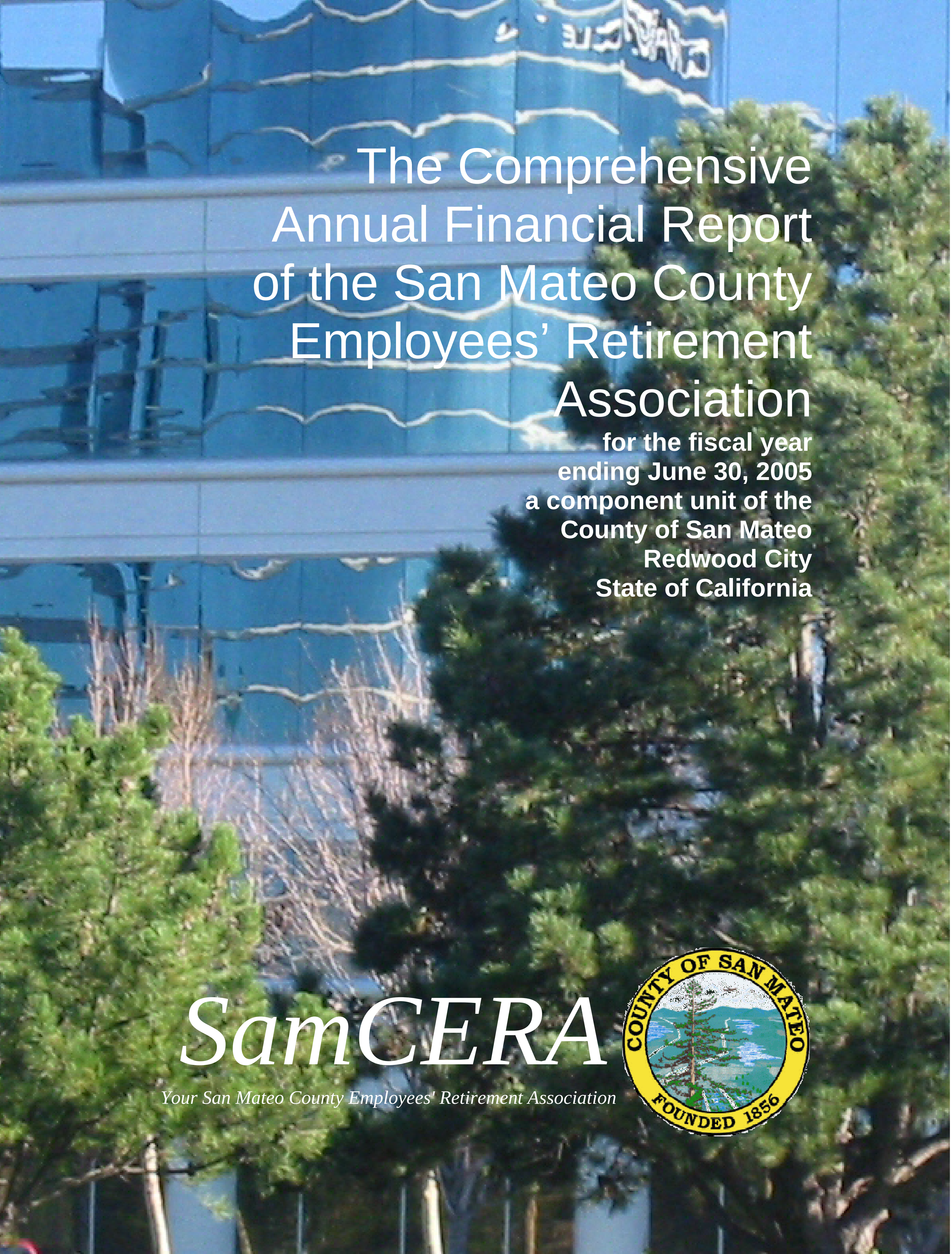

The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association

for the fiscal year ending June 30, 2005
a component unit of the County of San Mateo
Redwood City
State of California

SamCERA

Your San Mateo County Employees' Retirement Association

COUNTY OF SAN MATEO
FOUNDED 1856

San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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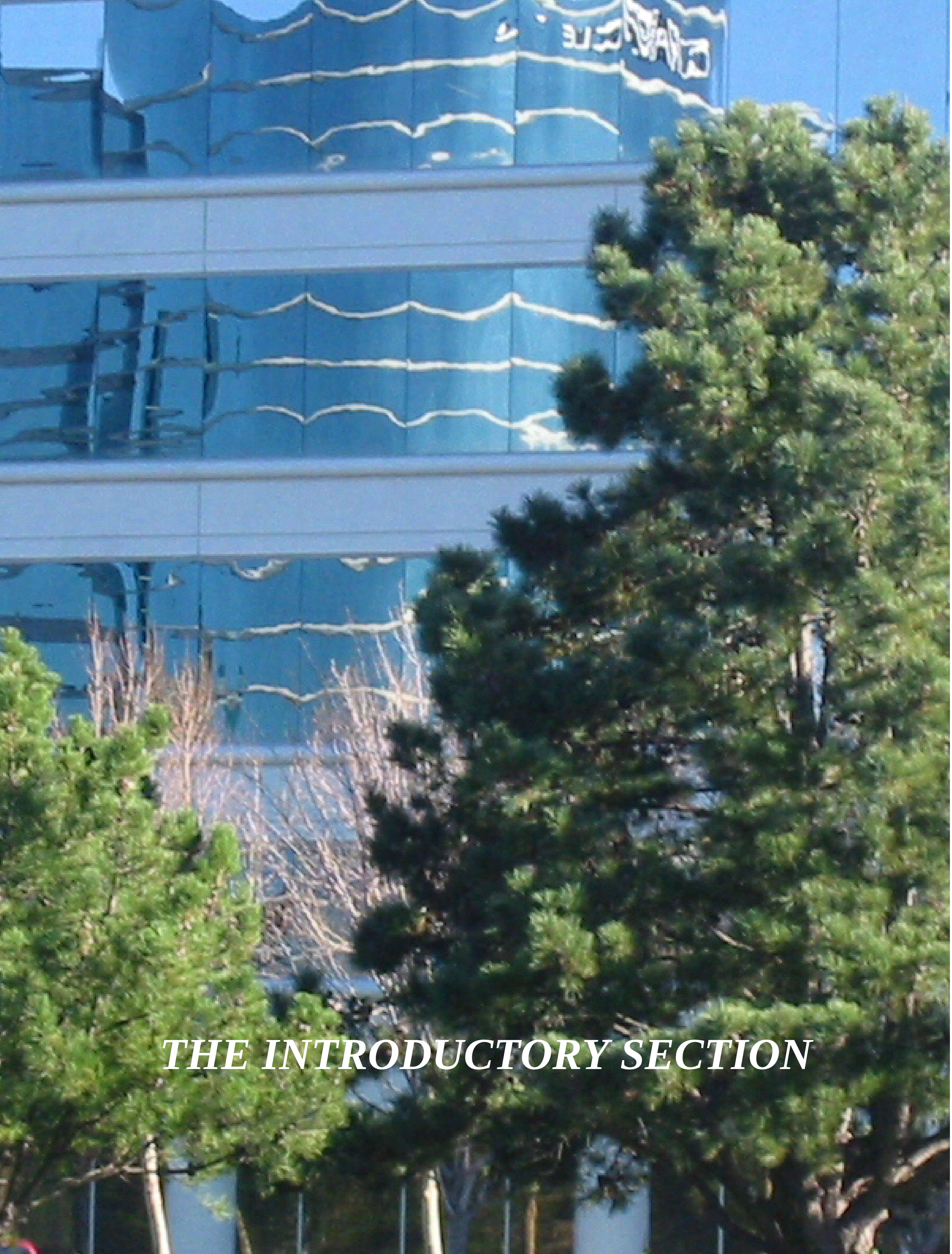


THE INTRODUCTORY SECTION

SamCERA's Mission

SamCERA exists
to serve as Loyal Fiduciary for
our Members, Retirees and Beneficiaries;
&
to serve as Prudent Administrator of
our County's Retirement System.

SamCERA's Goals

To provide caring, fair, accurate, timely and knowledgeable
professional service to our clients and our public.

To prudently manage the assets and appropriately fund the actuarial liabilities
of the Retirement System,
so as to minimize the costs to our County,
while assuring our ability to pay all earned benefits.

To constantly improve the effectiveness of our services
and the efficiency of our operations.

SamCERA

San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125, Redwood Shores, CA 94065
August 11, 2005

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

It is my honor to present to you *The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association* for the fiscal years ending June 30, 2005 and June 30, 2004 (the Report).

This report is submitted for your review. *SamCERA*'s management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. Management's discussion and analysis of the data may be reviewed on pages 14-20. This Report was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions are reported using the accrual basis of accounting.

SamCERA's management is responsible for establishing and maintaining an internal control structure designed to ensure that *SamCERA*'s assets are protected from loss, theft, or misuse. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. As your Chief Executive Officer, I hereby certify that *SamCERA*'s system of internal controls is adequate and that this report accurately, completely, fully and fairly discloses all matters of material consequence.

AUTHORITY, RESPONSIBILITIES & DUTIES

SamCERA was created by the Board of Supervisors in 1944, pursuant to the provisions of California's County Employees' Retirement Law of 1937 (the '37 Act) and County Ordinance 564.

SamCERA provides retirement, disability and death benefits for its eligible members, in accordance with the provisions of the Constitution of the State of California and the '37 Act as well as applicable statutes, regulations and case law.

The Board of Retirement serves as fiduciary for all of *SamCERA's* members. The board is responsible for administering the provisions of the '37 Act that the Board of Supervisors has made applicable to San Mateo County. The Board of Retirement has adopted its *Mission & Goals; Statement of Strategic Services; Regulations of the Board of Retirement; SamCERA's Investment Plan; SamCERA's Sources, Uses and Budget Report; Conflict of Interest Code; Code of Fiduciary Conduct* and *Delegation of Authority, et al* to document the board's policies. In addition, the board has executed contracts for the professional services of an actuary, investment consultant, investment managers, a global custodian and real estate counsel to help the board fulfill its duties. The board's professional consultants are highlighted in the organizational chart on page 10.

SamCERA's Chief Executive Officer is responsible for the day-to-day operations of the association. The CEO serves at the pleasure of the Board of Retirement and manages *SamCERA*'s operations in accordance with the board's *Delegation of Authority*. *SamCERA*'s staff of twelve full-time and one extra-help employees are responsible for assuring that members', employers' and the board's needs are met in accordance with the high standards set forth in *SamCERA's Mission & Goals'* statement. *SamCERA*'s staff is sworn to carry out its fiduciary duties in accordance with Staff's *Code of Fiduciary Conduct* and staff's own high *Performance Standards*.

SamCERA's members include all permanent employees of the County of San Mateo and the San Mateo County Mosquito Abatement District, vested former employees who elected deferred retirement, and all current retirees and their eligible survivors and beneficiaries. More than 85% of *SamCERA*'s members are classified as General Members. General Members are covered by the applicable provisions set forth by the '37 Act and Social Security. The remainder of *SamCERA*'s members are law enforcement employees classified as Safety or Probation Safety members. These members are covered by specific Safety Member provisions of the '37 Act but are not covered by Social Security.

SamCERA's Membership as of June 30, 2005

Plan (Tier)	One	Two	Three	Four	Total
Retirees and beneficiaries currently receiving benefits:					
General	2,230	866	113	9	3,218
Safety	288	57	0	0	345
Probation	97	21	0	1	119
Subtotal	2,615	944	113	10	3,682
Terminated employees entitled to but not currently receiving benefits (Deferred):					
General	72	474	120	130	796
Safety	0	33	0	13	46
Probation	0	28	0	12	40
Subtotal	72	535	120	155	882
Current employees:					
Vested:					
General	260	1,647	78	653	2,638
Safety	34	182	0	77	293
Probation	14	93	0	67	174
Non-Vested:					
General	2	3	54	1,714	1,773
Safety	0	0	0	116	116
Probation	0	0	0	104	104
Subtotal	310	1,925	132	2,731	5,098
Total *SamCERA* Membership	2,997	3,404	365	2,896	9,662

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The report consists of five sections, as follows.

•**The Introductory Section** includes *SamCERA*'s *Mission & Goals*, this Letter of Transmittal, a listing of the Members of the Board of Retirement and an organizational chart of *SamCERA*'s staff and the professional organizations which carry out *SamCERA*'s programs. This Letter of Transmittal also provides an overview of *SamCERA* and the significant activities and events that occurred during the fiscal year.

•**The Financial Section** presents information regarding *SamCERA*'s financial condition. This section contains the opinion of *SamCERA's* Independent Auditor, Brown Armstrong Paulden McCown Starbuck & Keeter Accountancy Corporation (Brown Armstrong), management's discussion and analysis, *SamCERA*'s financial statements and supplemental financial information. Brown Armstrong concludes that its audit of *SamCERA*'s financial statements, as set forth in the Financial Section, provided a reasonable basis for the auditor to determine that the financial statements present *SamCERA*'s financial position fairly. During the fiscal year, retirement fund assets increased from $1.435 billion to $1.599 billion.

The collection of employer and employee contributions and investment income provide the reserves needed to finance retirement benefits. Contributions and investment income for the fiscal year totaled $250,789,165.

Additions to SamCERA's Assets

Contributions	
Employer	$76,930,928
Employee	33,647,561
Total Contributions	110,578,489
Investment Income	147,413,534
Less investment expense	(7,282,330)
Net Investment Income	140,131,204
Other Additions	79,472
TOTAL ADDITIONS	$250,789,165

The '37 Act permits the use of retirement fund assets to pay earned service retirement benefits, disability benefits, death benefits, and refunds of member contributions. In addition the '37 Act permits the payment of administrative and professional expenses from the retirement fund. Benefits and expenses for the fiscal year totaled $86.9 million.

Deductions from SamCERA's Assets

SamCERA Benefits:	
Service retirement allowance	$71,217,876
Disability retirement allowance	10,933,461
Medical benefits	(345)
Death and other benefits	1,031,495
Total Association benefits	83,182,487
Refunds of members' contributions	1,458,257
Administrative expense	2,234,610
Other Expenses	3,533
TOTAL DEDUCTIONS	$86,878,887

Please refer to Management's Discussion and Analysis in the Financial Section for a narrative overview and analysis of *SamCERA's* financial activities for the fiscal year ending June 30, 2005.

Note 3 to the Financial Statements includes a discussion of *SamCERA*'s Market Stabilization Account which is used to smooth the actuarial value of assets over a five-year period. As of June 30, 2005, there was a negative balance of ($16,315,469) in the account. This amount is the unrecognized difference between *SamCERA*'s actual market returns and the returns that would have been generated if earnings had been at the actuarial interest rate of 8.00%. These actuarial shortfalls will be transferred onto the actuarial balance sheet over the next 4.5 years. Once on the actuarial balance sheet they will then need to be amortized over the remainder of *SamCERA*'s actuarial funding period ending June 30, 2022. These increases in contribution rates will be on top of increases resulting from the addition of benefit improvements during Fiscal Year 2005.

•**The Investment Section** presents information regarding *SamCERA*'s investment program. All investments are made in accordance with the guidelines set forth in *SamCERA's Investment Plan* by fully discretionary institutional investment advisors retained by the board. The section contains the statement produced by the board's independent investment consultant, Strategic Investment Solutions, along with a summary of *SamCERA*'s asset allocation, investment activity and performance. Strategic Investment Solutions reports that over the past year the Retirement Fund returned 10.15%, approximately 0.90 basis points greater than the Median Public Plan, and 0.29 basis points more than the performance of its policy benchmark.

SamCERA's Asset Allocation

	Target	June 30, 2005
Equity	65.0%	66.7%
Fixed Income	29.0%	29.5%
Real Estate	6.0%	3.7%
Cash	0.0%	0.1%

•**The Actuarial Section** presents information regarding the actuarial condition of *SamCERA*. The section contains the certification letter produced by the board's consulting actuary, Public Pension Professionals, the funding status and a summary of other key actuarial information.

As of June 30, 2004, the most recent actuarial valuation available, Public Pension Professionals reported that *SamCERA*'s Actuarial Valuation Assets of $1.453 billion were equal to 75.6% of *SamCERA*'s Accrued

Actuarial Liabilities of $1.921 billion, with full funding targeted for the year 2022. *SamCERA*'s Unfunded Actuarial Accrued Liability totaled $468.7 million on June 30, 2004, with an additional ($48.8) million in the Market Stabilization Account.

The following table reflects recent contribution changes:

Contribution Rates Effective in Fiscal Year:	**2004-2005**	**2003-2004**	**2002-2003**
Employer Rate (Actuary's Estimated Aggregate)	**22.84%**	**18.69%**	**11.66%**
% Increase	*22.2%*	*60.3%*	*-2.2%*
Employee Rate (Actuary's Estimated Aggregate)	**8.38%**	**7.10%**	**5.86%**
% Increase	*18.0%*	*21.2%*	*-2.8%*
Employer Contributions (Actuary's Latest Estimate)	$73,995,000	$60,528,000	$35,211,000
% Increase	*22.2%*	*71.9%*	*7.7%*
Member Contributions (Actuary's Latest Estimate)	$27,153,000	$21,440,000	$17,684,000
% Increase	*26.6%*	*21.2%*	*7.0%*

This report utilizes information from the actuarial valuation of the system as of June 30, 2004. Rates and other results from a valuation of the system as of June 30, 2005, had not been adopted by the Board of Retirement as of the printing date of this report.

•**The Statistical Section** presents general information regarding *SamCERA*'s membership and operations over the past decade as required by the CAFR standards.

SamCERA's Comprehensive Annual Financial Report and *Popular Annual Financial Report* for 2004 earned *SamCERA* its ninth and tenth Government Finance Officers Association of the United States and Canada *Certificate of Achievement for Excellence in Financial Reporting*. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principals and applicable legal requirements. The Certificate is valid for a period of one year only. Staff intends to submit this year's report to the GFOA as well.

LOOKING BACKWARD AND FORWARD

With the implementation of a new benefit formula for general service members (2% at 55.5) the association experienced a spike in retirement applications for the month of March as members retired just prior to the annual implementation of COLA increases. The number of applications received was approximately 10 times the normal monthly amount. The number of retirees would likely have been higher but was held down by approval of a 1% COLA.

In compliance with the various "*Ventura*" court rulings over the last several years, which added to the types of pay for which members are to receive retirement credit, *SamCERA* was required to pay retired members any additional amounts to which they were entitled plus interest at the statutory rate of 7% simple per annum, (a) retroactively from March 19, 1995 and (b) prospectively. In addition, it was ruled that the board had discretionary authority to collect the additional contributions plan members would have been required to make if *Ventura* had been applied in calculating their contributions, plus interest that would have been credited on such contributions. After hiring additional staff in June 2004, implementation of the project began. Over the course of the project, the project team manually pulled and looked at 58,214 microfilm and microfiche records. Including electronic records, a total of 81,250 records were reviewed.

The project concluded in April 2005. Recipients, beneficiaries and estates due a Ventura benefit totaled 885. Total net cost of the project, including the cost of benefits and administrative and legal costs came to approximately $12 million. The original amount transferred to the Ventura Contingency Reserve was approximately $32 million. As such, approximately $20 million was transferred back to employer reserves.

In 2003 as part of agreements between unions and the Board of Supervisors to increase member benefit formulas, a cost-sharing agreement was also approved. Under the agreement, general members began paying an additional 1% of their pay into the retirement system on August 31, 2003. On August 29, 2004, another 1% was added. On March 13, 2005, the final 1% was added, bringing the total county general member cost sharing contribution percentage to 3%.

Michael McMahon, *SamCERA* board member, passed away February 14, 2005, from complications sustained in a traffic accident. He was a Senior Auditor-Appraiser who was employed by the county for more than thirty years. At its February 22, 2005, meeting, the *SamCERA* Board of Retirement signed a resolution honoring Mr. McMahon's service to the system. The resolution read in part, "Michael E. McMahon has the deepest thanks of his fellow retirement board members for his more than eleven years of commitment to seeing that *SamCERA* was administered following the highest standards of fiduciary conduct. His energy and insight will be missed by all who knew and worked with him, and the retirement board is lessened by his passing."

Assistant Executive Officer Scott Hood is a Lieutenant Colonel in the Army Reserve. He deployed to Iraq in late spring and is working in Baghdad in support of the Iraqi elections.

For the one-year period ended June 30, 2005, the investment portfolio outperformed its benchmark and returned 10.15%. *SamCERA's* Net Assets Held in Trust for Pension Benefits grew by approximately $164 million last fiscal year. The balance as of June 30, 2005, was approximately $1.6 billion.

SamCERA lowered its assumed earnings rate from 8% to 7.75% after completing its triennial experience study.

In October 2005 the Board of Retirement approved the *SamCERA* Strategic Plan as submitted by staff. The plan was developed based on an outline provided by GFOA. It includes five broad goals:

Customer Service Goal. Improve customer service to *SamCERA* members by developing and adhering to service standards, assessing customer satisfaction, updating publications and presentations.

Knowledge Management Goal. Capture institutional knowledge and make it readily accessible.

Planning Goal. Anticipate and plan for future events that will impact *SamCERA.*

External Relationships Goal. Develop external relationships that improve the efficiency, cost effectiveness, and decision-making ability of *SamCERA.*

Staffing Goal. Research and develop plans to address issues to strengthen *SamCERA*'s staff.

The Action Plan to achieve these goals is ambitious, requiring the completion of 33 tasks. But the organization must move forward on each of them, with a commitment to achieve those of highest priority as soon as possible, so that members, staff, board and all stakeholders can enjoy the benefits of an organization that is constantly improving.

Respectfully submitted,

David Bailey, Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County Employees' Retirement Association, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

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

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Executive Director

Members of the Board of Retirement

for the fiscal year ending June 30, 2005

ALMA R. SALAS, Chair *elected by SamCERA's Safety Members, Seventh Member*

Alma Salas is a Deputy Probation Officer III with County Adult Probation and President of the Probation & Detention Association. Alma joined the Board in May of 2001. Her term expires June 30, 2006.

KENNETH A. LEWIS, Vice Chair *appointed by the Board of Supervisors, Fifth Member*

Kenneth Lewis is the Vice President – Treasurer of Franklin Resources. Kenneth joined the Board in September of 2001. His term expires June 30, 2007. Ken serves as Chair of the Investment Committee.

TOM E. BRYAN, Secretary *elected by SamCERA's General Members, Third Member*

Tom Bryan is a Principal Appraiser with the County and a Steward with SEIU Local 715. Tom joined the Board in July of 1986. He served as Chairman from 1989 – 1990 and 2002 – 2003. His term expires June 30, 2007.

LEE BUFFINGTON *Ex Officio per the '37 Act, First Member*

Lee Buffington serves as Tax Collector/Treasurer for the County. The law from which *SamCERA* was created designates the County Treasurer as a member of the Board of Retirement. Lee joined the Board in October of 1985. **SANDRA ARNOTT** serves as the Constitutional Alternate in Lee's absence. His term expires January 8, 2007.

DONNA WILLS COLSON *appointed by the Board of Supervisors, Ninth Member*

Donna Wills Colson is Client Services Officer with Tukman Capital Management. Donna joined the Board in August of 1998. She served as Chair from 2003—2004. Donna currently serves as Chair of the Audit Committee. Her term expires June 30, 2007.

JAMES HOOLEY *appointed by the Board of Supervisors, Sixth Member*

James Hooley retired as Associate Superintendent of the San Mateo County Office of Education. Jim joined the Board in September of 2003. His term expires June 30, 2006.

PAUL HACKLEMAN *elected by SamCERA's General Members, Second Member*

Paul Hackleman is the San Mateo County Benefits Manager. He was elected to the Board of Retirement in June 2005 to fill the unexpired term of Michael McMahon. His term expires June 30, 2006.

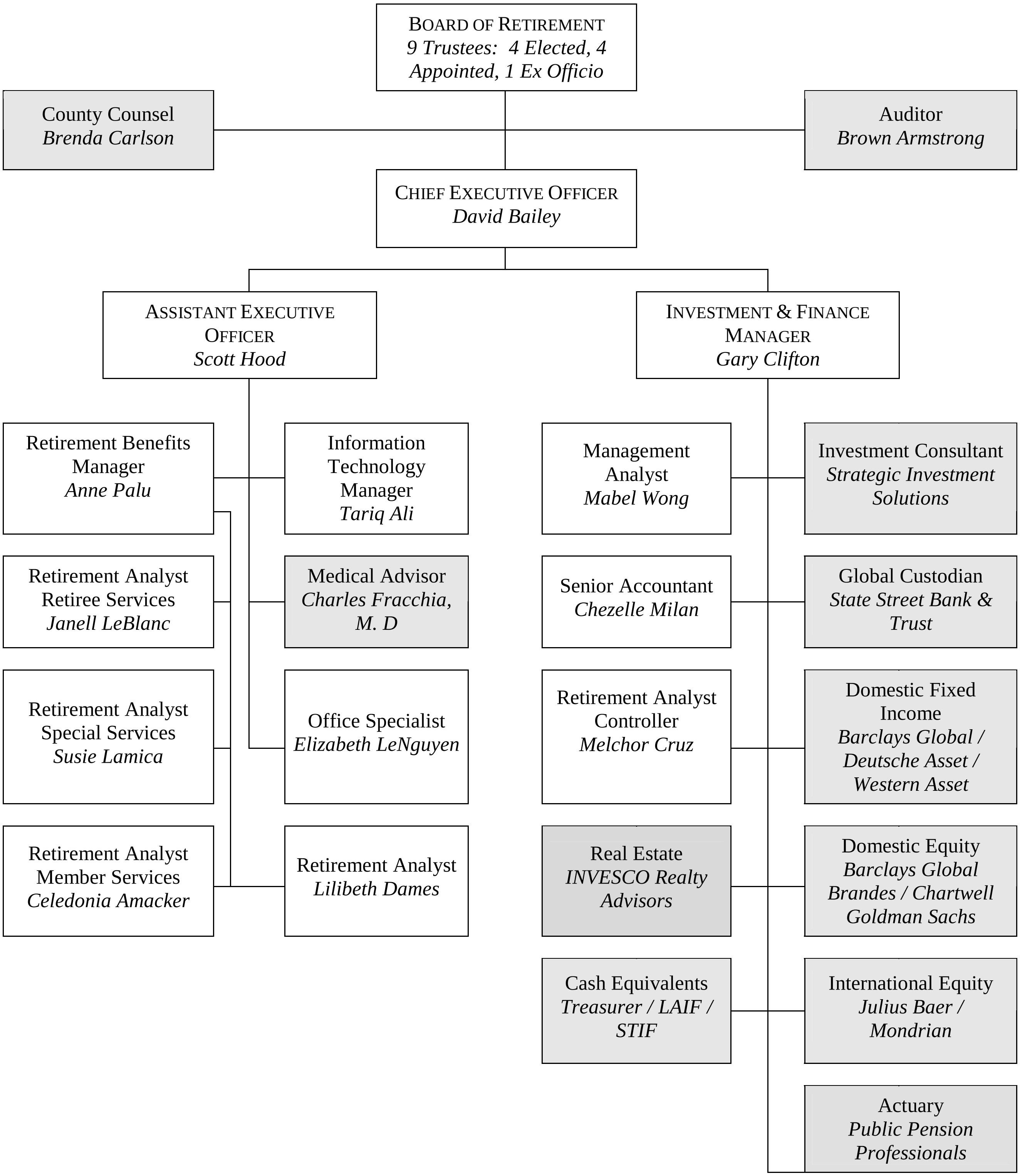
BETTE PERROTON STUART *elected by SamCERA's Retired Members, Eighth Member*

Bette Perroton Stuart retired as your Retirement Officer in 1988 after nearly 20 years with the County. Bette joined the Board in December of 1990. She served as Chair from 1996 – 1998. Her term expires June 30, 2007.

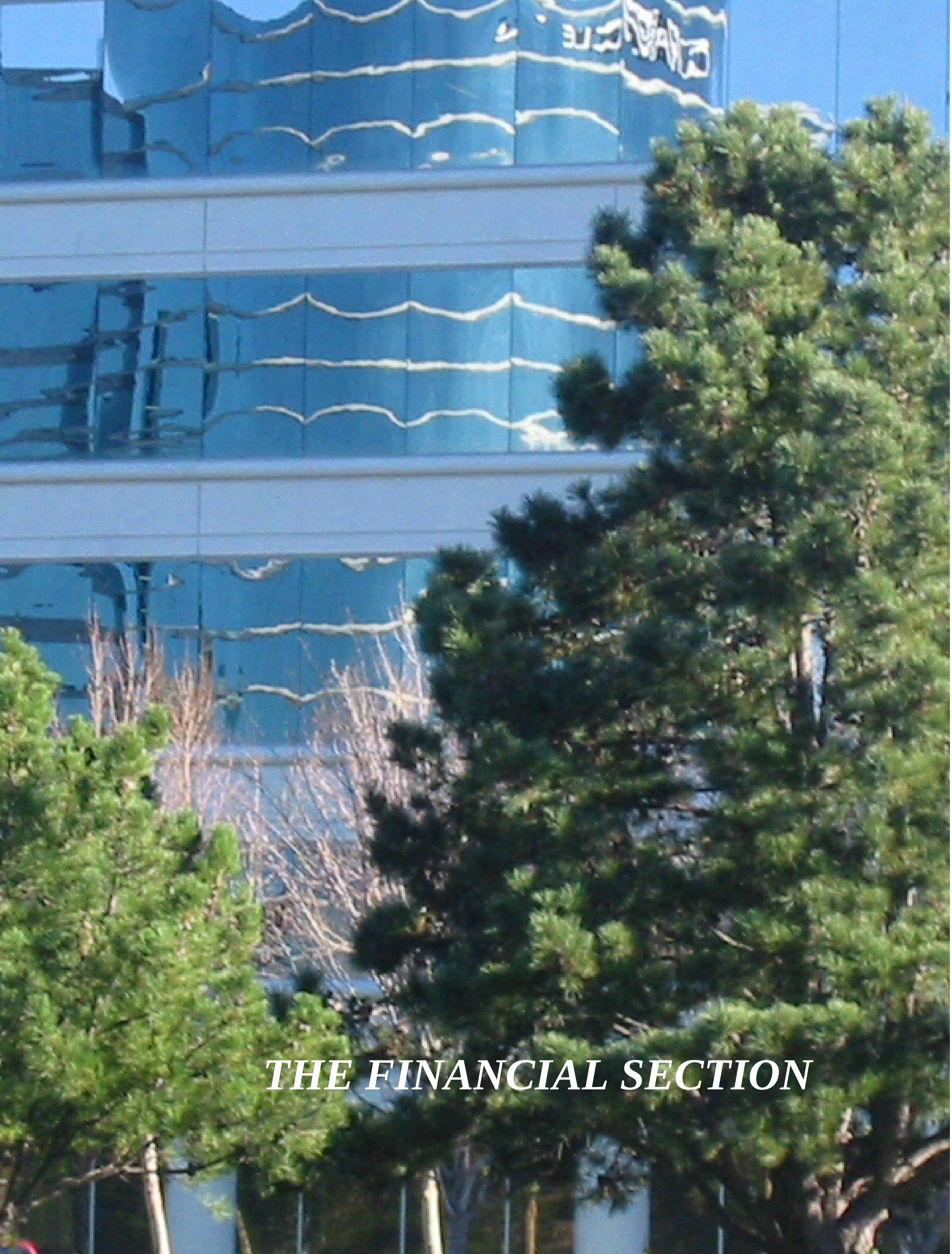
EMILY TASHMAN *appointed by the Board of Supervisors, Fourth Member*

Emily Tashman is a finance professional who has worked with DIVA Systems, Barclays Bank, Toronto Dominion Bank, Bank of California and SRI International. Emily joined the Board in January of 2004. Her term expires June 30, 2006.

SAN MATEO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
June 30, 2005 Organizational Chart
Including Professional Consultants



A Schedule of Professional Services and Fees may be found on page 49 of the Investment Section



THE FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
San Mateo County Board of Retirement

We have audited the accompanying statement of fiduciary net assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2005 and 2004 and the related statement of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of management of SamCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the San Mateo County Employees' Retirement Association as of June 30, 2005 and 2004 and its changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Required Supplementary Information and Other Supplementary Information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of SamCERA. The Required Supplementary Information and Other Supplementary Information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2005, on our consideration of SamCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
August 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2004 – 2005

As fiduciaries of the San Mateo County Employees' Retirement Association, we offer readers of *SamCERA*'s financial statements this narrative overview and analysis of its financial activities for the fiscal year ending June 30, 2005.

Financial Highlights

- $1,599,269,701 in net assets are held in trust for pension benefits. All of the assets are available to meet S*amCERA's* ongoing obligation to plan participants and their beneficiaries.
- *SamCERA's* total net assets held in trust for pension benefits increased by $163,910,278 or 11.42% primarily as a result of market appreciation.
- *SamCERA's* funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2004, the date of the last actuarial valuation, the funded ratio for *SamCERA* was 75.6%.
- Revenues (Additions to Fiduciary Net Assets) for the year were $250,789,165, which includes member and employer contributions of $110,578,489; investment gain of $147,413,534 (excluding investment expense of $7,282,330); and other additions of $79,472.
- Expenses (Deductions in Fiduciary Net Assets) increased from $78,381,297 to $86,878,887 over the prior year, or approximately 10.84%. Most of this increase was due to an increase in benefits paid.

Overview of Financial Statement

This discussion and analysis is intended to serve as an introduction to *SamCERA's* financial statements, which are comprised of these components:

1. Comparative Statements of Fiduciary Net Assets
2. Comparative Statements of Changes in Fiduciary Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

Please note, however, that this report also contains clarifying information to supplement the basic financial statements listed above.

The Comparative Statement of Fiduciary Net Assets is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and any current liabilities that are owed as of June 30, 2005.

The Comparative Statement of Changes in Fiduciary Net Assets provides a view of additions and deductions to the plan. Both statements are in compliance with Governmental Accounting Standards Board (GASB) pronouncements.

The Comparative Statement of Fiduciary Net Assets and the Comparative Statement of Changes in Fiduciary Net Assets report information about *SamCERA's* activities. These statements include assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown on a trade date basis, using fair values. All property and equipment (Capital Assets) are depreciated over their useful lives.

These two statements report *SamCERA's* net assets held in trust for pension benefits as one way to measure the plan's financial position. Over time, increases and decreases in *SamCERA's* net assets are one indicator of whether it's financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring *SamCERA's* overall financial position.

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

Required Supplementary Information provides additional information and detail concerning *SamCERA's* progress in funding its obligations to provide pension benefits to members, the trend of employers' contributions, pertinent actuarial information as of the latest valuation, and notes to the schedules of trend information.

Other Supplementary Information includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants.

Financial Analysis

Tables 1, 2, and 3 summarize and compare *SamCERA's* financial results for current and prior periods.

SamCERA's Fiduciary Net Assets held in trust for pension benefits as of June 30, 2005, totaled $1,599,269,701, which represents an increase of $163,910,278 or 11.42% over the period. The increase in net assets is a direct result of strict adherence to *SamCERA's Investment Plan*, which, with the asset allocation and rebalancing policy adopted by *SamCERA's* Board of retirement, has enabled the association to maximize the upturn in the market. All of the net assets are available to meet *SamCERA's* ongoing obligations to plan participants and their beneficiaries. Net assets increased by 11.42% during the fiscal year due to contributions from the employees and employers and market appreciation of investments.

SamCERA's Net Assets (Condensed) (Table 1)

For the Years Ended June 30, 2005 and 2004	2005	2004	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,579,525,190	$1,428,595,232	$150,929,958	10.56%
Other Assets	$117,948,719	$21,472,070	$96,476,649	449.31%
Total Assets	$1,697,473,909	$1,450,067,302	$247,406,607	17.06%
Total Liabilities	$98,204,208	$14,707,879	$83,496,329	567.70%
Net Assets	$1,599,269,701	$1,435,359,423	$163,910,278	11.42%

For the Years Ended June 30, 2004 and 2003	2004	2003	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,428,595,232	$1,228,233,377	$200,361,855	16.31%
Other Assets	$21,472,070	$28,076,893	($6,604,823)	-23.52%
Total Assets	$1,450,067,302	$1,256,310,270	$193,757,032	15.42%
Total Liabilities	$14,707,879	$23,038,733	($8,330,854)	-36.16%
Net Assets	$1,435,359,423	$1,233,271,537	$202,087,886	16.39%

Despite recent market volatility and enriched retirement benefits *SamCERA* remains in a good financial position to meet its obligations to plan participants and beneficiaries.

Capital Assets

The balance of *SamCERA's* capital assets declined from $28,012 in 2004 to $18,675 in 2005. As of June 30, 2005, *SamCERA's* investment in capital assets totaled $18,675 (net of accumulated depreciation and amortization). Capital assets includes computer hardware and business continuity assets.

Reserves

The statement of *SamCERA's* reserves shown as (Table 2) indicates how *SamCERA's* fiduciary net assets have accumulated. *SamCERA's* reserves are established from employer and employee contributions and the accumulation of investment earnings, after deducting investment and administrative expenses (see Table 2 below). When a member retires, the fiduciary net assets attributable to that member are transferred to the Retiree Reserves from the Member reserves and County Advanced Reserves. During the past several years the following significant board actions have impacted the reserve accounts:

- The adoption of the Governmental Accounting Standard Board Pronouncement 25, which mandates that investments be stated at fair value, effective in Fiscal Year 1996.
- The creation of the Market Stabilization Account as recommended by William M. Mercer, *SamCERA's* actuary at that time.
- The creation of the Ventura Contingency Reserve to pre-fund retroactive retiree benefits that may result from the adverse decision in the matter of *Teamsters Local 856 vs. Board of Retirement, San Mateo County*, effective Fiscal Year 2000 (See Note 5).
- The retroactive implementation of *Ventura* had a total cost of $11,961,371 to the retirement plan. On May 31, 2005. the balance in the Ventura Reserve was transferred to the employer's retiree reserve, pursuant to Resolution 01-02-03 – *Ventura Litigation Contingency Reserve*.

In December and June of each year, the actuarial assumed investment returns are credited to each of the Valuation Reserves. When actual investment returns differ from the actuarial assumed investment returns, the surplus or deficit is recorded in the Market Stabilization Account. The balance of the account is allocated to the Valuation Reserves over a five-year period. This process reduces the volatility of annual contribution rates for the employer and employee. With the upturn in the market over the past three years, *SamCERA's* Market Stabilization Account improved by $257,099,857. At year-end 2002 the Account was ($273,415,326); by year-end 2005 the balance had decreased to ($16,135,469).

The Board of retirement adopted a policy in 2002 that the amount of investment earnings added or subtracted from the Market Stabilization Reserve cannot exceed 20% of the assumed investment return. If it does, then the excess is allocated to the Valuation Reserves.

SamCERA's Reserves (Table 2)

As of June 30	2005	2004	2003
Valuation Reserves:			
Member Reserves	$281,230,984	$259,731,818	$242,075,501
County Advanced Reserves	$219,867,963	$212,410,513	$199,095,646
Retiree Reserves	$554,684,637	$449,574,515	$400,082,439
Cost of Living Reserves	$581,174,967	$539,641,932	$500,364,497
Contingency Reserves	$0	$0	$13,757,625
Non-Valuation Reserves:			
Ventura Reserves	$0	$31,523,929	$32,145,000
Unallocated Earnings/Loss Account	($21,373,381)	($8,737,605)	$0
Market Stabilization Account	($16,315,469)	($48,785,679)	($154,249,171)
Net Reserves held in Trust for Pension Benefits	$1,599,269,701	$1,435,359,423	$1,233,271,537

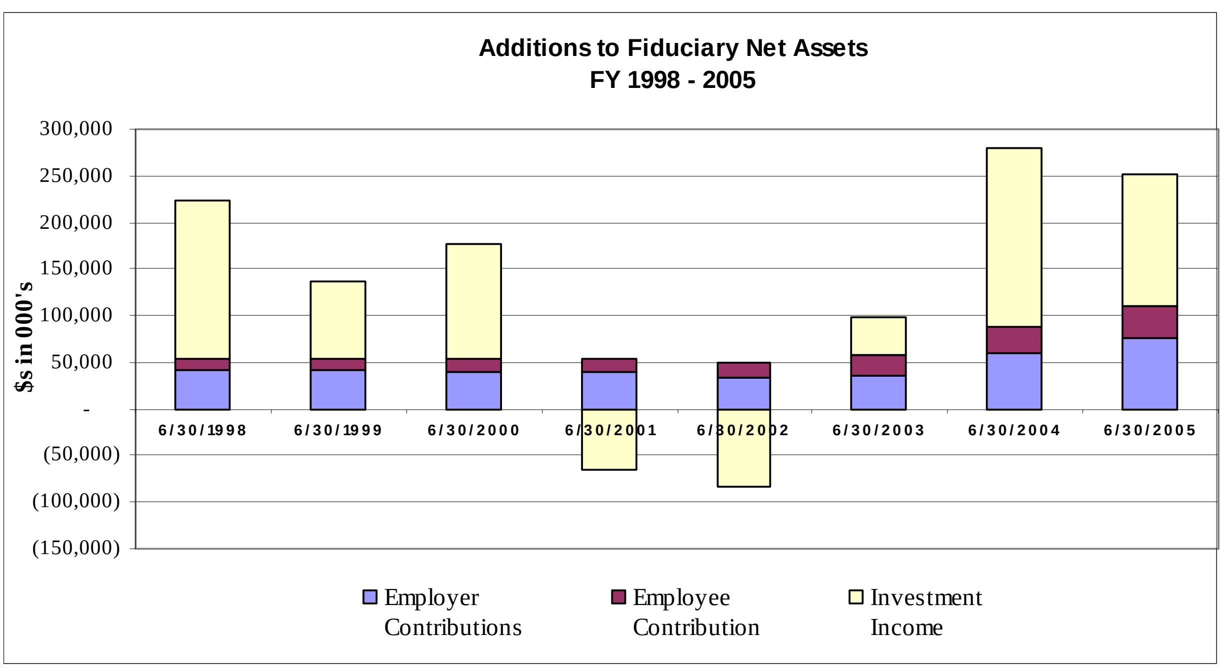
Additions to Fiduciary Net Assets

Total additions to Fiduciary Net Assets for the fiscal years ended June 30, 2005, and 2004 were $250,789,165 and $280,469,183, respectively, as follows: (Refer to Table 3 below)

Additions to Fiduciary Net Assets (Condensed) (Table 3)

For the Years Ended June 30, 2005 and 2004	2005	2004	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$76,930,928	$60,041,821	$16,889,107	28.13%
Employee Contributions	$33,647,561	$27,094,196	$6,553,365	24.19%
Investment Income/(Loss)	$147,413,534	$197,265,535	($49,852,001)	-25.27%
Less Investment Expenses	($7,282,330)	($4,158,687)	($3,123,643)	75.11%
Other Additions	$79,472	$226,318	($146,846)	-64.88%
Total	$250,789,165	$280,469,183	($29,680,018)	-10.58%
Current Membership	9,662	9,602	60	3.62%

For the Years Ended June 30, 2004 and 2003	2004	2003	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$60,041,821	$36,069,587	$23,972,234	66.46%
Employee Contributions	$27,094,196	$22,650,186	$4,444,010	19.62%
Investment Income/(Loss)	$197,265,535	$42,713,172	$154,552,363	361.84%
Less Investment Expenses	($4,158,687)	($3,571,263)	($587,424)	16.45%
Other Additions	$226,318	$8,040	$218,278	N/A
Total	$280,469,183	$97,869,722	$182,599,461	186.57%
Current Membership	9,602	9,246	356	3.85%



Deductions from Fiduciary Net Assets

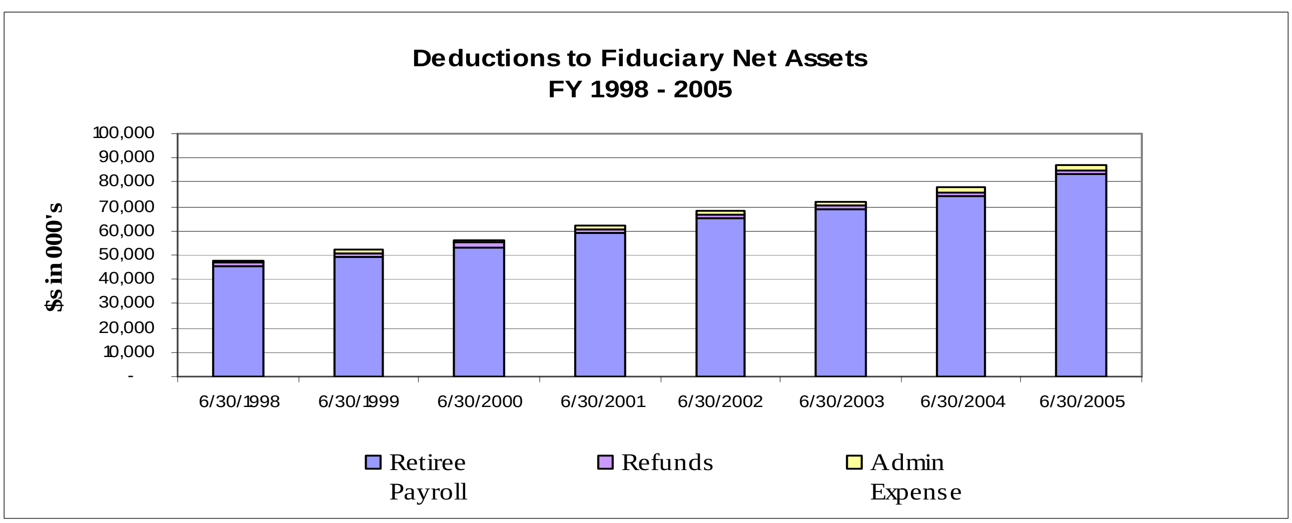
SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated employees, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2005, totaled $86,878,887 an increase of 10.84% over the prior fiscal year (refer to Table 4 below).

Deductions of $86,878,887 were exceeded by additions of $250,789,165, resulting in an increase of $163,910,278 in fiduciary net assets for the fiscal year ended June 30, 2005.

Deductions in Fiduciary Net Assets (Table 4)

For the Years Ended June 30, 2005 and 2004	2005	2004	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$83,182,487	$74,016,331	$9,166,156	12.38%
Member Refunds	$1,458,257	$1,734,439	($276,182)	-15.92%
Administrative Expenses	$2,234,610	$1,911,755	$322,855	16.89%
Other Expense	$3,533	$718,772	($715,239)	-99.51%
Total	$86,878,887	$78,381,297	$8,497,590	10.84%
Benefit Recipients	3,682	3,529	153	4.34%

For the Years Ended June 30, 2004 and 2003	2004	2003	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$74,016,331	$68,989,297	$5,027,034	7.29%
Member Refunds	$1,734,439	$1,205,576	$528,863	43.87%
Administrative Expenses	$1,911,755	$1,886,892	$24,863	1.32%
Other Expense	$718,772	$0	$718,772	N/A
Total	$78,381,297	$72,081,765	$6,299,532	8.74%
Benefit Recipients	3,529	3,454	75	2.17%



Changes in Fiduciary Net Assets (Condensed) (Table 5)

For the Years Ended June 30, 2005 and 2004	2005	2004	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,435,359,423	$1,233,271,537	$202,087,886	16.39%
Total Additions	$250,789,165	$280,469,183	($29,680,018)	-10.58%
Total Deductions	$86,878,887	$78,381,297	$8,497,590	10.84%
Ending Plan Net Assets	$1,599,269,701	$1,435,359,423	$163,910,278	11.42%

For the Years Ended June 30, 2004 and 2003	2004	2003	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,233,271,537	$1,207,483,580	$25,787,957	2.14%
Total Additions	$280,469,183	$97,869,722	$182,599,461	186.57%
Total Deductions	$78,381,297	$72,081,765	$6,299,532	8.74%
Ending Plan Net Assets	$1,435,359,423	$1,233,271,537	$202,087,886	16.39%

This fiscal year retiree benefits increased and member refunds decreased. Management attributes these trends to the overall economic environment and implementation of favorable labor negotiations by active members, which resulted in enriched retirement benefits.

The system's administrative expenses increased by $322,855, or 16.89% in fiscal year 2004-2005. The increased expenditure is primarily attributable to the hiring of five temporary staff to assist in the implementation of the Ventura settlement and the double filling of the Chief Executive Officer position for three months.

Expenses of *SamCERA's* professional services are included with investment expense. For the fiscal years ended June 30, 2005, and June 30, 2004, the expenditures for actuarial services, custodian services and investment consultant services were consistent with the original appropriations. Last fiscal year, investment assets increased faster than anticipated, resulting in higher actual investment management fees than budgeted. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management.

The County Employees Retirement Law of 1937 limits *SamCERA's* administrative budget to eighteen-hundredths of 1 percent of the total assets of the retirement system. *SamCERA* has consistently been within its approved administrative budget and within the 18 basis point regulation. There are no material variances between planned expenditures and actual expenditures for the fiscal year ending June 30, 2005.

SamCERA's Fiduciary Responsibilities

SamCERA's Board and staff are fiduciaries of the pension trust fund. Under the California Constitution the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

These Financial Statements are designed to provide *SamCERA's* board, membership, taxpayers, investment managers, and interested parties a general overview of the San Mateo County Employees' Retirement Association's financial position and to show accountability for the funds it receives.
Additional information is available on our website at www.samcera.org.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

> San Mateo County Employees' Retirement Association
> 100 Marine Parkway, Suite 125
> Redwood Shores, CA 94065
> Telephone: (650) 599-1234
> Facsimile: (650) 591-1488

Respectfully submitted,

Gary Clifton
Investment and Finance Manager
August 11, 2005

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2005 and 2004

	2005	2004
Assets:		
Cash and Deposits	$42,816,781	$16,292,774
Receivables:		
Contributions	3,869,081	2,652,536
Due from broker for investments sold	68,043,706	664,654
Investment income	3,094,226	1,570,776
Other receivables	98,581	164,389
Total Receivables	75,105,594	5,052,355
Prepaid Expense	7,669	98,929
Investments, at fair value		
Domestic fixed income securities	468,021,688	375,186,833
Domestic equities	803,519,587	768,511,724
International equities	248,764,405	226,683,026
Real estate	59,219,510	58,213,649
Total Investments	1,579,525,190	1,428,595,232
Capital assets, at cost, net of accumulated depreciation of $9,336 and $3,437 at 2005 and 2004, respectively.	18,675	28,012
Total Assets	1,697,473,909	1,450,067,302
Liabilities:		
Payables		
Investment management fees	1,054,124	441,977
Due to broker for investments purchased	96,713,021	6,420,711
Mortgage Note Payable		
Due within one year	0	196,330
Due in more than one year	0	6,707,699
Other	437,063	941,162
Total Liabilities	98,204,208	14,707,879
Net Assets Held in Trust For Pension Benefits (Note 3)	$1,599,269,701	$1,435,359,423

(See Schedule of Funding Progress presented on page 32)

The accompanying Notes to the Financial Statements beginning on page 23 are an integral part of these financial statements.

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets
For The Year Ended June 30, 2005 and 2004

	2005	2004
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 76,930,928	$ 60,041,821
Employee	33,647,561	27,094,196
Total Contributions	110,578,489	87,136,017
INVESTMENT INCOME/(LOSS)		
Interest and dividends	23,503,153	12,673,292
Net appreciation (depreciation) in Fair value of investments	123,910,381	184,592,243
	147,413,534	197,265,535
Less investment expense	7,282,330	4,158,687
Net Investment Income (Loss)	140,131,204	193,106,848
Other Additions	79,472	226,318
Total Additions	250,789,165	280,469,183
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	71,217,876	62,431,040
Disability retirement allowance	10,933,461	9,359,004
Medical benefits	(345)	1,198,383
Death and other benefits	1,031,495	1,027,904
Total Association benefits	83,182,487	74,016,331
REFUNDS OF MEMBERS' CONTRIBUTIONS	1,458,257	1,734,439
ADMINISTRATIVE EXPENSE (Note 3)	2,234,610	1,911,755
OTHER EXPENSE	3,533	718,772
Total Deductions	86,878,887	78,381,297
Net Increase (Decrease)	163,910,278	202,087,886
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	1,435,359,423	1,233,271,537
End of year	$1,599,269,701	$1,435,359,423

The accompanying Notes to the Financial Statements beginning on page 23 are an integral part of these financial statements.

Note 1 - Plan Description

The following description of the San Mateo County Employees' Retirement Association (the Association) is provided for general information purposes. The Association is governed by the California Constitution, the County Employees Retirement Law of 1937 (a component of the California Government Code) and the bylaws, procedures and policies adopted by the Board of Retirement.

General

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County of San Mateo (the Primary Employer) and the San Mateo County Mosquito Abatement District. The Association is a Component Unit of the Primary Employer. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the county and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; the eighth member shall be a retired member elected from the retired membership.

The Association has four plans, which cover members classified as general, safety or probation. Employees hired on or before July 6, 1980, became members of Plan One. Employees hired after July 6, 1980, and before July 13, 1997, became members of Plan Two. Employees hired on or after July 13, 1997 become members of Plan Four. New General Employees may also elect membership under Plan Three. New employees appointed to positions of active law enforcement become safety members under Plan Four. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers become members under Plan Four for probation officers. From January 1, 1993, general members in Plan Three with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Plan 3 members are authorized to purchase service credit in their current plan. Earned Plan 3 service credit is forfeited in an amount equivalent to the purchase.

The Association's plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2005, the Association membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	Plan One	Plan Two	Plan Three	Plan Four	Total
General	2,230	866	113	9	3,218
Safety	288	57	0	0	345
Probation	97	21	0	1	119
Subtotal	2,615	944	113	10	3,682
Terminated employees entitled to but not currently receiving benefits (deferred):					
General	72	474	120	130	796
Safety	0	33	0	13	46
Probation	0	28	0	12	40
Subtotal	72	535	120	155	882
Totals Forwarded	2,687	1,479	233	165	4,564

Note 1 - Plan Description – General (Continued)

	Plan One	Plan Two	Plan Three	Plan Four	Total
Totals Forwarded	2,687	1,479	233	165	4,564
Current employees:					
Vested:					
General	260	1,647	78	653	2,638
Safety	34	182	0	77	293
Probation	14	93	0	67	174
Non-Vested:					
General	2	3	54	1,714	1,773
Safety	0	0	0	116	116
Probation	0	0	0	104	104
Subtotal	310	1,925	132	2,731	5,098
Total	2,997	3,404	365	2,896	9,662

Benefit Provisions

The Association provides service retirement, disability and death benefits based on defined benefit formulas, which use final average compensation, years of service, and age factors to calculate benefits payable. In addition, the Association provides annual cost-of-living adjustments upon retirement for members of Plans One, Two and Four. The benefits of Plan Three are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the Board of Supervisors with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

Members with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership) are eligible to retire at the following minimum ages:

Plan One	Age 50
Plan Two	Age 50
Plan Three	Age 55
Plan Four	Age 50

General members in Plans One, Two and Four may retire at any age after 30 years of service. Safety members and Probation members may retire at any age after 20 years of service.

A member who leaves county service may withdraw his or her contributions, plus any accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members (Plan Three) with 10 years of service who terminate their employment with the county may elect a deferred retirement.

Note 2 - Significant Accounting Policies

Basis of Accounting

The Association uses the accrual basis of accounting. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the plan.

The financial activities of the Association (a component unit of the county) are also presented as part of the basic financial statements of the county because the Association is an integral part of the county.

Beginning with the fiscal year ending June 30, 2003, the San Mateo County Employees' Retirement Association implemented Governmental Accounting Standards Board's (GASB) Statement No. 40, Deposit and Investment Risk Disclosures and GASB Statement No. 41 *Budgetary Comparison Schedules – Perspective Differences*. GASB's Statement 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. GASB's Statement No. 41 amends Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* to require the addition of budgetary comparisons.

Cash and Investments

The Board of Retirement has exclusive control of the investments of the Association. Government Code Section 31595 of the 1937 Act authorizes the board to invest, or delegate the authority to invest, the assets of the Association in any investment allowed by statute and deemed prudent in the informed opinion of the board.

Cash is pooled with other funds of the county or custodians, when appropriate, so as to earn a higher rate of return than could be earned by investing the funds individually. All highly liquid investments with maturities of three months or less when purchased, in addition to the pooled cash with the county and custodians, are considered cash equivalents.

The Association records investment transactions on the trade date. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets. In the interim quarters, real estate assets are reported at fair value utilizing an income approach to valuation.

Capital Assets

Capital assets are valued at historical cost, net of accumulated depreciation. Capital assets with an initial cost of more than $3,000 and an estimated useful life in excess of three years are capitalized and depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives for the assets in each category are as follows: office furniture – seven years; office equipment – five years; business continuity assets – three years; computer hardware – three years; and computer software – three years.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

Foreign Currency Transactions

Gains earned and losses incurred resulting from foreign currency transactions during the year are recorded as a component of investment income. Gains and losses from translation of international investments at fiscal year-end rates of exchange are included in investment income.

Forward currency contracts are used by our investment managers to control currency exposure and facilitate the settlement of international security purchase and sale transactions. These contracts are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses, which are included in net investment income. Risks may arise from the possible inability of counter parties to meet the terms of their contracts and from movements in exchange and interest rates.

Note 3 - Contributions, Administrative Expenses and Reserves

Contributions

Both the county and the employees make contributions to the Association. Employee contributions are mandatory except for those employees under Plan Three. The employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The rates are determined by age at entry into the Association and are based on a percentage of covered compensation. The most recent information available for average employee contribution rate is for the fiscal year ended June 30, 2004. The rate was 7.09%.

The county contribution rates for each plan are determined pursuant to Section 31453 of the 1937 Act and provide for the balance of the contributions which, when combined with projected investment earnings, will be needed to fund the benefits promised under the plan. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current year) and an amount required to amortize the unfunded actuarial accrued liability over the period ending June 30, 2022. Details of funding progress, annual required contribution and contribution made by the county, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The average employer contribution rate decreased from 22.84% for the valuation ended June 30, 2003, to 21.22% in the valuation ended June 30, 2004. This is primarily due to a decrease in employer normal cost as shown in the following table.

	2004	2003	Change
Normal Cost	10.32%	13.32%	-22.52%
Amortization of UAAL	10.90%	9.52%	14.50%
Total Contribution Rate	21.22%	22.84%	-7.09%
Dollar Amount of Contribution (in Thousands)	$80,246	$73,995	$6,251

The county pays 100% of management employees', unrepresented attorneys' and sheriff's sergeants' contributions and 50% of confidential employees' contributions on a refundable basis. In addition members of certain bargaining units who are in a contributory retirement plan have a portion of their retirement deduction paid by the county based on individual years of service using schedules set forth in the Memorandums of Understanding. Effective October 12, 2003, the county pays 15% of Safety/Probation contributions on a non-refundable basis.

Administrative Expenses

Administrative costs of the Association are financed through employee and employer contributions and investment earnings. Administrative expenses reported in the statement of changes in plan net assets include:

	2005	2004
Salaries and employee benefits	$1,397,729	$1,115,394
Services and supplies	827,544	792,924
Depreciation	9,337	3,437
Salaries and employee benefits	$2,234,610	$1,911,755

Reserves

Reserves required for reporting purposes by the 1937 Act:

	2005	2004
Member Deposit Reserve – Accumulated Contributions and Interest	$281,230,984	$ 259,731,818
County Advance Reserve – Current Service	219,867,963	212,410,513
Retiree Reserve	554,684,637	449,574,515
Cost of Living Adjustment Reserve	581,174,967	539,641,932
Subtotal (Valuation Reserves)	1,636,958,551	1,461,358,778
Reserves required by Section 31592 of the 1937 Act:		
Ventura Contingency Reserve (Note 5)	0	31,523,929
Reserve for Deficiencies in Interest Earnings and Other Contingencies	0	0
Total Allocated Reserves	1,636,958,551	1,492,882,707
Unallocated Earnings / Losses Account	(21,373,381)	(8,737,605)
Market Stabilization Account	(16,315,469)	(48,785,679)
Net Assets Held in Trust for Pension Benefits	$1,599,269,701	$1,435,359,423

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. County contributions are credited to County Advance Reserve and the Cost of Living Adjustment Reserve. At retirement, a member's accumulated contributions plus interest and the related county contributions are transferred to the Retiree Reserve. The retiree reserves and the cost of living adjustment reserve represent amounts set aside for retirement benefits promised under the plan less benefits paid.

The reserves required by Section 31592 of the 1937 Act represent earnings in excess of the total interest credited to contributions and reserves. The 1937 Act requires that the excess earnings remain in the retirement fund as a reserve against any deficiencies in interest earnings in other years, losses on investments and other contingencies. However, excess earnings exceeding one percent of the total assets of the Association may be transferred into the County Advance Reserve for payment of benefits described under the act.

GASB 25 mandates the recognition of unrealized gains and losses in the current period. However, on the recommendation of its actuary, *SamCERA* utilizes a Market Stabilization Account to account for unrealized actuarial investment gains and losses, which are calculated as the difference between the actual market return and the return that would have been generated if earnings had been at the actuarial interest rate. The Market Stabilization Account is designed to smooth the impact on employer annual contribution rates due to volatility in investment returns. Balances in the Market Stabilization Account are amortized over five-years in accordance with a schedule established by the actuary.

The June 30, 2005, balance in the Market Stabilization Account of -$16.3 million reflects the balance of the current year's and previous four years' net deferred returns.

On June 26, 2004, *SamCERA* adopted an Interest Crediting Policy that mandates Actuarial Valuation Reserves will be credited at the Actuarial Interest Rate. The policy acknowledges that actual earnings may be greater than or less than the Actuarial Interest Rate. An Undistributed Earnings / Losses Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

Note 4 - Cash and Investments

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term investments with fiscal agents as well as deposits held in a pooled account with the County of San Mateo. All participants in the pool share earnings and losses. The short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All cash and cash equivalents are carried at cost, which approximates fair value. A summary of cash and cash equivalents as of June 30, 2005, and June 30, 2004, is provided on page 29.

Investments

The Association's investments are managed by independent investment management firms subject to the guidelines and controls in the investment plan and contracts executed with the board. The board utilizes third party institutions as custodians over the plan assets.

The board approved its first comprehensive investment plan on September 29, 1994. The plan specified an asset allocation target of 50% equities, 40% fixed income securities, and 10% real estate. The current asset allocation, which was adopted on April 21, 2000, and reaffirmed on July 22, 2003, is 65% equities, 29% fixed income securities and 6% real estate. At June 30, 2005, actual asset allocation was 66.7 % equities, 29.5% fixed income securities, 3.7 % real estate and cash 0.1%.

For financial reporting purposes, the Association's investments are categorized to give an indication of the risk assumed by the Association as of June 30, 2005. The Governmental Accounting Standards Board (GASB) Statement No. 3 established custodial credit risk categories. The Governmental Accounting Standards Board (GASB) Statement No. 40 updates the custodial credit risk disclosure requirements of Statement 3 and establishes and modifies disclosure requirements related to investment risk; credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. For the fiscal year ended June 30, 2003, the Association implemented Statement No. 40 in its financial statement's disclosures.

Investments in external investment pools and mutual funds cannot be categorized because the Association is not issued securities. *SamCERA* owns units in those investments.

The Association's cash and investments as of June 30 follow:

	2005	**2004**
Cash Equivalent Investments (Not Categorized)		
Funds Pooled with County Treasurer	$159,754	$ 4,121,433
Short-Term Investment Funds held with Fiscal Agent	42,657,027	12,171,341
Total Cash equivalents	$42,816,781	$ 16,292,774
Investments – Categorized (Refer to the Table Below)		
Domestic Fixed Income (1)		
Government Obligations	217,565,279	$ 116,703,070
Corporate Bonds	94,445,844	47,911,060
Total Categorized	312,011,123	164,614,130
Investments- Not Categorized		
Commingled Funds:		
Domestic Fixed Income		
BGI US Debt Index Fund (1)	156,010,565	210,572,703
Domestic Equities		
BGI Russell 1000 Index Fund	302,574,805	600,366,122
BGI Russell 1000 Alpha Tilts Fund	324,092,160	0
BGI Russell 2000 Index Fund	0	168,145,602
Brandes investment Partners	43,678,104	0
Chartwell Investment Partners	45,991,357	0
Goldman Sachs Asset Management	87,183,161	0
International Equities		
Bank of Ireland Asset Management	0	226,683,026
Julius Baer Investment Management	121,893,290	
Mondrian Investment Partners	126,871,115	
Real Estate	59,219,510	58,213,649
Total Not Categorized	1,267,514,067	1,263,981,102
Total Investments	$1,579,525,190	$1,428,595,232

(1) Fixed Income is presented for comparative purposes

Custodial Credit Risk – Custodial credit risk is the risk that in the event of failure of a counterparty, SamCERA will be able to recover the value of its investments or collateral securities that are in the possession of an outside party. *SamCERA's* does not have any repurchase agreements.

Concentration of Credit Risk – *SamCERA's Investment Plan* states no investment shall constitute more than 5% of the company's outstanding equity. When measuring this aspect of compliance the board will consider its ownership in relation to the "free float" of a particular security. The portfolio is in compliance with this mandate.

As of June 30, 2005, the Association had the following investments categorized for interest rate and credit risk.

Active Fixed income Portfolio Characteristics
Deutsche Asset Management & Western Asset Management Bond Portfolios Combined

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
United States Treasuries	$52,128,208	3.45%	7.60	5.32
CMO	54,079,497	3.23%	3.34	2.01
CMBS	1,478,024	5.24%	7.86	6.21
Asset Backed Securities	24,104,205	4.00%	7.17	1.97
Taxable Municipal Bonds	7,276,355	6.85%	4.17	3.67
Corporate Bonds	93,853,767	6.23%	11.36	6.45
Sovereign Governments	5,229,684	6.84%	16.00	8.86
Agency	4,906,170	4.56%	15.73	9.79
Mortgage Pass Through	68,955,213	5.02%	5.23	3.27
Totals	$312,011,123	4.69%	7.33	4.34

Passive Fixed Income portfolio Characteristics
Barclays Global Investor U.S. Debt Index Fund

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
BGI U.S. Debt Index Fund	$156,010,565	5.18%	6.22	4.15

Interest Rate Risk – *SamCERA's Investment Plan* does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Association's active and passive bond portfolios are managed duration neutral to their benchmark, the Lehman Brothers Aggregate Bond Index. Barclays Global Investors provided the weighted average maturity utilized for the BGI U.S. Debt Index Fund.

Credit Risk **-** *SamCERA's Investment Plan* has three requirements addressing fixed income quality. First, the minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value. Second, the minimum quality rating eligible for the portfolio must be "B" or better (as rated by Standard & Poor's or Moody's equivalent). The third requirement is that no more than 10% of *SamCERA's* fixed income assets under a manager's supervision shall be invested in securities with a rating below "Baa3," "BBB-," "P-1" or "A-1." The association's core plus fixed income manager was give an exemption and may hold more than 10% in assets rated below BBB.

On June 30, 2005, the quality breakdown of the association's investments in bonds were rated as indicated in the table below.

Credit Risk	Active Management	Passive Management
AAA	55.4%	78.3%
AA	1.6%	4.5%
A	7.3%	8.9%
BBB	10.3%	8.2%
Less than BBB	25.4%	0.1%
NR	0%	0%
	100.00%	100.00%

Securities Lending

The Association invests in indexed portfolios in which the investment manager may lend securities owned by the portfolio. However, the Association currently does not lend securities, which are managed in a separate account portfolio and held in the name of San Mateo County Employees' Retirement Association.

The Association had no securities on loan at fiscal year end and there was no security lending activity during the fiscal year ended June 30, 2005. However, investment managers are lending securities held in the name of indexed portfolios in which the Association has a unit value interest.

Note 5 – Contingent Liability

California's Supreme Court ruled that compensation paid in cash, even if not earned by all employees in the same grade or class, must be included in "compensation earnable" and the "final compensation" on which an employee's retirement benefit is based. The ruling overturned longstanding precedent. This August 14, 1997, decision in the matter of *Ventura County Deputy Sheriff's Association vs. Board of Retirement of the Ventura County Employees' Retirement Association* became "final" on October 1, 1997. The Association implemented *Ventura* prospectively for current employees and new retirees on December 28, 1997.

The *Ventura* decision was silent on two fundamental issues: terminal pay and retroactivity. For *SamCERA*, these issues were resolved by *Teamsters Local 856 vs. Board of Retirement, San Mateo County*. During the 2001 fiscal year, the trial court considered and rejected claims by petitioners that *Ventura* mandated the inclusion of terminal pay, third party payments, and employer pickups of employee contributions in the calculation of final compensation. On November 30, 2001, the trial court ruled that *Ventura* should be applied retroactively and that the pensions of all retirees and their beneficiaries, regardless of when they retired, must be recalculated. The Court of Appeals sustained the trial court's decisions on July 11, 2003. On October 14, 2003, the California Supreme Court declined to review the appellate court's decision.

The Association filed its plan for the implementation of the November 30, 2001, writ of mandate with the court on April 13, 2004. The implementation plan provides for the research, calculation and payment of retroactive and prospective *Ventura*-enhanced benefits to all eligible retirees and their survivors. The plan included provisions to complete the implementation process during the 2004/2005 fiscal year.

The Association retained an actuary to estimate the financial impact of a range of possible decisions in the *Teamsters Local 856* litigation. Based on the provisions of the November 30, 2001, writ of mandate, the actuary estimated that the contingent liability totaled $16.2 million as of June 30, 2002, with interest on the liability compounding at 7% simple per annum. A reserve was established for this contingent liability. The balance of this reserve as of June 30, 2004, was $31,523,929.

The gross actuarial cost to retroactively implement *Ventura* was $14,135,911 less member contributions of $3,074,818 for a net actuarial cost to the retirement fund of $11,061,093. The expense of litigation, $724,700, excluding county counsel fees and the cost of implementation, $175,578, were charged to the Ventura Reserve. The retroactive implementation of *Ventura* had a total cost of $11,961,371 to the retirement plan. On May 31, 2005, the remaining balance in the Ventura Reserve was transferred to the employer's retiree reserve, pursuant to Resolution 01-02-03 – *Ventura Litigation Contingency Reserve*.

Note 6 – Mortgage Note Payable

The Board of Retirement opined that its separate property mandate would not allow the plan to achieve the diversity of property type, geographical location and range of market values that an open-end commingled fund real estate mandate could achieve. On September 30, 2004, *SamCERA* with the assistance of an independent fiduciary, CS Capital Management, executed a Contribution Agreement with INVESCO Core Real Estate – U.S.A., LLC Fund. *SamCERA* contributed its separate properties, including all debt to the INVESCO Core Real Estate – U.S.A., LLC as a "Founding Investor." On June 30, 2004, *SamCERA* disclosed a mortgage note payable, secured by the Association's rental property. The terms, including monthly payments of principal and interest, totaled an obligation of $6,904,029. On June 30, 2005, *SamCERA* had no notes payable to report.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Required Supplementary Information
(Amounts in thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/99	1,109,417	1,205,554	96,137	92.03%	238,864	40.25%
6/30/00	1,271,565	1,291,694	20,129	98.44%	259,075	7.77%
6/30/01	1,384,586	1,404,060	19,474	98.61%	274,318	7.10%
6/30/02	1,416,821	1,660,566	243,745	85.30%	301,891	80.70%
6/30/03	1,353,941	1,781,544	427,603	76.00%	323,896	132.00%
6/30/04	1,452,621	1,921,328	468,707	75.6%	365,385	128.30%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	38,695	100%
2001	39,482	100%
2002	33,541	100%
2003	36,070	100%
2004	60,042	100%
2005	76,931	100%

Notes to Required Supplementary Information

Actuarial valuations of the Association are normally carried out as of June 30th of each year and contribution requirements resulting from such valuations become effective from July 1st, of the next fiscal year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Latest Actuarial Valuation

Valuation Date	June 30, 2004	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent – closed	
Remaining Amortization Period	18 years	
Asset Valuation Method	5-year smoothed market	
Actuarial Assumptions:		
Investment Rate of Return	8.00%	
Projected Salary Increases	6.00%	
Attributed to Inflation		4.00%
Attributed to Adjustments for Merit and Longevity		2.00%

Cost of Living Adjustments: The maximum increase in retirement allowance is 5% for Plan One, 3% for Plan Two and 2% for Plan Four. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Schedule of Funding Progress

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of the plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities, which is important in determining the financial health of a retirement system. The closer a retirement system is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

As of June 30, 2004, the date of the last actuarial valuation, the San Mateo County Employees' Retirement System had a 75.6% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principals of entry age normal cost funding.

In this schedule, six years of historical information is presented. In 1994 the system changed its asset allocation from 100% fixed income to a well-diversified investment portfolio. The funded ratio steadily improved from 65.46% as of June 30, 1994 to 98.61% as of June 30, 2001. This was an important accomplishment for *SamCERA* especially since it was accomplished without the benefit of a Pension Benefit Obligation Bond.

SamCERA currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. *SamCERA* is funding the UAAL over a 20-year amortization period, which began July 1, 2002. There are currently 17 years remaining in the funding period, which is scheduled to end on June 30, 2022.

Schedule of Employers' Contributions

The sources of revenues that fund a retirement system are employer contributions, member contributions, and investment earnings on plan assets. Each year, *SamCERA's* actuary determines the amount of employer contributions required to fund a given schedule of benefits (current and future liabilities). The calculation for the benefit schedule is based on the following factors: (i) The Association's benefit structure, (ii) statistical data about members of the system, and (iii) current and predicted future retirees and beneficiaries of *SamCERA*. Assumptions must be made to estimate how many employees terminate employment; leave on a disability retirement or service retirement; and the average ages of employees at retirement and at mortality. Finally, the preceding data is combined with an actuarially assumed investment rate of return and assumed salary increases of *SamCERA's* members. All of this information taken together is presented in an annual actuarial valuation in which the actuary recommends an employer contribution rate (percentage) to the participating employers. This contribution rate percentage is applied to the valuation payroll for each of the participating employees. The resulting dollar amounts, as depicted in this schedule, are the actuarially calculated required employer contributions necessary to fund the promised benefits to *SamCERA*'s members.

This schedule contains six years of historical information with respect to *SamCERA's* actuarially calculated, required contributions versus the actual employer contributions made on an annual basis. Over the past six years, the employer has contributed 100% percent of the amount recommended by the actuary.

Schedule of Administrative Expenses
as of June 30, 2005 and 2004

	2005	2004
Salaries and Employee Benefits	$ 1,397,729	$ 1,115,394
Services and Supplies	827,544	792,924
Depreciation	9,337	3,437
Total Administration Expense	$2,234,610	$1,911,755

Administrative (Excluding Ventura) Budget Analysis
Budget to Actual Expenditure

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$960,275	$908,523	94.6%
Benefits	417,725	375,576	89.9%
Salaries & Benefits	$1,378,000	$1,284,099	93.2%
Board Expenses	8,000	3,600	45.0%
Insurance	95,000	78,257	82.4%
Medical Evaluation	20,000	18,263	91.3%
Member Education	3,000	0	0%
Education & Conference	30,000	29,896	99.7%
Transportation & Lodging	32,450	22,035	67.9%
Software License & Maintenance	186,000	63,721	34.3%
Property & Equipment	50,000	5,284	10.6%
General Office Supplies	15,000	12,574	83.8%
Postage, Printing & Copying	50,000	44,597	89.2%
Leased Facilities	87,500	86,773	99.2%
County Service	328,000	312,943	95.4%
Audit Services	44,000	43,201	98.2%
Other Administration	57,000	44,452	78.0%
Services & Supplies	$1,005,950	$765,596	76.1%
Capital Assets	$15,000	$0	0%
Depreciation	0	$9,336	100%
Grand Total	$2,398,950	$2,059,031	85.4%

Administrative (Ventura) Budget Analysis
Budget to Actual Expenditure (Continued)

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$173,835	$102,419	58.9%
Benefits	$87,025	$11,212	12.9%
Salaries & Benefits	$260,860	$113,631	43.6%
Property & Equipment	$13,000	$12,938	99.5%
General Office Supplies	$1,000	$0	0.0%
Leased Facilities	$24,000	$10,000	41.7%
Member Communication	$5,000	$0	0.0%
Production of Manuals	$6,000	$0	0.0%
Software Licensing	$10,000	$0	0.0%
Programming Support - County ISD	$22,000	$0	0.0%
Programming Support - LRS	$8,500	$0	0.0%
County Services - Legal Fees	$14,000	$0	0.0%
Services & Supplies	$103,500	$22,938	22.2%
Professional Services	$0	$39,010	0.0%
Grand Total	$364,360	$175,579	48.2%

Schedule of Investment Expenses
For the Year Ended June 30, 2005 and 2004

	2005	2004
Investment Manager		
Bank of Ireland Asset Management	$ 290,446	$ 834,983
Barclays Global Investors	921,068	316,910
Brandes Investment Partners	255,018	0
Chartwell Investment Partners	240,520	0
Deutsche Asset Management Inc.	448,398	438,259
Goldman Sachs Asset Management	323,552	0
INVESCO Realty Advisors	362,861	319,642
Julius Baer Investment Management	444,263	0
Mondrian Investment Partners	222,361	0
Western Asset Management	246,488	0
Global Custodian		
State Street Bank	120,939	118,219
Professional Expense	3,875,914	2,028,013
Consultant Expense	356,352	249,670
Interest Paid on Prepaid Contribution	3,050,064	1,881,004
Total Investment Expense	$7,282,330	$4,158,687

Schedule of Payments to Consultants
For the Year Ended June 30, 2005 and 2004

	2005	2004
Investment Consultant Expense		
Strategic Investment Solutions	$175,000	$ 175,000
CS Capital Management	109,872	0
Actuarial Consultant Expense		
Public Pension Professionals	77,100	0
Mercer Human Resources Consulting	(5,620)	74,670
Total Consultant Expense	$356,352	$249,670

Notes to the Other Supplementary Information

Administrative Services Budget

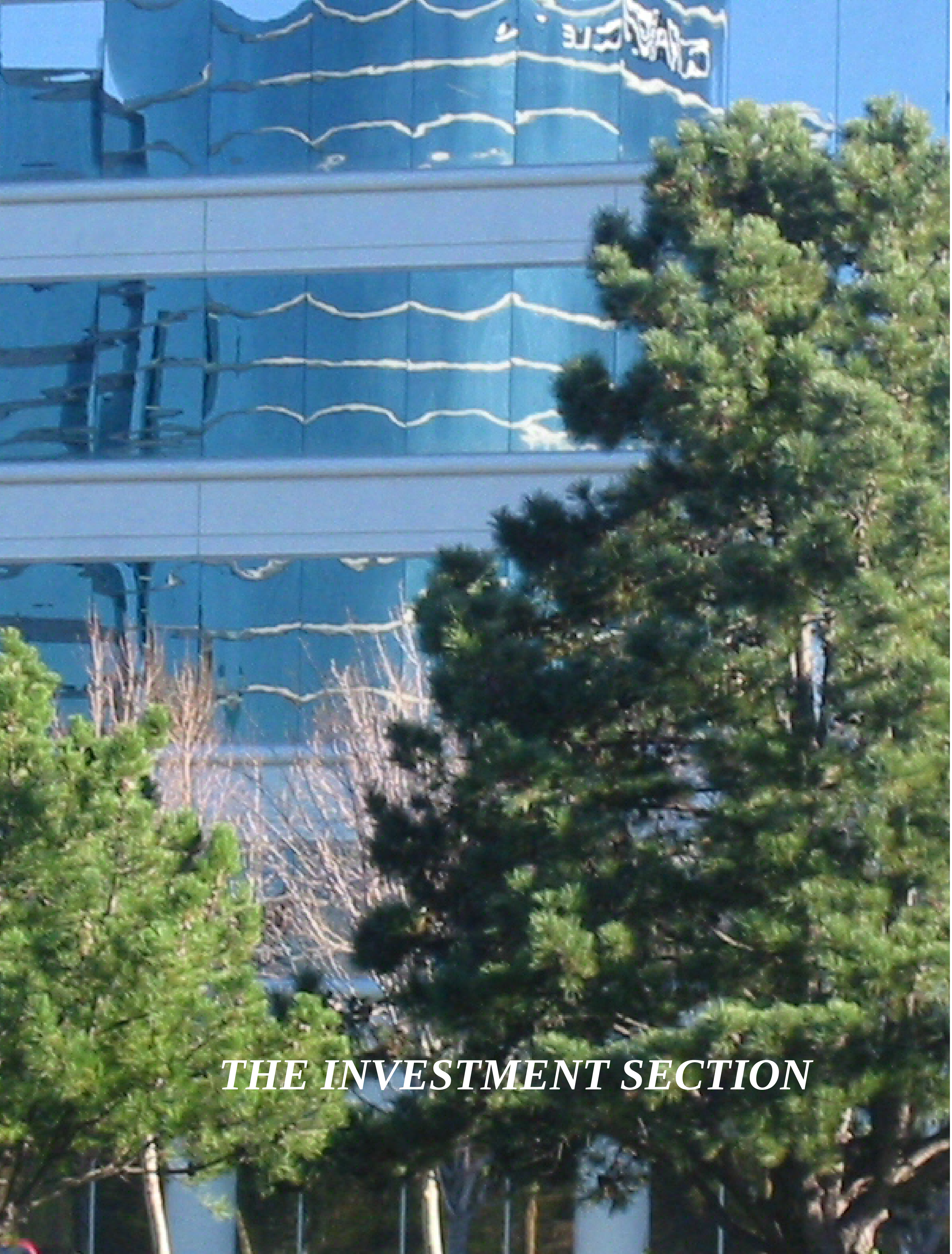
Government Code §31580.2 states in part, "*. . . the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed eighteen-hundredths of 1 percent of the total assets of the retirement system.*" *SamCERA* has always been well within the eighteen basis points restriction on administrative expenditures.

Professional Services Budget

Government Code §31596.1 states that *The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board:*
(a) The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §31453.
(b) The compensation of any bank or trust company performing custodial services.
(c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.
(d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.
(e) The compensation to an attorney for services rendered pursuant to §31607 or legal representation rendered pursuant to §31529.1.

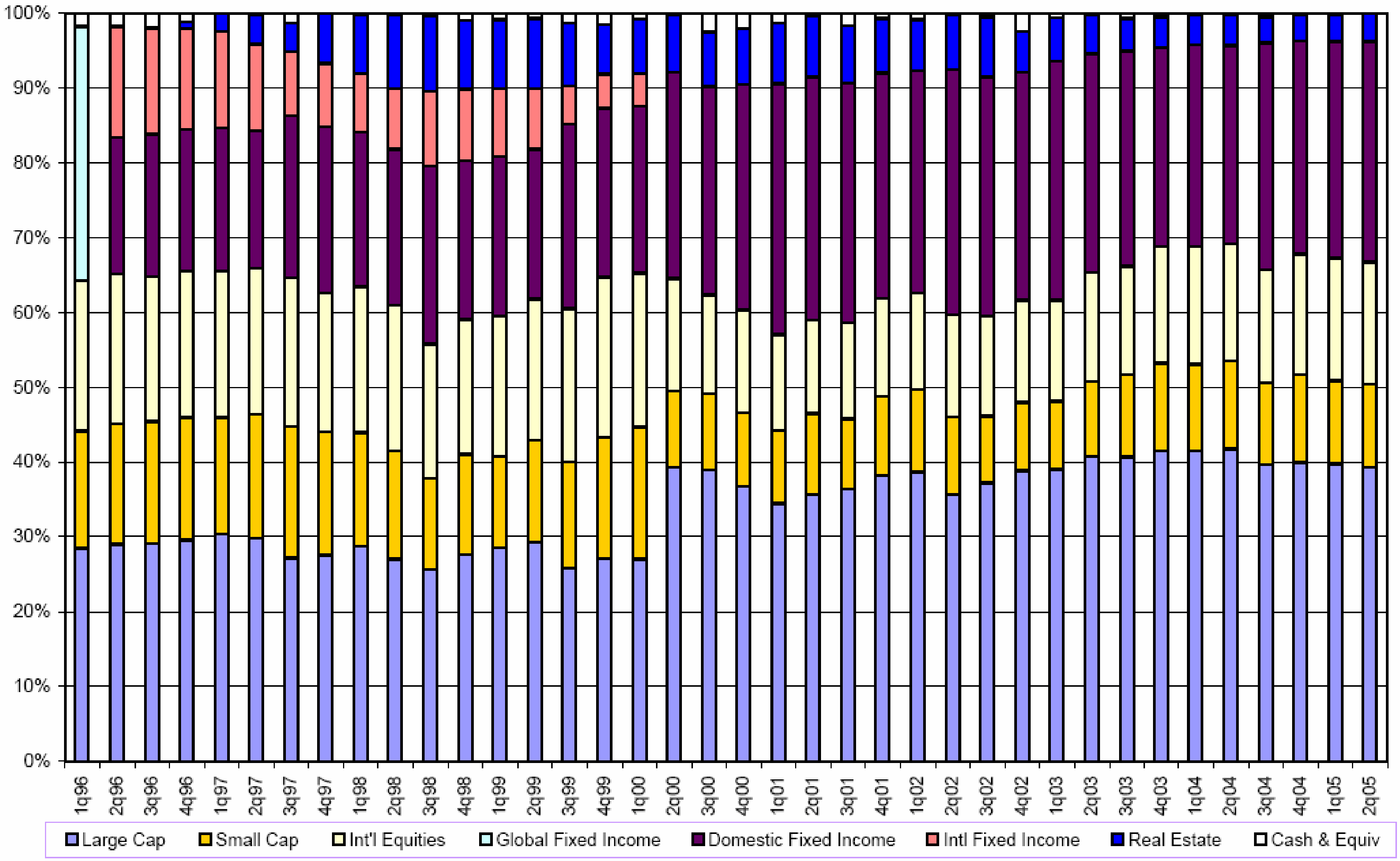
SamCERA's professional services budget is driven by contractual agreements with the actuary, custodian, investment consultant, and investment managers.

THE INVESTMENT SECTION



ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

PERIODS ENDING JUNE 30, 2005



STRATEGIC INVESTMENT SOLUTIONS, INC.

August 25, 2005

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065

Dear Board Members:

Fiscal 2005 capital markets brought further relief for US pension funds in the form of robust, positive returns across asset classes. Moderate economic growth and relatively low interest rates contributed to the constructive capital market environment. However, a number of factors continue to create price volatility in the market, including elevated oil prices, the anticipation of future interest rate increases, a record high current account deficit, the impact of China on global markets, an increased focus on US housing prices, and continued investor uncertainty over terrorism.

The Federal Reserve began a measured approach to increasing interest rates in fiscal year 2005. The Fed's nine consecutive rate hikes throughout the year have pushed the federal funds rate from 1.00% on June 30, 2004 to 3.25% on June 30, 2005. The Fed has given no indication that they are finished raising rates. Corporate earnings growth, while still positive, have steadily slowed after peaking towards the end of 2003. Credit benchmarks, and in particular high yield credit indexes, posted above average returns during fiscal year 2005.

For fiscal year 2005, SamCERA's total fund performance was again above the Plan's actuarial assumption of 8.00%. SamCERA's investment portfolio returned 10.15%, ahead of the index policy return of 9.86%. All asset class portfolios, with the exception of International Equity, produced returns in excess of their respective benchmarks for the fiscal year. The addition of more active management in the portfolio over the last year has enhanced returns in the Plan. The portfolio's slight underallocation to Real Estate, due to the real estate manager's queue limiting cash inflows, detracted from total portfolio performance since the NCREIF Index had an unusually strong fiscal year return of 18.02%.

SamCERA maintained the same strategic asset allocation targets during fiscal year 2005 as follows:

Large Cap US Equity	40%
Small Cap US Equity	10%
International Equity	15%
US Fixed Income	29%
Real Estate	6%

SamCERA's policy benchmark, comprising the asset classes and target percentages listed above, ranked in the 38th percentile of the Independent Consultant's Cooperative Large Public Funds Universe for the fiscal year ended June 30, 2005. SamCERA's portfolio return of 10.15% placed it in the 32nd percentile of the universe.

Following a review of SamCERA's manager structure across asset classes in fiscal year 2004, the Fund increased its commitment to active management in its US Equity and Fixed Income asset classes. The implementation of this decision in fiscal year 2005 as well as the decision to replace SamCERA's sole International Equity manager resulted in the hiring of several new managers to the Plan. Half of the plan's US Large Cap Equity assets and one-third of its Fixed Income assets remain passively managed. The increased active allocation has boosted alpha in the US Large Cap Equity and Fixed Income portfolios but has detracted from returns in US Small Cap Equity since manager funding. International Equity performance has improved substantially since changing investment managers.

In fiscal year 2005, US broad equity markets posted respectable returns. The S&P 500 Index returned 6.32% for the fiscal year and the Russell 2000 Index returned 9.45%. Value indexes outperformed growth indexes by a wide margin for the fiscal year, with the large and small cap Russell Value indexes posting returns in excess of 14%. The international equity MSCI ACWI Free Ex-U.S. Index, a broad proxy of non-US stocks, continued its rally, posting a robust 16.95% gain for U.S. dollar investors. Despite rising interest rates, the Lehman Aggregate Bond Index remained firmly in positive territory with a 6.81% return for the fiscal year.

SamCERA's Equity portfolio exceeded its equity policy benchmark by 42 basis points during the fiscal year, aided by an increased allocation to active management and manager changes within International Equity. Within US Large Cap Equity, SamCERA restructured the portfolio, allocating half of its large cap assets to BGI's Russell 1000 Alpha Tilts enhanced index strategy. BGI Alpha Tilts has performed exceedingly well since inception, adding over 300 basis points of alpha since funding in August 2004. The rest of US Large Cap assets remain in BGI's passive Russell 1000 Index Fund providing a benchmark return. US Small Cap Equity assets were restructured from a purely passive exposure to an active portfolio with varying styles and risk levels. Half of SamCERA's US Small Cap assets were allocated to Goldman Sach's Structured Small Cap enhanced index approach, ¼ of assets to active Small Cap Growth manager Chartwell, and the remainder to active Small Cap Value manager Brandes. Goldman Sachs and Chartwell have outperformed the Russell 2000 Index since inception of the small cap accounts in November 2004. Brandes, using a deep value investment approach, has underperformed the broad benchmark since November 2004.

During fiscal year 2005, SamCERA terminated the Plan's sole international equity manager Bank of Ireland for structural reasons following a prolonged period of underperformance. The Plan then hired two complementary International Equity managers, Julius Baer with a growth bias and Mondrian with a value bias, both of whom utilize emerging markets to a greater extent than did Bank of Ireland. Both manager's returns have exceeded those of the MSCI ACWI ex-US Index since inception in November 2004; however, Bank of Ireland's underperformance during the first half of the fiscal year hurt the Plan's international equity asset class return.

SamCERA's Fixed Income portfolio outperformed the Lehman Aggregate Index by 69 basis points for the fiscal year. The BGI US Debt Fund fulfilled its mandate by matching the return of the Lehman Aggregate Index. Deutsche continued to exceed the return of the index with its emphasis on investment grade spread product. Western, a Core Plus Bond manager who employs sector rotation techniques and opportunistically uses high yield and non-US securities, was added to the Fixed Income portfolio during fiscal year 2005 and has added almost 150 basis points over the benchmark since inception in October 2004. SamCERA will consider increasing active management further within Fixed Income during fiscal year 2006.

For the year ended June 2005, NCREIF posted an unusually high 18.02% return while SamCERA's real estate manager INVESCO posted an even stronger return of 23.23%. During fiscal year 2005, SamCERA decided to roll its Core Real Estate separate account portfolio into INVESCO's open-ended Core Real Estate Fund as a founding investor in order to increase diversification. The Plan was unable to fully allocate to its Real Estate portfolio since INVESCO's Core Real Estate Fund currently has a queue limiting cash inflows until more attractive real estate investments are available for purchase. The Plan will consider further developing its Real Estate portfolio during fiscal year 2006.

Overall, SamCERA's portfolio experienced strong performance over fiscal year 2005. Increased active management has added value to the Plan in aggregate, and the majority of new investment managers hired have outperformed their respective benchmarks. The Plan performed in the top half of the universe of its large Public Plan peers. We believe that SamCERA has restructured its Plan effectively within the framework of boosting portfolio returns while maintaining a conservative posture.

Sincerely,
Strategic Investment Solutions

Margaret Jadallah

Margaret Jadallah and Patrick Thomas

SamCERA's Investment Plan sets forth the board's investment policy, from which the following extracts have been drawn. The full plan may be viewed on SamCERA's web site at www.samcera.org.

INVESTMENT PHILOSOPHY

The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio. Therefore, the retirement fund should be invested across the spectrum of institutional grade asset classes. The board acknowledges that the asset allocation targets reflect a long-term view of the market and that professional management of the retirement fund will add value to the portfolio, by capitalizing on inefficiencies in the markets.

The board takes responsibility for allocating across asset classes and across styles within asset classes, but should not substitute its judgment for the professional judgment of those it retains.

The board believes that interest, dividends and capital appreciation must be pursued and captured, if the actuarial funding objectives of the retirement fund are to be achieved.

The board will not be market-timers (shifting asset class allocations dramatically over short time spans), because it realizes this strategy is seldom successful and has the potential for dramatic losses.

The board views short-term cash equivalents as insignificant contributors to real returns in the long run.

INVESTMENT OBJECTIVES

It is the investment objective of the Board of Retirement to:

Generate portfolio returns which, over the long-term, exceed the rate of inflation by not less than 3.25%, by generating market returns within each asset class.

Generate portfolio returns not less than the returns of a commitment-weighted aggregate of the performance benchmarks specified for the individual investment managers.

Provide for the full funding of the Pension Benefit Obligation by the year 2022.

Stabilize the employer contribution rate, as a percentage of payroll, for the present configuration of benefits, to the extent that the Board of Retirement has control.

Structure an investment program such that the short-term volatility of returns does not induce the board to alter its long-term asset allocation strategies, by striving for an annualized tracking error around the aggregate benchmark of ±3%.

Calculations for compliance with these objectives will be prepared using a time-weighted rate of return based on the market rate of return in accordance with Association of Investment Management and Research (AIMR) Performance Presentation Standards

INVESTMENT POLICY

It is the Investment Policy of the Board of Retirement to pursue an investment strategy, which reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The board adopted an asset allocation to guide the structure of the investment portfolio.

INVESTMENT POLICY – (CONTINUED)

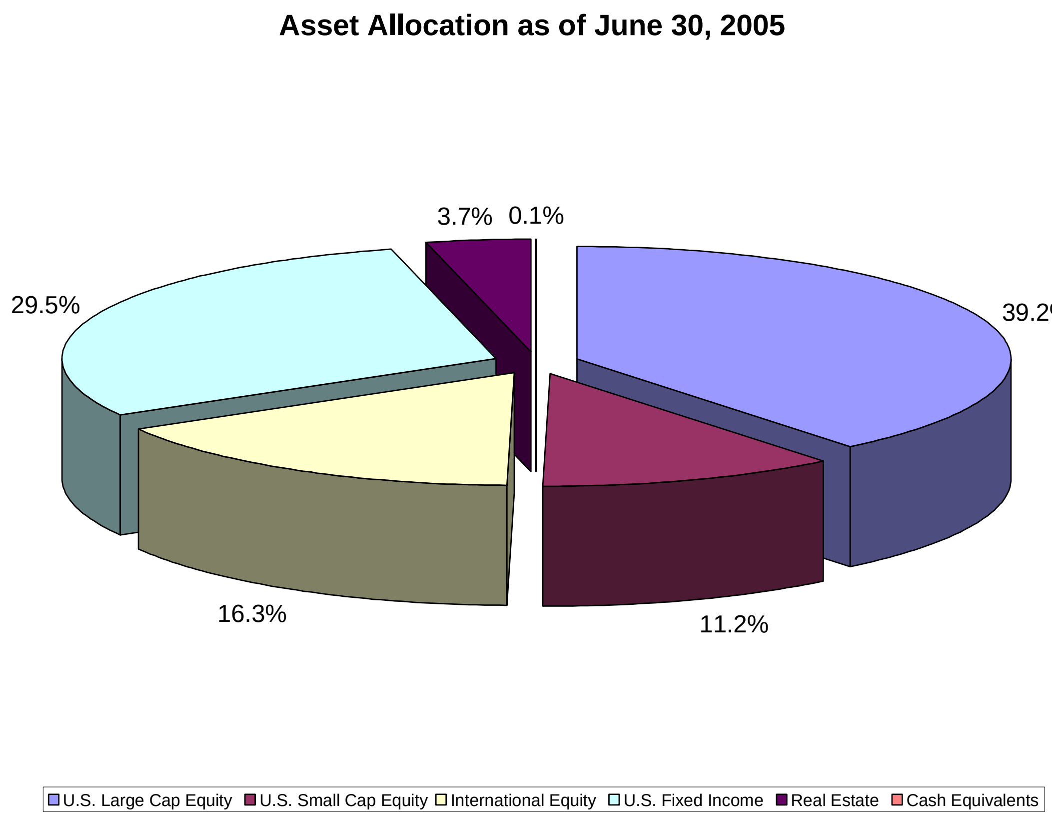
The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated full discretion in management of their portfolio. The board monitors the performance of the investment managers, relative to their assigned custom benchmarks to assure their conformance with the provisions of the board's investment policy.

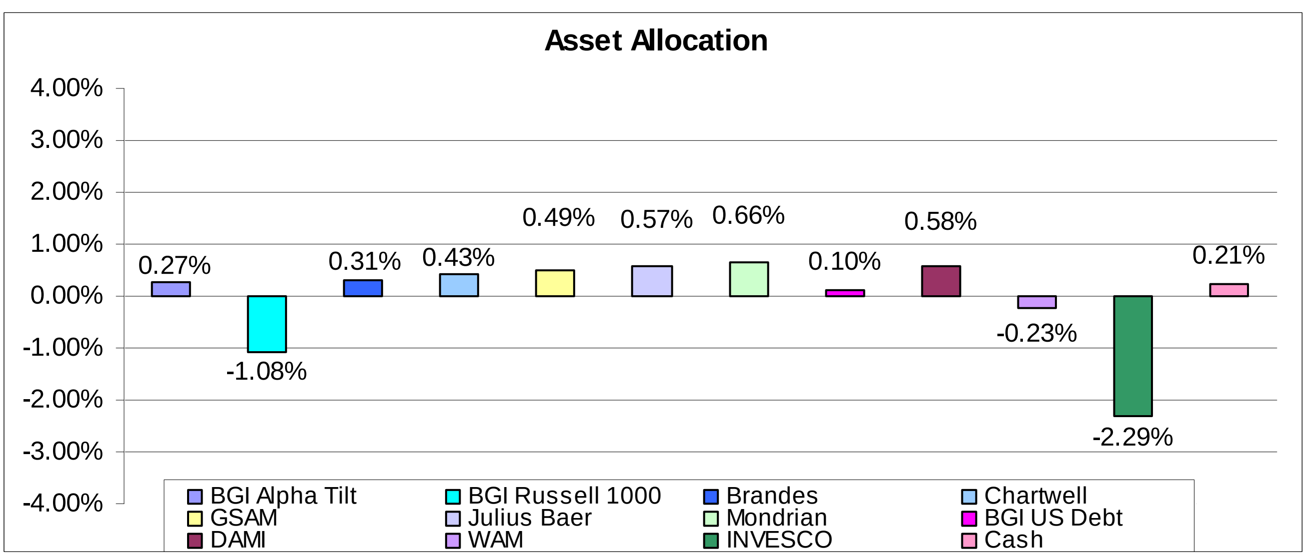
The board discourages the use of cash equivalents, except for liquidity purposes and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION

Asset Class	Allocation		June 30 Actual	
Equity	65%		66.7%	
Fixed Income	29%		29.5%	
Real Estate	6%		3.7%	
Cash	0%		0.1%	
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	40%		39.3%	
Indexed		40%		39.2%
Domestic Small Capitalization	10%		11.2%	
Active		10%		11.2%
International	15%		16.2%	
Active		15%		16.3%
Total Equity	65%		66.7%	
Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	29%		29.5%	
Indexed		16%		9.8%
Active		13%		19.7%
Total Fixed Income	29%		29.5%	
Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		3.7%
Total Real Estate	6%		3.7%	
Total Cash & Cash Equivalents	0%		0.1%	

Asset Allocation	Market Value	Percentage
Large Capitalized U.S. Equities	$626,666,525	39.2%
Small Capitalized U.S. Equities	179,436,669	11.2%
International Equities	259,415,059	16.3%
U.S. Fixed Income	470,889,668	29.5%
Real Estate	59,252,508	3.7%
Cash	968,773	0.1%
Total	1,596,629,202	100.0%


Asset Allocation as of June 30, 2005
3.7%
0.1%
29.5%
39.2%
16.3%
11.2%
U.S. Large Cap Equity
U.S. Small Cap Equity
International Equity
U.S. Fixed Income
Real Estate
Cash Equivalents


Asset Allocation
4.00%
3.00%
2.00%
1.00%
0.00%
-1.00%
-2.00%
-3.00%
-4.00%
0.27%
-1.08%
0.31%
0.43%
0.49%
0.57%
0.66%
0.10%
0.58%
-0.23%
-2.29%
0.21%
BGI Alpha Tilt
BGI Russell 1000
Brandes
Chartwell
GSAM
Julius Baer
Mondrian
BGI US Debt
DAMI
WAM
INVESCO
Cash

SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2005 — Total Time Weighted Rate of Return

Asset Category	One Year	Two Years	Three Years	Five Years
Domestic Equity	9.52%	15.72%	10.26%	-0.10%
Barclays Global Investors Alpha Tilts Index Fund	N/A	N/A	N/A	N/A
Barclays Global Investors Russell 1000 Index Fund	7.98%	13.60%	9.23%	-1.84%
Benchmark Russell 1000	7.93%	13.56%	9.19%	-1.89%
Brandes Investment Partners	N/A	N/A	N/A	N/A
Chartwell Investment Partner	N/A	N/A	N/A	N/A
Goldman Sachs Asset Management	N/A	N/A	N/A	N/A
Benchmark Russell 2000	9.45%	20.82%	12.81%	5.71%
International Equity	14.73%	19.80%	9.35%	-0.74%
Julius Baer Investment Management	N/A	N/A	N/A	N/A
Mondrian Investment Partners	N/A	N/A	N/A	N/A
Benchmark MSCI ACWI ex US – Free	16.95%	24.48%	14.08%	0.73%
Total Equity	10.69%	16.63%	10.03%	-0.28%
Domestic Fixed Income				
Barclays Global Investors US Debt Index Fund	6.85%	3.54%	5.80%	7.51%
Deutsche Asset Management, Inc.	7.43%	4.49%	6.48%	8.21%
Western Asset Management	N/A	N/A	N/A	N/A
Benchmark Lehman Aggregate Bond Index	6.80%	3.51%	5.76%	7.41%
Total Fixed Income	7.49%	4.12%	6.21%	7.87%
Real Estate				
INVESCO Realty Advisors	23.23%	15.86%	15.47%	11.94%
NCREIF	18.02%	14.37%	12.08%	10.63%
Total Plan	10.15%	12.82%	9.75%	3.56%
Policy Benchmark	9.86%	13.04%	9.80%	3.06%

Return calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research's Performance Presentation Standards.

Schedule of Investment Portfolio by Asset Class and Manager

AS OF JUNE 30, 2005

Domestic Equity			
Barclays Global Investors	Russell 1000 Alpha Tilts	$324,092,160	
	Russell 1000 Index Fund	$302,574,805	
Brandes Investment Partners		$43,678,104	
Chartwell Asset Management		$45,991,357	
Goldman Sachs Asset Management		$87,183,161	
Total Domestic Equity			$ 803,519,587
International Equity			
Julius Baer Investment Management		$121,893,290	
Mondrian Investment Management		$126,871,115	
Total International Equity			$ 248,764,405
Total Equity			$1,052,283,992
Domestic Fixed Income			
Barclays Global Investors	US Debt Index Fund	$156,010,565	
Deutsche Asset Management, Inc.	Domestic Core	$157,810,273	
Western Asset Management	Domestic Core Plus	$154,200,850	
Total Domestic Fixed Income			$ 468,021,688
Total Fixed Income			$ 468,021,668
Real Estate			
INVESCO Realty Advisors	U.S. Core Real Estate Fund		$ 59,219,510
Unequitized Cash			$ 42,816,781
Fixed Assets, at cost, net of accumulated depreciation			$ 18,675
Receivables & Prepaid Expenses			$ 75,113,263
<less> Current Liabilities			$ 98,204,208
Net Portfolio as of June 30, 2005			$1,599,269,701

Schedule of Top Ten Equity and Fixed Income Securities

As of June 30, 2005

TOP TEN EQUITY SECURITIES*

Shares	Exchange	Ticker	Security Name	Market Value
558,069	NYSE	GE	GENERAL ELECTRIC CO.	$18,081,458
346,055	NYSE	XOM	EXXON MOBIL CORPORATION	$15,368,105
485,525	NASDAQ	MSFT	MICROSOFT CORPORATION	$13,866,605
403,768	NYSE	PFE	PFIZER INC.	$13,841,193
273,659	NYSE	C	CITIGROUP INC.	$12,725,145
342,317	NASDAQ	INTC	INTEL CORPORATION	$9,447,973
107,907	NYSE	BAC	BANK OF AMERICA CORP	$9,131,133
157,124	NYSE	JNJ	JOHNSON & JOHNSON CO.	$8,751,817
121,621	NYSE	AIG	AMERICA INTERNATIONAL GROUP	$8,669,197
357,881	NASDAQ	CSCO	CISCO SYSTEMS INC	$8,481,788

*Some Domestic Equity Securities are owned in the Russell 1000 Index Fund managed by Barclays Global Investors.

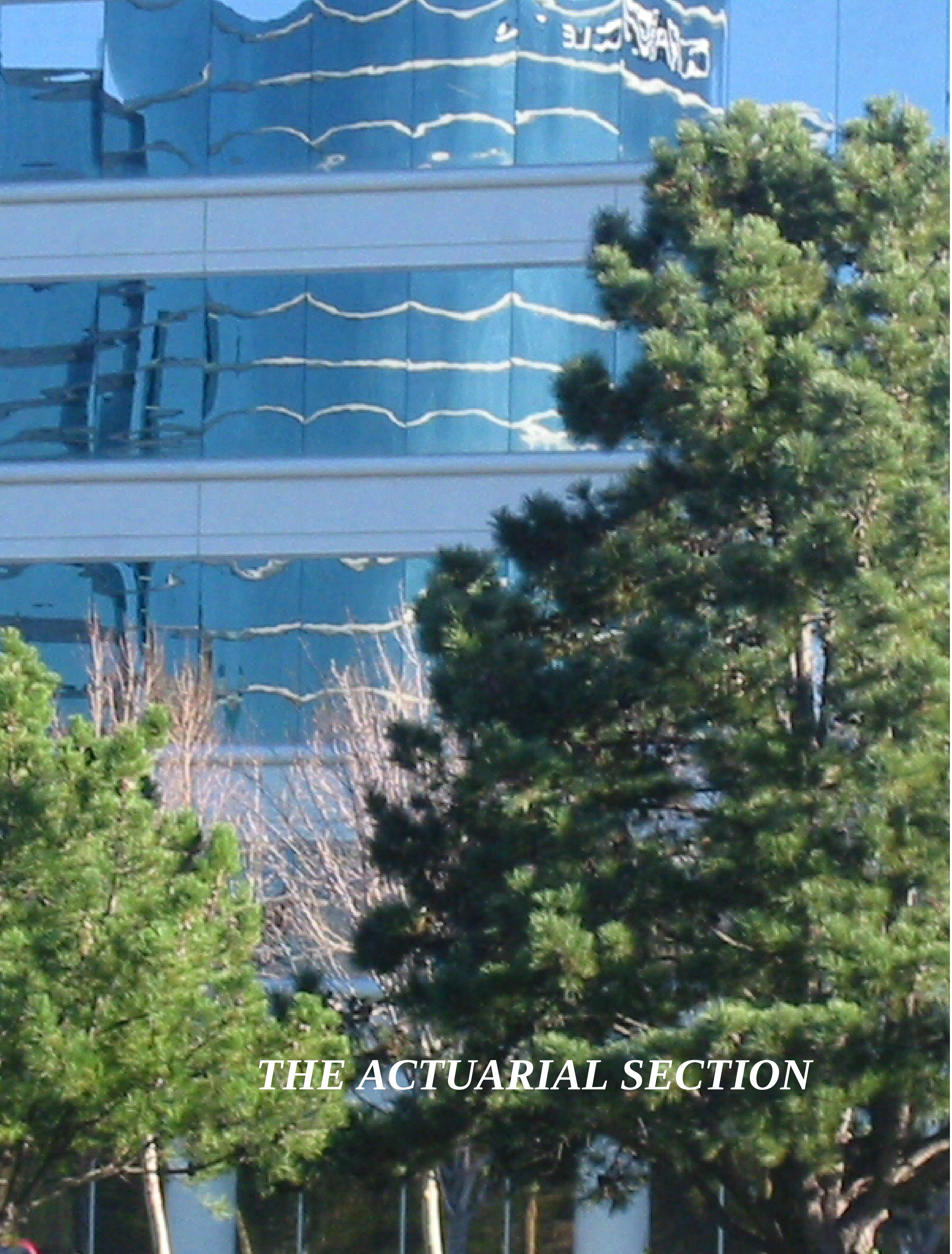
TOP TEN FIXED INCOME SECURITIES*

Par/Book Value	Security Name			Rating S&P/Moodys	Issue ID	Market Value
6,339,000	UNITED STATES TREAS NOTES	4.375%	08/15/2012	AAA/Aaa	9128277B2	$6,309,270
5,906,855	UNITED STATES TREASURY BDS	6.000%	02/15/2026	AAA/Aaa	912810EW4	$5,906,855
5,016,000	FNMA 30YR	5.000%	03/01/2034	AAA/Aaa	31402CVZ2	$4,871,792
4,323,788	FNMA 30YR	5.500%	04/01/2004	AAA/Aaa	31402DBK5	$4,318,422
3,085,000	ROYAL BANK OF SCOTLAND GROUP	9.118%	03/31/2040	A1/A	780097AE1	$3,717,425
3,360,000	FNCI TBA JULY	5.000%	07/25/2018	AAA/Aaa	01F050460	$3,363,158
3,050,000	WEST VALLEY CITY, UTAH	7.670%	05/01/2006	Aa2/A2	95640EDK8	$3,272,376
3,042,244	FGOLD 15YR	5.950%	11/01/2008	AAA/Aaa	3128H4E54	$3,055,470
2,425,000	PETROBRA MBIA	6.600%	12/01/2011	AAA/Aaa	69335UAC8	$2,603,213
2,055,000	AMERICAN GENERAL INSURANCE	8.125%	03/15/2046	Aa2	02637XAA2	$2,506,833

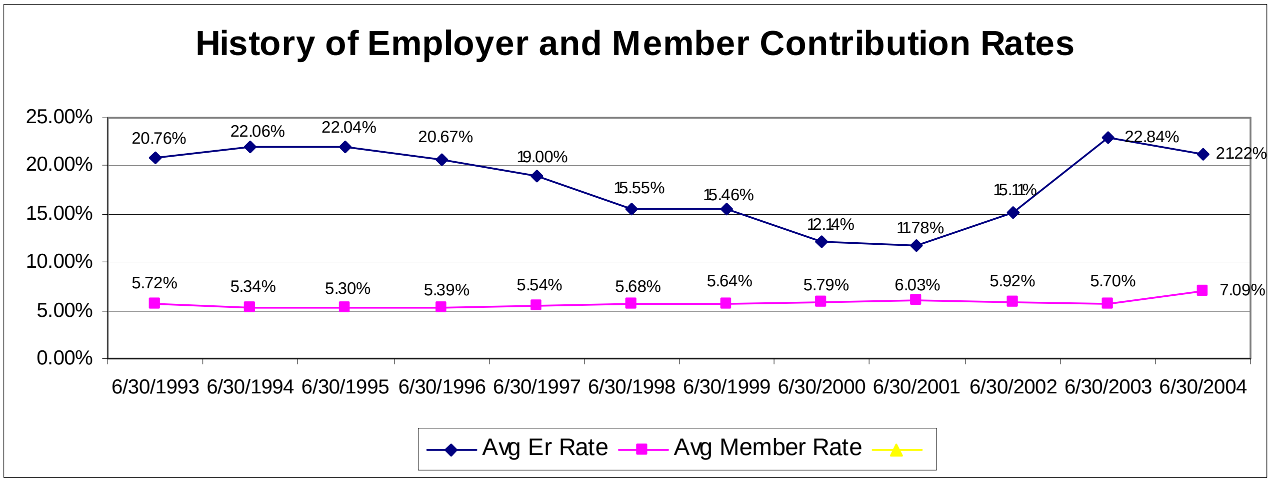
A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

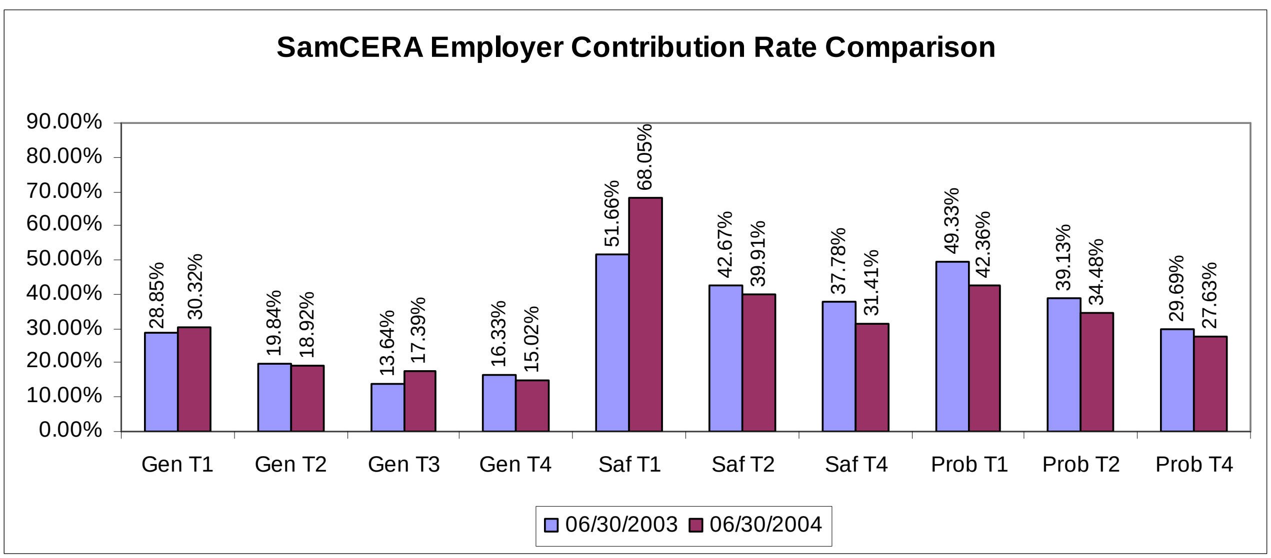
Schedule of Professional Services and Fees
as of June 30, 2005 and 2004

	2005	2004
Investment Managers		
Bank of Ireland Asset Management	$ 290,446	$ 834,983
Barclays Global Investors	921,068	316,910
Brandes Investment Partners	255,018	0
Chartwell Investment Partners	240,520	0
Deutsche Asset Management Inc.	448,398	438,259
Goldman Sachs Asset Management	323,552	0
INVESCO Realty Advisors	362,861	319,642
Julius Baer Investment Management	444,263	0
Mondrian Investment Partners	222,361	0
Western Asset Management	246,488	0
Investment Managers	3,754,975	1,909,794
Investment Consultant		
Strategic Investment Solutions	$ 175,000	$ 175,000
CS Capital Management	109,872	0
Actuarial Consulting		
Public Pension Professionals	$ 77,100	$ 0
Mercer Human Resources Consulting	(5,620)	74,670
Master Custodian		
State Street Bank and Trust Company	$ 120,939	$ 118,219
Total Professional Services	$4,232,266	$2,277,683



THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
20.76%
22.06%
22.04%
20.67%
19.00%
15.55%
15.46%
12.14%
11.78%
15.11%
22.84%
21.22%
5.72%
5.34%
5.30%
5.39%
5.54%
5.68%
5.64%
5.79%
6.03%
5.92%
5.70%
7.09%
6/30/1993 6/30/1994 6/30/1995 6/30/1996 6/30/1997 6/30/1998 6/30/1999 6/30/2000 6/30/2001 6/30/2002 6/30/2003 6/30/2004
Avg Er Rate
Avg Member Rate


SamCERA Employer Contribution Rate Comparison
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
28.85%
30.32%
19.84%
18.92%
13.64%
17.39%
16.33%
15.02%
51.66%
68.05%
42.67%
39.91%
37.78%
31.41%
49.33%
42.36%
39.13%
34.48%
29.69%
27.63%
Gen T1
Gen T2
Gen T3
Gen T4
Saf T1
Saf T2
Saf T4
Prob T1
Prob T2
Prob T4
06/30/2003
06/30/2004

Actuarial Certification

The annual actuarial valuation required for the San Mateo County Employees Retirement Association (SamCERA) has been prepared as of June 30, 2004 by Public Pension Professionals, Incorporated. In preparing this valuation, we have employed generally accepted actuarial assumptions and methods to determine a sound value for SamCERA's assets, liabilities and future contribution requirements. In our opinion, the combined operation of the assumptions and methods applied in this valuation fairly represent past and anticipated future experience of SamCERA and meet the parameters required by Government Accounting Standards Board Statement 25.

The financing objective of the system has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a period ending June 30, 2022 (18 years in the current valuation), while maintaining contribution rates that remain relatively level, as a percentage of payroll, from generation to generation.

We assisted in the preparation of several schedules included in the actuarial, statistical and financial sections of SamCERA's Comprehensive Annual Financial Report. These include:

1. Schedule of Assumptions and Methods;
2. Schedule of Employer and Member Contribution Rates;
3. Schedules of Pertinent Membership and Financial Information Used in the Valuation;
4. Solvency Test
5. Actuarial Analysis of Financial Experience
6. Schedule of Funding Progress

Future contribution requirements may differ from those determined in the valuation because of:

1. Differences between actual experience and anticipated experience;
2. Changes in actuarial assumptions or methods;
3. Changes in statutory provisions; and
4. Differences between the contribution rates determined by the valuation and those adopted by the Board.

We supplied the current year information for these schedules through the preparation of our annual valuation report and through additional reports prepared for SamCERA staff. Data for years prior to the June 30, 2004 actuarial valuation were prepared by the prior actuary for SamCERA.

Our calculations are based upon the member data and financial information supplied to us by SamCERA staff. This data has not been audited, but has been reviewed and found to be internally consistent and consistent with the prior year's data.

Actuarial Certification (continued)

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render this actuarial opinion.

Public Pension Professionals

Ira M. Summer	Deanna D. Van Valer
Ira Summer, FSA, EA, MAAA	Deanna Van Valer, ASA, EA, MAAA
December 20, 2004	December 20, 2004
Date	Date

The following actuarial assumptions are based on the Actuarial Experience Study for the period of July 1, 1999 through June 30, 2002, which was adopted by the Retirement Board on January 28, 2003.

Actuarial Assumptions and Cost Method

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent – closed
Remaining Amortization Period	18.0 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases*	6.00%
*Attributed to Inflation	4.00%
*Attributed to Adjustments for Merit and longevity	2.00%

Cost of Living Adjustments: The maximum increase in retirement allowance is 5% for General and Safety Plan 1, 3% for Probation Plan 1 and Plan 2 and 2% for Plan 4 Members. The maximums are based on the change in the Consumer Price Index for the Bay Area.

The pre-retirement demographic experiences adopted by the board include pre-retirement mortality, withdrawal rates, disability rates, service retirement rates and salary scales.

Actuarial Assumption		6/30/05	6/30/04	Change
Annual Inflation Rate		4.00%	4.00%	0.00%
Annual Investment Return		7.75%	8.00%	0.25%
Average Annual Salary Increases		6.00%	6.00%	0.00%

Plan Provisions - The Association provides basic retirement, disability and death benefits based on a defined benefit formula which uses final average salary, years of service, and age to calculate benefit payable and, in addition, provides annual cost-of-living adjustments upon retirement for members of Plans One, Two and Four. The benefits of Plan Three are reduced by Social Security benefits received by the member. The 1937 Act vests the Board of Supervisors with the authority to initiate benefits, however, Government Code Section 31592.2 empowers the Board of Retirement to provide health benefits when the Section 31592 reserve exceeds 1% of assets.

Members with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service) are eligible to retire at the following minimum ages:

Plan One	Age 50
Plan Two	Age 50
Plan Four	Age 50
Plan Three	Age 55

General members of Plans One, Two and Four may retire at any age after 30 years of service. Safety members, who participate only in Plans One, Two and Four, may retire at any age after 20 years of service.

A member who leaves County service may withdraw the contributions made by the member to the Association, plus accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members with 10 years of service who terminate their employment with the County may elect to leave their accumulated contributions with the Association and choose a deferred retirement.

Summary of Recommendations (1)

Employer Contribution Rates

	06/30/04	06/30/03	Change
Normal Cost Rate	10.32%	13.32%	-22.52%
Rate of Contribution to Unfunded Actuarial Accrued Liability	10.90%	9.52%	14.50%
Total Employer Rate	21.22%	22.84%	-7.09%
Estimated Annual Amount in Thousands (2)	$80,246	$73,995	$6,251

Member Contribution Rates

		07/01/05 (2)	03/13/05 (2)	07/01/04 (3)	Change (4)
General Members (Plans 1 & Plan 2)					
	Age 25	6.72%	6.95%	5.90%	0.82%
	35	7.09%	7.24%	6.22%	0.87%
	45	7.88%	7.97%	6.89%	0.99%
General Members (Plan 4)					
	Age 25	6.42%	6.62%	5.63%	0.79%
	35	6.77%	6.90%	5.93%	0.84%
	45	7.52%	7.57%	6.57%	0.95%
Safety Members (Plans 1 & Plan 2)					
	Age 21	8.35%	-	8.43%	-0.08%
	25	8.40%	-	8.48%	-0.08%
	30	8.59%	-	8.66%	-0.07%
Safety Members (Plan 4)					
	Age 21	7.97%	-	8.02%	-0.05%
	25	7.99%	-	8.07%	-0.08%
	30	8.19%	-	8.24%	-0.05%
Probation Members (Plans 1 & Plan 2)					
	Age 21	7.10%	-	7.17%	-0.07%
	25	7.14%	-	7.21%	-0.07%
	30	7.30%	-	7.36%	-0.06%
Probation Members (Plan 4)					
	Age 21	6.77%	-	6.82%	-0.05%
	25	6.81%	-	6.86%	-0.05%
	30	6.96%	-	7.00%	-0.04%
Estimated Annual Amount In Thousands		$26,169	-	$27,153	-$984

(1) The June 30, 2004, actuarial valuation is the most recent actuarial information available for contributions.
(2) The Estimated Annual Amounts for Employee and Employer Contributions include cost sharing through June 30, 2005 weighted for timing.
(3) The June 30, 2003, June 30, 2004, and March 16, 2005, rates above do not reflect changes in cost sharing and employer pickup arrangements effective after June 30, 2002.
(4) The change column shows the change between the rates that begin July 1, 2004 and those that begin July 1, 2005

Summary of Significant Actuarial Statistics and Measures

Association Membership	6/30/04	6/30/03	Change
Active Members			
Number of Members	5,186	4,937	5.0%
Total Active Payroll in Thousands	$365,385	$323,896	12.8%
Average Monthly Salary	$5,870	$5,467	7.4%
Retired Members			
Number of Members			
Service Retirement	2,706	2,637	2.6%
Disability Retirement	339	329	3.0%
Beneficiaries	494	488	1.2%
Total Retiree Payroll in Thousands	$75,493	$69,451	7.3%
Average Monthly Pension	$1,778	$1,676	6.1%
Inactive Vested Members	877	855	2.6%

Asset and Liability Values

Asset Values			
Market Value in Thousands	$1,435,359	$1,233,272	16.4%
Return on Market Value	15.60%	3.07%	
Valuation Assets in Thousands	$1,452,621	$1,353,941	7.3%
Return on valuation Assets	6.20%	-3.69%	
Liability Values			
Actuarial Accrued Liability in Thousands	$1,921,238	$1,781,544	7.8%
Unfunded Actuarial Accrued Liability	$468,707	$427,603	9.6%
Deferred losses for Asset Smoothing Method	$48,785	$154,249	68.4%
Funded Ratio			
GASB Number 25 *	75.6%	76.0%	-0.5%

*Based on Actuarial value of Assets for June 30, 2004 and June 30, 2003, respectively

Short-Term Solvency Test (1)

Valuation Date	Active Member Contributions	Liability For Inactive Participants	Liability for Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liability Covered by Valuation Assets		
6/30/95	107,385,000	507,002,000	343,441,000	663,629,000	100%	100%	14%
6/30/96	115,910,000	537,129,000	333,863,000	752,110,000	100%	100%	30%
6/30/97	130,736,000	565,593,000	351,246,000	1,047,575,000	100%	100%	49%
6/30/98	148,753,000	601,473,000	353,844,000	992,314,000	100%	100%	68%
6/30/99	157,826,000	629,653,000	416,489,000	1,104,833,000	100%	100%	76%
6/30/00	158,314,000	689,356,000	444,024,000	1,271,565,000	100%	100%	95%
6/30/01	174,066,000	789,104,000	440,890,000	1,384,586,000	100%	100%	96%
6/30/02	190,450,000	866,985,000	785,082,000	1,416,850,000	100%	100%	46%
6/30/03	202,551,000	858,273,000	915,108,000	1,353,941,000	100%	100%	32%
6/30/04	259,731,000	942,765,000	718,832,000	1,452,621,000	100%	100%	35%

(1) The June 30, 2004, actuarial valuation is the most recent actuarial information available

Schedule of Funding Progress (in Thousands) (1)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	UALL as a Percentage of Covered Payroll
6/30/95	651,217	945,417	294,200	68.90%	188,822	155.81%
6/30/96	728,369	963,162	234,792	75.60%	187,926	124.94%
6/30/97	856,679	1,037,431	180,752	82.60%	196,391	92.00%
6/30/98	992,314	1,104,070	111,756	89.90%	211,259	52.90%
6/30/99	1,109,417	1,205,554	96,137	92.00%	238,864	40.20%
6/30/00	1,271,565	1,291,694	20,129	98.40%	259,075	7.80%
6/30/01	1,384,586	1,404,060	19,474	98.61%	274,318	7.10%
6/30/02	1,416,821	1,660,566	243,745	85.30%	301,891	80.7%
6/30/03	1,353,941	1,781,544	427,603	76.00%	323,896	132.0%
6/30/04	1,452,621	1,921,328	468,707	75.60%	365,385	128.3%

(1) The June 30, 2004, actuarial valuation is the most recent actuarial information available

History of Employer Contribution Rates (1)

	General Member			Safety Member			Probation Member		
Year	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
1997	8.20%	11.18%	19.38%	18.77%	17.95%	36.72%	20.32%	13.59%	33.91%
1998	9.52%	7.30%	16.82%	18.54%	12.04%	30.58%	21.01%	10.81%	31.82%
1999	9.28%	4.36%	13.64%	17.51%	7.85%	25.36%	19.48%	6.06%	25.54%
2000	9.85%	3.60%	13.45%	17.70%	7.24%	24.94%	19.26%	5.53%	24.79%
2001	9.95%	0.71%	10.66%	17.81%	1.51%	19.32%	17.94%	1.16%	19.10%
2002	9.71%	0.70%	10.41%	17.22%	1.50%	18.72%	16.76%	1.17%	17.93%
2003	11.00%	4.60%	15.60%	21.99%	12.74%	34.73%	23.45%	8.10%	31.55%
2004	9.76%	8.25%	18.01%	15.34%	24.82%	40.16%	16.17%	15.28%	31.45%

(1) The contribution rates from the June 30, 2004, actuarial valuation are the most recent available.

Active Member Valuation Data

Valuation Date		Members	Annual Salary	Average Annual Salary	% Change Average Salary
1996	General	3,665	$158,373,022	$43,212	1.97%
	Safety	400	$20,016,006	$50,040	3.25%
	Probation	206	$9,537,308	$46,298	3.30%
	Total	4,271	$187,926,336	$44,001	2.18%
1997	General	3,808	$166,043,510	$43,604	0.91%
	Safety	402	$20,860,840	$51,893	3.71%
	Probation	208	$9,487,864	$45,615	-1.48%
	Total	4,418	$196,392,214	$44,453	1.03%
1998	General	3,803	$177,079,000	$46,563	6.80%
	Safety	406	$24,404,000	$60,109	15.80%
	Probation	211	$10,046,000	$47,607	4.40%
	Total	4,420	$211,529,000	$47,857	7.70%
1999	General	3.908	$196,936,000	$50,393	8.20%
	Safety	425	$29,862,000	$70,264	16.90%
	Probation	245	$12,067,000	$49,253	3.4%
	Total	4,578	$238,865,000	$52,176	9.0%
2000	General	4,018	$214,625,000	$53,412	6.0%
	Safety	423	$31,180,000	$73,716	4.9%
	Probation	249	$13,270,000	$53,292	8.2%
	Total	4,690	$259,075,000	$55,236	5.9%
2001	General	4,040	$227,848,000	$56,400	5.6%
	Safety	416	$31,611,000	$75,984	3.1%
	Probation	261	$14,859,000	$56,928	6.8%
	Total	4,717	$274,318,000	$58,152	5.3%
2002	General	4,159	$250,344,000	$60,192	6.7%
	Safety	431	$34,405,000	$79,824	5.1%
	Probation	282	$17,142,000	$60,792	6.8%
	Total	4,872	$301.891,000	$61,968	6.6%
2003	General	4,213	$267,150,000	$63,408	5.3%
	Safety	434	$37,973,000	$87,492	9.6%
	Probation	290	$18,773,000	$64,740	6.5%
	Total	4,937	$323,896,00	$65,964	5.9%
2004	General	4,487	$303,786,879	$67,700	6.8%
	Safety	411	$40,796,852	$99,202	13.4%
	Probation	288	$20,800,813	$72,225	11.6%
	Total	5,186	$365,384,544	$70,448	6.8%
2005	General	4,411	$304,289,437	$68,984	1.8%
	Safety	409	$39,999,593	$97,799	-1.4%
	Probation	278	$20,123,863	$72,388	0.2%
	Total	5,098	$364,412,893	$71,482	1.4%

Demographic Activity of Retirees and Beneficiaries

	Retiree Membership *						
Year	At Beginning Of Year	Additions	Withdrawals	At End of Year	Total Retiree Payroll	Percent Increase In Payroll	Average Monthly Allowance
6/30/95	2,674	N/A	N/A	2,723	$38,011,000	5.12%	$1,176
6/30/96	2,723	N/A	N/A	2,844	$40,498,000	6.54%	$1,209
6/30/97	2,844	163	107	2,900	$42,338,000	4.54%	$1,255
6/30/98	2,900	149	118	2,931	$46,845,000	10.65%	$1,332
6/30/99	2,931	238	210	2,959	$50,491,000	7.80%	$1,422
6/30/00	2,959	219	76	3,102	$55,192,000	9.31%	$1,483
6/30/01	3,102	233	82	3,253	$62,416,000	13.1%	$1,543
6/30/02	3,253	194	138	3,309	$66,974,000	7.3%	$1,627
6/30/03	3,309	128	115	3,322	$69,451,000	3.7%	$1,676
6/30/04	3,466	193	120	3,539	$75,492,876	8.7%	$1,778
6/30/05	3,539	238	95	3,682	$84,183,468	11.5%	$1,905

* Prior to 6/30/2004 Retirees/Beneficiaries who are entitled to multiple benefits are only counted once.

Actuarial Analysis of Financial Experience (1)

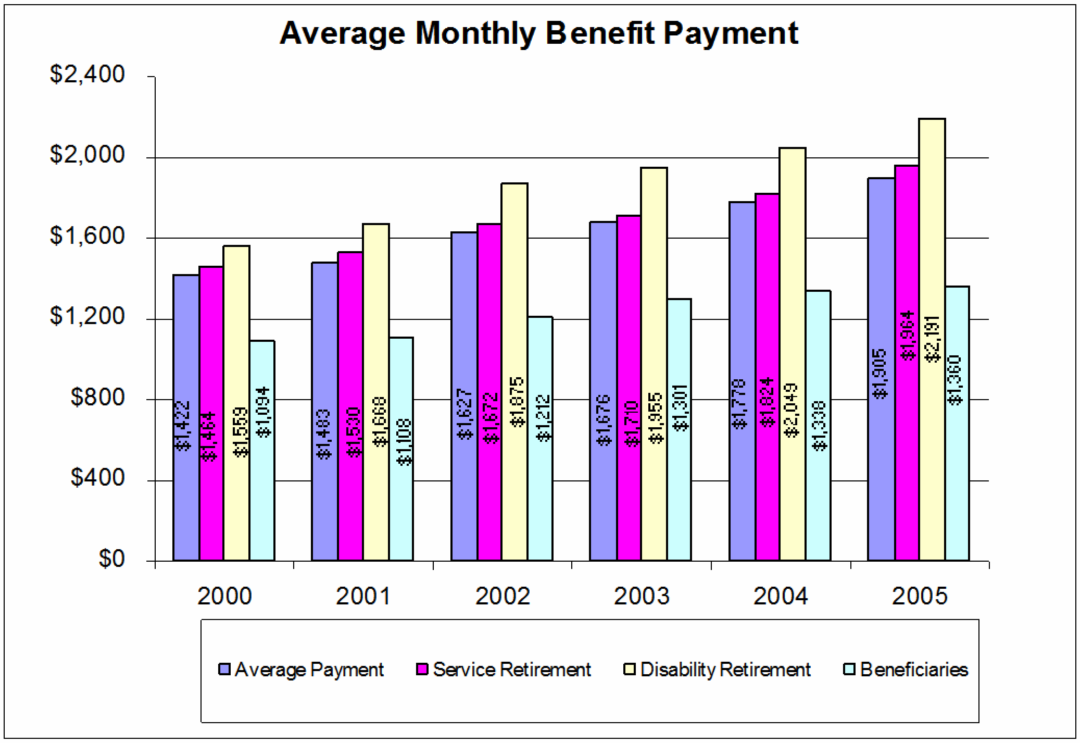
Summary of (Gains) / Losses		Change In Liability			
	2004	2003	2002	2001	2000
Unfunded Liability as of July 1	427,603,000	243,745,000	19,474,000	20,129,000	96,137,000
Expected Change in UAAL	(419,000)	20.884,000	(2,125,000)	(700,000)	(3,535,000)
Salary (Gain) / Loss		(4,907,000)	(3,400,000)	8,134,000	7,766,000
Fewer Withdrawal than expected		1,268,000	425,000		
Retiree COLA more / (less) than expected		(13,863,000)	8,499,000	1,502,000	(1,356,000)
Assets (Gain) / Loss	25,062,000	169,944,000	34,881,000	(12,157,000)	(71,409,000)
Change due to Assumption Changes	(13,989,000)	(7,797,000)	32,979,000		
Change due to Actuarial Asset Corridor			31,919,000		
Ventura Benefits & Asset transfers					
Miscellaneous Experience	30,450,000	(5,138,000)	1,580,000	2,566,000	(7,474,000)
Change Due to New Formula		23,467,000	119,513,000		
Unfunded Liability as of June 30	468,707,000	427,603,000	243,745,000	19,474,000	20,129,000

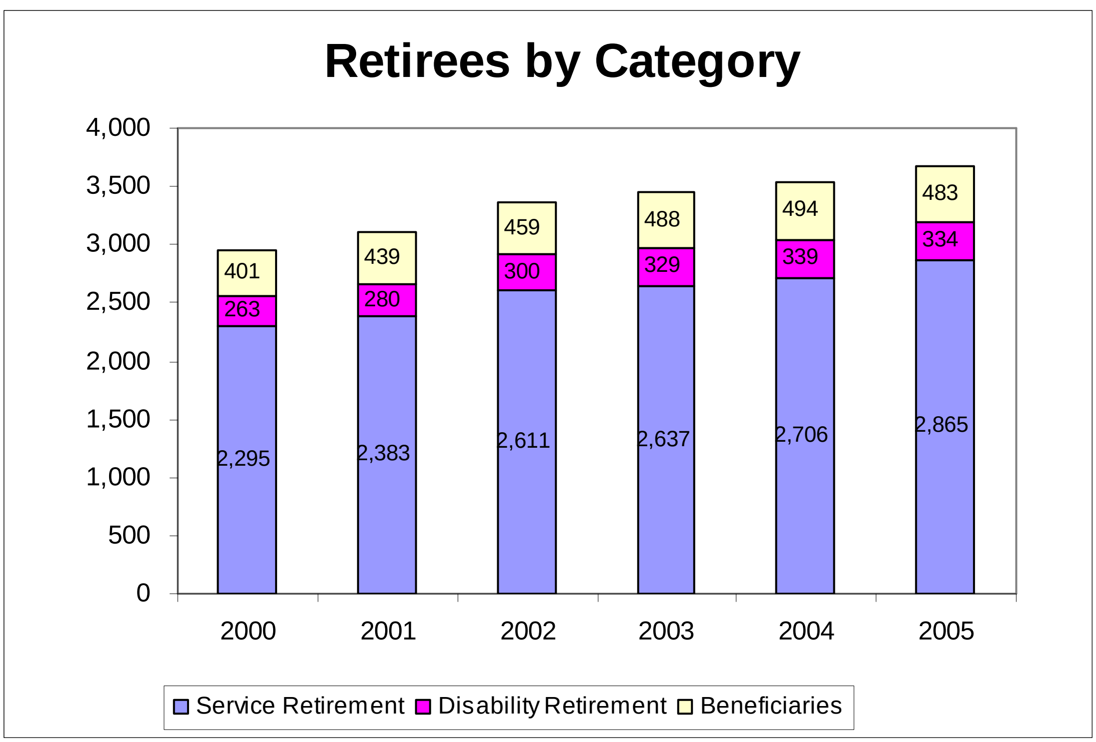
(1) The June 30, 2004, actuarial valuation is the most recent actuarial information available

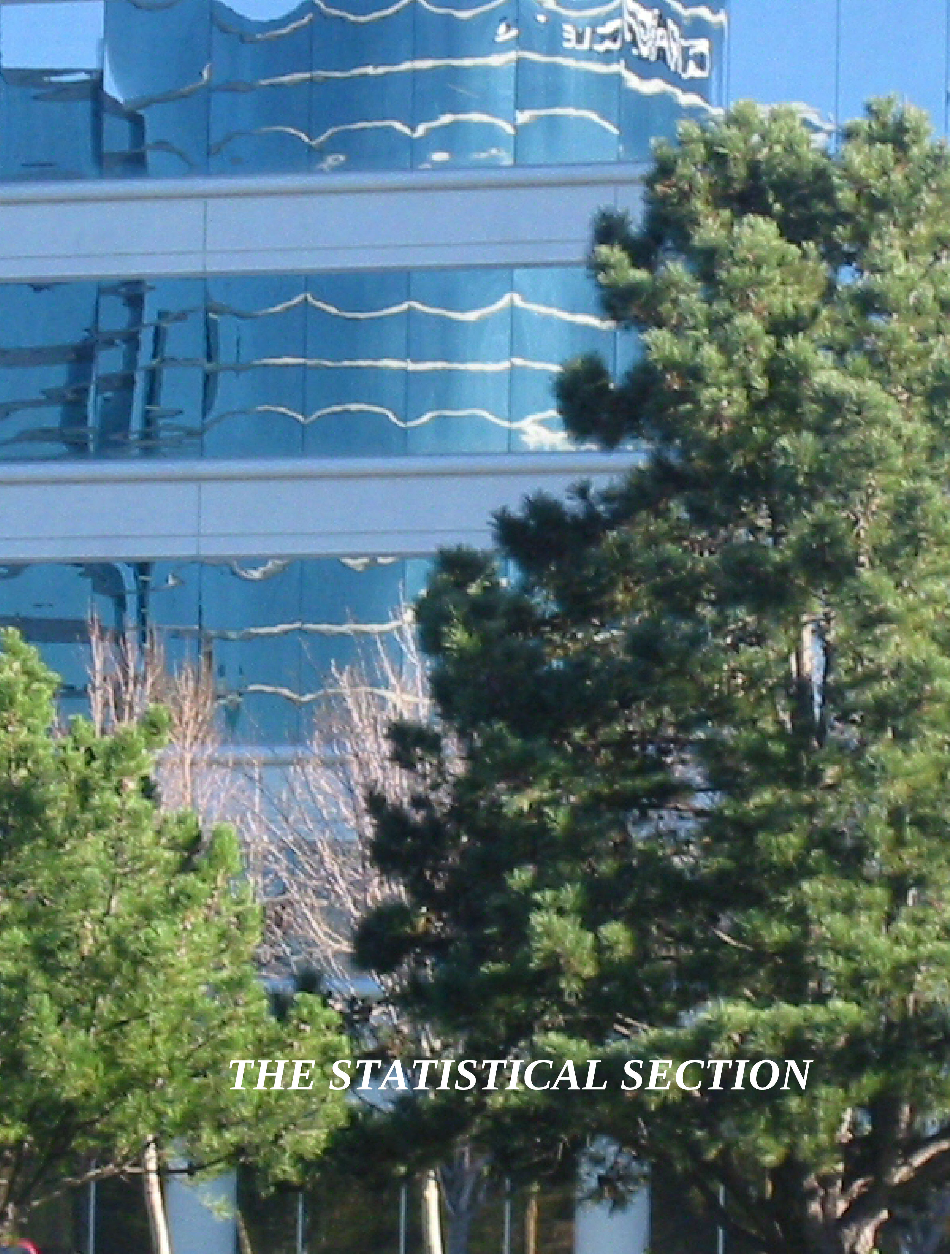
Probability of Separation Prior to Retirement (1)

Age	Withdrawal		Death		Disability		Service
	Ordinary	Vested	Ordinary	Duty	Ordinary	Duty	Retirement
General Tier 1 Male Members							
20	0.1460	0.0000	0.0002	0.0001	0.0000	0.0000	0.0000
30	0.1170	0.0098	0.0003	0.0001	0.0003	0.0002	0.0000
40	0.0176	0.0166	0.0006	0.0001	0.0010	0.0008	0.0000
50	0.0026	0.0000	0.0026	0.0002	0.0026	0.0013	0.0362
60	0.0000	0.0000	0.0042	0.0004	0.0043	0.0025	0.1570
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tier 1 Female Members							
20	0.1540	0.0000	0.0003	0.0000	0.0000	0.0000	0.0000
30	0.0847	0.0080	0.0003	0.0000	0.0002	0.0002	0.0000
40	0.0096	0.0188	0.0006	0.0000	0.0006	0.0008	0.0000
50	0.0000	0.0079	0.0009	0.0000	0.0030	0.0013	0.0400
60	0.0000	0.0032	0.0036	0.0000	0.0019	0.0065	0.1219
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tiers 2 and 4 Male Members							
20	0.0400	0.0000	0.0002	0.0001	0.0000	0.0000	0.0000
30	0.0400	0.0160	0.0003	0.0001	0.0003	0.0004	0.0000
40	0.0200	0.0380	0.0006	0.0001	0.0012	0.0016	0.0000
50	0.0000	0.0220	0.0022	0.0002	0.0038	0.0036	0.0362
60	0.0000	0.0070	0.0042	0.0004	0.0058	0.0078	0.1570
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tiers 2 and 4 Female Members							
20	0.0400	0.0000	0.0002	0.0000	0.0000	0.0000	0.0000
30	0.0349	0.0188	0.0003	0.0000	0.0003	0.0001	0.0000
40	0.0240	0.0225	0.0005	0.0000	0.0030	0.0020	0.0000
50	0.0000	0.0125	0.0013	0.0000	0.0030	0.0020	0.0000
60	0.0000	0.0000	0.0036	0.0000	0.0036	0.0056	0.1219
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tier 3 Male Members							
20	0.0000	0.0000	0.0003	0.0000	0.0000	0.0000	0.0000
30	0.0000	0.0100	0.0003	0.0001	0.0002	0.0000	0.0000
40	0.0000	0.0210	0.0006	0.0001	0.0006	0.0001	0.0000
50	0.0000	0.0245	0.0022	0.0002	0.0016	0.0002	0.0000
60	0.0000	0.0070	0.0042	0.0004	0.0038	0.0009	0.1200
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tier 3 Female Members							
20	0.000	0.0000	0.0003	0.0000	0.0000	0.0000	0.0000
30	0.0000	0.0400	0.0003	0.0000	0.0001	0.0000	0.0000
40	0.0518	0.0300	0.0006	0.0000	0.0002	0.0001	0.0000
50	0.0157	0.0130	0.0013	0.0000	0.0010	0.0003	0.0000
60	0.0200	0.0050	0.0042	0.0000	0.0028	0.0008	0.0317
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Members							
20	0.0078	0.0500	0.0002	0.0005	0.0000	0.0008	0.0000
30	0.0078	0.0400	0.0003	0.0005	0.0003	0.0011	0.0000
40	0.0076	0.0150	0.0004	0.0006	0.0009	0.0047	0.0000
50	0.0000	0.0075	0.0009	0.0007	0.0012	0.0125	0.0330
60	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

(1) The June 30, 2004, actuarial valuation is the most recent actuarial information available


Average Monthly Benefit Payment
$2,400
$2,000
$1,600
$1,200
$800
$400
$0
$1,422
$1,464
$1,559
$1,094
$1,483
$1,530
$1,668
$1,108
$1,627
$1,672
$1,875
$1,212
$1,676
$1,710
$1,955
$1,301
$1,778
$1,824
$2,049
$1,338
$1,905
$1,964
$2,191
$1,360
2000
2001
2002
2003
2004
2005
Average Payment
Service Retirement
Disability Retirement
Beneficiaries


Retirees by Category
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
401
263
2,295
439
280
2,383
459
300
2,611
488
329
2,637
494
339
2,706
483
334
2,865
2000
2001
2002
2003
2004
2005
Service Retirement
Disability Retirement
Beneficiaries



THE STATISTICAL SECTION

Schedule of Employer Contributions
(In Thousands Of Dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As A % of ARC
6/30/2000	$38,695	100%
6/30/2001	$39,482	100%
6/30/2002	$33,541	100%
6/30/2003	$36,070	100%
6/30/2004	$60,042	100%
6/30/2005	$76,931	100%

Schedule of Revenues by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/2000	$14,383	$38,695	$123,203	$176,282
6/30/2001	$15,287	$39,482	<$65,750>	<$10,981>
6/30/2002	$16,627	$33,541	<$82,410>	<$32,242>
6/30/2003	$22,650	$36,070	$39,150	$97,870
6/30/2004	$27,094	$60,042	$193,333	$280,469
6/30/2005	$33,647	$76,931	$140,211	$250,789

Schedule of Expenses by Type
(In thousands of Dollars)

Year End	Administrative Expenses	Retirement Benefits Paid	Refunds	Total
6/30/2000	$1,221	$53,090	$1,896	$56,207
6/30/2001	$1,491	$58,807	$1,846	$62,144
6/30/2002	$1,509	$65,186	$1,551	$68,246
6/30/2003	$1,887	$68,989	$1,206	$72,082
6/30/2004	$2,631	$74,016	$1,734	$78,381
6/30/2005	$2,239	$83,182	$1,458	$86,879

Summary of Retired and Inactive Member Benefits

Retired Members	2005	2004	2003	2002	2001	2000
Service Retirement						
Number	2,865	2,706	2,637	2,638	2,383	2,295
Annual Allowance						
Basic Only	$49,760,000	$41,723,000	$36,929,000	$36,260,000	$30,059,000	$27,966,000
Cola	$17,759,000	$17,502,000	$17,185,000	$16,668,000	$13,692,000	$12,343,000
Total	$67,519,000	$59,225,000	$54,114,000	$52,928,000	$43,751,000	$40,309,000
Average Monthly Payment	$1,964	$1,824	$1,710	$1,672	$1,530	$1,464
Disability Retirement						
Number	334	339	329	316	280	263
Annual Allowance						
Basic Only	$6,575,000	$6,164,000	$5,588,000	$5,061,000	$4,014,000	$3,517,000
Cola	$2,205,000	$2,172,000	$2,130,000	$2,049,000	$1,591,000	$1,402,000
Total	$8,780,000	$8,336,000	$7,718,000	$7,110,000	$5,605,000	$4,919,000
Average Monthly Payment	$2,191	$2,049	$1,955	$1,875	$1,668	$1,559
Beneficiaries						
Number	483	494	488	477	439	401
Annual Allowance						
Basic Only	$4,084,000	$4,250,000	$4,065,000	$3,548,000	$2,950,000	$2,819,000
Cola	$3,800,000	$3,682,000	$3,554,000	$3,388,000	$2,886,000	$2,444,000
Total	$7,884,000	$7,932,000	$7,619,000	$6,936,000	$5,836,000	$5,263,000
Average Monthly Payment	$1,360	$1,338	$1,301	$1,212	$1,108	$1,094
Total Retired Members						
Number	3,682	3,539	3,454	3,431	3,102	2,979
Annual Allowance						
Basic Only	$60,419,000	$52,137,000	$46,582,000	$44,869,000	$37,023,000	$34,302,000
Cola	$23,764,000	$23,356,000	$22,869,000	$22,105,000	$18,169,000	$16,189,000
Total	$84,183,000	$75,493,000	$69,451,000	$66,974,000	$55,192,000	$50,491,000
Average Monthly Payment	$1,905	$1,778	$1,676	$1,627	$1,483	$1,422
Inactive Members	872	877	855	833	646	613

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2000 through 2004 it also appears in *SamCERA's* actuarial valuation reports.

Schedule of Average Monthly Salary of Active Members
(By Plan and Membership Type)

	2005	2004	2003	2002	2001	2000
General Plan 1	$6,582	$6,514	$6,070	$5,806	$5,143	$4,910
General Plan 2	$6,045	$5,980	$5,573	$5,311	$4,636	$4,301
General Plan 3	$5,216	$5,101	$4,747	$4,737	$4,197	$3,820
General Plan 4	$5,476	$5,281	$4,886	$4,545	$3,831	$3,483
General Plan Total	$5,747	$5,642	$5,284	$5,016	$4,451	$4,199
Safety Plan 1	$9,701	$9,516	$8,500	$7,820	$6,955	$6,400
Safety Plan 2	$8,482	$8,530	$7,518	$6,853	$6,102	$5,883
Safety Plan 4	$7,564	$7,582	$6,465	$5,789	$5,271	$4,957
Safety Plan Total	$8,150	$8,267	$7,291	$6,652	$6,143	$5,855
Probation Plan 1	$7,216	$6,856	$6,548	$6,253	$5,460	$5,100
Probation Plan 2	$6,390	$6,291	$5,800	$5,542	$4,654	$4,240
Probation Plan 4	$5,741	$5,711	$4,924	$4,502	$3,660	$3,119
Probation Plan Total	$6,032	$6,019	$5,395	$5,066	$4,441	$4,104
Total	$5,955	$5,871	$5,467	$5,164	$4,603	$4,348

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2000 through 2004 it also appears in *SamCERA's* actuarial valuation reports.

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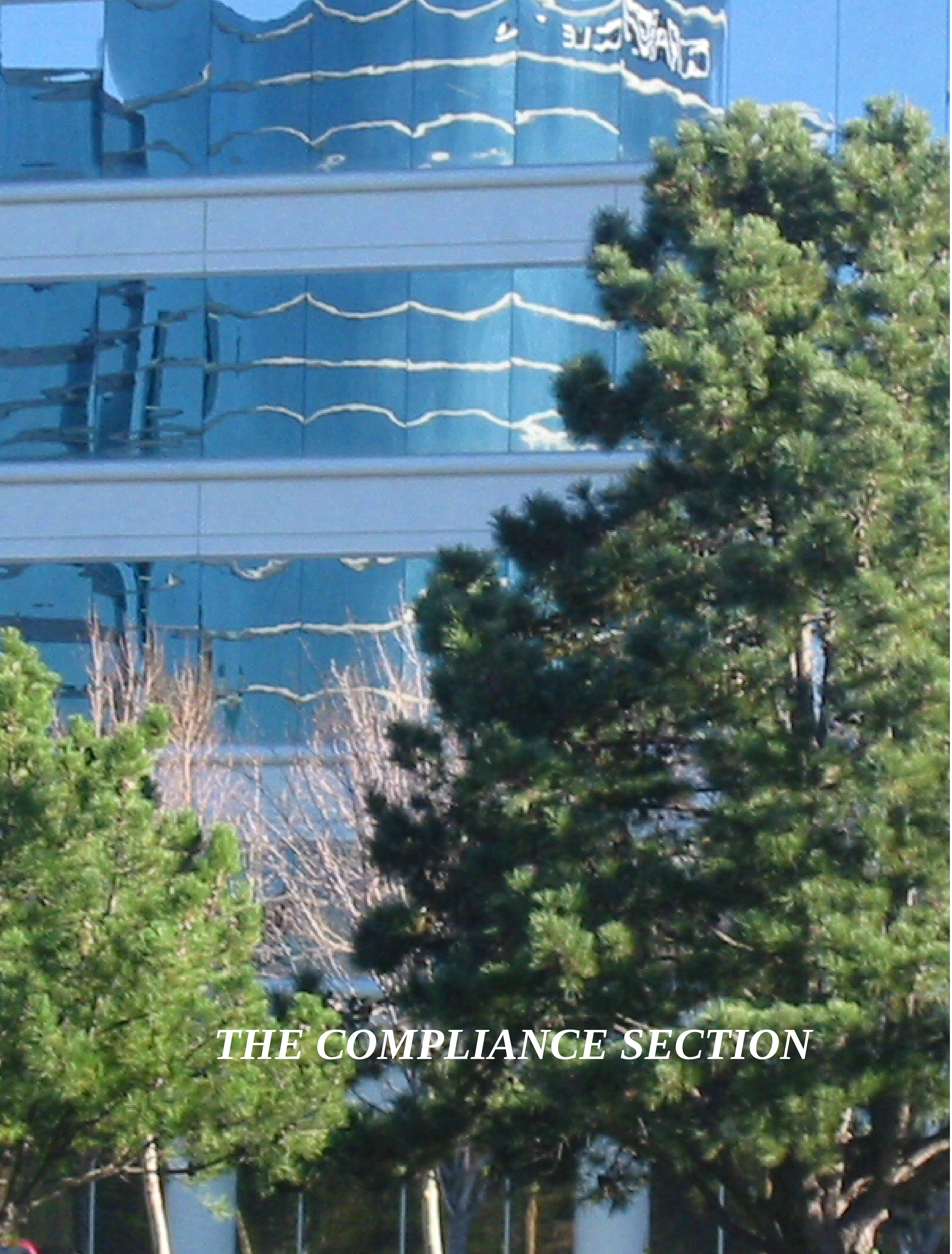
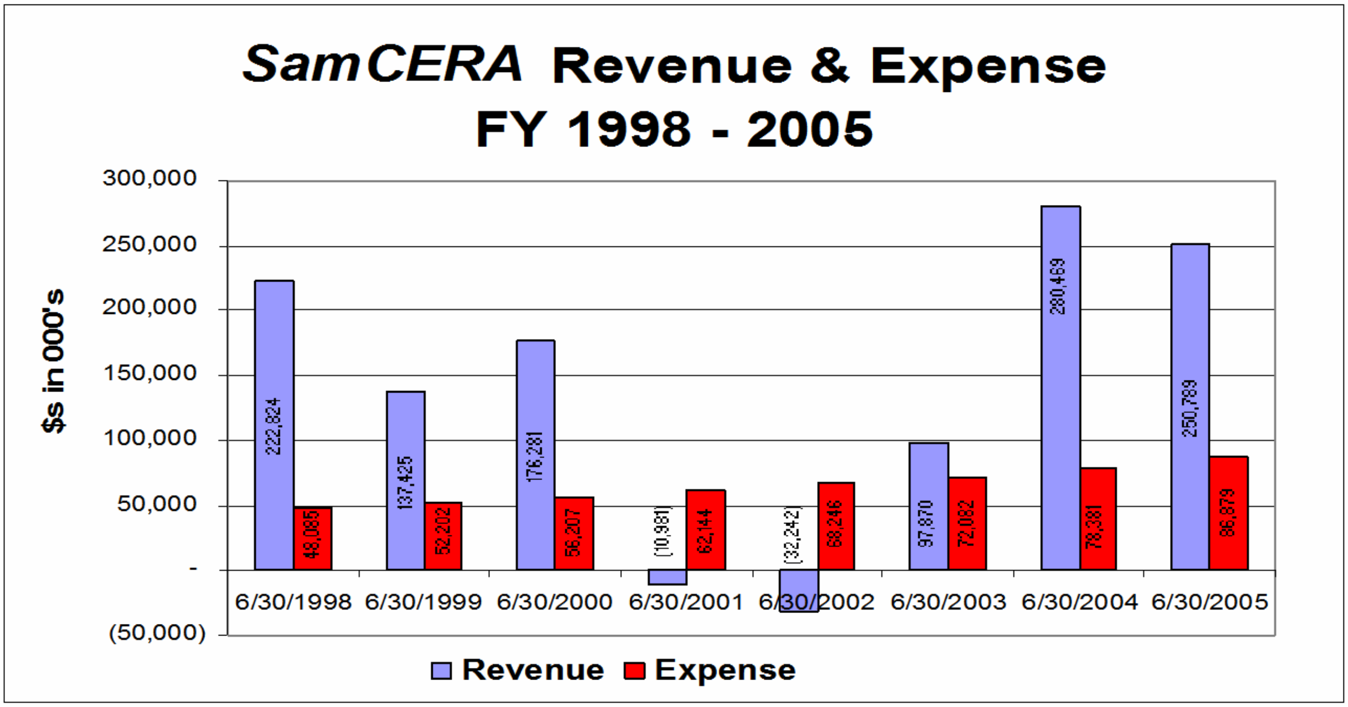
Participating Employers and Active Members

	2005	2004	2003	2002	2001	2000
County of San Mateo						
General Members	4,391	4,474	4,202	4,175	4,079	3,897
Safety/Probation Members	409	411	434	431	416	425
Safety Member	278	288	290	293	265	245
Total	5,078	5,173	4,926	4,899	4,760	4,567
San Mateo County Mosquito Abatement District						
General Members Total	20	13	11	11	11	11
Total Active Membership	5,098	5,186	4,937	4,910	4,771	4,578



THE COMPLIANCE SECTION



SamCERA Revenue & Expense
FY 1998 - 2005
$s in 000's
300,000
250,000
200,000
150,000
100,000
50,000
-
(50,000)
222,824
48,085
137,425
52,202
176,281
56,207
(10,981)
62,144
(32,242)
68,246
97,870
72,082
280,459
78,381
250,789
86,879
6/30/1998
6/30/1999
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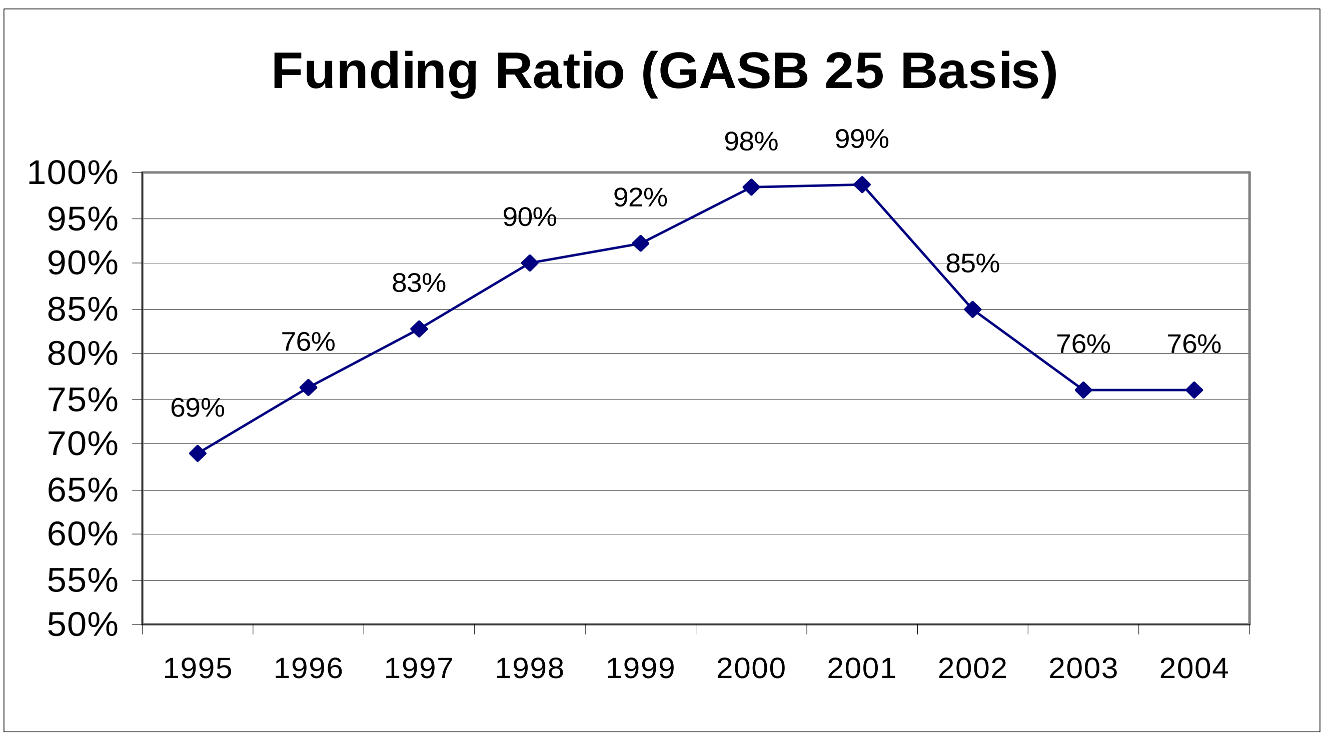
6/30/2005
Revenue
Expense



Funding Ratio (GASB 25 Basis)
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
69%
76%
83%
90%
92%
98%
99%
85%
76%
76%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004

Brown Armstrong Paulden
McCown Starbuck & Keeter
Certified Public Accountants

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AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Audit Committee
San Mateo County Employees' Retirement Association

We have audited the financial statements of the San Mateo County Employees' Retirement Association, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the San Mateo County Employees' Retirement Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
August 11, 2005