating employer and their employees' tiers, such contribution rates range from 12.04% to 72.96% of covered payroll for fiscal year 2022-23. The required contributions include current service cost and amortization of any unfunded prior service cost as of June 30, 2012, over a period of 23 years from June 30, 2012, amortization of any unfunded service costs resulting in actuarial gains or losses and amortization of any unfunded service costs resulting from changes in actuarial assumptions and methods over a 20-year period, amortization of any unfunded service costs resulting from Plan amendments over a 15-year period and amortization of any unfunded service costs resulting from retirement incentive programs over a period of up to 5 years.

Employer contribution rates are determined using the entry age normal cost method based on a level percentage of payroll. The System also uses this actuarial method to amortize the unfunded liability, if applicable. Member and employer contributions for the fiscal year ended June 30, 2023, totaled $510,769. Included in this total are employer contributions of $371,248 in fiscal year 2022-23, of which $331,073 was made by the County of Sacramento. Member contributions were $139,521 in fiscal year 2022-23. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed as of June 30, 2021.

NOTE 6 – RESERVES

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. Descriptions of the purpose for the reserve and designated accounts are provided below.

Member reserve represents the balance of member contributions. Additions include member contributions and interest earnings. Deductions include refunds of member contributions and transfers to retiree and death benefit reserve.

Employer reserve represents the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employer and interest earnings. Deductions include transfers to retiree and death benefit reserve, lump sum death benefits, and payments under California Government Code Sections 31725.5 and 31725.6 related to alternative employment for members otherwise entitled to disability retirement benefits.

Retiree and death benefit reserve represent the balance of transfers from the member reserve, employer reserve, and interest earnings, less payments to retirees, and payments to beneficiaries of retired members who are deceased.

Contingency reserve was created to serve as a reserve against deficiencies in future earnings and unexpected expenses. Investment gains and losses are recognized (smoothed) over a seven-year period.

Total allocated reserves and designations represent the smoothed actuarial value of assets (the fair value of assets less the unrecognized/deferred gains and losses) and is the sum of the preceding reserves.

Market stabilization reserve represents the unrecognized/deferred gains and losses and is the difference between the smoothed actuarial value of assets and the net position restricted for pension benefits at fair value.

A summary of the various reserve accounts, which comprise net position restricted for pension benefits at June 30, 2023, is as follows:

(Amounts expressed in thousands)

Member reserve	$1,100,473
Employer reserve	3,285,981
Retiree and death benefit reserve	7,665,742
Contingency reserve	370,898
Total allocated reserves and designations	12,423,094
Market stabilization reserve	(59,836)
Net position restricted for pension benefits and program administration	**$12,363,258**

NOTE 7 - PLAN TERMINATION

SCERS is administered in accordance with the provisions of the 1937 Act found in the California Government Code at Section 31450 et seq. Once adopted by the governing body of a county, there are no provisions in the 1937 Act which permit the governing body of the county to terminate the Plan. Section 31564 permits the governing body of a district to withdraw its employees if certain prerequisites are met. The governing body of a county or district can adopt optional provisions within the 1937 Act via ordinance or resolution. Once adopted, Section 31483 permits the governing body of a county or district to terminate the applicability of the optional provisions after a future date as specified in a subsequent ordinance or resolution.

NOTE 8 - RETIREE MEDICAL AND DENTAL INSURANCE PROGRAM

Plan Description

The Sacramento County Retiree Medical and Dental Insurance Program (the Program) is a multiple-employer medical and dental plan, which is sponsored and administered by the County of Sacramento and financed by three participating employers. SCERS' role in regard to the Program is limited to maintaining data provided by the administrator, collecting monies from the participating employers and retirees, and remitting premium payments to health carriers. The activities of the Program are accounted for in the custodial fund. SCERS does not provide any funding for the Program.

Below is the list of employers participating in the Program as of June 30, 2023:

- County of Sacramento
- Sacramento Metropolitan Fire District
- Sacramento Employment and Training Agency

The Program provides medical and/or dental subsidy/offset payments to eligible retirees. The Sacramento County Board of Supervisors, at its own discretion, sets the amount of subsidy/offset payment available to eligible County retirees on a year-to-year basis. The medical subsidy amounts for special districts' retirees are varied and are established by each of the special districts.

Eligibility

County annuitants who retired after May 31, 2007 - According to the Program's Administrative Policy, only County annuitants from bargaining unit 003, who retired after May 31, 2007, may be eligible for a premium subsidy/offset depending on the annuitant's credited service hours and type of retirement.

Special Districts' annuitants - The medical subsidy amounts for special districts' annuitants are varied and are established by each of the member districts.

There are no vested benefits associated with the Program. The Program does not create any contractual, regulatory, or other vested entitlement to present or future retirees, their spouses, or dependents for medical and/or dental benefits, or subsidy/offset payments at any particular level, or at all. The County of Sacramento and other participating employers may, in their sole discretion, amend or terminate, in whole or in part, the Program by Resolution of the Board of Supervisors.

Contributions and Reserves

The System does not have any authority to establish or amend the obligations of the Plan members and employers to contribute to the Program. SCERS does not determine the contribution rate or collect the required contributions from. Monies received by the System in excess of liabilities to pay premiums are recognized as liabilities payable to the employers. There are no net position or legally required reserve accounts for the Program.

Request for Information

Requests for additional financial information regarding the Program may be addressed to:

County of Sacramento
Department of Finance, Auditor-Controller Division
700 H Street, Room 3650
Sacramento, CA 95814
https://finance.saccounty.gov/AuditorController/Pages/default.aspx

NOTE 9 – CONTINGENCIES

The System is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the System's financial statements.

NOTE 10 – SUBSEQUENT EVENTS

The System has evaluated subsequent events through November 17, 2023, the date on which the financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEARS ENDED JUNE 30
(Amounts Expressed in Thousands)

	2023	2022	2021	2020	2019
Total pension liability					
Service cost	$270,740	$264,372	$265,224	$241,474	$238,685
Interest	912,500	873,481	855,203	830,663	783,932
Differences between expected and actual experience	279,701	74,494	74,045	50,651	165,493
Changes of assumptions	(20,664)	-	(324,177)	216,097	-
Benefit payments, including refunds of member contributions	(662,407)	(618,892)	(578,421)	(540,750)	(505,853)
Net change in total pension liability	779,870	593,455	291,874	798,135	682,257
Total pension liability - beginning	**13,578,984**	**12,985,529**	**12,693,655**	**11,895,520**	**11,213,263**
Total pension liability - ending (a)	**$14,358,854**	**$13,578,984**	**$12,985,529**	**$12,693,655**	**$11,895,520**
Plan fiduciary net position					
Contributions - member	$139,521	$132,526	$120,597	$126,354	$121,843
Contributions - employer	360,674	323,610	292,534	274,055	240,238
Contributions - withdrawn employer (1) (2) (3)	12,390	(14,284)	5,816	5,114	45,404
Net investment income/(loss)	710,907	(547,787)	2,753,409	301,373	675,726
Benefits paid	(655,591)	(614,345)	(575,329)	(537,698)	(502,944)
Withdrawal of contributions	(6,816)	(4,547)	(3,092)	(3,053)	(2,909)
Administrative expenses	(28,178)	(8,971)	(9,165)	(8,460)	(7,601)
Net change in plan fiduciary net position	532,907	(733,798)	2,584,770	157,685	569,757
Plan fiduciary net position - beginning	**11,830,351**	**12,564,149**	**9,979,379**	**9,821,694**	**9,251,937**
Plan fiduciary net position - ending (b)	**$12,363,258**	**$11,830,351**	**$12,564,149**	**$9,979,379**	**$9,821,694**
Net pension liability - ending (a-b)	**$1,995,596**	**$1,748,633**	**$421,380**	**$2,714,276**	**$2,073,826**
Plan fiduciary net position as a percentage of the total pension liability	86.1%	87.1%	96.8%	78.6%	82.6%
Covered payroll	$1,175,393	$1,078,235	$1,034,343	$1,059,984	$1,017,885
Net pension liability as a percentage of covered payroll	169.8%	162.2%	40.7%	256.1%	203.7%

(1) Effective fiscal year ended 2018, the interest portion of withdrawn employer contributions was reported as Other Income on the Statement of Changes in Fiduciary Net Position.

(2) The withdrawn employer contributions reflected accrual of estimated unfunded actuarial accrued liability for which the withdrawn employer is contractually required to pay the System.

(3) This balance also includes other miscellaneous income.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (CONT'D)
FOR THE FISCAL YEARS ENDED JUNE 30
(Amounts Expressed in Thousands)

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$234,325	$193,490	$186,438	$185,428	$192,701
Interest	747,682	706,016	675,920	643,427	617,240
Differences between expected and actual experience	18,566	(46,244)	(49,245)	(6,447)	(108,155)
Changes of assumptions	-	823,712	-	-	15,781
Benefit payments, including refunds of member contributions	(468,308)	(432,066)	(405,702)	(374,657)	(347,619)
Net change in total pension liability	532,265	1,244,908	407,411	447,751	369,948
Total pension liability - beginning	**10,680,998**	**9,436,090**	**9,028,679**	**8,580,928**	**8,210,980**
Total pension liability - ending (a)	**$11,213,263**	**$10,680,998**	**$9,436,090**	**$9,028,679**	**$8,580,928**
Plan fiduciary net position					
Contributions - member	$99,906	$89,489	$77,494	$68,143	$57,635
Contributions - employer	198,331	201,928	207,884	221,823	209,367
Contributions - withdrawn employer (1) (2) (3)	182	2,000	1,136	1,136	1,136
Net investment income/(loss)	844,489	1,048,915	(72,399)	158,222	1,107,152
Benefit paid	(465,354)	(429,754)	(403,356)	(372,369)	(344,890)
Withdrawal of contributions	(2,954)	(2,312)	(2,346)	(2,288)	(2,729)
Administrative expenses	(6,888)	(6,906)	(6,362)	(5,854)	(5,665)
Net change in plan fiduciary net position	667,712	903,360	(197,949)	68,813	1,022,006
Plan fiduciary net position - beginning	**8,584,225**	**7,680,865**	**7,878,814**	**7,810,001**	**6,787,995**
Plan fiduciary net position - ending (b)	**$9,251,937**	**$8,584,225**	**$7,680,865**	**$7,878,814**	**$7,810,001**
Net pension liability - ending (a-b)	**$1,961,326**	**$2,096,773**	**$1,755,225**	**$1,149,865**	**$770,927**
Plan fiduciary net position as a percentage of the total pension liability	82.5%	80.4%	81.4%	87.3%	91.0%
Covered payroll	$985,375	$958,934	$912,421	$873,328	$858,343
Net pension liability as a percentage of covered payroll	199.0%	218.7%	192.4%	131.7%	89.8%

(1) Effective fiscal year ended 2018, the interest portion of withdrawn employer contributions was reported as Other Income on the Statement of Changes in Fiduciary Net Position.

(2) The withdrawn employer contributions reflected accrual of estimated unfunded actuarial accrued liability for which the withdrawn employer is contractually required to pay the System.

(3) This balance also includes other miscellaneous income.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30
(Amounts Expressed in Thousands)

	2023	2022	2021	2020	2019
Actuarially determined contribution (ADC)	$360,674	$323,610	$292,534	$274,055	$240,238
Contributions in relation to the ADC	360,674	323,610	292,534	274,055	240,238
Contribution deficiency (excess)	$-	$-	$-	$-	$-
Covered payroll	$1,175,393	$1,078,235	$1,034,343	$1,059,984	$1,017,885
Contributions in relation to the ADC as a percentage of covered payroll	30.7%	30.0%	28.3%	25.9%	23.6%

	2018	2017	2016	2015	2014
Actuarially determined contribution (ADC)	$198,331	$201,928	$207,884	$221,823	$209,367
Contributions in relation to the ADC	198,331	201,928	207,884	221,823	209,367
Contribution deficiency (excess)	$-	$-	$-	$-	$-
Covered payroll	$985,375	$958,934	$912,421	$873,328	$858,343
Contributions in relation to the ADC as a percentage of covered payroll	20.1%	21.1%	22.8%	25.4%	24.4%

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN
FOR THE FISCAL YEARS ENDED JUNE 30

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses*	6.0%	(4.3)%	27.4%	3.1%	7.2%	9.8%	13.6%	(1.0)%	2.0%	16.2%

The schedules presented in the Required Supplementary Information provide information to help promote an understanding of the employers' net pension liability over time on a fair value of assets basis. The Schedule of Changes in Net Pension Liability and Related Ratios includes historical trend information about the System's total pension liability and the progress made in accumulating sufficient assets to pay benefits when due.

The Schedule of Employer Contributions presents historical trend information about the actuarially determined contribution and the actual contributions made. The Schedule of Annual Money-Weighted Rate of Return presents investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Methods and Assumptions Used to Establish Actuarially Determined Contribution Rates

The following actuarial methods and assumptions were used to determine the fiscal year 2022-23 contribution rates reported in the Schedule of Employer Contributions:

Valuation date:	Actuarial valuation report as of June 30, 2021	
Actuarial cost method:	Entry Age Actuarial Cost Method	
Amortization method:	Level percentage of payroll	
Remaining amortization period:	14 years (declining) as of June 30, 2021 for the outstanding balance of the June 30, 2012 Unfunded Actuarial Accrued Liability (UAAL). Effective June 30, 2013, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments will be amortized over its own declining 15-year period and any change in UAAL due to retirement incentive programs will be amortized over a declining period of up to 5 years.	
Asset valuation method:	The market value of assets less unrecognized returns from each of the last six years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a seven-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the market value of assets.	
Actuarial assumptions:		
Investment rate of return:	6.75%, net of pension plan investment expense, including inflation	
Inflation rate:	2.75%	
Projected salary increases:	4.25% - 9.75% varying by service, including inflation	
Assumed post-retirement benefit increase:	Miscellaneous Tier 1	2.75%
	Miscellaneous Tier 2	0.00%
	Miscellaneous Tier 3	2.00%
	Miscellaneous Tier 4	2.00%
	Miscellaneous Tier 5	2.00%
	Safety Tier 1	2.75%
	Safety Tier 2	2.00%
	Safety Tier 3	2.00%
	Safety Tier 4	2.00%
Other assumptions:	Same as those used in the June 30, 2021, funding actuarial valuation.	
Other information:	All members with membership dates on or after January 1, 2013, enter the new tiers (i.e., Miscellaneous Tier 5 and Safety Tier 4) created by the California Public Employees' Pension Reform Act of 2013 (PEPRA).	

Changes in Methods and Assumptions in Net Pension Liability

Valuation date as of June 30:

2023
- The inflation rate was reduced from 2.75% to 2.50% to reflect the gradual decline of average inflation rates over the last several years.

2021
- Beginning with this GASB Statement No. 67 actuarial valuation, we no longer add the Contingency Reserve to the Actuarial Accrued Liability when we develop the funded status on a Market Value and Actuarial Value basis as of June 30, 2021. Because this change does not affect the values used to determine the UAAL on a Valuation Value of Assets basis, there is no impact on the employers' UAAL contribution rate.

2020
- The inflation rate was reduced from 3.0% to 2.75% to reflect the gradual decline of average inflation rates over the last several years.
- The investment rate of return was reduced from 7.00% to 6.75% to reflect the projected real rate of return for the next 10-15 years based on SCERS' asset allocation model and risk tolerance.
- The salary increase assumption was reduced from 3.0% to 2.75% to maintain the current real "across the board" salary increase assumption at 0.25%. This means that the combined inflationary and real "across the board" salary increases will decrease from 3.25% to 3.00%.
- The retirement rates were adjusted to be more in line with the experience.
- The mortality rates were adjusted and a generational approach was used to reflect a slight mortality improvement.
- Termination rates were adjusted to reflect a lower incidence of termination for Miscellaneous and Safety members.
- The disability rates were adjusted to reflect slightly lower incidence of disability for Miscellaneous and Safety members.
- Maintain assumption for new Miscellaneous disabled retirees to anticipate conversions of unused sick leave at retirement.
- Maintain assumption for assumed average entry ages of 35 for Miscellaneous and 29 for Safety.

2017
- The inflation rate was reduced from 3.25% to 3.0% to reflect the gradual decline of average inflation rates over the last several years.
- The investment rate of return was reduced from 7.50% to 7.00% to reflect the projected real rate of return for the next 10-15 years based on SCERS' asset allocation model and risk tolerance.
- The salary increase assumption was adjusted slightly to reflect past experience.
- The retirement rates were adjusted to be more in line with the experience.
- The mortality rates were adjusted and a generational approach was used to reflect a slight mortality improvement.
- Termination rates were adjusted to reflect lower incidence of termination, with a lower proportion electing to receive a deferred vested benefit.
- The disability rates were adjusted to reflect slightly lower incidence of disability for Miscellaneous and Safety members.
- An assumption was introduced for new Miscellaneous disabled retirees to anticipate conversions of unused sick leave at retirement.

2014
- The mortality rates were adjusted to reflect a slight mortality improvement.
- Termination rates were adjusted to reflect lower incidence of termination, with a higher proportion electing to receive a deferred vested benefit.
- Years of service instead of age was used in determining and applying the merit and promotional rates of salary increase.

OTHER SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
(Amounts Expressed in Thousands)

SCHEDULE OF ADMINISTRATIVE EXPENSES

Type of administrative expenses:	**2023**
Pension administration project impairment	$17,131
Salaries and benefits	6,553
County allocated expenses	1,071
Information technology	742
Professional services	646
Depreciation	579
Pension payroll services	376
Rent and lease	287
Insurance liability	156
Printing and postage	44
Other	593
Total administrative expenses	**$28,178**

SCHEDULE OF INVESTMENT FEES AND EXPENSES

Type of investment expenses:	**2023**
Equity	$14,422
Fixed income	3,551
Real assets	17,518
Real estate	1,117
Absolute return	4,559
Private credit	3,792
Private equity	27,656
Custodian fees	500
Investment consulting fees	1,661
Other investment expenses and fees	2,571
Total investment fees and expenses	**$77,347**

SCHEDULE OF PAYMENTS TO CONSULTANTS

Type of services:	**2023**
IT consulting *	$703
Legal	1,079
Actuarial	269
Medical consulting	133
Audit	75
Total payments to consultants	**$2,259**

* IT Consulting also includes payments to consultants related to SCERS' IT Modernization Project and these costs have been capitalized.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO THE AUDIT COMMITTEE AND BOARD OF RETIREMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

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BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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REQUIRED COMMUNICATIONS TO THE MEMBERS OF THE AUDIT COMMITTEE AND BOARD OF RETIREMENT IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)

To the Audit Committee and Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

We have audited the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2023, and have issued our report dated November 17, 2023. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SCERS are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. As described in Note 2 of the financial statements, SCERS adopted Governmental Accounting Standards Board (GASB) Statements No. 96, *Subscription-Based Information Technology Arrangements*, and No. 99, *Omnibus 2022*, in the fiscal year ended June 30, 2023. The cumulative effect of GASB Statement No. 96 as of the beginning of the year was insignificant and not reported in the Statement of Fiduciary Net Position. There was no impact to the financial statements upon implementation of GASB Statement No. 99. We noted no transactions entered into by SCERS during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting SCERS' financial statements were:

- Management's estimate of the fair value of investments, which was derived by various methods as detailed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

- The contribution amounts, as detailed in the notes to the financial statements, which are based on the long-term expected rate of return on pension plan investments and actuarial assumptions and methods. We evaluated the key factors and assumptions used to develop the estimates of the contribution amounts in determining that they are reasonable in relation to the financial statements taken as a whole.

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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures for cash and investments in Note 2 and Note 3 to the financial statements, Summary of Significant Accounting Policies and Cash and Investments, respectively, were derived from SCERS' investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes.

- The disclosures related to the funding policy, net pension liability, and actuarial methods and assumptions in Note 4, Pension Liability and Significant Assumptions, and Note 5, Contributions Required and Contributions Made, were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

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

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. None of the uncorrected misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

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

Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 17, 2023.

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

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

Other Matters
We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Annual Money-Weighted Rate of Return, and Notes to the Required Supplementary Information (RSI), which are RSI that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenses, Schedule of Investment Fees and Expenses, and Schedule of Payments to Consultants, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of the Audit Committee, Board of Retirement, and management of SCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION
Brown Armstrong
Accountancy Corporation

Stockton, California
November 17, 2023

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Audit Committee and Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise SCERS' basic financial statements, and have issued our report thereon dated November 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Stockton, California
November 17, 2023

AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING (MANAGEMENT LETTER)

To the Audit Committee and Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

We have audited the financial statements of the Sacramento County Employees' Retirement System (SCERS), as of and for the fiscal year ended June 30, 2023, and have issued our report thereon dated November 17, 2023. In planning and performing our audit of the financial statements, we considered SCERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The results of our audit disclosed no recommendations for the current year, and we are providing the disposition of the prior year comments.

Restriction on Use

This report is intended solely for the information and use of the Audit Committee, Board of Retirement, and management of SCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION
Brown Armstrong
Accountancy Corporation

Stockton, California
November 17, 2023

Current Year Agreed Upon Conditions and Recommendations

No agreed upon conditions and recommendations in the current year.

Status of Prior Year Agreed Upon Recommendations

Agreed Upon Condition 1 – COMPASS

Condition

The County of Sacramento's (the County) general ledger system (COMPASS), which is also utilized by SCERS, contains several accounts where transaction detail for the current year includes activity dating to the system's implementation.

Recommendation

We recommend that SCERS implement a process for maintaining open managed accounts to ensure that only valid open items are reported in account transaction detail. Valid open items should only include outstanding amounts that have no offsetting entry. In addition, SCERS should review the validity of remaining open items as of June 30th of each fiscal year going forward.

Management Response

Management assessed the scope of work required to complete the managed account clearing project and concluded that existing issues will be addressed in 2023. Staff turnover and competing priorities were the main obstacles preventing completion of the work. While significant in scope, the open managed accounts pose no threat to the accuracy and integrity of SCERS' financial statements.

Current Year Status

SCERS has implemented a process to fully clear out prior investment managed accounts simultaneously with recording the new full account balance on a quarterly basis.

SCERS has provided the information to the Sacramento County Department of Finance and is waiting for the identified transactions to be posted for clearing. SCERS does not have the function, ability, nor system rights to clear the payroll managed accounts within the financial system, COMPASS. The Department of Finance processes employee payroll and is the only department with access to clearing the payroll managed accounts.

For operational managed accounts, SCERS implemented a process to review each general ledger to clear out managed accounts on a quarterly basis. Most accounts have cleared with very few exceptions.