SB | cera
San Bernardino County Employees' Retirement Association

2012 Comprehensive Annual Financial Report

A Multiple Employer Pension Trust Fund | San Bernardino, California

Fiscal Years Ended June 30, 2012 and 2011

A JOURNEY THROUGH TIME


2012

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Comprehensive Annual Financial Report

A Multiple Employer Pension Trust Fund | San Bernardino, California

Fiscal Years Ended June 30, 2012 and 2011

Norman L. Ruggles
Chief Executive Officer

Julie Underwood, CPA
Chief of Fiscal Services

SBcera
San Bernardino County Employees' Retirement Association

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Mission Statement

San Bernardino County Employees' Retirement Association

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

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

a) effectively collect contributions to fund liabilities incurred;

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

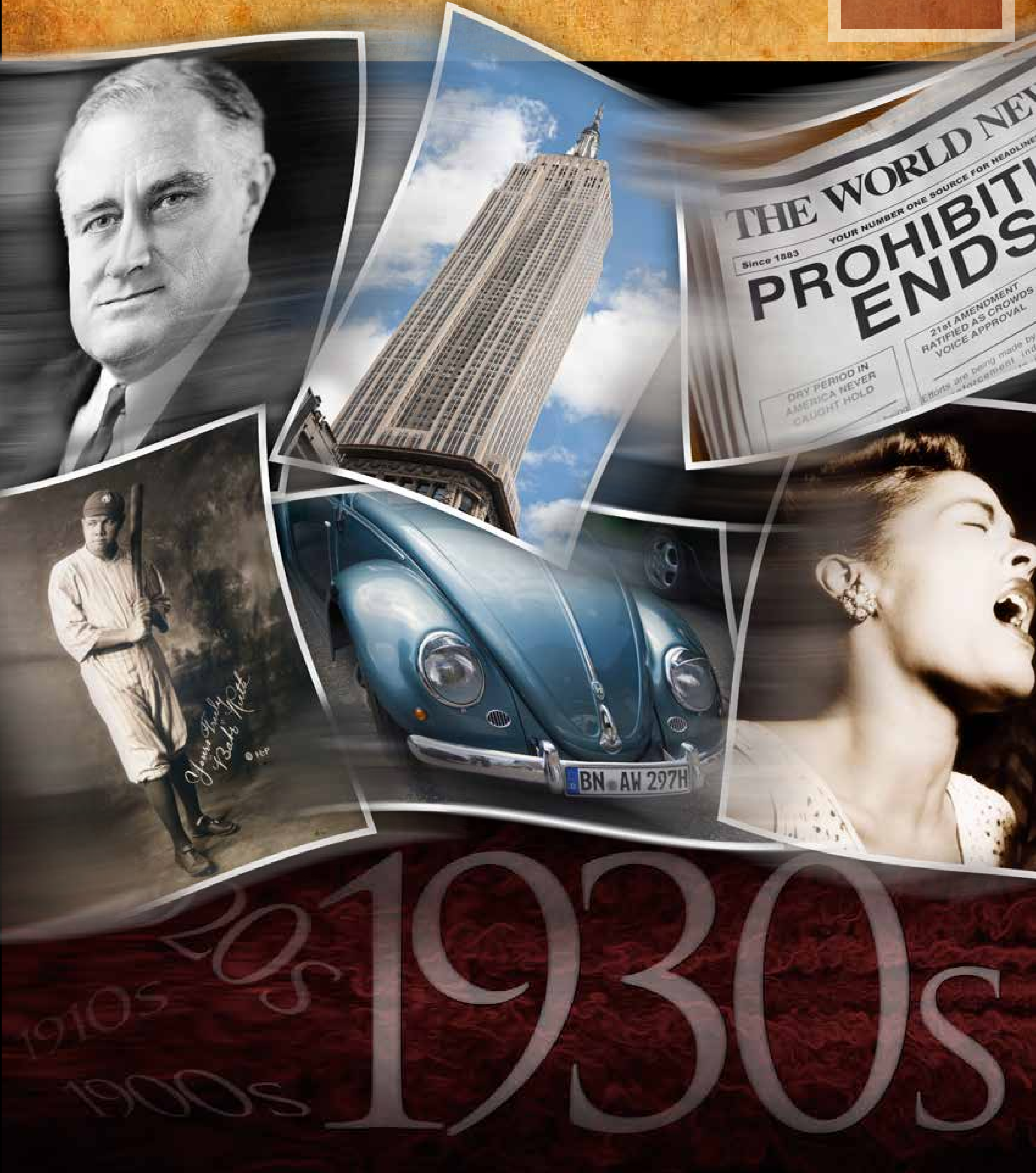
c) administer the benefits impartially, fairly and in accordance with the applicable law;

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

e) strategically plan for the future.

INTRODUCTORY

SECTION 1.0



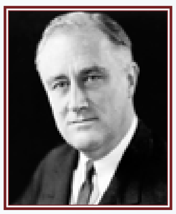
SECTION 1.0
INTRODUCTORY

THE 1930s

The 30s were plagued by the "Great Depression." Between 1929 and 1932, the average American income was reduced by 40% and unemployment rose to 25%. Much of the decade was spent addressing the economy and whether federal regulations were needed to prevent future economic downturns. In response, Americans turned to leisurely, low cost entertainment such as board games, film and radio. Hence, the 30s were commonly known as Hollywood's "Golden Age."

1931

The world's tallest building, the Empire State Building, opens in New York City. It remains the tallest building for the next 35 years.

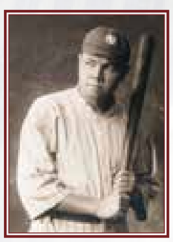


1932

FDR was elected and initiates the "New Deal" (economic programs focusing on Relief, Recovery and Reform).

1933

The 21st Amendment of the U.S. Constitution is ratified, ending the national prohibition of alcohol.



1935

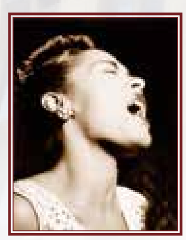
After 22 seasons in Major League Baseball, "the Bambino," Babe Ruth bids farewell to baseball..

1937

County Employees Retirement Act.

1938

Volkswagen Beetle was first produced for the public. It is the longest-running and most-manufactured car of a single design platform anywhere in the world.



1939

Billie Holiday released "Strange Fruit," ranked number 1 for the decade.

SBCERA | 1937

The County Employees Retirement Law of 1937 ('37 Act) is Enacted

October 1, 1937

The Legislature initially authorized a retirement system for county employees with the enactment of the County Employees Retirement Law of 1919. This law was replaced by the County Employees Retirement Law of 1937 ('37 Act) and includes both county and district employees. Today, 20 counties operate retirement systems under the '37 Act provisions.

Letter of Transmittal

San Bernardino County Employees' Retirement Association

November 23, 2012

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

Dear Board Members:

As Chief Executive Officer, I am honored to present the San Bernardino County Employees' Retirement Association's (SBCERA or the Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This report is created annually to provide a detailed review of the Plan's financial, actuarial and investment-related activities for the year.

At SBCERA, our primary purpose is to serve our members and their beneficiaries. We are dedicated to assisting each of them along their journey as active members of SBCERA, as they become retirees, and beyond. In today's uncertain and evolving environment, this year's theme, "A Journey through Time," provides a look back at when defined benefit plans began, why they were created, and what changes have taken place over time. It is essential to understand where we have been as we begin to chart a path for where we are headed. Regardless of whether you look at the past or into the future, one thing remains unchanged: SBCERA's commitment to administering and managing the Plan to provide our members and beneficiaries the benefits they have earned.

This year marked SBCERA's 67th year of providing promised benefits and ensuring the Plan remains solid and stable. SBCERA was established in 1945, following a vote of the people of the County of San Bernardino on May 16, 1944. As of June 30, 2012, SBCERA manages service retirement, disability retirement, and death and survivor benefits for nearly 33,000 members, serves 21 participating employers and manages more than six billion dollars in assets. A listing of the participating employers, as of June 30, 2012, can be found on page 110.

The information contained in this CAFR is designed to provide a complete and accurate review of this 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 the Management's Discussion and Analysis section beginning on page 17, which provides a narrative introduction, overview and analysis of our financial operations for the fiscal year ended June 30, 2012.

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

Letter of Transmittal

(Continued)

Major Initiatives

Addressing Increasing Organizational Demands

Over the last year many factors have substantially impacted the administration of the Plan including an increased number of retirements, pressure from local and state leaders for pension reform, financial concerns and withdrawal questions from plan sponsors, and the adoption of a new actuarial assumed rate of return. Together, factors such as these have contributed to a heightened interest in our Plan from the media, plans sponsors, members and the public. Next fiscal year, we will face even greater demands with the recent passage of the California Public Employees' Pension Reform Act of 2013. This legislation will create a considerable amount of work for staff, our consultants and the organization.

As part of addressing these demands, a careful review was done of the administration and organization. In response, four new staff positions were created to fill essential gaps within the organization. They included: Accountant, Retirement Specialist, New Media Specialist and Human Resources Specialist. We also filled several vacant positions on our organizational chart. Don Pierce was appointed as SBCERA's Chief Investment Officer. In addition, we carefully reviewed, updated, and added several Board, CEO and organizational policies to assist in administering SBCERA in a more consistent and efficient manner.

Approved an Actuarial Funding Policy

The Board approved an Actuarial Funding Policy with guidance from our independent actuary, The Segal Company. The Policy incorporated the Board's past actuarial funding decisions and included changes in light of recent actuarial practice and proposed revisions to the financial reporting requirements from the Governmental Accounting Standards Board. The policy establishes goals for actuarial funding, funding requirements and policy components. The policy components include an Actuarial Cost Method, Asset Smoothing Method and Amortization Policy for the Unfunded Actuarial Accrued Liability.

Expanding Member Services

Great strides have been made in our efforts to create new and improved self service options for our members. We implemented eCorrespondence, which allows members to elect to receive and view their Annual Member Statements, Direct Deposit Advices and the Quarterly Review newsletter electronically instead of by mail. Members can now request an appointment online and will be contacted within 24 hours to confirm a date and time. A digital version of The Compass was created to provide a way to more easily navigate and interact with the document. Next year, we will launch a mobile app to offer more direct and convenient access to valuable SBCERA resources such as the retirement calculator, The Compass and the latest Hot Topics on a Smartphone, tablet and/or iPad.

Real Estate Strategy and Private Equity Plans Approved

The Board approved the 2012 Real Estate Strategy, which contains four sections: Risk Exposure of Existing Holdings; Minimize Unfunded Commitments; Vehicle Strategies; and Manager Structure. The strategy proposed some changes to the portfolio including reclassification and/or consolidation of existing manager allocations, ways to restructure unfunded commitments, and a 5-year implementation plan for the Board's target core and non-core portfolio composition.

Letter of Transmittal

(Continued)

The Board also approved the 2012 Private Equity Program Structure, which included the following private equity commitments and allocations: $0 - $40 million to Distressed, $0 - $20 million to Growth, $0 - $20 million to Secondaries, and $0 - $20 million to Mezzanine.

Five-Year Technology Plan

We have made substantial progress with our five-year technology plan. To date, we are in the final phases of the PensionGold Retirement Administration Upgrade project. Other elements of the project include a new enterprise imaging system, a new web member portal, a new employer portal, and a completely redesigned website. All projects are planned for completion in 2013.

Discretionary Retiree Subsidy Payments Ended

General Subsidy payments concluded on October 31, 2011, as previously decided by Board action on April 7, 2011. Beginning with the November benefit payments, all eligible retirees stopped receiving the subsidy payment. The amount of the monthly payment varied from $115 to $230 depending on years of service credit. The assets needed to provide for the non-vested subsidy were at all times secondary to the assets needed to provide for the normal retirement, disability and death benefits of the membership.

Financial Information

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

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

Actuarial Funding Status

SBCERA contracts with an independent actuarial consulting firm, The Segal Company, to conduct annual actuarial valuations, which are presented to the Board each November. On a triennial basis, the actuarial firm also conducts an experience study and makes recommendations to the Board on all economic and non-economic assumptions, which was last completed in 2011. The Segal Company completed the annual valuation for the fiscal year ended June 30, 2012 and presented it to the Board, with subsequent approval, on November 9, 2012.

Letter of Transmittal

(Continued)

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

The actuarial accrued liability of the Plan on June 30, 2011 and June 30, 2012 amounts to $8.19 billion and $8.61 billion, respectively. The actuarial value of assets increased from $6.48 billion at June 30, 2011, to $6.79 billion at June 30, 2012. The funding ratio decreased to 78.89% at June 30, 2012, from the previous fiscal year's 79.18%. This ratio compares the assets of the Plan to the liabilities of the Plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most future benefits. Lower ratios may indicate recent changes to benefit structures, funding of a plan below actuarial requirements, poor asset performance, or a variety of other changes. For a more in-depth review of the funding of the Plan, see the Actuarial Section of this report (page 85).

Investments

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

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

For the fiscal year ended June 30, 2012, investments provided a positive 0.46% rate of return (net of fees). This fiscal year return places SBCERA in the 59th percentile for public funds for the one year period. The plan's annualized rate of return (net of fees) over the three-year period ending June 30, 2012 was 9.94%, underperforming the policy benchmark by 123 basis points producing below median results. Contributors to this performance shortfall were the result of emerging market equity dramatically underperforming the U.S. equity market and a drop in our Euro denominated assets as the Euro/USD conversion rate went from 1.45 to 1.22. The SBCERA portfolio remains defensively positioned focusing on income producing investments. For more details, refer to the Investment Section (page 69).

The total net assets available for benefits increased from $6.14 billion at June 30, 2011 to $6.17 billion at June 30, 2012. Details of the components of this increase are included in the Statements of Changes in Plan Net Assets on page 28 of this report.

Letter of Transmittal

(Continued)

Professional Services

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to San Bernardino County Employees' Retirement Association (SBCERA) for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the 15th consecutive year that SBCERA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

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

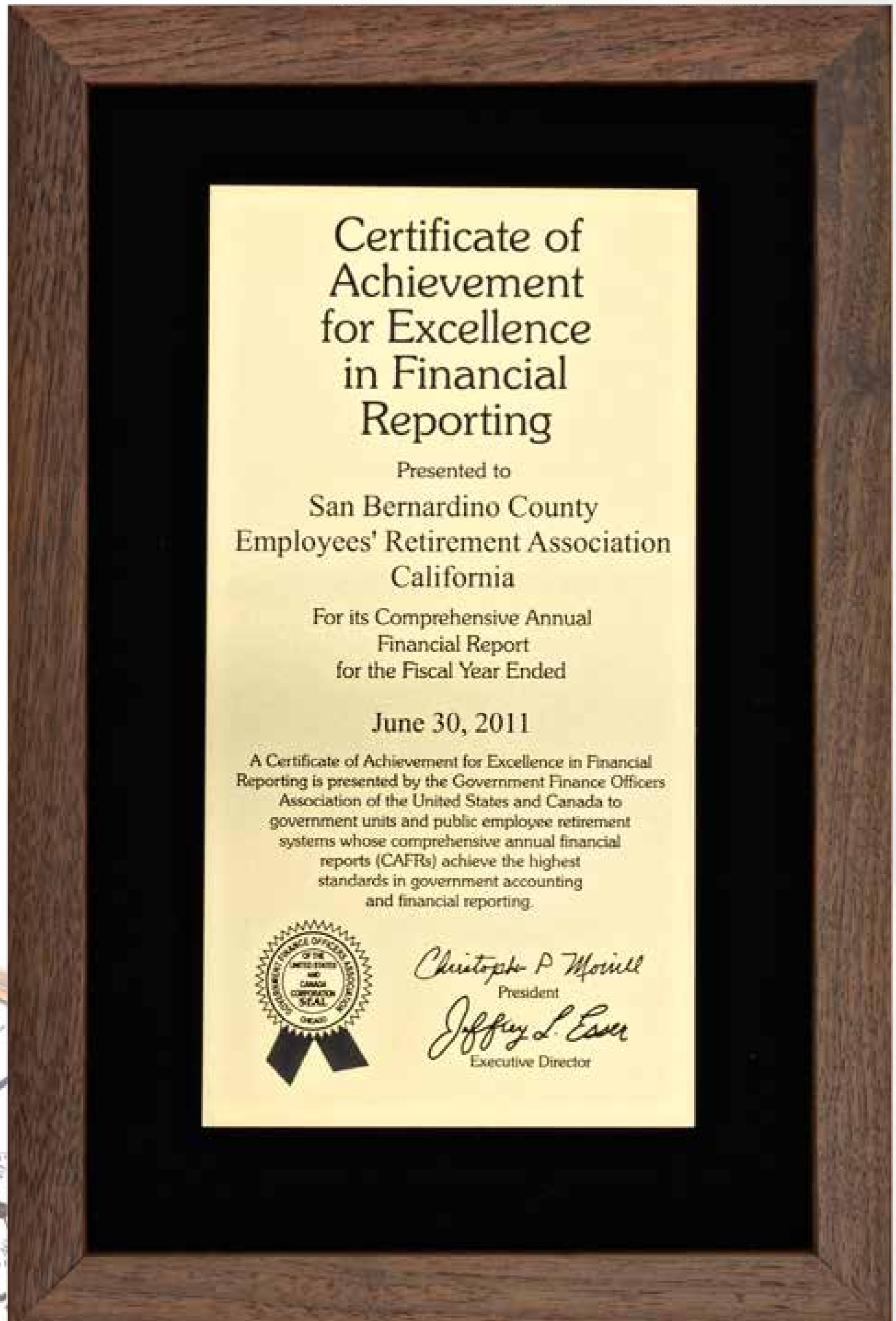
Respectfully submitted,

Norman L. Ruggles
Chief Executive Officer

Certificate of Achievement

San Bernardino County Employees' Retirement Association

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada (GFOA) to government units and public employee retirement systems whose Comprehensive Annual Financial Reports (CAFRs) achieve the highest standards in government accounting and financial reporting each year. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. For the 15th consecutive year, SBCERA has been awarded this prestigious award for the 2011 CAFR. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we will submit it to the GFOA to determine its eligibility for another certificate.



Members of the Board of Retirement

As of June 30, 2012[1]

Dawn Stafford
Board Chairman
Administrative Committee,
Benefits and Compensation Committee
Elected by Retired Members

Dave Williams
Board Vice Chairman
Administrative Committee[2],
Benefits and Compensation Committee[2]
Elected by Safety Members

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

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

Louis Fiorino
Investment Committee
Elected by General Members

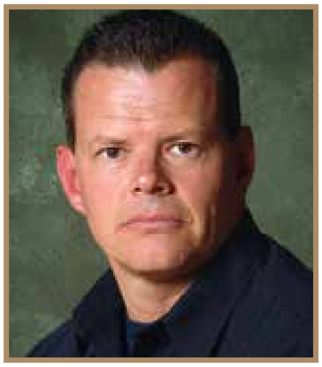
Don Neely
Investment Committee
Elected by General Members

Janice Rutherford
Audit Committee
Appointed by Board of Supervisors

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

Neal Waner
Investment Committee
Appointed by Board of Supervisors

Harry Hatch
Audit Committee
Alternate: Elected by Retired Members



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

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

Key Members of the Administrative Staff

As of June 30, 2012[1]

Board of Retirement

Chief Executive Officer
Norman L. Ruggles

Executive Assistant
Carol Fenn

Chief Investment Officer
Donald Pierce

Senior Investment Officer
James Perry

Chief Counsel
Vacant

Chief Fiscal Services
Julie Underwood

Chief Information Services
Mark Jolicoeur

Chief Member Services
Christie L. Porter

Outside Consultants

ACTUARY

The Segal Company
Consulting Actuary
San Francisco, CA

CUSTODIAL SERVICES

State Street Bank and Trust
Sacramento, CA

COMMERCIAL BANKING

Citizens Business Bank
San Bernardino, CA

INDEPENDENT AUDITORS

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

INVESTMENT CONSULTANTS

NEPC, LLC
Investment Advisor
Cambridge, MA

The Townsend Group
Institutional Real Estate Consultants
Cleveland, OH

Kreischer Miller
Compliance Advisor
Horsham, PA

Maples Finance
LLC Administrator
Cayman Islands

PROFESSIONAL CONSULTANTS

CEM Benchmarking, Inc.
Benchmarking Services
Toronto, Canada

LEGAL COUNSEL

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

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

Arias & Lockwood
Litigation & Disability Counsel
San Bernardino, CA

Greenberg Traurig, LLP
Litigation Counsel
Santa Monica, CA

Foley & Lardner, LLP
Investment Counsel
Boston, MA

Maples & Calder
Investment Counsel
Cayman Islands

TECHNICAL & DESIGN SUPPORT

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

Spencer Lewis Group
Graphic Design
Rancho Cucamonga, CA

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

(1) Members are listed as of the date this report is issued.
Note: A listing of investment professionals can be found in the Investment Section.

Report from the Chairman of the Board

San Bernardino County Employees' Retirement Association

November 23, 2012

Dear Members:

It is an honor to once again present to you the San Bernardino County Employees' Retirement Association's (SBCERA) 2011-2012 Comprehensive Annual Financial Report (CAFR), "A Journey through Time."

The CAFR is one of our most valuable informational resources. Each year, staff does a remarkable job of creating a unique, informative and accurate document that serves as a lasting resource for current and historical data including financial, investment, actuarial and statistical data. We have received a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association for the fifteenth consecutive year for our 2010-2011 CAFR. In addition, SBCERA has won awards from the local chapters of the Public Relations Society of America and the American Marketing Association for the CAFR as a high-quality, effective communication tool.

After reporting record-breaking gains of more than 22% last year, this year's returns pale in comparison. Our assets earned a return of 0.46%, or $36.7 million for the fiscal year ended June 30, 2012. Recent fluctuations in our performance year after year are a testament to the unstable and unpredictable reality of today's economy. This year, risk was rewarded. Those investors who took greater risks performed substantially better than those, like SBCERA, who focused on reducing risk and maintaining greater stability. On a risk adjusted basis, the Fund performed extremely well. The Fund produced a Sharpe ratio of 1.7 and a Standard Deviation of 5.9%. Therefore, our Fund had a much higher rate of return for each unit of risk taken and was able to produce more stable and reliable returns. Hence, our returns mirrored our policies and our Fund performed as we would expect in this type of risk reward environment.

Our theme this year, "A Journey through Time," is an excellent opportunity for us to look back at the history of defined benefit plans as we prepare for the years ahead. My journey on the Board of Retirement began when I was first elected in 2005. And, what a journey it has been. When I first joined the Board, our Fund was well funded and at its pinnacle of success with double digit gains year over year. However, since 2008 things have changed. Today, we struggle as all public pension plans do to navigate some of the toughest economic times we have ever faced.

Looking back even further, we see how we have gotten here. Employers began offering their employees retirement benefits more than a century ago. The first public retirement system was established in 1857 by the New York City Police, and in 1937 the County Employees' Retirement Law set the stage for county public pension plans in California, including SBCERA. In the past, defined benefit plans were considered a cost-effective way to provide reliable, lifetime retirement benefits to workers while offering a competitive advantage over other employers. However, in the 1970s and 80s, defined contribution plans emerged and became increasingly attractive to employers causing a rapid decline in defined benefit plans. Today, public defined benefit plans have come under attack taking the blame for the financial woes plaguing municipalities across the nation.

At SBCERA, our journey began in 1945. Since then, things have changed. Our members broke away from Social Security in the 1970s, benefits were added to our plan such as reciprocity in the 1980s and enhancements were imposed following the Ventura Decision at the start of the millennium. Regardless of these changes and challenges, for more than 67 years

Report from the Chairman of the Board

(Continued)

SBCERA has been successfully investing and managing contributions to provide our 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." Our portfolio has weathered good times and bad. Today, we hold and invest more than $6.17 billion on behalf of our 32,824 members.

While the last few years have been challenging, public pension plans are long-term investors. Our gains and losses are smoothed for the purpose of determining contributions and then amortized over lengthier time periods to avoid drastic fluctuations. Our economy is still recovering, and it is going to be a long and difficult recovery. Interest rates remain at all-time lows, tarnishing the bond markets' future returns; debt is the new normal as global economies and consumers seek to unbury themselves from mounting obligations; and there is ongoing uncertainty of when, and if, we will face a recession. As a result, SBCERA has built a portfolio focused on income generating assets that can provide a steady stream of income while diversifying across various asset classes and managing risk. I am optimistic these strategies will ensure we are well-positioned for any scenario we may face in the years ahead.

In the coming year, SBCERA will face one of its greatest challenges yet by embarking on a new journey to implement one the most sweeping pieces of pension reform legislation since the 1940s. In September, Governor Brown passed the California Public Employees' Pension Reform Act of 2013. This legislation will drastically change retirement benefits for future SBCERA members hired on or after January 1, 2013, and will have little to no impact on benefits for current SBCERA members and retirees. SBCERA staff and the Board of Retirement are already working closely with all stakeholders, including employers and our members, to inform, teach and implement these wide-spread changes.

Looking back through time and preparing for the future, one thing remains clear; we, local leaders and elected officials, must work together to determine how we can ensure a cost effective way to offer a stable and secure retirement for everyone. The latest legislation is a step in the right direction as we identify more sustainable solutions for defined benefit plans, plan sponsors and our members. I am grateful to be a part of this journey and to serve on your behalf.

As we move forward in time, I can assure you that your benefits remain solid and secure and we will do our best to keep you informed of our progress along the way. Thank you for your ongoing support and understanding during such uncertain times. I am looking forward to the years ahead and remain confident about the future success of our Plan.

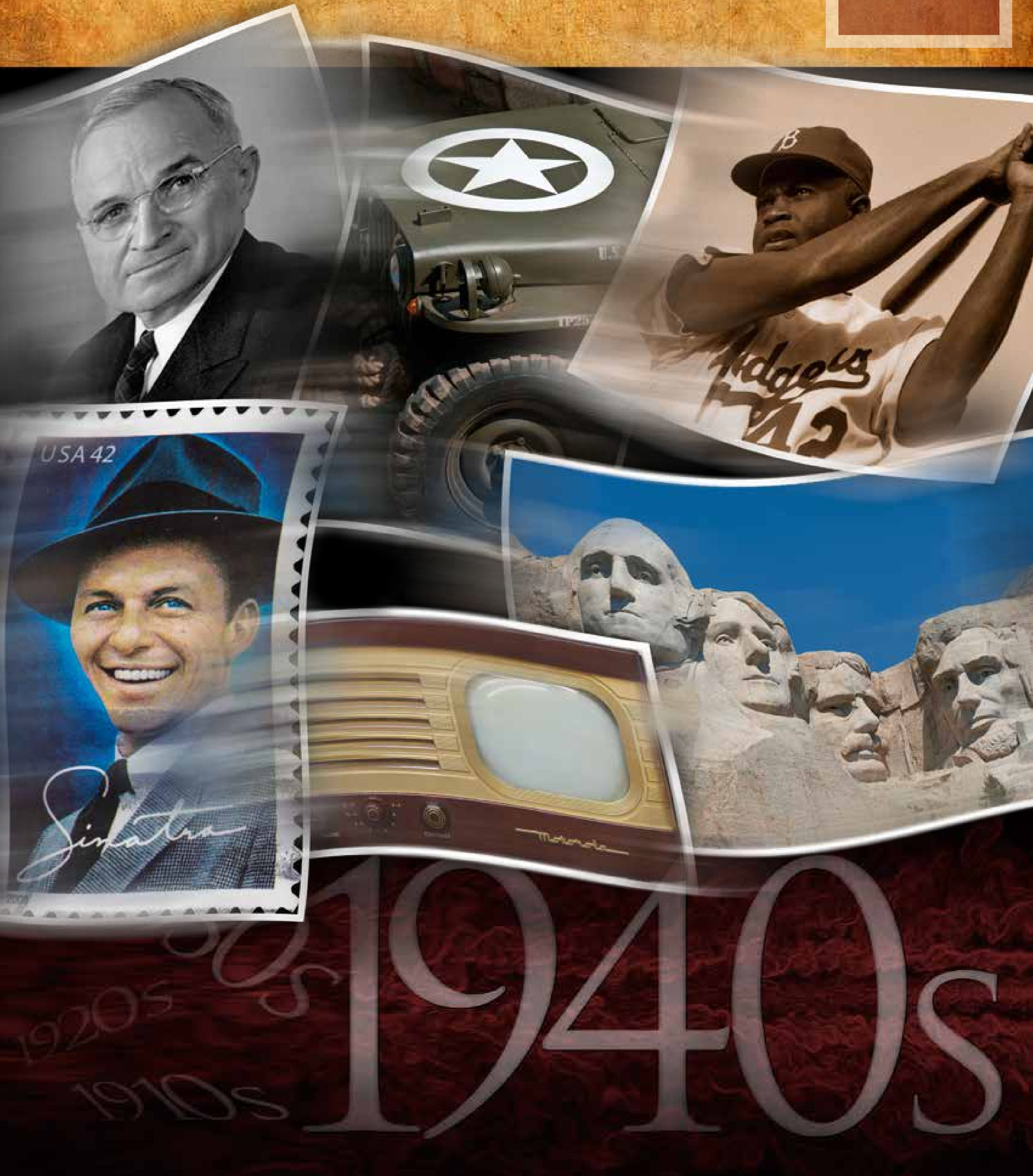
Sincerely,

Dawn Stafford

Dawn Stafford
Chairman, Board of Retirement

FINANCIAL

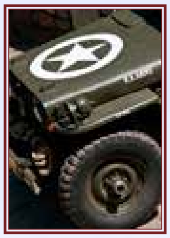
SECTION 2.0



SECTION 2.0
FINANCIAL

THE 1940S

The 40s were defined by World War II. The Great Depression ended. Men went to war and women went to work. Following the war, the U.S. emerged as a world super power. Families were reunited and there was an explosion of births known as the "Baby Boom," which started in 1946 and ended in 1964. Based on data by the U.S. Census Bureau, from 1940 to 1949 the number of births grew from approximately 2.56 million to 3.65 million.



1940

Karl Pabst designed the Jeep. It became the workhorse of WWII with more than 36,000 Jeeps produced for the Allied armed forces.

1941

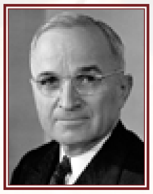
Construction ends on the Mount Rushmore National Memorial in South Dakota. The entire memorial covers 1,278 acres.

1943

Frank Sinatra was signed by Columbia Records. His first studio album was *The Voice of Frank Sinatra* released in 1946. It stayed on top of the music charts for seven weeks.

1945

Formation of the San Bernardino County Employees' Retirement Association (SBCERA).



1945

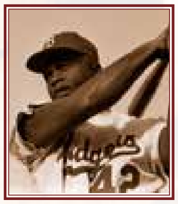
Harry Truman, Franklin D. Roosevelt's third vice president, became the 34th Vice President of the United States.

1946

The microwave oven was invented by Percy Spencer. They were first sold commercially in 1947.[1]

1947

Motorola introduced the first television set, VT-71 television, to be sold for under $200, making television affordable for Americans.



1947

Jackie Robinson officially breaks the color barrier when he steps onto the field for his first game as a Brooklyn Dodger.

SBCERA | 1945

Formation of the San Bernardino County Employees' Retirement Association (SBCERA)

January 1, 1945

The County Employees Retirement Law of 1937 ('37 Act) provides two methods by which a county may establish a retirement system. A retirement system can be established by a majority vote of the people or a four-fifths vote of the county Board of Supervisors. SBCERA was established on January 1, 1945, following a vote of the people of the County of San Bernardino on May 16, 1944.

(1) Reference photo credit on inside back cover for IMG.1.

Independent Auditor's Report

As of June 30, 2012

MGO Certified Public Accountants.

LA/Century City
2029 Century Park East, Suite 500
Los Angeles, CA 90067
310.277.3373

Sacramento

Walnut Creek

Oakland

Newport Beach

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

To the Members of the
San Bernardino County Board of Retirement

We have audited the accompanying statements of plan net assets of the San Bernardino County Employees' Retirement Association (SBCERA) as of June 30, 2012 and 2011 and the related statements of changes in plan net assets for the years then ended. We have also audited the accompanying statements of fiduciary assets and liabilities of the Pacific Public Partners (PPP), an agency fund of SBCERA as of June 30, 2012 and 2011. These financial statements are the responsibility of SBCERA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SBCERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of SBCERA, as of June 30, 2012 and 2011, the fiduciary assets and liabilities of the PPP agency fund as of June 30, 2012 and 2011, and the related statements of changes in plan net assets of SBCERA for the years ended June 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

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

Independent Auditor's Report

(Continued)

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, the other supplementary information in the financial section and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting or other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Los Angeles, California
November 23, 2012

Management's Discussion and Analysis

As of June 30, 2012 and 2011

As management of the San Bernardino County Employees' Retirement Association (SBCERA), we offer readers of SBCERA's financial statements this narrative overview and analysis of the financial activities of SBCERA for the fiscal years ended June 30, 2012 and 2011. Readers are encouraged to consider the information presented here in conjunction with the Chief Executive Officer's Letter of Transmittal, included in the Introductory Section, as well as the financial statements as presented in this report.

Financial Highlights

- The net assets held in trust for pension benefits of SBCERA at the close of the 2012 and 2011 fiscal years are $6.17 billion and $6.14 billion, respectively. All of the net assets are available to meet SBCERA's ongoing obligations to plan participants and their beneficiaries.
- SBCERA's total net assets held in trust for pension benefits increased by $36.76 million or 0.60% and $1.11 billion or 22.01% as of June 30, 2012 and 2011, respectively. The increase in 2012 and 2011 are primarily a result of positive investment returns.
- Total Additions as reflected in the Statements of Changes in Plan Net Assets for fiscal years 2012 and 2011 are $386.51 million and $1.43 billion, respectively. This includes employer and member contributions of $346.72 million, investment income of $39.18 million and net securities lending income of $607 thousand for fiscal year 2012, along with employer and member contributions of $317.74 million, investment income of $1.12 billion and net securities lending income of $516 thousand for fiscal year 2011.
- Total Deductions as reflected in the Statements of Changes in Plan Net Assets total $349.75 million for fiscal year 2012, an increase of $21.97 million over fiscal year 2011, or approximately 6.70%. Total Deductions for fiscal year 2011 were $327.78 million, an increase of $25.64 million over fiscal year 2010, or approximately 8.49%.
- SBCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. SBCERA engaged The Segal Company to serve as its independent actuary. As of June 30, 2012, the date of our last actuarial valuation, and June 30, 2011, the funded ratio, which is the ratio of actuarial value of assets (market value of assets adjusted by smoothing market gains and losses over five years) to actuarial accrued liabilities for SBCERA was approximately 78.89% and 79.18%, respectively. If the market gains and losses were recognized immediately, the funded ratio would decrease to 71.73% at June 30, 2012 compared to 74.93% at June 30, 2011.

Overview of the Financial Statements

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

1. Statements of Plan Net Assets
2. Statements of Changes in Plan Net Assets
3. Statements of Fiduciary Assets and Liabilities
4. Notes to Financial Statements
5. Required Supplementary Information and Other Supplementary Information (Supporting Schedules)

Management's Discussion and Analysis

(Continued)

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

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

The Statements of Fiduciary Assets and Liabilities is 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-Fiduciary Fund-Agency Fund is presented in the Other Supplementary Information section of this report (refer to Note 13 – Pacific Public Partners, for further information).

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

The Statements of Plan Net Assets and Statements of Changes in Plan Net Assets report SBCERA's net assets held in trust for pension benefits (net assets 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 assets 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 report).

Notes to 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 Financial Statements section of this report).

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning SBCERA's progress in funding its obligations to provide pension benefits to members (see Required Supplementary Information section of this report).

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

Management's Discussion and Analysis

(Continued)

Financial Analysis

Assets and Funding Ratio

Net assets may serve over time as a useful indication of SBCERA's financial position (see Table 1, on page 20). As of June 30, 2012 SBCERA has $6.17 billion in net assets, which means Total Assets of $6.65 billion exceed Total Liabilities of $473.10 million. As of June 30, 2011 and 2010, SBCERA had $6.14 billion and $5.03 billion in net assets, respectively, as a result of Total Assets of $6.51 billion and $5.33 billion exceeding Total Liabilities of $377.99 million and $302.86 million, respectively. All of the net assets are available to meet SBCERA's ongoing obligation to plan participants and their beneficiaries.

As of June 30, 2012, net assets increased by $36.76 million thereby accounting for a 0.60% increase over the prior year, due primarily to gains in the fair market value of investments. As of June 30, 2011, net assets increased by $1.11 billion, thereby accounting for a 22.01% increase from the prior year due primarily to gains in the fair market value of investments, respectively.

In order to determine whether the $6.17 billion in net assets will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. SBCERA's independent actuary, The Segal Company, performed an actuarial valuation as of June 30, 2012 and determined the funding ratio of the actuarial value of assets to the actuarial accrued liability is 78.89% versus 79.18% for the fiscal year ended June 30, 2011. The June 30, 2011 funding ratio of 79.18% represents a lower ratio as compared to the funding ratio of 85.52% as of June 30, 2010. This calculation of funding status takes into account SBCERA's policy to smooth the impact of market volatility by spreading each year's gains or losses over five years (note: the Reserves section of this discussion provides additional information regarding the smoothing of the unrecognized losses from the June 30, 2011 valuation). If the market gains and losses were recognized immediately, the funded ratio would decrease to 71.73% at June 30, 2012 compared to 74.93% and 67.6% at June 30, 2011 and 2010, respectively.

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The actuary must use assumptions regarding life expectancy, projected salary increases over time, projected retirement age and expected rate of return for the investment portfolio (7.75% rate of return was used for the June 30, 2012 and 2011 valuations and 8.00% was used for the June 30, 2010 valuation). All assumptions used by the actuary are reviewed by the Board of Retirement, every three years.

The purpose of an actuarial valuation is to determine what future contributions by the members and the Plan sponsors are needed to pay all expected future benefits. This ratio shows as of the June 30, 2012, June 30, 2011 and June 30, 2010 valuations, SBCERA had approximately $.79, $.79 and $.86 available for each $1.00 of anticipated future liabilities, respectively.

Capital Assets

SBCERA's investment in capital assets increased from $1.36 million to $2.16 million (net of accumulated depreciation and amortization) between fiscal years 2011 and 2012 after decreasing from $1.40 million to $1.36 million between fiscal years 2010 and 2011. This investment in capital assets includes equipment, furniture, leasehold improvements, software and technology infrastructure. The total increase in SBCERA's investment in capital and intangible assets for the current fiscal year was $797 thousand from 2011. The increase is primarily due to the costs incurred for the development of internally generated software for a new pension administration system during fiscal year 2012. The total decrease in SBCERA's capital assets between fiscal years 2010 and 2011 of $46 thousand was primarily due to older assets being fully depreciated or amortized during fiscal year 2011.

Management's Discussion and Analysis

(Continued)

SBCERA's Net Assets (Table 1)

As of June 30, 2012 through 2009 (Amounts in Thousands)

	(a) 2012	(b) 2011	(c) 2010	(d) 2009	(a-b=e) Amount Increase/ (Decrease)	(e/b) Percent Increase/ (Decrease)
Current and other assets	$170,060	$139,579	$39,741	$44,520	$30,481	21.84%
Investments at fair value	6,474,223	6,373,633	5,291,183	4,887,960	100,590	1.58%
Capital assets	2,156	1,359	1,405	1,733	797	58.65%
TOTAL ASSETS	**6,646,439**	**6,514,571**	**5,332,329**	**4,934,213**	**131,868**	**2.02%**
Current liabilities	473,105	377,997	302,855	389,794	95,108	25.16%
TOTAL LIABILITIES	**473,105**	**377,997**	**302,855**	**389,794**	**95,108**	**25.16%**
NET ASSETS	**$6,173,334**	**$6,136,574**	**$5,029,474**	**$4,544,419**	**$36,760**	**0.60%**

SBCERA's Reserves (Table 2)

For the Years Ended June 30, 2012 through 2009 (Amounts in Thousands)

	2012	2011	2010	2009
Member deposit reserve[1]	$1,116,023	$1,086,028	$1,044,584	$991,836
Employer current service reserve[1]	1,818,582	1,907,190	1,914,095	1,875,643
Contra account[1]	(1,469,395)	(1,328,624)	(921,312)	(380,902)
Pension reserve[1]	2,938,867	2,634,771	2,350,739	2,131,683
Cost of living reserve[1]	1,234,357	1,132,885	1,033,348	939,331
Annuity reserve[1]	1,094,032	927,684	779,185	650,520
Supplemental disability reserve[1]	8,738	8,299	8,448	8,441
Survivor benefit reserve[1]	47,376	44,776	42,101	39,099
Burial allowance reserve[2]	912	955	1,094	1,251
Retiree general subsidy reserve[2]	-	5,397	61,618	77,145
Restricted balance reserved for deficiencies[2]	-	65,146	53,332	49,342
TOTAL RESERVES	**6,789,492**	**6,484,507**	**6,367,232**	**6,383,389**
Net unrecognized gains/(losses)	(616,158)	(347,933)	(1,337,758)	(1,838,970)
NET MARKET VALUE	**$6,173,334**	**$6,136,574**	**$5,029,474**	**$4,544,419**

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

Management's Discussion and Analysis

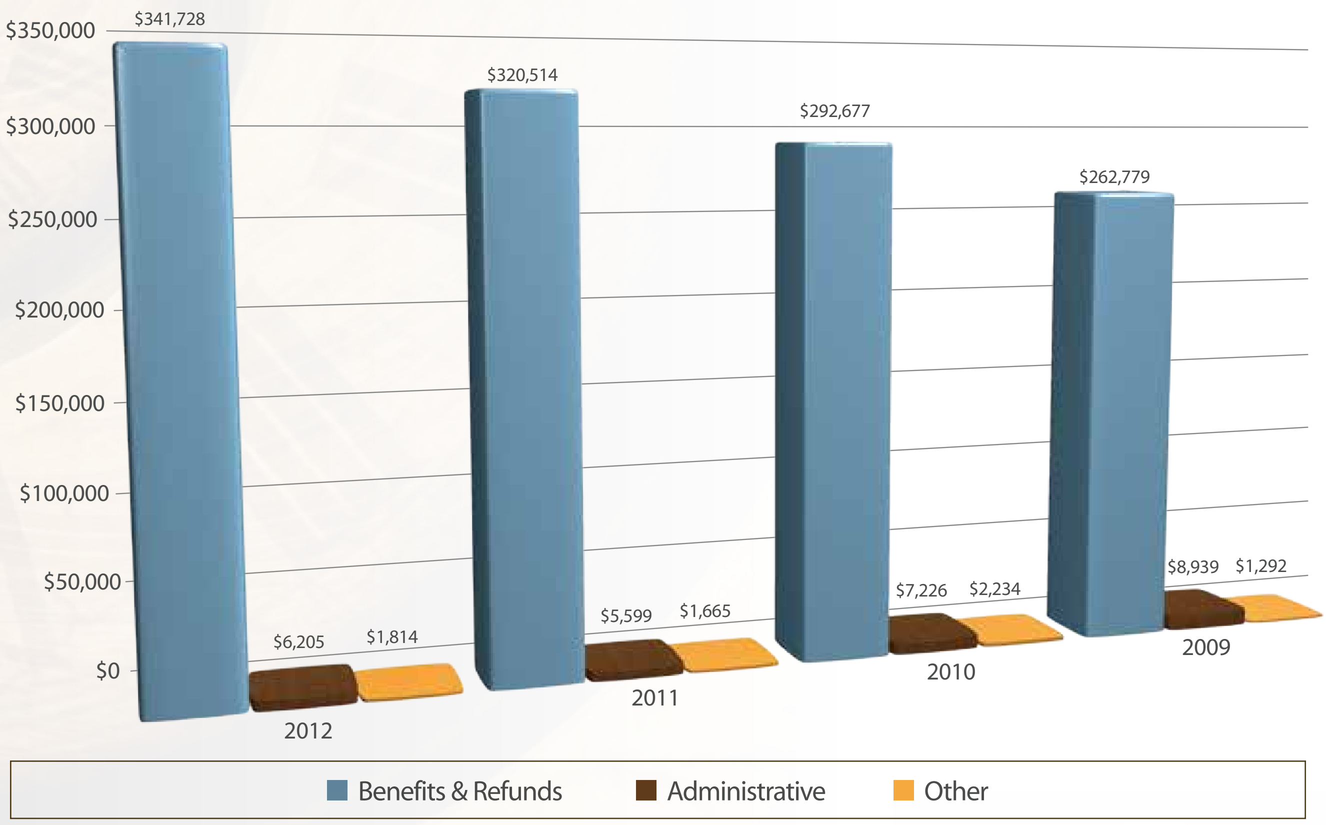
(Continued)

Changes in Plan Net Assets (Table 3)

For the Years Ended June 30, 2012 through 2009 (Amounts in Thousands)

Revenues— Additions to Plan Net Assets	(a) 2012	(b) 2011	(c) 2010	(d) 2009	(a-b=e) Amount Increase/ (Decrease)	(e/b) Percent Increase/ (Decrease)
Employer contributions	$278,091	$258,128	$243,773	$246,232	$19,963	7.73%
Member contributions	68,630	59,612	56,986	49,550	9,018	15.13%
Net investment income/(loss)[1]	39,179	1,116,622	485,750	(1,587,477)	(1,077,443)	(96.49)%
Net securities lending income	607	516	683	3,644	91	17.64%
TOTAL ADDITIONS	**386,507**	**1,434,878**	**787,192**	**(1,288,051)**	**(1,048,371)**	**(73.06)%**

Expenses— (refer to graph below) Deductions in Plan Net Assets	(f) 2012	(g) 2011	(h) 2010	(i) 2009	(f-g=j) Amount Increase/ (Decrease)	(j/g) Percent Increase/ (Decrease)
Benefits & refunds	341,728	320,514	292,677	262,779	21,214	6.62%
Administrative	6,205	5,599	7,226	8,939	606	10.82%
Other	1,814	1,665	2,234	1,292	149	8.95%
TOTAL DEDUCTIONS	**349,747**	**327,778**	**302,137**	**273,010**	**21,969**	**6.70%**
INCREASE (DECREASE) IN NET ASSETS	**$36,760**	**$1,107,100**	**$485,055**	**$(1,561,061)**	**$(1,070,340)**	**(96.68)%**



(1) Net of Investment expenses of $79,732, $60,348, $66,075 and $48,960 for June 30, 2012 through 2009, respectively.

Management's Discussion and Analysis

(Continued)

Reserves

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

- The implementation of a new Interest Crediting Procedures and Undesignated Excess Earnings Allocation Policy in 2005 and 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.
    - Normal costs are now calculated on an individual basis, previously calculated on an aggregate basis, to comply with the Governmental Accounting Standards Board recommendations.
    - The amortization periods were adjusted for various future changes in liability that had no impact on the June 30, 2012 valuation. See Notes to the Required Supplementary Information section of this report.
- On April 7, 2011, the Board of Retirement voted to end the discretionary retiree subsidy after October 31, 2011. Refer to Note 8 – Net Assets Available for Benefits, for further information.
- On March 13, 2012, the Board of Retirement approved an ad hoc adjustment to the asset smoothing method to combine the net deferred investment loss, from the June 30, 2011 actuarial valuation, into a single four year smoothing layer.
- Previously, the $1,000 lump sum post-retirement death benefit (the Burial Allowance) was excluded from the valuation. Effective with the June 30, 2012 valuation, the liabilities associated with the vested $750 portion of the benefit have been included in the valuation (the remaining $250 is a discretionary benefit and is funded from undesignated excess earnings, subject at all times to the availability of funds in the Burial Allowance reserve).

Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. For actuarial purposes, it is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board of Retirement has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year, they are smoothed over a five-year period and, as a result, the asset value and the plan costs are more stable. These gains and losses are shown in the Net Unrecognized Gains/Losses reserve account. For the June 30, 2012 valuation, the net unrecognized loss from the June 30, 2011 valuation will be 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 Unrecognized Gains/Losses reserve account of $(616.16) million at June 30, 2012 from $(347.93) million at June 30, 2011 and $(1.34) billion at June 30, 2010 or decrease of approximately $268.23 million to fiscal year 2012 from fiscal year 2011 and an increase of $989.82 million to fiscal year 2011 from fiscal year 2010, respectively as follows:

- The overall increase in the fair value of investments in fiscal year 2012, 2011 and 2010.
- Interest crediting at the actuarial assumed interest rate (as dictated by the interest crediting policy) in fiscal years 2012, 2011 and 2010.

Management's Discussion and Analysis

(Continued)

- 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 Interest Crediting Procedures and Undesignated Excess Earnings Allocation Policy which were discussed above.

Additions and Deductions to Plan Net Assets

Additions:

The primary sources of financing SBCERA benefits is through the collection of employer and employee contributions and through earnings on investment income (net of investment expenses). Additions for the fiscal year ended June 30, 2012, totaled $386.51 million compared to $1.43 billion for June 30, 2011 and $787.19 million for June 30, 2010 (See Table 3, on page 21). Overall additions decreased by $1.05 billion between fiscal years 2011 and 2012 due to a 96.49% decrease in net investment income from the prior year, offset slightly by a modest increase in total contributions. Additions increased by $647.69 million between 2010 and 2011, due to a significant increase in the fair value of investments, investment income and a modest increase in total contributions.

Income from net investment activity contributed $39.18 million for June 30, 2012 versus $1.12 billion for June 30, 2011 and $485.75 million for June 30, 2010. The overall decrease in investment income from prior year was due primarily to the economic uncertainties in the international markets. The debt crisis in Europe, significant drawdown in emerging market equity and the struggling U.S. economy all added to the uncertainty in the market place. The investment section of this report reviews the results of investment activity for the year ended June 30, 2012.

Deductions:

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

Deductions for the fiscal year ended June 30, 2012 totaled $349.75 million, an increase of $21.97 million or 6.70% over the June 30, 2011 amount of $327.78 million. The increase in deductions for the fiscal year ended June 30, 2011 were $25.64 million or 8.49% over the June 30, 2010 amount of $302.14 million (see Table 3, on page 21). The increases in all years are primarily due to the overall growth in the number of retirees and in the average amount of benefits paid to them. In addition, for June 30, 2012, personnel costs (filling of new and vacant positions, and cost of living increases), actuarial service costs and technology infrastructure costs (development of a new pension administration system) all increased compared to June 30, 2011.

Pension Reform and Future Standards

Pension Reform - Governor Jerry Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA), which becomes effective January 1, 2013. While it has been called one of the largest pieces of pension reform legislation on record, it will have minimal impact on current and retired SBCERA members. Most changes and provisions will affect new public employees hired on or after January 1, 2013. The major provisions include ending the purchase of Additional Retirement Credit (ARC) for all members, restricts the ability of a retiree to return to work for a public employer in the same retirement system without reinstatement to active service and a suspension of the retirement benefit unless certain

Management's Discussion and Analysis

(Continued)

conditions are met, and employers cannot adopt an enhanced benefit formula and apply it to past service. In addition, for new public employees, the legislation reduces benefit formulas, limits pensionable income, expands the final compensation period from one year to three years, and requires the new employee to pay a larger share of normal costs.

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

Overall Analysis

For the fiscal years ended June 30, 2012 and 2011, SBCERA's financial position and results from operations have experienced an increase over the prior year. For 2012, net assets increased by $36.76 million over 2011. For 2011, net assets increased by $1.11 billion from 2010. The overall increase in net assets for June 30, 2012 is primarily attributable to the increase in investment income and appreciation in the fair value of the Plan's broadly diversified portfolio. With diversified exposure to domestic and international equities, fixed income investments, natural resources, real estate, infrastructure, private equity and overlay programs, the Plan is recovering from the general market downturn which occurred in 2009 and 2008. Despite variations in the financial markets, SBCERA remains in a sound financial position to meet its obligations to the plan participants and beneficiaries. The current financial position results from a very strong and successful investment program, risk management and strategic planning. As a long-term investor, SBCERA can take advantage of price volatility, and we feel well positioned with our value focused assets to face an uncertain future.

SBCERA's Fiduciary Responsibilities

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

Requests for Information

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

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

Respectfully submitted,

Julie Underwood

Julie Underwood, CPA
Chief of Fiscal Services

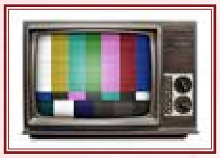
SECTION 2.1

FINANCIAL

Basic Financial Statements

THE 1950S

Coined the "Happy Days," the 50s was a decade of conservatism, prosperity and pastimes. With the end of World War II and thousands of servicemen returning home to reunite with their families, it was a time of new lives, new homes, new jobs, and new families. With the baby boom still underway, corporate expansion and economic growth, America experienced a revival. Women sought places in the workforce, which was made up of five males to every two females. Most memorable in the 50s, was the introduction of rock 'n' roll as Elvis Presley, Buddy Holly and Jerry Lee Lewis climbed the music charts.



1951

CBS broadcasts the first commercial color television program, it was a variety program called "Premiere."

1953

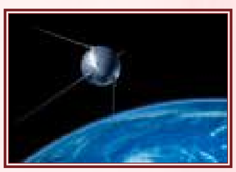
Chevrolet introduced the Corvette; it was the first car with an all-fiberglass body.

1954

The landmark U.S. Supreme Court decision of Brown vs. Board of Education ruled that segregation was "inherently unequal" and, therefore, illegal in the U.S.

1955

Disneyland opens to the public, admission was $1.



1957

The Soviet Union launched the first artificial satellite, Sputnik 1.

1958

Chuck Berry releases the song "Johnny B. Goode," it ranked #1 for the decade.[1]

1959

Alaska and Hawaii become the forty-ninth and fiftieth states.

1959

Establishment of "Safety" Member Plan.

SBCERA | 1959

Establishment of "Safety" Member Plan

May 18, 1959

On May 18, 1959, the San Bernardino County Board of Supervisors adopted Government Code section 31695.1, establishing Safety member provisions for SBCERA members employed in active law enforcement or fire suppression. The provision allowed for future benefit decisions and amendments applicable to Safety members, such as a separate benefit formula and different retirement eligibility requirements.

(1) Reference photo credit on inside back cover for IMG.2.

Statements of Plan Net Assets

As of June 30, 2012 and 2011 (Amounts in Thousands)

ASSETS	**2012**	**2011**
Cash:		
Cash pooled with County Treasurer	$6,876	$5,685
Cash in bank	3,857	3,379
TOTAL CASH	**10,733**	**9,064**
Receivables:		
Securities sold	140,500	109,371
Accrued interest and dividends	1,595	3,210
Employer and employee contributions	13,877	13,644
Due from agency fund	1,007	2,719
Other	2,348	1,571
TOTAL RECEIVABLES	**159,327**	**130,515**
Investments, at fair value:		
Short-term cash investment funds	737,213	614,227
Emerging market debt	234,453	238,856
United States government securities	112,799	160,128
Corporate bonds	15,456	48,240
Domestic common and preferred stock	379,763	346,687
Foreign common and preferred stock	259,631	244,409
Foreign bonds	48,841	75,505
Investments of cash collateral received on securities lending	160,285	246,967
Real estate	534,807	483,650
Domestic alternatives	3,087,403	3,030,376
Foreign alternatives	903,572	884,588
TOTAL INVESTMENTS, AT FAIR VALUE	**6,474,223**	**6,373,633**
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION	**2,156**	**1,359**
TOTAL ASSETS	**6,646,439**	**6,514,571**

LIABILITIES		
Securities lending	161,521	250,033
Securities options payable	167,284	56,733
Payables for securities purchased	110,535	36,380
Mortgage notes payable	24,888	25,133
Other liabilities	8,877	9,718
TOTAL LIABILITIES	**473,105**	**377,997**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$6,173,334**	**$6,136,574**

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

Statements of Changes in Plan Net Assets

For the Years Ended June 30, 2012 and 2011 (Amounts in Thousands)

ADDITIONS IN PLAN NET ASSETS	2012	2011
Contributions:		
Employers	$278,091	$258,128
Employees	68,630	59,612
TOTAL CONTRIBUTIONS	346,721	317,740
Investment Income:		
Net appreciation/(depreciation) in fair value of investments:		
Securities and alternative investments	64,678	1,075,915
Real estate	22,942	74,319
TOTAL NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	87,620	1,150,234
INTEREST INCOME ON CASH AND SECURITIES:	5,218	8,811
Other Investment Income:		
Dividend income	6,611	7,725
Net real estate rental income	19,462	10,199
Net income from commission recapture	-	1
TOTAL OTHER INVESTMENT INCOME	26,073	17,925
Less Investment Expenses:		
Investment advisement fees	(62,926)	(48,726)
Other investment expense	(16,806)	(11,622)
NET INVESTMENT INCOME	39,179	1,116,622
Securities Lending Income:		
Earnings	825	845
Less: rebates and bank charges	(218)	(329)
NET SECURITIES LENDING INCOME	607	516
TOTAL ADDITIONS IN PLAN NET ASSETS	386,507	1,434,878
DEDUCTIONS IN PLAN NET ASSETS		
Benefits and refunds paid to participants and beneficiaries	341,728	320,514
Administrative expenses	6,205	5,599
Other expenses	1,814	1,665
TOTAL DEDUCTIONS IN PLAN NET ASSETS	349,747	327,778
NET INCREASE IN PLAN NET ASSETS	36,760	1,107,100
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	6,136,574	5,029,474
END OF YEAR	$6,173,334	$6,136,574

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

Statements of Fiduciary Assets and Liabilities

Agency Fund – Pacific Public Partners
As of June 30, 2012 and 2011 (Amounts in Thousands)

ASSETS	2012	2011
Accounts receivable	$1,007	$952
Due from SBCERA	-	1,769
TOTAL ASSETS	**$1,007**	**$2,721**

LIABILITIES		
Accounts payable	$-	$2
Due to SBCERA	1,007	2,719
TOTAL LIABILITIES	**$1,007**	**$2,721**

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

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 1 – Significant Provisions of the Plan

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost sharing multiple employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Law of 1937 (the '37 Act) and covering substantially all employees of 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, Crest Forest Fire Protection District, 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, Law Library for San Bernardino County, Local Agency Formation Commission, Mojave Desert Air Quality Management District, Rim of the World Recreation and Park District, San Bernardino Associated Governments, SBCERA, San Bernardino International Airport Authority, South Coast Air Quality Management District (SCAQMD) and Superior Court of California County of San Bernardino, collectively referred to as the "Plan Sponsors" or "employers". SBCERA is controlled by its own board, the Board of Retirement, which acts as a fiduciary agent for the accounting and control of employer and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives its own independent audit. SBCERA is a legally separate entity from the County of San Bernardino and not a component unit. For these reasons, the County of San Bernardino's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2012. The San Bernardino County Board of Retirement consists of nine members and two alternate members; four are appointed by the County of San Bernardino's Board of Supervisors, six (including the two alternates) are elected by the members of SBCERA and the County of San Bernardino Treasurer is an ex-officio member. The Plan's provisions may be amended by state legislature and in some cases require approval by the Board of Supervisors of San Bernardino County.

At June 30, 2012 and 2011, SBCERA membership consisted of the following:

	2012			2011		
	General	Safety	Total	General	Safety	Total
Retirees and beneficiaries currently receiving benefits	8,237	1,499	9,736	7,855	1,410	9,265
Terminated employees – vested	3,618	164	3,782	3,555	168	3,723
Current employees – vested	12,302	1,795	14,097	11,731	1,808	13,539
Current employees – nonvested	4,853	356	5,209	5,339	380	5,719
TOTAL	**29,010**	**3,814**	**32,824**	**28,480**	**3,766**	**32,246**

Employees (members) become eligible for membership on their first day of regular employment and become fully vested after 5 years of service credit. General members are eligible for retirement benefits upon completion of 10 years of service credit and attaining age 50, 30 years of service credit regardless of age or age 70 regardless of years of service credit. Safety members (law enforcement and fire suppression employees) have the same eligibility requirements as general members except they are required to complete only 20 years of service credit, regardless of age. Retirement benefits are calculated at 2% for general members and 3% for safety members of final compensation, as defined in Government Code sections 31462.1, 31676.15 and 31664.1 of the 1937 Act, for each completed year of service based on a normal retirement age of 55 for general members and 50 for safety members. Members with 30 or more years of service credit are exempt from paying member contributions.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 1 – Significant Provisions of the Plan (Continued)

Effective November 2009, for members retired from SBCERA on or before April 1, 2010, the Board approves a discretionary retiree subsidy, on an annual basis, pursuant to Government Code section 31691.1. This benefit is funded from undesignated excess earnings and is subject at all times to the availability of funds. The subsidy awarded is based on a tiered formula up to $230 per month for eligible retirees. The subsidy does not receive ongoing cost of living increases and beneficiaries will receive 60% of the subsidy upon the retired member's death. On April 7, 2011, the Board of Retirement approved the transfer of $40.6 million from the Retiree General Subsidy reserve to the Current Service Reserve. This decision resulted in a depletion of the reserve and no subsidy payments were made after October 31, 2011.

Withdrawn Employers

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

Terminated Member Benefits

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

Death and Disability Benefits

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

Death Before Retirement With Less Than Five Years Service Credit

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

Notes to Financial Statements

June 30, 2012 and 2011

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

Death Before Retirement With More Than Five Years Service Credit

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

Death Before Retirement Caused By Employment

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

Death After Retirement

If the unmodified retirement option was chosen as part of a service retirement, the eligible spouse/registered domestic partner would receive 60% of the retiree's monthly pay for the remainder of the spouse/registered domestic partner's life. The benefit increases to 100% if the member had been retired for a service-connected disability. The spouse/registered domestic partner's eligibility in the case of a service retirement is determined by whether the marriage/registered domestic partnership occurred at least 1 year prior to retirement. Alternatively for service retirement, under Government Code section 31786.1, the eligibility is determined based on whether the marriage/registered domestic partnership occurred at least 2 years prior to the date of death of the member and the spouse/registered domestic partner has attained the age of 55 years on or prior to the date of death of the member; however, in the case of a service-connected disability, the spouse/registered domestic partner must have been married/registered at least one day prior to retirement pursuant to Government Code section 31786. A burial allowance of $1,000 is payable to the deceased retiree's beneficiary or estate.

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

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

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 1 – Significant Provisions of the Plan

Death and Disability Benefits (Continued)

Disability Benefits

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

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

Cost of Living Benefits

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

NOTE 2 – Summary of Significant Accounting Policies

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

Basis of Accounting

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

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.

Notes to Financial Statements

June 30, 2012 and 2011

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

Investments
Investments are reported at fair value.

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

Fair value for investments in limited partnerships and/or commingled funds of debt securities, equity securities, real estate, private equity, commodities, infrastructure and other alternatives is based on fund share price or percentage of ownership, provided by the fund manager or general partner, which is based on net asset value as determined by the fund manager or general partner. Fair value for these investments is reported by the fund manager and/or general partner on a monthly and/or quarterly basis and is supported by annual financial statements which are audited by an independent third party accountant. Where fair value information as of June 30, 2012 and 2011 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, 2012 and 2011.

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 NCREIF. These investments are reported net of the outstanding balance of associated mortgages.

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 Plan Net Assets. The use of these financial instruments exposes the Plan to the risk of dealing with financial counter-parties and to market risk associated with a possible adverse change in interest rates, equity values, and currency movement. The Plan may have additional exposure to derivative instruments through investments in commingled funds whose strategies may include the use of derivatives to gain exposure to various financial markets and reduce its exposure to certain financial market risks. Refer to Note 9 – Deposits and Investments, for further information.

Reserves
Employer and employee contributions are allocated to various reserve accounts based on actuarial determinations. Funds in excess of reserve requirements are allocated to the pension reserves and the burial allowance, supplemental disability, survivor benefit and retiree general subsidy reserve pursuant to the Interest Crediting Procedures and Undesignated Excess Earnings Allocation Policy. Note: On April 7, 2011, the Board of Retirement voted to end the retiree subsidy after October 31, 2011. Refer to Note 8 – Net Assets Available for Benefits, for further information.

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

Notes to Financial Statements

June 30, 2012 and 2011

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

Administrative Expenses

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

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

Management's Estimates

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

Capital Assets

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

GASB Statement No. 51 requires SBCERA to identify and capitalize costs incurred for the development of internally generated software. There are three stages in the development and installation of internally generated software: (1) Preliminary Project Stage, (2) Application and Development Stage and (3) Post-Implementation/Operation Stage. All outlays related to the Application and Development Stage must be capitalized. SBCERA began developing a new Pension Administration System (PensionGold Public Edition-PE) in 2010 and $1.03 million and $172 thousand in expenses, related to the PE project, were capitalized for the years ended June 30, 2012 and 2011, respectively. These intangible assets are included as capital assets in the Statements of Plan Net Assets.

Reclassification of Financial Statement Presentation

Comparative data for the prior year have been presented in the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. Also, 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 plan net assets as previously reported.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 3 – Securities Lending

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

State Street lent, on behalf of SBCERA, certain securities of the Plan held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States Government. The types of securities loaned are U.S. Government and Agency, Domestic Equity, Domestic Fixed Income, International Equity and International Fixed Income securities. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities, for the year ended June 30, 2012 and 2011.

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

During the fiscal year ended June 30, 2012 and 2011, SBCERA and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. The pools are not rated. All securities in these pools with maturities of 13 months or less are rated at least "A1", "P1" or "F1" and maturities in excess of 13 months are rated at least "A-" or "A3", by at least two nationally recognized statistical rating organizations or if unrated, be determined by the bank to be of comparable quality. As of June 30, 2012, such investment pools had an average duration of 36 days and 40 days, for the liquidity pool and the duration pool, respectively. Additionally, the average weighted final maturity was 73 days and 1,329 days, for the liquidity pool and the duration pool, respectively. As of June 30, 2011, such investment pools had an average duration of 32 days and 36 days, for the liquidity pool and the duration pool, respectively. Additionally, the average weighted final maturity was 62 days and 484 days, for the liquidity pool and the duration pool, respectively. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

On June 30, 2012 SBCERA had no credit risk exposure to borrowers. As of June 30, 2012, the fair value of securities on loan was $210.57 million with the fair value of cash collateral received for the securities on loan of $160.29 million and non-cash collateral of $56.80 million. As of June 30, 2011, the fair value of securities on loan was $292.05 million with the fair value of cash collateral received for the securities on loan of $246.97 million and non-cash collateral of $49.19 million.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 4 – Funding Policy

Contributions

Participating active members are required by statute (Government Code sections 31621.6 and 31639.25) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. The funding objective of the Plan is to establish contribution rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Actuarial Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). The UAAL is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets. The amortization period for the UAAL is 20 years for all combined UAAL existing through June 30, 2002, with 10 years of amortization remaining at June 30, 2012. Any new UAAL after June 30, 2002 is amortized over a closed 20-year period effective with that valuation.

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

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

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

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 4 – Funding Policy

Contributions (Continued)

The following schedule summarizes the required employer contribution rates in effect for the year ended June 30, 2012 in accordance with the June 30, 2010 actuarial valuation. Contribution rates are expressed as a percentage of covered payroll:

Actuarially Determined Required Contribution Percentages	County Contributions		Superior Court Contributions	SCAQMD Contributions	All Other Employer Contributions	
	General	Safety	Total	Total	General	Safety
Normal cost	9.27%	19.16%	9.27%	9.72%	10.57%	20.24%
For unfunded actuarial accrued liability (UAAL)	5.23%	11.73%	7.61%	9.61%	11.81%	26.67%
TOTAL	**14.50%**	**30.89%**	**16.88%**	**19.33%**	**22.38%**	**46.91%**

The following schedule summarizes the required employer contribution rates in effect for the year ended June 30, 2011 in accordance with the June 30, 2009 actuarial valuation. Contribution rates are expressed as a percentage of covered payroll:

Actuarially Determined Required Contribution Percentages	County Contributions		Superior Court Contributions	SCAQMD Contributions	All Other Employer Contributions	
	General	Safety	Total	Total	General	Safety
Normal cost	9.25%	19.21%	9.25%	9.72%	10.58%	20.22%
For unfunded actuarial accrued liability (UAAL)	3.07%	7.61%	6.29%	6.36%	9.81%	24.48%
TOTAL	**12.32%**	**26.82%**	**15.54%**	**16.08%**	**20.39%**	**44.70%**

Funding Status and Method

Schedule of Funding Progress *(Amounts in Thousands)*

Actuarial Valuation Date	Actuarial Value of Assets[1] (A)	Actuarial Accrued Liability (AAL)[1] (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Annual Covered Payroll ((B-A)/C)
6/30/2012	$6,789,492	$8,606,577	$1,817,085	78.89%	$1,260,309	144.18%

(1) See required supplementary information.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 4 – Funding Policy (Continued)

Latest Actuarial Valuation Methods and Assumptions

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level percent of payroll (4.00% payroll growth assumed)
Remaining Amortization Period	20 years for all UAAL prior to June 30, 2002. Any changes in UAAL after June 30, 2002 are amortized over a 20-year closed period effective with each valuation. Effective June 30, 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).
Asset Valuation Method	Market value of assets less unrecognized returns from each of the last 5 years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a 5-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of 4 years from that date.
Actuarial Assumptions:	
Investment Rate of Return[1]	7.75%
Projected Salary Increases[2]	General: 4.75% to 14.00%; Safety: 4.75% to 14.00%
Cost of Living Adjustments	Contingent upon CPI with a 2% maximum

The June 30, 2012 actuarial valuation reflected the same method and assumptions as the June 30, 2011 actuarial valuation with the exceptions of the change to the remaining amortization period and the combined deferred gains and losses from the June 30, 2011 valuation to be recognized in equal amounts commencing with the June 30, 2012 valuation.

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

(1) Includes inflation at 3.50%.

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

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011 is $534.81 million and $483.65 million, respectively.

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

Years Ended June 30 (Amounts in Thousands)	
2013	$8,236
2014	7,991
2015	7,789
2016	7,378
2017	6,982
2018-2022	9,450
TOTAL	**$47,826**

NOTE 6 – Capital Assets

Capital assets are summarized as follows for June 30, 2012 and 2011 (Amounts in Thousands):

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

	Balance June 30, 2010	Reclassifications and Additions	Reclassifications and Deletions	Balance June 30, 2011
Furniture and equipment	$5,559	$75	$-	$5,634
Computer software	180	197	-	377
Accumulated depreciation	(4,296)	(298)	-	(4,594)
Accumulated amortization	(38)	(20)	-	(58)
TOTAL	**$1,405**	**$(46)**	**$-**	**$1,359**

Depreciation and amortization expense totaled $277 and $318 for the years ended June 30, 2012 and 2011, respectively.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 7 – Notes Payable

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

	June 30, 2012	June 30, 2011
Beginning Balance	$25,133	$37,319
Additions	-	-
Deductions	(245)	(12,186)
ENDING BALANCE	**$24,888**	**$25,133**

Notes payable consist of the following at June 30, 2012 and 2011:

Note Payable, secured by the Verano property, a 400-unit garden-style, suburban apartment community which 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 will require 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, 2012 and 2011, SBCERA's share of the outstanding balance on this note was $16.50 million and $16.52 million (net of deferred financing costs), respectively.

Note Payable, secured by the 810 First Street, Washington D.C. property, an eleven-story office building, which required monthly payments of interest only, subject to annual principal payments of $1,000 every February 1st, through and including February 1, 2008. Since March 1, 2008, the remaining principal balance is being paid in monthly installments of principal and interest based upon a 30-year amortization schedule, unless called earlier by the lender (to declare the entire indebtedness due) on March 1, 2013 and every 5 years thereafter. The 810 First Street loan may be prepaid in whole but not in part after September 1, 2010 provided a written notice is delivered to the lender 15 days prior to prepayment. As of June 30, 2012 and 2011, the outstanding balance on this note was $8.39 million and $8.62 million (net of deferred financing costs), respectively.

The annual requirements to amortize long-term debt, including interest of $4.19 million are as follows (Amounts in Thousands):

Years Ended June 30	
2013	$9,776
2014	1,206
2015	1,206
2016	16,891
SUBTOTAL	**29,079**
Less interest	(4,191)
TOTAL	**$24,888**

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 8 – Net Assets Available for Benefits

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

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

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

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

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

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

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

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

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

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

Retiree general subsidy reserve - the reserve represents excess earnings allocated by the Board to pay discretionary retiree subsidy payments. On April 7, 2011, the Board of Retirement approved the transfer of $40.6 million from the retiree general subsidy reserve to the employer current service reserve. This decision resulted in a depletion of the reserve and no subsidy payments were made after October 31, 2011.

Restricted balance reserved for deficiencies - represents earnings in excess of the total interest credited to Valuation Reserves, equal to 1% of market value of assets (Government Code section 31592.2) and are used as a reserve against deficiencies in interest earnings in other years, losses on investments and other contingencies. If the Board approves an excess earnings benefit to be paid (or sets aside reserves to pay excess earnings benefits into the future) this reserve must be created in the year when the Board votes to provide the excess earnings benefit. Excess earnings benefits created from a previous Board vote that set aside a reserve to pay such benefits over time do not require the maintenance of the restricted balance, as the requirements to provide the excess earnings benefit were satisfied at the time the Board voted to create the excess earnings benefit.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 8 – Net Assets Available for Benefits (Continued)

A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2012 and 2011 (under the five-year smoothed market asset valuation method for actuarial valuation purposes-refer to Note 4 – Funding Policy, for further information), is as follows (Amounts in Thousands):

	2012	2011
Valuation Reserves		
Member deposit reserve	$1,116,023	$1,086,028
Employer current service reserve	1,818,582	1,907,190
Contra account	(1,469,395)	(1,328,624)
Pension reserve	2,938,867	2,634,771
Cost of living reserve	1,234,357	1,132,885
Annuity reserve	1,094,032	927,684
Supplemental disability reserve	8,738	8,299
Survivor benefit reserve	47,376	44,776
TOTAL RESERVED FOR PENSION BENEFITS	**6,788,580**	**6,413,009**
Non-Valuation Reserves		
Burial allowance reserve	912	955
Retiree general subsidy reserve	-	5,397
SUBTOTAL - NON-VALUATION RESERVES	**912**	**6,352**
TOTAL RESERVES (SMOOTHED MARKET ACTUARIAL VALUE)	**6,789,492**	**6,419,361**
Restricted balance reserved for deficiencies	-	65,146
TOTAL RESERVES	**6,789,492**	**6,484,507**
Net unrecognized (losses)	(616,158)	(347,933)
NET ASSETS AVAILABLE FOR BENEFITS INCLUDING NON-VALUATION RESERVES, AT MARKET VALUE	**$6,173,334**	**$6,136,574**

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 9 – Deposits and Investments

Cash and Deposits

The Board of Retirement (Board) is authorized by the 1937 Act to deposit monies for the purpose of paying benefits and administrative costs. Operational cash accounts are held with a financial institution in the amount of $3.86 million and $3.38 million at June 30, 2012 and 2011, 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 $6.88 million and $5.69 million at June 30, 2012 and 2011, respectively. The SBCIP is an external investment pool and is not registered with the Securities and Exchange Commission (SEC). At June 30, 2012 and 2011, the SBCIP has a weighted average maturity of 357 and 360 days, respectively. The SBCIP is not rated. The deposits in the SBCIP are reported at amortized cost which approximates fair value. For further information regarding the SBCIP, refer to the County of San Bernardino Comprehensive Annual Financial Report.

Investments

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

The Investment Plan, Policy and Guidelines encompass the following:

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

Derivatives

As described in Note 2 – Summary of Significant Accounting Policies, SBCERA only invests in investment derivative instruments and did not enter into any synthetic guaranteed investment contracts or hedging derivative instruments. SBCERA does post collateral for investment derivatives for speculation purposes pursuant to clearing requirements or swap agreements. The maximum exposure SBCERA would face in case of default of all counterparties is $7.73 million and $2.84 million as of June 30, 2012 and 2011, respectively.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 9 – Deposits and Investments

Derivatives (Continued)

The following derivative instruments were outstanding at June 30, 2012 (Amounts in Thousands):

	Changes in Fair Value[4]		Fair Value at June 30, 2012		
Investment Derivatives	**Classification**	**Amount[1]**	**Classification**	**Amount[2]**	**Notional[3]**
Commodity Futures Long	Investment Income	$(3,398)	Futures	$-	$7,841
Commodity Futures Short	Investment Income	829	Futures	-	-
Credit Default Swaps Bought	Investment Income	14,435	Swaps	4,137	148,500
Equity Options Bought	Investment Income	(10,472)	Options	3,722	1,289
Equity Options Written	Investment Income	9,946	Options	(3,631)	(1,934)
Fixed Income Futures Long	Investment Income	7,048	Futures	-	1,607,600
Fixed Income Options Bought	Investment Income	(24,064)	Options	24,480	14,221,125
Futures Options Bought	Investment Income	(5)	Options	-	-
FX Forwards	Investment Income	(4,130)	Long Term Instruments	1,471	218,090
Index Futures Long	Investment Income	11,708	Futures	-	11,032
Index Futures Short	Investment Income	(1,183)	Futures	-	-
Index Options Bought	Investment Income	(10,052)	Options	-	-
Index Options Written	Investment Income	(28,137)	Options	(163,652)	(10,591)
Rights	Investment Income	63	Common Stock	-	-
Total Return Swaps Bond	Investment Income	3,314	Swaps	(7,045)	427,613
Total Return Swaps Equity	Investment Income	(29,940)	Swaps	814	(135,389)
TOTAL		**$(64,038)**		**$(139,704)**	**$16,495,176**

The following derivative instruments were outstanding at June 30, 2011 (Amounts in Thousands):

	Changes in Fair Value[4]		Fair Value at June 30, 2011		
Investment Derivatives	**Classification**	**Amount[1]**	**Classification**	**Amount[2]**	**Notional[3]**
Commodity Futures Long	Investment Income	$6,496	Futures	$-	$7,246
Commodity Futures Short	Investment Income	(70)	Futures	-	-
Credit Default Swaps Bought	Investment Income	1,507	Swaps	828	114,937
Credit Default Swaps Written	Investment Income	51	Swaps	(13)	1,167
Fixed Income Futures Long	Investment Income	2,108	Futures	-	319,396
Fixed Income Futures Short	Investment Income	(754)	Futures	-	(20,901)
Fixed Income Options Bought	Investment Income	9,983	Options	48,544	990,259
Futures Options Bought	Investment Income	(115)	Options	5	300
FX Forwards	Investment Income	30,551	Long Term Instruments	(4,341)	437,334
Index Futures Long	Investment Income	131,344	Futures	-	10,042
Index Futures Short	Investment Income	243	Futures	-	-
Index Options Bought	Investment Income	285	Options	3,461	38
Index Options Written	Investment Income	13,190	Options	(16,755)	(149)
Pay Fixed Interest Rate Swaps	Investment Income	(35)	Swaps	(45)	5,263
Receive Fixed Interest Rate Swaps	Investment Income	(38)	Swaps	-	22,473
Rights	Investment Income	(160)	Common Stock	-	-
Total Return Swaps Bond	Investment Income	(69,722)	Swaps	(6,839)	377,466
Total Return Swaps Equity	Investment Income	35,992	Swaps	(424)	(348,818)
Warrants	Investment Income	(21)	Common Stock	-	-
TOTAL		**$160,835**		**$24,421**	**$1,916,053**

(1) Negative values (in brackets) refer to losses.

(2) Negative values refer to liabilities.

(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions.

(4) Excludes futures margin payments.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 9 – Deposits and Investments

Derivatives (Continued)

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

Credit Quality Ratings (S&P) of Counterparties for Investment Derivatives *(Amounts in Thousands)*

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

The counterparty credit ratings of SBCERA's investment derivative instruments outstanding and subject to loss at June 30, 2011 are as follows:

Credit Quality Ratings (S&P) of Counterparties for Investment Derivatives *(Amounts in Thousands)*

Counterparty Name	Total Fair Value	S&P Credit Rating
BNP Paribas	$1,757	AA
BNP Paribas London	3	AA
Credit Suisse International LDN	32	A+
Credit Suisse London Branch (GFX)	2	A+
Deutsche Bank AG London	29	A+
Deutsche Bank Securities, Inc.	7	A+
Goldman Sachs & Co.	2	A
HSBC BankUSA	27	AA
JP Morgan Chase Bank	85	AA-
Morgan Stanley Co., Inc.	807	A
Royal Bank of Canada	27	AA-
Societe Generale	28	A+
Westpac Banking Corporation	29	AA
TOTAL	**$2,835**	

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 9 – Deposits and Investments
Derivatives (Continued)

Interest rate risk applies to derivatives such as Credit Default Swaps and Interest Rate Swaps. Interest rate swaps are highly sensitive to changes in interest rates. At June 30, 2012, SBCERA is exposed to interest rate risk on its investments in various swap arrangements based on daily interest rates for LIBOR (London Interbank Offered Rate). The table below describes the maturity periods of these derivative instruments.

***Investment Maturities at June 30, 2012** (Amounts in Thousands)*

		Investment Maturities (in years)		
Investment Type	**Fair Value**	**1-5**	**6-10**	**More than 10**
Credit Default Swaps	$4,137	$4,137	$-	$-

***Investment Maturities at June 30, 2011** (Amounts in Thousands)*

		Investment Maturities (in years)		
Investment Type	**Fair Value**	**1-5**	**6-10**	**More than 10**
Credit Default Swaps	$815	$773	$42	$-
Interest Rate Swaps	(45)	-	(45)	-

There were no interest rate swaps outstanding at June 30, 2012. The table below details the reference rate, fair value and notional amount of interest rate swaps outstanding at June 30, 2011:

***Derivative Instruments Highly Sensitive to Interest Rate Changes** (Amounts in Thousands)*

Investment Type	Reference Rate	Fair Value	Notional
Interest Rate Swaps	Receive Variable 2.3%, Pay Fixed 3-month LIBOR	$(37)	$4,300
Interest Rate Swaps	Receive Variable 2.76%, Pay Fixed 6-month LIBOR	(8)	963
Interest Rate Swaps	Receive Fixed 2.6%, Pay Variable 6-month LIBOR	-	22,473
TOTAL INTEREST RATE SWAPS		**$(45)**	**$27,736**

Notes to Financial Statements

June 30, 2012 and 2011

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 at June 30, 2012 *(Amounts in Thousands)*

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

Net Exposure to Foreign Currency Risk for Investment Derivative Instruments at June 30, 2011 *(Amounts in Thousands)*

				Forward Contracts	
Currency	Fair Value	Fixed Income	Equity	Net Receivables	Net Payables
Euro Currency	$1,780	$3,864	$181	$-	$(2,265)
Japanese Yen	5,775	5,612	-	163	-
Pound Sterling	(1,867)	1,918	(1,536)	54	(2,303)
Swiss Franc	10	-	-	10	-
TOTAL	**$5,698**	**$11,394**	**$(1,355)**	**$227**	**$(4,568)**

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 table on the next page. 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 table on the next page, but amount to $32.42 million and $38.60 million as of June 30, 2012 and 2011, respectively.

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011 are as follows:

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

		S&P Credit Rating									
Investment Type	**Total Fair Value**	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B+ to B-**	**CCC+ to CCC-**	**CC+ to CC-**	**D**	**Not Rated**
Asset Backed	$18	$-	$-	$-	$-	$-	$-	$18	$-	$-	$-
Corporate Bonds	13,751	-	12,581	-	-	-	-	90	-	-	1,080
Collateralized Mortgage Obligations	1,516	189	-	-	-	-	-	1,327	-	-	-
Foreign Bonds	16,596	-	549	1,555	1,269	356	-	-	-	-	12,867
Short Term Cash Investments	737,213	-	-	-	-	-	-	-	-	-	737,213
Emerging Markets	234,453	-	-	-	-	-	-	-	-	-	234,453
U.S. Government	112,799	-	39,712	65	-	-	-	-	-	-	73,022
TOTAL	**$1,116,346**	**$189**	**$52,842**	**$1,620**	**$1,269**	**$356**	**$-**	**$1,435**	**$-**	**$-**	**$1,058,635**

***Credit Quality Ratings (S&P) of Fixed Income and Short Term Cash Investments as of June 30, 2011** (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	$9,121	$40	$2,103	$-	$3,810	$2,263	$883	$22	$-	$-	$-
Corporate Bonds	37,209	26,453	-	-	-	-	-	93	-	-	10,663
Collateralized Mortgage Obligations	1,729	201	-	-	-	-	-	1,528	-	-	-
Foreign Bonds	37,085	614	316	6,082	5,593	10,945	272	-	-	-	13,263
Short Term Cash Investments	614,227	-	-	-	-	-	-	-	-	-	614,227
Emerging Markets	238,856	-	-	-	-	-	-	-	-	-	238,856
U.S. Government	160,128	75,649	-	58	-	-	-	-	-	-	84,421
TOTAL	**$1,098,355**	**$102,957**	**$2,419**	**$6,140**	**$9,403**	**$13,208**	**$1,155**	**$1,643**	**$-**	**$-**	**$961,430**

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011, SBCERA's deposits with a financial institution are fully insured by FDIC insurance. Deposits with the County of San Bernardino Treasurer's investment pool are not exposed to custodial credit risk as they are held in a trust fund in SBCERA's name.

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

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

Concentration of Credit Risk

As of June 30, 2012 and 2011, SBCERA did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

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

To mitigate Interest Rate Risk, the managers investing on behalf of SBCERA have applicable investment guidelines. Interest Rate Risk for emerging market and private placement debt investments is managed through limited partnership agreements and applicable fund documents. The duration of emerging market and short term cash investments are shown as "N/A" in the table on the next page as the effective duration of the underlying securities is not readily available. Private placement investments considered fixed income investments are not shown in the table on the next page, but amount to $32.42 million and $38.60 million as of June 30, 2012 and 2011, respectively.

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 9 – Deposits and Investments

Interest Rate Risk (Continued)

As of June 30, 2012 and 2011, SBCERA had the following Fixed Income and Short Term Cash Investments:

Fixed Income and Short Term Cash Investments (Amounts in Thousands)

	2012		2011	
Investment Type	**Fair Value**	**Effective Duration (Years)**	**Fair Value**	**Effective Duration (Years)**
Asset Backed	$18	(0.39)	$9,121	0.02
Corporate Bonds[1]	12,784	0.29	36,673	0.30
Collateralized Mortgage Obligations	1,516	2.07	1,729	10.42
Foreign Bonds[2]	275	0.00	20,811	0.00
Short Term Cash Investments[3]	737,213	N/A[3]	614,227	N/A[3]
Emerging Markets[3]	234,453	N/A[3]	238,856	N/A[3]
U.S. Government	112,799	0.47	160,128	0.08
TOTAL	**$1,099,058**		**$1,081,545**	

Foreign Currency Risk

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

(1) Does not include convertible bonds, which amount to $967 and $536 as of June 30, 2012 and 2011, respectively, as the effective duration is not available.
(2) Does not include convertible bonds, which amount to $16,321 and $16,274 as of June 30, 2012 and 2011, respectively, as the effective duration is not available.
(3) Effective duration for the underlying investments contained in this investment type are not available.

Notes to Financial Statements

June 30, 2012 and 2011

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

SBCERA's net exposure to Foreign Currency Risk in U.S. dollars as of June 30, 2012 and 2011 is as follows:

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

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

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 9 – Deposits and Investments

Foreign Currency Risk (Continued)

***Net Exposure to Foreign Currency Risk as of June 30, 2011** (Amounts in Thousands)*

		Type		
Currency	**Fair Value**	**Fixed Income**	**Equity**	**Cash**
Australian Dollar	$1,597	$1,597	$-	$-
Brazilian Real	11,067	-	11,012	55
Canadian Dollar	1,501	1,501	-	-
Danish Krone	2,068	-	2,038	30
Egyptian Pound	216	-	216	-
Euro Currency	744,245	-	697,007	47,238
Hong Kong Dollar	25,297	1,997	23,300	-
Indonesian Rupiah	4,168	-	4,168	-
Japanese Yen	63,744	4,217	59,527	-
Malaysian Ringgit	1,100	-	1,084	16
Mexican Peso	3,261	-	3,261	-
New Taiwan Dollar	7,604	-	7,565	39
New Turkish Lira	384	-	384	-
Norwegian Krone	1,777	-	1,715	62
Polish Zloty	895	-	893	2
Pound Sterling	98,767	3,731	91,077	3,959
Singapore Dollar	2,031	801	1,230	-
South African Rand	5,666	-	5,666	-
South Korean Won	7,800	-	7,800	-
Swedish Krona	1,808	-	1,808	-
Swiss Franc	7,894	1,570	6,324	-
Thailand Baht	3,563	-	3,563	-
Turkish Lira	3,228	-	3,228	-
Yuan Renminbi	461	461	-	-
TOTAL	**$1,000,142**	**$15,875**	**$932,866**	**$51,401**

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 10 – Leases

SBCERA leases its office space at 348 W. Hospitality Lane, San Bernardino, CA from Hospitality Office, Inc., a wholly-owned subsidiary of SBCERA (refer to Note 11 – Related Party Transactions, for further information). The agreement is a standard office lease which became effective March 18, 2002 and ends March 31, 2017, with one five-year renewal option. SBCERA occupies approximately 21,000 square feet of office space or 43% of the building. Under the terms of the lease agreement, SBCERA is required to pay the agreed-upon monthly base rent charge and applicable annual increases. SBCERA's base rental payments for the fiscal year ended June 30, 2012 and 2011 were $401 thousand and $423 thousand, respectively.

SBCERA leases four photocopy/scan/printer machines to support operations under two standard lease agreements. One agreement for three of the machines is effective June 19, 2012 through June 18, 2017. The second agreement for one of the machines is effective February 22, 2010 through February 21, 2015. Photocopier rental payments for the fiscal year ended June 30, 2012 and 2011 were $47 thousand and $47 thousand, respectively.

Future Minimum Rental Payments as of June 30, 2012 (Amounts in Thousands)

Years Ended June 30	Office Space	Photocopy Machines	Total
2013	$308	$49	$357
2014	318	49	367
2015	326	38	364
2016	336	16	352
2017	258	15	273
TOTAL	**$1,546**	**$167**	**$1,713**

NOTE 11 – Related Party Transactions

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

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 12 – Litigation

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

NOTE 13 – Pacific Public Partners (PPP)

On February 4, 2010, the SBCERA Board of Retirement (the Board) established an agency fund, Pacific Public Partners (PPP). PPP is a health investment trust fund for other post-employment health benefits (OPEB), which invests assets on behalf of any local public agency for the purpose of providing health benefits to their retirees pursuant to Article 8.10 of the County Employees' Retirement Law of 1937 (commencing with Government Code section 31699.1) and Section 115 of the Internal Revenue Code. The Board determined by means of a resolution, after due consideration, the establishment of PPP was in the long-term best interest of the members and beneficiaries of SBCERA and the participating employers in SBCERA; therefore the Board authorized an investment of up to $2,719 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, audited and can be obtained from PPP at 348 W. Hospitality Lane, 3rd Floor, San Bernardino, CA 92415.

As of June 30, 2012 and 2011, PPP has not received any assets from any local public agency. The changes in assets and liabilities of PPP do not create any obligation on the part of SBCERA pursuant to Government Code section 31699.8. Refer to Statements of Fiduciary Assets and Liabilities and Other Supplementary Information – Statements of Changes in Assets and Liabilities – Fiduciary Fund, for further information.

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

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 14 – Subsequent Events

On September 24, 2012, Barstow Fire Protection District filed a notice of intent to withdraw from SBCERA as of December 8, 2012. If the employer does withdraw as indicated, Barstow Fire Protection District will remain liable to SBCERA for their share of any unfunded actuarial liability, which is attributable to their employees who either have retired or will retire from SBCERA. SBCERA's actuary has estimated their unfunded actuarial liability to be $34.75 million.

FINANCIAL

Required Supplementary Information

SECTION 2.2

SECTION 2.2

FINANCIAL

REQUIRED SUPPLEMENTARY INFORMATION

THE 1960S

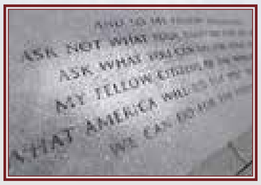
Quite a reversal from the 50s, the 60s was a decade of revolution, change, exploration and youth. The Space Race between the U.S. and the Soviet Union drove space exploration to new heights, as the U.S. reached the moon in 1969. Seventy million "Baby Boomers" became teenagers and young adults. People held protests in support of social causes and great strides were made in the Civil Rights Movement. Most recognizable was the Hippie Movement – peace, love and rock 'n' roll. Its influence was apparent when 400,000 young people celebrated the movement at the quintessential "Woodstock Festival."

1960

CBS airs the first televised presidential debate between Richard Nixon and John F. Kennedy.

1961

Reciprocity is established.



1961

John F. Kennedy's inaugural speech "Ask not what your country can do for you. Ask what you can do for your country."

1963

From the steps of the Lincoln Memorial, Martin Luther King, Jr. delivers his 17 minute "I Have a Dream" speech calling for racial equality and an end to discrimination.

1964

The Ford Motor Company introduced the original "pony car" – the Mustang.

1967

The first super bowl, Super Bowl I, took place at the Los Angeles Memorial Coliseum with the Green Bay Packers defeating the Kansas City Chiefs 35 to 10.

1969

Neil Armstrong became the first person to set foot onto the Moon. He said "That's one small step for man, one giant leap for mankind."

SBCERA | 1961

Reciprocity is Established

1961

The California legislature added Article 15 to the Government Code, which establishes the provisions of reciprocity to encourage career public service. Reciprocity allows members of defined benefit plans in California to link their retirement benefits with other California public retirement systems covered under the '37 Act, the California Public Employees' Retirement System (CalPERS) or any agency that has a reciprocal agreement with CalPERS. It was created to enable members to preserve and enhance their total retirement benefits.

Schedule of Funding Progress

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Projected Total Compensation (c)	UAAL as a Percentage of Projected Total Compensation [(b-a)/c]
6/30/2003	$3,815,573	$4,368,411	$552,838	87.34%	$933,898	59.20%
6/30/2004	4,418,152	4,719,865	301,713	93.61%	943,545	31.98%
6/30/2005	4,750,229	5,215,719	465,490	91.08%	968,674	48.05%
6/30/2006	5,175,767	5,624,646	448,879	92.02%	1,028,731	43.63%
6/30/2007	5,797,400	6,227,013	429,613	93.10%	1,102,151	38.98%
6/30/2008	6,341,531	6,773,629	432,098	93.62%	1,219,562	35.43%
6/30/2009	6,383,388	7,013,534	630,146	91.02%	1,226,431	51.38%
6/30/2010[3]	6,367,232	7,444,986	1,077,754	85.52%	1,250,193	86.21%
6/30/2011	6,484,507	8,189,646	1,705,139	79.18%	1,244,555	137.01%
6/30/2012	6,789,492	8,606,577	1,817,085	78.89%	1,260,309	144.18%

Schedule of Employer Contributions

(Amounts in Thousands)

Years Ended June 30	Annual Required Contributions	Actual Contributions[4]	Percentage Contributed
2003	$68,361	$68,361	100%
2004	652,325	652,325	100%
2005	161,906	161,906	100%
2006	197,343	197,343	100%
2007	239,857	239,857	100%
2008	241,721	241,721	100%
2009	246,232	246,232	100%
2010	243,773	243,773	100%
2011	258,128	258,128	100%
2012	278,091	278,091	100%

(1) Includes assets held for Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings reserves.
(2) Includes liabilities held for Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings reserves.
(3) Does not reflect the transfer of $40.6 million from the General Retiree Subsidy reserve to the Current Service reserve.
(4) Excludes the SCAQMD UAAL prepayment deposited during the Plan Year ended June 30, 2007.

See accompanying Notes to the Required Supplementary Information.

Notes to the Required Supplementary Information

Latest Actuarial Valuation Methods and Assumptions:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level percent of payroll (4.00% payroll growth assumed)
Remaining Amortization Period	20 years for all UAAL prior to June 30, 2002. Any changes in UAAL after June 30, 2002 are amortized over a 20-year closed period effective with each valuation. Effective June 30, 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).
Asset Valuation Method	Market value of assets less unrecognized returns from each of the last 5 years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a 5-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of 4 years commencing with the June 30, 2012 valuation.

Actuarial Assumptions:

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

The June 30, 2012 actuarial valuation reflected the same method and assumptions as the June 30, 2011 actuarial valuation with the exceptions of the change to the remaining amortization period and the combined deferred gains and losses from the June 30, 2011 valuation to be recognized in equal amounts commencing with the June 30, 2012 valuation.

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

FINANCIAL

SECTION 2.3

Other Supplementary Information

SECTION 2.3
FINANCIAL
OTHER SUPPLEMENTARY INFORMATION

THE 1970S

In the 70s, social movements, civil rights and government cynicism continued amidst an unfavorable war, Watergate and the worst recession in 40 years. Key events included the end of the War, the resignation of the President and Vice President and a call for affirmative action. In addition, with the death of Elvis Presley and Buddy Holly, and the breakup of The Beatles, the traditional rock 'n' roll era came to an end by the 1970s. Pop music, originating from rock 'n' roll in the 50s, rapidly grew in popularity with artists like Fleetwood Mac, Aerosmith and Led Zeppelin filling the airwaves.

1970

The U.S. celebrated its first Earth Day. More than 20 million people participated including over 2,000 colleges and universities and roughly 10,000 primary and secondary schools.

1971

The 26th Amendment was ratified, lowering the voting age for federal and state elections to age 18.

1972

The Honda Motor Company introduced the Civic. The engine in the Civic ran on either leaded or unleaded fuel.

1974

The rise of disco music with the release of the songs "Kung Fu Fighting" and "Rock the Boat." Both were among the earliest disco songs to hit #1.

1975

The End of Social Security Participation.

1977

Apple, Inc. launched the first mass-produced personal computer targeted to home users. The cost was $4,999.99.

1979

Sony introduced the Walkman as a lightweight, portable music player.

SBCERA | 1975

The End of Social Security Participation

March 3, 1975

As a public agency, the County of San Bernardino was given the discretion to decide whether to break away from or integrate with Social Security. The Board of Supervisors chose to break away and end participation in Social Security, which also terminated any supplemental survivor benefits under Social Security. Therefore, on March 3, 1975, Article 15.6 (Survivors' Allowances) of the California Government Code was adopted allowing SBCERA to provide an alternative to these survivor benefits.

Statements of Changes in Assets and Liabilities

Fiduciary Fund – Agency Fund – Pacific Public Partners
For the Years Ended June 30, 2012 and 2011 (Amounts in Thousands)

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

Total Agency Fund	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Assets				
Accounts receivable	$447	$505	$-	$952
Due from SBCERA	2,272	2	505	1,769
TOTAL ASSETS	**$2,719**	**$507**	**$505**	**$2,721**
Liabilities				
Accounts payable	$-	$2	$-	$2
Due to SBCERA	2,719	-	-	2,719
TOTAL LIABILITIES	**$2,719**	**$2**	**$-**	**$2,721**

Schedule of Administrative Expenses

For the Years Ended June 30, 2012 and 2011 (Amounts in Thousands)

	2012	2011
Actuarial Accrued Liability (AAL)	$7,444,986	$7,444,986[1]
Statutory Limit for Administrative Expenses (AAL x 0.21%)	$15,634	$15,634
Administrative Expenses Subject to Statutory Limit		
Personnel Services	$4,067	$3,297
Professional Services	923	964
Communication Services	396	410
Technology Infrastructure	-	67
Operational Miscellaneous	256	248
Structures and Equipment	513	564
Depreciation and Amortization of Capital Assets	50	49
TOTAL ADMINISTRATIVE EXPENSES SUBJECT TO STATUTORY LIMIT	**6,205**	**5,599**
Other Expenses Not Subject to Statutory Limit		
Actuarial Services	268	165
Legal Services (Non-Investment)	624	709
Technology Infrastructure	922	791
TOTAL OTHER EXPENSES NOT SUBJECT TO STATUTORY LIMIT	**1,814**	**1,665**
TOTAL ADMINISTRATIVE EXPENSES[2]	**$8,019**	**$7,264**

(1) Effective January 1, 2011, State of California Assembly Bill AB609, amended section 31580.2 to limit the administrative budget to twenty-one hundredths of one percent (0.21%) of SBCERA's Actuarial Accrued Liability (AAL). On January 1, 2011, the most recent AAL available was the June 30, 2010 actuarial valuation. When the budget was prepared for FY 11/12, the most recent AAL available was also the June 30, 2010 actuarial valuation.

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

Schedule of Investment Expenses

For the Years Ended June 30, 2012 and 2011 (Amounts in Thousands)

	2012	2011
Advisement Fees:		
Equity:		
Domestic	$11	$99
International	2,656	1,685
TOTAL EQUITY	**2,667**	**1,784**
Fixed Income:		
Domestic	2,426	1,066
Global	262	274
TOTAL FIXED INCOME	**2,688**	**1,340**
Alternative	48,638	36,787
Real Estate	6,188	5,905
Investment Consultant Fees	2,154	2,299
Custodian Fees	591	611
TOTAL ADVISEMENT FEES	**62,926**	**48,726**
Other Investment Expense:		
Other Investment Expense	15,016	8,993
Legal Services	494	822
Investment Department Expense	1,296	1,807
TOTAL OTHER INVESTMENT EXPENSE	**16,806**	**11,622**
SECURITIES LENDING REBATES & BANK CHARGES	**218**	**329**
TOTAL INVESTMENT EXPENSES	**$79,950**	**$60,677**

Schedule of Payments to Consultants

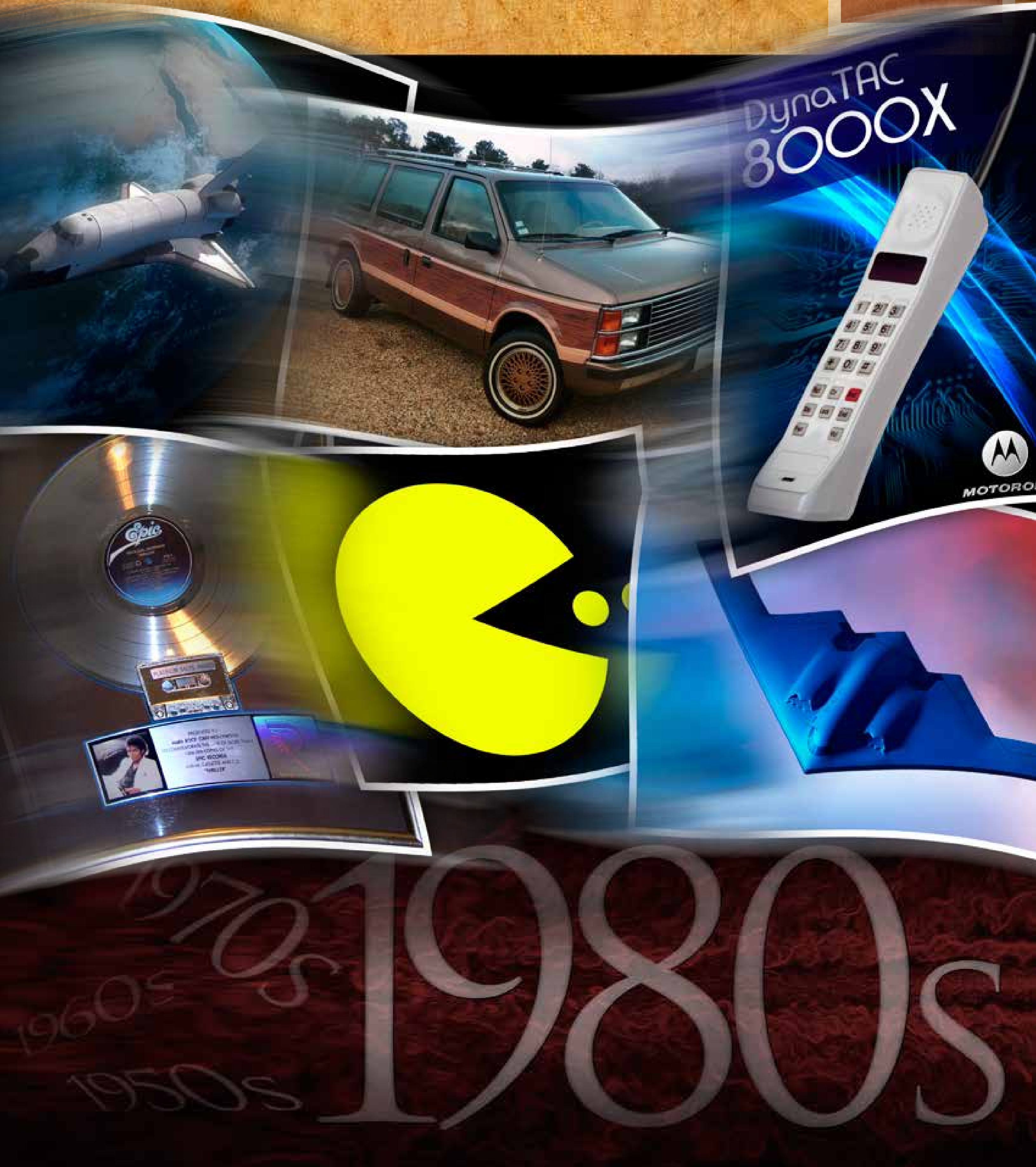
For the Years Ended June 30, 2012 and 2011 (Amounts in Thousands)

Type of Service[1]	2012	2011
Fees Paid to Consultants Subject to the Statutory Limit		
Audit Services	$101	$45
Benchmarking Services	35	40
Communications Services	64	81
Human Resource Consulting Services	-	130
Information Technology Consulting Services	23	10
Legal Services	291	249
Medical Consulting Services	412	305
Strategic Consulting Services	64	174
TOTAL FEES PAID TO CONSULTANTS SUBJECT TO THE STATUTORY LIMIT	**990**	**1,034**
Fees Paid to Consultants Not Subject to the Statutory Limit		
Actuarial Services	268	165
Custodian Fees	591	611
Investment Consultant Fees	2,154	2,299
Legal Services	486	699
TOTAL FEES PAID TO CONSULTANTS NOT SUBJECT TO THE STATUTORY LIMIT	**3,499**	**3,774**
TOTAL PAYMENTS TO CONSULTANTS	**$4,489**	**$4,808**

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

INVESTMENT

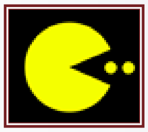
SECTION 3.0



SECTION 3.0
INVESTMENT

THE 1980S

Called the "me" or "image driven" decade, in the 80s, Americans splurged on materialistic products. Binge buying and credit became a way of life and brand name labels, such as LA Gear and Ray-Ban's, were increasingly important. This was personified with the evolution of the term "yuppie," short for young urban professional, which represented a Baby Boomer with a college education, well-paying job and expensive taste. In the 80s, science and technology thrived as computers appeared in homes, offices and/or schools.



1980

Pac-Man, developed by Namco, becomes the first arcade game to achieve widespread popularity in mainstream culture.

1981

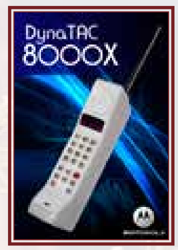
Lift off of the Space Shuttle Columbia, STS-1 mission. It was the first orbital flight of NASA's Space Shuttle program. It orbited the Earth 37 times during the 54.5 hour mission.

1982

Michael Jackson releases *Thriller.* It was recognized as the world's best-selling album in 1984, when it was inducted into the Guinness Book of World Records.[1]

1983

Cost-of-Living-Adjustment Rules Adopted.

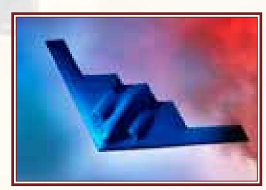


1983

The DynaTAC 8000x, manufactured by Motorola, Inc, became the first commercially available mobile phone.

1984

Chrysler Group, LLC. introduced the Dodge Caravan – a minivan. It was the first modern vehicle of its type.[2]



1988

The U.S. Air Force unveils the B-2 Stealth bomber at a plant in the Mojave Desert. The USAF planned to buy 132 of the new bombers at a cost of $500 million each.

SBCERA | 1983

Cost-of-Living-Adjustment Rules Adopted

June 6, 1983

On June 6, 1983, the San Bernardino County Board of Supervisors adopted Government Code section 31870 implementing an annual Cost-of-Living Adjustment (COLA) of up to 2.00% per year for SBCERA members receiving a retirement benefit, optional death benefit or annual death benefit. COLA's are effective April 1st of each year based on whether there was an increase or decrease in the Consumer Price Index (CPI) as of January 1st of that year. This year, the CPI increased by 2.17%; when rounded to the nearest ½ percent, SBCERA retirees and beneficiaries received a 2.00% COLA on April 1, 2012.

(1) Reference photo credit on inside back cover for IMG.3.
(2) Reference photo credit on inside back cover for IMG.4.

Report on Investment Activity

San Bernardino County Employees' Retirement Association

NEPC, LLC

Allan Martin
Partner

October 15, 2012

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

Dear Board Members:

The overall objective of the San Bernardino County Employees' Retirement Association (SBCERA) is to ensure continued access to retirement, disability and survivor benefits for current and future SBCERA participants. To ensure a solid foundation for the future of the Fund, SBCERA carefully plans and implements an investment program designed to produce superior long-term investment returns, while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Retirement, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. The following is a report on the performance of the Fund for the fiscal year ending June 30, 2012.

Market Commentary

Fiscal Year 2012 proved to be an extremely difficult and volatile year for investors. The year ending June 30, 2012 was a "risk on/risk off" roller coaster ride driven largely by headline risks related to the European debt crisis and fears of a global slowdown. In the first calendar quarter of 2012, we saw macro fears subside and attention return to improving fundamentals. In fact, the first quarter proved to be the strongest quarter for equity returns as U.S. stocks posted their strongest first quarter gains in more than 10 years and continued to outpace international and emerging markets. The second quarter of the calendar year once again experienced the "risk off" environment that started the period. Greater political concerns in Europe, slowing GDP in China, and fears that Greek political parties would be unable to support the country's austerity measures all lead to negative returns across equity markets for the final quarter of the fiscal year.

For the fiscal year as a whole, the broad domestic equity market (measured by the S&P 500 Index) produced a +5.5% return. Driven by an on-going drop in interest rates, the domestic bond market (measured by the Barclays Capital U.S. Aggregate Bond Index) returned +7.5%, outperforming all equity indices for the year. The global equity market (measured by the MSCI All Country World Index-Gross) returned -6.0%, relative to a positive +30.8% in fiscal year 2011.

The SBCERA Portfolio

The SBCERA Total Fund (the Fund) was up a modest .5% net of fees for the fiscal year ending June 30, 2012, after last year's 22.6% advance, resulting in a two-year annualized return of 11.0% and a three-year annualized return of 9.9%. The three-year return ranked in the 73rd percentile of the Independent Consultant's Cooperative's (ICC) large Public Fund Universe, before risk-adjustment. The median fund in the universe returned 11.4% for the period. On a risk-adjusted basis, as measured by the Sharpe Ratio, the Fund ranked in the 4th percentile. For the difficult 5-year period ending June 30, 2012 (The global equity markets declined by 2.2% per annum, the Fund returned -0.4% per annum net of fees. As previously noted, the Fund's investment program is designed to produce superior long term investment returns, while also prudently managing risk. After an extended period during which risk taking was rewarded, the risk averse strategy that the Fund has

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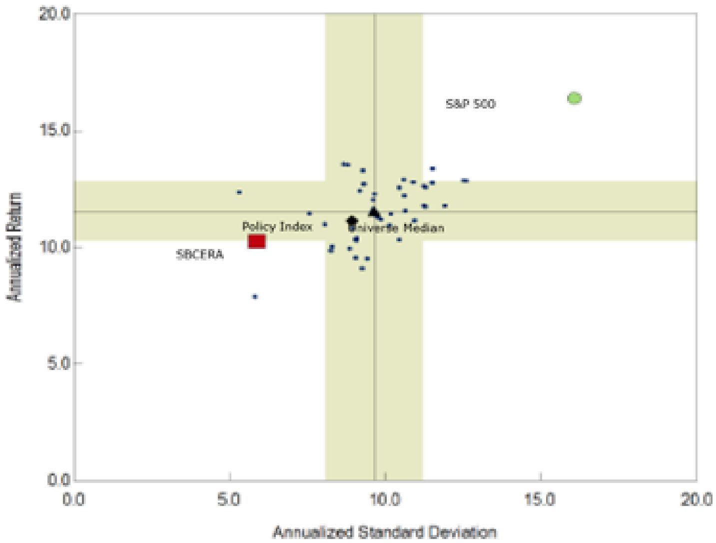
Report on Investment Activity

(Continued)

adopted and implemented over the past several years has resulted in superior risk-adjusted returns over recent periods. Presented below is the Fund's three-year risk and return with the horizontal axis representing risk (as measured by standard deviation) and the vertical axis representing the three year annualized rate of return.

Total Public Fund Universe
Risk-Return Comparison 3 Year Ending June 30, 2012



SBCERA's return underperformed the median fund but its volatility continues to be less than the median fund (5.9% vs. 9.3%), largely due to the Fund diversifying away from equities and into less volatile asset classes. Our goal is to diversify the Fund's assets across a broad variety of traditional and non-traditional asset classes to reduce its volatility and better protect the portfolio against difficult and volatile market environments.

NEPC, LLC serves as SBCERA's independent investment consultant and provides SBCERA with quarterly economic and investment market updates and performance reviews, 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. The performance calculations were made in compliance with the performance calculation standards of the CFA Institute's Global Investment Performance Standards (GIPS).

Sincerely,

Allan Martin

[1]As of June 30, 2012, the ICC Public Fund Universe was comprised of 115 total funds with approximately $1.2 trillion in assets. Universe rankings are based on gross of fee investment return.

Outline of Investment Policies

General

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

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

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

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

- Solely in the interest of and for the exclusive purpose of providing benefits to, participants and their beneficiaries; minimizing employer contributions thereto; and defraying reasonable expenses of administering the system.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under circumstances it is clearly prudent not to do so.

Summary of Investment Objectives

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

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

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

Outline of Investment Policies

(Continued)

Asset Allocation

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

The following factors were used to determine the asset allocation plan, which was adopted by the Board in May 2010:

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

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

Use of Proxies

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

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

Investment Professionals

As of June 30, 2012

INVESTMENT MANAGERS

DOMESTIC EQUITY

CastleRock Asset Management, Inc.
Clough Capital Partners, LP
Passport Capital, LLC
Select Equity Group, Inc.
State Street Global Advisors

DOMESTIC FIXED INCOME

Apollo Global Management, LLC
Beach Point Capital Management
Declaration Management & Research, LLC
GoldenTree Asset Management, LP
Halcyon Asset Management, LLC
Mackay Shields, LLC
Mariner-Tricadia Capital Management, LLC
MD Sass-Waterfall Asset Management, LLC
Oaktree Capital Management, LP
York Capital Management

INTERNATIONAL FIXED INCOME

Angelo, Gordon & Co., LP
BNY Alcentra Group Holdings, Inc.
BlueBay Asset Management Plc.
Cairn Capital Limited
Marathon Asset Management, LP
Oaktree Capital Management, LP

INTERNATIONAL EQUITY

Oechsle International Advisors, LLC

EMERGING MARKET INTERNATIONAL EQUITY

Batterymarch Financial Mgt., Inc.
Mondrian Investment Partners, Ltd

EMERGING MARKET FIXED INCOME

Ashmore Investment Management Limited

PRIVATE EQUITY

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

REAL ESTATE

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

ALTERNATIVES

Apollo Global Management, LLC
Ares Management, LLC
Declaration Management & Research, LLC
PineBridge Investments
Russell Implementation Services, Inc.
Sterling Stamos
ZAIS Group, LLC

REAL ASSETS

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

CONSULTANTS

Kreischer Miller
NEPC, LLC
The Townsend Group
Maples Finance

CUSTODIAN

State Street Bank and Trust

LEGAL COUNSEL

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

Investment Results

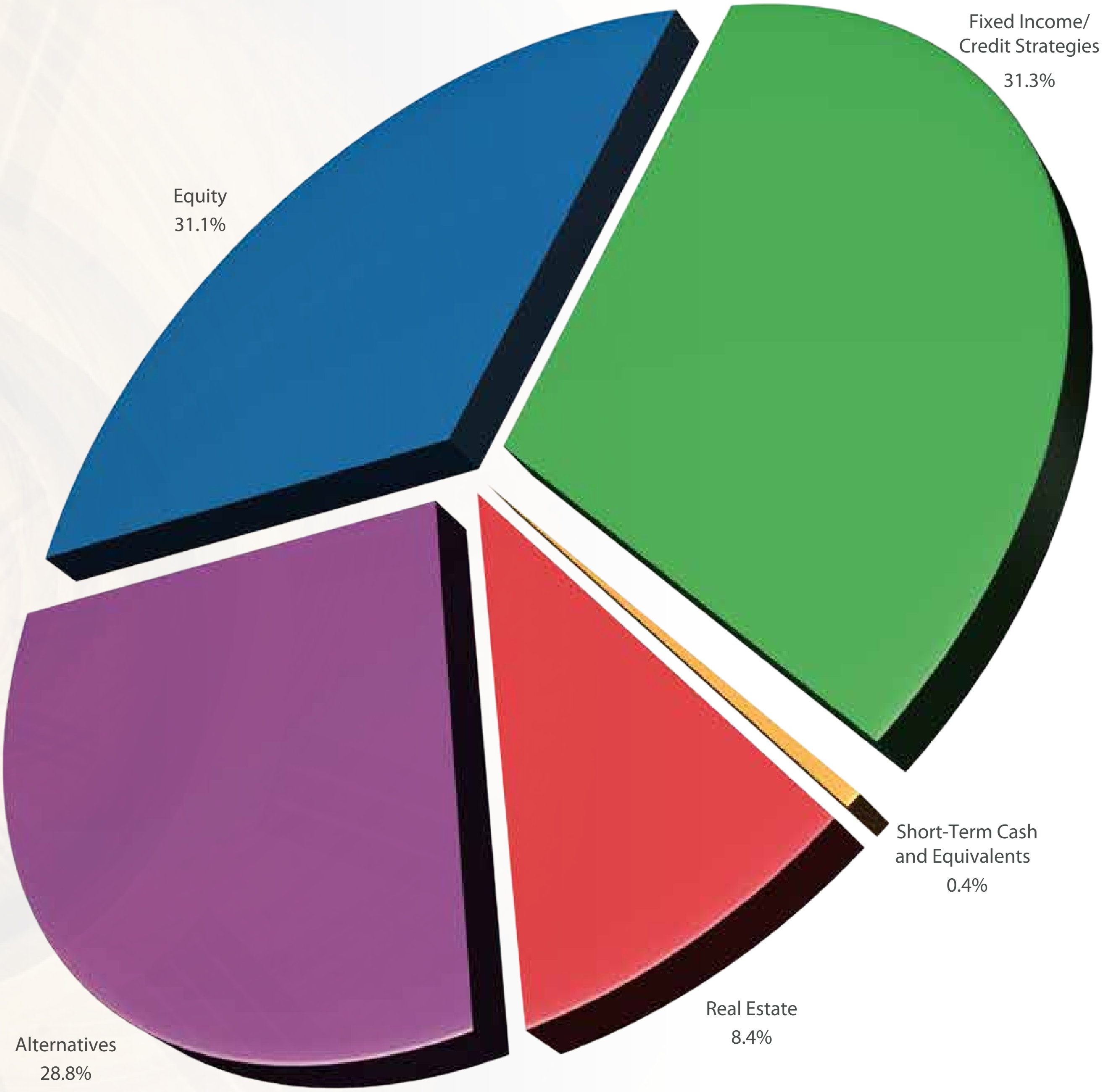
As of June 30, 2012

	Current Year 2012	Annualized 3 year	Annualized 5 year
Total Portfolio	0.46%	9.94%	(0.41)%
SBCERA Policy Benchmark	3.24%	11.17%	2.69%
Cash Equivalents	(5.55)%	(1.79)%	(0.12)%
91 Day T-Bill Benchmark	0.05%	0.12%	0.98%
Equity Segment			
Domestic Equity	(3.03)%	8.49%	(6.31)%
Russell 3000 Benchmark	3.84%	16.73%	0.39%
Emerging Markets Equity	(13.99)%	10.15%	0.53%
MSCI Emerging Markets Benchmark	(15.95)%	9.77%	(0.09)%
International Equity	(18.49)%	4.83%	(7.80)%
MSCI EAFE Benchmark	(13.83)%	5.96%	(6.10)%
Fixed Income Segment			
Domestic Fixed Income	(1.35)%	16.86%	9.61%
BofAML High Yield Master II Benchmark	6.52%	16.16%	8.16%
Global and Emerging Market Fixed Income	(5.82)%	7.14%	3.75%
SBCERA Custom BC Global Benchmark	(0.33)%	5.43%	6.58%
Real Asset Segment			
Real Estate	11.54%	0.11%	(5.72)%
NCREIF Benchmark	13.41%	5.96%	2.88%
Timber	(2.99)%	(5.41)%	(2.14)%
NCREIF Timberland Benchmark	1.18%	(1.27)%	4.30%
Infrastructure	7.33%	14.52%	N/A
CPI + 600BPS	7.76%	8.20%	8.01%
Commodities	4.57%	5.79%	N/A
Dow Commodity Benchmark	(14.32)%	3.49%	(3.65)%
Other Alternative Segment			
Private Equity/Venture Capital	5.73%	9.62%	4.20%
Venture ECO Benchmark	10.26%	17.32%	6.28%
Alpha Pool	6.40%	15.93%	N/A
CPI + 600BPS	7.76%	8.20%	8.01%

Note: N/A = not available. Calculations were prepared using a time-weighted rate of return and are net of fees.

Asset Allocation

As of June 30, 2012

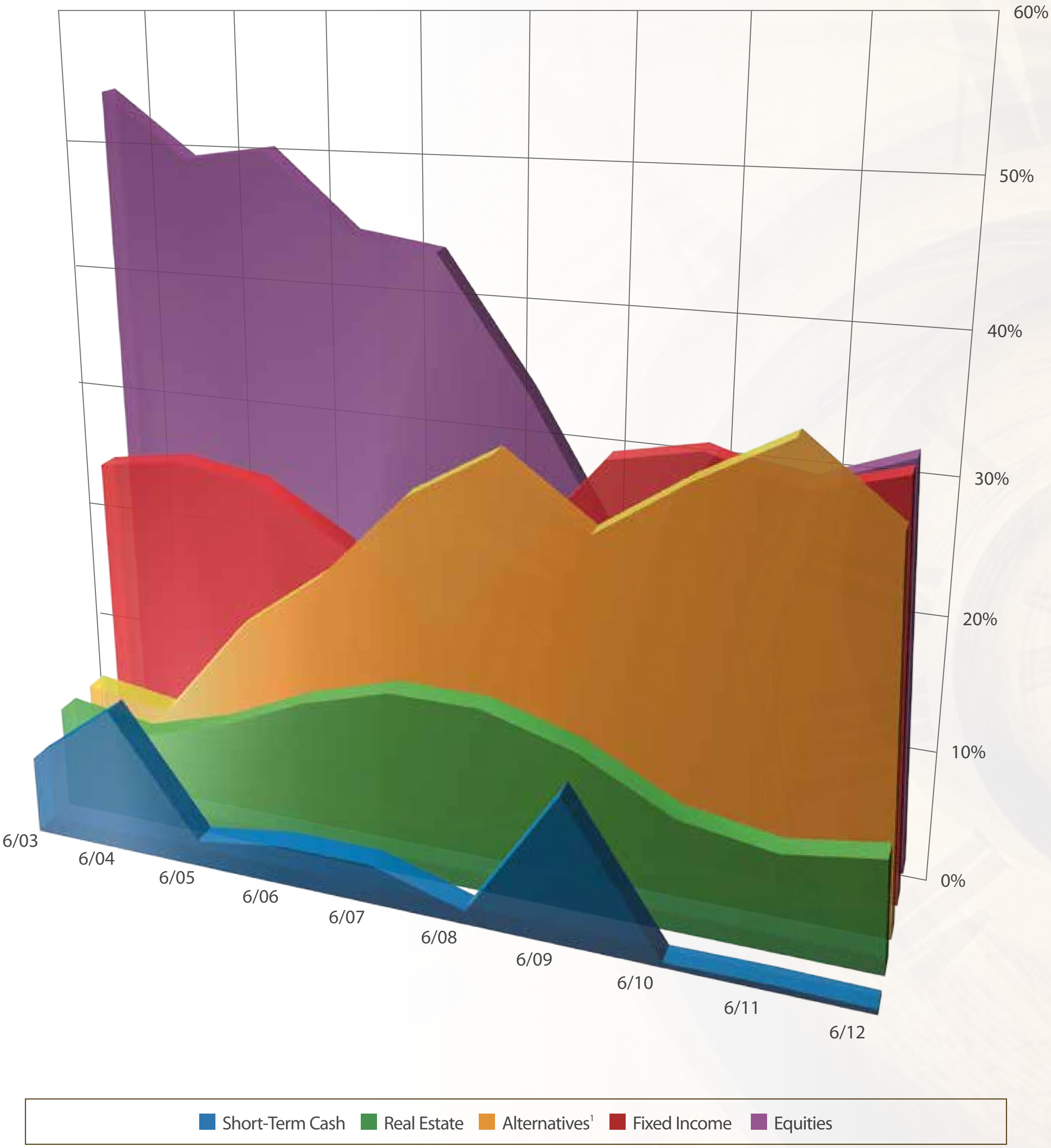


Equity	31.1%
Fixed Income/Credit Strategies	31.3%
Short-Term Cash and Equivalents	0.4%
Real Estate	8.4%
Alternatives	28.8%
TOTAL	**100.0%**

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 2003 through June 2012



(1) Alternatives includes Private Equity and Hedge Funds beginning with Fiscal Year 2004.

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

Target vs. Actual Asset Allocation Percentages

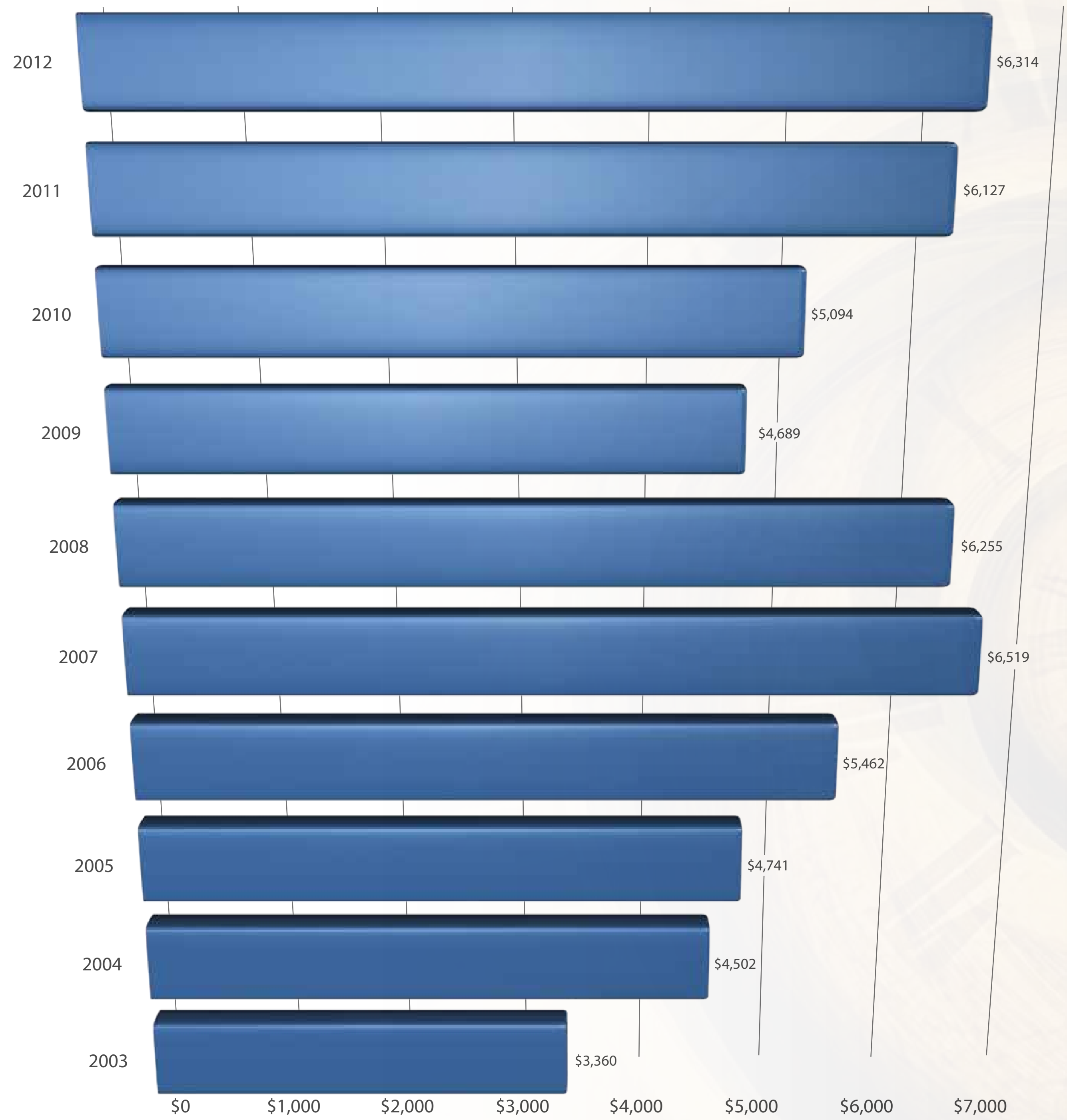
As of June 30, 2012

	Actual	Target	Target Ranges Minimum	Maximum
Domestic Equity	15.1%	11.0%	6.0%	16.0%
Domestic Fixed Income	19.2%	19.0%	14.0%	24.0%
International Equity	16.0%	11.0%	6.0%	16.0%
Global Fixed Income	12.1%	16.0%	11.0%	21.0%
Short-Term Cash	0.4%	2.0%	0.0%	10.0%
Real Estate	8.4%	9.0%	4.0%	14.0%
Private Equity	19.2%	16.0%	11.0%	21.0%
Absolute Return	3.4%	7.0%	2.0%	12.0%
Timber	2.8%	3.5%	0.0%	8.5%
Infrastructure	1.0%	2.0%	0.0%	7.0%
Commodities	2.4%	3.5%	0.0%	8.5%

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

Fair Value Growth of Plan Assets

For 10 Years Ended June 30, 2012 (Amounts in Millions)



Note: This chart depicts growth of plan assets held for investment excluding investments of cash collateral received on securities lending transactions. (Fiscal Year 2012 $160).

History of Performance

For Fiscal Years 2003 through 2012 (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, 2012 (Amounts in Thousands)

Largest Stock Holdings (by Fair Value)

Description	Shares	Fair Value
1) LARSEN + TOUBRO GDR REG S	149,607	$3,805
2) SAMSUNG ELECTRONICS CO LTD	3,296	3,456
3) CREDICORP LTD	26,724	3,364
4) TUPRAS TURKIYE PETROL RAFINE	154,996	3,316
5) LUKOIL OAO SPON ADR	58,500	3,281
6) HYUNDAI MOBIS	13,657	3,273
7) BELLE INTERNATIONAL HOLDINGS	1,821,406	3,081
8) ASTRA INTERNATIONAL TBK PT	4,108,660	2,996
9) SAP AG	50,680	2,994
10) VALE SA SP PREF ADR	151,900	2,964
TOTAL OF LARGEST STOCK HOLDINGS		**$32,530**
TOTAL STOCK HOLDINGS		**$639,394**

Largest Bond Holdings (by Fair Value)

Description	Par	Fair Value
1) 294585653 CDS EUR R F 1.00000	$4,591	$5,615
2) BUNDESOBLIGATION	1,690	2,334
3) 283629147 CDS USD R F 1.00000	2,250	2,250
4) BUNDESREPUB. DEUTSCHLAND	1,309	1,955
5) BUNDESOBLIGATION	1,300	1,661
6) YTL CORP FINANCE LABUAN	1,400	1,624
7) BUNDESREPUB. DEUTSCHLAND	932	1,388
8) ING BANK NV	1,350	1,188
9) AEGIS GROUP CAPITAL	600	1,107
10) SHERSON LTD	7,260	1,099
TOTAL OF LARGEST BOND HOLDINGS		**$20,221**
TOTAL BOND HOLDINGS		**$411,549**

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

Schedule of Fees and Commissions

For the Year Ended June 30, 2012 (Amounts in Thousands)

Fees

	Assets Under Management at Fair Value	Fees
INVESTMENT MANAGERS' FEES:		
Equity managers	$639,394	$2,667
Fixed income managers	411,549	2,688
Real estate managers	534,807	6,188
Alternative managers	3,990,975	48,638
Short term cash & securities lending collateral	897,498	-
TOTAL INVESTMENT MANAGERS' FEES	**$6,474,223**	**60,181**
OTHER INVESTMENT SERVICE FEES:		
Custodian fees		591
Legal services		486
Investment consultant fees		2,154
TOTAL INVESTMENT SERVICE FEES		**3,231**
SECURITIES LENDING FEES:		**218**
TOTAL FEES		**$63,630**

Commissions

Brokerage Firm	Total Commissions	% of Total Commissions
Morgan Stanley (Bank of NY)	$423	58.89%
Morgan Stanley and Co New York	102	14.25%
Pershing, LLC	46	6.36%
Goldman Sachs International	18	2.51%
Other[1]	129	17.99%
TOTAL	**$718**	**100.00%**

(1) Includes approximately 49 additional firms, each with less than 2% of total commissions.

Note: SBCERA has commission recapture arrangements with Russell Investments.

Investment Summary

As of June 30, 2012 (Amounts in Thousands)

Type of Investment	*Fair Value*	*Percent of Total Fair Value*
Domestic Stocks	$379,763	5.87%
Foreign Stocks	259,631	4.01%
U.S. Government Securities	112,799	1.74%
Domestic Corporate Bonds	15,456	0.23%
Foreign Bonds	48,841	0.75%
Emerging Market Debt	234,453	3.62%
Real Estate	534,807	8.26%
Domestic Alternatives	3,087,403	47.69%
Foreign Alternatives	903,572	13.96%
Investments of Cash Collateral Received on Securities Lending	160,285	2.48%
Short-Term Cash Investment Funds	737,213	11.39%
TOTAL INVESTMENTS	**$6,474,223**	**100.00%**

ACTUARIAL

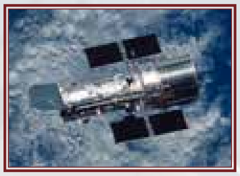
SECTION 4.0

1990s

1980s
1970s
1960s

THE 1990S

The 90s are known as the electronic age. Significant advances in technology and its mainstream usage changed how we communicated, spent money, built products and did business. In 1998, 15% of households had a computer. By 2000, 51% had one. In addition, the economy recovered and grew stronger. Inflation and unemployment were low. America grew by 32.7 million people to 281.4 million – the largest census-to-census increase of any decade in history.



1990

Hubble Telescope was launched into space.[1]

1991

Nirvana released its biggest song "Smells Like Teen Spirit," which ranked #1 for the decade.

1992

Passing of Proposition 162 – The Pension Protection Act.

1994

Sony Computer Entertainment introduced the PlayStation – a video game console system.

1995

DVDs were invented and developed by Philips, Sony, Toshiba and Panasonic.

1997

James Cameron released *Titanic*. It was the highest-grossing film of all time until Cameron's newest film, *Avatar*, surpassed it in 2010.

1999

Worldwide New Year's Eve celebrations take place to welcome in the new millennium, 2000.

SBCERA | 1992

Passing of Proposition 162 – The Pension Protection Act

November 3, 1992

The Pension Protection Act of 1992, or California Proposition 162, initiated several changes relating to the governing Boards of public retirement systems. Changes included granting Boards sole and exclusive authority over investment decisions and administration; requiring them to administer plans to assure prompt delivery of benefits to members; establishing that a Board's duty to its plan sponsors and members takes precedence over any other; designating them sole and exclusive power to provide for actuarial services; and prohibiting changing the number, terms, and method of selection or removal of board members without approval of voters of the jurisdiction in which members of the retirement system are employed.

(1) Reference photo credit on inside back cover for IMG.5.

Note: (Background Photo) Reference photo credit on inside back cover for IMG 6.

Actuary Certification Letter

San Bernardino County Employees' Retirement Association

SEGAL

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

November 12, 2012

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

Dear Members of the Board:

The Segal Company (Segal) prepared the June 30, 2012 actuarial valuation of the San Bernardino County Employees' Retirement Association (SBCERA). We certify that the Retirement Association valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2012 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Enclosed are summaries of the employee data used in performing the actuarial valuations over the past several years (Schedule of Active Member Valuation Data and Summary of Retired Membership). We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period (Development of Actuarial Value of Assets). Deferred investment gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of four years from that date.

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

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

Actuary Certification Letter

(Continued)

Board of Retirement
San Bernardino County Employees' Retirement Association
November 12, 2012
Page 2

5 years). The progress being made towards meeting the funding objective through June 30, 2012 is illustrated in the History of Unfunded Actuarial Accrued Liability.

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations from the June 30, 2011 Experience Analysis. It is our opinion that the assumptions used in the June 30, 2012 valuation produce results which, in the aggregate, reflect the expected future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2014.

The Board approved a three-year phase-in for the change in the employer contribution rate due to changes in the actuarial assumptions as of June 30, 2011. This is the second year of the phase-in.

In the June 30, 2012 valuation, the ratio of the actuarial value of assets to actuarial accrued liabilities decreased from 79.2% to 78.9%, and the aggregate employer contribution rate increased from 22.65% of payroll to 23.89% of payroll, where both aggregate rates are before reflecting the three-year phase-in. After reflecting the three-year phase-in, the aggregate employer contribution rate is 23.08% of payroll.

The actuarial value of assets included $616 million in deferred investment losses, which represented about 10% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would have decreased from 78.9% to 71.7% and the aggregate employer contribution rate (before reflecting the phase-in), expressed as a percent of payroll, would have increased from 23.89% to 27.38%.

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

Sincerely,

Paul Angelo /jm

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

John Monroe

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

AW/hy

5218495v1/05111.002

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
6/30/03[1]				
General	16,056	$801,630,519	$49,927	7.96%
Safety	1,880	132,267,552	70,355	8.10%
Total	**17,936**	**$933,898,071**	**$52,068**	**8.02%**
6/30/04				
General	15,529	$810,182,650	$52,172	4.50%
Safety	1,862	133,362,321	71,623	1.80%
Total	**17,391**	**$943,544,971**	**$54,255**	**4.20%**
6/30/05				
General	15,743	$832,019,250	$52,850	1.30%
Safety	1,864	136,655,045	73,313	2.36%
Total	**17,607**	**$968,674,295**	**$55,016**	**1.40%**
6/30/06				
General	16,254	$879,493,985	$54,109	2.38%
Safety	2,093	149,236,841	71,303	(2.74)%
Total	**18,347**	**$1,028,730,826**	**$56,071**	**1.92%**
6/30/07				
General	16,758	$938,685,224	$56,014	3.52%
Safety	2,187	163,465,403	74,744	4.83%
Total	**18,945**	**$1,102,150,627**	**$58,176**	**3.76%**
6/30/08				
General	17,197	$1,042,739,850	$60,635	8.25%
Safety	2,217	176,821,803	79,757	6.71%
Total	**19,414**	**$1,219,561,653**	**$62,819**	**7.98%**
6/30/09				
General	16,669	$1,032,135,626	$61,919	2.12%
Safety	2,286	194,295,650	84,994	6.57%
Total	**18,955**	**$1,226,431,276**	**$64,702**	**3.00%**
6/30/10				
General	17,255	$1,054,377,283	$61,106	(1.31)%
Safety	2,265	195,815,678	86,453	1.72%
Total	**19,520**	**$1,250,192,961**	**$64,047**	**(1.01)%**
6/30/11				
General	17,070	$1,045,601,554	$61,254	0.24%
Safety	2,188	198,953,186	90,929	5.18%
Total	**19,258**	**$1,244,554,740**	**$64,625**	**0.90%**
6/30/12				
General	17,155	$1,061,588,530	$61,882	1.03%
Safety	2,151	198,720,507	92,385	1.60%
Total	**19,306**	**$1,260,309,037**	**$65,281**	**1.01%**

(1) Fiscal Year 2003 Schedule was restated to reflect actual vs previous years' rounding.

Summary of Retired Membership

Year	Number of Members: Beginning of Year	Added During Year	Removed During Year	End of Year	Annual Allowances: Beginning Annual Allowance	Added During Year	Removed During Year	Annual Allowance[1]	% Increase in Annual Allowance	Average Monthly Allowance[1]
7/02 to 6/03	5,984	470	(295)	6,159	$116,088,000	$12,977,000	$(1,763,000)	$127,302,000	9.66%	$1,722
7/03 to 6/04	6,159	550	(283)	6,426	127,302,000	19,172,000	1,851,000	148,325,000	16.51%	1,924
7/04 to 6/05	6,426	600	(122)	6,904	148,325,000	24,047,000	(1,837,000)	170,535,000	14.97%	2,058
7/05 to 6/06	6,904	565	(208)	7,261	170,535,000	19,608,000	(3,508,000)	186,635,000	9.44%	2,142
7/06 to 6/07	7,261	572	(216)	7,617	186,635,000	23,197,000	(3,834,000)	205,998,000	10.37%	2,254
7/07 to 6/08	7,617	592	(238)	7,971	205,998,000	25,876,000	(4,242,000)	227,632,000	10.50%	2,380
7/08 to 6/09	7,971	748	(200)	8,519	227,632,000	32,330,000	(3,581,000)	256,381,000	12.63%	2,508
7/09 to 6/10	8,519	553	(229)	8,843	256,381,000	27,380,000	(4,929,000)	278,832,000	8.76%	2,628
7/10 to 6/11	8,843	694	(272)	9,265	278,832,000	35,099,000	(5,375,000)	308,556,000	10.66%	2,775
7/11 to 6/12	9,265	690	(219)	9,736	308,556,000	35,576,000	(4,309,000)	339,823,000	10.13%	2,909

Development of Actuarial Value of Assets

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

		Original Amount	Unrecognized Return	
1.	**Market value of assets**			$6,173,334,202
2.	**Calculation of unrecognized return[2]**			
	a) Year ended June 30, 2012[3]	$(444,010,514)	$(355,208,411)	
	b) Combined net deferred loss[4]	(347,932,968)	(260,949,725)	
	C) TOTAL UNRECOGNIZED RETURN[5]			**(616,158,136)**
3.	**Actuarial value of assets (1) - (2c)**			6,789,492,338
4.	**Actuarial value as a percentage of market value**			110.0%
5.	**Non-valuation reserves and designations:**			
	a) Burial allowance reserve			911,657
	b) Restricted balance reserved for deficiencies			-
	c) Additional contingency reserve			-
	D) TOTAL			**911,657**
6.	**VALUATION VALUE OF ASSETS (3) - (5D)**			**$6,788,580,681**

(1) Excludes monthly benefits for Supplemental Disability, Survivor Benefits, General Retiree Subsidy and beneficiaries that are only receiving Survivor Benefit amounts.

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

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

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

(5) Deferred return amount as of June 30, 2012 recognized in each of the next 4 years:
(a) Amount recognized during 2012/2013 - $(175,785,345)
(b) Amount recognized during 2013/2014 - $(175,785,345)
(c) Amount recognized during 2014/2015 - $(175,785,345)
(d) Amount recognized during 2015/2016 - $(88,802,103)
Total - $(616,158,136)

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

History of Unfunded Actuarial Accrued Liability

(Amounts in Thousands)

Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability[2] (b)	Unfunded (Overfunded) Actuarial Accrued Liability (b) - (a)	Ratio of Assets to Actuarial Accrued Liability (a) / (b)	Annual Active Member Compensation (c)	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation [(b) - (a) / (c)]
6/30/03	$3,815,573	$4,368,411	$552,838	87.34%	$933,898	59.20%
6/30/04	4,418,152	4,719,865	301,713	93.61%	943,545	31.98%
6/30/05	4,750,229	5,215,719	465,490	91.08%	968,674	48.05%
6/30/06	5,175,767	5,624,646	448,879	92.02%	1,028,731	43.63%
6/30/07	5,797,400	6,227,013	429,613	93.10%	1,102,151	38.98%
6/30/08	6,341,531	6,773,629	432,098	93.62%	1,219,562	35.43%
6/30/09	6,383,388	7,013,534	630,146	91.02%	1,226,431	51.38%
6/30/10[3]	6,367,232	7,444,986	1,077,754	85.52%	1,250,193	86.21%
6/30/11	6,484,507	8,189,646	1,705,139	79.18%	1,244,555	137.01%
6/30/12	6,789,492	8,606,577	1,817,085	78.89%	1,260,309	144.18%

History of Total Employer Contribution Rates

Valuation Date - 6/30/2003

County General (Superior Court)
- Normal Cost 8.44%
- UAAL 3.23%
- Total 11.67%

County Safety
- Normal Cost 18.01%
- UAAL 8.29%
- Total 26.30%

SCAQMD
- Normal Cost 8.06%
- UAAL 5.61%
- Total 13.67%

Other General
- Normal Cost 9.77%
- UAAL 6.14%
- Total 15.91%

Other Safety
- Normal Cost 19.20%
- UAAL 12.87%
- Total 32.07%

Valuation Date - 6/30/2004

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

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

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

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

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

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

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

Valuation Date - 6/30/2005

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

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

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

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

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

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

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

Valuation Date - 6/30/2006

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

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

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

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

(1) Includes assets held for Survivor Benefits, Burial Allowance, General Retiree Subsidy and Excess Earnings reserves.
(2) Includes liabilities held for Survivor Benefits, Burial Allowance, General Retiree Subsidy and Excess Earnings reserves.
(3) Does not reflect the transfer of $40.6 million from the General Retiree Subsidy reserve to the Current Service reserve.

Note: Top Table- Prepared for GASB 25 Guidelines.

History of Total Employer Contribution Rates

(Continued)

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

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

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

Valuation Date - 6/30/2007

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

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

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

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

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

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

Valuation Date - 6/30/2008

County General
- Normal Cost 9.29%
- UAAL 1.96%
- Total 11.25%

County Safety
- Normal Cost 19.06%
- UAAL 5.40%
- Total 24.46%

SCAQMD
- Normal Cost 9.66%
- UAAL 5.52%
- Total 15.18%

Superior Court
- Normal Cost 9.29%
- UAAL 5.55%
- Total 14.84%

Other General
- Normal Cost 10.61%
- UAAL 8.81%
- Total 19.42%

Other Safety (All Service)
- Normal Cost 19.97%
- UAAL 21.01%
- Total 40.98%

Valuation Date - 6/30/2009

County General
- Normal Cost 9.25%
- UAAL 3.07%
- Total 12.32%

County Safety
- Normal Cost 19.21%
- UAAL 7.61%
- Total 26.82%

SCAQMD
- Normal Cost 9.72%
- UAAL 6.36%
- Total 16.08%

Superior Court
- Normal Cost 9.25%
- UAAL 6.29%
- Total 15.54%

Other General
- Normal Cost 10.58%
- UAAL 9.81%
- Total 20.39%

Other Safety (All Service)
- Normal Cost 20.22%
- UAAL 24.48%
- Total 44.70%

Valuation Date - 6/30/2010

County General
- Normal Cost 9.27%
- UAAL 5.23%
- Total 14.50%

County Safety
- Normal Cost 19.16%
- UAAL 11.73%
- Total 30.89%

SCAQMD
- Normal Cost 9.72%
- UAAL 9.61%
- Total 19.33%

Superior Court
- Normal Cost 9.27%
- UAAL 7.61%
- Total 16.88%

Other General
- Normal Cost 10.57%
- UAAL 11.81%
- Total 22.38%

Other Safety (All Service)
- Normal Cost 20.24%
- UAAL 26.67%
- Total 46.91%

Valuation Date - 6/30/2011

County General
- Normal Cost 9.41%
- UAAL 7.71%
- Total 17.12%

County Safety
- Normal Cost 19.24%
- UAAL 17.15%
- Total 36.39%

SCAQMD
- Normal Cost 9.98%
- UAAL 13.17%
- Total 23.15%

Superior Court
- Normal Cost 9.41%
- UAAL 9.15%
- Total 18.56%

Other General
- Normal Cost 10.66%
- UAAL 15.11%
- Total 25.77%

Other Safety (All Service)
- Normal Cost 20.35%
- UAAL 31.38%
- Total 51.73%

Valuation Date - 6/30/2012

County General
- Normal Cost 9.94%
- UAAL 9.02%
- Total 18.96%

County Safety
- Normal Cost 19.73%
- UAAL 20.26%
- Total 39.99%

SCAQMD
- Normal Cost 9.87%
- UAAL 15.35%
- Total 25.22%

Superior Court
- Normal Cost 9.94%
- UAAL 9.93%
- Total 19.87%

Other General
- Normal Cost 11.37%
- UAAL 16.32%
- Total 27.69%

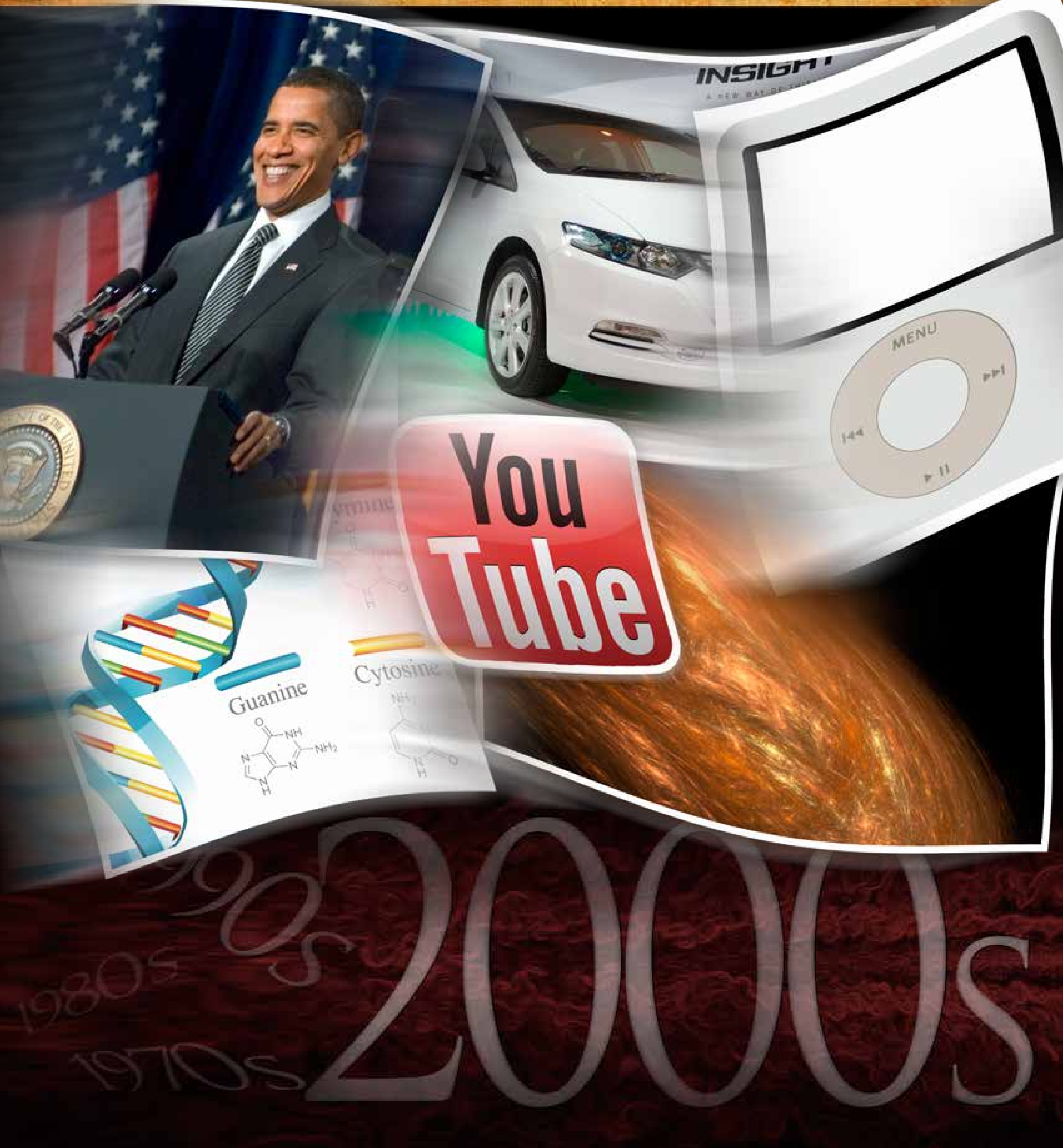
Other Safety (All Service)
- Normal Cost 19.59%
- UAAL 38.23%
- Total 57.82%

Note: These are the recommended rates and include a one year lag, i.e. 6/30/2012 contribution rates go into effect 7/1/2013. Beginning with the June 30, 2003 CAFR, "Non-County employer rates" have been separated from the "County rates" to reflect the differences in rate schedules due to non-participation in the Pension Obligation Bond (POB) issued in 1996 and 2004. For June 30, 2003, the County experienced an effective rate of 8.44% for general & 18.01% for safety due to the 03/04 POB credit. Normal cost only. Beginning with the June 30, 2004 CAFR, "Superior Court employer rates" have been separated from the "County rates" to reflect the differences in rate schedules due to non-participation in the Pension Obligation Bond issued in 2004. Beginning December 31, 2006, SCAQMD deposited a prepayment that will impact their UAAL. UAAL = Unfunded Actuarial Accrued Liability. For June 30, 2010, contribution rates were revised based on a $40.6 million transfer from the General Subsidy Reserve to the Current Service Reserve on April 7, 2011. For June 30, 2011 and 2012, contribution rates reflect a three-year phase-in, which was approved by the Board on August 15, 2011.

ACTUARIAL

Supporting Schedules

SECTION 4.1



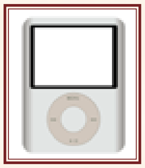
SECTION 4.1
ACTUARIAL
SUPPORTING SCHEDULES

THE 2000s

The 2000s may be remembered as one of the worst decades in American history. It began with the devastating 9/11 terrorist attacks, which led to the highly contested "War on Terrorism" that continues today. The nation faced its largest natural disaster, Hurricane Katrina, which killed approximately 1,800 people and caused more than $108 billion in damages. Americans suffered two financial meltdowns with the dot-com and real estate bubbles, pushing the economy to the brink of collapse as many Americans lost their homes and jobs. Time magazine called the decade "the most dispiriting and disillusioning decade Americans have lived through in the post-World War II era." Amidst these unfortunate events, technology advanced at lightning speed. By 2009, more than 1.5 billion people world-wide used the internet and more than 4 billion used cell phones.

2000

Honda introduced the Insight, the first hybrid for sale in the U.S. market.

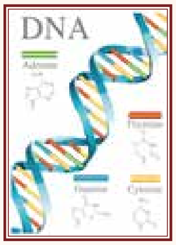


2001

Apple, Inc. publicly announced the release of their portable music digital player, the iPod.

2003

A New Retirement Formula.



2003

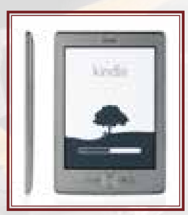
The international Human Genome Project to identify and sequence all 20,000-25,000 genes in DNA and store in a database for research and study is complete.

2004

The Mars Exploration Rover (MER) Mission reaches the surface of Mars.

2005

Chad Hurley, Steve Chen and Jawed Karim launch YouTube – a video-sharing website. Google acquired YouTube in 2006 for $1.65 billion.



2007

Amazon released the Kindle, one of the first e-book portable readers.

2009

President Barack Obama is sworn in as the 44th President, becoming the first African American president.

SBCERA | 2003

A New Retirement Formula

October 1, 2003

On October 1, 2003, an agreement was reached between the San Bernardino County Sheriff's Employees' Benefit Association and SBCERA regarding the well-known Ventura Decision (i.e. California Supreme Court ruling defining earnable compensation) and whether this decision applied retroactively to existing retirees. Under the agreement, active and deferred SBCERA Safety members received a new benefit formula of 3% @ 50 (Government Code section 31664.1). Safety member retirees and beneficiaries (with final compensation periods prior to October 1, 1997) received an increase in final compensation of 8.25% retroactive to April 15, 1995. Retired General members from this same period received 1.65% retroactive to October 1, 1997.

Note: (Background Photo) Reference photo credit on inside back cover for IMG 7.

Summary of Actuarial Assumptions and Methods

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

1.	Interest	7.75% per annum, compounded semi-annually.
2.	Interest Credited to Employee Accounts	3.50% (Based on projected long-term six month Treasury rate).
3.	Inflation	3.50% per annum.
4.	Salary Schedule	As shown in Table on page 87.
5.	Asset Valuation	Smoothed market (5-year average). See Development of Actuarial Value of Assets on page 88 which shows the development of the assets. Net deferred losses of $347.93 million from the June 30, 2011 actuarial valuation were combined into a single 4-year smoothing layer.
6.	Gains and Losses	Gains and Losses are reflected in the UAAL. They are funded over the period described above.
7.	Spouses and Dependents	70% of male members and 55% of female members assumed married at retirement or pre-retirement death, with female (or male) spouses assumed 3 years younger (or older) than their spouses.
8.	Rates of Termination of Employment	As shown in Table on page 96.
9.	Years of Life Expectancy After Retirement	As shown in Table on page 97.
10.	Years of Life Expectancy After Disability	As shown in Table on page 97.
11.	Mortality for Employee Contribution Rate Purposes:	
	General	RP-2000 Combined Healthy Mortality Table set back 2 years; for Disabled Males, set forward 4 years; for Disabled Females, set forward 5 years, weighted 30% male, 70% female.
	Safety	RP-2000 Combined Healthy Mortality Table, set back 3 years; for Disabled Members, set forward 1 year, weighted 85% male, 15% female.
12.	Reciprocity Assumption	40% of members who terminate with a vested benefit are assumed to enter a reciprocal system. Assume 5.25% compensation increases per annum.
13.	Deferral Age for Vested Terminations	Age 58 for General members; age 52 for Safety members.
14.	Recent Changes	Normal costs are now calculated on an individual basis, previously calculated on an aggregate basis, to comply with the Governmental Accounting Standards Board recommendations; the amortization periods were adjusted for various future changes in liability that had no impact on the June 30, 2012 valuation; the $347.93 million net unrecognized loss from the June 30, 2011 valuation will be smoothed into a single 4-year smoothing layer ($86.98 million recognized each year, for 4 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.

Note: The above methods and assumptions were selected by the actuary as being appropriate for the Plan and are to be adopted effective June 30, 2012.

Ratio of Current Compensation-to-Compensation Anticipated at Retirement

As of June 30, 2012

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

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

Probabilities of Separation from Active Service

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

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

Death: Member dies prior to retirement.

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

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

Probabilities of Separation from Active Service

(Continued)

The probabilities shown for each cause of termination represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 30 is 0.0550, then we are assuming that 5.50% of the active members at age 30 will terminate without vested rights during the next year.

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

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

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

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

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

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

Expectation of Life

As of June 30, 2012

General Service Retirees – RP-2000 Combined Healthy Mortality Tables, set back two years

Age	Male	Female
50	32.67	35.49
60	23.49	26.17
70	15.32	17.75
80	8.82	10.85

Safety Service Retirees – RP-2000 Combined Healthy Mortality Tables, set back three years

Age	Male	Female
50	33.62	36.44
60	24.37	27.07
70	16.07	18.52
80	9.38	11.46

General Disabled Retirees – RP-2000 Combined Healthy Mortality Tables

Age	Male[1]	Female[2]
20	55.83	57.90
30	46.05	48.05
40	36.46	38.35
50	27.09	28.91
60	18.40	20.12
70	11.19	12.74
80	5.90	7.09

Safety Disabled Retirees – RP-2000 Combined Healthy Mortality Tables, set forward one year

Age	Male	Female
20	58.77	61.86
30	48.97	51.98
40	39.32	42.21
50	29.86	32.65
60	20.88	23.50
70	13.18	15.50
80	7.25	9.12

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

Retirees and Beneficiaries Added to and Removed from Rolls

(Amounts in Thousands)

	Added to Rolls		Removed from Rolls		Net Added/ Removed from Rolls		Rolls– End of Year		% Increase in Annual Allowances	Average Annual Allowances (Actual Dollars)
Year Ended	No.	Annual Allowances[1]	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
6/30/03										
General	334	$10,883	195	$1,648	139	$9,235	5,262	$98,944	10.29%	$18,803
Safety	46	2,094	10	115	36	1,979	897	28,358	7.50%	31,614
TOTAL	**380**	**$12,977**	**205**	**$1,763**	**175**	**$11,214**	**6,159**	**$127,302**	**9.66%**	**$20,669**
6/30/04 (RESTATED)										
General	372	$13,957	202	$2,835	170	$11,122	5,432	$110,066	11.24%	$20,263
Safety	106	10,105	9	204	97	9,901	994	38,259	34.91%	38,490
TOTAL	**478**	**$24,062**	**211**	**$3,039**	**267**	**$21,023**	**6,426**	**$148,325**	**16.51%**	**$23,082**
6/30/05										
General	508	$17,785	116	$1,748	392	$16,037	5,824	$126,103	14.57%	$21,652
Safety	92	6,262	6	89	86	6,173	1,080	44,432	16.13%	41,141
TOTAL	**600**	**$24,047**	**122**	**$1,837**	**478**	**$22,210**	**6,904**	**$170,535**	**14.97%**	**$24,701**
6/30/06										
General	498	$16,171	188	$3,110	310	$13,061	6,134	$139,164	10.36%	$22,687
Safety	67	3,437	20	398	47	3,039	1,127	47,471	6.84%	42,122
TOTAL	**565**	**$19,608**	**208**	**$3,508**	**357**	**$16,100**	**7,261**	**$186,635**	**9.44%**	**$25,704**
6/30/07										
General	505	$18,503	200	$3,319	305	$15,184	6,439	$154,348	10.91%	$23,971
Safety	67	4,694	16	515	51	4,179	1,178	51,650	8.80%	43,846
TOTAL	**572**	**$23,197**	**216**	**$3,834**	**356**	**$19,363**	**7,617**	**$205,998**	**10.37%**	**$27,045**
6/30/08										
General	518	$19,912	218	$3,781	300	$16,131	6,739	$170,479	10.45%	$25,297
Safety	74	5,964	20	461	54	5,503	1,232	57,153	10.65%	46,390
TOTAL	**592**	**$25,876**	**238**	**$4,242**	**354**	**$21,634**	**7,971**	**$227,632**	**10.50%**	**$28,558**
6/30/09										
General	689	$27,963	181	$3,187	508	$24,776	7,247	$195,255	14.53%	$26,943
Safety	59	4,367	19	394	40	3,973	1,272	61,126	6.95%	48,055
TOTAL	**748**	**$32,330**	**200**	**$3,581**	**548**	**$28,749**	**8,519**	**$256,381**	**12.63%**	**$30,095**
6/30/10										
General	465	$19,648	205	$4,123	260	$15,525	7,507	$210,780	7.95%	$28,078
Safety	88	7,732	24	806	64	6,926	1,336	68,052	11.33%	50,937
TOTAL	**553**	**$27,380**	**229**	**$4,929**	**324**	**$22,451**	**8,843**	**$278,832**	**8.76%**	**$31,531**
6/30/11										
General	598	$25,397	250	$4,605	348	$20,792	7,855	$231,572	9.86%	$29,481
Safety	96	9,702	22	770	74	8,932	1,410	76,984	13.13%	54,599
TOTAL	**694**	**$35,099**	**272**	**$5,375**	**422**	**$29,724**	**9,265**	**$308,556**	**10.66%**	**$33,303**
6/30/12										
General	586	$26,342	204	$3,741	382	$22,601	8,237	$254,173	9.76%	$30,857
Safety	104	9,234	15	568	89	8,666	1,499	85,650	11.26%	57,138
TOTAL	**690**	**$35,576**	**219**	**$4,309**	**471**	**$31,267**	**9,736**	**$339,823**	**10.13%**	**$34,904**

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

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

Solvency Test

(Amounts in Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liability Covered by Valuation Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees, Beneficiaries & Vested Participants	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/03	$634,254	$1,845,957	$1,888,200	$3,815,573	100%	100%	70.72%
6/30/04	650,465	2,032,964	2,036,436	4,418,152	100%	100%	85.18%
6/30/05	675,653	2,315,978	2,224,088	4,750,229	100%	100%	79.07%
6/30/06	772,833	2,520,667	2,331,146	5,175,767	100%	100%	80.74%
6/30/07	787,699	2,894,967	2,544,347	5,797,400	100%	100%	83.11%
6/30/08	851,932	3,244,459	2,677,238	6,341,531	100%	100%	83.86%
6/30/09	885,519	3,325,726	2,802,289	6,383,388	100%	100%	77.51%
6/30/10	934,641	3,573,651	2,936,694	6,367,232	100%	100%	63.30%
6/30/11	969,913	4,033,102	3,186,631	6,484,507	100%	100%	46.49%
6/30/12	1,004,751	4,330,245	3,271,581	6,789,492	100%	100%	44.46%

Note: Prepared for GASB 25 Guidelines.
Effective 6/30/2004, net proceeds of approximately $506 million from the issuance of a pension obligation bond were contributed to the Plan.

Analysis of Financial Experience

(Amounts in Thousands)

Gains and losses in Accrued Liabilities during the years ended June 30, 2012 through 2003 resulting from differences between Assumed Experience and Actual Experience.

	Type of Activity				
	Pay Increases [1]	Investment Income [2]	Death After Retirement [3]	Other [4]	Composite Gain (Loss) During the Year
6/30/2003 Gain (Loss)	$(14,537)	$(246,491)	$8,186	$(19,132)	$(271,974)
6/30/2004 Gain (Loss)	12,244	(111,191)	6,869	(22,913)	(114,991)
6/30/2005 Gain (Loss)	(45,793)	(14,220)	(52,798)	(64,893)	(177,704)
6/30/2006 Gain (Loss)	18,819	2,488	5,127	(4,763)	21,671
6/30/2007 Gain (Loss)	(15,379)	6,514	(16,190)	7,970	(17,085)
6/30/2008 Gain (Loss)	(21,844)	7,386	(22,150)	(4,795)	(41,403)
6/30/2009 Gain (Loss)	50,853	(323,361)	(8,506)	66,311	(214,703)
6/30/2010 Gain (Loss)	111,010	(529,630)	(17,399)	(12,666)	(448,685)
6/30/2011 Gain (Loss)	86,082	(394,003)	(6,413)	(6,804)	(321,138)
6/30/2012 Gain (Loss)	119,172	(132,274)	(12,372)	(96,438)	(121,912)

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

Summary of Major Plan Provisions

1. ELIGIBILITY

First day of employment.[1]

2. DEFINITION OF SALARY

Highest twelve consecutive months of compensation earnable.

3. SERVICE RETIREMENT

• *Normal retirement age*[2]

55 for General and
50 for Safety members.

• *Early retirement*

Age 70 (regardless of service years) or
Age 50 and 10 years of service or
30 years of service for General and
20 years of service for Safety (regardless of age).

• *Benefit*

2% (1/50) times final average salary per year of "General" service credit for benefit and 3% (3/100) times final average salary per year of "Safety" service credit for benefit.

• *Benefit Adjustments*

Reduced for retirement before 55 for General (50 for Safety).
Increased for retirement after 55 up to age 65 (General only).

4. DISABILITY RETIREMENT

• *Non-service connected (must have 5 years of service to be eligible)*

For members entering on or before December 31, 1980:
Greater of 1.8% of final average salary per year of service, with a maximum of 33-1/3% if projected service is used or service retirement benefit (if eligible).

For members entering on or after January 1, 1981:
20% of final average salary for the first 5 years plus 2% of final average salary per year of service in excess of 5, with a maximum of 40% of salary, or service retirement benefit (if eligible).

• *Service connected*

Greater of 50% of final average salary or service retirement benefit (if eligible).

(1) Membership may be delayed up to six weeks for the purpose of establishing reciprocity with another public retirement system as described in the 1937 Act.
(2) Normal retirement age shall not be later than 70 years of age.

Summary of Major Plan Provisions

(Continued)

5. DEATH BEFORE RETIREMENT

Refund of contributions plus 1/12 of salary per year of service up to six months compensation.

If eligible for disability or service retirement:

60% of member's accrued allowance.

If service-connected:

50% of salary.

6. DEATH AFTER RETIREMENT

$1,000 lump sum burial allowance ($250 is discretionary, funded from undesignated excess earnings and is subject at all times to the availability of funds in the Burial Allowance reserve).

Service retirement or non-service disability:

60% of member's allowance payable to an eligible spouse or registered domestic partner.

Service disability:

100% of member's allowance payable to an eligible spouse or registered domestic partner.

7. VESTING

After 5 years of service.
Must leave contributions on deposit.

8. MEMBER'S CONTRIBUTIONS

Based on entry age.

9. COST-OF-LIVING

"Automatic" not to exceed 2% compounding COLA.
A non-compounding 7% increase is payable at retirement for members hired on or before August 18, 1975.

Note: A more detailed description of the Plan provisions is available from the San Bernardino County Employees' Retirement Association administrative office.

STATISTICAL

SECTION 5.0

2010s

2000s

1990s

1980s

SECTION 5.0

STATISTICAL

THE 2010s

Historically, the economy is believed to go through recurring cycles. Typically after experiencing a bad decade, the next decade is much better. The 2010s began amidst a growing global financial crisis. While there were signs of economic recovery, unemployment rose and ongoing uncertainty plagued the financial markets. While a major national disaster has yet to strike the U.S., an explosion of a drilling platform in the Gulf of Mexico led to a massive oil spill. It marked the second largest environmental disaster in American history, second to the Dust Bowl of the 30s (severe dust storms causing major damage to farm lands). Digital technology, social media websites and online gaming have evolved drastically in the last three years with the introduction of the tablet computer such as the iPad.

2010

Apple, Inc. launches its first table computer called the iPad.

2010

The Boy Scouts of America celebrate their 100th anniversary.

2011

Prince William, Duke of Cambridge and Catherine Middleton wed at Westminster Abbey in London. The wedding was televised and watched by an estimated two billion people.

2011

NASA's space shuttle program ends with the last flight of Space Shuttle Atlantis.

2012

Swimmer Michael Phelps breaks the record for the greatest number of medals won at the Olympics (previously held by gymnast Larisa Latynina in 1964).

2012

The State of Nevada issues Google the first license for a self driven car for their Toyota Prius which was modified for driverless technology.

2012

Pension Reform.

SBCERA | 2012

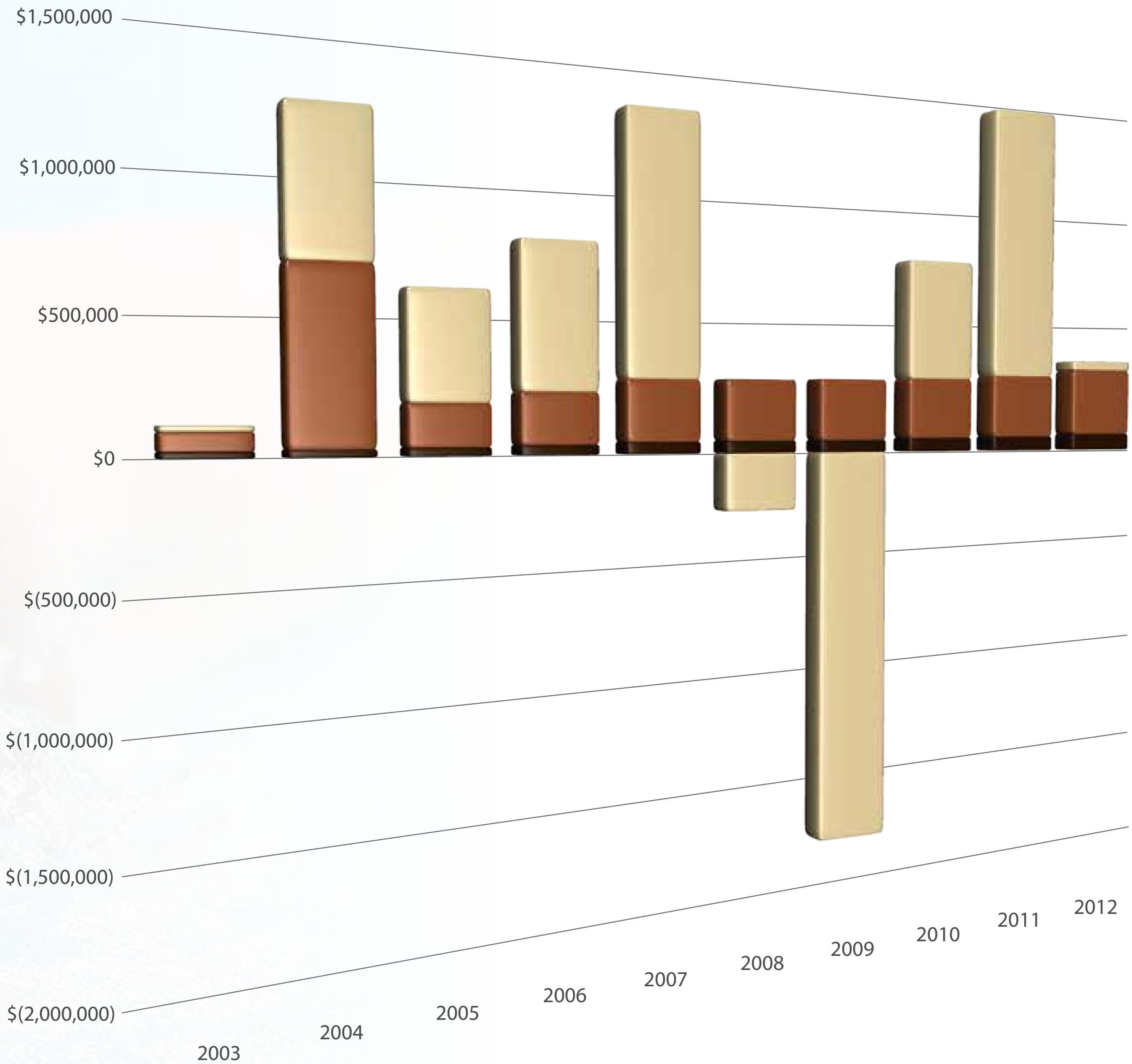
Pension Reform

2012

Pension reform topped many agendas for state and local governments in 2012, including SBCERA's plan sponsors. There is no standard definition of the term "pension reform." It can take many forms and can be enacted by governmental bodies, through legislation, by ballot initiatives or via labor negotiations. SBCERA has diligently monitored proposed initiatives and movements toward pension reform and the possible effects they will have on the administration of the plan. Changes are on the horizon; SBCERA will continue to administer benefits impartially, fairly, and in an accurate, courteous, prompt, professional and cost-effective manner.

Additions by Source

For Fiscal Years 2003 through 2012 (Amounts in Thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Employee Contributions	$23,308	$28,236	$31,806	$38,368	$47,005	$49,481	$49,550	$56,986	$59,612	$68,630
Employer Contributions[1]	68,361	652,325	161,906	197,343	239,857	241,721	246,232	243,773	258,128	278,091
% of Annual Payroll (employer)	8.00%	7.32%	15.50%	16.71%	21.76%	19.82%	20.08%	19.50%	20.74%	22.07%
Investment Income (Loss)[2]	22,091	546,376	411,983	560,495	1,023,502	(226,541)	(1,583,833)	486,433	1,117,138	39,786
TOTAL	**$113,760**	**$1,226,937**	**$605,695**	**$796,206**	**$1,310,364**	**$64,661**	**$(1,288,051)**	**$787,192**	**$1,434,878**	**$386,507**

(1) During fiscal year 2003/04 the County (excluding the Superior Court), along with SCAQMD, issued Pension Obligation Bonds (POB) to refinance their Unfunded Actuarial Accrued Liability (UAAL). The Net Proceeds of $506,090,000 were contributed to the Plan.

(2) Net of Investment Expenses and includes net Securities Lending gain of $607 for fiscal year 2011/12.

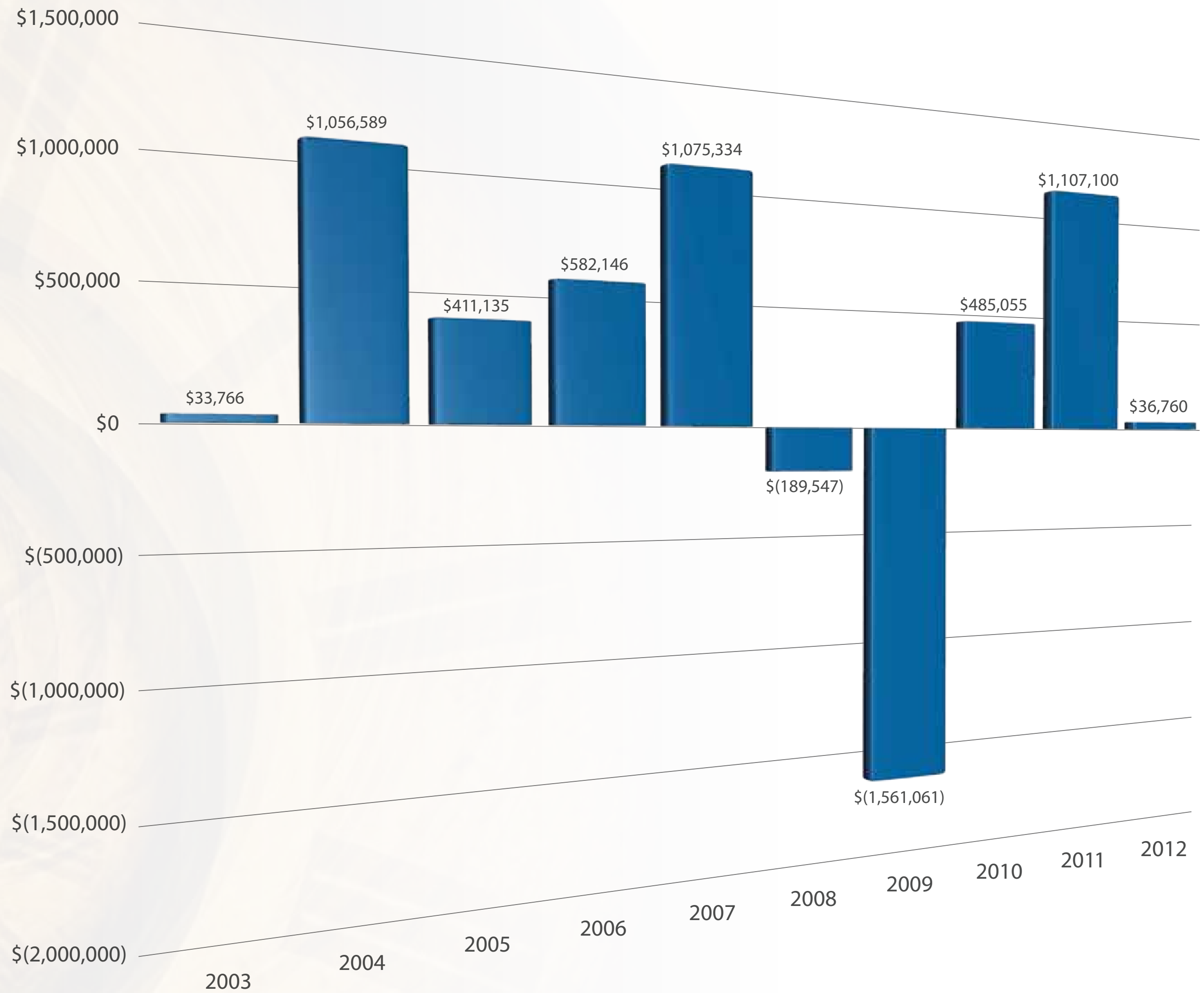
Deductions by Type

For Fiscal Years 2003 through 2012 (Amounts in Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Benefit Payments	$135,406	$177,564	$174,377	$192,531	$211,190	$231,822	$251,999	$283,376	$309,589	$330,344
Refunds	9,517	10,127	11,591	11,357	14,293	12,584	10,780	9,301	10,925	11,384
Administrative Expenses	4,116	3,303	6,057	6,404	7,254	8,861	8,939	7,226	5,599	6,205
Other Expenses	1,802	2,944	2,535	3,768	2,293	941	1,292	2,234	1,665	1,814
Provision for Loss Contingency	(70,847)	(23,590)	-	-	-	-	-	-	-	-
TOTAL	**$79,994**	**$170,348**	**$194,560**	**$214,060**	**$235,030**	**$254,208**	**$273,010**	**$302,137**	**$327,778**	**$349,747**

Statistical Changes in Plan Net Assets

For Fiscal Years 2003 through 2012 (Amounts in Thousands)



ADDITIONS	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Employee Contributions	$23,308	$28,236	$31,806	$38,368	$47,005	$49,481	$49,550	$56,986	$59,612	$68,630
Employer Contributions[1]	68,361	652,325	161,906	197,343	239,857	241,721	246,232	243,773	258,128	278,091
Investment Income (Loss)[2]	22,091	546,376	411,983	560,495	1,023,502	(226,541)	(1,583,833)	486,433	1,117,138	39,786
TOTAL ADDITIONS	**113,760**	**1,226,937**	**605,695**	**796,206**	**1,310,364**	**64,661**	**(1,288,051)**	**787,192**	**1,434,878**	**386,507**
DEDUCTIONS										
Benefit Payments	$135,406	$177,564	$174,377	$192,531	$211,190	$231,822	$251,999	$283,376	$309,589	$330,344
Refunds	9,517	10,127	11,591	11,357	14,293	12,584	10,780	9,301	10,925	11,384
Administrative Expenses	4,116	3,303	6,057	6,404	7,254	8,861	8,939	7,226	5,599	6,205
Other Expenses	1,802	2,944	2,535	3,768	2,293	941	1,292	2,234	1,665	1,814
Provision for Loss Contingency	(70,847)	(23,590)	-	-	-	-	-	-	-	-
TOTAL DEDUCTIONS	**79,994**	**170,348**	**194,560**	**214,060**	**235,030**	**254,208**	**273,010**	**302,137**	**327,778**	**349,747**
TOTAL CHANGE IN NET ASSETS	**$33,766**	**$1,056,589**	**$411,135**	**$582,146**	**$1,075,334**	**$(189,547)**	**$(1,561,061)**	**$485,055**	**$1,107,100**	**$36,760**

(1) During fiscal year 2003/04 the County (excluding the Superior Court), along with SCAQMD, issued Pension Obligation Bonds (POB) to refinance their Unfunded Actuarial Accrued Liability (UAAL). The Net Proceeds of $506,090,000 were contributed to the Plan.

(2) Net of Investment Expenses and includes net Securities Lending gain of $607 for fiscal year 2011/12.

Benefit Expenses by Type

For Fiscal Years 2003 through 2012 (Amounts in Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
AGE & SERVICE BENEFITS										
Retirees	$97,977	$132,013	$126,038	$137,327	$153,421	$170,711	$190,105	$217,241	$238,775	$256,160
Survivors	7,166	8,281	8,305	8,482	8,362	9,031	9,452	10,396	11,427	12,259
Death in Service Benefits	282	328	355	388	407	367	332	313	388	341
DISABILITY BENEFITS										
Duty	20,181	25,277	28,484	33,442	35,237	37,188	37,473	39,858	42,230	44,080
Non-Duty	6,004	6,451	5,967	6,681	7,640	8,063	8,125	8,642	9,156	9,557
Survivor	3,796	5,214	5,228	6,211	6,123	6,462	6,512	6,926	7,613	7,947
TOTAL BENEFITS PAYMENTS	**135,406**	**177,564**	**174,377**	**192,531**	**211,190**	**231,822**	**251,999**	**283,376**	**309,589**	**330,344**
REFUNDS										
Death	498	774	603	469	558	408	538	1,462	925	717
Separation	9,019	9,353	10,988	10,888	13,735	12,176	10,242	7,839	10,000	10,667
TOTAL	**$144,923**	**$187,691**	**$185,968**	**$203,888**	**$225,483**	**$244,406**	**$262,779**	**$292,677**	**$320,514**	**$341,728**

Retired Members by Type of Benefit

As of June 30, 2012

Amount of Monthly Benefit[2]	Number of Retirees	Type of Retirement[1] A	B	C	Amount of Monthly Benefit[2]	Number of Retirees	Type of Retirement[1] A	B	C
General Members					**Safety Members**				
0 - 749	1,353	848	69	436	0 - 749	71	19	11	41
750 - 1,499	2,022	1,432	211	379	750 - 1,499	126	38	32	56
1,500 - 2,249	1,539	1,074	288	177	1,500 - 2,249	157	40	64	53
2,250 - 2,999	972	788	108	76	2,250 - 2,999	227	55	153	19
3,000 - 3,749	660	558	56	46	3,000 - 3,749	225	47	158	20
3,750 - 4,499	457	408	29	20	3,750 - 4,499	100	53	31	16
4,500 - 5,249	308	282	15	11	4,500 - 5,249	84	58	22	4
5,250 - 5,999	236	224	6	6	5,250 - 5,999	79	52	22	5
6,000 - 6,749	164	159	2	3	6,000 - 6,749	72	56	14	2
6,750 - 7,499	140	135	3	2	6,750 - 7,499	61	43	15	3
Over 7,500	386	379	4	3	Over 7,500	297	209	84	4
TOTALS	**8,237**	**6,287**	**791**	**1,159**	**TOTALS**	**1,499**	**670**	**606**	**223**

	Number of Retirees	Type of Retirement[1] A	B	C
GRAND TOTAL	**9,736**	**6,957**	**1,397**	**1,382**

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

Participating Employers

For Fiscal Years 2005 through 2012

Employer	2012 Number of Employees	2012 % of Total	2011 Number of Employees	2011 % of Total	2010 Number of Employees	2010 % of Total	2009 Number of Employees	2009 % of Total
Barstow Fire Protection District	20	0.10%	21	0.11%	23	0.12%	23	0.12%
Barstow Park and Recreation	-	0.00%	-	0.00%	-	0.00%	-	0.00%
California Electronic Recording Transaction Network Authority	1	0.01%	1	0.01%	1	0.01%	1	0.01%
California State Association of Counties	105	0.54%	108	0.56%	118	0.60%	125	0.66%
City of Big Bear Lake	77	0.40%	83	0.43%	116	0.59%	119	0.63%
City of Chino Hills	168	0.87%	168	0.87%	172	0.88%	172	0.91%
County of San Bernardino	16,963	87.87%	16,882	87.66%	17,142	87.81%	16,563	87.38%
Crest Forest Fire Protection District	29	0.15%	26	0.13%	27	0.14%	27	0.14%
Crestline Sanitation District	20	0.10%	20	0.10%	-	0.00%	-	0.00%
Department of Water and Power of the City of Big Bear Lake	33	0.17%	-	0.00%	-	0.00%	-	0.00%
Hesperia Recreation and Park District	18	0.09%	17	0.09%	19	0.10%	17	0.09%
Inland Library System	1	0.01%	1	0.01%	2	0.01%	2	0.01%
Inland Valley Development Agency	-	0.00%	8	0.04%	14	0.07%	18	0.09%
Law Library for San Bernardino County	8	0.04%	8	0.04%	8	0.04%	9	0.05%
Local Agency Formation Commission	4	0.02%	4	0.02%	5	0.03%	6	0.03%
Mojave Desert Air Quality Management District	38	0.20%	38	0.20%	37	0.19%	35	0.18%
Rim of the World Recreation & Park District	1	0.01%	1	0.01%	2	0.01%	2	0.01%
San Bernardino Associated Governments	41	0.21%	39	0.20%	38	0.19%	38	0.20%
San Bernardino County Employees' Retirement Association (SBCERA)	48	0.25%	42	0.22%	20	0.10%	13	0.07%
San Bernardino International Airport Authority	-	0.00%	6	0.03%	15	0.08%	17	0.09%
South Coast Air Quality Management District (SCAQMD)	740	3.83%	767	3.98%	780	4.00%	796	4.20%
Superior Court of California County of San Bernardino	991	5.13%	1,018	5.29%	981	5.03%	972	5.13%
TOTAL EMPLOYEES	**19,306**	**100%**	**19,258**	**100%**	**19,520**	**100%**	**18,955**	**100%**

Participating Employers

For Fiscal Years 2005 through 2012 (Continued)

Employer	2008 Number of Employees	2008 % of Total	2007 Number of Employees	2007 % of Total	2006 Number of Employees	2006 % of Total	2005 Number of Employees	2005 % of Total
Barstow Fire Protection District	21	0.11%	24	0.13%	20	0.11%	19	0.11%
Barstow Park and Recreation	-	0.00%	-	0.00%	5	0.03%	1	0.01%
California Electronic Recording Transaction Network Authority	-	0.00%	-	0.00%	-	0.00%	-	0.00%
California State Association of Counties	124	0.64%	108	0.57%	99	0.49%	90	0.51%
City of Big Bear Lake	120	0.62%	115	0.61%	110	0.60%	102	0.58%
City of Chino Hills	178	0.92%	164	0.87%	154	0.84%	137	0.78%
County of San Bernardino	17,038	87.75%	16,668	87.97%	16,114	87.87%	15,562	88.38%
Crest Forest Fire Protection District	31	0.16%	30	0.16%	28	0.15%	22	0.12%
Crestline Sanitation District	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Department of Water and Power of the City of Big Bear Lake	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Hesperia Recreation and Park District	16	0.08%	16	0.08%	11	0.06%	11	0.06%
Inland Library System	2	0.01%	2	0.01%	2	0.01%	4	0.02%
Inland Valley Development Agency	18	0.09%	14	0.07%	12	0.07%	10	0.06%
Law Library for San Bernardino County	9	0.05%	8	0.04%	9	0.05%	10	0.06%
Local Agency Formation Commission	6	0.03%	5	0.03%	5	0.03%	4	0.02%
Mojave Desert Air Quality Management District	37	0.19%	38	0.20%	39	0.21%	40	0.23%
Rim of the World Recreation & Park District	3	0.02%	3	0.02%	2	0.01%	3	0.02%
San Bernardino Associated Governments	38	0.20%	36	0.19%	33	0.18%	31	0.18%
San Bernardino County Employees' Retirement Association (SBCERA)	12	0.06%	-	0.00%	-	0.00%	-	0.00%
San Bernardino International Airport Authority	15	0.08%	12	0.06%	13	0.07%	11	0.06%
South Coast Air Quality Management District (SCAQMD)	766	3.94%	758	4.00%	746	4.07%	740	4.20%
Superior Court of California County of San Bernardino	980	5.05%	945	4.99%	945	5.15%	810	4.60%
TOTAL EMPLOYEES	**19,414**	**100%**	**18,946**	**100%**	**18,347**	**100%**	**17,607**	**100%**

Note: Data for Fiscal Years 2003 through 2004 is not available in a comparable format.

Average Benefit Payments

Retirement Effective Dates July 1, 2002 to June 30, 2012

	Service Years Credited						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
PERIOD 7/1/02 TO 6/30/03							
Average Monthly Benefit	$1,505	$1,714	$1,716	$2,330	$2,635	$4,341	$6,801
Monthly Final Average Salary[1]	$-	$-	$-	$-	$-	$-	$-
Number of Active Retirees	8	30	84	45	62	30	41
PERIOD 7/1/03 TO 6/30/04							
Average Monthly Benefit	$1,027	$1,382	$1,840	$2,315	$2,496	$5,272	$7,595
Monthly Final Average Salary[1]	$-	$-	$-	$-	$-	$-	$-
Number of Active Retirees	10	29	71	63	57	68	89
PERIOD 7/1/04 TO 6/30/05							
Average Monthly Benefit	$1,767	$2,649	$1,716	$2,450	$3,543	$4,887	$6,520
Monthly Final Average Salary[1]	$-	$-	$-	$-	$-	$-	$-
Number of Active Retirees	11	30	82	81	70	57	70
PERIOD 7/1/05 TO 6/30/06							
Average Monthly Benefit	$1,422	$1,656	$1,612	$2,305	$3,131	$4,548	$6,270
Monthly Final Average Salary	$3,042	$3,800	$3,895	$4,505	$5,359	$5,958	$6,387
Number of Active Retirees	15	42	86	92	44	52	63
PERIOD 7/1/06 TO 6/30/07							
Average Monthly Benefit	$952	$1,407	$1,858	$2,532	$3,490	$4,784	$6,831
Monthly Final Average Salary	$4,322	$4,023	$4,386	$5,031	$5,404	$5,712	$7,001
Number of Active Retirees	9	27	65	78	68	72	69
PERIOD 7/1/07 TO 6/30/08							
Average Monthly Benefit	$1,207	$1,590	$1,682	$2,957	$3,735	$5,390	$7,139
Monthly Final Average Salary	$2,522	$4,248	$3,970	$5,582	$5,624	$6,650	$7,109
Number of Active Retirees	4	31	53	86	72	60	77
PERIOD 7/1/08 TO 6/30/09							
Average Monthly Benefit	$787	$1,453	$1,818	$2,806	$3,666	$4,767	$6,134
Monthly Final Average Salary	$3,370	$4,418	$4,861	$5,125	$5,666	$5,941	$6,558
Number of Active Retirees	4	58	85	99	119	66	127
PERIOD 7/1/09 TO 6/30/10							
Average Monthly Benefit	$1,229	$1,656	$1,929	$3,269	$4,878	$6,328	$8,936
Monthly Final Average Salary	$4,272	$3,535	$4,491	$6,114	$7,324	$7,772	$9,275
Number of Active Retirees	8	30	49	57	68	42	81
PERIOD 7/1/10 TO 6/30/11							
Average Monthly Benefit	$1,399	$1,887	$1,989	$3,694	$4,588	$6,638	$8,449
Monthly Final Average Salary	$5,979	$4,182	$4,757	$6,600	$6,759	$8,134	$8,801
Number of Active Retirees	10	27	90	67	86	64	88
PERIOD 7/1/11 TO 6/30/12							
Average Monthly Benefit	$832	$1,821	$2,085	$2,786	$4,506	$5,282	$8,395
Monthly Final Average Salary	$4,425	$5,084	$4,805	$5,092	$6,901	$6,906	$9,021
Number of Active Retirees	3	45	96	57	107	70	97

(1) Monthly Final Average Salary data for Fiscal Years 2003 through 2005 is not available in a comparable format.

SECTION 5.1

STATISTICAL

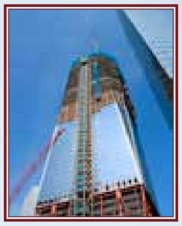
Membership Information

FUTURE

SECTION 5.1
STATISTICAL MEMBERSHIP INFORMATION

THE FUTURE

Looking back at the last 100 years, it is hard to imagine what will happen in the next 100. Will we be driving cars? If so, what will they run on? The oil crisis will likely reach its pinnacle as demand exceeds supply year over year. The debate over global warming, fossil fuel pollution and alternative energy will rage on leading to the expansion of the use of renewable energy sources and sustainable alternatives. How will we shop and consume materials? Technology is sure to profoundly change our day-to-day lives with advancements like automation, nanotechnology and virtual reality. Where will we live? Mars exploration is ongoing, and predictions are that we will settle this once mysterious planet. There are many questions we could ask, but only time can tell what we will see in the future.



2015

The entire World Trade Center site is estimated to be completed.

2018

NASA plans to launch the James Webb Space Telescope, which will study the most distant objects in the universe including the formation of stars and planets.[1]

2045

SBCERA celebrates 100 years.

2050

The Japanese construction firm, Obayashi Corp., aims to complete a space elevator reaching 36,000 km, or 22,369 miles, above the Earth.

2060

One third of the world's energy could be solar, according to projections by the International Energy Agency (IEA).

2080

The projected completion of a submerged OCEANIC tunnel and supersonic train between New York and London, as envisioned by Frankel and Frank Davidson, that can travel up to 4,000 mph and transport passengers between Europe and America in less than an hour.

2094

A time capsule placed and sealed in 1994 at the Denver International Airport by the Mason's Prince Hall Grand Lodge is scheduled to be opened. Some items included in the capsule were photos of the Coors Baseball Field, a Colorado Rockies autographed baseball and Black Hawk casino tokens.

SBCERA | 2045

SBCERA celebrates 100 years

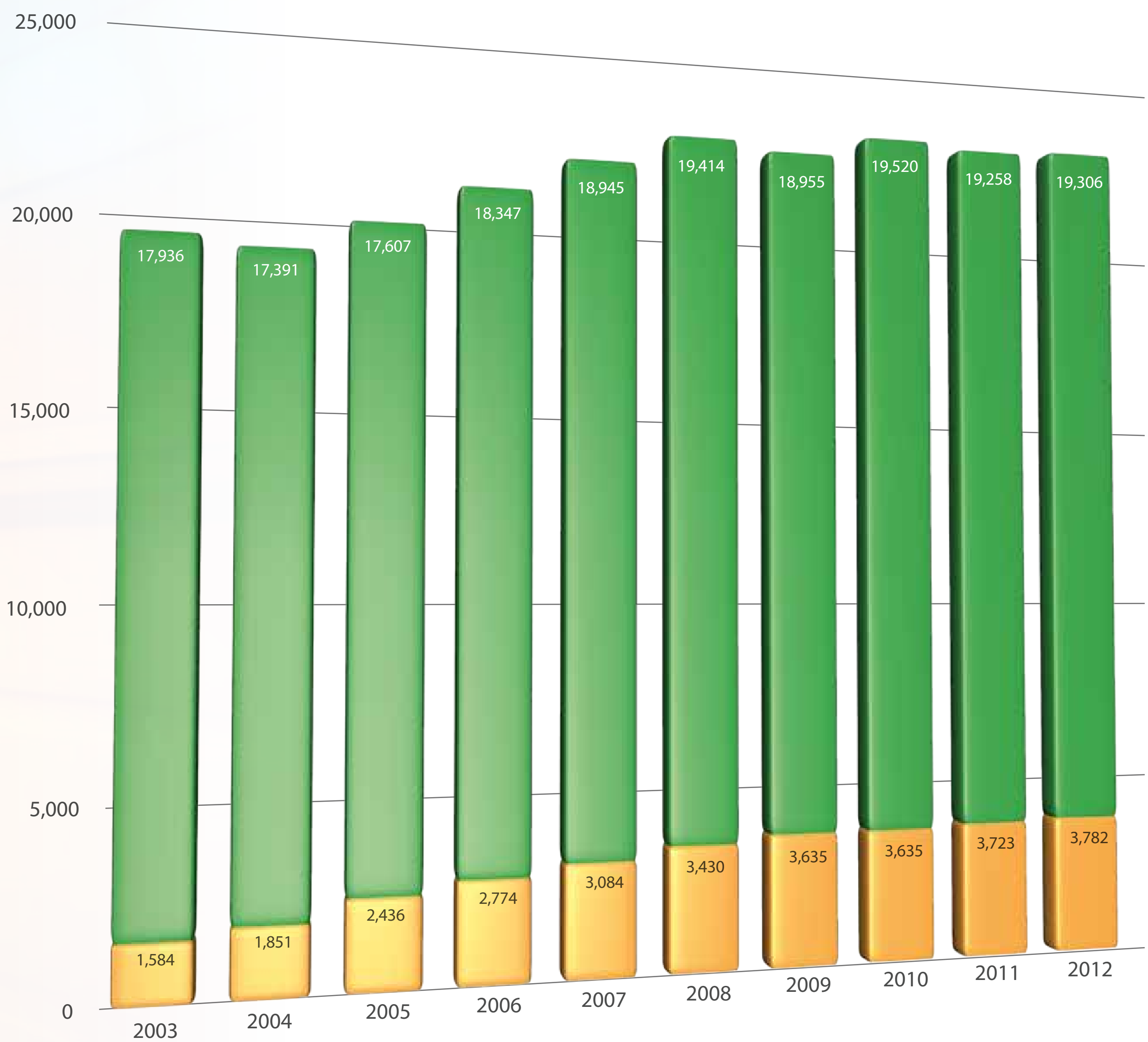
January 1, 2045

On January 1, 2045, SBCERA will celebrate its 100th anniversary of providing our members and their beneficiaries with their retirement and related benefits and services. By this time, continued advancements in technology, ongoing globalization and pension reform will likely change the way SBCERA conducts business, the benefits it administers and how it invests its pension fund. However, SBCERA and the Board of Retirement will remain committed to meeting its purpose to ensure the security and stability of the Plan for its current and future members, beneficiaries and participating plan sponsors.

(1) Reference photo credit on inside back cover for IMG.8.

Membership History

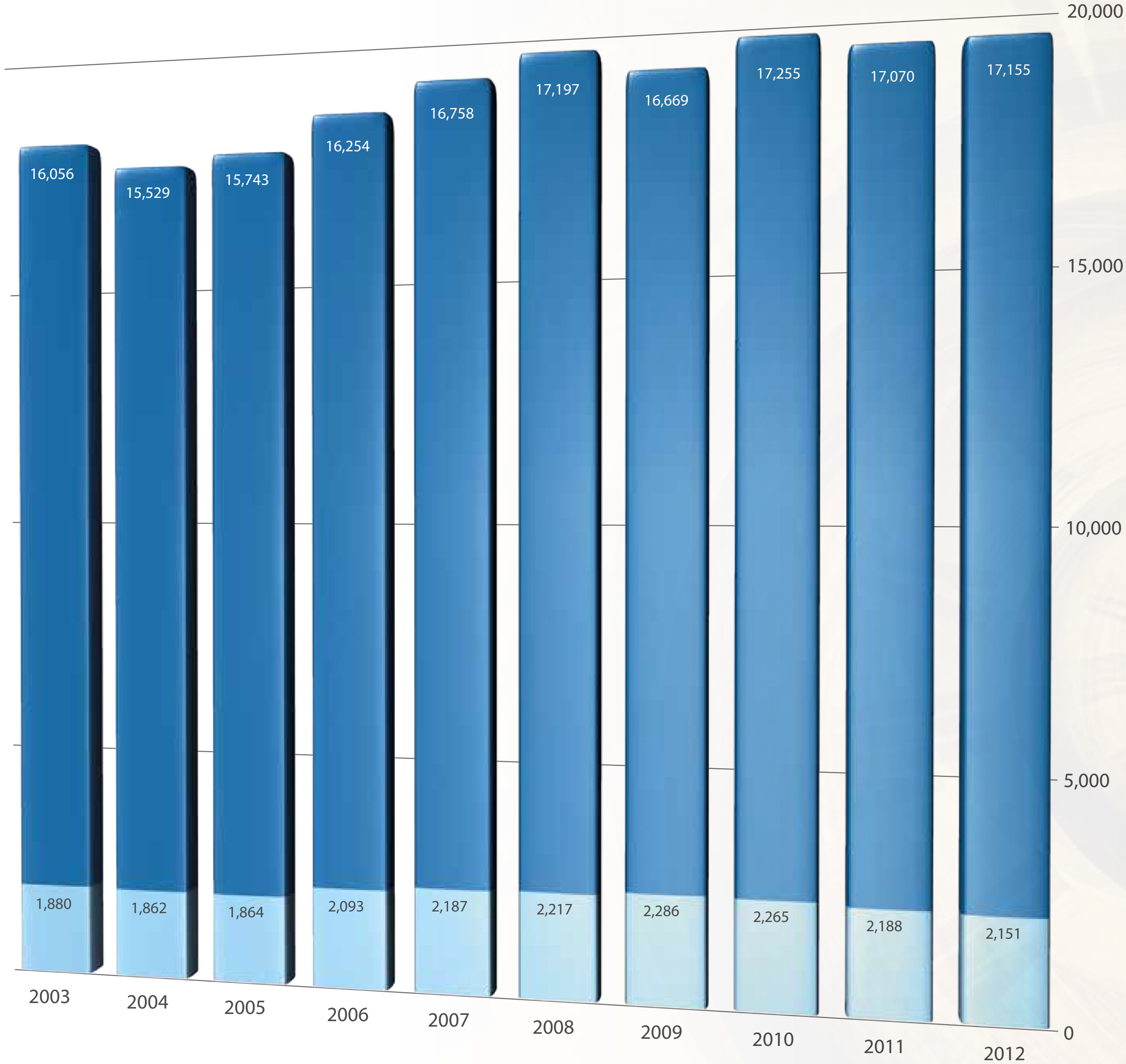
For Fiscal Years 2003 through 2012 (Active and Deferred)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Deferred	1,584	1,851	2,436	2,774	3,084	3,430	3,635	3,635	3,723	3,782
Active	17,936	17,391	17,607	18,347	18,945	19,414	18,955	19,520	19,258	19,306
TOTAL	**19,520**	**19,242**	**20,043**	**21,121**	**22,029**	**22,844**	**22,590**	**23,155**	**22,981**	**23,088**

Membership Classification

For Fiscal Years 2003 through 2012

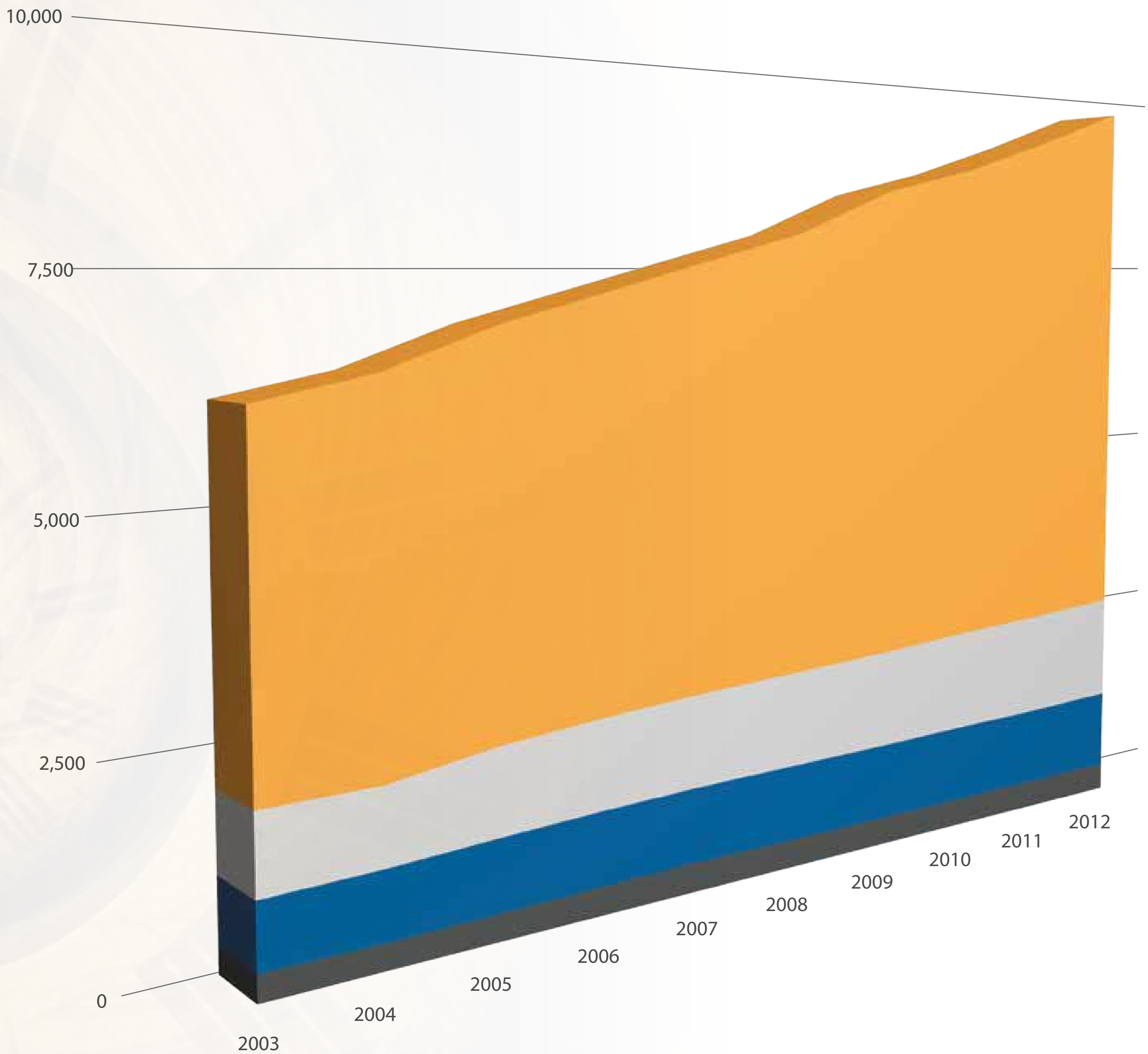


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Safety	1,880	1,862	1,864	2,093	2,187	2,217	2,286	2,265	2,188	2,151
General	16,056	15,529	15,743	16,254	16,758	17,197	16,669	17,255	17,070	17,155
TOTAL	**17,936**	**17,391**	**17,607**	**18,347**	**18,945**	**19,414**	**18,955**	**19,520**	**19,258**	**19,306**

Note: Membership is presented for Active members only.

Membership History

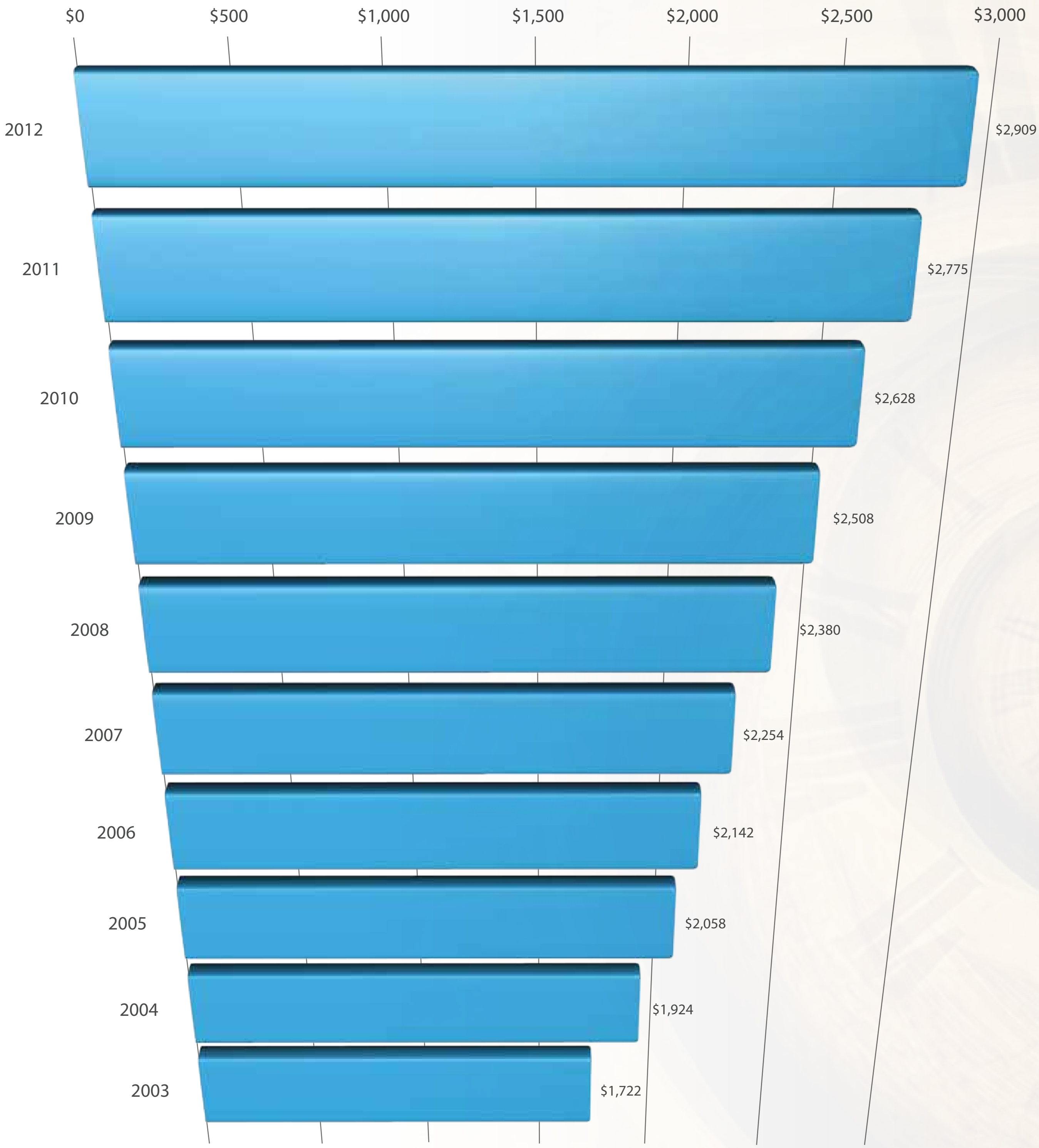
For Fiscal Years 2003 through 2012 (Retired)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non Service Connected Disability	314	308	321	344	359	347	342	349	345	350
Service Connected Disability	775	814	868	902	924	950	970	990	1,011	1,047
Survivors	939	911	1,043	1,100	1,145	1,190	1,236	1,294	1,338	1,382
Service Connected	4,131	4,393	4,672	4,915	5,189	5,484	5,971	6,210	6,571	6,957
TOTAL	**6,159**	**6,426**	**6,904**	**7,261**	**7,617**	**7,971**	**8,519**	**8,843**	**9,265**	**9,736**

Average Monthly Retirement Benefits

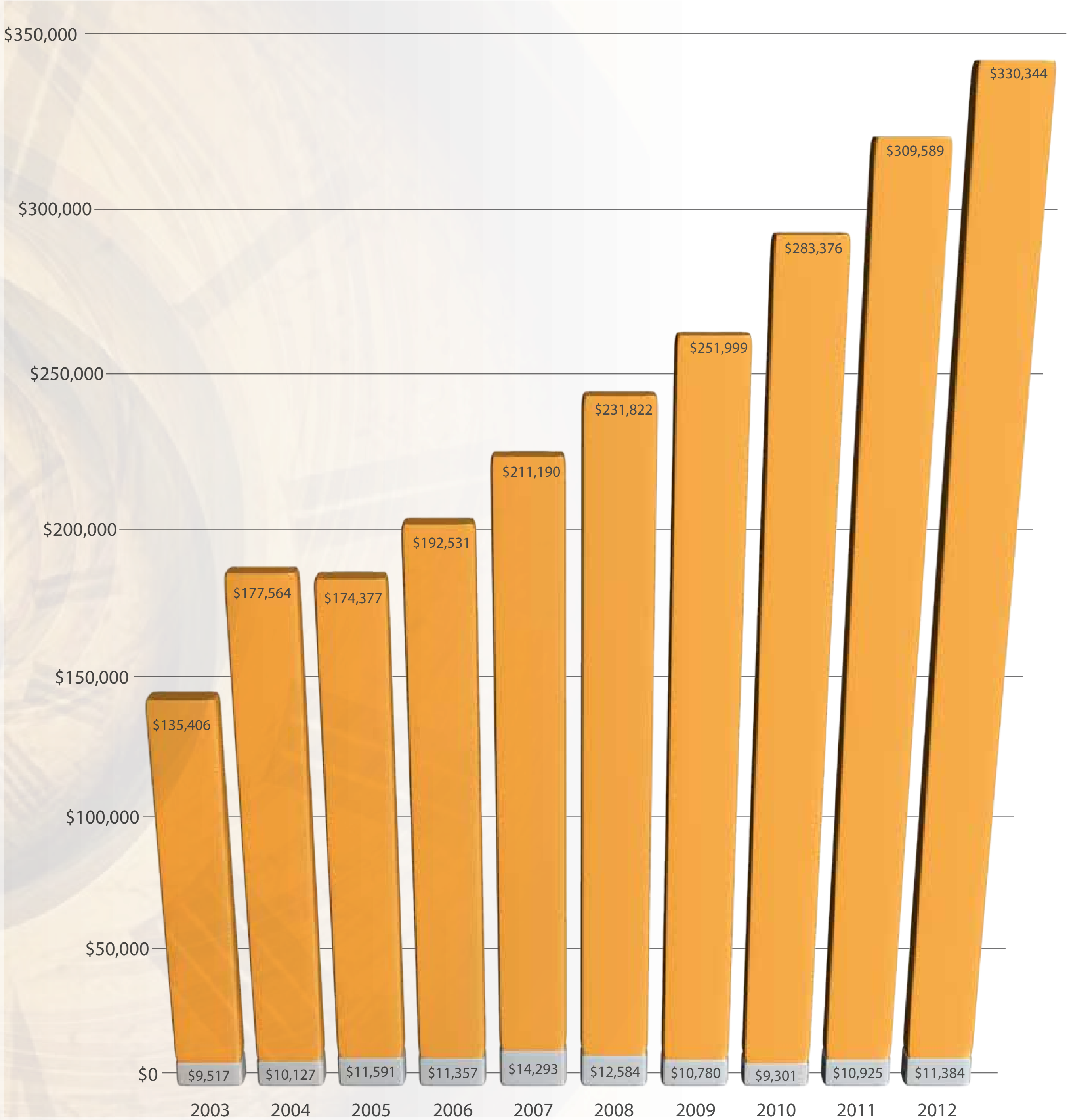
For Fiscal Years 2003 through 2012



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Monthly Allowance	$1,722	$1,924	$2,058	$2,142	$2,254	$2,380	$2,508	$2,628	$2,775	$2,909

Benefits and Refunds Paid

For Fiscal Years 2003 through 2012 (Amounts in Thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Benefits	$135,406	$177,564	$174,377	$192,531	$211,190	$231,822	$251,999	$283,376	$309,589	$330,344
Refunds	9,517	10,127	11,591	11,357	14,293	12,584	10,780	9,301	10,925	11,384


2012

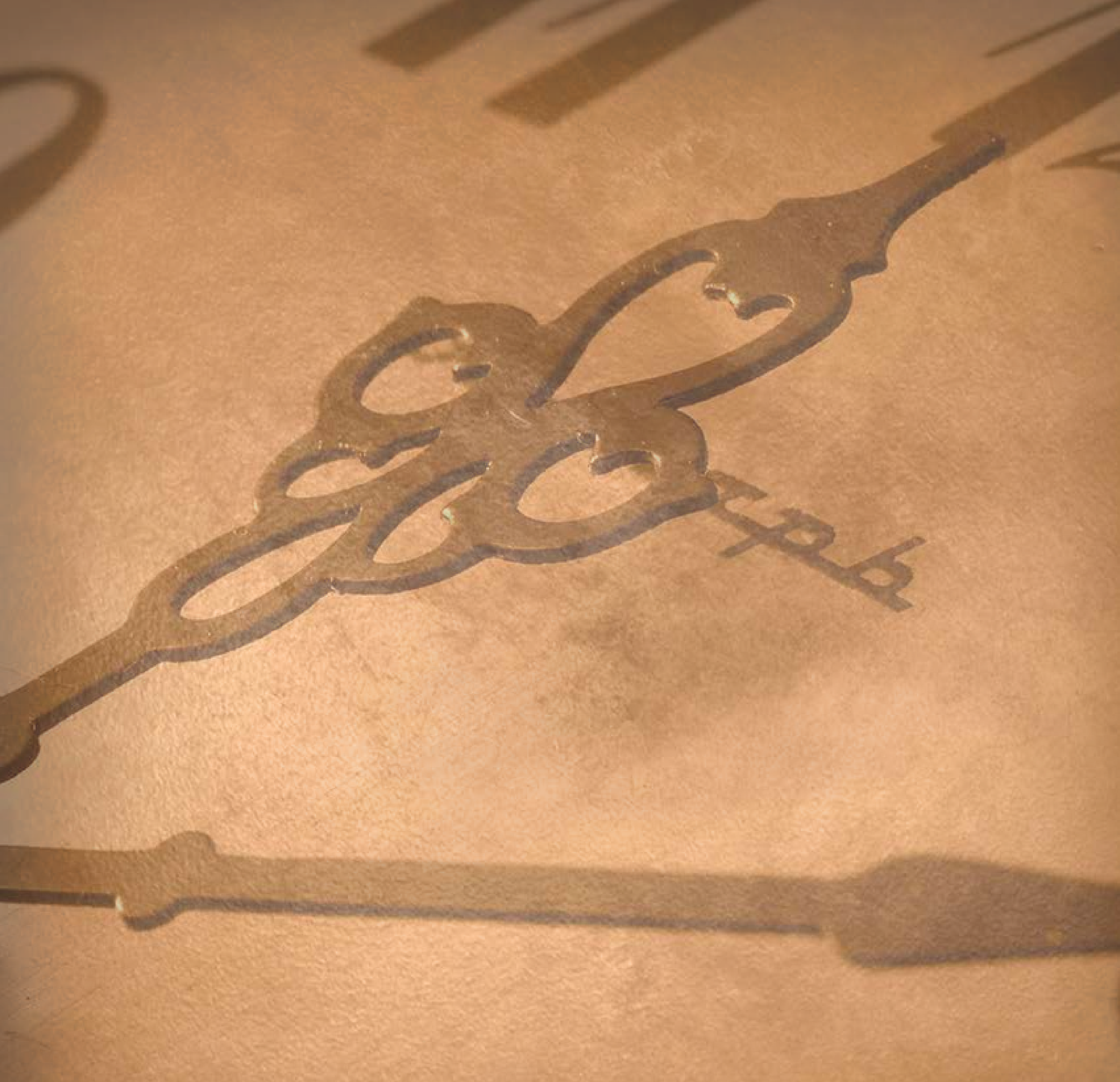


Photo Credits: All Wikapedia Commons Images are licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license ***Page 14-*** **(IMG.1 Raytheon RadaRange)**: ©Acroterion/Wikapedia Commons. ***Page 26-*** **(IMG.2 Chuck Berry in Brunnsparken, Örebro, Sweden)**: ©Håkan Henriksson/Wikapedia Commons. ***Page 68-*** **(IMG.3 The platinum record for Michael Jackson's Thriller album on display at the Hard Rock Café, Hollywood in Universal City, California.)**: ©BrokenSphere/Wikapedia Commons. **(IMG.4 1985 Plymouth Voyager LE./wheels from 1989 Voyager LX.)**: ©CetteUneVoiture/Wikapedia Commons. Original image has been color corrected and enhanced. This image has been altered to show the Dodge Emblem on the front grill, as the original image had the Plymouth Emblem on it. The Caravan was introduced for the 1984 model year along with its nameplate variant, the Plymouth Voyager (1984-2001). ***Page 84-*** **(IMG.5 Hubble Floating Free & IMG.6 Grappling Hubble)**: Image Credit- ©NASA and STScI. Image dates- Hubble Floating Free/2002, Grappling Hubble/2009. ***Page 92-*** **(IMG.7 Mars Rover Artist Rendering)**: Image Credit- ©NASA/JPL-Caltech. ***Page 114-*** **(IMG.8 James Webb Telescope Flight Mirrors)**: Image Credit- ©NASA/Ball.Aerospace.

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