StanCERA

Stanislaus County Employees' Retirement Association

(A Pension Trust Fund for The County of Stanislaus, California)

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2003 and 2002

On the Cover:
Architects drawing of 12th Street Project.
Future home of StanCERA

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Years Ended June 30, 2003 and 2002

Issued By

Robert G. Harmon, CPA
Administrator

Hank Skau, CPA
Retirement Accountant

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www.stancera.org
retirement@stancera.org

TRANSMITTAL LETTER

December 10, 2003

Board of Retirement
Stanislaus County Employees' Retirement Association
Modesto, CA 95354

Dear Board Members:

Please find enclosed the annual financial report of the Stanislaus County Employees' Retirement Association (StanCERA) for the fiscal year ending June 30, 2003, our 55th year of operations.

StanCERA is a multi-agency public employees retirement system, established by the County of Stanislaus on July 1, 1948. StanCERA is operated and administered by the Board of Retirement (Board) to provide retirement, disability, death and survivors benefits for its members under the California State Government Code, Section 31450 et.seq. (County Employees Retirement Law of 1937).

The financial statements have been prepared in accordance with generally accepted accounting principles and California State law. The accounting firm of Brown Armstrong Paulden McCown Starbuck & Keeter has audited the statements and their report follows.

This year, for the first time, StanCERA has produced a Comprehensive Annual Financial Report (CAFR). A CAFR, which is much more comprehensive than reports of the past, is designed to present significant information about both the financial and operations of StanCERA.

This report is divided into five sections as follows:

Introductory Section: This section describes the organization and structure of StanCERA, including this transmittal letter and a list of professional consultants.

Financial Section: This section presents the general-purpose financial statements, report of the independent auditor, management discussion and analysis and supplemental schedules and notes to the financial statements.

Investment Section: This section reports on investment activity, investment policy, asset allocation and diversification and historical investment performance.

Actuarial Section: This section communicates the plans funded status and related actuarial information. It also contains the actuarial certification, actuarial assumptions and statistics and general plan information.

Statistical Section: This section presents information pertaining to membership and benefit payments on a multi-year basis.

StanCERA and its Services

StanCERA was established by Stanislaus County to provide retirement allowances and other benefits to general and safety members employed by Stanislaus County. Currently, Stanislaus County and seven participating agencies are members of StanCERA. The participating agencies are:

City of Ceres
Stanislaus Council of Governments (StanCOG)
Stanislaus County Superior Courts
Eastside Mosquito Abatement District
Hills Ferry Cemetery District
Keyes Community Services District
Salida Sanitary District

StanCERA is governed by the California Constitution, the County Employees Retirement Law of 1937 (CERL), and the bylaws, regulations, policies and procedures adopted by the Board of Retirement. The Stanislaus County Board of Supervisors may also adopt resolutions, as permitted by CERL, which may affect benefits to StanCERA members.

The Board of Retirement is responsible for the management of StanCERA is comprised of nine members and two alternate members, one of whom is a safety alternate and the other a retiree alternate. Four board members are appointed by the Stanislaus County Board of Supervisors, three board members, and the alternate safety member are elected by the safety members, two board members are elected by the general members and one board member, and the retiree alternate are elected by the retired members. The County Treasurer serves as an ex-officio member. Board members, with the exception of the County Treasurer, serve three-year terms with no term limits.

Financial Information

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due or made. Investments are recorded at the fair-value of the asset.

Actuarial Funding Status

StanCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan status and obtaining optimum investment returns. Pursuant to CERL, StanCERA engages an independent actuary to perform an actuarial valuation of the system on an annual basis. Economic assumptions are reviewed annually. Additionally, every three years, a triennial experience study is conducted, at which time non-economic assumptions are also updated. The most recent triennial experience study was conducted as of June 30, 2000 by Buck Consultants. Buck Consultants, since renamed Mellon Human Resource Consulting, conducted the last actuarial valuation as of June 30, 2002 and determined the plan's funding ratio (ration of plan assets to plan liabilities) to be 100.9% using the recommended assumptions.

Stanislaus County issued $107.5 million of pension obligation bonds in September 1995 to satisfy the Unfunded Accrued Actuarial Liability (UAAL) for the County, calculated as of that date. A more detailed discussion of funding is provided in the Actuarial Section of this report.

Investments

The Board of Retirement has exclusive control of all StanCERA investments and is responsible for establishing investment objectives, strategies and policies. The California Constitution and Government Code Sections 31594 and 31595 authorize the Board of Retirement to invest in any investment deemed prudent in the Board's opinion.

The Board has adopted an Investment Policy, which provides a framework for the management of StanCERA's investments. This policy establishes StanCERA's investment objects and defines the duties of the Board of Retirement, investment managers and custodial banks. The asset allocation is an integral part of the Investment Policy and is designed to provide an optimum mix of asset classes with return expectations that reflect expected liabilities. StanCERA engages an Investment Consultant to analyze investment policy and strategy and conduct periodic asset allocation and asset/liability studies on behalf of StanCERA. A summary of the asset allocation can be found in the Investment Section of this report.

Service Efforts and Accomplishments

Last year StanCERA adopted the provisions of the Governmental Accounting Standards Board Statement No. 34 which require disclosure of more information and a Management Discussion and Analysis of the information presented, which follows.

During the past year, StanCERA entered into an agreement with Stanislaus County and a private developer to purchase a single floor of an office tower being developed by Stanislaus County. The office building should be completed in 2005 and StanCERA will move all operations into the building at that time.

In January 2003, StanCERA paid a Special Cost of Living Adjustment to those retirees who have been hardest hit by inflation over the years. This non-recurring payment totaled $1.028 million.

Acknowledgement

The compilation of this report reflects the combined efforts of many people on StanCERA's staff. It is intended to provide reliable information as the basis for making management decisions, as a means for determining compliance with legal provisions and as a means of determining responsible stewardship of the funds of StanCERA. Both the accuracy of the data presented and the completeness and fairness of the presentation of the CAFR is the responsibility of the management of StanCERA.

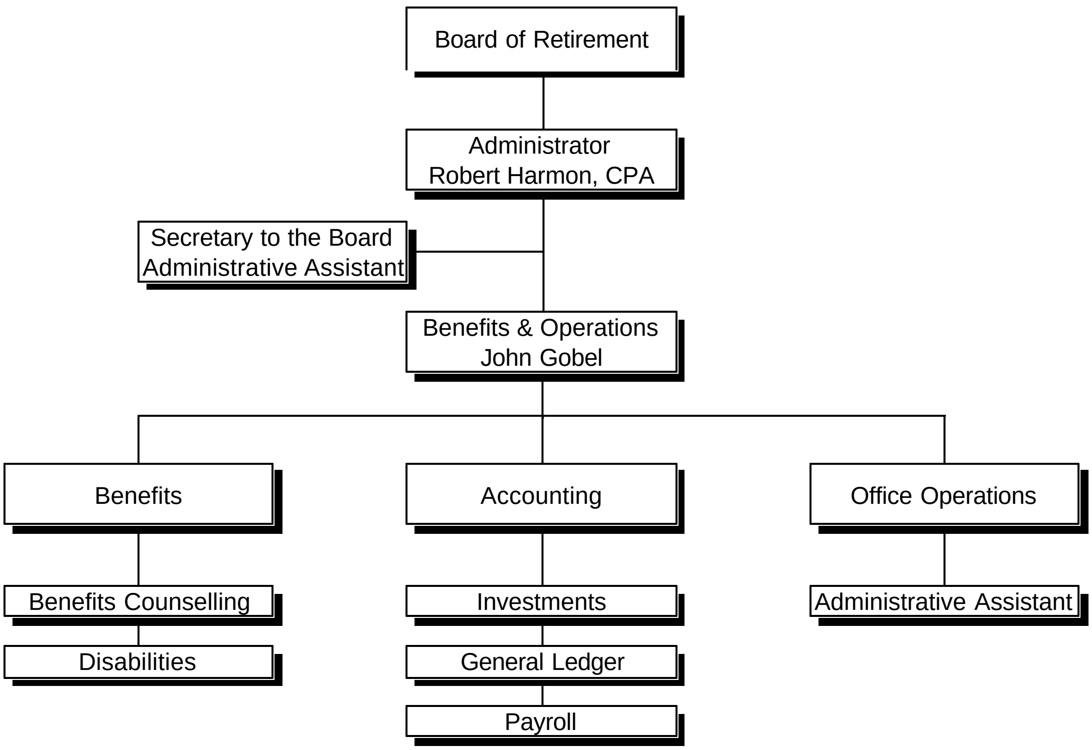
I congratulate the Board, staff and service providers of the Association for their commitment to StanCERA and for their diligent work to assure the continued successful operation of StanCERA.

Sincerely,

Robert Harmon
Retirement Administrator

Board of Retirement
As of June 30, 2003

Organization Chart



Professional Consultants

Consulting Services

Actuary
Buck Consultants, Inc.

Auditors
Brown Armstrong Paulden McCown
Starbuck & Keeter, CPA's

Investment Custodian
The Bank of New York

Investment Consultant
Strategic Investment Solutions, Inc.

Health Insurance Consultant
Stemler's Insurance Agency, Inc.

Legal Counsel
County Counsel, County of Stanislaus
Curtis & Arata
Petrulakis, Jensen, Friedrich & Cabral, LLP
Philip B Avila, Esq.

Technical & Data Services
Blue Sun Studios
TACS, Inc.

Investment Management Services

Fixed Income
Dodge & Cox

Large Cap Value Equity
Dodge & Cox

Large Cap Growth Equity
MFS Institutional Advisors, Inc.

Small Cap Value Equity
Charlotte Capital, LLC

Small Cap Growth Equity
TCW Group

International Equity
Putnam Investments

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2003

This discussion and analysis of the Stanislaus County Employees' Retirement Association (StanCERA) 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 1) and the Financial Statements beginning on page 15.

Financial Highlights

- Plan net assets increased by $37.1 Million (or 4.0 %) as a result of the fiscal year's activities
- Contributions (employer and member), in total, increased by $9.4 Million (or 37%)
- Net investment income (including unrealized gains and losses) increased by $91.3 Million from fiscal year 2001-2002 to 2002-2003
- Benefit payments increased by $4.7 Million (or 14.6%) over the prior year

Plan Highlights

- Benefit changes to the plan, effective March 9, 2002 (for County) and March 23, 2002 (for select districts), changed the retirement formula to 2% at age 55 ½ for active general members, and 3% at 50 for active safety members. These changes applied only to members active as of the implementation date. Two (2) districts still have not implemented the new benefit plans, but are expected to do so. Members in the non-contributory Plan 3 were allowed to transfer prospectively into a contributory plan. This benefit change caused a significant number of retirements in March and April 2002, which should not continue.
- Increases in the Post Retirement Health Care (effective January 1, 2003) increased the health insurance allowance from $18.00 to $18.50 per year of service (for a maximum of 20 years or $370 per month).
- In January of 2003, a special cost of living benefit was paid to retirees who retired prior to April 1981, whose benefits have been eroding by high inflation in prior years.
- In April of 2003, a 1.5% cost of living increase was given to all retired, disabled and beneficiary members receiving a recurring allowance, except Tier 3. Retirees who had previously stored COLA credits received a 3% cost of living increase.

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2003

Using the Annual Report

The financial statements reflect the activities of the Stanislaus County Employees' Retirement Association and are composed of the Statement of Plan Net Assets (see page 15) and the Statement of Changes in Plan Net Assets (see page 16). These statements are presented on an accrual basis and reflect all trust activities as incurred.

This annual report is comprised of five sections:

- **The Introductory Section** contains the transmittal letter from the plan administrator.

- **The Financial Section** presents the financial condition and funding status of StanCERA. This section contains the opinion of the independent auditors, Brown Armstrong Paulden McCown Starbuck & Keeter, CPA's, Management's Discussion and Analysis, the financial statements, notes to the financial statements and required supplemental information.

- **The Investment Section** reports on investment activity, investment policy, asset allocation and diversification and historical investment performance.

- **The Actuarial Section** communicates the plans funded status and related actuarial information. It also contains the actuarial certification, actuarial assumptions and statistics and general plan information.

- **The Statistical Section** presents information on membership, benefits and other plan activity over a ten-year period in graphical form.

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/from the System.

Financial Analysis

A review of the Statement of Plan Net Assets shows the current fiscal period closed with assets exceeding liabilities by $963 million with all of the net assets available to meet StanCERA's ongoing obligations to plan participants and their beneficiaries. The $37.1 million increase in plan assets further strengthened the very good financial condition of the Retirement System.

The primary sources to finance the benefits StanCERA provides are accumulated through return on investments and through the collection of member and employer contributions. These income sources for fiscal year 2002-2003 totaled $83.2 million. This gain is a result of the reallocation of our investment portfolio and a significant rebound in the broad market over the past year. Employer and member contributions resulted in an increase of $9.4 million (or 37%) over the contributions made in 2001-2002. The increase is due in large part to higher employer and member contribution rates as a result of the increased benefits.

The primary uses of StanCERA's assets are in payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering the Plan. These expenses for fiscal year 2002-2003 were $46.1 million, an increase of $5.4 million (13%) over 2001-2002. This increase is due to an increase in the number of retirees and the average amount they are paid. Administrative costs to operate the system were $1,147,117, which increased 6% over the prior year. Administrative costs represented .11% of net plan assets.

Investment Analysis

The Plan's investment activity is a function of the underlying marketplace for the period measured and the investment policy's asset allocation.

During most of last year, equity markets continued to struggle with the market downturn, however during the last fiscal quarter, equity markets rebounded significantly. The dramatic rise in the domestic equity market in the final fiscal quarter accounts for nearly all of the gains for the year.

Fixed income outperformed equities for most of the year. In general, this positive result was a function of the government bond sector as negative headlines weighed heavily on corporate (credit) issues.

During the last year, and despite a depressed market, StanCERA’s total portfolio outperformed its policy benchmark by 200 basis points and achieved an overall absolute return of +5.6%. This out-performance was due in large to a significant over-weighting in fixed income investments for most of the year.

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. Stanislaus County has traditionally contributed the annual required contribution (ARC) as determined by the Plan's Actuary. No net pension obligation exists for the fund as of June 30, 2002, the date of the last actuarial valuation.

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, 2002 was 100.9% using the entry age normal method. StanCERA does not smooth the actuarial value of assets. As of the fiscal year ended June 30, 2002, the actuarial value of assets $1.03 billion. The next actuarial valuation is scheduled for July 2003.

In February 2003, the Board of Retirement made several significant changes to the plans assumptions regarding smoothing of assets. These changes will be reflected in the next actuarial valuation and have no reported results.

The current improvement in the stock market, and the associated increase in StanCERA's net assets, should improve the funding ratio at the next actuarial valuation. While the impact should not be significant, this increase may affect employer contribution rates.

StanCERA's Fiduciary Responsibilities

StanCERA's Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Ventura Litigation

Subsequent to the balance sheet date, the Ventura Litigation (discussed in Note 12 of the Notes to the Financial Statements), has been finalized. The State Supreme Court has declined to rule on the final appeal and has let the appellate court ruling stand.

This outcome, considered the most likely outcome, and anticipated by StanCERA brings and end to the litigation phase of Ventura and starts the implementation phase. StanCERA staff, in conjunction with County staff, have begun the process of determining affected retirees and preparing to recalculate final average salary for affected retirees. Those affected will receive retroactive benefit payments and a change to the higher benefit based on a higher final average salary. Due primarily to the complexity of the calculations and the unavailability of data, StanCERA has estimated that it will take up to two years to recalculate all affected retirees.

Requests for Information

This financial report is designed to provide the Board of Retirement, plan participants, taxpayers, investment professionals and creditors with a general overview of StanCERA's financial condition and to demonstrate StanCERA's accountability for the funds under its stewardship.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

StanCERA
1010 Tenth Street, Suite 5800
Modesto, CA 95354

STATEMENT OF PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	Post Employment Health Insurance	Defined Benefit Pension Plan	2003 Total	2002 Total
Assets				
Cash and Cash Equivalents	$ 3,566,640	$ 29,482,945	$ 33,049,585	$ 49,343,119
Receivables:				
Interest and Dividends	414,884	3,429,558	3,844,442	5,877,292
Securities Transactions	577,906	4,777,151	5,355,057	10,399,481
Contributions	172,290	1,424,203	1,596,493	1,224,153
Total Receivables	1,165,080	9,630,912	10,795,992	17,500,926
Investments (At Fair Value)				
Bonds	34,281,212	283,379,019	317,660,231	384,997,334
Stocks	65,837,427	544,232,381	610,069,808	488,419,616
Collateral on Loaned Securities	--	185,576,210	185,576,210	--
Total Investments	100,118,639	1,013,187,610	1,113,306,249	873,416,950
Total Assets			1,157,151,826	940,260,995
Liabilities				
Accounts Payable	--	8,738,684	8,738,684	14,568,321
Collateral Held for Loaned Securities	--	185,576,210	185,576,210	--
Total Payables	--	194,314,894	194,314,894	14,568,321
Net Assets Held in Trust For Benefits	$ 104,850,359	$ 857,986,573	$ 962,836,932	$ 925,692,674

(A schedule of Funding Progress is presented in the Required Supplementary Information in this section)

The accompanying notes are an integral part of this financial statement

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	Post Employment Health Insurance	Defined Benefit Pension Plan	2003 Total	2002 Total
Additions				
Contributions:				
Employer	$ --	$ 16,207,877	$ 16,207,877	$ 11,340,678
Plan Members	--	18,520,605	18,520,605	13,939,517
Total Contributions	--	34,728,482	34,728,482	25,280,195
Investment Income (Loss):				
Net appreciation (depreciation) in fair value of assets	--	20,845,657	20,845,657	(73,719,382)
Interest & Dividends	--	29,614,117	29,614,117	32,961,366
Total Investment Income/(Loss)	--	50,459,774	50,459,774	(40,758,016)
Less: Investment Expense	--	(2,623,591)	(2,623,591)	(2,725,553)
Net Investment Income/(Loss)		47,836,183	47,836,183	(43,483,569)
Securities Lending Activities:				
Securities Lending Income	--	3,922,504	3,922,504	--
Less: Securities Lending Expenses		3,325,188	3,325,188	
Net Securities Lending Income		597,316	597,316	
Miscellaneous Income	--	126,162	126,162	97,700
Total Additions/(Declines)	--	83,288,143	83,288,143	(18,105,674)
Deductions				
Pension Benefits	--	36,981,411	36,981,411	32,262,615
Insurance Subsidies	6,454,071	--	6,454,071	5,855,439
Member Refunds	--	1,561,286	1,561,286	1,547,588
Administrative Expenses	98,425	1,048,692	1,147,117	1,082,458
Total Deductions	6,552,496	39,591,389	46,143,885	40,748,100
Net Increase/(Decrease)	(6,552,496)	43,696,754	37,144,258	(58,853,774)
Transfer of plan assets	98,425	(98,425)	--	--
Net Assets Held in Trust for Benefits				
Beginning of year	111,304,430	814,388,244	925,692,674	984,546,448
End of year	$ 104,850,359	$ 857,986,573	$ 962,836,932	$ 925,692,674

The accompanying notes are an integral part of this financial statement

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF PLAN

Description of System and Applicable Provisions of the Law

The Stanislaus County Employees' Retirement Association is an integrated public retirement system established under and subject to the legislative authority of the State of California as enacted and amended in the County Retirement Act of 1937. (Chapter 677 Statutes of 1937). It is a multiple-employer "Cost Sharing" plan. The system was voter approved by the Board of Supervisors on July 1, 1948. The system was integrated with Social Security on January 1,1956. Members of the system at that time had a one-time option to convert to the new system or to remain with the old one.

Membership

Each person entering employment full-time or permanent part-time (50% or more of the regular hours) becomes a member on the first day of employment.

The Stanislaus County Employees' Retirement Association consists of employees from County of Stanislaus, Eastside Mosquito Abatement District, Hills Ferry Cemetery District, Keyes Community Service District, City of Ceres, Salida Sanitary District, Stanislaus County Superior Court and Stanislaus Council of Governments. The structure of the Membership is as follows:

	June 30, 2003			June 30, 2002
	General	Safety	Total	Total
Active Members:				
Vested	3,626	637	4,263	4,507
Total Active	3,626	637	4,263	4,507
Inactive Members:				
Deferred and Inter-System Members	664	89	753	648
Unclaimed Contributions	81	7	88	97
Total Inactive	745	96	841	745
Retired Members:				
Service Retirements	1,518	183	1,701	1,615
Disability Retirements	230	101	331	314
Survivor Payments	29	6	35	34
Total Retired			2,067	1,963
Total Membership			7,171	7,215

Vesting

Active members of the system receive a 100% vested interest in the fund after 5 years of service, except Plan 3, and ten years of service for Plan 3, but cannot get a service retirement until completing ten years of membership in the Association.

Benefits

StanCERA provides for retirement, disability, death, beneficiary, cost-of-living and ad-hoc retirement benefits.

Service Retirement Benefit

Members with 10 years of service, who have attained the age of 50, are eligible to retire. Members with 30 years of service (20 years for safety), regardless of age, are eligible to retire.

The benefit is a percentage of monthly final average salary per year of service, depending on age at retirement and is illustrated below for representative ages. For members integrated with Social Security, the benefit is reduced by 1/3 of the percentage shown below times the first $350 of monthly final average salary per year of service credited after January 1, 1956.

Percentage of Final Average Salary (FAS)

	General					Safety	
Age	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5	Plan 1/2	Plan 4/5
50	1.34	1.18	N/A	1.48	1.48	2.00	3.00
55	1.77	1.49	.68*	1.95	1.95	2.62	3.00
60	2.34	1.92	1.14*	2.44	2.44	2.62	3.00
65	2.62	2.43	2.00*	2.62	2.62	N/A	N/A

* (Less l/35th of Social Security benefits at age 65) per year of service. For each year of service over 35, 1% of (FAS) with no Social Security reduction.)

Retiring members may choose from four different beneficiary retirement allowances. Most retirees elect to receive an unmodified allowance which includes 60% of the allowance continued to the retirees' surviving spouse.

Death Benefit-Before Retirement

Employed less than 5 Years

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six (6) months' salary (except Plan 3).

Employed More than 5 Years

If a member dies while eligible for service retirement or non-service connected disability, the spouse receives 60% of the allowance that the member would have received for retirement on the day of his or her death (except Plan 3).

If a member dies in the performance of duty, the spouse receives a monthly benefit of 50% of the member's final average salary (except Plan 3).

Death Benefit-After Retirement

If a member dies after retirement, a lump sum amount of $ 5,000 is paid to the beneficiary or estate (except Plan 3).

If the retirement was for service-connected disability, 100% of the member's allowance as it was at death is continued to the surviving spouse for life for Plans l, 2, 4 and 5.

If the retirement was for other than service-connected disability, 60% of the member's allowance is continued to the spouse for life (except Plan 3).

Disability Benefit

Members with 5 years of service, regardless of age, are eligible for non-service connected disability (except Plan 3). The benefit is usually 1/3 of final average salary (FAS). If the disability is service connected, the member may retire regardless of length of service, and the benefit is 50% of final average salary (except Plan 3).

Cost of Living Benefit

The current maximum increase in retirement allowance is 3% a year (except Plan 3). The increases are based on the change in the Bureau of Labor Statistics Consumer Price Index in the San Francisco Bay area from January 1 to December 31, effective the following April 1.

Post-Employment Health Care and Death Benefits

In addition to providing pension benefits, StanCERA offers medical, dental and vision insurance sponsored by StanCERA for certain retirees and their dependents. Substantially all of the active members may become eligible for those benefits if they reach normal retirement age. Currently, 1,296 retirees (of 1,841 eligible) are active participants in the health care plans, and they received post-employment health care benefits in the amount of $6,454,071 for the year ending June 30, 2003.

StanCERA also provides a death benefit of $5,000 paid to the beneficiary or estate if a member dies after retirement.

Stipends paid to retirees to offset the cost of post-employment health care benefits are funded from excess earnings of the retirement association. The County does not contribute towards post-employment benefits other than retirement. The actuarial study dated June 30, 1998 projected the liability level for the health care stipend to be $ 93,346,000 based on current policy and member utilization. As of June 30, 2003, there are reserves of $104,850,359 for payment of this stipend. This is not a vested benefit and may be eliminated by the Board of Retirement by giving 90 days notice to retirees.

The Association's maximum stipend is $370 monthly to eligible members. There is no planned increase in the contribution for the upcoming fiscal year. Each such member is eligible for a graduated Association stipend of five percent of the maximum per full year of StanCERA service. Payment is applied towards the cost of a retiree's insurance plan(s) as approved by the Retirement Board and/or direct payment to the eligible member.

Past practice has been that each January 1, the monthly maximum dollar amount was increased by the automatic cost of living percentage adjustment paid to retirees on the prior May 1 retiree payroll (not to exceed 3%) except that on January 1 following a triennial actuarial study related to a truer percentage increase, such increase for the period may be used. For the upcoming year, the Board authorized that rates not be increased.

Ad-Hoc Benefits

Ad-hoc benefits are non-vested benefits which are determined by the Board of Retirement on an annual basis subject to funding availability. StanCERA may pay a special, supplemental cost-of-living adjustment to retirees who have suffered erosion of their cost-of-living benefits due to high inflation. This benefit is determined and paid annually.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Association is governed by the Board of Retirement and is considered an independent entity and therefore, does not report as a component unit of the County of Stanislaus. StanCERA's annual financial statements are referenced by footnote in the County of Stanislaus' Annual Financial Report.

Basis of Accounting

StanCERA follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines. The financial statements are prepared on an accrual basis of accounting, which recognizes income when earned and expenditures when the obligation has been incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and Deposits

Cash includes deposits with a financial institution and pooled cash and deposits with the Stanislaus County Treasurer. Pooled cash approximates fair value. Income on pooled cash is allocated on StanCERA's average daily balance in relation to total pooled assets.

Administrative Expenses

The Association's general administrative expense is funded by the investment income and it is limited to eighteen-hundredths of one percent (.18%) of the Association's total assets pursuant to Government Code Section 31580.2. The actual administration expense for the year was $1,147,117 of which $98,425 was not subject to the .18% limitation. Administrative expenses subject to the limitation amounted to .1080%.

Investments

The Board of Retirement has exclusive control of the investments of the Association. Statutes authorize the Board to invest, or to delegate the authority to invest, in any investment allowed by statue and considered prudent in the informed opinion of the Board.

Investments are stated at fair value in accordance with GASB Statement No. 25. Values for stocks, publicly traded bonds, issues of the U.S. Government and its agencies are valued according to sale prices of recognized exchanges as of the fiscal year end, with international securities reflecting currency exchange rates in effect at June 30, 2003 and 2002. Both domestic and international investments are denominated in U.S. currency.

Income Taxes

StanCERA qualifies under Section 401(a) of the Internal Revenue Code and is therefore not subject to tax under present income tax laws. No provision for income taxes has been made in the accompanying financial statements, as the plan is exempt from Federal and State income taxes under the provisions of the Internal Revenue Code. Section 501 and the California Revenue and Taxation Code Section 23701, respectively.

Management's Estimates

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

GASB 34

StanCERA adopted Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", which requires accrual accounting and extended analysis of the activities of the Plan for the fiscal year ending June 30, 2002.

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. Also, certain accounts presented in the prior year's data have been reclassified in order to be consistent with the current year's presentation.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions Receivable represents money withheld from employee salaries and employers' shares of retirement contributions for the month of June and received in July. Contributions Receivable as of June 30, 2003 and 2002 were $1,596,493 and $1,224,153, respectively.

NOTE 4 – CASH AND INVESTMENTS

The California State Constitution and the County Employees Retirement Law of 1937 give the Board of Retirement the exclusive authority to invest the assets of the Plan and the Board may, at its discretion, invest, or delegate the authority to invest, the assets of the Plan through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when deemed prudent in the informed decision of the Board. StanCERA invests the assets of the Plan according to a written Investment Policy established by the Board of Retirement and currently employs external investment managers to manage the assets subject to the guidelines in the investment policy.

Categories of Investment Risk

GASB Statement No. 3 defines three categories of credit risk, which give an indication of the level of risk assumed by StanCERA for deposits and investments. Except for amounts on deposit with the Stanislaus County Treasurer, StanCERA maintains all deposits and investments with its custodian, The Bank of New York.

Deposits are categorized as follows, to give an indication of the level of risk assumed by the Association at year-end:

Category 1 – Includes deposits insured or collateralized with securities held by the Association or by its agent in the Association's name.

Category 2 – Includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name.

Category 3 - Includes deposits uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Association's name.

Investments are categorized as follows, to give an indication of the level of risk assumed by the Association at year-end:

Category 1 – Includes investments insured or registered, or securities held by the Association or its agent in the Association's name.

Category 2 – Includes investments uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Association's name.

Category 3 - Includes investments uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Association's name.

Summary of Investments

The following is a schedule of deposits and investments, at fair value, by category:

	June 30, 2003	June 30, 2002
Investments – Category 1		
U.S. Government Obligations	$ 157,817,662	$ 211,331,829
Corporate Bonds	101,329,730	173,665,505
Domestic Stocks	294,549,699	408,211,102
Subtotal	553,697,091	793,208,436
Investments – Uncategorized		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Government Obligations	32,021,423	-0-
Corporate Bonds	26,491,416	-0-
Domestic Stocks	121,736,163	-0-
Domestic Equity Index Fund	47,668,206	-0-
International Equity Commingled Fund	146,115,740	80,208,514
Securities Lending Collateral Investment Pool	185,576,210	-0-
Stanislaus County Treasury Investment Pool	5,004,019	8,061,666
Subtotal	379,036,967	88,270,180
Deposits and Short-Term Investments – Category 3		
Securities Lending Cash Collateral	185,576,210	-0-
Bank of New York: Cash in Custodial Account	28,045,566	41,281,453
Subtotal	213,621,776	41,281,453
Total Deposits and Investments	$ 1,146,355,834	$ 922,760,069

StanCERA held no Category 2 investments at June 30, 2003 or 2002. Securities Lending information is not available for the year-ended June 30, 2002.

Deposits in County Treasury

Cash needed for StanCERA's daily operational purposes is pooled with other County funds by the County Treasurer for short-term investment purposes. The County is responsible for the control and safekeeping of all instruments of title and for all investment of the pooled funds. Investments in the County Investment Pool are managed according to the Investment Policy established by the County. Participation in the County Investment Pool is not mandatory.

Portfolio Concentrations

There were no individual securities that exceeded five percent (5%) of the assets of the association at June 30, 2003.

NOTE 5 – SECURITIES LENDING

State statutes and Board of Retirement Investment Policy permit StanCERA to participate in a securities lending program. Securities lending transactions, which are short-term collateralized loans of StanCERA securities to broker-dealers and other entities that allow StanCERA to invest and receive collateral for a loan rebate fee. Either StanCERA or the borrower can terminate all securities loans on demand, although the average term of the loans is one week. There are no restrictions on the amount of securities that may be lent.

StanCERA's custodial bank administers its securities lending program. The custodian is responsible for maintaining an adequate level of collateral in an amount equal to 102% of the market value of loaned securities. Colla teral received may include cash, letters of credit, or securities. If securities collateral is received, StanCERA cannot pledge or sell securities collateral unless the borrower defaults.

At year-end, StanCERA had no credit risk exposure to borrowers because the amounts StanCERA owed to borrowers exceeded the amounts the borrowers owed to StanCERA. StanCERA's contract with the custodian requires it to indemnify StanCERA if the borrower fails to return the securities and the collateral is inadequate to replace the securities lent or fail to pay StanCERA for income distributions by securities issuers while securities are on loan.

As of June 30, 2003, StanCERA had securities on loan with a carrying value of $180,249,002 and cash collateral of $185,576,210. The accrued market value of loaned securities was $185,689,080. The difference between the carrying value and the cash collateral is referred to as the securities lending collateral margin. As the securities on loan at year-end were collateralized by cash, investments are presented as unclassified in the preceding schedule of custodial credit risk. Investments made with cash collateral are classified by risk category.

Securities Lending Income
For the Year Ended June 30, 2003

Gross Income	$ 3,922,504
Expenses	
Borrower Rebates	2,927,676
Bank Fees	397,512
Total Expenses	3,325,188
Net Securities Lending Income	$ 597,316

Comparative data as of June 30, 2002 is not available.

Securities Transactions and Related Investment Income

Security Transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities.

NOTE 6 - CONTRIBUTIONS

Contribution Rates

Member basic rates are based on a formula reflecting the age at entry into the system. The rates are such as to provide an average annuity at age 55 for Plan 1 of 1/200th of the final average salary for General and Safety members; Plans 2, 4 and 5 of 1/120 of the final average salary for General members, and 1/200th of the final average salary for safety members. County (and former County agency) members in Plans 1 and 4 pay “half-rates”.

Member cost of living contributions, expressed as a percentage of their basic rates, are designed to pay for one-half of the cost of living liabilities for future service. For members integrated with Social Security, the above contributions are reduced by 1/3 of that portion of such contribution payable with respect to the first $350 of monthly salary. Member contributions are refundable upon termination from the system (except Plan 3).

The County rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the Retirement System (both basic and cost of living).

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his contributions plus interest will be refunded.

Contributions Required and Contributions Made

Stanislaus County Employees' Retirement Association's policies for employer contributions are actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. Stanislaus County Employees' Retirement Association also uses the level entry age normal cost method with an Unfunded Actuarial Accrued Liability (UAAL) to amortize the unfunded liability.

During September 1995, Stanislaus County issued "Pension Obligation Bonds" and contributed $107,500,000 to the retirement association to help fund any unfunded pension liabilities. During the fiscal year 1995-1996, the retirement board adopted the following schedule to fund any future unfunded liability for Stanislaus County (other employers amortization period remains unchanged):

Amount of Unfunded Actuarial Accrued Liability (UAAL)	Amortization Period
Less than $2,000,000	3 years
$2,000,000 to $5,000,000	5 years
$5,000,001 and over	10 years

In February 2003, the retirement board adopted a new amortization policy, where unfunded liabilities are amortized over a rolling 20-year period. This new policy applies to existing and future unfunded liabilities.

2003 contributions totaling $34,728,482 were made in accordance with actuarially determined contribution rates determined through an actuarial valuation performed at June 30, 2002. Employer contributions were 8.05% of covered payroll for Stanislaus County and 11.63% of covered payroll for other employers. Employee contributions, on an average, were 9.56% of covered payroll. Stanislaus County represented 91.25% of covered payroll and 90.32% of total contributions.

Significant actuarial assumptions used to compute contribution requirements differ from those used to compute the standardized measure of the pension obligation discussed below.

The valuation interest rate is 8.00% and the total salary scale increases of 5.5% (4.5% for inflation) per year were based on a study as of June 30, 2002 and dated June 10, 2003 and adopted by the Board of Retirement as of June 11, 2003.

	County	%	Districts	%	Total	%
Covered Payroll	176,788,924	91.25%	16,944,694	8.75%	193,733,618	100%
Employer Contributions	14,237,034	8.05%	1,970,843	11.63%	16,207,877	8.37%
Member Contributions	17,129,722	9.69%	1,390,882	8.21%	18,520,605	9.56%
Total Contributions	31,366,756	90.32%	3,361,725	9.68%	34,728,482	100%

Funding Method

The liability is being funded on the Entry Age Normal Cost method with an Unfunded Actuarial Accrued Liability (UAAL). The unfunded actuarial liability (UAAL) is being amortized as a level dollar amount. The amortization period is based on a rolling 20-year amortization with an accrual reset.

NOTE 7 – RESERVES

As required by the County Employee's Retirement Law of 1937 or the Board of Retirement's policies, the following reserves from Net Assets in Trust for Pension Benefits and Post Employment Healthcare Benefits must be established and used to account for the members, employees, and retirees' contributions.

Active Members' Reserve

This reserve represents the cumulative contributions made by active employees, after deducting refunds to the members, plus the investment earnings credited to the reserve at assumption rates determined by the actuary. For 2003, assumption rates were 8.0%. The earnings are credited to all appropriate active and deferred member accounts semi-annually. In addition, upon retirement, the active employee's contributions, plus interest credited to his/her account, are transferred from this reserve to Retired Members' Annuity Reserves.

Employer Advance Reserves

This reserve represents the cumulative contributions made by the County and certain special districts. Interest earnings are credited, semi-annually, to the reserves at assumption rates determined by the actuary.

Upon the retirement of an active member, an actuarially determined amount of his/her vested interests is transferred from the County Advance Reserves to the Retired Members' Pension Reserve.

As part of this advance funding of the County's pension obligation the County and the Retirement Board entered into an agreement whereby "Excess Earnings" as defined in the agreement will be allocated to the County’s (Employer Advance Reserve) at a rate of 25% for each full year. As of June 30, 2003 this money has been set-aside in the following reserve account "County Advance Reserve - P.O.B. Distribution" and amounted to $27,589,025.

Retired Members' Reserves

These reserves are established to account for the unpaid retiree's pension benefits. Upon the retirement of an employee, his/her contributions plus the interest earnings credited to his/her account are transferred from the Active Members' Reserve account to the Retired Members' Annuity Reserve account. In addition, the present value of the actuarially determined pension benefits are also transferred from the County Advance Reserves to the Retired Members' Pension Reserve account.

From these reserves, the Association pays the retiree his/her pension benefits in an amount computed in accordance with the County Employee's Retirement Law of 1937.

The Reserves are also credited with interest earnings semi-annually at assumption rates determined by the actuary.

Post Retirement Health Benefits

This reserve was established in 1981 to pay a portion of the retiree's health insurance premiums for those retirees with at least 5 years of StanCERA service. This reserve is not subject to market fluctuations and can only be decreased or increased by permission of the Retirement Association.

Undistributed Earnings/(Losses)

This "designation" account was established on June 30, 2003. It is used to minimize the impact of actuarial smoothing of assets and contains an accumulation of earnings or losses which have not been distributed to any other reserve.

Other Reserves

These reserves are for Contingencies, Retiree's Burial Allowance, Retiree's Special Cost of Living, Tier 3 Disability and Legal Contingencies. Reserve Account Balances are as follows:

	June 30, 2003	June 30, 2002
Active Members' Reserves	$ 176,621,754	$ 147,797,418
Employer Advance Reserves	321,745,149	285,113,515
Retired Members' Reserves	402,325,725	402,836,475
Other Reserves		
3% Contingency Reserve	29,031,935	--0--
Retiree Burial Allowance Reserve	3,265,633	3,470,633
Retiree Special Cost Of Living Reserve	3,068,899	4,097,134
Legal Contingency Reserve	2,599,174	2,599,174
Tier 3 Disability Reserve	6,429	7,650
Market Value Fluctuation Designation	--0--	(33,533,755)
Undistributed Earnings/(Losses)	(80,678,125)	--0--
Post Retirement Health Benefits	104,850,359	113,304,430
Total Reserves	$ 962,836,932	$ 925,692,674

NOTE 8 - INVESTMENT EXPENSES

Investment expenses include fees paid for investment consulting services, fund evaluation services, securities custodian services. Fees paid are charged against the Association's investment earnings pursuant to Government Code, Sections 31596.1 and 31592.5.

Investment Expenses

	June 30, 2003	June 30, 2002
Investment Managers	$ 2,233,316	$ 2,359,301
Investment Consultants	141,738	105,000
Custodial Fees	189,475	186,957
Actuarial Fees	52,012	68,295
Audit Fees	7,050	6,000
Total Investment Expenses	$ 2,623,591	$ 2,725,553

NOTE 9 - SIX - YEAR AND TEN - YEAR HISTORICAL TREND INFORMATION

The six and ten year historical trend information designed to provide information about the Association's progress made in accumulating sufficient assets to pay pension benefits when due is presented as required in the Required Supplemental Schedules Section.

NOTE 10 – VENTURA LITIGATION

StanCERA and the County of Stanislaus have been named as parties in litigation over the inclusion of certain items of pay and the calculation of final average salary in the case of *Randall Francis v Stanislaus County and the Stanislaus County Employees Retirement Association*. The case is currently on appeal to the State Supreme Court as part of a coordinated set of cases commonly referred to as “Ventura Litigation”. The case centers on the ruling of the State Supreme Court in the *Ventura County Deputy Sheriffs Associations v Ventura County Employees Retirement Association* (VCERA) where the court found that certain items of special pay were not being included in the calculation of final average salary by VCERA. In the Francis case, the plaintiff is seeking clarification and inclusion of additional items not included in the Ventura case and retroactive payment of any additional benefits.

The appellate court has ruled that the additional pay claimed in the Francis case should not be included in the calculation of final average pay however, payments on the original Ventura case should be made retroactive to October 1, 1994. Both sides have appealed this ruling.

StanCERA has estimated the cost of implementing this ruling, as it currently stands, at between $4 million and $7 million and estimates the likely of being overturned on appeal as very low. The cost of implementing the ruling will not have an adverse impact on StanCERA or the funding of the Plan.

REQUIRED SUPPLEMENTAL SCHEDULES

SCHEDULE OF FUNDING PROGRESS – PENSION BENEFIT PLAN
FOR THE SIX YEARS ENDING JUNE 30, 2003
GASB 25

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as a Percentage Of Covered Payroll ((b-a)/c)
07/01/1997	667,248 *	512,349	(154,899)	130.2%	121,275	-127.7%
07/01/1998	590,598	558,462	(32,136)	105.8%	120,172	-26.7%
07/01/1999	638,180	610,280	(27,900)	104.6%	141,799	-19.7%
07/01/2000	679,421	666,114	(13,307)	102.0%	157,010	-8.5%
07/01/2001	784,114	781,495	(2,619)	100.3%	174,595	-1.5%
07/01/2002	878,821	870,768	(8,053)	100.9%	196,471	-4.1%

* Includes “Other Designated Reserves” and the liabilities associated with these reserves

SCHEDULE OF CONTRIBUTIONS FROM PLAN EMPLOYERS PENSION BENEFIT PLAN FOR THE TEN YEARS ENDING JUNE 30, 2003 GASB 25

(Dollar amounts in thousands)

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/1993	$11,991	100%
6/30/1994	$12,775	100%
6/30/1995	$8,505	100%
6/30/1996	$8,809	100%
6/30/1997	$6,864	100%
6/30/1998	$7,438	100%
6/30/1999	$5,338	100%
6/30/2000	$5,899	100%
6/30/2001	$7,509	100%
6/30/2002	$11,341	100%
6/30/2003	$16,208	100%

The Association applied the parameters established by GASB Statements #25 and #26 in calculating and presenting the required actuarially determined information contained in both the Schedule of Funding Progress and Schedule of Employer Contributions.

Schedule of Funding Progress

Analysis of the dollar amounts of the pension benefit plan (Plan) net assets, actuarial accrued liability, and unfunded actuarial accrued liability, as presented on the Schedule of Funding Progress, in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability, however, provides one indication of the Association funding status on a going-concern basis. Analysis of this percentage over time will indicate whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusted for the effects of inflation will also aid analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

SUPPORTING SCHEDULES

SUPPORTING SCHEDULES
JUNE 30, 2003

SCHEDULE OF REVENUES BY SOURCE
(Dollars)

Fiscal Year Ending	Employee Contributions	Employer Contributions	% of Covered Payroll	Investment Income	Other Income	Total
06/30/1994	6,302,100	11,885,597	11.20%	32,686,508	-0-	50,874,205
06/30/1995	6,729,536	12,456,178	11.83%	39,048,987	1,401	58,236,102
06/30/1996	7,353,666	** 8,808,912	7.70%	57,685,085	172	73,847,835
06/30/1997	7,752,872	6,863,689	5.93%	91,629,759	118,199	106,364,519
06/30/1998	7,937,422	7,438,176	12.46%	99,455,177	248,795	115,079,570
06/30/1999	9,348,912	5,320,323	10.48%	87,721,314	419,890	102,810,439
06/30/2000	10,139,886	5,899,393	11.14%	58,374,163	156,778	74,570,220
06/30/2001	11,227,370	7,509,294	11.99%	68,306,772	116,452	87,159,888
06/30/2002	13,939,517	11,340,678	13.72%	(40,758,016)	97,700	(15,380,121)
06/30/2003	18,520,605	16,207,877	17.93%	50,459,774	723,478	85,911,734

** Does not consider County Bond Proceeds of $107,500,000.

SCHEDULE OF EXPENSES BY TYPE
(Dollars)

Fiscal Year Ending	Benefits	Administrative & Investment Expenses	Refunds	Total
06/30/1994	16,972,857	913,370	1,156,879	19,043,106
06/30/1995	18,196,442	1,142,050	1,334,354	20,672,846
06/30/1996	19,486,620	1,263,440	1,219,811	21,969,871
06/30/1997	21,070,309	1,481,672	1,533,530	24,085,511
06/30/1998	23,262,399	2,064,303	1,681,310	27,008,012
06/30/1999	28,231,589	1,998,312	1,279,841	31,509,742
06/30/2000	32,129,054	3,380,142	1,728,978	37,238,174
06/30/2001	34,965,706	3,777,637	1,163,380	39,906,723
06/30/2002	38,118,054	3,808,011	1,547,588	43,473,653
06/30/2003	43,435,482	3,770,708	1,561,286	48,767,476

SCHEDULE OF RATE OF RETURN ON INVESTMENT
(Dollars)

Total Assets At Book Cost (6-30-94 through 6-30-96) and at Market (6-30-97 through 6-30-03)

Fiscal Year Ending		Investment Income	Beginning of Fiscal Year	Ending of Fiscal Year	Average of Fiscal Year	Annualized Rate of Return on Investment
06/30/1994		32,686,508	280,019,000	310,848,864	295,434,000	11.06%
06/30/1995		39,048,993	310,848,864	350,609,494	330,729,179	11.81%
06/30/1996		57,685,085	350,609,494	508,173,201	429,391,348	13.43%
06/30/1997	MV	152,293,514	508,173,201 [2]	741,566,635 [1]	624,869,918 [2]	24.37% [2]
06/30/1998		99,456,261	741,566,635	829,075,862	785,321,248	12.66%
06/30/1999		72,197,586	829,075,862	901,273,448	865,174,655	8.34%
06/30/2000		58,374,163	901,273,448	939,335,834	920,304,641	6.34%
06/30/2001		68,306,772	939,335,834	988,786,681	964,061,258	7.09%
06/30/2002		-40,758,016	988,786,681	940,260,995	964,523,838	-4.23%
06/30/2003		50,459,774	940,260,995	1,157,151,826	1,048,706,410	4.8%

(1) The figures presented are from the Annual Report of Financial Transactions of Public Retirement Systems to the State Controller, which is audited annually. The book values of assets have been rounded to thousands.

[1] No longer provided to the State.

[2] Beginning Market Value = $614,284,199. Market to market Annualized Rate of Return = 20.4%.

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INVESTMENT SECTION

STRATEGIC INVESTMENT SOLUTIONS, INC.

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STANISLAUS COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Summary

Fiscal year 2003 saw a continuation of the trends that began in early 2000: declines in foreign stock markets and gains in fixed income securities. The exception was the US equity market, which experienced a strong quarterly rally ending June 2003, which reversed the previous downward trend. As a diversified investor, StanCERA participated in each of these markets while experiencing a +5.6% return for the year. The +5.6% result exceeded StanCERA's policy benchmark of +3.6% by +200 basis points for the year.

Fiscal year 2003 was slightly positive for the U.S. equity markets and once again not kind to foreign equity markets. For the fiscal year, the Russell 3000 US Stock Index gained +0.8% and the MSCI EAFE Index of foreign stocks fell by -6.1%. Attempts by the Federal Reserve Bank to stimulate the economy by lowering interest rates helped the US fixed income market return +10.4% for the fiscal year, as measured by the Lehman Aggregate Bond Index.

Allocations to StanCERA's asset classes helped results during the fiscal year. Throughout most of the fiscal year, StanCERA held a slight overweight in fixed income securities versus its 36.4% target, which helped results significantly. It should be noted that all asset classes were rebalanced back to their target weights in the beginning of the most recent quarter, ending June 30, 2003.

Investment Policy, Asset Deployment Policy and Performance Measurement Standards

StanCERA periodically reviews and updates its policy statement. The primary financial objective is to earn a long-term return sufficient to avoid deterioration in funded status. The system's actuary estimates this return requirement to be 8.00%.

Secondary goals are to outperform the asset allocation-weighted benchmark (48.6% US Equities, 15.0% Non-US Equities and 36.4% Fixed Income) and to rank in the top forty percent of a universe of public pension funds.

At quarterly intervals, the System reviews performance at the total fund, asset class and individual manager levels. At each level, returns are evaluated versus appropriate indexes and peers. Comparisons with peers seek top forty percentile results.

Investment Objectives
Investment returns achieved through June 30, 2003 have been calculated using the return methodology endorsed by the Association for Investment Management and Research (AIMR). In fiscal year 2003, StanCERA met its management goals of ensuring sufficient funds available to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, and adding marginal value.

Investment Results

PERIODS ENDED 6/30/03	ONE YEAR	THREE YEARS	FIVE YEARS
Domestic Equity	+1.1%	-1.8%	2.4%
Russell 3000	+0.8%	-10.5%	-1.1%
Rank	33*	36	42
Non-US Equity	-7.2%	-12.3%	+1.1%%
MSCI EAFE	-6.1%	-13.2%	-3.7%
Rank	61	58	41
Fixed Income	+11.0%	+11.1%	+8.1%
Lehman Aggregate	+10.4%	+10.1%	+7.5%
Rank	42	14	17
Total Fund	+5.6%	+5.0%	+6.5%
*Policy Benchmark****	+3.6%	-2.3%	+3.1%
Public Fund Median	+4.1%	-1.1%	+3.1%
Rank**	21	4	1

* Ranking 1 is best, 100 is worst.
** Rankings source - ICC Public Funds Universe
***Policy Benchmark is 39% Russell 1000/ 10% Russell 2000/ 36% Lehman Agg/ 15% MSCI EAFE

Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in conformance with AIMR performance presentation standards.

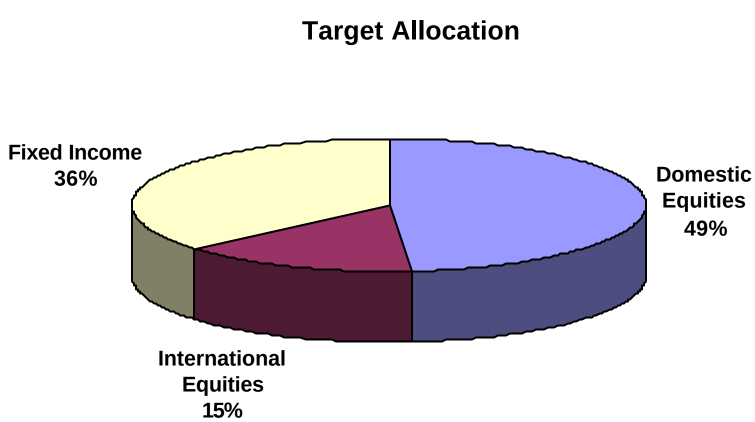
Paul S. Harte
Paul S. Harte
Vice President
Strategic Investment Solutions, Inc.
November 18, 2003

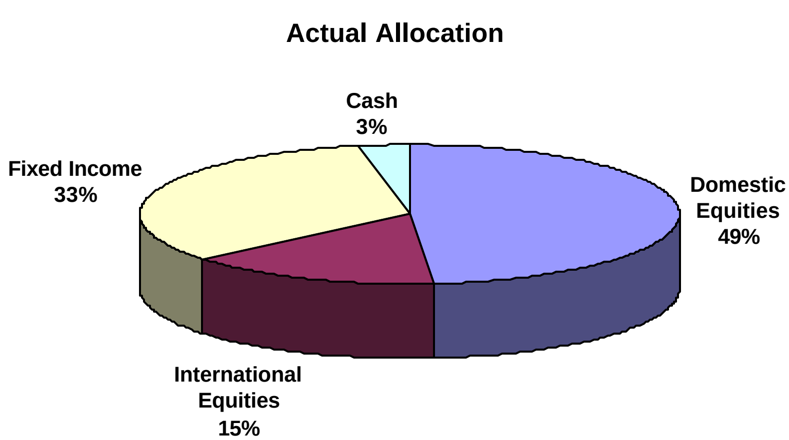
ASSET ALLOCATION
AS OF JUNE 30, 2003

Asset Class	Market Value	Actual Allocation	Target Allocation
Domestic Equities	463,954,068	48.5%	48.6%
International Equities	146,115,740	15.3%	15.0%
Fixed Income	317,660,231	33.2%	36.4%
Cash *	28,045,566	3.0%	0.0%
Total Portfolio	955,775,605	100.0%	100.0%

* Excludes Pooled Cash in County Treasury of $5,004,019

Asset Allocation





LARGEST HOLDINGS (BY MARKET VALUE)
JUNE 30, 2003

Stocks

Shares	Stock	Market Value
190,072	Pfizer Inc	$ 6,490,959
219,360	Microsoft Corp	5,624,390
181,243	Comcast Corp New	5,469,914
250,905	Hewlett Packard Company	5,344,277
81,350	FedEx Corporation	5,046,141
222,800	Mc Donald’s Corporation	4,914,968
258,990	Schering-Plough Corp	4,817,214
290,550	AOL Time Warner Inc	4,674,950
172,600	News Corp Limited ADR	4,323,630
400,000	Xerox Corporation	4,236,000

Bonds

Par	Bond	Market Value
22,750,000	U S Treasury Notes 3.38% due 04/30/2004	$ 23,197,891
13,311,835	FHLMC 5.50% due 03/01/2014	13,875,458
11,000,000	U.S. Treasury Notes 6.75% due 05/15/2005	12,113,750
9,120,000	FHLMC 6.00% due 05/01/2017	9,484,954
8,608,686	FNMA 6.00% due 11/01/2014	9,005,632
7,000,000	GMAC 8.88% due 06/01/2010	7,933,940
6,615,243	Union Pacific Railroad Co 6.33% due 01/02/2020	7,355,621
6,807,333	FNMA 5.50% due 08/01/2015	7,105,630
6,477,269	FNMA 6.50% due 07/25/2042	6,977,236
6,289,531	FHLMC 6.00% due 12/15/2014	6,425,583

SCHEDULE OF INVESTMENT FEES

	2003	2002
Domestic Equities		
Dodge & Cox	$ 474,055	$ 600,993
TCW Asset Management	141,432	450,960
MFS Institutional Advisors	479,559	467,395
Charlotte Capital	145,693	0
Bank of New York	3,551	0
Total Domestic Equity	1,244,290	1,519,348
International Equities		
Putnam Investments	564,772	431,172
Total International Equities	564,772	431,172
Fixed Income		
Dodge & Cox	424,254	408,781
Total Fixed Income	424,254	408,781
Total Investment Management Fees	$ 2,233,316	$2,359,301
Other Investment Fees and Expenses		
Custodial Fees	$ 189,475	$ 186,957
Consultant Fees	141,738	105,000
Miscellaneous Fees	59,062	74,295
Total Other Investment Expenses	$ 390,275	$ 366,252
Total Investment Fees and Expenses	$ 2,623,591	$ 2,725,553

INVESTMENT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2003

	Market Value *(Includes Cash)**	Percentage of Assets	Current Year Return	3 Year Return	5 Year Return
Domestic Equities					
Large Cap Value					
Dodge & Cox	$ 167,654,601	17.6%	0.4%	8.8%	7.8%
Russell 1000 Value Index			*-1.0%*	*-0.2%*	*2.1%*
Large Cap Growth					
MFS Institutional Advisors	142,852,241	14.9%	0.2%	N/A	N/A
Russell 1000 Growth Index			*2.9%*	*n/a*	*n/a*
Small Cap Value					
Charlotte Capital	73,302,118	7.7%	N/A	N/A	N/A
Russell 2000 Value Index			*n/a*	*n/a*	*n/a*
Small Cap Growth					
TCW Asset Management	47,061,071	4.9%	-0.6%	-33.3%	N/A
Russell 2000 Growth Index			*0.7%*	*-16.7%*	*n/a*
S&P 500 Index					
Bank of New York	47,668,206	5.0%	N/A	N/A	N/A
S&P 500 Index			*n/a*	*n/a*	*n/a*
Total Domestic Equity	$ 478,538,237	50.1%	1.1%	N/A	N/A
Russell 3000 Index			*0.8%*	*n/a*	*n/a*
International Equities					
Putnam Investments	146,115,740	15.3%	-7.2%	-12.3%	1.1%
MSCI EAFE Index			*-6.1%*	*-13.2%*	*-3.7%*
Total International Equities	146,115,740	15.3%			431,172
Fixed Income					
Dodge & Cox	331,121,628	34.6%	11.0%	11.1%	8.1%
Lehman Aggregate Index			*10.4%*	*10.1%*	*7.5%*
Total Fixed Income	331,121,628	34.6%			408,781
Total Investments	$ 955,775,605	100.0%	5.6%	5.0%	6.5%
StanCERA Policy Index			*3.6%*	*-2.3%*	*3.1%*

* Excludes Pooled Cash in County Treasury of $5,004,019

ACTUARIAL SECTION

Mellon

Human Resources & Investor Solutions

ACTUARY'S CERTIFICATION LETTER

Mellon Consultants, Inc.
525 Market Street 34th Floor
San Francisco, California 94105

December 23, 2003

Board of Retirement
Stanislaus County
Employees' Retirement Association
1010 10th Street, Suite 5800
Modesto, California 95353

Members of the Board:

Re: *Actuarial Certification of the Stanislaus County Employees' Retirement Association*

Mellon Consultants, Inc. is the Consulting Actuary for the Stanislaus County Employees' Retirement Association.

The date of the most recent actuarial valuation was June 30, 2002. In each actuarial study, we conduct an examination of all participant data for reasonableness.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level dollar to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 2002, the amortization period for the UAAL was 20 years. The funding objective of the Plan is to establish contribution rates which, over time, will remain as a level percentage of payroll unless Plan benefit provisions are changed.

For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all gains and losses (returns above or below expected returns) over five years and is being phased in over a 5-year period beginning June 30, 2001. The System's financial statements are audited by an outside auditor.

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by us as being appropriate for use under the Plan. An analysis of the Plan's noneconomic experience was performed as of June 30, 2000 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is due to be performed as of June 30, 2003.

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

Respectfully submitted,

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
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Actuarial Assumptions

Post-Retirement Mortality

(1) Service

General

Males	1983 Group Annuity Mortality Table with 1 -year setback (Male)
Females	1983 Group Annuity Mortality Table with l -year set forward (Female)
Safety	1983 Group Annuity Mortality Table with no set back (Male)

(2) Disability

General	1981 Disability Mortality Table with no set back for General Members
Safety	1981 Disability Mortality Table for Safety Members with no set back

(3) For Employee Contribution Rate Purposes

General	1994 Group Annuity Table for Males, set back three years
Safety	1994 Group Annuity Table for Males, with no set backs

Pre-Retirement Mortality	Rates vary by age, gender and classification
Withdrawal Rates	Rates vary by age, gender and classification
Disability Rates	Rates vary by age, gender and classification
Service Retirement Rates	Rates vary by age, gender and classification
Asset Valuation	Actuarial Values

Actuarial Assumptions (continued)

Valuation date	June 30, 2002
Actuarial cost method	Entry age normal actuarial cost method
Amortization method	The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount. The amortization period is based on a rolling 20 year amortization, with an annual reset.
Amortization method (continued)	The (UAAL) attributed to Other Employers is amortized as a level percentage of pay over the period ending June 30, 2023.
Asset valuation method	90 % of market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5.5%
* includes inflation at:	4.5%
Retirees' cost-of-living adjustments	3.0% (Max)

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Age	Duty Death	Ordinary Death	Death While Eligible	Duty Disability	Ordinary Disability	Service	Terminated Vested	Withdraw
General Members – Male								
20	0.000000	0.000300	0.000000	0.000130	0.000260	0.000000	0.000000	0.119180
25	0.000000	0.000300	0.000100	0.000307	0.000614	0.000000	0.015800	0.099600
30	0.000000	0.000400	0.000100	0.000632	0.000632	0.000000	0.026300	0.086750
35	0.000000	0.000500	0.000200	0.000852	0.000852	0.000000	0.029500	0.069840
40	0.000000	0.000600	0.000300	0.001204	0.001203	0.000000	0.028000	0.053900
45	0.000000	0.000900	0.000500	0.001840	0.001841	0.000000	0.022000	0.035200
50	0.000000	0.001000	0.001100	0.002690	0.002690	0.040000	0.014700	0.019600
55	0.000000	0.001200	0.002000	0.003680	0.003680	0.075000	0.009900	0.011300
60	0.000000	0.001700	0.003100	0.004912	0.004913	0.120000	0.006000	0.006000
65	0.000000	0.002200	0.004500	0.000000	0.000000	0.500000	0.000000	0.000000
General Members – Female								
20	.000000	.000200	.000000	.000025	.000050	.000000	.000000	.142344
25	.000000	.000300	.000075	.000050	.000100	.000000	.011808	.101016
30	.000000	.000300	.000075	.000100	.000200	.000000	.017955	.086022
35	.000000	.000500	.000075	.000282	.000562	.000000	.020853	.066825
40	.000000	.000600	.000150	.000669	.000892	.000000	.020520	.050616
45	.000000	.000700	.000225	.001211	.001616	.000000	.019170	.038907
50	.000000	.000800	.000600	.001942	.002590	.050000	.023490	.031320
55	.000000	.000900	.001275	.002984	.003980	.050000	.020520	.023490
60	.000000	.001100	.002100	.004192	.005588	.100000	.017190	.017190
65	.000000	.001700	.003225	.000000	.000000	.400000	.000000	.000000
Safety Members – All (Tiers 1 & 2)								
20	0.000150	0.000151	0.000000	0.001012	0.000173	0.000000	0.000000	0.094900
25	0.000189	0.000190	0.000130	0.002576	0.000409	0.000000	0.010230	0.074700
30	0.000254	0.000254	0.000130	0.004609	0.000421	0.000000	0.015510	0.056300
35	0.000357	0.000357	0.000130	0.007079	0.000568	0.000000	0.012320	0.029800
40	0.000564	0.000564	0.000260	0.009283	0.000802	0.000000	0.009130	0.016600
45	0.000885	0.001178	0.000520	0.011297	0.001227	0.000000	0.004290	0.006200
50	0.000703	0.000937	0.001300	0.015092	0.001793	0.060000	0.001540	0.001900
55	0.001055	0.001406	0.002990	0.017230	0.002453	0.333300	0.000990	0.001000
60	0.000000	0.000000	0.000000	0.000000	0.000000	1.000000	0.000000	0.000000
Safety Members – All (Tiers 4 & 5)								
20	0.000150	0.000151	0.000000	0.001012	0.000173	0.000000	0.000000	0.094900
25	0.000189	0.000190	0.000130	0.002576	0.000409	0.000000	0.010230	0.074700
30	0.000254	0.000254	0.000130	0.004609	0.000421	0.000000	0.015510	0.056300
35	0.000357	0.000357	0.000130	0.007079	0.000568	0.000000	0.012320	0.029800
40	0.000564	0.000564	0.000260	0.009283	0.000802	0.000000	0.009130	0.016600
45	0.000885	0.001178	0.000520	0.011297	0.001227	0.005000	0.004290	0.006200
50	0.000703	0.000937	0.001300	0.015092	0.001793	0.090000	0.001540	0.001900
55	0.001055	0.001406	0.002990	0.017230	0.002453	0.333300	0.000990	0.001000
60	0.000000	0.000000	0.000000	0.000000	0.000000	1.000000	0.000000	0.000000

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Effective as June 30, 2002, the Board has adopted an actuarial value of assets method that recognizes the difference between expected and actual market returns, net of expenses, over a 5-year period. The resulting actuarial value cannot exceed 120% of market value or be less than 80% of market value. The new method is being phased in over a five-year period starting June 30, 2001.

Under this method, the Actuarial Value of Assets as of June 30, 2002 was determined as follows:

1. Market Value of Assets as of June 30, 2002 — $925,692,674
2. Actuarial Value Fluctuation Reserve

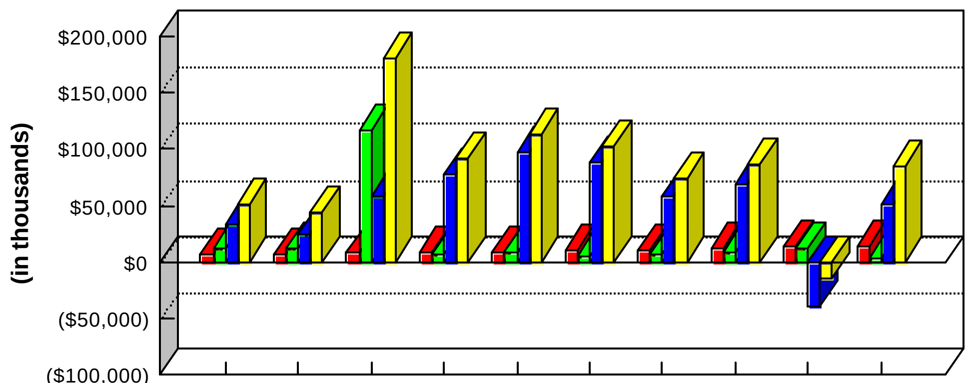
	(a) Contributions	(b) Benefit Payments	(c) Expected Investment Return	(d) Actual Investment Return	(e)=(d)-(c) Additional Earnings	(f) Percent Not Recognized	(g)=(e)x(f) Portion Not Recognized	
2001	$18,736,664	$36,129,086	$69,234,589	$64,645,587	$(4,589,002)	60%	$(2,753,401)	
2002	22,280,195	39,665,643	80,063,142	(44,468,326)	(124,531,468)	80%	(99,625,175)	
Total							(102,378,576)	(102,378,576)

3. Actuarial Value of Assets as of June 30, 2002 (3)=(1)-(2)		$1,028,071,250
4. Corridor Limit		
a.		$740,554,139
		$1,110,831,209
5. Actuarial Value of Assets After corridor as of June 30, 2002		$1,028,071,250
6. Special Reserves		
Health Insurance Reserve	111,304,431	
Burial Allowance Reserve	3,470,633	
Special COLA Reserve	4,097,133	
3% Contingency Reserve	27,770,780	
Tier 3 Disability Reserve	7,650	
Legal Contingencies Reserve	2,599,174	
		$149,249,801
7. Pension Reserves at Actuarial Value (7)=(5)-(6)		$878,821,449

STATISTICAL INFORMATION

STATISTICAL INFORMATION
JUNE 30, 2003

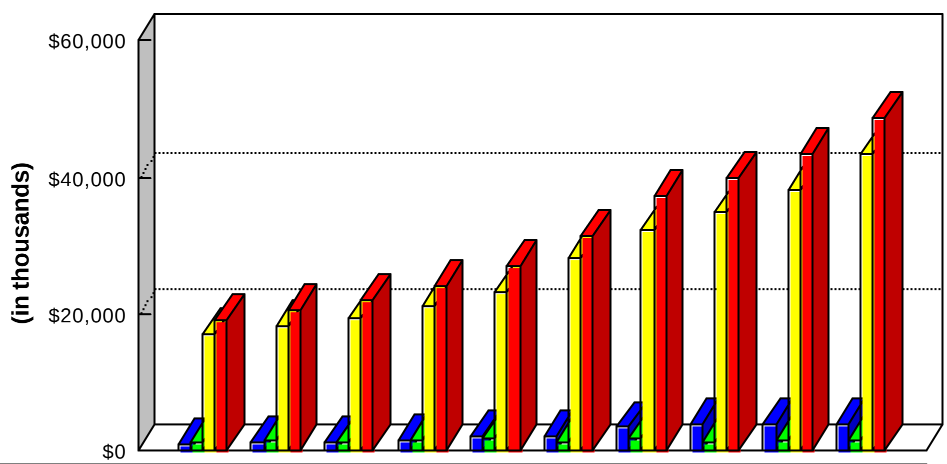
Revenue by Source



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Employee Contrib.	$6,302	$6,730	$7,354	$7,753	$7,937	$9,349	$10,140	$11,227	$13,940	$13,501
Employer Contrib.	$11,886	$12,456	$116,309	$6,864	$7,438	$5,337	$5,899	$7,509	$11,341	$3,052
Investments	$32,687	$25,149	$57,685	$77,058	$97,256	$87,721	$58,374	$68,423	($40,377)	$50,460
Total	$50,874	$44,335	$181,348	$91,675	$112,631	$102,407	$74,413	$87,159	($15,096)	$85,188

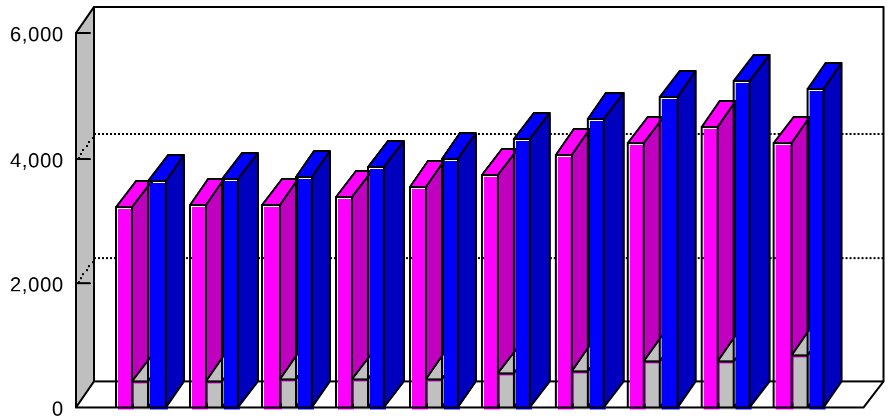
1996 includes $107.5M Pension Obligation Bonds
Investments excludes unrealized gains/losses

Expenses by Type



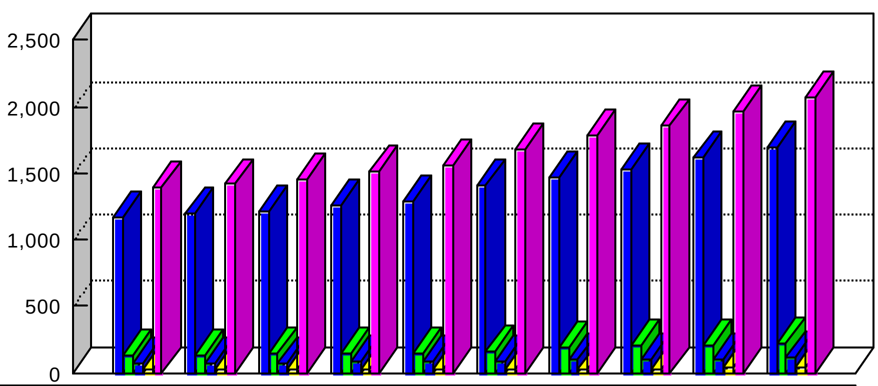
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Administrative	$913	$1,082	$1,263	$1,482	$2,064	$1,998	$3,380	$3,778	$3,808	$3,771
Withdrawals	$1,157	$1,334	$1,220	$1,534	$1,681	$1,280	$1,729	$1,163	$1,548	$1,561
Benefits	$16,973	$18,196	$19,487	$21,070	$23,262	$28,232	$32,130	$34,966	$38,118	$43,435
Total	$19,043	$20,613	$21,970	$24,086	$27,008	$31,510	$37,239	$39,907	$43,474	$48,767

Membership History
(Active and Deferred)



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Active	3,235	3,249	3,263	3,389	3,538	3,749	4,045	4,235	4,507	4,263
Deferred	417	425	453	460	458	550	602	767	745	841
Total	3,652	3,674	3,716	3,849	3,996	4,299	4,647	5,002	5,252	5,104

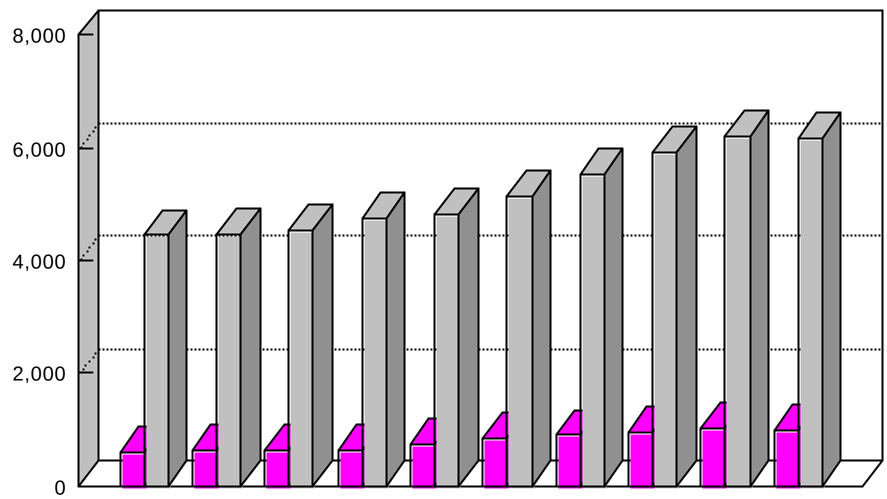
Membership History
(Retired)



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Service	1,162	1,193	1,209	1,262	1,293	1,404	1,465	1,524	1,615	1,701
Serv. Conn. Dis.	125	128	140	145	144	166	187	205	210	221
Non-Serv. Dis.	76	70	77	80	85	85	99	102	104	110
Surv. Death Ben.	25	25	26	23	30	28	29	30	34	35
Total	1,388	1,416	1,452	1,510	1,552	1,683	1,780	1,861	1,963	2,067

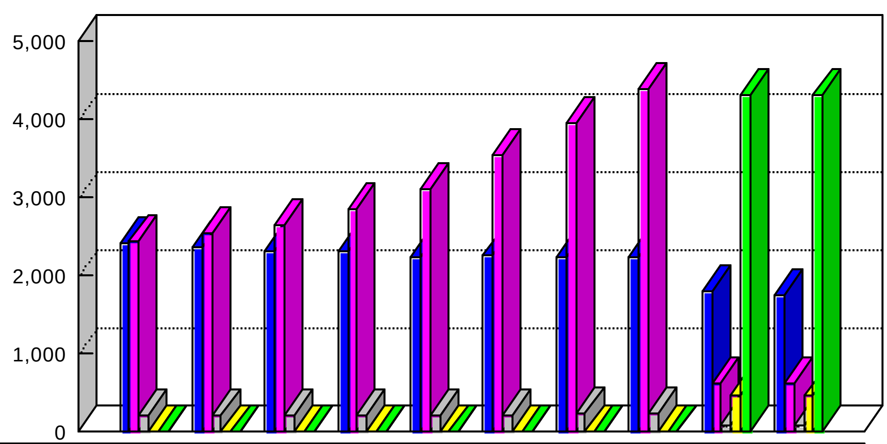
STATISTICAL INFORMATION
JUNE 30, 2003

Membership Classification



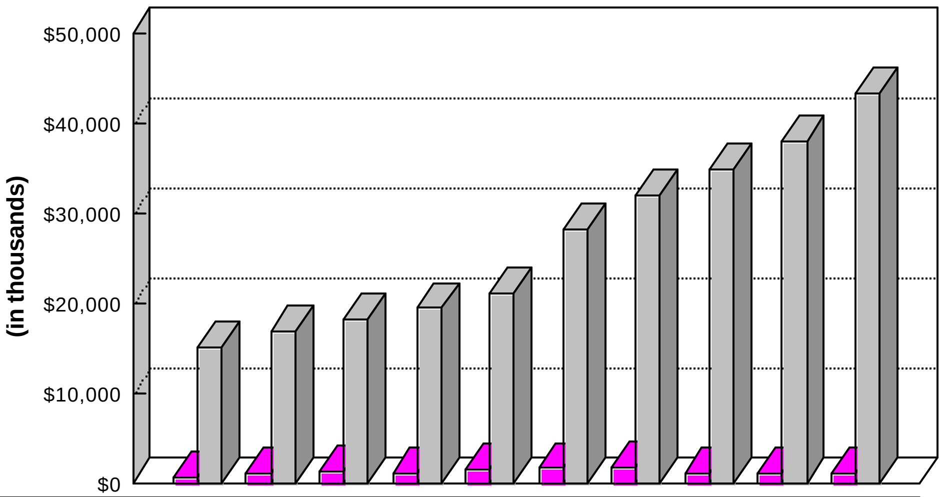
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Safety	592	627	632	621	730	844	900	944	1,017	1,004
General	4,448	4,463	4,536	4,738	4,818	5,138	5,527	5,919	6,198	6,167

Membership by Tier



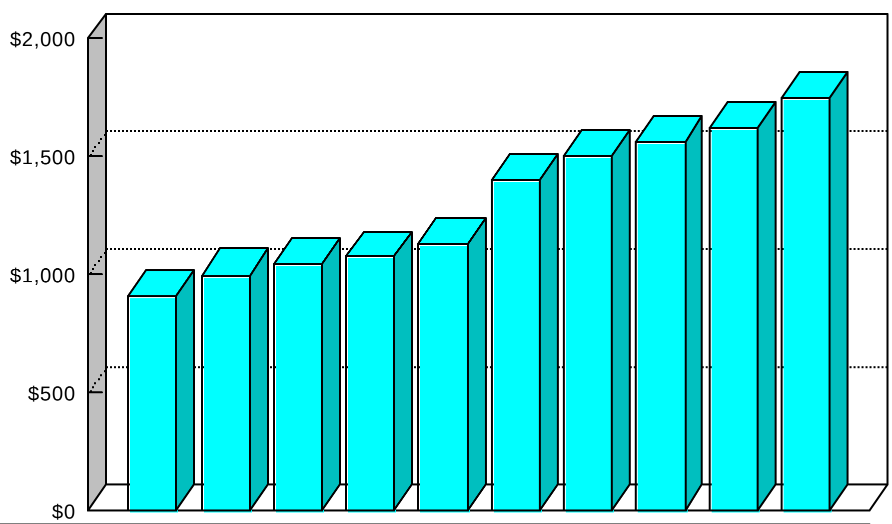
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Tier 1	2,416	2,362	2,315	2,301	2,235	2,246	2,238	2,236	1,783	1,752
Tier 2	2,436	2,534	2,647	2,856	3,111	3,539	3,967	4,399	609	605
Tier 3	188	194	206	202	202	197	222	228	67	67
Tier 4	0	0	0	0	0	0	0	0	443	440
Tier 5	0	0	0	0	0	0	0	0	4,313	4,307

Withdrawals and Benefits Paid



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Withdrawals	$733	$1,157	$1,334	$1,220	$1,534	$1,681	$1,729	$1,163	$1,163	$1,163
Benefits	$15,180	$16,973	$18,196	$19,487	$21,070	$28,232	$32,130	$34,966	$38,118	$43,435

Average Monthly Retirement Benefits



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Monthly Allowance	$911	$999	$1,044	$1,075	$1,131	$1,398	$1,504	$1,566	$1,618	$1,751