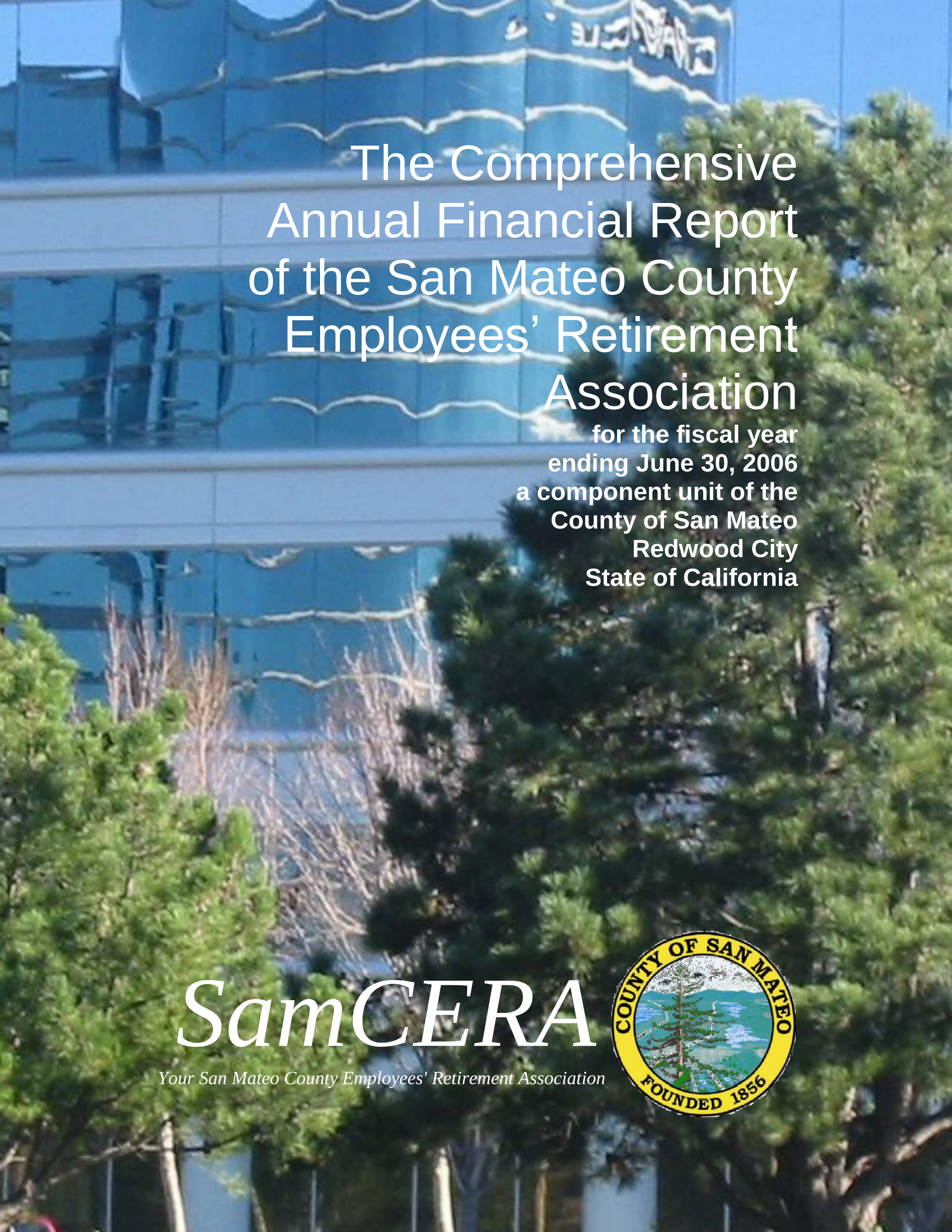


The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association

for the fiscal year ending June 30, 2006
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
A Component Unit of the County of San Mateo

Comprehensive
Annual
Financial Report
for the year ended June 30, 2006

David Bailey
Chief Executive Officer

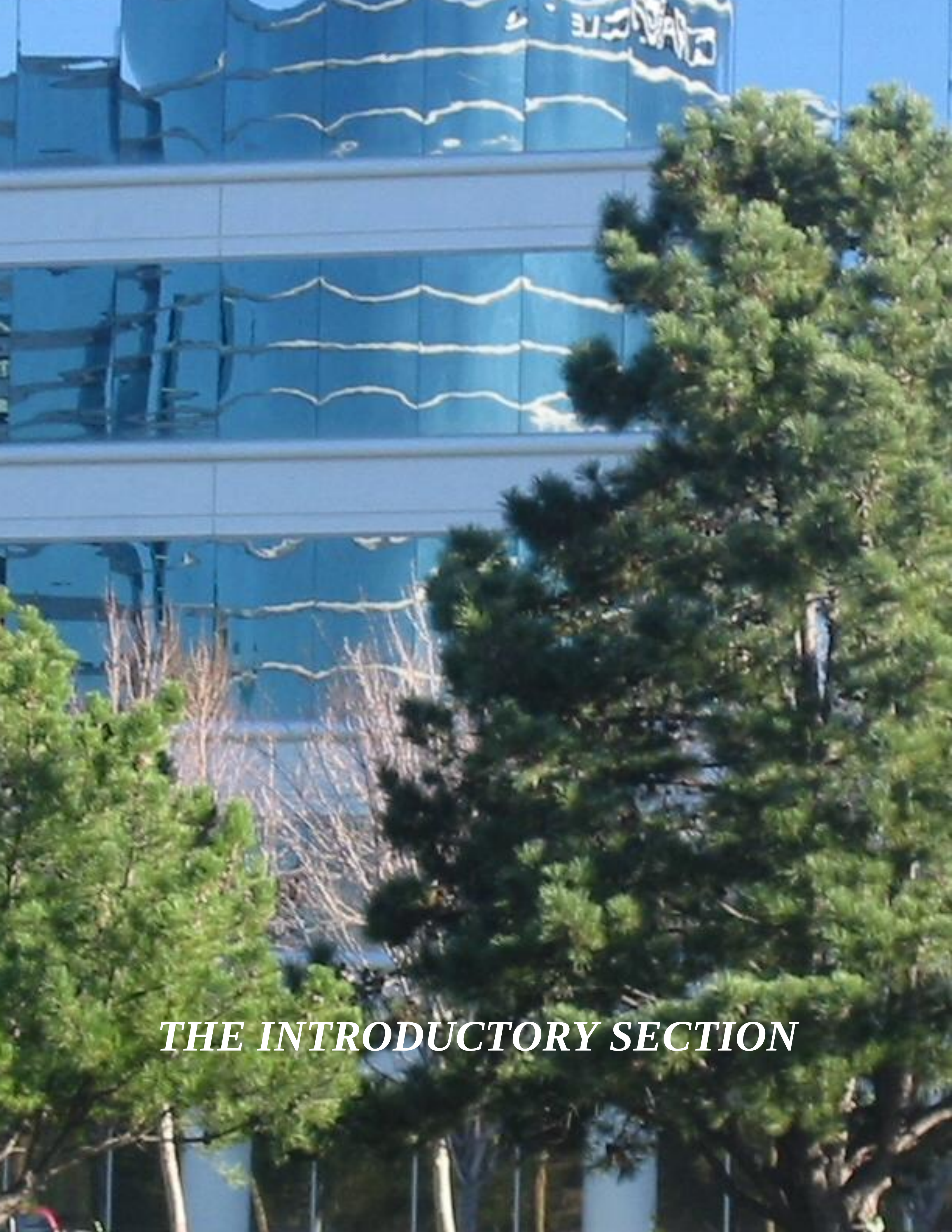
Gary Clifton
Investment and Finance Manager

SamCERA
100 Marine Parkway, Suite 125
Redwood Shores, California 94065

San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS



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 10, 2006

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present you with the *Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association* for the fiscal years ending June 30, 2006, and June 30, 2005.

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 16-23.

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 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.

The accounting firm of Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, Certified Public Accountants provides audit services to *SamCERA*. The financial audit ensures that *SamCERA's* financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. Internal controls are reviewed to ensure that *SamCERA's* operating policies and procedures are being adhered to and that the controls are sufficient to ensure accurate and reliable financial reporting and to safe-guard *SamCERA's* assets.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and its predecessor the National Council on Governmental Accounting.

SamCERA's financial statements are prepared on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investments are reported at fair value.

The Financial Section of this report contains *SamCERA's* financial statements, required supplementary schedules, and supporting schedules.

SamCERA's senior management has been working closely with the senior management staff of San Mateo County to plan the county's implementation of the new GASB *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, also known as GASB Statement No. 45. *SamCERA*, as a component agency of the county, early implemented this GASB statement for the year ended June 30, 2006.

In addition *SamCERA* implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, effective for the year ended June 30, 2006. The Statistical Section has been expanded to include ten years of trend information, plus Financial Trend Information regarding changes in plan net assets.

SamCERA's funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, by obtaining superior investment returns consistent with established risk controls and by minimizing employer contributions to the retirement fund.

SamCERA engages an independent actuarial consulting firm, Milliman, Inc., to conduct an annual actuarial valuation of the plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and employee contribution rates can be adjusted accordingly. *SamCERA* strives to provide the most recent financial and actuarial data in its annual report, therefore, the actuarial valuation of June 30, 2006, is used in this CAFR.

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, and a global custodian to help the board fulfill its duties. The board's professional consultants are highlighted in the organizational chart on page 12.

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 thirteen full-time employees are responsible for assuring that the needs of the members, employers and board 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 the 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 in the '37 Act and the laws and rules governing federal Social Security benefits. 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, 2006

Plan (Tier)		One	Two	Three	Four	Total
Retirees and beneficiaries currently receiving benefits:						
	General	2,182	925	63	15	3,185
	Safety	283	63	0	1	347
	Probation	61	20	0	0	81
	Subtotal	2,526	1,008	63	16	3,613
Terminated employees entitled to but not currently receiving benefits (Deferred):						
	General	70	541	126	260	997
	Safety	0	39	0	17	56
	Probation	0	18	0	18	36
	Subtotal	70	598	126	295	1,089
Current employees:						
Vested:						
	General	211	1,550	64	933	2,758
	Safety	27	179	0	101	307
	Probation	13	97	0	92	202
Non-Vested:						
	General	1	3	69	1,783	1,856
	Safety	0	0	0	121	121
	Probation	0	0	0	111	111
	Subtotal	252	1,829	133	3,141	5,355
Total *SamCERA* Membership		2,848	3,435	322	3,452	10,057

I encourage you to review the following narrative introduction as well as the analysis located in the Management Discussion and Analysis beginning on page 16.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The report consists of six 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 Thornburg & Keeter Accountancy Corporation (Brown Armstrong), the Management 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 $1.599 billion to $1.790 billion.

The collection of employer and employee contributions and investment income provides the reserves needed to finance retirement benefits. Contributions, investment income, and other additions for the fiscal year totaled $282,927,118.

Additions to SamCERA's Assets

Contributions	
Employer	$ 76,089,599
Employee	39,962,616
Total Contributions	116,052,215
Investment Income	175,345,112
Less investment expense	(8,519,247)
Net Investment Income	166,825,865
Other Additions	49,038
TOTAL ADDITIONS	$282,927,118

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 $92.3 million.

Deductions from SamCERA's Assets

SamCERA Benefits:	
Service retirement allowance	$76,380,171
Disability retirement allowance	10,629,865
Death and other benefits	904,528
Total Association benefits	87,914,564
Refunds of members' contributions	2,257,849
Administrative expense	2,085,970
Other Expenses	40,620
TOTAL DEDUCTIONS	$92,299,003

Please refer to the Management 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, 2006.

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, 2006, after several years with a negative balance, the reserve was a positive $20,876,819 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.

•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 10.66%, approximately 36 basis points greater than the Median Public Plan, and 61 basis points more than the performance of its policy benchmark.

SamCERA's Asset Allocation

	Target	June 30, 2006
Equity	65.0%	65.5%
Fixed Income	29.0%	27.6%
Real Estate	6.0%	6.6%
Cash	0.0%	0.3%

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

Milliman. reported that as of June 30, 2006, *SamCERA*'s Actuarial Valuation Assets of $1.769 billion were equal to 75.4% of *SamCERA*'s Accrued Actuarial Liabilities of $2.345 billion, with full funding targeted for the year 2022. *SamCERA*'s Unfunded Actuarial Accrued Liability totaled $576.1 million on June 30, 2006, with an additional $20.9 million in the Market Stabilization Account.

The following table reflects recent contribution changes:

Contribution Rates Effective in Fiscal Year:	**2007-2008**	**2006-2007**	**2005-2006**
Employer Rate (Actuary's Estimated Aggregate)	**24.71%**	**25.16%**	**22.84%**
% Increase	*1.79%*	*10.17%*	*22.2%*
Employee Rate (Actuary's Estimated Aggregate)	**9.70%**	**9.71%**	**8.38%**
% Increase	*-0.10%*	*15.87%*	*18.0%*

This report utilizes information from the actuarial valuation of the system as of June 30, 2006.

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

•The Compliance Section includes the Auditors 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. The report noted no matters involving the internal control over financial reporting and its operation that was considered to be material weaknesses. The results of tests by the auditor disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

LOOKING BACKWARD AND FORWARD

SamCERA lowered its assumed earnings rate from 8% to 7.75% beginning with the fiscal year 2006 after completing its triennial experience study.

In January the staff reviewed its 2005-2006 Strategic Plan during a one-day retreat and in subsequent in-office meetings. The updated plan for the 2006-2007 fiscal year includes major objectives to improve publications, initiate a set of planning and education workshops for members, acquire adequate office space, properly staff the organization to match the workload, and develop a comprehensive information technology plan.

A search for an actuarial services provider resulted in selection of Milliman, Inc. in January. Lead actuaries on the contract are Karen Steffen and Nick Collier of the Milliman Seattle office.

In March *SamCERA* conducted an online customer service survey. Staff members were pleased with the survey results which showed that on average members consider *SamCERA's* services on the high side of "Good" (as opposed to Poor, Fair, or Excellent.) The results provided valuable information to improve services in the future. Staff plans to conduct the survey once each year.

The cost of living in the Bay Area went up about 2% in 2005, according to the Bureau of Labor Statistics. Most retirees, therefore, saw a 2% increase on their April 2006 retirement payments. General and Safety members who retired on or before 4/1/75, and Probation members who retired on or before 4/1/00 had amounts remaining in their COLA banks and received higher COLAs.

Deputy Sheriff David Wozniak was elected to a position on the Board of Retirement at the June 2006 election. **Paul Hackleman**, County Benefits Manager, was re-elected to his board position at that same election.

For the 2006-2007 fiscal year, the board will have two new alternate members. In the June election, **Alma Salas** was elected to serve as an alternate in the event of the absence of any member elected by the membership except for the retiree-selected member. In July, the board voted to name **John Murphy** as the Alternate Retired Member.

Also in June, the Board of Supervisors reappointed **Emily Tashman** and **James Hooley** to their positions on the Board of Retirement.

At the July meeting each year the retirement board elects officers. This year the board elected **Tom Bryan**, chair; **Emily Tashman,** Vice Chair; and **Bette Stuart**, Secretary.

The *SamCERA* Board of Retirement consists of nine members. Four positions are appointed by the Board of Supervisors. Four members are elected from the membership. The County Treasurer is a member of the board by virtue of his office.

In addition to those named above, members of the board include **Ken Lewis**, San Mateo County Treasurer **Lee Buffington**, and **Donna Wills Colson**. Deputy County Treasurer **Sandra Arnott** substitutes for the Treasurer when needed.

The board and staff welcomed the return of Assistant Executive Director Scott Hood in July. Mr. Hood is a Lieutenant Colonel in the Army Reserve. He was away from the office for approximately one year serving in Iraq.

For the one-year period ended June 30, 2006, the investment portfolio outperformed its benchmark and returned 10.66%. *SamCERA's* Net Assets Held in Trust for Pension Benefits grew by approximately $190 million last fiscal year. The balance as of June 30, 2006, was approximately $1.8 billion.

SamCERA will work with investment consultant Strategic Investment Services to conduct an asset/liability study beginning in September 2006.

In November 2005 the board selected Fidelity Management Trust Company to serve as provider of a $150 million enhanced index bond fund.

In September 2006, *SamCERA* changed the way it reports income on health insurance deductions. *SamCERA* deducts health insurance premiums from the benefit payments of approximately 1,550 retirees and beneficiaries who are enrolled in a San Mateo County health insurance plan and request such deductions. In 2002, *SamCERA* began recording these deductions as non-taxable. With the September 2006 benefit payments, these health insurance premiums will be recorded as taxable income, and the change will be effective for all of the 2006 tax year.

For effected *SamCERA* benefit recipients with pre-1998 retirement dates *SamCERA* does not determine taxable income. Therefore, the 1099Rs for this group reported the correct gross income, and stated taxable income could not be determined. For post-1997 benefit recipients, *SamCERA* reported a taxable income that equaled gross income less health insurance premiums.

In late August of 2006, the plan through its tax counsel approached the Internal Revenue Service to discuss a resolve for the incorrect reporting of income in years 2002, 2003, 2004, and 2005.

CERTIFICATE OF ACHIEVEMENT AND ACKNOWLEDGEMENTS

For the ninth consecutive year, the Government Finance Officers Association (GFOA) has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of our Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The certificate is reproduced on page 10.

SamCERA is also the recipient of the Government Finance Officers Association (GFOA) Award for Outstanding Achievement in Popular Annual Financial Reporting for the third year running. We received this honor for our Popular Annual Financial Report (PAFR), for the fiscal year ended June 30, 2005.

These awards recognize contributions to the practice of government finance exemplifying outstanding financial management; in doing so they stress practical, documented work that offers leadership to the profession.

The compilation of the Comprehensive Annual Financial Report in a timely manner reflects the combined efforts of *SamCERA's* staff under the leadership, dedication and support of the Board of Retirement.

The association continues to maintain the highest financial reporting standards while providing quality services to its members. I am sincerely grateful to the *SamCERA* Board of Retirement and staff who perform so diligently to ensure the successful operation and financial soundness of SamCERA.

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, 2005

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, 2006

KENNETH A. LEWIS, 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, Vice Chair *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.

EMILY TASHMAN, Secretary *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.

ALMA R. SALAS *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.

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.

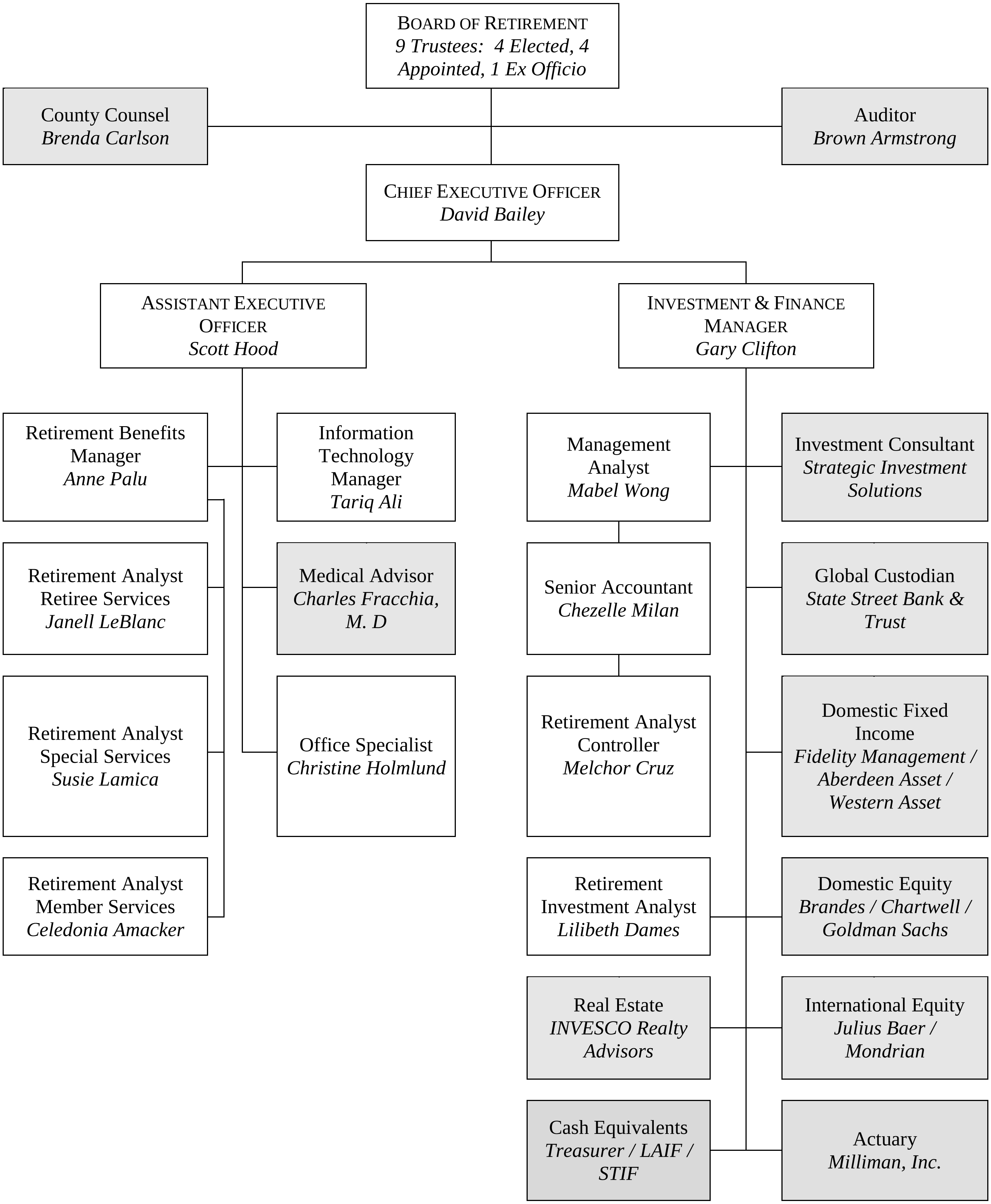
PAUL HACKLEMAN *elected by SamCERA's General Members, Second Member*

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.

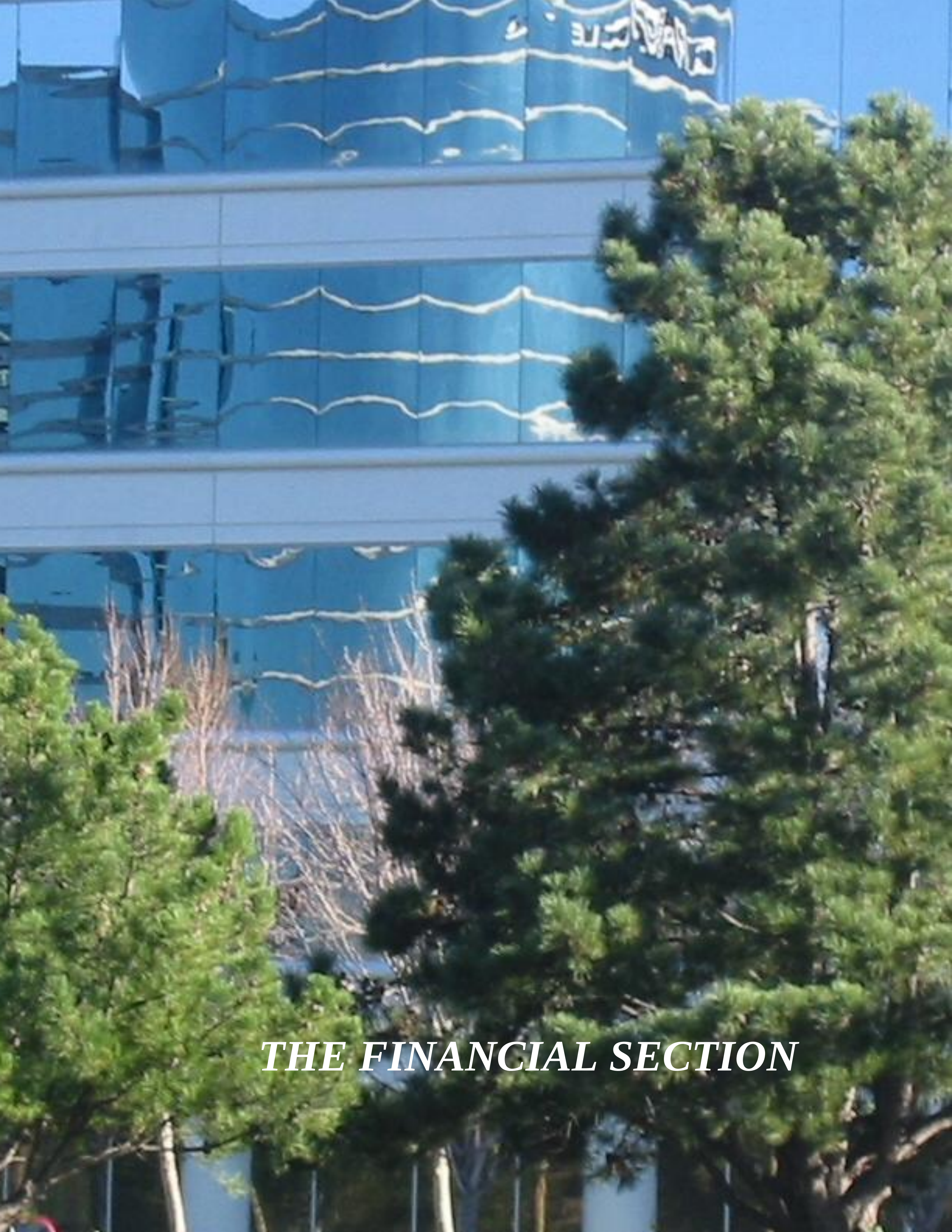
BETTE PERROTON STUART *elected by SamCERA's Retired Members, Eighth Member*

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.

SAN MATEO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
June 30, 2006 Organizational Chart
Including Professional Consultants



A Schedule of Professional Services and Fees may be found on page 45 of the Investment Section



THE FINANCIAL SECTION

Brown Armstrong Paulden
McCown Starbuck Thornburgh & Keeter
Certified Public Accountants

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: bainfo@bacpas.com

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

INDEPENDENT AUDITOR'S REPORT

To the Members of the
San Mateo County Employees' Retirement Association
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, 2006 and 2005 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.

As discussed in the notes to the financial statements, SamCERA adopted the provisions of GASB Statements No. 44, *Economic Condition Reporting,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

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, 2006 and 2005 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 10, 2006, 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 THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
August 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2005– 2006

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 position and results of operation for the fiscal years ended June 30, 2006, and 2005. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 26, provides a clear picture of *SamCERA's* overall financial status and activities.

Financial Highlights

- $1,789,897,817 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 $190,628,115 or 11.92% primarily as a result of investment returns.
- *SamCERA's* funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2006, the actuarial funded ratio for *SamCERA* was 75.4%.
- Revenues (Additions to Fiduciary Net Assets) for the year were $282,927,118 which includes member and employer contributions of $116,052,215; investment gain of $175,345,112 (excluding investment expense of $8,519,247); and other additions of $49,038.
- Expenses (Deductions in Fiduciary Net Assets) increased from $86,878,887 to $92,299,003 over the prior year, or approximately 6.24%. Most of this increase was due to an increase in benefits paid.
- *SamCERA*, as a component unit of San Mateo County, early implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* effective for the year ended June 30, 2006. This statement generally requires that governments account for and report the annual cost of OPEB and the outstanding obligations related to OPEB in essentially the same manner as pensions.
- In addition, *SamCERA* implemented GASB Statement No. 44, *Economic Conditions Reporting: The Statistical Section.* The Statistical Section has been expanded to include ten years of trend information, plus Financial Trend Information regarding changes in fiduciary net assets.

Overview of Financial Statements

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 their beneficiaries and any current liabilities that are owed as of June 30, 2006. The net assets, which are assets less liabilities, reflect the funds available for future use.

The Comparative Statement of Changes in Fiduciary Net Assets provides a view of all the activities that occurred during the fiscal year and shows the impact of those activities as 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 all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment purchases and sales are reported as of the trade date, not the settlement date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each component of capital assets is depreciated over its useful life.

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 its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring *SamCERA's* overall financial position. The increase in *SamCERA's* plan net assets for the year ended June 30, 2006, was 11.9%. This increase is a significant indicator the *SamCERA's* overall financial position improved during the year. In fact, *SamCERA's* total gross fund return of 10.7% outpaced *SamCERA's* 8.0% actuarial assumed interest rate. Additionally the outlook for the future has improved from an actuarial perspective because, instead of a net deferred investment loss of $16.3 million as of the last valuation, *SamCERA* now has a net deferred investment gain of $20.9 million that will be used to increase actuarial assets over the next four to five years.

SamCERA's Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets appear on pages 24-25.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year. Notes to the Financial Statements appear on pages 26-40.

Required Supplementary Information follows the notes and 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. *SamCERA*, as a component unit of San Mateo County, early implemented GASB 45. Therefore, for the first time this year *SamCERA's* Notes include a schedule detailing the county's progress in funding its obligation to provide other post employment benefits. Required supplementary information appears on pages 41-43.

Other Supplementary Information includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants. These schedules are presented immediately following the required supplementary information.

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, 2006, totaled $1,789,897,817 which represents an increase of $190,628,115 or 11.92% over the period. The increase during the fiscal year is due to contributions from the members and employers and market appreciation of investments. All of the net assets are available to meet *SamCERA's* ongoing obligations to plan participants and their beneficiaries.

The increase in fiduciary 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 maintain investment returns in excess of its policy benchmark and to maximize the upturn in the market. The Investment Section provides further details about *SamCERA's* investment performance.

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

For the Years Ended June 30, 2006 and 2005	2006	2005	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,799,045,503	$1,579,525,190	$219,520,313	13.90%
Other Assets	$93,487,581	$117,948,719	-$24,461,138	-20.74%
Total Assets	$1,892,533,084	$1,697,473,909	$195,059,175	11.49%
Total Liabilities	$102,635,267	$98,204,208	$4,431,059	4.51%
Net Assets	$1,789,897,817	$1,599,269,702	$190,628,115	11.92%

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%

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 (net of accumulated depreciation and amortization) declined from $18,675 in 2005 to $9,338 in 2006. The decrease in the balance of capital assets (net) in 2006 was due to the scheduled depreciation of computer hardware & business continuity assets. Capital assets include computer hardware and business continuity assets. In 2006 there were no significant commitments made for capital expenditures.

Reserves

The statement of *SamCERA's* reserves as shown in Table 2 indicates how *SamCERA's* fiduciary net assets have accumulated. *SamCERA's* reserves are established from employer and member 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.
- 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.
- 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 employers and members. With the upturn in the market over the past four years, *SamCERA's* Market Stabilization Account improved by $294,292,145. At year-end 2002 the Account was ($273,415,326); by year-end 2006 the balance had become positive at $20,876,819.

SamCERA's Reserves (Table 2)

As of June 30	2006	2005	2004
Valuation Reserves:			
Member Reserves	$317,520,788	$281,230,984	$259,731,818
Employer Advanced Reserves	$237,937,565	$219,867,963	$212,410,513
Retiree Reserves	$608,740,188	$554,684,637	$449,574,515
Cost of Living Reserves	$630,374,435	$581,174,967	$539,641,932
Contingency Reserves	$0	$0	$0
Non-Valuation Reserves:			
Ventura Reserves	$0	$0	$31,523,929
Unallocated Earnings/Loss Account	-$25,551,978	-$21,373,381	-$8,737,605
Market Stabilization Account	20,876,819	-$16,315,469	-$48,785,679
Net Reserves held in Trust for Pension Benefits	$1,789,897,817	$1,599,269,701	$1,435,359,423

Additions to Fiduciary Net Assets

The primary sources of funding for *SamCERA* member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years ended June 30, 2006, and 2005 were $282,927,118 and $250,789,165, respectively. For 2006, the $32.1

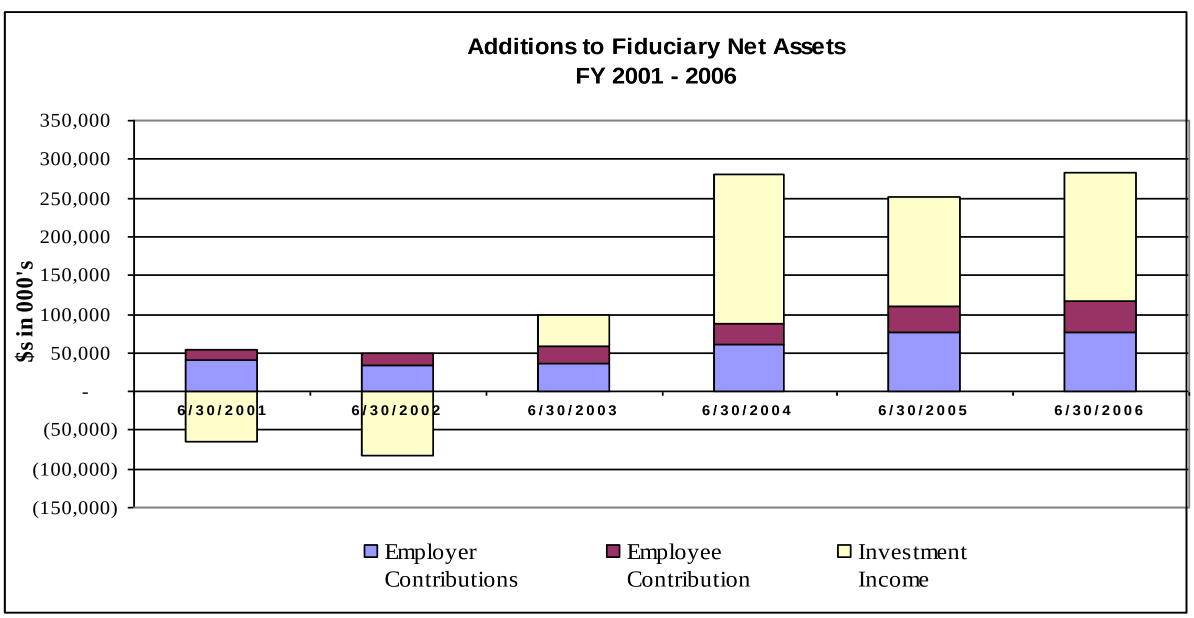
million increase in additions to fiduciary net assets versus the prior year additions was primarily due to an increase in net investment income as the stock market improved.

Employer contributions for 2006 were $76.1 million, down $ 0.8 million over the prior year as a result of a slight decrease in the aggregate payroll. Member contributions were $39.9 million. This was a $6.3 million increase over 2005. The largest factor in the contribution rate increase was the implementation of the last of three negotiated one percentage increases in member cost sharing.

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

For the Years Ended June 30, 2006 and 2005	2006	2005	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$76,089,599	$76,930,928	-$841,329	-1.09%
Member Contributions	$39,962,616	$33,647,561	$6,315,055	18.77%
Investment Income/(Loss)	$175,345,112	$147,413,534	$27,931,578	18.95%
Less Investment Expenses	-$8,519,247	-$7,282,330	-$1,236,917	16.99%
Other Additions	$49,038	$79,472	-$30,433	-38.29%
Total	$282,927,118	$250,789,165	$32,137,953	12.81%
Current Membership	10,057	9,801	256	2.61%

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%
Member 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	-$29,680,019	-10.58%
Current Membership	9,801	9,602	199	2.07%



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 members, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2006, totaled $92,299,003, an increase of 6.24% over the prior fiscal year (refer to Table 4.)

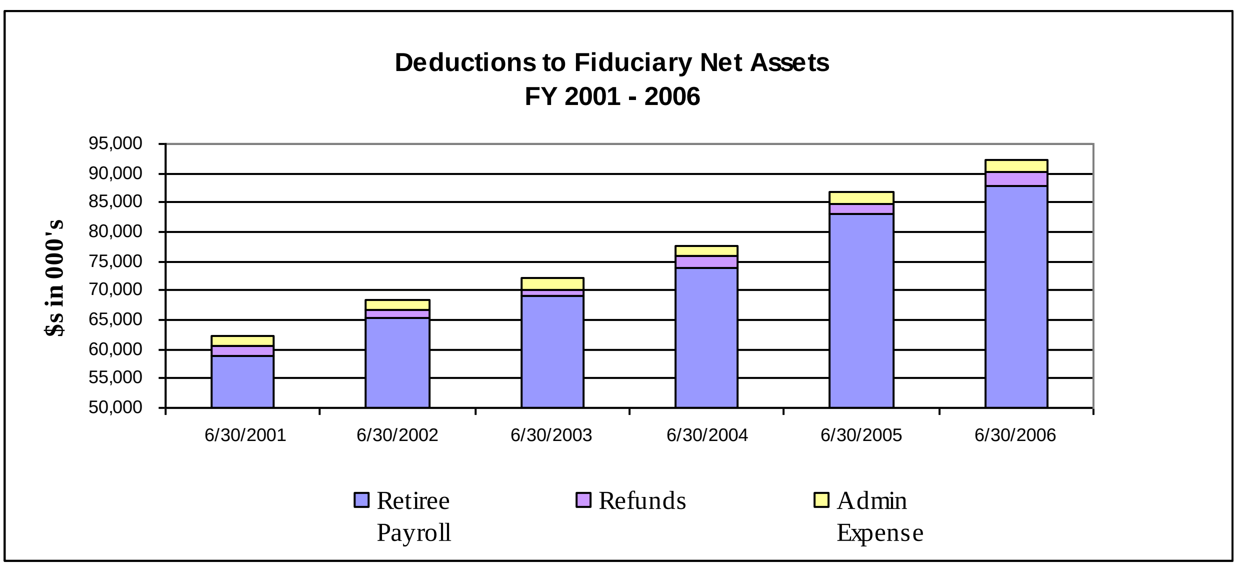
Deductions of $92,299,003 were exceeded by additions of $282,927,118, resulting in an increase of $190,628,115 in fiduciary net assets for the fiscal year ended June 30, 2006.

This fiscal year both retiree benefits and member refunds increased. Management attributes these trends to the overall enhanced economic environment and implementation retirement benefits.

The Board of Retirement approves the annual budget, which controls administrative expenses, which controls administrative expenses and represents approximately 0.12% of total assets. The County Employees Retirement Law of 1937 limits *SamCERA's* administrative budget to eighteen-hundredths of 1 percent (0.18%) of the total assets of the retirement system. *SamCERA* has consistently been within its approved administrative budget and within the 18 basis point regulation.

The system's administrative expenses decreased by $148,640 or -6.65% in fiscal year 2005-2006. The decreased expenditure is primarily attributable to staff positions that were vacant during the fiscal year. In addition several information technology projects were delayed, pending establishment of an overall information technology plan.

Expenses of *SamCERA's* professional services are included with investment expense. For the fiscal years ended June 30, 2006, and June 30, 2005, the expenditures for actuarial services, custodian services and investment consultant services were consistent with the original appropriations. Investment management fees were slightly higher than budgeted due to assets appreciating faster than anticipated. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management.



Deductions in Fiduciary Net Assets (Table 4)

For the Years Ended June 30, 2006 and 2005	2006	2005	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$87,914,564	$83,182,487	$4,732,077	5.69%
Member Refunds	$2,257,849	$1,458,257	$799,592	54.83%
Administrative Expenses	$2,085,970	$2,234,610	-$148,640	-6.65%
Other Expense	$40,620	$3,533	$37,087	1,049.71%
Total	$92,299,003	$86,878,887	$5,420,115	6.24%
Benefit Recipients (1)	3,613	3,519	94	2.67%

For the Years Ended June 30, 2004 and 2003	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 (1)	3,682	3,529	153	4.34%

(1) *For 6/30/2004 and 6/30/2005, retirees/beneficiaries who are entitled to multiple benefits are counted more than once. The 6/30/06 beginning of year count was revised to reflect only one retiree per benefit in 6/30/2006.*

The change in fiduciary net assets consists of total additions reduced by total deductions. Table 5 below shows condensed information about this financial activity. Fiduciary net assets increased by $190.6 million for the year ended June 30, 2006. The magnitude of this increase is largely due to the favorable net investment income earned during the year.

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

For the Years Ended June 30, 2006 and 2005	2006	2005	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,599,269,701	$1,435,359,423	$163,910,278	11.42%
Total Additions	$282,927,118	$250,789,164	$32,137,954	12.81%
Total Deductions	$92,299,003	$86,878,887	$5,420,116	6.24%
Ending Plan Net Assets	$1.789,897,817	$1,599,269,701	$190,628,116	11.92%

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%

SamCERA's Fiduciary Responsibilities

SamCERA's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution and the County Employees' Retirement Law of 1937, assets of the retirement system 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

Gary Clifton
Investment and Finance Manager
August 10, 2006

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2006, and 2005

	2006	2005
Assets:		
Cash and Deposits	$55,438,617	$42,816,781
Receivables:		
Contributions	4,474,291	3,869,081
Due from broker for investments sold	30,117,468	68,043,706
Investment income	3,334,420	3,094,226
Other receivables	105,778	98,581
Total Receivables	38,031,957	75,105,594
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	528,656,466	468,021,688
Domestic equities	879,251,915	803,519,587
International equities	273,589,355	248,764,405
Real estate	117,547,767	59,219,510
Total Investments	1,799,045,503	1,579,525,190
Capital assets, at cost, net of accumulated depreciation of $18,674 and $9,336 at 2006 and 2005, respectively.	9,338	18,675
Total Assets	1,892,533,084	1,697,473,909
Liabilities:		
Payables		
Investment management fees	1,378,369	1,054,124
Due to broker for investments purchased	98,561,942	96,713,021
Other	2,694,956	437,063
Total Liabilities	102,635,267	98,204,208
Net Assets Held in Trust For Pension Benefits (Note 3)	$1,789,897,817	$1,599,269,701

(See Schedule of Funding Progress presented on page 41)

The accompanying Notes to the Financial Statements beginning on page 26 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, 2006, and 2005

	2006	2005
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 76,089,599	$ 76,930,928
Member	39,962,616	33,647,561
Total Contributions	116,052,215	110,578,489
INVESTMENT INCOME		
Interest and dividends	32,160,351	23,503,153
Net appreciation in Fair value of investments	143,184,761	123,910,381
	175,345,112	147,413,534
Less investment expense	8,519,247	7,282,330
Net Investment Income	166,825,865	140,131,204
Other Additions	49,038	79,472
Total Additions	282,927,118	250,789,165
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	76,380,171	71,217,876
Disability retirement allowance	10,629,865	10,933,461
Medical benefits	0	(345)
Death and other benefits	904,528	1,031,495
Total Association Benefits	87,914,564	83,182,487
REFUNDS OF MEMBERS' CONTRIBUTIONS	2,257,849	1,458,257
ADMINISTRATIVE EXPENSE (Note 3)	2,085,970	2,234,610
OTHER EXPENSE	40,620	3,533
Total Deductions	92,299,003	86,878,887
Net Increase	190,628,115	163,910,278
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	1,599,269,701	1,435,359,423
End of year	$1,789,897,817	$1,599,269,701

The accompanying Notes to the Financial Statements beginning on page 26 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 tiers, which cover members classified as general, safety or probation. Members hired on or before July 6, 1980, became members of Tier One. Members hired after July 6, 1980, and before July 13, 1997, became members of Tier Two. Members hired on or after July 13, 1997, become members of Tier Four. New General Members may also elect membership under Tier Three, a non-contributory plan. New employees appointed to positions of active law enforcement become safety members under Tier 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 Tier Four for probation officers. From January 1, 1993, general members in Tier Three with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Tier 3 members are authorized to purchase service credit in their current plan. Earned Tier 3 service credit is forfeited in an amount equivalent to the purchase.

The Association is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2006, the Association membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	Tier One	Tier Two	Tier Three	Tier Four	Total
General	2,182	925	63	15	3,185
Safety	283	63	0	1	347
Probation	61	20	0	0	81
Subtotal	2,526	1,008	63	16	3,613
Terminated members entitled to but not currently receiving benefits (deferred):					
General	70	541	126	260	997
Safety	0	39	0	17	56
Probation	0	18	0	18	36
Subtotal	70	598	126	295	1,089
Totals Forwarded	2,596	1,606	189	311	4,702

Note 1 - Plan Description – General (Continued)

	Tier One	Tier Two	Tier Three	Tier Four	Total
Totals Forwarded	2,596	1,606	189	311	4,702
Current Members:					
Vested:					
General	211	1,550	64	933	2,758
Safety	27	179	0	101	307
Probation	13	97	0	92	202
Non-Vested:					
General	1	3	69	1,783	1,856
Safety	0	0	0	121	121
Probation	0	0	0	111	111
Subtotal	252	1,829	133	3,141	5,355
Total	2,848	3,435	322	3,452	10,057

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 Tiers One, Two and Four. The benefits of Tier 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:

Tier One	Age 50
Tier Two	Age 50
Tier Three	Age 55
Tier Four	Age 50

General members in Tiers 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 (Tier Three) with 10 years of service who terminate their employment with the county may elect a deferred retirement.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The association follows the accounting principals and reporting guidelines as set forth by the Governmental Accounting Standards Board. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of *SamCERA*. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each tier.

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. Maintaining appropriate controls and preparing the financial statements are the responsibility of *SamCERA's* management.

Implementation of New Accounting Pronouncements

SamCERA early implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the year ended June 30, 2006. This statement generally requires that governments account for and report the annual cost of other post-employment benefits (OPEB) and the outstanding obligations related to OPEB in essentially the same manner as pensions. Annual OPEB cost for most governments will be based on actuarially determined amounts that, if paid on an ongoing basis, would generally provide sufficient resources to pay benefits as they come due. GASB allows governments to apply this statement prospectively, establish the OPEB liability at zero at the beginning of the initial year of implementation, and does not require governments to fund the OPEB plans. The statement supersedes or amends all previous authoritative guidance on accounting and financial reporting for an employer's OPEB expense and related information.

In addition, *SamCERA* implemented GASB Statement No. 44, *Economic Conditions Reporting: The Statistical Section.* The Statistical Section has been expanded to include ten years of trend information, plus Financial Trend Information regarding changes in fiduciary net assets.

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.

Investments – Investments are reported at fair value.

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.

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

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

The 1937 Act establishes the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The employer and member rates are based on membership type (General, Safety, Safety/Probation) and tier (Tier 1, Tier 2, Tier 3 and Tier 4). The funding objective of the plan is to establish employer and member contribution rates which, over time, will remain level as a percentage of payroll, unless plan benefit provisions change.

For Tiers One, Two and Four active members are required by statute to contribute toward their retirement benefits. Tier Three is a non-contributory plan. The member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. Member contributions along with credited interest are refundable upon termination of membership.

Interest Crediting is explained in this Note under Reserves & Account. The Association's Tier 3 is a non-contributory plan for members. For the other tiers, the member contribution rates are based on age at entry into the association and are a percentage of covered compensation. Under a Memorandum of Understanding with San Mateo County, its General Members contribute an additional 3.0% of covered salary to help offset benefits. Employees of the San Mateo County Mosquito Abatement District did not receive the enhanced benefits and do not make additional contributions. The average member contribution rate decreased from 9.71% for the fiscal year ended June 30, 2005 to 9.70% for the fiscal year ended June 30, 2006.

The participating employers are required by statute to contribute the amounts necessary to fund the estimated benefits accruing to *SamCERA* members not otherwise funded by member contributions or expected investment earnings. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. 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 members during the current year) and an amount required to amortize the unfunded actuarial accrued liability over the period ending June 30, 2022. The San Mateo County Mosquito Abatement District contributes a lower percentage of covered payroll than does San Mateo County, due to lower benefits provided to the Mosquito Abatement employees. Details of the funding progress, annual required member contribution and employers contributions, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The average employer contribution rate decreased from 25.16% for the valuation ended June 30, 2005, to 24.71% in the valuation ended June 30, 2006. This is primarily due to an increase in the payroll which resulted in a decrease in the amortization of the UAAL as a percentage of payroll. The normal cost and UAAL contribution rates are shown in the following table.

	2006	2005	Change
Normal Cost	12.15%	12.03%	1.00%
UAAL Amortization	12.56%	13.13%	-4.34%
Total Contribution Rate	24.71%	25.16%	-1.79%

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 a Memorandum of Understanding. Effective April 23, 2006, the county pays 20% of Safety/Probation contributions on a non-refundable basis.

For fiscal year ended June 30, 2006, the county paid its employer contributions due to *SamCERA* in the form of a prepayment on the first pay date of the fiscal year. The prepayment is based on the adopted actuarial contribution rates and the estimated annual covered payroll by tier discounted by the actuarial assumption rate. Through out the year, as the bi-weekly payroll becomes known, the prepayment is reduced by actual contributions owed. At year end there is a true-up based on the actual contributions owed. The 2005/2006 prepayment was $2,139,357.83 more than contributions owed. The overpayment was returned to the county on the first pay date of the 2006/2007 fiscal year.

Administrative Expenses

The *SamCERA* Board of Retirement annually adopts the operating budget for the administration of *SamCERA*. The administrative expenses are charges against earnings of the retirement fund and are limited to eighteen-hundredths of one percent (0.18%) of total system assets as set forth under Government Code Section 31580.2. *SamCERA's* policy is to assess compliance with the limitation based on as asset valuation, which is the average of the Net Assets Held in Trust for Pension Benefits The average is a simple calculation of the sum of the assets at the beginning of the year and the assets at the end of the year divided by two. *SamCERA's* administrative expenses totaled 0.12% for the fiscal year ended June 30, 2006.

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

	2006	2005
Salaries and member benefits	$1,344,424	$1,397,729
Services and supplies	732,209	827,545
Depreciation	9,337	9,336
Administrative Expenditures	$2,085,970	$2,234,610

Reserves and Accounts

The reserves represent the components of *SamCERA's* net assets. Reserves are established from employer and member contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. *SamCERA's* major classes of reserves are valuation and non-valuation. The valuation reserves will be credited interest at the assumed actuarial interest rate. The interest crediting and allocation process will be discussed below. The valuation reserves are as follows:

Member Deposit Reserve – This reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest. Deductions include refunds to members and transfers to Retired Member Reserve made at the time the member retires.

Employers' Advance Reserve – This reserve represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest. Deductions include lump-sum death benefit payments to member's survivors, supplementary disability payments, and transfers to the Retired Member Reserve made at the time each member retires. When a terminating member elects to receive a refund of member contributions, there is no corresponding effect on the balance of Employers' Advance Reserve because the employers' contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

Retired Member Reserve – This reserve represents funds accumulated to pay retirement benefits for retired members. Additions include the total accumulated transfers from the Member Deposit Reserve, the Employers' Advance Reserve (both made at the time each member retires) and credited interest. Deductions include payment to retired members, beneficiaries and survivors.

Cost-of-Living Adjustment Reserve – This reserve represents the total accumulated employer contributions for future cost of living adjustments under provisions of the 1937 Act. Additions include contributions from employers and credited interest. Deductions include payments to retired members, beneficiaries and survivors. Effective April 1 of each year, for those members retired prior to April 1, the board adjusts the retirement allowances by a percentage of the total allowance to approximate the nearest one-half of one percent of the percentage of the annual increase in the cost-of-living for the preceding calendar year. The cost-of living increase is based on that shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers in the San Francisco, Oakland, and San Jose Bay Area. The increase is capped at 5.0% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3.0% for Tier 2 and 2.0% for Tier 4. Tier 3 has not cost-of –living adjustment.

SamCERA's Non-Valuation Reserves and Accounts:

Reserves

Contingency Reserve – This reserve represents reserves accumulated for future earnings deficiencies, investment losses, and other contingencies. Additions include investment income and other revenues. Deductions include investment expenses, administrative expenses, and interest allocated to other reserves. The Contingency Reserve is used to satisfy the California Government Code requirement to reserve at least 1% of total assets against future earnings deficiencies.

Accounts

Generally Accepted Accounting Principles do not allow for a negative reserve, the Board of Retirement adopted two policies that establish accounts that may have a negative balance. The non-valuation accounts are the Contingency Account and the Market Stabilization Account

Effective January 1, 1993 the Board of Retirement provided for the implementation of Actuarial Standards Board Standard of Practice #4 and adopted five-year smoothing of all returns for valuing actuarial assets and calculating the unfunded actuarial accrued liability. Effective June 30, 1997 the board provided for the implementation of Governmental Accounting Standard #25 and authorized the creation of a Market Stabilization Account to reconcile differences between the market value of assets and the actuarial value of assets. Effective retroactive to June 30, 2002 the board amended its Market Stabilization Account policy to limit the difference between the market value of assets and the actuarial value of assets to not more than ±20% of the market value. The board's objective in adopting this policy is to minimize the impact of short-term volatility in the market value of the retirement fund on employer and member contribution rates by smoothing market returns over a five year period. All of the board's prior decisions regarding the Market Stabilization Account were assembled into a single policy decision as Resolution 03-04-01, which was adopted by the board on August 26, 2003.

On June 22, 2004, the Board of Retirement adopted Resolution 03-04-17, *Statement of Interest Crediting Policy.* This policy was amended on September 28, 2004, to establish an unallocated earning / loss account.

Contingency Account – This account was established to facilitate the mandates of the interest crediting policy, which specifies the manner in which interest is credited to the reserves semi-annually. When there are insufficient allocable earnings to credit the reserves as specified in the policy, the Contingency Account may be debited by the amount required. However, in no event may the total of the non-valuation reserves be allowed to drop lower than 1% of the market value of assets.

Market Stabilization Account – This account represents the deferred balance of investment earnings not yet credited to the reserves. This balance arises from the five-year actuarial smoothing process for investment earnings described below. The Market Stabilization Account balance thus represents the difference between (1) the aggregate amounts initially deferred (smoothed) from the ten most recent semi-annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

Actuarial Smoothing – Net investment income reported on the Statement of Changes in Fiduciary Net Assets affects the reserves indirectly through an actuarial "smoothing" process approved by the Board of Retirement. This process operates semi-annually with calculation periods ending December 31 and June 30. It entails spreading the income or losses over ten successive semi-annual periods.

Semi-Annual Interest Crediting – *SamCERA* updates reserve balances on a semi-annual basis as of December 31 and June 30 each year. At these times, *SamCERA* carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to all reserves, except the Member Deposit Reserves, at the actuarial assumed interest rate of 4.0% semi-annually for the fiscal year ended June 30, 2006, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement's interest crediting policy Member Deposit Reserves are credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate, but the rate credited can not be less than zero.

Allocation of Earnings to Reserves – For the year ended June 30, 2006, *SamCERA's* allocation of earnings to reserves was $131.8 million. Earnings for each semi-annual period, resulting from the five-year smoothing process, were not sufficient to provide credits to the reserves at the actuarial assumed interest rate in effect during the year, 4.0% semi-annually. Pursuant to the Board of Retirement's interest crediting policy, Member Deposit Reserves are credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate. The actuarial smoothed interest rate was 3.82% and 3.73% at December 31, 2005, and June 30, 2006, respectively. *SamCERA's* other valuation reserves were credited at the actuarial valuation rate of 4.0% by charging the difference between the actuarial valuation rate and the actuarial smoothed rate to the Unallocated Earnings / Loss Account. The charges to the account were $1.5 million on December 31, 2005 and $2.6 million on June 30, 2006.

Reserves required for reporting purposes by the 1937 Act:

	2006	2005
Member Deposit Reserve	$ 317,520,788	$ 281,230,984
Employers' Advance Reserve – Current Service	237,937,565	219,867,963
Retiree Member Reserve	608,740,188	554,684,637
Cost-of-Living Adjustment Reserve	630,374,435	581,174,967
Contingency Reserve	0	0
Total Allocated Reserves	1,794,572,976	1,636,958,551
Unallocated Earnings / Losses Account	-25,551,978	-21,373,381
Market Stabilization Account	20,876,819	-16,315,469
Net Assets Held in Trust for Pension Benefits	$1,789,897,817	$1,599,269,701

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, 2006, balance in the Market Stabilization Account of $20.9 million reflects the balance of the current year's and previous four years' net deferred returns. It also reflects the implementation of *SamCERA's* 80% to 120% corridor policy.

On June 26, 2004, *SamCERA* adopted an Interest Crediting Policy which mandates Actuarial Valuation Reserves 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 – Deposit and Investment Risk Disclosure

The County Employees Retirement Law of 1937 vests the Board of Retirement with exclusive control over *SamCERA's* investment portfolio. Except as otherwise expressly restricted by the California

Constitution and by law, the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board.

The board established an investment policy statement in accordance with applicable local, State and Federal laws. The trustees exercise authority and control over the management of *SamCERA's* assets by setting the policy. The board oversees and guides the plan subject to the following fiduciary responsibilities.

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

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

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

Deposits

Operational cash consist of deposits with financial institutions as well as deposits held in a pooled account with the County of San Mateo. All operational cash is in interest bearing instruments. Deposits with financial institutions are swept into a pooled money market fund, which invests in repurchase agreements and U.S. treasury bills and notes. All participants in the treasury pool share earnings and losses. The short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All deposits are carried at cost, which approximates fair value.

Investments

The Association's investments are managed by independent investment management firms subject to the guidelines and controls specified in the investment plan and contracts executed with the board. The board utilizes third party institutions as custodians over the plan's 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, 2006, actual asset allocation was 65.5 % equities, 27.6% fixed income securities, 6.6% real estate and 0.3% cash.

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, 2006. 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.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, *SamCERA* will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held in the name of *SamCERA*. The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments and investments in pools. As of June 30, 2006, *SamCERA* had no investments that were exposed to custodial risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of *SamCERA's* investment in a single issuer of securities. *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. As of June 30, 2006, *SamCERA* did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments.

As of June 30, 2006, the Association had the following investments categorized for interest rate and credit risk.

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

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Agency	$ 5,749,923	5.08	14.11	6.47
Asset Backed Securities	18,704,362	4.26	4.82	2.70
CMBS	8,925,562	2.58	6.87	5.42
CMO	85,181,554	3.04	3.44	2.24
Commingled Funds	11,959,554			
Corporate Bonds	71,152,687	5.92	13.12	5.77
Mortgage Pass Through	93,012,905	5.00	7.33	5.03
Taxable Municipal Bonds	7,819,771	6.27	8.24	5.32
Preferred Stock	124,950	2.00	25.04	7.88
Private Placement	1,361,066	6.19	4.78	0.03
United States Treasuries	53,903,813	4.23	8.77	6.12
Sovereign Governments	6,122,901	5.04	24.32	7.95
Totals	$364,016,047	4.51	8.04	4.65

Enhanced Index Fixed Income portfolio Characteristics
Fidelity Management Trust Company Broad Market Duration Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Fidelity Management Trust Company	$163,808,427	4.88%	7.59	4.74

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

SamCERA's Investment Plan does not have a formal policy that limits investment duration as a means of managing its exposure to fair value losses arising from increasing interest rates. The Association's active bond portfolios are managed duration neutral to their benchmark, the Lehman Brothers Aggregate Bond Index. Its enhanced index portfolio does not rely on active duration management, but instead maintains duration within a very narrow band around that of the benchmark (for the Lehman Brothers Aggregate Bond Index, approx. +/- 0.20 year of the index). To facilitate this, they model the option-adjusted durations of the securities that comprise the index on a daily basis, and use the output to align the portfolio duration to that of the benchmark.

Credit Risk – The credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *SamCERA's* seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class. To control credit risk, credit quality guidelines have been established. *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 given an exemption and may hold more than 10% in assets rated below BBB.

On June 30, 2006, the quality breakdown of the association's investments in bonds were rated as indicated in the table below.

Credit Risk	Active Management	Commingled Management
AAA	45.0%	65.8%
AA	30.1%	8.1%
A	0%	10.7%
BBB	21.2%	14.8%
Less than BBB	0%	0.6%
NR	3.7%	0%
	100.00%	100.00%

Foreign Currency Risk – Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair values of an investment or deposit. *SamCERA's* international equity managers are permitted to invest in authorized countries. Forward currency contracts and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for defensive currency hedging.

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, 2006. However, investment managers are lending securities held in the name of indexed portfolios in which the Association has a unit value interest.

Note 5 – Actuarial Valuation

Pursuant to provisions in the County Employees Retirement Law of 1937, *SamCERA* engages an independent actuarial firm, Milliman, Inc., to perform an annual actuarial valuation to monitor its funding status and funding integrity. The economic and non-economic assumptions are updated at the time each valuation is performed.

Milliman, Inc. completed the actuarial valuation as of June 30, 2005, and June 30, 2006, and determined the funding status (the ratio of system assets to system liabilities) to be 74.2% and 75.4% respectively. The June 30, 2006, funding status was established based on entry age normal actuarial cost methods, an assumed 7.75% investment return, an assumed 4.0% annual total payroll growth rate, an inflation rate of 3.5% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

The June 30, 2006, valuation, which determined a funded ratio of 75.4% recognized an Unfunded Actuarial Accrued Liability (UAAL) of $576 billion. The employer contribution rate, which has an effective date of June 30, 2007, was, therefore, set equal to 12.56% of payroll for the amortization of the UAAL over the remaining 15 years, plus the normal cost rate of 12.15% for a total contribution rate of 24.71% of payroll.

Note 6 – Post Employment Benefits Other Than Pensions

Plan Description. The County of San Mateo is the plan sponsor and administers a single-employer defined benefit post employment healthcare plan ("the Retiree Health Plan"). *SamCERA* employees are considered employees of San Mateo County. The Retiree Health Plan provides healthcare benefits to eligible retirees who retire from *SamCERA* and are eligible to receive a pension from the plan sponsor. Eligible retirees may elect to continue healthcare coverage in the San Mateo County health plan and convert their sick leave balance at retirement, at a rate of eight hours per month, to a San Mateo County paid monthly benefit that will partially or fully cover their retiree health premiums. The duration, amount, and type of paid benefits depend on the amount of sick leave at retirement and the bargaining unit to which the retiree belonged. San Mateo County contracts with various health plans such as Kaiser, Aetna, and Blue Shield to provide health coverage to its active and retired members. The retirees may continue coverage in the county health plans at their own expense after their sick leave balances are fully exhausted. The insurers charge the same premium for active and retired members.

Benefit provisions are established and may be amended through negotiations between San Mateo County and the bargaining units during each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy. Contribution requirements of the plan's members and San Mateo County are also established and may be amended through negotiations between the county and the bargaining units. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2005-06, *SamCERA* contributed $5,820 to the plan.

Annual OPEB Cost and Net OPEB Obligation. The County's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the *SamCERA's* annual OPEB cost for the year, the amount actually contributed to the plan, and changes in *SamCERA's* net OPEB obligation to the Retiree Health Plan:

Annual required contribution	$12,730
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	12,730
Contribution Made	-5,820
Increase in net OPEB obligation	6,910
Net OPEB obligation – beginning of year	0
Net OPEB obligation – end of year	$ 6,910

SamCERA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2005-06, the initial year implementing GASB Statement No. 45, is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2006	$12,730	45.7%	$6,910

Funded Status and Funding Progress. As of July 1, 2005, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$135,678,000
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$135,678,000
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$323,340,000
UAAL as a percentage of covered payroll	42.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2005, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return; an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent in the sixth year and beyond; annual dental and vision cost trend rate of 5 percent, a 2 percent annual increase in county-paid benefit for new retirees per eight hours of sick leave; a 3.75 percent annual increase in projected payroll, and an assumption that 95 percent of eligible retirees elect to convert their sick leave balances to health benefits at the rate of eight hours per month. The actuarial value of the plan's assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a two-year period. The Retiree Health Plan's unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006, was twenty-nine years.

Note 7 – Capital Commitments

SamCERA's real estate investment is in a core fund. The core fund manager identifies and acquires investments on a discretionary basis. The manager's investment activity is controlled by core fund documents. The investment activities are further restricted by the amount of capital allocated or committed. The core fund's investment documents and *SamCERA's* capital commitments are subject to approval by the Board of Retirement.

As of June 30, 2006, *SamCERA's* outstanding capital commitments to the core fund as approved by the board, totaled $20 million. Subsequent to June 30, 2006, *SamCERA* funded all of that capital commitment.

Note 8 – Contingent Liability

When instructed by members, *SamCERA* deducts the cost of health insurance premiums from a member's benefit payment. Beginning in 2002 a system change was implemented that treated those deductions as non-taxable. Beginning with September 2006, and affecting the entire year of 2006, the health insurance premiums will be treated as taxable income. This will impact *SamCERA's* benefit recipients with health insurance premium deductions in one of two ways. For the pre-1998 benefit recipients, *SamCERA* does not determine taxable income. Therefore, the 1099Rs for this group reported the correct gross income, and stated taxable income could not be determined. For the post-1997 benefit recipients, *SamCERA* reported a taxable income that equaled gross income less health insurance premiums.

In late August of 2006, the plan through its tax counsel approached the Internal Revenue Service to discuss a possible resolution of the tax liability associated with the treatment of the health insurance premiums as non-taxable in years 2002- 2005. The outcome of the discussions can not be determined at this time.

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)
6/30/01	$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%
6/30/05	1,615,585	2,177,759	562,174	74.2%	334,315	168.16%
6/30/06	1,769,021	2,345,149	576,128	75.4%	363,648	156.14%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	$39,482	100%
2002	33,541	100%
2003	36,070	100%
2004	60,042	100%
2005	76,931	100%
2006	76,090	100%

Schedule of Funding Progress – Other Post Employment Benefits

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 ©	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/05	$0	$135,678,000	$135,678,000	0.0%	$323,340,000	42.00%

Notes to Required Supplementary Information

With the implementation of GASB 45 the association provides two actuarial valuations. The valuation of plan assets and liabilities is normally carried out as of June 30th of each year and contribution requirements resulting from such valuations become effective on July 1st of the next fiscal year. The valuation of other post employment benefits is commissioned by the plan sponsor and employs a valuation date of July 1.

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 of plan assets and liabilities and additional information on the latest actuarial valuation of other post employment benefits follows:

Latest Actuarial Valuation of Plan Assets & Liabilities

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent – closed
Remaining Amortization Period	16 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	5.20%
Attributed to Inflation	4.00%
Attributed to Adjustments for Merit and Longevity	1.20%

Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier One (Probation/Safety Tier One is 3.0%), 3% for Tier Two and 2% for Tier Four. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Latest Actuarial Valuation of Other Post Employment Benefits

Valuation Date	July 1, 2005
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent – closed
Remaining Amortization Period	29 years at June 30, 2006
Asset Valuation Method	2-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	4.00%
Additional Actuarial Assumptions	Detailed in text below.

Additional actuarial assumptions include: an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent in the sixth year and beyond; annual dental and vision cost trend rate of 5 percent; a 2 percent annual increase in county-paid benefit for new retirees per eight hours of sick leave; a 3.75 percent annual increase in projected payroll; and 95 percent eligible retirees electing to convert their sick leave balances to health benefits at the rate of eight hours per month.

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, 2006, the date of the last actuarial valuation, the San Mateo County Employees' Retirement System had a 75.4% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principles of entry age normal cost finding.

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 16 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 members terminate employment, leave on a disability retirement or service retirement, and the average ages of members 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 members. The resulting dollar amounts, as depicted in the schedule above, are the actuarially calculated required employer contributions necessary to fund the promised benefits to *SamCERA*'s members.

The employers' contribution 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, 2006 and 2005

	2006	2005
Salaries and Member Benefits	$1,344,424	$1,397,729
Services and Supplies	732,209	827,544
Depreciation	9,337	9,337
Total Administration Expense	$2,085,970	$2,234,610

Administrative Budget Analysis
Budget to Actual Expenditure
As of June 30, 2006

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$1,083,300	$ 929,114	85.8%
Benefits	447,000	415,310	92.9%
Salaries & Benefits	$1,530,300	$1,344,424	87.9%
Board Expenses	9,400	9,400	100.0%
Insurance	85,000	80,035	94.2%
Medical Evaluation	20,000	10,918	54.6%
Member Education	10,000	0	0.0%
Education & Conference	52,100	43,925	84.3%
Transportation & Lodging	54,955	39,076	71.1%
Software License & Maintenance	135,000	62,416	46.2%
Property & Equipment	50,000	7,221	14.4%
General Office Supplies	15,945	15,944	100.0%
Postage, Printing & Copying	65,000	48,061	73.9%
Leased Facilities	94,180	94,180	100.0%
County Service	278,800	250,365	89.8%
Audit Services	47,188	47,188	100.0%
Other Administration	25,332	23,480	92.7%
Services & Supplies	942,900	732,209	77.7%
Capital Assets	15,000	0	0.0%
Depreciation	9,337	9,337	100.0%
Grand Total	$2,497,537	$2,085,970	83.6%

Schedule of Investment Expenses
For the Year Ended June 30, 2006 and 2005

	2006	2005
Investment Manager		
Aberdeen Asset Management (1)	$ 423,581	$ 448,398
Bank of Ireland Asset Management	0	290,446
Barclays Global Investors	1,090,505	921,068
Brandes Investment Partners	386,141	255,018
Chartwell Investment Partners	391,640	240,520
Fidelity Management Trust Company	127,154	0
Goldman Sachs Asset Management	506,063	323,552
INVESCO Realty Advisors	515,627	362,861
Julius Baer Investment Management	765,879	444,263
Mondrian Investment Partners	424,899	222,361
Western Asset Management	388,131	246,488
Global Custodian		
State Street Bank	125,580	120,939
Professional Expense	5,145,200	3,875,914
Consultant Expense	353,617	356,352
Interest Paid on Prepaid Contribution	3,020,430	3,050,064
Total Investment Expense	$8,519,247	$7,282,330

Schedule of Payments to Consultants
For the Year Ended June 30, 2006 and 2005

	2006	2005
Investment Consultant Expense		
Strategic Investment Solutions	$194,167	$ 175,000
CS Capital Management	0	109,872
Actuarial Consultant Expense		
Milliman, Inc.	63,750	0
Public Pension Professionals	95,700	77,100
Mercer Human Resources Consulting	0	(5,620)
Total Consultant Expense	$353,617	$356,352

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.*

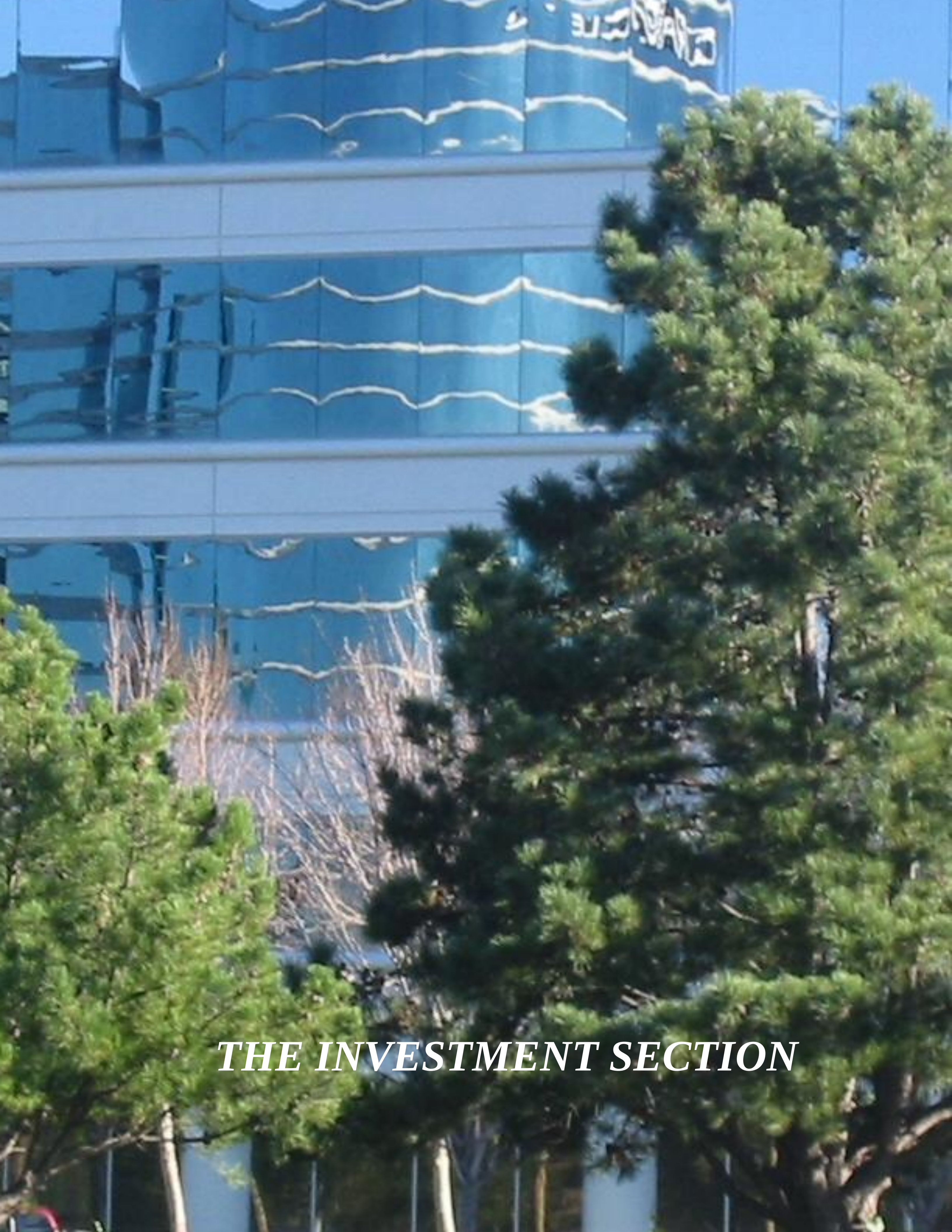
(b) The compensation of any bank or trust company performing custodial services.

(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.

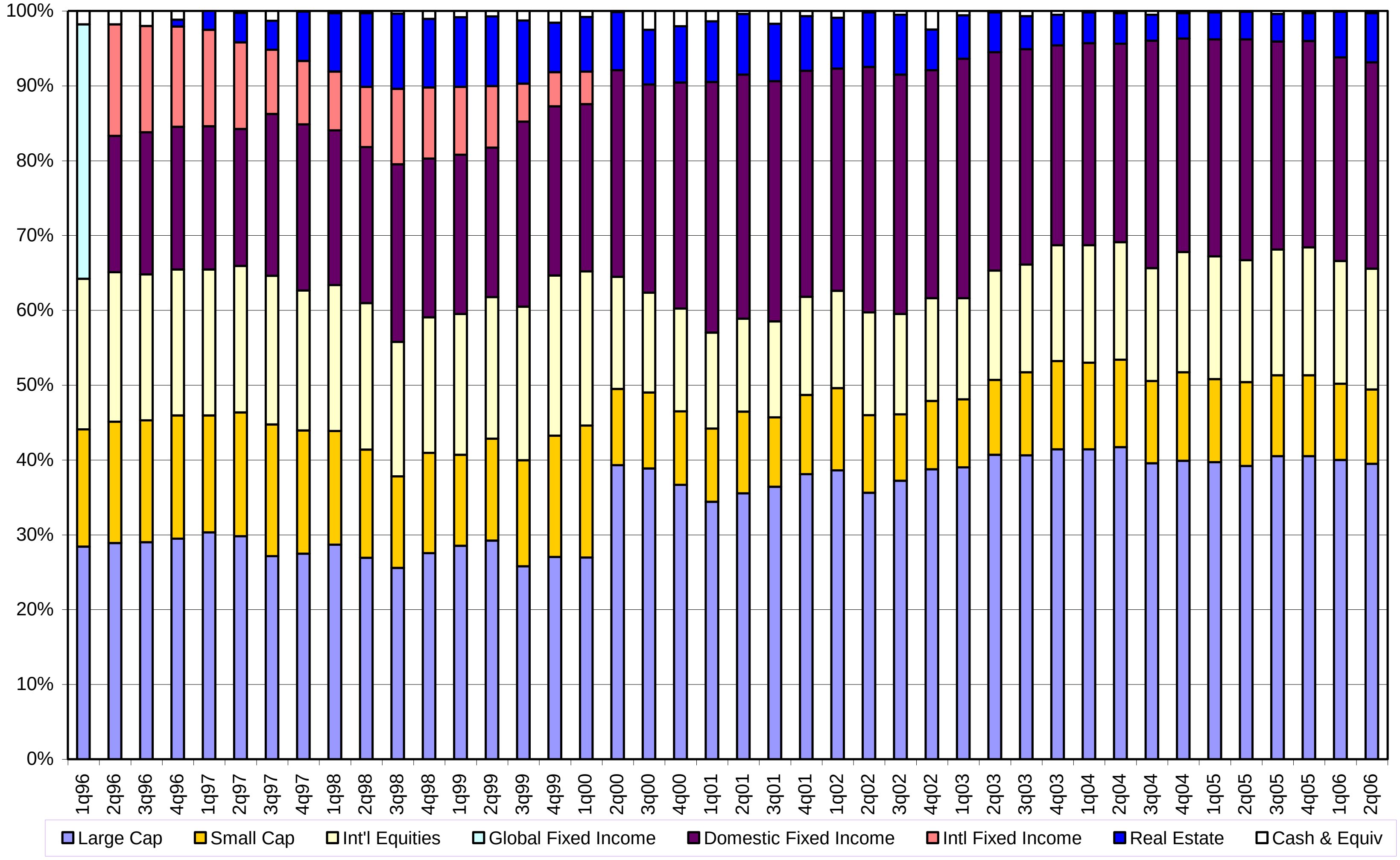
(e) The compensation to an attorney for services rendered pursuant to §*31607 or legal representation rendered pursuant to* §*31529.1."*

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



THE INVESTMENT SECTION

ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION
PERIOD ENDING JUNE 30, 2006



SamCERA

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

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of *SamCERA's* investment operations, I am pleased to present reports on the pension fund's investments and our investment performance for the period ended June 30, 2006. This data was compiled by *SamCERA's* investment staff, our investment consultant Strategic Investment Solutions, and our master custodian State Street Bank & Trust. It is presented in accordance with Global Investment Performance Standards (GIPS).

Market conditions were favorable over the last year with a continuation of moderate growth and relatively low inflation. Despite a gradual increase in short-term rates engineered by the Federal Reserve, longer-term interest rates remained low, resulting in a good environment for the economy and for investors.

SamCERA earned a 10.66% return on investments for the one-year period ended June 30, 2006, with attractive returns generated by each asset class. Real estate and international stocks had particularly strong performance, posting returns of 24.09% and 27.76%, respectively. The total fund significantly outperformed the performance benchmark as established by the Board of Retirement.

Portfolio appreciation added approximately $200 million to the fund, raising the net portfolio market value to a record $1.789 billion.

The positive gain for the fiscal year strengthened our long-term performance. Annually compounded over the ten years, *SamCERA's* investment portfolio returned 7.83%, which is 31 basis points above the total fund benchmark. However, it is 34 basis points behind the annualized actuarial assumption rate.

At year end, U.S. and international stocks represented 65.5% of *SamCERA's* assets. Bond investments represented 27.6%; real estate 6.6% and cash 0.3%.

The biggest challenge facing the fund in the years ahead will be maintaining above-average returns. Economic growth is likely to be moderate; and while inflation may accelerate in the short run, it is likely to stay low over the intermediate and longer term. This environment is likely to produce nominal investment returns in the 7% to 8% range over the next five to ten years and real returns in the 5% range.

We appreciate the support of the Board of Retirement and the Investment Committee as *SamCERA* continues to manage risk and seek out attractive investment returns for the San Mateo County Employees' Retirement Association.

Respectfully submitted,

Gary Clifton

Gary Clifton
Investment and Finance Manager
August 10, 2006

STRATEGIC INVESTMENT SOLUTIONS, INC.

August 10, 2006

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

Dear Board Members:

Robust returns across equity capital markets in the fiscal year ended June 30, 2006, enhanced performance for US pension funds once again, with most equity asset classes returning in the double digits during this time period. Moderate economic growth and relatively low interest rates aided most markets during the fiscal year. However, rising interest rates hurt the bond market during the fiscal year with cash providing a much higher rate of return than all other bond indexes with the exception of high yield. Price volatility continues in the capital markets due to a number of ongoing factors: including high oil prices; the potential for future interest rate increases; a high current account deficit; the impact of China on global markets; deteriorating conditions in the US housing market; and continued investor uncertainty over terrorism. Since May 2006, interest rate fears have resulted in an unwinding of and decline in riskier assets, especially the emerging markets.

The Federal Reserve continued to increase interest rates in fiscal year 2006. The Fed's eight consecutive rate hikes throughout the year have pushed the federal funds short-term lending rate to 5.25% on June 30, 2006. The Fed has given some indication that it will "pause" in its fight against inflation for the time being. During fiscal year 2006, Ben Bernanke took over from long-time Fed chairman Alan Greenspan, introducing additional uncertainty with regard to future Fed policy.

For fiscal year 2006, *SamCERA's* total fund performance was comfortably higher than Plan's actuarial assumption of 8.00%. *SamCERA's* investment portfolio returned 10.66%, ahead of the index policy return of 10.05%. The Plan's broad asset class portfolios (Total Equity, Total Fixed Income and Real Estate composites) all produced returns in excess of their respective benchmarks for the fiscal year. Within the Total Equity composite, the Small Cap and International Equity composites underperformed their benchmarks due to manager specific issues.

SamCERA maintained the same strategic asset allocation targets during fiscal year 2006 as follows:

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

SamCERA will be undertaking an asset/liability study during the fiscal year ending June 30, 2007, and will revisit its strategic asset allocation target.

SamCERA's policy benchmark, comprising the asset classes and target percentages listed above, ranked in the 51st percentile of the Independent Consultant's Cooperative Large Public Funds Universe for the fiscal year ended June 30, 2006. *SamCERA's* portfolio return of 10.66% placed it in the 42nd percentile of the universe.

During fiscal year 2006, the Plan added more active management in the Fixed Income asset class. The one-third of fixed income assets that were passively managed were changed to an Enhanced Index mandate managed by Fidelity Management Trust Company. SamCERA's manager structure remains conservative with half of the Plan's US Large Cap Equity assets passively managed and a substantial weighting to enhanced index strategies across US Equity and Fixed Income.

In fiscal year 2006, US broad equity markets posted strong returns. The Russell 1000 Index returned 9.08% for the fiscal year and the Russell 2000 Index returned 14.58%. Small cap indexes outperformed large cap indexes by a healthy margin for the fiscal year. Style-related performance differences narrowed during the fiscal year, with the exception of large cap value and growth where the Russell 1000 Value Index outperformed the Russell 1000 Growth Index by nearly 6%. The international equity MSCI ACWI Free Ex-U.S. Index, a broad proxy of non-US stocks, had another outstanding year, posting a 28.40% gain for U.S. dollar investors. Bonds struggled in the rising interest environment, resulting in a -.81% return for the Lehman Aggregate Bond Index during the fiscal year. Real estate had a second unusually strong fiscal year, with the NCREIF Index returning 18.67% during the period.

SamCERA's Equity portfolio exceeded its equity policy benchmark by 58 basis points during the fiscal year. US Large Cap Equity, comprising the majority of the Plan's Equity assets, provided a low risk, strong return anchor to the portfolio. Half of the US Large Cap assets reside in BGI's passive Russell 1000 Index Fund and, thus, performance matched the benchmark's return. The other half of US Large Cap assets in BGI's Russell 1000 Alpha Tilts enhanced index strategy outperformed the benchmark by almost 3% for the fiscal year, a surprisingly large degree of alpha for an enhanced index strategy. *SamCERA's* Small Cap composite underperformed its benchmark by nearly 3% due to the return shortfall of two small cap managers, Goldman Sachs' Structured Small Cap and Brandes Small Cap Value. Goldman Sach's Structured Small Cap enhanced index approach, comprising half of the Plan's Small Cap assets, returned 13.66% versus 14.58% for the Russell 2000 Index over the fiscal year. This quantitative approach has lost relative value through stock selection over the past year. Brandes Small Cap Value, comprising one-quarter of the Small Cap assets, underperformed by a wide margin over the fiscal year, largely due to its significant auto components weighting in the portfolio. Following a painful initial holding period, this overweight in the portfolio is finally starting to yield positive returns. Chartwell Small Cap Growth, *SamCERA's* third small cap manager with one-quarter of small cap assets, has outperformed the small cap index over the fiscal year.

During fiscal year 2006, *SamCERA's* International Equity composite returned 27.76% versus the benchmark's return of 28.40%. The performance shortfall was due to Mondrian International Equity, a value-oriented manager, whose bias to defensive holdings was not rewarded by the market. Julius Baer, providing a growthier portfolio with more aggressive forays into the emerging markets, outperformed the index substantially over the fiscal year. It is worth noting, however, that since the market has begun repricing riskier assets in May 2006, Mondrian's defensive portfolio has outperformed Julius Baer's.

SamCERA's Fixed Income portfolio outperformed the Lehman Aggregate Index by 70 basis points for the fiscal year. Aberdeen Asset Management's Core Bond continues to provide alpha to the *SamCERA* portfolio, and Western Core Plus Bond posted returns 114 basis points over the benchmark for the fiscal year. Fidelity Enhanced Index Fixed Income, a new hire for *SamCERA*, has exceeded benchmark returns since inception in January 2006.

For the year ended June 2006, NCREIF posted an 18.67% return while *SamCERA's* real estate manager INVESCO posted an even stronger return of 24.08%. INVESCO's open-ended Core Real Estate Fund has been a successful investment since the Plan became a founding member of the fund.

In keeping with its strategic design, the *SamCERA* portfolio continues to generate strong returns for its participants in a risk averse, prudent fashion. Recent initiatives to increase active management have added value to the Plan in aggregate. During the coming fiscal year, *SamCERA* will review its strategic asset allocation and update its optimal asset class mixes for the next three to five year time period.

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)

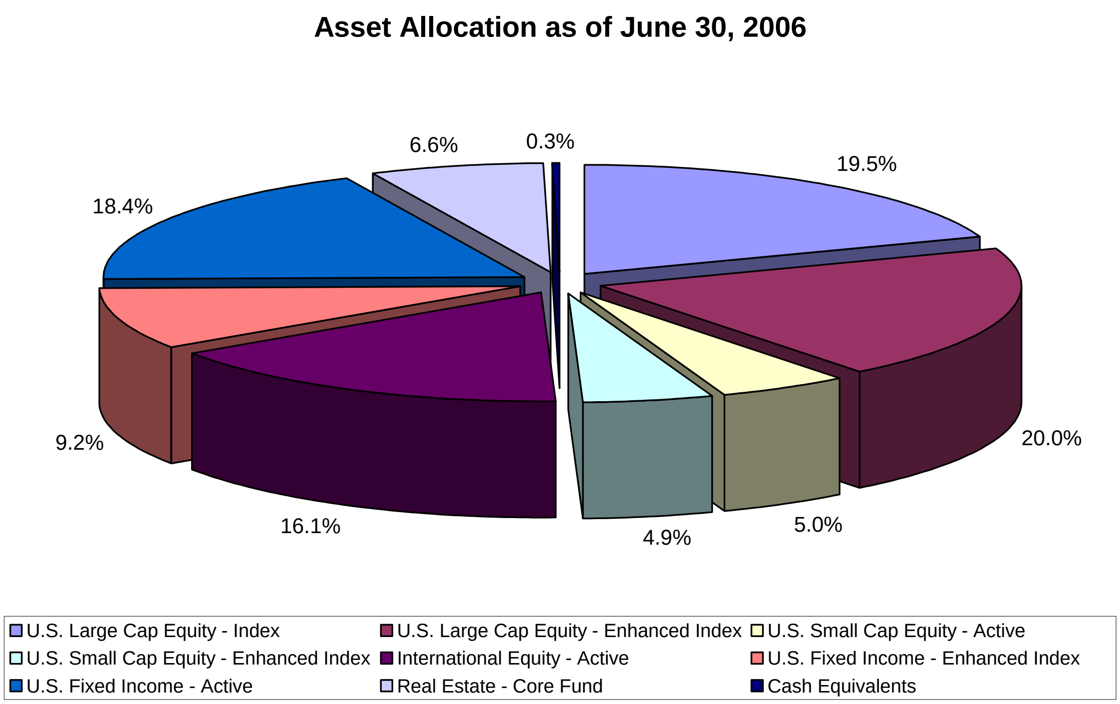
The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated 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.

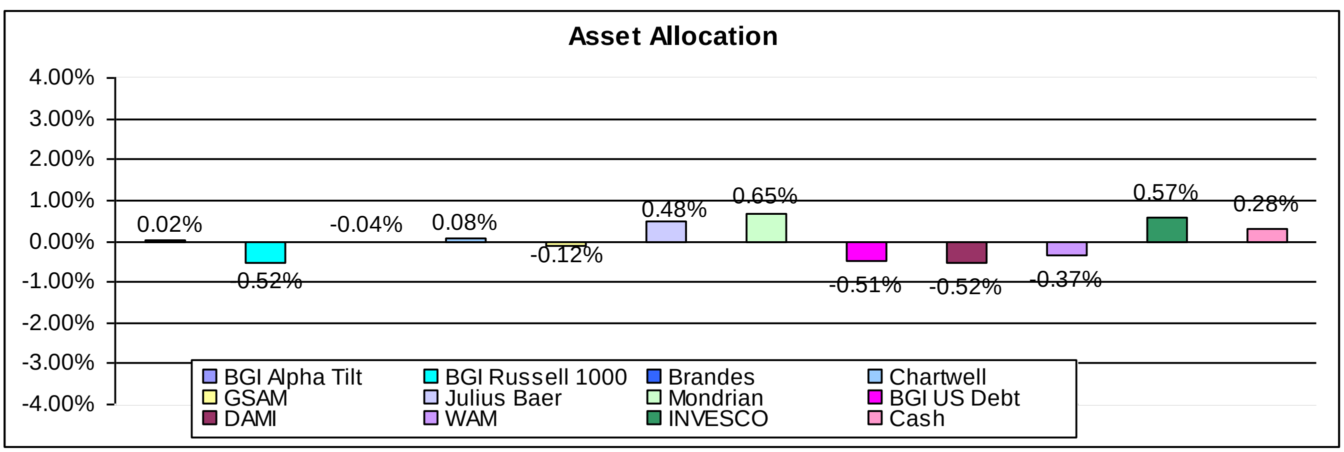
The board discourages the use of cash equivalents, except for liquidity purposes and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION

Asset Class	Allocation		June 30 Actual	
Equity	65%		65.5%	
Fixed Income	29%		27.6%	
Real Estate	6%		6.6%	
Cash	0%		0.3%	
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	40%		39.5%	
Indexed		40%		39.5%
Domestic Small Capitalization	10%		9.9%	
Active		10%		9.9%
International	15%		16.1%	
Active		15%		16.1%
Total Equity	65%		65.5%	
Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	29%		27.6%	
Enhanced Indexed		9.7%		9.2%
Active		19.3%		18.4%
Total Fixed Income	29%		27.6%	
Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		6.6%
Total Real Estate	6%		6.6%	
Total Cash & Cash Equivalents	0%		0.3%	

Asset Allocation	Market Value	Percentage
Large Capitalized U.S. Equities	$706,672,584	39.5%
Small Capitalized U.S. Equities	177,598,412	9.9%
International Equities	288,562,824	16.1%
U.S. Fixed Income	493,937,121	27.6%
Real Estate	117,547,767	6.6%
Cash	5,579,109	0.3%
Total	1,789,897,817	100.0%


Asset Allocation as of June 30, 2006
19.5%
20.0%
5.0%
4.9%
16.1%
9.2%
18.4%
6.6%
0.3%
U.S. Large Cap Equity - Index
U.S. Large Cap Equity - Enhanced Index
U.S. Small Cap Equity - Active
U.S. Small Cap Equity - Enhanced Index
International Equity - Active
U.S. Fixed Income - Enhanced Index
U.S. Fixed Income - Active
Real Estate - Core Fund
Cash Equivalents


Asset Allocation
4.00%
3.00%
2.00%
1.00%
0.00%
-1.00%
-2.00%
-3.00%
-4.00%
0.02%
-0.52%
-0.04%
0.08%
-0.12%
0.48%
0.65%
-0.51%
-0.52%
-0.37%
0.57%
0.28%
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, 2006	Total Time Weighted Rate of Return			
Asset Category	One Year	Two Years	Three Years	Five Years
Domestic Equity				
Barclays Global Investors Alpha Tilts Index Fund	11.93%	N/A	N/A	N/A
Barclays Global Investors Russell 1000 Index Fund	9.11%	8.55%	12.08%	3.15%
Large Cap Composite	10.53%	9.99%	13.07%	3.69%
Benchmark Russell 1000	9.08%	8.50%	12.04%	3.12%
Brandes Investment Partners	4.99%	N/A	N/A	N/A
Chartwell Investment Partner	14.63%	N/A	N/A	N/A
Goldman Sachs Asset Management	13.66%	N/A	N/A	N/A
Small Cap Composite	11.74%	10.75%	17.87%	8.02%
Benchmark Russell 2000	14.58%	11.98%	18.70%	8.50%
International Equity				
Julius Baer Investment Management	30.90%	N/A	N/A	N/A
Mondrian Investment Partners	24.54%	N/A	N/A	N/A
International Composite	27.76%	21.07%	22.40%	8.88%
Benchmark MSCI ACWI ex US – Free	28.40%	22.54%	25.77%	11.84%
Total Equity Composite	14.70%	12.68%	15.98%	5.52%
Domestic Fixed Income				
Fidelity Management Trust Company	N/A	N/A	N/A	N/A
Aberdeen Asset Management, Inc.	-0.14%	3.58%	2.93%	5.71%
Western Asset Management	0.33%	N/A	N/A	N/A
Benchmark Lehman Aggregate Bond Index	-0.81%	2.93%	2.05%	4.97%
Total Fixed Income Composite	-0.10%	3.63%	2.69%	5.48%
Real Estate				
INVESCO Realty Advisors Core Fund	24.09%	N/A	N/A	N/A
Total Real Estate Composite	24.09%	23.66%	18.42%	14.02%
NCREIF	18.67%	18.35%	15.79%	12.00%
Cash				
Cash Composite	3.71%	3.37%	3.01%	2.90%
Benchmark 91 Day Treasury Bill Index	3.98%	3.06%	2.37%	2.25%
Total Fund				
Composite Investment Portfolio	10.66%	10.40%	12.10%	6.60%
Policy Benchmark	10.05%	9.96%	12.04%	6.37%

Return calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance Standards (GIPS).

Schedule of Investment Portfolio by Asset Class and Manager

AS OF JUNE 30, 2006

Domestic Equity			
Barclays Global Investors	Russell 1000 Alpha Tilts	$358,178,433	
	Russell 1000 Index Fund	$348,494,478	
Brandes Investment Partners		$41,484,332	
Chartwell Asset Management		$44,130,917	
Goldman Sachs Asset Management		$86,963,754	
Total Domestic Equity			$ 879,251,914
International Equity			
Julius Baer Investment Management		$131,584,797	
Mondrian Investment Management		$142,004,558	
Total International Equity			$ 273,589,355
Total Equity			$1,152,841,269
Domestic Fixed Income			
Fidelity Management Trust Company	Domestic Enhanced Index	$163,808,427	
Aberdeen Asset Management, Inc.	Domestic Core	$162,056,541	
Western Asset Management	Domestic Core Plus	$202,791,498	
Total Domestic Fixed Income			$ 528,656,466
Total Fixed Income			$ 528,656,466
Real Estate			
INVESCO Realty Advisors	U.S. Core Real Estate Fund		$ 117,547,767
Unequitized Cash			$ 55,438,617
Fixed Assets, at cost, net of accumulated depreciation			$ 9,338
Receivables & Prepaid Expenses			$ 38,039,626
<less> Current Liabilities			$ 102,635,267
Net Portfolio as of June 30, 2006			$1,789,897,817

Schedule of Top Ten Equity and Fixed Income Securities

As of June 30, 2006

TOP TEN EQUITY SECURITIES*

Shares	Exchange	Ticker	Security Name	Market Value
352,212	NYSE	C	CITIGROUP INC.	$16,990,715
273,772	NYSE	XOM	EXXON MOBIL CORPORATION	$16,795,905
462,672	NYSE	GE	GENERAL ELECTRIC CO.	$15,249,683
550,596	NASDAQ	MSFT	MICROSOFT CORPORATION	$15,158,882
283,083	NYSE	BAC	BANK OF AMERICA CORP	$13,616,308
224,362	NYSE	JNJ	JOHNSON & JOHNSON CO.	$13,443,772
278,792	NYSE	JPM	JPMORGAN CHASE & CO.	$11,709,259
520,890	NASDAQ	CSCO	CISCO SYSTEMS INC	$10,172,974
149,997	NYSE	COP	CONOCOPHILLIPS	$9,829,332
196,606	NYSE	VZ	VERIZON COMMUNICATIONS INC.	$6,584,367

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

TOP TEN FIXED INCOME SECURITIES*

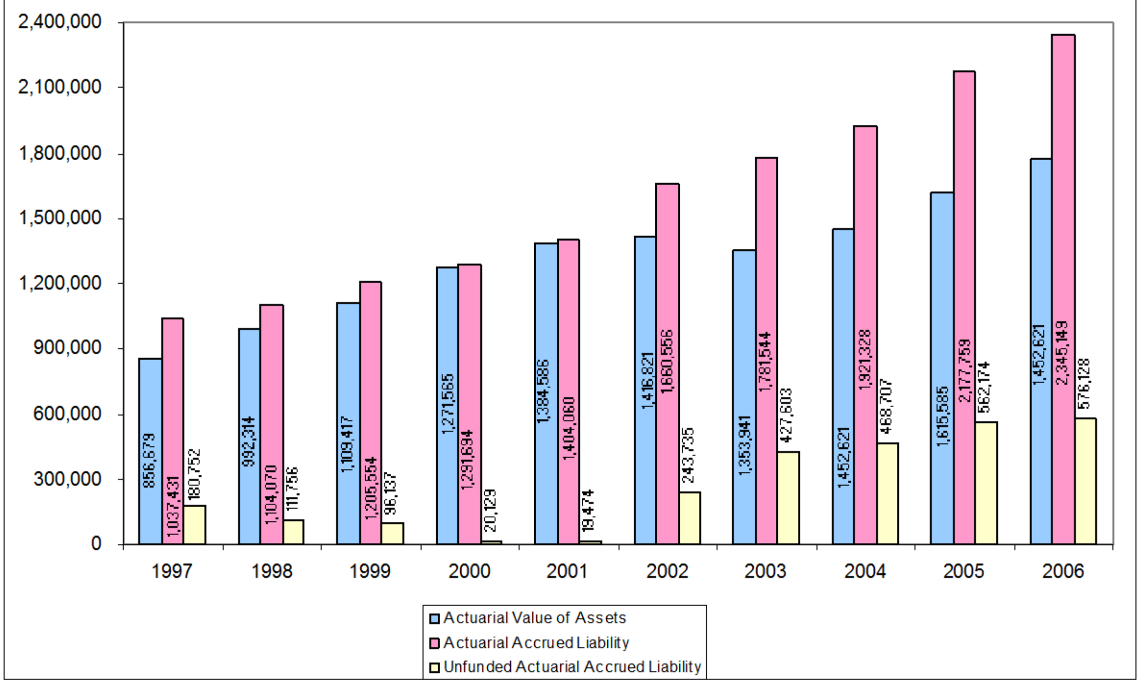
Par/Book Value	Security Name			Rating S&P/Moodys	Issue ID	Market Value
6,339,000	UNITED STATES TREAS NOTES	4.375%	08/15/2012	AAA/Aaa	9128277B2	$6,309,270
5,906,855	UNITED STATES TREASURY BDS	6.000%	02/15/2026	AAA/Aaa	912810EW4	$5,906,855
5,016,000	FNMA 30YR	5.000%	03/01/2034	AAA/Aaa	31402CVZ2	$4,871,792
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.

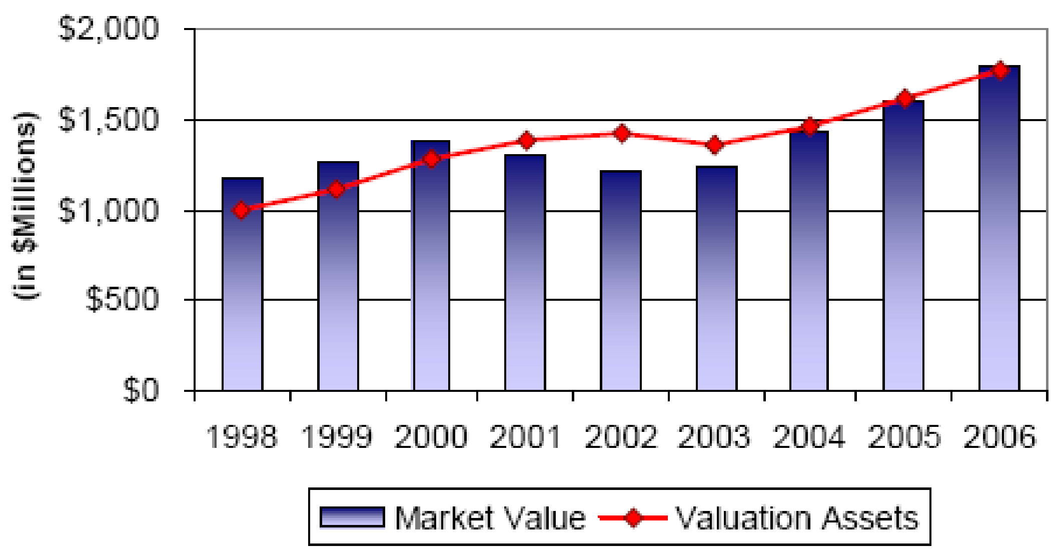
Schedule of Professional Services and Fees
as of June 30, 2006 and 2005

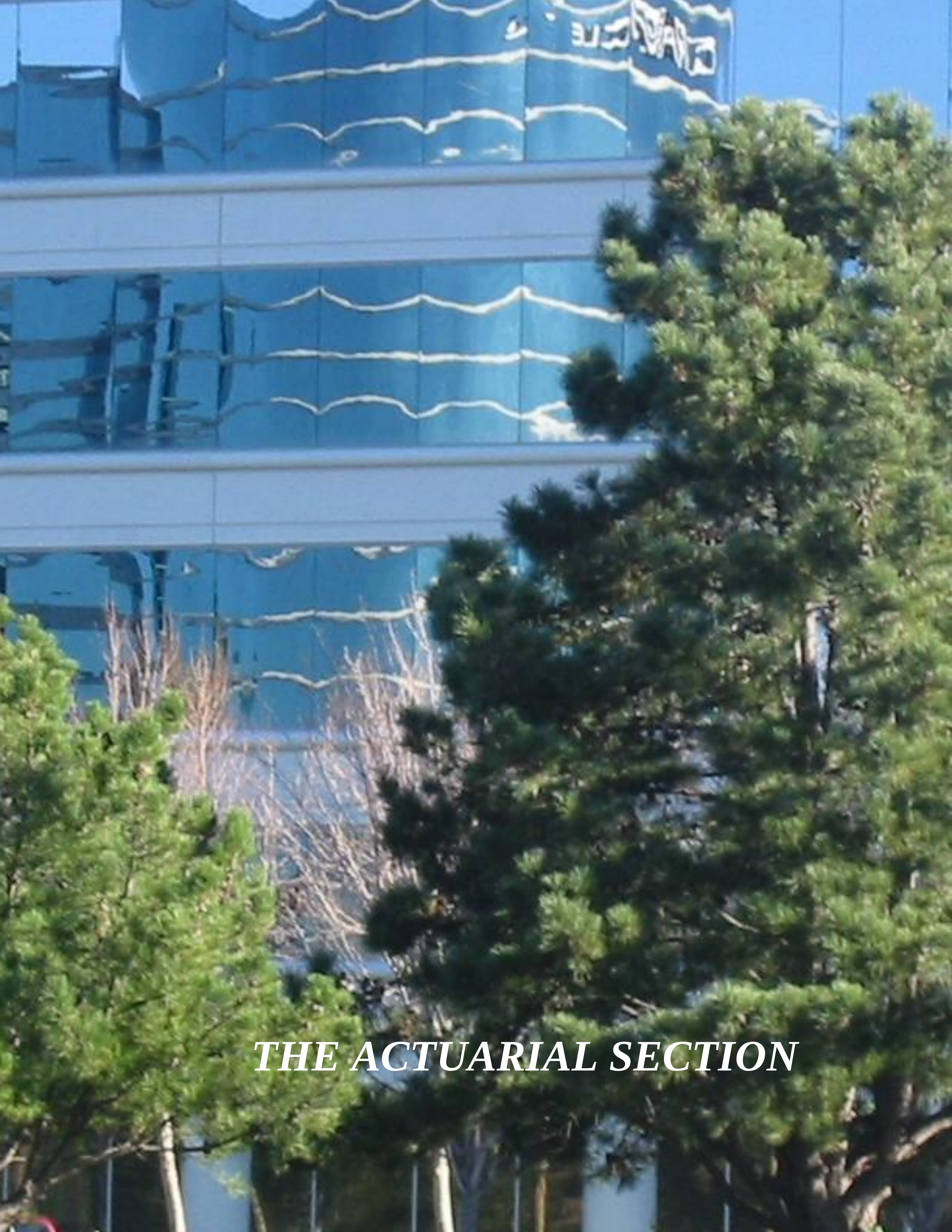
	2006	2005
Investment Managers		
Aberdeen Asset Management Inc.	$ 423,581	$ 448,398
Bank of Ireland Asset Management	0	290,446
Barclays Global Investors	1,090,505	921,068
Brandes Investment Partners	386,141	255,018
Chartwell Investment Partners	391,640	240,520
Fidelity Management Trust Company	127,154	0
Goldman Sachs Asset Management	506,063	323,552
INVESCO Realty Advisors	515,627	362,861
Julius Baer Investment Management	765,879	444,263
Mondrian Investment Partners	424,899	222,361
Western Asset Management	388,131	246,488
Investment Managers	5,019,620	3,754,975
Investment Consultant		
Strategic Investment Solutions	$ 194,167	$ 175,000
CS Capital Management	000,000	109,872
Actuarial Consulting		
Milliman	63,750	0
Public Pension Professionals	97,000	77,100
Mercer Human Resources Consulting	0	(5,620)
Master Custodian		
State Street Bank and Trust Company	125,580	120,939
Total Professional Services	$5,498,117	$4,232,266

Schedule of Actuarial Assets vs. Liabilities

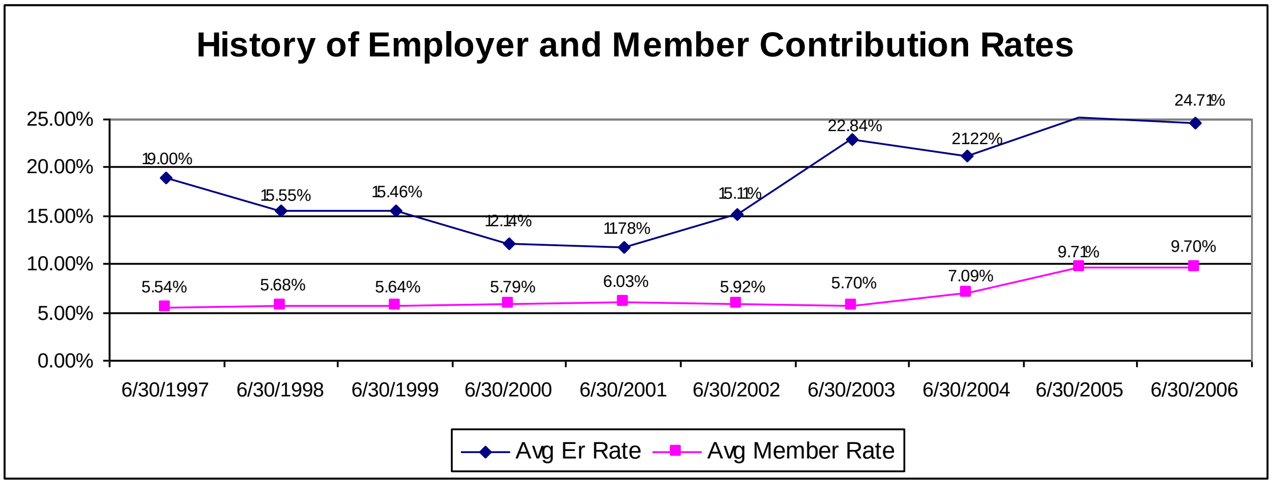


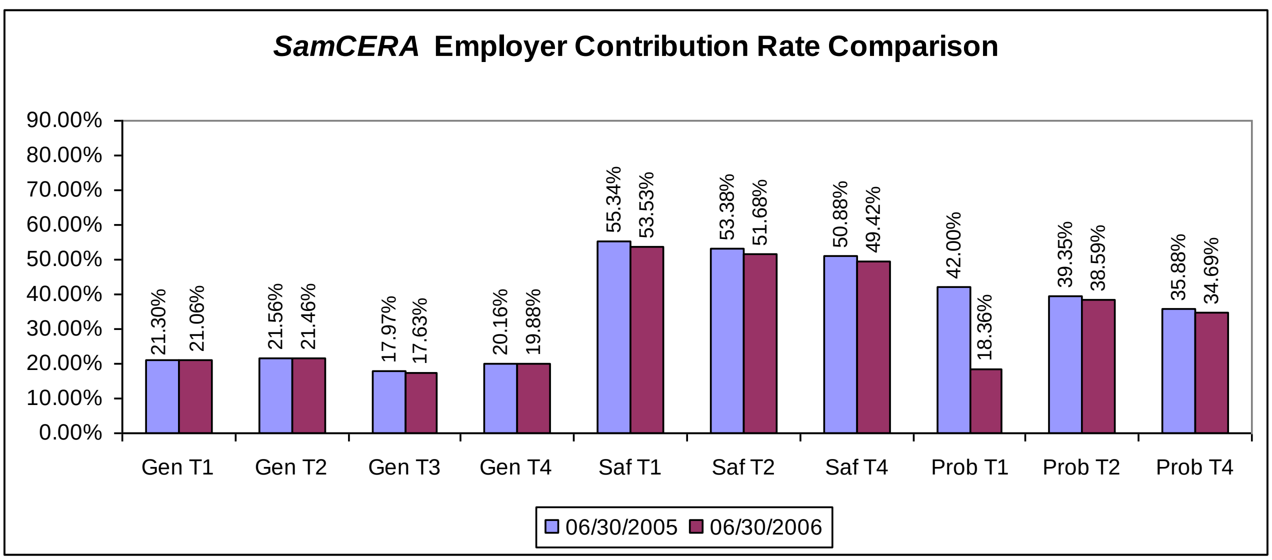
Applicable Valuation Assets





THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
19.00%
15.55%
15.46%
12.14%
11.78%
15.11%
22.84%
21.22%
24.71%
5.54%
5.68%
5.64%
5.79%
6.03%
5.92%
5.70%
7.09%
9.71%
9.70%
6/30/1997
6/30/1998
6/30/1999
6/30/2000
6/30/2001
6/30/2002
6/30/2003
6/30/2004
6/30/2005
6/30/2006
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%
21.30%
21.06%
21.56%
21.46%
17.97%
17.63%
20.16%
19.88%
55.34%
53.53%
53.38%
51.68%
50.88%
49.42%
42.00%
18.36%
39.35%
38.59%
35.88%
34.69%
Gen T1
Gen T2
Gen T3
Gen T4
Saf T1
Saf T2
Saf T4
Prob T1
Prob T2
Prob T4
06/30/2005
06/30/2006

Actuarial Certification Draft Example

September 5, 2006

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Dear Members of the Board:

SamCERA's basic financial goal is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

SamCERA measures its funding status as the ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Status
June 30, 2004	75.6%
June 30, 2005	74.2%
June 30, 2006	75.4%

The funded ratio was near 100% prior to the market fall in 2000/2001. Since 2003, the funded ratio has stayed near the 75% level, reflecting the five-year smoothing on the actuarial value of assets.

It is our opinion that SamCERA continues in sound financial condition as of June 30, 2006. Under the current funding policy, the County's contributions are set equal to the normal cost rate plus the amortization payment of any Unfunded Actuarial Accrued Liability (UAAL). The amortization of the UAAL is funded over a closed period ending June 30, 2022.

The June 30, 2006 valuation results are based on the membership data and the asset information provided by SamCERA. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of SamCERA's current benefit provisions and the actuarial assumptions which were last reviewed and adopted by the Board in 2006. The actuarial liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. For example, the recognition of realized but as yet unrecognized asset gains and losses from prior years will be reflected in future valuations. Please refer to the June 30, 2006 Actuarial Valuation report for further disclosures.

We assisted SamCERA staff in preparing the supporting schedules in this section and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our June 30, 2006 actuarial valuation report. In particular, it should be noted that many of the June 30, 2005 statistics were provided by the prior actuary and were on a different basis than we are using. This may affect the comparability between the two most recent years shown in the data summaries.

We certify that the June 30, 2006 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Karen I. Steffen, FSA, EA, MAAA	Nick J. Collier, ASA, EA, MAAA
Consulting Actuary	Consulting Actuary

KIS/NJC/nlo

Actuarial Assumptions and Cost Method

The actuary assumptions used in the valuations are intended to estimate the future experience of the members of *SamCERA* and of *SamCERA* itself in areas that affect the projected benefit flow and anticipated investment earnings. The actuarial assumptions used to determine the liabilities for the June 30 2006, valuation are based on the results of the actuarial experience study for the period July 1 2000, through June 30, 2005. This study was adopted by the Board of Retirement on January 28, 2006.

Actuarial Assumptions and Cost Method

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Normal Cost Funding Method
Amortization Method	Level Percent – closed
Remaining Amortization Period	16.0 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases*	5.20%
*Attributed to Inflation	4.00%
*Attributed to Adjustments for Merit and longevity	1.20%

Entry Age Normal Actuarial Cost Method

Entry Age is the age at the member's date of entry. Actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The normal cost is calculated on an aggregate basis by taking the present value of future normal costs divided by the present value of future salaries to obtain a normal cost rate. This normal cost rate is then multiplied by the total current salaries. The total unfunded actuarial accrued liability is amortized over a declining 16-year period.

Actuarial Asset Valuation Method

The assets are valued using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The expected market value, with five-year smoothing valuation basis for all assets, was adopted effective for the June 30, 1995, valuation.

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 7.75%, compounded annually, net of both investment and administrative expenses. This rate was adopted effective for the June 30, 2005 valuation.

Projected Salary Increase

The rate of annual salary increases assumed for the purpose of the valuation is 5.20%. It is comprised of two components, inflation and merit and longevity increases. The inflation component is 4.0%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2005 valuation.

Actuarial Assumption		6/30/06	6/30/05	Change
Annual Inflation Rate		3.50%	3.50%	0.00%
Annual Investment Return		7.75%	7.75%	0.00%
Average Annual Salary Increases		5.20%	5.20%	0.00%

Cost-of-Living Adjustments

Post-retirement benefit increases depend upon the tier into which a member is enrolled and the Consumer Price Index for the San Francisco Bay Area. The maximum increase in retirement allowance is 5% for General and Safety Tier 1, 3% for Probation Tier 1 and Tier 2 for all Classes, and 2% for Tier 4 Members. Members do not contribute towards the cost-of-living benefit.

Post-retirement mortality rates

The same post-retirement mortality rates are used in the valuation for active members, members retired for service, and beneficiaries. Beneficiary mortality is assumed to be the same assumption as healthy members. Beneficiaries are assumed to be of the opposite sex, and have the same mortality as General members.

Post-retirement mortality – Service Retirement

General Males RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers. Ages are set back one year.

Safety Males Same as General.

General Females RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers. Ages are set back two years.

Safety Females Same as General.

Post-retirement mortality – Disability Retirement

General Males RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and minimum rate of 1.5%. Ages are set forward 6 years.

Safety Males Same as General except minimum is 1.0% and set forward is 3 years.

General Females RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and minimum rate of 1.25%. Ages are set forward 6 years.

Safety Females Same as General except minimum is 1.0% and set forward is 3 years.

Separation from Active Status

The probabilities of separation from active status are shown on page 71.

Summary of 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 benefits payable and, in addition, provides annual cost-of-living adjustments upon retirement for members of Tiers One, Two and Four. The benefits of Tier Three are reduced by Social Security benefits received by the member.

The plan sponsor has established ten defined benefit tiers based on a member's date of entry into *SAMCERA*. Tiers 1, 2 & 4 are open to all members depending on their entry date and membership class (General, Safety or Probation/Safety.) Only General members are eligible for Tier 3.

Employees of the Mosquito Abatement District are eligible for participation in all General Tiers, except Tier 3.

Eligibility for Tiers is dependent upon the following entry dates:

Tier One – Employees hired on July 6, 1980 and earlier.

Tier Two – Employees hired after July 6 1980, but on or before July 12, 1997.

Tier Three - General members may elect to participate in Tier 3. After five years of service, Tier 3 members can elect membership under the open contributory tier. Members currently working in a contributory tier with Tier 3 service may purchase an upgrade of their Tier 3 service.

Tier Four – Employees hired after July 12, 1997, (if Tier 3 is not elected.)

Eligibility for service retirement allowance is dependent upon the following:

General Members Tiers 1, 2 & 4	Age 50 with 10 years of service; Any age with 30 years of service; or Age 70 regardless of service.
Safety & Probation Members Tiers 1, 2 & 4	Age 50 with 10 years of service; Any age with 20 years of service.
Tier 3	Age 65 with 10 years of service. A reduced benefit is also payable at age 55 with 10 years of service.

Final Compensation:

Tiers 1, & 2	Monthly average of a member's highest twelve consecutive months of compensation.
Tiers 3, & 4	Monthly average of a member's highest thirty-six consecutive months of compensation.

Monthly Allowance:

General Members Tiers 1, 2 & 4	1/60 x Final Compensation x General Age Factor x Years of service.
All Safety & Probation Members	3% x Final Compensation x Safety Age factor x Years of Service.
Tier 3	**General members: (a)+(b)-(c) where:** (a) 2% x Final Compensation x (Years of Service, (up to 35 years), plus (b) 1% x Final Compensation x Years of Service in excess of 35 years (up to 10) (c) Estimated Primary Insurance Amount (PIA) x Years of Covered Service (up to 35 years) divided by 35. The PIA is calculated based on certain assumptions specified by statute, and an assumed Social Security retirement age of 65. If retirement occurs prior to age 65, benefit amount is adjusted by an actuarial equivalent factor.

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.

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.

Summary of Recommendations

San Mateo County Contribution Rates (1)

	06/30/06	06/30/05	Change
Normal Cost Rate	12.15%	12.03%	1.00%
Rate of Contribution to Unfunded Actuarial Accrued Liability	12.56%	13.13%	(4.34%)
Total Employer Rate	24.71%	25.16%	(1.79%)

It should be noted that the 24.71% Total Employer Rate is a weighted average for all *SamCERA* tiers. The actual percent of payroll to be contributed by the County varies by plan. A history of employer rates by class is on Page 70.

Member Contribution Rates (1)

		07/01/06	07/01/05	Change (2)
General Members – County				
Tiers 1 & Plan 2	Age 25	8.97%	8.97%	0.00%
	35	10.15%	10.15%	0.00%
	45	11.59%	11.59%	0.00%
Tier 4	Age 25	8.72%	8.72%	0.00%
	35	9.85%	9.85%	0.00%
	45	11.18%	11.18%	0.00%
General Members – Mosquito Abatement District				
Tier 1 & Tier 2	Age 25	5.13%	5.13%	0.00%
	35	6.15%	6.15%	0.00%
	45	7.37%	7.37%	0.00%
Tier 4	Age 25	4.91%	4.91%	0.00%
	35	5.89%	5.89%	0.00%
	45	7.06%	7.06%	0.00%
Safety Members – Other than Deputy Sheriff (3)				
Tier 1 & Tier 2	Age 25	13.09%	13.09%	0.00%
	35	14.71%	14.71%	0.00%
	45	16.42%	16.42%	0.00%
Tier 4	Age 25	12.75%	12.75%	0.00%
	35	14.29%	14.29%	0.00%
	45	15.74%	15.74%	0.00%
Probation Members (Reflects Employer Pick-up)				
Tier 1 & Tier 2	Age 25	9.97%	9.97%	0.00%
	35	11.27%	11.27%	0.00%
	45	12.64%	12.64%	0.00%
Tier 4	Age 25	9.70%	9.70%	0.00%
	35	10.93%	10.93%	0.00%
	45	12.09%	12.09%	0.00%

(1) The San Mateo County employer and member contribution rates include cost sharing. The Mosquito Abatement District does not have cost sharing.

(2) The change represents the rates effective 07/01/2007 (based on the 6/30/06 valuation) minus the 07/01/2006 rates (based on the 6/30/05 valuation).

(3) Cost sharing varies for Deputy Sheriffs as follows: If employee is less then 45 with less than 5 years of service 3.0%, between 5 and 15 years of service 3.5%, and at least 15 years if service 4.5%.

Summary of Significant Actuarial Statistics and Measures

Association Membership	6/30/06	6/30/05	Change
Active Members			
Number of Members	5,355	5,082	5.7%
Average Age	44.5	44.8	-6.7%
Average Credited Service	9.4	9.7	-3.1%
Total Active Payroll in Thousands	$376,351	$341,001	10.4%
Average Monthly Salary	$5,857	$5,592	4.7%
Retired Members			
Number of Members			
Service Retirement	2,783	2,858	-2.6%
Disability Retirement	342	341	0.3%
Beneficiaries	488	485	0.6%
Average Age	71.2	70.8	0.6%
Total Retiree Payroll in Thousands	$91,066	$84,143	8.2%
Average Monthly Pension	$2,099	$1,903	10.3%
Inactive Vested Members	1,089	872	24.9%
Asset and Liability Values			
Asset Values			
Market Value in Thousands	$1,789,898	$1,599,270	11.9%
Return on Market Value	10.4%	9.7%	
Valuation Assets in Thousands	$1,769,021	$1,615,585	9.5%
Return on valuation Assets	7.9%	7.5%	
Liability Values			
Actuarial Accrued Liability in Thousands	2,345,149	$2,177,759	7.7%
Unfunded Actuarial Accrued Liability	$576,128	$562,174	2.5%
Deferred losses for Asset Smoothing Method	-$20,877	$16,315	-228.0%
Required County Contribution Rate for All Plans as a Percentage of Total Payroll			
Gross Normal Cost	21.85%	21.74%	0.5%
Member Contributions	9.70%	9.71%	-0.1%
County Normal Cost	12.15%	12.03%	1.0%
UAAL Amortization	12.56%	13.13%	-4.3%
Total County Rate	24.71%	25.16%	-1.8%
Funded Ratio			
GASB Number 25 *	75.4%	74.2%	1.7%

*Based on actuarial value of assets for June 30, 2006, and June 30, 2005, respectively.

The table below compares the Actuarial Value of Assets to the types of Actuarial Accrued Liabilities, applying them first to Active Member contributions, then to retirees and beneficiaries, and then the remaining amount to the Active Member benefits.

Short-Term Solvency Test (in Thousands)

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		
6/30/97	$130,736	$ 565,593	$351,246	$1,047,575	100%	100%	49%
6/30/98	148,753	601,473	353,844	992,314	100%	100%	68%
6/30/99	157,826	629,653	416,489	1,104,833	100%	100%	76%
6/30/00	158,314	689,356	444,024	1,271,565	100%	100%	95%
6/30/01	174,066	789,104	440,890	1,384,586	100%	100%	96%
6/30/02	190,450	866,985	785,082	1,416,850	100%	100%	46%
6/30/03	202,551	858,273	915,108	1,353,941	100%	100%	32%
6/30/04	259,731	942,765	718,832	1,452,621	100%	100%	35%
6/30/05	281,231	1,133,351	763,177	1,615,585	100%	100%	26%
6/30/06	317,521	1,234,005	793,623	1,769,021	100%	100%	27%

Schedule of Funding Progress (in Thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	UAAL as a Percentage of Covered Payroll
6/30/97	$ 856,679	$1,037,431	$180,752	82.6%	$196,391	92.00%
6/30/98	992,314	1,104,070	111,756	89.9%	211,259	52.90%
6/30/99	1,109,417	1,205,554	96,137	92.0%	238,864	40.20%
6/30/00	1,271,565	1,291,694	20,129	98.4%	259,075	7.80%
6/30/01	1,384,586	1,404,060	19,474	98.6%	274,318	7.10%
6/30/02	1,416,821	1,660,566	243,745	85.3%	301,891	80.7%
6/30/03	1,353,941	1,781,544	427,603	76.0%	323,896	132.0%
6/30/04	1,452,621	1,921,328	468,707	75.6%	365,385	128.3%
6/30/05	1,615,585	2,177,759	562,174	74.2%	334,315	168.16%
6/30/06	1,769,021	2,345,149	576,128	75.4%	363,648	158.43%

Funded Ratio is a measurement of the funded status of the plan. The Funded Ratio is calculated by dividing the valuation Assets by the Actuarial Accrued Liability. In the table above *SamCERA's* Funded Ratio indicates assets are approximately 25% less than liabilities. The Funded Ratio increased from June 30, 2005. This was primarily due to employer contributions made to pay off the Unfunded Actuarial Accrued Liability (UAAL.)

History of Employer Contribution Rates

<u>Normal Cost</u> is that portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Actuarial Present Value is the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by application of a particular set of Actuarial Assumptions.

Actuarial Cost Method employed by *SamCERA* is the Entry Age Normal Method. The actuarial accrued liability is calculate on an individual basis and is based on costs allocated as a level percentage of compensation.

<u>Unfunded Actuarial Accrued Liability</u> is the excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Actuarial Accrued Liability is that portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by the future Normal Costs.

Actuarial Value of Assets is the value of cash, investments and other property belonging to a pension plan, as used by the actuary for purposes of an Actuarial Valuation.

Actuarial Valuation is the determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Valoues for a pension plan.

History of Employer Contribution Rates – County

	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%
2005	10.36%	10.38%	20.74%	20.43%	32.02%	52.45%	21.10%	16.43%	37.53%
2006	10.49%	9.97%	20.46%	20.18%	30.52%	50.70%	21.59%	14.85%	36.44%

History of Employer Contribution Rates – Mosquito Abatement District

	General Member		
Year	Normal	UAAL	Total
2005	8.69%	8.51%	17.20%
2006	8.76%%	8.18%	16.94%

Active Member Valuation Data

Valuation Date		Members (1)	Annual Salary	Average Annual Salary	% Change Average Salary
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%
2006	General	4,614	$312,934,324	$67,823	-1.7%
	Safety	428	$41,407,772	$96,747	-1.1%
	Probation	313	$22,009,210	$70,317	-1.6%
	Total	5,355	$376,351,306	$70,280	-1.7%

(1) *Numbers prior to 2006 were reported on a different basis.*

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
6/30/96	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	84,183,000	11.5%	1,905
6/30/06	3,519	206	112	3,613	91,006,000	8.1%	2,099

** For 6/30/2004 and 6/30/2005, retirees/beneficiaries who are entitled to multiple benefits are counted more than once. The 6/30/06 beginning of year count was revised to reflect only one retiree per benefit in 6/30/2006. Prior to 6/30/2004 retirees/beneficiaries who are entitled to multiple benefits are only counted once.*

Actuarial Analysis of Financial Experience
($000)

Summary of (Gains) / Losses		Change In Liability			
	2006	2005	2004	2003	2002
Unfunded Liability as of July 1	$562,174	$468,707	$427,603	$243,745	$ 19,474
Expected Change in UAAL	$ 2,980	($ 1,700)	($ 419)	$ 20.884	($ 2,125)
Salary (Gain) / Loss	$ 19,671	($ 34,300)		($ 4,907)	($ 3,400)
Fewer Withdrawal than expected				$ 1,268	$ 425
Retiree COLA more / (less) than expected	($ 13,862)	($ 26,197)		($ 13,863)	$ 8,499
Assets (Gain) / Loss	($ 1,363)	$ 8,934	$ 25,062	$169,944	$ 34,881
Change due to Assumption Changes		$152,500	($ 13,989)	($ 7,797)	$ 32,979
Change due to Actuarial Asset Corridor					$ 31,919
Ventura Benefits & Asset transfers		($ 21,801)			
Miscellaneous Experience	$ 6,528	$ 16,031	$ 30,450	($ 5,138)	$ 1,580
Change Due to New Formula				$ 23,467	$119,513
Unfunded Liability as of June 30	$576,128	$562,174	$468,707	$427,603	$243,745

Rates of Separation From Active Service

Service Retirement – Member retires after meeting age and service requirements for reasons other than disability.

Withdrawal – Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.

Service Disability – Member receives disability retirement; disability is service related.

Ordinary Disability – Member receives disability retirement; disability is not service related.

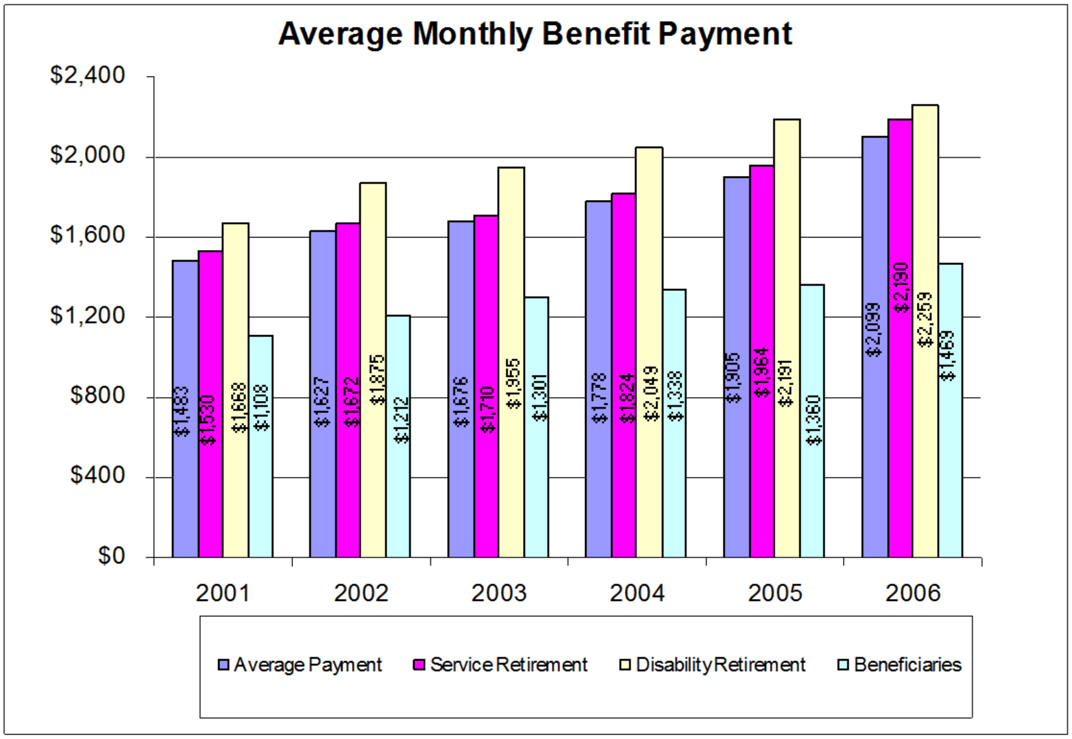
Service Death – Member dies before retirement; death is service related.

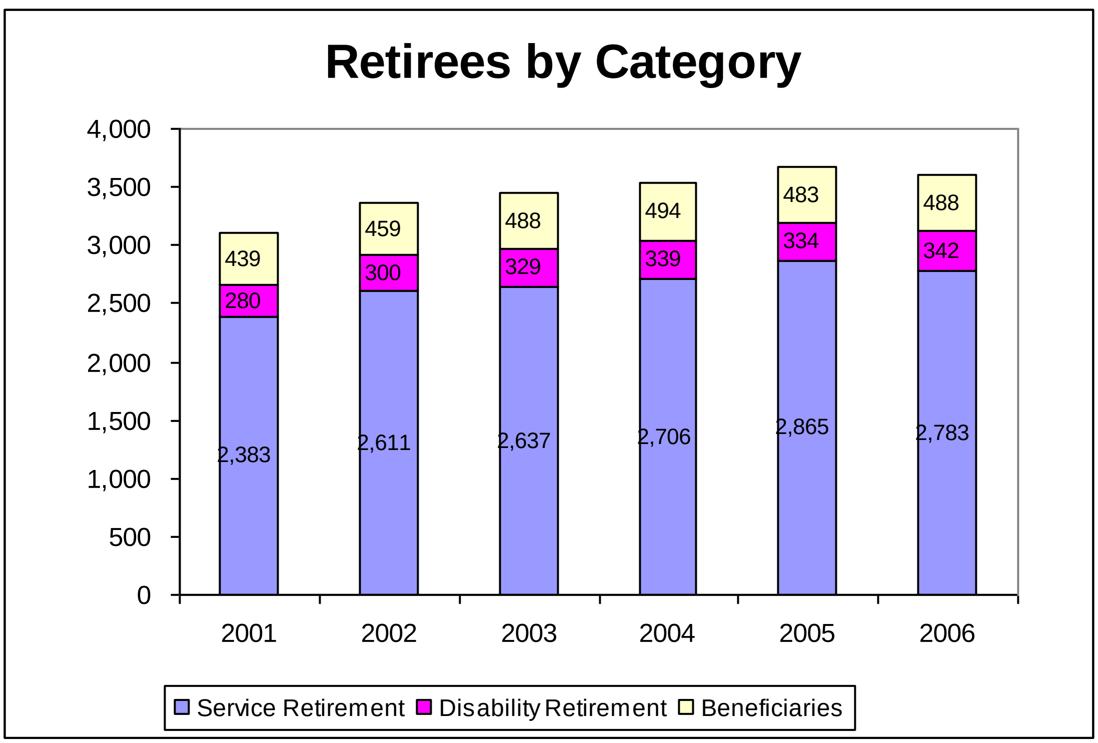
Ordinary Death – Member dies before retirement; death is not service related.

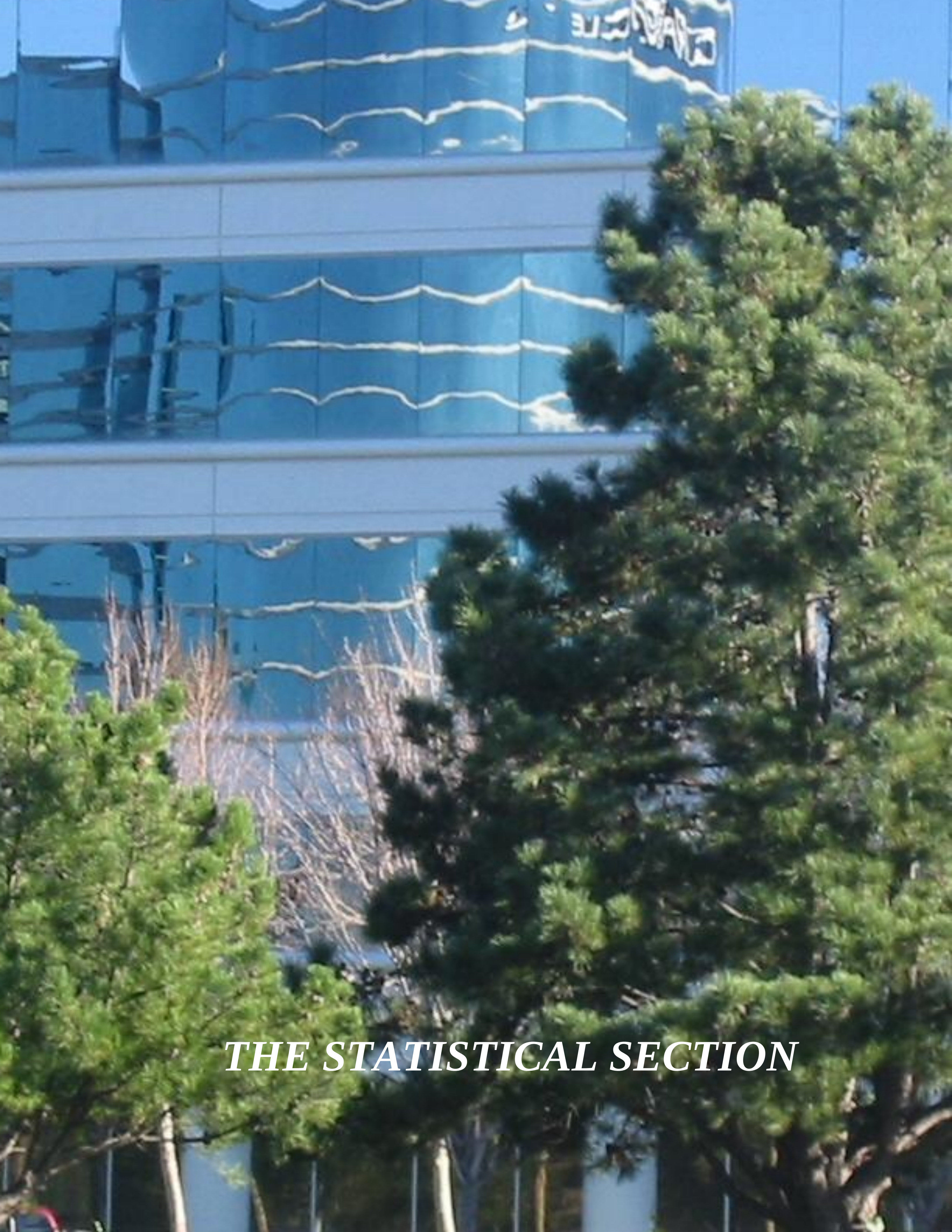
In the table below each rate represents the probability that a member will separate from service at each age due to a particular cause.

Probabilities of Separation During Active Service

Years of Service	Other Terminations		Age	Disability		Death while Active		Service Retirement
	Ordinary	Vested		Ordinary	Service	Ordinary	Service	
General Plan 1, 2 & 4 Male Members								
0	0.1200	0.0000	20	0.0003	0.0005	0.0002	0.0000	0.0000
5	0.0291	0.0291	30	0.0004	0.0005	0.0003	0.0000	0.0000
10	0.0183	0.0207	40	0.0007	0.0011	0.0006	0.0000	0.0000
15	0.0113	0.0177	50	0.0014	0.0022	0.0022	0.0000	0.0600
20	0.0049	0.0141	60	0.0022	0.0034	0.0042	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 1, 2 & 4 Female Members								
0	0.1300	0.0000	20	0.0003	0.0005	0.0003	0.0000	0.0000
5	0.0316	0.0316	30	0.0004	0.0005	0.0003	0.0000	0.0000
10	0.0207	0.0233	40	0.0007	0.0011	0.0006	0.0000	0.0000
15	0.0133	0.0207	50	0.0014	0.0022	0.0013	0.0000	0.0600
20	0.0062	0.0178	60	0.0022	0.0034	0.0036	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Male Members								
0	0.1200	0.0000	20	0.0000	0.0000	0.0002	0.0000	0.0000
5	0.0291	0.0291	30	0.0000	0.0000	0.0003	0.0000	0.0000
10	0.0183	0.0207	40	0.0000	0.0000	0.0006	0.0000	0.0000
15	0.0113	0.0177	50	0.0000	0.0000	0.0022	0.0000	0.0000
20	0.0049	0.0141	60	0.0000	0.0000	0.0042	0.0000	0.0300
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Female Members								
0	0.1300	0.0000	20	0.0003	0.0005	0.0003	0.0000	0.0000
5	0.0316	0.0316	30	0.0004	0.0005	0.0003	0.0000	0.0000
10	0.0207	0.0233	40	0.0007	0.0011	0.0006	0.0000	0.0000
15	0.0133	0.0207	50	0.0014	0.0022	0.0013	0.0000	0.0600
20	0.0062	0.0178	60	0.0022	0.0034	0.0036	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Members								
0	0.0800	0.0000	20	0.0003	0.0012	0.0002	0.0010	0.0000
5	0.0116	0.0116	30	0.0004	0.0014	0.0003	0.0010	0.0000
10	0.0080	0.0090	40	0.0009	0.0035	0.0004	0.0010	0.0000
15	0.0047	0.0073	50	0.0015	0.0059	0.0009	0.0010	0.2500
20	0.0010	0.0030	60	0.0000	0.0000	0.0000	0.0000	1.0000
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000


Average Monthly Benefit Payment
$2,400
$2,000
$1,600
$1,200
$800
$400
$0
$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
$2,099
$2,190
$2,259
$1,463
2001
2002
2003
2004
2005
2006
Average Payment
Service Retirement
Disability Retirement
Beneficiaries

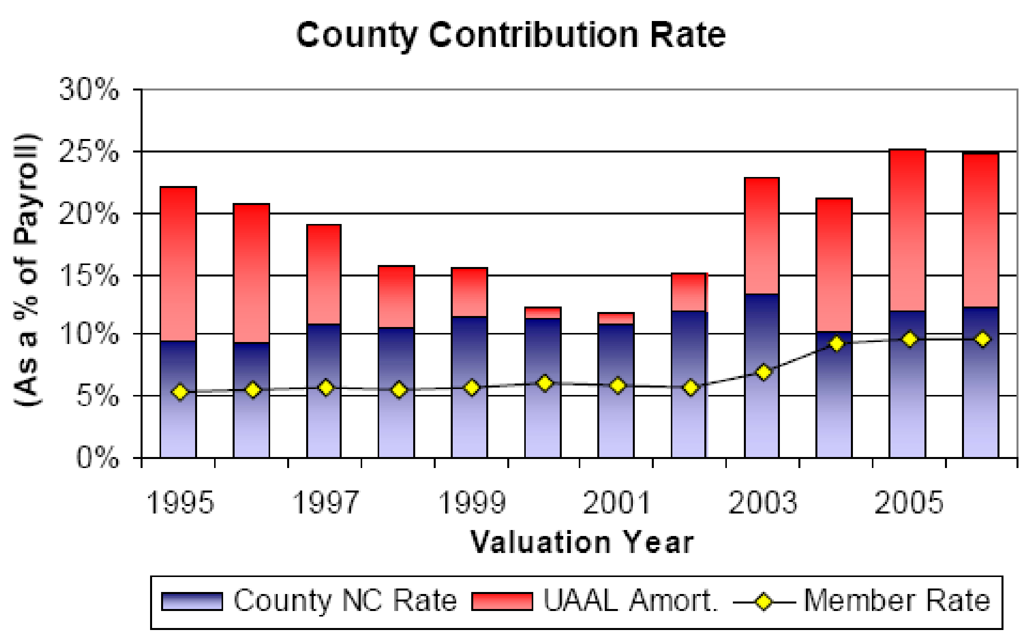

Retirees by Category
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
439
280
2,383
459
300
2,611
488
329
2,637
494
339
2,706
483
334
2,865
488
342
2,783
2001
2002
2003
2004
2005
2006
Service Retirement
Disability Retirement
Beneficiaries



THE STATISTICAL SECTION

Schedule of Employer Contributions
(In Thousands Of Dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As A % of ARC
6/30/1997	$42,887	100%
6/30/1998	$42,676	100%
6/30/1999	$41,289	100%
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%
6/30/2006	$76,090	100%



Schedule of Revenues by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/1997	$11,198	$42,887	$152,473	$206,558
6/30/1998	$12,033	$42,676	$168,115	$222,824
6/30/1999	$12,586	$41,289	$83,550	$137,425
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
6/30/2006	$39,963	$76,090	$166,874	$282,927

Schedule of Expenses by Type
(In thousands of Dollars)

Year End	Administrative Expenses	Retirement Benefits Paid	Refunds	Total
6/30/1997	$ 909	$42,338	$1,462	$44,759
6/30/1998	$1,034	$45,398	$1,653	$48,085
6/30/1999	$1,070	$49,492	$1,640	$52,202
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
6/30/2006	$2,126	$87,915	$2,258	$92,299

Summary of Retired and Inactive Member Benefits

Retired Members	2006	2005	2004	2003	2002	
Service Retirement						
Number	2,783	2,865	2,706	2,637	2,638	
Annual Allowance						
Basic Only	$54,942,000	$49,760,000	$41,723,000	$36,929,000	$36,260,000	
Cola	$18,188,000	$17,759,000	$17,502,000	$17,185,000	$16,668,000	
Total	$73,130,000	$67,519,000	$59,225,000	$54,114,000	$52,928,000	
Average Monthly Payment	$2,190	$1,964	$1,824	$1,710	$1,672	
Disability Retirement						
Number	342	334	339	329	316	
Annual Allowance						
Basic Only	$6,915,000	$6,575,000	$6,164,000	$5,588,000	$5,061,000	
Cola	$2,356,000	$2,205,000	$2,172,000	$2,130,000	$2,049,000	
Total	$9,271,000	$8,780,000	$8,336,000	$7,718,000	$7,110,000	
Average Monthly Payment	$2,259	$2,191	$2,049	$1,955	$1,875	
Beneficiaries						
Number	488	483	494	488	477	
Annual Allowance						
Basic Only	$4,659,000	$4,084,000	$4,250,000	$4,065,000	$3,548,000	
Cola	$3,946,000	$3,800,000	$3,682,000	$3,554,000	$3,388,000	
Total	$8,605,000	$7,884,000	$7,932,000	$7,619,000	$6,936,000	
Average Monthly Payment	$1,469	$1,360	$1,338	$1,301	$1,212	
Total Retired Members						
Number	3,614	3,682	3,539	3,454	3,431	
Annual Allowance						
Basic Only	$66,516,000	$60,419,000	$52,137,000	$46,582,000	$44,869,000	
Cola	$24,490,000	$23,764,000	$23,356,000	$22,869,000	$22,105,000	
Total	$91,006,000	$84,183,000	$75,493,000	$69,451,000	$66,974,000	
Average Monthly Payment	$2,099	$1,905	$1,778	$1,676	$1,627	
Inactive Members	1,089	872	877	855	833	

For 6/30/2004 and 6/30/2005 retirees/beneficiaries who are entitled to multiple benefits are counted more than once. Beginning in 6/30/2006, a retiree is counted only once even if that retiree has multiple benefits from different tiers.

The data in the table above originates from PensionGold, *SamCERA's* retirement benefits administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports.

Summary of Retired and Inactive Member Benefits (Continued)

Retired Members	2001	2000	1999	1998	1997	
Service Retirement						
Number	2,383	2,383	2,295	2,300	2,293	
Annual Allowance						
Basic Only	$30,059,000	$30,059,000	$27,966,000	$26,159,000	$24,897,000	
COLA	$13,692,000	$13,692,000	$12,343,000	$11,910,000	$10,924,000	
Total	$43,751,000	$43,751,000	$40,309,000	$38,069,000	$35,821,000	
Average Monthly Payment	$1,530	$1,530	$1,464	$1,379	$1,302	
Disability Retirement						
Number	280	280	263	250	231	
Annual Allowance						
Basic Only	$4,014,000	$4,014,000	$3,517,000	$3,115,000	$2,540,000	
COLA	$1,591,000	$1,591,000	$1,402,000	$1,303,000	$1,172,000	
Total	$5,605,000	$5,605,000	$4,919,000	$4,418,000	$3,712,000	
Average Monthly Payment	$1,668	$1,668	$1,559	$1,473	$1,339	
Beneficiaries						
Number	429	439	401	381	353	
Annual Allowance						
Basic Only	$2,950,000	$2,950,000	$2,819,000	$2,154,000	$5,151,000	
COLA	$2,886,000	$2,886,000	$2,444,000	$2,204,000	$1,989,000	
Total	$5,836,000	$5,836,000	$5,263,000	$4,358,000	$4,140,000	
Average Monthly Payment	$1,108	$1,108	$1,094	$953	$918	
Total Retired Members						
Number	3,102	3,102	2,979	2,931	N/A	
Annual Allowance						
Basic Only	$37,023,000	$37,023,000	$34,302,000	$31,428,000	N/A	
COLA	$18,169,000	$18,169,000	$16,189,000	$15,417,000	N/A	
Total	$55,192,000	$55,192,000	$50,491,000	$46,845,000	N/A	
Average Monthly Payment	$1,483	$1,483	$1,422	$1,332	N/A	
Inactive Members	747	646	613	522	518	

The data in the table above originates from PensionGold, *SamCERA's* retirement benefit administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports.

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

	2006	2005	2004	2003	2002	
General Tier 1	$6,749	$6,582	$6,514	$6,070	$5,806	
General **Tier** 2	$6,148	$6,045	$5,980	$5,573	$5,311	
General **Tier** 3	$4,988	$5,216	$5,101	$4,747	$4,737	
General **Tier** 4	$5,315	$5,476	$5,281	$4,886	$4,545	
General **Tier** Total	$5,652	$5,747	$5,642	$5,284	$5,016	
Safety Tier 1	$10,019	$9,701	$9,516	$8,500	$7,820	
Safety Tier 2	$8,585	$8,482	$8,530	$7,518	$6,853	
Safety **Tier** 4	$7,403	$7,564	$7,582	$6,465	$5,789	
Safety **Tier** Total	$8,062	$8,150	$8,267	$7,291	$6,652	
Probation **Tier** 1	$7,735	$7,216	$6,856	$6,548	$6,253	
Probation **Tier** 2	$6,479	$6,390	$6,291	$5,800	$5,542	
Probation **Tier** 4	$5,444	$5,741	$5,711	$4,924	$4,502	
Probation **Tier** Total	$5,860	$6,032	$6,019	$5,395	$5,066	
Total	$5,857	$5,955	$5,871	$5,467	$5,164	

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

	2001	2000	1999	1998	1997	
General Plan 1	$5,477	$5,143	$4,910	$4,451	$4,200	
General Plan 2	$4,934	$4,636	$4,301	$3,894	$3,573	
General Plan 3	$4,516	$4,197	$3,820	$3,522	$3,255	
General Plan 4	$4,177	$3,831	$3,483	$3,151	$0	
General Plan Total	$4,700	$4,451	$4,199	$3,880	$3,634	
Safety Plan 1	$7,327	$6,955	$6,400	$5,562	$4,670	
Safety Plan 2	$6,479	$6,102	$5,883	$4,906	$4,135	
Safety Plan 4	$5,375	$5,271	$4,957	$3,900	$0	
Safety Plan Total	$6,332	$6,143	$5,855	$5,009	$4,324	
Probation Plan 1	$5,861	$5,460	$5,100	$4,634	$4,358	
Probation Plan 2	$5,079	$4,654	$4,240	$3,941	$3,548	
Probation Plan 4	$4,100	$3,660	$3,119	$3,010	$0	
Probation Plan Total	$4,744	$4,441	$4,104	$3,968	$3,801	
Total	$4,846	$4,603	$4,348	$3,988	$3,704	

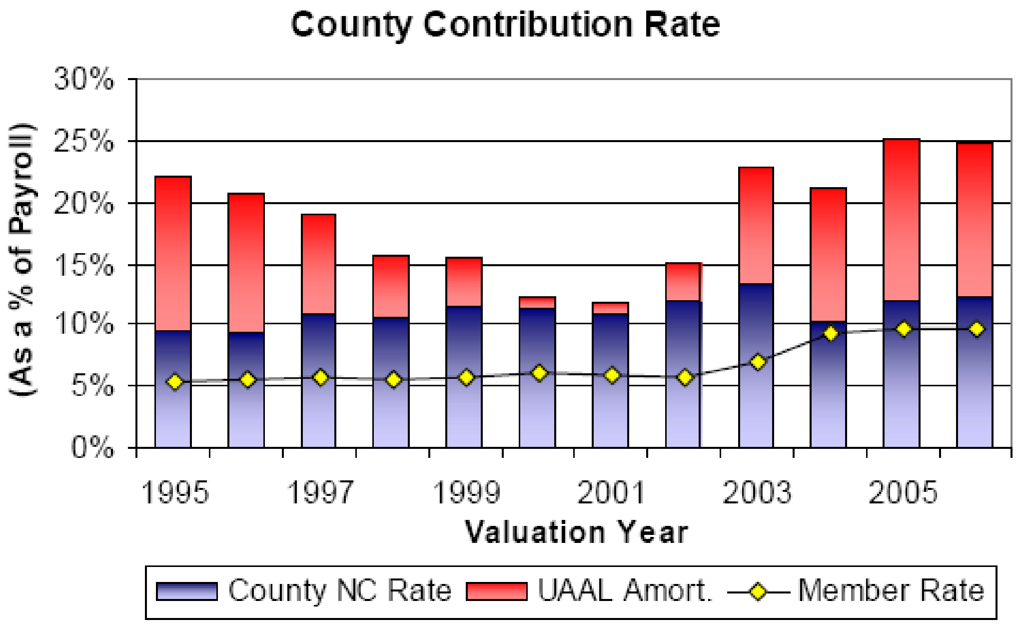
The data in the table above originates from PensionGold, *SamCERA's* retirement benefit administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports.

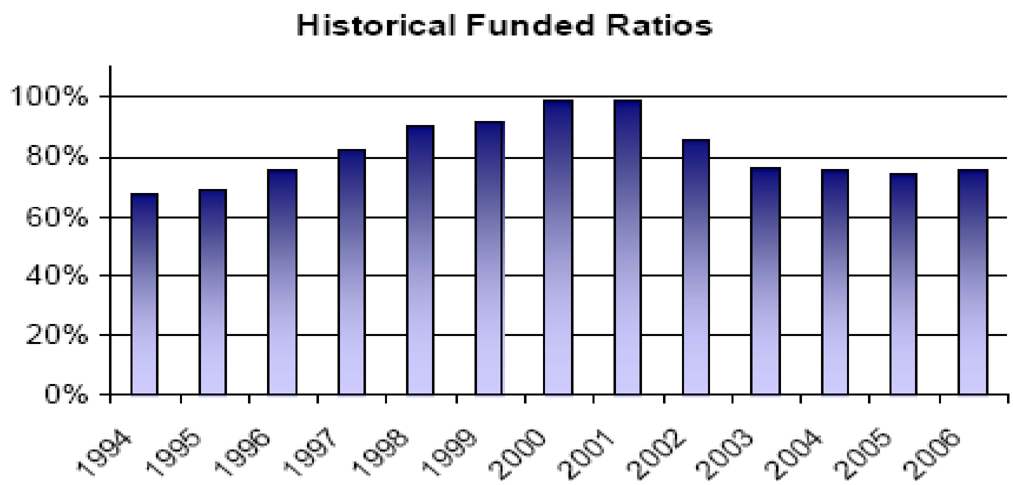
Participating Employers and Active Members

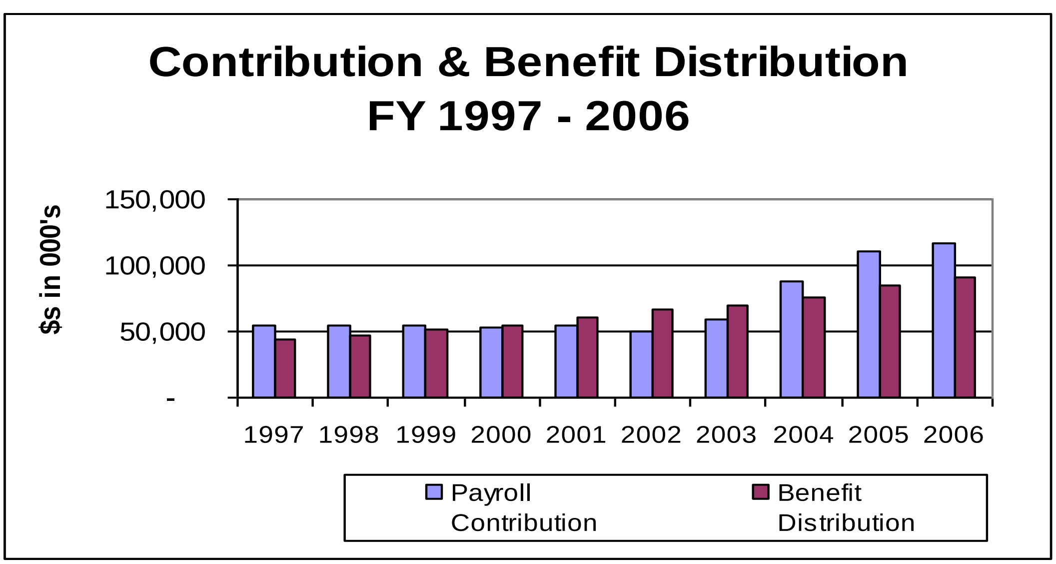
	2006	2005	2004	2003	2002	
County of San Mateo						
General Members	4,594	4,391	4,474	4,202	4,175	
Safety Members	428	409	411	434	431	
Safety/Probation Members	313	278	288	290	293	
Total	5,335	5,078	5,173	4,926	4,899	
San Mateo County Mosquito Abatement District						
General Members Total	20	20	13	11	11	
Total Active Membership	5,355	5,098	5,186	4,937	4,910	

Participating Employers and Active Members (Continued)

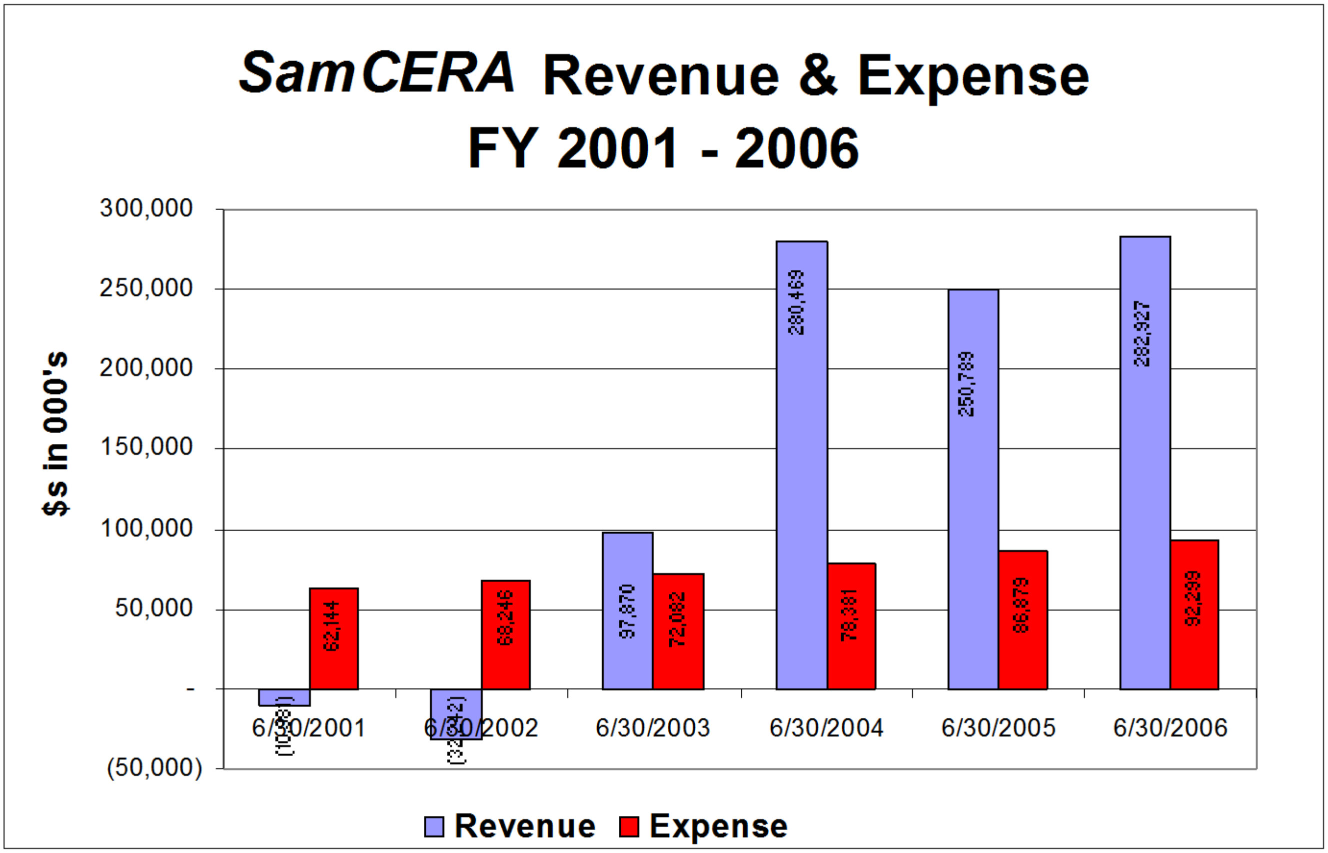
	2001	2000	1999	1998	1997	
County of San Mateo						
General Members	4,079	3,897	3,792	3,797	3,654	
Safety	416	425	406	402	400	
Safety/Probation Members	265	245	211	208	206	
Total	4,760	4,567	4,409	4,407	4,260	
San Mateo County Mosquito Abatement District						
General Members Total	11	11	11	11	11	
Total Active Membership	4,771	4,578	4,420	4,418	4,271	

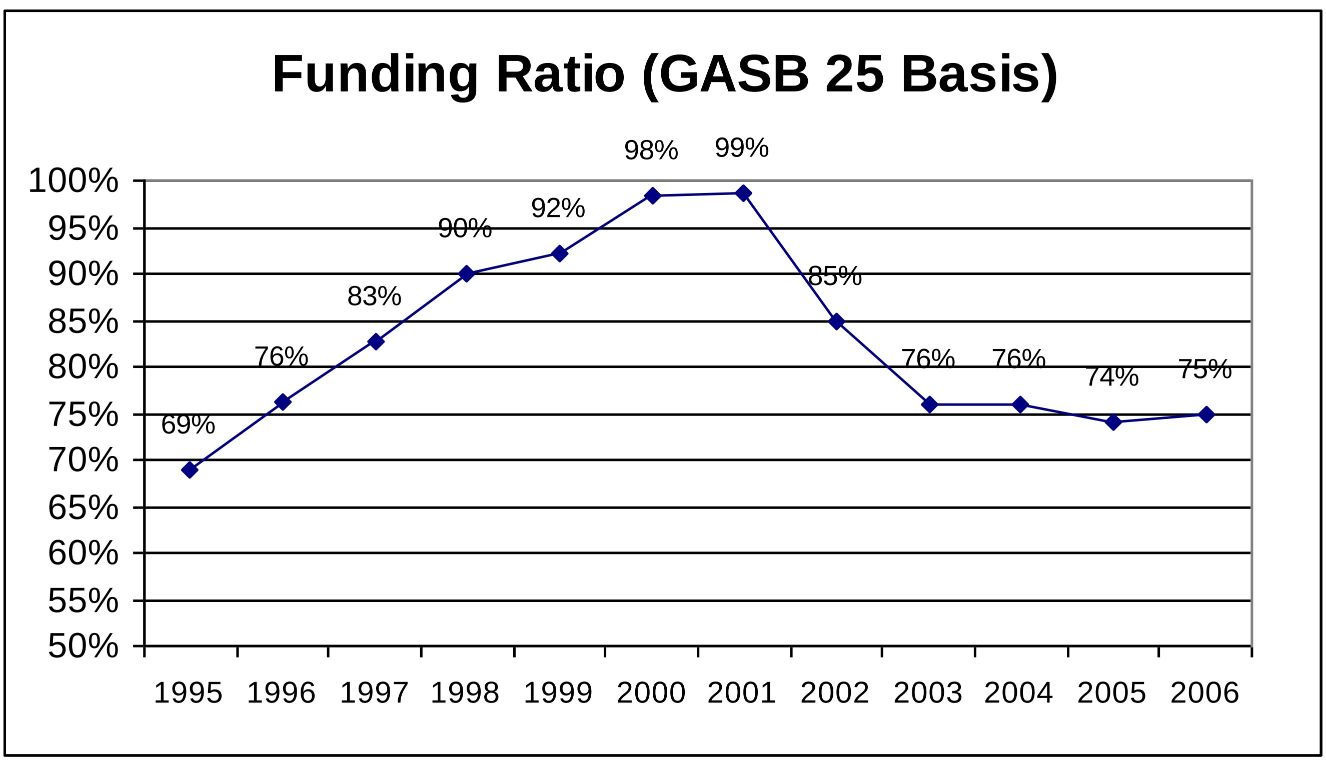

County Contribution Rate
30%
25%
20%
15%
10%
5%
0%
(As a % of Payroll)
1995
1997
1999
2001
2003
2005
Valuation Year
County NC Rate
UAAL Amort.
Member Rate


Historical Funded Ratios
100%
80%
60%
40%
20%
0%
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006


Contribution & Benefit Distribution
FY 1997 - 2006
$s in 000's
150,000
100,000
50,000
-
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Payroll Contribution
Benefit Distribution

THE COMPLIANCE SECTION


SamCERA Revenue & Expense
FY 2001 - 2006
$s in 000's
300,000
250,000
200,000
150,000
100,000
50,000
-
(50,000)
62,144
68,246
97,870
72,082
280,469
78,381
250,789
86,879
282,927
92,299
6/30/2001
6/30/2002
6/30/2003
6/30/2004
6/30/2005
6/30/2006
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%
74%
75%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Brown Armstrong Paulden
McCown Starbuck Thornburgh & Keeter
Certified Public Accountants

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: bainfo@bacpas.com

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

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

To the Members of the
San Mateo County Employees' Retirement Association
Board of Retirement

We have audited the financial statements of the San Mateo County Employees' Retirement Association, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. 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 Board of Retirement 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 THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
August 10, 2006