



# Audit Committee Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 3

**MEETING DATE:** November 15, 2022

**SUBJECT:** Annual Independent Financial Statement Audit

**SUBMITTED FOR:** \_\_\_ Consent      X **Deliberation and Action**      \_\_\_ **Receive and File**

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### **RECOMMENDATION**

Staff recommends the Audit Committee approve the draft audited Financial Statements and the accompanying required draft reports for the fiscal year ended June 30, 2022.

### **PURPOSE**

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

### **DISCUSSION**

This item fulfills 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.

Brown Armstrong rendered an unmodified (or "clean") opinion on SCERS' financial statements. There was one recommendation resulting from the June 30, 2022 audit. Ashley Green, Partner, of Brown Armstrong will present the June 30, 2022 audit results. The presentation will include significant audit matters required by professional standards, and the audit results.

### **FINANCIAL HIGHLIGHTS**

- SCERS' net position restricted for pension benefits as of June 30, 2022 totaled \$11,830.4 million, a decrease of \$733.7 million or 5.8% from the \$12,278.1 million in net position as of June 30, 2021. The decrease in net position was mainly due to the overall decrease in investment earnings.

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- For the fiscal year ended June 30, 2022, SCERS' total fund net return of -3.5% was 0.1% higher than the investment policy benchmark return of -3.6%. During fiscal year 2021-22, investments with the strongest returns came from private equity, private credit and absolute returns investments. Net investment income after investment fees and expenses was -\$547.8 million for the fiscal year ended June 30, 2022.
  - As of June 30, 2022, SCERS' total pension liability was \$13.6 billion, up slightly from 13.0 billion as of June 30, 2021. The employers' Net Pension Liability (NPL) was 1,748.6 million as of June 30, 2022, an increase from the \$421.3 million as of June 30, 2021. The increase in employers' net pension liability is primarily a result of unfavorable investment returns.
  - For the fiscal years ended June 30, 2022 and 2021, the combined employer and member contributions were \$438.8 and \$415.9 million, respectively, for an increase of \$22.9 million or 5.5%. The increase in employer contributions for the fiscal year ended June 30, 2022, was \$11.0 million, or by about 3.7%, over the fiscal year ended June 30, 2021. Accordingly, there was an increase in employee contributions of \$11.9 million, or by about 9.9%, over the fiscal year ended June 30, 2021.
  - For the fiscal year ended June 30, 2022, total deductions of \$660.4 million comprised of benefit payments, withdrawal of contributions, and administrative expenses. Total deductions increased by \$40.4 million, or 6.5%, 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.

## **ATTACHMENTS**

- SCERS Annual Financial Report for year ended June 30, 2022
- 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)
  - 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*

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Margo Allen  
Chief Operations Officer

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Eric Stern  
Chief Executive Officer

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, 2022

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
A PENSION TRUST FUND OF THE COUNTY OF SACRAMENTO, CALIFORNIA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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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 Pension Trust and Custodial Funds 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, 2022, the related Pension Trust and Custodial Funds Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the 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 the Pension Trust and Custodial Funds of SCERS as of June 30, 2022, 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 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, 2021, basic financial statements, and our report dated February 25, 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 year ended June 30, 2021, 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, 2022, 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

Stockton, California  
November 17, 2022

## MANAGEMENT'S DISCUSSION AND ANALYSIS



SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

## 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, 2022. The MD&A presents SCERS' overall financial position and the results of its operations, in conjunction with SCERS' financial statements and notes.

### Financial Highlights

As of June 30, 2022, SCERS' fiduciary net position restricted for pension benefits and program administration (net position) totaled \$11,830.4 million. This represented a decrease of \$733.7 million or 5.8% from the \$12,564.1 million in SCERS' net position as of June 30, 2021.

Additions to net position were -\$73.3 million and \$3,204.7 million for the fiscal years ended June 30, 2022 and 2021, respectively. The total additions for the fiscal year ended June 30, 2022, decreased by \$3,278.0 million, or 102.3%, over the fiscal year ended June 30, 2021. The primary reason for the decrease in additions was the lower investment performance.

Deductions from net position were \$660.4 million and \$620.0 million for the fiscal years ended June 30, 2022 and 2021, respectively. The total deductions for the fiscal year ended June 30, 2022, increased by \$40.4 million or 6.5% over the fiscal year ended June 30, 2021. The primary reason for the increase in total deductions is due to 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, 2022) 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, 2022, SCERS' total pension liability was \$13,579.0 million, up from \$12,985.5 million as of June 30, 2021. The employers' net pension liability was \$1,748.6 million as of June 30, 2022, which increased from \$421.4 million as of June 30, 2021. The fiduciary net position as a percentage of total pension liability decreased to 87.1% as of June 30, 2022, from 96.8% as of June 30, 2021.

## 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 Supplemental 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, 2022, along with comparative total information as of and for the fiscal year ended June 30, 2021. 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, 2022, totaled \$11,830.4 million, a decrease of \$733.7 million or 5.8% from the \$12,564.1 million in net position as of June 30, 2021. The decrease in net position for the fiscal year ended June 30, 2022, was due to benefits and expenses paid during the fiscal year exceeding the contributions received.

For the fiscal year ended June 30, 2022, the total fund return, net of fees, of -3.5% was 0.1% higher than the return of the investment policy benchmark of -3.6%. During fiscal year 2021-22, investments with the strongest returns came from the private equity, real estate and real assets investments.

In the fiscal year ended June 30, 2022, the increase in cash and short-term investments was offset by the decrease in other cash and cash equivalents due to the dedicated 1% target allocation to cash per the approved asset allocation policy. The decrease in receivables and investment purchases and other as of June 30, 2022, was the result of a decrease 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, 2022, reflected a lower level of activity in the securities lending industry.

The table below compares SCERS' fiduciary net position as of June 30, 2022, and 2021:

<b>FIDUCIARY NET POSITION</b>				
FOR THE FISCAL YEAR ENDED JUNE 30				
(Amounts Expressed in Millions)				
	<b>2022</b>	<b>Restated 2021</b>	<b>Increase/ (Decrease)</b>	<b>% Change</b>
<b>Assets</b>				
Cash and short-term investments	\$533.5	\$436.2	\$97.3	22.3%
Receivables	246.6	255.1	(8.5)	(3.3)
Investments	11,304.2	12,346.8	(1,042.6)	(8.4)
Securities lending collateral	250.3	400.3	(150.0)	(37.5)
Other assets	1.3	0.4	0.9	225.0
Capital assets, net*	21.4	19.9	1.5	7.6
<b>Total assets*</b>	<b>12,357.3</b>	<b>13,458.7</b>	<b>(1,101.4)</b>	<b>(8.2)</b>
<b>Liabilities</b>				
Other liabilities*	47.8	43.2	4.6	10.7
Investment purchases and other	234.6	459.1	(224.5)	(48.9)
Securities lending obligation	244.5	392.3	(147.8)	(37.7)
<b>Total liabilities*</b>	<b>526.9</b>	<b>894.6</b>	<b>(367.7)</b>	<b>(41.1)</b>
<b>Net position restricted for pension benefits and program administration</b>	<b><u>\$11,830.4</u></b>	<b><u>\$12,564.1</u></b>	<b><u>\$(733.7)</u></b>	<b><u>(5.8%)</u></b>

\* Fiscal year 2021 Capital Assets, net and Other Liabilities are restated due to implementation of GASB Statement No. 87.

GASB Statement No. 67 replaced 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, 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 shown in this report is determined on the same basis as SCERS' actuarial accrued liability measured for funding.

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, 2022, the employers' total pension liability was \$13,579.0 million, and the net pension liability (the total pension liability less the Plan's fiduciary net position) was \$1,748.6 million. The Plan's fiduciary net position as a percentage of the total pension liability was 87.1%. In general terms, this ratio means that as of June 30, 2022, SCERS had approximately 87 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 \$1,634.6 million as of June 30, 2021, to \$182.5 million as of June 30, 2022.

The following table presents a reserve summary as of fiscal years ended June 30, 2022, and 2021:

### NET POSITION RESTRICTED FOR PENSION BENEFITS AS OF FISCAL YEAR ENDED JUNE 30

(Amounts Expressed in Millions)

	<b>2022</b>	<b>2021</b>
Member reserve	\$1,059.2	\$1,010.3
Employer reserve	3,278.7	3,108.9
Retiree and death benefit reserve	6,955.1	6,486.1
Contingency reserve	354.9	324.2
Total allocated reserves and designations	11,647.9	10,929.5
Market stabilization reserve	182.5	1,634.6
<b>Net position restricted for pension benefits and program administration</b>	<b>\$11,830.4</b>	<b>\$12,564.1</b>

## Changes in Fiduciary Net Position

The following table presents the changes in fiduciary net position for the fiscal years ended June 30, 2022, and 2021.

### CHANGES IN FIDUCIARY NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30

(Amounts Expressed in Millions)

	2022	2021	Increase/ (Decrease)	% Change
<b>Additions</b>				
Member contributions	\$132.5	\$120.6	\$11.9	9.9%
Employer contributions	306.3	295.3	11.0	3.7
Net investment income (loss)	(339.1)	2,969.0	(3,308.1)	(111.4)
Net securities lending income	1.6	1.4	0.2	14.3
Investment fees and expenses	(210.3)	(217.1)	6.8	3.1
Other income	3.1	3.1	-	-
Health premiums collected from members and employers	32.6	32.4	0.2	0.6
<b>Total additions</b>	<b>(73.3)</b>	<b>3,204.7</b>	<b>(3,278.0)</b>	<b>(102.3)</b>
<b>Deductions</b>				
Benefits paid	614.3	575.3	39.0	6.8
Withdrawal of contributions	4.5	3.1	1.4	45.2
Administrative expenses	9.0	9.2	(0.2)	(2.2)
Health premiums remitted to health carriers	32.6	32.4	0.2	0.6
<b>Total deductions</b>	<b>660.4</b>	<b>620.0</b>	<b>40.4</b>	<b>6.5</b>
Increase (decrease) in net position	(733.7)	2,584.7	(3,318.4)	(128.4)
<b>Net position, beginning</b>	<b>12,564.1</b>	<b>9,979.4</b>	<b>2,584.7</b>	<b>25.9</b>
<b>Net position, ending</b>	<b>\$11,830.4</b>	<b>\$12,564.1</b>	<b>(\$733.7)</b>	<b>(5.8%)</b>

### Additions to Net Position

Financing for the benefits that SCERS provides to its members is derived primarily through the collection of employer and member contributions and investment earnings. For the fiscal years ended June 30, 2022 and 2021, total additions were -\$73.3 million and \$3,204.7 million, respectively.

For the fiscal years ended June 30, 2022 and 2021, the combined employer and member contributions were \$438.8 million and \$415.9 million, respectively, for an increase of \$22.9 million. Individually, there was an increase in employer contributions for the fiscal year ended June 30, 2022, of \$11.0 million or 3.7% over the fiscal year ended June 30, 2021. There was an increase in member contributions of \$11.9 million or 9.9% over the fiscal year ended June 30, 2021.

Net investment income (loss) after investment fees and expenses was -\$547.8 million and \$2,753.4 million for the fiscal years ended June 30, 2022 and 2021, respectively. The net investment losses 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, 2022 and 2021, total deductions were \$660.4 million and \$620.0 million, respectively.

Deductions increased by \$40.4 million or 6.5% in the fiscal year ended June 30, 2022. The primary cause of the increase in deductions was due to 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 \$8.7 million for the fiscal year ended June 30, 2022, excluding IT costs, were 0.07% 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 ACERA ("Alameda"). SCERS is in the process of making corrections during the 2022-23 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 [www.scers.org](http://www.scers.org).

## BASIC FINANCIAL STATEMENTS

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
(Dollar Amounts Expressed in Thousands)

	2022			2021
	Pension Trust Fund	Custodial Fund	Total Fund	Restated Total Fund
<b>Assets</b>				
Cash and short-term investments				
Cash invested with Sacramento County Treasurer	\$11,355	\$2,840	\$14,195	\$12,943
Other cash and cash equivalents	138,585	-	138,585	125,248
Short-term investments with fiscal agents	380,751	-	380,751	298,000
<b>Total cash and short-term investments</b>	<b>530,691</b>	<b>2,840</b>	<b>533,531</b>	<b>436,191</b>
Receivables				
Member and employer contributions	29,617	-	29,617	48,602
Accrued investment income	22,476	-	22,476	19,121
Investment sales and other	194,525	-	194,525	187,380
<b>Total receivables</b>	<b>246,618</b>	<b>-</b>	<b>246,618</b>	<b>255,103</b>
Investments				
Equity	3,900,492	-	3,900,492	5,249,841
Fixed income	2,225,639	-	2,225,639	2,363,034
Real assets	1,037,564	-	1,037,564	934,055
Real estate	1,090,302	-	1,090,302	861,839
Absolute return	955,803	-	955,803	1,084,545
Private credit	330,188	-	330,188	256,226
Private equity	1,764,212	-	1,764,212	1,597,224
<b>Total investments</b>	<b>11,304,200</b>	<b>-</b>	<b>11,304,200</b>	<b>12,346,764</b>
Securities lending collateral	250,331	-	250,331	400,356
Other assets	1,267	-	1,267	374
Capital assets, net*	21,433	-	21,433	19,898
<b>Total assets*</b>	<b>12,354,540</b>	<b>2,840</b>	<b>12,357,380</b>	<b>13,458,686</b>
<b>Liabilities</b>				
Warrants payable	2,074	-	2,074	1,737
Accounts payable and other accrued liabilities	37,292	2,840	40,132	35,347
Current lease liability*	444	-	444	254
Long-term lease liability*	5,287	-	5,287	5,731
Investment purchases and other	234,559	-	234,559	459,146
Securities lending obligation	244,533	-	244,533	392,322
<b>Total liabilities*</b>	<b>524,189</b>	<b>2,840</b>	<b>527,029</b>	<b>894,537</b>
<b>Net position restricted for pension benefits and program administration</b>	<b>\$11,830,351</b>	<b>\$ -</b>	<b>\$11,830,351</b>	<b>\$12,564,149</b>

\* Fiscal year 2021 Capital Assets, net and Other Liabilities are restated due to implementation of GASB Statement No. 87.

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, 2022  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
(Dollar Amounts Expressed In Thousands)

Additions	2022			2021
	Pension Trust Fund	Custodial Fund	Total Fund	Total Fund
Contributions				
Member	\$132,526	\$ -	\$132,526	\$120,597
Employer	306,335	-	306,335	295,269
<b>Total contributions</b>	<b>438,861</b>	<b>-</b>	<b>438,861</b>	<b>415,866</b>
Investment income (loss)				
Net appreciation (depreciation) in fair value of investments	(574,873)	-	(574,873)	2,744,928
Other investment income	235,754	-	235,754	224,159
Less investment fees and expenses	(210,286)	-	(210,286)	(217,055)
Net investment income (loss)	(549,405)	-	(549,405)	2,752,032
Securities lending income	2,048	-	2,048	1,368
Securities lending expense				
Borrower rebate expense	(229)	-	(229)	544
Securities lending management fees	(200)	-	(200)	(535)
Net income from securities lending	1,619	-	1,619	1,377
Other income	2,990	-	2,990	3,081
Health premiums collected from members and employers	-	32,644	32,644	32,362
<b>Total additions</b>	<b>(105,935)</b>	<b>32,644</b>	<b>(73,291)</b>	<b>3,204,718</b>
<b>Deductions</b>				
Benefits paid	614,345	-	614,345	575,329
Withdrawal of contributions	4,547	-	4,547	3,092
Administrative expenses	8,971	-	8,971	9,165
Health premiums remitted to health carriers	-	32,644	32,644	32,362
<b>Total deductions</b>	<b>627,863</b>	<b>32,644</b>	<b>660,507</b>	<b>619,948</b>
<b>Net increase (decrease) in net position</b>	<b>(733,798)</b>	<b>-</b>	<b>(733,798)</b>	<b>2,584,770</b>
<b>Net position restricted for pension benefits and Program administration</b>				
Beginning of year	12,564,149	-	12,564,149	9,979,379
Ending of year	<b>\$11,830,351</b>	<b>\$ -</b>	<b>\$11,830,351</b>	<b>\$12,564,149</b>

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

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022  
 (Dollar Amounts Expressed in Thousands)

**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 a nine member Board of Retirement. Four are appointed by the County Board of Supervisors; four are elected by the members of the System (two by the Miscellaneous members, one by the Safety members and one by the Retiree members); and the County Director 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, 2022, participating local government employers consisted of the County of Sacramento (and its Elected Officials); Superior Court of California, County of Sacramento (Superior Court); 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, 2022, the System's membership consisted of:

	2022
<b>Active Members:</b>	
<b>Vested</b>	
Miscellaneous Tier 1	13
Miscellaneous Tier 2	32
Miscellaneous Tier 3	4,829
Miscellaneous Tier 4	271
Miscellaneous Tier 5	1,999
Total Miscellaneous	7,144
Safety Tier 1	17
Safety Tier 2	849
Safety Tier 3	112
Safety Tier 4	438
Total Safety	1,416
<b>Total Vested</b>	<b>8,560</b>
<b>Non-Vested</b>	
Miscellaneous Tier 3	30
Miscellaneous Tier 4	37
Miscellaneous Tier 5	3,492
Total Miscellaneous	3,559
Safety Tier 2	-
Safety Tier 3	11
Safety Tier 4	627
Total Safety	638
<b>Total Non-Vested</b>	<b>4,197</b>
<b>Total Active Members</b>	<b>12,757</b>

	2022
<b>Retirees and beneficiaries currently receiving benefits:</b>	
Miscellaneous - Service	8,730
Miscellaneous - Beneficiary	1,588
Miscellaneous - Nonservice-Connected Disability	250
Miscellaneous - Service-Connected Disability	181
Total Miscellaneous	10,749
Safety - Service	2,068
Safety - Beneficiary	558
Safety - Nonservice-Connected Disability	17
Safety - Service-Connected Disability	243
Total Safety	2,886
<b>Total Retirees and Beneficiaries</b>	<b>13,635</b>
<b>Terminated employees entitled to benefits but not yet receiving them (*):</b>	
Miscellaneous Tier 1	23
Miscellaneous Tier 2	84
Miscellaneous Tier 3	2,298
Miscellaneous Tier 4	133
Miscellaneous Tier 5	1,451
Total Miscellaneous	3,989
Safety Tier 1	17
Safety Tier 2	312
Safety Tier 3	14
Safety Tier 4	91
Total Safety	434
<b>Total Terminated Members</b>	<b>4,423</b>
<b>Grand Total</b>	<b>30,815</b>

\*Includes terminated members due a refund of member contributions.

## 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 is derived from the 1937 Act and PEPRA.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCERS reports fiduciary funds at June 30, 2022, 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, 2022 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 defined as assets with an initial individual cost of \$10,000 or more and an estimated useful life in excess of one year. Capital assets consist of furniture, building improvements, and intangible assets, which are recorded at cost on the Statement of Fiduciary Net Position, net of accumulated depreciation/amortization. Depreciation/amortization is charged to operations using the straight-line method on the estimated useful life of the related asset and is included in administrative expenses on the Statement of Changes in Fiduciary Net Position. Estimated useful lives for furniture and building improvements are 10 years. The estimated useful life for furniture and for building improvements is 10 years. Intangible assets for SCERS' Information Technology Modernization Project are also depreciated over a 10-year period.

As of July 1, 2021, SCERS implemented GASB Statement No. 87 with a capitalization threshold of \$10,000. A ten year and two month office space lease paid monthly in advance between March 1, 2011 and April 30, 2021 was extended to April 30, 2031. The rental amount increased annually approximately by 2% from \$42,663 to \$51,195 per month beginning from the initial lease term in March 1, 2011 to the ending lease term in April 30, 2021. As per the renewal agreement, the base rent was abated for five months from May 2021 to September 2021. 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 the interest rate. SCERS does not plan to extend the lease after April 30, 2031. This lease falls under GASB Statement No. 87 and the capitalization threshold. There are no outstanding lease commitments nor impairment losses recognized. Other payments or variables excluded in previous lease liability are not recognized this year.

### Future Lease Payment Maturity Schedule under GASB Statement No. 87

As of June 30, 2022 (Dollars in Thousands)

Year	Interest	Principal	Total Payment
2022-23	\$ 277	\$ 444	\$ 721
2023-24	253	490	743
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
<b>Total</b>	<b>\$ 1,439</b>	<b>\$ 5,731</b>	<b>\$ 7,170</b>

### Other Assets

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



## Administrative Expenses

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

## Estimates

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

## Comparative Totals

The Basic Financial Statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the U.S. Accordingly, such information should be read in conjunction with SCERS' financial statements for the fiscal year ended June 30, 2021, from which the summarized information was derived.

## New Accounting Pronouncements

SCERS' implementation of the provisions of GASB Statement No. 87, *Leases*, was completed for the fiscal year ended June 30, 2022. The implementation of this statement has changed SCERS' financial statements as follows: added new right-to-use asset category under capital assets and lease liability line item to the Statement of Fiduciary Net Position, and additional note disclosures in Capital Assets. These additions to the financial statements and related disclosures are expected to better meet the information needs of the financial statement users.

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. This statement addresses issues that were identified during the implementation and application of certain GASB Statements and a variety of topics related to specific provisions. The implementation and applicability issues addressed in the statement include those related to Statement Nos. 73, 74, 84, and 87. Items addressed under the specific provisions include correction to the terminology used to refer to derivative instruments. The provisions of this statement were originally effective for reporting periods beginning after June 15, 2020. GASB Statement No., 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued in May 2020, postponed the effective date of Statement No. 92, by one year to reporting periods beginning after June 15, 2021. SCERS implemented the only applicable section of this statement, which is terminology used to refer to derivative instruments for the fiscal year ended June 30, 2022.

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 will implement the provisions of this statement for the fiscal year ending June 30, 2023.

## Restatement of Comparative Balances

SCERS implemented GASB Statement No. 87, *Leases*, effective July 1, 2021. As a result of the retroactive implementation requirement, the comparative balances as of June 30, 2021, of the fiduciary net position were adjusted for this accounting change as shown in the below table. For additional information on leases, refer to note Capital Assets. The restatement for prior periods was not practicable and the impact of this change is also immaterial to the financial statements.

**Restatement of Comparative Balances Due to GASB Statement No. 87 Implementation**  
As of June 30, 2021 (Dollars in Thousands)

	June 30, 2021
<b>Statement of Fiduciary Net Position</b>	
<b>Assets:</b>	
Capital assets, net	\$5,985
<b>Liabilities:</b>	
Current lease liability	254
Long-term lease liability	5,731

### 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, 2022, is as follows:

Asset Class	Target Allocation
Equity	40.0 %
Fixed Income	18.0
Real Assets	7.0
Real Estate	9.0
Absolute Return	7.0
Private Credit	5.0
Private Equity	11.0
Liquid Real Return	2.0
Cash	1.0
	100.0 %

#### 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 \$14,195 at June 30, 2022. The pool was not rated, and the weighted-average maturity of the pool was 278 days at June 30, 2022.

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, 2022, other cash and cash equivalents constituted balances in bank demand deposit accounts of \$138,585.

### **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, 2022, the fair value of the System's short-term investments with fiscal agents was \$380,751. 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, 2022, the STIF is not rated by credit rating agencies. Most investments range in maturity from overnight to 90 days with 26% of the investment over 90 days. For the fiscal year ended June 30, 2022, the weighted-average maturity was 11 days. Investments in the STIF from all participating custodial clients of State Street Bank were \$60.6 billion on June 30, 2022.

### **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, 2022:  
(Dollar amounts expressed in thousands)

June 30, 2022	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)
<b>Equity Securities</b>				
Communication Services	\$230,167	\$230,167	\$-	\$ -
Consumer Discretionary	330,439	330,439	-	-
Consumer Staples	201,915	201,915	-	-
Energy	131,685	131,685	-	-
Financials	409,448	409,448	-	-
Health Care	445,723	445,723	-	-
Industrials	454,642	454,642	-	-
Information Technology	518,825	518,825	-	-
Materials	174,505	174,505	-	-
Preferred Stock	783	783	-	-
Real Estate	102,949	102,949	-	-
Utilities	79,006	79,006	-	-
<b>Total Equity Securities</b>	<b>\$3,080,087</b>	<b>\$3,080,087</b>	<b>\$-</b>	<b>\$-</b>
<b>Fixed Income Securities</b>				
Securitized Obligations				
Asset-Backed Securities	\$98,812	\$-	\$98,812	\$-
Credit Obligations				
Corporate Bonds	316,910	374	316,536	-
Municipals	9,642	-	9,642	-
Yankees	59,538	-	59,538	-
U.S. Government & Agency Obligations				
Agency Securities	130,261	-	130,261	-
U.S. Treasury	1,063,700	-	1,063,700	-
International Government	4,471	-	4,471	-
Collateralized Mortgage Obligations	102,872	-	102,872	-
Mortgage Pass-Through				
FHLMC	60,782	-	60,782	-
FNMA	143,853	-	143,853	-
GNMA	11,244	-	11,244	-
<b>Total Fixed Income Securities</b>	<b>2,002,085</b>	<b>374</b>	<b>2,001,711</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>\$5,082,172</b>	<b>\$3,080,461</b>	<b>\$2,001,711</b>	<b>\$-</b>

June 30, 2022

**Investments Measured at the Net Asset Value (NAV)**

(Dollar amounts expressed in thousands)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)*</u>	<u>Redemption Notice Period</u>
Equity Commingled Funds	\$820,405	\$-	Daily, monthly	1 - 60 days
Fixed Income Commingled Funds	223,554	-	Monthly, quarterly	30 - 90 days
Real Assets	1,037,564	487,060	Quarterly and 3-Years	90 days
Real Estate	1,090,302	215,130	Daily and quarterly	1 - 90 days
Absolute Return	955,803	-	Monthly and quarterly	30 - 90 days
Private Credit	330,188	292,376	Not applicable	
Private Equity	1,764,212	814,219	Not applicable	
Securities Lending Collateral	250,331	-		
<b>Total Investments Measured at the NAV</b>	<b><u>6,472,359</u></b>			
<b>Total Investments</b>	<b><u>\$11,554,531</u></b>			

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

Note: In the event of significant market dislocations, additional time may be needed to obtain liquidity.

June 30, 2022

**Investment Derivative Instruments**

(Dollar amounts expressed in thousands)

	<u>Fair Value Measurements by Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Forwards	\$2,397	\$2,397	\$-	\$-
Options	473	-	473	-
Swaps	108,218	-	108,218	-
<b>Liabilities</b>				
Forwards	(687)	(687)	-	-
Options	(202)	-	(202)	-
Swaps	(108,092)	-	(108,092)	-
<b>Total Investment Derivative Instruments</b>	<b><u>\$2,107</u></b>	<b><u>\$1,710</u></b>	<b><u>\$397</u></b>	<b><u>\$-</u></b>

## 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 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 "ask" 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 settle 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, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was -4.3%.

### **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, 2022, 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, 2022, 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, 2022, 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, 2022, were as follows:

(Dollar 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	\$181,500	\$178,240	\$30,279	\$208,613
Equity	68,831	66,293	12,114	78,453
<b>Total</b>	<b>\$250,331</b>	<b>\$244,533</b>	<b>\$42,393</b>	<b>\$287,066</b>

### 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, 2022, the weighted average maturity was 3.9 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, 2022:

(Dollar amounts expressed in thousands)

Credit Rating	Total	Securitized Obligations	Credit Obligations	Commingled Funds	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations	Mortgage Pass-Through		
								FHLMC	FNMA	GNMA
Aaa	\$239,849	\$66,179	\$2,031	\$ -	\$111,554	\$ -	\$60,085	\$ -	\$ -	\$ -
AA+	230,998	-	1,180	-	18,224	-	6,959	60,782	143,853	-
AA-1	1,271	1,113	158	-	-	-	-	-	-	-
AA	7,428	5,050	1,705	-	-	-	673	-	-	-
AA-2	562	146	416	-	-	-	-	-	-	-
AA-	6,340	192	5,960	-	-	-	188	-	-	-
AA-3	516	-	516	-	-	-	-	-	-	-
A+	9,325	-	8,956	-	322	-	47	-	-	-
A-1	750	269	197	-	-	-	284	-	-	-
A	12,938	2,154	10,731	-	-	-	53	-	-	-
A-2	4,436	558	3,634	-	-	-	244	-	-	-
A-	69,560	906	68,036	-	-	-	618	-	-	-
BBB+	82,469	179	81,295	-	-	-	995	-	-	-
BAA-1	407	-	407	-	-	-	-	-	-	-
BBB	80,738	-	78,749	-	-	1,989	-	-	-	-
BAA-2	2,564	715	893	-	-	-	956	-	-	-
BBB-	65,116	1,261	60,409	-	-	740	2,706	-	-	-
BAA-3	3,153	537	564	-	-	761	1,291	-	-	-
BB+	16,716	2,116	14,325	-	-	246	29	-	-	-
BB	11,254	270	10,307	-	-	-	677	-	-	-
BA-2	1,548	-	-	-	-	492	1,056	-	-	-
BB-	18,934	-	12,303	-	-	-	6,631	-	-	-
BA-3	3,816	-	2,214	-	-	-	1,602	-	-	-
B+	6,618	-	6,618	-	-	-	-	-	-	-
B-1	417	-	417	-	-	-	-	-	-	-
B	8,227	3,789	4,231	-	-	111	96	-	-	-
B-2	605	-	605	-	-	-	-	-	-	-
B-	4,784	19	3,885	-	-	-	880	-	-	-
CCC+	2,080	-	1,787	-	161	132	-	-	-	-
Caa1	628	-	628	-	-	-	-	-	-	-
CCC	4,271	2,484	-	-	-	-	1,787	-	-	-
CAA2	228	-	228	-	-	-	-	-	-	-
CCC-	372	-	372	-	-	-	-	-	-	-
Caa3	120	-	120	-	-	-	-	-	-	-
CC	718	302	416	-	-	-	-	-	-	-
D	656	517	139	-	-	-	-	-	-	-
NA	1,074,944	-	-	-	1,063,700	-	-	-	-	11,244
NR	250,283	215,164	1,658	18,446	-	-	15,015	-	-	-
<b>Total</b>	<b>\$2,225,639</b>	<b>\$303,920</b>	<b>\$386,090</b>	<b>\$18,446</b>	<b>\$1,193,961</b>	<b>\$4,471</b>	<b>\$102,872</b>	<b>\$60,782</b>	<b>\$143,853</b>	<b>\$11,244</b>

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, 2022, 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, 2022, 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, 2022, the bank balance of cash and cash equivalents on deposit with SCERS' custodian bank and financial institutions totaled \$108,374, of which \$108,124 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, 2022, deposits held in the System's name for the margin accounts of \$30,517 were not insured or not collateralized, and these deposits were exposed to custodial credit risk.

As of June 30, 2022, 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, 2022.

(Dollar amounts expressed in thousands)

<b>Type of Securities</b>	<b>Fair Value</b>	<b>Effective Duration</b>	<b>Benchmark Duration</b>	<b>Difference</b>
Securitized Obligations				
Asset-Backed Securities	\$303,920	0.26	2.97	(2.71)
Credit Obligations				
Corporate Bonds	316,910	5.58	10.25	(4.67)
Municipals	9,642	0.29	10.52	(10.23)
Yankees	59,538	0.83	5.80	(4.97)
U.S. Government & Agency Obligations				
Agency Securities	130,261	0.11	3.63	(3.52)
U.S. Treasury	1,063,700	7.52	7.50	0.02
International Government	4,471	5.22	4.84	0.38
Collateralized Mortgage Obligations	102,872	2.75	4.15	(1.40)
Mortgage Pass-Through				
FHLMC	60,782	6.79	6.06	0.73
FNMA	143,853	6.92	5.98	0.94
GNMA	11,244	5.77	6.01	(0.24)
No Effective Duration				
Commingled Fund	18,446	NA	NA	NA
<b>Total Fair Value with Weighted Average</b>	<b>\$2,225,639</b>	<b>5.30</b>	<b>6.42</b>	<b>(1.12)</b>

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, 2022:

(Dollar 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	\$49	\$47,140	\$-	\$-	\$-	\$-	\$-	\$47,189
Brazilian Real	-	571	-	-	-	-	-	571
Canadian Dollar	81	115,203	146	-	-	-	-	115,430
Chilean Peso	-	250	-	-	-	-	-	250
Danish Krone	-	77,846	-	-	-	-	-	77,846
Euro Currency	3,408	400,045	21,311	4,100	188,298	15,300	139,063	771,525
Hong Kong Dollar	1,247	56,943	-	-	-	-	-	58,190
Hungarian Forint	(326)	-	-	-	-	-	-	(326)
Japanese Yen	3,438	244,926	-	-	10,057	-	-	258,421
Mexican Peso	(500)	732	-	-	-	-	-	232
New Israeli Sheqel	794	9,512	-	-	-	-	-	10,306
New Zealand Dollar	(348)	-	-	-	-	-	-	(348)
Norwegian Krone	(24)	7,485	-	-	-	-	-	7,461
Polish Zloty	(461)	-	-	-	-	-	-	(461)
Pound Sterling	2,430	135,217	6,420	-	1,766	-	-	145,833
Singapore Dollar	34	13,601	-	-	-	-	-	13,635
South African Rand	233	-	-	-	-	-	-	233
Swedish Krona	102	22,689	-	-	-	-	-	22,791
Swiss Franc	429	122,643	-	-	-	-	-	123,072
Yuan Renminbi	1	-	-	-	-	-	-	1
<b>Total</b>	<b>\$10,587</b>	<b>\$1,254,803</b>	<b>\$27,877</b>	<b>\$4,100</b>	<b>\$200,121</b>	<b>\$15,300</b>	<b>\$139,063</b>	<b>\$1,651,851</b>

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, 2022, SCERS' investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling \$318,751. 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, 2022, total commodities investments was \$20,431. 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, 2022, 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, the fair value and the notional value of derivative instruments outstanding at June 30, 2022:

(Dollar amounts expressed in thousands)

Investment Derivative Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments		Fair Value	Notional
	Amount	Financial Statement Classification		
Forwards	\$(7,386)	Investment Sales and Other	\$1,710	\$107,130
Futures	(88,004)	Investment Sales and Other	-	61,495
Options	371	Investment Purchases and Other	271	(10,170)
Rights/Warrants	-	Investment Sales and Other	-	2*
Swaps	(801)	Investment Purchases and Other	126	97,826
<b>Total Derivatives Instruments</b>	<b>\$(95,820)</b>		<b>\$2,107</b>	

\* Present in number of shares.

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, 2022, 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, 2022.

### 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, 2022:

(Dollar amounts expressed in thousands)

S&P Rating	Forwards	Swaps	Total
A	\$85	\$-	\$85
A-	648	1	649
A+	1,109	17	1,126
AA-	547	-	547
BBB+	-	1,335	1,335
Investments in Asset Position	2,389	1,353	3,742
Investments in Liability Position	(680)	(1,188)	(1,868)
<b>Total Investments in Asset/(Liability) Position</b>	<b>\$1,709</b>	<b>\$165</b>	<b>\$1,874</b>

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, 2022, was \$3,744. 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, 2022, 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, 2022, the System did not have any significant exposure to counterparty credit risk with any single party.

### Interest Rate Risk

At June 30, 2022, the System is exposed to interest rate risk on its derivative instruments as presented in the following tables:

(Dollar amounts expressed in thousands)

Investment Type	Total Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More than 10
Credit Default Swaps Bought	\$15	\$(2)	\$17	\$0	\$0
Credit Default Swaps Written	(37)	(37)	-	-	-
Fixed Income Options Bought	407	407	-	-	-
Fixed Income Options Written	(132)	(132)	-	-	-
Interest Rate Swaps	147	5	(944)	119	967
<b>Total</b>	<b>\$400</b>	<b>\$241</b>	<b>\$(927)</b>	<b>\$119</b>	<b>\$967</b>

### Derivative Instruments Highly Sensitive to Interest Changes

Investment Type	Reference Rate	Fair Value	Notional Value
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 0.95%	\$5	\$435
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1%	154	2,781
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.05%	90	1,391
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.15%	48	517
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.15%	42	407
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.2%	22	188
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 0.6804%	30	296
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.7425%	945	4,455
Interest Rate Swaps	Pay Variable 3-month LIBOR, Receive Fixed 1.6875%	(1,189)	53,260
<b>Total Interest Rate Swaps</b>		<b>\$147</b>	<b>\$63,730</b>

## Foreign Currency Risk

At June 30, 2022, 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:

(Dollar amounts expressed in thousands)

Currency Name	Forward Contracts		Swaps	Total Exposure
	Net Receivables	Net Payables		
Australian Dollar	\$ (8)	\$ 31	\$ -	\$ 23
Brazilian Real	(124)	16	-	(108)
Canadian Dollar	161	3	-	164
Chilean Peso	(14)	-	-	(14)
Colombian Peso	(45)	-	-	(45)
Czech Koruna	(8)	5	-	(3)
Euro Currency	(74)	1,245	-	1,171
Hungarian Forint	(37)	31	-	(6)
Indian Rupee	-	5	-	5
Indonesian Rupiah	-	12	-	12
Japanese Yen	(26)	4	-	(22)
Mexican Peso (new)	(47)	-	-	(47)
New Israeli Sheqel	(3)	113	-	110
New Taiwan Dollar	-	44	-	44
New Zealand Dollar	(23)	-	-	(23)
Philippine Peso	(55)	(2)	-	(57)
Polish Zloty	(63)	7	-	(56)
Pound Sterling	-	545	390	935
Singapore Dollar	(2)	-	-	(2)
Peruvian Sol	(13)	-	-	(13)
South African Rand	(4)	32	-	28
South Korean Won	-	26	-	26
Thailand Baht	-	78	-	78
Yuan Renminbi Offshore	4	(105)	-	(101)
Turkish Lira	-	1	-	1
<b>Grand Total</b>	<b>\$ (381)</b>	<b>\$ 2,091</b>	<b>\$ 390</b>	<b>\$ 2,100</b>

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, 2022.

## NOTE 4 – 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, 2022, is shown below:

(Dollar amounts expressed in thousands)

	<b>2022</b>
Total Pension Liability	\$13,578,984
Less: Fiduciary Net Position	11,830,351
<b>Net Pension Liability</b>	<b>\$1,748,633</b>
	<b>87.1%</b>
Fiduciary Net Position as a % of Total Pension Liability	

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, 2020, 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, 2022.

### 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, 2022:

	<b>June 30, 2022</b>
Discount rate:	6.75%
Inflation rate:	2.75%
Real across-the-board salary increase:	0.25%
Projected salary increases*:	4.25% - 10.50%

\* Includes inflation at 2.75% plus real across-the-board salary increase of 0.25% plus merit and promotional increases as of June 30, 2022.

**Actuarial Methods and Renewal Application Part A and B (Continued):**

June 30, 2022

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	<p><b>For Miscellaneous Members</b> - Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p><b>For Safety Members</b> - 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 generationally with the two-dimensional mortality improvement scale MP-2019.</p>
b) Disability	<p><b>For Miscellaneous Disabled Members</b> - Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.</p> <p><b>For Safety Disabled Members</b> - Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.</p>
Member Contribution Rate:	<p><b>For Miscellaneous Members</b> - Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 40% male and 60% female.</p> <p><b>For Safety Members</b> - 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-2019, weighted 75% male and 25% female.</p>
Pre-Retirement Mortality:	<p><b>For Miscellaneous Members</b> - 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-2019.</p> <p><b>For Safety Members</b> - 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-2019.</p>
Other Assumptions:	Analysis of actuarial experience studies for the periods of July 1, 2016, through June 30, 2020, as of June 30, 2022.

### 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, 2022, are summarized in the table below:

Asset Class	June 30, 2022	
	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
U.S. Large Cap Equity	18.0 %	5.4 %
U.S. Small Cap Equity	2.0	6.2
International Developed Equity	16.0	6.5
Emerging Markets Equity	4.0	8.8
Core/Core Plus Bonds	10.0	1.1
High Yield Bonds	1.0	3.4
Global Bonds	3.0	0.0
Bank Loans	1.0	3.9
U.S. Treasury	5.0	0.3
Real Assets	7.0	8.1
Liquid Real Return	2.0	4.5
Real Estate	5.0	4.6
Value Added Real Estate	2.0	8.1
Diversifying Absolute Return	7.0	2.4
Growth Oriented Absolute Return	3.0	2.4
Private Credit	4.0	5.6
Private Equity	9.0	9.4
Cash	1.0	-
	<b>100.0%</b>	

### 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, 2022. 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, 2022.

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, 2022, 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.

(Dollar amounts expressed in thousands)

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability as of June 30, 2022	\$3,598,671	\$1,748,633	\$234,183

## 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 25.50% of annual covered salary for fiscal year 2021-22 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 11.84% to 66.07% of covered payroll for fiscal year 2021-22. 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, 2022 totaled \$438,861. Included in this total are employer contributions of \$306,335 in fiscal year 2021-22, of which \$298,613 was made by the County of Sacramento. Member contributions were \$132,526 in fiscal year 2021-22. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed as of June 30, 2020.

## 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 reserves.

**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 reserves, 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 reserves** represent the balance of transfers from member reserves, employer reserves, 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, 2022, is as follows:

(Dollar amounts expressed in thousands)

Member reserve	\$1,059,167
Employer reserve	3,278,662
Retiree and death benefit reserve	6,955,126
Contingency reserve	354,911
Total allocated reserves and designations	11,647,866
Market stabilization reserve	182,485
<b>Net position restricted for pension benefits</b>	<b>\$11,830,351</b>

## 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, 2022:

- 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 district.

### **Eligibility**

(Amounts Expressed in Dollars)

**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

### **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, 2022, 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**  
(Dollar Amounts Expressed in Thousands)

	2022	2021	2020	2019	2018
<b>Total pension liability</b>					
Service cost	\$264,372	\$265,224	\$241,474	\$238,685	\$234,325
Interest	873,481	855,203	830,663	783,932	747,682
Differences between expected and actual experience	74,494	74,045	50,651	165,493	18,566
Changes of assumptions	-	(324,177)	216,097	-	-
Benefit payments, including refunds of member contributions	(618,892)	(578,421)	(540,750)	(505,853)	(468,308)
<b>Net change in total pension liability</b>	<b>593,455</b>	<b>291,874</b>	<b>798,135</b>	<b>682,257</b>	<b>532,265</b>
<b>Total pension liability - beginning</b>	<b>12,985,529</b>	<b>12,693,655</b>	<b>11,895,520</b>	<b>11,213,263</b>	<b>10,680,998</b>
<b>Total pension liability - ending (a)</b>	<b>\$13,578,984</b>	<b>\$12,985,529</b>	<b>\$12,693,655</b>	<b>\$11,895,520</b>	<b>\$11,213,263</b>
<b>Plan fiduciary net position</b>					
Contributions - member	\$132,526	\$120,597	\$126,354	\$121,843	\$99,906
Contributions - employer	323,610	292,534	274,055	240,238	198,331
Contributions - withdrawn employer <sup>(1) (2) (3)</sup>	(14,284)	5,816	5,114	45,404	182
Net investment income/(loss)	(547,787)	2,753,409	301,373	675,726	844,489
Benefit paid	(614,345)	(575,329)	(537,698)	(502,944)	(465,354)
Withdrawal of contributions	(4,547)	(3,092)	(3,053)	(2,909)	(2,954)
Administrative expenses	(8,971)	(9,165)	(8,460)	(7,601)	(6,888)
<b>Net change in plan fiduciary net position</b>	<b>(733,798)</b>	<b>2,584,770</b>	<b>157,685</b>	<b>569,757</b>	<b>667,712</b>
<b>Plan fiduciary net position - beginning</b>	<b>12,564,149</b>	<b>9,979,379</b>	<b>9,821,694</b>	<b>9,251,937</b>	<b>8,584,225</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$11,830,351</b>	<b>\$12,564,149</b>	<b>\$9,979,379</b>	<b>\$9,821,694</b>	<b>\$9,251,937</b>
<b>Net pension liability - ending (a-b)</b>	<b>\$1,748,633</b>	<b>\$421,380</b>	<b>\$2,714,276</b>	<b>\$2,073,826</b>	<b>\$1,961,326</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	87.1%	96.8%	78.6%	82.6%	82.5%
<b>Covered payroll</b>	\$1,078,235	\$1,034,343	\$1,059,984	\$1,017,885	\$985,375
<b>Net pension liability as a percentage of covered payroll</b>	162.2%	40.7%	256.1%	203.7%	199.0%

(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**  
(Dollar Amounts Expressed in Thousands)

	2017	2016	2015	2014	2013
<b>Total pension liability</b>					
Service cost	\$193,490	\$186,438	\$185,428	\$192,701	\$187,329
Interest	706,016	675,920	643,427	617,240	589,783
Differences between expected and actual experience	(46,244)	(49,245)	(6,447)	(108,155)	(80,788)
Changes of assumptions	823,712	-	-	15,781	-
Benefit payments, including refunds of member contributions	(432,066)	(405,702)	(374,657)	(347,619)	(323,567)
<b>Net change in total pension liability</b>	<b>1,244,908</b>	<b>407,411</b>	<b>447,751</b>	<b>369,948</b>	<b>372,757</b>
<b>Total pension liability - beginning</b>	<b>9,436,090</b>	<b>9,028,679</b>	<b>8,580,928</b>	<b>8,210,980</b>	<b>7,838,223</b>
<b>Total pension liability - ending (a)</b>	<b>\$10,680,998</b>	<b>\$9,436,090</b>	<b>\$9,028,679</b>	<b>\$8,580,928</b>	<b>\$8,210,980</b>
<b>Plan fiduciary net position</b>					
Contributions - member	\$89,489	\$77,494	\$68,143	\$57,635	\$68,242
Contributions - employer	201,928	207,884	221,823	209,367	188,529
Contributions - withdrawn employer <sup>(1) (2) (3)</sup>	2,000	1,136	1,136	1,136	1,135
Net investment income/(loss)	1,048,915	(72,399)	158,222	1,107,152	785,449
Benefit paid	(429,754)	(403,356)	(372,369)	(344,890)	(320,828)
Withdrawal of contributions	(2,312)	(2,346)	(2,288)	(2,729)	(2,739)
Administrative expenses	(6,906)	(6,362)	(5,854)	(5,665)	(5,719)
<b>Net change in plan fiduciary net position</b>	<b>903,360</b>	<b>(197,949)</b>	<b>68,813</b>	<b>1,022,006</b>	<b>714,069</b>
<b>Plan fiduciary net position - beginning</b>	<b>7,680,865</b>	<b>7,878,814</b>	<b>7,810,001</b>	<b>6,787,995</b>	<b>6,073,926</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$8,584,225</b>	<b>\$7,680,865</b>	<b>\$7,878,814</b>	<b>\$7,810,001</b>	<b>\$6,787,995</b>
<b>Net pension liability - ending (a-b)</b>	<b>\$2,096,773</b>	<b>\$1,755,225</b>	<b>\$1,149,865</b>	<b>\$770,927</b>	<b>\$1,422,985</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>80.4%</b>	<b>81.4%</b>	<b>87.3%</b>	<b>91.0%</b>	<b>82.7%</b>
<b>Covered payroll</b>	<b>\$958,934</b>	<b>\$912,421</b>	<b>\$873,328</b>	<b>\$858,343</b>	<b>\$858,551</b>
<b>Net pension liability as a percentage of covered payroll</b>	<b>218.7%</b>	<b>192.4%</b>	<b>131.7%</b>	<b>89.8%</b>	<b>165.7%</b>

(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**  
(Dollar Amounts Expressed in Thousands)

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Actuarially determined contribution (ADC)	\$323,610	\$292,534	\$274,055	\$240,238	\$198,331
<b>Contributions in relation to the ADC</b>	<b>323,610</b>	<b>292,534</b>	<b>274,055</b>	<b>240,238</b>	<b>198,331</b>
<b>Contribution deficiency (excess)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Covered payroll</b>	<b>\$1,078,235</b>	<b>\$1,034,343</b>	<b>\$1,059,984</b>	<b>\$1,017,885</b>	<b>\$985,375</b>
<b>Contributions in relation to the ADC as a percentage of covered payroll</b>	<b>30.0%</b>	<b>28.3%</b>	<b>25.9%</b>	<b>23.6%</b>	<b>20.1%</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Actuarially determined contribution (ADC)	\$201,928	\$207,884	\$221,823	\$209,367	\$188,529
<b>Contributions in relation to the ADC</b>	<b>201,928</b>	<b>207,884</b>	<b>221,823</b>	<b>209,367</b>	<b>188,529</b>
<b>Contribution deficiency (excess)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Covered payroll</b>	<b>\$958,934</b>	<b>\$912,421</b>	<b>\$873,328</b>	<b>\$858,343</b>	<b>\$858,551</b>
<b>Contributions in relation to the ADC as a percentage of covered payroll</b>	<b>21.1%</b>	<b>22.8%</b>	<b>25.4%</b>	<b>24.4%</b>	<b>22.0%</b>

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

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

\* Information prior to June 30, 2014 is not available. Information will be presented for future years as it becomes available.

**SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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 2021-22 contribution rates reported in the Schedule of Employer Contributions:

(Dollar amounts expressed in thousands)

Valuation date:	Actuarial valuation report as of June 30, 2020																		
Actuarial cost method:	Entry Age Actuarial Cost Method																		
Amortization method:	Level percentage of payroll (3.25% payroll growth assumed)																		
Remaining amortization period:	15 years (declining) as of June 30, 2020 for the outstanding balance of the June 30, 2012 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% - 10.50% varying by service, including inflation																		
Assumed post-retirement benefit increase:	<table> <tr> <td>Miscellaneous Tier 1</td> <td>2.75%</td> </tr> <tr> <td>Miscellaneous Tier 2</td> <td>0.00%</td> </tr> <tr> <td>Miscellaneous Tier 3</td> <td>2.00%</td> </tr> <tr> <td>Miscellaneous Tier 4</td> <td>2.00%</td> </tr> <tr> <td>Miscellaneous Tier 5</td> <td>2.00%</td> </tr> <tr> <td>Safety Tier 1</td> <td>2.75%</td> </tr> <tr> <td>Safety Tier 2</td> <td>2.75%</td> </tr> <tr> <td>Safety Tier 3</td> <td>2.75%</td> </tr> <tr> <td>Safety Tier 4</td> <td>2.75%</td> </tr> </table>	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	2.75%	Safety Tier 3	2.75%	Safety Tier 4	2.75%
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	2.75%																		
Safety Tier 3	2.75%																		
Safety Tier 4	2.75%																		
Other assumptions:	Same as those used in June 30, 2020, 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:

- 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.
  
- 2013
  - Actuarial cost method changed from Aggregate Entry Age Normal Cost Method to Individual Entry Age Normal Cost Method.
  - Changes to the amortization periods used for various future changes in liability.
  - UAAL established as a result of Early Retirement Incentive Program for Sacramento County Law Enforcement Managers Association (LEMA) is amortized over a 10-year period beginning June 30, 2010.
  - UAAL as a result of actuarial gains or losses as of June 30 will be amortized over a 20-year period.
  - UAAL as a result of changes in actuarial assumptions or methods to be amortized over a 20-year period.
  - Change in UAAL as a result of Plan amendments to be amortized over a 15-year period.
  - UAAL as a result from retirement incentive programs will be amortized over a period up to 5 years.
  - The retirement rates were adjusted to reflect slightly later retirements.

OTHER SUPPLEMENTARY INFORMATION



SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022  
(Dollar Amounts Expressed In Thousands)

SCHEDULE OF ADMINISTRATIVE EXPENSES

<u>Type of expense:</u>	<u>2022</u>
Salaries and benefits	\$5,588
County allocated expenses	\$686
Professional services	\$815
Rent and lease *	\$847
Information technology	\$272
Printing and postage	\$225
Pension payroll services	\$312
Insurance liability	\$129
Other	\$97
<b>Total administrative expenses</b>	<b>\$8,971</b>

SCHEDULE OF INVESTMENT FEES AND EXPENSES

<u>Type of investment expense:</u>	<u>2022</u>
Equity	\$25,707
Fixed income	5,540
Real assets	48,579
Real estate	35,627
Absolute return	24,105
Private credit	8,392
Private equity	59,006
Custodian fees	496
Investment consulting fees	1,623
Other investment expenses and fees	1,211
<b>Total investment fees and expenses</b>	<b>\$210,286</b>

SCHEDULE OF PAYMENTS TO CONSULTANTS

<u>Type of service:</u>	<u>2022</u>
IT consulting **	\$2,564
Legal	372
Actuarial	241
Medical consulting	83
Audit	80
<b>Total payments to consultants</b>	<b>\$3,340</b>

\* Rent and lease also includes expenses related to GASB Statement No. 87. A separate schedule and disclosure for GASB Statement No. 87 is included.

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

**DRAFT**

**SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM**

**REPORT TO THE AUDIT COMMITTEE AND  
BOARD OF RETIREMENT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2022**

SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM

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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, 2022, and have issued our report dated November 17, 2022. 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 May 13, 2022. 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) Statement No. 87, *Leases* and GASB Statement No. 92 – *Omnibus 2020*, during the fiscal year ended June 30, 2022. 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.

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, 2022.

#### *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

Stockton, California  
November 17, 2022

**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, 2022, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements, and have issued our report thereon dated November 17, 2022.

**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*.

## **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

Stockton, California  
November 17, 2022



**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, 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, 2022, and have issued our report thereon dated November 17, 2022. 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.

Also, during our audit, we became aware of a certain matter that is an opportunity for strengthening internal controls and operating efficiencies. The recommendation listed in this report summarizes our comments and suggestions regarding this matter.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various SCERS personnel, and we will be pleased to discuss these in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**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

Stockton, California  
November 17, 2022

**Current Year Agreed Upon Conditions and 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 30<sup>th</sup> 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.

**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 30<sup>th</sup> of each fiscal year going forward.

**Management Response**

Management concurs with auditor’s recommendation and is currently evaluating the extensiveness and scope of this open account clearing project. Management anticipates this project will involve four primary phases, i.e., **Phase I**—Complete preliminary assessment and evaluation; **Phase II**—Implement initial account clearing to be completed by SCERS’ staff accountants; **Phase III**—Contract or outsource follow on account clearing services to be completed by independent accounting firm; and, **Phase IV**—Institute a periodic closing schedule (e.g., monthly and quarterly) and accompanying management review process.

**Current Year Status**

See current status in the current year Agreed Upon Condition 1.



**SCERS**  
CELEBRATING **80** YEARS

# RESULTS OF SCERS' FINANCIAL STATEMENT AUDIT

**for the Fiscal Year Ended  
June 30, 2022**



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November 15, 2022

The Audit Committee of  
Sacramento County Employees' Retirement System  
980 9th Street  
Sacramento, CA 95814

We are pleased to present to you the results of our audit of the Sacramento County Employees' Retirement System (SCERS) financial statements for the fiscal year ended June 30, 2022.

Sincerely,  
Andrew J. Paulden, CPA  
*Managing Partner*

Lindsey P. Gentry, CPA  
*Audit Engagement Manager*

BROWN ARMSTRONG ACCOUNTANCY CORPORATION



# AGENDA

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# SCOPE OF SERVICES

**Audit of SCERS' financial statements** in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards (GAS), issued by the Comptroller General of the United States

Other **communications and reports** required by professional standards including:

- Required Communication at the Conclusion of an Audit in Accordance with Professional Standards (SAS 114)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with GAS
- Agreed Upon Conditions Report Designed to Improve Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)





# AUDIT TIMELINE & CRITICAL DATES

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- First Week of Fieldwork – July 18, 2022 (onsite)
  - Testing of Internal Controls
  - Walkthroughs and Understanding of Key Accounting Areas
  - Update Minutes and Agreements
- Second Week of Fieldwork – October 3, 2022 (remote)
  - Substantiate all Accounts and Balances
  - Review Confirmation Responses
- Draft Review and Draft Reports – October/November 2022
- Audit Opinions expected to be Issued – November 17, 2022





# AUDIT AREAS OF FOCUS

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## SIGNIFICANT RISK AREA

## BROWN ARMSTRONG'S RESPONSE

### Revenue recognition

- Test of controls was performed over contribution amounts as part of participant data
- Confirmations from third parties
- Other substantive analytics were also performed

### Management override of controls

- An understanding of controls over journal entries was obtained and a sample testing of individual journal entries was performed
- Inquiries performed with individual(s) involved in the financial reporting process, and ensuring no inappropriate or unusual activity was noted relating to journal entry processing
- Performed walkthroughs of significant audit areas to review adequate segregation of duties



## AUDIT AREAS OF FOCUS (CONTINUED)

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SIGNIFICANT AUDIT AREA	BROWN ARMSTRONG'S RESPONSE
Investments and related earnings	<ul style="list-style-type: none"> <li>• Walkthrough of controls performed</li> <li>• High level analytics performed on investment income</li> <li>• Confirmations with custodian, consultant, and sample of investment managers.</li> <li>• Reviewed GASB Statement No. 72 valuation inputs and testing of level determinations</li> <li>• Obtained sample of audited financial statements and SOC reports</li> </ul>
Employer and employee contributions	<ul style="list-style-type: none"> <li>• Walkthrough and test of controls</li> <li>• Testing of contributions</li> <li>• High level analytics</li> </ul>



# AUDIT AREAS OF FOCUS (CONTINUED)

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SIGNIFICANT AUDIT AREA	BROWN ARMSTRONG'S RESPONSE
Participant data and actuary	<ul style="list-style-type: none"><li>• Walkthrough and test of controls</li><li>• Testing of participant data, including active and terminated members, and employer payroll<ul style="list-style-type: none"><li>◦ Confirmed with actuary and employers</li><li>◦ GASB Statement No. 67</li><li>◦ Money-weighted return</li><li>◦ RSI and other information schedules</li></ul></li></ul>
Benefit payments	<ul style="list-style-type: none"><li>• Walkthrough and test of controls</li><li>• Testing of benefit payments</li><li>• High level analytics</li></ul>



# RESULTS OF THE AUDIT

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REPORT	SUMMARY OF OPINION / REQUIRED COMMUNICATION
<p>Report on Financial Statements (Opinion)</p>	<ul style="list-style-type: none"> <li>• Unmodified (Clean)</li> <li>• Changes to structure of report due to SAS 134 implementation</li> </ul>
<p>Required Communication to the Board of Retirement and Audit Committee in Accordance with Professional Standards (SAS 114)</p>	<ul style="list-style-type: none"> <li>• New Accounting Standards Adopted – GASB Statement No. 87, <i>Leases</i> and GASB Statement No. 92, <i>Omnibus 2020</i>.</li> <li>• Significant Estimates and Sensitive Disclosures Reviewed               <ul style="list-style-type: none"> <li>◦ Fair Value of Investments</li> <li>◦ Contributions and Net Pension Liability Estimates                   <ul style="list-style-type: none"> <li>▪ Based on actuary assumptions</li> </ul> </li> </ul> </li> <li>• Corrected and Uncorrected Misstatements – None were material, either individually or in the aggregate, to the financial statements taken as a whole.</li> <li>• Disagreements with Management – None</li> <li>• Other Audit Findings or Issues – None</li> <li>• Applied limited procedures to Required Supplementary Information.</li> <li>• We were engaged to provide an in relation to opinion on the Other Supplementary Information.</li> <li>• We were not engaged to report on the Introductory, Investment, Actuarial, and Statistical sections of the ACFR. We will review the ACFR once available from SCERS.</li> </ul>

# RESULTS OF THE AUDIT (CONTINUED)

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REPORT	SUMMARY OF OPINION / REQUIRED COMMUNICATION
<p>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</p>	<ul style="list-style-type: none"> <li>• No noncompliance noted</li> <li>• No material weaknesses, significant deficiencies, or control deficiencies identified</li> </ul>
<p>Agreed Upon Conditions Report Designed to Improve Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)</p>	<ul style="list-style-type: none"> <li>• Current year status of agreed upon condition and recommendation identified in the prior year rolled forward as a current year recommendation.               <ul style="list-style-type: none"> <li>◦ Agreed Upon Condition 1 - COMPASS</li> </ul> </li> </ul>

# FINANCIAL STATEMENT REVIEW PROCESS

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- Review Process
  - Administrative Review
  - Engagement Team Review
  - GFOA Review
  - Quality Control Review


# THANK YOU! QUESTIONS?



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