SERS
Spokane Employees' Retirement System

Comprehensive Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2012

Spokane Riverfront Park
Photography by Jerri Bjork

Retirement Department
City Hall, Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201-3324
tel 509.625.6330
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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

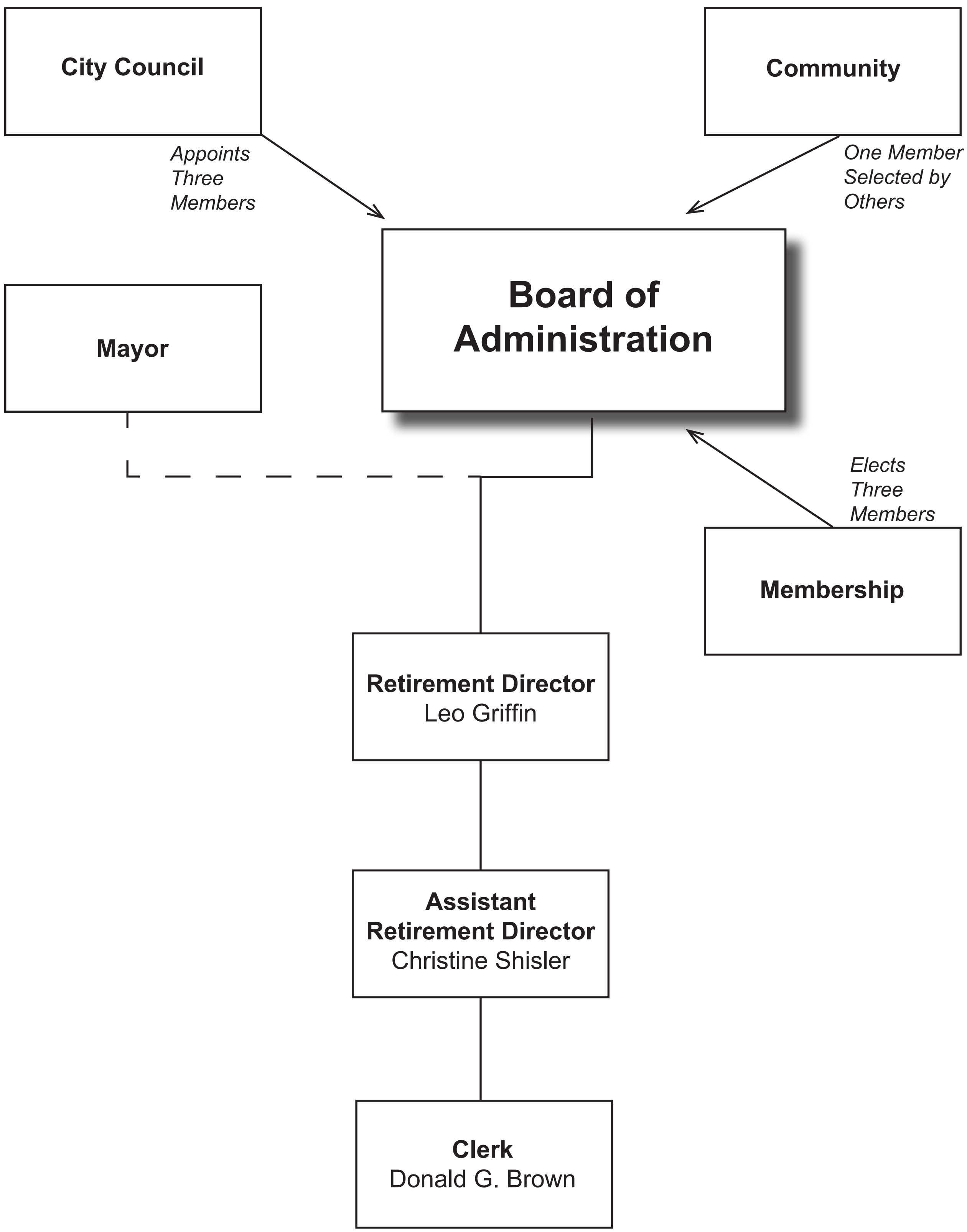
Leo F. Griffin	Retirement Director and Chief Investment Officer
Christine Shisler	Assistant Retirement Director
Donald G. Brown	Clerk
Timothy Szambelan	Legal Advisor

ADVISORY

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

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

Organization Chart



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.

Spokane Employees' Retirement System
808 W. Spokane Falls Blvd.
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Leo F. Griffin, CPA
Retirement Director
and Chief Investment Officer

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

This 71st 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, 2012

Leo F. Griffin

Leo F. Griffin, CPA
Retirement Director

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

Report on Financial Statements

We have audited the accompanying financial statements of the Spokane Employees' Retirement System (SERS, System, or Plan), a pension trust fund of the City of Spokane, Washington, which comprise the statements of Plan net position as of December 31, 2012 and 2011, and the related statements of changes in Plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

REPORT OF INDEPENDENT AUDITORS
(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Spokane Employees' Retirement System as of December 31, 2012 and 2011, and the changes in Plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and schedule of employer contribution and funding progress on pages 21 and 22 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of administrative and investment expenses, on pages 23 through 25, 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 3, 2013

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, System, or Plan) financial performance during the year ended December 31, 2012. 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 Entry Age Normal 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 position
   b. Statements of changes in Plan net position
   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 position shows the account balances at year end and includes the net position 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 position shows the sources and uses of funds during the year and illustrates the change in net position 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 position increased by $20.0 million (8.9%) during 2012 and decreased by $11.0 million (4.7%) during 2011. The 2012 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 position, totaled $39.6 million in 2012, compared to $7.2 million in the prior year. For 2012, revenue includes member and employer contributions of $13.9 million and net investment earnings from investment activities totaling $25.7 million. Member and employer contributions increased $326,000 and $432,000 in 2012 and 2011, respectively. Net investment income, which fluctuates year-to-year depending on market conditions, increased by $32.1 million in 2012 compared to a decrease of $34.2 million in 2011. The equity markets have experienced extreme volatility in the last few years.
- Expenses, deductions from net position, for 2012 were $19.6 million, a 7.9% increase from 2011. Expenses for 2011 were $18.2 million, a 3.8% increase from 2010. Total expense amounts, and fluctuations, are primarily driven by pension benefit payments. Retiree benefits and refunds of contributions increased by $1.4 million during 2012 and by $678,000 during 2011.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Statements and Analysis

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

	2012	2011
Cash, short-term investments and receivables	$ 1,190,963	$ 1,056,180
Investments at fair value	241,845,525	221,950,527
Leasehold improvements, net	4,385	7,893
Software, net	335,331	-
Software in progress	-	352,980
Total assets	243,376,204	223,367,580
Accrued expenses	103,478	75,754
Total net position	$243,272,726	$ 223,291,826

Changes in Plan Net Position

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

	Years Ended December 31,		
	2012	2011	2010
Additions			
Employer contributions	$ 6,937,750	$ 6,799,258	$ 6,580,795
Plan member contributions	7,019,684	6,831,742	6,618,558
Net investment income (loss)	25,667,673	(6,440,146)	27,752,165
Total additions	39,625,107	7,190,854	40,951,518
Deductions			
Benefits	18,554,194	17,216,853	16,547,561
Refunds of contributions	569,058	502,566	493,911
Net administrative expenses	520,955	490,611	505,222
Total deductions	19,644,207	18,210,030	17,546,694
Net increase (decrease)	$19,980,900	$(11,019,176)	$ 23,404,824

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Revenues – Additions to Plan Net Position

- Employer contributions increased by $138,000 (2.0%) in 2012 and $218,000 (3.3%) in 2011. Plan member contributions increased by $188,000 (2.8%) in 2012 and increased $213,000 (3.2%) in 2011. 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 $25.7 million gain in 2012 compared to a $6.4 million loss in 2011. In 2012, the portfolio earned a positive 11.7% with both the U.S. equity markets and international markets up sharply. In 2011, the portfolio earned a negative 2.8% as the U.S. equity markets were essentially flat and international markets were down sharply.

Expenses – Deductions from Plan Net Position

- Retiree benefits paid increased by $1.3 million (7.8%) in 2012 and $669,000 (4.0%) in 2011. Nationwide, and at SERS, employees have been working longer throughout the credit crisis and the recession. SERS' active member age is an average of 48.9 years old, which is up by 1.0 years since 2009. Average active participant service has increased from 11.8 years in 2009 to 12.7 years in 2012. Pent up demand contributed to the sharp increase in retirements in 2012, and the same trend is expected in the foreseeable near future.
- Refunds of contributions increased by $66,000 in 2012 and increased by $9,000 in 2011. 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 increased by $30,000 (6.2%) in 2012 and decreased $15,000 (2.9%) in 2011. In 2012, the City of Spokane Administration requested a number of actuarial analyses, which contributed to approximately half of the $30,000 increase in administrative costs. Furthermore, the City implemented the PeopleSoft database in 2012 and began allocating an annual charge of $17,649 in amortization expense to SERS. Without the noncash amortization expense of $17,649, net administrative expenses would have been approximately $503,000 in 2012. Net administrative expenses, before the noncash amortization charge, are only slightly higher than total expenses incurred eight years ago in 2004. Staff and the Board continue to be diligent about Plan administrative expenses.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

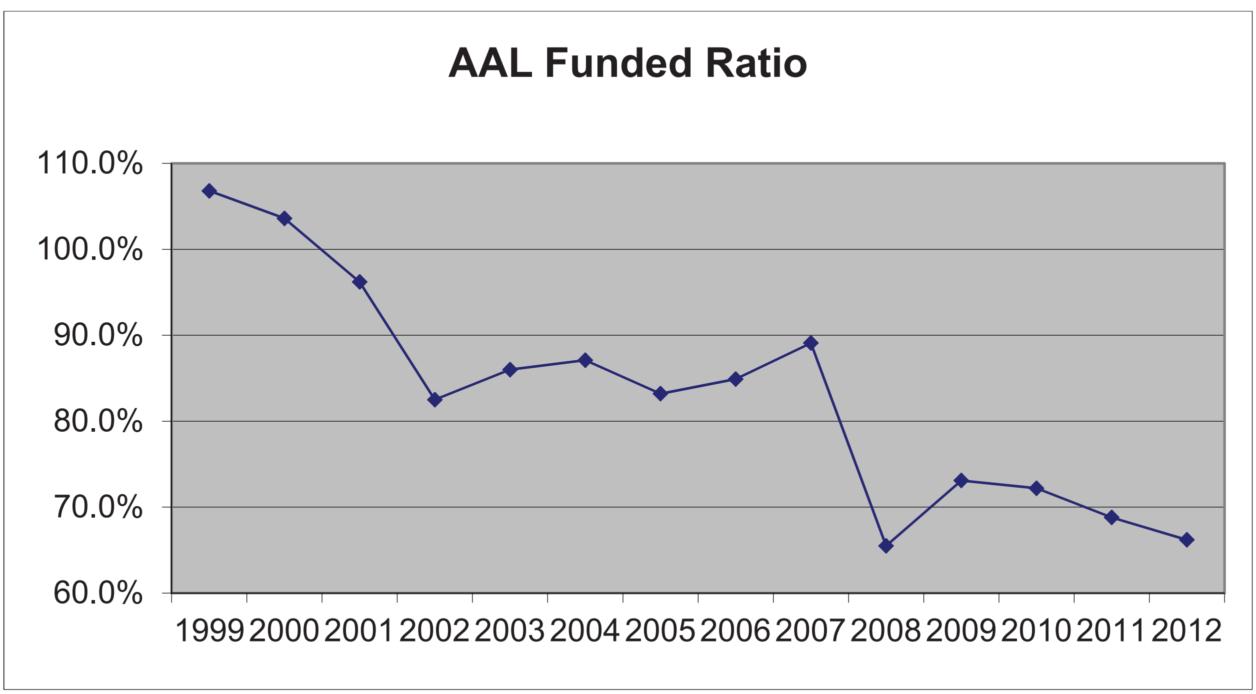
Plan Membership

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

	2012	2011	% Change Increase (Decrease)
Retirees and beneficiaries receiving normal retirement benefits	**1,119**	1,079	3.7%
Disability retirees	**9**	9	0%
Total retirees and beneficiaries	**1,128**	1,088	3.7%
Current and terminated employees entitled to, but not yet receiving benefits:			
Current employee members	**1,453**	1,491	(2.6%)
Vested terminated members	**96**	84	14.3%
Total current employee and vested terminated members	**1,549**	1,575	(1.7%)

Funding Status

Schedule of Funding Progress
Funded Ratio



SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Funding Status

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. The 2012 decrease in the funded status is primarily attributable to actuarial smoothed losses exceeding actuarial smoothed gains over the five-year time period 2008 through 2012 (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 66.2% at December 31, 2012, which reflects a decrease of 2.6 percentage points during 2012.

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% for a combined total of 15.50%. 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, 2011. In May 2012, the actuary recommended a change in the total contribution rate from 15.50% to 16.50%, which assumes no change in benefits. Split equally, and if implemented by the City Council, the employee and employer contribution rates would increase from 7.75% to 8.25% per side. An 8.25% per side contribution rate is expected to increase the funded status to near 100% over 30 years based on Board approved actuarial assumptions in place.

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, 2012. 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	
	2012	2011
Total portfolio	**11.7%**	(2.8%)
Policy index	***13.2%***	*0.7%*
Large cap equities	**15.4%**	(0.6%)
Benchmark: S&P 500 Index	***16.0%***	*2.1%*
Mid cap equities	**14.2%**	(3.0%)
Benchmark: Russell Mid cap Index	***17.3%***	*(1.6%)*
Small cap equities	**12.8%**	(3.1%)
Benchmark: Russell 2000 Index	***16.4%***	*(4.2%)*
Real estate	**15.2%**	9.4%
Benchmark: FTSE NAREIT Composite Index	***19.7%***	*7.3%*
International equities	**18.5%**	(13.7%)
Benchmark: MSCI ACWI Ex USA Index	***16.8%***	*(13.7%)*
Alternatives		
Absolute return	**6.7%**	2.6%
Benchmark: Fixed Income Alternatives - Barclays Capital US Aggregate Bond Index	***4.2%***	*7.8%*
Benchmark: NFRI FOF Conservative	***4.2%***	*(3.55%)*
Long/short growth	**3.8%**	(6.3%)
Benchmark: Equities Alternatives - S&P 500 Index	***16.0%***	*2.1%*
Benchmark: HFRI FOF Comp	***4.7%***	*(5.72%)*
Fixed income	**8.2%**	3.1%
Benchmarks:		
Barclays Capital US Aggregate Bond Index	***4.2%***	*7.8%*
US T-Bills 90 day Index	***0.08%***	*0.06%*

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.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities (continued)

Total investments, valued at fair market value, increased $19.9 million in 2012 compared to a decrease of $1.9 million in 2011. The investment portfolio experienced an overall positive return of 11.7% net of fees in 2012 compared to a negative return of (2.8)% net of fees in 2011. The portfolio under-performed the policy benchmark in 2012 due largely to the allocation and underperformance of the Long/short growth asset class. The Long/short growth asset class is structured to provide the portfolio with equity-like returns over a full market cycle with significantly less volatility than long-only equity strategies. Based on the hedged nature of the portfolio, the allocation is expected to lag in strong up markets and outperform during down markets. Given the strong equity markets of 2012, the underperformance was consistent with expectations. However, the margin of underperformance was greater than expected. The asset class underperformed its policy benchmark by roughly 12% for the year. In contrast, performance lagged the style benchmark by less than 1% for the year reflecting a challenging environment for the asset class overall. The asset class continues to struggle against a backdrop of strong global macro influences and broad-based government intervention. In short, the asset class has provided a level of downside protection that simply hasn't been needed since 2008. That said, management continually evaluates this asset class and feels confident that over an extended period of the time Long/short growth will provide needed protection of the overall portfolio.

Active management within the domestic equity markets also proved a drag on performance, but was largely offset by active management premiums in international equity markets along with significant active management premiums in the fixed income and absolute return asset classes. Of particular note, the absolute return asset class performed in-line with its fixed income benchmark as interest rates hit historically low levels. Management continues to believe this asset class has the potential to provide competitive returns relative to the broader fixed income markets while significantly reducing interest rate risk within the portfolio.

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.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS

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
509.625.6330

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION

	December 31, 2012	December 31, 2011
ASSETS		
Cash	**$ 88,961**	$ 364,123
Short-term investments	**1,066,731**	635,682
Interest and dividends receivable	**34,998**	41,567
Other receivable	**273**	14,808
Total cash and receivables	**1,190,963**	1,056,180
Investments at fair value		
U.S. fixed income	**25,030,613**	24,903,654
International/global fixed income	**13,595,314**	12,617,500
U.S. equities	**85,820,840**	90,035,884
Real estate	**13,128,823**	8,968,401
International equities	**46,643,557**	41,073,289
Alternatives	**57,626,378**	44,351,799
Total investments	**241,845,525**	221,950,527
Leasehold improvements, net of accumulated depreciation of $13,154 and $9,646, respectively	**4,385**	7,893
Capitalized software, net of accumulated amortization of $17,649 and $-0-, respectively	**335,331**	-
Software in progress	**-**	352,980
Total assets	**243,376,204**	223,367,580
LIABILITIES		
Accounts payable	**49,051**	39,724
Current portion employee salaries and benefits	**17,708**	12,195
Other current liabilities	**12,245**	16,189
Employee leave benefits	**24,474**	7,646
Total liabilities	**103,478**	75,754
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	**$243,272,726**	$ 223,291,826

(A schedule of funding progress is presented on page 36)

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
ADDITIONS		
Contributions		
Employer	**$ 6,937,750**	$ 6,799,258
Plan members	**7,019,684**	6,831,742
Total contributions	**13,957,434**	13,631,000
INVESTMENT INCOME		
Net appreciation (depreciation) in fair value of investments	**22,344,739**	(9,717,351)
Interest, dividends and other investment income	**3,683,147**	3,673,522
	26,027,886	(6,043,829)
Less investment expenses	**360,213**	396,317
Net investment income	**25,667,673**	(6,440,146)
Total additions	**39,625,107**	7,190,854
DEDUCTIONS		
Benefits	**18,554,194**	17,216,853
Refunds of contributions	**569,058**	502,566
Administrative expenses, net of administrative income	**520,955**	490,611
Total deductions	**19,644,207**	18,210,030
CHANGE IN NET POSITION	**19,980,900**	(11,019,176)
Net position, beginning of year	**223,291,826**	234,311,002
Net position, end of year (held in trust for pension benefits)	**$243,272,726**	$ 223,291,826

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description

The Spokane Employees' Retirement System (SERS, System, or Plan) is a single employer defined benefit pension plan covering employees of the City of Spokane (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, 2012, there are 1,128 retirees and beneficiaries receiving benefits; 96 vested terminated, including portables, entitled to future benefits; and 1,453 active members of the Spokane Employees' Retirement System for a total of 2,677 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 statements of Plan net position 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 statements of changes of Plan net position 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 position and the amounts reported in the statements of Plan net position.

Recent accounting pronouncement – In June 2012, the GASB issued GASB 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement. It also requires the net pension liability to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The new standard is effective for the fiscal year beginning after July 15, 2013. SERS is currently evaluating the impact the adoption of GASB 67 will have on its financial statements.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

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.

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 2011 and 2012. 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 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 $38.6 million as of December 31, 2012.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

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 GASB Statement No. 40, *Deposit and Investment Risk Disclosures Guidelines*, SERS does not have exposure to custodial credit risk.

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 position.

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, 2012:

	Average Effective Maturity (in years)	Market Value
Mutual Funds		
PIMCO Low Duration	3.44	$ 7,469,124
Vanguard Short-term	3.00	7,538,068
PIMCO Global	5.93	13,595,314
Metropolitan West	6.86	10,023,421
Total fixed income		$ 38,625,927
Fixed income as a percentage of SERS portfolio	15.90%	

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

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, 2012, 21.0% 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 foreign securities, including those held by money managers, is $60.2 million as of December 31, 2012. Additionally, SERS has $13.6 million invested in an international/global fixed income fund, of which 43.2% is in foreign fixed income holdings at December 31, 2012. 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.

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 entry age normal 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.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 5 – Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2012, the actuarial liability funded status ratio is 66.2%. The funding ratio decreased by 2.6 percentage points during 2012. The 2012 decrease in the funded status is primarily attributable to actuarial smoothed losses exceeding actuarial smoothed gains over the five-year time period 2008 through 2012; 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, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent
Amortization period*	30 years – closed (25 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	0% for members with more than 5 years of services in years 2013, 2014, and 2015. Otherwise, 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
Postretirement benefit increases**	0.0%
Actuarial value of assets	$241,424,862
Actuarial accrued liability	$364,715,900
Unfunded actuarial accrued liability	$123,291,038
Annual covered payroll	$ 89,015,136
UAL as a percentage of covered payroll	138.51%

*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.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

Note 6 – Commitments

As of December 31, 2012, the System had unfunded commitments of $6.9 million to three 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
12/31/2012	8,325,936	6,937,750	83.33%	(1,388,186)	8,733,963	79.43%	19,321,508

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

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%
12/31/2012	241,424,862	364,715,900	123,291,038	66.20%	89,015,136	138.51%

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

	2012 Budget	**2012 Actual**	2011 Actual
Personnel services			
Salaries and wages	$ 285,488	**$ 246,591**	$ 252,472
Personnel benefits	83,899	**68,343**	74,959
Administrative income	(80,000)	**(6,899)**	(37,213)
Total personnel services	289,387	**308,035**	290,218
Supplies			
Office supplies	2,000	**373**	1,714
Publications	2,000	**-**	-
Postage	10,000	**7,581**	6,431
Minor equipment	5,000	**503**	2,109
Other	1,000	**1,059**	1,313
Total supplies	20,000	**9,516**	11,567
Other services and charges			
State audit charges	10,000	**8,516**	8,039
Professional services	200,000	**134,798**	119,123
Travel	22,000	**2,750**	8,549
Registration and schooling	20,000	**714**	690
Other dues, subscriptions, and memberships	2,500	**2,310**	1,359
Printing	4,000	**1,013**	1,122
Depreciation	3,600	**3,508**	3,507
Amortization	-	**17,649**	-
Other miscellaneous charges	3,640	**2,494**	2,994
Total other services and charges	265,740	**173,752**	145,383

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
ADDITIONAL INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES

	2012 Budget	**2012 Actual**	2011 Actual
Interfund (IF) payments for services			
IF accounting services	$ 29,463	**$ -**	$ 18,402
IF accounting central services	-	**2,074**	
IF communication	3,080	**2,828**	3,324
IF MIS communications replacement	613	**613**	250
IF motor pool	500	**-**	-
IF risk management	2,214	**2,214**	2,082
IF unemployment	22	**22**	51
IF workers' compensation	841	**841**	1,053
IF MIS	14,598	**14,325**	12,798
IF reprographics	2,500	**1,942**	962
IF warrant service	1,500	**1,269**	1,219
IF MIS replacement	3,524	**3,524**	3,302
	58,855	**29,652**	43,443
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	$ 633,982	**$ 520,955**	$ 490,611

SPOKANE EMPLOYEES' RETIREMENT SYSTEM
ADDITIONAL INFORMATION
SCHEDULE OF INVESTMENT EXPENSES

	Year Ended December 31, 2012
Investment Services	
Bridge City Capital LLC	$ 17,344
Champlain Small Cap Fund LLC	36,187
Principal Real Estate Investors LLC	58,917
Santa Barbara Asset Management LLC	50,174
Sterling Capital Management LLC	50,639
	213,261
Performance Measurement	
Hyas Group, LLC	105,000
Custodial Services	
Union Bank, N.A.	20,812
U.S. Bank	21,140
	41,952
TOTAL INVESTMENT EXPENSES	$ 360,213

Mutual fund and limited partnership fees are not reflected in this schedule; instead, these investment expenses are netted against investment income in the statement of changes of Plan net position 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, 2012

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

April 24, 2013

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, 2012, 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, 2012 valuation develops an Annual Required Employer Contribution Rate (ARC), exclusive of employee contributions, of 9.36% of total payroll. The ARC rate compares with an actual Employer Contribution rate of 7.75% of total payroll. The Employer Contribution for the 2012 fiscal year of $6,937,750 was less than the ARC of $8,325,936 by $1,388,186. 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 12/31/2012 increased from $17,525,295 to $19,321,508.

Unfunded Accrued Liability and Funded Status

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the entry age normal 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 $123,291,038 as of December 31, 2012 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 68.8% as of December 31, 2011 to 66.2% as of December 31, 2012.

Spokane Employees' Retirement System
April 24, 2013
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, 2011. This study resulted in the Board adopting several changes in assumptions as of December 31, 2012, at the recommendation of the actuary, in order to better anticipate emerging experience under the System.

The actuarial cost method utilized was changed from the projected unit credit actuarial cost method to the entry age normal actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with GASB Statements 25, 27 and 34 and is the prescribed method under newly issued GASB Statements 67 and 68.

The net impact of the changes in assumptions and methods was a decrease of $6,680,550 in accrued liability.

The Board previously 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.

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

Effective January 1, 2013, interest on member contributions accrues at an annual rate of 2.5%, compounded quarterly. This is a change from the prior interest crediting rate of 4.0%. The impact of this change was a decrease of $265,117 in accrued liability.

Spokane Employees' Retirement System
April 24, 2013
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, 2012.

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, 2012 for the Spokane Employees' Retirement System.

The principal results include:

- The Annual Required Employer Contribution Rate (ARC) is 9.36% 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, 2012 is 66.2% as compared to 68.8% as of December 31, 2011.

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, 2011. This study resulted in the Board adopting several changes in assumptions as of December 31, 2012, at the recommendation of the actuary, in order to better anticipate emerging experience under the System.

  The actuarial cost method utilized was changed from the projected unit credit actuarial cost method to the entry age normal actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with GASB Statements 25, 27 and 34 and is the prescribed method under newly issued GASB Statements 67 and 68.

  The Board previously 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 net impact of the changes in assumptions and methods was a decrease of $6,680,550 in accrued liability.

- **Legislative and Administrative Changes**

  Effective January 1, 2013, interest on member contributions accrues at an annual rate of 2.5%, compounded quarterly. This is a change from the prior interest crediting rate of 4.0%. The impact of this change was a decrease of $265,117 in accrued liability.

Summary of Valuation Results (continued)

Demographics	**2012**	**2011**
Active		
Number	1,453	1,491
Average Pay for Coming Year	$ 61,263	$ 60,539
Retired and Beneficiaries		
Number	1,128	1,088
Average Annual Allowance	17,002	16,227
Terminated Vested and Portables		
Number	96	84
Total Membership	2,677	2,663
Unfunded Accrued Liability		
Accrued Liability as of December 31	$364,715,900	$351,318,317
Actuarial Asset Value	$241,424,862	$241,610,862
Unfunded Accrued Liability	$123,291,038	$109,707,455
Actuarial Value Funded Status	66.2%	68.8%
Contribution Rates		
Annual Required Contribution (ARC) Rate*	9.36%	11.09%
Actual Employer Contribution Rate	7.75%	7.75%

* Exclusive of Employee Contributions (7.75% of pay)

Summary of Valuation Results (continued)

Contribution Rates (ARC)

The results of the valuation as of December 31, 2012 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, 2012 the actual Employer Contribution rate of 7.75% is less than the ARC rate of 9.36%. 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 12/31/2012, was $19,321,508.

Reasons for Change in the ARC

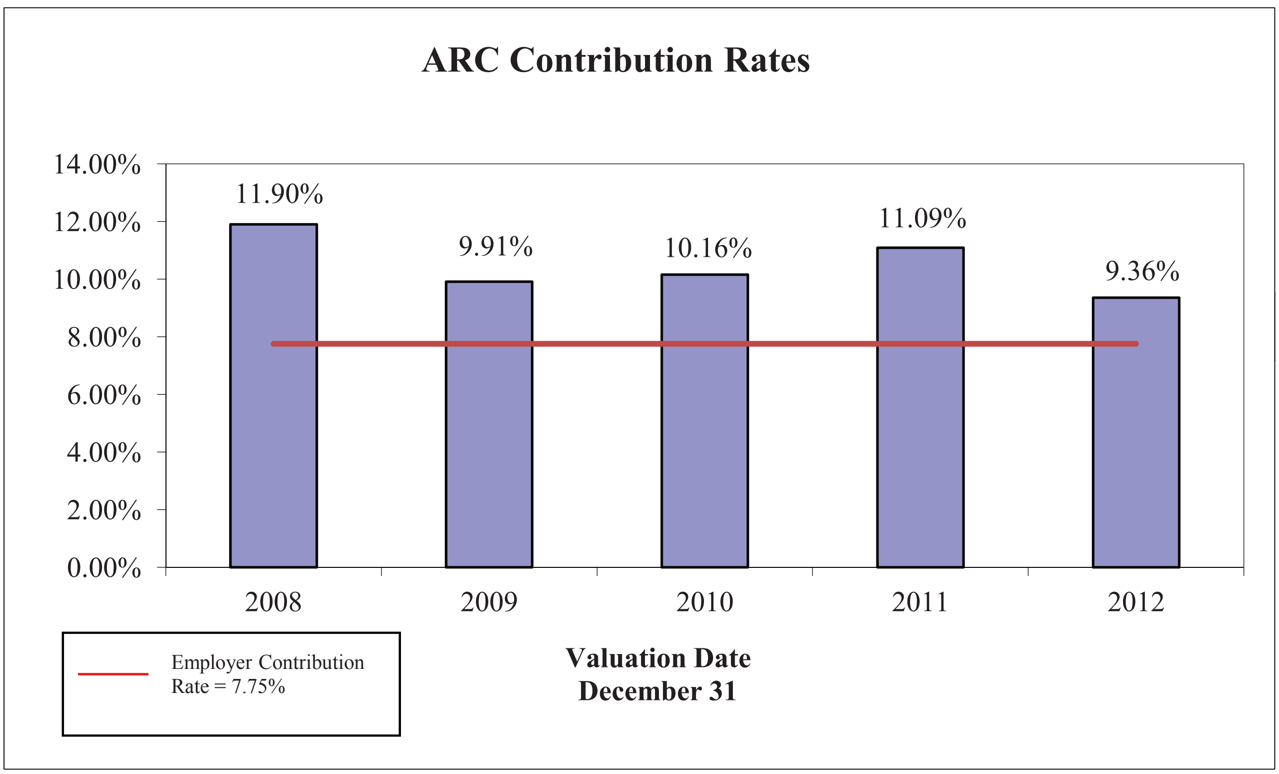
The recommended employer contribution rate as determined by the ARC decreased from 11.09% as of December 31, 2011 to 9.36% as of December 31, 2012. The decrease of 1.73% is due to the following reasons:

• Increase due to return on actuarial assets	0.74%
• Decrease due to change in benefit provisions	0.00%
• Decrease due to legislative changes	(0.06%)
• Decrease due to change in assumptions	(1.99%)
• Decrease due to change in funding method	(0.80%)
• Increase due to other factors	0.38%
• Total	(1.73%)

Summary of Valuation Results (continued)

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

Valuation Date	ARC	Employer Rate	
2008	11.90%	7.75%	*
2009	9.91%	7.75%	
2010	10.16%	7.75%	
2011	11.09%	7.75%	
2012	9.36%	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 entry age normal cost method.

On this basis, the System's unfunded accrued liability is $123,291,038 as of December 31, 2012. The unfunded accrued liability is based on a smoothed fair value of assets of $241,424,862 and an accrued liability of $364,715,900.

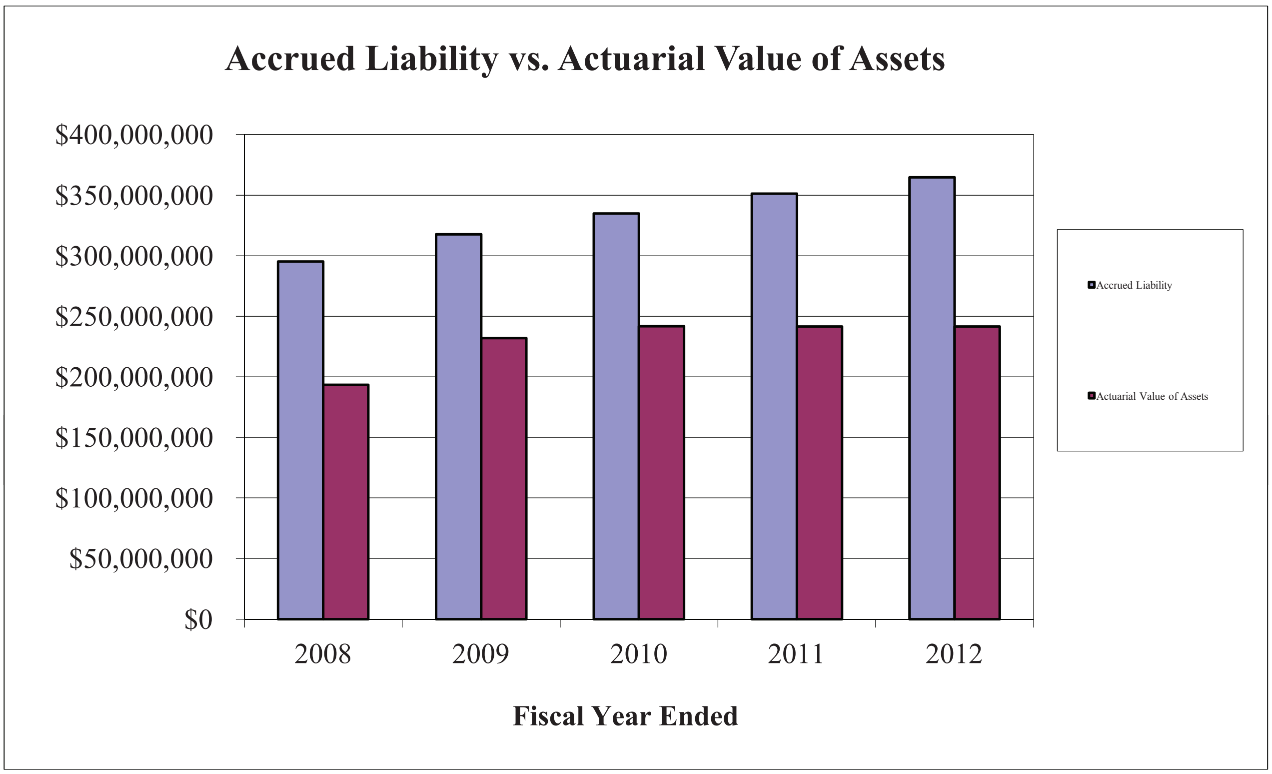
Reasons for Change in the Unfunded Accrued Liability

The unfunded accrued liability was expected to be $114,693,795 as of December 31, 2012 based on the actuarial assumptions used in the prior valuation. The actual unfunded accrued liability was $123,291,038 as of December 31, 2012. A change in the interest rate used to credit employee contributions from 4.0% to 2.5% reduced the unfunded accrued liability by $265,117. Changes in actuarial assumptions adopted as a result of the most recent experience study reduced the unfunded accrued liability by $22,132,963. A change in the Actuarial Cost Method from Projected Unit Credit to Entry Age Normal (EAN) increased the unfunded accrued liability by $15,452,413. Investment losses on the actuarial value of assets was the primary reason for the remaining 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
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
2012	$364,715,900	$241,424,862



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 66.2% as of December 31, 2012. The funded status is based on a smoothed fair value of assets of $241,424,862 and an accrued liability of $364,715,900.

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 66.7% as of December 31, 2012. The funded status is based on a market value of assets of $243,272,726 and an accrued liability of $364,715,900.

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%	6.9%
-1%	(6.6%)

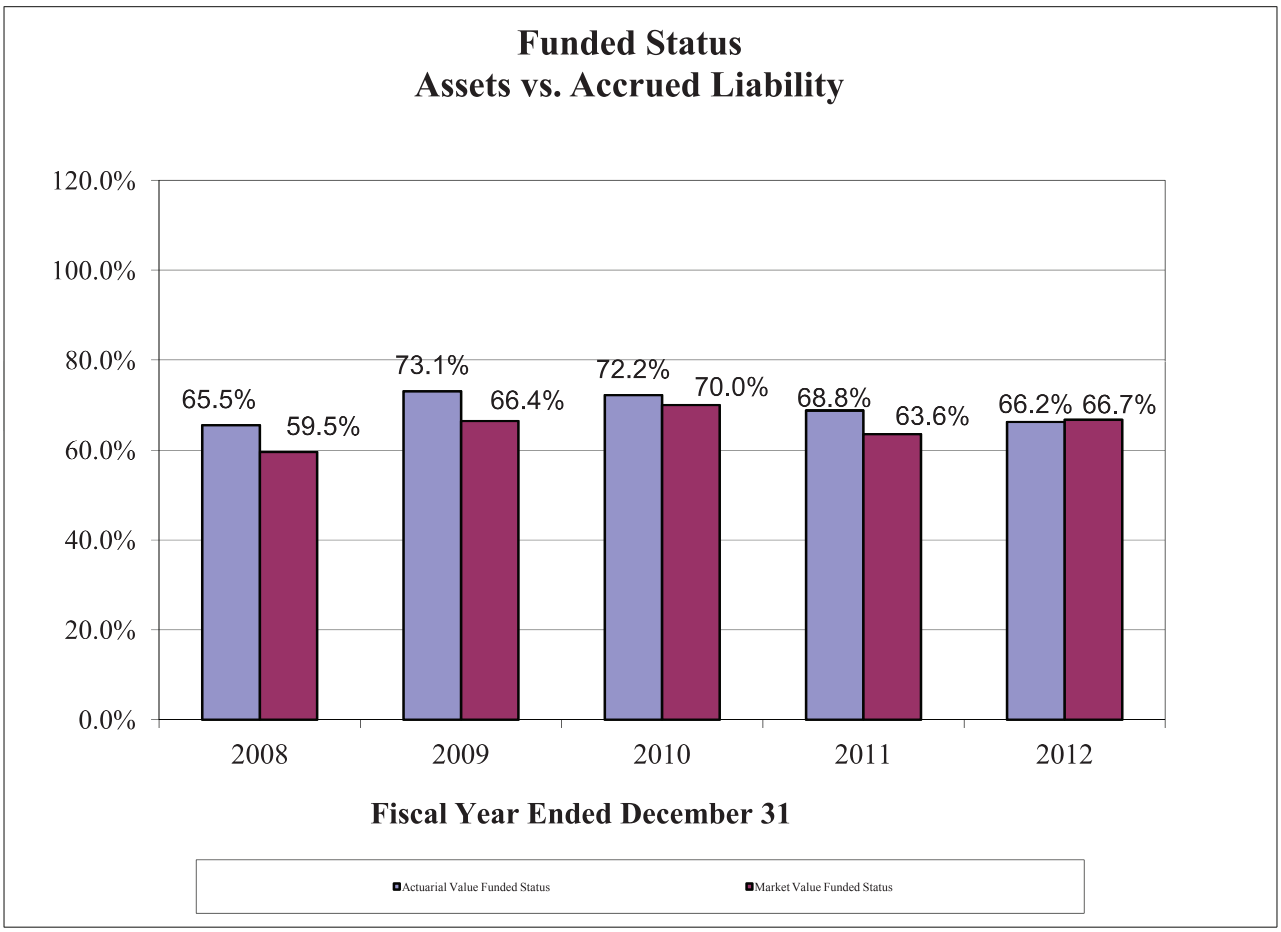
Reasons for Change in Funded Status

The actuarial value funded status decreased from 68.8% as of December 31, 2011 to 66.2% as of December 31, 2012. The market value funded status increased from 63.6% as of December 31, 2011 to 66.7% as of December 31, 2012. The primary reason for the decline in actuarial funded status was that the investment return on the smoothed fair value of assets of 2.08% was less than the assumed rate of 7.50%. Similarly, the increase in market value funded status was primarily due to the investment return in the market value of assets of 11.39% being greater than the assumed rate of 7.50%. (See Table 2)

Summary of Valuation Results (continued)

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

Fiscal	Funded Status	
Year Ending	Actuarial Basis	Market Basis
2008	65.5%	59.5%
2009	73.1%	66.4%
2010	72.2%	70.0%
2011	68.8%	63.6%
2012	66.2%	66.7%



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

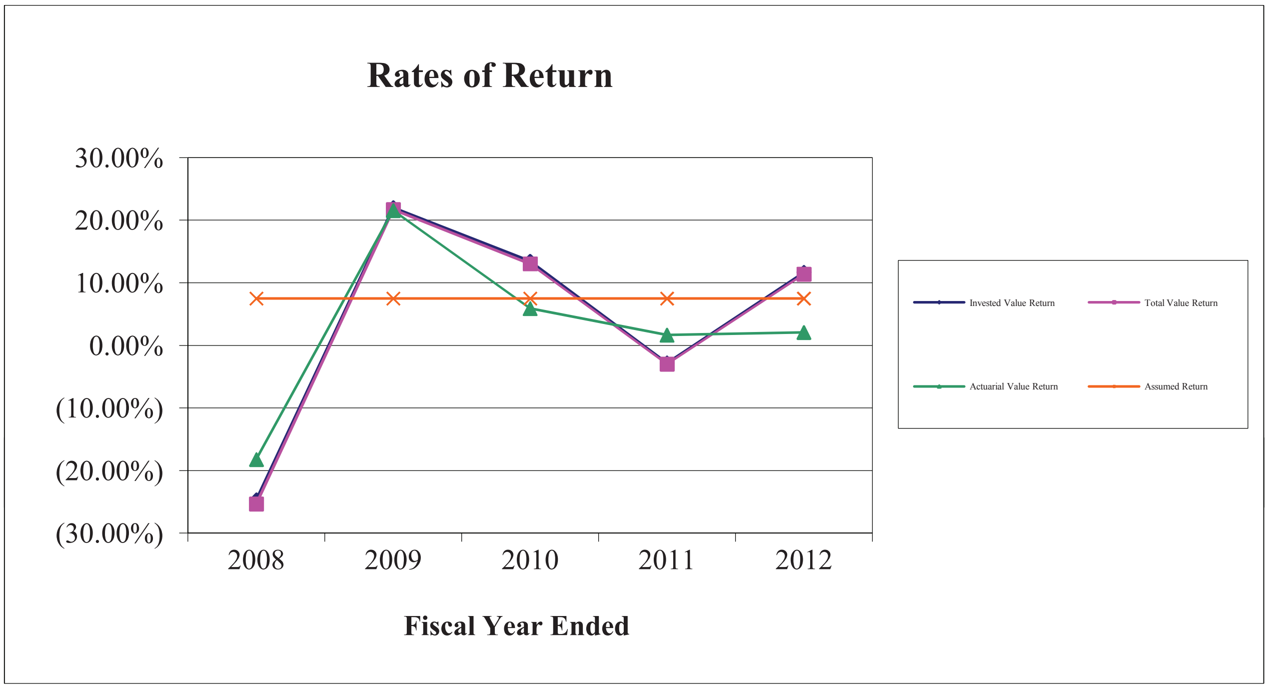
The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) based on the market value of invested assets for the fiscal year ended December 31, 2012 was 11.70%. However, since some contributions go directly to paying benefits and are never invested in the trust, the net investment return on total assets of the System was 11.39%. The investment return on the smoothed fair value of assets was 2.08%. 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 Ending	Rate of Return on Assets: Invested	Total	Actuarial	Assumed
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%
2012	11.70%	11.39%	2.08%	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

	2012	2011	Increase/ (Decrease)
Number of Members:			
Retirees	1,006	962	44
Beneficiaries	113	117	(4)
Disabled	9	9	0
Terminated Vested	63	55	8
Portables	33	29	4
Active	1,453	1,491	(38)
Total Members	2,677	2,663	14
Projected Compensation for Coming Year	89,015,136	90,264,062	(1,248,926)
Average Compensation for Coming Year	61,263	60,539	724
Average Age (Active Members)	48.85	48.68	0.17
Average Service (Active Members)	12.72	12.49	0.23
Annual Retirement Allowance	19,178,071	17,655,333	1,522,738
Average Annual Retirement Allowance	17,002	16,227	775
Average Monthly Retirement Allowance	1,417	1,352	65

Table 2

ASSET INFORMATION

Statement of Net Assets as of December 31, 2012

1. Cash & Short-Term Investments		1,155,692
2. Investments		
a. U. S. Fixed Income	25,030,613	
b. International/Global Fixed Income	13,595,314	
c. U. S. Equities	85,820,840	
d. Real Estate	13,128,823	
e. International Equities	46,643,557	
f. Alternatives	57,626,378	
g. Total Investments		241,845,525
3. Receivables		
a. Accrued Interest and Dividends	34,998	
b. Taxes	0	
c. Other	273	
d. Total Receivables		35,271
4. Other Assets		339,716
5. Liabilities		
a. Accounts Payable	(49,051)	
b. Salary & Benefits	(17,708)	
c. Other	(12,245)	
d. Employee Leave Benefits	(24,474)	
e. Total Liabilities		(103,478)
6. Total Market Value of Net Assets		243,272,726

Table 2

ASSET INFORMATION

Market Value Reconciliation

1. Total Market Value of Net Assets, 12/31/2011		223,291,826
2. Audit Adjustment		0
3. Contributions		
a. Employer	6,937,750	
b. Employee	7,019,684	
c. Total Contributions		13,957,434
4. Investment Earnings		
a. Interest & Dividends & Other Income	3,683,147	
b. Realized & Unrealized Gain/(Loss)	22,344,739	
c. Investment Expenses	(360,213)	
d. Total Investment Earnings		25,667,673
5. Benefit Payments		
a. Benefits	(18,554,194)	
b. Refund of Contributions	(569,058)	
c. Total Benefit Payments		(19,123,252)
6. Administrative Expenses		(520,955)
7. Total Market Value of Net Assets, 12/31/2012		243,272,726
8. Approximate Rate of Return on Total Assets		11.39%
9. Approximate Rate of Return on Invested Assets		11.70%

Table 2

ASSET INFORMATION

Smoothed Fair Value of Net Assets Determination

1. Total Market Value of Net Assets, 12/31/2011	223,291,826
2. Expected Return for Plan Year	16,556,671
3. Actual Return for Plan Year	25,146,718
4. Total Market Value of Net Assets, 12/31/2012	243,272,726

5. Determination of Deferred Gain (Loss)

Fiscal Year	Actual vs. Expected Return	Amount Recognized This Year	Portion Deferred	Deferred Amount
2012	8,590,047	1,718,009	4/5	6,872,038
2011	(24,353,538)	(4,870,708)	3/5	(14,612,123)
2010	11,570,454	2,314,091	2/5	4,628,182
2009	24,798,837	4,959,767	1/5	4,959,767
2008	(78,490,063)	(15,698,013)	0/5	0
Total	(57,884,263)	(11,576,854)		1,847,864

6. Preliminary Smoothed Fair Value of Net Assets (4. - 5.)	241,424,862
7. Ratio of Preliminary Smoothed Fair Value to Market Value	99.24%
8. Smoothed Fair Value of Net Assets (7., but not less than 90% nor more than 110% of 4.)	241,424,862
9. Ratio of Smoothed Fair Value to Market Value	99.24%
10. Approximate Rate of Return on Smoothed Fair Value of Net Assets	2.08%

Table 3

ACCRUED LIABILITY AND FUNDED STATUS

1. Accrued Liability prior to Changes in Benefit Provisions and Assumptions		
a. Active	177,376,336	
b. Terminated Vested & Portables	9,252,246	
c. Retirees	173,287,425	
d. Beneficiaries	10,373,489	
e. Disableds	1,372,071	
f. Total Accrued Liability prior to Changes		371,661,567
2. Actuarial Value of Assets		241,424,862
3. Unfunded Accrued Liability prior to Changes (1.f. - 2.)		130,236,705
4. Change in Unfunded Accrued Liability		
a. Due to Changes in Plan Provisions	(265,117)	
b. Due to Changes in Assumptions	(22,132,963)	
c. Due to Change in Funding Method	15,452,413	
d. Due to Change in Asset Method	0	
e. Total Change in Unfunded Accrued Liability		(6,945,667)
5. Actual Unfunded Accrued Liability (3. + 4.e.)		123,291,038
6. Funded Liability Percentage as of December 31, 2012		66.2%

Table 4

ACTUARIAL (GAIN)/LOSS

1. Increase (decrease) in Unfunded Accrued Liability	
a. Unfunded Accrued Liability, prior year	109,707,455
b. Projected Unit Credit Normal Cost (excluding expenses)	10,446,192
c. Contributions	13,957,434
d. Interest	8,497,582
e. Expected Unfunded Accrued Liability, current year (a. + b. - c. + d.)	114,693,795
f. Actual Unfunded Accrued Liability, current year before benefit, assumption, and method changes	130,236,705
g. (Gain)/Loss (f. -e.)	15,542,910
2. Reasons for (Gain)/Loss	
a. Investment Return on Smoothed Fair Value of Assets	12,950,781
b. Other	2,592,129
c. Total	15,542,910

Table 5

AMORTIZATION SCHEDULE*

Date Established	Source	Initial Amount	Remaining Balance	Years to Amortize	Required Payment
12/31/2012	Actuarial Loss	15,542,910	15,542,910	30	803,845
12/31/2012	Method Change	15,452,413	15,452,413	30	799,165
12/31/2012	Assumption Change	(22,132,963)	(22,132,963)	30	(1,144,668)
12/31/2012	Plan Amendment	(265,117)	(265,117)	30	(13,711)
12/31/2011	Actuarial Loss	12,884,920	13,494,827	29	712,023
12/31/2010	Actuarial Loss	4,665,041	5,087,017	28	274,129
12/31/2010	Plan Amendment	(159,269)	(173,676)	28	(9,359)
12/31/2009	Actuarial Gain	(19,699,834)	(22,238,417)	27	(1,225,399)
12/31/2009	Plan Amendment	9,584	10,821	27	596
12/31/2008	Plan Amendment	940,216	1,094,472	26	61,748
12/31/2008	Actuarial Loss	71,000,670	82,649,419	26	4,662,899
12/31/2007	Unfunded Liability	29,586,848	34,769,332	25	2,011,206
Total		107,825,419	123,291,038		6,932,474

* 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	7,692,135
2. Offset for Employee Contributions	(6,898,673)
3. Estimated Expenses	600,000
4. Total	1,393,462

Table 7

CONTRIBUTION SUMMARY

1. Annual Required Contribution Amount		
a. Normal Cost	1,393,462	
b. Amortization Charges	6,932,474	
c. Total		8,325,936
2. Annual Required Contribution Rate		
a. Normal Cost	1.57%	
b. Amortization Charges	7.79%	
c. Total		9.36%
3. Projected Pay for the Upcoming Year		89,015,136

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
12/31/03	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%
12/31/12	241,424,862	364,715,900	123,291,038	66.20%	89,015,136	138.51%

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**
12/31/2003	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
12/31/2012	8,325,936	6,937,750	83.33%	(1,388,186)	8,733,963	79.43%	19,321,508

* 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
12/31/03	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
12/31/12	7.75%	6,937,750	7,019,684	25,667,673	39,625,107

DEDUCTIONS BY TYPE

Fiscal Year Ended	Benefit Payments	Refunds	Admin Expenses	Total
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
12/31/12	18,554,194	569,058	520,955	19,644,207

Table 11

SCHEDULE OF MEMBERSHIP

Fiscal Year Ended	Active Members	Terminated Vested Members	Service Retirees and Beneficiaries	Disabled Retirees	Total Retirees	Total Members
12/31/01	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
12/31/12	1,453	96	1,119	9	1,128	2,677

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
12/31/2001	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%
12/31/2012	1,453	89,015,136	61,263	1.20%

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%
12/31/2012	72	1,945,840	32	423,102	1,128	19,178,071	8.6%	17,002	77.6%	21.5%

Table 14

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Number of Retirees	Type of Retirement* 1	2	3	Option Selected** LIFE	C1	C2	C3	C4	D	E
1 - 100	2	2	0	0	2	0	0	0	0	0	0
101 - 200	18	12	0	6	3	0	0	0	0	2	13
201 - 300	26	25	0	1	17	2	1	0	0	1	5
301 - 400	51	40	0	11	26	1	0	0	1	5	18
401 - 500	69	56	0	13	34	0	0	1	1	9	24
501 - 600	58	50	0	8	37	0	1	1	0	3	16
601 - 700	62	54	1	7	30	1	0	0	0	9	22
701 - 800	59	50	1	8	32	0	0	0	1	9	17
801 - 900	53	48	1	4	35	0	1	0	0	6	11
901 - 1,000	58	50	0	8	23	3	1	0	0	9	22
1,001 - 1,500	232	202	4	26	110	1	3	1	1	29	87
1,501 - 2,000	179	163	2	14	83	0	0	0	1	28	67
Over 2,000	261	254	0	7	110	7	0	1	0	58	85
Total	1,128	1,006	9	113	542	15	7	4	5	168	387

*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
12/31/2012	17,161,187	109,122	1,283,885	569,058	19,123,252

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%
12/31/2012	16,484	12,125	16,449	3.95%

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 Entry Age Normal (EAN) Actuarial Cost Method. The accrued liability and the normal cost are used to determine the City's contribution requirement. Under this method, the cost of each individual's pension is allocated on a level percent of payroll basis between the time employment starts (entry age) and the assumed retirement date. The normal cost is the amount allocated for a given year and accrued liability is the accumulation of prior normal costs as of the determination date. The total actuarial liability for retirement benefits is the sum of the accrued liability for each active member.

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 as for retirement benefits described above.

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.

Prior to December 31, 2012 the Projected Unit Credit (PUC) Actuarial Cost Method was used.

Unless otherwise specified, the following actuarial assumptions and methods were adopted December 31, 2012.

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
<1	10.0%
1	8.0%
2-3	5.0%
4-5	4.0%
6-9	3.0%
10+	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%
50-57	4.5%
58-61	7.0%
62	25.0%
63-64	15.0%
65	25.0%
66-68	20.0%
69-74	15.0%
75+	100.0%

Disability: None assumed

Salary Increases: 0% for members with more than 5 years of service in years 2013, 2014 and 2015. Otherwise in accordance with the following table based on service:

Years of Service	Annual Increase
<3	10.0%
3-4	8.0%
5-15	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 2012 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 2.5% 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, 2012

Active Members

Item	Male	Female	Total
Number of Members	955	498	1,453
Annual Salaries	$59,262,507	$27,866,926	$87,129,433
Average Age	48.4	49.8	48.9
Average Service	13.0	12.3	12.7

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2012

Retirees and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Retired Members	1,006	$17,765,313	$17,659
Survivor Annuitants	113	$1,287,797	$11,396
Disabled Annuitants	9	$124,961	$13,885
Total Annuitants	1,128	$19,178,071	$17,002

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2012

Vested Terminations and Portables

Item	Number	Annual Annuities	Average Annuities
Vested Terminations	63	$793,032	$12,588
Portables*	33	$176,962	$5,362

* 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
2013	$21,949,465	$19,036,308
2014	23,126,710	18,716,778
2015	24,177,191	18,346,670
2016	25,262,079	17,988,403
2017	26,332,959	17,610,890
2018	27,156,323	17,217,493
2019	28,044,731	16,808,849
2020	28,760,301	16,384,316
2021	29,432,992	15,944,419
2022	30,003,728	15,488,584
2023	30,471,797	15,017,931
2024	30,816,860	14,532,054
2025	31,075,776	14,030,993
2026	31,204,413	13,514,898
2027	31,224,330	12,984,119
2028	31,136,934	12,439,293
2029	30,938,590	11,881,370
2030	30,623,173	11,310,886
2031	30,193,785	10,730,897
2032	29,702,526	10,142,758

EXHIBIT C

Age 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	5	3	0	0	0	0	0	0	0	0	8
25 to 29	13	28	17	0	0	0	0	0	0	0	58
30 to 34	12	51	39	9	0	0	0	0	0	0	111
35 to 39	2	42	53	35	2	0	0	0	0	0	134
40 to 44	8	47	45	48	28	5	1	0	0	0	182
45 to 49	5	41	43	39	35	38	4	0	0	0	205
50 to 54	6	36	39	39	53	54	15	7	0	0	249
55 to 59	7	34	43	44	31	57	22	22	4	0	264
60 to 64	1	15	25	37	27	25	16	18	12	3	179
65 to 69	0	1	9	11	9	6	0	6	7	2	51
70 & Up	0	0	0	5	1	4	0	0	1	1	12
Total	59	298	313	267	186	189	58	53	24	6	1,453
Freq. Pct.	4.1%	20.5%	21.5%	18.4%	12.8%	13.0%	4.0%	3.6%	1.7%	0.4%	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	176,744	132,928	0	0	0	0	0	0	0	0	309,672
25 to 29	490,836	1,400,697	861,699	0	0	0	0	0	0	0	2,753,232
30 to 34	593,627	2,700,432	2,193,951	560,589	0	0	0	0	0	0	6,048,599
35 to 39	79,608	2,249,547	3,107,215	2,142,759	87,878	0	0	0	0	0	7,667,007
40 to 44	294,830	2,425,664	2,655,646	3,222,700	1,900,865	246,340	45,511	0	0	0	10,791,556
45 to 49	193,240	2,117,351	2,659,943	2,569,202	2,386,848	2,449,716	249,103	0	0	0	12,625,402
50 to 54	216,635	1,981,653	2,461,241	2,443,044	3,458,599	3,549,811	974,273	416,305	0	0	15,501,560
55 to 59	497,683	1,933,375	2,524,319	2,863,551	1,885,121	3,459,647	1,515,428	1,479,050	328,440	0	16,486,614
60 to 64	33,750	806,111	1,334,381	2,249,606	1,706,582	1,527,414	1,089,166	1,152,345	922,462	168,437	10,990,252
65 to 69	0	120,339	556,337	660,464	534,872	407,610	0	427,002	433,815	103,522	3,243,960
70 & Up	0	0	0	313,136	45,760	197,901	0	0	93,153	61,631	711,580
Total	2,576,953	15,868,096	18,354,732	17,025,050	12,006,524	11,838,438	3,873,480	3,474,701	1,777,870	333,589	87,129,433
Freq. Pct.	3.0%	18.2%	21.1%	19.5%	13.8%	13.6%	4.4%	4.0%	2.0%	0.4%	100.0%
Avg. Sal.	43,677	53,249	58,641	63,764	64,551	62,637	66,784	65,560	74,078	55,598	59,965

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	20	19,905	19	20,696	39	20,291
55 to 59	67	20,352	49	16,037	116	18,529
60 to 64	137	23,112	77	16,300	214	20,661
65 to 69	144	22,406	81	13,984	225	19,374
70 to 74	92	19,653	63	12,805	155	16,870
75 to 79	72	17,180	39	11,798	111	15,289
80 to 84	39	14,750	22	11,112	61	13,438
85 to 89	29	12,601	20	11,499	49	12,151
90 to 94	19	8,301	12	9,567	31	8,792
95 & Up	3	9,821	2	7,446	5	8,871
Total	622	19,819	384	14,161	1006	17,659
Average Age	69.0		68.6		68.8	
Freq. Pct.	61.8%		38.2%		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	1	10,892	1	4,218	2	7,555
50 to 54	0	0	1	19,353	1	19,353
55 to 59	1	9,123	10	11,949	11	11,692
60 to 64	0	0	13	12,989	13	12,989
65 to 69	0	0	4	16,746	4	16,746
70 to 74	0	0	19	12,467	19	12,467
75 to 79	3	6,973	22	12,821	25	12,119
80 to 84	0	0	20	10,135	20	10,135
85 to 89	0	0	11	9,090	11	9,090
90 to 94	0	0	5	7,153	5	7,153
95 & Up	0	0	2	5,280	2	5,280
Total	5	8,187	108	11,545	113	11,396
Average Age	67.4		74.6		74.2	
Freq. Pct.	4.4%		95.6%		100.0%	

EXHIBIT G

Average Benefits for Disability Retirement

Spokane Employees' Retirement System

Attained	Male		Female		Total	
Age	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	1	18,215	1	19,080	2	18,648
50 to 54	0	0	0	0	0	0
55 to 59	3	14,293	0	0	3	14,293
60 to 64	0	0	2	9,296	2	9,296
65 to 69	1	13,295	1	12,898	2	13,096
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	14,878	4	12,643	9	13,885
Average Age	56.6		59.3		57.8	
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	6,008	1	6,008
35 to 39	4	13,547	4	9,914	8	11,730
40 to 44	6	7,177	7	11,837	13	9,687
45 to 49	13	12,817	7	11,609	20	12,394
50 to 54	4	8,073	7	14,484	11	12,153
55 to 59	1	19,347	6	16,244	7	16,687
60 to 64	1	33,293	1	14,507	2	23,900
65 & Up	1	21,076	0	0	1	21,076
Total	30	12,330	33	12,823	63	12,588
Average Age	46.5		47.8		47.2	
Freq. Pct.	47.6%		52.4%		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	1	5,239	2	2,886
35 to 39	0	0	1	1,754	1	1,754
40 to 44	3	3,426	3	3,368	6	3,397
45 to 49	5	5,683	0	0	5	5,683
50 to 54	0	0	4	9,029	4	9,029
55 to 59	2	7,366	2	343	4	3,855
60 to 64	4	3,719	4	5,344	8	4,532
65 & Up	1	1,249	2	15,800	3	10,950
Total	16	4,380	17	6,287	33	5,362
Average Age	52.0		52.8		52.4	
Freq. Pct.	48.5%		51.5%		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
2012	7.75%	6,937,750	7,019,684	25,667,673	39,625,107

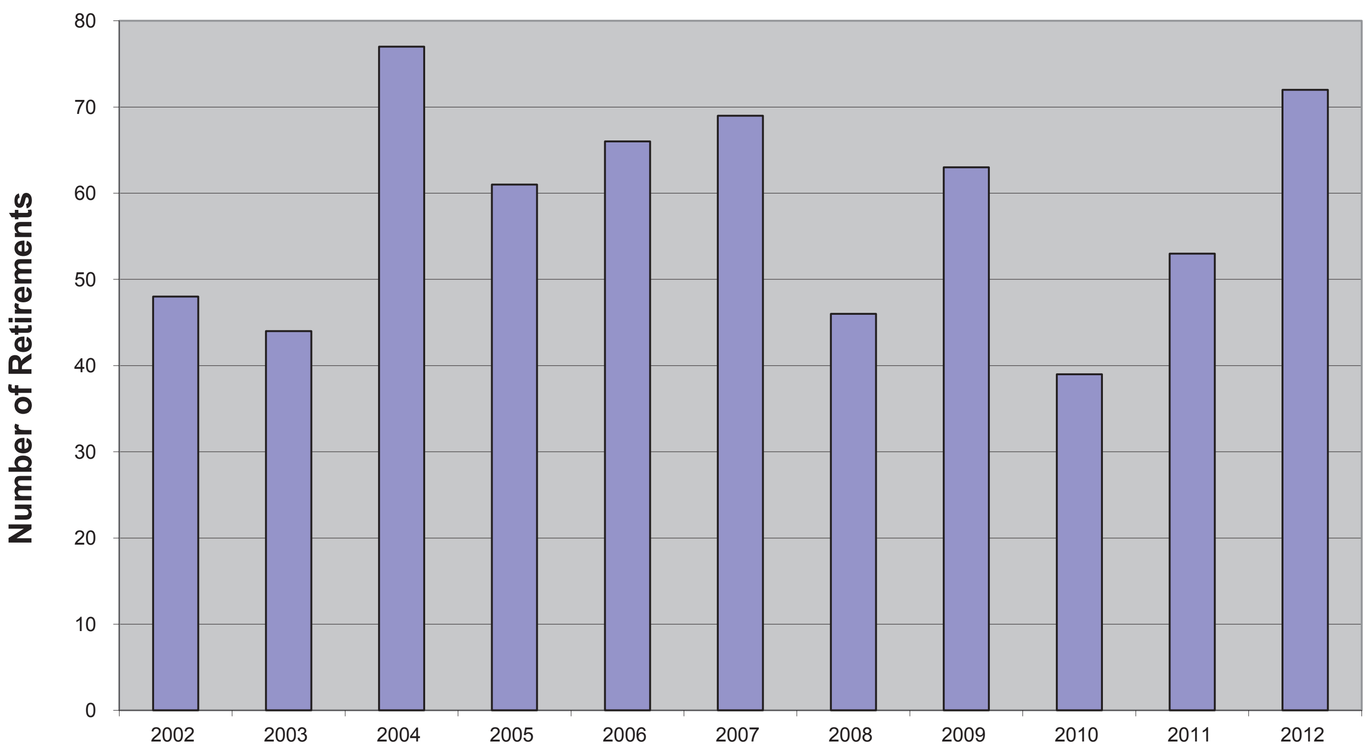
Schedule of Expenses by Type

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
2012	18,554,194	569,058	520,955	19,644,207

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
2012	17,161,187	1,283,885	109,122	569,058	19,123,252

Retirements by Year



Retirements During 2012

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
1	Robert S. Corker	Council	Council Member	1/1/2012	E	8.1	70
2	Robert W. Apple	Council	Council Member	1/1/2012	ST	8	56
3	Alexander J. Shogan, Jr.	Council	Council President	1/1/2012	E	8	63
4	Mary B. Verner	Mayor	Mayor	1/1/2012	ST	7.8	55
5	William C .Emery, Jr.	Streets	Parking Meter Specialist I	1/7/2012	D	25	65
6	Bradley J. Scott	Solid Waste	Refuse Collector III	1/7/2012	ST	19.8	58
7	Alan J. Barry	Water	Certified Water Service Specialist	1/10/2012	D	31.3	59
8	Carolyn A. Brakel	Police	Secretary II	1/12/2012	ST	15.6	67
9	Terry L. Montgomery	Water	Water Service Specialist	1/12/2012	D	35	59
10	Dorothy M. Webster	Administrative Services	Director	1/17/2012	ST	22.5	64
11	David G. Mandyke	Public Works and Utilities	Director	1/17/2012	E	35	60
12	Garvin F. Brakel	MIS	Director	1/21/2012	D	18.2	65
13	Charles R. Kauffman	Sewer Maintenance	Waste Water Specialist	1/21/2012	D	20.8	66
14	Mickey Bischoff	Engineering Services	Water Inspector	1/21/2012	E	35	58
15	Sallie M. Kirkendall	Probation Services	Clerk II	2/4/2012	ST	12.7	70
16	Jennifer A. Nist*	Police	Police Records Shift Supervisor	2/17/2012	ST	15.7	60
17	Claudia R. Bryan	Engineering Services	Clerk III	2/18/2012	ST	23.7	59
18	Terry L. Cook	Real Estate	Senior Real Estate Agent	2/29/2012	E	12	64
19	Howard F. Delaney	Legal	City Attorney	3/3/2012	E	12.5	54
20	Craig R. French	Engineering Services	Engineering Technician III	3/3/2012	E	22.5	61
21	Bert Cheney	Water	Water Service Foreperson	3/3/2012	E	21.1	62
22	Sandra J. Alter	Police	Clerk III	3/13/2012	ST	12.4	65
23	Joan L. Weller	Library	Library Page II	3/16/2012	ST	6.7	62
24	Lawrence W. Hersey	Accounting	Accountant II	3/17/2012	ST	8.1	51
25	Pamela S. McKinzie-Lewis	Parks & Recreation	Golf/Parks Administrator	4/3/2012	ST	7.6	53
26	Patricia E. Flynn*	Police	Police Records Shift Supervisor	4/5/2012	ST	10.3	50
27	Inez M. Hodge	Police	Statistician	4/20/2012	ST	35	73
28	William C. Poffenroth	Public Facilities District	PFD Employee in SERS	4/29/2012	E	15.1	51
29	Casey Booey III	Public Facilities District	PFD Employee in SERS	4/29/2012	E	16.6	51
30	Judy M. Moss	Accounting	Accountant I	5/2/2012	ST	30.2	61
31	Rocco N. Treppiedi	Legal	Asst City Attorney	5/2/2012	ST	9.9	59
32	Linda L. Mandyke	Parks & Recreation	Recreation Supervisor I	5/2/2012	ST	19.5	61
33	Lynn A. Russell	Water	Water Service Foreperson	5/2/2012	ST	35	60
34	Joseph F. Wizner	Building Services	City Building Official	5/3/2012	A	21.9	57
35	Joyce M. Easley	Engineering Services	Clerk II	5/12/2012	ST	17.1	62
36	James L. Terry, Jr.*	Arena Management	Facilities Maintenance Worker	5/29/2012	E	17	50
37	Roy F. Triplett	Water	Director	6/2/2012	E	35	62
38	David Perry, Jr.	Real Estate	Real Estate Manager	6/9/2012	E	20.4	65
39	Gregory L. Martin	Sewer Maintenance	Waste Water Specialist	6/19/2012	ST	33.5	59
40	Edward T. Bowers	Accounting	Accountant II	6/23/2012	ST	27.8	61
41	Melissa K. Wittstruck	Planning Services	City Planner II	7/3/2012	C10	10.7	59
42	Danny L. Brown	Streets	Parking Meter Specialist II	7/6/2012	ST	25.9	65
43	Dale L. Strom	Community Development	City Planner III	7/7/2012	ST	35	63
44	Marilyn L. Simon	Accounting	Deputy Director	7/7/2012	E	26.4	51
45	Richard L. Starr, Jr.	EMS	Information Analyst	7/7/2012	ST	26.9	65
46	Judith K. Killin	Library	Mobile Library Technician Assistant	7/7/2012	ST	32.8	65
47	Travis Wilbourn	Sewer Maintenance	Waste Water Specialist	7/7/2012	D	22.9	61
48	Justin R. Gardella	Police	Police Records Specialist	7/14/2012	E	32	61
49	Patricia G. Hall	Planning Services	Clerk III	7/21/2012	E	17.9	60
50	Pamela R. Schroeder	Risk Management	Risk Manager	7/24/2012	D	5.8	62
51	Frank J. Schutz	Parks & Recreation	Park Caretaker	7/31/2012	ST	5	70
52	Kathie L. Benham	Code Enforcement	Certified Enforcement Specialist	8/4/2012	ST	23.2	59
53	Kristy A. Pettit	Fire	Supervisory Analyst	8/8/2012	D	27.6	50
54	Michael H. Adolfae	Community Development	Director	8/18/2012	D	5.1	68
55	Liane Carlson#	Human Resources	Human Resources Analyst	8/30/2012	ST	4.9	62
56	Sallye S. Prenger	Library	Librarian	9/5/2012	ST	8.9	63
57	Daniel D. Trude	Streets	Street Maintenance Operator II	10/2/2012	ST	24.6	55
58	Karen R. Mobley	Business & Development	Director-Arts	10/17/2012	ST	15.3	51
59	Michael J. Aho	Parks & Recreation	Recreation Supervisor II	11/2/2012	D	23	52
60	Larry J. Naccarato	Business & Development	Certified Plan Examiner	11/17/2012	D	22.4	63
61	Lesa A. Zubaugh *	Municipal Court	Clerk II	11/24/2012	E	12.6	50
62	Brenda A. Robidoux	Engineering Services	Engineering Technician IV	11/24/2012	ST	35	62
63	Pamela K. Ames	Police	Police Communications Supervisor	11/26/2012	B	22.2	50
64	Keith D. Coe*	Water	Hydro Eletronic Forepreson	12/1/2012	ST	13.6	50
65	Richard R. Mauget	Water	Water Service Specialist	12/4/2012	E	27.1	60
66	Gerard F.X. Vollmer	Water	Laborer I	12/7/2012	E	19.1	63
67	Edward L. Humphries	Fleet Services	Parts Technician	12/7/2012	Dis	14.3	47
68	Lori Lacy	Fire	Fire Dispatcher	12/8/2012	ST	10.1	55
69	Taylor K. Bressler	Parks & Recreation	Division Manager	12/15/2012	ST	33.6	62
70	James R. Evans	Community Centers	Building Engineer I	12/22/2012	E	8.4	69
71	Dan L. Johnston	Parks & Recreation	Craft Specialist	12/22/2012	B	20.1	63
72	Sandra E. Scott	Neighborhood Services	Clerk III	12/22/2012	ST	15.3	71

* Retired as vested employee # Retired under membership through Portability

Deaths During 2012

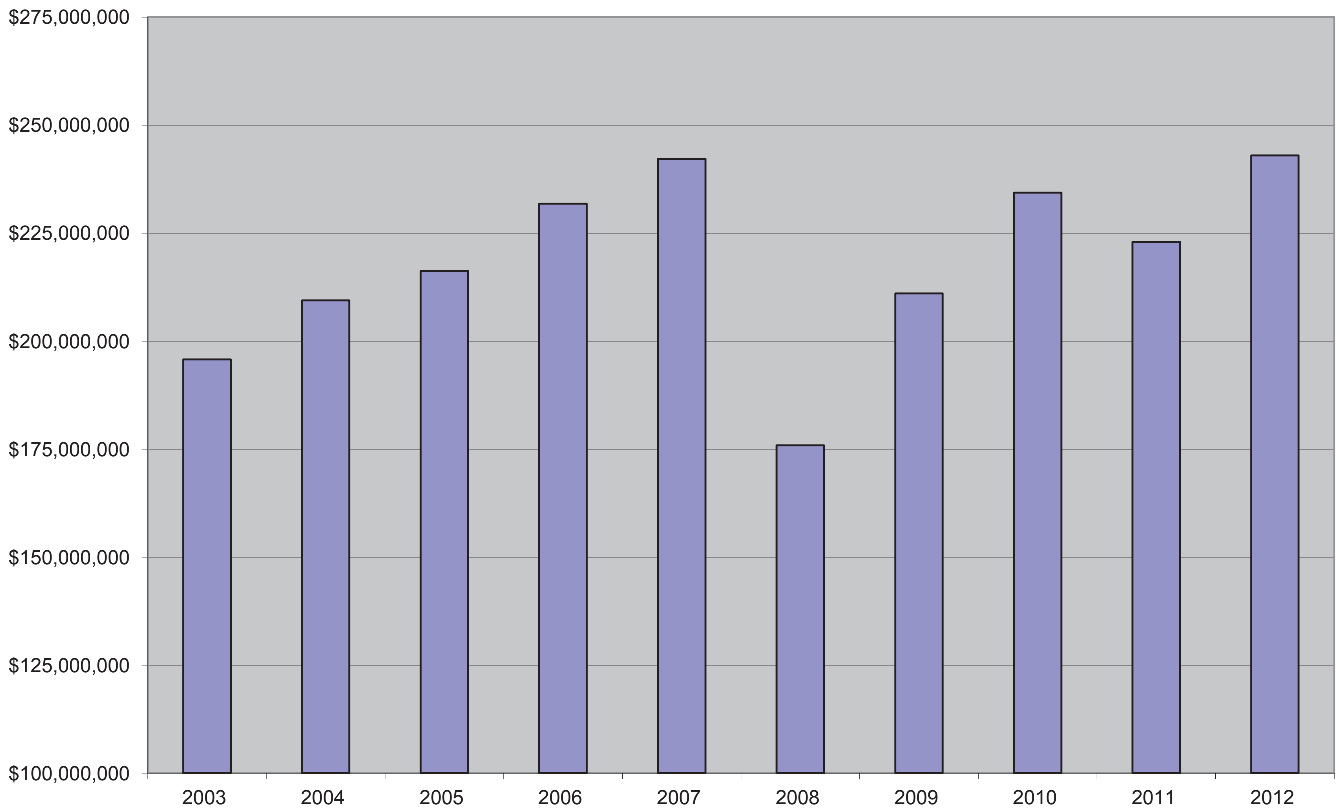
Retiree Deaths

	Name	Date Retired	Date of Death	Age	Retirement Option
1	Barbara J. Reimann	5/2/02	1/10/12	68	ST
2	Mary L. Rafferty	4/1/88	2/1/12	86	ST
3	Florence M.Fray	2/3/79	2/27/12	96	A
4	Kenneth R. Graham	7/7/02	3/6/12	80	E
5	William D. Kilgore	4/1/78	3/9/12	92	A
6	Robert L. Huckabay	3/28/80	3/11/12	68	Dis
7	Leland E. Hodge	7/10/91	3/15/12	75	E
8	Beverly J. McAndrews	12/24/90	3/18/12	81	E
9	Stanley J. Grindy	12/3/96	4/10/12	65	A
10	Evelyn Dinsmore	5/5/85	4/20/12	94	E
11	Wilbert D. Hoff	7/9/93	4/27/12	83	ST
12	Helen D. Blackwell	4/1/95	5/15/12	91	E
13	Lena Klein	5/18/93	5/29/12	99	D
14	Sofia E. Bonck	7/6/87	5/31/12	92	E
15	Rolf P. Stratte	8/2/05	6/11/12	68	ST
16	Lydia T. Sims	12/31/88	6/23/12	92	D
17	Barry P. Delong	12/31/04	6/27/12	66	E
18	John L. Greenwood	3/10/01	7/5/12	61	ST
19	Eva J. Monigold	12/2/95	7/7/12	75	E
20	George E. Zigler	1/8/83	7/17/12	78	A
21	Richard E. Saty	8/6/87	7/17/12	87	A
22	Florence F. Hood	6/8/84	7/27/12	101	D
23	Everett W. Cox	7/4/87	8/6/12	82	A
24	Floyd W. Thon	7/5/83	9/16/12	91	A
25	Clara T. Fountaine	4/1/98	9/24/12	90	D
26	Edward L. Fletcher	9/8/95	9/26/12	75	ST
27	Jacob W. Emerson	1/8/83	10/28/12	84	ST
28	Ronnie O. Gaustad	4/6/02	11/5/12	77	ST
29	James P. Olsen	1/31/92	11/9/12	71	D
30	Thomas J. Koontz	6/10/06	11/13/12	56	ST
31	Margaret C. Tuscher	5/1/86	11/24/12	90	ST
32	Carolyn R. Hastings	12/31/04	12/1/12	71	B
33	Frank F. Tobie	1/11/86	12/1/12	91	E

Investment Section

Total Retirement Assets

A 10 year look

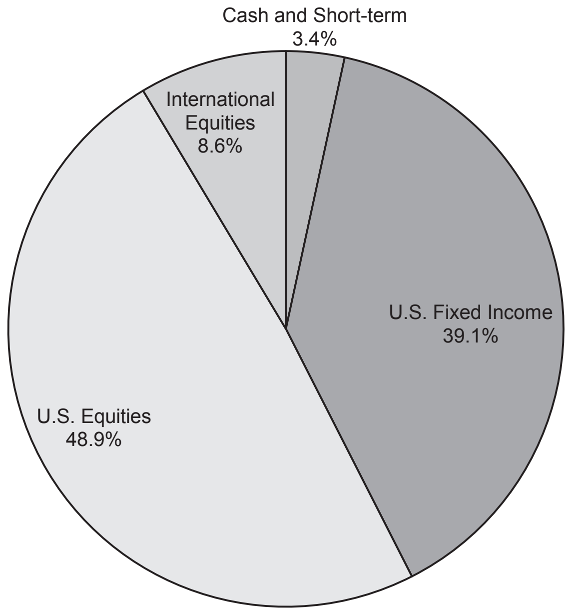


Schedule of Investment Results

	Market Value of Investments	Net Investment Income	Investment Rate of Return (Net of fees)
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%
2012	243,036,215	25,667,673	11.70%

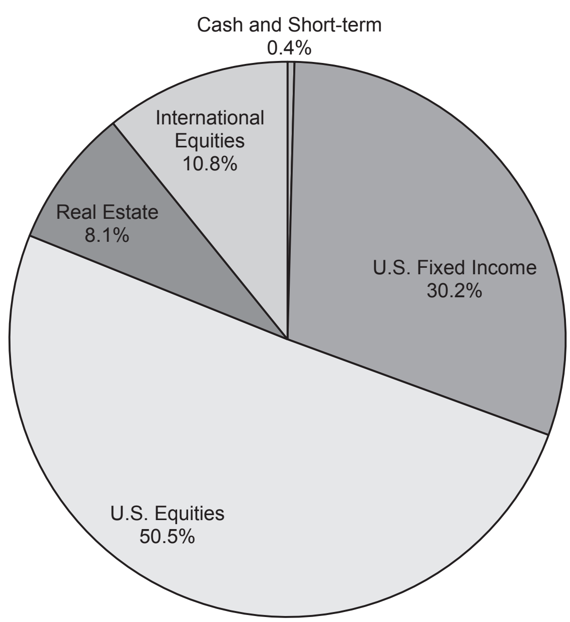
The Evolution of SERS Investment Asset Allocation

2004 Year-End Asset Allocation



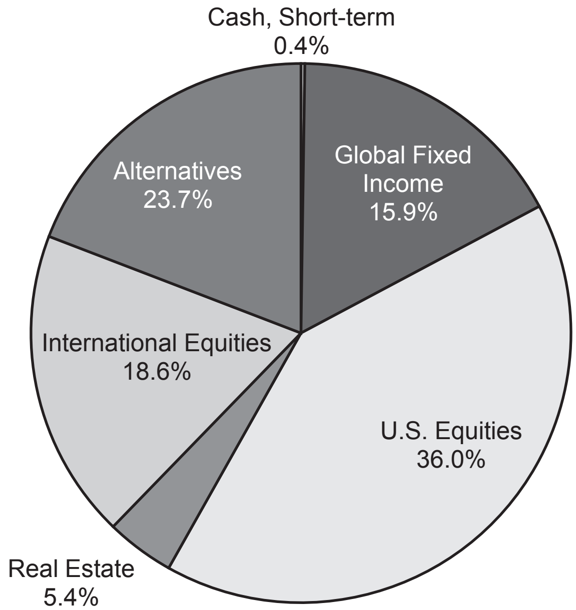
Traditional 60/40 portfolio with an allocation to international equities

2006 Year-End Asset Allocation



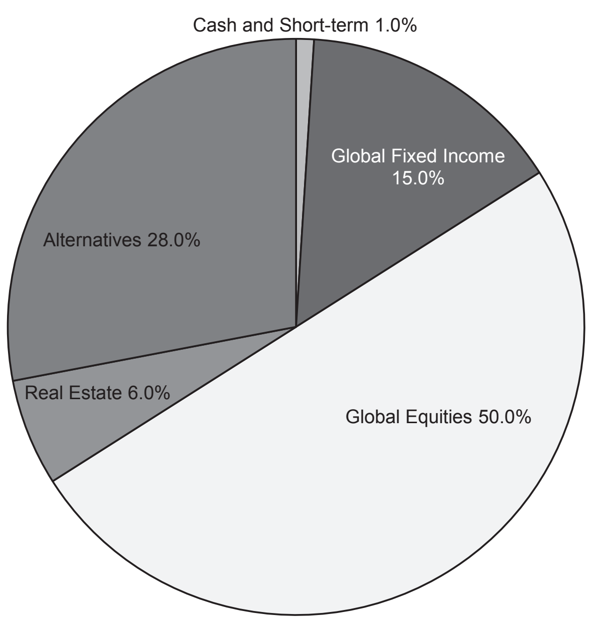
Equity exposure grew with overall market increase; real estate assets added; fixed income reduced as internally managed bond portfolio is phased out.

2012 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, 2012

Cash and Cash Equivalents:		
Cash Held by Treasurer	$	88,961
Union Bank		802,553
Fixed Income Investments:		
PIMCO Low Duration		7,469,124
Vanguard Short-Term		7,538,068
Metropolitan West High Yield I		10,023,445
PIMCO Global		13,595,337
Equity Investments:		
Hotchkis & Wiley Core Value I		11,087,146
Delaware Large Cap Growth		9,933,157
Vanguard Institutional Index		20,770,681
MFS Blended Core		10,571,112
Sterling Mid Cap Value		6,962,910
Rainier Mid Cap Growth		7,037,975
Vanguard Mid Cap Index		7,296,506
Champlain Small Cap Growth		3,775,228
Phocas Small Cap Growth		3,178,031
Bridge City Small Cap Growth		2,976,613
Vanguard Small Cap Index		3,922,999
International Investments:		
Berens Global Value		9,856,208
Vanguard International Index		3,445,337
EuroPacific Core		12,041,937
Artisan International Value		11,862,455
Epoch International Small Cap Value		7,996,654
Real Estate Investments:		
Legacy Partners Realty III		1,090,843
Metropolitan Realty V		1,407,721
Morrison Street Fund IV		2,613,919
Principal Global Investors REIT		8,064,840
Alternative Investments:		
Orbi Med Royalty Opps		1,390,393
7 X 7 Offshore		2,587,904
Landmark Value Strategies		210,101
Troob Capital Management		4,096,670
Post Limited Term High Yield		4,961,462
Rimrock Low Volatility		8,111,635
Castine Partners II		5,027,569
Altairis Offshore		5,346,876
Orbi Med Caduceus II		6,064,247
Weatherlow Offshore I		11,961,323
iShares S&P GSCI Commodity		7,868,275
Total Cash and Investments	$	243,036,215