COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2010

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, 2010 and 2009

Issued by -
Vincent P. Brown, Chief Executive Officer
Rico Pardo, Retirement Financial Accounting Analyst

SBCERS

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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

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Santa Barbara County Employees' Retirement System Vincent P. Brown, Chief Executive Officer

April 27, 2011

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, 2010 and June 30, 2009.* 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, 2010, the SBCERS total portfolio contained $1.6 billion of plan net assets. The total investment portfolio experienced a $187.9 million increase in value during the previous one-year period. The improvement in asset value reflects the impact of recovery from the recent 2008-2009 market crisis. The fund experienced a market rate of return of 14.4%, outperforming its policy benchmark by approximately 1.9% (net of fees) for the year ending June 30, 2010. For the trailing periods ending June 30, 2010, 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, 2010, the financial statements reflect a full year 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 Courts, 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 the System's 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 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. The Retirement System is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System. The Board of Retirement (Board) continues to demonstrate its commitment to providing accurate and timely service to our 5,409 active and deferred members and 3,318 benefit recipients into the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

STAFFING

SBCERS budgeted for a Chief Investment Officer (CIO) position in FY 09-10. Once the position was approved and established through County Human Resources, a recruitment and selection process was begun. Although interviews were conducted, no candidates were hired as a result of the search. The Board and SBCERS staff are considering options to fill the CIO position.

Due to the increased workload of administrating the 401(h) Retiree Health Benefits Trust and increasing complexity of health insurance, SBCERS also budgeted for an Accountant position in FY 10-11. The position was approved and will be filled in the next fiscal year.

SBCERS Disability Manager Annette Paladino retired in January 2010 after more than 20 years of service. Ms. Paladino developed the SBCERS' disability program into one of the premier disability retirement programs in the state of California. Cristal Rodriguez was subsequently promoted to Disability Manager having been mentored by Ms. Paladino prior to her retirement.

BENEFIT SERVICES

In an effort to contain spiraling health care costs, Santa Barbara County, which provides health insurance to its employees and retirees, obtained acceptance and entered into a three-year contract with a pooled insurance program known as CSAC EIA-Health Program (California State Association of Counties Excess Insurance Authority). CSAC partners with Blue Shield of California for health insurance services. The transition from Aetna to CSAC Blue Shield was effective January 1, 2010. This benefit change was significant to the retirees. Multiple mailings and educational out-reach efforts were made to inform and educate retirees for this transition. This service affected approximately 1800 eligible retirees who elect to participate in a County-sponsored group health plan.

The County of Santa Barbara granted a Retirement Incentive Program that offered two years' additional service credit (commonly referred to as Golden Handshakes) to 119 employees over the age of sixty or in Deputy District Attorney classifications and who retired by specified dates. The total cost of $6,854,011, as determined by Milliman, the System's actuary, was paid by the County to SBCERS.

An annual Cost of Living increase of negative one percent -1.0% was approved by the Board of Retirement for all eligible retirees and beneficiaries effective April 1, 2010. A negative cost of living adjustment was charged against a member's bank and any remaining accumulation was used to increase the member's monthly benefit, up to 3%. This had varying affects on our retired members. Retirees who retired on or before April 1, 2006, had a sufficient accumulated "COLA bank" to receive a full 3% COLA. Retirees who retired after April 1, 2006, received less than 3%, depending on their accumulated COLA bank. Retirees who retired between April 2, 2008, and April 1, 2009 (and received the April 2009 COLA), saw a 0.5% decrease in their monthly allowance beginning with their May benefit. Persons retiring between April 2, 2009 and April 1, 2010 received no adjustment to benefits, but accrued a -1.0% COLA bank accumulation. A retirement allowance cannot be reduced below the original benefit amount. A negative cost of living adjustment is rare and required programming changes to our pension software to properly apply the negative COLA.

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. Nasif, Hicks, Harris & Co., LLP, 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 the Retirement System and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity and are authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board.

External investment management firms manage the assets of SBCERS. Staff and the System's investment consultants closely monitor the activity of these 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.

SBCERS' annualized rate of return over the last three and five-years (net of fees) is (4.90)% and 2.10% 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 49).

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, 2010, SBCERS' funded ratio was 73.7%, with the actuarial value of assets totaling $1,927.2 million and the actuarial accrued liability totaling $2,616.1 million.

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.

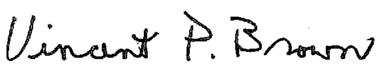
More detailed information on methods and funding status can be found in the Financial and Actuarial sections of the CAFR

The most significant change in actuarial assumptions adopted in relation to the June 30, 2010 experience study was a reduction in the assumed annual rate of return on investments from 8.16% to 7.75%. Among the other changes in actuarial assumptions were a reduction in the assumed inflation rate and changes in mortality rates to reflect longer expected benefit payment periods.

ACKNOWLEDGMENTS

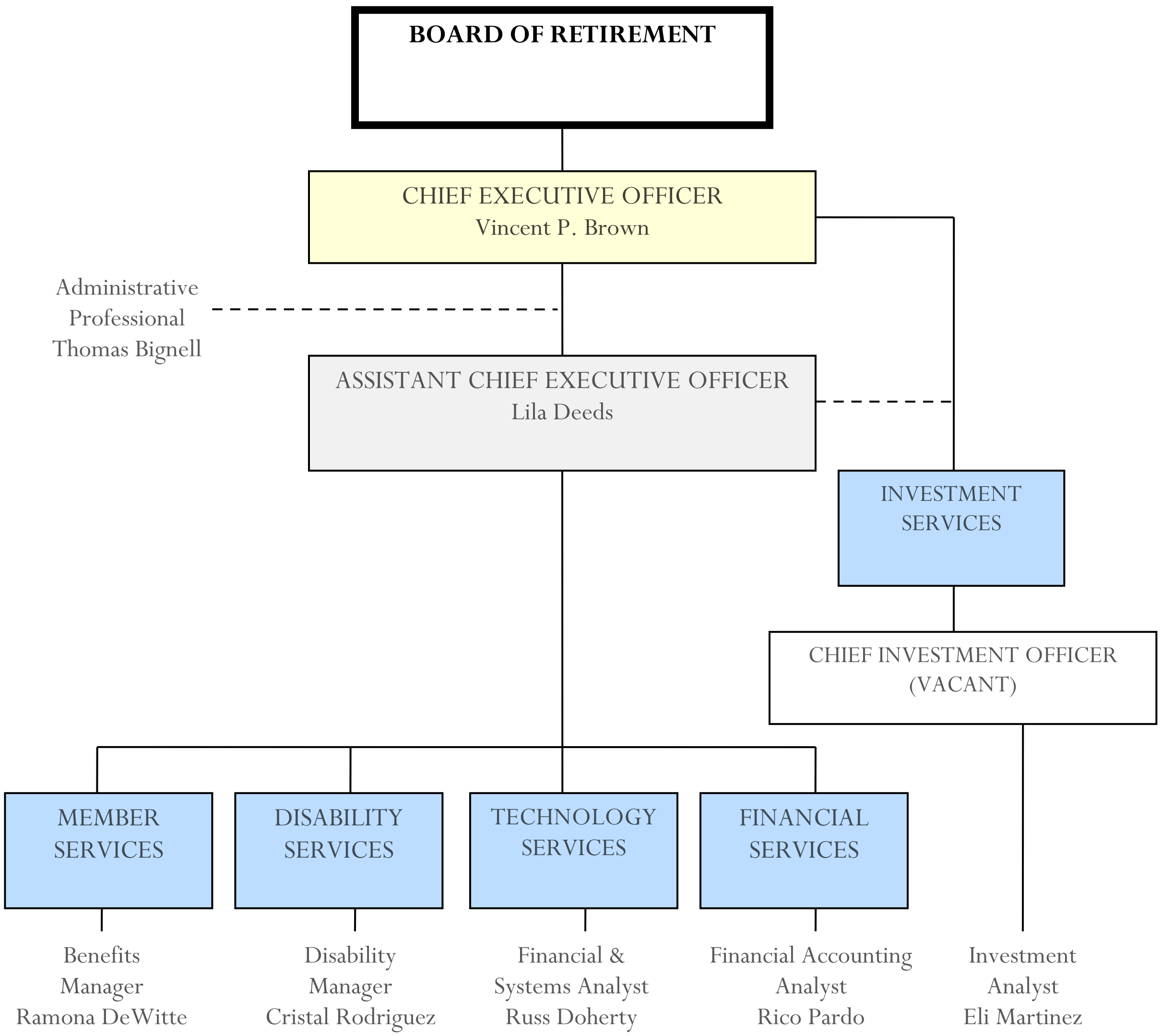
I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board, members and the plan sponsors to better evaluate and understand the Santa Barbara County Employees' Retirement System. I also want to express my thanks to the Board of Retirement 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,



Vincent P. Brown
Chief Executive Officer

2010 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 56 in the Investment section.

BOARD OF RETIREMENT

Donald Kendig
SECRETARY
Elected by General Members
Present term expires Dec. 2011

Joni Gray
CHAIR
Appointed by Board of Supervisors
Present term expires Dec. 2010

Zandra Cholmondeley
VICE CHAIR
Elected by Retired Members
Present term expires Dec. 2011

Bernice James
MEMBER
COUNTY TREASURER
Ex. Officio Member
Mandated by Law

Al Rotella
MEMBER
Appointed by
Board of Supervisors
Present term expires Dec. 2011

Ward Rafferty
MEMBER
Appointed by
Board of Supervisors
Present term expires Dec. 2010

Vanessa Patterson
MEMBER
Appointed by
Board of Supervisors
Present term expires Dec. 2011

Julie McCammon
MEMBER
Elected by
Safety Members
Present term expires Dec. 2010

Fred Tan
ALTERNATE MEMBER
Elected by
Safety Members
Present term expires Dec. 2010

Gail Marshall
ALTERNATE MEMBER
Elected by
Retired Members
Present term expires Dec. 2011

Darryl Scheck
MEMBER
Elected by
General Members
Present term expires Dec. 2010

LIST OF PROFESSIONAL CONSULTANTS

Actuary
Milliman, Inc.

Independent Auditor
Nasif, Hicks, Harris & Co., LLP

Custodian
BNY Mellon Global Securities Services

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

Investment Consultants
Hamilton Lane Advisors, LLC
Institutional Shareholder Services (Risk Metrics Group)
Pension Consulting Alliance, Inc.
Partners Group Real Estate, LLC
The Townsend Group

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

11 Financial

NASIF, HICKS, HARRIS & CO., LLP

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
BARBARA ROGERS SCOLLIN
JODY DOLAN HOLEHOUSE
THOMAS W. BURK
MARIANNE F. BLOOM
ROBERT SWAYNE LYONS
LAWRENCE W. BROWN
SARAH E. TURNER

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April 12, 2011

Independent Auditors' Report

The Honorable Board of Retirement
Santa Barbara County Employees' Retirement System

We have audited the accompanying financial statements of the Santa Barbara County Employees' Retirement System (SBCERS) as of and for the years ended June 30, 2010 and 2009, which collectively comprise SBCERS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Barbara County Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 6, *Actuarial Valuation*, to determine the Unfunded Actuarial Accrued Liabilities, an actuarial Investment Rate of Return of 7.75% has been assumed. This rate of return was determined by the Board of Retirement based upon a 2010 Experience Study.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Santa Barbara County Employees' Retirement System as of June 30, 2010 and 2009, and the changes in its 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 the management's discussion and analysis on pages 14-17, and the schedules of funding progress and employer contributions on page 42-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The introduction section, schedules of administrative expenses, investment fees, and payments to consultants on pages 46-47, and the investments, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of administrative expenses, investment fees, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The information presented in the introduction, investments, actuarial, and statistical sections have not been audited by us and, accordingly, we express no opinion or provide any assurance on them.

Nasif, Hicks, Harris & Co., LLP

Nasif, Hicks, Harris & Co., LLP

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, 2010. 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 $1.6 billion, an increase of $187.9 million or 13.2% from the prior year.
- Net investment income (including securities lending) increased by $528.4 million from $(333.8) in fiscal year 2008-2009 to $194.6 in fiscal year 2009-2010.
- Contributions (member and employer) increased by $9.3 million or 10.7% from fiscal year 2008-2009 to 2009-2010.
- Benefit payments increased by $8.6 million or 9.7% from fiscal year 2008-2009 to 2009-2010.
- The latest actuarial valuation completed was as of June 30, 2010 and determined the funded status (the ratio of system assets to system liabilities) to be 73.7%, a decrease from 75.3% at June 30, 2009.

This decrease was caused primarily by the changes in assumptions pursuant to the Investigation of Experience. 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. Under this funding policy, the entire UAAL 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.

The current fiscal period closed with net assets of $1.6 billion. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

Table 1 - PENSION PLAN NET ASSETS

For the Years Ended June 30, 2010 and 2009	2010	2009	Increase / (Decrease)	Percent Increase / (Decrease)
Cash & Investments	$ 1,607,312,071	$ 1,437,884,449	$ 169,427,622	11.8 %
Securities Lending	71,502,381	105,353,402	(33,851,021)	(32.1)%
Receivables	55,836,072	112,463,595	(56,627,523)	(50.4)%
Total Assets	1,734,650,524	1,655,701,446	78,949,078	4.8 %
Securities Lending	71,502,381	105,353,402	(33,851,021)	(32.1)%
Other Liabilities	53,699,445	128,828,862	(75,129,417)	(58.3)%
Total Liabilities	125,201,826	234,182,264	(108,980,438)	(46.5)%
Net Assets	$ 1,609,448,698	$ 1,421,519,182	$ 187,929,516	13.2 %

For the Years Ended June 30, 2009 and 2008	2009	2008	Increase / (Decrease)	Percent Increase / (Decrease)
Cash & Investments	$ 1,437,884,449	$ 1,863,664,196	$ (425,779,747)	(22.8)%
Securities Lending	105,353,402	60,378,810	44,974,592	74.5 %
Receivables	112,463,595	116,178,165	(3,714,570)	(3.2)%
Total Assets	1,655,701,446	2,040,221,171	(384,519,725)	(18.8)%
Securities Lending	105,353,402	60,378,810	44,974,592	74.5 %
Other Liabilities	128,828,862	216,893,804	(88,064,942)	(40.6)%
Total Liabilities	234,182,264	277,272,614	(43,090,350)	(15.5)%
Net Assets	$ 1,421,519,182	$ 1,762,948,557	$ (341,429,375)	(19.4)%

Additions to 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 2009 - 2010 totaled $291.1 million, compared with $(246.7) million in 2008 - 2009. This increase is primarily due to overall improved investment performance.

Total contributions increased by 10.7% over the contributions made in 2008 - 2009.

Deductions from 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 2009-2010 were $103.2 million, an increase of $8.5 million, or 9.0%, over 2008-2009. This increase can be attributed to the increasing population of new retirees as well as the salaries upon which benefits are based are increasing.

All OPEB related activities were accounted for directly in the 401(h) Retiree Health Benefits Trust.

Table 2 - CHANGES IN PENSION PLAN NET ASSETS

For the Years Ended June 30, 2010 and 2009	2010	2009	Increase / (Decrease)	Percent Increase / (Decrease)
Additions				
Contributions	$ 96,296,128	$ 86,985,601	$ 9,310,527	10.7 %
Investment Income (net)	194,245,455	(334,169,995)	528,415,450	158.1 %
Securities Lending (net)	337,623	382,737	(45,114)	(11.8)%
Other	228,877	63,736	165,141	259.1 %
Total Additions	291,108,083	(246,737,921)	537,846,004	218.0 %
Deductions				
Pension Benefits	97,813,216	89,180,779	8,632,437	9.7 %
Member Withdrawals	1,319,448	1,609,893	(290,445)	(18.0)%
Actuarial Expenses	290,549	222,891	67,658	30.4 %
Legal Expenses	664,800	632,863	31,937	5.0 %
Administrative Expense	3,090,554	3,045,028	45,526	1.5 %
Total Deductions	103,178,567	94,691,454	8,487,113	9.0 %
Net Increase / (Decrease)	$ 187,929,516	$ (341,429,375)	$ 529,358,891	155.0 %

For the Years Ended June 30, 2009 and 2008	2009	2008	Increase / (Decrease)	Percent Increase / (Decrease)
Additions				
Contributions	$ 86,985,601	$ 84,940,244	$ 2,045,357	2.4 %
Investment Income (net)	(334,169,995)	(133,832,849)	(200,337,146)	(149.7)%
Securities Lending (net)	382,737	583,617	(200,880)	(34.4)%
Other	63,736	629,238	(565,502)	(89.9)%
Total Additions	(246,737,921)	(47,679,750)	(199,058,171)	(417.5)%
Deductions				
Pension Benefits	89,180,779	84,409,181	4,771,598	5.7 %
Member Withdrawals	1,609,893	1,819,710	(209,817)	(11.5)%
Actuarial Expenses	222,891	403,291	(180,400)	(44.7)%
Legal Expenses	632,863	470,157	162,706	34.6 %
Administrative Expenses	3,045,028	2,730,648	314,380	11.5 %
Total Deductions	94,691,454	89,832,987	4,858,467	5.4 %
Net Increase / (Decrease)	$ (341,429,375)	$ (137,512,737)	$ (203,916,638)	(148.3)%

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 judgment. SBCERS follows a Board of Retirement 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 Private Real Estate portfolios.

SBCERS gained 14.4% (net of fees) over the twelve month period ending June 30, 2010 and beat the policy benchmark by 1.9% over the same period. This represents a $187.9 million increase in value from June 30, 2009. For further information on SBCERS' investments please refer to the Investment Section.

Funded Status

The funded ratio as of June 30, 2010 was 73.7% 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, 2010, the net assets were $1.6 billion. The next actuarial valuation will be completed in 2011.

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, $1,609,448,698 in 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.

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,

Vincent P. Brown

Vincent P. Brown
Chief Executive Officer

STATEMENT OF PLAN NET ASSETS

As of June 30, 2010 and 2009

	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2010	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2009
ASSETS						
Cash	$ 21,483,873	$ 1,440,243	$ 22,924,116	$ 11,632,923	$ 1,144,525	$ 12,777,448
Total Cash	21,483,873	1,440,243	22,924,116	11,632,923	1,144,525	12,777,448
Receivables						
Contributions	3,983,960	691,651	4,675,611	3,272,529	626,298	3,898,827
Other	123,565	14,532	138,097	91,314	11,410	102,724
Accrued Interest	3,912,942	6,309	3,919,251	4,525,452	12,628	4,538,080
Dividends	1,308,354	-	1,308,354	1,093,149	-	1,093,149
Security Sales	46,507,251	-	46,507,251	103,481,151	-	103,481,151
Total Receivables	55,836,072	712,492	56,548,564	112,463,595	650,336	113,113,931
Investments at Fair Value						
Short Term Investments	51,142,189	-	51,142,189	43,494,167	-	43,494,167
Private Equity	55,168,188	-	55,168,188	36,708,253	-	36,708,253
Domestic Equity	585,091,702	-	585,091,702	542,060,779	-	542,060,779
Domestic Bonds	415,198,303	-	415,198,303	375,970,642	-	375,970,642
International Equity	305,747,082	-	305,747,082	281,406,268	-	281,406,268
International Bonds	106,185,345	-	106,185,345	81,776,521	-	81,776,521
Real Estate	67,295,389	-	67,295,389	64,834,896	-	64,834,896
Sub-Total Investments	1,585,828,198	-	1,585,828,198	1,426,251,526	-	1,426,251,526
Collateral Held for Securities Lent	71,502,381	-	71,502,381	105,353,402	-	105,353,402
Total Investments & Securities Lent	1,657,330,579	-	1,657,330,579	1,531,604,928	-	1,531,604,928
TOTAL ASSETS	**1,734,650,524**	**2,152,735**	**1,736,803,259**	**1,655,701,446**	**1,794,861**	**1,657,496,307**
LIABILITIES						
Accounts Payable	380,522	-	380,522	291,300	626,299	917,599
Benefits Payable	6,907,423	-	6,907,423	7,061,794	-	7,061,794
Collateral Held for Securities Lent	71,502,381	-	71,502,381	105,353,402	-	105,353,402
Security Purchases	46,411,500	-	46,411,500	121,475,768	-	121,475,768
TOTAL LIABILITIES	**125,201,826**	**-**	**125,201,826**	**234,182,264**	**626,299**	**234,808,563**
NET ASSETS HELD IN TRUST FOR PENSION & OPEB BENEFITS	**$ 1,609,448,698**	**$ 2,152,735**	**$ 1,611,601,433**	**$ 1,421,519,182**	**$ 1,168,562**	**$ 1,422,687,744**

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2010 and 2009

	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2010	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2009
ADDITIONS						
Contributions						
Employers	$ 84,647,133	$ 8,782,199	$ 93,429,332	$ 75,902,140	$ 7,216,419	$ 83,118,559
Plan Members	11,648,995	-	11,648,995	11,083,461	-	11,083,461
Total Contributions	96,296,128	8,782,199	105,078,327	86,985,601	7,216,419	94,202,020
Investment Income						
Net Increase/(Decrease) in Fair Value of Investments	162,597,694	3,123	162,600,817	(371,374,336)	11,410	(371,362,926)
Interest	21,392,480	27,943	21,420,423	25,979,256	19,900	25,999,156
Dividends	14,501,082	-	14,501,082	15,979,425	-	15,979,425
Total Investment Income	198,491,256	31,066	198,522,322	(329,415,655)	31,310	(329,384,345)
Less Investment Expense	(4,245,801)	-	(4,245,801)	(4,754,340)	-	(4,754,340)
Net Investment Income	194,245,455	31,066	194,276,521	(334,169,995)	31,310	(334,138,685)
Securities Lent Income	398,599	-	398,599	949,462	-	949,462
Securities Lent Expense	(60,976)	-	(60,976)	(566,725)	-	(566,725)
Net Securities Income	337,623	-	337,623	382,737	-	382,737
Class Action Settlements	190,500	-	190,500	19,754	-	19,754
Commission Recapture	34,244	-	34,244	39,838	-	39,838
Miscellaneous Income	4,133	-	4,133	4,144	-	4,144
Total Miscellaneous Income	228,877	-	228,877	63,736	-	63,736
TOTAL ADDITIONS	**291,108,083**	**8,813,265**	**299,921,348**	**(246,737,921)**	**7,247,729**	**(239,490,192)**
DEDUCTIONS						
Benefits Paid	97,813,216	7,829,092	105,642,308	89,180,779	6,079,167	95,259,946
Member Withdrawals	1,319,448	-	1,319,448	1,609,893	-	1,609,893
Actuarial Expense	290,549	-	290,549	222,891	-	222,891
Legal Expense	664,800	-	664,800	632,863	-	632,863
Administrative Expense	3,090,554	-	3,090,554	3,045,028	-	3,045,028
TOTAL DEDUCTIONS	**103,178,567**	**7,829,092**	**111,007,659**	**94,691,454**	**6,079,167**	**100,770,621**
Net Increase/(Decrease)	187,929,516	984,173	188,913,689	(341,429,375)	1,168,562	(340,260,813)
NET ASSETS HELD IN TRUST FOR PENSION & OPEB BENEFITS						
Beginning of Year	1,421,519,182	1,168,562	1,422,687,744	1,762,948,557	-	1,762,948,557
Net Increase/(Decrease)	187,929,516	984,173	188,913,689	(341,429,375)	1,168,562	(340,260,813)
END OF YEAR	**$ 1,609,448,698**	**$ 2,152,735**	**$ 1,611,601,433**	**$ 1,421,519,182**	**$ 1,168,562**	**$ 1,422,687,744**

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

SBCERS 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, 2010, 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 Santa Barbara County Employees' Retirement System (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 Courts 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 7 – Other Post Employment Benefits.

The Retirement System has five retirement plans of which four 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, 2010 and 2009

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

SBCERS' Membership

As of June 30, 2010 and 2009	2010	2009
Members Now Receiving Benefits		
Service Retirement	2,637	2,430
Disability Retirement	249	250
Beneficiaries and Survivors	432	437
Subtotal	3,318	3,117
Active Members		
Active Vested Members	2,968	3,078
Active Nonvested Members	1,260	1,389
Subtotal	4,228	4,467
Deferred Members	1,181	1,154
Total Membership	**8,727**	**8,738**

Benefit Provisions

GENERAL PLAN 5, 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.

Supplemental Cost-of-Living Adjustment

In accordance with the CERL, the Board may grant supplemental cost-of-living adjustments (Supplemental COLA). The Supplemental COLA is structured to restore purchasing power up to 80% of the original benefit. Supplemental COLA's may be granted to members who have an accumulated loss of purchasing power of more than 20% due to inflation.

Vesting

GENERAL PLAN 5, 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 and 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, 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, 2010 based on the June 30, 2008 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	2.29% - 10.19%	11.74% - 21.94%
Safety Members	4.28% - 16.15%	20.39% - 31.44%
APCD Members	2.84% - 10.81%	24.59% - 25.82%

Contributions made for the years ended June 30, 2010 and 2009 were in accordance with actuarially determined contributions for the year. For the years ended June 30, 2010 and 2009, covered payroll was $306,963,000 and $306,524,000 respectively, an increase of 0.1%. Contributions from all employers represented 27.6% and 24.8% respectively of covered payroll while contributions from all members represented 3.8% and 3.6% respectively of covered payroll.

SBCERS' Pension Contributions Made By Plan

As of June 30, 2010 and 2009

		2010	2009
General Plan 2	Employer contributions	$ 108,711	$ 124,491
General Plan 5	Employer contributions	58,013,970	48,428,158
	Member contributions	8,518,003	7,889,746
Safety Plans 4&6	Employer contributions	25,542,041	26,351,083
	Member contributions	2,930,100	2,991,773
APCD	Employer contributions	982,411	998,408
	Member contributions	200,892	201,942
Total		**$ 96,296,128**	**$ 86,985,601**

SBCERS' Pension Contributor Comparison

As of June 30, 2010 and 2009

		2010		2009	
EMPLOYER	Santa Barbara County	$ 78,308,291	92.5 %	$ 69,702,879	91.8 %
	Santa Barbara Courts	3,588,460	4.2 %	3,457,567	4.6 %
	Special Districts	2,750,382	3.3 %	2,741,694	3.6 %
		$ 84,647,133	100.0 %	$ 75,902,140	100.0 %
MEMBER	Santa Barbara County	$ 10,485,052	90.0 %	$ 9,710,368	87.6 %
	Santa Barbara Courts	781,302	6.7 %	877,017	7.9 %
	Special Districts	382,641	3.3 %	496,076	4.5 %
		$ 11,648,995	100.0 %	$ 11,083,461	100.0 %
Total		**$ 96,296,128**		**$ 86,985,601**	

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.

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.

Market Stabilization Reserve represents the balance of deferred earnings created by a five-year smoothing (adopted in 2003) of actual gains and losses compared to gains at the targeted return of 8.16%. 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 value of investments, 2) interest crediting at the actuarial assumed interest rate, and 3) the five-year smoothing of investment gains and losses.

Contingency Reserve represents reserves accumulated for future earnings deficiencies. There are currently no assets in the Contingency Reserve.

SBCERS' Reserves

At June 30, 2010		**Total Pension Benefits**
VALUATION RESERVES		
Member Contribution Reserve	$	162,431,794
County and District Reserve		542,735,967
Retired Member Reserve		1,361,616,490
Undesignated Earnings Reserve		106,451,816
Market Stabilization Reserve		(563,787,369)
Contingency Reserve		-
Total Value of Net Assets	**$**	**1,609,448,698**

SBCERS' Reserves

At June 30, 2009		**Total Pension Benefits**
VALUATION RESERVES		
Member Contribution Reserve	$	174,951,218
County and District Reserve		574,314,843
Retired Member Reserve		1,164,480,350
Undesignated Earnings Reserve[(1)]		98,420,688
Market Stabilization Reserve		(590,647,917)
Contingency Reserve		-
Total Value of Net Assets	**$**	**1,421,519,182**

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

5. 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 Treasurer's investment pool. Accordingly, SBCERS' investments held in the name of the County are not specifically identifiable. At June 30, 2010, 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, 2010 and 2009. The cash amounted to $21,483,873 and $11,632,923 as of June 30, 2010 and 2009, respectively. These deposits are both uninsured and uncollateralized.

SBCERS' Summary of Investments

As of June 30, 2010 and 2009		2010		2009
Short Term Investments	$	51,142,189	$	43,494,167
Private Equity		55,168,188		36,708,253
Investments at Fair Value:				
Domestic Equity		585,091,702		542,060,779
Domestic Bonds		415,198,303		375,970,642
International Equity		305,747,082		281,406,268
International Bonds		106,185,345		81,776,521
Real Estate / Real Return		67,295,389		64,834,896
Collateral Held for Securities Lent		71,502,381		105,353,402
Total Non-Cash Investments	$	**1,657,330,579**	$	**1,531,604,928**

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 5 – Deposits & Investments beginning on page 28.

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, 2010, 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, 2010

(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	$ 59,547	$ 55,894	$ -	$ -	$ 3,020	$ 289	$ -	$ -	$ -	$ -	$ 344
CMO Government Agencies	40,790	40,790	-	-	-	-	-	-	-	-	-
Domestic Corp Fixed Income	134,918	-	863	5,658	1,508	12,832	21,070	36,667	36,613	10,162	9,545
Government	120,799	120,799	-	-	-	-	-	-	-	-	-
International Fixed Income	19,664	15,917	-	-	-	-	-	-	-	-	3,747
Municipal Bonds	3,976	-	882	296	-	-	128	2,670	-	-	-
Mutual Funds	8,388	-	-	-	-	-	166	-	-	597	7,625
Non-Govt Mortgage Backed	24,324	12,082	289	1,230	547	3,337	1,802	1,483	-	760	2,794
Treasurer Investment Pool	18,157	13,938	1,055	3,164	-	-	-	-	-	-	-
US Govt Mortgages	1,156	1,156	-	-	-	-	-	-	-	-	-
US Private Placements	47,539	11,414	992	4,848	5,255	6,957	2,079	8,733	3,346	3,098	817
Subtotal	**$ 479,258**	**271,990**	**4,081**	**15,196**	**10,330**	**23,415**	**25,245**	**49,553**	**39,959**	**14,617**	**24,872**

(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	$ 1,980	$ 299	$ -	$ -	$ -	$ -	$ -	$ 1,681	$ -	$ -
CMO Government Agencies	1,899	-	-	-	-	-	-	-	1,899	-
Domestic Corp Fixed Income	10,036	2,143	946	572	558	-	2,099	-	3,718	-
International Fixed Income	1,242	-	-	-	-	-	-	-	1,242	-
Mutual Funds	32,395	-	7,096	-	-	17,540	-	7,759	-	-
Non-Govt Mortgage Backed	9,875	544	-	1,605	2,017	1,796	-	3,633	280	-
US Private Placements	2,597	237	-	-	533	-	744	-	1,083	-
Subtotal	**$ 60,024**	**3,223**	**8,042**	**2,177**	**3,108**	**19,336**	**2,843**	**13,073**	**8,222**	**-**

(Dollars in Thousands)		*Moody's/S&P/Fitch Short-Term Rated*				
Fixed Income By Type	**Total**	**P-1**	**P-2**	**P-3**	**NP**	**Not Rated**
Treasurer Investment Pool	$ 4,768	$ 688	$ 4,080	$ -	$ -	$ -
Subtotal	**4,768**	**688**	**4,080**	**-**	**-**	**-**
Total	**$ 544,050**					

Securities Lending

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.

BNY Asset Servicing invested cash collateral received from a borrower in Sigma Finance Corp. On September 30, 2009, Sigma Finance Corp. became insolvent and was in receivership. SBCERS' proportional exposure to this investment was $510,319. BNY Mellon transferred Sigma Finance Corp. securities into a "Liquidating Fund" until Sigma securities are liquidated or distributed. Collateral in the amount of $510,319 will have to be delivered back to the original borrower when the SBCERS' assets are returned.

As of June 30, 2010, the market value of securities on loan was $69.3 million and the value of collateral received for the securities on loan was $71.5 million of which $1.2 million was non-cash collateral. As of June 30, 2009, the market value of securities on loan was $101.6 million and the value of collateral received for the securities on loan was $105.4 million of which $0.1 million was non-cash collateral. SBCERS' income net of expenses from securities lending was $337,623 and $382,737 for the years ended June 30, 2010 and June 30, 2009 respectively.

SBCERS' Securities Lending Program

As of June 30, 2010

Securities on Loan	Market Value of Securities on Loan	Collateral Received
Domestic Equities	$ 33,553,980	$ 34,677,772
International Equities	8,705,361	9,122,150
Domestic Corporate Fixed Income	25,877,519	26,489,259
Cash	68,136,860	70,289,181
Non-Cash	1,162,652	1,213,200
Total	69,299,512	71,502,381

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, 2010

Totals By Sector	Base Market Value	Option Adjusted Duration (Years)	Weighted Average Maturity (Years)	Market Value of Securities with no Duration Available
Agency	$ 42,689,231	1.89	21.79	$ -
Asset Backed Securities	54,872,898	0.58	6.06	3,649,597
CMBS	15,667,362	4.37	31.56	279,997
CMO Corporate	16,491,851	2.47	23.36	1,759,847
Corporates & Other Credit	101,749,023	6.22	12.10	-
Government	120,798,591	6.12	9.08	-
Mutual Funds	40,782,437	2.73	5.56	-
Other	58,684,602	4.09	6.86	27,301,393
US Govt Mortgages	1,155,605	1.34	27.29	-
US Private Placements	25,103,570	4.05	11.17	680,000
Non-US	85,297,316	5.65	8.68	404,752
SubTotal	**563,292,486**			**$ 34,075,586**
Total Consolidation	**$ 597,368,072**			

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, 2010

Currency	Cash	Equity	Fixed Income	Total
Australian Dollar	$ 7,819,342	$ 7,344,819	$ 4,715,410	$ 19,879,571
Bermuda Dollar	-	-	82,893	82,893
Brazilian Real	(4,370,840)	793,206	4,783,882	1,206,248
British Pound Sterling	20,101,458	27,379,584	1,203,612	48,684,654
Canadian Dollar	6,879,121	3,040,955	10,263,435	20,183,511
Chilean Peso	38,395	-	-	38,395
Czech Republic Koruna	174,201	-	513,939	688,140
Danish Krone	1,027,382	989,644	-	2,017,026
Egyptian Pound	1,586			1,586
Euro Currency Unit	26,625,426	44,721,457	-	71,346,883
Ghana Cedi	-	-	255,312	255,312
Hong Kong Dollar	7,191,074	4,929,327	-	12,120,401
Hungarian Forint	229,917	183,843	-	413,760
Indian Rupee	3,554,229	-	-	3,554,229
Indonesian Rupiah	(666,501)	1,633,954	590,201	1,557,654
Israeli Shekel	1,017,483	327,430	-	1,344,913
Japanese Yen	22,754,325	28,248,721	-	51,003,046
Malaysian Ringgit	2,500,183	204,264	-	2,704,447
Mexican Peso	2,018,589	-	-	2,018,589
New Zealand Dollar	145,949	436,125	-	582,074
Norwegian Krone	844,452	2,500,890	338,205	3,683,547
Pakistani Rupee	86			86
Philipine Peso	3,337,272			3,337,272
Polish Zloty	(831,598)	-	-	(831,598)
Russian Ruble	-	-	351,468	351,468
Singapore Dollar	1,679,263	2,551,040	-	4,230,303
South African Rand	(4,258,581)	346,032	-	(3,912,549)
South Korean Won	12,876,690	2,235,845	-	15,112,535
Swedish Krona	4,129,860	2,271,968	-	6,401,828
Swiss Franc	7,249,453	8,755,792	-	16,005,245
Taiwan Dollar	13,991,481	-	-	13,991,481
Thai Baht	12,253	1,246,798	-	1,259,051
Turkish Lira	(678,894)	1,221,608	-	542,714
Venezuelan Bolivar	-	-	155,840	155,840
Total Securities Held in Foreign Currency	**$ 135,393,056**	**$ 141,363,302**	**$ 23,254,197**	**$ 300,010,555**

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, 2010, SBCERS' derivatives investments were in Swap Agreements, Futures Contracts, and Forward Contracts.

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.

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, 2010 and 2009 classified by derivative type.

Holdings of Derivative Securities

As of June 30, 2010 and 2009	**2010**		**2009***	**Increase / (Decrease)**
(Dollars in Thousands)				
Derivative Type	**Notional Amount**	**Fair Value**	**Fair Value**	**Change in Fair Value**
Swap Agreements	$ 9,300	$ 80	$ 172	$ (92)
Futures Contracts	11,692	587	350	237
Forward Contracts	16,565	(5,488)	451 *	(5,939)
Totals	$ **37,557**	$ **(4,821)**	$ **973**	$ **(5,794)**

* *2009 total has been restated to include Forward Contracts.*

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, 2010. 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, 2010, SBCERS' has a net exposure to credit risk of $(4.8) million.

Derivative Credit Risk Analysis

As of June 30, 2010

(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	$ (5,488)	$ (5,488)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Futures Contracts	587	587	-	-	-	-	-	-	-	-	-
Swap Agreements	56	-	-	34	-	-	-	-	-	22	-
Subtotal	**(4,845)**	**(4,901)**	**-**	**34**	**-**	**-**	**-**	**-**	**-**	**22**	**-**

		Moody's / S&P / Speculative Grade							
Derivative Type	**Total**	**Ba1**	**Ba2**	**Ba3**	**B1**	**B2**	**B3**	**Caa1 and below**	**Not Rated**
Swap Agreements	$ 24	$ -	$ -	$ -	$ -	$ 24	$ -	$ -	$ -
Subtotal	**24**	**-**	**-**	**-**	**-**	**24**	**-**	**-**	**-**
Total	**$ (4,821)**								

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, 2010 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, 2010

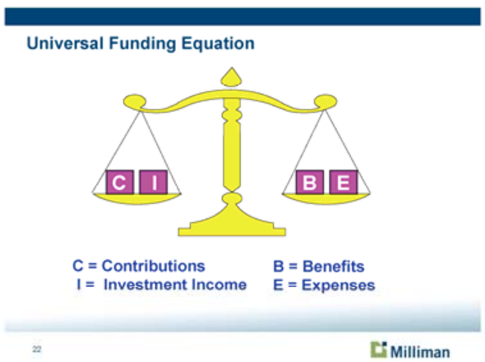
(Dollars in Thousands)

Currency		Forward Contracts
Brazilian Real	$	(3,903)
Canadian Dollar		(3,902)
Euro Currency Unit		(2,903)
South Korean Won		1,276
Mexican Peso		1,749
Malaysian Ringgit		953
Swedish Krona		1,242
Total	$	**(5,488)**

6. 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, 2010 and determined the funded status of the plan to be 73.7%.

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.

SUMMARY ACTUARIAL INFORMATION

Valuation Date	June 30, 2010
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	Yes

ACTUARIAL 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)
6/30/2010	$ 1,927,229	$ -	$ 1,927,229	$ 2,616,147	$ 688,918	73.7%	$ 306,963	224.4%

Employer Contributions – Pension Plan

Year Ended	Annual Required Contributions (ARC)	Contributions Made	% of Required Contributions Made
6/30/2010	$ 84,647,000	$ 84,647,000	100 %

7. 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. Approximately 57% of eligible SBCERS' retirees participated in this program during 2009-2010.

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, 2010 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 next OPEB Actuarial Valuation is scheduled for June 30, 2012.

SBCERS' Health Care Benefits
As of June 30, 2010 and 2009

	2010 Benefit	2010 Enrollees	2009 Benefit	2009 Enrollees
Subsidy of $15 per year of service	$ 7,129,161	1,823	$ 5,722,959	1,822
Health Reimb of $4 per year of service	699,931	1,391	356,208	1,197
Total Health Care Benefits	**$ 7,829,092**	**3,214**	**$ 6,079,167**	**3,019**

8. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire in 2011 and 2012. The Santa Maria office entered a five-year lease effective May 15, 2006. The Santa Barbara office lease began October 1, 2003 and was renewed in 2007 extending to June 30, 2012. 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 2010 and 2009 was $123,509 and $119,823, respectively. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2010 are shown in the table below.

Minimum Lease Commitments
At June 30, 2010

Lease Payments	
2010 - 2011	$ 121,852
2011 - 2012	68,288
Total	**$ 190,140**

9. 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.

10. PLAN TERMINATION

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

11. 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.

12. 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, 2010 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.

Total administrative expense for the years ended June 30, 2010 and 2009 were $4,045,903 and $3,900,782 of which $3,090,554 and $3,045,028 were subject to §31580.2, or 19.18 and 21.40 basis points respectively.

SBCERS' Administrative Expense

As of June 30, 2010 and 2009	**2010**	**2009**
Expense Subject to Statutory Limitation		
Employee Salaries and Benefits	$ 2,058,020	$ 1,930,903
Operating Expenses	550,095	591,118
Professional Services	482,439	523,007
Total Expense Subject to Statutory Limitation	**3,090,554**	**3,045,028**
Expense Not Subject to Statutory Limitation		
Actuarial Costs	290,549	222,891
Legal Costs	664,800	632,863
Total Expense Not Subject to Statutory Limitation	**955,349**	**855,754**
Total Administrative Expense	**$ 4,045,903**	**$ 3,900,782**

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41 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 %

* *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 %

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 %

The OPEB Actuarial Valuation must be performed every two years.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES – Pension Plan
For Fiscal Year Ended June 30, 2010

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, 2010 is as follows:

Valuation Date	June 30, 2010
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	Yes
Actuarial Assumptions:	
Investment rate of return	7.75% APY (adopted 10/27/2010) (3.25% for CPI and 4.50% for real increases above inflation)
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

REQUIRED SUPPLEMENTARY SCHEDULES – Other Post Employment Benefits
For Fiscal Year Ended June 30, 2010

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 this period is 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, 2010 and 2009

	2010	2009
Personnel Services		
Salaries and Employee Benefits	$ 2,058,020	$ 1,930,903
Total Personnel Services	2,058,020	1,930,903
Professional Services		
Computer Software Services and Support	150,699	173,555
County Cost Allocation	72,963	58,619
External Audit Fees	38,290	64,723
Disability Medical Fees	115,614	99,040
Disability Transcription Fees	16,771	29,751
Disability Hearing Officer Fees	50,138	26,109
Other Professional Services	37,964	71,210
Total Professional Services	482,439	523,007
Communication		
Postage	46,326	62,861
Telecommunication	32,909	27,569
Training	96,109	112,117
Transportation and Travel	42,977	41,811
Total Communication	218,321	244,358
Rents / Leases / Structures		
Rents/Leases – Structure	188,667	162,936
Furniture & Fixtures	5,220	3,809
Building Maintenance	2329	913
Equipment	-	9,673
Total Rents / Leases / Structures	196,216	177,331
Miscellaneous		
Computer Equipment and Supplies	45,993	53,583
Other Office Expenses	58,975	82,546
Insurance	30,590	33,300
Total Miscellaneous	135,558	169,429
Total Administrative Expense	$ 3,090,554	$ 3,045,028

Schedule Of Investment Expense

For the Years Ended June 30, 2010 and 2009

		2010		2009
Investment Activity				
Investment Management Fees				
Stock Managers				
Domestic	$	950,283	$	1,718,720
International		951,721		608,548
Bond Managers				
Domestic		1,253,362		1,203,869
Real Estate/Real Return		7,958		(34,920)
Private Equity		-		132,151
Total From Investment Activity		3,163,324		3,628,368
Other Investment Expense				
Consultant		877,636		976,433
Custodian		204,841		149,539
Total Other Investment Expense		1,082,477		1,125,972
Total Fees and Other Investment Expense	**$**	4,245,801	$	4,754,340

Schedule of Payments to Consultants

For the Years Ended June 30, 2010 and 2009

		2010		2009
Actuarial Services	$	290,549	$	222,891
Audit Services		38,290		64,723
Legal Services		664,800		632,863
Total Payments to Consultants	**$**	993,639	**$**	920,477

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Los Angeles • Portland • New York

March 17, 2011

Retirement Board
Santa Barbara County Employees' Retirement System (SBCERS)
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, 2010. During this time period, the SBCERS total investment portfolio increased by $187.9 million to a value of $1.6 billion. The improvement in asset value reflects the impact of recovery from the recent 2008-2009 market crisis. The portfolio is broadly diversified, holding investments ranging from domestic equities to private real estate. Despite the challenging investment environment of the last twelve months, the System has been effective in using its resources in a cost-effective manner to ensure that benefits continue to flow to plan participants.

The System's custodian, BNY Mellon, independently prepared the underlying performance data. The performance calculations were made in compliance with GIPS Performance Presentation Standards. PCA serves as SBCERS' independent investment consultant and evaluated the System's performance in relation to market benchmarks, appropriate manager peer groups, and other public pension funds.

The most critical factor influencing overall investment performance is the allocation of the SBCERS portfolio across major asset classes. In February 2009, the Board adopted a new evolving investment policy schedule designed to take into consideration practicalities of the current market. During the fiscal year ending June 30, 2010, SBCERS made a number of structural changes, adding covered calls to the domestic equity portfolio, adding TIPS to the real return portfolio, and retaining ORG as its new fully discretionary Real Estate Manager. The evolving allocation was put on hold to reconsider after more stability returned to the markets. At fiscal year end June 30, 2010, the SBCERS portfolio was overweight international equities and fixed income, while underweight alternatives (real return, real estate, and private equity) and cash versus the evolving investment policy target. These shifts have reflected relative movements in global investment market values, and intentional management of allocation versus SBCERS evolving asset allocation targets.

For the trailing periods ending June 30, 2010, the SBCERS Total Portfolio outperformed its policy benchmark over all time periods under observation of one year or more, net of fees. Over the most recent quarter end, the SBCERS investment portfolio produced an overall return of minus (5.7%), net of fees, which underperformed its policy benchmark by (0.4%) and ranked slightly under median within the BNY Mellon Public Funds Universe. Domestic equity outperformed its respective benchmark for the quarter, and International Equity and Fixed Income underperformed their respective benchmarks during the quarter.

Over the last year, the SBCERS investment portfolio outperformed its policy benchmark by approximately +1.9% (net of fees), returning +14.4%. During the trailing 12-month period, security selection had the largest positive impact of +1.8% on the Total Portfolio's relative outperformance. The Fixed Income portfolio contributed the most, +1.8%, to overall portfolio performance, while the International and Private Equity portfolios detracted the most from relative performance. The portfolio produced above median performance results versus its peers, placing in the 28th percentile. The primary difference between SBCERS and its peers' portfolios is the peers' higher than average allocation to alternative investments (real return, private equity and private real estate).

During the last three- and five-year periods, the SBCERS' portfolio has outperformed its policy benchmark generating average annual returns, net of fees, of minus (4.9%) and +2.1%, respectively. However, the SBCERS' portfolio has produced below median results versus its peer. SBCERS's underperformance versus its peers is largely due to the same primary cause as the most recent twelve-month period: a lower allocation to alternatives versus peer funds.

Sincerely,

Sarah Bernstein, PhD

Principal

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.

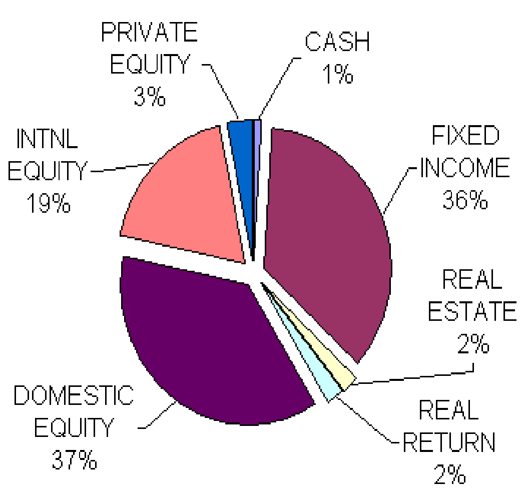
2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure, 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.

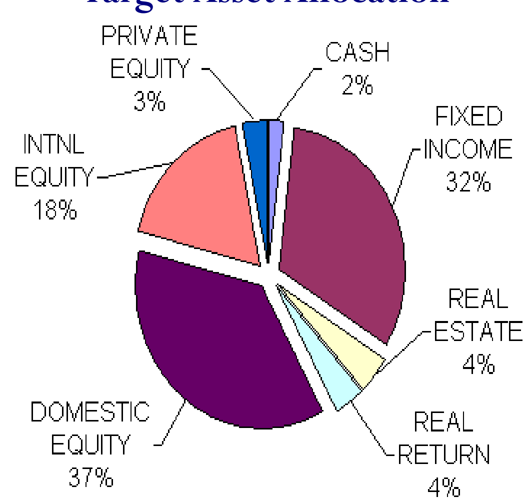
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

INVESTMENT SUMMARY *As of June 30, 2010*		**Market Value**	**Percent of Total Market Value**
Cash	$	21,483,873	1.34%
Short Term Investments		51,142,189	3.18%
U.S. Government Bonds		121,954,197	7.59%
Domestic Corporate Bonds		293,244,106	18.24%
International Bonds		106,185,345	6.61%
Total Bonds		521,383,648	32.44%
Private Equities		55,168,188	3.44%
Domestic Equities		585,091,702	36.40%
International Equities		305,747,082	19.02%
Total Equities		946,006,972	58.86%
Real Estate		37,006,153	2.30%
Real Return		30,289,236	1.88%
Total Real Estate		67,295,389	4.18%
Total Fixed Income, Equities, & Real Estate		**1,607,312,071**	**100.00%**
Collateral Held for Securities Lent		71,502,381	-
Grand Total	**$**	**1,678,814,452**	**100.00%**

Actual Asset Allocation



Target Asset Allocation



INVESTMENT RESULTS BASED ON FAIR MARKET VALUE

As of June 30, 2010

Investments	Current Year	Annualized 3 - year	Annualized 5 - year
Domestic Equity	16.0 %	-10.2 %	-1.0 %
Russell 3000 Benchmark	15.7 %	-9.5 %	-0.5 %
International Equity	9.1 %	-11.4 %	2.3 %
MSCI ACWI ex US Index	10.9 %	-10.3 %	3.8 %
Fixed Income	16.5 %	8.8 %	6.4 %
BC Universal	10.6 %	7.2 %	5.6 %
Real Return	10.4 %	-0.6 %	-
T-Bills	0.1 %	1.8 %	-
Real Estate	-11.8 %	-12.1 %	-
*NCREIF Index**	-9.6 %	-4.3 %	-
Private Equity	27.6 %	-0.8 %	-
Russell 3000 plus 3%	52.4 %	-4.0 %	-
Cash	0.8 %	0.5 %	-
Citigroup T-bills	0.1 %	1.4 %	-
Total Fund	14.4 %	-4.9 %	2.1 %
SBCERS Policy Benchmark	12.5 %	-5.8 %	1.8 %

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 AND TOP TEN BOND HOLDINGS

As of June 30, 2010

TOP TEN EQUITY SECURITIES by Market Value

Shares/Par	Security Name	Market Value
196,119	Exxon Mobil Corp	$ $ 11,192,538
519,340	General Electric Co	7,488,883
202,399	JP Morgan Chase & Co	7,409,827
486,389	Bank of America Corp	6,989,410
117,817	Johnson & Johnson	6,958,272
228,229	Wells Fargo & Co	5,842,662
21,800	Apple Inc	5,483,354
67,873	Berkshire Hathaway Inc	5,408,799
140,977	Merck & Co Inc	4,929,966
80,378	Pepsico Inc/Nc	4,899,039

TOP TEN BOND HOLDINGS by Market Value

Shares/Par	Security Name	Market Value
18,165,000	US Treasury Note 0.875%	$ 18,262,183
17,130,000	US Treasury Note 1.000%	17,247,854
8,920,000	US Treasury Bonds 4.375%	9,647,515
8,300,000	US Treasury Note 2.500%	8,595,065
6,865,300	FNMA Pool #0MA0298 4.000%	7,259,917
6,160,000	Bank of America Corp 7.625%	7,065,342
5,500,000	Discover Card CL A 2007-1 5.650%	6,326,595
5,875,000	US Treasury Note 3.125%	6,141,196
6,105,000	US Treasury Note 2.500%	6,131,740
6,000,000	Government of Canada 2.500%	5,692,440

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS As of June 30, 2010

TYPE OF INVESTMENT		MARKET VALUE	% of PORTFOLIO
PRIVATE EQUITY			
Hamilton Lane	$	55,168,188	3.43
Private Equity Total		55,168,188	3.43
EQUITY			
Aerospace & Defense	$	8,007,036	0.50
Basic Industries		27,700,028	1.72
Business Services		23,662,231	1.47
Capital Goods		34,957,230	2.17
Chemicals		11,070,404	0.69
Commercial Services		3,387,505	0.21
Commingled Funds US/Intl		283,266,255	17.62
Consumer Durables		17,091,835	1.06
Consumer Non-Durables		17,036,672	1.06
Consumer Services		25,193,209	1.57
Energy		26,364,412	1.64
Financial Services		92,070,004	5.73
Health Care		32,393,939	2.02
Industrial		20,543,044	1.28
Insurance		10,798,327	0.67
Media		17,074,925	1.06
Mutual Funds US/Intl		34,047,891	2.12
Other		34,941,654	2.17
Pharmaceuticals		21,948,661	1.37
Real Estate		8,281,397	0.52
Technology		86,322,900	5.37
Transportation		44,864,223	2.79
Utilities		9,815,002	0.61
Equity Total	$	890,838,784	55.42
BONDS			
Asset Backed Securities	$	61,639,224	3.83
Banking & Finance		66,682,654	4.15
Collateralized Mortgage Oblig		37,953,562	2.36
Government Bonds - US		132,138,754	8.22
Government Bonds - Intl		50,397,519	3.14
Health Care		7,173,394	0.45
Housing		38,490,507	2.39
Industrial		34,483,851	2.15
Insurance		15,243,321	0.95
International Corporate Bonds		9,592,696	0.60
Private Placements		43,799,772	2.73
Other Corporate Bonds		1,414,751	0.09
Utilities		22,373,643	1.39
Bonds Total	$	521,383,648	32.45
REAL ESTATE			
REIT	$	31,217,696	1.94
Private Real Estate		5,788,457	0.36
Real Return		30,289,236	1.88
Real Estate Total	$	67,295,389	4.18
CASH & CASH EQUIVALENTS	$	72,626,062	4.52
Grand Total	$	**1,607,312,071**	**100.00**

LIST OF INVESTMENT MANAGERS

Domestic Equity
- Alliance Bernstein
- Alliance Capital Management LP
- Blackrock
- Dimensional Fund Advisors
- Eagle Asset Management
- First Republic Investment Management
- Invesco
- iShares Russell 2000 Growth
- Loomis Sayles
- OFI Institutional Asset Management

Fixed Income
- Artio Global
- BNY Cash Investment Strategies
- Reams Asset Management
- STW Fixed Income Management

International Equity
- Batterymarch
- Lord Abbett
- Panagora
- State Street Global Advisors
- The Boston Company

Private Equity
- Hamilton Lane (Discretionary Consultant)

Real Estate
- The Townsend Group

Real Return
- Arden Asset Management
- Wellington Management

SCHEDULE OF PROFESSIONAL FEES AND SERVICE

As of June 30, 2010	Assets Under Management	Fees	Basis Points
Investment Managers:			
Bond Managers	$ 521,383,648	$ 1,253,362	7.80
Equity Managers	890,838,784	1,902,004	11.83
Real Estate Manager	67,295,389	7,958	0.05
Short Term Investments	51,142,189	-	-
Alternative Equity	55,168,188	-	-
Total Investment Managers	1,585,828,198	3,163,324	19.68
Other:			
Cash	21,483,873	-	-
Custodian Fees	-	204,841	1.27
Investment Consultant Fees	-	877,636	5.46
	21,483,873	1,082,477	6.73
Total	$ 1,607,312,071	$ 4,245,801	26.41

57 Actuarial

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milliman.com

March 25, 2011
Mr. Vincent Brown
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, 2010 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, 2011. Milliman was retained by SBCERS in March 2007. Prior valuations were performed by a different firm.

Changes Since Prior Valuation

Since the prior valuation, the assumptions used have been revised based upon the 2010 Investigation of Experience. The Board adopted the new assumptions at its October 27, 2010 meeting. The demographic assumptions for disability, termination, mortality, retirement, probability of marriage and sick leave load upon retirement were all updated to better reflect recent experience. In addition, the Board elected to decrease the economic assumptions for inflation, wage growth and investment return (discount rate) from 3.50%, 4.00% and 8.16%, respectively, to 3.25%, 3.75% and 7.75%. The Board plans to use these assumptions for the 2010 and 2011 valuations, but then use a 7.50% investment return assumption for the 2012 valuation. All of the assumptions will be reviewed prior to the 2013 valuation as a result of the triennial Investigation of Experience schedule 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, 2010, there is an Unfunded Actuarial Accrued Liability (UAAL) of $688.9 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 assumption changes, the total calculated contribution rate for all plans increased from 28.8% of pay, based on the June 30, 2009 valuation report to 34.48% of pay, based on the June 30, 2010 valuation.

Funding Status

As of June 30, 2010, the Funded Ratio, the Actuarial Value of Assets (AVA) divided by the Actuarial Accrued Liability (AAL), decreased during the past year from 75.3% to 73.7%. The funded ratio declined by approximately 5% due to the changes in assumptions. The funded ratio increased by approximately 3% due to the positive investment experience from July 1, 2009 to June 30, 2010. After applying the asset-smoothing method and applying the asset corridor to the June 30, 2009 results, the return on the AVA was 13.16% during the year, significantly higher than the assumed rate of 8.16%. Other changes, including the expected year-to-year change due to contributions and the demographic experience had a small impact on the Funded Ratio. Note that the AVA recognizes asset gains and losses over a five-year period and the June 30, 2010 AVA is $317.8 million higher than the market value due to deferred asset losses. If the Funded Ratio were computed using the June 30, 2010 market value of assets instead of the AVA, the ratio would be 61.5%.

Board of Retirement
March 25, 2011
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 decrease 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. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its 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, 2010 valuation was performed in accordance with the Actuarial Standards Board (ASB) 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
DRW/nlo

Nick Collier

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

This work product was prepared solely for SBCERS for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

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 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 (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% for real increases above inflation.

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 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	58
Safety Plan 4	54
Safety Plan 6	50
APCD	58

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	0.00%	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	0.00%	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	0.00%	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%

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	0.00%	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	0.00%	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	0.00%	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%

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 Assumption

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 Assumption

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%	9.97%	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, 2004	General	3,559	$ 199,365,000	$ 56,017	5.8 %
	Safety	944	67,596,000	71,606	3.3 %
	Total	**4,503**	$ **266,961,000**	**59,285**	**5.4 %**
June 30, 2005	General	3,558	$ 199,371,000	$ 56,035	- %
	Safety	947	68,414,000	72,244	0.9 %
	Total	**4,505**	$ **267,785,000**	**59,442**	**0.3 %**
June 30, 2006	General	3,658	$ 214,405,000	$ 58,613	4.6 %
	Safety	982	72,977,000	74,315	2.9 %
	Total	**4,640**	$ **287,382,000**	**61,936**	**4.2 %**
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 %**

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
2002	182	$ 4,869,205	(69)	$ (729,682)	2,241	$ 41,805,316	13.7 %	$ 18,655
2003	184	$ 5,470,614	(80)	$ (1,362,009)	2,345	$ 47,280,006	13.1 %	$ 20,162
2004	185	$ 4,846,363	(90)	$ (1,316,001)	2,440	$ 52,267,967	10.5 %	$ 21,421
2005	202	$ 6,264,388	(81)	$ (1,410,780)	2,561	$ 58,823,879	12.5 %	$ 22,969
2006	191	$ 4,784,912	(73)	$ (1,257,887)	2,679	$ 64,580,012	9.8 %	$ 24,106
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

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)
12/31/2000	$ 1,171,138	$ 98,215	$ 396,275 **	$ 651,029	$ 1,145,519	100 %	100 %	103.9 %
12/31/2002	$ 1,295,956	$ 122,032	$ 460,031	$ 781,542	$ 1,363,605	100 %	100 %	91.3 %
6/30/2003	$ 1,346,665	$ 105,570	$ 572,737	$ 776,557	$ 1,454,864	100 %	100 %	86.1 %
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 %

* • 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.

** Excluding benefit improvements

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

Dollars in Millions

As of June 30	2010	2009	2008	2007	2006	2005
Prior Valuation						
Unfunded Actuarial Accrued Liability	**$ 558.10**	**$ 244.40**	**$ 252.30**	**$ 256.90**	**$ 243.80**	**$ 199.60**
Expected Change from Prior Year	30.7	(4.1)	(5.6)	5.8	2.2	4.2
Actuarial (Gains) or Losses During the Year						
Asset Transfer from Non-Valuation Reserves	-	-	(21.6)	(84.1)	-	-
Asset Return (Greater) or Less than Expected	(85.3)	336.0	(20.3)	(57.6)	7.9	41.5
New Entrants	1.1	1.1	2.9	4.0	-	-
Salary Increases Greater or (Less) than Expected	(7.6)	(32.1)	10.9	12.6	-	-
Changes in Assumptions and Methodology	170.7	-	-	114.2	(7.0)	-
*Changes in Plan Provisions**	-	-	-	10.2	1.1	-
All Other (Including Demographic Experience)	21.2	12.8	25.8	(9.7)	8.9	(1.5)
Total Changes	130.8	313.7	(7.9)	(4.6)	13.1	44.2
Values as of Valuation Date	**$ 688.90**	**$ 558.10**	**$ 244.40**	**$ 252.30**	**$ 256.90**	**$ 243.80**

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
- 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, 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 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 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 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 and APCD Plan

- 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, 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, 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, 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, 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, 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, Safety Plans 4 and 6and 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, 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, 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, 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, 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
- None for General Plan 2

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Schedule of Additions By Source

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Other Income	Total
2001	$ 8,458,680	$ 29,346,269	$ (44,280,522)	$ (8,253,395)	$ 596,247	$ (14,132,721)
2002	10,480,593	31,759,299	(57,204,548)	(5,177,584)	4,400	(20,137,840)
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

Schedule of Deductions By Type

Fiscal Year	Benefits Paid	Refunds	Administrative Expenses	Total
2001	$ 40,775,721	$ 1,144,835	$ 1,523,493	$ 43,444,049
2002	46,792,742	885,479	1,715,345	49,393,566
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	2,470,058	81,200,124
2008	84,409,181	1,819,710	2,730,648	88,959,539
2009	89,180,779	1,609,893	3,045,028	93,835,700
2010	97,813,216	1,319,448	3,090,554	102,223,218

Schedule of Benefit Expenses By Type

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	Total Benefit Expense
2001	$ 28,365,250	$ 12,067,274	$ -	$ 343,197	$ 40,775,721
2002	31,877,649	14,669,468	-	245,625	46,792,742
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	89,180,779
2010	55,347,535	41,389,618	793,023	283,040	97,813,216

Schedule of Participating Employers	June 30, 2010	June 30, 2009
County of Santa Barbara:		
General Members	2,940	3,120
Safety Members	895	937
Total:	3,835	4,057
Santa Barbara Courts:		
General Members	266	278
Total:	266	278
Participating District Members:		
Air Pollution Control	46	50
Carpinteria Cemetery	2	2
Carpinteria-Summerland Fire Protection	33	35
Goleta Cemetery	4	4
Oak Hill Cemetery	3	3
Santa Barbara Association of Governments	19	19
Santa Barbara Vector Control	7	6
Santa Maria Cemetery	9	9
Summerland Sanitary	4	4
Total:	127	132
Total Active Membership:	4,228	4,467

Employer Contribution Rates

Effective July 1, 2009

		SB County Air Pollution Control District	SB County & SB Courts	Special Districts
General	APCD 1	25.82%		
	APCD 2	24.59%		
General	Plan 2		11.74%	
	Plan 5A		21.06%	21.06%
	Plan 5B		21.00%	
	Plan 5C		21.94%	
Safety	Plan 4A		26.75%	26.75%
	Plan 4B		20.39%	
	Plan 4C		26.31%	
	Plan 6A		30.83%	
	Plan 6B		31.44%	

Member Contribution Rates

Effective July 1, 2008

	General			Safety					APCD	
	Plan 5A	Plan 5B	Plan 5C	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 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	2.39 %	4.77 %	2.29 %	4.47 %	8.93 %	4.28 %	4.47 %	4.28 %	2.84 %	5.68 %
21	2.45	4.89	2.35	4.56	9.13	4.37	4.56	4.37	2.91	5.82
22	2.50	5.00	2.40	4.66	9.32	4.46	4.66	4.46	2.98	5.95
23	2.56	5.12	2.46	4.76	9.52	4.56	4.76	4.56	3.04	6.09
24	2.62	5.24	2.51	4.86	9.73	4.66	4.86	4.66	3.11	6.23
25	2.68	5.36	2.57	4.97	9.94	4.76	4.97	4.76	3.19	6.37
26	2.74	5.48	2.63	5.07	10.15	4.86	5.07	4.86	3.26	6.52
27	2.81	5.61	2.69	5.18	10.36	4.96	5.18	4.96	3.33	6.67
28	2.87	5.74	2.75	5.29	10.58	5.06	5.29	5.06	3.41	6.82
29	2.94	5.87	2.82	5.40	10.80	5.16	5.40	5.16	3.48	6.97
30	3.01	6.01	2.88	5.51	11.02	5.27	5.51	5.27	3.56	7.12
31	3.07	6.14	2.95	5.62	11.24	5.37	5.62	5.37	3.64	7.28
32	3.14	6.28	3.01	5.73	11.47	5.48	5.73	5.48	3.72	7.44
33	3.21	6.42	3.08	5.85	11.69	5.58	5.85	5.58	3.80	7.60
34	3.29	6.57	3.15	5.96	11.92	5.69	5.96	5.69	3.88	7.76
35	3.36	6.71	3.22	6.08	12.15	5.80	6.08	5.80	3.96	7.92
36	3.43	6.86	3.29	6.19	12.39	5.91	6.19	5.91	4.04	8.09
37	3.51	7.01	3.36	6.31	12.62	6.02	6.31	6.02	4.13	8.26
38	3.58	7.16	3.43	6.43	12.86	6.14	6.43	6.14	4.21	8.43
39	3.66	7.31	3.50	6.55	13.10	6.25	6.55	6.25	4.30	8.60
40	3.74	7.47	3.58	6.67	13.35	6.37	6.67	6.37	4.39	8.78
41	3.81	7.62	3.65	6.80	13.60	6.48	6.80	6.48	4.48	8.95
42	3.89	7.78	3.73	6.93	13.86	6.60	6.93	6.60	4.56	9.13
43	3.98	7.95	3.80	7.06	14.12	6.73	7.06	6.73	4.65	9.31
44	4.06	8.11	3.88	7.19	14.38	6.85	7.19	6.85	4.74	9.49
45	4.14	8.27	3.96	7.33	14.65	6.97	7.33	6.97	4.84	9.67
46	4.22	8.44	4.03	7.46	14.93	7.09	7.46	7.09	4.93	9.86
47	4.31	8.61	4.11	7.60	15.20	7.20	7.60	7.20	5.03	10.05
48	4.39	8.77	4.19	7.74	15.47	7.30	7.74	7.30	5.12	10.24
49	4.47	8.94	4.27	7.86	15.72	7.39	7.86	7.39	5.21	10.41
50	4.56	9.12	4.35	7.96	15.93	7.44	7.96	7.44	5.28	10.57
51	4.65	9.29	4.43	8.04	16.08	7.45	8.04	7.45	5.35	10.69
52	4.74	9.47	4.50	8.08	16.15	7.45	8.08	7.45	5.39	10.78
53	4.83	9.65	4.58	8.08	16.15	7.71	8.08	7.71	5.41	10.81
54	4.91	9.81	4.64	8.08	16.15	8.02	8.08	8.02	5.41	10.81
55	4.98	9.96	4.68							
56	5.04	10.08	4.71							
57	5.08	10.16	4.71							
58	5.10	10.19	4.90							
59+	5.10	10.19	5.10							

Schedule of Average Benefit Payments

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
December 31, 2001						
Average Monthly Benefit	$ 1,764	$ 1,691	$ 1,218	$ 911	$ 648	$ 602
Average Annual Benefit	21,172	20,291	14,617	10,930	7,775	7,226
Number of Active Retirees	1,113	365	257	270	188	69
December 31, 2002						
Average Monthly Benefit	$ 1,907	$ 1,675	$ 1,277	$ 923	$ 946	$ 887
Average Annual Benefit	22,881	20,101	15,323	11,072	11,349	10,641
Number of Active Retirees	1,125	349	264	275	193	69
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

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81 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.

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.