SBCERS

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Santa Barbara County Employees' Retirement System

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

Special thanks to the SBCERS Accounting staff for their
support and help in the compilation of this publication.

Santa Barbara County Employees' Retirement System

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2007 and 2006

Issued by -

Oscar Peters, Retirement Administrator

Ramona DeWitte, Accountant

SBCERS

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

805.568.2940 | www.countyofsb.org/sbcers

SECTION 1 - INTRODUCTION

SECTION 2 - FINANCIAL

SECTION 3 - INVESTMENT

SECTION 4 - ACTUARIAL

SECTION 5 - STATISTICAL

SECTION 6 - GLOSSARY

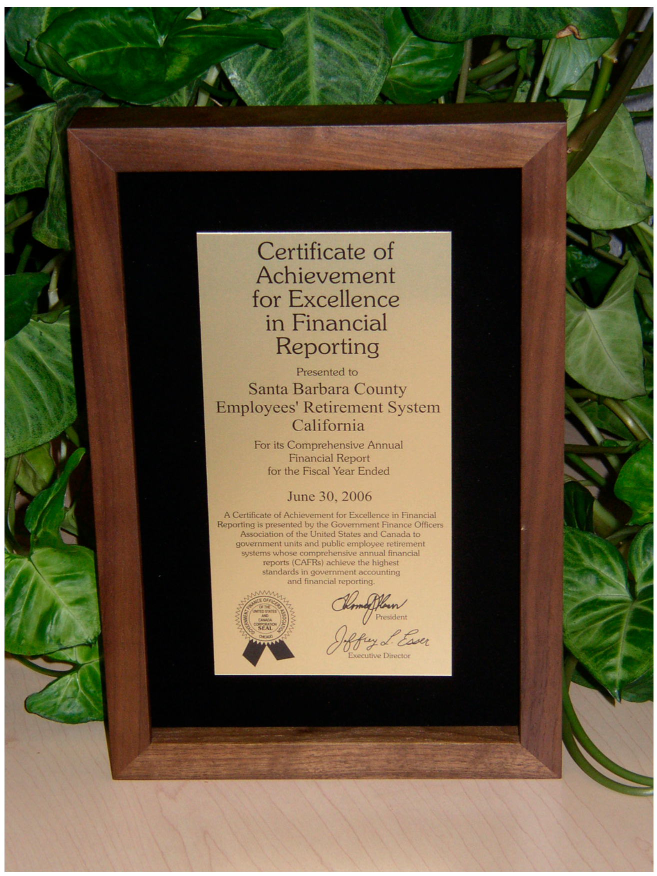
MISSION

SBCERS 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

CERTIFICATE OF ACHIEVEMENT
FOR EXCELLENCE IN FINANCIAL REPORTING

Each year, the Government Finance Officers Association of the United States and Canada (GFOA) presents the Certificate of Achievement for Excellence in Financial Reporting to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) have been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users to read the CAFR. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. For the 6th consecutive year, SBCERS has earned this prestigious award for the 2006 CAFR.



Also Awarded in 2001, 2002, 2003, 2004, 2005

SBCERS
Santa Barbara County Employees' Retirement System

Oscar Peters Retirement Administrator

July 31, 2008

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

Dear Board Members,

I wish to submit this Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS) for the fiscal year ending June 30, 2007 and June 30, 2006. 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.

This year the fund experienced a market rate of return of 17.2%, double the actuarial assumed earnings rate of 8.16%. These excellent market returns were offset by the changes in the actuarial methodology and assumptions, in increased cost of a new safety plan and new benefit tiers of the safety and general plans. The result was reduction of the funded ratio of the System to 82.8% and increase of plan sponsor contribution rates. The investment returns, while excellent in an absolute sense, were disappointing in that they were 1.1% less than the benchmark policy portfolio was expected to return. In all asset classes the returns of the index exceeded the actual portfolio returns. This was especially true for the international equity portfolio where active managers in both the developed markets and the emerging markets underperformed their benchmark indices.

The Board of Retirement (Board), through an RFP process, selected Milliman as the System's actuary. The June 30, 2007 actuarial valuation included in this report is the first actuarial report under this contract. As part of the transition between actuarial firms, the Board authorized an investigation of experience for the years 2003 through 2007 so that Milliman could certify the results of the valuation and the underlying assumptions that were the basis for the valuation report. The study resulted in changes of the actuarial methodology and assumptions. As this was the first year for the Comprehensive Annual Financial Report (CAFR) to include a report on the funded status of Other Post Employment Benefits (OPEB), the resulting review of reserve structure and the benefits funding process delayed the adoption of an actuarial report.

The Board in April, 2008 adopted an actuarial valuation and employer and employee rates, subject to further review if the OPEB funding structure is revised. The adopted valuation has the System at an 82.8% funded level. On this basis the overall employer contribution rates are increased by 4.49% from 21.09 % during the current year to 25.58% rates for the next fiscal year.

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

3916 State Street Suite 210 • Santa Barbara, California 93105 • Phone 805-568-2940 • Fax 805-560-1086
2400 Professional Pkwy Suite 150 • Santa Maria, California 93455 • Phone 805-739-8686 • Fax 805-739-8689

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 its employees and contracting districts under the California State Government Code, §31450 (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 5762 members and 2812 benefit recipients into the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

SERVICE

Retirement Pre-planning Workshops were launched in the spring of 2005 and have become a popular feature of SBCERS' outreach. In 2006-2007 the program presented workshops that were rotated between the cities of Santa Barbara, Santa Maria and Lompoc. This year nearly 300 members attended these sessions. Additionally, several *"Question and Answer"* sessions were hosted throughout the county using a casual format and were equally well received. Retirement benefit information is also presented at all County New Employee Orientation Meetings and for districts and/or departments upon request.

This year there were no changes in retired health insurance carriers and only modest changes in coverage levels. However, some retired members experienced 60% premium increases. This resulted in many members scaling back their coverage levels and a large attendance at open enrollment meetings as retired members tried to assess the appropriate level of coverage.

An annual Cost of Living increase of 3% was approved by the Board of Retirement for all eligible retirees and beneficiaries effective April 1, 2007 with a future carry-over from this year of 1.5% for all members retired on or before April 1, 2007.

SBCERS continues to experience a high level of requests for service credit buybacks. During the fiscal year 140 service credit requests were processed including 31 purchases of Additional Retirement credit. The number of new retirement allowances continued to increase with 203 new retirees being added to the roll this year.

STAFFING

The level of member services was increased with the addition of one Benefit Specialist position in July 2006 to better serve the increasing number of service requests throughout the county. This addition also ensures that both Santa Barbara and Santa Maria offices have qualified staff available for counseling members within their own communities. The position of one Office Assistant II was added to the staff in August 2006 with the primary responsibility of document imaging and indexing back files and archived records. Other staffing changes included retirement of the Clerk of the Board and subsequent staff replacement.

TECHNOLOGY

The Auditor Controller and the SBCERS staff developed an additional page on the County online payroll reporting system that provides a current Retirement Statement for active members. The page allows members to review their retirement service credit, their estimated final salary and has a link to the System website where they can estimate their benefit.

ADMINISTRATION

SBCERS' had a lease extension option on the Santa Barbara office space that had to be exercised before June 30, 2007. After reviewing the costs of other space in the Santa Barbara area the System elected to maintain the current Santa Barbara office.

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 & Company, 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 consultant 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 the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk control. For the current quarter ended June 30, 2007 SBCERS' investments provided 4.6% return. SBCERS' annualized rate of return over the last one and three-years is 17.2% and 12.6% respectively, while the policy benchmark had annualized returns of 18.3% and 13.1% for one and three-year periods. 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 of the CAFR (page 47).

ACTUARIAL FUNDING STATUS
Milliman, Inc., an independent actuarial firm, is hired to conduct annual actuarial valuations to monitor SBCERS' funded status. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding progress of the Retirement System is calculated in accordance with Government Accounting Standards Board Statement No. 25 and compares the ratio of system liabilities for benefits earned versus current value of assets. The funded ratio as of June 30, 2007 was 82.8% using the entry age actuarial cost method. The actuarial process uses a five year asset smoothing and a fifteen year amortization of experience gains and losses. As of the fiscal year ended June 30, 2007 the net assets were $1.9 billion. More detailed information on methods and funding status can be found in the Financial and Actuarial sections of the CAFR.

The Board of Retirement traditionally conducts a tri-annual investigation of experience which is the basis for reviewing and developing economic and non-economic assumptions. The last investigation of experience was conducted as of June 30, 2006; therefore the next scheduled study would be in 2009. However, with the change of actuary the Board believed it was appropriate to have consistent reporting, with both the assumptions and the valuation calculation done from the perspective of Milliman, Inc. As a result, Milliman replicated the investigation of experience for 2006 and then expanded the study to cover four years, 2004-2007. As a result of the investigation of experience the methodology for determining when members would always elect to receive a lifetime allowance was changed and the life expectancy of general members was adjusted to reflect current members' experience. These two changes, when applied to the valuation, were the primary drivers of the increased contribution rates for members and sponsors. These assumptions, when applied to current year experience, recognize actuarial gains and losses which, when applied to prior year contribution rates, establish the contribution rates for the coming fiscal year.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Barbara County Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the sixth consecutive year that SBCERS submitted the report for consideration and received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

ACKNOWLEDGMENTS

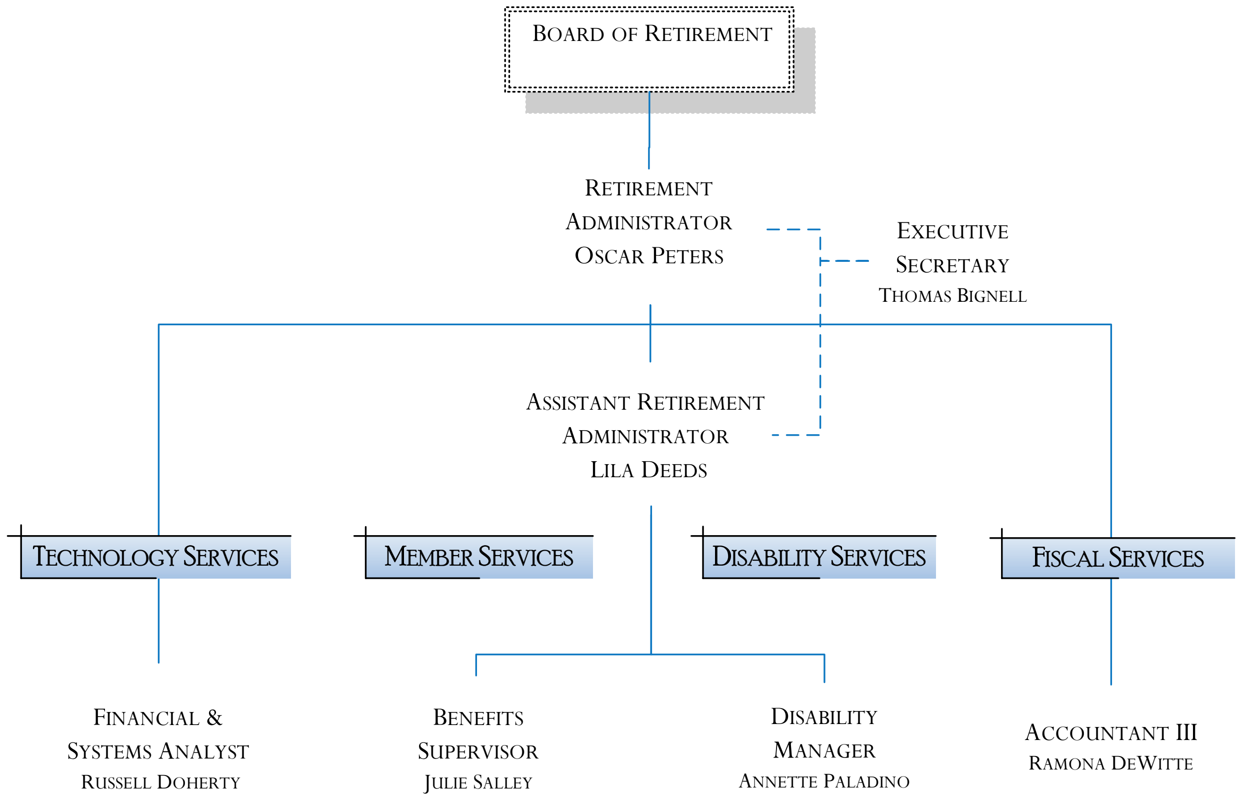
I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board, the members and the County to better evaluate and understand the Santa Barbara County Employees'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

Oscar Peters

Oscar Peters
Retirement Administrator

2007 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 53 in the Investment section.

BOARD OF RETIREMENT

Donald Kendig
SECRETARY
Elected by General Members
Present term expires December 2008

Bernice James
CHAIR
COUNTY TREASURER
Ex Officio Member Mandated by Law

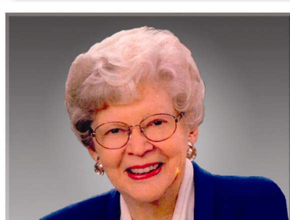
Joni Gray
VICE CHAIR
Appointed by Board of Supervisors
Present term expires December 2007

George Bobolia
MEMBER
Elected by Retired Members
Present term expires December 2008

Paul Doré
MEMBER
Appointed by Board of Supervisors
Present term expires December 2008

Joseph C. Gallas
MEMBER
Appointed by Board of Supervisors
Present term expires December 2008

Julie McCammon
MEMBER
Elected by Safety Members
Present term expires December 2007



Harriet Miller
MEMBER
Appointed by Board of Supervisors
Present term expires December 2009

Shawn Terris
MEMBER
Elected by General Members
Present term expires December 2007

Ron Bruns
ALTERNATE MEMBER
Elected by Retired Members
Present term expires December 2008

LIST OF PROFESSIONAL CONSULTANTS

Actuary
Milliman, Inc.

Independent Auditor
Nasif, Hicks, Harris & Company, LLP

Custodian
BNY Mellon Global Securities Services

Legal Advisors
Santa Barbara County Counsel
Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP
McCarthy & Kroes
Reicker, Pfau, Pyle & McRoy, LLP
Rogers, Sheffield & Campbell, LLP
Steefel, Levitt & Weiss, PC

Investment Consultant
Pension Consulting Alliance, Inc.
PCA Real Estate

Other Specialized Services
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

1111 GARDEN STREET, SUITE 200
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 966-1521
FAX (805) 963-1780
www.nhhco.com

July 30, 2008

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, 2007 and 2006, 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.

On June 13, 2008, the County of Santa Barbara ("the County", a plan sponsor) filed a "Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief" ("the Petition") in Santa Barbara County Superior Court ("the Court"). As described in Note 13 *Subsequent Events*, the County seeks to challenge SBCERS' calculation of employer contributions to the retirement system, certain accounting and actuarial methodologies employed by SBCERS and SBCERS' authority to provide certain supplemental benefits (principally retired participant health care explicit subsidies). With regard to the core pension plan and the "in substance" retiree supplemental health benefit plan (as described in Note 10 *Other Post Employment Benefits (OPEB)*), the County on July 2, 2008 submitted to the Internal Revenue Service ("the IRS"), as part of filing an application for determination and a voluntary compliance plan, a proposal to create a Section 401(h) plan for the tax free payment of retiree supplemental health benefits. Depending on the ultimate outcome of the Petition currently before the Court and the actions of the IRS regarding the application for determination and voluntary compliance plan, the amount and "non-valuation" status of the $93,530,418 "Health Coverage Designation" depicted on the Statement of Plan Net Assets, plan contribution amounts, reserve structure and the Required Supplementary Information pension and OPEB *Schedules of Funding Progress* and *Employer*

Contributions together with the related actuarial assumptions, could change. The effects of those changes, if any, are not currently known.

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, 2007 and 2006, 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.

The management's discussion and analysis on pages 14-17, and the schedules of funding progress and employer contributions on pages 40-41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction section, schedules of administrative expenses, investment fees, and payments to consultants on pages 44-45, 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 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, 2007. 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 $1.9 billion, an increase of $271.5 million or 16.7% from the prior year.

- Net investment income (including securities lending) increased by $112.9 million or 71.2% from fiscal year 2005-2006 to 2006-2007.

- Contributions (member and employer) increased by $10.2 million or 14.8% from fiscal year 2005-2006 to 2006-2007.

- Benefit payments increased by $5.8 million or 8.2% from fiscal year 2005-2006 to 2006-2007.

- The latest actuarial valuation completed was as of June 30, 2007 and determined the funding status (the ratio of system assets to system liabilities) to be 82.8%, a decrease from 84.6% at June 30, 2006. This decrease was primarily due to changes in actuarial methods and assumptions as discussed in the 2007 Investigation of Experience Report. 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 actuarially 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 employer 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 $1.9 billion. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

Table 1 – PLAN NET ASSETS

For the Years Ended June 30, 2007 and 2006	2007	2006	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	$1,994,894,605	$1,676,124,593	$318,770,012	19.02%
Securities Lending	222,156,141	196,246,974	25,909,167	13.20%
Receivables	125,566,910	91,467,430	34,099,480	37.28%
Total Assets	2,342,617,656	1,963,838,997	378,778,659	19.29%
Securities Lending	222,156,141	196,246,974	25,909,167	13.20%
Other Liabilities	220,000,221	138,633,733	81,366,488	58.69%
Total Liabilities	442,156,362	334,880,707	107,275,655	32.03%
Net Assets	$1,900,461,294	$1,628,958,290	$271,503,004	16.67%

For the Years Ended June 30, 2006 and 2005	2006	2005	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	$1,676,124,593	$1,526,849,090	$149,275,503	9.78%
Securities Lending	196,246,974	190,456,778	5,790,196	3.04%
Receivables	91,467,430	77,093,133	14,374,297	18.65%
Total Assets	1,963,838,997	1,794,399,001	169,439,996	9.44%
Securities Lending	196,246,974	190,456,778	5,790,196	3.04%
Other Liabilities	138,633,733	127,784,204	10,849,529	8.49%
Total Liabilities	334,880,707	318,240,982	16,639,725	5.23%
Net Assets	$1,628,958,290	$1,476,158,019	$152,800,271	10.35%

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 2006-2007 totaled $353.1 million, compared with $227.8 million in 2005-2006. This increase is primarily due to better returns in net investment income.

Member and employer contributions resulted in an increase of 14.8% over the contributions made in 2005-2006 primarily as the result of a substantial increase in the average contribution rate. The contribution rate increase was due to the result of the lag in implementation of new rates and investment returns that were less than the corresponding assumed actuarial rate of return.

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 2006-2007 were $81.6 million, an increase of $6.6 million, or 8.9%, over 2005-2006. This increase can be attributed to the escalation of average monthly allowances at the time of retirement and granting the maximum allowable cost of living adjustment.

Table 2 – CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2007 and 2006	2007	2006	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	$ 79,248,435	$ 69,034,338	$ 10,214,097	14.80%
Investment Income (net)	271,251,408	158,261,872	112,989,536	71.39%
Securities Lending (net)	359,070	405,751	(46,681)	(11.5)%
Other	2,233,265	55,990	2,177,275	3888.69%
Total Additions	353,092,178	227,757,951	125,334,227	55.03%
Deductions				
Pension Benefits	76,846,452	71,018,064	5,828,388	8.21%
Member Withdrawals	1,883,614	1,474,822	408,792	27.72%
Actuarial Expenses	82,300	59,720	22,580	37.81%
Legal Expenses	306,750	264,888	41,862	15.80%
Administrative Expense	2,470,058	2,140,186	329,872	15.41%
Total Deductions	81,589,174	74,957,680	6,631,494	8.85%
Net Increase	$ 271,503,004	$ 152,800,271	$ 118,702,733	77.68%

For the Years Ended June 30, 2006 and 2005	2006	2005	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	$ 69,034,338	$ 61,548,644	$ 7,485,694	12.16%
Investment Income (net)	158,261,872	135,055,650	23,206,222	17.18%
Securities Lending (net)	405,751	266,313	139,438	52.36%
Other	55,990	49,497	6,493	13.12%
Total Additions	227,757,951	196,920,104	30,837,847	15.66%
Deductions				
Pension Benefits	71,018,064	64,254,302	6,763,762	10.53%
Member Withdrawals	1,474,822	1,284,974	189,848	14.77%
Actuarial Expenses	59,720	60,360	(640)	(1.06)%
Legal Expenses	264,888	212,883	52,005	24.43%
Administrative Expense	2,140,186	1,568,918	571,268	36,41%
Total Deductions	74,957,680	67,381,437	7,576,243	11.24%
Net Increase	$ 152,800,271	$ 129,538,667	$ 23,261,604	17.96%

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.

The international equity allocation outperformed all other asset classes by a large margin, as emerging markets continued to be a source for strong returns. However, the active managers in this asset class, while having good returns, did not add value above the benchmark index. Domestic equities gained momentum and surpassed last year's return. However their returns did not add value over the benchmark indices. Despite the decline in national residential real estate investments, our real estate portfolio enjoyed strong returns, thanks largely to our diversified position in commercial real estate markets.

Our fixed income investments rebounded significantly from one year ago. We attribute the turn around, in part, to the replacement of an underperforming bond manager and the addition of a more aggressive international fixed income strategy. We continue to build our alternative equities position over the years and expect those investments to perform well in the future.

During the last year, the total portfolio had a return of 17.2%. This exceeded the actuarially assumed rate of 8.16% and underperformed the policy benchmark by approximately 1.10 %. The underperformance was primarily the result of relative underperformance in international equity. For detailed investment returns, fees and the Fund's asset allocation please refer to the investment section beginning on page 47.

Funding Status

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, pension plans have been under-funded when the employer failed to make annual actuarially required contributions to the Plan. The cost sharing multiple employers have traditionally contributed the annual required contribution (ARC) as determined by the Plan's Actuary. Currently $1,900,461,294 in net assets is held in trust for benefits. All of the net assets are available to meet SBCERS' ongoing obligation to plan participants and their beneficiaries.

An indicator of funding 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 stock and bond markets can have a material impact on the actuarial value of assets.

The funding ratio as of June 30, 2007 was 82.8% 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, 2007, the net assets were $1.9 billion. The next actuarial valuation is scheduled for June 30, 2008.

Requests for Information

This financial report is designed to provide the Board of Retirement, our membership, taxpayers, investment managers, and vendors 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
Retirement Administrator
3916 State Street, Suite 210
Santa Barbara, California, 93105

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

Respectfully submitted,

Oscar Peters

Oscar Peters
Retirement Administrator

STATEMENT OF PLAN NET ASSETS

As of June 30, 2007 and 2006

	Retirement	Post Employment Health Care	JUNE 30, 2007	Retirement	Post Employment Health Care	JUNE 30, 2006
ASSETS						
Cash	$ 9,595,904	$ -	$ 9,595,904	$ 10,862,585	$ -	$ 10,862,585
Receivables						
Contributions	3,037,589	-	3,037,589	2,279,476	-	2,279,476
Other	8,108	-	8,108	-	-	-
Accrued Interest	4,174,264	-	4,174,264	3,870,136	-	3,870,136
Dividends	1,250,515	-	1,250,515	1,063,747	-	1,063,747
Security Sales	117,096,434	-	117,096,434	84,254,071	-	84,254,071
Total Receivables	125,566,910	-	125,566,910	91,467,430	-	91,467,430
Investments at Fair Value						
Short Term Investments	53,193,708	-	53,193,708	32,313,116	-	32,313,116
Alternative Equity	42,193,870	-	42,193,870	1,191,537	-	1,191,537
Domestic Equity	903,228,521	-	903,228,521	795,953,481	-	795,953,481
Domestic Bonds	452,344,445	-	452,344,445	401,292,488	-	401,292,488
International Equity	445,283,672	-	445,283,672	357,415,303	-	357,415,303
International Bonds	42,506,167	-	42,506,167	36,519,565	-	36,519,565
Real Estate	46,548,318	-	46,548,318	40,576,518	-	40,576,518
Total Investments	1,985,298,701	-	1,985,298,701	1,665,262,008	-	1,665,262,008
Collateral Held for Securities Lent	222,156,141	-	222,156,141	196,246,974	-	196,246,974
Total Investments & Securities Lent	2,207,454,842	-	2,207,454,842	1,861,508,982	-	1,861,508,982
Health Coverage Designation	(93,530,418)	93,530,418	-	(94,235,262)	94,235,262	-
TOTAL ASSETS	**2,249,087,238**	**93,530,418**	**2,342,617,656**	**1,869,603,735**	**94,235,262**	**1,963,838,997**
LIABILITIES						
Accounts Payable	916,557	-	916,557	164,180	-	164,180
Benefits Payable	931,092	-	931,092	1,128,497	-	1,128,497
Collateral Held Securities Lent	222,156,141	-	222,156,141	196,246,974	-	196,246,974
Security Purchases	218,152,572	-	218,152,572	137,341,056	-	137,341,056
TOTAL LIABILITIES	**442,156,362**	**-**	**442,156,362**	**334,880,707**	**-**	**334,880,707**
NET ASSETS HELD IN TRUST FOR PENSION & OPEB BENEFITS	**$1,806,930,876**	**$93,530,418**	**$1,900,461,294**	**$ 1,534,723,028**	**$94,235,262**	**$1,628,958,290**

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2007 and 2006

	Retirement	Post Employment Health Care	JUNE 30, 2007	Retirement	Post Employment Health Care	JUNE 30, 2006
ADDITIONS						
Contributions						
Employers	$ 63,395,296	$ -	$ 63,395,296	$ 53,976,749	$ -	$ 53,976,749
Plan Members	15,853,139	-	15,853,139	15,057,589	-	15,057,589
Total Contributions	79,248,435	-	79,248,435	69,034,338	-	69,034,338
Investment Income						
Net Appreciation in Fair Value of Investments	234,289,600	-	234,289,600	127,740,795	-	127,740,795
Interest	12,305,014	7,227,876	19,532,890	12,230,743	7,235,920	19,466,663
Dividends	22,759,075	-	22,759,075	15,528,633	-	15,528,633
Total Investment Income	269,353,689	7,227,876	276,581,565	155,500,171	7,235,920	162,736,091
Less Investment Expense	(5,330,157)	-	(5,330,157)	(4,474,219)	-	(4,474,219)
Net Investment Income	264,023,532	7,227,876	271,251,408	151,025,952	7,235,920	158,261,872
Securities Lent Income	8,915,940	-	8,915,940	7,579,927	-	7,579,927
Securities Lent Expense	(8,556,870)	-	(8,556,870)	(7,174,176)	-	(7,174,176)
Net Securities Income	359,070	-	359,070	405,751	-	405,751
Class Action Settlements	2,178,174	-	2,178,174	22,591	-	22,591
Commission Recapture	51,106	-	51,106	28,676	-	28,676
Miscellaneous Income	3,985	-	3,985	4,723	-	4,723
Total Miscellaneous Income	2,233,265	-	2,233,265	55,990	-	55,990
TOTAL ADDITIONS	**345,864,302**	**7,227,876**	**353,092,178**	**220,522,031**	**7,235,920**	**227,757,951**
DEDUCTIONS						
Benefits Paid	68,913,732	7,932,720	76,846,452	64,564,054	6,454,010	71,018,064
Member Withdrawals	1,883,614	-	1,883,614	1,474,822	-	1,474,822
Actuarial Expense	82,300	-	82,300	59,720	-	59,720
Legal Expense	306,750	-	306,750	264,888	-	264,888
Administrative Expense	2,470,058	-	2,470,058	2,140,186	-	2,140,186
TOTAL DEDUCTIONS	**73,656,454**	**7,932,720**	**81,589,174**	**68,503,670**	**6,454,010**	**74,957,680**
Net Increase/(Decrease)	272,207,848	(704,844)	271,503,004	152,018,361	781,910	152,800,271
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS						
Beginning of Year	1,534,723,028	94,235,262	1,628,958,290	1,382,704,667	93,453,352	1,476,158,019
Net Increase/(Decrease)	272,207,848	(704,844)	271,503,004	152,018,361	781,910	152,800,271
END OF YEAR	**$1,806,930,876**	**$93,530,418**	**$1,900,461,294**	**$1,534,723,028**	**$94,235,262**	**$1,628,958,290**

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 Deposits

Cash represents pooled cash and deposits with the Santa Barbara County Treasurer. Pooled cash approximates fair value. Income on pooled cash is allocated based on SBCERS' average daily balance in relation to total pooled assets.

Crediting of Interest

Interest is credited at 4% semi-annually at June 30 and December 31 to Member, County, Retired Member and all other eligible Reserve accounts based on the ending balance at the last crediting period.

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.

New Accounting Pronouncement

In 2007, SBCERS implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plan*.

GASB Statement No. 43 establishes uniform financial reporting standards for other post employment benefits (OPEB) plans that qualify as a trust or agency fund or equivalent arrangement such as SBCERS' substantive plan. GASB Statement No. 43 applies to the trustee or administrator of an OPEB plan. It establishes the requirements for reporting the OPEB administrator's stewardship of the assets used to finance the payment of benefits as they come due.

Post employment healthcare benefits currently provided by SBCERS include medical, dental, vision and other health-related benefits. These benefits are reported in the Post Employment Healthcare Benefits in the financial statements consistent with GASB Statement No. 43. The approach adopted in Statement No. 43 is generally consistent with that of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and results in a common overall approach to financial reporting for all post employment benefit plans.

Reclassification

Due to the implementation of GASB No. 43, June 30, 2006 balances now show a designation for OPEB whereas the original June 30, 2006 statements did not. Other financial statement items from the prior years' financial statements were reclassified for comparative purposes. 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 sponsor's retiree health benefit program. See NOTE 10 – Other Post Employment Benefits.

The Retirement System has four retirement plans of which three are currently available to all new full-time permanent employees and those part-time employees working at least half-time. All new General member employees enroll in the contributory General Plan 5. All new Safety members enroll in the contributory Safety Plan 4. All new APCD employees enroll in the contributory APCD Plan (Tier 2). Non-contributory General Plan 2 is closed for new membership.

New Safety Plan 6 became effective 02/25/2008, increasing the number of plans to five.

The retirement benefits within the plan are based on age, years of service, final average salary and the benefit options selected.

SBCERS' Membership
As of June 30, 2007 and 2006

	2007	2006
Members Now Receiving Benefits		
Service Retirement	2,184	2,069
Disability Retirement	244	239
Beneficiaries and Survivors	384	371
Subtotal	2,812	2,679
Active Members		
Active Vested Members	3,147	3,181
Active Nonvested Members	1,478	1,459
Subtotal	4,625	4,640
Deferred Members	1,137	778
Total Membership	**8,574**	**8,097**

Benefit Provisions

GENERAL PLAN 5, SAFETY PLANS 4 & 6, APCD PLAN: Pension benefits are based upon a combination of 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-connected or nonservice-connected. Death benefits are based upon whether the death occurred before or after retirement and whether the death was service-connected or nonservice-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 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.

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 PLAN: 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 retirement credit of ten years from date of membership, or thirty years of creditable service (safety members twenty years) regardless of age, or upon attaining age 70.

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

GENERAL PLAN 5, SAFETY PLANS 4 & 6, APCD PLAN: Active members and their participating employers are required by statute to contribute toward pension benefits. 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 County. 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 at June 30, 2007. 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	3.20% - 9.77%	8.99% - 15.63%
Safety Members	5.45% - 15.45%	30.53% - 34.44%
APCD Members	3.77% - 10.41%	18.27% - 18.36%

Contributions made for the years ended June 30, 2007 and 2006 were in accordance with actuarially determined contributions for the year. For the years ended June 30, 2007 and 2006, covered payroll was $294,163,000 and $287,382,000 respectively, an increase of 2.4%. Contributions from all employers represented 21.6% and 18.8% respectively of covered payroll while contributions from all members represented 5.4% and 5.2% respectively of covered payroll.

SBCERS' Contributions Made By Plan
As of June 30, 2007 and 2006

		2007	2006
General Plan 2	Employer contributions	$ 143,707	$ 117,522
General Plan 5	Employer contributions	34,561,932	30,190,841
	Member contributions	11,770,976	9,451,305
Safety Plan 4	Employer contributions	27,952,153	23,005,881
	Member contributions	3,797,752	5,391,392
APCD	Employer contributions	737,504	662,504
	Member contributions	284,411	214,893
Total		**$ 79,248,435**	**$ 69,034,338**

SBCERS' Contributor Comparison
As of June 30, 2007 and 2006

		2007		2006 *	
EMPLOYER	Santa Barbara County *	$ 58,737,360	92.7%	$ 50,888,205	94.3%
	Santa Barbara Courts *	2,495,018	3.9%	1,222,538	2.3%
	Special Districts	2,162,918	3.4%	1,866,006	3.4%
		$ 63,395,296	100.0%	$ 53,976,749	100.0%
MEMBER	Santa Barbara County *	$ 14,602,968	92.1%	$ 14,369,116	95.4%
	Santa Barbara Courts *	678,311	4.3%	354,053	2.4%
	Special Districts	571,560	3.6%	334,420	2.2%
		$ 15,853,139	100.0%	$ 15,057,589	100.0%
Total		**$ 79,248,435**		**$ 69,034,338**	

* *Santa Barbara County discontinued payroll services to the Courts as of 12/31/2005. The numbers represented for Courts for 2006 are only for the six-month period of 01/01/2006 – 06/30/2006. For the period of 07/01/2005 – 12/31/2005, contributions for the County and the Courts are combined.*

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.

Summary of Changes to Reserve Structure
During 2006-2007 multiple actuarial consultants performed due diligence on the valuation process of the SBCERS fund assets. As a result of their recommendations, several changes were made in order to improve the transparency of the system's operations, including the revision of the structure of the reserve accounts. In summary, these changes are:

- Sick Leave, Spousal Continuance and Air Pollution Control District Death Allowance reserves were eliminated and the balances transferred to the County and District Reserve. *(BOR adopted 12/21/2006)*

- Retired Member Reserve was separated into two distinct reserves – the Annuity Reserve and the Pension Reserve *(BOR adopted 01/29/2008)*

- Burial Allowance Reserve and Special Allowance Reserve were consolidated with the newly created Pension Reserve *(BOR adopted 01/29/2008)*

- Health Coverage Reserve and Supplemental Health Coverage Reserve were combined into a single Health Coverage Reserve *(BOR adopted 01/29/2008)*

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.

Annuity and Pension Reserves represent funds accumulated to pay retirement benefits to retired members. These reserves include the total accumulated transfers from the Member Reserve, the Employer Reserve and interest earnings, reduced by payments to retired members, beneficiaries, and survivors

Health Coverage Reserve represents the balance of monies set aside for the funding of health insurance offsets and cash benefits for retired members. Additions represent interest and excess earnings; deductions represent subsidies for retired members enrolled in a County sponsored health plan and cash payments for retired members who do not participate in the health plans.

Contingency Reserve represents reserves accumulated for future earnings deficiencies. The Contingency Reserve is used to satisfy the statutory requirement to reserve at least 1% of total assets against future earnings deficiencies.

Market Stabilization Reserve represents unrealized gains or losses recognized in the financial statements because of the adoption of GASB 25, which requires reporting investments at fair value instead of cost. The account was established to offset the impact of market fluctuation. Semiannually, income and losses from investments stated at fair value are placed in this account as realized and available earnings are credited to other reserves.

.

SBCERS' Reserves

At June 30, 2007

2007	Pension Benefits	Post Employment Medical Benefits	Total
Member Contribution Reserve	$169,217,997	$ -	$169,217,997
County and District Reserve	558,510,143	-	558,510,143
Annuity Reserve	114,944,770	-	114,944,770
Pension Reserve	797,887,469	-	797,887,469
Health Coverage Reserve	-	93,530,416	93,530,416
Contingency Reserve	21,620,214	-	21,620,214
Market Stabilization Reserve	144,750,285	-	144,750,285
Total Value of Assets at Fair Value	**$1,806,930,878**	**$93,530,416**	**$1,900,461,294**

SBCERS' Reserves

At June 30, 2006

2006	Pension Benefits	Post Employment Medical Benefits	Total
Member Contribution Reserve	$148,181,920	$ -	$148,181,920
County and District Reserve	496,447,927	-	496,447,927
Sick Leave Reserve	5,890,788	-	5,890,788
Spousal Continuance Reserve	1,685,478	-	1,685,478
APCD Death Allowance Reserve	45,010	-	45,010
Retired Member Reserve	747,078,120	-	747,078,120
Special Allowance Reserve	18,820,407	-	18,820,407
Burial Allowance Reserve	5,392,745	-	5,392,745
Health Coverage Reserve	-	42,347,134	42,347,134
Supplemental Health Coverage Reserve	-	51,888,127	51,888,127
Contingency Reserve	24,769,811	-	24,769,811
Market Stabilization Reserve	86,410,823	-	86,410,823
Total Value of Assets at Fair Value	**$1,534,723,029**	**$94,235,261**	**$1,628,958,290**

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 County's cash and investment pool.

Accordingly, SBCERS' investments are held in the name of the County and are not specifically identifiable. At June 30, 2007, 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, 2007 and 2006.

The cash amounted to $9,595,904 and $10,862,585 as of June 30, 2007 and 2006 respectively. These deposits are both uninsured and uncollateralized.

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

SBCERS' Summary of Investments

As of June 30, 2007 and 2006	**2007**	**2006**
Short Term Investments	$ 53,193,708	$ 32,313,116
Alternative Equity	42,193,870	1,191,537
Investments at Fair Value:		
Domestic Equity	903,228,521	795,953,481
Domestic Bonds	452,344,445	401,292,488
International Equity	445,283,672	357,415,303
International Bonds	42,506,167	36,519,565
Real Estate	46,548,318	40,576,518
Collateral Held for Securities Lent	222,156,141	196,246,974
Total Investments	**$2,207,454,842**	**$1,861,508,982**

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 on page 29.

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 County 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, 2007, 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, 2007

(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	$ 78,367	78,111	-	-	256	-	-	-	-	-	-
CMO Government Agencies	157,301	157,301	-	-	-	-	-	-	-	-	-
Domestic Corporate Fixed Income	47,122	10,280	2,341	6,067	6,614	1,750	9,746	5,580	1,603	1,411	1,732
Government	107,441	107,441	-	-	-	-	-	-	-	-	-
International Fixed Income	39,811	30,661	2,937	-	421	452	-	2,602	33	1,801	903
Mutual Funds	7,356	1,725	-	-	-	-	-	664	-	-	4,967
Non-Govt Mortgage Backed	20,176	20,176	-	-	-	-	-	-	-	-	-
US Govt Mortgages	2,965	2,965	-	-	-	-	-	-	-	-	-
US Private Placements	19,713	9,263	-	4,611	832	393	1,340	367	700	814	1,392
Subtotal	**$ 480,253**	**417,925**	**5,278**	**10,678**	**8,123**	**2,595**	**11,085**	**9,213**	**2,337**	**4,026**	**8,994**

(Dollars in Thousands)

		Moody's/S&P/Fitch Speculative Grade									**Rating**
Fixed Income By Type	**Total**	**Ba1**	**Ba2**	**Ba3**	**B1**	**B2**	**B3**	**Caa**	**D**	**Not Rated**	**With-drawn**
Asset Backed Securities	$ 821	-	221	-	-	-	-	-	-	600	-
Domestic Corporate Fixed Income	5,127	988	635	-	1,292	-	-	342	-	356	1,513
International Fixed Income	2,695	-	-	-	-	119	-	-	-	2,576	-
Mutual Funds	19,199	-	-	5,861	-	-	10,064	3,185	88	-	-
US Private Placements	2,582	665	-	947	-	-	-	-	-	300	669
Subtotal	**$ 30,424**	**1,653**	**857**	**6,809**	**1,292**	**119**	**10,064**	**3,527**	**88**	**3,832**	**2,183**

(Dollars in Thousands)

		Moody's/S&P/Fitch Short-Term Rated			
Fixed Income By Type	**Total**	**P-1**	**P-2**	**P-3**	**NP**
Asset Backed Securities	$ 5,392	5,392	-	-	-
US Private Placements	900	900	-	-	-
Subtotal	**$ 6,292**	**6,292**	**0**	**0**	**0**
Total	**$ 516,969**				

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 must 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. 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% percent of market value of the loaned security. Collateral is marked to market daily. The custodian invests the collateral received in short-term investment funds (maintained by the custodian), money market mutual funds, and other similar investments as the custodian may select.

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

As of June 30, 2007 SBCERS had no credit risk exposure to borrowers because the collateral value exceeded market value.

As of June 30, 2007 the fair value of securities on loan was $217.1 million and the value of collateral received for the securities on loan was $222.2 million of which $32.3 million is non-cash collateral. As of June 30, 2006 the fair value of securities on loan was $192.5 million and the value of collateral received for the securities on loan was $196.2 million of which $11.4 million was non-cash collateral. SBCERS' income net of expenses from securities lending was $359,070 and $405,751 for the years ended June 30 2007 and 2006, respectively.

SBCERS' Securities Lending Program
As of June 30, 2007

Securities on Loan	Market Value of Securities on Loan	Collateral Received
Domestic Equities	$ 85,170,627	$ 88,199,089
International Equities	30,480,978	31,709,875
Domestic Corporate Fixed Income	101,484,778	102,247,177
Total	$217,136,383	$222,156,141

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 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, 2007

Totals By Sector	Base Market Value	Option Adjusted Duration (Years)	Weighted Average Maturity (Years)	Market Value of Securities with no Duration Available
Agency	$ 149,398,661	2.81	14.21	$ 7,902,750
Asset Backed Securities	83,553,589	0.71	3.38	1,026,896
CMBS	19,063,803	3.21	28.30	-
CMO Corporate	5,803,849	2.74	22.95	1,036,998
Corporates & Other Credit	46,164,323	3.93	8.12	350,700
Government	102,495,822	7.68	11.49	-
Mutual Funds	26,554,943	3.23	6.06	-
Other	57,909,680	0.33	0.08	149,530
Tips	4,945,441	11.50	17.56	-
US Govt Mortgages	465,140	15.04	27.74	2,500,000
US Private Placements	20,766,545	3.75	9.95	2,428,084
Non US	42,506,167	3.47	6.60	4,736,022
SubTotal	**$ 559,627,963**			**$ 20,130,980**
Total Consolidation	**$ 579,758,943**			

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 30 days and not to exceed one year for either instrument) are permitted for defensive currency hedging. See further disclosure under the *Derivatives* sub-section.

Foreign Currency Risk
As of June 30, 2007

Currency	Cash	Equity	Fixed Income	Total
Australian Dollar	$ 3,115,647	$ 8,494,840	$ 2,034,302	$ 13,644,789
Brazilian Real	2,660,284	-	-	2,660,284
British Pound Sterling	3,019,394	24,379,999	5,137,918	32,537,311
Canadian Dollar	24,167	4,964,906	-	4,989,073
Euro Currency Unit	4,431,741	49,360,917	-	53,792,658
Hong Kong Dollar	314,011	6,429,528	-	6,743,539
Hungarian Forint	1,270,801	-	-	1,270,801
Indian Rupee	2,623,002	-	-	2,623,002
Japanese Yen	1,316,093	23,114,930	2,932,188	27,363,211
Mexican New Peso	2,225,073	-	-	2,225,073
New Zealand Dollar	(1,783,820)	-	2,656,969	873,149
Norwegian Krone	39,620	-	-	39,620
Romanian Leu	-	-	1,334,132	1,334,132
Russian Ruble	2,563,911	-	-	2,563,911
Singapore Dollar	805,154	1,865,507	-	2,670,661
Swedish Krona	-	2,959,304	-	2,959,304
Swiss Franc	-	10,019,405	-	10,019,405
Total Securities Held in Foreign Currency	**$ 22,625,078**	**$ 131,589,336**	**$ 14,095,509**	**$ 168,309,923**

Foreign Currency Risk
As of June 30, 2006

Currency	Cash	Equity	Fixed Income	Total
Australian Dollar	$ -	$ 5,069,934	$ 801	$ 5,070,735
British Pound Sterling	-	25,839,930	163,631	26,003,561
Canadian Dollar	-	2,833,365	7,374	2,840,739
Danish Krone	-	1,076,940	-	1,076,940
Euro Currency Unit	-	39,710,427	713,082	40,423,509
Hong Kong Dollar	-	3,894,341	617,020	4,511,361
Japanese Yen	(24,748)	24,369,536	73,887	24,418,675
Norwegian Krone	-	1,103,600	-	1,103,600
Singapore Dollar	-	829,659	-	828,659
Swedish Krona	-	957,874	-	957,874
Swiss Franc	-	8,171,453	463,246	8,634,699
Total Securities Held in Foreign Currency	**$ (24,748)**	**$ 113,856,059**	**$ 2,039,041**	**$ 115,870,352**

Derivatives

Derivative investments are investments that respond to changes in a reference asset or benchmark and do not represent direct investment in the referenced asset. Managers of some portfolios within the system use derivative investments to get immediate market exposure and to protect or capture interest rate risk. At year-end, derivative investments were in Collateralized Mortgage Obligations (CMO) and unfunded default credit swaps.

Holdings of Derivative Securities
As of June 30, 2007 and 2006

	2007		2006	
	Cost	**Market**	**Cost**	**Market**
Collateralized Mortgage Obligations	$185,876,979	$186,662,724	$149,880,175	$150,472,014
Funded Default Credit Swap Trust			2,332,616	2,346,447
Unfunded Default Credit Swaps	(39,529)	(33,883)	38,067	19,125
Written Puts			(20,174)	(31,497)
Total Derivative Securities	**$185,837,450**	**$186,628,841**	**$152,230,684**	**$152,806,089**

6. ACTUARIAL VALUATION

SBCERS retains an independent actuarial firm to conduct an actuarial valuation to monitor SBCERS' funding status and funding integrity. The last valuation was performed as of June 30, 2007, and determined the funded status of the plan to be 82.8% (calculated per GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.)

7. 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.

8. PLAN TERMINATION

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

9. 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 2007 and 2006 was $113,012 and $85,573, respectively. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2007 are as follows:

Minimum Lease Commitments
At June 30, 2007

Lease Payments	
2007 - 2008	$ 116,391
2008 - 2009	119,823
2009 - 2010	123,509
2010 - 2011	121,852
2011 - 2012	68,288
Total	**$ 549,863**

10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

SBCERS administers a cost-sharing multiple employer defined benefit OPEB plan that provides health care benefits for retired members and their eligible dependents. The County negotiates the health care contracts with the providers covering both active and retired members. Retirees are offered the same health plans as active employees as well as enhanced senior plans for retirees on Medicare. Retiree premiums are rated separately from active employees. Approximately 65% of eligible SBCERS' retirees participated in this program during 2006-2007.

Benefit Provisions

SBCERS retirees have been eligible to receive an explicit subsidy for medical premiums funded by SBCERS' Health Coverage and Supplemental Health Coverage reserves. This explicit subsidy takes the form of a monthly medical 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 per month or $15 per year of service, whichever is greater.

Retirees who choose not to participate in a County sponsored health plan receive a cash allowance benefit of $4.00 per month per year of service.

A settlement agreement (Bobolia Settlement) between the County and retirees provided for a benefit for all retired members as of June 24, 1988. At the time of the settlement, the County agreed to pay a retiree health care subsidy of $8 per month per year of service for retirees who participated in a County Sponsored health plan. For those who did not participate in a County sponsored health plan, the cash benefit was $1.47 per month per year of service, subject to certain limitations. The County Employees Retirement Law of 1937 (CERL) allows the Board of Retirement to allocate excess earnings to subsidize retired health insurance benefits in counties that provide health insurance for active members. Between 1996 and 2002, the Board of Retirement used excess earnings as defined in the CERL to expand the subsidy from $8 to $15 and the cash benefit from $1.47 to $4 per month per year of service respectively. By definition in the CERL, these increases are not vested if funding for the benefit is insufficient. These benefits have not increased since 2002.

Summary of Significant Accounting Policies

The Government Accounting Standards Board (GASB) issued Statements 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* that provides for new reporting and new disclosure requirements for Other Post Employment Benefits (OPEB) which includes retiree health benefits.

Employer Disclosures

Based on the effective dates of the statement, SBCERS is required to implement GASB No. 43 for the fiscal year ending June 30, 2007. GASB No. 45 affects reporting by the Plan Sponsor and requires implementation by Fiscal Year 2007-2008.

The County, the other employer sponsors and SBCERS have not executed a formal plan document that provides for retiree health benefits. SBCERS believes that the benefit program it provides is a substantive plan as defined by GASB 43.

The new accounting rules, GASB Statements No. 43 and 45 require that the liability related to the substantive plan for the benefits must be actuarially determined for retiree healthcare benefits. A substantive plan is the plan as its terms are understood by the County and its employees at the time of the actuarial valuation. The substantive plan is evidenced by written documents, employee and retiree communications, and by patterns and practices. It is the pattern of future expenditures for OPEB that the Plan Sponsor is considered to be committed to, not the cost of its legal obligations. Because there is a pattern of expenditures, it is reasonable to interpret the substantive plan to include the non-vested benefits, which is tentatively defined as the difference between the current $15 and $4 rates versus the original $8 and $1.47 rates, stemming from the Bobolia Settlement. Alternatively, if there are insufficient earnings and the non-vested benefits can be reduced, the liability may be limited to the vested benefits plus assets set aside for non-vested benefits.

Funding Policy

SBCERS established the Health Coverage Reserve and the Supplemental Health Coverage Reserve to pay for health benefits. As of June 30, 2007 these two reserves were consolidated into a single reserve.

The funding of the health benefits via the transfer of excess earnings is allowed by CERL §31691.1 to a designated reserve. However, paying a non-taxable subsidy from that reserve within the retirement trust is inconsistent with Internal Revenue Code (IRC) provisions and may threaten the qualified status of the plan and the tax-favored treatment of benefits for current employees, retirees, and their beneficiaries. The Board of Retirement has proposed that the County establish an IRC§401(h) tax qualified post employment benefit plan. The County has stated its intention to adopt such a plan.

OPEB Actuarial Valuation

SBCERS' *Other Post Employment Benefits Program's* actuarial valuation was conducted by Milliman, Inc. as of June 30, 2007. 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 actuarial assumptions utilized for this valuation are based on decisions made after June 30, 2007. The detailed changes to the retiree health care program, as of June 30, 2007, are listed under NOTE 13 - Subsequent Events.

SBCERS' Health Care Benefits *As of June 30, 2007 and 2006*	**2007 Benefit**	**2007 Enrollees***	**2006 Benefit**	**2006 Enrollees**
Subsidy of $15 per year of service	$7,470,365	1,764	$6,004,809	1,752
Cash Option of $4 per year of service	462,355	933	449,201	927
Total Health Care Benefits	**$7,932,720**	**2,697**	**$6,454,010**	**2,679**

** Note that the count for retirees and surviving spouses is lower for the 2007 OPEB valuation than it is for the pension valuation. Retirees who are married to another SBCERS retiree often pool their service credit for a better insurance subsidy. In those cases, there are two pension allowances, but only one retiree medical subsidy. In addition, the pension valuation includes those receiving pension benefits pursuant to a Qualified Domestic Relations Order (QDRO), but not receiving retiree medical benefits.*

11. ADMINISTRATIVE EXPENSES

Effective July 1, 2000 the Board of Retirement adopted Government Code §31522.1 and §31580.2. As a result, the Board has adopted an annual budget for the year ended June 30, 2007 that covers the expense of administration of the retirement system with the earnings of the retirement fund and are limited to eighteen-hundreds of 1 percent (18 basis points) of total net assets. Total administrative expenses for the year ended June 30, 2007 and 2006 were $2,859,108 and $2,464,794 of which $2,470,058 and $2,140,186 were subject to §31580.2 or 13.00 and 13.14 basis points, respectively.

12. RELATED PARTY TRANSACTIONS

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

SBCERS' Administrative Expenses
As of June 30, 2007 and 2006

	2007	2006
Expenses Subject to Statutory Limitation		
Employee Salaries and Benefits	$1,532,283	$1,233,665
Operating Expenses	480,152	499,731
Professional Services	457,623	406,790
Total Expenses Subject to Statutory Limitation	2,470,058	2,140,186
Expenses Not Subject to Statutory Limitation		
Actuarial Costs	82,300	59,720
Legal Costs	306,750	264,888
Total Expenses Not Subject to Statutory Limitation	389,050	324,608
Total Administrative Expenses	**$ 2,859,108**	**$ 2,464,794**

13. SUBSEQUENT EVENTS

Change in Actuarial Firms

In 2006-2007 the Board of Retirement (Board) issued a Request for Proposal for Actuarial services. As a result, Milliman, Inc. was selected as the system actuary in March of 2007.

Change in Actuarial Assumptions

The triennial *Investigation of Experience* was conducted in June of 2006 by the former actuary. In order to gauge SBCERS' actuarial funding, Milliman replicated the Investigation of Experience for the same period and then expanded the study to cover four years, 2003-2007.

Milliman recommended changes to actuarial methods, economic and non-economic assumptions. For details, please refer to the Actuarial Section.

The suggested changes in methods and assumptions and resulting costs were significant. As fiduciaries, the Board then hired EFI Actuaries to review and audit Milliman's recommended changes in actuarial methods and assumptions. EFI concluded their study in December 2007 affirming Milliman's methods and assumptions were reasonable.

The Milliman *Investigation of Experience for 2003-2007* was adopted by the Board on January 29, 2008.

GASB Statement No. 43 Actuarial Valuation of Post Employment Benefits Other than Pensions

At the request of the Board, Milliman performed an *Actuarial Valuation of the Other Post Employment Benefits (OPEB)* as of June 30, 2007. The findings were presented and adopted by the Board on January 29, 2008.

June 30, 2007 Actuarial Valuation

Based on the adoption of new actuarial methods and assumptions, the Board adopted the *June 30, 2007 Actuarial Valuation* on February 27, 2008. The new Safety Plans 6A and 6B, effective as of February 25, 2008, were included in the actuarial valuation. The Board adopted the valuation but instructed Milliman not to set employer contribution rates until further consideration of the retiree health issue (refer to NOTE 10 – Other Post Employment Benefits).

On April 23, 2008 the Board adopted Milliman's *Addendum to the 2007 Actuarial Valuation Attachment 1*.

The 2007 *Actuarial Valuation* adopted on February 27, 2008 along with the *Addendum to the 2007 Actuarial Valuation Attachment 1* adopted on April 23, 2008 became the basis for determining the funded status of the System and the employer contribution rates for the 2008-09 fiscal year.

Change in Reserves Structure

Multiple changes to the Reserve Structure for June 30, 2007 occurred after the close of the fiscal year. Discussions and proposals between employer Santa Barbara County and SBCERS have occurred throughout 2007-2008 centered around: 1) the classification of certain reserves as valuation or non-valuation assets and 2) a tax-compliant funding solution for retiree healthcare, currently paid as a substantive plan (NOTE 10). For a complete list of changes made to the reserve structure please refer to NOTE 4 - Reserves.

Board of Retirement Actions

January 29, 2008

~Adopted the Investigation of Experience covering four years, 2003-2007

~Adopted Other Post Employment Benefits GASB No. 43 2007 Actuarial Valuation

February 27, 2008

~Adopted the 2007 Actuarial Valuation (included future cost of new benefits for Safety Plans 6A and 6B effective as of February 27, 2008)

March 26, 2008

No actions were taken relevant to this report.

April 23, 2008

~Adopted *Addendum to the 2007 Actuarial Valuation Attachment 1* (which included calculations to price future benefits caused by collective bargaining agreements that created General Plan 5C effective March 10, 2008)

May 28, 2008

~Adopted the *Modified Proposal for Funding Retiree Health Care and Supplemental Retirement Benefits* (effective date of June 30, 2007)

In Summary - Over the last three years, SBCERS and the County have worked to address the necessity of providing a benefit that is compliant with the IRC. As a result, on March 13, 2008 the County proposed, effective July 1, 2008, to assume responsibility for payment of the non-taxable health subsidy for current retirees enrolled in the County's health plans. In light of the County's proposal, the Board took the following actions at its May 28, 2008 meeting:

- accepted the County's proposal to assume responsibility for payment of the non-taxable benefit;
- allocated $78,430 416 as a Retired Member Benefit (valuation) Reserve as a source of funds should the plan sponsor fail to pay the health subsidy sometime in the future; and
- directed that, should the County fail to provide the subsidy in the future, SBCERS would commence providing a supplemental benefit in an equivalent amount on a taxable basis.

The adoption of the *Modified Proposal for Funding Retiree Health Care and Supplemental Retirement Benefits* (effective date of June 30, 2007) by the Board on May 28, 2008 would eliminate the non-valuation Health Coverage Reserve and create a new valuation Retired Member Benefit Reserve.

These actions were contingent upon the County assuming funding responsibility of the healthcare subsidy on July 1, 2008 which did not occur.

~Adopted *Addendum to the 2007 Actuarial Valuation Attachment 2*

Attachment 2 includes *Attachment 1* data and calculations but amended the pricing and employer rates contingent upon the Board's approval of a proposed solution addressing the funding of retiree healthcare and supplemental retirement benefits.

June 27, 2008

In anticipation that the County may not act to fund the $15 benefit as of July 1, 2008, the Board directed staff to pay a $15 per year of service taxable benefit as soon as practicable.

On July 1, 2008 the County did not act to assume responsibility for funding the retired member health subsidy. Consequently, SBCERS put into motion the condition of the *Modified Proposal for Funding Retiree Health Care and Supplemental Retirement Benefits* that directed that, should the County fail to provide the subsidy in the future, SBCERS would commence providing a supplemental benefit in an equivalent amount on a taxable basis. SBCERS issued notice and letters that, beginning with the August 1, 2008 benefit payment, all retirees may receive a taxable cash benefit of $15 per year of service.

July 23, 2008

~Agreed to honor a request from the County received on the same date as this meeting to continue paying the non-taxable $15 per year of service health care credit for the August 1, 2008 benefit payment to allow additional time for the County to seek to implement a 401(h) account to fund such benefits.

Pending Litigation, Claims and Assessments

Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief

On June 13, 2008, the County of Santa Barbara filed a "Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief," in Santa Barbara County Superior Court, Action No. 1300995 ("Petition"). By the Petition, the County seeks to challenge SBCERS' calculation of employer contributions to the retirement system, certain accounting and actuarial methodologies employed by SBCERS and SBCERS' authority to provide certain supplemental benefits to retired employees of the County and districts participating in the retirement system.

At issue, in particular, is the authority of SBCERS to provide, under the CERL, discretionary supplemental retiree health care benefits in addition to the core pension benefits when the pension plan and the reserves against deficiencies are not fully funded. The filing also requests, among other things, that the health care reserve accounts be abolished and the assets be considered valuation assets that permanently fund the basic pension benefit. A contention is that the practice of considering certain pension contributed assets as non-valuation assets to fund non-vested health care benefits at the expense of the actuarially funded, vested benefits (core pension benefits) is not in compliance with the Internal Revenue Code. It is also contended that SBCERS cannot approve increases in retiree health benefits without the participation of the plan sponsors (the County and member special districts) and that the sponsors are over funding the basic pension benefit because SBCERS is treating the Health Coverage Reserve as a non-valuation asset, which increases the UAAL portion of the rate paid by the sponsors, and that sponsors are not funding the retiree health benefit because SBCERS has not established rates for the sponsors to pay to fund the benefit through a 401(h) plan.

SBCERS disputes these contentions, maintains that it has acted appropriately, and intends to vigorously defend the litigation.

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.

Intervenors' Petition for Writ of Mandamus and Complaint for Declaratory Relief in Intervention

On July 18, 2008 an "Intervenors' Petition for Writ of Mandamus and Complaint for Declaratory Relief in Intervention" was filed by legal counsel representing several Santa Barbara County Unions, active employees and two retired members. The petitioners are requesting that both the County and SBCERS take all action necessary to continue payment and funding of the $15 per year of service benefit and declare it a vested benefit. A hearing date of September 16, 2008 has been set to decide if the petitioning parties will be allowed to intervene in the lawsuit.

Employer Contribution Rates for 2008-2009

The Board of Supervisors has not acted to adopt either the appropriate rates approved by the Board of Retirement on April 23, 2008, or the alternate rates approved on May 28, 2008. Because the Board of Supervisors has not acted to adopt any new rates, the existing rates continue for a period of 90 days until new rates are adopted by the Board of Supervisors.

To avoid any confusion as to the operative rates now before the Board of Supervisors for mandatory adoption, at the July 23, 2008 Board of Retirement meeting, the Board instructed staff to communicate the following to the Board of Supervisors:

(1) The rates approved by the Board of Retirement on April 23, 2008, remain the operative rate for adoption unless and until the County undertakes to fund the $15 Benefit, through its general fund, through a 401(h) account, or otherwise;
(2) If the County confirms in writing to SBCERS before September 30, 2008, that it will fund the $15 Benefit, through its general fund, through a 401(h) account or otherwise, the alternate rate approved by the Board of Retirement on May 28, 2008 would become the operative rate prospectively. Absent such confirmation, the alternate rate adopted by the Board of Retirement on May 28, 2008, will be null and void.

(3) In the event that the County declines to fund the $15 Benefit at the present time, and the April 23, 2008, rate becomes the operative rate, the Board reserves the right to make a mid-year adjustment to employer contribution rates as may be appropriate at such time as the County chooses to undertake such obligation in the future.

Market Decline in 2008

SBCERS' experienced an investment loss of $137,512,736 (or -7.24%) as of fiscal year ending June 30, 2007.

REQUIRED SUPPLEMENTARY 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)
06/30/07	$1,735,489	$115,151	$1,620,338	$1,956,834	$2,071,985	$ 336,496	83.8%	82.8%	$294,163	114.4%
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%
06/30/05	1,443,824	137,829	1,305,995	1,549,803	1,687,632	243,808	85.6%	84.3%	267,785	91.0%
06/30/04	1,379,170	137,613	1,241,557	1,441,156	1,578,769	199,599	87.4%	86.2%	266,960	74.8%
06/30/03	1,346,665	135,317	1,211,348	1,319,547	1,454,864	108,199	92.6%	91.8%	257,237	42.1%
**12/31/02	1,295,956	134,607	1,161,349	1,228,998	1,363,605	67,649	95.0%	94.5%	251,834	26.9%

* *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) prior to 2007.
Beginning in 2007, non-valuation assets are not included in the AVA and are no longer added to the AAL.

** *The scheduled timing of the actuarial valuation was changed to a fiscal year basis effective June 30, 2003.*

Schedule II - Employer Contributions – Pension Plan

Year Ended	Annual Required Contributions (ARC)	Contributions Made As a Percentage of ARC
06/30/07	$63,395,000	100.0%
06/30/06	53,977,000	100.0%
06/30/05	46,721,000	100.0%
06/30/04	39,335,000	100.0%
06/30/03*	9,118,000	100.0%
12/31/02	32,999,000	100.0%

* *The scheduled timing of the actuarial valuation was changed to fiscal year basis effective June 30, 2003. The low ARC for June 30, 2003 only represents six (6) months of required employer contributions and is greatly impacted by the large annual pre-payment of contributions made by the County of Santa Barbara in July at the beginning of each fiscal year.*

REQUIRED SUPPLEMENTARY INFORMATION – Other Post Employment Benefits

Schedule III - Funding Progress – Other Post Employment Benefits

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)
06/30/07	$93,530,000	$111,326,000	$17,796,000	84.0%	$294,163,000	6.0%
06/30/06	94,235,000	90,146,000	(4,089,000)	104.5%	287,382,000	(1.4)%

Schedule IV - Employer Contributions – Other Post Employment Benefits

Year Ended	Annual Required Contributions (ARC)	Contributions Made As a Percentage of ARC
06/30/07	$-0-	0.0%

NOTES TO REQUIRED SUPPLEMENTARY SCEHDULES – Pension Plan
For Fiscal Year Ended June 30, 2007

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, 2007 is as follows:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry age normal
Amortization Method	15-year amortization of actuarial gains and losses (using a level percentage of projected payrolls)
Amortization Period	15-year closed amortization of each year's actuarial gain or loss (adopted 04/09/2003)
Asset Valuation Method	Actuarial market value method with a smoothed fair value over a five-year period (adopted 04/09/2003)
Actuarial Assumptions:	
Investment rate of return	8.16 % APY (adopted 04/26/1995)
Projected salary increases	• Variable percentage based on service (duration) for Merit and Longevity *and* • 4.00 % Inflation (COLA) - comprised of 3.5% for consumer price inflation and 0.5% for real wage inflation (adopted 01/29/2008)
Cost-of-living adjustments	Up to 3 % for General Plan 5, Safety Plan 4 and APCD Plan (adopted 02/21/2001) General Plan 2 is not eligible to receive these adjustments

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES – Other Post Employment Benefits
For Fiscal Year Ended June 30, 2007

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 latest Other Post Employment Benefits actuarial valuation dated June 30, 2007 is as follows:

OPEB Valuation Date June 30, 2007

Actuarial Cost Method Entry age normal

Actuarial Assumptions:

Investment rate of return 8.16 % APY (adopted 04/26/1995)

Projected salary increases Future salary increases do not have an impact on OPEB benefit levels

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 Health Coverage Reserve 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 Cash Benefit 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:

- 75% will receive the monthly health subsidy of $15 per year of service
- 25% 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 Expenses

For the Years Ended June 30, 2007 and 2006

	2007	2006
Personnel Services		
Salaries and Employee Benefits	$ 1,532,283	$ 1,233,665
Total Personnel Services	1,532,283	1,233,665
Professional Services		
Computer Software Services and Support	110,257	128,696
County Cost Allocation	61,108	30,199
External Audit Fees	26,047	24,806
Disability Medical Fees	150,938	133,002
Disability Hearing Officer Fees	65,151	49,800
Disability Stenographic Fees	29,754	24,142
Other Professional Services	14,368	16,145
Total Professional Services	457,623	406,790
Communication		
Postage	40,553	36,302
Telecommunication	21,060	31,073
Training	84,510	93,174
Transportation and Travel	13,254	24,164
Total Communication	159,377	184,713
Rents / Leases / Structures		
Rents/Leases – Structure	150,726	125,941
Furniture & Fixtures	444	16,554
Building Maintenance	2,805	20,657
Total Rents / Leases / Structures	153,975	163,152
Miscellaneous		
Computer Equipment and Supplies	50,397	43,506
Other Office Expenses	82,182	74,139
Insurance	34,221	34,221
Total Miscellaneous	166,800	151,866
Total Administrative Expenses	$ 2,470,058	$ 2,140,186

Schedule Of Investment Fees

For the Years Ended June 30, 2007 and 2006

	2007	2006
Investment Activity		
Investment Management Fees		
Stock Managers		
Domestic	$ 2,000,255	$ 1,966,717
International	1,652,913	1,303,716
Bond Managers		
Domestic	929,375	718,798
Real Estate		
REIT	-	220,445
Total From Investment Activity	4,582,543	4,209,676
Other Investment Expenses		
Consultant	602,663	135,000
Custodian	144,951	129,543
Total Other Investment Expenses	747,614	264,543
Total Fees and Other Investment Expenses	$ 5,330,157	$ 4,474,219

Schedule of Payments to Consultants

For the Years Ended June 30, 2007 and 2006

	2007	2006
Actuarial Services	$ 82,300	$ 59,720
Audit Services	26,047	24,806
Legal Services	306,750	264,888
Total Payments to Consultants	$ 415,097	$ 349,414

This page intentionally left blank.

47 Investment

Pension Consulting Alliance, Inc.
Los Angeles · Portland · New York · www.pensionconsulting.com

November 7, 2007

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, 2007. During this period of time, the SBCERS total investment portfolio increased by $271.6 million to a value of $1.9 billion. The portfolio is broadly diversified, holding investments ranging from domestic equities to publicly traded real estate. 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, Mellon Bank, 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. The second quarter report for 2007 reflects asset allocation guidelines adopted by the System during the fourth quarter of 2005. The portfolio's actual allocation is closely aligned with policy. The international equity asset class was slightly overweight, while domestic fixed income was slightly underweight.

Over the last year, the SBCERS investment portfolio produced an overall return of 17.2%, which was near median performance versus its peers*. The portfolio underperformed policy by approximately 110 basis points largely due to relative underperformance in international equity.

During the last three years, the SBCERS portfolio generated an average annual 12.6%, which was above median versus peers, but lagged its 13.1% policy benchmark return. Over the last five years, the SBCERS investment portfolio produced an average annual return of 11.7%, which was above median, but trailed its policy benchmark by 30 basis points. For periods ending June 30, the SBCERS portfolio has outperformed its policy benchmark in three of the latest five one-year periods.

Sincerely,

Neil Rue, CFA
Managing Director

*This is net of commingled fund fees, but before separate account fees. Policy benchmark returns are calculated gross of fees. Peers is the Mellon Master Trust.

514 N.W. 11th Avenue • Suite 203 • Portland, OR 97209 • bus: (503) 226-1050 • fax: (503) 226-7702

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.

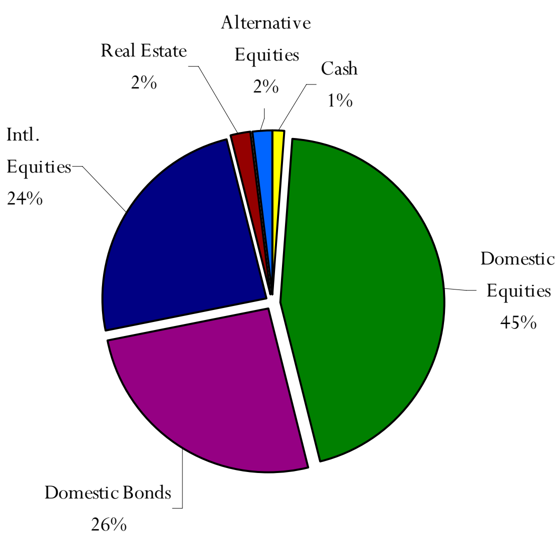
2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure,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

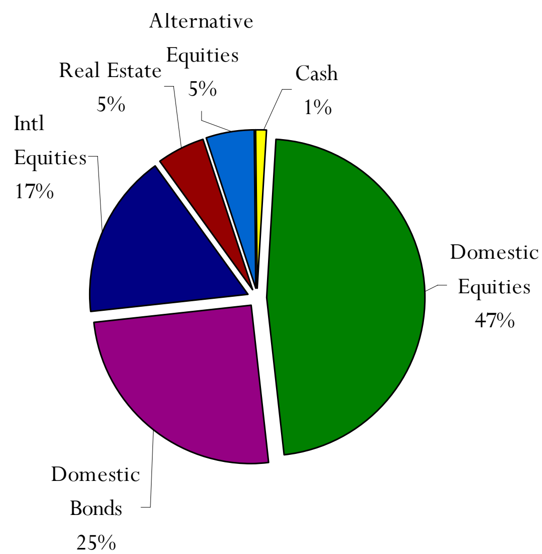
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

INVESTMENT SUMMARY *As of June 30, 2007*	**Market Value**	**Percent of Total Market Value**
Cash	$ 9,595,904	0.48
Short Term Investments	53,193,708	2.67
U.S. Government and Agency Instruments	110,406,404	5.53
Domestic Corporate Bonds	341,938,041	17.14
International Bonds	42,506,167	2.13
Total Bonds	494,850,612	24.81
Alternative Equities	42,193,870	2.12
Domestic Equities	903,228,521	45.28
International Equities	445,283,672	22.32
Total Equities	1,390,706,063	69.71
Real Estate	46,548,318	2.33
Total	$1,994,894,605	100.00

Actual Asset Allocation



Target Asset Allocation



INVESTMENT RESULTS BASED ON FAIR MARKET VALUE

As of June 30, 2007

Investments	Current Year	Annualized 3 - year	Annualized 5 - year
Domestic Equity	18.6%	12.3%	11.4%
Russell 3000 Benchmark	20.1%	12.4%	11.5%
International Equity	27.9%	22.9%	17.7%
*MSCI ACWI xUS Index**	30.2%	25.0%	19.9%
Domestic Bonds	6.3%	5.5%	6.4%
Lehman Universe Index	6.6%	4.5%	5.2%
Real Estate**	15.6%	16.4%	-
*NCREIF Index****	17.3%	18.0%	14.4%
Cash	4.4%	2.1%	2.3%
Citigroup 3 month T-Bill	5.1%	3.7%	2.7%
Total Fund	17.2%	12.6%	11.7%
SBCERS Policy Benchmark	18.3%	13.1%	12.0%

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 are gross of fees.

* Reassigned to MSCI ACWI 1/1/2003

** Transitioned to this category January 2006, no position was held in this category October through December 2005

*** Reassigned to NCREIF index as of 4/1/2006

SCHEDULE OF TOP TEN EQUITY SECURITIES AND TOP TEN BOND HOLDINGS

As of June 30, 2007

TOP TEN EQUITY SECURITIES by Market Value

Shares/Par	Security Name	Market Value
352,574	Exxon Mobil Corp	$ 29,573,907
424,901	Citigroup Inc Com	21,793,172
542,100	General Elec Co Com	20,751,588
309,493	Bank Of America Corp	15,131,113
354,575	AT&T Inc Com	14,714,863
198,616	American Intl Group Inc Com	13,909,078
162,509	Chevron Corp Com	13,689,758
529,472	Pfizer Inc Com Stk USD 0.05	13,538,599
250,865	JPMorgan Chase & Co Com	12,154,409
171,412	Johnson & Johnson Com	10,562,407

TOP TEN BOND HOLDINGS by Market Value

Shares/Par	Security Name	Market Value
26,959,000	U S Treasury Notes 4.25%	$ 25,729,670
20,050,000	Commit To Pur FNMA SF Mtg 5.50%	19,336,220
20,254,000	U S Treasury Bonds 4.5%	18,348,909
15,190,000	U S Treasury Notes 4.625%	14,725,186
11,025,000	U S Treasury Notes 4.875%	11,012,873
11,100,000	U S Treasury Notes 4.625%	10,752,570
8,100,000	Commit To Pur FNMA SF Mtg 6.00%	8,135,438
8,200,000	Commit To Pur FNMA SF Mtg 5.50%	7,902,750
7,700,000	Commit To Pur FNMA SF Mtg 5.00%	7,211,820
7,290,000	Commit To Pur FNMA SF Mtg 6.00%	7,205,436

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS *As of June 30, 2007*

TYPE OF INVESTMENT	MARKET VALUE	% of PORTFOLIO
ALTERNATIVE EQUITY		
Secondary Pvt Equity LP	$ 42,193,870	2.12
Alternative Equity Total	42,193,870	2.12
EQUITY		
Aerospace & Defense	$ 3,478,631	0.17
Basic Industries	33,785,195	1.69
Business Services	5,857,901	0.29
Capital Goods	75,963,643	3.81
Chemicals	23,817,536	1.19
Commingled Funds US/Intl	313,138,935	15.70
Consumer Durables	19,184,171	0.96
Consumer Non-Durables	71,217,510	3.57
Consumer Services	73,666,348	3.69
Energy	92,493,173	4.64
Financial Services	218,451,397	10.95
Health Care	105,579,418	5.29
Media	28,275,367	1.42
Mutual Funds-Intl	75,728,793	3.80
Other	8,103,800	0.41
Pharmaceuticals	2,830,892	0.14
Technology	134,448,635	6.74
Transportation	25,907,958	1.30
Utilities	24,646,167	1.24
Equity Total	$ 1,336,575,169	67.00
BONDS		
Asset Backed Securities	$ 83,611,189	4.19
Banking & Finance	37,838,333	1.90
Collateralized Mortgage Oblig	190,290,955	9.54
Government Bonds - US	102,495,822	5.14
Government Bonds - Intl	26,527,069	1.33
Health Care	357,513	0.02
Housing	2,500,000	0.13
Industrial	3,079,877	0.15
Insurance	3,807,544	0.19
International Corporate Bonds	5,972,342	0.30
Private Placements	15,970,692	0.80
Other Corporate Bonds	11,173,631	0.56
Transportation	909,394	0.05
Utilities	9,650,549	0.48
Yankee Bonds	695,702	0.03
Bonds Total	$ 494,850,612	24.81
REAL ESTATE		
Equity REIT	58,485,342	2.93
Real Estate Total	58,485,342	2.92
CASH & CASH EQUIVALENTS	62,789,612	3.15
Grand Total	**$ 1,994,894,605**	**100.00**

LIST OF INVESTMENT MANAGERS

Alternative Equity
Arden Asset Management
Hamilton Lane

Domestic Equity
AllianceBernstein
Alliance Capital Management LP
OFI Institutional Asset Management
Dimensional Fund Advisors
Invesco
First Republic Investment Management

International Equity
New Star Institutional Managers Limited
Pyramis
State Street Global Advisors
The Boston Company

Domestic Bonds
Julius Baer
Lehman Brothers Asset Management
Reams Asset Management
Standish Mellon
STW Fixed Income

Real Estate
RREEF

SCHEDULE OF PROFESSIONAL FEES AND SERVICE

As of June 30, 2007

	Assets Under Management	Fees	Basis Points
Investment Managers			
Bond Managers	$ 516,969,332	$1,378,778	6.91
Equity Managers	1,368,587,343	3,156,479	15.82
Real Estate Manager	46,548,318	-	-
Short Term Investments	53,193,708	47,286	0.24
Total Investment Managers	1,985,298,701	4,582,543	22.97
Other Investment Service Fees:			
Cash	9,595,904	-	-
Custodian Fees	-	144,951	0.73
Investment Consultant Fees	-	602,663	3.02
	9,959,904	747,614	3.75
Total Investment Service Fees	$1,994,894,605	$5,330,157	26.72

This page intentionally left blank.

55 Actuarial

Milliman

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

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

milliman.com

July 9, 2008

Mr. Oscar Peters
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, 2007 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, 2008. Milliman was retained by SBCERS in March 2007. Prior valuations were performed by a different firm. Since the June 30, 2006 valuation, both benefits and actuarial assumptions have changed.

This certification letter and corresponding funding information is based upon the Retirement Board action taken April 23, 2008 as described in Note 13 of the Notes to Financial Statements. Please refer to a full description of events during the past year as described in that note.

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, 2007, there is an Unfunded Actuarial Accrued Liabilities (UAAL) of $336.5 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's change is measured separately and amortized over a fixed 15-year period. This approach is sometimes referred to as a "layered" amortization method.

Due primarily to changes in actuarial assumptions and methods, the total calculated contribution rate for all plans increased from 21.09% of pay based on the June 30, 2006 valuation to 25.58% of pay based on the June 30, 2007 valuation.

Funding Status

As of June 30, 2007, the Funded Ratio decreased during the past year from 84.6% to 82.8% primarily due to changes in actuarial methods and assumptions (-6.1%). These changes were offset by experience gains, the largest of which was the asset gain recognized (+2.9%). Other changes, including the expected year-to-year change due to contributions, the demographic experience, and changes in plan provisions, combined to increase the Funded Ratio (+1.4%). The Funded Ratio is the ratio of the actuarial value of the valuation assets over the value of the actuarial accrued liability.

Assumptions and Benefits

A complete investigation of experience was performed as of June 30, 2006 and all actuarial assumptions were reviewed and many were updated. Our full June 30, 2007 actuarial valuation report dated March 6, 2008, presents summaries of the actuarial assumptions and methods used in the valuation. The report also reflects the increased contribution rates needed for the new Safety Plan 6 which was applicable to certain members effective February 25, 2008. An addendum was adopted by the Board on April 23, 2008, which also reflected the new General Plan 5C, which was applicable to certain members effective March 10, 2008.

Milliman

Board of Retirement
July 9, 2008
Page 2

Certification Statement

In preparing our actuarial valuation report, we relied, without audit, upon the financial statements prepared by the SBCERS staff. We also relied upon the member and beneficiary data provided to us by the staff. We compared the data for the June 30, 2007 actuarial valuation with corresponding information from our audit work on the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete our calculations may need to be revised. We also relied on the allocation of the actuarial assets and the determination of the valuation benefits as approved by the Retirement Board.

Actuarial assumptions and methods used in the actuarial valuation were reviewed as part of the Experience Investigation and approved by the Board. They represent our best estimate of future conditions affecting SBCERS, and we believe they are reasonably related to the past experience of SBCERS. In our opinion, these also meet the parameters set by the Governmental Accounting Standards Board Statement No. 25 for financial statement disclosures. 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. The Retirement Board has the final decision regarding the appropriateness of the actuarial methods and assumptions.

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

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

Milliman's work was prepared exclusively for SBCERS for a specific and limited purpose. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liabilities to other parties who receive this work.

We certify that the June 30, 2007 valuation was performed in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and applicable Guides to Professional Conduct, amplifying Opinions and supporting Recommendations of the American Academy of Actuaries. We are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, Enrolled Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Karen I. Steffen, FSA, EA, MAAA
Consulting Actuary

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

KIS/DRW/nlo

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, 2007 Experience Study. The Board of Retirement adopted the new assumptions on 01/29/2008. The actuarial valuation of the assets and liabilities of SBCERS were determined with respect to the following:

Noneconomic assumptions

- No refunds occur after a member in any plan reaches 20 years of service
- Service-based salary increase due to promotion and longevity (merit increase)
- Mortality assumptions are based on a more current table and active member mortality assumptions are the same as the rates recommended for retired members
- General plan male and female members have an ultimate retirement age of 75
- Safety plan members have an ultimate retirement age of 65
- General plan male rates increased modestly for service retirement
- General plan female rates increased for service retirement
- Safety plan member rate increased for service retirement
- Disabled rates are based on age, sex and plan membership
- General and Safety plan members rates of termination based on service rather than age
- Healthy General and Safety plan retirees have lower mortality rates
- All members are assumed to elect the unmodified retirement allowance; additionally, 80% of all male retirees and 50% of female retirees have an eligible survivor
- Beneficiary age, as compared to member age: 3 years older in males and 3 years younger in females; additionally, the beneficiaries sex is the opposite of the member
- Age at which vested terminated members commence retirement benefits was changed for some plans.
- 50% of all deferred vested members are eligible for reciprocity with another California retirement system

Economic assumptions

- General Wage growth of 4.00%, (the total of consumer price inflation assumption of 3.5% and the real wage inflation rate of 0.50%)
- Merit and Longevity salary increase of varying percentages based on service (duration)
- Net investment return of 8.16%
- Total expense ratio, administrative expense plus investment expense, of 0.45%
- Payroll growth assumed to be the same as wage growth

Assumptions for Post Employment Benefits Other than Pensions

- Termination, retirement, disability, mortality and other assumptions will be the same as used for the pension valuation
- 75% of future retirees will select a monthly subsidy for County health plan benefits of $15 per year of service, while 25% will select the cash benefit option, percentages are based upon service weighted method
- Members receive the maximum monthly subsidy

- No future increases will be granted for the monthly subsidy of $15 per year of service, monthly cash benefit of $4 per year of service for members foregoing the health subsidy, or monthly subsidy floor of $187 for members receiving disability retirement benefits

Actuarial Cost Method

SBCERS uses the entry age 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 fifteen years from the valuation date each new liability is first recognized (adopted 04/09/2003).

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 (adopted 04/09/2003).

Amortization of Gains and Losses

Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability and amortized over fifteen years (adopted 04/09/2003).

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 8.16%, compounded semi-annually, exclusive of both investment and administrative expenses (adopted 04/26/1995).

Projected Salary Increases

Rates of annual salary increases (adopted 01/29/2008, BOR resolution 2008-01) assumed for the purpose of the valuation are:

- Variable percentage annually for merit and longevity based on service (duration) and
- 4.0% for inflation (cost-of-living adjustments – comprised of 3.5% for consumer price inflation and 0.5% for real wage inflation)

Rates of Separation from Employment

Various rates are dependent upon member's age, sex, and retirement plan.

During the experience study period (July 1, 2003 to June 30, 2007):

- *Pre-Retirement Death*
  - The same mortality table is used for active members as is used for retired healthy members.

- *Ordinary Disability*
  - The incidence of *ordinary disability* was lower than expected for General male members. No changes recommended.
  - The incidence of *ordinary disability* was higher than expected for Safety members. No changes recommended.

- *Duty Disability*
  - The number of actual separations due to *duty disability* was lower than expected for General male members and higher than expected for Safety members. No changes recommended.

- *Service Retirement*
  - The number of actual separations due to *service retirement* was slightly lower than expected for General male members and significantly higher than expected for General female members. This resulted in *service retirement* rates being increased for both General males and General females. In addition, the ultimate assumed retirement age was increased from 70 to 75.
  - The number of actual separations due to *service retirement* was higher than expected for Safety members. Consequently, the rates for *service retirement* increased for Safety plan members. Additionally, the ultimate assumed retirement age was increased from 60 to 65.

- *Withdrawal*
  - The incidence of *withdrawal* was slightly lower than expected for General and Safety plan members. This trend resulted in decreasing the probability of *withdrawal* rates and basing these rates on years of service instead of age.

- *Vested Termination*
  - The number of actual separations due to *vested termination* for General males were higher than expected and lower than expected for General female members. The number of actual separations due to *vested termination* were lower than expected for Safety members. Rates based upon duration were adopted rather than the age-based assumptions previously used.

None of the other types of separations demonstrated a statistically significant trend.

Post-Retirement Benefit Increases

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

Expectation of Life after Retirement

During the period investigated, the number of actual deaths after Service Retirement was lower than expected for General females and Safety members. The number of expected deaths is very close to the number of actual deaths for General males. As a result, the retiree assumptions were strengthened as follows:

RP-2000 Combined Mortality Table:

- For male members, setback 3 years
- For female members, setback 2 years

Note: No setback 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

During the period investigated, the number of actual deaths after Disability Retirement was lower than expected for General and Safety members. A more modern ***Disability Retirement Mortality table*** was adopted 01/29/2008 (BOR resolution 2008-01) that will better reflect the future experience.

RP-2000 Combined Mortality Table:

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

Note: No setback 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 unisex mortality tables:

RP-2000 Combined Mortality Table:

- For General healthy members, set back 4 years
- For Safety healthy members, set back 3 years
- For Beneficiaries, set back 4 years
- For General disabled members, set forward 1 year
- For Safety disabled members, no adjustment

Note: No setback 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.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Active Members	Average Annual Salary	Average	% Increase in Average Salary
June 30, 2001	General	3,631	$ 159,944,000	$ 44,050	5.5%
	Safety	953	53,787,000	56,440	5.4%
	Total	4,584	$ 213,731,000	46,625	5.5%
June 30, 2002	General	3,660	$ 175,920,000	$ 48,066	9.1%
	Safety	961	58,763,000	61,148	8.5%
	Total	4,621	$ 234,683,000	50,786	8.9%
June 30, 2003	General	3,648	$ 193,102,000	$ 52,934	10.1%
	Safety	925	64,135,000	69,335	13.4%
	Total	4,573	$ 257,237,000	56,251	10.8%
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	0.0%
	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	$ 214,717,344	$ 60,162	2.6%
	Safety	1,003	75,506,157	75,280	1.3%
	APCD	53	3,939,567	74,340	N/A
	Total	4,625	$294,163,069	63,603	2.7%

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
2001	126	$ 2,183,588	(66)	$ 862,260	2,128	$ 36,766,740	7.58%	$17,278
2002	182	$ 4,869,205	(69)	$ 729,682	2,241	$ 41,805,316	13.70%	$18,655
2003	184	$ 5,470,614	(80)	$ 1,362,009	2,345	$ 47,280,006	13.10%	$20,160
2004	185	$ 4,846,363	(90)	$ 1,316,001	2,440	$ 52,267,967	10.55%	$21,420
2005	202	$ 6,264,388	(81)	$ 1,410,780	2,561	$ 58,823,879	12.54%	$22,969
2006	191	$ 4,784,912	(73)	$ 1,257,887	2,679	$ 64,580,012	9.79%	$24,106
2007	203	$ 5,595,467	(70)	$ 1,165,047	2,812	$ 70,763,105	9.57%	$25,165

ACTUARIAL SOLVENCY TEST

Dollars in Thousands

	Actuarial Accrued Liabilities for					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active Member Contribution (1)	Retirees and Beneficiaries (2)	Active Members Employer Financed (3)	Total AAL	Reported Assets	(1)	(2)	(3)
6/30/2007*	$ 169,218	$ 979,657	$ 807,959	$ 1,956,834	$ 1,620,338	100%	100%	58.4%
06/30/2006	$ 137,148	$ 788,479	$ 884,029	$ 1,809,656	$ 1,552,776	100%	100%	70.9%
06/30/2005	$ 125,040	$ 715,319	$ 847,273	$ 1,687,632	$ 1,443,824	100%	100%	71.2%
06/30/2004	$ 115,530	$ 633,082	$ 830,157	$ 1,578,769	$ 1,379,170	100%	100%	76.0%
06/30/2003	$ 105,570	$ 572,737	$ 776,557	$ 1,454,864	$ 1,346,665	100%	100%	86.1%
12/31/2002	$ 122,032	$ 460,031	$ 781,542	$ 1,363,605	$ 1,295,956	100%	100%	91.3%
12/31/2000	$ 98,215	$ 396,275 **	$ 651,029	$ 1,145,519	1,171,138	100%	100%	103.9%
12/31/1999	$ 90,308	$ 359,969	$ 617,100	$ 1,067,377	$ 1,068,357	100%	100%	100.2%
12/31/1998	$ 85,113	$ 318,476	$ 546,616	$ 950,205	$ 938,295	100%	100%	97.8%

* • 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.

** Excluding benefit improvements.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

Actuarial Analysis of Financial Experience

As of June 30 2007, 2006 and 2005	2007	2006	2005
Prior Valuation Unfunded Actuarial Accrued Liability	**$256,900,000**	**$243,800,000**	**$199,600,000**
Expected Change from Prior Year	5,800,000	2,200,000	4,200,000
Actuarial (Gains) or Losses During the Year			
Asset Return (Greater) or Less than Expected	(57,600,000)	7,900,000	41,500,000
New Entrants	4,000,000	-	-
Salary Increases Greater or (Less) than Expected	12,600,000	-	-
Changes in Assumptions and Methodology	114,200,000	(7,000,000)	-
*Changes in Plan Provisions**	10,200,000	1,100,000	-
All Other (Including Demographic Experience)	(9,600,000)	8,900,000	(1,500,000)
Total Changes	79,600,000	13,100,000	44,200,000
Values as of Valuation Date	**$336,500,000**	**$256,900,000**	**$243,800,000**

Information for years prior to 2007 was provided by prior actuaries.

**Changes in Plan Provisions are for new Safety Plan 6 and General Plan 5C.*

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE

The following tables indicate the probability of separation from active service for each of five 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.
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 withdrawal at age 25 is .1380, then we are assuming that 13.8 percent of the active members at age 25 will terminate without vested rights during the next year.

The age at which a vested terminated member is assumed to commence the payment of retirement benefits is:

PLAN	AGE
General Plan 2	65
General Plan 5	56
Safety Plan 4	52
Safety Plan 6	50
APCD	56

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

GENERAL MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.01%	0.00%	0.03%	**5**	8.75%
30	0.00%	0.02%	0.00%	0.04%	**10**	4.87%
40	2.00%	0.07%	0.02%	0.09%	**15**	3.34%
50	2.00%	0.17%	0.10%	0.17%	**20**	2.37%
60	15.00%	0.29%	0.29%	0.47%	**25**	0.85%
70	20.00%	0.35%	0.60%	1.61%	**30+**	0.04%

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

GENERAL MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.01%	0.00%	0.02%	**5**	7.84%
30	0.00%	0.01%	0.02%	0.02%	**10**	4.87%
40	8.00%	0.06%	0.07%	0.06%	**15**	3.34%
50	8.00%	0.14%	0.22%	0.14%	**20**	2.37%
60	15.00%	0.25%	0.42%	0.39%	**25**	0.85%
70	30.00%	0.30%	0.61%	1.35%	**30+**	0.04%

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 4 MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.02%	0.00%	0.03%	**5**	3.60%
30	3.00%	0.10%	0.00%	0.04%	**10**	2.66%
40	3.00%	0.40%	0.07%	0.09%	**15**	2.18%
50	4.00%	0.82%	0.09%	0.17%	**20+**	0.00%
60	20.00%	1.01%	0.11%	0.47%		

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 4 MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death
20	0.00%	0.02%	0.00%	0.02%
30	3.00%	0.10%	0.00%	0.02%
40	3.00%	0.40%	0.07%	0.06%
50	4.00%	0.82%	0.09%	0.14%
60	20.00%	1.01%	0.11%	0.39%

Years of Service	Other Terminations
5	3.60%
10	2.66%
15	2.18%
20+	0.00%

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 6 MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death
20	0.00%	0.02%	0.00%	0.03%
30	3.00%	0.10%	0.00%	0.04%
40	3.00%	0.40%	0.07%	0.09%
50	8.00%	0.82%	0.09%	0.17%
60	20.00%	1.01%	0.11%	0.47%

Years of Service	Other Terminations
5	3.60%
10	2.66%
15	2.18%
20+	0.00%

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 6 MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death
20	0.00%	0.02%	0.00%	0.02%
30	3.00%	0.10%	0.00%	0.02%
40	3.00%	0.40%	0.07%	0.06%
50	8.00%	0.82%	0.09%	0.14%
60	20.00%	1.01%	0.11%	0.39%

Years of Service	Other Terminations
5	3.60%
10	2.66%
15	2.18%
20+	0.00%

Mortality for Members Retired for Service

Assumptions Adopted January, 29 2008

	GENERAL		SAFETY			GENERAL		SAFETY	
Age	**Male**	**Female**	**Male**	**Female**	**Age**	**Male**	**Female**	**Male**	**Female**
20	0.030%	0.019%	0.030%	0.019%	**60**	0.469%	0.392%	0.469%	0.392%
25	0.037%	0.020%	0.037%	0.020%	**65**	0.876%	0.765%	0.876%	0.765%
30	0.038%	0.024%	0.038%	0.024%	**70**	1.608%	1.345%	1.608%	1.345%
35	0.056%	0.039%	0.056%	0.039%	**75**	2.728%	2.297%	2.728%	2.297%
40	0.090%	0.060%	0.090%	0.060%	**80**	4.691%	3.760%	4.691%	3.760%
45	0.122%	0.094%	0.122%	0.094%	**85**	8.049%	6.251%	8.049%	6.251%
50	0.173%	0.143%	0.173%	0.143%	**90**	13.604%	10.730%	13.604%	10.730%
55	0.267%	0.221%	0.267%	0.221%					

Mortality for Members Retired for Disability

Assumptions Adopted January, 29 2008

GENERAL & SAFETY MEMBERS

Age	Male	Female	Age	Male	Female
20	0.035%	0.019%	**60**	0.675%	0.506%
25	0.038%	0.021%	**65**	1.274%	0.971%
30	0.044%	0.026%	**70**	2.221%	1.674%
35	0.077%	0.048%	**75**	3.783%	2.811%
40	0.108%	0.071%	**80**	6.437%	4.588%
45	0.151%	0.112%	**85**	11.076%	7.745%
50	0.214%	0.168%	**90**	18.341%	13.168%
55	0.362%	0.272%			

Salary Increase Assumption

Assumptions Adopted January, 29 2008

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%	8.94%	16	0.50%	4.52%
1	4.00%	8.16%	17	0.48%	4.50%
2	3.25%	7.38%	18	0.46%	4.48%
3	2.50%	6.60%	19	0.44%	4.46%
4	2.00%	6.08%	20	0.42%	4.44%
5	1.50%	5.56%	21	0.40%	4.42%
6	1.25%	5.30%	22	0.38%	4.40%
7	1.00%	5.04%	23	0.36%	4.37%
8	0.90%	4.94%	24	0.34%	4.35%
9	0.80%	4.83%	25	0.32%	4.33%
10	0.78%	4.81%	26	0.30%	4.31%
11	0.75%	4.78%	27	0.28%	4.29%
12	0.70%	4.73%	28	0.26%	4.27%
13	0.65%	4.68%	29	0.25%	4.26%
14	0.60%	4.62%	30+	0.25%	4.26%
15	0.55%	4.57%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 4.00% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

Salary Increase Assumption

Assumptions Adopted January, 29 2008

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%	10.24%	16	0.82%	4.85%
1	5.00%	9.20%	17	0.80%	4.83%
2	4.00%	8.16%	18	0.77%	4.80%
3	3.25%	7.38%	19	0.74%	4.77%
4	2.50%	6.60%	20	0.72%	4.75%
5	2.00%	6.08%	21	0.69%	4.72%
6	1.60%	5.66%	22	0.67%	4.70%
7	1.30%	5.35%	23	0.64%	4.67%
8	1.20%	5.25%	24	0.62%	4.64%
9	1.10%	5.14%	25	0.59%	4.62%
10	1.00%	5.04%	26	0.57%	4.59%
11	0.95%	4.99%	27	0.54%	4.57%
12	0.92%	4.96%	28	0.52%	4.54%
13	0.89%	4.93%	29	0.50%	4.52%
14	0.87%	4.90%	30+	0.50%	4.52%
15	0.85%	4.88%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 4.00% 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 adopted January, 29 2008

GENERAL & SAFETY MEMBERS

Years of Service	General Male	General Female	Safety
0	100%	100%	100%
5	50%	50%	35%
10	15%	20%	35%
15	10%	10%	20%
20	0%	0%	0%
25	0%	0%	0%
30	0%	0%	0%

SUMMARY OF MAJOR PLAN PROVISIONS

Eligibility

- First pay period following date of employment

Definition of Salary

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

- Highest 36 consecutive months of compensation earnable for General Plan 2 and 5C, Safety Plans 4C, 4D, 6B and part-time members in all plans

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

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

BENEFIT AT NORMAL RETIREMENT AGE

- 2 percent of final average salary per year of service times benefit factor (§31676.12 and §31676.15 respectively) for General Plan 5 and APCD Plan

- 2 percent of final average salary per year of service (maximum 35 years) plus 1 percent 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 percent of final average salary per year of service time benefit 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 percent of final average salary per year of service, with maximum of 33 1/3 percent 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 percent 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 percent of final average salary or service retirement benefit (if eligible)

- General Plan 2 purchases long-term insurance policy
  - 60 percent 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 percent of member's accrued allowance

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

- Benefit for General Plan 2
  - 1/12 of last 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 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plans 4 and 6and APCD Plan
  - 50 percent of member's allowance payable to an eligible spouse for General Plan 2

- Service connected disability
  - 100 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - 50 percent 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, 4D, 6A 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 percent of final average salary for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- Benefit and Social Security combined cannot exceed 70 percent of final average salary if service is less than 35 years, otherwise 80 percent for General Plan 2

Cost-Of-Living

- Up to 3 percent cost-of-living adjustment for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- None for General Plan 2

73 Statistical

Schedule of Additions By Source

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Other Income	Total
2007	$15,853,139	$63,395,296	$285,497,505	$(13,887,027)	$2,233,265	$353,092,178
2006	15,057,589	53,976,749	170,316,018	(11,648,395)	55,990	227,757,951
2005	14,827,847	46,720,797	143,795,225	(8,473,262)	49,497	196,920,104
2004	13,633,762	39,334,678	190,516,409	(5,198,320)	4,001	238,290,530
2003	12,796,575	33,799,166	57,301,619	(4,426,277)	4,012	99,475,095
2002	10,480,593	31,759,299	(57,204,548)	(5,177,584)	4,400	(20,137,840)
2001	8,458,680	29,346,269	(44,280,522)	(8,253,395)	596,247	(14,132,721)
2000	7,348,582	30,057,229	78,590,073	(2,447,083)	-	113,548,801
1999	7,039,762	29,088,462	115,349,949	(2,505,666)	-	148,972,507
1998	5,725,100	30,138,293	171,769,936	(2,460,806)	-	205,172,523

Schedule of Deductions By Type

Fiscal Year	Benefits Paid	Refunds	Administrative Expenses	Total
2007	$76,846,452	$1,883,614	$2,470,058	$81,200,124
2006	71,018,064	1,474,822	2,140,186	74,633,072
2005	64,254,302	1,284,974	1,842,161	67,381,437
2004	57,634,424	1,467,988	1,985,863	61,088,275
2003	51,443,905	1,204,495	1,520,815	54,169,215
2002	46,792,742	885,479	1,715,345	49,393,566
2001	40,775,721	1,144,835	1,523,493	43,444,049
2000	37,537,933	991,089	697,085	39,226,107
1999	33,493,394	893,349	620,626	35,007,369
1998	29,827,368	880,164	409,548	31,117,080

Schedule of Benefit Expenses By Type

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	Total Benefit Expense
2007	$46,357,692	$29,787,719	$418,508	$282,533	$76,846,452
2006	42,993,071	27,439,334	265,414	320,245	71,018,064
2005	38,419,896	25,474,122	-	360,284	64,254,302
2004	38,007,015	19,335,644	-	291,765	57,634,424
2003	33,663,687	17,349,343	-	430,875	51,443,905
2002	31,877,649	14,669,468	-	245,625	46,792,742
2001	28,365,250	12,067,274	-	343,197	40,775,721
2000	26,250,846	11,047,682	-	239,405	37,537,933
1999	24,631,860	8,777,855	-	83,679	33,493,394
1998	22,360,856	7,411,340	-	55,172	29,827,368

Schedule of Average Benefit Payments

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
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, 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, 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, 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, 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
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
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, 2000						
Average Monthly Benefit	$1,890	$1,714	$1,290	$897	$910	$684
Average Annual Benefit	22,679	20,563	15,480	10,768	10,923	8,213
Number of Active Retirees	1,013	311	285	301	132	56
December 31, 1999						
Average Monthly Benefit	$1,893	$1,518	$1,168	$865	$778	$710
Average Annual Benefit	22,721	18,221	14,019	10,384	9,331	8,522
Number of Active Retirees	914	313	309	304	125	47
December 31, 1998						
Average Monthly Benefit	$1,839	$1,314	$1,058	$834	$741	$735
Average Annual Benefit	22,063	15,762	12,700	10,004	8,895	8,823
Number of Active Retirees	857	309	328	287	102	39

Schedule of Participating Employers	June 30, 2007	June 30, 2006
County of Santa Barbara:		
General Members	3,218	3,254
Safety Members	1,003	982
Total:	4,221	4,236
Santa Barbara Courts:		
General Members	277	270
Total:	277	270
Participating District Members:		
Air Pollution Control	53	56
Carpinteria Cemetery	2	2
Carpinteria-Summerland Fire Protection	32	33
Goleta Cemetery	4	4
Oak Hill Cemetery	3	3
Santa Barbara Association of Governments	17	18
Santa Barbara Vector Control	4	6
Santa Maria Cemetery	8	8
Summerland Sanitary	4	4
Total:	127	134
Total Active Membership:	4,625	4,640

Employer Contribution Rates

Effective July 1, 2006

	General			Safety		General	
Employer	Plan 2	Plan 5A	Plan 5B	Plan 4A	Plan 4B	APCD Plan 1	APCD Plan 2
Santa Barbara County & Santa Barbara Courts	8.99%	15.51%	15.63%	33.73%	30.53%	-	-
Air Pollution Control	-	-	-	-	-	18.36%	18.27%
Special Districts	-	15.51%	-	33.73%	-	-	-

Member Contribution Rates

Effective July 1, 2004

	General		Safety		APCD	
	Plan 5A	Plan 5B	Plan 4A	Plan 4B	Plan 1	Plan2
Entry Age	FAS 1- Half Rates	FAS 1 - Full Rates	FAS 1- Half Rates	FAS 1 - Full Rates	FAS 1- Half Rates	FAS 1 - Full Rates
20	3.20%	6.39%	5.45%	10.90%	3.77%	7.55%
21	3.21	6.41	5.51	11.01	3.78	7.56
22	3.22	6.43	5.57	11.13	3.79	7.58
23	3.23	6.46	5.62	11.25	3.80	7.61
24	3.25	6.49	5.68	11.37	3.82	7.64
25	3.26	6.53	5.74	11.48	3.83	7.67
26	3.28	6.56	5.80	11.60	3.85	7.71
27	3.30	6.61	5.86	11.72	3.88	7.75
28	3.33	6.65	5.92	11.84	3.90	7.80
29	3.35	6.71	5.98	11.96	3.93	7.85
30	3.38	6.76	6.04	12.08	3.96	7.91
31	3.41	6.82	6.10	12.20	3.99	7.98
32	3.44	6.88	6.16	12.33	4.02	8.04
33	3.48	6.95	6.23	12.45	4.06	8.11
34	3.51	7.02	6.29	12.58	4.10	8.19
35	3.55	7.09	6.35	12.71	4.13	8.27
36	3.59	7.17	6.42	12.84	4.18	8.35
37	3.63	7.25	6.48	12.97	4.22	8.44
38	3.67	7.33	6.55	13.10	4.26	8.53
39	3.71	7.42	6.61	13.23	4.31	8.62
40	3.75	7.51	6.68	13.36	4.36	8.72
41	3.80	7.60	6.75	13.49	4.41	8.82
42	3.85	7.70	6.81	13.63	4.46	8.92
43	3.90	7.79	6.88	13.76	4.51	9.03
44	3.95	7.89	6.95	13.89	4.57	9.14
45	4.00	8.00	7.01	14.03	4.63	9.25
46	4.05	8.10	7.08	14.16	4.68	9.37
47	4.11	8.21	7.15	14.30	4.74	9.49
48	4.16	8.33	7.22	14.45	4.80	9.61
49	4.22	8.44	7.30	14.60	4.87	9.73
50	4.28	8.56	7.38	14.76	4.93	9.86
51	4.34	8.68	7.46	14.92	5.00	9.99
52	4.40	8.81	7.54	15.08	5.07	10.13
53	4.47	8.93	7.63	15.26	5.14	10.27
54	4.53	9.06	7.72	15.45	5.21	10.41
55	4.60	9.20				
56	4.67	9.34				
57	4.74	9.48				
58	4.81	9.62				
59 &	4.89	9.77				

This page intentionally left blank.

79 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.