

INDEPENDENT AUDITORS' REPORT

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

We have audited the general purpose financial statements of the Santa Barbara County Employees' Retirement System as of and for the year ended June 30, 1997, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Santa Barbara County Employees' Retirement System's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. The financial statements presented as of and for the year ended June 30, 1996 are unaudited.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara County Employees' Retirement System as of June 30, 1997, and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note B of the notes to the general purpose financial statements, the Santa Barbara County Employees' Retirement System adopted the Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", effective July 1, 1996.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Santa Barbara County Employees' Retirement System, but is required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole. The information presented in the investment, actuarial, and statistical sections, as listed in the accompanying table of contents, has not been audited by us and, accordingly, we express no opinion on it.

KPMG Peat Marwick LLP

August 15, 1997



COUNTY OF SANTA BARBARA
STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For Fiscal Year Ended June 30, 1997

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT
SYSTEM

Prepared Under the Supervision of:
Gary L. Feramisco
Treasurer-Retirement Administrator

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**GARY L. FERAMISCO
TREASURER-ADMINISTRATOR**

Bernice James
Assistant

Mailing Address:
Post Office Box 2490



EMPLOYEES' RETIREMENT SYSTEM

{ } 105 E. Anapamu St., Room 301, Santa Barbara
Telephone (805) 568-2940
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{ } 511 E. Lakeside Parkway, Santa Maria
Telephone (805) 346-8338

August 29, 1997

Board of Retirement
Santa Barbara County Employees' Retirement System
PO Box 2490
Santa Barbara, CA. 93102

The Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (Retirement System) for the fiscal year ended June 30, 1997, is submitted herewith. Responsibility for both the accuracy of the data and the completeness and the fairness of the presentation rest with the management of the Retirement System. The CAFR is divided into five sections:

- The Introductory Section, which is unaudited, includes this letter of transmittal, a listing of the members of the Board of Retirement, the Retirement System organizational chart, and a listing of professional consultants utilized by the Retirement System;
- The Financial Section presents the financial condition and funding status of Retirement System. This section contains the independent auditors' report of KPMG Peat Marwick LLP, the general purpose financial statements and required supplementary information;
- The Investment Section contains a report on investment activity, investment policies, investment results, and various investment schedules;
- The Actuarial Section contains the actuary's certification letter, the results of the actuarial valuation including a summary of actuarial assumptions and methods used, summary of plan provisions, and demographic information on active and retired members; and
- The Statistical Section contains significant data pertaining to the Retirement System.

Service Provided

The Santa Barbara County Employees' Retirement System is the public employee retirement system established by the County of Santa Barbara on January 1, 1944, and the by-laws, procedures and policies adopted by the Board of Retirement. Members include all permanent and part-time employees (who work at least 50% of 2080 hours per year) of the County of Santa Barbara (the County) and the following districts: Air Pollution Control District, Carpinteria Cemetery District, Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Oak Hill Cemetery District, Santa Barbara County Association of Governments, Santa Maria Cemetery District, and Summerland Sanitary District. The Retirement System is administered by the Board of Retirement to provide service retirement, disability, death and survivor benefits for all permanent and part-time employees (who work at least 50% of 2080 hours per year) under the provisions of the County Employees' Retirement Law of 1937.

Service Provided - Continued

The Retirement System collects, deposits, invests and manages retirement trust funds solely in the interest of and for the exclusive purpose of providing benefits to members, participants and their beneficiaries; minimizing employer contributions, thereto; and defraying reasonable expenses of administering the system. The Retirement System acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement System seeks to produce a return which is based on levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the Retirement System recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns. Consequently, prudent risk-taking is considered justifiable.

Economic Condition and Outlook

Santa Barbara County is experiencing moderate economic growth following the trend of the nation and the State of California. Nationally, tourism, international trade, entertainment, high-tech services and manufacturing are leading the way.

Percentage job growth in California from a year earlier was about twice the national rate in April. California's unemployment rate is the lowest it has been in over five years. The improvement in the state's labor markets has resulted in stronger growth in personal income and taxable sales. New jobs have likely played a role in this year's increase in home sales as well.

While local economic recovery is well underway in Santa Barbara, it is growing at a slower pace than other California counties. Although certain sectors of the economy continued to decline in 1997, including high-tech manufacturing and public utilities, others show persistent growth, such as tourism, business services and education. Almost all economic indicators turned upward in the County. The County experienced growth in jobs and retail sales, while overall assessed property valuation growth was 2.1%. Residential construction is increasing after several years of decline.

Major Initiatives

In an effort to improve member services, the Board of Retirement adopted and implemented, effective January 1, 1997, Government Code Sections 31685 et. seq. The intent of this law is to allow division of a non-member's community property share in a member's account and to define the Retirement System's role in the administration of domestic relations orders.

The law allows a member's account to be divided into two separate and distinct accounts. Once the separate accounts are established, the non-member is eligible to (a) receive a refund of the balance in their separate account, or (b) receive a monthly allowance upon the earlier of the member's or non-member's eligibility for retirement and (c) name a beneficiary. Currently, the Retirement System is one of only three counties in California to have adopted this code section.

In August 1996, the Board of Retirement adopted Government Code Section 31760.2 which allows 60 percent retirement allowance continuance to a spouse if the spouse was married to the retiree at least two years prior to the member's death and the spouse is age 55 or older on the date of the retiree's death.

As a part of continuous improvements in the objectives of the Retirement System, a revised investment policy was adopted in September 1996. As a means of diversifying the Retirement System's asset allocation, two new investment managers were hired, Julius Baer and Lincoln Capital.

Financial Information

Management of the Retirement System is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Retirement System are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

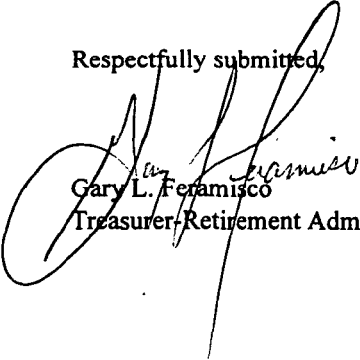
Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The Retirement System funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of the Retirement System as of June 30, 1997 amounted to \$758,771,583 and \$693,300,597, respectively. A detailed discussion is provided in the Actuarial Section of this report.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report and its timely issuance is the result of a concentrated, dedicated, and coordinated effort by the Retirement System's staff. I would like to acknowledge the special efforts of the Auditor-Controller's staff and our independent auditors, KPMG Peat Marwick LLP, for their assistance in the report preparation.

Respectfully submitted,



Gary L. Feramisco
Treasurer, Retirement Administrator

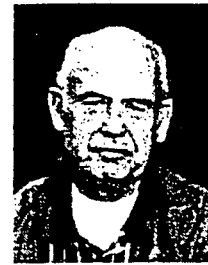
BOARD OF RETIREMENT



CHAIRMAN
Allan Kaplan
Elected by general members
Present term expires December 31, 1998



VICE CHAIRMAN
David Hersman
Elected by safety members
Present term expires December 31, 1998



SECRETARY
Roy Gaskin
Appointed by Board of Supervisors
Present term expires December 31, 1999



TREASURER
Gary L. Feramisco
Member mandated by law
Present term expires December 31, 1998



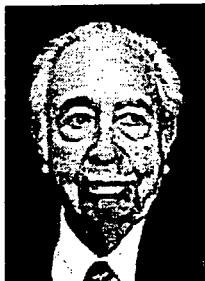
MEMBER
Rochelle Camozzi
Elected by general members
Present term expires December 31, 1999



Appointed by Board of Supervisors
Present term expires December 31, 1997



MEMBER
Jeanne Graffy
Appointed by Board of Supervisors
Present term expires December 31, 1997



MEMBER
Raymond B. Romero
Elected by retired members
Present term expires December 31, 1999



MEMBER
Robert E. Acquistapace
Appointed by Board of Supervisors
Present term expires December 31, 1999

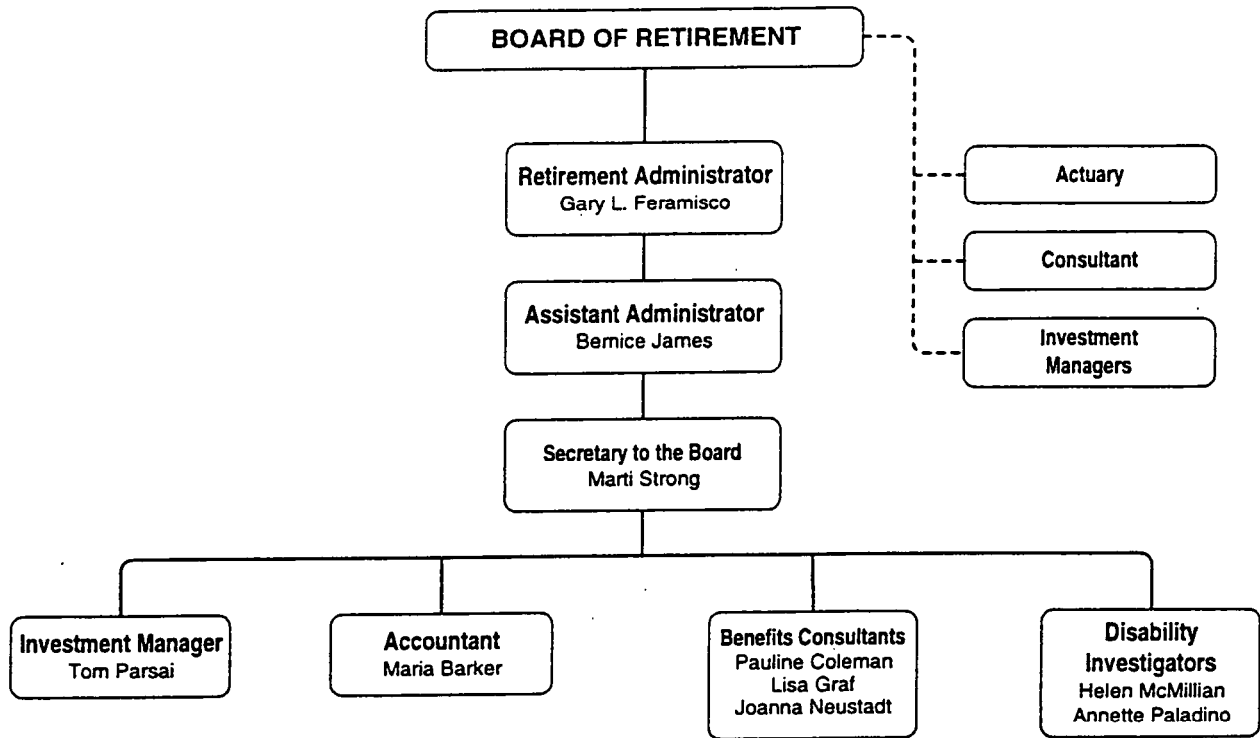


ALTERNATIVE MEMBER
Ron Bruns
Elected by safety members
Present term expires December 31, 1998



ALTERNATIVE MEMBER
George Bobolia
Elected by retired members
Present term expires December 31, 1999

ORGANIZATIONAL CHART



LIST OF PROFESSIONAL CONSULTANTS

INVESTMENT MANAGERS

Alliance Capital Management LP
 Baring Asset Management
 Julius Baer Investment Management Inc
 Lincoln Capital Management
 Nicholas-Applegate Capital Management
 STW Fixed Income Management
 Scudder, Stevens, & Clark
 Starbuck Tisdale & Associates
 State Street Global Advisors

CUSTODIAN

State Street California, Inc.
 1001 Marina Village Parkway
 Alameda, CA. 94501

INVESTMENT CONSULTANT

Pension Consulting Alliance, Inc.

ACTUARY

Buck Consultants
 100 California Street Suite 1300
 San Francisco, CA. 94111

INDEPENDENT AUDITORS

KPMG Peat Marwick LLP
 21700 Oxnard Street
 Woodland Hills, CA. 91367

LEGAL ADVISOR

Jerry Czuleger
 Santa Barbara County - County Counsel

James Herman
 Rogers Sheffield & Herman

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

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We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara County Employees' Retirement System as of June 30, 1997, and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note B of the notes to the general purpose financial statements, the Santa Barbara County Employees' Retirement System adopted the Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", effective July 1, 1996.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Santa Barbara County Employees' Retirement System, but is required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole. The information presented in the investment, actuarial, and statistical sections, as listed in the accompanying table of contents, has not been audited by us and, accordingly, we express no opinion on it.

KPMG Peat Marwick LLP

August 15, 1997

FINANCIAL SECTION

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

As of June 30, 1997 (with comparative amounts for June 30, 1996)

	<u>JUNE 30, 1997</u>	<u>JUNE 30, 1996</u> (unaudited)
ASSETS		
Cash	\$ 16,902,379	\$ 10,820,915
Short term investments	31,396,607	17,933,163
Receivables:		
Contributions	1,530,308	1,210,625
Accrued interest	5,810,526	5,445,740
Dividends	571,031	518,420
Due from brokers for security sales	<u>16,144,248</u>	<u>3,687,277</u>
Total receivables	<u>24,056,113</u>	<u>10,862,062</u>
Investments, at fair value:		
Domestic equity	370,595,736	288,955,353
Domestic fixed income	343,872,479	326,437,558
International equity	104,786,216	90,834,885
Global fixed income	27,638,291	---
Real estate mortgage loans	339,801	1,007,757
Real estate equity	<u>194,104</u>	<u>258,652</u>
Total investments	<u>847,426,627</u>	<u>707,494,205</u>
Total assets	<u>\$ 919,781,726</u>	<u>\$ 747,110,345</u>
LIABILITIES		
Accounts payable	\$ 329,263	\$ 335,259
Benefits payable	469,976	473,684
Due to brokers for security purchases	<u>30,106,369</u>	<u>12,242,921</u>
Total liabilities	<u>30,905,608</u>	<u>13,051,864</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 888,876,118</u>	<u>\$ 734,058,481</u>

See accompanying notes to general purpose financial statements.

See the schedule of funding progress presented as required supplementary information.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Years Ended June 30, 1997 (with comparative amounts for June 30, 1996)

	<u>JUNE 30, 1997</u>	<u>JUNE 30, 1996</u> (unaudited)
ADDITIONS:		
Contributions:		
Employers	\$ 30,638,075	\$ 26,105,266
Plan members	5,145,910	4,917,240
Total contributions	<u>35,783,985</u>	<u>31,022,506</u>
Net Investment Income:		
Net appreciation in fair value of investments	83,548,476	22,408,292
Interest	26,662,762	24,725,786
Dividends	6,847,259	5,433,665
Realized gains on sales of investments, net	32,521,400	48,741,232
Total investment income	<u>149,579,897</u>	<u>101,308,975</u>
Less: Investment expenses	(2,397,480)	(2,301,388)
Net investment income	<u>147,182,417</u>	<u>99,007,587</u>
Total additions	<u>182,966,402</u>	<u>130,030,093</u>
DEDUCTIONS:		
Benefits	27,352,099	24,849,470
Member withdrawals	557,461	529,706
Administrative expenses	239,205	247,384
Total deductions	<u>28,148,765</u>	<u>25,626,560</u>
Increase in plan net assets	154,817,637	104,403,533
Net assets held in trust for pension benefits, beginning of year, as restated	<u>734,058,481</u>	<u>629,654,948</u>
Net assets held in trust for pension benefits, end of year	<u>\$ 888,876,118</u>	<u>\$ 734,058,481</u>

See accompanying notes to general purpose financial statements.

A. DESCRIPTION OF PLAN

General

The Santa Barbara County Employees' Retirement System ("Retirement System") was organized under the provisions of the County Employees' Retirement Law of 1937 on January 1, 1944. The Retirement System is a cost-sharing multiple-employer plan. Members include all permanent and part-time employees (who work at least 50% of 2080 hours per year) of the County of Santa Barbara ("the County") and the following districts: Air Pollution Control District (APCD), Carpinteria Cemetery District, Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Oak Hill Cemetery District, Santa Barbara County Association of Governments, Santa Maria Cemetery District, and Summerland Sanitary District. Currently, the Retirement System provides three retirement plans; two Contributory ("Plan I" and "Plan III") and the Optional Non-Contributory ("Plan II") plan for general members. Safety members (i.e., eligible Sheriff and Fire Department employees) also have three Contributory plans, ("Plan I", "Plan II (Probation)" and "Plan III"). All new employees hired after October 10, 1994 will be enrolled in Plan III with the exception of general members who have the option to elect, within sixty days of employment, to be covered by the non-contributory Plan II. All plans provide benefits as defined by the law upon retirement, death, or disability of members, and cost-of-living benefits. The participating entities share proportionally in all risks and costs, including benefit costs. See the plan document for a more complete description of the plans.

The Board of Retirement ("Board") consists of nine members and two alternates of which four are appointed by the County's Board of Supervisors, four are elected by members of the Retirement System, and the County Treasurer is an ex-officio member. The Retirement System is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System.

At June 30, 1997, the Retirement System's membership consisted of the following:

	General			Safety			Total
	Plan I	Plan II	Plan III	Plan I	Plan II	Plan III	
Retirees and beneficiaries currently receiving benefits; and terminated employees entitled to but not yet receiving benefits	1,885	29	6	310	6	2	2,238
Current employees:							
County of Santa Barbara:							
Vested	1,797	52	41	507	117	8	2,522
Non-vested	440	72	642	41	23	97	1,315
subtotal	<u>2,237</u>	<u>124</u>	<u>683</u>	<u>548</u>	<u>140</u>	<u>105</u>	<u>3,837</u>
Districts:							
Vested	98	--	--	25	--	--	123
Non-vested	12	--	--	2	--	--	14
subtotal	<u>110</u>	<u>--</u>	<u>--</u>	<u>27</u>	<u>--</u>	<u>--</u>	<u>137</u>
Total	<u>4,232</u>	<u>153</u>	<u>689</u>	<u>885</u>	<u>146</u>	<u>107</u>	<u>6,212</u>

Benefits

Plan I and Plan III: Pension benefits are based upon a combination of age, years of service, average monthly salary for the highest paid year of employment (thirty-six consecutive months for Plan III), and the benefit payment option selected by the member. Disability benefits are based upon whether the disability was service-connected or nonservice-connected. Death benefits are based upon whether the death occurred before or after retirement and whether the death was service-connected or nonservice-connected.

Plan II: Pension benefits are based upon a combination of age, years of service, and highest average monthly salary for thirty-six consecutive months of employment and are coordinated with social security benefits. A separate long-term disability program is available for members who become disabled, regardless of length of service, or whether the disability is job related. Death benefits are based upon whether the death occurred before or after retirement.

Cost-of-Living Benefits: Plan I and Plan III provide for cost-of-living adjustments for retired members. Cost-of-living adjustments are made to retired members' benefits each April 1 based upon reference to the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, subject to a 3% maximum limitation.

Other Post Employment Benefits: In addition to the retirement benefits described above, the Retirement System participates in its retired members' health insurance premiums by contributing \$12.00 per month per year of service for those retirees that elect a County sponsored health plan and \$1.47 per month per year of service cash option for those retirees that do not participate in a County sponsored health plan. The same actuarial assumptions and cost methods are used for determining the post-retirement health care contribution and accrued liability as those used for determining pension contributions. The County funded \$8.00 per month of service which is incorporated in the employer contribution rate. The additional \$4.00 has been actuarially prefunded by the Retirement System. Of the eligible retirees, during the year ended June 30, 1997, an average of 1,155 were enrolled in the County health plan, for which the Retirement System contributed \$2,174,503. An average of 667 beneficiaries have chosen not to participate in the County health plan and the Retirement System has paid \$126,046 for the cash option. In total, the Retirement System paid out \$2,300,549 for the year ended June 30, 1997 for post employment health care. There is no current unfunded liability for this benefit.

See the plan document for a more complete description of plan benefits.

Vesting:

Plan I and Plan III: Upon completing five years of creditable service, employees have non-revocable rights to receive benefits attributable to an employer's contributions, provided their contributions have not been withdrawn. Members are eligible to retire at age 50 with retirement credit of ten years from date of membership, or thirty years (safety members twenty years) regardless of age, or upon attaining age 70.

If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system within six months and elects to keep these monies on deposit with the Retirement System.

If an employee terminates after five years of service, the employee may elect to 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.

Plan II: Upon completing ten years of creditable service, Plan II members have non-revocable rights to receive benefits. Plan II members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Plan II members have a one time election to defer accrued Plan II benefits and enter the contributory retirement plan in effect at that time. Contributions are based upon age at the time of transfer.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Retirement System's financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employees' services are performed, and benefits and refunds are recognized as expense when the corresponding liabilities are incurred. Investment income is recognized as revenue when earned. Net appreciation (depreciation) in fair value of investments held by the Retirement System is recorded as an increase (decrease) to investment income based on valuation of investments at year-end. Realized gains and losses are recognized upon the maturity or disposition of the security or when a decline in market value is considered other than temporary.

Effective July 1, 1996, the Retirement System adopted the Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"(GASB 25). This Statement establishes financial reporting standards for defined benefit plans and the notes to the financial statements of defined contribution plans of state and local government entities. The most significant impact of implementing GASB 25 is that the assets of the portfolio are now required to be carried at fair value with the corresponding unrealized appreciation (depreciation) reflected as a component of net investment income.

The impact of implementation of GASB 25 on net assets held in trust for pension benefits as of July 1, 1996 is as follows (in thousands):

Net assets held in trust for pension benefits, July 1, 1996	\$ 618,499
Restatement of investment portfolio to fair value	<u>115,559</u>
Net assets held in trust for pension benefits, July 1, 1996, as restated	<u>\$ 734,058</u>

Apportionment of Interest

Interest is apportioned semiannually at June 30 and December 31 to Member, County, and Retired Member Reserve accounts for all contributions that have been on deposit for six months, based on the annual actuarial assumption rate of 8.00%.

Method Used to Value Investments

Debt and equity securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Real estate mortgages loans are valued on the basis of future principle and interest payments, and are reported at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals.

Administrative Expenses

Administrative expenses for the year ended June 30, 1997 were \$239,205 or approximately one-fourth of one percent of the fiscal year 1997 increase in net assets held in trust for pension benefits.

Income Taxes

The Internal Revenue Service has ruled that plans such as the Retirement System qualify under Section 401(a) of the Internal Revenue Code and are 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 under the provisions of the Internal Revenue Code, Section 501, and California Revenue and Taxation Code Section 23701.

C. CASH AND INVESTMENTS

The Retirement System operates under the "Prudent Person Rule" which authorizes the Board, at its discretion, to allow for the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

Cash

The cash balance represents both operating cash held by the County Treasurer and investment cash on deposit with the investment custodian. At June 30, 1997, the aggregate carrying amount of all cash accounts was \$16,902,379 and the corresponding aggregate bank balances were \$16,902,379. Of the aggregate bank balance, \$200,000 was insured by Federal depository insurance or collateralized by securities held by the County's agent in the County's name. \$16,702,379 was collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the County's name, which have a market value of at least 110% of the County's deposits.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 JUNE 30, 1997

Investments

In accordance with generally accepted accounting principles, the Retirement System's investments at June 30, 1997 are categorized to give an indication of the level of credit risk assumed by the Retirement System. The Retirement System's investments are categorized as follows:

- Category 1 - Insured or registered, or securities held by the entity or its agent in the entity's name .
- Category 2 - Uninsured and unregistered, with the securities held by the counter parties trust department or agent in the entity's name.
- Category 3 - Uninsured and unregistered, with securities held by the counter party's trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any underlying securities.)
- Not Required To Be Categorized- Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, open-end mutual funds, pools managed by other governments, annuity contracts and guaranteed investment contracts.

Investments by category as of June 30, 1997 are as follows (in thousands):

	Category			Not Required To Be Categorized	Contractual/ Market Value
	1	2	3		
Short-term investment fund	--	--	--	\$ 31,397	\$ 31,397
Domestic Equity	\$ 370,596	--	--	--	370,596
Domestic Fixed Income	343,873	--	--	--	343,873
International Equity	104,786	--	--	--	104,786
Global Fixed Income	27,638	--	--	--	27,638
Pooled mortgages	340	--	--	--	340
Trust deeds	--	--	--	194	194
Total investments	\$ 847,233	--	--	\$ 31,591	\$ 878,824

Reconciliation of investments on Statement of Plan Net Assets:

Total investments	\$ 878,824
less: Short-term investment fund	<u>(31,397)</u>
Investments on Statement of Plan Net Assets	<u>\$ 847,427</u>

At June 30, 1997 the Retirement System had investments in U.S. Treasury Bonds and Notes which individually represented more than 5 percent of the Retirement System's plan net assets.

D. CONTRIBUTION REQUIREMENTS AND CONTRIBUTIONS MADE

Plan I and Plan III: Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. For certain bargaining units, a portion of the member contribution is paid by the County. Member contributions cannot be withdrawn until separation from employment. Member contributions forfeit to the Retirement System if the member does not request a refund within five years of terminating membership.

Plan II: Employer contribution rates are recommended by the actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. There are no member contributions.

The actual contributions for the years ended June 30, 1997 and 1996 were made in accordance with actuarially determined contributions for the year. The following table summarizes the contributions for the years ended June 30, 1997 and 1996 (unaudited):

	<u>1997</u>	<u>1996</u> (unaudited)
General:		
<i>Plan I:</i>		
Employer contributions - normal cost	\$ 14,408,010	\$ 13,195,073
Member contributions	2,652,840	2,999,666
<i>Plan II:</i>		
Employer contributions - normal cost	415,907	341,834
<i>Plan III:</i>		
Employer contributions - normal cost	2,610,239	1,168,675
Member contributions	1,117,026	566,652
Safety:		
<i>Plan I:</i>		
Employer contributions - normal cost	10,228,295	8,828,293
Member contributions	457,359	474,132
<i>Plan II (Probation):</i>		
Employer contributions - normal cost	1,314,918	1,366,446
Member contributions	599,221	629,423
<i>Plan III:</i>		
Employer contributions - normal cost	882,272	448,836
Member contributions	152,114	83,497
Air Pollution Control District		
General:		
<i>Plan I and II</i>		
Employer contributions - normal cost	778,434	756,459
Member contributions	<u>167,350</u>	<u>163,520</u>
Total	<u>\$ 35,783,985</u>	<u>\$ 31,022,506</u>

Contributions from all employers totaled \$30,638,075 (19.4 percent of current covered payroll) and contributions from employees totaled \$5,145,910 (3.3 percent of current covered payroll) based on actuarially determined contribution requirements. Of this, \$29,152,098 (or 95.1%) of employer contributions and \$4,910,492 (or 95.4%) of employee contributions were attributable to the County. The pension contributions represent funding of \$20,195,895 (12.8 percent of current covered payroll) for normal cost and \$10,442,180 (6.6 percent of current covered payroll) for amortization of the unfunded actuarial accrued liability.

E. RESERVES

Member and employer contributions are allocated to various legally-required reserve accounts based on actuarial determinations. All reserves are fully funded except for County and District reserves.

Set fourth below are descriptions of the purpose of each reserve and designation account.

Member Contribution Reserves represent the balance of member contributions. Additions include member contributions and interest earnings; deductions include refunds of member contributions and transfers to Retired Member Reserves.

County and District Reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employer and interest earnings; deductions include transfers to Retired Members Reserves, lump sum death benefits, and payments under §31725.5 and §31725.6 of the County Employees' Retirement Law of 1937.

Retired Member Reserves represent the balance of transfers from Member Reserves and Employer Reserves and interest earnings, less payments to retired members.

Health Coverage Reserves and Supplemental Health Coverage Reserves represent the balance of monies set aside for the payment of health insurance premiums and cash benefits for retired members. Additions include contributions from the employer, interest and excess earning; deductions include payments of premiums for retired members who are enrolled in a County sponsored health plan and cash payments for retired members who do not participate in the health plans.

Sick Leave Reserves represent the balance of monies set aside to fund the conversion of unused sick leave hours (maximum of 2080 hours) to service credit for the purpose of calculation of retirement benefits. Additions include related earnings and excess earnings; deductions include transfers to Retired Member Reserves.

Spousal Continuance Reserves represent monies transferred to fund the adoption of §31760.2 of the County Employees' Retirement Law of 1937, which allows 60 percent continuance to a spouse if the spouse was married to the retiree at least two years prior to the member's death and the spouse is age 55 or older on the date of the retiree's death.

Member and Employer Supplemental Reserves represent reserves accumulated for future benefits. Additions include excess earnings; deductions includes loss earnings and transfers to other reserves to fund for additional benefits.

Reserve account balances as of June 30, 1997 and 1996 (unaudited) are as follows:

	1997	1996 (unaudited)
Member Contribution Reserves	\$ 76,054,295	\$ 71,117,986
County and District Reserves	260,330,139	225,773,519
Retired Member Reserves	245,167,737	223,292,325
Health Coverage Reserves	35,384,834	34,529,940
Supplemental Health Coverage Reserves	24,579,990	5,761,085
Sick Leave Reserves	2,912,000	---
Spousal Continuance Reserves	832,000	---
Member Supplemental Reserves	1,359,658	9,182,963
Employer Supplemental Reserves	4,654,042	6,703,583

F. PLAN TERMINATION

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

G. CONTINGENCIES

The Retirement System is a defendant in various lawsuits which, in management's opinion, will not have a material effect on the general purpose financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Ten-year historical trend information about the Retirement System is presented herewith as required supplementary information. This information is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employees' retirement systems.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 1997

SCHEDULE OF FUNDING PROGRESS**

Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) ÷ (5)
12/31/96	\$693,300,597	\$758,771,583	91.4%	\$65,470,986	\$159,906,000	40.9%
12/31/95	624,822,614	711,868,472	87.8	87,045,858	154,120,000	56.5
12/31/94	546,703,000	643,452,966	85.0	96,749,966	144,524,000	67.0
12/31/92	451,105,572	552,544,865	81.7	101,439,293	131,532,000	77.1
12/31/90	332,225,133	517,987,560	64.1	185,762,427	118,385,000	156.9
12/31/88	271,533,553	403,824,675	67.2	132,291,122	87,719,000	151.0
12/31/86	230,005,852	342,652,890	67.1	112,647,038	74,395,000	151.0

** Actuarial valuations were performed biennially except for 1995 and 1996, therefore data is not available for certain years.

SCHEDULE OF EMPLOYER CONTRIBUTIONS **

Year Ended Dec. 31	Annual Required Contributions (ARC)	Contributions Made As a Percentage of (ARC)
1996	\$27,114,000	100.0%
1995	27,664,000	100.0
1994	24,678,000	100.0
1992	21,200,000	100.0
1990	14,557,000	100.0
1988	7,879,000	100.0
1986	7,310,000	100.0

Note: ARC are as of Dec. 31 and employer contributions are as of June 30 in the above calculation.

**NOTE TO THE SCHEDULE OF FUNDING PROGRESS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the latest actuarial valuation follows.

Valuation date	December 31, 1996
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level percent
Remaining open amortization period	9 years
Asset valuation method	Actuarial book value
Actuarial assumptions:	
Investment rate of return	8.00 %
Projected salary increases	1% Merit and Longevity 4.75 % Inflation (COLA)
Includes inflation at	4.75 % per annum
Cost-of-living adjustments	Up to 3 % for Plans I, III, and APCD Plan II None for General Plan II

INVESTMENT SECTION

OUTLINE OF INVESTMENT POLICIES

The Board has adopted an investment policy that outlines the specific responsibilities of the Board of Retirement. It is the policy of the Board that:

1. The investment of the assets of the Retirement System shall be based on a financial plan that will consider:
 - the financial condition of the Retirement System
 - the expected long-term capital market outlook
 - the County's risk tolerance
 - future growth of active and retired participants
 - inflation and the rate of salary increase
 - cash flow.

The financial plan measures the potential impact on pension cost of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected liability structure of the retirement plan.

2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure, shall be sufficiently diversified to maintain risk at a reasonable level determined retirements by the Board without imprudently sacrificing return. The Board shall determine performance benchmarks against which the asset allocation plan shall be reviewed to ensure that the asset mix remains appropriate to meet long term goals of the investment program.
3. In accordance with the asset allocation guidelines, the Board will select external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation.
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

PERFORMANCE RESULTS

Investments	Current Qtr (1997)	Annualized	
		1 - year	3 - year
Total Portfolio	10.9%	20.2%	18.2%
Benchmark (1)	10.9%	20.1%	17.6%
TUCS Public Plan Ranking Percentile	52%	55%	53%
Domestic Equity	16.9%	33.0%	28.6%
Benchmark (2)	17.5%	34.7%	28.7%
TUCS Domestic Equity Ranking Percentile	36%	17%	28%
International Equity	12.4%	15.4%	9.9%
MSCI-EAFE	13.1%	13.2%	9.4%
TUCS International Ranking Percentile	35%	61%	67%
Domestic Fixed Income	4.3%	9.3%	10.7%
Benchmark (3)	3.7%	8.2%	8.5%
TUCS Fixed Income Ranking Percentile	42%	42%	31%
International Fixed Income	2.2%	--	--
Benchmark (4)	3.0%	3.9%	7.4%
TUCS Fixed Income Ranking Percentile	--	--	--
Real Estate	(1.9)%	(9.2)%	.8%
NCREIF Property Index	2.5%	10.2%	8.4%
TUCS Real Estate Ranking Percentile	95%	98%	85%

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

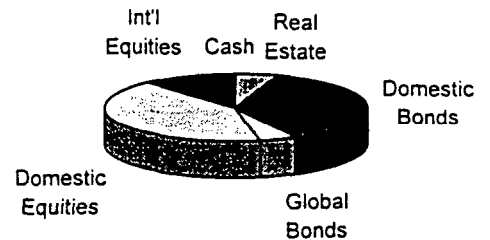
Benchmark

- (1) Standard and Poor's 500 (S&P 500); Russell ; European Australia, Far East (EAFE); Lehman Aggregate; Soloman Brothers World Government Bond Index (SBWGB); National Council for Real Estate Investment Fiduciaries (NCREIF); Treasury-Bills (T-Bills)
- (2) S&P 500; Russell 2000
- (3) Lehman Aggregate
- (4) SBWGB
- (5) Trust Universe Comprisons (TUCS)

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT SECTION
JUNE 30, 1997

ASSET ALLOCATION

	Market Value	%	Target %
Cash	\$ 16,902,379	1.9	--
Short-term investments	31,396,607	3.5	2
Fixed Income:			
Domestic Bonds	343,872,479	38.4	35.0
Global Bonds	27,638,291	3.0	5.0
Total Fixed Income	<u>371,510,770</u>	<u>41.4</u>	<u>40.0</u>
Equities:			
Domestic Equities	370,595,736	41.4	43.0
International Equities	104,786,216	11.7	15.0
Total Equities	<u>475,381,952</u>	<u>53.1</u>	<u>58.0</u>
Real Estate	533,905	.1	--
Total	<u>\$895,725,613</u>	<u>100.0</u>	<u>100.0</u>



**SCHEDULE OF TOP TEN EQUITY
AND FIXED INCOME SECURITIES**

TOP TEN EQUITY SECURITIES *
By Market Value

Shares	Security Name	Market Value
110,200	Coca Cola Company common stock	\$ 7,493,600
69,400	General Electric common stock	4,511,000
50,000	Xerox common stock	3,943,750
56,000	Johnson & Johnson common stock	3,605,000
85,000	Newell Company common stock	3,378,750
74,400	Philip Morris Companies Incorporation common stock	3,292,200
70,000	State Street Corporation common stock	3,237,500
58,000	BMC Software Incorporation common stock	3,211,750
66,000	Northern Trust Corporation common stock	3,192,750
25,200	Microsoft Corp. common stock	3,184,650

TOP TEN FIXED INCOME SECURITIES *
By Market Value

Par Value	Security Name	Market Value
38,145,000	US Treasury Bonds 12.00% 15Aug13 DTD 8/15/83	\$ 53,695,191
9,380,000	Quebec Prov Canada 8.625% 01Dec26 DEB	10,358,334
24,000,000	Texas Municipal Power Agency .010 01Sep14	9,220,560
8,580,000	Federal National Mortgage Association TBA 30 7.50 01Jan99	8,598,704
31,400,000	US Treasury Bonds .010 15May17 stripped prin.	7,970,262
5,230,000	US Treasury Bonds 7.75 31Jan00	5,420,424
5,500,000	First Chicago Nbd Institute 7.95 01Dec26 cap secs Ser A	5,375,645
4,290,000	Federal National Mortgage Association TBA Jul. 30 7.50 01Jan99	4,299,353
4,000,000	International Bank for Reconciliation and Development 7.625 19Jan23	4,248,240
4,042,042	Federal Home Loan 7.50 01Nov26	4,057,201

* A complete list of portfolio holdings is available upon request.

SCHEDULE OF PROFESSIONAL FEES AND SERVICE

	Assets Under Management	Fees	Basis Points
Investment Managers' Fees:			
Fixed Income Managers	\$399,035,694	\$ 825,206	.200%
Equity Managers	<u>429,197,879</u>	<u>1,301,364</u>	<u>.300</u>
Total Investment Managers' Fees	828,233,573	2,126,570	.260
Other Investment Service Fees:			
Custodian Fees	--	227,910	.030
Investment Consultant Fees	<u>--</u>	<u>43,000</u>	<u>.005</u>
Total Investment Service Fees	<u>\$828,233,573</u>	<u>\$2,397,480</u>	<u>.289%</u>

INVESTMENT SUMMARY

As of June 30, 1997

Type of Investment	Market Value	Percent of Total Market Value
Fixed Income Investments:		
Domestic	\$343,872,479	38.4%
Global	<u>27,638,291</u>	<u>3.0</u>
Total Fixed Income Investments	371,510,770	41.4
Equity Investments-Domestic and International:		
Basic-Industry	27,276,228	3.0
Capital Goods	20,428,011	2.3
Consumer Service	121,555,352	13.6
Energy	23,135,142	2.6
Financial	104,146,735	11.6
General Business and Miscellaneous	84,140,941	9.4
Shelter	4,114,067	.5
Technological	55,835,512	6.2
Transportation	3,865,431	.4
Utilities	<u>30,884,533</u>	<u>3.5</u>
Total Equity Investments	475,381,952	53.1
Alternative Investments:		
Real Estate	<u>533,905</u>	<u>.1</u>
Total Alternative Investments	533,905	.1
Cash	16,902,379	1.9
Short-Term Investments	<u>31,396,607</u>	<u>3.5</u>
Total	<u>\$895,725,613</u>	<u>100.0%</u>

ACTUARIAL SECTION

ACTUARY'S
CERTIFICATION
LETTER

BUCK
CONSULTANTS

100 California Street Suite 1300
San Francisco, California 94111

August 19, 1997

Board of Retirement
Santa Barbara County
Employees' Retirement System
County Administration Building, Room 301
105 East Anapamu Street
Santa Barbara, California 93101

Members of the Board:

Re: *Actuarial Certification of the
Santa Barbara County
Employees' Retirement System*

Buck Consultants, Inc. is the Consulting Actuary for the Santa Barbara County Employees' Retirement System.

The funding objective of the Plan is to establish contribution rates which, over time, will remain as a level percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of December 31, 1996, the remaining amortization period for the UAAL is 9 years.

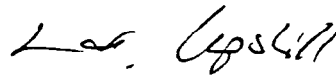
Actuarial studies are performed annually. The date of the most recent actuarial valuation is December 31, 1996. In each actuarial study, we conduct an examination of all participant data for reasonableness.

The System's financial statements are audited by an outside auditor. 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 spreading all gains and losses over five years.

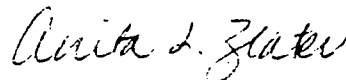
Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by us as being appropriate for use under the Plan. An analysis of the Plan's noneconomic experience was performed as of December 31, 1994 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is due to be performed as of December 31, 1997.

We certify that the Retirement System is in sound financial condition and that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully submitted,



Krystyna H. Upstill, E.A., M.A.A.A.
Principal and Consulting Actuary



Anita L. Zlatev, FSA, E.A.
Consulting Actuary

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Normal cost and the allocation of benefits values between service rendered before and after the valuation date were determined using an individual entry actuarial cost method having the following characteristics:

- (a) the annual normal cost for each active member, payable from the date of entry into the Retirement System to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;
- (b) each annual normal cost is a consistent percentage of the member's year-by-year projected covered pay.

The actuarial accrued liability is the cost allocated to years prior to the actuarial valuation date; it is the excess of the value of benefits over the value of future member contributions and the value of future normal costs. The difference between the Actuarial Accrued Liability and the plan assets is called the Unfunded Actuarial Accrued Liability and is funded (amortized) as a level percentage of projected future payroll over nine years from December 31, 1996.

The current approach used to recognize gains and losses is to spread each year's unrealized gains and losses over five years. Thus resulting in only 20 percent of unrealized gains and losses are to be recognized in any one year. Note that starting with fiscal year 1993-94 realized gains and losses are treated the same. This was done on a prospective basis only.

The contribution requirement and benefits values of the Retirement System are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described above. The recommended actuarial contribution rates were adopted and implemented by Retirement System.

The principle areas of financial risk which require assumptions about future experiences are:

- (a) long term rates of investment return to be generated by the assets of the Retirement System.
- (b) pay increase patterns.
- (c) rates of mortality among members, retirants, and beneficiaries.
- (d) rates of withdrawal from active service, including death.
- (e) the age patterns of actual retirements.

Actual experience of the Retirement System will not coincide exactly with assumed experience, regardless of the election of the assumptions, skill and proficiency of the actuary and the accuracy of calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experiences.

The investment return rate used for the actuarial valuation calculations is 8.0 percent a year, net of administrative expenses, compounded annually. This assumption is adopted by the Retirement Board. The rate is comprised of two elements:

	<u>12/31/96</u>	<u>12/31/95</u>
Inflation (COLA)	4.75%	4.75%
Real Rate of Return	<u>3.25%</u>	<u>3.25%</u>
Total	8.00%	8.00%

Salary increase rates for inflation and graded merit and longevity are as follows:

	<u>12/31/96</u>	<u>12/31/95</u>
Inflation (COLA)	4.75%	4.75%
Merit and Longevity	1.00%	1.00%
Total	5.75%	5.75%

The post-retirement mortality tables used were as follows:

Service Retirement Mortality Tables:

General Males	1983 Group Annuity Mortality Table for Males, set forward one year.
General Females	1983 Group Annuity Mortality Table for Females, set forward one year.
Safety	1983 Group Annuity Mortality Table for Males, set forward one year.

Disability Retirement Mortality Tables:

General	1981 Disability Mortality Table for General Members.
Safety	1981 Disability Mortality Table for Safety Members.

These assumptions are used to measure the probabilities of members dying after retirement and the probability of each benefit payment being made after retirement. Related values are shown below.

FUTURE LIFE EXPECTANCY AFTER SERVICE RETIREMENT (YEARS)

Age	GENERAL		Safety
	Male	Female	
50	28.30	33.97	28.30
55	23.98	29.31	23.98
60	19.83	24.78	19.83
65	15.95	20.43	15.95
70	12.54	16.34	12.54
75	9.60	12.69	9.60
80	7.21	9.63	7.21
85	5.41	7.11	5.41
90	4.04	5.02	4.04
95	2.98	3.37	2.98
100	2.11	2.14	2.11
105	1.26	1.19	1.26

FUTURE LIFE EXPECTANCY AFTER DISABILITY RETIREMENT (YEARS)

Age	General	Safety and Probation	Age	General	Safety and Probation
20	38.73	49.29	65	14.07	14.09
25	35.19	44.79	70	11.70	11.70
30	31.98	40.36	75	9.24	9.24
35	29.00	36.02	80	7.00	7.00
40	26.21	31.77	85	5.34	5.34
45	23.57	27.61	90	4.09	4.09
50	21.08	23.59	95	3.07	3.07
55	18.68	19.77	100	2.20	2.20
60	16.37	16.64	105	1.38	1.38

Probability of separation from active service - The following tables indicate the probability of separation from active service for each of eight separate sources of termination:

Withdrawal	Member terminates and elects refund of member contributions.
Vested Termination	Member terminates and contributions are left on deposit.
Ordinary Death	Member dies prior to eligibility for retirement; death not employment related.
Ordinary Disability	Member receives disability retirement; disability not employment related.
Service Retirement	Member retires after satisfaction of requirements of age and/or service for reasons other than disability.
Duty Disability	Member receives disability retirement; disability is employment related.
Duty Death	Member dies prior to retirement; death is employment related.
Death While Eligible	Member dies prior to retirement but after satisfaction of age and/or service requirements for service retirement.

The probability shown for each cause of termination represent the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 25 is .1500, then we are assuming that 15.00 percent of the active members at age 25 will terminate without vested rights during the next year.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL SECTION
JUNE 30, 1997

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE
General Members - Males

Sample Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	.1650	.0002	.0000	.0000	.00000	.00013	.0001	.0000
25	.1200	.0003	.0000	.0000	.00008	.00013	.0001	.0000
30	.0850	.0004	.0000	.0000	.00017	.00013	.0002	.0045
35	.0600	.0005	.0001	.0000	.00017	.00013	.0003	.0130
40	.0430	.0006	.0002	.0000	.00025	.00013	.0008	.0120
45	.0300	.0008	.0006	.0000	.00051	.00013	.0015	.0165
50	.0230	.0013	.0013	.0450	.00119	.00013	.0020	.0150
55	.0180	.0022	.0023	.0600	.00230	.00013	.0028	.0100
60	.0130	.0032	.0037	.1100	.00348	.00013	.0035	.0070
65	.0100	.0042	.0057	.2900	.00476	.00013	.0000	.0000
70	.0000	.0000	.0000	1.000	.00000	.00000	.0000	.0000

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE
General Members - Females

Sample Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	.1725	.0001	.00000	.00000	.0000	.0001	.00008	.0000
25	.1325	.0001	.00008	.00000	.0001	.0001	.00008	.0000
30	.1100	.0002	.00008	.00000	.0001	.0001	.00008	.0100
35	.0870	.0003	.00022	.00000	.0001	.0001	.00016	.0180
40	.0550	.0004	.00030	.00000	.0001	.0001	.00040	.0185
45	.0320	.0005	.00068	.00000	.0002	.0001	.00072	.0190
50	.0260	.0006	.00097	.02000	.0004	.0001	.00096	.0175
55	.0210	.0010	.00127	.05000	.0009	.0001	.00136	.0080
60	.0165	.0018	.00187	.06000	.0014	.0001	.00168	.0040
65	.0150	.0028	.00000	.30000	.0020	.0001	.00000	.0000
70	.0000	.0000	.00000	1.0000	.0000	.0000	.00000	.0000

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE
Safety and Probation Members

Sample Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	.0700	.0001	.00000	.00000	.00000	.0001	.00015	.0000
25	.0550	.0002	.00007	.00000	.00008	.0002	.00030	.0120
30	.0380	.0002	.00007	.00000	.00008	.0002	.00105	.0175
35	.0250	.0002	.00063	.00000	.00015	.0002	.00225	.0095
40	.0150	.0003	.00133	.00000	.00045	.0003	.00400	.0070
45	.0060	.0004	.00175	.00600	.00060	.0004	.00600	.0035
50	.0040	.0006	.00189	.05000	.00082	.0009	.00825	.0010
55	.0000	.0011	.00000	.01000	.00120	.0014	.00000	.0000
60	.0000	.0000	.00000	1.0000	.00000	.0000	.00000	.0000

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Plan Type	Active Members	Annual Salary	Average Annual Salary	% Increase in Average Annual Salary
1996	General	3,065	\$ 112,589,000	\$ 36,734	3.7
	Safety	803	38,613,000	48,086	6.2
	Total	3,868	151,202,000	39,090	4.2
1995	General	3,018	106,895,000	35,419	1.0
	Safety	808	36,597,000	45,293	4.8
	Total	3,826	143,492,000	37,504	1.9
1994	General	2,916	102,278,000	35,075	1.3
	Safety	781	33,758,000	43,224	(2.9)
	Total	3,697	136,036,000	36,796	0.3
1993	General	2,825	97,774,000	34,610	0.0
	Safety	741	32,996,000	44,529	4.9
	Total	3,566	130,770,000	36,671	1.0
1992	General	2,716	94,044,000	34,626	6.5
	Safety	742	31,497,000	42,449	6.2
	Total	3,458	125,541,000	36,305	7.2
1991	General	2,812	91,445,000	32,520	9.0
	Safety	627	25,064,000	39,974	10.5
	Total	3,439	116,509,000	33,879	9.3
1990	General	2,781	82,961,000	29,831	6.7
	Safety	622	22,502,000	36,177	6.0
	Total	3,403	105,463,000	30,991	6.4
1989	General	2,584	72,277,000	27,971	8.2
	Safety	592	20,203,000	34,127	(11.8)
	Total	3,176	92,480,000	29,118	4.4
1988	General	2,574	66,538,000	25,850	5.9
	Safety	490	18,958,000	38,690	19.7
	Total	3,064	85,496,000	27,903	8.6
1987	General	2,561	62,515,000	24,410	10.5
	Safety	492	15,898,000	32,313	(6.5)
	Total	3,053	78,413,000	25,684	6.7

**SCHEDULE OF RETIRANTS AND BENEFICIARIES
ADDED TO AND DELETED FROM RETIREE PAYROLL**

Fiscal Year	Beginning of Year	Adds	Deletes	Ending	Total Retiree Payroll	% Increase in Payroll	Average Annual Allowance
1997	1,759	149	86	1,822	\$ 23,067,897	10.5%	\$1,055
1996	1,704	142	76	1,759	20,866,717	9.3	988
1995	1,647	141	95	1,693	19,088,284	6.9	939
1994	1,617	119	89	1,647	17,855,364	9.2	903
1993	1,570	N/A	N/A	1,617	16,355,493	8.9	843
1992	1,494	N/A	N/A	1,570	15,025,122	15.5	797
1991	1,425	N/A	N/A	1,494	13,004,524	8.6	725
1990	1,385	N/A	N/A	1,425	11,980,147	12.1	701
1989	1,319	N/A	N/A	1,385	10,683,443	11.8	642
1988	1,278	N/A	N/A	1,319	9,558,693	N/A	603

ACTUARY SOLVENCY TEST

Valuation Date	Actuarial Accrued Liability (AAL)				AAL Total	Actuarial Value of Assets	Percentage of AAL Covered by Assets		
	(A) Active Member Contributions	(B) Retired/Vested Members	(C) Employer Financed Portion	(D) Other Designated			(A) Active	(B) Retired	(C) Employer
1996	\$66,723,000	\$283,737,000	\$263,772,000	\$78,988,000	\$693,220,000	\$649,047,000	100%	100%	93.6%
1995	62,273,000	258,727,000	249,421,000	66,413,000	636,834,000	586,697,000	100	100	92.1
1994	56,968,000	238,873,000	224,811,000	65,641,000	586,293,000	516,671,000	100	100	88.1
1992	53,996,000	192,788,000	181,552,000	51,480,000	479,816,000	429,421,000	100	100	89.5
1990	47,566,000	153,287,000	158,344,000	41,176,000	400,373,000	332,170,000	100	100	83.0
1988	41,653,000	125,426,000	102,390,000	27,699,000	297,168,000	270,541,000	100	100	91.0
1986	36,388,000	97,936,000	80,140,000	10,912,000	225,376,000	230,006,000	100	100	102.0

SUMMARY OF MAJOR PLAN PROVISIONS

ELIGIBILITY

- First of pay period following date of employment.

DEFINITION OF SALARY

- Highest 12 consecutive months of compensation earnable for Plan I members and highest thirty-six consecutive months of compensation earnable for Plan II and Plan III members.

SERVICE RETIREMENT

Normal retirement age

- Ages 57, 65, 50, and 55 for County Employees' Retirement Law of 1937 Sections 31676.1 (General Plans I and III), 31486.4 (General Plan II), 31664 (Safety and Probation), and Section 31676.15 (APCD Plans I and II), respectively.

Early retirement

- Age 50 and 10 years for Plan I and III and APCD Plan II and ages 55 and 10 years for General Plan II; or 30 years for General Plans I and III, and 20 years for Safety and Probation.

Benefit

- 1/60 times final average salary per year of service for General Plan I and III,
- 2 percent of final average salary per year of service (maximum 35 years) plus 1 percent of final average salary per year of service in excess of 35 (maximum 10 years) reduced by 1/35 of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan II, and
- 1/50 times final average salary per year of service for Safety, Probation and APCD.

Benefit adjustments

- Reduced for retirement before ages 57, 65, 50, and 55 for County Employees' Retirement Law of 1937 Sections 31676.1, 31486.4, 31664, and 31676.15, respectively. Reductions for Section 31486.4 are actuarial equivalents.
- Increased for retirement after ages 57, 50, and 55 for Sections 31676.1, 31664 and 31676.15, respectively.

DISABILITY RETIREMENT

- Non-service connected for General Plans I and III Safety and APCD.
- 1.5 percent (General Plans I and III) and 1.8 percent (Safety, Probation and APCD) of final average salary per year of service, with maximum of 33 1/3 percent if projected service is used (age 65 for General Plans I and III and APCD, age 55 for Safety and Probation), or 90 percent of the accrued service retirement benefit without a benefit adjustment.
- Service connected for Plans I and III and APCD Plan II.
- Greater of 50 percent of final average salary or service retirement benefit (if eligible).
- General Plan II purchases long-term insurance policy.
- 60 percent of salary provided outside of the Plan. Payments are reduced by other disability income are reduced by other disability income benefits. Service retirement at age 65 (credit given toward service retirement while disability under the LTD Plan).

DEATH BEFORE RETIREMENT

- Non-service connect before eligible to retire, for Plans I and III and APCD Plan II
 - refund of contributions plus 1/12 of last years' salary per year of service up to 6 years.
- Eligible for non-service connected disability or service retirement for Plans I and III and APCD Plan II
 - 60 percent of member's accrued allowance.
- Service connected for Plans I and III and APCD Plan II
 - 50 percent of salary.
- Benefit for General Plan II
 - 1/12 of last years' salary per year of service up to 6 years.

DEATH AFTER RETIREMENT

- \$1,000 lump sum death benefit for Plans I and III and APCD Plan II
- Service retirement or non-service connected disability
 - 60 percent of member's allowance payable to an eligible spouse for Plan I and 3 APCD Plan II.
 - 50 percent of member's allowance payable to an eligible spouse for General Plan II.
- Service connected disability
 - 100 percent of member's allowance to an eligible spouse for Plans I and III APCD Plan II.
 - 50 percent of member's allowance payable to an eligible spouse for General Plan II.

VESTING

- Must leave contributions on deposit.
- Five years of service for Plans I and III and APCD Plan II.
- Ten years of service for General Plan II.

MEMBER'S CONTRIBUTIONS

- Based on entry age
- Half rates for General, Safety, and APCD Plans I. Full rates for General and Safety Plans III, Probation, and APCD Plan II. General Plan II is noncontributory.

MAXIMUM BENEFIT

- 100 percent of final average salary for Plans I and III and APCD Plan II
- Benefit and Social Security combined cannot exceed 70 percent of final average salary if service is less than 35, otherwise 80 percent for General Plan II.

COST-OF-LIVING

- Up to 3 percent cost-of-living adjustment for Plans I and APCD Plan II
- None for General Plan II.

STATISTICAL SECTION

SCHEDULE OF REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Net Return On Investments	Total
1997	\$5,145,910	\$30,638,075	\$66,031,421	\$101,815,406
1996	4,917,240	26,105,266	78,900,683	109,923,191
1995	4,187,640	22,611,053	31,823,951	58,622,644
1994	3,989,265	21,355,077	45,522,224	70,866,566
1993	3,909,083	20,599,162	53,901,397	78,409,642
1992	2,641,245	20,146,098	46,909,344	69,696,687
1991	3,546,814	15,851,360	28,687,750	48,085,924
1990	2,628,334	13,134,454	33,246,550	49,009,338
1989	2,190,646	10,218,800	27,696,271	40,105,717
1988	2,569,769	10,268,570	10,706,602	23,544,941

SCHEDULE OF EXPENSES BY TYPE

Fiscal Year	Benefits Paid	Refunds	Investment Expenses	Administrative Expenses	Total
1997	\$27,352,099	\$557,461	\$2,397,480	239,205	\$30,546,245
1996	24,849,470	529,706	2,301,388	247,384	27,927,948
1995	22,610,749	573,736	2,031,883	186,030	25,402,399
1994	21,313,567	456,562	2,776,693	212,751	24,759,573
1993	19,426,379	499,763	1,492,823	214,572	21,633,538
1992	17,800,216	369,038	1,267,055	61,344	19,497,653
1991	15,561,597	469,492	1,079,936	101,784	17,212,809
1990	13,586,597	549,690	1,032,215	117,567	15,286,067
1989	12,100,626	529,516	967,014	156,571	13,753,726
1988	10,446,265	484,287	904,842	33,472	11,868,866

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years Credited Service					
	0-10	10-15	15-20	20-25	25-30	30+
1996						
Average Monthly Benefit	\$ 1,672	\$ 1,161	\$ 832	\$ 799	\$ 672	\$ 591
Average Annual Benefit	20,065	13,933	9,985	9,586	8,067	7,089
Number of Active Retirants	776	325	356	211	84	30
1995						
Average Monthly Benefit	\$ 1,575	\$ 1,106	\$ 766	\$ 785	\$ 629	\$ 543
Average Annual Benefit	18,901	13,274	9,200	9,428	7,551	6,515
Number of Active Retirants	754	326	369	178	72	25

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS

	<u>Number of Retirees</u>	<u>Annual Allowance</u>	<u>Average Allowance</u>
GENERAL MEMBERS			
Service			
Males	566	\$ 7,917,211	\$13,988
Females	638	5,915,981	9,273
Disability			
Males	54	642,701	11,902
Females	33	405,648	12,292
Beneficiaries			
Males	40	219,327	5,483
Females	<u>184</u>	<u>1,200,121</u>	<u>6,522</u>
Total	<u>1,515</u>	<u>16,300,989</u>	<u>10,760</u>
SAFETY MEMBERS			
Service			
Males	134	4,141,239	30,905
Females	7	148,277	21,182
Disability			
Males	73	1,261,656	17,283
Females	4	56,718	14,180
Beneficiaries			
Males	4	43,966	10,992
Females	<u>45</u>	<u>553,998</u>	<u>12,311</u>
Total	<u>267</u>	<u>6,205,854</u>	<u>23,243</u>

ACCUMULATED BENEFIT OBLIGATION The actuarial present value of benefits (whether vested or nonvested) attributed by the pension benefit formula to employee service rendered before a specific date and based on employee service and compensation (if applicable) before that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumptions about future compensation levels.

ACCUMULATED PLAN BENEFITS Benefits attributable under the provisions of a pension plan to employees for services rendered to the benefit information date.

ACTUARIAL ASSUMPTIONS Assumptions used in the actuarial valuation process as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods and other relevant items.

ACCRUAL BASIS. The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

ACTUARIAL ACCRUED LIABILITY The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

ACTUARIAL GAIN (LOSS) A measure of the difference between actual and expected experience based upon a set of actuarial assumption. Examples include higher than expected salary increases (loss) and a higher return on fund assets than anticipated (gain).

ACTUARIAL PRESENT VALUE The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

AMORTIZED OR UAAL PAYMENT The portion of the pension plan contribution which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion. Equivalently, it is a series of periodic payments required to pay off a debt.

AMORTIZATION. (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

AUDITORS' REPORT. In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). The official annual report of a government. It includes (a) the five combined financial statements in the combined statements - overview and their related notes (the "lifiable" GPFS) and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, required supplementary information, extensive introductory material and a detailed statistical section. Every government reporting entity should prepare a CAFR.

ENTRY AGE ACTUARIAL COST METHOD A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

NORMAL COST The ongoing annual cost allocated to the system by a particular actuarial cost method for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member.

PENSION BENEFIT OBLIGATION (PBO) The standardized measure of funding status and progress required by the GASB to be disclosed in the notes to the financial statements. It is the actuarial present value of credited projected benefits, prorated on service and discounted at a rate equal to the expected return on present and future plan assets.

PENSION CONTRIBUTION The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations.

PENSION TRUST FUND. A trust fund used to account for a PERS. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus.

UNFUNDED ACTUARIAL ACCRUED LIABILITY The excess of the actuarial accrued liability over the actuarial value of assets.

MEMORANDUIM

To: Bernice James

From: Brian Richard *B.R.*

Date: January 29, 1998

Re: Retirement financial statements

Attached are the following:

- Copy of the final *Santa Barbara County Employees' Retirement System* financial statements;
- 16 original opinion letter's from KPMG Peat Marwick LLP;
- Disk containing all files associated with these financial statements.

If you have any questions please don't hesitate to call me at extension 2139.

Upon completion of printing the financial statements please forward a copy to Bob Geis.

cc: Bob Geis
Brian Fahnestock – Financial Reporting
Julie Hagan – Internal Audit