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

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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
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ACCOUNTANCY CORPORATION

Bakersfield, California
May 29, 2009

County of San Luis Obispo

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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:

	2008	2007	Increase (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	5,351,828	10,376,887	(5,025,059)
Total Assets	611,430,167	832,791,658	(221,361,491)
Total Liabilities	1,143,367	584,751	558,616
Net Assets	$ 610,286,800	$ 832,206,907	$(221,920,107)

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.

	2008	2007	Increase (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)	(234,539,120)	37,639,747	(272,178,867)
Total	$ (180,838,350)	$ 79,060,265	$(259,898,615)
Total Deductions from Plan Net Assets	$ 41,081,757	$ 35,821,172	$ 5,260,585

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:

	2008	2007	Increase (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
ASSETS		
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
LIABILITIES		
Accrued Liabilities	1,143,367	584,751
NET ASSETS		
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

	2008	2007
ADDITIONS		
Contributions		
County Contributions	$ 30,860,282	$ 24,014,202
Member Contributions	22,840,488	17,406,316
Total Contributions	53,700,770	41,420,518
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	(2,764,423)	(1,442,991)
Net Investment Income (Loss)	(234,539,120)	37,639,747
Total Additions (Losses)	(180,838,350)	79,060,265
DEDUCTIONS		
Benefits		
Monthly Benefit Payments	37,097,572	32,100,134
Refund of Contributions	2,016,696	1,587,852
Death Benefits	196,772	504,176
Total Benefits	39,311,040	34,192,162
Other Expenses		
Administration and Actuarial	1,770,717	1,629,010
Total Deductions	41,081,757	35,821,172
Net Increase (Decrease) in Net Assets	(221,920,107)	43,239,093
Net Assets Held in Trust for Pension Benefits - December 31, 2007 and December 31, 2006	832,206,907	788,996,990
Prior Period Adjustment (See Note 15)	-	(29,176)
Net Assets Held in Trust for Pension Benefits - December 31, 2007 and December 31, 2006, as restated	832,206,907	788,967,814
Net Assets Held in Trust for Pension Benefits - December 31, 2008 and December 31, 2007	$ 610,286,800	$ 832,206,907

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

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 January 1, 2008	Additions	Deletions	Balance 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)
	$ 2,255,553	$ (258,770)	$ -	$ 1,996,783

	Balance January 1, 2007	Additions	Deletions	Balance 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)
	$ 2,515,973	$ (260,420)	$ -	$ 2,255,553

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 Maturities (in years)				
Investment Type	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	Fair Value
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	$ 20,851,122	$ 82,209,989	$ 39,931,680	$ 72,657,779	$ 215,650,570

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.

Quality Rating	Fair Value
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
	$ 215,650,570

** ***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:

Currency	Fair Value
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 Ringit	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
Total	$ 90,050,699

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:

	Cost	Fair Value
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
	$ 242,050,486	$ 174,628,418

	Cost	Fair Value
Brandywine International Fixed Income Fund	$ 39,848,871	$ 41,022,152
Total Fixed Income	$ 281,899,357	$ 215,650,570

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:

	Cost	Fair Value
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
	$ 260,229,356	$ 247,801,732

	Cost	Fair Value
Brandywine International Fixed Income Fund	$ 40,000,000	$ 39,970,912
Total Fixed Income	$ 300,229,356	$ 287,772,644

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:

	Cost	Fair Value
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
	$ 254,291,343	$ 177,285,729

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

	Cost	Fair Value
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
	$ 259,495,566	$ 277,925,788

NOTE 10 – INTERNATIONAL EQUITIES

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

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

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

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

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:

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

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

	Cost	Fair Value
Al Mason - Real Estate Investment Trusts	$ 65,025,755	$ 66,148,136

NOTE 12 – INVESTMENTS IN REAL ESTATE

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

	Cost	Fair Value
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
	$ 42,137,276	$ 41,223,406

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

	Cost	Fair Value
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
	$ 38,514,146	$ 43,535,845

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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
12/31/2002	$ 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:

Year Ended December 31,	Actual Annual Contribution	Annual Required Contribution	Percentage Contribution
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 Deposits	Current Reserve	Retirees and Beneficiaries	Cost-of-Living	Subtotal	Contingency	Adjustments 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 [1]	-	(11,023,561)	11,023,561	-	-	-	-	-
Transfers [2]	(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	$ 198,979,903	$ 171,427,161	$ 377,627,655	$ 195,268,962	$ 943,303,681	$ (184,709,663)	$ (148,307,218)	$ 610,286,800

[1] The actuary recommended this transfer from the current reserve to the retirees and beneficiaries reserve to accurately reflect the computed liability
[2] Retirement reserve transfer adjustment/interest accruals to Member accounts adjustment

SAN LUIS OBISPO COUNTY PENSION TRUST

REPORT TO THE BOARD OF TRUSTEES

FOR THE YEAR ENDED DECEMBER 31, 2008

SAN LUIS OBISPO COUNTY PENSION TRUST

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CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH & KEETER
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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE UNDER STATEMENT ON AUDITING STANDARDS NO. 114

To the Board of Trustees
San Luis Obispo County Pension Trust

We have audited the financial statements of San Luis Obispo County Pension Trust (SLOCPT) for the year ended December 31, 2008, and have issued our report thereon dated May 29, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated October 31, 2008, our responsibility, as described by professional standards is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 30, 2009.

Significant Audit Findings

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement contract, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by SLOCPT are described in Note 2 to the financial statements. In 2008, SLOCPT adopted the provisions of Governmental Accounting Standards Board (GASB) No. 50, Pension Disclosures an amendment of GASB No. 25 and 27.

We noted no other transactions entered into by SLOCPT during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the fair market value of investments.

Management's estimate of the fair market value of investments is based on market prices at the balance sheet date for those securities. In addition, the fair value of the investments in limited partnerships and real estate investments that do not have a market price is based on valuations performed on those limited partnerships and real estate investments by a third-party. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit
We encountered no difficulties in dealing with management in performing our audit.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated May 29, 2009.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Plan’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This information is intended solely for the use of the Audit Committee and management of SLOCPT and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURG & KEETER
ACCOUNTANCY CORPORATION

By: Andrew J. Paulden

Bakersfield, California
May 29, 2009

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH & KEETER
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AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
San Luis Obispo County Pension Trust

We have audited the financial statements of the San Luis Obispo County Pension Trust (SLOCPT), as of and for the year ended December 31, 2008, and have issued our report thereon dated May 29, 2009. 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.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the San Luis Obispo County Pension Trust internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of the San Luis Obispo County Pension Trust's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the San Luis Obispo County Pension Trust 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This information is intended solely for the information and use of the audit committee, Board of Trustees, and management of SLOCPT and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

By: Andrew J. Paulden

Bakersfield, California
May 29, 2009

BROWN ARMSTRONG PAULDEN
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AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS AND/OR FINANCIAL REPORTING

To the Board of Trustees
San Luis Obispo County Pension Trust

We have audited the financial statements of the San Luis Obispo County Pension Trust (SLOCPT) for the year ended December 31, 2008 and have issued our report thereon dated May 29, 2009. In planning and performing our audit of the financial statements of SLOCPT, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

As a result of our audit, we noted certain agreed-upon findings. These findings and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other efficiencies and are summarized as follows:

Current Year Findings & Recommendations

Agreed Upon Condition 1 – Manager to Custodian Reconciliations

One Investment Manager currently does not perform reconciliations to the global custodian.

Recommendation

Investment managers should prepare and provide SLOCPT with periodic reconciliations of their balances to the global custodian. SLOCPT should review and approve these reconciliations.

Management Response

Staff will request that copies of all reconciliation's done by the Investment Managers be copied to the Pension Trust. Staff will also monitor investment manager contracts to find appropriate times to enter such provisions into future contracts.

Status of Prior Year Findings & Recommendations

Agreed Upon Condition 1 – Manager to Custodian Reconciliations

SLOCPT does not require that the investment managers provide reconciliations of their balances to those of the global custodian.

Recommendation

Investment managers should prepare and provide SLOCPT with periodic reconciliations of their balances to the global custodian. SLOCPT should review and approve these reconciliations.

Management Response

Staff will request that copies of all reconciliation's done by the Investment Managers be copied to the Pension Trust. Staff will also monitor investment manager contracts to find appropriate times to enter such provisions into future contracts.

Current Year Status

Partially Implemented – See Current Year Finding 1.

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This information is intended solely for the use of the Board of Trustees and management of SLOCPT and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

By: Andrew J. Paulden

Bakersfield, California
May 29, 2009