



SERS

Spokane Employees'
Retirement System

Comprehensive Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2013

Retirement Department
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Photo by James Richman



Comprehensive Annual Report

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Introductory Section

Table of Contents

Introductory Section

Board, Staff, and Advisory Personnel.....	7
Organizational Chart.....	8
Description of Retirement System.....	9
Service Retirement Options.....	10
Letter of Transmittal	11

Financial Section

Independent Auditor's Report.....	17
Management's Discussion and Analysis.....	19
Statement of Plan Net Position.....	27
Statement of Changes in Plan Net Position.....	28
Notes to the Financial Statements.....	29
Schedule of Employer Contributions	37
Schedule of Funding Progress.....	38
Schedule of Administrative Expenses	40
Schedule of Investment Expenses	42

Actuarial Section

Certification Letter.....	46
Summary of Valuation Results.....	49
Demographics.....	60
Asset Information	61
Accrued Liability and Funded Status.....	64
Actuarial (Gain)/Loss.....	65
Amortization Schedule	66
Normal Cost.....	67
Contribution Summary	68
Schedule of Funding Progress.....	69
Schedule of Employer Contributions	70
Historical Summary of Fund Additions and Deductions.....	71
Other Schedules	72
Description of Actuarial Assumptions and Methods	77
Summary of Benefit and Contribution Provisions.....	79
Appendix – Data Tables	82

Statistical Section

Schedule of Revenues by Source	97
Schedule of Expenses by Type	97
Schedule of Benefit Expenses by Type.....	98
Retirements by Year.....	98
List of Service Retirements	99
List of Retiree Deaths.....	101
List of Active Member Deaths	101

Investment Section

Graph of Total Retirement Assets	105
Schedule of Investment Results	105
Evolution of SERS Asset Allocation	106
Investments Listed by Type.....	108

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

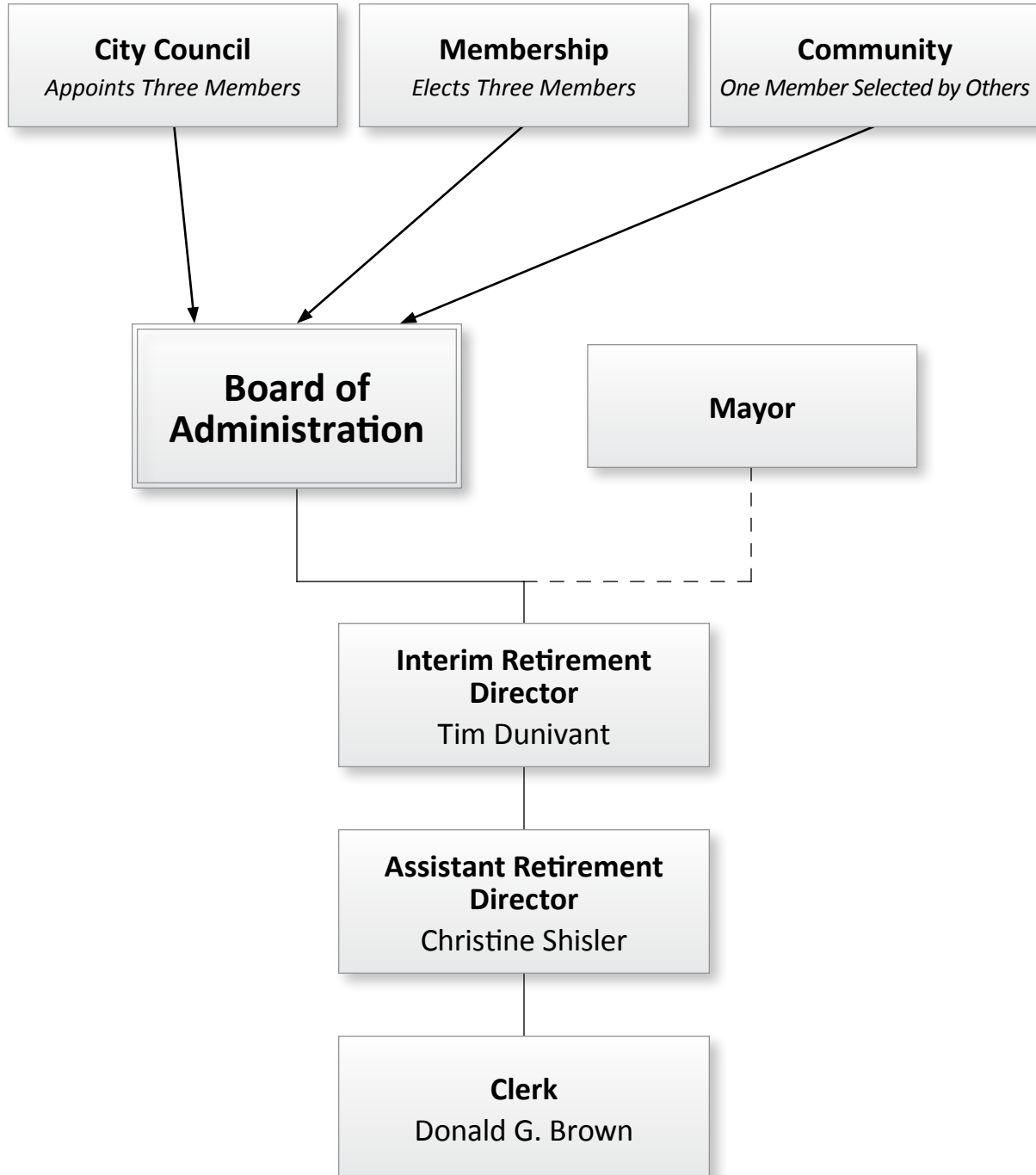
STAFF

Tim Dunivant	Interim Retirement Director
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	US Bank
Legal Counsel	K & L Gates and Lane Powell PC

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:

1. **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.
2. **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.
3. **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.
4. **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.
5. **Option "D"** Upon the retiree's death, 50% of the pension is continued to the retiree's spouse for life.
6. **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**
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www.spokanesers.org

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

This 72nd 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 Interim Director would like to acknowledge the hard work and dedication of the Retirement Department staff. Without them, this report would not be possible.

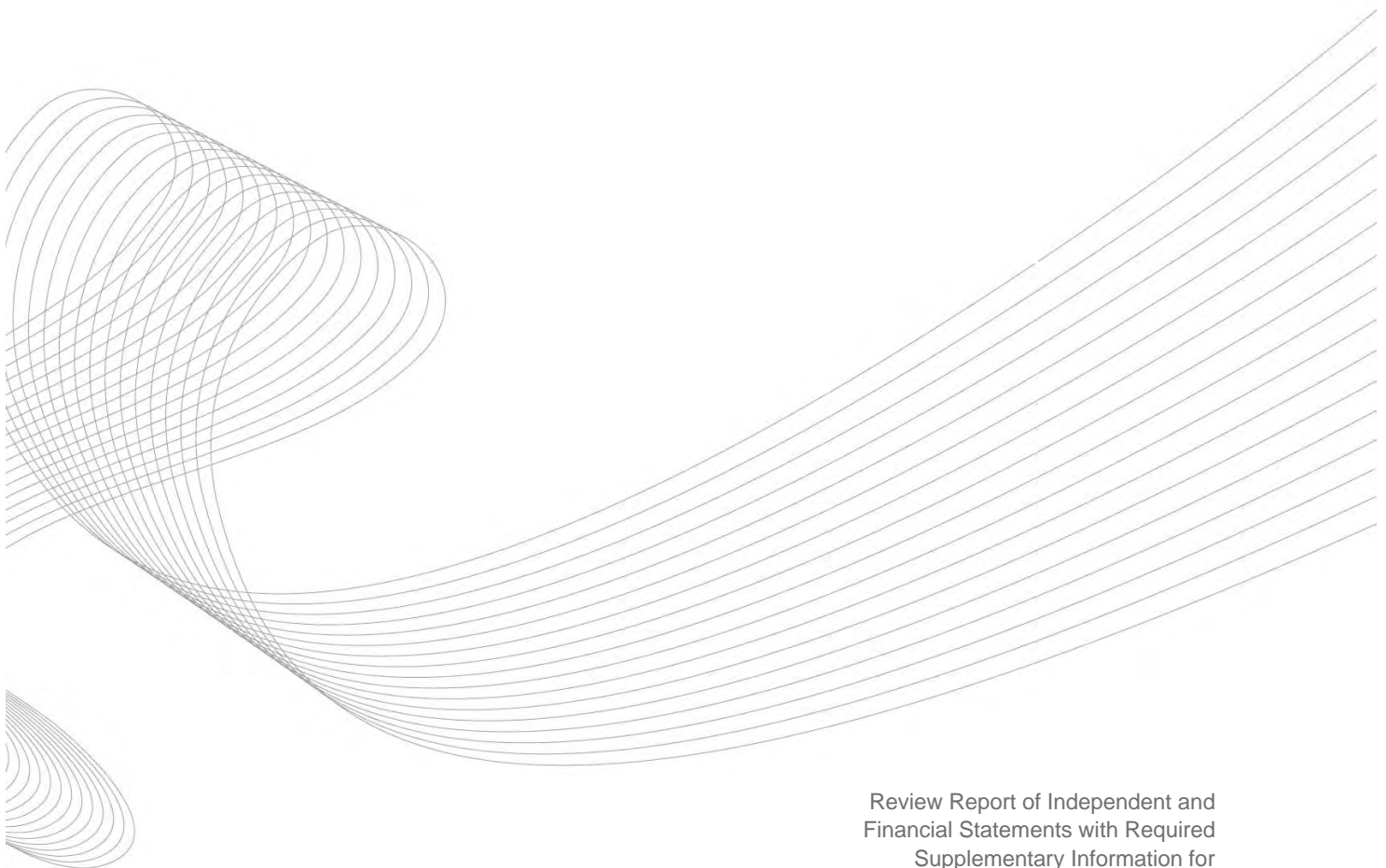
Respectfully submitted,

Board of Administration,
Spokane Employees' Retirement System
As of December 31, 2013

Timothy R. Dunivant
Interim Retirement Director

Financial Section

Moss-Adams L.L.P.
Independent Auditor's Report



Review Report of Independent and
Financial Statements with Required
Supplementary Information for

**Spokane Employees'
Retirement System**

(Pension Trust Fund of the City
of Spokane, Washington)

December 31, 2013 and 2012

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Trustees
Spokane Employees' Retirement Plan

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 net position available for benefits as of December 31, 2013 and 2012, and the related statements of changes in net position available for benefits 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.

**REPORT OF INDEPENDENT AUDITORS
(continued)**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position available for benefits of the Spokane Employees' Retirement System as of December 31, 2013 and 2012, and the changes in net position available for benefits 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 10 and schedule of employer contribution and funding progress on pages 20 and 21 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 22 through 24, 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 28, 2014

SPOKANE EMPLOYEES' RETIREMENT PLAN MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

This section presents management's discussion and analysis of the Spokane Employees' Retirement System's (SERS, the System, or the Plan) financial performance during the year ended December 31, 2013. 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 net position available for benefits
 - b. Statements of changes in net position available for benefits
 - 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 net position available for benefits show the account balances at year end and include 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 PLAN MANAGEMENT DISCUSSION AND ANALYSIS

- The statements of changes in net position available for benefits show the sources and uses of funds during the year and illustrate 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 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 \$37.6 million (15.5%) during 2013 and increased by \$20.0 million (8.9%) during 2012. The 2013 and 2012 increases were primarily due to robust gains in the equity markets in the U.S. and abroad.
- Revenues and additions to net position totaled \$58.8 million in 2013, compared to \$39.6 million in the prior year. For 2013, revenue includes member and employer contributions of \$13.4 million and net investment earnings from investment activities totaling \$45.3 million. Member and employer contributions decreased by \$527,000 in 2013 and increased \$326,000 in 2012. A reduction in the workforce is the main contributing factor. Net investment income, which fluctuates year-to-year depending on market conditions, increased by \$19.7 million and \$32.1 million in 2013 and 2012, respectively. The equity markets have experienced extreme volatility in the last few years.
- Expenses, deductions from net position, for 2013 were \$21.1 million, a 7.5% increase from 2012. Expenses for 2012 were \$19.6 million, a 7.9% increase from 2011. Total expense amounts, and fluctuations, are primarily driven by pension benefit payments. Retiree benefits and refunds of contributions increased by \$1.6 million during 2013 and by \$1.4 million during 2012.

SPOKANE EMPLOYEES' RETIREMENT PLAN 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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash, short-term investments and receivables	\$ 1,775,308	\$ 1,190,963	\$ 1,056,180
Investments at fair value	<u>278,895,131</u>	<u>241,845,525</u>	<u>221,950,527</u>
Leasehold improvements, net	877	4,385	7,893
Software, net	317,682	335,331	-
Software in progress	<u>-</u>	<u>-</u>	<u>352,980</u>
Total assets	<u>280,988,998</u>	<u>243,376,204</u>	<u>223,367,580</u>
Accrued expenses	<u>87,897</u>	<u>103,478</u>	<u>75,754</u>
TOTAL NET POSITION	<u><u>\$ 280,901,101</u></u>	<u><u>\$ 243,272,726</u></u>	<u><u>\$ 223,291,826</u></u>

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,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Additions			
Employer contributions	\$ 6,715,376	\$ 6,937,750	\$ 6,799,258
Plan member contributions	6,715,376	7,019,684	6,831,742
Net investment income (loss)	<u>45,323,533</u>	<u>25,667,673</u>	<u>(6,440,146)</u>
Total additions	<u>58,754,285</u>	<u>39,625,107</u>	<u>7,190,854</u>
Deductions			
Benefits	20,346,281	18,554,194	17,216,853
Refunds of contributions	393,954	569,058	502,566
Net administrative expenses	<u>385,675</u>	<u>520,955</u>	<u>490,611</u>
Total deductions	<u>21,125,910</u>	<u>19,644,207</u>	<u>18,210,030</u>
NET INCREASE (DECREASE)	<u><u>\$ 37,628,375</u></u>	<u><u>\$ 19,980,900</u></u>	<u><u>\$ (11,019,176)</u></u>

SPOKANE EMPLOYEES' RETIREMENT PLAN MANAGEMENT DISCUSSION AND ANALYSIS

Revenues - Additions to Net Plan Position

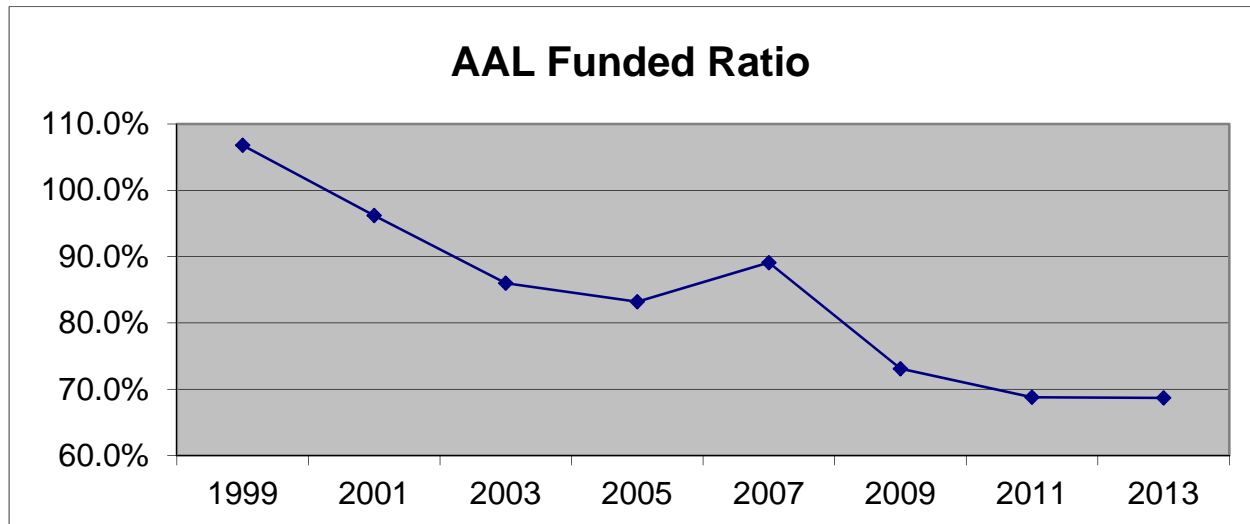
- Employer contributions decreased by \$222,000 (-3.2%) in 2013 and increased by \$138,000 (2.0%) in 2012. Plan member contributions decreased by \$304,000 (-4.3%) in 2013 and increased \$188,000 (2.8%) in 2012. Both the employer and the employee contributions are driven by the contribution rate, currently 7.75% per side, and by salaries/wages. 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 \$45.3 million gain in 2013 compared to a \$25.7 million gain in 2012. In 2013, the portfolio earned a positive 18.9% compared with a positive 11.7% in 2012. The past two years have seen the U.S. equity markets and international markets continue to rise sharply.

Expenses - Deductions from Net Plan Assets

- Retiree benefits paid increased by \$1.8 million (9.7%) in 2013 and \$1.3 million (7.8%) in 2012. Pent up retirement demand continues to contribute to the sharp increase in retirements in 2013, and is expected to continue for the near future. SERS' active member age is an average of 48.9 years old, which is up from 47.9 as compared to 2009. Average active participant service has increased from 11.8 years in 2009 to 12.7 years in 2013.
- Refunds of contributions decreased by \$175,000 in 2013 and increased by \$66,000 in 2012. Lump sum withdrawals from the Plan fluctuate from year to year.
- Net administrative expenses include salaries and benefits for the SERS staff, along with other costs associated with administering the Plan; further detail can be found on the Schedule of Administrative Expenses. In 2013, the Retirement Director position remains open and is filled on an interim basis by the Director of Management and Budget at no cost to SERS. Additionally, 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 \$368,000 in 2013. Net administrative expenses, before the noncash amortization charge, are lower than those incurred ten years ago in 2004. Staff and the Board continue to be diligent about Plan operating expenses.

SPOKANE EMPLOYEES' RETIREMENT PLAN MANAGEMENT DISCUSSION AND ANALYSIS

Schedule of Funding Progress Funded Ratio



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. The 2013 increase in the funded status is primarily attributable to investment return on the smoothed fair value of the assets being greater than the assumed rate of return (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, however, increased it back to 7.5% in 2007. Other factors affecting the ratio's decline earlier this decade include actuarial losses due to differences between actual and assumed Plan experience. The AAL funded ratio was 68.7% at December 31, 2013, which reflects an increase of 2.5 percentage points during 2013.

SPOKANE EMPLOYEES' RETIREMENT PLAN MANAGEMENT DISCUSSION AND ANALYSIS

Funding Status (continued)

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. 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 currently in place. Since that time, City Administration has been working with the employee groups covered by SERS to adopt benefit changes for future employees that, in conjunction with the recommended contribution rate changes, will stabilize the long-term health of the Plan.

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, 2013. 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 PLAN 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	
	2013	2012
Total portfolio	18.9%	11.7%
<i>Policy index</i>	17.9%	13.2%
Large cap equities	34.8%	15.4%
<i>Benchmark: S&P 500 Index</i>	32.4%	16.0%
Mid cap equities	37.5%	14.2%
<i>Benchmark: Russell Mid cap Index</i>	34.8%	17.3%
Small cap equities	40.3%	12.8%
<i>Benchmark: Russell 2000 Index</i>	38.8%	16.4%
Real estate	8.7%	15.2%
<i>Benchmark: FTSE NAREIT Composite Index</i>	2.2%	18.6%
International equities	20.9%	18.5%
<i>Benchmark: MSCI ACWI Ex USA Index</i>	15.3%	16.8%
Alternatives		
Absolute return	4.7%	6.7%
<i>Benchmark: Fixed Income Alternatives - Barclays Capital US Aggregate Bond Index</i>	(2.0%)	4.2%
<i>Benchmark: NFRI FOF Conservative</i>	7.7%	4.2%
Long/Short growth	15.2%	3.8%
<i>Benchmark: Equities Alternatives - S&P 500 Index</i>	32.4%	16.0%
<i>Benchmark: HFRI FOF Comp</i>	8.7%	4.8%
Fixed income	1.2%	8.2%
<i>Benchmarks:</i>		
<i>Barclays Capital US Aggregate Bond Index</i>	(2.0%)	4.2%
<i>US T-Bills 90 day Index</i>	0.07%	0.08%

SPOKANE EMPLOYEES' RETIREMENT PLAN MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities (continued)

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

Total investments, valued at fair market value, increased \$37.0 million in 2013 compared to an increase of \$19.9 million in 2012. The investment portfolio experienced an overall positive return of 18.9% in 2013 compared to a positive return of 11.7% in 2012. The portfolio out-performed the policy benchmark in 2013 on a net of fees basis by nearly 100 bps. Relative performance benefited from excellent active manager execution in most traditional asset classes along with significant value add from the portfolio's absolute return allocation consisting of various low-risk hedge fund strategies. SERS continued to utilize various hedged equity and credit strategies that are implemented specifically to reduce short-term volatility. These strategies provided the largest drag on relative performance as they are designed to provide superior downside protection relative to long-only equity portfolios. However, they generally lag long-only strategies in strong upward trending markets like 2013. Over a full market cycle, SERS expects these strategies to provide equity-like returns with significantly lower volatility.

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 Board believes the use of alternative investments is a prudent approach to managing risk.

Contacting the Spokane Employees' Retirement System

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

Spokane Employees' Retirement System
City Hall – Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201
www.spokanesers.org
509.625.6330

SPOKANE EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF NET POSITION AVAILABLE FOR BENEFITS

	December 31, 2013	December 31, 2012
ASSETS		
Cash	\$ 192,910	\$ 88,961
Short-term investments	1,523,566	1,066,731
Interest and dividends receivable	58,483	34,998
Other receivable	349	273
	<u>1,775,308</u>	<u>1,190,963</u>
Total cash and receivables		
Investments at fair value		
U.S. fixed income	32,188,216	25,030,613
International/global fixed income	13,242,228	13,595,314
U.S. equities	97,909,114	85,820,840
Real estate	14,223,774	13,128,823
International equities	53,140,765	46,643,557
Alternatives	68,191,034	57,626,378
	<u>278,895,131</u>	<u>241,845,525</u>
Total investments		
Leasehold improvements, net of accumulated depreciation of \$16,662 and \$13,154, respectively	877	4,385
Capitalized software, net of accumulated amortization of \$32,298 and \$17,649, respectively	317,682	335,331
	<u>280,988,998</u>	<u>243,376,204</u>
Total assets		
LIABILITIES		
Accounts payable	52,930	49,051
Current portion employee salaries and benefits	15,738	17,708
Other current liabilities	12,478	12,245
Employee leave benefits	6,751	24,474
	<u>87,897</u>	<u>103,478</u>
Total liabilities		
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$280,901,101</u></u>	<u><u>\$ 243,272,726</u></u>

SPOKANE EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF CHANGES IN NET POSITION AVAILABLE FOR BENEFITS

	Year Ended December 31, 2013	Year Ended December 31, 2012
ADDITIONS		
Contributions		
Employer	\$ 6,715,376	\$ 6,937,750
Plan members	<u>6,715,376</u>	<u>7,019,684</u>
Total contributions	<u>13,430,752</u>	<u>13,957,434</u>
INVESTMENT INCOME		
Net appreciation in fair value of investments	40,854,987	22,344,739
Interest, dividends, and other investment income	<u>4,807,707</u>	<u>3,683,147</u>
	45,662,694	26,027,886
Less investment expenses	<u>339,161</u>	<u>360,213</u>
Net investment income	<u>45,323,533</u>	<u>25,667,673</u>
Total additions	<u>58,754,285</u>	<u>39,625,107</u>
DEDUCTIONS		
Benefits	20,346,281	18,554,194
Refunds of contributions	393,954	569,058
Administrative expenses, net of administrative income	<u>385,675</u>	<u>520,955</u>
Total deductions	<u>21,125,910</u>	<u>19,644,207</u>
CHANGE IN NET POSITION	37,628,375	19,980,900
Net position, beginning of year	<u>243,272,726</u>	<u>223,291,826</u>
Net position, end of year (held in trust for pension benefits)	<u><u>\$280,901,101</u></u>	<u><u>\$ 243,272,726</u></u>

SPOKANE EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description

The Spokane Employees' Retirement System (SERS, the System, or the Plan) is a single employer defined benefit pension plan covering employees of the City of Spokane (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, 2013, there are 1,180 retirees and beneficiaries receiving benefits; 98 vested terminated, including portables, entitled to future benefits; and 1,422 active members of the Spokane Employees' Retirement System for a total of 2,700 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 64.50%. 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 2.00% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.00%. 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 2.00% 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.

SPOKANE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description (continued)

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

	<u>2013</u>	<u>2012</u>	<u>% Change Increase (Decrease)</u>
Retirees and beneficiaries receiving normal retirement benefits	1,171	1,119	4.6%
Disability retirees	9	9	0%
Total retirees and beneficiaries	<u>1,180</u>	<u>1,128</u>	4.6%
Current and terminated employees entitled to, but not yet receiving benefits			
Current employee members	1,422	1,453	(2.2%)
Vested terminated members	98	96	2.1%
Total current and vested employee members	<u>1,520</u>	<u>1,549</u>	(1.9%)

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.

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.

SPOKANE EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Investments – All fixed income, common stock, and short-term investments are reflected in the statement 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 statement of changes of net position available for benefits 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 net position available for benefits.

Recent accounting pronouncement – GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for financial reports of most pension plans. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and enhances note disclosures and required supplementary information (RSI) for pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in notes to the financial statements and in 10-year RSI schedules. This Statement is effective for periods beginning after June 15, 2013. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the System.

Note 3 – Deposits and Investments

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

SPOKANE EMPLOYEES' RETIREMENT PLAN NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

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

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

The Board has an asset allocation policy, which includes an allocation to alternative investments. Funding of these limited partnerships began in late 2007 and continued during 2012 and 2013. 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 Board believes 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 \$45.4 million as of December 31, 2013.

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

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.

SPOKANE EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

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 staff.

The table below shows the System's fixed income assets by investment type, average effective maturity and market value as of December 31, 2013:

	Average Effective Maturity (in years)	Market Value
Mutual Funds		
PIMCO Low Duration	1.92	\$ 5,455,170
Vanguard Short-term	3.20	6,190,509
American Beacon Flexible	4.50	9,817,479
PIMCO Global	5.57	13,242,228
Metropolitan West	7.38	<u>10,725,058</u>
Total fixed income		<u>\$ 45,430,444</u>
Fixed income as a percentage of SERS total investments	16.3%	

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, 2013, 22.4% of the System's portfolio is invested in international mutual funds and a limited partnership fund of funds, which primarily consist of foreign equities. The fair market value of the foreign equities and foreign fixed income is \$66.4 million as of December 31, 2013. Additionally, SERS has \$13.2 million invested in an international/global fixed income fund, of which 55.7% is in foreign fixed income holdings at December 31, 2013. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System considers foreign currency risk during the selection and monitoring process of the fund managers.

SPOKANE EMPLOYEES' RETIREMENT PLAN NOTES TO FINANCIAL STATEMENTS

Note 4 – Contributions

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

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

Note 5 – Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2013, the actuarial liability funded status ratio is 68.7%. The funding ratio increased by 2.5 percentage points during 2013. The 2013 increase in the funded status is primarily attributable to investment gains during the year; 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, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percent
Amortization period*	30 years – closed (24 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 3 years of service

*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.

SPOKANE EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

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

Postretirement benefit increases**	0.0%
Actuarial value of assets	\$261,605,154
Actuarial accrued liability	\$381,039,248
Unfunded actuarial accrued liability	\$119,434,094
Annual covered payroll	\$ 87,337,232
UAL as a percentage of covered payroll	136.75%

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

Note 6 – Commitments

As of December 31, 2013, the System had unfunded commitments of \$4.1 million to three limited partnership real estate funds and a limited liability company royalties investment fund.

In December 2013, a capital call was made by one of the limited partnership real estate funds in the amount of \$472,813, which was funded by the System in January 2014.

REQUIRED SUPPLEMENTARY INFORMATION

**SPOKANE EMPLOYEES' RETIREMENT PLAN
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
12/31/2013	8,237,317	6,715,376	81.52%	(1,521,941)	8,687,164	77.30%	21,293,296

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

**SPOKANE EMPLOYEES' RETIREMENT PLAN
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%
12/31/2013	261,605,154	381,039,248	119,434,094	68.66%	87,337,232	136.75%

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

ADDITIONAL SUPPLEMENTARY INFORMATION

**SPOKANE EMPLOYEES' RETIREMENT PLAN
ADDITIONAL SUPPLEMENTARY INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES**

	<u>2013 Budget</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
Personnel services			
Salaries and wages	\$ 250,316	\$ 165,044	\$ 246,591
Personnel benefits	83,084	62,421	68,343
Administrative income	<u>(40,000)</u>	<u>(12,780)</u>	<u>(6,899)</u>
Total personnel services	<u>293,400</u>	<u>214,685</u>	<u>308,035</u>
Supplies			
Office supplies	4,000	4,151	373
Publications	500	-	-
Postage	7,500	7,882	7,581
Minor equipment	2,500	814	503
Other	<u>1,000</u>	<u>1,207</u>	<u>1,059</u>
Total supplies	<u>15,500</u>	<u>14,054</u>	<u>9,516</u>
Other services and charges			
State audit charges	10,000	7,134	8,516
Professional services	200,000	92,579	134,798
Travel	5,000	1,475	2,750
Registration and schooling	5,000	350	714
Other dues, subscriptions, and memberships	2,000	1,857	2,310
Printing	2,500	1,028	1,013
Depreciation	62,500	3,508	3,508
Amortization	-	17,649	17,649
Other miscellaneous charges	<u>3,870</u>	<u>3,523</u>	<u>2,494</u>
Total other services and charges	<u>290,870</u>	<u>129,103</u>	<u>173,752</u>

SPOKANE EMPLOYEES' RETIREMENT PLAN
ADDITIONAL SUPPLEMENTARY INFORMATION
SCHEDULE OF ADMINISTRATIVE EXPENSES (continued)

	<u>2013 Budget</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
Interfund (IF) payments for services			
IF accounting services	\$ 5,000	\$ -	\$ -
IF accounting central services	2,000	1,913	2,074
IF IT phones	3,021	3,113	2,828
IF IT communications replacement	376	376	613
IF motor pool	500	-	-
IF risk management	960	960	2,214
IF unemployment	29	29	22
IF workers' compensation	51	51	841
IF facilities maintenance	-	189	
IF IT	14,565	14,216	14,325
IF reprographics	1,500	1,934	1,942
IF warrant service	1,500	1,159	1,269
IF IT replacement	3,893	3,893	3,524
	<u>33,395</u>	<u>27,833</u>	<u>29,652</u>
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	<u><u>\$ 633,165</u></u>	<u><u>\$ 385,675</u></u>	<u><u>\$ 520,955</u></u>

**SPOKANE EMPLOYEES' RETIREMENT PLAN
ADDITIONAL SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT EXPENSES**

	Year Ended December 31, 2013
Investment Services	
Bridge City Capital LLC	\$ 18,441
Champlain Small Cap Fund LLC	42,284
Principal Real Estate Investors LLC	63,690
Sterling Capital Management LLC	<u>63,088</u>
	<u>187,503</u>
Performance Measurement	
Hyas Group, LLC	<u>105,000</u>
Custodial Services	
U.S. Bank	<u>46,658</u>
	<u>46,658</u>
TOTAL INVESTMENT EXPENSES	<u><u>\$ 339,161</u></u>

Actuarial Section

SageView Consulting Group, L.L.P.
Actuarial Valuation

**SPOKANE EMPLOYEES'
RETIREMENT SYSTEM**

**ACTUARIAL VALUATION
AS OF DECEMBER 31, 2013**



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

April 30, 2014

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, 2013, 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, 2013 valuation develops an Annual Required Employer Contribution Rate (ARC), exclusive of employee contributions, of 9.43% of total payroll. The ARC rate compares with an actual Employer Contribution rate of 7.75% of total payroll. The Employer Contribution for the 2013 fiscal year of \$6,715,376 was less than the ARC of \$8,237,317 by \$1,521,941. 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 12/31/2013 increased from \$19,321,508 to \$21,293,296.

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 \$119,434,094 as of December 31, 2013 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 increased from 66.2% as of December 31, 2012 to 68.7% as of December 31, 2013.

Spokane Employees' Retirement System
April 30, 2014
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 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

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

Spokane Employees' Retirement System
April 30, 2014
Page three

Financial Results and Membership Data

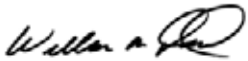
Detailed summaries of financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report and the related membership data schedules. We were responsible for providing information for all schedules included in the Actuarial Section, as well as certain 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, 2013.

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, 2013 for the Spokane Employees' Retirement System.

The principal results include:

- The Annual Required Employer Contribution Rate (ARC) is 9.43% 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, 2013 is 68.7% as compared to 66.2% as of December 31, 2012.

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 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.

- **Legislative and Administrative Changes**

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

Summary of Valuation Results (continued)

<u>Demographics</u>	<u>2013</u>	<u>2012</u>
<u>Active</u>		
Number	1,422	1,453
Average Pay for Coming Year	\$ 61,419	\$ 0
<u>Retired and Beneficiaries</u>		
Number	1,180	1,128
Average Annual Allowance	17,794	17,002
<u>Terminated Vested and Portables</u>		
Number	98	96
<u>Total Membership</u>	2,700	2,677
<u>Unfunded Accrued Liability</u>		
Accrued Liability as of December 31	\$381,039,248	\$364,715,900
Actuarial Asset Value	\$261,605,154	\$241,424,862
Unfunded Accrued Liability	\$119,434,094	\$123,291,038
Actuarial Value Funded Status	68.7%	66.2%
<u>Contribution Rates</u>		
Annual Required Contribution (ARC) Rate*	9.43%	9.36%
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, 2013 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, 2013 the actual Employer Contribution rate of 7.75% is less than the ARC rate of 9.43%. 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 12/31/2013, was \$21,293,296.

Reasons for Change in the ARC

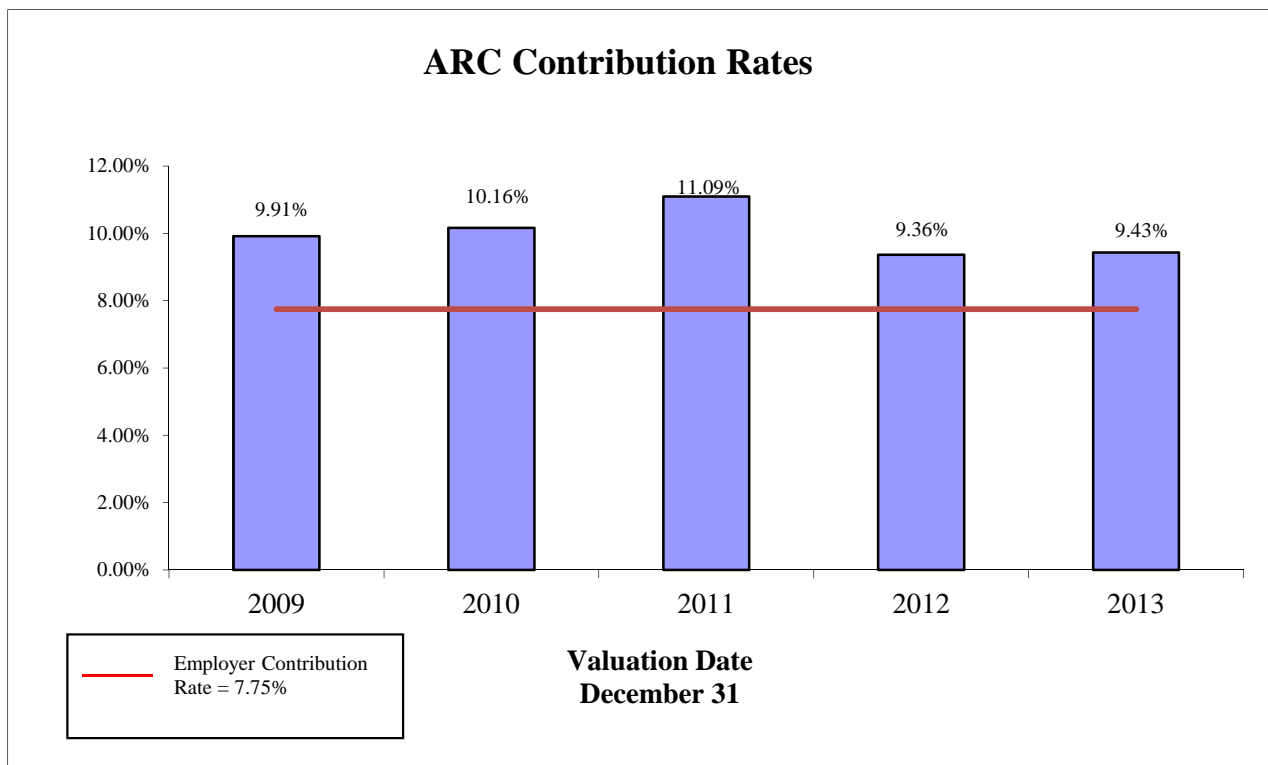
The recommended employer contribution rate as determined by the ARC increased from 9.36% as of December 31, 2012 to 9.43% as of December 31, 2013. The increase of 0.07% is due to the following reasons:

● Decrease due to return on actuarial assets	(0.57%)
● Decrease due to change in benefit provisions	0.00%
● Decrease due to legislative changes	0.00%
● Decrease due to change in assumptions	0.00%
● Decrease due to change in funding method	0.00%
● Increase due to other factors, including decline in covered payroll	0.64%
● Total	<u>0.07%</u>

Summary of Valuation Results (continued)

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

Valuation Date	ARC	Employer Rate
2009	9.91%	7.75%
2010	10.16%	7.75%
2011	11.09%	7.75%
2012	9.36%	7.75%
2013	9.43%	7.75%



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 \$119,434,094 as of December 31, 2013. The unfunded accrued liability is based on a smoothed fair value of assets of \$261,605,154 and an accrued liability of \$381,039,248.

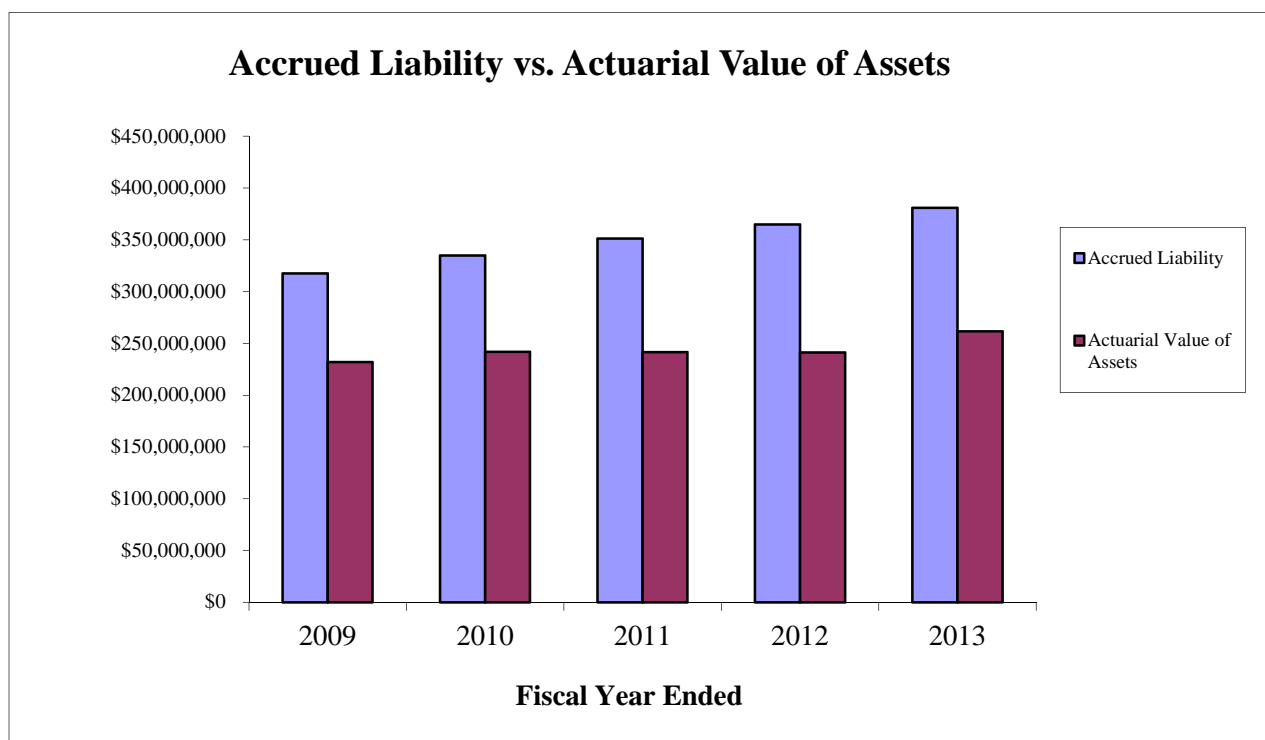
Reasons for Change in the Unfunded Accrued Liability

The unfunded accrued liability was expected to be \$126,881,611 as of December 31, 2013 based on the actuarial assumptions summarized in Table 16 of this report. The actual unfunded accrued liability was \$119,434,094 as of December 31, 2013. Investment gains on the actuarial value of assets was the primary reason for the decrease 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
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
2013	\$381,039,248	\$261,605,154



Summary of Valuation Results (continued)**Funded Status**

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

The actuarial value funded status is calculated using the smoothed value of assets and an assumed interest rate of 7.5%. On this basis, the System's funded status is 68.7% as of December 31, 2013. The funded status is based on a smoothed fair value of assets of \$261,605,154 and an accrued liability of \$381,039,248.

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 73.7% as of December 31, 2013. The funded status is based on a market value of assets of \$280,901,101 and an accrued liability of \$381,039,248.

Funded Status Sensitivity

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

<u>Change in Interest Rate</u>	<u>Increase/(Decrease) in Actuarial Value Funded Status</u>
+1%	7.0%
-1%	(6.8%)

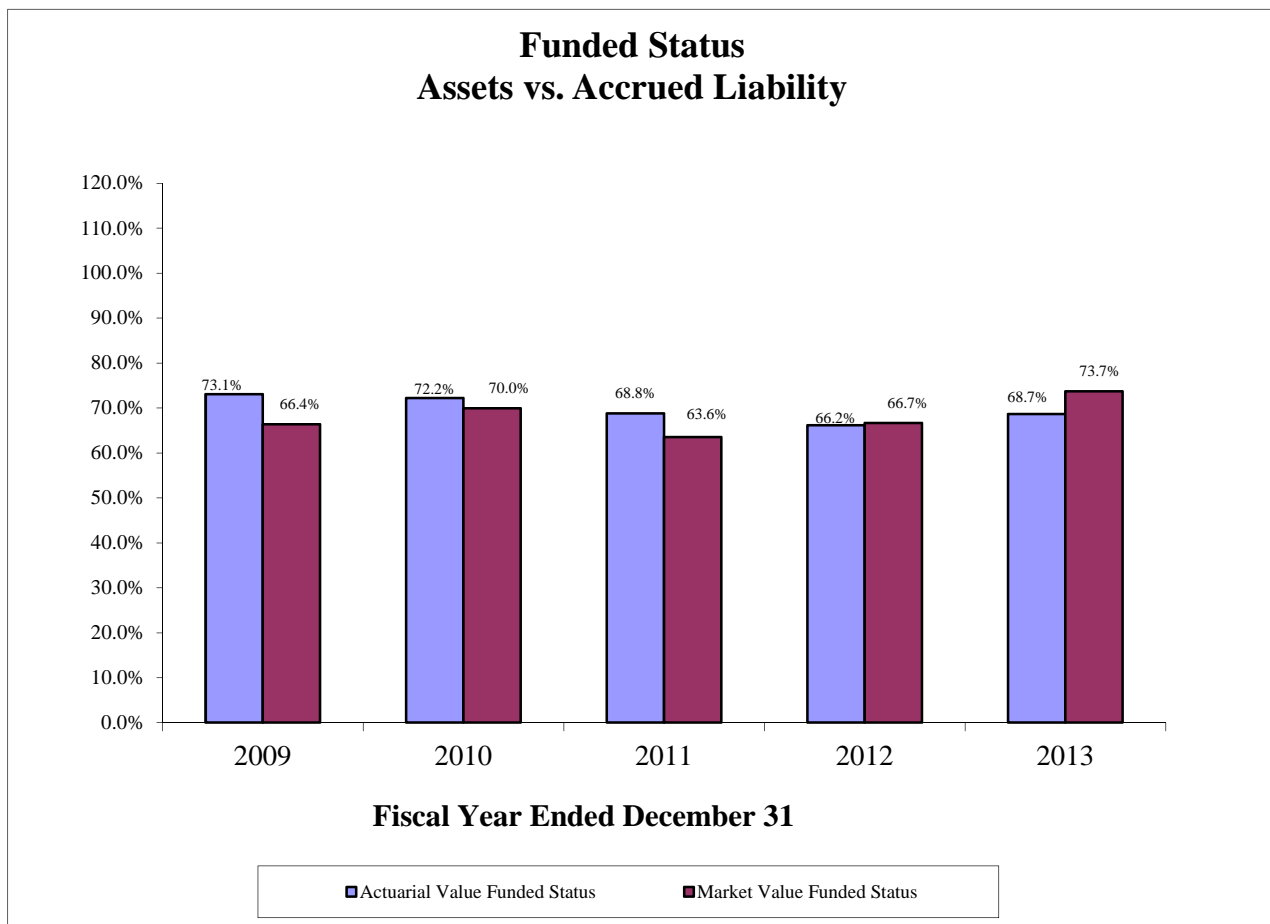
Reasons for Change in Funded Status

The actuarial value funded status increased from 66.2% as of December 31, 2012 to 68.7% as of December 31, 2013. The market value funded status increased from 66.7% as of December 31, 2012 to 73.7% as of December 31, 2013. The primary reason for the increase in actuarial funded status was that the investment return on the smoothed fair value of assets of 11.56% was greater 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 18.75% 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 Year Ending	Funded Status	
	Actuarial Basis	Market Basis
2009	73.1%	66.4%
2010	72.2%	70.0%
2011	68.8%	63.6%
2012	66.2%	66.7%
2013	68.7%	73.7%



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

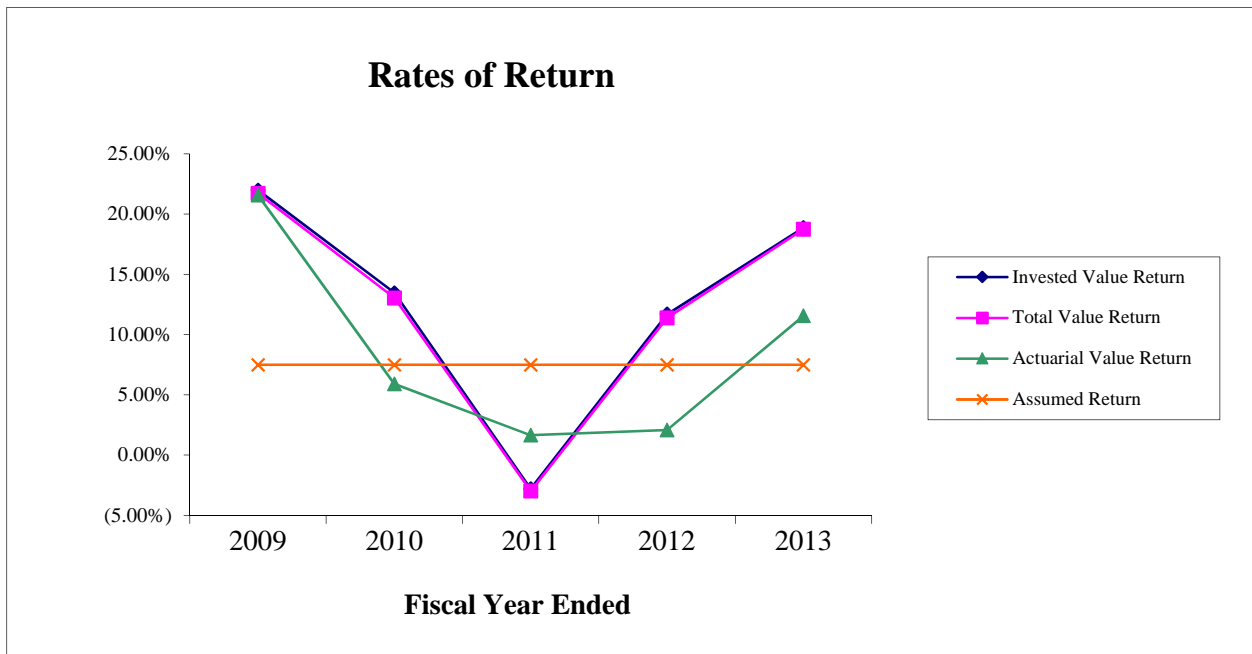
The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) based on the market value of invested assets for the fiscal year ended December 31, 2013 was 18.89%. However, since some contributions go directly to paying benefits and are never invested in the trust, the net investment return on total assets of the System was 18.75%. The investment return on the smoothed fair value of assets was 11.56%. 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
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%
2013	18.89%	18.75%	11.56%	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**

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>
Number of Members:			
Retirees	1,055	1,006	49
Beneficiaries	116	113	3
Disabled	9	9	0
Terminated Vested	63	63	0
Portables	35	33	2
Active	1,422	1,453	(31)
Total Members	2,700	2,677	23
Projected Compensation for Coming Year	87,337,232	89,015,136	(1,677,904)
Average Compensation for Coming Year	61,419	61,263	156
Average Age (Active Members)	48.85	48.85	0.00
Average Service (Active Members)	12.65	12.72	(0.07)
Annual Retirement Allowance	20,996,762	19,178,071	1,818,691
Average Annual Retirement Allowance	17,794	17,002	792
Average Monthly Retirement Allowance	1,483	1,417	66

Table 2**ASSET INFORMATION****Statement of Net Assets as of December 31, 2013**

1. Cash & Short-Term Investments		1,716,476
2. Investments		
a. U. S. Fixed Income	32,188,216	
b. International/Global Fixed Income	13,242,228	
c. U. S. Equities	97,909,114	
d. Real Estate	14,223,774	
e. International Equities	53,140,765	
f. Alternatives	68,191,034	
g. Total Investments		278,895,131
3. Receivables		
a. Accrued Interest and Dividends	58,483	
b. Taxes	0	
c. Other	349	
d. Total Receivables		58,832
4. Other Assets		318,559
5. Liabilities		
a. Accounts Payable	(52,930)	
b. Salary & Benefits	(15,738)	
c. Other	(12,478)	
d. Employee Leave Benefits	(6,751)	
e. Total Liabilities		(87,897)
6. Total Market Value of Net Assets		280,901,101

Table 2**ASSET INFORMATION****Market Value Reconciliation**

1. Total Market Value of Net Assets, 12/31/2012		243,272,726
2. Audit Adjustment		0
3. Contributions		
a. Employer	6,715,376	
b. Employee	6,715,376	
c. Total Contributions		13,430,752
4. Investment Earnings		
a. Interest & Dividends & Other Income	4,807,707	
b. Realized & Unrealized Gain/(Loss)	40,854,987	
c. Investment Expenses	(339,161)	
d. Total Investment Earnings		45,323,533
5. Benefit Payments		
a. Benefits	(20,346,281)	
b. Refund of Contributions	(393,954)	
c. Total Benefit Payments		(20,740,235)
6. Administrative Expenses		(385,675)
7. Total Market Value of Net Assets, 12/31/2013		280,901,101
8. Approximate Rate of Return on Total Assets		18.75%
9. Approximate Rate of Return on Invested Assets		18.89%

Table 3**ACCRUED LIABILITY AND FUNDED STATUS**

1. Accrued Liability prior to Changes in Benefit Provisions and Assumptions		
a. Active	168,732,725	
b. Terminated Vested & Portables	8,620,241	
c. Retirees	191,361,166	
d. Beneficiaries	10,967,964	
e. Disableds	1,357,152	
f. Total Accrued Liability prior to Changes		381,039,248
2. Actuarial Value of Assets		261,605,154
3. Unfunded Accrued Liability prior to Changes (1.f. - 2.)		119,434,094
4. Change in Unfunded Accrued Liability		
a. Due to Changes in Plan Provisions	0	
b. Due to Changes in Assumptions	0	
c. Due to Change in Funding Method	0	
d. Due to Change in Asset Method	0	
e. Total Change in Unfunded Accrued Liability		0
5. Actual Unfunded Accrued Liability (3. + 4.e.)		119,434,094
6. Funded Liability Percentage as of December 31, 2013		68.7%

Table 4**ACTUARIAL (GAIN)/LOSS**

1. Increase (decrease) in Unfunded Accrued Liability	
a. Unfunded Accrued Liability, prior year	123,291,038
b. Entry Age Normal Cost (excluding expenses)	7,692,135
c. Contributions	13,430,752
d. Interest	9,329,190
e. Expected Unfunded Accrued Liability, current year (a. + b. - c. + d.)	126,881,611
f. Actual Unfunded Accrued Liability, current year before benefit, assumption, and method changes	119,434,094
g. (Gain)/Loss (f. -e.)	(7,447,517)
2. Reasons for (Gain)/Loss	
a. Investment Return on Smoothed Fair Value of Assets	(9,652,061)
b. Other	2,204,544
c. Total	(7,447,517)

Table 5**AMORTIZATION SCHEDULE***

<u>Date Established</u>	<u>Source</u>	<u>Initial Amount</u>	<u>Remaining Balance</u>	<u>Years to Amortize</u>	<u>Required Payment</u>
12/31/2013	Actuarial Gain	(7,447,517)	(7,447,517)	30	(385,169)
12/31/2012	Actuarial Loss	15,542,910	16,052,765	29	846,986
12/31/2012	Method Assumption Change	15,452,413	15,959,300	29	842,055
12/31/2012	Plan Amendment	(22,132,963)	(22,858,992)	29	(1,206,101)
12/31/2012	Plan Amendment	(265,117)	(273,814)	29	(14,447)
12/31/2011	Actuarial Loss	12,884,920	13,925,994	28	750,444
12/31/2010	Actuarial Loss	4,665,041	5,244,879	27	289,007
12/31/2010	Plan Amendment	(159,269)	(179,066)	27	(9,867)
12/31/2009	Actuarial Gain	(19,699,834)	(22,906,486)	26	(1,292,334)
12/31/2009	Plan Amendment	9,584	11,146	26	629
12/31/2008	Plan Amendment	940,216	1,126,177	25	65,143
12/31/2008	Actuarial Loss	71,000,670	85,043,633	25	4,919,286
12/31/2007	Unfunded Liability	29,586,848	35,736,075	24	2,122,611
Total		100,377,902	119,434,094		6,928,243

* 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	7,677,709
2. Offset for Employee Contributions	(6,768,635)
3. Estimated Expenses	400,000
4. Total	1,309,074

Table 7**CONTRIBUTION SUMMARY**

1. Annual Required Contribution Amount

a. Normal Cost	1,309,074	
b. Amortization Charges	6,928,243	
c. Total		8,237,317

2. Annual Required Contribution Rate

a. Normal Cost	1.50%	
b. Amortization Charges	7.93%	
c. Total		9.43%

3. Projected Pay for the Upcoming Year

87,337,232

Table 8**SCHEDULE OF FUNDING PROGRESS**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAL as a % of Covered Payroll</u>
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%
12/31/13	261,605,154	381,039,248	119,434,094	68.66%	87,337,232	136.75%

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**
12/31/2004	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
12/31/2013	8,237,317	6,715,376	81.52%	(1,521,941)	8,687,164	77.30%	21,293,296

* 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**

<u>Fiscal Year Ended</u>	<u>Employer Contributions as a Percent of Payroll</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Net Investment Income</u>	<u>Total</u>
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
12/31/13	7.75%	6,715,376	6,715,376	45,323,533	58,754,285

DEDUCTIONS BY TYPE

<u>Fiscal Year Ended</u>	<u>Benefit Payments</u>	<u>Refunds</u>	<u>Admin Expenses</u>	<u>Total</u>
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
12/31/13	20,346,281	393,954	385,675	21,125,910

Table 11**SCHEDULE OF MEMBERSHIP**

<u>Fiscal Year Ended</u>	<u>Active Members</u>	<u>Terminated Vested Members</u>	<u>Service Retirees and Beneficiaries</u>	<u>Disabled Retirees</u>	<u>Total Retirees</u>	<u>Total Members</u>
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
12/31/13	1,422	98	1,171	9	1,180	2,700

Table 12**SCHEDULE OF ACTIVE MEMBERS VALUATION DATA**

<u>Fiscal Year Ended</u>	<u>Active Members</u>	<u>Covered Payroll</u>	<u>Average Payroll Rate</u>	<u>Annual Percentage Increase in Average Payroll Rate</u>
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%
12/31/2013	1,422	87,337,232	61,419	0.25%

Table 13**SCHEDULE OF RETIREES ADDED TO AND REMOVED FROM ROLLS**

Fiscal Year Ended	Added	Annual Allowances		Annual Allowances		Annual Allowances	Percent Change	Average Annual Allowances	Retirees as Percent of Active Members	
		Added	Removed	Removed	Total				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%
12/31/2013	95	2,351,086	43	532,395	1,180	20,996,762	9.5%	17,794	83.0%	24.0%

Table 14**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT**

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*			Option Selected**						
		<u>1</u>	<u>2</u>	<u>3</u>	<u>LIFE</u>	<u>C1</u>	<u>C2</u>	<u>C3</u>	<u>C4</u>	<u>D</u>	<u>E</u>
1 - 100	2	2	0	0	2	0	0	0	0	0	0
101 - 200	16	11	0	5	3	0	0	0	0	2	11
201 - 300	25	23	0	2	16	2	0	0	0	2	5
301 - 400	52	41	0	11	25	1	0	0	1	6	19
401 - 500	69	56	0	13	34	0	0	1	1	8	25
501 - 600	60	52	0	8	35	0	1	1	0	4	19
601 - 700	57	49	1	7	29	1	0	0	0	7	20
701 - 800	56	47	1	8	29	0	0	0	1	9	17
801 - 900	57	51	1	5	36	0	1	0	0	7	13
901 - 1,000	60	52	0	8	23	2	1	0	0	9	25
1,001 - 1,500	236	206	4	26	114	1	2	1	1	30	87
1,501 - 2,000	187	171	2	14	86	0	0	0	1	28	72
Over 2,000	<u>303</u>	<u>294</u>	<u>0</u>	<u>9</u>	<u>132</u>	<u>7</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>62</u>	<u>101</u>
Total	1,180	1,055	9	116	564	14	5	4	5	174	414

*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
12/31/2003	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
12/31/2013	18,887,269	125,353	1,333,659	393,954	20,740,235

Table 15**SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENTS**

<u>Fiscal Year Ended</u>	<u>Service Retirement and Beneficiaries</u>	<u>Disability Retirement</u>	<u>Total</u>	<u>Annual Percentage Increase in Average Benefits</u>
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%
12/31/2013	17,268	13,928	17,243	4.83%

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:

<u>Years of Service</u>	<u>Turnover Probability</u>
<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:

<u>Age</u>	<u>Retirement Probability</u>
<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:

<u>Years of Service</u>	<u>Annual Increase</u>
<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 2013 valuation.

Definitions:

<u>Creditable Service</u>	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.
<u>Service Buy-Back</u>	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
<u>Compensation</u>	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.
<u>Final Compensation</u>	The highest average annual Compensation received by a member during any two consecutive years.
<u>Normal Retirement Date</u>	The first day of the month coinciding with or next following the attainment of age 62 and completion of 5 years of Creditable Service.
<u>Early Retirement Date</u>	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.
<u>Member Contributions</u>	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, 2013
Exhibit B	20 Year Benefit Payment Projections
Exhibit C	Age and Service Distributions
Exhibit D	Age, Salary and Service Distributions
Exhibit E	Average Benefits for Service Retirement
Exhibit F	Average Benefits for Survivor Beneficiary
Exhibit G	Average Benefits for Disability Retirement
Exhibit H	Average Benefits for Vested Terminations
Exhibit I	Average Benefits for Portables

EXHIBIT A

Summary of Membership Data as of December 31, 2013

Active Members

Item	Male	Female	Total
Number of Members	948	474	1,422
Annual Salaries	\$58,646,422	\$26,897,312	\$85,543,734
Average Age	48.5	49.6	48.9
Average Service	12.9	12.3	12.7

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2013

Retirees and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Retired Members	1,055	\$19,514,795	\$18,497
Survivor Annuitants	116	\$1,356,639	\$11,695
Disabled Annuitants	9	\$125,328	\$13,925
Total Annuitants	1,180	\$20,996,762	\$17,794

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2013

Vested Terminations and Portables

Item	Number	Annual Annuities	Average Annuities
Vested Terminations	63	\$729,498	\$11,579
Portables*	35	\$211,675	\$6,048

* 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
2014	\$23,745,716	\$20,848,602
2015	24,808,590	20,484,778
2016	25,903,724	20,128,151
2017	26,980,867	19,749,633
2018	27,944,233	19,352,092
2019	28,837,485	18,936,382
2020	29,605,909	18,502,068
2021	30,318,668	18,049,639
2022	30,930,396	17,578,512
2023	31,451,623	17,089,629
2024	31,839,922	16,582,465
2025	32,144,145	16,056,879
2026	32,346,741	15,512,817
2027	32,440,279	14,950,427
2028	32,416,236	14,370,167
2029	32,281,722	13,772,844
2030	32,020,887	13,158,905
2031	31,634,679	12,531,306
2032	31,188,706	11,891,355
2033	30,597,998	11,241,322

EXHIBIT C

Age and Service Distribution

Spokane Employees' Retirement System

Attained Age	Years of Creditable Service										Total	
	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		
Under 25	2	4	1	0	0	0	0	0	0	0	0	7
25 to 29	15	18	25	0	0	0	0	0	0	0	0	58
30 to 34	15	40	49	4	0	0	0	0	0	0	0	108
35 to 39	14	35	56	37	4	0	0	0	0	0	0	146
40 to 44	11	36	52	43	30	5	0	0	0	0	0	177
45 to 49	10	27	50	38	36	33	8	1	0	0	0	203
50 to 54	11	29	36	36	42	50	14	3	0	0	0	221
55 to 59	6	24	45	37	40	57	20	17	8	0	0	254
60 to 64	1	13	29	34	24	25	16	17	10	5	2	174
65 to 69	0	1	7	10	14	8	3	7	5	2	2	57
70 & Up	0	0	1	3	3	6	0	0	2	2	2	17
Total	85	227	351	242	193	184	61	45	25	9	1,422	
Freq. Pct.	6.0%	16.0%	24.7%	17.0%	13.6%	12.9%	4.3%	3.2%	1.8%	0.6%	100.0%	

EXHIBIT D

Age, Salary and Service Distribution

Spokane Employees' Retirement System

Attained Age	Years of Creditable Service											40 & Up	Total	
	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	46,369	142,050	51,215	0	0	0	0	0	0	0	0	0	0	239,634
25 to 29	755,054	777,065	1,392,088	0	0	0	0	0	0	0	0	0	0	2,924,206
30 to 34	720,940	1,998,868	2,737,566	264,126	0	0	0	0	0	0	0	0	0	5,721,499
35 to 39	716,277	1,980,459	3,289,720	2,300,150	193,397	0	0	0	0	0	0	0	0	8,480,004
40 to 44	578,563	1,831,932	2,972,722	2,938,289	2,034,772	241,537	0	0	0	0	0	0	0	10,597,815
45 to 49	598,050	1,388,551	3,005,075	2,513,933	2,331,806	2,100,058	488,434	0	0	0	0	0	0	12,488,057
50 to 54	443,840	1,566,216	2,201,818	2,382,963	2,843,942	3,223,735	871,364	0	0	0	0	0	0	13,734,463
55 to 59	199,851	1,534,455	2,764,774	2,574,510	2,491,601	3,484,391	1,396,048	538,343	0	0	0	0	0	16,073,682
60 to 64	43,380	679,016	1,625,638	2,015,114	1,409,337	1,581,067	1,033,132	779,267	316,830	0	0	0	0	10,634,023
65 to 69	0	52,007	380,289	636,682	872,409	481,967	174,053	369,230	121,847	0	0	0	0	3,559,628
70 & Up	0	0	119,601	184,775	172,837	356,778	0	141,398	115,336	0	0	0	0	1,090,725
Total	4,102,323	11,950,619	20,540,504	15,810,542	12,350,103	11,469,531	3,963,031	2,974,830	1,828,239	554,012	85,543,734	554,012	85,543,734	
Freq. Pct.	4.8%	14.0%	24.0%	18.5%	14.4%	13.4%	4.6%	3.5%	2.1%	0.6%	100.0%	0.6%	100.0%	
Avg. Sal.	48,263	52,646	58,520	65,333	63,990	62,334	64,968	66,107	73,130	61,557	60,157	61,557	60,157	

EXHIBIT E

Average Benefits for Service Retirement

Spokane Employees' Retirement System

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	23	18,710	22	23,771	45	21,184
55 to 59	56	21,911	54	18,609	110	20,290
60 to 64	137	23,283	85	18,370	222	21,402
65 to 69	166	23,222	85	14,923	251	20,411
70 to 74	103	19,793	70	12,752	173	16,944
75 to 79	72	17,986	46	12,872	118	15,992
80 to 84	38	14,167	22	10,406	60	12,788
85 to 89	26	13,443	13	12,222	39	13,036
90 to 94	16	10,030	15	10,165	31	10,096
95 & Up	4	8,315	2	7,446	6	8,026
Total	641	20,464	414	15,453	1055	18,497
Average Age	69.0		68.2		68.7	
Freq. Pct.	60.8%		39.2%		100.0%	

EXHIBIT F

Average Benefits for Survivor Beneficiary

Spokane Employees' Retirement System

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	1	10,892	0	0	1	10,892
50 to 54	0	0	1	5,164	1	5,164
55 to 59	1	9,123	11	12,785	12	12,480
60 to 64	1	4,404	12	16,002	13	15,110
65 to 69	0	0	7	11,801	7	11,801
70 to 74	0	0	17	13,326	17	13,326
75 to 79	2	8,243	21	13,428	23	12,977
80 to 84	0	0	21	11,050	21	11,050
85 to 89	0	0	17	7,466	17	7,466
90 to 94	0	0	2	8,454	2	8,454
95 & Up	0	0	2	5,452	2	5,452
Total	5	8,181	111	11,853	116	11,695
Average Age	64.8		74.7		74.3	
Freq. Pct.	4.3%		95.7%		100.0%	

EXHIBIT G

Average Benefits for Disability Retirement

Spokane Employees' Retirement System

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	1	18,583	1	19,080	2	18,831
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	14,952	4	12,643	9	13,925
Average Age	57.6		60.3		58.8	
Freq. Pct.	55.6%		44.4%		100.0%	

EXHIBIT H

Average Benefits for Vested Terminations

Spokane Employees' Retirement System

Attained Age	Male		Female		Total	
	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	13,151	6	10,237	10	11,403
40 to 44	8	9,222	5	7,733	13	8,649
45 to 49	12	13,454	8	12,429	20	13,044
50 to 54	5	8,234	7	15,887	12	12,698
55 to 59	1	19,347	4	10,686	5	12,418
60 to 64	0	0	2	10,832	2	10,832
65 & Up	0	0	0	0	0	0
Total	30	11,612	33	11,550	63	11,579
Average Age	45.7		47.0		46.4	
Freq. Pct.	47.6%		52.4%		100.0%	

EXHIBIT I

Average Benefits for Portables

Spokane Employees' Retirement System

Attained Age	Male		Female		Total	
	Number	Avg. Ben.*	Number	Avg. Ben.*	Number	Avg. Ben.*
Under 30	0	0	0	0	0	0
30 to 34	0	0	2	3,244	2	3,244
35 to 39	2	5,665	2	6,000	4	5,833
40 to 44	2	4,745	1	3,664	3	4,385
45 to 49	4	4,774	2	3,220	6	4,256
50 to 54	3	8,631	4	9,029	7	8,858
55 to 59	2	7,366	1	50	3	4,928
60 to 64	4	3,719	3	6,217	7	4,789
65 & Up	1	1,249	2	15,800	3	10,950
Total	18	5,370	17	6,765	35	6,048
Average Age	52.0		50.7		51.4	
Freq. Pct.	51.4%		48.6%		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
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
2013	7.75%	6,715,376	6,715,376	45,323,533	58,754,285

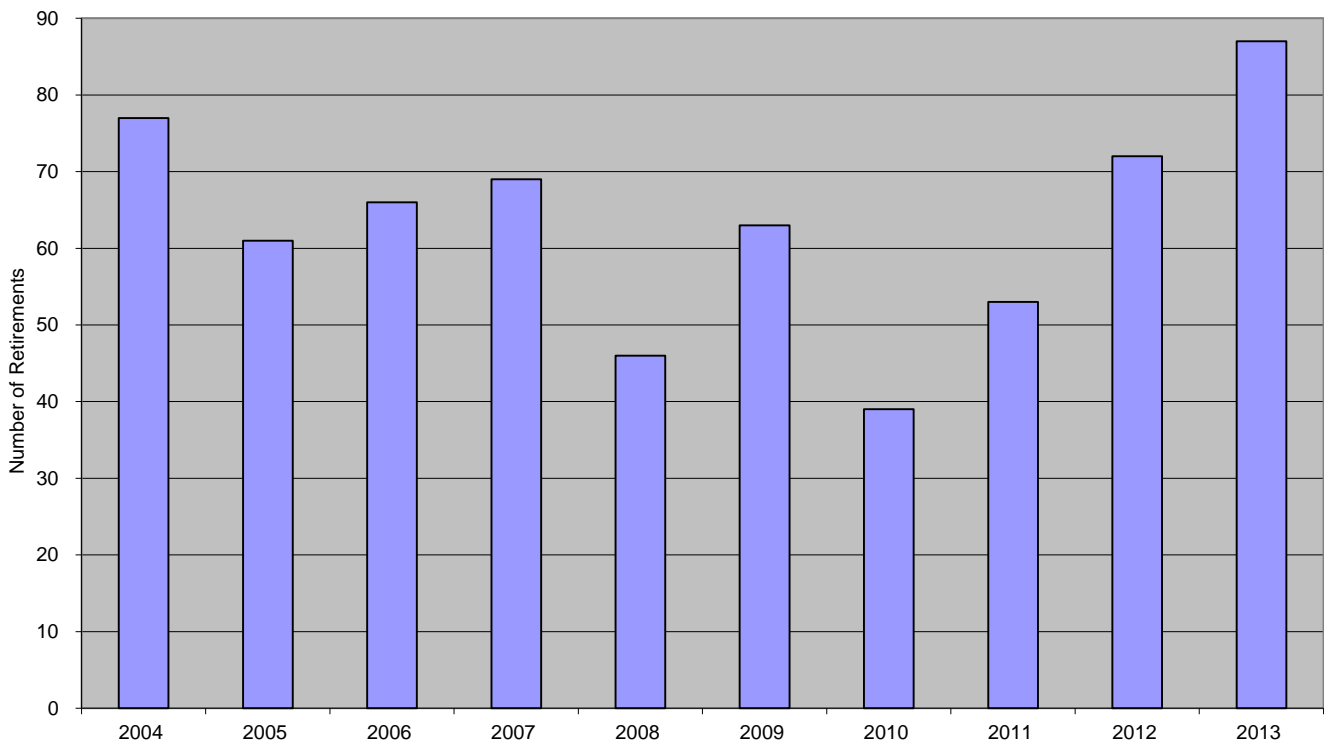
Schedule of Expenses by Type

Fiscal Year	Benefits	Refunds	Net Administrative	Total Expenses
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
2013	20,346,281	393,954	385,675	21,125,910

Schedule of Benefit Expenses by Type

Year	Service Retiree Benefits	Survivor Benefits	Disability Retiree Benefits	Refunds	Total
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
2013	18,887,269	1,333,659	125,353	393,954	20,740,235

Retirements by Year



Retirements During 2013

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
1	James M. Bias	Water	Laborer II	1/8/2013	E	36.5	64
2	Dale E. Hodges	Sewer Maintenance	Waste Water Inspector	1/12/2013	ST	33.8	64
3	Martha W. Lehn	Engineering Services	Engineering Technician I	1/12/2013	ST	30.0	53
4	Carol J. Calhoun	Accounting	Accounting Clerk	1/12/2013	ST	22.6	62
5	Stephen A. Parker	Business & Development	Deputy Sealer Weights & Measure	1/14/2013	ST	18.1	66
6	Jim A. Bledsoe	Legal	Asst. City Attorney L-III	1/15/2013	E	12.2	62
7	Teresa L. Brum	Business & Development	Director	1/16/2013	D	18.1	55
8	Ronald L. Clavel	Solid Waste Management	Refuse Collector III	1/19/2013	E	37.3	63
9	Donald R. Largent	Parks & Recreation	Marketing & Group Coordinator	1/19/2013	E	18.7	66
10	Paul S. Worley	Streets	Labor Foreperson	1/22/2013	E	27.5	60
11	Victor J. Phillips	Parks & Recreation	Parks Facilities & Grounds Foreperson	2/2/2013	E	30.6	56
12	Gregory A. Smith	Office of Hearing Examiner	Hearing Examiner	2/2/2013	ST	8.2	66
13	Larry T. Falwey	Solid Waste Management	Refuse Collector II	2/3/2013	E	38.7	67
14	Michael A. Mollison	Building Services	Certified Plan Examiner	2/8/2013	D	23.8	54
15	Theodore S. Todd	Public Works	Public Works Lead Inspector	2/9/2013	E	24.4	61
16	Clyde C. Clutter	Engineering Services	Engineering Technician III	2/9/2013	ST	11.6	83
17	Robert E. Hetnar	Advanced Wastewater Treatment	Wastewater Treatment Plant Operator III	2/18/2013	ST	10.8	55
18	Raymond J. Wright	Engineering Services	Senior Traffic Engineer	2/23/2013	E	6.4	55
19	Carolyn R. Nicolds	Municipal Court	Clerk II	3/2/2013	ST	22.2	57
20	Catherine A. Gallaher	Mayor	Administrative Secretary	3/2/2013	ST	11.8	55
21	Rena L. Dehle *	Streets	Parking Meter Specialist I	3/6/2013	D	7.9	50
22	Monica L. Bramble *	Solid Waste Management	Superintendent	3/9/2013	ST	16.1	50
23	David W. Galbreath	Water	Laborer II	3/9/2013	E	13.0	63
24	Linda K. Crispin	IT Fund	Information Analyst	3/16/2013	ST	13.5	62
25	Melanie J. Larsen *	Parks & Recreation	Asst. Golf Course Superintendent	3/24/2013	ST	13.5	50
26	Nicolas D. Langston	Sewer Maintenance	Waste Water Specialist	3/30/2013	E	36.9	64
27	Janet D. Thompson	Water	Radio Operator II	4/2/2013	E	30.0	59
28	Lynette M. Clothier	Water	Radio Operator I	4/2/2013	ST	24.1	60
29	William E. Leonetti	Building Services	Lead Building Services Inspector	4/2/2013	E	18.9	64
30	Janet E. Shaw	Accounting	Accountant II	4/2/2013	D	12.5	64
31	Timothy B. Pelton	Advanced Wastewater Treatment	WWTP Admin Superintendent	4/3/2013	ST	38.4	62
32	Phyllis B. Jessen	Police	Police Evidence Technician II	4/12/2013	ST	32.7	56
33	Darlene A. Louis	Solid Waste Management	Scale Operations Foreperson	4/13/2013	ST	18.1	65
34	Andy C. Stewart	Engineering Services	Materials Testing Supervisor	4/27/2013	ST	37.9	65
35	Donald D. Holt	Sewer Maintenance	Laborer II	4/27/2013	E	30.9	62
36	Linda I. Kibbey	Advanced Wastewater Treatment	Clerk III	4/27/2013	ST	23.5	55
37	Mark L. Beattie *	Water	Water Hydro Plant Operator	4/30/2013	E	18.2	50
38	Kenneth A. Anderson	Police	Police Records Specialist	5/1/2013	E	16.1	65
39	Evelyn L. Gies	Accounting	Accounting Clerk	5/2/2013	E	22.5	71
40	James E. Hitchcock	Parks & Recreation	Park Equipment Specialist	5/3/2013	E	12.0	61
41	Jacqueline R. Zimprich	Library	Library	5/11/2013	ST	31.2	60
42	Mark F. Ellis	Police	Police Communications Supervisor	5/11/2013	ST	24.6	53
43	Sally J. Sullivan	Parks & Recreation	Gardner II	5/11/2013	ST	20.6	57
44	Patricia L. Partovi	Library	Director	5/11/2013	ST	19.3	63
45	Karen L. Swanson	Public Works & Utilitites	Clerk II	5/25/2013	ST	13.9	69
46	Diane F. Stone	Library	Library Assistance II	6/2/2013	ST	8.6	54

Retirements During 2013 (continued)

Name	Department	Position	Date Retired	Option	Yrs Serv	Age
47 Daniel P. Chase	Advanced Wastewater Treatment	Senior Instrument Tech	6/4/2013	E	20.2	61
48 Leo F. Griffin	Retirement	Retirement Director	6/4/2013	E	8.4	53
49 Susan K. Haight	Accounting	Accounting Clerk	6/5/2013	ST	23.3	64
50 Kevin R. Holm	Fleet Services	Parts Technician	6/8/2013	ST	23.5	63
51 Wilma C. Beddow *	Treasurer	Taxes & Licenses Specialist	6/8/2013	E	12.2	53
52 Mark D. Cleveland	Water	Water Operations Supervisor	6/14/2013	D	26.9	57
53 Cynthia J. Lutje ^	Water Division	Water Service Specialist	6/28/2013	E	24.8	53
54 Cindy S. Marshall	Municipal Court	Municipal Court Administrator	7/3/2013	ST	7.6	56
55 Craig W. Butz	Parks & Recreation	Parks & Recreation Division Manager	7/6/2013	ST	35.0	59
56 Michael Wilhelm	Water	Water Service Specialist	7/6/2013	E	29.9	58
57 Jerry M. Huffman	Water	Certified Water Service Specialist	7/6/2013	D	25.0	64
58 Ann M. Murphy	Solid Waste Disposal	Solid Waste Education Coordinator	7/6/2013	ST	22.0	65
59 Marcia I. McGarrigle	Human Resources	Clerk III	7/6/2013	ST	15.2	65
60 Danny A. Winterroth ^	Solid Waste Management	Cash Accounting Clerk I	7/11/2013	E	5.1	60
61 Sandra J. Decker	Economic Development	Office Manager	7/13/2013	ST	30.0	54
62 Douglas G. Barr	Engineering Services	Engineering Technician IV	7/16/2013	E	19.5	63
63 Richard J. Bower	Sewer Maintenance Fund	Laborer II	7/19/2013	ST	7.7	63
64 Joette L. Wentworth	Police	Police Evidence Technician I	7/25/2013	ST	10.0	51
65 Michael E. Smith	Streets	Street Maintenance Operator II	8/2/2013	E	20.5	50
66 Gregory G. Shields	Asset Management Fund Ops	Custodian I	8/2/2013	ST	8.1	63
67 Aaron D. Reilly	Water Division	Certified Senior Water Engineer Technician	8/3/2013	E	35.1	56
68 Lori L. Bryant	Accounting	Accountant II	8/3/2013	E	20.4	52
69 Theresa A. Staeheli	Solid Waste Management	Cash Accounting Clerk I	8/4/2013	E	13.7	57
70 Paul C. Staeheli	Solid Waste Management	Refuse District Supervisor	8/6/2013	E	26.0	62
71 Stephen D. Brumbaugh	Street Fund	Radio Operator II	8/16/2013	E	29.5	60
72 Lori A. Meakin	WIA Administrative	Workforce Development Program Specialist	8/23/2013	E	23.6	55
73 Brian O. Miyamoto	Civil Service	Exam & Class Analyst III	8/31/2013	A	33.0	62
74 Susie R. Bisson	IT Fund	Graphic Arts Specialist	8/31/2013	ST	30.5	51
75 Andrea E. Rollins	IT Fund	Supervisory Analyst	9/4/2013	ST	25.9	58
76 Jackie K. Sadler	Asset Management Fund Ops	Clerk II	9/14/2013	ST	6.0	62
77 Jeanne M. Thorsen #	Library	Library Assistant II	10/1/2013	ST	4.0	62
78 Christine L. Lunceford ^	Street Fund	Bridge Maintainer I	10/7/2013	E	5.1	51
79 John D. Early *	Parks & Recreation	Recreation Supervisor II	10/16/2013	E	6.8	50
80 John S. Skog	Water Division	Water Service Specialist	10/19/2013	D	30.0	59
81 Carla L. Stamatoplos	Police	Administrative Secretary	10/22/2013	ST	25.8	60
82 Gerald L. Gemmill	Mayor	Director, Local Government & Labor Policy	11/1/2013	E	5.5	58
83 Kathleen M. Panas	Police	Clerk IV	11/2/2013	ST	25.1	63
84 Michael E. Tucker	Public Facilities District	PFD Employee in SERS	11/23/2013	E	18.0	50
85 Lisa M. Donley *	Planning Services	Clerk III	12/7/2013	ST	14.3	50
86 Katherine L. Young	Parks & Recreation	Clerk III	12/21/2013	ST	19.6	68
87 Eugene R. Boatsman	Library	Library Caretaker II	12/28/2013	D	10.4	64

* Retired as vested employee

Retired under membership through Portability

^ Retired as spouse of deceased active employee

Retiree Deaths During 2013

	Name	Date Retired	Date of Death	Age	Retirement Option
1	Richard F. Oatney	9/2/78	1/3/13	91	A
2	Brian Viehouser	2/2/94	1/4/13	71	ST
3	Madeline A. Phelps	4/8/89	1/23/13	90	ST
4	Harold L. Stokes	7/2/88	1/28/13	85	ST
5	Helen J. Dennis	4/12/86	2/2/13	93	ST
6	Charles R. Jones	8/8/98	2/7/13	83	E
7	Katalin Batai	2/4/89	2/10/13	89	A
8	William L Siler	9/8/87	2/14/13	84	A
9	Barbara A. Brauner	1/11/97	2/17/13	81	ST
10	Ellen M. Volland	3/3/98	2/20/13	84	E
11	John R. Snell	1/21/96	2/24/13	77	D
12	Shirley M. Marshall	7/8/78	3/7/13	89	E
13	Harry S. Pearson	1/3/76	3/11/13	99	D
14	Truda K. Stanek	4/1/76	3/30/13	93	E
15	Lewis R. Piggott	3/19/00	4/1/13	77	E
16	Lois M. Fisher	12/31/74	4/10/13	95	D
17	Jonna A. Rayfuse	7/6/91	4/16/13	73	ST
18	Henry O. Bosse	10/6/07	4/21/13	72	E
19	William H. Hundhausen	1/17/96	4/25/13	69	ST
20	Donald D. Carlson	5/7/05	5/1/13	81	C-5
21	Verla M. Noble	2/25/99	5/19/13	86	E
22	Arnold A. Thompson	5/13/89	6/24/13	86	ST
23	George E. Sletner	3/17/84	6/24/13	91	ST
24	George R. Neal	10/21/01	6/25/13	61	C-10
25	Stanley C. Lutje	6/28/13	6/27/13	53	E
26	Kathryn R. Mielke	6/5/83	7/1/13	91	D
27	David R. Bosse'	3/7/98	7/2/13	77	A
28	Hazel M. Winterroth	7/11/13	7/10/13	58	E
29	George B. Fields III	6/8/91	8/3/13	77	A
30	Stephen T. Hendricks	1/10/09	8/27/13	65	E
31	Maxine L. Straune	7/26/86	9/13/13	95	ST
32	Elyles M. Mead	4/22/89	10/3/13	86	C-10
33	Charles L. Barr	9/8/99	10/11/13	76	E
34	Henry E. Taylor	6/5/82	10/13/13	97	ST
35	Emmett J. Shearer	8/3/93	10/24/13	86	E
36	Reider O. Rosendahl	8/1/81	11/10/13	95	D
37	Jerry H. Peters	6/4/91	11/11/13	78	E
38	Antonette E. Savalli	3/29/97	11/13/13	85	A
39	John E. Dayharsh	8/4/90	11/15/13	88	ST
40	Patricia C. Brown	9/13/07	11/24/13	81	E
41	Robert J. Benton	7/6/06	12/25/13	58	ST
42	Richard H. Yamamoto	3/14/86	12/31/13	91	D

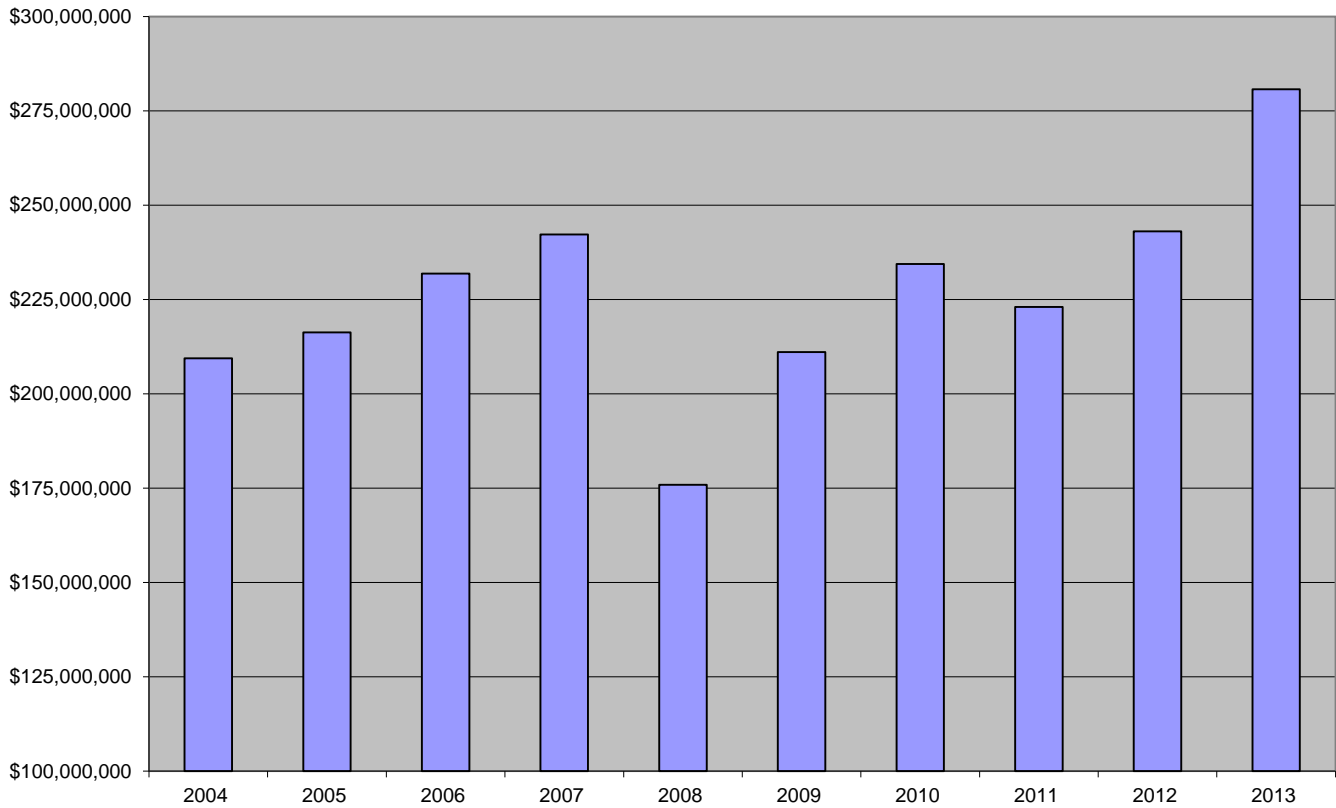
Active Member Deaths During 2013

	Name	Department	Date of Death	Age	Years of Service
1	Jamie E Lunceford	Street	10/6/2013	53	5.1

Investment Section

Total Retirement Assets

A 10-year look

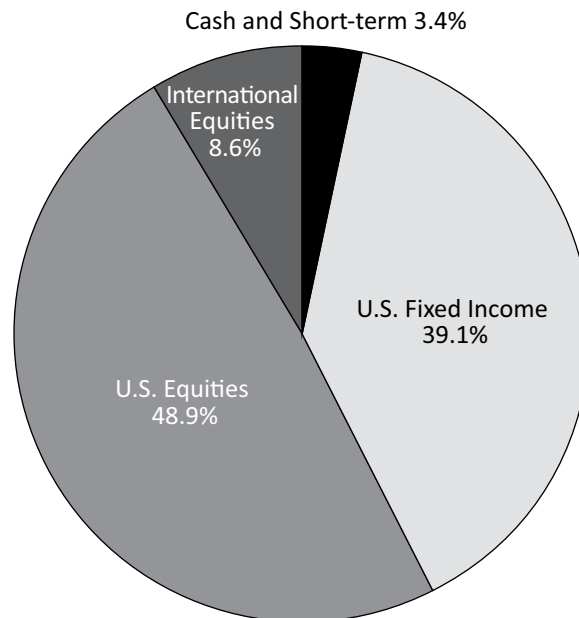


Schedule of Investment Results

	Market Value of Investments	Net Investment Income	Investment Rate of Return (net of fees)
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%
2013	280,670,090	45,323,533	18.89%

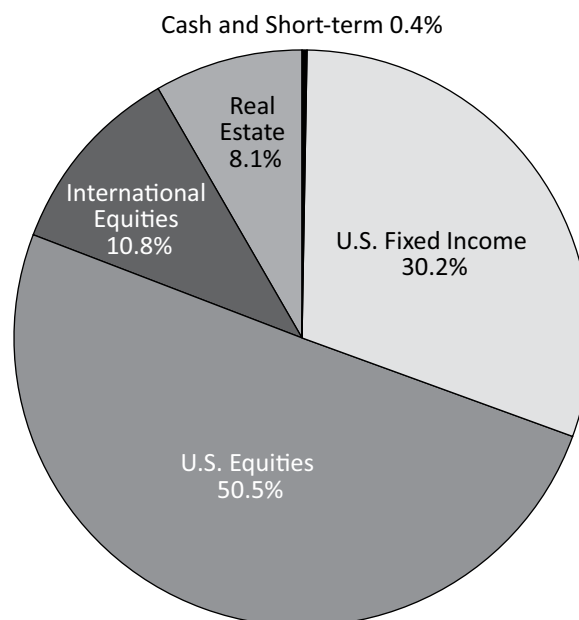
The Evolution of SERS Investment Asset Allocation

2004 Year-End Asset Allocation



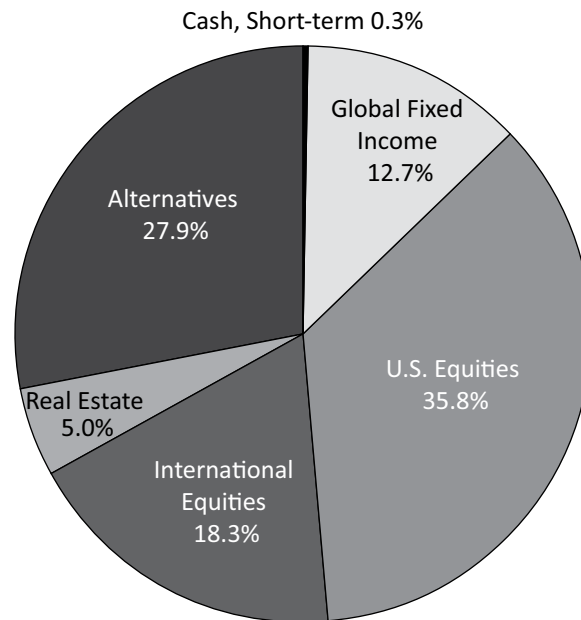
Traditional 60/40 portfolio with an allocation to international equity

2006 Year-End Asset Allocation



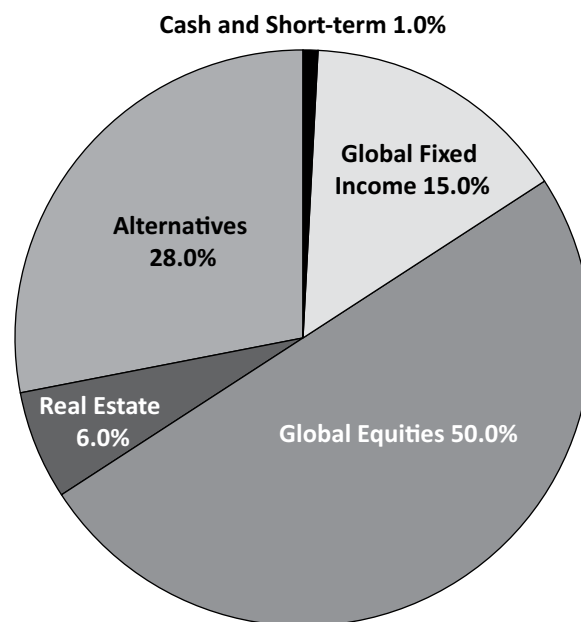
Equity exposure grew with overall market increase; real estate assets added; fixed income reduced as internally managed bond portfolio is phased out

2013 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.

Investment Listed by Type

as of December 31, 2013

	Market Value
Cash and Cash Equivalents:	
Cash Held by Treasurer	\$ 192,910
Union Bank	939,987
Fixed Income Investments:	
PIMCO Low Duration	5,455,170
Vanguard Short-Term	6,190,509
Metropolitan West High Yield I	10,725,082
PIMCO Global	13,242,251
Equity Investments:	
Hotchkis & Wiley Core Value I	15,137,883
Delaware Large Cap Growth	13,390,723
Vanguard Institutional Index	17,744,991
MFS Blended Core	14,415,153
Sterling Mid Cap Value	9,475,372
Rainier Mid Cap Growth	8,487,607
Vanguard Mid Cap Index	6,461,244
Champlain Small Cap Growth	4,689,966
Phocas Small Cap Growth	4,127,615
Bridge City Small Cap Growth	4,191,486
Vanguard Small Cap Index	2,209,033
International Investments:	
Berens Global Value	10,457,644
Vanguard International Index	3,945,614
EuroPacific Core	12,246,657
Artisan International Value	15,506,932
Epoch International Small Cap Value	9,100,921
Real Estate Investments:	
Legacy Partners Realty III	1,058,277
Metropolitan Realty V	1,210,200
Morrison Street Fund IV	3,389,832
Principal Global Investors REIT	8,396,450
Alternative Investments:	
Orbi Med Royalty Opps	2,584,678
Beach Point Select Fund	7,292,500
Troob Capital Management	4,020,432
Post Limited Term High Yield	5,323,571
Rimrock Low Volatility	8,782,789
American Beacon Flexible	9,817,479
Castine Partners II	5,339,135
Altairis Offshore	5,638,889
Orbi Med Caduceus II	7,980,586
Weatherlow Offshore I	13,593,916
Pimco CommoditiesPLUS Strategy	7,621,266
Total Cash and Investments	\$280,384,750

