2013

A MULTIPLE EMPLOYER PENSION TRUST FUND
SAN BERNARDINO, CALIFORNIA

FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Mission:
Retirement

SB|cera
San Bernardino
County Employees' Retirement Association

This Spread– M78: Reflection Nebula in Orion | Photo Credit: ESO / Igor Chekalin
Cover Image– Endeavour Orbiting Earth | Photo Credit: NASA

Mission: Retirement

2013

Comprehensive Annual Financial Report

A Multiple Employer Pension Trust Fund | San Bernardino, California

Fiscal Years Ended June 30, 2013 and 2012

Larry Walker
Managing Trustee

Julie Underwood, CPA
Chief of Fiscal Services

SBcera
San Bernardino
County Employees' Retirement Association

348 West Hospitality Lane, 3rd Floor | San Bernardino, CA 92415-0014
909.885.7980 | f. 909.885.7446 | www.SBCERA.org

The Earth | Photo Credit: ESA / Hubble

Table of Contents

Section 1.0 - Introductory

Section 2.0 - Financial

Table of Contents

(Continued)

Section 3.0 - Investment

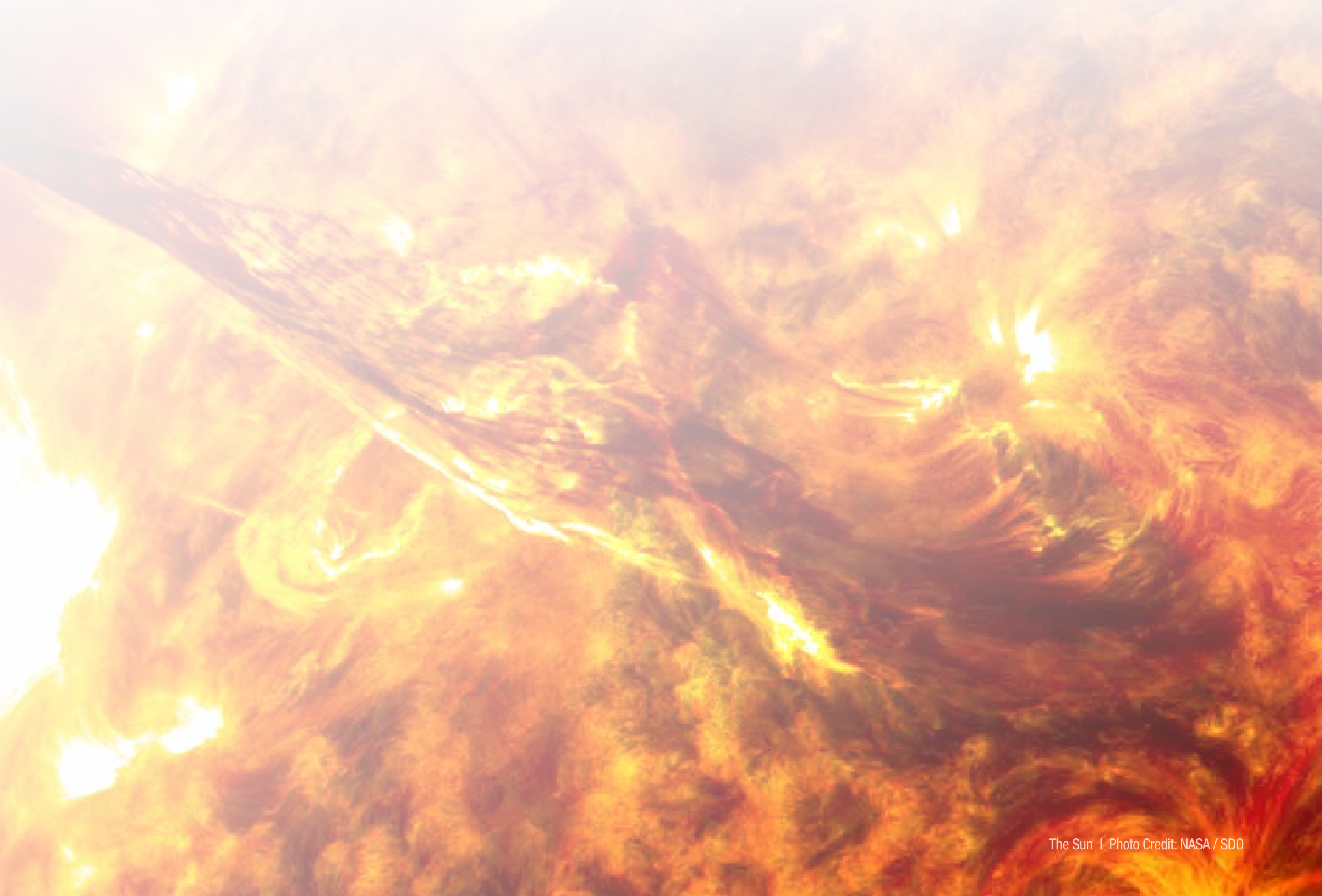
Section 4.0 - Actuarial

Table of Contents

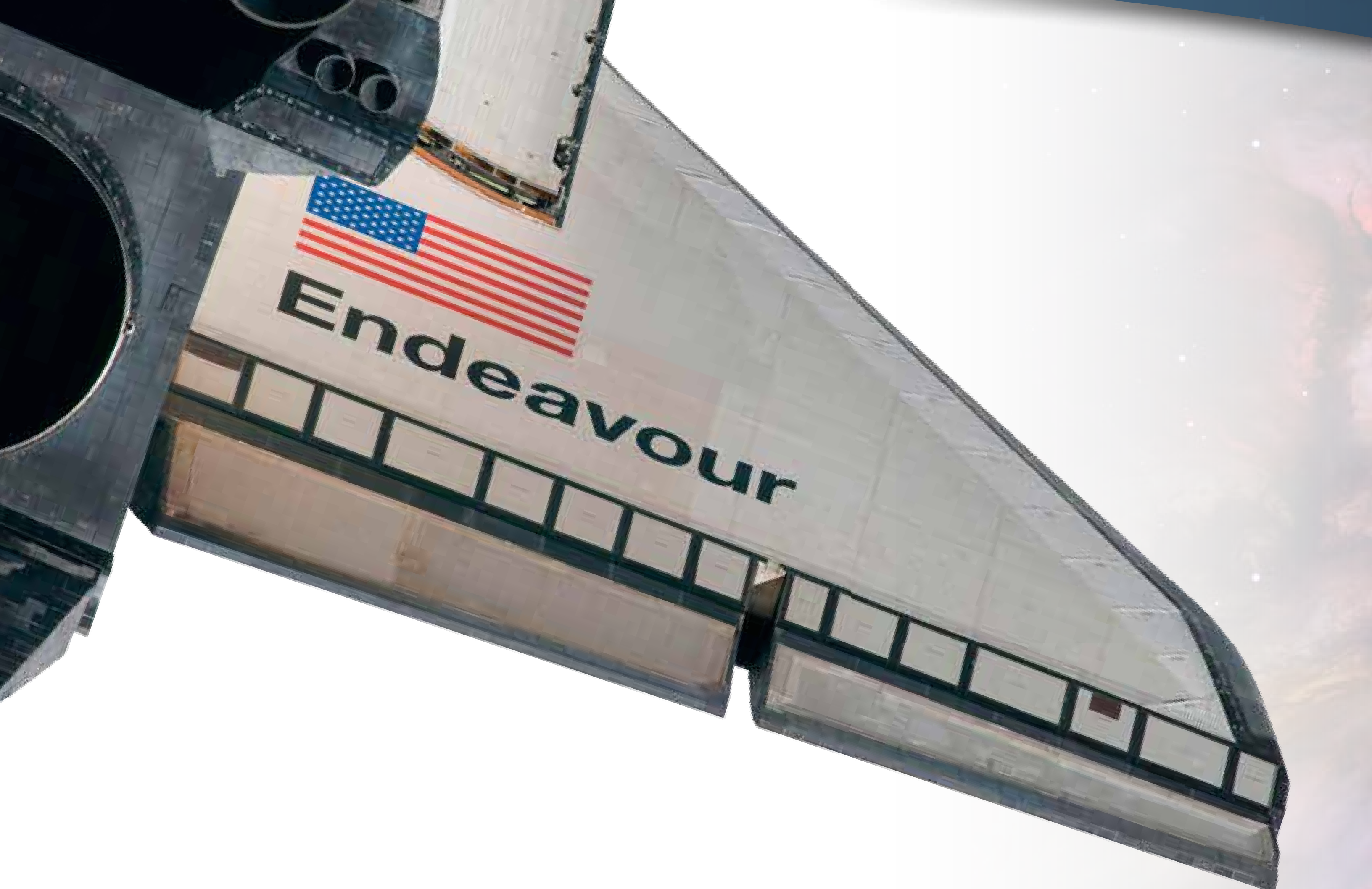
(Continued)

Section 5.0 - Statistical

5.1 - Membership Information



The Sun | Photo Credit: NASA / SDO



Mission Statement

San Bernardino County Employees' Retirement Association

It is the purpose of the San Bernardino County Employees' Retirement Association to provide the members and their beneficiaries with those retirement and related benefits and services which they have earned and which are commensurate with their years of service and compensation.

It is the responsibility of those charged with administration of the Association to:

a) effectively collect contributions to fund liabilities incurred;

b) diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return;

c) administer the benefits impartially, fairly and in accordance with the applicable law;

d) deliver service to the membership in an accurate, courteous, prompt, professional and cost-effective manner; and

e) strategically plan for the future.

Endeavour's Starboard Wing | Photo Credit: NASA

INTRODUCTORY

SECTION 1.0

“This is the goal: To make available for life every place where life is possible. To make inhabitable all worlds as yet uninhabitable, and all life purposeful.”

—Hermann Oberth, Man Into Space

M42: The Orion Nebula | Photo Credit: NASA, ESA, M. Robberto (STScI / ESA)

SECTION 1.0: INTRODUCTORY

Named by school children in a nationwide contest, the space shuttle Endeavour took four years to build. It was assembled in Palmdale, CA and began its journey with a flawless liftoff on May 7, 1992. SBCERA members generally begin their retirement journey the very first day of employment with a participating employer. It is important for our members to start planning their mission for retirement at the very beginning of their membership with SBCERA, by understanding the lifetime benefits offered by SBCERA as well as any supplemental retirement savings vehicles offered by their employer.

Endeavour on Launch Pad 39A | Photo Credit: NASA / Ken Thornsley

Letter of Transmittal

San Bernardino County Employees' Retirement Association

November 6, 2013

Board of Retirement
San Bernardino County Employees' Retirement Association
348 West Hospitality Lane, 3rd Floor
San Bernardino, CA 92415-0014

Dear Board Members:

I am pleased to present the San Bernardino County Employees' Retirement Association's (SBCERA or the Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2013. This report is created annually to provide a detailed review of the Plan's financial, actuarial and investment-related activities for the year.

At SBCERA, our primary purpose is to serve our members and their beneficiaries. We endeavor to discover opportunities to better serve, protect and provide our members with the benefits they have been promised so they can achieve their mission to retire. Our theme for this year's CAFR, "Mission: Retirement," was inspired by the retirement of NASA's Space Shuttle Endeavour; which traveled 12 miles, over several days, along the streets of Los Angeles to arrive at its permanent home at the California Science Center in Exposition Park. After 25 space missions in its 22-year career, Endeavour will be on display to inspire the next generation of explorers.

This year marks SBCERA's 68th year in operation, and the Plan remains solid and secure. SBCERA was established in 1945, following a vote of the people of the County of San Bernardino on May 16, 1944. As of June 30, 2013, SBCERA manages service retirement, disability, and death and survivor benefits for approximately 33,000 members, serves 18 participating employers and manages over seven billion dollars in assets. A listing of the participating employers, as of June 30, 2013, can be found on page 110.

The information contained in this CAFR is designed to provide a complete and accurate review of the fiscal year's operations. SBCERA's management is responsible for the accuracy of the data, as well as the completeness and fairness of the presentation of the financial information including all disclosures. I encourage you to review Management's Discussion and Analysis section beginning on page 17, which provides a narrative introduction, overview and analysis of our financial operations for the fiscal year ending June 30, 2013.

As you review this document, I trust you, as well as the members of SBCERA and our plan sponsors, will find the CAFR helpful in understanding our defined benefit pension plan and its prudent efforts to ensure a safe and reliable retirement benefit for its members and beneficiaries.

Letter of Transmittal

(Continued)

Major Initiatives

Pension Reform

SBCERA staff worked diligently to prepare for and implement the California Public Employees' Pension Reform Act of 2013 (PEPRA), effective January 1, 2013. Signed into law in September 2012, PEPRA set forth sweeping changes to public pension plans in California. While PEPRA has little impact to members hired before January 1, 2013, members hired after January 1, 2013 have different benefit levels. As a result, SBCERA members are now classified using tiers: Tier 1 and Tier 2 members. Tier 1 members are members with SBCERA membership dates prior to January 1, 2013. Tier 2 members are those members who have membership dates on or after January 1, 2013. Implementing a second membership tier required training staff, rewriting the member handbook (The Compass), establishing contribution rates, reviewing and determining pensionable compensation in conjunction with plan sponsors, revising the pension administration system, changing the website, and reviewing and modifying SBCERA's forms and documents. It was a considerable amount of work for staff, our consultants and the organization in a short period of time.

Five-Year Technology Plan

We have made substantial progress in our five-year technology plan. We are in the final phases of the PensionGold Retirement Administration Upgrade project. A new enterprise imaging system is in place and will be integrated with PensionGold. Other elements of the project include a new web member portal, a new employer portal, and a completely redesigned website. The plan required adjustments as a result of the implementation of PEPRA. All projects are still planned for completion in late 2013.

Addressing Increasing Organizational Demands

Many factors continue to substantially impact the administration of the Plan including an increased number of retirements, pension reform legislation, and financial concerns and withdrawal questions from plan sponsors. These factors have contributed to increased interest in our Plan from members, the public, plan sponsors, and the media. We continue to anticipate greater demands as even more baby boomers retire and additional plan sponsors merge or withdraw from SBCERA.

As part of an ongoing effort to address these demands, a continuing review is done of the Plan's administration and organizational needs. This includes review, update and addition of Board, CEO and organizational policies and procedures to assist in administering in a more consistent and efficient manner. To that end, on May 2, 2013, the Board adopted the SBCERA Employment Resolution and SBCERA Salary Rate and Step Advancement Plan for SBCERA employees. The plan is an improvement over offering individual employee contracts in that it is more effectual and appropriate for the organization. It is competitive with similar plans and it is flexible in order to accommodate changing business needs.

Plan Sponsor Withdrawals

Plan Sponsors (employers) who withdraw from SBCERA, pursuant to Government Code sections 31564 and 31564.2, remain liable to SBCERA for their share of any unfunded actuarial liability, which is attributable to their employees who either have retired or will retire from SBCERA. SBCERA has had three smaller employers withdraw from SBCERA in the last two years. SBCERA's actuary determines the unfunded actuarial liability due from a plan sponsor should they withdraw. The Board of Retirement oversees this process to ensure the withdrawing agencies' assessment is sufficient to pay all projected payments for the benefits they promised their employees.

Letter of Transmittal

(Continued)

GASB 67 and 68

In June 2012, the Governmental Accounting Standards Board (GASB) approved Statement No. 67 (GASB 67), Financial Reporting for Pension Plans and Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions, which establishes new accounting and financial reporting requirements for public pension plans and their participating employers (plan sponsors). According to GASB, these new statements are "designed to improve the decision-usefulness of reported pension information and to increase the transparency, consistency and comparability of pension information across governments."

These new statements significantly change current pension accounting and financial reporting requirements by:

- Separating pension accounting from the cost of funding pension benefits;
- Requiring the Plan to calculate the collective net pension liability and the participating employers to recognize their proportionate share of that liability and the related pension expense and deferred outflows/inflows of resources, on their basic financial statements; and
- Requiring additional note disclosures and required supplementary information based on the new standards for both the Plan and their participating employers.

For SBCERA, GASB 67 is effective beginning with the fiscal year ending June 30, 2014. For SBCERA's plan sponsors, GASB 68 is effective beginning with the fiscal year ending June 30, 2015. SBCERA has established an implementation plan for GASB 67 & 68 and has already conducted a workshop for our plan sponsors related to their implementation of GASB 68. We will continue to work with our consultants to implement these new standards and will also provide ongoing communication and support to our plan sponsors as they implement GASB 68.

SBCERA Key Staff Departures

We will miss key staff that left us this past fiscal year. Communications Officer Nicole Dailey resigned for a career opportunity closer to her home. Chief of Information Services Mark Jolicoeur retired after more than fourteen years of service. He was instrumental in bringing our Five-Year Technology plan almost to completion. We also say goodbye to long-time Chief Counsel Lance Kjeldgaard. We miss Lance's institutional knowledge. Finally, we say goodbye to Chief Executive Officer, Norm Ruggles, who resigned to be closer to family and to focus on his business interests in another state.

Financial Information

Management of SBCERA is responsible for establishing and maintaining an internal control structure designed to ensure SBCERA's assets are protected from loss, theft or misuse. Responsibility for the accuracy, completeness, fair presentation of information and all disclosures rests with SBCERA's management. The accounting firm of Macias Gini and O'Connell LLP, a certified public accounting firm, provides financial statement independent audit services to SBCERA. The financial audit provides reasonable assurance that SBCERA's basic financial statements are presented in conformity with generally accepted accounting principles (GAAP) and are free from material misstatement. Internal controls are reviewed to ensure SBCERA's operating policies and procedures are being adhered to and are sufficient to safeguard SBCERA's assets. SBCERA recognizes even sound internal controls have inherent limitations. SBCERA's internal controls are designed to provide reasonable, but not absolute, assurance these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Letter of Transmittal

(Continued)

Actuarial Funding Status

SBCERA contracts with an independent actuarial consulting firm, Segal Consulting (Segal), to conduct annual actuarial valuations, which are presented to the Board each November. On a triennial basis, the actuarial firm also conducts an experience study and makes recommendations to the Board on all economic and non-economic assumptions, which was last completed in 2011. Segal completed the annual valuation for the fiscal year ending June 30, 2013 and presented it to the Board, with subsequent approval, on November 19, 2013.

The funding objective is to maintain a well-funded plan by setting a strategic allocation that has a high probability of achieving the returns necessary to meet the expected liabilities with the lowest level of expected risk, while secondarily minimizing employer contributions. Generally, employer contributions are relatively stable, on a percentage basis, based on member payroll. However, on a five-year smoothed basis, if actual fund returns are below the actuarial hurdle rate of 7.75%, the employer will make up the shortfall on a 20-year amortized basis.

The actuarial accrued liability of the Plan on June 30, 2012 and June 30, 2013 amounts to $8.61 billion and $9.09 billion, respectively. The actuarial value of assets increased from $6.79 billion at June 30, 2012 to $7.20 billion at June 30, 2013. The funding ratio increased to 79.27% at June 30, 2013, from the previous fiscal year's 78.89%. This ratio compares the assets of the Plan to the liabilities of the Plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most future benefits. Lower ratios may indicate recent changes to benefit structures, funding of a plan below actuarial requirements, poor asset performance, or a variety of other changes. For a more in-depth review of the funding of the Plan, see the Actuarial Section of this report (page 85).

Investments

The Board of Retirement has sole and exclusive control of all investments of the Plan, and is responsible for the establishment of investment objectives, strategies and policies. The Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the interests of the members and the Plan.

External, professional investment management firms manage SBCERA's assets. The investment staff closely monitors the activity of these managers and assists the Board with the implementation of investment policies and long-term investment strategies. The Investment Plan, Policy and Guidelines establish the investment program goals, asset allocation, policies, performance objectives, investment management policies and risk controls.

For the fiscal year ending June 30, 2013, investments provided a positive 15.05% rate of return (net of fees). This fiscal year return places SBCERA in the top decile for public funds for the one year period. The plan's annualized rate of return (net of fees) over the three-year period ending June 30, 2013 was 12.31%, outperforming the policy benchmark by 199 basis points producing top quartile results. Contributors to the out performance were an allocation to volatility strategies and European credit. The SBCERA portfolio remains defensively positioned focusing on income producing investments. For more details, refer to the Investment Section (page 69).

On a fair value basis, the total net position available for benefits increased from $6.17 billion to $7.10 billion. Details of the components of this increase are included in the Statements of Changes in Fiduciary Net Position on page 28 of this report.

Letter of Transmittal

(Continued)

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the Plan. An opinion from the certified public accountant and the actuary are included in this report. The consultants appointed by the Board are listed on page 10 of this report.

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 San Bernardino County Employees' Retirement Association (SBCERA) for its comprehensive annual financial report for the fiscal year ending June 30, 2012. This was the 16th consecutive year that SBCERA has achieved 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. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The successful and timely completion of the CAFR would not be possible without the dedication and teamwork of SBCERA's staff and professional providers, along with the support and leadership of the Board. I would like to express my sincerest appreciation to all of these individuals for their commitment to our organization and its success.

To our members and plan sponsors, I would like to thank you for your ongoing support and confidence in SBCERA. We are working hard every day at SBCERA to earn and maintain your trust and to provide the best services possible. It is your support that continues to inspire determination and progress within our organization.

Respectfully submitted,

Larry Walker
Managing Trustee

Certificate of Achievement

San Bernardino County Employees' Retirement Association

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada (GFOA) to government units and public employee retirement systems whose Comprehensive Annual Financial Reports (CAFRs) achieve the highest standards in government accounting and financial reporting each year. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. For the 16th consecutive year, SBCERA has been awarded this prestigious award for the 2012 CAFR. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we will submit it to the GFOA to determine its eligibility for another certificate.

Members of the Board of Retirement

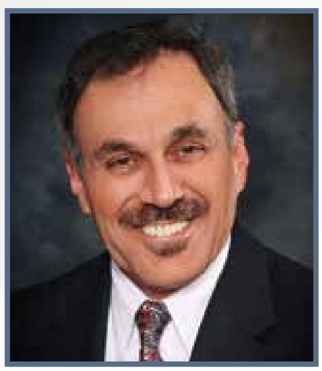
As of June 30, 2013[1]

Dawn Stafford
Board Chairman
Administrative Committee[2], Audit Committee
Benefits and Compensation Committee[2]
Elected by Retired Members

Dave Williams
Board Vice Chairman
Elected by Safety Members

Brendan Brandt
Administrative Committee,
Benefits and Compensation Committee
Appointed by Board of Supervisors

Glenn Duncan
Investment Committee
Audit Committee[2]
Appointed by Board of Supervisors



Louis Fiorino
Administrative Committee,
Benefits and Compensation Committee
Investment Committee[2]
Elected by General Members

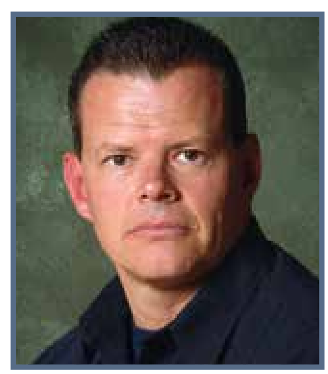
Don Neely
Investment Committee
Elected by General Members

Janice Rutherford
Audit Committee
Appointed by Board of Supervisors

Larry Walker
County Treasurer / Ex-Officio Member

Neal Waner
Investment Committee
Appointed by Board of Supervisors

Harry Hatch
Audit Committee
Alternate: Elected by Retired Members



Bret Henry
Administrative Committee,
Benefits and Compensation Committee
Alternate: Elected by Safety Members

(1) Members are listed as of the date this report is issued.
(2) Denotes Committee Chair.

Key Members of the Administrative Staff

As of June 30, 2013[1]

Board of Retirement

Chief Executive Officer
Vacant

Chief Counsel
Michael Calabrese

Executive Assistant
Carol Fenn

Chief Investment Officer
Donald Pierce

Senior Investment Officer
James Perry

Chief Fiscal Services
Julie Underwood

Chief Information Services
Joe Michael

Chief Member Services
Christie L. Porter

Outside Consultants

As of June 30, 2013

Actuary

Segal Consulting
Consulting Actuary / San Francisco, CA

Custodial Services

State Street Bank and Trust
Sacramento, CA

Independent Auditors

Macias Gini & O'Connell LLP
Financial Statement Auditors / Los Angeles, CA

Investment Consultants

NEPC, LLC
Investment Advisor / Cambridge, MA

The Townsend Group
Institutional Real Estate Consultants / Cleveland, OH

Kreischer Miller
Compliance Advisor / Horsham, PA

Maples Finance
LLC Administrator / Cayman Islands

Legal Counsel

Law Office of Andrew L. Kjeldgaard
Board Counsel / San Bernardino, CA

Hanson, Bridgett, LLP
Tax, Investment & Trust Counsel / San Francisco, CA

Arias & Lockwood
Litigation & Disability Counsel / San Bernardino, CA

Foley & Lardner, LLP
Investment Counsel / Boston, MA

Manatt, Phelps and Phillips, LLP
Fiduciary Counsel / Los Angeles, CA

Maples & Calder
Investment Counsel / Cayman Islands

Technical & Design Support

Levi, Ray and Shoup, Inc
Pension Software / Springfield, IL

Spencer Lewis Group
Graphic Design / Rancho Cucamonga, CA

Altius Information Technologies, Inc.
IT Security / Costa Mesa, CA

(1) Members are listed as of the date this report is issued.

Note: A listing of investment professionals can be found in the Investment Section.

Report from the Chairman of the Board

San Bernardino County Employees' Retirement Association

November 6, 2013

Dear Members:

On behalf of the San Bernardino County Employees' Retirement Association's Board of Retirement, I am pleased to announce lift off for the 2012-2013 Comprehensive Annual Financial Report (CAFR), "Mission: Retirement."

The San Bernardino County Employees' Retirement Association (SBCERA) performance was out of this world, ranking in the top decile for public funds for the one year period. The Plan returned 15.05% (net of fees), reaching new heights and outperforming the actuarial assumed return of 7.75%.

There are three issues that received the Board's focus this year. First, the 2013 Asset Allocation Study was a key endeavor. A major objective of the study was to further the progress of the Plan's goal of improving the long-term stability of investment returns and increasing the probability of meeting or exceeding the Plan's actuarial hurdle on a consistent basis.

The findings of this asset allocation study support and continue the direction of its risk-focused strategic asset allocation and dynamic rebalancing program; a policy that was implemented in 2010 and refined over the last few years. Traditional stocks and bonds are likely to always be critical core holdings, but as prudent investors we believe that it is our responsibility to reduce the impact on the fund of major market dislocations like the bear market of 2000-2002 and the financial collapse in 2008. The economy is far from a "Sea of Tranquility," but things are looking up. The steps that we have taken over the last several years to improve the structure of our investment program should yield long term benefits to all of our stakeholders.

Second, in September 2012, Governor Brown signed AB 340, creating the Public Employees Pension Reform Act (PEPRA) and amending certain sections of the 1937 Act under which SBCERA operates. This new law will have a "Deep Impact" as it creates a new benefit tier for new employees/members entering SBCERA on or after January 1, 2013. The implementation of the new law took a great culmination of effort of staff, plan sponsors, and consultants in a short period of time.

Report from the Chairman of the Board

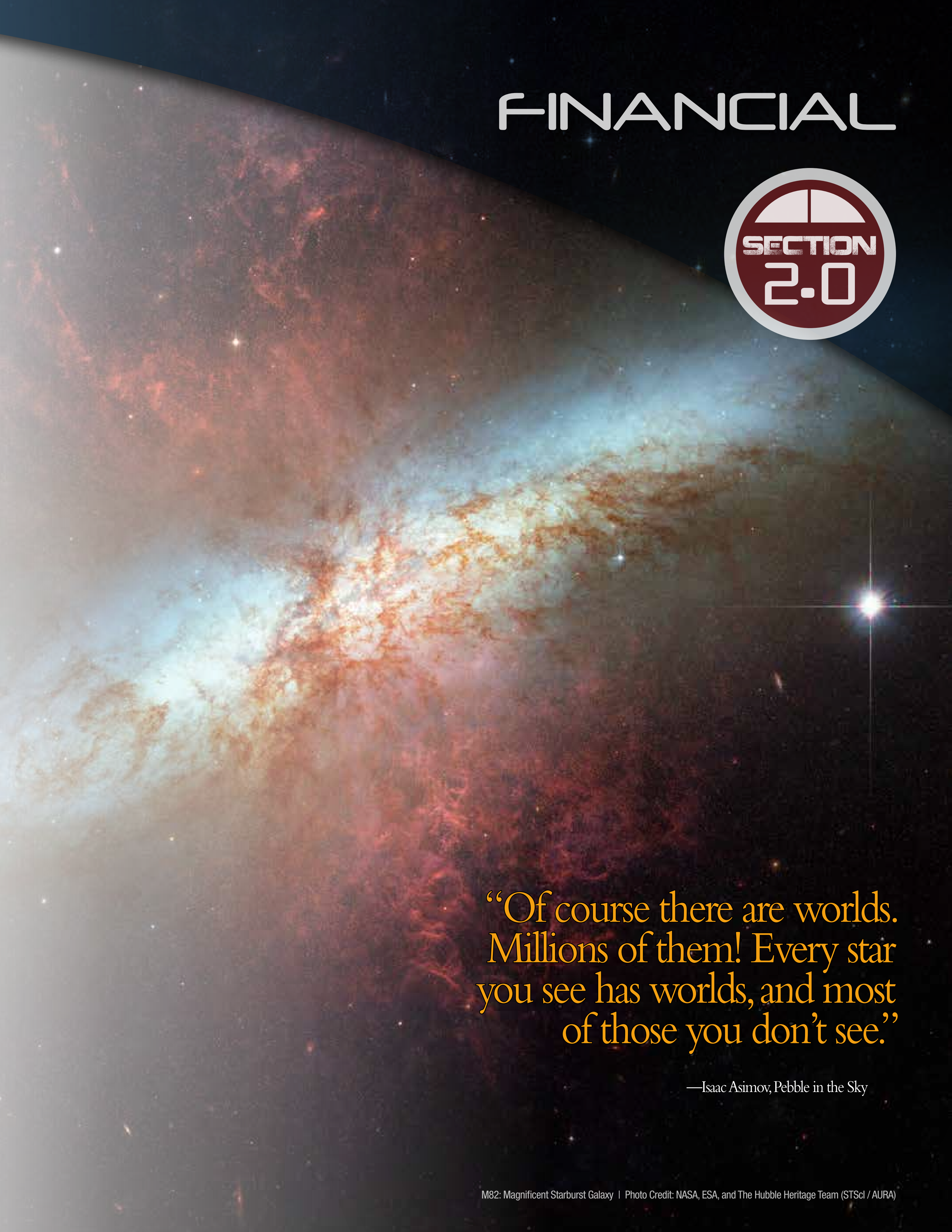
(Continued)

Finally, the Board recognizes the need to attract and retain rising stars, the high quality staff who help implement the ever expansive policies, procedures and strategies it takes to maintain the top-decile performance we have achieved and the outstanding customer service we provide our members. To meet these "New Horizons," the Board adopted the SBCERA Employment Resolution and SBCERA Salary Rate and Step Advancement Plan for SBCERA employees. The plan is designed to provide fair, equitable and consistent compensation to staff. This was not otherwise provided under the individual employment contracts previously utilized.

At SBCERA, exploring ways to exceed expectations in member service remains our primary mission with continued fiscal strength our destination.

Sincerely,

Dawn Stafford
Chairman, Board of Retirement



FINANCIAL

SECTION 2.0

"Of course there are worlds. Millions of them! Every star you see has worlds, and most of those you don't see."

—Isaac Asimov, Pebble in the Sky

M82: Magnificent Starburst Galaxy | Photo Credit: NASA, ESA, and The Hubble Heritage Team (STScI / AURA)

SECTION 2.0: FINANCIAL

The space shuttle Endeavour was the 5th shuttle to be built by NASA and one of its milestones was its 5th mission in December 1993. The 2.5 billion dollar Hubble Space Telescope had an issue with image quality that was affecting its primary purpose of relaying deep space images back to earth. In a series of complex operations involving 5 days of space walks, Endeavour's crew swapped out some of Hubble's components and fixed the telescope. SBCERA members reach a significant milestone in their careers when they vest in the plan upon earning 5 years of service credit. Vesting means members are now eligible to receive a future benefit from SBCERA.

Endeavour Docked with Hubble Telescope, Repair Team Gets to Work | Photo Credit: NASA / Ken Thornsley

Independent Auditor's Report

As of June 30, 2013

MGO Certified Public Accountants.

Los Angeles
777 S. Figueroa Street, Suite 2500
Los Angeles, CA 90017
213.408.8700

Sacramento

Walnut Creek

Oakland

Century City

Newport Beach

San Diego

Seattle

Independent Auditor's Report

To the Members of the
San Bernardino County Employees' Retirement Association Board of Retirement
San Bernardino, California

We have audited the accompanying statements of fiduciary net position of the San Bernardino County Employees' Retirement Association (SBCERA), as of June 30, 2013 and 2012, the related statements of changes in fiduciary net position for the years then ended, the statements of fiduciary net position of Pacific Public Partners (PPP) agency fund as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise SBCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SBCERA, as of June 30, 2013 and 2012, the fiduciary net position of the PPP agency fund as of June 30, 2013 and 2012, and the related changes in fiduciary net position of SBCERA for the years ended June 30, 2013 and 2012, in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

(Continued)

Emphasis of Matter

As discussed in Note 4 to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2013, SBCERA's third-party actuary determined that the actuarial accrued liability exceeded the actuarial value of assets by $1.88 billion.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SBCERA's basic financial statements. The introductory section, the other supplementary information in the financial section, and the investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Los Angeles, California
November 6, 2013

Management's Discussion and Analysis

June 30, 2013 and 2012

As management of the San Bernardino County Employees' Retirement Association (SBCERA), we offer readers of SBCERA's financial statements this narrative overview and analysis of the financial activities of SBCERA for the fiscal years ended June 30, 2013 and 2012. Readers are encouraged to consider the information presented here in conjunction with the Chief Executive Officer's Letter of Transmittal, included in the Introductory Section, as well as the basic financial statements as presented in this report.

Financial Highlights

- The net position - restricted for pension benefits of SBCERA at the close of the 2013 and 2012 fiscal years are $7.10 billion and $6.17 billion, respectively. All of the net position is available to meet SBCERA's ongoing obligations to plan participants and their beneficiaries.
- SBCERA's total net position - restricted for pension benefits increased by $931.22 million or 15.08% and $36.76 million or 0.60% as of June 30, 2013 and 2012, respectively. The increase in 2013 and 2012 are primarily a result of positive investment returns.
- Total additions as reflected in the Statements of Changes in Fiduciary Net Position for fiscal years 2013 and 2012 are $1.31 billion and $386.51 million, respectively. This includes employer and member contributions of $394.14 million, investment income of $911.80 million and net securities lending income of $510 thousand for fiscal year 2013, along with employer and member contributions of $346.72 million, investment income of $39.18 million and net securities lending income of $607 thousand for fiscal year 2012.
- Total deductions as reflected in the Statements of Changes in Fiduciary Net Position total $375.23 million for fiscal year 2013, an increase of $25.48 million over fiscal year 2012, or approximately 7.28%. Total Deductions for fiscal year 2012 were $349.75 million, an increase of $21.97 million over fiscal year 2011, or approximately 6.70%.
- SBCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. SBCERA engaged Segal Consulting to serve as its independent actuary. As of June 30, 2013, the date of our last actuarial valuation, and June 30, 2012, the funded ratio, which is the ratio of actuarial value of assets (market value of assets adjusted by smoothing market gains and losses over five years) to actuarial accrued liabilities for SBCERA was approximately 79.27% and 78.89%, respectively. If the market gains and losses were recognized immediately, the funded ratio would decrease to 78.17% at June 30, 2013 compared to 71.73% at June 30, 2012.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to SBCERA's financial statements. The financial statements and required disclosures are prepared in accordance with pronouncements (accounting principles and reporting guidelines) as set forth by the Governmental Accounting Standards Board (GASB). These pronouncements require certain disclosures and require SBCERA to report using the full accrual method of accounting. SBCERA complies with all material requirements of these pronouncements. SBCERA's financial statements are comprised of the following components:

1. Statements of Fiduciary Net Position
2. Statements of Changes in Fiduciary Net Position
3. Statements of Fiduciary Net Position - Agency Fund
4. Notes to Basic Financial Statements
5. Required Supplementary Information and Other Supplementary Information

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

The Statements of Fiduciary Net Position are a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and their beneficiaries, and any current liabilities owed as of fiscal year-end.

The Statements of Changes in Fiduciary Net Position reflect all the activities that occurred during the fiscal year and show the impact of those activities as additions or deductions to the Plan. The trend of additions versus deductions to the Plan will indicate the condition of SBCERA's financial position over time.

The Statements of Fiduciary Net Position - Agency Fund are a snapshot of account balances at year-end for the agency fund, Pacific Public Partners (PPP), a health investment trust fund. PPP is a separate legal entity; therefore, financial information for this fund is reported separately from the financial information presented for SBCERA. It indicates the assets held in trust and any liabilities owed at year-end. The Statements of Changes in Assets and Liabilities-Agency Fund is presented in the Other Supplementary Information section of this report (refer to Note 13 – Pacific Public Partners, for further information).

The Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position report information about SBCERA's activities. These statements include all assets and liabilities, using the full accrual method of accounting, which is similar to the accounting used by private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date, and both realized and unrealized gains and losses are shown on investments. In addition, all property and equipment are depreciated and intangible assets are amortized over their useful lives (refer to Note 2 – Summary of Significant Accounting Policies, see section for Capital Assets and Note 6 – Capital Assets, for further information).

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report SBCERA's net position - restricted for pension benefits (net position is the difference between assets and liabilities) as one way to measure the Plan's financial position. Over time, increases and decreases in SBCERA's net position are an indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring SBCERA's overall financial health (see SBCERA's financial statements following this analysis).

Notes to Basic Financial Statements (Notes) are an integral part of the financial reports. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements including a detailed discussion of key policies, programs, investments and activities that occurred during the year (see Notes to Basic Financial Statements section of this report).

Required Supplementary Information presents historical trend information concerning SBCERA's progress in funding its obligations to provide pension benefits to members. This information is based on actuarial valuations and contributes to the understanding of the changes in the actuarial funding progress of the Plan over the past ten years (see Required Supplementary Information section of this report).

Other Supplementary Information includes the Statements of Changes in Assets and Liabilities-Agency Fund, and the schedules of Administrative Expenses, Investment Expenses and Payments to Consultants which are all presented immediately following the Required Supplementary Information section of this report.

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

Financial Analysis

Net Position and Funding Ratio

Net position may serve over time as a useful indication of SBCERA's financial position (see Table 1, on page 20). As of June 30, 2013, SBCERA has $7.10 billion in net position, which means Total Assets of $7.50 billion exceed Total Liabilities of $398.07 million. As of June 30, 2012 and 2011, SBCERA had $6.17 billion and $6.14 billion in net position, respectively, as a result of Total Assets of $6.65 billion and $6.51 billion exceeding Total Liabilities of $473.10 million and $377.99 million, respectively. All of the net position is available to meet SBCERA's ongoing obligation to plan participants and their beneficiaries.

As of June 30, 2013, net position increased by $931.22 million thereby accounting for a 15.08% increase over the prior year, due primarily to gains in the fair market value of investments. As of June 30, 2012, net position increased by $36.76 million, thereby accounting for a 0.60% increase from the prior year due primarily to gains in the fair market value of investments, respectively.

In order to determine whether the $7.10 billion in net position will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. SBCERA's independent actuary, Segal Consulting, performed an actuarial valuation as of June 30, 2013 and determined the funding ratio of the actuarial value of assets to the actuarial accrued liability is 79.27% versus 78.89% for the fiscal year ended June 30, 2012. The June 30, 2012 funding ratio of 78.89% represents a lower ratio as compared to the funding ratio of 79.18% as of June 30, 2011. This calculation of funding status takes into account SBCERA's policy to smooth the impact of market volatility by spreading each year's gains or losses over five years. (Note: the Reserves section of this discussion provides additional information regarding the smoothing of the unrecognized losses from the June 30, 2011 valuation.) If the market gains and losses were recognized immediately, the funded ratio would decrease to 78.17% at June 30, 2013 compared to 71.73% and 74.93% at June 30, 2012 and 2011, respectively.

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The actuary must use assumptions regarding life expectancy, projected salary increases over time, projected retirement age and expected rate of return for the investment portfolio (7.75% rate of return was used for the June 30, 2013, 2012 and 2011 valuations). All assumptions used by the actuary are reviewed by the Board of Retirement, every three years.

The purpose of an actuarial valuation is to determine what future contributions by the members and the Plan sponsors are needed to pay all expected future benefits. This ratio shows as of the June 30, 2013, June 30, 2012 and June 30, 2011 valuations, SBCERA had approximately $.79, $.79 and $.79 available for each $1.00 of anticipated future liabilities, respectively.

Capital Assets

SBCERA's investment in capital assets increased from $2.16 million to $4.12 million (net of accumulated depreciation and amortization) between fiscal years 2012 and 2013 after increasing from $1.36 million to $2.16 million between fiscal years 2011 and 2012. This investment in capital assets includes equipment, furniture, leasehold improvements, software and technology infrastructure. The total increase in SBCERA's investment in capital and intangible assets as of June 30, 2013 and 2012 was $1.96 million and $797 thousand, respectively. The increases in both fiscal years are primarily due to the costs incurred for the development of internally generated software for a new pension administration system.

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

Fiduciary Net Position [Table 1]
As of June 30, 2013, 2012 and 2011 | (Amounts in Thousands)

Assets	(a) 2013	(b) 2012	(c) 2011	(a-b=e) Amount Increase/ (Decrease)	(e/b) Percent Increase/ (Decrease)
Current and other assets	$195,192	$170,060	$139,579	$25,132	14.78%
Investments at fair value	7,303,317	6,474,223	6,373,633	829,094	12.81%
Capital assets	4,117	2,156	1,359	1,961	90.96%
TOTAL ASSETS	**7,502,626**	**6,646,439**	**6,514,571**	**856,187**	**12.88%**
Liabilities					
Current liabilities	398,072	473,105	377,997	(75,033)	(15.86)%
TOTAL LIABILITIES	**398,072**	**473,105**	**377,997**	**(75,033)**	**(15.86)%**
NET POSITION - RESTRICTED FOR PENSION BENEFITS	**$7,104,554**	**$6,173,334**	**$6,136,574**	**$931,220**	**15.08%**

SBCERA's Reserves [Table 2]
As of June 30, 2013, 2012 and 2011 | (Amounts in Thousands)

	2013	2012	2011
Member deposit reserve[1]	$1,157,216	$1,116,023	$1,086,028
Employer current service reserve[1]	1,850,525	1,818,582	1,907,190
Contra account[1]	(1,730,943)	(1,469,395)	(1,328,624)
Pension reserve[1]	3,255,045	2,938,867	2,634,771
Cost of living reserve[1]	1,345,342	1,234,357	1,132,885
Annuity reserve[1]	1,267,683	1,094,032	927,684
Supplemental disability reserve[1]	9,128	8,738	8,299
Survivor benefit reserve[1]	50,051	47,376	44,776
Burial allowance reserve[2]	871	912	955
Retiree general subsidy reserve[2]	-	-	5,397
Restricted balance reserved for deficiencies[2]	-	-	65,146
TOTAL RESERVES	**7,204,918**	**6,789,492**	**6,484,507**
Net unrecognized gains/(losses)	(100,364)	(616,158)	(347,933)
PENSION BENEFITS INCLUDING NON-VALUATION RESERVES, AT MARKET VALUE	**$7,104,554**	**$6,173,334**	**$6,136,574**

(1) Included in valuation value of assets.

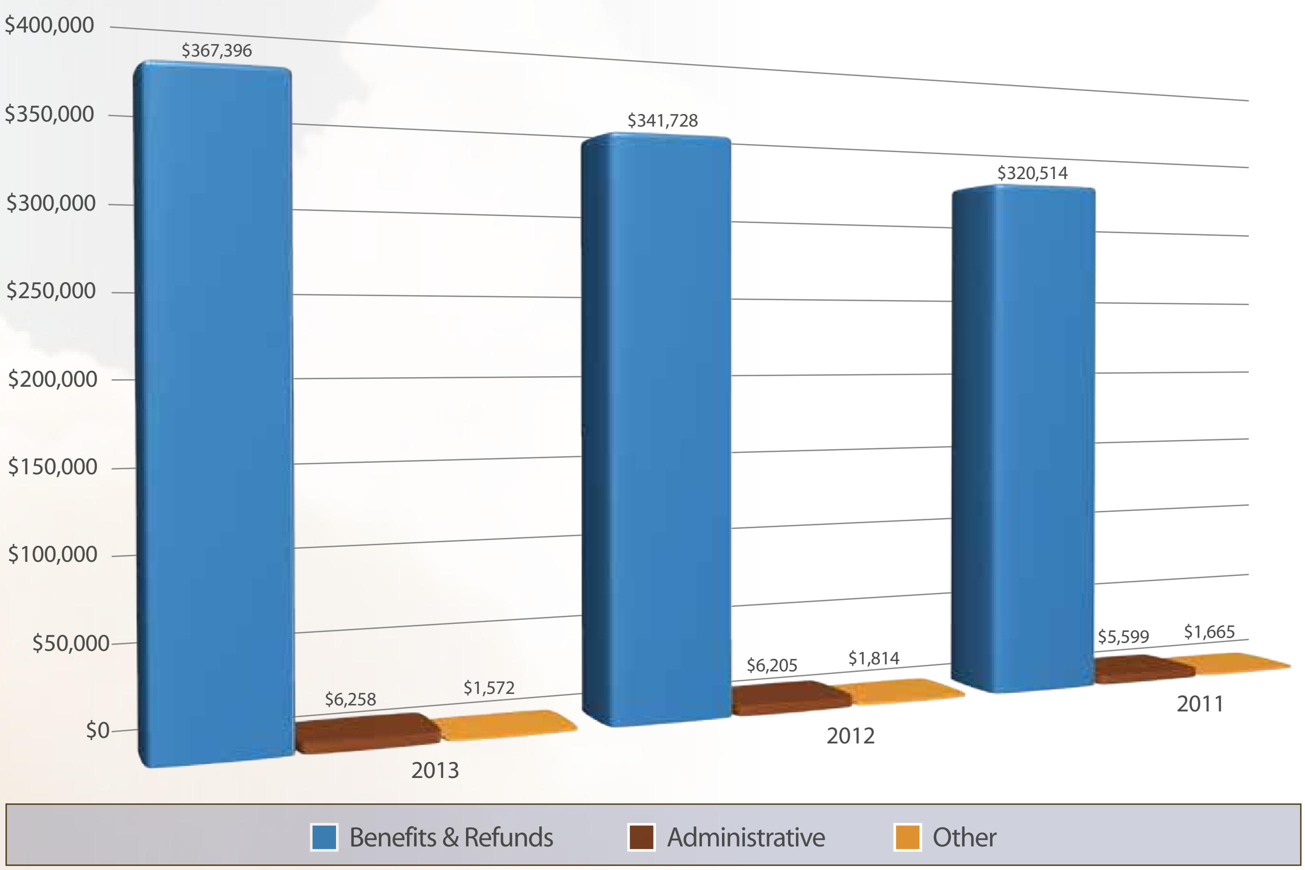
(2) Not included in valuation value of assets.

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

Changes in Fiduciary Net Position [Table 3]
For the Years Ended June 30, 2013, 2012 and 2011 | (Amounts in Thousands)

Additions	(a) 2013	(b) 2012	(c) 2011	(a-b=e) Amount Increase/ (Decrease)	(e/b) Percent Increase/ (Decrease)
Employer contributions	$303,080	$278,091	$258,128	$24,989	8.99%
Member contributions	91,056	68,630	59,612	22,426	32.68%
Net investment income[1]	911,800	39,179	1,116,622	872,621	2227.27%
Net securities lending income	510	607	516	(97)	(15.98)%
TOTAL ADDITIONS	**1,306,446**	**386,507**	**1,434,878**	**919,939**	**238.01%**
Deductions *(refer to graph below)*					
Benefits & refunds	367,396	341,728	320,514	25,668	7.51%
Administrative	6,258	6,205	5,599	53	0.85%
Other	1,572	1,814	1,665	(242)	(13.34)%
TOTAL DEDUCTIONS	**375,226**	**349,747**	**327,778**	**25,479**	**7.28%**
INCREASE IN NET POSITION-RESTRICTED FOR PENSION BENEFITS	**$931,220**	**$36,760**	**$1,107,100**	**$894,460**	**2433.24%**



(1) Net of Investment expenses of $100,285, $79,732 and $60,348 for June 30, 2013, 2012 and 2011, respectively.

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

Reserves

SBCERA's reserves are established from contributions and the accumulation of investment income, after satisfying investment, administrative and other expenses (see Table 2, on page 20). During the past several years, the following changes have been implemented and have impacted the reserve accounts and the amount of interest credited to those accounts:

- The implementation of a new Interest Crediting Procedures and Undesignated Excess Earnings Allocation Policy (POLICY) in 2005, a subsequent revision to the policy in 2012, and the implementation of a new Actuarial Funding Policy in 2012, which:
    - No longer requires the Restricted Balance Reserved for Deficiencies to be maintained unless excess earnings are available pursuant to POLICY.
    - Normal costs are now calculated on an individual basis, previously calculated on an aggregate basis, to comply with the Governmental Accounting Standards Board recommendations.
    - The amortization periods were adjusted for various future changes in liability. See Notes to the Required Supplementary Information section of this report.
- On March 13, 2012, the Board of Retirement approved an ad hoc adjustment to the asset smoothing method to combine the net deferred investment loss, from the June 30, 2011 actuarial valuation, into a single four-year smoothing layer.
- Previously, the $1,000 lump sum post-retirement death benefit (the Burial Allowance) was excluded from the valuation. Effective with the June 30, 2012 valuation, the liabilities associated with the vested $750 portion of the benefit have been included in the valuation (the remaining $250 is a discretionary benefit and is funded from undesignated excess earnings, subject at all times to the availability of funds in the Burial Allowance reserve).

Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. For actuarial purposes, it is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Retirement has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year, they are smoothed over a five-year period and, as a result, the asset value and the plan costs are more stable. These gains and losses are shown in the Net Unrecognized Gains/Losses reserve account. For the June 30, 2013 valuation, the net unrecognized loss from the June 30, 2011 valuation was smoothed into a single four-year smoothing layer (recognized in equal amounts over four years). This one-time layering adjustment was made to reduce the volatility associated with the deferred loss recognition of this amount and provide for more level employer contribution rates. Future deferred gains or losses will be smoothed pursuant to the Board approved Actuarial Funding policy (each year's gains or losses smoothed over five years).

Several factors contributed to a increase in the Unrecognized Gains/Losses reserve account of $(100.36) million at June 30, 2013 from $(616.16) million at June 30, 2012 and $(347.93) million at June 30, 2011 or increase of approximately $515.79 million to fiscal year 2013 from fiscal year 2012 and a decrease of $268.23 million to fiscal year 2012 from fiscal year 2011, respectively as follows:

- The overall increase in the fair value of investments in fiscal year 2013, 2012 and 2011.
- Interest crediting at the actuarial assumed interest rate (as dictated by the interest crediting policy) in fiscal years 2013, 2012 and 2011.
- The five-year smoothing of investment gains and losses.

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

- The adjustment to the asset smoothing method that combined the net deferred investment losses from the June 30, 2011 valuation into a single smoothing layer to be recognized in equal amounts over four years beginning with the June 30, 2012 valuation.
- The implementation of the new Actuarial Funding Policy and revised Interest Crediting Procedures and Undesignated Excess Earnings Allocation Policy which were discussed on page 22.

Additions and Deductions to Fiduciary Net Position

Additions:

The primary sources of financing SBCERA benefits is through the collection of employer and employee contributions and through earnings on investment income (net of investment expenses). Additions for the fiscal year ended June 30, 2013, totaled $1.31 billion compared to $386.51 million for June 30, 2012 and $1.43 billion for June 30, 2011 (See Table 3, on page 21). Overall additions increased by $919.94 million between fiscal years 2012 and 2013 due to a 2227.27% increase in net investment income from the prior year and a modest increase in total contributions. Additions decreased by $1.05 billion between 2011 and 2012, due to a significant decrease in the fair value of investments and investment income which was slightly offset by a modest increase in total contributions.

Income from net investment activity contributed $911.80 million for June 30, 2013 versus $39.18 million for June 30, 2012 and $1.12 billion for June 30, 2011. The overall increase was due a strong performance in the investment portfolio.

Deductions:

SBCERA was created to provide lifetime retirement benefits, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring Plan designated benefit payments, refunds of contributions to terminated employees and the cost of administering the Plan.

Deductions for the fiscal year ended June 30, 2013 totaled $375.23 million, an increase of $25.48 million or 7.28% over the June 30, 2012 amount of $349.75 million. The increase in deductions for the fiscal year ended June 30, 2012 were $21.97 million or 6.7% over the June 30, 2011 amount of $327.78 million (see Table 3, on page 21). The increases in all years are primarily due to the overall growth in the number of retirees and in the average amount of benefits paid to them. In addition, personnel costs (including cost of living increases and filling vacant positions) increased compared to June 30, 2012.

Pension Reform

Governor Jerry Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA), which became effective January 1, 2013. While it has been called one of the largest pieces of pension reform legislation on record, it will have minimal impact on current and retired SBCERA members hired prior to January 1, 2013. Most changes and provisions will affect new public employees hired on or after January 1, 2013. The major provisions include ending the purchase of Additional Retirement Credit (ARC) for all members, restricts the ability of a retiree to return to work for a public employer in the same retirement system without reinstatement to active service and a suspension of the retirement benefit unless certain conditions are met, and employers cannot adopt an enhanced benefit formula and apply it to past service. In addition, for new public employees, the legislation reduces benefit formulas, limits pensionable income, expands the final compensation period from one year to three years, and requires the new employee to pay a larger share of normal costs.

Management's Discussion and Analysis

June 30, 2013 and 2012
(Continued)

Future Standards

SBCERA will be subject to the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans* beginning with the fiscal year ending June 30, 2014 and SBCERA's employers will be subject to the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* beginning with the fiscal year ending June 30, 2015. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, and GASB Statement No. 68 replaces the requirements of GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50 as they relate to pension plans. These new standards will require governments to recognize their long-term obligation for pension benefits as a liability on their balance sheets, to recognize their annual pension expense as a comprehensive measurement of the annual cost of pension benefits and expands note disclosures and Required Supplementary Information for pension plans and their employers. SBCERA will continue to keep our employers informed as new guidance becomes available related to these new standards.

Overall Analysis

For the fiscal years ended June 30, 2013 and 2012, SBCERA's financial position and results from operations have experienced an increase over the prior year. For 2013, net position increased by $931.22 million over 2012. For 2012, net position increased by $36.76 million from 2011. The overall increase in net position for June 30, 2013 is primarily attributable to the increase in investment income and appreciation in the fair value of the Plan's broadly diversified portfolio. Despite fluctuations in the financial markets, SBCERA remains in a sound financial position to meet its obligations to plan participants and beneficiaries. The current financial position results from a very strong and successful investment program, risk management and strategic planning. As a long-term investor, SBCERA can take advantage of price volatility along with a diversified exposure to domestic and international equities, fixed income investments, natural resources, real estate, infrastructure, private equity and overlay programs. The Plan is recovering well from the general market downturn which occurred in 2009 and 2008 and SBCERA is well positioned with value focused assets to face future market fluctuations.

SBCERA's Fiduciary Responsibilities

SBCERA's Board and Management are fiduciaries of the pension trust fund. Under the California Constitution, and other applicable law, the assets can only be used for the exclusive benefit of Plan participants and their beneficiaries, and to defray the administrative and investment expenses of the Plan.

Requests for Information

The Comprehensive Annual Financial Report is designed to provide the Board of Retirement, our membership, taxpayers, investment managers and creditors with a general overview of SBCERA's finances and to account for the money it received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

San Bernardino County Employees' Retirement Association (SBCERA)
Fiscal Services Division
348 West Hospitality Lane, 3rd floor
San Bernardino, CA 92415-0014

FINANCIAL

Basic Financial Statements

SECTION 2.1

"The Congress hereby declares that it is the policy of the United States that activities in space should be devoted to peaceful purposes for the benefit of all mankind."

—National Aeronautics and Space Act of 1958

NGC 3582: Star Formation Region Nebula | Photo Credit: ESO, Digitized Sky Survey 2 and Joe DePasquale

SECTION 2.1: FINANCIAL

Basic Financial Statements

NASA added value to the shuttle Endeavour by using spare parts they had previously accrued. These parts were considered "recycled" pieces from both the shuttle Discovery and Atlantis. This allowed NASA to enhance Endeavour for little to no cost which allowed them to purchase more specialized equipment like a drag parachute to be used for more effective landings. SBCERA members are able to add value to their retirement by purchasing service credit for service they have previously accrued but otherwise would not be entitled to receive a benefit for. This includes Prior Public Agency Service, Sick Leave Without Pay, Past Ineligible Service and Redeposit of Withdrawn SBCERA Contributions.

Endeavour Engine Removal | Photo Credit: NASA / Jack Pfaller

Statements of Fiduciary Net Position

As of June 30, 2013 and 2012 (Amounts in Thousands)

ASSETS	2013	2012
Cash		
Cash pooled with County Treasurer	$6,460	$6,876
Cash in bank	3,583	3,857
TOTAL CASH	**10,043**	**10,733**
Receivables		
Securities sold	163,495	140,500
Accrued interest and dividends	1,582	1,595
Employer and employee contributions	16,632	13,877
Due from agency fund	1,007	1,007
Other	2,433	2,348
TOTAL RECEIVABLES	**185,149**	**159,327**
Investments, at fair value		
Short-term cash investment funds	994,285	737,213
Emerging market debt	300,697	234,453
United States government securities	154,917	112,799
Corporate bonds	57,249	15,456
Domestic common and preferred stock	461,501	379,763
Foreign common and preferred stock	185,797	259,631
Foreign bonds	52,486	48,841
Investments of cash collateral received on securities lending	98,196	160,285
Real estate	531,434	534,807
Domestic alternatives	3,333,102	3,087,403
Foreign alternatives	1,133,653	903,572
TOTAL INVESTMENTS, AT FAIR VALUE	**7,303,317**	**6,474,223**
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	**4,117**	**2,156**
TOTAL ASSETS	**7,502,626**	**6,646,439**

LIABILITIES		
Securities lending	98,689	161,521
Securities options payable	122,889	167,284
Payables for securities purchased	121,524	110,535
Mortgage notes payable	45,802	24,888
Other liabilities	9,168	8,877
TOTAL LIABILITIES	**398,072**	**473,105**
NET POSITION - RESTRICTED FOR PENSION BENEFITS	**$7,104,554**	**$6,173,334**

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

Statements of Changes in Fiduciary Net Position

For the Years Ended June 30, 2013 and 2012 (Amounts in Thousands)

ADDITIONS	2013	2012
Contributions		
Employers	$303,080	$278,091
Employees	91,056	68,630
TOTAL CONTRIBUTIONS	**394,136**	**346,721**
Investment Income		
Net appreciation in fair value of investments:		
Securities and alternative investments	956,696	64,678
Real estate	25,969	22,942
TOTAL NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	**982,665**	**87,620**
INTEREST INCOME ON CASH AND SECURITIES	**5,010**	**5,218**
Other Investment Income		
Dividend income	4,976	6,611
Net real estate rental income	19,143	19,462
Net income from commission recapture	291	-
TOTAL OTHER INVESTMENT INCOME	**24,410**	**26,073**
Less Investment Expenses		
Investment advisement fees	(81,896)	(62,926)
Other investment expense	(18,389)	(16,806)
TOTAL INVESTMENT EXPENSES	**(100,285)**	**(79,732)**
NET INVESTMENT INCOME	**911,800**	**39,179**
Securities Lending Income		
Earnings	686	825
Less: rebates and bank charges	(176)	(218)
NET SECURITIES LENDING INCOME	**510**	**607**
TOTAL ADDITIONS	**1,306,446**	**386,507**
DEDUCTIONS		
Benefits and refunds paid to participants and beneficiaries	367,396	341,728
Administrative expenses	6,258	6,205
Other expenses	1,572	1,814
TOTAL DEDUCTIONS	**375,226**	**349,747**
NET INCREASE IN NET POSITION	**931,220**	**36,760**
NET POSITION-RESTRICTED FOR PENSION BENEFITS		
Beginning of year	6,173,334	6,136,574
END OF YEAR	**$7,104,554**	**$6,173,334**

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

Statements of Fiduciary Net Position Agency Fund - Pacific Public Partners

As of June 30, 2013 and 2012 (Amounts in Thousands)

ASSETS	2013	2012
Accounts receivable	$1,007	$1,007
TOTAL ASSETS	**1,007**	**1,007**

LIABILITIES		
Due to SBCERA	1,007	1,007
TOTAL LIABILITIES	**1,007**	**1,007**
NET POSITION	**$ -**	**$ -**

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

Notes to Basic Financial Statements

June 30, 2013 and 2012

NOTE 1 – Significant Provisions of the Plan

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan – a cost sharing multiple employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Law of 1937 (the 1937 Act). SBCERA provides pensions for 18 active plan sponsors (employers) which are: The County of San Bernardino, Barstow Fire Protection District, California Electronic Recording Transaction Network Authority, California State Association of Counties, Crest Forest Fire Protection District, City of Big Bear Lake, City of Chino Hills, Crestline Sanitation District, Department of Water and Power of the City of Big Bear Lake, Hesperia Recreation and Park District, Inland Library System, Law Library for San Bernardino County, Local Agency Formation Commission, Mojave Desert Air Quality Management District, San Bernardino Associated Governments, SBCERA, South Coast Air Quality Management District (SCAQMD) and Superior Court of California County of San Bernardino.

SBCERA publishes its own Comprehensive Annual Financial Report and receives its own independent audit. SBCERA is a legally separate entity from the County of San Bernardino and not a component unit. For these reasons, the County of San Bernardino's Comprehensive Annual Financial Report excludes the SBCERA pension trust fund as of June 30, 2013. Management of SBCERA is vested in the SBCERA Board of Retirement, which acts as a fiduciary agent for the accounting and control of employer and employee contributions and investment income. The SBCERA Board of Retirement consists of nine voting members and two alternate members; four are appointed by the County of San Bernardino's Board of Supervisors, six (including the two alternates) are elected by the members of SBCERA (general members elect two members, safety members elect one member and one alternate and retired members elect one member and one alternate) and the County of San Bernardino Treasurer is an ex-officio member. The Plan's provisions may be amended by State legislature and in some cases require approval by the Board of Supervisors of San Bernardino County.

California Public Employees' Pension Reform Act

In September 2012, Governor Jerry Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA resulted in the creation of two new benefit formulas for members entering SBCERA on or after January 1, 2013: 2.5% at age 67 for new General Members and 2.7% at age 57 for new Safety Members. PEPRA also caps pensionable compensation at 120% of the Federal Social Security limit, reduces the amount of pay items eligible for pensionable compensation, changes the final average compensation used to calculate benefits from highest one-year average to a highest three-year average and requires members to pay at least 50% of the total normal cost of the Plan. SBCERA members subject to the provisions of PEPRA are considered Tier 2 members.

Membership and Benefit Eligibility

Employees (members) become eligible for membership on their first day of regular employment and members become fully vested after 5 years of service credit. SBCERA administers retirement benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 1 – Significant Provisions of the Plan

Membership and Benefit Eligibility (Continued)

SBCERA Membership
As of June 30, 2013 and 2012

	2013			2012		
	General	Safety	Total	General	Safety	Total
Retirees and beneficiaries currently receiving benefits	8,592	1,581	10,173	8,237	1,499	9,736
Terminated employees – vested	3,748	173	3,921	3,618	164	3,782
Current employees – vested	12,882	1,880	14,762	12,302	1,795	14,097
Current employees – nonvested	4,359	280	4,639	4,853	356	5,209
TOTAL	**29,581**	**3,914**	**33,495**	**29,010**	**3,814**	**32,824**

General Tier 1 members are eligible for retirement benefits upon completion of 10 years of service credit and attaining age 50, 30 years of service credit regardless of age or age 70 regardless of years of service credit. Safety Tier 1 members (law enforcement and fire suppression employees) have the same eligibility requirements as general members except they are required to complete only 20 years of service credit, regardless of age. Retirement benefits are calculated at 2% for General Tier 1 members and 3% for Safety Tier 1 members of final one-year average compensation earnable, as defined in Government Code sections 31462.1, 31676.15 and 31664.1 of the 1937 Act, for each completed year of service based on a normal retirement age of 55 for General members and 50 for Safety members. Tier 1 members with 30 or more years of service credit are exempt from paying member contributions.

General Tier 2 members are eligible for retirement benefits upon completion of 5 years of service credit and attaining age 52. Safety Tier 2 members (law enforcement and fire suppression employees) are eligible for retirement benefits upon completion of 5 years of service credit and attaining age 50. Retirement benefits are calculated at 2.5% for General Tier 2 members and 2.7% for Safety Tier 2 members of final three-year average pensionable compensation, as defined in Government Code sections 7522.20 and 7522.25(d) of the California Public Employees' Pension Reform Act of 2013, for each completed year of service based on a normal retirement age of 67 for General Tier 2 members and 57 for Safety Tier 2 members. Pensionable compensation for all Tier 2 members is limited each year by an annual cap, which is 120% of the Federal Social Security taxable wage base (adjusted each year based on changes in the consumer price index). The cap for calendar year 2013 is $136,440. Since pensionable compensation is capped, Tier 2 members are exempt from paying member contributions and employers are exempt from paying employer contributions on pensionable compensation paid in excess of the annual cap.

Withdrawn Employers

On May 4, 2013, Rim of the World Recreation and Park District (Rim) withdrew from SBCERA. Rim remains liable to SBCERA for their share of any unfunded actuarial liability, which is attributable to their employees who either have retired or will retire from SBCERA. SBCERA's actuary has determined their unfunded actuarial liability is $669 thousand.

On June 30, 2012, San Bernardino International Airport Authority and Inland Valley Development Agency withdrew from SBCERA. Both employers remain liable to SBCERA for their respective share of any unfunded actuarial liability, which is attributable to their employees who either have retired or will retire from SBCERA. SBCERA's actuary has determined their unfunded actuarial liability to be $3.6 million and $4.4 million, respectively.

On September 24, 2012, Barstow Fire Protection District (Barstow) filed a notice of intent to withdraw from SBCERA as of December 8, 2012; however, Barstow did not withdraw as indicated and remains an SBCERA employer as of June 30, 2013.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 1 – Significant Provisions of the Plan (Continued)

Terminated Member Benefits

If a member terminates before earning five years of service credit, the member forfeits the right to receive benefits and is entitled to withdraw refundable contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system and elects to keep these monies on deposit with SBCERA. On or after January 1, 2003, a member with less than five years of service may elect to leave accumulated contributions in the retirement fund indefinitely pursuant to Government Code section 31629.5. If a member terminates after five years of service credit, the member may elect to withdraw the refundable contributions, including interest earned or leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

Death and Disability Benefits

The Plan provides disability benefits to members and death benefits to beneficiaries of members.

Death before Retirement with Less than Five Years Service Credit

If a member with less than five years of service credit dies as a result of a non-work related incident, the spouse/registered domestic partner or dependent children will receive the member's refundable retirement contributions plus accumulated interest earned. In addition, the beneficiary will receive one month's salary for each completed year the member served to a maximum of six months pursuant to Government Code section 31781. If a General member has been a member continuously for at least eighteen months, the eligible spouse/registered domestic partner, eligible dependent children and eligible dependent parents will be entitled to survivor benefits.

Death before Retirement with More than Five Years Service Credit

A member who dies after earning at least five years of service credit, but whose death is not job-related, is entitled to leave the eligible spouse/registered domestic partner (or any eligible children) a monthly payment equal to 60% of the amount that would have been paid had the member retired with a nonservice-connected disability. If the member established reciprocity with another public pension plan, SBCERA will coordinate benefits with the last public employer pursuant to Government Code sections 31839 and 31840.

Death before Retirement Caused by Employment

If a member dies due to injury or disease arising out of or in the course of employment, the surviving spouse/registered domestic partner is eligible for a monthly allowance equal to the amount that would have been paid had the employee retired for a service-connected disability at the time of death. This amount is equal to 50% of the individual's final monthly compensation. If a Safety member dies while in the performance of duty, the spouse/registered domestic partner would receive an additional lump-sum payment equal to one year's salary. Furthermore, an additional death benefit of 25% of the annual death allowance may be payable for one eligible child and would increase to 40% for two children or 50% for three or more eligible children if the death qualifies pursuant to Government Code section 31787.5.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 1 – Significant Provisions of the Plan
Death and Disability Benefits (Continued)

Death after Retirement

If the unmodified retirement option was chosen as part of a service retirement, the eligible spouse/registered domestic partner would receive 60% of the retiree's monthly pay for the remainder of the spouse/registered domestic partner's life. The benefit increases to 100% if the member had been retired for a service-connected disability. The spouse/registered domestic partner's eligibility in the case of a service retirement is determined by whether the marriage/registered domestic partnership occurred at least 1 year prior to retirement. Alternatively for service retirement, under Government Code section 31786.1, the eligibility is determined based on whether the marriage/registered domestic partnership occurred at least 2 years prior to the date of death of the member and the spouse/registered domestic partner has attained the age of 55 years on or prior to the date of death of the member; however, in the case of a service-connected disability, the spouse/registered domestic partner must have been married/registered at least one day prior to retirement pursuant to Government Code section 31786. A burial allowance of $750 is payable to the deceased retiree's beneficiary or estate. An additional burial allowance of $250 is also payable to the deceased retiree's beneficiary or estate but it is discretionary, subject to the availability of funds in the Burial Allowance reserve.

If unmarried minor children are designated as the eligible beneficiary and the unmodified option was selected at retirement, the total benefit received is 60% of the retiree's monthly compensation which would be divided amongst the unmarried children (if more than one). The benefit continues until the unmarried child/children reaches age 18 or marries, whichever comes first. If the child/children remain unmarried and are enrolled as a full-time student in an accredited school, the benefit will continue up to the age of 22.

If one of the four modified retirement options are chosen as part of a service retirement, the monthly allowance is reduced for the retiree's lifetime and the eligible beneficiaries will receive either a lump-sum of the unused member contributions, 100% of the reduced monthly allowance for the life of the eligible beneficiary, 50% of the reduced monthly allowance for the life of the eligible beneficiary or a percentage of the monthly allowance, determined by the Board of Retirement and its independent actuary.

Disability Benefits

An active member who becomes permanently incapacitated as a result of a service-connected injury or illness is paid an annual disability allowance equal to the greater of 50 percent of the employee's final compensation or the normal service retirement benefits accumulated by the member as of the date of the disability application.

A member who becomes permanently incapacitated as a result of a non service-connected injury or illness is paid a monthly allowance, in general, which is one third of the member's final compensation per Government Code sections 31727.3(a) and 31727.3(b) if the member entered the retirement system prior to January 1, 1981. If the member entered the system on or after January 1, 1981, the benefit is 20% of final compensation earnable for five years of service and 2% for each additional whole year of service credit thereafter, up to a maximum of 40% of final compensation earnable pursuant to Government Code section 31727.7. If the service retirement benefits to which the member is entitled are higher, the member would be paid that amount.

Cost of Living Benefits

An automatic cost of living adjustment is provided based on changes in the Consumer Price Index (CPI) up to a maximum of 2% per year. Any increase greater than 2% is "banked" and may be used in years where the CPI is less than 2%. There is a one-time 7% increase at retirement for members hired before August 19, 1975.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 2 – Summary of Significant Accounting Policies

SBCERA follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB), including those required by GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures.*

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenues when due, pursuant to formal commitments and statutory requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by SBCERA is recorded as an increase (decrease) to investment income based on the valuation of investments at year end, which includes both realized and unrealized gains and losses on investments.

Cash

Cash includes cash on hand (petty cash), deposits with a financial institution and deposits with a pooled account managed by the San Bernardino County Treasurer. Refer to Note 9 – Deposits and Investments (see section for Cash and Deposits), for further information.

Investments

Investments are reported at fair value.

Fair value for investments of publicly traded securities is stated at fair value based upon closing sales prices reported on recognized securities exchanges on the last business day of the period or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. All purchases and sales of securities are accounted for on a trade date basis and dividends declared but not received are accrued on the ex-dividend date. Realized gains or losses of securities are determined on the basis of average cost.

Fair value for investments in limited partnerships and/or commingled funds of debt securities, equity securities, real estate, private equity, commodities, infrastructure and other alternatives is based on fund share price or percentage of ownership, provided by the fund manager or general partner, which is based on net asset value as determined by the fund manager or general partner. Fair value for these investments is reported by the fund manager and/or general partner on a monthly and/or quarterly basis and is supported by annual financial statements which are audited by an independent third party accountant. Where fair value information as of June 30, 2013 and 2012 was not available at the time of these financial statements due to timing issues, SBCERA has estimated fair value by using the most recent fair value information available from the fund manager/general partner and adding any contributions and/or deducting any distributions to/from the investment from the date of the most recent fair value information to June 30, 2013 and 2012.

Fair value for investments in separately owned real estate is based on independent appraisals obtained every three years along with quarterly valuations performed by SBCERA's individual real estate advisors in accordance with the Real Estate Information Standards of the National Council of Real Estate Investment Fiduciaries.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 2 – Summary of Significant Accounting Policies
Basis of Accounting (Continued)

Derivatives
The Plan uses financial instruments such as derivatives and similar transactions to gain exposure to various financial markets and reduce its exposure to certain financial market risks for purposes of investments only. The financial instruments are valued at fair value and, as such, gains and losses are recognized daily based on changes in their fair value. These changes are reflected as income on the Statements of Changes in Fiduciary Net Position. The use of these financial instruments exposes the Plan to the risk of dealing with financial counter-parties and to market risk associated with a possible adverse change in interest rates, equity values, and currency movement. The Plan may have additional exposure to derivative instruments through investments in commingled funds whose strategies may include the use of derivatives to gain exposure to various financial markets and reduce its exposure to certain financial market risks. Refer to Note 9 – Deposits and Investments, for further information.

Reserves
Employer and employee contributions are allocated to various reserve accounts based on actuarial determinations. Funds in excess of reserve requirements are allocated first to prior year shortfalls (the Contra Account), then 3% of the market value of assets are set aside as a contingency reserve for future losses and any excess is then allocated to the Employer Current Service Reserve, maintained as an Additional Contingency Reserve or held as undesignated excess earnings pursuant to the Interest Crediting Procedures and Undesignated Excess Earnings Allocation policy. Refer to Note 8 – Net Position - Restricted for Pension Benefits, for further information.

Income Taxes
The Internal Revenue Service has ruled the Plan qualifies under section 401(a) of the Internal Revenue Code and is therefore not subject to tax under present income tax laws. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from Federal and state income taxes.

Administrative Expenses
The SBCERA Board of Retirement annually adopts the operating budget for the administration of SBCERA. The administrative expenses are charged against the earnings of the retirement fund. Pursuant to Government Code section 31580.2, administrative expenses incurred in any one year are not to exceed twenty-one hundredths of one percent (0.21%) of SBCERA's actuarial accrued liabilities. Administrative expenses did not exceed this limitation.

Pursuant to Government Code sections 31522.5, 31522.7, 31580.2, 31529.9, 31596.1 and 31699.9, certain expenses are excluded from the limits described above for investment costs, actuarial service costs, legal service costs, technology costs and fiduciary trust activities allocated to Pacific Public Partners (refer to Note 13 – Pacific Public Partners, for further information); therefore, investment costs were offset against investment income, and actuarial service costs, technology costs and non-investment legal service costs are all reported on the Statements of Changes in Fiduciary Net Position as Other Expenses. Allocated costs for Pacific Public Partners are reflected on the Statements of Changes in Assets and Liabilities-Agency Fund in the Other Supplementary Information section of this report. A schedule of Administrative Expenses subject to the statutory limitation described above is also included in the Other Supplementary Information section of this report.

Management's Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 2 – Summary of Significant Accounting Policies
Basis of Accounting (Continued)

Capital Assets

Capital assets are recorded at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. The recovery period for qualified leasehold improvement property is 39 years after December 31, 2009 pursuant to the revised Internal Revenue Code section 168.

GASB Statement No. 51 requires SBCERA to identify and capitalize costs incurred for the development of internally generated software. There are three stages in the development and installation of internally generated software: (1) Preliminary Project Stage, (2) Application and Development Stage and (3) Post-Implementation/Operation Stage. All outlays related to the Application and Development Stage must be capitalized. SBCERA began developing a new Pension Administration System (PensionGold Public Edition-PE) in 2010 and $1.97 million and $1.03 million in expenses, related to the PE project, were capitalized for the years ended June 30, 2013 and 2012, respectively. These intangible assets are included as capital assets in the Statements of Fiduciary Net Position.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 62

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which do not conflict with or contradict other GASB pronouncements. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 63

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources and the resulting net position. This statement is effective for periods beginning after December 15, 2011. SBCERA implemented this statement in the accompanying financial statements as of June 30, 2013. With the provision of GASB No. 63, the Statement of Net Assets became the Statement of Net Position. The new standard clarifies where these elements are to be reported in the statement of financial position. GASB Statements No. 53 and No. 60 previously identified certain transactions requiring the use of deferred outflows and deferred inflows of resources. Based on review and analysis of GASB Statements No. 53 and No. 60, SBCERA does not have these types of transactions.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 3 – Securities Lending

SBCERA, pursuant to a Securities Lending Authorization Agreement, has authorized State Street Bank and Trust Company (State Street) to act as SBCERA's agent in lending the Plan's securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

State Street lent, on behalf of SBCERA, certain securities of the Plan held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States Government. The types of securities loaned are U.S. Government and Agency, Domestic Equity, Domestic Fixed Income, International Equity and International Fixed Income securities. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities, for the year ended June 30, 2013 and 2012.

SBCERA did not impose any restrictions during the fiscal year on the amount of loans that State Street made on its behalf and pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify SBCERA in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year ended June 30, 2013 and 2012, SBCERA and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. The pools are not rated. All securities in these pools with maturities of 13 months or less are rated at least "A1", "P1" or "F1" and maturities in excess of 13 months are rated at least "A-" or "A3", by at least two nationally recognized statistical rating organizations or if unrated, be determined by the bank to be of comparable quality. As of June 30, 2013, such investment pools had an average duration of 29 days and 44 days, for the liquidity pool and the duration pool, respectively. Additionally, the average weighted final maturity was 85 days and 1,972 days, for the liquidity pool and the duration pool, respectively. As of June 30, 2012, such investment pools had an average duration of 36 days and 40 days, for the liquidity pool and the duration pool, respectively. Additionally, the average weighted final maturity was 73 days and 1,329 days, for the liquidity pool and the duration pool, respectively. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

On June 30, 2013 SBCERA had no credit risk exposure to borrowers. As of June 30, 2013, the fair value of securities on loan was $107.68 million with the fair value of cash collateral received for the securities on loan of $98.2 million and non-cash collateral of $12.21 million. As of June 30, 2012, the fair value of securities on loan was $210.57 million with the fair value of cash collateral received for the securities on loan of $160.29 million and non-cash collateral of $56.8 million.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 4 – Funding Policy

Contributions

Participating active members are required by statute (Government Code sections 31621.6, 31639.25 and 7522.30) to contribute a percentage of covered salary based on certain actuarial assumptions, their age at entry into the Plan (if applicable) and their tier. The funding objective of the Plan is to establish contribution rates which, over time, will remain level as a percentage of payroll unless the Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Actuarial Cost method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). The UAAL is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets. The amortization period for the UAAL is 20 years for all combined UAAL existing through June 30, 2002, with 9 years of amortization remaining at June 30, 2013. Any new UAAL after June 30, 2002 is amortized over a closed 20-year period effective with that valuation.

Commencing with the June 30, 2012 valuation, any increase in UAAL resulting from the Plan amendments will be amortized over a period of 15 years; temporary retirement incentives, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 Act (Golden Handshake) will be amortized over a period of 5 years. If an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus), such surplus and any subsequent surpluses will be amortized over an "open" amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over 20 years as the first of a new series of amortization layers. The amortization policy components apply separately to each of SBCERA's UAAL cost sharing groups. For the Survivor Benefit valuation, the same amortization policy components apply, except that a level dollar methodology is used instead of a level percent of payroll.

For actuarial valuation purposes, plan assets are valued at market value of assets less unrecognized gains and losses from each of the last 5 years. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the actual market return and the expected market return over a 5-year period. To reduce the volatility associated with the deferred loss recognition and provide for more level employer contribution rates, on March 13, 2012, the Board of Retirement approved an ad hoc adjustment to the asset smoothing method to combine the net deferred investment loss, from the June 30, 2011 actuarial valuation, into a single 4-year smoothing layer. Future deferred gains or losses will be smoothed pursuant to the Board approved Actuarial Funding policy (each year's gains or losses smoothed over 5 years).

Participating employers are required by Government Code sections 31453.5, 31454 and 31581 to contribute a percentage of covered salary to the Plan. The contribution requirements of participating active members and employers are established and may be amended by the SBCERA Board of Retirement pursuant to Article 1 of the 1937 Act. Participating employers may pay a portion of the participating active employees' contributions through negotiations and bargaining agreements. Contribution rates determined in each actuarial valuation (as of June 30) apply to the fiscal year beginning 12 months after the valuation date. Any shortfall or excess contributions, as a result of this implementation lag, are amortized as part of SBCERA's UAAL in the following valuation.

Effective January 1, 2013, new SBCERA members subject to the provisions of the California Public Employees' Pension Reform Act of 2013 (PEPRA) are considered Tier 2 members. PEPRA established two new benefit formulas for Tier 2 members: 2.5% at age 67 for new General Members and 2.7% at age 57 for new Safety Members and requires these members to pay at least 50% of the total normal cost of the Plan; therefore, SBCERA's actuary prepared a study in November 2012 to determine the employer and member contribution rates for this new tier of benefits effective January 1, 2013.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 4 – Funding Policy

Contributions (Continued)

The following schedules summarize the required employer contribution rates in effect for the years ended June 30, 2013 and 2012. Contribution rates are expressed as a percentage of covered payroll.

Employer Contribution Rates
For the Year Ended June 30, 2013

Actuarially Determined Required Contribution Percentages	Tier 1 Members[1]			Tier 2 Members[2]		
	Normal Cost	For Unfunded Actuarial Accrued Liability (UAAL)	Total	Normal Cost	For Unfunded Actuarial Accrued Liability (UAAL)	Total
County General members	9.41%	7.71%	**17.12%**	7.51%	7.71%	**15.22%**
County Safety members	19.24%	17.15%	**36.39%**	12.64%	17.15%	**29.79%**
Superior Court members	9.41%	9.15%	**18.56%**	7.51%	9.15%	**16.66%**
SCAQMD members	9.98%	13.17%	**23.15%**	7.51%	13.17%	**20.68%**
Other General members	10.66%	15.11%	**25.77%**	7.51%	15.11%	**22.62%**
Other Safety members	20.35%	31.38%	**51.73%**	12.64%	31.38%	**44.02%**

Employer Contribution Rates
For the Year Ended June 30, 2012

Actuarially Determined Required Contribution Percentages	Tier 1 Members[3]			Tier 2 Members[4]		
	Normal Cost	For Unfunded Actuarial Accrued Liability (UAAL)	Total	Normal Cost	For Unfunded Actuarial Accrued Liability (UAAL)	Total
County General members	9.27%	5.23%	**14.50%**	N/A	N/A	**N/A**
County Safety members	19.16%	11.73%	**30.89%**	N/A	N/A	**N/A**
Superior Court members	9.27%	7.61%	**16.88%**	N/A	N/A	**N/A**
SCAQMD members	9.72%	9.61%	**19.33%**	N/A	N/A	**N/A**
Other General members	10.57%	11.81%	**22.38%**	N/A	N/A	**N/A**
Other Safety members	20.24%	26.67%	**46.91%**	N/A	N/A	**N/A**

Funding Status and Method

Schedule of Funding Progress
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[5] (a)	Actuarial Accrued Liability (AAL)[5] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
6/30/2013	$7,204,918	$9,088,636	$1,883,718	79.27%	$1,262,752	149.18%

(1) Rates are in accordance with the June 30, 2011 actuarial valuation.
(2) Rates are effective January 1, 2013 and are in accordance with the November 21, 2012 CalPEPRA New Tiers of Benefits for New Members actuarial study.
(3) Rates are in accordance with the June 30, 2010 actuarial valuation.
(4) N/A=rates are not applicable for Tier 2 members until January 1, 2013.
(5) See required supplementary information.
Note: Percentages listed for Employer Contribution Rates do not include additional contributions that may be owed for any outstanding pension obligation bonds.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 4 – Funding Policy (Continued)

Latest Actuarial Valuation Methods and Assumptions

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level percent of payroll (4.00% payroll growth assumed)
Remaining Amortization Period	20 years for all UAAL prior to June 30, 2002. Any changes in UAAL after June 30, 2002 are amortized over a 20-year closed period effective with each valuation. Effective June 30, 2011, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years).
Asset Valuation Method	Market value of assets less unrecognized returns from each of the last 5 years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a 5-year period. If the market gains and losses were recognized immediately, the funded ratio would decrease from 79.27% to 78.17% at June 30, 2013 compared to a decrease from 78.89% to 71.73% at June 30, 2012. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of 4 years commencing with the June 30, 2012 valuation. As of June 30, 2013, the net unrecognized deferred loss is $100.36 million.

Actuarial Assumptions:

Investment Rate of Return[1]	7.75%
Projected Salary Increases[2]	General: 4.75% to 14.00%; Safety: 4.75% to 14.00%
Cost of Living Adjustments	Contingent upon CPI with a 2% maximum

The June 30, 2013 actuarial valuation reflected the same method and assumptions as the June 30, 2012 actuarial valuation; however, new assumptions were included in the June 30, 2013 valuation for retirement rates and increases in the Government Code section 7522.10 compensation limit to account for the new Tier 2 members.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

(1) Includes inflation at 3.50%.
(2) Includes inflation at 3.50%, "across the board" increases of 0.50%, plus merit and promotional increases.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 5 – Real Estate

The Plan invests in real estate projects through purchases of office buildings, retail buildings, residential buildings, industrial buildings, REITs, limited partnerships and other commingled funds. The estimated fair value of the Plan's real estate investments at June 30, 2013 and 2012 is $531.43 million and $534.81 million, respectively.

Future minimum rentals due to the Plan under noncancelable, multi-year real estate operating leases for directly held real estate are as follows:

Future Minimum Rentals
(Amounts in Thousands)

Years Ended June 30	
2014	$9,298
2015	9,092
2016	8,541
2017	7,906
2018	7,610
2019-2023	2,950
TOTAL	**$45,397**

NOTE 6 – Capital Assets

Capital assets are summarized as follows for June 30, 2013 and 2012 (Amounts in Thousands):

	Balance June 30, 2012	Reclassifications and Additions	Reclassifications and Deletions	Balance June 30, 2013
Furniture, equipment and leaseholds	$5,673	$225	$-	$5,898
Computer software	1,413	1,966	-	3,379
Accumulated depreciation	(4,759)	(194)	-	(4,953)
Accumulated amortization	(171)	(36)	-	(207)
TOTAL	**$2,156**	**$1,961**	**$-**	**$4,117**

	Balance June 30, 2011	Reclassifications and Additions	Reclassifications and Deletions	Balance June 30, 2012
Furniture, equipment and leaseholds	$5,634	$39	$-	$5,673
Computer software	377	1,036	-	1,413
Accumulated depreciation	(4,594)	(212)	47	(4,759)
Accumulated amortization	(58)	(113)	-	(171)
TOTAL	**$1,359**	**$750**	**$47**	**$2,156**

Depreciation and amortization expense totaled $230 and $277 for the years ended June 30, 2013 and 2012, respectively.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 7 – Notes Payable

The Plan has real estate investments which are secured by mortgage obligations (Notes Payable). Activities related to such notes are as follows:

Notes Payable
(Amounts in Thousands)

	June 30, 2013	June 30, 2012
Beginning Balance	$24,888	$25,133
Additions	30,000	-
Deductions	(9,086)	(245)
ENDING BALANCE	**$45,802**	**$24,888**

Notes payable consist of the following at June 30, 2013 and 2012:

Note Payable, secured by the Verano property, a 400-unit garden-style, suburban apartment community is payable in monthly installments of interest only at a fixed rate of 6.12%. The term of the loan is 10 years and matures on June 1, 2016. Beginning July 1, 2012, the loan required monthly installments of principal and interest with a balloon payment due at maturity. After June 1, 2010, the loan may be prepaid with a prepayment fee of the greater of 1% of the existing principal balance or an amount determined by a yield maintenance formula. SBCERA's ownership interest in this property is 94.82%. As of June 30, 2013 and 2012, SBCERA's share of the outstanding balance on this note was $16.39 million and $16.50 million (net of deferred financing costs), respectively.

Note Payable, secured by the 810 First Street, Washington D.C. property, an eleven-story office building, is payable in monthly installments of interest only at a fixed rate of 3.25% commencing August 1, 2013 and the principal is due upon maturity. The term of the loan is 5 years and matures on July 1, 2018. Prepayment of principal is permitted after the expiration of the lockout period on June 30, 2015. After June 30, 2015, the loan may be prepaid in full with a prepayment fee of the greater of 1% of the existing principal balance or an amount determined by a yield maintenance formula. As of June 30, 2013, the outstanding balance on this note was $29.41 million (net of deferred financing costs). In June 2013 the proceeds from this loan were used to fully repay the previous note payable on this property. The previous note was payable in monthly installments of principal and interest based upon a 30-year amortization schedule. As of June 30, 2013 and 2012, the outstanding balance on the previous note payable was $0 and $8.39 million (net of deferred financing costs), respectively.

The annual requirements to amortize long-term debt, including interest of $8.34 million are as follows:

Amortization of Long-Term Debt
(Amounts in Thousands)

Years Ended June 30	
2014	$2,103
2015	2,184
2016	17,822
2017	975
2018	975
2019-2023	30,081
SUBTOTAL	**54,140**
Less interest	(8,338)
TOTAL	**$45,802**

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 8 – Net Position - Restricted for Pension Benefits

Member and employer contributions are allocated to various legally-required reserve accounts based on actuarial determinations. All reserves, except survivors' benefits and burial allowance reserves are fully funded. Set forth below are descriptions of the purpose of each reserve account.

Member deposit reserve - the reserve represents the total accumulated contributions of members.

Employer current service reserve - the reserve includes the total accumulated contributions of the employer held for the benefit of non-retired general and safety members on account of service rendered as a member of the retirement system.

Contra account - represents the amount of interest credited to the reserve accounts that have not been paid for out of current or excess earnings. A balance in this account is the result of applying the full interest crediting policy of the Board and will be replenished in subsequent periods as sufficient earnings allow.

Pension reserve - the reserve represents total accumulated contributions of the employer held for the benefit of retired members on account of service rendered as a member of the retirement system less the pension payments made to retired members.

Cost of living reserve - the reserve represents the accumulated contributions of the employer to be used to pay cost of living payments.

Annuity reserve - the reserve includes the total accumulated contributions of retired members less the annuity payments made to the members.

Supplemental disability reserve - the reserve represents the accumulated contributions of the employer to pay supplemental disability payments.

Survivor benefit reserve - the reserve represents the accumulated contributions of the employer and employees to be used to pay retirees' survivor benefit allowances.

Burial allowance reserve - the reserve represents the excess earnings allocated by the Board to pay retirees' discretionary burial allowance. In 1985 the Board of Retirement adopted Government Code section 31789.13 which provides an additional $250 burial allowance to retired SBCERA members.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 8 – Net Position - Restricted for Pension Benefits (Continued)

The various reserve accounts, comprise net position - restricted for pension benefits under the 5-year smoothed market asset valuation method for actuarial valuation purposes (refer to Note 4 – Funding Policy, for further information).

Reserves
As of June 30, 2013 and 2012 | (Amounts in Thousands)

	2013	2012
Valuation Reserves		
Member deposit reserve	$1,157,216	$1,116,023
Employer current service reserve	1,850,525	1,818,582
Contra account	(1,730,943)	(1,469,395)
Pension reserve	3,255,045	2,938,867
Cost of living reserve	1,345,342	1,234,357
Annuity reserve	1,267,683	1,094,032
Supplemental disability reserve	9,128	8,738
Survivor benefit reserve	50,051	47,376
TOTAL RESERVED FOR PENSION BENEFITS	**7,204,047**	**6,788,580**
Non-Valuation Reserves		
Burial allowance reserve	871	912
SUBTOTAL - NON-VALUATION RESERVES	**871**	**912**
TOTAL RESERVES (SMOOTHED MARKET ACTUARIAL VALUE)	**7,204,918**	**6,789,492**
Net unrecognized (losses)	(100,364)	(616,158)
NET POSITION-RESTRICTED FOR PENSION BENEFITS INCLUDING NON-VALUATION RESERVES, AT MARKET VALUE	**$7,104,554**	**$6,173,334**

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments

Cash and Deposits

The Board of Retirement (Board) is authorized by the 1937 Act to deposit monies for the purpose of paying benefits and administrative costs. Operational cash accounts are held with a financial institution in the amount of $3.58 million and $3.86 million at June 30, 2013 and 2012, respectively. Except for a nominal balance, operational cash accounts held with a financial institution are swept into a pooled money market fund which invests in repurchase agreements and U.S. Treasuries. Operational cash accounts are also held with the County of San Bernardino Treasurer's Investment Pool (SBCIP) in the amount of $6.46 million and $6.88 million at June 30, 2013 and 2012, respectively. The SBCIP is an external investment pool and is not registered with the Securities and Exchange Commission (SEC). At June 30, 2013 and 2012, the SBCIP has a weighted average maturity of 381 and 357 days, respectively. The SBCIP is not rated. The deposits in the SBCIP are reported at amortized cost which approximates fair value. For further information regarding the SBCIP, refer to the County of San Bernardino Comprehensive Annual Financial Report.

Investments

The Board is authorized by the 1937 Act to invest in any form or type of investment deemed prudent in the informed opinion of the Board. The 1937 Act vests the Board with exclusive control over SBCERA's investment portfolio. The Board has adopted its Investment Plan, Policy and Guidelines, which provide the framework for the management of SBCERA's investments, in accordance with applicable local, State and Federal laws. The Board members exercise authority and control over the management of SBCERA's assets (the Plan) by setting policy, which the Investment Staff executes either internally or through the use of external prudent experts. SBCERA retains investment managers specializing in specific strategies and/or investments within a particular asset class. Investment managers are subject to the guidelines and controls established in SBCERA's Investment Manager Guidelines, limited partnership agreements and other applicable fund documents.

The Investment Plan, Policy and Guidelines encompass the following:

- Asset Allocation Plan and Rebalancing Policy
- Investment Structure Policy
- Investment Manager and Composite Benchmarks and Policies
- Proxy Voting Policy
- Securities Litigation Policy
- Securities Lending Program Policy
- Due Diligence – Investment Program Monitoring and Compliance Policy
- Transition Management Policy
- Investment Manager Guidelines
- Real Estate Strategic Plan
- Private Equity Strategic Plan

Derivatives

As described in Note 2 – Summary of Significant Accounting Policies, SBCERA only invests in investment derivative instruments and did not enter into any synthetic guaranteed investment contracts or hedging derivative instruments. SBCERA does post collateral for investment derivatives for speculation purposes pursuant to clearing requirements or swap agreements.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments
Derivatives (Continued)

The following tables provide a summary of the derivative instruments outstanding as of June 30, 2013 and 2012.

Derivative Instruments Outstanding
As of June 30, 2013 | (Amounts in Thousands)

	Changes in Fair Value[4]		Fair Value at June 30, 2013		
Investment Derivatives	Classification	Amount[1]	Classification	Amount[2]	Notional[3]
Commodity Futures Long	Investment Income	$(1,543)	Futures	$-	6,994
Commodity Futures Short	Investment Income	237	Futures	-	(1)
Credit Default Swaps Bought	Investment Income	(1,573)	Swaps	(6,469)	$225,000
Equity Options Bought	Investment Income	(31,480)	Options	4,651	7,990
Equity Options Written	Investment Income	37,478	Options	(8,911)	(12,464)
Fixed Income Futures Long	Investment Income	995	Futures	-	308,000
Fixed Income Futures Short	Investment Income	3,855	Futures	-	(8,298,100)
Fixed Income Options Bought	Investment Income	483	Options	42,871	14,346,125
FX Forwards	Investment Income	2,094	Long Term Instruments	1,484	$297,785
Index Futures Long	Investment Income	184,671	Futures	-	12,549
Index Options Bought	Investment Income	29,336	Options	33,870	722
Index Options Written	Investment Income	110,691	Options	(113,978)	(4,080)
Rights	Investment Income	1	Common Stock	-	$-
Total Return Swaps Bond	Investment Income	(56,149)	Swaps	(4,544)	$495,305
Total Return Swaps Equity	Investment Income	18,880	Swaps	1,354	$(131,611)
TOTAL		**$297,976**		**$(49,672)**	

Derivative Instruments Outstanding
As of June 30, 2012 | (Amounts in Thousands)

	Changes in Fair Value[4]		Fair Value at June 30, 2012		
Investment Derivatives	Classification	Amount[1]	Classification	Amount[2]	Notional[3]
Commodity Futures Long	Investment Income	$(3,398)	Futures	$-	7,841
Commodity Futures Short	Investment Income	829	Futures	-	-
Credit Default Swaps Bought	Investment Income	14,435	Swaps	4,137	$148,500
Equity Options Bought	Investment Income	(10,472)	Options	3,722	1,289
Equity Options Written	Investment Income	9,946	Options	(3,631)	(1,934)
Fixed Income Futures Long	Investment Income	7,048	Futures	-	1,607,600
Fixed Income Options Bought	Investment Income	(24,064)	Options	24,480	14,221,125
Futures Options Bought	Investment Income	(5)	Options	-	-
FX Forwards	Investment Income	(4,130)	Long Term Instruments	1,471	$218,090
Index Futures Long	Investment Income	11,708	Futures	-	11,032
Index Futures Short	Investment Income	(1,183)	Futures	-	-
Index Options Bought	Investment Income	(10,052)	Options	-	-
Index Options Written	Investment Income	(28,137)	Options	(163,652)	(10,591)
Rights	Investment Income	63	Common Stock	-	$-
Total Return Swaps Bond	Investment Income	3,314	Swaps	(7,045)	$427,613
Total Return Swaps Equity	Investment Income	(29,940)	Swaps	814	$(135,389)
TOTAL		**$(64,038)**		**$(139,704)**	

(1) Negative values (in brackets) refer to losses.
(2) Negative values refer to liabilities.
(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions.
(4) Excludes futures margin payments.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments
Derivatives (Continued)

The counterparty credit ratings of SBCERA's investment derivative instruments outstanding and subject to loss as of June 30, 2013 and 2012 are as follows:

Credit Quality Ratings (S&P) of Counterparties for Investment Derivatives
As of June 30, 2013 | (Amounts in Thousands)

Counterparty Name	Total Fair Value	S&P Credit Rating
BNP Paribas	$1,711	A+
Commonwealth Bank of Australia Sydney	1,167	AA-
JP Morgan Chase Bank, N.A.	1,236	A+
Royal Bank of Canada	1,235	AA-
Standard Chartered Bank	1,235	AA-
State Street Bank and Trust Company	206	AA-
TOTAL	**$6,790**	

Credit Quality Ratings (S&P) of Counterparties for Investment Derivatives
As of June 30, 2012 | (Amounts in Thousands)

Counterparty Name	Total Fair Value	S&P Credit Rating
BNP Paribas	$1,308	AA-
BNP Paribas SA	739	AA-
Commonwealth Bank of Australia Sydney	313	AA-
Deutsche Bank AG London	306	A+
HSBC BankUSA	299	AA-
JP Morgan Chase Bank, N.A.	313	A+
Morgan Stanley Co., Inc.	4,138	A-
Royal Bank of Canada	314	AA-
TOTAL	**$7,730**	

The maximum exposure SBCERA would face in case of default of all counterparties is $6.79 million and $7.73 million as of June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, SBCERA did not have any significant exposure to counterparty credit risk with any single party. SBCERA does not have any specific policies relating to the posting of collateral or master netting agreements.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments
Derivatives (Continued)

As of June 30, 2013 and 2012, SBCERA is exposed to interest rate risk on its investments in various swap arrangements based on daily interest rates for LIBOR (London Interbank Offered Rate) and federal funds rate. The tables below describe the maturity periods of these derivative instruments.

Investment Maturities
As of June 30, 2013 | (Amounts in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Credit Default Swaps Bought	$(6,469)	$-	$(6,469)	$-	$-
Fixed Income Options Bought	42,871	-	321	27,515	15,035
Total Return Swaps Bond	(4,544)	(3,392)	(1,152)	-	-
Total Return Swaps Equity	1,354	1,354	-	-	-
TOTAL	**$33,212**	**$(2,038)**	**$(7,300)**	**$27,515**	**$15,035**

Investment Maturities
As of June 30, 2012 | (Amounts in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Credit Default Swaps Bought	$4,137	$-	$4,137	$-	$-
Fixed Income Options Bought	24,480	-	512	23,968	-
Total Return Swaps Bond	(7,045)	(4,170)	(2,875)	-	-
Total Return Swaps Equity	814	814	-	-	-
TOTAL	**$22,386**	**$(3,356)**	**$1,774**	**$23,968**	**$-**

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments
Derivatives (Continued)

SBCERA is exposed to foreign currency risk for its investments in derivative instruments denominated in foreign currencies that may be adversely affected by changes in the currency exchange rates as follows:

Net Exposure to Foreign Currency Risk for Investment Derivative Instruments
As of June 30, 2013 | (Amounts in Thousands)

				Forward Contracts	
Currency	Fair Value	Fixed Income	Equity	Net Receivables	Net Payables
Brazilian Real	$206	$-	$-	$206	$-
Euro Currency	(29,572)	2,848	(36,637)	4,217	-
Japanese Yen	(51,881)	3,814	(56,316)	621	-
Pound Sterling	(3,886)	1,278	(1,570)	-	(3,594)
Swiss Franc	34	-	-	34	-
TOTAL	**$(85,099)**	**$7,940**	**$(94,523)**	**$5,078**	**$(3,594)**

Net Exposure to Foreign Currency Risk for Investment Derivative Instruments
As of June 30, 2012 | (Amounts in Thousands)

				Forward Contracts	
Currency	Fair Value	Fixed Income	Equity	Net Receivables	Net Payables
Euro Currency	$(62,440)	$(1,740)	$(61,202)	$502	$-
Japanese Yen	(56,156)	5,480	(61,860)	224	-
Pound Sterling	(1,480)	1,309	(3,609)	820	-
Swiss Franc	(75)	-	-	-	(75)
TOTAL	**$(120,151)**	**$5,049**	**$(126,671)**	**$1,546**	**$(75)**

At June 30, 2013 and 2012, SBCERA did not hold any positions in derivatives containing contingent features.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments (Continued)

Credit Risk

Credit Risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. SBCERA seeks to maintain a diversified portfolio of debt investments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To mitigate credit risk, investment guidelines have been established for each manager investing on behalf of SBCERA.

Emerging market and private placement investments' credit risk is controlled through limited partnership agreements and other applicable commingled fund documents. These investments are not rated by nationally recognized statistical rating organizations although they may be partly or wholly made up of individual securities rated by nationally recognized statistical rating organizations. The emerging market investments are shown as "Not Rated" in the following table. The short term cash investment funds consist primarily of open-ended mutual funds and external investment pools. These investments are not rated by a nationally recognized statistical rating organization; therefore are disclosed as such in the aforementioned table. Private placement investments considered fixed income investments are not shown in the following table, but amount to $39.35 million and $32.42 million as of June 30, 2013 and 2012, respectively.

The credit quality ratings of investments in fixed income securities and short term cash investments by a nationally recognized statistical rating organization (Standard and Poors) as of June 30, 2013 and 2012 are as follows:

Credit Quality Ratings (S&P) of Fixed Income and Short Term Cash Investments
As of June 30, 2013 | (Amounts in Thousands)

		S&P Credit Rating									
Investment Type	Total Fair Value	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ to CCC-	CC+ to CC-	D	Not Rated
Asset Backed	$36,428	$-	$-	$3,007	$7,879	$14,132	$2,256	$6,433	$-	$-	$2,721
Corporate Bonds[1]	10,482	-	-	-	-	-	-	-	-	-	10,482
Collateralized Mortgage Obligations	7,685	1	184	-	-	1,039	-	1,346	-	2,024	3,091
Commercial Mortgage Backed Securities	2,111	-	-	-	-	999	1,112	-	-	-	-
Foreign Bonds[2]	13,679	-	235	-	-	-	-	-	-	-	13,444
Municipals	67	-	-	67	-	-	-	-	-	-	-
Short Term Cash Investments	994,285	-	-	-	-	-	-	-	-	-	994,285
Emerging Markets	300,697	-	-	-	-	-	-	-	-	-	300,697
U.S. Agency	70,847	-	69,562	-	-	-	-	-	-	-	1,285
U.S. Treasury	84,003	-	76,400	-	-	-	-	-	-	-	7,603
TOTAL	**$1,520,284**	**$1**	**$146,381**	**$3,074**	**$7,879**	**$16,170**	**$3,368**	**$7,779**	**$-**	**$2,024**	**$1,333,608**

(1) Does not include private placements, which amount to $543.

(2) Does not include private placements, which amount to $38,807.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments
Credit Risk (Continued)

Credit Quality Ratings (S&P) of Fixed Income and Short Term Cash Investments
As of June 30, 2012 | (Amounts in Thousands)

		S&P Credit Rating									
Investment Type	Total Fair Value	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ to CCC-	CC+ to CC-	D	Not Rated
Asset Backed	$18	$-	$-	$-	$-	$-	$-	$18	$-	$-	$-
Corporate Bonds¹	13,751	-	12,581	-	-	-	-	90	-	-	1,080
Collateralized Mortgage Obligations	1,516	189	-	-	-	-	-	1,327	-	-	-
Foreign Bonds²	16,596	-	549	1,555	1,269	356	-	-	-	-	12,867
Municipals	65	-	-	65	-	-	-	-	-	-	-
Short Term Cash Investments	737,213	-	-	-	-	-	-	-	-	-	737,213
Emerging Markets	234,453	-	-	-	-	-	-	-	-	-	234,453
U.S. Agency	23,962	-	23,962	-	-	-	-	-	-	-	-
U.S. Treasury	88,772	-	15,750	-	-	-	-	-	-	-	73,022
TOTAL	**$1,116,346**	**$189**	**$52,842**	**$1,620**	**$1,269**	**$356**	**$-**	**$1,435**	**$-**	**$-**	**$1,058,635**

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a financial institution's failure, SBCERA would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2013, SBCERA's deposits with a financial institution are insured up to $250 thousand by the Federal Deposit Insurance Corporation (FDIC) insurance with the remaining balance exposed to custodial credit risk as it is not insured; however, the financial institution does collateralize the deposit of monies in excess of the FDIC insurance amount with eligible securities held by the pledging financial institution but not in SBCERA's name. As of June 30, 2012, SBCERA's deposits with a financial institution are fully insured by FDIC insurance. Deposits with the County of San Bernardino Treasurer's investment pool are not exposed to custodial credit risk as they are held in a trust fund in SBCERA's name.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SBCERA would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in SBCERA's name, and held by the counterparty.

SBCERA's investment securities and collateral received through securities lending are not exposed to custodial credit risk because all securities are held by SBCERA's custodial bank in SBCERA's name or by other qualified third party administrator trust accounts.

(1) Does not include private placements, which amount to $171.
(2) Does not include private placements, which amount to $32,245.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments (Continued)

Concentration of Credit Risk

As of June 30, 2013 and 2012, SBCERA did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

Interest Rate Risk is the risk 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.

To mitigate Interest Rate Risk, the managers investing on behalf of SBCERA have applicable investment guidelines. Interest Rate Risk for emerging market and private placement debt investments is managed through limited partnership agreements and applicable fund documents. The duration of emerging market and short term cash investments are shown as "N/A" in the following table as the effective duration of the underlying securities is not readily available. Private placement investments considered fixed income investments are not shown in the following table, but amount to $39.35 million and $32.42 million as of June 30, 2013 and 2012, respectively.

As of June 30, 2013 and 2012, SBCERA had the following Fixed Income and Short Term Cash Investments:

Fixed Income and Short Term Cash Investments
As of June 30, 2013 and 2012 | (Amounts in Thousands)

	2013		2012	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
Asset Backed	$36,428	1.96	$18	(0.39)
Corporate Bonds[1]	10,482	0.08	12,784	0.29
Collateralized Mortgage Obligations	7,685	0.47	1,516	2.07
Commercial Mortgage Backed Securities	2,111	1.71	-	0.00
Foreign Bonds[2]	320	3.37	275	0.00
Municipals	67	12.94	65	12.15
Short Term Cash Investments[3]	994,285	N/A[3]	737,213	N/A[3]
Emerging Markets[3]	300,697	N/A[3]	234,453	N/A[3]
U.S. Agency	70,847	0.52	23,962	1.22
U.S. Treasury	84,003	0.78	88,772	0.26
TOTAL	**$1,506,925**		**$1,099,058**	

(1) Does not include convertible bonds, which amount to $0 and $967 as of June 30, 2013 and 2012, respectively, as the effective duration is not available. Private placements, which amount to $543 and $171 as of June 30, 2013 and 2012, respectively, are also excluded.

(2) Does not include convertible bonds, which amount to $13,359 and $16,321 as of June 30, 2013 and 2012, respectively, as the effective duration is not available. Private placements, which amount to $38,807 and $32,245 as of June 30, 2013 and 2012, respectively, are also excluded.

(3) Effective duration for the underlying investments contained in this investment type are not available.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments (Continued)

Foreign Currency Risk

SBCERA's exposure to foreign currency risk primarily derives from its positions in foreign currency denominated international equity, fixed income investments, and foreign currency overlay exposure. SBCERA's investment policy allows international managers to enter into foreign exchange contracts provided the contracts have a maturity of one year or less and are limited to hedging currency exposure existing in the portfolio. Specific managers in international equities or fixed income may engage in the active management of currencies, per individual investment agreements approved by the Board of Retirement.

SBCERA's net exposure to Foreign Currency Risk in U.S. dollars as of June 30, 2013 and 2012 is as follows:

Net Exposure to Foreign Currency Risk
As of June 30, 2013 | (Amounts in Thousands)

		Type		
Currency	Fair Value	Fixed Income	Equity	Cash
Australian Dollar	$1,391	$1,391	$-	$-
Brazilian Real	13,316	-	13,312	4
Canadian Dollar	1,561	1,508	-	53
Danish Krone	61	-	61	-
Euro Currency	576,477	19,026	532,144	25,307
Hong Kong Dollar	27,565	3,781	23,784	-
Indonesian Rupiah	12,268	-	12,268	-
Japanese Yen	36,817	5,429	28,511	2,877
Malaysian Ringgit	530	-	530	-
Mexican Peso	8,182	-	8,182	-
New Taiwan Dollar	4,923	-	4,923	-
Polish Zloty	2	-	-	2
Pound Sterling	11,191	1,224	2,316	7,651
Singapore Dollar	1,799	1,799	-	-
South African Rand	6,318	-	6,308	10
South Korean Won	10,789	189	10,600	-
Swedish Krona	18	-	-	18
Swiss Franc	1,138	1,130	-	8
Thailand Baht	5,849	-	5,849	-
Turkish Lira	9,317	-	9,317	-
TOTAL	**$729,512**	**$35,477**	**$658,105**	**$35,930**

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 9 – Deposits and Investments
Foreign Currency Risk (Continued)

Net Exposure to Foreign Currency Risk
As of June 30, 2012 | (Amounts in Thousands)

		Type		
Currency	**Fair Value**	**Fixed Income**	**Equity**	**Cash**
Australian Dollar	$2,158	$1,469	$-	$689
Brazilian Real	13,701	-	13,698	3
Canadian Dollar	2,042	1,998	-	44
Danish Krone	2,360	-	2,297	63
Euro Currency	599,992	12,174	574,583	13,235
Hong Kong Dollar	33,269	3,622	29,089	558
Indonesian Rupiah	8,590	-	8,528	62
Japanese Yen	65,615	3,662	59,270	2,683
Malaysian Ringgit	954	-	941	13
Mexican Peso	4,577	-	4,577	-
New Taiwan Dollar	6,030	-	6,018	12
New Turkish Lira	720	-	720	-
Norwegian Krone	2,368	-	2,368	-
Polish Zloty	2	-	-	2
Pound Sterling	28,773	2,333	17,441	8,999
Singapore Dollar	1,971	775	1,128	68
South African Rand	5,833	-	5,833	-
South Korean Won	11,190	-	11,190	-
Swedish Krona	1,648	-	1,370	278
Swiss Franc	7,735	1,157	6,494	84
Thailand Baht	5,663	-	5,663	-
Turkish Lira	5,485	-	5,485	-
TOTAL	**$810,676**	**$27,190**	**$756,693**	**$26,793**

Commitments to Fund Partnerships

As of June 30, 2013, the total capital commitments to fund partnerships were $4.56 billion. Of this amount, $969.66 million remained unfunded and is not recorded on the SBCERA Statements of Fiduciary Net Position. The following table depicts the total commitments and unfunded commitments, respectively, by asset class.

Total Commitments and Unfunded Commitments to Fund Partnerships by Asset Class
As of June 30, 2013[1] | (Amounts in Thousands)

Asset Class	**Total Commitments**	**Unfunded Commitments**
Real Estate	$1,779,956	$30,528
Alternatives	2,783,059	939,130
TOTAL	**$4,563,015**	**$969,658**

(1) Data as of June 30, 2012 is not available in a comparable format.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 10 – Leases

SBCERA leases its office space at 348 W. Hospitality Lane, San Bernardino, CA from Hospitality Office, Inc., a wholly-owned subsidiary of SBCERA (refer to Note 11 – Related Party Transactions, for further information). The agreement is a standard office lease which became effective March 18, 2002 and ends March 31, 2017, with one five-year renewal option. SBCERA occupies approximately 21,000 square feet of office space or 43% of the building. Under the terms of the lease agreement, SBCERA is required to pay the agreed-upon monthly base rent charge and applicable annual increases. SBCERA's base rental payments for the fiscal year ended June 30, 2013 and 2012 were $308 thousand and $401 thousand, respectively.

SBCERA leases four photocopy/scan/printer machines to support operations under two standard lease agreements. One agreement for three of the machines is effective June 19, 2012 through June 18, 2017. The second agreement for one of the machines is effective February 22, 2010 through February 21, 2015. Photocopier rental payments for the fiscal year ended June 30, 2013 and 2012 were $48 thousand and $47 thousand, respectively.

Future Minimum Rental Payments
As of June 30, 2013 | (Amounts in Thousands)

Years Ended June 30	Office Space	Photocopy Machines	Total
2014	$318	$49	$367
2015	326	38	364
2016	336	16	352
2017	258	15	273
TOTAL	**$1,238**	**$118**	**$1,356**

NOTE 11 – Related Party Transactions

As described in Note 10 – Leases, SBCERA leases office space from Hospitality Office, Inc., a wholly owned subsidiary of SBCERA. Hospitality Office Inc. was formed as a holding company for SBCERA's investment in the building located at 348 W. Hospitality Lane, San Bernardino, CA. The lease between SBCERA and Hospitality Office, Inc. is a standard office lease agreement negotiated as an "arm's length" transaction, whereby SBCERA pays rent (including annual increases) and its proportionate share of building operating expenses. SBCERA's rental expense is recorded as an administrative expense of the organization, while the rental income of Hospitality Office, Inc. is included in net real estate rental income in the Statements of Changes in Fiduciary Net Position.

NOTE 12 – Litigation

SBCERA is subject to legal proceedings and claims which have risen in the ordinary course of its business and have not been finally adjudicated. These actions, when finally concluded and determined, will not, in the opinion of the management of SBCERA, have a material adverse effect upon the financial position of SBCERA.

Notes to Basic Financial Statements

June 30, 2013 and 2012
(Continued)

NOTE 13 – Pacific Public Partners (PPP)

On February 4, 2010, the SBCERA Board of Retirement (the Board) established an agency fund, Pacific Public Partners (PPP). PPP is a health investment trust fund for other post-employment health benefits (OPEB), which invests assets on behalf of any local public agency for the purpose of providing health benefits to their retirees pursuant to Article 8.10 of the 1937 Act (commencing with Government Code section 31699.1) and Section 115 of the Internal Revenue Code. The Board determined by means of a resolution, after due consideration, the establishment of PPP was in the long-term best interest of the members and beneficiaries of SBCERA and the participating employers in SBCERA; therefore the Board authorized an investment of up to $2.72 million into the OPEB trust to be used for initial startup and administrative costs.

The PPP Board is composed of the same members as the SBCERA Board; however, SBCERA and PPP are separate legal entities. The PPP Board establishes the terms and conditions for public agencies and their trust funds to participate in PPP. The PPP financial statements are separately stated and can be obtained from PPP at 348 W. Hospitality Lane, 3rd Floor, San Bernardino, CA 92415.

As of June 30, 2013 and 2012, PPP has not received any assets from any local public agency. The changes in assets and liabilities of PPP do not create any obligation on the part of SBCERA pursuant to Government Code section 31699.8. Refer to Statements of Fiduciary Net Position - Agency Fund and Other Supplementary Information – Statements of Changes in Assets and Liabilities – Agency Fund, for further information.

On October 6, 2011, the Pacific Public Partners (PPP) Board found that it would not be prudent to continue to expend any additional funds or take any additional action to attract any public agency or public agency trusts to participate in and invest assets in SBCERA's agency fund-PPP due to the economic crisis and the inability of public agencies to prefund OPEB liabilities. Therefore, the PPP Board voted to suspend indefinitely all activities of PPP. The PPP Board also ordered the return of the remaining start-up funds to SBCERA and terminated all existing PPP contracts. PPP shall not receive or accept any assets from any public agencies or trust funds until such time as the Board makes a further determination regarding any subsequent change in circumstances that would make the continued operation of PPP consistent with the goals of 2009 Senate Bill 11, Article 8.10 of Chapter 3 of Part 3 of Division 4 of Title 3 of the California Government Code and the business interests of SBCERA, its members and plan sponsors.

NOTE 14 – Subsequent Events

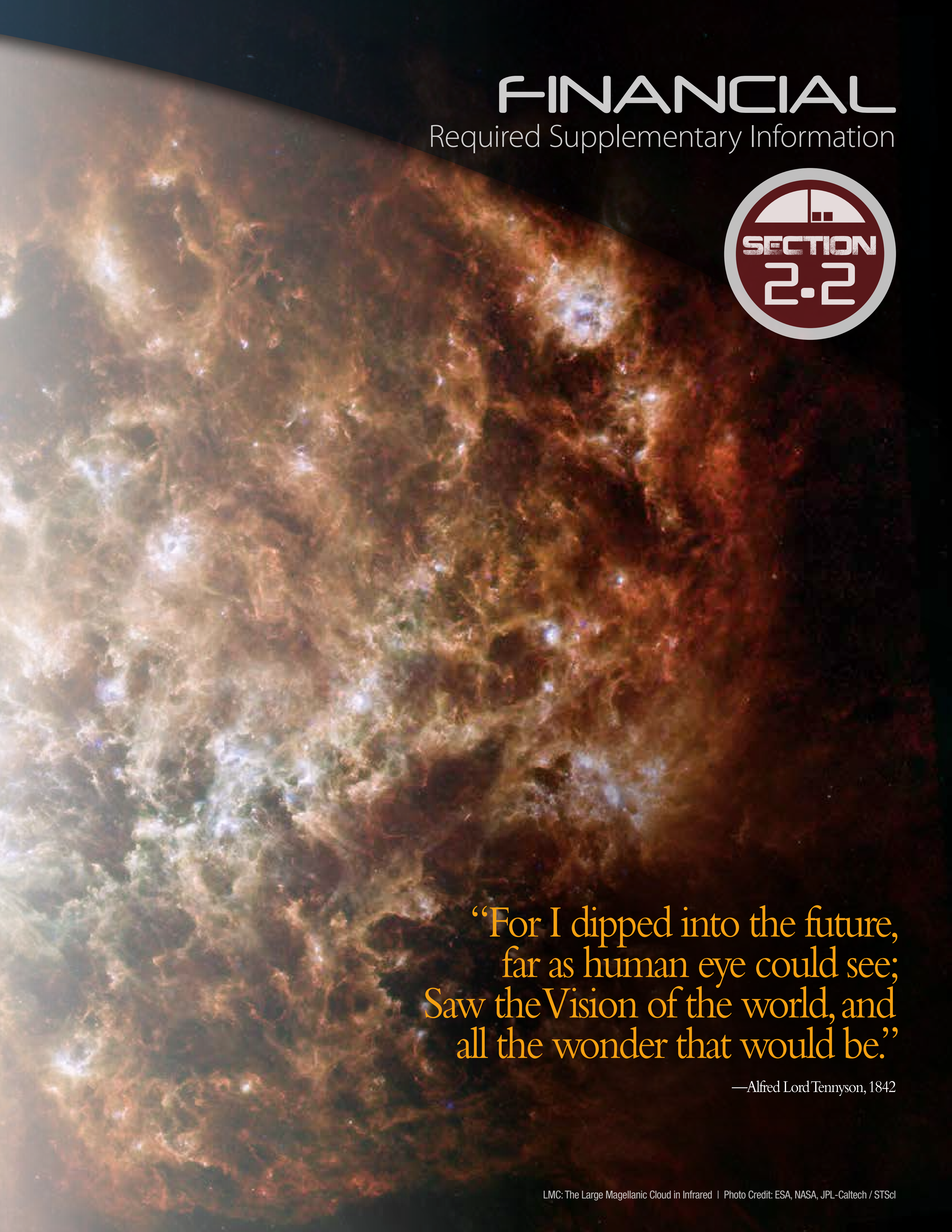
On July 13, 2013 all active members of Crest Forest Fire Protection District (CFFPD) transferred to the County of San Bernardino (County) pursuant to an agreement between the two agencies. All unfunded actuarial liabilities associated with CFFPD were transferred to the County as of June 30, 2013 for actuarial purposes of determining contribution rates for fiscal year 2014/2015. Pursuant to the agreement between the County and CFFPD, the County will pay SBCERA $410,437 plus 4% compounded annually for twenty years to offset the cost increase that would occur within the County Safety cost pool due to this transfer.

On September 6, 2013 the Governor approved Assembly Bill 1380 (AB 1380), which makes various technical corrections and conforming changes that align the County Employees' Retirement Law of 1937 ('37 Act) with the provisions of the Public Employees' Pension Reform Act of 2013 (PEPRA). In particular, the bill clarifies that Tier 2 members are eligible to retire at age 70, regardless of years of service, that the Board may, but is not required to, round Tier 2 contribution rates to the nearest quarter of one percent, and those rates may be adjusted for any change in the normal cost rate. AB 1380 will take effect on January 1, 2014.

FINANCIAL

Required Supplementary Information

SECTION 2.2



"For I dipped into the future,
far as human eye could see;
Saw the Vision of the world, and
all the wonder that would be."

—Alfred Lord Tennyson, 1842

LMC: The Large Magellanic Cloud in Infrared | Photo Credit: ESA, NASA, JPL-Caltech / STScI

SECTION 2.2: FINANCIAL

Required Supplementary Information

Over the course of the space shuttle Endeavour's 25 missions, there were times it was temporarily removed from service. It is estimated over 900,000 hours were spent maintaining and modifying the vehicle, which included inspecting 150 miles of wiring and adding a multi-function full color glass cockpit. During the course of a career, SBCERA members may decide to leave employment with an SBCERA employer prior to becoming eligible for retirement. Members have a number of options available based on their years of service credit and/or what type of employee contributions they selected, including a deferred retirement, rollover or lump-sum refund of refundable contributions.

Endeavour Ready to Roll- Workers Prepare Endeavour for its Next Mission STS-134. | Photo Credit: NASA / Jack Pfaller

Required Supplementary Information

Schedule of Funding Progress
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Projected Total Compensation (c)	UAAL as a Percentage of Projected Total Compensation [(b-a)/c]
6/30/2004	$4,418,152	$4,719,865	$301,713	93.61%	$943,545	31.98%
6/30/2005	4,750,229	5,215,719	465,490	91.08%	968,674	48.05%
6/30/2006	5,175,767	5,624,646	448,879	92.02%	1,028,731	43.63%
6/30/2007	5,797,400	6,227,013	429,613	93.10%	1,102,151	38.98%
6/30/2008	6,341,531	6,773,629	432,098	93.62%	1,219,562	35.43%
6/30/2009	6,383,388	7,013,534	630,146	91.02%	1,226,431	51.38%
6/30/2010[3]	6,367,232	7,444,986	1,077,754	85.52%	1,250,193	86.21%
6/30/2011	6,484,507	8,189,646	1,705,139	79.18%	1,244,555	137.01%
6/30/2012	6,789,492	8,606,577	1,817,085	78.89%	1,260,309	144.18%
6/30/2013[4]	7,204,918	9,088,636	1,883,718	79.27%	1,262,752	149.18%

Schedule of Employer Contributions
(Amounts in Thousands)

Years Ended June 30	Annual Required Contributions	Actual Contributions[5]	Percentage Contributed
2004	$652,325	$652,325	100%
2005	161,906	161,906	100%
2006	197,343	197,343	100%
2007	239,857	239,857	100%
2008	241,721	241,721	100%
2009	246,232	246,232	100%
2010	243,773	243,773	100%
2011	258,128	258,128	100%
2012	278,091	278,091	100%
2013	303,080	303,080	100%

(1) Includes assets held for Survivor Benefits, Burial Allowance, General Retiree Subsidy (GRS), and Excess Earnings (EE) reserves. Some years may not include the GRS and EE reserves.

(2) Includes liabilities held for Survivor Benefits, Burial Allowance, General Retiree Subsidy (GRS), and Excess Earnings (EE) reserves. Some years may not include the GRS and EE reserves.

(3) Does not reflect the transfer of $40.6 million from the General Retiree Subsidy reserve to the Current Service reserve.

(4) Does not include $5.8 million that represents the present value of future contributions payable from the County of San Bernardino to SBCERA related to the Crest Forest Fire Protection District transfer.

(5) Excludes the SCAQMD UAAL prepayment deposited during the Plan Year ended June 30, 2007.

See accompanying Notes to the Required Supplementary Information.

Notes to the Required Supplementary Information

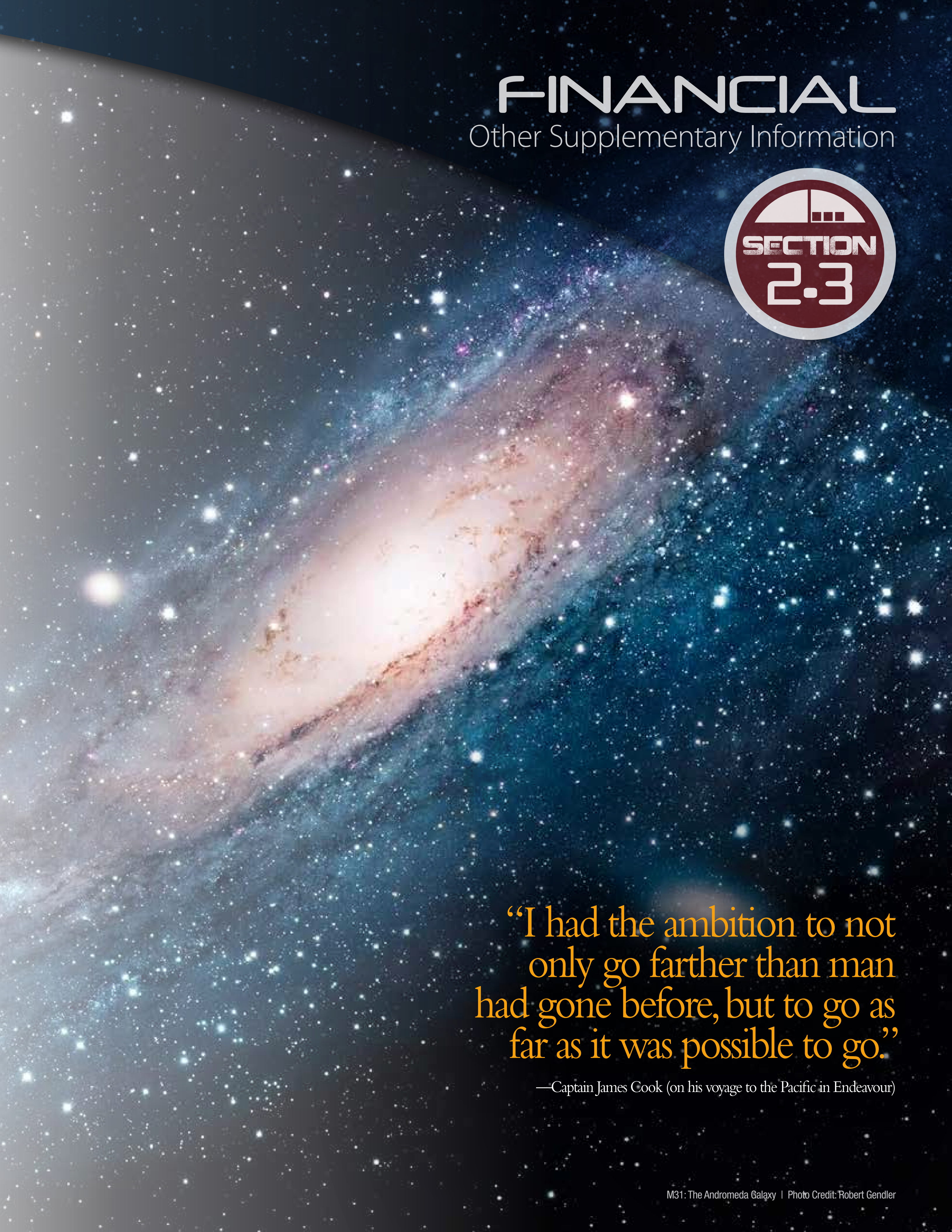
Latest Actuarial Valuation Methods and Assumptions

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level percent of payroll (4.00% payroll growth assumed)
Remaining Amortization Period	20 years for all UAAL prior to June 30, 2002. Any changes in UAAL after June 30, 2002 are amortized over a 20-year closed period effective with each valuation. Effective June 30, 2011, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years).
Asset Valuation Method	Market value of assets less unrecognized returns from each of the last 5 years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a 5-year period. If the market gains and losses were recognized immediately, the funded ratio would decrease from 79.27% to 78.17% at June 30, 2013 compared to a decrease from 78.89% to 71.73% at June 30, 2012. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of 4 years commencing with the June 30, 2012 valuation. As of June 30, 2013, the net unrecognized deferred loss is $100.36 million.
Actuarial Assumptions:	
Investment Rate of Return[1]	7.75%
Projected Salary Increases[2]	General: 4.75% to 14.00%; Safety: 4.75% to 14.00%
Cost of Living Adjustments	Contingent upon CPI with a 2% maximum.

The June 30, 2013 actuarial valuation reflected the same method and assumptions as the June 30, 2012 actuarial valuation; however, new assumptions were included in the June 30, 2013 valuation for retirement rates and increases in the Government Code section 7522.10 compensation limit to account for the new Tier 2 members.

(1) Includes inflation at 3.50%.

(2) Includes inflation at 3.50%, "across the board" increases of 0.50%, plus merit and promotional increases.



FINANCIAL
Other Supplementary Information

SECTION 2.3

"I had the ambition to not only go farther than man had gone before, but to go as far as it was possible to go."

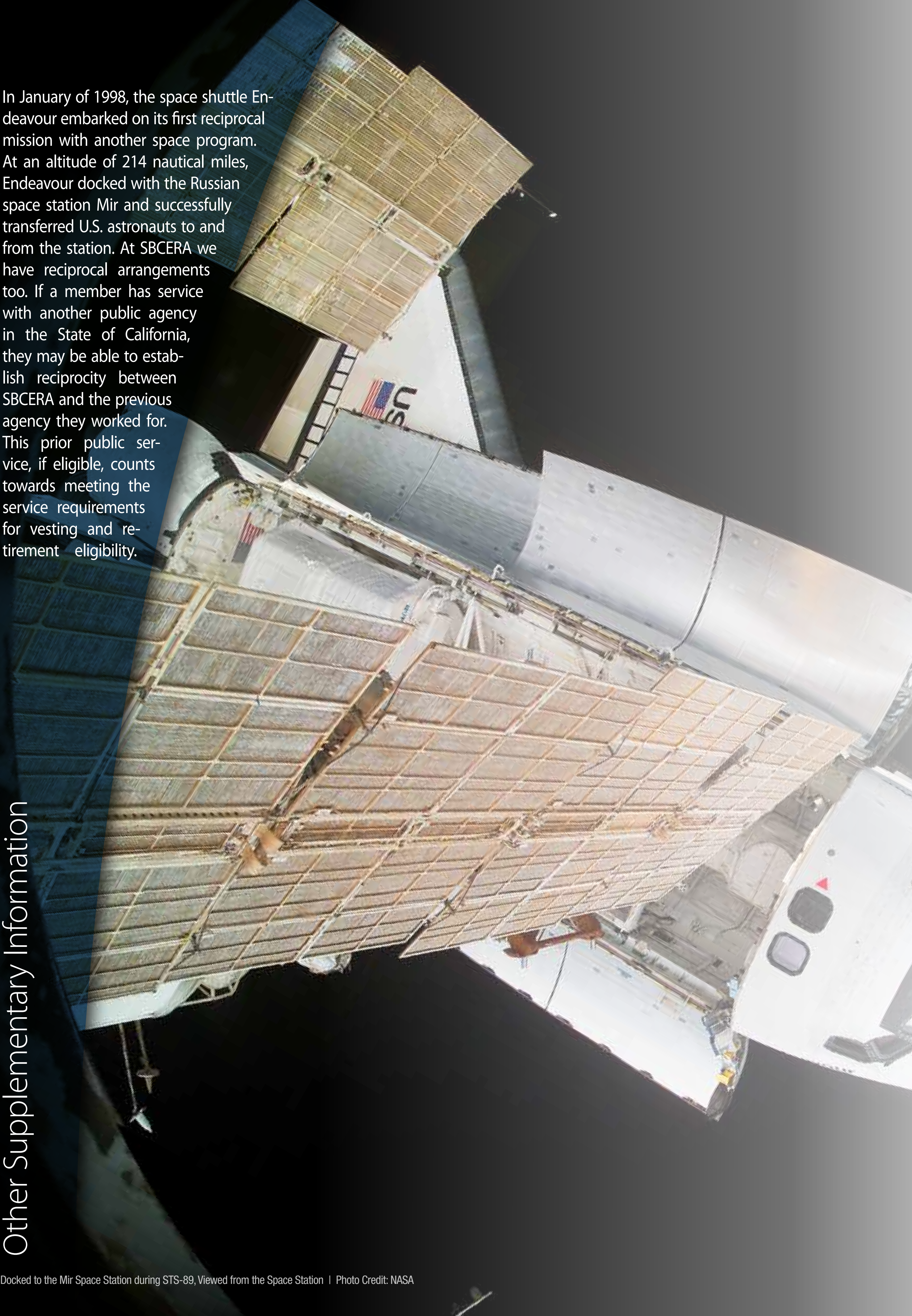
—Captain James Cook (on his voyage to the Pacific in Endeavour)

M31: The Andromeda Galaxy | Photo Credit: Robert Gendler

SECTION 2.3: FINANCIAL

Other Supplementary Information

In January of 1998, the space shuttle Endeavour embarked on its first reciprocal mission with another space program. At an altitude of 214 nautical miles, Endeavour docked with the Russian space station Mir and successfully transferred U.S. astronauts to and from the station. At SBCERA we have reciprocal arrangements too. If a member has service with another public agency in the State of California, they may be able to establish reciprocity between SBCERA and the previous agency they worked for. This prior public service, if eligible, counts towards meeting the service requirements for vesting and retirement eligibility.



Endeavour Docked to the Mir Space Station during STS-89, Viewed from the Space Station | Photo Credit: NASA

Statements of Changes in Assets and Liabilities Agency Fund - Pacific Public Partners

As of June 30, 2013 and 2012 (Amounts in Thousands)

Total Agency Fund	*Balance July 1, 2012*	*Additions*	*Deductions*	*Balance June 30, 2013*
Assets				
Accounts receivable	$1,007	$-	$-	$1,007
TOTAL ASSETS	**$1,007**	**$-**	**$-**	**$1,007**
Liabilities				
Due to SBCERA	$1,007	$-	$-	$1,007
TOTAL LIABILITIES	**$1,007**	**$-**	**$-**	**$1,007**

Total Agency Fund	*Balance July 1, 2011*	*Additions*	*Deductions*	*Balance June 30, 2012*
Assets				
Accounts receivable	$952	$55	$-	$1,007
Due from SBCERA	1,769	-	1,769	-
TOTAL ASSETS	**$2,721**	**$55**	**$1,769**	**$1,007**
Liabilities				
Accounts payable	$2	$-	$2	$-
Due to SBCERA	2,719	55	1,767	1,007
TOTAL LIABILITIES	**$2,721**	**$55**	**$1,769**	**$1,007**

Schedule of Administrative Expenses

For the Years Ended June 30, 2013 and 2012 (Amounts in Thousands)

	2013	2012
Actuarial Accrued Liability (AAL)	$8,189,646	$7,444,986
Statutory Limit for Administrative Expenses (AAL x 0.21%)	17,198	15,634
Administrative Expenses Subject to Statutory Limit		
Personnel Services	$4,556	$4,067
Professional Services	650	923
Communication Services	345	396
Operational Miscellaneous	234	256
Structures and Equipment	423	513
Depreciation and Amortization of Capital Assets	50	50
TOTAL ADMINISTRATIVE EXPENSES SUBJECT TO STATUTORY LIMIT	**6,258**	**6,205**
Other Expenses Not Subject to Statutory Limit		
Actuarial Services	165	268
Legal Services (Non-Investment)	602	624
Technology Infrastructure	805	922
TOTAL OTHER EXPENSES NOT SUBJECT TO STATUTORY LIMIT	**1,572**	**1,814**
TOTAL ADMINISTRATIVE EXPENSES[1]	**$7,830**	**$8,019**

(1) Does not include Investment Expenses, see Schedule of Investment Expenses.

Schedule of Investment Expenses

For the Years Ended June 30, 2013 and 2012 (Amounts in Thousands)

	2013	2012
Advisement Fees		
Equity		
Domestic	$717	$11
International	2,005	2,656
TOTAL EQUITY	**2,722**	**2,667**
Fixed Income		
Domestic	452	2,426
Global	278	262
TOTAL FIXED INCOME	**730**	**2,688**
Alternative	70,132	48,638
Real Estate	5,415	6,188
Investment Consultant Fees	2,300	2,154
Custodian Fees	597	591
TOTAL ADVISEMENT FEES	**81,896**	**62,926**
Other Investment Expense		
Other Investment Expense	16,230	15,016
Legal Services	583	494
Investment Department Expense	1,576	1,296
TOTAL OTHER INVESTMENT EXPENSE	**18,389**	**16,806**
SECURITIES LENDING REBATES & BANK CHARGES	**176**	**218**
TOTAL INVESTMENT EXPENSES	**$100,461**	**$79,950**

Schedule of Payments to Consultants

For the Years Ended June 30, 2013 and 2012 (Amounts in Thousands)

Type of Service[1]	2013	2012
Fees Paid to Consultants Subject to the Statutory Limit		
Audit Services	$59	$101
Benchmarking Services	-	35
Communications Services	65	64
Information Technology Consulting Services	-	23
Medical Consulting Services	347	412
Strategic Consulting Services	-	64
TOTAL FEES PAID TO CONSULTANTS SUBJECT TO THE STATUTORY LIMIT	**471**	**699**
Fees Paid to Consultants Not Subject to the Statutory Limit		
Actuarial Services	165	268
Custodian Fees	597	591
Investment Consultant Fees	2,300	2,154
Legal Services	858	777
TOTAL FEES PAID TO CONSULTANTS NOT SUBJECT TO THE STATUTORY LIMIT	**3,920**	**3,790**
TOTAL PAYMENTS TO CONSULTANTS	**$4,391**	**$4,489**

(1) Detail for fees paid to investment professionals is presented in the Investment Section.

INVESTMENT

SECTION 3.0

"For the eyes of the world now look into space, to the moon and to the planets beyond, and we have vowed that we shall not see it governed by a hostile flag of conquest, but by a banner of freedom and peace."

—John F. Kennedy, 35th President of the United States

M42: The Horsehead Nebula in Infrared | Photo Credit: NASA, ESA, and The Hubble Heritage Team (STScI / AURA)

SECTION 3.0 : INVESTMENT

The space shuttle Endeavour was equipped with some of the most sophisticated tools available from NASA. The most essential tools had to do with navigation. The Endeavour was equipped with a three-string navigational system, allowing it to land at any runway long enough to handle a space shuttle. SBCERA also provides members with many valuable tools designed to assist them in navigating their retirement benefit plan. Seminars, retirement calculators, brochures and most importantly our Retirement Specialists are all available to guide members during their mission to retirement.

Endeavour's Flight Deck | Photo Credit: Ben Cooper / LaunchPhotography.com

Report on Investment Activity

NEPC, LLC

Allan Martin
Partner

November 6, 2013

Board of Retirement
San Bernardino County Employees' Retirement Association
348 West Hospitality Lane
San Bernardino, CA 92415-0014

Dear Board Members:

The overall objective of the San Bernardino County Employees' Retirement Association (SBCERA) is to ensure continued access to retirement, disability and survivor benefits for current and future SBCERA participants. To ensure a solid foundation for the future of the Fund, SBCERA carefully plans and implements an investment program designed to produce superior long-term investment returns, while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Retirement, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. The following is a report on the performance of the Fund for the fiscal year ending June 30, 2013.

Market Commentary

The equity markets for the 2013 Fiscal year produced surprisingly strong returns for investors, even amidst a myriad of macroeconomic concerns. The year ending June 30th was largely dominated by headline risks related to the European debt crisis, the fiscal cliff, reports of slowed economic growth in China and emerging markets and the eventual winding down of the Fed's quantitative easing program. Fixed income markets on the other hand, were adversely affected by the prospect for the end of quantitative easing and rising interest rates, especially during the second quarter.

The broad domestic equity market, as measured by the S&P 500 Index, produced a 20.6% return for fiscal year 2013. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned -0.7%, while the global equity market, as measured by the MSCI All Country World Index returned +16.6%. Other alternative markets where the Fund invests (Private Equity and Real Estate) were generally up in the 10-13 % range.

The SBCERA Portfolio

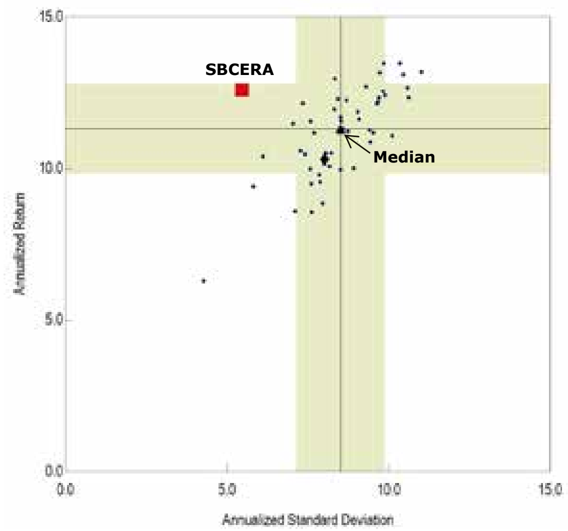
The SBCERA Total Fund return, net of fees, was 15.1% for the fiscal year ending June 30, 2013, surpassing the Fund's 7.75% actuarial assumed rate and ranking in the 4th percentile of the InvestorForce (IF) Large Public Fund Universe. The median fund in the universe returned 12.3% for the period. The Fund's three-year return of 12.31% per annum, net of fees, ranked in the 11th percentile of the same peer group universe. The Funds five year return for the difficult period ending June 30, 2013 was 2.97% per annum net of fees, ranking in the bottom quartile of the IF Universe. As previously noted, the Fund's investment program is designed to produce superior long term investment returns, while also prudently managing risk. This strategy that the Fund has adopted and implemented over the past several years has resulted in superior risk-adjusted returns over recent periods. Presented below is the Fund's three-year risk and return with the horizontal axis representing risk (as measured by standard deviation) and the vertical axis representing the three year annualized rate of return.

900 Veterans Blvd. | Ste. 340 | Redwood City, CA 94063-1741 | TEL: 650.364.7000 | www.nepc.com
CAMBRIDGE | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

Report on Investment Activity

(Continued)

Total Public Fund Universe
Risk-Return Comparison 3 Year Ending June 30, 2013



NEPC, LLC serves as SBCERA's independent investment consultant and provides SBCERA with asset allocation guidance, quarterly economic and investment market updates and performance reviews, and investment manager monitoring and selection advice. SBCERA's custodian, State Street Bank and Trust Company, independently prepare the underlying performance data used in this report and the rates of return are presented using a time-weighted rate of return methodology based upon market values. The performance calculations are made in compliance with the performance calculation standards of the CFA Institute's Global Investment Performance Standards (GIPS).

Sincerely,

Allan Martin
Partner

□As of June 30, 2013, the IF Public Fund > $1B Universe was comprised of 55 total funds with approximately $1.2 trillion in assets. Universe rankings are based on gross of fee investment return.

Outline of Investment Policies

General

The overall goal of SBCERA's investment program is to provide Association participants with the retirement benefits as required by the County Employees' Retirement Law of 1937. This is accomplished by employer and employee contributions and the implementation of a carefully planned and executed long-term investment program.

The Board of Retirement (Board) has exclusive control of all investments of the retirement system and is responsible for the establishment of investment objectives, strategies and policies. The Board is composed of nine members and two alternates as follows:

- The County of San Bernardino Treasurer who serves in the capacity of ex-officio member.
- Four members are appointed by the San Bernardino County Board of Supervisors.
- Two members are elected by active "General" members.
- One member is elected by active "Safety" members (along with an alternate).
- One member is elected by retired members (along with an alternate).

The Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to SBCERA and the investment portfolio:

- 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.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under circumstances it is clearly prudent not to do so.

Summary of Investment Objectives

The Board has adopted an Investment Plan, Policy and Guidelines which provide the framework for the management of SBCERA's investments. The Investment Plan, Policy and Guidelines establish the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. It also defines the principal duties of the Board and investment staff.

SBCERA's primary investment objective is to efficiently allocate and manage the assets on behalf of the members and beneficiaries. These assets are managed on a total return basis. While recognizing the importance of the "preservation of capital," SBCERA also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long term.

The total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the pension fund. Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interests of SBCERA's members and beneficiaries.

Outline of Investment Policies

(Continued)

Asset Allocation

A pension fund's strategic asset allocation policy, implemented in a consistent and timely manner, is generally recognized to be the largest determinant of investment performance. The asset allocation process determines an optimal long-term asset class mix (target allocation), which is expected to achieve a specific set of investment objectives.

Effective July, 2012, the Board adopted a new asset allocation plan. The following factors were used to determine this new plan:

- Projected actuarial assets, liabilities, benefit payments and contributions.
- Historical and expected long-term capital market risk and return behavior.
- Future economic conditions, including inflation and interest rate levels.
- SBCERA's current and projected funding status.

Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on SBCERA's behalf.

Use of Proxies

SBCERA has adopted proxy voting policies which best serve the economic interest of its beneficiaries. Investments in equity securities in particular are best viewed within the context of a long-term time horizon. The resolution of management and shareholder issues must be directed towards maximizing equity value; not to entrench the current management team or alternatively, to subject the company to excessive outside influences. SBCERA will support management if management's position appears reasonable, is not detrimental to the value of equity ownership and reflects consideration of the impact of societal values and attitudes on the long-term viability of the corporation.

SBCERA shall support requests for additional disclosure if the requested information is on a subject relevant to the corporation's business, if it is of value to a majority of shareholders in evaluating the corporation or its managers, if the costs of disclosure are reasonable and if the information to be disclosed will not disadvantage the corporation either competitively or economically.

Investment Professionals

As of June 30, 2013

INVESTMENT MANAGERS

DOMESTIC EQUITY
Clough Capital Partners, LP
Passport Capital, LLC
Select Equity Group, Inc.
State Street Global Advisors

DOMESTIC FIXED INCOME
Apollo Global Management, LLC
Beach Point Capital Management
Declaration Management & Research, LLC
GoldenTree Asset Management, LP
Mackay Shields, LLC
MD Sass-Waterfall Asset Management, LLC
Oaktree Capital Management, LP
Tricadia Capital Management, LLC

INTERNATIONAL FIXED INCOME
Angelo, Gordon & Co., LP
BNY Alcentra Group Holdings, Inc.
BlueBay Asset Management Plc.
Cairn Capital Limited
GAM USA, Inc.
Golden Tree Asset Management, LP
Gramercy
King Street Capital Management, LLC
Marathon Asset Management, LP
Oaktree Capital Management, LP
York Capital Management

EMERGING MARKET INTERNATIONAL EQUITY
Batterymarch Financial Mgt., Inc.
Mondrian Investment Partners, Ltd

EMERGING MARKET FIXED INCOME
Ashmore Investment Management Limited

PRIVATE EQUITY
Apollo Management
Aurora Capital Group
DRI Capital, Inc.
Industry Ventures, LLC
Lexington Partners
NB Alternative Fund Management, LLC
Partners Group
Pathway Capital Management, LLC
Siguler Guff Advisers, LLC
Standard Life Investments Limited
TCW Capital Group, Inc.
Tennenbaum Capital Partners, LLC
The Catalyst Capital Group, Inc.

REAL ESTATE
American Realty Advisors
Beacon Capital Partners, LLC
Blackrock Realty
Bryanston Realty Partners, LLC
CB Richard Ellis Investors, LLC
Fillmore Capital Partners, LLC
Fortress Investment Group, LLC
Guggenheim Partners
Invesco (AIG) Asian Real Estate Partners II, LLC
Invesco Real Estate
LaSalle Investment Management, Inc.
Morgan Stanley Real Estate Fund
Oaktree Capital Management, LP
Prologis (AMB) Japan Investments, LLC
Prudential Real Estate Investors
RREEF America, LLC
Square Mile Capital Management, LLC
Starwood Capital Group Global, LLC
Tricon Capital Group, Inc.
The Tuckerman Group
Walton Street Capital, LLC

ALTERNATIVES
Apollo Global Management, LLC
Ares Management, LLC
Four Corners Capital Management, LLC
PineBridge Investments
Russell Implementation Services, Inc.
Sterling Stamos
ZAIS Group, LLC

REAL ASSETS
Blue Tip Energy Management, LLC
Energy Spectrum Capital
Hancock Timber Resource Group, Inc.
Highstar Capital
Pinnacle Asset Management, LP
Starwood Energy Partners
Timbervest, LLC

CONSULTANTS
Kreischer Miller
NEPC, LLC
The Townsend Group
Maples Finance

CUSTODIAN
State Street Bank and Trust

LEGAL COUNSEL
Foley & Lardner, LLP
Law Office of Andrew L. Kjeldgaard
Maples & Calder

Investment Results

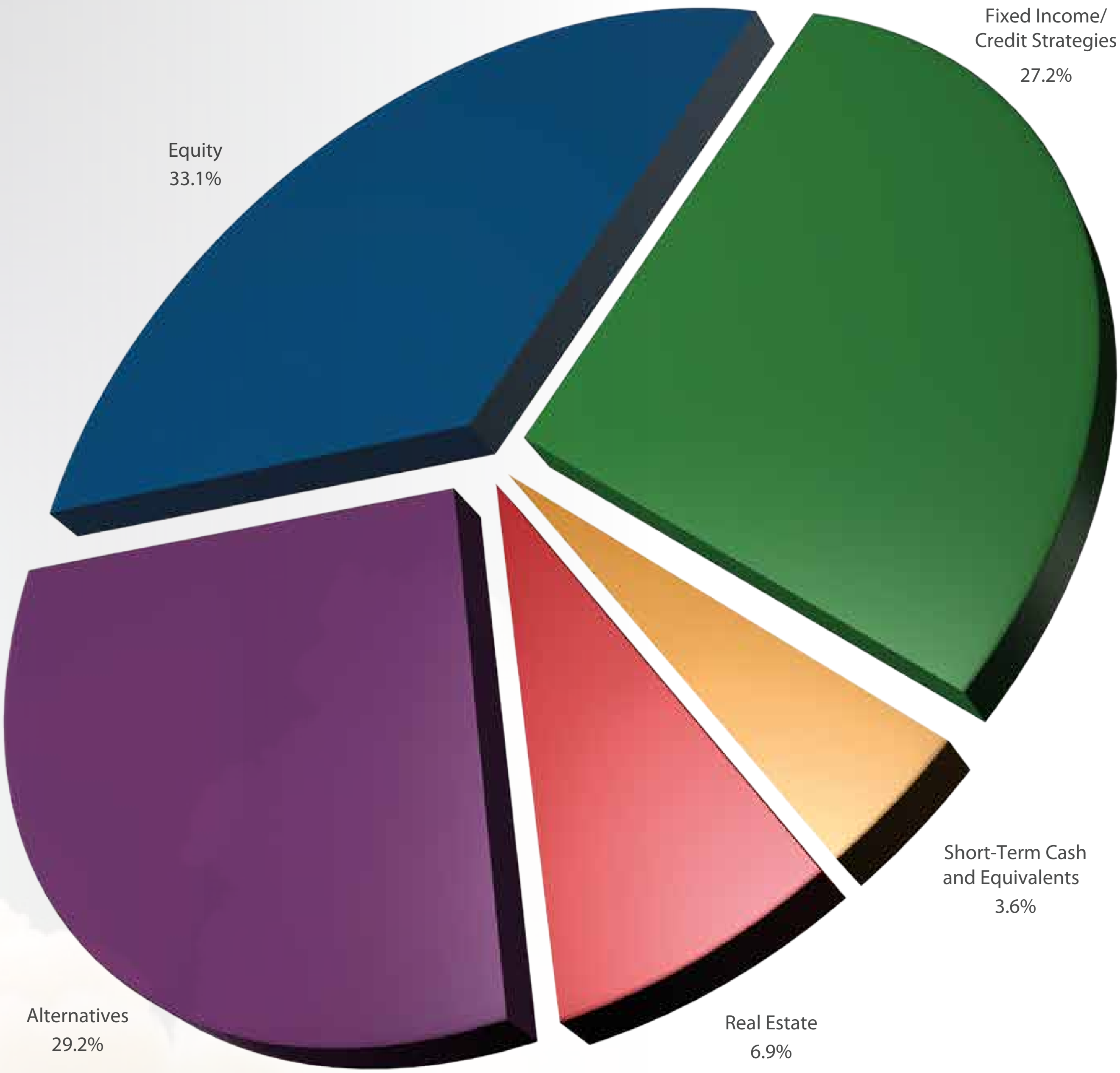
As of June 30, 2013

	Current Year 2013	Annualized 3 year	Annualized 5 year
Total Portfolio	15.05%	12.31%	2.97%
SBCERA Policy Benchmark	8.22%	10.32%	4.60%
Cash Equivalents	(3.99)%	(2.49)%	(1.77)%
91 Day T-Bill Benchmark	0.11%	0.11%	0.29%
Equity Segment			
Domestic Equity	16.57%	11.60%	(0.04)%
Russell 3000 Benchmark	21.46%	18.63%	7.25%
Emerging Markets Equity	5.06%	4.46%	(0.32)%
MSCI Emerging Markets Benchmark	2.87%	3.38%	(0.43)%
International Equity	79.38%	24.81%	7.19%
MSCI EAFE Benchmark	18.62%	10.04%	(0.63)%
Fixed Income Segment			
Domestic Fixed Income	14.46%	11.12%	12.75%
BofAML High Yield Master II Benchmark	9.57%	10.43%	10.62%
Global and Emerging Market Fixed Income	11.93%	8.02%	3.71%
SBCERA Custom BC Global Benchmark	(3.40)%	3.57%	2.65%
Real Asset Segment			
Real Estate	5.97%	12.01%	(7.11)%
NCREIF Benchmark	10.52%	13.30%	2.32%
Timber	12.59%	2.93%	(2.12)%
NCREIF Timberland Benchmark	9.01%	3.61%	2.06%
Infrastructure	3.48%	12.49%	8.89%
CPI + 600BPS	7.85%	8.45%	7.38%
Commodities	3.30%	6.20%	(0.02)%
Dow Commodity Benchmark	(8.01)%	(0.26)%	(11.61)%
Other Alternative Segment			
Private Equity/Venture Capital	12.26%	14.66%	3.50%
Venture ECO Benchmark	8.88%	12.52%	4.42%
Alpha Pool	9.51%	10.83%	5.21%
CPI + 600BPS	7.85%	8.45%	7.38%

Note: Calculations were prepared using a time-weighted rate of return and are net of fees.

Asset Allocation

As of June 30, 2013

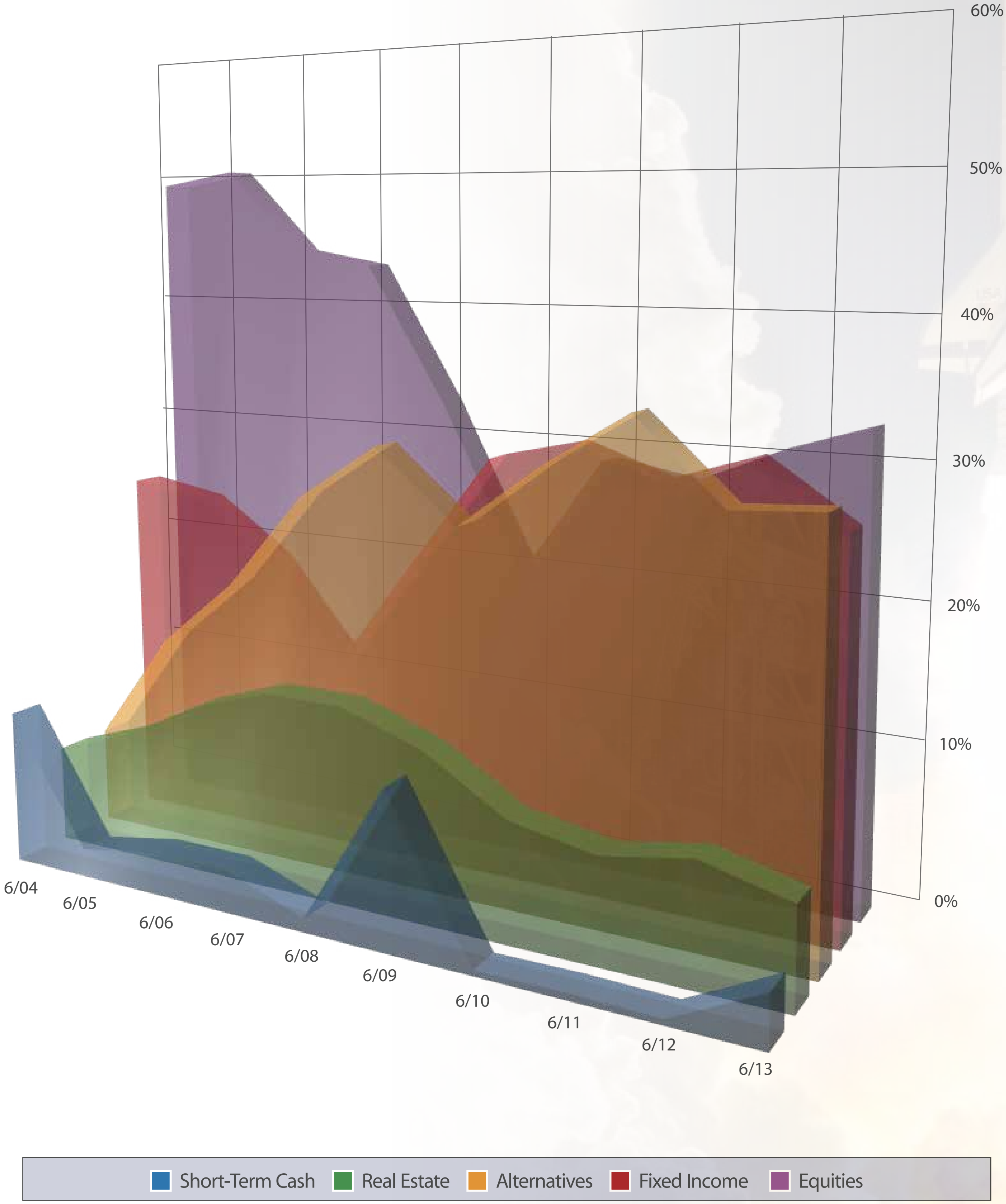


Equity	33.1%
Fixed Income/Credit Strategies	27.2%
Short-Term Cash and Equivalents	3.6%
Real Estate	6.9%
Alternatives	29.2%
TOTAL	**100.0%**

Note: This chart depicts investment asset classes as the net of physical assets combined with asset class exposure from alpha pool and overlay program exposure.

Historical Asset Allocation

June 2004 through June 2013



Note: This chart depicts investment asset classes as the net of physical assets combined with asset class exposure from alpha pool and overlay program exposure beginning Fiscal Year 2007-08.

Target vs. Actual Asset Allocation Percentages

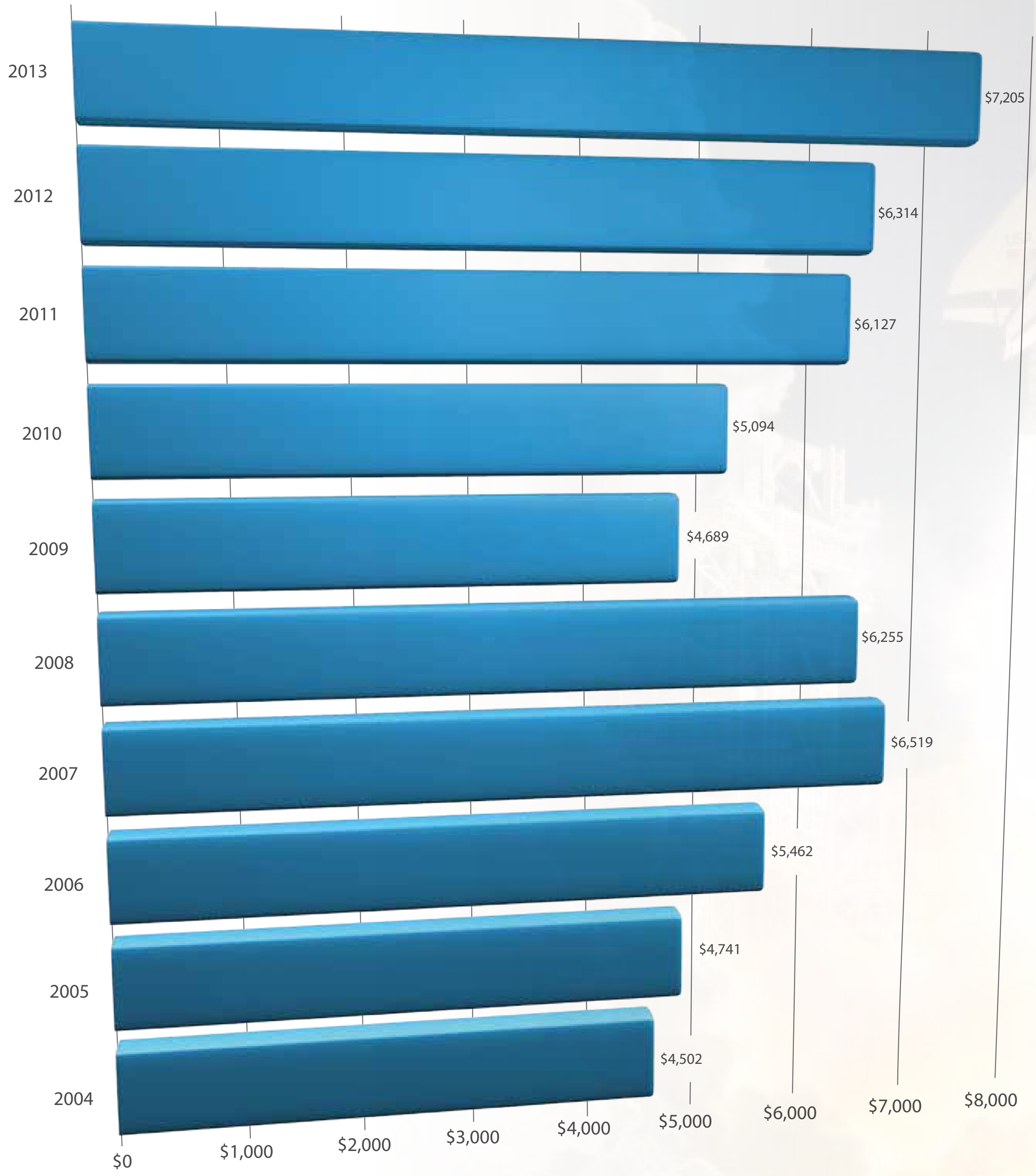
As of June 30, 2013

			Target Ranges	
	Actual	Target	Minimum	Maximum
Domestic Equity	16.3%	13.0%	8.0%	18.0%
Domestic Fixed Income	16.0%	17.0%	12.0%	22.0%
International Equity	16.8%	13.0%	8.0%	18.0%
Global Fixed Income	11.2%	16.0%	11.0%	21.0%
Short-Term Cash	3.6%	2.0%	0.0%	10.0%
Real Estate	6.9%	9.0%	4.0%	14.0%
Private Equity	16.6%	16.0%	11.0%	21.0%
Absolute Return	7.0%	7.0%	2.0%	12.0%
Timber	2.7%	3.0%	0.0%	8.0%
Infrastructure	0.9%	1.0%	0.0%	6.0%
Commodities	2.0%	3.0%	0.0%	8.0%

Note: This table excludes investments of cash collateral received on securities lending transactions, short-term cash held in outside investment pools and allocated commitments. In addition, this table depicts investment asset classes as the net of physical assets combined with asset class exposure from alpha pool and overlay program exposure.

Fair Value Growth of Plan Assets

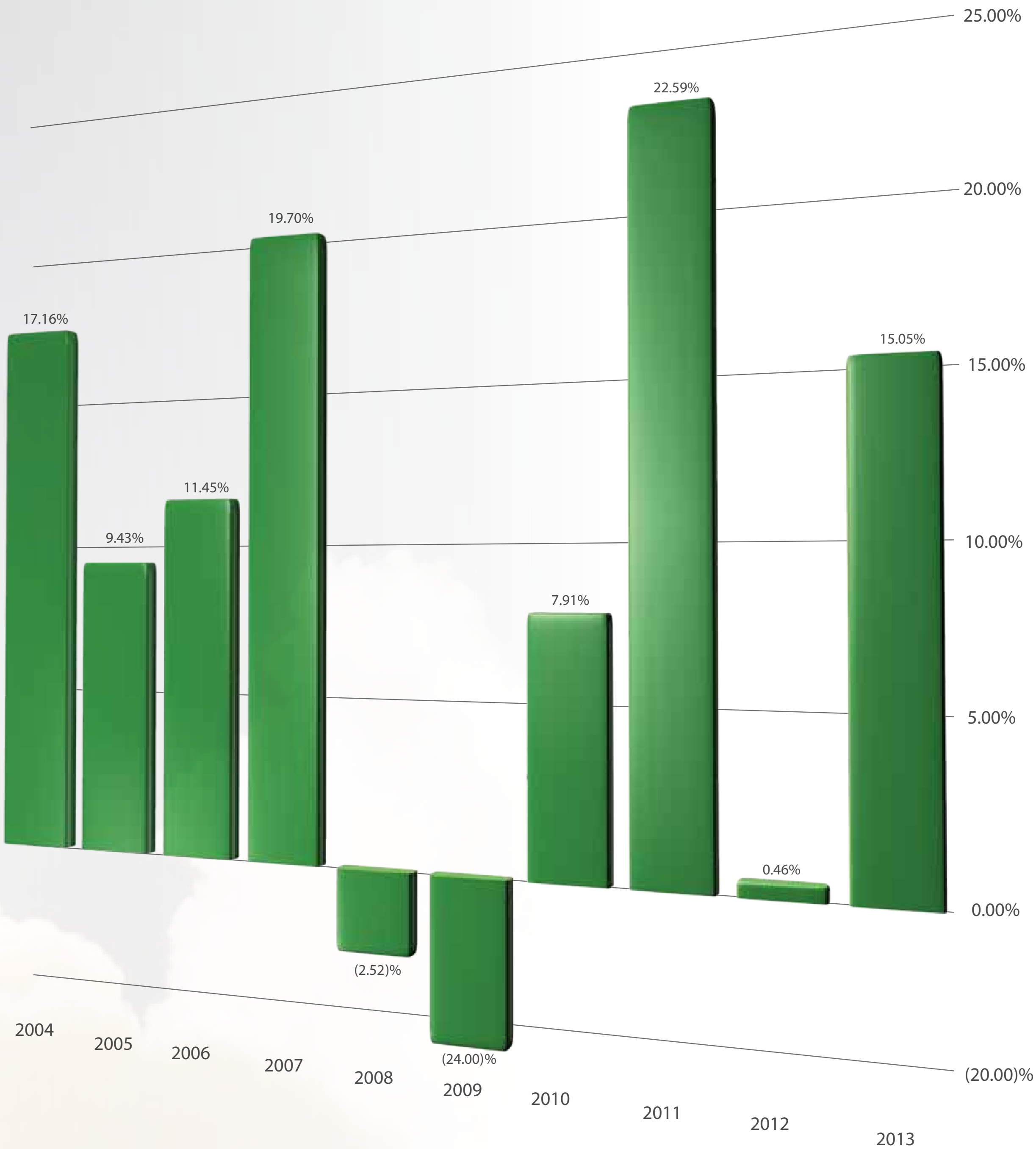
For 10 Years Ended June 30, 2013 (Amounts in Millions)



Note: This chart depicts growth of plan assets held for investment excluding investments of cash collateral received on securities lending transactions. (Fiscal Year 2013 $98.20 million).

History of Performance

For Fiscal Years 2004 through 2013 (Based on Fair Value)



Note: Calculations were prepared using a time-weighted rate of return and are net of fees.

List of Largest Assets Held

As of June 30, 2013 (Amounts in Thousands)

Largest Stock Holdings
(By Fair Value)

Description		Shares	Fair Value
1)	CHINA MOBILE LTD	511,000	$5,336
2)	HYUNDAI MOBIS CO LTD	17,105	4,089
3)	BANK RAKYAT INDONESIA PERSER	5,235,000	4,088
4)	SAMSUNG ELECTRONICS CO LTD	3,296	3,873
5)	TAIWAN SEMICONDUCTOR MANUFAC	1,024,881	3,796
6)	GRUPO FIN SANTANDER ADR B	264,200	3,754
7)	PTT PCL/FOREIGN	342,800	3,703
8)	SANDS CHINA LTD	759,200	3,577
9)	YUM BRANDS INC	51,200	3,550
10)	TUPRAS TURKIYE PETROL RAFINE	144,646	3,531
TOTAL OF LARGEST STOCK HOLDINGS			**$39,297**
TOTAL STOCK HOLDINGS			**$647,298**

Largest Bond Holdings
(By Fair Value)

Description		Par	Fair Value
1)	MS032713 CDS USD R V 00MEVENT	$150,000	$145,688
2)	MS041613 CDS USD R V 00MEVENT	75,000	72,844
3)	REPUBLIC OF ARGENTINA	47,400	15,405
4)	B62705922 IRS GBP R V 06MLIBOR	5,060	9,538
5)	SOURCE INTERLINK COMPANIES, IN	5,829	5,537
6)	BUNDESOBLIGATION	3,430	4,615
7)	BUNDESOBLIGATION	3,000	3,885
8)	SOURCE INTERLINK COMPANIES INC	4,186	3,559
9)	CITIGROUP MORTGAGE LOAN TRUST	4,907	3,091
10)	BUNDESREPUB. DEUTSCHLAND	1,865	2,762
TOTAL OF LARGEST BOND HOLDINGS			**$266,924**
TOTAL BOND HOLDINGS			**$565,349**

Note: The holdings schedules pertain to holdings of individual securities; they do not reflect SBCERA's investments in commingled funds.
A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions

For the Year Ended June 30, 2013 (Amounts in Thousands)

Schedule of Fees

	Assets Under Management at Fair Value	Fees
Investment Managers' Fees		
Equity managers	$647,298	$2,722
Fixed income managers	565,349	730
Real estate managers	531,434	5,415
Alternative managers	4,466,755	70,132
Short term cash & securities lending collateral	1,092,481	-
TOTAL INVESTMENT MANAGERS' FEES	**$7,303,317**	**78,999**
Other Investment Service Fees		
Custodian fees		597
Legal services		583
Investment consultant fees		2,300
TOTAL INVESTMENT SERVICE FEES		**3,480**
SECURITIES LENDING FEES		**176**
TOTAL FEES		**$82,655**

Schedule of Commissions

Brokerage Firm	Total Commissions	% of Total Commissions
Morgan Stanley (Bank of NY)	$461	61.28%
Morgan Stanley and Co New York	135	17.92%
Merrill Lynch International	42	5.64%
Other[1]	115	15.16%
TOTAL	**$753**	**100.00%**

(1) Includes approximately 45 additional firms, each with less than 2% of total commissions.
Note: SBCERA has commission recapture arrangements with Russell Investments.

Investment Summary

As of June 30, 2013 (Amounts in Thousands)

Type of Investment	Fair Value	Percent of Total Fair Value
Domestic Stocks	$461,501	6.32%
Foreign Stocks	185,797	2.55%
U.S. Government Securities	154,917	2.12%
Domestic Corporate Bonds	57,249	0.77%
Foreign Bonds	52,486	0.72%
Emerging Market Debt	300,697	4.12%
Real Estate	531,434	7.28%
Domestic Alternatives	3,333,102	45.64%
Foreign Alternatives	1,133,653	15.52%
Investments of Cash Collateral Received on Securities Lending	98,196	1.35%
Short-Term Cash Investment Funds	994,285	13.61%
TOTAL INVESTMENTS	**$7,303,317**	**100.00%**

ACTUARIAL

SECTION 4.0

"To go places and do things that have never been done before – that's what living is all about."

—Michael Collins, Gemini and Apollo Astronaut

NGC 3190: Spiral Galaxy | Photo Credit: Hubble Legacy Archive, ESA, NASA Processing - Robert Gendler

SECTION 4.0: ACTUARIAL

Health risks associated with space travel are continuously evaluated by NASA and the primary focus is on how the human body functions with changes in gravity. One interesting study looked at a loss of protein due to less energy being expended in space. Continued space travel can create an inability to perform at the high levels required of astronauts and in some cases may prevent the astronaut from flying in future missions. An SBCERA member may also become disabled and unable to substantially perform their essential job duties; therefore, they may be eligible for a disability retirement. There are two types of disability retirements: Service-Connected (the incapacity is a result of injury or disease arising out of and in the course of employment) and Nonservice-Connected (the incapacity is not related to a member's job).

Out on a Limb- Endeavour Astronaut Rick Linnehan Participates in the Missions First Scheduled Spacewalk | Photo Credit: NASA

Actuary Certification Letter

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

November 6, 2013

Board of Retirement
San Bernardino County Employees' Retirement Association
348 West Hospitality Lane, 3rd Floor
San Bernardino, CA 92415-0014

Dear Members of the Board:

Segal Consulting prepared the June 30, 2013 actuarial valuation of the San Bernardino County Employees' Retirement Association (SBCERA). We certify that the Retirement Association valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2013 actuarial valuation, Segal conducted an examination of all participant data for reasonableness and prepared summaries of the employee data used in performing the actuarial valuations over the past several years (Schedule of Active Member Valuation Data and Summary of Retired Membership). We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period (Development of Actuarial Value of Assets). Deferred investment gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of four years from that date.

One of the general goals of an actuarial valuation is to establish contribution rates which, over time, will remain level as a percentage of payroll for each generation of active members. Actuarial funding is based on the Entry Age Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payrolls to amortize any Unfunded Actuarial Accrued Liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same periods.

Components of the UAAL through June 30, 2013 are amortized as a level percentage of payroll over a 20-year period. Future components of the UAAL that arise due to actuarial experience gains and losses or changes in actuarial assumption or methods will be amortized over separate 20-year periods. Effective with the June 30, 2012 valuation, future components of the UAAL that arise due to plan amendments will be amortized over separate 15-year periods (with the exception of retirement incentives which will be amortized over a separate period of up to

Actuary Certification Letter

(Continued)

Board of Retirement
San Bernardino County Employees' Retirement Association
November 6, 2013
Page 2

5 years). The progress being made towards meeting the funding objective through June 30, 2013 is illustrated in the History of Unfunded Actuarial Accrued Liability.

For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the trend data for the Required Supplementary Information. The schedules presented in the Actuarial Section have also been prepared and/or reviewed by our firm.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations from the June 30, 2011 Experience Analysis or in conjunction with our study regarding new tiers of benefits. It is our opinion that the assumptions used in the June 30, 2013 valuation produce results which, in the aggregate, anticipate the expected future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2014.

For members with membership dates on or after January 1, 2013, they have been enrolled and reported in the new General Tier 2 and Safety Tier 2 under the California Public Employees' Pension Reform Act of 2013 (CalPEPRA).

In the June 30, 2013 valuation, the ratio of the actuarial value of assets to actuarial accrued liabilities increased from 78.9% to 79.3%, and the aggregate employer contribution rate increased from 23.89% of payroll to 24.73% of payroll, where the June 20, 2012 aggregate rate is before reflecting the three-year phase-in of the impact of the changes in actuarial assumptions from the June 30, 2011 valuation. As of June 30, 2013, the three-year phase-in has been completed.

The actuarial value of assets included $100 million in deferred investment losses, which represented about 1% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would have decreased from 79.3% to 78.2% and the aggregate employer contribution rate, expressed as a percent of payroll, would have increased from 24.73% to 25.30%.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Sincerely,

Paul Angelo

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President & Actuary

John Monroe

John Monroe, ASA, EA, MAAA
Vice President & Associate Actuary

AW/gxk

5278498v1/05111.002

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
6/30/04				
General	15,529	$810,182,650	$52,172	4.50%
Safety	1,862	133,362,321	71,623	1.80%
TOTAL	**17,391**	**$943,544,971**	**$54,255**	**4.20%**
6/30/05				
General	15,743	$832,019,250	$52,850	1.30%
Safety	1,864	136,655,045	73,313	2.36%
TOTAL	**17,607**	**$968,674,295**	**$55,016**	**1.40%**
6/30/06				
General	16,254	$879,493,985	$54,109	2.38%
Safety	2,093	149,236,841	71,303	(2.74)%
TOTAL	**18,347**	**$1,028,730,826**	**$56,071**	**1.92%**
6/30/07				
General	16,758	$938,685,224	$56,014	3.52%
Safety	2,187	163,465,403	74,744	4.83%
TOTAL	**18,945**	**$1,102,150,627**	**$58,176**	**3.76%**
6/30/08				
General	17,197	$1,042,739,850	$60,635	8.25%
Safety	2,217	176,821,803	79,757	6.71%
TOTAL	**19,414**	**$1,219,561,653**	**$62,819**	**7.98%**
6/30/09				
General	16,669	$1,032,135,626	$61,919	2.12%
Safety	2,286	194,295,650	84,994	6.57%
TOTAL	**18,955**	**$1,226,431,276**	**$64,702**	**3.00%**
6/30/10				
General	17,255	$1,054,377,283	$61,106	(1.31)%
Safety	2,265	195,815,678	86,453	1.72%
TOTAL	**19,520**	**$1,250,192,961**	**$64,047**	**(1.01)%**
6/30/11				
General	17,070	$1,045,601,554	$61,254	0.24%
Safety	2,188	198,953,186	90,929	5.18%
TOTAL	**19,258**	**$1,244,554,740**	**$64,625**	**0.90%**
6/30/12				
General	17,155	$1,061,588,530	$61,882	1.03%
Safety	2,151	198,720,507	92,385	1.60%
TOTAL	**19,306**	**$1,260,309,037**	**$65,281**	**1.01%**
6/30/13				
General	17,241	$1,061,419,963	$61,564	(0.51)%
Safety	2,160	201,332,001	93,209	0.89%
TOTAL	**19,401**	**$1,262,751,964**	**$65,087**	**(0.30)%**

Summary of Retired Membership

Year	Number of Members: Beginning of Year	Added During Year	Removed During Year	End of Year	Annual Allowances: Beginning Annual Allowance	Added During Year	Removed During Year	Annual Allowance[1]	% Increase in Annual Allowance	Average Monthly Allowance[1]
7/03 to 6/04	6,159	550	(283)	6,426	$127,302,000	$19,172,000	$1,851,000	$148,325,000	16.51%	$1,924
7/04 to 6/05	6,426	600	(122)	6,904	148,325,000	24,047,000	(1,837,000)	170,535,000	14.97%	2,058
7/05 to 6/06	6,904	565	(208)	7,261	170,535,000	19,608,000	(3,508,000)	186,635,000	9.44%	2,142
7/06 to 6/07	7,261	572	(216)	7,617	186,635,000	23,197,000	(3,834,000)	205,998,000	10.37%	2,254
7/07 to 6/08	7,617	592	(238)	7,971	205,998,000	25,876,000	(4,242,000)	227,632,000	10.50%	2,380
7/08 to 6/09	7,971	748	(200)	8,519	227,632,000	32,330,000	(3,581,000)	256,381,000	12.63%	2,508
7/09 to 6/10	8,519	553	(229)	8,843	256,381,000	27,380,000	(4,929,000)	278,832,000	8.76%	2,628
7/10 to 6/11	8,843	694	(272)	9,265	278,832,000	35,099,000	(5,375,000)	308,556,000	10.66%	2,775
7/11 to 6/12	9,265	690	(219)	9,736	308,556,000	35,576,000	(4,309,000)	339,823,000	10.13%	2,909
7/12 to 6/13	9,736	755	(318)	10,173	339,823,000	38,851,000	(7,910,000)	370,764,000	9.11%	3,037

Development of Actuarial Value of Assets

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Retirement has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable. The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

		Original Amount	Unrecognized Return	
1.	**Market value of assets**			$7,104,553,860
2.	**Calculation of unrecognized return[2]**			
	a) Year ended June 30, 2013[3]	$425,010,217	$340,008,174	
	b) Year ended June 30, 2012[3]	(444,010,514)	(266,406,308)	
	c) Combined net deferred loss[4]	(347,932,968)	(173,966,484)	
	d) TOTAL UNRECOGNIZED RETURN[5]			**(100,364,618)**
3.	**Actuarial value of assets (1) - (2d)**			7,204,918,478
4.	**Actuarial value as a percentage of market value**			101.4%
5.	**Non-valuation reserves and designations**			
	a) Burial allowance reserve			870,907
	b) TOTAL			**870,907**
6.	**PRELIMINARY VALUATION VALUE OF ASSETS (3) - (5b)**			**$7,204,047,571**
7.	**VALUATION VALUE OF ASSETS[6]**			**$7,209,814,454**

(1) Excludes monthly benefits for Supplemental Disability, Survivor Benefits, General Retiree Subsidy (GRS) and beneficiaries that are only receiving Survivor Benefit amounts. Some years may not include GRS.

(2) Total return minus expected return on a market value basis.

(3) Recognition at 20% per year over 5 years.

(4) Net deferred loss as of June 30, 2011 was combined and will be recognized over 4 years.

(5) Deferred return amount as of June 30, 2013 recognized in each of the next 4 years:

(a) Amount recognized during 2013/2014 -	$(90,783,301)
(b) Amount recognized during 2014/2015 -	(90,783,301)
(c) Amount recognized during 2015/2016 -	(3,800,059)
(d) Amount recognized during 2016/2017 -	85,002,043
Total -	$(100,364,618)

(6) Includes $5.8 million that represents the present value of additional future contributions payable from the County to SBCERA related to the Crest Forest Fire district transfer.

Note: Top Table- For fiscal year 2004, the “Removed During Year” amount was adjusted to account for the Ventura Settlement which increased payments for those already in “pay status” at 6/03.

History of Unfunded Actuarial Accrued Liability

(Amounts in Thousands)

Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability[2] (b)	Unfunded (Overfunded) Actuarial Accrued Liability (b) - (a)	Ratio of Assets to Actuarial Accrued Liability (a) / (b)	Annual Active Member Compensation (c)	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation [(b) - (a) / (c)]
6/30/04	$4,418,152	$4,719,865	$301,713	93.61%	$943,545	31.98%
6/30/05	4,750,229	5,215,719	465,490	91.08%	968,674	48.05%
6/30/06	5,175,767	5,624,646	448,879	92.02%	1,028,731	43.63%
6/30/07	5,797,400	6,227,013	429,613	93.10%	1,102,151	38.98%
6/30/08	6,341,531	6,773,629	432,098	93.62%	1,219,562	35.43%
6/30/09	6,383,388	7,013,534	630,146	91.02%	1,226,431	51.38%
6/30/10[3]	6,367,232	7,444,986	1,077,754	85.52%	1,250,193	86.21%
6/30/11	6,484,507	8,189,646	1,705,139	79.18%	1,244,555	137.01%
6/30/12	6,789,492	8,606,577	1,817,085	78.89%	1,260,309	144.18%
6/30/13[4]	7,204,918	9,088,636	1,883,718	79.27%	1,262,752	149.18%

History of Total Employer Contribution Rates

Valuation Date - 6/30/2004

County General
- Normal Cost 9.08%
- UAAL 1.72%
- Total 10.80%

County Safety
- Normal Cost 19.30%
- UAAL 4.54%
- Total 23.84%

SCAQMD
- Normal Cost 8.94%
- UAAL 3.18%
- Total 12.12%

Superior Court
- Normal Cost 9.08%
- UAAL 4.80%
- Total 13.88%

Other General
- Normal Cost 10.40%
- UAAL 7.54%
- Total 17.94%

Other Safety (3% @ 50 prospective)
- Normal Cost 20.04%
- UAAL 17.53%
- Total 37.57%

Other Safety (3% @ 50 all service)
- Normal Cost 20.36%
- UAAL 23.70%
- Total 44.06%

Valuation Date - 6/30/2005

County General
- Normal Cost 9.50%
- UAAL 2.74%
- Total 12.24%

County Safety
- Normal Cost 19.62%
- UAAL 6.07%
- Total 25.69%

SCAQMD
- Normal Cost 9.60%
- UAAL 4.10%
- Total 13.70%

Superior Court
- Normal Cost 9.50%
- UAAL 5.82%
- Total 15.32%

Other General
- Normal Cost 10.71%
- UAAL 9.42%
- Total 20.13%

Other Safety (3% @ 50 prospective)
- Normal Cost 19.37%
- UAAL 17.46%
- Total 36.83%

Other Safety (3% @ 50 all service)
- Normal Cost 20.79%
- UAAL 26.61%
- Total 47.40%

Valuation Date - 6/30/2006

County General
- Normal Cost 9.43%
- UAAL 2.60%
- Total 12.03%

County Safety
- Normal Cost 19.54%
- UAAL 5.30%
- Total 24.84%

SCAQMD
- Normal Cost 9.67%
- UAAL 4.03%
- Total 13.70%

Superior Court
- Normal Cost 9.43%
- UAAL 5.81%
- Total 15.24%

Other General
- Normal Cost 10.61%
- UAAL 9.64%
- Total 20.25%

Other Safety (3% @ 50 prospective)
- Normal Cost 19.70%
- UAAL 15.97%
- Total 35.67%

Other Safety (3% @ 50 all service)
- Normal Cost 20.62%
- UAAL 22.10%
- Total 42.72%

Valuation Date - 6/30/2007

County General
- Normal Cost 9.42%
- UAAL 2.25%
- Total 11.67%

County Safety
- Normal Cost 19.59%
- UAAL 5.31%
- Total 24.90%

SCAQMD
- Normal Cost 9.78%
- UAAL 4.13%
- Total 13.91%

Superior Court
- Normal Cost 9.42%
- UAAL 5.97%
- Total 15.39%

Other General
- Normal Cost 10.50%
- UAAL 9.47%
- Total 19.97%

Other Safety (All Service)
- Normal Cost 20.62%
- UAAL 21.90%
- Total 42.52%

(1) Includes assets held for Survivor Benefits, Burial Allowance, General Retiree Subsidy(GRS) and Excess Earnings (EE) reserves. Some years may not include the GRS and EE reserves.

(2) Includes liabilities held for Survivor Benefits, Burial Allowance, General Retiree Subsidy (GRS) and Excess Earnings (EE) reserves. Some years may not include the GRS and EE reserves.

(3) Does not reflect the transfer of $40.6 million from the General Retiree Subsidy reserve to the Current Service reserve.

(4) Does not include $5.8 million that represents the present value of future contributions payable from the County of San Bernardino to SBCERA related to the Crest Forest Fire district transfer.

History of Total Employer Contribution Rates

(Continued)

Valuation Date - 6/30/2008

County General

Normal Cost	9.29%
UAAL	1.96%
Total	11.25%

County Safety

Normal Cost	19.06%
UAAL	5.40%
Total	24.46%

SCAQMD

Normal Cost	9.66%
UAAL	5.52%
Total	15.18%

Superior Court

Normal Cost	9.29%
UAAL	5.55%
Total	14.84%

Other General

Normal Cost	10.61%
UAAL	8.81%
Total	19.42%

Other Safety (All Service)

Normal Cost	19.97%
UAAL	21.01%
Total	40.98%

Valuation Date - 6/30/2009

County General

Normal Cost	9.25%
UAAL	3.07%
Total	12.32%

County Safety

Normal Cost	19.21%
UAAL	7.61%
Total	26.82%

SCAQMD

Normal Cost	9.72%
UAAL	6.36%
Total	16.08%

Superior Court

Normal Cost	9.25%
UAAL	6.29%
Total	15.54%

Other General

Normal Cost	10.58%
UAAL	9.81%
Total	20.39%

Other Safety (All Service)

Normal Cost	20.22%
UAAL	24.48%
Total	44.70%

Valuation Date - 6/30/2010

County General

Normal Cost	9.27%
UAAL	5.23%
Total	14.50%

County Safety

Normal Cost	19.16%
UAAL	11.73%
Total	30.89%

SCAQMD

Normal Cost	9.72%
UAAL	9.61%
Total	19.33%

Superior Court

Normal Cost	9.27%
UAAL	7.61%
Total	16.88%

Other General

Normal Cost	10.57%
UAAL	11.81%
Total	22.38%

Other Safety (All Service)

Normal Cost	20.24%
UAAL	26.67%
Total	46.91%

Valuation Date - 6/30/2011

County General

Normal Cost	9.41%
UAAL	7.71%
Total	17.12%

County Safety

Normal Cost	19.24%
UAAL	17.15%
Total	36.39%

SCAQMD

Normal Cost	9.98%
UAAL	13.17%
Total	23.15%

Superior Court

Normal Cost	9.41%
UAAL	9.15%
Total	18.56%

Other General

Normal Cost	10.66%
UAAL	15.11%
Total	25.77%

Other Safety (All Service)

Normal Cost	20.35%
UAAL	31.38%
Total	51.73%

Valuation Date - 6/30/2012

County General

Normal Cost	9.94%
UAAL	9.02%
Total	18.96%

County Safety

Normal Cost	19.73%
UAAL	20.26%
Total	39.99%

SCAQMD

Normal Cost	9.87%
UAAL	15.35%
Total	25.22%

Superior Court

Normal Cost	9.94%
UAAL	9.93%
Total	19.87%

Other General

Normal Cost	11.37%
UAAL	16.32%
Total	27.69%

Other Safety (All Service)

Normal Cost	19.59%
UAAL	38.23%
Total	57.82%

Valuation Date - 6/30/2013

County General-Tier 1

Normal Cost	10.10%
UAAL	10.14%
Total	20.24%

County General-Tier 2

Normal Cost	7.88%
UAAL	10.14%
Total	18.02%

County Safety-Tier 1

Normal Cost	19.88%
UAAL	23.27%
Total	43.15%

County Safety-Tier 2

Normal Cost	13.75%
UAAL	23.27%
Total	37.02%

SCAQMD-Tier 1

Normal Cost	10.23%
UAAL	17.53%
Total	27.76%

SCAQMD-Tier 2

Normal Cost	7.83%
UAAL	17.53%
Total	25.36%

Valuation Date - 6/30/2013 *(Continued)*

Superior Court-Tier I

Normal Cost	10.10%
UAAL	11.65%
Total	21.75%

Superior Court-Tier 2

Normal Cost	7.88%
UAAL	11.65%
Total	19.53%

Other General-Tier 1

Normal Cost	11.67%
UAAL	18.24%
Total	29.91%

Other General-Tier 2

Normal Cost	7.20%
UAAL	18.24%
Total	25.44%

Other Safety (All Service)-Tier 1

Normal Cost	20.48%
UAAL	39.17%
Total	59.65%

Other Safety (All Service)-Tier 2

Normal Cost	11.56%
UAAL	39.17%
Total	50.73%

Note: These are the recommended rates and include a one year lag, i.e. 6/30/2013 contribution rates go into effect 7/1/2014. Beginning with the June 30, 2004 CAFR, "Superior Court employer rates" have been separated from the "County rates" to reflect the differences in rate schedules due to non-participation in the Pension Obligation Bond issued in 2004. Beginning December 31, 2006, SCAQMD deposited a prepayment that will impact their UAAL. UAAL = Unfunded Actuarial Accrued Liability. For June 30, 2010, contribution rates were revised based on a $40.6 million transfer from the General Subsidy Reserve to the Current Service Reserve on April 7, 2011. For June 30, 2011 and 2012, contribution rates reflect a three-year phase-in, which was approved by the Board on August 15, 2011. Beginning with the June 30, 2013 CAFR, Tier 2 rates added pursuant to the Public Employees' Pension Reform Act of 2013.

ACTUARIAL

Supporting Schedules

SECTION 4.1

"That's one small step for man, one giant leap for mankind."

—Astronaut Neil A. Armstrong

M45: The Pleiades Star Cluster | Photo Credit: NASA, ESA, AURA / Caltech, Palomar Observatory

SECTION 4.I: ACTUARIAL

Supporting Schedules

The space shuttle Challenger was destroyed when it broke apart 73 seconds after lift-off of its tenth mission, killing all seven crew members, including the first member of the Teacher in Space Project, Christa McAuliffe. The accident was caused by a failure of an O-ring seal in its right rocket booster and resulted in the grounding of the space shuttle fleet for two-and-a-half years. Endeavour was constructed in 1987 to replace the shuttle Challenger. When an SBCERA member dies before retirement, the appropriate death benefit(s) are paid to the beneficiary or beneficiaries designated when the member joined SBCERA or, subsequently, on an SBCERA Beneficiary Designation/Change form. In paying benefits to active members' beneficiaries, the plan distinguishes between service-related deaths and nonservice-related deaths.

Endeavour on the Horizon | Photo Credit: NASA

Summary of Actuarial Assumptions and Methods

The Entry Age Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The Unfunded Actuarial Accrued Liability (UAAL) is funded over 20 years for all UAAL prior to June 30, 2002; any changes in UAAL after June 30, 2002 are amortized over a 20-year closed period effective with each valuation. Effective June 30, 2011, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in unfunded actuarial accrued liability that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years). An analysis of the Plan's assumptions was last performed as of June 30, 2011 to establish the validity of these assumptions.

1.	*Interest*	7.75% per annum, compounded semi-annually.
2.	*Interest Credited to Employee Accounts*	3.50% (Actual rate is based on six-month Treasury rate).
3.	*Inflation*	3.50% per annum.
4.	*Salary Schedule*	As shown in Table on page 94.
5.	*Asset Valuation*	Smoothed market (five year average). See Development of Actuarial Value of Assets on page 88 which shows the development of the assets. Deferred gains and losses as of June 30, 2011 have been combined and are recognized in equal amounts over a period of four years from that date. As of June 30, 2013, the net unrecognized deferred loss is $100.36 million.
6.	*Gains and Losses*	Gains and Losses are reflected in the UAAL. They are funded over the period described above.
7.	*Spouses and Dependents*	70% of male members and 55% of female members assumed married at retirement or pre-retirement death, with female (or male) spouses assumed 3 years younger (or older) than their spouses.
8.	*Rates of Termination of Employment*	As shown in Table on page 96.
9.	*Years of Life Expectancy After Retirement*	As shown in Table on page 97.
10.	*Years of Life Expectancy After Disability*	As shown in Table on page 97.
11.	*Mortality for Employee Contribution Rate Purposes:*	
	General	RP-2000 Combined Healthy Mortality Table set back 2 years; for Disabled Males, set forward 4 years; for Disabled Females, set forward 5 years, weighted 30% male, 70% female.
	Safety	RP-2000 Combined Healthy Mortality Table, set back 3 years; for Disabled Members, set forward 1 year, weighted 85% male, 15% female.
12.	*Reciprocity Assumption*	40% of members who terminate with a vested benefit are assumed to enter a reciprocal system. Assume 5.25% compensation increases per annum.
13.	*Deferral Age for Vested Terminations*	Age 58 for General members; age 52 for Safety members.
14.	*Recent Changes*	New assumptions were included in the June 30, 2013 actuarial valuation for retirement rates and increases in the Government Code section 7522.10 compensation limit for General Tier 2 and Safety Tier 2 members.

Note: The above methods and assumptions were selected by the actuary as being appropriate for the Plan and are adopted effective June 30, 2013.

Ratio of Current Compensation-to-Compensation Anticipated at Retirement

As of June 30, 2013

Age	General Members	Safety Members
20	0.5161	0.5360
25	0.6784	0.7062
30	0.7380	0.7816
35	0.7699	0.8255
40	0.7992	0.8612
45	0.8296	0.8940
50	0.8612	0.9280
55	0.8940	0.9633
60	0.9280	1.0000
65	0.9633	
70	1.0000	

Note: Merit and Promotional only (excludes inflation). Assumes age at entry is 20.

Probabilities of Separation from Active Service

The following page indicates the probability of separation from active service for each of the following sources of termination:

Withdrawal: Member terminates and either elects refund of member contributions or contributions are left on deposit.

Death: Member dies prior to retirement.

Disability: Member receives disability retirement. Ordinary disability is when disability is not employment-related. Duty disability is when disability is employment-related.

Service Retirement: Member retires after satisfaction of requirements of age and/or service for reasons other than disability.

Probabilities of Separation from Active Service

(Continued)

The probabilities shown for each cause of termination represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 30 is 0.0550, then we are assuming that 5.50% of the active members at age 30 will terminate during the next year.

Age	Withdrawal (5+ Years)[1]	Death[2]	Disability[3]	Tier 1 Service Retirement	Tier 2 Service Retirement
General Members - Male					
20	0.0550	0.0003	0.0002	0.0000	0.0000
30	0.0550	0.0004	0.0004	0.0000	0.0000
40	0.0440	0.0010	0.0010	0.0000	0.0000
50	0.0280	0.0019	0.0031	0.0300	0.0000
60	0.0170	0.0053	0.0065	0.1600	0.1000
70	0.0100	0.0179	0.0134	0.3500	0.5000
General Members - Female					
20	0.0550	0.0002	0.0002	0.0000	0.0000
30	0.0550	0.0002	0.0004	0.0000	0.0000
40	0.0440	0.0006	0.0010	0.0000	0.0000
50	0.0280	0.0014	0.0031	0.0300	0.0000
60	0.0170	0.0039	0.0065	0.1600	0.1000
70	0.0100	0.0134	0.0134	0.3500	0.5000
Safety Members - Male					
20	0.0225	0.0003	0.0016	0.0000	0.0000
30	0.0210	0.0004	0.0036	0.0000	0.0000
40	0.0110	0.0009	0.0088	0.0000	0.0000
50	0.0040	0.0017	0.0200	0.1000	0.0400
60	0.0000	0.0047	0.0560	0.2000	0.2500
Safety Members - Female					
20	0.0225	0.0002	0.0016	0.0000	0.0000
30	0.0210	0.0002	0.0036	0.0000	0.0000
40	0.0110	0.0006	0.0088	0.0000	0.0000
50	0.0040	0.0013	0.0200	0.1000	0.0400
60	0.0000	0.0035	0.0560	0.2000	0.2500

The withdrawal rates above apply after five years of service. The following rates apply for those members with less than five years of service.

Years of Service	General	Safety
0	0.1600	0.0450
1	0.1000	0.0375
2	0.0850	0.0325
3	0.0700	0.0275
4	0.0550	0.0225

(1) For General members, 40% of all terminating members will choose a refund of contributions and 60% will choose a deferred vested benefit. For Safety members, 25% of all terminating members will choose a refund of contributions and 75% will choose a deferred vested benefit. No withdrawal is assumed after a member is first assumed to retire.

(2) All pre-retirement deaths are assumed to be non-service connected.

(3) 50% of General disabilities are assumed to be service connected (duty) disabilities and the other 50% are assumed to be non-service connected (ordinary) disabilities. 100% of Safety disabilities are assumed to be service connected (duty) disabilities.

Expectation of Life

As of June 30, 2013

General Service Retirees – RP-2000 Combined Healthy Mortality Tables, set back two years		
Age	Male	Female
50	32.67	35.49
60	23.49	26.17
70	15.32	17.75
80	8.82	10.85

Safety Service Retirees – RP-2000 Combined Healthy Mortality Tables, set back three years		
Age	Male	Female
50	33.62	36.44
60	24.37	27.07
70	16.07	18.52
80	9.38	11.46

General Disabled Retirees – RP-2000 Combined Healthy Mortality Tables		
Age	Male[1]	Female[2]
20	55.83	57.90
30	46.05	48.05
40	36.46	38.35
50	27.09	28.91
60	18.40	20.12
70	11.19	12.74
80	5.90	7.09

Safety Disabled Retirees – RP-2000 Combined Healthy Mortality Tables, set forward one year		
Age	Male	Female
20	58.77	61.86
30	48.97	51.98
40	39.32	42.21
50	29.86	32.65
60	20.88	23.50
70	13.18	15.50
80	7.25	9.12

(1) For males, the table is set forward four years.
(2) For females, the table is set forward five years.

Retirees and Beneficiaries Added to and Removed from Rolls

(Amounts in Thousands)

	Added to Rolls		Removed from Rolls		Net Added/ Removed from Rolls		Rolls– End of Year		% Increase in Annual Allowances	Average Annual Allowances (Actual Dollars)
Year Ended	No.	Annual Allowances[1]	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
6/30/04[2]										
General	372	$13,957	202	$2,835	170	$11,122	5,432	$110,066	11.24%	$20,263
Safety	106	10,105	9	204	97	9,901	994	38,259	34.91%	38,490
TOTAL	**478**	**$24,062**	**211**	**$3,039**	**267**	**$21,023**	**6,426**	**$148,325**	**16.51%**	**$23,082**
6/30/05										
General	508	$17,785	116	$1,748	392	$16,037	5,824	$126,103	14.57%	$21,652
Safety	92	6,262	6	89	86	6,173	1,080	44,432	16.13%	41,141
TOTAL	**600**	**$24,047**	**122**	**$1,837**	**478**	**$22,210**	**6,904**	**$170,535**	**14.97%**	**$24,701**
6/30/06										
General	498	$16,171	188	$3,110	310	$13,061	6,134	$139,164	10.36%	$22,687
Safety	67	3,437	20	398	47	3,039	1,127	47,471	6.84%	42,122
TOTAL	**565**	**$19,608**	**208**	**$3,508**	**357**	**$16,100**	**7,261**	**$186,635**	**9.44%**	**$25,704**
6/30/07										
General	505	$18,503	200	$3,319	305	$15,184	6,439	$154,348	10.91%	$23,971
Safety	67	4,694	16	515	51	4,179	1,178	51,650	8.80%	43,846
TOTAL	**572**	**$23,197**	**216**	**$3,834**	**356**	**$19,363**	**7,617**	**$205,998**	**10.37%**	**$27,045**
6/30/08										
General	518	$19,912	218	$3,781	300	$16,131	6,739	$170,479	10.45%	$25,297
Safety	74	5,964	20	461	54	5,503	1,232	57,153	10.65%	46,390
TOTAL	**592**	**$25,876**	**238**	**$4,242**	**354**	**$21,634**	**7,971**	**$227,632**	**10.50%**	**$28,558**
6/30/09										
General	689	$27,963	181	$3,187	508	$24,776	7,247	$195,255	14.53%	$26,943
Safety	59	4,367	19	394	40	3,973	1,272	61,126	6.95%	48,055
TOTAL	**748**	**$32,330**	**200**	**$3,581**	**548**	**$28,749**	**8,519**	**$256,381**	**12.63%**	**$30,095**
6/30/10										
General	465	$19,648	205	$4,123	260	$15,525	7,507	$210,780	7.95%	$28,078
Safety	88	7,732	24	806	64	6,926	1,336	68,052	11.33%	50,937
TOTAL	**553**	**$27,380**	**229**	**$4,929**	**324**	**$22,451**	**8,843**	**$278,832**	**8.76%**	**$31,531**
6/30/11										
General	598	$25,397	250	$4,605	348	$20,792	7,855	$231,572	9.86%	$29,481
Safety	96	9,702	22	770	74	8,932	1,410	76,984	13.13%	54,599
TOTAL	**694**	**$35,099**	**272**	**$5,375**	**422**	**$29,724**	**9,265**	**$308,556**	**10.66%**	**$33,303**
6/30/12										
General	586	$26,342	204	$3,741	382	$22,601	8,237	$254,173	9.76%	$30,857
Safety	104	9,234	15	568	89	8,666	1,499	85,650	11.26%	57,138
TOTAL	**690**	**$35,576**	**219**	**$4,309**	**471**	**$31,267**	**9,736**	**$339,823**	**10.13%**	**$34,904**
6/30/13										
General	638	$28,585	283	$6,470	355	$22,115	8,592	$276,288	8.70%	$32,156
Safety	117	10,266	35	1,440	82	8,826	1,581	94,476	10.30%	59,757
TOTAL	**755**	**$38,851**	**318**	**$7,910**	**437**	**$30,941**	**10,173**	**$370,764**	**9.11%**	**$36,446**

(1) Includes cost-of-living adjustments granted annually on April 1.

(2) For fiscal year 2004, the Ventura Settlement increased payments for those already in “pay status” at 6/30/03, causing “removed from roll” annual allowances to be restated to properly reflect impact.

Solvency Test

(Amounts in Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liability Covered by Valuation Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees, Beneficiaries & Vested Participants	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/04	$650,465	$2,032,964	$2,036,436	$4,418,152	100%	100%	85.18%
6/30/05	675,653	2,315,978	2,224,088	4,750,229	100%	100%	79.07%
6/30/06	772,833	2,520,667	2,331,146	5,175,767	100%	100%	80.74%
6/30/07	787,699	2,894,967	2,544,347	5,797,400	100%	100%	83.11%
6/30/08	851,932	3,244,459	2,677,238	6,341,531	100%	100%	83.86%
6/30/09	885,519	3,325,726	2,802,289	6,383,388	100%	100%	77.51%
6/30/10	934,641	3,573,651	2,936,694	6,367,232	100%	100%	63.30%
6/30/11	969,913	4,033,102	3,186,631	6,484,507	100%	100%	46.49%
6/30/12	1,004,751	4,330,245	3,271,581	6,789,492	100%	100%	44.46%
6/30/13	1,037,767	4,699,518	3,351,351	7,204,918	100%	100%	43.79%

Note: Effective 6/30/2004, net proceeds of approximately $506 million from the issuance of a pension obligation bond were contributed to the Plan.

Analysis of Financial Experience

(Amounts in Thousands)

Gains and losses in Accrued Liabilities during the years ended June 30, 2004 through 2013 resulting from differences between Assumed Experience and Actual Experience.

	Type of Activity				
	Pay Increases [1]	Investment Income [2]	Death After Retirement [3]	Other [4]	Composite Gain (Loss) During the Year
6/30/2004 Gain (Loss)	$12,244	$(111,191)	$6,869	$(22,913)	$(114,991)
6/30/2005 Gain (Loss)	(45,793)	(14,220)	(52,798)	(64,893)	(177,704)
6/30/2006 Gain (Loss)	18,819	2,488	5,127	(4,763)	21,671
6/30/2007 Gain (Loss)	(15,379)	6,514	(16,190)	7,970	(17,085)
6/30/2008 Gain (Loss)	(21,844)	7,386	(22,150)	(4,795)	(41,403)
6/30/2009 Gain (Loss)	50,853	(323,361)	(8,506)	66,311	(214,703)
6/30/2010 Gain (Loss)	111,010	(529,630)	(17,399)	(12,666)	(448,685)
6/30/2011 Gain (Loss)	86,082	(394,003)	(6,413)	(6,804)	(321,138)
6/30/2012 Gain (Loss)	119,172	(132,274)	(12,372)	(96,438)	(121,912)
6/30/2013 Gain (Loss)	159,490	(138,466)	5,019	(105,908)	(79,865)

(1) If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.
(2) If there is greater investment income than assumed, there is a gain. If less income, a loss.
(3) If retirees live longer than assumed, there is a loss. If not as long, a gain.
(4) Actual contributions less than expected, retiree subsidy reserve transfer and miscellaneous gains and losses resulting primarily from employee turnover, retirement incidence and data variances.

Summary of Major Plan Provisions

	Tier 1 (SBCERA membership date is prior to January 1, 2013)[3]	Tier 2 (SBCERA membership date is on or after January 1, 2013)
1. *Eligibility*	First day of employment[1].	First day of employment[1].
2. *Definition of Salary*	Highest twelve consecutive months of compensation earnable.	Highest thirty-six consecutive months of pensionable compensation.
3. *Service Retirement*	• **Normal retirement age[2]** 55 for General and 50 for Safety members. • **Early retirement** Age 70 (regardless of service credit) or Age 50 and 10 years of service credit or 30 years of service credit for General members and 20 years of service credit for Safety members (regardless of age). Active part-time employees at age 55 with a minimum of 10 years of membership and 5 years of service credit. • **Benefit** At normal retirement age, 2% times final average compensation for every year of "General" service credit for benefit and 3% times final average compensation for every year of "Safety" service credit for benefit. • **Benefit Adjustments** Reduced for retirement before 55 for General (50 for Safety). Increased for retirement after 55 up to age 65 (General only).	• **Normal retirement age** 67 for General and 57 for Safety members. • **Early retirement** Age 70 (regardless of service credit) or Age 52 and 5 years of service credit for General members and Age 50 and 5 years of service credit for Safety members. • **Benefit** At normal retirement age, 2.5% times final average compensation for every year of "General" service credit for benefit and 2.7% times final average compensation for every year of "Safety" service credit for benefit. • **Benefit Adjustments** Reduced for retirement before 67 for General (57 for Safety).
4. *Disability Retirement*	**Non-service connected** *(must have five years of service credit to be eligible).* *Members entering on or before December 31, 1980:* Greater of 1.8% of final average compensation per year of service, with a maximum of 33-1/3% if projected service is used or service retirement benefit (if eligible). *Members entering on or after January 1, 1981:* 20% of final average compensation for the first five years plus 2% of final average compensation per year of service in excess of five, with a maximum of 40% of compensation or service retirement benefit (if eligible). **Service connected** Greater of 50% of final average compensation or service retirement benefit (if eligible).	**Non-service connected** *(must have five years of service credit to be eligible).* *Members entering on or after Jan. 1, 2013:* 20% of final average compensation for the first five years plus 2% of final average compensation per year of service in excess of five, with a maximum of 40% of compensation or service retirement benefit (if eligible). **Service connected** Greater of 50% of final average compensation or service retirement benefit (if eligible).

(1) Membership may be delayed up to six weeks for the purpose of establishing reciprocity with another public retirement system as described in the 1937 Act. Employees who have attained age 60 prior to employment may waive membership within 90 days following initial appointment to an eligible position.

(2) Normal retirement age shall not be later than 70 years of age.

(3) Or membership in prior system with reciprocity.

Summary of Major Plan Provisions

(Continued)

	Tier 1 (SBCERA membership date is prior to January 1, 2013)[3]	Tier 2 (SBCERA membership date is on or after January 1, 2013)
5. *Death Before Retirement*[1]	**Less than 5-years of service credit:** Refund of contributions plus 1/12 of compensation per year of service credit up to six months compensation. **5 or more years of service credit:** Lump Sum Payment: Refund of contributions plus 1/12 of compensation per year of service up to six months compensation. **Modified Optional Death Allowance:** Lump-sum of 1/12 of compensation per year of service up to six months compensation plus a reduced monthly benefit depending on the age of beneficiary. **If eligible for disability or service retirement:** Monthly payment equal to 60% of member's allowance. **If service-connected:** Monthly payment equal to 50% of final monthly compensation. **If service-connected and Safety member:** Additional lump-sum payment of one-year compensation plus a monthly benefit for minor children.	**Less than 5-years of service credit:** Refund of contributions plus 1/12 of compensation per year of service credit up to six months compensation. **5 or more years of service credit:** Lump Sum Payment: Refund of contributions plus 1/12 of compensation per year of service up to six months compensation. **Modified Optional Death Allowance:** Lump-sum of 1/12 of compensation per year of service up to six months compensation plus a reduced monthly benefit depending on the age of beneficiary. **If eligible for disability or service retirement:** Monthly payment equal to 60% of member's allowance. **If service-connected:** Monthly payment equal to 50% of final monthly compensation. **If service-connected and Safety member:** Additional lump-sum payment of one-year compensation plus a monthly benefit for minor children.
6. *Death After Retirement*[1]	$1,000 lump sum burial allowance ($250 is discretionary, funded from undesignated excess earnings and is subject at all times to the availability of funds in the Burial Allowance reserve). **Service retirement or non-service disability[2]:** Monthly payment equal to 60% of member's allowance. **Service disability:** Monthly payment equal to 100% of member's allowance.	$1,000 lump sum burial allowance ($250 is discretionary, funded from undesignated excess earnings and is subject at all times to the availability of funds in the Burial Allowance reserve). **Service retirement or non-service disability:** 60% of member's allowance payable to an eligible spouse or registered domestic partner. **Service disability:** Monthly payment equal to 100% of member's allowance.
7. *Survivor Benefits*	**General members only:** Monthly survivor benefit if General member completed at least 18 months of continuous membership with SBCERA including a one-time burial allowance of $255.	**General members only:** Monthly survivor benefit if General member completed at least 18 months of continuous membership with SBCERA including a one-time burial allowance of $255.
8. *Vesting*	After five years of service. Must leave contributions on deposit.	After five years of service. Must leave contributions on deposit.
9. *Member's Contributions*	Percentage of compensation earnable based on entry age.	Single, flat-rate percentage of pensionable compensation.
10. *Cost-of-Living*	"Automatic" not to exceed 2% compounding COLA. A non-compounding 7% increase is payable at retirement for members hired on or before August 18, 1975.	"Automatic" not to exceed 2% compounding COLA.

(1) Payments are made payable to an eligible spouse, registered domestic partner and/or eligible dependent children.

(2) Payment may be adjusted depending on the payment option selected at time of retirement.

(3) Or membership in prior system with reciprocity.

Note: A more detailed description of the Plan provisions is available from the SBCERA administrative office.

STATISTICAL

SECTION 5.0

"The Space Shuttle's a very complex machine. It's got a lot of moving parts that move and operate at pretty much the limit of what we've been able to engineer."

—Mark Kelly, Commander of the Space Shuttle Endeavour's final mission

NGC 1952: The Crab Nebula | Photo Credit: NASA, ESA, J. Hester and A. Loll (Arizona State University)

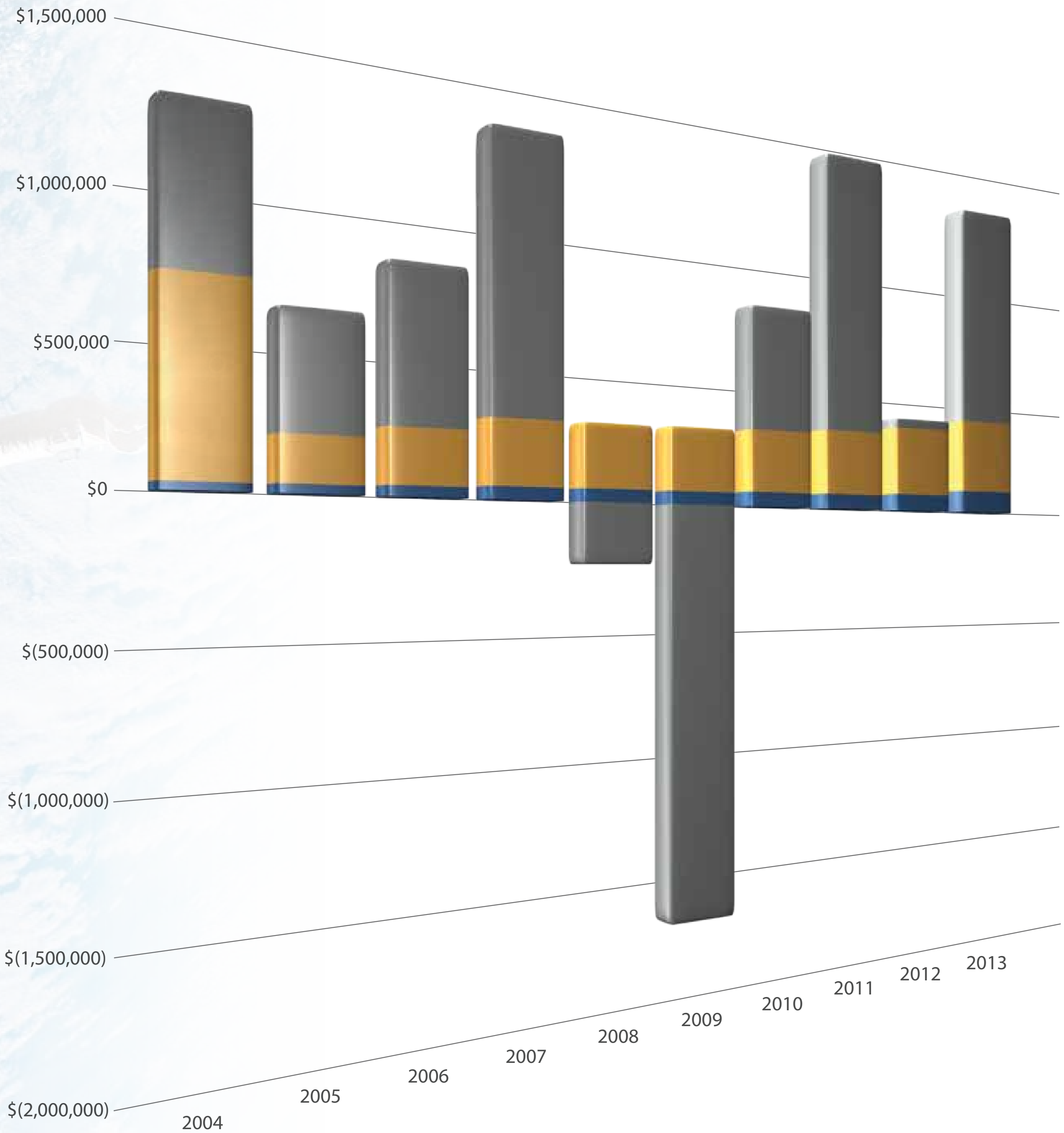
SECTION 5.0: STATISTICAL

As the youngest member of the space shuttle fleet, Endeavour performed 25 successful missions over three decades, spending 299 days in space. These missions included carrying the first African American woman astronaut, Mae Jemison in space, helping to create the international space station and a record number of space walks. Astronaut Mark Kelly, husband of former Congresswoman Gabrielle Giffords, was the final Commander for Endeavour's last mission, which was to the International Space Station in May 2011. Like the Endeavour, SBCERA members will someday reach their mission to retire. Eligibility for retirement depends on a combination of the member's age, their years of service credit and their plan and tier.

Endeavour Docked to the Destiny Laboratory of the International Space Station | Photo Credit: NASA

Additions by Source

For Fiscal Years 2004 through 2013 (Amounts in Thousands)



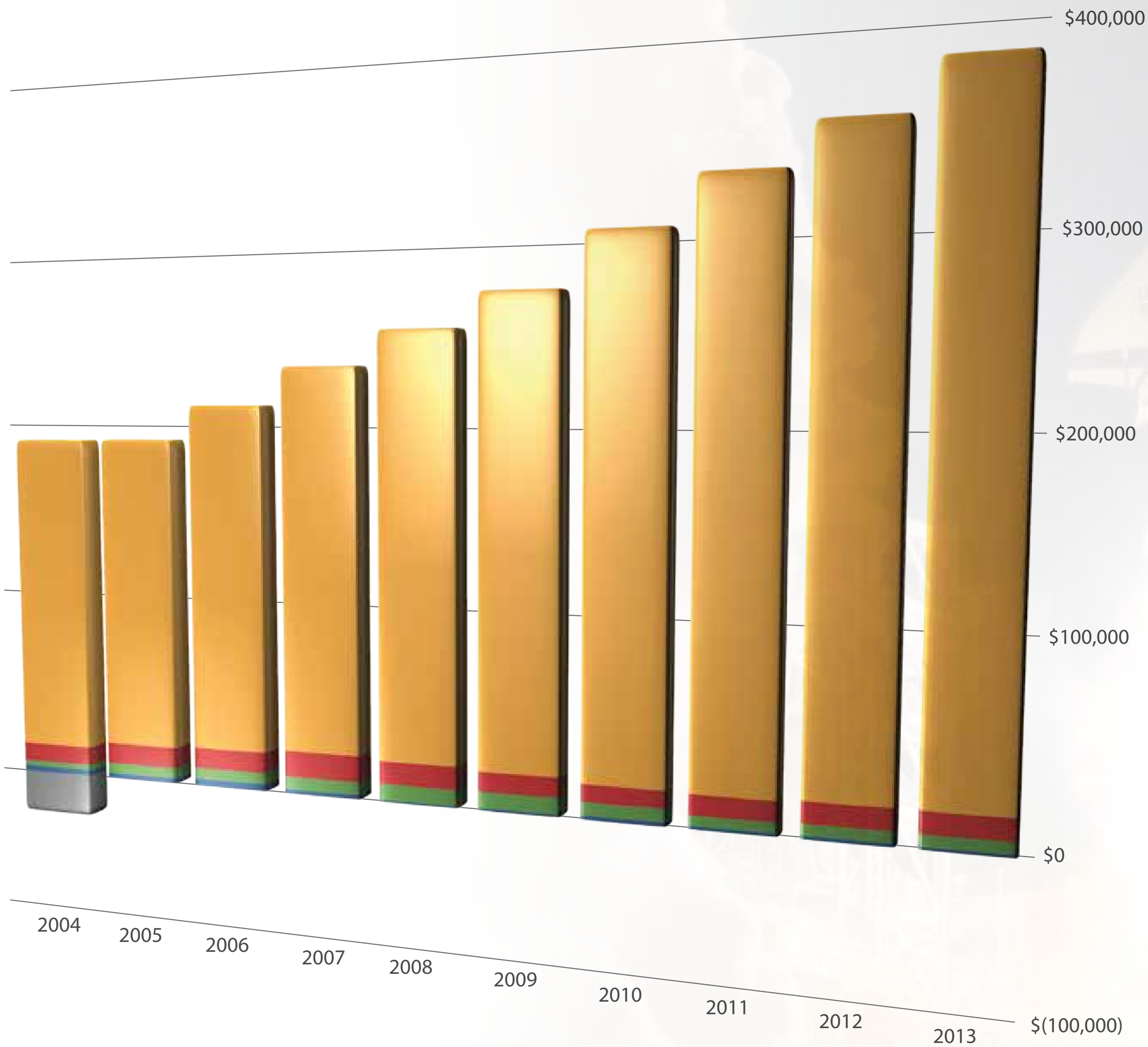
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Employer Contributions[1]	$652,325	$161,906	$197,343	$239,857	$241,721	$246,232	$243,773	$258,128	$278,091	$303,080
Employee Contributions	28,236	31,806	38,368	47,005	49,481	49,550	56,986	59,612	68,630	91,056
% of Annual Payroll (employer)	7.32%	15.50%	16.71%	21.76%	19.82%	20.08%	19.50%	20.74%	22.07%	24.00%
Investment Income (Loss)[2]	546,376	411,983	560,495	1,023,502	(226,541)	(1,583,833)	486,433	1,117,138	39,786	912,310
TOTAL	**$1,226,937**	**$605,695**	**$796,206**	**$1,310,364**	**$64,661**	**$(1,288,051)**	**$787,192**	**$1,434,878**	**$386,507**	**$1,306,446**

(1) During fiscal year 2003/04 the County (excluding the Superior Court), along with SCAQMD, issued Pension Obligation Bonds (POB) to refinance their Unfunded Actuarial Accrued Liability (UAAL). The Net Proceeds of $506 million were contributed to the Plan.

(2) Net of Investment Expenses and includes net Securities Lending gain of $510 thousand for fiscal year 2012/13.

Deductions by Type

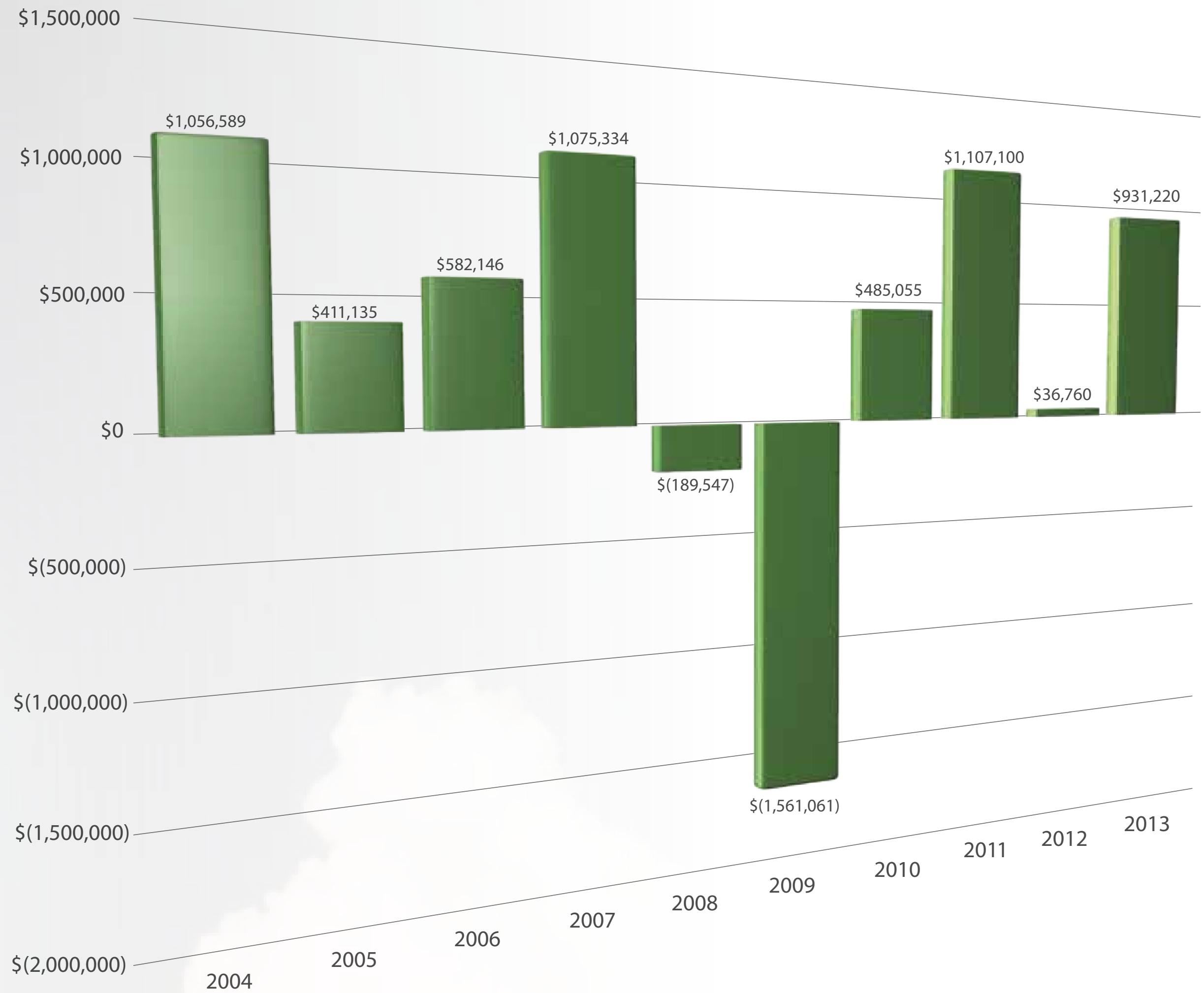
For Fiscal Years 2004 through 2013 (Amounts in Thousands)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Benefit Payments	$177,564	$174,377	$192,531	$211,190	$231,822	$251,999	$283,376	$309,589	$330,344	$355,838
Refunds	10,127	11,591	11,357	14,293	12,584	10,780	9,301	10,925	11,384	11,558
Administrative Expenses	3,303	6,057	6,404	7,254	8,861	8,939	7,226	5,599	6,205	6,258
Other Expenses	2,944	2,535	3,768	2,293	941	1,292	2,234	1,665	1,814	1,572
Provision for Loss Contingency	(23,590)	-	-	-	-	-	-	-	-	-
TOTAL	**$170,348**	**$194,560**	**$214,060**	**$235,030**	**$254,208**	**$273,010**	**$302,137**	**$327,778**	**$349,747**	**$375,226**

Statistical Changes in Fiduciary Net Position

For Fiscal Years 2004 through 2013 (Amounts in Thousands)



Additions	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***
Employer Contributions [1]	$652,325	$161,906	$197,343	$239,857	$241,721	$246,232	$243,773	$258,128	$278,091	$303,080
Employee Contributions	28,236	31,806	38,368	47,005	49,481	49,550	56,986	59,612	68,630	91,056
Investment Income (Loss)[2]	546,376	411,983	560,495	1,023,502	(226,541)	(1,583,833)	486,433	1,117,138	39,786	912,310
TOTAL ADDITIONS	**1,226,937**	**605,695**	**796,206**	**1,310,364**	**64,661**	**(1,288,051)**	**787,192**	**1,434,878**	**386,507**	**1,306,446**
Deductions										
Benefit Payments	$177,564	$174,377	$192,531	$211,190	$231,822	$251,999	$283,376	$309,589	$330,344	$355,838
Refunds	10,127	11,591	11,357	14,293	12,584	10,780	9,301	10,925	11,384	11,558
Administrative Expenses	3,303	6,057	6,404	7,254	8,861	8,939	7,226	5,599	6,205	6,258
Other Expenses	2,944	2,535	3,768	2,293	941	1,292	2,234	1,665	1,814	1,572
Provision for Loss Contingency	(23,590)	-	-	-	-	-	-	-	-	-
TOTAL DEDUCTIONS	**170,348**	**194,560**	**214,060**	**235,030**	**254,208**	**273,010**	**302,137**	**327,778**	**349,747**	**375,226**
TOTAL CHANGE IN FIDUCIARY NET POSITION	**$1,056,589**	**$411,135**	**$582,146**	**$1,075,334**	**$(189,547)**	**$(1,561,061)**	**$485,055**	**$1,107,100**	**$36,760**	**$931,220**

(1) During fiscal year 2003/04 the County (excluding the Superior Court), along with SCAQMD, issued Pension Obligation Bonds (POB) to refinance their Unfunded Actuarial Accrued Liability (UAAL). The Net Proceeds of $506 million were contributed to the Plan.

(2) Net of Investment Expenses and includes net Securities Lending gain of $510 thousand for fiscal year 2012/13.

Benefit Expenses by Type

For Fiscal Years 2004 through 2013 (Amounts in Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Age & Service Benefits										
Retirees	$132,013	$126,038	$137,327	$153,421	$170,711	$190,105	$217,241	$238,775	$256,160	$276,360
Survivors	8,281	8,305	8,482	8,362	9,031	9,452	10,396	11,427	12,259	13,230
Death in Service Benefits	328	355	388	407	367	332	313	388	341	315
Disability Benefits										
Duty	25,277	28,484	33,442	35,237	37,188	37,473	39,858	42,230	44,080	47,137
Non-Duty	6,451	5,967	6,681	7,640	8,063	8,125	8,642	9,156	9,557	10,220
Survivor	5,214	5,228	6,211	6,123	6,462	6,512	6,926	7,613	7,947	8,576
TOTAL BENEFIT PAYMENTS	**177,564**	**174,377**	**192,531**	**211,190**	**231,822**	**251,999**	**283,376**	**309,589**	**330,344**	**355,838**
Refunds										
Death	774	603	469	558	408	538	1,462	925	717	826
Separation	9,353	10,988	10,888	13,735	12,176	10,242	7,839	10,000	10,667	10,732
TOTAL	**$187,691**	**$185,968**	**$203,888**	**$225,483**	**$244,406**	**$262,779**	**$292,677**	**$320,514**	**$341,728**	**$367,396**

Retired Members by Type of Benefit

As of June 30, 2013

Amount of Monthly Benefit[2]	Number of Retirees	Type of Retirement[1] A	B	C
General Members				
0 - 999	2,024	1,314	130	580
1,000 - 1,999	2,485	1,753	351	381
2,000 - 2,999	1,489	1,158	203	128
3,000 - 3,999	901	760	80	61
4,000 - 4,999	542	495	25	22
5,000 - 5,999	368	343	12	13
6,000 - 6,999	240	232	3	5
7,000 - 7,999	180	175	4	1
8,000 - 8,999	100	97	3	0
9,000 - 9,999	90	88	0	2
Over 10,000	173	170	1	2
TOTALS	**8,592**	**6,585**	**812**	**1,195**

Amount of Monthly Benefit[2]	Number of Retirees	Type of Retirement[1] A	B	C
Safety Members				
0 - 999	103	24	20	59
1,000 - 1,999	203	53	67	83
2,000 - 2,999	266	69	161	36
3,000 - 3,999	280	61	189	30
4,000 - 4,999	128	81	33	14
5,000 - 5,999	118	83	29	6
6,000 - 6,999	101	78	21	2
7,000 - 7,999	97	69	24	4
8,000 - 8,999	65	45	19	1
9,000 - 9,999	66	44	19	3
Over 10,000	154	104	50	0
TOTALS	**1,581**	**711**	**632**	**238**

	Number of Retirees	Type of Retirement[1] A	B	C
GRAND TOTAL	**10,173**	**7,296**	**1,444**	**1,433**

(1) Type of Retirement: A = Service Retirement; B = Disability Retirement; C = Beneficiary.
(2) Excludes monthly benefits for Supplemental Disability, Survivor Benefit and Burial Allowance.

Participating Employers

For Fiscal Years 2005 through 2013

	2013		2012		2011		2010	
Employer	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
Barstow Fire Protection District	20	0.10%	20	0.10%	21	0.11%	23	0.12%
Barstow Park and Recreation	-	0.00%	-	0.00%	-	0.00%	-	0.00%
California Electronic Recording Transaction Network Authority	1	0.01%	1	0.01%	1	0.01%	1	0.01%
California State Association of Counties	94	0.47%	105	0.54%	108	0.56%	118	0.60%
City of Big Bear Lake	71	0.37%	77	0.40%	83	0.43%	116	0.59%
City of Chino Hills	161	0.83%	168	0.87%	168	0.87%	172	0.88%
County of San Bernardino	17,230	88.81%	16,963	87.87%	16,882	87.66%	17,142	87.81%
Crest Forest Fire Protection District	-	0.00%	29	0.15%	26	0.13%	27	0.14%
Crestline Sanitation District	18	0.09%	20	0.10%	20	0.10%	-	0.00%
Department of Water and Power of the City of Big Bear Lake	33	0.17%	33	0.17%	-	0.00%	-	0.00%
Hesperia Recreation and Park District	18	0.09%	18	0.09%	17	0.09%	19	0.10%
Inland Library System	1	0.01%	1	0.01%	1	0.01%	2	0.01%
Inland Valley Development Agency	-	0.00%	-	0.00%	8	0.04%	14	0.07%
Law Library for San Bernardino County	8	0.04%	8	0.04%	8	0.04%	8	0.04%
Local Agency Formation Commission	4	0.02%	4	0.02%	4	0.02%	5	0.03%
Mojave Desert Air Quality Management District	42	0.22%	38	0.20%	38	0.20%	37	0.19%
Rim of the World Recreation & Park District	-	0.00%	1	0.01%	1	0.01%	2	0.01%
San Bernardino Associated Governments	48	0.25%	41	0.21%	39	0.20%	38	0.19%
San Bernardino County Employees' Retirement Association (SBCERA)	47	0.24%	48	0.25%	42	0.22%	20	0.10%
San Bernardino International Airport Authority	-	0.00%	-	0.00%	6	0.03%	15	0.08%
South Coast Air Quality Management District (SCAQMD)	713	3.68%	740	3.83%	767	3.98%	780	4.00%
Superior Court of California County of San Bernardino	892	4.60%	991	5.13%	1,018	5.29%	981	5.03%
TOTAL EMPLOYEES	**19,401**	**100%**	**19,306**	**100%**	**19,258**	**100%**	**19,520**	**100%**

Note: For FY 2013: On May 4, 2013 Rim of the World Recreation and Park District withdrew from SBCERA. On July 13, 2013 Crest Forest Fire Protection District transferred all members to the County of San Bernardino. For actuarial purposes the transfer of the associated accrued liabilities occurred as of June 30, 2013.
For FY 2012: The Department of Water and Power of the City of Big Bear Lake (DWP) previously reported under the City of Big Bear Lake. On July 2, 2011, DWP requested to be treated as a separate employer. In addition, the Inland Valley Development Agency and the San Bernardino International Airport Authority withdrew from SBCERA on June 30, 2012.
For FY 2011: Crestline Sanitation District (CSD) previously reported under the County of San Bernardino. On October 7, 2010 CSD requested to be treated as a separate employer.

Participating Employers

For Fiscal Years 2005 through 2013 (Continued)

2009		2008		2007		2006		2005	
Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
23	0.12%	21	0.11%	24	0.13%	20	0.11%	19	0.11%
-	0.00%	-	0.00%	-	0.00%	5	0.03%	1	0.01%
1	0.01%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
125	0.66%	124	0.64%	108	0.57%	99	0.49%	90	0.51%
119	0.63%	120	0.62%	115	0.61%	110	0.60%	102	0.58%
172	0.91%	178	0.92%	164	0.87%	154	0.84%	137	0.78%
16,563	87.38%	17,038	87.75%	16,668	87.97%	16,114	87.87%	15,562	88.38%
27	0.14%	31	0.16%	30	0.16%	28	0.15%	22	0.12%
-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
17	0.09%	16	0.08%	16	0.08%	11	0.06%	11	0.06%
2	0.01%	2	0.01%	2	0.01%	2	0.01%	4	0.02%
18	0.09%	18	0.09%	14	0.07%	12	0.07%	10	0.06%
9	0.05%	9	0.05%	8	0.04%	9	0.05%	10	0.06%
6	0.03%	6	0.03%	5	0.03%	5	0.03%	4	0.02%
35	0.18%	37	0.19%	38	0.20%	39	0.21%	40	0.23%
2	0.01%	3	0.02%	3	0.02%	2	0.01%	3	0.02%
38	0.20%	38	0.20%	36	0.19%	33	0.18%	31	0.18%
13	0.07%	12	0.06%	-	0.00%	-	0.00%	-	0.00%
17	0.09%	15	0.08%	12	0.06%	13	0.07%	11	0.06%
796	4.20%	766	3.94%	758	4.00%	746	4.07%	740	4.20%
972	5.13%	980	5.05%	945	4.99%	945	5.15%	810	4.60%
18,955	**100%**	**19,414**	**100%**	**18,946**	**100%**	**18,347**	**100%**	**17,607**	**100%**

Note: Data for Fiscal Year 2004 is not available in a comparable format.
For FY 2009, the California Electronic Recording Transaction Network Authority became a new public entity, created under a Joint Powers Agreement and joined SBCERA on 8/7/2008.
For FY 2008, SBCERA adopted Government Code sections 31468(1)(2) and 31522.5, making SBCERA its own district. SBCERA previously reported under the County of San Bernardino.

Average Benefit Payments

Retirement Effective Dates July 1, 2003 to June 30, 2013

	Service Years Credited						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
PERIOD 7/1/03 TO 6/30/04							
Average Monthly Benefit	$1,027	$1,382	$1,840	$2,315	$2,496	$5,272	$7,595
Monthly Final Average Salary[1]	$-	$-	$-	$-	$-	$-	$-
Number of Active Retirees	10	29	71	63	57	68	89
PERIOD 7/1/04 TO 6/30/05							
Average Monthly Benefit	$1,767	$2,649	$1,716	$2,450	$3,543	$4,887	$6,520
Monthly Final Average Salary[1]	$-	$-	$-	$-	$-	$-	$-
Number of Active Retirees	11	30	82	81	70	57	70
PERIOD 7/1/05 TO 6/30/06							
Average Monthly Benefit	$1,422	$1,656	$1,612	$2,305	$3,131	$4,548	$6,270
Monthly Final Average Salary	$3,042	$3,800	$3,895	$4,505	$5,359	$5,958	$6,387
Number of Active Retirees	15	42	86	92	44	52	63
PERIOD 7/1/06 TO 6/30/07							
Average Monthly Benefit	$952	$1,407	$1,858	$2,532	$3,490	$4,784	$6,831
Monthly Final Average Salary	$4,322	$4,023	$4,386	$5,031	$5,404	$5,712	$7,001
Number of Active Retirees	9	27	65	78	68	72	69
PERIOD 7/1/07 TO 6/30/08							
Average Monthly Benefit	$1,207	$1,590	$1,682	$2,957	$3,735	$5,390	$7,139
Monthly Final Average Salary	$2,522	$4,248	$3,970	$5,582	$5,624	$6,650	$7,109
Number of Active Retirees	4	31	53	86	72	60	77
PERIOD 7/1/08 TO 6/30/09							
Average Monthly Benefit	$787	$1,453	$1,818	$2,806	$3,666	$4,767	$6,134
Monthly Final Average Salary	$3,370	$4,418	$4,861	$5,125	$5,666	$5,941	$6,558
Number of Active Retirees	4	58	85	99	119	66	127
PERIOD 7/1/09 TO 6/30/10							
Average Monthly Benefit	$1,229	$1,656	$1,929	$3,269	$4,878	$6,328	$8,936
Monthly Final Average Salary	$4,272	$3,535	$4,491	$6,114	$7,324	$7,772	$9,275
Number of Active Retirees	8	30	49	57	68	42	81
PERIOD 7/1/10 TO 6/30/11							
Average Monthly Benefit	$1,399	$1,887	$1,989	$3,694	$4,588	$6,638	$8,449
Monthly Final Average Salary	$5,979	$4,182	$4,757	$6,600	$6,759	$8,134	$8,801
Number of Active Retirees	10	27	90	67	86	64	88
PERIOD 7/1/11 TO 6/30/12							
Average Monthly Benefit	$832	$1,821	$2,085	$2,786	$4,506	$5,282	$8,395
Monthly Final Average Salary	$4,425	$5,084	$4,805	$5,092	$6,901	$6,906	$9,021
Number of Active Retirees	3	45	96	57	107	70	97
PERIOD 7/1/12 TO 6/30/13							
Average Monthly Benefit	$2,696	$1,871	$2,006	$3,405	$4,119	$6,005	$8,223
Monthly Final Average Salary	$9,857	$4,645	$5,369	$6,426	$6,479	$7,969	$8,771
Number of Active Retirees	6	45	112	72	92	92	93

(1) Monthly Final Average Salary data for Fiscal Years 2004 through 2005 is not available in a comparable format.

STATISTICAL
Membership Information

SECTION 5.1

> “If you’re offered a seat on a rocket ship, don’t ask what seat. Just get on.”
>
> —Christa McAuliffe, Selected to be the First Teacher in Space

NGC 6960: The Witch’s Broom Nebula | Photo Credit: Martin Pugh / MartinPughAstroPhotography.id.au

SECTION 5.1: STATISTICAL

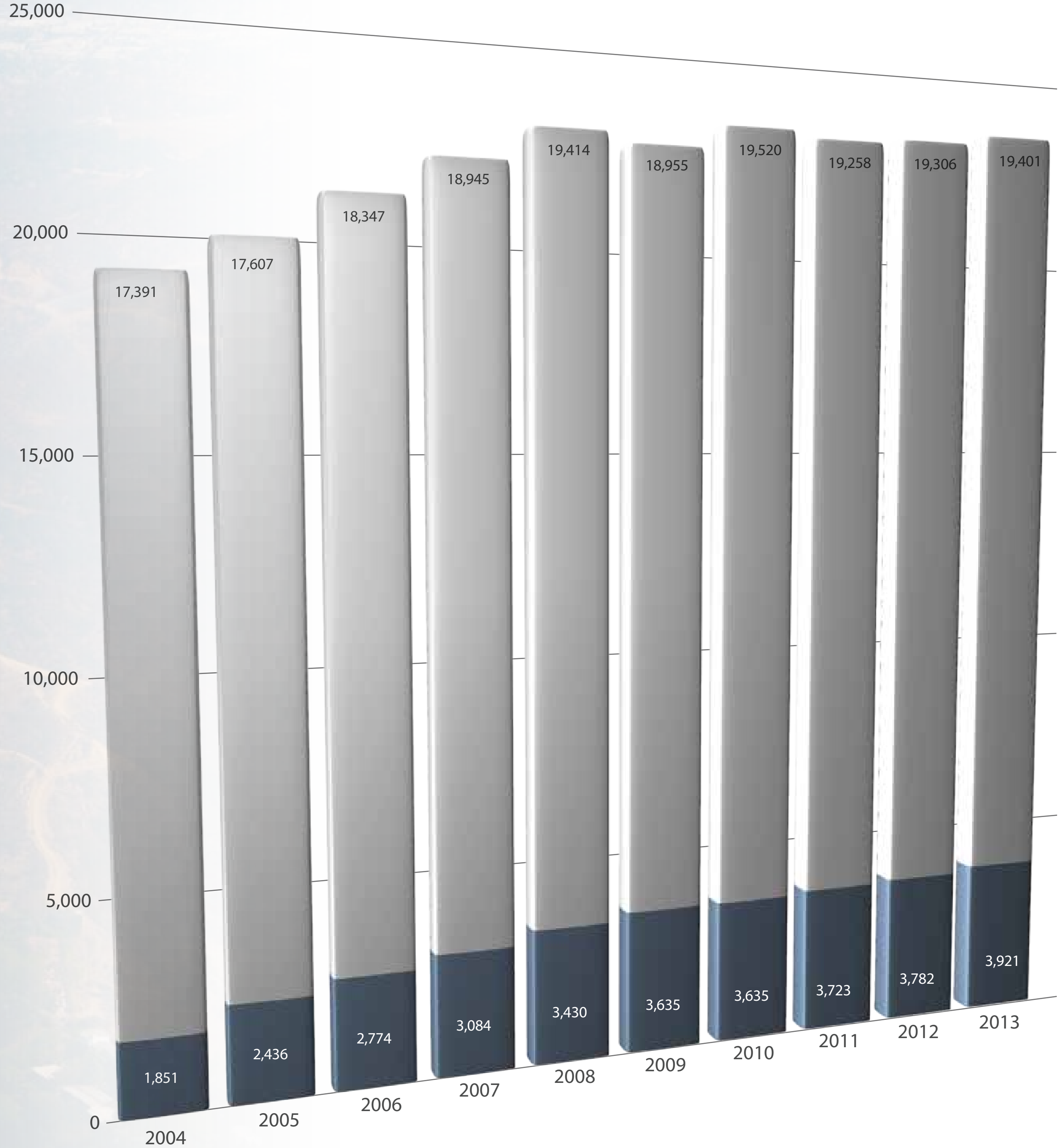
Membership Information

The space shuttle Endeavour will continue to work in retirement at the California Science Center in Los Angeles, California. The science center is building the Samuel Oschin Air and Space Center to permanently house the retired Endeavour as it educates, inspires and stimulates the young minds that come to see it. Retired members of SBCERA also have the option of returning to work. If they choose to return to work with an employer outside of SBCERA there is no change to their SBCERA benefit; however, returning to work for an SBCERA covered employer is limited and requires some considerations related to their ongoing benefit. Members can discuss these requirements with an SBCERA Retirement Specialist.

Endeavour Atop the 747 Shuttle Carrier Aircraft Seen Flying over the Hollywood Sign in Los Angeles | Photo Credit: NASA / Jim Ross

Membership History

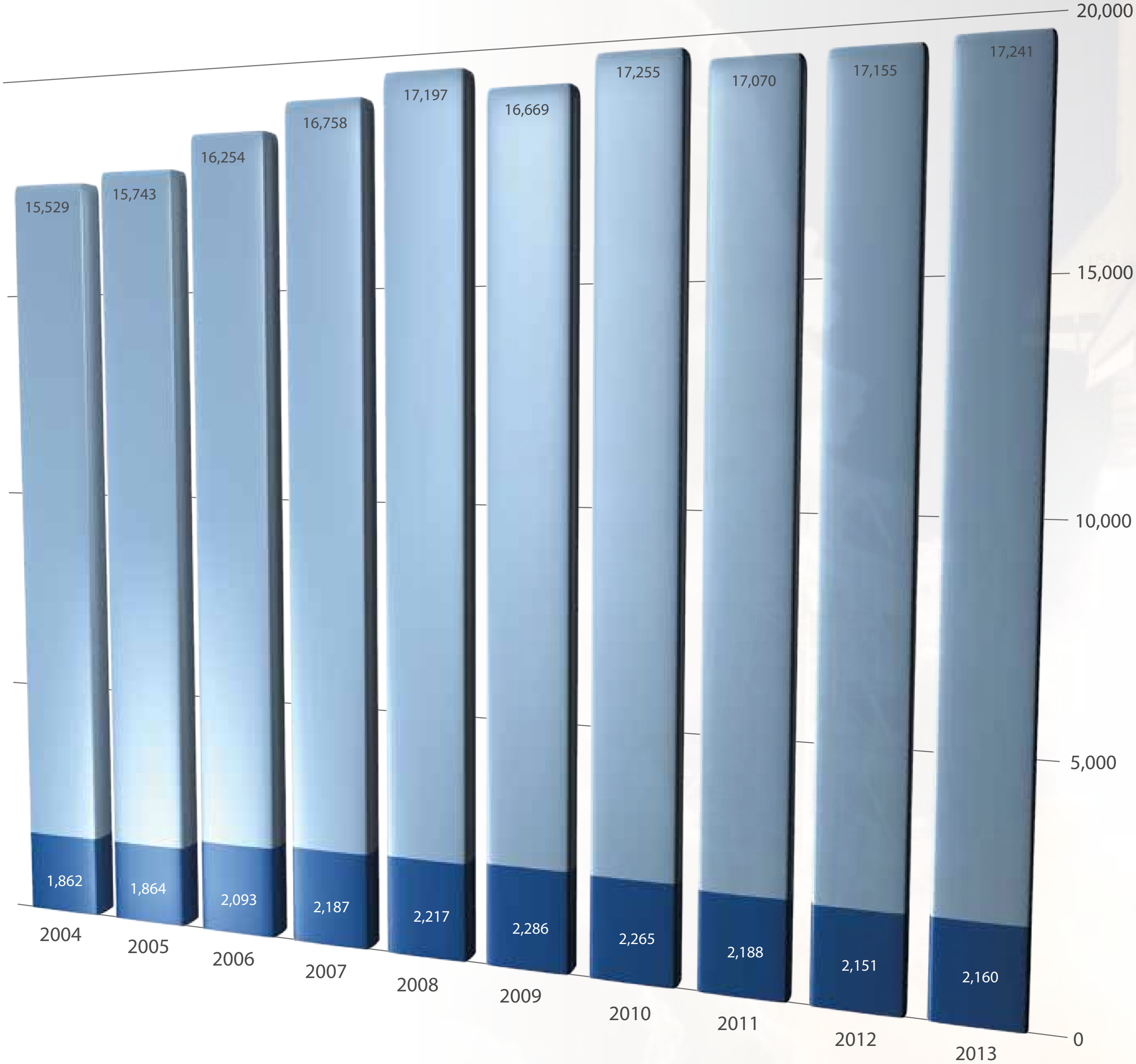
For Fiscal Years 2004 through 2013 (Active and Deferred)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Active	17,391	17,607	18,347	18,945	19,414	18,955	19,520	19,258	19,306	19,401
Deferred	1,851	2,436	2,774	3,084	3,430	3,635	3,635	3,723	3,782	3,921
TOTAL	**19,242**	**20,043**	**21,121**	**22,029**	**22,844**	**22,590**	**23,155**	**22,981**	**23,088**	**23,322**

Membership Classification

For Fiscal Years 2004 through 2013

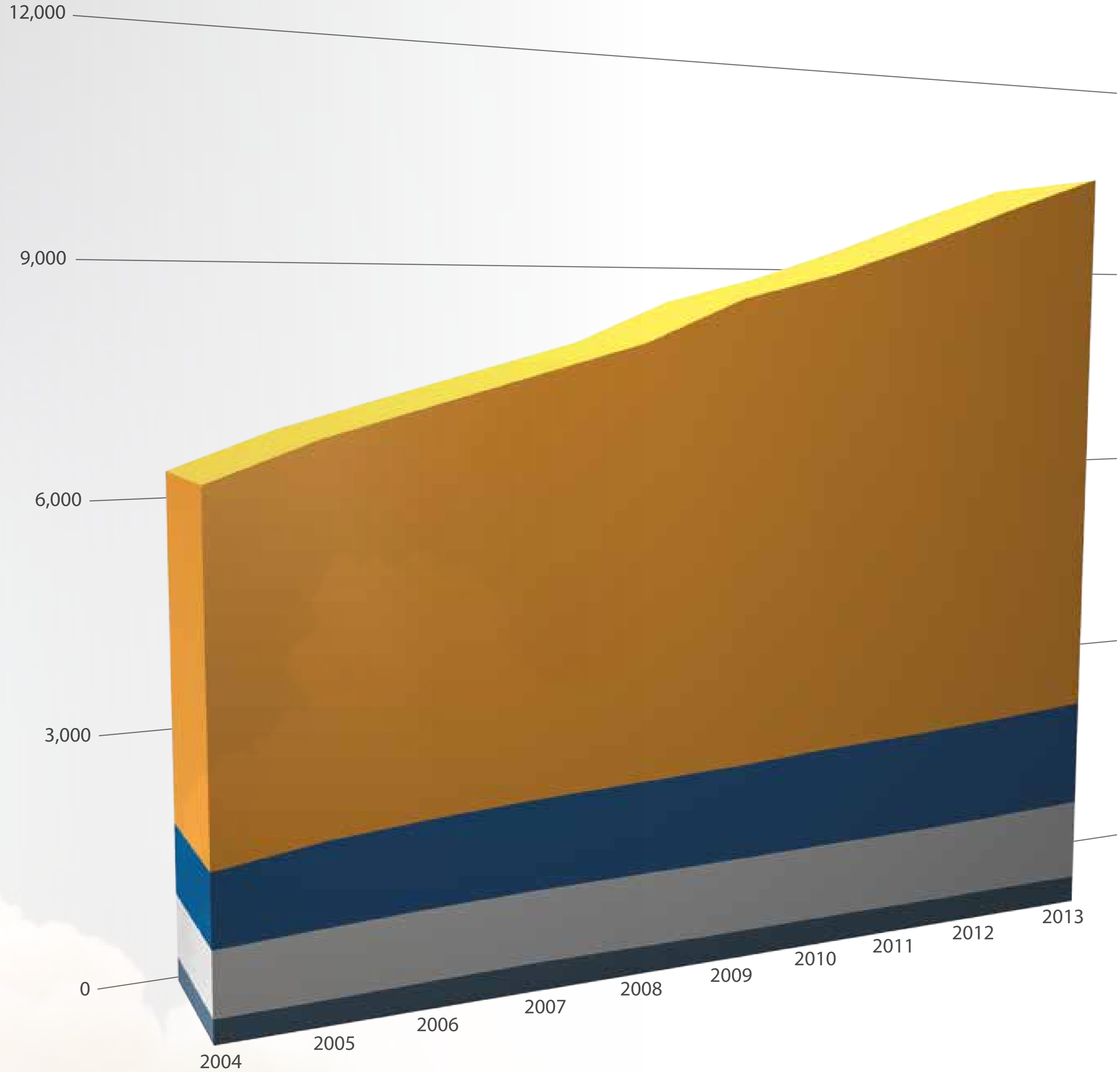


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General	15,529	15,743	16,254	16,758	17,197	16,669	17,255	17,070	17,155	17,241
Safety	1,862	1,864	2,093	2,187	2,217	2,286	2,265	2,188	2,151	2,160
TOTAL	**17,391**	**17,607**	**18,347**	**18,945**	**19,414**	**18,955**	**19,520**	**19,258**	**19,306**	**19,401**

Note: Membership is presented for Active members only.

Membership History

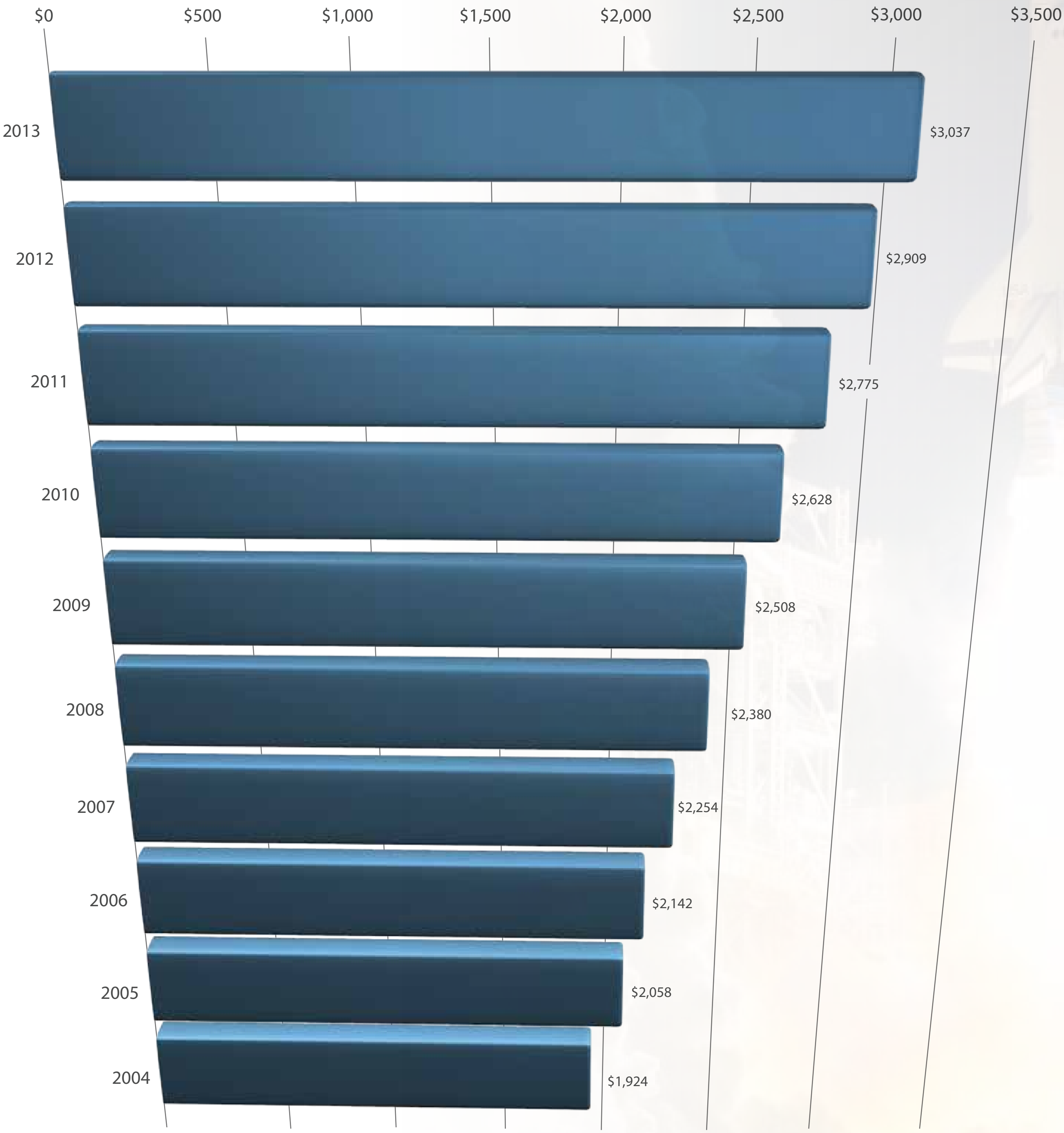
For Fiscal Years 2004 through 2013 (Retired)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non Service Connected Disability	308	321	344	359	347	342	349	345	350	351
Service Connected Disability	814	868	902	924	950	970	990	1,011	1,047	1,093
Survivors	911	1,043	1,100	1,145	1,190	1,236	1,294	1,338	1,382	1,433
Service Connected	4,393	4,672	4,915	5,189	5,484	5,971	6,210	6,571	6,957	7,296
TOTAL	**6,426**	**6,904**	**7,261**	**7,617**	**7,971**	**8,519**	**8,843**	**9,265**	**9,736**	**10,173**

Average Monthly Retirement Benefits

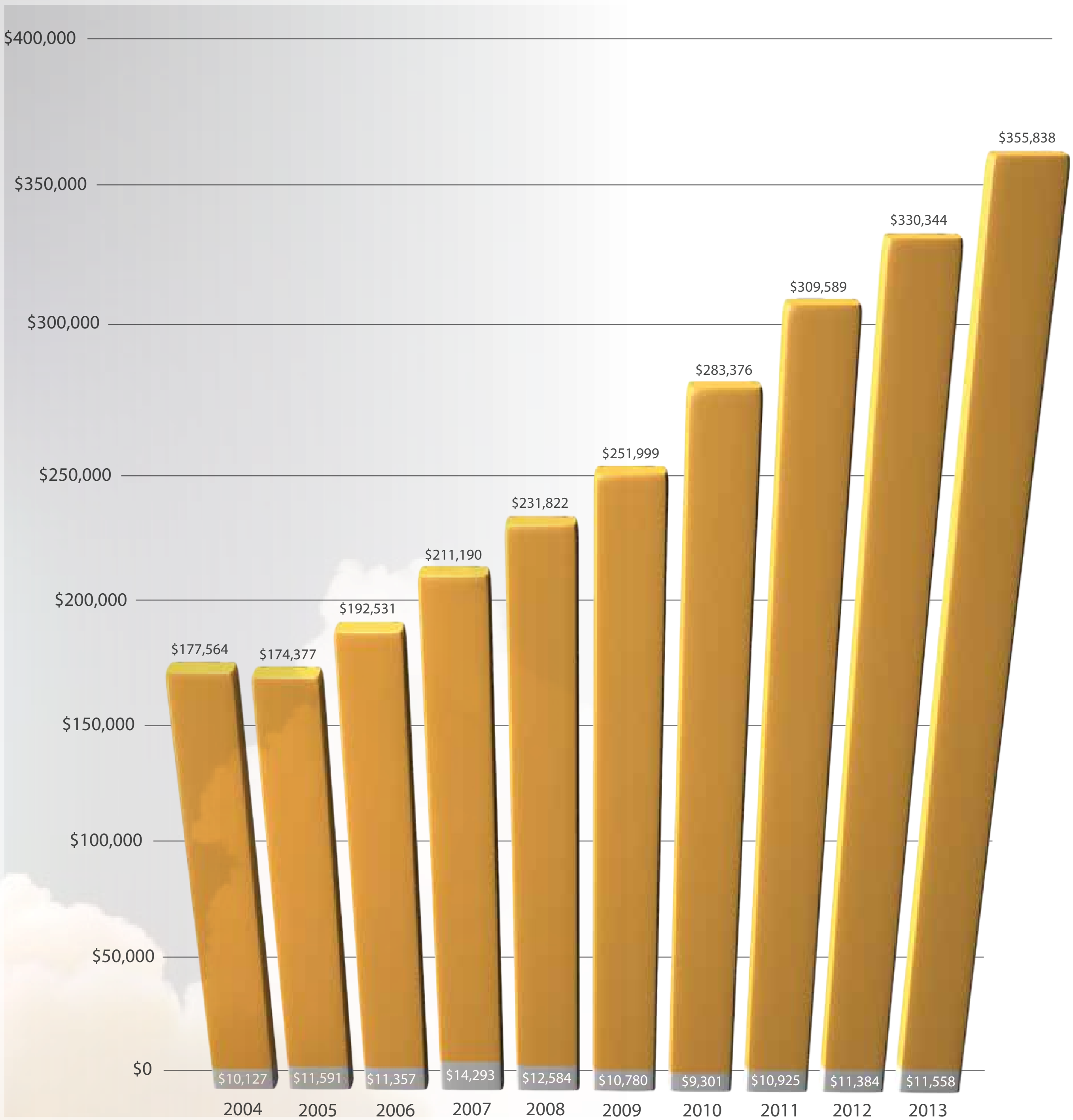
For Fiscal Years 2004 through 2013



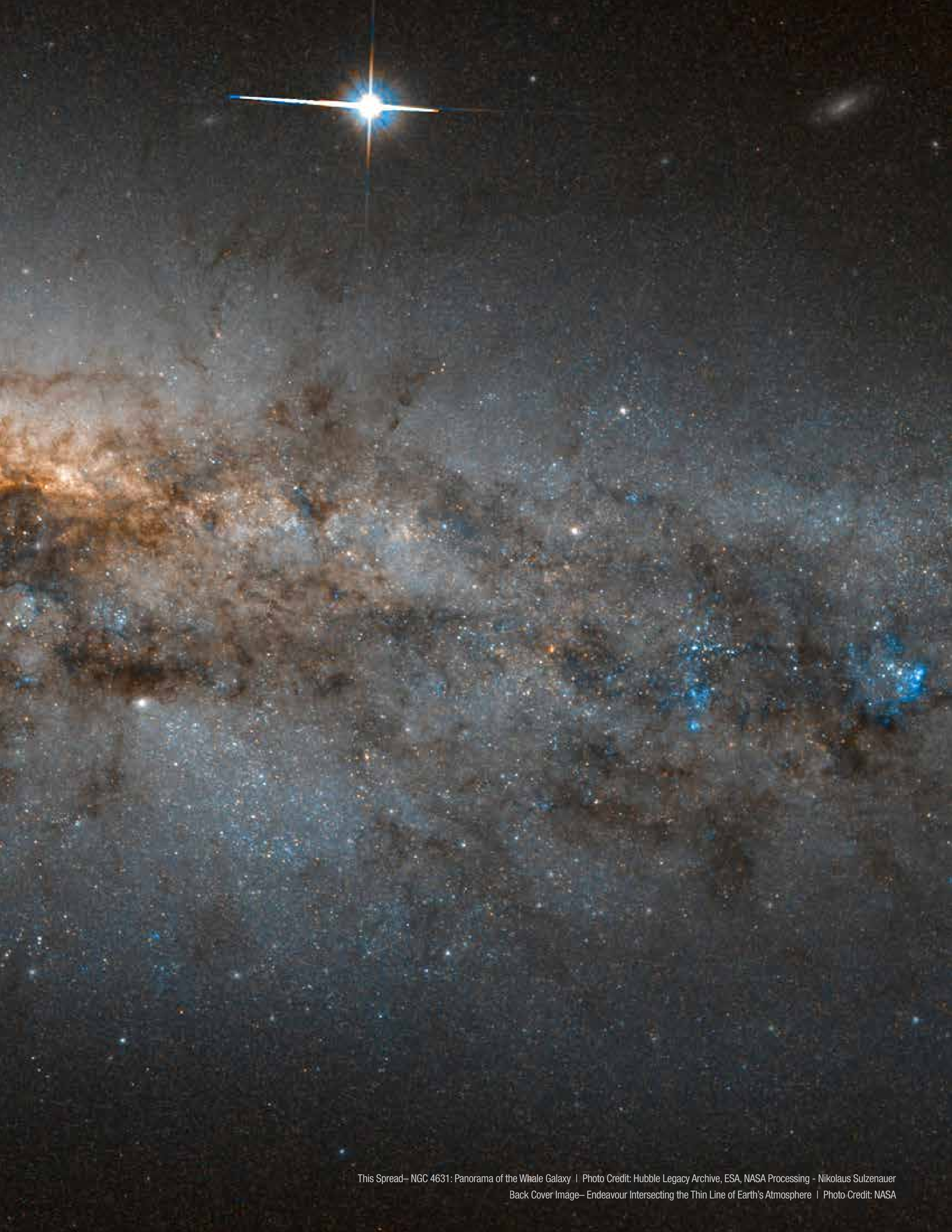
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Monthly Allowance	$1,924	$2,058	$2,142	$2,254	$2,380	$2,508	$2,628	$2,775	$2,909	$3,037

Benefits and Refunds Paid

For Fiscal Years 2004 through 2013 (Amounts in Thousands)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Benefits	$177,564	$174,377	$192,531	$211,190	$231,822	$251,999	$283,376	$309,589	$330,344	$355,838
Refunds	10,127	11,591	11,357	14,293	12,584	10,780	9,301	10,925	11,384	11,558



This Spread– NGC 4631: Panorama of the Whale Galaxy | Photo Credit: Hubble Legacy Archive, ESA, NASA Processing - Nikolaus Sulzenauer
Back Cover Image– Endeavour Intersecting the Thin Line of Earth's Atmosphere | Photo Credit: NASA

2013

Mission:

Retirement

SBcera
San Bernardino
County Employees' Retirement Association

348 West Hospitality Lane, 3rd Floor | San Bernardino, CA 92415-0014 | 909.885.7980 | f. 909.885.7446 | www.SBCERA.org