REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

COUNTY OF SACRAMENTO 457(b) DEFERRED COMPENSATION PLAN

December 31, 2018

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MOSSADAMS

Report of Independent Auditors

Deferred Compensation Advisory Committee
County of Sacramento 457(b) Deferred Compensation Plan

Report on Financial Statements

We have audited the accompanying financial statements of County of Sacramento 457(b) Deferred Compensation Plan (the Plan), which comprise the statement of fiduciary net position as of December 31, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of County of Sacramento 457(b) Deferred Compensation Plan as of December 31, 2018 and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Required Supplementary Information

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

Moss Adams LLP

Sacramento, California
December 17, 2020

This section presents management's discussion and analysis of the financial statements of County of Sacramento 457(b) Deferred Compensation Plan (the Plan) and the significant events and conditions that affected the performance of the Plan for the year ended December 31, 2018.

Overview of the Financial Statements

Financial Statements – The Plan's financial statements comprise a statement of fiduciary net position as of December 31, 2018 and a statement of changes in fiduciary net position for the year then ended. These statements reflect resources available for the payment of benefits as of year-end, and the sources and use of those funds during the year.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information to provide a better understanding of the financial statements. The notes discuss, among other things, the Plan's provisions, accounting policies, and how asset values are measured.

Background

The County of Sacramento (the County) sponsors the Plan, which is a single employer deferred compensation plan established pursuant to the requirements of Internal Revenue Code Section 457(b) for eligible officers, employees and independently contracted persons of the County. Fidelity Management Trust Company serves as the Plan's custodian and Fidelity Workplace Services LLC serves as the Plan's recordkeeper. Participants currently have a variety of investment options within the Plan to direct contributions and earnings from contributions. Investments include various mutual funds and collective trusts, as well as a self-directed brokerage account option.

Fiduciary Net Position

Fiduciary net position consisting of investments has decreased by approximately $56.4 million over the past year, from $1,052.9 million at December 31, 2017 to $996.5 million at December 31, 2018.

Summary of Fiduciary Net Position

	December 31,	
	2018	2017
ASSETS		
Investments, at fair value	$ 972,499,982	$ 1,029,944,267
Notes receivable from participants	24,020,352	22,925,441
NET POSITION, HELD IN TRUST FOR PARTICIPANTS	$ 996,520,334	$ 1,052,869,708

Contributions and Investment (Loss) Income

Contributions, including both participant deferrals and rollovers from other qualified plans, totaled $63.7 million during 2018 compared to $58.3 million during 2017. The Plan experienced a net investment loss of $49.5 million during 2018 compared to net investment income of $158.9 million during 2017. The decrease in investment earnings resulted from volatility in domestic and global markets during 2018 compared to the market conditions during 2017. Interest income on notes receivable from participants totaled $869 thousand during 2018, compared to $752 thousand during 2017.

Benefits Paid

Benefits paid to participants in 2018 totaled approximately $70.7 million, an increase of $3.2 million compared to benefits paid of $67.5 million during 2017.

Summary of Changes in Fiduciary Net Position

	Year Ended December 31, 2018	2017
ADDITIONS		
Contributions	$ 63,693,344	$ 58,294,321
Net investment (loss) income	(49,417,696)	158,892,456
Interest income on notes receivable from participants	869,298	752,330
Net additions	15,144,946	217,939,107
DEDUCTIONS		
Benefits paid	70,709,693	67,496,874
Administrative expenses	784,627	401,888
Total deductions	71,494,320	67,898,762
CHANGES IN NET POSITION	(56,349,374)	150,040,345
NET POSITION, HELD IN TRUST FOR PARTICIPANTS		
Beginning of year	1,052,869,708	902,829,363
End of year	$ 996,520,334	$ 1,052,869,708

Contacting the Plan

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate accountability. If you have questions about the report or need additional financial information, contact the Plan at (916) 874-2020.

County of Sacramento 457(b) Deferred Compensation Plan
Statement of Fiduciary Net Position

		December 31, 2018
ASSETS		
Investments, at fair value		
Collective trusts	$	622,628,078
Mutual funds		298,538,365
Self-directed brokerage accounts		51,333,539
Total investments		972,499,982
Notes receivable from participants		24,020,352
NET POSITION, HELD IN TRUST FOR PARTICIPANTS	$	996,520,334

See accompanying notes to these financial statements.

County of Sacramento 457(b) Deferred Compensation Plan
Statement of Changes in Fiduciary Net Position

	Year Ended December 31, 2018
ADDITIONS	
Contributions	
Participant	$ 58,526,053
Rollovers	5,167,291
Total contributions	63,693,344
Investment (loss) income	
Net depreciation in fair value of investments	(58,192,608)
Dividends and interest	8,774,912
Net investment loss	(49,417,696)
Interest on notes receivable from participants	869,298
Net additions	15,144,946
DEDUCTIONS	
Benefits paid to participants	70,709,693
Administrative expenses	784,627
Total deductions	71,494,320
CHANGE IN NET POSITION	(56,349,374)
NET POSITION HELD IN TRUST FOR PARTICIPANTS	
Beginning of year	1,052,869,708
End of year	$ 996,520,334

See accompanying notes to these financial statements.

Note 1 – Description of Plan

The following description of County of Sacramento 457(b) Deferred Compensation Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General
The Plan is a deferred compensation plan covering all eligible employees or elected officials of the County of Sacramento (the County) pursuant to Section 457(b) of the Internal Revenue Code (IRC). The County is the Plan's sponsor and the County of Sacramento Deferred Compensation Advisory Committee serves as plan administrator. The Deferred Compensation Advisory Committee consists of the following County officials or their designees: Director of Personnel Services, Director of Finance, Director of General Services, Director of Water Resources, Registrar of Voters, and County Sherriff. As of December 31, 2018, there are 11,822 participants in the Plan.

Eligibility
An employee or elected official who is an active member of the Sacramento County Employees Retirement System (SCERS) is eligible to participate in the Plan. Employees who are not members of SCERS or currently earning benefits under SCERS, and who are not exempt from Federal Insurance Contributions Act (FICA), are automatically enrolled in the FICA replacement program in the Plan.

Participant Contributions
Each year, participants may make voluntary contributions to the Plan, between 1% and 100% of pretax eligible compensation, up to the maximum allowed by the IRC. Participants may also elect to make Roth contributions utilizing after-tax compensation. Participants who have attained age 50 before the end of the year are eligible to make catch-up contributions. The Plan also has an option for participants to make special IRC 457(b) catch-up provisions in one or more of a participant's last three tax years ending before normal retirement age. Participants may also contribute amounts representing rollovers from other qualified plans.

Participants in the FICA replacement program contribute 3.75% of their eligible annual compensation to the Plan. The County makes matching contributions of 100% of participant contributions in the FICA replacement program. The total amount deferred for each participant in the FICA replacement program is 7.50% of the participant's eligible compensation for the year.

Participant Accounts
Each participant account is credited with the participant's contributions and an allocation of Plan earnings. Participant accounts are charged for specific participant transactions as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants direct the investment of their account into various investment options offered by the Plan, including mutual funds or collective trusts selected under the investment policy adopted by the Deferred Compensation Advisory Committee or a self-directed brokerage account option offered through Fidelity Investments. Participant accounts in the FICA replacement program are invested in the Fidelity Investments Money Market Government Portfolio.

Vesting
Participants are vested immediately in their contributions plus actual earnings.

Note 1 – Description of Plan (continued)

Notes Receivable from Participants

Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance. The loans are issued by the Plan and secured by the balance in the participant's account. All loans must be repaid within a period of five years, unless the loan is used to purchase a principal residence, in which case, the loan must be repaid within a reasonable period of time not to exceed fifteen years. Under the terms of the Plan agreement, plan loans bear a rate of interest determined by the Plan administrator based on a formula of the current prime rate plus a determined percentage that is reviewed and adjusted periodically. Principal and interest are paid ratably through payroll deductions.

Payment of Benefits

On separation from service or termination due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's account balance, one-time withdrawal in an amount specified by the participant or systematic withdrawals over a specific period defined by the participant.

Note 2 – Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting standards promulgated by the Governmental Accounting Standards Board.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that may affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Valuation

Investments are valued at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (the "exit price") in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. The net depreciation in fair value of investments consists of both the realized gains and losses and unrealized appreciation and depreciation of those investments.

Notes Receivable from Participants

Notes receivable from participants are measured at amortized cost, which represents unpaid principal balance plus accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions upon the occurrence of a distributable event, based on the terms of the plan document. No allowance for credit losses has been recorded as of December 31, 2018.

Note 2 – Significant Accounting Policies (continued)

Payment of Benefits
Benefits are recorded when paid.

Administrative Expenses
Certain expenses of maintaining the Plan are paid directly by the County and are excluded from these financial statements. Fees related to certain transactions and self-directed brokerage accounts are charged directly to the participant's account and are included in administrative expenses. Investment-related expenses are included in the net depreciation in fair value of investments.

Revenue Sharing
Prior to January 1, 2018, the Plan shared in record keeping fee revenues generated within certain mutual fund investments. The shared revenues are maintained in a separate revenue credit account and may be used to pay qualified plan expenses or allocated to the accounts of Plan participants on a pro-rata basis based on the participant's account balance at the discretion of the plan administrator, subject to limitations of the trust agreement.

As of December 31, 2018, the balance in the revenue credit account totaled $790,587. During the year, revenues credit balances totaling $228,926 were used to pay qualified plan expenses from this account.

Note 3 – Fair Value Measurements

The Plan categorizes the fair value measurement of investment assets within the fair value hierarchy established by general accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 3 – Fair Value Measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation techniques used for assets measured at fair value.

Mutual Funds
Shares in mutual funds and money market funds (registered investment companies) are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Plan are deemed to be actively traded. Mutual funds held by the Plan are open-ended funds that are registered with the U.S. Securities and Exchange Commission.

Collective Trusts
Units in collective trusts are valued using the NAV practical expedient, an estimate of fair value. The NAV practical expedient would not be used if it is determined to be probable that the Plan will sell the investment for an amount different from the reported net asset value. Participant transactions (purchases and sales) of collective trusts may occur daily, and the Plan has no unfunded commitments to the collective trusts.

Common Stock and Exchange-Traded Funds
Shares held in common stock and exchange-traded funds are valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds and Preferred Stock
Corporate bonds and shares in preferred stock are valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. Government Securities
Valued using pricing models maximizing the use of observable inputs for similar securities.

Stable Value Fund
Units held in the Wells Fargo Stable Value Fund, a collective trust, are valued using the NAV practical expedient of the fund, an estimate of fair value. A stable value fund that is composed primarily of fully benefit-responsive investment contracts that is valued using the NAV practical expedient. This NAV practical expedient would not be used if it is determined to be probable that the Plan will sell the investment for an amount different from the reported net asset value. Participant transactions (purchases and sales) may occur daily. If the Plan initiates a full redemption of the trust, the issuer reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

Note 3 – Fair Value Measurements (continued)

Certificates of Deposit
Certificates of deposit are valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The following table discloses the fair value hierarchy of the Plan's assets by level:

	Fair Value Measurement at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 298,538,365	$ -	$ -	$ 298,538,365
Self-directed brokerage accounts				
Mutual funds	29,694,236	-	-	29,694,236
Common stock	14,432,266	-	-	14,432,266
Exchange-traded funds	5,274,605	-	-	5,274,605
Certificates of deposit	-	1,419,968	-	1,419,968
Corporate bonds	-	296,636	-	296,636
U.S. Government securities	128,831	-	-	128,831
Preferred stock	-	86,997	-	86,997
	$ 348,068,303	$ 1,803,601	$ -	349,871,904
Investments measured at NAV practical expedient				622,628,078
Total investments, at fair value				$ 972,499,982

Note 4 – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as market volatility, custodial, interest rate, and credit risks. It is reasonably possible, given the level of risk associated with investment securities, that changes in the values of the investments in the near term could materially affect a participant's account balance and the amounts reported in the statement of net assets available for benefits. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate his or her position and retains responsibility for managing exposure to fair value loss. A summary of the risks and plan exposure is summarized below.

Custodial Credit Risk
Custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments that are in the possession of an outside party. The Plan's investments are held in actively traded securities through Fidelity Management Trust Company, the Plan's custodian.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investments in fixed income securities are limited to several bond mutual funds, which are actively traded and valued daily at a published net asset value, and corporate bonds that are selected and monitored by individual participants through the Plan's self-directed brokerage option.

Note 4 – Risks and Uncertainties (continued)

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Plan. The Plan has an investment policy that manages credit risk by offering a selection of mutual fund options for investment within each investment classification in the investment policy. These investment options and the Plan's investment policy are monitored by the Deferred Compensation Advisory Committee and an independent investment consultant.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Plan's investment with a single investment or issuer. As of December 31, 2018, the fair values of investments representing more than 5% of the Plan's net position are summarized as follows:

	December 31, 2018
Mutual fund	
Fidelity Contrafund	$ 88,814,279
Collective trusts	
Vanguard Target Retirement 2025 Trust I	108,914,434
Vanguard Target Retirement 2020 Trust I	97,384,207
Vanguard Target Retirement 2030 Trust I	93,675,625
Vanguard Target Retirement 2035 Trust I	75,545,685
Vanguard Target Retirement 2015 Trust I	56,014,861

COVID-19 Pandemic
During March 2020, the World Health Organization assessed the outbreak of a novel coronavirus (COVID-19) as a pandemic. As a result of COVID-19, federal, state, and local governments have taken actions in response to the pandemic. The effects of the pandemic, which have ranged by jurisdiction, are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable at the report date.

Note 5 – Tax Status

The plan document was written in accordance with IRC Section 457(b) and applicable regulations thereunder and acknowledges that the employer of the plan may amend the provisions of the Plan at any time. The plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Note 6 – Plan Termination

Although it has expressed no intent to do so, the County has the right to amend, modify, or terminate the Plan at any time subject to provisions in the Plan. Upon termination of the Plan, the County shall not permit further deferrals of compensation and participants' accounts shall be distributed as provided for in the plan document.