Santa Barbara County Employees' Retirement System

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

SBCERS

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2003

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, 2003 and 2002

Issued by:
Oscar Peters, Retirement Administrator
Deborah Fernamburg, Financial System Analyst
Ramona DeWitte, Accountant

105 East Anapamu Street, Room 301
Santa Barbara, CA 93101

SECTION 1 - INTRODUCTION

2 GFOA Certificate of Achievement
3 Letter of Transmittal
7 Organization Chart
8 Board Members
9 List of Professional Consultants

SECTION 2 - FINANCIAL

12 Independent Auditors' Report
14 Management Discussion and Analysis

Basic Financial Statements

18 Statement of Plan Net Assets
19 Statement of Changes in Plan Net Assets
20 Notes to Financial Statements

Required Supplemental Information

30 Schedule of Funding Progress
30 Schedule of Employer Contributions
31 Notes to the Schedule of Funding Progress and Employer Contributions

Other Supplemental Information

32 Schedule of Administrative Expenses
33 Schedule of Investment Fees
33 Schedule of Payments to Consultants

SECTION 3 - INVESTMENTS

36 Investment Consultant Letter
37 Outline of Investment Policies
38 Performance Results
38 Asset Allocation
39 Schedule of Top Ten Equity Securities and Top Ten Bond Holdings
40 Schedule of Professional Fees and Service
40 Investment Summary

SECTION 4 - ACTUARIAL

42 Actuary's Certification Letter
43 Summary of Actuarial Assumptions and Methods
45 Schedule of Active Member Valuation Data
45 Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Payroll
46 Actuary Solvency Test
46 Actuarial Analysis of Financial Experience
47 Probability of Occurrence
55 Summary of Major Plan Provisions

SECTION 5 - STATISTICAL

60 Schedule of Additions by Source
60 Schedule of Deductions by Type
60 Schedule of Participating Employers
61 Schedule of Average Benefit Payments
62 Schedule of Benefit Expenses by Type

SECTION 6 - GLOSSARY

64 Glossary

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, 2002

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.

President

Executive Director

SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM

OSCAR PETERS
RETIREMENT ADMINISTRATOR

105 E. Anapamu Street, Room 301
Santa Barbara, CA 93101
Phone (805) 568-2940
Fax (805) 568-2487

Mailing Address
P.O. Box 2490
Santa Barbara, CA 93120-2490

September 1, 2003

Santa Barbara County Employees' Retirement System
Board of Retirement
105 E. Anapamu Street, Room 301
Santa Barbara, CA 93101

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, 2003, the System's 60th 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 first time in three years. The returns out performed 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 5233 members and 2345 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 Introductory 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 four, 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, 2003 was 92.6% using the entry age normal method with a five year smoothing actuarial value of assets. As of the fiscal year ended June 30, 2003 the net assets were $1.169 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, 2003, SBCERS' investments provided an 11.9% return. SBCERS' annualized rate of return over the last one and three-years is 5.0% and negative (1.5%) respectively. While the policy benchmark had annualized returns of 4.4% and negative (2.9)%, 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

During the fiscal year SBCERS hired an independent Retirement Administrator. Prior to the current fiscal year, the Treasurer / Tax Collector served as Retirement Administrator.

A 3% cost of living adjustment was granted to every retiree and to every beneficiary who receives a survivor's allowance (except General Members who retire under Plan 2 as the plan was not entitled to receive a cost of living adjustment).

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, 2002. This was the second 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.

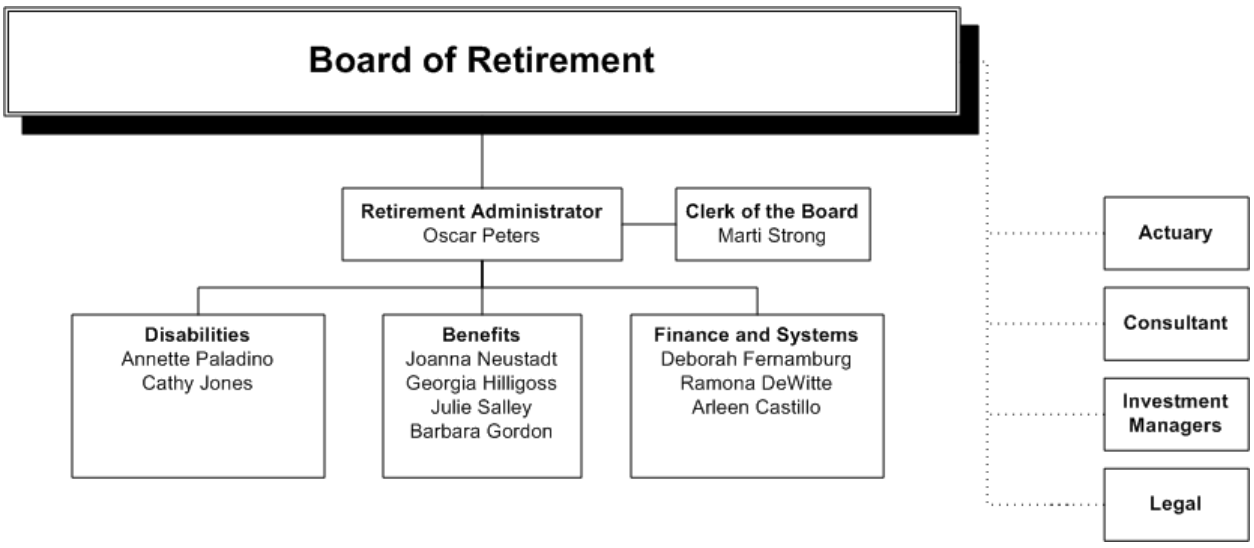
ACKNOWLEDGMENTS

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/formandpub.asp

Respectfully Submitted,

Oscar Peters
Retirement Administrator


Board of Retirement
Retirement Administrator
Oscar Peters
Clerk of the Board
Marti Strong
Disabilities
Annette Paladino
Cathy Jones
Benefits
Joanna Neustadt
Georgia Hilligoss
Julie Salley
Barbara Gordon
Finance and Systems
Deborah Fernamburg
Ramona DeWitte
Arleen Castillo
Actuary
Consultant
Investment Managers
Legal

CHAIR
Shawn Terris
Elected by general members
Present term expires December 2004

VICE CHAIR
Norman E. Horsley
Elected by safety members
Present term expires December 2004

SECRETARY
Kate Silsbury
Appointed by Board of Supervisors
Present term expires December 2003

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
Donald Kendig
Elected by general members
Present term expires December 2005

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 (formerly Buck Consultants)

INDEPENDENT AUDITOR

Nasif, Hicks, Harris & Co

CUSTODIAN

State Street California, Inc

LEGAL ADVISORS

Santa Barbara County Counsel

Rogers & Sheffield

McCarthy & Kroes

Reicker, Pfau, Pyle, McRoy & Herman LLP

INVESTMENT CONSULTANT

Pension Consulting Alliance, Inc

Investment Services

DOMESTIC EQUITY

Alliance Capital Management LP

Alliance Bernstein

Invesco

Starbuck, Tisdale & Associates

INTERNATIONAL EQUITY

Bank of Ireland Asset Management Ltd

Nicholas-Applegate Capital Management

State Street Global Advisors

DOMESTIC BONDS

Lincoln Capital Management

Reams Asset Management

STW Fixed Income

REAL ESTATE

RREEF America LLC

This page intentionally left blank

11 | Financial

NASIF, HICKS, HARRIS & CO.

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
BARBARA ROGERS SCOLLIN
MARIANNE F. BLOOM
JODY R. DOLAN

1111 GARDEN STREET, SUITE 200
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 966-1521
FAX (805) 963-1780

September 12, 2003

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Santa Barbara County Employees' Retirement System (SBCERS) as of and for the years ended June 30, 2003 and 2002, which collectively comprise SBCERS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Barbara County Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Santa Barbara County Employees' Retirement System as of June 30, 2003 and 2002, and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14-17, and the schedules of funding progress and employer contributions on page 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

- Independent Auditors Report

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction section, schedules of administrative expenses, investment fees, and payments to consultants on pages 32-33, and the investments, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of administrative expenses, investment fees, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The information presented in the introduction, investments, actuarial, and statistical sections have not been audited by us and, accordingly, we express no opinion on them.

Nasiff, Hicks, Harris & Co.

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, 2003. 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 $45.3 million (or 4.03 %) as a result of the current fiscal year's activities.
- Total contributions (county and employee) increased by $4.35 million (or 10.3%) from fiscal year 2001-2002 to 2002-2003.
- Net investment income (including securities lending) increased by $115.3 million (or 84.7%) from fiscal year 2001-2002 to 2002-2003.
- Benefit payments increased by $4.65 million (or 9.94%) from fiscal year 2001-2002 to 2002-2003.

Plan Highlights

- A 3% cost of living increase was given to all retired, disabled and beneficiary members receiving a recurring allowance.
- The Board of Retirement adopted a change of procedure to allow for more consistent comparisons between actuarial reports (calendar year reporting) and plan information (fiscal year reporting). The scheduled timing of the actuarial valuations and experience studies was changed from a calendar year to a fiscal year basis, beginning this fiscal year. As a result the actuarial valuation and experience study scheduled for December 31, 2003 was moved to June 30, 2003. Future actuarial reporting will be on a fiscal year basis.
- 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 apply to other members for service or disability retirement.

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 $1.169 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, 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	26,620,260	20,461,985	6,158,275	3.01%
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	42,208,195	46,363,307	(4,155,112)	(8.96)%
Total Liabilities	141,592,680	117,583,642	24,009,038	20.42%
Net Assets	$1,169,417,097	$1,124,111,217	$45,305,880	4.03%

For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	$1,150,012,539	$1,220,905,783	$(70,893,244)	(5.81)%
Securities Lending	71,220,335	71,805,334	(584,999)	(0.81)%
Receivables	20,461,985	30,136,597	(9,674,612)	(32.10)%
Total Assets	1,241,694,859	1,322,847,714	(81,152,855)	(6.13)%
Securities Lending	71,220,335	71,805,334	(584,999)	(0.81)%
Other Liabilities	46,363,307	57,399,757	(11,036,450)	(19.23)%
Total Liabilities	117,583,642	129,205,091	(11,621,449)	(8.99)%
Net Assets	$1,124,111,217	$1,193,642,623	$(69,531,406)	(5.83)%

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 2002-2003 totaled $99.5 million, compared with a loss of $20.1 million in 2001-2002. This increase is primarily the result of having positive market appreciation. Employer and employee contributions resulted in an increase of 10.31% over the contributions made in 2001-2002 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 2002-2003 were $54.2 million, an increase of $4.8 million (9.67%) over 2001-2002. 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, 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%

For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	$ 42,239,892	$ 37,804,949	$ 4,434,943	11.73%
Investment Income (net)	(62,667,961)	(52,753,579)	(9,914,381)	18.79%
Securities Lending (net)	285,829	219,662	66,167	30.12%
Other	4,400	596,247	(591,847)	(99.26)%
Total Additions	(20,137,840)	(14,132,721)	(6,005,118)	42.49%
Deductions				
Pension Benefits	46,792,742	40,775,721	6,017,022	14.76%
Other	2,600,824	2,668,328	(67,504)	(2.53)%
Total Deductions	49,393,566	43,444,049	5,949,518	13.69%
Net Increase / (Decrease)	$ (69,531,406)	$ (57,576,770)	$(11,954,636)	20.76%

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 very volatile on a quarter-to-quarter comparison. The domestic equity returns for the year were flat while international equity returns were negative.

Fixed income outperformed equities over the latest 12-month period. In general, this positive result was a function of the continued downward pressure on interest rates.

During the last year, and despite a volatile market, SBCERS' total portfolio outperformed its policy benchmark by 60 basis points with a 5.0% return. For detailed investment returns, fees and the Fund's asset allocation please refer to the investment section beginning on page 34.

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 $1,169,417,097 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, 2003 was 92.6% 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, 2003 the net assets were just over $1.169 billion. The next actuarial valuation is scheduled for June 30, 2004.

STATEMENT OF PLAN NET ASSETS

As of June 30, 2003 and 2002

	JUNE 30, 2003	JUNE 30, 2002
ASSETS		
Cash	$ 6,603,809	$ 5,019,236
Receivables		
Contributions	2,713,779	2,449,555
Accrued Interest	3,146,109	7,567,205
Dividends	744,134	576,995
Due from Brokers for Security Sales	20,016,238	9,868,230
Total Receivables	**26,620,260**	**20,461,985**
Investments, at Fair Value		
Short Term Investments	46,781,238	25,963,634
Domestic Equity	552,371,510	409,243,080
Domestic Bonds	369,999,537	491,874,362
International Equity	203,795,090	183,792,680
Global Bonds	-	34,112,083
Real Estate	5,451,703	-
Real Estate Mortgage Loans	2,145	7,464
Total Investments	**1,178,401,223**	**1,144,993,303**
Collateral Held for Securities Lent	99,384,485	71,220,335
Total Investments Including Collateral Held for Securities Lent	**1,277,785,708**	**1,216,213,638**
TOTAL ASSETS	**$ 1,311,009,777**	**$ 1,241,694,859**
LIABILITIES		
Accounts Payable	$ 280,065	$ 551,790
Benefits Payable	293,890	833,049
Collateral Held for Securities Lent	99,384,485	71,220,335
Due to Brokers for Security Purchases	41,634,240	44,978,468
TOTAL LIABILITIES	**$ 141,592,680**	**$ 117,583,642**
Net Assets Held in Trust for Pension Benefits	**$ 1,169,417,097**	**$ 1,124,111,217**

(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, 2003 and 2002

	JUNE 30, 2003	JUNE 30, 2002
ADDITIONS		
Contributions		
Employers	$ 33,799,166	$ 31,759,299
Plan members	12,796,575	10,480,593
Total Contributions	**46,595,741**	**42,239,892**
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	24,562,234	(99,306,213)
Interest	23,048,991	32,014,830
Dividends	8,345,642	7,925,112
Total Investment Income (Loss)	**55,956,867**	**(59,366,271)**
Less Investment expenses	(3,247,780)	(3,301,690)
Net Investment Income (Loss)	**52,709,087**	**(62,667,961)**
Securities Lending Income	1,344,752	2,161,723
Securities Lending Expense	(1,178,497)	(1,875,894)
Net Securities Income	**166,255**	**285,829**
Administrative Reimbursement	4,012	4,400
Total Miscellaneous Income	**4,012**	**4,400**
TOTAL ADDITIONS	**99,475,095**	**(20,137,840)**
DEDUCTIONS		
Benefits Paid	51,443,905	46,792,742
Member Withdrawals	1,204,495	885,479
Administrative Expenses	1,520,815	1,715,345
TOTAL DEDUCTIONS	**54,169,215**	**49,393,566**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	1,124,111,217	1,193,642,623
Increase (Decrease) in Net Assets	45,305,880	(69,531,406)
End of Year	**$ 1,169,417,097**	**$ 1,124,111,217**

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. Real estate mortgage loans are valued on the basis of future principal and interest payments, and are reported at prevailing interest rates for similar instruments.

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 nine retirement plans of which five are currently available to new employees. All new General member employees (except those of the APCD) are enrolled in the contributory Plan 5. All new Safety members are enrolled in the contributory Plan 4. All new APCD employees are enrolled in a separate, unique contributory APCD Plan 2. All plans provide benefits as defined by the law upon retirement, death, or disability of members, and all plans with the exception of Plan 2 are eligible to receive cost-of-living benefits. The participating entities share proportionally in all risks and costs, including benefit costs.

Plan Membership

At June 30, 2003 and June 30, 2002 the Retirement System's membership consisted of the following:

SBCERS' Membership	2003	2002
Retirees and Beneficiaries		
Currently Receiving Benefits	2345	2263
Active Employees		
Vested		
General	2063	2223
Safety	635	664
Nonvested		
General	1560	1420
Safety	315	297
Terminated Vested Members		
General	585	576
Safety	75	78
Total Membership	**7578**	**7521**

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. 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, 2003 and 2002 were made in accordance with actuarially determined contributions for the year. The following tables summarize the contributions for the years ended June 30, 2003 and 2002:

SBCERS' Contributions Made By Plan	2003	2002
General Plan 2:		
Employer contributions - normal cost	$ 33,895	$ 75,876
General Plan 5:		
Employer contributions - normal cost	21,116,201	19,423,254
Member contributions	8,131,505	6,888,314
Safety Plan 4:		
Employer contributions - normal cost	12,442,772	11,900,795
Member contributions	4,473,059	3,400,061
Air Pollution Control District Plans 1 and 2:		
Employer contributions - normal cost	206,298	359,374
Member contributions	192,011	192,218
Total	**$46,595,741**	**$42,239,892**

SBCERS' Contributor Comparison		2003		2002	
EMPLOYER	Santa Barbara County	$ 32,776,627	96.9%	$ 30,771,094	96.9%
	Special Districts	1,022,539	3.1%	988,205	3.1%
		$ 33,799,166	100%	$ 31,759,299	100%
MEMBER	Santa Barbara County	$ 12,507,975	97.7%	$ 10,187,200	97.2%
	Special Districts	288,600	2.3%	293,393	2.8%
		$ 12,796,575	100%	$ 10,480,593	100%
	Total	**$ 46,595,741**		**$42,239,892**	

For the years ended June 30, 2003 and 2002, contributions from all employers represented 13.7% and 13.5% respectively of covered payroll while contributions from all members represented 5.2% and 4.5% 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 Continuance Reserves represent monies transferred to fund the adoption of §31760.2 of the County Employees' Retirement Law of 1937, which allows 60 percent continuance to a spouse if the spouse was married to the retiree at least two years prior to the member's death and the spouse is age 55 or older on the date of the retiree's death.

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 3% 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, 2003 and 2002:

SBCERS' Reserves	2003	2002
Member Contribution Reserves	$122,333,923	$111,246,950
County and District Reserves	475,492,137	468,478,140
Retired Member Reserves	490,635,453	424,542,812
Burial Allowance Reserve	5,149,357	5,126,377
Health Coverage Reserves	36,323,644	36,779,467
Supplemental Health Coverage Reserves	43,409,654	42,319,812
Sick Leave Reserves	4,655,575	4,304,341
Spousal Continuance Reserves	1,332,058	1,231,563
Special Allowance Reserve	21,182,302	21,965,972
Contingency Reserve	34,401,083	31,805,735
Market Stabilization Reserve	(65,498,089)	(23,689,952)
Total Value of Assets at Fair Value	**$1,169,417,097**	**$1,124,111,217**

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, 2003, and determined the plan's funded status to 92.6% (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, 2003 and June 30, 2002:

- 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, 2003 and 2002:

SBCERS' Health Care Benefits	2003	2002
Retirees and Beneficiaries Currently Receiving Health Care Benefits	1490	1426
County Contribution ($15 for each year of service)	$4,834,099	$3,875,607
Retirees and Beneficiaries Currently Not Enrolled in Health Care Benefits	868	806
County Cash Option ($4 for each year of service)	$520,281	$350,336
Total County Contribution	**$5,354,380**	**$4,225,943**

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 $6,603,809 and $5,019,236 as of June 30 2003 and 2002 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, 2003 and 2002.

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, 2003, 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, 2003 and 2002.*
- *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, 2003 and 2002.*
- *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, 2003 and 2002 are as follows:

SBCERS' Investments	Risk Category	2003 Fair Value	2002 Fair Value
Domestic Equity	1	$ 552,371,510	$ 409,243,080
Domestic Bonds	1	369,999,537	491,874,362
International Equity	1	203,795,090	183,792,680
Global Bonds	1	-	34,112,083
Real Estate	1	5,451,703	-
Total Categorized Investments		**1,131,617,840**	**1,119,022,205**
Short-term Investment Fund		46,781,238	25,963,634
Investments under Securities Loans		99,384,485	71,220,335
Trust Deeds		2,145	7,464
Total Non-Categorized Investments		**146,167,868**	**97,191,433**
Total Investments		**$ 1,277,785,708**	**$ 1,216,213,638**

Summary of investments on Statement of Plan Net Assets as of June 30, 2003 and 2002:

SBCERS' Summary of Investments	2003	2002
Short Term Investments	$ 46,781,238	$ 25,963,634
Investments at Fair Value	1,126,168,282	1,119,029,669
Collateral Held for Securities Lent	99,384,485	71,220,335
Real Estate	5,451,703	-
Total Investments	**$ 1,277,785,708**	**$ 1,216,213,638**

At June 30, 2003 and 2002 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 custodian State Street Bank and Trust (State Street) 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. The System first contracted with State Street in 1992 for securities lending services. As custodian, State Street acts as the agent 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, the System 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. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, State Street indemnifies the System to the extent of replacing the securities loaned.

Securities Lending Income as of June 30	2003	2002
Gross Income	$ 1,344,752	$ 2,161,723
Expenses:		
Borrower Rebates	1,088,656	1,721,965
Bank Fees	89,841	153,929
Total Expenses	1,178,497	1,875,894
Net Income From Securities Lending	$ 166,255	$ 285,829

Cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2003 had an average duration of 64 days and an average weighted maturity of 252 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, 2003 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, 2003 were $99,384,485 and $97,248,983 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, 2003, SBCERS held no futures contracts. As of June 30, 2002 SBCERS held futures contracts representing approximately $66.9 million in notional principal value.

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, 2003, SBCERS held no forward currency contracts. As of June 30, 2002 net foreign currency gain was $280,281 and forward currency contracts receivable and payable totaled $65,031,960 and $64,854,757 respectively.

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, 2003 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, 2003 and 2002 were $1,520,815 and $1,715,345 of which $1,175,328 and $1,129,334 were subject to §31580.2 or 9.15 and 9.10 basis points respectively.

For the years ended June 30, 2003 and 2002:

SBCERS' Administrative Expenses	2003	2002
Expenses Subject to Statutory Limitation		
Employee Salaries and Benefits	$ 826,214	$ 738,137
Operating Expenses	178,056	169,837
Professional Services	171,058	221,360
Total Expenses Subject to Statutory Limitation	1,175,328	1,129,334
Expenses Not Subject to Statutory Limitation		
Actuarial Costs	61,450	19,450
Legal Costs	284,037	566,561
Total Expenses Not Subject to Statutory Limitation	345,487	586,011
Total Administrative Expenses	**$ 1,520,815**	**$ 1,715,345**

9. PLAN TERMINATION

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

10. 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.

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)
06/30/03 *	$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%
12/31/96	693,300,597	758,771,583	91.4%	65,470,986	159,906,000	40.9%

** Excluding benefit improvements.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contributions (ARC)	Contributions Made As a Percentage of (ARC)
06/30/03 *	$ 9,118,000	100.0%
12/31/02	32,999,013	100.0
12/31/01	27,155,484	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
12/31/96	27,114,000	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, 2003
Actuarial cost method	Entry age normal
Amortization method	15-year amortization of actuarial gains and losses
Amortization period	15-year 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

Schedule of Administrative Expenses

For the Years Ended June 30, 2003 and 2002

	2003	2002
Personnel Services		
Salaries and Employee Benefits	$ 826,214	$ 738,137
Total Personnel Services	826,214	738,137
Professional Services		
Actuarial Consulting Fees	61,450	19,450
Computer Software Services and Support	66,376	45,737
County Cost Allocation	51,528	--
External Audit Fees	21,000	22,700
Disability Medical Fees	55,153	79,882
Disability Hearing Officer Fees	58,516	51,555
Disability Stenographic Fees	9,573	9,481
Disability Attorney Fees	119,490	187,156
Legislative and Other Legal Services	41,305	379,405
Other Professional Services	32,154	12,005
Total Professional Services	516,545	807,371
Communication		
Postage	30,752	24,583
Telecommunication	4,573	4,727
Training	56,826	37,756
Transportation and Travel	5,590	1,751
Total Communication	97,741	68,817
Miscellaneous		
Computer Equipment and Supplies	27,080	23,468
Other Office Expenses	17,311	13,593
Insurance	35,924	63,959
	80,315	101,020
Total Administrative Expenses	$1,520,815	$1,715,345

Schedule of Investment Fees

For the Years Ended June 30, 2003 and 2002

	2003	2002
Investment Activity		
Investment Management Fees		
Stock Managers		
Domestic	$1,127,067	$1,060,247
International	1,027,644	941,879
Bond Managers		
Domestic	664,820	666,530
International	62,561	185,820
Total From Investment Activity	2,882,092	2,854,476
Other Investment Expenses		
Consultant	90,000	91,500
Custodian	275,688	355,714
Total Other Investment Expenses	365,688	447,214
Total Fees and Other Investment Expenses	$3,247,780	$3,301,690

Schedule of Payments to Consultants

	2003	2002
Actuarial Services	$ 61,450	$ 19,450
Audit Services	21,000	22,700
Legal Services	160,795	566,561
Total Payments to Consultants	$ 243,245	$ 608,711

This page intentionally left blank

35 | Investment

PENSION CONSULTING ALLIANCE, INC.

September 2, 2003

Retirement Board
Santa Barbara County Employees' Retirement System (SBCERS)
105 East Anapamu Street, Room 301
Santa Barbara, CA 93101

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, 2003. During this period of time, due to a strong April - June (2003), the SBCERS total investment portfolio increased by $47 million to a value of $1.2 billion. The portfolio is broadly diversified, holding investments ranging from domestic equities to 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 custodian during the calendar year, State Street Bank and Trust Company, 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 reflects asset allocation guidelines adopted by the System during the first quarter of 2003. As the new policy allocations are still being implemented, the portfolio's actual allocation modestly deviates from policy. Domestic fixed income was overweight while domestic equity, international equity, and real estate were slightly underweight.

Over the last year, the SBCERS investment portfolio produced in overall return of 5.0% ranking above median performance among its public pension fund peers. The portfolio outperformed policy by approximately 60 basis points largely due to relative outperformance in domestic fixed income.

Over the last five years, the SBCERS investment portfolio produced an average annual return of 2.5%, exceeding its policy benchmark by 70 basis points. During the last three years, the SBCERS portfolio generated a minus (1.5%) return versus a minus (2.9%) 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.

PERFORMANCE RESULTS

Investments	Current Qtr (2003)	Annualized 1 - year	3 - year	5 - year
Total Portfolio	11.9%	5.0%	(1.5%)	2.5%
Benchmark (1)	13.0%	4.4%	(2.9%)	1.8%
Domestic Equity	14.7%	(0.2%)	(6.9%)	(0.1%)
Benchmark (2)	15.9%	0.4%	(10.6%)	(1.7%)
International Equity	20.3%	(6.1%)	(13.0%)	(2.1%)
MSCI-EAFE	19.3%	(4.1%)	(12.2%)	(3.7%)
Domestic Fixed Income	5.1%	16.0%	12.0%	8.0%
Benchmark (3)	3.4%	13.3%	11.1%	8.2%

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

Benchmark

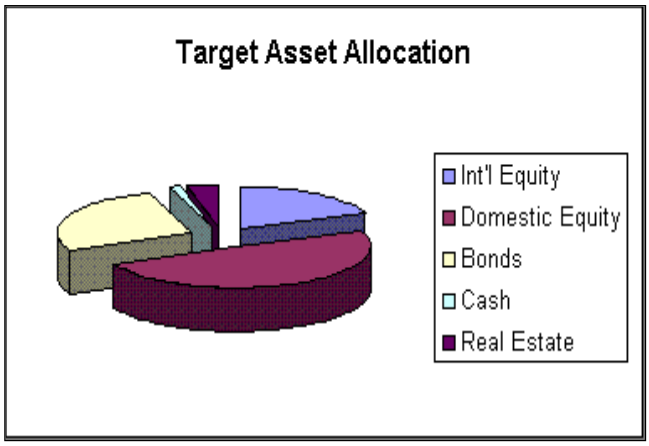
(1) Standard and Poor's 500 (S&P 500); Russell; Morgan Stanley Capital International European Australia, Far East (MSCI-EAFE); Lehman Aggregate; Treasury-Bills (T-Bills)

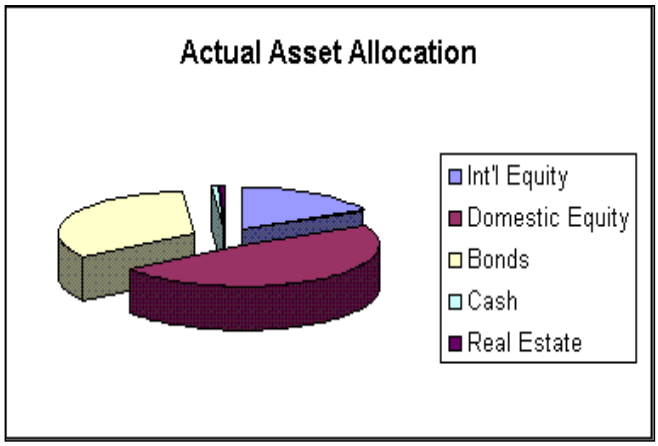
(2) S&P 500; Russell 1000 & 3000

(3) Lehman Aggregate

ASSET ALLOCATION

	Market Value	Actual %	Target %
Cash	$ 6,603,809	0.6	0.6
Short-term investments	46,781,238	3.9	0.4
	53,385,047	4.5	1.0
Domestic Bonds	369,999,537	31.2	27.0
Equities:			
Domestic Equities	552,371,510	46.6	49.0
International Equities	203,795,090	17.2	19.0
Total Equities	756,166,600	63.8	68.0
Real Estate	5,453,848	0.5	4.0
Total	$ 1,185,005,032	100.0	100





SCHEDULE OF TOP TEN EQUITY SECURITIES AND TOP TEN BOND HOLDINGS

TOP TEN EQUITY SECURITIES *

By Market Value

Shares	Security Name	Market Value
396,134	CITIGROUP INC	$ 16,954,535.20
423,208	EXXON MOBIL CORP	15,197,399.28
376,572	PFIZER INC	12,859,933.80
367,000	GENERAL ELEC CO	10,525,560.00
367,800	MICROSOFT CORP	9,419,358.00
242,705	HEWLETT PACKARD CO	5,169,616.50
238,681	AT + T WIRELESS SVCS INC	1,959,571.01
509,700	NORTEL NETWORKS CORP	1,376,190.00
256,202	QWEST COMMUNICATIONS INTL INC	1,224,645.56
237,400	SOLECTRON CORP	887,876.00

TOP TEN BOND HOLDINGS *

By Market Value

Par Value	Security Name	Market Value
19,595,000	UNITED STATES TREAS BDS	$ 26,067,473.44
9,200,000	UNITED STATES TREAS BDS	13,331,375.00
6,894,461	FNMA POOL 555439	7,209,020.35
6,728,221	FNMA POOL 545759	7,029,413.91
6,335,000	FNMA TBA JUL 30 SINGLE FAM	6,582,460.94
5,588,679	FNMA POOL 545762	5,838,859.35
5,235,000	UNITED STATES TREAS BD	1,628,179.23
5,000,000	SPOKANE CNTY WA SCH DIST	2,441,100.00
4,790,000	DRESDNER FDG TR I	5,284,273.87
4,500,000	WASHINGTON ST	1,756,395.00

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

SCHEDULE OF PROFESSIONAL FEES AND SERVICE

	Assets Under Management	Fees	Basis Points
Investment Managers			
Bond Managers	$ 401,965,711	$ 727,381	0.06
Equity Managers	761,914,907	2,154,711	0.18
Real Estate Manager	5,536,479	--	--
Total Investment Managers	1,169,417,097	2,882,092	0.24
Other Investment Service Fees:			
Custodian Fees	--	275,688	0.02
Investment Consultant Fees	--	90,000	0.01
	--	365,688	0.03
Total Investment Service Fees	$1,169,417,097	$3,247,780	0.27%

INVESTMENT SUMMARY

As of June 30, 2003

TYPE OF INVESTMENT	MARKET VALUE	% of PORTFOLIO
CASH & CASH EQUIVILENT	$ 53,385,047	4.51%
EQUITY		
COMMINGLED FUNDS (Int'l)	$203,852,783	17.20%
FINANCIALS	129,659,852	10.94%
INFORMATION TECHNOLOGY	79,881,846	6.74%
HEALTH CARE	76,444,794	6.45%
INDUSTRIALS	73,007,741	6.16%
CONSUMER DISCRETIONARY	66,370,674	5.61%
ENERGY	34,963,123	2.95%
CONSUMER STAPLES	34,370,527	2.90%
TELECOMMUNICATION SERVICES	24,533,445	2.07%
MATERIALS	19,792,683	1.67%
UTILITIES	18,742,980	1.58%
EQUITY Total	$761,620,448	64.27%
BONDS		
CORPORATE	$117,570,908	9.92%
MORTGAGE PASS-THROUGH	91,852,272	7.75%
US TREASURY	79,289,251	6.69%
ASSET BACKED	29,392,727	2.48%
AGENCY	18,963,050	1.60%
MUNICIPAL	8,296,334	0.70%
YANKEE	11,733,387	0.99%
CMBS	6,874,105	0.58%
CMO	5,688,915	0.48%
CONVERTIBLES	338,588	0.03%
BONDS Total	369,999,537	31.22%
Grand Total	$1,185,005,032	100%

Mellon

Human Resources & Investor Solutions

October 10, 2003

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

Members of the Board:

We are pleased to present our report on the actuarial valuation of your Retirement System as of June 30, 2003.

We hereby certify that the valuation was performed in accordance with generally accepted actuarial principles and practices.

We look forward to discussing this report with the Board and wish to express our appreciation for the invaluable cooperation extended to us by the Retirement Staff during the course of this study.

Respectfully submitted,

Krys Upstill /mm

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

Mike Moehle

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

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 Company℠

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.

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.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Active Members	Average Annual Salary	Average	% Increase in Average Salary
Jun 30, 1998	General	3,234	$ 125,679,000	$ 38,862	3.7
	Safety	888	42,637,000	48,015	(0.6)
	Total	4,122	168,316,000	40,834	2.8
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	$ 175,919,988	$ 48,066	9.1
	Safety	961	58,763,294	61,148	8.5
	Total	4,621	234,683,282	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

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

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Number*	Annual Allowance	Number*	Annual Allowance	Number*	Annual Allowance	% Increase in Retiree Allowance*	Average Annual Allowance
1998	164		(94)		1,892	$ 27,189,813	17.87%	$14,371
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%	$20,162

* Includes data adjustment

ACTUARY SOLVENCY TEST

Valuation Date	Actuarial Accrued Liabilities for: Active Member Contributions (1)	Retirees and Beneficiaries (2)	Active Members Employer Financed (3)	Total AAL	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets: (1)	(2)	(3)
06/30/2003	$ 130,199	$ 490,818	*$ 833,847	$ 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%
12/31/1996	$ 73,346	$ 259,044	$ 426,382	$ 758,772	$ 693,301	100%	100%	91.4%

* Excluding benefit improvements.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

	Unfunded Liability	Contribution Rate
Values as of December 31, 2002	**$ 67,649,000**	**13.92%**
Adjustment through June 30, 2003	9,968,000	0.33%
Changes due to . . .		
Asset losses/(gains)	(10,810,000)	(0.36)%
Retiree losses/(gains)	11,548,000	0.38%
Other losses (demographic experience)	6,406,000	0.18%
Change in assumptions	23,438,000	0.76%
Total changes	**40,550,000**	**1.29%**
Values as of June 30, 2003	**$ 108,199,000**	**15.21%**

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

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)

	GENERAL		SAFETY			GENERAL		SAFETY	
Age	Male	Female	Male	Female	Age	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

This page intentionally left blank

SCHEDULE OF ADDITIONS BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Gross Return On Investments	Investment Expenses	Other Income	Total
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
1998	5,725,100	30,138,293	171,769,936	(2,460,806)	--	205,172,523

SCHEDULE OF DEDUCTIONS BY TYPE

Fiscal Year	Benefits Paid	Refunds	Administrative Expenses	Total
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
1998	29,827,368	880,164	409,548	31,117,080

SCHEDULE OF PARTICIPATING EMPLOYERS

	June 30, 2003	June 30, 2002
County of Santa Barbara:		
General Members	3,517	3,537
Safety Members	925	932
Total:	4,442	4,469
Participating Agencies:		
Air Pollution Control	61	60
Carpinteria Cemetery	2	2
Carpinteria-Summerland Fire Protection	27	31
Goleta Cemetery	4	5
Oak Hill Cemetery	3	4
Santa Barbara Association of Governments	18	17
Santa Barbara Vector Control	4	4
Santa Maria Cemetery	8	8
Summerland Sanitary	4	4
Total:	131	135
Total Active Membership:	4,573	4,604

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
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
December 31, 1997						
Average Monthly Benefit	$1,736	$1,212	$951	$819	$709	$611
Average Annual Benefit	20,832	14,543	11,412	9,829	8,497	7,333
Number of Active Retirees	817	316	345	252	87	34

SCHEDULE OF BENEFIT EXPENSES BY TYPE

	1998	1999	2000	2001	2002	2003
Service Retiree Payroll						
General	$ 22,416,028	$ 24,715,539	$ 26,250,846	$ 28,365,250	$ 31,877,649	$ 33,663,687
Safety	7,411,340	8,777,855	11,047,682	12,067,274	14,669,468	17,349,343
Total	29,827,368	33,493,394	37,298,528	40,432,524	46,547,117	51,013,030
Lump Sum Death Benefits	*	*	239,405	343,197	245,625	430,875
Total Benefit Expense	$ 29,827,368	$ 33,493,394	$37,537,933	$40,775,721	$46,792,742	$51,443,905

* 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.