

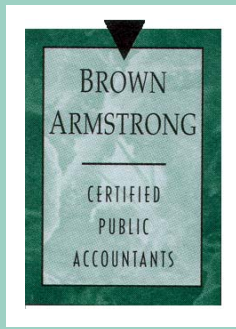
**SAN LUIS OBISPO COUNTY PENSION TRUST**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2008 AND 2007**

**SAN LUIS OBISPO COUNTY PENSION TRUST  
DECEMBER 31, 2008 AND 2007**

**TABLE OF CONTENTS**

|   | <u>Page</u> |
|---|-------------|
| <u>Financial Section</u>                      |             |
| Independent Auditor's Report .....            | 1           |
| Management's Discussion and Analysis.....     | 3           |
| Statement of Plan Net Assets .....            | 7           |
| Statement of Changes in Plan Net Assets.....  | 8           |
| Notes to Financial Statements .....           | 9           |
| <br><u>Required Supplementary Information</u> |             |
| Schedule of Funding Progress.....             | 20          |
| Schedule of Employer Contributions.....       | 21          |
| <br><u>Other Supplementary Information</u>    |             |
| Schedule of Changes in Reserves.....          | 22          |

## **FINANCIAL SECTION**



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

**Main Office**  
4200 Truxtun Ave., Suite 300  
Bakersfield, California 93309  
Tel 661.324.4971 Fax 661.324.4997  
e-mail: [info@bacpas.com](mailto:info@bacpas.com)

**Shafter Office**  
560 Central Avenue  
Shafter, California 93263  
Tel 661.746.2145 Fax 661.746.1218

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

**INDEPENDENT AUDITOR'S REPORT**

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

To the Board of Trustees  
San Luis Obispo County Pension Trust

We have audited the accompanying Statement of Plan Net Assets of the San Luis Obispo County Pension Trust ("the Plan") as of December 31, 2008 and 2007, and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the San Luis Obispo County Pension Trust as of December 31, 2008 and 2007, and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in 2008, San Luis Obispo County Pension Trust adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures*.

The information identified as management's discussion and analysis in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2009, on our consideration of the San Luis Obispo County Pension Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
May 29, 2009

# County of San Luis Obispo

1000 Mill Street, San Luis Obispo, CA 93408  
Phone: (805) 781-5465 Fax: (805) 781-5697



Office of  
Pension Trust

## SAN LUIS OBISPO COUNTY PENSION TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008

May 29, 2009

We are pleased to provide this overview and analysis of the financial activities of the San Luis Obispo County Pension Trust (Pension Trust) for the year ended December 31, 2008. The San Luis Obispo County Pension Trust was established on November 1, 1958. Some ten years later, the Board of Supervisors adopted the present By-Laws and San Luis Obispo County Employees Retirement Plan in order to improve the benefits to employees retiring after January 1, 1968. One of the principal objectives of the new 1968 Retirement Plan, and of subsequent amendments to that Retirement Plan, has been to provide benefits substantially comparable to those that would have been provided had the County gone into the California Public Employees' Retirement System but at a lesser cost to the County and its employees. This Trust is established pursuant to Section 17 of Article XVI of the California Constitution and Government Code Sections 53215 et seq.

### Financial Highlights

The San Luis Obispo County Pension Trust's plan net assets as of December 31, 2008 were \$610,286,800. The plan net assets are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet the Pension Trust's ongoing obligations.

Total net assets decreased by \$221,920,107 primarily as a result of realized and unrealized losses on nearly every type of investment asset except international fixed income securities and local real estate. Economic factors significantly affected the operating results of the current period. For example the year 2008 saw most broad market indices experience declines of thirty to forty percent in U.S. dollar terms. This contrasts to the all time highs in these indices occurring in late 2007. The largest bankruptcy in US history suddenly occurred during 2008; several major nationwide banks failed and major credit agencies were taken over by the federal government. One of the nation's largest insurance companies required the largest government bailout in history during the year and several well-known Wall Street firms were forced into bankruptcy or sold under duress.

Pension Trust's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2007 (January 1, 2008), the date of the last actuarial evaluation, the funded ratio for all Pension Trust's agencies was 78.5%. In general, this indicates that for every dollar of benefits due we had approximately \$0.79 of assets available for payment as of that date. Total additions (losses) to plan net assets for the year were \$(180,838,350), which includes member and employer contributions of \$53,700,770, and net investment loss of \$(234,539,120).

## Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to San Luis Obispo County Pension Trust's financial statements, which are comprised of these components:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements.

The Statement of Plan Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Plan Net Assets, on the other hand, provides a view of the current year additions to and deductions from the Plan.

Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB) Pronouncements 25, 26, 28, 33, 34, 40, and 50. These pronouncements require certain disclosures and also require the state and local governments to report using the full accrual method of accounting. Pension Trust complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets reports information about Pension Trust's activities. These statements include all assets and liabilities using a full accrual basis of accounting as practiced by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Investment gains and losses are reported on a trade-date basis and both realized and unrealized gains and losses on investments are shown.

These two statements report Pension Trust's net assets held in trust for pension benefits (net assets) — the difference between assets and liabilities — as one way to measure the System's financial position. Over time, increases and decreases in Pension Trust's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring Pension Trust's overall health.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning Pension Trust's progress in funding its obligations to provide pension benefits to members.

## Financial Analysis

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Net assets held in trust for pension benefits as of December 31, 2008, totaled \$610,286,800, a decrease of \$221,920,107 over the prior year. Pension Trust's assets exceeded its liabilities at the end of the year. Below is a comparison of selected current and prior year balances:

|                              | <u>2008</u>           | <u>2007</u>           | Increase<br>(Decrease) |
|------------------------------|-----------------------|-----------------------|------------------------|
| Cash                         | \$ 22,619,524         | \$ 12,127,552         | \$ 10,491,972          |
| Investments at Fair Value    | 583,458,815           | 810,287,219           | (226,828,404)          |
| Receivables and Other Assets | <u>5,351,828</u>      | <u>10,376,887</u>     | <u>(5,025,059)</u>     |
| Total Assets                 | 611,430,167           | 832,791,658           | (221,361,491)          |
| Total Liabilities            | <u>1,143,367</u>      | <u>584,751</u>        | <u>558,616</u>         |
| Net Assets                   | <u>\$ 610,286,800</u> | <u>\$ 832,206,907</u> | <u>\$(221,920,107)</u> |

## Additions to Plan Net Assets

There are three primary sources of funding for Pension Trust retirement benefits: earnings on investments of assets and employer and employee contributions. Income sources for the fiscal years December 31, 2008 and 2007 totaled \$(180,838,350) and \$79,060,265, respectively.

|                                       | <u>2008</u>             | <u>2007</u>          | Increase<br>(Decrease) |
|---------------------------------------|-------------------------|----------------------|------------------------|
| Employer Contributions                | \$ 30,860,282           | \$ 24,014,202        | \$ 6,846,080           |
| Plan Members Contributions            | 22,840,488              | 17,406,316           | 5,434,172              |
| Net Investment Income (Loss)          | <u>(234,539,120)</u>    | <u>37,639,747</u>    | <u>(272,178,867)</u>   |
| Total                                 | <u>\$ (180,838,350)</u> | <u>\$ 79,060,265</u> | <u>\$(259,898,615)</u> |
| Total Deductions from Plan Net Assets | <u>\$ 41,081,757</u>    | <u>\$ 35,821,172</u> | <u>\$ 5,260,585</u>    |

Pension Trust was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the Plan, refund of contributions to terminated employees, and the cost of administering the System. Below is a comparison of selected current and prior year balances:

|                         | <u>2008</u>   | <u>2007</u>   | Increase<br>(Decrease) |
|-------------------------|---------------|---------------|------------------------|
| Benefits                | \$ 37,097,572 | \$ 32,100,134 | \$ 4,997,438           |
| Refund of Contributions | 2,016,696     | 1,587,852     | 428,844                |
| Death Benefit           | 196,772       | 504,176       | (307,404)              |
| Other Administrative    | 1,636,933     | 1,530,770     | 106,163                |
| Actuarial Expenses      | 133,784       | 98,240        | 35,544                 |

The Annual Required Contributions and Percentage Contribution amounts on the Schedule of Employer Contributions were updated to conform to the actuarially determined requirements as shown on page 21.

## **The Retirement Fund as a Whole**

Despite variations in the financial markets, Pension Trust's management believes that Pension Trust is in reasonably sound financial position to meet its obligations to the retirees, beneficiaries and Plan members. The current financial position results from a diversified investment program that prudently manages risk to minimize loss, an effective system of cost control and strategic planning.

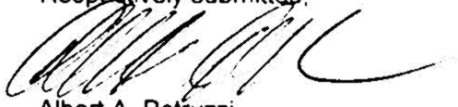
Management believes there will continue to be sufficient assets to meet all benefit obligations.

## **Requests for Information**

This financial report is designed to provide the Retirement Board, our membership, taxpayers, and investment managers with a general overview of Pension Trust finances and to demonstrate Pension Trust's accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

San Luis Obispo County Pension Trust  
1000 Mill Street  
San Luis Obispo, CA 93408

Respectively submitted,



Albert A. Petruzzi  
Executive Secretary

May 29, 2009

**SAN LUIS OBISPO COUNTY PENSION TRUST**  
**STATEMENT OF PLAN NET ASSETS**  
**DECEMBER 31, 2008 AND 2007**

|  | 2008           | 2007           |
|--|----------------|----------------|
| <b>ASSETS</b>                                      |                |                |
| Cash   | \$ 22,619,524  | \$ 12,127,552  |
| Receivables:                                       |                |                |
| Accrued Interest and Dividends Receivable          | 61,471         | 30,103         |
| Accounts Receivable                                | 1,594          | 35,792         |
| Contributions Receivable                           | 758,225        | 1,879,599      |
| Notes Receivable                                   | 2,404,088      | 4,043,482      |
| Total Receivables                                  | 3,225,378      | 5,988,976      |
| Investments:                                       |                |                |
| Bonds and Notes, at Fair Value                     | 149,996,713    | 196,502,224    |
| International Fixed Income                         | 41,022,152     | 39,970,912     |
| Collateralized Mortgage Obligations, at Fair Value | 22,227,617     | 47,256,026     |
| Domestic Equities                                  | 177,285,729    | 277,925,788    |
| International Equities                             | 78,279,248     | 138,948,288    |
| Real Estate Investment Trusts, at Fair Value       | 73,423,950     | 66,148,136     |
| Real Estate, at Fair Value                         | 41,223,406     | 43,535,845     |
| Total Investments                                  | 583,458,815    | 810,287,219    |
| Other Assets                                       |                |                |
| Prepaid Benefits                                   | 129,667        | 2,132,358      |
| Capital Assets - Net of Accumulated Depreciation   | 1,996,783      | 2,255,553      |
| Total Other Assets                                 | 2,126,450      | 4,387,911      |
| Total Assets                                       | 611,430,167    | 832,791,658    |
| <b>LIABILITIES</b>                                 |                |                |
| Accrued Liabilities                                | 1,143,367      | 584,751        |
| <b>NET ASSETS</b>                                  |                |                |
| Net Assets Held in Trust for Pension Benefits      | \$ 610,286,800 | \$ 832,206,907 |

(A schedule of funding progress is presented on page 20.)

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

**SAN LUIS OBISPO COUNTY PENSION TRUST  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
YEARS ENDED DECEMBER 31, 2008 AND 2007**

|   | <u>2008</u>           | <u>2007</u>           |
|---|-----------------------|-----------------------|
| <b>ADDITIONS</b>  |                       |                       |
| Contributions   |                       |                       |
| County Contributions  | \$ 30,860,282         | \$ 24,014,202         |
| Member Contributions  | <u>22,840,488</u>     | <u>17,406,316</u>     |
| Total Contributions   | <u>53,700,770</u>     | <u>41,420,518</u>     |
| Investment Income (Loss)  |                       |                       |
| Net Decrease in Fair Value of Investments   | (239,703,297)         | (23,062,752)          |
| Realized Gains and (Losses)   | (19,363,148)          | 25,823,443            |
| Interest  | 15,351,027            | 19,436,903            |
| Dividends   | 9,221,757             | 13,955,298            |
| Real Estate Management Trust Income   | 1,131,289             | 1,131,146             |
| Real Estate Operating Income, Net   | 1,587,675             | 1,798,700             |
| Investment Expenses   | <u>(2,764,423)</u>    | <u>(1,442,991)</u>    |
| Net Investment Income (Loss)  | <u>(234,539,120)</u>  | <u>37,639,747</u>     |
| Total Additions (Losses)  | <u>(180,838,350)</u>  | <u>79,060,265</u>     |
| <b>DEDUCTIONS</b>   |                       |                       |
| Benefits  |                       |                       |
| Monthly Benefit Payments  | 37,097,572            | 32,100,134            |
| Refund of Contributions   | 2,016,696             | 1,587,852             |
| Death Benefits  | <u>196,772</u>        | <u>504,176</u>        |
| Total Benefits  | 39,311,040            | 34,192,162            |
| Other Expenses  |                       |                       |
| Administration and Actuarial  | <u>1,770,717</u>      | <u>1,629,010</u>      |
| Total Deductions  | <u>41,081,757</u>     | <u>35,821,172</u>     |
| Net Increase (Decrease) in Net Assets   | <u>(221,920,107)</u>  | <u>43,239,093</u>     |
| Net Assets Held in Trust for Pension Benefits -<br>December 31, 2007 and December 31, 2006              | 832,206,907           | 788,996,990           |
| Prior Period Adjustment (See Note 15)   | <u>-</u>              | <u>(29,176)</u>       |
| Net Assets Held in Trust for Pension Benefits -<br>December 31, 2007 and December 31, 2006, as restated | <u>832,206,907</u>    | <u>788,967,814</u>    |
| Net Assets Held in Trust for Pension Benefits -<br>December 31, 2008 and December 31, 2007              | <u>\$ 610,286,800</u> | <u>\$ 832,206,907</u> |

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

**SAN LUIS OBISPO COUNTY PENSION TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007**

**NOTE 1 – PLAN DESCRIPTION**

The San Luis Obispo County Pension Trust (“the Plan”) is a single employer contributory defined benefit pension plan for employees of the County of San Luis Obispo. The Plan exists, operates and is constituted under the authority of Section 53215 of Section 17 of Article XVI of the California Constitution and Government Code Article 1.5 (Pension Trusts), of Chapter 2 (Officers and Employees), of Part 1 (Powers and Duties Common to Cities, Counties and Other Agencies), of Division 2 (Cities, Counties and Other Agencies), of Title 5 (Local Agencies) of the California Government Code.

Pursuant to the foregoing Government Code provisions, the Board of Supervisors of San Luis Obispo County established the San Luis Obispo County Pension Trust by the adoption of Chapter 2.56 of the San Luis Obispo County Code. Following the adoption of Chapter 2.56 of the County Code, the Board of Supervisors adopted the By-Laws of the Pension Trust. The San Luis Obispo County Employees Retirement Plan is a part of those By-Laws. The County of San Luis Obispo Board of Supervisors may amend the Plan’s provisions.

Under the terms of the Plan, the normal retirement age for Safety and Probation Officer members is 55 and normal retirement age for Miscellaneous members is 60. The Plan permits early retirement for all participants at age 50 with 5 or more years of pension trust service credits. Participants receive their accumulated Plan benefits as a life annuity payable monthly upon retirement. In the event of total and permanent disability, participants upon satisfaction of membership requirements and other applicable provision of the Plan may receive disability benefits as defined in the Plan document. The Plan provides for an annual Cost of Living Adjustment (COLA) based on the Consumers Price index, up to 3%. The Plan also provides death benefits.

Total participants of the Plan were comprised of the following as of December 31, 2008 and December 31, 2007:

|  | 2008  | 2007  |
|--|-------|-------|
| Retirees and Beneficiaries Currently Receiving Benefits              | 1,736 | 1,619 |
| Terminated Employees Entitled to Benefits But Not Yet Receiving Them | 517   | 498   |
| Active Plan Participants   |       |       |
| Vested   | 1,769 | 1,761 |
| Nonvested  | 887   | 859   |
| Total  | 4,909 | 4,737 |

The actuarial funding policy of the Plan is established and amended in accordance with the purpose, objectives, methods, and guidelines described in the San Luis Obispo County Employee’s Retirement Plan. The County’s contributions are designed to fund annually the Plan’s normal cost as determined under the Entry Age Normal cost method.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS**

### General

The Plan's financial statements are prepared on the accrual basis of accounting. Participants are required to contribute to the Plan at rates ranging from 8.29% to 23.63% of includable compensation as defined in the Plan, depending upon the collective bargaining agreement under which the Participant is covered. Such contributions, along with county appropriations are currently invested in corporate notes, bonds, collateralized mortgage obligations, equity mutual funds, commingled real estate funds, real estate investment trusts, equity real estate holdings, and short-term cash investments. All assets are invested and held pursuant to and in accordance with the Investment Policy of the San Luis Obispo County Pension Trust Board of Trustees. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by San Luis Obispo County Pension Trust is recorded as an increase (decrease) to investment income based on the valuation of investments at year end.

### **Fair Valuation of Investments**

#### Securities

Securities are stated at fair value based upon closing sales prices reported on recognized securities exchanged on the last business day of the period or, for listed securities having no sales reported and for unlisted securities, based on last reported bid prices. All purchases and sales of securities are accounted for on a trade date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized gains or losses of securities are determined on the basis of average cost. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include or may include unrealized amounts from prior periods.

#### Administrative Expenses

Administrative expenses represent actuarial and professional fees, salaries of the Plan's administrative personnel, insurance, occupancy costs, and services purchased from the county.

#### Real Estate

Rental properties are valued at estimated fair value, which has been determined by appraisals performed by individual real estate advisors. Depreciation is not recorded on rental properties.

#### Reserves

Employee and employer contributions are allocated to various reserve accounts based on actuarial determinations.

#### Income Taxes

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is therefore not subject to tax under present income tax laws. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from federal and state income taxes.

#### Management's Estimates

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS**

(Continued)

Concentrations of Market and Credit Risk

The Plan's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such instruments. The Plan's concentration of credit risk and market risk are dictated by the Plan's investment guidelines. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statement of plan net assets and the statement of changes in plan net assets.

The majority of the Plan's real estate holding (other than investments in real estate investment trusts) are invested in properties located in San Luis Obispo County.

Reclassifications

The financial statement presentation for 2007 has been changed to conform with the presentation in 2008.

Implementation of New Accounting Pronouncements

The Plan adopted the Governmental Accounting Standards Board's (GASB) Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, effective for the year ended December 31, 2008. This disclosure is presented in Note 13.

**NOTE 3 – CAPITAL ASSETS**

Depreciation of capital assets is computed by the straight-line method based on the cost of the fixed assets over the estimated useful lives of the capital assets, which range from 5 to 40 years. Capital assets are recorded at historical costs. Changes in capital assets are as follows:

|                          | Balance<br>January 1, 2008 | Additions           | Deletions    | Balance<br>December 31, 2008 |
|--------------------------|----------------------------|---------------------|--------------|------------------------------|
| Office Equipment         | \$ 195,702                 | \$ 10,184           | \$ (108,067) | \$ 97,819                    |
| Software                 | 2,524,414                  | -                   | -            | 2,524,414                    |
| Accumulated Depreciation | (464,563)                  | (268,954)           | 108,067      | (625,450)                    |
|                          | <u>\$ 2,255,553</u>        | <u>\$ (258,770)</u> | <u>\$ -</u>  | <u>\$ 1,996,783</u>          |

|                          | Balance<br>January 1, 2007 | Additions           | Deletions   | Balance<br>December 31, 2007 |
|--------------------------|----------------------------|---------------------|-------------|------------------------------|
| Office Equipment         | \$ 187,986                 | \$ 7,716            | \$ -        | \$ 195,702                   |
| Software                 | 2,524,414                  | -                   | -           | 2,524,414                    |
| Accumulated Depreciation | (196,427)                  | (268,136)           | -           | (464,563)                    |
|                          | <u>\$ 2,515,973</u>        | <u>\$ (260,420)</u> | <u>\$ -</u> | <u>\$ 2,255,553</u>          |

Depreciation expense for the years ended December 31, 2008 and 2007 was \$268,954 and \$268,136, respectively.

#### **NOTE 4 – FUNDING STATUS AND PROGRESS**

The Entry Age Normal cost method has been used to determine the funding requirement of the Plan. This method is one of the funding methods permitted under GASB Statement No. 25 for public sector plans. Normal cost and the allocation of liability between service rendered before and after the valuation date is one of the characteristics of the Entry Age Normal cost method.

#### **NOTE 5 – CONTRIBUTIONS AND RESERVES**

Periodic employer appropriations to the Plan were determined on an actuarial basis using the Entry Age Normal cost method. The Entry Age Normal cost method identifies and separately amortizes unfunded actuarial liabilities. This method was adopted in 2001 by the Board of Trustees. The Entry Age Normal cost method permits the selection of either a 30 year or 40 year amortization period. The Board of Trustees elected an initial amortization period of 30 years. In addition, the Trustees, in recognition of the financial circumstances of the Plan Sponsor, adopted a policy to phase in the required actuarial contribution over a five year period.

In 2003, the Plan Sponsor took action to issue a Pension Obligation Bond to pay off the Unfunded Actuarial Accrued Liability (UAAL). As of July 1, 2003, the Plan actuary determined that the UAAL was 135 million dollars. In recognition of this, the Trustees approved Resolution 2003-03: A Resolution Recommending to the Board of Supervisors Change in County Employer Rates of Appropriation. This Resolution rescinded the phasing in rates previously approved by the Board of Trustees. It set the required rate of appropriation at 15.97% of covered payroll, as recommended by the actuary in the Actuarial Valuation dated January 1, 2003. In recognition of the action taken by the Plan Sponsor in issuing the Pension Obligation Bond, the Resolution also provided for the reduction in the Plan Sponsor's Appropriation rate, subject to the deposit of the proceeds of the Pension Obligation Bond into the Pension Trust. In July of 2003, the Plan Sponsor issued a Pension Obligation Bond for 135 million dollars to pay off the unfunded liability of the Plan at that time. On July 2, 2003, the Plan Sponsor deposited the proceeds of the Pension Obligation Bond into the Trust Fund. At that time, the Board of Supervisors, on recommendation of the Board of Trustees and the Plan actuary established the Plan Sponsor's appropriation rate at 11.40%.

**Actuarially Required Contribution (ARC):** For some years prior to 2003, the County prepaid its annual ARC to the Pension Trust in a single payment at the beginning of the County's fiscal year (July 1). In 2003, the County began paying its ARC on a biweekly basis in conjunction with the usual County payroll process.

The net assets held in trust for pension benefits are allocated among various reserves. From January 1, 2008 through December 13, 2008, these reserves were generally credited with interest at the rate of 7.75%. From December 14, 2008 through December 31, 2008, these reserves were generally credited with interest at the rate of 7.25%. Any interest or dividends earned in excess of the amount required to be credited to the various reserves is accumulated in the contingency reserve.

#### **NOTE 6 – DEPOSITS AND INVESTMENT RISK DISCLOSURES**

##### Investment Stewardship

Except as otherwise expressly restricted by the California Constitution and by law, the Board may, at its discretion, invest, or delegate the Plan to invest the assets of the Plan through the purchase, holding, or sale of any form or type of instrument, or financial transaction when prudent in the informed opinion of the Board. In addition, the Board has established an investment policy, which places limits on the compositional mix of cash, fixed income and equity securities, alternative investments and real estate investments. The Plan currently employs external investment managers to manage its assets subject to the guidelines of the investment policy.

##### Investment Risk

Investments are subject to certain types of risks, including interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk), and foreign currency risk. The following describes those risks:

**NOTE 6 – DEPOSITS AND INVESTMENT RISK DISCLOSURES** (Continued)Investment Risk (Continued)*Interest Rate Risk*

The fair value of fixed maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those investments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments and other general market conditions. Certain fixed maturity investments may have call provisions that could result in shorter maturity periods.

The following schedule is a list of fixed income and short term investments and the related maturity schedule for the Plan as of December 31, 2008:

| Investment Type                           | Investment Maturities (in years) |                      |                      |                      | Fair Value            |
|---|----------------------------------|----------------------|----------------------|----------------------|-----------------------|
|   | Less Than 1 Year                 | 1-5 Years            | 6-10 Years           | More Than 10 Years   |                       |
| Collateralized Mortgage Obligations (CMO) | \$ 551,326                       | \$ -                 | \$ -                 | \$ 21,467,648        | \$ 22,018,974         |
| Corporate Bonds and Notes                 | 8,912,810                        | 59,243,507           | 21,298,809           | 36,174,419           | 125,629,545           |
| Commercial Loans (Notes Receivable)       | -                                | 2,404,088            | -                    | -                    | 2,404,088             |
| Bonds & Notes Accrued Interest Receivable | 2,653,487                        | -                    | -                    | -                    | 2,653,487             |
| US Agencies                               | -                                | 8,002,754            | 6,012,030            | -                    | 14,014,784            |
| Foreign Corporate Bonds                   | -                                | -                    | 897,192              | -                    | 897,192               |
| Foreign Government Bonds                  | 8,733,499                        | 12,559,640           | 11,723,649           | 15,015,712           | 48,032,500            |
| Total                                     | <u>\$ 20,851,122</u>             | <u>\$ 82,209,989</u> | <u>\$ 39,931,680</u> | <u>\$ 72,657,779</u> | <u>\$ 215,650,570</u> |

*Custodial Credit Risk*

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

At year-end, the carrying amount of the Plan's cash deposits was \$22,619,524 (which are included in cash equivalents) and the bank balance was \$22,744,908. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$20,964,781 was collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. As of December 2008, approximately \$1,280,127 of cash held in four local bank accounts was not collateralized as required by Section 53652 and as such was exposed to custodial credit risk; however, such funds were covered by FDIC and the funds were subsequently collateralized in accord with Section 53652 in the first quarter of 2009. As of 2008, the Plan confirms the existence and allocation of the bank's collateral with the State of California Local Agency Commission annually.

**NOTE 6 – DEPOSITS AND INVESTMENT RISK DISCLOSURES** (Continued)

Investment Risk (Continued)

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

The Board's investment policies and guidelines permit investments in numerous specified asset classes to take advantage of professional investment management advice and a well-diversified portfolio. The investment portfolio contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5% or more of plan net assets.

*Credit Risk*

The Plan's general investment policy is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and for the exclusive purposes of providing benefits, minimizing contributions and defraying reasonable expenses of administering the Trust. Investments should be diversified 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.

Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors. For example, the financial condition of the issuers provides investors with some idea of the issuer's ability to meet its obligations. Fixed-maturity investments may consist of rated or non-rated securities. Ratings can range from AAA (highest quality) to D (default). Debt securities with ratings of BBB or higher are considered investment grade issues, and debt securities with ratings of BB or lower are non-investment grade issues. Debt securities in the non-investment grade category are more speculative and are often referred to as "high-yield". This is due to the fact that lower rated debt securities generally carry a higher interest rate to compensate the buyer for taking on additional risk.

The following is a schedule of the credit risk ratings of the Plan's fixed income and short term investments as of December 31, 2008, as rated by Standard & Poor's.

| <u>Quality Rating</u> | <u>Fair Value</u>     |
|-----------------------|-----------------------|
| AAA                   | \$ 43,382,112         |
| AA+                   | 4,191,764             |
| AA                    | 8,925,757             |
| AA-                   | 9,155,258             |
| A+                    | 13,241,308            |
| A                     | 20,261,532            |
| A-                    | 14,931,014            |
| BBB+                  | 3,541,140             |
| BBB                   | 17,924,866            |
| BBB-                  | 12,836,617            |
| BB+                   | 3,932,100             |
| BB                    | 2,276,820             |
| B+                    | 3,645,000             |
| B                     | 2,227,500             |
| B-                    | 4,877,881             |
| CCC+                  | 3,042,000             |
| CCC                   | 870,000               |
| CC                    | 1,100,000             |
| D                     | 600                   |
| Not Rated**           | 45,287,301            |
|                       | <u>\$ 215,650,570</u> |

\*\* **Not Rated** includes Commercial Loans Receivable and Bonds & Notes Accrued Interest Receivable.

**NOTE 6 – DEPOSITS AND INVESTMENT RISK DISCLOSURES** (Continued)*Foreign Currency Risk*

Foreign Currency Risk is the risk that occurs when changes in exchange rates may adversely affect the fair value of an investment. The Plan's external investment managers may invest in international securities and must follow the Plan's Investments Guidelines pertaining to these types of investments. The Plan's exposure to Foreign Currency Risk in U.S. dollars as of December 31, 2008 is as follows:

| <u>Currency</u>    | <u>Fair Value</u>    |
|--------------------|----------------------|
| Australian Dollar  | \$ 7,119,922         |
| Brazilian Real     | 654,052              |
| British Pound      | 13,728,671           |
| Canadian Dollar    | 3,082,767            |
| Chinese Renminbi   | 286,300              |
| Danish Krone       | 1,130,672            |
| Euro Currency      | 26,461,676           |
| Hong Kong Dollar   | 877,665              |
| Indian Rupee       | 314,152              |
| Israeli Shekel     | 88,765               |
| Japanese Yen       | 13,853,105           |
| Malaysian Ringgit  | 2,279,504            |
| Mexican Peso       | 287,246              |
| New Turkish Lira   | 878,692              |
| New Zealand Dollar | 1,984,705            |
| Norwegian Kroner   | 1,401,415            |
| Polish Zloty       | 1,798,171            |
| Singapore Dollar   | 37,205               |
| South African Rand | 3,234,199            |
| South Korean Won   | 746,499              |
| Swedish Krona      | 2,031,701            |
| Swiss Franc        | 7,550,968            |
| Thailand Baht      | 222,647              |
|                    | <hr/>                |
| Total              | <u>\$ 90,050,699</u> |

**NOTE 7 – INVESTMENTS IN BONDS AND NOTES AND COLLATERALIZED MORTGAGE OBLIGATIONS**

The summary of investments held by the Plan in bonds and notes and collateralized mortgage obligations at December 31, 2008, is as follows:

|  | <u>Cost</u>           | <u>Fair Value</u>     |
|--|-----------------------|-----------------------|
| Bonds and Notes                            | \$ 203,512,014        | \$ 149,996,713        |
| Collateralized Mortgage Obligations        | 36,134,384            | 22,227,617            |
| Commercial Notes Receivable                | 2,404,088             | 2,404,088             |
|  | <hr/>                 | <hr/>                 |
|  | <u>\$ 242,050,486</u> | <u>\$ 174,628,418</u> |
|  | <hr/>                 | <hr/>                 |
|  | <u>Cost</u>           | <u>Fair Value</u>     |
| Brandywine International Fixed Income Fund | \$ 39,848,871         | \$ 41,022,152         |
| Total Fixed Income                         | <u>\$ 281,899,357</u> | <u>\$ 215,650,570</u> |

**NOTE 7 – INVESTMENTS IN BONDS AND NOTES AND COLLATERALIZED MORTGAGE OBLIGATIONS** (Continued)

The summary of investments held by the Plan in bonds and notes and collateralized mortgage obligations at December 31, 2007, is as follows:

|  | <u>Cost</u>           | <u>Fair Value</u>     |
|--|-----------------------|-----------------------|
| Bonds and Notes                            | \$ 207,405,593        | \$ 196,502,224        |
| Collateralized Mortgage Obligations        | 48,780,281            | 47,256,026            |
| Commercial Notes Receivable                | 4,043,482             | 4,043,482             |
|  | <u>\$ 260,229,356</u> | <u>\$ 247,801,732</u> |
|  | <u>Cost</u>           | <u>Fair Value</u>     |
| Brandywine International Fixed Income Fund | \$ 40,000,000         | \$ 39,970,912         |
| Total Fixed Income                         | <u>\$ 300,229,356</u> | <u>\$ 287,772,644</u> |

**NOTE 8 – DERIVATIVES**

The Retirement Board has authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

Derivative financial instruments held by the Pension Trust consist of the following:

- Cash securities containing derivative features, including callable bonds, structural notes, and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets. The approximate fair market value of these instruments was \$22,227,617 at December 31, 2008.

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

**Credit risk:** Credit risk of cash securities containing derivative features is based upon the credit worthiness of the issuers of such securities. The Pension Trust establishes minimum credit requirements for such securities. Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange's margin requirements.

**NOTE 9 – DOMESTIC EQUITIES**

The summary of investments held by the Plan in domestic equities at December 31, 2008 is as follows:

|                                       | <u>Cost</u>           | <u>Fair Value</u>     |
|---------------------------------------|-----------------------|-----------------------|
| Mellon Bank US Equity Market Fund     | \$ 4,346              | \$ 4,346              |
| Intech S&P 500 Index Fund             | 44,881,101            | 32,201,806            |
| AXA Rosenberg Small/Mid Cap Fund      | 80,336,602            | 47,314,622            |
| Research Affiliates Fund              | 50,185,207            | 31,026,924            |
| Mason Capital Diversified Equity Fund | 78,884,087            | 66,738,031            |
|                                       | <u>\$ 254,291,343</u> | <u>\$ 177,285,729</u> |

The summary of investments held by the Plan in domestic equities at December 31, 2007 is as follows:

|   | <u>Cost</u>           | <u>Fair Value</u>     |
|---|-----------------------|-----------------------|
| Mellon Bank US Equity Market Fund       | \$ 4,346              | \$ 4,346              |
| Bank of New York Western Trust Equities | 94,136                | 94,136                |
| Intech S&P 500 Index Fund               | 50,004,427            | 50,082,207            |
| AXA Rosenberg Small/Mid Cap Fund        | 80,336,602            | 79,063,045            |
| Research Affiliates Fund                | 50,373,741            | 49,781,243            |
| Mason Capital Diversified Equity Fund   | 78,682,314            | 98,900,811            |
|   | <u>\$ 259,495,566</u> | <u>\$ 277,925,788</u> |

**NOTE 10 – INTERNATIONAL EQUITIES**

The summary of investments held by the Plan in International Equities at December 31, 2008 is as follows:

|  | <u>Cost</u>           | <u>Fair Value</u>    |
|--|-----------------------|----------------------|
| Dodge & Cox International Stock Index Fund | \$ 78,897,228         | \$ 36,824,168        |
| Vontobel International Equity Fund         | 59,950,205            | 41,455,080           |
|  | <u>\$ 138,847,433</u> | <u>\$ 78,279,248</u> |

The summary of investments held by the Plan in International Equities at December 31, 2007 is as follows:

|  | <u>Cost</u>           | <u>Fair Value</u>     |
|--|-----------------------|-----------------------|
| Dodge & Cox International Stock Index Fund | \$ 75,093,823         | \$ 69,052,154         |
| Vontobel International Equity Fund         | 69,755,851            | 69,896,134            |
|  | <u>\$ 144,849,674</u> | <u>\$ 138,948,288</u> |

**NOTE 11 – REAL ESTATE INVESTMENT TRUSTS**

The summary of investments held by the Plan in real estate investment trusts at December 31, 2008 is as follows:

|  | <u>Cost</u>          | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| AI Mason - Real Estate Investment Trusts | \$ 62,945,680        | \$ 41,593,884        |
| JP Morgan Real Estate Fund               | 35,730,846           | 31,830,066           |
|  | <u>\$ 98,676,526</u> | <u>\$ 73,423,950</u> |

The summary of investments held by the Plan in real estate investment trusts at December 31, 2007 is as follows:

|  | <u>Cost</u>          | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| AI Mason - Real Estate Investment Trusts | <u>\$ 65,025,755</u> | <u>\$ 66,148,136</u> |

**NOTE 12 – INVESTMENTS IN REAL ESTATE**

The summary of investments held by the Plan in real estate at December 31, 2008 is as follows:

|  | <u>Cost</u>          | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| Real Estate Held for Investment - Separate Account | \$ 29,914,220        | \$ 33,985,413        |
| Real Estate Held for Investment - Commingled Funds | 12,223,056           | 7,237,993            |
|  | <u>\$ 42,137,276</u> | <u>\$ 41,223,406</u> |

The summary of investments held by the Plan in real estate at December 31, 2007 is as follows:

|  | <u>Cost</u>          | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| Real Estate Held for Investment - Separate Account | \$ 30,125,345        | \$ 34,327,127        |
| Real Estate Held for Investment - Commingled Funds | 8,388,801            | 9,208,718            |
|  | <u>\$ 38,514,146</u> | <u>\$ 43,535,845</u> |

**NOTE 13 – FUNDED STATUS**

The Plan's funded status based on the most recent actuarial valuation performed by Gabriel, Roeder, Smith and Company as of December 31, 2007 is as follows:

Schedule of Funded Status (Dollars in Thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>(b-a)/c |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 12/31/2007                     | \$ 829,764                             | \$ 1,057,124   | \$ 227,360                         | 78.49%                   | \$ 162,436                | 139.97%   |

**NOTE 13 – FUNDED STATUS** (Continued)

Disclosure of Information about Actuarial Methods and Assumptions

The required Schedule of Funding Progress immediately following the Notes to the Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employers and plan members to that point.

The projection of benefits for financial reporting does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost-sharing between the employer and the plan members in the future.

Actuarial calculations reflect a long-term prospective. Actuarial methods and assumptions used include techniques to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Latest Actuarial Valuation Methods and Assumptions

Contributions were made in accordance with actuarially determined requirements. A variety of significant actuarial assumptions are used to determine the contributions required. These assumptions are summarized below:

|                               |                      |
|-------------------------------|----------------------|
| Valuation Date                | January 1, 2008      |
| Actuarial Cost Method         | Entry Age Normal     |
| Amortization Method           | 30 years closed      |
| Remaining Amortization Period | 26                   |
| Asset Valuation Method        | Market Related Blend |
| Actuarial Assumptions:        |                      |
| Investment Rate of Return     | 7.75%                |
| Projected Salary Increases    | 5.50%                |
| Cost-of-Living Adjustments    | 3.00% (Plan Limit)   |

**NOTE 14 – LITIGATION**

San Luis Obispo County Pension Trust is subject to legal proceedings and claims which have risen in the ordinary course of its business and have not been finally adjudicated. These actions, when finally concluded and determined, will not, in the opinion of the management of San Luis Obispo County Pension Trust, have a material adverse effect upon the financial position of San Luis Obispo County Pension Trust.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

The financial statements for prior periods have been restated to reflect the correction of a prior year balance. The adjustment eliminated duplication in the amount of \$29,176 arising due to an error in bank reconciliation cut-off procedures in the local real estate portfolio. The effect of the correction is to reduce Real Estate Held for Investment and to reduce the beginning balance of Net Assets Held in Trust for Pension Benefits by the cumulative amount of \$29,176. The error was detected by Trust management in exercise of the Trust's own internal control procedures.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SAN LUIS OBISPO COUNTY PENSION TRUST  
SCHEDULE FUNDING PROGRESS  
DECEMBER 31, 2008**

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due, is as follows:

(Dollars in Thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Annual<br>Covered Payroll<br>((b-a)/c) |
|--------------------------------|--|--|---------------------------------|--------------------------|---------------------------|--|
| 12/31/2002                     | \$ 430,351                             | \$ 556,321                                     | \$ 125,970                      | 77.36%                   | \$ 131,997                | 95.43%   |
| 12/31/2003                     | 604,808                                | 642,734  | 37,926                          | 94.10%                   | 136,364                   | 27.81%   |
| 12/31/2004                     | 651,751                                | 715,085  | 63,334                          | 91.14%                   | 135,189                   | 46.85%   |
| 12/31/2005                     | 700,060                                | 831,290  | 131,230                         | 84.21%                   | 143,902                   | 91.19%   |
| 12/31/2006                     | 759,758                                | 994,861  | 235,103                         | 76.37%                   | 152,117                   | 154.55%  |
| 12/31/2007                     | 829,764                                | 1,057,124                                      | 227,360                         | 78.49%                   | 162,436                   | 139.97%  |

**SAN LUIS OBISPO COUNTY PENSION TRUST  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
DECEMBER 31, 2008**

Historical information regarding required and actual annual contributions by the employer is as follows:

| <u>Year Ended<br/>December 31,</u> | <u>Actual Annual<br/>Contribution</u> | <u>Annual Required<br/>Contribution</u> | <u>Percentage<br/>Contribution</u> |
|------------------------------------|---------------------------------------|---|------------------------------------|
| 2001                               | \$ 12,639,251                         | \$ 15,976,897                           | 79%                                |
| 2002                               | 14,628,625                            | 17,563,942                              | 83%                                |
| 2003                               | 150,813,215                           | 20,172,937                              | 748%                               |
| 2004                               | 16,520,585                            | 16,890,884                              | 98%                                |
| 2005                               | 18,209,481                            | 20,007,977                              | 91%                                |
| 2006                               | 19,177,491                            | 22,017,780                              | 87%                                |
| 2007                               | 24,014,202                            | 33,840,580                              | 71%                                |
| 2008                               | 30,860,282                            | 33,544,943                              | 92%                                |

Contributions were made in accordance with actuarially determined requirements. A variety of significant actuarial assumptions are used to determine the contributions required. These assumptions are summarized below:

|                               |                      |
|-------------------------------|----------------------|
| Valuation Date                | January 1, 2008      |
| Actuarial Cost Method         | Entry Age Normal     |
| Amortization Method           | 30 years closed      |
| Remaining Amortization Period | 26                   |
| Asset Valuation Method        | Market Related Blend |
| Actuarial Assumptions:        |                      |
| Investment Rate of Return     | 7.75%                |
| Projected Salary Increases    | 5.50%                |
| Cost-of-Living Adjustments    | 3.00% (Plan Limit)   |

**OTHER SUPPLEMENTARY INFORMATION**

**SAN LUIS OBISPO COUNTY PENSION TRUST  
SCHEDULE OF CHANGES IN RESERVES  
YEAR ENDED DECEMBER 31, 2008**

|   | Member<br>Deposits    | Current<br>Reserve    | Retirees and<br>Beneficiaries | Cost-of-Living        | Subtotal              | Contingency             | Adjustments<br>to Fair Value | Total                 |
|---|-----------------------|-----------------------|-------------------------------|-----------------------|-----------------------|-------------------------|------------------------------|-----------------------|
| Balances - January 1, 2008                  | \$ 177,938,284        | \$ 177,659,164        | \$ 329,207,134                | \$ 175,054,150        | \$ 859,858,732        | \$ (119,047,904)        | \$ 91,396,079                | \$ 832,206,907        |
| Contributions                               | 22,840,488            | 18,672,380            | -                             | 12,187,902            | 53,700,770            | -                       | -                            | 53,700,770            |
| Interest, Dividends, and Rental Income, Net | 13,994,732            | 13,902,125            | 26,861,953                    | 14,296,409            | 69,055,219            | (43,379,929)            | -                            | 25,675,290            |
| Net Increase in Fair Value of Investments   | -                     | -                     | -                             | -                     | -                     | (20,511,464)            | (239,703,297)                | (260,214,761)         |
| Transfers <sup>(1)</sup>                    | -                     | (11,023,561)          | 11,023,561                    | -                     | -                     | -                       | -                            | -                     |
| Transfers <sup>(2)</sup>                    | (68,557)              | 68,557                | -                             | -                     | -                     | -                       | -                            | -                     |
| Miscellaneous Income                        | -                     | -                     | -                             | -                     | -                     | 350                     | -                            | 350                   |
| Retiree Reserve Transfers                   | (13,671,917)          | (27,801,771)          | 41,473,688                    | -                     | -                     | -                       | -                            | -                     |
| Benefit Payments                            | -                     | -                     | (30,828,073)                  | (6,269,499)           | (37,097,572)          | -                       | -                            | (37,097,572)          |
| Refund of Contributions                     | (2,016,696)           | -                     | -                             | -                     | (2,016,696)           | -                       | -                            | (2,016,696)           |
| Death Benefits                              | (36,431)              | (49,733)              | (110,608)                     | -                     | (196,772)             | -                       | -                            | (196,772)             |
| Other Expenses                              | -                     | -                     | -                             | -                     | -                     | (1,770,716)             | -                            | (1,770,716)           |
| Balances - December 31, 2008                | <u>\$ 198,979,903</u> | <u>\$ 171,427,161</u> | <u>\$ 377,627,655</u>         | <u>\$ 195,268,962</u> | <u>\$ 943,303,681</u> | <u>\$ (184,709,663)</u> | <u>\$ (148,307,218)</u>      | <u>\$ 610,286,800</u> |

<sup>(1)</sup> The actuary recommended this transfer from the current reserve to the retirees and beneficiaries reserve to accurately reflect the computed liability

<sup>(2)</sup> Retirement reserve transfer adjustment/interest accruals to Member accounts adjustment