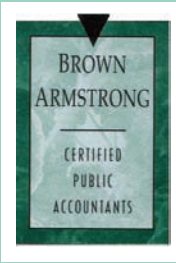




Financial²⁰⁰⁸

SAN JOAQUIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION



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INDEPENDENT AUDITOR'S REPORT

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To the Members of the Board of Retirement of the
San Joaquin County Employees' Retirement Association

We have audited the accompanying Retirement Plan and Post-Employment Healthcare Plan Statement of Plan Net Assets Available for Benefits of the San Joaquin County Employees' Retirement Association (SJCERA) as of December 31, 2008, and the related Retirement Plan and Post-Employment Healthcare Plan Statement of Changes in Plan Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the management of SJCERA. Our responsibility is to express an opinion on these financial statements based on our audit. The December 31, 2007 summarized comparative information has been derived from the 2007 financial statements and is included for additional analysis only.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets Available for Benefits of the Retirement Plan and Post-Employment Healthcare Plan of the San Joaquin County Employees' Retirement Association as of December 31, 2008 and the Changes in its Plan Net Assets Available for Benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A) and Required Supplementary Information (RSI) as listed in the Table of Contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it. The RSI has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Independent Auditor's Report

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules and the investment, actuarial and statistical sections as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of SJCERA. The Supplemental Schedules 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 May 29, 2009, on our consideration of SJCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



Bakersfield, California
May 29, 2009

FINANCIAL

Management's Discussion and Analysis

The discussion and analysis of the San Joaquin County Employees' Retirement Association's (SJCERA) financial performance provides an overview of the financial activities for the year ended December 31, 2008. This discussion and analysis needs to be read in conjunction with SJCERA's financial statements, which follow this discussion.

Financial Highlights

- Overall, SJCERA fund's return on net assets is (30)%.
- SJCERA's net assets of \$1,560 million at December 31, 2008 decreased by \$668 million or 30% as a result of this year's operation.
- SJCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2008, the date of the last actuarial valuation, the funded ratio for the actuarial accrued liability was approximately 87.0%. In general, this indicates that for every dollar of benefits liability, SJCERA has \$0.87 of net assets to cover it.
- Revenues for the year were \$(555) million, a decrease of \$803 million or 324% from the prior year's \$248 million. The decrease was mainly caused by unrealized losses due to the financial crisis.
- Expenses for the year were \$113 million, an increase of \$13 million or 13% from the prior year's \$100 million. This increase was primarily due to the \$13 million increase in pension benefit payments to retirees.

Statement of Plan Net Assets and Statement of Changes in Plan Net Assets

This annual financial report consists of two financial statements:

1. The Statement of Plan Net Assets provides a snapshot of account balances at year-end and indicates the assets available for future payments to retirees and any current liabilities that are owed at this time. The assets less liabilities, give the reader a clear picture of what funds are available for future payments.
2. The Statement of Changes in Plan Net Assets gives the reader a view of current year additions and deductions to the Plan.

	2008	2007	INCREASE (DECREASE) AMOUNT	PERCENT CHANGE
Cash and Receivables	\$ 267,154,409	\$ 340,873,842	\$ (73,719,433)	-21.63%
Investments	1,385,693,733	2,090,993,600	(705,299,867)	-33.73%
Other Assets	158,571	202,843	(44,272)	-21.83%
Total Assets	1,653,006,713	2,432,070,285	(779,063,572)	-32.03%
Total Liabilities	92,838,447	203,979,657	(111,141,210)	-54.49%
TOTAL PLAN NET ASSETS	\$1,560,168,266	\$2,228,090,628	\$ (667,922,362)	-29.98%

Management’s Discussion and Analysis

Together these two statements report SJCERA’s net assets – the difference between assets and liabilities – as one way to measure the system’s financial position. Over time, increases and decreases in net assets is one indicator of whether SJCERA’s financial situation is improving or deteriorating. Additional factors, such as market conditions, also need to be considered in assessing SJCERA’s overall financial situation.

An important question asked about SJCERA’s financial condition is, “Does SJCERA have sufficient assets to pay the pension benefits that have been promised to the membership?” The two financial statements provide information about SJCERA’s activities in a way that helps answer this question. In summary, our current funding ratio based on the January 1, 2008 Valuation, is 87% and this means that SJCERA has \$.87 for each \$1.00 of pension liability. It should be noted for pensions that are permanent and on going (such as SJCERA), funding ratios of better than 80.0% are considered extremely well funded.

Revenue – Additions to Plan Net Assets

The reserves needed to finance the retiree benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. The contributions and investment income for the year ended December 31, 2008 totaled \$(555) million. Of the total \$(667) million in net investment income, \$(712) million is attributable to net depreciation in the fair value of investments.

The overall year 2008 revenues decreased by \$804 million from that of the prior year, primarily due to the decrease in fair market value of investments due to the financial crisis.

The employer’s contribution increased by \$8 million or 10% over the prior year due to the increases in the contribution rates and the number of active employees.

Below is the summary of the changes from year 2007 to year 2008.

	2008	2007	INCREASE (DECREASE) AMOUNT	PERCENT CHANGE
Employer’s Contributions	\$ 94,162,866	\$ 85,868,698	\$ 8,294,168	9.66%
Members Contributions	13,050,906	12,312,247	738,659	6.00%
Employer Contribution to Healthcare Benefits	4,083,235	2,780,505	1,302,730	46.85%
Net Investment and Miscellaneous Income	(666,760,126)	147,354,800	(814,114,926)	-552.49%
Transfer between Plans	105,663	123,809	(18,146)	-14.66%
TOTAL	\$ (555,357,456)	\$ 248,440,059	\$ (803,797,515)	-323.54%

Expenses – Deductions from Plan Net Assets

The primary expenses of the plan include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, the payment of health benefits, and the cost of administering the defined benefit and post-employment health plans. Expenses for the year 2008 totaled \$113 million, an increase of 13% over 2007. The increase is attributed to the additional benefit payments for retirees as well as the growth in the number and average amount of benefits paid to retirees.

	2008	2007	INCREASE (DECREASE) AMOUNT	PERCENT CHANGE
Benefit Payments	\$ 107,294,445	\$ 94,408,363	\$ 12,886,082	13.65%
Members Death Benefits	453,092	471,474	(18,382)	-3.90%
Refunds	1,253,610	1,042,459	211,151	20.26%
Administrative and Miscellaneous	3,458,096	3,555,503	(97,407)	-2.74%
Transfer between Plans	105,663	123,809	(18,146)	-14.66%
TOTAL	\$ 112,564,906	\$ 99,601,608	\$ 12,963,298	13.02%

Reporting SJCERA's Fiduciary Responsibilities

SJCERA's Board of Retirement and staff are fiduciaries for the pension plan of the County of San Joaquin and certain special districts. Accordingly, SJCERA is responsible for ensuring that the assets reported in the statements are used for the intended purpose of paying retirement and post employment healthcare benefits to the employees of the County of San Joaquin and certain special districts.

The Retirement Fund as a Whole

The fund decreased 30% for 2008 from 2007, the net decrease in the fair market value of investments was \$668 million versus the prior year's increase of \$147 million. The investment section of this report reviews the result of investment activity for the year ended December 31, 2008.

Contacting SJCERA's Management

This financial report is designed to provide the Board of Retirement, the membership, taxpayers, and investment managers with a general overview of SJCERA's finances and to show SJCERA's accountability for the money it receives. Any question about this report or need for additional financial information, can be addressed to:

Annette H. St. Urbain,
Chief Executive Officer,
6 South El Dorado Street, Suite 400,
Stockton, California 95202.

Respectfully Submitted,



Annette H. St. Urbain
Chief Executive Officer

Statement of Plan Net Assets Available for Benefits

AS OF DECEMBER 31, 2008 AND 2007

	2008		2007	
	Defined Benefit Pension Plan	Post- Employment Healthcare Plan	Total	Total
Assets				
Cash and Cash Equivalents	\$ 163,533,965	\$ 1,390,438	\$ 164,924,403	\$ 130,099,717
Cash Collateral-Security Lending	78,630,778	668,553	79,299,331	190,686,243
Total Cash & Cash Equivalents	242,164,743	2,058,991	244,223,734	320,785,960
Receivables:				
Investment Income Receivables	5,890,692	50,085	5,940,777	9,261,249
Contributions Receivable	3,831,741	-	3,831,741	3,228,762
Securities Sold, Not Received - Domestic	13,029,142	110,779	13,139,921	7,555,872
Other Investment Income Receivable	737	6	743	989
Miscellaneous Receivables	17,493	-	17,493	41,010
Total Receivables	22,769,805	160,870	22,930,675	20,087,882
Investments, at market value				
Short-Term Investments	-	-	-	11,040,952
Bonds	384,994,902	3,273,397	388,268,299	577,654,370
Stocks	639,042,495	5,433,423	644,475,918	1,287,236,641
Real Estate	270,622,526	2,300,953	272,923,479	173,436,735
Alternative Investments	79,351,357	674,680	80,026,037	41,624,902
Total Investments	1,374,011,280	11,682,453	1,385,693,733	2,090,993,600
Other Assets				
Prepaid Expenses	75,744	-	75,744	72,692
Equipment and Fixtures, Net	82,827	-	82,827	130,151
Total Assets	1,639,104,399	13,902,314	1,653,006,713	2,432,070,285
Liabilities				
Securities Lending-Cash Collateral	78,630,777	668,554	79,299,331	190,686,243
Securities Purchased, Not Paid	11,640,334	98,971	11,739,305	10,558,576
Accrued Expenses & Other Payables	1,784,637	15,174	1,799,811	1,994,439
Security Lending Interest and Other Expense	-	-	-	740,399
Total Liabilities	92,055,748	782,699	92,838,447	203,979,657
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits				
	\$ 1,547,048,651	\$ 13,119,615	\$ 1,560,168,266	\$ 2,228,090,628

The accompanying notes are an integral part of these financial statements.

FINANCIAL

Statement of Changes in Plan Net Assets Available for Benefits

AS OF DECEMBER 31, 2008 AND 2007

	2008			2007
	Defined Benefit Pension Plan	Post-Employment Healthcare Plan	Total	Total
Additions				
Contributions				
Employer's Contribution	\$ 94,162,866	\$ -	\$ 94,162,866	\$ 85,868,698
Members' Contributions	13,050,906	-	13,050,906	12,312,247
Employer Contribution to Healthcare Benefits	-	4,083,235	4,083,235	2,780,505
Total Contributions	107,213,772	4,083,235	111,297,007	100,961,450
Net Investment Income				
Investment Income				
Net Appreciation/(Depreciation) in Fair Value of Investments				
	(709,839,746)	(2,008,180)	(711,847,926)	102,626,051
Interest	36,894,803	104,378	36,999,181	40,830,674
Dividends	14,908,263	42,176	14,950,439	12,246,584
Real Estate Income, net	5,295,166	14,980	5,310,146	3,255,617
Investment Expenses	(13,702,150)	(38,764)	(13,740,914)	(12,538,991)
Miscellaneous Investment Income	17,750	50	17,800	42,697
Net Investment Income, Before Securities Lending Income	(666,425,914)	(1,885,360)	(668,311,274)	146,462,632
Securities Lending Income				
Earnings	5,072,877	14,351	5,087,228	11,876,860
Rebates	(3,126,731)	(8,846)	(3,135,577)	(10,704,333)
Fees	(413,489)	(1,170)	(414,659)	(288,954)
Net Securities Lending Income	1,532,657	4,335	1,536,992	883,573
Net Investment Income	(664,893,257)	(1,881,025)	(666,774,282)	147,346,205
Miscellaneous Income	14,156	-	14,156	8,596
Transfer Between Plans	105,663	-	105,663	123,808
Total Additions	(557,559,666)	2,202,210	(555,357,456)	248,440,059
Deductions				
Benefit Payments	103,615,120	3,679,325	107,294,445	94,408,363
Death Benefits	453,092	-	453,092	471,474
Refunds of Members' Contributions	1,253,610	-	1,253,610	1,042,459
Administrative Expenses				
General Administrative Expenses	3,077,729	-	3,077,729	3,272,595
Actuary Fees	110,860	-	110,860	83,542
Fund Legal Fees	269,507	-	269,507	199,366
Total Administrative Expenses	3,458,096	-	3,458,096	3,555,503
Transfer Between Plans	-	105,663	105,663	123,808
Total Deductions	108,779,918	3,784,988	112,564,906	99,601,607
Net Increase (Decrease)	(666,339,584)	(1,582,778)	(667,922,362)	148,838,452
Net Assets Held in Trust for Pension and Post-Employment Healthcare Benefits:				
Beginning of Year	2,213,388,235	14,702,393	2,228,090,628	2,079,252,176
End of Year	\$ 1,547,048,651	\$ 13,119,615	\$ 1,560,168,266	\$ 2,228,090,628

The accompanying notes are an integral part of these financial statements.

Notes to the Combined Financial Statements

DECEMBER 31, 2008 AND 2007

The San Joaquin County Employees' Retirement Association (SJCERA), is the public employee retirement system established by the County of San Joaquin (County), and is administered by the Board of Retirement of SJCERA to provide retirement, disability, death, and survivor benefits (under the County Employees Retirement Law) for the employees of the County and certain special districts within the County. SJCERA also administers the post-employment healthcare plan. The post-employment healthcare plan is a trust fund of SJCERA. Although the assets of the plans (retirement and post-employment healthcare) are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to eligible members and beneficiaries of that plan, in accordance with the terms of the plan. A description of the post-employment healthcare plan is located in Note 2. All notes to the financial statements apply to both plans unless indicated otherwise.

NOTE 1 – PENSION PLAN DESCRIPTION

a. General Description

SJCERA is a contributory defined benefit plan initially organized on April 29, 1946 under the provisions of the County Employees Retirement Law. SJCERA is administered by the Board of Retirement (Board). By law, the Board consists of nine regular members and, under certain circumstances, one alternate. Four are elected by SJCERA's members, four are appointed by the Board of Supervisors and one is the County Treasurer. During 2008, the Board of Retirement added an alternate retired member. Board members serve for a term of three years except for the County Treasurer who is a permanent member in accordance with Government Code Section 31520. The Board members as of December 31, 2008 were as follows:

Michael Restuccia, Chair	Margo Praus
David Souza, Vice Chair	Victor Mow
Raymond McCray, Secretary	J.C. Weydert
Shabbir Khan, County Treasurer	Judith H. Courtney
Ed O'Neill III	Marcel LeDuc, (Alternate)

SJCERA is a multiple employer retirement system covering the County and certain special districts including the Historical Society, Local Agency Formation Commission (LAFCO), Lathrop-Manteca Fire District, Law Library, Mosquito and Vector Control District, Superior Court, Tracy Public Cemetery District, Waterloo-Morada Fire District, and Mountain House Community Services District. All employees of these special districts and employees of the County are required, automatically upon appointment to a full time, permanent position, to become members of SJCERA. Public Health, a division of the County's Healthcare Services Department, became a participant of SJCERA effective June 27, 1993. Prior to that date, they were members of the California Public Employees' Retirement System (CalPERS). The elected officials of the County may become members of SJCERA by applying to the Board. All benefits vest after five years of service.

There are two types of membership:

1. **Safety Member** — Permanent employees engaged in the performance of active law enforcement, including probation officers and fire suppression employees are considered safety members and are not generally covered by Social Security.
2. **General Member** — All other eligible employees not classified as safety members are considered general members and are covered by Social Security.

MEMBERSHIP SUMMARY

SJCERA's membership as of December 31, 2008 and 2007 is presented below:

	RETIREES	BENEFICIARIES	ACTIVE	DEFERRED	TOTAL
YEAR 2008					
General	2,902	486	5,180	1,234	9,802
Safety	592	118	900	166	1,776
Total	3,494	604	6,080	1,400	11,578
YEAR 2007					
General	2,771	467	5,353	1,016	9,607
Safety	562	107	871	156	1,696
Total	3,333	574	6,224	1,172	11,303

b. Plan Benefits

AGE TO RETIRE

A member may retire with a service allowance after: (1) completing 5 years of qualified service; (2) at least 10 years have lapsed between membership date and retirement date; and (3) attaining the minimum service retirement age of 50. A general member may retire at any age with 30 years or more of qualified service, or at age 70 regardless of years of service. A safety member may retire at any age with 20 years of qualified service.

RETIREE BENEFITS

The amount of the monthly allowance at retirement depends upon the member's retirement status, the number of years of retirement service credit, final compensation, age at retirement, and the retirement option selected. Final compensation for purposes of computing a retirement allowance is the average monthly salary for the highest twelve consecutive months of employment. In addition to base salary, final compensation may include other items defined by the Board of Retirement as compensation earnable for retirement purposes.

Notes to the Combined Financial Statements

A lawsuit initiated by the San Joaquin County Deputy Sheriff's Association and settled on August 22, 2001 enhanced retirement benefits. SJCERA has since implemented Government Code Section 31676.14 and 31664.1 to provide a 2% at age 55½ formula for active general members and a 3% at age 50 formula for active safety members, effective January 1, 2001. It also provides an additional \$50 monthly supplemental pay to retirees who retired prior to April 1, 1982 with 15 years or more of County service and having reached the age of 65. It also provides a supplemental monthly benefit of \$10 per year of service up to 30 years to retirees who retired after April 1, 1982 but before January 1, 2001. The enhanced retirement benefits for post April 1, 1982 retirees are available if sufficient funds exist. During 2006, the enhanced retirement benefits had been suspended due to insufficient funds; however in October 2007, the Board of Retirement approved the transfer of almost \$2.5 million in contingency reserves for continued funding of this benefit. During 2008, the Board of Retirement approved additional transfers of \$22.9 million from the Unappropriated Earnings Reserve to the Post 1982 Supplemental Benefit Reserve to continue payment of the Post 1982 Supplemental Benefit to eligible payees for the next several years.

Active members receive a personalized *Annual Member Statement of Benefits* that discloses the member's projected retirement benefits at future dates based on various assumptions. Members may also access a benefit calculator through SJCERA's web site (www.sjcera.org) that will assist them in calculating their projected retiree benefits under the various available retirement options.

COST-OF-LIVING ADJUSTMENT (COLA)

Monthly retiree benefits are eligible for an annual cost of living adjustment based on the change in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose area for the previous calendar year, up to a maximum of 3%. When the CPI exceeds 3% in any year, the difference between the actual change in CPI (rounded to the nearest one-half percent) and the 3% ceiling is "accumulated" for future years when the change is less than 3%.

The change in CPI for calendar year 2007 was 3.29%. Under the statutory requirements of the County Employees Retirement Law, this change must be rounded to the nearest half percent. For year 2008, the cost of living adjustment for members retiring after April 1, 2001 and before April 2, 2007 was rounded to 3.5%. The increase, however, is limited to the maximum COLA of 3.0% and is applicable to all retirement dates. All carry-over balances are consequently increased by 0.5%.

In 1999, pursuant to Government Code Section 31874.3(b), the Board approved the "Purchasing Power Program" a permanent benefit for eligible retirees effective April 1, 2000. This Program reduces the impact of the accumulated rate of inflation since retirement to a fixed level for each eligible retiree. Under the Program, retirees who have experienced an erosion of their purchasing power, receive either the Purchasing Power Benefit or continue to receive their supplemental cost-of-living benefit, whichever is greater. Effective with the May 1, 2001 check for eligible retirees, the fixed level of purchasing power to be maintained at that time was increased from 75% to 80%.

TERMINATED MEMBER'S DEFERRED ALLOWANCE AND WITHDRAWAL BENEFITS

A member leaving covered employment after completing five years of credited service is eligible for a deferred allowance which becomes payable after ten years have elapsed from date of membership, the member has attained the minimum service retirement age of 50, and does not withdraw his/her accumulated contributions.

Terminated members with less than five years of credited service may have their accumulated employee contributions including credited interest returned to them. Alternatively, effective January 2003, terminated members with less than five years of service may now elect to leave their contributions with the retirement system and continue participating in interest accumulation for their contributions only.

Terminated members do not have a right to employer-paid contributions prior to any type of retirement in accordance with Government Code Section 31630.

DEATH BENEFITS

The beneficiary of a member who dies prior to attaining five years of credited service is refunded the member's accumulated contributions, with interest, and one month's salary for each full year of service.

If the death occurs after five years of credited service and is not the result of a service-related injury or disease, the surviving spouse or minor children may elect to receive, in lieu of the lump sum benefit of the retirement contributions to date including interest and one month's salary for each full year of service up to six months' salary, either 60% of the retirement allowance to which the deceased member would have been entitled had the member retired on either a service retirement or non-service-connected disability retirement on the date of death, or a lump sum payment of six months salary and a reduced monthly retirement benefit. The monthly allowance to minor children is discontinued once they marry or reach age 18 (age 22 if a full-time student).

Upon the death of a retiree, the beneficiary receives a retirement benefit as determined by the optional settlement elected by the member at the time of retirement. In addition, the beneficiary also receives a \$5,000 death benefit, which is paid from retirement reserves.

FUNDING POLICY

SJCERA's funding policy provides for regular employer and employee contributions at actuarially determined rates, expressed as percentages of annual covered payroll. Contributions required and contributions made are explained in Note 6.

NOTE 2 – POST-EMPLOYMENT HEALTHCARE PLAN

a. Plan Description

San Joaquin County is the plan sponsor and administers a multiple-employer defined benefit postemployment health plan. The purpose of the plan is to provide retirement health benefits for retired members of SJCERA and their spouses and dependents only. San Joaquin County contracts with various health plan and dental plan insurers. Benefit provisions are established and amended through negotiations between San Joaquin County and the bargaining units only for plans available to both active and retired members. The plan may be modified, altered, or terminated at any time and for any reason as provided in the plan documents.

Payment of medical and dental insurance premiums is the responsibility of the retiree. One benefit available is the Sick Leave Bank Benefit, which covers all employees who were on payroll, or deferred members, as of August 27, 2001 if other criteria contained in the MOU is met. The Sick Leave Bank Benefit provides that accumulated unused and un-cashed sick leave upon retirement can be converted

Notes to the Combined Financial Statements

to a sick leave bank at a rate of \$27.65 per hour. Unused sick leave bank for employees with a retirement or deferral date prior to August 27, 2001 can be used, as elected by the employee, to pay health or dental insurance premiums for County-sponsored health plans for retirees and/or reimbursement for Medicare B premiums. Employees hired after August 27, 2001, are not eligible for the sick leave bank benefit, with the exception that the Courts extended eligibility to employees of the Courts hired before June 30, 2012.

When the retiree's sick leave bank is depleted, the retiree assumes responsibility for payment of health and dental insurance premiums.

b. Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the post-employment healthcare plan was 35.3 percent funded. The actuarial accrued liability for benefits was \$41.6 million, and the actuarial value of assets was \$14.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$26.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$221.6 million, and the ratio of the UAAL to the covered payroll was 12.13 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. San Joaquin County offers several plans to retired members, two of which are also offered to active members. Liability of the sick leave bank for the two plans offered to both active and retired members is determined using a blended rate as employees and retirees are insured together as a group. The valuation as of December 31, 2007 reflects the implicit rate subsidy which reflects reduced premiums paid by retirees because they participate in the plan with active employees. The County currently pays for the implicit subsidy on a pay-as-you-go basis paying the current year's benefits from their operating fund. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SJCERA's funding policy provides for employer contributions at actuarially determined rates, expressed as a percentage of covered payroll. Contributions required and contributions made are explained in Note 6.

c. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the Entry Age Normal Funding Method (Cost Method)

was used. The actuarial assumptions include an 8.0 percent investment rate of return (8.16% compounded) and an annual healthcare cost trend showing that healthcare premiums are assumed to increase at a rate of 10 percent initially (5 percent for dental costs). The actuarial value of the Plan's assets was based on a 5-year smoothing of actual versus expected returns. The Plan's unfunded actuarial accrued liability is being amortized on a 10-year level dollar basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

SJCERA's financial statements are presented on the accrual basis of accounting. Employer and employee contributions that should have been made in the calendar year based on the actuarial determined contribution rates or amounts are recognized as revenues of that calendar year. Contributions receivable pursuant to an installment contract are also recognized in full in the year in which the contract is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

b. Reporting Entity

SJCERA, governed by the Board of Retirement and considered as an independent entity, is a blended component unit of the County in accordance with Statement No. 14 of the Governmental Accounting Standards Board. SJCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

c. Cash Equivalents

SJCERA's cash and short-term investments are managed by The Northern Trust Company and the County Treasurer.

THE NORTHERN TRUST COMPANY (NT)

Cash not required for daily operations is deposited with NT, SJCERA's master custodian for investment securities. NT pools from its clients all cash pending permanent investment in its Short-Term Investment Fund (STIF). SJCERA terminated its investment in the Short-Term Expandable Portfolio (STEP) during 2008. The cash in the STIF account is invested in high-grade money market instruments with very short maturities, such as bonds, notes, and other evidence of indebtedness, in accordance with SJCERA's investment policy.

The cash collateral received under the security-lending program is invested by Northern through its security lending collateral fund, which is created solely for the investment of cash collateral.

COUNTY TREASURY

Cash necessary for SJCERA's daily operations is pooled with other County funds for short-term investment by the County Treasurer. The County is responsible for the control and safekeeping of all instruments of title and for all investment of the pooled funds.

Notes to the Combined Financial Statements

d. Method Used to Value Investments

Investments are carried at fair value. Fair values for investments are derived by various methods as indicated in the following table:

INVESTMENTS	SOURCE
Publicly traded stocks and bonds, and issues of the U.S. Government and its agencies	Most recent sales prices as of the fiscal year end. International securities reflect currency exchange rates in effect at December 31, 2008 and 2007.
Mortgages	Equivalent pricing to comparable GNMA.
Real estate equity funds	Fair value as provided by real estate fund manager.
Real estate title holding corporations and limited liability companies	Fair value of the investment as provided by property managers.
Private equity	Fair value as provided by the investment manager and reviewed by SJCERA's private equity consultant.
Private placement bonds	Face value of the security subject to designated conditions such as sales restrictions or limited marketability.

e. Foreign Currency Transactions

Foreign currency transactions are translated into U.S. dollars on the following basis:

- Market value of investment securities at the daily rates of exchange on December 31, 2008; and
- Purchases and sales of investment securities, dividend and interest income and certain expenses at the rates of exchange prevailing on the respective dates when such transactions were incurred.

Gains and losses on investments that are due to changes in foreign exchange rates and market prices of the investments are accounted for in the net appreciation/(depreciation) in fair value of investments in the statement of changes in net assets.

Realized and unrealized gain/(loss) from foreign currency related transactions, such as gains and losses between trade and settlement dates on securities transactions, gains and losses arising from the sales of foreign currency and gains and losses between the ex-date and the payment date on dividends and foreign withholding taxes, are also accounted for in net appreciation/(depreciation) in fair value of investments in the statement of changes in net assets.

f. Forward Foreign Currency Exchange Contracts

A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. During the year, the investment managers utilize forward contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign currencies. Forward contracts are valued at the prevailing forward exchange rate of the underlying currencies. Gain/(loss) is recorded on the trade date. Realized and unrealized gains and losses

due to the difference between the value of the forward contract to buy and the forward contract to sell are included in net appreciation/(depreciation) in fair value of investments in the statement of changes in net assets.

g. 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.

Pursuant to GASB Statements 25 and 26, realized gains and losses on investments sold during the year are not displayed separately in the financial statements. Instead, the realized gains and losses, along with unrealized gains and losses on investments are reported as "net appreciation/(depreciation) in the fair value of investments."

The realized gain/(loss) on the sale of securities was computed as the difference between the proceeds of sale in 2008 and the carrying cost of the securities at December 31, 2007 or the original cost of the securities acquired during 2008. The calculation of realized gains/(losses) is independent of the calculation of net appreciation/(depreciation) in the fair value of plan investments. Unrealized gain/(loss) on investments sold in the current year that had been held for more than one year were included in the net appreciation/(depreciation) reported in prior years and the current year.

h. Method Used In Allocating Investments and Related Income between the Pension Plan and the Post-Employment Healthcare Plan

SJCERA allocates the investments held at December 31, 2008 between the pension plan and the post-employment healthcare plan based on the internal records of the reserve level of the plans at December 31, 2008. A pro-rated share of actual earnings is allocated the Post-employment Healthcare Plan consistent with other reserves.

i. Receivables

Receivables consist primarily of interest, dividends, installment contracts, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of December 31, 2008 and 2007.

j. Capital Assets

Fixed assets, mainly leasehold improvements, furniture and equipment, acquired by SJCERA are capitalized at cost. Depreciable fixed assets are depreciated using the straight-line method over estimated useful lives of 4 to 7 years for computer equipment, furniture and other equipment. Leasehold improvements are amortized over the life of the lease. Amortization and depreciation expenses of the capital assets are included in General Administration Expenses.

Notes to the Combined Financial Statements

The change in capital assets owned for year 2008 is presented below:

	BALANCE 12/31/07	ADDITIONS	DELETIONS	BALANCE 12/31/08
Original Cost	\$ 1,088,056	\$ 29,775	\$ -	\$ 1,117,831
Accumulated Depreciation	(957,905)	(77,099)	\$ -	(1,035,004)
NET BOOK VALUE	\$ 130,151	\$ (47,324)	\$ -	\$ 82,827

Depreciation expense for the years ended December 31, 2008 and 2007 was \$77,099 and \$109,166, respectively.

k. Operating Lease

SJCERA leases office space for the administration of the plan. Lease payments were adjusted each year based on the changes in the Consumer Price Index not to exceed 4% per year. Total rent expense under this agreement for the current year was \$83,117. The term of the lease expired at the end of September 2008.

SJCERA secured new lease terms in the same facility, but on a different floor. The executed lease agreement included tenant improvements of the new space and an interim lease rate until the actual relocation to the new floor, currently expected in June 2009.

The interim term of the lease commenced October 1, 2008 and the total rent expense under this new agreement for the current year was \$28,537 for total rent expense of \$111,654 for 2008.

The estimated total minimum rent expense projected based on the terms of the new lease agreement is \$2,789,632.

YEAR ENDED DECEMBER 31,	TOTAL (\$)
2009	165,357
2010	219,751
2011	226,121
2012	232,490
2013	238,860
Thereafter	1,707,053
	\$ 2,789,632

I. Unpaid Compensated Absences for Administration Employees

SJCERA accrues as a liability the vacation and other leave benefits earned by its employees. Sick leave that will be paid in cash to employees upon retirement is also accrued as a liability by SJCERA.

m. Investment Income Receivable

Interest receivable consists of interest earned, but not received, as of December 31, 2008, on debt securities, short-term investment funds and securities lending.

Dividends receivable are those dividends declared but not received as of December 31, 2008 on stocks owned by SJCERA on the ex-dividend date..

n. Contribution Receivable

County, district and member contributions made in the following year for the current year were accrued in accordance with generally accepted accounting principles. Contributions receivable pursuant to an installment contract between the employee and SJCERA for purchases of certain service credits are recognized in full in the year in which the contract is made even though the service credits are not granted until the full payment is received.

o. Securities/Foreign Exchange – Sold, Not Received and Purchased, Not Paid

The accrual basis of accounting requires that securities and foreign exchange purchase and sale transactions be recorded on a trade-date basis. Unsettled securities and foreign exchange transactions were accrued at year-end as either receivables or payables.

p. Miscellaneous Receivables

Other receivables at December 31, 2008 consist mainly of overpaid benefit payments to be recovered from retirees or their beneficiaries and a security deposit for SJCERA's office space lease.

NOTE 4 – CASH AND INVESTMENTS**a. Investment Securities Lending**

Under provisions of state statutes, SJCERA, along with other Northern Trust (NT) clients, participates in NT's pooled security lending program. Under the agreement, NT is authorized to lend securities of SJCERA held by it to certain SJCERA approved security borrowers. Northern Trust does not have the ability to pledge or sell collateral securities absent a borrower default.

All loans are fully collateralized with either cash, securities issued or fully guaranteed by the U.S. government, or irrevocable bank letters of credit. All collateral is held or invested by NT. The term or maturity of the securities loaned is generally matched with the term or maturity of the investment of the cash collateral. Initial collateralization is 102% of the market value of the loaned securities. As securities are loaned, collateral is maintained at a minimum of 100% of the market value of the securities plus accrued income.

Notes to the Combined Financial Statements

At December 31, 2008, SJCERA had the following securities out-on-loan:

	FAIR VALUE OF SECURITIES LENT	CASH COLLATERAL VALUE	NON-CASH COLLATERAL VALUE
Domestic Equities	\$ 62,168,567	\$ 62,824,173	\$ 1,294
Domestic Debt Securities	15,134,267	15,401,215	-
Total Domestic Securities	77,302,834	78,225,388	1,294
International Equities	15,979,888	526,410	16,365,723
International Debt Securities	529,556	547,533	-
Total International Securities	16,509,444	1,073,943	16,365,723
TOTAL	\$ 93,812,278	\$ 79,299,331	\$ 16,367,017

The cash collateral is reported on the financial statement as an asset and as a liability of SJCERA while the non-cash collateral is neither reported as an asset nor liability in accordance with GASB 28. The potential risks involved in the securities lending program include borrower bankruptcy, collateral deficiencies, settlement problems, corporate actions, dividends and interest. During 2008, Northern Trust experienced a financial loss due to Lehman Brothers bankruptcy and default; however, no other loss has occurred in the history of their securities lending program. SJCERA's pro-rata share of net income derived from Northern Trust's pooled security lending transactions in 2008 and 2007 were \$1,536,992 and \$883,574, respectively.

b. Cash and Short-Term Investments

The carrying value of cash and short-term investments at December 31, 2008 consists of the following:

	AMOUNT
Cash and Investments - Custodian	\$ 163,486,088
Cash and Investments - County Treasury	1,438,315
Total Cash and Cash Equivalents	164,924,403
Cash and Investments - Custodian-Security Lending	79,299,331
TOTAL	\$ 244,223,734

c. Long-Term Investments

SJCERA owned the following long-term investments at December 31, 2008:

	FAIR VALUE
Investments - Categorized	
Domestic Equities	\$ 559,398,323
International Equities	85,077,595
Debt Securities	388,268,299
Real Estate	272,923,479
Alternative Investments	80,026,037
Total Investments - Categorized	1,385,693,733
Investments - Not Categorized	
INVESTMENTS HELD BY BROKER-DEALERS UNDER SECURITIES LOANS	
Domestic Equities	62,824,173
International Equities	1,073,943
Domestic Debt Securities	15,401,215
Total Held by Broker-Dealers Under Securities Loans	79,299,331
TOTAL INVESTMENTS	\$ 1,464,993,064

Governmental Accounting Standards Board (GASB) Statement No. 40 (Deposits and Investments Risk Disclosures) establishes and modifies disclosure requirements related to the following:

- Credit risk
- Custodial credit risk
- Concentration of credit risk
- Interest rate risk
- Foreign Currency Risk

Notes to the Combined Financial Statements

The list of investments exposed to those risks and the corresponding credit ratings from Standard & Poor (S&P) is as follows:

QUALITY RATINGS	FAIR VALUE
AAA	\$ 36,577,565
AA	427,151
A	57,971,883
BBB	58,132,826
BB	12,621,754
B	12,966,398
CCC	13,238,426
CC	90,349
C	16,550
D	274,046
Not Rated	49,038,228
	241,355,176
U.S. Government Agencies (Implicit Guarantee) (FNMA, FHLB, FHLMC, FFCB, SLMA, Other)	146,913,123
TOTAL INVESTMENTS IN FIXED INCOME SECURITIES	\$ 388,268,299

CREDIT RISK

Per SJCERA's Investment Policy, at least 75% of the market value shall have a minimum quality rate of A (as determined by the middle rating of the three major rating agency's opinions: Fitch, Moody, or Standard & Poor), unless the investment manager received prior approval from the Board. Total portfolio quality shall maintain an A (S&P) minimum rating. No more than 10% of the manager's assets shall be invested in the securities of any single issuer, with the exception of the U.S. Government and its Agencies. Firms that manage fixed income portfolios continually monitor the risk associated with their fixed income investments. They are expected to report as a component of their report a risk/reward analysis of the management decisions relative to their benchmark.

CUSTODIAL CREDIT RISK

The custodial credit risk represents the risk that, in the event of the failure of the counter-party of a transaction, SJCERA will not be able to recover the value of deposits and investments or collateral securities that are in the possession of an outside party.

Deposits:

The deposits with the County Treasurer are uninsured but secured by public funds of the pledging banks. The pool's investments are short-term and include U.S. Treasury Bills, certain Federal agencies' instruments, bankers' acceptances, "prime" commercial paper, certificates of deposit, repurchase agreements, and the State Treasurer's Local Agency Investment Fund are all held in the County's name.

The cash deposits with Northern Trust (NT) are uninsured and uncollateralized. All investments underlying the STIF account are not registered in SJCERA's name.

Investments:

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SJCERA would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in SJCERA's name, and held by the counterparty. SJCERA's investment securities are not exposed to custodial credit risk because all securities are held by SJCERA's custodial bank in SJCERA's name, or by other qualified third party administrator trust accounts.

CONCENTRATION OF CREDIT RISK

This risk represents the potential loss attributable to the magnitude of SJCERA's investment in a single issuer. SJCERA restricts investment holdings to a maximum of 5% of any single issuer within SJCERA's investment portfolio. As of December 31, 2008, the investment portfolio contained no concentration of investments in any one entity that represented 5% or more of plan net assets.

INTEREST RATE RISK

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

To manage Interest Rate Risk, the effective duration of the total fixed income portfolio is restricted to 0.5 to 1.5 times of the Barclays Aggregate Bond Index.

As of December 31, 2008 SJCERA had the following investments:

INVESTMENT TYPE	FAIR VALUE	WEIGHTED AVERAGE MATURITY – YEARS
U.S. Government and Agency Instruments		
U.S. Government Mortgages	\$ 134,610,011	19.79
U.S. Government Bonds	26,527,412	5.67
Municipal / Revenue Bonds	857,023	5.88
Agency	8,039,018	12.92
	170,033,464	
Corporate Securities		
Asset Backed Securities	19,278,268	10.48
Bank Loans	26,568,670	4.94
Commercial Mortgage-Backed	1,490,294	37.30
Corporate and Other Credit	161,315,858	12.97
Non-Government Backed CMOs	9,566,559	29.48
	218,219,649	
International Fixed Income	15,186	26.98
TOTAL FIXED INCOME SECURITIES	\$ 388,268,299	

Notes to the Combined Financial Statements

FOREIGN CURRENCY RISK

Foreign Currency Risk is the risk that changes in exchange rates may adversely affect the fair value of an investment. SJCERA's external non-U.S. equity investment managers may invest in international securities and must follow SJCERA's Investment Guidelines pertaining to these types of investments.

Currency hedging on an un-leveraged basis is permitted by non-U.S. equity managers as a strategy to protect against losses due to currency translations (defensive hedging). However, it is expected that the primary sources of value-added for non-U.S. equity investment managers will be issue and country selection, with currency management focused on limiting losses due to fluctuations in currency values. Managers may purchase or sell currency on a spot basis to accommodate securities settlements.

The Currency Overlay Managers may invest in developed market currencies and emerging market currencies. Cross hedging is allowed. Permitted instruments are the use of currency spots, currency forward contracts (deliverable or non-deliverable), currency futures, options on currency forwards or futures, and currency swaps. Other investments, contracts or positions that, in the Managers' judgment, are of similar purpose and character and equal credit quality and marketability to any of the investments above, are also permissible. SJCERA may contract for separate account management or use a swap program for its Currency Overlay Program. SJCERA does not permit the use of leverage (above the notional dollar amount) within its Currency Overlay Program. The currency overlay Manager may enter into currency forward contracts with counterparties that have a short-term credit rating of at least A-1 or P-1.

SJCERA's exposure to Foreign Currency Risk in U.S. dollars as of December 31, 2008 is as follows:

CURRENCY	FAIR VALUE
Australian Dollar	\$ (689,643)
Brazilian Real	1,999,181
British Pound	(237,982)
Canadian Dollar	62,291
Euro Currency	(1,794,451)
Hong Kong Dollar	894,268
Japanese Yen	(2,053,932)
Malaysian Ringgit	32,294
Mexican Peso	145,171
Norwegian Krone	122,566
Philippine Peso	75,421
Polish Zloty	64,870
Singapore Dollar	701,526
Swedish Krona	123,325
Thailand Baht	424,711
TOTAL	\$ (130,384)

d. Summary of Investment Policy

The County Employees Retirement Law vests the Board of Retirement (Board) with exclusive control over SJCERA's investment portfolio. The Board established Investment Policies in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of SJCERA's assets (the Plan) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts. The board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so.
- Diversification is applicable to the deployment of the assets as a whole.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

As permitted by the California Government Code and the investment policy, SJCERA uses forward settlement contracts, forward currency contracts, futures and options contracts, and other derivative products within fixed income financial instruments. These derivative financial instruments are used to reduce financial market risks, enhance yields and to participate in all market areas without increasing investment costs. At December 31, 2008, the following derivative financial instruments were held by investment managers:

Various investment managers for SJCERA manage fixed income portfolios that contain derivative type financial instruments. These instruments include government and corporate obligations consisting of asset-based securities, futures, hedge equity, Collateralized Mortgage Obligations (CMOs), and Collateralized Mortgage Backed Securities (CMBS). The fair value of derivative financial instruments at December 31, 2008 is \$206,440,010.

NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Pension Benefit Plan

The 2008 and 2007 contribution rates for employers and employees were established in accordance with actuarially determined contribution requirements by an actuarial valuation performed at December 31, 2006 and December 31, 2005, respectively. The actuarial value of assets reflects the smoothing method that adjusts market value differences between the assumed and the actual investment return over a 5-year period.

Notes to the Combined Financial Statements

The required contributions include current service cost and amortization of prior service cost.

	AS OF % OF COVERED PAYROLL	
	2008	2007
General Members		
Current Services Cost	14.50%	15.72%
Amoritization of Prior Service Cost	8.54%	7.02%
Total	23.04%	22.74%
Safety Members		
Current Services Cost	27.25%	28.18%
Amoritization of Prior Service Cost	17.26%	13.19%
Total	44.51%	41.37%

A level percentage of employer payroll contribution rates were determined using the Entry Age Normal Funding Method (Cost Method) and the Actuarial Asset Valuation Method. The restricted or unrestricted unappropriated earnings are not used by the actuary in calculating the required contribution rate.

Employers' contributions are payable over each employee's future working lifetime. The employer rates reflect the entry age normal funding method. Under this method, part of the normal cost is being paid over the future working lifetime of the members. The remaining unfunded past service liability was amortized over a rolling 10-year period.

The funding objective of the Plan is to establish contribution rates that, over time, are likely to remain as a level percentage of payroll unless Plan benefit provisions are changed. Actuarial valuations involve estimates and make assumptions about the probability of events far into the future, therefore actuarially determined rates are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The year 2008 contributions from employees were \$13,050,906 and the employers' contributions were \$94,162,866.

Employee contributions are deducted from the employees' salary on a bi-weekly basis. The employee reserve account is established for employee contributions and earnings allocations, less amounts transferred to reserves for retirement and refunds to terminated employees.

The adopted employer contribution rates, based on the actuarially determined requirements applicable to covered payroll, for the past six years are as follows:

YEAR	SAFETY MEMBERS	GENERAL MEMBERS
2008	44.51%	23.04%
2007	41.37%	22.74%
2006	39.56%	20.70%
2005	35.67%	18.48%
2004	20.87%	13.80%
2003	16.76%	11.70%

Post-employment Health Benefits

The County and/or SJCERA fund the Sick Leave Bank Benefit and employees are not required to contribute to the plan. The actuarially determined Sick Leave Bank Benefit liability for eligible members hired after January 28, 1992 has been fully funded. The funding for eligible active members who were hired prior to January 28, 1992 has yet to be fully funded.

Based on the most recent Actuarial Study of the Sick Leave Bank at December 31, 2007 valuation date, additional County funding of approximately \$26.9 million will be necessary to fully fund the sick leave bank liability to include all eligible members hired on or before January 27, 1992.

In 2007, the San Joaquin County Superior Court (Courts) extended eligibility of the Sick Leave Bank Benefit to Court employees hired on or after August 27, 2001. Based on the valuation of January 1, 2008, the additional liability for the eligible active members of the Courts is calculated to be \$44,000. Funding for this additional liability will occur in 2009.

NOTE 7 – SIX-YEAR HISTORICAL TREND INFORMATION

The six-year historical trend information designed to provide information about SJCERA's progress made in accumulating sufficient assets to pay pension benefits when due is presented as required in the Required Supplementary Information following the notes to the financial statements.

NOTE 8 – NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POST-EMPLOYMENT HEALTHCARE BENEFITS

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

a. Active and Deferred Members' Reserve

This reserve represents the cumulative contributions made by active members, net of refunds to the members, plus the investment earnings credited to the reserve at assumption rates determined by the actuary. For 2008 and 2007, the assumption rates were 8.00% compounded semi-annually, for each year. Earnings are credited to all appropriate active and deferred member accounts semi-annually. Upon retirement, a member's accumulated contributions are transferred from this reserve to the Retired Members' Annuity Reserve.

b. County Advance Reserves

This reserve represents the cumulative contributions made by the County and certain special districts for the active members. Interest earnings are credited semi-annually to the reserves at assumption rates determined by the actuary if sufficient unappropriated earnings reserve funds exist. Upon a members' retirement, an actuarially determined amount of the members' vested interest is transferred from the County Advance Reserves to the Retired Members' Pension Reserve.

Notes to the Combined Financial Statements

During 2008, no interest was credited due to the large decrease in the market as the Unappropriated Earnings Reserves were not sufficient to fully credit interest earnings at the 8% assumption rate. The shortfall experienced during 2008 resulted in a 12.5% deduction. For 2007, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate.

c. Retired Members' Reserves

These reserves are established to account for the unpaid retiree's pension benefits. Upon a members' retirement, the members' accumulated contributions are transferred from the Active Members' Reserve account to the Retired Members' Annuity Reserve account. In addition, the actuarially determined amount of the members' vested interest is transferred from the County Advance Reserves to the Retired Members' Reserve account.

From these reserves, SJCERA pays benefits in amounts computed in accordance with the County Employees Retirement Law. Interest earnings are also credited to the reserves semi-annually at assumption rates determined by the actuary if sufficient unappropriated earnings reserve funds exist.

During 2008, no interest was credited due to the large decrease in the market as the Unappropriated Earnings Reserves were not sufficient to fully credit interest earnings at the 8% assumption rate. The shortfall experienced during 2008 resulted in a 12.5% deduction. For 2007, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate.

The reserve at December 31, 2008 includes the authorized "Purchasing Power" benefit reserve of \$8.3 million and \$22.4 million for additional pension benefits specified in the class-action lawsuit settlement agreement. These benefits are explained in Note 1b.

d. Post-employment Healthcare Reserves

The Post-employment Healthcare Reserve account was established to account for the sick leave bank contribution for eligible members. The shortfall experienced during 2008 resulted in a 12.5% deduction. For 2007, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate.

e. Contingency Reserve

The Contingency Reserve is established as required by the County Employees Retirement Law to absorb possible future losses on investments. The reserve balance, per the County Employees Retirement Law, is one percent (1%) of the total market value of assets if excess earnings exist. SJCERA's policy sets the targeted rate at 3%. The Contingency Reserve is 0% and 3% of the market value of total assets at December 31, 2008 and 2007, respectively. During 2008, due to the severe financial crisis, SJCERA did not have excess earnings to fund the Contingency Reserve.

f. Market Stabilization Designation

This "designation" account is used to further minimize the impact of the fluctuations in the market value of the investments owned by SJCERA. It represents the difference between the actuarial value of assets and the fair value of assets at year-end.

g. Unappropriated Earnings Reserve

The Unappropriated Earnings Reserve (UER) is used to accumulate investment income earned by SJCERA, net of the investment expenses and SJCERA's administration cost. From this unappropriated earnings account, interest is credited to various reserve accounts at an actuarially determined assumption rate. In addition, at the Board of Retirement's discretion and subject to the 1999 class action settlement, this account may also be used, from time to time, to fund the retirees' post-employment health-care benefits, to stabilize the County and the special districts' Annual Required Contribution (ARC), and to fund the market stabilization and contingency reserve accounts.

h. Unappropriated Earnings Reserve (Restricted)

The Unappropriated Earnings Reserve (Restricted) account was established as a set-aside to fund the subsequent year's administrative expenses, investment management fees and active member interest crediting. Due to the severity of the financial crisis during 2008, the Board of Retirement deferred its decision to set aside funds to the Unappropriated Earnings Reserve (Restricted).

Reserved and designated net assets at December 31, 2008 and December 31, 2007 are as follows:

	2008	2007
Valuation Reserves		
Active Members	\$ 198,737,495	\$ 187,519,875
County Advances	537,385,581	612,394,463
Retired Members	1,092,165,857	1,238,318,596
Post-Employment Healthcare	13,119,615	14,702,393
Purchasing PowerCOL	8,372,372	10,814,608
Class Action Settlement - Pre-4/1/82	405,945	600,623
Class Action Settlement - Post-4/1/82	22,015,055	2,969,576
Contingency	-	66,842,719
Market Stabilization Designation	(312,033,654)	44,025,129
Unappropriated Earnings	-	22,902,646
Unappropriated Earnings (Restricted)	-	27,000,000
TOTAL VALUATION RESERVES	\$ 1,560,168,266	\$ 2,228,090,628

NOTE 9 – INVESTMENT EXPENSES

Investment expenses include fees paid for investment management services, investment consulting services, fund evaluation services, securities custodian services, and interest expense and other fees incurred in security lending transactions.

Notes to the Combined Financial Statements

NOTE 10 – GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses, including the depreciation and amortization of capital assets, are funded by investment income earnings and are limited, pursuant to Government Code Section 31580.2, to eighteen-hundredths of one percent (.18%) of SJCERA's total assets. The actual administration expense for Year 2008 and 2007 was 0.20% and 0.15% of the total assets, respectively. SJCERA was not in compliance with this requirement during 2008 due to the severe decline in the market value of assets.

NOTE 11 – FUNDING STATUS

(DOLLARS IN THOUSANDS)							
PLAN	ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)
Pension Benefits	1/1/2008	\$2,029,949	\$2,334,521	\$ 304,572	87.0%	\$ 367,361	82.9%
Post-Employment Health Care Benefits	12/31/2007	\$ 14,702	\$ 41,583	\$ 26,881	35.3%	\$ 221,626	12.13%

A Schedule of Funding Progress for each plan is included in the Required Supplementary Information which presents multi-year trend information.

NOTE 12 – PENDING LITIGATION

Russell v. Retirement Board of San Joaquin County, et al., currently pending before the Stanislaus County Superior Court, Case No. 616663. Several physicians working for San Joaquin County filed suit against the County and the San Joaquin County Retirement Board claiming they are entitled to membership in the San Joaquin County Employees' Retirement Association (SJCERA). At a public meeting on February 9, 2007, after hearing from the physicians and the County, the Retirement Board passed a motion stating that physicians employed by the County on a full-time basis in positions expected to last more than nine months are entitled to membership. The physicians then dropped their suit against the Retirement Board but continued to pursue claims against the County. The County disagreed with the Retirement Board's motion and filed a cross-complaint against the Board on February 28, 2007. The County maintains the physicians are not considered County "employees" and therefore the Retirement Board: (i) lacked jurisdiction to resolve the physicians' claims; (ii) breached its fiduciary duty in passing the motion; and (iii) denied the County its right to fair process. The Retirement Board vigorously disputes the claims and maintains the physicians are County employees under both state and County law. The Retirement Board therefore believes it: (i) has jurisdiction to review the physicians' request for membership; (ii) did not breach any fiduciary duty; and (iii) honored the County's fair process rights. In September 2008, the Court dismissed the County's first two claims. The County's fair-process claim remains before the Court.

Notes to the Combined Financial Statements

In March 2009, the County and the physicians proposed the parties settle the litigation by enrolling the physicians as SJCERA members in July 2010. The County, the physicians and the Retirement Board continue to discuss the settlement proposal, including ways to revise the proposal to ensure it satisfies the membership requirements of the County Employees Retirement Law.

While there are no claims for damages against SJCERA, a claim has been tendered to SJCERA's fiduciary insurance carrier for the coverage of legal fees and expenses, pending an outcome. The policy carries a \$100,000 deductible. SJCERA paid \$51,918 in legal fees towards the deductible during 2007. The balance of \$48,082 was paid during 2008 satisfying the total deductible for the claim.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS PENSION BENEFIT PLAN

FOR THE SIX YEARS ENDED DECEMBER 31, 2008

(DOLLARS IN THOUSANDS)						
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS ¹ (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL ² (C)	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)
1/1/2003	1,448,905	1,418,209	(30,696)	102.2%	259,812	(11.8%)
1/1/2004	1,531,288	1,621,060	89,772	94.5%	286,429	31.30%
1/1/2005	1,614,979	1,769,507	154,528	91.3%	296,473	52.1%
1/1/2006	1,727,033	1,935,818	207,785	89.2%	309,692	67.4%
1/1/2007	1,869,717	2,149,938	280,221	87.0%	340,828	82.2%
1/1/2008	2,029,949	2,334,521	304,572	87.0%	367,361	82.9%

NOTE:

- ¹ The actuarial-value of assets reflects the smoothing method that adjusts market value differences between the assumed and the actual investment return over a 5-year period.
- ² Represents the annualization of active members' pay rates on December 31 as determined by the actuarial study.

**SCHEDULE OF CONTRIBUTIONS
FROM THE EMPLOYERS AND OTHER CONTRIBUTING SOURCES
PENSION BENEFIT PLAN**

FOR THE SIX YEARS ENDED DECEMBER 31, 2008

YEAR ENDED DECEMBER 31,	ACTUAL ANNUAL CONTRIBUTION	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTION
2003	34,784,065	34,784,065	100%
2004	42,688,367	42,688,367	100%
2005	62,508,615	62,508,615	100%
2006	73,611,841	73,611,841	100%
2007	85,868,698	85,868,698	100%
2008	94,162,866	94,162,866	100%

Required Supplementary Information

**ACTUARIAL ASSUMPTIONS AND METHODS
PENSION BENEFIT PLAN**

AS OF DECEMBER 31, 2008

Valuation Date	January 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll open
Remaining Amortization Period	Rolling (Open) 10 Year Period
Asset Valuation Method	Actuarial Value: Excess Earnings Smoothed over Five Years, 80% / 120% Corridor Around Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.16%
Projected Salary Increases	3.75%, plus Service-Based Rates Includes inflation at 3.5%
Cost-of-Living Adjustments	100% of CPI to 3% annually with banking

SCHEDULE OF FUNDING PROGRESS POST-EMPLOYMENT HEALTHCARE PLAN

FOR THE YEAR ENDED DECEMBER 31, 2008

(DOLLARS IN THOUSANDS)						
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)
12/31/2005	\$ 16,636	\$ 30,465	\$ 13,928	54.60%	\$224,753	6.20%
12/31/2006	14,660	37,475	22,815	39.12%	229,726	9.93%
12/31/2007	14,702	41,583	26,881	35.36%	221,626	12.13%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS POST-EMPLOYMENT HEALTHCARE PLAN

FOR THE YEAR ENDED DECEMBER 31, 2008

YEAR ENDED DECEMBER 31,	ACTUAL ANNUAL CONTRIBUTION	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTION
2006	\$ 650,000	\$ 650,000	100%
2007	2,780,500	2,780,500	100%
2008	4,083,235	4,083,235	100%

Required Supplementary Information

ACTUARIAL ASSUMPTIONS AND METHODS POST-EMPLOYMENT HEALTHCARE PLAN

AS OF DECEMBER 31, 2008

VALUATION DATE	December 31, 2007
INVESTMENT RETURN	8.00% per annum, compounded semi-annually
GENERAL INFLATION RATE	4.00% per annum
MORTALITY	1994 GAM mortality table set forward one year for Males and one year for Females (three years for safety Females)
ACTUARIAL COST METHOD	Entry Age Normal
AMORTIZATION METHOD	Level Dollar
PERCENTAGE OF RETIREES ELIGIBLE FOR MEDICARE	All current retirees under age 65 will be eligible for Coverage under Medicare upon reaching age 65
CURRENT MEDICAL PLAN PREMIUMS	Amounts reported as currently being paid for each individual Members were assumed to continue in the same plan and coverage
INCREASE IN MEDICAL PLAN PREMIUMS (TREND)	10.0%
DENTAL PLAN PREMIUMS	Amounts reported as currently being paid for each Individual
INCREASE IN DENTAL PLAN PREMIUMS (TREND)	5.0%
PREMIUMS FOR FUTURE RETIREES	Single Retiree: \$576 per month Retiree with 1 dependent: \$1,020 per month
OTHER CHANGES IN PREMIUMS	Premiums drop by 40% when the member reaches age 65 For married members, premiums drop by 46% upon the death of the member or spouse
PREMIUMS FOR MEMBERS NOT USING ACCOUNTS	50% of the Single premium shown above
PROJECTED NEW RETIREES	Future retirees are expected to retire from the eligible active group based on current actuarial assumptions

SCHEDULE OF ADMINISTRATIVE EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Personnel Services		
Staff Salaries	1,196,449	989,446
Cafeteria Benefits	135,255	123,399
Insurance	146,920	141,284
Social Security	83,753	77,922
Retirement	288,566	260,322
Total Personnel Services	1,850,942	1,592,373
Professional Services		
Professional & Specialized Services	644,391	1,130,771
Allocated Department Costs	83,042	52,161
Total Professional Services	727,434	1,182,932
Communications		
Postage	23,197	21,163
Telephone	14,022	14,610
Travel	76,356	88,354
Total Communications	113,575	124,127
Rentals/Equipment		
Office Space & Equipment	94,155	100,737
Equipment	35,540	0
Depreciation-Equipment (G/L)	77,099	109,166
Equipment Leasing	12,868	13,303
Total Rentals	219,662	223,207
Miscellaneous		
Office Supplies/Expense	67,196	49,850
Subscriptions & Periodicals	7,180	5,737
Memberships	8,035	6,240
Maintenance	5,759	5,282
Insurance	77,946	82,847
Total Miscellaneous	166,117	149,956
* Other Expenses		
Actuarial Retainer & Valuation Study	110,860	83,542
Fund Legal Fees	269,507	199,366
Total Other Expenses	380,367	282,908
TOTAL ADMINISTRATIVE EXPENSE	3,458,096	3,555,503

* Actuarial and Fund Legal Expenses are excluded from the 18/100th percent limitation.

Other Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Investment Management Fees		
Domestic Equity	2,187,209	2,884,983
Non-US Equity	1,894,024	2,204,397
Fixed Income	1,332,373	986,420
Real Estate	3,388,229	2,491,830
Currency Overlay	4,377,235	3,301,223
Total Investment Management Fees	13,179,070	11,868,853
Other Investment Fees and Expenses		
Custodian Fees	125,165	194,880
Investment Consultant Fees	299,448	240,239
Miscellaneous Investment Expense	137,231	235,019
Total Other Investment Expenses	561,844	670,138
Total Investment Expenses before Security Lending Expenses	13,740,914	12,538,991
Securities Lending Fees and Interest Expenses	3,550,236	10,993,287
TOTAL INVESTMENT EXPENSES	17,291,150	23,532,278

SCHEDULE OF PAYMENTS TO CONSULTANTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Nature of Service		
Actuarial-Retainer & Valuation	110,860	83,542
Audit	71,000	71,000
Accounting Services	0	52,309
Legal Counsel-Processing of Disabilities	269,507	246,644
Business Technology Services	212,475	207,000
TOTAL PAYMENTS TO CONSULTANTS	663,842	660,495

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