SBCERS

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2012 and 2011

Santa Barbara County Employees' Retirement System

A Pension Trust Fund for the County of Santa Barbara, California

Santa Barbara County Employees' Retirement System

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2012 and 2011

Issued by -
Gary A. Amelio, Chief Executive Officer
Rico Pardo, Financial Accounting Analyst

SBCERS

3916 State Street, Suite 210 | Santa Barbara, CA 93105

805.568.2940 | www.sbcers.org

SECTION 1 | INTRODUCTION

Letter of Transmittal 3
Organizational Chart 8
Board of Retirement 9
List of Professional Consultants 10

SECTION 2 | FINANCIAL

Independent Auditor's Report 12
Management's Discussion and Analysis 14

Basic Financial Statements

Statement of Plan Net Assets 18
Statement of Changes in Plan Net Assets 19
Notes to the Financial Statements 20

1. Summary of Significant Accounting Policies 20
2. Plan Description 21
3. Contributions 23
4. Reserves 25
5. New Pension Accounting and Financial Reporting Standards 26
6. Deposits and Investments 27
7. Actuarial Valuation 36
8. Other Post Employment Benefits (OPEB) 37
9. Lease Commitments 39
10. Contingencies 39
11. Plan Termination 39
12. Related Party Transactions 39
13. Administrative Expense 40
14. Subsequent Events 41

SECTION 3 | SUPPLEMENTAL SCHEDULES

Required Supplemental Information

Schedule I – Funding Progress – Pension Plan 44
Schedule II – Employer Contributions – Pension Plan 44
Schedule III – Funding Progress – Other Post Employment Benefits 45
Schedule IV – Employer Contributions – Other Post Employment Benefits 45
Notes to Required Supplementary Schedules – Pension Plan 46
Notes to Required Supplementary Schedules – Other Post Employment Benefits 47

Other Supplemental Information

Schedule of Administrative Expense 48
Schedule of Investment Expense 49
Schedule of Payments to Consultants 49

SECTION 4 | INVESTMENT

Investment Consultant Report 52
Investment Policies 55
Investment Summary 56
Asset Allocation 56
Investment Results Based on Fair Market Value 57
Schedule of Top Ten Equity Securities 57
Schedule of Top Ten Bond Holdings 57
Investment Holdings 58
List of Investment Managers 59
Schedule of Professional Fees and Services 59

SECTION 5 | ACTUARIAL

Actuary's Certification Letter 62
Summary of Actuarial Assumptions and Methods 64
Probability of Separation from Active Service 66
Years of Life Expectancy 67
Salary Increase Assumptions 70
Schedule of Active Member Valuation Data 72
Retirees and Beneficiaries Added to and Removed from Retirement Payroll 72
Actuarial Solvency Test 73
Actuarial Analysis of Financial Experience 73
Summary of Major Plan Provisions 74

SECTION 6 | STATISTICAL

Schedule of Additions to Pension Plan by Source 80
Schedule of Deductions to Pension Plan by Type 80
Schedule of Benefit Expenses of Pension Plan by Type 80
Schedule of Participating Employers 81
Schedule of Employer Contribution Rates 81
Schedule of Member Contribution Rates 82
Schedule of Average Benefit Payments 83

SECTION 7 | GLOSSARY

Glossary 85

MISSION

Santa Barbara County Employees' Retirement System
is committed to:

- *Fulfilling its fiduciary responsibility by providing the highest quality of service to all members and plan sponsors and*

- *Protecting promised benefits through prudent investing while*

- *Ensuring reasonable expenses of administration.*

1 Introduction

This page intentionally left blank.

Santa Barbara County Employees' Retirement System Gary A. Amelio, Chief Executive Officer

December 12, 2012

Board of Retirement
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Dear Board Members:

I am pleased to submit this *Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS) for Fiscal Years Ended June 30, 2012 and June 30, 2011.* This report is intended to provide readers with complete and reliable information about the SBCERS' financial status, compliance with the law, and administrative consistency with policy.

As of June 30, 2012, the SBCERS total portfolio contained $2.02 billion of plan net assets. The fair value of the total investment portfolio, exclusive of cash, receivables and securities purchases in transit grew by $16.9 million during the last fiscal year. The improvement in asset value reflects continued recovery from the 2007-2009 market crisis. The fund experienced a market rate of return of 2.0% (net of fees), outperforming its policy benchmark by approximately 1.1% (net of fees) for the year ending June 30, 2012. For the trailing periods ending June 30, 2012, the SBCERS total portfolio outperformed its policy benchmark over all time periods under observation of one year or more (net of fees).

As of June 30, 2012, the financial statements reflect three full years of activity from the County and other agencies participating in the 401(h) Retiree Health Medical Trust Fund which was established in September 2008. The activity in the 401(h) Retiree Medical Trust is separate from the pension fund activity and is recorded as such in the financial statements.

I encourage you to review the narrative introduction, overview and analysis located in Management's Discussion and Analysis beginning on page 14.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with SBCERS' management. It is our intent and belief that the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

SBCERS AND ITS SERVICES

SBCERS was established on January 1, 1944, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for County employees and contracting districts under the California State Government Code §31450 et seq., (County Employees' Retirement Law of 1937). Members include all permanent full and part-time employees of the County of Santa Barbara, the Santa Barbara County Superior Court, and the following nine districts:

- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Mosquito & Vector Management District of Santa Barbara County
- Oak Hill Cemetery District
- Santa Barbara County Air Pollution Control District
- Santa Barbara County Association of Governments
- Santa Maria Cemetery District
- Summerland Sanitary District

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investment of SBCERS' assets under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(a) provides that the Retirement Board has "the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties…solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

The Board of Retirement (Board) consists of nine members and two alternates. The County Board of Supervisors appoints four, members of the Retirement System elect six (including the two alternates), and the County Treasurer is an ex-officio member. SBCERS is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System. The Board continues to demonstrate its commitment to providing accurate and timely service to our 5,222 active and deferred members and 3,507 benefit recipients into the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

STAFFING

SBCERS' Chief Executive Officer, Gary A. Amelio, officially began employment with the Santa Barbara County Employees' Retirement System in February 2012 of the fiscal year. Lila E. Deeds served as Interim Chief Executive Officer up until February and now serves as Assistant Chief Executive Officer for the system.

NEW GENERAL PLAN

The County negotiated the establishment of a new General retirement plan (Plan7) for all County non-safety employees hired on or after June 25, 2012. The Benefit formula for this new plan is 1.67% at age 57-1/2. The period used to compute final average salary is three years and member contribution rates are half rates. Cost of living adjustments will be limited to a maximum of 2%. Members will not be eligible for the $15 or $4 month per year of service retiree health benefits, but it is anticipated that they may participate in County-sponsored insurance plans at their own cost. Other plan sponsors may choose to participate in the new plan as well.

FINANCIAL INFORMATION

SBCERS' management is responsible for the accuracy of the data, the completeness and fairness of the presentation of financial information, including all disclosures, and establishing and maintaining an internal control structure designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Brown Armstrong Accountancy CPAs, SBCERS' independent auditors, have audited the financial statements and expressed their opinion that SBCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

INVESTMENTS

The Board of Retirement has exclusive control of all investments of SBCERS and is responsible for the establishment of investment objectives, strategies, and policies. Each member of the Board serves in a fiduciary capacity. The Board of Retirement is authorized to invest in any form or type of investment it collectively deems prudent.

External investment management firms manage the assets of SBCERS. In February 2012, the Board hired Meketa Investment Group to replace Pension Consultant Alliance. Staff and SBCERS' investment consultants at Meketa Investment Group (publicly traded assets), Hamilton Lane (private equity assets), and ORG (real estate assets) closely monitor the activity of these respective managers and assist the Board with implementation of investment policies and long-term investment strategies. The Investment Goals, Policies, and Procedures establish investment program goals, asset allocation of the plan, policies, performance objectives, investment management policies, and risk controls, are a monitored by staff and Meketa.

The Board elected to adopt a new Asset Allocation plan effective March 2012. The plan calls for a three-year evolving allocation to achieve the new strategic allocation targets. Staff, in conjunction with SBCERS' investment consultants, were directed to rebalance the portfolio to the new policy targets in four equal weighted steps over the course of 24 months.

SBCERS' annualized rate of return over the last three and five-years (net of fees) is 12.4% and 1.4% respectively. More detail on SBCERS' investment performance and policies can be found in the Management Discussion and Analysis Report (page 14) and in the Investment section (page 51).

ACTUARIAL FUNDED STATUS

SBCERS' funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining superior investment returns consistent with established risk controls, and minimizing employer contributions to the retirement fund.

SBCERS engages an independent actuarial consulting firm, Milliman, Inc., to conduct annual actuarial valuations. The purpose of the valuation is to reassess the magnitude of the benefit commitments compared to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. The funding policy for amortizing the unfunded actuarial accrued liability (UAAL) remains the same as of June 30, 2009. The funding policy calls for a 17-year "open/rolling" amortization period. The Board adopted this funding policy at its September 23, 2009 meeting to be effective retroactive to June 30, 2009. At June 30, 2012, SBCERS' funded ratio was 71.2%, with the actuarial value of assets totaling $2,046.6 million and the actuarial accrued liability totaling $2,874.4 million.

More detailed information on actuarial methods and funding status can be found in the Financial and Actuarial sections of the CAFR

On a triennial basis, the actuarial firm also conducts an experience study and makes recommendations to the Board on all economic and non-economic assumptions. The last experience study was conducted as of June 30, 2010.

The Board of Retirement elected to keep the assumed annual rate of return on investments at 7.75% at its April 2012 meeting, pending the next experience study scheduled for June 2013.

ACKNOWLEDGMENTS

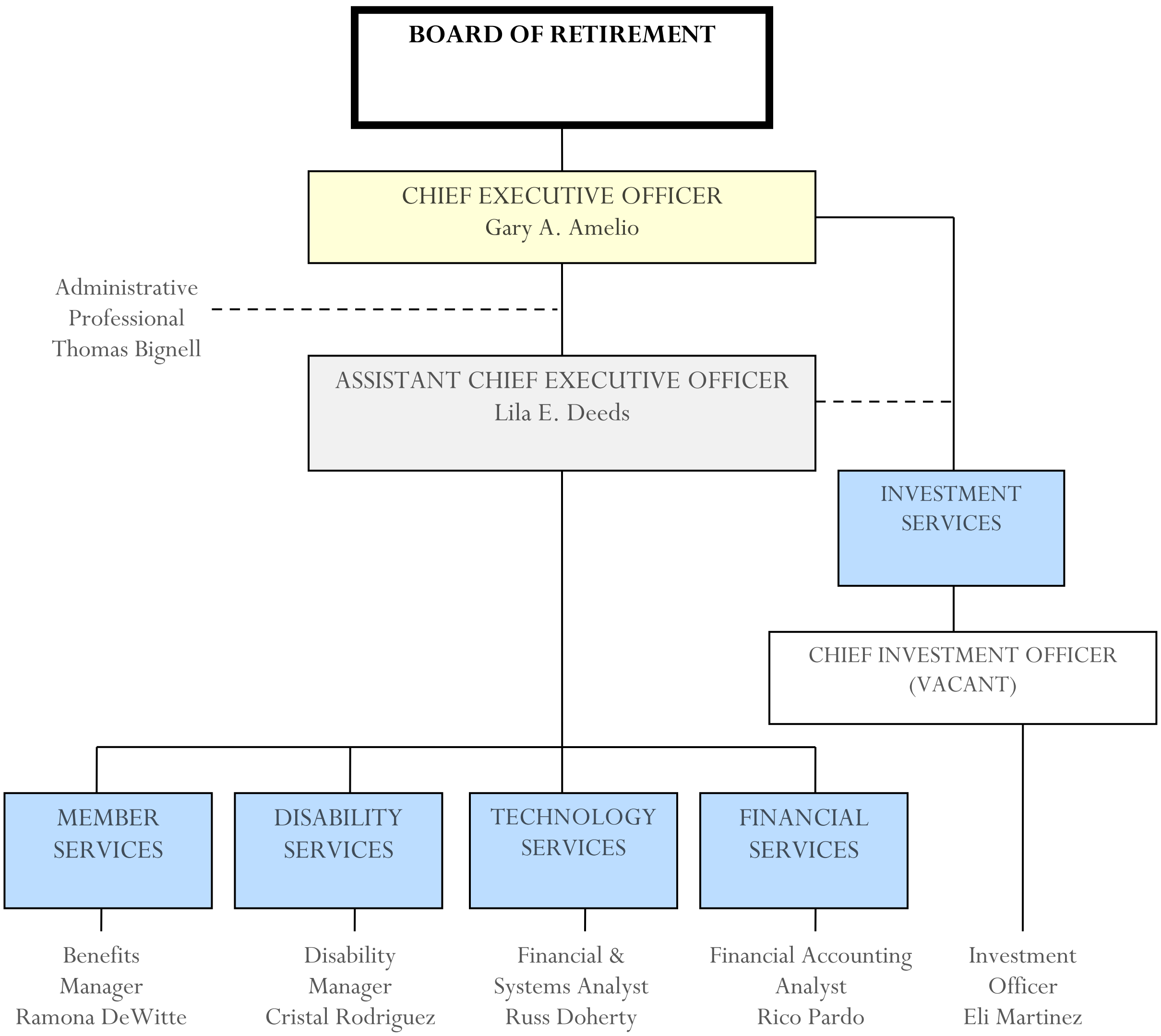
I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board of Retirement, members and the plan sponsors to better evaluate and understand the Santa Barbara County Employees' Retirement System. I also want to express my thanks to the Board for its dedicated effort and to the retirement staff for its commitment to SBCERS, a combination that assures the System's continued successful operation.

Respectfully submitted,

Gary A. Amelio
Chief Executive Officer

This page intentionally left blank.

2012 ORGANIZATIONAL CHART



A listing of Professional Consultants can be located on page 10 in the Introduction section.
A listing of Investment Managers can be located on page 57 in the Investment section.

BOARD OF RETIREMENT

Darryl Scheck
SECRETARY
Elected by General Members
Present term expires Dec. 2013

Zandra Cholmondeley
CHAIR
Elected by Retired Members
Present term expires Dec. 2014

Ward Rafferty
VICE CHAIR
Appointed by Board of Supervisors
Present term expires Dec. 2013

Harry Hagen
MEMBER
COUNTY TREASURER
Ex. Officio Member
Mandated by Law

Al Rotella
MEMBER
Appointed by
Board of Supervisors
Present term expires Dec. 2014

R. Guy Kraines
MEMBER
Appointed by
Board of Supervisors
Present term expires Dec. 2014

Janet Wolf
MEMBER
Appointed by
Board of Supervisors
Present term expires Dec. 2013

Steve Robel
MEMBER
Elected by
Safety Members
Present term expires Dec. 2013

Fred Tan
ALTERNATE MEMBER
Elected by
Safety Members
Present term expires Dec. 2013

John McMillan
ALTERNATE MEMBER
Elected by
Retired Members
Present term expires Dec. 2014

Dawn E. Cieslik
MEMBER
Elected by
General Members
Present term expires Dec. 2014

LIST OF PROFESSIONAL CONSULTANTS

Actuary
Milliman, Inc.

Independent Auditor
Brown Armstrong Accountancy Corporation

Custodian
BNY Mellon Global Securities Services

Legal Advisors
Santa Barbara County Counsel
McCarthy & Kroes
Reed Smith, LLP
Reicker, Pfau, Pyle & McRoy, LLP
Rogers, Sheffield & Campbell, LLP
Steptoe & Johnson, LLP

Investment Consultants
Hamilton Lane Advisors, LLC
Institutional Shareholder Services (an MSCI brand)
Klarity FX, Inc.
Meketa Investment Group, Inc.
ORG Portfolio Management, LLC
Pension Consulting Alliance, Inc.
Zeno Consulting Group, LLC

Other Specialized Services
Alliance Resource Consulting, LLC
Levi, Ray & Shoup, Inc.
Novanis
Wage Works

11 Financial

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
Santa Barbara County Employees' Retirement System

We have audited the accompanying Statement of Plan Net Assets of the Santa Barbara County Employees' Retirement System (SBCERS) as of June 30, 2012, and the related Statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of SBCERS management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of SBCERS as of and for the year ended June 30, 2011, were audited by other auditors, whose report dated December 7, 2011, expressed an unqualified opinion.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE
SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

Management has not performed an actuarial valuation on the 401(h) Retiree Health Benefits Program (the Program) that is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. The Governmental Accounting Standards Board requires an actuarial valuation to be performed at least biennially on the Program. However, the Program does not have a current actuarial valuation. The effect of the lack of an actuarial valuation is not reasonably determinable. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SBCERS as a whole. The Other Supplemental Information, as listed in the table of contents, and the Investment, Actuarial, Statistical, and Glossary sections are presented for purposes of additional analysis and are not a required part of the financial statements of SBCERS. The Other Supplemental Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Investment, Actuarial, Statistical, and Glossary sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurances on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of SBCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of the financial activities of Santa Barbara County Employees' Retirement System (SBCERS) is an overview of fiscal operations for the fiscal year ended June 30, 2012. Please review it in conjunction with the Financial Statements.

Financial Highlights

- Net Assets Held in Trust for Pension Benefits, as reported in the Statement of Plan Net Assets, total $2.02 billion, an increase of $43.2 million or 2.2% from the prior year.
- Net Assets Held in Trust for Other Post Employment Benefits (OPEB), also reported in the Statement of Plan Net Assets total $3.03 million, an increase of $0.2 million or 8.3% from prior year.
- Net pension investment income (including securities lending) decreased by $307.3 million from $345.7 million in fiscal year 2010-2011 to $38.4 million in fiscal year 2011-2012. The decrease is due to less exposure to fixed income.
- Pension contributions (member and employer) increased by $18 million or 17.1% from fiscal year 2010-2011 to 2011-2012. The change is due to an increase in employer and certain employee contribution rates from the 2010 Actuarial Valuation.
- $8.4 million of OPEB contributions were received and used to cover $8.2 million of OPEB administrative expenses and benefits paid in fiscal year 2011-2012.
- Pension benefit payments increased by $6.9 million or 6.4% from fiscal year 2010-2011 to 2011-2012. The number of retirees continues to increase while there has been a decline in overall membership.
- The latest actuarial valuation completed was as of June 30, 2012 and determined the funded status (the ratio of system assets to system liabilities) to be 71.2%, a decrease from 73.0% at June 30, 2011.This decrease was caused primarily by the recognition of deferred losses from the 2007-2009 period. These losses were partially offset by the positive investments returns experienced since the prior valuation.

The funding policy for amortizing the Unfunded Actuarial Accrued Liability (UAAL) remains a 17-year "open/rolling" amortization period with one exception. The exception is that the additional UAAL attributable to the creation of Safety Plan 6 is now being amortized over a closed period which stands at 16 years. Under an open/rolling amortization method, the entire UAAL (less the outstanding balance for Safety Plan 6) is amortized over a constant period, in this case, 17 years. The amortization factor does not change from year to year unless the discount rate or salary assumption is changed. SBCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. Milliman, Inc. served as SBCERS' independent actuary.

Overview of Financial Statements

This Management's Discussion and Analysis serves as an introduction to the basic financial statements. SBCERS has two basic financial statements, the notes to the financial statements, and two required supplementary schedules of historical trend information. The basic financial statements and the required disclosures comply with the Governmental Accounting Standards Board's accounting principles and reporting guidelines and utilize the accrual basis of accounting.

- The Statement of Plan Net Assets is the first basic financial report. This statement of account balances at fiscal year end reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed at fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.

- The Statement of Changes in Plan Net Assets is the second financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as additions or deductions to the plan.

- The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year.

- The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the funded status of the plan, and the progress made in accumulating sufficient assets to pay benefits when due.

- The Schedule of Employer Contributions, also a required supplementary schedule, presents historical trend information about the annual required contributions of the employers and the actual contributions made.

Financial Analysis

Table 1 and Table 2 present condensed comparative summaries about SBCERS' financial results for the current and prior years Plan Net Assets.

The current fiscal period closed with net assets of $2.02 billion. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

Table 1 - PLAN NET ASSETS

For the Years Ended June 30, 2012 and 2011	2012	2011	Increase / (Decrease)	Percent Increase / (Decrease)
Cash & Investments	$ 2,045,310,160	$ 2,042,920,629	$ 2,389,531	0.1 %
Securities Lending	196,897,719	135,758,382	61,139,337	45.0 %
Receivables	65,598,388	78,488,527	(12,890,139)	(16.4)%
Total Assets	2,307,806,267	2,257,167,538	50,638,729	2.2 %
Securities Lending	196,897,719	135,758,382	61,139,337	45.0 %
Other Liabilities	92,723,597	146,703,042	(53,979,445)	(36.8)%
Total Liabilities	289,621,316	282,461,424	7,159,892	2.5 %
Net Assets	$ 2,018,184,951	$ 1,974,706,114	$ 43,478,837	2.2 %

For the Years Ended June 30, 2011 and 2010	2011	2010	Increase / (Decrease)	Percent Increase / (Decrease)
Cash & Investments	$ 2,042,920,629	$ 1,608,752,314	$ 434,168,315	27.0 %
Securities Lending	135,758,382	71,502,381	64,256,001	89.9 %
Receivables	78,488,527	56,548,564	21,939,963	38.8 %
Total Assets	2,257,167,538	1,736,803,259	520,364,279	30.0 %
Securities Lending	135,758,382	71,502,381	64,256,001	89.9 %
Other Liabilities	146,703,042	53,699,445	93,003,597	173.2 %
Total Liabilities	282,461,424	125,201,826	157,259,598	125.6 %
Net Assets	$ 1,974,706,114	$ 1,611,601,433	$ 363,104,681	22.5 %

Additions to Pension Plan Net Assets
The sources of assets to fund the benefits SBCERS provides are the collection of member and employer contributions, along with the accumulated investment returns. These income sources for fiscal year 2011 - 2012 totaled $161.9 million, compared with $474.7 million in 2010 - 2011. This decrease is primarily due to heightened market volatility and risk aversion in the market associated with a faltering global economy and sovereign debt issues in the Eurozone.

Total contributions increased by 17.1% over the contributions made in 2010 - 2011.

OPEB contributions are made by participating employers on a pay-as-you-go basis with the exception of the County of Santa Barbara and the Air Pollution Control District who have decided to prefund. Pay-as-you-go is the minimum amount of contributions made to cover existing administrative expenses as well as benefit payments.

Deductions from Pension Plan Net Assets
The primary uses of SBCERS' assets include the payment of benefits to retired members and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering the System. The deductions for fiscal year 2011-2012 were $118.6 million, an increase of $112.3 million, or 5.7%, over 2010-2011. This increase can be attributed to the increasing population of new retirees as well as the salaries upon which benefits are based are increasing.

Table 2 - CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2012 and 2011	2012	2011	Increase / (Decrease)	Percent Increase / (Decrease)
Additions				
Contributions	$ 131,651,022	$ 113,945,534	$ 17,705,488	15.5 %
Investment Income (net)	38,023,354	345,363,825	(307,340,471)	(89.0)%
Securities Lending (net)	360,526	357,268	3,258	0.9 %
Other	223,470	23,724,517 *	(23,501,047)	N/A
Total Additions	170,258,372	483,391,144	(313,132,772)	(64.8)%
Deductions				
Pension Benefits	121,684,623	114,697,730	6,986,893	6.1 %
Member Withdrawals	1,071,850	1,476,583	(404,733)	(27.4)%
Actuarial Expenses	150,547	265,939	(115,392)	(43.4)%
Legal Expenses	360,534	620,593	(260,059)	(41.9)%
Administrative Expense	3,511,981	3,225,618	286,363	8.9 %
Total Deductions	126,779,535	120,286,463	6,493,072	5.4 %
Net Increase / (Decrease)	$ 43,478,837	$ 363,104,681	$ (319,625,844)	(88.0)%

For the Years Ended June 30, 2011 and 2010	2011	2010	Increase / (Decrease)	Percent Increase / (Decrease)
Additions				
Contributions	$ 113,945,534	$ 105,078,327	$ 8,867,207	8.4 %
Investment Income (net)	345,363,825	194,276,521	151,087,304	77.8 %
Securities Lending (net)	357,268	337,623	19,645	5.8 %
Other	23,724,517 *	228,877	23,495,640	N/A
Total Additions	483,391,144	299,921,348	183,469,796	61.2 %
Deductions				
Pension Benefits	114,697,730	105,642,308	9,055,422	8.6 %
Member Withdrawals	1,476,583	1,319,448	157,135	11.9 %
Actuarial Expenses	265,939	290,549	(24,610)	(8.5)%
Legal Expenses	620,593	664,800	(44,207)	(6.6)%
Administrative Expenses	3,225,618	3,090,554	135,064	4.4 %
Total Deductions	120,286,463	111,007,659	9,278,804	8.4 %
Net Increase / (Decrease)	$ 363,104,681	$ 188,913,689	$ 174,190,992	92.2 %

* *One time receipt of a contingent receivable.*

Investment Analysis
The Plan's investment performance is a function of the underlying financial markets for the period measured, asset allocation and individual investment manager performance. SBCERS follows a Board adopted investment policy that provides structure and guidance for the management of the investment portfolio. All of SBCERS' assets are externally managed on a discretionary basis, including the Private Equity and Real Estate portfolios.

SBCERS pension plan portfolio gained 2.0% (net of fees) over the twelve month period ending June 30, 2012 and outperformed the policy benchmark by 1.1% over the same period. This represents a $43.2 million an increase in value from June 30, 2011. For further information on SBCERS' investments please refer to the Investment Section.

Funded Status
The funded ratio as of June 30, 2012 was 71.2% using the entry age actuarial cost method with a five year smoothing of the actuarial value of assets. As of the fiscal year ended June 30, 2012, the net assets were $2.02 billion. The next actuarial valuation will be completed in 2013.

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, pension plans have been underfunded when the employer failed to make annual actuarially required contributions to the plan. For SBCERS, the cost-sharing multiple employers have traditionally contributed the annual required contribution (ARC) as determined by the Plan's Actuary. Currently, $2,018,184,951 in pension plan net assets is held in trust for pension benefits. All of the net assets are available to meet SBCERS' ongoing obligation to plan participants and their beneficiaries.

An indicator of funded status is the ratio of the actuarial value of the assets to the actuarial accrued liability (AAL). An increase in the percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the AAL. Performance in the capital markets can have a material impact on the actuarial value of assets.

New Pension Accounting and Financial Reporting Standards
The Governmental Accounting Standards Board (GASB) voted to approve two new standards that substantially improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for governments that provide their employees with defined benefit pensions. The new financial reporting provisions for SBCERS are effective for the fiscal year ended June 30,2014.

Requests for Information
This financial report is designed to provide the Board of Retirement, our membership, plan sponsors, taxpayers, and investment managers, with a general overview of SBCERS' finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for copies or additional financial information should be addressed to:

SBCERS
3916 State Street, Suite 210
Santa Barbara, California 93105

This report is also available on SBCERS' website under "Forms and Publications" at www.sbcers.org.

Respectfully submitted,

Gary A. Amelio
Chief Executive Officer

STATEMENT OF PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2012 and 2011

	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2012	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2011
ASSETS						
Cash	$ 9,524,840	$ 2,700,564	$ 12,225,404	$ 24,599,333	$ 2,119,111	$ 26,718,444
Total Cash	9,524,840	2,700,564	12,225,404	24,599,333	2,119,111	26,718,444
Receivables						
Contributions	6,419,670	318,913	6,738,583	5,107,540	667,757	5,775,297
Other	15,403	7,174	22,577	13,678,052	7,242	13,685,294
Accrued Interest	5,284,567	8,035	5,292,602	4,876,629	6,844	4,883,473
Dividends	1,554,189	-	1,554,189	2,318,412	-	2,318,412
Security Sales	51,990,437	-	51,990,437	51,826,051	-	51,826,051
Total Receivables	65,264,266	334,122	65,598,388	77,806,684	681,843	78,488,527
Investments at Fair Value						
Short Term Investments	45,428,477	-	45,428,477	130,307,075	-	130,307,075
Private Equity	119,762,537	-	119,762,537	85,329,652	-	85,329,652
Domestic Equity	666,458,319	-	666,458,319	662,734,075	-	662,734,075
Domestic Bonds	554,575,491	-	554,575,491	480,205,204	-	480,205,204
International Equity	239,038,403	-	239,038,403	378,086,499	-	378,086,499
International Bonds	149,789,382	-	149,789,382	137,331,656	-	137,331,656
Real Estate	71,234,628	-	71,234,628	25,409,082	-	25,409,082
Real Return	186,797,519	-	186,797,519	116,798,942	-	116,798,942
Sub-Total Investments	2,033,084,756	-	2,033,084,756	2,016,202,185	-	2,016,202,185
Collateral Held for Securities Lent	196,897,719	-	196,897,719	135,758,382	-	135,758,382
Total Investments & Securities Lent	2,229,982,475	-	2,229,982,475	2,151,960,567	-	2,151,960,567
TOTAL ASSETS	**$ 2,304,771,581**	**$ 3,034,686**	**$ 2,307,806,267**	**$ 2,254,366,584**	**$ 2,800,954**	**$ 2,257,167,538**
LIABILITIES						
Accounts Payable	$ 517,287	$ -	$ 517,287	$ 292,264	$ (2,240)	$ 290,024
Benefits Payable	-	-	-	7,110,055	-	7,110,055
Collateral Held for Securities Lent	196,897,719	-	196,897,719	135,758,382	-	135,758,382
Security Purchases	92,206,310	-	92,206,310	139,302,963	-	139,302,963
TOTAL LIABILITIES	**$ 289,621,316**	**$ -**	**$ 289,621,316**	**$ 282,463,664**	**$ (2,240)**	**$ 282,461,424**
NET ASSETS HELD IN TRUST FOR PENSION & OPEB BENEFITS	**$ 2,015,150,265**	**$ 3,034,686**	**$ 2,018,184,951**	**$ 1,971,902,920**	**$ 2,803,194**	**$ 1,974,706,114**

The accompanying Notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2012 and 2011

	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2012	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2011
ADDITIONS						
Contributions						
Employers	$ 108,764,094	$ 8,362,301	$ 117,126,395	$ 94,436,686	$ 8,665,757	$ 103,102,443
Plan Members	14,524,627	-	14,524,627	10,843,091	-	10,843,091
Total Contributions	123,288,721	8,362,301	131,651,022	105,279,777	8,665,757	113,945,534
Investment Income						
Net Increase/(Decrease) in Fair Value of Investments	(441,462)	(68)	(441,530)	309,413,571	(7,290)	309,406,281
Interest	25,398,974	27,893	25,426,867	22,387,681	28,209	22,415,890
Dividends	19,100,099	-	19,100,099	18,630,225	-	18,630,225
Total Investment Income	44,057,611	27,825	44,085,436	350,431,477	20,919	350,452,396
Less Investment Expense	(6,062,082)	-	(6,062,082)	(5,088,571)	-	(5,088,571)
Net Investment Income	37,995,529	27,825	38,023,354	345,342,906	20,919	345,363,825
Securities Lent Income	234,228	-	234,228	410,070	-	410,070
Securities Lent Expense	126,298	-	126,298	(52,802)	-	(52,802)
Net Securities Income	360,526	-	360,526	357,268	-	357,268
Class Action Settlements	-	-	-	64,077	-	64,077
Commission Recapture	219,465	-	219,465	29,359	-	29,359
Miscellaneous Income	4,005	-	4,005	23,631,081	-	23,631,081
Total Miscellaneous Income	223,470	-	223,470	23,724,517	-	23,724,517
TOTAL ADDITIONS	**$ 161,868,246**	**$ 8,390,126**	**$ 170,258,372**	**$ 474,704,468**	**$ 8,686,676**	**$ 483,391,144**
DEDUCTIONS						
Benefits Paid	113,525,989	8,158,634	121,684,623	106,661,513	8,036,217	114,697,730
Member Withdrawals	1,071,850	-	1,071,850	1,476,583	-	1,476,583
Actuarial Expense	150,547	-	150,547	265,939	-	265,939
Legal Expense	360,534	-	360,534	620,593	-	620,593
Administrative Expense	3,511,981	-	3,511,981	3,225,618	-	3,225,618
TOTAL DEDUCTIONS	**$ 118,620,901**	**$ 8,158,634**	**$ 126,779,535**	**$ 112,250,246**	**$ 8,036,217**	**$ 120,286,463**
Net Increase/(Decrease)	43,247,345	231,492	43,478,837	362,454,222	650,459	363,104,681
NET ASSETS HELD IN TRUST FOR PENSION & OPEB BENEFITS						
Beginning of Year	1,971,902,920	2,803,194	1,974,706,114	1,609,448,698	2,152,735	1,611,601,433
Net Increase/(Decrease)	43,247,345	231,492	43,478,837	362,454,222	650,459	363,104,681
END OF YEAR	**$ 2,015,150,265**	**$ 3,034,686**	**$ 2,018,184,951**	**$ 1,971,902,920**	**$ 2,803,194**	**$ 1,974,706,114**

The accompanying Notes are an integral part of these financial statements

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
The Santa Barbara County Employees' Retirement System (Retirement System) is an independent public employee retirement system with its own governing board, separate and distinct from the County of Santa Barbara. SBCERS' annual financial statements are referenced in the *Notes to the Basic Financial Statements* in the County of Santa Barbara's Comprehensive Annual Financial Report.

Basis of Accounting
SBCERS follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB).

SBCERS' financial statements are prepared on the accrual basis of accounting. Member and Employer contributions are recognized as revenue in the period in which the contributions are due. Retirement benefits and member refunds are recognized as expense when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred.

Cash and Short-Term Investments
Cash and short-term investments consist of short-term investments with fiscal agents as well as deposits held in a pooled account with the County of Santa Barbara. All participants in the pool share earnings and losses. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All cash, deposits and short-term investments are carried at cost, which approximates fair value.

The Santa Barbara County Treasury Oversight Committee has regulatory oversight for all monies deposited into the Santa Barbara County investment pool. Such amounts are invested in accordance with investment policy guidelines in compliance with government code requirements and established by the County Treasurer and approved by the County Board of Supervisors. Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily deposit balance. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2012, to support the value of shares in the pool.

Investments
Investments are reported at fair value. Investment income is recognized as revenue when earned. Net appreciation in fair value of investments held by the Retirement System is recorded as an increase to investment income based on valuation of investments at year-end. Realized gains and losses are recognized upon the maturity or disposition of the security.

Valuation of Investments

Debt and equity securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Fair value of investments in commingled funds is based on the fund share price provided by the fund manager, which is based on net asset value.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reports' amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Comparative data from the prior year have been presented in the selected sections and may have been reclassified. Such reclassifications had no effect on previously reported net plan assets.

2. PLAN DESCRIPTION

General Provisions

The Retirement System was established on January 1, 1944. It is governed by the California Constitution, the County Employees' Retirement Law of 1937 (CERL), and the bylaws, policies and procedures adopted by SBCERS' Board of Retirement. The Santa Barbara County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect the benefits of SBCERS members.

SBCERS operates as a cost-sharing multiple-employer defined benefit plan for Santa Barbara County, Santa Barbara County Superior Court and nine special districts:

- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Mosquito & Vector Management District of Santa Barbara County
- Oak Hill Cemetery District
- Santa Barbara County Air Pollution Control District
- Santa Barbara County Association of Governments
- Santa Maria Cemetery District
- Summerland Sanitary District

Plan Membership

SBCERS provides retirement, disability, and death benefits to members and administers the plan sponsors' retiree health benefit program. See NOTE 8 – Other Post Employment Benefits.

The Retirement System has six retirement plans of which five plans are currently available to all new full-time permanent employees and those part-time employees working at least half-time.

Multiple contribution rates are applicable based upon negotiated bargaining unit Memoranda of Understanding (MOU's) and on date of entry into membership. The retirement benefits within the plan are based on age, years of service, final average salary and the benefit options selected.

SBCERS' Retirement Plans

As of June 30, 2012 and 2011

Plan	Rate Tier	Plan Formula	Type	New Membership
General	Plan 5	2% @ 57	Contributory	Open
General	Plan 7	1.67% @ 57-1/2	Contributory	Open
Safety	Plan 4	3% @ 55	Contributory	Open
Safety	Plan 6	3% @ 50	Contributory	Open
APCD	Plan	2% @ 55	Contributory	Open
General	Plan 2	2% (SSA Integrated)	Non-Contributory	Closed

SBCERS' Membership

As of June 30, 2012 and 2011	2012	2011
Members Now Receiving Benefits		
Service Retirement	2,837	2,705
Disability Retirement	244	245
Beneficiaries and Survivors	426	437
Subtotal	3,507	3,387
Active Members		
Active Vested Members	3,250	3,126
Active Nonvested Members	822	1,022
Subtotal	4,072	4,148
Deferred Members	1,150	1,166
Total Membership	**8,729**	**8,701**

Benefit Provisions

GENERAL PLAN 5 & 7, SAFETY PLANS 4 & 6, APCD:

• Pension benefits are based upon a combination of plan, age, years of service, average monthly salary for the highest one or three consecutive years' covered compensation, and the benefit payment option selected by the member.

• Disability benefits are based upon whether the disability was service or non-service connected.

• Death benefits are based upon whether the death occurred before or after retirement and whether the death was service or non-service connected.

GENERAL PLAN 2: Pension benefits are based upon a combination of age, years of service, and highest average monthly salary during any three years of employment and are coordinated with social security benefits. A separate long-term disability program is available for members who become disabled, regardless of length of service, or whether the disability is job related. Death benefits are based upon whether the death occurred before or after retirement.

Cost-of-Living Adjustment

All plans, with the exception of General Plan 2, provide for retirement benefits subject to cost-of-living adjustments (COLA) for retired members. COLA's are granted to eligible retired members each April based upon the Bureau of Labor Statistics Average Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to a 3% maximum limitation. The portion of a CPI increase that exceeds 3% is accumulated for credit in future years. General Plan 7 is limited to an anuual maximum 2% COLA.

Ad Hoc Cost-of-Living Adjustment

The Interest Crediting and Undesignated Earnings Policy provides for calculation of available earnings based on the Actuarial Value of Assets after smoothing and allows for discretionary use of available earnings for ad hoc COLA's or other permitted uses when 1) the System's Funded Ratio exceeds 100%, and 2) the Contingency Reserve is at least 5% of Actuarial Value of Assets.

Vesting

GENERAL PLAN 5 & 7, SAFETY PLANS 4 & 6, APCD: Upon completing five years of creditable service, employees have irrevocable rights to receive benefits attributable to an employer's contributions, provided their contributions have not been withdrawn. Members are eligible to retire at age 50 with five years of creditable service and ten years of elapsed time since hire, or thirty years of creditable service (safety members twenty years) regardless of age, or upon attaining age 70 for General Members or age 60 for Safety Members.

If an employee terminates before rendering five years of service, the employee is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system within six months and/or elects to leave their accumulated contributions on deposit with the Retirement System. A member who continues membership under this provision is granted a deferred non-vested status and has no rights to future benefits except a refund of their account balance as of the date of termination.

If an employee terminates after five years of service, the employee may elect to leave the accumulated contributions in the retirement fund and receive a deferred retirement allowance at the time the member would have been entitled to the allowance if service had continued.

GENERAL PLAN 2: Upon completing ten years of creditable service, Plan 2 members have irrevocable rights to receive benefits. Plan 2 members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Once vested, Plan 2 members have a one-time election to defer accrued Plan 2 benefits and enter the contributory retirement plan in effect at that time. Contributions are based upon age at the time of transfer.

3. CONTRIBUTIONS

FUNDING OBJECTIVE

The funding for retirement benefits comes from member contributions, employer contributions, and the earnings on investments held by the plan.

Participating members are required by statutes §31621.2, 31621.4, 31621.5, 31621.6 and 31639.25 of the CERL to contribute a percentage of covered compensation based on certain actuarial assumptions and their age at entry into the plan. The funding objective of SBCERS is to establish member and participating employer contribution rates that will remain level over time as a percentage of payroll, unless plan benefit provisions or actuarial assumptions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). For actuarial valuation purposes, Plan assets are valued at market value of assets less unrecognized gains and losses from each of the last five years. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the actual market return and the expected market return over a 5-year period. To prevent the smoothed value of assets from deviating too much from the market value of assets, an asset corridor limit is applied such that the smoothed value of assets stays within 20% of the market value of assets.

GENERAL PLAN 5 &7, SAFETY PLANS 4 & 6, APCD: Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. For certain bargaining units, a portion of the member contribution is paid by the employer. Member contributions are based upon each individual member's age of entry into SBCERS. Member contributions cannot be withdrawn until separation from employment.

GENERAL PLAN 2: Employer contribution rates are recommended by the actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. There are no member contributions.

The following schedule summarizes the contribution rates in effect for the fiscal year ending June 30, 2012 based on the June 30, 2010 Actuarial Valuation. Contribution rates are expressed as a percentage of covered payroll. The member contribution rates depicted below vary according to age at entry and benefit plan and tier level.

Member Classification	Member Rates	Employer Rates
General Members	2.08% - 10.73%	19.42% - 30.78%
Safety Members	4.63% - 17.01%	44.91% - 54.44%
APCD Members	3.07% - 11.38%	32.55% - 36.00%

Contributions made for the years ended June 30, 2012 and 2011 were in accordance with actuarially determined contributions for the year. For the years ended June 30, 2012 and 2011, estimated covered payroll was approximately $302,114,000 and $305,758,000 respectively, a decrease of -1.2%. Contributions from all employers represented 36.0% and 30.9% respectively of covered payroll while contributions from all members represented 4.8% and 3.5% respectively of covered payroll.

SBCERS' Pension Contributions Made By Plan

As of June 30, 2012 and 2011

		2012	2011
General Plan 2	Employer contributions	$ 145,091	$ 125,467
General Plan 5	Employer contributions	67,790,711	59,937,491
	Member contributions	11,000,401	7,926,192
Safety Plans 4&6	Employer contributions	39,621,006	33,276,449
	Member contributions	3,251,216	2,699,354
APCD	Employer contributions	1,207,286	1,097,279
	Member contributions	273,010	217,545
Total		**$ 123,288,721**	**$ 105,279,777**

SBCERS' Pension Contributor Comparison

As of June 30, 2012 and 2011

		2012		2011	
EMPLOYER	Santa Barbara County	$ 101,516,056	93.3 %	$ 86,801,981	91.9 %
	Santa Barbara Courts	4,898,863	4.5 %	4,220,618	4.5 %
	Special Districts	2,349,175	2.2 %	3,414,087	3.6 %
		$ 108,764,094	100.0 %	$ 94,436,686	100.0 %
MEMBER	Santa Barbara County	$ 13,003,715	89.5 %	$ 9,486,742	87.5 %
	Santa Barbara Courts	945,871	6.5 %	837,602	7.7 %
	Special Districts	575,041	4.0 %	518,747	4.8 %
		$ 14,524,627	100.0 %	$ 10,843,091	100.0 %
Total		**$ 123,288,721**		**$ 105,279,777**	

4. RESERVES

The reserves represent the components of SBCERS' net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses.

The Board of Retirement adopted a new Interest Crediting and Undesignated Earnings Policy on August 25, 2010. The new policy established a new Market Stabilization and ultimately a Contra Tracking Account. Under the new accounting structure, in order to have the total reserves equal to the Actuarial Value of Assets (AVA), a Contra Tracking Account equal to the reserves balance, less the AVA, must be established and added to the reserve balances

Reserves and Designations

Following are brief explanations of the reserves and designations used by SBCERS:

Member Contribution Reserve represents the balance of member contributions. Additions include member contributions and interest earnings; deductions include refunds of member contributions and transfers to Retired Member Reserve when the member retires.

County and District Reserve represents the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employers and interest earnings; deductions include transfers to Retired Members Reserve when the member retires, lump sum death benefits, and supplemental disability allowance payments under §31725.5, §31725.6 and §31725.65 of the County Employees' Retirement Law of 1937. A refund of member contributions has no corresponding effect on the balance of the County and District Reserve because the employer contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

Retired Member Reserve represents funds accumulated to pay retirement benefits to retired members. This reserve includes the total accumulated transfers from the Member Reserve, the Employer Reserve and interest earnings, reduced by payments to retired members, beneficiaries, and survivors.

Undesignated Earnings Reserve, also known as the Transferred Funds Reserve, was established as a valuation reserve effective June 30, 2007. Funds transferred from the now defunct Health Coverage Reserve represent the balance of monies set aside for the funding of the 401(h) Retiree Health Medical Trust Fund. Additions represent interest.

Old Market Stabilization Reserve represented the balance of deferred earnings created by a five-year smoothing (adopted in 2003) of actual gains and losses compared to gains at the expected rate of investment return (currently 7.75%). Under GASB 25, investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. Several factors contribute to the increase/decrease of the Market Stabilization Reserve: 1) increase/decrease in the fair market value of investments, 2) interest crediting at the actuarial assumed interest rate, and 3) the five-year smoothing of investment gains and losses.

New Market Stabilization Reserve represents the difference between the Market Value of Assets and the Actuarial Value of Assets.

Contra Tracking Account represents the difference between the Actuarial Value of Assets and the sum of the accounting reserves, as long as the accounting reserves exceed the Actuarial Value of Assets.

Contingency Reserve represents reserves accumulated for future earnings deficiencies. When the Actuarial Accrued Liability exceeds the Actuarial Value of Assets, as it currently does, there are no assets in the Contingency Reserve. The maximum Contingency Reserve is equal to 5% of the Actuarial Value of Assets.

SBCERS' Reserves		Total Pension Benefits 2012	2011
VALUATION RESERVES			
Member Contribution Reserve		$ 165,622,535	$ 165,774,090
County and District Reserve		627,458,520	611,551,174
Retired Member Reserve		1,620,660,603	1,447,916,960
Undesignated Earnings Reserve	(1)	123,935,927	114,861,676
New Market Stabilization Reserve		(31,490,846)	(35,956,236)
Contra Tracking Account		(491,036,474)	(332,244,744)
Contingency Reserve		-	-
Total Value of Net Assets		**$ 2,015,150,265**	**$ 1,971,902,920**

(1) Established as a valuation asset reserve effective June 30, 2007.

5. NEW PENSION ACCOUNTING AND FINANCIAL REPORTING STANDARDS

On June 25, 2012, the Governmental Accounting Standards Board (GASB) voted to approve two new standards that substantially improved the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans,* revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions,* revises and establishes new financial reporting requirements for governments that provide their employees with defined benefit pensions. These accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans (SBCERS) and plan sponsors (Santa Barbara County and outside Districts) since 1994.

For SBCERS, the new standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. The new financial reporting provisions for SBCERS are effective for fiscal year ending June 30, 2014.

The new standards require Santa Barbara County and outside Districts to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This proportionate share is based on the plan sponsors' long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information.

For Santa Barbara County and outside Districts, the new financial reporting provisions are effective for its fiscal year ending June 30, 2015.

6. DEPOSITS AND INVESTMENTS

SBCERS operates under the "Prudent Person Rule" which authorizes the Board of Retirement, at its discretion, to purchase, hold, or sell any form or type of investment, financial instrument, or enter into any financial transaction when prudent in the informed opinion of the Board.

Deposits

The cash balance represents operating cash held by the County Treasurer. The portion of SBCERS' cash held by the County Treasurer is a part of the County Treasurer's investment pool. Accordingly, SBCERS' investments held in the name of the County are not specifically identifiable. At June 30, 2012, cost approximated fair value of the SBCERS' share of pooled cash and investments.

The market value of deposits approximated the bank balances at June 30, 2012 and 2011. The cash amounted to $12,225,404 and $26,718,444 as of June 30, 2012 and 2011, respectively. Deposits held at SBCERS' custodian bank are uninsured over $250,000 and uncollateralized while deposits with the County Treasury are insured, and not collateralized, to the extent of its monies are held in its depository institution.

SBCERS' Summary of Investments

As of June 30, 2012 and 2011		2012		2011
Short Term Investments	$	45,428,477	$	130,307,075
Private Equity		119,762,537		85,329,652
Investments at Fair Value:				
Domestic Equity		666,458,319		662,734,075
Domestic Bonds		554,575,491		480,205,204
International Equity		239,038,403		378,086,499
International Bonds		149,789,382		137,331,656
Real Estate		71,234,628		116,798,942
Real Return		186,797,519		25,409,082
Collateral Held for Securities Lent		196,897,719		135,758,382
Total Non-Cash Investments	$	**2,229,982,475**	$	**2,151,960,567**

Investment Risk

The Board of Retirement's investment policies and guidelines allocate the asset classes of the portfolio investments within ranges. The portfolio is maintained within the ranges and reported each month. The Board annually reviews the allocation model and the risk structure of the total portfolio. The investment policy does not address Credit risk, Concentration of Credit Risk, Interest Rate Risk, or Foreign Currency Risk, as investment managers within their specific mandates are given risk parameters that would result in limiting these types of risk on a total portfolio level.

GASB Statement No. 40 requires that investments be evaluated to give an indication of the level of risk assumed at year-end, as follows:

- Credit Risk
- Custodial Credit Risk
- Concentrations of Credit Risk
- Interest Rate Risk
- Foreign Currency Risk

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SBCERS seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To control Credit Risk, credit quality guidelines have been established. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization are shown in the *Credit Risk by Quality* table found under NOTE 6 – Deposits & Investments beginning on page 27.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of a financial institution's failure, SBCERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. Cash deposits are held by the County Treasurer within the Treasurers' investment pool and as cash reserves in the master custodian short-term investment funds. The risks of the pool are addressed in the County CAFR. Additional insurance against loss and theft is provided through a Financial Institution Bond. Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SBCERS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they uninsured, are not registered in SBCERS'name, and held by a counter party. SBCERS' securities are not exposed to custodial risk as they are held by our custodial bank in our nominee name.

Credit Risk Concentration

As of June 30, 2012, SBCERS' investment portfolio contained no concentration of investments in any one entity (other than investments guaranteed by the U.S. Government, investments in mutual funds, and external investment pools) that represented 5 percent or more of the total investment portfolio.

Credit Risk By Quality
As of June 30, 2012

(Dollars in Thousands)

		Moody's/S&P/Fitch Investment Grade									
Fixed Income By Type	**Total**	**Aaa AGY UST**	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**
Asset Backed Securities	$ 59,891	$ 56,866	$ 2,475	$ -	$ -	$ -	$ -	$ -	$ 280	$ -	$ 270
CMO Government Agencies	36,822	-	36,822	-	-	-	-	-	-	-	-
Domestic Corp Fixed Income	201,852	6,935	4,610	3,620	7,891	13,334	24,778	58,744	29,815	42,132	9,993
Government	263,210	-	263,210	-	-	-	-	-	-	-	-
International Fixed Income	29,363	15,391	1,286	-	-	-	-	-	6,512	6,174	-
Municipal Bonds	4,808	-	1,118	-	526	-	-	3,164	-	-	-
Mutual Funds	34,459	571	-	-	-	-	8	55	33,407	254	164
Non-Govt Mortgage Backed	21,472	8,882	709	-	-	3,062	2,086	2,010	1,426	395	2,902
Treasurer Investment Pool	10,942	2,653	-	8,289	-	-	-	-	-	-	-
US Govt Mortgages	4,120	-	4,120	-	-	-	-	-	-	-	-
US Private Placements	61,512	18,844	-	1,233	5,728	1,506	10,913	4,310	6,538	2,281	10,159
Subtotal	$ **728,451**	**110,142**	**314,350**	**13,142**	**14,145**	**17,902**	**37,785**	**68,283**	**77,978**	**51,236**	**23,488**

(Dollars in Thousands)

		Moody's/S&P/Fitch Speculative Grade								
		Ba1	**Ba2**	**Ba3**	**B1**	**B2**	**B3**	**Below B3**	**Not Rated**	**Rating With-drawn**
Asset Backed Securities	$ 1,373	$ 103	$ -	$ -	$ -	$ -	$ 84	$ 1,186	$ -	$ -
CMO Government Agencies	23,296	-	-	-	-	-	-	-	23,296	-
Domestic Corp Fixed Income	167,031	8,936	2,735	-	3,709	-	-	-	151,651	-
International Fixed Income	375	-	-	-	-	-	-	-	375	-
Mutual Funds	8,117	146	503	874	817	1,375	1,955	2,156	-	291
Non-Govt Mortgage Backed	18,097	279	345	598	-	3,987	2,904	8,224	1,760	-
Treasurer Investment Pool	1,284	-	-	-	-	-	-	-	1,284	-
US Government Mortgages	2,424	-	-	-	-	-	-	-	2,424	
US Private Placements	5,107	2,755	-	-	-	-	-	157	2,195	-
Subtotal	$ **227,104**	**12,219**	**3,583**	**1,472**	**4,526**	**5,362**	**4,943**	**11,723**	**182,985**	**291**
Total	**$ 955,555**									

Securities Lending

SBCERS is legally authorized to engage in securities lending transactions pursuant to the County Employees Retirement Law of 1937 code §31594. SBCERS participates in securities lending transactions through its custodian BNY Mellon Global Securities Services (Mellon) to increase income. Securities are lent to brokers and dealers (borrower) and in turn, SBCERS receives collateral. Collateral can be in the form of cash (both United States and foreign currency), securities issued or guaranteed by the U.S. Government, sovereign debt of foreign countries, or irrevocable bank letters of credit or such other forms as may be agreed upon. SBCERS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represent the net income to SBCERS from the transaction.

Transactions are collateralized at no less than 100% of the security's market value. Collateral is marked to market daily. The custodian invests the collateral received in short-term investment funds (maintained by the custodian), money market mutual funds, and other similar investments as the custodian may select.

The average term of all SBCERS' loans is overnight or "on demand." The custodian will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. SBCERS cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Mellon indemnifies SBCERS to the extent of replacing the securities loaned.

As of June 30, 2012, the market value of securities on loan was $193 million and the value of collateral received for the securities on loan was $196.9 million of which $178.6 million was non-cash collateral and $18.3 million was cash collateral from equity and fixed income securities. As of June 30, 2011, the market value of securities on loan was $133.1 million and the value of collateral received for the securities on loan was $135.8 million of which $11.1 million was non-cash collateral and $124.6 million was cash collateral from equity and fixed income securities. SBCERS' income net of expenses from securities lending was $360,526 and $357,268 for the years ended June 30, 2012 and June 30, 2011 respectively.

SBCERS' Securities Lending Program

As of June 30, 2012

Securities on Loan	Market Value of Securities on Loan	Collateral Received
Domestic Equities	$ 9,049,649	$ 8,950,194
International Equities	7,494,869	7,620,229
Domestic Corporate Fixed Income	859,679	881,550
Real Estate	814,698	815,891
Total Securities, Cash Collateral	18,218,895	18,267,864
Total Securities, Non-Cash Collateral	174,751,356	178,629,855
Total	**$ 192,970,251**	**$ 196,897,719**

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average of time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

Interest Rate Risk

As of June 30, 2012

Totals By Sector	Base Market Value	Option Adjusted Duration (Years)	Weighted Average Maturity (Years)	Market Value of Securities with no Duration Available
Agency	$ 60,118,037	3.10	20.61	$ -
Asset Backed Securities	61,982,807	0.51	5.82	1,310,183
CMBS	20,026,781	2.78	30.18	-
CMO Corporate	18,534,042	0.28	22.12	1,006,349
Corporates & Other Credit	155,797,559	6.05	9.57	-
General Obligations	4,610,356	9.92	23.02	-
Government	263,211,912	6.98	9.26	-
Mutual Funds	-		-	42,576,096
Other	58,192,749	1.27	9.88	98,230,523
US Govt Mortgages	6,543,711	2.33	27.42	-
US Private Placements	22,968,226	3.93	15.24	-
Non-US	126,952,805	4.44	5.65	289,815
SubTotal	**798,938,983**			**$ 143,412,967**
Total Consolidation	**$ 942,351,949**			

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. SBCERS' international equity managers are permitted to invest in authorized countries. Forward currency contract and currency futures (maturity ranging from at least 20 days and not to exceed one year for either instrument) are permitted for defensive currency hedging.

Foreign Currency Risk

As of June 30, 2012

Currency	Non US Cash	Equity	Fixed Income	Total
Australian Dollar	$ (3,708,938)	$ 12,444,934	$ 5,663,651	$ 14,399,647
Brazilian Real	(2,955)	-	6,520,958	6,518,003
British Pound Sterling	1,136,556	45,971,143	-	47,107,699
Canadian Dollar	(7,622,447)	2,405,120	11,049,913	5,832,586
Chinese Renminbi	-	36,873	-	36,873
Danish Krone	3,615	1,969,612	-	1,973,227
Euro Currency Unit	262,935	63,748,650	-	64,011,585
Hong Kong Dollar	91,640	9,243,232	-	9,334,872
Hungarian Forint	1	-	-	1
Indonesian Rupiah	18,399	875,778	-	894,177
Israeli Shekel	19,285	605,974	-	625,259
Japanese Yen	446,932	36,165,361	-	36,612,293
Malaysian Ringgit	3,340	-	-	3,340
Mexican Peso	(3,427,435)	-	6,525,108	3,097,673
New Zealand Dollar	21,620	500,641	-	522,261
Norwegian Krone	(516,814)	4,421,074	481,198	4,385,458
Polish Zloty	-	725,163	-	725,163
Singapore Dollar	94,222	4,864,690	-	4,958,912
South African Rand	13,136	381,398	-	394,534
South Korean Won	24,521	2,732,889	-	2,757,410
Swedish Krona	93,524	2,482,971	-	2,576,495
Swiss Franc	494,504	11,827,479	-	12,321,983
Taiwan Dollar	17,280	935,737	-	953,017
Thai Baht	39,441	2,143,514	-	2,182,955
Turkish Lira	42,989	1,808,987	-	1,851,976
Total Securities Held in Foreign Currency	**$ (12,454,649)**	**$ 206,291,220**	**$ 30,240,828**	**$ 224,077,399**

Derivatives

Derivatives are investments that derive their value, usefulness, and marketability from an underlying instrument which represents direct ownership of an asset or obligation of an issuer who payments are based on or "derived" from the performance of some agreed upon benchmark. The notional amount is the nominal or face amount that is used to calculate payments made on that instrument. As of June 30, 2012, SBCERS' derivatives investments were in Swap Agreements, Futures Contracts, Forward Contracts, and Options.

Swap Agreements

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. The swap agreement defines the dates when the cash flows are to be paid and the way they are calculated. The cash flows are calculated over a notional amount.

Futures Contracts

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date. Futures contracts are standardized contracts traded on organized exchanges.

Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

Options

An option specifies a contract between two parties for a future transaction on an asset at a reference price. The seller incurs the obligation to fulfill the transaction while the buyer gains the right, but not the obligation, to engage in the transaction.

The Holdings of Derivative Securities schedule listed below reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the years ended June 30, 2012 and 2011 classified by derivative type.

Holdings of Derivative Securities

As of June 30, 2012 and 2011

(Dollars in Thousands)

	2012		2011		Increase / (Decrease)
Derivative Type	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Change in Fair Value**
Options	$ 953	$ 1,092	$ (597)	$ (1,219)	$ 2,311
Swap Agreements	132,851	(445)	3,320	59	(504)
Futures Contracts	3,972	3,972	25,924	(16,020)	19,992
Forward Contracts	27,037	(15,460)	257,817	(22,917)	7,457
Totals	**$ 164,813**	**$ (10,841)**	**$ 286,464**	**$ (40,097)**	**$ 29,256**

Derivative Credit Risk

SBCERS is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to derivative credit risk include collateralized mortgage obligations, swap agreements, and futures contracts.

The following Derivative Credit Risk Analysis schedule discloses the counterparty ratings of SBCERS' investment derivatives in asset positions by type as of, June 30, 2012. These amounts represent the maximum loss that would be recognized if all counterparties fail to perform as contracted, without respect to any collateral or other security, or netting arrangement. The schedule displays the fair value of investments by credit rating. As of June 30, 2012, SBCERS' has a net exposure to derivative credit risk of $(11.9) million.

Derivative Credit Risk Analysis

As of June 30, 2012

(Dollars in Thousands)

		Moody's / S&P / Fitch Investment Grade									
Derivative Type	**Total Fair Value**	**Aaa AGY UST**	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**
Forward Contracts	$ 3,972	$ 3,972	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Futures Contracts	(15,460)	(15,460)	-	-	-	-	-	-	-	-	-
Swap Agreements	(176)	-	-	-	-	-	-	-	-	(176)	-
Subtotal	**(11,664)**	**(11,488)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(176)**	**-**

		Moody's / S&P / Speculative Grade							
Derivative Type	**Total Fair Value**	**Ba1**	**Ba2**	**Ba3**	**B1**	**B2**	**B3**	**Caa1 and below**	**Not Rated**
Swap Agreements	$ (270)	$ -	$ -	$ -	$ -	$ (270)	$ -	$ -	$ -
Subtotal	**(270)**	**-**	**-**	**-**	**-**	**(270)**	**-**	**-**	**-**
Total	**$ (11,934)**								

Derivative Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2012 SBCERS did not have any derivatives with exposure to interest rate risk.

Derivative Foreign Currency Risk

For those dollar-denominated securities issued by foreign countries, there is an exposure to a foreign currency risk. Currency forward contracts represent foreign exchange contracts that are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

Derivative Foreign Currency Risk Analysis

As of June 30, 2012

(Dollars in Thousands)

Currency	Futures	Forward Contracts
Australian Dollar	$ -	$ (3,976)
Canadian Dollar	-	(7,468)
Mexican Peso	-	(3,527)
Norwegian Krone	-	(480)
New Zealand Dollar	-	(9)
US Dollar	3,972	-
Total	**$ 3,972**	**$ (15,460)**

7. ACTUARIAL VALUATION

SBCERS retains an independent actuarial firm to conduct an annual actuarial valuation to monitor SBCERS' funding status and funding integrity. The last valuation was performed as of June 30, 2012 and determined the funded status of the plan to be 71.2%.

The purpose of the valuation is to reassess the magnitude of SBCERS' benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions estimate as closely as possible what the actual cost of the plan will be in order to determine rates for setting aside contributions today to provide benefits in the future.

Contribution requirements are determined under the entry age normal actuarial cost method. This method is designed to collect contributions as a level percentage of pay. Any gains or losses that occur under this method are amortized as a level percentage of pay. To minimize any investment gains or losses, the Board of Retirement has adopted a smoothing process that involves spreading the difference between actual and expected market return over five years to determine the actuarial value of assets. To prevent the smoothed value of assets from deviating too much from the market value of assets, an asset corridor limit is applied such that the smoothed value of assets stays within 20% of the market value of assets.

The required schedule of funding progress immediately following the notes to the financial statements presents additional, multi-year, trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The information for funded status of the pension plan is presented on the Funding Progress – Pension Plan table page 44.

SUMMARY ACTUARIAL INFORMATION

Valuation Date	June 30, 2012
Actuarial Cost Method	Individual entry-age normal cost method
Amortization Method	Level percent of pay
Amortization Period	Seventeen years "open/rolling"
Asset Valuation Method	Five-year smoothed market
Asset Corridor Limit Applied	Not Applicable

SUMMARY OF VALUATION ASSUMPTIONS

Investment Rate of Return	7.75% (3.25% for CPI and 4.5% for real increases above inflation)
Projected Salary Increase	Variable percentage based on service
Wage Inflation	3.75%
Cost-of-Living Adjustments for Retirees	3.00%

Funding Progress – Pension Plan

Dollars in Thousands

Actuarial Valuation Date	(a) Actuarial Value of Plan Assets	(b) Non-Valuation Assets (NVA)	(c) Valuation Assets (a) - (b)	(d) Valuation Actuarial Accrued Liabilities (AAL)	(e) Unfunded Actuarial Accrued Liabilities (UAAL) (d)-(c)	(f) Funded Ratio (c) ÷ (d)	(g) Covered Payroll	UAAL as a Percentage of Covered Payroll (e) ÷ (g)
6/30/2007	$ 1,735,489	$ 31,020	$ 1,704,469	$ 1,956,834	$ 252,365	87.1%	$ 294,163	85.8%
6/30/2008	$ 1,893,984	$ 2,528	$ 1,891,456	$ 2,135,955	$ 244,499	88.6%	$ 307,264	79.6%
6/30/2009	$ 1,705,733	$ -	$ 1,705,733	$ 2,263,862	$ 558,129	75.3%	$ 306,524	182.1%
6/30/2010	$ 1,927,229	$ -	$ 1,927,229	$ 2,616,147	$ 688,918	73.7%	$ 306,963	224.4%
6/30/2011	$ 2,007,859	$ -	$ 2,007,859	$ 2,749,813	$ 741,954	73.0%	$ 305,758	242.7%
6/30/2012	$ 2,046,641	$ -	$ 2,046,641	$ 2,874,383	$ 827,742	71.2%	$ 302,114	274.0%

Employer Contributions – Pension Plan

Year Ended	Annual Required Contributions (ARC)	Contributions Made	% of Required Contributions Made
6/30/2012	$ 108,764,094	$ 108,764,094	100 %

8. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

SBCERS administers an agent multiple employer OPEB plan that provides health care benefits for retired members and their eligible dependents. The County negotiates the health care insurance contracts with the carriers covering both active and retired members. Retirees are offered the same health plans as active employees as well as plans for retirees on Medicare. Retiree premiums are rated separately from active employees. 100% of eligible SBCERS' retirees participated in this program during 2011-2012.

Benefit Provisions

SBCERS retirees are eligible to receive an explicit subsidy for medical premiums funded by the County of Santa Barbara and other plan sponsors. This subsidy takes the form of a monthly allowance based on $15 per year of service to help pay health premiums. If the monthly premium for the health plan selected is less than $15 times the member's years of service, the subsidy is limited to the entire premium. The health plans include coverage for eligible spouses and dependents. After the member's death, a surviving spouse is eligible to continue health plan coverage. The subsidy benefit will be equal to $15 per year of service times the survivor continuation percentage applicable for pension benefits.

If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of $187 or $15 per year of service, whichever is greater.

Retirees who choose not to participate in a County sponsored health plan receive a benefit of $4.00 per month per year of service. This benefit, known as a Healthcare Reimbursement Arrangement, reimburses qualified health care expenses.

Funding Policy

On September 16, 2008, the Board of Supervisors passed a resolution adopting regulations and an administrative agreement to establish a 401(h) Medical Trust Plan to provide for retiree medical benefits. The 401(h) Medical Trust Plan is to be funded by the County and other Plan Sponsors and administered by SBCERS, in accordance with §401(h) of the Internal Revenue Code.

On September 19, 2008, SBCERS' Board of Retirement likewise approved the 401(h) regulations, administrative agreement and status quo agreement described above.

Voluntary Compliance Plan Statement

On July 2, 2008, as part of filing an application for determination and a voluntary compliance plan, the County Board of Supervisors submitted to the Internal Revenue Service (IRS) a proposed resolution adopting the provisions of CERL §31694 and a proposed resolution providing for the contribution of funds by the County and various districts into a Post-Employment Benefits Trust Account (401(h) account).

Also submitted were proposed regulations to establish the respective roles and responsibilities of SBCERS and the County with respect to the funding, distribution, expenditure, actuarial, accounting and reporting considerations, and applicable investment provisions. Under the proposed regulations submitted to the IRS, the County would be the settlor for the 401(h) account and would provide for the funding of the account. SBCERS would be the fiduciary of the account, and the County would reserve the right to modify or terminate the plan.

As of June 30, 2012 SBCERS and its plan sponsors operate under the proposed Voluntary Compliance Plan Statement and the proposed regulations although the plan has yet to be approved by the Internal Revenue Service.

OPEB Actuarial Valuation

SBCERS' *Other Post Employment Benefits Program's* actuarial valuation was conducted by Milliman, Inc. as of June 30, 2010. The valuation was performed in accordance with GASB Statements No. 43 and 45 requirements to satisfy financial statement reporting guidelines that apply to organizations that administer the benefits program. The valuation must be conducted at least every two years. The June 30, 2012 valuation will be presented to the Board in early 2013. The next OPEB Actuarial Valuation is scheduled for June 30, 2014.

SBCERS'
Health Care Benefits
As of June 30, 2012 and 2011

	2012 Benefit	2012 Enrollees	2011 Benefit	2011 Enrollees
Subsidy of $15 per year of service	$ 7,305,438	1,811	$ 7,269,080	1,803
Health Reimbursement of $4 per year of service	853,196	1,581	767,137	1,476
Total Health Care Benefits	**$ 8,158,634**	**3,392**	**$ 8,036,217**	**3,279**

9. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire in 2014 and 2015. The Santa Maria office extended its lease agreement for three-years effective May 26, 2011. The Santa Barbara office lease began October 1, 2003 and was renewed in 2012 extending to June 30, 2015. The Santa Barbara office lease requires that SBCERS pay a portion of the building's operating expenses based on square footage occupied.

Lease expense, exclusive of common area maintenance fees, in 2012 and 2011 was $128,994 and $126,889 respectively. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2012 are shown in the table below.

Minimum Lease Commitments
At June 30, 2012

Lease Payments		
2012 - 2013	$	129,783
2013 - 2014		131,630
2014 - 2015		71,857
Total	**$**	**333,270**

10. CONTINGENCIES

In the normal course of business, denials of applications for benefits are appealed to the Superior Court. The outcome of these decisions will have no material impact on the financial status of the System.

11. PLAN TERMINATION

There are no plan termination provisions under the County Employees' Retirement Law of 1937, which governs the operation of the Retirement System.

12. RELATED PARTY TRANSACTIONS

By necessity, SBCERS is involved in various business transactions with the County of Santa Barbara, the primary plan sponsor. SBCERS funds the County for the cost of services provided by the following agencies: County Counsel, Auditor-Controller, Purchasing, Human Resources and Treasurer. In addition, SBCERS reimburses the County for cost of services in the areas of information technology, reprographics, telecommunications, motor pool services, and Board of Retirement elections.

13. ADMINISTRATIVE EXPENSE

Effective July 1, 2000, the Board of Retirement adopted Government Codes §31522.1 and §31580.2 which limits administrative expense to eighteen-hundredths of 1 percent (18 basis points) of total net assets. Due to the severe economic downturn beginning in 2007, California State Assembly Bill 1124 was enacted into law and subsequently amended to the CERL effective January 1, 2007 to include §31580.3 which allows systems to conditionally raise the limit to twenty-three hundredths of 1 percent (23 basis points) or add $1 million dollars to the 18 basis points.

As a result, the Board adopted an annual budget for the year ended June 30, 2012 that covers the expense of administration of the retirement system with the earnings of the retirement fund. The new limits are applicable for five years and will be statutorily repealed January 1, 2013.

On September 30, 2010, the Governor signed into law AB 609 (Chapter 663, Statutes of 2010.) The bill revised Govt. Code Section §31580.2 limiting the cost of administering the retirement system and repealed Govt. Section §31580.3 regarding expenditures for computer software and hardware.

Prior to the passage of AB 609, the administrative expense ceiling was set at eighteen hundredths of 1 percent (18 basis points) of total net assets. AB 609 changed the administrative expense ceiling to the higher of (a) twenty-one hundredths of 1 percent or (21 basis points) of the accrued actuarial liability of the retirement system, or (b) two million dollars. The new law exempts the cost of obtaining computer software, hardware and related consulting services from the administrative expenses limit. The change in the law took effect on January 1, 2011 and affected the 2011-2012 Administrative Budget.

SBCERS has been in compliance with the rules governing administrative expense for prior years. Total administrative expense for the years ended June 30, 2012 and 2011 were $4,023,062 and $4,112,150 of which $3,511,981 and $3,225,618 were subject to §31580.2.

SBCERS' Administrative Expense

As of June 30, 2012 and 2011	2012	2011
Expense Subject to Statutory Limitation		
Employee Salaries and Benefits	$ 2,362,939	$ 2,155,028
Operating Expenses	586,423	533,598
Professional Services	562,619	536,992
Total Expense Subject to Statutory Limitation	**3,511,981**	**3,225,618**
Expense Not Subject to Statutory Limitation		
Actuarial Costs	150,547	265,939
Legal Costs	360,534	620,593
Total Expense Not Subject to Statutory Limitation	**511,081**	**886,532**
Total Administrative Expense	**$ 4,023,062**	**$ 4,112,150**

14. SUBSEQUENT EVENTS

Management has reviewed and identified, up to the date of the Independent Auditor's Report, the subsequent event described below.

California Public Employees' Pension Reform Act of 2013

Law makers in Sacramento, CA passed Assembly Bill 340 (AB 340) on August 31, 2012. AB 340, known as the California Public Employees' Pension Reform Act of 2013 (PEPRA), was signed into law by Governor Brown on September 12, 2012. PEPRA takes effect January 1, 2013. Among other things, PEPRA mandates new benefit plans for those who become new members of SBCERS on or after January 1, 2013. SBCERS and the plan sponsor are working together to thoroughly analyze the complex legislation's impact on the County of Santa Barbara, the Santa Barbara County Superior Court, and the nine Special Districts and implement its provisions.

This page intentionally left blank.

43 Supplemental Schedules

REQUIRED SUPPLEMENTAL INFORMATION - Pension Plan

Schedule I - Funding Progress – Pension Plan

Dollars in Thousands

Actuarial Valuation Date*	(a) Actuarial Value of Plan Assets	(b) Non-Valuation Assets (NVA)	(c) Valuation Assets (a)-(b)	(d) Valuation Actuarial Accrued Liabilities (AAL)	(e) AAL with NVA (b)+(d)	(f) Unfunded Actuarial Accrued Liabilities (UAAL) (d)-(c) = (e)-(a)	(g) Prior Method Funded Ratio (a) ÷ (e)	(h) Current Method Funded Ratio (c) ÷ (d)	(i) Covered Payroll	UAAL as a Percentage of Covered Payroll (f) ÷ (i)
06/30/05	$ 1,443,824	$ 137,829	$ 1,305,995	$ 1,549,803	$ 1,687,632	$ 243,808	85.6 %	84.3 %	$ 267,785	91.0 %
06/30/06	1,552,776	137,825	1,414,951	1,671,831	1,809,656	256,880	85.8 %	84.6 %	287,382	89.4 %
** 06/30/07	1,735,489	31,020	1,704,469	1,956,834	1,987,854	252,365	87.3 %	87.1 %	294,163	85.8 %
06/30/08	1,893,984	2,528	1,891,456	2,135,955	2,138,483	244,499	88.6 %	88.6 %	307,264	79.6 %
06/30/09	1,705,733	-	1,705,733	2,263,862	2,263,862	558,129	75.3 %	75.3 %	306,524	182.1 %
06/30/10	1,927,229	-	1,927,229	2,616,147	2,616,147	688,918	73.7 %	73.7 %	306,963	224.4 %
06/30/11	2,007,859	-	2,007,859	2,749,813	2,749,813	741,954	73.0 %	73.0 %	305,758	242.7 %
06/30/12	2,046,641	-	2,046,641	2,874,383	2,874,383	827,742	71.2 %	71.2 %	302,114	274.0 %

* *Information for years prior to 2007 was provided by prior actuaries.*
Prior to 2007, non-valuation asset reserves were included with the Actuarial Value of Assets (AVA).
Non-valuation asset reserves were also added to the AAL prior to 2007.
Beginning in 2007, non-valuation assets are not included in the AVA and are no longer added to the AAL.

** *Results as of June 30, 2007 do not match those previously reported in the 2007 Comprehensive Annual Financial Report (CAFR).*
This information reflects the Board's actions on September 19, 2008 regarding asset reserve classifications.

Schedule II - Employer Contributions – Pension Plan

Dollars in Thousands

Fiscal Year Ended*	Annual Required Contributions (ARC)	Actual Employer Contributions	% of ARC Contributed
6/30/2005	$ 46,721	$ 46,721	100 %
6/30/2006	53,977	53,977	100 %
6/30/2007	63,395	63,395	100 %
6/30/2008	69,461	69,461	100 %
6/30/2009	75,902	75,902	100 %
6/30/2010	84,647	84,647	100 %
6/30/2011	94,437	94,437	100 %
6/30/2012	108,764	108,764	100 %

REQUIRED SUPPLEMENTARY INFORMATION – Other Post Employment Benefits

Schedule III - Funding Progress – Other Post Employment Benefits

Dollars in Thousands

Actuarial Valuation Date	(a) Actuarial Value of Plan Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a) ÷ (b)	(c) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (b-a) ÷ (c)
06/30/09	$ 1,169	$ 174,532	$ 173,363	0.7 %	$ 306,524	56.6 %
06/30/10	$ 2,153	$ 187,220	$ 185,067	1.1 %	$ 306,357	60.4 %

Schedule IV - Employer Contributions – Other Post Employment Benefits

Dollars in Thousands

Fiscal Year Ended	Annual Required Contributions (ARC)	Actual Employer Contributions	% of ARC Contributed
06/30/09	$ 13,353	$ 7,251	54.3 %
06/30/10	$ 19,791	$ 8,782	44.4 %
06/30/11	$ 21,784	$ 8,666	39.8 %
06/30/12	$ 22,601	$ 8,362	37.0 %

OPEB was adopted in 2008; therefore, the data presentd above is from the 6/30/2009 and 6/30/2010 OPEB Actuarial Valuations.

OPEB Valuations must be performed every two years. The next valuation is due 6/30/2014.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES – Pension Plan
For Fiscal Year Ended June 30, 2012

Actuarial Methods and Assumptions– Pension Plan

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the latest Pension actuarial valuation dated June 30, 2012 is as follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry age normal
Amortization of Actuarial Gains & Losses	17-year "open/rolling" amortization using a level percentage of projected payrolls (entire UAAL is amortized over a constant period)
Asset Valuation Method	Actuarial market value method with a smoothed fair value over a five-year period (adopted 04/09/2003)
Asset Corridor Limit Applied	Not applicable
Actuarial Assumptions:	
Investment rate of return	7.75% APY (adopted 10/27/2010) (3.25% for CPI and 4.50% real investment return)
Projected salary increases	• Variable percentage based on service (duration) for Merit and Longevity *and* • 3.75% Inflation - comprised of 3.25% for consumer price inflation and 0.5% for real wage inflation
Cost-of-living adjustments	3% for General Plan 5, Safety Plans 4 and 6 and APCD Plan (adopted 02/21/2001) General Plan 2 is not eligible to receive these adjustments

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES – Other Post Employment Benefits
For Fiscal Year Ended June 30, 2012

Actuarial Methods and Assumptions– Other Post Employment Benefits

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the Other Post Employment Benefits actuarial valuation dated June 30, 2010 is as follows:

OPEB Valuation Date June 30, 2010

Actuarial Cost Method Entry age normal

Amortization Method For Santa Barbara County a 15-year closed amortization period is used. As of 6/30/2010, the period remaining was 11.5 years. For other employers this period is 30 years "open/rolling"

Actuarial Assumptions:

Investment rate of return 4.00%

Projected salary increases Future salary increases do not have an impact on OPEB benefit levels, but do have an impact on the annual required OPEB contribution (ARC), i.e. funding of the benefit

Valuation of Subsidy The monthly Health Insurance Subsidy will be equal to the maximum subsidy of $15 per year of service

Valuation of Assets The 401(h) account will be used to pay for the retiree health benefits.

Post-Retirement Benefit Increases

Assumptions of no future increases granted in any of the following:

- Monthly Health Insurance Subsidy of $15 per year of service
- Monthly Health Reimbursement of $4 per year of service for those electing to forego the health subsidy
- Monthly Subsidy of $187 for members receiving disability retirement benefits

Health Plan Description Future Retirees are assumed to receive the following:

- 65% will receive the monthly health subsidy of $15 per year of service
- 35% will receive the monthly cash benefit of $4 per year of service

Healthcare Cost Trend Rate The Healthcare Cost Trend Rate is not applicable because the total cost of health benefits is not valued. Only the monthly health insurance subsidy of $15 per year of service is valued using the assumption that no future increase will be granted to the amount.

Schedule Of Administrative Expense

For the Years Ended June 30, 2012 and 2011

	2012	2011
Personnel Services		
Salaries and Employee Benefits	$ 2,362,939	$ 2,155,028
Total Personnel Services	2,362,939	2,155,028
Professional Services		
Computer Software Services and Support	201,374	198,531
County Cost Allocation	59,679	82,977
External Audit Fees	67,576	38,073
Disability Medical Fees	140,348	119,116
Disability Transcription Fees	8,917	23,603
Disability Hearing Officer Fees	10,444	47,479
Other Professional Services	74,281	27,213
Total Professional Services	562,619	536,992
Communication		
Postage	44,652	40,606
Telecommunication	31,576	32,713
Training	42,358	51,664
Transportation and Travel	116,846	88,223
Total Communication	235,432	213,206
Rents / Leases / Structures		
Rents/Leases – Structure	177,261	174,208
Furniture & Fixtures	1,793	5,767
Building Maintenance	5,892	2,004
Equipment	10,000	-
Total Rents / Leases / Structures	194,946	181,979
Miscellaneous		
Computer Equipment and Supplies	64,135	46,746
Other Office Expenses	61,737	61,311
Insurance	30,173	30,355
Total Miscellaneous	156,045	138,412
Total Administrative Expense	**$ 3,511,981**	**$ 3,225,617**

Schedule Of Investment Expense

For the Years Ended June 30, 2012 and 2011

		2012		2011
Investment Activity				
Investment Management Fees				
Stock Managers				
Domestic	$	1,679,650	$	1,707,607
International		1,192,089		996,956
Bond Managers				
Domestic		1,625,054		1,205,815
Real Return		113,951		46,578
Total From Investment Activity		4,610,744		3,956,956
Other Investment Expense				
Investment Consultants		1,179,355		904,056
Custodian		271,983		227,559
Total Other Investment Expense		1,451,338		1,131,615
Total Fees and Other Investment Expense	**$**	**6,062,082**	**$**	**5,088,571**

Schedule of Payments to Consultants

For the Years Ended June 30, 2012 and 2011

		2012		2011
Actuarial Services	$	150,547	$	265,939
Audit Services		67,576		38,073
Legal Services		360,534		620,593
Total Payments to Consultants	**$**	**578,657**	**$**	**924,605**

This page intentionally left blank.

51 Investment

MEKETA INVESTMENT GROUP

BOSTON MIAMI SAN DIEGO

November 15, 2012

Retirement Board
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Dear Board Members:

This letter reviews the investment performance of the Santa Barbara County Employees' Retirement System ("System") for the fiscal year ended June 30, 2012. The total portfolio was valued at $2.0 billion as of June 30, 2012, up $48.7 million compared to the end of fiscal year 2011. The portfolio is well diversified across a broad range of different asset classes that are generally categorized as equity, fixed income, real assets, private equity, and real estate.

During fiscal year 2012, the System hired Meketa Investment Group to serve as SBCERS' independent investment consultant. Meketa Investment Group has evaluated the fund's performance relative to market benchmarks and peer groups. BNY Mellon, the System's custodian, independently calculates performance for the fund.

Economic Review

Fiscal year 2012 began with heightened market volatility and risk aversion plaguing the markets, due in part to a renewed focus on the faltering global economy and sovereign debt issues in the Eurozone. Despite efforts by policymakers, including the announcement of the U.S. Federal Reserve's "Operation Twist" and an expansion of the European Financial Stability Facility ("EFSF"), the September quarter of calendar 2011 was the worst quarter for equities since 2008.

During the December quarter, investors returned to risk assets due partly to improved economic data and hopes of a resolution to the sovereign debt issues in the Eurozone. Investor optimism persisted during the first few months of calendar 2012, as global equity markets soared and U.S. stocks experienced their best quarter since 1998. However, a number of near-term issues remained unresolved, including sovereign debt issues in Europe, the potential for a "hard landing" in China, and a stalled recovery in the U.S. economy.

After posting strong returns in the prior two quarters, global equity markets retreated again in the final quarter of fiscal year 2012. Renewed concerns over the European debt crisis, particularly the solvency of Spain, as well as the potential of Greece exiting the Eurozone, contributed to investors' renewed risk

5796 ARMADA DRIVE SUITE 110 CARLSBAD CA 92008
760 795 3450 fax 760 795 3445 www.meketagroup.com

aversion. Additionally, increased political uncertainty in Greece and France, disappointing U.S. labor reports, and slowing growth in China and India further contributed to market volatility.

Asset Allocation

In March 2012, the Board of Retirement adopted new asset allocation targets for the fund based on recommendations from Meketa Investment Group. The new asset allocation policy diversifies each of the major asset categories into dedicated sub-asset allocation mandates. Equity assets include allocations to U.S. equity, developed market equity, emerging market equity, frontier market equity, and long-short equity. Fixed income assets include allocations to investment grade bonds, foreign bonds, emerging market bonds, TIPS, high yield bonds, and bank loans. Real assets include allocations to natural resources (public and private), commodities, and infrastructure (public and private).

The implementation of the new asset allocation policy began in May 2012. At the end of fiscal year 2012, several asset classes were outside of newly established target ranges, as the portfolio is transitioning to the new asset allocation policy targets.

Performance vs. Policy Benchmark

As of June 30, 2012, the SBCERS portfolio has outperformed its policy benchmark over the trailing quarter, 1-year, 3-year, 5-year, 10-year, and since inception periods.

For fiscal year 2012, the SBCERS portfolio returned 2.3% gross of fees and 2.0% net of fees, outperforming the policy benchmark return of 0.9%. The portfolio return ranked in the second quartile of the InvestMetrics universe of public funds greater than $1 billion, and outperformed the median fund, which returned 1.1% gross of fees for the fiscal year. Asset classes that outperformed their respective benchmarks for the fiscal year included domestic equity, international equity, investment grade bonds, and private equity. Real estate was the only asset class that underperformed its benchmark during the fiscal year.

Fiscal 2013 Outlook

Meketa Investment Group believes that three issues remain of primary concern over the next year: the solvency of sovereign governments and banks in Europe, slowing growth in China, and a slow growing U.S. economy that is susceptible to recession. We expect that global GDP growth will be positive, but will continue to be slow for the remainder of calendar year 2012. This slow growth will be due to lower demand for exports, continued austerity measures, and high unemployment in developed economies. Slowing growth globally should keep inflation at moderate levels, and deflation continues to be a risk in the developed world.

We anticipate that additional monetary stimulus will be implemented in Europe, the emerging markets, and the U.S. In the U.S., tax increases and spending cuts scheduled to take place in early 2013 create a "fiscal cliff" that could weigh substantially on the U.S. economy and potentially lead to another recession. It is likely that a short-term resolution will be reached, though it may not happen until year end.

The volatility in the markets, while concerning, is not unexpected, and we believe that the System's portfolio is diversified in a way that provides it a high probability of achieving the long-term returns necessary to meet the System's obligations.

Summary

The Retirement System Staff and Board of Trustees accomplished a great deal from an investment standpoint during fiscal year 2012 through the implementation of the new asset allocation policy, which aims to better position the System for potential future market environments. During fiscal year 2013, Meketa Investment Group looks forward to working with Staff and the Board of Retirement to further implement the asset allocation policy and enhance the investment manager roster, so that the System can continue to achieve its long term goals.

Sincerely,

Mika Malone
Principal

Stephen P. McCourt, CFA
Managing Principal

Brad Regier, CFA, CAIA
Vice President

INVESTMENT POLICIES

External investment management firms manage the System's investment assets. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The Retirement Board (the Board), having sole and exclusive authority and fiduciary responsibility for the investment and administration of the system, has adopted an Investment Objectives and Policy Statement, which reflect the Board's policies for management of the System's investments.

1. The investment of the assets of the Retirement System shall be based on a financial plan that will consider:

   - the financial condition of the Retirement System
   - the expected long-term capital market outlook
   - the Board's risk tolerance
   - future growth of active and retired participants
   - inflation and the rate of salary increase
   - cash flow

   The financial plan measures the potential impact on pension cost of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected liability structure of the retirement plan.

2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure, shall be sufficiently diversified to maintain risk at a reasonable level, determined by the Board without imprudently sacrificing return. The Board shall determine performance benchmarks against which the asset allocation plan shall be reviewed to ensure that the asset mix remains appropriate to meet long-term goals of the investment program.

3. In accordance with the asset allocation guidelines, the Board will select external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation.

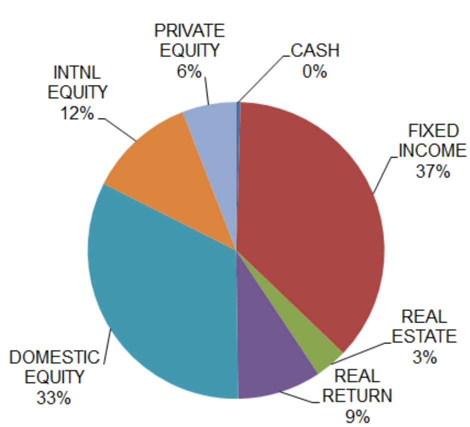
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

INVESTMENT SUMMARY

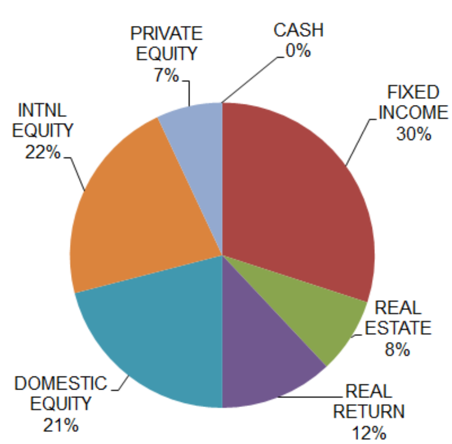
As of June 30, 2012		Market Value	Percent of Total Market Value
Cash	$	9,524,840	0.47%
Short Term Investments		45,428,477	2.22%
U.S. Government Bonds		83,172,638	4.07%
Municipal Bonds		4,610,356	0.22%
Domestic Corporate Bonds		466,792,497	22.85%
International Bonds		149,789,382	7.33%
Total Bonds		704,364,873	34.47%
Private Equities		119,762,537	5.87%
Domestic Equities		666,458,319	32.63%
International Equities		239,038,403	11.70%
Total Equities		1,025,259,259	50.20%
Real Estate		71,234,628	3.49%
Real Return		186,797,519	9.14%
Total Real Estate\Real Return		258,032,147	12.62%
Total Fixed Income, Equities, & Real Estate\Real Return		**2,042,609,596**	**100.00%**
Collateral Held for Securities Lent		196,897,719	-
Grand Total	**$**	**2,239,507,315**	**100.00%**

ASSET ALLOCATION

Actual Asset Allocation



Target Asset Allocation



INVESTMENT RESULTS BASED ON FAIR MARKET VALUE

As of June 30, 2012

Investments	Current Year	Annualized 3 - year	Annualized 5 - year
Domestic Equity	1.0 %	15.8 %	-0.6 %
Russell 3000 Benchmark	3.8 %	16.7 %	0.4 %
International Equity	-14.5 %	7.1 %	-4.8 %
MSCI ACWI ex US Index	-14.6 %	7.0 %	-4.6 %
Fixed Income	8.4 %	10.3 %	8.2 %
BC Universal	7.4 %	7.6 %	6.8 %
Real Return	6.5 %	- %	- %
T-Bills (90 day lagged)	6.3 %	7.4 %	7.0 %
Real Estate	10.2 %	4.7 %	-2.4 %
NCREIF Index	12.3 %	8.9 %	2.5 %
Private Equity	9.3 %	18.8 %	5.2 %
Russell 3000 (1Qtr lagged)	10.3 %	27.8 %	5.2 %
Covered Calls	7.7 %	- %	- %
CBOE S&P 500 BuyWrite Index	8.2 %	- %	- %
Cash	0.2 %	0.3 %	1.3 %
T-Bills (90 day lagged)	- %	0.1 %	0.9 %
Total Fund	2.0 %	12.4 %	1.4 %
SBCERS Policy Benchmark	0.9 %	10.9 %	0.3 %

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with Global Investment Performance Standards (GIPs). Returns shown here for SBCERS are net of fees.

SCHEDULE OF TOP TEN EQUITY SECURITIES

As of June 30, 2012

Shares	Security Name	Market Value
25,756	Apple Inc	$ 15,041,504
210,617	Microsoft Corp	6,442,774
73,358	Pepsico Inc/Nc	5,183,476
60,462	Monsato Co	5,005,044
106,945	Verizon Communication Inc	4,752,636
53,649	Philip Morris International Inc	4,681,412
20,482	Amazon. Com	4,677,065
57,848	Coca-Cola Co/The	4,523,135
52,683	Exxon Mobil Corp	4,508,084
68,778	Schlumberger Ltd	4,464,380

SCHEDULE OF TOP TEN BOND HOLDINGS

As of June 30, 2012

Par	Security Name	Market Value
24,610,000	US Treasury Note 0.125% maturity date 08/31/2013	$ 24,568,655
21,152,343	US Treasury- CPI Inflation Index 0.125% maturity date 04/15/2016	22,016,628
20,430,395	US Treasury- CPI 0.125% maturity date 04/15/2017	21,566,938
15,984,000	US Treasury Note 2.000% maturity date 11/15/2021	16,572,211
13,330,000	Commit to Pur FNMA SF Mtg 3.000% maturity date 8/1/2042	13,634,057
11,526,632	US Treasury- CPI Inflation Index 1.125% maturity date 01/15/2021	13,264,618
11,384,464	US Treasury- CPI 0.125% maturity date 01/15/2022	12,045,332
11,000,000	US Treasury Bond 3.125% maturity date 02/15/2042	11,814,660
10,258,638	US Treasury- CPI Inflation Index 0.625% maturity date 07/15/2021	11,425,558
10,982,252	US Treasury- CPI Inflation Index 0.500% maturity date 04/15/2015	11,402,653

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS As of June 30, 2012

TYPE OF INVESTMENT		MARKET VALUE	% of PORTFOLIO
PRIVATE EQUITY	$	119,762,537	5.86
Private Equity Total		119,762,537	5.86
EQUITY			
Aerospace & Defense	$	6,038,834	0.30
Basic Industries		25,281,148	1.24
Business Services		17,026,207	0.83
Capital Goods		8,611,072	0.42
Chemicals		15,645,422	0.77
Commercial Services		3,801,654	0.19
Commingled Funds US/Intl		352,167,521	17.24
Consumer Durables		27,621,445	1.35
Consumer Non-Durables		6,091,036	0.30
Consumer Services		3,113,722	0.15
Energy		9,211,210	0.45
Financial Services		66,440,381	3.25
Health Care		21,592,560	1.06
Industrial		24,029,365	1.18
Insurance		16,824,076	0.82
Media		13,273,305	0.65
Mutual Funds US/Intl		948,970	0.05
Other		75,188,825	3.68
Pharmaceuticals		33,394,451	1.63
Real Estate		7,692,302	0.38
Technology		122,651,763	6.00
Transportation		44,913,519	2.20
Utilities		3,937,934	0.19
Equity Total	$	905,496,722	44.33
BONDS			
Asset Backed Securities	$	72,135,202	3.53
Banking & Finance		89,643,816	4.39
Collateralized Mortgage Oblig		38,521,789	1.89
Commingled Funds US Debt		98,230,523	4.81
Government Bonds - US		95,351,698	4.67
Government Bonds - Intl		54,263,675	2.66
Health Care		8,641,939	0.42
Housing		66,312,592	3.25
Industrial		28,317,632	1.39
Insurance		21,319,597	1.04
International Corporate Bonds		29,073,469	1.42
Media		4,359,145	0.21
Other Corporate Bonds		18,677,747	0.91
Private Placements		53,780,725	2.63
Utilities		25,735,324	1.26
Bonds Total	$	704,364,873	34.48
REAL ESTATE/REAL RETURN			
Private Real Estate		71,234,628	3.49
Real Return		186,797,519	9.15
Real Estate/Real Return Total	$	258,032,147	12.64
CASH & CASH EQUIVALENTS	$	54,953,317	2.69
Grand Total	$	**2,042,609,596**	**100.00**

LIST OF INVESTMENT MANAGERS

Domestic Equity
- Blackrock DJBUS Commodities
- Blackrock MSCI Emerging Markets
- Dimensional Fund Advisors
- Eagle Asset Management
- Loomis Sayles
- Neuberger Berman
- Rampart
- State Street Global Advisors

Fixed Income
- Artio Global
- Blackrock Foreign Bond Index
- Blackrock Intermeditae Government Bonds
- Reams
- STW Fixed Income Management

International Equity
- Batterymarch
- Lord Abbett
- Panagora

Private Equity
- Hamilton Lane (Discretionary Consultant)

Real Estate
- ORG (Discretionary Consultant)
- Harrison Street REIT

Real Return
- Wellington Management

SCHEDULE OF PROFESSIONAL FEES AND SERVICES

As of June 30, 2012	Assets Under Management	Fees*	Basis Points
Investment Managers:			
Bond Managers	$ 704,364,873	$ 1,625,054	7.96
Equity Managers	905,496,722	2,871,739	14.06
Real Estate/Real Return	258,032,147	113,951	0.56
Short Term Investments	45,428,477	-	-
Alternative Equity	119,762,537	-	-
Total Investment Managers	2,033,084,756	4,610,744	22.58
Other:			
Cash	12,225,404	-	-
Custodian Fees	-	271,983	1.33
Investment Consultants Fees	-	1,179,355	5.77
	12,225,404	1,451,338	7.10
Total	$ 2,045,310,160	$ 6,062,082	29.68

** Note: Some fees are netted directly against assets under management.*

This page intentionally left blank.

61 Actuarial

Milliman

1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940
Fax +1 206 623 3485

milliman.com

October 30, 2012

Mr. Gary Amelio
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Members of the Board:

Milliman has performed the June 30, 2012 annual actuarial valuation for the Santa Barbara County Employees' Retirement System (SBCERS). It is anticipated that future actuarial valuations will be performed every year with the next valuation to be as of June 30, 2013. Milliman was retained by SBCERS in March 2007. Prior valuations were performed by a different firm.

Economic Assumptions
For the June 30, 2012 valuation, the economic assumptions for inflation, wage growth and investment return (discount rate) are 3.25%, 3.75% and 7.75%, respectively. The Board used these assumptions for the 2010 and 2011 and 2012 valuations. All of the demographic and economic assumptions will be reviewed prior to the 2013 valuation as a result of the triennial Investigation of Experience scheduled for that time.

Contribution Rates
Contribution rates are based on the entry age cost method which will tend to produce rates that remain relatively level as a percentage of payroll. As of June 30, 2012, there is an Unfunded Actuarial Accrued Liability (UAAL) of $827.7 million. The current financing objective of SBCERS is to amortize any UAAL as a percentage of projected salaries of present and future members of SBCERS. Each year the UAAL is measured and amortized over a 17-year period. Due primarily to the recognition of prior asset losses in the Actuarial Value of Assets (AVA) calculation, the total calculated contribution rate for all plans increased from 35.87% of pay, based on the June 30, 2011 valuation to 38.30% of pay, based on the June 30, 2012 valuation. The prior asset losses were partially offset by the recognition of asset gains from the 2009-2011 period.

Funding Status
As of June 30, 2012, the Funded Ratio, the AVA divided by the Actuarial Accrued Liability (AAL), decreased during the past year from 73.0% to 71.2%. The funded ratio declined by approximately 3.5% due to the recognition of prior asset losses, and decreased by approximately 0.8% due to the negative investment experience from July 1, 2011 to June 30, 2012. After applying the asset-smoothing method, the return on the AVA was 1.5% during the year, significantly lower than the assumed rate of 7.75%. Other changes had an impact on the Funded Ratio, including the expected year-to-year change due to contributions, salary increases less than assumed, the demographic experience, and the fact that cost-of-living-adjustments for retired members were less than expected. Note that the AVA recognizes asset gains and losses over a five-year period and the June 30, 2012 AVA is $31.5 million higher than the market value due to deferred asset losses. The Funded Ratio would be 70.1% if it were computed using the June 30, 2012 market value of assets instead of the AVA.

Board of Retirement
October 30, 2012
Page 2

Certification Statement

In preparing our valuation report, we relied, without audit, on information (some oral and some in writing) supplied by SBCERS staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Assumptions used in the actuarial valuation were reviewed as part of the Investigation of Experience and approved by the Board. The Retirement Board has the final decision regarding the appropriateness of the assumptions. They represent a reasonable estimate of future conditions affecting SBCERS, and we believe they are also reasonably related to the past experience of SBCERS. Nevertheless, the emerging costs of SBCERS will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in the report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Milliman's work products have been prepared exclusively for SBCERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning SBCERS operations, and uses SBCERS' data, which Milliman has not audited. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We assisted in the preparation of several schedules included in the actuarial, statistical and financial sections of SBCERS' Comprehensive Annual Financial Report. Information for years prior to the 2007 valuation was prepared by the prior actuarial firms retained by SBCERS. The sections with which we were involved are listed below:

1. Schedule of Active Member Valuation Data
2. Schedule of Retired Members and Beneficiary Data
3. Solvency Test
4. Analysis of Financial Experience
5. Schedule of Average Benefit Payment Amounts
6. Schedule of Funding Progress

We certify that the June 30, 2012 valuation was performed in accordance with the Actuarial Standards Board standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Daniel Wade

Daniel R. Wade, FSA, EA, MAAA
Consulting Actuary

Nick Collier

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS AND METHODS

Recommended by the Actuary and adopted by the Board of Retirement. The actuarial assumptions used to determine the liabilities are based on the results of the June 30, 2010 Experience Study. The Board of Retirement adopted the new assumptions on 10/27/2010.

Actuarial Cost Method

SBCERS uses the entry age normal actuarial cost method. The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level of percentage of the projected salaries of present and future members of SBCERS over specified fixed periods of time. The UAAL is being funded over an "open/rolling" seventeen year period effective with the June 30, 2009 valuation. Under an open/rolling amortization method, the entire UAAL(less the outstanding balance for Safety Plan 6) is amortized over a constant period, in this case, 17 years, with one exception. The exception is that the additional UAAL attributable to the creation of Safety Plan 6 is now being amortized over a closed period and that period stands at 16 years. The amortization factor does not change from year to year unless the discount rate or salary assumption is changed (adopted 09/23/2009). Because the discount rate (investment return) and salary scale did change from prior valuation due to the Investigation of Experience, the amortization factor has changed from the previous valuation.

Actuarial Asset Valuation Method

Five-year smoothed method based on the difference between expected and actual market value of assets as of the valuation date effective June 30, 2002 (adopted 04/09/2003).

Asset Corridor Limit

To prevent the smoothed value of assets from deviating too much from the market value of assets, an asset corridor limit is applied such that the smoothed market value of assets stays within 20% of the market value of assets.

Amortization of Gains and Losses

Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability and amortized over an "open/rolling" seventeen year period effective June 30, 2009 (adopted 09/23/2009).

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 7.75%, compounded annually, exclusive of both investment and administrative expenses effective June 30, 2010 (adopted 10/27/2010). The investment rate of return of 7.75% is comprised of 3.25% for CPI and 4.50% real investment return.

Projected Salary Increases

Rates of annual salary increases (adopted 10/27/2010) assumed for the purpose of the valuation are:

- Variable percentage annually for merit and longevity based on service (duration) and
- 3.75% for inflation (cost-of-living adjustments – comprised of 3.25% for consumer price inflation and 0.5% for real wage inflation)

Post-Retirement Benefit Increases

Cost-of-Living benefit increases of 3% per year are assumed for the valuation in accordance with the maximum benefits provided for General Plan 5, Safety Plan 4, Safety Plan 6, and APCD Plan.
General Plan 7 is limited to a maximum 2% cost of living adjustment.
General Plan 2 is not eligible to receive these adjustments (adopted 02/21/2001).

Expectation of Life after Retirement

RP-2000 Combined Mortality Table Projected to 2010 Using Scale AA:

- For male members, set back 2 years
- For female members, set back 4 years

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

Expectation of Life after Disability

RP-2000 Combined Mortality Table Projected to 2010 Using Scale AA:

- For General members, no age adjustment
- For Safety members, no age adjustment

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

Mortality Tables Impact on Employee Contribution Rates

Member contribution rates will be based on the following sex distinct mortality tables adjusted by ages and used regardless of gender:

RP-2000 Combined Mortality Table Projected to 2010 Using Scale AA assumptions used:

- For General healthy members, the Male table set back 4 years
- For Safety healthy members, the Male table set back 3 years
- For Beneficiaries, the Female table set back 2 years
- For General disabled members, the Male table set back 1 year
- For Safety disabled members, the Male table with no age adjustment

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE

The following tables indicate the probability of separation from active service for each of six separate sources of termination:

SERVICE RETIREMENT	Member retires after satisfaction of requirements of age and/or service for reasons other than disability.
DUTY DISABILITY	Member receives disability retirement; disability is employment related.
ORDINARY DISABILITY	Member receives disability retirement; disability not employment related.
ORDINARY DEATH	Member dies prior to eligibility for retirement; death not employment related.
SERVICE DEATH	Member dies in service as a result of injury or disease arising out of and in the course of employment.
OTHER TERMINATIONS	Member terminates and requests a refund of member contributions and/or terminates and leaves the contributions on deposit (vested terminations).

The probability shown for each cause of termination represents the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of retirement age 50 is 3%, then we are assuming that 3% of eligible members at age 50 will retire during the next year.

The age at which a vested terminated member is assumed to commence the payment of retirement benefits is (*rates and assumptions adopted effective June 30, 2010*):

PLAN	AGE
General Plan 2	65
General Plan 5 & 7	58
Safety Plan 4	54
Safety Plan 6	50
APCD	58

YEARS OF LIFE EXPECTANCY

Rate of Separation From Active Service

Assumptions effective June 30, 2010

GENERAL MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death
20	0.00%	0.00%	0.01%	0.03%
30	0.00%	0.00%	0.01%	0.04%
40	3.00%	0.01%	0.01%	0.09%
50	3.00%	0.09%	0.14%	0.16%
60	15.00%	0.18%	0.27%	0.45%
70	25.00%	0.18%	0.27%	1.55%
75	100.00%	0.00%	0.00%	0.00%

Years of Service	Other Terminations
5	5.50%
10	3.90%
15	2.90%
20	2.20%
25	0.80%
30+	0.00%

Rate of Separation From Active Service

Assumptions effective June 30, 2010

GENERAL MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death
20	0.00%	0.00%	0.01%	0.02%
30	0.00%	0.00%	0.01%	0.02%
40	7.00%	0.01%	0.01%	0.05%
50	7.00%	0.09%	0.14%	0.10%
60	15.00%	0.18%	0.27%	0.29%
70	25.00%	0.18%	0.27%	1.04%
75	100.00%	0.00%	0.00%	0.00%

Years of Service	Other Terminations
5	5.50%
10	3.60%
15	2.40%
20	1.70%
25	1.20%
30+	0.00%

Rate of Separation From Active Service

Assumptions effective June 30, 2010

SAFETY PLAN 4 MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death
20	0.00%	0.09%	0.01%	0.01%	0.03%
30	2.00%	0.14%	0.02%	0.01%	0.04%
40	2.00%	0.23%	0.03%	0.01%	0.09%
50	8.00%	0.50%	0.06%	0.01%	0.16%
60	25.00%	0.72%	0.08%	0.01%	0.45%
65	100.00%	0.00%	0.00%	0.00%	0.00%

Years of Service	Other Terminations
5	3.00%
10	2.10%
15	1.20%
20+	0.00%

YEARS OF LIFE EXPECTANCY

Rate of Separation From Active Service

Assumptions effective June 30, 2010

SAFETY PLAN 4 MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death
20	0.00%	0.09%	0.01%	0.01%	0.02%
30	2.00%	0.14%	0.02%	0.01%	0.02%
40	2.00%	0.23%	0.03%	0.01%	0.05%
50	8.00%	0.50%	0.06%	0.01%	0.10%
60	25.00%	0.72%	0.08%	0.01%	0.29%
65	100.00%	0.00%	0.00%	0.00%	0.00%

Years of Service	Other Terminations
5	3.00%
10	2.10%
15	1.20%
20+	0.00%

Rate of Separation From Active Service

Assumptions effective June 30, 2010

SAFETY PLAN 6 MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death
20	0.00%	0.09%	0.01%	0.01%	0.03%
30	2.00%	0.14%	0.02%	0.01%	0.04%
40	2.00%	0.23%	0.03%	0.01%	0.09%
50	20.00%	0.50%	0.06%	0.01%	0.16%
60	25.00%	0.72%	0.08%	0.01%	0.45%
65	100.00%	0.00%	0.00%	0.00%	0.00%

Years of Service	Other Terminations
5	3.00%
10	2.10%
15	1.20%
20+	0.00%

Rate of Separation From Active Service

Assumptions effective June 30, 2010

SAFETY PLAN 6 MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death
20	0.00%	0.09%	0.01%	0.01%	0.02%
30	2.00%	0.14%	0.02%	0.01%	0.02%
40	2.00%	0.23%	0.03%	0.01%	0.05%
50	20.00%	0.50%	0.06%	0.01%	0.10%
60	25.00%	0.72%	0.08%	0.01%	0.29%
65	100.00%	0.00%	0.00%	0.00%	0.00%

Years of Service	Other Terminations
5	3.00%
10	2.10%
15	1.20%
20+	0.00%

YEARS OF LIFE EXPECTANCY

Mortality for Members Retired for Service

Assumptions effective June 30, 2010

	GENERAL		SAFETY	
Age	**Male**	**Female**	**Male**	**Female**
20	0.026%	0.015%	0.026%	0.015%
25	0.032%	0.016%	0.032%	0.016%
30	0.037%	0.019%	0.037%	0.019%
35	0.060%	0.028%	0.060%	0.028%
40	0.091%	0.046%	0.091%	0.046%
45	0.116%	0.067%	0.116%	0.067%
50	0.158%	0.103%	0.158%	0.103%
55	0.238%	0.158%	0.238%	0.158%
60	0.449%	0.291%	0.449%	0.291%
65	0.870%	0.553%	0.870%	0.553%
70	1.552%	1.042%	1.552%	1.042%
75	2.612%	1.749%	2.612%	1.749%
80	4.620%	2.858%	4.620%	2.858%
85	8.279%	4.734%	8.279%	4.734%
90	14.323%	8.215%	14.323%	8.215%

Mortality for Members Retired for Disability

Assumptions effective June 30, 2010

	GENERAL		SAFETY	
Age	**Male**	**Female**	**Male**	**Female**
20	0.028%	0.016%	0.028%	0.016%
25	0.034%	0.018%	0.034%	0.018%
30	0.042%	0.024%	0.042%	0.024%
35	0.074%	0.043%	0.074%	0.043%
40	0.100%	0.061%	0.100%	0.061%
45	0.132%	0.096%	0.132%	0.096%
50	0.178%	0.141%	0.178%	0.141%
55	0.299%	0.251%	0.299%	0.251%
60	0.574%	0.481%	0.574%	0.481%
65	1.106%	0.923%	1.106%	0.923%
70	1.909%	1.592%	1.909%	1.592%
75	3.286%	2.594%	3.286%	2.594%
80	5.821%	4.277%	5.821%	4.277%
85	10.324%	7.292%	10.324%	7.292%
90	17.620%	12.778%	17.620%	12.778%

SALARY INCREASE ASSUMPTIONS

Assumptions effective June 30, 2010

GENERAL MEMBERS

Years of Service	Due to Promotion & Longevity	Total Annual Increase	Years of Service	Due to Promotion & Longevity	Total Annual Increase
<1	4.75%	8.68%	16	0.50%	4.27%
1	4.00%	7.90%	17	0.48%	4.25%
2	3.25%	7.12%	18	0.46%	4.23%
3	2.50%	6.34%	19	0.44%	4.21%
4	2.00%	5.83%	20	0.42%	4.19%
5	1.50%	5.31%	21	0.40%	4.16%
6	1.25%	5.05%	22	0.38%	4.14%
7	1.00%	4.79%	23	0.36%	4.12%
8	0.90%	4.68%	24	0.34%	4.10%
9	0.80%	4.58%	25	0.32%	4.08%
10	0.78%	4.55%	26	0.30%	4.06%
11	0.75%	4.53%	27	0.28%	4.04%
12	0.70%	4.48%	28	0.26%	4.02%
13	0.65%	4.42%	29	0.25%	4.01%
14	0.60%	4.37%	30+	0.25%	4.01%
15	0.55%	4.32%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.75% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

SALARY INCREASE ASSUMPTIONS

Assumptions effective June 30, 2010

SAFETY MEMBERS

Years of Service	Due to Promotion & Longevity	Total Annual Increase	Years of Service	Due to Promotion & Longevity	Total Annual Increase
<1	6.00%	9.98%	16	0.82%	4.60%
1	5.00%	8.94%	17	0.80%	4.57%
2	4.00%	7.90%	18	0.77%	4.55%
3	3.25%	7.12%	19	0.74%	4.52%
4	2.50%	6.34%	20	0.72%	4.50%
5	2.00%	5.83%	21	0.69%	4.47%
6	1.60%	5.41%	22	0.67%	4.45%
7	1.30%	5.10%	23	0.64%	4.42%
8	1.20%	4.99%	24	0.62%	4.39%
9	1.10%	4.89%	25	0.59%	4.37%
10	1.00%	4.79%	26	0.57%	4.34%
11	0.95%	4.74%	27	0.54%	4.32%
12	0.92%	4.70%	28	0.52%	4.29%
13	0.89%	4.68%	29	0.50%	4.27%
14	0.87%	4.65%	30+	0.50%	4.27%
15	0.85%	4.63%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.75% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

Immediate Refund of Contributions Upon Termination of Employment

Assumptions effective June 30, 2010

GENERAL & SAFETY MEMBERS

Years of Service	General Male	General Female	Safety
0	100%	100%	100%
5	40%	40%	25%
10	25%	25%	0%
15	10%	10%	0%
20	10%	10%	0%
25	0%	10%	0%
30	0%	0%	0%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Active Members	Average Annual Salary	Average	% Increase in Average Salary
June 30, 2007	General	3,569	$ 214,717,000	$ 60,162	2.6 %
	Safety	1,003	75,506,000	75,280	1.3 %
	APCD	53	3,940,000	74,340	N/A
	Total	**4,625**	$ **294,163,000**	**63,603**	**2.7 %**
June 30, 2008	General	3,552	$ 226,426,000	$ 63,746	6.0 %
	Safety	1,006	77,230,000	76,769	2.0 %
	APCD	48	3,608,000	75,167	1.1 %
	Total	**4,606**	$ **307,264,000**	**66,710**	**4.9 %**
June 30, 2009	General	3,450	$ 223,831,000	$ 64,879	1.8 %
	Safety	967	79,596,000	82,312	7.2 %
	APCD	50	3,955,000	79,100	5.2 %
	Total	**4,467**	$ **307,382,000**	**68,812**	**3.2 %**
June 30, 2010	General	3,261	$ 223,995,000	$ 68,689	5.9 %
	Safety	921	79,795,000	86,640	5.3 %
	APCD	46	3,716,000	80,783	2.1 %
	Total	**4,228**	$ **307,506,000**	$ **72,731**	**5.7 %**
June 30, 2011	General	3,198	$ 222,046,000	$ 69,433	1.1 %
	Safety	904	81,025,000	89,630	3.5 %
	APCD	46	3,457,000	75,161	(7.0) %
	Total	**4,148**	$ **306,528,000**	$ **73,898**	**1.6 %**
June 30, 2012	General	3,141	$ 220,234,000	$ 70,116	1.0 %
	Safety	885	79,168,000	89,456	(0.2) %
	APCD	46	3,475,000	75,548	0.5 %
	Total	**4,072**	$ **302,877,000**	$ **74,380**	**0.7 %**

SCHEDULE OF RETIREES & BENEFICIARIES ADDED TO AND REMOVED FROM RETIREMENT PAYROLL

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Number	Annual Allowance*	Number	Annual Allowance	Number	Annual Allowance	% Increase in Retiree Allowance	Average Annual Allowance
2007	203	$ 7,348,140	(70)	$ (1,165,047)	2,812	$ 70,763,105	9.6 %	$ 25,165
2008	232	$ 8,624,426	(72)	$ (1,213,017)	2,972	$ 83,023,412	17.3 %	$ 27,935
2009	239	$ 8,842,975	(94)	$ (2,084,942)	3,117	$ 92,275,326	11.1 %	$ 29,604
2010	301	$ 13,005,361	(100)	$ 2,443,989	3,318	$ 104,978,781	13.8 %	$ 31,639
2011	192	$ 5,922,775	(123)	$ 2,942,348	3,387	$ 110,219,174	5.0 %	$ 32,542
2012	226	$ 9,082,861	(106)	$ 2,884,973	3,507	$ 118,545,000	7.6 %	$ 33,802

* *Annual allowance added during the year does not include COLAs granted in year to continuing retirees and beneficiaries.*

ACTUARIAL SOLVENCY TEST

Dollars in Thousands

Valuation Date	Valuation Assets	Actuarial Accrued Liabilities for: Active Member Contribution (A)	Retirees and Beneficiaries (B)	Active Members (Employer Financed) (C)	Total AAL	Portion of Accrued Liabilities Covered by Reported Assets (A)	(B)	(C)
6/30/2004	$ 1,379,170	$ 115,530	$ 633,082	$ 830,157	$ 1,578,769	100 %	100 %	76.0 %
6/30/2005	$ 1,443,824	$ 125,040	$ 715,319	$ 847,273	$ 1,687,632	100 %	100 %	71.2 %
6/30/2006	$ 1,552,776	$ 137,148	$ 788,479	$ 884,029	$ 1,809,656	100 %	100 %	70.9 %
6/30/2007*	$ 1,704,469	$ 169,218	$ 979,657	$ 810,516	$ 1,959,391	100 %	100 %	68.5 %
6/30/2008	$ 1,891,456	$ 177,770	$ 1,124,748	$ 833,437	$ 2,135,955	100 %	100 %	70.7 %
6/30/2009	$ 1,705,733	$ 174,951	$ 1,237,215	$ 851,696	$ 2,263,862	100 %	100 %	34.5 %
6/30/2010	$ 1,927,229	$ 162,432	$ 1,483,728	$ 969,987	$ 2,616,147	100 %	100 %	29.0 %
6/30/2011	$ 2,007,859	$ 165,774	$ 1,559,716	$ 1,024,324	$ 2,749,814	100 %	100 %	28.0 %
6/30/2012	$ 2,046,641	$ 165,623	$ 1,660,773	$ 1,047,987	$ 2,874,383	100 %	100 %	21.0 %

* • Information for years prior to 2007 was provided by prior actuaries.
- Prior to 2007, non-valuation asset reserves were included with the Actuarial Value of Assets (AVA).
- Non-valuation asset reserves were also added to the Actuarial Accrued Liabilities (AAL) for Active Members prior to 2007.
- Beginning in 2007, non-valuation assets are not included in the AVA and are no longer added to the AAL.
- Also beginning in 2007, liabilities for terminated members with vested deferred benefits are included with the AAL for Retirees and Beneficiaries.
- Results as of June 30, 2007 do not match those previously reported in the 2007 Comprehensive Annual Financial Report (CAFR). This information reflects the Board's actions on September 19, 2008 regarding asset reserve classifications.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

Dollars in Millions

As of June 30	2012	2011	2010	2009	2008	2007
Prior Valuation						
Unfunded Actuarial Accrued Liability	**$ 742.00**	**$ 688.90**	**$ 558.10**	**$ 244.40**	**$ 252.30**	**$ 256.90**
Expected Change from Prior Year	(0.8)	(10.1)	30.7	(4.1)	(5.6)	5.8
Actuarial (Gains) or Losses During the Year						
Asset Transfer from Non-Valuation Reserves	-	-	-	-	(21.6)	(84.1)
Asset Return (Greater) or Less than Expected	125.8	90.3	(85.3)	336.0	(20.3)	(57.6)
New Entrants	0.6	1.0	1.1	1.1	2.9	4.0
Salary Increases Greater or (Less) than Expected	(29.9)	(18.0)	(7.6)	(32.1)	10.9	12.6
Changes in Assumptions and Methodology	-	-	170.7	-	-	114.2
*Changes in Plan Provisions**	-	-	-	-	-	10.2
All Other (Including Demographic Experience)	(10.0)	(10.1)	21.2	12.8	25.8	(9.7)
Total Changes	85.7	53.1	130.8	313.7	(7.9)	(4.6)
Values as of Valuation Date	**$ 827.70**	**$ 742.00**	**$ 688.90**	**$ 558.10**	**$ 244.40**	**$ 252.30**

Information for years prior to 2007 was provided by prior actuaries.
Results as of June 30, 2007 do not match those previously reported in the 2007 Comprehensive Annual Financial Report (CAFR).
*Changes in Plan Provisions are for new Safety Plan 6 and General Plan 5C.

SUMMARY OF MAJOR PLAN PROVISIONS

Eligibility

The County has established several defined tiers based primarily on a members' date of entry into SBCERS. There are two types of SBCERS Members:

Safety Members: employees whose principal duty is active law enforcement or active fire suppression are eligible to be Safety members. Membership in a particular tier depends upon date of entry to the system by bargaining unit.

General members: all non-Safety employees are eligible to be General members. Membership in a particular tier depends primarily upon date of entry into the system.

- APCD Plan 1: APCD employees hired on or before July 3, 1995
- APCD Plan 2: APCD employees hired after July 3, 1995
- General Plan 2: Employees hired on or before January 11, 1999 who elected to join General Plan 2
- Safety Plan 4A & General Plan 5A: General employees hired before October 10, 1994 who did not elect to join General Plan 2, and Safety employees hired before October 10, 1994
- Safety Plan 4B & General Plan 5B: Employees hired on or after October 10, 1994
- General Plan 5C: Members in certain bargaining units hired on or after October 10, 1994. Members in those bargaining units transferred from Plan 5B on March 10, 2008
- General Plan 7: County General employees hired on or after June 25, 2012
- Safety Plan 4C: Members in certain bargaining units who were hired on or after October 10, 1994. All members in certain bargaining units. Members in those bargaining units transferred from Plan 4B on July 3, 2006.
- Safety Plan 6A: Members in certain bargaining units hired prior to October 10, 1994. Members in those bargaining units transferred from Plan 4A on February 25, 2008
- Safety Plan 6B: Members in certain bargaining units hired after October 10, 1994. Members in those bargaining units transferred from Plan 4D on February 25, 2008

Final Compensation

- Monthly average highest 12 consecutive months of compensation earnable for General Plans 5A and 5B, Safety Plans 4A, 4B, 6A, and APCD Plans 1 and 2

- Monthly average of highest 36 consecutive months of compensation earnable for General Plan 5C, 7, Safety Plans 4C, 6B and part-time members in all plans

- Monthly average of highest 36 non-consecutive months of compensation for General Plan 2

Service Retirement

NORMAL RETIREMENT AGE

- Age 65 for §31486.4 (General Plan 2)
- Age 57 for §31676.12 (General Plan 5)
- Age 57-1/2 for §31676.1 (General Plan 7)
- Age 55 for §31664.2 (Safety Plan 4)
- Age 50 for §31664.1 (Safety Plan 6)
- Age 55 for §31676.15 (APCD Plan)

EARLY RETIREMENT

- Age 50 and 10 years for General Plan 5, 7 and APCD Plan
- Age 55 and 10 years for General Plan 2
- Age 50 and 10 years for Safety Plan 4

OR

- 30 years for General Plan 5, 7 and APCD Plan
- 20 years for Safety Plans 4 and 6

BENEFIT AT NORMAL RETIREMENT AGE

- 2% of final average salary per year of service times age factor (§31676.12 and §31676.15 respectively) for General Plan 5, 7 and APCD Plan

- 1/60 of final average salary per year of service times age factor (§31676.1) for General Plan 7

- 2% of final average salary per year of service (maximum 35 years) plus 1% of final average salary per year of service in excess of 35 (maximum 10 years) reduced by 1/35 of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan 2

- 3% of final average salary per year of service times age factor for Safety Plans 4 (§31664.2) and 6 (§31664.1)

BENEFIT ADJUSTMENTS

- Reduced for retirement before:
  - Age 65 for § 31486.4 (General Plan 2)
  - Age 57 for § 31676.12 (General Plan 5)
  - Age 55 for § 31664.2 (Safety Plan 4)
  - Age 50 for § 31664.1 (Safety Plan 6)
  - Age 55 for § 31676.15 (APCD Plan)

  Reductions for § 31486.4 are actuarial equivalents

- Increased for retirement after:
  - Age 57 for § 31676.12 (General Plan 5)
  - Age 55 for § 31676.15 (APCD Plan)

Disability Retirement

- Non-service connected for General Plan 5, 7, Safety Plans 4 and 6 and APCD Plan
  - 1.8% of final average salary per year of service, with maximum of 33⅓% if projected service is used (age 62 for General Plan 5, age 55 for Safety Plans 4 and 6 and age 65 for APCD Plan) or
  - 90% of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible)

- Service connected for General Plan 5,7, Safety Plans 4 and 6 and APCD Plan
  - Greater of 50% of final average salary or service retirement benefit (if eligible)

- General Plan 2 purchases long-term insurance policy
  - 60% of salary provided outside of the Plan
  - Payments are reduced by other disability income benefits
  - Service retirement at age 65 (credit given toward service retirement while disabled under the LTD Plan)

Death Before Retirement

- Non-service connected before eligible to retire for General Plan 5,7, Safety Plans 4 and 6 and APCD Plan
  - Refund of contributions plus 1/12 of last year's salary per year of service up to 6 years

- Eligible for non-service connected disability or service retirement for General Plan 5, Safety Plans 4 and APCD Plan
  - 60% of member's accrued allowance

- Service connected for General Plan 5, 7, Safety Plans 4 and 5, and APCD Plan
  - 50% of salary

- Benefit for General Plan 2
  - 1/12 of final year's salary per year of service up to 6 years

Death After Retirement

- $5,000 lump sum death benefit for General Plan 5, 7, Safety Plans 4 and 6, and APCD Plan

- Service retirement or non-service connected disability
  - 60% of member's allowance payable to an eligible spouse for General Plan 5, 7 Safety Plans 4 and 6 and APCD Plan
  - 50% of member's allowance payable to an eligible spouse for General Plan 2

- Service connected disability
  - 100% of member's allowance payable to an eligible spouse for General Plan 5, 7, Safety Plans 4 and 6 and APCD Plan
  - 50% of member's allowance payable to an eligible spouse for General Plan 2

Vesting

- Must leave contributions on deposit
- Five years of service for General Plan 5, 7, Safety Plans 4 and 6 and APCD Plan
- Ten years of service for General Plan 2

Member's Contributions

- Based on entry age
- Half rates for General Plans 5A and 5C, 7, Safety Plans 4A, 4C, 6A and 6B and APCD Plan 1
- Full rates for General Plan 5B, Safety Plan 4B and APCD Plan 2
- General Plan 2 is noncontributory

Maximum Benefit

- 100% of final average salary for General Plan 5, 7, Safety Plans 4 and 6 and APCD Plan
- Benefit and Social Security combined cannot exceed 70% of final average salary if service is less than 35 years, otherwise 80% for General Plan 2

Cost-Of-Living

- Up to 3% cost-of-living adjustment for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- Limited to a maximum 2% cost-of-living adjustment for General Plan 7
- None for General Plan 2

This page intentionally left blank.

79 Statistical

Introduction to the Statistical Section

This section provides additional information for a more thorough understanding of the financial statements, note disclosures and required supplemental information. The schedules presented on the following pages show trends in additions, deductions, expenses, participation and average benefit payments as well as contribution rates.

Schedule of Additions to Pension Plan By Source

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Other Income	Total
2003	12,796,575	33,799,166	57,301,619	(4,426,277)	4,012	99,475,095
2004	13,633,762	39,334,678	190,516,409	(5,198,320)	4,001	238,290,530
2005	14,827,847	46,720,797	143,795,225	(8,473,262)	49,497	196,920,104
2006	15,057,589	53,976,749	170,316,018	(11,648,395)	55,990	227,757,951
2007	15,853,139	63,395,296	285,497,505	(13,887,027)	2,233,265	353,092,178
2008	15,479,629	69,460,616	(122,988,456)	(10,260,776)	629,238	(47,679,749)
2009	11,083,461	75,902,140	(328,466,193)	(5,321,065)	63,736	(246,737,921)
2010	11,648,995	84,647,133	199,034,468	(4,451,390)	228,877	291,108,083
2011	10,843,091	94,436,686	350,841,547	(5,141,373)	23,724,517	474,704,468
2012	14,524,627	108,764,094	44,291,839	(5,935,784)	223,470	161,868,246

Schedule of Deductions to Pension Plan By Type

Fiscal Year	Benefits Paid	Refunds	Administrative Expenses	Total
2003	51,443,905	1,204,495	1,520,815	54,169,215
2004	57,634,424	1,467,988	1,985,863	61,088,275
2005	64,254,302	1,284,974	1,842,161	67,381,437
2006	71,018,064	1,474,822	2,140,186	74,633,072
2007	76,846,452	1,883,614	5,619,908	81,200,124
2008	84,409,181	1,819,710	3,604,096	88,959,539
2009	89,180,779	1,609,893	3,900,782	93,835,700
2010	97,813,216	1,319,448	4,045,903	102,223,218
2011	106,661,513	1,476,583	4,112,150	112,250,246
2012	113,525,989	1,071,850	4,023,062	118,620,901

Schedule of Benefit Expenses of Pension Plan By Type

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	OPEB Benefits	Total Benefit Expense
2003	33,663,687	17,349,343	-	430,875	-	51,443,905
2004	38,007,015	19,335,644	-	291,765	-	57,634,424
2005	38,419,896	25,474,122	-	360,284	-	64,254,302
2006	42,993,071	27,439,334	265,414	320,245	-	71,018,064
2007	46,357,692	29,787,719	418,508	282,533	-	76,846,452
2008	50,680,926	32,900,009	596,896	231,350	-	84,409,181
2009	50,499,643	37,495,522	710,087	475,527	6,079,167	95,259,946
2010	55,347,535	41,389,618	793,023	283,040	7,829,092	105,642,308
2011	59,908,869	45,400,748	980,330	371,566	8,036,217	114,697,730
2012	66,495,891	45,227,106	1,113,117	689,875	8,158,634	121,684,623

Schedule of Participating Employers	June 30, 2012	June 30, 2011
County of Santa Barbara:		
General Members	2,846	2,879
Safety Members	851	872
Total:	3,697	3,751
Santa Barbara Courts:		
General Members	259	267
Total:	259	267
Participating District Members:		
Air Pollution Control	47	48
Carpinteria Cemetery	2	2
Carpinteria-Summerland Fire Protection	23	34
Goleta Cemetery	4	4
Oak Hill Cemetery	3	3
Santa Barbara Association of Governments	18	19
Santa Barbara Vector Control	6	7
Santa Maria Cemetery	9	9
Summerland Sanitary	4	4
Total:	116	130
Total Active Membership:	4,072	4,148

Schedule of Employer Contribution Rates

Effective July 1,2011

		SB County Air Pollution Control District	SB County & SB Courts	Special Districts
General	APCD 1	34.27%		
	APCD 2	31.46%		
General	Plan 2		18.93%	
	Plan 5A		29.48%	29.48%
	Plan 5B		29.27%	
	Plan 5C		30.54%	
	Plan 7		27.81%*	N/A%
Safety	Plan 4A		46.76%	46.76%
	Plan 4B		41.93%	
	Plan 4C		45.68%	
	Plan 6A		48.39%	
	Plan 6B		48.84%	

* *General Plan 7 was not adopted by SB Courts.*

Schedule of Member Contribution Rates

Effective July 1, 2011

	General				Safety					APCD	
	Plan 5A	Plan 5B	Plan 5C	Plan 7	Plan 4A	Plan 4B	Plan 4C	Plan 6A	Plan 6B	APCD Plan 1	APCD Plan 2
Entry Age	FAS 1yr Half Rates	FAS 1yr Full Rates	FAS 3yr Half Rates	FAS 3yr Half Rates	FAS 1yr Half Rates	FAS 1yr Full Rates	FAS 3yr Half Rates	FAS 1yr Half Rates	FAS 3yr Half Rates	FAS 1yr Half Rates	FAS 1yr Full Rates
20	2.60 %	5.19 %	2.50 %	2.08 %	4.83 %	9.66 %	4.63 %	4.83 %	4.63 %	3.07 %	6.15 %
21	2.66	5.31	2.55	2.13	4.93	9.86	4.73	4.93	4.73	3.14	6.28
22	2.72	5.43	2.61	2.18	5.03	10.06	4.83	5.03	4.83	3.21	6.42
23	2.78	5.55	2.67	2.22	5.13	10.26	4.92	5.13	4.92	3.28	6.56
24	2.84	5.67	2.73	2.27	5.24	10.48	5.03	5.24	5.03	3.35	6.71
25	2.90	5.80	2.79	2.32	5.35	10.69	5.13	5.35	5.13	3.43	6.86
26	2.97	5.93	2.85	2.38	5.45	10.91	5.23	5.45	5.23	3.50	7.01
27	3.03	6.06	2.91	2.43	5.56	11.13	5.34	5.56	5.34	3.58	7.16
28	3.10	6.19	2.98	2.48	5.68	11.35	5.44	5.68	5.44	3.66	7.31
29	3.17	6.33	3.04	2.54	5.79	11.58	5.55	5.79	5.55	3.74	7.47
30	3.24	6.47	3.11	2.59	5.90	11.80	5.65	5.90	5.65	3.81	7.63
31	3.31	6.61	3.18	2.65	6.01	12.03	5.76	6.01	5.76	3.89	7.79
32	3.38	6.75	3.25	2.71	6.13	12.26	5.87	6.13	5.87	3.98	7.95
33	3.45	6.90	3.32	2.76	6.25	12.49	5.98	6.25	5.98	4.06	8.11
34	3.53	7.05	3.39	2.82	6.36	12.73	6.09	6.36	6.09	4.14	8.28
35	3.60	7.20	3.46	2.88	6.48	12.96	6.20	6.48	6.20	4.22	8.45
36	3.68	7.35	3.53	2.94	6.60	13.20	6.32	6.60	6.32	4.31	8.62
37	3.75	7.50	3.60	3.00	6.72	13.44	6.43	6.72	6.43	4.40	8.79
38	3.83	7.66	3.68	3.06	6.84	13.68	6.54	6.84	6.54	4.48	8.97
39	3.91	7.81	3.75	3.13	6.97	13.93	6.66	6.97	6.66	4.57	9.15
40	3.99	7.97	3.83	3.19	7.09	14.18	6.78	7.09	6.78	4.66	9.32
41	4.07	8.13	3.90	3.25	7.22	14.44	6.90	7.22	6.90	4.75	9.50
42	4.15	8.30	3.98	3.32	7.35	14.70	7.02	7.35	7.02	4.84	9.68
43	4.23	8.46	4.06	3.38	7.48	14.96	7.14	7.48	7.14	4.93	9.86
44	4.32	8.63	4.14	3.45	7.62	15.23	7.27	7.62	7.27	5.02	10.05
45	4.40	8.80	4.22	3.51	7.75	15.51	7.39	7.75	7.39	5.12	10.23
46	4.48	8.96	4.29	3.58	7.89	15.78	7.51	7.89	7.51	5.21	10.43
47	4.57	9.13	4.37	3.64	8.03	16.06	7.63	8.03	7.63	5.31	10.62
48	4.65	9.30	4.45	3.71	8.17	16.34	7.73	8.17	7.73	5.40	10.81
49	4.74	9.48	4.53	3.78	8.29	16.58	7.81	8.29	7.81	5.49	10.98
50	4.83	9.65	4.62	3.85	8.40	16.79	7.86	8.40	7.86	5.57	11.14
51	4.92	9.84	4.70	3.91	8.47	16.94	7.87	8.47	7.87	5.63	11.27
52	5.01	10.02	4.77	3.98	8.50	17.01	7.87	8.50	7.87	5.67	11.35
53	5.10	10.20	4.85	4.04	8.50	17.01	8.13	8.50	8.13	5.69	11.38
54	5.18	10.36	4.91	4.09	8.50	17.01	8.43	8.50	8.43	5.69	11.38
55	5.26	10.51	4.95	4.13							
56	5.32	10.63	4.98	4.15							
57	5.36	10.71	4.98	4.15							
58	5.37	10.73	5.16	4.30							
59+	5.37	10.73	5.35	4.46							

Schedule of Average Benefit Payments

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
June 30, 2003						
Average Monthly Benefit	$ 2,046	$ 1,789	$ 1,329	$ 1,014	$ 941	$ 928
Average Annual Benefit	24,549	21,471	15,944	12,167	11,295	11,132
Number of Active Retirees	1,181	365	258	274	189	78
June 30, 2004						
Average Monthly Benefit	$ 2,163	$ 1,837	$ 1,472	$ 1,156	$ 927	$ 959
Average Annual Benefit	25,950	22,044	17,665	13,870	11,124	11,508
Number of Active Retirees	1,281	337	267	244	216	95
June 30, 2005						
Average Monthly Benefit	$ 2,328	$ 1,851	$ 1,635	$ 1,279	$ 885	$ 1,076
Average Annual Benefit	27,938	22,214	19,624	15,345	10,616	12,915
Number of Active Retirees	1,367	363	264	234	219	114
June 30, 2006						
Average Monthly Benefit	$ 2,390	$ 1,989	$ 1,773	$ 1,366	$ 936	$ 1,091
Average Annual Benefit	28,680	23,870	21,271	16,396	11,235	13,096
Number of Active Retirees	1,472	355	286	237	209	120
June 30, 2007						
Average Monthly Benefit	$ 2,462	$ 2,045	$ 1,906	$ 1,510	$ 1,056	$ 1,113
Average Annual Benefit	29,544	24,540	22,872	18,120	12,672	13,356
Number of Active Retirees	1,566	349	314	232	207	144
June 30, 2008						
Average Monthly Benefit	$ 2,651	$ 2,176	$ 2,106	$ 1,764	$ 1,310	$ 1,332
Average Annual Benefit	31,812	26,112	25,272	21,168	15,720	15,984
Number of Active Retirees	1,776	340	305	228	192	131
June 30, 2009						
Average Monthly Benefit	$ 2,835	$ 2,321	$ 2,232	$ 1,960	$ 1,603	$ 1,378
Average Annual Benefit	34,020	27,852	26,784	23,520	19,236	16,536
Number of Active Retirees	1,742	485	296	228	177	207
June 30, 2010						
Average Monthly Benefit	$ 3,049	$ 2,419	$ 2,213	$ 2,180	$ 1,733	$ 1,406
Average Annual Benefit	36,588	29,028	26,556	26,160	20,796	16,872
Number of Active Retirees	1,858	537	320	221	173	209
June 30, 2011						
Average Monthly Benefit	$ 3,099	$ 2,455	$ 2,350	$ 2,326	$ 1,894	$ 1,448
Average Annual Benefit	37,188	29,460	28,200	27,912	22,728	17,376
Number of Active Retirees	1,912	556	308	244	162	205
June 30, 2012						
Average Monthly Benefit	$ 3,202	$ 2,673	$ 2,374	$ 2,363	$ 1,968	$ 1,545
Average Annual Benefit	38,424	32,076	28,488	28,356	23,616	18,540
Number of Active Retirees	1,949	612	311	264	157	214

This page intentionally left blank.

85 Glossary

ACCUMULATED PLAN BENEFITS: Benefits attributable under the provisions of a pension plan to employees for services rendered to the benefit information date.

ACTUARIAL ASSUMPTIONS: Assumptions used in the actuarial valuation process as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods and other relevant items.

ACCRUAL BASIS: The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

ACTUARIAL ACCRUED LIABILITY: The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

ACTUARIAL GAIN (LOSS): A measure of the difference between actual and expected experience based upon a set of actuarial assumptions. Examples include higher than expected salary increases (loss) and a higher return on fund assets than anticipated (gain).

ACTUARIAL PRESENT VALUE: The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

AMORTIZATION: (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

AUDITOR'S REPORT: In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of a government. It includes (a) the five combined financial statements in the combined statements - overview and their related notes (the "liftable" GPFS) and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, required supplementary information, extensive introductory material and a detailed statistical section. Every government reporting entity should prepare a CAFR.

ENTRY AGE ACTUARIAL COST METHOD: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

NORMAL COST: The ongoing annual cost allocated to the system by a particular actuarial cost method for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member.

OTHER POST EMPLOYMENT BENEFITS: Post-employment benefits that an employee will begin to receive at the start of retirement which does not include pension benefits paid. These other post-employment benefits can include life insurance premiums, health care premiums and deferred-compensation agreements.

PENSION CONTRIBUTION: The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations.

PENSION TRUST FUND: A trust fund used to account for a PERS. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus.

UAAL AMORTIZATION PAYMENT: The portion of the pension plan contribution, which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion. Equivalently, it is a series of periodic payments required to pay off a debt.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL): The excess of the actuarial accrued liability over the actuarial value of assets.