



# Financial

2010



*Olea europaea L.*

*... Just as an olive falls off when it is ripe  
blessing nature who produced it,  
and thanking the tree on which it grew.*

San Joaquin County Employees' Retirement Association



Sea Freight at the Port of Stockton

## *Olives (Olea europaea L.)*

San Joaquin ranks second in the state in the number of acres planted to olive oil producing trees (35% of state total).

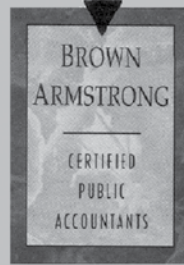
Over 90% of the world's olive production is used to make olive oil.

California is the only state where olives are grown commercially.



## Independent Auditor's Report

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### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Defined Benefit Pension 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, 2010, and the related Defined Benefit Pension Plan and Post-Employment Healthcare Plan Statement of Changes in Plan Net Assets Available for Benefits for the year then ended, which collectively comprise SJCERA's basic financial statements as listed in the table of contents. 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, 2009, summarized comparative information has been derived from the 2009 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 Defined Benefit Pension Plan and Post-Employment Healthcare Plan of the San Joaquin County Employees' Retirement Association as of December 31, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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## Independent Auditor's Report

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SJCERA's basic financial statements as a whole. The introductory section, other supplementary information, and investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurances on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2011, 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  
ACCOUNTANCY CORPORATION



Bakersfield, California  
May 31, 2011



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, 2010. 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 12%.
- SJCERA’s net assets of \$1,947 million at December 31, 2010, increased by \$210 million, or 12.1%, 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, 2010, the date of the last actuarial valuation, the funded ratio for the actuarial accrued liability was approximately 70.4%. In general, this indicates that for every dollar of benefits liability, SJCERA has \$0.70 of net assets to cover it.
- Revenues for the year were \$341 million, an increase of \$44 million from the prior year’s \$297 million. The increase was mainly caused by unrealized gains from the market recovery.
- Expenses for the year were \$130 million, an increase of \$9 million, or 8%, from the prior year’s \$121 million. This increase was primarily due to the \$9 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 Available for Benefits 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 Available for Benefits gives the reader a view of current year additions and deductions to the Plan.

	2010	2009	Increase (Decrease) Amount	Percent Change
Cash and Receivables	\$ 219,982,166	\$ 250,562,141	\$ (30,579,975)	-12.20%
Investments	1,858,637,569	1,601,963,500	256,674,069	16.02%
Other Assets	710,419	799,341	(88,922)	-11.12%
<b>Total Assets</b>	<b>2,079,330,154</b>	<b>1,853,324,982</b>	<b>226,005,172</b>	<b>12.19%</b>
<b>Total Liabilities</b>	<b>132,470,641</b>	<b>116,759,957</b>	<b>15,710,684</b>	<b>13.46%</b>
<b>Total Plan Net Assets</b>	<b>\$ 1,946,859,513</b>	<b>\$ 1,736,565,025</b>	<b>\$ 210,294,488</b>	<b>12.11%</b>

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## 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 SJCERA'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, 2010 valuation, is 70.4% and this means that SJCERA has \$0.70 for each \$1.00 of pension liability. It should be noted for pensions that are permanent and ongoing (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, 2010, totaled \$341 million. Of the total \$218 million in net investment income, \$202 million is attributable to net appreciation in the fair value of investments.

The overall year 2010 revenues increased by \$44 million from that of the prior year, primarily due to the increase in fair market value of investments due to the market recovery.

The employers' contributions increased by \$7 million, or 7%, 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 2009 to year 2010.

	2010	2009	Increase (Decrease) Amount	Percent Change
Employers' Contributions	\$ 104,451,673	\$ 97,805,585	\$ 6,646,088	6.80%
Members' Contributions	13,098,043	13,012,755	85,288	0.66%
Employers' Contributions to Healthcare Benefits	4,361,915	4,202,490	159,425	3.79%
Net Investment and Miscellaneous Income	218,429,029	182,019,020	36,410,009	20.00%
Transfer between Plans	165,625	84,032	81,593	97.09%
<b>Total</b>	<b>\$ 340,506,285</b>	<b>\$ 297,123,882</b>	<b>\$ 43,382,403</b>	<b>14.60%</b>

### Expenses – Deductions from Plan Net Assets

The primary expenses of SJCERA include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, the payment of health benefits, and the



Management’s Discussion and Analysis

cost of administering the defined benefit pension and post-employment healthcare plans. Expenses for the year 2010 totaled \$130 million, an increase of 8% over 2009. 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.

	2010	2009	Increase (Decrease) Amount	Percent Change
Benefit Payments	\$ 124,602,690	\$ 115,515,343	\$ 9,087,347	7.87%
Members Death Benefits	511,293	562,085	(50,792)	-9.04%
Refunds	1,250,644	1,038,467	212,177	20.43%
Administrative and Miscellaneous	3,681,545	3,527,196	154,349	4.38%
Transfer Between Plans	165,625	84,032	81,593	97.09%
<b>Total</b>	<b>\$ 130,211,797</b>	<b>\$ 120,727,123</b>	<b>\$ 9,484,674</b>	<b>7.86%</b>

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 increased 12% for 2010 from 2009; the net increase in the fair market value of investments was \$201 million versus the prior year’s increase of \$159 million. The investment section of this report reviews the result of investment activity for the year ended December 31, 2010.

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 questions 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, 2010 AND 2009

**SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS  
AS OF DECEMBER 31, 2010 AND 2009**

	2010		2009	
	Defined Benefit Pension Plan	Post- Employment Healthcare Plan	Total	Total
<b>Assets</b>				
Cash and Cash Equivalents	\$ 70,359,366	\$ 616,890	\$ 70,976,256	\$ 126,223,499
Cash Collateral - Securities Lending	113,171,468	992,253	114,163,721	109,734,294
<b>Total Cash and Cash Equivalents</b>	<b>183,530,834</b>	<b>1,609,143</b>	<b>185,139,977</b>	<b>235,957,793</b>
Receivables				
Investment Income Receivables	3,756,345	32,935	3,789,280	4,062,020
Contributions Receivable	4,821,974	-	4,821,974	4,354,385
Securities Sold, Not Received - Domestic	25,994,625	227,913	26,222,538	6,175,406
Other Investment Income Receivable	495	4	499	-
Miscellaneous Receivables	7,898	-	7,898	12,537
<b>Total Receivables</b>	<b>34,581,337</b>	<b>260,852</b>	<b>34,842,189</b>	<b>14,604,348</b>
Investments, at market value				
Bonds	341,744,170	2,996,309	344,740,479	319,246,439
Stocks	721,918,103	6,329,559	728,247,662	650,106,653
Real Estate	316,139,557	2,771,816	318,911,373	207,851,278
Alternative Investments	462,681,405	4,056,650	466,738,055	424,759,130
<b>Total Investments</b>	<b>1,842,483,235</b>	<b>16,154,334</b>	<b>1,858,637,569</b>	<b>1,601,963,500</b>
Other Assets				
Prepaid Expenses	75,004	-	75,004	70,345
Equipment and Fixtures, Net	635,415	-	635,415	728,996
<b>Total Assets</b>	<b>2,061,305,825</b>	<b>18,024,329</b>	<b>2,079,330,154</b>	<b>1,853,324,982</b>
<b>Liabilities</b>				
Securities Lending - Cash Collateral	113,171,468	992,253	114,163,721	109,734,294
Securities Purchased, Not Paid	16,858,471	147,810	17,006,281	5,928,605
Accrued Expenses and Other Payables	1,277,509	11,201	1,288,710	1,089,746
Securities Lending Interest and Other Expense	11,826	103	11,929	7,312
<b>Total Liabilities</b>	<b>131,319,274</b>	<b>1,151,367</b>	<b>132,470,641</b>	<b>116,759,957</b>
<b>Net Assets Held in Trust for Pension and Post-Employment Healthcare Benefits</b>	<b>\$ 1,929,986,551</b>	<b>\$ 16,872,962</b>	<b>\$ 1,946,859,513</b>	<b>\$ 1,736,565,025</b>

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



Statement of Changes in Plan Net Assets Available for Benefits  
AS OF DECEMBER 31, 2010 AND 2009

**SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENT CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEARS ENDING DECEMBER 31, 2010 AND 2009**

	2010		2009	
	Defined Benefit Pension Plan	Post-Employment Healthcare Plan	Total	Total
<b>Additions</b>				
Contributions				
Employers' Contributions	\$ 104,451,673	\$ -	\$ 104,451,673	\$ 97,805,585
Members' Contributions	13,098,043	-	13,098,043	13,012,755
Employers' Contributions to Healthcare Benefits	-	4,361,915	4,361,915	4,202,490
Total Contributions	117,549,716	4,361,915	121,911,631	115,020,830
Net Investment Income				
Investment Income				
Net Appreciation/(Depreciation) in Fair Value of Investments	200,606,563	1,163,428	201,769,991	159,457,816
Interest	22,351,255	129,627	22,480,882	20,669,492
Dividends	5,952,334	34,521	5,986,855	14,933,423
Real Estate Income, Net	1,451,482	8,418	1,459,900	1,199,455
Investment Expenses	(13,508,722)	(78,344)	(13,587,066)	(14,703,517)
Miscellaneous Investment Income	4,229	24	4,253	1,119
Net Investment Income, Before Securities Lending Income	216,857,141	1,257,674	218,114,815	181,557,788
Securities Lending Income				
Earnings	394,284	2,287	396,571	419,358
Rebates	(39,584)	(230)	(39,814)	146,715
Fees	(88,437)	(513)	(88,950)	(116,932)
Net Securities Lending Income	266,263	1,544	267,807	449,141
Net Investment Income (Loss)	217,123,404	1,259,218	218,382,622	182,006,929
Miscellaneous Income	46,407	-	46,407	12,091
Transfer Between Plans	165,625	-	165,625	84,032
<b>Total Additions</b>	<b>334,885,152</b>	<b>5,621,133</b>	<b>340,506,285</b>	<b>297,123,882</b>
<b>Deductions</b>				
Benefit Payments	121,129,699	3,472,991	124,602,690	115,515,343
Death Benefits	511,293	-	511,293	562,085
Refunds of Members' Contributions	1,250,644	-	1,250,644	1,038,467
Administrative Expenses				
General Administrative Expenses	3,195,005	-	3,195,005	3,239,765
Actuary Fees	218,290	-	218,290	88,909
Fund Legal Fees	268,250	-	268,250	198,522
Total Administrative Expenses	3,681,545	-	3,681,545	3,527,196
Transfer Between Plans	-	165,625	165,625	84,032
<b>Total Deductions</b>	<b>126,573,181</b>	<b>3,638,616</b>	<b>130,211,797</b>	<b>120,727,123</b>
Net Increase (Decrease)	208,311,971	1,982,517	210,294,488	176,396,759
Net Assets Held in Trust for Pension and Post-Employment Healthcare Benefits				
Beginning of Year	1,721,674,580	14,890,445	1,736,565,025	1,560,168,266
End of Year	\$ 1,929,986,551	\$ 16,872,962	\$ 1,946,859,513	\$ 1,736,565,025

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

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## Notes to the Financial Statements

DECEMBER 31, 2010 AND 2009

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 (defined benefit pension and post-employment healthcare) are committed 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 – DEFINED BENEFIT PENSION PLAN DESCRIPTION

#### a. General Description

SJCERA is a contributory defined benefit pension 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). The Board consists of nine regular members and one alternate retired member. Five are elected by SJCERA's members, four are appointed by the County Board of Supervisors (one of which is a county supervisor), and one is the County Treasurer. With the exception of the County Treasurer and the County Supervisor member, board members serve three-year terms with no term limits. The Board members as of December 31, 2010, were as follows:

David Souza, Chair	Margo Praus
Steve Bestolarides, Vice Chair	Michael Restuccia
Raymond McCray, Secretary	Ed O'Neill III
Shabbir Khan, County Treasurer	Larry Mills
J.C. Weydert	Richard Callistro (Retired 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). A lawsuit initiated by physicians represented by the Union of American Physicians and Dentists settled on April 2, 2010. Pursuant to the settlement agreement, physicians employed by the County in full-time positions on and after October 25, 2010 became members of SJCERA. The elected officials of the County may become members of SJCERA by applying to the Board of Retirement. All benefits vest after five years of service.



Notes to the Financial Statements

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, 2010 and 2009, is presented below:

	Retirees	Beneficiaries	Active	Deferred	Total
<b>Year 2010</b>					
General	3,182	515	4,645	1,252	9,594
Safety	657	135	830	173	1,795
<b>Total</b>	<b>3,839</b>	<b>650</b>	<b>5,475</b>	<b>1,425</b>	<b>11,389</b>
<b>Year 2009</b>					
General	3,027	495	4,917	1,240	9,679
Safety	604	126	925	161	1,816
<b>Total</b>	<b>3,631</b>	<b>621</b>	<b>5,842</b>	<b>1,401</b>	<b>11,495</b>

b. Plan Benefits

AGE TO RETIRE

A member may retire with a service allowance after: (1) completing five years of qualified service, (2) at least 10 years have elapsed 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 as compensation earnable for retirement purposes.

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

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## Notes to the Financial Statements

Code Sections 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 approved the transfer of almost \$2.5 million in contingency reserves for continued funding of this benefit. During 2008, the Board 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](http://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 2009 was 0.81%. Under the statutory requirements of the County Employees Retirement Law, this change must be rounded to the nearest half percent. Therefore, members should receive an increase in benefits of at least 1.0%, based on the current year change in the CPI. However, based on the accumulated carry-over balance as of April 2009, some retirees will receive an increase of up to 3.0% depending on their accumulated carry-over balance. The remaining carry-over balance will then be reduced by the amount of the increase above 1.0%.

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, payment to 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



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## Notes to the Financial Statements

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 SJCERA 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.

### c. Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the pension plan was 70.4% funded. The actuarial accrued liability for benefits was \$2.77 billion, and the actuarial value of assets was \$1.95 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$821 million. The covered payroll (annual payroll of active employees covered by the plan) was \$385 million, and the ratio of the UAAL to the covered payroll was 213%.

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 inflation. 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.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

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## Notes to the Financial Statements

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.

### d. 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 January 1, 2010, actuarial valuation, the Entry Age Normal Funding Method (Cost Method) was used. The actuarial assumptions include a 7.75% investment rate of return and an annual cost-of-living assumed to increase at a rate of 3.25% per year. The actuarial value of the plan's assets was based on a 5-year smoothing of actual versus expected returns. Half the actuarial loss experienced in 2008 was deemed to be an Extraordinary Actuarial Loss. Thus, 50% of the loss will be separately amortized as a level percentage of pay over a closed 30-year period. Currently, 29 years remain in this closed period. The plan's remaining unfunded actuarial accrued liability is being amortized on a 20-year open period amortization until January 1, 2014, when it will be decreased by one year in each valuation report until a 12-year amortization period is reached.

## NOTE 2 – POST-EMPLOYMENT HEALTHCARE PLAN

### a. Plan Description

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

Payment of healthcare 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 Memorandum of Understanding (MOU) are met. The Sick Leave Bank Benefit provides that accumulated unused and un-cashed sick leave upon retirement can be converted 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 healthcare or dental insurance premiums for County-sponsored health plans for retirees



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## Notes to the Financial Statements

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, 2009, the most recent actuarial valuation date, the post-employment healthcare plan was 35.7% funded. The actuarial accrued liability for benefits was \$41.8 million, and the actuarial value of assets was \$14.9 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 \$203.1 million, and the ratio of the UAAL to the covered payroll was 13.2%.

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. The 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 schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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, 2009, actuarial valuation, the Entry Age Normal Funding Method (Cost Method) was used. The actuarial assumptions include a 7.75% investment rate of return and an annual healthcare cost trend showing that healthcare premiums are assumed to increase

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## Notes to the Financial Statements

at a rate of 9% initially (4.75% for dental and vision costs). The actuarial value of the post-employment healthcare plan's assets is assumed to be equal to the market value. The post-employment healthcare plan's unfunded actuarial accrued liability is being amortized on a closed 12-year level dollar basis. The current remaining period is 11 years.

### 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 plans.

#### 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 (GASB). SJCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

#### c. New Accounting Standards

In June 2007, the Governmental Accounting Standards Board issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which became effective for financial statements for periods beginning after June 15, 2009. This statement establishes accounting and financial reporting requirements for intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Management has reviewed its investments and contracts and has concluded that GASB Statement No. 51 does not apply to SJCERA.

In June 2008, the Governmental Accounting Standards Boards issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. The statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local government like SJCERA. The statement requires derivative instruments to be measured at fair value and reported within the Statement of Plan Net Assets. The statement also establishes disclosure requirements, which include a summary of derivative instruments and the exposure to financial risks. SJCERA does not invest plan net assets for the purpose of hedging. All SJCERA derivative investments are classified as investment derivatives and reported at fair value for the years ended December 31, 2010 and 2009.



Notes to the Financial Statements

d. 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). 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 NT 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.

e. 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 price as of the fiscal year-end. International securities reflect currency exchange rates in effect at December 31, 2010 and 2009.
Mortgages	Equivalent pricing to comparable Government National Mortgage Association (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 fund managers on a quarter lag.
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.

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## Notes to the Financial Statements

### f. Foreign Currency Transactions

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

1. Market value of investment securities at the daily rates of exchange on December 31, 2010; and
2. 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 plan net assets available for benefits.

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 plan net assets available for benefits.

### g. 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 plan net assets available for benefits.

### h. 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 No. 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 2010 and the carrying cost of the securities at December 31, 2009, or the original cost of the securities acquired during 2010. The calculation of realized gains/(losses)



Notes to the Financial Statements

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.

i. Method Used in Allocating Investments and Related Income between the Defined Benefit Pension Plan and the Post-Employment Healthcare Plan

SJCERA allocates the investments held at December 31, 2010, between the Defined Benefit Pension Plan and the Post-Employment Healthcare Plan based on the internal records of the reserve level of the plans at December 31, 2010. A pro-rated share of actual earnings is allocated to the Post-Employment Healthcare Plan consistent with other reserves.

j. 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, 2010 and 2009.

k. Capital Assets

Capital assets, mainly leasehold improvements, furniture, and equipment, acquired by SJCERA are capitalized at cost. Depreciable capital 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.

The change in capital assets owned for year 2010 is presented below:

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Original Cost	\$ 1,388,645	\$ 27,550	\$ (3,641)	\$ 1,412,554
Accumulated Amortization and Depreciation	(659,650)	(121,130)	3,641	(777,139)
<b>Net Book Value</b>	<b>\$ 728,995</b>	<b>\$ (93,580)</b>	<b>\$ -</b>	<b>\$ 635,415</b>

Amortization and depreciation expense for the years ended December 31, 2010 and 2009, was \$121,130 and \$85,701, respectively.

l. Operating Lease

SJCERA leases office space for the administration of the plans. SJCERA administration relocated in June 2009 from the 7<sup>th</sup> floor of 6 S. El Dorado Street in Stockton to the 4<sup>th</sup> floor.

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## Notes to the Financial Statements

The lease specifies the actual rate for each year of term. Total rent expense under this agreement for the current year was \$220,282. The terms of the lease expire at the end of November 2019.

The estimated total minimum rent expense projected based on the terms of the lease agreement is \$2,241,038.

Year Ended December 31,	Total
2011	\$ 226,121
2012	232,490
2013	238,860
2014	245,230
2015	251,599
Thereafter	1,046,738
	<b>\$2,241,038</b>

### m. 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.

### n. Investment Income Receivable

Interest receivable consists of interest earned, but not received, as of December 31, 2010, on debt securities, short-term investment funds, and securities lending.

Dividends receivable are those dividends declared, but not received, as of December 31, 2010, on stocks owned by SJCERA on the ex-dividend date

### o. Contribution Receivable

County, district, and member contributions made in the following year for the current year were accrued in accordance with accounting principles generally accepted in the United States of America. 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.



Notes to the Financial Statements

p. 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.

q. Miscellaneous Receivables

Other receivables at December 31, 2010, consist mainly of overpaid benefit payments to be recovered from retirees or their beneficiaries.

NOTE 4 – CASH AND INVESTMENTS

a. Investment Securities Lending

Under provisions of State statutes, SJCERA, along with other Northern Trust Company (NT) clients, participate in NT’s pooled security lending program. Under the agreement, NT is authorized to lend securities of SJCERA that it holds to certain SJCERA approved security borrowers. NT 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. At December 31, 2010, SJCERA had the following securities out-on-loan:

	Fair Value of Securities Lent	Cash Collateral Value	Non-Cash Collateral Value
Domestic Equities	\$ 90,872,430	\$ 92,189,996	\$ 1,011,836
Domestic Debt Securities	21,752,423	19,851,730	2,344,356
<b>Total Domestic Securities</b>	<b>112,624,853</b>	<b>112,041,726</b>	<b>3,356,192</b>
International Equities	2,634,923	499,116	2,282,911
International Debt Securities	1,559,836	1,622,879	-
<b>Total International Securities</b>	<b>4,194,759</b>	<b>2,121,995</b>	<b>2,282,911</b>
<b>Total</b>	<b>\$ 116,819,612</b>	<b>\$ 114,163,721</b>	<b>\$ 5,639,103</b>

The cash collateral is reported on the financial statements as an asset and as a liability of SJCERA while the non-cash collateral is reported neither as an asset nor a liability in accordance with GASB Statement No. 28. The potential risks involved in the securities

## Notes to the Financial Statements

lending program include borrower bankruptcy, collateral deficiencies, settlement problems, corporate actions, dividends, and interest. In November 2009, NT made the first partial reversal of collateral deficiency; then in March 2010 made another reversal for remaining collateral deficiency payable. These two reversals basically eliminated the original security lending deficiency which occurred in 2008. SJCERA's pro-rata share of net income derived from NT's pooled security lending transactions in 2010 and 2009 was \$267,807 and \$449,142, respectively.

### b. Cash and Short-Term Investments

The carrying value of cash and short-term investments at December 31, 2010, consists of the following:

	Amount
Cash and Investments - Custodian	\$ 1,740,312
Cash and Investments - County Treasury	69,235,944
<b>Total Cash and Cash Equivalents</b>	<b>70,976,256</b>
<b>Cash and Investments - Custodian-Security Lending</b>	<b>114,163,721</b>
<b>Total</b>	<b>\$ 185,139,977</b>

### c. Long-Term Investments

SJCERA owned the following long-term investments at December 31, 2010:

	Fair Value
<b>Investments - Categorized</b>	
U.S. Equities	\$ 356,424,839
Non-U.S. Equities	371,822,823
Debt Securities	344,740,479
Real Estate	318,911,373
Alternative Investments	466,738,055
<b>Total Investments - Categorized</b>	<b>1,858,637,569</b>
<b>Investments - Not Categorized</b>	
<b>INVESTMENTS HELD BY BROKER-DEALERS UNDER SECURITIES LOANS</b>	
U.S. Equities	92,189,996
Non-U.S. Equities	2,121,995
U.S. Debt Securities	19,851,730
<b>Total Held by Broker-Dealers Under Securities Loans</b>	<b>114,163,721</b>
<b>Total Investments</b>	<b>\$ 1,972,801,290</b>

GASB Statement No. 40 (*Deposits and Investments Risk Disclosures*) establishes and modifies



## Notes to the Financial Statements

disclosure requirements related to the following:

- Credit risk
- Custodial credit risk
- Concentration of credit risk
- Interest rate risk
- Foreign currency risk

The list of investments exposed to those risks and the corresponding credit ratings from Standard & Poor's (S&P) at December 31, 2010, is as follows:

Quality Ratings	Fair Value
AAA	\$ 25,189,806
AA	13,268,581
A	47,907,225
BBB	51,183,957
BB	18,352,811
B	28,086,827
CCC	5,600,181
CC	243,574
D	280,338
Not Rated	45,427,357
	<b>235,540,657</b>
<b>U.S. Government Agencies (Implicit Guarantee)—Implied AAA (FNMA, FHLB, FHLMC, FFCB, SLMA, Other)</b>	<b>109,199,822</b>
<b>Total Investments in Fixed Income Securities</b>	<b>\$ 344,740,479</b>

#### CREDIT RISK

Per SJCERA's Investment Policy, at least 75% of the market value shall have a minimum quality rating of A (as determined by the middle rating of the three major rating agencies' opinions: Fitch, Moody, or Standard & Poor's), 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 counterparty 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.

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## Notes to the Financial Statements

### 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 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, 2010, 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.



## Notes to the Financial Statements

As of December 31, 2010, SJCERA had the following investments:

Investment Type	Fair Value	Weighted Average Maturity – Years
<b>U.S. Government and Agency Instruments</b>		
U.S. Government Mortgages	\$ 108,791,584	20.10
U.S. Government Bonds	24,256,728	3.35
Municipal/Revenue Bonds	11,913,716	23.19
Agency	2,270,168	7.24
	<b>147,232,196</b>	
<b>Corporate Securities</b>		
Asset Backed Securities	10,576,617	9.77
Bank Loans	40,350,802	4.49
Commercial Mortgage-Backed	4,088,972	33.88
Corporate and Other Credit	131,207,977	4.80
Non-Government Backed Collateralized Mortgage Obligations (CMOs)	11,283,915	28.73
	<b>197,508,283</b>	
<b>Total Fixed Income Securities</b>	<b>\$ 344,740,479</b>	

#### 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.

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## Notes to the Financial Statements

SJCERA's exposure to foreign currency risk in U.S. dollars as of December 31, 2010, is as follows:

Currency	Fair Value
Argentine Peso	\$ 9,436
Australian Dollar	421,664
Brazilian Real	8,645,526
British Pound	2,230,604
Canadian Dollar	(229,280)
Chinese Yuan Renminbi	884,089
Columbian Peso	677,105
Euro Currency	1,056,800
Hong Kong Dollar	1,220,138
Indonesian Rupiah	1,379,831
Japanese Yen	1,027,660
Malaysian Ringgit	2,051,956
Mexican Peso	1,298,439
Norwegian Krone	352,984
Phillippine Peso	191,737
Polish Zloty	129,878
Russian Ruble	160,530
Singapore Dollar	780,603
Swedish Krona	411,458
Thailand Baht	490,906
Turkish Lira	446,852
<b>Total</b>	<b>\$ 23,638,916</b>

### d. Summary of Investment Policy

The County Employees Retirement Law vests the 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 Plans) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts.



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## Notes to the Financial Statements

The Board oversees and guides the Plans 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 Plans 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

The Board has authorized certain investment managers to invest in, or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. A professional investment consultant is employed to monitor and review each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation. Investment derivatives involve the following types of risks:

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

**Credit Risk:** Credit risk of cash securities containing derivative features is based upon the credit worthiness of the issuers of such securities. It includes the risk that counterparties to contracts will not perform and/or the public exchange will not meet its obligation to assume this counterparty risk. The Plans establish minimum credit requirements for such securities. Exchange traded derivatives are generally considered to be of lower credit risk than over-the-counter derivatives due to the exchange's margin requirements. SJCERA's investments include collateral associated with derivatives activity. The derivative investments are exchange traded, and credit risk is limited to the clearing corporation. As of December 31, 2010, collateral for derivatives was \$18.1 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

## Notes to the Financial Statements

The following Credit Risk-Derivatives schedule discloses the counterparty credit ratings of SJCERA's derivative investments at December 31, 2010.

Derivative Type	S & P Credit Rating		
	A+	A-1	Total Fair Value
Total Return Swaps	\$ -	\$ 1,584,968	\$ 1,584,968
Credit Default Swaps	(197,514)	-	(197,514)
Interest Rate Swaps	(80,749)	-	(80,749)
<b>Total</b>	<b>\$ (278,263)</b>	<b>\$ 1,584,968</b>	<b>\$ 1,306,705</b>

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate swaps are an example of an investment that has a fair value that is highly sensitive to interest rate changes. At December 31, 2010, SJCERA was exposed to interest rate risk in the form of futures and options contracts in the following global government bond markets.

Global Bonds	Future Contracts	Option Contracts
Canadian Govt Bond	\$ 7,630,769	\$ -
Long Gilt	7,453,308	-
U.S. Ten Year Notes	(120,437)	26,250
<b>Total</b>	<b>\$ 14,963,640</b>	<b>\$ 26,250</b>

SJCERA measures derivative interest rate risk using duration with varying maturities of less than three months to five years. At December 31, 2010, SJCERA had the following investment derivative interest rate risks:

(DOLLARS IN THOUSANDS)

Derivative Type	Notional Value	Fair Value	< 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	5 to 10 Years	10+ Years
Future Contracts	\$ (85,121)	\$ -	\$ (97,057)	\$ 11,937	\$ -	\$ -	\$ -	\$ -
Forward Contracts	-	23	18	-	6	-	-	-
Option Contracts	-	61	1	-	-	60	-	-
Swap Agreements	-	1,307	-	-	1,585	(64)	(214)	-
Rights/Warrants	-	792	-	-	-	790	2	-
<b>Total</b>	<b>\$ (85,121)</b>	<b>\$ 2,183</b>	<b>\$ (97,038)</b>	<b>\$ 11,937</b>	<b>\$ 1,591</b>	<b>\$ 786</b>	<b>\$ (212)</b>	<b>\$ -</b>



Notes to the Financial Statements

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. Currency forward contracts represent foreign exchange contracts that are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. At December 31, 2010, SJCERA had the derivative foreign currency exposures listed in the table below.

Currency	Future Contracts	Forward Contracts	Options Contracts	Swap Agreements	Rights/Warrants Equity Contracts
Australian Dollar	\$ 5,070,500	\$ (107)	\$ 133,780	\$ -	\$ -
Canadian Dollar	4,821,120	-	-	-	-
Chinese Yuan Renminbi	-	(3,434)	-	-	-
Colombian Peso	-	16,139	-	-	-
Euro	(4,844,450)	(874)	139,282	(248,189)	-
British Pound Sterling	4,771,681	(97)	-	-	-
Japanese Yen	4,931,200	(960)	64,400	-	-
Malaysian Ringgit	-	-	-	-	136,617
Swiss Franc	4,955,225	-	-	-	-
Thai Baht	-	-	-	-	6,549
<b>Total</b>	<b>\$19,705,276</b>	<b>\$ 10,667</b>	<b>\$ 337,462</b>	<b>\$ (248,189)</b>	<b>\$ 143,166</b>

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income. For financial reporting purposes, all SJCERA derivatives are classified as investment derivatives. Derivative financial instruments held by the Plans from time to time consist of the following:

**Futures Contracts:** A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

**Forward Contracts:** A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a nonstandardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

## Notes to the Financial Statements

**Option Contracts:** An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

**Swap Agreements:** A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows the counterparties exchange are tied to a “notional” amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The fair value represents the gains or losses as of the prior marking-to-market.

The Investment Derivatives schedule listed below reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the years ended December 31, 2010 and 2009, classified by type.

Derivative Type	2010		2009	2010/2009 Change in Fair Value
	Notional Value	Fair Value	Fair Value	
Futures Contracts	\$ (8,205,274)	\$ 3,137,840	\$ (450,739)	\$ 3,588,579
Forward Contracts	-	2,645,265	2,641,063	4,202
Option Contracts	1,337,560	1,000,335	220,210	780,125
Swap Agreements	-	1,306,705	(1,187,076)	2,493,781
<b>Total</b>	<b>\$ (6,867,714)</b>	<b>\$ 8,090,145</b>	<b>\$ 1,223,458</b>	<b>\$ 6,866,687</b>

All investment derivative positions are included as part of investments at fair value on the statement of plan net assets. All changes in fair value are reported as part of net appreciation/(depreciation) in fair value of investments in the statement of changes in plan net assets.

Investment information was provided either by investment managers or SJCERA's investment custodian.

## NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

### Defined Benefit Pension Plan

The 2010 and 2009 contribution rates for employers and employees were established in accordance with actuarially determined contribution requirements by an actuarial valuation performed at December 31, 2009, and December 31, 2008, 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 Financial Statements

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

	As a Percent of Covered Payroll	
	2010	2009
<b>General Members</b>		
Current Service Cost	15.79%	14.84%
Amortization of Prior Service Cost	12.00%	10.03%
<b>Total</b>	<b>27.79%</b>	<b>24.87%</b>
<b>Safety Members</b>		
Current Service Cost	28.24%	27.92%
Amortization of Prior Service Cost	21.68%	19.62%
<b>Total</b>	<b>49.92%</b>	<b>47.54%</b>

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 2010 contributions from employees were \$13,098,043 and the employers' contributions were \$104,451,673.

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.

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## Notes to the Financial Statements

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
2010	49.92%	27.79%
2009	47.54%	24.87%
2008	44.51%	23.04%
2007	41.37%	22.74%
2006	39.56%	20.70%
2005	35.67%	18.48%

### Post-Employment Healthcare Benefits

The employers fund the Sick Leave Bank Benefit and employees are not required to contribute to the plan. Based on the most recent Actuarial Study of the Sick Leave Bank at the December 31, 2009, valuation date, additional employers funding of approximately \$26.9 million will be necessary to fully fund the Sick Leave Bank Benefit liability.

In 2007, the San Joaquin Superior Court (Courts) extended eligibility for the Sick Leave Bank Benefit to Court employees hired on or after August 27, 2001. Based on the valuation of January 1, 2010, the additional liability for the eligible active members of the Courts is calculated to be \$57,000. Funding for this additional liability will occur in 2011.

## 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'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. For 2010, the Unappropriated Earnings Reserves were not sufficient to fully credit interest earnings at the 8% assumption rate. In order to fully credit interest earnings at 8% assumption rate, \$23.5 million was transferred from Contingency Reserve to Unappropriated Earnings Reserve. During 2009, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate.



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## Notes to the Financial Statements

### 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 2010 and 2009, 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 member's retirement, an actuarially determined amount of the member's vested interest is transferred from the County Advance Reserves to the Retired Members' Pension Reserve.

### c. Retired Members' Reserves

These reserves are established to account for the unpaid retirees' pension benefits. Upon a member's retirement, the member's 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 member's 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.

The reserve at December 31, 2010, includes the authorized "Purchasing Power" benefit reserve of \$7.7 million and \$18.3 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.

### e. Contingency (Interest Fluctuation) Reserve

The Contingency (Interest Fluctuation) 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%.

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## Notes to the Financial Statements

The Contingency (Interest Fluctuation) Reserve is 1.47% and 3% of the market value of total assets at December 31, 2010 and 2009, respectively. During 2010, SJCERA did not have excess funds in order to fund the Contingency Reserve.

### f. Market Stabilization Designation Reserve

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’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 healthcare benefits, to stabilize the County’s and the special districts’ Annual Required Contribution (ARC), and to fund the market stabilization and contingency (interest fluctuation) reserves 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. Since 2008, the Board has not set aside funds to the Unappropriated Earnings Reserve (Restricted), as administrative expenses, investment management fees, and active member interest crediting are paid first, before any other interest credit occurs.



## Notes to the Financial Statements

A summary of the various reserve accounts, which comprise net assets available for pension benefits at December 31, 2010, and December 31, 2009, is as follows:

	2010	2009
<b>Reserves</b>		
Active and Deferred Members	\$ 219,079,295	\$ 211,277,200
County Advance	681,833,851	613,009,554
Retired Members	1,237,384,947	1,154,313,057
Post-Employment Healthcare	16,858,295	14,890,445
Purchasing PowerCOL	7,661,197	7,990,122
Class Action Settlement - Pre-4/1/82	235,272	319,515
Class Action Settlement - Post-4/1/82	18,108,660	20,090,654
Contingency (Interest Fluctuation)	28,579,335	52,096,951
Market Stabilization Designation	(262,881,339)	(347,313,005)
Unappropriated Earnings	-	9,890,532
<b>Total Reserves</b>	<b>\$ 1,946,859,513</b>	<b>\$ 1,736,565,025</b>

## 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.

## 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 2010 and 2009 was 0.18% and 0.19% of the total assets, respectively. SJCERA was not in compliance with this requirement during 2009 due to the 2008 severe decline in the market value of assets.

Notes to the Financial Statements

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	1/1/2010	\$1,949,011	\$2,769,612	\$ 820,601	70.4%	\$ 385,442	212.9%
Post-Employment Healthcare Benefits	12/31/2009	\$ 14,890	\$ 41,760	\$ 26,870	35.7%	\$ 203,064	13.2%

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.***, was settled in Superior Court of Stanislaus County, on April 2, 2010. Per the settlement agreement, all cases have been dropped and physicians employed in full-time positions became members of SJCERA on October 25, 2010. For service on and after that date, member contributions and benefits accruals for physician members will be governed by the County Employees Retirement Law.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

SJCERA participates in certain investments that require commitments of a specified amount of capital upfront that is then drawn down at a later time as the investment vehicle requires. The total unfunded capital commitment represents the amount of funds that SJCERA could potentially be required to contribute at a future date. SJCERA had unfunded capital commitments totaling \$59.3 million at December 31, 2010.

The Internal Revenue Service (IRS) has strongly encouraged all public sector retirement systems to file an application for an IRS determination letter on the tax qualified status of the system. As part of such a filing, if the retirement system determines that there are issues about the tax rules as applied to that system, the IRS also encourages the system to file an application under its voluntary correction program (VCP) procedure. SJCERA, as many other public sector systems across the country and many other California county systems operating under the County Employees Retirement Law of 1937, has filed an application with the IRS for a determination letter and also filed under the VCP process. The IRS will review these applications and under its normal process will respond to SJCERA regarding its filings. Because this increased emphasis on detailed reviews of public retirement systems is new for the IRS, we cannot predict at this time what the response of the IRS will be to these filings.



Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS  
DEFINED BENEFIT PENSION PLAN

FOR THE SIX YEARS ENDING DECEMBER 31, 2010

(Dollars in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets <sup>1</sup> (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll <sup>2</sup> (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
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	208,785	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%
1/1/2009	1,821,357	2,510,925	689,568	72.5%	377,559	182.6%
1/1/2010	1,949,011	2,769,612	820,601	70.4%	385,442	212.9%

NOTE:

<sup>1</sup> 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.

<sup>2</sup> Represents the annualization of active members' pay rates on December 31 as determined by the actuarial study.

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Required Supplementary Information

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

FOR THE SIX YEARS ENDING DECEMBER 31, 2010

Year Ended December 31,	Actual Annual Contribution	Required Annual Contribution	Percentage Contribution
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%
2009	97,805,585	97,805,585	100%
2010	104,451,673	104,451,673	100%



Required Supplementary Information

ACTUARIAL ASSUMPTIONS AND METHODS  
DEFINED BENEFIT PENSION PLAN

DECEMBER 31, 2010

Valuation Date	January 1, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	29 Years for 2008 Extraordinary Loss, 20 Years for Remaining UAAL
Asset Valuation Method	Smoothed Actuarial Value (5 years) 80%-120% Asset Corridor
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	7.75%
Projected Salary Increases	3.50%
General Inflation Rate	3.25%

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS  
POST-EMPLOYMENT HEALTHCARE PLAN

FOR THE YEAR ENDING DECEMBER 31, 2010

(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)
12/31/2006	\$ 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%
12/31/2008	13,120	41,203	28,083	31.84%	212,674	13.20%
12/31/2009	14,890	41,760	26,870	35.66%	203,064	13.23%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS  
POST-EMPLOYMENT HEALTHCARE PLAN

FOR THE YEAR ENDING DECEMBER 31, 2010

Year Ended December 31,	Actual Annual Contribution	Required Annual 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%
2009	4,202,490	4,202,490	100%
2010	4,361,915	4,361,915	100%



Required Supplementary Information

ACTUARIAL ASSUMPTIONS AND METHODS  
POST-EMPLOYMENT HEALTHCARE PLAN

DECEMBER 31, 2010

<b>Valuation Date</b>	December 31, 2009
<b>Investment Return</b>	7.75% per annum
<b>General Inflation Rate</b>	3.25% per annum
<b>Mortality</b>	Retired Pensioners (RP) 2000 tables published by the Society of Actuaries (projected from 2000 to 2010 using Scale AA) with a one year age setback for female members
<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Percentage of Retirees Eligible for Medicare</b>	All current retirees under age 65 will be eligible for Medicare upon reaching age 65
<b>Current Medical Plan Premiums</b>	Amounts reported as currently being paid for each individual. Members were assumed to continue in the same plan and coverage.
<b>Increase in Medical Plan Premiums (Trend)</b>	9.0%
<b>Dental Plan Premiums</b>	Amounts reported as currently being paid for each individual
<b>Increase in Dental Plan Premiums (Trend)</b>	4.75%
<b>Premiums for Future Retirees</b>	Single Retiree: \$621 per month Retiree with 1 or more dependents: \$1,140 per month
<b>Other Changes in Premiums</b>	Premiums drop by 30% when the member reaches age 65. For married members, premiums drop by 46% upon the death of the member or spouse.
<b>Premiums for Members Not Using Accounts</b>	50% of the Single premium shown above
<b>Projected New Retirees</b>	Future retirees are expected to retire from the eligible active group based on current actuarial assumptions

Other Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSE

FOR THE YEARS ENDING DECEMBER 31, 2010 AND 2009

	2010	2009
<b>Personnel Services</b>		
Staff Salaries	1,337,369	1,264,053
Cafeteria Benefits	129,626	137,866
Insurance	162,974	159,858
Social Security	84,778	87,795
Retirement	320,070	301,462
<b>Total Personnel Services</b>	<b>2,034,817</b>	<b>1,951,035</b>
<b>Professional Services</b>		
Professional & Specialized Services	469,952	645,500
Allocated Department Costs	35,412	3,448
<b>Total Professional Services</b>	<b>505,364</b>	<b>648,948</b>
<b>Communications</b>		
Postage	18,534	23,232
Telephone	12,927	17,163
Travel	75,078	72,728
<b>Total Communications</b>	<b>106,539</b>	<b>113,123</b>
<b>Rentals/Equipment</b>		
Office Space & Equipment	222,525	150,277
Equipment	22,612	36,200
Depreciation-Equipment (G/L)	121,130	85,701
Equipment Leasing	16,688	17,896
<b>Total Rentals</b>	<b>382,955</b>	<b>290,074</b>
<b>Miscellaneous</b>		
Office Supplies/Expense	70,585	132,996
Subscriptions & Periodicals	5,353	5,070
Memberships	7,695	8,370
Maintenance	541	2,032
Insurance	81,156	88,117
<b>Total Miscellaneous</b>	<b>165,330</b>	<b>236,585</b>
<b>Other Expenses*</b>		
Actuarial Retainer & Valuation Study	218,290	88,909
Fund Legal Fees	268,250	198,522
<b>Total Other Expenses</b>	<b>486,540</b>	<b>287,431</b>
<b>Total Administrative Expense</b>	<b>3,681,545</b>	<b>3,527,196</b>

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



## Other Supplementary Information

## SCHEDULE OF INVESTMENT EXPENSES

FOR THE YEARS ENDING DECEMBER 31, 2010 AND 2009

	2010	2009
<b>Investment Management Fees</b>		
U.S. Equity	997,534	1,246,460
Non-U.S. Equity	1,181,573	1,352,890
Fixed Income	1,912,368	2,452,685
Real Estate	2,999,759	3,300,636
Alternatives	5,503,672	4,955,634
Currency Overlay	385,532	425,632
<b>Total Investment Management Fees</b>	<b>12,980,438</b>	<b>13,733,937</b>
<b>Other Investment Fees and Expenses</b>		
Custodian Fees	169,417	136,749
Investment Consultant Fees	392,386	434,699
Miscellaneous Investment Expense	44,825	398,132
<b>Total Other Investment Expenses</b>	<b>606,628</b>	<b>969,580</b>
<b>Total Investment Expenses before Security Lending Expenses</b>	<b>13,587,066</b>	<b>14,703,517</b>
<b>Securities Lending Fees and Interest Expenses</b>	<b>128,764</b>	<b>116,932</b>
<b>Total Investment Expenses</b>	<b>13,715,830</b>	<b>14,820,449</b>

## SCHEDULE OF PAYMENTS TO CONSULTANTS

FOR THE YEARS ENDING DECEMBER 31, 2010 AND 2009

	2010	2009
<b>Nature of Service</b>		
Actuarial-Retainer & Valuation	218,290	88,909
Audit	60,705	71,000
Legal Counsel-Processing of Disabilities	268,250	198,522
Business Technology Services	126,750	124,350
<b>Total Payments to Consultants</b>	<b>673,995</b>	<b>482,781</b>

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