



STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION  
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Modesto, CA 95353-3150

CORRESPONDENCE NO. 3  
Page 1 of 71

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**MEMORANDUM**

TO: Christine Ferraro-Tallman, Clerk to the  
Stanislaus County Board of Supervisors

FROM: Tom Watson, Retirement Administrator *Tom Watson*

SUBJECT: Comprehensive Annual Financial Report (CAFR) FYE June 30, 2008

DATE: December 10, 2008

✓  
BOARD OF SUPERVISORS  
2008 DEC 10 P 12:41

Enclosed please find six copies of the Comprehensive Annual Financial Report (CAFR) of the Stanislaus County Employees' Retirement Association (StanCERA) for the fiscal year ending June 30, 2008 (including comparison with the fiscal year ending June 30, 2007).

This report is prepared in accordance with the County Employees' Retirement Law of 1937, Generally Accepted Accounting Principles (GAAP) and applicable reporting guidelines for retirement systems. It contains the required financial statements, investment, actuarial, statistical, and related supplementary information.

The report is posted on our website ([www.stancera.org](http://www.stancera.org)) and can be reproduced as needed. Please contact StanCERA should you have any questions regarding the CAFR.

*A special thank you goes to Keith Boggs, Deputy Executive Officer, for his talent and generosity in creating the front cover of the CAFR.*

cc: Richard Robinson, CEO

**Stanislaus County  
Employees' Retirement Association**  
(Pension Trust Fund for the County of Stanislaus, California)

# Comprehensive Annual Financial Report

For the Fiscal Years Ended  
June 30, 2008 and  
June 30, 2007



Cover Artwork by:  
Keith D. Boggs  
Deputy Executive Officer – Economic Development  
County of Stanislaus, CA

**STANISLAUS COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

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

***COMPREHENSIVE ANNUAL FINANCIAL  
REPORT***

**For the Years Ended  
June 30, 2008 and 2007**

Issued By

Tom Watson  
Retirement Administrator

Natalie Elliott, CPA  
Retirement Accountant

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# INTRODUCTION SECTION

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Fax (209) 558-4976  
www.stancera.org  
retirement@stancera.org**

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## **LETTER OF TRANSMITTAL**

September 22, 2008

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

Dear Board Members:

Please find enclosed the Comprehensive Annual Financial Report (CAFR) of the Stanislaus County Employees' Retirement Association (StanCERA) for the fiscal year ending June 30, 2008, our 60<sup>th</sup> year of operations.

The CAFR is a detailed financial report guideline established by the Government Finance Officers Association (GFOA) for publicly disclosing the viability of a defined benefit public retirement system. The CAFR is intended to provide users with extensive reliable information for making management decisions, determining compliance with legal provisions, and demonstrates the responsible management and stewardship of StanCERA. StanCERA management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of financial information within this CAFR, including all disclosures.

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).

### **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  
East Side 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 and is comprised of nine members and two alternate members, one of whom is a safety alternate and the other a retiree alternate. The safety alternate seat is not currently filled. Four board members are appointed by the Stanislaus County Board of Supervisors, one board member 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 alternate retiree member 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.

An overview of StanCERA's fiscal operations for the year ended June 30, 2008, is presented in the Management's Discussion and Analysis (MD&A), located in the financial section of the CAFR. This transmittal letter, together with the MD&A, provides an expanded view of the activities of StanCERA.

Brown Armstrong CPA's, StanCERA's independent auditor, has audited the accompanying financial statements. Management believes an adequate system of internal control is in place and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.



### 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, 2006 by Buck Consultants. Buck Consultants conducted the last actuarial valuation as of June 30, 2006 and determined the plan's funding ratio (ratio of plan assets to plan liabilities) to be 96.6% using the recommended assumptions. Due to the restructuring of StanCERA's former actuary firm and a Request for Proposal for actuary services, a valuation was not performed for the fiscal year ending June 30, 2007. The next actuarial valuation is in process for the fiscal year ending June 30, 2008.

Stanislaus County issued \$108 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 objectives 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 to ensure growth of assets to meet future liabilities, minimize employer contributions and defray reasonable administrative costs. StanCERA engages an Investment Consultant to analyze investment policy and strategy and conduct periodic asset allocation and asset/liability studies on behalf of StanCERA. For the fiscal years ended June 30, 2008 and June 30, 2007, the Plan's investments provided a -8.2% and +16.8% rate of return respectively. A summary of the asset allocation can be found in the Investment Section of this report.

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to StanCERA for its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the third consecutive year StanCERA has achieved this prestigious award.

### **Awards (continued)**

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which meet or exceed program standards. The CAFR 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 our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA for evaluation.

StanCERA also received the Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ending June 30, 2007. This report replaced the Members' Annual Report providing all StanCERA members more concise and condensed information than can be found in the CAFR.

### **Service Efforts and Accomplishments**

Total written communication for members has improved and stabilized over the last few years. In addition to special mass mailings of critical information, all members receive four newsletters a year and the Popular Annual Financial Report (PAFR). The PAFR has a fresh, concise new look that will further communicate the financial health of the fund to our members. Non-retired members also receive two Member Statements.

StanCERA continues to increase its visibility by giving benefit presentations to interested employees where they work. These individual department presentations continue to be well received and staff encourages departments to request presentations.

Our website has been expanded to include most major retirement policies and guidelines along with forms, a retirement calculator and video clips of our educational presentations.

In order to preserve the Revocable Health Benefit Subsidy for our retirees, StanCERA revised the policy from \$18.50 per year of service for a maximum of 20 years or \$370 per month to \$12.33 per year of service for a maximum of 30 years or \$370 per month for members with five years or more of StanCERA service effective January 1, 2008. Effective January 1, 2010 members must have a minimum of ten years of StanCERA service to be eligible to receive this benefit.

StanCERA has contracted with EFI Actuaries to perform the actuarial valuation for the fiscal year ending June 30, 2008.


StanCERA's antiquated PBX phone system has now been replaced with a new Voice Over Internet Protocol (VoIP) system. The published fax number and internal phone numbers were changed to accommodate the new system.

### 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 are 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,

A handwritten signature in black ink that reads "Tom Watson". The signature is written in a cursive, slightly slanted style.

Tom Watson  
Retirement Administrator

**BOARD OF RETIREMENT  
JUNE 30, 2008**

**Mike Fisher, Chair**

Appointed by the Board of Supervisors

**Gordon Ford, Vice-Chair, Ex-Officio**

Treasurer/Tax Collector

**Maria DeAnda, Trustee**

Elected by Active General Membership

**Linda Stotts-Burnett, Alternate Trustee**

Elected by Retired Membership

**Darin Gharat, Trustee**

Elected by Active Safety Membership

**Mike Lynch, Trustee**

Appointed by the Board of Supervisors

**Ron Martin, Trustee**

Appointed by the Board of Supervisors

**Steve Yauch, Trustee**

Elected by Active General Membership

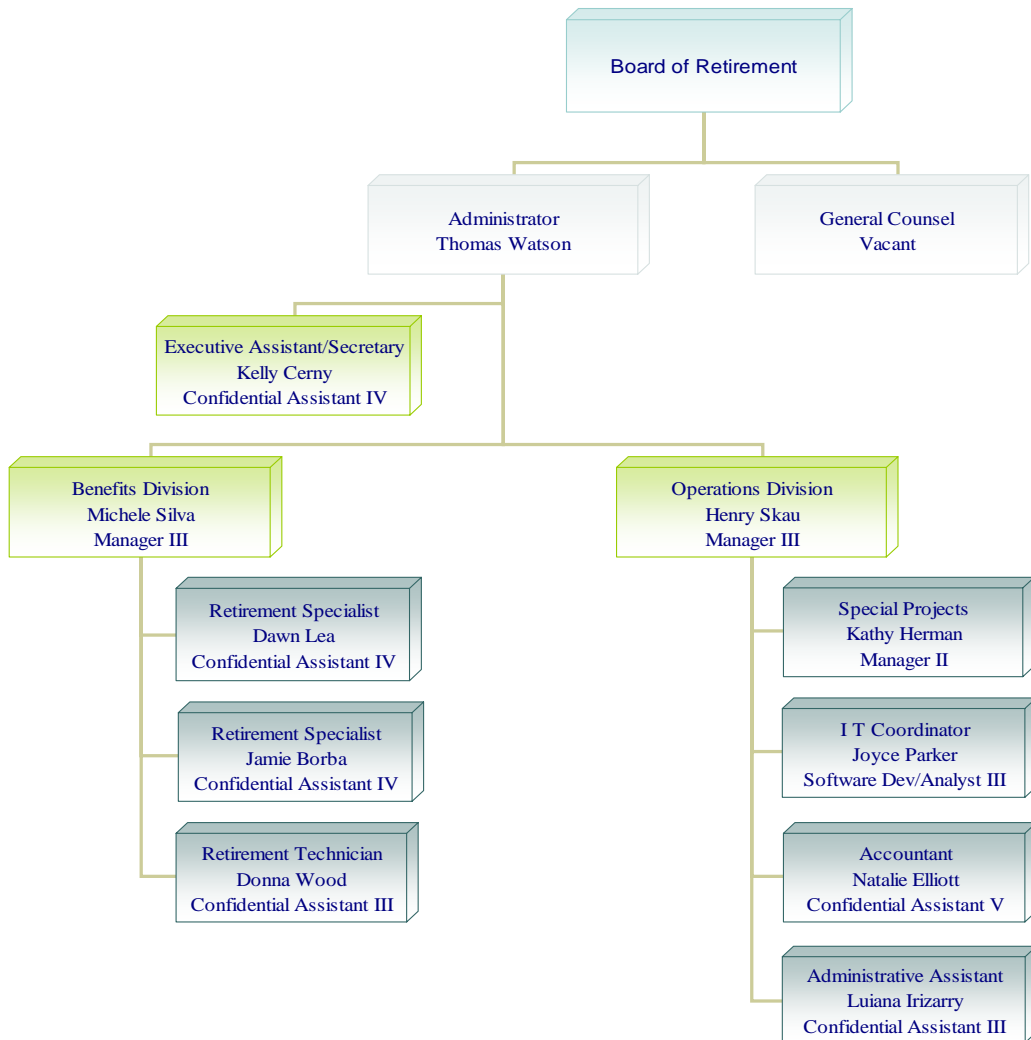
**Jim DeMartini, Trustee**

Appointed by the Board of Supervisors

**Wes Hall, Trustee**

Elected by Retiree Membership

**StanCERA Organizational Chart  
Effective November 26, 2007**



## PROFESSIONAL CONSULTANTS

### Consulting Services

#### **Actuary**

Buck Consultants, LLC  
Milliman, Inc (Actuary Audit)

#### **Auditors**

Brown Armstrong, CPA's

#### **Investment Custodian**

The Bank of New York

#### **Investment Consultant**

Strategic Investment Solutions, Inc.

#### **Health Insurance Consultant**

Benefit Management Technology,  
Inc.

#### **Legal Counsel**

County Counsel, County of  
Stanislaus  
Curtis & Arata  
Law Office of Ted M Cabral  
Hansen Bridgett Marcus Vlahos  
Rudy, LLP  
Rein & Rein

#### **Technical & Data Services**

Tyler, Inc.  
SBT, County of Stanislaus

### Investment Management Services

#### **Fixed Income**

Dodge & Cox

#### **Large Cap Value Equity**

Dodge & Cox

#### **Large Cap Growth Equity**

Delaware Investments  
Loomis Sayles & Company, LP

#### **Small Cap Value Equity**

The Bank of New York Mellon  
Corporation

#### **Small Cap Growth Equity**

Mazama Capital Management

#### **International Equity**

LSV Asset Management  
Pyramis Global Advisors

#### **Domestic Equity Index Funds**

Mellon Capital Management

#### **Global REIT's**

Invesco National Trust Company



## GFOA Certificate of Achievement Award

### Certificate of Achievement for Excellence in Financial Reporting

Presented to

Stanislaus County

Employees' Retirement Association

California

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2007

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.



*Oliver S. Cox*

President

*Jeffrey R. Emmer*

Executive Director



# FINANCIAL SECTION

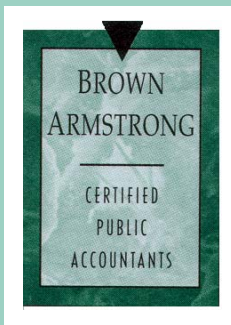
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**BROWN ARMSTRONG PAULDEN**  
**McCOWN STARBUCK THORNBURGH & KEETER**  
**Certified Public Accountants**

Andrew J. Paulden, CPA  
 Peter C. Brown, CPA  
 Burton H. Armstrong, CPA, MST  
 Steven R. Starbuck, CPA  
 Aileen K. Keeter, CPA  
 Chris M. Thornburgh, CPA  
 Eric H. Xin, MBA, CPA  
 Richard L. Halle, CPA, MST

**INDEPENDENT AUDITOR'S REPORT**

Board of Retirement  
 Stanislaus County Employees' Retirement Association

Harvey J. McCown, CPA  
 Lynn R. Krausse, CPA, MST  
 Rosalva Flores, CPA  
 Connie M. Perez, CPA  
 M. Sharon Adams, CPA, MST  
 Diana H. Branthoover, CPA  
 Thomas M. Young, CPA  
 Alicia Dias, CPA, MBA  
 Matthew R. Gilligan, CPA  
 Hanna J. Sheppard, CPA  
 Ryan L. Nielsen, CPA  
 Jian Ou-Yang, CPA  
 Ryan S. Johnson, CPA  
 Jialan Su, CPA  
 Ariadne S. Prunes, CPA  
 Samuel O. Newland, CPA  
 Brooke N. DeCuir, CPA  
 Kenneth J. Witham, CPA  
 Clint W. Baird, CPA

We have audited the accompanying statement of plan net assets of the Stanislaus County Employees' Retirement Association (StanCERA) as of June 30, 2008 and 2007 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of StanCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

As discussed in Note 2 and Note 6 to the financial statements, in 2008 StanCERA adopted the provisions of GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Stanislaus County Employees' Retirement Association as of June 30, 2008 and 2007 and its changes in 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 as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Required Supplementary Information and Other Supplementary Information, and the investment, actuarial and statistical sections as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of StanCERA. The Required Supplementary Information and Other Supplementary Information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008, on our consideration of StanCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 22, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008. Please review it in conjunction with the transmittal letter (starting on page 2) and the Financial Statements beginning on page 19.

### Financial Highlights

- Plan net assets decreased by \$220.4 million (or 12.64%) as a result of the fiscal year's activities.
- Contributions (employer and member), in total, decreased by \$9.8 million (or 18.57%).
- Net investment income (including unrealized gains and losses) decreased by \$329.2 million.
- Benefit payments increased by \$0.2 million (or 0.3%) over the prior year.

### Plan Highlights

- New benefit plans in effect since March 9, 2002 provide retirement formulas commonly known as 2% at age 55 for most active general members, and 3% at age 50 for most active safety members. One district has not implemented the new benefit plans. Members in the non-contributory Plan 3 were allowed to transfer prospectively into a contributory plan.
- Effective January 1, 2008 the Revocable Health Benefits Subsidy was revised from \$18.50 per year of service (for a maximum of 20 years or \$370 per month) to \$12.33 per year of service (for a maximum of 30 years or \$370 per month).
- The Board of Retirement voted to pay a special cost of living benefit in January 2008 to retirees who retired prior to April 1981 with over 20 accumulated percentage credits in their "COLA Bank" for a total not to exceed \$2,400 per retiree.
- In April of 2008, a 3.0% cost of living increase was given to all retired, disabled and beneficiary members receiving a recurring allowance, except those retirees who receive pensions for service as a Tier 3 non-contributory member.

### 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 Available for Benefits (see page 19) and the Statement of Changes in Plan Net Assets Available for Benefits (see page 20). These statements are presented on an accrual basis and reflect all trust activities as incurred.

### Overview of the Basic Financial Statements

This Management's Discussion and Analysis is intended to serve as an introduction to StanCERA's basic financial statements, which are comprised of these components:

1. Statements of Plan Net Assets Available for Benefits
2. Statements of Changes in Plan Net Assets Available for Benefits
3. Notes to the Basic Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

### Financial Analysis

#### *Statement of Plan Net Assets Available for Benefits*

The Statement of Plan Net Assets Available for Benefits 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 Available for Benefits 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.

#### **Plan Net Assets Available for Benefits**

As of June 30, 2008, 2007 and 2006

	2008	2007	2006 Restated	\$ Change 2008 - 2007	\$ Change 2007 - 2006
Current Assets	\$ 50,069,705	\$ 40,837,000	\$ 49,209,474	\$ 9,232,705	\$ (8,372,474)
Investments	1,468,649,205	1,698,662,040	1,391,140,889	(230,012,835)	307,521,151
Capital Assets	3,937,500	3,564,407	3,565,787	373,093	(1,380)
Total Assets	1,522,656,410	1,743,063,447	1,443,916,150	(220,407,037)	299,147,297
Total Liabilities	211,370,463	281,341,409	170,180,823	(69,970,946)	111,160,586
<b>Total Net Plan Assets Available for Benefits</b>	<b>\$ 1,311,285,947</b>	<b>\$ 1,461,722,038</b>	<b>\$ 1,273,735,327</b>	<b>\$ (150,436,091)</b>	<b>\$ 187,986,711</b>



**Statement of Changes in Plan Net Assets Available for Benefits**

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

**Additions To Plan Assets**

For The Years Ended  
June 30, 2008, 2007 and 2006

	2008	2007	2006 Restated	\$ Change 2008 - 2007	\$ Change 2007 - 2006
Employer Contributions	\$ 22,555,416	\$ 32,562,514	1 \$ 22,548,754	\$ (10,007,098)	\$ 10,013,760
Employee Contributions	20,689,439	20,542,837	19,860,676	146,602	682,161
Net Investment Income (Loss)	(122,548,769)	206,631,146	116,898,276	(329,179,915)	89,732,870
Net Litigation Recovery	117,351	177,775	27,479	(60,424)	150,296
Net Security Lending Income	1,022,295	382,991	347,188	639,304	35,803
<b>Total Additions</b>	<b>\$ (78,164,268)</b>	<b>\$ 260,297,263</b>	<b>\$ 159,682,373</b>	<b>\$ (338,461,531)</b>	<b>\$ 100,614,890</b>

**Deductions From Plan Assets**

For The Years Ended  
June 30, 2008, 2007 and 2006

	2008	2007	2006 Restated	\$ Change 2008 - 2007	\$ Change 2007 - 2006
Pension Benefits	\$ 67,785,112	\$ 67,599,163	2 \$ 58,129,898	\$ 185,949	\$ 9,469,265
Refunds	2,442,425	2,730,463	2,482,105	(288,038)	248,358
Administrative Expense and Misc	2,044,286	1,980,926	1,598,700	63,360	382,226
<b>Total Deductions</b>	<b>\$ 72,271,823</b>	<b>\$ 72,310,552</b>	<b>\$ 62,210,703</b>	<b>\$ (38,729)</b>	<b>\$ 10,099,849</b>

**Increase (Decrease) in Net Assets Held in Trust for Pension Benefits**

	\$ (150,436,091)	\$ 187,986,711	\$ 97,471,670	\$ (338,422,802)	\$ 90,515,041
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**Net Assets Held in Trust for Pension Benefits**

Beginning of Year, as restated	1,461,722,038	1,273,735,327	1,176,263,657	187,986,711	97,471,670
End of Year	\$ 1,311,285,947	\$ 1,461,722,038	\$ 1,273,735,327	\$ (150,436,091)	\$ 187,986,711

- 1 - Includes income associated with post-Ventura *Francis* Settlement (\$7,097,273)  
2 - Includes expenses associated with post-Ventura *Francis* Settlement (\$3,599,797)

**Additions to Plan Net Assets Available for Benefits**

A review of the Statement of Plan Net Assets Available for Benefits shows the current fiscal period closed with assets exceeding liabilities by \$1.311 billion with all of the net assets available to meet StanCERA's ongoing obligations to plan participants and their beneficiaries. The \$220.4 million decrease in plan assets is a direct result of the decline in the financial market over the past year. Even with this decline, the Retirement System remains in very good financial condition.

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 2007-2008 resulted in a loss of \$78.2 million. This loss is a result of the decline in the broad market over the past year. Employer and member contributions resulted in a decrease of \$9.8 million (or 18.57%) over the contributions made in 2006-2007. The decrease is due in large part to a one time payment of contributions received in 2006-2007 from employers pursuant to the post-Ventura *Francis* settlement.

### ***Deductions from Plan Net Assets Available for 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 2007-2008 were \$72.3 million, a decrease of \$38,729 from 2006-2007. This decrease is mainly due to the one time payment for the post-Ventura *Francis* settlement payment made during fiscal year 2006-2007. Administrative costs to operate the system for fiscal year 2007-2008 were \$2.0 million, which increased 3.5% over the prior year. Total administrative costs represented 0.16% of net plan assets.

### **OVERALL FINANCIAL CONDITION**

#### ***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.

The equity market returns were negative for the past year and down from the prior year's returns. Equity returns underperformed their benchmark by 350 basis points for domestic equity and 250 basis points for international equity. This past year all major indices fell as a result of the impact of the sub-prime lending crisis, soaring gasoline prices, the falling housing market and a decline in consumer confidence.

Fixed income returns for the year were lower than the prior year and underperformed their benchmark by 240 basis points. This was a result of the continued housing market crisis, the near-failure of Bear Stearns, and a deteriorating economy.

StanCERA's total portfolio underperformed its policy benchmark by 310 basis points with an overall return of -8.2%. Despite the difficult year in the market, Management believes that the Plan remains in a very strong financial position to meet its obligations to the Plan Participants and Beneficiaries.

#### ***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, 2006, 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.

### ***Funding Status (continued)***

The funding ratio as of June 30, 2006 was 96.6% using the entry age normal method. StanCERA's actuary uses a five year smoothing of market gains and losses to derive the actuarial value of assets. As of the fiscal year ended June 30, 2006, the actuarial value of assets was \$1.15 billion. Due to a restructuring of StanCERA's former actuary firm and a Request for Proposal for actuary services, a valuation was not performed for the fiscal year ending June 30, 2007. The next actuarial valuation is in process for the fiscal year ending June 30, 2008.

### ***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.

### ***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:

Tom Watson, Retirement Administrator  
Stanislaus County Employees' Retirement Association  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354

**STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS**  
**As of June 30, 2008 and 2007**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>ASSETS</b>		
Cash And Cash Equivalents (Note 4):	\$ 33,274,567	\$ 23,688,701
Receivables:		
Interest & Dividends	5,592,780	6,501,006
Securities Transactions	8,646,351	7,994,032
Contributions (Note 3)	2,522,264	2,652,474
Other	33,743	787
Total Receivables	<u>16,795,138</u>	<u>17,148,299</u>
Capital Assets (Note 2):		
Capitalized Software, net	775,980	789,681
Real Estate Occupied, net	1,840,735	1,607,712
Real Estate Leased, net	1,227,401	1,072,055
Leasehold Improvements, net	84,408	94,959
Office Equipment	8,976	-
Total Capital Assets	<u>3,937,500</u>	<u>3,564,407</u>
Investments at Fair Value (Note 4):		
Bonds	436,520,719	437,356,009
Stocks	830,418,252	989,988,998
Collateral on Loaned Securities (Note 5)	201,710,234	271,317,033
Total Investments	<u>1,468,649,205</u>	<u>1,698,662,040</u>
<b>Total Assets</b>	<u>1,522,656,410</u>	<u>1,743,063,447</u>
<b>LIABILITIES</b>		
Current Liabilities		
Payables:		
Accounts Payable	2,554,120	1,852,805
Security Transactions	6,686,109	8,171,571
Collateral Held for Loaned Securities (Note 5)	201,710,234	271,317,033
Total Current Liabilities	<u>210,950,463</u>	<u>281,341,409</u>
Long Term Liabilities		
Grant Deed Extension Fee	<u>420,000</u>	<u>-</u>
<b>Total Liabilities</b>	<u>211,370,463</u>	<u>281,341,409</u>
<b>Net Assets Held In Trust For Pension Benefits (Note 7)</b>	<u>\$ 1,311,285,947</u>	<u>\$ 1,461,722,038</u>

(A Schedule of Funding Progress is included in the accompanying Required Supplementary Information).

The accompanying notes are an integral part of this financial statement.

**STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS**  
**For the years ended June 30, 2008 and 2007**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>ADDITIONS</b>		
Contributions (Note 6):		
Employer	\$ 22,555,416	\$ 25,465,241
Other Employer - Ventura	-	7,097,273
Plan Members	<u>20,689,439</u>	<u>20,542,837</u>
Total Contributions	<u>43,244,855</u>	<u>53,105,351</u>
Investment Income (Loss):		
Net Appreciation (Depreciation)		
in Fair Value of Investments	(161,115,826)	168,870,674
Interest & Dividends	<u>42,932,733</u>	<u>42,215,153</u>
Total Investment Income/(Loss)	(118,183,093)	211,085,827
Net Income from Commission Recapture	76,519	60,175
Less: Investment Expense (Note 8)	<u>(4,442,195)</u>	<u>(4,514,856)</u>
Net Investment Income/(Loss)	<u>(122,548,769)</u>	<u>206,631,146</u>
Other Investment Income:		
Net Litigation Recovery Income	<u>117,351</u>	<u>177,775</u>
Securities Lending Activities (Note 5):		
Securities Lending Income	10,346,182	12,415,905
Less: Securities Lending Expenses	<u>(9,323,887)</u>	<u>(12,032,914)</u>
Net Securities Lending Income	<u>1,022,295</u>	<u>382,991</u>
Total Investment Income	<u>(121,409,123)</u>	<u>207,191,912</u>
<b>Total Additions</b>	<u>(78,164,268)</u>	<u>260,297,263</u>
<b>DEDUCTIONS</b>		
Benefit Payments & Subsidies	67,784,275	63,999,366
Other Benefit Payments - Ventura	836	3,599,797
Member Refunds	2,442,426	2,730,463
Administrative Expenses (Note 2)	2,044,286	1,975,242
Administrative Expenses - Ventura	-	5,684
<b>Total Deductions</b>	<u>72,271,823</u>	<u>72,310,552</u>
Net Increase (Decrease)	(150,436,091)	187,986,711
<b>Net Assets Held in Trust for Pension Benefits (Note 7)</b>		
Beginning of Year	<u>1,461,722,038</u>	<u>1,273,735,327</u>
End of Year	<u>\$ 1,311,285,947</u>	<u>\$ 1,461,722,038</u>

The accompanying notes are an integral part of this financial statement.

## NOTES TO BASIC FINANCIAL STATEMENTS

### June 30, 2008

#### 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.

	June 30, 2008			June 30, 2007		
	General	Safety	Total	General	Safety	Total
Active Members:						
Vested	3,719	731	4,450	3,706	729	4,435
Total Active	<u>3,719</u>	<u>731</u>	<u>4,450</u>	<u>3,706</u>	<u>729</u>	<u>4,435</u>
Inactive Members:						
Deferred and Inter-System Members	692	143	835	700	125	825
Unclaimed Contributions	197	30	227	236	32	268
Total Inactive	<u>889</u>	<u>173</u>	<u>1,062</u>	<u>936</u>	<u>157</u>	<u>1,093</u>
Retired Members:						
Service Retirements	2,018	283	2,301	1,861	274	2,135
Disability Retirements	250	141	391	230	139	369
Survivor Payments	30	10	40	39	2	41
Total Retired	<u>2,298</u>	<u>434</u>	<u>2,732</u>	<u>2,130</u>	<u>415</u>	<u>2,545</u>
<b>Total Membership</b>	<u><u>6,906</u></u>	<u><u>1,338</u></u>	<u><u>8,244</u></u>	<u><u>6,772</u></u>	<u><u>1,301</u></u>	<u><u>8,073</u></u>

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:

##### 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 receive a service retirement until completing ten years of membership in the Association.



**NOTE 1 – DESCRIPTION OF PLAN (continued)**

**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)

Age	General					Safety	
	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	0.68*	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 1/35th 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).

## **NOTE 1 – DESCRIPTION OF PLAN (continued)**

### **Death Benefit-After Retirement**

If a member dies after retirement, a burial allowance 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 1, 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.

### **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.

In addition to providing pension benefits, StanCERA provides a Revocable Health Benefit Subsidy to all retirees who qualify. Each retiree is eligible for a graduated allowance of 3.33% of the maximum (currently \$370 per month) per full year of StanCERA service up to 30 years. Effective January 1, 2008, members must have five years or more of StanCERA service time to qualify for this benefit. Effective January 1, 2010, the StanCERA service requirement increases to ten years or more.

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.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

### **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 statute 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, 2008 and 2007. Both domestic and international investments are denominated in U.S. currency.

### **Capital Assets**

Capital assets, consisting of software development, the purchase of one floor of an office building, and office equipment are presented at historical cost. StanCERA occupies 60% of the 6<sup>th</sup> floor of the office building. The other 40% is un-developed office space to be leased out. Currently StanCERA is in negotiations for leasing the un-developed office space. Depreciation expense totaled \$134,353 and \$139,236 for years ending June 30, 2008 and 2007 respectively. This is a decrease from prior year due to an agreement between StanCERA and Stanislaus County to extend ownership of the Grant Deed for the sixth floor of the office building from sixty-six years to ninety-nine years. Depreciation is calculated using the straight-line method, with an estimated life of ten years for the software development, an estimated life of ninety-nine years for the office space, an estimated life of ten years for the leasehold improvements, and an estimated life of five years for office equipment.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

CAPITAL ASSETS	Balance @ June 30, 2007	Reclassifications & Additions	Reclassifications & Deletions	Less Accumulated Depreciation	Balance @ June 30, 2008
Tyler Software	\$ 789,681	\$ 78,470	\$ -	\$ 92,171	\$ 775,980
Real Estate Occupied	1,607,712	252,000	-	18,977	1,840,735
Real Estate Leased	1,072,055	168,000	-	12,654	1,227,401
Leasehold Improvements	94,959	-	-	10,551	84,408
Office Equipment	-	8,976	-	-	8,976
<b>TOTAL</b>	<b>\$ 3,564,407</b>	<b>\$ 507,446</b>	<b>\$ -</b>	<b>\$ 134,353</b>	<b>\$ 3,937,500</b>

CAPITAL ASSETS	Balance @ June 30, 2006	Reclassifications & Additions	Reclassifications & Deletions	Less Accumulated Depreciation	Balance @ June 30, 2007
Tyler Software	\$ 739,533	\$ 137,856	\$ -	\$ 87,708	\$ 789,681
Real Estate Occupied	1,632,446	-	-	24,734	1,607,712
Real Estate Leased	1,088,298	-	-	16,243	1,072,055
Leasehold Improvements	105,510	-	-	10,551	94,959
Office Equipment	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 3,565,787</b>	<b>\$ 137,856</b>	<b>\$ -</b>	<b>\$ 139,236</b>	<b>\$ 3,564,407</b>

**Administrative Expenses**

The Association's general administrative expense is funded by the investment income and it is limited to eighteen-hundredths of one percent (0.18%) of the Association's total assets pursuant to Government Code Section 31580.2. Total administration expense for the year was \$2,044,286 of which \$218,395 was not subject to the 0.18% limitation. Administrative expenses subject to the limitation amounted to 0.1392%.

**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.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **New Accounting Pronouncements**

StanCERA adopted the Governmental Accounting Standards Board's (GASB) Statement No. 50, *Pension Disclosures*, an amendment of applicable note disclosure and Required Supplementary Information (RSI) of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers* effective for the year ended June 30, 2008. The required information is disclosed in Note 6 – Contributions.

### **Reclassifications**

Comparative data for the prior year has been presented in the selected sections of the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. 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, 2008 and 2007 were \$2,522,264 and \$2,652,474, 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.

### **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 and are subject to regulatory oversight by the County's Treasury Oversight Committee, as required by the California Government Code Section 27134. Participation in the County Investment Pool is not mandatory.

**NOTE 4 – CASH AND INVESTMENTS (continued)**

**Summary of Investments**

The following is a schedule of StanCERA's deposits and investments at fair value:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Investments</b>		
U.S. Government Obligations	\$ 239,213,966	\$ 213,228,094
Corporate Bonds	175,903,843	151,506,555
Domestic Stocks	267,903,746	429,246,459
International Equity	252,772,942	289,279,850
Global REIT's	18,214,518	-
Subtotal	<u>954,009,015</u>	<u>1,083,260,958</u>
<b>Investments Held By Broker-dealers Under Securities Loans with Cash Collateral:</b>		
U.S. Government Obligations	12,632,285	63,200,845
Corporate Bonds	8,770,625	9,420,515
Domestic Stocks	168,141,239	181,452,385
Domestic Equity Index Fund	118,209,447	79,186,126
International Equity Commingled Fund	<u>5,176,360</u>	<u>10,824,178</u>
Subtotal	<u>312,929,956</u>	<u>344,084,049</u>
<b>Deposits and Short-Term Investments</b>		
Securities Lending Cash Collateral	201,710,234	271,317,033
Bank of New York: Cash in Custodial Account	25,388,519	19,300,180
Stanislaus County Treasury Investment Pool	<u>7,886,048</u>	<u>4,388,521</u>
Subtotal	<u>234,984,801</u>	<u>295,005,734</u>
<b>Total Deposits and Investments</b>	<u>\$ 1,501,923,772</u>	<u>\$ 1,722,350,741</u>

**INTEREST RATE RISK**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. StanCERA's average effective duration of all fixed income holdings, reflecting all instruments including Collateralized Mortgage Obligations and Asset-Backed Securities, must be maintained at plus or minus 1.5 years of the Lehman Aggregate bond index duration. At year end the Lehman Aggregate Bond Index was yielding 5.10% with an effective duration of 4.68 years. StanCERA had a yield of 6.30% with an effective duration of 3.88 years.

**Highly Sensitive Investments**

Highly Sensitive Investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. Terms include such information as embedded options, coupon multipliers, benchmark indexes, and reset dates. The System's asset-backed investments have embedded prepayment options that will typically cause prepayments by the obligees of the underlying investments when interest rates fall. Prepayments eliminate the stream of future interest payments and, therefore, diminish the fair value of the asset-backed investment. The following table shows the fair value of the System's asset-backed investments by investment type as of June 30, 2008:

**NOTE 4 – CASH AND INVESTMENTS (continued)**

<u>Fixed Income Securities</u>	<u>Fair Value</u>	<u>Effective Duration</u>
U S Treasuries	\$ 25,026,339	0.6
Single Family Mortgage Backed Securities	183,740,385	2.8
Multi Family Mortgage Backed Securities	8,598,793	2.8
Collateralized Mortgage Backed Securities	12,876,800	2.9
Federal Agency	12,705,680	4.8
Asset Backed	8,898,254	0.1
Corporate Bonds	184,674,468	5.7
<b>Total Fixed Income Securities</b>	<b>\$ 436,520,719</b>	

**CREDIT RISK**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Under StanCERA policy, the fixed income portfolio must have an average quality rating of A or better in the aggregate as measured by at least one credit rating service. Investment grade quality is defined as BBB rated or higher at time of purchase. In cases where credit rating agencies assign different quality ratings to a security, the lower rating will be used. Should the rating of a fixed income security fall below investment grade, the manager may continue to hold the security if they believe the security will be upgraded in the future, there is a low risk of default, and buyers will continue to be available throughout the anticipated holding period. The manager has the responsibility of notifying the Board whenever an issue falls below investment grade. The notification should include the manager's assessment of the issue's credit rating and its ongoing role in the portfolio. The following table shows the quality of StanCERA's investments in fixed income securities on June 30, 2008.

<u>Credit Rating</u>	<u>Active Management</u>	<u>StanCERA's Fixed Income Securities</u>	<u>Stanislaus County Investment Pool</u>
AAA	55.71%	\$ 243,184,634	\$ 6,511,668
AA+	1.15%	5,020,130	63,167
AA-	4.45%	19,425,972	89,822
A+	2.73%	11,935,231	69,792
A	3.49%	15,231,614	-
A-	3.55%	15,514,163	-
BBB+	7.42%	32,404,698	-
BBB	2.30%	10,051,249	-
BBB-	3.58%	15,624,280	-
BB+	1.43%	6,229,704	-
BB	0.50%	2,193,000	-
BB-	0.19%	837,200	-
B	5.65%	24,659,187	-
B-	2.25%	9,823,625	-
A-1+	0.00%	-	869,910
A-1	0.00%	-	-
B1	0.00%	-	-
CAA	0.00%	-	-
Un-rated	5.60%	24,386,032	281,690
	<b>100.00%</b>	<b>\$ 436,520,719</b>	<b>\$ 7,886,048</b>



## **NOTE 4 – CASH AND INVESTMENTS (continued)**

### **CONCENTRATION OF CREDIT RISK**

Concentration of Credit Risk is the risk of loss due to a large concentration of investments in any one issuer. Investment issued or explicitly guaranteed by the U.S. Government and investment in the mutual funds, external investment pools and other pooled investments are not considered at risk. StanCERA's policy requires that not more than 5% of the total StanCERA stock portfolio, valued at market, may be held in the common stock of any one corporation. Not more than 5% of the outstanding shares of any one company may be held. Individual investment managers are to hold no more than 8% of the market value of the manager's entire stock portfolio in any one company's stock. Not more than 25% of the stock valued at market may be held in any one industry category, as defined by the Retirement Association's consultant, without special permission from the Board.

With the exception of securities issued by the U.S. Government and its agencies, no single fixed income issue will represent more than 5% of the total portfolio as measured by market value at time of purchase. Holdings of any individual issue must be 5% or less of the value of the total issue.

### **CUSTODIAL CREDIT RISK**

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. StanCERA does not have a formal policy for custodial credit risk for deposits. Under California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental deposits by pledging first deed mortgage notes having a value of 150% of the secure public deposits. Such collateral is held by the pledging financial institution's trust department or agent in StanCERA's name.

At year end, StanCERA had no credit risk exposure to any depository financial institution. All deposits are placed with a custodial bank. The custodian is responsible for maintaining an adequate level of collateral in an amount equal to 102% of the market value of loaned securities. Collateral 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.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. StanCERA does not have a formal policy for custodial credit risk for investments. Investment securities are exposed to custodial credit risk if the securities are uninsured, not registered in the governmental entities name, and held by the counter-party. StanCERA's investment securities are not exposed to custodial credit risk because all securities held by StanCERA's custodial bank are in StanCERA's name.



**NOTE 4 – CASH AND INVESTMENTS (continued)**

**FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that changes in exchange rates may adversely affect the fair value of an investment. StanCERA's external investment managers may invest in international securities and must follow StanCERA's Investment Guidelines pertaining to these types of investments. At least 80% of all non-US equity holdings at market value shall be highly liquid securities issued by corporations headquartered in countries included in the Morgan Stanley Capital International all Country World ex-US (ACWI) Index. The maximum limit in any single country shall not exceed the greater of two times the country's weighting in the MSCI ACWI ex-US Index or 20% of the market value of a portfolio managed on behalf of StanCERA.

StanCERA's exposure to foreign currency risk in US dollars as of June 30, 2008 is as follows:

Currency	Fair Vaue (in US \$)
Australian Dollar	\$ 13,862,022
Austrian Schilling	602,711
Belgian Franc	544,845
Bermudan Dollar	2,272,064
Brazilian Real	2,414,400
British Pound Sterling	43,355,666
Canadian Dollar	8,037,155
Cayman Island	98,135
Colombian Peso	634,078
Danish Krone	1,456,691
Deutsche Mark	22,875,323
Euro Currency	343,284
Finnish Markka	3,770,486
French Franc	17,498,709
Greek Drachma	848,075
Hong Kong Dollar	3,401,625
Indian Rupee	522,152
Irish Pound	1,208,057
Israeli Shekel	549,643
Italian Lira	7,093,338
Japanese Yen	42,346,227
Luxembourg Franc	1,197,342
Mexican Nuevo Peso	2,192,908
Netherland Guilder	5,583,762
New Taiwan Dollar	3,971,894
Norwegian Krone	4,534,482
Portuguese Escudo	363,684
Renminbi Yuan	1,560,273
Russian New Ruble	3,059,825
Singapore Dollar	4,764,720
South African Rand	1,249,647
South Korean Won	2,691,103
Spanish Peseta	8,422,083
Swedish Krona	4,095,948
Swiss Franc	14,662,748
US Dollar	25,864,197
<b>TOTAL</b>	<b>\$ 257,949,302</b>

**NOTE 4 – CASH AND INVESTMENTS (continued)**

**FOREIGN CURRENCY RISK (continued)**

StanCERA invested in a Global REIT's commingled fund in fiscal year 2008. Approximately 50% of the \$18,214,518 in Global REIT's is foreign currency investments. Due to the nature of the commingled fund, the specific investments cannot be organized by the currency denominations. Thus, Global REIT's are excluded from the aforementioned schedule for foreign currency risk.

**NOTE 5 – SECURITIES LENDING**

State statutes and Board of Retirement Investment Policy permit StanCERA to participate in a securities lending program. StanCERA lends domestic bonds and equities to various brokers for collateral that will be returned for the same securities plus a fee in the future. Transactions are collateralized at 102% of market value for domestic securities and 105% of market value for international securities. Because the loans were terminable at will their duration did not match the duration of the investments made with cash collateral. 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. 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. StanCERA does not have the ability to pledge or sell collateral securities delivered absent a borrower default

As of June 30, 2008, StanCERA had securities on loan with a carrying value of \$194,720,509 and cash collateral of \$201,710,234. The accrued market value of loaned securities was \$201,992,815. The difference between the carrying value and the cash collateral is referred to as the securities lending collateral margin. Investments made with cash collateral are classified by risk category.

Securities Lending Income for years ending June 30, 2008 & 2007:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Gross Income	\$ 10,346,182	\$ 12,415,905
Expenses		
Borrower Rebates	8,646,259	11,778,495
Bank Fees	677,628	254,419
Total	<u>9,323,887</u>	<u>12,032,914</u>
Net Securities Lending Income	<u>\$ 1,022,295</u>	<u>\$ 382,991</u>

**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 50 for Safety members of 1/100th of the final average salary (FAS). Plan 1 General members pay rates that will provide an average annuity at age 60 of 1/100<sup>th</sup> of the FAS; Plan 4 General members pay rates that will provide an average annuity at age 55 of 1/120 of the FAS. County (and former County agency) Safety and General members in Plans 1 and 4 pay half of the aforementioned rates. General members in Plan 2 pay rates to provide an average annuity of 1/120<sup>th</sup> of FAS at age 60. General members in Plan 3 pay no member contributions. General members in Plan 5 pay rates to provide an average annuity at age 55 of 1/120<sup>th</sup> of FAS.

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.

The County rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised (both basic and cost of living). Significant actuarial assumptions used to compute contribution requirements differ from those used to compute the standardized measure of the pension obligation discussed below.

**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 required 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.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS TO  
PENSION BENEFIT PLAN  
FOR THE THREE YEARS ENDING JUNE 30, 2006  
(Dollar amounts in thousands)**

<u>Year End</u>	<u>Annual Required</u>	<u>Percentage Contributed</u>
6/30/2004	\$17,114	100%
6/30/2005	\$19,793	100%
6/30/2006	\$22,549	100%

\* Last actuarial valuation performed as of June 30, 2006

**NOTE 6 – CONTRIBUTIONS (continued)**

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 employer's amortization period remains unchanged):

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

2008 contributions totaling \$43,244,855 were made in accordance with actuarially determined contribution rates determined through an actuarial valuation performed at June 30, 2006. Employer contributions were 9.03% of covered payroll for Stanislaus County and 11.55% of covered payroll for other employers. This decrease from prior year is due to the one time payment of contributions for the post-Ventura *Francis* settlement for fiscal year June 30, 2007. Employee contributions, on an average, were 8.54% of covered payroll. Stanislaus County represented 89.03% of covered payroll and 86.30% of total contributions.

	<u>County</u>	<u>%</u>	<u>Districts</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Covered Payroll	\$ 215,818,211	89.03%	\$ 26,585,733	10.97%	\$ 242,403,944	100.00%
Employer Contributions	\$ 19,485,137	9.03%	\$ 3,070,279	11.55%	\$ 22,555,416	9.30%
Member Contributions	17,834,079	8.26%	2,855,360	10.74%	20,689,439	8.54%
<b>Total Contributions</b>	<b>\$ 37,319,216</b>	<b>86.30%</b>	<b>\$ 5,925,639</b>	<b>13.70%</b>	<b>\$ 43,244,855</b>	<b>100.00%</b>

**Funding Status & Method**

The funding ratio as of June 30, 2006 was 96.6% using the entry age normal method. StanCERA's actuary uses a five year smoothing of market gains and losses to derive the actuarial value of assets. As of the fiscal year ended June 30, 2006, the actuarial value of assets was \$1.15 billion. The Schedule of Funding Progress provided by the actuary (as shown on page 38) provides a slightly lower funding ratio and actuarial value of assets as it does not include other designated reserves (ad hoc reserves) and the liabilities associated with these reserves.

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

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 6 – CONTRIBUTIONS (continued)**

**SCHEDULE OF FUNDING PROGRESS – PENSION BENEFIT PLAN  
FOR THE THREE YEARS ENDING JUNE 30, 2006**

(Dollar amounts in thousands)

Actuarial Valuation	Actuarial Value of Assets *	Actuarial Accrued Liability (AAL) Entry Age *	Unfunded AAL (UAAL)	Funded Ratio *	Covered Payroll	(UAAL) as a Percentage of Covered Payroll
6/30/2004	993,180	1,035,345	42,165	95.90%	199,963	21.10%
6/30/2005	1,049,691	1,116,310	66,619	94.00%	211,681	31.50%
6/30/2006	1,154,048	1,194,904	40,856	96.60%	219,768	18.60%

\* Excludes "Other Designated Reserves" and the liabilities associated with these reserves

The valuation interest rate is 8.00% and the total salary scale increases of 5.0% (4.0% for inflation) per year were based on a study as of June 30, 2006 and dated January 9, 2007 and adopted by the Board of Retirement as of February 14, 2007.

**LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS**

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level Dollar - Open
Remaining Amortization Period	20 Years Rolling
Asset Valuation Method	5 year Smoothed Market, excluding "Other Designated Reserves" and the liabilities associated with these Reserves

Actuarial Assumptions

Investment Rate of Return	8.0%
Projected Salary Increases	5.0%
Attributed to Inflation	4.0%
Cost of Living Adjustments	3.0% Maximum

## **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 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 members (employees), after deducting refunds to the members, plus the investment earnings credited to the reserve at assumption rates determined by the actuary. For 2008, overall assumption rates were 8.0%. Based upon Retirement Board policy, interest of .125% semi annually was credited to member's accounts. The balance, 3.875%, was posted to the reserve for unvested interest. The earnings are credited to all appropriate active and deferred member accounts. In addition, upon retirement, the active member's (employee's) contributions, portion of the unvested interest, plus interest credited to his/her account, are transferred from this reserve to Retired Members' Annuity and Cost of Living 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 Contingency Reserve) at a rate of 25% for each full year. As of June 30, 2008 funds have been set-aside in the following reserve account "Reserve Employer Special" and amounted to \$82,202,234.

### **Retired Members' Reserves**

These reserves are established to account for the unpaid retirees' 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 and Cost of Living Reserve accounts. 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.

**NOTE 7 – RESERVES (continued)**

**Contingency Reserve**

This reserve represents earnings in excess of the total interest credited to contributions of the employer and employee equal to 2% of net assets (Government Code Section 31592) and are used as a reserve against deficiencies in interest earning in other years, losses on investment and other contingencies. For fiscal year ending June 30, 2008, the contingency reserve was used to offset the deficiency due to losses from investment activities.

**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 Revocable Health Benefits Subsidy, Retiree's Burial Allowance, Retiree's Special Cost of Living, Tier 3 Disability and Legal Contingencies. Reserve Account Balances are as follows:

	<b><u>June 30, 2008</u></b>	<b><u>June 30, 2007</u></b>
Active Members' Reserves	\$ 190,613,035	\$ 236,867,588
Employer Advance Reserves	378,543,206	316,085,079
Retired Members' Reserves	748,929,523	684,850,817
Contingency Reserve	-	34,861,269
Other Reserves		
Revocable Health Benefit Subsidy	157,851,376	165,180,419
Retiree Burial Allowance Reserve	5,563,788	5,833,788
Retiree Special Cost Of Living Reserve	2,857,479	3,353,015
Legal Contingency Reserve	3,379,216	3,379,216
Tier 3 Disability Reserve	15,236	17,046
Undistributed Earnings/(Losses)	(176,466,912)	11,293,801
<b>Total Reserves</b>	<b><u>\$ 1,311,285,947</u></b>	<b><u>\$ 1,461,722,038</u></b>



**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 Expense

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Investment Managers	\$ 3,919,924	\$ 3,864,005
Investment Consultants	147,275	130,000
Custodial Fees	358,232	466,411
Actuarial Fees	10,020	54,440
Legal Fees	6,744	-
<b>Total Investment Expenses</b>	<b><u>\$ 4,442,195</u></b>	<b><u>\$ 4,514,856</u></b>

**NOTE 9 – TEN YEAR HISTORICAL TREND INFORMATION**

The 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 in the Required Supplemental Schedules Section.

**NOTE 10 – SUBSEQUENT EVENTS**

**RECENT MARKET EVENTS**

**Bear Stearns Holdings Exposure**

Bear Stearns signed a merger agreement with JP Morgan Chase in a stock swap on March 16, 2008 for less than 10% of Bear Stearns' market value. As of September 15, 2008, StanCERA held approximately \$9.7 million worth of Bear Stearns stock. It is unclear at this time what StanCERA's total loss could be until Bear Stearns works through this transaction.

**Fannie Mae and Freddie Mac Holdings Exposure**

On September 7, 2008, the U S government announced they were placing government-sponsored enterprises Fannie Mae and Freddie Mac under conservatorship. The share prices of the two mortgage companies dropped steeply in response to the announcement. As of June 30, 2008, StanCERA held 270,000 shares in Fannie Mae with a market value of \$1,847,000 and 0 shares in Freddie Mac. As of September 8, 2008, after the government announcement, StanCERA's holdings for Fannie Mae were \$197,000. StanCERA's fixed income holdings in Fannie Mae and Freddie Mac were not affected by the government announcement.

**Lehman Brothers Holdings Inc. Exposure**

Lehman Brothers Holdings Inc. (Lehman) filed for bankruptcy protection on September 14, 2008. StanCERA has approximately \$5.5 million worth of Lehman stock as of September 15, 2008 and the value dropped significantly by the end of September. StanCERA's total loss from the fixed income exposure will become more clear as Lehman works through the bankruptcy proceedings.

## **NOTE 10 – SUBSEQUENT EVENTS (continued)**

### **Merrill Lynch Holdings Exposure**

On September 14, 2008, Merrill Lynch announced it had agreed to be purchased by the Bank of America. As of September 15, 2008, StanCERA held approximately \$7.2 million worth of Merrill Lynch holdings. It is unclear at this time what StanCERA's total loss from this exposure could be until Merrill Lynch works through this transaction.

### **Wachovia Holdings Exposure**

On September 29, 2008, Wachovia entered into an agreement to sell the bulk of its operations to Citigroup, Inc. As of September 15, 2008, StanCERA held approximately \$10.9 million worth of Wachovia holdings. It is unclear at this time what StanCERA's total loss from this exposure could be until Wachovia works through this transaction.

**INFORMATION REQUIRED SUPPLEMENTARY**

**SCHEDULE OF FUNDING PROGRESS – PENSION BENEFIT PLAN  
FOR THE SIX YEARS ENDING JUNE 30, 2006  
GASB 25**

(Dollar amounts in thousands)

Actuarial Valuation	Actuarial Value of Assets *	Actuarial Accrued Liability (AAL) Entry Age *	Unfunded AAL (UAAL)	Funded Ratio *	Covered Payroll	(UAAL) as a Percentage of Covered Payroll
Date	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
6/30/2001	784,114	781,495	(2,619)	100.30%	174,595	-1.50%
6/30/2002	878,821	870,768	(8,053)	100.90%	196,471	-4.10%
6/30/2003	937,797	958,095	20,298	97.90%	197,664	10.30%
6/30/2004	993,180	1,035,345	42,165	95.90%	199,963	21.10%
6/30/2005	1,049,691	1,116,310	66,619	94.00%	211,681	31.50%
6/30/2006	1,154,048	1,194,904	40,856	96.60%	219,768	18.60%

\* Excludes "Other Designated Reserves" and the liabilities associated with these reserves  
Data provided by last actuarial valuation as of June 30, 2006

**SCHEDULE OF EMPLOYER CONTRIBUTIONS TO  
PENSION BENEFIT PLAN  
FOR THE SIX YEARS ENDING JUNE 30, 2006  
GASB 25**

(Dollar amounts in thousands)

Year End	Annual Required Contribution	Percentage Contributed
6/30/2001	\$7,509	100%
6/30/2002	\$11,341	100%
6/30/2003	\$16,208	100%
6/30/2004	\$17,114	100%
6/30/2005	\$19,793	100%
6/30/2006	\$22,549	100%

Data provided by last actuarial valuation as of June 30, 2006

### **REQUIRED SUPPLEMENTARY INFORMATION (continued)**

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.

**OTHER SUPPLEMENTARY INFORMATION**

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Personnel Services:</b>		
Salaries and Wages	\$ 987,024	\$ 847,414
Employee Retirement	87,035	93,456
Ventura Costs	-	5,684
<b>Total Personnel Services</b>	<u>1,074,059</u>	<u>946,554</u>
<b>Professional Services:</b>		
Computer and Software Services and Support	4,576	2,610
County Counsel	137,438	124,379
Outside Legal Counsel - Disability	62,798	117,429
Disability Hearing Officer/Medical Exams and Reviews	41,440	48,578
External Audit Fees	25,598	28,309
Stanislaus County Strategic Business Technology Dept	28,747	34,225
Health Insurance Consultant	84,042	113,431
Other Professional Services	4,581	6,818
<b>Total Professional Services</b>	<u>389,220</u>	<u>475,779</u>
<b>Office Expenses:</b>		
Office Supplies	12,840	24,619
Minor Equipment and Computer Supplies	7,814	24,868
Stanislaus County Central Services and Mail Room	36,576	33,584
Stanislaus County Support Services	202,563	172,603
Contract Services	12,837	4,785
Requested Maintenance	17,352	6,365
Communications	23,188	37,205
Printing and Publications	4,390	1,282
Other Office Expenses	8,250	11,383
<b>Total Office Expenses</b>	<u>325,810</u>	<u>316,694</u>
<b>Miscellaneous:</b>		
Fiduciary and Staff - Education/Travel	67,415	62,597
Fiduciary and Staff - Meetings/Other Travel	11,400	12,100
Insurance	35,739	25,686
Memberships	6,290	2,280
Depreciation	134,353	139,236
<b>Total Miscellaneous</b>	<u>255,197</u>	<u>241,899</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$ 2,044,286</u>	<u>\$ 1,980,926</u>

**SCHEDULE OF INVESTMENT MANAGEMENT FEES  
AND OTHER INVESTMENT EXPENSES**  
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Investment Management Fees:</b>		
Domestic Stocks	\$ 1,862,441	\$ 1,988,880
International Stocks	1,525,396	1,397,912
Domestic Bonds	484,705	477,213
Global REIT's	47,382	-
Total Investment Management Fees	<u>3,919,924</u>	<u>3,864,005</u>
<b>Investment Consulting Fees</b>	147,275	130,000
<b>Investment Custodian Fees</b>	358,232	466,411
<b>Investment Legal Fees</b>	6,744	-
<b>Other Investment Related Expenses</b>	<u>10,020</u>	<u>54,440</u>
<b>TOTAL INVESTMENT EXPENSES</b>	<u><u>\$ 4,442,195</u></u>	<u><u>\$ 4,514,856</u></u>



# INVESTMENT SECTION

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STRATEGIC INVESTMENT SOLUTIONS, INC.

601 CALIFORNIA STREET, STE. 200  
SAN FRANCISCO, CALIFORNIA 94108

PAUL S. HARTE  
VICE PRESIDENT

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**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT SYSTEM**

**Summary**

Fiscal year 2008 (June 30, 2008) saw a reversal of the positive returns in fiscal years 2005-2007 within the equity markets resulting in losses in US and foreign stock markets. The US Fixed Income markets continued its positive return in fiscal year 2007 and also produced a positive return in fiscal year 2008. As a diversified investor, StanCERA experienced a -8.2% return for the fiscal year. The -8.2% result was below StanCERA's policy benchmark of -5.1% for the fiscal year.

Fiscal year 2008 was negative for both the U.S. equity markets and foreign equity markets. For the fiscal year, the Russell 3000 US Stock Index lost -12.7% and the MSCI ACW (All Country World) ex-US Index of foreign stocks lost -6.2%. The US fixed income market produced a positive return (+7.1% Lehman Aggregate Index) for the fiscal year ending June 30, 2008 as short-term interest rates were lowered and U.S. Treasuries performed strongly due to a flight to quality by investors.

Within the US equity market, stocks of large companies outperformed small (-12.4% versus -16.2%) for the second consecutive fiscal year. Growth stocks outperformed value in large caps (-7.2% versus -9.6%) and also within small caps (-6.0% versus -9.6%).

**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 (46.4% US Equities, 20.0% Non-US Equities, 30.6% Fixed Income and 3.0% Global REITs) 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, 2008 have been calculated using a time-weighted rate of return methodology based upon market values. In fiscal year 2008, 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 6/30/08	ONE YEAR	THREE YEARS	FIVE YEARS
<b>Domestic Equity</b>	-16.2%	+3.1%	+8.1%
<i>Russell 3000</i>	-12.7%	+4.7%	+8.4%
Rank	70*	82	72
<b>Non-US Equity</b>	-8.7%	+15.7%	+17.3%
<i>MSCI ACWI ex-US</i>	-6.2%	+16.2%	+19.2%
Rank	43	31	57
<b>Fixed Income</b>	+4.7%	+4.2%	+4.1%
<i>Lehman Aggregate</i>	+7.1%	+4.1%	+3.9%
Rank	75	53	36
<b>Total Fund</b>	-8.2%	+5.7%	+8.4%
<i>Policy Benchmark***</i>	-5.1%	+6.4%	+8.7%
<i>Public Fund Median</i>	-4.6%	+6.9%	+9.3%
Rank**	95	81	72

\* Ranking 1 is best, 100 is worst.

\*\* Rankings source - ICC Public Funds Universe

\*\*\*Policy Benchmark is 37% Russell 1000/ 9% Russell 2000/ 31% Lehman Agg/  
20% MSCI ACWI ex-US/3% FTSE EPRA-NARIET

Returns for periods greater than one year are annualized. StanCERA's investment in Global REITs was effective March 3, 2008 and thus does not have a full one year performance record as of June 30, 2008. Results of all publicly traded investments are consistent with Global Investment Performance Standards (GIPS) as adopted by the CFA Board of Governors.

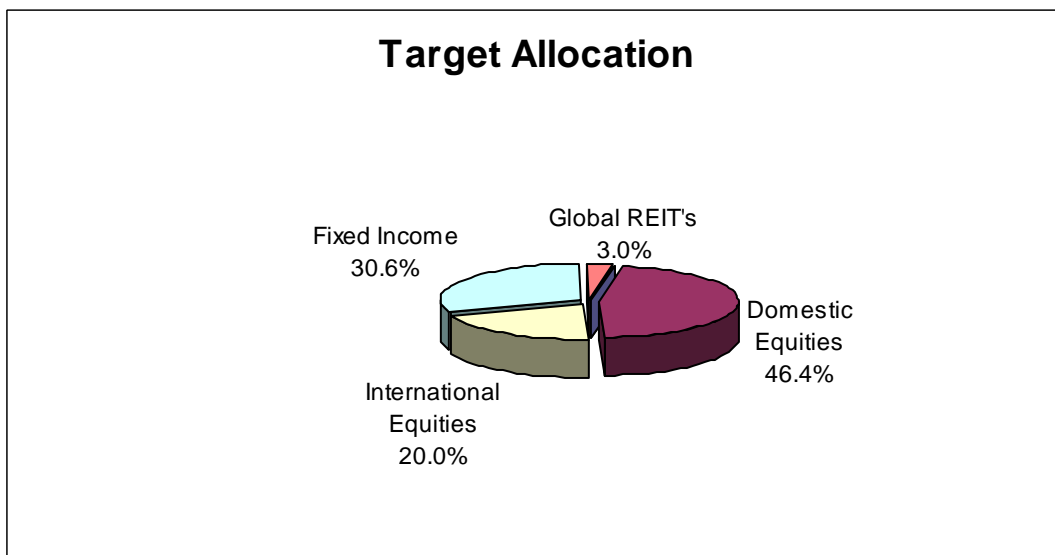
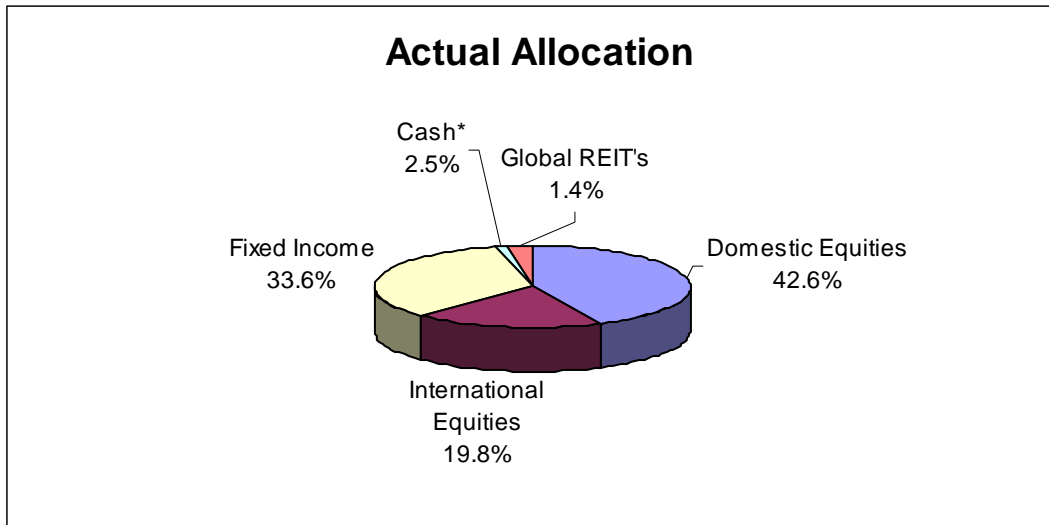


Paul S. Harte  
Vice President  
Strategic Investment Solutions, Inc.  
September 24, 2008

**ASSET ALLOCATION**  
JUNE 30, 2008

<b>Asset Class</b>	<b>Market Value</b>	<b>Actual Allocation</b>	<b>Target Allocation</b>
Domestic Equities	\$554,233,308	42.64%	46.40%
International Equities	257,949,302	19.85%	20.00%
Fixed Income	436,520,720	33.59%	30.60%
Global REIT's	18,214,518	1.40%	3.00%
Cash *	32,741,013	2.52%	0.00%
<b>TOTAL PORTFOLIO</b>	<b>\$1,299,658,861</b>	<b>100.00%</b>	<b>100.00%</b>

\* Excludes Pooled Cash in County Treasury of \$7,886,048  
Excludes Securities Lending Cash Collateral



**20 LARGEST STOCK HOLDINGS (BY MARKET VALUE)**  
JUNE 30, 2008

Shares	Stock	Market Value
217,005	HEWLETT PACKARD COMPANY	9,593,791
470,063	COMCAST CORP NEW CL A	8,917,095
160,000	QUALCOMM INC	7,099,200
123,400	WAL MART STORES INC	6,935,080
135,000	SONY CORP ADR AMERN SH NEWEA RCPT	5,904,900
21,500	MASTERCARD INC CL A	5,708,680
75,000	GENENTICH INC COM NEW	5,692,500
360,048	WACHOVIA CORPCOM	5,591,545
10,500	GOOGLE INCCL A	5,527,410
370,000	TIME WARNER INC NEWCOM	5,476,000
46,000	RESEARCH IN MOTION LTD COM	4,377,400
160,000	SANOFI-AVENTISSPONSORED ADR	5,316,800
345,000	NEWS CORP CL A	5,188,800
231,600	MATSUSHITA ELEC IND CO LTD ADRMORGAN GTY	4,960,872
29,000	APPLE INC COM	4,855,760
183,000	AMERICAN INTERNATIONAL GROUP INC COM	4,842,180
258,700	PFIZER INC COM	4,519,489
87,000	CARDINAL HEALTH INC COM	4,487,460
231,200	SEAGATE TECHNOLOGY	4,422,856
92,400	WELLPOINT INC COM	4,403,784

**20 LARGEST BOND HOLDINGS (BY MARKET VALUE)**  
JUNE 30, 2008

Par	Bond	Maturity Date	Market Value
15,390,625	UNITED STATES TREAS NTS	11/15/2008	15,573,935
12,822,576	FEDERAL NAT'L MTGE ASSN POOL #889650	06/01/2038	12,699,060
14,187,844	FORD MOTOR CREDIT CO	02/01/2011	12,025,915
10,814,973	FEDERAL NAT'L MTGE ASSN POOL #735503	04/01/2035	10,844,846
10,615,868	FED'L HOME LOAN MTGE CORP GRP # 1H2623	07/01/2036	10,800,529
10,814,737	U S TREASURY NOTES	08/15/2009	10,388,300
11,576,481	GENERAL MTRS ACCEP CORP	09/15/2011	9,301,889
8,149,156	FED'L HOME LOAN MTGE CORP GRP #G01767	12/01/2032	8,303,695
7,836,494	FED'L HOME LOAN MTGE CORP GRP #1B7006	11/01/2035	8,065,148
7,579,947	FEDERAL NAT'L MTGE ASSN POOL #829345	10/01/2035	7,867,814
7,366,904	FEDERAL NAT'L MTGE ASSN POOL #7888956	03/01/2036	7,357,156
6,784,286	FEDERAL NAT'L MTGE ASSN POOL #725424	04/01/2034	6,955,667
6,524,148	FEDERAL NAT'L MTGE ASSN POOL #745603	05/01/2035	6,680,728
6,514,470	FEDERAL NAT'L MTGE ASSN POOL #745612	07/01/2034	6,629,516
4,485,986	AT&T CORP USD SR NT	11/15/2031	6,027,000
5,630,229	FEDERAL NAT'L MTGE ASSN POOL #888291	03/01/2022	5,675,008
5,416,048	FEDERAL NAT'L MTGE ASSN POOL #745942	04/01/2034	5,452,901
5,521,900	FEDERAL NAT'L MTGE ASSN POOL #725157	09/01/2017	5,416,091
5,400,000	SLM STUDENT LN TR 2007-2NT CL A-2 FLTG	07/25/2017	5,336,008
5,472,451	AOL TIME WARNER INC	04/15/2031	5,304,681

A complete list of portfolio holdings is available on request.

## SCHEDULE OF INVESTMENT MANAGEMENT FEES

	2008	2007
<b>Domestic Equities</b>		
Delaware Management Company	\$ 595,941	\$ 488,782
Dodge & Cox	420,629	462,748
Loomis Sayles & Company	390,210	310,514
Mazama Capital Management	455,661	515,889
MFS Institutional Advisors	-	43,853
Charlotte Capital	-	167,094
Total Domestic Equity	1,862,441	1,988,880
<b>International Equities</b>		
LSV	820,665	764,652
Pyramis Global Advisors Holding Company	704,731	633,260
Total International Equities	1,525,396	1,397,912
<b>Fixed Income</b>		
Dodge & Cox	484,705	477,213
Total Fixed Income	484,705	477,213
<b>Global REIT's</b>		
Invesco	47,382	-
Total Global REIT's	47,382	-
Total Investment Management Fees	3,919,924	3,864,005
<b>Other Investment Fees and Expenses</b>		
Custodial Fees	358,232	466,411
Consultant Fees	147,275	130,000
Miscellaneous Fees	16,764	54,440
Total Other Investment Expenses	522,271	650,851
<b>Total Investment Fees and Expenses</b>	<b>\$ 4,442,195</b>	<b>\$ 4,514,856</b>

In July 2000, StanCERA entered into a Directed Brokerage Agreement with BNY ESI & Co to administer the Commission Recapture Program per StanCERA's Investment Policy. Subsequently, this agreement was moved to LJR Recapture Services, a subsidiary of BNY ConvergEx Group. The strategic objective of the Program is to recapture a portion of trade commissions paid to brokers. The primary goal is to ensure that investment managers provide the best effort to optimize use of the StanCERA's assets for the benefit of the members and beneficiaries by recapturing 65% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis. For fiscal year ending June 30, 2008 and 2007, Commission Recapture Income was \$76,519 and \$60,175 respectively (see page 20).

**INVESTMENT SUMMARY  
FOR THE YEAR ENDED JUNE 30, 2008**

	MARKET VALUE	Percentage of Assets	Current Year Return	3 Year Return	5 Year Return
<b>DOMESTIC EQUITIES</b>					
DODGE & COX - LARGE CAP VALUE RUSSELL 1000 VALUE	\$200,945,261	15.46%	-20.30% -18.80%	3.60% 3.50%	10.40% 8.90%
Delaware - LARGE CAP GROWTH RUSSELL 1000 GROWTH	109,513,726	8.43%	-7.30% -6.00%	N/A N/A	N/A N/A
Loomis Sayles - LARGE CAP GROWTH RUSSELL 1000 GROWTH	75,203,827	5.79%	-3.10% -6.00%	N/A N/A	N/A N/A
Mazama - SMALL CAP GROWTH RUSSELL 2000 GROWTH	50,361,046	3.87%	-28.60% -9.20%	0.00% 7.40%	N/A N/A
BNY - S&P 500 INDEX S&P 500	58,731,543	4.52%	-13.10% -13.10%	4.40% 4.40%	7.60% 7.60%
BGI R2V Ishares RUSSEL 2000 VALUE	59,477,905	4.58%	-21.00% -21.60%	-0.30% 1.40%	7.40% 10.00%
TOTAL DOMESTIC EQUITIES RUSSELL 3000	554,233,308	42.64%	-16.20% -12.70%	3.10% 4.70%	8.10% 8.40%
<b>FIXED INCOME</b>					
DODGE & COX LEHMAN AGGREGATE BOND	449,128,361	34.56%	4.70% 7.10%	4.20% 4.10%	4.10% 3.90%
<b>INTERNATIONAL INVESTMENTS</b>					
PYRAMIS INVESTMENTS	135,901,315	10.46%	-3.30%	N/A	N/A
LSV INVESTMENTS	122,047,987	9.39%	-14.00%	N/A	N/A
* TOTAL INTERNATIONAL INVESTMENTS MSCI ACWI - ex US Index	257,949,302	19.85%	-8.70% -6.20%	15.70% 16.20%	17.30% 19.20%
<b>GLOBAL REIT's</b>					
INVESCO FTSE EPRA/NAREIT Global REIT	18,214,518	1.40%	-9.50% -8.60%	N/A N/A	N/A N/A
<b>CASH &amp; SHORT-TERM INVESTMENTS *</b>					
CASH 90 DAY TREASURY BILL	20,133,371	1.55%	4.00% 3.32%	N/A 3.77%	N/A 2.76%
<b>TOTAL FUND</b>					
TOTAL FUND STANCERA POLICY COMPOSITE	\$1,299,658,860	100.00%	-8.20% -5.10%	5.70% 6.40%	8.40% 8.70%

\* Excludes Pooled Cash in County Treasury of \$7,886,048

Note: % taken from SIS Quarterly Report presented to BOR  
Using time-weighted rate of return based on the market rate of return

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# ACTUARIAL SECTION

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**Actuary's Certification Letter**

January 15, 2007

Board of Retirement  
Stanislaus County  
Employees' Retirement Association  
1010 10<sup>th</sup> Street, Suite 5800  
Modesto, CA 95353

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

Members of the Board:

Buck Consultants, LLC is the Consulting Actuary for the Stanislaus County Employees' Retirement Association. The date of the most recent annual actuarial valuation was June 30, 2006. This valuation is performed annually.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payrolls to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 2006, the amortization is 20 years. The funding objective of the Plan is to establish contribution rates that, over time, will remain as a level percentage of payrolls 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. In each actuarial study, we conduct an examination of all participant data for reasonableness. The actuarial valuation is based on audited financial data and unaudited member data provided by the Retirement Plan Administrator. The Association'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, 2006 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results that, 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, 2009.

We certify 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,

Harold A. Loeb, A.S.A., E.A., M.A.A.A.  
Principal and Consulting Actuary

1801 Century Park East, Suite 500 • Los Angeles, CA 90067  
310.282.8232 • 310.282.0881 (fax)

### Summary of Assumptions and Finding Methods

The following assumptions along with the post retirement and pre-retirement demographic experiences are based on the plan's actuarial experience through June 30, 2006. The rates produced by this valuation were adopted by StanCERA Board of Retirement on February 14, 2007. Due to the restructuring of StanCERA's former actuary firm and a Request for Proposal for actuary services, a valuation was not performed for the fiscal year ending June 30, 2007. The next actuarial valuation is in process for the fiscal year ending June 30, 2008.

#### Actuarial Assumptions

##### Post-Retirement Mortality

##### (1) Service General

Males	1994 Group Annuity Mortality Table with no adjustment (Male)
Females	1994 Group Annuity Mortality Table with no adjustment (Female)
Safety	1994 Group Annuity Mortality Table with no adjustment (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, 2006
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	5-year market value smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5.0%
* includes inflation at:	4.0%
Retirees' cost-of-living adjustments	3.0% (Max)

**Funding Method and Amortization of Actuarial Gains or Losses**

The employer's liability is being funded on the Entry Age Normal Cost Method and with an Unfunded Actuarial Accrued liability (UAAL). The current amortization period for the UAAL is 19 years as of June 30, 2007. The above methods and assumptions were selected by the actuary as being appropriate for the Plan and were used in the latest actuarial valuation.

**PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT**

**General Members – Male**

Age	Duty Death	Ordinary Death	Death While Eligible	Duty Disability	Ordinary Disability	Service	Terminated Vested	Withdraw
20	0.000000	0.000300	0.000000	0.000130	0.000260	0.000000	0.000000	0.143016
25	0.000000	0.000300	0.000100	0.000307	0.000614	0.000000	0.017380	0.119520
30	0.000000	0.000400	0.000100	0.000632	0.000632	0.000000	0.028930	0.104100
35	0.000000	0.000500	0.000200	0.000852	0.000852	0.000000	0.032450	0.083808
40	0.000000	0.000600	0.000300	0.001204	0.001203	0.000000	0.030800	0.064680
45	0.000000	0.000900	0.000500	0.001840	0.001841	0.000000	0.024200	0.042240
50	0.000000	0.001000	0.001100	0.002690	0.002690	0.040000	0.016170	0.023520
55	0.000000	0.001200	0.002000	0.003680	0.003680	0.075000	0.010890	0.013560
60	0.000000	0.001700	0.003100	0.004912	0.004913	0.120000	0.006600	0.007200
65	0.000000	0.002200	0.004500	0.000000	0.000000	0.500000	0.000000	0.000000
70	0.000000	0.000000	0.000000	0.000000	0.000000	0.999999	0.000000	0.000000

**General Members – Females**

Age	Duty Death	Ordinary Death	Death While Eligible	Duty Disability	Ordinary Disability	Service	Terminated Vested	Withdraw
20	.000000	.000200	.000000	.000025	.000050	.000000	.000000	.142344
25	.000000	.000300	.000075	.000050	.000100	.000000	.012989	.101016
30	.000000	.000300	.000075	.000100	.000200	.000000	.019751	.086022
35	.000000	.000500	.000075	.000282	.000562	.000000	.022938	.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	.047500	.023490	.031320
55	.000000	.000900	.001275	.002984	.003980	.047500	.020520	.023490
60	.000000	.001100	.002100	.004192	.005588	.095000	.017190	.017190
65	.000000	.001700	.003225	.000000	.000000	.380000	.000000	.000000
70	.000000	.000000	.000000	.000000	.000000	1.000000	.000000	.000000

**Safety Members**

Age	Duty Death	Ordinary Death	Death While Eligible	Duty Disability	Ordinary Disability	Service	Terminated Vested	Withdraw
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	0.012276	0.074700
30	0.000254	0.000254	0.000130	0.004609	0.000421	0.000000	0.018612	0.056300
35	0.000357	0.000357	0.000130	0.007079	0.000568	0.000000	0.014784	0.029800
40	0.000564	0.000564	0.000260	0.009283	0.000802	0.000000	0.010956	0.016600
45	0.000885	0.001178	0.000520	0.011297	0.001227	0.005000	0.005148	0.006200
50	0.000703	0.000937	0.001300	0.015092	0.001793	0.090000	0.001848	0.001900
55	0.001055	0.001406	0.002990	0.017230	0.002453	0.333300	0.001188	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, 2006 was determined as follows:

1.	Contributions	Benefit Payments	Expected Investment Return	Actual Investment Return	Additional Earnings	Portion Deferred	Deferred Earnings	
2002	\$25,280,195	\$39,665,643	\$80,063,142	\$(44,468,326)	\$(124,531,468)	0%	\$0	
2003	34,728,482	44,996,768	83,479,883	47,412,544	(36,067,339)	20%	(7,213,468)	
2004	36,055,481	49,252,949	86,640,917	153,968,098	67,327,181	40%	26,930,872	
2005	38,881,088	55,523,350	90,899,025	89,298,356	(1,600,669)	60%	(960,401)	
2006	44,282,653	60,612,003	95,347,685	115,674,243	20,326,558	80%	16,261,247	
Total							35,018,250	
2.	Market Value of Assets as of June 30, 2006							1,275,608,550
3.	Actuarial Value of Assets as of June 30, 2006: (2)-(1)							1,240,590,300
4.	Corridor Limit							
	a. 80% of Net Market Value							1,020,486,840
	b. 120% of Net Market Value							1,530,730,260
5.	Actuarial Value of Assets After corridor as of June 30, 2006							1,240,590,300
6.	Health Insurance Reserve							79,604,893
	Burial Allowance Reserve							2,552,206
	Special COLA Reserve							1,924,921
	Tier 3 Disability Reserve							2,390
	Legal Contingency Reserve							2,457,683
	Total Special Reserves							86,542,093
7.	Valuation Assets as of June 30, 2006: (5)-(6)							\$1,154,048,207

\* Actuarial valuation was not performed for fiscal year ending June 30, 2007

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Salary
6/30/1999	General	3,164	115,310,000	36,444	9.63%
	Safety	585	26,489,000	45,280	8.39%
	<b>Total</b>	<b>3,749</b>	<b>141,799,000</b>	<b>81,724</b>	<b>8.94%</b>
6/30/2000	General	3,435	128,778,000	37,490	2.87%
	Safety	610	28,231,000	46,280	2.21%
	<b>Total</b>	<b>4,045</b>	<b>157,009,000</b>	<b>83,770</b>	<b>2.50%</b>
6/30/2001	General	3,614	142,922,000	39,547	5.49%
	Safety	621	31,673,000	51,003	10.20%
	<b>Total</b>	<b>4,235</b>	<b>174,595,000</b>	<b>90,550</b>	<b>8.09%</b>
6/30/2002	General	3,853	162,743,000	42,238	6.81%
	Safety	654	33,728,000	51,572	1.11%
	<b>Total</b>	<b>4,507</b>	<b>196,471,000</b>	<b>93,810</b>	<b>3.60%</b>
6/30/2003	General	3,626	163,505,000	45,092	6.76%
	Safety	637	34,159,000	53,625	3.98%
	<b>Total</b>	<b>4,263</b>	<b>197,664,000</b>	<b>98,717</b>	<b>5.23%</b>
6/30/2004	General	3,618	164,462,000	45,457	0.81%
	Safety	630	35,501,000	56,351	5.08%
	<b>Total</b>	<b>4,248</b>	<b>199,963,000</b>	<b>101,808</b>	<b>3.13%</b>
6/30/2005	General	3,651	173,399,000	47,494	4.48%
	Safety	687	38,282,000	55,723	-1.11%
	<b>Total</b>	<b>4,338</b>	<b>211,681,000</b>	<b>103,217</b>	<b>1.38%</b>
6/30/2006	General	3,702	179,767,000	48,559	2.24%
	Safety	689	40,001,000	58,057	4.19%
	<b>Total</b>	<b>4,391</b>	<b>219,768,000</b>	<b>106,616</b>	<b>3.29%</b>

\* Actuarial valuation was not performed for fiscal year ending June 30, 2007

### RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

Retirant and Beneficiaries Added to and Removed from Retiree Payroll

Plan Year Ending	At Beginning of Year	Added During Year	Allowances Added	Removed During Year	Allowances Removed	At End of Year	Retiree Payroll	% Increase in Retiree Payroll	Average Annual Allowance
6/30/1999	1,655	111	N/A	43	N/A	1,723	\$ 24,752,000	9.70%	\$ 14,366
6/30/2000	1,723	126	N/A	69	N/A	1,780	\$ 26,963,000	8.90%	\$ 15,148
6/30/2001	1,780	137	N/A	56	N/A	1,861	\$ 29,438,000	9.20%	\$ 16,008
6/30/2002	1,861	161	N/A	59	N/A	1,963	\$ 33,240,000	12.90%	\$ 17,134
6/30/2003	1,963	166	N/A	62	N/A	2,067	\$ 38,348,000	15.40%	\$ 18,670
6/30/2004	2,067	214	N/A	64	N/A	2,217	\$ 43,467,000	13.30%	\$ 20,064
6/30/2005	2,217	99	\$ 4,210,853	43	\$ 637,963	2,273	\$ 47,423,000	9.10%	\$ 20,682
6/30/2006	2,273	247	\$ 3,495,143	75	\$ 700,133	2,445	\$ 53,111,000	12.00%	\$ 21,744

### SOLVENCY TEST

Valuation Date	Aggregate Accrued Liabilities (AAL) for:			Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	1	2	3		1	2	3
	Active Member Contributions	Retirants & Beneficiaries	Active Members Employer Portion				
6/30/1999	\$ 110,267,000	\$ 287,981,000	\$ 212,032,000	\$ 638,180,000	100%	100%	100%
6/30/2000	\$ 121,287,000	\$ 315,288,000	\$ 229,539,000	\$ 679,421,000	100%	100%	100%
6/30/2001	\$ 135,145,000	\$ 343,995,000	\$ 302,355,000	\$ 784,114,000	100%	100%	100%
6/30/2002	\$ 135,405,000	\$ 394,978,000	\$ 340,385,000	\$ 878,821,000	100%	100%	100%
6/30/2003	\$ 176,622,000	\$ 455,784,000	\$ 325,689,000	\$ 928,022,000	100%	100%	91%
6/30/2004	\$ 166,806,000	\$ 518,922,000	\$ 349,617,000	\$ 993,180,000	100%	100%	88%
6/30/2005	\$ 205,556,000	\$ 551,810,000	\$ 358,944,000	\$ 1,049,691,000	100%	100%	81%
6/30/2006	\$ 219,907,000	\$ 619,109,000	\$ 355,888,000	\$ 1,154,048,000	100%	100%	89%

### ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

Plan Year Ending	Actuarial (Gains)/Losses			Changes in Plan Provisions	Changes in Assumption/ Methods	Total (Gain)/Loss
	Asset Sources	Liability Sources	Total			
*6/30/1999	-	-	-	-	-	-
*6/30/2000	-	-	-	-	-	-
*6/30/2001	-	-	-	-	-	-
*6/30/2002	-	-	-	-	-	-
6/30/2003	\$ 33,037,561	\$ 9,931,697	\$ 42,969,258	N/A	\$ (2,088,246)	\$ 40,881,012
6/30/2004	\$ 8,536,049	\$ 12,492,070	\$ 21,028,119	N/A	-	\$ 21,028,119
6/30/2005	\$ 26,573,640	\$ 11,238,430	\$ 37,812,070	N/A	-	\$ 37,812,070
6/30/2006	\$ (27,756,878)	\$ 21,366,204	\$ (6,390,674)	N/A	(14,845,293)	\$ (21,235,967)

\*Data not available as of date document was prepared

\*Actuarial valuation was not performed for fiscal year ending June 30, 2007





# STATISTICAL INFORMATION

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## STATISTICAL INFORMATION

This section provides a multi-year trend of financial information and demographic information to facilitate a more comprehensive understanding of this year's financial statements, note disclosures and supplementary information covering StanCERA's Plan. The financial and operating information provides additional perspective, context and detail for StanCERA's net assets, revenues and expenses by source, number of retirees by benefit type, payment made to retirees by benefit type, membership history and the participating employers. The financial and operating trend information is located on the following pages.

### CHANGES IN PLAN NET ASSETS

*Last Ten Fiscal Years ending June 30*

#### Additions To Plan Net Assets

	2008	2007	2006	2005	2004
Employer Contributions	\$ 22,555,416	\$ 32,562,514	\$ 22,548,754	\$ 19,792,748	\$ 17,113,973
Employee Contributions	20,689,439	20,542,837	19,860,676	19,088,340	18,941,508
Investment Income (Loss)	(122,548,769)	206,631,146	116,898,276	90,280,931	154,739,718
Litigation Recovery	117,351	177,775	27,479	113,169	114,058
Net Security Lending Income	1,022,295	382,991	347,188	309,095	415,659
<b>Total Additions</b>	<b>\$ (78,164,268)</b>	<b>\$ 260,297,263</b>	<b>\$ 159,682,373</b>	<b>\$ 129,584,283</b>	<b>\$ 191,324,916</b>

#### Deductions From Plan Assets

Pension Benefits	\$ 67,785,111	\$ 67,599,163	\$ 58,129,898	\$ 53,176,109	\$ 47,926,179
Refunds	2,442,426	2,730,463	2,482,105	2,347,241	1,326,769
Administrative Expense and Misc	2,044,286	1,980,926	1,598,700	1,404,838	1,301,338
<b>Total Deductions</b>	<b>\$ 72,271,823</b>	<b>\$ 72,310,552</b>	<b>\$ 62,210,703</b>	<b>\$ 56,928,188</b>	<b>\$ 50,554,286</b>

#### Increase (Decrease) in Net Assets Held in Trust for Pension Benefits

	(150,436,091)	187,986,711	97,471,670	72,656,095	140,770,630
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#### Net Assets Held in Trust for Pension Benefits

Beginning of year	1,461,722,038	1,273,735,327	1,176,263,657	1,103,607,562	962,836,932
End of year	<u>\$ 1,311,285,947</u>	<u>\$ 1,461,722,038</u>	<u>\$ 1,273,735,327</u>	<u>\$ 1,176,263,657</u>	<u>\$ 1,103,607,562</u>

#### Additions To Plan Net Assets

	2003	2002	2001	2000	1999
Employer Contributions	\$ 16,207,877	\$ 11,340,678	\$ 7,509,294	\$ 5,899,393	\$ 5,337,664
Employee Contributions	18,520,605	13,939,517	11,227,370	10,139,886	9,348,912
Investment Income (Loss)	47,836,183	(43,483,569)	65,601,912	56,019,932	86,808,874
Litigation Recovery	126,162	97,700	-	-	-
Net Security Lending Income	597,316	-	-	-	-
<b>Total Additions</b>	<b>\$ 83,288,143</b>	<b>\$ (18,105,674)</b>	<b>\$ 84,338,576</b>	<b>\$ 72,059,211</b>	<b>\$ 101,495,450</b>

#### Deductions From Plan Assets

Pension Benefits	\$ 43,435,482	\$ 38,118,054	\$ 34,965,706	\$ 32,129,792	\$ 28,231,589
Refunds	1,561,286	1,547,588	1,163,380	1,728,978	1,279,841
Administrative Expense and Misc	1,147,117	1,082,458	956,325	869,133	665,983
<b>Total Deductions</b>	<b>\$ 46,143,885</b>	<b>\$ 40,748,100</b>	<b>\$ 37,085,411</b>	<b>\$ 34,727,903</b>	<b>\$ 30,177,413</b>

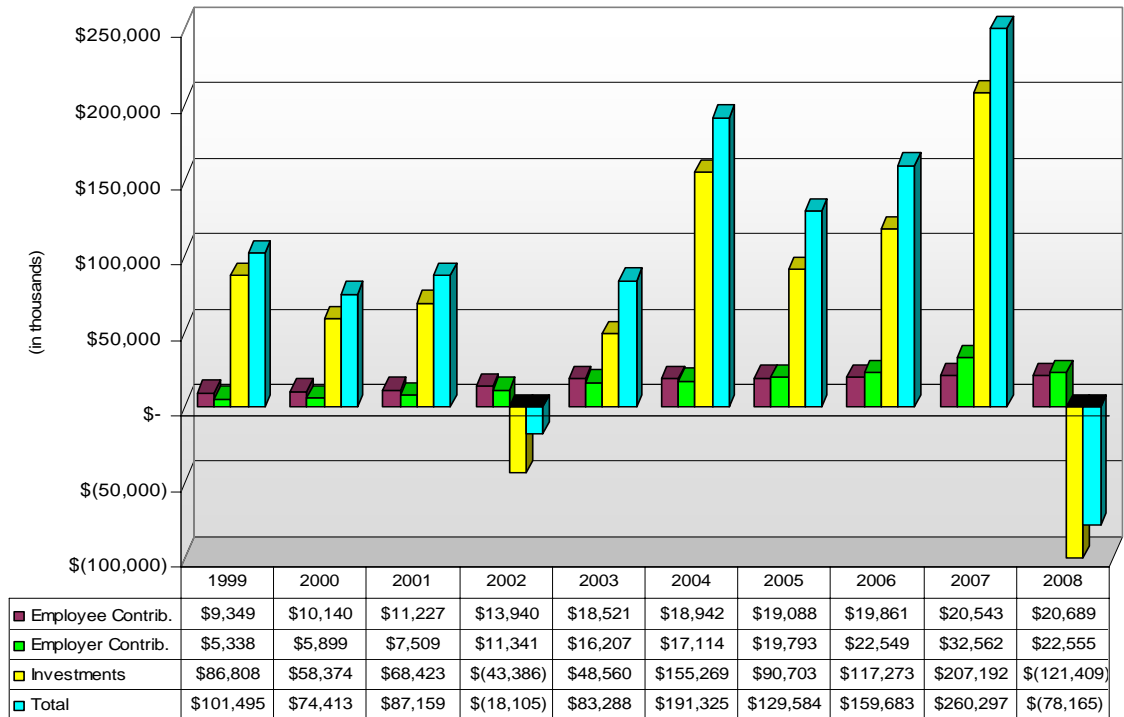
#### Increase (Decrease) in Net Assets Held in Trust for Pension Benefits

	37,144,258	(58,853,774)	47,253,165	37,331,308	71,318,037
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#### Net Assets Held in Trust for Pension Benefits

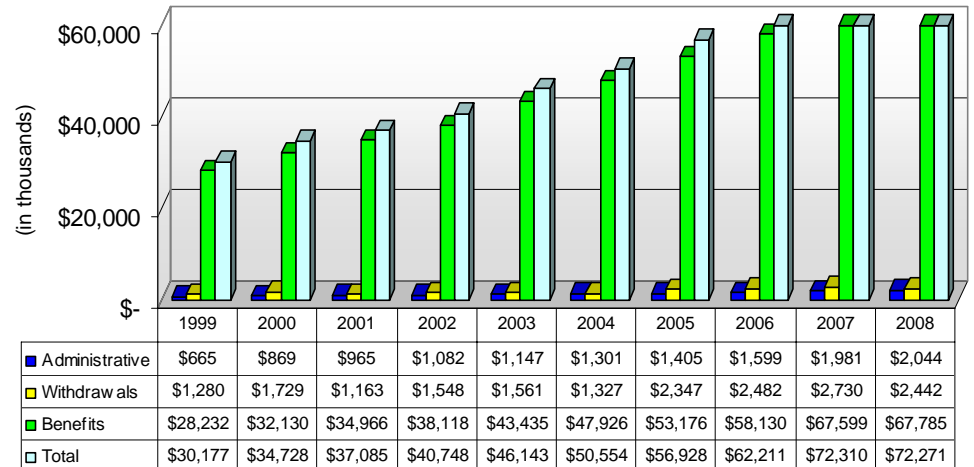
Beginning of year	925,692,674	984,546,448	937,293,283	899,961,975	828,643,938
End of year	<u>\$ 962,836,932</u>	<u>\$ 925,692,674</u>	<u>\$ 984,546,448</u>	<u>\$ 937,293,283</u>	<u>\$ 899,961,975</u>

**Revenues by Source**  
(for years ending June 30)



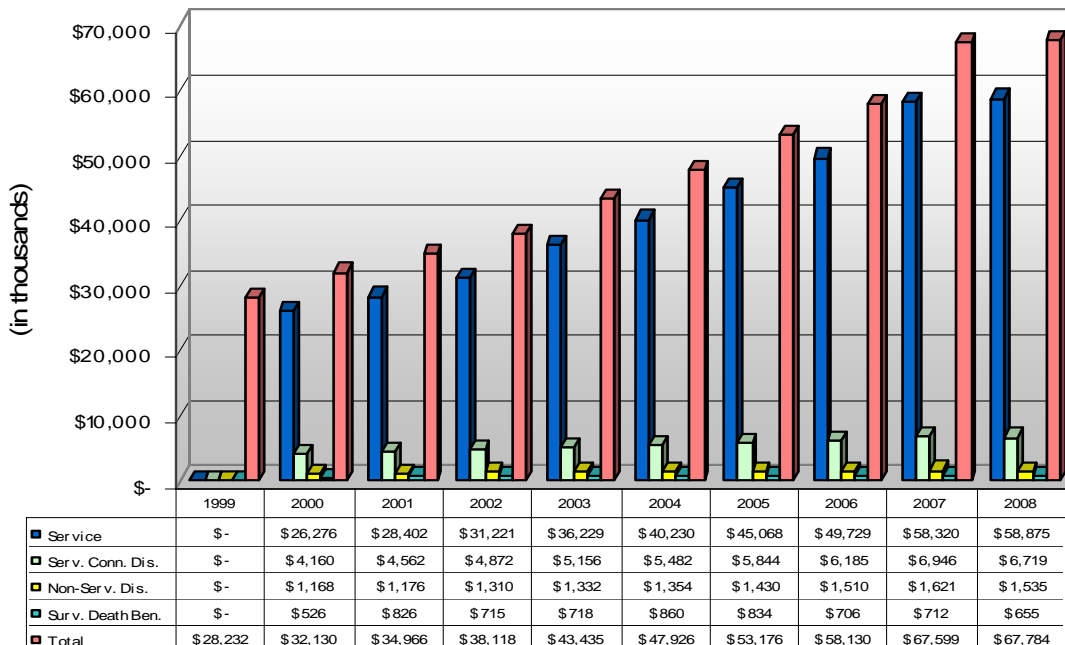
Note: 2007 Employer Contributions include income from the post-Ventura *Francis* settlement

**Expenses by Type**  
(for years ending June 30)



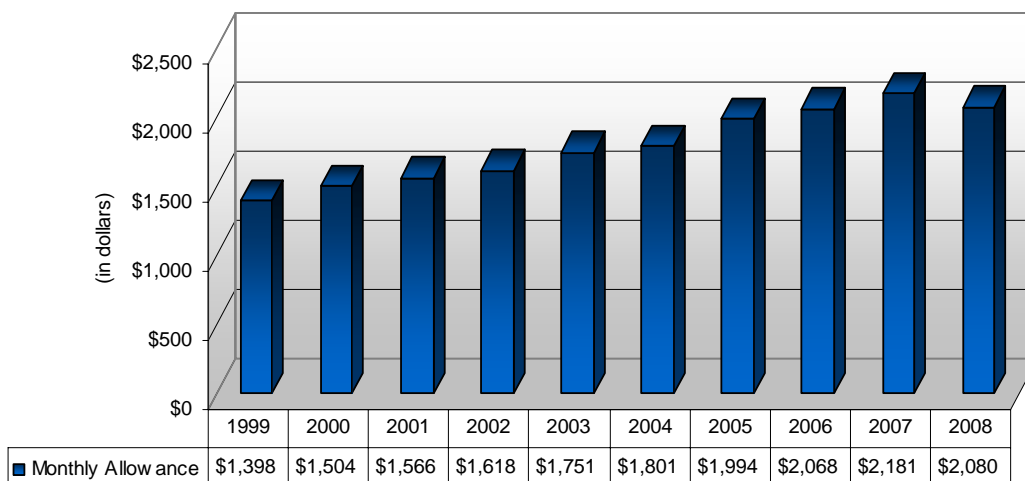
Note: 2007 benefits include expenses for the post-Ventura *Francis* settlement

**Benefit Expense by Type  
(for years ending June 30)**



Note: 2007 Benefit expenses include expenses for the post-Ventura *Francis* settlement  
\*- Data not available for year ending June 30, 1999

**Average Monthly Retirement Benefits  
(for years ending June 30)**



Note: Data does not include one time payment for post-Ventura *Francis* settlement.

**RETIRED MEMBERS BY BENEFIT TYPE**  
*as of June 30, 2008*

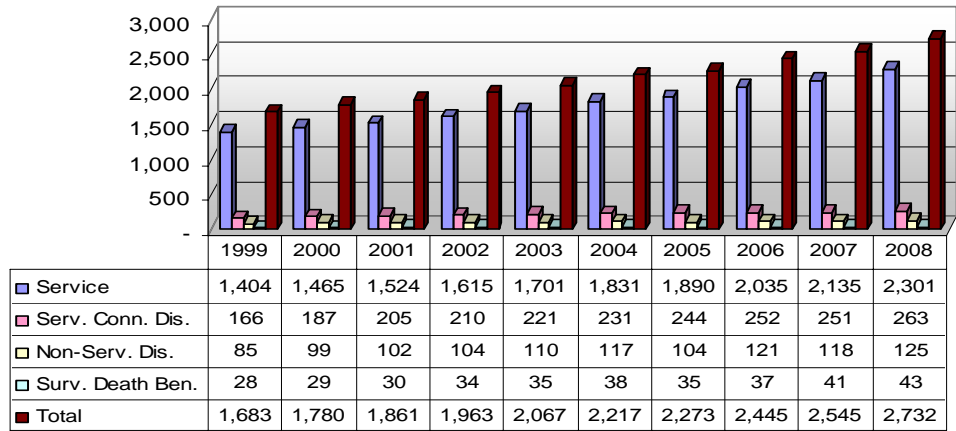
<u>Amount Monthly Benefit</u>	<u>Total # Retirees</u>	<u>Service Retirement</u>	<u>Service Connected Disability</u>	<u>Non-Service Disability</u>	<u>Survivors</u>
<b>General Members</b>					
0-500	336	306	6	19	5
501-1,000	454	388	4	45	17
1,001-1,500	422	341	35	40	6
1,501-2,000	327	271	48	6	2
2,001-2,500	223	194	25	3	1
2,501-3,000	140	129	9	1	1
3,001-3,500	100	98	1	0	1
3,501-4,000	76	74	2	0	0
4,001-4,500	48	45	2	1	0
4,501-5,000	39	39	0	0	0
over 5,000	133	133	0	0	0
<b>Totals</b>	<u>2,298</u>	<u>2,018</u>	<u>132</u>	<u>115</u>	<u>33</u>
<b>Safety Members</b>					
0-500	25	11	11	2	1
501-1,000	18	10	6	0	2
1,001-1,500	33	23	7	2	1
1,501-2,000	65	29	30	6	0
2,001-2,500	76	26	48	0	2
2,501-3,000	37	19	17	0	1
3,001-3,500	24	22	2	0	0
3,501-4,000	26	24	2	0	0
4,001-4,500	23	15	6	0	2
4,501-5,000	21	20	0	0	1
over 5,000	86	84	2	0	0
<b>Totals</b>	<u>434</u>	<u>283</u>	<u>131</u>	<u>10</u>	<u>10</u>
<b>TOTALS</b>	<u>2,732</u>	<u>2,301</u>	<u>263</u>	<u>125</u>	<u>43</u>

(Data retrieved from Plan's data base)

<b>AVERAGE BENEFIT PAYMENTS</b>							
Retirement Effective Dates July 1, 1999 to June 30, 2008							
	<i>Service Years Credited</i>						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>Fiscal Year Ending June 30, 1999 *</b>							
Average Monthly Benefit	-	-	-	-	-	-	-
Number of Active Retirees	-	-	-	-	-	-	-
<b>Fiscal Year Ending June 30, 2000</b>							
Average Monthly Benefit	\$594	\$994	\$1,004	\$1,433	\$1,961	\$2,578	\$3,359
Number of Active Retirees	130	219	439	364	301	206	120
<b>Fiscal Year Ending June 30, 2001</b>							
Average Monthly Benefit	\$587	\$935	\$992	\$1,425	\$1,969	\$2,599	\$3,388
Number of Active Retirees	136	229	455	372	313	222	135
<b>Fiscal Year Ending June 30, 2002</b>							
Average Monthly Benefit	\$598	\$1,004	\$1,029	\$1,481	\$2,043	\$2,756	\$3,523
Number of Active Retirees	146	243	470	379	332	252	141
<b>Fiscal Year Ending June 30, 2003</b>							
Average Monthly Benefit	\$617	\$990	\$1,086	\$1,594	\$2,129	\$3,094	\$3,782
Number of Active Retirees	150	256	480	390	358	271	162
<b>Fiscal Year Ending June 30, 2004</b>							
Average Monthly Benefit	\$621	\$1,008	\$1,127	\$1,605	\$2,170	\$3,168	\$4,017
Number of Active Retirees	153	275	507	418	382	293	190
<b>Fiscal Year Ending June 30, 2005</b>							
Average Monthly Benefit	\$615	\$1,053	\$1,175	\$1,710	\$2,253	\$3,290	\$4,185
Number of Active Retirees	160	284	508	424	386	307	204
<b>Fiscal Year Ending June 30, 2006</b>							
Average Monthly Benefit	\$618	\$1,063	\$1,176	\$1,741	\$2,322	\$3,400	\$4,341
Number of Active Retirees	169	306	532	446	417	338	237
<b>Fiscal Year Ending June 30, 2007</b>							
Average Monthly Benefit	\$644	\$1,102	\$1,206	\$1,796	\$2,438	\$3,562	\$4,485
Number of Active Retirees	170	321	568	466	424	345	251
<b>Fiscal Year Ending June 30, 2008</b>							
Average Monthly Benefit	\$382	\$1,016	\$1,284	\$1,836	\$2,594	\$3,778	\$4,599
Number of Active Retirees	246	427	522	523	398	365	251

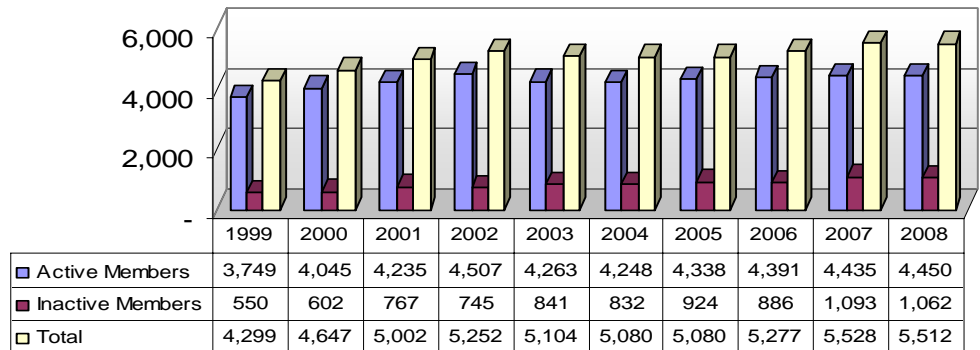
\* - Data not available for year ending June 30, 1999  
Data for Final Average Salary is not available due to system constraints. StanCERA is implementing a new Pension Software program which will provide this data in future years.

**Membership History (Retired)**  
(for years ending June 30)



Data retrieved from Plan's data base.

**Membership History (Active & Deferred)**  
(for years ending June 30)



Data retrieved from Plan's data base.

**PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS  
with PERCENTAGE OF TOTAL SYSTEM**  
for years ending June 30

	<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>	
<b>Stanislaus County:</b>										
General Members	3,313	74.4%	3,311	74.7%	3,330	75.8%	3,320	76.5%	3,239	76.2%
Safety Members	663	14.9%	660	14.9%	626	14.3%	618	14.2%	583	13.7%
<b>Total</b>	<u>3,976</u>		<u>3,971</u>		<u>3,956</u>		<u>3,938</u>		<u>3,822</u>	
<b>Participating Agencies:</b>										
Stanislaus County Superior Courts	254	5.7%	246	5.5%	232	5.3%	211	4.9%	220	5.2%
City of Ceres	186	4.2%	183	4.1%	172	3.9%	161	3.7%	173	4.1%
East Side Mosquito Abatement District	10	0.2%	10	0.2%	9	0.2%	8	0.2%	6	0.2%
Hills Ferry Cemetery	4	0.1%	4	0.1%	4	0.1%	3	0.1%	3	0.1%
Keyes Community Services District	6	0.2%	6	0.2%	5	0.1%	5	0.1%	5	0.1%
Salida Sanitary District	4	0.1%	4	0.1%	4	0.1%	4	0.1%	5	0.1%
Stanislaus Council of Governments	10	0.2%	11	0.2%	9	0.2%	8	0.2%	14	0.3%
<b>Total</b>	<u>474</u>		<u>464</u>		<u>435</u>		<u>400</u>		<u>426</u>	
<b>Total Active Membership</b>	<u>4,450</u>		<u>4,435</u>		<u>4,391</u>		<u>4,338</u>		<u>4,248</u>	

	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>	
<b>Stanislaus County:</b>										
General Members	3,292	77.2%	3,528	78.1%	3,504	82.7%	3,335	82.4%	**	0.0%
Safety Members	580	13.6%	589	13.1%	559	13.2%	544	13.4%	-	0.0%
<b>Total</b>	<u>3,872</u>		<u>4,117</u>		<u>4,063</u>		<u>3,879</u>		<u>-</u>	
<b>Participating Agencies:</b>										
Stanislaus County Superior Courts	198	4.6%	202	4.5%	*	0.0%	*	0.0%	**	0.0%
City of Ceres	161	3.8%	156	3.5%	141	3.3%	137	3.4%	-	0.0%
East Side Mosquito Abatement District	6	0.2%	7	0.2%	8	0.2%	6	0.2%	-	0.0%
Hills Ferry Cemetery	3	0.1%	3	0.1%	3	0.1%	3	0.1%	-	0.0%
Keyes Community Services District	4	0.1%	4	0.1%	4	0.1%	4	0.1%	-	0.0%
Salida Sanitary District	5	0.1%	5	0.1%	4	0.1%	4	0.1%	-	0.0%
Stanislaus Council of Governments	14	0.3%	13	0.3%	12	0.3%	12	0.3%	-	0.0%
<b>Total</b>	<u>391</u>		<u>390</u>		<u>172</u>		<u>166</u>		<u>-</u>	
<b>Total Active Membership</b>	<u>4,263</u>		<u>4,507</u>		<u>4,235</u>		<u>4,045</u>		<u>3,749</u>	

\* Stanislaus County Superior Courts were part of Stanislaus County until March 2002

\*\* Detail data not available for year ending June 30, 1999  
(Data retrieved from Plan's data base)