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Mission Statement: We are trusted financial stewards committed to providing excellent service and lifetime retirement benefits to our Members.
On behalf of the Board of Retirement, I am pleased to present this Comprehensive Annual Financial Report for the San Joaquin County Employees’ Retirement Association.

This CAFR is provided to all participating employers, and to the employee and retiree organizations that represent the members of SJCERA; the dedicated public employees who provide services, assistance, and support to the people of San Joaquin County.

We take very seriously the trust you have placed in us to be prudent stewards of plan assets, ensure proper funding of promised benefits, expertly manage investments, and provide timely and accurate benefit payments. We believe this report demonstrates the diligence with which we endeavor to fulfill our responsibilities.

We thank the newly formed Audit Committee of the Board for its independent oversight of SJCERA’s accounting and financial reporting as reflected in this CAFR.

Most especially, we appreciate the dedicated effort of SJCERA staff and the partnership of our professional consultants and advisors who contribute to the continued successful operation of SJCERA.

Michael Restuccia
Chair, Board of Retirement
As the Chief Executive Officer of the San Joaquin County Employees’ Retirement Association (SJCREA), I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2007.

This CAFR is intended to provide users with extensive and reliable information for making management decisions, determining compliance with legal provisions, and demonstrates the responsible management and stewardship of SJCREA. The management of SJCREA is responsible for both the accuracy of the data and the completeness and fairness of the presentation in this CAFR. To the best of management’s knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. This Letter of Transmittal is presented as a narrative introduction, overview and analysis and should be read in conjunction with the Management’s Discussion and Analysis included in the Financial Section of this CAFR.

SJCREA AND ITS SERVICES

SJCREA was established by the San Joaquin County Board of Supervisors by Ordinance No. 485, dated June 28, 1946, and is governed by the California State Constitution and the County Employees Retirement Law (California Government Code, Section 31450 et. seq.). SJCREA is a multi-employer public employee retirement system that provides retirement, disability, and survivors’ benefits to eligible safety and general members employed by the County of San Joaquin and nine additional public agencies:

- Lathrop-Manteca Rural Fire Protection District
- Mountain House Community Services District
- San Joaquin Local Agency Formation Commission
- San Joaquin County Historical Society and Museum
- San Joaquin County Law Library
- San Joaquin County Mosquito and Vector Control District
- San Joaquin County Superior Court
- Tracy Public Cemetery District
- Waterloo-Morada Rural Fire Protection District

The SJCREA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investment of plan assets. The Board oversees the Chief Executive Officer and staff in the performance of their duties in accordance with the County Employees Retirement Law (CERL), and the bylaws, policies, and procedures adopted by the Board. The San Joaquin County Board of Supervisors, as the sponsor of the plan, may also adopt resolutions as permitted by law which may affect the benefits of SJCREA members.
The SJCERA Board of Retirement is a nine-member board: Four members are appointed by the San Joaquin County Board of Supervisors; three members are elected by SJCERA’s active membership; and one member is elected by retirees. The County Treasurer serves as an ex-officio member. Board members, with the exception of the County Treasurer, serve three-year terms with no term limits.

**Highlights of Year 2007**

The year 2007 was a year of transition for SJCERA. Most notably, Robert Palmer who was appointed as SJCERA’s first Retirement Administrator when it established operations separate from the County Treasurer’s office in 1991, retired in August 2007. After sixteen years of exceptional leadership and dedicated service to SJCERA, its stakeholders, and the broader public pension community, Mr. Palmer’s knowledge, creativity, and skill established a strong foundation for SJCERA’s success in an environment of ever-increasing complexity and challenge.

In late 2006, the Board implemented a succession plan well in advance of Mr. Palmer’s departure to provide for as smooth a transition as possible for the Association. Having served SJCERA for five years as the Assistant Retirement Administrator/Investment Analyst I was honored to be chosen by the Board of Retirement to become his successor. With a continued growth in assets to over $2 billion, and the increased complexity of SJCERA’s investment program, the positions of Chief Investment Officer and Investment Accountant were added. By October 2007, these new positions and the vacant Assistant Retirement Administrator position were filled with capable and experienced professionals.

We also transitioned to new providers for auditing and actuarial services in 2007. Brown Armstrong Accountancy Corporation performs the annual independent audit of SCJERA’s financial statements. EFI Actuaries, Inc., conducts the annual actuarial valuation and triennial experience study for the plan. Our new partners have proven to be skilled professionals who make a valuable contribution to the continued successful operation of SJCERA.

I am pleased to share that this “year of transition” brought no changes in the membership on the Board of Retirement. The tenure and continuity of SJCERA’s trustees provides stable, consistent governance with breadth of talent and expertise in the effective administration of SJCERA. We are truly fortunate to have an experienced and collaborative Board.

Pursuant to the recommendation of its independent auditor during the 2006 audit, the Board established an Audit Committee. This strengthens the independence of the auditors from executive management; provides a forum for continuous review of internal controls, including risk assessment; and improves communication between the Board, management and the auditors, resulting in a more effective and efficient audit process. The annual audit was performed and the financial report for 2007 completed with the oversight of the newly formed Audit Committee.
**SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION**

**FINANCIAL INFORMATION**

SJCERA’s management is responsible for the accuracy, completeness, fair presentation of information, and all disclosures in this report, as well as for establishing and maintaining an internal control structure that ensures SJCERA’s financial reporting is accurate and reliable and that SJCERA’s assets are protected from loss, theft, or misuse.

Brown Armstrong Accountancy Corporation, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides assurance that SJCERA’s financial statements are presented in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and are free from material misstatement. Internal controls are sufficient to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. The accompanying basic financial statements and transactions of the organization are prepared on the accrual basis of accounting.

**ACTUARIAL FUNDING STATUS**

SJCERA’s funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining superior investment returns consistent with established risk controls, and minimizing employer contributions to the retirement fund. The advantage of a well-funded plan is that the benefits earned by plan participants are funded during their working careers and not by future generations of taxpayers. SJCERA recognizes annual changes in market value that exceed or fall below our assumed 8.16% rate of return over a five-year period. This method of smoothing changes in the actuarial value of assets not only stabilizes contribution rates but also improves the ability of employers to plan for possible future adjustments to the retirement contribution rates.

SJCERA engages an independent actuarial consulting firm to perform an annual actuarial valuation of the pension plan. The purpose of the annual valuation is to reassess the value of the benefit commitments and compare this to the assets expected to be available to support those commitments so employer and employee contribution rates can be adjusted accordingly. Economic assumptions are reviewed annually. Additionally, every three years, a triennial experience study is performed and the non-economic assumptions are reviewed. The experience study compares the assumed rate at which SJCERA’s members terminate employment, retire, become disabled, or die to the actual experience of the plan for the previous three years. If actual experience differs significantly from what was expected, the assumptions are adjusted as appropriate.

The most recent annual actuarial valuation and triennial experience study were performed by EFI Actuaries, Inc. as of January 1, 2007. As a result of that analysis, the SJCERA Board approved certain changes to the non-economic assumptions that were incorporated into the actuarial valuation as of January 1, 2007.
The actuarial funding status is determined from a long-term, ongoing perspective. The valuation determines the progress made in accumulating sufficient assets to pay benefits when due. As of January 1, 2007, the pension plan’s actuarial accrued liability was $2.15 billion, the actuarial value of assets was $1.87 billion, and the unfunded actuarial accrued liability was $280 million. The funding status (the ratio of plan assets to plan liabilities) was 87%. It should be noted that for pensions that are permanent and ongoing (such as SJCERA), funding ratios of better than 80% are considered extremely well funded. A more detailed discussion of funding is provided in the Actuarial Section of this report.

For the year ended December 31, 2006, the return on investments of the fund was 13.3% on a market value basis, and 9.6% on an actuarial value of assets basis. This is the first time in five years that investment earnings on the actuarial value of assets exceeded the actuarially assumed annual return of 8%. As of January 1, 2007, deferred gains under the five-year smoothing method exceed the deferred losses by $122 million. These deferred gains can be used to offset possible investment shortfalls in the future or to lower future costs.

At the time of this report, the valuation for the year ended December 31, 2007 was still in progress with a completion date expected August 2008.

INVESTMENTS

The California Constitution and the County Employees Retirement Law confer exclusive control and fiduciary responsibility for investing SJCERA’s funds to the Board of Retirement. Board members are legally required to carry out their duties under a standard of care in California commonly known as the “prudent expert rule.” The prudent expert rule requires fiduciaries to discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill that a prudent person familiar with such retirement and investment matters would ordinarily exercise under similar circumstances in a like capacity.

The Board has adopted investment policies that establish the investment program goals, asset allocation, performance objectives, investment management policies, and risk controls on investments. These provide the framework for the management of SJCERA’s investments and define the principal duties of the Board, custodian bank, and investment managers. The asset allocation is an integral part of the Board’s investment policy and is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities, while reducing overall risk. A summary of SJCERA’s asset allocation can be found in the Investment Section of this report.

Under the County Employees Retirement Law, the Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. The Board delegates much discretion to professional investment managers subject to investment policy and guidelines approved by the Board. SJCERA’s assets are managed exclusively by external professional investment managers.
The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

The Board uses the services of a general investment consultant, Strategic Investment Solutions, Inc., and a real estate investment consultant ORG Real Property who, together with SJCERA staff, assist the Board in formulating investment policies and objectives, setting asset allocation, developing investment manager guidelines, and monitoring investment manager performance and compliance.

For the year ended December 31, 2007, the SJCERA investment portfolio experienced a positive return of 7.5% before fees, ranking in the 63rd percentile of public defined benefit retirement plans with assets over $100 million. For the year ended December 31, 2006, the portfolio returned 13.3% before fees, ranking in the 68th percentile of the same comparison universe. The Board’s objective is to achieve an annual return of at least 8.16%. SJCERA’s annualized rate of return before fees was 9.5% over the last three years, 13.3% over the last five-years, and 8.8% over the last ten years.

The Investment Section of this report presents a summary of SJCERA’s investment results, asset allocation, investment holdings, and other investment-related information.

**PROFESSIONAL SERVICES**

Professional consultants and investment managers are retained by the Board of Retirement to provide professional services that are essential to the effective and efficient operations of SJCERA. The consultants and investment managers retained by the Board are listed on page 16 of this report. This report includes an opinion from SJCERA’s independent auditors, a letter from its general investment consultant, and a letter of certification from SJCERA’s actuary.

**CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SJCERA for its Comprehensive Annual Financial Report for the Year Ended December 31, 2006. The Certificate of Achievement, reproduced on page 12, is a national award recognizing excellence in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

This was the first year SJCERA has achieved this prestigious award, primarily due to the strong partnership between staff and our new auditors, Brown Armstrong Accountancy Corporation. The timely completion and submission of the 2006 audit to the GFOA enabled SJCERA to qualify for the Certificate of Achievement.
While a Certificate of Achievement is valid for a period of one year only, we believe that this year’s report continues to meet the Certificate of Achievement Program’s requirements and will submit it to the GFOA for consideration.

**ACKNOWLEDGEMENT**

This report is intended to provide complete and reliable information as the basis for making management decisions, determining compliance with legal provisions, and demonstrating the Board’s responsible stewardship of SJCERA. The compilation of this report reflects the combined and dedicated effort of the SJCERA staff, in particular Sandy Parker, Retirement Financial Officer, and Lily Cherng, Investment Accountant, under the strong leadership of the Board of Retirement.

I appreciate the Board of Retirement for its dedicated leadership and support. I thank SJCERA staff for their diligent effort and commitment to providing excellent service to our members and to one another. I value the partnership of our consultants and advisors, and the many people whose dedicated efforts ensure the successful operation of SJCERA.

Respectfully submitted,

Annette St. Urbain
Chief Executive Officer
Certificate of Achievement for Excellence in Financial Reporting

Presented to
San Joaquin County
Employees' Retirement
Association, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CARRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director
INTRODUCTION

Members of the Board of Retirement as of December 31, 2007

CHAIR
Michael Restuccia
Appointed by Board of Supervisors

VICE-CHAIR
Ed O’Neill
Appointed by Board of Supervisors

SECRETARY
Raymond McCray
Appointed by Board of Supervisors

TREASURER-TAX COLLECTOR
Shabbir Khan
Ex-Officio Member

J.C. Weydert
Elected by General Members

Margo Praus
Elected by General Members

Victor Mow
Appointed by Board of Supervisors

David Souza
Elected by Safety Members

Judith Courtney
Elected by Retired Members
San Joaquin County Employees’ Retirement Association Staff

Back Row (left to right): Debra Khan, Lori Davidson, Stephanie Conner, Tim Ankorn, Santos Ortega

Middle Row (left to right): Maria Sandoval, Lily Cherg, Rose Dimas, Sandy Parker, Nieves Atterberry, Mary Chris Johnson, Melinda DeOliveira, Beatriz Garcia, Tallie Claypool

Seated Row (left to right): Nancy Calkins, Annette St. Urbain, Gail Chun-DeDuonni
San Joaquin County Employees’ Retirement Association

INTRODUCTION

Administrative Organization Chart
List of Professional Consultants

CONSULTING SERVICES

Actuary
EFI Actuaries

Auditors
Brown Armstrong Accountancy Corporation

Custodian
Northern Trust Company - Institutional Trust Account Manager

Information Systems
IG, Incorporated
(formerly CornerStone Solutions)

Investment Consultants
Strategic Investment Solutions
ORG Real Property

Legal Counsel
San Joaquin County Counsel
Haydel and Ornellas
Hanson, Bridgett, Marcus, Vlahos & Rudy
Jackson Lewis LLP
Morrison & Foerster LLP
Reed-Smith LLP

Securities Lending
Northern Trust Company - Institutional Trust Account Manager
State Street Global Advisors

INVESTMENT MANAGERS

Domestic Equity
Bernzott Capital
Capital Prospects LLC
Channing Capital Management LLC
Denali Advisors, LLC
Dodge & Cox Investment Mgrs Equity
INTECH, LLC
InView Investment Management LLC
Keeley Asset Management
Mazama Capital Management
Research Affiliates, LLC
State Street Global Advisors
Trust Company of the West

Non-US Equity
Mondrian Investment Partners Limited
Pyramis Global Advisors Trust Company
Research Affiliates, LLC

Fixed Income
Dodge & Cox Investment Mgrs - FI
Stone Harbor Investment Partners

Real Estate
Alpine Woods Capital Investors
AMB Capital Partners
INVESCO Real Estate
Legacy Partners
Mesa West Capital
Miller Global
RREEF
Walton Street Capital, LLC

Alternative Assets/Currency Overlay
Bridgewater Associates
Clifton Group
FX Concepts
Mount Lucas Management Corp
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 Retirement Plan and Post-Employment Healthcare Plan Statement of Plan Net Assets Available for Benefits of the San Joaquin County Employees’ Retirement Association (SJERA) as of December 31, 2007, and the related Retirement Plan and Post-Employment Healthcare Plan Statement of Changes in Plan Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the management of SJERA. Our responsibility is to express an opinion on these financial statements based on our audit. The December 31, 2006 summarized comparative information has been derived from the 2006 financial statements and is included for additional analysis only.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets Available for Benefits of the Retirement Plan and Post-Employment Healthcare Plan of the San Joaquin County Employees’ Retirement Association as of December 31, 2007 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.

As discussed in Note 3 to the financial statements, in 2007, SJERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, Pension Disclosures.
Independent Auditor’s Report

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

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

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2008, on our consideration of SJERA’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
May 2, 2008
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, 2007. 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 7.5%.
- SJCERA’s net assets of $2,228 million at December 31, 2007 increased by $149 million or 7.16% 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, 2007, the date of the last actuarial valuation, the funded ratio for the actuarial accrued liability was approximately 87.0%. In general, this indicates that for every dollar of benefits liability, SJCERA has $0.87 of net assets to cover it.
- Revenues for the year were $248 million, a decrease of $74 million or 23% from the prior year’s $323 million. The decrease was mainly caused by a lower appreciation in market value of the investments owned.
- Expenses for the year were $100 million, an increase of $7 million or 7.5% from the prior year’s $93 million. This increase was primarily due to the $6.3 million increase in pension benefit payments to retirees.

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

This annual financial report consists of two financial statements:

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

2. The Statement of Changes in Plan Net Assets gives the reader a view of current year additions and deductions to the Plan.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>INCREASE (DECREASE) AMOUNT</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Receivables</td>
<td>$340,873,842</td>
<td>$387,239,693</td>
<td>$(46,365,851)</td>
<td>-11.97%</td>
</tr>
<tr>
<td>Investments</td>
<td>2,090,993,600</td>
<td>1,984,637,490</td>
<td>106,356,110</td>
<td>5.36%</td>
</tr>
<tr>
<td>Other Assets</td>
<td>202,843</td>
<td>289,080</td>
<td>(86,237)</td>
<td>-29.83%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,432,070,285</td>
<td>2,372,166,263</td>
<td>59,904,022</td>
<td>2.53%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>203,979,657</td>
<td>292,914,087</td>
<td>(88,934,430)</td>
<td>-30.36%</td>
</tr>
<tr>
<td><strong>TOTAL PLAN NET ASSETS</strong></td>
<td>$2,228,090,628</td>
<td>$2,079,252,176</td>
<td>$148,838,452</td>
<td>7.16%</td>
</tr>
</tbody>
</table>
Management’s Discussion and Analysis

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

An important question asked about SJCERA’s financial condition is, “Does SJCERA have sufficient assets to pay the pension benefits that have been promised to the membership?” The two financial statements provide information about SJCERA’s activities in a way that helps answer this question. In summary, our current funding ratio is 87.0% and this means that SJCERA has $0.87 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, 2007 totaled $248 million. Of the total $147 million in net investment income, $103 million is attributable to net appreciation in the fair value of investments.

The overall year 2007 revenues decreased by $74 million from that of the prior year, primarily due to the decrease in appreciation of investment market value.

The employer’s contribution increased by $12 million or 17% 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 2006 to year 2007.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>INCREASE (DECREASE) AMOUNT</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer’s Contributions</td>
<td>$85,868,698</td>
<td>$73,611,841</td>
<td>$12,256,857</td>
<td>16.65%</td>
</tr>
<tr>
<td>Members Contributions</td>
<td>12,312,247</td>
<td>11,365,569</td>
<td>946,678</td>
<td>8.33%</td>
</tr>
<tr>
<td>Employer Contribution to Healthcare Benefits</td>
<td>2,780,505</td>
<td>650,000</td>
<td>2,130,505</td>
<td>327.77%</td>
</tr>
<tr>
<td>Net Investment and Miscellaneous Income</td>
<td>147,354,800</td>
<td>237,098,262</td>
<td>(89,743,462)</td>
<td>-37.85%</td>
</tr>
<tr>
<td>Transfer between Plans</td>
<td>123,809</td>
<td>112,386</td>
<td>11,423</td>
<td>10.16%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$248,440,059</td>
<td>$322,838,058</td>
<td>$(74,397,999)</td>
<td>-23.04%</td>
</tr>
</tbody>
</table>

Expenses – Deductions from Plan Net Assets

The primary expenses of the plan include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, the payment of health benefits, and the cost of administering the defined benefit and post-employment health plans. Expenses for the year 2007 totaled $100
million, an increase of 7.5% over 2006. 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.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>INCREASE (DECREASE) AMOUNT</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Payments</td>
<td>$94,408,363</td>
<td>$88,132,756</td>
<td>$6,275,607</td>
<td>7.12%</td>
</tr>
<tr>
<td>Members’ Death Benefits</td>
<td>471,474</td>
<td>541,987</td>
<td>(70,513)</td>
<td>-13.01%</td>
</tr>
<tr>
<td>Refunds</td>
<td>1,042,459</td>
<td>1,035,866</td>
<td>6,593</td>
<td>0.64%</td>
</tr>
<tr>
<td>Administrative and</td>
<td>3,555,503</td>
<td>3,066,530</td>
<td>488,973</td>
<td>15.95%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer between Plans</td>
<td>123,089</td>
<td>112,386</td>
<td>11,423</td>
<td>10.16%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 99,601,608</strong></td>
<td><strong>$ 92,889,525</strong></td>
<td><strong>$ 6,712,083</strong></td>
<td><strong>7.23%</strong></td>
</tr>
</tbody>
</table>

**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**

Although the fund increased by 7.16% for 2007 over 2006, the net appreciation on investments was $102.6 million versus the prior year’s $192.6 million. The investment section of this report reviews the result of investment activity for the year ended December 31, 2007.

**Contacting SJCERA’s Management**

This financial report is designed to provide the Board of Retirement, the membership, taxpayers, and investment managers with a general overview of SJCERA’s finances and to show SJCERA’s accountability for the money it receives. Any question about this report or need for additional financial information, can be addressed to Annette H. St. Urbain, Chief Executive Officer, 6 South El Dorado Street, Suite 700, Stockton, California 95202.

Respectfully Submitted,

[Signature]

Annette H. St. Urbain
Chief Executive Officer
## Statement of Plan Net Assets

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEFINED BENEFIT PENSION PLAN</strong></td>
<td><strong>POST-EMPLOYMENT HEALTHCARE PLAN</strong></td>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$129,239,894</td>
<td>$859,823</td>
</tr>
<tr>
<td>Cash Collateral-Security Lending</td>
<td>189,426,007</td>
<td>1,260,236</td>
</tr>
<tr>
<td>Total Cash and Cash Equivalents</td>
<td><strong>318,665,901</strong></td>
<td><strong>2,120,059</strong></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income Receivables</td>
<td>9,200,042</td>
<td>61,207</td>
</tr>
<tr>
<td>Contributions Receivable</td>
<td>3,228,762</td>
<td>-</td>
</tr>
<tr>
<td>Securities Sold, Not Received</td>
<td>7,505,936</td>
<td>49,936</td>
</tr>
<tr>
<td>SWAP Payments Receivable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Investment Income Receivable</td>
<td>982</td>
<td>7</td>
</tr>
<tr>
<td>Miscellaneous Receivables</td>
<td>41,010</td>
<td>-</td>
</tr>
<tr>
<td>Total Receivables</td>
<td><strong>19,976,732</strong></td>
<td><strong>111,150</strong></td>
</tr>
<tr>
<td>Investments, at market value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-Term Investments</td>
<td>10,967,983</td>
<td>72,969</td>
</tr>
<tr>
<td>Bonds</td>
<td>573,836,680</td>
<td>3,817,690</td>
</tr>
<tr>
<td>Stocks</td>
<td>1,278,729,356</td>
<td>8,507,285</td>
</tr>
<tr>
<td>Real Estate</td>
<td>172,290,500</td>
<td>1,146,235</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>41,349,805</td>
<td>275,097</td>
</tr>
<tr>
<td>Total Investments</td>
<td><strong>2,077,174,324</strong></td>
<td><strong>13,819,276</strong></td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>72,692</td>
<td>-</td>
</tr>
<tr>
<td>Equipment and Fixtures, net</td>
<td>130,151</td>
<td>-</td>
</tr>
<tr>
<td>Total Assets</td>
<td><strong>2,416,019,800</strong></td>
<td><strong>16,050,485</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Lending-Cash Collateral</td>
<td>189,426,007</td>
<td>1,260,236</td>
</tr>
<tr>
<td>Securities Purchased, Not Paid</td>
<td>10,488,795</td>
<td>69,781</td>
</tr>
<tr>
<td>Accrued Expenses and Other Payables</td>
<td>1,981,258</td>
<td>13,181</td>
</tr>
<tr>
<td>Security Lending Interest and Other Expense</td>
<td>735,505</td>
<td>4,894</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td><strong>202,631,565</strong></td>
<td><strong>1,348,092</strong></td>
</tr>
<tr>
<td><strong>Net Assets Held in Trust for Pension and Post-Employment Healthcare Benefits</strong></td>
<td><strong>$2,213,388,235</strong></td>
<td><strong>$14,702,393</strong></td>
</tr>
</tbody>
</table>
### Statement of Changes in Plan Net Assets

**For the Years Ended December 31, 2007 and 2006**

<table>
<thead>
<tr>
<th><strong>Additions</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contributions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer’s Contribution</td>
<td>$85,868,698</td>
<td>$85,868,698</td>
</tr>
<tr>
<td>Members’ Contributions</td>
<td>12,312,247</td>
<td>12,312,247</td>
</tr>
<tr>
<td>Employer Contribution to Healthcare Benefits</td>
<td>-</td>
<td>2,780,505</td>
</tr>
<tr>
<td><strong>Total Contributions</strong></td>
<td>$98,180,945</td>
<td>2,780,505</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Net Investment Income</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Appreciation/(Depreciation) in Fair Value of Investments</td>
<td>101,824,770</td>
<td>801,281</td>
</tr>
<tr>
<td>Interest</td>
<td>40,511,877</td>
<td>318,797</td>
</tr>
<tr>
<td>Dividends</td>
<td>12,150,965</td>
<td>95,619</td>
</tr>
<tr>
<td>Real Estate Income, net</td>
<td>3,230,198</td>
<td>25,419</td>
</tr>
<tr>
<td>Investment Expenses</td>
<td>(12,441,089)</td>
<td>(97,902)</td>
</tr>
<tr>
<td>Miscellaneous Investment Income</td>
<td>42,364</td>
<td>333</td>
</tr>
<tr>
<td><strong>Net Investment Income, Before Securities Lending Income</strong></td>
<td>145,319,085</td>
<td>1,143,547</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Securities Lending Income</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>11,784,128</td>
<td>92,732</td>
</tr>
<tr>
<td>Rebates</td>
<td>(10,620,756)</td>
<td>(83,577)</td>
</tr>
<tr>
<td>Fees</td>
<td>(286,698)</td>
<td>(2,256)</td>
</tr>
<tr>
<td><strong>Net Securities Lending Income</strong></td>
<td>876,674</td>
<td>6,899</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Net Investment Income</strong></th>
<th>2007</th>
<th>2006</th>
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<td>145,319,085</td>
<td>1,143,547</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Deductions</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefit Payments</strong></td>
<td>90,643,684</td>
<td>3,764,679</td>
</tr>
<tr>
<td>Death Benefits</td>
<td>471,474</td>
<td>-</td>
</tr>
<tr>
<td>Refunds of Members’ Contributions</td>
<td>1,042,459</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Administrative &amp; Other Expenses</strong></td>
<td>3,555,503</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Additions</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefit Payments</strong></td>
<td>90,643,684</td>
<td>3,764,679</td>
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<td>-</td>
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<td>3,555,503</td>
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<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning of Year</strong></td>
<td>$2,064,592,247</td>
<td>14,659,929</td>
</tr>
<tr>
<td><strong>End of Year</strong></td>
<td>$2,213,388,235</td>
<td>$14,702,393</td>
</tr>
</tbody>
</table>

**Net increase (Decrease)** | 148,795,988 | 42,464 |

**Total Deductions** | 95,713,120 | 3,888,487 |

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
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<td>14,659,929</td>
</tr>
<tr>
<td><strong>End of Year</strong></td>
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<td>$14,702,393</td>
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</table>

**Net increase (Decrease)** | 148,795,988 | 42,464 |

**Total Deductions** | 95,713,120 | 3,888,487 |

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<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning of Year</strong></td>
<td>$2,064,592,247</td>
<td>14,659,929</td>
</tr>
<tr>
<td><strong>End of Year</strong></td>
<td>$2,213,388,235</td>
<td>$14,702,393</td>
</tr>
</tbody>
</table>
Notes to the Combined Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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

NOTE 1 – PENSION PLAN DESCRIPTION

a. General Description

SJCERA is a contributory defined benefit plan initially organized on April 29, 1946 under the provisions of the County Employees Retirement Law. SJCERA is administered by the Board of Retirement (Board). By law, the Board consists of nine regular members and, under certain circumstances, one alternate. Four are elected by SJCERA’s members, four are appointed by the Board of Supervisors and one is the County Treasurer. Board members serve for a term of three years except for the County Treasurer who is a permanent member in accordance with Government Code Section 31520. The Board members as of December 31, 2007 were as follows:

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

SJCERA is a multiple employer retirement system covering the County and certain special districts including the Historical Society, Local Agency Formation Commission (LAFCO), Lathrop-Manteca Fire District, Law Library, Mosquito and Vector Control District, Superior Court, Tracy Public Cemetery District, Waterloo-Morada Fire District, and Mountain House Community Services District. All employees of these special districts and employees of the County are required, automatically upon appointment to a full time, permanent position, to become members of SJCERA.

Public Health, a division of the County’s Healthcare Services Department, became a participant of SJCERA effective June 27, 1993. Prior to that date, they were members of the California Public Employees’ Retirement System (CalPERS). The elected officials of the County may become members of SJCERA by applying to the Board.
All benefits vest after five years of service. There are two types of membership:

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

2. **General Member** — All other eligible employees not classified as safety members are considered general members and are covered by Social Security.

### Membership Summary

SJCERA’s membership as of December 31, 2007 and 2006 is presented below:

<table>
<thead>
<tr>
<th>YEAR 2007</th>
<th>RETIREES</th>
<th>BENEFICIARIES</th>
<th>ACTIVE</th>
<th>DEFERRED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>2,771</td>
<td>467</td>
<td>5,353</td>
<td>1,016</td>
<td>9,607</td>
</tr>
<tr>
<td>Safety</td>
<td>562</td>
<td>107</td>
<td>871</td>
<td>156</td>
<td>1,696</td>
</tr>
<tr>
<td>Total</td>
<td>3,333</td>
<td>574</td>
<td>6,224</td>
<td>1,172</td>
<td>11,303</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>YEAR 2006</th>
<th>RETIREES</th>
<th>BENEFICIARIES</th>
<th>ACTIVE</th>
<th>DEFERRED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>2,651</td>
<td>456</td>
<td>5,234</td>
<td>922</td>
<td>9,263</td>
</tr>
<tr>
<td>Safety</td>
<td>532</td>
<td>100</td>
<td>820</td>
<td>151</td>
<td>1,603</td>
</tr>
<tr>
<td>Total</td>
<td>3,183</td>
<td>556</td>
<td>6,054</td>
<td>1,073</td>
<td>10,866</td>
</tr>
</tbody>
</table>

### b. Plan Benefits

#### Age to Retire

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

#### Retiree Benefits

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

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

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 SJCREA’s web site (www.sjcera.org) that will assist them in calculating their projected retiree benefits under the various available retirement options.

**Cost-of-Living Adjustment (COLA)**

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

The change in CPI for calendar year 2006 was 3.253%. Under the statutory requirements of the County Employees Retirement Law, this change must be rounded to the nearest half percent. For year 2007, the cost of living adjustment for members retiring after April 1, 2001 and before April 2, 2006 has been rounded to 3.5%. The increase, however, is limited to the maximum COLA of 3.0% and is applicable to all retirement dates. All carry-over balances are consequently increased by 0.5%.

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

**Terminated Member’s Deferred Allowance and Withdrawal Benefits**

A member leaving covered employment after completing five years of credited service is eligible for a deferred allowance which becomes payable after ten years have elapsed from date of membership, the member has attained the minimum service retirement age of 50, and does not withdraw his/her accumulated contributions.
Terminated members with less than five years of credited service may have their accumulated employee contributions including credited interest returned to them. Alternatively, effective January 2003, terminated members with less than five years of service may now elect to leave their contributions with the retirement system and continue participating in interest accumulation for their contributions only.

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

**Death Benefits**

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

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

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

**Funding Policy**

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

**NOTE 2 – POST-EMPLOYMENT HEALTHCARE PLAN**

**a. Plan Description**

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

Payment of medical and dental insurance premiums is the responsibility of the retiree. One benefit available is the Sick Leave Bank Benefit, which covers all employees who were on payroll, or deferred
members as of August 27, 2001, if other criteria contained in the MOU is met. The Sick Leave Bank Benefit provides that accumulated unused and un-cashed sick leave upon retirement can be converted to a sick leave bank at a rate of $27.65 per hour. Unused sick leave bank for employees with a retirement or deferral date prior to August 27, 2001 can be used, as elected by the employee, to pay health or dental insurance premiums for County-sponsored health plans for retirees and/or reimbursement for Medicare B premiums. Employees hired after August 27, 2001, are not eligible for the sick leave bank benefit.

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, 2006, the most recent actuarial valuation date, the post-employment healthcare plan was 39.1 percent funded. The actuarial accrued liability for benefits was $37.4 million, and the actuarial value of assets was $14.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $22.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $229.7 million, and the ratio of the UAAL to the covered payroll was 9.33 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. San Joaquin County offers several plans to retired members, two of which are also offered to active members. Liability of the sick leave bank for the two plans offered to both active and retired members is determined using a blended rate as employees and retirees are insured together as a group. The valuation as of December 31, 2006 reflects the implicit rate subsidy which reflects reduced premiums paid by retirees because they participate in the plan with active employees. The County currently pays for the implicit subsidy on a pay-as-you-go basis paying the current year’s benefits from their operating fund. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

In the December 31, 2006 actuarial valuation, the Entry Age Normal Funding Method (Cost Method) was used. The actuarial assumptions include an 8.0 percent investment rate of return (8.16% compounded) and an annual healthcare cost trend showing that healthcare premiums are assumed to increase at a rate of 11 percent initially (5 percent for dental costs). The actuarial value of the Plan’s assets was based on a 5-year smoothing of actual versus expected returns. The Plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a rolling 10-year period from December 31, 2006 on an open basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

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

b. Reporting Entity

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

c. Cash Equivalents

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

The Northern Trust Company (NT)

Cash not required for daily operations is deposited with NT, SJCERA’s master custodian for investment securities. NT pools from its clients all cash pending permanent investment in its Short-Term
Notes to the Combined Financial Statements

Investment Fund (STIF) and Short-Term Expandable Portfolio (STEP) accounts. Due to its nature, the STEP account is reported under “Investments” rather than cash and short-term investments. The cash in the STIF account is invested in high-grade money market instruments with very short maturities, such as bonds, notes, and other evidence of indebtedness, in accordance with SJCERA’s investment policy.

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

County Treasury

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

d. Method Used to Value Investments

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

<table>
<thead>
<tr>
<th>INVESTMENTS</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publicly traded stocks and bonds, and issues of the U.S. Government and its agencies</td>
<td>Most recent sales prices as of the fiscal year end. International securities reflect currency exchange rates in effect at December 31, 2007 and 2006</td>
</tr>
<tr>
<td>Mortgages</td>
<td>Equivalent pricing to comparable GNMA</td>
</tr>
<tr>
<td>Real estate equity funds</td>
<td>Fair value as provided by real estate fund manager</td>
</tr>
<tr>
<td>Real estate title holding corporations and limited liability companies</td>
<td>Fair value of the investment as provided by property managers</td>
</tr>
<tr>
<td>Private equity</td>
<td>Fair value as provided by the investment manager and reviewed by SJCERA’s private equity consultant</td>
</tr>
<tr>
<td>Private placement bonds</td>
<td>Face value of the security subject to designated conditions such as sales restrictions or limited marketability</td>
</tr>
</tbody>
</table>
e. Foreign Currency Transactions

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

- Market value of investment securities at the daily rates of exchange on December 31, 2007; and
- Purchases and sales of investment securities, dividend and interest income and certain expenses at the rates of exchange prevailing on the respective dates when such transactions were incurred.

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

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

f. Forward Foreign Currency Exchange Contracts

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

g. Securities Transactions and Related Investment Income

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

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

The realized gain/(loss) on the sale of securities was computed as the difference between the proceeds of sale in 2007 and the carrying cost of the securities at December 31, 2006 or the original cost of the securities acquired during 2007. The calculation of realized gains/(losses) is independent of the calcula-
Notes to the Combined Financial Statements

tion of net appreciation/(depreciation) in the fair value of plan investments. Unrealized gain/(loss) on investments sold in the current year that had been held for more than one year were included in the net appreciation/(depreciation) reported in prior years and the current year.

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

SJCERA allocates the investments held at December 31, 2007 between the pension plan and the post-employment healthcare plan based on the internal records of the reserve level of the plans at December 31, 2007. The investment income allocated to the post-employment health plan was based on the interest assumption rate used by the Actuary.

i. Receivables

Receivables consist primarily of interest, dividends, installment contracts, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of December 31, 2007 and 2006.

j. Capital Assets

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

The change in capital assets owned for year 2007 is presented below:

<table>
<thead>
<tr>
<th></th>
<th>BALANCE 12/31/06</th>
<th>ADDITIONS</th>
<th>DELETIONS</th>
<th>BALANCE 12/31/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Cost</td>
<td>$1,079,499</td>
<td>$18,810</td>
<td>$(10,253)</td>
<td>$1,088,056</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(856,349)</td>
<td>(109,166)</td>
<td>7,610</td>
<td>(957,905)</td>
</tr>
<tr>
<td><strong>NET BOOK VALUE</strong></td>
<td><strong>$223,150</strong></td>
<td><strong>(90,356)</strong></td>
<td><strong>(2,643)</strong></td>
<td><strong>$130,151</strong></td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended December 31, 2007 and 2006 was $109,166 and $109,104, respectively.

k. Operating Lease

SJCERA leases office space for the administration of the plan. The lease calls for a fixed monthly rental payment for a year and then adjusted each year based on the changes in the Consumer Price Index not to exceed 4% per year. Total rent expense under this agreement for the current year was $104,221.
The term of the lease expires in September 2008. The minimum total rental payment required for the remaining period is $83,117.

SJERA is in the process of negotiating new lease terms expected to commence October 2008. The estimated total rent expense projected, including conclusion of the current lease agreement, is $2,541,139.

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31,</th>
<th>TOTAL ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>83,117</td>
</tr>
<tr>
<td>2009</td>
<td>183,838</td>
</tr>
<tr>
<td>2010</td>
<td>226,553</td>
</tr>
<tr>
<td>2011</td>
<td>233,042</td>
</tr>
<tr>
<td>2012</td>
<td>239,530</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,575,059</td>
</tr>
<tr>
<td></td>
<td>$ 2,541,139</td>
</tr>
</tbody>
</table>

I. Unpaid Compensated Absences for Administration Employees

SJERA 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 SJERA.

m. Investment Income Receivable

Interest receivable consists of interest earned, but not received, as of December 31, 2007, on debt securities, short-term investment funds and securities lending.

Dividends receivable are those dividends declared but not received as of December 31, 2007 on stocks owned by SJERA on the ex-dividend date.

n. Contribution Receivable

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

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

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

p. Miscellaneous Receivables

Other receivables at December 31, 2007 consist mainly of overpaid benefit payments to be recovered from retirees or their beneficiaries and a security deposit for SJCERA’s office space lease.

q. Implementation of New Accounting Pronouncements

SJCERA adopted the Governmental Accounting Standards Board’s (GASB) Statement No. 50, Pension Disclosures, effective for the year ended December 31, 2007. This statement aligns financial reporting requirements for pensions with those for OPEB and provides enhanced information in the notes to the financial statements.

NOTE 4 – CASH AND INVESTMENTS

a. Investment Securities Lending

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

All loans are fully collateralized with either cash, securities issued or fully guaranteed by the U.S. government, or irrevocable bank letters of credit. All collateral is held or invested by NT. The term or maturity of the securities loaned is generally matched with the term or maturity of the investment of the cash collateral. Initial collateralization is 102% of the market value of the loaned securities. As securities are loaned, collateral is maintained at a minimum of 100% of the market value of the securities plus accrued income. At December 31, 2007, SJCERA had the following securities out-on-loan:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value of Securities Lent</th>
<th>Cash Collateral Value</th>
<th>Non-Cash Collateral Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>$124,589,320</td>
<td>$125,999,002</td>
<td>$1,786,170</td>
</tr>
<tr>
<td>Domestic Debt Securities</td>
<td>58,289,235</td>
<td>58,374,227</td>
<td>1,245,759</td>
</tr>
<tr>
<td><strong>Total Domestic Securities</strong></td>
<td><strong>182,878,555</strong></td>
<td><strong>184,373,229</strong></td>
<td><strong>3,031,929</strong></td>
</tr>
<tr>
<td>International Equities</td>
<td>15,537,310</td>
<td>2,379,482</td>
<td>13,863,514</td>
</tr>
<tr>
<td>International Debt Securities</td>
<td>3,750,186</td>
<td>3,933,532</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total International Securities</strong></td>
<td><strong>19,287,496</strong></td>
<td><strong>6,313,014</strong></td>
<td><strong>13,863,514</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$202,166,051</strong></td>
<td><strong>$190,686,243</strong></td>
<td><strong>$16,895,443</strong></td>
</tr>
</tbody>
</table>
a. Investment Securities Lending (continued)

The cash collateral is reported on the financial statement as an asset and as a liability of SJCERA while the non-cash collateral is neither reported as an asset nor liability in accordance with GASB 28. The potential risks involved in the securities lending program include borrower bankruptcy, collateral deficiencies, settlement problems, corporate actions, dividends and interest. However, NT has not experienced a financial loss due to borrower bankruptcy or default in the history of their securities lending program. SJCERA’s pro-rata share of net income derived from NT’s pooled security lending transactions in 2007 and 2006 were $883,574 and $639,906, respectively.

b. Cash and Short-Term Investments

The carrying value of cash and short-term investments at December 31, 2007 consists of the following:

<table>
<thead>
<tr>
<th>Amount</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments - Custodian</td>
<td>128,903,597</td>
</tr>
<tr>
<td>Cash and Investments - County Treasury</td>
<td>1,196,120</td>
</tr>
<tr>
<td><strong>Total Cash and Cash Equivalents</strong></td>
<td><strong>130,099,717</strong></td>
</tr>
<tr>
<td>Cash and Investments - Custodian-Security Lending</td>
<td>190,686,243</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>320,785,960</strong></td>
</tr>
</tbody>
</table>

c. Long-Term Investments and Short-Term Extendable Portfolio

SJCERA owned the following long-term investments and Short-Term Extendable portfolio (STEP) at December 31, 2007:

<table>
<thead>
<tr>
<th>Fair Value</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments - Categorized</strong></td>
<td></td>
</tr>
<tr>
<td>Short-term Investments</td>
<td>11,040,952</td>
</tr>
<tr>
<td>Domestic Equities</td>
<td>816,704,589</td>
</tr>
<tr>
<td>Domestic Debt Securities</td>
<td>577,654,370</td>
</tr>
<tr>
<td>Internation Equities</td>
<td>470,532,052</td>
</tr>
<tr>
<td>Real Estate</td>
<td>173,436,735</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>41,624,902</td>
</tr>
<tr>
<td><strong>Total Investments - Categorized</strong></td>
<td><strong>2,090,993,600</strong></td>
</tr>
<tr>
<td><strong>Investments - Not Categorized</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Investments Held by Broker-Dealers Under Securities Loans</strong></td>
<td></td>
</tr>
<tr>
<td>Domestic Equities</td>
<td>125,999,002</td>
</tr>
<tr>
<td>Domestic Debt Securities</td>
<td>58,374,227</td>
</tr>
<tr>
<td>International Equities</td>
<td>6,313,014</td>
</tr>
<tr>
<td><strong>Total Held by Broker-Dealers Under Securities Loans</strong></td>
<td><strong>190,686,243</strong></td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td><strong>2,281,679,843</strong></td>
</tr>
</tbody>
</table>
Notes to the Combined Financial Statements

In addition to the STIF account, Northern also pools from its clients the cash pending permanent investment in a STEP account with the purpose of maximizing returns to the extent consistent with minimizing unit value volatility. The STEP account is operated on a market value basis for the purpose of admissions and withdrawals, and the investments are marked to market daily.

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

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

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

<table>
<thead>
<tr>
<th>QUALITY RATINGS</th>
<th>FAIR VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$64,035,002</td>
</tr>
<tr>
<td>AA</td>
<td>9,490,708</td>
</tr>
<tr>
<td>A</td>
<td>55,721,004</td>
</tr>
<tr>
<td>BBB</td>
<td>71,099,111</td>
</tr>
<tr>
<td>BB</td>
<td>33,505,400</td>
</tr>
<tr>
<td>B</td>
<td>29,284,437</td>
</tr>
<tr>
<td>CCC</td>
<td>1,530,398</td>
</tr>
<tr>
<td>D</td>
<td>1,020,508</td>
</tr>
<tr>
<td>Not Rated</td>
<td>81,509,566</td>
</tr>
<tr>
<td></td>
<td><strong>347,196,134</strong></td>
</tr>
</tbody>
</table>

**U.S. Government Agencies (Implicit Guarantee)**
(FNMA, FHLB, FHLMC, FFCB, SLMA, Other) 241,499,188

| TOTAL INVESTMENTS IN FIXED INCOME SECURITIES | $588,695,322 |
Credit Risk
Per SJCERA’s Investment Policy, at least 75% of the market value shall have a minimum quality rate of A (as determined by the middle rating of the three major rating agency’s opinions: Fitch, Moody, or Standard & Poor), unless the investment manager received prior approval from the Board. Total portfolio quality shall maintain an A (S&P) minimum rating. No more than 10% of the manager’s assets shall be invested in the securities of any single issuer, with the exception of the U.S. Government and its Agencies. Firms that manage fixed income portfolios continually monitor the risk associated with their fixed income investments. They are expected to report as a component of their report a risk/reward analysis of the management decisions relative to their benchmark.

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

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

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

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

Concentration of Credit Risk
This risk represents the potential loss attributable to the magnitude of SJCERA’s investment in a single issuer. SJCERA restricts investment holdings to a maximum of 5% of any single issuer within SJCERA’s investment portfolio. As of December 31, 2007, 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.
Notes to the Combined Financial Statements

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 Lehman Brothers Aggregate Bond Index.

As of December 31, 2007 SJCERA had the following investments:

<table>
<thead>
<tr>
<th>INVESTMENT TYPE</th>
<th>FAIR VALUE</th>
<th>WEIGHTED AVERAGE MATURITY – YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Government and Agency Instruments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Mortgages</td>
<td>$231,490,514</td>
<td>21.16</td>
</tr>
<tr>
<td>U.S. Government Bonds</td>
<td>47,877,330</td>
<td>6.18</td>
</tr>
<tr>
<td>Municipal / Revenue Bonds</td>
<td>1,254,983</td>
<td>6.88</td>
</tr>
<tr>
<td>Agency</td>
<td>14,963,294</td>
<td>12.22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>295,586,121</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate Securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Backed Securities</td>
<td>12,236,275</td>
<td>13.73</td>
</tr>
<tr>
<td>Commercial Mortgage-Backed</td>
<td>4,726,103</td>
<td>38.78</td>
</tr>
<tr>
<td>Corporate and Other Credit</td>
<td>253,941,557</td>
<td>10.79</td>
</tr>
<tr>
<td>Non-Government Backed CMOs</td>
<td>22,205,266</td>
<td>31.02</td>
</tr>
<tr>
<td><strong>Total Fixed Income Securities</strong></td>
<td><strong>293,109,201</strong></td>
<td></td>
</tr>
</tbody>
</table>

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 national dollar amount) within its Currency Overlay Program.
The currency overlay Manager may enter into currency forward contracts with counterparties that have a short-term credit rating of at least A-1 or P-1.

SJCERA’s exposure to Foreign Currency Risk in U.S. dollars as of December 31, 2007 is as follows:

<table>
<thead>
<tr>
<th>CURRENCY</th>
<th>FAIR VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>$772,367</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>7,318,355</td>
</tr>
<tr>
<td>British Pound</td>
<td>3,991,554</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>143,180</td>
</tr>
<tr>
<td>Egyptian Pound</td>
<td>186,902</td>
</tr>
<tr>
<td>Euro Currency</td>
<td>6,883,305</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>3,205,486</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>747,859</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>3,176,703</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>111,087</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>596,542</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>861,881</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>184,012</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>1,643,756</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>579,181</td>
</tr>
<tr>
<td>Thailand Baht</td>
<td>694,745</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$31,096,915</strong></td>
</tr>
</tbody>
</table>

d. Summary of Investment Policy

The County Employees Retirement Law vests the Board of Retirement (Board) with exclusive control over SJCERA’s investment portfolio. The Board established Investment Policies in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of SJCERA’s assets (the Plan) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts.
Notes to the Combined Financial Statements

The board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.

- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.

- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

As permitted by the California Government Code and the investment policy, SJCERA uses forward settlement contracts, forward currency contracts, futures and options contracts, and other derivative products within fixed income financial instruments. These derivative financial instruments are used to reduce financial market risks, enhance yields and to participate in all market areas without increasing investment costs. At December 31, 2007, the following derivative financial instruments were held by investment managers:

Various investment managers for SJCERA manage fixed income portfolios that contain derivative type financial instruments. These instruments include government and corporate obligations consisting of asset-based securities, futures, hedge equity, Collateralized Mortgage Obligations (CMOs), and Collateralized Mortgage Backed Securities (CMBS). The fair value of derivative financial instruments at December 31, 2007 is $280,507,829.

NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Pension Benefit Plan

The 2007 and 2006 contribution rates for employers and employees were established in accordance with actuarially determined contribution requirements by an actuarial valuation performed at December 31, 2005 and December 31, 2004, 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.
The required contributions include current service cost and amortization of prior service cost.

<table>
<thead>
<tr>
<th>General Members</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Services Cost</td>
<td>15.72%</td>
<td>15.50%</td>
</tr>
<tr>
<td>Amortization of Prior Service Cost</td>
<td>7.02%</td>
<td>5.20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22.74%</strong></td>
<td><strong>20.70%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Safety Members</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Services Cost</td>
<td>28.18%</td>
<td>28.13%</td>
</tr>
<tr>
<td>Amortization of Prior Service Cost</td>
<td>13.19%</td>
<td>11.43%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41.37%</strong></td>
<td><strong>39.56%</strong></td>
</tr>
</tbody>
</table>

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 2007 contributions from employees were $12,312,247 and the employers’ contributions were $85,868,698.

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.
Notes to the Combined 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:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SAFETY MEMBERS</th>
<th>GENERAL MEMBERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>41.37%</td>
<td>22.74%</td>
</tr>
<tr>
<td>2006</td>
<td>39.56%</td>
<td>20.70%</td>
</tr>
<tr>
<td>2005</td>
<td>35.67%</td>
<td>18.48%</td>
</tr>
<tr>
<td>2004</td>
<td>20.87%</td>
<td>13.80%</td>
</tr>
<tr>
<td>2003</td>
<td>16.76%</td>
<td>11.70%</td>
</tr>
<tr>
<td>2002</td>
<td>13.65%</td>
<td>8.91%</td>
</tr>
</tbody>
</table>

**Post-employment Health Benefits**

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

Based on the most recent Actuarial Study of the Sick Leave Bank at December 31, 2006 valuation date, additional County funding of approximately $22.8 million will be necessary to fully fund the sick leave bank liability to include all eligible members hired on or before January 27, 1992.

In 2007, the San Joaquin County Superior Court (Courts) extended eligibility of the Sick Leave Bank Benefit to Court employees hired on or after August 27, 2001. Prior to implementation, a cost-estimate was completed during 2007, however funding for the eligible active members of the Courts has not yet begun, and the actual cost of the additional liability will be included in the valuation as of January 1, 2008.

**NOTE 7 – SIX-YEAR HISTORICAL TREND INFORMATION**

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

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

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

This reserve represents the cumulative contributions made by active members, net of refunds to the members, plus the investment earnings credited to the reserve at assumption rates determined by the actuary. For 2007 and 2006, the assumption rates were 8.00% compounded semi-annually, for each year. Earnings are credited to all appropriate active and deferred member accounts semi-annually. Upon retirement, a member’s accumulated contributions are transferred from this reserve to the Retired Members’ Annuity Reserve.

b. County Advance Reserves

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

For 2007, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate. For 2006, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate.

c. Retired Members’ Reserves

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

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

For 2007, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate. For 2006, the Unappropriated Earnings Reserves were sufficient to fully credit interest earnings at the 8% assumption rate.

The reserve at December 31, 2007 includes the authorized “Purchasing Power” benefit reserve of $10.8 million and $3.6 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.
Notes to the Combined Financial Statements

**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 legal requirement, is one percent (1%) of the total market value of assets. SJCERA’s policy sets the targeted rate at 3%. The Contingency (Interest Fluctuation) Reserve is 3% and 1.12% of the market value of total assets at December 31, 2007 and 2006, respectively.

**f. Market Stabilization Designation**

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

**g. Unappropriated Earnings Reserve**

The Unappropriated Earnings Reserve (UER) is used to accumulate investment income earned by SJCERA, net of the investment expenses and SJCERA’s administration cost. From this unappropriated earnings account, interest is credited to various reserve accounts at an actuarially determined assumption rate. In addition, at the Board of Retirement’s discretion and subject to the 1999 class action settlement, this account may also be used, from time to time, to fund the retirees’ post-employment healthcare benefits, to stabilize the County and the special districts’ Annual Required Contribution (ARC), and to fund the market stabilization and contingency (interest fluctuation) 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.
Reserved and designated net assets at December 31, 2007 and December 31, 2006 are as follows:

<table>
<thead>
<tr>
<th>Reserves</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Members</td>
<td>$187,519,875</td>
<td>$176,923,670</td>
</tr>
<tr>
<td>County Advances</td>
<td>612,394,463</td>
<td>569,555,740</td>
</tr>
<tr>
<td>Retired Members</td>
<td>1,238,318,596</td>
<td>1,131,199,457</td>
</tr>
<tr>
<td>Post-Employment Healthcare</td>
<td>14,702,393</td>
<td>14,659,929</td>
</tr>
<tr>
<td>Purchasing PowerCOL</td>
<td>10,814,608</td>
<td>11,220,804</td>
</tr>
<tr>
<td>Class Action Settlement - Pre–4/1/82</td>
<td>600,623</td>
<td>685,138</td>
</tr>
<tr>
<td>Class Action Settlement - Post–4/1/82</td>
<td>2,969,576</td>
<td>757,633</td>
</tr>
<tr>
<td>Contingency (Interest Fluctuation)</td>
<td>66,842,719</td>
<td>23,262,115</td>
</tr>
<tr>
<td>Market Stabilization Designation</td>
<td>44,025,129</td>
<td>122,277,983</td>
</tr>
<tr>
<td>Unappropriated Earnings</td>
<td>22,902,646</td>
<td>-</td>
</tr>
<tr>
<td>Unappropriated Earnings (Restricted)</td>
<td>27,000,000</td>
<td>28,709,707</td>
</tr>
<tr>
<td><strong>TOTAL RESERVES</strong></td>
<td><strong>$ 2,228,090,628</strong></td>
<td><strong>$ 2,079,252,176</strong></td>
</tr>
</tbody>
</table>

**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 2007 and 2006 was 0.15% and 0.12% of the total assets, respectively.
### NOTES TO THE COMBINED FINANCIAL STATEMENTS

#### NOTE 11 – FUNDING STATUS

<table>
<thead>
<tr>
<th>PLAN</th>
<th>ACTUARIAL VALUATION DATE</th>
<th>ACTUARIAL VALUE OF ASSETS (A)</th>
<th>ACTUARIAL ACCRUED LIABILITY (AAL) (B)</th>
<th>UNFUNDED AAL (UAAL) (B-A)</th>
<th>FUNDED RATIO (A/B)</th>
<th>COVERED PAYROLL (C)</th>
<th>UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Benefits</td>
<td>1/1/2007</td>
<td>$1,869,717</td>
<td>$2,149,938</td>
<td>$280,221</td>
<td>87.0%</td>
<td>$340,828</td>
<td>82.2%</td>
</tr>
<tr>
<td>Post-Employment Health Care Benefits</td>
<td>12/31/2006</td>
<td>$14,660</td>
<td>$37,475</td>
<td>$22,815</td>
<td>39.1%</td>
<td>$229,726</td>
<td>9.93%</td>
</tr>
</tbody>
</table>

A Schedule of Funding Progress for each plan is included in the Required Supplementary Information which presents multi-year trend information.
NOTE 12 – PENDING LITIGATION

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

While there are no claims for damages against SJCERA, a claim has been tendered to SJCERA’s fiduciary insurance carrier for the coverage of legal fees and expenses, pending an outcome. The policy carries a $100,000 deductible, and total legal fees paid during 2007 toward the deductible totaled $51,918.
## Required Supplementary Information

**SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION**

**SCHEDULE OF FUNDING PROGRESS**

**PENSION BENEFIT PLAN**

FOR THE SIX YEARS ENDED DECEMBER 31, 2007

<table>
<thead>
<tr>
<th>ACTUARIAL VALUATION DATE</th>
<th>ACTUARIAL VALUE OF ASSETS (^1) (A)</th>
<th>ACTUARIAL ACCRUED LIABILITY (AAL) (B)</th>
<th>UNFUNDED AAL (UAAL) (B-A)</th>
<th>FUNDED RATIO (A/B)</th>
<th>COVERED PAYROLL (^2) (C)</th>
<th>UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2002</td>
<td>$1,357,409</td>
<td>$1,266,747</td>
<td>$(90,662)</td>
<td>107.2%</td>
<td>$243,327</td>
<td>(37.3%)</td>
</tr>
<tr>
<td>1/1/2003</td>
<td>1,448,905</td>
<td>1,418,209</td>
<td>(30,696)</td>
<td>102.2%</td>
<td>259,812</td>
<td>(11.8%)</td>
</tr>
<tr>
<td>1/1/2004</td>
<td>1,531,288</td>
<td>1,621,060</td>
<td>89,772</td>
<td>94.5%</td>
<td>286,429</td>
<td>31.30%</td>
</tr>
<tr>
<td>1/1/2005</td>
<td>1,614,979</td>
<td>1,769,507</td>
<td>154,528</td>
<td>91.3%</td>
<td>296,473</td>
<td>52.1%</td>
</tr>
<tr>
<td>1/1/2006</td>
<td>1,727,033</td>
<td>1,935,818</td>
<td>207,785</td>
<td>89.2%</td>
<td>309,692</td>
<td>67.4%</td>
</tr>
<tr>
<td>1/1/2007</td>
<td>1,869,717</td>
<td>2,149,938</td>
<td>280,221</td>
<td>87.0%</td>
<td>340,828</td>
<td>82.2%</td>
</tr>
</tbody>
</table>

**NOTE:**

1. The actuarial-value of assets reflects the smoothing method that adjusts market value differences between the assumed and the actual investment return over a 5-year period.

2. Represents the annualization of active members’ pay rates on December 31 as determined by the actuarial study.
Required Supplementary Information

SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

SCHEDULE OF CONTRIBUTIONS
FROM THE EMPLOYERS AND OTHER CONTRIBUTING SOURCES
PENSION BENEFIT PLAN
FOR THE SIX YEARS ENDED DECEMBER 31, 2007

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31,</th>
<th>ACTUAL ANNUAL CONTRIBUTION</th>
<th>ANNUAL REQUIRED CONTRIBUTION</th>
<th>PERCENTAGE CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$25,015,678</td>
<td>$25,015,678</td>
<td>100%</td>
</tr>
<tr>
<td>2003</td>
<td>34,784,065</td>
<td>34,784,065</td>
<td>100%</td>
</tr>
<tr>
<td>2004</td>
<td>42,688,367</td>
<td>42,688,367</td>
<td>100%</td>
</tr>
<tr>
<td>2005</td>
<td>62,508,615</td>
<td>62,508,615</td>
<td>100%</td>
</tr>
<tr>
<td>2006</td>
<td>73,611,841</td>
<td>73,611,841</td>
<td>100%</td>
</tr>
<tr>
<td>2007</td>
<td>85,868,698</td>
<td>85,868,698</td>
<td>100%</td>
</tr>
</tbody>
</table>
Required Supplementary Information

SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION
ACTUARIAL ASSUMPTIONS AND METHODS
PENSION BENEFIT PLAN
AS OF DECEMBER 31, 2007

<table>
<thead>
<tr>
<th>INVESTMENTS</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>January 1, 2007</td>
</tr>
<tr>
<td>Actuarial Cost Method</td>
<td>Entry Age Normal</td>
</tr>
<tr>
<td>Amortization Method</td>
<td>Level Percentage of Projected Payroll</td>
</tr>
<tr>
<td>Remaining Amortization Period</td>
<td>Rolling (Open) 10 Year Period</td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td>Smoothed Actuarial Value (5 years) 80%–120% Asset Corridor</td>
</tr>
</tbody>
</table>

Actuarial Assumptions:

- Investment Rate of Return: 8.16%
- Projected Salary Increases: 3.75%
- Cost-of-Living Adjustments: 3.50%
### Required Supplementary Information

**SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION**

**SCHEDULE OF FUNDING PROGRESS**

**POST-EMPLOYMENT HEALTHCARE PLAN**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

<table>
<thead>
<tr>
<th>ACTUARIAL VALUATION DATE</th>
<th>ACTUARIAL VALUE OF ASSETS (A)</th>
<th>ACTUARIAL ACCRUED LIABILITY (AAL) (B)</th>
<th>UNFUNDED AAL (UAAL) (B-A)</th>
<th>FUNDED RATIO (A/B)</th>
<th>COVERED PAYROLL (C)</th>
<th>UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL ((B-A)/C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2005</td>
<td>$16,636,000</td>
<td>$30,465,000</td>
<td>$13,928,000</td>
<td>54.60%</td>
<td>$224,753,000</td>
<td>6.20%</td>
</tr>
<tr>
<td>12/31/2006</td>
<td>14,660,000</td>
<td>37,475,000</td>
<td>22,815,000</td>
<td>39.12%</td>
<td>229,726,000</td>
<td>9.93%</td>
</tr>
</tbody>
</table>
### Required Supplementary Information

**SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION**

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS**

**POST-EMPLOYMENT HEALTHCARE PLAN**

*FOR THE YEAR ENDED DECEMBER 31, 2007*

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31</th>
<th>ACTUAL ANNUAL CONTRIBUTION</th>
<th>ANNUAL REQUIRED CONTRIBUTION</th>
<th>PERCENTAGE CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$650,000</td>
<td>$650,000</td>
<td>100%</td>
</tr>
<tr>
<td>2007</td>
<td>2,780,500</td>
<td>2,780,500</td>
<td>100%</td>
</tr>
</tbody>
</table>
### Required Supplementary Information

#### Actuarial Assumptions and Methods

**Post-Employment Healthcare Plan**

**As of December 31, 2007**

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th><strong>Details</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation Date</strong></td>
<td>December 31, 2006</td>
</tr>
<tr>
<td><strong>Investment Return</strong></td>
<td>8.00% per annum, compounded semi-annually</td>
</tr>
<tr>
<td><strong>General Inflation Rate</strong></td>
<td>4.00% per annum</td>
</tr>
<tr>
<td><strong>Mortality</strong></td>
<td>1994 GAM mortality table set forward one year for Males and two years for Females (three years for safety Females)</td>
</tr>
<tr>
<td><strong>Actuarial Cost Method</strong></td>
<td>Entry Age Normal</td>
</tr>
<tr>
<td><strong>Percentage of Retirees Eligible for Medicare</strong></td>
<td>All current retirees under age 65 will be eligible for Coverage under Medicare upon reaching age 65</td>
</tr>
<tr>
<td><strong>Current Medical Plan Premiums</strong></td>
<td>Members were assumed to continue in the same plan and coverage</td>
</tr>
<tr>
<td><strong>Increase in Medical Plan Premiums (Trend)</strong></td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Dental Plan Premiums</strong></td>
<td>Amounts reported as currently being paid for each individual</td>
</tr>
<tr>
<td><strong>Increase in Dental Plan Premiums (Trend)</strong></td>
<td>5.0%</td>
</tr>
</tbody>
</table>
| **Premiums for Future Retirees** | Single Retiree: $572.72 per month  
Retiree with 1 dependent: $1,001.93 per month |
| **Other Changes in Premiums** | Premiums drop by 40% when the member reaches age 65  
For married members, premiums drop by 46% upon the death of the member or spouse |
| **Premiums for Members Not Using Accounts** | 50% of the Single premium shown above |
| **Projected New Retirees** | Future retirees are expected to retire from the eligible active group based on current actuarial assumptions |
### SCHEDULE OF ADMINISTRATIVE EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Salaries</td>
<td>989,446</td>
<td>963,967</td>
</tr>
<tr>
<td>Cafeteria Benefits</td>
<td>123,399</td>
<td>100,744</td>
</tr>
<tr>
<td>Insurance</td>
<td>141,284</td>
<td>115,608</td>
</tr>
<tr>
<td>Social Security</td>
<td>77,922</td>
<td>63,177</td>
</tr>
<tr>
<td>Retirement</td>
<td>260,322</td>
<td>198,130</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td><strong>1,592,373</strong></td>
<td><strong>1,441,626</strong></td>
</tr>
<tr>
<td>Professional Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional &amp; Specialized Services</td>
<td>1,080,506</td>
<td>999,407</td>
</tr>
<tr>
<td>Data Processing-retiree payroll services fees</td>
<td>50,265</td>
<td>51,485</td>
</tr>
<tr>
<td>Actuarial Retainer &amp; Valuation Study</td>
<td>83,542</td>
<td>53,602</td>
</tr>
<tr>
<td>Allocated Department Costs</td>
<td>52,161</td>
<td>44,169</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td><strong>1,266,474</strong></td>
<td><strong>1,148,663</strong></td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postage</td>
<td>21,163</td>
<td>21,116</td>
</tr>
<tr>
<td>Telephone</td>
<td>14,610</td>
<td>16,140</td>
</tr>
<tr>
<td>Travel</td>
<td>88,354</td>
<td>56,974</td>
</tr>
<tr>
<td><strong>Total Communications</strong></td>
<td><strong>124,127</strong></td>
<td><strong>94,230</strong></td>
</tr>
<tr>
<td>Rentals/Equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Space &amp; Equipment</td>
<td>100,737</td>
<td>144,692</td>
</tr>
<tr>
<td>Equipment</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation-Equipment</td>
<td>109,166</td>
<td>109,104</td>
</tr>
<tr>
<td>Equipment Leasing</td>
<td>13,303</td>
<td>9,913</td>
</tr>
<tr>
<td><strong>Total Rentals</strong></td>
<td><strong>223,206</strong></td>
<td><strong>263,709</strong></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Supplies/Expense</td>
<td>49,850</td>
<td>29,320</td>
</tr>
<tr>
<td>Subscriptions &amp; Periodicals</td>
<td>5,737</td>
<td>6,156</td>
</tr>
<tr>
<td>Memberships</td>
<td>6,240</td>
<td>4,410</td>
</tr>
<tr>
<td>Maintenance</td>
<td>5,282</td>
<td>1,671</td>
</tr>
<tr>
<td>Insurance</td>
<td>82,847</td>
<td>76,073</td>
</tr>
<tr>
<td><strong>Total Miscellaneous</strong></td>
<td><strong>149,956</strong></td>
<td><strong>117,630</strong></td>
</tr>
<tr>
<td><strong>TOTAL ADMINISTRATIVE EXPENSE</strong></td>
<td><strong>3,356,136</strong></td>
<td><strong>3,065,858</strong></td>
</tr>
</tbody>
</table>
## SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Management Fees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Equity</td>
<td>2,884,983</td>
<td>3,129,196</td>
</tr>
<tr>
<td>Non-US Equity</td>
<td>2,204,397</td>
<td>2,148,399</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>977,650</td>
<td>650,432</td>
</tr>
<tr>
<td>Real Estate</td>
<td>2,491,830</td>
<td>1,613,911</td>
</tr>
<tr>
<td>Currency Overlay</td>
<td>3,301,223</td>
<td>1,767,264</td>
</tr>
<tr>
<td><strong>Total Investment Management Fees</strong></td>
<td><strong>11,860,083</strong></td>
<td><strong>9,309,202</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Other Investment Fees and Expenses</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custodian Fees</td>
<td>194,880</td>
<td>400,328</td>
</tr>
<tr>
<td>Securities Lending Fees and Interest Expense</td>
<td>10,993,287</td>
<td>11,349,203</td>
</tr>
<tr>
<td>Investment Consultant Fees</td>
<td>240,239</td>
<td>245,416</td>
</tr>
<tr>
<td>Miscellaneous Investment Expense</td>
<td>235,019</td>
<td>772,461</td>
</tr>
<tr>
<td><strong>Total Other Investment Expenses</strong></td>
<td><strong>11,663,425</strong></td>
<td><strong>12,767,408</strong></td>
</tr>
</tbody>
</table>

**TOTAL INVESTMENT EXPENSES** | **23,523,508** | **22,076,610** |

## SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

<table>
<thead>
<tr>
<th>Nature of Service</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial-Retainer &amp; Valuation</td>
<td>83,542</td>
<td>53,602</td>
</tr>
<tr>
<td>Audit</td>
<td>71,000</td>
<td>71,000</td>
</tr>
<tr>
<td>Accounting Services</td>
<td>52,309</td>
<td>76,273</td>
</tr>
<tr>
<td>Legal Counsel-Processing of Disabilities</td>
<td>246,644</td>
<td>204,572</td>
</tr>
<tr>
<td>Business Technology Services</td>
<td>207,000</td>
<td>182,765</td>
</tr>
</tbody>
</table>

**TOTAL PAYMENTS TO CONSULTANTS** | **660,495** | **588,212** |
San Joaquin County Employees’ Retirement Association

2007
STRATEGIC INVESTMENT SOLUTIONS, INC.
333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104
TEL 415/362-3484 + FAX 415/362-2752
SAN JOAQUIN COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

Summary
Year 2007 saw a continuation of the positive trend of the previous three years within the equity markets although volatility increased in the second-half of the year. Non-US equity markets once again outperformed domestic equity markets and the fixed income markets saw higher gains in 2007 versus recent years as yields decreased in the last six months of the year. Public real estate markets corrected in 2007 and the private real estate markets continued their run of positive returns. As a diversified investor, SJCERA participated in each of these markets while experiencing a +7.4% return for the year. The +7.4% result was slightly below SJCERA’s policy benchmark of +7.9% by -50 basis points for the year.

2007 was positive for the US and foreign equity markets. For the year, the Russell 3000 US Stock Index gained +5.1% and the MSCI ACW (All Country World) ex-US Index of foreign stocks rose by +17.1%. Within the Real Estate markets, the NAREIT Equity Index declined by -8.2% while the NCREIF Index rose by +15.8%. The Federal Reserve Bank began to lower interest rates in 2007 due to the credit crises and the fear of a slowing economy and that helped the US fixed income market return +7.0% for the year, as measured by the Lehman Aggregate Bond Index.

Investment Policy, Asset Deployment Policy and Performance Measurement Standards
SJCERA periodically reviews and updates its policy statement. The primary financial objective is to earn a long-term return sufficient to avoid deterioration in funded status. The system’s actuary estimates this return requirement to be 8.00%.

Secondary goals are to outperform the asset allocation-weighted benchmark (38.0% US Equities, 22.0% Non-US Equities, 30.0% Fixed Income and 10.0% Real Estate) and to rank in the top forty percent of a universe of public pension funds.

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

Investment Objectives
Investment returns achieved through December 31, 2007 have been calculated using a time-weighted rate of return methodology based upon market values. In 2007, SJ/CERA met its management goals of ensuring sufficient funds available to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, and adding marginal value.

Investment Results

<table>
<thead>
<tr>
<th>PERIODS ENDED 12/31/07</th>
<th>ONE YEAR</th>
<th>THREE YEARS</th>
<th>FIVE YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russell 3000</td>
<td>+3.3%</td>
<td>+7.3%</td>
<td>+15.1%</td>
</tr>
<tr>
<td>Rank</td>
<td>+5.1%</td>
<td>+8.9%</td>
<td>+13.6%</td>
</tr>
<tr>
<td></td>
<td>64</td>
<td>82</td>
<td>51</td>
</tr>
<tr>
<td><strong>Non-US Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI ACWI ex-US Free</td>
<td>+17.5%</td>
<td>+19.3%</td>
<td>+22.3%</td>
</tr>
<tr>
<td>Rank</td>
<td>+17.1%</td>
<td>+20.4%</td>
<td>+24.5%</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>41</td>
<td>61</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lehman Aggregate</td>
<td>+3.8%</td>
<td>+4.1%</td>
<td>+4.7%</td>
</tr>
<tr>
<td>Rank</td>
<td>+7.0%</td>
<td>+4.6%</td>
<td>+4.4%</td>
</tr>
<tr>
<td></td>
<td>88</td>
<td>89</td>
<td>57</td>
</tr>
<tr>
<td><strong>Real Estate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>75% NAREIT/25%NCREIF</td>
<td>+6.9%</td>
<td>+9.5%</td>
<td>+13.2%</td>
</tr>
<tr>
<td>Rank</td>
<td>+6.2%</td>
<td>+9.8%</td>
<td>+12.6%</td>
</tr>
<tr>
<td></td>
<td>69</td>
<td>52</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy Benchmark***</td>
<td>+7.4%</td>
<td>+9.5%</td>
<td>+13.2%</td>
</tr>
<tr>
<td>Public Fund Median</td>
<td>+7.9%</td>
<td>+9.8%</td>
<td>+12.6%</td>
</tr>
<tr>
<td>Rank**</td>
<td>+8.3%</td>
<td>+9.6%</td>
<td>+12.4%</td>
</tr>
<tr>
<td></td>
<td>68</td>
<td>52</td>
<td>28</td>
</tr>
</tbody>
</table>

Investment returns achieved through December 31, 2007 have been calculated using a time-weighted rate of return methodology based upon market values.

* Ranking 1 is best, 100 is worst.
** Rankings source - SSgA ICC Public Funds Universe
*** Policy Benchmark is 32% Russell 1000/ 6% Russell 2000/ 22.5% Lehman Agg/ 7.5% 3-Month US Libor/ 22% MS ACWI ex-US/ 3% NAREIT/ 7%NCREIF.

Returns for periods greater than one year are annualized.

Paul S. Harte
Vice President
Strategic Investment Solutions, Inc.
March 31, 2008
Asset Allocation as of December 31, 2007

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Investment</th>
<th>Actual Allocation</th>
<th>Target Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td>850,298,497</td>
<td>38.2%</td>
<td>38.0%</td>
</tr>
<tr>
<td>US Fixed Income</td>
<td>601,070,108</td>
<td>27.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>International Equity</td>
<td>470,768,907</td>
<td>21.2%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Real Estate Investment Trust</td>
<td>46,063,368</td>
<td>2.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Real Estate (Private)</td>
<td>146,973,047</td>
<td>6.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>43,285,261</td>
<td>1.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>67,320,411</td>
<td>3.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,225,779,598</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Target Allocation**
- REAL ESTATE (PRIVATE) 7.0%
- REAL ESTATE INVESTMENT TRUST 3.0%
- US EQUITY 38.0%
- INTERNATIONAL EQUITY 22.0%
- US FIXED INCOME 30.0%
- ALTERNATIVES 0%
- CASH AND CASH EQUIVALENTS 0%

**Actual Allocation**
- CASH AND CASH EQUIVALENTS 3.0%
- ALTERNATIVES 1.9%
- REAL ESTATE (PRIVATE) 6.6%
- REAL ESTATE INVESTMENT TRUST 2.1%
- INTERNATIONAL EQUITY 21.2%
- US EQUITY 38.2%
- US FIXED INCOME 27.0%
List of Largest Assets Held

**Largest Stock Holdings (By Market Value)**
**DECEMBER 31, 2007**

<table>
<thead>
<tr>
<th>SHARES</th>
<th>STOCKS</th>
<th>MARKET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>382,495 Hewlett Pachard Co Com</td>
<td>19,308,348</td>
</tr>
<tr>
<td>2</td>
<td>615,689 Comcast Corp</td>
<td>11,242,481</td>
</tr>
<tr>
<td>3</td>
<td>282,079 Wachovia Corp Com</td>
<td>10,727,464</td>
</tr>
<tr>
<td>4</td>
<td>225,300 Wal-Mart Stores Inc Com</td>
<td>10,708,509</td>
</tr>
<tr>
<td>5</td>
<td>108,280 Schlumberger LTS Com</td>
<td>10,651,504</td>
</tr>
<tr>
<td>6</td>
<td>180,000 ADR Sony Corp Amern</td>
<td>9,774,000</td>
</tr>
<tr>
<td>7</td>
<td>272,100 Microsoft Corp Com</td>
<td>9,686,760</td>
</tr>
<tr>
<td>8</td>
<td>103,309 Chevron Corp Com</td>
<td>9,641,829</td>
</tr>
<tr>
<td>9</td>
<td>210,000 Adr Sanofi-Aventis</td>
<td>9,561,300</td>
</tr>
<tr>
<td>10</td>
<td>455,700 News Corp Com</td>
<td>9,337,293</td>
</tr>
</tbody>
</table>

**Largest Bond Holdings (By Market Value)**
**DECEMBER 31, 2007**

<table>
<thead>
<tr>
<th>PAR</th>
<th>BONDS</th>
<th>MARKET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18,780,827 FHLMC Multiclass Ser. 6.50%, due 11-15-2023</td>
<td>19,797,750</td>
</tr>
<tr>
<td>2</td>
<td>17,000,000 US Treasury Notes 3.75%, due 5-15-2008</td>
<td>16,924,961</td>
</tr>
<tr>
<td>3</td>
<td>13,938,137 Fannie Mae PTC 6%, 11-01-2035</td>
<td>13,827,067</td>
</tr>
<tr>
<td>4</td>
<td>13,000,000 US Treasury Notes 3.25%, due 8-15-2008</td>
<td>13,008,125</td>
</tr>
<tr>
<td>5</td>
<td>13,925,000 Ford MTR Global Landmark 7.375%, due 02-01-2011</td>
<td>13,482,301</td>
</tr>
<tr>
<td>6</td>
<td>12,000,000 PVTPL Mt Lucas Futures Overlay 0%, due 12-31-2040</td>
<td>12,000,000</td>
</tr>
<tr>
<td>7</td>
<td>11,697,886 Fannie Mae PTC 6%, due 04-01-2022</td>
<td>11,912,653</td>
</tr>
<tr>
<td>8</td>
<td>9,866,743 Fannie Mae PTC 4.977%, 06-01-2036</td>
<td>9,718,357</td>
</tr>
<tr>
<td>9</td>
<td>9,296,490 Fannie Mae PTC 5.5%, 12-01-2019</td>
<td>9,293,585</td>
</tr>
<tr>
<td>10</td>
<td>8,100,000 AOL Time Warner Inc 7.625, due 4-15-2031</td>
<td>8,467,530</td>
</tr>
</tbody>
</table>
### INVESTMENT MANAGEMENT FEES

<table>
<thead>
<tr>
<th>Domestic Equity</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dodge &amp; Cox</td>
<td>$601,690</td>
<td>$554,122</td>
</tr>
<tr>
<td>Trust Company of The West (TCW)</td>
<td>537,216</td>
<td>924,123</td>
</tr>
<tr>
<td>INTECH</td>
<td>410,271</td>
<td>0</td>
</tr>
<tr>
<td>State Street Global Advisors (SP 500)</td>
<td>75,289</td>
<td>204,224</td>
</tr>
<tr>
<td>DePrince, Race &amp; Zollo, Inc</td>
<td>0</td>
<td>25,321</td>
</tr>
<tr>
<td>Nicholas-Applegate Capital Management</td>
<td>0</td>
<td>114,185</td>
</tr>
<tr>
<td>Mazama Capital</td>
<td>706,687</td>
<td>582,814</td>
</tr>
<tr>
<td>Research Affiliates FI 2000</td>
<td>132,081</td>
<td>279,865</td>
</tr>
<tr>
<td>Capital Prospects</td>
<td>384,869</td>
<td>186,377</td>
</tr>
<tr>
<td><strong>Total Domestic Equity</strong></td>
<td><strong>2,848,103</strong></td>
<td><strong>2,871,031</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-US Equity</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Guardian Trust Company</td>
<td>185,203</td>
<td>940,472</td>
</tr>
<tr>
<td>INVESCO Global Asset Management</td>
<td>680,062</td>
<td>322,940</td>
</tr>
<tr>
<td>Pyramis Global Advisor</td>
<td>643,248</td>
<td>302,634</td>
</tr>
<tr>
<td>Research Affiliates FI Int’l</td>
<td>242,805</td>
<td>0</td>
</tr>
<tr>
<td>Research Affiliates Emerging</td>
<td>453,079</td>
<td>359,566</td>
</tr>
<tr>
<td>Mondrian</td>
<td>0</td>
<td>453,079</td>
</tr>
<tr>
<td><strong>Total Non-US Equity</strong></td>
<td><strong>2,204,397</strong></td>
<td><strong>2,148,399</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed Income</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dodge &amp; Cox</td>
<td>459,033</td>
<td>532,945</td>
</tr>
<tr>
<td>Stone Harbor</td>
<td>518,617</td>
<td>117,487</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td><strong>977,650</strong></td>
<td><strong>650,432</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Real Estate</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESCO REIT</td>
<td>139,199</td>
<td>185,717</td>
</tr>
<tr>
<td>RREEF REIT II</td>
<td>42,151</td>
<td>45,722</td>
</tr>
<tr>
<td>RREEF REIT III</td>
<td>652,430</td>
<td>369,656</td>
</tr>
<tr>
<td>Miller Global Fund V</td>
<td>225,000</td>
<td>225,000</td>
</tr>
<tr>
<td>Alpine Woods</td>
<td>265,036</td>
<td>87,793</td>
</tr>
<tr>
<td>Mesa West</td>
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<td>Walton Street</td>
<td>276,126</td>
<td>74,989</td>
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## INVESTMENT MANAGEMENT FEES

### Real Estate (cont.)

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<tr>
<th>Fund</th>
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<tr>
<td>Legacy Fund II</td>
<td>209,098</td>
<td>129,347</td>
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<td>Legacy Fund III</td>
<td>76,311</td>
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<tr>
<td>AMB</td>
<td>167,299</td>
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<td><strong>Total Real Estate</strong></td>
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### Alternatives

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<tr>
<td>FX Concepts</td>
<td>2,353,584</td>
<td>538,870</td>
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<td>Bridgewater</td>
<td>780,097</td>
<td>571,652</td>
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<tr>
<td>Mount Lucas</td>
<td>0</td>
<td>532,714</td>
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<tr>
<td>FrontPoint Partners</td>
<td>0</td>
<td>188,152</td>
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<td>Research Affiliates L/S</td>
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<td><strong>Total Alternatives</strong></td>
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### Currency Overlay

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<td>Clifton Group</td>
<td>167,542</td>
<td>124,028</td>
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**Total Investment Management Fees**

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<tr>
<td>11,860,083</td>
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### Other Investment Fees and Expenses

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<th>Fee</th>
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<th>2006</th>
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<tr>
<td>Custodian fees</td>
<td>$194,880</td>
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<td>Security Lending fees and Interest Expense</td>
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<td>Investment Consultant Fees</td>
<td>240,239</td>
<td>245,416</td>
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<td>Miscellaneous Investment Expense</td>
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<td>772,461</td>
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<td><strong>11,663,425</strong></td>
<td><strong>12,767,408</strong></td>
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**TOTAL INVESTMENT FEES AND EXPENSES**

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<tr>
<th>2007</th>
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<tr>
<td>$23,523,508</td>
<td>$22,076,610</td>
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### Schedule of Commissions

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<thead>
<tr>
<th>BROKERAGE FIRM</th>
<th>NUMBER OF SHARES TRADED</th>
<th>COMMISSIONS</th>
<th>COMMISSIONS PER SHARE</th>
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<tr>
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<td>BEAR STEARNS INTL TRADING (TRANS)</td>
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## INVESTMENT

Schedule of Commissions

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<th>Brokerage Firm</th>
<th>Number of Shares Traded</th>
<th>Commissions</th>
<th>Commissions Per Share</th>
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### Schedule of Commissions

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## Investment

### Schedule of Commissions

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<tr>
<th>Brokerage Firm</th>
<th>Number of Shares Traded</th>
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<th>Commissions Per Share</th>
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### Schedule of Commissions (continued)

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Actuarial Partnership

San Joaquin County Employees’ Retirement Association 2007
Actuarial Certification

September 10, 2007

Board of Retirement
San Joaquin County Employees’ Retirement Association
6 South El Dorado Street, Suite 700
Stockton, California 95202

Re: Actuarial Certification of January 1, 2007 Valuation

Efi Actuaries, under contract with the San Joaquin County Employees’ Retirement Association (SJCERA), performed an actuarial valuation of Plan benefits as of January 1, 2007. In this study, we relied on participant and financial data supplied by SJCERA staff, and conducted an examination of such data for reasonableness and consistency.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of the valuation date, the amortization period is 10 years. 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. For actuarial valuation purposes, Plan assets are valued at Actuarial Value with adjustments for certain Special Reserves. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all investment gains and losses (returns above or below expected returns) over a period of five years.

We selected the actuarial assumptions shown in the schedules to be appropriate for use under the Plan. We performed an analysis of the Plan’s noneconomic experience for the years 2004 through 2006 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is expected to cover the years 2007 through 2009.

Our firm has prepared the following schedules for the actuarial report: all demographic rate tables, salary increase rates, and Actuarial Value of Assets and Reserves. Additionally, we have prepared the following schedules based on historical information and our calculations as of January 1, 2007: Solvency Test, Schedule of Funding Progress, and Schedule of Contributions. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully Submitted,

Robert T. McCrory, FSA
Graham A. Schmidt, ASA
Gregory M. Stump, FSA
Summary of Actuarial Assumptions and Methods

Actuarial assumptions and methods are both recommended by our actuaries, EFI Actuaries, and adopted by the Board of Retirement on an annual basis. The most current Actuarial Valuation was conducted on January 1, 2007 for the period ending December 31, 2006. An Experience Analysis is completed once every three years.

The most recent Experience Analysis was also conducted on January 1, 2007 for the period ending December 31, 2006.

<table>
<thead>
<tr>
<th>ACTUARIAL COST METHOD:</th>
<th>Entry Age Normal Cost Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNFUNDED LIABILITY:</td>
<td>The excess of the Actuarial Accrued Liability over Plan assets is the Unfunded Actuarial Accrued Liability (UAAL), and this liability is amortized over a rolling 10 year-period as a level percentage of payroll.</td>
</tr>
<tr>
<td>VALUATION INTEREST RATE:</td>
<td>The annual rate of return on all Plan assets is assumed to be 8.00% per annum, which equates to an 8.16% effective rate, net of investment and administrative expenses.</td>
</tr>
<tr>
<td>INFLATION ASSUMPTION:</td>
<td>3.75% per annum</td>
</tr>
<tr>
<td>INCREASES IN PAY:</td>
<td>Assumed pay increases for active members consist of increases due to base salary adjustments plus service-based increases due to longevity and promotion. Rates vary by age and classification (See Salary Scale Schedule)</td>
</tr>
<tr>
<td>ASSET VALUATION METHOD:</td>
<td>The Plan uses a modified market-related value method called the Actuarial Value of Plan Assets. The market value of assets is adjusted to recognize, over a five-year period, differences between actual investment earnings and the assumed investment return. The actuarial value of assets is limited to no less than 80% and no more than 120% of the market value. Accordingly, only 20% of this difference is being recognized in any one year (See Actuarial Value of Assets Schedule).</td>
</tr>
<tr>
<td>POST-RETIREMENT MORTALITY:</td>
<td>Rates of mortality for retired male General Members and their beneficiaries are given by the 1994 GAM tables with ages set forward one year. Rates of mortality for retired Safety Members and their beneficiaries are given by the 1994 GAM tables with ages set forward one year for males and three years for females.</td>
</tr>
</tbody>
</table>
### Summary of Actuarial Assumptions and Methods

<table>
<thead>
<tr>
<th><strong>DISABLED MEMBER MORTALITY:</strong></th>
<th>Rates of mortality among disabled Members are specified for male and female members combined; separate tables are used for General and for Safety disabled members.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRE-RETIREMENT MORTALITY:</strong></td>
<td>Rates vary by age, gender and classification <em>(See Probabilities of Separation Schedule).</em></td>
</tr>
<tr>
<td><strong>WITHDRAWAL RATES:</strong></td>
<td>Rates vary by age, gender and classification <em>(See Probabilities of Separation Schedule).</em></td>
</tr>
<tr>
<td><strong>DISABILITY RATES:</strong></td>
<td>Rates vary by age, gender and classification <em>(See Probabilities of Separation Schedule).</em></td>
</tr>
<tr>
<td><strong>SERVICES RETIREMENT RATES:</strong></td>
<td>Rates vary by age, gender and classification <em>(See Probabilities of Separation Schedule).</em></td>
</tr>
<tr>
<td><strong>FAMILY COMPOSITION:</strong></td>
<td>50% of General female members and 70% of General male and all Safety members are assumed to be married. Male spouses are assumed to be three years older than their wives.</td>
</tr>
<tr>
<td><strong>VESTED TERMINATIONS:</strong></td>
<td>No terminations are assumed for participants who are eligible for retirement. For General members who terminate with at least five years of service, 25% are assumed to go to work with a reciprocal employer. For General members who terminate with less than five years of service, 100% are assumed to go to work with a reciprocal employer. This rate is 50% for Safety members at all service levels.</td>
</tr>
<tr>
<td><strong>DEFERRAL AGE FOR VESTED TERMINATORS:</strong></td>
<td>Vested terminated General Members are assumed to begin receiving benefits at age 63; terminated Safety Members are assumed to begin receiving benefits at age 55.</td>
</tr>
<tr>
<td><strong>RECIPROcity ASSUMPTIONS:</strong></td>
<td>50% of members who terminate with a vested benefit are assumed to enter a reciprocal system.</td>
</tr>
<tr>
<td><strong>EMPLOYMENT STATUS:</strong></td>
<td>No future transfers among member groups are assumed.</td>
</tr>
</tbody>
</table>
### Schedule of Active Member Valuation Data

<table>
<thead>
<tr>
<th>Valuation at Year End</th>
<th>Plan Type</th>
<th>Members</th>
<th>Annual Pay-Roll</th>
<th>Average Annual Salary</th>
<th>Average Salary % Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>General</td>
<td>3,862</td>
<td>140,684,868</td>
<td>36,428</td>
<td>0.7%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>681</td>
<td>31,844,922</td>
<td>46,762</td>
<td>0.1%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,543</td>
<td>172,529,790</td>
<td>37,977</td>
<td>0.6%</td>
</tr>
<tr>
<td>1998</td>
<td>General</td>
<td>3,999</td>
<td>149,191,271</td>
<td>37,307</td>
<td>2.4%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>713</td>
<td>33,136,675</td>
<td>46,475</td>
<td>-0.6%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,712</td>
<td>182,327,946</td>
<td>38,694</td>
<td>1.9%</td>
</tr>
<tr>
<td>1999</td>
<td>General</td>
<td>4,124</td>
<td>157,981,192</td>
<td>38,308</td>
<td>2.7%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>741</td>
<td>38,155,572</td>
<td>51,492</td>
<td>10.8%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,865</td>
<td>196,136,764</td>
<td>40,316</td>
<td>4.2%</td>
</tr>
<tr>
<td>2000</td>
<td>General</td>
<td>4,456</td>
<td>176,642,080</td>
<td>39,641</td>
<td>3.5%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>754</td>
<td>38,720,916</td>
<td>51,354</td>
<td>-0.3%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5,210</td>
<td>215,362,996</td>
<td>41,336</td>
<td>2.5%</td>
</tr>
<tr>
<td>2001</td>
<td>General</td>
<td>4,907</td>
<td>202,537,166</td>
<td>41,275</td>
<td>4.1%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>769</td>
<td>40,790,000</td>
<td>53,043</td>
<td>3.3%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5,676</td>
<td>243,327,166</td>
<td>42,869</td>
<td>3.7%</td>
</tr>
<tr>
<td>2002</td>
<td>General</td>
<td>5,121</td>
<td>216,750,000</td>
<td>42,326</td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>796</td>
<td>43,062,000</td>
<td>54,098</td>
<td>2.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5,917</td>
<td>259,812,000</td>
<td>43,909</td>
<td>2.4%</td>
</tr>
<tr>
<td>2003</td>
<td>General</td>
<td>5,116</td>
<td>238,914,000</td>
<td>46,699</td>
<td>10.3%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>812</td>
<td>47,515,000</td>
<td>58,516</td>
<td>8.2%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5,928</td>
<td>286,429,000</td>
<td>48,318</td>
<td>10.0%</td>
</tr>
<tr>
<td>2004</td>
<td>General</td>
<td>5,176</td>
<td>239,505,000</td>
<td>46,272</td>
<td>-0.9%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>832</td>
<td>47,567,000</td>
<td>57,168</td>
<td>-2.3%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6,008</td>
<td>287,072,000</td>
<td>47,784</td>
<td>-1.09%</td>
</tr>
<tr>
<td>2005</td>
<td>General</td>
<td>5,210</td>
<td>242,654,000</td>
<td>46,575</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>835</td>
<td>49,623,000</td>
<td>59,429</td>
<td>3.95%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6,045</td>
<td>292,277,000</td>
<td>48,350</td>
<td>1.18%</td>
</tr>
<tr>
<td>2006</td>
<td>General</td>
<td>5,234</td>
<td>288,178,806</td>
<td>55,059</td>
<td>18.22%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>820</td>
<td>56,293,820</td>
<td>68,651</td>
<td>15.52%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6,054</td>
<td>344,472,626</td>
<td>56,900</td>
<td>3.75%</td>
</tr>
</tbody>
</table>

Payroll figures represent the annualization of active member's pay rates on December 31.
Chart of Active Member Average Annual Salary

**General Members**

**Safety Members**
Schedule of Retirees and Beneficiaries Valuation Data

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PLAN TYPE</th>
<th>MEMBER RETIREMENTS</th>
<th>BENEFICIARY CONTINUANCE</th>
<th>MEMBERS AND BENEFICIARIES REMOVED</th>
<th>TOTAL RETIREEs ON PAYROLL</th>
<th>ANNUAL RETIREMENT PAYROLL</th>
<th>AVERAGE ANNUAL ALLOWANCE</th>
<th>AVERAGE ALLOWANCE % INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>General</td>
<td>115</td>
<td>15</td>
<td>61</td>
<td>2,161</td>
<td>26,109,404</td>
<td>12,082</td>
<td>4.3%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>20</td>
<td>1</td>
<td>2</td>
<td>305</td>
<td>7,440,326</td>
<td>24,395</td>
<td>5.1%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>135</strong></td>
<td><strong>16</strong></td>
<td><strong>63</strong></td>
<td><strong>1,466</strong></td>
<td><strong>33,549,730</strong></td>
<td><strong>13,605</strong></td>
<td><strong>4.8%</strong></td>
</tr>
<tr>
<td>1998</td>
<td>General</td>
<td>136</td>
<td>31</td>
<td>89</td>
<td>2,239</td>
<td>27,964,957</td>
<td>12,490</td>
<td>3.4%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>30</td>
<td>7</td>
<td>5</td>
<td>337</td>
<td>8,654,663</td>
<td>25,682</td>
<td>5.3%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>166</strong></td>
<td><strong>38</strong></td>
<td><strong>94</strong></td>
<td><strong>2,576</strong></td>
<td><strong>36,619,620</strong></td>
<td><strong>14,216</strong></td>
<td><strong>4.5%</strong></td>
</tr>
<tr>
<td>1999</td>
<td>General</td>
<td>146</td>
<td>34</td>
<td>75</td>
<td>2,344</td>
<td>30,811,767</td>
<td>13,145</td>
<td>5.2%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>48</td>
<td>2</td>
<td>4</td>
<td>383</td>
<td>10,343,753</td>
<td>27,007</td>
<td>5.2%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>194</strong></td>
<td><strong>36</strong></td>
<td><strong>79</strong></td>
<td><strong>2,727</strong></td>
<td><strong>41,155,520</strong></td>
<td><strong>15,092</strong></td>
<td><strong>6.2%</strong></td>
</tr>
<tr>
<td>2000</td>
<td>General</td>
<td>158</td>
<td>24</td>
<td>81</td>
<td>2,445</td>
<td>33,700,711</td>
<td>13,784</td>
<td>4.9%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>29</td>
<td>6</td>
<td>7</td>
<td>411</td>
<td>11,669,478</td>
<td>28,393</td>
<td>5.1%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>187</strong></td>
<td><strong>30</strong></td>
<td><strong>88</strong></td>
<td><strong>2,856</strong></td>
<td><strong>45,370,189</strong></td>
<td><strong>15,886</strong></td>
<td><strong>5.3%</strong></td>
</tr>
<tr>
<td>2001</td>
<td>General</td>
<td>125</td>
<td>35</td>
<td>80</td>
<td>2,525</td>
<td>36,070,516</td>
<td>14,285</td>
<td>3.6%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>49</td>
<td>6</td>
<td>10</td>
<td>456</td>
<td>14,174,134</td>
<td>31,084</td>
<td>9.5%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>174</strong></td>
<td><strong>41</strong></td>
<td><strong>90</strong></td>
<td><strong>2,981</strong></td>
<td><strong>50,244,650</strong></td>
<td><strong>16,855</strong></td>
<td><strong>6.1%</strong></td>
</tr>
<tr>
<td>2002</td>
<td>General</td>
<td>158</td>
<td>24</td>
<td>86</td>
<td>2,621</td>
<td>39,891,228</td>
<td>15,220</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>60</td>
<td>8</td>
<td>8</td>
<td>516</td>
<td>17,673,572</td>
<td>34,251</td>
<td>10.2%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>218</strong></td>
<td><strong>32</strong></td>
<td><strong>94</strong></td>
<td><strong>3,137</strong></td>
<td><strong>57,564,800</strong></td>
<td><strong>18,350</strong></td>
<td><strong>8.9%</strong></td>
</tr>
<tr>
<td>2003</td>
<td>General</td>
<td>176</td>
<td>42</td>
<td>98</td>
<td>2,741</td>
<td>44,424,864</td>
<td>16,208</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>36</td>
<td>4</td>
<td>8</td>
<td>548</td>
<td>19,348,974</td>
<td>35,308</td>
<td>3.1%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>212</strong></td>
<td><strong>46</strong></td>
<td><strong>106</strong></td>
<td><strong>3,289</strong></td>
<td><strong>63,773,838</strong></td>
<td><strong>19,390</strong></td>
<td><strong>5.7%</strong></td>
</tr>
<tr>
<td>2004</td>
<td>General</td>
<td>196</td>
<td>23</td>
<td>83</td>
<td>2,856</td>
<td>48,699,000</td>
<td>17,052</td>
<td>5.2%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>46</td>
<td>6</td>
<td>14</td>
<td>577</td>
<td>21,444,000</td>
<td>37,164</td>
<td>10.8%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>242</strong></td>
<td><strong>29</strong></td>
<td><strong>97</strong></td>
<td><strong>3,433</strong></td>
<td><strong>70,143,000</strong></td>
<td><strong>20,436</strong></td>
<td><strong>5.4%</strong></td>
</tr>
<tr>
<td>2005</td>
<td>General</td>
<td>204</td>
<td>29</td>
<td>111</td>
<td>2,978</td>
<td>54,058,708</td>
<td>18,153</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>35</td>
<td>4</td>
<td>12</td>
<td>604</td>
<td>23,396,038</td>
<td>38,735</td>
<td>4.2%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>239</strong></td>
<td><strong>33</strong></td>
<td><strong>123</strong></td>
<td><strong>3,582</strong></td>
<td><strong>77,454,746</strong></td>
<td><strong>21,623</strong></td>
<td><strong>5.9%</strong></td>
</tr>
<tr>
<td>2006</td>
<td>General</td>
<td>190</td>
<td>41</td>
<td>102</td>
<td>3,107</td>
<td>58,634,478</td>
<td>18,872</td>
<td>4.0%</td>
</tr>
<tr>
<td></td>
<td>Safety</td>
<td>31</td>
<td>8</td>
<td>11</td>
<td>632</td>
<td>25,003,422</td>
<td>39,562</td>
<td>2.1%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>221</strong></td>
<td><strong>49</strong></td>
<td><strong>113</strong></td>
<td><strong>3,739</strong></td>
<td><strong>83,637,900</strong></td>
<td><strong>22,369</strong></td>
<td><strong>3.5%</strong></td>
</tr>
</tbody>
</table>

Payroll figures represent year end monthly retirement benefits annualized and exclude Post-Employment Healthcare benefit and benefits under the Class Action Settlement.
General Members

Safety Members

Chart of Retirees and Beneficiaries Average Annual Allowance
## Solvency Test

<table>
<thead>
<tr>
<th>VALUATION AT YEAR END</th>
<th>(1) ACTIVE MEMBER CONTRIBUTIONS</th>
<th>(2) RETIREES AND BENEFICIARIES</th>
<th>(3) ACTIVE MEMBERS (EMPLOYER FINANCED PORTION)</th>
<th>ACTURIAL VALUE OF ASSETS</th>
<th>PORTION OF ACCRUED LIABILITIES COVERED BY REPORTED ASSET</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>1996</td>
<td>95,288</td>
<td>327,196</td>
<td>382,084</td>
<td>814,607</td>
<td>100%</td>
</tr>
<tr>
<td>1997</td>
<td>103,864</td>
<td>359,353</td>
<td>409,186</td>
<td>915,242</td>
<td>100%</td>
</tr>
<tr>
<td>1998</td>
<td>110,300</td>
<td>394,016</td>
<td>436,338</td>
<td>1,013,320</td>
<td>100%</td>
</tr>
<tr>
<td>1999</td>
<td>116,054</td>
<td>445,458</td>
<td>461,031</td>
<td>1,105,506</td>
<td>100%</td>
</tr>
<tr>
<td>2000</td>
<td>123,941</td>
<td>486,532</td>
<td>481,357</td>
<td>1,182,914</td>
<td>100%</td>
</tr>
<tr>
<td>2001</td>
<td>132,004</td>
<td>541,321</td>
<td>593,423</td>
<td>1,357,409</td>
<td>100%</td>
</tr>
<tr>
<td>2002</td>
<td>137,209</td>
<td>643,984</td>
<td>637,016</td>
<td>1,448,905</td>
<td>100%</td>
</tr>
<tr>
<td>2003</td>
<td>126,606</td>
<td>726,382</td>
<td>739,749</td>
<td>1,531,288</td>
<td>100%</td>
</tr>
<tr>
<td>2004</td>
<td>140,800</td>
<td>805,878</td>
<td>822,829</td>
<td>1,614,979</td>
<td>100%</td>
</tr>
<tr>
<td>2005</td>
<td>147,953</td>
<td>904,208</td>
<td>883,657</td>
<td>1,727,033</td>
<td>100%</td>
</tr>
<tr>
<td>2006</td>
<td>159,100</td>
<td>1,023,296</td>
<td>967,542</td>
<td>1,869,717</td>
<td>100%</td>
</tr>
</tbody>
</table>

This schedule excludes the health insurance reserve, supplemental cost-of-living reserve, Retiree Class Action Settlement Reserve, $5,000 Death Benefit Reserve, Purchasing Power COL Reserve, Unappropriated Earnings Reserve, and Restricted Unappropriated Earnings Reserve.
The probabilities for each cause of separation represent the likelihood that a given member will separate at a particular age for the indicated reason. As an example, if the probability of separation of a male general member at age 20 is 0.03624, that indicates that 3.624% of active general members are expected to separate from service during the year.

<table>
<thead>
<tr>
<th>AGE</th>
<th>WITHDRAWAL AFTER 5 YEARS</th>
<th>NON-DUTY DEATH</th>
<th>ORDINARY DISABILITY</th>
<th>SERVICE RETIREMENT</th>
<th>DUTY DEATH</th>
<th>DUTY DISABILITY</th>
<th>TERMINATED VESTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.020</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.025</td>
</tr>
<tr>
<td>25</td>
<td>0.020</td>
<td>0.001</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.025</td>
</tr>
<tr>
<td>30</td>
<td>0.020</td>
<td>0.001</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.025</td>
</tr>
<tr>
<td>35</td>
<td>0.020</td>
<td>0.001</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.025</td>
</tr>
<tr>
<td>40</td>
<td>0.020</td>
<td>0.001</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.025</td>
</tr>
<tr>
<td>45</td>
<td>0.020</td>
<td>0.002</td>
<td>0.002</td>
<td>0.020</td>
<td>0.000</td>
<td>0.002</td>
<td>0.025</td>
</tr>
<tr>
<td>50</td>
<td>0.020</td>
<td>0.003</td>
<td>0.003</td>
<td>0.050</td>
<td>0.000</td>
<td>0.002</td>
<td>0.025</td>
</tr>
<tr>
<td>55</td>
<td>0.000</td>
<td>0.005</td>
<td>0.003</td>
<td>0.075</td>
<td>0.000</td>
<td>0.002</td>
<td>0.025</td>
</tr>
<tr>
<td>60</td>
<td>0.000</td>
<td>0.009</td>
<td>0.004</td>
<td>0.500</td>
<td>0.000</td>
<td>0.002</td>
<td>0.025</td>
</tr>
</tbody>
</table>

**GENERAL MEMBERS**

<table>
<thead>
<tr>
<th>AGE</th>
<th>WITHDRAWAL AFTER 5 YEARS</th>
<th>NON-DUTY DEATH</th>
<th>ORDINARY DISABILITY</th>
<th>SERVICE RETIREMENT</th>
<th>DUTY DEATH</th>
<th>DUTY DISABILITY</th>
<th>TERMINATED VESTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.020</td>
<td>0.000</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.020</td>
</tr>
<tr>
<td>25</td>
<td>0.020</td>
<td>0.000</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.020</td>
</tr>
<tr>
<td>30</td>
<td>0.020</td>
<td>0.000</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.020</td>
</tr>
<tr>
<td>35</td>
<td>0.020</td>
<td>0.000</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.020</td>
</tr>
<tr>
<td>40</td>
<td>0.020</td>
<td>0.000</td>
<td>0.002</td>
<td>0.020</td>
<td>0.000</td>
<td>0.002</td>
<td>0.020</td>
</tr>
<tr>
<td>45</td>
<td>0.020</td>
<td>0.001</td>
<td>0.002</td>
<td>0.000</td>
<td>0.000</td>
<td>0.002</td>
<td>0.020</td>
</tr>
<tr>
<td>50</td>
<td>0.020</td>
<td>0.001</td>
<td>0.003</td>
<td>0.040</td>
<td>0.000</td>
<td>0.003</td>
<td>0.020</td>
</tr>
<tr>
<td>55</td>
<td>0.000</td>
<td>0.002</td>
<td>0.005</td>
<td>0.100</td>
<td>0.000</td>
<td>0.003</td>
<td>0.020</td>
</tr>
<tr>
<td>60</td>
<td>0.000</td>
<td>0.004</td>
<td>0.006</td>
<td>0.500</td>
<td>0.000</td>
<td>0.004</td>
<td>0.020</td>
</tr>
</tbody>
</table>

**SAFETY MEMBERS**

<table>
<thead>
<tr>
<th>AGE</th>
<th>WITHDRAWAL AFTER 5 YEARS</th>
<th>NON-DUTY DEATH</th>
<th>ORDINARY DISABILITY</th>
<th>SERVICE RETIREMENT</th>
<th>DUTY DEATH</th>
<th>DUTY DISABILITY</th>
<th>TERMINATED VESTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.010</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.020</td>
</tr>
<tr>
<td>25</td>
<td>0.010</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.001</td>
<td>0.020</td>
</tr>
<tr>
<td>30</td>
<td>0.010</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.002</td>
<td>0.020</td>
</tr>
<tr>
<td>35</td>
<td>0.010</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.003</td>
<td>0.020</td>
</tr>
<tr>
<td>40</td>
<td>0.010</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.006</td>
<td>0.010</td>
</tr>
<tr>
<td>45</td>
<td>0.010</td>
<td>0.002</td>
<td>0.002</td>
<td>0.010</td>
<td>0.001</td>
<td>0.011</td>
<td>0.005</td>
</tr>
<tr>
<td>50</td>
<td>0.000</td>
<td>0.002</td>
<td>0.004</td>
<td>0.100</td>
<td>0.001</td>
<td>0.020</td>
<td>0.000</td>
</tr>
<tr>
<td>55</td>
<td>0.000</td>
<td>0.003</td>
<td>0.006</td>
<td>0.200</td>
<td>0.001</td>
<td>0.032</td>
<td>0.000</td>
</tr>
</tbody>
</table>
## Salary Increase Assumption

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>GENERAL</th>
<th>SAFETY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.079</td>
<td>0.108</td>
</tr>
<tr>
<td>2</td>
<td>0.079</td>
<td>0.108</td>
</tr>
<tr>
<td>3</td>
<td>0.079</td>
<td>0.108</td>
</tr>
<tr>
<td>4</td>
<td>0.079</td>
<td>0.108</td>
</tr>
<tr>
<td>5</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>6</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>7</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>8</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>9</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>10</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>11</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>12</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>13</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>14</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>15</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>16</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>17</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>18</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>19</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>20</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>21</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>22</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>23</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>24</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>25</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>26</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>27</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>28</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>29</td>
<td>0.048</td>
<td>0.061</td>
</tr>
<tr>
<td>30+</td>
<td>0.038</td>
<td>0.061</td>
</tr>
</tbody>
</table>

Note: Salary scale assumption reflects 3.75% for wage inflation (including 3.50% for general inflation)
## Actuarial Value of Assets

<table>
<thead>
<tr>
<th>YEAR END</th>
<th>CONTRIBUTIONS</th>
<th>BENEFIT PAYMENTS</th>
<th>EXPECTED INVESTMENT RETURN</th>
<th>ADDITIONAL EARNINGS (LOSS)</th>
<th>PERCENTAGE NOT RECOGNIZED</th>
<th>UNRECOGNIZED EARNINGS (LOSS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>45,822,412</td>
<td>71,772,839</td>
<td>123,326,879</td>
<td>201,319,203</td>
<td>20%</td>
<td>40,263,841</td>
</tr>
<tr>
<td>2004</td>
<td>53,694,111</td>
<td>78,373,298</td>
<td>129,668,425</td>
<td>54,815,099</td>
<td>40%</td>
<td>21,926,040</td>
</tr>
<tr>
<td>2005</td>
<td>73,363,413</td>
<td>86,079,634</td>
<td>136,711,660</td>
<td>(17,382,467)</td>
<td>60%</td>
<td>(10,429,480)</td>
</tr>
<tr>
<td>2006</td>
<td>85,627,410</td>
<td>89,710,609</td>
<td>145,884,755</td>
<td>88,146,979</td>
<td>80%</td>
<td>70,517,583</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>YEAR END</th>
<th>CONTRIBUTIONS</th>
<th>BENEFIT PAYMENTS</th>
<th>EXPECTED INVESTMENT RETURN</th>
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</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>45,822,412</td>
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</tr>
<tr>
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<td>73,363,413</td>
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<td>136,711,660</td>
<td>(17,382,467)</td>
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<td>(10,429,480)</td>
</tr>
<tr>
<td>2006</td>
<td>85,627,410</td>
<td>89,710,609</td>
<td>145,884,755</td>
<td>88,146,979</td>
<td>80%</td>
<td>70,517,583</td>
</tr>
</tbody>
</table>

**Total Unrecognized Dollars** 122,277,983

**Market Value of Assets as of December 31, 2006** 2,079,252,177

**Actuarial Value of Assets as of December 31, 2006** 1,956,974,194

### Corridor Limits

- a. 80% of Net Market Value 1,663,401,742
- b. 120% of Net Market Value 2,495,102,612

### Actuarial Value of Assets after Corridor 1,956,974,194

### Ratio of Actuarial Value to Market Value 94.10%

### Special (Non Valuation) Reserves:

- $5,000 Death Benefits 7,962,286
- Health Insurance Reserve 14,659,929
- Supplemental COL Reserve 0
- Purchasing Power COL Reserve 11,220,804
- Class Action Settlement – Pre 4/1/1982 685,139
- Class Action Settlement – Post 4/1/1982 757,633
- Contingency (Interest Fluctuation) Reserve 23,262,115
- Reserve for Employer Contribution Offset 0
- Unappropriated Earnings Reserve – Restricted 28,709,708

**Total Special Reserves** 87,257,614

**PENSION RESERVES AT ACTUARIAL VALUE (VALUATION ASSETS)**

**At December 31, 2006** 1,869,716,580
Summary of Major Plan Provisions

**Membership**

Membership is mandatory upon appointment to a full-time, permanent position with the County or participating agency. Membership begins on the first day of the biweekly payroll after employment.

**Final Average Salary**

Final compensation is the highest 12 consecutive months of compensation earnable. Compensation includes most pay supplements as determined by the Board of Retirement. Overtime pay is excluded.

**Contributions**

Employee contributions are based upon age at entry into membership and is a percentage of salary. Contributions earn interest which will be refunded with a member’s contributions should employment termination occur before becoming eligible for retirement benefits.

**Vesting**

A member with 5 years of County retirement service is vested, assuming they leave their contributions on deposit.

**Service Retirement**

Service retirement benefits are as provided under Sections 31676.14 and 31664.1 of the 1937 County Act and became effective January 1, 2001 for all member service. Members are eligible to retire at age 50 with qualified retirement credit of 5 years and assuming 10 years have lapsed from date of membership. General Members with 30 years of qualified service or Safety Members with 20 years are eligible to retire, regardless of age. All members age 70 are eligible to retire, regardless of service.

The benefit for a General Member at age 52 is 1/60 times final average salary per year of service. The benefit for Safety Members at least age 50 is 3% times final average salary per year of service. Social Security integration reduces benefits by 1/3 on the first $350 of monthly final average salary. The maximum benefit payable is 100% of final average salary.

**Disability Retirement**

Members with 5 years of qualified service, regardless of age, are eligible to apply for a non-service connected disability. The benefit is the greater of 1.5% (1.8% for Safety) of final average salary per year of service, with a general maximum of 33 1/3%, or 90% of the accrued service retirement benefit or a regular service retirement benefit, if eligible. Regardless of service, a member is eligible to apply for a service-connected disability which, if granted, would provide the greater of 50% of final average salary or a regular service retirement benefit, if eligible.

**Death Benefit - Prior to Retirement**

The Basic Death Benefit, available to any named beneficiary, consists of a refund of contributions plus 1/12 of last years’ salary per year of service, but not to exceed 6 months. If the deceased member has at least 5 years of qualified service, a surviving spouse (if none, member’s minor children) may elect, in lieu of the Basic Death Benefit, a monthly allowance equal to 60% of the monthly retirement allowance the deceased member would have been entitled to had the member retired for non-service connected disability or service retirement on the date of death. If a member’s death is service-connected, the spouse may elect, in lieu of the Basic Death Benefit, a monthly allowance equal to 50% of the member’s final highest one-year average salary.
ACTUARIAL
Summary of Major Plan Provisions

➤ **Death Benefit - After Retirement**

Survivor benefits vary based upon the option selected by a member at the time of retirement. Options available include a 50% and 100% lifetime survivor continuance, lump-sum payment of contributions remaining and a 60% lifetime continuance to an eligible surviving spouse. A service-connected disability provides for a 100% continuance to an eligible surviving spouse.

➤ **Cost-of-Living Benefits**

Retirement allowances are adjusted effective April 1 of each year in accordance with changes in the All Urban Consumers annual average Consumer Price Index for the San Francisco-Oakland-San Jose Area. The cost-of-living increase cannot exceed 3% per year.
## Schedule of Revenue by Source

<table>
<thead>
<tr>
<th>YEAR END</th>
<th>MEMBER CONTRIBUTIONS</th>
<th>EMPLOYER CONTRIBUTIONS</th>
<th>POST-EMPLOYMENT HEALTH PLAN</th>
<th>INVESTMENT INCOME</th>
<th>MISC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>8,451,470</td>
<td>14,702,985</td>
<td>360,977</td>
<td>46,675,145</td>
<td>15,436</td>
<td>70,206,013</td>
</tr>
<tr>
<td>2001</td>
<td>8,637,959</td>
<td>22,642,235</td>
<td>35,959</td>
<td>1,226,362</td>
<td>33,931</td>
<td>32,576,445</td>
</tr>
<tr>
<td>2003</td>
<td>11,038,348</td>
<td>34,784,065</td>
<td>0</td>
<td>326,661,970</td>
<td>17,848</td>
<td>372,502,231</td>
</tr>
<tr>
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<td>11,005,744</td>
<td>42,688,367</td>
<td>0</td>
<td>186,820,224</td>
<td>36,052</td>
<td>240,550,387</td>
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<tr>
<td>2005</td>
<td>10,854,798</td>
<td>62,508,615</td>
<td>0</td>
<td>121,731,640</td>
<td>5,226</td>
<td>195,100,279</td>
</tr>
<tr>
<td>2006</td>
<td>11,365,569</td>
<td>73,611,841</td>
<td>650,000</td>
<td>237,072,471</td>
<td>25,792</td>
<td>322,725,672</td>
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<tr>
<td>2007</td>
<td>12,312,247</td>
<td>85,868,698</td>
<td>2,780,505</td>
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## Schedule of Expenses by Type

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### Statistical Schedule of Retired Members By Type

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Figures are extracted from actuarial reports which include individuals receiving divorce settlement payments.
## Schedule of Average Monthly Benefit Payments

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**Note:** The table above shows the average monthly benefit payments and the number of retirees for each year, categorized by years of service credit.
## Schedule of Average Monthly Benefit Payments

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<th>15-19</th>
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</tbody>
</table>
SPECIAL THANKS

Cover — Cecelia Hill  
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