

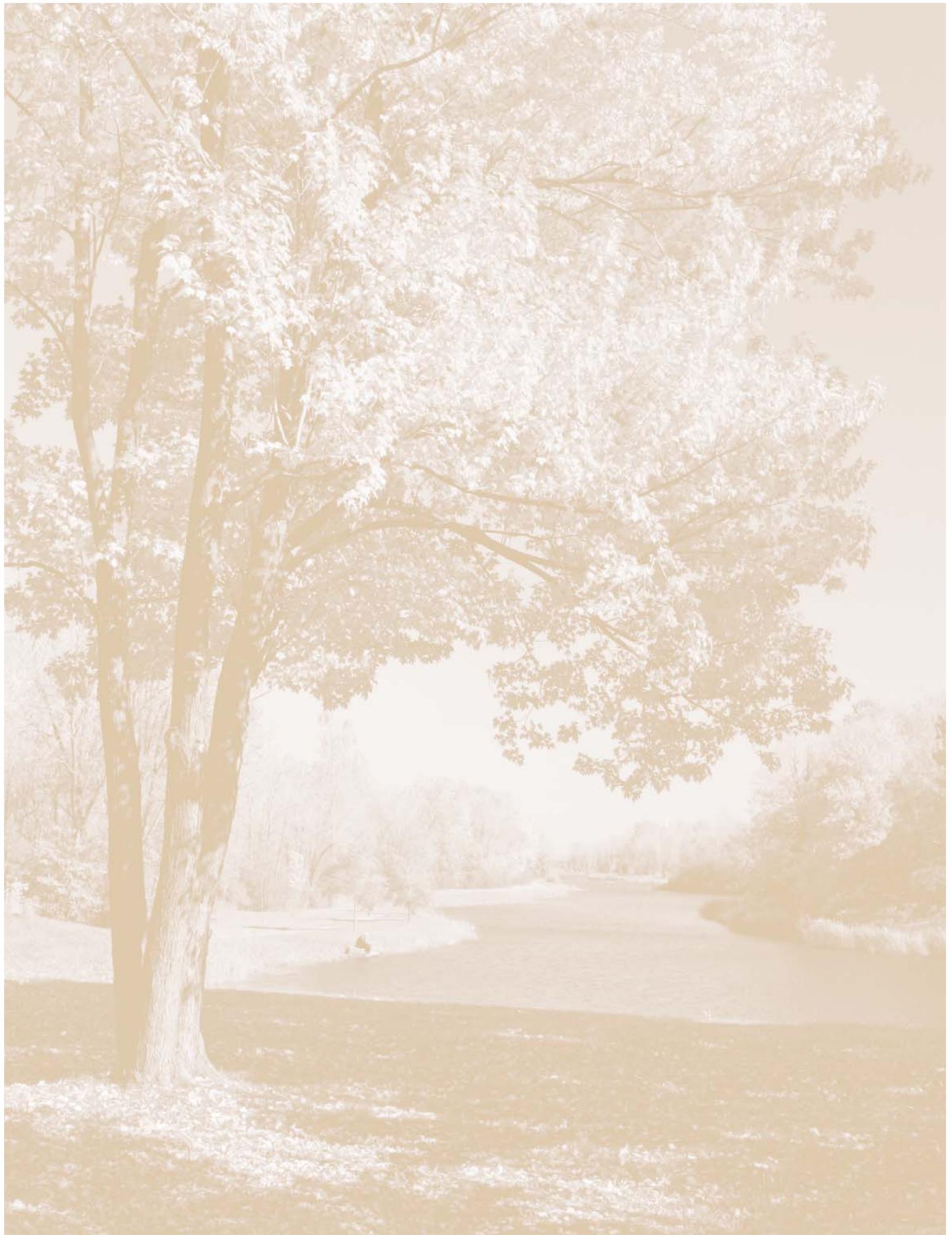


SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

SACRAMENTO, CALIFORNIA



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED  
JUNE 30, 2006 AND 2005

*Issued By:*

**RICHARD STENSRUD**  
Chief Executive Officer

**KATHRYN T. REGALIA, CPA**  
Chief Operations Officer



Sacramento County  
Employees' Retirement System

980 9th Street, Suite 1800  
Sacramento, CA 95814

[WWW.SCERS.ORG](http://WWW.SCERS.ORG)

# TABLE OF CONTENTS

## Introductory Section

Letter of Transmittal ..... 8  
Certificate of Achievement for Excellence in Financial Reporting ..... 13  
Board of Retirement ..... 14  
Organization Chart ..... 15  
Participating Employers..... 16  
Professional Consultants..... 17

## Financial Section

Independent Auditor's Report.....20  
Management's Discussion and Analysis - Required Supplementary Information ..... 22

### Financial Statements

Statements of Plan Net Assets ..... 30  
Statements of Changes in Plan Net Assets..... 31  
Notes to the Basic Financial Statements..... 32

### Required Supplementary Information

Schedule of Funding Progress ..... 50  
Schedule of Employer Contributions ..... 50  
Significant Actuarial Assumptions..... 51

### Other Supplemental Information

Schedule of Administrative and Other Expenses ..... 52  
Schedule of Investment Fees and Expenses ..... 52  
Schedule of Payments to Consultants..... 52

## Investment Section

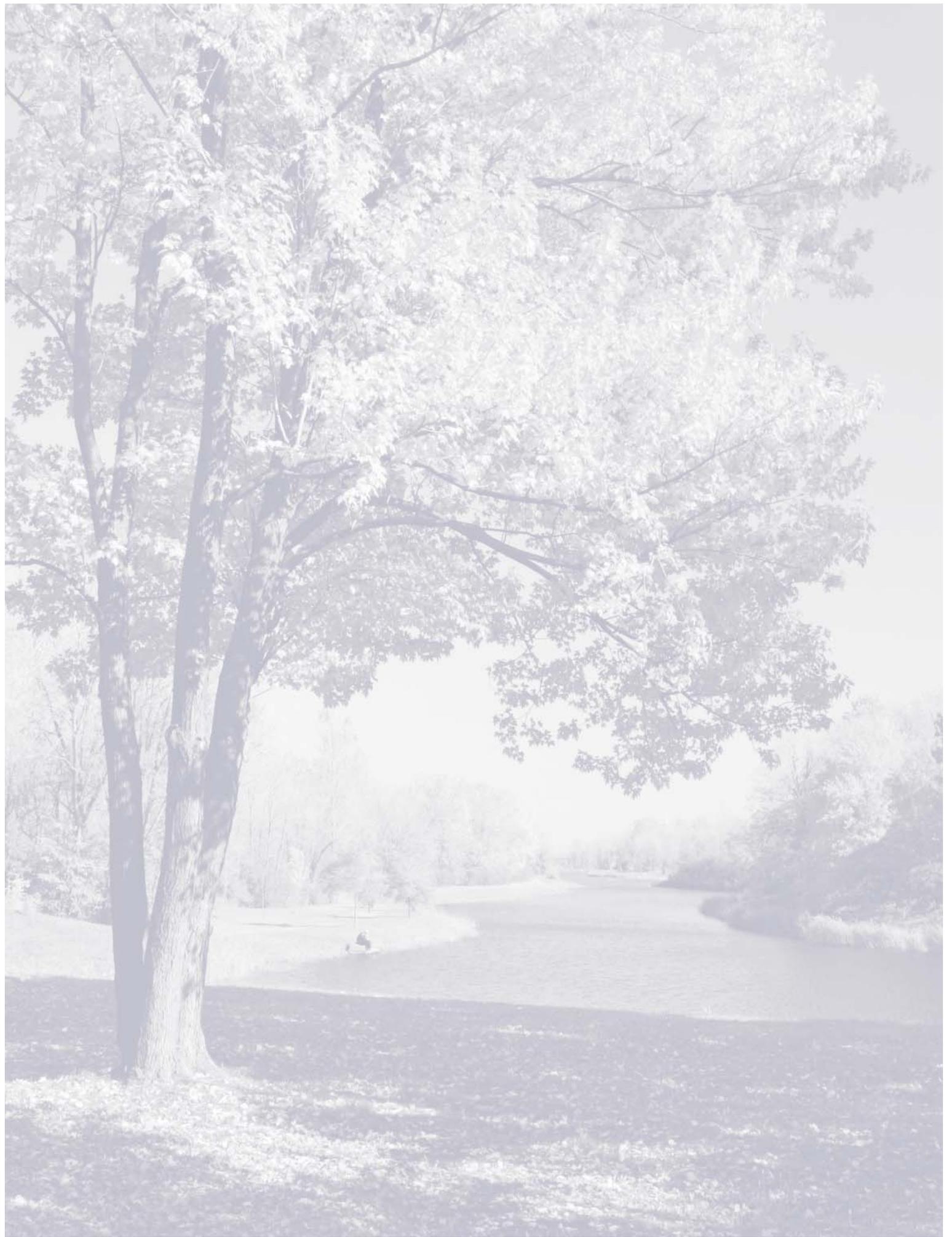
Chief Investment Officer's Report on Investment Activity ..... 54  
Asset Allocation ..... 59  
Investment Professionals ..... 60  
Investment Results ..... 61  
Summary of Investment Assets as Allocated..... 62  
Schedule of Manager Fees ..... 64  
Ten Largest Stock Holdings (by Fair Value) ..... 66  
Ten Largest Bond Holdings (by Fair Value) ..... 66  
Schedule of Equity Brokerage Fees ..... 67

**Actuarial Section**

Actuarial Certification.....	76
Summary of Actuarial Assumptions and Methods .....	78
Summary of Plan Provisions .....	80
Schedule of Active Member Valuation Data .....	83
Retirees and Beneficiaries Added to and Removed from Retiree Payroll .....	84
Schedule of Funding Progress .....	84
Solvency Tests.....	85
Actuarial Analysis of Financial Experience .....	85
New Probabilities of Separation Prior to Retirement:	
Mortality Rate .....	86
Disability Rate.....	86
Withdrawal Rate with Less than Five Years of Service .....	87
Withdrawal Rate with More than Five Years of Service.....	87

**Statistical Section**

Schedule of Additions by Source.....	90
Schedule of Deductions by Type .....	91
Schedule of Benefits Paid by Type.....	92
Schedule of Changes in Net Assets .....	93
Schedule of Retiree Members by Type of Benefit .....	94
Schedule of Average Benefit Payments (Based on Years of Credited Service) .....	95
Schedule of Average Benefit Payments (Based on Years Since Retirement) .....	96
Schedule of Principal Participating Employers and Active Members-Summary.....	97
Schedule of Principal Participating Employers and Active Members-Detail .....	98
Schedule of Employer Contribution Rates.....	99
Growth of System Membership.....	100
Schedule of Distribution of Retired Members and Beneficiaries by Type and by	
Monthly Amount.....	101
Schedule of Administrative Expenses .....	102





## INTRODUCTORY SECTION



# LETTER OF TRANSMITTAL



Executive Staff  
Richard Stensrud  
Chief Executive Officer  
Jeffrey W. States  
Chief Investment Officer  
James G. Line  
General Counsel  
Kathryn T. Regalia  
Chief Operations Officer  
John W. Gobel Sr.  
Chief Benefits Officer

November 17, 2006

Board of Retirement  
Sacramento County Employees' Retirement System  
980 9<sup>th</sup> Street, Suite 1800  
Sacramento, CA 95814

Dear Board Members:

As Chief Executive Officer of the Sacramento County Employees' Retirement System ("SCERS" or the "System"), I am pleased to present this Comprehensive Annual Financial Report ("CAFR" or the "Report") for the fiscal years ended June 30, 2006 and 2005.

## The System

SCERS is a multi-employer public employee retirement system, enacted and administered in accordance with the provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450, et seq.) (1937 Act). Since its creation by the Sacramento County Board of Supervisors in 1941, SCERS has provided retirement, disability, and survivors' benefits to eligible participants of the System. Under Article XVI, Section 17 of the Constitution of the State of California, the SCERS Board of Retirement is vested with plenary authority and fiduciary responsibility for the investment of monies and the administration of the System. Together, the provisions of the State Constitution and the 1937 Act establish SCERS as a separate and independent governmental entity from the public employers that participate in SCERS. At June 30, 2006, the County of Sacramento and 11 Special Districts participated in SCERS.

## The Comprehensive Annual Financial Report

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation in this CAFR rests with the management of the System. To the best of management's knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

The CAFR is divided into five sections.

*The Introductory Section* contains this letter of transmittal; a list of Board of Retirement members; an organization chart; a list of participating employers; and a list of professional consultants used by the System.

*The Financial Section* presents the independent auditor's report; management's discussion and analysis; financial statements; required supplementary information; and other supplemental information.

*The Investment Section* contains the Chief Investment Officer's Report on Investment Activity, which summarizes the investment policy and asset allocation, and includes a listing of investment professionals currently under contract with SCERS. In addition, this section contains current and historical investment results; listings of the top ten stock and bond holdings at June 30, 2006; and a schedule of manager fees.

*The Actuarial Section* provides the independent actuary's certification as of June 30, 2006; a summary of actuarial assumptions and methods; and various actuarial statistics.

*The Statistical Section* contains significant detailed information pertaining to the administration of the System.

I trust that readers of this Report and participants of the System will find this information helpful in understanding SCERS and its commitment to financial integrity and participant service.

### SCERS Mission Statement and Core Values

SCERS is dedicated to providing quality services and managing system assets in a prudent manner. In carrying out the mission SCERS will:

- ◇ Act as fiduciaries for the members, retirees, and beneficiaries.
- ◇ Take responsibility for cost effective operations and minimize employer contributions.
- ◇ Display competency, courtesy, and respect.
- ◇ Continue our professional growth through education and training.
- ◇ Plan strategically for the future.

### Accounting System and Reports

Management of SCERS is responsible for establishing and maintaining internal controls designed to ensure that the System's assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of information, and all disclosures in this CAFR and in the System's records, rests with SCERS' management. Macias, Gini & O'Connell, LLP, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides assurance that SCERS' financial statements are presented in conformity with accounting principles generally accepted in the United States and are free from material misstatement. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) The cost of a control should not exceed the benefits likely to be derived; and (2) The assessment of costs and benefits requires estimates and judgments by management.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A

## LETTER OF TRANSMITTAL (CONTINUED)

can be found immediately following the independent auditor's report.

### Investments – General Authority and SCERS

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....”

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 protect the System from the possibility that a particular asset class may experience poor investment performance in a given period.

For the year ended June 30, 2006, SCERS' investments provided a 12.1% rate of return (gross of fees), compared to the investment policy benchmark return of 12.3%.

More detailed information regarding SCERS' strategic asset allocation, professional investment advisors, and investment performance can be found in the Investment Section of this Report.

### Actuarial Funding Status

SCERS' overall funding objective is to meet long-term benefit promises by maintaining a well-funded plan status through a combination of superior investment returns and employer and employee contributions which are both minimized and maintained as level as possible for each generation of active members. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS smoothes the calculation of actuarial assets over a rolling five-year period. This not only stabilizes contribution rates but also improves the ability of the employer to plan for possible future increases or decreases in the rates.

SCERS engaged an independent actuarial consulting firm, The Segal Company, to conduct its annual actuarial valuation as of June 30, 2006. Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The last triennial analysis was performed as of June 30, 2004, and as a result of that analysis, the Board of Retirement approved certain changes to the actuarial assumptions. The actuarial assumptions were further reviewed in 2005, and as a result of this analysis the Board of Retirement approved certain changes to the economic assumptions which were incorporated in the actuarial valuation as of June 30, 2005. The actuarial assumptions were unchanged for the actuarial valuation as of June 30, 2006.

At June 30, 2006, SCERS' funding ratio was 93.0%, with the actuarial value of assets totaling \$4,849.0 million and the actuarial accrued liability totaling \$5,214.9 million. This very slight decline in the funding ratio (down from 93.2% as of June 30, 2005) was due primarily to the ongoing phase-in of poor investment performance from 2001 through 2003 under the five-year smoothing methodology utilized by SCERS. As a result of the strong investment performance over the last three years, the deferred

gains under the smoothing methodology exceed the deferred losses by \$242.0 million as of June 30, 2006, and these deferred gains can be utilized to offset possible investment shortfalls in the future or to lower future costs.

### Budget

The Board of Retirement approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses to eighteen hundredths of one percent (0.18%) of the System's total assets, and SCERS' administrative expenses have historically been below that limitation. For the years ended June 30, 2006 and 2005, administrative expenses were within the budget established by the Board of Retirement and were 0.09% and 0.12% of the prior year's total assets, respectively.

### Significant Events

Following are significant events which occurred during the fiscal year:

- ◇ Received the Certificate of Achievement for Excellence in Financial Reporting award from the Government Finance Officers Association for the Comprehensive Annual Financial Report for the years ended June 30, 2005 and 2004.
- ◇ Analyzed and identified optimal method for addressing legal service needs. Established an in-house General Counsel position and developed detailed functional job description. Conducted a recruitment effort for the General Counsel position and successfully recruited James G. Line to serve as SCERS General Counsel.
- ◇ Enhanced SCERS' website to provide access to more retirement materials and forms for use by SCERS members and to provide more information on developments affecting SCERS participants. Made it easier for SCERS' stakeholders to access information regarding SCERS by changing SCERS' website address to [www.scers.org](http://www.scers.org) (formerly [www.saccounty.net/retirement](http://www.saccounty.net/retirement)).
- ◇ Worked with the Superior Court, County of Sacramento, and the County to assist with the Court's separation from the County with respect to the payroll system and to identify the retirement service and benefits attributable to current and retired Court employees.
- ◇ Hired consulting actuary Bartel Associates to review and confirm the reasonableness of the assumptions in SCERS' June 30, 2004 actuarial valuation, which was prepared by SCERS retained actuary, The Segal Company. Analysis and discussion of the issues provided a basis for the SCERS Board to identify appropriate modifications of certain actuarial assumptions for the actuarial valuation prepared as of June 30, 2005.
- ◇ Discussed issues and identified key elements for a revised Interest Crediting and Excess Earnings Policy.
- ◇ Enhanced the retirement planning seminars for active members by developing two distinct programs focused on the particular issues of concern for mid-career and late-career employees, respectively. Offered an expanded the number of sessions to accommodate the high level of member interest.
- ◇ Redesigned the "Finish Line" and "Latest Wrinkle" member newsletters and expanded the format of the newsletters to provide more extensive information to members and retirees.
- ◇ Improved the process for closing financial accounting activities. Worked with the custodian and investment managers to improve the information flow from the managers to the custodian bank and to SCERS accounting staff.
- ◇ Substantially expanded the footnote disclosures in the Comprehensive Annual Financial Report (CAFR) as of June 30, 2005 to comply with new Governmental Accounting Standards Board (GASB) requirements. Stylistically improved the CAFR through the enhanced use of

## LETTER OF TRANSMITTAL (CONTINUED)

- ◇ color and the addition of photographs of Board, staff and SCERS members.
- ◇ Expanded the roster of available hearing officers for disability retirement matters by engaging the State Office of Administrative Hearings. Secured the continued services of existing hearing officers by revising the hourly rate paid to those individuals.
- ◇ Improved the efficiency of the disability review process by developing methods for fast-tracking analysis of applications with either clear evidence supporting finding of disability or clear evidence that a formal hearing would be required. Added staff support in disability area to allow disability professionals to focus on substantive matters. Increased the number of cases being brought to the SCERS Board for final resolution.
- ◇ Enhanced the ability of the SCERS Board to evaluate disability applications by adding detailed staff summary of evidence and proceedings.
- ◇ Adopted new real estate manager structure to include commingled core funds, publicly-traded real estate investment trusts (REIT's), and value-added investments.
- ◇ Selected and funded two REIT managers.
- ◇ Implemented a cash overlay strategy to reduce the impact of cash on portfolio performance, reduce tracking error of the asset allocation, and improve the efficiency of portfolio rebalancing.
- ◇ Developed a process and basis for evaluating the Chief Executive Officer.
- ◇ Issued Annual Member Statements of Account earlier than in any previous year.
- ◇ SCERS staff received award for largest increase in employee charitable contributions in the Sacramento County Employee Giving Campaign.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SCERS for its comprehensive annual financial report for the fiscal years ended June 30, 2005 and 2004. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized CAFR that meets the highest standards of governmental financial reporting. This was the seventh consecutive year that the System has achieved this prestigious award.

A Certificate of Achievement is valid for a period of one year. Management believes that this current comprehensive annual financial report continues to meet the requirements for earning a Certificate of Achievement, and it will be submitted to the GFOA for consideration for the award.

### Acknowledgements

This Report is intended to provide complete and reliable information with respect to the responsible stewardship of SCERS. The compilation of this Report is a product of the combined and dedicated effort of the System's staff. This Report is also a reflection of the leadership of the SCERS Board in assuring the prudent fiduciary oversight of SCERS. I would like to take this opportunity to express my thanks to the SCERS Board, staff, and advisors for their commitment to SCERS and for working so diligently to ensure the successful operation of the System.

Respectfully submitted,



Richard Stensrud  
Chief Executive Officer

# CERTIFICATE OF ACHIEVEMENT

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento County  
Employees' Retirement System  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carla E. Perry*

President

*Jeffrey R. Emer*

Executive Director

# BOARD OF RETIREMENT



## **President**

James A. Diepenbrock  
Appointed by Board of Supervisors  
Present term expires June 30, 2009



## **1st Vice President**

Keith DeVore  
Elected by Miscellaneous Members  
Present term expires December 31, 2007



## **2nd Vice President**

John B. Kelly  
Appointed by Board of Supervisors  
Present term expires December 31, 2006



## **Ex-Officio**

Director of Finance  
Dave Irish  
Member mandated by law



## **Trustee**

Winston Hickox  
Appointed by Board of Supervisors  
Present term expires June 30, 2009



## **Trustee**

Alice Jarboe  
Elected by Miscellaneous Members  
Present term expires December 31, 2006



## **Trustee**

William D. Johnson  
Elected by Safety Member  
Present term expires December 31, 2006



## **Trustee**

Nancy Wolford-Landers  
Elected by Retired Members  
Present term expires December 31, 2007



## **Trustee**

Robert Woods  
Appointed by Board of Supervisors  
Present term expires June 30, 2007



## **Alternate Safety Trustee**

Steven Soto  
Elected by Safety Members  
Present term expires December 31, 2006



## **Alternate Retiree Trustee**

William Cox  
Elected by Retired Members  
Present term expires December 31, 2007

# ORGANIZATION CHART

## BOARD OF RETIREMENT



**Richard Stensrud**  
Chief Executive Officer



**Jeffrey W. States**  
Chief Investment Officer

- Investment policy and objectives
- Investment compliance and performance reporting
- Asset allocation rebalancing
- Conduct manager searches
- Manager due diligence
- Proxy voting and corporate governance
- Board education on investment issues



**James G. Line**  
General Counsel

- Legal representation and counsel to SCERS Board and staff
- Coordinate and oversee the selection and work of outside legal counsel
- Evaluation of securities litigation
- Analysis of state and federal legislation
- Legislative proposals, contracts, resolutions, opinions
- Legal education programs
- Legal service planning and budgeting



**John W. Gobel, Sr.**  
Chief Benefits Officer



**Suzanne Likarich**  
Retirement Services Manager

- Service, disability, deferred, and reciprocal retirements
- Pension payroll administration
- Seminar presentations and member retirement counseling
- Retirement publications and communications
- Death benefits, service credit purchases
- Community property interest resolution



**Kathryn T. Regalia**  
Chief Operations Officer

- Accounting and financial reporting
- Budgeting and cash flow analysis
- Human resources
- Facilities and safety
- Information technology and telecommunications
- Administration and records

# PARTICIPATING EMPLOYERS

<u>Employer</u>	<u>Date Entered System</u>
County of Sacramento	July 1, 1941
Elected Officials: Board of Supervisors Sheriff Assessor District Attorney	July 1, 1941
U.C. Davis Medical Center	July 1, 1941
Sacramento Metropolitan Fire District*	March 1, 1957
Sunrise Recreation and Park District	August 1, 1961
Fair Oaks Cemetery District	March 1, 1962
Carmichael Recreation and Park District	January 1, 1967
Florin Fire District*	July 1, 1974
Mission Oaks Recreation and Park District	February 1, 1976
Sacramento Employment Training Agency (SETA)	June 1, 1979
Orangevale Recreation and Park District	March 3, 1987
Elk Grove Cosumnes Cemetery District	April 28, 1987
Galt-Arno Cemetery District	July 1, 1987

\*Florin Fire District terminated its membership on June 30, 1996. Members are currently part of Sacramento Metropolitan Fire District

# PROFESSIONAL CONSULTANTS

## Actuary

The Segal Company  
120 Montgomery Street, Suite 500  
San Francisco, CA 94104-4308

## Auditor

Macias, Gini & O'Connell, LLP  
Certified Public Accountants  
3000 S Street, Suite 300  
Sacramento, CA 95816

## Custodian

State Street California, Inc.  
1001 Marina Village Parkway, 3<sup>rd</sup> Floor  
Alameda, CA 94501

## Legal Counsel

County of Sacramento  
Office of the County Counsel  
700 H Street, Suite 2650  
Sacramento, CA 95814

Nossaman, Guthner, Knox & Elliot, LLP  
50 California Street, 34<sup>th</sup> Floor  
San Francisco, CA 94111-4712

## Investment Consultant

Mercer Investment Consulting, Inc.  
777 South Figueroa Street, Suite 2000  
Los Angeles, CA 90017

## Investment Managers

Alliance Capital Management, L.P.  
1345 Avenue of the Americas  
New York, NY 10105

AXA Rosenberg Investment Management  
4 Orinda Way, Building E  
Orinda, CA 94563

Bear Stearns Asset Management, Inc.  
383 Madison Avenue, 28<sup>th</sup> Floor  
New York, NY 10179

BlackRock Realty Advisors, Inc.  
300 Campus Drive, 3<sup>rd</sup> Floor  
Florham Park, NJ 07932

Blackstone Alternative Asset Management, L.P.  
345 Park Avenue  
New York, NY 10154

Bradford & Marzec, Inc.  
333 South Hope Street, Suite 4050  
Los Angeles, CA 90071

Capital Guardian Trust Company  
330 South Hope Street, 51<sup>st</sup> Floor  
Los Angeles, CA 90071-1406

Capital International, Inc.  
11100 Santa Monica Boulevard, 15<sup>th</sup> Floor  
Los Angeles, CA 90025

Cornerstone Real Estate Advisers, LLC  
One Financial Plaza  
Hartford, CT 06103-2604

Dalton, Greiner, Hartman, Maher & Co., LLC  
565 Fifth Avenue, Suite 2101  
New York, NY 10017-2413

Grosvenor Capital Management, L.P.  
227 West Monroe Street, Suite 4800  
Chicago, IL 60606

Heitman Capital Management Corporation  
191 North Wacker Drive  
Chicago, IL 60606

Independence Investment, LLC  
53 State Street, 28<sup>th</sup> Floor  
Boston, MA 02109

INVESCO Global Asset Management (N.A.), Inc.  
1360 Peachtree Street, N.E., Suite 100  
Atlanta, GA 30309

Lehman Brothers Asset Management, LLC  
200 South Wacker Drive, Suite 2100  
Chicago, IL 60606-5814

LSV Asset Management  
One North Wacker Drive, Suite 4000  
Chicago, IL 60600

M.A. Weatherbie & Co., Inc.  
265 Franklin Street, Suite 1601  
Boston, MA 02110

Metropolitan West Asset Management  
11766 Wilshire Blvd., Suite 1580  
Los Angeles, CA 90025

Continued

## PROFESSIONAL CONSULTANTS (CONTINUED)

### Investment Managers - continued

OFI Institutional Asset Management  
6801 South Tucson Way  
Centennial, CO 80112

Principal Global Investors, LLC  
801 Grand Avenue, 25<sup>th</sup> Floor  
Des Moines, IA 50392-0490

Pzena Investment Management, LLC  
120 West 45th Street, 34<sup>th</sup> Floor  
New York, NY 10036

State Street Global Advisors  
One Lincoln Street  
Boston, MA 02111-2900

TCW Asset Management  
865 South Figueroa Street  
Los Angeles, CA 90017

Urdang Investment Management, Inc.  
630 West Germantown Pike, Suite 300  
Plymouth Meeting, PA 19462

A schedule of manager fees is located on page 64 and 65 in the Investment section.



## FINANCIAL SECTION



# INDEPENDENT AUDITOR'S REPORT



**MACIAS GINI & O'CONNELL** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300  
Sacramento, CA 95816  
916.928.4600

2175 N. California Boulevard, Suite 645  
Walnut Creek, CA 94596  
925.274.0190

515 S. Figueroa Street, Suite 325  
Los Angeles, CA 90071  
213.286.6400

402 West Broadway, Suite 400  
San Diego, CA 92101  
619.573.1112

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of plan net assets of the Sacramento County Employees' Retirement System (the System), as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Sacramento County Employees' Retirement System as of June 30, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 17, 2006, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 22 through 29, the Schedule of Funding Progress and the Schedule of Employer Contributions on page 50 and Significant Actuarial Assumptions on page 51 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, other supplemental information in the financial section and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Maclean Gini & O'Connell LLP*

Certified Public Accountants

Sacramento, California  
November 17, 2006

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents SCERS management's discussion and analysis (MD&A) of the financial activities of the Sacramento County Employees' Retirement System (SCERS) for the years ended June 30, 2006 and 2005. Readers are encouraged to consider the narrative overview and information presented in the MD&A in conjunction with the Letter of Transmittal beginning on page 8 of this Report and the Financial Statements, Notes to the Financial Statements, Required Supplementary Information, and Other Supplemental Information that follows.

## FINANCIAL HIGHLIGHTS

As of June 30, 2006, the net assets of SCERS held in trust for pension benefits (Plan Net Assets) totaled \$5,090.9 million. This represents an increase of \$514.5 million (or 11.2%) from the \$4,576.4 million in SCERS Plan Net Assets as of June 30, 2005, which, in turn, represented an increase of \$814.7 million (or 21.7%) over the \$3,761.7 million in Plan Net Assets as of June 30, 2004.

Additions to Plan Net Assets were \$702.5 million and \$986.0 million for the years ended June 30, 2006 and 2005, respectively. Total additions decreased in the year ended June 30, 2006 compared to the prior year because of the receipt of \$420.0 million in proceeds from pension obligation bonds (POB) issued by the County of Sacramento. Receipt of the County's POB proceeds was the significant reason for the increase in total additions for the year ended June 30, 2005 over the prior year. Investment gains were a significant portion of total additions in both years, with net investment gains of \$527.8 million in the year ended June 30, 2006 and \$419.5 million in the year ended June 30, 2005.

Deductions in Plan Net Assets were \$188.0 million and \$171.3 million for the years ended June 30, 2006 and 2005, respectively. The total deductions in the year ended June 30, 2006 increased \$16.7 million (or 9.7%) over the year ended June 30, 2005, which, in turn, had increased in total deductions of \$6.9 million (or 4.2%) over the year ended June 30, 2004. Increased monthly benefit payments was the primary reason for the increase in total deductions for both years.

SCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2006, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 93.0%, down slightly from the funded ratio of 93.2% as of June 30, 2005.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

- ◇ Statements of Plan Net Assets
- ◇ Statements of Changes in Plan Net Assets
- ◇ Notes to the Basic Financial Statements
- ◇ Required Supplementary Information
- ◇ Other Supplemental Information

In addition, please note that this Report also contains three required supplementary schedules of historical trend information and actuarial assumptions and three schedules of other supplemental information.

The **Statements of Plan Net Assets** are snapshots of account balances at fiscal year end. These statements reflect assets available for future payments to retirees and their beneficiaries, and liabilities owed as of fiscal year end.

The **Statements of Changes in Plan Net Assets** reflect all the activities that occurred during the year and show the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate whether SCERS' financial position is improving or deteriorating over time.

The basic financial statements and the required disclosures are in accordance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB) utilizing the accrual basis of accounting, which is the accounting method practiced by most private-sector companies. Under this method, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are recorded at trade date, not settlement date. Both realized and unrealized gains and losses are included in investments.

These two statements report SCERS' net assets held in trust for pension benefits (net assets) – i.e., the difference between assets and liabilities – as one way to measure the System's financial position. Over time, increases or decreases in net assets serve as one indicator of whether SCERS' financial health is improving or deteriorating. Other factors, such as market conditions, 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 to 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** concerning SCERS' progress in funding its obligations to provide benefits to System members. The schedule of funding progress includes historical trend information about the actuarially-funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due. The schedule of employer contributions presents historical trend information about the annual required contribution of the employers and the actual contributions made. The significant actuarial assumptions include the actuarial cost, amortization, and asset valuation methods, remaining amortization period, and assumptions regarding the investment rate of return, projected salary increases, wage inflation, and postretirement benefit increases. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

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

## FINANCIAL ANALYSIS

### Assets and Funded Ratio

SCERS net assets held in trust for pension benefits as of June 30, 2006 totaled \$5,090.9 million, an increase of \$514.5 million (11.2%) from the \$4,576.4 million in net assets as of June 30, 2005, which, in turn, represented an increase of \$814.7 million (21.7%) over the \$3,761.7 million in net assets as of June 30, 2004. The increase in net assets over the two-year period was primarily due to investment gains and receipt of the proceeds of pension obligation bonds. All of the net assets are available to meet SCERS' obligations to plan participants and beneficiaries.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### PLAN NET ASSETS

As of June 30  
(Amounts Expressed in Millions)

Assets	2006	2005	Increase/ (Decrease)	% Change
Cash and short-term investments	\$ 331.0	\$ 248.3	\$ 82.7	33.3%
Receivables	68.7	85.3	(16.6)	-19.5
Investments, at fair value	5,121.7	4,531.0	590.7	13.0
Securities lending collateral	638.4	569.5	68.9	12.1
Other assets	9.5	4.4	5.1	115.9
<b>Total assets</b>	<b>6,169.3</b>	<b>5,438.5</b>	<b>730.8</b>	<b>13.4</b>
<b>Liabilities</b>				
Investment trades payable	255.2	156.4	98.8	63.2
Mortgages payable	153.7	112.6	41.1	36.5
Securities lending liability	638.4	569.5	68.9	12.1
Other liabilities	31.1	23.6	7.5	31.8
<b>Total liabilities</b>	<b>1,078.4</b>	<b>862.1</b>	<b>216.3</b>	<b>25.1</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 5,090.9</b>	<b>\$ 4,576.4</b>	<b>\$ 514.5</b>	<b>11.2%</b>

### PLAN NET ASSETS

As of June 30  
(Amounts Expressed in Millions)

Assets	2005	2004	Increase/ (Decrease)	% Change
Cash and short-term investments	\$ 248.3	\$ 208.2	\$ 40.1	19.3%
Receivables	85.3	113.5	(28.2)	-24.8
Investments, at fair value	4,531.0	3,772.3	758.7	20.1
Securities lending collateral	569.5	432.7	136.8	31.6
Other assets	4.4	1.9	2.5	131.6
<b>Total assets</b>	<b>5,438.5</b>	<b>4,528.6</b>	<b>909.9</b>	<b>20.1</b>
<b>Liabilities</b>				
Investment trades payable	156.4	198.0	(41.6)	-21.0
Mortgages payable	112.6	104.0	8.6	8.3
Securities lending liability	569.5	432.7	136.8	31.6
Other liabilities	23.6	32.2	(8.6)	-26.7
<b>Total liabilities</b>	<b>862.1</b>	<b>766.9</b>	<b>95.2</b>	<b>12.4</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 4,576.4</b>	<b>\$ 3,761.7</b>	<b>\$ 814.7</b>	<b>21.7%</b>

SCERS retains an independent actuarial firm, The Segal Company, to perform annual actuarial valuations to monitor the funding status of the System. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The purpose of the valuation is to determine what future contributions will be needed by the members and participating employers to pay all expected future benefits.

As of June 30, 2006, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 93.0%, down slightly from the funded ratio of 93.2% as of June 30, 2005. In general terms, this ratio means that as of June 30, 2006, SCERS had approximately 93 cents available for each dollar of anticipated future liability.

The Required Supplementary Information and Actuarial Section of this Report provide additional actuarial information.

### Reserves

SCERS' reserves are established in accordance with the requirements of the 1937 Act, utilizing contributions and the accumulation of investment income, after satisfying administrative and investment expenses. Under GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses. In addition, for actuarial purposes, SCERS utilizes a five-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 market value of assets (equivalent to the net assets held in trust for pension benefits) and the smoothed actuarial value of assets is tracked in the Market Stabilization Reserve.

As a result of the substantial downturn in the investment markets in 2000, 2001 and 2002, the Market Stabilization Reserve had a negative balance of \$625.6 million as of June 30, 2003. Since that time, investment returns have improved substantially, with the result that, as of June 30, 2004, the balance in the Market Stabilization Reserve had increased to a negative \$197.0 million, and as of June 30, 2005, the balance in the Market Stabilization Reserve increased to a positive \$45.9 million. In the year ended June 30, 2005, the balance in the Contingency Reserve was utilized to mitigate a shortfall in the funds available for interest crediting due to the ongoing phase-in of losses through the five-year smoothing methodology. As of June 30, 2006, the balance in the Market Stabilization Reserve is a positive \$242.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE AS OF JUNE 30  
(Amounts Expressed in Thousands)

	2006	2005	2004
Employee reserves	\$ 573,498	\$ 537,994	\$ 528,601
Employer reserves	1,974,407	1,887,086	1,490,758
Retiree reserves	2,286,217	2,091,019	1,879,628
Retiree death benefit reserves	13,264	12,912	12,794
Retiree health care benefits designations	1,568	1,571	1,573
Contingency reserve	-	-	45,286
Total reserves and designations	<u>4,848,954</u>	<u>4,530,582</u>	<u>3,958,640</u>
Excess earnings – undesignated	-	-	-
Smoothed actuarial value of assets	<u>4,848,954</u>	<u>4,530,582</u>	<u>3,958,640</u>
Market stabilization reserve	<u>241,975</u>	<u>45,862</u>	<u>(196,975)</u>
<b>Net assets available for benefits, at fair value</b>	<b><u><u>\$ 5,090,929</u></u></b>	<b><u><u>\$ 4,576,444</u></u></b>	<b><u><u>\$ 3,761,665</u></u></b>

Changes in Plan Net Assets

The following tables present the changes in plan net assets for the fiscal years ended June 30, 2006, 2005, and 2004, respectively.

CHANGE IN PLAN NET ASSETS

For the Fiscal Year Ended June 30

(Amounts Expressed in Millions)

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
<b>Additions</b>				
Employee contributions	\$ 42.0	\$ 36.9	\$ 5.1	13.8%
Employer contributions	132.7	529.6	(396.9)	-74.9
Net income from investment activities	553.0	435.4	117.6	27.0
Net income from securities lending	1.7	0.9	0.8	88.9
Other income	1.8	0.5	1.3	260.0
Investment fees and expenses	(28.7)	(17.3)	(11.4)	-65.9
<b>Total additions</b>	<u>702.5</u>	<u>986.0</u>	<u>(283.5)</u>	<u>-28.8</u>
<b>Deductions</b>				
Benefits paid	178.4	162.5	15.9	9.8
Withdrawal of contributions	4.6	3.5	1.1	31.4
Administrative and other expenses	5.0	5.3	(0.3)	-5.7
<b>Total deductions</b>	<u>188.0</u>	<u>171.3</u>	<u>16.7</u>	<u>9.7</u>
Increase in plan net assets	514.5	814.7	(300.2)	-36.8
Net assets held in trust for pension benefits, beginning	<u>4,576.4</u>	<u>3,761.7</u>	<u>814.7</u>	<u>21.7</u>
<b>Net assets held in trust for pension benefits, ending</b>	<u>\$ 5,090.9</u>	<u>\$ 4,576.4</u>	<u>\$ 514.5</u>	<u>11.2%</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### CHANGE IN PLAN NET ASSETS

For the Year Ended June 30

(Amounts Expressed in Millions)

	2005	2004	Increase/ (Decrease)	% Change
<b>Additions</b>				
Employee contributions	\$ 36.9	\$ 42.9	\$ (6.0)	-14.0%
Employer contributions	529.6	119.1	410.5	344.7
Net income from investment activities	435.4	542.7	(107.3)	-19.8
Net income from securities lending	0.9	0.8	0.1	12.5
Other income	0.5	0.8	(0.3)	-37.5
Investment fees and expenses	(17.3)	(19.0)	1.7	8.9
<b>Total additions</b>	<b>986.0</b>	<b>687.3</b>	<b>298.7</b>	<b>43.5</b>
<b>Deductions</b>				
Benefits paid	162.5	142.3	20.2	14.2
Retiree health and dental insurance	-	12.3	(12.3)	-100.0
Withdrawal of contributions	3.5	4.0	(0.5)	-12.5
Administrative and other expenses	5.3	5.8	(0.5)	-8.6
<b>Total deductions</b>	<b>171.3</b>	<b>164.4</b>	<b>6.9</b>	<b>4.2</b>
Increase in plan net assets	814.7	522.9	291.8	55.8
Net assets held in trust for pension benefits, beginning	3,761.7	3,238.8	522.9	16.1
<b>Net assets held in trust for pension benefits, ending</b>	<b>\$ 4,576.4</b>	<b>\$ 3,761.7</b>	<b>\$ 814.7</b>	<b>21.7%</b>

#### Additions to Plan Net Assets

Financing for the benefits SCERS provides to its members comes primarily from income on investments and through the collection of employer and member (employee) retirement contributions. For the years ended June 30, 2006 and 2005, total additions were \$702.5 million and \$986.0 million, respectively.

For the years ended June 30, 2006 and 2005, combined employer and employee contributions were \$174.7 million and \$566.5 million, respectively. The overall reduction in employer contributions in fiscal year 2006 and the substantial increase in fiscal year 2005 were primarily the result of the receipt of \$420.0 million in proceeds from the issuance of pension obligation bonds (POB) by the County of Sacramento and the receipt of \$10.5 million from the issuance of POB by the Sacramento Metropolitan Fire District.

Net investment gains were \$527.8 million and \$419.5 million for the fiscal years ended June 30, 2006 and 2005, respectively, reflecting continued improved investment performance experienced in the fiscal year ended June 30, 2004 relative to the three years prior. The Investment Section of this Report provides a detailed discussion of the investment markets and investment performance.

### Deductions from Plan Net Assets

SCERS' assets are primarily used for the payment of benefits to members and their beneficiaries, the refunding of contributions to terminated employees, and the cost of administering the System. For the years ended June 30, 2006 and 2005, total deductions were \$188.0 million and \$171.3 million, respectively.

Deductions increased \$16.7 million or 9.7% in the year ended June 30, 2006 and \$6.9 million or 4.2% in the year ended June 30, 2005. The primary cause of the increase in deductions over the two years ended June 30, 2006 and 2005 was increased monthly benefit payments, which were partially offset by the decrease in retiree health and dental insurance deductions in the year ended June 30, 2005 due to the suspension of System-provided retiree health care subsidies through an Internal Revenue Code Section 401(h) plan. Those non-vested subsidies were suspended due to the lack of excess investment earnings to fund the program.

The Board of Retirement approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses to eighteen hundredths of one percent (0.18%) of the System's total assets, and SCERS' administrative expenses have historically been below that limitation. For the years ended June 30, 2006 and June 30, 2005, administrative expenses were within the budget established by the Board of Retirement and were 0.09% and 0.12% of the prior year's total assets, respectively.

### OVERALL ANALYSIS

For the years ended June 30, 2006 and 2005, SCERS' financial position and results of operations have improved over each prior year. For the year ended June 30, 2006 net assets increased \$514.5 million or 11.2% over the prior year. For the year ended June 30, 2005, net assets increased \$814.7 million or 21.7% over the prior year. This improvement was due primarily to increased investment returns resulting from the recovery of the domestic and international equity markets.

### 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 plan assets must be used exclusively for the benefit of plan participants and their beneficiaries.

### REQUESTS FOR INFORMATION

This financial report is designed to provide the Board of Retirement, SCERS membership, 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 9<sup>th</sup> Street, Suite 1800  
Sacramento, CA 95814

Copies of this report are available at the above address and on the System's web site at [www.scers.org](http://www.scers.org).

# STATEMENTS OF PLAN NET ASSETS

AS OF JUNE 30, 2006 AND 2005  
(Amounts Expressed in Thousands)

<b>Assets</b>	2006	2005
Cash and short-term investments		
Cash invested with Sacramento County Treasurer	\$ 6,078	\$ 7,269
Other cash and cash equivalents	23,349	13,042
Short-term investments with fiscal agents	301,611	227,958
Cash and short-term investments	331,038	248,269
Receivables		
Securities sold	48,441	62,897
Accrued investment income	14,654	14,610
Employee and employer contributions	5,560	7,750
Total receivables	68,655	85,257
Investments, at fair value		
United States government securities	689,891	689,232
Domestic corporate bonds	454,672	492,103
International bonds	86,666	62,729
Common and preferred stock - domestic	2,126,687	1,879,739
Common and preferred stock - international	1,054,841	910,792
Real estate	708,896	496,455
Securities lending collateral	638,437	569,531
Total investments	5,760,090	5,100,581
Other Assets	9,518	4,439
<b>Total assets</b>	<b>6,169,301</b>	<b>5,438,546</b>
<b>Liabilities</b>		
Accounts payable and other accrued liabilities	27,802	22,354
Investment trades payable	255,160	156,420
Mortgages payable	153,706	112,649
Warrants payable	3,267	1,148
Securities lending liability	638,437	569,531
<b>Total liabilities</b>	<b>1,078,372</b>	<b>862,102</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 5,090,929</b>	<b>\$ 4,576,444</b>

(A schedule of funding progress for the system is presented on page 50)

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

# STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

(Amounts Expressed in Thousands)

<b>Additions</b>	2006	2005
Contributions		
Employee	\$ 41,959	\$ 36,916
Employer	132,708	529,618
Total contributions	174,667	566,534
Investment income		
From investment activities		
Net appreciation (depreciation)		
in fair value of investments - securities	323,197	261,057
Net appreciation (depreciation)		
in fair value of investments - real estate	73,256	39,773
Interest	64,879	60,961
Dividends	61,483	50,385
Real estate	30,221	23,226
Net gain from investment activities	553,036	435,402
From securities lending activities		
Securities lending income	25,473	10,356
Securities lending expense		
Borrower rebate expense	(23,093)	(8,885)
Securities lending management fees	(694)	(554)
Net income from securities lending	1,686	917
Other income	1,888	480
Investment fees and expenses	(28,747)	(17,318)
Net investment income	527,863	419,481
<b>Total additions</b>	702,530	986,015
<b>Deductions</b>		
Benefits paid	178,362	162,511
Withdrawal of contributions	4,622	3,463
Administrative and other expenses	5,061	5,262
<b>Total deductions</b>	188,045	171,236
<b>Net increase</b>	514,485	814,779
<b>Net assets held in trust for pension benefits, beginning</b>	4,576,444	3,761,665
<b>Net assets held in trust for pension benefits, ending</b>	<b>\$ 5,090,929</b>	<b>\$ 4,576,444</b>

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

# NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System ("SCERS" or the "System") is a multiple-employer, cost-sharing public employee retirement system which operates under the County Employees Retirement Law of 1937 (Section 31450 et seq. of the California Government Code). 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 Sacramento 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 Board member and an alternate Retiree Board member are also elected by those respective member groups. The System is legally and fiscally independent of the County.

At June 30, 2006, participating local government employers consisted of the County of Sacramento and 11 Special Districts.

The System's membership consists of the following categories:

- ◆ Safety Tier One - 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 Two - 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.
- ◆ Miscellaneous Tier One - Includes all members other than Safety who have a membership start-date prior to September 27, 1981.
- ◆ Miscellaneous Tier Two - 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 Three.
- ◆ Miscellaneous Tier Three - Includes all members other than Safety who have a membership start-date on or after June 27, 1993, and those Miscellaneous Tier Two members who elected to become members of this class.

At June 30, 2006 and 2005, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits:	2006	2005
Miscellaneous - Service	4,432	4,198
Miscellaneous - Beneficiary	885	861
Miscellaneous - Nonservice-Connected Disability	300	313
Miscellaneous - Service-Connected Disability	185	175
Safety - Service	885	841
Safety - Beneficiary	207	193
Safety - Nonservice-Connected Disability	25	22
Safety - Service-Connected Disability	189	181
<b>Total Retirees and Beneficiaries</b>	<b>7,108</b>	<b>6,784</b>

Terminated employees entitled to benefits but not yet receiving them:

Miscellaneous Tier 1	234	263
Miscellaneous Tier 2	317	327
Miscellaneous Tier 3	1,348	1,293
Safety Tier 1	176	162
Safety Tier 2	117	90
<b>Total Terminated</b>	<b>2,192</b>	<b>2,135</b>

Current Members:

Vested		
Miscellaneous Tier 1	703	813
Miscellaneous Tier 2	352	366
Miscellaneous Tier 3	6,716	5,926
Safety Tier 1	766	828
Safety Tier 2	933	795
Subtotal	9,470	8,728

Non-Vested		
Miscellaneous Tier 1	1	1
Miscellaneous Tier 3	4,280	4,272
Safety Tier 1	1	1
Safety Tier 2	660	726
Subtotal	4,942	5,000
<b>Total Current Members</b>	<b>14,412</b>	<b>13,728</b>

### Pension Benefits

The System's benefits are established by the provisions of the County Employees Retirement Law of 1937 and provide for retirement, death, and disability benefits. All permanent full-time and part-time employees of the County or Member 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 service has been achieved. Retirement benefits under each tier are as follows:

- ◆ Members covered under Safety Tier 1 who retire at age 50 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 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, which is equal to 1.474 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 1.474 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 1.474 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 Tier 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 2.611 percent of final-average salary for each year of credited service at age 62.

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

Members whose employers determined not to retroactively apply the formulas to service credits 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).

#### 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 from the County or Member Districts, 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 and Member Districts' contributions are actuarially determined to provide for the balance of contributions needed. This rate includes an additional amount required to partially fund the annual cost-of-living increases for retired members of the Miscellaneous Tier 1 and Tier 3 and Safety Tiers. All contribution rates are reviewed and revised annually. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Law of 1937.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

#### Basis of Accounting

The System has adopted Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as its source of accounting and reporting principles and prepares its financial statements on the accrual basis. GASB Statement No. 25 requires that investments be valued at their fair value, which results in the recognition of fair value gains and losses. Member and employer contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investment purchases and sales are recorded on the trade date.

#### Valuation of Investments

Investments other than real estate are reported based on quoted market prices. The fair value of the real estate trust holdings has been determined using industry standard appraisal techniques and assumptions. The real estate trust managers use appraisals, which are updated annually, to determine the fair value of these trusts. Cash deposited in the Sacramento County Treasurer's pool is stated at fair value. The value of the System's pool shares is determined on an amortized cost basis, which may be different than fair value.

#### Short-Term Investments

Short-term investments, which include highly-liquid investments expected to be utilized by the System

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

within 30-90 days, are reported at fair value. These investments may include securities, which have a maturity in excess of 90 days but are readily marketable.

### Other Assets

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

### Administrative Expenses

Administrative costs are financed with earnings from investments and employer and employee contributions.

### 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. Accordingly, actual results may differ from those estimates.

### Reclassification

Certain reclassifications have been made to June 30, 2005 balances to conform to the presentation as of June 30, 2006.

## NOTE 3 - CASH AND INVESTMENTS

The investment authority for the System rests primarily through the "prudent person rule", as set forth in Section 31595 of the County Employees Retirement Law of 1937, which establishes a standard for all fiduciaries, including anyone with investment authority on behalf of the System.

### 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 relationship of the System's average daily cash balance to the total of the pooled cash and investments. The fair value of the System's cash invested with the County Treasurer totaled \$6,078 and \$7,269 at June 30, 2006 and 2005, respectively.

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 changes in plan net assets. Cash and investments included within the County Treasurer's pool is described in the County's Comprehensive Annual Financial Report.

### Other Cash and Cash Equivalents

At June 30, 2006 and 2005, other cash and cash equivalents constitute balances in bank demand deposit accounts of \$23,349 and \$13,042, respectively, of which \$16,586 and \$13,042 were not held

in the System's name. The System is exposed to custodial credit risk with respect to these deposits.

### Short-Term Investments with Fiscal Agents

At June 30, 2006 and 2005, the fair value of the System's short-term investments with fiscal agents was \$301,611 and \$227,958, respectively. The total consisted of investments in the State Street Short-Term Investment Fund (STIF). The STIF is designed to provide qualified benefit plans with a readily accessible 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 and P-1 by Standard & Poor's Corporation at the time of issuance. The STIF is not rated by credit rating agencies. Most investments range in maturity from overnight to 90 days with up to 20% of the STIF's value eligible for investment between 90 days and 13 months. The weighted average maturities were 27 days and 29 days at June 30, 2006 and 2005, respectively. Net assets invested in the STIF from all participating custodial clients of State Street were \$39.7 billion and \$35.3 billion on June 30, 2006 and 2005, respectively.

### 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 years ended June 30, 2006 and 2005, 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, securities issued or guaranteed by the U.S. government, sovereign debt of foreign countries, and irrevocable bank letters of credit. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers are required to deliver collateral for each loan equal to 102% and 105% of the fair value of the loaned domestic and international securities, respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool. SCERS did not impose any restrictions during the fiscal years on the amount of the loans that State Street made on its behalf. There were no failures to return loaned securities or pay distributions thereon by any borrowers during the fiscal years. Moreover, there were no losses during the fiscal years resulting from a default of the borrowers or State Street.

During the fiscal years ended June 30, 2006 and 2005, 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 System held collateral from the borrowers greater than the amounts borrowed, on June 30, 2006 and 2005 the System had no credit risk exposure to the borrowers. Furthermore, the lending agreement with the custodian requires the custodian to indemnify the System if the borrower fails to return the securities. The cash collateral held and the market value of securities on loan as of June 30, 2006 were \$638,437 and \$625,890, respectively. The cash collateral held and the market value of securities on loan as of June 30, 2005 were \$569,531 and \$555,144, respectively.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

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 not the same as the value of the collateral pool shares.

Collateral and related securities on loan at June 30, 2006 and 2005 were as follows:

Security Description	2006		
	Cash Collateral Value	Other Collateral Value	Fair Value of Securities on Loan
U.S. government and agency obligations	\$ 241,928	\$ 363	\$ 237,445
Domestic corporate bonds	28,352	245	28,005
Common and preferred stock – domestic	236,624	1,647	232,325
Common and preferred stock – international	131,533	3,162	128,115
<b>Totals</b>	<b>\$ 638,437</b>	<b>\$ 5,417</b>	<b>\$ 625,890</b>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

Security Description	2005		
	Cash Collateral Value	Other Collateral Value	Fair Value of Securities on Loan
U.S. government and agency obligations	\$ 289,842	\$ -	\$ 284,331
Domestic corporate bonds	30,960	-	30,479
Common and preferred stock – domestic	166,285	-	161,794
Common and preferred stock – international	82,444	39	78,540
Totals	\$ 569,531	\$ 39	\$ 555,144

### 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.

SCERS utilizes external investment managers to manage its portfolios. SCERS' Investment Policy specifies that fixed income investments will include both actively and passively managed investments in U.S. treasury and agency securities, corporate bonds, mortgage-backed and asset-backed securities and non-dollar denominated sovereign and corporate debt. The actively-managed investments will have a minimum average credit quality rating of AA-2 by Moody's Investor Services or AA by Standard and Poor's Corporation. The System's policy is that the passively-managed investments will have a credit quality rating equal to the Lehman Brothers Aggregate Index. Portfolio diversification is constrained by the following parameters in order to minimize overall market and credit risk:

- ◇ No more than 10% of the portfolio will be concentrated in any one issuer except U.S. government and agency securities.
- ◇ No more than 20% of the portfolio will be invested in high yield or below investment grade straight securities.
- ◇ No more than 15% of the portfolio will be invested in convertible securities, which includes bonds and preferred issues.
- ◇ No more than 20% of the portfolio will be invested in non-U.S. dollar bonds.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

The tables below depict the fixed income assets by credit rating as of June 30, 2006 and 2005:

### Fixed Income

As of June 30, 2006

S&P Quality Rating	Moody's Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations
AAA	AAA	\$ 535,650	\$ 46,575	\$ -	\$ -	\$ 33,671	\$ 455,404
AAA	NR	58,715	-	-	58,715	-	-
AA+	AA-1	115,405	115,405	-	-	-	-
A+	A-1	23,204	-	23,204	-	-	-
BBB+	BAA-1	211,466	-	211,466	-	-	-
BBB+	A-2	1,460	-	1,460	-	-	-
BBB	AAA	1,420	-	1,420	-	-	-
NA	NA	283,909	-	-	283,909	-	-
<b>Total</b>		<b>\$ 1,231,229</b>	<b>\$ 161,980</b>	<b>\$ 237,550</b>	<b>\$ 342,624</b>	<b>\$ 33,671</b>	<b>\$ 455,404</b>

### Fixed Income

As of June 30, 2005

S&P Quality Rating	Moody's Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations
AAA	AAA	\$ 424,589	\$ 39,449	\$ 2,793	\$ -	\$ 5,313	\$ 377,034
AA+	AA-2	124,431	124,431	-	-	-	-
AA-	A-1	26,117	-	26,117	-	-	-
BBB+	BAA-1	263,044	-	263,044	-	-	-
NR	NR	145,822	-	222	145,600	-	-
NA	NA	260,061	-	-	260,061	-	-
<b>Total</b>		<b>\$ 1,244,064</b>	<b>\$ 163,880</b>	<b>\$ 292,176</b>	<b>\$ 405,661</b>	<b>\$ 5,313</b>	<b>\$ 377,034</b>

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. NR represents those securities that are not rated and NA represents those securities that are not applicable to the rating disclosure requirements.

Securities Lending Collateral Credit Risk

All of the cash collateral received for securities lending is invested in the Quality D Short-Term Investment Fund managed by State Street, which is not rated by credit rating agencies. At the time of purchase, all securities with maturities of 13 months or less must qualify as first-tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two 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.

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 the managers the discretion to deviate within +/- 20% from the effective duration of the relevant Lehman Brothers benchmark based on the portfolio total.

Below are tables depicting the duration in years of the long-term fixed income portfolio vs. the benchmark in years:

Long-Term Fixed Income Investments

Duration

As of June 30, 2006

<u>Type of Securities</u>	<u>Market Value</u>	<u>Effective Duration</u>	<u>Benchmark Duration</u>	<u>Difference</u>
Securitized Obligations				
Asset Backed Securities	\$ 115,405	0.84	2.73	(1.89)
Commercial Mortgage-Backed Securities	46,575	5.32	4.77	0.55
Credit Obligations				
Corporate Bonds	211,466	6.23	5.84	0.39
Municipal	1,420	1.24	NA	NA
Private Placement	1,460	6.98	NA	NA
Yankees	23,204	5.07	5.24	(0.17)
U.S. Government & Agency Obligations				
Agency Securities	58,715	3.17	3.70	(0.53)
U.S. Treasury	283,909	4.89	4.89	-
International Government				
International Government	33,671	6.37	NA	NA
Collateralized Mortgage Obligations				
Collateralized Mortgage Obligations	104,685	2.98	5.84	(2.86)
Mortgage Pass-Through	350,719	4.29	4.39	(0.10)
<b>Total Market Value with Weighted Average Duration</b>	<b>\$ 1,231,229</b>	<b>4.40</b>	<b>4.34</b>	<b>0.06</b>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

### Long-Term Fixed Income Investments

#### Duration

As of June 30, 2005

Investment Type	Market Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset Backed Securities	\$ 124,431	0.84	2.64	(1.80)
Commercial Mortgage-Backed Securities	39,449	5.51	4.56	0.95
Credit Obligations				
Corporate Bonds	263,044	6.37	6.1	0.27
Municipal	3,015	7.51	NA	NA
Yankees	26,117	5.64	5.33	0.31
U.S. Government & Agency Obligations				
Agency Securities	69,941	2.84	3.67	(0.83)
U.S. Treasury	260,061	5.94	5.35	0.59
International Government				
International Government	5,313	6.02	NA	NA
Collateralized Mortgage Obligations				
Collateralized Mortgage Obligations	85,339	1.54	5.84	(4.30)
Mortgage Pass-Through	291,695	2.28	2.69	(0.41)
<b>Total Market Value with Weighted Average Duration</b>	<b>\$ 1,168,405</b>	<b>4.19</b>	<b>4.34</b>	<b>(0.15)</b>

The investment objective for the short-term fixed income portfolio is to seek the preservation of capital and liquidity. Secondly, the objective is to provide a competitive short-term yield, in a low cost, liquid portfolio, while minimizing both interest rate and credit risk. No more than 20% of the portfolio may be invested in U.S. corporate debt. Permitted investments are U.S. Treasury and Agency securities and AA or better U.S. corporate debt. As of June 30, 2006, SCERS did not have the short-term fixed income portfolio. Below is a table depicting the segmented time distribution for the short-term fixed income assets based upon the expected maturity, 1<sup>st</sup> call date, and/or 1<sup>st</sup> reset date as of June 30, 2005.

### Short-Term Fixed Income Investments

#### Segmented Time Distribution

As of June 30, 2005

Investment Type	Average Maturity					Total
	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	
U.S. Agency Obligations	\$6,009	\$22,472	\$14,908	\$19,888	\$12,382	\$75,659
Weighting	7.94%	29.70%	19.70%	26.29%	16.37%	100.00%

### Securities Lending Collateral Interest Rate Risk

Cash collateral from loans of securities is invested in the State Street Quality D Short-Term Investment Fund. Its average effective duration is restricted to 120 days or less. As of June 30, 2006 and 2005, the actual effective duration was 58 days and 40 days, respectively. The maximum option adjusted duration of any variable rate security is five years or less. All fixed-rate instruments must have an option-adjusted duration not to exceed 30 months.

### 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, 2006 and 2005, the System had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded. There are no general policies addressing the concentration of credit risk, however, as noted above in the 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, 2006 and 2005, 100% of the System's investments were held in the System's name, and the System is not exposed to custodial credit risk related to these investments. The System is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. There are no general policies relating to the custodial credit risk.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

### 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 securities held in a foreign currency as of June 30, 2006 and 2005.

#### As of June 30, 2006

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian Dollar	\$ 56	\$ 25,509	\$ 6,733	\$ 32,298
British Pound	2,386	176,163	-	178,549
Canadian Dollar	280	21,940	10,834	33,054
Danish Krone	76	8,788	-	8,864
Euro Currency	1,314	271,476	11,282	284,072
Hong Kong Dollar	220	17,146	-	17,366
Japanese Yen	1,637	217,925	-	219,562
New Zealand Dollar	1	1,120	4,823	5,944
Norwegian Krone	12	4,992	-	5,004
Singapore Dollar	21	4,770	-	4,791
South African Rand	-	3,698	-	3,698
South Korean Won	5	4,562	-	4,567
Swedish Krona	71	16,011	-	16,082
Swiss Franc	561	72,490	-	73,051
<b>Total</b>	<b>\$ 6,640</b>	<b>\$ 846,590</b>	<b>\$ 33,672</b>	<b>\$ 886,902</b>

#### As of June 30, 2005

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian Dollar	\$ 169	\$ 20,922	\$ -	\$ 21,091
British Pound	1,935	136,810	-	138,745
Canadian Dollar	22	17,169	-	17,191
Danish Krone	-	8,780	-	8,780
Euro Currency	859	225,380	-	226,239
Hong Kong Dollar	394	12,543	-	12,937
Japanese Yen	1,255	157,614	-	158,869
New Zealand Dollar	8	891	5,313	6,212
Norwegian Krone	8	4,803	-	4,811
Singapore Dollar	34	4,477	-	4,511
South African Rand	-	1,151	-	1,151
South Korean Won	2	3,641	-	3,643
Swedish Krona	57	14,440	-	14,497
Swiss Franc	16	59,475	270	59,761
<b>Total</b>	<b>\$ 4,759</b>	<b>\$ 668,096</b>	<b>\$ 5,583</b>	<b>\$ 678,438</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. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended. The System does not have a foreign currency risk policy.

### Highly-Sensitive Investments

As of June 30, 2006 and 2005, SCERS' investments included mortgage-backed securities totaling \$455,404 and \$377,034, respectively. 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 and makes the fair value of these securities highly sensitive to changes in interest rates.

### Derivatives

The System's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency forward contracts, currency futures, floater/inverse floater debt instruments, interest-only and principal-only notes, and exchange traded financial futures and options. The System permits the use of derivatives to minimize the exposure of certain investments to adverse fluctuations in financial and currency markets. The System does not permit the use of derivatives for speculative use or to create leverage. In addition, the System invests in mortgage-backed securities, including collateralized mortgage obligations (CMOs), to increase the yield and return on its investment portfolio relative to the available alternative investment opportunities. The value of mortgage-backed securities is generally based on the cash flow from principal and interest receipts on the underlying mortgage pools. In a CMO, the cash flow from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. CMOs are subject to significant market risk related to fluctuations in interest rates, prepayment rates, and various liquidity factors tied to their specific markets. As of June 30, 2006 and 2005, total CMO investments were \$455,404 and \$377,034, respectively, of which \$24,361 and \$44,773 were considered derivatives because of the priority claim and payment terms assigned to the specific security class (tranche) in which the System was invested.

A summary of the various derivative instruments as of June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Currency forward contracts	\$ 118,029	\$ 7,660
Futures contracts	5,230	-
Floating-rate notes	59,190	107,957
Interest-only notes	1,051	3,780
Collateralized mortgage obligations	24,361	44,773
<b>Total derivative instruments</b>	<b>\$ 207,861</b>	<b>\$ 164,170</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

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

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.

### Real Estate

At the beginning of the fiscal year, SCERS adopted a new structure for its real estate investments. The new allocation broadens SCERS real estate investments from being mostly in core properties through direct investment to include investments in commingled core real estate funds, value added real estate investment funds, and publicly-traded real estate investment trust (REIT) stock investments. Direct investments include offices, apartments, retail, and industrial. As of June 30, 2006 and 2005, real estate investments were \$708,896 and \$496,455, respectively.

### NOTE 4 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contributions to the plan are made pursuant to Section 31584 of the County Employees Retirement Law of 1937. 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 1.81% to 12.67% of annual covered salary 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 contributions range from 11.46% to 44.68% of covered payroll. The required contributions include current service cost, and amortization of any unfunded prior service cost over a 30-year closed amortization period, with 27 years remaining as of June 30, 2006.

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.

Contributions for the years ended June 30, 2006 and 2005 totaled \$174,667 and \$566,534. Included in this total are employer contributions of \$132,708 and \$529,618, respectively, of which \$127,846 and \$514,720 were made by the County of Sacramento. Member contributions were \$41,959 and \$36,916 in fiscal years 2006 and 2005, respectively. Employer contributions for the year ended June 30, 2005 included the receipt of \$420,000 in proceeds from pension obligation bonds (POB) issued by the County of Sacramento. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed at June 30, 2004 and 2003, respectively. In addition, the impact of the POB proceeds received from the County of Sacramento was reflected in the employer contribution rates charged during the year ended June 30, 2005.

### NOTE 5 – 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.

**Employee reserves** represent the balance of member contributions. Additions include member contributions and interest earnings. Deductions include refunds of member contributions and transfers to retiree reserves.

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

**Employer reserves** represent 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 reserves** represent the balance of transfers from employee reserves, employer reserves, and interest earnings, less payments to retired members.

**Retiree death benefit reserves** represent the balance of funds for lump sum death benefits for retirees. Additions include interest earnings and, if necessary, employer contributions. Deductions include payments to beneficiaries of retired members who are deceased.

**Retiree health care benefit designations** include transfers made by the System from excess earnings in prior years to provide funding for a non-vested health and dental insurance premium offset for retirees. Funding of and payments for the retiree health care premium offsets are made in accordance with section 401(h) of the Internal Revenue Code. Effective July 1, 2004, funding for health care premium offsets for retirees has been provided by those employers who have elected to continue the payments for their retired members and have not been funded by the System.

**Smoothed actuarial value of assets.** Investment gains and losses for the year are recognized (smoothed) over a five-year period. As of June 30, 2006 and 2005, total allocated reserves were \$4,848,953 and \$4,530,582, respectively.

**Market stabilization reserve** represents the difference between the smoothed actuarial value of assets and the net assets available for benefits at fair value.

A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2006 and 2005 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) is as follows:

### NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE

As of June 30

	2006	2005
Employee reserves	\$ 573,497	\$ 537,994
Employer reserves	1,974,407	1,887,086
Retiree reserves	2,286,217	2,091,019
Retiree death benefit reserves	13,264	12,912
Retiree health care benefits designations	1,568	1,571
Total reserves and designations	4,848,953	4,530,582
Excess earnings – undesignated	-	-
Smoothed actuarial value of assets	4,848,953	4,530,582
Market stabilization reserve	241,976	45,862
<b>Net assets available for benefits, at fair value</b>	<b>\$ 5,090,929</b>	<b>\$ 4,576,444</b>

## NOTES TO THE BASIC FINANCIAL STATEMENTS

(Amounts Expressed in Thousands)

### NOTE 6 - PLAN TERMINATION

California Government Code Section 31483 allows the governing body of the County or Special District, through the adoption of an ordinance or resolution, to terminate the applicability of the plan to employees of the County or Special District whose services commence after a given future date.

### NOTE 7 – MORTGAGES PAYABLE

The System has real estate investments secured by long-term mortgage obligations. Activities related to such mortgages were as follows for the years ended June 30:

	2006	2005
Beginning Balance	\$ 112,649	\$ 103,995
Additions	73,453	14,250
Deductions	(32,396)	(5,596)
Ending Balance	<u>\$ 153,706</u>	<u>\$ 112,649</u>

Future debt service requirements for outstanding mortgages are as follows:

Year Ending	Principal	Interest	Total
June 30:			
2007	\$ 276	\$ 9,282	\$ 9,558
2008	293	9,265	9,558
2009	66,540	7,574	74,114
2010	14,595	4,496	19,091
2011	42,197	3,928	46,125
2012 - 2016	3,322	7,612	10,934
2017 - 2021	4,347	6,587	10,934
2022 - 2026	5,688	5,246	10,934
2027 - 2031	7,443	3,491	10,934
2032 - 2036	9,005	1,200	10,205
Total	<u>\$ 153,706</u>	<u>\$ 58,681</u>	<u>\$ 212,387</u>

**NOTE 9 – LEASE OBLIGATIONS**

SCERS has commitments under operating lease agreements for office facilities and equipment. Minimum future rental payments as of June 30, 2006 were as follows:

Year Ending June 30:	
2007	\$ 575
2008	580
2009	577
2010	586
2011	297
Total	<u>\$ 2,615</u>

Rental costs during the year ended June 30, 2006 and 2005 were \$612 and \$596, respectively.

**NOTE 10 – ACCOUNTING PRONOUNCEMENTS**

GASB recently released Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 provides uniform financial reporting standards for plans that provide postemployment benefits such as health care benefits. This statement, if applicable, may require the System to obtain actuarial valuations, and report in its financial statements, the funded status and funding progress of health care and dental insurance premium offsets for retired members. Management is currently evaluating GASB No. 43 and if applicable, it will be implemented in the financial statements for the year ending June 30, 2007.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule I - Schedule of funding progress (Amounts expressed in thousands):

A six-year schedule of the funding progress of the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on a going basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded/ (Over funded) AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded/ (Over funded) AAL as a Percentage of Covered Payroll ((b-a)/c)
2001	\$3,718,198	\$3,451,864	\$(266,334)	107.7%	\$634,798	(42.0) %
2002	3,839,081	3,586,250	(252,831)	107.1	695,259	(36.4)
2003	3,864,400	4,108,294	243,894	94.1	733,296	33.3
2004	4,379,514	4,694,009	314,495	93.3	714,069	44.0
2005	4,530,583	4,860,882	330,299	93.2	722,015	45.7
2006	4,848,953	5,214,915	365,962	93.0	782,572	46.8

Effective June 29, 2003, the Sacramento County Board of Supervisors adopted an enhanced benefit formula for Miscellaneous and Safety members. The County and certain Member Districts adopted these improvements for both past and prospective service, while the remaining Member Districts adopted these improvements for future service only. The adoption of enhanced benefits significantly increased the actuarial accrued liability as of June 30, 2003 and significantly increased employer contributions for the year ended June 30, 2004 and subsequent years.

On July 1, 2004, the County issued \$420,000 of Pension Obligation Bonds (POB). On October 20, 2004, Sacramento Metropolitan Fire District (SMFD) issued Pension Obligation Bonds. SCERS received proceeds of \$10,538 of which \$874 was attributable to SMFD's active SCERS members. The receivable contributions from the County POB and the SMFD POB for its active members were included in the value of assets for the actuarial valuation date as of June 30, 2004.

### Schedule II - Schedule of employer contributions (Amounts expressed in thousands):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	\$40,358	100.0%
2002	44,547	100.0
2003	52,841	100.0
2004	119,144	100.0
2005	529,618	100.0
2006	154,052	86.1*

\*There was a significant increase in the employer's contribution rate as a result of the assumptions adopted in the June 30, 2004 experience study. The Board of Retirement approved a phase-in of the associated contribution rate increase over a two-year period starting with fiscal year 2005-2006 for the County of Sacramento. As a result, the percentage contributed for fiscal year 2005-2006 was less than 100%.

## REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

### Schedule III – Significant actuarial assumptions:

The following significant actuarial assumptions underlying the required supplementary schedules were utilized as part of the actuarial valuation dated June 30, 2006:

Actuarial cost method:	Entry age normal cost method
Amortization method:	Level percent of payroll for total unfunded liability
Remaining amortization period:	30-year closed amortization period with 27 years remaining as of June 30, 2006
Asset valuation method:	5-year smoothed fair value*

\*The market value of assets plus or minus unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.

### Actuarial assumptions:

Investment rate of return:	7.75%
Inflation rate:	3.50%
Real across-the-board salary increase:	0.25%
Miscellaneous projected salary increases**:	4.95% to 11.55%
Safety projected salary increases**:	3.75% to 9.65%

\*\*Includes inflation at 3.50% plus real across-the-board salary increase of 0.25% plus merit and longevity increases.

### Assumed postretirement benefit increase:

Miscellaneous Tier 1	3.40%
Miscellaneous Tier 2	0.00%
Miscellaneous Tier 3	2.00%
Safety Tier 1	3.40%
Safety Tier 2	2.00%

## OTHER SUPPLEMENTAL INFORMATION

For the Years Ended June 30  
(Amounts Expressed in Thousands)

### Schedule I - Schedule of administrative and other expenses

Type of expense:	2006	2005
Salaries and benefits	\$2,718	\$2,734
Professional fees	808	440
Equipment purchases and maintenance	70	73
Rent and lease expense	612	596
Depreciation expense	3	27
Other administrative expenses	850	1,392
Total administrative and other expenses	<u>\$5,061</u>	<u>\$5,262</u>

### Schedule II - Schedule of investment fees and expenses

Type of investment expense:	2006	2005
Domestic equity managers	\$4,056	\$2,747
International equity managers	5,859	3,378
Bond managers	1,838	2,010
Hedge fund managers	2,633	2,098
Real estate managers	13,353	6,348
Strategic cash overlay managers	128	-
Custodian fees	343	335
Investment consulting fees	244	255
Other professional fees	293	147
Total investment fees and expenses	<u>\$28,747</u>	<u>\$17,318</u>

### Schedule III - Schedule of payments to consultants

Type of Service:	2006	2005
Legal services	\$736	\$508
Actuarial services	257	93
Medical consulting services	156	89
Audit & consulting services	45	59
Total payments to consultants	<u>\$1,194</u>	<u>\$749</u>



INVESTMENT SECTION



# CHIEF INVESTMENT OFFICER'S REPORT



Executive Staff  
Richard Stensrud  
Chief Executive Officer  
Jeffrey W. States  
Chief Investment Officer  
James G. Line  
General Counsel  
Kathryn T. Regalia  
Chief Operations Officer  
John W. Gobel Sr.  
Chief Benefits Officer

November 17 , 2006

Dear Members of the Board,

## Introduction

SCERS completed the 2006 fiscal year with a gross investment return of 12.1% and a return net of investment management fees of 11.8%. This is the third consecutive fiscal year of double digit investment results. The good performance results are due to the strong performance of SCERS' international equity and real estate investments. International equity had a return of 29.9%, net of fees, for one year, and real estate investments returned 21.8%, net of fees. These returns reflect the continued moderate growth of the U.S. and global economies in spite of record high oil prices. The fiscal year return, net of manager fees, is 0.5% below SCERS' policy weighted benchmark return of 12.3%.

On a peer comparison, SCERS performance ranks in the 44th percentile of the Russell/Mellon Trust Universe for public funds of a billion dollars or more for the twelve month period. Over the trailing ten year period SCERS annualized investment return is 8.9%, gross of manager fees and exceeds the actuarial return objective of 7.75%. Mercer Investment Consulting, Inc. (Mercer) prepares the investment returns using information it receives from SCERS' custodian bank and investment managers. The return calculations are prepared using a time weighted rate of return.

## General Information

SCERS uses external investment managers chosen by the Board to invest the funds' assets. As of June 30, 2006, there were 18 separate account portfolios. In addition, SCERS has investments in a commingled equity emerging markets growth fund, two equity long/short commingled hedge fund-of-funds and four real estate funds. The managers, the emerging markets fund and the commingled funds are identified on the following page. The Board uses the services of Mercer Investment Consulting Inc. as a general investment consultant to assist in developing the investment policy, prepare asset/liability studies, provide advice on the asset allocation, and conduct investment manager searches and help monitor investment manager performance. During the fiscal year Sacramento County Counsels' office provided legal services that were supplemented by contract legal counsel for hedge funds and real estate investments. Beginning in July of 2006, SCERS primary legal services will be provided by a newly created in-house General Counsel.

At the beginning of the fiscal year SCERS adopted a new structure for its real estate investments. The new allocation broadens SCERS real estate investments from being mostly in core properties through direct investment to include investments in commingled core real estate funds, value added real estate investment funds and publicly traded real estate investment trust (REIT) stock investments. The changes in the allocation are designed to allow SCERS to achieve and maintain its real estate investments at its target allocation, to improve the diversification of the core investments by property type and region, improve liquidity and enhance investment return. The strategic target allocation of real estate investments now is 60% to core properties, 20% to value added funds and 20% to REITS. SCERS began phasing in the new structure by conducting a search and selecting two new managers to invest \$50 million each in a portfolio of REIT securities. A third REIT manager will be hired in the future. At the end of the fiscal year SCERS was in the process of evaluating several value added real estate funds from which it plans to select three. An investment commitment totaling \$75 million will be made to the three funds with a similar amount to be committed once the initial commitments are invested. One U.S. small cap growth equity manager was terminated because of the departure of the portfolio manager and a new small cap equity manager was selected after a search.

In May of 2005 SCERS began a discussion with its investment consultant about strategies that could be used to reduce the drag on investment performance from cash present in the various manager portfolios. After considering several alternative strategies the Board made a decision to implement an overlay of SCERS asset allocation using available cash to invest in options, futures and swap derivatives to replicate its Asset Allocation to asset classes for which sufficiently liquid derivatives exist. In February of 2006 a cash overlay strategy was implemented. The objective of the strategy is to: (1) Eliminate performance drag from unallocated cash, daily residual cash balances in manager portfolios and committed but uninvested cash held for real estate and other investments; (2) Monitor the overall asset allocation to assure compliance with the target exposure to asset classes and related target weights defined in SCERS Asset Allocation Policy; and (3) Assist in the efficient rebalancing of assets to assure compliance with the target exposure to asset classes and related target weights as defined in SCERS Asset Allocation Policy. With the implementation of the overlay strategy the short-term fixed income portfolio started in 2004 for the temporary investment of funds committed for investment in real estate was liquidated and the funds transferred to cash.

SCERS custodial bank is State Street California, Inc. State Street California provides securities lending services to SCERS and through State Street Global Markets administers a commission recapture program. In fiscal year 2006 SCERS earned net income of \$1,686,000 from securities lending and received recapture income of \$229,000. SCERS does not use directed brokerage or soft-dollar commissions to purchase any services.

### SCERS Investment Objectives

SCERS investment objectives are set forth in the Board's Investment Policy and Objectives. SCERS investment objectives are:

1. Provide for Present and Future Benefit Payments - The overall objective of SCERS is to invest pension assets, solely in the interest of providing benefits to the participants and their beneficiaries, while attempting to minimize the employer contributions and defraying the administrative costs. The investment of contributions and other fund assets in accordance with the investment policy described herein will accomplish this and maintain adequate funding of SCERS' liabilities over time.

## CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

The goal of the Board is to design an investment portfolio that will achieve and exceed the annualized actuarial assumed rate of 7.75% over a market cycle. The Board strives to achieve this level of return with a high level of certainty and with an acceptable level of risk.

2. Make Prudent Investments - With care, skill, prudence and diligence the Board will strive to produce an investment return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances. Such circumstances may change over time.
3. Diversify the Assets - The Board will diversify the investments of the Fund to maximize the investment return with acceptable investment risk.
4. Create Reasonable Pension Investments Relative to Other Pension Funds - The pension investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets. SCERS judges its selection of investment vehicles and policies against other private and public pension funds, with special emphasis on comparisons with public funds.
5. Establish Policy and Objective Review Process - Annually, SCERS will conduct a formal review of its Investment Policy and Objectives and will develop an updated financial projection at least every five years.

### Summary of Proxy Voting Guidelines and Procedures

As a fiduciary SCERS Board has an obligation to manage the retirement system's assets in the best interest of the plan participants. The Board has established a Proxy Voting & Corporate Governance Policy. This policy provides guidance to the Chief Investment Officer for voting proxies and acting on corporate action issues such as mergers and acquisitions. For the fiscal year ending June 30, 2006 all proxies that were received were voted through an electronic voting platform provided by Institutional Shareholder Services. The Chief Investment Officer in accordance with the Board's policy votes proxies with the assistance of research and analysis provided by Institutional Shareholder Services.

### Summary of Asset Allocation

The Board develops the strategic asset allocation with the assistance of Mercer Investment Consulting, Inc. The intent of the asset allocation policy is to ensure that investments are diversified in a manner that achieves the desired rate of investment return with an acceptable investment risk. The actual and policy allocation for each asset class is shown in the pie chart on the following page. The actual asset allocation by investment manager also is included. The capital market assumptions adopted along with the asset allocation give SCERS an expected 7.22% annualized total rate of return over the next ten years with a standard deviation of returns of 11.70%. SCERS utilizes active investment management to achieve the target earnings rate. The asset allocation is broadly diversified between asset classes as well as within each class in a manner that insures consistent long-term performance in line with the policy objectives.

### Summary of Investment Results

SCERS monitors capital market investment returns through reference to recognized and easily obtainable market indices which are used as asset class benchmarks. The benchmark index and index

performance by asset class for one, three and five years is shown on the page of Investment Results found later in this report. The asset class benchmark returns are weighted by the asset allocation to provide a policy-weighted return based on SCERS' asset allocation model. SCERS total investment return for the fiscal year ending June 30, 2006, net of manager fees, is 11.8%. SCERS policy-weighted benchmark return for the fiscal year is 12.3%. SCERS also compares its performance against the performance of other public funds utilizing a series of universe comparisons provided by Mercer Investment Consulting. For the fiscal year SCERS return ranked in the 44<sup>th</sup> percentile in comparison to the Russell/ Mellon Trust Universe for 43 public funds with assets of greater than one billion dollars.

U.S. Domestic equity is SCERS largest investment asset class. For the fiscal year SCERS total domestic equity return is 8.4%, net of fees. The return is below the benchmark Russell 3000 index return by 1.2%. In the Mercer Equity Universe SCERS return ranks in the 94<sup>th</sup> percentile for the one-year period. For the three-year period SCERS domestic equity return is 12.4%, net of fees, compared to the benchmark Russell 3000 Index return of 12.6%. The underperformance of the U.S. equity investments relative to the benchmark was the failure of the majority of SCERS' active investment managers to out perform their assigned portfolio benchmarks.

Domestic equity investments are divided into two sub-asset classes based on stock capitalization. Large cap domestic equity is 85% of the domestic equity allocation. The large cap domestic equity investments had a 8.5% return, net of fees, for one-year; 0.6% below the Russell 1000 index return of 9.1%. The investment return for large cap equity for three years is 11.9%, 0.1% less than the Russell 1000 index. The one-year return for small cap equity investments is 7.9%, net of fees. This return is 6.7% below the benchmark Russell 2000 index return of 14.6%. For the three-year period the small cap equity return is 14.8%, net of fees, 3.9% below the Russell 2000 index return of 18.7%.

International equity was SCERS best performing asset class for the fiscal year. The total international equity return was 29.9%, net of fees. This is 3.3% above the benchmark MSCI EAFE index equity return of 26.6%. Performance for three years of 25.1% is 1.2% better than the benchmark return of 23.9%.

SCERS international equity investments are in two categories, established markets and emerging markets based on country location. SCERS established market investments returned 28.4%, net of fees, 1.8% above the benchmark MSCI EAFE Index. Over the trailing three-year period the established market return was 22.8%, net of fees, compared to a MSCI EAFE index return of 23.9%. The international emerging markets outperformed the established markets for the second year in a row. The MSCI Emerging Markets Free Index return for the fiscal year was 35.9%. SCERS investment in an emerging markets growth fund out performed the benchmark by 2.0% returning 37.9%, net of fees. For the three-year period the MSCI Emerging Markets Free Index return of 34.8% is above SCERS return of 33.3% net of fees.

Throughout the fiscal year, the Federal Reserve pursued a policy of gradually increasing short term interest rates to implement a monetary policy with the objective of slowing economic growth and reducing inflation. This policy produced an upward shift and flattening of the two to thirty year treasury yield curve resulting in bond investments as measured by the Lehman Aggregate Bond Index returning -0.7% over the year. The fixed income fiscal year return was -0.3%, net of fees, 0.4% better than the return of the benchmark. Over the three-year period ending June 30, 2006 SCERS fixed income investments returned 2.9%, net of fees compared to the benchmark Lehman Aggregate Bond Index return of 2.1%. SCERS has one-third of the fixed income assets in a passive Lehman Aggregate indexed portfolio and two core plus portfolios.

## CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

The real estate asset class had SCERS second best investment performance. The return for one-year was 21.8%. This is 3.1% above the NCREIF Property Index. Over the three-year period the real estate portfolio return was 18.8% compared to the NCREIF Property Index return of 15.8%.

The Equity Long/Short Hedge Fund-of-Funds investments implemented at the end of 2004 to provide portfolio diversification and reduce downside risk had a one year return of 9.3%. The CSFB Tremont Hedge Fund of Funds Long/Short Equity Index had a return on 14.4%. The performance objective for the hedge fund of funds investments (5.0% above the return of the T-Bill) was 8.7%.

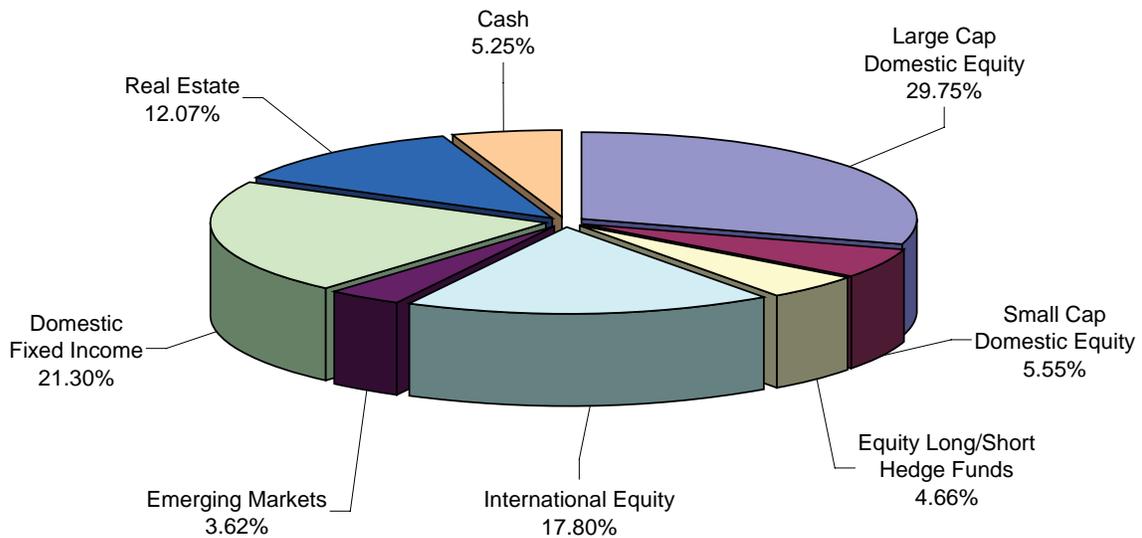
Respectfully submitted,

A handwritten signature in black ink that reads "Jeffrey W. States". The signature is written in a cursive, slightly slanted style.

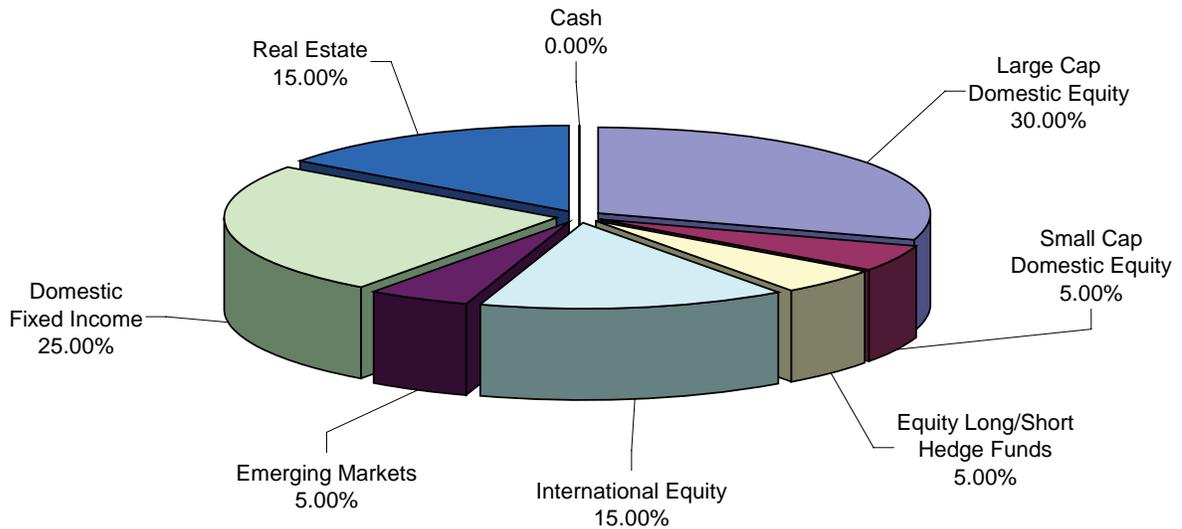
Jeffrey W. States  
Chief Investment Officer

# ASSET ALLOCATION

**SCERS' Asset Allocation as of June 30, 2006**



**Target Asset Allocation**



The 2006 Actual Asset Allocation is based upon the Investment Summary adjusted to net out the \$153.7 million in leverage.

# INVESTMENT PROFESSIONALS

## Investment Managers

### Equity-Domestic

Alliance Capital Management L.P.  
Bear Stearns Asset Management, Inc.  
Dalton, Greiner, Hartman, Maher & Co., LLC  
Independence Investment, LLC  
LSV Asset Management  
M.A. Weatherbie & Co, Inc.  
OFI (Trinity) Institutional Asset Management  
Pzena Investment Management, LLC  
TCW Asset Management

### Equity Long/Short Hedge Fund-of-Funds

Blackstone Alternative Asset Management, L.P.  
Grosvenor Capital Management, L.P.

### Equity-International

Capital Guardian Trust Company  
Capital International, Inc.  
INVESCO Global Asset Management (N.A.), Inc.  
LSV Asset Management  
AXA Rosenberg Investment Management, LLC

### Fixed Income

Lehman Brothers Assets Management LLC  
Bradford & Marzec, Inc.  
Metropolitan West Asset Management

### Real Estate

BlackRock Realty Advisors, Inc.  
Cornerstone Real Estate Advisers, LLC.  
Cornerstone Property Fund  
Heitman Real Estate Fund V  
JMB Group Trust V and  
PAC Limited Partnership Interest  
Metlife Tower Fund  
Principal Global Investors, LLC  
Urdang Investment Management, Inc.

### Strategic Cash Overlay

State Street Global Advisors

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### Real Estate Legal Counsel

Nossaman, Guthner, Knox & Elliot, LLP

### Investment Consultant

Mercer Investment Consulting

### Proxy Advisor

Institutional Shareholder Service  
Glass Lewis & Co.

# INVESTMENT RESULTS

	Current Year Ended <u>June 30, 2006</u>	Annualized <u>3 Year</u>	<u>5 Year</u>
<b>Domestic Equity</b>			
Total Domestic Equity	8.7%	12.7%	3.8%
Mercer Equity Universe Median	10.6%	14.1%	5.0%
Benchmark: Russell 3000 Index	9.6%	12.6%	3.5%
<b>International Equity</b>			
Total International Equity	30.6%	25.6%	12.0%
Mercer International Equity Universe Median	28.4%	25.7%	12.0%
Benchmark: MSCI EAFE Index	26.6%	23.9%	10.0%
<b>Fixed Income</b>			
Total Fixed Income	-0.2%	3.1%	5.5%
Mercer Fixed Income Universe Median	-0.2%	3.3%	5.7%
Benchmark: Lehman Brothers Aggregate	-0.8%	2.1%	5.0%
<b>Equity Hedge Fund of Funds</b>			
Total Hedge Funds	9.3%	N/A	N/A
<b>Real Estate</b>			
Total Real Estate	21.8%	18.8%	14.4%
Mercer Real Estate Universe Median	20.7%	17.9%	14.2%
Benchmark: NCREIF Classic Property Index	18.7%	15.8%	12.0%
<b>Total Fund</b>			
Sacramento Total Fund	12.1%	13.0%	7.2%
Russell/Mellon Public Funds Billion \$ Universe	11.9%	13.4%	7.2%
Benchmark: Asset Allocation Weightings*	12.3%	13.0%	7.3%

Notes: Returns were prepared by Mercer Investment Consulting, Inc., and shown on a gross of fee basis. Return calculations were prepared using a time-weighted rate of return.

\*The Benchmark consisted of 30% Russell 1000, 5% Russell 2000, 25% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE index, 5% MSCI Emerging Markets Free, 15% NCREIF Classic Property Index and 5% CSFB Tremont Hedge Funds Long/Short Equity. Prior to October 1, 2004 the Benchmark consisted of 35% Russell 1000, 5% Russell 2000, 30% Lehman Aggregate, 15% MSCI EAFE index, 5% MSCI Emerging Markets Free Index, and 10% NCREIF Property Index.

# SUMMARY OF INVESTMENT ASSETS

As of June 30, 2006

	<b>Fair Value (Amounts Expressed in Thousands)</b>	<b>Percentage of Total Cash &amp; Investments</b>
<b>Equities</b>		
<b>Domestic</b>		
Alliance Capital (Russell 1000 Index)	\$1,014,762	18.61%
State Street Global Advisors (Active Small Cap Growth)	62,433	1.14%
Dalton, Greiner (Active Small Cap Value)	70,758	1.30%
Independence (Active Large Cap Growth)	230,956	4.24%
M.A. Weatherbie (Active Small Cap Growth)	79,159	1.45%
LSV Asset Management (Active Large Cap Value)	92,972	1.71%
Pzena Investment Management (Active Large Cap Value)	84,129	1.54%
Trinity (Active Large Cap Value)	85,577	1.57%
TCW Asset Mgmt (Active Small Cap Value)	68,323	1.25%
Total Domestic Equity	1,789,069	
<b>International</b>		
AXA Rosenberg (International Small Cap Value)	65,633	1.20%
Capital Guardian Trust (International Growth)	292,911	5.37%
INVESCO (International Core)	267,149	4.90%
LSV (International Value)	274,382	5.03%
Capital International (International Emerging Markets)	183,380	3.36%
Total International Equity	1,083,455	
<b>Hedge Fund of Funds</b>		
Blackstone (Equity Long/Short)	123,461	2.26%
Grosvenor (Equity Long/Short)	112,694	2.07%
Total Hedge Fund of Funds	236,155	
<b>Total Equities</b>	3,108,679	
<b>Fixed Income</b>		
<b>Domestic</b>		
Lehman Brothers (Lehman Aggregate Index)	449,770	8.25%
Bradford & Marzec (Core Plus)	379,706	6.96%
Metropolitan West Asset Management (Core Plus)	377,083	6.92%
Total Domestic Fixed	1,206,559	
<b>International</b>		
Bradford & Marzec (Core Plus)	63,982	1.17%
Total International Fixed	63,982	
<b>Total Fixed Income</b>	1,270,542	

Continued

## SUMMARY OF INVESTMENT ASSETS (CONTINUED)

	<u>Fair Value (Amounts Expressed in Thousands)</u>	<u>Percentage of Total Cash &amp; Investments</u>
<b>Real Estate</b>		
BlackRock Realty	416,700	7.64%
Cornerstone Realty	173,544	3.18%
Cornerstone Property Fund	65,908	1.21%
Metlife Tower Fund	52,584	0.96%
Principal Global Investors	37,119	0.68%
Urdang Investment Management	36,271	0.67%
Other Commingled Trusts	160	0.00%
Total Real Estate	<u>782,286</u>	
<b>Strategic Cash Overlay</b>		
State Street Global Advisors	25,066	0.46%
Total Strategic Overlay	<u>25,066</u>	
Total Investments at Fair Value	<u>\$5,186,572</u>	
<b>Cash</b>		
Cash (Unallocated)	243,450	4.46%
Other Cash & Cash Equivalents	22,664	0.42%
Transition Account	5	0.00%
<b>Total Cash &amp; Investments</b>	<u><b>5,452,691</b></u>	<b>100.00%</b>
<b>Other Assets</b>		
Receivables	68,655	
Other Assets	9,518	
Securities lending collateral	638,437	
Total Assets	<u>6,169,301</u>	
<b>Liabilities</b>		
Accounts Payable and Other Accrued Liabilities	27,802	
Investment Trades Payable	255,160	
Mortgages Payable	153,706	
Warrants Payable	3,267	
Securities Lending Liability	638,437	
Total Liabilities	<u>1,078,372</u>	
<b>Net Assets Held in Trust for Pension Benefits</b>	<u><b>\$5,090,929</b></u>	

Note: Allocated assets include cash and cash equivalents and short-term investment with fiscal agents.

# SCHEDULE OF MANAGER FEES

(Amounts Expressed in Thousands)

## Manager

### Domestic Equity

Alliance Capital Management, L.P.	\$	225
BNY Asset Management		335
Dalton, Greiner, Hartman, Maher & Co., LLC		397
Independence Investment		200
LSV Asset Management		1,093
M.A. Weatherbie & Co., Inc.		680
OFI (Trinity) Institutional Asset Management		120
Pzena Investment Management, LLC		634
TCW Asset Management		372
<b>Total Domestic Equity</b>		<b>4,056</b>

### International Equity

AXA Rosenberg Investment Management, LLC		283
Capital Guardian Trust Company		550
Capital International, Inc.		1,592
Invesco Institutional NA, Inc.		1,124
LSV Asset Management		2,310
<b>Total International Equity</b>		<b>5,859</b>

### Hedge Fund of Funds

Blackstone Alternative Asset Management, L.P.		1,602
Grosvenor Capital Management, L.P.		1,031
<b>Hedge Fund of Funds Total</b>		<b>2,633</b>

### Strategic Cash Overlay

State Street Global Advisors		128
<b>Future Overlay Total</b>		<b>128</b>

Continued

## SCHEDULE OF MANAGER FEES (CONTINUED)

(Amounts Expressed in Thousands)

### Manager

#### Fixed Income

Bradford & Marzec, Inc.-Lehman Aggregate	894
Bradford & Marzec, Inc.-Short Duration	58
Lehman Brothers Assets Management, LLC	175
Metropolitan West Asset Management	711
<b>Total Fixed Income</b>	<b>1,838</b>

#### Real Estate

BlackRock Realty Advisors, Inc.	11,353
Cornerstone Real Estate Advisors, LLC	1,918
Principal Global Investors, LLC	42
Urdang Investment Management, Inc.	40
<b>Total Real Estate</b>	<b>13,353</b>

#### Other Professional Fees

Glass, Lewis & Co., LLC	37
Institutional Shareholder Services	53
Mercer Investment Consulting, Inc.	244
State Street Bank	343
Strategic Financial Solutions, LLC	17
The Segals Company	61
Zephyr Associates, Inc.	30
Other Professional Services	95
<b>Total Other Professional Fees</b>	<b>880</b>

<b>Total Investment Fees and Expenses</b>	<b>\$ 28,747</b>
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## TEN LARGEST STOCK HOLDINGS (BY FAIR VALUE)

As of June 30, 2006

Rank	Shares	Security Name	Fair Value (in thousands)
1	1,122,743	General Electric Company	\$ 37,006
2	575,886	Exxon Mobil Corp.	35,330
3	623,329	Citigroup, Inc.	30,069
4	1,117,535	Microsoft Corp.	26,038
5	483,905	Bank of America Corp.	23,276
6	355,858	Johnson & Johnson	21,323
7	371,144	Procter and Gamble Co.	20,636
8	877,020	Pfizer, Inc.	20,584
9	489,137	JP Morgan Chase & Company	20,544
10	596,900	Royal BK Scot Group	19,629
Total of Ten Largest Stock Holdings			<u>\$ 254,435</u>

## TEN LARGEST BOND HOLDINGS (BY FAIR VALUE)

As of June 30, 2006

Rank	Par	Security Name	Interest Rate	Maturity	Fair Value (in thousands)
1	43,240,000	United States Treasury Notes	4.25%	11/15/2014	\$ 40,673
2	37,790,000	FNMA TBA Jul 30	6.00%	12/01/2099	37,185
3	37,852,000	FNMA TBA Jul 30	5.50%	12/01/2099	36,341
4	35,653,000	FNMA TBA Jul 30	5.00%	12/01/2099	33,327
5	32,216,000	United States Treasury Strip-Principal	0.00%	12/01/2099	27,523
6	24,915,000	United States Treasury Notes	4.38%	12/31/2007	24,619
7	19,711,000	United States Treasury Notes	4.88%	05/15/2009	19,578
8	16,102,000	United States Treasury Notes	4.88%	04/30/2011	15,938
9	9,212,000	Germany (Federal Republic)	3.50%	01/04/2016	11,282
10	10,988,000	Discover Card Medium Term	5.21%	09/16/2010	10,993
Total of Ten Largest Bond Holdings					<u>\$ 257,459</u>

Note: Complete listings of the System's stock and bond holdings are available.

## SCHEDULE OF EQUITY BROKERAGE FEES

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
Abel Noser Corp.	0.040	7,075	\$ 283
ABG Securities AS (Stockholm)	0.036	19,100	693
ABN Amro Australia Limited	0.035	21,355	749
ABN Amro Bank N.V. Hong Kong	0.004	156,000	551
ABN Amro Bank N.V. London	0.011	28,700	317
ABN Amro Bank NV	0.014	384,043	5,548
ABN Amro Bank NV Hong Kong Branch	0.002	1,130	2
ABN Amro Securities (USA), Inc.	0.004	207,000	881
Adams Harkness & Hill, Inc.	0.041	107,080	4,404
ADP Clearing & Outsourcing Services, Inc.	0.046	82,300	3,762
American Technology Research, Inc.	0.040	8,300	332
America's Growth Capital LLC	0.040	591	24
Ancora Securities, Inc.	0.030	22,925	691
Assent LLC	0.006	21,500	129
Avian Securities	0.040	95,100	3,804
Avondale Partners LLC	0.040	5,192	208
B. Riley and Co., Inc.	0.042	3,520	149
Baird, Robert W. & Company, Inc.	0.041	616,026	25,418
Banc/America Securities LLC Montgomery Div.	0.042	459,480	19,297
Banco Bilbao Vizcaya Argentari	0.039	16,500	649
Banco Espirito Santo De Invest	0.003	177,452	578
Banco Espirito Santo De Investment	0.015	14,470	216
Banque Nationale Du Canada	0.041	800	33
Bayerische Hypo Und Vereinsbank Ag	0.081	18,238	1,481
Bear Stearns	0.005	6,900	37
Bear Stearns & Co., Inc.	0.039	967,410	37,880
Bear Stearns EMM	0.009	2,000	17
Bear Stearns Securities Corp.	0.030	1,060,909	32,274
Bear Stearns Securities Corp.	0.008	108,638	911
BMO Capital Markets Corp.	0.050	2,500	125
BNY Brokerage, Inc.	0.004	6,203,500	27,084
BNY Brokerage	0.040	190,150	7,523
Bridge Trading Company	0.040	371,300	14,934
Broadcort Capital (through MI)	0.048	122,196	5,848
B-Trade Services LLC	0.016	1,302,833	20,710
Buckingham	0.045	10,000	450
Buckingham Research Group	0.042	152,465	6,368
Buckingham Research Group, Inc. (The)	0.049	8,430	411
Burnham Securities	0.040	47,500	1,900
C. L. Glazer & Company, Inc.	0.040	4,450	178
Canaccord Adams, Ltd.	0.038	96,269	3,617
Cantor Fitz Eur 2	0.004	1,395,778	6,091
Cantor Fitzgerald & Co.	0.032	195,735	6,300
Capel, James HSBC Securities, Inc.	0.035	24,600	861
Capital Institutional Services, Inc. Equities	0.050	39,200	1,960

## SCHEDULE OF EQUITY BROKERAGE FEES (CONTINUED)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
Cazenove & Co.	0.015	72,682	\$ 1,103
CDC	0.269	600	161
CIBC World Markets Corp.	0.040	186,816	7,538
CIBC World Markets, Inc.	0.038	33,300	1,280
Citation Group	0.041	92,110	3,769
Citi Group	0.002	163,000	327
Citigroup	0.007	47,500	332
Citigroup Global Markets Asia Limited	0.002	6,188	11
Citigroup Global Markets Australia Ptr.	0.006	59,000	373
Citigroup Global Markets, Inc.	0.037	979,752	35,907
Citigroup Global Markets, Inc.	0.013	1,776,058	22,730
Citigroup Global Markets Ltd.	0.013	1,359,675	18,200
Citigroup Global Markets UK Equity Ltd.	0.010	1,000,883	10,090
CJS Securities	0.046	39,050	1,791
Craig - Hallum	0.040	10,345	414
Credit Agricole Indosuez	0.009	37,801	336
Credit Agricole Indosuez Cheuvreux	0.010	1,291,012	13,171
Credit Lyonnais Securities	0.047	18,071	854
Credit Lyonnais Securities (USA), Inc.	0.020	19,000	371
Credit Suisse First Boston	0.034	18,200	628
Credit Suisse First Boston (Europe) Ltd.	0.011	1,076,674	11,496
Credit Suisse First Boston Corp.	0.033	912,379	29,963
Credit Suisse Securities (USA) LLC	0.013	1,051,982	14,061
CS First Boston (Hong Kong) Limited	0.016	309,033	4,966
CSFB Australia Equities Ltd.	0.012	175,933	2,036
Daiwa SBCM Europe	0.143	3,008	430
Daiwa Securities America, Inc.	0.021	541,984	11,339
Davenport & Co. of Virginia, Inc.	0.040	47,200	1,888
Davis, Mendel and Regenstein	0.050	10,300	515
DBS Vickers Securities (Singapore)	0.002	44,000	75
Deutsche Bank Ag Frankfurt	0.024	290	7
Deutsche Bank Ag London	0.016	680,003	10,767
Deutsche Bank Securities, Inc.	0.037	559,275	20,847
Deutsche Morgan Grenfell SECS	0.002	7,864	14
Deutsche Securities Asia Limited	0.003	33,464	88
Dowling & Partners	0.044	14,500	634
Dresdner Kleinworth Wasserstein Securities LLC	0.010	1,543,533	16,097
Edwards Ag Sons, Inc.	0.043	51,404	2,223
EMP Research Partners	0.040	52,600	2,104
Enskilda Securities AB	0.024	98,200	2,389
Exane S.A.	0.155	4,100	634
Fagenson & Co., Inc.	0.040	7,900	316
Ferris Baker Watts, Inc.	0.046	9,500	434
First Albany Capital, Inc.	0.046	3,760	174
First Analysis Securities Corp.	0.041	10,030	407

## SCHEDULE OF EQUITY BROKERAGE FEES (CONTINUED)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
First Clearing, LLC	0.049	5,730	\$ 280
Fox Pitt Kelton, Inc.	0.041	149,700	6,189
Fox-Pitt Kelton Ltd.	0.022	74,617	1,626
Frank Russell SEC/Broadcort Capital Clearing	0.044	49,500	2,161
Friedman Billings & Ramsey	0.040	176,755	7,055
Fulcrum Global Partners LLC	0.040	2,100	84
G G E T LLC	0.035	2,206	77
G Trade	0.283	910	258
G Trade Services Ltd.	0.005	3,189,600	15,263
Gabelli & Company	0.050	10,900	545
Garp Stearns & Securities Co.	0.040	6,100	244
Gerson Lehrman Group Brokerage Services LLC	0.040	65,000	2,600
Global Equities	0.013	5,797	78
Goldman Sachs & Co.	0.033	1,327,116	43,616
Goldman Sachs Execution & Clearing	0.024	1,549,373	36,502
Goldman Sachs International	0.005	45,118	244
Goldman Sachs International London	0.019	379,889	7,399
Goldsmith & Harris (through Bear Stearns)	0.041	5,175	214
Goodbody Stockbrokers	0.020	84,300	1,677
Green Street Advisors	0.050	45,073	2,254
Harris Nesbitt Corp.	0.042	86,299	3,606
Heflin & Co. LLC	0.040	1,500	60
Hibernia Southcoast Capital, Inc.	0.041	56,505	2,318
Hong Kong and Shanghai Banking Corp.	0.017	6,000	100
Howard Weil Division Legg Mason	0.043	60,180	2,615
HSBC Bank PLC	0.054	27,200	1,460
HSBC Securities (Asia) Limited	0.020	28,600	575
ING Bank NV	0.058	1,200	70
ING Baring Securities Ltd. Seoul	0.007	59,853	408
Instinet	0.031	721,968	22,201
Instinet Canada	0.026	16,000	408
Instinet France S.A.	0.034	25,850	891
Instinet Pacific Limited	0.007	51,000	363
Instinet U.K. Ltd.	0.009	547,689	5,197
Instinet Clearing Services, Inc.	0.030	100	3
Investment Technology Group, Inc.	0.020	3,293,617	67,160
Investment Technology Group Ltd.	0.004	863,743	3,546
ISI Group Equities	0.040	33,172	1,327
ISI Group, Inc.	0.049	47,500	2,341
ITG Australia Ltd.	0.002	108,164	231
ITG Securities (HK) Ltd.	0.002	13,845	33
IXIS Securities	0.015	67,957	1,016
J B Were and Son	0.019	10,400	193
J P Morgan Securities, Inc.	0.033	726,572	24,244

## SCHEDULE OF EQUITY BROKERAGE FEES (CONTINUED)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
J.P. Morgan Securities Limited	0.060	55,504	\$ 3,350
Janney Montgomery, Scott, Inc.	0.042	20,000	831
Jefferies & Company, Inc.	0.041	476,619	19,462
JMP Securities	0.027	137,090	3,635
Joh Berenberg Gossler and Co.	0.012	157,201	1,937
Johnson Rice & Co.	0.041	23,500	970
Jones & Associates, Inc.	0.035	105,207	3,638
JP Morgan Securities Australia Ltd.	0.027	9,295	252
JP Morgan Securities Limited	0.016	418,646	6,876
JP Morgan Securities (Far East) Ltd. Seoul	0.004	26,835	101
JP Morgan Securities (Asia Pacific) Ltd.	0.001	56,315	75
Julius Baer Brokerage Frankfurt Branch	0.020	2,300	45
Kaufman Brothers	0.050	4,000	200
KBC Financial Products UK Ltd.	0.010	176,025	1,709
Keefe Bruyette & Woods, Inc.	0.039	229,685	8,994
Kepler Equities Paris	0.027	14,500	389
Kevin Dann Partners, LLC	0.050	1,300	65
King, CL & Associates, Inc.	0.043	51,045	2,194
Kleinwortbenson International	0.061	7,000	430
Kleinwortbenson Securities Limited	0.023	383,446	8,859
Knight Securities	0.030	22,200	665
Lazard Capital Markets LLC	0.034	27,950	955
Leerink Swann and Company	0.042	39,700	1,666
Legg Mason Wood Walker, Inc.	0.039	32,543	1,284
Lehman Brothers, Inc.	0.030	2,400,152	72,720
Lehman Brothers International (Europe)	0.029	380,462	10,863
Lehman Brothers Securities (Asia)	0.006	1,221,699	6,758
LEK Securities	0.040	50	2
LEK Securities Corp.	0.040	850	34
Liquidnet Europe Limited	0.013	264,400	3,467
Liquidnet, Inc.	0.022	2,654,199	59,572
Longbow Securities LLC	0.040	12,800	512
M M Warburg	0.054	3,000	162
Macquarie Equities Limited (Sydney)	0.016	21,278	342
Macquarie Equities New Zealand	0.002	258	0
Macquarie Investment	0.101	4,331	437
Macquarie Securities Limited	0.010	214,640	2,138
Macquarie Securities Ltd. Seoul	0.010	20,530	200
McDonald and Company Securities, Inc.	0.023	332,111	7,779
Merrill Lynch	0.013	3,200	41
Merrill Lynch & Co., Inc.	0.038	11,100	423
Merrill Lynch International	0.013	1,557,377	20,284
Merrill Lynch, Pierce, Fenner & Smith	0.020	796,077	16,260
Merrill Lynch Professional Clearing Corp.	0.038	72,634	2,728
Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.021	2,826,124	60,073
Merriman Curhan Ford & Co.	0.039	92,500	3,563

## SCHEDULE OF EQUITY BROKERAGE FEES (CONTINUED)

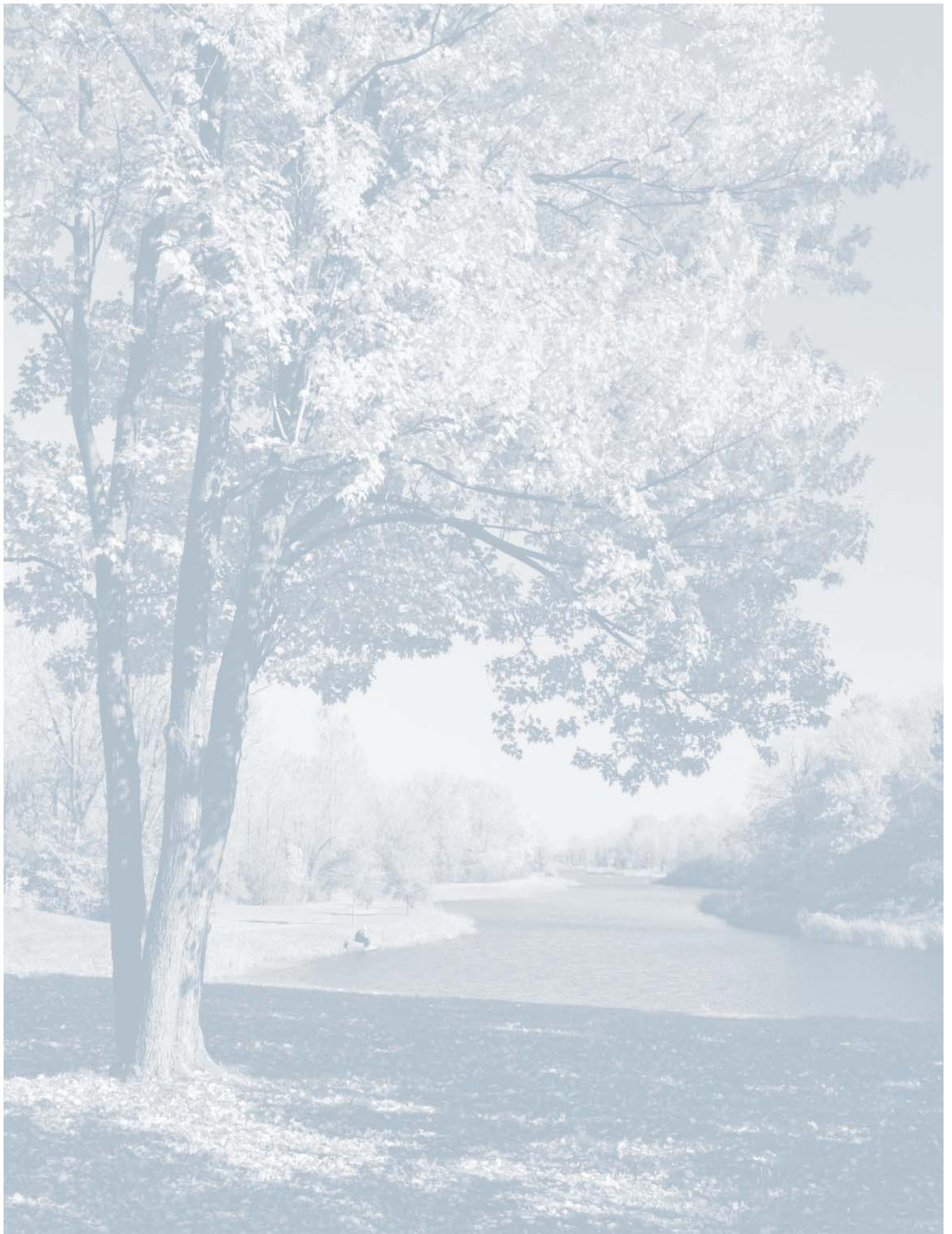
<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
Midwest Research Securities	0.045	37,237	\$ 1,669
Mizuho Securities USA, Inc.	0.019	146,300	2,763
Moors & Cabot, Inc.	0.040	138,150	5,545
Morgan Keegan & Co., Inc.	0.044	68,695	3,034
Morgan Stanley and Co. International	1.373	1,080	1,482
Morgan Stanley and Co. International	0.014	962,252	13,450
Morgan Stanley Co., Inc.	0.038	1,116,550	41,959
Morgan Stanley Securities Limited	0.004	115,136	429
National Financial Services Corp.	0.042	117,260	4,911
NBC Clearing Services, Inc.	0.041	1,400	57
NBC Securities, Inc.	0.050	910	46
NBCN Clearing, Inc.	0.040	19,500	780
NCB Stockbrokers Ltd.	0.040	2,600	104
Needham & Company	0.040	221,793	8,884
Neonet Securities AB	0.012	290	4
Nesbitt Burns	0.022	266,000	5,916
Neuberger and Berman	0.030	1,100	33
Nomura International (Hong Kong) Ltd.	0.001	25,629	34
Nomura International PLC	0.007	338,763	2,213
Nomura Securities Co. Ltd.	0.005	39,750	179
Nomura Securities International, Inc.	0.130	24,671	3,196
Northeast Securities, Inc.	0.040	288,800	11,552
Numis Securities Limited	0.007	74,400	554
Nyfix Transaction Services #2	0.020	454,000	9,080
Odd Lot Sale	0.262	110	29
Oppenheim, Sal., Jr. Und Cie Koeln	0.045	500	23
Oppenheimer & Co., Inc.	0.040	184,922	7,432
Pacific American Securities, LLC	0.030	45,874	1,376
Pacific Crest Securities	0.037	425,715	15,947
Pacific Growth Equities	0.050	1,967	98
Pershing DLJ S L	0.034	65,900	2,237
Pershing LLC	0.045	353,803	15,803
Pershing Securities Limited	0.034	222,486	7,620
Pershing Securities Ltd.	0.006	3,910	22
Petrie Parkman & Co., Inc.	0.038	5,100	195
Pipeline Trading Systems LLC	0.021	11,953	254
Piper Jaffray	0.042	347,266	14,645
Pritchard Capital Partners LLC	0.050	9,000	450
Prudential Equity Group	0.042	306,244	12,737
R W Pressprich & Co., Inc.	0.042	7,500	313
Rabobank Netherland	0.043	24,500	1,054
Raymond James and Associates, Inc.	0.042	427,497	18,090
RBC Capital Markets	0.045	41,320	1,879
RBC Dain Rauscher, Inc.	0.050	1,250	63
RBC Dominion Securities	0.038	4,000	152

## SCHEDULE OF EQUITY BROKERAGE FEES (CONTINUED)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
Redburn Partners LLP	0.033	7,000	\$ 229
Rosenblatt Securities, Inc.	0.040	42,100	1,684
Roth Capital Partners LLC	0.039	17,150	662
Ryan Beck & Co.	0.040	6,900	276
S.G. Cowen & Co., LLC	0.040	148,228	5,929
Sanders Morris Mundy	0.040	3,755	150
Sandler O'neill & Part LP	0.041	169,440	6,871
Sanford C. Bernstein Ltd.	0.026	35,600	916
Sanford C. Bernstein Co. LLC	0.039	259,952	10,252
Santander Central Hispano Bolsa	0.018	4,400	81
Scotia Capital (USA), Inc.	0.039	60,033	2,325
Scott & Stringfellow, Inc.	0.044	264,784	11,656
SG Americas Securities, LLC	0.044	168,560	7,439
SG Securities HK	0.003	800	2
Sidoti & Co. LLC	0.040	800	32
Sidoti & Company LLC	0.041	251,917	10,352
Simmons & Company International	0.042	105,030	4,449
Societe Generale London Branch	0.082	8,600	705
Soleil Securities	0.042	89,716	3,727
Southwest Securities	0.044	88,800	3,896
Sprott Securities Ltd.	0.040	11,050	442
Sangyong Investment and Securities	0.016	1,420	23
Stanford Group Co.	0.040	2,800	112
Stanley (Charles) & Co. Limited	0.004	283,776	1,081
State Street Bank & Trust Co.	0.045	1,205,363	54,712
State Street Bank & Trust Co. London	0.034	700	24
State Street Brokerage Services	0.025	12,325,010	302,566
Stephens, Inc.	0.042	111,064	4,666
Sterne, Agee & Leach, Inc.	0.048	19,200	918
Stifel Nicolaus & Co., Inc.	0.047	67,677	3,152
Stuart Frankel & Co.	0.030	69,300	2,079
Suntrust Capital Markets, Inc.	0.050	8,910	446
Suntrust Capital Markets, Inc.	0.040	333,600	13,352
The Benchmark Company, LLC	0.040	13,200	528
Themis Trading LLC	0.040	350,631	14,025
Think Equity Partners LLC	0.039	45,514	1,758
Thomas Weisel Partners	0.039	105,900	4,168
Thomas Weisel Partners LLC	0.040	13,400	536
Toronto Dominion Securities	0.037	20,100	739
Troster Singer Stevens Rothschild	0.015	1,400	21
U.S. Bancorp Piper Jaffray, Inc.	0.045	286,652	13,014
U.S. Clearing Corp.	0.049	21,690	1,069
UBS Ag	0.019	1,351,105	25,207
UBS Ag London	0.012	502,386	6,279

## SCHEDULE OF EQUITY BROKERAGE FEES (CONTINUED)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/ Par Value</u>	<u>Total Commissions</u>
UBS Securities Asia Ltd.	0.013	11,900	\$ 157
UBS Securities Canada, Inc.	0.039	2,900	112
UBS Securities LLC	0.033	838,421	27,871
UBS Warburg (Hong Kong) Limited	0.001	3,000	4
UOB Kay Hian (Hong Kong) Ltd.	0.002	17,052	36
UOB Kay Hian Private Limited	0.002	5,000	8
Vandham Securities Corp.	0.050	7,100	355
Veritas Securities	0.025	73,300	1,833
W R Hambrecht & Co. LLC	0.050	9,280	464
Wachovia Securities, LLC	0.047	31,715	1,503
Wachovia Securities, LLC	0.050	1,370	69
Wachovia Capital Markets, LLC	0.041	234,404	9,562
Warburg Dillion Read (Asia) Ltd.	0.006	1,996,748	11,262
Warburg Dillon Read Securities Ltd.	0.009	26,730	231
Wave Securities	0.015	60,087	901
Wave Securities LLC	0.012	461,068	5,462
Wedbush Morgan Securities, Inc.	0.038	112,308	4,302
Weeden & Co.	0.023	747,273	17,544
Wells Fargo Securities LLC	0.040	400	16
William Blair & Company, LLC	0.043	175,859	7,561
WR Hambrecht & Co.	0.047	10,820	505
Yamner & Co., Inc.	0.010	263,325	2,633
Zions Direct, Inc.	0.030	6,300	189
<b>Total</b>	<b>0.022</b>	<b>89,579,006</b>	<b>\$1,938,061</b>





ACTUARIAL SECTION



# ACTUARIAL CERTIFICATION LETTER



THE SEGAL COMPANY  
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308  
T 415.263.8200 F 415.263.8290 www.segalco.com

**DIRECT DIAL NUMBER**  
Paul Angelo 415- 263-8273  
Andy Yeung 415-263-8283

**E-MAIL ADDRESS**  
Paul Angelo pangelo@segalco.com  
Andy Yeung ayeung@segalco.com

November 10, 2006

Board of Retirement  
Sacramento County Employees' Retirement System  
980 9<sup>th</sup> Street, Suite 1800  
Sacramento, CA 95814-2738

**Re: Actuarial Valuation for the Sacramento County Employees' Retirement System**

Dear Members of the Board:

The Segal Company prepared the June 30, 2006 actuarial valuation of the Sacramento County Employees' Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2006 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

The funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

The UAAL is amortized as a level percentage of payroll over a 27-year period. The progress being made towards meeting the funding objective through June 30, 2006 is illustrated in the Schedule of Funding Progress.

**Benefits, Compensation and HR Consulting** ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES  
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, D.C.



**Multinational Group of Actuaries and Consultants** BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE  
MEXICO CITY OSLO PARIS

Board of Retirement  
Sacramento County Employees' Retirement System  
November 10, 2006  
Page 2

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the System's CAFR is provided below:

1. Retirees and beneficiaries added to and removed from retiree payroll;
2. Solvency test; and
3. Schedule of retiree members by type of benefit.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2004 Experience Analysis or in conjunction with the June 30, 2006 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2006 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2007.

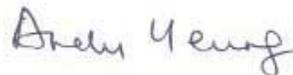
In the June 30, 2006 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 93.2% to 93.0%. The employer's rate has increased from 19.63% of payroll to 19.67% of payroll, while the employee's rate has increased from 4.68% of payroll to 4.77% of payroll.

Sincerely,



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Paul Angelo, FSA, EA, MAAA, FCA  
Senior Vice President & Actuary



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Andy Yeung, ASA, EA, MAAA  
Associate Actuary

SUV/hy/dvb  
Enclosures

## SUMMARY OF ASSUMPTIONS & METHODS

The following assumptions and methods have been adopted by the Board for the June 30, 2006 valuation.

### Assumption:

Valuation Interest Rate and Rate of Return on Investment:	7.75% net of administration and investment expenses
Inflation Assumption:	3.50%
Cost of Living Adjustment:	3.40% for Miscellaneous and Safety Tier 1 Members 0.00% for Miscellaneous Tier 2 Members 2.00% for Miscellaneous Tier 3 and Safety Tier 2 Members
Employee Contribution Crediting Rate:	5-year Treasury rate, assuming sufficient net investment earnings
Post-Retirement Mortality:	
a) Service	For Miscellaneous and Safety Members - 1994 Group Annuity Mortality Table
b) Disability	For Miscellaneous Members - 1981 Miscellaneous Disability Mortality Table set back two years For Safety Members - 1994 Group Annuity Mortality Table
c) Employee Contribution Rate	For Miscellaneous Members - 1994 Group Annuity Mortality Table weighted 40% male and 60% female For Safety Members - 1994 Group Annuity Mortality Table weighted 75% male and 25% female
Pre-Retirement Mortality:	Based upon the 6/30/2004 Experience Analysis
Withdrawal Rates:	Based upon the 6/30/2004 Experience Analysis
Disability Rates:	Based upon the 6/30/2004 Experience Analysis
Service Retirement Rates:	Based upon the 6/30/2004 Experience Analysis
Salary Increases:	Merit and longevity increases are based upon the 6/30/2004 Experience Analysis plus 3.50% inflation and across the board salary increases of 0.25% per year
Actuarial Value of Assets:	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.
Valuation Value of Assets:	Actuarial value of assets reduced by the value of non- valuation reserves and designations.

## SUMMARY OF ASSUMPTIONS & METHODS (CONTINUED)

Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method. Entry Age is the age at the members' hire date. Actuarial Accrued Liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The Normal Cost is calculated on an aggregate basis by taking the Present Value of Future Normal Costs divided by the Present Value of Future Salaries to obtain a normal cost rate. This normal cost rate is then multiplied by the total current salaries. The total Unfunded Actuarial Accrued Liability is amortized over a declining 27-year period.
Percentage of Members Married at Retirement:	80% for male members and 50% for female members
Retirement Age for Deferred Vested Members:	Miscellaneous Members - 58 Safety Members - 55
Percentage Eligible for Reciprocal Benefits:	Miscellaneous Members - 55% Safety Members - 65%

# SUMMARY OF PLAN PROVISIONS

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2006, that are applicable to the Sacramento County Employees' Retirement System.

## Membership

Miscellaneous employees entering after September 27, 1981 become members of Tier 2 or Tier 3. Safety members entering after June 24, 1995 become members of Tier 2. All others are covered by Tier 1 provisions.

## Final Average Salary (FAS)

Final average salary is defined as the highest 12 consecutive months of compensation earnable for Tier 1 and highest 36 consecutive months for Tier 2 and Tier 3.

## Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus interest will be refunded. In lieu of receiving a return of contributions, a member with five or more years of service may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

## Service Retirement Benefit

Members with 10 years of service who have attained the age of 50 are eligible to retire. Members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire.

The benefit expressed as a percentage of monthly FAS per year of service, depending on age at retirement, is illustrated below for typical ages. For members whose benefit is integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first \$350 of monthly FAS per year of service after January 1, 1956.

Age	Miscellaneous	Safety
50	1.47%	3.00%
55	1.95%	3.00%
60	2.44%	3.00%
62	2.61%	3.00%
65 and over	2.61%	3.00%

## Disability Benefit

Members with five years of service, regardless of age, are eligible for non-service connected disability.

For Miscellaneous Tier 1 members, the benefit is 1.5% (1.8% for Safety Tier 1 members) of FAS for each year of service. If this benefit does not equal one-third of FAS, the benefit is increased by the same percentage of FAS for the years which would have been credited to age 65 (age 55 for Safety members), but the total benefit in this case cannot be more than one-third of FAS.

For Tier 2 and Tier 3 members, the benefit is 20% of FAS for the first five years of service plus 2% for each additional year for a maximum of 40% of FAS.

If the disability is service connected, the member may retire regardless of length of service, with a benefit of 50% of FAS.

#### Death Benefit (Before Retirement)

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six (6) month's salary.

If a member dies while eligible for service retirement or non-service connected disability, the spouse receives 60% of the allowance that the member would have received for retirement.

If a member dies in the performance of duty, the spouse receives 50% of the member's final average salary.

#### Death Benefit (After Retirement)

If a member dies after retirement, a \$4,000 lump burial allowance is paid to the beneficiary or estate.

If the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to the surviving spouse for life.

If the retirement was for other than service connected disability and the member elected the unmodified option, 60% of the member's allowance is continued to the spouse for life.

#### Maximum Benefit

The maximum benefit payable to a member or beneficiary is 100% of FAS.

#### Cost-of-living

The maximum increase in retirement allowance is 4% per year for Miscellaneous and Safety Tier 1 members, 2% for Safety Tier 2 members, and 2% for Miscellaneous Tier 3 members. Miscellaneous Tier 2 members have no cost-of-living benefit. The cost-of-living increases are based on the change in the Consumer Price Index for the calendar year preceding April.

## SUMMARY OF PLAN PROVISIONS (CONTINUED)

### Contribution Rates

Basic member contribution rates are based on the age-nearest birthday at entry into the System (single rate for entrants after January 1, 1975). The rates are such as to provide an average annuity at age 55 equal to 1/240 of FAS for Miscellaneous members and equal to 1/100 of FAS at age 50 for Safety members. For members integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first \$350 of monthly salary. Cost-of-living contribution rates are designed to pay for one quarter of the future cost-of-living costs. Member contributions are refundable upon termination from the system.

The employer contribution rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the Retirement System.

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number	Annual Payroll (in thousands)	Annual Average Pay (in thousands)	% Increase in Average Pay *
6/30/2006	Miscellaneous	12,052	\$614,358	\$51.0	2.41%
	Safety	2,360	168,214	71.3	7.87%
	Total	14,412	\$782,572	\$54.3	3.23%
6/30/2005	Miscellaneous	11,378	\$566,749	\$49.8	0.72%
	Safety	2,350	155,265	66.1	0.08%
	Total	13,728	\$722,014	\$52.6	0.70%
6/30/2004	Miscellaneous	11,384	\$563,022	\$49.5	0.11%
	Safety	2,288	151,048	66.0	3.47%
	Total	13,672	\$714,069	\$52.2	0.66%
6/30/2003	Miscellaneous	11,696	\$577,810	\$49.4	5.73%
	Safety	2,437	155,486	63.8	1.12%
	Total	14,133	\$733,296	\$51.9	4.72%
6/30/2002	Miscellaneous	11,618	\$542,877	\$46.7	1.08%
	Safety	2,415	152,382	63.1	2.24%
	Total	14,033	\$695,259	\$49.5	1.39%
6/30/2001	Miscellaneous	10,781	\$498,408	\$46.2	7.08%
	Safety	2,210	136,390	61.7	5.61%
	Total	12,991	\$634,798	\$48.9	6.94%

\*Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.

## RETIRES AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

Plan Year End	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll (in thousands)	Payroll added During Year (in thousands)	Payroll Removed During Year (in thousands)	% Increase In Annual Retiree Payroll	Average Annual Allowance
6/30/2006	6,784	509	185	7,108	\$186,931	\$18,698	\$3,212	9.03%	\$26,299
6/30/2005	6,291	706	213	6,784	171,445	23,273	3,421	13.10	25,272
6/30/2004	5,882	786	377	6,291	151,593	39,067	3,293	30.89	24,097
6/30/2003	5,742	321	181	5,882	115,819	9,439	2,158	6.71	19,690
6/30/2002	5,526	438	222	5,742	108,538	12,623	2,685	10.08	18,762
6/30/2001	5,488	205	167	5,526	98,600	9,576	2,367	7.89	17,843

Note: Participants are counted once for each benefit received.

## SCHEDULE OF FUNDING PROGRESS (Amounts Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued of Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2006	\$4,848,953	\$5,214,915	\$365,962	93.0%	\$782,572	46.8%
6/30/2005	4,530,583	4,860,882	330,299	93.2	722,015	45.7
6/30/2004**	4,379,514	4,694,009	314,495	93.3	714,069	44.0
6/30/2003	3,864,400	4,108,294	243,894	94.1	733,296	33.3
6/30/2002	3,839,081	3,586,250	(252,831)	107.1	695,259	(36.4)
6/30/2001	3,718,198	3,451,864	(266,334)	107.7	634,798	(42.0)

\*Includes contingency reserve, retiree health benefit reserve, retiree death benefit reserve, and amount over reserved benefits.

\*\*Includes contributions receivable from Pension Obligation Bonds.

## SOLVENCY TESTS (Amounts Expressed in Thousands)

Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired / Vested Members	Active Members (Employer Financed Portion)
6/30/2006	\$509,257	\$2,615,466	\$2,090,192	\$5,214,915	\$4,848,953	100%	100%	82%
6/30/2005	474,613	2,444,406	1,941,863	4,860,882	4,530,583	100	100	83
6/30/2004	470,567	2,196,690	2,026,752	4,694,009	4,379,514	100	100	84
6/30/2003	252,998	1,599,899	2,255,397	4,108,294	3,864,400	100	100	89
6/30/2002	370,625	1,427,334	1,788,291	3,586,250	3,839,081	100	100	100
6/30/2001	393,924	1,323,405	1,734,535	3,451,864	3,718,198	100	100	100

Events affecting year to year comparability:

6/30/06 - Employee Contribution Crediting Rate assumption changed to 5-year Treasury rate, assuming sufficient smooth earnings.

6/30/05 - Inflation assumption decreased from 4.00% to 3.50%.

6/30/04 - Investment assumption decreased from 8% to 7.75%; inflation assumption increased from 3.00% to 4.00%.

- Across-the-board salary increase assumption changed from 1.25% to 0.25%.

6/30/03 - Increased enhanced benefits under Sections 31676.14 and 31664.1 and ad hoc COLA increase under Section 31681.55.

- Inflation assumption decreased from 4.25% to 3.00%.

6/30/01 - Salary increase assumption increased from 5.55% to 5.75%. Modification in non-economic assumptions.

## ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (Amounts Expressed in Millions)

	Plan years Ended June 30,					
	2006	2005	2004	2003	2002	2001
Prior Valuation Unfunded Actuarial Liability	\$330	\$314	(\$176)	(\$253)	(\$266)	(\$316)
Salary Increase Greater (Less) than Expected	12	(35)	53	2	5	50
Asset Return Less (Greater) than Expected	23	107	102	(13)	(8)	(3)
Plan Improvements	-	(2)	27	460	-	-
Other Experience	1	49	(1)	92	16	(18)
Economic and Non-Economic Assumption Changes	-	(103)	310	(44)	-	21
Receivable from Pension Obligation Bonds	-	-	(1)	(420)	-	-
Ending Unfunded Actuarial Accrued Liability	\$366	\$330	\$314	(\$176)	(\$253)	(\$266)

\*\$420 million in Pension Obligation Bonds was retroactively reflected in June 30, 2003 valuation, which impacted rates for fiscal year 2004-2005.

## NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Rate (%)				
Mortality				
Age	Miscellaneous		Safety	
	Male	Female	Male	Female
25	0.07	0.03	0.07	0.03
30	0.08	0.04	0.08	0.04
35	0.09	0.05	0.09	0.05
40	0.11	0.07	0.11	0.07
45	0.16	0.10	0.16	0.10
50	0.26	0.14	0.26	0.14
55	0.44	0.23	0.44	0.23
60	0.80	0.44	0.80	0.44
65	1.45	0.86	1.45	0.86

Note: All pre-retirement deaths are assumed to be nonservice-connected.

Rate (%)		
Disability		
Age	Miscellaneous <sup>(1)</sup>	Safety <sup>(2)</sup>
20	0.00	0.20
25	0.01	0.20
30	0.03	0.26
35	0.06	0.42
40	0.13	0.56
45	0.22	0.72
50	0.32	0.92
55	0.48	1.30
60	0.82	0.00

(1) 15% of Miscellaneous disabilities are assumed to be service-connected disabilities. The other 85% are assumed to be nonservice-connected disabilities.

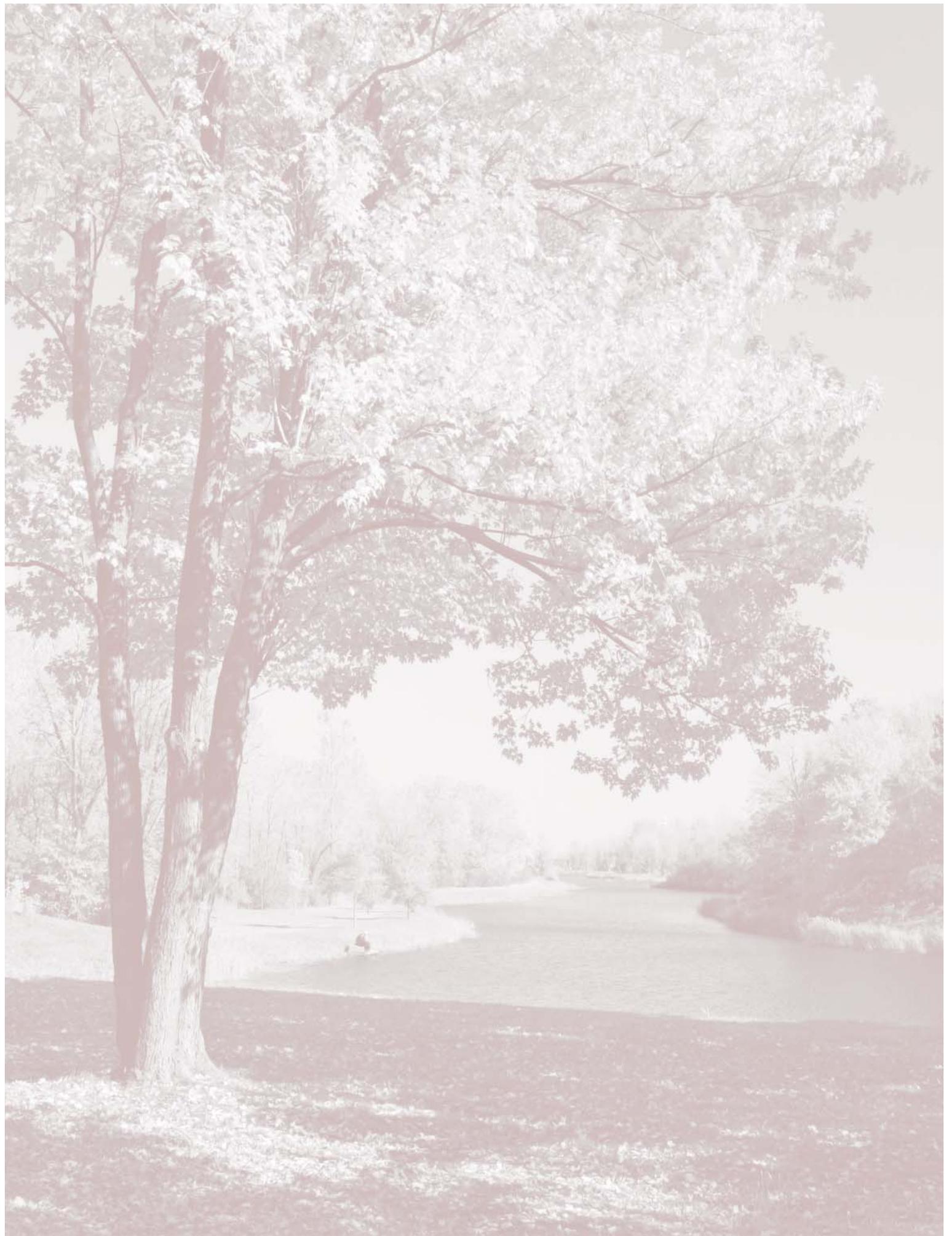
(2) 85% of Safety disabilities are assumed to be service-connected disabilities. The other 15% are assumed to be nonservice-connected disabilities.

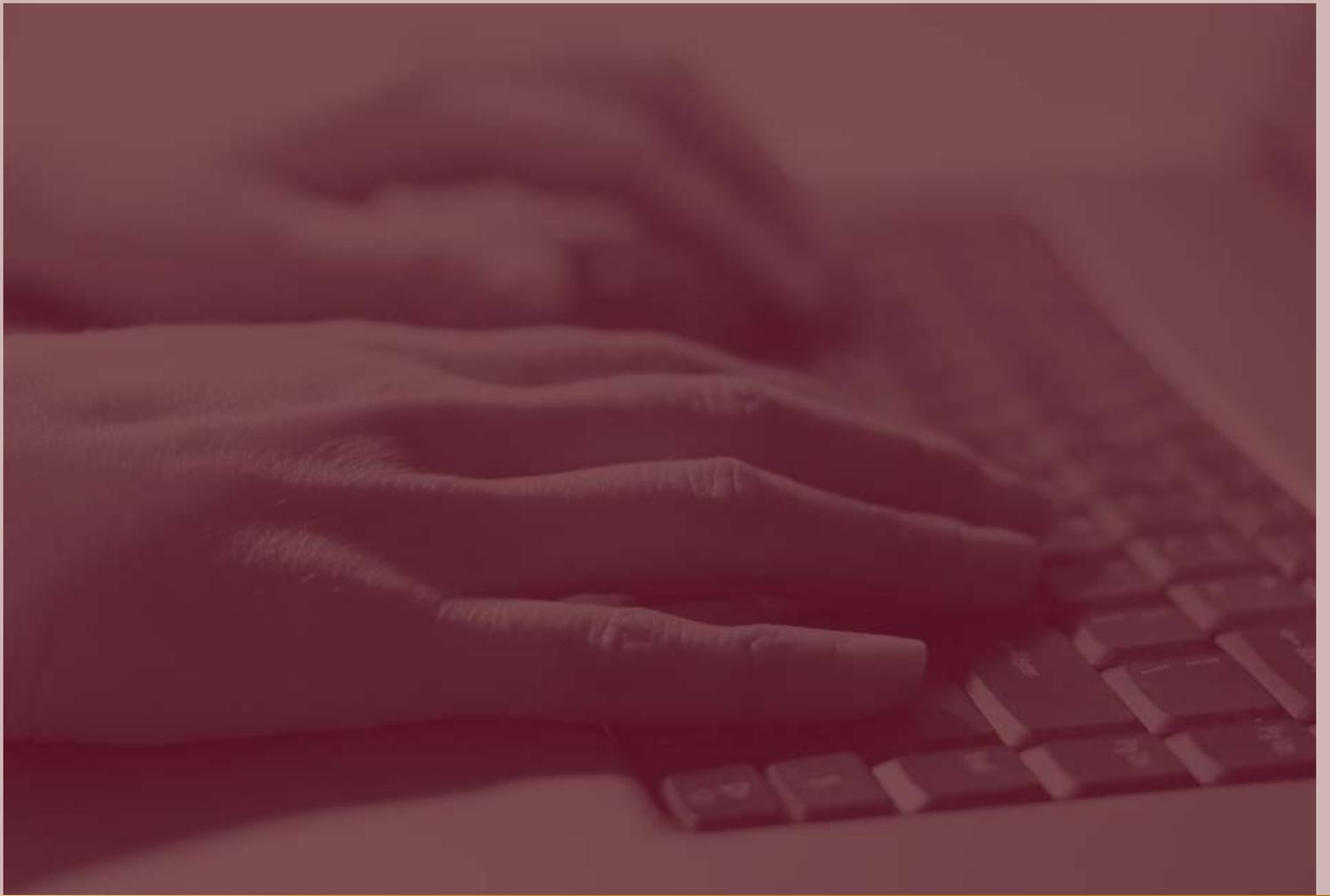
**NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT (CONTINUED)**

Rate (%)		
Withdrawal (<5 Years of Service)		
Years of Service	Miscellaneous	Safety
0	13.00	8.00
1	7.00	4.00
2	6.00	3.00
3	5.00	2.00
4	4.00	2.00

Withdrawal (5+ Years of Service)*		
Age	Miscellaneous	Safety
20	4.00	2.00
25	4.00	2.00
30	4.00	2.00
35	4.00	1.88
40	3.40	1.62
45	2.58	1.32
50	2.00	0.00
55	1.62	0.00
60	0.00	0.00

\*25% of the members are assumed to elect a refund of contribution balance while the remaining 75% are assumed to elect a deferred retirement benefit. No withdrawal is assumed after a member is eligible for retirement.





STATISTICAL SECTION



## SCHEDULE OF ADDITIONS BY SOURCE

(Amounts Expressed in Thousands)

Year Ended June 30:	Member Contributions	Employer Contributions	% of Annual Covered Payroll	Net Investment Income / (Loss)	Total
2006	\$41,959	\$132,708	16.96%	\$527,863	\$702,530
2005	36,916	529,618*	73.35	419,481	986,015
2004	42,864	119,144	16.69	525,239	687,247
2003	43,700	52,841	7.21	100,839	197,380
2002	38,432	44,547	6.41	(194,104)	(111,125)
2001	32,964	40,358	6.36	(207,580)	(134,258)
2000	30,018	42,024	7.52	315,790	387,832
1999	30,385	46,745	9.30	360,748	437,878
1998	29,930	43,109	9.16	464,511	537,550
1997	27,233	44,760	10.67	438,167	510,160

Source: Audited Financial Statements from June 30, 1997 through 2006

\*This total includes \$420,000 and \$10,535 in proceeds from pension obligation bonds (POB) issued by the County of Sacramento and Sacramento Metropolitan Fire District, respectively.

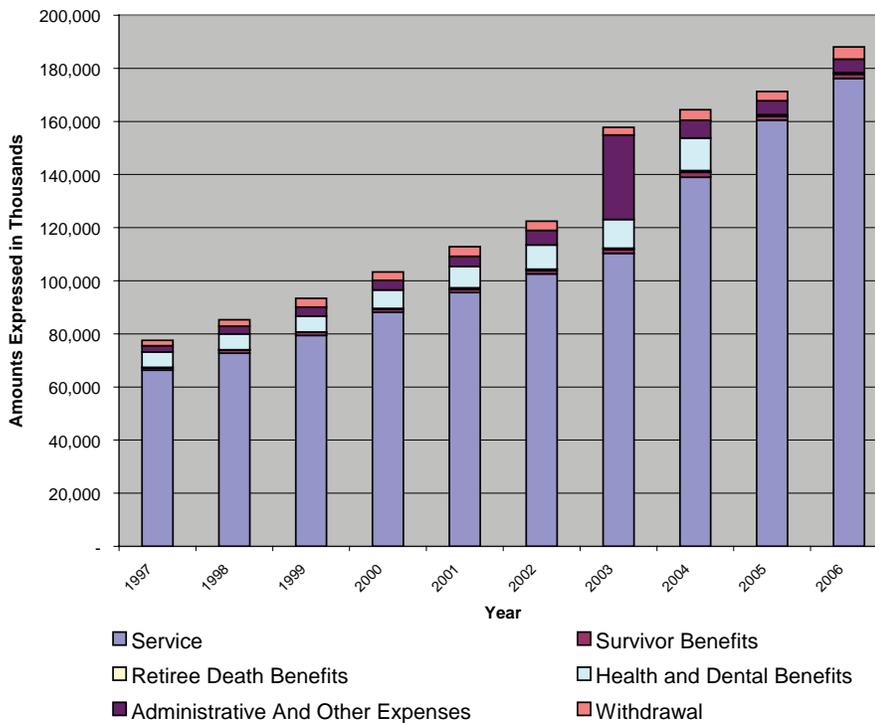
## SCHEDULE OF DEDUCTIONS BY TYPE

(Amounts Expressed in Thousands)

Year Ended June 30:	Benefits Paid						Withdrawal	Total
	Service	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits	Administrative And Other Expenses			
2006	\$176,199	\$1,608	\$553	\$ 2	\$ 5,061	\$4,622	\$188,045	
2005	160,439	1,545	525	2	5,262	3,463	\$171,236	
2004	139,008	1,817	629	12,311	6,653	3,990	\$164,408	
2003	110,326	1,482	441	10,866	31,767	2,906	\$157,788	
2002	102,555	1,274	524	9,111	5,485	3,517	\$122,466	
2001	95,526	1,229	561	8,072	3,831	3,611	\$112,830	
2000	88,103	1,200	293	6,946	3,602	3,181	\$103,325	
1999	79,426	1,190	95	5,973	3,363	3,306	\$93,353	
1998	72,748	1,166	106	5,981	2,868	2,460	\$85,329	
1997	66,314	942	120	5,868	2,300	2,020	\$77,564	

Note: for the years ended June 30, 2004 and 2003, Administrative and Other Expenses include retroactive benefits of \$807 and \$25,870, respectively, related to the Ventura litigation settlement.

Source: Audited Financial Statements from June 30, 1997 through 2006



## SCHEDULE OF BENEFITS PAID BY TYPE

Last Ten Fiscal Years

(Amounts Expressed in Thousands)

Type of Benefit	6/30/06	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	6/30/97
Service Retirement Benefits	\$175,745	\$160,154	\$138,907	\$110,243	\$102,301	\$95,182	\$87,826	\$79,426	\$72,748	\$66,314
Survivor Benefits	1,608	1,545	1,817	1,482	1,274	1,229	1,200	1,190	1,166	942
Death Benefits-Before Retirement	454	285	101	83	254	343	278	N/A	N/A	N/A
Death Benefits-After Retirement	553	525	629	441	524	561	293	95	106	120
Retiree Health and Dental Insurance	2	2	12,311	10,866	9,111	8,072	6,946	5,973	5,981	5,868
<b>Total</b>	<b>\$178,362</b>	<b>\$162,511</b>	<b>\$153,765</b>	<b>\$123,115</b>	<b>\$113,464</b>	<b>\$105,387</b>	<b>\$96,543</b>	<b>\$86,684</b>	<b>\$80,001</b>	<b>\$73,244</b>

N/A: Detailed information not available. Payment amounts were included in Service Retirement Benefits.

Source: Audited Financial Statements from June 30, 1997 through 2006

## SCHEDULE OF CHANGES IN NET ASSETS

Last Ten Fiscal Years

(Amounts Expressed in Thousands)

	6/30/06	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	6/30/97
<b>Additions</b>										
Employee contributions	\$ 41,959	\$ 36,916	\$ 42,864	\$ 43,700	\$ 38,432	\$ 32,964	\$ 30,018	\$ 46,745	\$ 29,930	\$ 27,233
Employer contributions	132,708	529,618	119,144	52,841	44,547	40,358	42,024	30,385	43,109	44,760
Net investment income	527,863	419,481	525,239	100,839	(194,104)	(207,580)	315,790	360,748	464,511	438,167
<b>Total additions</b>	<b>702,530</b>	<b>986,015</b>	<b>687,247</b>	<b>197,380</b>	<b>(111,125)</b>	<b>(134,258)</b>	<b>387,832</b>	<b>437,878</b>	<b>537,550</b>	<b>510,160</b>
<b>Deductions</b>										
Benefits Paid	178,362	162,511	153,765	123,115	113,464	105,387	96,543	86,684	80,001	73,244
Withdrawals	4,622	3,463	3,990	2,906	3,517	3,611	3,181	3,306	2,460	2,020
Administrative and other expenses	5,061	5,262	6,653	31,767	5,485	3,831	3,602	3,363	2,868	2,300
<b>Total deductions</b>	<b>188,045</b>	<b>171,236</b>	<b>164,408</b>	<b>157,788</b>	<b>122,466</b>	<b>112,829</b>	<b>103,326</b>	<b>93,353</b>	<b>85,329</b>	<b>77,564</b>
<b>Change in net assets</b>	<b>514,485</b>	<b>814,779</b>	<b>522,839</b>	<b>39,592</b>	<b>(233,591)</b>	<b>(247,087)</b>	<b>284,506</b>	<b>344,525</b>	<b>452,221</b>	<b>432,596</b>
<b>Net assets, beginning</b>	<b>4,576,444</b>	<b>3,761,665</b>	<b>3,238,826</b>	<b>3,199,234</b>	<b>3,432,826</b>	<b>3,679,913</b>	<b>3,395,407</b>	<b>3,050,882</b>	<b>2,598,661</b>	<b>2,166,065</b>
<b>Net assets, ending</b>	<b>\$5,090,929</b>	<b>\$4,576,444</b>	<b>\$3,761,665</b>	<b>\$3,238,826</b>	<b>\$3,199,234</b>	<b>\$3,432,826</b>	<b>\$3,679,913</b>	<b>\$3,395,407</b>	<b>\$3,050,882</b>	<b>\$2,598,661</b>

# SCHEDULE OF RETIREE MEMBERS BY TYPE OF BENEFIT

As of June 30, 2006

## Miscellaneous Members

### Monthly Allowances

	Count	Basic	COL	Total	Average Benefit
<b>Service Retirement</b>					
Unmodified	3,810	\$6,056,047	\$1,643,723	\$7,699,770	\$2,021
Option 1	274	351,273	95,896	447,169	1,632
Option 2, 3, & 4	348	433,363	83,567	516,930	1,485
<b>Total</b>	<b>4,432</b>	<b>6,840,683</b>	<b>1,823,186</b>	<b>8,663,869</b>	<b>1,955</b>
<b>Non-Service Disability</b>					
Unmodified	275	225,070	107,246	332,316	1,208
Option 1	25	20,499	6,240	26,739	1,070
Option 2, 3, & 4	11	9,513	2,835	12,348	1,123
<b>Total</b>	<b>311</b>	<b>255,082</b>	<b>116,321</b>	<b>371,403</b>	<b>1,194</b>
<b>Service Disability</b>					
Unmodified	163	216,423	131,888	348,311	2,137
Option 1	6	8,090	3,315	11,405	1,901
Option 2, 3, & 4	5	5,567	2,333	7,900	1,580
<b>Total</b>	<b>174</b>	<b>230,080</b>	<b>137,536</b>	<b>367,616</b>	<b>2,113</b>
<b>Beneficiary</b>					
<b>Total</b>	<b>885</b>	<b>515,797</b>	<b>435,169</b>	<b>950,966</b>	<b>1,075</b>
<b>Total (All Groups)</b>	<b>5,802</b>	<b>\$7,841,642</b>	<b>\$2,512,212</b>	<b>\$10,353,854</b>	<b>\$1,785</b>

## Safety Members

### Monthly Allowances

	Count	Basic	COL	Total	Average Benefit
<b>Service Retirement</b>					
Unmodified	822	\$3,212,299	\$680,576	\$3,892,875	\$4,736
Option 1	24	74,562	18,004	92,566	3,857
Option 2, 3, & 4	39	122,052	21,134	143,186	3,671
<b>Total</b>	<b>885</b>	<b>3,408,913</b>	<b>719,714</b>	<b>4,128,627</b>	<b>4,665</b>
<b>Non-Service Disability</b>					
Unmodified	18	28,273	11,825	40,098	2,115
Option 1	-	-	-	-	-
Option 2, 3, & 4	1	1,512	582	2,094	2,094
<b>Total</b>	<b>19</b>	<b>29,785</b>	<b>12,407</b>	<b>42,192</b>	<b>2,221</b>
<b>Service Disability</b>					
Unmodified	181	402,868	178,259	581,127	3,211
Option 1	8	18,326	6,319	24,645	3,081
Option 2, 3, & 4	6	11,921	3,225	15,146	2,524
<b>Total</b>	<b>195</b>	<b>433,115</b>	<b>187,803</b>	<b>620,918</b>	<b>3,184</b>
<b>Beneficiary</b>					
<b>Total</b>	<b>207</b>	<b>255,041</b>	<b>176,951</b>	<b>431,992</b>	<b>2,087</b>
<b>Total (All Groups)</b>	<b>1,306</b>	<b>\$4,126,854</b>	<b>\$1,096,875</b>	<b>\$5,223,729</b>	<b>\$4,000</b>

Source: Actuarial Report as of June 30, 2006

Note: Refer to page 101 for the description of retirement options.

# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Last Ten Years

Retirement Effective Date	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>7/1/05 - 6/30/06</b>							
Average monthly benefit	\$381	\$917	\$1,409	\$2,029	\$2,838	\$4,561	\$4,858
Average monthly final average salary	\$5,824	\$5,345	\$4,933	\$5,069	\$5,415	\$6,500	\$6,150
Number of retired members	25	45	63	73	64	62	83
<b>7/1/04 - 6/30/05</b>							
Average monthly benefit	\$349	\$949	\$1,220	\$1,800	\$2,585	\$4,010	\$4,871
Average monthly final average salary	\$5,725	\$4,960	\$4,361	\$4,662	\$4,832	\$5,732	\$5,816
Number of retired members	36	43	90	83	96	84	123
<b>7/1/03 - 6/30/04</b>							
Average monthly benefit	\$437	\$993	\$1,368	\$1,992	\$2,893	\$4,136	\$5,520
Average monthly final average salary	\$5,089	\$4,719	\$4,658	\$4,686	\$5,211	\$5,834	\$6,330
Number of retired members	22	45	98	90	85	127	278
<b>7/1/02 - 6/30/03</b>							
Average monthly benefit	\$488	\$678	\$1,292	\$1,609	\$2,033	\$3,076	\$4,519
Average monthly final average salary	\$5,543	\$4,091	\$4,505	\$4,252	\$4,627	\$5,859	\$6,214
Number of retired members	23	25	52	47	33	19	51
<b>7/1/01 - 6/30/02</b>							
Average monthly benefit	\$311	\$768	\$1,148	\$1,449	\$2,227	\$3,702	\$4,101
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	17	31	61	42	38	24	54
<b>7/1/00 - 6/30/01</b>							
Average monthly benefit	\$402	\$680	\$1,007	\$1,487	\$2,337	\$2,939	\$3,513
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	23	28	61	31	30	30	34
<b>7/1/99 - 6/30/00</b>							
Average monthly benefit	\$577	\$641	\$1,026	\$1,537	\$2,115	\$3,012	\$4,022
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	12	37	64	41	45	62	56
<b>7/1/98 - 6/30/99</b>							
Average monthly benefit	\$342	\$839	\$970	\$1,647	\$2,009	\$2,924	\$3,785
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	11	35	58	33	43	61	74
<b>7/1/97 - 6/30/98</b>							
Average monthly benefit	\$568	\$954	\$978	\$1,665	\$2,217	\$2,810	\$3,594
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	6	28	42	34	35	57	57
<b>7/1/96 - 6/30/97</b>							
Average monthly benefit	\$709	\$847	\$925	\$1,399	\$2,005	\$3,233	\$4,212
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	13	31	34	30	37	41	52

N/A: Not available

Source: SCERS Retired Member Pension Payroll Data

# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Last Ten Years

Retirement Effective Date	Years Since Retirement						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>Period 7/1/05 - 6/30/06:</b>							
Average Monthly Benefit	\$2,871	\$2,105	\$2,165	\$1,749	\$1,576	\$1,393	\$1,049
Number of Active Retirants	2,232	1,365	1,199	921	692	468	231
<b>Period 7/1/04 - 6/30/05:</b>							
Average Monthly Benefit	\$2,806	\$2,095	\$2,129	\$1,736	\$1,509	\$1,281	\$1,007
Number of Active Retirants	1,927	1,402	1,181	913	675	453	233
<b>Period 7/1/03 - 6/30/04:</b>							
Average Monthly Benefit	\$2,574	\$2,090	\$2,056	\$1,693	\$1,392	\$1,187	\$918
Number of Active Retirants	1,793	1,353	1,090	834	650	400	171
<b>Period 7/1/02 - 6/30/03:</b>							
Average Monthly Benefit	\$1,842	\$1,854	\$1,839	\$1,463	\$1,207	\$972	\$819
Number of Active Retirants	1,447	1,312	1,117	849	664	348	145
<b>Period 7/1/01 - 6/30/02:</b>							
Average Monthly Benefit	\$1,804	\$1,865	\$1,614	\$1,376	\$1,121	\$859	\$834
Number of Active Retirants	1,494	1,327	1,024	823	650	324	100
<b>Period 7/1/00 - 6/30/01:</b>							
Average Monthly Benefit	\$1,758	\$1,779	\$1,439	\$1,269	\$1,047	\$776	\$770
Number of Active Retirants	1,433	1,287	1,002	815	610	308	71
<b>Period 7/1/99 - 6/30/00:</b>							
Average Monthly Benefit	\$1,821	\$1,675	\$1,381	\$1,180	\$947	\$729	\$2,125
Number of Active Retirants	1,528	1,249	965	840	561	282	75
<b>Period 7/1/98 - 6/30/99:</b>							
Average Monthly Benefit	\$1,639	\$1,552	\$1,313	\$1,079	\$923	\$727	\$579
Number of Active Retirants	1,667	1,262	979	744	432	179	40
<b>Period 7/1/97 - 6/30/98:</b>							
Average Monthly Benefit	\$1,659	\$1,472	\$1,228	\$1,007	\$858	\$698	\$482
Number of Active Retirants	1,633	1,043	962	700	366	147	33
<b>Period 7/1/96 - 6/30/97:</b>							
Average Monthly Benefit	\$1,539	\$1,404	\$1,151	\$950	\$760	\$651	\$485
Number of Active Retirants	1,501	1,092	902	683	337	104	27

Source: Actuarial Report from June 30, 1997 through 2006

## SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Participating Employer	Current Year and Nine Years Ago					
	2006		1997			
	Covered Employees	Rank	Percent of Total System	Covered Employees	Rank	Percent of Total System
County of Sacramento	13,731	1	95.27%	10,195	1	96.66%
S.E.T.A	577	2	4.00%	257	2	2.44%
Sunrise Recreation and Park District	30	3	0.21%	26	3	0.25%
Carmichael Recreation and Park District	20	4	0.14%	20	4	0.19%
Orangevale Recreation and Park District	17	5	0.12%	10	6	0.09%
Mission Oaks Recreation and Park District	11	6	0.07%	12	5	0.11%
Elected Officials*	8	7	0.06%	8	8	0.08%
Sacramento Metropolitan Fire District	6	8	0.04%	10	6	0.09%
Elk Grove Cosumnes Cemetery District	4	9	0.03%	-	12	0.00%
Fair Oaks Cemetery District	4	9	0.03%	5	9	0.05%
Galt-Arno Cemetery District	3	11	0.02%	1	11	0.01%
U.C. Davis Medical Center	1	12	0.01%	3	10	0.03%
<b>Total</b>	<b>14,412</b>		<b>100.00%</b>	<b>10,547</b>		<b>100.00%</b>

\*Elected Officials - consisted of five Board of Supervisors, one Assessor, one District Attorney, and one Sheriff.  
Source: Actuarial Report from June 30, 1997 through 2006

**SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS**

SCERS Member Agency	Plan	For the Year Ended June 30:												
		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997			
Carmichael Recreation and Park District	Misc.	15	17	18	20	18	20	18	18	20	20	20		
Elk Grove Cosumnes Cemetery District	Misc.	5	4	4	1	1	1	1	1	1	1	0		
Fair Oaks Cemetery District	Misc.	5	5	5	5	3	3	4	4	5	5	5		
Galt-Arno Cemetery District	Misc.	3	3	3	3	3	2	2	2	3	3	1		
Mission Oaks Recreation and Park District	Misc.	11	10	12	13	13	13	12	12	12	12	12		
Orangevale Recreation and Park District	Misc.	14	15	16	14	14	14	14	14	13	10	10		
Sacramento Metropolitan Fire District	Safety	6	7	7	7	7	7	9	9	10	10	10		
S.E.T.A	Misc.	562	544	549	513	520	520	409	445	345	257	257		
Sunrise Recreation and Park District	Misc.	29	28	26	27	29	29	28	28	27	26	26		
U.C. Davis Medical Center	Misc.	1	1	1	1	1	1	2	3	3	3	3		
Elected Officials*	Misc.	7	7	7	7	7	7	7	7	7	7	7		
	Safety	1	1	1	1	1	1	1	1	1	1	1		
	Misc.	652	634	641	604	608	610	497	534	436	341	341		
	Safety	7	8	8	8	8	8	10	10	11	11	11		
<b>Total Special District Members</b>														
	Misc.	11,400	10,744	10,743	11,092	11,010	10,171	9,720	8,816	8,430	8,343	8,343		
	Safety	2,353	2,342	2,280	2,429	2,407	2,202	2,008	1,994	1,924	1,852	1,852		
	Misc.	12,052	11,378	11,384	11,696	11,618	10,781	10,217	9,350	8,866	8,684	8,684		
	Safety	2,360	2,350	2,288	2,437	2,415	2,210	2,018	2,004	1,935	1,863	1,863		
<b>Total Members</b>														
	Total	14,412	13,728	13,672	14,133	14,033	12,991	12,235	11,354	10,801	10,547	10,547		

\*Elected Officials consisted of the County Board of Supervisors, Assessor, District Attorney, and Sheriff.  
Source: Actuarial Reports from June 30, 1997 through 2006

## SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Actuarial Report for Year Ended June 30,	COUNTY					SPECIAL DISTRICTS		
	Miscellaneous			Safety		Miscellaneous		Safety
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 1	Tier 3	Tier 1
2006	15.89%	12.95%	15.73%	36.01%	31.67%	22.26%	22.13%	41.94%
2005	16.10	13.14	15.88	35.18	30.84	22.78	22.56	39.71
2004*	15.29	11.49	13.94	33.23	28.57	20.87	19.56	38.19
2003*	13.49	9.16	11.32	24.39	20.24	18.84	16.73	30.72
2002	15.84	11.47	13.85	31.69	26.31	17.89	18.20	30.89
2001	6.86	3.41	5.26	16.04	11.96	17.54	15.90	23.12
2000	5.85	2.90	4.53	14.52	10.37	16.44	14.94	21.75
1999	5.89	2.94	4.56	14.56	10.29	14.63	14.54	20.64
1998	5.85	2.91	4.55	14.57	10.30	14.58	14.91	20.45
1997	6.43	3.40	5.02	17.96	13.42	14.44	15.40	23.80

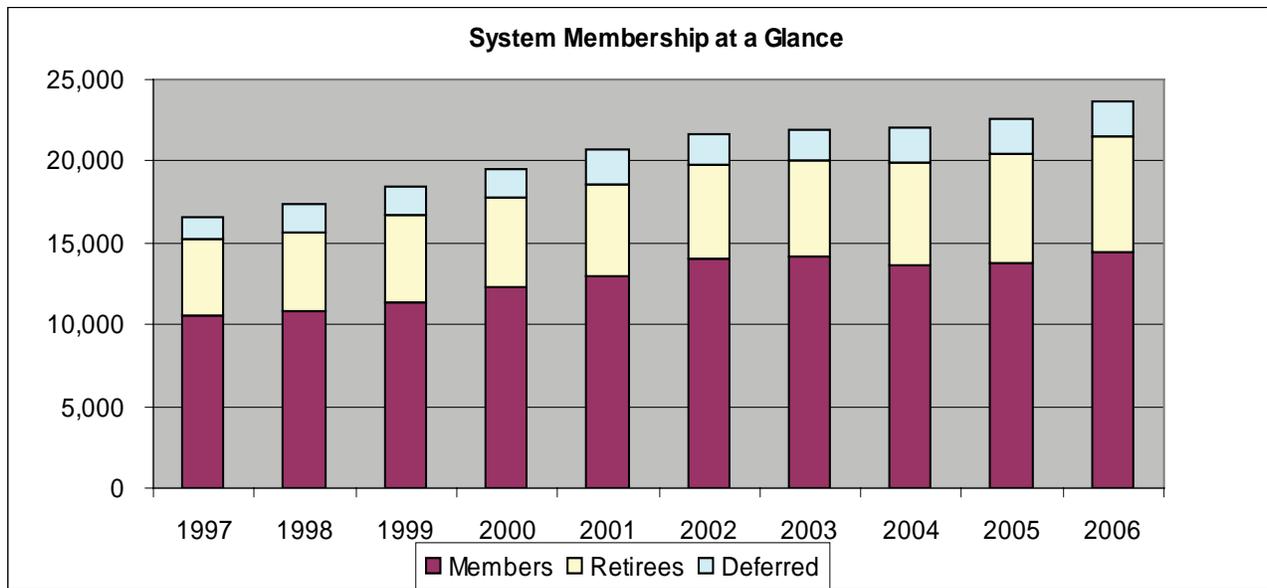
Source: Actuarial Reports from June 30, 1997 though 2006

Note: Actuarial Valuation Reports are prepared subsequent to a fiscal year-end and determines rates which pertain to the following fiscal year. For example, the Actuarial Valuation as of 6/30/06 presented current rates for the fiscal year 2006-2007 and was used to determine rates for the fiscal year 2007-2008.

\*Rates were adjusted to reflect the proceeds from Sacramento County's pension obligation bonds that were received on July 1, 2004.

# GROWTH OF SYSTEM MEMBERSHIP

Year Ended June 30:	Members	Retirees	Deferred	Total
2006	14,412	7,108	2,192	23,712
2005	13,728	6,784	2,135	22,647
2004	13,672	6,291	2,110	22,073
2003	14,133	5,882	1,885	21,900
2002	14,033	5,742	1,944	21,719
2001	12,991	5,526	2,146	20,663
2000	12,235	5,488	1,828	19,551
1999	11,354	5,303	1,739	18,396
1998	10,801	4,884	1,658	17,343
1997	10,547	4,646	1,383	16,576



# SCHEDULE OF DISTRIBUTION OF RETIRED MEMBERS AND BENEFICIARIES BY TYPE AND BY MONTHLY AMOUNT

As of June 30, 2006

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*												Option Selected**				
		1	2	3	4	5	6	7	8	9	10	11	12	Unmodified	1	2	3	4
\$1 - \$499	872	626	22	5	3	2	95	30	38	-	34	-	17	679	57	114	8	14
500 - 999	1,286	817	78	14	3	1	163	87	86	2	18	2	15	1081	87	89	10	19
1,000 - 1,499	1,123	772	90	22	24	7	106	38	30	7	13	3	11	983	46	78	8	8
1,500 - 1,999	842	611	45	14	49	17	57	11	11	10	8	1	8	726	53	54	5	4
2,000 - 2,499	722	551	12	3	51	16	59	10	2	14	2	-	2	640	28	39	5	10
2,500 - 2,999	544	394	3	3	59	36	27	5	-	11	2	-	4	490	23	25	1	5
3,000 - 3,499	395	312	3	1	31	12	14	6	1	12	1	-	2	359	14	13	1	8
3,500 - 3,999	310	276	2	-	11	6	4	4	-	6	1	-	-	291	10	7	-	2
4,000 - 4,499	237	215	1	-	8	2	7	-	-	3	1	-	-	218	5	7	5	2
4,500 - 4,999	185	172	1	-	6	-	3	-	1	2	-	-	-	168	6	8	2	1
\$5,000 & over	592	565	2	4	14	2	1	-	1	3	-	-	-	554	21	10	2	5
<b>Total</b>	<b>7,108</b>	<b>5,311</b>	<b>259</b>	<b>66</b>	<b>259</b>	<b>101</b>	<b>536</b>	<b>191</b>	<b>170</b>	<b>70</b>	<b>80</b>	<b>6</b>	<b>59</b>	<b>6,189</b>	<b>350</b>	<b>444</b>	<b>47</b>	<b>78</b>

\* Type of Retirement:

- 1 Service Retirement
- 2 -Nonservice-Connected Disability, age 55 and older
- 3 Nonservice-Connected Disability, under age 55
- 4 Service-Connected Disability, age 55 and older
- 5 Service-Connected Disability, under age 55
- 6 Beneficiary of Service Retiree
- 7 Survivor Death Benefits
- 8 Beneficiary of Nonservice-Connected Disability Retiree
- 9 Beneficiary of Service-Connected Disability Retiree
- 10 Divorce-Receiving Benefits
- 11 Interim Nonservice-Connected Disability Retirement
- 12 Non-Member Receiving Benefits

\*\* Option Selected:

- Unmodified:  
 Qualified service retirement or nonservice-connected disability retirement beneficiary receives 60 percent continuance. Qualified service-connected disability retirement beneficiary receives 100 percent continuance.
- The following options reduce the retired member's monthly benefit:
- Option 1 - Beneficiary receives lump sum or member's unused contributions.  
 Option 2 - Beneficiary having an insurable interest in member's life receives 100 percent of member's reduced monthly benefit.  
 Option 3 - Beneficiary having an insurable interest in member's life receives 50 percent of member's reduced monthly benefit.  
 Option 4 - Benefits paid to person having an insurable interest in member's life as nominated by member's written designation.

Source: SCERS Retired Member Pension Payroll Data

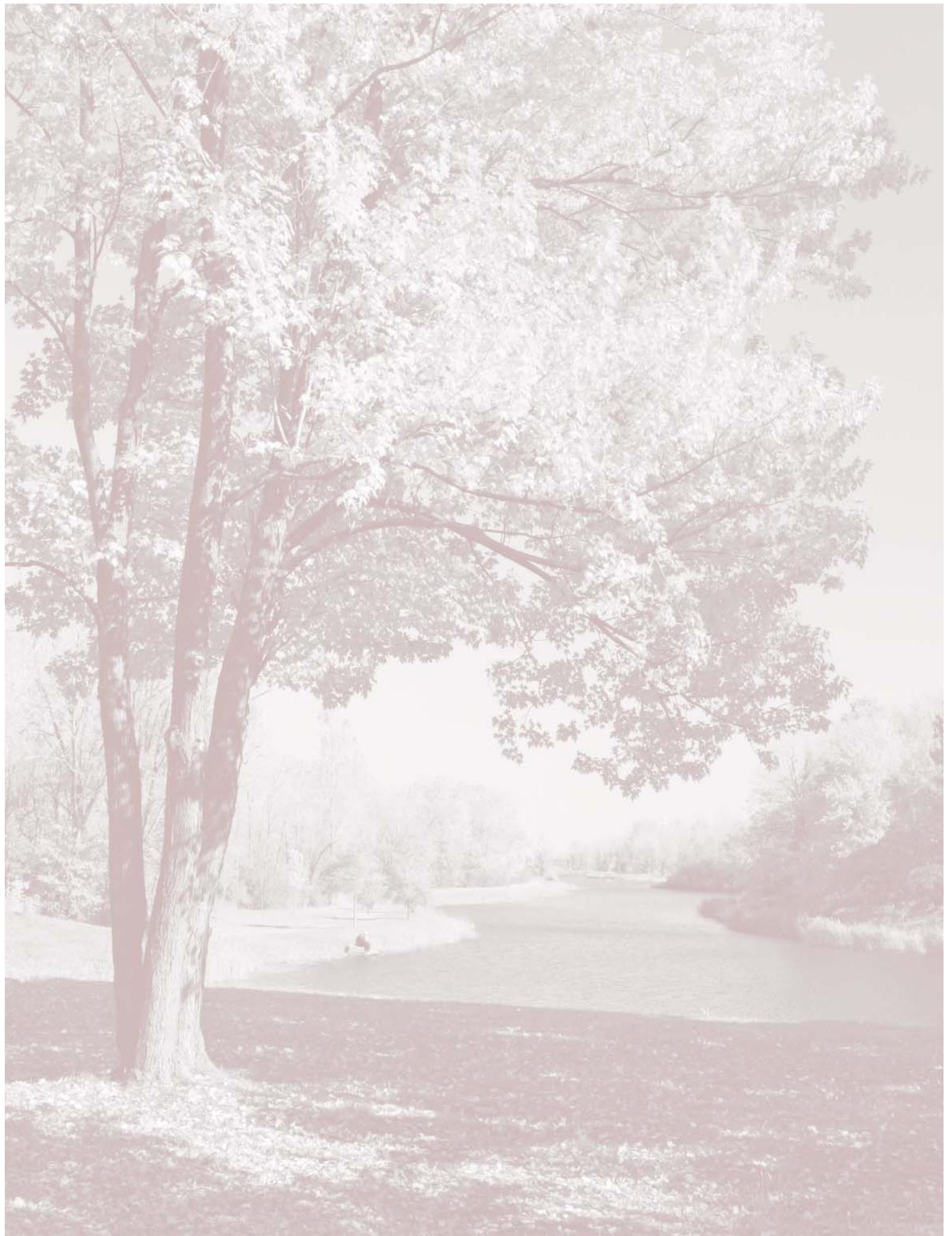
## SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Year Ended June 30,

(Amounts Expressed in Thousands)

Type of Expenses	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Salaries and Benefits	\$2,718	\$2,734	\$2,663	\$2,416	\$2,077	\$1,818	\$1,464	\$1,418	\$1,300	\$1,004
Professional Fees	808	440	583	578	420	433	634	753	783	568
Equipment Purchases and Maintenance	70	73	89	198	314	242	156	111	109	257
Rent and Lease Expense	612	596	596	560	416	204	171	155	151	69
Depreciation Expense	3	27	14	18	42	42	25	-	-	-
Other Administrative Expenses	850	1,392	1,901	2,127	2,216	1,092	1,152	926	525	612
<b>Total</b>	<b>\$5,061</b>	<b>\$5,262</b>	<b>\$5,846</b>	<b>\$5,897</b>	<b>\$5,485</b>	<b>\$3,831</b>	<b>\$3,602</b>	<b>\$3,363</b>	<b>\$2,868</b>	<b>\$2,510</b>

Source: Audited Financial Statements from June 30, 1997 through 2006





SACRAMENTO COUNTY  
EMPLOYEES' RETIREMENT SYSTEM

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Sacramento, CA 95814

[www.scers.org](http://www.scers.org)