*Enjoying the*

# *Fruits of Retirement*

SBcera
San Bernardino
County Employees' Retirement Association

# 2015 Comprehensive Annual Financial Report

For the Years Ended June 30, 2015 and 2014

A Multiple-Employer Pension Trust Fund | San Bernardino, California

*Enjoying the*

# *Fruits of Retirement*

# 2015

## Comprehensive Annual Financial Report

A Multiple-Employer Pension Trust Fund | San Bernardino, California

***For the Years Ended June 30, 2015 and 2014***


**Gary A. Amelio**
*Chief Executive Officer*

**Julie Underwood, CPA**
*Chief of Fiscal Services*


SBcera
San Bernardino
County Employees' Retirement Association


348 West Hospitality Lane, Third Floor | San Bernardino, CA 92415-0014

**909.885.7980 | f. 909.885.7446 | www.SBCERA.org**

# Table of Contents

# Table of Contents

*(continued)*

## Section 3.0 – Investment *(Unaudited)*



## Section 4.0 – Actuarial *(Unaudited)*

# Table of Contents

*(continued)*

### *4.1 – Supporting Schedules* *(Unaudited)*



## Section 5.0 – Statistical *(Unaudited)*



### *5.1 – Membership Information* *(Unaudited)*

# SBCERA's Mission

It is the purpose of the San Bernardino County Employees' Retirement Association (SBCERA) 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 SBCERA 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;

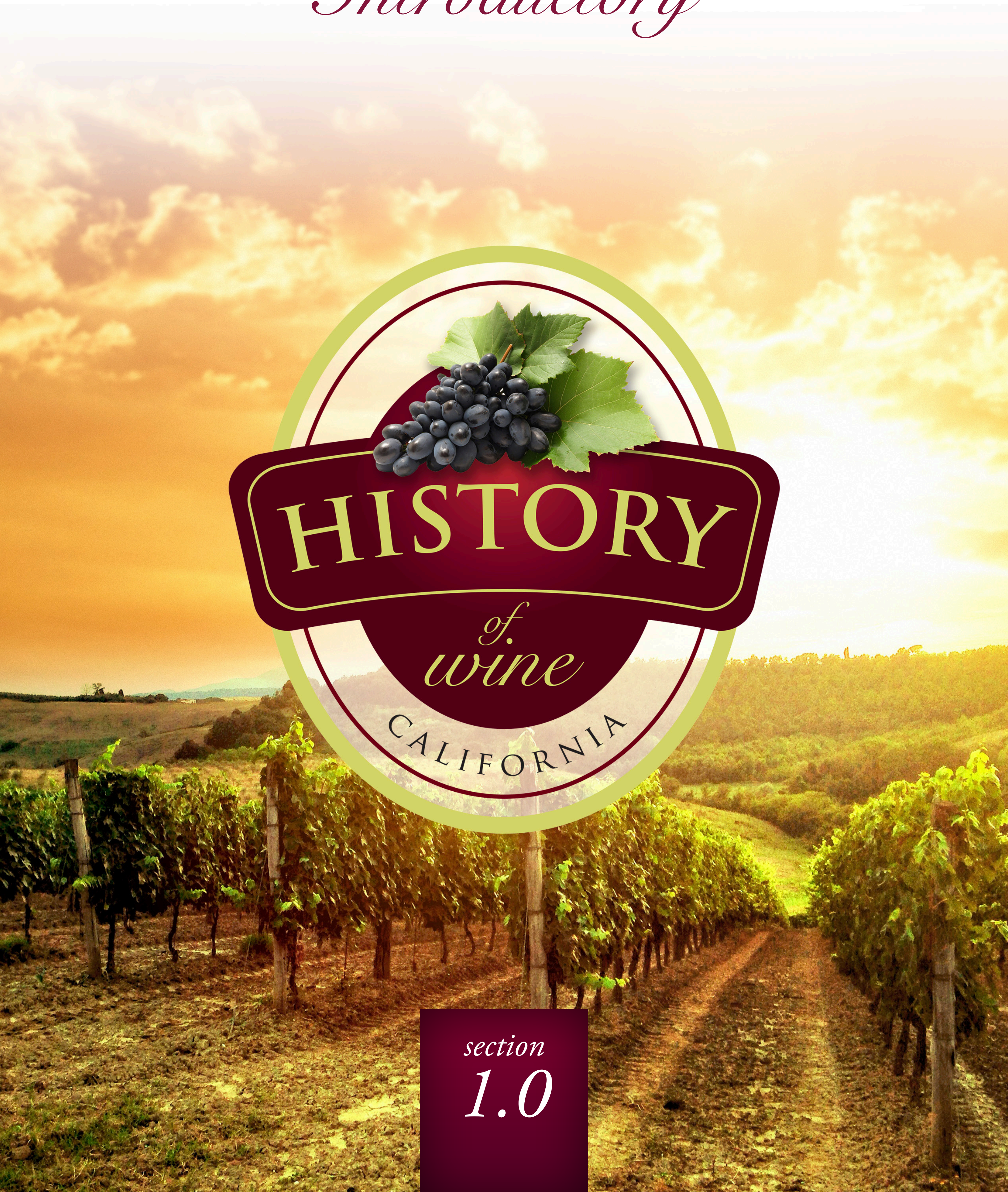
c) administer the benefits impartially, fairly and in accordance with the applicable law;

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

e) minimize employer contributions; and

f) strategically plan for the future.

# Introductory



# HISTORY of wine

CALIFORNIA

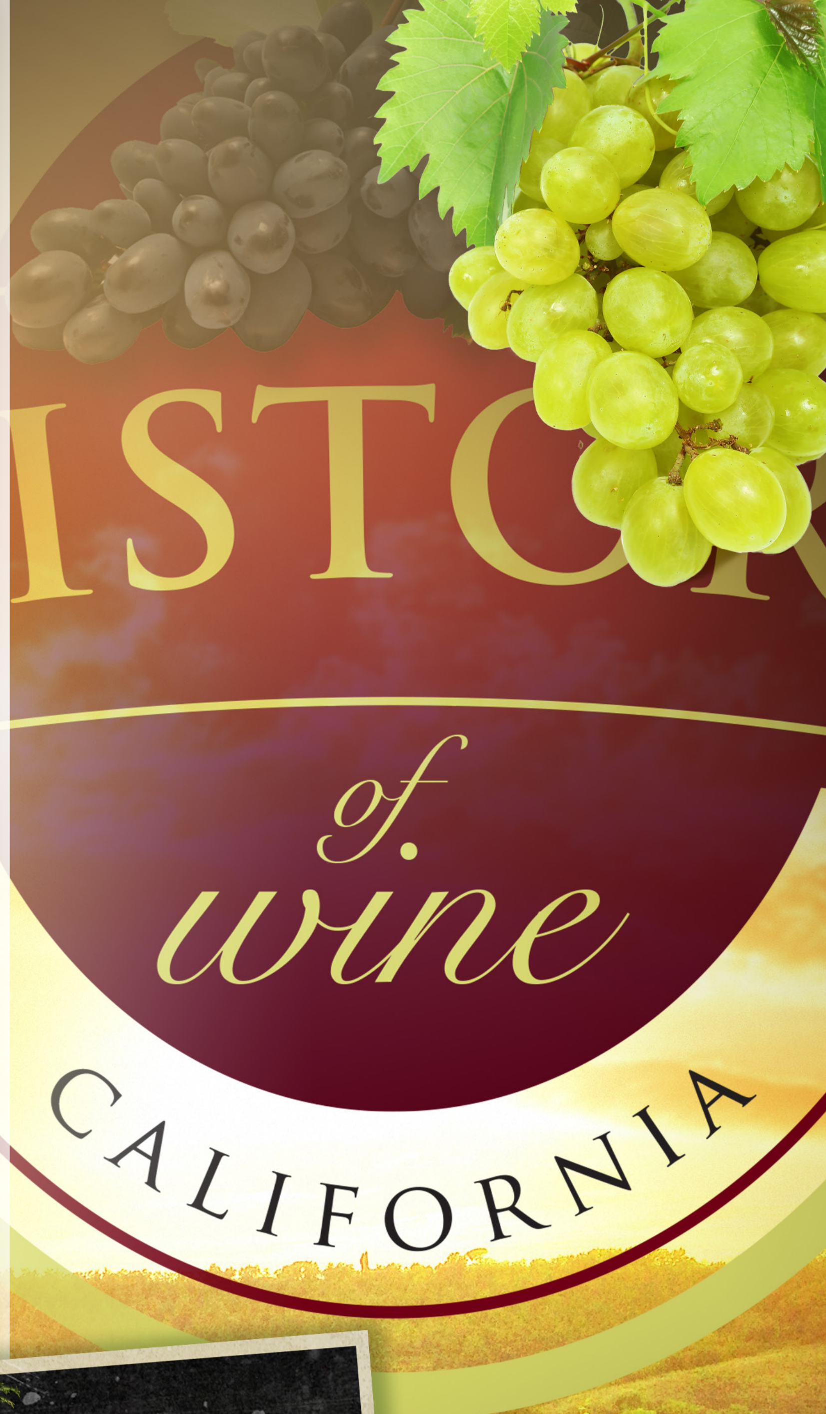
section

1.0

# *History of Wine*

CALIFORNIA

Wine production in California dates back to the 18th century. Almost 800 wineries were in existence by the turn of the 20th century and they were growing close to 300 varieties of grapes. Most of the California wine industry was established in the lush agricultural valleys of Sonoma and Napa Counties. Today, the overall economic impact of the wine industry on the California economy exceeds $45 billion and accounts for nearly 90% of the United States wine production.




# Letter of Transmittal

*San Bernardino County Employees' Retirement Association*

November 18, 2015

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

*Dear Board Members:*

It is with great honor that I present the San Bernardino County Employees' Retirement Association (SBCERA) Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2015 and 2014. This report is created annually to provide a detailed overview of the SBCERA Plan (the Plan) and its trust fund's financial, actuarial and investment-related activities for the year.

This year's CAFR theme, "Enjoying the Fruits of Retirement," truly signifies our purpose at SBCERA. From ancient literature to modern advertising, vineyards have been a symbol of provision, health and calmness. At SBCERA, our aim is to afford members and their beneficiaries with service and benefits worthy of this symbolism.

Around the office, I am known to champion a motto, "members first, service second to none." Since my first day with SBCERA, it has been a great joy to see our talented staff wholeheartedly share this philosophy. Administering the Plan and managing fiscal resources is a technical and difficult endeavor. Yet, just as our members have the good fortune of participating in a defined benefit plan, we at SBCERA have the distinct privilege of helping our members retire with a stable quality of life and financial security.

Established in 1945, SBCERA proudly celebrates its 70th year in operation with the fund standing solid and poised for growth. Formed by the will of San Bernardino County voters on May 16, 1944, SBCERA now administers service retirement, disability, and death and survivor benefits for 35,870 members, serves 17 participating employers, and manages $8.27 billion in assets. A listing of participating employers, as of June 30, 2015, can be found on page 146.

The information contained in this CAFR is designed to provide a complete and accurate review of the 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 beginning on page 19, which provides a narrative introduction, overview and analysis of our financial operations for the years ended June 30, 2015 and 2014.

As you read the 2015 CAFR, I trust you, as well as the members of SBCERA and our participating

# Letter of Transmittal

*(continued)*

employers, will appreciate the extraordinary efforts of staff in developing the report and find the content helpful in understanding SBCERA's defined benefit Plan.

## *Major Initiatives*

### *GASB 68: Assisting Participating Employers with Implementation*

For the year ended June 30, 2015, SBCERA's participating employers were required to implement Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The new standard, per GASB, is "designed to improve the decision-usefulness of reported pension information and to increase the transparency and comparability of pension information across governments." GASB 68 requires participating employers of government pension plans to recognize their long-term obligation for pension benefits as a net pension 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 associated with providing pension benefits for their employees.

SBCERA staff held several workshops, for participating employers and their auditors, to discuss the implementation issues associated with GASB 68. Additional resources were posted on SBCERA's website, including a summary of the new standard, frequently asked questions, and related links. SBCERA remains committed to work with our consultants and participating employers as they complete their implementation of GASB 68.

### *Build Out/Staffing Additions*

With tremendous support from the Board of Retirement (Board), SBCERA is excited to launch an expansion project that will position the organization for long-term success. Scheduled to last until early 2016, the SBCERA building will undergo remodeling to enhance SBCERA's operations, member services, and accommodate future hires. Phase I of the construction process will involve a build-out of the second floor to feature additional space and facilities for the investment department, a visitor's office and a conference room. This will be followed by construction on the first floor to house an upgraded internal data center. Finally, a portion of the third floor will be remodeled to feature upgraded security and enhanced member meeting needs.

A critical component of any organization, hiring talented and dedicated personnel, has been key to SBCERA's success. Over the past year, SBCERA has hired or recruited for essential, vacant positions within administration, accounting, member services, and the technology departments. The build-out and remodeling plan enables SBCERA to achieve full staffing levels and continue meeting the needs of members.

# Letter of Transmittal

*(continued)*

## *RFP for Master Custody, Securities Lending and Related Services*

In June 2015, SBCERA issued a Request for Proposals (RFP) for Master Custody, Securities Lending and Related Services. For a cost-sharing, multiple-employer pension trust fund as large as SBCERA, an immense volume of work is needed to prepare reliable accounting, reporting and investment services. With investment vehicles in the United States and abroad, these services become even more complex. To ensure continued compliance and efficiency, SBCERA published a comprehensive RFP for which responses are being submitted through SBCERA's investment consultant, NEPC, LLC. Finalist(s) approval and contract signing are scheduled to be completed in early 2016.

## *Board and Tax Compliance Policies*

This past year was one of remarkable progress for the SBCERA organization, as the Board addressed a number of key policies that will result in greater compliance and more definitive protocols. Several policies regarding disability retirement were adopted or rescinded, including the approval and adoption of a standard for determining whether a member is incapable of gainful employment.

As expected, SBCERA received a favorable determination letter from the Internal Revenue Service, allowing the organization to maintain its tax-qualified status, which promotes both the value of benefits and improved net investment performance. To improve compliance and allow SBCERA to maintain tax-qualified status in the future, the Board also adopted five benefit policies that codified existing practices.

## *Technology*

In May, the Information Services Department upgraded SBCERA's network infrastructure to a ten gigabyte backbone. This provided additional bandwidth necessary for the increase in member-centric services that SBCERA has implemented, and will continue to implement in the coming years.

The Information Services Department also replaced its core network switches. SBCERA moved from a single switch, multiple module approach to a Virtual Switching System approach, which increased operational efficiency.

## ***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. Macias Gini and O'Connell, LLP (MGO), a certified public accounting firm, provides financial statement independent audit services to SBCERA. The financial statement audit provides reasonable assurance that SBCERA's basic financial statements are presented in conformity with accounting principles generally accepted in the United States (GAAP) and are free from material misstatement.

# Letter of Transmittal

*(continued)*

Limited audit procedures on internal controls have been performed by MGO to provide reasonable assurance 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 GAAP as promulgated by the GASB.

## *Actuarial Funding Status*

SBCERA contracts with an independent actuarial firm, Segal Consulting (Segal), to conduct annual actuarial valuations, which are presented to the Board each year. 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 for the year ended June 30, 2014. Segal completed the annual valuation for the year ended June 30, 2015 and presented it to the Board, with subsequent approval, on December 3, 2015.

The funding objective of SBCERA 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 7.50%, the employer will make up the shortfall on a 20-year amortized basis.

The actuarial accrued liability of the Plan on June 30, 2014 and June 30, 2015 amounts to $9.69 billion and $10.21 billion, respectively. The actuarial value of assets increased from $7.75 billion at June 30, 2014 to $8.26 billion at June 30, 2015. The funding ratio, on a market value basis, decreased to 80.98% at June 30, 2015, from the previous year's 82.47%. This ratio compares the assets of the Plan to the liabilities of the Plan. 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 117).

Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, the total pension liability of participating employers is not reported in the basic financial statements, but is disclosed in Note 6 to the basic financial statements, and in the required supplementary information. The total pension liability is determined by the Plan's actuary and is a measure of the present value of the actuarial accrued liabilities estimated to be payable in the future to current retirees, beneficiaries, and active members for service earned to date. The net pension liability is measured as the total pension liability less the amount of the Plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement purposes.

# Letter of Transmittal

*(continued)*

## Investments

The Board maintains 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, their beneficiaries, 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 year ended June 30, 2015, investments provided a positive 4.40% rate of return. This year's return places SBCERA above 89% of public funds with over $1 billion in assets, and better than 99% on a risk adjusted basis. The Plan's annualized rate of return over the three-year period ended June 30, 2015 was 10.23%, significantly better than the actuarial required return of 7.50%.

SBCERA's portfolio is well-positioned for growth, while also mitigated against downside risk. With hedging strategies in place, the portfolio held onto gains made earlier in the year thanks in large part to reducing exposure to volatility of the Euro (EUR).

On a fair value basis, the total pension Plan net position available for benefits increased from $7.99 billion to $8.27 billion. Details of the components of this increase are included in the Statements of Changes in Fiduciary Net Position on page 34 of this report.

## Professional Services

Professional consultants are appointed by the Board to perform professional services that are essential to the effective and efficient operation of the Plan. An opinion from SBCERA's certified public accountant, a certification from the Plan's independent actuary, and a report on investment activity from the Plan's investment consultant are all included in this report. The consultants appointed by the Board are listed on page 12 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 year ended June 30, 2014. This was the 18th 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.

# Letter of Transmittal

*(continued)*

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 SBCERA's 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 participating employers, I would like to thank you for your ongoing support and confidence in SBCERA. We are working diligently every day 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.

Very truly yours,

Gary A. Amelio
*Chief Executive Officer*

# Certificate of Achievement

*San Bernardino County Employees' Retirement Association*

Government Finance Officers Association

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

**San Bernardino County**

**Employees' Retirement Association**

**California**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

# Members of the Board of Retirement

*As of June 30, 2015*[1]

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

**Louis Fiorino**
Board Vice Chairman
Administrative Committee
Investment Committee
***Elected by General Members***

**Anthony J. DeCecio**
Administrative Committee
Benefits and Compensation Committee
***Elected by Safety Members***

**Glenn Duncan**
Audit Committee
Investment Committee
***Appointed by Board of Supervisors***

**Janice Rutherford**
Benefits and Compensation Committee
***Appointed by Board of Supervisors***

**Dawn Stafford**
Administrative Committee[2]
***Elected by Retired Members***

**Larry Walker**
Investment Committee[2]
***County Treasurer/Ex-Officio Member***

**Neal Waner**
Audit Committee[2]
Investment Committee
***Appointed by Board of Supervisors***

**Vere Williams**
Audit Committee
***Elected by General Members***

**Harry Hatch**
Audit Committee
Benefits and Compensation Committee[2]
***Alternate: Elected by Retired 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, 2015*[1]

## Board of Retirement

*Chief Executive Officer*
**Gary A. Amelio**

*Chief Counsel*
**Michael Calabrese**

*Executive Assistant*
**Christa James**

*Chief Investment Officer*
**Donald Pierce**

*Senior Investment Officer*
**Laura A. Vossman**

*Chief of Fiscal Services*
**Julie Underwood**

*Chief of Information Services*
**Joseph Michael**

*Chief of Member Services*
**Christie L. Porter**

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

# Outside Consultants

*As of June 30, 2015*

## ACTUARY

***Segal Consulting***
*Consulting Actuary*
*San Francisco, CA*

## CUSTODIAL SERVICES

***State Street Bank and Trust Company***
*Sacramento, CA*

## INDEPENDENT AUDITORS

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

## INVESTMENT CONSULTANTS

***NEPC, LLC***
*Investment Advisor*
*Redwood City, CA*

***Kreischer Miller***
*Compliance Advisor*
*Horsham, PA*

***Maples Finance***
*LLC Administrator*
*Cayman Islands*

## LEGAL COUNSEL

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

***Foley & Lardner, LLP***
*Investment Counsel*
*Boston, MA*

***Arias & Lockwood, APLC***
*Litigation & Disability Counsel*
*San Bernardino, CA*

***Nossaman, LLP***
*Fiduciary Counsel*
*Los Angeles, CA*

## 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*

Note: Investment professionals are listed on page 105, and a schedule of manager fees is located on page 113 of this report, in the Investment Section.

# Report from the Chairman of the Board

*San Bernardino County Employees' Retirement Association*

November 18, 2015

## Dear Members:

On behalf of the San Bernardino County Employees' Retirement Association (SBCERA or the Plan) Board of Retirement (Board), I am pleased to present the June 30, 2015 and 2014 Comprehensive Annual Financial Report (CAFR), "Enjoying the Fruits of Retirement." Throughout the report, you will find scenic images and commentary highlighting the rich tradition of vineyards and winemaking in San Bernardino County.

Now in our 70th year, the history of SBCERA has been marked by cultivation, perseverance and robust growth. We have witnessed tremendous changes in the global economy, endured deep recessions, and thrived during times of prosperity. In recent years, our fund has posted strong returns, allowing us to meet the needs of our members.

For the year ended June 30, 2015, the Plan's investment portfolio returned 4.40%. The fund's annualized rate of return over the three-year period ended June 30, 2015 was 10.23%, outperforming the actuarial required return of 7.50%.

In winemaking, long before a glass is ready for tasting, a vintner begins the task of winter pruning, expertly shaping vines to grow in particular directions and with maximum yield. Similarly, SBCERA is preparing for a period of expansion through prudent, strategic investments for the future. By limiting exposure to foreign currency volatility, the fund outperformed 89% of all public pensions with at least $1 billion in assets, and delivered a better return than 99% of these peers when adjusted for risk.

The Board focused much of its efforts this past year on reviewing and updating policies. Several key policies regarding disability benefits were adopted or rescinded to provide more definitive standards and practices for both the application process and provision of benefits. The Board also approved and amended investment policies to add levels of risk management and oversight, as well as set additional objectives and guidelines for real estate holdings.

Working in unison, the Board approved a robust expansion project that will enhance member services and provide the executive management team with the tools and resources for long-term growth. The SBCERA offices will soon undergo remodeling to build an upgraded internal data center, increase capacity for the investment department, and allow for future staff additions.

# Report from the Chairman of the Board

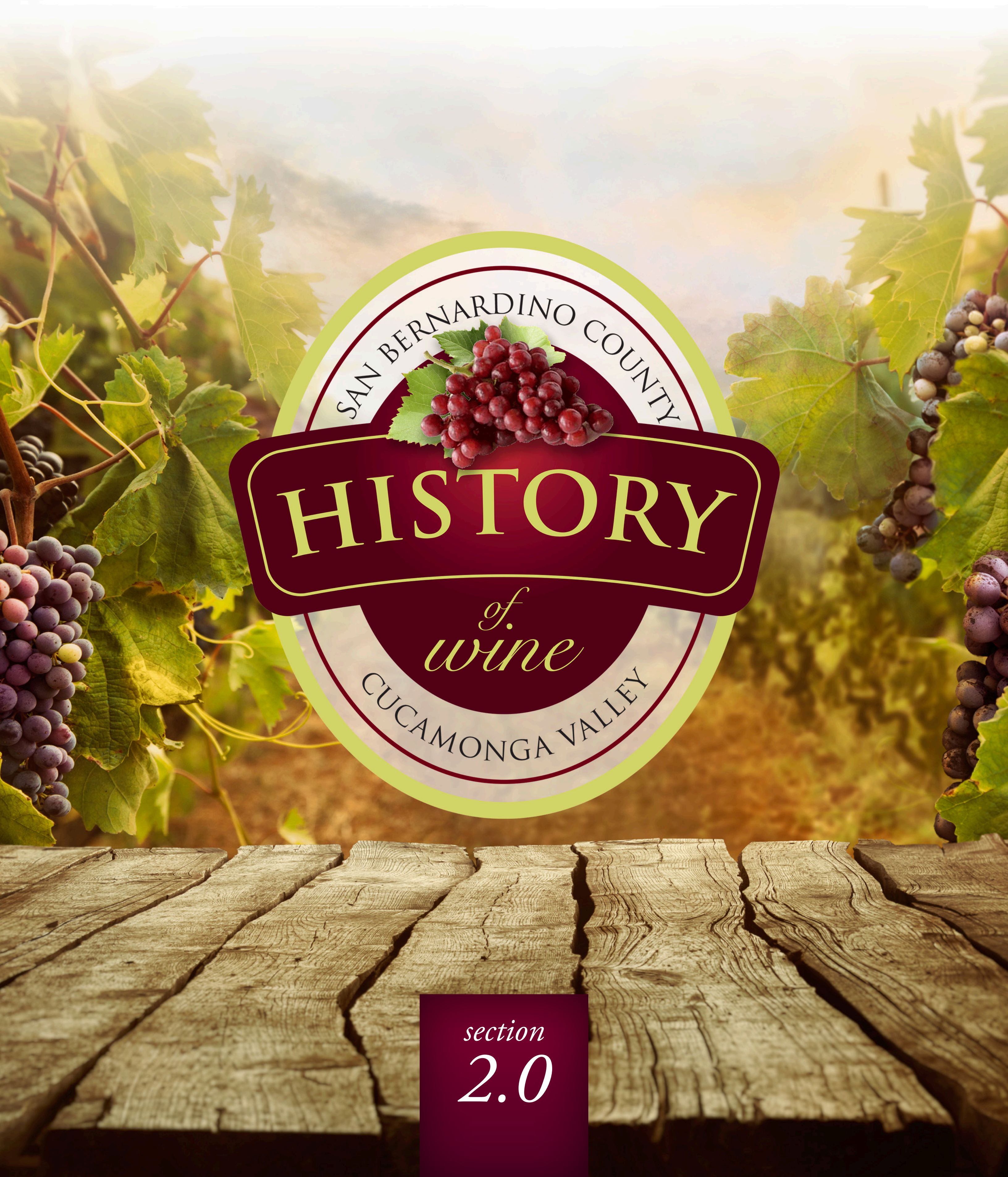
*(continued)*

Like the winemaking process, managing our fiscal resources for long-term growth and stability is a never-ending labor, but one that comes with great joy through accomplishment. At SBCERA, we recognize that wise decisions and careful planning today will lead to abundance tomorrow. By investing for the future, we will continue to meet the needs of our members and allow them to enjoy the fruits of retirement.

Sincerely,

Brendan Brandt
*Chairman, Board of Retirement*

# Financial




section
2.0

# History of Wine

## SAN BERNARDINO COUNTY – CUCAMONGA VALLEY

Certain areas in the County of San Bernardino became a hotspot for wine in the mid to late 19th century as Italian immigrants recognized that the sandy soil, with abundant runoff from the nearby mountains, and dry desert air was the perfect climate for growing grapes. The Cucamonga Valley (Rancho Cucamonga, Guasti, and Ontario) was a major wine district within San Bernardino County and was California's largest grape-growing and wine-producing district just prior to Prohibition. Nearly 60 wineries were operating using more than 35,000 acres of vineyards according to various estimates. Today, most of those vineyards are gone, making way for new development. Only a few wineries from that era are still in operation, using fewer than 800 acres of vineyards.



# Independent Auditor's Report

MGO Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

**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, 2015 and 2014, the related statements of changes in fiduciary net position for the years then ended, the statements of assets and liabilities of Pacific Public Partners (PPP) agency fund as of June 30, 2015 and 2014, 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 opinions.

***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, 2015 and 2014, the assets and liabilities of the PPP agency fund as of June 30, 2015 and 2014 and the related changes in fiduciary net position of SBCERA for the years ended June 30, 2015 and 2014, in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
777 S. Figueroa Street, Suite 2500
Los Angeles, CA 90017

www.mgocpa.com

# Independent Auditor's Report

*(continued)*

***Emphasis of Matter***

As discussed in Note 6 to basic financial statements, the net pension liability of the participating employers as of June 30, 2015 and 2014 was $1.94 billion and $1.70 billion, respectively. The Plan fiduciary net position as a percentage of the total pension liability as of June 30, 2015 and 2014 was 80.98% and 82.47%, respectively. The actuarial valuations used to measure the total pension liability are very sensitive to the underlying assumptions, including a discount rate of 7.50% which represents the long-term expected rate of return. Our opinion is not modified with respect to this matter.

***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 changes in net pension liability of participating employers and related ratios, schedule of employer contributions, schedule of investment returns and notes to the required supplementary information, 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 supplemental 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 statements of changes in assets and liabilities of the agency fund, schedule of administrative and other expenses, schedule of investment expenses and schedule of payments to consultants are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 statements of changes in assets and liabilities of the agency fund, schedule of administrative expenses and other expenses, schedule of investment expenses, and schedule of payments to consultants are 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 to provide any assurance on them.

Macias Gini & O'Connell LLP

Los Angeles, California
November 18, 2015

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan – a cost-sharing multiple-employer defined benefit pension plan (the Plan). As management of SBCERA, we offer readers of SBCERA's financial statements this narrative overview and analysis of the financial activities of SBCERA for the years ended June 30, 2015 and 2014. Readers are encouraged to consider the information presented in this analysis 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 pensions of SBCERA as of June 30, 2015 and 2014 was $8.27 billion and $7.99 billion, respectively. All of the net position is available to meet SBCERA's ongoing obligations to Plan members and their beneficiaries.
- SBCERA's total net position - restricted for pensions increased by $276.59 million or 3.46% and $890.52 million or 12.53% as of June 30, 2015 and 2014, respectively. The increases in 2015 and 2014 are primarily a result of positive investment returns.
- Total additions, as reflected in the Statements of Changes in Fiduciary Net Position, for the years ended June 30, 2015 and 2014 are $713.98 million and $1.30 billion, respectively. This includes employer and Plan member contributions of $433.14 million, investment income of $280.50 million and net securities lending income of $344 thousand for the year ended June 30, 2015, along with employer and Plan member contributions of $420.19 million, investment income of $876.57 million and net securities lending income of $452 thousand for the year ended June 30, 2014.
- Total deductions as reflected in the Statements of Changes in Fiduciary Net Position total $437.39 million for the year ended June 30, 2015, an increase of $30.70 million over the year ended June 30, 2014, or approximately 7.55%. Total deductions for the year ended June 30, 2014 were $406.69 million, an increase of $31.47 million over the year ended June 30, 2013, or approximately 8.39%.
- The net pension liability of participating employers as of June 30, 2015 and 2014 are $1.94 billion and $1.70 billion, respectively. The Plan fiduciary net position as a percentage of the total pension liability is 80.98% and 82.47% as of June 30, 2015 and 2014, respectively. The net pension liability as a percentage of covered employee payroll is 153.26% and 134.61% as of June 30, 2015 and 2014, respectively. Refer to Note 6 - Net Pension Liability of Participating Employers, and Required Supplementary Information sections of this report, for further information.

## 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

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Overview of the Financial Statements *(continued)*

requirements of these pronouncements. SBCERA's basic 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 Assets and Liabilities – Agency Fund
4. Notes to Basic Financial Statements

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

The **Statements of Changes in Fiduciary Net Position** reflect all the activities that occurred during the 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 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), for further information.

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report SBCERA's net position – restricted for pensions (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).

The **Statements of Assets and Liabilities – 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 Supplemental Information section of this report. Refer to Note 12 – Pacific Public Partners, for further information.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Overview of the Financial Statements *(continued)*

**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).

Other information to supplement SBCERA's basic financial statements is provided as follows:

**Required Supplementary Information** presents historical trend information concerning the changes in net pension liability, employer contributions and investment returns, and includes notes that explain factors that significantly affect trends in the amounts reported, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions over time. This information is based on actuarial valuations and contributes to the understanding of the changes in the net pension liability of participating employers over the past ten years (see Required Supplementary Information section of this report).

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

## Financial Analysis

### Net Position

Net position may serve over time as a useful indication of SBCERA's financial position (see Table 1, on page 23). As of June 30, 2015, SBCERA has $8.27 billion in net position, which means total assets of $9.09 billion exceed total liabilities of $819.36 million. As of June 30, 2014 and 2013, SBCERA had $7.99 billion and $7.10 billion in net position, respectively, as a result of total assets of $8.25 billion and $7.50 billion exceeding total liabilities of $255.60 million and $398.07 million, respectively. All of the net position is available to meet SBCERA's ongoing obligation to Plan members and their beneficiaries.

As of June 30, 2015, net position increased by $276.59 million, accounting for a 3.46% increase over the prior year, due primarily to gains from net investment activity. As of June 30, 2014, net position increased by $890.52 million, accounting for a 12.53% increase from the prior year due primarily to gains in the fair market value of investments.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Financial Analysis | *Net Position* *(continued)*

In order to determine whether the $8.27 billion in net position will be sufficient to meet future obligations, SBCERA's independent actuary, Segal Consulting, performed an actuarial valuation as of June 30, 2015. The result of the valuation determines what future contributions are needed by the Plan members and the participating employers to pay all expected future benefits. The valuation 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.

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 (7.50% rate of return was used for the June 30, 2015 and 2014 valuations and 7.75% rate of return was used for the June 30, 2013 valuation). All assumptions used by the actuary are reviewed by the Board of Retirement (Board), every three years.

## *Capital Assets*

SBCERA's capital assets decreased from $4.66 million to $4.20 million (net of accumulated depreciation and amortization) between the years ended June 30, 2014 and 2015 after increasing from $4.12 million to $4.66 million between the years ended June 30, 2013 and 2014. This investment in capital assets includes equipment, furniture, leasehold improvements, software, and technology infrastructure. The total decrease in SBCERA's investment in capital and intangible assets for the year ended June 30, 2015 was $459 thousand from 2014. The decrease is primarily due to assets being depreciated or amortized during 2015. The total increase in SBCERA's capital assets between the years ended June 30, 2013 and 2014 of $542 thousand was primarily due to the costs incurred for the development of internally generated software for a new pension administration system, which was fully implemented in January 2014.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Financial Analysis *(continued)*

### Fiduciary Net Position (Table 1)
**As of June 30, 2015, 2014 and 2013**
**(Amounts in Thousands)**

| | (a) 2015 | (b) 2014 | (c) 2013 | (a-b=d) Amount Increase/ (Decrease) | (d/b) Percent Increase/ (Decrease) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current and other assets | $611,547 | $128,514 | $195,192 | $483,033 | 375.86% |
| Investments at fair value | 8,475,276 | 8,117,498 | 7,303,317 | 357,778 | 4.41% |
| Capital assets | 4,200 | 4,659 | 4,117 | (459) | (9.85)% |
| **TOTAL ASSETS** | **9,091,023** | **8,250,671** | **7,502,626** | **840,352** | **10.19%** |
| **LIABILITIES** | | | | | |
| Current liabilities | 819,364 | 255,600 | 398,072 | 563,764 | 220.56% |
| **TOTAL LIABILITIES** | **819,364** | **255,600** | **398,072** | **563,764** | **220.56%** |
| **NET POSITION - RESTRICTED FOR PENSIONS** | **$8,271,659** | **$7,995,071** | **$7,104,554** | **$276,588** | **3.46%** |

## Reserves

SBCERA's reserves are established based upon contributions and the accumulation of investment income, after satisfying investment, administrative and other expenses (see Table 2, on page 25). 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 an 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 GASB financial reporting provisions.
  - The amortization periods were adjusted for various future changes in liability. See Notes to the Required Supplementary Information section of this report.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Reserves *(continued)*

- On March 13, 2012, the Board 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 has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations are 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.

Commencing with the June 30, 2012 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 decrease in the Net Unrecognized Gains/(Losses) reserve account of $16.31 million at June 30, 2015 from $243.76 million at June 30, 2014 and $(100.36) million at June 30, 2013 or a decrease of approximately $227.46 million to the year ended June 30, 2015 from the year ended June 30, 2014 and an increase of $344.12 million to the year ended June 30, 2014 from the year ended June 30, 2013, respectively as follows:

- The overall increase in the fair value of investments in the years ended 2015, 2014 and 2013.
- Interest crediting at the actuarial assumed interest rate, as dictated by the Policy, in the years ended 2015, 2014 and 2013.
- The five-year smoothing of investment gains and losses.
- 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 Policy which were discussed above.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Reserves *(continued)*

### SBCERA's Reserves (Table 2)
**As of June 30, 2015, 2014 and 2013**
**(Amounts in Thousands)**

| TYPE OF RESERVE | 2015 | 2014 | 2013 |
|---|---|---|---|
| Member deposit reserve[1] | $1,240,297 | $1,200,776 | $1,157,216 |
| Employer current service reserve[1] | 2,105,743 | 1,981,393 | 1,850,525 |
| Contra account[1] | (2,148,114) | (1,909,880) | (1,730,943) |
| Pension reserve[1] | 3,766,863 | 3,506,564 | 3,255,045 |
| Cost-of-living reserve[1] | 1,601,106 | 1,468,124 | 1,345,342 |
| Annuity reserve[1] | 1,622,374 | 1,440,931 | 1,267,683 |
| Supplemental disability reserve[1] | 9,038 | 9,185 | 9,128 |
| Survivor benefit reserve[1] | 57,267 | 53,391 | 50,051 |
| Burial allowance reserve[2] | 779 | 825 | 871 |
| **TOTAL RESERVES (SMOOTHED MARKET ACTUARIAL VALUE)** | **8,255,353** | **7,751,309** | **7,204,918** |
| Net unrecognized gains/(losses) | 16,306 | 243,762 | (100,364) |
| **NET POSITION - RESTRICTED FOR PENSIONS INCLUDING NON-VALUATION RESERVES, AT MARKET VALUE** | **$8,271,659** | **$7,995,071** | **$7,104,554** |

## Additions and Deductions to Fiduciary Net Position

### Additions

The primary sources of financing SBCERA benefits are through the collection of employer and Plan member contributions and through earnings on investment income (net of investment expenses). Additions for the year ended June 30, 2015 totaled $713.98 million compared to $1.30 billion for June 30, 2014 and $1.31 billion for June 30, 2013 (see Table 3, on page 27). Overall, additions decreased by $583.23 million between the years ended June 30, 2014 and 2015 due to a 68.00% decrease in net investment income, a 23.89% decrease in securities lending income, and a 4.57% decrease in employer contributions compared to the prior year, offset by an increase of 31.20% in Plan member contributions. Additions decreased by $9.24 million between the years ended June 30, 2013 and 2014 due to a 3.86% decrease in net investment income, a 1.31% decrease in Plan member contributions, and a 11.37% decrease in net securities lending income compared to the prior year, offset by an increase of 8.99% in employer contributions.

(1) Included in valuation value of assets.
(2) Not included in valuation value of assets.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Additions and Deductions to Fiduciary Net Position | *Additions (continued)*

Overall, total employer and Plan member contributions continue to rise due to the increases in the average employer and Plan member contribution rates, as recommended by the Plan's independent actuary. Refer to Note 4 – Contribution Requirements, for further information. However, due to recent labor negotiations and bargaining agreements, some participating employers have reduced or eliminated paying a portion of the active Plan member contributions, which resulted in the overall decrease of employer contributions for the year ended June 30, 2015.

SBCERA's net position continues to increase due in large part to SBCERA's investment portfolio. Income from net investment activity contributed $280.50 million for June 30, 2015 versus $876.57 million for June 30, 2014 and $911.80 million for June 30, 2013. Although SBCERA's net position increased overall, lower returns were received on the investment portfolio over the prior year. This is due to a weaker market primarily resulting from a strengthening dollar, geopolitical instability continuing to drive volatility, slowing economic growth in China, and Federal rate hike uncertainty.

## *Deductions*

SBCERA was created to provide lifetime retirement benefits, survivor benefits and permanent disability benefits to qualified Plan 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 year ended June 30, 2015 totaled $437.39 million, an increase of $30.70 million or 7.55% over the June 30, 2014 amount of $406.69 million. The increase in deductions for the year ended June 30, 2014 was $31.47 million or 8.39% over the June 30, 2013 amount of $375.23 million (see Table 3, on page 27). The increases in all years, related to benefits and refunds, are primarily due to the overall growth in the number of retirees and the average amount of benefits paid to them. In addition, deductions for administrative expenses have increased in all years due primarily to the increase in administrative personnel costs (salary and cost-of-living increases, and filling vacant positions). Those increases are slightly offset by a decrease in Other Expenses due primarily to a reduction in actuarial costs and lower technology infrastructure costs.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Additions and Deductions to Fiduciary Net Position *(continued)*

### Changes in Fiduciary Net Position (Table 3)

**For the Years Ended June 30, 2015, 2014 and 2013**
**(Amounts in Thousands)**

| | (a) 2015 | (b) 2014 | (c) 2013 | (a-b=d) Amount Increase/ (Decrease) | (d/b) Percent Increase/ (Decrease) |
|---|---|---|---|---|---|
| **ADDITIONS** | | | | | |
| Employer contributions | $315,240 | $330,330 | $303,080 | $(15,090) | (4.57)% |
| Plan member contributions | 117,899 | 89,861 | 91,056 | 28,038 | 31.20% |
| Net investment income[1] | 280,498 | 876,566 | 911,800 | (596,068) | (68.00)% |
| Net securities lending income | 344 | 452 | 510 | (108) | (23.89)% |
| **TOTAL ADDITIONS** | **713,981** | **1,297,209** | **1,306,446** | **(583,228)** | **(44.96)%** |
| **DEDUCTIONS (refer to graph below)** | | | | | |
| Benefits and refunds | 428,475 | 397,823 | 367,396 | 30,652 | 7.70% |
| Administrative expenses | 6,710 | 6,386 | 6,258 | 324 | 5.07% |
| Other expenses | 2,208 | 2,483 | 1,572 | (275) | (11.08)% |
| **TOTAL DEDUCTIONS** | **437,393** | **406,692** | **375,226** | **30,701** | **7.55 %** |
| **INCREASE IN NET POSITION - RESTRICTED FOR PENSIONS** | **$276,588** | **$890,517** | **$931,220** | **$(613,929)** | **(68.94)%** |


(1) Net of investment expenses of $93,351, $124,567 and $100,285 for June 30, 2015, 2014 and 2013, respectively.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## *Net Pension Liability*

SBCERA became subject to the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, beginning with the year ended June 30, 2014 and SBCERA's participating employers are subject to the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, beginning with the year ended June 30, 2015. GASB Statement No. 67 replaced 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 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 participating employers.

Pursuant to GASB Statement No. 67, the funded status and Unfunded Actuarial Accrued Liability (UAAL) of the Plan are no longer presented in the Notes or Required Supplementary Information. UAAL was determined by subtracting the excess of the actuarial accrued liability (discounted at the Plan's assumed rate of return) from the actuarial value of assets (determined by smoothing values over a certain number of years to reduce volatility), and represented the costs allocated to date for current Plan members that are not covered by the actuarial value of assets. The UAAL has now been replaced by the Net Pension Liability (NPL) for financial reporting purposes, which represents the excess of the total pension liability (using an entry age cost method, discounted at a discount rate that reflects the expected return on Plan assets) over fiduciary net position (valued at fair value). NPL is similar to UAAL but uses market assets, not smoothed assets. This is a conceptual shift by the GASB in the measurement of pension liabilities to provide a consistent, standardized methodology that allows comparability of data and increased transparency of the pension liability across all plans. SBCERA has complied with GASB Statement No. 67 for the years ended June 30, 2015 and 2014.

Based on the June 30, 2015 and June 30, 2014 actuarial valuations, the NPL of participating employers on a fair value basis are $1.94 billion and $1.70 billion, respectively. The increase is primarily a result of investment returns lower than the assumed return of 7.50% and higher than expected salary increases for active Plan members. Refer to Note 6 - Net Pension Liability of Participating Employers and the Required Supplementary Information sections of this report, for further information.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## Net Pension Liability *(continued)*

### Changes in Net Pension Liability

**As of June 30, 2015, 2014 and 2013**
**(Amounts in Thousands)**

| | (a) 2015 | (b) 2014 | (c) 2013 | (a-b=d) Amount Increase/ (Decrease) | (d/b) Percent Increase/ (Decrease) |
|---|---|---|---|---|---|
| Total pension liability | $10,214,473 | $9,694,826 | $9,088,636 | $519,647 | 5.36% |
| Less plan fiduciary net position | 8,271,659 | 7,995,071 | 7,104,554 | 276,588 | 3.46% |
| **NET PENSION LIABILITY** | **$1,942,814** | **$1,699,755** | **$1,984,082** | **$243,059** | **14.30%** |

## Overall Analysis

For the years ended June 30, 2015 and 2014, SBCERA's financial position and results from operations have experienced an increase over the prior year. For the year ended June 30, 2015, net position increased by $276.59 million over the year ended June 30, 2014. For the year ended June 30, 2014, net position increased by $890.52 million from the year ended June 30, 2013. The overall increase in net position for June 30, 2015 is primarily attributable to the 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 members and their 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. Overall, this diversification minimizes the risk of loss and maximizes the rate of return for the Plan.

# Management's Discussion and Analysis

*(Unaudited)*
*June 30, 2015 and 2014*
*(continued)*

## SBCERA's Fiduciary Responsibilities

SBCERA's Board and management are fiduciaries of the pension trust fund. Under the California Constitution, the assets of the Plan can only be used for the exclusive benefit of Plan members and their beneficiaries.

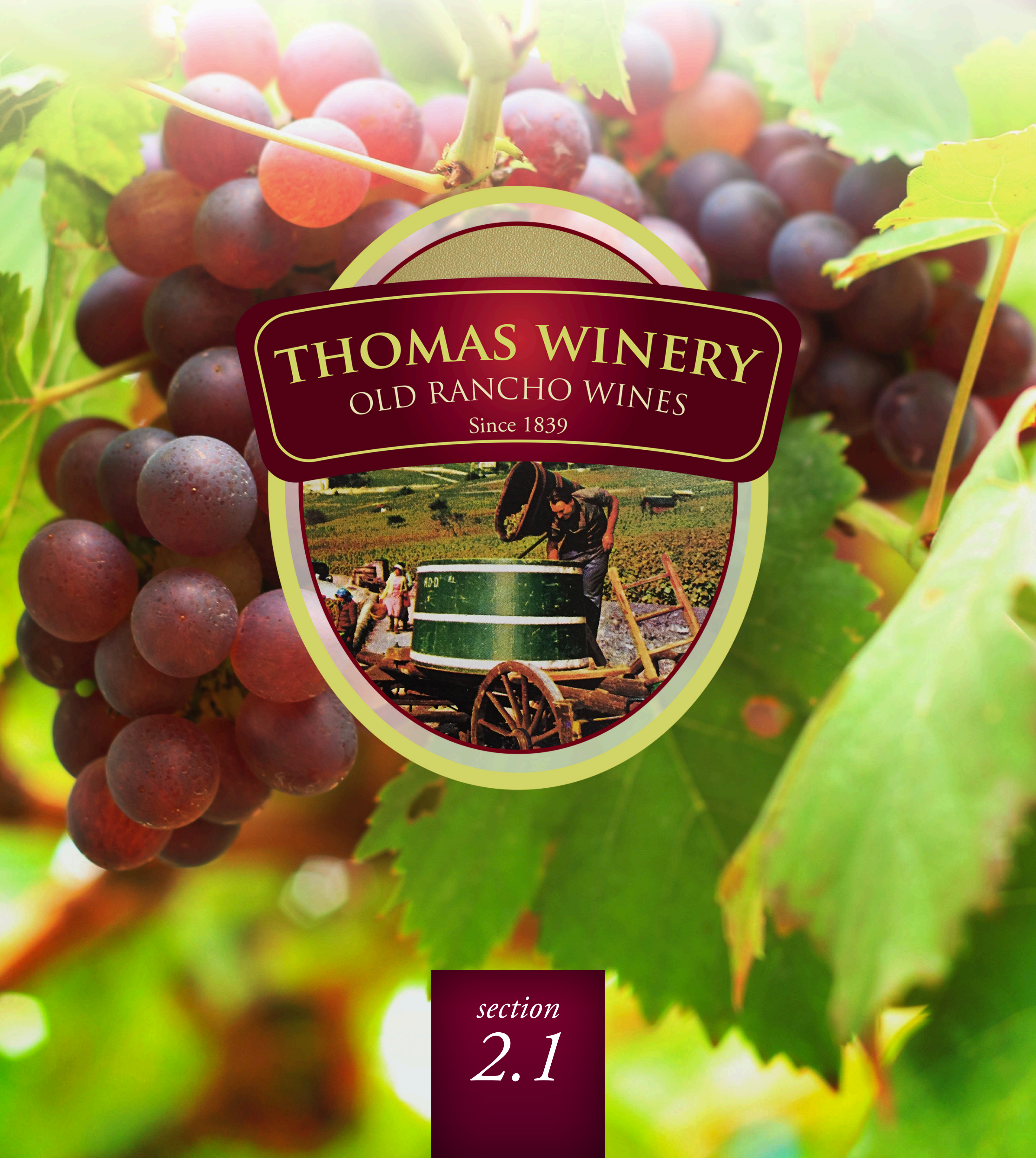
## Requests for Information

The Comprehensive Annual Financial Report is designed to provide the Board of Retirement, SBCERA's 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 Department
348 West Hospitality Lane, Third Floor
San Bernardino, CA 92415-0014

# Financial

## BASIC FINANCIAL STATEMENTS




# *Thomas Winery*

## OLDEST WINERY IN CALIFORNIA

The site of the oldest California winery (and second oldest in the United States) is located along Route 66, on Foothill Boulevard in Rancho Cucamonga. Don Tiburcio Tapia founded the Thomas Winery in 1839. The winery is no longer a working vineyard, but the building itself is still used by several retail businesses, including a wine shop that proudly displays some of the antique equipment used by Tapia. The building has been designated as a California historic landmark.


# Statements of Fiduciary Net Position

*As of June 30, 2015 and 2014*
*(Amounts in Thousands)*

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **Cash** | | |
| Cash pooled with County Treasurer | $6,818 | $1,590 |
| Cash in bank | 3,098 | 8,402 |
| **TOTAL CASH** | **9,916** | **9,992** |
| **Receivables** | | |
| Securities sold | 564,203 | 82,318 |
| Accrued interest and dividends | 3,429 | 2,836 |
| Employer and plan member contributions | 25,565 | 23,374 |
| Due from withdrawn employers | 5,426 | 7,061 |
| Due from agency fund | 1,007 | 1,007 |
| Other | 2,001 | 1,926 |
| **TOTAL RECEIVABLES** | **601,631** | **118,522** |
| **Investments, at fair value** | | |
| Short-term cash investment funds | 959,003 | 928,557 |
| Emerging market debt | 540,913 | 482,957 |
| United States government and agency obligations | 109,701 | 104,757 |
| Corporate bonds | 207,342 | 204,174 |
| Foreign bonds | 72,275 | 81,367 |
| Domestic common and preferred stock | 647,105 | 598,077 |
| Foreign common and preferred stock | 222,305 | 196,646 |
| Investments of cash collateral received on securities lending | 123,777 | 45,784 |
| Real estate | 563,253 | 535,447 |
| Domestic alternatives | 3,710,059 | 3,522,848 |
| Foreign alternatives | 1,319,543 | 1,416,884 |
| **TOTAL INVESTMENTS, AT FAIR VALUE** | **8,475,276** | **8,117,498** |
| **CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION** | **4,200** | **4,659** |
| **TOTAL ASSETS** | **9,091,023** | **8,250,671** |
| **LIABILITIES** | | |
| Securities lending | 123,778 | 46,040 |
| Securities options payable | 70,625 | 21,194 |
| Payables for securities purchased | 568,642 | 132,794 |
| Mortgage notes payable | 44,663 | 45,502 |
| Other liabilities | 11,656 | 10,070 |
| **TOTAL LIABILITIES** | **819,364** | **255,600** |
| **NET POSITION - RESTRICTED FOR PENSIONS** | **$8,271,659** | **$7,995,071** |

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

# Statements of Changes in Fiduciary Net Position

*For the Years Ended June 30, 2015 and 2014*
*(Amounts in Thousands)*

| | 2015 | 2014 |
|---|---|---|
| **ADDITIONS** | | |
| **Contributions** | | |
| Employer contributions | $315,240 | $330,330 |
| Plan member contributions | 117,899 | 89,861 |
| **TOTAL CONTRIBUTIONS** | **433,139** | **420,191** |
| **Investment Income** | | |
| Net appreciation in fair value of investments: | | |
| Securities and alternative investments | 278,202 | 918,878 |
| Real estate | 33,535 | 43,939 |
| **TOTAL NET APPRECIATION IN FAIR VALUE OF INVESTMENTS** | **311,737** | **962,817** |
| **INTEREST INCOME ON CASH AND SECURITIES** | **23,093** | **10,473** |
| **Other Investment Income** | | |
| Dividend income | 7,182 | 7,740 |
| Net real estate rental income | 23,474 | 18,859 |
| Other income | 8,363 | 1,244 |
| **TOTAL OTHER INVESTMENT INCOME** | **39,019** | **27,843** |
| **Less Investment Expenses** | | |
| Investment advisement fees | (67,032) | (96,084) |
| Other investment expenses | (26,319) | (28,483) |
| **TOTAL INVESTMENT EXPENSES** | **(93,351)** | **(124,567)** |
| **NET INVESTMENT INCOME** | **280,498** | **876,566** |
| **Securities Lending Income** | | |
| Earnings | 482 | 559 |
| Less: rebates and bank charges | (138) | (107) |
| **NET SECURITIES LENDING INCOME** | **344** | **452** |
| **TOTAL ADDITIONS** | **713,981** | **1,297,209** |
| | | |
| **DEDUCTIONS** | | |
| Benefits and refunds paid to plan members and beneficiaries | 428,475 | 397,823 |
| Administrative expenses | 6,710 | 6,386 |
| Other expenses | 2,208 | 2,483 |
| **TOTAL DEDUCTIONS** | **437,393** | **406,692** |
| **NET INCREASE IN NET POSITION** | **276,588** | **890,517** |
| **NET POSITION - RESTRICTED FOR PENSIONS** | | |
| Beginning of Year | 7,995,071 | 7,104,554 |
| **END OF YEAR** | **$8,271,659** | **$7,995,071** |

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

# Statements of Assets and Liabilities – Agency Fund
# Pacific Public Partners

*As of June 30, 2015 and 2014*
*(Amounts in Thousands)*

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Due from participants | $1,007 | $1,007 |
| **TOTAL ASSETS** | **$1,007** | **$1,007** |
| **LIABILITIES** | | |
| Due to SBCERA | $1,007 | $1,007 |
| **TOTAL LIABILITIES** | **$1,007** | **$1,007** |

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

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*

## 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). SBCERA was established in 1945 and operates under the provisions of the California County Employees Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA) and the regulations, procedures and policies adopted by SBCERA's Board of Retirement (Board). The Plan's provisions may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board.

SBCERA provides retirement, disability, death and survivor benefits to its members, who are employed by 17 active Plan sponsors (participating employers) and 3 withdrawn employers which include: The County of San Bernardino, Barstow Fire Protection District, California Electronic Recording Transaction Network Authority, California State Association of Counties, City of Big Bear Lake, City of Chino Hills, Crestline Sanitation District, Department of Water and Power for the City of Big Bear Lake, Hesperia Recreation and Park District, Inland Library System, Inland Valley Development Agency (withdrew June 30, 2012), Law Library for San Bernardino County, Local Agency Formation Commission, Mojave Desert Air Quality Management District, Rim of the World Recreation and Park District (withdrew May 4, 2013), San Bernardino Associated Governments, San Bernardino International Airport Authority (withdrew June 30, 2012), SBCERA, South Coast Air Quality Management District (SCAQMD), and Superior Court of California County of San Bernardino.

Fiduciary oversight of SBCERA is vested with the SBCERA Board, which consists of nine voting members and two alternate members. Four members are appointed by the County of San Bernardino's Board of Supervisors, six members (including 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 (County Treasurer) is an ex-officio member. Board members serve three-year terms, with the exception of the County Treasurer, who serves during his tenure in office. The Board meets monthly. Appointed and retired members of the Board receive compensation (a stipend for meeting attendance), and all members are reimbursed for necessary expenses pursuant to Government Code section 31521. SBCERA's Chief Executive Officer is appointed by the Board, and implements the policies and direction set by the Board.

SBCERA publishes its own Comprehensive Annual Financial Report (CAFR) and receives its own independent audit. SBCERA is a legally separate and independent entity from the County of San Bernardino, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the County of San Bernardino's Comprehensive Annual Financial Report excludes the SBCERA pension trust fund as of June 30, 2015. An electronic copy of SBCERA's CAFR is available on SBCERA's website at www.SBCERA.org.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan *(continued)*

### Membership and Benefit Eligibility

All benefits established by the CERL and PEPRA, as amended from time to time, are administered by SBCERA for its participating employers. SBCERA administers benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Generally, those who became members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. Employees become eligible for membership on their first day of regular employment, and members become fully vested after earning 5 years of service credit or attaining the age of 70. Additional information regarding SBCERA's benefits is included in the Summary Plan Description, also known as The Compass, which is available on SBCERA's website at www.SBCERA.org.

### SBCERA Membership

An employee who is appointed to a regular position and whose service is greater than fifty percent of the full standard of hours required by a SBCERA participating employer, must become a member of SBCERA on the first day of employment. However, membership may be delayed in accordance with SBCERA regulations for the purpose of establishing reciprocity with another public retirement system as described in the CERL and employees who have attained age 60 prior to employment may waive their membership within 90 days following the initial appointment.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

### Membership and Benefit Eligibility | SBCERA Membership (continued)

SBCERA membership consists of active employees, inactive Plan members, and their beneficiaries as follows:

### SBCERA Membership
**As of June 30, 2015**

| | Tier 1 | | | Tier 2 | | | |
|---|---|---|---|---|---|---|---|
| | General | Safety | Sub-Total | General | Safety | Sub-Total | Total |
| Active employees - vested | 12,296 | 1,778 | 14,074 | 25 | 1 | 26 | 14,100 |
| Active employees - non-vested | 1,906 | 153 | 2,059 | 3,499 | 280 | 3,779 | 5,838 |
| **SUBTOTAL FOR ACTIVE EMPLOYEES** | **14,202** | **1,931** | **16,133** | **3,524** | **281** | **3,805** | **19,938** |
| **Inactive plan members or beneficiaries currently receiving benefits:** | | | | | | | |
| Retirees currently receiving benefits | 8,087 | 1,531 | 9,618 | - | - | - | 9,618 |
| Beneficiaries and dependents currently receiving benefits | 1,212 | 298 | 1,510 | - | - | - | 1,510 |
| **SUBTOTAL FOR INACTIVE CURRENTLY RECEIVING BENEFITS** | **9,299** | **1,829** | **11,128** | **-** | **-** | **-** | **11,128** |
| **Inactive plan members not receiving benefits:** | | | | | | | |
| Inactive members eligible for, but not yet receiving benefits | 2,066 | 144 | 2,210 | 5 | - | 5 | 2,215 |
| Inactive members eligible for refund value of account only[1] | 2,079 | 69 | 2,148 | 424 | 17 | 441 | 2,589 |
| **SUBTOTAL FOR INACTIVE NOT RECEIVING BENEFITS** | **4,145** | **213** | **4,358** | **429** | **17** | **446** | **4,804** |
| **TOTAL SBCERA MEMBERSHIP** | **27,646** | **3,973** | **31,619** | **3,953** | **298** | **4,251** | **35,870** |

(1) Inactive Plan members with less than 5 years of service are entitled to withdraw their refundable employee contributions made, together with accumulated interest only.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

***Membership and Benefit Eligibility*** | *SBCERA Membership (continued)*

### SBCERA Membership
**As of June 30, 2014**

| | Tier 1 | | | Tier 2 | | | |
|---|---|---|---|---|---|---|---|
| | **General** | **Safety** | **Sub-Total** | **General** | **Safety** | **Sub-Total** | **Total** |
| Active employees - vested | 12,533 | 1,826 | 14,359 | 14 | - | 14 | 14,373 |
| Active employees - non-vested | 2,727 | 206 | 2,933 | 2,040 | 151 | 2,191 | 5,124 |
| **SUBTOTAL FOR ACTIVE EMPLOYEES** | **15,260** | **2,032** | **17,292** | **2,054** | **151** | **2,205** | **19,497** |
| **Inactive plan members or beneficiaries currently receiving benefits:** | | | | | | | |
| Retirees currently receiving benefits | 7,745 | 1,410 | 9,155 | - | - | - | 9,155 |
| Beneficiaries and dependents currently receiving benefits | 1,181 | 282 | 1,463 | - | - | - | 1,463 |
| **SUBTOTAL FOR INACTIVE CURRENTLY RECEIVING BENEFITS** | **8,926** | **1,692** | **10,618** | **-** | **-** | **-** | **10,618** |
| **Inactive plan members not receiving benefits:** | | | | | | | |
| Inactive members eligible for, but not yet receiving benefits | 2,002 | 127 | 2,129 | 1 | - | 1 | 2,130 |
| Inactive members eligible for refund value of account only[1] | 1,988 | 62 | 2,050 | 176 | - | 176 | 2,226 |
| **SUBTOTAL FOR INACTIVE NOT RECEIVING BENEFITS** | **3,990** | **189** | **4,179** | **177** | **-** | **177** | **4,356** |
| **TOTAL SBCERA MEMBERSHIP** | **28,176** | **3,913** | **32,089** | **2,231** | **151** | **2,382** | **34,471** |

(1) Inactive Plan members with less than 5 years of service are entitled to withdraw their refundable employee contributions made, together with accumulated interest only.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

***Membership and Benefit Eligibility*** *(continued)*

### Member Retirement Benefits

General Tier 1 members are eligible for retirement benefits upon completion of 10 years of service credit and attaining age 50, or 30 years of service credit regardless of age, or age 70 regardless of years of service credit. Safety Tier 1 members 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 CERL, for each completed year of service based on a normal retirement age of 55 for General members and 50 for Safety members. For Tier 1 members, the maximum monthly retirement allowance is 100% of final compensation, and final compensation is capped pursuant to Internal Revenue Code (IRC) section 401(a)(17), which is $265,000 and $260,000 for calendar years 2015 and 2014, respectively. Tier 1 members are exempt from paying member contributions on compensation earnable paid in excess of the annual cap, or when they have reached 30 or more years of service credit (except for the Survivor Benefit contribution).

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 are eligible for retirement benefits upon completion of 5 years of service credit and attaining age 50. Retirement benefits are calculated at 2.5% at age 67 for General Tier 2 members and 2.7% at age 57 for Safety Tier 2 members of final three-year average pensionable compensation, as defined in Government Code sections 7522.20(a) and 7522.25(d) of the PEPRA, for each completed year of service. For Tier 2 members, the monthly retirement allowance is not capped; however, 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 for the 2013 calendar year (adjusted each year thereafter based on changes in the Consumer Price Index). The cap for calendar years 2015 and 2014 is $140,424 and $138,077, respectively. Since pensionable compensation is capped, Tier 2 members and participating employers are exempt from paying contributions on pensionable compensation paid in excess of the annual cap (except for the Survivor Benefit contribution).

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse/registered domestic partner or eligible child. An eligible surviving spouse or registered domestic partner is one married to or registered with the member one year prior to the effective retirement date. To be considered a post-retirement eligible spouse/domestic partner, the member must have been married/legally registered at least two years prior to death, and the spouse/domestic partner must be 55 years or older upon the member's death, and no other person may be designated in a court order as a payee.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

**Membership and Benefit Eligibility** | *Member Retirement Benefits (continued)*

There are four optional retirement allowances the member may choose; each requiring a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, registered domestic partner or named beneficiary having an insurable interest in the life of the member.

### Terminated Member Benefits

If a member terminates before earning 5 years of service credit, the member forfeits the right to receive benefits and is entitled to withdraw refundable contributions made, together with accumulated interest. If the member enters a reciprocal retirement system within 180 days of terminating from SBCERA and elects to leave their accumulated contributions on deposit with SBCERA, then the member will receive a deferred retirement allowance when eligible. A member with fewer than 5 years of service credit may elect to leave accumulated contributions in the retirement fund indefinitely pursuant to Government Code section 31629.5. If a member terminates after 5 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. The acceptance of a refund payment cancels the individual's rights and benefits in SBCERA.

### Death and Disability Benefits

The Plan provides death benefits to beneficiaries of members, and these benefits are governed by Articles 12, 15, and 15.6 of the CERL. In accordance with applicable California law, a surviving spouse/domestic partner, or minor children, even if not the named beneficiary, may have certain rights superseding the rights of the named beneficiary.

### *Death before Retirement with Less than 5 Years Service Credit*

If a member with less than 5 years of service credit dies as a result of a non-work related incident, the member's designated beneficiary will receive the member's refundable retirement contributions plus accumulated interest earned. In addition, the beneficiary will receive one month's compensation for each completed year the member served to a maximum of 50% of annual compensation pursuant to Government Code section 31781. 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.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

***Death and Disability Benefits*** *(continued)*

### *Death before Retirement with More than 5 Years Service Credit*

A member who dies after earning at least 5 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 non-service connected disability. If the beneficiary is other than a spouse/registered domestic partner or dependent child, the beneficiary receives a lump sum payment of the refundable retirement contributions plus accumulated interest earned. In addition, the beneficiary would receive one month's compensation for each completed year the member served to a maximum of six months pursuant to Government Code section 31781. 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 with 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 will 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 increases to 40% for two children, or 50% for three or more eligible children if the death qualifies pursuant to Government Code section 31787.5. Under Government Code section 31787.65, the final compensation upon which the additional death payment is calculated may be increased any time current active members, in the same classification as the deceased member, receive a compensation increase. The final compensation will be subject to these increases until the earlier of the death of the surviving spouse or eligible children, or the date that the deceased member would have attained the age of 50 years.

### *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 retired with 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

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

**Death and Disability Benefits** | *Death after Retirement (continued)*

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 $1,000 is also payable to the deceased retiree's beneficiary or estate ($250 of this amount is discretionary, subject to the availability of funds in the Burial Allowance reserve).

If unmarried minor children are designated as the eligible beneficiaries 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 reach age 18 or marry, whichever comes first. If the child/children remain unmarried and are enrolled as full-time students in an accredited school, the benefit will continue up to the age of 22.

If one of the four modified retirement options are chosen by the member as part of a service retirement, the monthly allowance is reduced for the retiree's lifetime and the eligible beneficiary 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. The type of reduction is dependent on the election made by the member and is approved by the Board, upon the advice of SBCERA's independent actuary.

### Survivor Benefits

The Plan provides a General member survivor benefit to an eligible spouse/registered domestic partner, eligible dependent children and eligible dependent parents, if the active General member had been a member continuously for at least eighteen months immediately prior to death, pursuant to Government Code section 31855.12.

### Disability Benefits

The Plan provides disability benefits to eligible members, and these benefits are governed by Article 10 of the CERL.

An active member, who is found by the Board to be permanently incapacitated as a result of a service connected injury or illness, arising out of or in the course of the member's employment, is paid an annual disability allowance equal to the greater of 50% of the employee's final average compensation or the normal service retirement benefits accumulated by the member as of the date of the disability retirement. A member, who is found by the Board to be permanently incapacitated as a result of a non-service

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

***Death and Disability Benefits*** | *Disability Benefits (continued)*

connected injury or illness, which does not arise out of or in the course of the member's employment, is paid a monthly allowance. If the member entered the system on or after January 1, 1981, pursuant to Government Code section 31727.7, the benefit is 20% of final average compensation for 5 years of service and 2% for each additional whole year of service credit thereafter, up to a maximum of 40% of final average compensation. For members who entered the system prior to January 1, 1981, the non-service connected monthly disability benefit is one-third of the member's final average compensation. For all members, regardless of when they entered the system, if the service retirement benefit is higher, the member would be paid that amount.

## Cost-of-Living Benefits

Pursuant to Government Code section 31870, an automatic cost-of-living adjustment is provided based on changes in the local region 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 when the CPI is less than 2%. There is a one-time 7% increase at retirement for members hired before August 19, 1975 pursuant to Article 16.6 of the CERL.

## Participating Employers

A district may become a participating employer in SBCERA pursuant to Government Code section 31557. A participating employer is eligible to withdraw from SBCERA pursuant to Government Code section 31564. The terminating employer remains liable to SBCERA for the employer's share of any unfunded actuarial liability of the Plan, which is attributable to the employees of the withdrawing employer who either have retired or will retire from the Plan. The liability is determined by SBCERA's actuary pursuant to Government Code section 31564.2.

Three employers have withdrawn from SBCERA and remain liable for their unfunded actuarial liability. On June 30, 2012, San Bernardino International Airport Authority (SBIAA) and the Inland Valley Development Agency (IVDA) withdrew from SBCERA and subsequently entered into a payment agreement with SBCERA in September 2013 to pay their unfunded actuarial liability of $3.6 million and $4.4 million, respectively, by making payments of principal only in the amount of $801,098 commencing October 2013, with the second payment due February 2014 and subsequent payments due at six month intervals thereafter, for a period of five years until the liabilities are paid in full in February 2018. SBIAA and IVDA requested the payments be first applied to SBIAA until their liability is paid in full.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 1 – Significant Provisions of the Plan

### Participating Employers (continued)

On May 4, 2013, Rim of the World Recreation and Park District (Rim) withdrew from SBCERA and subsequently entered into a payment agreement with SBCERA in February 2014 to pay their unfunded actuarial liability of $669 thousand by making monthly payments of principal only in the amount of $2,788.35 commencing in January 2014 for a period of twenty years until the total amount is paid in full in December 2033. All three withdrawn employers have made their agreed upon payments through June 30, 2015 as follows:

### Due From Withdrawn Employers

**As of June 30, 2015 and 2014**
**(Amounts in Thousands)**

| Employer | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 |
|---|---|---|---|---|
| SBIAA | $1,992 | $ - | $(1,602) | $390 |
| IVDA | 4,417 | - | - | 4,417 |
| Rim | 652 | - | (33) | 619 |
| **TOTAL** | **$7,061** | **$ -** | **$(1,635)** | **$5,426** |

| Employer | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---|---|---|---|---|
| SBIAA | $ - | $3,594 | $(1,602) | $1,992 |
| IVDA | - | 4,417 | - | 4,417 |
| Rim | - | 669 | (17) | 652 |
| **TOTAL** | **$ -** | **$8,680** | **$(1,619)** | **$7,061** |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*

*(continued)*

## NOTE 2 – Summary of Significant Accounting Policies

The following are the significant accounting policies followed by SBCERA:

### Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP), under which revenues are recognized when earned and deductions are recorded when the liability is incurred. Employer and employee (Plan member) contributions are recognized as revenues when due, pursuant to statutory requirements. Contributions are recorded in the period the related salaries are earned and become measurable pursuant to statutory or contractual requirements. Investment income is recognized as revenue when earned. 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. Retirement benefits and refunds are recognized when currently due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred.

### 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

SBCERA is authorized by Government Code sections 31594 and 31595 to invest in any form or type of investment deemed prudent by the Board and does so through the Investment Plan, Policy and Guidelines established by the Board. The assets of the Plan are held for the exclusive purpose to provide benefits to Plan members and their beneficiaries and to defray reasonable expenses of administering SBCERA. The Board is required by statute to use care, skill, prudence and diligence to diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. Refer to Note 9 – Deposits and Investments (see section for Investments), for further information.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 2 – Summary of Significant Accounting Policies

### Basis of Accounting | *Investments (continued)*

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. 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, 2015 and 2014 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, 2015 and 2014.

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.

The allocation of investment assets within SBCERA's portfolio is approved by the Board as outlined in the Investment Plan, Policy and Guidelines. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The table on the next page provides the Board's adopted asset allocation policy as of June 30, 2015 and 2014, respectively.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 2 – Summary of Significant Accounting Policies

**Basis of Accounting | *Investments (continued)***

### Asset Allocation Policy

| Asset Class | As of June 30, 2015 Target Allocation | As of June 30, 2014 Target Allocation |
|---|---|---|
| Domestic Equity | 13.0% | 13.0% |
| International Equity | 15.0% | 15.0% |
| Domestic Fixed Income | 15.0% | 15.0% |
| Global Fixed Income | 18.0% | 17.0% |
| Real Estate | 9.0% | 9.0% |
| Private Equity | 16.0% | 16.0% |
| Absolute Return | 7.0% | 7.0% |
| Timber | 2.0% | 3.0% |
| Infrastructure | 1.0% | 1.0% |
| Commodities | 2.0% | 2.0% |
| Short-Term Cash | 2.0% | 2.0% |
| **TOTAL** | **100.0%** | **100.0%** |

## *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 counter-party credit risk 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 (see section for Derivatives), for further information.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## *NOTE 2 – Summary of Significant Accounting Policies*

***Basis of Accounting*** *(continued)*

### *Reserves*

Employer and Plan member contributions are allocated to various reserve accounts based on actuarial determinations. Pursuant to the Interest Crediting Procedures and Undesignated Excess Earnings Allocation policy, 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. Refer to Note 8 – Net Position – Restricted for Pensions, for further information.

### *Income Taxes*

SBCERA is a qualified plan under Internal Revenue Code (IRC) section 401(a) and is exempt from federal income taxes under IRC section 501(a). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

### *Administrative Expenses*

The Board annually adopts the operating budget for the administration of SBCERA. The administrative expenses are charged against the earnings of the Plan. 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. Actual administrative expenses did not exceed this limitation for the years ended June 30, 2015 and 2014 (see table on next page).

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 12 – 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 Supplemental Information section of this report. A Schedule of Administrative and Other Expenses subject to the statutory limitation described above is included in the Other Supplemental Information section of this report.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 2 – Summary of Significant Accounting Policies

**Basis of Accounting** | *Administrative Expenses (continued)*

### Statutory Limitation for Administrative Expenses
**(Amounts in Thousands)**

| | | For the Year Ended June 30, 2015 | For the Year Ended June 30, 2014 |
|---|---|---|---|
| Actuarial Accrued Liability (AAL)[1] | a | $9,088,636 | $8,606,577 |
| Statutory limit for administrative expenses (AAL x 0.21%) | | 19,086 | 18,074 |
| Actual administrative expenses subject to statutory limit | b | 6,710 | 6,386 |
| **EXCESS OF LIMITATION OVER ACTUAL ADMINISTRATIVE EXPENSES** | | **$12,376** | **$11,688** |
| **ACTUAL ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF AAL** | **b/a** | **0.07%** | **0.07%** |

## *Management's Estimates*

The preparation of financial statements in conformity with GAAP 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.

## *Capital Assets*

Capital assets are recorded at cost and consist of furniture, equipment, intangible assets, including computer software and leasehold improvements. 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.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, 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 $0 and $797 thousand in costs,

(1) The AAL, as determined by the Plan's actuary each year, is used to calculate the following year's statutory limitation for administrative expenses. For example, the AAL as of June 30, 2013 was approved by the Board in November 2013, and was used to establish the statutory limitation for administrative expenses for the year ended June 30, 2015.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 2 – Summary of Significant Accounting Policies

### Basis of Accounting | Capital Assets (continued)

related to the PE project, were capitalized for the years ended June 30, 2015 and 2014, respectively. These intangible assets are included as capital assets in the Statements of Fiduciary Net Position. The final phases of this project were fully implemented in January 2014. SBCERA's capital assets are summarized below as of June 30, 2015 and 2014.

### Capital Assets
**(Amounts in Thousands)**

| | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|---|---|---|---|
| Furniture, equipment & leaseholds | $6,054 | $291 | $ - | $6,345 |
| Computer software | 4,265 | 47 | - | 4,312 |
| Accumulated depreciation[1] | (5,158) | (201) | - | (5,359) |
| Accumulated amortization[1] | (502) | (596) | - | (1,098) |
| **TOTAL** | **$4,659** | **$(459)** | **$ -** | **$4,200** |

| | Balance July 1, 2013 | Additions | Deletions | Balance June 30, 2014 |
|---|---|---|---|---|
| Furniture, equipment & leaseholds | $5,898 | $156 | $ - | $6,054 |
| Computer software | 3,379 | 886 | - | 4,265 |
| Accumulated depreciation[1] | (4,953) | (205) | - | (5,158) |
| Accumulated amortization[1] | (207) | (295) | - | (502) |
| **TOTAL** | **$4,117** | **$542** | **$ -** | **$4,659** |

(1) Depreciation and amortization expense totaled $797 and $500 for the years ended June 30, 2015 and 2014, respectively.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## *NOTE 2 – Summary of Significant Accounting Policies*

***Basis of Accounting*** *(continued)*

### *Effect of New Governmental Accounting Standards Board (GASB) Pronouncements*

SBCERA implemented all applicable new GASB pronouncements in the years ended June 30, 2015 and 2014, as required by each statement. The most recent applicable pronouncements, effective for the years ended June 30, 2015 and 2014, which have a material impact on SBCERA's financial statements, are provided below.

GASB Statement No. 67, *Financial Reporting for Pension Plans* (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*) establishes standards of financial reporting for pension plans that separately issue financial reports and specifies the required approach for measuring and disclosing a participating employer's pension liability. This Statement is effective for financial statements for periods beginning after June 15, 2013. This Statement has a material impact on SBCERA's financial statements beginning with the year ended June 30, 2014, as the disclosures, required supplementary information and notes to the required supplementary information were significantly altered to comply with GASB Statement No. 67.

### *Reclassification of Financial Statement Presentation*

Comparative data for the prior year have been presented in the accompanying Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. Certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation. Such reclassifications have no effect on the net increase in fiduciary net position as previously reported.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*

*(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 Obligations, 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 years ended June 30, 2015 and 2014.

SBCERA did not impose any restrictions during the two-year period ended June 30, 2015 on the amount of loans that State Street made on its behalf. 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 same two-year period that resulted in a declaration or notice of default of the borrower.

During the years ended June 30, 2015 and 2014, 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. The pool is not rated. All securities in this pool 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, have been determined by the bank to be of comparable quality. As of June 30, 2015, the liquidity pool had an average duration of 28 days and an average weighted final maturity of 109 days. As of June 30, 2014, the investment fund was comprised of a liquidity pool and a duration pool, and such investment pools had an average duration of 37 days and 42 days, for the liquidity pool and the duration pool, respectively. Additionally, the average weighted final maturity was 104 days and 1,770 days, for the liquidity pool and the duration pool, respectively. During the year ended June 30, 2015, the duration pool holdings were redeemed and the remaining proceeds were transferred to the liquidity pool. 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, 2015, SBCERA had no credit risk exposure to borrowers. As of June 30, 2015, the fair value of securities on loan was $141.57 million with the fair value of cash collateral received for the securities on loan of $123.78 million and non-cash collateral of $21.14 million. As of June 30, 2014, the fair value of securities on loan was $82.07 million with the fair value of cash collateral received for the securities on loan of $45.78 million and non-cash collateral of $39.23 million.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 4 – Contribution Requirements

Participating employers and active Plan members are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers, and Government Code sections 31621.6, 31639.25 and 7522.30 for active Plan members. The contribution requirements are established and may be amended by the Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that considers the mortality, service (including age at entry into the Plan, if applicable, and tier), and compensation experience of the Plan members and their beneficiaries, and also includes an evaluation of the Plan's assets and liabilities. Participating employers may pay a portion of the active Plan member contributions, and active Plan members may pay a portion of the participating employer contributions, through negotiations and bargaining agreements.

One of the funding objectives 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 Cost 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). Normal cost is the annual contribution rate that, if paid annually from a Plan member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the Plan member's retirement benefit if all underlying assumptions are met. 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 7 years of amortization remaining at June 30, 2015. Any new UAAL after June 30, 2002 is amortized over a closed 20-year period effective with that valuation.

SBCERA's actuarial valuation for funding purposes is completed as of June 30 of each year. The rates recommended in the actuarial valuation apply to the year beginning 12 months after the valuation date. For example, the actuarial valuation dated June 30, 2013 established the contribution rates for the year ended June 30, 2015. Any shortfall or excess contributions, as a result of this implementation lag, are amortized as part of SBCERA's UAAL in the following valuation. Commencing with the June 30, 2012 valuation, any increase in UAAL resulting from the Plan amendments will be amortized over its own declining 15-year period; temporary retirement incentives, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the CERL (Golden Handshake) will be amortized over a declining period of up to 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.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 4 – Contribution Requirements *(continued)*

For funding purposes, SBCERA's actuarial valuation values the Plan's assets 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 gain or loss recognition and provide for more level employer contribution rates, on March 13, 2012, the Board 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).

Separate contribution rates are established by the Board for the General member survivor benefit provided by the Plan. The costs of survivor benefits are based on an annual valuation conducted by an independent actuary and are equally shared between the participating employers and the active General members. The contribution rates are calculated to provide for the ongoing cost of this benefit, plus any amounts necessary to recognize any shortfall of reserves to the actuarial accrued liabilities associated with this benefit. For the survivor benefit valuation, the same amortization policy components as described on the previous page and above apply, except that a level dollar methodology is used instead of a level percent of payroll. Survivor contribution rates, for the years ended June 30, 2015 and 2014 are $1.85 and $1.34, respectively, per biweekly employer pay period. Refer to Note 1 – Significant Provisions of the Plan (see section for Survivor Benefits), for further information.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 4 – Contribution Requirements *(continued)*

The tables below provide a summary of the employer and Plan member contributions received for the years ended June 30, 2015 and 2014. Participating employers satisfied 100% of the contribution requirements for the years ended June 30, 2015 and 2014.

### Employer Contributions

**For the Years Ended June 30, 2015 and 2014**
**(Amounts in Thousands)**

| | 2015 | 2014 |
|---|---|---|
| Actuarially determined contributions | $301,736 | $277,760 |
| Survivor benefit contributions | 825 | 592 |
| Employee paid employer contributions | 683 | 268 |
| Employer paid plan member contributions | 11,996 | 43,030 |
| Withdrawn employer contributions[1] | - | 8,680 |
| **TOTAL EMPLOYER CONTRIBUTIONS** | **$315,240** | **$330,330** |

### Plan Member Contributions

**For the Years Ended June 30, 2015 and 2014**
**(Amounts in Thousands)**

| | 2015 | 2014 |
|---|---|---|
| Actuarially determined contributions | $112,862 | $80,838 |
| Survivor benefit contributions | 823 | 592 |
| Purchase of eligible service credit | 4,214 | 8,431 |
| **TOTAL PLAN MEMBER CONTRIBUTIONS** | **$117,899** | **$89,861** |

SBCERA is also a participating employer and all SBCERA employees are eligible for membership in the Plan. The employer contributions paid by SBCERA, on behalf of these employees, are funded by earnings of the Plan, pursuant to Government Code section 31580.2. SBCERA paid 100% of the actuarially determined contributions, in the amount of $814 thousand and $704 thousand, for the years ended June 30, 2015 and 2014, respectively.

The tables on the next two pages summarize the actuarially determined, Board approved, required employer and Plan member contribution rates in effect for the years ended June 30, 2015 and 2014. Contribution rates are expressed as a percentage of covered payroll.

(1) Refer to Note 1 - Significant Provisions of the Plan (see section for Participating Employers), for further information.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 4 – Contribution Requirements *(continued)*

### Employer Contribution Rates
**For the Year Ended June 30, 2015**

| Actuarially Determined Required Contribution Percentages | Tier 1 Members[1] Normal Cost | Tier 1 Members[1] Unfunded Actuarial Accrued Liability (UAAL) | Tier 1 Members[1] Total | Tier 2 Members[1] Normal Cost | Tier 2 Members[1] Unfunded Actuarial Accrued Liability (UAAL) | Tier 2 Members[1] Total |
|---|---|---|---|---|---|---|
| County General members | 10.10% | 10.14% | **20.24%** | 7.88% | 10.14% | **18.02%** |
| County Safety members | 19.88% | 23.27% | **43.15%** | 13.75% | 23.27% | **37.02%** |
| Superior Court members | 10.10% | 11.65% | **21.75%** | 7.88% | 11.65% | **19.53%** |
| SCAQMD members | 10.23% | 17.53% | **27.76%** | 7.83% | 17.53% | **25.36%** |
| Other General members | 11.67% | 18.24% | **29.91%** | 7.20% | 18.24% | **25.44%** |
| Other Safety members | 20.48% | 39.17% | **59.65%** | 11.56% | 39.17% | **50.73%** |

### Employer Contribution Rates
**For the Year Ended June 30, 2014**

| Actuarially Determined Required Contribution Percentages | Tier 1 Members[2] Normal Cost | Tier 1 Members[2] Unfunded Actuarial Accrued Liability (UAAL) | Tier 1 Members[2] Total | Tier 2 Members[3] Normal Cost | Tier 2 Members[3] Unfunded Actuarial Accrued Liability (UAAL) | Tier 2 Members[3] Total |
|---|---|---|---|---|---|---|
| County General members | 9.94% | 9.02% | **18.96%** | 7.51% | 9.02% | **16.53%** |
| County Safety members | 19.73% | 20.26% | **39.99%** | 12.64% | 20.26% | **32.90%** |
| Superior Court members | 9.94% | 9.93% | **19.87%** | 7.51% | 9.93% | **17.44%** |
| SCAQMD members | 9.87% | 15.35% | **25.22%** | 7.51% | 15.35% | **22.86%** |
| Other General members | 11.37% | 16.32% | **27.69%** | 7.51% | 16.32% | **23.83%** |
| Other Safety members | 19.59% | 38.23% | **57.82%** | 12.64% | 38.23% | **50.87%** |

(1) Rates are in accordance with the June 30, 2013 actuarial valuation.
(2) Rates are in accordance with the June 30, 2012 actuarial valuation.
(3) Rates are in accordance with the November 21, 2012 CalPEPRA New Tiers of Benefits for New Members actuarial study.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 4 – Contribution Requirements *(continued)*

### Plan Member Contribution Rates
**For the Years Ended June 30, 2015 and 2014**

| Actuarially Determined Required Contribution Percentages | 2015[1] Beginning[3] | 2015[1] Ending[3] | 2014[2] Beginning[3] | 2014[2] Ending[3] |
|---|---|---|---|---|
| General members - Tier 1 | 7.07% | 14.05% | 7.06% | 14.04% |
| Safety members - Tier 1 | 9.82% | 16.52% | 9.82% | 16.52% |
| County General and Superior Court members - Tier 2 | 6.97% | 7.88% | 6.98% | 7.75% |
| County Safety members - Tier 2 | 13.08% | 13.75% | 11.92% | 12.50% |
| SCAQMD members - Tier 2 | 6.92% | 7.83% | 6.98% | 7.75% |
| Other General members - Tier 2 | 6.37% | 7.20% | 6.98% | 7.75% |
| Other Safety members - Tier 2 | 11.00% | 11.56% | 11.92% | 12.50% |

(1) Rates are in accordance with the June 30, 2013 actuarial valuation.

(2) Rates are in accordance with the June 30, 2012 actuarial valuation for Tier 1 members, and rates are in accordance with the CalPEPRA New Tiers of Benefits for New Members actuarial study for Tier 2 members dated November 21, 2012.

(3) Tier 1 rates are based on age at entry: Beginning rate shown is the lowest rate for entry age 16, and the ending rate shown is the highest entry age rate. For Tier 2 rates, the beginning rate is the non-refundable rate and the ending rate is the refundable rate (50% of normal cost). For Tier 2 members, the non-refundable rate is only available if a Memorandum of Understanding (MOU) provided for it on January 1, 2013. Once that MOU expires, the non-refundable rate is no longer available as PEPRA does not provide for a non-refundable rate.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(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, 2015 and 2014 is $563.25 million and $535.45 million, respectively.

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

### Future Minimum Rentals
*(Amounts in Thousands)*

| Years Ended June 30 | |
|---|---|
| 2016 | $9,820 |
| 2017 | 9,201 |
| 2018 | 8,614 |
| 2019 | 3,210 |
| 2020 | 486 |
| 2021-2025 | 280 |
| 2026-2030 | 608 |
| **TOTAL** | **$32,219** |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 6 – Net Pension Liability of Participating Employers

The components of the net pension liability of participating employers as of June 30, 2015 and 2014 are as follows:

### Net Pension Liability
**(Amounts in Thousands)**

| | | As of June 30, 2015 | As of June 30, 2014 |
|---|---|---|---|
| Total pension liability | a | $10,214,473 | $9,694,826 |
| Plan fiduciary net position | b | 8,271,659 | 7,995,071 |
| **NET PENSION LIABILITY** | **a-b** | **$1,942,814** | **$1,699,755** |
| **PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY** | **b/a** | **80.98%** | **82.47%** |

The net pension liability of participating employers was measured as of June 30, 2015 and 2014 and determined based upon the total pension liability from actuarial valuations as of June 30, 2015 and 2014, respectively.

## Actuarial Assumptions

The actuarial assumptions used to determine the total pension liability as of June 30, 2015 and 2014, were based on the results of the June 30, 2014 Review of Economic Assumptions and Actuarial Experience Study (experience study) which covered the periods from July 1, 2010 through June 30, 2013. They are the same assumptions used in the June 30, 2015 actuarial valuation, which is used to determine future contribution rates for funding purposes. Key assumptions used in the actuarial valuations are presented below.

## Key Assumptions Used in Valuation of Total Pension Liability

| | |
|---|---|
| Valuation Date | June 30, 2015 and 2014 |
| Actuarial Experience Study | 3 Year Period Ending June 30, 2013 |
| Actuarial Assumptions: | |
| Discount Rate(1) | 7.50% |
| Inflation | 3.25% |
| Projected Salary Increases(2) | General: 4.60% to 13.75%; Safety: 4.55% to 13.75% |
| Cost-of-Living Adjustments | Contingent upon consumer price index with a 2% maximum |
| Administrative Expenses | 0.60% of payroll |

(1) Includes inflation at 3.25% and is net of pension plan investment expense.
(2) Includes inflation at 3.25%, real "across the board" salary increases of 0.50%, plus merit and promotional increases. Amounts vary by service.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## *NOTE 6 – Net Pension Liability of Participating Employers* *(continued)*

### *Mortality Rates*

Mortality rates used in the latest actuarial valuation are based on the RP-2000 Combined Healthy Mortality Table projected 20 years using Projection Scale BB. For healthy General members, no adjustments are made. For healthy Safety members, the ages are set back two years for males and one year for females. For General members that are disabled, the ages are set forward seven years for males and set forward eight years for females. For Safety members that are disabled, the ages are set forward two years for males and females. Beneficiaries are assumed to have the same mortality as a General member of the opposite sex who is receiving a service (non-disability) retirement.

### *Long-Term Expected Real Rate of Return*

The long-term expected rate of return on Plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. This information is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations approved by the Board, and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions, are summarized in the table on the next page. This information will change every three years based on the triennial actuarial experience study.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 6 – Net Pension Liability of Participating Employers

*Long-Term Expected Real Rate of Return (continued)*

### Long-Term Expected Real Rate of Return
**As of June 30, 2015 and 2014**

| Asset Class | Investment Classification | Target Allocation[1] | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|---|
| Large Cap U.S. Equity | Domestic Common and Preferred Stock | 5.00% | 5.94% |
| Small Cap U.S. Equity | Domestic Common and Preferred Stock | 2.00% | 6.50% |
| Developed International Equity | Foreign Common and Preferred Stock | 6.00% | 6.87% |
| Emerging Market Equity | Foreign Common and Preferred Stock | 6.00% | 8.06% |
| U.S. Core Fixed Income | U.S. Government and Agency/Corporate Bonds | 2.00% | 0.69% |
| High Yield/Credit Strategies | Corporate Bonds/Foreign Bonds | 13.00% | 3.10% |
| Global Core Fixed Income | Foreign Bonds | 1.00% | 0.30% |
| Emerging Market Debt | Emerging Market Debt | 6.00% | 4.16% |
| Real Estate | Real Estate | 9.00% | 4.96% |
| International Credit | Foreign Alternatives | 10.00% | 6.76% |
| Absolute Return | Domestic Alternatives/Foreign Alternatives | 13.00% | 2.88% |
| Real Assets | Domestic Alternatives/Foreign Alternatives | 6.00% | 6.85% |
| Long/Short Equity | Domestic Alternatives/Foreign Alternatives | 3.00% | 4.86% |
| Private Equity | Domestic Alternatives/Foreign Alternatives | 16.00% | 9.64% |
| Cash and Equivalents | Short-Term Cash Investment Funds | 2.00% | (0.03)% |
| **TOTAL** | | **100.00%** | |

(1) For actuarial purposes, target allocations only change once every three years based on the triennial actuarial experience study.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 6 – Net Pension Liability of Participating Employers *(continued)*

### Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the years ended June 30, 2015 and 2014. The projection of cash flows used to determine the discount rates assumed that contributions from participating employers and active Plan members are made at the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current Plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future Plan members and their beneficiaries, as well as projected contributions from future Plan members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments, of 7.50% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015 and 2014, respectively.

The following table presents the net pension liability of participating employers calculated using the discount rate of 7.50% as of June 30, 2015 and 2014, respectively, as well as what the net pension liability of participating employers would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

### Sensitivity of Net Pension Liability to Changes in the Discount Rate

**As of June 30, 2015 and 2014**
**(Amounts in Thousands)**

| Net Pension Liability | 1.00% Decrease (6.50%) | Current Discount Rate (7.50%) | 1.00% Increase (8.50%) |
|---|---|---|---|
| June 30, 2015 | $3,305,297 | $1,942,814 | $815,240 |
| June 30, 2014 | 3,003,861 | 1,699,755 | 619,735 |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 7 – Mortgage Notes Payable

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

### Mortgage Notes Payable
**(Amounts in Thousands)**

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Beginning Balance | $45,502 | $45,802 |
| Additions | 117 | 123 |
| Deductions | (956) | (423) |
| **ENDING BALANCE** | **$44,663** | **$45,502** |

Mortgage Notes Payable consists of the following at June 30, 2015 and 2014:

Mortgage 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, 2015 and 2014, SBCERA's share of the outstanding balance on this note was $15.01 million and $15.97 million, respectively.

Mortgage 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, 2015 and 2014, the outstanding balance on this note was $29.65 million and $29.53 million, respectively.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 7 – Mortgage Notes Payable *(continued)*

The annual requirements to amortize long-term debt (Mortgage Notes Payable), including interest of $5.19 million are as follows:

### Amortization of Mortgage Notes Payable
**(Amounts in Thousands)**

| Years Ended June 30 | |
|---|---|
| 2016 | $17,822 |
| 2017 | 975 |
| 2018 | 975 |
| 2019 | 30,081 |
| **SUBTOTAL** | **49,853** |
| Less interest | (5,190) |
| **TOTAL** | **$44,663** |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*

*(continued)*

## NOTE 8 – Net Position - Restricted for Pensions

All employer and Plan member contributions are allocated to various reserve accounts based on the recommendation of the Plan's actuary, as approved by the Board and, where applicable, as required by the CERL. SBCERA currently does not set aside a separate reserve for purposes of benefit increases or reduced employer contributions. All of the current reserves are available to pay for existing pensions or for Plan administration. All reserves, except the burial allowance reserve, are expected to be fully funded based on actuarially determined contributions. Set forth below are descriptions of the purpose of each reserve account.

**Member deposit reserve** - the reserve represents the total accumulated contributions of Plan 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 Plan.

**Contra account** - the 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 Plan members 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 adopted Government Code section 31789.13 which provides an additional $250 burial allowance to retired SBCERA members.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 8 – Net Position - Restricted for Pensions *(continued)*

For funding purposes, the various reserve accounts comprise net position – restricted for pensions under the 5-year smoothed market asset valuation method as follows:

### Reserves
**As of June 30, 2015 and 2014**
**(Amounts in Thousands)**

| | 2015 | 2014 |
|---|---|---|
| **Valuation Reserves** | | |
| Member deposit reserve | $1,240,297 | $1,200,776 |
| Employer current service reserve | 2,105,743 | 1,981,393 |
| Contra account | (2,148,114) | (1,909,880) |
| Pension reserve | 3,766,863 | 3,506,564 |
| Cost-of-living reserve | 1,601,106 | 1,468,124 |
| Annuity reserve | 1,622,374 | 1,440,931 |
| Supplemental disability reserve | 9,038 | 9,185 |
| Survivor benefit reserve | 57,267 | 53,391 |
| **TOTAL RESERVED FOR PENSION BENEFITS** | **8,254,574** | **7,750,484** |
| **Non-Valuation Reserves** | | |
| Burial allowance reserve | 779 | 825 |
| **SUBTOTAL - NON-VALUATION RESERVES** | **779** | **825** |
| **TOTAL RESERVES (SMOOTHED MARKET ACTUARIAL VALUE)** | **8,255,353** | **7,751,309** |
| Net unrecognized gains/(losses) | 16,306 | 243,762 |
| **NET POSITION - RESTRICTED FOR PENSIONS INCLUDING NON-VALUATION RESERVES, AT MARKET VALUE** | **$8,271,659** | **$7,995,071** |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

### Cash and Deposits

The Board is authorized by the CERL 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 $3.10 million and $8.40 million at June 30, 2015 and 2014, 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 $6.82 million and $1.59 million at June 30, 2015 and 2014, respectively. The SBCIP is an external investment pool and is not registered with the Securities and Exchange Commission. At June 30, 2015 and 2014, the SBCIP has a weighted average maturity of 344 and 428 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 CERL to invest in any form or type of investment deemed prudent in the informed opinion of the Board. The CERL 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 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, various types of investment manager agreements and other applicable fund documents.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Investments (continued)*

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
- Due Diligence – Investment Program Monitoring and Compliance Policy
- Securities Lending Program 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 (see section for Derivatives), 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, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Derivatives (continued)*

The following table provides a summary of the derivative instruments outstanding as of June 30, 2015.

### Derivative Instruments Outstanding

**As of June 30, 2015**
**(Amounts in Thousands)**

| | Changes in Fair Value[4] | | Fair Value at June 30, 2015 | | |
|---|---|---|---|---|---|
| **Investment Derivatives** | **Classification** | **Amount[1]** | **Classification** | **Amount[2]** | **Notional[3]** |
| Commodity Futures Long | Investment Income[5] | $(1) | Short-Term Cash Investment Funds | $ - | - |
| Commodity Futures Short | Investment Income[5] | 1 | Short-Term Cash Investment Funds | - | - |
| Credit Default Swaps Bought | Investment Income[5] | 21,986 | Domestic Alternatives | (50,082) | $1,000,000 |
| Equity Options Bought | Investment Income[5] | 8,248 | Domestic Alternatives | 34,662 | 3,633 |
| Equity Options Written | Investment Income[5] | 1,060 | Securities Options Payable | (25,612) | (8,556) |
| Fixed Income Futures Long | Investment Income[5] | 3,588 | Domestic Alternatives | - | 214,700 |
| Fixed Income Futures Short | Investment Income[5] | (18,957) | Domestic Alternatives | - | (297,808) |
| Fixed Income Options Bought | Investment Income[5] | (14,007) | Domestic Alternatives | 28,498 | 969,902 |
| Foreign Currency Futures Short | Investment Income[5] | (38) | Domestic Alternatives | - | (7,750) |
| FX Forwards | Investment Income[5] | 31,263 | Foreign Common and Preferred Stock | 933 | $382,777 |
| Index Futures Long | Investment Income[5] | 96,267 | Domestic Alternatives | - | 13,436 |
| Index Futures Short | Investment Income[5] | 1,507 | Domestic Alternatives | - | (25) |
| Index Options Bought | Investment Income[5] | (78,844) | Domestic Alternatives | 76,169 | 1,971 |
| Index Options Written | Investment Income[5] | 51,264 | Securities Options Payable | (45,013) | (3,626) |
| Rights | Investment Income[5] | 3 | Foreign Common and Preferred Stock | - | - |
| Total Return Swaps Bond | Investment Income[5] | (27,341) | Domestic Alternatives | 4,200 | $584,875 |
| Total Return Swaps Equity | Investment Income[5] | 19,749 | Domestic Alternatives | (2,917) | $(406,046) |
| **TOTAL** | | **$95,748** | | **$20,838** | |

(1) Negative values 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.
(5) Investment income represents the net appreciation (depreciation) in fair value of investments for securities and alternative investments.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Derivatives (continued)*

The following table provides a summary of the derivative instruments outstanding as of June 30, 2014.

### Derivative Instruments Outstanding

**As of June 30, 2014**
**(Amounts in Thousands)**

| | Changes in Fair Value[4] | | Fair Value at June 30, 2014 | | |
|---|---|---|---|---|---|
| **Investment Derivatives** | **Classification** | **Amount[1]** | **Classification** | **Amount[2]** | **Notional[3]** |
| Commodity Futures Long | Investment Income[5] | $1,020 | Short-Term Cash Investment Funds | $ - | - |
| Commodity Futures Short | Investment Income[5] | (369) | Short-Term Cash Investment Funds | - | - |
| Credit Default Swaps Bought | Investment Income[5] | (18,705) | Domestic Alternatives | (27,514) | $595,800 |
| Equity Options Bought | Investment Income[5] | (9,340) | Domestic Alternatives | 11,576 | 4,812 |
| Equity Options Written | Investment Income[5] | 18,091 | Securities Options Payable | (4,563) | (7,219) |
| Fixed Income Futures Long | Investment Income[5] | 2,926 | Domestic Alternatives | - | 81,000 |
| Fixed Income Futures Short | Investment Income[5] | (19,089) | Domestic Alternatives | - | (353,799) |
| Fixed Income Options Bought | Investment Income[5] | (16,153) | Domestic Alternatives | 42,505 | 1,226 |
| FX Forwards | Investment Income[5] | 4,269 | Foreign Common and Preferred Stock | 1,849 | $262,449 |
| Index Futures Long | Investment Income[5] | 184,926 | Domestic Alternatives | - | 12,537 |
| Index Futures Short | Investment Income[5] | 102 | Domestic Alternatives | - | (1) |
| Index Options Bought | Investment Income[5] | (105,997) | Domestic Alternatives | 45,034 | 94,037 |
| Index Options Written | Investment Income[5] | 57,338 | Securities Options Payable | (16,630) | (868) |
| Total Return Swaps Bond | Investment Income[5] | (94,999) | Domestic Alternatives | (9,376) | $655,413 |
| Total Return Swaps Equity | Investment Income[5] | 58,580 | Domestic Alternatives | 16,741 | $(545,480) |
| **TOTAL** | | **$62,600** | | **$59,622** | |

(1) Negative values 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.
(5) Investment income represents the net appreciation (depreciation) in fair value of investments for securities and alternative investments.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Derivatives (continued)*

The counterparty credit ratings of SBCERA's non-exchange traded investment derivative instruments outstanding and subject to loss as of June 30, 2015 and 2014 are as follows:

### Credit Quality Ratings (S&P) of Counterparties for Investment Derivatives
**As of June 30, 2015**
**(Amounts in Thousands)**

| Counterparty Name | Total Fair Value | S&P Credit Rating |
|---|---|---|
| Bank of New York | $526 | A+ |
| Barclays | 4,606 | A- |
| BNP Paribas | 883 | A+ |
| Commonwealth Bank of Australia Sydney | 537 | AA- |
| HSBC Bank USA | 558 | AA- |
| National Australia Bank Limited | 537 | AA- |
| Standard Chartered Bank | 550 | A+ |
| State Street Bank and Trust Company | 844 | AA- |
| **TOTAL** | **$9,041** | |

### Credit Quality Ratings (S&P) of Counterparties for Investment Derivatives
**As of June 30, 2014**
**(Amounts in Thousands)**

| Counterparty Name | Total Fair Value | S&P Credit Rating |
|---|---|---|
| Bank of New York | $502 | A+ |
| Barclays | 1,474 | A |
| Barclays Bank PLC | 1,679 | A |
| BNP Paribas | 14,685 | A+ |
| Commonwealth Bank of Australia Sydney | 502 | AA- |
| Credit Suisse International | 498 | A |
| Deutsche Bank Securities, Inc. | 377 | A |
| HSBC Bank USA | 498 | AA- |
| State Street Bank and Trust Company | 2 | AA- |
| Westpac Banking Corporation | 498 | AA- |
| **TOTAL** | **$20,715** | |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Derivatives (continued)*

The maximum exposure SBCERA would face in case of default of all counterparties is $9.04 million and $20.72 million as of June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, 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.

As of June 30, 2015 and 2014, SBCERA is exposed to interest rate risk on its investments in various swap arrangements and fixed income options based on daily interest rates for LIBOR (London Interbank Offered Rate), EURIBOR (Euro Interbank Offered Rate) and federal funds rate. The tables below describe the maturity periods of these derivative instruments.

### Investment Maturities

**As of June 30, 2015**
**(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 | $(50,082) | $ - | $(50,082) | $ - | $ - |
| Fixed Income Options Bought | 28,498 | - | 4,712 | 5,406 | 18,380 |
| Total Return Swaps Bond | 4,200 | 4,200 | - | - | - |
| Total Return Swaps Equity | (2,917) | (2,917) | - | - | - |
| **TOTAL** | **$(20,301)** | **$1,283** | **$(45,370)** | **$5,406** | **$18,380** |

### Investment Maturities

**As of June 30, 2014**
**(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 | $(27,514) | $ - | $(27,996) | $482 | $ - |
| Fixed Income Options Bought | 42,505 | 1 | - | 17,909 | 24,595 |
| Total Return Swaps Bond | (9,376) | (9,376) | - | - | - |
| Total Return Swaps Equity | 16,741 | 16,741 | - | - | - |
| **TOTAL** | **$22,356** | **$7,366** | **$(27,996)** | **$18,391** | **$24,595** |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(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, 2015**
**(Amounts in Thousands)**

| | | | Forward Contracts | |
|---|---|---|---|---|
| **Currency** | **Fair Value** | **Fixed Income** | **Net Receivables** | **Net Payables** |
| Brazilian Real | $459 | $ - | $459 | $ - |
| Canadian Dollar | 63 | - | 63 | - |
| Euro Currency | 1,567 | 686 | 881 | - |
| Japanese Yen | 970 | 985 | - | (15) |
| Pound Sterling | 81 | 405 | 842 | (1,166) |
| South African Rand | (201) | - | - | (201) |
| Swiss Franc | 70 | - | 70 | - |
| **TOTAL** | **$3,009** | **$2,076** | **$2,315** | **$(1,382)** |

### Net Exposure to Foreign Currency Risk for Investment Derivative Instruments

**As of June 30, 2014**
**(Amounts in Thousands)**

| | | | | Forward Contracts | |
|---|---|---|---|---|---|
| **Currency** | **Fair Value** | **Fixed Income** | **Equity** | **Net Receivables** | **Net Payables** |
| Brazilian Real | $(327) | $ - | $ - | $ - | $(327) |
| Canadian Dollar | (40) | - | - | 2 | (42) |
| Euro Currency | (414) | 1,624 | (2,625) | 741 | (154) |
| Japanese Yen | (7,127) | 1,881 | (8,953) | - | (55) |
| Pound Sterling | 4,748 | 2,990 | - | 1,758 | - |
| South African Rand | (58) | - | - | - | (58) |
| Swiss Franc | (16) | - | - | - | (16) |
| **TOTAL** | **$(3,234)** | **$6,495** | **$(11,578)** | **$2,501** | **$(652)** |

At June 30, 2015 and 2014, SBCERA did not hold any positions in derivatives containing contingent features.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(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 tables on the next two pages. 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 tables on the next two pages, but amount to $50.40 million and $68.66 million as of June 30, 2015 and 2014, respectively. U.S. Treasury Obligations are considered obligations of the U.S. government, are explicitly guaranteed by the U.S. government, are not considered to have credit risk, and are not shown in the tables on the next two pages, but amount to $109.63 million and $48.43 million as of June 30, 2015 and 2014, respectively.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Credit Risk (continued)*

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, 2015 and 2014 are as follows:

### Credit Quality Ratings (S&P) of Fixed Income and Short-Term Cash Investments
**As of June 30, 2015**
**(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 | $143,775 | $ - | $ - | $ - | $2,318 | $34,528 | $8,993 | $885 | $1,922 | $2 | $95,127 |
| Corporate Bonds[1] | 47,932 | - | - | - | - | - | - | 1,091 | - | - | 46,841 |
| Collateralized Mortgage Obligations | 8,733 | - | 135 | - | - | - | - | 3,094 | - | 183 | 5,321 |
| Emerging Markets | 540,913 | - | - | - | - | - | - | - | - | - | 540,913 |
| Foreign Bonds[2] | 28,780 | - | - | 835 | 626 | 795 | 295 | - | - | - | 26,229 |
| Municipals | 73 | - | 73 | - | - | - | - | - | - | - | - |
| Short-Term Cash Investments | 959,003 | - | - | - | - | - | - | - | - | - | 959,003 |
| **TOTAL** | **$1,729,209** | **$ -** | **$208** | **$835** | **$2,944** | **$35,323** | **$9,288** | **$5,070** | **$1,922** | **$185** | **$1,673,434** |

(1) Does not include private placements, which amount to $6,902.
(2) Does not include private placements, which amount to $43,495.
Note: Table above does not include U.S. Treasury Obligations, which amount to $109,628.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(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, 2014**
**(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 | $125,377 | $ - | $ - | $ - | $4,237 | $34,607 | $7,442 | $9,183 | $2,051 | $2 | $67,855 |
| Corporate Bonds[1] | 34,771 | - | - | - | - | - | - | - | - | - | 34,771 |
| Collateralized Mortgage Obligations | 21,646 | - | 171 | - | - | - | - | 5,165 | - | 8,361 | 7,949 |
| Commercial Mortgage Backed Securities | 2,187 | - | - | - | - | - | 2,187 | - | - | - | - |
| Emerging Markets | 482,957 | - | - | - | - | - | - | - | - | - | 482,957 |
| Foreign Bonds[2] | 32,903 | - | - | 1,424 | 616 | 860 | 942 | - | - | - | 29,061 |
| Municipals | 74 | - | - | 74 | - | - | - | - | - | - | - |
| Short-Term Cash Investments | 928,557 | - | - | - | - | - | - | - | - | - | 928,557 |
| U.S. Agency | 56,251 | - | 56,251 | - | - | - | - | - | - | - | - |
| **TOTAL** | **$1,684,723** | **$ -** | **$56,422** | **$1,498** | **$4,853** | **$35,467** | **$10,571** | **$14,348** | **$2,051** | **$8,363** | **$1,551,150** |

(1) Does not include private placements, which amount to $20,193.
(2) Does not include private placements, which amount to $48,464.
Note: Table above does not include U.S. Treasury Obligations, which amount to $48,432.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments *(continued)*

### 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, 2015 and 2014, SBCERA's deposits with a financial institution are insured up to $250 thousand by the Federal Deposit Insurance Corporation (FDIC) 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. 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.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of June 30, 2015 and 2014, SBCERA did not hold any investments in any one issuer that would represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

### Concentrations of Investments

As of June 30, 2015 and 2014, SBCERA did not hold investments in any one organization that represents 5% or more of the Plan's fiduciary net position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments *(continued)*

### Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity date has a greater sensitivity of its fair value to changes in market interest rates. One of the ways that SBCERA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

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.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, provides five methods for disclosing interest rate risk. Historically, SBCERA selected the effective duration method to disclose interest rate risk. However, the information required to calculate the effective durations is no longer available. Consequently, SBCERA has selected another acceptable method to disclose interest rate risk, the segmented time distribution method, which groups investment cash flows into sequential time periods in a tabular form. For consistency purposes, the disclosure for June 30, 2014 has been restated to reflect the segmented time distribution method.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Interest Rate Risk (continued)*

As of June 30, 2015 and 2014, SBCERA had the following Fixed Income and Short-Term Cash Investments:

### Interest Rate Risk of Fixed Income and Short-Term Cash Investments

**As of June 30, 2015**
**(Amounts in Thousands)**

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less than 6 Months** | **6 Months to 1 Year** | **1-5 Years** | **More than 5 Years** |
| Asset Backed | $143,775 | $ - | $ - | $1,146 | $142,629 |
| Corporate Bonds[1] | 54,834 | 323 | 6,146 | 34,301 | 14,064 |
| Collateralized Mortgage Obligations | 8,733 | - | - | - | 8,733 |
| Emerging Markets[2] | 36,659 | - | - | 18,008 | 18,651 |
| Foreign Bonds[3] | 72,275 | 1,196 | 379 | 52,912 | 17,788 |
| Municipals | 73 | - | - | - | 73 |
| Short-Term Cash Investments | 959,003 | 959,003 | - | - | - |
| U.S. Treasury | 109,628 | 103,132 | 6,496 | - | - |
| **TOTAL** | **$1,384,980** | **$1,063,654** | **$13,021** | **$106,367** | **$201,938** |

### Interest Rate Risk of Fixed Income and Short-Term Cash Investments

**As of June 30, 2014**
**(Amounts in Thousands)**

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less than 6 Months** | **6 Months to 1 Year** | **1-5 Years** | **More than 5 Years** |
| Asset Backed | $125,377 | $17,716 | $ - | $2,462 | $105,199 |
| Corporate Bonds[4] | 54,964 | 454 | - | 46,307 | 8,203 |
| Collateralized Mortgage Obligations | 21,646 | - | - | - | 21,646 |
| Commercial Mortgage Backed Securities | 2,187 | - | - | - | 2,187 |
| Emerging Markets[5] | 20,276 | - | - | 15,035 | 5,241 |
| Foreign Bonds[6] | 81,367 | 554 | 3,097 | 62,432 | 15,284 |
| Municipals | 74 | - | - | - | 74 |
| Short-Term Cash Investments | 928,557 | 928,557 | - | - | - |
| U.S. Agency | 56,251 | 4,566 | 50,880 | - | 805 |
| U.S. Treasury | 48,432 | 14,007 | 28,619 | 5,806 | - |
| **TOTAL** | **$1,339,131** | **$965,854** | **$82,596** | **$132,042** | **$158,639** |

(1) Includes private placements, which amount to $6,902.
(2) Does not include underlying investments with no maturity date, which amount to $504,254.
(3) Includes private placements, which amount to $43,495.
(4) Includes private placements, which amount to $20,193.
(5) Does not include underlying investments with no maturity date, which amount to $462,681.
(6) Includes private placements, which amount to $48,464.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(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.

SBCERA's net exposure to foreign currency risk in U.S. dollars as of June 30, 2015 and 2014 is as follows:

**Net Exposure to Foreign Currency Risk**
***As of June 30, 2015***
***(Amounts in Thousands)***

| | | Type | | |
|---|---|---|---|---|
| **Currency** | **Fair Value** | **Fixed Income** | **Equity** | **Cash** |
| Australian Dollar | $80 | $ - | $ - | $80 |
| Brazilian Real | 10,128 | - | 10,128 | - |
| Canadian Dollar | 11,162 | 5,577 | 5,484 | 101 |
| Danish Krone | 90 | - | 90 | - |
| Euro Currency | 454,140 | 20,486 | 395,725 | 37,929 |
| Hong Kong Dollar | 31,328 | 1,929 | 28,991 | 408 |
| Indonesian Rupiah | 7,082 | - | 7,082 | - |
| Japanese Yen | 14,354 | 8,619 | - | 5,735 |
| Malaysian Ringgit | 11,572 | - | 11,572 | - |
| Mexican Peso | 8,284 | - | 8,284 | - |
| New Taiwan Dollar | 24,787 | - | 24,676 | 111 |
| Polish Zloty | 1 | - | - | 1 |
| Pound Sterling | 25,584 | 3,965 | 21,615 | 4 |
| Qatari Rial | 5,251 | - | 5,251 | - |
| Singapore Dollar | 1,322 | 1,321 | - | 1 |
| South African Rand | 13,754 | - | 13,597 | 157 |
| South Korean Won | 12,022 | 559 | 11,463 | - |
| Swedish Krona | 270 | 270 | - | - |
| Swiss Franc | 7,102 | 342 | 6,707 | 53 |
| Thailand Baht | 3,770 | - | 3,770 | - |
| Turkish Lira | 6,024 | - | 6,024 | - |
| UAE Dirham | 2,961 | - | 2,961 | - |
| **TOTAL** | **$651,068** | **$43,068** | **$563,420** | **$44,580** |

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments

*Foreign Currency Risk (continued)*

### Net Exposure to Foreign Currency Risk
**As of June 30, 2014**
**(Amounts in Thousands)**

| | | Type | | |
|---|---|---|---|---|
| **Currency** | **Fair Value** | **Fixed Income** | **Equity** | **Cash** |
| Brazilian Real | $15,186 | $ - | $15,186 | $ - |
| Canadian Dollar | 5,770 | 4,265 | 843 | 662 |
| Danish Krone | 63 | - | 63 | - |
| Euro Currency | 609,037 | 28,264 | 544,785 | 35,988 |
| Hong Kong Dollar | 34,895 | 3,484 | 31,091 | 320 |
| Indonesian Rupiah | 8,463 | - | 8,463 | - |
| Japanese Yen | 6,638 | 6,638 | - | - |
| Malaysian Ringgit | 8,063 | - | 8,063 | - |
| Mexican Peso | 9,799 | - | 9,792 | 7 |
| New Taiwan Dollar | 14,806 | - | 14,412 | 394 |
| Polish Zloty | 2 | - | - | 2 |
| Pound Sterling | 16,784 | 3,122 | 5,751 | 7,911 |
| Singapore Dollar | 1,071 | 1,068 | - | 3 |
| South African Rand | 15,401 | - | 15,401 | - |
| South Korean Won | 17,691 | 599 | 17,092 | - |
| Swedish Krona | 299 | 299 | - | - |
| Swiss Franc | 6,322 | 611 | 5,639 | 72 |
| Thailand Baht | 5,105 | - | 5,105 | - |
| Turkish Lira | 9,414 | - | 9,414 | - |
| **TOTAL** | **$784,809** | **$48,350** | **$691,100** | **$45,359** |

## Rate of Return

For the years ended June 30, 2015 and 2014, the annual money-weighted rate of return on the assets of the Plan, net of investment expense, was 3.49% and 12.25%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the timing of cash flows and the changing amounts actually invested.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 9 – Deposits and Investments *(continued)*

### Commitments to Fund Partnerships

As of June 30, 2015 and 2014, the total capital commitments to fund partnerships were $4.78 billion and $4.45 billion, respectively. Of this amount, $619.92 million and $635.68 million, respectively, remained unfunded and is not recorded on the SBCERA Statements of Fiduciary Net Position as of June 30, 2015 and 2014. The following tables depict 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, 2015**
**(Amounts in Thousands)**

| Asset Class | Total Commitments | Unfunded Commitments |
|---|---|---|
| Real Estate | $1,939,902 | $94,669 |
| Alternatives | 2,842,006 | 525,248 |
| **TOTAL** | **$4,781,908** | **$619,917** |

**Total Commitments and Unfunded Commitments to Fund Partnerships by Asset Class**
**As of June 30, 2014**
**(Amounts in Thousands)**

| Asset Class | Total Commitments | Unfunded Commitments |
|---|---|---|
| Real Estate | $1,785,091 | $41,013 |
| Alternatives | 2,667,721 | 594,669 |
| **TOTAL** | **$4,452,812** | **$635,682** |

## NOTE 10 – Related Party Transactions

By necessity, SBCERA has entered into a Memorandum of Understanding with the County of San Bernardino (County), a participating employer, to provide administrative services in the areas of information technology, staff payroll, telecommunications (postage and mailing), motor pool services and Board elections. SBCERA's payments to the County for the years ended June 30, 2015 and 2014 were $271 thousand and $266 thousand, respectively.

# Notes to Basic Financial Statements

*June 30, 2015 and 2014*
*(continued)*

## NOTE 11 – 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.

## NOTE 12 – Pacific Public Partners

On February 4, 2010, the SBCERA 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 CERL (commencing with Government Code section 31699.1) and Section 115 of the Internal Revenue Code. The SBCERA 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 SBCERA 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 West Hospitality Lane, Third Floor, San Bernardino, CA 92415.

As of June 30, 2015 and 2014, 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 Assets and Liabilities – Agency Fund and Other Supplemental Information – Statements of Changes in Assets and Liabilities – Agency Fund, for further information.

On October 6, 2011, the 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 PPP 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 participating employers.

# *Financial*

## REQUIRED SUPPLEMENTARY INFORMATION

*(Unaudited)*

JOSEPH FILIPPI
WINERY & VINEYARD
Since 1922

*Cucamonga Valley's Premier Winery*

*section*
2.2

# *Joseph Filippi*

## CUCAMONGA VALLEY'S PREMIER WINERY

The Joseph Filippi Winery, one of few remaining wineries in the Cucamonga Valley, is located on Baseline Road in Rancho Cucamonga. It was established in 1922 and is one of the oldest family owned and operated wineries in San Bernardino County. The Filippi family is responsible for obtaining approval for a viticulture area for the Cucamonga Valley, which means local wineries are allowed to use the words Cucamonga Valley on their wine labels if they utilize at least 85% of the region's grapes.


# Schedule of Changes in Net Pension Liability of Participating Employers and Related Ratios

*(Amounts in Thousands)*

| | | June 30, 2015 | June 30, 2014 | June 30, 2013 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | | $290,642 | $271,473 | $273,020 |
| Interest | | 732,842 | 709,993 | 673,932 |
| Differences between expected and actual experience | | (75,362) | (306,201) | (97,497) |
| Changes of assumptions | | - | 328,748 | - |
| Benefit payments, including refunds of plan member contributions | | (428,475) | (397,823) | (367,396) |
| **Net Change in Total Pension Liability** | | **519,647** | **606,190** | **482,059** |
| **Total Pension Liability - Beginning** | | **9,694,826** | **9,088,636** | **8,606,577** |
| **Total Pension Liability - Ending** | **a** | **$10,214,473** | **$9,694,826** | **$9,088,636** |
| **Plan Fiduciary Net Position** | | | | |
| Contributions-employers | | $315,240 | $330,330 | $303,080 |
| Contributions-plan members | | 117,899 | 89,861 | 91,056 |
| Net investment income | | 280,842 | 877,018 | 912,310 |
| Benefit payments, including refunds of plan member contributions | | (428,475) | (397,823) | (367,396) |
| Administrative expenses | | (6,710) | (6,386) | (6,258) |
| Other expenses | | (2,208) | (2,483) | (1,572) |
| **Net Change in Plan Fiduciary Net Position** | | **276,588** | **890,517** | **931,220** |
| **Plan Fiduciary Net Position - Beginning** | | **7,995,071** | **7,104,554** | **6,173,334** |
| **Plan Fiduciary Net Position - Ending** | **b** | **$8,271,659** | **$7,995,071** | **$7,104,554** |
| **Net Pension Liability** | **a-b=c** | **$1,942,814** | **$1,699,755** | **$1,984,082** |
| **Plan fiduciary net position as a percentage of the total pension liability** | **b/a** | **80.98%** | **82.47%** | **78.17%** |
| **Covered employee payroll[1]** | **d** | **$1,267,667** | **$1,262,752** | **$1,260,309** |
| **Net pension liability as a percentage of covered employee payroll** | **c/d** | **153.26%** | **134.61%** | **157.43%** |

(1) Covered employee payroll represents the collective total of the SBCERA eligible wages of all SBCERA participating employers.
Note: Data as of June 30, 2006 through June 30, 2012 are not available in a comparable format.
See accompanying notes to the Required Supplementary Information.

# Schedule of Employer Contributions

*(Amounts in Thousands)*

| Years Ended June 30 | Actuarially Determined Contributions[1] (a) | Actual Contributions[1] (b) | Contribution Deficiency/ (Excess) (a) - (b) | Covered Employee Payroll[2] (c) | Contributions as a % of Covered Employee Payroll (b) / (c) |
|---|---|---|---|---|---|
| 2006 | $129,078 | $129,078 | $- | $968,674 | 13.33% |
| 2007 | 164,992 | 164,992 | - | 1,028,731 | 16.04% |
| 2008 | 162,619 | 162,619 | - | 1,102,151 | 14.75% |
| 2009 | 166,082 | 166,082 | - | 1,219,562 | 13.62% |
| 2010 | 163,960 | 163,960 | - | 1,226,431 | 13.37% |
| 2011 | 180,756 | 180,756 | - | 1,250,193 | 14.46% |
| 2012 | 210,000 | 210,000 | - | 1,244,555 | 16.87% |
| 2013 | 248,841 | 248,841 | - | 1,260,309 | 19.74% |
| 2014 | 278,352 | 278,352 | - | 1,262,752 | 22.04% |
| 2015 | 302,561 | 302,561 | - | 1,267,667 | 23.87% |

# Schedule of Investment Returns[3]

| Years Ended June 30 | Annual Money Weighted Rate of Return, Net of Investment Expense |
|---|---|
| 2013 | 14.64% |
| 2014 | 12.25% |
| 2015 | 3.49% |

(1) The Board has approved all contribution rates recommended by the Plan's actuary. Actuarially determined contributions include contributions required for the survivor benefit, and excludes employer paid member contributions, UAAL prepayments, golden handshake payments, funds deposited for purchase of service credit, payments made by withdrawn employers, member paid employer contributions and member contributions.

(2) Covered employee payroll represents the collective total of SBCERA eligible wages of all SBCERA participating employers.

(3) Data for the years ended June 30, 2006 through 2012 are not available in a comparable format.

See accompanying notes to the Required Supplementary Information.

# Notes to the Required Supplementary Information

## *Actuarial Valuation Methods and Assumptions Used in Determining Total Pension Liability*

The net pension liability of participating employers was measured as of June 30, 2013 through 2015 and determined based upon the total pension liability from actuarial valuations as of June 30, 2013 through 2015, respectively.

### *Changes in Benefit Terms*

For the year ended June 30, 2013: In September 2012, Governor Edmund G. Brown Jr. 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 (and who are not "reciprocal" with another pension system): 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 for the 2013 calendar year (adjusted each year thereafter based on changes in the consumer price index), reduces the amount of pay items eligible for pensionable compensation, increases 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.

For the year ended June 30, 2014: On September 6, 2013, Governor Brown approved Assembly Bill 1380 (AB 1380), which makes various technical corrections and conforming changes that align the CERL with the provisions of the 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 is effective January 1, 2014.

There were no changes in benefit terms for the year ended June 30, 2015.

The addition of a new tier of benefits and the subsequent technical corrections stated above did not result in a significant change in the net pension liability of participating employers as of June 30, 2013 through 2015.

### *Changes of Methods and Assumptions*

The actuarial methods and assumptions used in actuarial valuations, for the years ended June 30, 2013 through 2015, were based on the results of Board approved triennial actuarial experience studies prepared by the Plan's independent actuary. The actuarial methods and assumptions used in determining the net pension liability are the same actuarial methods and assumptions used in determining contribution rates, except for the asset valuation method. For purposes of determining net pension liability, the market value of assets was used for the years ended June 30, 2013 through 2015. See schedules of changes to actuarial methods and assumptions shown on pages 91 and 92 for actuarial methods and assumptions used for the years ended June 30, 2013 through 2015. Note: The discount rate of return used for the years ended June 30, 2013 through 2015 is the same rate used for the investment rate of return shown on page 91.

# Notes to the Required Supplementary Information

*(continued)*

## Actuarial Valuation Methods and Assumptions Used in Determining Contribution Rates

Actuarially determined contributions are established and may be amended by the Board, based on an annual actuarial valuation and review, pursuant to Article 1 of the CERL. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of June 30, two years prior to the end of the year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule for the years ended June 30, 2006 through 2015 (adjustments were made to more closely reflect actual experience unless indicated otherwise):

### Schedule of Actuarial Experience Studies

***For the Years Ended June 30, 2006 through 2015***

| Years Ended June 30 | Date of Actuarial Experience Study | Periods Covered in Actuarial Experience Study |
|---|---|---|
| 2006 to 2007 | June 30, 2005 | 3 Year Period Ending 6/30/2005 |
| 2008 to 2010 | June 30, 2008 | 3 Year Period Ending 6/30/2008 |
| 2011 to 2013 | June 30, 2011 | 3 Year Period Ending 6/30/2011 |
| 2014 to 2015 | June 30, 2014 | 3 Year Period Ending 6/30/2013 |

# Notes to the Required Supplementary Information

*(continued)*

## *Actuarial Valuation Methods and Assumptions Used in Determining Contribution Rates (continued)*

### *Schedule of Changes to Actuarial Economic Assumptions*

***For the Years Ended June 30, 2006 through 2015***

| Years Ended June 30 | Investment Rate of Return | Projected Salary Increases (General) | Projected Salary Increases (Safety) | Inflation | Wage Inflation | Cost-of-Living[1] | Administrative Expenses |
|---|---|---|---|---|---|---|---|
| 2006 to 2007 | 8.00% | 4.25% to 11.48% | 4.25% to 11.74% | 3.75% | 4.25% | 2.00% | Offset to Investment Return |
| 2008 to 2010 | 8.00% | 5.00% to 13.25% | 5.00% to 13.25% | 3.75% | 4.25% | 2.00% | Offset to Investment Return |
| 2011 to 2013 | 7.75% | 4.75% to 14.00% | 4.75% to 14.00% | 3.50% | 4.00% | 2.00% | Offset to Investment Return |
| 2014 to 2015 | 7.50% | 4.60% to 13.75% | 4.55% to 13.75% | 3.25% | 3.75% | 2.00% | 0.60% of payroll[2] |

### *Schedule of Amortization Methods*

***For the Years Ended June 30, 2006 through 2015***

| Years Ended June 30 | Actuarial Cost Method | Amortization Method[3] | Remaining Amortization Period[4] | Asset Valuation Method |
|---|---|---|---|---|
| 2006 to 2015 | Entry age | Level percent of payroll | 20-year closed period | 5-year smoothed market |

(1) Cost-of-living adjustments are contingent upon the consumer price index with a 2.00% maximum.
(2) Allocated to both the employer and Plan member based on the components of the total contribution rate (before expenses) for the employer and Plan member.
(3) See Schedule of Changes to Actuarial Economic Assumptions for the wage inflation used.
(4) Effective June 30, 2012, 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).

# Notes to the Required Supplementary Information

*(continued)*

## Actuarial Valuation Methods and Assumptions Used in Determining Contribution Rates *(continued)*

### Schedule of Changes to Actuarial Non-Economic Assumptions

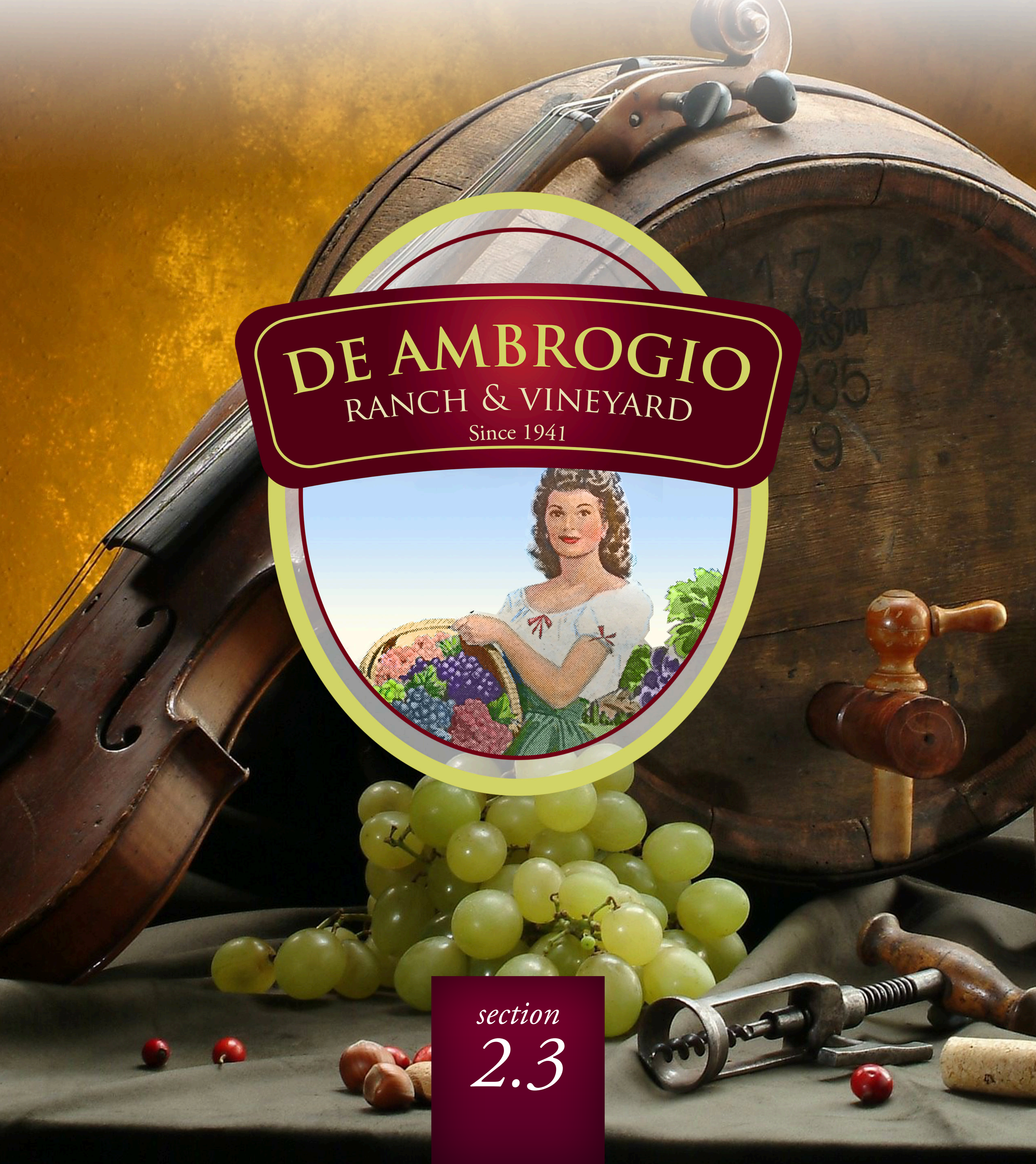
**For the Years Ended June 30, 2006 through 2015**

| Years Ended June 30 | Marriage Assumption | Mortality Rates (General) | Mortality Rates (Safety) | Reciprocity Assumption | Deferral Age for Vested Terminations |
|---|---|---|---|---|---|
| 2006 to 2007 | 80% male members, 60% female members assumed married at retirement or pre-retirement death. | 1994 Group Annuity Mortality Table; for females, set forward 1 year; for disabled males, set forward 5 years; for disabled females, set forward 6 years. | 1994 Group Annuity Mortality Table; for females, set forward 1 year; for disabled males, set forward 5 years; for disabled females, set forward 6 years. | 50% | Age 57 for General members; age 53 for Safety members. |
| 2008 to 2010 | 75% male members, 55% female members assumed married at retirement or pre-retirement death. | RP-2000 Combined Healthy Mortality Table set back 1 year; for disabled males, set forward 5 years; for disabled females, set forward 6 years. | RP-2000 Combined Healthy Mortality Table set back 1 year; for disabled members no set back. | 40% | Age 57 for General members; age 53 for Safety members. |
| 2011 to 2013 | 70% male members, 55% female members assumed married at retirement or pre-retirement death. | RP-2000 Combined Healthy Mortality Table set back 2 years; for disabled males set forward 4 years; for disabled females, set forward 5 years. | RP-2000 Combined Healthy Mortality Table set back 3 years; for disabled members set forward 1 year. | 40% | Age 58 for General members; age 52 for Safety members. |
| 2014 to 2015 | 70% male members, 55% female members assumed married at retirement or pre-retirement death. | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020; for disabled males set forward 7 years; for disabled females, set forward 8 years. | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 set back 2 years for males, set back 1 year for females; for disabled members set forward 2 years. | 40% for General members; 50% for Safety members. | Age 58 for General members; age 52 for Safety members. |

Note: The probabilities of separation from active service and expectation of life are adjusted every three years with the actuarial experience study.

# Financial

## OTHER SUPPLEMENTAL INFORMATION

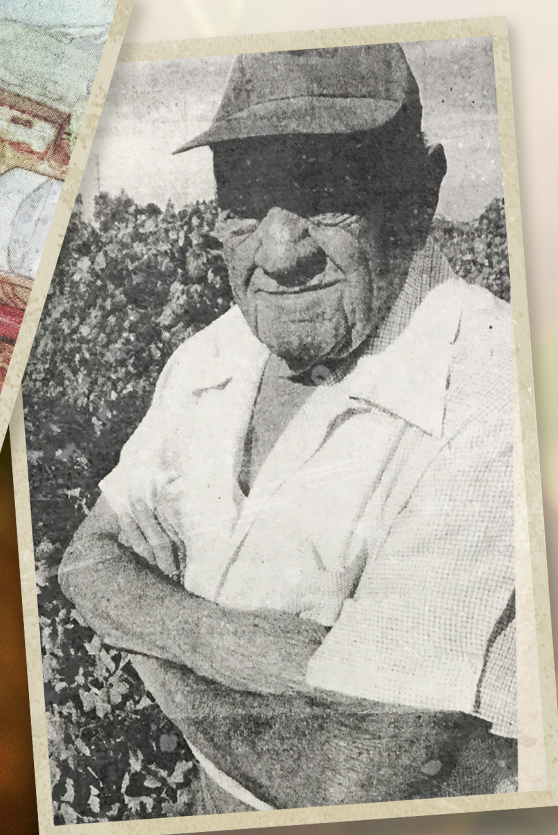



section
2.3

# *De Ambrogio*

## FAMOUS ZINFANDEL VINEYARD

De Ambrogio Ranch, located on the southwest corner of Foothill Boulevard at Haven Avenue, in Rancho Cucamonga, served as the valley's grape packing and shipping center. Frank De Ambrogio and his wife, Mary, purchased the Zinfandel vineyard just after World War II. Today, the winery has been demolished to make way for new development, but before it was destroyed, about 400 cuttings from the original vineyard were transplanted to California State Polytechnic University, Pomona, which continues to grow those grapes in its vineyards.

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

*For the Years Ended June 30, 2015 and 2014*
*(Amounts in Thousands)*

| Total Agency Fund | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Due from participants | $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, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Due from participants | $1,007 | $- | $- | $1,007 |
| **TOTAL ASSETS** | **$1,007** | **$-** | **$-** | **$1,007** |
| **LIABILITIES** | | | | |
| Due to SBCERA | $1,007 | $- | $- | $1,007 |
| **TOTAL LIABILITIES** | **$1,007** | **$-** | **$-** | **$1,007** |

# Schedule of Administrative and Other Expenses

*For the Years Ended June 30, 2015 and 2014*
*(Amounts in Thousands)*

| | 2015 | 2014 |
|---|---|---|
| **Actuarial Accrued Liability (AAL)[1]** | **$9,088,636** | **$8,606,577** |
| **Statutory Limit for Administrative Expenses (AAL x 0.21%)** | **19,086** | **18,074** |
| | | |
| **Administrative Expenses Subject to Statutory Limit** | | |
| Personnel Services | 4,713 | $4,551 |
| Professional Services | 890 | 809 |
| Operational Miscellaneous | 1,107 | 1,026 |
| **TOTAL ADMINISTRATIVE EXPENSES SUBJECT TO STATUTORY LIMIT** | **6,710** | **6,386** |
| | | |
| **Other Expenses Not Subject to Statutory Limit** | | |
| Actuarial Services | 127 | 271 |
| Legal Services (Non-Investment) | 878 | 669 |
| Technology Infrastructure | 1,203 | 1,543 |
| **TOTAL OTHER EXPENSES NOT SUBJECT TO STATUTORY LIMIT** | **2,208** | **2,483** |
| **TOTAL ADMINISTRATIVE AND OTHER EXPENSES[2]** | **$8,918** | **$8,869** |

(1) Refer to Note 2 – Summary of Significant Accounting Policies (see section for Administrative Expenses), for further information.
(2) Does not include Investment Expenses, see Schedule of Investment Expenses.

# Schedule of Investment Expenses

*For the Years Ended June 30, 2015 and 2014*
*(Amounts in Thousands)*

| Type of Investment Expense | 2015 | 2014 |
|---|---|---|
| **Advisement Fees** | | |
| **Equity** | | |
| Domestic | $1,407 | $951 |
| International | 4,082 | 2,780 |
| **TOTAL EQUITY** | **5,489** | **3,731** |
| **Fixed Income** | | |
| Domestic | 3,387 | 1,661 |
| Global | 730 | 590 |
| **TOTAL FIXED INCOME** | **4,117** | **2,251** |
| Real Estate | 5,536 | 4,969 |
| Alternative | 48,984 | 81,937 |
| Investment Consultant Fees | 2,289 | 2,572 |
| Custodian Fees | 617 | 624 |
| **TOTAL ADVISEMENT FEES** | **67,032** | **96,084** |
| **Other Investment Expenses** | | |
| Other Investment Expenses[1] | 24,207 | 26,618 |
| Legal Services | 347 | 385 |
| Investment Department Expense | 1,765 | 1,480 |
| **TOTAL OTHER INVESTMENT EXPENSES** | **26,319** | **28,483** |
| **SECURITIES LENDING REBATES & BANK CHARGES** | **138** | **107** |
| **TOTAL INVESTMENT EXPENSES** | **$93,489** | **$124,674** |

(1) These costs include, but are not limited to, foreign income tax and other indirect flow-through investment expenses.

# Schedule of Payments to Consultants

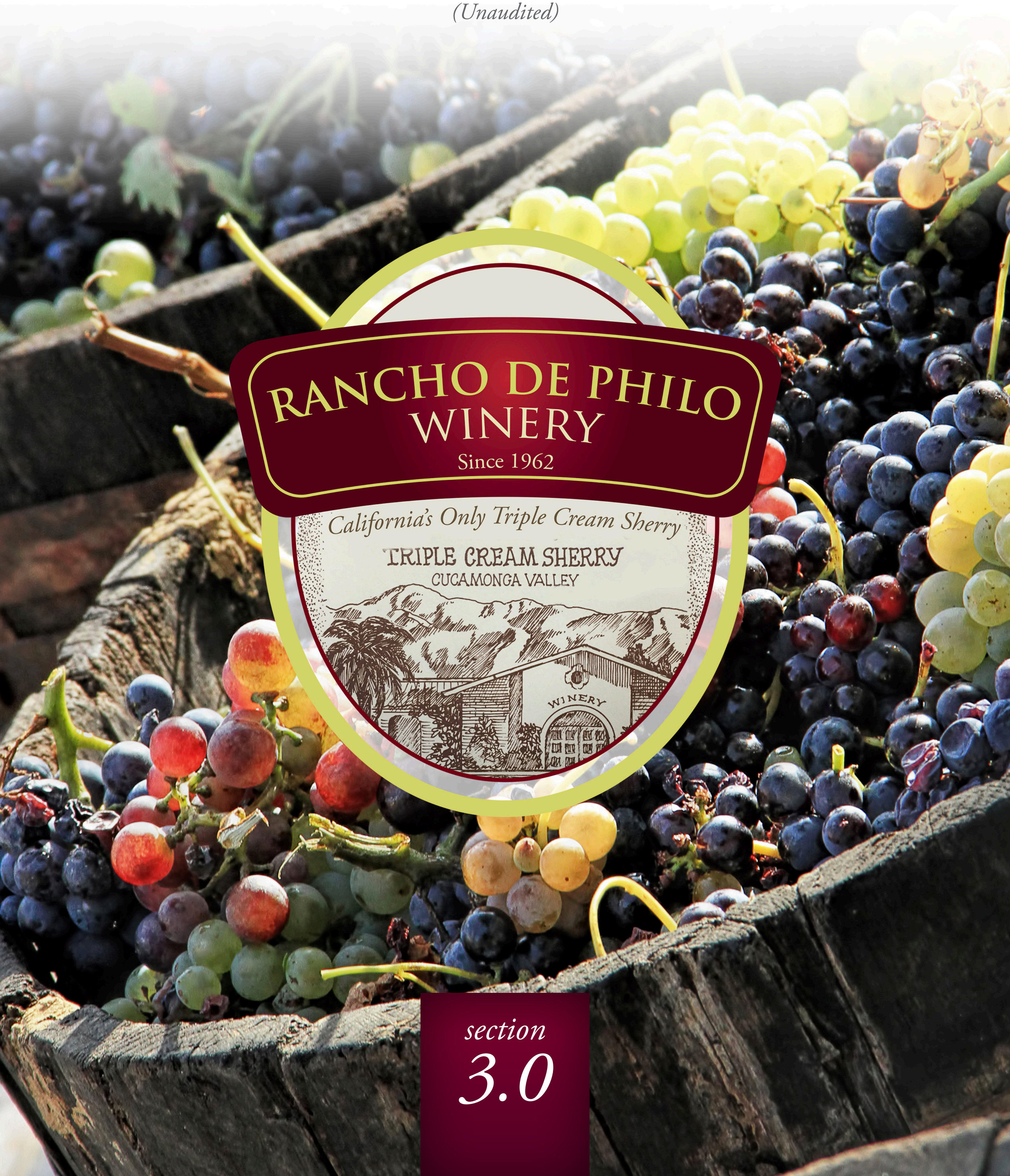
*For the Years Ended June 30, 2015 and 2014*
*(Amounts in Thousands)*

| Type of Service[1] | 2015 | 2014 |
|---|---|---|
| **Fees Paid to Consultants Subject to the Statutory Limit[2]** | | |
| Actuarial Services | $26 | $- |
| Audit Services | 125 | 59 |
| Communications Services | 63 | 62 |
| Human Resource Consulting Services | 44 | 90 |
| Medical Consulting Services | 445 | 479 |
| **TOTAL FEES PAID TO CONSULTANTS SUBJECT TO THE STATUTORY LIMIT** | **703** | **690** |
| **Fees Paid to Consultants Not Subject to the Statutory Limit** | | |
| Actuarial Services | 127 | 271 |
| Custodian Fees | 617 | 624 |
| Human Resource Consulting Services | 23 | - |
| Investment Consultant Fees | 2,289 | 2,572 |
| Legal Services | 417 | 533 |
| **TOTAL FEES PAID TO CONSULTANTS NOT SUBJECT TO THE STATUTORY LIMIT** | **3,473** | **4,000** |
| **TOTAL PAYMENTS TO CONSULTANTS** | **$4,176** | **$4,690** |

(1) Detail for fees paid to investment professionals is presented in the Investment section.
(2) 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. Refer to Note 2 - Summary of Significant Accounting Policies (see section for Administrative Expenses), for further information.

# Investment

(Unaudited)




section

3.0

# Rancho de Philo

## THE ONLY SHERRY PRODUCED IN CALIFORNIA

Rancho de Philo Winery, one of the few remaining wineries in the Cucamonga Valley, is located on Wilson Avenue in Rancho Cucamonga. It was founded in 1974 by Philo Biane, former president and CEO of Brookside Vineyard Co. The fifth-generation wine maker developed Brookside's table and dessert wines and later started Rancho de Philo's Sherry line in 1962. Rancho de Philo creates its Sherry with the Mission grape using the solera system, a Spanish tradition of blending differently aged liquids. The soleras, a pyramid construction of barrels, is used to age the blend of wine. Every year, a portion is siphoned from the top barrel down to the next, ending with the bottom barrel which is then used to produce cream Sherry, a dessert wine. Rancho de Philo's Triple Cream Sherry is the only Sherry produced in California and they bottle just over 300 cases per year.

# Report on Investment Activity

NEPC, LLC

**Allan Martin**
Partner

November 18, 2015

Board of Retirement
San Bernardino County Employees' Retirement Association
348 West Hospitality Lane, Third Floor
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 in the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Retirement, at least annually, to reflect the Fund's actuarial assumptions, accrued liabilities, and economic and investment outlook. The following is a report on the performance of the Fund for the year ended June 30, 2015 with background on the underlying market environment.

**Market Review for the Year Ended June 30, 2015**

The multi-year strong growth in equity values continued throughout the year ended June 30, 2015. Markets were resilient to domestic and global political tensions, geopolitical conflicts in Eastern Europe and the Middle East, oil's precipitous price drop, unsustainable debt loads in Greece and the threat of a slowing Chinese economy. Central banks continued their influence in markets, with the Federal Reserve navigating an end to unprecedented monetary stimulus in the U.S., the European Central Bank beginning expansionary monetary policy of a €1 trillion bond-purchase program and the People's Bank of China cutting interest rates by 0.25%. Domestic equities, as measured by the S&P 500 Index, posted their sixth consecutive yearly gain (although at a decreasing pace) returning 7.4%. Fixed income investments experienced divergent performance across debt instrument types as risk averse investors bid up the price of higher credit quality issues, resulting in lower quality high yield bonds (-0.4%) underperforming investment grade bonds (+1.9%). International developed markets equities underperformed domestic equities by nearly 13% as the relative strength of the U.S. Dollar and sluggish economic growth weighed on non-U.S. markets. Emerging markets equities also trailed domestic stocks by 13%, and underperformed developed non-U.S. equities markets by approximately 1%.

**The SBCERA Investment Portfolio**

The SBCERA total investment portfolio return, net of fees, was 4.4% for the fiscal year ended June 30, 2015. By comparison, the median fund in the Investor Force peer group universe of large Public Funds returned 2.8% resulting in a strong near top decile ranking for the Fund. On a risk-adjusted basis the SBCERA Fund ranked in the second percentile in the same universe. The Fund's five-year return for the period ended June 30, 2015 was 10.5% per annum net of fees (10.8% gross of fees), exceeding the actuarial assumed rate of 7.5% and ranking above median in the peer group. SBCERA has chosen an asset allocation policy which reduces the Fund's volatility risk in order to more consistently meet its actuarial targets. The plan's five-year volatility, as measured by standard deviation, ranked in the 3rd percentile of its peers (least variable) resulting in a risk-adjusted return (as measured by the Sharpe Ratio) of 2.4%, which ranked in the top 1% of its peers.

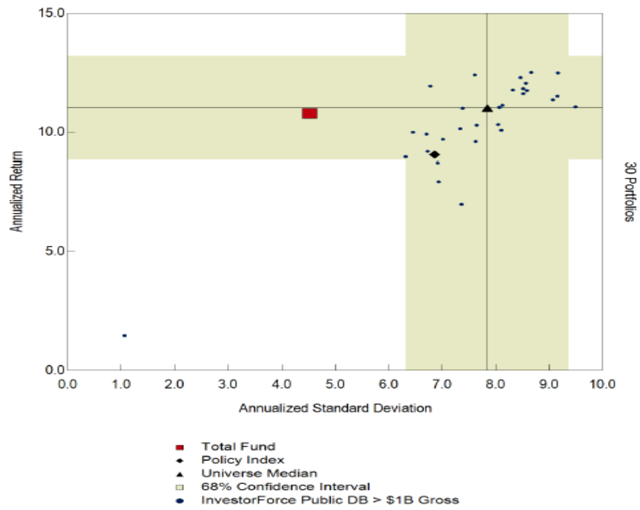
900 Veterans Blvd. | Ste. 340 | Redwood City, CA 94063-1741 | TEL: 650.364.7000 | www.nepc.com
BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

# Report on Investment Activity

*(continued)*

NEPC, LLC

**IF Public Funds Greater than $1 Billion Universe[1] Risk-Return Comparison (Gross of Fees)**
**5 Years Ended June 30, 2015**




With the majority of the global capital markets experiencing robust valuations and divergent relative economic strength the potential for downside risk and volatility are increasingly likely. Lower equity exposure and diversification can help protect portfolios from significant declines. SBCERA's portfolio continues to be positioned to withstand significant declines in equity markets.

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 prepared the underlying performance data used in this report. Rates of return are represented using a time-weighted rate of return methodology based upon market values.

Sincerely,

Allan C Martin

Allan Martin
Partner

[1] As of June 30, 2015, the InvestorForce Public Funds Greater than $1 Billion Universe was comprised of 30 funds with approximately $220b in assets. Universe rankings are based on gross of fee performance.

# Outline of Investment Policies

*As of June 30, 2015*

## General

The overall goal of SBCERA's investment program is to provide Plan members with retirement benefits as required by the CERL. This is accomplished by employer and Plan member contributions and the implementation of a carefully planned and executed long-term investment program.

The Board has exclusive control of all investments of the Plan 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 one alternate).
- One member is elected by retired members (along with one 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, Plan members and their beneficiaries; minimizing employer contributions thereto; and defraying reasonable expenses of administering the Plan.
- 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.
- To diversify the investments of the Plan 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 Plan members and their 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.

# Outline of Investment Policies

*As of June 30, 2015*
*(continued)*

## Summary of Investment Objectives *(continued)*

The total investment portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the Plan. 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 their beneficiaries.

## Asset Allocation

A pension trust 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 2014, 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 a proxy voting policy which best serves 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, 2015*

## INVESTMENT MANAGERS

### Short-Term Cash Investment Funds

American Realty Advisors
Ares Management, LLC
Ashmore Investment Management Limited
Bryanston Realty Partners, LLC
GoldenTree Asset Management, LP
Gramercy Funds Management, LLC
Mondrian Investment Partners, Ltd
Oaktree Capital Management, LP
Russell Investment Group
State Street Bank and Trust Company
Zais Group, LLC

### Emerging Market Debt

Ashmore Investment Management Limited
GAM USA, Inc.
Gramercy Funds Management, LLC
Prudential Investment Management

### U.S. Government Securities

State Street Bank and Trust Company

### Corporate Bonds

GoldenTree Asset Management, LP
Oaktree Capital Management, LP
State Street Bank and Trust Company
Zais Group, LLC

### Foreign Bonds

GoldenTree Asset Management, LP
Oaktree Capital Management, LP

### Domestic Common and Preferred Stock

GoldenTree Asset Management, LP
Mondrian Investment Partners, Ltd
Oaktree Capital Management, LP
State Street Bank and Trust Company
Zais Group, LLC

### Foreign Common and Preferred Stock

GoldenTree Asset Management, LP
Mondrian Investment Partners, Ltd
Russell Investment Group
State Street Bank and Trust Company

### Securities Lending

State Street Bank and Trust Company

### 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
Invesco (AIG) Asian Real Estate Partners II, LLC
Invesco Real Estate
LaSalle Investment Management, Inc.
Morgan Stanley Real Estate Fund
Oaktree Capital Management, LP
Prudential Real Estate Investors
RREEF America, LLC
Square Mile Capital Management, LLC
Starwood Capital Group Global, LLC
Tricon Capital Group, Inc.
Walton Street Capital, LLC

### Domestic Alternatives

Angelo, Gordon & Co., LP
Apollo Management
Ares Management, LLC
Aurora Capital Group
Beach Point Capital Management
Birch Grove
Blue Tip Energy Management, LLC
BNY Alcentra Group Holdings, Inc.
Catalyst Capital Group, Inc.
Clough Capital Partners, LP
Corrum Capital
Declaration Management & Research, LLC
Energy Spectrum Capital
Fortress Worldwide Transportation and Infrastructure Investors, LP
GoldenTree Asset Management, LP
Gramercy Funds Management, LLC
Hancock Timber Resource Group, Inc.
Industry Ventures, LLC
King Street Capital Management, LLC
Lexington Partners
MacKay Shields, LLC
MD Sass-Waterfall Asset Management, LLC
NB Alternative Fund Management, LLC
Oaktree Capital Management, LP
Passport Capital, LLC
Pathway Capital Management, LLC
PineBridge Investments
Pinnacle Asset Management, LP
Russell Investment Group
Select Equity Group, Inc.
Siguler Guff Advisers, LLC
Starwood Energy Partners
State Street Bank and Trust Company
TCW Asset Management Company
Tennenbaum Capital Partners, LLC
Timbervest, LLC
Tricadia Capital Management, LLC
Waterfall Asset Management, LLC
Zais Group, LLC

### Foreign Alternatives

Apollo Management
BlueBay Asset Management Plc.
BNY Alcentra Group Holdings, Inc.
Cairn Capital Limited
Marathon Asset Management, LP
Partners Group
Standard Life Investments Limited
York Capital Management

## CONSULTANTS

Kreischer Miller
Maples Finance
NEPC, LLC

## CUSTODIAN

State Street Bank and Trust Company

## LEGAL COUNSEL

Foley & Lardner, LLP

# Investment Results

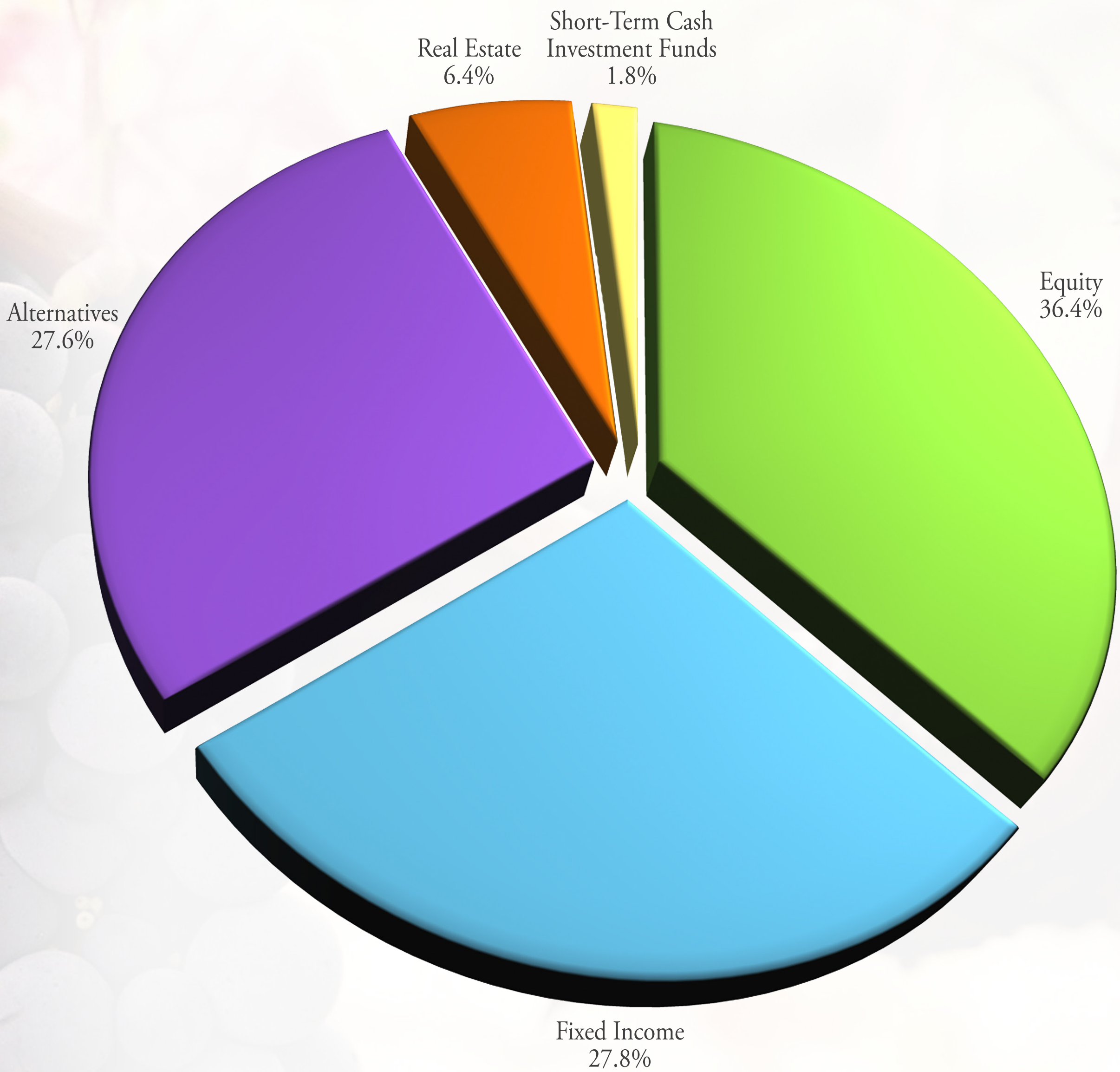
*As of June 30, 2015*

| | Current Year 2015 | Annualized 3 year | Annualized 5 year |
|---|---|---|---|
| **Total Portfolio** | 4.40% | 10.23% | 10.53% |
| SB Policy Benchmark | 0.43% | 7.53% | 9.06% |
| **Cash Equivalents** | (13.59)% | (7.43)% | (5.19)% |
| 91 Day T-Bill Benchmark | 0.02% | 0.06% | 0.08% |
| | | | |
| **Equity Segment** | | | |
| Domestic Equity | (1.79)% | 3.07% | 5.48% |
| Russell 3000 Benchmark | 7.29% | 17.73% | 17.54% |
| Emerging Markets Equity | (6.46)% | 2.52% | 3.17% |
| MSCI Emerging Markets Benchmark | (5.12)% | 3.71% | 3.68% |
| International Equity | 8.08% | 31.36% | 19.69% |
| MSCI EAFE Benchmark | (4.22)% | 11.97% | 9.54% |
| | | | |
| **Fixed Income Segment** | | | |
| Domestic Fixed Income | 7.57% | 11.06% | 10.80% |
| BofAML High Yield Master II Benchmark | (0.55)% | 6.80% | 8.41% |
| Global and Emerging Market Fixed Income | (1.42)% | 6.91% | 6.59% |
| SBCERA Custom BC Global Benchmark | (13.19)% | (2.83)% | 1.08% |
| | | | |
| **Real Asset Segment** | | | |
| Real Estate | 11.14% | 9.09% | 11.48% |
| NCREIF Property Benchmark | 12.72% | 11.47% | 12.75% |
| Timber | 3.87% | 7.67% | 3.87% |
| NCREIF Timberland Benchmark | 10.64% | 9.80% | 6.20% |
| Infrastructure | 18.77% | 0.22% | 6.73% |
| CPI + 600BPS Benchmark | 6.13% | 7.39% | 7.93% |
| Commodities | (1.20)% | 2.01% | 4.24% |
| Bloomberg Commodity Benchmark | (23.71)% | (8.76)% | (3.91)% |
| | | | |
| **Other Alternative Segment** | | | |
| Private Equity/Venture Capital | 11.12% | 14.33% | 14.94% |
| State Street Private Equity Benchmark | 7.62% | 11.58% | 12.70% |
| Alpha Pool | 2.13% | 6.81% | 8.66% |
| HFRI Fund of Funds Composite Benchmark | 3.97% | 6.28% | 4.10% |

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

# Asset Allocation

*As of June 30, 2015*

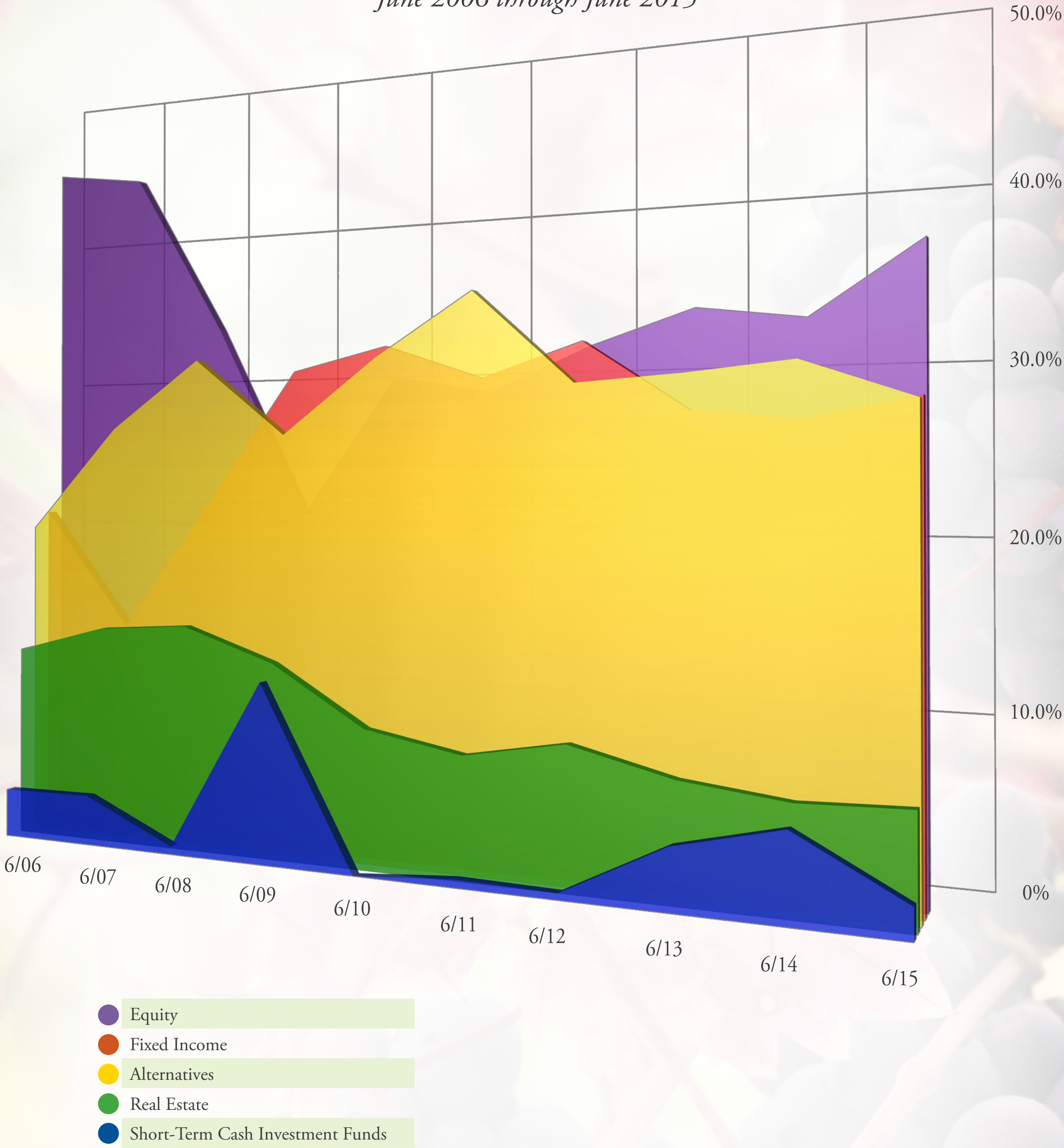



| | |
|---|---|
| Equity | 36.4% |
| Fixed Income | 27.8% |
| Alternatives | 27.6% |
| Real Estate | 6.4% |
| Short-Term Cash Investment Funds | 1.8% |
| **TOTAL** | **100.0%** |

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 2006 through June 2015*




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 with the year ended June 30, 2008.

# Target vs. Actual Asset Allocation Percentages

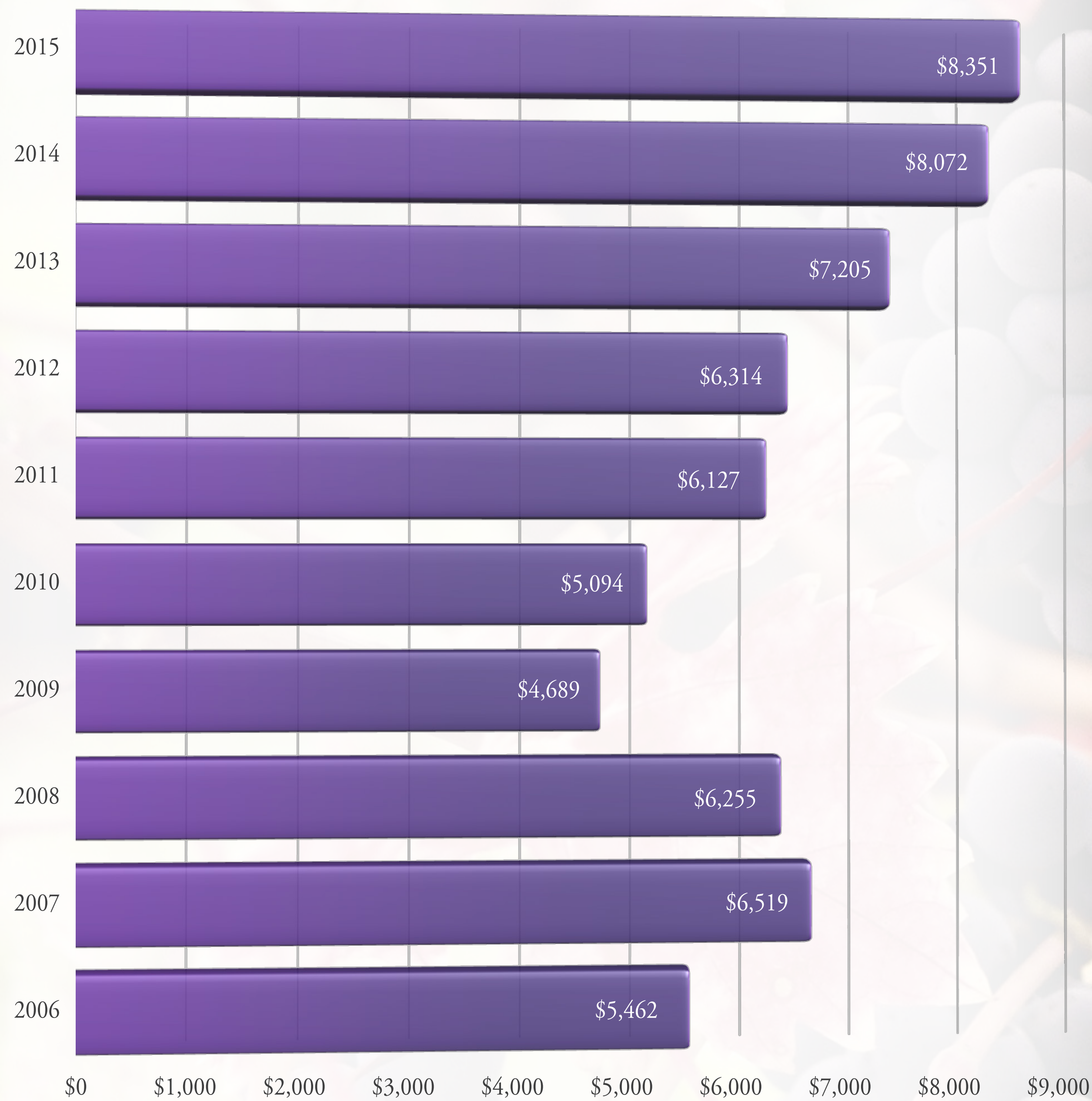
*As of June 30, 2015*

| | Actual | Target | Target Ranges Minimum | Target Ranges Maximum |
|---|---|---|---|---|
| Domestic Equity | 16.4% | 13.0% | 8.0% | 18.0% |
| International Equity | 20.0% | 15.0% | 10.0% | 20.0% |
| Domestic Fixed Income | 14.8% | 15.0% | 10.0% | 20.0% |
| Global Fixed Income | 13.0% | 18.0% | 13.0% | 23.0% |
| Private Equity | 14.5% | 16.0% | 11.0% | 21.0% |
| Absolute Return | 7.8% | 7.0% | 2.0% | 12.0% |
| Timber | 2.5% | 2.0% | 0.0% | 7.0% |
| Infrastructure | 1.3% | 1.0% | 0.0% | 6.0% |
| Commodities | 1.5% | 2.0% | (1.0)% | 7.0% |
| Real Estate | 6.4% | 9.0% | 4.0% | 14.0% |
| Short-Term Cash Investment Funds | 1.8% | 2.0% | 0.0% | 10.0% |

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 Held for Investments

*For 10 Years Ended June 30, 2015*
*(Amounts in Millions)*




Note: This chart depicts growth of plan assets held for investment excluding investments of cash collateral received on securities lending transactions. For the year ended June 30, 2015, investments of cash collateral received on securities lending amount to $123.78 million.

# History of Investment Performance

*For the Years Ended June 30, 2006 through 2015*
*(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, 2015*
*(Amounts in Thousands)*

## Largest Equity Holdings
**(By Fair Value)**

| Description | | Shares | Fair Value |
|---|---|---|---|
| 1. | Sacher Funding LTD PVE | 197 | $64,749 |
| 2. | CV Colombian Acquisition LP | 15 | 20,357 |
| 3. | Earl Street Holdings | 15 | 20,175 |
| 4. | Namoya GSA Holdings | 15,000 | 15,121 |
| 5. | Eaton Vance CLO 2015 1, LTD | 11,261 | 11,727 |
| 6. | Grove Bidco | 6,049 | 9,514 |
| 7. | LTBI Holdings | 8,531 | 8,966 |
| 8. | Vista Student Apartments | 6,864 | 6,864 |
| 9. | Texas State Student Housing RE | 6,558 | 6,558 |
| 10. | Taiwan Semiconductor Manufac. | 1,355 | 6,171 |
| **TOTAL OF LARGEST EQUITY HOLDINGS** | | | **$170,202** |
| | | | |
| **TOTAL EQUITY HOLDINGS** | | | **$869,410** |

## Largest Fixed Income Holdings
**(By Fair Value)**

| Description | | Par | Fair Value |
|---|---|---|---|
| 1. | Treasury Bill | $42,503 | $42,500 |
| 2. | Treasury Bill | 19,009 | 19,005 |
| 3. | Republic of Argentina SR Unsecured | 18,834 | 17,986 |
| 4. | Zais CLO 2 LTD | 16,725 | 14,346 |
| 5. | Banro Corporation | 15,375 | 11,281 |
| 6. | Hull Street CDO LTD | 10,500 | 9,178 |
| 7. | WI Treasury SEC | 9,000 | 9,000 |
| 8. | WI Treasury SEC | 8,700 | 8,699 |
| 9. | WI Treasury Bill | 8,100 | 8,099 |
| 10. | WI Treasury Securities | 7,700 | 7,700 |
| **TOTAL OF LARGEST FIXED INCOME HOLDINGS** | | | **$147,794** |
| | | | |
| **TOTAL FIXED INCOME HOLDINGS** | | | **$930,231** |

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

# Schedule of Fees and Commissions

*For the Year Ended June 30, 2015*
*(Amounts in Thousands)*

## Schedule of Fees

| Type of Fees | Assets Under Management at Fair Value | Fees |
|---|---|---|
| **Investment Managers' Fees** | | |
| Equity managers | $869,410 | $5,489 |
| Fixed income managers | 930,231 | 4,117 |
| Real estate managers | 563,253 | 5,536 |
| Alternative managers | 5,029,602 | 48,984 |
| Short-term cash & securities lending collateral | 1,082,780 | - |
| **TOTAL INVESTMENT MANAGERS' FEES** | **$8,475,276** | **64,126** |
| **Other Investment Service Fees** | | |
| Custodian fees | | 617 |
| Legal services | | 347 |
| Investment consultant fees | | 2,289 |
| **TOTAL OTHER INVESTMENT SERVICE FEES** | | **3,253** |
| **SECURITIES LENDING FEES** | | **138** |
| **TOTAL FEES** | | **$67,517** |

## Schedule of Commissions

| Brokerage Firm | Total Shares Traded (Actual Shares) | Commissions Per Share (Actual Dollars) | Total Commissions | % of Total Commissions |
|---|---|---|---|---|
| Morgan Stanley (Bank of NY) | 112,042 | $3.61016 | $405 | 57.77% |
| Morgan Stanley and Co New York | 83,577 | 1.98910 | 166 | 23.68% |
| Merrill Lynch International | 1,167,025 | 0.01440 | 17 | 2.43% |
| Other[1] | 33,026,852 | Various[1] | 113 | 16.12% |
| **TOTAL** | **34,389,496** | | **$701** | **100.00%** |

(1) Includes approximately 44 additional firms, each with less than 2.00% of total commissions. The average commission per share is 0.15212.
Note: SBCERA has commission recapture arrangements with Russell Investment Group.

# Investment Summary

*As of June 30, 2015*
*(Amounts in Thousands)*

| Type of Investment | Fair Value | Percent of Total Fair Value |
|---|---|---|
| Short-Term Cash Investment Funds | $959,003 | 11.32% |
| Emerging Market Debt | 540,913 | 6.38% |
| U.S. Government and Agency Obligations | 109,701 | 1.29% |
| Corporate Bonds | 207,342 | 2.45% |
| Foreign Bonds | 72,275 | 0.85% |
| Domestic Common and Preferred Stock | 647,105 | 7.63% |
| Foreign Common and Preferred Stock | 222,305 | 2.62% |
| Investments of Cash Collateral Received on Securities Lending | 123,777 | 1.46% |
| Real Estate | 563,253 | 6.65% |
| Domestic Alternatives | 3,710,059 | 43.78% |
| Foreign Alternatives | 1,319,543 | 15.57% |
| **TOTAL INVESTMENTS, AT FAIR VALUE** | **$8,475,276** | **100.00%** |

# Actuarial
*(Unaudited)*


section
4.0

# *Italian Vineyard Co.*

## ONCE THE LARGEST VINEYARDS IN THE WORLD

Much of the Cucamonga Valley's grape and wine prosperity can be credited to Secondo Guasti Sr., who founded the Italian Vineyard Company in 1883. He built a massive wine enterprise in the town he named Guasti, prior to Prohibition. With an original purchase of eight square miles of desert land, for 75 cents an acre, he planted a hundred varieties of grapes. The Guasti vineyards were the largest vineyards in the world in 1917, with over 5,000 acres of grapevines that produced 5 million gallons of wine a year.  The company was world-famous for their dark red wine. Several wine companies reopened the property over the years until it was finally sold to developers in 2006.

# Actuary Certification Letter

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

November 18, 2015

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

**Re: San Bernardino County Employees' Retirement Association**
**June 30, 2015 Actuarial Valuation for Funding Purposes**

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2015 annual actuarial valuation of the San Bernardino County Employees' Retirement Association (SBCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices and SBCERA's funding policy that was last reviewed with the Board in 2014. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

As part of the June 30, 2015 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. However, the scope of this examination does not qualify as an audit. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements, however, the Association's auditor attested to the Association's financial statements. For actuarial valuation purposes, retirement 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. Deferred gains and losses as of June 30, 2011 have been combined and were 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 payroll to amortize any unfunded actuarial accrued liability (UAAL).

# Actuary Certification Letter

*(continued)*

Board of Retirement
San Bernardino County Employees' Retirement Association
November 18, 2015
Page 2

In 2002, the Board of Retirement elected to amortize the Association's unfunded actuarial accrued liability as of June 30, 2002 over a declining (or closed) 20-year period. Any change in unfunded actuarial accrued liability that arises due to actuarial gains or losses or due to changes in actuarial assumptions or methods at each valuation after June 30, 2002 is amortized over its own declining (or closed) 20-year period. Effective with the June 30, 2012 valuation, any change in unfunded actuarial accrued liability that arises due to plan amendments is amortized over its own declining (or closed) 15-year period (with the exception of a change due to retirement incentives, which is amortized over its own declining (or closed) period of up to 5 years). The progress being made towards meeting the funding objective through June 30, 2015 is illustrated in the Schedule of Funding Progress.

Certain information found in the Notes to Basic Financial Statements and the Required Supplementary Information (RSI) included in the Financial Section was prepared by the Association based on the results of the Governmental Accounting Standards (GAS) 67 actuarial valuation as of June 30, 2015 prepared by Segal. For the Financial Section of the Comprehensive Annual Financial Report (CAFR), Segal provided the Schedule of Changes in Net Pension Liability of Participating Employers and Related Ratios and Schedule of Employer Contributions as shown in the RSI. A listing of the other supporting schedules prepared by the Association based on additional information provided by Segal and the results of the actuarial valuation as of June 30, 2015 for funding purposes is listed below.

- Schedule of Funding Progress
- Development of Actuarial Value of Assets
- Schedule of Active Member Valuation Data
- Schedule of Retirants & Beneficiaries
- Solvency Test
- Analysis of Financial Experience
- Ratio of Current Compensation-to-Compensation Anticipated at Retirement
- Probabilities of Separation from Active Service
- Expectation of Life
- Retirees and Beneficiaries Added to and Removed from Rolls
- Retired Members by Type of Benefit
- Average Benefit Payments
- Membership History
- Average Monthly Retirement Benefits

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# Actuary Certification Letter

*(continued)*

Board of Retirement
San Bernardino County Employees' Retirement Association
November 18, 2015
Page 3

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2014 Experience Study (for both the economic and non-economic assumptions). It is our opinion that the assumptions used in the June 30, 2015 valuation produce results, which, in aggregate, reflect the future experience of the retirement plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years and the next experience analysis is due to be performed as of June 30, 2017.

In the June 30, 2015 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) increased from 79.95% to 80.82%. The average employer contribution rate has increased from 27.27% of payroll to 27.45% of payroll, while the average member contribution rate has decreased from 11.06% of payroll to 10.87% of payroll.

Under the asset smoothing method, the total unrecognized investment gains are $16 million as of June 30, 2015. These investment gains will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years. The deferred gains of $16 million represent about 0.2% of the market value of assets as of June 30, 2015. Unless offset by future investment losses or other unfavorable experience, the recognition of the $16 million market gains is expected to have an impact on the Association's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred gains were recognized immediately in the actuarial value of assets, the funded percentage would increase from 80.82% to 80.98%.

- If the deferred gains were recognized immediately in the actuarial value of assets, the average employer contribution rate would decrease from 27.45% to about 27.36% of payroll.

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 contained herein.

Sincerely,

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

John Monroe
John Monroe, ASA, MAAA, EA
Vice President and Actuary

AW/bbf

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# Schedule of Funding Progress

*For the Years Ended June 30, 2006 through 2015*
*(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] |
|---|---|---|---|---|---|---|
| 6/30/2006 | $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% |
| 6/30/2014[5] | 7,751,309 | 9,694,825 | 1,943,516 | 79.95% | 1,267,667 | 153.31% |
| 6/30/2015[5] | 8,255,353 | 10,214,473 | 1,959,120 | 80.82% | 1,309,095 | 149.65% |

(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 subsequent transfer of $40.6 million from the General Retiree Subsidy reserve to the Current Service reserve.
(4) Does not reflect $5.8 million that represents the present value of additional future contributions payable from the County of San Bernardino to SBCERA related to the Crest Forest Fire District transfer.
(5) Does not reflect $5.9 million that represents the present value of additional future contributions payable from the County of San Bernardino to SBCERA related to the Crest Forest Fire District transfer.
Note: Refer to the Required Supplementary Information section, see Schedule of Employer Contributions, and Note 4 – Contribution Requirements, for further information.

# Latest Actuarial Valuation Methods and Assumptions

*As of June 30, 2015*

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, 2012, 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). An analysis of the Plan's non-economic experience was last performed as of June 30, 2014 to establish the validity of these assumptions. An actuarial valuation is performed annually. The actuarial assumptions and methods listed below were recommended by the Plan's independent actuary, Segal Consulting, and were approved by the Board.

| | | |
|---|---|---|
| 1. | Investment Rate of Return | 7.50% net of pension plan investment expense, including inflation. |
| 2. | Interest Credited to Plan Member Accounts | 3.25% (Actual rate is based on six-month Treasury rate). |
| 3. | Inflation | 3.25% per annum. |
| 4. | Salary Scale | As shown in Table on page 131. |
| 5. | Asset Valuation | Smoothed market (five year average). See Development of Actuarial Value of Assets on page 122 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, 2015, the net unrecognized deferred gain is $16.31 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 three years younger (or older) than their spouses. |
| 8. | Rates of Termination of Employment | As shown in Table on page 133. |
| 9. | Years of Life Expectancy After Retirement | As shown in Table on page 134. |
| 10. | Years of Life Expectancy After Disability | As shown in Table on page 134. |
| 11. | Mortality for Member Contribution Rate Purposes: | |
| | General | RP-2000 Combined Healthy Mortality Table, projected with Scale BB to 2020; For disabled males, set forward seven years; For disabled females, set forward eight years. Weighted 30% male, 70% female. |
| | Safety | RP-2000 Combined Healthy Mortality Table, projected with Scale BB to 2020, set back two years for males and one year for females; For disabled members, set forward two years; Weighted 85% male, 15% female. |
| 12. | Reciprocity Assumption | 40% of General members and 50% of Safety 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. | Cost-of-Living Adjustments | Contingent upon consumer price index with a 2.00% maximum per annum. |
| 15. | Administrative Expense Assumption Load | 0.60% of payroll allocated to both the employer and Plan member based on the components of the total average contribution rate (before expenses) for the employer and Plan member. |
| 16. | Recent Changes | There have been no changes in actuarial assumptions or methods since the previous valuation. |

Note: The above methods and assumptions were selected by the Plan's actuary as being appropriate for the Plan and are adopted for the year ended June 30, 2015.

# Development of Actuarial Value of Assets

*As of June 30, 2015*
*(Amounts in Thousands)*

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board 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** | | | **$8,271,659** |
| **2. Calculation of unrecognized return** | | | |
| a) Year ended June 30, 2015[1] | $(318,629) | $(254,903) | |
| b) Year ended June 30, 2014[1] | 316,679 | 190,007 | |
| c) Year ended June 30, 2013[1] | 425,010 | 170,004 | |
| d) Year ended June 30, 2012[1] | (444,011) | (88,802) | |
| **e) TOTAL UNRECOGNIZED RETURN[2]** | | | **16,306** |
| **3. Actuarial value of assets (1) - (2e)** | | | **8,255,353** |
| **4. Actuarial value as a percentage of market value (3) / (1)** | | | 99.8% |
| **5. Non-valuation reserves** | | | |
| a) Burial allowance reserve | | | 779 |
| **b) TOTAL** | | | **779** |
| **6. PRELIMINARY VALUATION VALUE OF ASSETS (3) - (5b)** | | | **$8,254,574** |
| **7. VALUATION VALUE OF ASSETS[3]** | | | **$8,260,477** |

(1) Recognition at 20% per year over five years.

(2) Deferred (unrecognized) return amount as of June 30, 2015 recognized in each of the next four years as follows:

| | |
|---|---|
| (a) Amount recognized during 2015/2016 | $ (4,190) |
| (b) Amount recognized during 2016/2017 | 84,612 |
| (c) Amount recognized during 2017/2018 | (390) |
| (d) Amount recognized during 2018/2019 | (63,726) |
| Total | $ 16,306 |

(3) Includes $5.9 million that represents the present value of additional future contributions payable from the County of San Bernardino to SBCERA related to the Crest Forest Fire district transfer.

# Schedule of Active Member Valuation Data

*For the Years Ended June 30, 2006 through 2015*

| Valuation Date | Number of Participating Employers[1] | Number of Active Members | Annual Payroll | Annual Average Payroll | % Increase/(Decrease) in Average Payroll |
|---|---|---|---|---|---|
| **6/30/2006** | | | | | |
| General | 17 | 16,254 | $879,493,985 | $54,109 | 2.38% |
| Safety | 4 | 2,093 | 149,236,841 | 71,303 | (2.74)% |
| **TOTAL** | **18** | **18,347** | **$1,028,730,826** | **$56,071** | **1.92%** |
| **6/30/2007** | | | | | |
| General | 16 | 16,758 | $938,685,224 | $56,014 | 3.52% |
| Safety | 4 | 2,187 | 163,465,403 | 74,744 | 4.83% |
| **TOTAL** | **17** | **18,945** | **$1,102,150,627** | **$58,176** | **3.76%** |
| **6/30/2008** | | | | | |
| General | 17 | 17,197 | $1,042,739,850 | $60,635 | 8.25% |
| Safety | 4 | 2,217 | 176,821,803 | 79,757 | 6.71% |
| **TOTAL** | **18** | **19,414** | **$1,219,561,653** | **$62,819** | **7.98%** |
| **6/30/2009** | | | | | |
| General | 18 | 16,669 | $1,032,135,626 | $61,919 | 2.12% |
| Safety | 4 | 2,286 | 194,295,650 | 84,994 | 6.57% |
| **TOTAL** | **19** | **18,955** | **$1,226,431,276** | **$64,702** | **3.00%** |
| **6/30/2010** | | | | | |
| General | 18 | 17,255 | $1,054,377,283 | $61,106 | (1.31)% |
| Safety | 4 | 2,265 | 195,815,678 | 86,453 | 1.72% |
| **TOTAL** | **19** | **19,520** | **$1,250,192,961** | **$64,047** | **(1.01)%** |
| **6/30/2011** | | | | | |
| General | 19 | 17,070 | $1,045,601,554 | $61,254 | 0.24% |
| Safety | 4 | 2,188 | 198,953,186 | 90,929 | 5.18% |
| **TOTAL** | **20** | **19,258** | **$1,244,554,740** | **$64,625** | **0.90%** |
| **6/30/2012** | | | | | |
| General | 18 | 17,155 | $1,061,588,530 | $61,882 | 1.03% |
| Safety | 4 | 2,151 | 198,720,507 | 92,385 | 1.60% |
| **TOTAL** | **19** | **19,306** | **$1,260,309,037** | **$65,281** | **1.01%** |
| **6/30/2013** | | | | | |
| General | 16 | 17,241 | $1,061,419,963 | $61,564 | (0.51)% |
| Safety | 3 | 2,160 | 201,332,001 | 93,209 | 0.89% |
| **TOTAL** | **17** | **19,401** | **$1,262,751,964** | **$65,087** | **(0.30)%** |
| **6/30/2014** | | | | | |
| General | 16 | 17,314 | $1,067,502,671 | $61,655 | 0.15% |
| Safety | 3 | 2,183 | 200,164,139 | 91,692 | (1.63)% |
| **TOTAL** | **17** | **19,497** | **$1,267,666,810** | **$65,019** | **(0.11)%** |
| **6/30/2015** | | | | | |
| General | 16 | 17,726 | $1,099,968,966 | $62,054 | 0.65% |
| Safety | 3 | 2,212 | 209,126,288 | 94,542 | 3.11% |
| **TOTAL** | **17** | **19,938** | **$1,309,095,254** | **$65,658** | **0.98%** |

(1) Participating employers may have both General and Safety members.

Note: Refer to the Latest Actuarial Valuation Methods and Assumptions, in this section, for information on recent changes to actuarial methods and assumptions. Refer to the Statistical section, Participating Employers, for further information on employers who joined or withdrew from SBCERA.

# Schedule of Retirants and Beneficiaries

*For the Years Ended June 30, 2006 through 2015*

| | Number of Members | | | | Annual Allowances | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year[1] | Beginning of Year | Added During Year | Removed During Year | End of Year | Beginning Annual Allowance | Added During Year | Removed During Year | Annual Allowance[2] | % Increase in Annual Allowance | Average Monthly Allowance[2] | Average Annual Allowance[2] |
| 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 | $25,704 |
| 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 | 27,045 |
| 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 | 28,558 |
| 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 | 30,095 |
| 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 | 31,531 |
| 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 | 33,303 |
| 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 | 34,904 |
| 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 | 36,446 |
| 7/13 to 6/14 | 10,173 | 756 | (311) | 10,618 | 370,764,000 | 35,254,000 | (7,407,000) | 398,611,000 | 7.51% | 3,128 | 37,541 |
| 7/14 to 6/15 | 10,618 | 796 | (286) | 11,128 | 398,611,000 | 39,452,000 | (7,056,000) | 431,007,000 | 8.13% | 3,228 | 38,732 |

(1) Amounts are listed as of the actuarial valuation date.
(2) Excludes monthly benefits for Supplemental Disability, Survivor Benefits, General Retiree Subsidy and beneficiaries that are only receiving Survivor Benefit amounts.

# Solvency Test

*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*

| | Aggregate Accrued Liabilities for | | | | Portion of Accrued Liability Covered by Valuation Assets | | |
|---|---|---|---|---|---|---|---|
| Actuarial Valuation Date | (1) Active Member Contributions | (2) Retirees, Beneficiaries & Vested Participants | (3) Active Members (Employer Financed Portion) | Actuarial Value of Assets | (1) | (2) | (3) |
| 6/30/2006 | $772,833 | $2,520,667 | $2,331,146 | $5,175,767 | 100% | 100% | 80.74% |
| 6/30/2007 | 787,699 | 2,894,967 | 2,544,347 | 5,797,400 | 100% | 100% | 83.11% |
| 6/30/2008 | 851,932 | 3,244,459 | 2,677,238 | 6,341,531 | 100% | 100% | 83.86% |
| 6/30/2009 | 885,519 | 3,325,726 | 2,802,289 | 6,383,388 | 100% | 100% | 77.51% |
| 6/30/2010 | 934,641 | 3,573,651 | 2,936,694 | 6,367,232 | 100% | 100% | 63.30% |
| 6/30/2011 | 969,913 | 4,033,102 | 3,186,631 | 6,484,507 | 100% | 100% | 46.49% |
| 6/30/2012 | 1,004,751 | 4,330,245 | 3,271,581 | 6,789,492 | 100% | 100% | 44.46% |
| 6/30/2013 | 1,037,767 | 4,699,518 | 3,351,351 | 7,204,918 | 100% | 100% | 43.79% |
| 6/30/2014 | 1,048,914 | 5,231,227 | 3,414,684 | 7,751,309 | 100% | 100% | 43.08% |
| 6/30/2015 | 1,059,688 | 5,587,189 | 3,567,596 | 8,255,353 | 100% | 100% | 45.09% |

# Summary of Major Plan Provisions

*As of June 30, 2015*

| | | TIER 1 (SBCERA membership date is prior to January 1, 2013) | 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**<br>The later of: (1) age 55 for General members or (2) age 50 for Safety members or (3) the age at which the member vests in his/her benefits under the CERL, but not later than age 70. | **Normal Retirement Age**<br>The later of: (1) age 55 for General members or (2) age 50 for Safety members or (3) the age at which the member vests in his/her benefits under the CERL, but not later than age 70. |
| | | **Early Retirement**<br>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. | **Early Retirement**<br>Age 70 (regardless of service credit) or age 52 and 5 years of service credit for General members or age 50 and 5 years of service credit for Safety members. |
| | | **Benefit**<br>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**<br>At age 67, 2.5% times final average compensation for every year of "General" service credit for benefit. At age 57, 2.7% times final average compensation for every year of "Safety" service credit for benefit. |
| | | **Benefit Adjustments**<br>Reduced for retirement before age 55 for General members (age 50 for Safety members). Increased for retirement after age 55 up to age 65 (General members only). | **Benefit Adjustments**<br>Reduced for retirement before age 67 for General members (age 57 for Safety members). |
| 4. | *Disability Retirement* | **Non-Service Connected**<br>*(must have five years of service credit to be eligible).*<br>*Members entering on or before December 31, 1980:*<br>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).<br>*Members entering on or after January 1, 1981:*<br>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). | **Non-Service Connected**<br>*(must have five years of service credit to be eligible).*<br>*Members entering on or after January 1, 2013:*<br>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**<br>Greater of 50% of final average compensation or service retirement benefit (if eligible). | **Service Connected**<br>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 CERL. Employees who have attained age 60 prior to employment may waive membership within 90 days following initial appointment to an eligible position.

Note: For funding and accounting purposes, SBCERA uses the same actuarial assumptions, except that there is a two-year lag in the assumptions used for funding purposes versus the current year assumptions used to calculate total pension liability. Refer to Note 4 – Contribution Requirements, for further information.

# Summary of Major Plan Provisions

*As of June 30, 2015*
*(continued)*

| | TIER 1 (SBCERA membership date is prior to January 1, 2013) | 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 50% of annual compensation.<br>**5 or More Years of Service Credit** Lump sum refund of contributions plus 1/12 of compensation per year of service up to six months compensation.<br>**Optional Death Allowance** *(If eligible for disability or service retirement):*<br>Monthly payment equal to 60% of member's accrued allowance.<br>**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.<br>**If Service Connected** Monthly payment equal to 50% of final monthly compensation.<br>**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 50% of annual compensation.<br>**5 or More Years of Service Credit** Lump sum refund of contributions plus 1/12 of compensation per year of service up to six months compensation.<br>**Optional Death Allowance** *(If eligible for disability or service retirement):*<br>Monthly payment equal to 60% of member's accrued allowance.<br>**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.<br>**If Service Connected** Monthly payment equal to 50% of final monthly compensation.<br>**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).<br>**Service Retirement or Non-Service Disability**[2] Monthly payment equal to 60% of member's allowance.<br>**Service Disability**[2] 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).<br>**Service Retirement or Non-Service Disability**[2] Monthly payment equal to 60% of member's allowance.<br>**Service Disability**[2] 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.<br>Must leave contributions on deposit. | After five years of service.<br>Must leave contributions on deposit. |
| 9. ***Member's Contributions*** | Percentage of compensation earnable based on entry age. | Fixed, flat-rate percentage of pensionable compensation. |
| 10. ***Cost-of-Living*** | "Automatic" not to exceed 2% compounding COLA.<br>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. |
| 11. ***Current Year Changes in Plan Provisions*** | None | None |

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

# Analysis of Financial Experience

*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*

Gains and losses in accrued liabilities during the years ended June 30, 2006 through 2015 resulting from differences between assumed experience and actual experience.

| | Type of Activity | | | | |
|---|---|---|---|---|---|
| Year Ended | Pay Increases[1] | Investment Income[2] | Death After Retirement[3] | Other[4] | Composite Gain/(Loss) During the Year |
| 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) |
| 6/30/2014 Gain/(Loss) | 227,699 | (35,160) | 8,550 | (291,340) | (90,251) |
| 6/30/2015 Gain/(Loss) | (19,400) | (72,831) | 14,950 | 18,580 | (58,701) |

(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.

Note: The June 30, 2008 and June 30, 2013 actuarial valuations, prepared by SBCERA's independent actuary, Segal Consulting, were audited by another independent actuary, Milliman, and were found to be complete, accurate, and prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

# *Actuarial*

SUPPORTING SCHEDULES
*(Unaudited)*


*section*
4.1

# Regina Winery

## ONCE THE NATION'S LEADING PRODUCER OF WINE VINEGAR

The Regina Winery, founded in 1906 by Claudio Ellena, is located in northeast Rancho Cucamonga (previously Etiwanda). The winery became the nation's leading producer of wine vinegar and features a long-neck stem for its bottles, which is the same style once used for the company's wine. The winery was the first in California to host a restaurant on the winery premises and was arguably famous for its Falabella horses (miniature horses) imported from Argentina and trained on-site. The winery was restored and is now operated by the Filippi Family.

# Ratio of Current Compensation-to-Compensation Anticipated at Retirement

*As of June 30, 2015*

| Age | General Members | Safety Members |
|---|---|---|
| 20 | 0.4817 | 0.4945 |
| 25 | 0.6437 | 0.6531 |
| 30 | 0.7089 | 0.7352 |
| 35 | 0.7436 | 0.7815 |
| 40 | 0.7758 | 0.8194 |
| 45 | 0.8093 | 0.8527 |
| 50 | 0.8443 | 0.8873 |
| 55 | 0.8808 | 0.9234 |
| 60 | 0.9188 | 0.9609 |
| 65 | 0.9586 | 1.0000 |
| 70 | 1.0000 | |

Note: Merit and promotional only (excludes inflation). Assumes age at entry is 20.
Ratios provided by SBCERA's independent actuary, Segal Consulting. Refer to Segal's letter in the Actuarial section, for further information.

# Probabilities of Separation from Active Service

*As of June 30, 2015*

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. Non-service connected (ordinary) disability is when a disability is not employment-related. Service connected (duty) disability is when a 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

*As of June 30, 2015*

*(continued)*

The probabilities shown for each cause of termination represent the likelihood that a given Plan member will terminate at a particular age for the indicated reason. For example, if the probability of death for a male General member at age 30 is 0.0004, then the assumption is that 0.04% of the active General male members at age 30 will die during the next year.

| Age | Death[1] | Disability[2] | Tier 1 Service Retirement | Tier 2 Service Retirement |
|---|---|---|---|---|
| **General Members - Male** | | | | |
| 20 | 0.0003 | 0.0002 | 0.0000 | 0.0000 |
| 30 | 0.0004 | 0.0004 | 0.0000 | 0.0000 |
| 40 | 0.0010 | 0.0009 | 0.0000 | 0.0000 |
| 50 | 0.0020 | 0.0031 | 0.0250 | 0.0000 |
| 60 | 0.0059 | 0.0065 | 0.1500 | 0.0900 |
| 70 | 0.0164 | 0.0126 | 0.3000 | 0.5000 |
| **General Members - Female** | | | | |
| 20 | 0.0002 | 0.0002 | 0.0000 | 0.0000 |
| 30 | 0.0002 | 0.0004 | 0.0000 | 0.0000 |
| 40 | 0.0007 | 0.0009 | 0.0000 | 0.0000 |
| 50 | 0.0016 | 0.0031 | 0.0250 | 0.0000 |
| 60 | 0.0041 | 0.0065 | 0.1500 | 0.0900 |
| 70 | 0.0132 | 0.0126 | 0.3000 | 0.5000 |
| **Safety Members - Male** | | | | |
| 20 | 0.0003 | 0.0016 | 0.0000 | 0.0000 |
| 30 | 0.0004 | 0.0030 | 0.0000 | 0.0000 |
| 40 | 0.0009 | 0.0072 | 0.0000 | 0.0000 |
| 50 | 0.0018 | 0.0209 | 0.1000 | 0.0400 |
| 60 | 0.0048 | 0.0660 | 0.2500 | 0.2500 |
| 70 | 0.0132 | 0.0000 | 1.0000 | 1.0000 |
| **Safety Members - Female** | | | | |
| 20 | 0.0002 | 0.0016 | 0.0000 | 0.0000 |
| 30 | 0.0002 | 0.0030 | 0.0000 | 0.0000 |
| 40 | 0.0006 | 0.0072 | 0.0000 | 0.0000 |
| 50 | 0.0015 | 0.0209 | 0.1000 | 0.0400 |
| 60 | 0.0037 | 0.0660 | 0.2500 | 0.2500 |
| 70 | 0.0117 | 0.0000 | 1.0000 | 1.0000 |

The withdrawal rates below apply based on years of service. No withdrawal is assumed after a Plan member is first assumed to retire.

| Years of Service | General Members | Safety Members |
|---|---|---|
| Less than 1 | 0.1500 | 0.0425 |
| 1 | 0.1000 | 0.0350 |
| 5 | 0.0475 | 0.0175 |
| 10 | 0.0375 | 0.0120 |
| 15 | 0.0325 | 0.0100 |
| 20 or More | 0.0250 | 0.0100 |

Below is the probability of electing a refund of Plan member contributions upon withdrawal.

| | General Members | | Safety Members | |
|---|---|---|---|---|
| Years of Service | Elected Refundable Contributions | Elected Non-Refundable Contributions[3] | Elected Refundable Contributions | Elected Non-Refundable Contributions[3] |
| Less than 5 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| 5 | 0.4000 | 0.2000 | 0.2500 | 0.1250 |
| 10 | 0.4000 | 0.2000 | 0.2500 | 0.1250 |
| 15 | 0.4000 | 0.2000 | 0.1500 | 0.0750 |
| 20 or More | 0.2000 | 0.1000 | 0.0000 | 0.0000 |

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

(2) 50% of General member 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 member disabilities are assumed to be service connected (duty) disabilities.

(3) Assumes member made both refundable and non-refundable contributions during the course of employment. Only the portion attributable to the refundable contributions may be withdrawn.

Note: Ratios provided by SBCERA's independent actuary, Segal Consulting. Refer to Segal's letter in the Actuarial section, for further information.

# Expectation of Life

*As of June 30, 2015*
*(Amounts in Years)*

## General Service Retirees[1]

| Age | Male | Female |
|---|---|---|
| 50 | 32.99 | 35.59 |
| 60 | 23.94 | 26.34 |
| 70 | 15.83 | 17.93 |
| 80 | 9.13 | 10.95 |

## Safety Service Retirees[1]

| Age | Male[2] | Female[3] |
|---|---|---|
| 50 | 34.87 | 36.53 |
| 60 | 25.69 | 27.24 |
| 70 | 17.36 | 18.72 |
| 80 | 10.33 | 11.58 |

## General Disabled Retirees[1]

| Age | Male[4] | Female[5] |
|---|---|---|
| 20 | 55.09 | 56.94 |
| 30 | 45.35 | 47.12 |
| 40 | 35.81 | 37.48 |
| 50 | 26.58 | 28.14 |
| 60 | 18.14 | 19.51 |
| 70 | 10.95 | 12.22 |
| 80 | 5.60 | 6.65 |

## Safety Disabled Retirees[1]

| Age | Male[6] | Female[6] |
|---|---|---|
| 20 | 59.99 | 62.87 |
| 30 | 50.19 | 52.99 |
| 40 | 40.56 | 43.24 |
| 50 | 31.13 | 33.70 |
| 60 | 22.23 | 24.56 |
| 70 | 14.35 | 16.41 |
| 80 | 8.02 | 9.75 |

(1) The expectation of life was determined by SBCERA's independent actuary, Segal Consulting, using the RP-2000 Combined Healthy Mortality Tables, projected with Scale BB to 2020.
(2) The table is set back two years.
(3) The table is set back one year.
(4) The table is set forward seven years.
(5) The table is set forward eight years.
(6) The table is set forward two years.

# History of Total Employer Contribution Rates

*For Actuarial Valuation Years Ended June 30, 2006 through 2015*

| | Valuation Date - 6/30/2006 | Valuation Date - 6/30/2007 | Valuation Date - 6/30/2008 | Valuation Date - 6/30/2009 |
|---|---|---|---|---|
| **County General** | | | | |
| Normal Cost | 9.43% | 9.42% | 9.29% | 9.25% |
| UAAL | 2.60% | 2.25% | 1.96% | 3.07% |
| **Total** | **12.03%** | **11.67%** | **11.25%** | **12.32%** |
| **County Safety** | | | | |
| Normal Cost | 19.54% | 19.59% | 19.06% | 19.21% |
| UAAL | 5.30% | 5.31% | 5.40% | 7.61% |
| **Total** | **24.84%** | **24.90%** | **24.46%** | **26.82%** |
| **SCAQMD** | | | | |
| Normal Cost | 9.67% | 9.78% | 9.66% | 9.72% |
| UAAL | 4.03% | 4.13% | 5.52% | 6.36% |
| **Total** | **13.70%** | **13.91%** | **15.18%** | **16.08%** |
| **Superior Court** | | | | |
| Normal Cost | 9.43% | 9.42% | 9.29% | 9.25% |
| UAAL | 5.81% | 5.97% | 5.55% | 6.29% |
| **Total** | **15.24%** | **15.39%** | **14.84%** | **15.54%** |
| **Other General** | | | | |
| Normal Cost | 10.61% | 10.50% | 10.61% | 10.58% |
| UAAL | 9.64% | 9.47% | 8.81% | 9.81% |
| **Total** | **20.25%** | **19.97%** | **19.42%** | **20.39%** |
| **Other Safety** | **Other Safety (3% @ 50 prospective)** | **Other Safety** | **Other Safety** | **Other Safety** |
| Normal Cost | 19.70% | 20.62% | 19.97% | 20.22% |
| UAAL | 15.97% | 21.90% | 21.01% | 24.48% |
| **Total** | **35.67%** | **42.52%** | **40.98%** | **44.70%** |
| **Other Safety (3% @ 50 all service)** | | | | |
| Normal Cost | 20.62% | | | |
| UAAL | 22.10% | | | |
| **Total** | **42.72%** | | | |

Note: See Note on page 137, for further information.

# History of Total Employer Contribution Rates

*For Actuarial Valuation Years Ended June 30, 2006 through 2015*

*(continued)*

| 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** | |
| 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** | |
| 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** | |
| 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%** |
| **Superior Court-Tier 1** | |
| 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-Tier 1** | |
| Normal Cost | 20.48% |
| UAAL | 39.17% |
| **Total** | **59.65%** |
| **Other Safety-Tier 2** | |
| Normal Cost | 11.56% |
| UAAL | 39.17% |
| **Total** | **50.73%** |

Note: See Note on page 137, for further information.

# History of Total Employer Contribution Rates

*For Actuarial Valuation Years Ended June 30, 2006 through 2015*

*(continued )*

| | Valuation Date - 6/30/2014 | | Valuation Date - 6/30/2015 |
|---|---|---|---|
| **County General-Tier 1** | | **County General-Tier 1** | |
| Normal Cost | 11.50% | Normal Cost | 11.50% |
| UAAL | 10.99% | UAAL | 10.83% |
| **Total** | **22.49%** | **Total** | **22.33%** |
| **County General-Tier 2** | | **County General-Tier 2** | |
| Normal Cost | 8.40% | Normal Cost | 8.37% |
| UAAL | 10.99% | UAAL | 10.83% |
| **Total** | **19.39%** | **Total** | **19.20%** |
| **County Safety-Tier 1** | | **County Safety-Tier 1** | |
| Normal Cost | 22.06% | Normal Cost | 22.10% |
| UAAL | 27.03% | UAAL | 28.88% |
| **Total** | **49.09%** | **Total** | **50.98%** |
| **County Safety-Tier 2** | | **County Safety-Tier 2** | |
| Normal Cost | 15.22% | Normal Cost | 14.03% |
| UAAL | 27.03% | UAAL | 28.88% |
| **Total** | **42.25%** | **Total** | **42.91%** |
| **SCAQMD-Tier 1** | | **SCAQMD-Tier 1** | |
| Normal Cost | 11.73% | Normal Cost | 11.69% |
| UAAL | 18.46% | UAAL | 21.24% |
| **Total** | **30.19%** | **Total** | **32.93%** |
| **SCAQMD-Tier 2** | | **SCAQMD-Tier 2** | |
| Normal Cost | 7.97% | Normal Cost | 7.66% |
| UAAL | 18.46% | UAAL | 21.24% |
| **Total** | **26.43%** | **Total** | **28.90%** |
| **Superior Court-Tier 1** | | **Superior Court-Tier 1** | |
| Normal Cost | 11.50% | Normal Cost | 11.50% |
| UAAL | 12.39% | UAAL | 12.40% |
| **Total** | **23.89%** | **Total** | **23.90%** |
| **Superior Court-Tier 2** | | **Superior Court-Tier 2** | |
| Normal Cost | 8.40% | Normal Cost | 8.37% |
| UAAL | 12.39% | UAAL | 12.40% |
| **Total** | **20.79%** | **Total** | **20.77%** |
| **Other General-Tier 1** | | **Other General-Tier 1** | |
| Normal Cost | 12.83% | Normal Cost | 12.88% |
| UAAL | 20.48% | UAAL | 20.17% |
| **Total** | **33.31%** | **Total** | **33.05%** |
| **Other General-Tier 2** | | **Other General-Tier 2** | |
| Normal Cost | 9.29% | Normal Cost | 9.33% |
| UAAL | 20.48% | UAAL | 20.17% |
| **Total** | **29.77%** | **Total** | **29.50%** |
| **Other Safety-Tier 1** | | **Other Safety-Tier 1** | |
| Normal Cost | 23.22% | Normal Cost | 22.35% |
| UAAL | 45.79% | UAAL | 49.96% |
| **Total** | **69.01%** | **Total** | **72.31%** |
| **Other Safety-Tier 2** | | **Other Safety-Tier 2** | |
| Normal Cost | 12.82% | Normal Cost | 13.21% |
| UAAL | 45.79% | UAAL | 49.96% |
| **Total** | **58.61%** | **Total** | **63.17%** |

Note: These are the recommended rates and include a 2 year lag, i.e. Contribution rates recommended in the actuarial valuation dated 6/30/2015, go into effect for the year ending June 30, 2017. Beginning in November 2006, Barstow Fire Protection District extended their 3% @ 50 benefits retroactive for all years of service. Beginning December 31, 2006, SCAQMD deposited a prepayment that impacts their 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 June 30, 2013, Tier 2 rates added pursuant to the Public Employees' Pension Reform Act of 2013.

# Retirees and Beneficiaries Added to and Removed from Rolls

*For the Years Ended June 30, 2006 through 2015*
*For General and Safety Members (Dollars 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 | | |
| **6/30/2006** | | | | | | | | | | |
| 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** |
| **6/30/2007** | | | | | | | | | | |
| 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** |
| **6/30/2008** | | | | | | | | | | |
| 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** |
| **6/30/2009** | | | | | | | | | | |
| 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** |
| **6/30/2010** | | | | | | | | | | |
| 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** |
| **6/30/2011** | | | | | | | | | | |
| 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** |
| **6/30/2012** | | | | | | | | | | |
| 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** |
| **6/30/2013** | | | | | | | | | | |
| 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** |
| **6/30/2014** | | | | | | | | | | |
| General | 620 | $26,034 | 286 | $6,575 | 334 | $19,459 | 8,926 | $295,747 | 7.04% | $33,133 |
| Safety | 136 | 9,220 | 25 | 832 | 111 | 8,388 | 1,692 | 102,864 | 8.88% | 60,794 |
| **TOTAL** | **756** | **$35,254** | **311** | **$7,407** | **445** | **$27,847** | **10,618** | **$398,611** | **7.51%** | **$37,541** |
| **6/30/2015** | | | | | | | | | | |
| General | 632 | $28,114 | 259 | $5,744 | 373 | $22,370 | 9,299 | $318,117 | 7.56% | $34,210 |
| Safety | 164 | 11,338 | 27 | 1,312 | 137 | 10,026 | 1,829 | 112,890 | 9.75% | 61,722 |
| **TOTAL** | **796** | **$39,452** | **286** | **$7,056** | **510** | **$32,396** | **11,128** | **$431,007** | **8.13%** | **$38,732** |

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

# Statistical
(Unaudited)


section
5.0

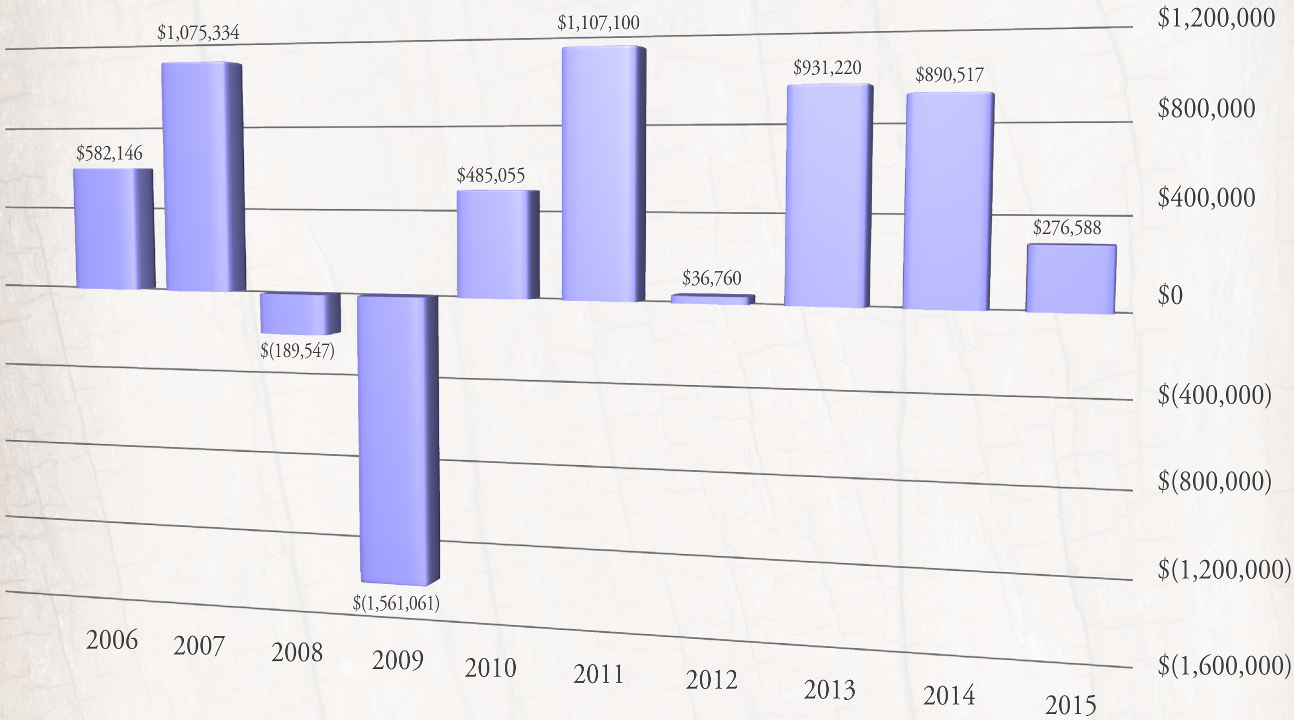

# *Virginia Dare Winery*

WHOLESOMENESS AND PURITY

The Mission Winery, located at the corner of Foothill Boulevard and Haven Avenue in Rancho Cucamonga, was established in 1910 by John H. Klusmann and M.E. Post. The winery, which grew to over 7,000 acres, was later sold to Garrett & Company and renamed as the Virginia Dare Winery. After Prohibition, the winery was producing over 2 million gallons of wine each year, which was shipped to the east coast to be blended with other wines. The company abandoned the property in the 1960s, but today, the architecture of the building has been preserved and is now used as corporate office space.

# Statistical Changes in Fiduciary Net Position

*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*




| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Additions** | | | | | | | | | | |
| Employer Contributions | $197,343 | $239,857 | $241,721 | $246,232 | $243,773 | $258,128 | $278,091 | $303,080 | $330,330 | $315,240 |
| Plan Member Contributions | 38,368 | 47,005 | 49,481 | 49,550 | 56,986 | 59,612 | 68,630 | 91,056 | 89,861 | 117,899 |
| Investment Income/(Loss)[1] | 560,495 | 1,023,502 | (226,541) | (1,583,833) | 486,433 | 1,117,138 | 39,786 | 912,310 | 877,018 | 280,842 |
| **TOTAL ADDITIONS** | **796,206** | **1,310,364** | **64,661** | **(1,288,051)** | **787,192** | **1,434,878** | **386,507** | **1,306,446** | **1,297,209** | **713,981** |
| **Deductions** | | | | | | | | | | |
| Benefits and Refunds | 203,888 | 225,483 | 244,406 | 262,779 | 292,677 | 320,514 | 341,728 | 367,396 | 397,823 | 428,475 |
| Administrative Expenses | 6,404 | 7,254 | 8,861 | 8,939 | 7,226 | 5,599 | 6,205 | 6,258 | 6,386 | 6,710 |
| Other Expenses | 3,768 | 2,293 | 941 | 1,292 | 2,234 | 1,665 | 1,814 | 1,572 | 2,483 | 2,208 |
| **TOTAL DEDUCTIONS** | **214,060** | **235,030** | **254,208** | **273,010** | **302,137** | **327,778** | **349,747** | **375,226** | **406,692** | **437,393** |
| **TOTAL CHANGE IN FIDUCIARY NET POSITION** | **$582,146** | **$1,075,334** | **$(189,547)** | **$(1,561,061)** | **$485,055** | **$1,107,100** | **$36,760** | **$931,220** | **$890,517** | **$276,588** |

(1) Net of investment expenses and includes net securities lending income ($344 thousand for the year ended June 30, 2015).

# Additions by Source

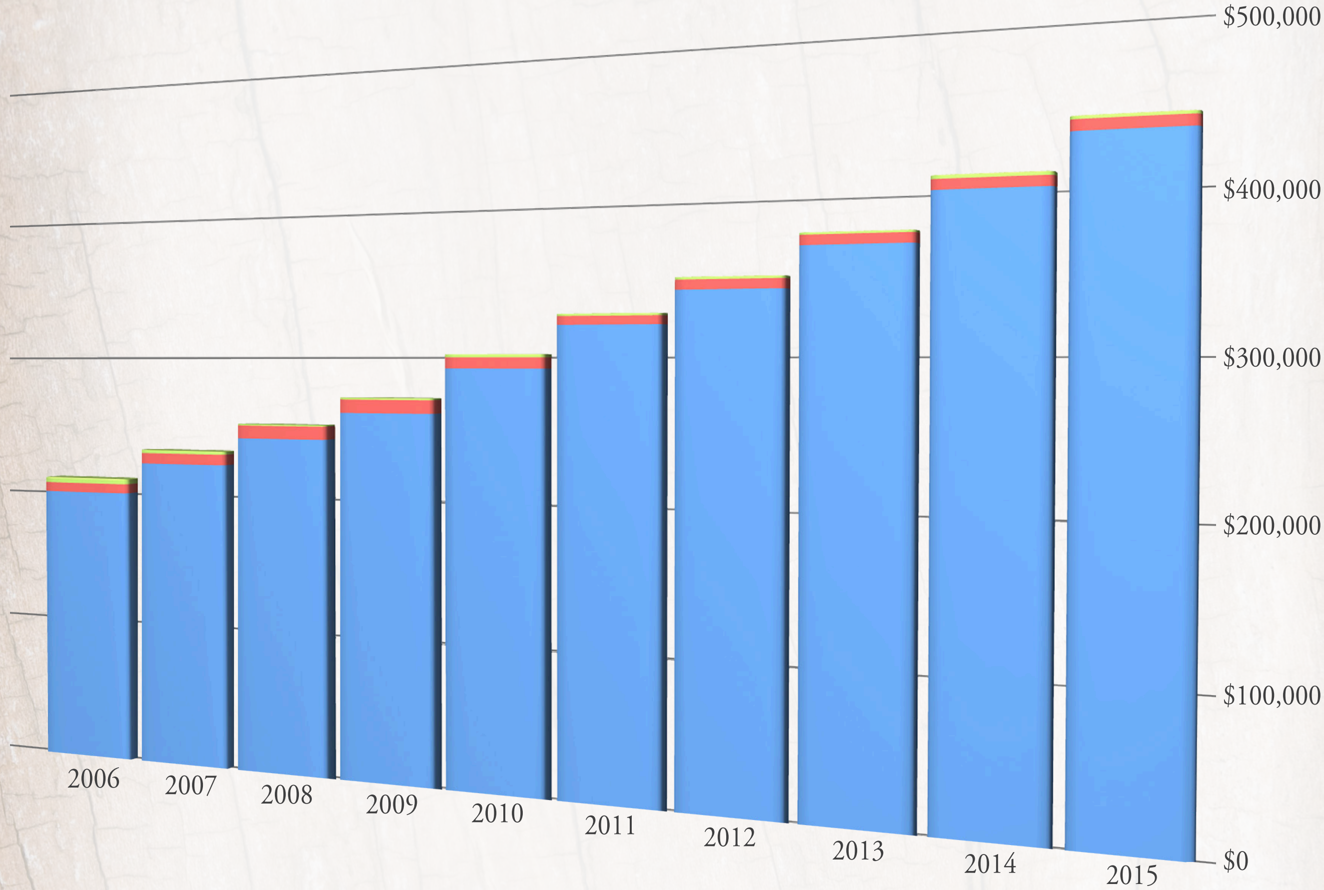
*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*


| Additions | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Employer Contributions | $197,343 | $239,857 | $241,721 | $246,232 | $243,773 | $258,128 | $278,091 | $303,080 | $330,330 | $315,240 |
| Plan Member Contributions | 38,368 | 47,005 | 49,481 | 49,550 | 56,986 | 59,612 | 68,630 | 91,056 | 89,861 | 117,899 |
| % of Annual Payroll (Employer)[1] | 16.71% | 21.76% | 19.82% | 20.08% | 19.50% | 20.74% | 22.07% | 24.00% | 26.06% | 24.08% |
| Investment Income/ (Loss)[2] | 560,495 | 1,023,502 | (226,541) | (1,583,833) | 486,433 | 1,117,138 | 39,786 | 912,310 | 877,018 | 280,842 |
| **TOTAL ADDITIONS** | **$796,206** | **$1,310,364** | **$64,661** | **$(1,288,051)** | **$ 787,192** | **$1,434,878** | **$386,507** | **$1,306,446** | **$1,297,209** | **$ 713,981** |

(1) The annual payroll used for the year ended June 30, 2015 is $1.31 billion.
(2) Net of investment expenses and includes net securities lending income ($344 thousand for the year ended June 30, 2015).

# Deductions by Type

*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*




| Deductions | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Benefits and Refunds | $203,888 | $225,483 | $244,406 | $262,779 | $292,677 | $320,514 | $341,728 | $367,396 | $397,823 | $428,475 |
| Administrative Expenses | 6,404 | 7,254 | 8,861 | 8,939 | 7,226 | 5,599 | 6,205 | 6,258 | 6,386 | 6,710 |
| Other Expenses | 3,768 | 2,293 | 941 | 1,292 | 2,234 | 1,665 | 1,814 | 1,572 | 2,483 | 2,208 |
| **TOTAL DEDUCTIONS** | **$214,060** | **$235,030** | **$254,208** | **$273,010** | **$302,137** | **$327,778** | **$349,747** | **$375,226** | **$406,692** | **$437,393** |

# Benefit Expenses by Type

*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*

| Type of Benefit Expense | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age & Service Benefits** | | | | | | | | | | |
| Retirees | $137,327 | $153,421 | $170,711 | $190,105 | $217,241 | $238,775 | $256,160 | $276,360 | $300,482 | $327,541 |
| Survivors | 8,482 | 8,362 | 9,031 | 9,452 | 10,396 | 11,427 | 12,259 | 13,230 | 14,293 | 15,314 |
| Death in Service Benefits | 388 | 407 | 367 | 332 | 313 | 388 | 341 | 315 | 424 | 247 |
| **Disability Benefits** | | | | | | | | | | |
| Duty | 33,442 | 35,237 | 37,188 | 37,473 | 39,858 | 42,230 | 44,080 | 47,137 | 50,325 | 52,722 |
| Non-Duty | 6,681 | 7,640 | 8,063 | 8,125 | 8,642 | 9,156 | 9,557 | 10,220 | 10,911 | 11,431 |
| Survivor | 6,211 | 6,123 | 6,462 | 6,512 | 6,926 | 7,613 | 7,947 | 8,576 | 9,265 | 9,927 |
| **TOTAL BENEFIT PAYMENTS** | **192,531** | **211,190** | **231,822** | **251,999** | **283,376** | **309,589** | **330,344** | **355,838** | **385,700** | **417,182** |
| **Refunds** | | | | | | | | | | |
| Death | 469 | 558 | 408 | 538 | 1,462 | 925 | 717 | 826 | 1,016 | 1,106 |
| Separation | 10,888 | 13,735 | 12,176 | 10,242 | 7,839 | 10,000 | 10,667 | 10,732 | 11,107 | 10,187 |
| **TOTAL REFUNDS** | **11,357** | **14,293** | **12,584** | **10,780** | **9,301** | **10,925** | **11,384** | **11,558** | **12,123** | **11,293** |
| **TOTAL BENEFIT AND REFUND PAYMENTS** | **$203,888** | **$225,483** | **$244,406** | **$262,779** | **$292,677** | **$320,514** | **$341,728** | **$367,396** | **$397,823** | **$428,475** |

# Retired Members by Type of Benefit

*As of June 30, 2015*

| Amount of Monthly Benefit[1] | Number of Retirees | Type of Retirement[2] A | B | C |
|---|---|---|---|---|
| **General Members** | | | | |
| $0 - $999 | 1,965 | 1,301 | 114 | 550 |
| $1,000 - $1,999 | 2,590 | 1,860 | 343 | 387 |
| $2,000 - $2,999 | 1,662 | 1,285 | 214 | 163 |
| $3,000 - $3,999 | 1,033 | 888 | 82 | 63 |
| $4,000 - $4,999 | 635 | 585 | 24 | 26 |
| $5,000 - $5,999 | 438 | 414 | 13 | 11 |
| $6,000 - $6,999 | 287 | 281 | 1 | 5 |
| $7,000 - $7,999 | 228 | 222 | 4 | 2 |
| $8,000 - $8,999 | 143 | 142 | - | 1 |
| $9,000 - $9,999 | 104 | 100 | 2 | 2 |
| Over $10,000 | 214 | 211 | 1 | 2 |
| **TOTAL** | **9,299** | **7,289** | **798** | **1,212** |

| Amount of Monthly Benefit[1] | Number of Retirees | Type of Retirement[2] A | B | C |
|---|---|---|---|---|
| **Safety Members** | | | | |
| $0 - $999 | 114 | 30 | 19 | 65 |
| $1,000 - $1,999 | 208 | 48 | 61 | 99 |
| $2,000 - $2,999 | 256 | 77 | 136 | 43 |
| $3,000 - $3,999 | 362 | 75 | 246 | 41 |
| $4,000 - $4,999 | 158 | 85 | 49 | 24 |
| $5,000 - $5,999 | 128 | 87 | 34 | 7 |
| $6,000 - $6,999 | 132 | 97 | 29 | 6 |
| $7,000 - $7,999 | 125 | 94 | 23 | 8 |
| $8,000 - $8,999 | 84 | 58 | 25 | 1 |
| $9,000 - $9,999 | 75 | 53 | 19 | 3 |
| Over $10,000 | 187 | 122 | 64 | 1 |
| **TOTAL** | **1,829** | **826** | **705** | **298** |

| | Number of Retirees | Type of Retirement[2] A | B | C |
|---|---|---|---|---|
| **GRAND TOTAL** | **11,128** | **8,115** | **1,503** | **1,510** |

(1) Excludes monthly benefits for Supplemental Disability, Survivor Benefit and Burial Allowance.
(2) Type of Retirement: A = Service Retirement; B = Disability Retirement; C = Beneficiary.
Note: Refer to the Actuarial section, Summary of Major Plan Provisions, for further information. Detail above provided by SBCERA's independent actuary, Segal Consulting. Segal reviewed SBCERA's participant data for reasonableness. Refer to Segal's letter in the Actuarial section, for further information.

# Participating Employers

*For the Years Ended June 30, 2006 through 2015*

| Participating Employer | 2015 Number of Employees | 2015 % of Total | 2014 Number of Employees | 2014 % of Total | 2013 Number of Employees | 2013 % of Total | 2012 Number of Employees | 2012 % of Total |
|---|---|---|---|---|---|---|---|---|
| Barstow Fire Protection District | 28 | 0.14% | 27 | 0.14% | 20 | 0.10% | 20 | 0.10% |
| Barstow Park and Recreation | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| California Electronic Recording Transaction Network Authority | 2 | 0.01% | 1 | 0.01% | 1 | 0.01% | 1 | 0.01% |
| California State Association of Counties | 94 | 0.47% | 83 | 0.43% | 94 | 0.47% | 105 | 0.54% |
| City of Big Bear Lake | 65 | 0.33% | 66 | 0.34% | 71 | 0.37% | 77 | 0.40% |
| City of Chino Hills | 152 | 0.76% | 148 | 0.76% | 161 | 0.83% | 168 | 0.87% |
| County of San Bernardino | 17,718 | 88.87% | 17,341 | 88.93% | 17,230 | 88.81% | 16,963 | 87.87% |
| Crest Forest Fire Protection District | - | 0.00% | - | 0.00% | - | 0.00% | 29 | 0.15% |
| Crestline Sanitation District | 20 | 0.10% | 19 | 0.10% | 18 | 0.09% | 20 | 0.10% |
| Department of Water and Power of the City of Big Bear Lake | 32 | 0.16% | 32 | 0.16% | 33 | 0.17% | 33 | 0.17% |
| Hesperia Recreation and Park District | 49 | 0.24% | 44 | 0.23% | 18 | 0.09% | 18 | 0.09% |
| Inland Library System | 1 | 0.01% | 1 | 0.01% | 1 | 0.01% | 1 | 0.01% |
| Inland Valley Development Agency | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| Law Library for San Bernardino County | 8 | 0.04% | 8 | 0.04% | 8 | 0.04% | 8 | 0.04% |
| Local Agency Formation Commission | 5 | 0.02% | 5 | 0.03% | 4 | 0.02% | 4 | 0.02% |
| Mojave Desert Air Quality Management District | 41 | 0.21% | 41 | 0.21% | 42 | 0.22% | 38 | 0.20% |
| Rim of the World Recreation & Park District | - | 0.00% | - | 0.00% | - | 0.00% | 1 | 0.01% |
| San Bernardino Associated Governments | 50 | 0.25% | 45 | 0.23% | 48 | 0.25% | 41 | 0.21% |
| San Bernardino County Employees' Retirement Association (SBCERA) | 48 | 0.24% | 50 | 0.26% | 47 | 0.24% | 48 | 0.25% |
| San Bernardino International Airport Authority | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| South Coast Air Quality Management District | 695 | 3.49% | 697 | 3.57% | 713 | 3.68% | 740 | 3.83% |
| Superior Court of California County of San Bernardino | 930 | 4.66% | 889 | 4.55% | 892 | 4.60% | 991 | 5.13% |
| **TOTAL EMPLOYEES** | **19,938** | **100.00%** | **19,497** | **100.00%** | **19,401** | **100.00%** | **19,306** | **100.00%** |

Note: See Note on page 147, for further information.

# Participating Employers

*For the Years Ended June 30, 2006 through 2015*

*(continued)*

| 2011 | | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | Number of Employees | % of Total |
| 21 | 0.11% | 23 | 0.12% | 23 | 0.12% | 21 | 0.11% | 24 | 0.13% | 20 | 0.11% |
| - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | 5 | 0.03% |
| 1 | 0.01% | 1 | 0.01% | 1 | 0.01% | - | 0.00% | - | 0.00% | - | 0.00% |
| 108 | 0.56% | 118 | 0.60% | 125 | 0.66% | 124 | 0.64% | 108 | 0.57% | 99 | 0.49% |
| 83 | 0.43% | 116 | 0.59% | 119 | 0.63% | 120 | 0.62% | 115 | 0.61% | 110 | 0.60% |
| 168 | 0.87% | 172 | 0.88% | 172 | 0.91% | 178 | 0.92% | 164 | 0.87% | 154 | 0.84% |
| 16,882 | 87.66% | 17,142 | 87.81% | 16,563 | 87.38% | 17,038 | 87.75% | 16,668 | 87.97% | 16,114 | 87.87% |
| 26 | 0.13% | 27 | 0.14% | 27 | 0.14% | 31 | 0.16% | 30 | 0.16% | 28 | 0.15% |
| 20 | 0.10% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% |
| 17 | 0.09% | 19 | 0.10% | 17 | 0.09% | 16 | 0.08% | 16 | 0.08% | 11 | 0.06% |
| 1 | 0.01% | 2 | 0.01% | 2 | 0.01% | 2 | 0.01% | 2 | 0.01% | 2 | 0.01% |
| 8 | 0.04% | 14 | 0.07% | 18 | 0.09% | 18 | 0.09% | 14 | 0.07% | 12 | 0.07% |
| 8 | 0.04% | 8 | 0.04% | 9 | 0.05% | 9 | 0.05% | 8 | 0.04% | 9 | 0.05% |
| 4 | 0.02% | 5 | 0.03% | 6 | 0.03% | 6 | 0.03% | 5 | 0.03% | 5 | 0.03% |
| 38 | 0.20% | 37 | 0.19% | 35 | 0.18% | 37 | 0.19% | 38 | 0.20% | 39 | 0.21% |
| 1 | 0.01% | 2 | 0.01% | 2 | 0.01% | 3 | 0.02% | 3 | 0.02% | 2 | 0.01% |
| 39 | 0.20% | 38 | 0.19% | 38 | 0.20% | 38 | 0.20% | 36 | 0.19% | 33 | 0.18% |
| 42 | 0.22% | 20 | 0.10% | 13 | 0.07% | 12 | 0.06% | - | 0.00% | - | 0.00% |
| 6 | 0.03% | 15 | 0.08% | 17 | 0.09% | 15 | 0.08% | 12 | 0.06% | 13 | 0.07% |
| 767 | 3.98% | 780 | 4.00% | 796 | 4.20% | 766 | 3.94% | 758 | 4.00% | 746 | 4.07% |
| 1,018 | 5.29% | 981 | 5.03% | 972 | 5.13% | 980 | 5.05% | 945 | 4.99% | 945 | 5.15% |
| **19,258** | **100.00%** | **19,520** | **100.00%** | **18,955** | **100.00%** | **19,414** | **100.00%** | **18,946** | **100.00%** | **18,347** | **100.00%** |

Note: For the year ended June 30, 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 the year ended June 30, 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 the year ended June 30, 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. For the year ended June 30, 2009: California Electronic Recording Transaction Network Authority became a new public entity, created under a Joint Powers Agreement, and joined SBCERA on August 7, 2008. For the year ended June 30, 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, 2005 to June 30, 2015*

| | Service Years Credited | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| **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 |
| **Period 7/1/13 to 6/30/14** | | | | | | | |
| Average Monthly Benefit | $1,568 | $1,836 | $2,124 | $2,724 | $4,137 | $5,714 | $6,549 |
| Monthly Final Average Salary | $3,907 | $5,148 | $5,402 | $5,274 | $6,343 | $7,216 | $6,878 |
| Number of Active Retirees | 2 | 24 | 129 | 77 | 117 | 90 | 92 |
| **Period 7/1/14 to 6/30/15** | | | | | | | |
| Average Monthly Benefit | $1,111 | $1,713 | $1,983 | $2,804 | $4,521 | $5,708 | $7,713 |
| Monthly Final Average Salary | $5,347 | $5,293 | $5,112 | $5,527 | $6,685 | $6,837 | $7,473 |
| Number of Active Retirees | 4 | 46 | 92 | 81 | 96 | 110 | 114 |

Note: Detail above provided by SBCERA's independent actuary, Segal Consulting. Segal reviewed SBCERA's participant data for reasonableness. Refer to Segal's letter in the Actuarial section, for further information.

# *Statistical*

## MEMBERSHIP INFORMATION

*(Unaudited)*


*section*

5.1

# *Grape Harvest Festival*

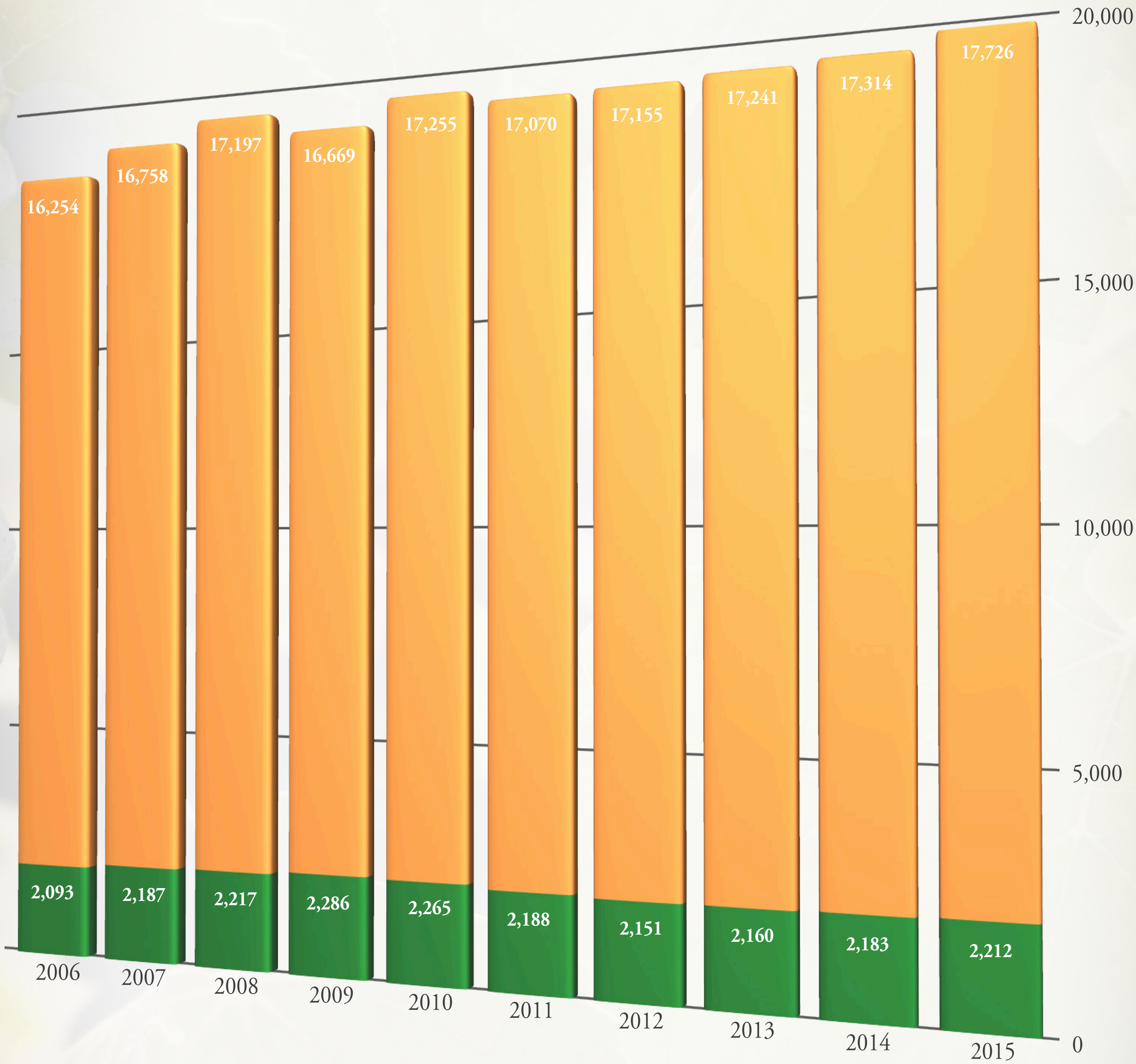
RANCHO CUCAMONGA

Grape farmers and winemakers alike use craftsmanship derived from tradition, passion, skill and artistry to produce award winning wines. Although the Cucamonga Valley region of San Bernardino County's hold on the wine industry is over (due to weather, population growth, ever increasing land values and a demand for less sweet wines) several winegrowing families continue to do business in San Bernardino County. This tradition will not be lost as the City of Rancho Cucamonga hosts an annual Grape Harvest Festival, California's oldest grape festival, where local wineries, service clubs and the community gather to celebrate the rich history of farming grapes in the region.



# Active Membership Classification

*For the Years Ended June 30, 2006 through 2015*

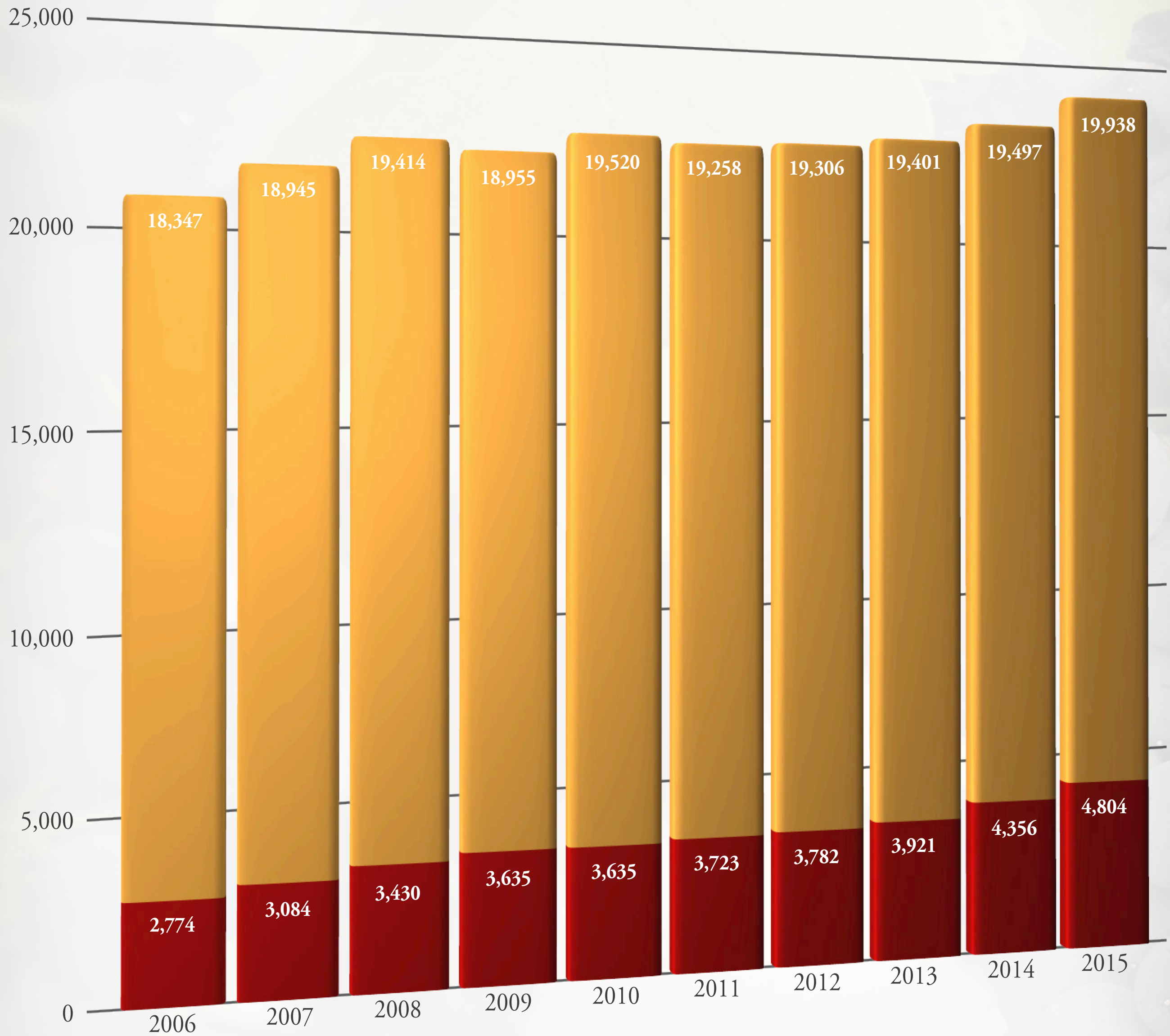



| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| General | 16,254 | 16,758 | 17,197 | 16,669 | 17,255 | 17,070 | 17,155 | 17,241 | 17,314 | 17,726 |
| Safety | 2,093 | 2,187 | 2,217 | 2,286 | 2,265 | 2,188 | 2,151 | 2,160 | 2,183 | 2,212 |
| **TOTAL** | **18,347** | **18,945** | **19,414** | **18,955** | **19,520** | **19,258** | **19,306** | **19,401** | **19,497** | **19,938** |

Note: Membership is presented for active members only.

# Membership History

*For the Years Ended June 30, 2006 through 2015*
*(Active and Deferred)*




| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Active | 18,347 | 18,945 | 19,414 | 18,955 | 19,520 | 19,258 | 19,306 | 19,401 | 19,497 | 19,938 |
| Deferred | 2,774 | 3,084 | 3,430 | 3,635 | 3,635 | 3,723 | 3,782 | 3,921 | 4,356 | 4,804 |
| TOTAL | 21,121 | 22,029 | 22,844 | 22,590 | 23,155 | 22,981 | 23,088 | 23,322 | 23,853 | 24,742 |

# Membership History

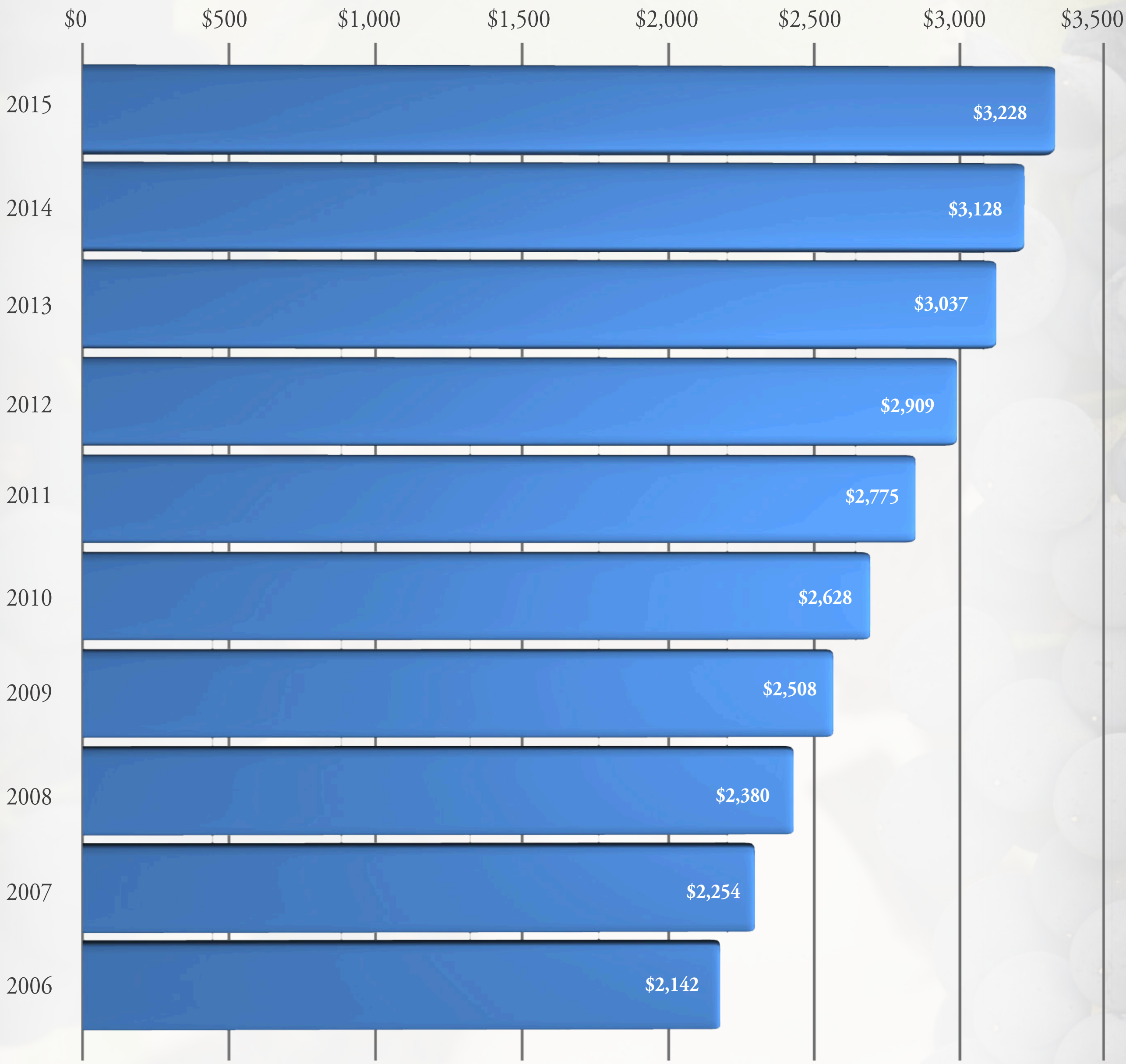
*For the Years Ended June 30, 2006 through 2015*
*(Retired)*


| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Service Retirement** | 4,915 | 5,189 | 5,484 | 5,971 | 6,210 | 6,571 | 6,957 | 7,296 | 7,681 | 8,115 |
| **Service Connected Disability** | 902 | 924 | 950 | 970 | 990 | 1,011 | 1,047 | 1,093 | 1,124 | 1,148 |
| **Non-Service Connected Disability** | 344 | 359 | 347 | 342 | 349 | 345 | 350 | 351 | 350 | 355 |
| **Survivors** | 1,100 | 1,145 | 1,190 | 1,236 | 1,294 | 1,338 | 1,382 | 1,433 | 1,463 | 1,510 |
| **TOTAL** | **7,261** | **7,617** | **7,971** | **8,519** | **8,843** | **9,265** | **9,736** | **10,173** | **10,618** | **11,128** |

Note: Detail above provided by SBCERA's independent actuary, Segal Consulting. Segal reviewed SBCERA's participant data for reasonableness. Refer to Segal's letter in the Actuarial section, for further information.

# Average Monthly Retirement Benefits

*For the Years Ended June 30, 2006 through 2015*

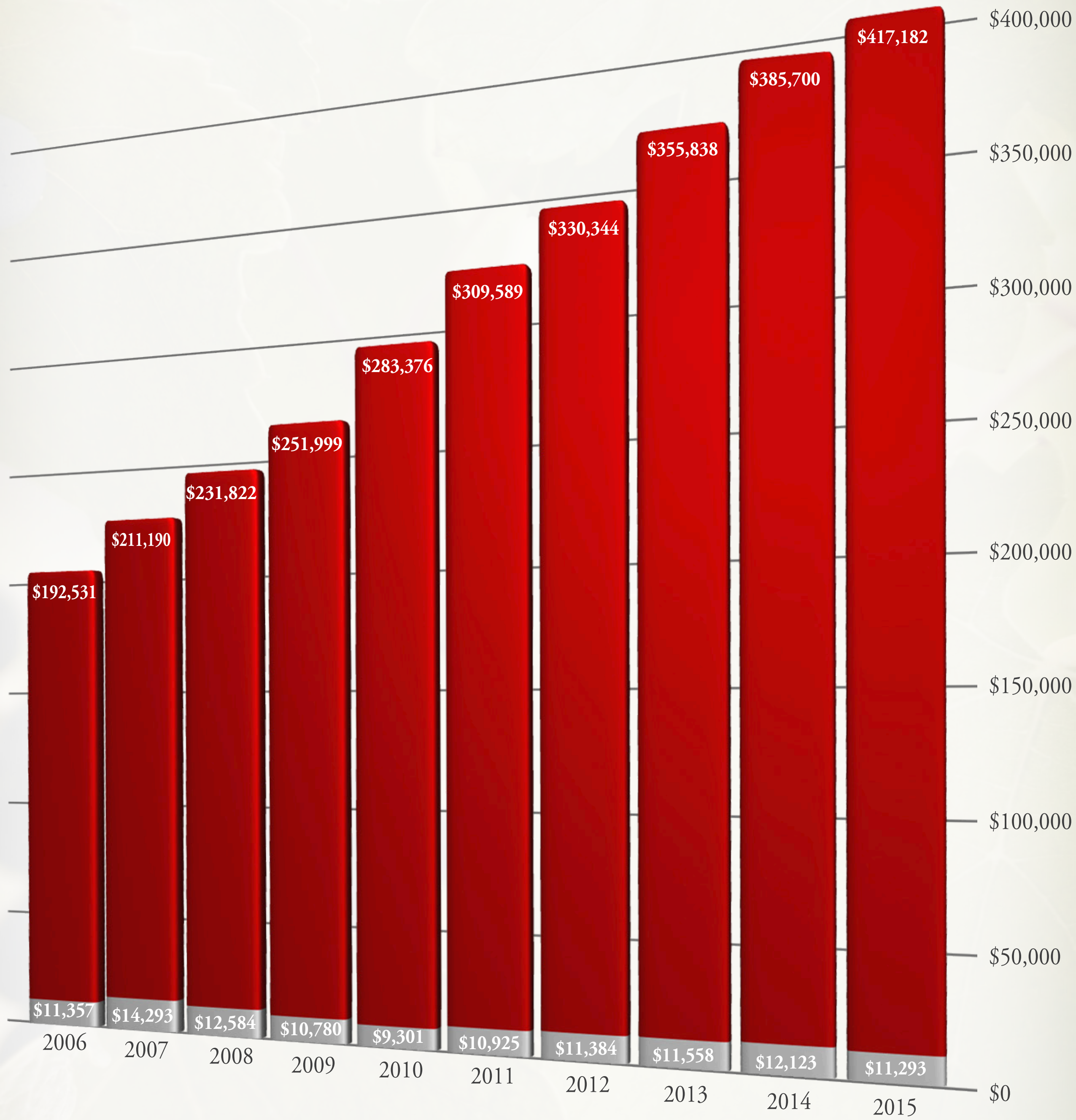



| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Monthly Allowance | $2,142 | $2,254 | $2,380 | $2,508 | $2,628 | $2,775 | $2,909 | $3,037 | $3,128 | $3,228 |

Note: Detail above provided by SBCERA's independent actuary, Segal Consulting. Segal reviewed SBCERA's participant data for reasonableness. Refer to Segal's letter in the Actuarial section, for further information.

# Benefits and Refunds Paid

*For the Years Ended June 30, 2006 through 2015*
*(Amounts in Thousands)*




| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Benefits** | $192,531 | $211,190 | $231,822 | $251,999 | $283,376 | $309,589 | $330,344 | $355,838 | $385,700 | $417,182 |
| **Refunds** | 11,357 | 14,293 | 12,584 | 10,780 | 9,301 | 10,925 | 11,384 | 11,558 | 12,123 | 11,293 |
| **TOTAL** | **$203,888** | **$225,483** | **$244,406** | **$262,779** | **$292,677** | **$320,514** | **$341,728** | **$367,396** | **$397,823** | **$428,475** |


THE OLDEST GRAPE VINE IN CALIFORNIA

# Enjoying the Fruits 2015 of Retirement

**Comprehensive Annual Financial Report**

For the Years Ended June 30, 2015 and 2014

A Multiple-Employer Pension Trust Fund | San Bernardino, California

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San Bernardino
County Employees' Retirement Association

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