SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial Statements and
Required Supplementary Information
(With Independent Auditor's Report Thereon)

Years Ended June 30, 2012 and 2011

MGO Certified Public Accountants.

SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM
Years Ended June 30, 2012 and 2011

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MGO Certified Public Accountants.

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INDEPENDENT AUDITOR'S REPORT

Retirement Board of San Francisco
City and County Employees' Retirement System
San Francisco, California

We have audited the accompanying statements of plan net assets of the San Francisco City and County Employees' Retirement System ("Retirement System"), a pension trust fund of the City and County of San Francisco, California, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Retirement System are intended to present only the plan net assets and changes in plan net assets of the Retirement System. They do not purport to, and do not, present fairly the financial position of the City and County of San Francisco, California, as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the plan net assets of the Retirement System as of June 30, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 audits 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 8, 2013

The management of the City and County of San Francisco Employees' Retirement System (Retirement System) is pleased to provide this overview and analysis of the financial activities of its cost-sharing multiple-employer defined benefit pension plan (the Plan) for the years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the *Financial Statements and Required Supplementary Information*, which follow this discussion. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal Year 2012

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2012. The Plan held $15,293,724 of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2011, the date of the last actuarial valuation, the funded ratio for the Retirement System was 87.7%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately $0.88 of assets available for payment based on the actuarial value of assets as of the date of the actuarial valuation.
- For the year ended June 30, 2012, the Retirement System's net investment income of $80,402 represents a 0.52% increase in plan net assets. (This return is based on plan net assets as of the beginning of the fiscal year.) However, net appreciation in fair value of investments decreased by $2,804,915 primarily as a result of the decline in the equity markets.
- Total net assets held in trust for pension benefits decreased by $305,115, or 2.0%, primarily as a result of market conditions and the net difference between contributions received by the Plan and increased benefit payments made from the Plan.
- Members' contributions to the Plan totaled $198,160, an increase of $16,405 or 9.0% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $410,797, an increase of $101,974 or 33.0% from the prior year.
- Total deductions from the Plan were $994,474, an increase of 8.6% from the prior year due to the increase in benefits paid during the current fiscal year.

Fiscal Year 2011

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2011. The Plan held $15,598,839 of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2010, the date of the last actuarial valuation, the funded ratio for the Retirement System was 91.1%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately $0.91 of assets available for payment based on the actuarial value of assets as of the date of the actuarial valuation.
- For the year ended June 30, 2011, the Retirement System's net investment gain of $2,887,575 represents a 22.0% increase in plan net assets. (This return is based on plan net assets as of the beginning of the fiscal year.)

- Total net assets held in trust for pension benefits increased by $2,462,053, or 18.7%, primarily as a result of market increases, which were slightly reduced by the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan totaled $181,755, a decrease of $8,193 or 4.3% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $308,823, an increase of $85,209 or 38.1% from the prior year.
- Total deductions from the Plan were $916,100, an increase of 11.9% from the prior year due to increased benefits paid during the current fiscal year.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Retirement System's financial statements, which are comprised of the following components:

1. ***Statements of Plan Net Assets*** are snapshots of account balances as of the close of the year – June 30, 2012 and 2011. They indicate the total assets as of June 30, 2012 and 2011, total liabilities at those dates and the net assets available for future payment of retirement benefits and operating expenses.
2. ***Statements of Changes in Plan Net Assets*** provide a view of additions to and deductions from the Plan during the years ended June 30, 2012 and 2011.
3. ***Notes to Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements.

The statements of plan net assets and the statements of changes in plan net assets report information about the Retirement System's financial activities, prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Securities that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis. Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of the Retirement System's partnership interests and real estate investments are based on net asset values provided by the general partners.

Investments in forward currency contract investments are commitments to purchase and sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair value of forward currency contracts are determined by quoted currency prices from national exchanges.

Additional information on the Retirement System's investments can be found in Note 4 of this report.

(Dollar amounts in thousands)

Results of Actuarial Valuations

Fiscal Year 2012
The Retirement System's July 1, 2011 (the date of the most recent actuarial valuation) funding ratio is 87.7%, which means the Retirement System has approximately $0.88 available for each $1.00 of benefit obligations based on the actuarial value of assets as of the date of the actuarial valuation.

Fiscal Year 2011
The Retirement System's July 1, 2010 (the date of the most recent actuarial valuation) funding ratio is 91.1 %, which means the Retirement System has approximately $0.91 available for each $1.00 of benefit obligations based on the actuarial value of assets as of the date of the actuarial valuation.

Financial Analysis

The Plan's net assets may serve over time as a useful indication of the Plan's financial position. The assets of the Plan exceeded its liabilities at June 30, 2012 and 2011. All of the Plan's net assets are available to meet the Retirement System's ongoing obligation to Plan participants and their beneficiaries.

The Plan's net assets as of June 30, 2012, 2011, and 2010 and are represented in the table below:

Net Assets Summary – June 30, 2012, 2011, and 2010

	2012	2011	2010
Other assets	$ 418,735	$ 168,690	$ 228,084
Investments at fair value	16,298,440	16,483,213	14,119,382
Total assets	16,717,175	16,651,903	14,347,466
Total liabilities	1,423,451	1,053,064	1,210,680
Net assets	$ 15,293,724	$ 15,598,839	$ 13,136,786

As of June 30, 2012, the Plan's combined net assets held in trust for pension benefits decreased by $305,115 or 2.0% for the year, primarily due to investment returns that did not offset the net difference between contributions received by the Plan and benefit payments made from the Plan. Payables to brokers increased by $336,483 and payables to borrowers of securities increased by $23,913 due to the timing of investment trades and lending activities.

As of June 30, 2011, the Plan's combined net assets held in trust for pension benefits increased by $2,462,053, or 18.7% for the year, primarily due to an improvement in financial market conditions. Payables to brokers decreased by $92,794 due to the timing of investment trades. Payables to borrowers of securities decreased by $73,045 due to reduced participation in lending activities.

The Retirement Board and the consulting actuary concur that the Plan remains in a strong financial position to meet its obligations to the Plan members and beneficiaries. Signs of economic recovery are beginning to emerge with modest levels of consumer confidence. National unemployment has declined to 8.2% (down from 9.1% at the beginning of the fiscal year) and consumer spending, a key to economic growth in the United States, rose. The federal government policies remain supportive – with interest rates at or near historic lows. Uncertainty, however, is still present as economic concerns remain omnipresent in many regions of the world. Growth rates in China are slowing and the government is preparing for the once every five year National Congress, which is expected to result in a leadership transition. In Western Europe, there are issues surrounding the potential for government debt defaults in Greece, Spain, and Italy, among others.
As fiduciaries to the Plan members and beneficiaries, the Retirement Board, Retirement System staff, and our investment consultants continuously monitor the Plan's investment strategies, which comply with a "prudent expert" standard, to secure and maintain the sustainability of the Plan.

Highlights of Changes in Net Assets – Years ended June 30, 2012, 2011, and 2010
(Dollars in thousands)

	2012	2011	2010
Additions:			
Member contributions	$ 198,160	$ 181,755	$ 189,948
Employer contributions	410,797	308,823	223,614
Interest	195,517	208,400	195,166
Dividends	170,759	159,671	139,161
Net appreciation (depreciation) in fair value of investments	(246,965)	2,557,950	1,334,257
Securities lending income	4,718	5,697	34,730
Investment expenses	(44,540)	(44,579)	(44,206)
Securities lending borrower rebates and expenses	913	436	(4,007)
Total additions	689,359	3,378,153	2,068,663
Deductions:			
Benefits	968,528	889,744	792,776
Refunds of contributions	11,030	11,548	11,997
Administrative expenses	13,661	13,544	12,655
Other administrative expenses - OPEB	1,255	1,264	1,178
Total deductions	994,474	916,100	818,606
Net increase (decrease)	(305,115)	2,462,053	1,250,057
Net assets - beginning of the year	15,598,839	13,136,786	11,886,729
Net assets - end of the year	$ 15,293,724	$ 15,598,839	$ 13,136,786

Fiscal Year 2012

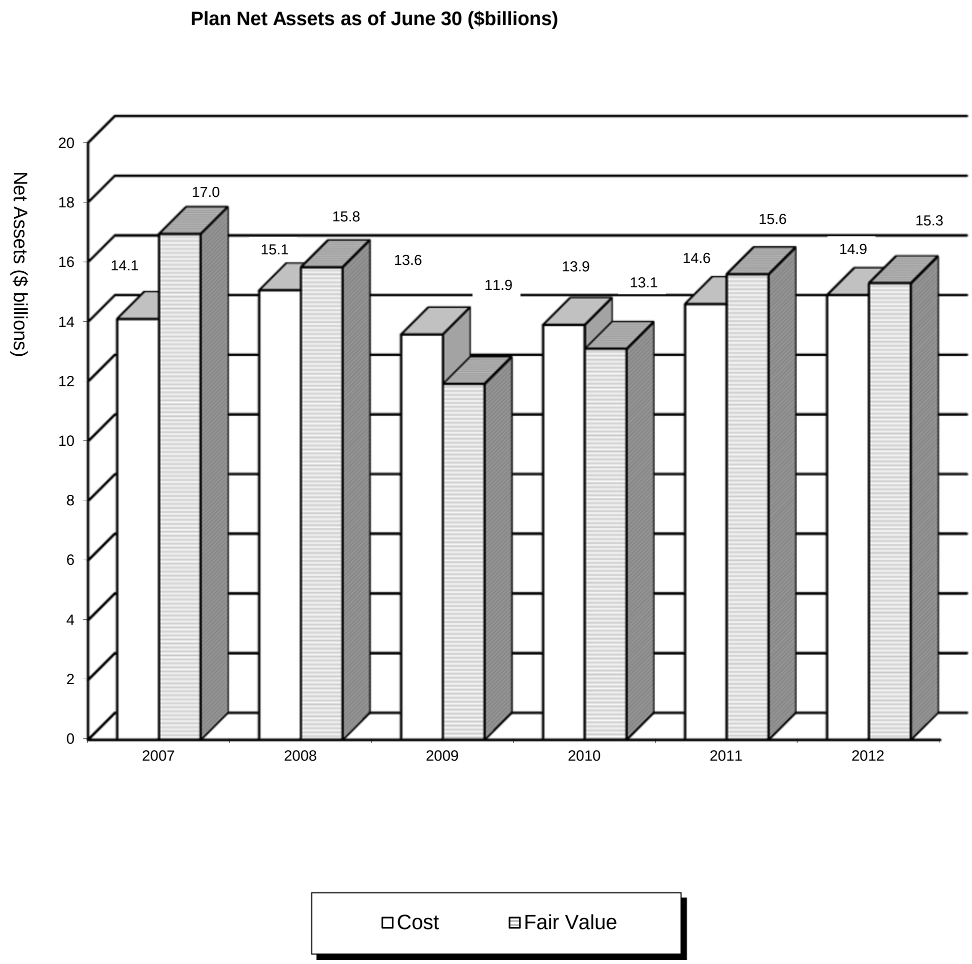
- Member contributions for the year ended June 30, 2012 increased by $16,405 or 9.0% from the prior year. This is primarily due to an increase in the member contribution rates for all safety members during the year. For example, with the passage of Proposition D in 2010, the member contribution rate for all new safety members hired on or after July 1, 2010 increased from 7.5% to 9.0% of covered compensation. In addition, pursuant to collective bargaining agreements with the safety labor organizations, the member contribution rate for all safety members who were hired on or before June 30, 2012 was also increased from 7.5% to 9.0% of covered pay.

- In order to maintain the fiscal soundness of the Plan, $410,797 in required employer contributions were made during the year ended June 30, 2012. The increase of $101,974 in required employer contributions reflect an increase in the employer contribution rate from 13.56% in fiscal year 2011 to 18.09% in fiscal year 2012, due to the continued recognition of investment losses from the year ended June 30, 2009..
- Net investment income decreased by $2,807,173 from the prior year. The majority of the decrease is attributed to the $2,804,915 decrease in net appreciation in fair value of investments primarily as a result of the decline in the international equity markets. Interest income also decreased by $12,883, due mainly to turmoil in the domestic fixed income market
- Benefit payments to Plan participants increased by $78,784 or 8.9% consistent with the $54.5 million increase in retirement allowances initiated and paid during the year as well as $8.7 million in additional basic COLA and Supplemental COLA paid to most retired members effective July 1, 2011.
- Refunds of contributions decreased by $518 or 4.5%, primarily as a result of fewer permanent workforce reductions implemented by the City and County during the year ended June 30, 2012.

Fiscal Year 2011

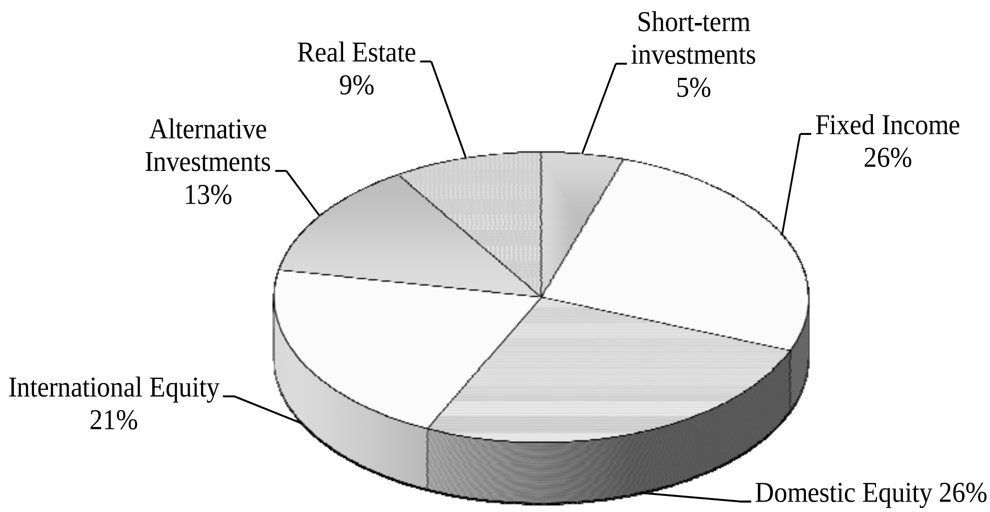
- Member contributions for the year ended June 30, 2011 decreased by $8,193 or 4.3% from the prior year. This is primarily due to a reduction in Plan covered compensation as a result of workforce reductions implemented by the City and County of San Francisco (City and County) as well as compensation give-backs negotiated by and between the City and County and labor organizations representing Plan members in response to the City and County's budget shortfall.
- In order to maintain the fiscal soundness of the Plan, $308,823 in required employer contributions were made during the year ended June 30, 2011. The increase of $85,209 resulted from an increase in the employer contribution rate from of 9.49% in fiscal year 2010 to 13.56% in fiscal year 2011. The increase in employer contribution rate was primarily attributable to the recognition of investment losses from the year ended June 30, 2009.
- Net appreciation in fair value of investments increased by $1,223,693 due to general market increases, especially in the equity investment market. Securities lending income decreased by $29,033 or 83.6% due to reduced participation in lending activities.
- Benefit payments to Plan participants increased by $96,968 or 12.2%. Primary causes for the increase were $69,229 in retirement benefits, $13,227 in basic COLA paid to most retired members effective July 1, 2010, and $9,094 of DROP accrued retirement benefits.

Plan net assets as of June 30, 2007 through 2012 expressed at cost and fair value are represented in the chart below:



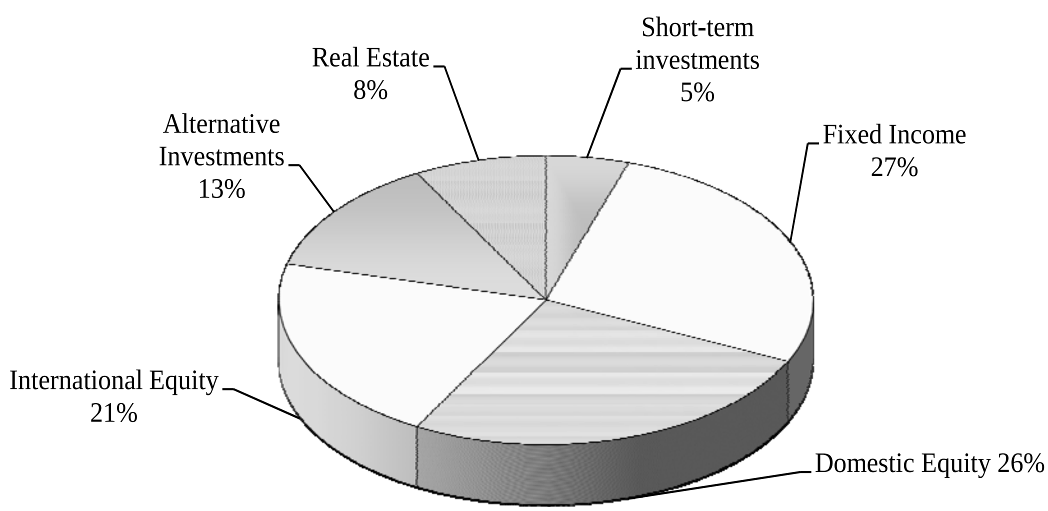
The asset allocation at fair value based on holdings (excluding securities lending collateral and foreign currency contracts) as of June 30, 2012 is represented in the chart below:

Asset Allocation as of June 30, 2012 - Fair Value



The asset allocation at fair value based on holdings (excluding securities lending collateral and foreign currency contracts) as of June 30, 2011 is represented in the chart below:

Asset Allocation as of June 30, 2011 - Fair Value



Currently Known Facts and Events

The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2011, the date of the Retirement System's most recent actuarial valuation, the funded status of the Retirement System on an actuarial value of assets basis was 87.7%, a decrease from the 91.1% funded status as of July 1, 2010. This decrease is primarily due to an increase in the actuarial accrued liability as a result of benefit formula improvements for Miscellaneous Plan members and the improvement of the cost-of-living adjustments (COLAs) for certain retirement members under Proposition B, which was approved by the voters of the City and County in November 2008. The results of the July 1, 2011 actuarial valuation also reflect the impact of recent wide fluctuations in financial markets on the value of Plan assets smoothed over a trailing 5-year period. Under the 5-year smoothing policy adopted by the Retirement Board, the investment losses from fiscal year 2008-2009 will not be fully recognized until fiscal year 2014-2015.

At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to phase in reductions to the Retirement System's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer price index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; fiscal year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year.

Recent changes to the Retirement System's plan benefits have been intended to reduce pension costs associated with future City employees. For example, in November 2011, the voters of San Francisco approved Proposition C, which

a) creates new benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raises the minimum service retirement age for Miscellaneous members from 50 to 53; limits covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculates final compensation using highest three-year average compensation; and decreases vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;

b) provides that employees commencing employment on or after January 7, 2012, otherwise eligible for membership in CalPERS may become members of the Retirement System;

c) effective July 1, 2012, provides for an increase or decrease of employee contributions to the Retirement System for certain members based on the employer contribution rate set by the Retirement Board for that year. (For example, Miscellaneous employees who earn less than $50,000 per year will pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between $50,000 and $100,000 per year will pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn $100,000 or more per year will pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and

d) provides that, effective July 1, 2012, no Supplemental COLA will be paid unless the Retirement System is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits, and in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

The impact of Proposition C will be incorporated in the actuarial valuations beginning with the July 1, 2012 Actuarial Valuation report.

In 2010, the Retirement System filed an application with the Internal Revenue Service (IRS) for a Determination Letter. In March 2012, the IRS issued a favorable Determination Letter for the defined benefit plan. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all defined benefit plan provisions, including the new provisions of Proposition C approved by the City voters in November 2011.

The Retirement Board believes that the Retirement System remains in a strong financial position to meet its obligations to Plan participants and beneficiaries.

Requests for information

This financial report is designed to provide a general overview of the Retirement System's finances for the years ended June 30, 2012 and 2011. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Jay Huish, Executive Director
San Francisco City and County Employees' Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Statements of Plan Net Assets
June 30, 2012 and 2011
(In thousands)

	2012	2011
Assets:		
Deposits	$ 33,296	$ 43,981
Contributions receivable-members	10,854	9,017
Contributions receivable-City and County	23,234	16,022
Investment income receivable:		
Interest	23,080	26,057
Dividends	9,816	12,410
Securities lending	571	637
Receivable from brokers, general partners and others	317,884	60,566
Investments at fair value:		
Short-term investments	706,721	726,811
Debt securities:		
U.S. government and agency securities	1,036,859	1,050,322
Other debt securities	3,010,690	3,218,676
Equity securities:		
Domestic	4,025,320	4,009,762
International	3,195,651	3,357,059
Real estate	1,403,412	1,266,863
Alternative investments	2,021,472	1,977,187
Foreign currency contracts, net	(15,790)	(16,046)
Invested securities lending collateral	914,105	892,579
Total investments	16,298,440	16,483,213
Total assets	16,717,175	16,651,903
Liabilities:		
Payable to brokers	463,386	126,903
Deferred retirement option program	27,257	17,641
Other	15,438	15,063
Payable to borrowers of securities	917,370	893,457
Total liabilities	1,423,451	1,053,064
Net assets held in trust for pension benefits	$ 15,293,724	$ 15,598,839

See accompanying notes to financial statements.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011
(In thousands)

	2012	2011
Additions:		
Member contributions		
Miscellaneous	$ 152,090	$ 149,148
Police	27,528	19,453
Fire	18,542	13,154
Total member contributions	198,160	181,755
Employer contributions		
Miscellaneous	344,942	250,367
Police	39,389	34,887
Fire	26,466	23,569
Total employer contributions	410,797	308,823
Investment income (expenses)		
Interest	195,517	208,400
Dividends	170,759	159,671
Net (depreciation)/appreciation in fair value of investments	(246,965)	2,557,950
Securities lending income	4,718	5,697
Investment expenses	(44,540)	(44,579)
Securities lending borrower rebates and expenses	913	436
Net investment income	80,402	2,887,575
Total additions	689,359	3,378,153
Deductions:		
Benefits	968,528	889,744
Refunds of contributions	11,030	11,548
Administrative expenses	13,661	13,544
Other administrative expenses - other postemployment benefits	1,255	1,264
Total deductions	994,474	916,100
Net (decrease)/increase	(305,115)	2,462,053
Net assets held in trust for pension benefits:		
Beginning of year	15,598,839	13,136,786
End of year	$ 15,293,724	$ 15,598,839

See accompanying notes to financial statements.

(1) Plan Description

(a) General

The San Francisco City and County Employees' Retirement System (the Retirement System) administers a cost-sharing multiple-employer defined benefit pension plan (the Plan) established to provide pension benefits for substantially all employees of the City and County of San Francisco (the City and County), certain classified and certificated employees of the Community College and Unified School Districts, and San Francisco Trial Court employees other than judges. The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments after retirement. While the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), it is a tax-qualified plan under Internal Revenue Code provisions. The City and County Charter (the Charter) and the Administrative Code are the authorities that establish and amend the benefit provisions of and employer and member obligations to the Plan.

The Retirement System is considered to be a part of the City and County's financial reporting entity and is included in the City and County's basic financial statements as a pension trust fund. The financial statements of the Retirement System are intended to present only the plan net assets and changes in plan net assets of the Retirement System. They do not purport to, and do not, present fairly the financial position of the City and County as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Retirement System is administered by the Executive Director, an employee of the City and County, in accordance with the provisions of the Charter and the policies and regulations of the Retirement Board. The City and County's basic financial statements can be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The three main categories of Plan membership are:

- **Miscellaneous Members** – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- **Firefighter Members** – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- **Police Members** – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

(b) Service Retirement

Miscellaneous Members who became members prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Members who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Members who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 53 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan before November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 25 years of credited service. The service retirement benefit is calculated using the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after November 2, 1976 and prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

(c) Disability Retirement

Miscellaneous Members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. The disability retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the disability factor (1.8) up to a maximum of 75% of average final compensation.

Firefighter Members and Police Members are eligible to apply for an industrial disability retirement benefit from their first day on the job in firefighter or police service if their disability is caused by an illness or injury that they received while performing their duties. The industrial disability retirement benefit is based on the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the permanent disability rating (from 50% to 90%) or the member's service retirement benefit if the member is eligible for a service retirement.

Firefighter Members and Police Members are eligible to apply for an ordinary disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that is not caused by their work, but that prevents them from performing their duties.

(d) Separation and Death Benefits

Separation from Employment

Upon separation from City employment, **Miscellaneous Members** may either elect to withdraw their accumulated contributions from the Plan or, if they have 5 or more years of credited service, elect to leave their accumulated contributions in the Plan and receive a vesting benefit that is first payable at or after age 50 for members hired prior to January 7, 2012 or at or after age 53 for members hired on or after January 7, 2012. Miscellaneous members hired before November 2, 1976 need 10 years of credited service to elect the vesting option.

Upon separation from City employment, **Firefighter Members and Police Members** may either elect to withdraw their accumulated contributions from the Plan or, if they have 5 or more years of credited service, elect to leave their accumulated contributions in the Plan and receive a deferred benefit that is first payable at or after age 50.

Death Benefits Prior to Retirement

Generally, upon the death of an active employee who is eligible for a service retirement, the Retirement System provides continuation benefits to a qualified surviving spouse or qualified domestic partner equal to 50% to 100% of the member's retirement allowance that the member would have received had he or she retired on the date of death.

For qualified surviving spouses and qualified domestic partners of **Firefighter Members and Police Members** who die prior to becoming eligible for service retirement and whose death is due to an injury received in or illness caused by the performance of duty, salary continuation is provided to the qualified survivor until such time as the member would have qualified for service retirement had he or she lived at which time a continuation benefit equal to 100% of the member's service retirement allowance is provided to the qualified survivor.

A lump sum death payment equal to 6 months' earnable salary plus the member's accumulated contributions is provided upon the death of an active employee not yet eligible for a service retirement to the member's named beneficiary or estate.

Death Benefits after Retirement

Generally, upon the death of a retired member, the Retirement System provides continuation benefits to a qualified surviving spouse or qualified domestic partner equal to 50% to 100% of the member's retirement allowance as of the date of death.

(e) Cost of Living Adjustments (COLA)

Basic COLA

Miscellaneous Members receive a benefit adjustment each July 1 equal to the percentage increase or decrease in the Consumer Price Index (CPI) rounded to the nearest 1%, to a maximum of 2% of the member's previous June 30 retirement benefit. If the CPI decreases in a particular year, however, the negative adjustment cannot reduce a member's monthly retirement benefit below the initial pension amount.

Firefighter Members and Police Members who became members of the Plan before November 2, 1976 receive a benefit adjustment each July 1 equal to 50% of the actual dollar increase or decrease in the salary of the rank or position on which the member's retirement benefit is based. Although decreases are possible in a given year, a negative adjustment cannot reduce a member's monthly benefit below the initial pension amount.

Firefighter Members and Police Members who became members of the Plan on or after November 2, 1976 receive a benefit adjustment each July 1 equal to the percentage increase or decrease in the CPI rounded to the nearest 1%, to a maximum of 2% of the member's previous June 30 retirement benefit. If the CPI decreases in a particular year; however, the negative adjustment cannot reduce a member's monthly retirement benefit below the initial pension amount.

Supplemental COLA

Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The Supplemental COLA, payable on July 1 in those years when paid, increases the total monthly benefit adjustment (including the Basic COLA) up to a maximum of 3.5% of the member's previous June 30 monthly retirement benefit. The Supplemental COLA can be paid in increments of 0.5% in years where the excess earnings available to fund the Supplemental COLA are not sufficient to fund up to the 3.5% maximum. For members hired prior to January 7, 2012, all Supplemental COLAs paid to retired members will continue into the future in the event an additional Supplemental COLA is not payable in any given year. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits. In any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

(Dollar amounts in thousands)

(f) Deferred Retirement Option Program

In February 2008, the voters of the City and County approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer could elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and accrues monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation, and service frozen as of the date of his or her entry into DROP. DROP was closed to new applicants on June 30, 2011.

Changes in DROP liabilities during the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
DROP liability, beginning of year	$ 17,641	$ 8,653
Additions	24,570	16,088
Distributions	(14,954)	(7,100)
DROP liability, end of year	$ 27,257	$ 17,641

(g) Membership

Membership of the Retirement System consisted of the following as of June 30, 2012:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,355	2,080	20,755	25,190
Active members	1,879	1,336	24,882	28,097
Terminated members entitled to but not yet receiving benefits	120	60	5,369	5,549
Total	4,354	3,476	51,006	58,836

Membership of the Retirement System consisted of the following as of June 30, 2011:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,258	2,081	19,860	24,199
Active members	2,042	1,350	24,708	28,100
Terminated members entitled to but not yet receiving benefits	121	63	5,266	5,450
Total	4,421	3,494	49,834	57,749

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the Retirement System applies all applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and predecessor standard setters on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Retirement System has elected not to apply private sector standards issued after November 30, 1989.

Member contributions are recognized in the period in which the contributions are due. Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(b) Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Securities that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 40% and 65%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $1,771,908, including $103,415 in recourse debt as of June 30, 2012, and $1,873,510, including $104,500 in recourse debt as of June 30, 2011. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a purchase and sale transaction.

Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of alternative investments are based on net asset values provided by the general partners. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and changes in fair value. Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the investments can only be determined by negotiation between independent third parties in a purchase and sale transaction.

The Charter and Retirement Board policies permit the Retirement System to use investments of the Plan to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. Treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the Plan's domestic securities for collateral of 102% and international securities for collateral of 105%. Contracts with the lending agent require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults, and therefore, is not reported in the Retirement System's financial statements.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2012 and 2011 was 75 days and 87 days, respectively. All cash collateral received was invested in a separately managed account by the lending agent using investment guidelines developed and approved by the Retirement System. As of June 30, 2012 and 2011, the weighted average maturity of the reinvested cash collateral account was 17 days and 26 days, respectively. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the separate account managed by the lending agent is reported at fair value. Payable to borrowers of securities in the statements of plan net assets represents the cash collateral received from borrowers. Additionally, the income and costs of securities lending transactions, such as borrower rebates and fees, are recorded respectively as revenues and expenses in the statements of changes in plan net assets.

(c) Administrative Expenses

All costs to administer the Retirement System are borne by the Retirement System.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(Dollar amounts in thousands)

(3) Deposits

Deposits are carried at cost, which approximates fair value. Deposits consisted of the following as of June 30:

	2012	2011
Pooled funds with City and County Treasurer	$ 4,780	$ 5,087
Bank accounts	28,516	38,894
	$ 33,296	$ 43,981

Deposit and investment risk disclosures for the pooled funds with the City and County Treasurer are discussed in the City and County's basic financial statements.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government may not be able to recover its deposits or may not be able to recover collateral securities that are in the possession of an outside party. The Retirement System does not have a specific policy addressing custodial credit risk for deposits. As of June 30, 2012 and 2011, the Retirement System's deposits in bank accounts were not exposed to custodial credit risk.

(4) Investments

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investment managers are required to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities, and collateralized mortgage obligations. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; foreign currency contracts, derivative instruments, and alternative investments, which include investments in a variety of commingled partnership vehicles.

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. In addition, the Retirement System's securities lending cash collateral separately managed account is authorized to use repurchase arrangements. As of June 30, 2012 and 2011, $195 million (or 21.3% of cash collateral) and $255 million (or 28.6% of cash collateral), respectively, consisted of such agreements.

(Dollar amounts in thousands)

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of an investment. The Retirement System does not have a specific policy to manage interest rate risk.

Below are tables depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2012 and 2011.

Investments at Fair Value as of June 30, 2012

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 143,976	$ -	$ 52,966	$ 3,933	$ 87,077
Bank Loans	16,260	4,798	11,148	314	-
Collateralized Bonds	12,497	-	-	609	11,888
Commercial Mortgage-Backed	552,518	-	35,594	52,758	464,166
Commingled and Other Fixed Income Funds	233,922	233,712	19	-	191
Corporate Bonds	1,400,196	386,810	404,647	404,438	204,301
Corporate Convertible Bonds	211,337	22,680	116,187	16,675	55,795
Government Agencies	172,929	154,279	8,291	10,359	-
Government Bonds	544,099	2,069	403,077	62,083	76,870
Government Mortgage - Backed Securities	547,152	193,215	2,276	19,190	332,471
Index Linked Government Bonds	10,745	-	10,745	-	-
Invested Cash	393,657	393,657	-	-	-
Mortgages	72	-	72	-	-
Municipal/Provincial Bonds	42,367	-	12,814	2,093	27,460
Non-Government Backed Collateralized Mortgage Obligations	157,940	-	2,865	2,329	152,746
Options	991	947	44	-	-
Short Term Bills and Notes	576	576	-	-	-
Short Term Investment Funds	312,489	312,489	-	-	-
Swaps	547	-	2,047	(1,158)	(342)
Total	$ 4,754,270	$ 1,705,232	$ 1,062,792	$ 573,623	$ 1,412,623

(Dollar amounts in thousands)

Investments at Fair Value as of June, 30, 2011

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 144,025	$ -	$ 27,794	$ 7,512	$ 108,719
Bank Loans	53,162	-	22,652	30,181	329
Collateralized Bonds	13,654	-	-	676	12,978
Commercial Mortgage-Backed	593,184	26,063	100,307	34,929	431,885
Commingled and Other Fixed Income Funds	284,805	284,805	-	-	-
Corporate Bonds	1,552,314	614,940	381,071	433,703	122,600
Corporate Convertible Bonds	219,394	7,895	120,499	21,673	69,327
Government Agencies	1,062,740	57,959	631,438	116,353	256,990
Government Bonds	102,322	30,709	28,441	14,362	28,810
Government Mortgage-Backed Securities	6,198	-	-	2,844	3,354
Index Linked Government Bonds	16,983	-	-	5,662	11,321
Invested Cash	473,110	473,110	-	-	-
Mortgages	93	-	93	-	-
Municipal/Provincial Bonds	6,878	-	3,801	3,077	-
Non-Government Backed Collateralized Mortgage Obligations	211,525	-	2,742	5,198	203,585
Options	(1,419)	(225)	(1,410)	216	-
Other Fixed Income	6,562	(34)	19	-	6,577
Short Term Bills and Notes	38,887	38,887	-	-	-
Short Term Investment Funds	214,813	214,813	-	-	-
Swaps	(3,421)	(5)	(1,887)	(749)	(780)
Total	$ 4,995,809	$ 1,748,917	$ 1,315,560	$ 675,637	$ 1,255,695

(b) Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. Fixed income investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Fixed income managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agency securities. The Retirement System's credit risk policy is embedded in the individual investment manager agreements as prescribed and approved by the Retirement Board.

Investments are classified and rated using the lower of (1) Standard & Poor's (S&P) rating or (2) Moody's Investors Service (Moody's) rating corresponding to the equivalent S&P rating. If only a Moody's rating is available, the rating equivalent to S&P is used for the purpose of this disclosure.

In August 2011, both Moody's and S&P placed the debt of the United States on negative outlook. S&P lowered the credit rating for U.S. long-term debt to AA+ from AAA while Moody's retained its Aaa rating for U.S. long-term debt. These continuing downgrades have an impact on the credit risk and value of the Retirement System's investments in U.S. government agency securities, U.S. government bonds, and U.S. government mortgage-backed securities.

(Dollar amounts in thousands)

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2012. Investments issued or explicitly guaranteed by the U.S. government of $854,540 as of June 30, 2012 are not considered to have credit risk and are excluded from the tables below.

Credit Ratings of Fixed Income Investments as of June 30, 2012

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	233,579	6.0%
AA	109,844	2.8%
A	302,566	7.8%
BBB	641,007	16.4%
BB	190,713	4.9%
B	300,298	7.7%
CCC	111,816	2.9%
CC	10,775	0.3%
D	16,276	0.4%
Not Rated	1,982,856	50.8%
Total	$ 3,899,730	100.0%

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2011. Investments issued or explicitly guaranteed by the U.S. government of $774,714 as of June 30, 2011 are not considered to have credit risk and are excluded from the tables below.

Credit Ratings of Fixed Income Investments as of June 30, 2011

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 346,110	8.2%
AA	192,376	4.6%
A	266,317	6.3%
BBB	522,638	12.4%
BB	192,110	4.6%
B	289,149	6.9%
CCC	154,317	3.7%
CC	12,983	0.3%
C	7,920	0.2%
D	6,406	0.2%
Not Rated	2,230,769	52.6%
Total	$ 4,221,095	100.0%

The securities listed as "Not Rated" include short-term investment funds, U.S. government agency securities, and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these investments, the "not rated" component of credit would be approximately 11.5% for 2012 and 9.8% for 2011.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Retirement System's investment in a single issuer. Guidelines for investment managers typically restrict a position to become no more than 5% (at fair value) of the investment manager's portfolio. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit.

As of June 30, 2012 and 2011, the Retirement System had no investments of a single issuer that equaled or exceeded 5% of total Retirement System net assets.

(d) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government may not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Retirement System does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2012 and 2011, $73,535 and $77,059, respectively, of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

For fiscal years 2012 and 2011, cash received as securities lending collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement System and held by the custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

(e) Foreign Currency Risk

The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash, equity, fixed income, alternative investments, real estate, and swap investments. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

(Dollar amounts in thousands)

The Retirement System's net exposures to foreign currency risk as of June 30, 2012 are as follows:

Foreign Currency Risk Analysis as of June 30, 2012

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Australian dollar	$ 651	$ 98,421	$ 22,639	$ 6,812	$ -	$ (145,518)	$ (16,995)
Brazilian real	-	25,994	26,532	-	-	37,223	89,749
British pound sterling	114	397,375	-	-	-	(30,081)	367,408
Canadian dollar	84	55,879	40,315	-	-	(6,854)	89,424
Chilean peso	-	-	-	-	-	11,606	11,606
Chinese yuan renminbi	-	-	-	-	-	42,782	42,782
Colombian peso	-	-	-	-	-	35,097	35,097
Czech koruna	-	884	-	-	-	(23,991)	(23,107)
Danish krone	213	20,697	-	-	-	(2,330)	18,580
Euro	22,369	536,231	1,397	239,888	-	(386,953)	412,932
Hong Kong dollar	1,035	165,492	-	-	-	1,487	168,014
Hungarian forint	-	818	-	-	-	24,903	25,721
Indian rupee	-	-	-	-	-	32,429	32,429
Indonesian rupiah	137	13,697	-	-	-	12,501	26,335
Japanese yen	3,038	382,914	-	-	63,121	(170,036)	279,037
Malaysian ringgit	-	3,297	-	-	-	(11,180)	(7,883)
Mexican peso	1,135	7,744	24,641	-	-	31,709	65,229
New Israeli shekel	13	4,759	-	-	-	(35,643)	(30,871)
New Romanian Leu	-	-	-	-	-	6,553	6,553
New Russian ruble	-	-	-	-	-	27,767	27,767
New Taiwan dollar	100	24,569	-	-	-	(42,376)	(17,707)
New Zealand dollar	218	-	-	-	-	(2,706)	(2,488)
Nigerian naira	576	-	-	-	-	-	576
Norwegian krone	36	15,261	-	-	-	196,559	211,856
Peruvian nuevo sol	-	-	-	-	-	10,638	10,638
Philippine peso	-	698	-	-	-	19,545	20,243
Polish zloty	-	1,351	-	-	-	32,081	33,432
Singapore dollar	147	45,707	-	-	-	(34,614)	11,240
South African rand	52	13,607	-	-	-	23,596	37,255
South Korean won	755	87,949	-	-	-	9,137	97,841
Swedish krona	51	47,538	-	-	-	141,599	189,188
Swiss franc	111	151,403	-	-	-	(159,824)	(8,310)
Thai baht	-	19,241	-	-	-	7,950	27,191
Turkish lira	-	10,124	2,069	-	-	59,439	71,632
Total	$ 30,835	$ 2,131,650	$ 117,593	$ 246,700	$ 63,121	$ (287,505)	$ 2,302,394

(Dollar amounts in thousands)

The Retirement System's net exposures to foreign currency risk as of June 30, 2011 are as follows:

Foreign Currency Risk Analysis as of June 30, 2011

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Argentine peso	$ -	$ -	$ -	$ -	$ -	$ 9,146	$ 9,146
Australian dollar	(227)	102,352	23,699	5,834	-	32,067	163,725
Brazilian real	2	54,276	30,020	-	-	123,802	208,100
British pound sterling	3,200	448,242	-	628	-	(45,149)	406,921
Canadian dollar	401	71,601	23,873	-	-	(100,423)	(4,548)
Chilean peso	-	-	-	-	-	71,778	71,778
Chinese yuan renminbi	-	-	-	-	-	46,027	46,027
Colombian peso	-	-	-	-	-	6,527	6,527
Czech koruna	-	1,825	-	-	-	(91,329)	(89,504)
Danish krone	183	29,702	-	-	-	(3,540)	26,345
Euro	17,945	715,752	(1,340)	249,298	-	(184,386)	797,269
Hong Kong dollar	2,997	229,156	-	-	-	918	233,071
Hungarian forint	-	3,999	-	-	-	41,364	45,363
Indian rupee	-	-	-	-	-	153,851	153,851
Indonesian rupiah	2,187	15,713	-	-	-	59,951	77,851
Japanese yen	1,740	379,369	-	-	66,776	(242,410)	205,475
Kazakhstan tenge	-	-	-	-	-	5,622	5,622
Malaysian ringgit	75	14,255	-	-	-	3,072	17,402
Mexican peso	6,927	12,454	28,105	-	-	21,303	68,789
New Israeli shekel	23	3,390	-	-	-	4,206	7,619
New Romanian Leu	2,322	-	690	-	-	8,230	11,242
New Taiwan dollar	1,039	37,857	-	-	-	(50,743)	(11,847)
New Zealand dollar	-	-	5,656	-	-	31,496	37,152
Norwegian krone	199	13,468	-	-	-	123,927	137,594
Peruvian nuevo sol	-	-	-	-	-	45,720	45,720
Philippine peso	-	114	-	-	-	7,838	7,952
Polish zloty	-	6,224	14,404	-	-	9,038	29,666
Russian ruble (new)	-	-	-	-	-	1,864	1,864
Singapore dollar	203	37,706	-	-	-	23,363	61,272
South African rand	-	35,173	-	-	-	84,860	120,033
South Korean won	439	121,111	-	-	-	87,413	208,963
Swedish krona	(328)	46,352	-	-	-	133,558	179,582
Swiss franc	(428)	159,775	-	-	-	(126,488)	32,859
Thai baht	633	20,990	-	-	-	1,277	22,900
Turkish lira	-	10,685	8,097	-	-	5,278	24,060
United Arab Emirates dirham	80	-	4,018	-	-	-	4,098
Total	$ 39,612	$ 2,571,541	$ 137,222	$ 255,760	$ 66,776	$ 299,028	$ 3,369,939

(Dollar amounts in thousands)

(f) Derivative Instruments

In June 2008, the Governmental Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. Pursuant to the requirements of this statement, the Retirement System has provided a summary of derivative instrument activities during the reporting periods presented and the related risks.

As of June 30, 2012 and 2011, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in plan net assets. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

Valuation methods used by the Retirement System are described in more detail in Note 2(b). The fair value of the exchange traded derivative instruments, such as futures, options, rights, and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments.

The tables below present the notional amounts, the fair values, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2012 and 2011:

As of and for the Year Ended June 30, 2012

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ (15,791)	$ (15,791)
Other Contracts	(a)	109	109
Futures			
Equity Contracts	$ 1	-	-
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	(29,717)	991	(22)
Swaps			
Credit Contracts	111,153	1,035	(613)
Interest Rate Contracts	3,100	(488)	(488)
Rights/Warrants			
Equity Contracts	338 shares	28	(252)
Total		$ (14,116)	$ (17,057)

(a) SFERS' investment managers enter into a wide variety of forward foreign exchange and other contracts, which frequently do not involve the US dollar. As a result, a US dollar-based notional value is not included.

(Dollar amounts in thousands)

As of and for the Year Ended June 30, 2011

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ (16,042)	$ (16,042)
Other Contracts	(a)	214	214
Futures			
Equity Contracts	$ 1	-	-
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	2,837	110	(301)
Interest Rate Contracts	(1)	(193)	99
Other Contracts	(40,080)	(1,336)	62
Swaps			
Credit Contracts	130,028	(2,148)	220
Interest Rate Contracts	15,920	(1,267)	(1,267)
Other Contracts	6	(5)	21
Rights/Warrants			
Equity Contracts	877 shares	4,238	(731)
Total		$ (16,429)	$ (17,725)

[a] SFERS' investment managers enter into a wide variety of forward foreign exchange and other contracts, which frequently do not involve the US dollar. As a result, a US dollar-based notional value is not included.

All investment derivatives are reported as investments at fair value in the statement of plan net assets. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statements of changes in plan net assets.

Counterparty Credit Risk

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2012, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $11,904 and $26,704, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 96.9% of the positions while 3.1% were rated below A as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch). As of June 30, 2011, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $10,068 and $26,000, respectively. The Retirement System's counterparties to these contract held credit ratings of A or better as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch).

(Dollar amounts in thousands)

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2012 and 2011, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk.

Interest Rate Risk

The tables below describe the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2012 and 2011.

Derivative Interest Rate Risk as of June 30, 2012

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Swaps					
Credit Contracts	$ 1,035	$ -	$ 2,047	$ (670)	$ (342)
Interest Rate Contracts	(488)	-	-	(488)	-
Forwards					
Other Contracts	109	109	-	-	-
Total	$ 656	$ 109	$ 2,047	$ (1,158)	$ (342)

Derivative Interest Rate Risk as of June 30, 2011

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Options					
Interest Rate Contracts	$ (193)	$ (193)	$ -	$ -	$ -
Other Contracts	(1,336)	(32)	(1,520)	216	-
Swaps					
Credit Contracts	(2,148)	-	(1,886)	(602)	340
Interest Rate Contracts	(1,267)	-	-	(147)	(1,120)
Other Contracts	(5)	(5)	-	-	-
Total	$ (4,949)	$ (230)	$ (3,406)	$ (533)	$ (780)

The following tables detail the reference rate, notional amount, and fair value of interest rate swaps that are highly sensitive to changes in interest rates:

Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2012

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (488)

Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2011

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (147)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	12,820	(1,120)
Total		$ 15,920	$ (1,267)

(Dollar amounts in thousands)

Foreign Currency Risk
At June 30, 2012, the Retirement System is exposed to foreign currency risk on its investments in forwards and swaps denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2012

Currency	Forwards	Options	Rights/ Warrants	Total
Australian dollar	$ (14,197)	$ 13	$ 17	$ (14,167)
Brazilian real	2,355	-	-	2,355
British pound sterling	(1,562)	52	-	(1,510)
Canadian dollar	(1,282)	5	-	(1,277)
Chilean peso	394	-	-	394
Chinese yuan renminbi	56	-	-	56
Colombian peso	(265)	-	-	(265)
Czech koruna	518	-	-	518
Danish krone	(20)	-	-	(20)
Euro	(149)	226	11	88
Hungarian forint	(310)	-	-	(310)
Indian rupee	989	-	-	989
Indonesian rupiah	(234)	-	-	(234)
Japanese yen	(1,110)	-	-	(1,110)
Malaysian ringgit	971	-	-	971
Mexican peso	(3,214)	-	-	(3,214)
New Israeli shekel	1,351	-	-	1,351
New Romanian leu	133	-	-	133
New Russian ruble	643	-	-	643
New Taiwan dollar	831	-	-	831
New Zealand dollar	(7,351)	218	-	(7,133)
Norwegian krone	(636)	-	-	(636)
Peruvian nuevo sol	2	-	-	2
Philippine peso	(766)	-	-	(766)
Polish zloty	183	-	-	183
Singapore dollar	(51)	-	-	(51)
South African rand	(39)	-	-	(39)
South Korean won	(603)	-	-	(603)
Swedish krona	(1,838)	-	-	(1,838)
Swiss franc	1,130	90	-	1,220
Thai baht	39	-	-	39
Turkish lira	(851)	-	-	(851)
Total	$ (24,883)	$ 604	$ 28	$ (24,251)

(Dollar amounts in thousands)

At June 30, 2011, the Retirement System is exposed to foreign currency risk on its investments in forwards and swaps denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2011

Currency	Forwards	Swaps	Total
Argentine peso	$ (3)	$ -	$ (3)
Australian dollar	(3,466)	-	(3,466)
Brazilian real	(5,687)	-	(5,687)
British pound sterling	2,152	-	2,152
Canadian dollar	(2,111)	-	(2,111)
Chilean peso	(445)	-	(445)
Chinese yuan renminbi	(101)	-	(101)
Colombian peso	(2,342)	-	(2,342)
Czech koruna	(2,664)	-	(2,664)
Danish krone	(28)	-	(28)
Euro	(7,914)	(1,340)	(9,254)
Hungarian forint	(1,895)	-	(1,895)
Indian rupee	(748)	-	(748)
Indonesian rupiah	26	-	26
Japanese yen	(9,612)	-	(9,612)
Malaysian ringgit	(440)	-	(440)
Mexican peso	(1,020)	-	(1,020)
New Israeli shekel	(1,348)	-	(1,348)
New Romanian leu	(16)	-	(16)
New Russian ruble	(1,112)	-	(1,112)
New Zealand dollar	(7,645)	-	(7,645)
Norwegian krone	(2,870)	-	(2,870)
Peruvian nuevo sol	(1,666)	-	(1,666)
Philippine peso	112	-	112
Polish zloty	(1,258)	-	(1,258)
Singapore dollar	(966)	-	(966)
South African rand	(3,331)	-	(3,331)
South Korean won	(983)	-	(983)
Swedish krona	(601)	-	(601)
Swiss franc	(11,817)	-	(11,817)
Taiwan dollar	(1,110)	-	(1,110)
Thai baht	(10)	-	(10)
Turkish lira	1,945	-	1,945
	$ (68,974)	$ (1,340)	$ (70,314)

Contingent Features

At June 30, 2012 and 2011, the Retirement System held no positions in derivatives containing contingent features.

(5) Currency Management Program

The Retirement System's currency management program is managed by three investment managers. The objective of the currency management program is to produce a risk-adjusted return of approximately 100 basis points.

The Retirement System's international equity managers do not actively manage the underlying currency risk. Currency risk can be reduced through an active currency management program.

Each currency manager manages currency risk through foreign exchange spot and forward contracts, and currency options. Only international equities are subject to the currency management program. The Retirement System's international fixed income currency exposure is actively managed by four developed market bond managers and two emerging market bond managers. All four developed bond managers have discretion to invest in U.S. or international developed markets.

As of June 30, 2012, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $3,394,510, which represented 22.3% of plan net assets. For the year ended June 30, 2012, the currency overlay program lost $20,969 in value or 0.58% of the international equity portfolio (including cash and other assets) and 0.14% of the Retirement System's average total portfolio value.

As of June 30, 2011, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $3,634,309, which represented 23.3% of plan net assets. For the year ended June 30, 2011, the currency overlay program lost $1,659 in value or 0.06% of the international equity portfolio (including cash and other assets) and 0.01% of the Retirement System's average total portfolio value.

(6) Securities Lending

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Cash and non-cash collateral is pledged at 102% and securities at 105% of the fair value of domestic securities and international securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. However, starting in the year ended June 30, 2009, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at anytime. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the corresponding collateral.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statements of net assets. As of June 30, 2012 and 2011, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. However, the lending agent indemnifies the Retirement System against all borrower defaults.

(Dollar amounts in thousands)

As of June 30, 2012, the Retirement System has lent $1,202,568 in securities and received collateral of $917,370 and $308,162 in cash and securities, respectively, from borrowers. The cash collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement System. Due to the decline in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $914,105. The net unrealized loss of $3,265 is presented as part of the net appreciation (depreciation) in fair value of investments in the statement of changes in plan net assets in the year in which the unrealized gains and losses occur. The Retirement System is exposed to investment risk including the possible loss of principal value in the separately managed securities lending account due to the fluctuation in the fair value of the assets held in the account.

The Retirement System's securities lending transactions as of June 30, 2012 are summarized in the following table.

Securities Lending as of June 30, 2012

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Corporate Fixed Income	$ 2,921	$ 3,011	$ -
International Equities	87,075	89,637	-
U.S. Corporate Fixed Income	175,000	177,029	-
U.S. Equities	431,068	433,707	-
U.S. Government Fixed Income	210,324	213,986	-
Securities Loaned with Non-Cash Collateral			
International Corporate Fixed Income	475	-	487
International Equities	262,284	-	272,205
International Government Fixed Income	30,389	-	32,418
U.S. Corporate Fixed Income	234	-	236
U.S. Equities	2,798	-	2,816
Total	$ 1,202,568	$ 917,370	$ 308,162

(Dollar amounts in thousands)

The following table presents the segmented time distribution for the reinvested cash collateral account based upon the expected maturity (in years) as of June 30, 2012.

Fair Value of Cash Collateral Account as of June 30, 2012

Investment Type	Fair Value	Less than 1 year	1-5 years
Asset Backed Securities	$ 16,143	$ 11,412	$ 4,731
Commercial Paper	24,995	24,995	-
Government Agencies	52,899	17,862	35,037
Negotiable Certificates of Deposits	80,012	80,012	-
Repurchase Agreements	195,000	195,000	-
Short Term Investment Funds	545,056	545,056	-
Total	$ 914,105	$ 874,337	$ 39,768

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2012 is as follows:

Credit Rating of Cash Collateral Account as of June 30, 2012

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 26,266	2.9%
AA	90,390	9.9%
A	249,101	27.2%
BB	179	0.0%
B	1,551	0.2%
CCC	1,562	0.2%
Not Rated	545,056	59.6%
Total	$ 914,105	100.0%

As of June 30, 2011, the Retirement System lent $1,175,923 in securities and received collateral of $893,457 and $325,670 in cash and securities, respectively, from borrowers. The cash collateral is invested in a separate account managed by the lending agent. Due to the decline in the fair value of assets held by the short-term pool, the Retirement System's cash collateral was valued at $892,579. The net unrealized loss of $878 is presented as part of the net appreciation (depreciation) in fair value of investments in the statement of changes in plan net assets in the year in which the unrealized gains or losses occur. The Retirement System's securities lending transactions as of June 30, 2011, are summarized in the following table.

(Dollar amounts in thousands)

Securities Lending as of June 30, 2011

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Equities	$ 106,502	$ 111,137	$ -
International Corporate Fixed Income	1,114	1,179	-
International Government Fixed Income	2,801	3,041	-
U.S. Government Agencies	3,961	4,050	-
U.S. Corporate Fixed Income	202,818	206,814	-
U.S. Equities	410,492	418,153	-
U.S. Government Fixed Income	146,004	149,083	-
Securities Loaned with Non-Cash Collateral			
International Equities	264,002	-	286,243
U.S. Corporate Fixed Income	1,328		1,352
U.S. Equities	687	-	698
International Government Fixed Income	9,174	-	9,762
U.S. Government Fixed Income	27,040	-	27,615
Total	$ 1,175,923	$ 893,457	$ 325,670

The following table presents the segmented time distribution for the reinvested cash collateral account based upon the expected maturity (in years) as of June 30, 2011.

Fair Value of Cash Collateral Account as of June 30, 2011

Investment Type	Fair Value	Less than 1 year	1-5 years
Asset Backed Securities	$ 43,777	$ 25,566	$ 18,211
Commercial Paper	4,999	4,999	-
Floating Rate Notes	39,257	39,257	-
Government Agencies	89,606	78,737	10,869
Negotiable Certificates of Deposits	292,043	292,043	-
Repurchase Agreements	255,000	255,000	-
Short Term Investment Funds	167,897	167,897	-
Total	$ 892,579	$ 863,499	$ 29,080

(Dollar amounts in thousands)

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2011 is as follows:

Credit Rating of Cash Collateral Account as of June 30, 2011

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 123,060	13.8%
AA	131,095	14.7%
A	389,921	43.7%
BBB	10,583	1.2%
BB	6,581	0.7%
B	6,632	0.7%
CCC	1,810	0.2%
Not Rated	222,897	25.0%
Total	$ 892,579	100.0%

(7) Investments in Real Estate Holdings

Real estate investments represent the Retirement System's interests in real estate limited partnerships. The changes in these investments during the years ended June 30, 2012 and 2011 are summarized as follows:

	2012	2011
Investments:		
Beginning of the year	$ 1,266,863	$ 1,009,001
Capital investments	79,482	108,461
Equity in net earnings	69,757	66,243
Net appreciation in fair value	106,617	144,335
Capital distributions	(119,307)	(61,177)
End of the year	$ 1,403,412	$ 1,266,863

(8) Benefits

Allowances and benefits incurred during the year are summarized as follows:

	2012	2011
Service retirement benefits	$ 716,744	$ 662,277
Disability retirement benefits	161,782	154,631
Death benefits	8,198	8,234
COLA benefit adjustments	57,234	48,514
DROP accrued retirement benefits	24,570	16,088
Total	$ 968,528	$ 889,744

(Dollar amounts in thousands)

(9) Funding Policy

(a) Contributions

Contributions are made to the Plan by both the employers and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal years 2012 and 2011 as a percentage of gross covered salary were as follows:

Participants entering the Retirement System	
prior to November 2, 1976	
Police and fire	7.0%
Miscellaneous	8.0%
Participants entering the Retirement System	
after November 2, 1976	7.5%
Participants entering the Retirement System	
on or after July 1, 2010	
Police and fire	9.0%
Miscellaneous	7.5%

Beginning in the year ended June 30, 2006, most employee groups agreed through collective bargaining for employees to contribute all or a portion of the employee contributions, per memorandums of understanding (MOU's), on a pretax basis. As of July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions on a pre-tax basis.

Prior to the early 1950s, all Retirement System members were covered by the Federal Old-Age and Survivors Disability Insurance provisions of the Federal Social Security Act. In the early 1950s, the City and County agreed to exclude uniformed police officers and firefighters from Social Security coverage. Prior to 1990, miscellaneous members covered by Social Security were able to elect to reduce the above stated rate of employee contributions in consideration of their anticipated Social Security benefit payments. All participants who elected such reduction must repay the amount of unpaid employee contributions with interest or there will be an appropriate actuarial reduction in benefits.

Participants terminating service with the employers may withdraw employee contributions plus interest. The interest rate applied to accumulated employee contributions is determined by the Retirement System's consulting actuary and recommended to the Retirement Board. The Retirement Board reviews and sets the crediting interest rate for the Plan on an annual basis. Interest for the years ended June 30, 2012 and 2011 accumulated at 4.00%.

The basic employer contributions are the amounts deemed necessary on an actuarial basis using the entry age normal cost method to provide the Retirement System with assets sufficient to pay the basic benefits that are not provided for by employees' contributions. Contribution rates used in fiscal years 2012 and 2011 are based on a schedule of rates determined from actuarial studies by the consulting actuary as of July 1, 2010 and 2009, respectively.

(Dollar amounts in thousands)

The actuarial methods and significant assumptions used to compute the actuarially determined annual required contribution for both actuarial studies are the same, unless otherwise noted.

Valuation dates	July 1, 2010 and July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization period	Actuarial gains and losses, assumption changes, and supplemental COLAs are amortized over an open 15-year period; plan amendments and changes in interest crediting rate are amortized over 20-year closed periods
Equivalent single amortization period	13.4 years as of July 1, 2010
Asset valuation method	5-year smoothing of return over and under expected return – transition period began July 1, 2004
Actuarial assumptions:	
Investment rate of return	7.75%
Projected wage increases	4.00%
	Additional for merit and promotion: 0.85% to 15.00% based on a participant's years of service and membership group
Cost of living adjustments	
Old Plans – Police and Fire	Post-7/1/1975 retirement: 4.00% to 5.00% per year; Pre-7/1/1975 retirement: 3.00% per year
Old Plans – Miscellaneous	2.00% per year
New Plans – all members	2.00% per year

Required and actual employer contribution rates for the years ended June 30, 2012 and 2011 as a percentage of covered payrolls averaged the following:

	Fiscal Year 2012	Fiscal Year 2011
Police plan members	18.09%	13.56%
Fire plan members	18.09%	13.56%
Miscellaneous plan members	18.09%	13.56%

(b) Funded Status

The provisions of the City and County Charter state that an actuarial valuation shall occur at least every even-numbered year and that actuarial experience investigations shall occur as determined necessary by the Retirement Board. Actuarial valuations and a limited experience analysis are generally carried out each year. The latest actuarial valuation of the Retirement System was completed in February 2012 by the actuarial firm Cheiron and was based upon employee data and asset information as of July 1, 2011. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The following table shows the funded status of the Retirement System as of July 1, 2011, the most recent actuarial valuation date.

Funded Status as of July 1, 2011
(Dollars in thousands)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (AVA / AAL)	Covered Payroll (CP)	UAAL as a Percent of Payroll (UAAL / CP)
July 1, 2011	$ 16,313,120	$ 18,598,728	$ 2,285,608	87.7%	$ 2,360,413	96.8%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System's unfunded actuarial accrued liability (UAAL) increased by $711,272 from the July 1, 2010 valuation. The primary causes of this increase are the investment experience during the 12 months ended June 30, 2009 that is being recognized over the trailing five years and changes to the economic and demographic assumptions, which were approved by the Retirement Board. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Under the 5-year smoothing policy adopted by the Retirement Board, the investment losses from fiscal year 2008-2009 will not be fully recognized until the July 1, 2013 actuarial valuation, which determines contribution rates for fiscal year 2014-2015. As a result, the City and County's contribution rate is expected to continue to increase over the next three fiscal years even if the fund achieves its investment return assumption.

Additional information regarding the actuarial methods and significant assumptions used in the most recent actuarial valuation follows:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Rolling and Fixed depending upon source
Amortization period	Actuarial gains and losses, assumption changes, and supplemental COLAs are amortized over an open 15-year period; plan amendments and changes in interest crediting rate are amortized over 20-year closed periods
Equivalent single amortization period	12.8 years
Asset valuation method	5-year smoothing of return over and under expected return – transition period began July 1, 2004
Actuarial assumptions:	
Investment rate of return	7.66%
Projected wage increases	3.91% Additional for merit and promotion: 0.85% to 15.00% based on a participant's years of service and membership group

(Dollar amounts in thousands)

Cost of living adjustments

Old Plans – Police and Fire	Post-7/1/1975 retirement: 4.00% to 5.00% per year; Pre-7/1/1975 retirement: 3.00% per year
Old Plans – Miscellaneous	2.00% per year
New Plans – all members	2.00% per year

At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to phase in reductions to the Retirement System's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer price index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; fiscal year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year.

(10) Postemployment Healthcare Plan

(a) Health Care Benefits

Health care benefits of the Retirement System's employees, retired employees and their beneficiaries are financed by the City and County through the City and County of San Francisco Health Service System (the Health Service System).

The City and County has determined a City-wide annual required contribution (ARC), interest on net OPEB obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45, by the City and County's actuary. The City and County's allocation of the OPEB-related costs to the Retirement System for the years ended June 30, 2012 and 2011 based upon its percentage of City-wide payroll costs is presented below. Included in the Retirement System's payments for all health care benefits amounts are approximately $503 and $485 for the years ended June 30, 2012 and 2011, respectively, to provide postretirement benefits for retired employees on a pay-as-you-go basis. The OPEB expense for the Retirement System is included in other administrative expenses for fiscal years 2012 and 2011.

(Dollar amounts in thousands)

The following table shows the components of the City and County's annual OPEB allocations for the Retirement System, for the amount contributed to the OPEB plan, and changes in the Retirement System's net OPEB obligation:

	2012	2011
Annual required contribution	$ 1,231	$ 1,239
Interest on net OPEB obligation	144	117
Adjustment to annual required contribution	(120)	(92)
Annual OPEB cost	1,255	1,264
Contribution made	(503)	(485)
Increase in net OPEB obligation	752	779
Net OPEB obligation - beginning of year	3,233	2,454
Net OPEB obligation - end of year	$ 3,985	$ 3,233

The City and County issues a publicly available financial report that includes the complete note disclosures and RSI related to the City and County's postemployment health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(11) Commitments and Contingencies

(a) Unfunded Investments Commitments

The Retirement System has unfunded commitments to contribute capital for real estate in the amount of $197,028 and alternative investments in the amount of $1,184,380, totaling $1,381,408 as of June 30, 2012.

(b) Legal

During the year ended June 30, 2012, the Retirement System was involved in various petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due under the Retirement System, which management does not expect to have a material impact on the net assets available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City and County's required annual contributions.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information - Unaudited

June 30, 2012

(Dollar amounts in thousands)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (Surplus) (UAAL)	Funded Ratio (AVA / AAL)	Covered Payroll	UAAL as a Percent of Covered Payroll
July 1, 2011	$ 16,313,120	$ 18,598,728	$ 2,285,608	87.7%	$ 2,360,413	96.8%
July 1, 2010	16,069,058	17,643,394	1,574,336	91.1%	2,398,823	65.6%
July 1, 2009	16,004,730	16,498,649	493,919	97.0%	2,537,785	19.5%
July 1, 2008	15,941,390	15,358,824	(582,566)	103.8%	2,457,196	-23.7%
July 1, 2007	14,929,287	13,541,388	(1,387,899)	110.2%	2,376,221	-58.4%
July 1, 2006	13,597,646	12,515,463	(1,082,183)	108.6%	2,161,261	-50.1%

Schedule of Employer Contributions

Year ended June 30	Annual required contribution	Percentage contributed
2012	$ 410,797	100.0%
2011	308,823	100.0%
2010	223,614	100.0%
2009	119,751	100.0%
2008	134,060	100.0%
2007	132,601	100.0%

See accompanying note to required supplementary information.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

As a result of the Retirement Board's decision to phase in a reduction of the Plan's assumed investment rate of return from 7.75% to 7.50% over three years, the assumed investment rate of return used for the most recent actuarial valuation as of July 1, 2011 was 7.66%. The unfunded actuarial liability (UAL) as of July 1, 2011 was $2.3 billion, an increase of $0.7 billion from the UAL of $1.6 billion as of July 1, 2010. This increase in the unfunded liability is primarily a result of the market value losses during fiscal year 2008-2009 that are being recognized over five years as well as liability experience losses related to changes to the economic and demographic assumptions approved by the Retirement Board.

The July 1, 2011 valuation results incorporate the following significant assumption changes approved by the Retirement Board at its December 14, 2011 Board meeting:

- Investment Rate of Return Assumption – phase in reduction from 7.75% to 7.50% over three years (7.66% as of July 1, 2011; 7.58% as of July 1, 2012; and 7.50% as of July 1, 2013)
- Wage/inflation Assumption – phase in reduction from 4.00% to 3.75% over three years (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%)
- Long-term Consumer Price Index Assumption – phase in reduction from 3.50% to 3.25% over three years (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%)

In the actuarial valuation as of July 1, 2010, the unfunded actuarial liability of $1.6 billion increased $1.1 billion from $493.9 million as of July 1, 2009, which reflects investment experience during the year ended June 30, 2009 that is being recognized over five years as well as liability experience losses related to changes to the economic and demographic assumptions approved by the Retirement Board.

The July 1, 2010 valuation results incorporate the following significant assumption changes approved by the Retirement Board at its November 9, 2010 Board meeting:

- Real wage growth assumption reduced from 4.5% to 4.0% based on less likely prospects for real wage growth given the severe budget pressures facing the public sector following the recent economic downturn
- Merit increase assumption for police and fire members increased from 1.0% to 1.5% based on actual experience with Retirement System safety members
- Mortality assumption updated to versions of the RP 2000 mortality table and latest CalPERS disabled mortality table
- Retirement rates increased and separate assumptions adopted for Miscellaneous members with less than 30 years and 30 or more years of service and for Safety members with less than 25 years and 25 or more years of service based on actual Plan experience from 2004 through 2009
- Disability rates reduced based on actual Plan experience from 2004 through 2009
- Withdrawal rates increased based on actual Plan experience from 2004 through 2009
- Refund rates decreased based on actual Plan experience from 2004 through 2009

In the actuarial valuation as of July 1, 2009, the Retirement System assumed investment rate of return is 7.75% consistent with the previous actuarial valuation as of July 1, 2008. However, the unfunded actuarial liability increased by $1.1 billion from a surplus of $582.6 million as of July 1, 2008 to a deficit of $493.9 million as of July 1, 2009. This increase in the unfunded liability primarily reflects investment experience reductions of $722.7 million, and liability experience losses of an additional $235.8 million.