San Joaquin County Employees Retirement Association

A G E N D A

AUDIT COMMITTEE MEETING
SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
MONDAY, MAY 15, 2023
AT 10:00 AM
Location: SJCERA Board Room, 6 S. El Dorado Street, Suite 400, Stockton, California

Persons who require disability-related accommodations should contact SJCERA at (209) 468-9950 or ElainaP@sjcera.org at least forty-eight (48) hours prior to the scheduled meeting time.

1.0 ROLL CALL

2.0 PUBLIC COMMENT

Except as otherwise permitted by the Ralph M. Brown Act (California Government Code Sections 54950 et seq.), no deliberation, discussion or action may be taken by the Board on items not listed on the agenda. Members of the Board may, but are not required to: (1) briefly respond to statements made or questions posed by persons addressing the Board; (2) ask a brief question for clarification; or (3) refer the matter to staff for further information.

3.0 2022 AUDIT EXIT CONFERENCE

3.01 Presentation of Audit Results by CPA Lindsey Zimmerman of Brown Armstrong Accountancy Corporation — 02

3.02 Draft Conclusion of Audit and Internal Control Reports — 11

3.03 Draft Annual Financial Report — 19

3.04 Committee to discuss and give direction to auditor or staff as appropriate

4.0 COMMENT

4.01 Comments from the Committee

5.0 ADJOURNMENT

San Joaquin County Employees' Retirement Association

Audit Report Presentation to the Audit Committee for the December 31, 2022 Year End Financial Statements

Brown Armstrong
Accountancy Corporation
4200 Truxtun Avenue, Suite 300, Bakersfield, California 93309 | 661.324.4971 | Fax 661.324.4997
www.bacpas.com
Contacts: Lindsey Zimmerman, CPA lzimmerman@ba.cpa

May 15, 2023

The Audit Committee
San Joaquin County Employees’ Retirement Association
6 South El Dorado Street, Suite 400
Stockton, CA 95202-2804

We are pleased to present to you the results of our audit of the San Joaquin County Employees’ Retirement Association (SJCERA) financial statements for the year ending December 31, 2022.

We look forward to presenting the results of the audit and addressing your questions.

Sincerely,

Lindsey Zimmerman, CPA
Partner

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Agenda

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CERTIFIED PUBLIC ACCOUNTANTS

Scope of Services Recap

As the auditor for SJCERA, we are responsible for reporting on the financial statements of SJCERA for the year ended December 31, 2022. Our engagement was focused on delivering our services at three levels.

Levels	Description
For the public and SJCERA	Independent opinions and reports that provide assurance on the financial information released by SJCERA.
For the Audit Committee/Retirement Board	Assistance in discharging their fiduciary responsibilities.
For management	Observations and advice on financial reporting, accounting, and internal control issues from our professionals.

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Scope of Services Recap (Continued)

Our primary objective is the expression of an opinion on SJCERA's financial statements and to consider SJCERA's internal control over financial reporting 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, which includes:

- Obtaining reasonable assurance as to whether the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are free of material misstatements, whether caused by error or fraud; and
- Obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Brown Armstrong
Certified Public Accountants

Audit Timeline/Critical Dates List

- Entrance Meeting with Audit Committee – March 10, 2023
- Interim Fieldwork – March 13, 2023
  - On-Site Testing of Internal Controls
  - Walkthroughs and Understanding of Key Accounting Areas
  - Update Minutes and Agreements
- Final Fieldwork – April 10, 2023
  - Substantiate all Accounts and Balances
  - Review Confirmation Responses
- Audit Opinions expected to be Issued – May 18, 2023
- ACFR Review – June 2023

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CERTIFIED PUBLIC ACCOUNTANTS

Results of the Audit

Report	Opinion or Required Communication
Independent Auditor's Report (Opinion) on Financial Statements	Unmodified

Required Communication at the Conclusion of an Audit to the Board of Retirement and Audit Committee in Accordance with Professional Standards (SAS 114)	• New Accounting Standards Adopted
	  • None that were material
	• Significant Estimates Reviewed
	  • Fair Value of Investments
	  • Contribution and Net Pension Liability Estimates
	    ✓ Based on actuary assumptions
	• Uncorrected Misstatements –None
	• Corrected– $29M unrealized loss adjustment
	• Disagreements with Management – None

Independent 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*	No noncompliance noted No material weaknesses were identified 1 significant deficiencies was noted– Lack of reconciliation and recording of an investment balance

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CERTIFIED PUBLIC ACCOUNTANTS

Financial Statement Review

- Review Process
- Questions on the Annual Financial Report
- GFOA Award

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Questions?

Thank you management team for your assistance and flexibility with the December 31, 2022 audit during this time.

Lindsey Zimmerman, CPA
Partner

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REPORT TO THE BOARD OF RETIREMENT AND AUDIT COMMITTEE

FOR THE YEAR ENDED DECEMBER 31, 2022

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2022

TABLE OF CONTENTS

REQUIRED COMMUNICATION AT THE CONCLUSION OF AN AUDIT TO THE BOARD OF RETIREMENT AND AUDIT COMMITTEE IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)

To the Members of the Board of Retirement and Audit Committee of
San Joaquin County Employees' Retirement Association
Stockton, California

We have audited the basic financial statements and other information (financial statements) of the San Joaquin County Employees' Retirement Association (SJCERA) as of and for the year ended December 31, 2022, and have issued our report thereon dated __________, 2023. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated January 11, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SJCERA are described in Note 3, Summary of Significant Accounting Policies – Pension Plan, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2022. We noted no transactions entered into by SJCERA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimates affecting the financial statements were:

- Management's estimates of the fair value of investments and the money-weighted rate of return are derived by various methods as described in Note 3, Summary of Significant Accounting Policies – Pension Plan; Note 4, Cash and Investments; and Note 5, Derivative Financial Instruments, to the financial statements. We evaluated the key factors and assumptions used to develop the estimates of the fair value of investments and the money-weighted rate of return in determining that they are reasonable in relation to the financial statements taken as a whole.

- Management's estimates of the contribution amounts and net pension liability are based on an actuarially-presumed interest rate and assumptions recommended by an independent actuary and adopted by the Board of Retirement and involve estimates of the values of reported amounts and probabilities about the occurrence of future events, as detailed in Note 6, Contributions Required and Contributions Made, and Note 8, Net Pension Liability and Significant Assumptions. We evaluated the key factors and assumptions used to develop the estimates of the contribution amounts and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures for cash and investments and derivative financial instruments in Notes 4 and 5 to the financial statements, respectively, were derived from SJCERA's investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes.

- The disclosures related to the funding policies, funded status, funding progress, and actuarial methods and assumptions in Note 6 and Note 8 were derived from actuarial valuations, which involve estimates of the value of reported amounts and probabilities about the occurrence of the future events far into the future.

The financial statement disclosures are neutral, consistent, and clear.

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

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Dr. Unrealized loss on investments	$29,401,326	
Cr. Investments, at fair value		$29,401,236

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the 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 __________, 2023.

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 SJCERA'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 SJCERA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions from the Employers and Other Contributing Sources – Defined Benefit Pension Plan, and Schedule of Investment Returns, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introduction, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Board of Retirement, Audit Committee, and management of SJCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
__________, 2023

INDEPENDENT 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 Members of the Board of Retirement and Audit Committee of
San Joaquin County Employees' Retirement Association
Stockton, California

We have audited, in accordance with the 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, the basic financial statements of the San Joaquin County Employees' Retirement Association (SJCERA), as of and for the year ended December 31, 2022, and the related notes to the basic financial statements, which collectively comprise SJCERA's basic financial statements and other information (financial statements), and have issued our report thereon dated __________, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SJCERA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SJCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SJCERA's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SJCERA's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings as item 2022-001 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SJCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

City of X, State Y's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on SJCERA's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. SJCERA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SJCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJCERA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
__________, 2023

Schedule of Findings

2022-001 – Investment Adjustment

During our audit procedures over investments, we determined that the net appreciation and fair value of one investment account was overstated by $29.4 million. This occurred as a result of the custodian failing to reconcile the investment balance to the investment manager's year end statement and lack of management reconciliation and oversight.

Recommendation

We recommend that management uphold the controls in place for investment reconciliations for all investments such that every investment's fair value is properly recorded, and each investment is properly reconciled to the custodian and investment manager's statements. We also suggest that each investment reconciliation be performed by one individual and reviewed by another manager.

Management's Response

Management agrees with the recommendation. Management met with both the investment manager and custodian and noted there was a disconnect with the investment manager reporting to the custodian resulting in the reporting issue on the custodian's side. Management has worked out a plan to ensure proper reporting and reconciliations of the reports are done on a monthly basis going forward.

Status of Prior Year Findings

None.

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ANNUAL FINANCIAL REPORT WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2022

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2022

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Retirement and Audit Committee of
San Joaquin County Employees' Retirement Association
Stockton, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Statement of Fiduciary Net Position of the San Joaquin County Employees' Retirement Association (SJCERA), a pension trust fund of the County of San Joaquin, as of and for the year December 31, 2022, the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise SJCERA's basic financial statements as listed in the table of contents. We have also audited the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) as of and for the year ended December 31, 2022, listed as other information in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of SJCERA as of December 31, 2022, the changes in fiduciary net position for the year then ended, and the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) as of and for the year ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SJCERA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SJCERA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Management is also responsible for maintaining a current plan instrument, including all plan amendments; administering the plan; and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SJCERA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SJCERA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SJCERA's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited SJCERA's December 31, 2021, financial statements, and our report dated May 24, 2022, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated __________, 2023, on our consideration of SJCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is solely 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 effectiveness of SJCERA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
__________, 2023

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MANAGEMENT’S DISCUSSION AND ANALYSIS

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

Introduction

Management's Discussion and Analysis (MD&A) presents the overview and analysis of the financial activities of the San Joaquin County Employees' Retirement Association (SJCERA or the Plan) for the year ended December 31, 2022. This MD&A presents SJCERA's overall financial position and the results of its operations, in conjunction with SJCERA's financial statements and notes.

Financial Highlights

- SJCERA's fiduciary net position decreased by $381.3 million, or 9.08 percent, to $3.8 billion as of December 31, 2022.
- SJCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2022, the date of the last actuarial valuation, the funded ratio for the actuarial liability was approximately 72.4 percent. In general, this indicates that for every dollar of benefits liability, SJCERA has about 72 cents. The portion of the pension liability attributable to inactive members (retired or deferred) is fully funded by plan assets. (Note 8c provides a more detailed explanation of recent changes in the funded ratio.)
- Revenues for the year were $(96.3) million, a decrease of $1.0 billion from the prior year. The decrease was mainly caused by the decrease in net investment gains/(losses) compared to the prior year.
- Expenses for the year were $285.0 million, an increase of $14.4 million, or 5.31 percent, from the prior year's $270.6 million. This increase was primarily due to the $11.1 million increase in pension benefit payments to retirees.

Overview of Financial Statements

The SJCERA 2022 financial statements, notes to the financial statements, required supplementary information, other supplementary information, and other information were prepared in accordance with the accounting principles and reporting standards prescribed by the Governmental Accounting Standards Board (GASB). The following discussion and analysis are intended to serve as an introduction and overview of SJCERA's financial reporting components.

The **Statement of Fiduciary Net Position** is the financial statement that presents the major categories of assets and liabilities and their related values. It represents the resources available for future benefit payments to retirees and beneficiaries and the current liabilities owed as of December 31, 2022, with comparative totals as of December 31, 2021.

The **Statement of Changes in Fiduciary Net Position** is the financial statement that provides an income statement presentation of annual additions to and deductions from the Plan for the year ended December 31, 2022, with comparative totals as of December 31, 2021.

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

The **Required Supplementary Information** provides the Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions from the Employers and Other Contributing Sources, Schedule of Investment Returns, and Notes to Required Supplementary Information.

The **Other Supplementary Information** includes a Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants.

The **Other Information** includes two schedules pertaining to GASB Statement No. 68: the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan.

Defined Benefit Pension Plan Financial Analysis

As of December 31, 2022, SJCERA's Fiduciary Net Position was $3.8 billion, a decrease of $381.3 million. Employer and member contributions of $316.5 million were offset by a net investment loss of $412.8 million and benefits payments and administrative expenses of $285.0 million. Over time, increases and decreases in fiduciary net position are one of the indicators of whether SJCERA's financial situation is improving or deteriorating. Additional factors, such as market conditions, also need to be considered in assessing SJCERA's overall financial situation.

The table below compares SJCERA's fiduciary net position as of December 31, 2022 and 2021.

SJCERA Fiduciary Net Position				
	2022	2021	Increase (Decrease) Amount	Percent Change
Cash and Receivables	$ 284,860,063	$ 469,732,200	$ (184,872,137)	-39.36%
Investments	3,660,701,904	3,893,690,230	(232,988,326)	-5.98%
Other Assets	3,256,125	254,019	3,002,106	1181.84%
Total Assets	3,948,818,092	4,363,676,449	(414,858,357)	-9.51%
Total Liabilities	131,289,958	164,888,445	(33,598,487)	-20.38%
Total Fiduciary Net Position Restricted for Pension Benefits	$ 3,817,528,134	$ 4,198,788,004	$ (381,259,870)	-9.08%

Revenues – Additions to Fiduciary Net Position

The reserves needed to finance the retiree benefits are accumulated through the collection of employer and member contributions, and earnings on investments. The additions for the year ended December 31, 2022, totaled $(96.3) million. Net investment losses totaled $(412.8) million. The overall year 2022 revenues decreased by $1.0 billion from that of the prior year, primarily due to more investment losses.

In 2021, the San Joaquin County (County), San Joaquin County (SJC) Mosquito and Vector Control District (MCVD), and SJC Superior Court paid additional contributions to decrease their proportionate share of the unfunded actuarial liability (UAL). Employer contributions decreased by $37.6 million, or 12.26 percent, over the prior year, and member contributions increased by $3.9 million, or 9.09 percent, over the prior year. The County and the majority of its members equally share the normal cost of pre-funding post-retirement cost-of-living adjustments. Some members also pay 114% or 133% of the basic member contribution rate, which reduces the employers' Normal Cost portion of the required contribution. Employers pay all of the required UAL amortization payment.

Expenses – Deductions from Fiduciary Net Position

SJCERA's primary expenses are the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the administrative costs. Expenses for the year 2022 totaled $285.0 million, an increase of 5.31 percent over 2021. The increase is primarily attributed to the annual cost-of-living adjustment to retirees' benefit payments and the growth in the number and average amount of benefits paid to retirees.

The table below compares SJCERA's Changes in Fiduciary Net Position.

Changes in Fiduciary Net Position	2022	2021	Increase (Decrease) Amount	Percent Change
Additions				
Employer Contributions	$ 269,080,047	$ 306,662,635	$ (37,582,588)	-12.26%
Member Contributions	47,405,308	43,455,640	3,949,668	9.09%
Net Investment Income (Loss) and Miscellaneous Income	(412,759,726)	572,291,948	(985,051,674)	-172.12%
Transfer from Healthcare Custodial Fund	-	270,570	(270,570)	-100.00%
Total Additions	(96,274,371)	922,680,793	(1,018,955,164)	-110.43%
Deductions				
Retirement Benefit Payments	272,424,374	261,371,770	11,052,604	4.23%
Death Benefits	760,072	608,396	151,676	24.93%
Refund of Contributions	6,179,349	3,985,433	2,193,916	55.05%
Administrative and Other Expenses	5,621,704	4,639,439	982,265	21.17%
Total Deductions	284,985,499	270,605,038	14,380,461	5.31%
Net Increase	(381,259,870)	652,075,755	(1,033,335,625)	-158.47%
Fiduciary Net Position Restricted for Pension Benefits				
Beginning of Year	4,198,788,004	3,546,712,249	652,075,755	18.39%
End of Year	$ 3,817,528,134	$ 4,198,788,004	$ (381,259,870)	-9.08%

Plan Administration
SJCERA membership

The table below provides comparative SJCERA membership data for the last two years. Total membership as of December 31, 2022, was 15,727, an increase of 364 members, or 2.37 percent, compared to December 31, 2021.

SJCERA Membership
As of December 31, 2022 and 2021

Category	2022	2021	Increase (Decrease) Amount	Percent Change
Active Members	6,381	6,347	34	0.54%
Retired Members	6,685	6,529	156	2.39%
Deferred Members	2,661	2,487	174	7.00%
Total Membership	15,727	15,363	364	2.37%

Administrative Expenses

The County Employees Retirement Law of 1937 (CERL) Section 31580.2 limits the Administrative Expense to twenty-one hundredths of one percent (0.21 percent) of the accrued actuarial liability (AAL) of the system.

The table below provides comparison of the actual administrative expenses for the calendar years ended 2022 and 2021. The AAL was used to calculate the statutory budget amount. SJCERA's administrative expenses were well below the limit imposed by CERL for both years.

Compliance with Statutory Limitation Administrative Expenses As of December 31, 2022 and 2021 (Dollars in Thousands)		
	2022	**2021**
Basis for Budget Calculation (Accrued Actuarial Liability):		
Actual Administrative Expenses	$ 4,627	$ 3,665
Accrued Actuarial Liability as Basis for Budget Calculation*	5,207,669	5,013,632
Administrative Expenses as a Percentage of:		
The Basis for Budget Calculation	0.09%	0.07%
Limit per CERL	0.21%	0.21%

* Based on valuations dated January 1, 2021 and January 1, 2020, respectively.

Actuarial Valuations

SJCERA engages an independent actuarial firm, Cheiron, Inc., to perform an annual actuarial valuation to monitor its funding and funding integrity. The valuation assesses the magnitude of SJCERA's benefit commitments, in comparison with the assets expected to be available to support those commitments. The most recent annual actuarial valuation as of January 1, 2022, contains a detailed discussion of the funding requirements. This valuation is used for funding purposes and establishing employer and member contributions rates. As of January 1, 2022, the pension plan's accrued actuarial liabilities were $5.3 billion and the market value of assets net of Special Reserves (market value of assets basis) was $4.2 billion, resulting in UAL of $1.1 billion. The funded status (ratio) of market value of assets basis over accrued actuarial liabilities was 78.0 percent which increased from 68.1 percent. It also increased to 72.4 percent from 67.0 percent on an actuarial value of assets.

For the year ended December 31, 2022, a GASB Statement No. 67/68 report was prepared by Cheiron, Inc., to provide accounting and financial disclosure information. In order to accommodate the annual reporting requirements of our plan sponsors in a timely manner, the valuation was prepared using the January 1, 2022 valuation as the basis for calculating the total pension liability (TPL) and projected to December 31, 2022. Based on this actuarial valuation, the TPL was $____ billion compared to a fiduciary net position of $____ billion, resulting in the employers' net pension liability (NPL) of $____ billion and a fiduciary net position as a percentage of TPL of ____ percent. The NPL as a percentage of covered payroll was ____ percent. Please see the Note 8 for more details.

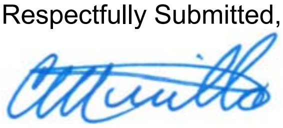
Reporting SJCERA's Fiduciary Responsibilities

SJCERA's Board of Retirement and staff are fiduciaries for the pension plan. Accordingly, SJCERA is responsible for ensuring that the assets reported in the statements are used for the intended purpose of paying retirement benefits to the eligible members and beneficiaries.

Contacting SJCERA's Management

This financial report is designed to provide the Board of Retirement, the membership, taxpayers, and investment managers with a general overview of SJCERA's finances and to show SJCERA's accountability for the money it receives. Any questions about this report, or need for additional financial information, can be addressed to SJCERA, 6 South El Dorado Street, Suite 400, Stockton, California 95202.

Respectfully Submitted,



Carmen Murillo
Financial Officer
__________, 2023

DRAFT

BASIC FINANCIAL STATEMENTS

DRAFT

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION
AS OF DECEMBER 31, 2022 (WITH COMPARATIVE TOTALS)

	2022		2021	
	Defined Benefit Pension Plan	Post-Employment Healthcare Custodial Fund	Defined Benefit Pension Plan	Post-Employment Healthcare Custodial Fund
Assets				
Cash and Short-Term Investments				
Cash and Cash Equivalents	$ 141,126,902	$ 277,077	$ 323,434,089	$ 72,537
Cash Collateral - Securities Lending	125,564,604	-	84,977,773	-
Total Cash and Short-Term Investments	266,691,506	277,077	408,411,862	72,537
Receivables				
Investment Income Receivables	4,856,348	-	3,563,318	-
Contributions Receivable	12,924,613	-	11,131,624	-
Securities Sold, Not Received	308,690	-	46,579,831	-
Miscellaneous Receivables	78,906	-	45,565	-
Total Receivables	18,168,557	-	61,320,338	-
Investments, at Fair Value				
Aggressive Growth	358,058,142	-	320,476,667	-
Traditional Growth	1,316,293,371	-	1,542,821,008	-
Risk Parity	358,053,342	-	449,916,750	-
Credit	579,784,841	-	567,163,705	-
Crisis Risk Offset (CRO)	531,523,509	-	462,372,268	-
Principal Protection	278,165,455	-	330,858,456	-
Core Real Assets	238,823,244	-	220,081,376	-
Total Investments, at Fair Value	3,660,701,904	-	3,893,690,230	-
Other Assets				
Prepaid Expenses	112,740	-	99,975	-
Equipment and Fixtures, Net	3,143,385	-	154,044	-
Total Other Assets	3,256,125	-	254,019	-
Total Assets	3,948,818,092	277,077	4,363,676,449	72,537
Liabilities				
Securities Lending - Cash Collateral	2,354,013	-	78,775,961	-
Securities Purchased, Not Paid	125,564,604	-	84,977,773	-
Accrued Expenses and Other Payables	2,910,428	-	1,127,029	-
Securities Lending Interest and Other Payables	460,913	-	7,682	-
Total Liabilities	131,289,958	-	164,888,445	-
Fiduciary Net Position Restricted for Pension and Post-Employment Healthcare Benefits	$ 3,817,528,134	$ 277,077	$ 4,198,788,004	$ 72,537

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

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022 (WITH COMPARATIVE TOTALS)

	2022		2021	
	Defined Benefit Pension Plan	Post-Employment Healthcare Custodial Fund	Defined Benefit Pension Plan	Post-Employment Healthcare Custodial Fund
Additions				
Contributions				
Employer Contributions	$ 269,080,047	$ -	$ 306,662,635	$ -
Member Contributions	47,405,308	-	43,455,640	-
Employer Contributions to Healthcare Benefits	-	3,798,073	-	3,938,219
Total Contributions	316,485,355	3,798,073	350,118,275	3,938,219
Net Investment Income (Loss)				
Net Appreciation (Depreciation) in Fair Value of Investments	(430,790,861)	-	554,256,496	-
Interest	22,172,800	-	22,966,328	-
Dividends	13,078,024	-	10,179,197	-
Real Estate Income, Net	9,918,342	-	9,333,819	-
Investment Expenses	(27,241,048)	-	(25,722,039)	-
Miscellaneous Investment Income	359	-	39	-
Net Investment Income (Loss), Before Securities Lending Income	(412,862,384)	-	571,013,840	-
Securities Lending Income				
Earnings	2,405,593	-	388,378	-
Rebates	(2,258,901)	-	519	-
Fees	(125,574)	-	(97,171)	-
Net Securities Lending Income	21,118	-	291,726	-
Total Net Investment Income (Loss)	(412,841,266)	-	571,305,566	-
Miscellaneous Income	81,540	-	986,382	-
Transfer Between Plans		-	270,570	-
Total Additions	(96,274,371)	3,798,073	922,680,793	3,938,219
Deductions				
Benefit Payments	272,424,374	3,593,533	261,371,770	3,571,436
Death Benefits	760,072	-	608,396	-
Refunds of Member Contributions	6,179,349	-	3,985,433	-
Administrative Expenses				
General Administrative Expenses	4,627,135	-	3,664,872	-
Other Expenses				
Information Technology Expenses	335,386	-	163,828	-
Actuary Fees	167,671	-	206,203	-
Fund Legal Fees	491,512	-	604,536	-
Total Administrative and Other Expenses	5,621,704	-	4,639,439	-
Transfer Between Plans	-		-	270,570
Total Deductions	284,985,499	3,593,533	270,605,038	3,842,006
Changes in Fiduciary Net Position	(381,259,870)	204,540	652,075,755	96,213
Fiduciary Net Position Restricted for Pension and Post-Employment Healthcare Benefits				
Beginning of Year	4,198,788,004	72,537	3,546,712,249	(23,676)
End of Year	$ 3,817,528,134	$ 277,077	$ 4,198,788,004	$ 72,537

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

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

The San Joaquin County Employees' Retirement Association (SJCERA) is the public employee retirement system established by the County of San Joaquin (County) and is administered by the Board of Retirement of SJCERA (Board) to provide retirement, disability, and survivor benefits under the County Employees Retirement Law of 1937 (CERL) for the employees of the County and nine other participating employers within the County. SJCERA also administers the Post-Employment Healthcare Custodial Fund. Although the assets of the plans (defined benefit pension and post-employment healthcare) are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to eligible members and beneficiaries of that plan, in accordance with the terms of the plan. A description of the Post-Employment Healthcare Custodial Fund is located in Note 2. All notes to the financial statements apply to both plans unless indicated otherwise.

NOTE 1 – DEFINED BENEFIT PENSION PLAN DESCRIPTION

a. General Description

SJCERA is a public retirement system established by the San Joaquin County Board of Supervisors effective June 28, 1946, under the provisions of the CERL and the Public Employees' Pension Reform Act of 2013 (PEPRA). SJCERA is administered by the Board. Pursuant to Government Code Sections 31520.1 and 31520.5, the Board consists of nine regular members, one alternate retired member, and under certain circumstances an alternate Safety member. Four members and the alternate member(s) are elected by SJCERA's members, four are appointed by the County Board of Supervisors, and the County Treasurer is an ex-officio member. Board members serve for a term of three years, except for the County Treasurer who is a permanent member. The Board members as of December 31, 2022, were as follows:

Michael Restuccia, Chair	Phonxay Keokham
Michael Duffy, Vice Chair	Steve Moore
Raymond McCray, Secretary	Emily Nicholas
Chanda Bassett	Robert Rickman
Jennifer Goodman	J.C. Weydert

SJCERA is a multiple-employer retirement system covering the County and the SJC Historical Society and Museum, Local Agency Formation Commission (LAFCO), Lathrop-Manteca Rural Fire Protection District, San Joaquin County Law Library, SJC Mosquito and Vector Control District (MVCD), Mountain House Community Services District, SJC Superior Court, Tracy Public Cemetery District, and the Waterloo-Morada Rural Fire Protection District. All employees appointed to full-time, permanent positions with an SJCERA participating employer become SJCERA members. Persons who commence covered employment at age 60 or older may irrevocably elect to waive membership in SJCERA. Public Health, a division of the County's Healthcare Services Department, became a participant of SJCERA effective June 27, 1993. Prior to that date, they were members of the California Public Employees' Retirement System (CalPERS). The elected officials of the County may request to become members of SJCERA. All benefits vest after attaining five years of service credit.

SJCERA has two benefit tiers:

- Tier 1 - Hired into public service before January 1, 2013
- Tier 2 - Hired into public service for the first time on or after January 1, 2013

NOTE 1 – DEFINED BENEFIT PENSION PLAN DESCRIPTION (Continued)

a. General Description (Continued)

There are two membership types:

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

2. **General Member** – All other eligible employees not classified as Safety Members are considered General Members and are covered by Social Security.

Membership Summary

SJCERA's membership as of December 31, 2022, is presented below.

Year 2022	Retirees		Beneficiaries		Active		Deferred		Total	
	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
General	4,721	88	705	2	2,012	3,542	1,181	1,239	8,619	4,871
Safety	935	8	226	-	423	404	163	78	1,747	490
Total	5,656	96	931	2	2,435	3,946	1,344	1,317	10,366	5,361

b. Plan Benefits

Eligibility for Retirement

Tier 1:

A Tier 1 member may retire for service at age 50 or older with five years of service credit, and at least ten years of membership. A General, Tier 1 member may retire at any age with 30 or more years of service credit. A Safety, Tier 1 member may retire at any age with 20 or more years of service credit.

Tier 2:

A Tier 2 member may retire for service with five or more years of service credit upon attaining the minimum retirement age: Age 52 for General, Tier 2 members, and Age 50 for Safety, Tier 2 members.

Any member of SJCERA, regardless of benefit tier, may retire at age 70 with no minimum service credit requirement.

Retirement Benefit

The monthly benefit amount at retirement depends upon the type of membership, years of retirement service credit, final average compensation, age at retirement, and the benefit option elected by the member.

Tier 1:

For Tier 1 members, final average compensation for purposes of computing a retirement allowance is the average monthly salary for the highest twelve consecutive months of employment. In addition to base salary, final average compensation may include other items defined as compensation earnable for retirement purposes.

NOTE 1 – DEFINED BENEFIT PENSION PLAN DESCRIPTION (Continued)

b. Plan Benefits (Continued)

Retirement Benefit (Continued)

The benefit formula for General, Tier 1 members is 2.6 percent of final average compensation for each year of service credit at age 62. The formula for Safety, Tier 1 members is 3.0 percent of final average compensation for each year of service credit at age 50 effective January 1, 2001. Members who retired prior to April 1, 1982, with 15 years or more of County service, receive an additional $50 monthly supplement commencing at age 65. Members who retired on or after April 1, 1982, but before January 1, 2001, receive a supplemental monthly benefit of $10 per year of service up to 30 years. This "Post 1982" supplemental benefit is payable if sufficient funds exist.

Federal law limits the annual compensation that may be used to calculate retirement benefits (applicable to persons who became SJCERA members on or after January 1, 1996), and the maximum annual benefit payable by SJCERA to any retired member. For 2022, the annual compensation limit under Internal Revenue Code Section 401(a)(17) is $305,000 and the annual benefit limit under Internal Revenue Code Section 415(b) is $245,000. Retired members whose statutory benefits from SJCERA would exceed the annual benefit limitation are eligible for the County's Replacement Benefit Plan.

Tier 2:

For Tier 2 members, final average compensation for purposes of computing a retirement allowance is the average monthly salary for the highest 36 consecutive months of employment. In addition to base salary, final average compensation may include other items defined as pensionable compensation.

The benefit formula for General, Tier 2 members is 2.5 percent of final compensation for each year of service credit at age 67. The formula for Safety, Tier 2 members is 2.7 percent of final compensation for each year of service credit at age 57. PEPRA specifies the maximum annual compensation that may be used to calculate retirement benefits. The limits are adjusted annually based on changes in the Consumer Price Index (CPI). For 2022, the Tier 2 annual compensation limit is $134,974 for those included in the Federal Social Security System and $161,969 for those not included.

Cost-of-Living Adjustment (COLA)

For both Tier 1 and Tier 2 members, monthly allowances are eligible for an annual COLA based on the change in the CPI for the San Francisco-Oakland-Hayward area for the previous calendar year, up to a maximum of 3.0 percent. The Bureau of Labor Statistics does not publish a CPI for San Joaquin County. When the CPI exceeds 3.0 percent in any year, the difference between the actual change in CPI (rounded to the nearest one-half percent) and the 3.0 percent ceiling is "accumulated" for future years when the change is less than 3.0 percent. Based on the accumulated carry-over balances as of April 1, 2021, members who retired prior to April 2, 1986, received a 3.0% increase on April 1, 2022. Their accumulated carry-over balances were reduced by 1.5%. Members who retired on or after April 2, 1986, received a 3.0% increase on April 1, 2022. Their accumulated carry-over balances were reduced by 0.5%.

Terminated Members' Deferred Retirement Benefit and Withdrawal of Contributions

A member leaving employment with at least five years of service credit becomes eligible for a retirement benefit once they meet the minimum service retirement age and have not withdrawn their accumulated member contributions.

Members who terminate employment with fewer than five years of service credit may leave their accumulated contributions on deposit until they become eligible for a retirement benefit at age 70. Contributions left on deposit with SJCERA continue to accrue interest.

NOTE 1 – DEFINED BENEFIT PENSION PLAN DESCRIPTION (Continued)

b. Plan Benefits (Continued)

Terminated Members' Deferred Retirement Benefit and Withdrawal of Contributions (Continued)

Upon termination of employment, members may withdraw their member contributions plus interest. Employer-paid contributions are not refundable. Members who take a refund of contributions become ineligible for future SJCERA retirement benefits.

Death Benefits

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

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

The beneficiary of a deferred member receives the member's contributions plus accumulated interest.

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

NOTE 2 – POST-EMPLOYMENT HEALTHCARE CUSTODIAL FUND

The Post-Employment Healthcare Custodial Fund accounts for assets held as an agent on behalf of others. The funds held within the Post-Employment Healthcare Custodial Fund do not meet the definition of a qualifying Other Post-Employment Benefits (OPEB) Trust under Governmental Accounting Standards Board (GASB) Statement No. 74. This fund is custodial in nature and does not measure the results of operations. GASB Statement No. 84, *Fiduciary Activities*, was implemented in 2019. The Post-Employment Healthcare Fund is classified as a Custodial Fund.

The Post-Employment Healthcare Custodial Fund is used as a clearing account for cash flows from employers to fund Sick Leave Bank Benefits for their eligible retired members on a pay-as-you-go basis, and for cash flows out for payment of Sick Leave Bank Benefits. The Sick Leave Bank Benefit allows accumulated unused and un-cashed sick leave to be converted to a Sick Leave Bank upon retirement at a rate of $27.65 per hour. Retired or deferred members who were employed prior to August 27, 2001, are eligible for Sick Leave Bank Benefits. In 2007, the San Joaquin County Superior Court (Court) extended eligibility for Sick Leave Bank Benefits to Court employees hired on or after August 27, 2001. Employers fund the Sick Leave Bank Benefits and employees are not required to contribute to the plan.

Sick Leave Bank Benefits may be used to pay for employer-sponsored group health, dental, and vision care insurance premiums and/or reimbursement of Medicare Part B premiums for the eligible members, their spouses, and dependents. When a retiree's Sick Leave Bank is depleted, the retiree assumes responsibility for payment of health, dental, and vision care insurance premiums.

SJCERA allocates the investments held at December 31, 2022, between the Defined Benefit Pension Plan and the Post-Employment Healthcare Custodial Fund based on the internal records of the respective accounts at December 31, 2022.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – PENSION PLAN

a. Basis of Accounting

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

b. Reporting Entity

SJCERA, governed by the Board, is an independent government entity. SJCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

c. Cash Equivalents

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

The Northern Trust Company (NT)

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

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

County Treasurer

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – PENSION PLAN (Continued)

d. Method Used to Value Investments

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

Investments	Source
Publicly traded stocks and bonds, and issues of the U.S. Government and its agencies	Most recent sales price as of the fiscal year-end. International securities reflect currency exchange rates in effect at December 31, 2022.
Mortgages	Equivalent pricing to comparable Government National Mortgage Association (GNMA).
Real estate equity funds	Fair value as provided by real estate fund manager.
Real estate title holding corporations and limited liability companies	Fair value of the investment as provided by fund managers unless an alternative value has been determined by the Board per SJCERA's Real Estate Investment Policy and reviewed by SJCERA's Investment Consultant.
Private equity	Fair value as provided by the investment manager and reviewed by SJCERA's Investment Consultant.
Private placement bonds	Face value of the security subject to designated conditions such as sales restrictions or limited marketability.

e. Capital Assets

Capital assets, mainly leasehold improvements, furniture, and equipment, acquired by SJCERA are capitalized at cost. Depreciable capital assets are depreciated using the straight-line method over estimated useful lives of three to seven years for computer equipment, furniture, and other equipment. Leasehold improvements are amortized over the life of the lease. Depreciation expenses of the capital assets are included in general administrative expenses.

The change in capital assets owned for the year ended December 31, 2022, is presented below:

	Balance December 31, 2021	Additions	Deletions/ Adjustments	Balance December 31, 2022
Original Cost	$ 1,684,360	$ 3,236,903	$ (312,231)	$ 4,609,032
Accumulated Depreciation and Amortization	(1,530,316)	(247,562)	312,231	(1,465,647)
Net Book Value	$ 154,044	$ 2,989,341	$ -	$ 3,143,385

Depreciation and amortization expense for the year ended December 31, 2022, was $247,562.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – PENSION PLAN (Continued)

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f. Receivables

Receivables consist primarily of interest, dividends, investments in transition (traded but not yet settled), and contributions owed by participating employers. Contributions receivable pursuant to an installment contract between the member and SJCERA for purchase of service credit are recognized in full in the year in which the contract is made.

g. Use of Estimates in the Preparation of Financial Statements

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 4 – CASH AND INVESTMENTS

a. Investment in Securities Lending Program

SJCERA participates in NT's pooled securities lending program. Under the agreement, NT is authorized to lend the SJCERA securities it holds to certain SJCERA-approved borrowers. NT does not have the ability to pledge or sell collateral securities unless a borrower default occurs.

All loans are fully collateralized with either cash, securities issued or fully guaranteed by the U.S. government, or irrevocable bank letters of credit. All collateral is held or invested by NT. The term or maturity of the securities loaned is generally matched with the term or maturity of the investment of the cash collateral. U.S. securities are loaned with collateral valued at 102 percent of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned with collateral valued at 105 percent of the fair value of the securities plus any accrued interest.

As of December 31, 2022, SJCERA had the following securities out on loan.

	Fair Value of Securities Lent	Cash Collateral Value	Non-Cash Collateral Value
U.S. Equities	$ 12,182,740	$ 11,552,530	$ 971,748
U.S. Debt Securities	128,248,922	113,015,222	18,400,670
Total U.S. Securities	140,431,662	124,567,752	19,372,418
Non-U.S. Equities	3,492,308	-	3,727,736
Non-U.S. Debt Securities	38,472,805	996,852	39,845,486
Total Non-U.S. Securities	41,965,113	996,852	43,573,222
Total	$ 182,396,775	$ 125,564,604	$ 62,945,640

The cash collateral is reported on the financial statements as an asset and as a liability of SJCERA. Securities lending transactions collateralized by letters of credit or by securities that SJCERA does not have the ability to pledge or sell unless the borrower defaults are not be reported as assets and liabilities in accordance with GASB Statement No. 28. The potential risks involved in the securities lending program include borrower bankruptcy, collateral deficiencies, settlement problems, corporate actions, dividends, and interest. SJCERA's pro-rata share of net income derived from NT's pooled securities lending transactions in 2022 was $351,039. As of December 31, 2022, there was no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at year-end were $182 million and the collateral received for those securities on loan was $188 million.

NOTE 4 – <u>CASH AND INVESTMENTS</u> (Continued)

b. Cash and Short-Term Investments

The carrying value of cash and short-term investments as of December 31, 2022, consists of the following.

	Amount
Cash and Cash Equivalents - Custodian	$ 141,361,593
Cash and Cash Equivalents - County Treasury	42,386
Total Cash and Cash Equivalents	141,403,979
Cash Collateral - Securities Lending - Custodian	125,564,604
Total Cash and Short-Term Investments	$ 266,968,583

c. Long-Term Investments

SJCERA owned the following long-term investments as of December 31, 2022.

	Fair Value
Investments-Categorized	
Aggressive Growth	$ 358,058,142
Traditional Growth	1,316,293,371
Risk Parity	358,053,342
Credit	579,784,841
Crisis Risk Offset (CRO)	531,523,509
Principal Protection	278,165,455
Core Real Assets	238,823,244
Total Investments-Categorized	3,660,701,904
Investments-Not Categorized	
Investments Held by Broker-Dealers Under Securities Loans	
U.S. Equities	11,552,530
U.S. Debt Securities	113,015,222
Non-U.S. Debt Securities	996,852
Total Investments Held by Broker-Dealers Under Securities Loans	125,564,604
Total Investments	$ 3,786,266,508

GASB Statement No. 40, *Deposits and Investments Risk Disclosures,* established and modified disclosure requirements related to the following:

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

NOTE 4 – CASH AND INVESTMENTS (Continued)

c. Long-Term Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SJCERA's investment policy seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class. To control such risk, credit quality guidelines have been established for the separately managed accounts. The following table depicts the value of the investments exposed to those risks and the corresponding credit ratings from Standard & Poor's (S&P) as of December 31, 2022.

Quality Ratings	Fair Value
AAA	$ 140,933,748
AA	5,722,873
A	25,981,796
BAA	80,431,953
BA	20,326,384
B	17,924,561
CAA	3,721,386
CA	102,384
C	83,750
Not Rated	371,477,256
Subtotal	666,706,091
U.S. Government Agencies - Implied AAA (FNMA, FHLB, FHLMC, FFCB, SLMA, Other)	191,244,205
Total Investments in Fixed Income Securities	$ 857,950,296

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

Deposits

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

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

Investment

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in SJCERA's name, and held by the counterparty. SJCERA's investment securities are not exposed to custodial credit risk because all securities are held by SJCERA's custodial bank in SJCERA's name, or by other qualified third party administrator trust accounts.

NOTE 4 – <u>CASH AND INVESTMENTS</u> (Continued)

c. Long-Term Investments (Continued)

Concentration of Credit Risk – This risk represents the potential loss attributable to the magnitude of SJCERA's investments in a single issuer. As of December 31, 2022, for separately managed investment accounts, SJCERA did not hold any investments within any one issuer that would represent five percent (5%) or more of plan fiduciary net position.

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

As of December 31, 2022, SJCERA had the following interest rate sensitive investments.

Investment Type	Fair Value	Weighted Average Maturity-Years
U.S. Government and Agency Instruments:		
U.S. Government Mortgages	$ 77,935,270	28.69
U.S. Government Bonds	146,584,754	18.00
Municipal/Revenue Bonds	2,603,787	15.72
Agency	6,061,529	17.48
Short-Term Bills and Notes	97,491,962	0.36
Total U.S. Government and Agency Instruments	330,677,302	
Corporate Securities:		
Asset Backed Securities	21,111,448	16.60
Commercial Mortgage-Backed	10,416,439	13.25
Corporate Bonds	141,938,305	11.89
Corporate Convertible Bonds	1,676,156	31.63
Mortgage Obligations (CMOs)	419,115	23.53
Total Corporate Securities	175,561,463	
Real Estate Financing	351,711,531	
Total Fixed Income Securities	$ 857,950,296	

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates may adversely affect the fair value of an investment. SJCERA's external non-U.S. equity and fixed income investment managers may invest in international securities in accordance with their investment guidelines pertaining to these types of investments.

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

NOTE 4 – CASH AND INVESTMENTS (Continued)

c. Long-Term Investments (Continued)

Managers may invest in developed market currencies and emerging market currencies in accordance with their investment guidelines. Permitted derivative instruments are currency spots, currency forward contracts (deliverable or non-deliverable), currency futures, options on currency forwards or futures, and currency swaps. Other investments, contracts, or positions that, in the managers' judgment, are of similar purpose and character and equal credit quality and marketability to any of the investments above, are also permissible.

SJCERA's exposure to foreign currency risk in U.S. dollars as of December 31, 2022, follows.

Currency	Fair Value
British Pound Sterling	$ 3
Canadian Dollar	971,963
Euro Currency	91,447
Total	$ 1,063,413

d. Fair Value Measurement

In accordance with GASB Statement No. 72, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement establishes a fair value hierarchy based on three types of input to develop the fair value measurements for investments. The level is determined based on the lowest level of input significant to the measurement in its entirety. Assets and liabilities measured at fair value are classified into one of the following categories:

Fair Value Hierarchy

Level 1 – reflects unadjusted quoted prices in active markets for identical assets or liabilities accessible on the measurement date. Observable markets include exchange markets, dealer markets, and brokered markets.

Level 2 – reflects similar observable inputs other than quoted market prices. It includes quoted prices for similar assets in active markets or quoted prices for identical or similar assets in inactive markets.

Level 3 – reflects prices based on unobservable sources. They should be used only when relevant Level 1 and Level 2 inputs are unavailable.

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NOTE 4 – CASH AND INVESTMENTS (Continued)

d. Fair Value Measurement (Continued)

The following table presents fair value measurements as December 31, 2022.

Investments by Fair Value Level	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities				
Common Stocks	$ 41,513,032	$ 41,487,844	$ 5,844	$ 19,344
Preferred Stocks	718,520	718,520	-	-
Total Equities	**42,231,552**	**42,206,364**	**5,844**	**19,344**
Fixed Income				
Asset Backed Securities	21,111,448	-	21,111,448	-
Commercial Mortgage-Backed	10,416,439	-	10,416,439	-
Corporate Bonds	141,938,305	-	141,938,305	-
Corporate Convertible Bonds	1,676,156	-	1,676,156	-
Funds - Corporate Bonds	59,719,042	43,102,549	16,616,493	-
Funds - Fixed Income ETF	15,618,650	15,618,650	-	-
Government Agencies	6,061,529	-	6,061,529	-
Government Bonds	146,584,754	-	146,584,754	-
Government Mortgage-Backed Securities	77,935,270	-	77,935,270	-
Municipal/Provincial Bonds	2,603,787	-	2,603,787	-
Non-Government Backed CMOs	419,115	-	419,115	-
Other Fixed income	90,176,224	-	-	90,176,224
Total Fixed Income	**574,260,719**	**58,721,199**	**425,363,296**	**90,176,224**
Other Assets				
Short-Term Bills and Notes	99,986,745	1,316,938	98,669,807	-
Option Contracts	914	-	-	914
Swaps	396,860	-	396,860	-
Total Other Assets	**100,384,519**	**1,316,938**	**99,066,667**	**914**
Collateral from Securities Lending	**125,564,604**	**-**	**125,564,604**	**-**
Total Investments by Fair Value Level	**842,441,394**	**$ 102,244,501**	**$ 650,000,411**	**$ 90,196,482**
Investments Measured at the Net Asset Value (NAV)				
Global Equities Funds	1,218,782,828			
Emerging Markets Global Equity	80,881,423			
Fixed Income Funds	145,812,348			
Private Credit	194,131,106			
Risk Parity Funds	358,053,342			
Multi-Strategy Funds	296,710,835			
Hedge Funds - Fixed Income	14,598,388			
Private Equity Funds	275,731,811			
Private Real Estate Funds	359,123,033			
Total Investments Measured at NAV	**2,943,825,114**			
Total Investments	**$ 3,786,266,508**			

Investments Measured at the Net Asset Value (NAV)

SJCERA measures certain investments that do not have a readily determinable fair value, such as hedge funds, commingled funds, and private equity funds, using NAV as a practical expedient. The SJCERA investments valued at NAV are the majority holdings for the SJCERA portfolio. The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for SJCERA investments measured at NAV.

NOTE 4 – CASH AND INVESTMENTS (Continued)

d. Fair Value Measurement (Continued)

The following table presents the investments measured at NAV as December 31, 2022:

Investments Measured at NAV	Fair Value	Unfunded Commitment	Redemption Frequency If Currently Eligible	Redemption Notice Period
Global Equities Funds	$ 1,218,782,828	$ -	Daily, Weekly, Semi-Monthly, Monthly	1-30 days
Emerging Markets Global Equity	80,881,423	-	Weekly	T-4 Days
Fixed Income Funds	145,812,348	26,079,466	Daily, Not Eligible	1 day
Private Credit	194,131,106	56,674,116	Not Applicable	Not Applicable
Risk Parity Funds	358,053,342	-	Monthly	5-15 days
Multi-Strategy Funds	296,710,835	-	Daily, Weekly, Semi-Monthly, Monthly	0-15 days
Hedge Funds - Fixed Income	14,598,388	12,717,985	Daily, Quarterly, Not Eligible	0-60 days
Private Equity Funds	275,731,811	44,990,608	Not Eligible	Not Applicable
Private Real Estate Funds	359,123,033	199,449,885	Quarterly, Not Eligible	5-90 Days, Not Applicable
Total Investments Measured at NAV	$ 2,943,825,114	$ 339,912,060		

Global Equities Funds - Assets within these funds represent shares of ownership in U.S. and international corporations, including publicly traded common stocks, American and Global Depository Receipts, as well as Real Estate Investment Trusts (REITS).

Emerging Markets Global Equity - Assets within this segment represent a diversified portfolio seeking to identify growing countries and the companies that complement our core Equity holdings.

Fixed Income Funds - Funds within this segment represent debt instruments of corporations, government or agencies characterized by a fixed or variable interest rate and stated maturity date, including marketable bonds.

Private Credit - Assets within this segment are defined by non-bank lending where the debt is not issued or traded on the public markets.

Risk Parity Funds - Funds within this segment represent portfolios that seek to balance the risk characteristics of assets across multiple segments. These portfolios generally invest in equities, bonds, and commodities among other assets.

Multi-Strategy Hedge Funds - Funds within this segment can involve holding both long and short positions in securities instead of traditional long-only investments in publicly traded investments. Portfolios also may utilize derivatives or hedging strategies as well. Multi-Strategy managers utilized various investment segments to invest, including but not limited to, equities, bonds, currency, and commodities.

Fixed Income Hedge Funds - Funds within this segment can involve holding both long and short positions in securities instead of traditional long-only investments in publicly traded investments. Portfolios also may utilize derivatives or hedging strategies as well. These investment funds generally focus on opportunities within fixed income markets.

Private Equity Funds - These funds are illiquid allocations that invest primarily in buyout funds, venture capital, and debt/special situations. These funds are not eligible for redemption and investment periods are generally between five and 15 years.

NOTE 4 – CASH AND INVESTMENTS (Continued)

d. Fair Value Measurement (Continued)

Private Real Estate Funds - These funds are defined as those investments that are unleveraged or leveraged positions in real property. The portfolio may pursue direct privately held partnership interests, fund-of-funds interests, and direct holdings for its real estate allocation.

e. Summary of Investment Policy

The CERL vests the Board with exclusive control over SJCERA's investment portfolio. The Board established investment policies in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of SJCERA's assets by setting policy, which the staff executes either internally or through the use of external prudent experts. The Board provides oversight and guidance subject to the following basic fiduciary responsibilities:

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

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

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

f. Target Asset Allocation

The Board completed an asset-liability study during 2022, facilitated by its investment consultant, Meketa Investment Group, and its consulting actuary, Cheiron, Inc. A key aspect of the study was the Board's consensus on how it defines risk and determining its tolerance for risk, which plays a significant role in the selection of the policy mix of assets that comprise the strategic asset allocation for the investment program.

On June 3, 2022, the Board adopted a revised strategic asset allocation policy for SJCERA's investments. On July 8, 2022, the Board adopted an Implementation Plan which describes how the new strategic allocation is to be implemented. The Implementation Plan uses an "evolving policy" framework which allows the portfolio to be adjusted over time, with a target completion deadline of June 30, 2024. The plan also notes that SJCERA will move faster, depending on market conditions.

The strategic asset allocation is expected to improve the likelihood of the plan accomplishing its primary financial objective: to earn a long-term return that, coupled with projected contributions, is projected to be sufficient to attain full funding in the long-term while avoiding substantial deterioration in funded status along the way.

NOTE 4 – CASH AND INVESTMENTS (Continued)

f. Target Asset Allocation (Continued)

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION CURRENT ASSET ALLOCATION POLICY			
Asset Class	**Policy Allocation Percentage**	**Purpose**	**Main Risk Exposures**
Aggressive Growth	16.00%	Return	Growth
Traditional Growth	34.00%	Return	Growth, Currency
Risk Parity	6.00%	Balanced Return	Growth, Interest Rates, Inflation
Credit	15.00%	Income, Growth	Growth
Core Real Assets	9.00%	Income, Growth	Growth, Interest Rates
Principal Protection	7.00%	Income, Stability	Interest Rates
Crisis Risk Offset (CRO)	13.00%	Return and Liquidity during a Growth Crisis	Interest Rates, Variables based on Trends, Alternative Factor Risks
	100.00%		

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

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

Investment derivatives involve the following types of risks.

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

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Credit Risk: Credit risk of cash securities containing derivative features is based upon the credit worthiness of the issuers of such securities. It includes the risk that counterparties to contracts will not perform and/or the public exchange will not meet its obligation to assume this counterparty risk. Exchange traded derivatives are generally considered to be of lower credit risk than over-the-counter derivatives due to the exchange's margin requirements. The derivative investments are exchange traded, and credit risk is limited to the clearing corporation. As of December 31, 2022, collateral for derivatives was $8.4 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

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

Interest Rate Risk
As of December 31, 2022

Global Bonds	Futures Contracts	Option Contracts
Canadian Government Bond	$ (29,971,960)	$ -
Long Gilt	(29,539,481)	-
Japanese Government Bond	(3,331,781)	-
Euro Bond	(30,294,661)	-
U.S. Ten Year Notes	40,116,977	-
British Pound Sterling	42,241,625	(467,138)
Total	$ (10,779,281)	$ (467,138)

SJCERA measures derivative interest rate risk using duration with varying maturities of less than three months to more than 10 years. At December 31, 2022, SJCERA had the following investment derivative interest rate risks.

Interest Rate Risk Analysis
As of December 31, 2022
(Dollars in Thousands)

Derivative Type	Notional Value	Fair Value	< 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	5 to 10 Years	10+ Years
Futures Contracts	$ (170,679)	$ -	$ (170,679)	$ -	$ -	$ -	$ -	$ -
Swap Agreements	-	396	-	-	-	396	-	-
Credit Contracts	-	-	-	-	-		-	-
Total	$ (170,679)	$ 396	$ (170,679)	$ -	$ -	$ 396	$ -	$ -

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Risk: Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. Currency forward contracts represent foreign exchange contracts that are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. As of December 31, 2022, SJCERA had the derivative foreign currency exposures listed in the table below.

FOREIGN CURRENCY RISK ANALYSIS
As of December 31, 2022

Currency	Futures Contracts	Equity Contracts	Options Contracts
Australian Dollar	$ (19,802,650)	$ -	$ -
British Pound Sterling	(19,787,550)	-	-
Canadian Dollar	(19,588,800)	1,899,539	-
Euro Currency	(18,281,800)	-	-
Japanese Yen	(20,712,563)	-	(205,150)
Swiss Franc	16,353,000	-	-
Total	$ (81,820,363)	$ 1,899,539	$ (205,150)

Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income (loss). For financial reporting purposes, all SJCERA derivatives are classified as investment derivatives.

Derivative financial instruments held by SJCERA from time to time consist of the following.

Futures Contracts

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

Option Contracts

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

Swap Agreements

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

All investment derivative positions are included as part of investments at fair value on the Statement of Fiduciary Net Position. All changes in fair value are reported as part of net appreciation/(depreciation) in fair value of investments in the Statement of Changes in Fiduciary Net Position. Investment information was provided either by SJCERA's investment managers or SJCERA's custodian bank. The Investment Derivatives schedule below is classified by type and reports the fair value balances and notional amounts of derivatives outstanding as of and for the year ended December 31, 2022.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Investment Derivatives
As of December 31, 2022

Derivative Type	**Notional Amount**	**Fair Value**
Futures Contracts	$ (81,269,014)	$ 17,464,572
Option Contracts	(4,587,401)	3,101,628
Total	$ (85,856,415)	$ 20,566,200

NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Defined Benefit Pension Plan

The funding objective of the plan is to establish contribution rates that, together with investment earnings, will provide sufficient assets to pay all benefits under the plan. The County and participating employers are required to contribute a percentage of their annual covered payroll at actuarially determined rates. Actuarial valuations involve estimates and make assumptions about the probability of events far into the future; therefore, actuarially determined rates are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Employer Contributions

For 2022, the required employer contribution rates including normal cost and amortization of the unfunded actuarial liability (UAL) were determined by using the valuation report as of January 1, 2021.

In 2022, the County made additional $22,088,131 contributions. The Court made additional $500,000 contributions to decrease its share of the UAL. MVCD made additional $90,000 contributions to decrease its share of the UAL. These additional annual contributions decrease only that individual employer's share of the UAL and not the liability for other entities participating in SJCERA.

The total market value of the additional contributions, including prior year amounts and accumulated with interest at the plan's actual rate of return, was $184,202,449 as of December 31, 2022. These assets are included in the calculation of the UAL and funded ratio. However, under the funding policy with respect to these reserves requested by the contributors and approved by the Board, these assets are not currently included in the calculation of the employer contribution rates.

NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (Continued)

Employer Contributions (Continued)

EMPLOYER RETIREMENT CONTRIBUTION RATES	**2022** (Per 1/1/2021 Valuation)		
Expressed as a Percentage of Active Member Payroll	Normal Cost	UAL Amortization	Total
TIER 1			
General Members:			
Paying Basic Rate Only *(G.C. 31621.3)*	19.82%	30.60%	50.42%
Paying Basic Rate with COLA Cost Share	16.93%	30.60%	47.53%
Paying 114% of Basic Rate with COLA Cost Share	16.37%	30.60%	46.97%
Safety Members:			
Paying Basic Rate Only *(G.C. 31639.5)*	32.77%	63.73%	96.50%
Paying Basic Rate with COLA Cost Share	27.69%	63.73%	91.42%
Paying 133% of Basic Rate with COLA Cost Share	26.07%	63.73%	89.80%
Composite Total for General and Safety Combined:			
Paying Basic Rate Only *(G.C. 31621.3)*	22.35%	36.98%	59.33%
Paying Basic Rate with COLA Cost Share	19.03%	36.98%	56.01%
Paying 114%/133% of Basic Rate with COLA Cost Share	18.26%	36.98%	55.24%
TIER 2			
General Members:	9.99%	30.60%	40.59%
Safety Members:	15.42%	63.73%	79.15%
Composite Total for General and Safety Combined:	10.61%	34.28%	44.89%

The composite employer contribution rates (for General and Safety Members combined) expressed as a percentage, or range of percentages, of covered payroll for the past seven years are as follows:

Contribution Year	**Tier 1**	**Tier 2**
2022	55.24% - 59.33%	44.89%
2021	53.88% - 57.96%	43.69%
2020	50.86% - 54.72%	41.00%
2019	48.09% - 51.81%	38.60%
2018	45.18% - 48.75%	35.80%
2017	44.31% - 47.91%	34.48%
2016	42.06% - 45.58%	31.95%
2015	39.84% - 43.06%	30.34%

Member Contributions

Member contributions are deducted from the member's salary on a biweekly basis.

Tier 1 member contribution rates are calculated by the actuary using the Entry Age Normal Funding Method (Cost Method). Most Tier 1 members pay one-half of the cost of pre-funding post-retirement COLAs, and some pay an additional percentage of the basic member contribution rate, which reduces the employers' normal cost. Tier 2 members pay a single contribution rate adjusted annually. The required contribution rates are expressed as a percentage of covered payroll. The 2022 contribution rates were determined using the actuarial valuation performed as of January 1, 2021.

NOTE 6 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (Continued)

Member Contributions (Continued)

Tier 1 members pay contributions based upon their membership category, General or Safety, and age at entry into membership. General, Tier 1 members employed before March 7, 1973, and all Safety, Tier 1 members stop paying member contributions when they have 30 years of service, but continue to accrue retirement service credit for subsequent active employment subject to membership.

Tier 2 members pay contributions, based upon their membership category, equal to one-half of the normal cost of the applicable benefits.

In 2022, member contributions totaled $47,405,308 and employer contributions totaled $269,080,047. Member contributions increased by $3.9 million, or 9.09 percent, over the prior year, and employer contributions decreased by $37.6 million, or 12.26 percent, over the prior year.

NOTE 7 – FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

As required by the CERL and the Board's policy, the following reserves from Fiduciary Net Position Restricted for Pension Benefits must be established and used to account for the members', employers', and retirees' contributions. The Unappropriated Earnings Reserve was sufficient to fully credit all reserves interest earnings at the 7.00 percent assumption rate. In addition, there were excess earnings to fund the Contingency Reserve in 2022 in the amount of $43,633,169.

a. Active and Deferred Members' Reserve

   This reserve represents the cumulative contributions made by active members, net of refunds to the members, plus the investment earnings credited to the reserve at assumption rates determined by the actuary.

b. Employer Advance Reserve

   This reserve represents the cumulative contributions made by the County and participating employers. Interest earnings are credited semi-annually to the reserve at the assumption rate determined by the actuary, if sufficient unappropriated earnings reserve funds exist.

c. County Additional 5% Contributions Reserve

   This reserve represents the additional contributions in excess of actuarially determined contributions paid by the County in order to decrease its share of the UAL.

d. MVCD Additional Contributions Reserve

   This reserve represents the additional contributions in excess of actuarially determined contributions paid by the MVCD in order to decrease its share of the UAL.

e. Court Additional Contribution Reserve

   This reserve represents the additional contributions in excess of actuarially determined contributions paid by the Court in order to decrease its share of the UAL.

NOTE 7 – FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS (Continued)

f. Retired Members' Reserve

This reserve accounts for the unpaid retirees' pension benefits. Upon a member's retirement, the member's accumulated contributions are transferred from the Active and Deferred Members' Reserve account to the Retired Members' Annuity Reserve account. In addition, the actuarially determined amount of the member's vested interest is transferred from the Employer Advance Reserve account to the Retired Members' Pension Reserve account. The Retired Members' Reserve account at December 31, 2022, includes the authorized "Purchasing Power" benefit reserve and additional pension benefits specified in the pre-April 1, 1982 class-action lawsuit settlement agreement. These benefits are explained in Note 1b. In accordance with the Statement of Reserve Policy, the post-April 1, 1982 Settlement Reserve is a Special Reserve, which is not included in valuation assets.

g. Class Action Settlement – Post 4/1/82 Reserve

The Class Action Settlement – Post 4/1/82 Reserve designates the reserve that pays the Post-82 Class Action Settlement allowances for the lifetime of the members and beneficiaries, who retired between April 1, 1982, and December 31, 2000, to the extent sufficient funds are available.

h. Contingency Reserve

Earnings of the retirement fund during any year in excess of the total interest credited to contributions and reserves during the year remain in the fund as a reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies. The CERL provides that when the contingency reserve exceeds one percent of total assets, the retirement board may transfer all or any part of the surplus as specified in Government Code Section 31592.2. In June 2017, the Board amended the Reserve Policy, lowering the Contingency Reserve target from three percent to one percent of total assets. The Contingency Reserve is 1.1 percent of the fair value of total assets at December 31, 2022.

i. Market Stabilization Designation Reserve

This "designation" reserve is used to further minimize the impact of the fluctuations in the fair value of the investments owned by SJCERA. It represents the difference between the actuarial value of assets and the fair value of assets at year-end. It is the balance of deferred earnings and losses created by a five-year smoothing of actual gains and losses compared to the assumed investment rate of return.

j. Unappropriated Earnings Reserve

The Unappropriated Earnings Reserve (UER) is used to accumulate investment income earned by SJCERA, net of the investment expenses and SJCERA's administration cost. From this unappropriated earnings reserve, interest is credited to various other reserves. In addition, at the Board's discretion and subject to the settlement agreement in 2001, this reserve may also be used, from time to time, to stabilize the County's and other employers' actuarially determined contributions, and to fund the market stabilization and contingency reserves.

NOTE 7 – FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS (Continued)

k. Summary of Reserves

A summary of reserved and designated net position at December 31, 2022, is as follows.

Reserves:	
Active and Deferred Members	$ 490,248,004
Employer Advance	2,283,312,967
County Additional 5% Contributions	189,312,897
MVCD Additional Contributions	470,563
Court Additional Contributions	3,622,783
Retired Members	1,100,175,871
Class Action Settlement - Post-4/1/82	80,451
Contingency	43,633,169
Market Stabilization Designation	(310,637,224)
Unappropriated Earnings (Restricted)	17,308,653
Total Reserves	$ 3,817,528,134

NOTE 8 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS

a. Net Pension Liability of Employers

SJCERA is a cost sharing, multiple-employer pension plan with a reporting date of December 31, 2022. Measurements as of the reporting date are based on the fair value of assets as of December 31, 2022, and the total pension liability as of the valuation date, January 1, 2022, projected to December 31, 2022. There were no significant events between the valuation date and the measurement date, so the updated procedures consisted of updated actuarial assumptions, plus the addition of service cost and interest cost offset by benefit payments.

The net pension liability was measured as of December 31, 2022, and determined based upon rolling forward the total pension liability from the actuarial valuation as of January 1, 2022. The net pension liability (i.e., the pension plan's liability determined in accordance with GASB Statement No. 67 less the fiduciary net position) is shown below.

Employers' Net Pension Liability (GASB Statement No. 67)

As of December 31, 2022 (Dollars in Millions)	
Total Pension Liability	
Plan Fiduciary Net Position	
Employers' Net Pension Liability	$ -
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	#DIV/0!

NOTE 8 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

b. Actuarial Methods and Significant Assumptions

SJCERA retains an independent actuarial firm to conduct actuarial valuations of the pension plan, monitor SJCERA's funding status, and establish the contribution rate requirements for the pension plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability was determined by an actuarial valuation as of January 1, 2022, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67.

In the January 1, 2022 actuarial valuation, the Entry Age Normal Funding Method (Cost Method) was used. The actuarial assumptions include a 6.75 percent investment rate of return, annual inflation rate of 2.75 percent per year, and projected salary increases at 3.00 percent per year for the year ended 2021. The actuarial value of the plan's assets was based on a five-year smoothing of actual versus expected returns.

In 2015, the SJCERA Board changed the funding policy to amortize any unexpected changes in the UAL over a period of 15 years as a level percent of pay, with new amortization layers each year. The 2008 Extraordinary Actuarial Loss, which is amortized over a closed 30-year period, has 17 years remaining. The remaining UAL as of December 31, 2013, which is amortized over a closed 19-year period, has 11 years remaining. The new additions to the UAL on and after January 1, 2014, are amortized over 15 years. The single amortization period for these streams of payments is 12 years as of January 1, 2022. The amortization period for each UAL layer will decrease each year.

The total pension liability for the pension plan was determined by an actuarial valuation as of January 1, 2022, and accepted actuarial procedures were applied to project the total pension liability to December 31, 2022. Key methods and assumptions used in the latest actuarial valuations as of January 1, 2022, follow.

NOTE 8 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

b. Actuarial Methods and Significant Assumptions (Continued)

Key methods and assumptions used in the latest actuarial valuations are presented below:

Valuation Date	January 1, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll with Separate Amortization Periods for Extraordinary Actuarial Gains or Losses
Remaining Amortization Period	2008 Extraordinary Actuarial Loss - 17 years Remaining UAL as of January 1, 2014 - 11 years Subsequent Unexpected Changes in UAL after January 1, 2014 - 15 years Single Equivalent Period as of January 1, 2022 - 12 years
Asset Valuation Method	Smoothed Actuarial Value (5 years) 80% - 120% Asset Corridor
Actuarial Assumptions:	
Discount Rate	6.75%, Net of Pension Plan Investment Expenses, Including Inflation
Projected Salary Increases	3.00%, Plus Service-Based Rates
General Inflation Rate	2.75%
Cost-of Living Adjustments	2.60% Per Year Assumed
Healthy Mortality	Mortality rates for General active members are based on the sex distinct 2021 CalPERS Pre-Retirement Non-Industrial Mortality Table, with generational mortality improvements projected from 2017 using 80% of Projection Scale MP-2020. Mortality rates for Safety active members are based on the sum of the rates from the 2021 CalPERS Industrial and Non-Industrial Mortality tables, with generational mortality improvements projected from 2017 using 80% of Projection Scale MP-2020. 10% of Safety member active deaths are assumed to occur in the line of duty. Mortality rates for healthy General annuitants are based on the sex distinct 2021 CalPERS Healthy Annuitant Mortality Table, with generational mortality improvements projected from 2017 using 80% of Projection Scale MP-2020, and a partial credibility adjustment of 1.05 for males and no adjustment for females. Mortality rates for Safety annuitants are based on the sex distinct 2021 CalPERS Healthy Annuitant Mortality Table, with generational mortality improvements projected from 2017 using 80% of Projection Scale MP-2020, and a partial credibility adjustment of 1.05 for males and no adjustment for females.
Disabled Mortality	Mortality rates for General disabled annuitants are based on status. Rates for General disabled annuitants with a service-related disability are based on the sex distinct 2021 CalPERS Industrially Disabled Annuitant Mortality Table, with generational mortality improvements projected from 2017 using 80% of Projection Scale MP-2020. Rates for General disabled annuitants with a non-service-related disability are based on the sex distinct 2021 CalPERS Non-Industrially Disabled Annuitant Mortality Table, with generational mortality improvements projected from 2017 using 80% of Projection Scale MP-2020. Mortality rates for Safety disabled annuitants are based on the sex distinct 2021 CalPERS Industrially Disabled Mortality Table, with generational mortality improvements projected from 2017 using Projection 80% of Scale MP-2020.

NOTE 8 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

c. Funded Status and Funding Progress

The annual actuarial valuation determines the progress made in accumulating sufficient assets to pay benefits when due. As of January 1, 2022, the pension plan's accrued actuarial liabilities were $5.3 billion and the market value of assets net of Special Reserves (market value of assets basis) was $4.2 billion, resulting in UAL of $1.1 billion. The funded status (ratio) of market value of assets basis over accrued actuarial liabilities was 78.0 percent.

As of the January 1, 2022 actuarial valuation, the funded status increased to 78.0 percent from 68.1 percent on a market value of assets basis. It increased to 72.4 percent from 67.0 percent on an actuarial value of assets. There were no assumption changes made as of January 1, 2022.

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

d. Asset Allocation Policy and Expected Long-Term Rate of Return by Asset Class

The allocation of investment assets within SJCERA's portfolio is approved by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected rate of return on defined benefit pension plan investment assets was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2022 and the long-term expected real rates of return.

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
Aggressive Growth	16.00%	9.10%
Traditional Growth	34.00%	5.70%
Stabilized Growth	30.00%	3.00%
Principal Protection	7.00%	-1.10%
Crisis Risk Offset (CRO)	13.00%	1.45%
Cash	0.00%	-1.90%
Total	100.00%	

e. Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2022. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2022.

NOTE 8 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

f. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The table below presents the net pension liability of SJCERA as of December 31, 2022, calculated using the discount rate of 7.00 percent, as well as what SJCERA's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Total Pension Liability			
Pension Plan Fiduciary Net Position	-		-
Collective Net Pension Liability	$ -	$ -	$ -
Fiduciary Net Position as a Percentage of the Total Pension Liability	#DIV/0!	#DIV/0!	#DIV/0!

g. Rate of Return

For the year ended December 31, 2022, the annual money-weighted rate of return on investments, net of investment expense, was ____ percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 9 – INVESTMENT EXPENSES

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

NOTE 10 – GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses, including the depreciation and amortization of capital assets, are funded by investment income earnings and are limited, pursuant to Government Code Section 31580.2, to twenty-one-hundredths of one percent (0.21 percent) of SJCERA's accrued actuarial liability. The actual administration expense for the year ended December 31, 2022, was 0.09 percent of the accrued actuarial liability. SJCERA was in compliance with this requirement during 2022.

NOTE 11 – PENDING LITIGATION

SJCERA v. Travelers

SJCERA sought coverage for its defense fees and costs incurred in the *Allum* Class Action ("Allum Litigation") under a fiduciary liability insurance policy issued by SJCERA's prior fiduciary insurance carrier, Travelers Casualty & Surety Company of America ("Travelers"). Travelers declined to provide a defense to SJCERA, and SJCERA filed a lawsuit in the United States District Court, Eastern District of California ("U.S.D.C.") that alleged both that Travelers breached the insurance contract and acted in bad faith by failing to defend it in the Allum Litigation. The Eastern District of California granted Travelers' Motion for Summary Judgment, ruling that the "prior and pending litigation" exclusion in the Travelers' policy precluded coverage. SJCERA timely filed an appeal with the Ninth Circuit Court of Appeal. The Ninth Circuit Court of Appeal reversed the U.S.D.C.'s decision and remanded the case to enter judgement for SJCERA. SJCERA has been reimbursed some, but not all, of its attorney's fees and costs incurred in the *Allum* Class Action from Travelers as a result of this decision, and the case is still pending.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

SJCERA participates in certain investments that require commitments of a specified amount of capital upfront that is then drawn down at a later time as the investment vehicle requires. The total unfunded capital commitment represents the amount of funds that SJCERA could potentially be required to contribute at a future date. SJCERA had unfunded capital commitments totaling $339.9 million at December 31, 2022.

NOTE 13 – SUBSEQUENT EVENTS

SJCERA has evaluated subsequent events through __________, 2023, the date on which the financial statements were available to be issued, noting no subsequent events.

REQUIRED SUPPLEMENTARY INFORMATION

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31*

	2022	2021	2020	2019	2018
Total Pension Liability					
Service cost		$ 116,888,677	$ 115,229,486	$ 110,608,926	$ 103,300,553
Interest (includes interest on service cost)		360,520,733	350,095,503	337,480,353	325,161,265
Change of benefit terms		-	-	-	-
Differences between expected and actual experience		(17,017,994)	(58,571,957)	4,950,114	(49,383,683)
Changes of assumptions		-	135,011,307	16,016,526	81,854,664
Benefit payments, including refunds of member contributions		(265,965,599)	(251,551,677)	(236,350,072)	(221,443,668)
Net Change in Total Pension Liability	-	194,425,817	290,212,662	232,705,847	239,489,131
Total Pension Liability - Beginning	5,417,999,785	5,223,573,968	4,933,361,306	4,700,655,459	4,461,166,328
Total Pension Liability - Ending (a)	$ 5,417,999,785	$ 5,417,999,785	$ 5,223,573,968	$ 4,933,361,306	$ 4,700,655,459
Fiduciary Net Position					
Contributions - employer		$ 306,662,635	$ 240,700,988	$ 225,528,756	$ 208,757,572
Contributions - member		43,455,640	40,568,995	38,098,688	35,377,951
Transfer between plans		270,570	172,041	299,014	324,269
Net investment income (loss)		572,291,948	276,996,530	380,674,528	(56,397,598)
Benefit payments, including refunds of member contributions		(265,965,599)	(251,551,677)	(236,350,072)	(221,443,668)
Administrative expenses		(4,639,439)	(4,536,455)	(4,931,163)	(4,865,082)
Net Change in Fiduciary Net Position	-	652,075,755	302,350,422	403,319,751	(38,246,555)
Fiduciary Net Position - Beginning	4,198,788,004	3,546,712,249	3,244,361,827	2,841,042,076	2,879,288,631
Fiduciary Net Position - Ending (b)	$ 4,198,788,004	$ 4,198,788,004	$ 3,546,712,249	$ 3,244,361,827	$ 2,841,042,076
Net Pension Liability (a)-(b)	$ 1,219,211,781	$ 1,219,211,781	$ 1,676,861,719	$ 1,688,999,479	$ 1,859,613,383
Fiduciary Net Position as a Percentage of the Total Pension Liability	77.50%	77.50%	67.90%	65.76%	60.44%
Covered Payroll**		$ 470,179,036	$ 460,456,931	$ 453,710,584	$ 436,763,447
Net Pension Liability as a Percentage of Covered Payroll	#DIV/0!	259.31%	364.17%	372.26%	425.77%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.
** Covered Payroll reported by plan sponsors is the payroll on which contributions are based in accordance with GASB Statement No. 82.

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (Continued)
FOR THE YEARS ENDED DECEMBER 31*

	2017	2016	2015	2014
Total Pension Liability				
Service cost	$ 98,438,144	$ 92,857,369	$ 94,377,630	$ 90,429,416
Interest (includes interest on service cost)	308,566,601	295,197,992	280,581,484	266,668,435
Change of benefit terms	-	-	-	-
Differences between expected and actual experience	37,219,673	(10,171,368)	(25,752,670)	-
Changes of assumptions	-	87,601,669	-	-
Benefit payments, including refunds of member contributions	(205,406,970)	(194,719,177)	(181,468,913)	(165,870,971)
Net Change in Total Pension Liability	238,817,448	270,766,485	167,737,531	191,226,880
Total Pension Liability - Beginning	4,222,348,880	3,951,582,395	3,783,844,864	3,592,617,984
Total Pension Liability - Ending (a)	$ 4,461,166,328	$ 4,222,348,880	$ 3,951,582,395	$ 3,783,844,864
Fiduciary Net Position				
Contributions - employer	$ 200,051,742	$ 159,122,523	$ 150,371,556	$ 136,686,133
Contributions - member	33,634,906	30,117,408	29,026,901	27,367,908
Transfer between plans	364,714	293,779	378,969	19,968,779
Net investment income (loss)	299,960,693	151,114,788	(47,339,750)	110,728,303
Benefit payments, including refunds of member contributions	(205,406,970)	(194,719,177)	(181,468,913)	(165,870,971)
Administrative expenses	(4,118,578)	(4,369,744)	(4,075,745)	(4,042,986)
Net Change in Fiduciary Net Position	324,486,507	141,559,577	(53,106,982)	124,837,166
Fiduciary Net Position - Beginning	2,554,802,124	2,413,242,547	2,466,349,529	2,341,512,363
Fiduciary Net Position - Ending (b)	$ 2,879,288,631	$ 2,554,802,124	$ 2,413,242,547	$ 2,466,349,529
Net Pension Liability (a)-(b)	$ 1,581,877,697	$ 1,667,546,756	$ 1,538,339,848	$ 1,317,495,335
Fiduciary Net Position as a Percentage of the Total Pension Liability	64.54%	60.51%	61.07%	65.18%
Covered Payroll**	$ 425,886,951	$ 392,227,314	$ 396,136,470	$ 376,030,944
Net Pension Liability as a Percentage of Covered Payroll	371.43%	425.15%	388.34%	350.37%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.
** Covered Payroll reported by plan sponsors is the payroll on which contributions are based in accordance with GASB Statement No. 82.

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS
AND OTHER CONTRIBUTING SOURCES
DEFINED BENEFIT PENSION PLAN
FOR THE TEN YEARS ENDED DECEMBER 31

2022-2018

	2022	2021	2020	2019	2018
Actuarially Determined Contributions		$ 233,148,239	$ 218,611,737	$ 203,058,574	$ 188,322,653
Contributions in Relation to the Actuarially Determined Contributions		306,662,635	240,700,988	225,528,756	208,757,572
Contribution Deficiency / (Excess)	$ -	$ (73,514,396)	$ (22,089,251)	$ (22,470,182)	$ (20,434,919)
Covered Payroll*		$ 470,179,036	$ 460,456,931	$ 453,710,584	$ 436,763,447
Contributions as a Percentage of Covered Payroll	#DIV/0!	65.22%	52.27%	49.71%	47.80%

2017-2013

	2017	2016	2015	2014	2013
Actuarially Determined Contributions	$ 179,824,882	$ 159,122,523	$ 150,371,556	$ 136,686,133	$ 119,494,319
Contributions in Relation to the Actuarially Determined Contributions	200,051,742	159,122,523	150,371,556	136,686,133	119,494,319
Contribution Deficiency / (Excess)	$ (20,226,860)	$ -	$ -	$ -	$ -
Covered Payroll*	$ 425,886,951	$ 392,227,914	$ 396,136,470	$ 376,030,944	$ 362,650,568
Contributions as a Percentage of Covered Payroll	46.97%	40.57%	37.96%	36.35%	32.95%

* Covered Payroll reported by plan sponsors for 2014 through 2022. Previous years' amounts are based on projected payroll from the actuarial valuation reports.

The contributions in excess of Actuarially Determined Contributions are due to the County's, MVCD's, and the Court's additional contributions.

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEARS ENDED DECEMBER 31*

	2022	2021	2020	2019	2018
Annual Money-Weighted Rate of Return, Net of Investment Expense	-7.24%	13.68%	2.23%	13.77%	-2.11%

	2017	2016	2015	2014
Annual Money-Weighted Rate of Return, Net of Investment Expense	11.85%	6.20%	-2.06%	4.29%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. It is calculated by finding the rate of return that will set the present values of all cash flows and terminal values equal to the value of the initial investment. The money-weighted rate of return is equivalent to the internal rate of return (IRR).

Time-weighted rate of return assumes that all cash distributions are reinvested in the portfolio and the exact same periods are used for comparisons. When calculating the time-weighted rate of return, the effect of varying cash inflows is eliminated by assuming a single investment at the beginning of a period and measuring the growth or loss of fair value to the end of that period.

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 – KEY METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

The following actuarial methods and assumptions were used to determine contribution rates for the year ended December 31, 2022, in the Schedule of Contributions from the Employers and Other Contributing Sources:

Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll with Separate Amortization Periods for Extraordinary Actuarial Gains or Losses
Remaining Amortization Period	2008 Extraordinary Actuarial Loss - 18 years Remaining UAL as of January 1, 2014 - 12 years Subsequent Unexpected Changes in UAL after January 1, 2014 - 15 years Single Equivalent Period as of January 1, 2021 - 14 year
Asset Valuation Method	Smoothed Actuarial Value (5 years) 80%-120% Asset Corridor
Actuarial Assumptions:	
Discount Rate	7.00%, Net of Pension Plan Investment Expenses, Including Inflation
Projected Salary Increases	3.00%, Plus Service-Based Rates
General Inflation Rate	2.75%
Cost-of-Living Adjustments (COLA)	2.60% Per Year Assumed
Healthy Mortality	Mortality rates for General active members are based on the sex distinct Public General 2010 Above-Median Income Mortality Table, with generational mortality improvements projected from 2010 using Projection Scale MP-2018, and a partial credibility adjustment of 1.05 for females and no adjustment for males. Mortality rates for Safety active members are based on the sex distinct Public Safety 2010 Mortality Table, with generational mortality improvements projected from 2010 using Projection Scale MP-2018, and a partial credibility adjustment of 0.98 for males and 1.06 for females. 10% of Safety member active deaths are assumed to occur in the line of duty. Mortality rates for healthy General annuitants and General beneficiaries are based on the sex distinct Public General 2010 Above-Median Income Mortality Table, with generational mortality improvements projected from 2010 using Projection Scale MP-2018, and a partial credibility adjustment of 1.04 for females and no adjustment for males. Mortality rates for Safety annuitants and Safety beneficiaries are based on the sex distinct Public Safety 2010 Mortality Table, with generational mortality improvements projected from 2010 using Projection Scale MP-2018, and a partial credibility adjustment of 1.02 for males and 1.05 for females.
Disabled Mortality	Mortality rates for General disabled annuitants are based on the sex distinct Public General Disabled Annuitant 2010 Mortality Table, with a generational mortality improvements projected from 2010 using Projection Scale MP-2018, with a partial credibility adjustment of 1.04 for males and 1.07 for females. Mortality rates for Safety disabled annuitants are based on the sex distinct Public Safety Disabled Annuitant 2010 Mortality Table, with generational mortality improvements projected from 2010 using Projection Scale MP-2018, with a partial credibility adjustment of 1.04 for males and 0.98 for females.

A complete description of the methods and assumptions used to determine contribution rates for the year ending December 31, 2022, can be found in the January 1, 2021 actuarial valuation report.

OTHER SUPPLEMENTARY INFORMATION

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31

	2022
General Administrative Expenses	
(Expenses Subject to the Statutory Limit)	
Personnel Services	
Staff Salaries	$ 1,699,542
Cafeteria Benefits	147,104
Insurance	327,585
Social Security	124,609
Retirement	783,713
Total Personnel Services	3,082,553
Professional Services	
Professional and Specialized Services	1,019,781
Allocated Department Costs	(5,022)
Total Professional Services	1,014,759
Communications	
Postage	19,122
Telephone	15,480
Travel	50,087
Total Communications	84,689
Rentals/Equipment	
Office Space and Equipment	229,177
Total Rentals/Equipment	229,177
Miscellaneous	
Office Supplies/Expense	43,121
Subscriptions and Periodicals	8,338
Memberships	8,052
Maintenance	25,544
Insurance	130,902
Total Miscellaneous	215,957
Total General Administrative Expenses	4,627,135
Other Expenses	
(Expenses Not Subject to the Statutory Limit)	
Information Technology Expenses	335,386
Actuary Fees	167,671
Fund Legal Fees	491,512
Total Other Expenses	994,569
Total General Administrative and Other Expenses	$ 5,621,704

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022
Investment Management Fees	
Principal Protection	$ 501,341
Traditional Growth	1,134,789
Credit	4,657,047
Risk Parity	1,520,367
Aggressive Growth	9,116,460
Credit Risk Offset	6,723,746
Core Real Asset - Short-Term Investments/Cash/Cash Equivalents	145,994
Total Investment Management Fees	23,799,744
Other Investment Fees and Expenses	
Custodian Fees	89,840
Investment Consultant Fees	436,462
Miscellaneous Investment Expense	2,915,002
Total Other Investment Fees and Expenses	3,441,304
Total Investment Expense	27,241,048
Securities Lending Fees	
Securities Lending Fees and Rebates	2,384,475
Total Investment Fees and Expenses	$ 29,625,523

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEAR ENDED DECEMBER 31

		2022
Nature of Service		
Actuarial-Retainer and Valuation	$	167,671
Audit		60,670
Fund Legal Fees		491,512
Business Technology Services		335,386
Total Payments to Consultants	$	1,055,239

OTHER INFORMATION

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF COST SHARING EMPLOYER ALLOCATIONS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022

Employer	Proportionate Share [1]	Net Pension Liability [2]
County of San Joaquin		
SJC Superior Court		
Lathrop-Manteca Rural Fire Protection District		
Waterloo-Morada Rural Fire Protection District		
Tracy Public Cemetery District		
SJC Mosquito and Vector Control District		
SJC Historical Society and Museum		
Mountain House Community Services District		
San Joaquin County Law Library		
Total	0.0000%	$ -

[1] As SJCERA is a cost sharing multiple-employer pension plan, each employer participating in SJCERA must reflect a portion of the collective net pension liability and pension expense in their financial statements. The calculation for the proportionate share for each employer allocates net pension liability and pension expense based on each employer's share of the unfunded liability amortization payment. The proportionate shares are then adjusted to account for the additional contributions made by the County of San Joaquin, the SJC Mosquito and Vector Control District, and SJC Superior Court for the year ended December 31, 2022.

[2] Proportionate share of net pension liability is based on the actuarial valuation.

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SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER PENSION AMOUNTS
ALLOCATED BY COST SHARING PLAN
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2022

		Deferred Outflows of Resources				Deferred Inflows of Resources				Pension Expense		
Employer	Net Pension Liability	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Differences Between Projected and Actual Investment Earnings	Changes in Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Proportionate Share of Pension Expense	Total Pension Expense
County of San Joaquin	$ -				$ -				$ -			$ -
SJC Superior Court	-				-				-			-
Lathrop-Manteca Rural Fire Protection District	-				-				-			-
Waterloo-Morada Rural Fire Protection District	-				-				-			-
Tracy Public Cemetery District	-				-				-			-
SJC Mosquito and Vector Control District	-				-				-			-
SJC Historical Society and Museum	-				-				-			-
Mountain House Community Services District	-				-				-			-
San Joaquin County Law Library	-				-				-			-
Local Agency Formation Commission	-				-				-			-
Totals	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE OTHER INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 – BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

Because San Joaquin County Employees' Retirement Association (SJCERA) is a cost sharing multiple-employer pension plan, employers participating in SJCERA are required to report a portion of the collective Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* GASB Statement No. 68 requires that the proportionate share for each employer be determined based on the employer's projected long-term contribution effort to the pension.

SJCERA's actuary prepared the following documents, (1) the Schedule of Cost Sharing Employer Allocations and (2) the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan, in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations based on information provided by SJCERA. These documents provide the required information for financial reporting related to SJCERA that employers may use in their financial statements. The measurement date for SJCERA is December 31, 2022. Measurements are based on the fair value of assets as of December 31, 2022, and the Total Pension Liability of $______________ as of December 31, 2022, was measured as of a valuation date of January 1, 2022, and projected to December 31, 2022.

NOTE 2 – AMORTIZATION OF DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

The difference between projected and actual investment earnings on pension plan investments is amortized over five years on a straight-line basis. One-fifth is recognized in Total Pension Expense for each of the five years. The changes in assumptions and differences between expected and actual experience are recognized over the average of the expected remaining service lives of all active and inactive members of SJCERA, which is also five years. The net effect of the change in the employer's proportionate share of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources is recognized over the average expected remaining service lives of all active and inactive members of SJCERA.