Spokane Employees' Retirement System

Comprehensive Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2011

Retirement Department
City Hall, Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201-3324
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Introductory Section

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Administrative Organization

BOARD OF ADMINISTRATION

Bill Todd (Chair)	Elected Employee	Field Engineer, Engineering Services
Michael F. Coster	Elected Employee	WWTP Operations Superintendent, Advanced Waste Water Treatment Plant
Steven J. Sather	Elected Employee	Field Engineer, Engineering Services
Jon B. Snyder	Council Appointee	City of Spokane Council Member
Brian Brill	Council Appointee	Portfolio Manager, Washington Trust Bank
Dean Kiefer	Council Appointee	Chair, Management Department Eastern Washington University
Jerry K. McFarlane	Board Appointee	Former President, Pension Consultants of the Northwest

INVESTMENT ADVISORY COMMITTEE

Dennis Clinton	President, Spokane City Credit Union
Brian Brill	Portfolio Manager, Washington Trust Bank
Dean Kiefer	Chair, Management Department , Eastern Washington University
Pam Dolan	Director of Accounting, City of Spokane

STAFF

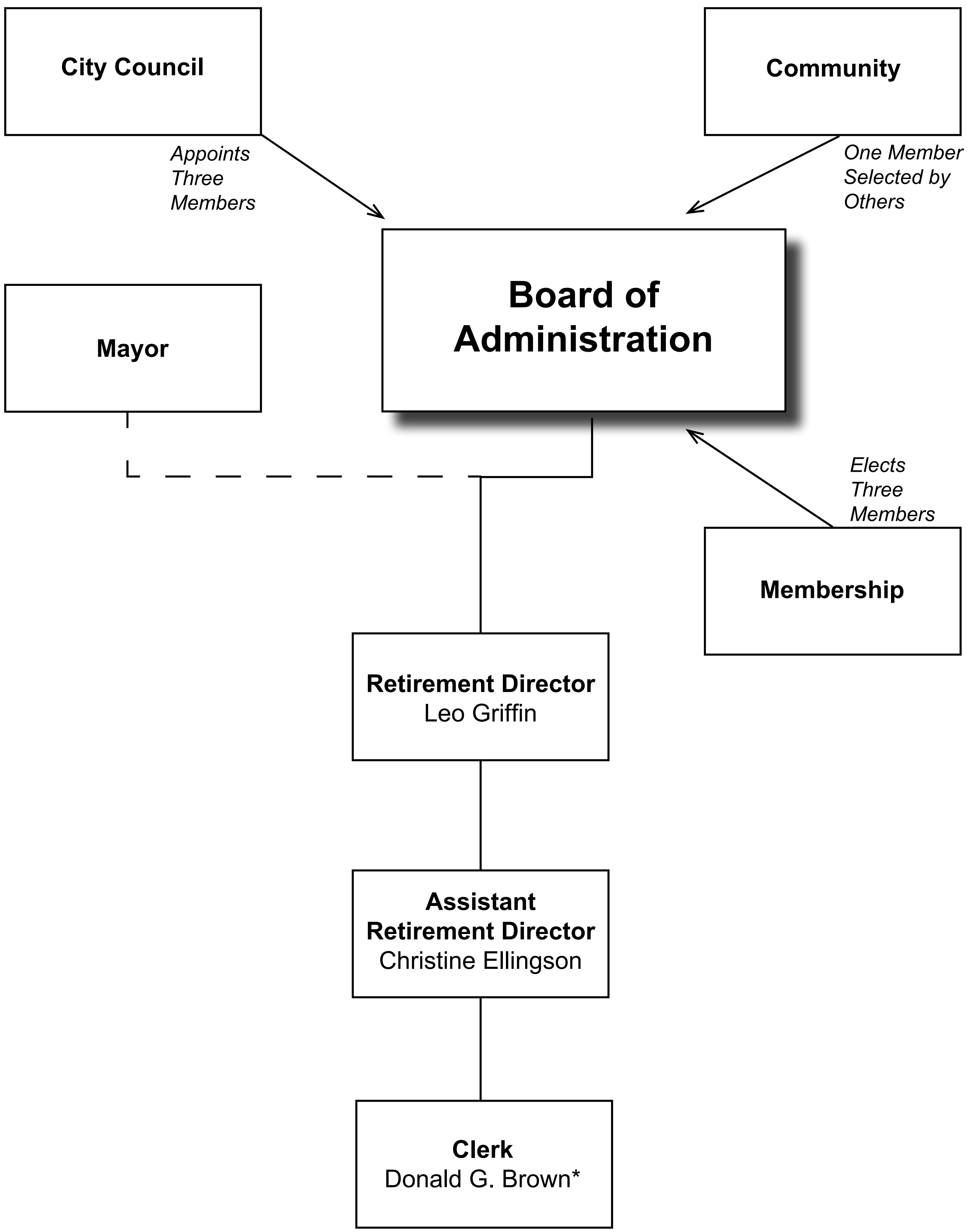
Leo F. Griffin	Retirement Director and Chief Investment Officer
Christine Ellingson	Assistant Retirement Director
Donald G. Brown	Clerk
Timothy Szambelan	Legal Advisor

ADVISORY

Certified Public Accountants	Moss Adams
Actuarial Services	SageView Consulting Group
Investment Performance Analysis	Hyas Group
Custodial Services	Union Bank
Legal Counsel	K & L Gates

This Annual Report was printed and produced by Sir Speedy Printing, Spokane, WA.

Organization Chart



*Hired April 2012

Description of Retirement System

SERS, a defined benefit pension plan, was founded July 1, 1942. Membership in SERS is required for all permanent non-uniformed employees of the City of Spokane. SERS is governed by a Board of Administration of seven members. Three members are appointed by the City Council and three employee members are elected by the SERS membership. The seventh member is appointed by the other six members and is not an elected official or an employee of the City. SERS provides retirement, death, and disability benefits which vest after five years of creditable service. A pension can commence at age 50, but certain rules may apply. This page contains a brief summary of the Retirement System; refer to the Summary of Benefit and Contribution Provisions contained in the Actuarial Section of this report for a more detailed explanation of the benefits.

For those employees hired on or before December 31, 2008, a straight retirement benefit is calculated by multiplying 2.15% of the member's highest consecutive two-year monthly salary by the member's years of creditable service. At 2.15%, their pension calculation is limited to 30 years of creditable service. An alternative formula exists for a maximum pension up to 35 years; however, if this alternative is selected at retirement, a 2.0% multiplier is utilized resulting in a maximum pension of 70.0%.

For those employees hired on or after January 1, 2009, age plus years of service must equal 75 "points" before they can draw a pension. Their straight retirement benefit is calculated by multiplying 2.0% of the member's highest consecutive two-year monthly salary by the member's years of creditable service to a maximum of 70.0%.

A number of optional forms of retirement benefits (see Service Retirement Options) are available which allow a retiree to provide benefits to his or her beneficiary with a reduction in pension benefits.

Member contributions, currently 7.75% of total salary-based compensation, are deducted from the member's salary and paid into the retirement fund. The City also contributes 7.75%. The City's contribution is used for funding the overall plan.

If a member has five years of service and becomes totally and permanently disabled, he or she may be eligible for a disability pension. If the disability is due to an injury incurred on the job, no minimum service is required. The amount of disability pension is calculated based on 1.25% of final average salary and service that would have been creditable had the member worked until age 62.

If a member terminates service within five years of entering SERS, their contributions plus interest are available for withdrawal. If the member is over age 50 and terminates after five years of service, they can elect to withdraw their contributions or they can elect to receive a monthly pension if they meet certain eligibility requirements. If a member is under age 50 and terminates after five years of service, they can withdraw their contributions or they can vest and begin receiving a pension at age 50 if they meet certain eligibility requirements. A number of service retirement options exist and these options are briefly explained on the following page.

Additional information can be obtained at www.spokanesers.org

Service Retirement Options

In each option, a pension is paid to the retiree for their lifetime. The options provide different types of a remaining cash balance, paid to a beneficiary, upon death of the retiree. Briefly, the options are as follows:

Normal Benefit The total pension is deducted each month from the retiree's total accumulated contributions, leaving any remaining balance to be paid to a beneficiary in one lump-sum upon the retiree's death.

Option "A" An annuity portion is deducted monthly from the retiree's total accumulations, with a lump-sum cash refund of any remaining balance being paid to a beneficiary upon the retiree's death.

Option "B" The death benefit is the same as in Option A, but it is paid in monthly payments until the balance of the total accumulations is exhausted.

Option "C" In case of death within the guaranteed period, a retiree's beneficiary receives the pension for the remainder of a pre-selected time period of 5, 10, 15, or 20 years.

Option "D" Upon the retiree's death, 50% of the pension is continued to the retiree's spouse for life.

Option "E" Upon the retiree's death, 100% of the pension is continued to retiree's spouse for life.

If a retiree elects options "A" through "E," their monthly pension is actuarially reduced to provide a death benefit.

At the time of retirement, a retiree also has the option of withdrawing their contributions, with interest, in a lump-sum payment and giving up all rights to any further benefits from the Spokane Employees' Retirement System.

CITY OF SPOKANE

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
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LEO F. GRIFFIN, CPA
RETIREMENT DIRECTOR
AND CHIEF INVESTMENT OFFICER

May 31, 2012

To the Honorable Mayor and
Spokane City Council
Spokane, WA 99201

This 70th Annual Report consists of five sections: The Introductory Section contains the letter of transmittal and an explanation of the administrative organization of the System; the Financial Section contains the audited financial statements of the System as well as an opinion letter from the System's independent certified public accountants; the Actuarial Section contains the consulting actuary's report along with related actuarial data and statements; the Statistical Section contains tables of significant data pertaining to the operation of the System; and the last section is the Investment Section, which includes information related to the System's investments.

The Retirement System began its first year of operations in 1942 and is managed in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code. The retirement plan is an employer-sponsored defined benefit plan that pays a determinable amount to each member who retires after a minimum number of years of service. Refer to the *Summary of Benefit and Contribution Provisions* contained in the Actuarial Section of this report for criteria and a more detailed explanation of the benefits.

The compilation of this report reflects the combined efforts of the staff under the leadership of the Retirement Board. The intention of this report is to provide complete and reliable information to assist in management decisions, to present evidence of compliance with legal provisions and to demonstrate responsible stewardship for the assets contributed by the members and their employer. The accuracy and completeness of the data contained in this report are the sole responsibility of the management of the Spokane Employees' Retirement System.

We would like to express our gratitude to the advisors and the many people who have worked so diligently to assure the successful operation of the System. Lastly, the Director would like to acknowledge the hard work and dedication of the Retirement Department staff. Without them, this report would not be possible.

Respectfully submitted,

Board of Administration,
Spokane Employees' Retirement System
As of December 31, 2011

Leo F. Griffin

Leo F. Griffin, CPA
Retirement Director

Key Changes During the Year

Key Changes to the Spokane Employees' Retirement System
For the Year Ended December 31, 2011

December	On December 31, 2011, for the first time in its 70-year history, SERS stopped using a manual card system to track certain elements of participant data. The white and yellow cards were retired with the advent of the PeopleSoft database, which went live on January 1, 2012. SERS acted as a successful guinea pig for the new database in January 2012 by being the first active user of new system. Years of planning went into this event.

Financial Section

Moss-Adams L.L.P.

Independent Auditor’s Report

WWW.MOSSADAMS.COM

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Administration
Spokane Employees' Retirement System

We have audited the accompanying statements of Plan net assets of the Spokane Employees' Retirement System (SERS, the System, or the Plan), a pension trust fund of the City of Spokane, Washington, as of December 31, 2011 and 2010, and the related statements of changes in Plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Spokane Employees' Retirement System as of December 31, 2011 and 2010, and the changes in Plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

REPORT OF INDEPENDENT AUDITORS
(continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and schedule of employer contribution and funding progress on pages 19 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of administrative and investment expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The schedules of administrative and investment expenses have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative and investment expenses are fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

Spokane Washington
July 24, 2012

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

This section presents management's discussion and analysis of the Spokane Employees' Retirement System's (SERS, the System, or the Plan) financial performance during the year ended December 31, 2011. Please read it in conjunction with the accompanying financial statements and the related notes.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair market value and revenues include the recognition of unrealized gains or losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. For ease of reading, the dollar amounts that appear in this narrative are typically rounded to the closest one thousand dollars. The basis of contributions to the System is the Projected Unit Credit funding method, with current service contributions based on the normal contribution rate determined under the funding method and unfunded prior service amortized as a level percentage of covered payroll over a period of no more than 30 years in accordance with GASB standards. SageView Consulting Group, LLC, the System's actuary, evaluates the funding status of the System.

The financial section contains the following information:

1. **Basic Financial Statements** including:
   a. Statements of Plan net assets
   b. Statements of changes in Plan net assets
   c. Notes to financial statements

2. **Required Supplementary Information** including:
   a. Schedule of employer contributions
   b. Schedule of funding progress

3. **Additional Information** including:
   a. Schedule of administrative expenses
   b. Schedule of investment expenses

The basic financial statements are described as follows:

- The statements of Plan net assets shows the account balances at year end and includes the net assets available for future benefit payments. The liabilities for future benefit payments are not included in these statements; however, they are shown in the schedule of funding progress that is included in the required supplementary information.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis (continued)

- The statements of changes in Plan net assets shows the sources and uses of funds during the year and illustrates the change in net assets from the previous year.

- The notes to the financial statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

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

- The schedule of funding progress contains actuarial information about the status of the Plan from an ongoing long-term perspective, in the accumulation of sufficient assets to pay future benefits when due. Actuarial liabilities in excess of the actuarial value of assets may indicate that insufficient assets are accumulated to fund the future benefits of current members and retirees.

- The schedule of employer contributions contains historical trend information regarding the value of the total annual contributions the employer has paid into the fund and the percentage contributed by the employer.

Financial Highlights

- Net assets decreased by $11.0 million (4.7%) during 2011 and increased $23.4 million (11.1%) in 2010. The 2010 increase was primarily due to robust gains in the equity markets in the U.S. and abroad. Conversely, the 2011 decrease was due to losses incurred on investments in 2011.

- Revenues, additions to net assets, totaled $7.2 million in 2011, compared to $41.0 million in the prior year. For 2011, revenue includes member and employer contributions of $13.6 million and net investment earnings from investment activities totaling negative $6.4 million. Member and employer contributions increased $432,000 and $87,000 in 2011 and 2010, respectively. Net investment income, which fluctuates year-to-year depending on market conditions, decreased by $34.2 million in 2011 compared to a decrease of $10.7 million in 2010. The equity markets have experienced extreme volatility in the last few years.

- Expenses, deductions from net assets, for 2011 were $18.2 million, a 3.8% increase from 2010. Expenses for 2010 were $17.5 million, a 7.1% increase from 2009. Total expense amounts, and fluctuations, are primarily driven by pension benefit payments. Retiree benefits and refunds of contributions increased by $678,000 during 2011 and by $1.2 million during 2010.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statements and Analysis

Plan net assets – The table below provides a summary of assets and current liabilities at year end:

	2011	2010	2009
Cash, short-term investments and receivables	**$ 1,056,180**	$ 10,538,761	$ 4,114,731
Investments at fair value	**221,950,527**	223,866,122	206,941,031
Leasehold improvements, net	**7,893**	11,400	14,908
Software in progress	**352,980**	-	-
Total assets	**223,367,580**	234,416,283	211,070,670
Accrued expenses	**75,754**	105,281	164,492
Total net assets	**$ 223,291,826**	$ 234,311,002	$ 210,906,178

Changes in Plan Net Assets

The table below provides a summary of the changes in Plan net assets during the years and reflects the activities of the fund:

	Years Ended December 31,		
	2011	2010	2009
Additions			
Employer contributions	**$ 6,799,258**	$ 6,580,795	$ 6,474,432
Plan member contributions	**6,831,742**	6,618,558	6,637,872
Net investment income (loss)	**(6,440,146)**	27,752,165	38,442,846
Total additions	**7,190,854**	40,951,518	51,555,150
Deductions			
Benefits	**17,216,853**	16,547,561	15,509,868
Refunds of contributions	**502,566**	493,911	315,919
Net administrative expenses	**490,611**	505,222	563,408
Total deductions	**18,210,030**	17,546,694	16,389,195
Net increase (decrease)	**$ (11,019,176)**	$ 23,404,824	$ 35,165,955

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Revenues - Additions to Net Plan Assets

- Employer contributions increased by $218,000 (3.3%) in 2011 and $106,000 (1.6%) in 2010. Plan member contributions increased by $213,000 (3.2%) in 2011 and decreased $19,000 (0.3%) in 2010. Both the employer and the employee contributions are driven by the contribution rate, currently 7.75% per side, and by salary increases. Employee contributions can vary from employer contributions as rehired employees optionally buy-back their creditable service time from a prior withdrawal.
- Net investment income was a $6.4 million loss in 2011 compared to a $27.8 million gain in 2010. In 2011, the portfolio earned a negative 2.8% as the U.S. equity markets were essentially flat and international markets were down sharply. In 2010, the portfolio earned a positive 13.5% with both the U.S. and international equity markets up sharply.

Expenses - Deductions from Net Plan Assets

- Retiree benefits paid increased by $669,000 (4.0%) in 2011 and $1.0 million (6.7%) in 2010. A December 2009 City-initiated Voluntary Incentive Retirement Program contributed to a sharp increase in the pension rolls for 2010.
- Refunds of contributions increased by $9,000 in 2011 and increased by $178,000 in 2010. Lump sum withdrawals from the Plan fluctuate from year to year.
- Net administrative expenses include salaries and benefits for the SERS director and staff, along with other costs associated with administering the Plan; further detail can be found on the Schedule of Administrative Expenses. Net administrative expenses decreased by $15,000 (2.9%) in 2011 and $58,000 (10.3%) in 2010. Net administrative expenses have decreased for the third year in a row and expenses incurred in 2011 are lower than those incurred seven years ago in 2004. Staff and the Board continue to be diligent about Plan operating expenses.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

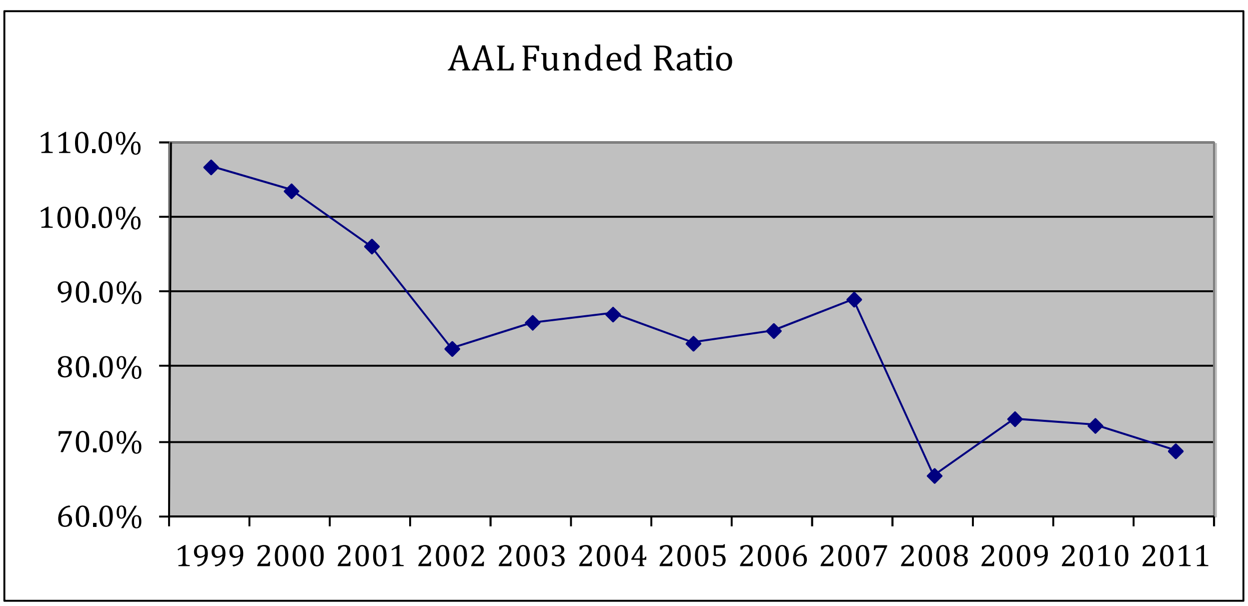
Plan Membership

The table below reflects changes to the census of retirees and membership in SERS:

	2011	2010	% Change Increase (Decrease)
Retirees and beneficiaries receiving normal retirement benefits	**1,079**	1,050	2.7%
Disability retirees	**9**	10	(10.0%)
Total retirees and beneficiaries	**1,088**	1,060	2.6%
Current and terminated employees entitled to, but not yet receiving benefits			
Current employee members	**1,491**	1,516	(1.6%)
Vested terminated members	**84**	90	(6.7%)
Total current and vested employee members	**1,575**	1,606	(1.9%)

Funding Status

Schedule of Funding Progress
Funded Ratio



SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Funding Status (continued)

The actuarial accrued liability (AAL) is the actuarial present value of benefits accrued to date, adjusted to reflect future salary increases in accordance with the actuarial assumptions. The AAL funded ratio compares the AAL to Plan assets. Poor market returns earlier this decade coupled with retiree benefit adjustments were factors in the decline of the funded ratio from its December 31, 1999, peak to its first low point in 2002. A second low point in 2008 was caused by the extreme deterioration of the world capital markets brought on by the sub-prime mortgage crisis resulting in the System's investments experiencing a large loss. A strong market recovery in 2009 attributed to the rebound in the AAL funded ratio; however, the losses still being recognized from 2008, which exceeded the gains recognized from 2009 - 2010, contributed to the decline in the 2011 funded ratio (refer to the asset valuation method in footnote 5 for information related to the five-year smoothing technique and the 90% to 110% corridor).

Looking back, the System lowered its discount rate from 7.5% to 7.0% in 2003 and increased it back to 7.5% in 2007. Other factors affecting the ratio's decline earlier this decade include actuarial losses due to differences between actual and assumed Plan experience. The AAL funded ratio was 68.8% at December 31, 2011, which reflects a decrease of 3.4 percentage points during 2011.

Funds are accumulated from employer and employee contributions and investment earnings and are used to pay present and future benefit obligations and administrative expenses. Active members contribute 7.75% of their salaries to the retirement fund and the City contributes 7.75%. The actuary may recommend a change in the contribution rates when an experience study is performed, which occurs roughly every five years. The last experience study was performed effective December 31, 2006. In 2012, the actuary is expected to deliver to the Board an experience study for the five-year period ended December 31, 2011.

Retiree Benefit Adjustment

The SERS Board of Administration considers issuing an ad hoc adjustment for retiree benefits each year. The Board can grant an ad hoc adjustment if the AAL funded ratio is 90% or greater and remains above 90% after the ad hoc adjustment is granted. As stated above, the AAL funded ratio is less than 90% as of December 31, 2011. The last ad hoc retiree adjustment occurred in 2001. Based on the current AAL funded ratio, it will take continued significant favorable experience in the investment markets or a future increase in contribution levels to raise the funded ratio above its target.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities

One-year returns on asset classes and comparative benchmarks are presented in the table below. Negative returns are displayed in brackets and the policy index and benchmarks are in italics.

	Investment Return	
	2011	2010
Total portfolio	**(2.8%)**	13.5%
Policy Index	***0.7%***	*14.0%*
Large cap equities	**(0.6%)**	15.8%
Benchmark: S&P 500 Index	***2.1%***	*15.1%*
Mid cap equities	**(3.0%)**	22.9%
Benchmark: Russell Mid Cap Index	***(1.6%)***	*25.5%*
Small cap equities	**(3.1%)**	26.0%
Benchmark: Russell 2000 Index	***(4.2%)***	*26.9%*
Real estate	**9.4%**	23.4%
Benchmark: FTSE NAREIT Composite Index	***7.3%***	*27.6%*
International equities	**(13.7%)**	17.3%
Benchmark: MSCI ACWI Ex USA Index	***(13.7%)***	*11.2%*
Alternatives		
Absolute return	**2.6%**	(0.3%)
Benchmark: Fixed Income Alternatives - Barclays Capital US Aggregate Bond Index	***7.8%***	*6.5%*
Long/short growth	**(6.3%)**	7.6%
Benchmark: Equities Alternatives - S&P 500 Index	***2.1%***	*15.1%*
Fixed income	**3.1%**	6.0%
Benchmarks		
Barclays Capital US Aggregate Bond Index	***7.8%***	*6.5%*
US T-Bills 90 day Index	***0.06%***	*0.2%*

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities (continued)

The investments of the System are governed by the "prudent investor rule." The prudent investor rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund.

Total investments, valued at fair market value, decreased $1.9 million in 2011 compared to an increase of $16.9 million in 2010. The investment portfolio experienced an overall negative return of (2.8)% in 2011 compared to a positive return of 13.5% in 2010. The portfolio under-performed the policy benchmark in 2011 due to a number of market-driven factors. SERS' international, small- and mid-cap equity exposure hurt performance relative to the benchmark as larger cap equities tended to perform better in 2011. The other primary performance detractor was the absolute return category, which underperformed relative to its benchmark, the Barclays Capital U.S. Aggregate bond index. 2011 was a strong year in the U.S. bond market. SERS expects, however, that the absolute return strategy will provide performance premiums with lower volatility in a flat or rising interest rate environment. The interest rate environment in 2011 also caused additional variance from the policy index in the rest of the SERS fixed income portfolio. The shorter duration of the SERS fixed income securities hindered performance as interest rates trended downward during the year and longer duration portfolios tended to do better.

The System invests funds for the long-term, anticipating both good and bad financial markets. Investments are diversified to reduce investment risk and mitigate the risk of underperforming the actuarial discount rate, over time. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe the use of alternative investments is a prudent approach to managing risk.

Contacting the Spokane Employees' Retirement System

If you have questions about this report or need additional information, please contact:

Spokane Employees' Retirement System
City Hall – Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201
www.spokanesers.org
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SPOKANE EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS

	December 31, 2011	December 31, 2010
ASSETS		
Cash	**$ 364,123**	$ 207,449
Short-term investments	**635,682**	746,910
Interest and dividends receivable	**41,567**	47,571
Redemption receivable	**-**	9,536,831
Other receivable	**14,808**	-
Total cash and receivables	**1,056,180**	10,538,761
Investments at fair value		
U.S. fixed income	**24,903,654**	30,697,778
International/global fixed income	**12,617,500**	8,102,584
U.S. equities	**90,035,884**	95,863,896
Real estate	**8,968,401**	7,394,484
International equities	**41,073,289**	52,560,046
Alternatives	**44,351,799**	29,247,334
Total investments	**221,950,527**	223,866,122
Leasehold improvements, net of accumulated depreciation of $9,646 and $6,139, respectively	**7,893**	11,400
Software in progress	**352,980**	-
Total assets	**223,367,580**	234,416,283
LIABILITIES		
Accounts payable	**39,724**	52,973
Current portion employee salaries and benefits	**12,195**	14,214
Other current liabilities	**16,189**	11,655
Employee leave benefits	**7,646**	26,439
Total liabilities	**75,754**	105,281
Net assets held in trust for pension benefits	**$ 223,291,826**	$ 234,311,002

(A schedule of funding progress is presented on page 34)

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2011	Year Ended December 31, 2010
ADDITIONS		
Contributions		
Employer	$ 6,799,258	$ 6,580,795
Plan members	6,831,742	6,618,558
Total contributions	13,631,000	13,199,353
INVESTMENT INCOME		
Net appreciation (depreciation) in fair value of investments	(9,717,351)	24,432,201
Interest, dividends, and other investment income	3,673,522	3,716,206
	(6,043,829)	28,148,407
Less investment expenses	396,317	396,242
Net investment income (loss)	(6,440,146)	27,752,165
Total additions	7,190,854	40,951,518
DEDUCTIONS		
Benefits	17,216,853	16,547,561
Refunds of contributions	502,566	493,911
Administrative expenses, net of administrative income	490,611	505,222
Total deductions	18,210,030	17,546,694
CHANGE IN NET ASSETS	(11,019,176)	23,404,824
Net assets, beginning of year	234,311,002	210,906,178
Net assets, end of year (held in trust for pension benefits)	$ 223,291,826	$ 234,311,002

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description

The Spokane Employees' Retirement System (SERS, the System, or the Plan) is a single employer defined benefit pension plan covering employees of the City of Spokane (the City), administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City of Spokane and is presented as a blended component unit within the fiduciary fund of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the State Law Enforcement Officers and Firefighters' Retirement System. At December 31, 2011, there are 1,088 retirees and beneficiaries receiving benefits; 84 vested terminated, including portables, entitled to future benefits; and 1,491 active members of the Spokane Employees' Retirement System for a total of 2,663 total members.

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008, who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. All employees hired on or after January 1, 2009, who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 75 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.0%. Employees hired prior to January 1, 2009, have a choice, at retirement of choosing a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. In addition, the normal retirement age for the Plan is 62. For either group, benefits may be reduced according to the retirement annuity option selected.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – SERS reports in accordance with the provisions of Governmental Accounting Standard Board (GASB) No. 25, *Financial Reporting for Defined Benefit Pension Plans* as amended by GASB 50, *Pension Disclosures*. The financial reporting framework for defined benefit pension plans required by GASB No. 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of accounting (continued) – The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

Use of estimates – In preparing the Plan's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments – All fixed income, common stock, and short-term investments are reflected in the statement of Plan net assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, net their management fees before the fund itself reports net investment income for the period. Investment fees detailed in the Schedule of Investment Expenses represent cash payments made to money managers and other investment professionals. Mutual fund and limited partnership fees are not reflected in this Schedule; however, investment expenses are netted against investment income in the Statement of Changes of Plan Net Assets to arrive at a net investment income amount.

Investments are exposed to various risks, such as interest rate, market, and credit and regulatory risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the statements of Plan net assets.

Note 3 – Deposits and Investments

Deposits – The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to $250,000 per member of the System. As provided by State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of $100,000.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

Investments – The Spokane Employees' Retirement System's investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan. SERS investments are categorized to give an indication of the level of risk assumed by the Plan at year end.

Investments of the pension trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the Retirement Director, also monitors the fund on a regular basis.

In 2007, the Board approved a new asset allocation, which includes an allocation to alternative investments. Funding of these limited partnerships began in late 2007 and continued during 2010 and 2011. The term "alternative investments" encompasses a broad category of nontraditional investments. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe that the use of alternative investments is a prudent approach to managing risk.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. Although the SERS' Investment Policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. SERS' fixed income assets are comprised of four mutual funds, which are nonrated. The fair market value of the mutual funds is $37.5 million as of December 31, 2011.

Custodial credit risk – Custodial credit risk is the risk that in the event of a financial institution or bank failure, SERS would not be able to recover the value of its deposits and investments that are in the possession of an outside party. Under Governmental Accounting Standard No. 40, *Deposit and Investment Risk Disclosures Guidelines*, SERS does not have exposure to custodial credit risk.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. The System does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the System's net assets.

Interest rate risk – Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS' Investment Policy does not specifically address interest rate risk, the System's fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the CIO. The table below shows the System's fixed income assets by investment type, average effective maturity and market value as of December 31, 2011:

	Average Effective Maturity (in years)	Market Value
Mutual Funds		
PIMCO Low Duration	4.33	$ 8,450,994
Vanguard Short-term	2.50	8,600,016
PIMCO Global	6.72	12,617,500
Metropolitan West	4.92	7,852,644
Total fixed income		$ 37,521,154
Fixed income as a percentage of SERS portfolio	16.9%	

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2011, 20.6% of the System's portfolio is invested in international mutual funds and a limited partnership fund of funds, which primarily consist of foreign equities. The fair market value of the foreign securities is $53.7 million as of December 31, 2011. Additionally, SERS has $12.6 million invested in an international/global fixed income fund, of which 38.8% is in foreign fixed income holdings at December 31, 2011. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System considers foreign currency risk during the selection and monitoring process of the fund managers.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 4 – Contributions

Member and employer contribution rates are established by City Code, Chapter 4.14. The funding of SERS is currently based on the projected unit credit method of funding. SERS funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 7.75% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 7.75% of eligible compensation for a combined total of 15.50%. Contribution rates are reviewed periodically by the Board of Administration and recommendations are made for adjustments. It is contemplated that over the long term, the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth.

There are no long-term contracts for contributions outstanding and no legally required reserves.

Note 5 – Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2011, the actuarial liability funded status ratio is 68.8%. The funding ratio decreased by 3.4 percentage points during 2011. The decrease in the funded status is primarily attributable to actuarial smoothed losses from 2008 exceeding actuarial smoothed gains from 2009 and 2010; refer to the Asset Valuation Method in the table below. For historical information on the funded ratio and other actuarial funding data, refer to the Schedule of Funding Progress in the Required Supplementary Information that follows the notes to the financial statements. A summary of actuarial methods and assumptions follows:

Valuation date	December 31, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent
Amortization period*	30 years – closed (26 years remaining on initial unfunded liability)
Asset valuation method	Expected value method with five-year smoothing and 90% - 110% market value corridor
Actuarial assumptions	
Investment rate of return	7.5%
Inflation rate	3.0%
Projected salary increases	Ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than two years of service

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 5 – Actuarial Information and Significant Actuarial Assumptions (continued)

Postretirement benefit increases**	0.0%
Actuarial value of assets	$241,610,862
Actuarial accrued liability	$351,318,317
Unfunded actuarial accrued liability	$109,707,455
Annual covered payroll	$ 90,264,062
UAL as a percentage of covered payroll	121.54%

*The total contribution rate is fixed at 15.50% of payroll (7.75% for the employer and 7.75% for the employee). The annual required contribution has been developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

**The SERS Board can grant an ad hoc performance adjustment if the Actuarial Accrued Liability (AAL) Funded Ratio of the System is above 90%, the additional Actuarial Accrued Liability associated with the ad hoc increase does not cause the AAL Funded Ratio to drop below 90%, and the combined employer and employee contribution rates are sufficient to fund the unfunded accrued liabilities as increased by the cost of the ad hoc adjustment over a period not to exceed the maximum allowable GASB amortization period (currently 30 years). Further information can be found in the SMC 03.05.160.

Note 6 – Commitments

As of December 31, 2011, the System had unfunded commitments of $4.9 million to two limited partnership real estate funds and a limited liability company royalties investment fund.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Employer Contribution	Percentage of ARC Contributed	Annual Excess/ (Shortfall)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/1999	$ 3,053,294	$ 3,643,468	119.33%	$ 590,174	$ 3,053,294	119.33%	$ (859,813)
12/31/2000	2,747,528	3,715,600	135.23%	968,072	2,706,566	137.28%	(1,868,847)
12/31/2001	3,859,885	3,894,757	100.90%	34,872	3,792,685	102.69%	(1,970,919)
12/31/2002	3,569,284	3,919,254	109.81%	349,970	3,789,014	103.44%	(2,101,159)
12/31/2003	4,547,346	4,017,431	88.35%	(529,915)	4,471,792	89.84%	(1,646,798)
12/31/2004	5,867,117	4,095,810	69.81%	(1,771,307)	5,811,040	70.48%	68,432
12/31/2005	6,015,711	4,148,874	68.97%	(1,866,837)	6,018,087	68.94%	1,937,645
12/31/2006	6,231,299	4,287,457	68.81%	(1,943,842)	6,298,582	68.07%	3,948,770
12/31/2007	5,742,761	4,518,363	78.68%	(1,224,398)	5,834,697	77.44%	5,265,104
12/31/2008	8,826,967	4,875,443	55.23%	(3,951,524)	8,949,550	54.48%	9,339,211
12/31/2009	8,267,280	6,474,432	78.31%	(1,792,848)	8,484,717	76.31%	11,349,496
12/31/2010	8,955,055	6,580,795	73.49%	(2,374,260)	9,219,296	71.38%	13,987,997
12/31/2011	10,010,885	6,799,258	67.92%	(3,211,627)	10,336,556	65.78%	17,525,295

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
12/31/1999	$ 186,394,015	$ 174,562,092	$ (11,831,923)	106.78%	$ 54,142,268	(21.85%)
12/31/2000	194,488,937	187,644,219	(6,844,718)	103.65%	55,420,648	(12.35%)
12/31/2001	190,150,661	197,656,627	7,505,966	96.20%	59,292,582	12.66%
12/31/2002	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/2003	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/2004	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/2005	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/2006	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%
12/31/2007	242,615,032	272,201,880	29,586,848	89.13%	69,261,673	42.72%
12/31/2008	193,314,245	295,223,177	101,908,932	65.48%	74,183,014	137.38%
12/31/2009	231,996,796	317,577,485	85,580,689	73.05%	83,455,429	102.55%
12/31/2010	241,747,915	334,849,092	93,101,177	72.20%	88,093,679	105.68%
12/31/2011	241,610,862	351,318,317	109,707,455	68.77%	90,264,062	121.54%

Prior to 2007, actuarial updates were performed in the even numbered years. Beginning in 2007, a full actuarial valuation was performed every year.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
ADDITIONAL INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES

	2011 Budget	**2011 Actual**	2010 Actual
Personnel services:			
Salaries and wages	$ 321,955	**$ 252,472**	$ 245,985
Personnel benefits	84,815	**74,959**	72,555
Administrative income	(80,000)	**(37,213)**	(60,334)
Total personnel services	326,770	**290,218**	258,206
Supplies:			
Office supplies	2,000	**1,714**	730
Publications	2,000	**-**	20
Postage	8,000	**6,431**	7,126
Minor equipment	10,000	**2,109**	82
Other	1,000	**1,313**	741
Total supplies	23,000	**11,567**	8,699
Other services and charges:			
State audit charges	6,232	**8,039**	8,792
Professional services	200,000	**119,123**	88,371
Travel	20,000	**8,549**	5,301
Registration and schooling	20,000	**690**	4,155
Other dues, subscriptions, and memberships	2,000	**1,359**	1,839
Printing	4,000	**1,122**	1,686
Depreciation	3,600	**3,507**	3,508
Other miscellaneous charges	3,620	**2,994**	2,919
Total other services and charges	259,452	**145,383**	116,571

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
ADDITIONAL INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES

	2011 Budget	**2011 Actual**	2010 Actual
Interfund (IF) payments for services:			
IF accounting services	$ 6,615	**$ 18,402**	$ 980
IF communication	3,123	**3,324**	2,636
IF MIS communications replacement	250	**250**	498
IF motor pool	500	**-**	-
IF risk management	2,082	**2,082**	1,543
IF unemployment	51	**51**	8
IF workers' compensation	1,053	**1,053**	1,532
IF facilities maintenance	-	**-**	704
IF MIS	13,139	**12,798**	107,585
IF reprographics	2,500	**962**	996
IF warrant service	1,200	**1,219**	1,401
IF MIS replacement	3,302	**3,302**	3,863
	33,815	**43,443**	121,746
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	$ 643,037	**$ 490,611**	$ 505,222

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
ADDITIONAL INFORMATION
SCHEDULE OF INVESTMENT EXPENSES

	Year Ended December 31, 2011
Investment services:	
Champlain Small Cap Fund LLC	$ 34,146
Principal Real Estate Investors LLC	49,779
Santa Barbara Asset Management LLC	71,121
Sterling Capital Management LLC	49,015
Victory Capital Management Inc.	50,692
	254,753
Performance measurement:	
Hyas Group, LLC	101,000
Custodial services:	
Union Bank, N.A.	40,564
TOTAL INVESTMENT EXPENSES	$ 396,317

Mutual fund and limited partnership fees are not reflected in this schedule; instead, these investment expenses are netted against investment income in the statements of changes of plan net assets to arrive at a net investment income amount.

Actuarial Section

SageView Consulting Group, L.L.C.

Actuarial Valuation

SPOKANE EMPLOYEES' RETIREMENT SYSTEM

ACTUARIAL VALUATION AS OF DECEMBER 31, 2011

Sageview Consulting Group
4421 Cox Road, Glen Allen, VA 23060
804.270.1508 www.sageviewadvisory.com

April 23, 2012

Spokane Employees' Retirement System
808 West Spokane Falls Boulevard
Spokane, Washington 99201-3324

Ladies and Gentlemen:

Effective December 31, 2008, actuarial valuations of the Spokane Employees' Retirement System are performed annually. The results of the latest actuarial valuation of the System, which was prepared as of December 31, 2011, are summarized in this letter.

The valuation reflects the benefits in effect on the valuation date, and was prepared on the basis of the data submitted by the System using generally accepted actuarial principles and methods.

Financing Objective and Contribution Rate

The financing objective of the System is to:

(a) fully fund all current costs based on the normal contribution rate payable by the System determined under the funding method; and

(b) liquidate the unfunded accrued liability based on accrued liability contributions payable by the System over an amortization period of no more than 30 years; and

(c) accomplish the above through a combination of Employee Contributions (currently 7.75% of pay) and Employer Contributions (currently 7.75% of pay).

The December 31, 2011 valuation develops an Annual Required Employer Contribution Rate (ARC), exclusive of employee contributions, of 11.09% of total payroll. The ARC rate compares with an actual Employer Contribution rate of 7.75% of total payroll. The Employer Contribution for the 2011 fiscal year of $6,799,258 was less than the ARC of $10,010,885 by $3,211,627. As a result, the Net Pension Obligation (NPO) which is a measure of the excess of ARC plus the amortization of the prior year's NPO over Employer Contributions for fiscal years ended 12/31/1998 (the effective date of GASB 27) through 12/31/2011 increased from $13,987,997 to $17,525,295.

Unfunded Accrued Liability and Funded Status

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the projected unit credit cost method over the actuarial value of assets. This unfunded accrued liability, and any changes in unfunded accrued liability due to changes in benefit provisions, actuarial gains and losses, and changes in methods and/or assumptions is amortized over a period of not more than 30 years, using a level percent of pay amortization method with amortization payments increasing 4% per year.

The unfunded accrued liability is $109,707,455 as of December 31, 2011 and is being amortized over a period of 30 years using a level percent of pay amortization method with amortization payments increasing 4% per year. The amortization period and method are both acceptable for determining the annual required contribution in accordance with GASB Statements 25, 27, and 34.

The actuarial funded status of the System is the ratio of the actuarial value of assets to the accrued liability. This funded status decreased from 72.2% as of December 31, 2010 to 68.8% as of December 31, 2011.

Spokane Employees' Retirement System
April 23, 2012
Page two

System's Assets and Member Data

The individual data for members of the System as of the valuation date were reported to the actuary by the System. While we did not verify the data at its source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. It is our understanding that the outside auditor of the System has also made an examination of the data.

The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the System's Staff and audited by the independent auditor of the System.

Actuarial Assumptions and Methods

Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2006. This study resulted in the Board adopting several changes in assumptions as of December 31, 2007, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. There have been no subsequent changes in assumptions since December 31, 2007.

The next experience study is scheduled to be conducted for the five-year period ended December 31, 2011. Upon completion of that study, recommendations will be made with respect to assumptions, methods and contribution rates to be adopted beginning with the December 31, 2012 valuation.

The Board also adopted the use of an asset smoothing method beginning with the December 31, 2007 valuation. In order to smooth out market value fluctuations, the difference between actual investment earnings over expected investment earnings will be recognized in equal amounts over a five-year period with the restriction that the smoothed value of assets may not be less than 90% nor greater than 110% of market value.

The actuarial cost method utilized is the projected unit credit actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with GASB Statements 25, 27 and 34.

Samples of the actuarial assumptions, and descriptions of the actuarial cost method and asset valuation method are set forth in the outline of actuarial assumptions and methods included in the report.

Legislative and Administrative Changes

There were no legislative or administrative changes since the last valuation that had a financial impact on the System.

Spokane Employees' Retirement System
April 23, 2012
Page three

Financial Results and Membership Data

Detailed summaries of financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report and the related membership data schedules. We were responsible for providing information for all schedules included in the Actuarial Section, as well as certain schedules included in the Financial Section (Schedule of Funding Progress and Schedule of Employer Contributions) of the comprehensive annual financial report for the fiscal year ended December 31, 2011.

To the best of our knowledge, this report is complete and accurate. All costs and liabilities have been determined in conformance with generally accepted actuarial principles and on the basis of actuarial assumptions and methods which are individually reasonable (taking into account past experience and reasonable expectations of future experience) and which in combination represent the best estimate of anticipated experience under the System.

The undersigned are available to provide additional information or answer any questions with respect to this report.

Respectfully Submitted By:

Sageview Consulting Group

William M. Dowd, FCA, EA
Managing Principal

William J. Reid, FCA, EA
Principal

Summary of Valuation Results

Presented in this report are the results of the actuarial valuation as of December 31, 2011 for the Spokane Employees' Retirement System.

The principal results include:

- The Annual Required Employer Contribution Rate (ARC) is 11.09% of total payroll. This compares to an actual Employer Contribution rate of 7.75% of total payroll.

- The actuarial funded status of the System (ratio of actuarial value of assets to accrued liability) as of December 31, 2011 is 68.8% as compared to 72.2% as of December 31, 2010.

The valuation was completed based on membership and financial data submitted by the System.

The following changes have been made since the last actuarial valuation:

- **Actuarial Assumptions and Methods**

  Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2006. This study resulted in the Board adopting several changes in assumptions as of December 31, 2007, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. There have been no subsequent changes in assumptions since December 31, 2007.

  The next experience study is scheduled to be conducted for the five-year period ended December 31, 2011. Upon completion of that study, recommendations will be made with respect to assumptions, methods and contribution rates to be adopted beginning with the December 31, 2012 valuation.

  The Board also adopted the use of an asset smoothing method beginning with the December 31, 2007 valuation. In order to smooth out market value fluctuations, the difference between actual investment earnings over expected investment earnings will be recognized in equal amounts over a five-year period with the restriction that the smoothed value of assets may not be less than 90% nor greater than 110% of market value.

- **Legislative and Administrative Changes**

  There were no legislative or administrative changes since the last valuation that had a financial impact on the System.

Summary of Valuation Results (continued)

Demographics	**2011**	**2010**
Active		
Number	1,491	1,516
Average Pay for Coming Year	$ 60,539	$ 58,109
Retired and Beneficiaries		
Number	1,088	1,060
Average Annual Allowance	16,227	15,920
Terminated Vested and Portables		
Number	84	90
Total Membership	2,663	2,666

Unfunded Accrued Liability		
Accrued Liability as of December 31	$351,318,317	$334,849,092
Actuarial Asset Value	$241,610,862	$241,747,915
Unfunded Accrued Liability	$109,707,455	$ 93,101,177
Actuarial Value Funded Status	68.8%	72.2%

Contribution Rates		
Annual Required Contribution (ARC) Rate*	11.09%	10.16%
Actual Employer Contribution Rate	7.75%	7.75%

* Exclusive of Employee Contributions (7.75% of pay)

Summary of Valuation Results (continued)

Contribution Rates

The results of the valuation as of December 31, 2011 determine the ARC rate for the System. The actual Employer Contribution rate is compared to the contribution rate developed in the valuation in order to determine the appropriateness of the actual Employer Contribution rate. As of December 31, 2011 the actual Employer Contribution rate of 7.75% is less than the ARC rate of 11.09%. The Net Pension Obligation, which is the cumulative excess of Annual Required Contributions over actual Employer Contributions adjusted with interest for fiscal years ended 12/31/1998 (the effective date of GASB 27) through 12/31/2011, was $17,525,295.

Reasons for Change in the Rate

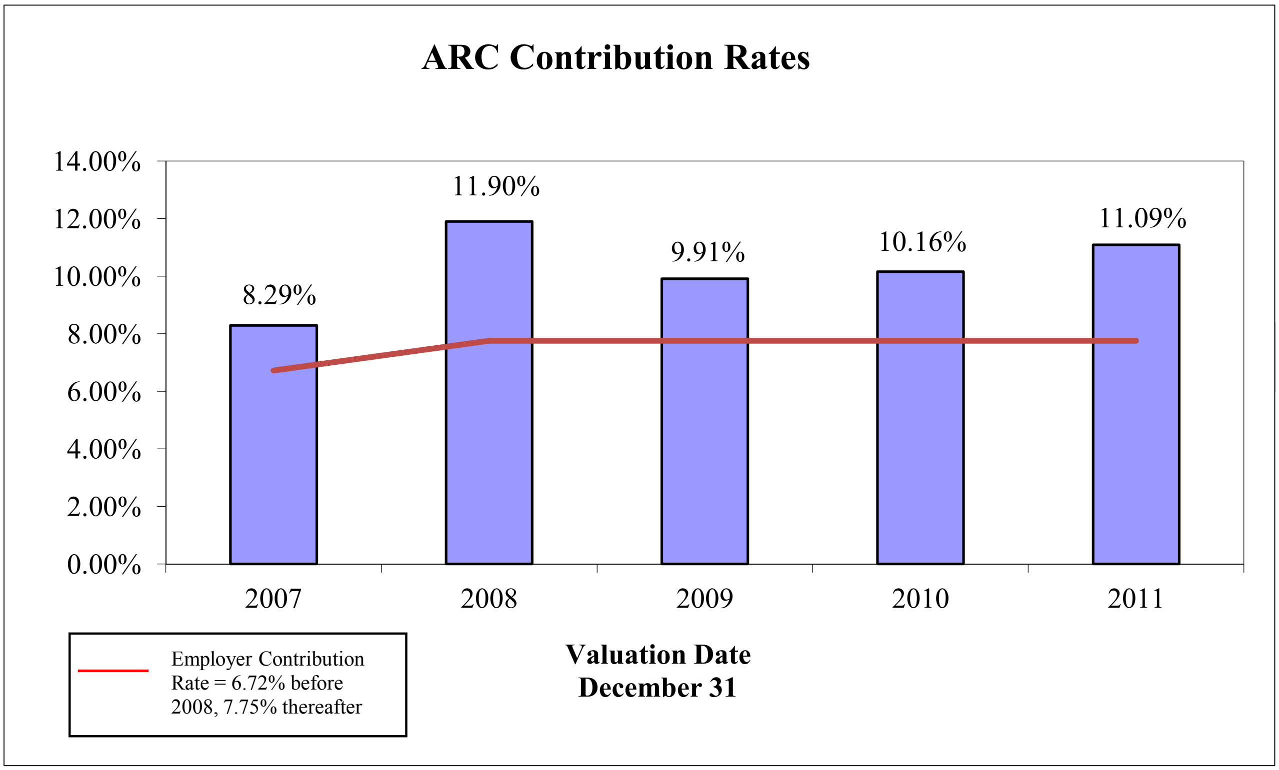
The recommended employer contribution rate as determined by the ARC increased from 10.16% as of December 31, 2010 to 11.09% as of December 31, 2011. The increase of 0.93% is due to the following reasons:

• Increase due to return on actuarial assets	0.81%
• Decrease due to change in benefit provisions	0.00%
• Decrease due to change in employee contribution rate	0.00%
• Increase due to other factors	0.12%
• Total	0.93%

Summary of Valuation Results (continued)

Five-Year History of Contribution Rates
(As a % of payroll)

Valuation Date	ARC	Employer Rate	
2007	8.29%	6.72%	
2008	11.90%	7.75%	*
2009	9.91%	7.75%	
2010	10.16%	7.75%	
2011	11.09%	7.75%	



* Employer Contribution Rate changed effective January 1, 2009.

Summary of Valuation Results (continued)

Unfunded Accrued Liability

The financing objective of the System is to:

- fully fund all current costs based on the normal contribution rate payable by the System determined under the funding method; and

- liquidate the unfunded accrued liability based on accrued liability contributions payable by the System over an amortization period of no more than 30 years; and

- accomplish the above through a combination of Employee Contributions (currently 7.75% of pay) and Employer Contributions (currently 7.75% of pay).

The System's unfunded accrued liability is measured by comparing the smoothed fair value of assets with the accrued liability. The accrued liability is determined under the projected unit credit cost method.

On this basis, the System's unfunded accrued liability is $109,707,455 as of December 31, 2011. The unfunded accrued liability is based on a smoothed fair value of assets of $241,610,862 and an accrued liability of $351,318,317.

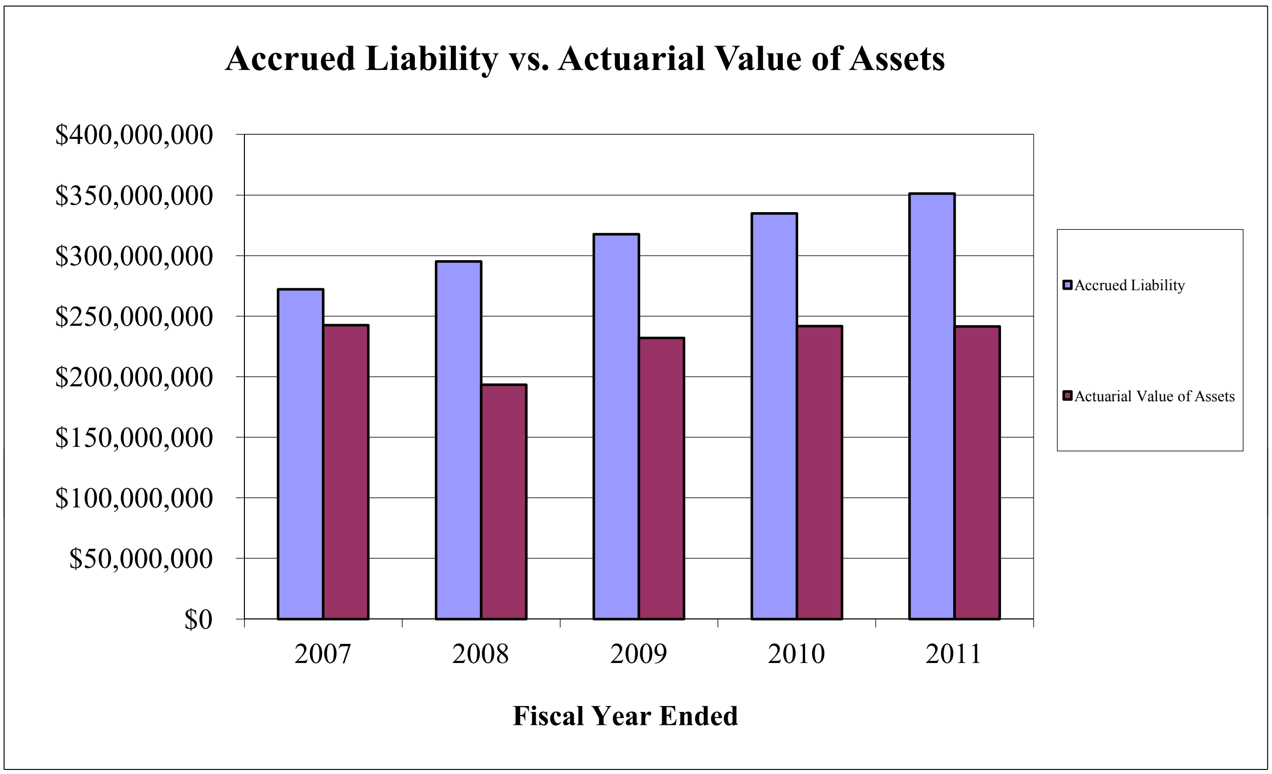
Reasons for Change in the Unfunded Accrued Liability

The unfunded accrued liability was expected to be $96,822,535 as of December 31, 2011 based on the actuarial assumptions summarized in Table 16 of this report. The actual unfunded accrued liability was $109,707,455 as of December 31, 2011. Investment losses on the actuarial value of assets was the primary reason for the increase in unfunded accrued liability.

Summary of Valuation Results (continued)

Five-Year History of Accrued Liability and Actuarial Value of Assets

Fiscal Year Ending	Accrued Liability	Actuarial Value of Assets
2007	$272,201,880	$242,615,032
2008	$295,223,177	$193,314,245
2009	$317,577,485	$231,996,796
2010	$334,849,092	$241,747,915
2011	$351,318,317	$241,610,862



Summary of Valuation Results (continued)

Funded Status

The funded status measures the ratio of the accrued liability to the value of assets.

The actuarial value funded status is calculated using the smoothed value of assets and an assumed interest rate of 7.5%. On this basis, the System's funded status is 68.8% as of December 31, 2011. The funded status is based on a smoothed fair value of assets of $241,610,862 and an accrued liability of $351,318,317.

The market value funded status is calculated using the market value of assets and an assumed interest rate of 7.5%. On this basis, the System's funded status is 63.6% as of December 31, 2011. The funded status is based on a market value of assets of $223,291,826 and an accrued liability of $351,318,317.

Funded Status Sensitivity

The following table summarizes the impact of a +/- 1% change in assumed interest rate on the actuarial value funded status:

Change in Interest Rate	Increase/(Decrease) in Actuarial Value Funded Status
+1%	7.3%
-1%	(7.1%)

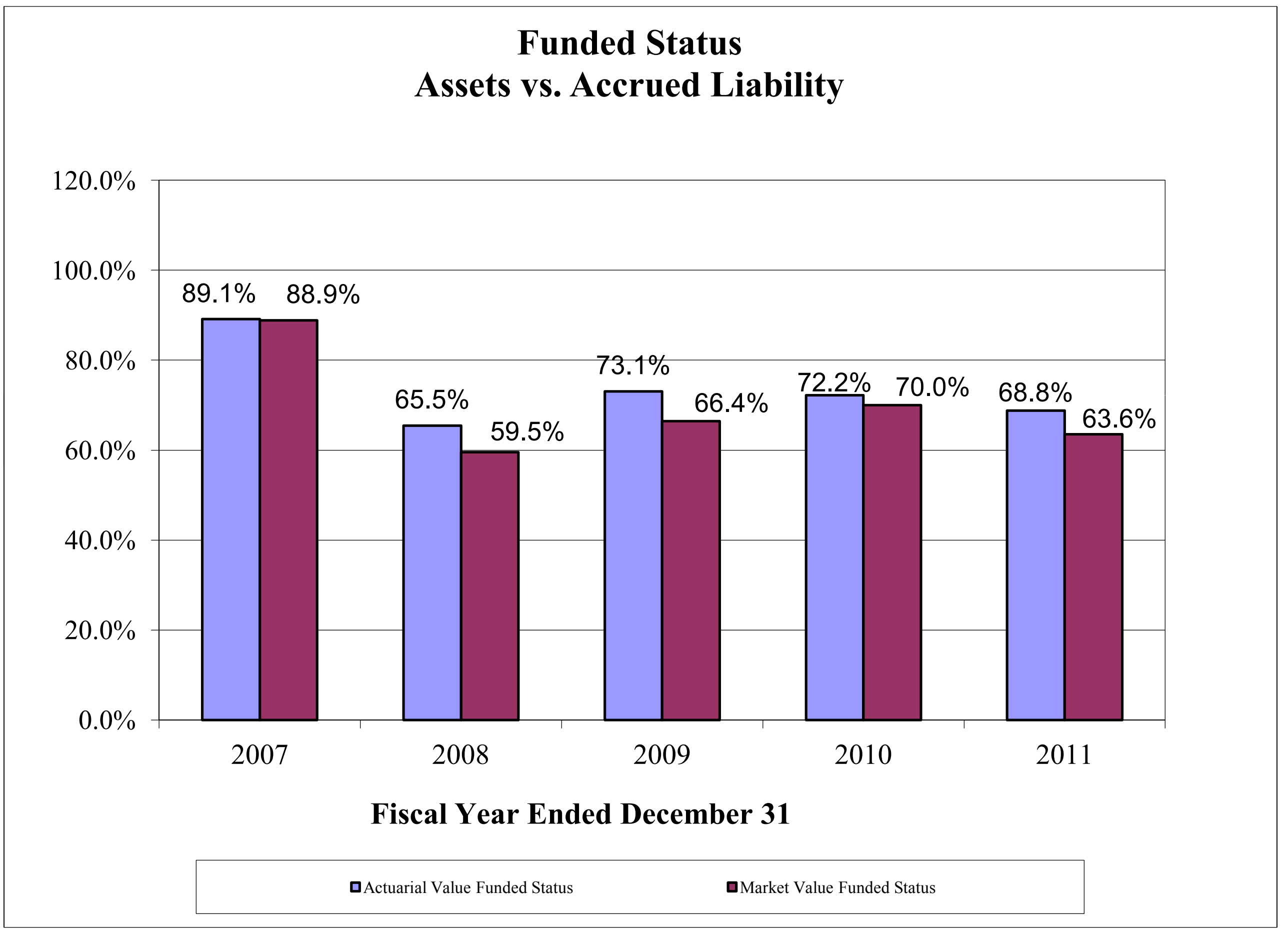
Reasons for Change in Funded Status

The actuarial value funded status decreased from 72.2% as of December 31, 2010 to 68.8% as of December 31, 2011. The market value funded status decreased from 70.0% as of December 31, 2010 to 63.6% as of December 31, 2011. The primary reason for the decline in both the actuarial value funded status and the market value funded status was a lower than expected return on investments.

Summary of Valuation Results (continued)

Five-Year History of Funded Status
(Assets vs. Accrued Liability)

Fiscal	Funded Status	
Year Ending	Actuarial Basis	Market Basis
2007	89.1%	88.9%
2008	65.5%	59.5%
2009	73.1%	66.4%
2010	72.2%	70.0%
2011	68.8%	63.6%



The Actuarial Funded Status is based on the Smoothed Fair Value of Assets described in Table 16 of this report.

Summary of Valuation Results (continued)

Rate of Return

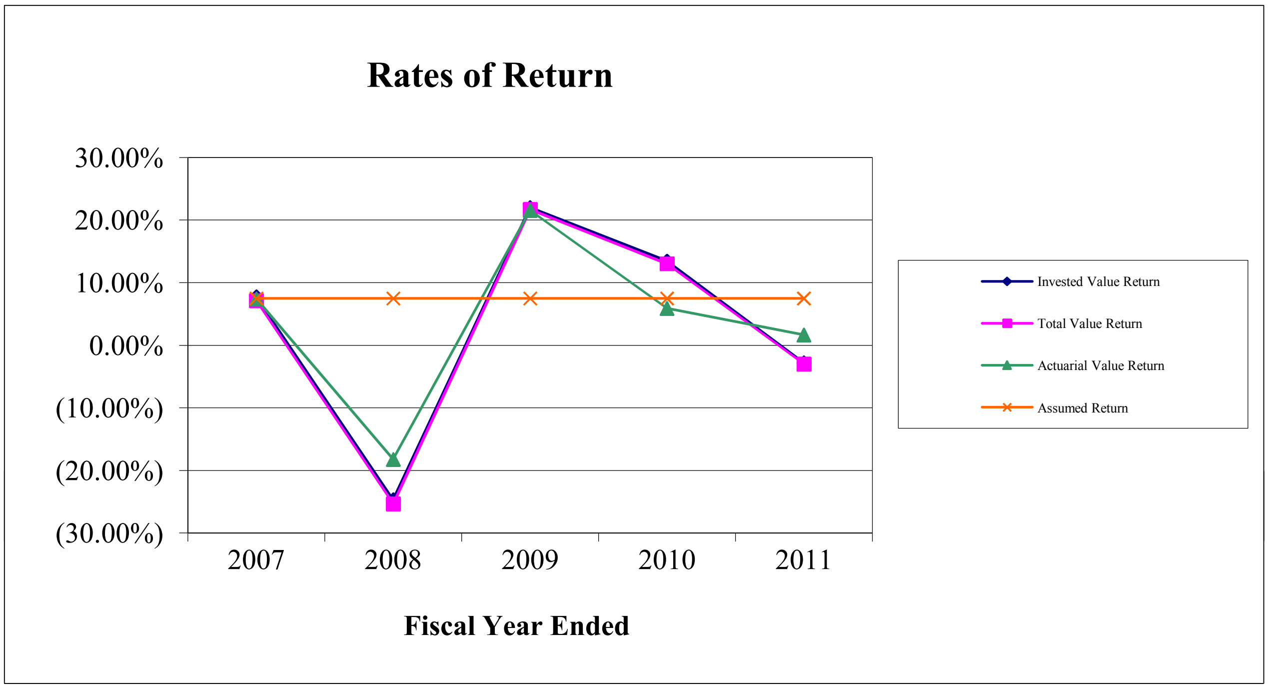
The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) based on the market value of invested assets for the fiscal year ended December 31, 2011 was -2.80%. However, since some contributions go directly to paying benefits and are never invested in the trust, the net investment return on total assets of the System was -2.98%. The investment return on the smoothed fair value of assets was 1.65%. The expected rate of return was 7.50%.

The smoothed fair value of assets is determined using a method that is designed to smooth the impact of market fluctuations. Unlike the market value, which immediately reflects all investment gains and losses during the year, the smoothed fair value recognizes annual appreciation and depreciation over a five-year period.

Summary of Valuation Results (continued)

Five-Year History of Rates of Return

Fiscal Year	Rate of Return on Assets			
Ending	Invested	Total	Actuarial	Assumed
2007	7.76%	7.12%	7.42%	7.50%
2008	(24.68%)	(25.33%)	(18.22%)	7.50%
2009	21.99%	21.72%	21.57%	7.50%
2010	13.47%	13.04%	5.91%	7.50%
2011	(2.80%)	(2.98%)	1.65%	7.50%



Supporting Information

The remainder of the report is comprised of the following sections or schedules:

Table 1	Demographics
Table 2	Asset Information
Table 3	Accrued Liability and Funded Status
Table 4	Actuarial (Gain)/Loss
Table 5	Amortization Schedule
Table 6	Normal Cost
Table 7	Contribution Summary
Table 8	Schedule of Funding Progress
Table 9	Schedule of Employer Contributions
Table 10	Historical Summary of Fund Additions and Deductions
Table 11	Schedule of Membership
Table 12	Schedule of Active Members Valuation Data
Table 13	Schedule of Retirees Added to and Removed from Rolls
Table 14	Schedule of Retired Members by Type of Benefit; Schedule of Benefit Payments by Type
Table 15	Schedule of Average Annual Benefit Payments
Table 16	Description of Actuarial Assumptions and Methods
Table 17	Summary of Benefit and Contribution Provisions
Appendix	Data Tables

Table 1

DEMOGRAPHICS

	2011	2010	Increase/ (Decrease)
Number of Members:			
Retirees	962	936	26
Beneficiaries	117	114	3
Disabled	9	10	(1)
Terminated Vested	55	63	(8)
Portables	29	27	2
Active	1,491	1,516	(25)
Total Members	2,663	2,666	(3)
Projected Compensation for Coming Year	90,264,062	88,093,679	2,170,383
Average Compensation for Coming Year	60,539	58,109	2,430
Average Age (Active Members)	48.68	48.27	0.41
Average Service (Active Members)	12.49	12.03	0.46
Annual Retirement Allowance	17,655,333	16,875,122	780,211
Average Annual Retirement Allowance	16,227	15,920	307
Average Monthly Retirement Allowance	1,352	1,327	25

Table 2

ASSET INFORMATION

Statement of Net Assets as of December 31, 2011

1. Cash & Short-Term Investments		999,805
2. Investments		
a. U. S. Fixed Income	24,903,654	
b. International/Global Fixed Income	12,617,500	
c. U. S. Equities	90,035,884	
d. Real Estate	8,968,401	
e. International Equities	41,073,289	
f. Alternatives	44,351,799	
g. Total Investments		221,950,527
3. Receivables		
a. Accrued Interest and Dividends	41,567	
b. Taxes	0	
c. Other	14,808	
d. Total Receivables		56,375
4. Other Assets		360,873
5. Liabilities		
a. Accounts Payable	(39,724)	
b. Salary & Benefits	(19,841)	
c. Other	(16,189)	
d. Total Liabilities		(75,754)
6. Total Market Value of Net Assets		223,291,826

Table 2

ASSET INFORMATION

Market Value Reconciliation

1. Total Market Value of Net Assets, 12/31/2010		234,311,002
2. Audit Adjustment		-
3. Contributions		
a. Employer	6,799,258	
b. Employee	6,831,742	
c. Total Contributions		13,631,000
4. Investment Earnings		
a. Interest & Dividends & Other Income	3,673,522	
b. Realized & Unrealized Gain/(Loss)	(9,717,351)	
c. Investment Expenses	(396,317)	
d. Total Investment Earnings		(6,440,146)
5. Benefit Payments		
a. Benefits	(17,216,853)	
b. Refund of Contributions	(502,566)	
c. Total Benefit Payments		(17,719,419)
6. Administrative Expenses		(490,611)
7. Total Market Value of Net Assets, 12/31/2011		223,291,826
8. Approximate Rate of Return on Total Assets		-2.98%
9. Approximate Rate of Return on Invested Assets		-2.80%

Table 2

ASSET INFORMATION

Smoothed Fair Value of Net Assets Determination

1. Total Market Value of Net Assets, 12/31/2010	234,311,002
2. Expected Return for Plan Year	17,422,781
3. Actual Return for Plan Year	(6,930,757)
4. Total Market Value of Net Assets, 12/31/2011	223,291,826

5. Determination of Deferred Gain (Loss)

Fiscal Year	Actual vs. Expected Return	Amount Recognized This Year	Portion Deferred	Deferred Amount
2011	(24,353,538)	(4,870,708)	4/5	(19,482,830)
2010	11,570,454	2,314,091	3/5	6,942,272
2009	24,798,837	4,959,767	2/5	9,919,535
2008	(78,490,063)	(15,698,013)	1/5	(15,698,013)
2007	(882,764)	(176,553)	0/5	0
Total	(67,357,074)	(13,471,416)		(18,319,036)

6. Preliminary Smoothed Fair Value of Net Assets (4. - 5.)	241,610,862
7. Ratio of Preliminary Smoothed Fair Value to Market Value	108.20%
8. Smoothed Fair Value of Net Assets (7., but not less than 90% nor more than 110% of 4.)	241,610,862
9. Ratio of Smoothed Fair Value to Market Value	108.20%
10. Approximate Rate of Return on Smoothed Fair Value of Net Assets	1.65%

Table 3

ACCRUED LIABILITY AND FUNDED STATUS

1. Accrued Liability prior to Changes in Benefit Provisions and Assumptions		
a. Active	174,140,113	
b. Terminated Vested & Portables	7,461,381	
c. Retirees	158,086,692	
d. Beneficiaries	10,409,708	
e. Disableds	1,220,423	
f. Total Accrued Liability prior to Changes		351,318,317
2. Actuarial Value of Assets prior to Plan Changes		241,610,862
3. Unfunded Accrued Liability prior to Changes (1.f. - 2.)		109,707,455
4. Change in Unfunded Accrued Liability		
a. Due to Changes in Plan Provisions	0	
b. Due to Changes in Assumptions	0	
c. Due to Change in Asset Method	0	
d. Total Change in Unfunded Accrued Liability		0
5. Actual Unfunded Accrued Liability (3. + 4.c.)		109,707,455
6. Funded Liability Percentage as of December 31, 2011		68.8%

Table 4

ACTUARIAL (GAIN)/LOSS

1. Increase (decrease) in Unfunded Accrued Liability

a. Unfunded Accrued Liability, prior year	93,101,177
b. Projected Unit Credit Normal Cost (excluding expenses)	10,113,201
c. Contributions	13,631,000
d. Interest	7,239,157
e. Expected Unfunded Accrued Liability, current year (a. + b. - c. + d.)	96,822,535
f. Actual Unfunded Accrued Liability, current year before benefit and assumption changes	109,707,455
g. (Gain)/Loss (f. -e.)	12,884,920

2. Reasons for (Gain)/Loss

a. Investment Return on Smoothed Fair Value of Assets	14,029,184
b. Other	(1,144,264)
c. Total	12,884,920

Table 5

AMORTIZATION SCHEDULE*

Date Established	Source	Initial Amount	Remaining Balance	Years to Amortize	Required Payment
12/31/2011	Actuarial Loss	12,884,920	12,884,920	30	666,380
12/31/2010	Actuarial Loss	4,665,041	4,859,700	29	256,411
12/31/2010	Plan Amendment	(159,269)	(165,915)	29	(8,754)
12/31/2009	Actuarial Gain	(19,699,834)	(21,256,900)	28	(1,145,492)
12/31/2009	Plan Amendment	9,584	10,343	28	557
12/31/2008	Plan Amendment	940,216	1,046,816	27	57,682
12/31/2008	Actuarial Loss	71,000,670	79,050,697	27	4,355,914
12/31/2007	Unfunded Liability	29,586,848	33,277,794	26	1,877,460
Total		99,228,176	109,707,455		6,060,158

* Effective December 31, 2007, a fresh start amortization base was established equal to the excess of the actuarial liability over the smoothed fair value of assets.

Table 6

NORMAL COST

1. Normal Cost for All Benefits	10,446,192
2. Offset for Employee Contributions	(6,995,465)
3. Estimated Expenses	500,000
4. Total	3,950,727

Table 7

CONTRIBUTION SUMMARY

1. Annual Required Contribution Amount		
a. Normal Cost	3,950,727	
b. Amortization Charges	6,060,158	
c. Total		10,010,885
2. Annual Required Contribution Rate		
a. Normal Cost	4.38%	
b. Amortization Charges	6.71%	
c. Total		11.09%
3. Projected Pay for the Upcoming Year		90,264,062

Table 8

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	UAL as a % of Covered Payroll
12/31/02	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/03	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/04	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/05	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/06	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%
12/31/07	242,615,032	272,201,880	29,586,848	89.13%	69,261,673	42.72%
12/31/08	193,314,245	295,223,177	101,908,932	65.48%	74,183,014	137.38%
12/31/09	231,996,796	317,577,485	85,580,689	73.05%	83,455,429	102.55%
12/31/10	241,747,915	334,849,092	93,101,177	72.20%	88,093,679	105.68%
12/31/11	241,610,862	351,318,317	109,707,455	68.77%	90,264,062	121.54%

Table 9

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(GASB 27 Annual Required Contribution effective with fiscal year ended 12/31/98)

Fiscal Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage of ARC Contributed	Annual Excess/ (Shortfall)	Annual Pension Cost*	Percentage of APC Contributed	Net Pension Obligation**
12/31/2002	3,569,284	3,919,254	109.81%	349,970	3,789,014	103.44%	(2,101,159)
12/31/2003	4,547,346	4,017,431	88.35%	(529,915)	4,471,792	89.84%	(1,646,798)
12/31/2004	5,867,117	4,095,810	69.81%	(1,771,307)	5,811,040	70.48%	68,432
12/31/2005	6,015,711	4,148,874	68.97%	(1,866,837)	6,018,087	68.94%	1,937,645
12/31/2006	6,231,299	4,287,457	68.81%	(1,943,842)	6,298,582	68.07%	3,948,770
12/31/2007	5,742,761	4,518,363	78.68%	(1,224,398)	5,834,697	77.44%	5,265,104
12/31/2008	8,826,967	4,875,443	55.23%	(3,951,524)	8,949,550	54.48%	9,339,211
12/31/2009	8,267,280	6,474,432	78.31%	(1,792,848)	8,484,717	76.31%	11,349,496
12/31/2010	8,955,055	6,580,795	73.49%	(2,374,260)	9,219,296	71.38%	13,987,997
12/31/2011	10,010,885	6,799,258	67.92%	(3,211,627)	10,336,556	65.78%	17,525,295

* Amortization of prior year's Net Pension Obligation, with interest, plus ARC

** Prior Year Net Pension Obligation plus Annual Pension Cost minus Actual Employer Contribution

Table 10

HISTORICAL SUMMARY OF FUND ADDITIONS AND DEDUCTIONS

ADDITIONS BY SOURCE

Fiscal Year Ended	Employer Contributions as a Percent of Payroll	Employer Contributions	Employee Contributions	Net Investment Income	Total
12/31/02	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
12/31/03	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
12/31/04	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
12/31/05	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
12/31/06	6.72%	4,287,457	4,336,560	21,140,066	29,764,083
12/31/07	6.72%	4,518,363	4,518,363	16,715,588	25,752,314
12/31/08	6.72%	4,875,443	4,882,622	(59,972,361)	(50,214,296)
12/31/09	7.75%	6,474,432	6,637,872	38,442,846	51,555,150
12/31/10	7.75%	6,580,795	6,618,558	27,752,165	40,951,518
12/31/11	7.75%	6,799,258	6,831,742	(6,440,146)	7,190,854

DEDUCTIONS BY TYPE

Fiscal Year Ended	Benefit Payments	Refunds	Admin Expenses	Total
12/31/02	10,042,276	488,945	410,833	10,942,054
12/31/03	10,599,607	461,226	485,370	11,546,203
12/31/04	11,109,084	576,433	494,831	12,180,348
12/31/05	12,404,497	605,600	457,798	13,467,895
12/31/06	13,322,042	492,193	412,824	14,227,059
12/31/07	14,253,955	717,005	448,654	15,419,614
12/31/08	15,002,061	370,947	581,294	15,954,302
12/31/09	15,509,868	315,919	563,408	16,389,195
12/31/10	16,547,561	493,911	505,222	17,546,694
12/31/11	17,216,853	502,566	490,611	18,210,030

Table 11

SCHEDULE OF MEMBERSHIP

Fiscal Year Ended	Active Members	Terminated Vested Members	Service Retirees and Beneficiaries	Disabled Retirees	Total Retirees	Total Members
12/31/99	1,467	70	739	18	757	2,294
12/31/01	1,475	69	789	16	805	2,349
12/31/03	1,457	72	825	13	838	2,367
12/31/05	1,387	84	917	13	930	2,401
12/31/06	1,414	95	955	13	968	2,477
12/31/07	1,425	99	995	13	1,008	2,532
12/31/08	1,492	94	1,008	11	1,019	2,605
12/31/09	1,501	89	1,041	10	1,051	2,641
12/31/10	1,516	90	1,050	10	1,060	2,666
12/31/11	1,491	84	1,079	9	1,088	2,663

Table 12

SCHEDULE OF ACTIVE MEMBERS VALUATION DATA

Fiscal Year Ended	Active Members	Covered Payroll	Average Payroll Rate	Annual Percentage Increase in Average Payroll Rate
12/31/1999	1,467	54,142,268	36,907	3.53%
12/31/2001	1,475	59,292,582	40,198	4.36%
12/31/2003	1,457	61,380,769	42,128	2.37%
12/31/2005	1,387	64,061,964	46,187	4.71%
12/31/2006	1,414	67,750,706	47,914	3.74%
12/31/2007	1,425	69,261,673	48,605	1.44%
12/31/2008	1,492	74,183,014	49,721	2.30%
12/31/2009	1,501	83,455,429	55,600	11.82%
12/31/2010	1,516	88,093,679	58,109	4.51%
12/31/2011	1,491	90,264,062	60,539	4.18%

Table 13

SCHEDULE OF RETIREES ADDED TO AND REMOVED FROM ROLLS

Fiscal Year Ended	Added	Annual Allowances Added	Removed	Annual Allowances Removed	Total	Annual Allowances	Percent Change	Average Annual Allowances	Retirees as Percent of Active Members	
									Number	Pay
12/31/2006	71	1,252,138	34	339,133	968	13,645,458	N/A	14,097	68.5%	20.1%
12/31/2007	75	1,389,758	35	353,060	1,008	14,682,156	7.6%	14,566	70.7%	21.2%
12/31/2008	50	830,767	39	357,857	1,019	15,155,066	3.2%	14,872	68.3%	20.4%
12/31/2009	70	1,586,201	38	414,388	1,051	16,326,879	7.7%	15,535	70.0%	19.6%
12/31/2010	52	1,103,228	43	554,985	1,060	16,875,122	3.4%	15,920	69.9%	19.2%
12/31/2011	66	1,326,502	38	546,291	1,088	17,655,333	4.6%	16,227	73.0%	19.6%

Table 14

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*			Option Selected**						
		1	2	3	LIFE	C1	C2	C3	C4	D	E
1 - 100	2	2	0	0	2	0	0	0	0	0	0
101 - 200	19	14	0	5	4	0	0	0	0	2	13
201 - 300	28	25	0	3	17	2	1	0	0	3	5
301 - 400	51	39	0	12	25	1	0	0	1	6	18
401 - 500	69	55	1	13	34	0	0	1	1	9	24
501 - 600	58	51	0	7	37	0	1	1	0	3	16
601 - 700	63	54	1	8	30	1	0	0	0	9	23
701 - 800	59	50	1	8	33	0	0	0	1	9	16
801 - 900	55	48	1	6	36	0	1	0	0	5	13
901 - 1,000	59	52	0	7	23	3	1	0	0	10	22
1,001 - 1,500	219	187	4	28	104	1	2	1	1	28	82
1,501 - 2,000	178	163	1	14	84	0	0	0	1	27	66
Over 2,000	228	222	0	6	92	7	0	1	0	51	77
Total	1,088	962	9	117	521	15	6	4	5	162	375

*Type of Retirement:
1 Service Retirement
2 Disability Retirement
3 Beneficiary

**Option Selected:

Life	Remaining accumulated balance paid to beneficiary
Opt. C1	60 months guaranteed
Opt. C2	120 months guaranteed
Opt. C3	180 months guaranteed
Opt. C4	240 months guaranteed
Opt. D	50% continuation to beneficiary
Opt. E	100% continuation to beneficiary

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended	Service Retirement	Disability Retirement	Beneficiaries	Refunds	Total Benefits
12/31/2001	8,395,024	152,803	823,870	480,050	9,851,747
12/31/2002	9,047,124	145,753	849,399	488,945	10,531,221
12/31/2003	9,557,946	142,349	899,312	461,226	11,060,833
12/31/2004	10,058,421	150,494	900,169	576,433	11,685,517
12/31/2005	11,313,520	148,355	942,622	605,600	13,010,097
12/31/2006	12,189,473	143,990	988,579	492,193	13,814,235
12/31/2007	13,115,104	143,990	994,861	717,005	14,970,960
12/31/2008	13,835,194	136,093	1,030,774	370,947	15,373,008
12/31/2009	14,341,682	130,868	1,037,317	315,919	15,825,786
12/31/2010	15,302,791	120,261	1,124,509	493,911	17,041,472
12/31/2011	15,863,198	113,271	1,240,384	502,566	17,719,419

Table 15

SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENTS

Fiscal Year Ended	Service Retirement and Beneficiaries	Disability Retirement	Total	Annual Percentage Increase in Average Benefits
12/31/2001	11,684	9,550	11,642	6.43%
12/31/2003	12,675	10,950	12,649	4.24%
12/31/2005	13,365	11,412	13,338	2.69%
12/31/2006	13,799	11,076	13,762	3.18%
12/31/2007	14,181	11,076	14,141	2.75%
12/31/2008	14,748	12,372	14,722	4.11%
12/31/2009	14,773	13,087	14,757	0.24%
12/31/2010	15,645	12,026	15,611	5.79%
12/31/2011	15,851	12,586	15,824	1.36%

Table 16

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Cost Method

The actuarial cost method used to determine the actuarial accrued liability and the normal cost is the Projected Unit Credit (PUC) Actuarial Cost Method. The accrued liability and the normal cost are used to determine the City's contribution requirement. Under this method, a PUC accrued benefit is determined for each active member in the plan on the basis of the member's average final compensation projected to the assumed date of retirement and the member's creditable service at the valuation date. The actuarial accrued liability for retirement benefits is the sum of the actuarial present value of the PUC accrued benefit for each active member. The normal cost for retirement benefits is the sum of the actuarial present value of the expected increase in the PUC accrued benefit during the plan year for each active member under the assumed retirement age.

The actuarial accrued liability and normal cost for termination benefits, disability benefits, and pre-retirement spouse's death benefits are determined in a similar manner by projecting the member's average final compensation to each assumed date of termination, disablement, or death.

The actuarial accrued liability for inactive members is determined as the actuarial present value of the benefits expected to be paid; no normal cost is determined for these members.

Unless otherwise specified, the following actuarial assumptions and methods were adopted December 31, 2007.

Actuarial Assumptions

Mortality:	Healthy Lives	1994 Group Annuity Mortality Static Table
	Disabled Lives	1994 Group Annuity Mortality Static Table
Interest:	7.5% per annum, compounded annually	
Turnover:	In accordance with the following table based on service:	

Years of Service	Turnover Probability
<3	8.0%
3-6	5.0%
7-9	4.0%
10-14	3.0%
15+	2.0%

Table 16

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

Retirement: In accordance with the following table based on age:

Age	Retirement Probability
<50	0.0%
50	8.0%
51	7.0%
52	6.0%
53-54	5.0%
55	9.0%
56	8.0%
57-60	7.0%
61	10.0%
62	20.0%
63-65	25.0%
66	30.0%
67-68	35.0%
69-70	40.0%
71	45.0%
72	50.0%
73+	100.0%

Disability: None assumed

Salary Increases: In accordance with the following table based on service:

Years of Service	Annual Increase
<2	10.0%
2-3	8.0%
4-15	3.5%
16+	3.0%

Inflation Rate: 3.00% per year

Non-Investment Expenses: Prior year's actual amount rounded up to next $100,000

Family Composition: 75% of employees are assumed to be married with males assumed to be four years older than their spouses.

Asset Valuation Basis

Smoothed fair value of assets, which is the Market Value with a five year averaging of the difference between actual and expected investment performance subject to the restriction that the smoothed fair value of assets must not be less than 90% nor greater than 110% of Market Value.

Table 17

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Outlined on the following pages are the principal features of the Plan reflected in the 2011 valuation.

Definitions:

Creditable Service	Service credited as an employee of the City of Spokane during which contributions were made as an eligible member of the Retirement System up to a maximum of 35 years. The maximum is 30 years for employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula.
Service Buy-Back	A six-month window was opened from October 1, 2009 through March 31, 2010 during which members who had withdrawn their retirement accumulations and not elected to buy back prior service time could do so. Future rehired employees will have one year from their date of rehire to elect to buy back prior service time
Compensation	Total amount received by an employee including base pay, shift differential, overtime, holiday pay, hazardous duty pay and out-of-classification pay and not reduced by salary reduction contributions to the City's cafeteria plan or Section 457 plan.
Final Compensation	The highest average annual Compensation received by a member during any two consecutive years.
Normal Retirement Date	The first day of the month coinciding with or next following the attainment of age 62 and completion of 5 years of Creditable Service.
Early Retirement Date	The first day of the month coinciding with or next following the attainment of age 50 and with the sum of age plus Creditable Service greater than or equal to 75. Employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below may retire after attainment of age 50 with 5 years of Creditable Service.
Member Contributions	7.75% of Compensation is required to be paid by the members. These contributions are credited with 4% interest annually, compounded quarterly.

Table 17

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Service Retirement Eligibility:

A member is eligible for normal retirement on his Normal Retirement Date. Early retirement is permitted at any time after attaining age 50 if the sum of age plus Creditable Service is greater than or equal to 75. Early retirement is permitted at any time after attaining age 50 with 5 years of Credited Service for employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below.

Service Retirement Allowance:

Upon service retirement, a member becomes eligible to receive an annual allowance, payable in equal monthly installments. The annual allowance is computed as follows:

Normal Retirement Allowance under Alternate Benefit Formula

Applies to all employees hired after January 1, 2009. Employees hired before January 1, 2009 who terminate after January 1, 2009 may elect this formula at retirement.

An amount equal to 2.00% of the member's Final Compensation, multiplied by the number of years of Creditable Service up to 35 years. The maximum annual benefit is 70.0% of Final Compensation.

Normal Retirement Allowance under Benefit Formula in SMC 3.05.160

Employees hired before January 1, 2009 who terminate after January 1, 2009 may elect this formula at retirement.

An amount equal to 2.15% of the member's Final Compensation, multiplied by the number of years of Creditable Service up to 30 years. The maximum annual benefit is 64.5% of Final Compensation.

Early Retirement Allowance

The Normal Retirement Allowance calculated using Creditable Service and Final Compensation as of the member's Early Retirement Date.

Disability Retirement Eligibility:

Permanent and total disability, as determined by the Board, prior to age 62 provided the member has at least 5 years of City service in the ten-year period prior to disability. The 5 year service requirement does not apply if the disability is due to accidental causes while engaged in City service.

Disability Retirement Allowance:

An amount equal to 1.25% of the member's Final Compensation, multiplied by the number of years of Creditable Service projected to age 62. The minimum annual benefit is $2,400 per year for "Duty Related" disability and $1,200 per year for "Non-duty Related" disability.

Table 17

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Withdrawal Benefits:

If termination occurs after five years of service, a member is entitled to a retirement allowance commencing on his Early Retirement Date or later, up to his Normal Retirement Date, based on his years of Creditable Service and Final Compensation as of his termination date provided he has not withdrawn his Member Contributions.

Death Benefit Before Retirement:

Not married or not completed 5 years of service

Beneficiary will receive a refund of the member's contributions with interest.

Married with 5 years of service

The surviving spouse of a member may elect to receive the survivor's portion of the benefit that would have been payable if the member had survived to his earliest retirement date and elected the 100% Joint & Survivor option in lieu of a refund of the member's contribution account.

Post-retirement Death:

An amount determined in accordance with the optional form of payment elected at retirement, but not less than the accumulated value of the member's contributions with interest less actual payments made.

Appendix - Data Tables

Exhibit A	Summary of Membership Data as of December 31, 2011
Exhibit B	20 Year Benefit Payment Projections
Exhibit C	Age and Service Distributions
Exhibit D	Age, Salary and Service Distributions
Exhibit E	Average Benefits for Service Retirement
Exhibit F	Average Benefits for Survivor Beneficiary
Exhibit G	Average Benefits for Disability Retirement
Exhibit H	Average Benefits for Vested Terminations
Exhibit I	Average Benefits for Portables

EXHIBIT A

Summary of Membership Data as of December 31, 2011

Active Members

Item	Male	Female	Total
Number of Members	972	519	1,491
Annual Salaries	$58,126,689	$28,306,190	$86,432,879
Average Age	48.3	49.5	48.7
Average Service	12.8	12.0	12.5

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2011

Retirees and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Retired Members	962	$16,233,752	$16,875
Survivor Annuitants	117	$1,308,962	$11,188
Disabled Annuitants	9	$112,619	$12,513
Total Annuitants	1,088	$17,655,333	$16,227

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2011

Vested Terminations and Portables

Item	Number	Annual Annuities	Average Annuities
Vested Terminations	55	$614,882	$11,180
Portables*	29	$167,044	$5,760

* Annuity amounts are estimates based on last known earnings projected to retirement. Actual annuity amounts will be calculated using actual earnings at retirement.

EXHIBIT B

20 Year Benefit Payment Projection

Spokane Employees' Retirement System

Year Ended December 31	Current and Future Retirees	Current Retirees Only
2012	$20,757,537	$17,519,021
2013	22,277,577	17,209,579
2014	23,776,412	16,885,437
2015	25,115,049	16,512,856
2016	26,470,402	16,157,088
2017	27,602,755	15,784,134
2018	28,619,466	15,398,457
2019	29,496,535	15,000,573
2020	30,237,103	14,589,682
2021	30,876,983	14,166,319
2022	31,394,281	13,730,426
2023	31,738,130	13,282,113
2024	31,936,544	12,821,452
2025	32,019,290	12,348,538
2026	31,967,776	11,863,593
2027	31,804,926	11,367,041
2028	31,527,336	10,859,582
2029	31,134,907	10,342,214
2030	30,634,243	9,815,482
2031	30,034,166	9,282,439

EXHIBIT C

Age and Service Distribution

Spokane Employees' Retirement System

Attained	Years of Creditable Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	Total
Under 25	1	5	0	0	0	0	0	0	0	0	6
25 to 29	7	40	11	0	0	0	0	0	0	0	58
30 to 34	14	56	44	8	0	0	0	0	0	0	122
35 to 39	9	53	38	30	2	0	0	0	0	0	132
40 to 44	6	55	43	59	23	5	0	0	0	0	191
45 to 49	9	34	50	47	52	36	3	0	0	0	231
50 to 54	4	37	45	39	44	48	15	9	0	0	241
55 to 59	4	42	35	45	44	44	24	22	5	0	265
60 to 64	3	14	23	36	25	30	13	19	19	1	183
65 to 69	0	3	9	10	10	3	5	3	4	1	48
70 & Up	0	1	0	5	1	4	0	1	0	2	14
Total	57	340	298	279	201	170	60	54	28	4	1,491
Freq. Pct.	3.8%	22.8%	20.0%	18.7%	13.5%	11.4%	4.0%	3.6%	1.9%	0.3%	100.0%

EXHIBIT D

Age, Salary and Service Distribution

Spokane Employees' Retirement System

Attained Age	Years of Creditable Service Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	Total
Under 25	34,360	226,111	0	0	0	0	0	0	0	0	260,472
25 to 29	220,713	1,887,175	452,571	0	0	0	0	0	0	0	2,560,459
30 to 34	636,354	2,831,581	2,380,387	459,947	0	0	0	0	0	0	6,308,269
35 to 39	341,860	2,645,513	2,185,015	1,804,732	83,892	0	0	0	0	0	7,061,012
40 to 44	220,913	2,808,566	2,579,959	3,807,631	1,333,131	265,064	0	0	0	0	11,015,264
45 to 49	410,096	1,707,007	2,890,546	2,894,957	3,274,101	2,289,249	199,953	0	0	0	13,665,909
50 to 54	211,771	1,905,062	2,810,411	2,695,051	2,669,583	3,055,537	993,276	524,945	0	0	14,865,637
55 to 59	133,877	2,289,860	2,161,495	2,579,711	2,569,181	2,662,954	1,522,715	1,422,120	392,583	0	15,734,497
60 to 64	70,200	834,227	1,311,426	2,112,047	1,500,164	1,898,685	833,309	1,215,191	1,420,725	47,486	11,243,461
65 to 69	0	272,126	461,347	572,658	650,762	192,496	289,743	220,943	237,474	51,189	2,948,738
70 & Up	0	44,075	0	285,420	43,493	189,773	0	92,230	0	114,171	769,162
Total	2,280,144	17,451,305	17,233,157	17,212,153	12,124,307	10,553,757	3,838,996	3,475,429	2,050,783	212,847	86,432,879
Freq. Pct.	2.6%	20.2%	19.9%	19.9%	14.0%	12.2%	4.4%	4.0%	2.4%	0.2%	100.0%
Avg. Sal.	40,003	51,327	57,829	61,692	60,320	62,081	63,983	64,360	73,242	53,212	57,970

EXHIBIT E

Average Benefits for Service Retirement

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	23	18,419	18	14,162	41	16,550
55 to 59	76	20,021	53	16,188	129	18,446
60 to 64	134	20,584	71	14,676	205	18,538
65 to 69	123	21,865	78	13,158	201	18,486
70 to 74	88	20,649	54	12,105	142	17,400
75 to 79	67	15,320	33	12,367	100	14,345
80 to 84	42	14,876	19	13,203	61	14,355
85 to 89	25	13,292	24	9,376	49	11,374
90 to 94	20	9,609	9	9,565	29	9,596
95 & Up	2	9,867	3	7,794	5	8,623
Total	600	19,009	362	13,338	962	16,875
Average Age	68.7		68.5		68.6	
Freq. Pct.	62.4%		37.6%		100.0%	

EXHIBIT F

Average Benefits for Survivor Beneficiary

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	0	0	3	13,439	3	13,439
55 to 59	1	9,123	9	10,804	10	10,636
60 to 64	0	0	10	13,534	10	13,534
65 to 69	0	0	9	13,924	9	13,924
70 to 74	0	0	18	12,821	18	12,821
75 to 79	3	6,973	27	11,788	30	11,307
80 to 84	0	0	15	10,481	15	10,481
85 to 89	0	0	10	8,738	10	8,738
90 to 94	0	0	9	8,423	9	8,423
95 & Up	0	0	3	3,748	3	3,748
Total	4	7,511	113	11,318	117	11,188
Average Age	71.3		75.3		75.2	
Freq. Pct.	3.4%		96.6%		100.0%	

EXHIBIT G

Average Benefits for Disability Retirement

Spokane Employees' Retirement System

Attained Age	Male Number	Male Avg. Ben.	Female Number	Female Avg. Ben.	Total Number	Total Avg. Ben.
Under 50	0	0	1	19,080	1	19,080
50 to 54	1	8,918	0	0	1	8,918
55 to 59	2	16,981	0	0	2	16,981
60 to 64	0	0	2	9,296	2	9,296
65 to 69	2	9,584	1	12,898	3	10,689
70 to 74	0	0	0	0	0	0
75 to 79	0	0	0	0	0	0
80 to 84	0	0	0	0	0	0
85 to 89	0	0	0	0	0	0
90 to 94	0	0	0	0	0	0
95 & Up	0	0	0	0	0	0
Total	5	12,410	4	12,643	9	12,513
Average Age	59.8		58.3		59.1	
Freq. Pct.	55.6%		44.4%		100.0%	

EXHIBIT H

Average Benefits for Vested Terminations

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 30	0	0	0	0	0	0
30 to 34	0	0	1	6,672	1	6,672
35 to 39	3	9,784	2	8,583	5	9,304
40 to 44	8	8,124	5	7,754	13	7,982
45 to 49	14	11,962	13	14,059	27	12,972
50 to 54	1	13,589	4	11,271	5	11,734
55 to 59	1	19,347	3	9,891	4	12,255
60 to 64	0	0	0	0	0	0
65 & Up	0	0	0	0	0	0
Total	27	10,917	28	11,433	55	11,180
Average Age	45.1		46.9		46.0	
Freq. Pct.	49.1%		50.9%		100.0%	

EXHIBIT I

Average Benefits for Portables

Spokane Employees' Retirement System

Attained Age	Male Number	Male Avg. Ben.*	Female Number	Female Avg. Ben.*	Total Number	Total Avg. Ben.*
Under 30	0	0	0	0	0	0
30 to 34	1	532	0	0	1	532
35 to 39	1	2,240	1	1,754	2	1,997
40 to 44	3	3,272	3	3,368	6	3,320
45 to 49	4	6,660	1	7,207	5	6,770
50 to 54	0	0	3	9,636	3	9,636
55 to 59	2	4,478	1	50	3	3,002
60 to 64	2	3,571	6	10,408	8	8,698
65 & Up	1	1,249	0	0	1	1,249
Total	14	4,041	15	7,365	29	5,760
Average Age	49.9		52.8		51.4	
Freq. Pct.	48.3%		51.7%		100.0%	

* Annuity amounts are estimates based on last known earnings projected to retirement. Actual annuity amounts will be calculated using actual earnings at retirement.

Statistical Section

Schedule of Revenues by Source

Fiscal Year	Employer Contribution	Employer Contributions	Member Contributions	Net Investment Income	Total Revenues
1996	6.72%	$3,153,824	$3,153,849	$12,001,154	$18,308,827
1997	6.72%	3,255,914	3,255,940	17,724,510	24,236,364
1998	6.72%	3,514,958	3,525,057	15,109,664	22,149,679
1999	6.72%	3,643,468	3,655,819	18,454,642	25,753,929
2000	6.72%	3,715,600	3,715,600	10,470,991	17,902,191
2001	6.72%	3,894,757	3,895,131	(1,820,109)	5,969,779
2002	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
2003	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
2004	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
2005	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
2006	6.72%	4,287,457	4,336,560	21,140,066	29,764,083
2007	6.72%	4,518,363	4,518,363	16,715,588	25,752,314
2008	6.72%	4,875,443	4,882,622	(59,972,361)	(50,214,296)
2009	7.75%	6,474,432	6,637,872	38,442,846	51,555,150
2010	7.75%	6,580,795	6,618,558	27,752,165	40,951,518
2011	7.75%	6,799,258	6,831,742	(6,440,146)	7,190,854

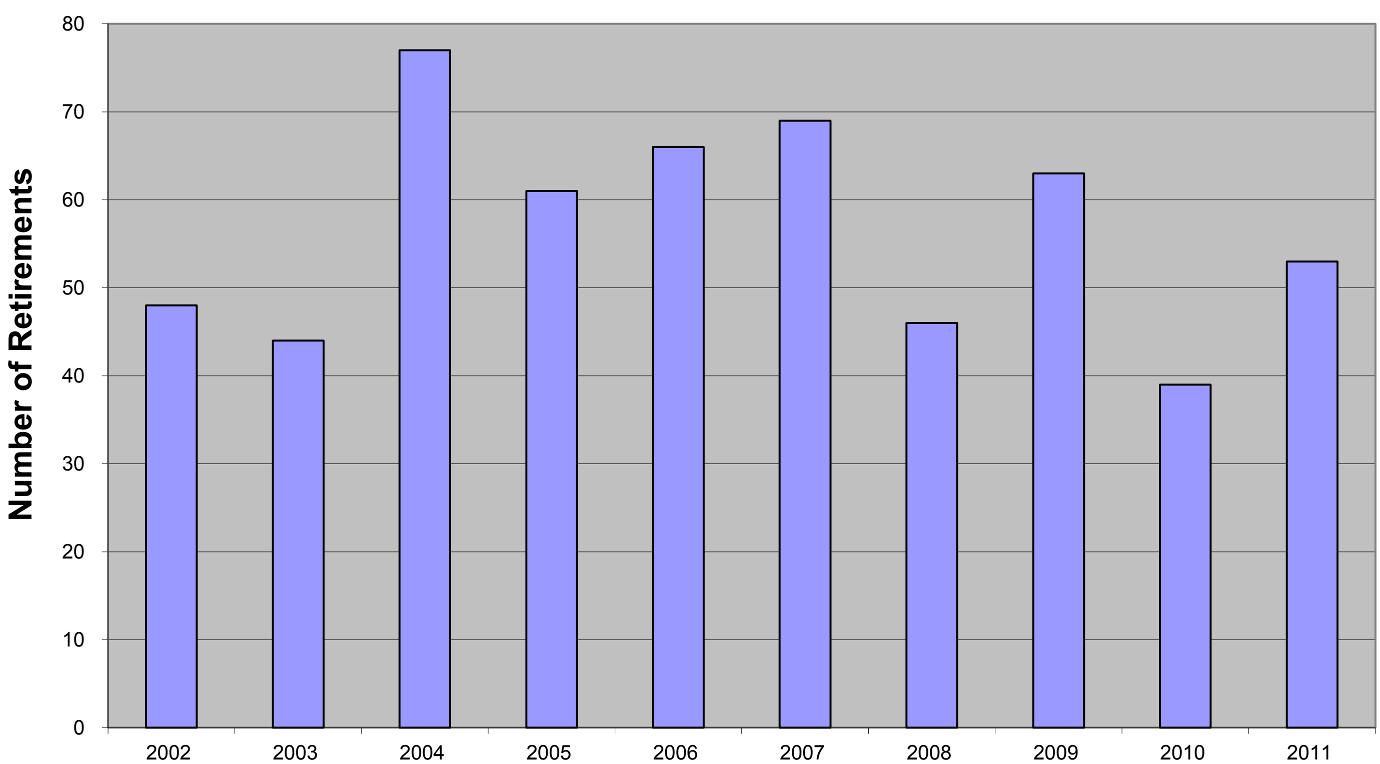
Schedule of Expenses by Type

Fiscal Year	Benefits	Refunds	Net Administrative	Total Expenses
1996	$6,590,519	$440,926	$345,004	$7,376,449
1997	7,001,401	354,289	355,400	7,711,090
1998	7,327,482	547,031	352,272	8,226,785
1999	7,779,528	502,764	375,385	8,657,677
2000	8,704,644	520,973	429,178	9,654,795
2001	9,371,697	480,050	399,918	10,251,665
2002	10,042,276	488,945	410,833	10,942,054
2003	10,599,607	461,226	485,370	11,546,203
2004	11,109,084	576,433	494,831	12,180,348
2005	12,404,497	605,600	457,798	13,467,895
2006	13,322,042	492,193	412,824	14,227,059
2007	14,253,955	717,005	448,654	15,419,614
2008	15,002,061	370,947	581,294	15,954,302
2009	15,509,868	315,919	563,408	16,389,195
2010	16,547,561	493,911	505,222	17,546,694
2011	17,216,853	502,566	490,611	18,210,030

Schedule of Benefit Expenses by Type

Year	Service Retiree Benefits	Survivor Benefits	Disability Retiree Benefits	Refunds	Total
1996	$5,845,673	$637,876	$106,970	$440,926	$7,031,445
1997	6,205,060	685,793	110,548	354,289	7,355,690
1998	6,495,974	711,738	119,770	547,031	7,874,513
1999	6,921,021	713,185	145,322	502,764	8,282,292
2000	7,811,737	744,106	148,801	520,973	9,225,617
2001	8,395,024	823,870	152,803	480,050	9,851,747
2002	9,047,124	849,399	145,753	488,945	10,531,221
2003	9,557,946	899,312	142,349	461,226	11,060,833
2004	10,058,421	900,169	150,494	576,433	11,685,517
2005	11,313,520	942,622	148,355	605,600	13,010,097
2006	12,189,473	988,579	143,990	492,193	13,814,235
2007	13,115,104	994,861	143,990	717,005	14,970,960
2008	13,835,194	1,030,774	136,093	370,947	15,373,008
2009	14,341,682	1,037,317	130,869	315,919	15,825,787
2010	15,302,791	1,124,509	120,261	493,911	17,041,472
2011	15,863,198	1,240,384	113,271	502,566	17,719,419

Retirements by Year



Retirements During 2011

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
1	Leona M. Henry	Police	Clerk II	01/07/11	C-5	37.9	58
2	Perilee D. Howie	PW & Utilities	Clerk II	01/08/11	ST	11.0	64
3	Lynette P. Struck	Parks & Recreation	Clerk II	01/08/11	ST	21.7	67
4	Forrest V. Diehl	Engineering Services	Engineering Tech III	01/18/11	ST	17.9	65
5	Cindy M. Gullett *	Entertainment Facilities	Secretary II	01/24/11	E	7.9	50
6	Cheryl E. Miller ^	Engineering Services	Engineering Tech III	01/25/11	E	9.6	53
7	Bruce P. Burris	Street	Sig Maint Tech II/Elec Tech II	03/05/11	E	25.2	63
8	James A. Crudup	Water	Water Service Specialist	03/19/11	E	19.8	63
9	William A. Johns #	Engineering Services	Senior Engineer	04/01/11	E	5.8	65
10	Robert E. Keeling	Street	Street Maintenance Operator II	04/01/11	ST	10.8	62
11	Russell W. Beseler	Sewer Maintenance	Laborer II	04/02/11	D	12.7	62
12	Daniel J. Davis	Municipal Court	Court Commissioner	04/02/11	ST	9.6	63
13	Ronald K. Duncan	Water	Water Service Foreperson	04/02/11	E	27.7	51
14	Donald R. Rogers	Water	Water Service Foreperson	04/02/11	D	13.6	61
15	Yoichi Seki	Street	Street Maintenance Operator I	04/05/11	D	19.8	67
16	Paul V. Haberbush	Parks & Recreation	Gardener I	04/23/11	A	14.6	55
17	Christine V. Haines	Engineering Services	Traffic Engineering Specialist I	05/03/11	D	20.0	50
18	Raymond W. Mackin	Water	Water Service Foreperson	05/03/11	E	35.1	61
19	Valerie J. Nesbitt	Water	Clerk III	05/04/11	E	11.1	62
20	Thomas L. Arnold *	Engineering Services	Director	05/11/11	E	18.4	50
21	Scott L. Austin	AWWTP	Laboratory Technician	06/02/11	ST	20.7	58
22	Gary W. Pierce	MIS	Programmer Analyst	06/04/11	D	9.3	61
23	Kathleen A. McCorgary	Library	Office Assistant	06/11/11	ST	20.5	59
24	Kenneth A. Esperas	Street	Parking Meter Specialist I	07/02/11	E	17.2	59
25	Patricia A. French-Fallgren	Police	Police Stenographer	07/09/11	ST	32.5	62
26	John W. Mercer	Engineering Services	Program Manager - Public Works	07/09/11	ST	11.4	62
27	Richard E. Stapleton	Street	Street Maintenance Operator II	07/09/11	D	11.9	59
28	David L. Byrnes	Water	Radio Operator I	08/02/11	E	36.7	64
29	Patricia D. Kendall	Police	Storekeeper	08/02/11	E	19.2	52
30	Albert J. Powell	Solid Waste Management	Heavy Equipment Operator	08/06/11	ST	23.0	66
31	Edward G. Ducar *	Parks & Recreation	Food/Beverage Supervisor	08/27/11	E	15.3	50
32	Diane W. Jackson	Community Centers	Director	08/30/11	E	23.8	54
33	Betty R. Bischoff	Police	Secretary II	09/03/11	E	21.6	61
34	John M. Britton	Engineering Services	Traffic Engineering Assistant	09/07/11	D	35.0	58
35	Gerard R. Eber	Street	Sig Maint Tech II/Elec Tech II	09/07/11	E	23.2	67
36	David K. Rains	Parks & Recreation	Irrigation Specialist	09/07/11	ST	24.2	55
37	Larry V. Stevens	Police	Crime Analyst	09/07/11	E	9.3	62
38	Thomas A. Makela	Water	Water Service Specialist	09/09/11	ST	29.6	63
39	Kathleen M. Konek *	MIS	Information Analyst	09/11/11	ST	8.8	50
40	Thomas M. Craig	Building Services	Certified Plan Examiner	09/17/11	E	34.1	62
41	Marilyn H. Johnson	Library	Librarian	09/17/11	E	5.6	56
42	Jan S. Shrum	Public Facilities District	PFD Employee in SERS	09/17/11	D	22.9	50
43	Dennis E. Woodfill	Water	Water Hydro Oper Foreperson	09/17/11	D	18.5	67
44	Diana L. Hart	Retirement	Asst Retirement Director	10/04/11	ST	31.5	60
45	Nancy A. Schutz	Water	Clerk III	10/08/11	ST	15.1	70
46	Tan V. Tran	Water	Laborer II	10/08/11	B	17.4	68
47	Dianna L. Sullivan	Police	Clerk II	10/29/11	E	14.9	62
48	William N. Ellison	Solid Waste Management	Laborer II	11/02/11	E	15.5	65
49	Jason J. Davis*	Street	Street Maintenance Operator	11/08/11	ST	18.6	50
50	Beverly A. Johnson*	Police	Police Dispatcher	11/14/11	E	14.4	50
51	Bradley T. Shrum	Fleet Services	Heavy Equipment Mechanic	12/10/11	D	25.6	53
52	Lynette M. Clother ^	Water	Water Service Specialist	12/19/11	E	27.6	58
53	Lawrence D. Nelson	Street	Bridge Maintainer	12/29/11	D	18.1	63

^ Retired as spouse of deceased active employee * Retired as vested employee # Retired under membership through Portability

Deaths During 2011

Retiree Deaths

	Name	Date Retired	Date of Death	Age	Retirement Option
1	Christy Tyson	03/01/08	01/01/11	63	ST
2	Ralph R. Walker	02/04/92	01/20/11	86	D
3	Garrett R. Jessee	03/11/07	01/21/11	62	ST
4	James D. Basden	02/17/79	02/01/11	81	DR
5	Evelyn M. Gerkensmeyer	11/27/09	02/03/11	74	E
6	Roger C. Hill	04/16/03	02/03/11	92	C-20
7	John W. Day	06/20/09	03/10/11	64	E
8	Frances C. Coldeen	04/02/09	03/12/11	91	E
9	Vernon V. Martin	02/26/83	03/28/11	87	A
10	David D. Diemert	06/03/06	04/07/11	61	ST
11	Collette F. Dodd	01/07/06	04/17/11	71	ST
12	Emerson B. Steele	01/08/00	05/01/11	72	D
13	Francesco Guastella	01/08/83	05/05/11	89	A
14	Arron A. Beick	12/03/92	05/05/11	86	E
15	Michael E. Morrison	11/01/96	05/08/11	76	E
16	Ruth A. Hart	04/04/81	05/16/11	85	E
17	James R. Minor	06/18/83	05/25/11	89	A
18	William L. Murdoch Jr.	08/04/02	06/14/11	85	E
19	Raymond D. Branting	05/07/94	06/17/11	80	ST
20	Helen E. Wilson	09/18/98	06/21/11	94	E
21	Darrell C. Russell	06/04/05	06/24/11	70	E
22	Alvin R. Massie	12/01/84	07/02/11	90	ST
23	William R. O'Kane	05/04/93	07/06/11	74	ST
24	Robert D. Hall	01/18/95	07/17/11	78	E
25	Giovanni Pelle	01/16/86	08/08/11	87	E
26	Lawrence Tennison	06/07/07	08/09/11	59	ST
27	Donald L. Gregersen	01/31/87	08/26/11	89	E
28	Clare J. Harcey	07/11/82	09/11/11	98	E
29	Anita G. Hern	11/09/89	09/13/11	91	D
30	Albert J. Contabile	11/29/88	09/20/11	79	E
31	Wayne A. Brown	06/08/06	11/19/11	62	D
32	Violet M. Danielson	07/04/92	11/21/11	85	ST
33	Francis P. Reynolds	05/01/03	11/21/11	58	ST
34	Angeline P. Anderson	05/08/01	11/25/11	96	D
35	Erma M. Osman	05/04/04	12/05/11	73	A
36	Marie E. Hanneman	03/31/83	12/19/11	90	ST
37	Richard M. Cottam	02/04/06	12/23/11	81	E
38	Cleda C. Curran	03/31/83	12/29/11	86	A

Deaths During 2011

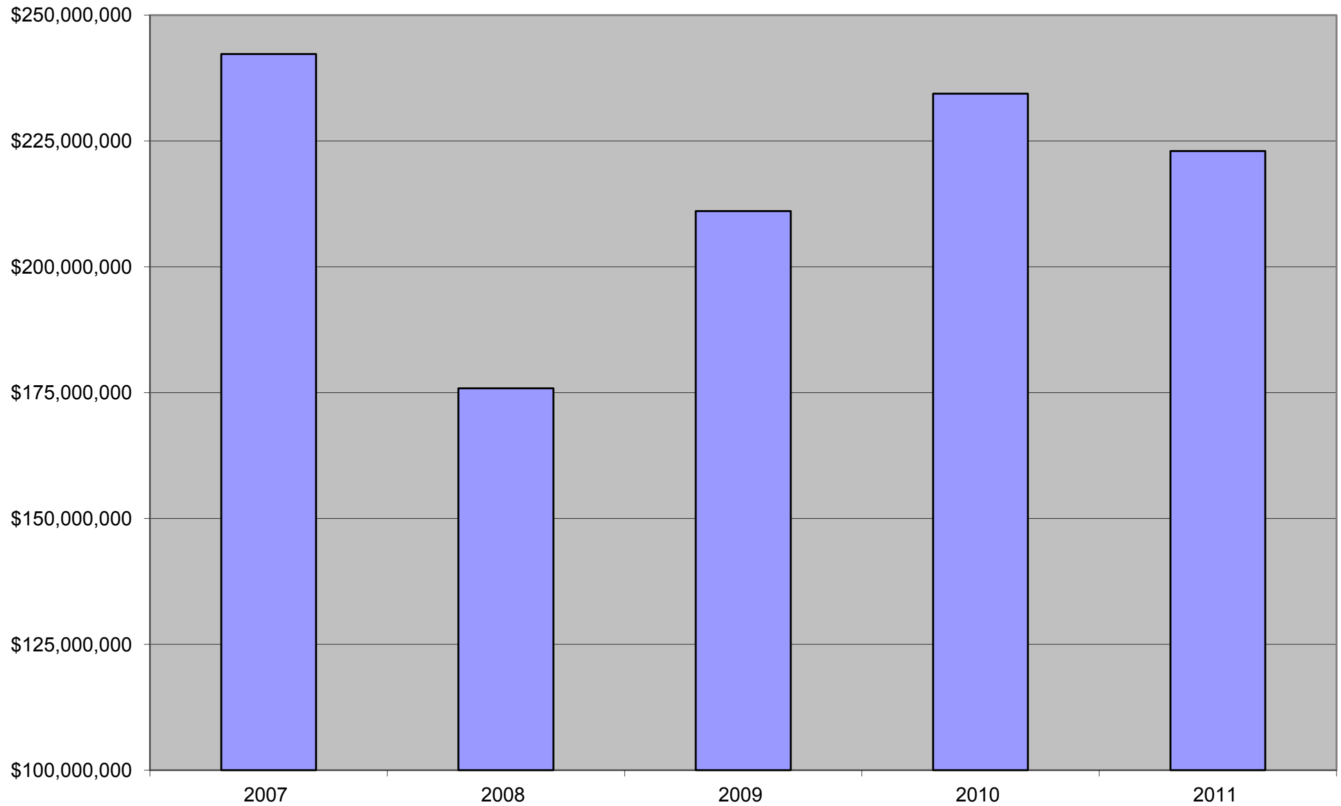
Active Member Deaths

	Name	Department	Date of Death	Age	Years of Service
1	Mitchell A. Miller	Engineering Services	01/24/11	52	9.6
2	Kathy A. Gance	Public Works & Utilities	06/04/11	60	13.6
3	Scott J. Clother	Water Division	12/18/11	58	27.6
4	Robert L. Waite	Engineering Services	12/29/11	62	33.0

Investment Section

Total Retirement Assets

A 5 year look

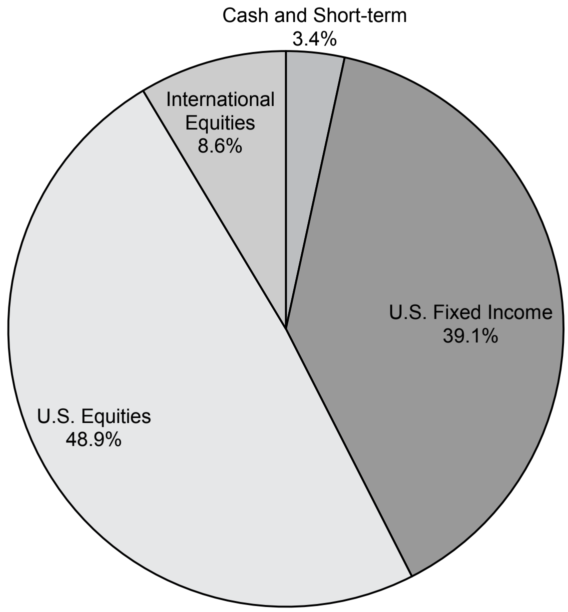


Schedule of Investment Results

	Market Value of Investments	Net Investment Income	Investment Rate of Return
2002	$ 169,398,533	$ (16,687,140)	-8.60%
2003	194,831,995	28,862,507	17.10%
2004	209,431,314	17,530,588	9.50%
2005	216,277,686	11,985,450	6.30%
2006	231,815,276	21,140,066	10.50%
2007	242,213,605	16,715,588	7.77%
2008	175,878,430	(59,972,361)	-24.68%
2009	211,055,762	38,442,846	21.99%
2010	234,404,883	27,752,165	13.47%
2011	222,991,899	(6,440,146)	-2.80%

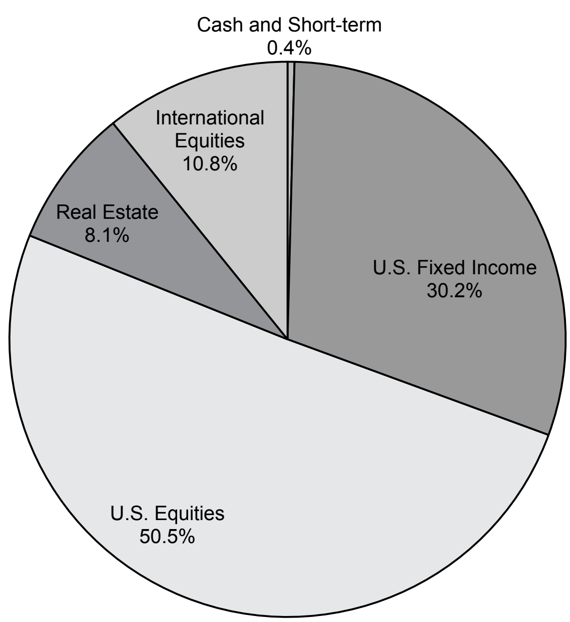
The Evolution of SERS Investment Asset Allocation

2004 Year-End Asset Allocation



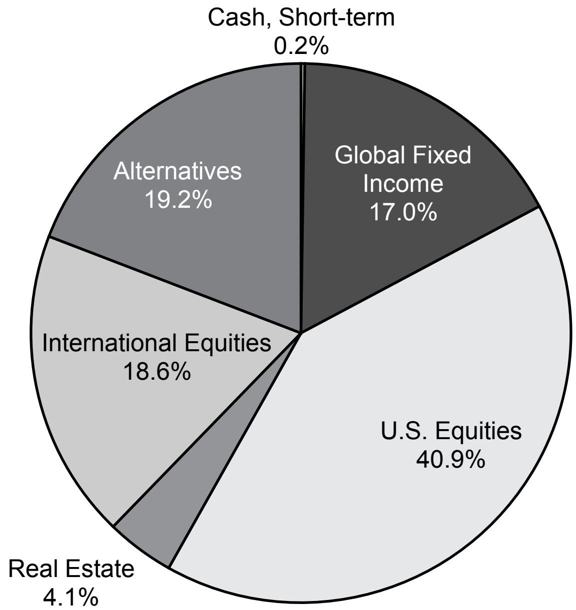
Traditional 60/40 portfolio with an allocation to international equities

2006 Year-End Asset Allocation



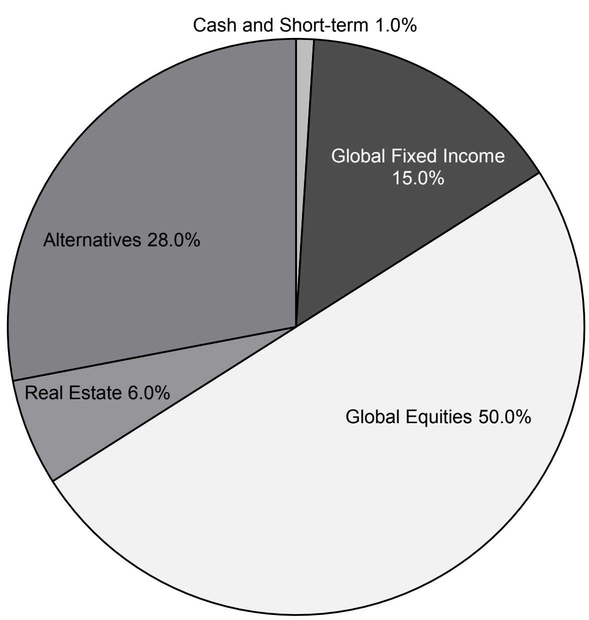
Equity exposure grew with overall market increase; real estate assets added; fixed income reduced as internally managed bond portfolio is phased out.

2011 Year-End Asset Allocation



Major shift in asset allocation (beginning in 2008) to better manage risk; alternative assets added.

Target Asset Allocation



SERS continues to manage the overall allocation towards the policy targets. Due to the complexity of certain asset classes and the unpredictability of the financial markets, it is expected to take years to reach target levels.

Investments Listed by Type

As of December 31, 2011

Cash and Cash Equivalents:		
Cash Held by Treasurer	$	364,123
Union Bank		150,969
Fixed Income Investments:		
PIMCO Low Duration		8,450,994
Vanguard Short-Term		8,600,016
Metropolitan West High Yield I		7,852,664
PIMCO Global		12,617,523
Equity Investments:		
Hotchkis & Wiley Core Value I		9,256,584
Santa Barbara Large Cap Growth		9,116,315
Vanguard Institutional Index		41,171,814
Sterling Mid Cap Value		6,193,356
Rainier Mid Cap Growth		6,170,475
Vanguard Mid Cap Index		6,289,679
Champlain Small Cap Growth		3,398,731
Phocas Small Cap Growth		2,897,997
Essex Micro-Small Cap Growth		2,670,270
Vanguard Small Cap Index		3,317,222
International Investments:		
Berens Global Value		8,887,779
Vanguard International Index		2,905,774
EuroPacific Core		12,445,518
Artisan International Value		9,640,494
Epoch International Small Cap Value		7,193,723
Real Estate Investments:		
Legacy Partners Realty III		921,272
Metropolitan Realty V		1,262,408
Principal Global Investors REIT		6,864,383
Alternative Investments:		
Orbi Med Royalty Opps		933,632
7 X 7 Offshore		2,581,875
Landmark Value Strategies		4,305,563
Post Limited Term High Yield		4,533,087
Rimrock Low Volatility		4,414,359
Castine Partners II		4,893,755
Altairis Offshore		5,130,507
Orbi Med Caduceus II		5,241,402
Weatherlow Offshore I		6,254,197
iShares S&P GSCI Commodity		6,063,439
Total Cash and Investments	$	222,991,899