



SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
A Pension Trust Fund for the County of Santa Barbara, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004

*Front Cover: El Capitán State Beach
Located off Highway 101 seventeen miles west of Santa Barbara*

*El Capitán State Beach offers visitors a sandy beach, rocky tidepools, and stands of sycamore and oaks along El Capitán Creek. It's a perfect setting for swimming, fishing, surfing, picnicking and camping.
A stairway provides access from the bluffs to the beach area.*

Photograph by Michael DeWitte

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT
SYSTEM

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

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For Fiscal Years Ended
June 30, 2004 and 2003

Issued by:
Oscar Peters, Retirement Administrator
Ramona DeWitte, Accountant

3916 State Street, Suite 210
Santa Barbara, CA 93105

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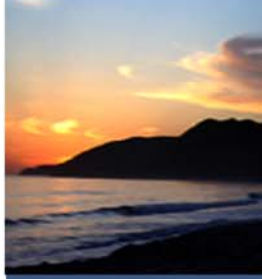
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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Barbara County
Employees' Retirement System,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emery".

Executive Director

OSCAR PETERS
RETIREMENT ADMINISTRATOR



**SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

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October 11, 2004

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

Dear Board Members,

It is with pleasure that I submit the Santa Barbara County Employees' Retirement System (SBCERS) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004, the System's 61st year of operation. The report is intended to provide users extensive and reliable information for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of SBCERS.

The System's returns were positive for the second time in three years. The returns outperformed the benchmark and are in the upper third of public fund universe. The System remains strong, well funded and well positioned to serve our members. The Board of Retirement (Board) continues to demonstrate its commitment to providing accurate and timely service to our 5220 members and 2440 benefit recipients into the future. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 14.

The Comprehensive Annual Financial Report

Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with SBCERS' management. It is our intent and belief that the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. The report is presented in five sections:

- the **Introduction Section** contains an overview of SBCERS and its organization. This section includes this letter of transmittal, a listing of the members of the Board of Retirement, the Retirement System organization chart, and a listing of professional consultants utilized by the retirement system;
- the **Financial Section** presents the financial condition and funding status of SBCERS. This section contains the opinion of the independent public accountants, Nasif, Hicks, Harris & Co., Management's Discussion and Analysis, the financial statements, and the related supplemental information;
- the **Investment Section** provides an overview of SBCERS' investment program. This section contains a report on investment activity, investment policies, investment results, and various investment schedules;

- the **Actuarial Section** communicates the Plan's funding status and presents other actuarial related information. This section contains general plan provisions, actuarial statistics, and the certificate of the consulting actuary, Mellon Human Resources & Investor Solutions (Mellon HRIS), formerly Buck Consultants;
- the **Statistical Section** presents information pertaining to SBCERS' operations on a multi-year basis.

SBCERS AND ITS SERVICES

SBCERS was established on January 1, 1944, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for its employees and contracting districts under the California State Government Code, Section 31450 (County Employees' Retirement Law of 1937). Members include all permanent full and part-time employees of the County of Santa Barbara and the following 9 districts:

Air Pollution Control District

Carpinteria Cemetery

Carpinteria-Summerland Fire Protection

Goleta Cemetery

Oak Hill Cemetery

Santa Barbara Association of Governments

Santa Barbara Coastal Vector Control District

Santa Maria Cemetery

Summerland Sanitary

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investment of the System's assets under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(a) provides the Retirement Board has "the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

The Board consists of nine members and two alternates. The County Board of Supervisors appoints four, members of the Retirement System elect six (including the two alternates), and the County Treasurer is an ex-officio member. The Retirement System is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System.

ACTUARIAL FUNDING STATUS

Mellon HRIS, an independent actuarial firm, is hired to conduct actuarial valuations to monitor SBCERS' funded status. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding progress of the Retirement System is calculated in accordance with Government Accounting

Standards Board Statement No. 25 and compares the ratio of system liabilities for benefits earned versus current value of assets. The funded ratio as of June 30, 2004 was 87.4% using the entry age normal method with a five year smoothing actuarial value of assets. As of the fiscal year ended June 30, 2004 the net assets were \$1.347 billion. More detailed information on methods and funding status can be found in the Financial and Actuarial section of the CAFR.

Triennially, Mellon HRIS completes a full analysis of all economic and non-economic assumptions: a valuation update using statistical information available for members is performed annually. The economic and non-economic assumptions are updated at the time the triennial experience study is performed. Triennial experience studies serve as the basis for changes in member and employer contribution rates necessary to properly fund the System. Recommendations are presented to the Board of Retirement for consideration. The last triennial experience study was performed as of June 30, 2003.

INVESTMENTS

The Board of Retirement has exclusive control of all investments of the Retirement System and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity and are authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. External investment management firms manage the assets of SBCERS. Staff and the System's investment consultant closely monitor the activity of these managers and assist the Board with implementation of investment policies and long-term investment strategies. The investment goals, policies, and procedures establish the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk control. For the current quarter ended June 30, 2004, SBCERS' investments provided a -0.1% return. SBCERS' annualized rate of return over the last one and three-years is 16.1% and negative 5.0% respectively, while the policy benchmark had annualized returns of 17.2% and negative 4.6% for one and three-year periods. More detail on SBCERS' investment performance and policies can be found in the Management Discussion and Analysis Report (page 14) and in the Investment section of the CAFR (page 35).

FINANCIAL INFORMATION

SBCERS' management is responsible for the accuracy of the data, the completeness and fairness of the presentation of financial information, including all disclosures, and establishing and maintaining an internal control structure designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Nasif, Hicks, Harris & Co., independent auditors, have audited the financial statements and expressed their opinion that SBCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The staff focused its efforts on improving services to members by eliminating the backlogs of requests to purchase service credit. During the year 150 requests were processed, nearly twice the normal workload.

A 2.5% cost of living increase was granted to all members retiring after March 31, 2002. Members retired before that date received a 3% cost of living increase (except General Members who retired under Plan 2 as that plan does not provide a cost of living adjustment).

During the year the County changed the primary health insurance provider from Health Net to Blue Shield. As health insurance benefits are of great concern to retirees and their families we doubled the number of open enrollment health insurance presentations. Over 700 retirees attended the open enrollment presentations at locations throughout the County.

The Board of Supervisors approved the implementation of AB55, which allows members with five years of Santa Barbara County service to purchase up to five years of additional retirement credit, based on a model adopted by the Board of Retirement. At year-end eight members had elected to purchase service under the plan. However, going forward we believe this plan will be an important tool for members to manage their retirement income.

A Request for Proposal for master custodian was issued. As a result Mellon Global Securities Services was selected as master custodian for the Fund. The transition from State Street to Mellon occurred on April 1, 2004.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Barbara County Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the third consecutive year that SBCERS submitted the report for consideration and received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS

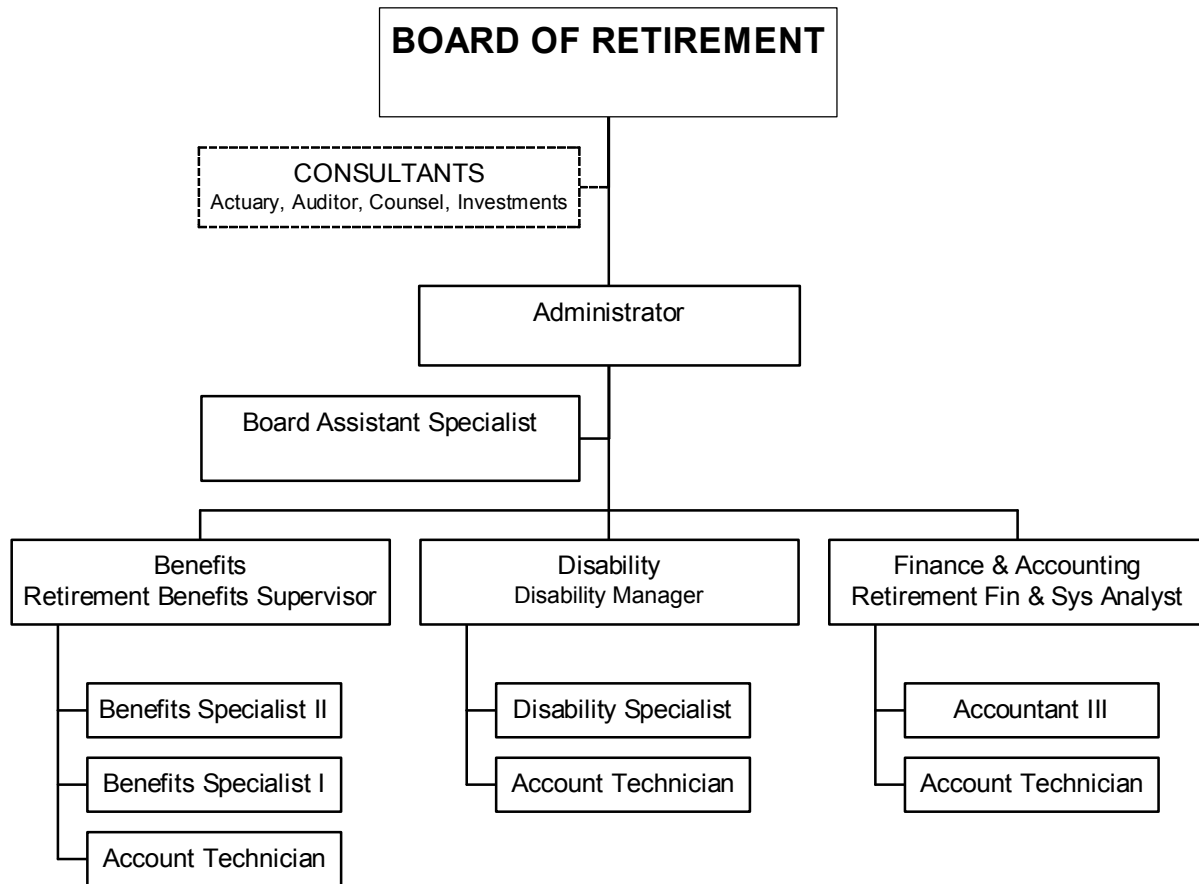
I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board, the members and the County to better evaluate and understand the Santa Barbara County Employees' Retirement System. I also want to express my thanks to the Board of Retirement for its dedicated effort and to the retirement staff for its commitment to SBCERS, a combination that assures the System's continued successful operation.

Copies of this report are available at Santa Barbara County Employees' Retirement System's offices located at 3916 State Street, Suite 210, Santa Barbara, California, 93105 or on SBCERS' website under "Forms and Publications" at <http://www.countyofsb.org/sbcers>.

Respectfully submitted,



Oscar Peters
Retirement Administrator





CHAIR

Norman E. Horsley

Elected by safety members
Present term expires December 2004



VICE CHAIR

Donald Kendig

Elected by general members
Present term expires December 2005



SECRETARY

Kate Silsbury

Appointed by Board of Supervisors
Present term expires December 2006



TREASURER / MEMBER

Bernice James

Member mandated by law
Ex officio



MEMBER

Joni Gray

Appointed by Board of Supervisors
Present term expires December 2004



MEMBER

Joseph C. Gallas

Appointed by Board of Supervisors
Present term expires December 2005



MEMBER

Ted Tedesco

Appointed by Board of Supervisors
Present term expires December 2005



MEMBER

Shawn Terris

Elected by general members
Present term expires December 2004



MEMBER

George Bobolia

Elected by retired members
Present term expires December 2005



ALTERNATE SAFETY MEMBER

Scot Alderete

Elected by safety members
Present term expires December 2004



ALTERNATE MEMBER

Pauline Coleman

Elected by retired members
Present term expires December 2005

Consulting Services

ACTUARY

Mellon Human Resources & Investor Solutions

INDEPENDENT AUDITOR

Nasif, Hicks, Harris & Co

CUSTODIANS

Mellon Global Securities Services

State Street California, Inc

LEGAL ADVISORS

Santa Barbara County Counsel

Rogers, Sheffield, & Campbell

McCarthy & Kroes

Reicker, Pfau, Pyle, McRoy & Herman LLP

INVESTMENT CONSULTANT

Pension Consulting Alliance, Inc

Investment Services

DOMESTIC EQUITY

AllianceBernstein

Alliance Capital Management LP

Invesco

Starbuck, Tisdale & Associates

INTERNATIONAL EQUITY

Bank of Ireland Asset Management Ltd

Fidelity Asset Management

State Street Global Advisors

The Boston Company

DOMESTIC BONDS

Lincoln Capital Management

Reams Asset Management

STW Fixed Income

REAL ESTATE

RREEF America LLC

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11 | Financial Section



This discussion and analysis of the Santa Barbara County Employees' Retirement System's financial performance provides an overview of the financial activities and funding conditions for the fiscal year ending June 30, 2004. Please review it in conjunction with the transmittal letter (starting on page 3) and the Financial Statements (beginning on page 18).

Financial Highlights

- Plan net assets increased by \$177.2 million (or 15.2%) as a result of the current fiscal year's activities.
- Total contributions (county and employee) increased by \$6.4 million (or 13.7%) from fiscal year 2002-2003 to 2003-2004.
- Net investment income (including securities lending) increased by \$132.4 million (or 250.5%) from fiscal year 2002-2003 to 2003-2004.
- Benefit payments increased by \$6.2 million (or 12.0%) from fiscal year 2002-2003 to 2003-2004.

Plan Highlights

- A 2.5% cost of living increase was given to all retired, disabled and beneficiary members receiving a recurring allowance. Members retiring on or before April 1, 2002 received a 3% cost of living increase due to accumulated carry-over.
- Mellon Global Securities Services was appointed as Master Custodian effective April 1, 2004.
- California Assembly Bill 55 allowing Additional Retirement Credit (ARC time) was adopted effective March 23, 2004. The bill allows members with five years of SBCERS service to purchase up to five years of additional service credit at a cost that is sufficient to not place any additional financial burden upon the retirement system. The member pays the full present value of the benefits that would be paid as a result of purchasing this retirement service credit. The benefit purchased is an increase in the monthly retirement allowance paid during the life on the member and eligible beneficiaries. The benefit is also subject to only the annual cost of living adjustments; the service will not count toward health insurance offsets or other post retirement benefits, or for qualifying for eligibility for benefits or enhancements.

Using the Annual Report

The financial statements reflect the activities of the Santa Barbara County Employees' Retirement System and are composed of the Statement of Plan Net Assets (see page 18) and the Statement of Changes in Plan Net Assets (see page 19). These statements are presented on an accrual basis and reflect all trust activities as incurred.

A discussion of the actual components of this annual report, including the financial statements, is presented in the transmittal letter on page 3.

Statement of Plan Net Assets

The Statement of Plan Net Assets shows the assets available for future payments to retirees and current liabilities as of the fiscal year end. The following condensed comparative summary of Plan Net Assets demonstrates that the pension trust is primarily focused on the cash and investments and the restricted net assets. This statement is also a good indicator of the financial well being of the Retirement System.

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets provides an account of the current year's additions and deductions to and from the System.

Financial Analysis

As shown in Table 1, the current fiscal period closed with assets exceeding liabilities by \$1.347 billion with all of the net assets available to meet the System's ongoing obligations to plan participants and their beneficiaries.

Table 1 - PLAN NET ASSETS

For the Years Ended June 30, 2004 and 2003

	2004	2003	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	\$1,387,605,918	\$1,185,005,032	\$202,600,886	17.10%
Securities Lending	190,891,848	99,384,485	91,507,363	92.07%
Receivables	<u>52,040,872</u>	<u>26,620,260</u>	<u>25,420,612</u>	<u>95.49%</u>
Total Assets	1,630,538,638	1,311,009,777	319,528,861	24.37%
Securities Lending	190,891,848	99,384,485	91,507,363	92.07%
Other Liabilities	<u>93,027,438</u>	<u>42,208,195</u>	<u>50,819,243</u>	<u>120.40%</u>
Total Liabilities	283,919,286	141,592,680	142,326,606	100.52%
Net Assets	<u>\$1,346,619,352</u>	<u>\$1,169,417,097</u>	<u>\$177,202,255</u>	<u>15.15%</u>

For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	\$1,185,005,032	\$1,150,012,539	\$34,992,493	3.04%
Securities Lending	99,384,485	71,220,335	28,164,150	39.55%
Receivables	<u>26,620,260</u>	<u>20,461,985</u>	<u>6,158,275</u>	<u>3.01%</u>
Total Assets	1,311,009,777	1,241,694,859	69,314,918	5.58%
Securities Lending	99,384,485	71,220,335	28,164,150	39.55%
Other Liabilities	<u>42,208,195</u>	<u>46,363,307</u>	<u>(4,155,112)</u>	<u>(8.96)%</u>
Total Liabilities	141,592,680	117,583,642	24,009,038	20.42%
Net Assets	<u>\$1,169,417,097</u>	<u>\$1,124,111,217</u>	<u>\$45,305,880</u>	<u>4.03%</u>

The primary sources to finance the benefits SBCERS provides are accumulated through return on investments and through the collection of employee and employer contributions. These income sources for fiscal year 2003-2004 totaled \$238.3 million, compared with \$99.5 million in 2002-2003. This increase is primarily the result of having positive market appreciation. Employer and employee contributions resulted in an increase of 13.7% over the contributions made in 2002-2003 due to a higher total payroll for County employees and more employees contributing at full contribution rates. (See Table 2).

The primary uses of SBCERS' assets are in payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering the System. These expenses for fiscal year 2003-2004 were \$61.1 million, an increase of \$6.9 million (12.8%) over 2002-2003. This increase is due to an increase in the number of retirees and increases in the average monthly allowance. (See Table 2).

Table 2 - CHANGES IN PLAN NET ASSETS**For the Years Ended June 30, 2004 and 2003**

	2004	2003	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	\$ 52,968,440	\$ 46,595,741	\$ 6,372,699	13.68%
Investment Income (net)	185,113,302	52,709,087	132,404,215	251.20%
Securities Lending (net)	204,787	166,255	38,532	23.18%
Other	4,001	4,012	(11)	(0.27)%
Total Additions	238,290,530	99,475,095	138,815,435	139.55%
Deductions				
Pension Benefits	57,634,424	51,443,905	6,190,519	12.03%
Other	3,453,851	2,725,310	728,541	26.73%
Total Deductions	61,088,275	54,169,215	6,919,060	12.77%
Net Increase / (Decrease)	\$ 177,202,255	\$ 45,305,880	\$ 131,896,375	291.12%

For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	\$ 46,595,741	\$ 42,239,892	\$ 4,355,849	10.31%
Investment Income (net)	52,709,087	(62,667,961)	115,377,048	184.11%
Securities Lending (net)	166,255	285,829	(119,574)	(41.83)%
Other	4,012	4,400	(388)	(8.82)%
Total Additions	99,475,095	(20,137,840)	119,612,935	593.97%
Deductions				
Pension Benefits	51,443,905	46,792,742	4,651,163	9.94%
Other	2,725,310	2,600,824	124,486	4.79%
Total Deductions	54,169,215	49,393,566	4,775,649	9.67%
Net Increase / (Decrease)	\$ 45,305,880	\$ (69,531,406)	\$ 114,837,286	165.16%

Investment Analysis

The Plan's investment performance is a function of the underlying financial markets for the period measured and the asset allocation.

Over the latest year equity markets were volatile on a quarter-to-quarter comparison. During the year domestic equities were positive for all quarters while international equities were very volatile. For the year equity markets were very positive.

Fixed income was flat for the year. On a quarter-to-quarter comparison the returns varied from slightly positive to slightly negative as interest rates rose and fell within a narrow range.

During the last year, primarily because of under performance of the active international equity managers, the SBCERS' total portfolio underperformed its policy benchmark by 110 basis points with a 16.1% return. For detailed investment returns, fees and the Fund's asset allocation please refer to the investment section beginning on page 35.

Funding Status

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, pension plans have been under-funded when the employer failed to make annual actuarially required contributions to the Plan. The County of Santa Barbara has traditionally contributed the annual required contribution (ARC) as determined by the Plan's Actuary. Currently \$1,346,619,352 in net assets is held in trust for pension benefits. All of the net assets are available to meet SBCERS' ongoing obligation to plan participants and their beneficiaries.

An indicator of funding status is the ratio of the actuarial value of the assets to the actuarial accrued liability (AAL). An increase in the percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the AAL. Performance in the stock and bond markets can have a material impact on the actuarial value of assets.

The funding ratio as of June 30, 2004 was 87.4% using the entry age normal method with a five year smoothing of the actuarial value of assets. As of the fiscal year ended June 30, 2004 the net assets were \$1.347 billion. The next actuarial valuation is scheduled for June 30, 2005.

STATEMENT OF PLAN NET ASSETS

As of June 30, 2004 and 2003

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
ASSETS		
Cash	\$ 5,617,044	\$ 6,603,809
Receivables		
Contributions	1,851,954	2,713,779
Accrued Interest	2,553,668	3,146,109
Dividends	874,101	744,134
Due from Brokers for Security Sales	46,761,149	20,016,238
Total Receivables	52,040,872	26,620,260
Investments, at Fair Value		
Short Term Investments	46,056,733	46,781,238
Domestic Equity	688,591,135	552,371,510
Domestic Bonds	347,476,401	369,999,537
International Equity	270,012,650	203,795,090
Real Estate	29,851,955	5,451,703
Real Estate Mortgage Loans	-	2,145
Total Investments	1,381,988,874	1,178,401,223
Collateral Held for Securities Lent	190,891,848	99,384,485
Total Investments Including Collateral Held for Securities Lent	1,572,880,722	1,277,785,708
TOTAL ASSETS	\$ 1,630,538,638	\$ 1,311,009,777
LIABILITIES		
Accounts Payable	\$ 174,938	\$ 280,065
Benefits Payable	721,928	293,890
Collateral Held for Securities Lent	190,891,848	99,384,485
Due to Brokers for Security Purchases	92,130,572	41,634,240
TOTAL LIABILITIES	\$ 283,919,286	\$ 141,592,680
Net Assets Held in Trust for Pension Benefits	<u>\$ 1,346,619,352</u>	<u>\$ 1,169,417,097</u>

(For a Schedule of Funding Progress see page 30.)
See accompanying notes to financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

As of June 30, 2004 and 2003

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
ADDITIONS		
Contributions		
Employers	\$ 39,334,678	\$ 33,799,166
Plan members	13,633,762	12,796,575
Total Contributions	52,968,440	46,595,741
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	162,070,041	24,562,234
Interest	14,923,133	23,048,991
Dividends	11,892,463	8,345,642
Total Investment Income (Loss)	188,885,637	55,956,867
Less Investment expenses	(3,772,335)	(3,247,780)
Net Investment Income (Loss)	185,113,302	52,709,087
Securities Lending Income	1,630,772	1,344,752
Securities Lending Expense	(1,425,985)	(1,178,497)
Net Securities Income	204,787	166,255
Administrative Reimbursement	4,001	4,012
Total Miscellaneous Income	4,001	4,012
TOTAL ADDITIONS	\$ 238,290,530	\$ 99,475,095
DEDUCTIONS		
Benefits Paid	57,634,424	51,443,905
Member Withdrawals	1,467,988	1,204,495
Administrative Expenses	1,985,863	1,520,815
TOTAL DEDUCTIONS	\$ 61,088,275	\$ 54,169,215
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	1,169,417,097	1,124,111,217
Increase (Decrease) in Net Assets	177,202,255	45,305,880
End of Year	<u>\$ 1,346,619,352</u>	<u>\$ 1,169,417,097</u>

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SBCERS adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* for the year ended June 30, 2000. GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* have also been implemented in the basic financial statements and accompanying notes. Implementation of GASB Statements No. 34, 37, and No. 38 had no effect on Plan Net Assets.

Reporting Entity

SBCERS, with its own governing board, is an independent governmental entity separate and distinct from the County of Santa Barbara. SBCERS’ annual financial statements are referenced in the *Notes to the Basic Financial Statements* in the County of Santa Barbara’s Comprehensive Annual Financial Report.

Basis of Accounting

The Retirement System’s financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized as revenue when due pursuant to formal commitments, as well as statutory or contractual requirements, and benefits and refunds are recognized as expense when due and payable in accordance with the terms of the plan. 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.

Cash and Deposits

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

Apportionment of Interest

Interest is apportioned semi-annually 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 8.16%.

Valuation of Investments

Debt and equity securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the Plan Administrator to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Certain financial statement items from the prior year’s financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

2. DESCRIPTION OF PLAN

General Provisions

The Santa Barbara County Employees' Retirement System (Retirement System) was established on January 1, 1944 and organized under the provisions of the County Employees' Retirement Law of 1937. The Retirement System is a cost-sharing multiple-employer plan whose members include all permanent and part-time employees (at least 40 hours per pay period) 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 Coastal Vector Control District, Santa Barbara County Association of Governments, Santa Maria Cemetery District, and Summerland Sanitary District.

The Retirement System has four retirement plans of which three are currently available to new employees. All new General member employees (except those of the APCD) are enrolled in the contributory General Plan 5. All new Safety members are enrolled in the contributory Safety Plan 4. All new APCD employees are enrolled in a separate, unique contributory APCD Plan 2. General Plan 2 is closed for new membership. All plans provide benefits as defined by the County Employees' Retirement Law (CERL) upon retirement, death, or disability of members based on age, years of service, final average salary (generally 12 highest consecutive months), and the benefit options selected. Cost-of-living adjustments after retirement are provided in all plans except General Plan 2.

Plan Membership

At June 30, 2004 and 2003 the Retirement System's membership consisted of the following:

SBCERS' Membership	2004	2003
Retirees and Beneficiaries		
Currently Receiving Benefits	2,440	2,345
Active Employees		
Vested		
General	2,237	2,063
Safety	674	635
Nonvested		
General	1,322	1,560
Safety	270	315
Terminated Vested Members		
General	577	585
Safety	140	75
Total Membership	7,660	7,578

Benefit Provisions

GENERAL PLAN 5 AND SAFETY PLAN 4 AND APCD PLAN 1 AND 2: Pension benefits are based upon a combination of age, years of service, average monthly salary for the highest paid year of employment, and the benefit payment option selected by the member. Disability benefits are based upon whether the disability was service-connected or nonservice-connected. Death benefits are based upon whether the death occurred before or after retirement and whether the death was service-connected or nonservice-connected.

GENERAL PLAN 2: Pension benefits are based upon a combination of age, years of service, and highest average monthly salary 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 Adjustment

All plans, with the exception of General Plan 2, provide for retirement benefits subject to cost-of-living (COLA) adjustments for retired members. COLA adjustments are made to retired members' benefits each April based upon reference to the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is located subject to a 3% maximum limitation.

Supplemental Cost-of-Living Adjustment

In addition to basic cost-of-living increases, the Board of Retirement implemented a Supplemental Cost-of-Living adjustment (Supplemental COLA) program, effective January 1, 1998. The Supplemental COLA is structured to maintain purchasing power at no less than 80% of the original benefit. The Supplemental COLA is applicable to members who have an accumulated loss of purchasing power of more than 20% due to inflation.

Vesting

GENERAL PLAN 5, SAFETY PLAN 4 AND APCD PLAN 1 AND 2: 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 of creditable service (safety members twenty years) regardless of age, or upon attaining age 70.

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

Effective January 1, 2003 a member with less than five years of service may elect to leave accumulated contributions on deposit in the retirement fund. A member who continues membership under this ruling is granted a deferred non-vested status and is subject to the same age, service, and disability requirements that applies to other members for service or disability retirement.

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.

GENERAL PLAN 2: Upon completing ten years of creditable service, Plan 2 members have non-revocable rights to receive benefits. Plan 2 members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Once vested, Plan 2 members have a one-time election to defer accrued Plan 2 benefits and enter the contributory retirement plan in effect at that time. Contributions are based upon age at the time of transfer.

3. CONTRIBUTION REQUIREMENTS AND CONTRIBUTIONS MADE

GENERAL PLAN 5, SAFETY PLAN 4 AND APCD PLANS 1 & 2: Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. For certain bargaining units, a portion of the member contribution is paid by the County. Member contributions are based upon each individual member's age of entry into SBCERS. Member contributions cannot be withdrawn until separation from employment.

GENERAL PLAN 2: Employer contribution rates are recommended by the actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. There are no member contributions.

The actual contributions for the years ended June 30, 2004 and 2003 were made in accordance with actuarially determined contributions for the year. The following tables summarize the contributions for the years ended June 30, 2004 and 2003:

SBCERS' Contributions Made By Plan		2004	2003
General Plan 2:			
Employer contributions		\$ 80,855	\$ 33,895
General Plan 5:			
Employer contributions		23,319,729	21,116,201
Member contributions		8,766,535	8,131,505
Safety Plan 4:			
Employer contributions		15,338,710	12,442,772
Member contributions		4,653,506	4,473,059
Air Pollution Control District Plans 1 and 2:			
Employer contributions		595,384	206,298
Member contributions		213,721	192,011
Total		\$ 52,968,440	\$ 46,595,741

SBCERS' Contributor Comparison		2004		2003	
EMPLOYER	Santa Barbara County	\$ 37,930,314	96.4%	\$ 32,776,627	96.9%
	Special Districts	1,404,364	3.6%	1,022,539	3.1%
		<u>\$ 39,334,678</u>	100%	<u>\$ 33,799,166</u>	100%
MEMBER	Santa Barbara County	\$ 13,319,304	97.7%	\$ 12,507,975	97.7%
	Special Districts	314,458	2.3%	288,600	2.3%
		<u>\$ 13,633,762</u>	100%	<u>\$ 12,796,575</u>	100%
Total		\$ 52,968,440		\$ 46,595,741	

For the years ended June 30, 2004 and 2003, contributions from all employers represented 14.7% and 13.7% respectively of covered payroll while contributions from all members represented 5.1% and 5.2% respectively of covered payroll.

4. RESERVES AND DESIGNATIONS

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

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.

Burial Allowance Reserves represent the balance of monies set aside to fund the increase of the lump sum death benefit for retirees. Additions include related earnings and excess earnings; deductions include payments to the beneficiaries of retired members who are deceased.

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 earnings; 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 Continuation Reserves represent monies transferred to fund the adoption of §31760.2 of the County Employees' Retirement Law of 1937, which allows 60 percent continuation 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.

Special Allowance Reserve represents monies transferred to additional benefits, which have been granted by the Board of Retirement. Additions include related and excess earnings; deductions include payments to retired members.

Contingency Reserve currently represents 1.84% of undistributed earnings set aside for future earnings deficiencies.

Market Stabilization Reserve represents unrealized gains or losses recognized in the financial statements as a result of the adoption of GASB 25, which requires reporting investments at fair value instead of cost. The account was established to help offset the impact of market fluctuation. Semiannually, income and losses from investments stated at fair value are placed in this account as realized and available earnings are credited to other reserves over a five-year period. Reserve account balances as of June 30, 2004 and 2003:

SBCERS' Reserves	2004	2003
Member Contribution Reserves	\$124,553,145	\$122,333,923
County and District Reserves	464,279,829	475,492,137
Retired Member Reserves	590,841,685	490,635,453
Burial Allowance Reserve	5,253,971	5,149,357
Health Coverage Reserves	47,270,304	36,323,644
Supplemental Health Coverage Reserves	45,186,844	43,409,654
Sick Leave Reserves	5,035,470	4,655,575
Spousal Continuation Reserves	1,440,754	1,332,058
Special Allowance Reserve	20,386,441	21,182,302
APCD Death Allowance Reserve	33,844	-
Contingency Reserve	24,769,811	34,401,083
Market Stabilization Reserve	17,567,254	(65,498,089)
Total Value of Assets at Fair Value	\$1,346,619,352	\$1,169,417,097

5. ACTUARIAL VALUATION

SBCERS retains an independent actuarial firm to conduct an actuarial valuation to monitor SBCERS' funding status and funding integrity. The last valuation was performed as of June 30, 2004, and determined the plan's funded status to 87.4% (calculated per GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*)

6. POST EMPLOYMENT HEALTH CARE BENEFITS

SBCERS administers a health care benefits program for retired members and their eligible dependents. The County negotiates the health care contracts with the providers covering both active and retired members. The cost of the health care premiums, after subsidy, is deducted from the retirees' monthly benefit payments.

For the years ended June 30, 2004 and 2003:

- Retirees who elected a County sponsored health plan received a subsidy of \$15.00 per month per year of service, funded jointly by the County and SBCERS. The County funded \$8.00 per month per year of service, which is incorporated in the employer contribution rate and SBCERS actuarially funded \$7.00 per month per year of service.
- Retirees who chose not to participate in a County sponsored health plan received \$4.00 per month per year of service actuarially funded by SBCERS.

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.

For the years ended June 30, 2004 and 2003:

<u>SBCERS' Health Care Benefits</u>	<u>2004</u>	<u>2003</u>
Retirees and Beneficiaries		
Currently Receiving Health Care Benefits	1,565	1,478
County Contribution		
(\$15 for each year of service)	\$5,202,771	\$4,834,099
Retirees and Beneficiaries		
Currently Not Enrolled in Health Care Benefits	875	867
County Cash Option		
(\$4 for each year of service)	\$548,697	\$520,281
Total County Contribution	\$5,751,468	\$5,354,380

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

7. DEPOSITS AND INVESTMENTS

SBCERS operates under the "Prudent Person Rule" which authorizes the Board of Retirement, 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.

Deposits

The cash balance represents operating cash held by the County Treasurer. The cash amounted to \$5,617,044 and \$6,603,809 as of June 30, 2004 and 2003 respectively. These deposits are both uninsured and uncollateralized.

GASB Statement No. 3 requires that deposits be categorized by type to give an indication of the level of custodial credit risk assumed at year end, as follows:

- *CATEGORY 1 - Deposits that are insured or collateralized with securities held by SBCERS or by its agent on behalf of SBCERS.*
- *CATEGORY 2 - Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent on behalf of SBCERS.*
- *CATEGORY 3 - Deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in SBCERS' name.*

The carrying value of deposits approximated the bank balances at June 30, 2004 and 2003.

The portion of SBCERS' cash held by the County Treasurer is a part of the County's cash and investment pool. Accordingly, SBCERS' investments are held in the name of the County and are not specifically identifiable. At June 30, 2004 cost approximated fair value of the SBCERS' share of pooled cash and investments.

Investments

GASB Statement No. 3 requires that investments be categorized by type to give an indication of the level of custodial credit risk assumed at year end, as follows:

- *CATEGORY 1 - Investments that are insured or registered, or for which the securities are held by SBCERS or by its agent on behalf of SBCERS.*
- *CATEGORY 2 - Investments that are uninsured and unregistered, with securities held by the counter party's trust department or agent on behalf of SBCERS. SBCERS had no Category 2 investments at June 30, 2004 and 2003.*
- *CATEGORY 3 - Investments that are uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in SBCERS' name. SBCERS had no Category 3 investments at June 30, 2004 and 2003.*
- *NOT REQUIRED TO BE CATEGORIZED - Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, pools managed by other governments, annuity contracts and guaranteed investment contracts.*

Investments by category as of June 30, 2004 and 2003 are as follows:

<u>SBCERS' Investments</u>		<u>2004</u>	<u>2003</u>
	Risk Category	Fair Value	Fair Value
Domestic Equity	1	\$ 688,591,135	\$ 552,371,510
Domestic Bonds	1	347,476,401	369,999,537
International Equity	1	270,012,650	203,795,090
Real Estate	1	29,851,955	5,451,703
Total Categorized Investments		1,335,932,141	1,131,617,840
Short-term Investment Fund		46,056,733	46,781,238
Investments under Securities Loans		190,891,848	99,384,485
Trust Deeds		-	2,145
Total Non-Categorized Investments		236,948,581	146,167,868
Total Investments		\$ 1,572,880,722	\$ 1,277,785,708

Summary of investments on Statement of Plan Net Assets as of June 30, 2004 and 2003:

SBCERS' Summary of Investments	2004	2003
Short Term Investments	\$ 46,056,733	\$ 46,781,238
Investments at Fair Value	1,306,080,186	1,126,168,282
Collateral Held for Securities Lent	190,891,848	99,384,485
Real Estate	<u>29,851,955</u>	<u>5,451,703</u>
Total Investments	<u>\$ 1,572,880,722</u>	<u>\$ 1,277,785,708</u>

At June 30, 2004 and 2003 SBCERS' investment portfolio contained no concentration of investments in any one entity (other than investments guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

Securities Lending

The Retirement System participates in securities lending transactions through its custodians State Street Bank and Trust (State Street) and Mellon Global Securities Services (Mellon) to increase income. Securities lending transactions are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. SBCERS first contracted securities lending services with State Street in 1992 and subsequently with Mellon April 1, 2004. As custodians, State Street and Mellon act as the agents for all securities lending transactions. Collateral must be in the form of cash (both United States and foreign currency), securities issued or guaranteed by the U.S. Government, sovereign debt of foreign countries, or irrevocable bank letters of credit. Transactions are collateralized at no less than 100% percent of market value of the loaned security. Collateral is marked to market daily. The custodian invests the collateral received in short-term investment funds (maintained by the custodian), money market mutual funds, and other similar investments as the custodian may select. At year-end, SBCERS had no credit risk exposure to borrowers because the collateral value exceeded market value.

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

Securities Lending Income as of June 30	2004	2003
Gross Income	<u>\$ 1,630,772</u>	<u>\$ 1,344,752</u>
Expenses:		
Borrower Rebates	1,323,367	1,088,656
Bank Fees	<u>102,618</u>	<u>89,841</u>
Total Expenses	<u>1,425,985</u>	<u>1,178,497</u>
Net Income From Securities Lending	<u>\$ 204,787</u>	<u>\$ 166,255</u>

Cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2004 had an average duration of 40 days and an average weighted maturity of 40 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004 SBCERS had no credit risk exposure to borrowers. The collateral held and the market values of securities on loan for SBCERS as of June 30, 2004 and 2003 were \$190,891,848 and \$99,384,485 respectively.

Derivatives

The Retirement Board has authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when such transactions are consistent with the investment objectives established for a specific investment manager's assignment. The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures.

Derivative financial instruments held by the retirement system consist of the following:

- Cash securities containing derivative features, including callable bonds, structural notes and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets.
- Financial instruments whose value is dependent upon a contractual price or rate relative to one or more reference prices or rates applied to a notional amount, including interest rate futures, options, swaps, caps, and foreign currency futures and forward contracts. Some of these instruments are exchange-traded and others are traded over-the-counter (OTC).

MARKET RISK: Market risk is the risk of change in value of an instrument in response to changes in a market price or index. While all investments are subject to market risk, derivatives often have a higher degree of market risk than other types of investment instruments. Values of cash securities containing derivative features are often more susceptible to market risk than other types of fixed income securities, because the amounts and/or timing of their scheduled cash flows may fluctuate under changing market conditions relative to the reference prices or rates, and thus the values of such instruments may be positive or negative, despite the fact that little or no cash is initially exchanged to enter into such contracts.

CREDIT RISK: Credit risk of cash securities containing derivative features, as explained, is based upon the credit worthiness of the issuers of such securities. The retirement board establishes minimum credit requirements for such securities. The other derivative instruments described above are subject to credit risk to the extent their value is a positive market value, and the counter party to such contract fails to perform under the terms of the instrument. Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivative's due to the exchange's margin requirements.

Futures Contracts

The role of the futures contracts is to hedge a portfolio of short duration fixed income securities to the equity market. The contracts expire quarterly. While the fund may use futures contracts in the future to maintain equity market exposure for transitional cash positions, the portfolio that incorporated this strategy as part of the investment process has been terminated. As of June 30, 2004 and 2003, SBCERS held no futures contracts.

Forward Currency Contracts and Foreign Currency

Forward currency contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. Included in net income are gains and losses from foreign currency transactions. As of June 30, 2004 and 2003, SBCERS held no forward currency contracts.

8. ADMINISTRATIVE EXPENSES

Effective July 1, 2000 the Board of Retirement adopted Government Code §31522.1 and §31580.2. As a result, the Board has adopted an annual budget for the year ended June 30, 2004 that covers the expense of administration of the retirement system with the earnings of the retirement fund and are limited to eighteen-hundreds of 1 percent (18 basis points) of total assets. Total administrative expenses for the year ended June 30, 2004 and 2003 were \$1,985,863 and \$1,520,815 of which \$1,425,062 and \$1,175,328 were subject to §31580.2 or 10.58 and 9.15 basis points respectively.

For the years ended June 30, 2004 and 2003:

SBCERS' Administrative Expenses	2004	2003
Expenses Subject to Statutory Limitation		
Employee Salaries and Benefits	\$ 849,817	\$ 826,214
Operating Expenses	392,727	178,056
Professional Services	182,518	171,058
Total Expenses Subject to Statutory Limitation	1,425,062	1,175,328
Expenses Not Subject to Statutory Limitation		
Actuarial Costs	73,595	61,450
Legal Costs	487,206	284,037
Total Expenses Not Subject to Statutory Limitation	560,801	345,487
Total Administrative Expenses	\$ 1,985,863	\$ 1,520,815

9. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire over the next four years. There were no lease agreements in place in fiscal year 2003. The Santa Maria office lease was effective beginning July 1, 2003 and extends for three years. The Santa Barbara office lease was effective beginning November 1, 2003 and extends for four years. Both leases require that SBCERS pay a portion of the building's operating expenses based on square footage occupied.

Minimum lease commitments net of sublease income as of June 30, 2004 under noncancellable leases are as follows:

Operating Leases	
Lease payments:	
2005	68,741
2006	71,510
2007	59,059
Total	\$ 199,310

Lease expense in 2004 and 2003 was \$76,943 and \$0 respectively. Lease expense for 2004 includes common area maintenance fees.

10. PLAN TERMINATION

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

11. CONTINGENCIES

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

- Required Supplemental Information

Six-year historical trend information about the Retirement System is presented here 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.

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)
06/30/04	\$1,379,170,000	\$1,578,769,000	87.4%	\$199,599,000	\$266,960,000	74.8%
06/30/03 *	1,346,665,000	1,454,864,000	92.6	108,199,000	257,237,000	42.1
12/31/02	1,295,956,000	1,363,605,000	95.0	67,649,000	251,834,000	26.9
12/31/00	1,171,138,000	** 1,145,519,000	102.2	(25,619,000)	219,739,000	(11.7)
12/31/99	1,068,357,000	1,067,377,000	100.1	(980,000)	199,448,000	(0.5)
12/31/98	938,295,000	950,205,000	98.7	11,910,000	184,291,000	6.5
12/31/97	799,539,000	873,624,000	91.5	74,085,000	171,602,000	43.2

** Excluding benefit improvements.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contributions (ARC)	Contributions Made As a Percentage of (ARC)
06/30/04	\$ 39,335,000	100.0%
06/30/03 *	9,118,000	100.0
12/31/02	32,999,000	100.0
12/31/01	27,155,000	100.0
12/31/00	29,272,000	100.0
12/31/99	30,484,000	100.0
12/31/98	28,414,000	100.0
12/31/97	31,692,000	100.0

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

**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	June 30, 2004
Actuarial cost method	Entry age normal
Amortization method	15-year amortization of actuarial gains and losses (using a level percentage of projected payroll)
Amortization period	15-year closed amortization of each year's actuarial gain or loss (adopted 04/09/2003)
Asset valuation method	Actuarial market value method with a smoothed fair value over a five year period (adopted 04/09/2003)
Actuarial assumptions	
Investment rate of return	8.00%, 8.16 % APY (adopted 04/26/1995)
Projected salary increases	1% Merit and Longevity, 4.50 % Inflation (COLA) (adopted 05/07/2001)
Cost-of-living adjustments	Up to 3 % for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2 (adopted 02/21/2001)
	General Plan 2 is not eligible to receive these adjustments

- Other Supplemental Information

Schedule of Administrative Expenses

For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Personnel Services		
Salaries and Employee Benefits	\$ 849,817	\$ 826,214
Total Personnel Services	849,817	826,214
Professional Services		
Actuarial Consulting Fees	73,595	61,450
Computer Software Services and Support	72,554	66,376
County Cost Allocation	58,839	51,528
External Audit Fees	22,500	21,000
Disability Medical Fees	112,876	55,153
Disability Hearing Officer Fees	85,117	58,516
Disability Stenographic Fees	36,346	9,573
Disability Attorney Fees	193,059	119,490
Legislative and Other Legal Services	59,808	41,305
Other Professional Services	28,625	32,154
Total Professional Services	743,319	516,545
Communication		
Postage	29,567	30,752
Telecommunication	16,424	4,573
Training	59,059	56,826
Transportation and Travel	1,379	5,590
Total Communication	106,429	97,741
Rents / Leases / Structures		
Rents/Leases – Structure	76,943	-
Furniture & Fixtures	50,063	-
Building Maintenance	25,988	-
Equipment	7,316	-
Total Rents / Leases / Structures	160,310	-
Miscellaneous		
Computer Equipment and Supplies	30,170	27,080
Other Office Expenses	33,656	17,311
Insurance	62,162	35,924
	125,988	80,315
Total Administrative Expenses	\$ 1,985,863	\$ 1,520,815

- Other Supplemental Information**Schedule of Investment Fees**

For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Investment Activity		
Investment Management Fees		
Stock Managers		
Domestic	\$ 1,549,714	\$ 1,127,067
International	1,003,031	1,027,644
Bond Managers		
Domestic	647,349	664,820
International	-	62,561
Real Estate		
REIT	172,055	-
Total From Investment Activity	<u>3,372,149</u>	<u>2,882,092</u>
Other Investment Expenses		
Consultant	120,000	90,000
Custodian	280,186	275,688
Total Other Investment Expenses	<u>400,186</u>	<u>365,688</u>
Total Fees and Other Investment Expenses	<u><u>\$ 3,772,335</u></u>	<u><u>\$ 3,247,780</u></u>

Schedule of Payments to Consultants

	<u>2004</u>	<u>2003</u>
Actuarial Services	\$ 73,595	\$ 61,450
Audit Services	22,500	21,000
Legal Services	252,867	160,795
Total Payments to Consultants	<u><u>\$ 348,962</u></u>	<u><u>\$ 243,245</u></u>

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August 27, 2004

Retirement Board
Santa Barbara County Employees Retirement System (SBCERS)
3916 State Street, Suite 210
Santa Barbara, CA 93105

Dear Board Members:

This letter reviews the investment performance of the Santa Barbara County Employees Retirement System ("System") for the fiscal year ended June 30, 2004. During this period of time, due to a strong October - December (2003), the SBCERS total investment portfolio increased by \$172 million to a value of \$1.3 billion. The portfolio is broadly diversified, holding investments ranging from domestic equities to publicly traded real estate. The System has been effective in using its resources in a cost-effective manner to ensure that benefits continue to flow to plan participants.

The System's custodians, State Street Bank and Trust Company (through the first quarter of 2004), and Mellon Bank (beginning in the second quarter of 2004), independently prepared the underlying performance data. The performance calculations were made in compliance with AIMR Performance Presentation Standards. PCA serves as SBCERS' independent investment consultant and evaluated the System's performance in relation to market benchmarks, appropriate manager peer groups and other public pension funds.

The most critical factor influencing overall investment performance is the allocation of the SBCERS portfolio across major asset classes. The second quarter report for 2004 reflects asset allocation guidelines adopted by the System during the first quarter of 2003. As policy allocations continue to be implemented, the portfolio's actual allocation is now closely aligned with policy. Domestic equity and international equity asset classes were modestly overweight, while domestic fixed income and real estate were slightly underweight.

Over the last year, the SBCERS investment portfolio produced an overall return of 16.1% ranking near median performance versus its peers. The portfolio underperformed policy by approximately 1.1% largely due to relative underperformance in international equity.

Over the last five years, the SBCERS investment portfolio produced an average annual return of 3.5%, exceeding its policy benchmark by 1.0%. During the last three years, the SBCERS portfolio generated an average annual 5.0% return versus a 4.6% return for the policy benchmark. For periods ending June 30, the SBCERS portfolio has outperformed its policy benchmark in three of the latest five one-year periods.

Sincerely,



Neil Rue, CFA
Principal

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

OUTLINE OF INVESTMENT POLICIES

External investment management firms manage the System's investment assets. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The Retirement Board (the Board), having sole and exclusive authority and fiduciary responsibility for the investment and administration of the system, has adopted an Investment Objectives and Policy Statement, which reflect the Board's policies for management of the System's investments.

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

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

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

**INVESTMENT RESULTS BASED ON FAIR MARKET VALUE
AS OF JUNE 30, 2004**

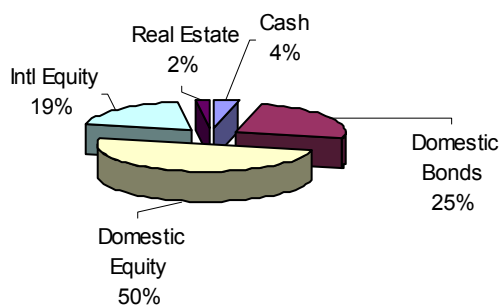
Investments	Current Year	Annualized	
		3 - year	5 - year
Domestic Equity	21.2%	1.4%	0.6%
<i>Russell 3000 Benchmark</i>	20.5%	0.2%	(1.1%)
International Equity	29.4%	4.2%	0.6%
<i>MSCI-EAFE Benchmark</i>	32.5%	5.2%	1.0%
Domestic Bonds	0.1%	7.5%	7.7%
<i>Lehman Universe Benchmark</i>	1.0%	6.7%	7.1%
Real Estate	28.8%	0.0%	0.0%
<i>Wilshire REIT Benchmark</i>	27.1%	0.0%	0.0%
Total Fund	16.1%	5.0%	3.5%
<i>SBCERS Policy Benchmark</i>	17.2%	4.6%	2.5%

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. Returns are net of fees.

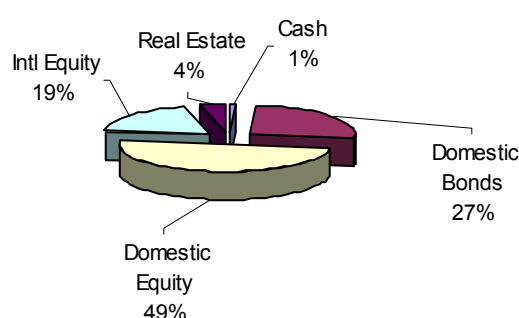
**ASSET ALLOCATION
AS OF JUNE 30, 2004**

	Market Value	Actual %	Target %
Cash & Cash Equivalents	\$ 51,673,777	3.7%	1.0%
Domestic Bonds	347,476,401	25.0%	27.0%
Equities:			
Domestic Equities	688,591,135	49.6%	49.0%
International Equities	270,012,650	19.5%	19.0%
Total Equities	958,603,785	69.1%	68.0%
Real Estate	29,851,955	2.2%	4.0%
Total	\$ 1,387,605,918	100.0%	100.0%

Actual Asset Allocation



Target Asset Allocation



**SCHEDULE OF TOP TEN EQUITY SECURITIES AND TOP TEN BOND HOLDINGS
AS OF JUNE 30, 2004**

TOP TEN EQUITY SECURITIES *
By Market Value

Shares	Security Name	Market Value
458,001	CITIGROUP INC COM	\$ 21,297,046.50
433,908	EXXON MOBIL CORP	19,269,854.28
544,500	GENERAL ELEC CO COM	17,641,800 .00
159,239	BANK OF AMERICA CORP	13,474,804.18
384,672	PFIZER INC COM STK USD0.05	13,186,556.16
376,100	MICROSOFT CORP COM	10,741,416.00
148,682	AMERICAN INTL GROUP INC COM	10,598,052.96
189,712	JOHNSON & JOHNSON COM	10,566,958.40
111,500	APOLLO GROUP INC CL A	9,844,335.00
85,806	CHEVRONTEXACO CORP COM	8,075,202.66

TOP TEN BOND HOLDINGS *
By Market Value

Par Value	Security Name	Market Value
68,943,000	U S TREASURY BONDS	\$ 90,380,136.42
12,935,000	COMMIT TO PUR FNMA SF MTG	12,868,304.55
8,968,576	EB TEMPORARY INVESTMENT FUND	8,968,575.60
8,290,000	U S TREASURY NOTE 3.875%	8,320,673.00
8,130,000	FEDERAL HOME LN MTG CORP DEBS	8,013,334.50
429,513	LINCOLN CAP HIGH YIELD FUND	6,673,853.18
6,460,000	U S TREASURY NOTES 4.750%	6,528,476.00
5,755,000	COMMIT TO PUR FNMA SF MTG	5,706,442.19
4,650,000	FEDERAL NATL MTG ASSN DEBS	4,653,720.10
4,155,000	COMMIT TO PUR FNMA SF MTG	4,047,879.11

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

**SCHEDULE OF PROFESSIONAL FEES AND SERVICE
As of June 30, 2004**

	Assets Under Management	Fees	Basis Points
Investment Managers			
Bond Managers	\$ 347,476,401	\$ 647,349	4.81
Equity Managers	958,603,785	2,552,745	18.96
Real Estate Manager	29,851,955	172,055	1.28
Short Term Investments	46,056,733	-	-
Total Investment Managers	1,381,988,874	3,372,149	25.05
Other Investment Service Fees:			
Cash	5,617,044	-	0.00
Custodian Fees	-	280,186	2.08
Investment Consultant Fees	-	120,000	0.89
	5,617,044	400,186	2.97
Total Investment Service Fees	\$ 1,387,605,918	\$ 3,772,335	28.02

INVESTMENT SUMMARY*As of June 30, 2004*

TYPE OF INVESTMENT	MARKET VALUE	% of PORTFOLIO
EQUITY		
BASIC INDUSTRIES	\$ 18,347,713	1.32%
BUSINESS SERVICES	4,884,097	0.35%
CAPITAL GOODS	65,548,181	4.72%
CHEMICALS	8,127,326	0.59%
COMMINGLED FUNDS - INTL	129,853,741	9.36%
CONSUMER DURABLES	11,274,721	0.81%
CONSUMER NON-DURABLES	38,877,407	2.80%
CONSUMER SERVICES	72,470,992	5.22%
ENERGY	54,248,516	3.91%
FINANCIAL SERVICES	154,519,176	11.14%
FOOD PROCESSING	814,686	0.06%
HEALTH CARE	83,577,179	6.02%
MEDIA	12,964,844	0.94%
MERCHANDISING	659,669	0.05%
MUTUAL FUNDS - INTL	140,158,909	10.10%
TECHNOLOGY	113,344,440	8.17%
TRANSPORTATION	20,780,441	1.50%
UTILITIES	21,409,278	1.54%
WHOLESALE DIST	120,750	0.01%
EQUITY Total	\$ 951,982,066	68.61%
BONDS		
ASSET BACKED SECURITIES	\$ 24,306,812	1.75%
BANKING & FINANCE	18,776,932	1.35%
COLLATERALIZED MORT OBLIG	95,561,605	6.89%
CORP – CONSUMER SERVICES	287,955	0.02%
EDUCATION	7,301,190	0.53%
GOVERNMENT BONDS - US	180,309,514	12.99%
GOVERNMENT BONDS - INTL	4,806,152	0.34%
HEALTH CARE	120,049	0.01%
HOUSING	462,196	0.03%
INDUSTRIAL	9,870,507	0.71%
INSURANCE	264,981	0.02%
MUNICIPALS	5,884,845	0.42%
OIL & GAS	2,056,896	0.15%
OTHER CORPORATE BONDS	14,565,381	1.05%
TRANSPORTATION	2,602,120	0.19%
UTILITIES	11,034,622	0.80%
YANKEE BONDS	222,031	0.02%
BONDS Total	\$ 378,433,788	27.27%
REAL ESTATE		
EQUITY REIT	30,555,139	2.20%
REAL ESTATE Total	\$ 30,555,139	2.20%
CASH & CASH EQUIVALENTS	26,634,925	1.92%
Grand Total	\$ 1,387,605,918	100.00%





Human Resources & Investor Solutions

October 8, 2004

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

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

Members of the Board:

Mellon Consultants, Inc. is the Consulting Actuary for the Santa Barbara County Employees' Retirement System. The date of the most recent actuarial valuation was June 30, 2004. In each actuarial study, we conduct an examination of all participant data for reasonableness.

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 June 30, 2004, the amortization period is 15 years. 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.

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 (returns above or below expected returns) over five years. The System's financial statements are audited by an outside auditor.

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 June 30, 2003 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 June 30, 2006.

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,

A handwritten signature in cursive script, appearing to read "Mike Moehle".

Michael Moehle, F.S.A., E.A., M.A.A.A.
Principal and Consulting Actuary

A handwritten signature in cursive script, appearing to read "Eva Yum".

Eva Yum, F.S.A., E.A.
Associate Principal and Consulting Actuary

525 Market Street • 34th Floor • San Francisco, CA 94105-2742
www.mellon.com

A Mellon Financial CompanySM

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS AND METHODS

Recommended by the Actuary and adopted by the Board of Retirement. The actuarial assumptions used to determine the liabilities are based on the results of the June 30, 2003 Experience Study. The Board of Retirement adopted the new assumptions on 09/17/2003. The actuarial valuation of the assets and liabilities of SBCERS were determined with respect to the following:

Noneconomic assumptions

- ◆ The probabilities of members separating from active service on account of nonvested and vested withdrawal, retirement for service, death and disability, and
- ◆ The mortality rates to be experienced among retired persons.

Economic assumptions

- ◆ Interest earnings to be realized on the funds over many years in the future, and
- ◆ The relative increases in a member's salary from the date of the valuation to the date of separation from active service.

Other assumptions

- ◆ SPOUSES AND DEPENDENTS - During the period investigated, 80% of male employees and 50% of female employees were assumed married at retirement, with wives assumed three years younger than husbands.
- ◆ RECIPROCITY - 50% of members who terminate with a vested benefit were assumed to enter a reciprocal system.
- ◆ DEFERRAL AGE FOR VESTED TERMINATIONS - The assumed deferral age for vested General members was assumed to be 62 and for vested Safety members to be 55.

ACTUARIAL COST METHOD

SBCERS uses the Entry Age Normal Cost Method. The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level of percentage of the projected salaries of present and future members of SBCERS over specified fixed periods of time. The UAAL is being funded over fifteen years from the date each new liability is first recognized from each valuation date.

ACTUARIAL ASSET VALUATION METHOD

Five-year smoothed method based on the difference between expected and actual market value of assets as of the valuation date. The expected market value, with five-year smoothing valuation basis for all assets, was adopted 04/09/2003.

AMORTIZATION OF GAINS AND LOSSES

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

INVESTMENT RATE OF RETURN

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

PROJECTED SALARY INCREASES

Rates of annual salary increases assumed for the purpose of the valuation are 1% annually for merit and longevity and 4.5% for inflation (cost-of-living adjustments) (adopted 05/07/2001).

RATES OF SEPARATION FROM EMPLOYMENT

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

During the experience study period (January 1, 2001 to June 30, 2003):

- the number of deaths was lower than expected for General and Safety members, resulting in *death while eligible* rates being lowered to reflect the improved mortality.
- the incidence of *ordinary disability* was lower than expected for General male members, resulting in *ordinary disability* rates being lowered for this group.
- the number of actual separations due to *vested termination* was higher than the number of expected separations for General female and Safety members, resulting in *vested termination* rates being increased for these two groups.
- the incidence of *withdrawal* was higher than expected for General male members, resulting in *withdrawal* rates being increased for this group.

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

POST-RETIREMENT BENEFIT INCREASES

Cost-of-Living benefit increases of up to 3% per year are assumed for the valuation in accordance with the benefits provided for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2 (adopted 02/21/2001). General Plan 2 is not eligible to receive these adjustments (adopted 02/21/2001).

EXPECTATION OF LIFE AFTER RETIREMENT

During the period investigated, the number of actual deaths after service retirement was lower than expected for General males and Safety members and higher than expected for General female members. Based on these results, the male mortality table was setback two years and the female mortality table was set forward one year.

1994 Group Annuity Mortality Tables:

- for General Male members, setback 2 years
- for General Female members, set forward 1 year
- for Safety Male members, setback 2 years
- for Safety Female members, set forward 1 year

EXPECTATION OF LIFE AFTER DISABILITY

During the period investigated, the number of actual deaths after disability retirement was higher than expected for General members and lower than expected for Safety members. These numbers were very close over the past six years for General members and based on this experience, the current disability mortality table will continue to be used for this group. The table for Safety members was setback two years to reflect the actual experience over the last two and one half years and the trends observed in other 1937 Act County Systems.

1981 Disability Mortality Tables:

- for General members, with no setback
- for Safety members, setback 2 years

No setback means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

- Active Member Data

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Active Members	Average Annual Salary	Average	% Increase in Average Salary
Jun 30, 1999	General	3,316	\$ 134,680,000	\$ 40,615	4.5%
	Safety	893	45,967,000	51,475	7.2%
	Total	4,209	180,647,000	42,919	5.1%
Jun 30, 2000	General	3,503	\$ 146,199,000	\$ 41,735	2.8%
	Safety	930	49,790,000	53,538	4.0%
	Total	4,433	195,989,000	44,211	3.0%
Jun 30, 2001	General	3,631	\$ 159,944,000	\$ 44,050	5.5%
	Safety	953	53,787,000	56,440	5.4%
	Total	4,584	213,731,000	46,625	5.5%
Jun 30, 2002	General	3,660	\$ 175,920,000	\$ 48,066	9.1%
	Safety	961	58,763,000	61,148	8.5%
	Total	4,621	234,683,000	50,786	8.9%
Jun 30, 2003	General	3,648	\$ 193,102,000	\$ 52,934	10.1%
	Safety	925	64,135,000	69,335	13.4%
	Total	4,573	257,237,000	56,251	10.8%
Jun 30, 2004	General	3,559	\$ 199,365,000	\$ 56,017	5.8%
	Safety	944	67,596,000	71,606	3.8%
	Total	4,503	266,961,000	59,285	5.4%

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREMENT PAYROLL

Fiscal Year	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Retiree Allowance*	Average Annual Allowance
	Number*	Annual Allowance	Number*	Annual Allowance	Number*	Annual Allowance		
1999	212		(130)		1,974	\$ 30,517,519	12.24%	\$15,460
2000	183	\$ 3,271,182	(89)	\$ 864,965	2,068	\$ 34,176,776	11.99%	\$16,526
2001	126	\$ 2,183,588	(66)	\$ 862,260	2,128	\$ 36,766,740	7.58%	\$17,278
2002	182	\$ 4,869,205	(69)	\$ 729,682	2,241	\$ 41,805,316	13.70%	\$18,655
2003	184	\$ 5,470,614	(80)	\$ 1,362,009	2,345	\$ 47,280,006	13.10%	\$20,160
2004	185	\$ 4,846,363	(90)	\$ 1,316,001	2,440	\$ 52,268,000	10.55%	\$21,420

* Includes data adjustment

ACTUARY SOLVENCY TEST

Valuation Date	Actuarial Accrued Liabilities for				Total AAL	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees and Beneficiaries	Active Members Employer Financed				(1)	(2)	(3)
	(1)	(2)	(3)						
06/30/2004	\$ 115,530	\$ 633,082	\$ 830,157	\$ 1,578,769	\$ 1,379,170	100%	100%	87.4%	
06/30/2003	\$ 105,570	\$ 572,737	\$ 776,557	\$ 1,454,864	\$ 1,346,665	100%	100%	92.6%	
12/31/2002	\$ 122,032	\$ 460,031	\$ 781,542	\$ 1,363,605	\$ 1,295,956	100%	100%	95.0%	
12/31/2000	\$ 98,215	\$ 396,275	*\$ 651,029	\$ 1,145,519	\$ 1,171,138	100%	100%	102.2%	
12/31/1999	\$ 90,308	\$ 359,969	\$ 617,100	\$ 1,067,377	\$ 1,068,357	100%	100%	100.1%	
12/31/1998	\$ 85,113	\$ 318,476	\$ 546,616	\$ 950,205	\$ 938,295	100%	100%	98.7%	
12/31/1997	\$ 79,394	\$ 285,737	\$ 508,493	\$ 873,624	\$ 799,539	100%	100%	91.5%	

* Excluding benefit improvements.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

	<u>Unfunded Liability</u>	<u>Contribution Rate</u>
Values as of June 30, 2003	\$ 108,199,000	15.21%
Adjustment through June 30, 2003	4,195,000	
Changes due to . . .		
Asset losses/(gains)	62,258,000	1.99%
Retiree losses/(gains)	9,695,000	0.31%
Other losses (demographic experience)	15,252,000	0.60%
Total changes	91,400,000	2.90%
Values as of June 30, 2004	\$ 199,599,000	18.11%

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 requirements for service retirement or ordinary disability.

The probability shown for each cause of termination represents the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 25 is .1200, then we are assuming that 12.00 percent of the active members at age 25 will terminate without vested rights during the next year.

**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
(ASSUMPTIONS ADOPTED 09/17/2003)
GENERAL MEMBERS -- MALES**

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	0.18975	0.00011	0.00000	0.00000	0.00000	0.00013	0.00011	0.00000
21	0.17825	0.00011	0.00000	0.00000	0.00000	0.00013	0.00011	0.00000
22	0.16675	0.00011	0.00000	0.00000	0.00000	0.00013	0.00011	0.00000
23	0.15525	0.00011	0.00000	0.00000	0.00000	0.00013	0.00011	0.00000
24	0.14375	0.00011	0.00000	0.00000	0.00000	0.00013	0.00011	0.00000
25	0.13800	0.00017	0.00000	0.00000	0.00006	0.00013	0.00011	0.00000
26	0.13225	0.00017	0.00000	0.00000	0.00006	0.00013	0.00011	0.00000
27	0.12363	0.00017	0.00000	0.00000	0.00006	0.00013	0.00011	0.00000
28	0.11500	0.00017	0.00000	0.00000	0.00006	0.00013	0.00011	0.00100
29	0.10638	0.00017	0.00000	0.00000	0.00006	0.00013	0.00011	0.00200
30	0.09775	0.00023	0.00000	0.00000	0.00014	0.00013	0.00022	0.00450
31	0.09200	0.00023	0.00000	0.00000	0.00014	0.00013	0.00022	0.00650
32	0.08625	0.00023	0.00000	0.00000	0.00014	0.00013	0.00022	0.00850
33	0.08050	0.00023	0.00000	0.00000	0.00014	0.00013	0.00022	0.01100
34	0.07475	0.00023	0.00000	0.00000	0.00014	0.00013	0.00022	0.01200
35	0.06900	0.00029	0.00011	0.00000	0.00014	0.00013	0.00033	0.01300
36	0.06325	0.00029	0.00011	0.00000	0.00014	0.00013	0.00044	0.01350
37	0.05865	0.00029	0.00011	0.00000	0.00020	0.00013	0.00055	0.01400
38	0.05520	0.00029	0.00011	0.00000	0.00020	0.00013	0.00066	0.01300
39	0.05175	0.00034	0.00021	0.00000	0.00020	0.00013	0.00077	0.01200
40	0.04945	0.00034	0.00021	0.00000	0.00020	0.00013	0.00088	0.01200
41	0.04715	0.00034	0.00021	0.00000	0.00027	0.00013	0.00099	0.01250
42	0.04485	0.00039	0.00032	0.00000	0.00027	0.00013	0.00121	0.01300
43	0.04140	0.00039	0.00042	0.00000	0.00034	0.00013	0.00132	0.01400
44	0.03795	0.00039	0.00053	0.00000	0.00034	0.00013	0.00143	0.01500
45	0.03450	0.00045	0.00063	0.00000	0.00041	0.00013	0.00165	0.01650
46	0.03220	0.00051	0.00074	0.00000	0.00047	0.00013	0.00176	0.01800
47	0.02990	0.00056	0.00084	0.00000	0.00054	0.00013	0.00187	0.02000
48	0.02875	0.00062	0.00095	0.00000	0.00068	0.00013	0.00198	0.01800
49	0.02760	0.00068	0.00116	0.00000	0.00082	0.00013	0.00209	0.01650
50	0.02645	0.00073	0.00137	0.04500	0.00095	0.00013	0.00220	0.01500
51	0.02530	0.00079	0.00158	0.02500	0.00109	0.00013	0.00242	0.01400
52	0.02415	0.00090	0.00179	0.02500	0.00122	0.00013	0.00264	0.01300
53	0.02300	0.00101	0.00200	0.02500	0.00142	0.00013	0.00275	0.01200
54	0.02185	0.00112	0.00221	0.03000	0.00163	0.00013	0.00286	0.01100
55	0.02070	0.00124	0.00242	0.06000	0.00184	0.00013	0.00308	0.01000
56	0.01955	0.00135	0.00263	0.04000	0.00204	0.00013	0.00330	0.00950
57	0.01840	0.00146	0.00284	0.04500	0.00224	0.00013	0.00341	0.00850
58	0.01725	0.00157	0.00315	0.07000	0.00245	0.00013	0.00352	0.00800
59	0.01610	0.00169	0.00347	0.09000	0.00265	0.00013	0.00374	0.00750
60	0.01495	0.00180	0.00389	0.11000	0.00278	0.00013	0.00385	0.00700
61	0.01380	0.00191	0.00431	0.25000	0.00299	0.00013	0.00407	0.00650
62	0.01265	0.00203	0.00473	0.31000	0.00319	0.00013	0.00418	0.00600
63	0.01150	0.00214	0.00515	0.12000	0.00340	0.00013	0.00440	0.00550
64	0.01150	0.00225	0.00557	0.20000	0.00360	0.00013	0.00462	0.00500
65	0.01150	0.00236	0.00599	0.29000	0.00381	0.00013	0.00000	0.00000
66	0.01150	0.00253	0.00641	0.22000	0.00401	0.00013	0.00000	0.00000
67	0.01150	0.00270	0.00693	0.22000	0.00422	0.00013	0.00000	0.00000
68	0.01150	0.00287	0.00746	0.30000	0.00449	0.00013	0.00000	0.00000
69	0.01150	0.00304	0.00798	0.40000	0.00476	0.00013	0.00000	0.00000
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

- Probability of Occurrence

**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
(ASSUMPTIONS ADOPTED 09/17/2003)**

GENERAL MEMBERS -- FEMALES

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	0.17250	0.00010	0.00000	0.00000	0.00000	0.00010	0.00012	0.00000
21	0.16500	0.00010	0.00000	0.00000	0.00000	0.00010	0.00012	0.00000
22	0.15750	0.00010	0.00000	0.00000	0.00000	0.00010	0.00012	0.00000
23	0.14750	0.00010	0.00000	0.00000	0.00000	0.00010	0.00012	0.00000
24	0.13750	0.00010	0.00000	0.00000	0.00000	0.00010	0.00012	0.00000
25	0.13250	0.00010	0.00018	0.00000	0.00008	0.00010	0.00012	0.00000
26	0.13000	0.00010	0.00018	0.00000	0.00008	0.00010	0.00012	0.00000
27	0.12500	0.00020	0.00018	0.00000	0.00008	0.00010	0.00012	0.00440
28	0.12000	0.00020	0.00018	0.00000	0.00008	0.00010	0.00012	0.00660
29	0.11500	0.00020	0.00018	0.00000	0.00008	0.00010	0.00012	0.00880
30	0.11000	0.00020	0.00018	0.00000	0.00008	0.00010	0.00012	0.01100
31	0.10500	0.00020	0.00018	0.00000	0.00008	0.00010	0.00012	0.01320
32	0.10000	0.00020	0.00035	0.00000	0.00008	0.00010	0.00012	0.01540
33	0.09500	0.00020	0.00035	0.00000	0.00008	0.00010	0.00012	0.01760
34	0.09100	0.00020	0.00035	0.00000	0.00008	0.00010	0.00012	0.01870
35	0.08700	0.00030	0.00050	0.00000	0.00008	0.00010	0.00024	0.01980
36	0.08200	0.00030	0.00050	0.00000	0.00008	0.00010	0.00024	0.01980
37	0.07600	0.00030	0.00050	0.00000	0.00008	0.00010	0.00036	0.01980
38	0.06900	0.00030	0.00050	0.00000	0.00008	0.00010	0.00036	0.01980
39	0.06200	0.00030	0.00050	0.00000	0.00008	0.00010	0.00048	0.01980
40	0.05500	0.00040	0.00068	0.00000	0.00008	0.00010	0.00060	0.02035
41	0.05000	0.00040	0.00085	0.00000	0.00008	0.00010	0.00072	0.02090
42	0.04500	0.00040	0.00085	0.00000	0.00008	0.00010	0.00084	0.02090
43	0.04000	0.00040	0.00117	0.00000	0.00008	0.00010	0.00096	0.02090
44	0.03600	0.00040	0.00135	0.00000	0.00008	0.00010	0.00096	0.02090
45	0.03200	0.00050	0.00153	0.00000	0.00016	0.00010	0.00108	0.02090
46	0.03000	0.00050	0.00168	0.00000	0.00016	0.00010	0.00108	0.02090
47	0.02900	0.00050	0.00168	0.00000	0.00016	0.00010	0.00120	0.02035
48	0.02800	0.00060	0.00185	0.00000	0.00024	0.00010	0.00132	0.02035
49	0.02700	0.00060	0.00203	0.00000	0.00024	0.00010	0.00144	0.01980
50	0.02600	0.00060	0.00219	0.02000	0.00032	0.00010	0.00144	0.01925
51	0.02500	0.00060	0.00236	0.01200	0.00040	0.00010	0.00156	0.01815
52	0.02400	0.00070	0.00252	0.01200	0.00048	0.00010	0.00168	0.01650
53	0.02300	0.00080	0.00252	0.01300	0.00056	0.00010	0.00180	0.01430
54	0.02200	0.00090	0.00270	0.01300	0.00064	0.00010	0.00192	0.01100
55	0.02100	0.00100	0.00286	0.05000	0.00072	0.00010	0.00204	0.00880
56	0.02000	0.00110	0.00305	0.03000	0.00080	0.00010	0.00216	0.00660
57	0.01900	0.00120	0.00319	0.02500	0.00088	0.00010	0.00216	0.00550
58	0.01800	0.00140	0.00354	0.03500	0.00096	0.00010	0.00228	0.00440
59	0.01700	0.00160	0.00387	0.04000	0.00104	0.00010	0.00240	0.00440
60	0.01650	0.00180	0.00422	0.06000	0.00112	0.00010	0.00252	0.00440
61	0.01550	0.00200	0.00458	0.10000	0.00120	0.00010	0.00264	0.00440
62	0.01500	0.00220	0.00506	0.20000	0.00128	0.00010	0.00276	0.00440
63	0.01500	0.00240	0.00557	0.15000	0.00136	0.00010	0.00288	0.00440
64	0.01500	0.00260	0.00608	0.15000	0.00144	0.00010	0.00300	0.00440
65	0.01500	0.00280	0.00000	0.30000	0.00160	0.00010	0.00000	0.00000
66	0.01500	0.00300	0.00000	0.25000	0.00176	0.00010	0.00000	0.00000
67	0.01500	0.00330	0.00000	0.25000	0.00192	0.00010	0.00000	0.00000
68	0.01500	0.00360	0.00000	0.30000	0.00208	0.00010	0.00000	0.00000
69	0.01500	0.00390	0.00000	0.50000	0.00224	0.00010	0.00000	0.00000
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
(ASSUMPTIONS ADOPTED 09/17/2003)**

SAFETY MEMBERS

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	0.07000	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00000
21	0.06700	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00260
22	0.06400	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00585
23	0.06100	0.00007	0.00000	0.00000	0.00000	0.00006	0.00014	0.00910
24	0.05800	0.00007	0.00000	0.00000	0.00000	0.00006	0.00018	0.01235
25	0.05500	0.00015	0.00004	0.00000	0.00006	0.00013	0.00027	0.01560
26	0.05200	0.00015	0.00004	0.00000	0.00006	0.00013	0.00036	0.01885
27	0.04900	0.00015	0.00004	0.00000	0.00006	0.00013	0.00049	0.02145
28	0.04500	0.00015	0.00004	0.00000	0.00006	0.00013	0.00063	0.02405
29	0.04100	0.00015	0.00004	0.00000	0.00006	0.00013	0.00077	0.02340
30	0.03800	0.00015	0.00004	0.00000	0.00006	0.00013	0.00094	0.02275
31	0.03500	0.00015	0.00007	0.00000	0.00006	0.00013	0.00112	0.02145
32	0.03200	0.00015	0.00010	0.00000	0.00012	0.00013	0.00130	0.01950
33	0.02900	0.00015	0.00017	0.00000	0.00012	0.00013	0.00153	0.01690
34	0.02700	0.00015	0.00025	0.00000	0.00012	0.00013	0.00175	0.01365
35	0.02500	0.00015	0.00032	0.00000	0.00012	0.00013	0.00202	0.01235
36	0.02300	0.00015	0.00038	0.00000	0.00018	0.00013	0.00234	0.01170
37	0.02100	0.00015	0.00046	0.00000	0.00024	0.00013	0.00265	0.01105
38	0.01900	0.00015	0.00052	0.00000	0.00024	0.00013	0.00297	0.01040
39	0.01700	0.00015	0.00059	0.00000	0.00030	0.00013	0.00329	0.00975
40	0.01500	0.00023	0.00066	0.00000	0.00036	0.00020	0.00360	0.00910
41	0.01300	0.00023	0.00074	0.00000	0.00036	0.00020	0.00391	0.00845
42	0.01100	0.00023	0.00081	0.00000	0.00036	0.00020	0.00427	0.00780
43	0.00900	0.00023	0.00084	0.00000	0.00042	0.00020	0.00464	0.00650
44	0.00700	0.00023	0.00084	0.00000	0.00042	0.00020	0.00499	0.00520
45	0.00600	0.00030	0.00088	0.00660	0.00048	0.00026	0.00540	0.00455
46	0.00500	0.00030	0.00088	0.00880	0.00054	0.00033	0.00581	0.00390
47	0.00450	0.00030	0.00091	0.01100	0.00054	0.00039	0.00621	0.00325
48	0.00400	0.00038	0.00091	0.01100	0.00060	0.00045	0.00661	0.00260
49	0.00400	0.00038	0.00094	0.01100	0.00060	0.00052	0.00702	0.00195
50	0.00400	0.00045	0.00094	0.05500	0.00066	0.00058	0.00742	0.00130
51	0.00400	0.00052	0.00098	0.04400	0.00072	0.00065	0.00788	0.00104
52	0.00400	0.00060	0.00098	0.04400	0.00078	0.00071	0.00833	0.00091
53	0.00400	0.00068	0.00102	0.03850	0.00084	0.00078	0.00877	0.00078
54	0.00400	0.00075	0.00105	0.03850	0.00090	0.00084	0.00922	0.00065
55	0.00000	0.00082	0.00000	0.10000	0.00096	0.00091	0.00000	0.00000
56	0.00000	0.00090	0.00000	0.07500	0.00102	0.00097	0.00000	0.00000
57	0.00000	0.00097	0.00000	0.07500	0.00108	0.00104	0.00000	0.00000
58	0.00000	0.00105	0.00000	0.15000	0.00114	0.00117	0.00000	0.00000
59	0.00000	0.00112	0.00000	0.40000	0.00120	0.00130	0.00000	0.00000
60	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

**YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT
(ASSUMPTIONS ADOPTED 09/17/2003)**

Age	GENERAL		SAFETY		Age	GENERAL		SAFETY	
	Male	Female	Male	Female		Male	Female	Male	Female
50	32.55	33.94	32.55	33.94	81	8.88	9.14	8.88	9.14
51	31.62	32.99	31.62	32.99	82	8.37	8.58	8.37	8.58
52	30.69	32.05	30.69	32.05	83	7.89	8.05	7.89	8.05
53	29.77	31.11	29.77	31.11	84	7.44	7.54	7.44	7.54
54	28.85	30.17	28.85	30.17	85	7.00	7.06	7.00	7.06
55	27.95	29.24	27.95	29.24	86	6.59	6.59	6.59	6.59
56	27.04	28.31	27.04	28.31	87	6.19	6.15	6.19	6.15
57	26.15	27.40	26.15	27.40	88	5.80	5.73	5.80	5.73
58	25.27	26.49	25.27	26.49	89	5.43	5.34	5.43	5.34
59	24.39	25.59	24.39	25.59	90	5.07	4.98	5.07	4.98
60	23.52	24.70	23.52	24.70	91	4.73	4.64	4.73	4.64
61	22.67	23.82	22.67	23.82	92	4.42	4.33	4.42	4.33
62	21.83	22.96	21.83	22.96	93	4.13	4.04	4.13	4.04
63	21.00	22.11	21.00	22.11	94	3.86	3.76	3.86	3.76
64	20.18	21.28	20.18	21.28	95	3.61	3.51	3.61	3.51
65	19.39	20.46	19.39	20.46	96	3.37	3.28	3.37	3.28
66	18.60	19.65	18.60	19.65	97	3.16	3.06	3.16	3.06
67	17.84	18.86	17.84	18.86	98	2.98	2.86	2.98	2.86
68	17.10	18.08	17.10	18.08	99	2.81	2.67	2.81	2.67
69	16.37	17.31	16.37	17.31	100	2.66	2.50	2.66	2.50
70	15.66	16.54	15.66	16.54	101	2.52	2.34	2.52	2.34
71	14.97	15.78	14.97	15.78	102	2.39	2.19	2.39	2.19
72	14.29	15.04	14.29	15.04	103	2.26	2.06	2.26	2.06
73	13.63	14.31	13.63	14.31	104	2.15	1.94	2.15	1.94
74	12.98	13.60	12.98	13.60	105	2.04	1.83	2.04	1.83
75	12.34	12.90	12.34	12.90	106	1.93	1.74	1.93	1.74
76	11.72	12.22	11.72	12.22	107	1.84	1.66	1.84	1.66
77	11.12	11.57	11.12	11.57	108	1.75	1.59	1.75	1.59
78	10.53	10.93	10.53	10.93	109	1.68	1.54	1.68	1.54
79	9.96	10.31	9.96	10.31	110	1.62	1.50	1.62	1.50
80	9.40	9.71	9.40	9.71					

1994 GA (x-2 , y+1) for General Members

1994 GA (x-2 , y+1) for Safety Members

**YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT
(ASSUMPTIONS ADOPTED 09/17/2003)**

GENERAL MEMBERS					
Age	Years of Life Expectancy	Age	Years of Life Expectancy	Age	Years of Life Expectancy
20	38.73	51	20.59	82	6.27
21	37.98	52	20.11	83	5.94
22	37.26	53	19.63	84	5.63
23	36.56	54	19.16	85	5.34
24	35.87	55	18.68	86	5.06
25	35.19	56	18.22	87	4.80
26	34.53	57	17.75	88	4.55
27	33.87	58	17.29	89	4.31
28	33.23	59	16.83	90	4.09
29	32.60	60	16.37	91	3.87
30	31.98	61	15.91	92	3.66
31	31.37	62	15.45	93	3.46
32	30.76	63	14.99	94	3.26
33	30.17	64	14.53	95	3.07
34	29.58	65	14.07	96	2.89
35	29.00	66	13.60	97	2.71
36	28.43	67	13.13	98	2.54
37	27.87	68	12.66	99	2.37
38	27.31	69	12.18	100	2.20
39	26.76	70	11.70	101	2.04
40	26.21	71	11.21	102	1.88
41	25.67	72	10.72	103	1.72
42	25.14	73	10.22	104	1.55
43	24.61	74	9.73	105	1.38
44	24.09	75	9.24	106	1.21
45	23.57	76	8.76	107	1.04
46	23.06	77	8.28	108	.88
47	22.56	78	7.83	109	.72
48	22.06	79	7.41	110	.50
49	21.57	80	7.00		
50	21.08	81	6.63		

1981 Disability (General)

**YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT
(ASSUMPTIONS ADOPTED 09/17/2003)**

SAFETY AND PROBATION MEMBERS					
Age	Years of Life Expectancy	Age	Years of Life Expectancy	Age	Years of Life Expectancy
20	51.12	51	24.38	81	7.41
21	50.20	52	23.59	82	7.00
22	49.29	53	22.80	83	6.63
23	48.39	54	22.03	84	6.27
24	47.48	55	21.26	85	5.94
25	46.58	56	20.50	86	5.63
26	45.68	57	19.77	87	5.34
27	44.79	58	19.06	88	5.06
28	43.89	59	18.40	89	4.80
29	43.01	60	17.78	90	4.55
30	42.12	61	17.20	91	4.31
31	41.24	62	16.64	92	4.09
32	40.36	63	16.11	93	3.87
33	39.48	64	15.59	94	3.66
34	38.61	65	15.08	95	3.46
35	37.74	66	14.58	96	3.26
36	36.88	67	14.09	97	3.07
37	36.02	68	13.61	98	2.89
38	35.16	69	13.13	99	2.71
39	34.31	70	12.66	100	2.54
40	33.46	71	12.18	101	2.37
41	32.61	72	11.70	102	2.20
42	31.77	73	11.21	103	2.04
43	30.93	74	10.72	104	1.88
44	30.09	75	10.22	105	1.72
45	29.26	76	9.73	106	1.55
46	28.43	77	9.24	107	1.38
47	27.61	78	8.75	108	1.21
48	26.80	79	8.28	109	1.04
49	25.99	80	7.83	110	.88
50	25.18				

1981 Disability (x-2) for Safety members

RATIO OF CURRENT COMPENSATION TO COMPENSATION ANTICIPATED AT RETIREMENT

Age	General Members	Safety Members	Age	General Members	Safety Members
20	0.046	0.100	46	0.305	0.469
21	0.051	0.106	47	0.322	0.499
22	0.055	0.113	48	0.340	0.530
23	0.061	0.119	49	0.360	0.563
24	0.067	0.126	50	0.380	0.598
25	0.073	0.134	51	0.401	0.634
26	0.079	0.142	52	0.423	0.671
27	0.086	0.151	53	0.445	0.711
28	0.093	0.160	54	0.469	0.752
29	0.101	0.170	55	0.493	0.794
30	0.109	0.180	56	0.519	0.837
31	0.118	0.192	57	0.546	0.875
32	0.127	0.203	58	0.574	0.915
33	0.136	0.216	59	0.602	0.956
34	0.146	0.230	60	0.632	1.000
35	0.156	0.244	61	0.663	
36	0.167	0.258	62	0.695	
37	0.178	0.274	63	0.729	
38	0.189	0.291	64	0.764	
39	0.202	0.309	65	0.800	
40	0.215	0.328	66	0.837	
41	0.228	0.348	67	0.875	
42	0.242	0.369	68	0.915	
43	0.257	0.391	69	0.956	
44	0.272	0.415	70	1.000	
45	0.288	0.441			

Note: Salary scale assumption reflects 4.50% for inflation and graded merit and longevity

SUMMARY OF MAJOR PLAN PROVISIONS
Eligibility

- First pay period following date of employment

Definition of Salary

- Highest 12 consecutive months of compensation earnable for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
- Highest 36 consecutive months of compensation earnable for General Plan 2 and part-time members in all plans

Service Retirement

NORMAL RETIREMENT AGE

- Age 65 for §31486.4 (General Plan 2)
- Age 57 for §31676.12 (General Plan 5)
- Age 55 for §31664.2 (Safety Plan 4) and
- Age 55 for §31676.15 (APCD Plans 1 and 2)

EARLY RETIREMENT

- Age 50 and 10 years for General Plan 5 and APCD Plan 2
- Age 55 and 10 years for General Plan 2
- OR
- 30 years for General Plan 5 and APCD
- 20 years for Safety Plan 4

BENEFIT AT NORMAL RETIREMENT AGE

- 2 percent of final average salary per year of service for General Plan 5 and APCD
- 2 percent of final average salary per year of service (maximum 35 years) plus 1 percent of final average salary per year of service in excess of 35 (maximum 10 years) reduced by 1/35 of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan 2
- 3 percent of final average salary per year of service for Safety Plan 4

BENEFIT ADJUSTMENTS

- Reduced for retirement before:
 - Age 65 for § 31486.4 (General Plan 2)
 - Age 57 for § 31676.12 (General Plan 5)
 - Age 55 for § 31664.2 (Safety Plan 4)
 - Age 55 for § 31676.15 (APCD Plans 1 and 2)

Reductions for § 31486.4 are actuarial equivalents

- Increased for retirement after:
 - Age 57 for § 31676.12 (General Plan 5)
 - Age 55 for § 31676.15 (APCD Plans 1 and 2)

Disability Retirement

- Non-service connected for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
 - 1.8 percent of final average salary per year of service, with maximum of 33 1/3 percent if projected service is used (age 62 for General Plan 5, age 55 for Safety Plan 4 and age 65 for APCD) or
 - 90 percent of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible)
- Service connected for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
 - Greater of 50 percent of final average salary or service retirement benefit (if eligible)
- General Plan 2 purchases long-term insurance policy
 - 60 percent of salary provided outside of the Plan
 - Payments are reduced by other disability income benefits
 - Service retirement at age 65 (credit given toward service retirement while disabled under the LTD Plan)

Death Before Retirement

- Non-service connected before eligible to retire for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
 - Refund of contributions plus 1/12 of last year's salary per year of service up to 6 years
- Eligible for non-service connected disability or service retirement for General Plan 5, Safety Plan 4 and APCD Plan 1 and 2
 - 60 percent of member's accrued allowance
- Service connected for General Plan 5, Safety Plan 4, and APCD Plans 1 and 2
 - 50 percent of salary
- Benefit for General Plan 2
 - 1/12 of last year's salary per year of service up to 6 years

Death After Retirement

- \$5,000 lump sum death benefit for General Plan 5, Safety Plan 4, and APCD Plans 1 and 2
- Service retirement or non-service connected disability
 - 60 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plan 4, and APCD Plans 1 and 2
 - 50 percent of member's allowance payable to an eligible spouse for General Plan 2
- Service connected disability
 - 100 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plan 4, and APCD Plans 1 and 2
 - 50 percent of member's allowance payable to an eligible spouse for General Plan 2

Vesting

- Must leave contributions on deposit
- Five years of service for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
- Ten years of service for General Plan 2

Member's Contributions

- Based on entry age
- Half rates for General Plan 5A, Safety Plan 4A and APCD Plan 1
- Full rates for General Plan 5B, Safety Plan 4B and APCD Plan 2
- General Plan 2 is noncontributory

Maximum Benefit

- 100 percent of final average salary for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
- Benefit and Social Security combined cannot exceed 70 percent of final average salary if service is less than 35 years, otherwise 80 percent for General Plan 2

Cost-Of-Living

- Up to 3 percent cost-of-living adjustment for General Plan 5, Safety Plan 4 and APCD Plans 1 and 2
- None for General Plan 2

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- Schedule of Additions and Deductions

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Gross Return On Investments	Investment Expenses	Other Income	Total
2004	\$ 13,633,762	\$ 39,334,678	\$190,516,409	\$ (5,198,320)	\$ 4,001	\$ 238,290,530
2003	12,796,575	33,799,166	57,301,619	(4,426,277)	4,012	99,475,095
2002	10,480,593	31,759,299	(57,204,548)	(5,177,584)	4,400	(20,137,840)
2001	8,458,680	29,346,269	(44,280,522)	(8,253,395)	596,247	(14,132,721)
2000	7,348,582	30,057,229	78,590,073	(2,447,083)	-	113,548,801
1999	7,039,762	29,088,462	115,349,949	(2,505,666)	-	148,972,507

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefits Paid	Refunds	Administrative Expenses	Total
2004	\$ 57,634,424	\$ 1,467,988	\$ 1,985,863	\$ 61,088,275
2003	51,443,905	1,204,495	1,520,815	54,169,215
2002	46,792,742	885,479	1,715,345	49,393,566
2001	40,775,721	1,144,835	1,523,493	43,444,049
2000	37,537,933	991,089	697,085	39,226,107
1999	33,493,394	893,349	620,626	35,007,369

SCHEDULE OF PARTICIPATING EMPLOYERS

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
County of Santa Barbara:		
General Members	3,428	3,517
Safety Members	944	925
Total:	<u>4,372</u>	<u>4,442</u>
Participating Agencies:		
Air Pollution Control	57	61
Carpinteria Cemetery	2	2
Carpinteria-Summerland Fire Protection	31	27
Goleta Cemetery	5	4
Oak Hill Cemetery	3	3
Santa Barbara Association of Governments	17	18
Santa Barbara Vector Control	4	4
Santa Maria Cemetery	8	8
Summerland Sanitary	4	4
Total:	131	131
Total Active Membership:	<u>4,503</u>	<u>4,573</u>

- Schedule of Average Benefit Payments

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

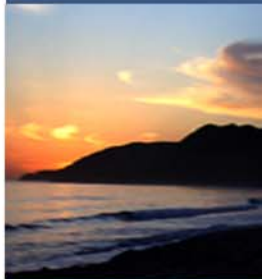
	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
June 30, 2004						
Average Monthly Benefit	\$2,163	\$1,837	\$1,472	\$1,156	\$927	\$959
Average Annual Benefit	25,950	22,044	17,665	13,870	11,124	11,508
Number of Active Retirees	1,281	337	267	244	216	95
June 30, 2003						
Average Monthly Benefit	\$2,046	\$1,789	\$1,329	\$1,014	\$941	\$928
Average Annual Benefit	24,549	21,471	15,944	12,167	11,295	11,132
Number of Active Retirees	1,181	365	258	274	189	78
December 31, 2002						
Average Monthly Benefit	\$1,907	\$1,675	\$1,277	\$923	\$946	\$887
Average Annual Benefit	22,881	20,101	15,323	11,072	11,349	10,641
Number of Active Retirees	1,125	349	264	275	193	69
December 31, 2001						
Average Monthly Benefit	\$1,764	\$1,691	\$1,218	\$911	\$648	\$602
Average Annual Benefit	21,172	20,291	14,617	10,930	7,775	7,226
Number of Active Retirees	1,113	365	257	270	188	69
December 31, 2000						
Average Monthly Benefit	\$1,890	\$1,714	\$1,290	\$897	\$910	\$684
Average Annual Benefit	22,679	20,563	15,480	10,768	10,923	8,213
Number of Active Retirees	1,013	311	285	301	132	56
December 31, 1999						
Average Monthly Benefit	\$1,893	\$1,518	\$1,168	\$865	\$778	\$710
Average Annual Benefit	22,721	18,221	14,019	10,384	9,331	8,522
Number of Active Retirees	914	313	309	304	125	47
December 31, 1998						
Average Monthly Benefit	\$1,839	\$1,314	\$1,058	\$834	\$741	\$735
Average Annual Benefit	22,063	15,762	12,700	10,004	8,895	8,823
Number of Active Retirees	857	309	328	287	102	39

- Schedule of Benefit Expenses by Type

SCHEDULE OF BENEFIT EXPENSES BY TYPE

	1999	2000	2001	2002	2003	2004
SERVICE RETIREE PAYROLL						
General	\$24,715,539	\$26,250,846	\$28,365,250	\$31,877,649	\$33,663,687	\$38,007,015
Safety	8,777,855	11,047,682	12,067,274	14,669,468	17,349,343	19,335,644
Total	33,493,394	37,298,528	40,432,524	46,547,117	51,013,030	57,342,659
Lump Sum Death Benefits	*	239,405	343,197	245,625	430,875	291,765
Total Benefit Expense	\$33,493,394	\$37,537,933	\$40,775,721	\$46,792,742	\$51,443,905	\$57,634,424

* Data unavailable



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 assumptions. Examples include higher than expected salary increases (loss) and a higher return on fund assets than anticipated (gain).

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

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.

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

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

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

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

PENSION 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.