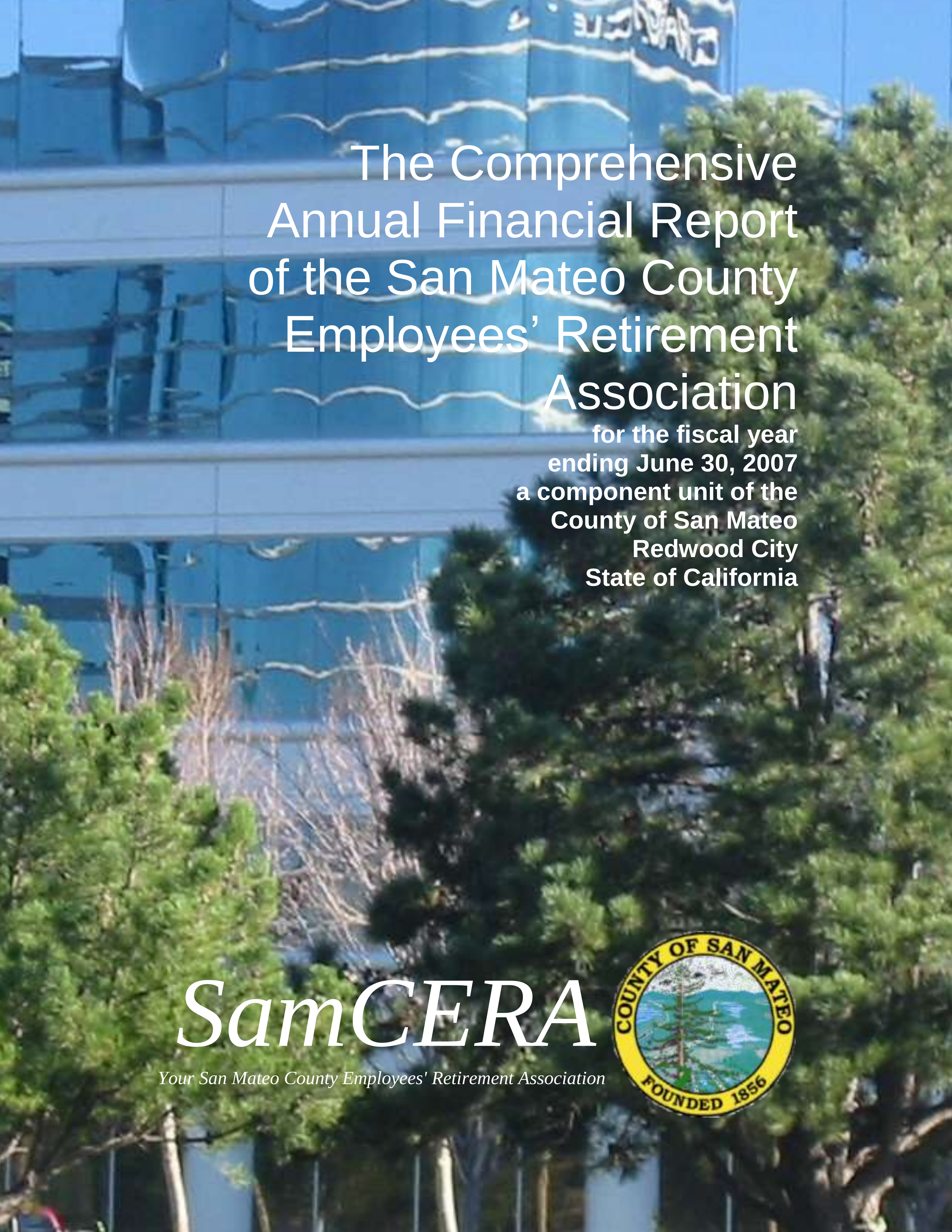

The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association

for the fiscal year ending June 30, 2007
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, 2007

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
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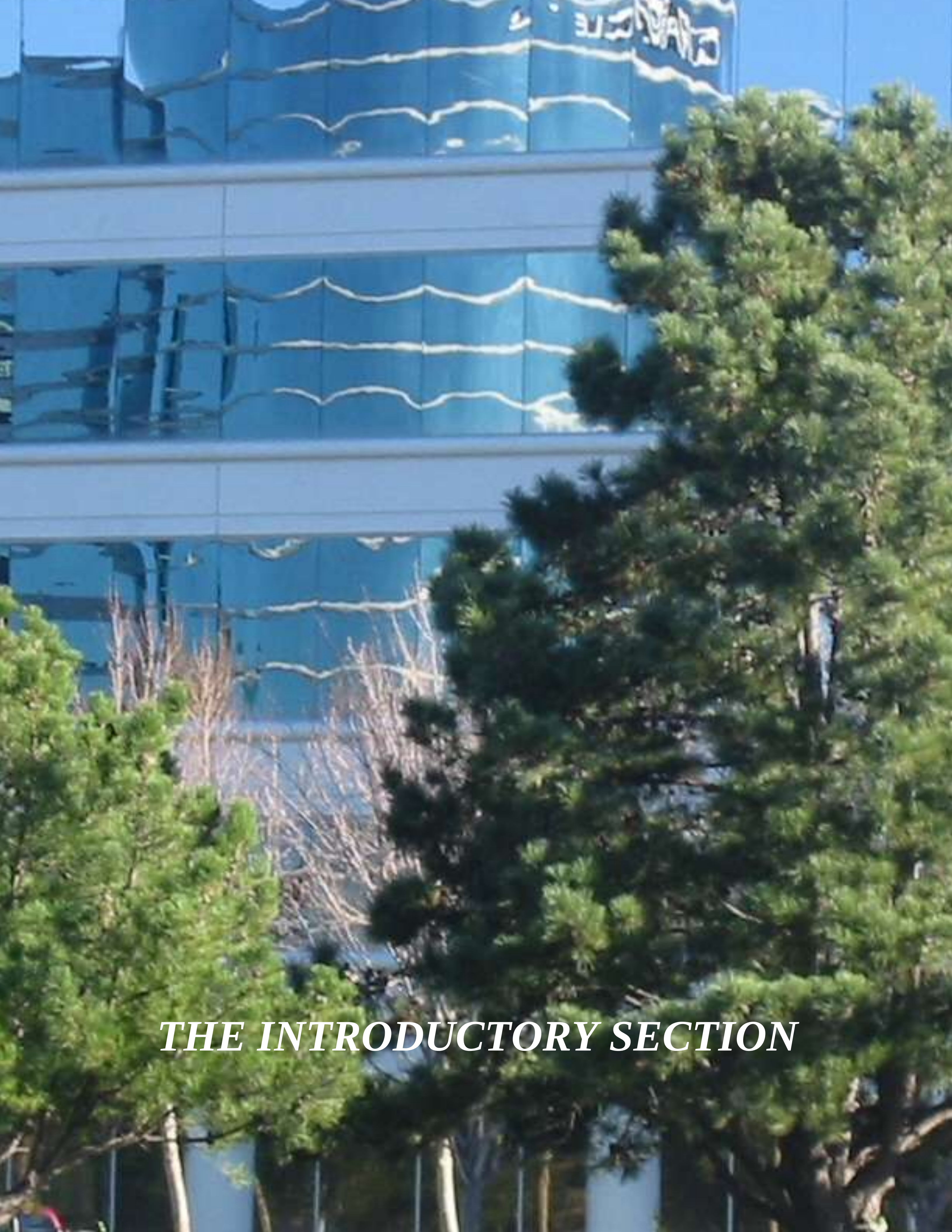


THE INTRODUCTORY SECTION

SamCERA's Mission

SamCERA exists to serve as loyal fiduciary for its members, retirees and beneficiaries and as prudent administrator of the retirement system.

SamCERA's Goals

Provide caring, fair, accurate, timely and knowledgeable professional service to SamCERA's clients and the public.

Prudently manage the assets and appropriately fund the actuarial liabilities of the retirement system to minimize the costs to its employers, while assuring the ability to pay all earned benefits.

Constantly improve the effectiveness of SamCERA's services and the efficiency of its operations.

August 10, 2007

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present you the *Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association* for the fiscal years ending June 30, 2007, and June 30, 2006.

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 18-25.

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 opined to early implement the new GASB *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, also known as GASB Statement No. 50. *SamCERA* early implemented this GASB statement for the year ended June 30, 2007.

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, 2007, 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 13.

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 fourteen full-time employees is 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, 2007

Plan (Tier)		One	Two	Three	Four	Total
Retirees and beneficiaries currently receiving benefits:						
	General	2,139	1,021	69	22	3,251
	Safety	285	71	0	3	359
	Probation	63	21	0	0	84
	Subtotal	2,487	1,113	69	25	3,694
Terminated employees entitled to but not currently receiving benefits (Deferred):						
	General	64	539	128	318	1,049
	Safety	4	37	0	19	60
	Probation	0	21	0	21	42
	Subtotal	68	597	128	358	1,151
Current employees:						
Vested:						
	General	181	1,450	64	1,153	2,848
	Safety	20	172	0	126	318
	Probation	11	91	0	132	234
Non-Vested:						
	General	1	0	67	1,851	1,919
	Safety	0	0	0	125	125
	Probation	0	0	0	95	95
	Subtotal	213	1,713	131	3,482	5,539
Total *SamCERA* Membership		2,768	3,423	328	3,865	10,384

I encourage you to review the following narrative introduction as well as the Management Discussion and Analysis beginning on page 18.

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 $1.790 billion to $2.132 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 $441,531,986.

Additions to SamCERA's Assets

Contributions	
Employer	$ 100,549,570
Employee	42,696,034
Total Contributions	143,245,604
Investment Income	308,936,504
Less investment expense	(10,676,682)
Net Investment Income	298,259,822
Other Additions	26,560
TOTAL ADDITIONS	$441,531,986

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 $99.8 million.

Deductions from SamCERA's Assets

SamCERA Benefits:	
Service retirement allowance	$82,654,968
Disability retirement allowance	11,348,855
Death and other benefits	784,479
Total Association benefits	94,788,302
Refunds of members' contributions	2,243,677
Administrative expense	2,582,026
Other Expenses	201,168
TOTAL DEDUCTIONS	$99,815,173

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, 2007.

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, 2007, the reserve was a positive $154,883,719 in the account. This amount is the unrecognized difference between *SamCERA*'s actual market returns and the returns generated by earnings greater than the actuarial interest rate of 7.75%. These actuarial gains 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 16.58%, approximately 44 basis points less than the Median Public Plan, and 61 basis points less than the performance of its policy benchmark.

SamCERA's Asset Allocation

	Target	June 30, 2007
Equity	67.0%	66.2%
Fixed Income	27.0%	26.2%
Real Estate	6.0%	7.4%
Cash	0.0%	0.2%

•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, 2007, *SamCERA*'s Actuarial Valuation Assets of $1.977 billion were equal to 77.4% of *SamCERA*'s Accrued Actuarial Liabilities of $2.556 billion, with full funding targeted for the year 2022. *SamCERA*'s Unfunded Actuarial Accrued Liability totaled $578.8 million on June 30, 2007, with an additional $154.9 million in the Market Stabilization Account.

The following table reflects recent contribution changes:

Contribution Rates Effective in Fiscal Year:	**2008-2009**	**2007-2008**	**2006-2007**
Employer Rate (Actuary's Estimated Aggregate)	**23.76%**	**24.71%**	**25.16%**
% Increase	*-0.95%*	*1.79%*	*10.17%*
Employee Rate (Actuary's Estimated Aggregate)	**9.70%**	**9.70%**	**9.71%**
% Increase	*0.00%*	*-0.10%*	*15.87%*

This report utilizes information from the actuarial valuation of the system as of June 30, 2007.

•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 were 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

In June 2007, *SamCERA* and the County Elections Division conducted three elections including it's first-ever election for an alternate retired trustee. The other elections were for the Eighth Member seat (the retired member) and the Third Member seat. Incumbents **Tom Bryan**, Third Member, and **Bette Stuart**, Eighth Member, were returned to their seats. Mr. Bryan, who was also elected to his fourth term as board chair in July 2007, has begun his 22nd year on the board. Ms. Stuart is beginning her 17th year on the board.

The winner of the election for Retired Member Alternate was **John Murphy**. Mr. Murphy had been appointed by the board earlier in the fiscal year.

Scott M. Lee was appointed to the Fifth Member position. Mr. Lee is a Chartered Financial Analyst and a Senior Vice President with Franklin Templeton responsible for Global Strategy.

After serving on the board since 1998, Ninth Member **Donna Colson** reached the limit of terms allowed by the County Board of Supervisors at the end of the 06-07 fiscal year. Her service was greatly appreciated. The Board of Supervisors appointed **Margaret Jadallah** to fill the Ninth Member position. Ms. Jadallah was with Strategic Investment Solutions for many years where she served as an investment advisor to *SamCERA*. She is currently a Principal with the Investment Services Group of Harris My CFO.

As noted above, **Tom Bryan** was elected by the board to serve as Board Chair for the 07-08 fiscal year. **Emily Tashman** will serve her second year as Vice Chair, and **James Hooley** will serve as 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 San Mateo County Treasurer **Lee Buffington**, First Member; County Benefits Manager **Paul Hackleman**, Second Member; and Deputy Sheriff **David Wozniak**, Seventh Member. Deputy County Treasurer **Sandra Arnott** substitutes for the Treasurer when needed. Probation Services Manager **Alma Salas** is the Safety Alternate.

SamCERA issued its second on-line Customer Services Survey in late 2006. Improved scores were received in every category and all ratings fell between good and excellent.

Beginning in January, *SamCERA* began working with MAXIMUS, Inc. to develop a Comprehensive Information Technology Plan. The plan calls for upgrades in the general ledger and pension processing systems over the next few years as well as implementation of an electronic data management system.

In April the Board of Supervisors adopted section 31658 of the '37 Act, otherwise known as Additional Retirement Credit or ARC Time. The section allows eligible members to purchase up to five years of additional retirement credit at full actuarial cost. Since adoption, *SamCERA* has responded to more than 500 requests for cost estimates, put an on-line estimator on the association website, and approved more than 20 contracts for ARC purchases.

SamCERA earned 16.58% for 06-07 fiscal year and passed the $2 billion mark in total assets. After working with investment consulting firm Strategic Investment Solutions in spring 2007 on an asset allocation study and manager structure review, *SamCERA* increased its allocation to international investments from 15 to 21 percent. Large cap domestic equities were reduced from 40 to 37 percent. Small cap domestic equities were reduced from 10 to 9 percent. Bonds were reduced from 29 to 27 percent. And Real Estate was unchanged at 6 percent of assets. No additional managers were retained.

In April 2007, the board set normal retirement ages for both its general and safety plans in order to help retired members determine if they are eligible to exclude from income taxation up to $3,000 in health insurance premium payments as allowed by the Pension Protection Act of 2006. The ages were established by determining the average ages of retirement within the association, which for general members was age 60 and for safety members was age 53. Since the board's actions, further guidance has been issued by the Internal Revenue Service. *SamCERA* continues to review the issue with its legal counselors.

In late 2006, the board again took up discussion of an "Undistributed Earnings Policy." The policy would establish a funding mechanism for the reimbursement of Medicare Part B and/or other ad hoc benefits. Milliman, Inc. is conducting a stochastic analysis of the policy.

In June 2007, the staff placed a Trustee Manual on the *SamCERA* website. The manual is available at www.samcera.org/trustee.html. The manual is essentially a set of hyperlinks to documents that cover board activities.

In early 2007, the staff reviewed its 2006-2007 Strategic Plan during a one-day retreat and in subsequent in-office meetings. The updated plan for the 2007-2008 fiscal year includes major objectives to improve and maintain the administrative infrastructure of *SamCERA*, assure that *SamCERA* continues to prudently administer its assets, improve and maintain *SamCERA's* customer services, and maintain and improve the tools and facilities *SamCERA* relies upon to perform its duties.

CERTIFICATE OF ACHIEVEMENT AND ACKNOWLEDGEMENTS

For the tenth 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, 2006. 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 fourth year running. We received this honor for our Popular Annual Financial Report (PAFR), for the fiscal year ended June 30, 2006.

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, 2006

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.

President

Executive Director

Members of the Board of Retirement

for the fiscal year ending June 30, 2007

TOM E. BRYAN, 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 and 2006-2007. His term expires June 30, 2010.

EMILY TASHMAN, Vice Chair *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, 2009.

BETTE PERROTON STUART, Secretary *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, 2010.

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, 2009.

DAVID WOZNIAK *elected by SamCERA's Safety Members, Seventh Member*

David Wozniak is a Deputy Sheriff with the San Mateo County Sheriff's Office. David joined the Board in July of 2006. His term expires June 30, 2009.

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, 2010.

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. Her term expired June 30, 2007.

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 2006. His term expires June 30, 2009. In fiscal year 2006-2007 Paul served as Chair of the Investment Committee.

SCOTT LEE *appointed by the Board of Supervisors, Fifth Member*

Scott Lee was appointed by the Board of Supervisors in March 2007 to complete the term of Kenneth Lewis, then was appointed to a full term beginning July 1, 2007. Scott is a Chartered Financial Analyst and a Senior Vice President with Franklin Resources. His term expires June 30, 2007.

Members of the Board of Retirement (continued)
Alternate Board Members

for the fiscal year ending June 30, 2007

SANDRA ARNOTT *constitutional alternate for County Treasurer*

Sandra Arnott is the San Mateo County Deputy Treasurer and substitutes for the County Treasurer on the Board of Retirement in his absence.

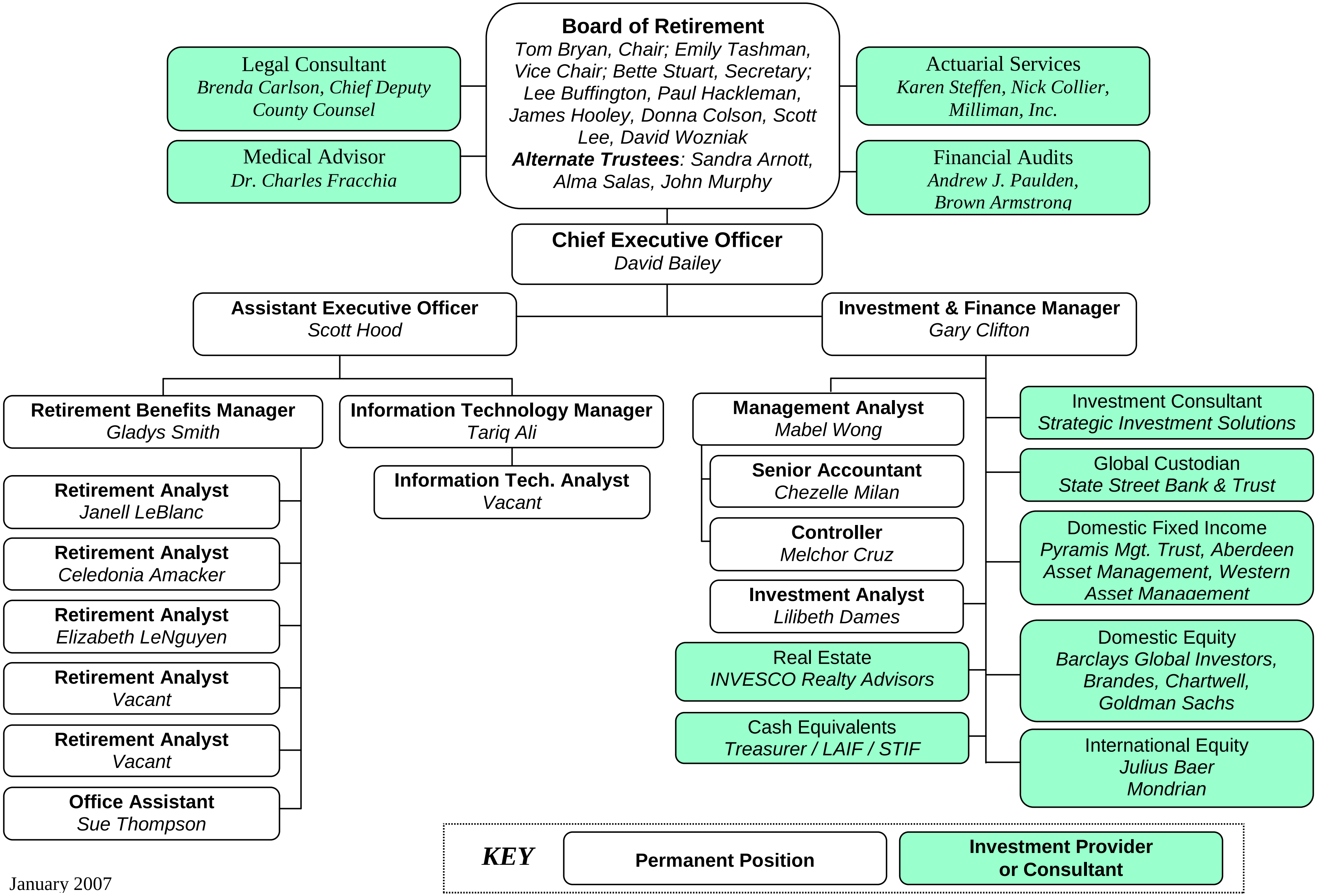
JOHN MURPHY *elected by SamCERA's Retired Members, as Eighth Member Alternate*

John Murphy is a retired member of *SamCERA*. John was appointed by the Board of Retirement in July of 2006 to serve as the Retiree Alternate. He serves in the absence of the Eighth Member. He was elected to the alternate retiree position in June 2007. His term expires June 30, 2010.

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

Alma Salas is a Deputy Probation Officer III with San Mateo County Probation and President of the Probation & Detention Association. Alma joined the board in May 2001. She served as board chair during the 2004-2005 fiscal year. She was elected to serve as the “Safety Alternate” for a term beginning July 2006. She serves in the absence of the Second Third and Seventh members. Her term expires June 30, 2009.

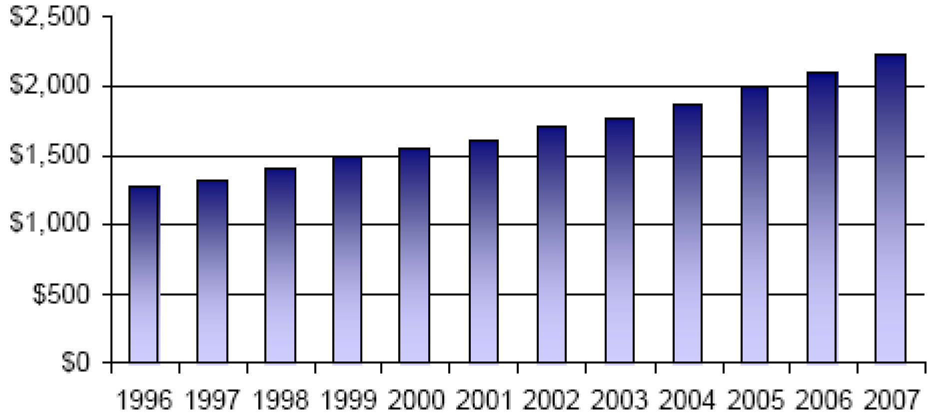
SamCERA Organizational Chart



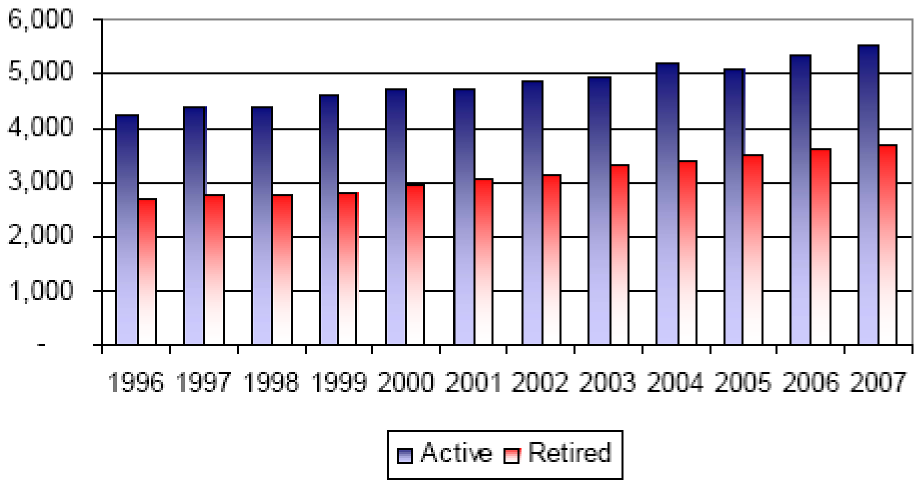
January 2007

A Schedule of Professional Services and Fees may be found on page 48 of the Investment Section.

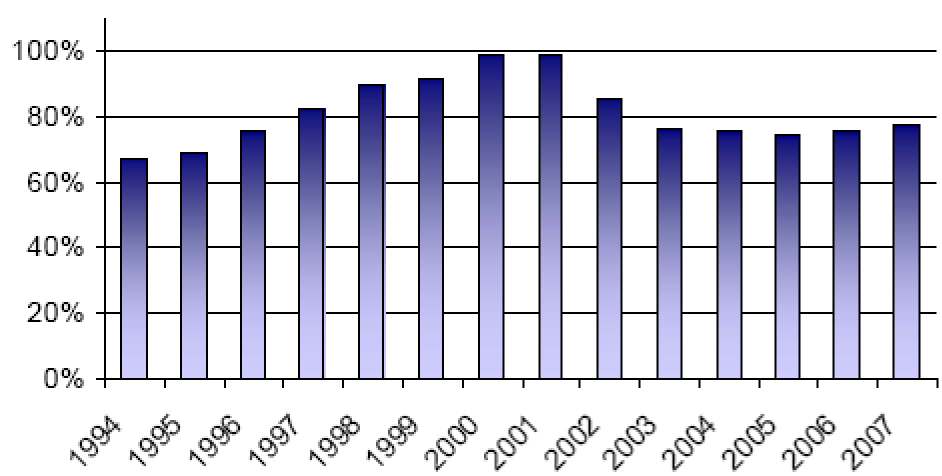
Average Monthly Retirement Benefit

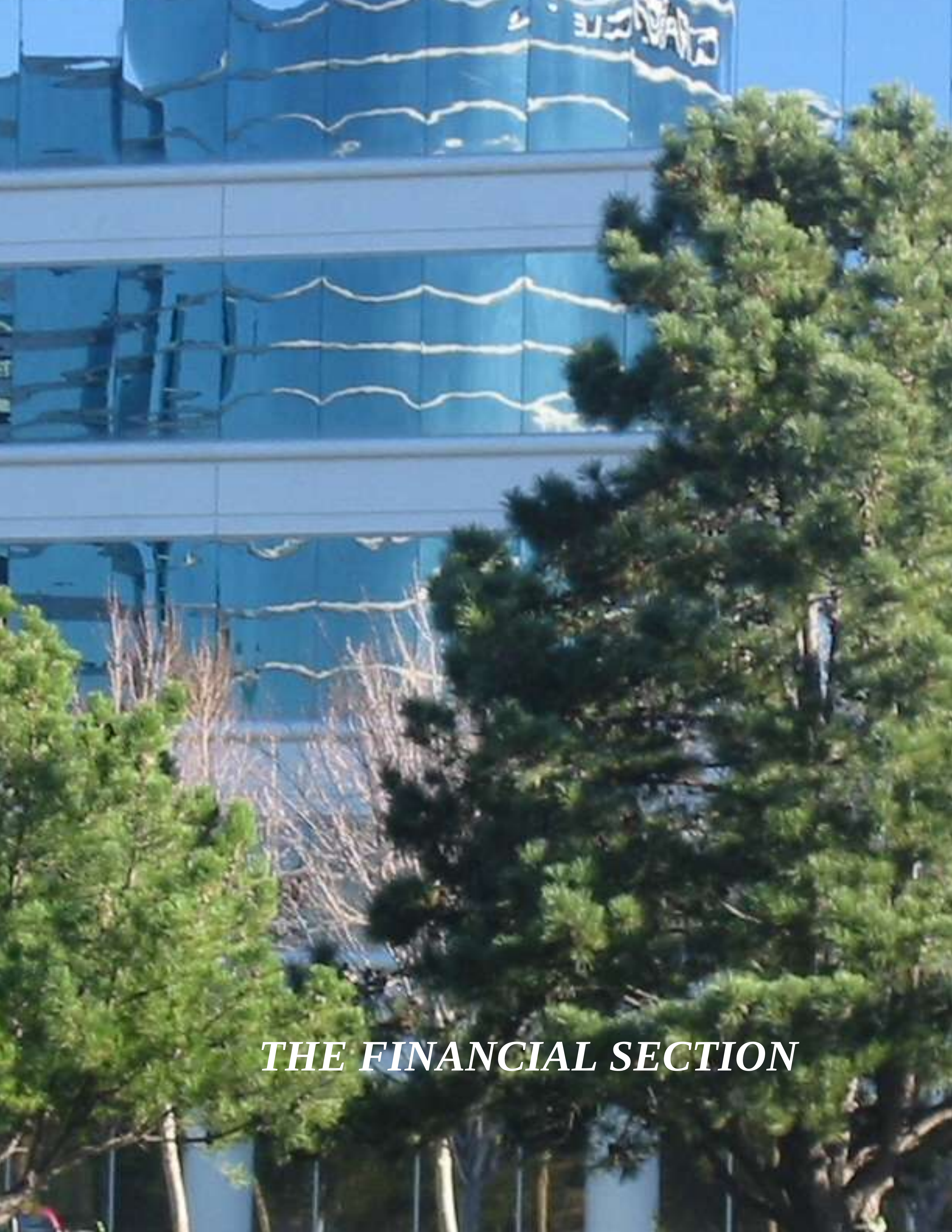


Membership Count



Historical Funded Ratios





THE FINANCIAL SECTION

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Alicia Montgomery, CPA, MBA
Matthew Gilligan, CPA
Ryan S. Johnson, CPA
Hanna J. Sheppard, CPA
Michael C. Olivares, CPA
Natalie M. Arduain, CPA
Ryan J. Nielsen, CPA
Amanda Fedewa, CPA

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 2006– 2007

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, 2007, and 2006. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 28, provides a clear picture of *SamCERA's* overall financial status and activities.

Financial Highlights

- $2,131,614,630 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 $341,716,813 or 19.09% 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, 2007, the actuarial funded ratio for *SamCERA* was 77.4%.
- Revenues (Additions to Fiduciary Net Assets) for the year were $441,531,986 which includes member and employer contributions of $143,245,604; investment gain of $308,936,504 (excluding investment expense of $10,676,682); and other additions of $26,560.
- Expenses (Deductions in Fiduciary Net Assets) increased from $92,299,003 to $99,815,173 over the prior year, or approximately 8.14%. Most of this increase was due to an increase in benefits paid.
- Post employment benefits are administered by the plan sponsor, San Mateo County. However, to provide clarity for the reader, *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.
- *SamCERA* early implemented GASB Statement No. 50, *Pension Disclosures*, effective for the year ended June 30, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

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, 2007. 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, 2007, was 19.09%. This increase is a significant indicator that *SamCERA's* overall financial position improved during the year. In fact, *SamCERA's* total gross fund return of 16.58% outpaced *SamCERA's* 7.75% actuarial assumed interest rate. Additionally the outlook for the future has improved from an actuarial perspective due to an increase in net deferred investment gains of \$134.0 million from \$20.9 million in 2006 to \$154.9 million in 2007 which 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 26-27.

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 28-43.

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. Although the postemployment benefit program is administered by the plan sponsor, San Mateo County, as clarification for the casual reader, *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 44-46.

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, 2007, totaled $2,131,614,630 which represents an increase of $341,716,813 or 19.09% 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 actuarial 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, 2007 and 2006	2007	2006	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$2,145,217,557	$1,799,045,503	$346,172,054	19.24%
Other Assets	$127,435,515	$93,487,581	$33,947,934	36.31%
Total Assets	$2,272,653,072	$1,892,533,084	$380,119,988	20.09%
Total Liabilities	$141,038,442	$102,635,267	$38,403,175	37.42%
Net Assets	$2,131,614,630	$1,789,897,817	$341,716,813	19.09%

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	$1,599,269,701	$190,628,116	11.92%

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 $9,338 in 2006 to $0 in 2007. The decrease in the balance of capital assets (net) in 2007 was due to the scheduled depreciation of computer hardware & business continuity assets. Capital assets include computer hardware and business continuity assets. In 2007, 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 resulted 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 which states 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 five years, *SamCERA's* Market Stabilization Account improved by nearly one half billion dollars, $428,299,045. At fiscal year-end 2002 the Account was ($273,415,326); by fiscal year-end 2007 the balance had become positive at $154,883,719.

***SamCERA's* Reserves (Table 2)**

As of June 30	2007	2006	2005
Valuation Reserves:			
Member Reserves	$359,484,306	$317,520,788	$281,230,984
Employer Advanced Reserves	$267,208,723	$237,937,565	$219,867,963
Retiree Reserves	$662,143,559	$608,740,188	$554,684,637
Cost of Living Reserves	$692,471,430	$630,374,435	$581,174,967
Non-Valuation Reserves:			
Unallocated Earnings/Loss Account	-$4,577,107	-$25,551,978	-$21,373,381
Market Stabilization Account	154,883,719	20,876,819	-$16,315,469
Net Reserves held in Trust for Pension Benefits	$2,131,614,630	$1,789,897,817	$1,599,269,701

Additions to Fiduciary Net Assets

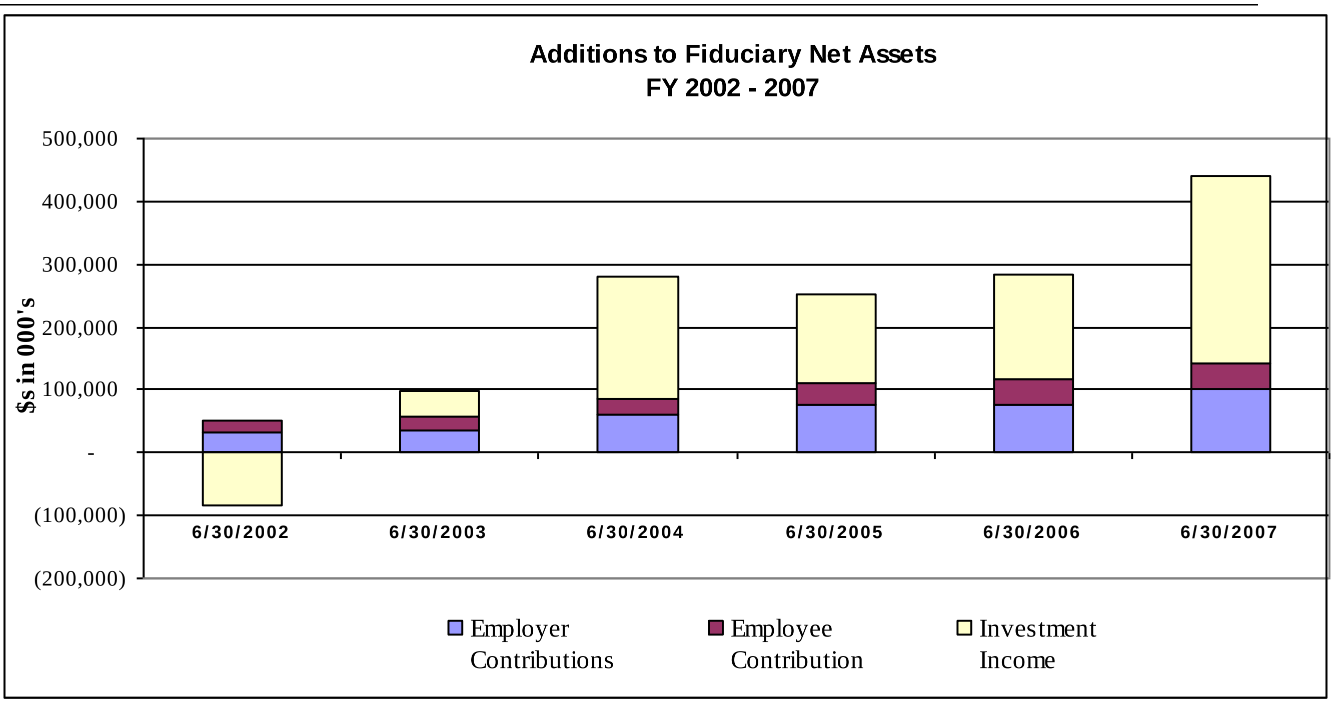
The primary sources of funding for *SamCERA* member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years ended June 30, 2007, and 2006 were $441,531,986 and $282,927,118, respectively. For 2007, the $158.6 million 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 2007 were $100.5 million, an increase of $24.5 million over the prior year as a result of an increase in the aggregate payroll. Member contributions were $42.7 million. This was a $2.7 million increase over 2006. The largest factor in the contribution rate increase was an increase in the total member payroll.

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

For the Years Ended June 30, 2007 and 2006	2007	2006	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$100,549,570	$76,089,599	$24,459,971	-1.09%
Member Contributions	$42,696,034	$39,962,616	$2,733,418	18.77%
Investment Income/(Loss)	$308,936,504	$175,345,112	$133,591,392	18.95%
Less Investment Expenses	-$10,676,682	-$8,519,247	-$2,157,435	16.99%
Other Additions	$26,560	$49,038	-$22,478	-38.29%
Total	$441,531,986	$282,927,118	$158,604,868	12.81%
Current Membership	10,384	10,057	327	3.25%

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	-$30,434	-38.29%
Total	$282,927,118	$250,789,165	$32,137,953	12.81%
Current Membership	10,057	9,801	256	2.61%



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, 2007, totaled $99,815,173, an increase of 8.14% over the prior fiscal year (refer to Table 4, page 24.)

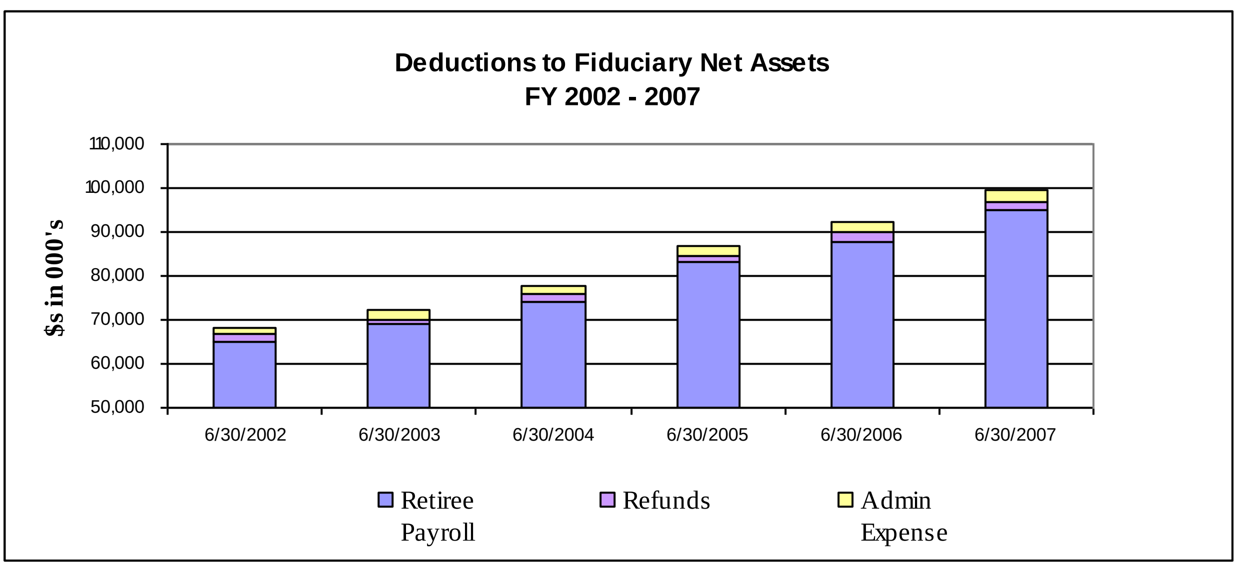
Deductions of $99,815,173 were exceeded by additions of $441,531,986, resulting in an increase of $341,716,813 in fiduciary net assets for the fiscal year ended June 30, 2007.

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

The Board of Retirement approves the annual budget, which controls administrative expenses and represents approximately 0.14% 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 increased by $496,056, or 23.8% last fiscal year. The increased expenditure is primarily attributable to an increase in the salary and benefit categories, which is a result of filling staff positions that were vacant in the prior fiscal year.

Expenses of *SamCERA's* professional services are included with investment expense. For the fiscal years ended June 30, 2007, and June 30, 2006, 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, 2007 and 2006	2007	2006	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$94,788,302	$87,914,564	$6,873,738	7.82%
Member Refunds	$2,243,677	$2,257,849	-$14,172	-.63%
Administrative Expenses	$2,582,026	$2,085,970	$496,056	23.78%
Other Expense	$201,168	$40,620	$160,548	395.24%
Total	$99,815,173	$92,299,003	$7,516,170	8.14%
Benefit Recipients (1)	3,694	3,613	81	2.24%

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	$5,420,116	6.24%
Benefit Recipients (1)	3,613	3,519	94	2.67%

(1) *For 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 $341.7 million for the year ended June 30, 2007. 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, 2007 and 2006	2007	2006	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,789,897,817	$1,599,269,701	$190,628,116	11.92%
Total Additions	$441,531,986	$282,927,118	$158,604,868	56.06%
Total Deductions	$99,815,173	$92,299,003	$7,516,170	8.14%
Ending Plan Net Assets	$2,131,614,630	$1,789,897,816	$341,716,814	19.09%

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	$250,789,165	$32,137,953	12.81%
Total Deductions	$92,299,003	$86,878,887	$5,420,116	6.24%
Ending Plan Net Assets	$1,789,897,816	$1,599,269,701	$190,628,116	11.92%

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, 2007

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2007, and 2006

	2007	2006
Assets:		
Cash and Deposits	$60,996,157	$55,438,617
Receivables:		
Contributions	5,547,335	4,474,291
Due from broker for investments sold	56,373,356	30,117,468
Investment income	4,275,585	3,334,420
Other receivables	182,570	105,778
Total Receivables	66,378,846	38,031,957
Prepaid Expense	60,512	7,669
Investments, at fair value		
Domestic fixed income securities	592,394,012	528,656,466
Domestic equities	944,261,933	879,251,915
International equities	451,951,391	273,589,355
Real estate	156,610,221	117,547,767
Total Investments	2,145,217,557	1,799,045,503
Capital assets, at cost, net of accumulated depreciation of $28,011 and $18,674 at 2007 and 2006, respectively.	0	9,338
Total Assets	2,272,653,072	1,892,533,084
Liabilities:		
Payables		
Investment management fees	1,511,285	1,378,369
Due to broker for investments purchased	138,826,805	98,561,942
Other	700,352	2,694,956
Total Liabilities	141,038,442	102,635,267
Net Assets Held in Trust For Pension Benefits (Note 3)	$2,131,614,630	$1,789,897,817

(See Schedule of Funding Progress presented on page 44)

The accompanying Notes to the Financial Statements beginning on page 28 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, 2007, and 2006

	2007	2006
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 100,549,570	$ 76,089,599
Member	42,696,034	39,962,616
Total Contributions	143,245,604	116,052,215
INVESTMENT INCOME		
Interest and dividends	39,887,256	32,160,351
Net appreciation in Fair value of investments	269,049,248	143,184,761
	308,936,504	175,345,112
Less investment expense	10,676,682	8,519,247
Net Investment Income	298,259,822	166,825,865
Other Additions	26,560	49,038
Total Additions	441,531,986	282,927,118
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	82,654,968	76,380,171
Disability retirement allowance	11,348,855	10,629,865
Survivor, death and other benefits	784,479	904,528
Total Association Benefits	94,788,302	87,914,564
REFUNDS OF MEMBERS' CONTRIBUTIONS	2,243,677	2,257,849
ADMINISTRATIVE EXPENSE (Note 3)	2,582,026	2,085,970
OTHER EXPENSE	201,168	40,620
Total Deductions	99,815,173	92,299,003
Net Increase	341,716,813	190,628,115
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	1,789,897,817	1,599,269,701
End of year	$2,131,614,630	$1,789,897,817

The accompanying Notes to the Financial Statements beginning on page 28 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, 2007, the Association membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	Tier One	Tier Two	Tier Three	Tier Four	Total
General	2,139	1,021	69	22	3,251
Safety	285	71	0	3	359
Probation	63	21	0	0	84
Subtotal	2,487	1,113	69	25	3,694
Terminated members entitled to but not currently receiving benefits (deferred):					
General	64	539	128	318	1,049
Safety	4	37	0	19	60
Probation	0	21	0	21	42
Subtotal	68	597	128	358	1,151
Totals Forwarded	2,555	1,710	197	383	4,845

Note 1 - Plan Description – General (Continued)

	Tier One	Tier Two	Tier Three	Tier Four	Total
Totals Forwarded					
Current Members:	2,555	1,710	197	383	4,845
Vested:					
General	181	1,450	64	1,153	2,848
Safety	20	172	0	126	318
Probation	11	91	0	132	234
Non-Vested:					
General	1	0	67	1,851	1,919
Safety	0	0	0	125	125
Probation	0	0	0	95	95
Subtotal	213	1,713	131	3,482	5,539
Total	2,768	3,423	328	3,865	10,384

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. 50, *Pension Disclosures* effective for the year ended June 30, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as Required Supplementary Information (RSI) by pension plans and by employers that provide pension benefits.

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 One, Tier Two, Tier Three and Tier Four). 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 Three is a non-contributory plan for members. For the other tiers, the member basic 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 remained the same at 9.70% for the fiscal year ended June 30, 2006 and the fiscal year ended June 30, 2007.

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 24.71% for the valuation ended June 30, 2006, to 23.76% in the valuation ended June 30, 2007. The most important factor causing this decrease in contribution rates was the positive investment return which caused a decrease in the UALL. The normal cost and UAAL contribution rates are shown in the following table.

	2007	2006	Change
Normal Cost	11.82%	12.15%	-0.33%
UAAL Amortization	11.94%	12.56%	-0.62%
Total Contribution Rate	23.76%	24.71%	-0.95%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	100,550	100%
2006	76,090	100%
2005	76,931	100%

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 the fiscal year ended June 30, 2007, 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. Throughout 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 2006/2007 prepayment was $725,852 less than contributions owed. The county made up this shortfall on June 30, 2007.

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 an 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 0.14% for the fiscal year ended June 30, 2007.

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:

	2007	2006
Salaries and member benefits	$1,726,564	$1,344,424
Services and supplies	846,125	732,209
Depreciation	9,337	9,337
Administrative Expenditures	$2,582,026	$2,085,970

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 the 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 on or 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 no 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. Therefore, 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 No. 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 No. 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 3.875% 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 cannot be less than zero.

Allocation of Earnings to Reserves – For the year ended June 30, 2007, *SamCERA's* allocation of earnings to reserves was $140.5 million. Earnings for each semi-annual period, resulting from the five-year smoothing process, were sufficient to provide credits to the reserves at the actuarial assumed interest rate in effect during the year, 3.875% 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 4.12% and 4.52% at December 31, 2006, and June 30, 2007, respectively. *SamCERA's* other valuation reserves were credited at the actuarial valuation rate of 3.875%. The difference between the actuarial valuation rate and the actuarial smoothed rate was credited to the Unallocated Earnings / Loss Account. The contributions to the account were $6.1 million on December 31, 2006 and $14.8 million on June 30, 2007.

Reserves required for reporting purposes by the 1937 Act:

	2007	2006
Member Deposit Reserve	$ 359,484,306	$ 317,520,788
Employers' Advance Reserve – Current Service	267,208,723	237,937,565
Retiree Member Reserve	662,143,559	608,740,188
Cost-of-Living Adjustment Reserve	692,471,430	630,374,435
Total Allocated Reserves	1,981,308,018	1,794,572,976
Unallocated Earnings / Losses Account	-4,577,107	-25,551,978
Market Stabilization Account	154,883,719	20,876,819
Net Assets Held in Trust for Pension Benefits	$2,131,614,630	$1,789,897,817

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 Reserve 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, 2007, balance in the Market Stabilization Account of $154.9 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 consists 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 January 23, 2007, is 67% equities, 27% fixed income securities and 6% real estate. At June 30, 2007, actual asset allocation was 66.2% equities, 26.2% fixed income securities, 7.4% real estate and 0.2% 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, 2007. 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 No. 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, 2007, *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 a 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, 2007, *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, 2007, 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	$ 12,261,015	5.91	10.56	5.47
Asset Backed Securities	15,751,445	3.56	3.47	1.94
CMBS	15,165,023	5.29	5.13	4.13
CMO	97,094,306	2.46	3.18	2.52
Commingled Funds	11,784,158			
Convertible	311,770			
Corporate Bonds	62,504,397	5.72	12.60	6.67
Mortgage Pass Through	118,019,097	5.25	25.76	8.41
Taxable Municipal Bonds	7,788,434	5.15	9.83	5.79
Preferred Stock	142,590			
Private Placement	3,154,753	2.41	32.68	8.58
United States Treasuries	49,333,572	5.01	11.35	7.49
Sovereign Governments	14,951,600	4.43	8.95	5.84
Totals	$408,262,160	4.66	14.11	6.20

Enhanced Index Fixed Income Portfolio Characteristics
Pyramis Global Advisors Broad Market Duration Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Pyramis Global Advisors	$184,131,852	4.41%	7.32	4.61

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, Pyramis Global Advisors models 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* investment policy seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class. To control 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, 2007 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	46.6%	61.8%
AA	27.7%	10.2%
A	3.7%	9.6%
BBB	19.0%	18.2%
Less than BBB	0%	0.2%
NR	3.0%	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 thirty 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, 2007. However, investment managers are lending securities held in the name of indexed portfolios in which the Association has a unit value interest.

The Association is reinstituting its security lending program effective July 1, 2007. Please refer to Note 7 - Subsequent Events.

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, 2006, and June 30, 2007, and determined the funding status (the ratio of system assets to system liabilities) to be 75.4% and 77.4%, respectively. The June 30, 2007, 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 4.0% 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, 2007, valuation, which determined a funded ratio of 77.4% recognized an Unfunded Actuarial Accrued Liability (UAAL) of $578.8 billion. The employer contribution rate, which has an effective date of June 30, 2008, was, therefore, set equal to 11.94% of payroll for the amortization of the UAAL over the remaining 14 years, plus the normal cost rate of 11.82% for a total contribution rate of 23.76% of payroll. A schedule of *SamCERA's* funding progress may be found in the required supplementary information on page 44.

Additional information regarding the actuarial methods and significant assumptions used as of the latest actuarial valuation of plan assets and liabilities follows:

Latest Actuarial Valuation of Plan Assets & Liabilities

Valuation Date	June 30, 2007	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent – closed	
Remaining Amortization Period	15 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%

Statement No. 50 of the Governmental Accounting Standards Board, *Pension Disclosures*, mandates that the above information regarding actuarial methods and significant assumptions appear in the notes to the financial statements. Historically this information appeared in the required supplementary information section following the notes. For this transition year, the information will appear in both sections.

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.

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 2006-07, *SamCERA* contributed $22,952 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 No. 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 *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	$54,600
Interest on net OPEB obligation	1,490
Adjustment to annual required contribution	(873)
Annual OPEB cost (expense)	55,217
Contribution Made	(22,952)
Increase in net OPEB obligation	32,265
Net OPEB obligation – beginning of year	21,304
Net OPEB obligation – end of year	$53,569

SamCERA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2006-07, is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2006	$39,251	45.7%	$21,304
6/30/2007	$55,217	41.6%	$53,569

Funded Status and Funding Progress. Note that the following dollar amounts represent the status of the entire program, which is administered by the County of San Mateo not *SamCERA.* As of January 1, 2007, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$169,683,000
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$169,683,000
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$372,648,000
UAAL as a percentage of covered payroll	45.5%

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 of the County of San Mateo Comprehensive Annual Financial Report, 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 January 1, 2007, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9 percent in 2007, reduced by one percent each year to an ultimate rate of 5 percent in the fifth year and beyond; annual dental and vision cost trend rate of 5 percent; negotiated annual increase in county-paid benefit and a 4 percent annual increase in projected payroll. 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 percentage of projected payroll on a closed basis. The remaining amortization period is twenty-eight years.

Note 7 – Subsequent Events

Additional Retirement Credit - In April the Board of Supervisors adopted section 31658 of the '37 Act, otherwise known as Additonal Retirement Credit or ARC Time. The section allows eligible members to purchase up to five years of additional retirement credit at full actuarial cost. Since adoption, *SamCERA* has responded to more than 500 requests for cost estimates, put an on-line estimator on the Association website, and approved more than 30 contracts for ARC purchases. However this program is not effective until July 1, 2007.

Security Lending - *SamCERA's* custodian, State Street Bank & Trust, provided the board with an educational overview of security lending. The presentation gave an historical perspective of the security lending industry, an overview of the industry today, a discussion of the risks associated with lending, a description of the mechanics of lending, details of what drives returns, and a discussion of what to look for when implementing a successful lending program. From this presentation the board opined that it preferred to renew security lending. Contracts were negotiated with the goal of renewing the security lending portfolio as of July 1, 2007.

Note 8 – 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, 2007, *SamCERA* had no outstanding capital commitments to the core fund

Note 9 – Contingent Liability

SamCERA is subject to legal proceedings and claims, which arise in the ordinary course of its business. There are currently no such actions to be adjudicated or reported.

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)
6/30/02	$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%	$368,972	156.14%
6/30/07	$1,976,731	$2,555,504	$578,773	77.4%	$407,812	141.92%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	$33,541	100%
2003	$36,070	100%
2004	$60,042	100%
2005	$76,931	100%
2006	$76,090	100%
2007	$100,550	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 (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/06	$0	$135,678,000	$135,678,000	0.0%	$323,340,000	42.00%
7/01/07	$0	$169,683,000	$169,683,000	0.0%	$372,648,000	45.50%

**This schedule is provided for the casual reader's information. OPEB is not administered by SamCERA. It is administered by the Plan Sponsor, County of San Mateo. There are currently only two years of data available.*

Notes to Required Supplementary Information

The Association provides the valuation of plan assets and liabilities, which 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. With the implementation of GASB 45 the County of San Mateo provides an actuarial valuation for other post employment benefits, which appears in its Comprehensive

Annual Financial Report. As an aide to the casual reader *SamCERA* will also provide this information with the notational that the program is administered by the plan sponsor.

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, 2007	
Actuarial Cost Method	Entry Age Normal Cost	
Amortization Method	Level Percent – closed	
Remaining Amortization Period	15 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	January 1, 2007
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percentage of projected payroll
Remaining Amortization Period	28 years at June 30, 2007
Asset Valuation Method	2-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	6.9%
Additional Actuarial Assumptions	Detailed in text below.

Additional actuarial assumptions include: an annual healthcare cost trend rate of 9 percent in 2007, reduced by one percent each year to an ultimate rate of 5 percent in the fifth year and beyond; annual dental and vision cost trend rate of 5 percent; negotiated annual increase in county-paid benefit and a 4 percent annual increase in projected payroll.

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, 2007, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 77.4% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principles of entry age normal cost finding.

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 15 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 of Employer Contributions 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, 2007 and 2006

	2007	2006
Salaries and Member Benefits	$1,726,564	$1,344,424
Services and Supplies	846,125	732,209
Depreciation	9,337	9,337
Total Administrative Expense	$2,582,026	$2,085,970

Administrative Budget Analysis
Budget to Actual Expenditure
As of June 30, 2007

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$1,183,400	$1,183,324	100.0%
Benefits	544,100	543,240	99.8%
Salaries & Benefits	$1,727,500	$1,726,564	99.9%
Board Expenses	9,200	6,400	69.6%
Insurance	85,000	80,676	94.9%
Medical Evaluation	20,000	3,514	17.6%
Member Education	10,000	0	0.0%
Education & Conference	52,800	45,645	86.4%
Transportation & Lodging	55,000	52,066	94.7%
Software License & Maintenance	124,000	70,917	57.2%
Property & Equipment	50,000	20,024	40.0%
General Office Supplies	15,500	15,486	99.9%
Postage, Printing & Copying	80,000	54,440	68.0%
Leased Facilities	160,000	112,202	70.1%
County Service	320,000	319,286	99.8%
Audit Services	45,000	44,579	99.1%
Other Administration	26,000	20,890	80.3%
Services & Supplies	$1,052,500	$846,125	80.4%
Capital Assets	100,000	0	0.0%
Depreciation	0	9,337	0%
Grand Total	$2,880,000	$2,582,026	89.7%

Schedule of Investment Expenses
For the Year Ended June 30, 2007 and 2006

	2007	2006
Investment Manager		
Aberdeen Asset Management (1)	$ 429,638	$ 423,581
Barclays Global Investors	1,267,658	1,090,505
Brandes Investment Partners	413,349	386,141
Chartwell Investment Partners	395,009	391,640
Pyramis Global Advisors	270,184	127,154
Goldman Sachs Asset Management	510,318	506,063
INVESCO Realty Advisors	746,411	515,627
Julius Baer Investment Management	894,621	765,879
Mondrian Investment Partners	555,543	424,899
Western Asset Management	429,326	388,131
Global Custodian		
State Street Bank	129,693	125,580
Professional Expense	6,041,750	5,145,200
Consultant Expense	237,250	353,617
Other Investment Related Expense	768,863	0
Interest Paid on Prepaid Contribution	3,628,819	3,020,430
Total Investment Expense	$10,676,682	$8,519,247

(1) Formerly know as Fidelity Management Trust Company

Schedule of Payments to Consultants
For the Year Ended June 30, 2007 and 2006

	2007	2006
Investment Consultant Expense		
Strategic Investment Solutions	$185,000	$194,167
Actuarial Consultant Expense		
Milliman, Inc.	52,250	63,750
Public Pension Professionals	0	95,700
Total Consultant Expense	$237,250	$353,617

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.*

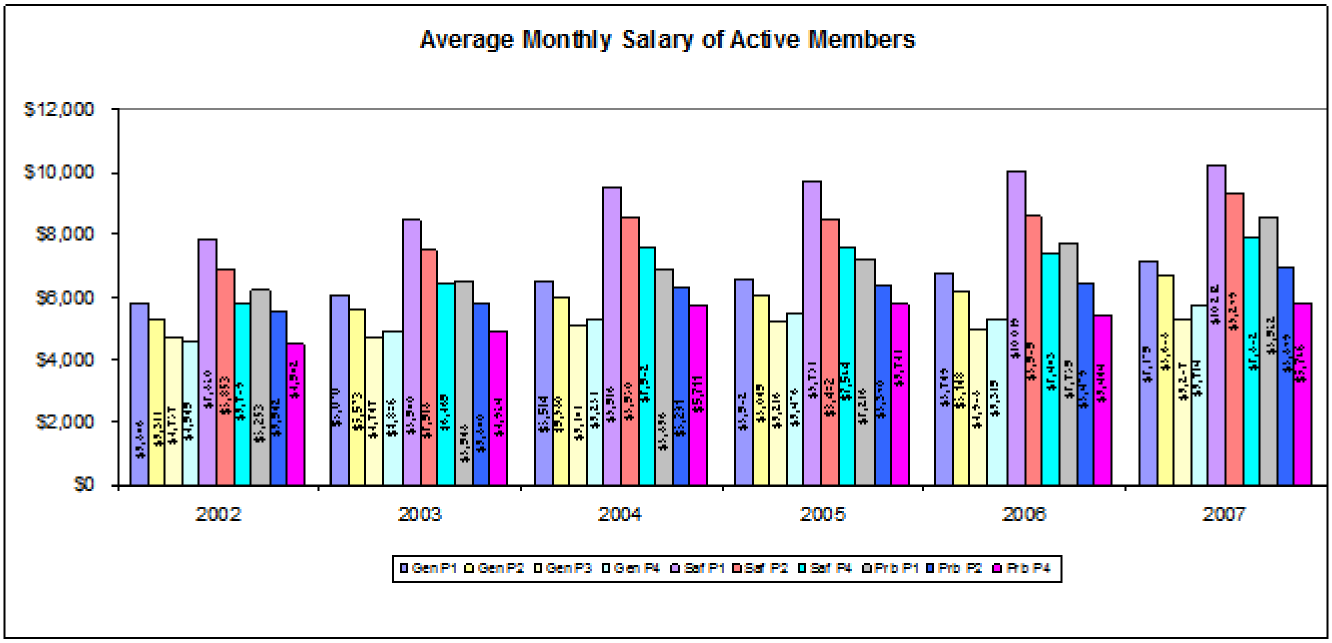
(b) The compensation of any bank or trust company performing custodial services.

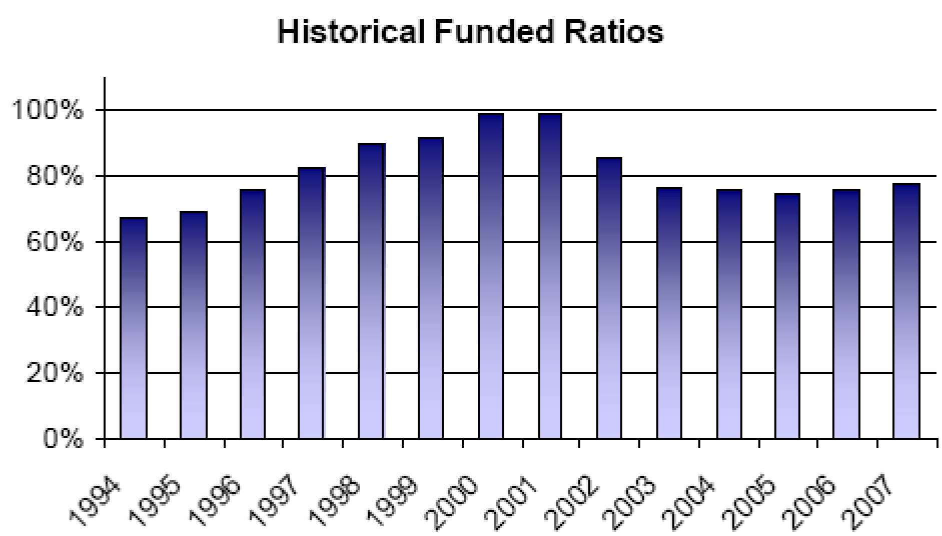
(c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.

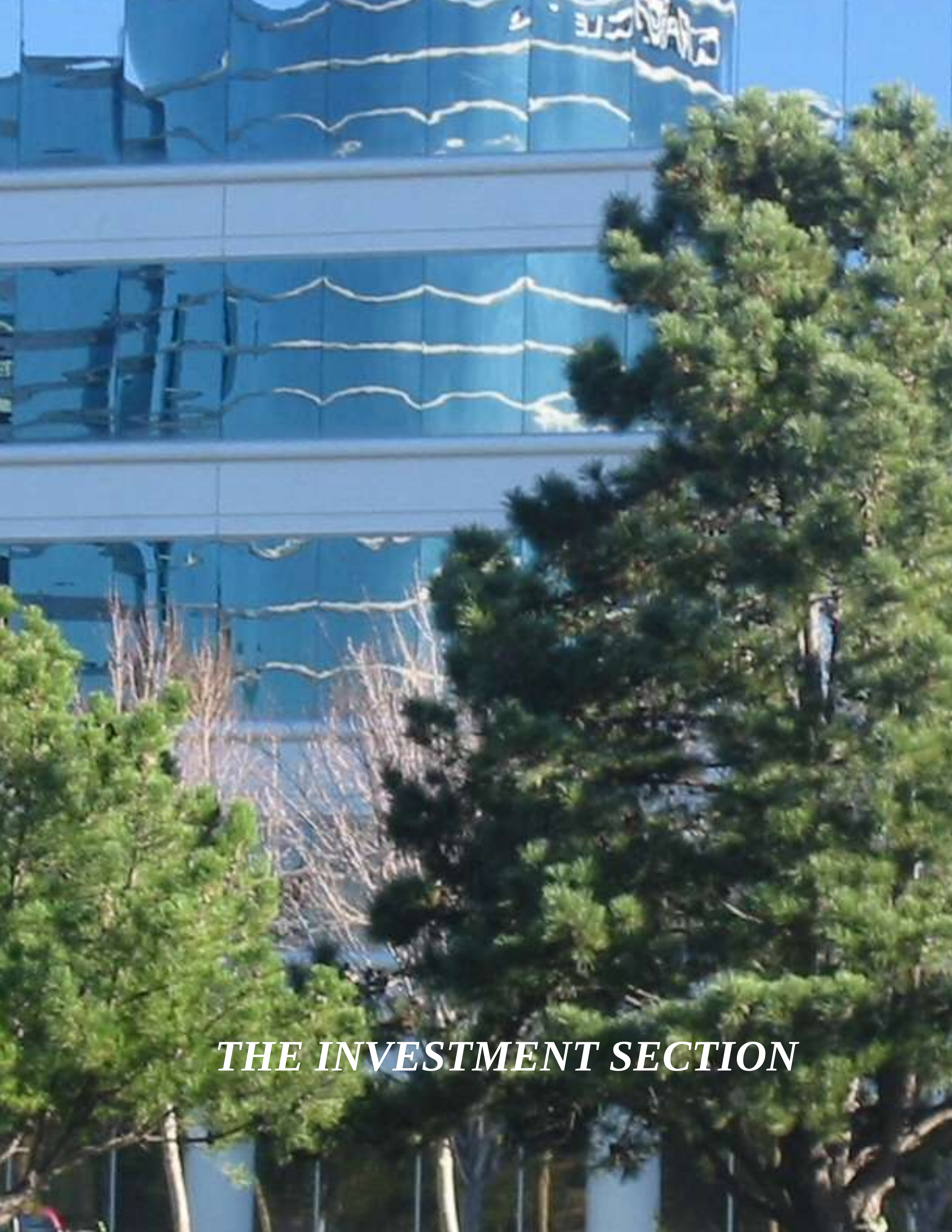
(d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.

(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.


Average Monthly Salary of Active Members
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
2002
2003
2004
2005
2006
2007
Gen P1
Gen P2
Gen P3
Gen P4
Saf P1
Saf P2
Saf P4
Prb P1
Prb P2
Prb P4

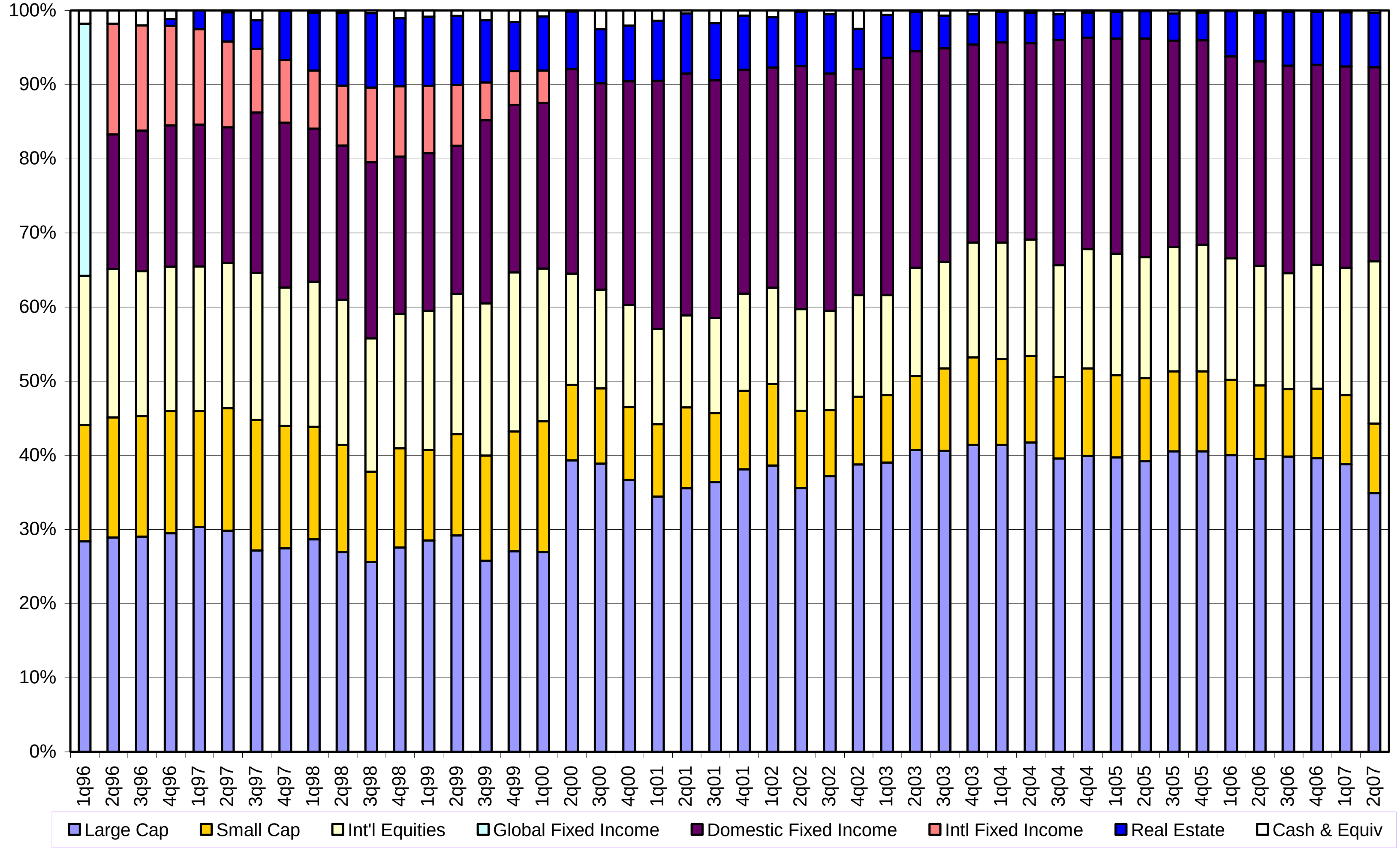

Historical Funded Ratios
100%
80%
60%
40%
20%
0%
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007



THE INVESTMENT SECTION

Actual Historical Quarterly Asset Allocation

Periods Ended June 30, 2007



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, 2007. 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 16.58% return on investments for the one-year period ended June 30, 2007, with attractive returns generated by each asset class. International stocks had particularly strong performance, posting a return of 30.09%. However, the total fund underperformed the performance benchmark as established by the Board of Retirement.

Portfolio appreciation added approximately $300 million to the fund, raising the net portfolio market value to a record $2.131 billion.

The positive gain for the fiscal year strengthened *SamCERA's* long-term performance. Annually compounded over the five years, *SamCERA's* investment portfolio returned 11.26%, which approximates the total fund benchmark of 11.29%. It is 326 basis points ahead of the annualized actuarial assumption rate which is 8.00%.

At year end, U.S. and international stocks represented 66.2% of *SamCERA's* assets. Bond investments represented 26.2%; real estate 7.4% and cash 0.2%.

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, 2007

STRATEGIC INVESTMENT SOLUTIONS, INC.

September 7, 2007

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

Dear Board Members:

US pension portfolios experienced continued beneficial times during fiscal year 2007. Building on gains achieved during a nearly five year long cycle since the market low in late 2002, global equity markets provided another healthy year of returns to investors. Continued moderate economic growth, the end of the Federal Reserve's tightening regime, and relatively low longer term interest rates provided a constructive environment for all classes of equities. Concerns remained in the capital markets due to a number of ongoing factors, principal among them a weakening US housing market. However, newly resurgent growth in overseas markets and economies, especially in the emerging markets countries, largely offset these domestic worries. An ongoing flood of private equity buying power also seems to have supplied buoyancy to global equity markets.

Throughout much of fiscal year 2007, investors worried over the possibility that the Federal Reserve would continue tightening monetary policy to head off incipient inflation. It is now clear that the Federal Reserve's eighth consecutive rate hike that brought the federal funds short-term lending rate to 5.25% on June 30, 2006, was not just a pause, but its last for the cycle. One of the key economic backdrops to the year was new Fed chairmen Ben Bernanke's efforts to earn the confidence of investors in his first year on the job. By most indications, markets are signaling satisfaction with Bernanke's stewardship and with overall Federal Reserve policies so far.

For fiscal year 2007, *SamCERA's* total fund enjoyed strong growth as total assets passed $2 Billion and performance was comfortably higher than Plan's actuarial assumption of 7.75%. *SamCERA's* investment portfolio returned 16.58%, just behind the index policy return of 17.19%. The double-digit return for the fiscal year ended June 30, 2007 was achieved despite higher volatility, which included sharp negative market events in February and June. While the Plan's broad International Equity and Fixed Income asset classes produced returns in excess of their respective benchmarks, the US Equity and Real Estate returns lagged their policy benchmarks for the fiscal year.

During the year, *SamCERA* completed a full Asset Liability Study to re-examine its total plan strategic allocation targets. The study suggested a greater weight to international and slightly more equity exposure overall. As a result, SamCERA increases its international equity allocation from 15% to 21%, decreased its US equity allocation from 50% to 46%,, and decreased total Fixed Income from 29% to 27%. No change was made to the 6% Real Estate allocation. The new total plan asset allocation became effective in February of 2007.

SamCERA's policy benchmark, comprising the asset classes and target percentages listed above, ranked in the 47th percentile of the Independent Consultant's Cooperative Large Public Funds Universe for the fiscal year ended June 30, 2007. *SamCERA's* portfolio return of 16.58% placed it in the 58th percentile of the universe.

During fiscal year 2007, the Plan also undertook a study of its major asset classes to re-examine its manager structures in US and International equity and Fixed Income. The Board decided to maintain the existing manager structures in the Fixed Income and International equity asset classes. In US equity, the Board increased the exposure to enhanced indexation to 80% of its large company investments, effective near the end of the fiscal year in May. Although the small company structure was not changed, the Board is monitoring its managers closely in this area. Overall, SamCERA's manager structure implementation remains conservative with generally low levels of portfolio risk relative to their benchmarks across the asset classes.

In fiscal year 2007, US broad equity markets posted strong returns. The Russell 1000 Index returned 20.43% for the fiscal year and the Russell 2000 Index returned 16.44%. This was the first year of outperformance of large cap indexes over small since 1999. In another departure from recent capital market experience, style-related performance differences were not significant during the fiscal year, as growth and value indexes across the capitalization spectrum all performed within 1% of one another. The international equity MSCI ACWI Free Ex-U.S. Index, a broad proxy of non-US stocks, had another outstanding year, posting a 30.15% gain for U.S. dollar investors. In a fairly stable interest rate environment, investment grade bonds managed in a 6.11% return, as measured by the Lehman Aggregate Bond Index. Real estate enjoyed its third unusually strong fiscal year in a row, with the NCREIF Index returning 17.24% during the period.

SamCERA's US Equity portfolio lagged its equity policy benchmark by 178 basis points during the fiscal year. US Large Cap Equity, comprising the majority of the Plan's US Equity assets, provided a low risk anchor to the portfolio. For most of the period (the US equity structure was changed in May of 2007), half of the US Large Cap assets were invested in BGI's passive Russell 1000 Index Fund that effectively matched its benchmark's return. The other half of US Large Cap assets in BGI's Russell 1000 Alpha Tilts enhanced index strategy underperformed the benchmark by almost 309 basis points the fiscal year. After posting a surprisingly high alpha in fiscal 2006, the BGI enhanced index investment produced an equally surprising shortfall in fiscal 2007. Over its entire tenure with SamCERA, the portfolio has provided returns slightly above its benchmark.

SamCERA's Small Cap composite underperformed its benchmark by 280 basis points due to the return shortfall of Goldman Sachs' Structured Small Cap portfolio. Goldman Sach's Structured Small Cap enhanced index approach, comprising half of the Plan's Small Cap assets, returned 8.82% versus 16.44% 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, outperformed its index by 172 basis points as its significant auto components weighting in the portfolio gained value. Following a painful initial holding period, this overweight in the portfolio continues to yield positive returns. Chartwell Small Cap Growth, *SamCERA's* third small cap manager with one-quarter of small cap assets, also performed well, beating the small cap index by 201 basis points over the fiscal year.

During fiscal year 2006, *SamCERA's* International Equity composite returned 32.49% versus the benchmark's return of 30.15%. Both international equity managers achieved performance in excess of the MSCI All Country World excluding US index. Julius Baer was again noteworthy as it outperformed the index by the substantial margin of 473 basis points over the fiscal year.

SamCERA's Fixed Income portfolio outperformed the Lehman Aggregate Index by 20 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 15 basis points over the benchmark for the fiscal year. Fidelity Enhanced Index Fixed Income, *SamCERA's* newest fixed income manager, lagged the benchmark by 7 basis points in fiscal 2007.

For the year ended June 2007, NCREIF posted a 17.24% return while *SamCERA's* real estate manager INVESCO posted a return of 14.36%. 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. Despite its conservative posture, the Plan has performed quite well during the high return environment of the past three years, achieving returns above its policy index and those of the average large public plan. Recent strategic initiatives to increase the allocation to international equity and expand the use of active management have positioned the plan to continue to provide well for its participants in the future.

Sincerely,
Strategic Investment Solutions

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)

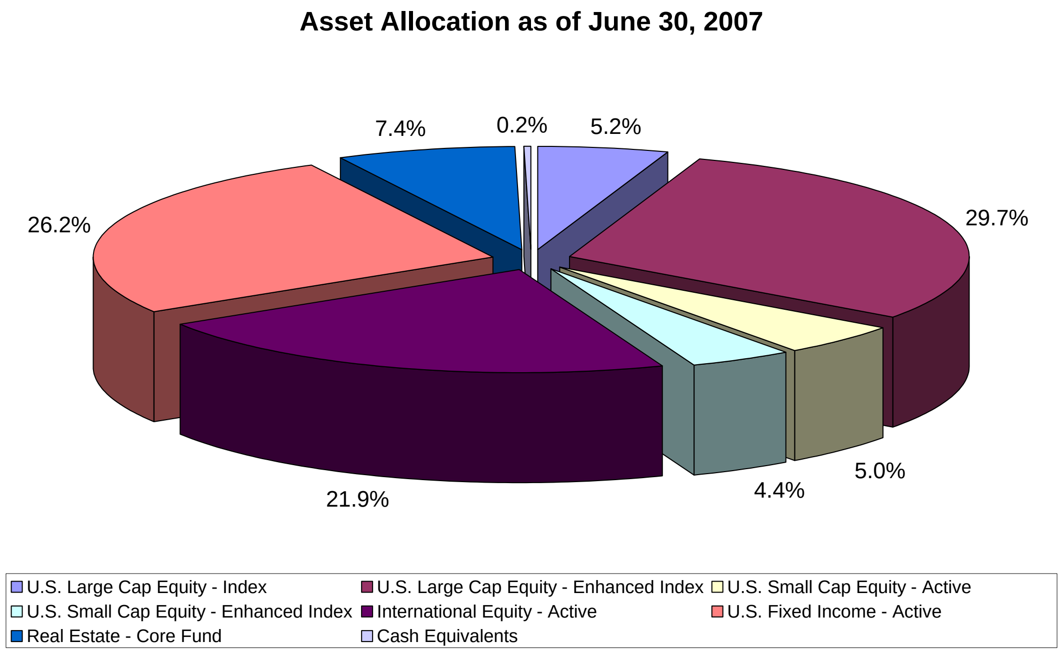
The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated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

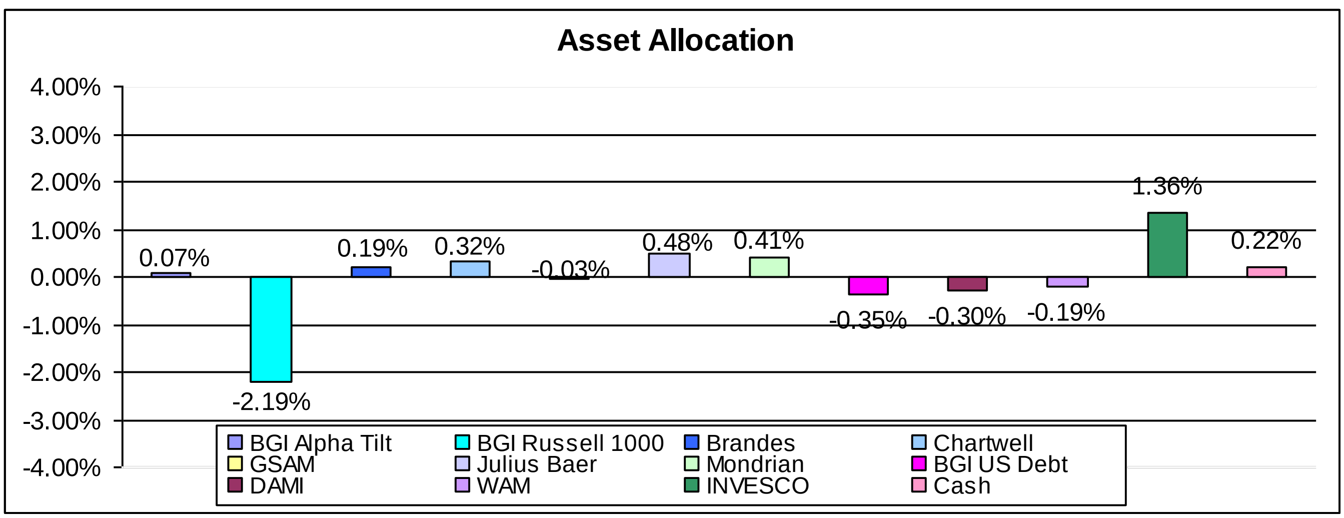
The board discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION

Asset Class	Allocation		June 30 Actual	
Equity	67%		66.2%	
Fixed Income	27%		26.2%	
Real Estate	6%		7.4%	
Cash	0%		0.2%	
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	37%		34.9%	
Indexed		37%		34.9%
Domestic Small Capitalization	9%		9.4%	
Active		9%		9.4%
International	21%		21.9%	
Active		21%		21.9%
Total Equity	67%		66.2%	
Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	27%		26.2%	
Enhanced Indexed		9%		8.7%
Active		18%		17.5%
Total Fixed Income	27%		26.2%	
Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		7.4%
Total Real Estate	6%		7.4%	
Total Cash & Cash Equivalents	0%		0.2%	

Asset Allocation	Market Value
Large Capitalized U.S. Equities	$742,346,602
Small Capitalized U.S. Equities	201,915,331
International Equities	451,951,391
U.S. Fixed Income	592,694,013
Real Estate	156,610,221
Cash & deposits	60,996,156
Total	2,128,050,181


Asset Allocation as of June 30, 2007
7.4%
0.2%
5.2%
26.2%
29.7%
21.9%
4.4%
5.0%
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 - 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%
0.07%
-2.19%
0.19%
0.32%
-0.03%
0.48%
0.41%
-0.35%
-0.30%
-0.19%
1.36%
0.22%
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, 2007	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	17.34%	14.60%	N/A	N/A
Barclays Global Investors Russell 1000 Index Fund	20.51%	14.67%	12.36%	11.35%
Large Cap Composite	18.61%	14.50%	12.79%	11.61%
Benchmark Russell 1000	20.43%	14.61%	12.34%	11.33%
Brandes Investment Partners	18.16%	11.38%	N/A	N/A
Chartwell Investment Partner	18.45%	16.52%	N/A	N/A
Goldman Sachs Asset Management	8.82%	11.22%	N/A	N/A
Small Cap Composite	13.64%	12.69%	11.70%	12.80%
Benchmark Russell 2000	16.44%	15.50%	13.45%	13.88%
International Equity				
Julius Baer Investment Management	34.88%	32.87%	N/A	N/A
Mondrian Investment Partners	31.24%	27.85%	N/A	N/A
International Composite	32.49%	30.11%	24.77%	17.22%
Benchmark MSCI ACWI ex US – Free	30.15%	29.27%	25.02%	19.93%
Total Equity Composite	21.48%	18.04%	15.54%	13.17%
Domestic Fixed Income				
Pyramis Global Advisors	6.03%	N/A	N/A	N/A
Aberdeen Asset Management, Inc.	6.67%	3.21%	4.60%	5.16%
Western Asset Management	6.27%	3.26%	N/A	N/A
Benchmark Lehman Aggregate Bond Index	6.12%	2.60%	3.98%	4.48%
Total Fixed Income Composite	6.32%	3.06%	4.52%	4.94%
Real Estate				
INVESCO Realty Advisors Core Fund	14.36%	19.13%	N/A	N/A
Total Real Estate Composite	14.36%	19.12%	20.48%	16.92%
NCREIF	17.24%	17.95%	17.98%	14.39%
Cash				
Cash Composite	4.38%	4.05%	3.70%	3.15%
Benchmark 91 Day Treasury Bill Index	5.21%	4.59%	3.77%	2.76%
Total Fund				
Composite Investment Portfolio	16.58%	13.58%	12.42%	11.26%
Policy Benchmark	17.19%	13.56%	12.31%	11.29%

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, 2007

Domestic Equity			
Barclays Global Investors	Russell 1000 Alpha Tilts	$631,458,284	
	Russell 1000 Index Fund	$110,888,731	
Brandes Investment Partners		$50,827,042	
Chartwell Asset Management		$53,821,604	
Goldman Sachs Asset Management		$97,266,272	
Total Domestic Equity			$ 944,261,933
International Equity			
Julius Baer Investment Management		$224,746,428	
Mondrian Investment Management		$227,204,963	
Total International Equity			$ 451,951,391
Total Equity			$1,396,213,324
Domestic Fixed Income			
Pyramis Global Advisors	Domestic Enhanced Index	$184,131,852	
Aberdeen Asset Management, Inc.	Domestic Core	$183,123,232	
Western Asset Management	Domestic Core Plus	$225,138,928	
Total Domestic Fixed Income			$ 592,394,012
Total Fixed Income			$ 592,394,012
Real Estate			
INVESCO Realty Advisors	U.S. Core Real Estate Fund		$ 156,610,221
Unequitized Cash			$ 60,996,157
Fixed Assets, at cost, net of accumulated depreciation			$ 0
Receivables & Prepaid Expenses			$ 66,439,358
<less> Current Liabilities			$ 141,038,442
Net Portfolio as of June 30, 2007			$2,131,614,630

Schedule of Top Ten Equity and Fixed Income Securities

As of June 30, 2007

TOP TEN EQUITY SECURITIES*

Shares	Exchange	Ticker	Security Name	Market Value
520,775	NYSE	XOM	EXXON MOBIL CORPORATION	$43,648,127
570,571	NYSE	GE	GENERAL ELECTRIC CO.	$21,841,489
721,808	NASDAQ	MSFT	MICROSOFT CORPORATION	$21,247,278
395,520	NYSE	BAC	BANK OF AMERICA CORP	$19,358,218
649,465	NYSE	PFE	PFIZER INC ORD USD0.05	$16,602,957
580,707	NASDAQ	CSCO	CISCO SYSTEMS INC	$16,222,068
319,082	NYSE	JPM	JPMORGAN CHASE & CO.	$15,429,125
171,664	NYSE	COP	CONOCOPHILLIPS	$13,479,605
309,336	NYSE	VZ	VERIZON COMMUNICATIONS INC.	$12,710,697
122,824	NYSE	MS	MORGAN STANLEY ORD USD0.01	$10,300,000

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

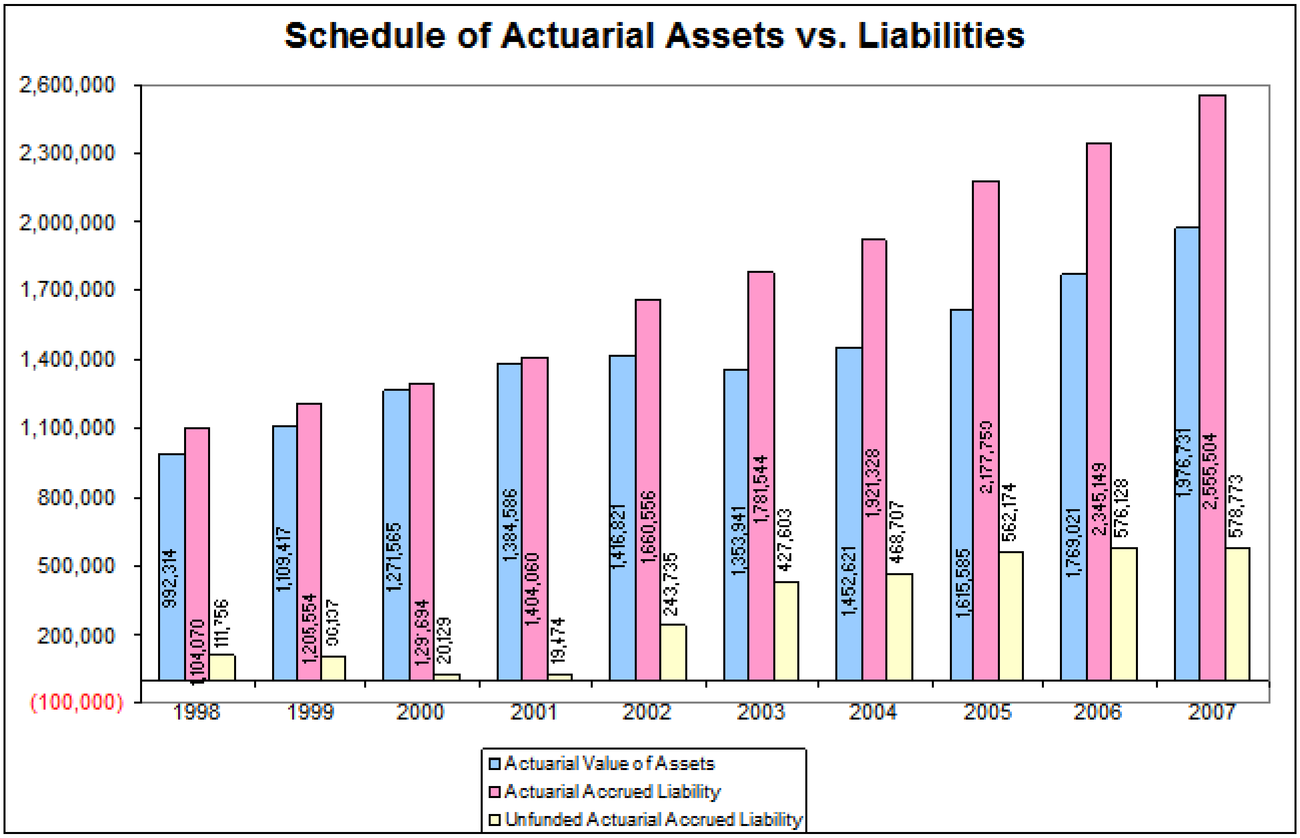
TOP TEN FIXED INCOME SECURITIES*

Par/Book Value	Security Name			Rating S&P/Moodys	Issue ID	Market Value
8,974,000	US TREASURY N/B	4.625%	02-29-2012	AAA/Aaa/AAA	912828GK0	$8,996,622
6,806,000	US TREASURY N/B	6.000%	02-15-2026	AAA/Aaa/AAA	912810EW4	$7,581,459
2,346,000	US TREASURY N/B	8.750%	08-15-2020	AAA/Aaa/AAA	912810EG9	$3,208,934
2,077,000	US TREASURY N/B	4.625%	12-31-2011	AAA/Aaa/AAA	912828GC8	$2,051,199
2,000,000	FNR 2001-69 OG	5.500%	12-25-2016	AAA/Aaa/AAA	31392A5C8	$1,997,565
2,004,461	JPMMT 2007-A1 6A1	4.780%	07-25-2035	AAA/Aaa/AAA	46630GAX3	$1,970,166
1,870,000	GPMH 1999-3 1A7	7.270%	06-15-2029	AAA/Aaa/NR	395386AP0	$1,934,010
1,760,000	OIL INSURANCE LTD	7.558%	12-29-2049	BBB/Baa1/NR	677879CE6	$1,819,505
1,839,986	BSARM 2006-1 A1	4.023%	02-25-2036	NR/Aaa/AAA	07387AGZ2	$1,804,367
1,723,010	GSR 2007-AR1 2A1	6.019%	03-25-2037	AAA/NR/AAA	362290AC2	$1,732,227

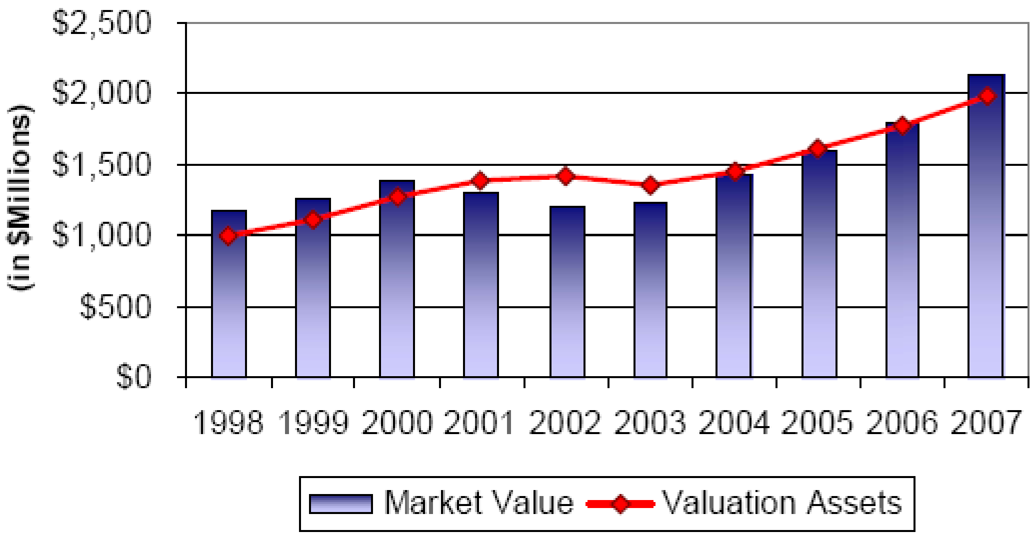
A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

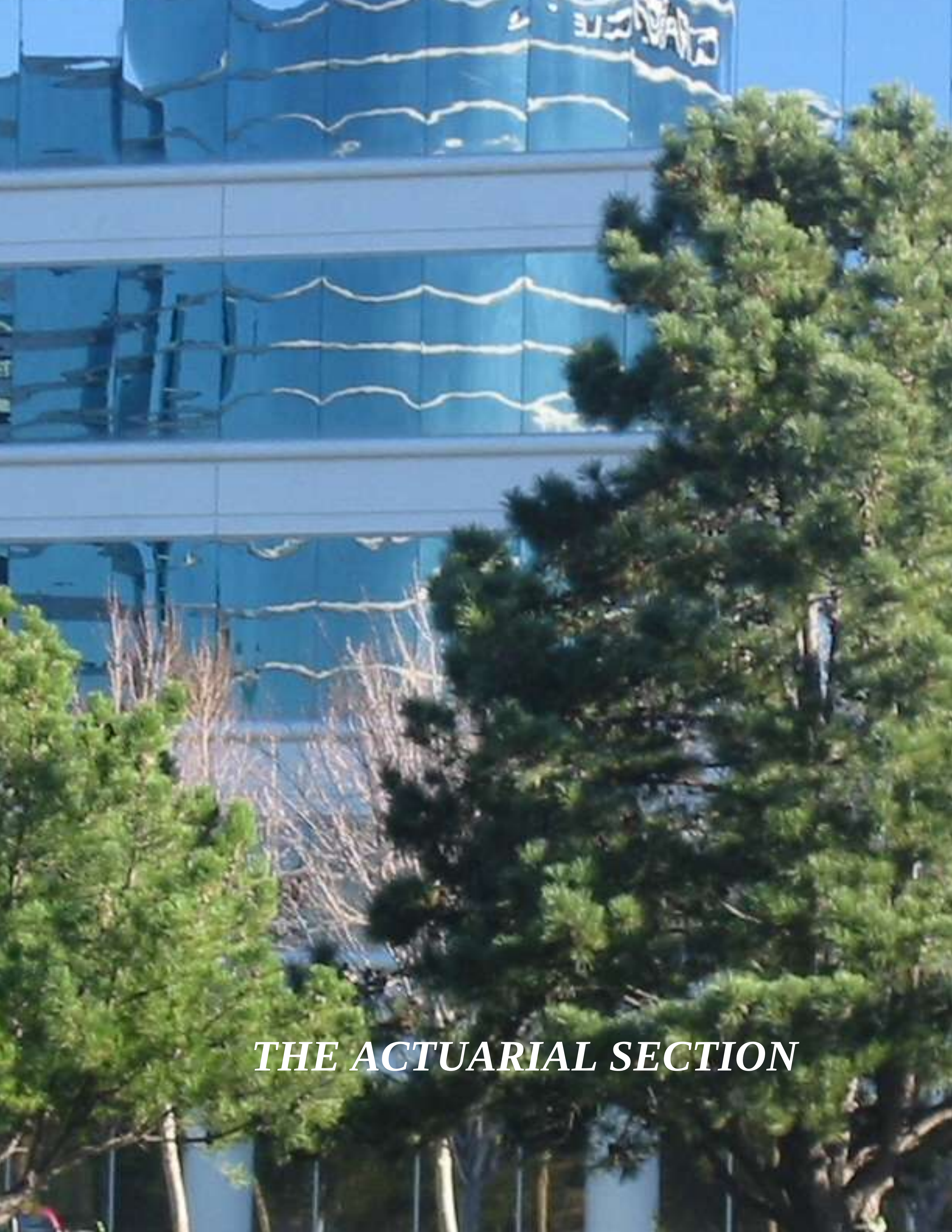
Schedule of Professional Services and Fees
as of June 30, 2007 and 2006

	2007	2006
Investment Managers		
Aberdeen Asset Management Inc.	$ 429,638	$ 423,581
Barclays Global Investors	1,267,658	1,090,505
Brandes Investment Partners	413,349	386,141
Chartwell Investment Partners	395,009	391,640
Pyramis Global Advisors	270,184	127,154
Goldman Sachs Asset Management	510,318	506,063
INVESCO Realty Advisors	746,411	515,627
Julius Baer Investment Management	894,621	765,879
Mondrian Investment Partners	555,543	424,899
Western Asset Management	429,326	388,131
Investment Managers	5,912,057	5,019,620
Investment Consultant		
Strategic Investment Solutions	$ 185,000	$ 194,167
Actuarial Consulting		
Milliman	$ 52,250	$ 63,750
Public Pension Professionals	0	95,700
Master Custodian		
State Street Bank and Trust Company	$ 129,693	$ 125,580
Total Professional Services	$6,279,000	$5,498,117

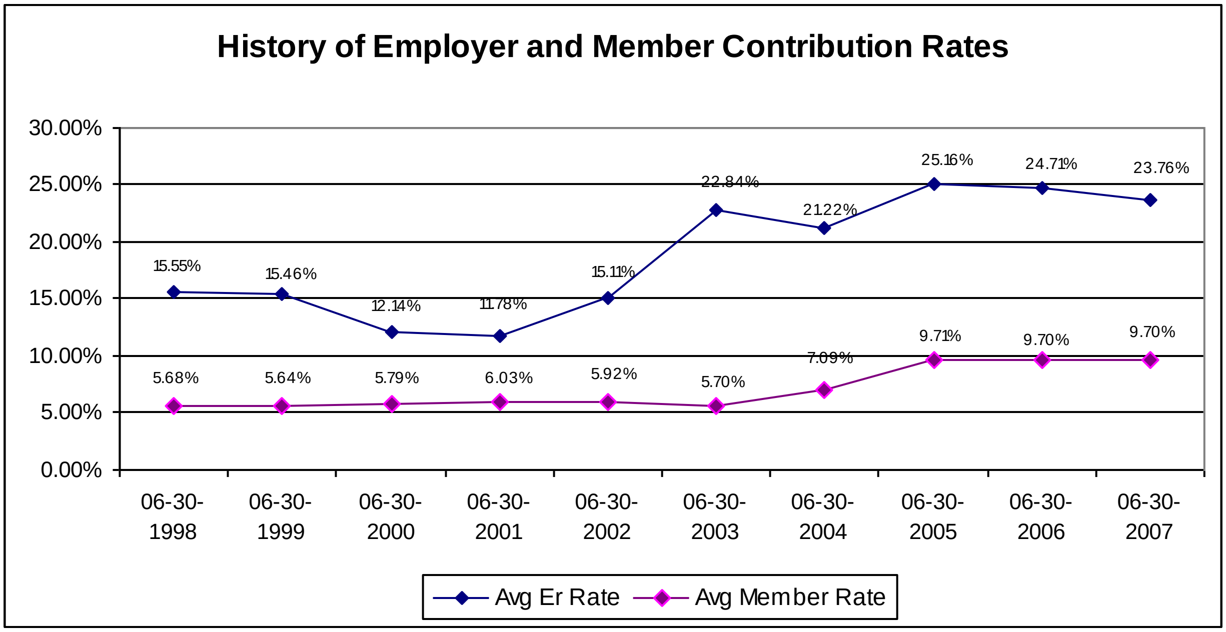


Applicable Valuation Assets





THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
15.55%
15.46%
12.14%
11.78%
15.11%
22.84%
21.22%
25.16%
24.71%
23.76%
5.68%
5.64%
5.79%
6.03%
5.92%
5.70%
7.09%
9.71%
9.70%
9.70%
06-30-1998
06-30-1999
06-30-2000
06-30-2001
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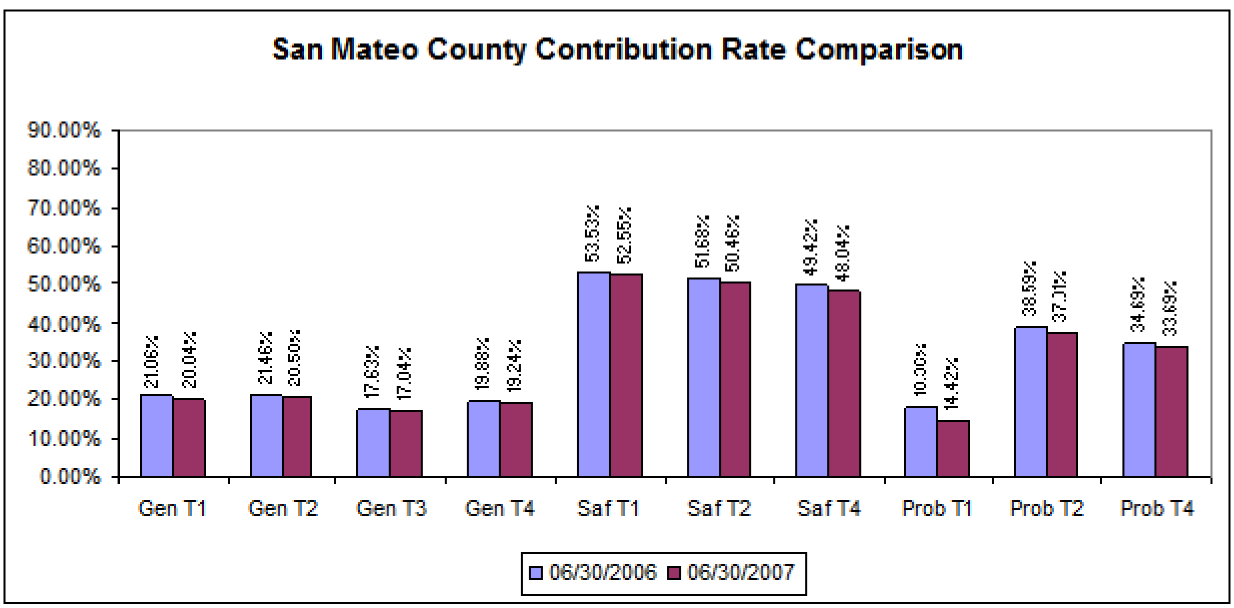
06-30-2006
06-30-2007
Avg Er Rate
Avg Member Rate


San Mateo County Contribution Rate Comparison
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
21.06%
20.04%
21.46%
20.50%
17.63%
17.04%
19.88%
19.24%
53.53%
52.55%
51.68%
50.46%
49.42%
48.04%
18.00%
14.42%
38.58%
37.01%
34.69%
33.69%
Gen T1
Gen T2
Gen T3
Gen T4
Saf T1
Saf T2
Saf T4
Prob T1
Prob T2
Prob T4
06/30/2006
06/30/2007

Actuarial Certification Draft Example

A MILLIMAN GLOBAL FIRM
Milliman
Consultants and Actuaries

1301 Fifth Avenue, Suite 3800
Seattle, WA 98101-2605
Tel +1 206 624.7940
Fax +1 206 623.3485
www.milliman.com

October 4, 2007

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, 2005	74.2%
June 30, 2006	75.4%
June 30, 2007	77.4%

The funded ratio stayed near the 75% level for several years. Over the past two years the funding ratio has increased, primarily due to employer contributions in excess of the normal cost.

It is our opinion that SamCERA continues in sound financial condition as of June 30, 2007. 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, 2007 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 2007. 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, 2007 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, 2007 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 years 2005 and 2006 shown in the data summaries.

We certify that the June 30, 2007 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
Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
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, 2007, 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, 2007	
Actuarial Cost Method	Entry Age Normal Cost Funding Method	
Amortization Method	Level Percent – closed	
Remaining Amortization Period	15.0 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 by summing the normal cost for each individual and dividing this amount by the total payroll for current members expected to earn a benefit during the year. This normal cost rate is then multiplied by the total current salaries. The total unfunded actuarial accrued liability is amortized over a declining 15-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 a 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 and reaffirmed by the board for use in the June 30, 2007, 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 and reaffirmed by the board for use in the June 30, 2007, valuation.

Actuarial Assumption		6/30/07	6/30/06	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 78.

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)

	06/30/07	06/30/06	Change
Normal Cost Rate	11.82%	12.15%	(0.33%)
Rate of Contribution to Unfunded Actuarial Accrued Liability	11.94%	12.56%	(0.62%)
Total Employer Rate	23.76%	24.71%	(0.95%)

It should be noted that the 23.76% 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 75.

Member Contribution Rates (1)

		07/01/07	07/01/06	Change (2)
General Members – County				
Tier 1 & Tier 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 07/01/2008 (based on the 6/30/07 valuation) minus the 07/01/2007 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	6/30/07	6/30/06	Change
Active Members			
Number of Members	5,539	5,355	3.4%
Average Age	44.5	44.5	0.0%
Average Credited Service	9.3	9.4	-1.1%
Total Active Payroll in Thousands	$416,070	$376,351	10.6%
Average Monthly Salary	$6,260	$5,857	6.9%
Retired Members			
Number of Members			
Service Retirement	2,835	2,783	1.9%
Disability Retirement	351	342	2.6%
Beneficiaries	508	488	4.1%
Average Age	71.2	71.2	0.0%
Total Retiree Payroll in Thousands	$98,790	$91,066	8.6%
Average Monthly Pension	$2,229	$2,099	6.2%
Inactive Vested Members	1,151	1,089	5.7%
Asset and Liability Values			
Asset Values			
Market Value in Thousands	$2,131,615	$1,789,898	19.1%
Return on Market Value	16.5%	10.4%	
Valuation Assets in Thousands	$1,976,731	$1,769,021	11.7%
Return on valuation Assets	9.2%	7.9%	
Liability Values			
Actuarial Accrued Liability in Thousands	2,555,504	2,345,149	9.0%
Unfunded Actuarial Accrued Liability	$578,773	$576,128	0.5%
Deferred Asset (Gains)/Losses	-$154,884	-$20,877	641.9%
Required County Contribution Rate for All Plans as a Percentage of Total Payroll			
Gross Normal Cost	21.52%	21.85%	(1.5%)
Member Contributions	(9.70%)	9.70%	0.0%
County Normal Cost	11.82%	12.15%	(2.7%)
UAAL Amortization	11.94%	12.56%	(4.9%)
Total County Rate	23.76%	24.71%	(3.8%)
Funded Ratio			
GASB Number 25 *	77.4%	75.4%	2.5%

*Based on actuarial value of assets for June 30, 2007, and June 30, 2006, 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	Valuation Assets	Active Member Contributions	Retirees and Beneficiaries (2)	Active Members (Employer Financed Portion)	Portion of Accrued Liability Covered by Valuation Assets		
6/30/98	$ 992,314	$148,753	$ 601,473	$353,844	100%	100%	68%
6/30/99	$1,104,833	$157,826	$ 629,653	$416,489	100%	100%	76%
6/30/00	$1,271,565	$158,314	$ 689,356	$444,024	100%	100%	95%
6/30/01	$1,384,586	$174,066	$ 789,104	$440,890	100%	100%	96%
6/30/02	$1,416,850	$190,450	$ 866,985	$785,082	100%	100%	46%
6/30/03	$1,353,941	$202,551	$ 858,273	$915,108	100%	100%	32%
6/30/04	$1,452,621	$259,731	$ 942,765	$718,832	100%	100%	35%
6/30/05	$1,615,585	$281,231	$1,133,351	$763,177	100%	100%	26%
6/30/06	$1,769,021	$317,521	$1,234,005	$793,623	100%	100%	27%
6/30/07	$1,976,731	$359,484	$1,348,013	$848,007	100%	100%	32%

(2) Includes deferred vested

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
6/30/98	$ 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%
6/30/07	$1,976,731	$2,555,504	$578,773	77.4%	$407,812	141.92%

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 23% less than liabilities. The Funded Ratio increased from June 30, 2006. This was primarily due to a positive investment return which caused a decrease in the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of assets.

History of Employer Contribution Rates

Normal Cost 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 calculated on an individual basis and is based on costs allocated as a level percentage of compensation.

Unfunded Actuarial Accrued Liability 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 Values 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
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%
2007	10.19%	9.46%	19.65%	19.94%	29.32%	49.26%	20.83%	14.06%	34.89%

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%
2007	8.50%	7.76%	16.26%

Active Member Valuation Data

Valuation Date		Members (1)	Annual Salary	Average Annual Salary	% Change Average Salary
1998	General	3,803	$177,079,000	$46,563	6.8%
	Safety	406	$24,404,000	$60,108	15.8%
	Probation	211	$10,046,000	$47,611	4.4%
	Total	4,420	$211,529,000	$47,857	7.7%
1999	General	3,908	$196,936,000	$50,393	8.2%
	Safety	425	$29,862,000	$70,264	16.9%
	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	$53,416	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%
2007	General	4,767	$346,319,017	$72,649	7.1%
	Safety	443	$45,386,411	$102,452	5.9%
	Probation	329	$24,364,268	$74,056	5.3%
	Total	5,539	$416,069,696	$75,116	6.9%

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

Demographic Activity of Retirees and Beneficiaries

	Retiree Membership (1)						
Year	At Beginning Of Year	Additions	Withdrawals	At End of Year	Total Retiree Payroll	Percent Increase In Payroll	Average Monthly Allowance (2)
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
6/30/07	3,613	155	74	3,694	$98,790,000	8.6%	$2,229

(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. Prior to 6/30/2004 retirees/beneficiaries who are entitled to multiple benefits are only counted once.*

(2) *The Association's retiree benefit administration system does not currently allow SamCERA to access the annual allowances of retirants and beneficiaries added to and removed from rolls.*

Actuarial Analysis of Financial Experience
($000)

Summary of (Gains) / Losses		Change In Liability			
	2007	2006	2005	2004	2003
Unfunded Liability as of July 1	$576,128	$562,174	$468,707	$427,603	$243,745
Expected Change in UAAL	($ 16,745)	$ 2,980	($ 1,700)	($ 419)	$ 20,884
Salary (Gain) / Loss	$ 45,157	$ 19,671	($ 34,300)		($ 4,907)
Fewer Withdrawal than expected					$ 1,268
Retiree COLA more / (less) than expected	($ 3,380)	($ 13,862)	($ 26,197)		($ 13,863)
Assets (Gain) / Loss	($ 22,639)	($ 1,363)	$ 8,934	$ 25,062	$169,944
Change due to Assumption Changes			$152,500	($ 13,989)	($ 7,797)
Change due to Actuarial Asset Corridor					
Ventura Benefits & Asset transfers			($ 21,801)		
Miscellaneous Experience	$ 253,000	$ 6,528	$ 16,031	$ 30,450	($ 5,138)
Change Due to New Formula					$ 23,467
Unfunded Liability as of June 30	$578,773	$576,128	$562,174	$468,707	$427,603

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.

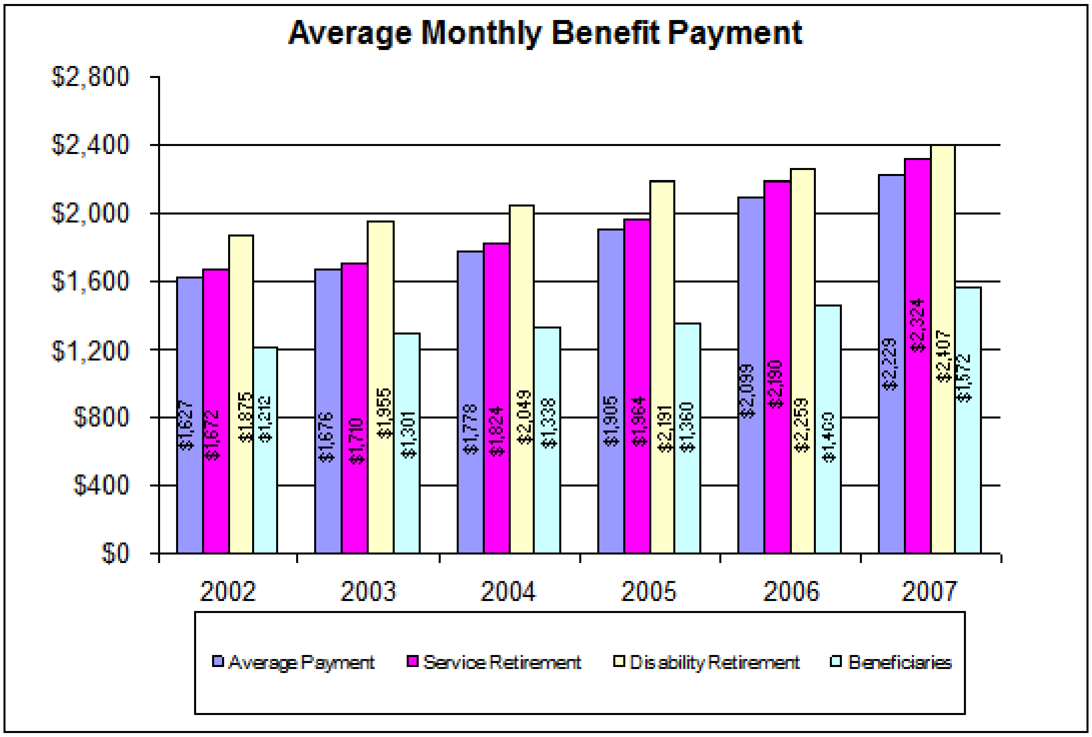
Service Death – Member dies before retirement; death is service related.

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.

Probability of Separation During Active Service

Years of Service	Other Terminations Ordinary	Other Terminations Vested	Age	Disability Ordinary	Disability Service	Death while Active Ordinary	Death while Active Service	Service Retirement
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	0.0000	0.0000	0.0003	0.0000	0.0000
5	0.0316	0.0316	30	0.0000	0.0000	0.0003	0.0000	0.0000
10	0.0207	0.0233	40	0.0000	0.0000	0.0006	0.0000	0.0000
15	0.0133	0.0207	50	0.0000	0.0000	0.0013	0.0000	0.0000
20	0.0062	0.0178	60	0.0000	0.0000	0.0036	0.0000	0.0400
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
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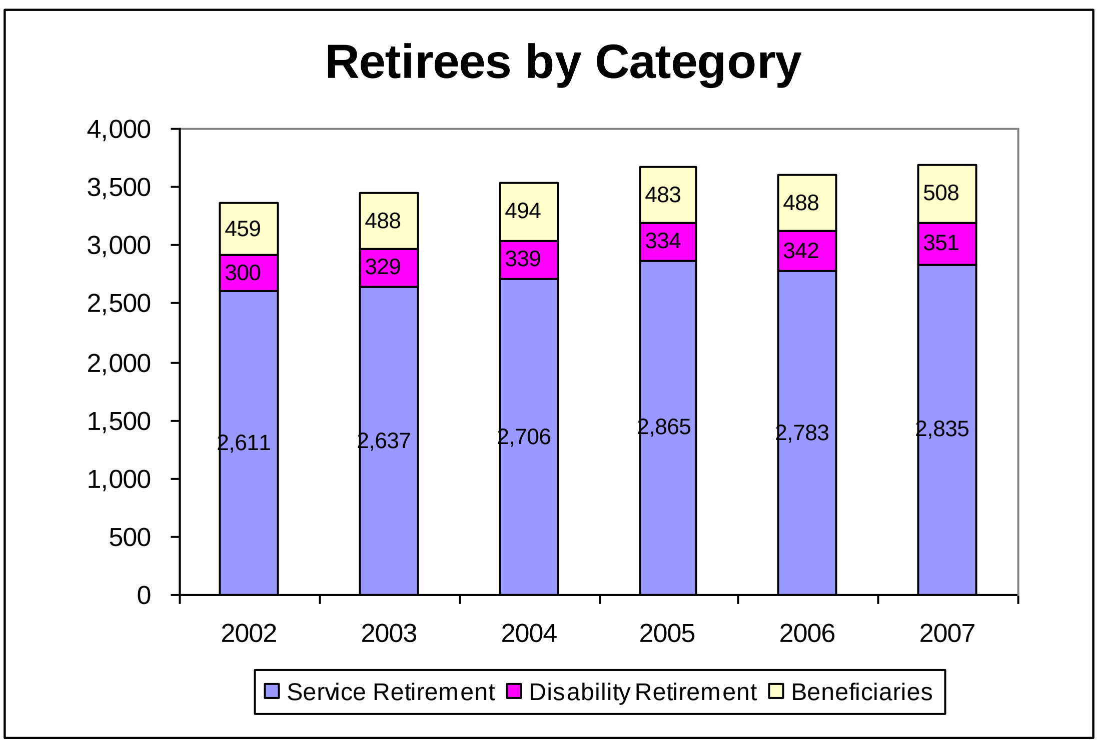
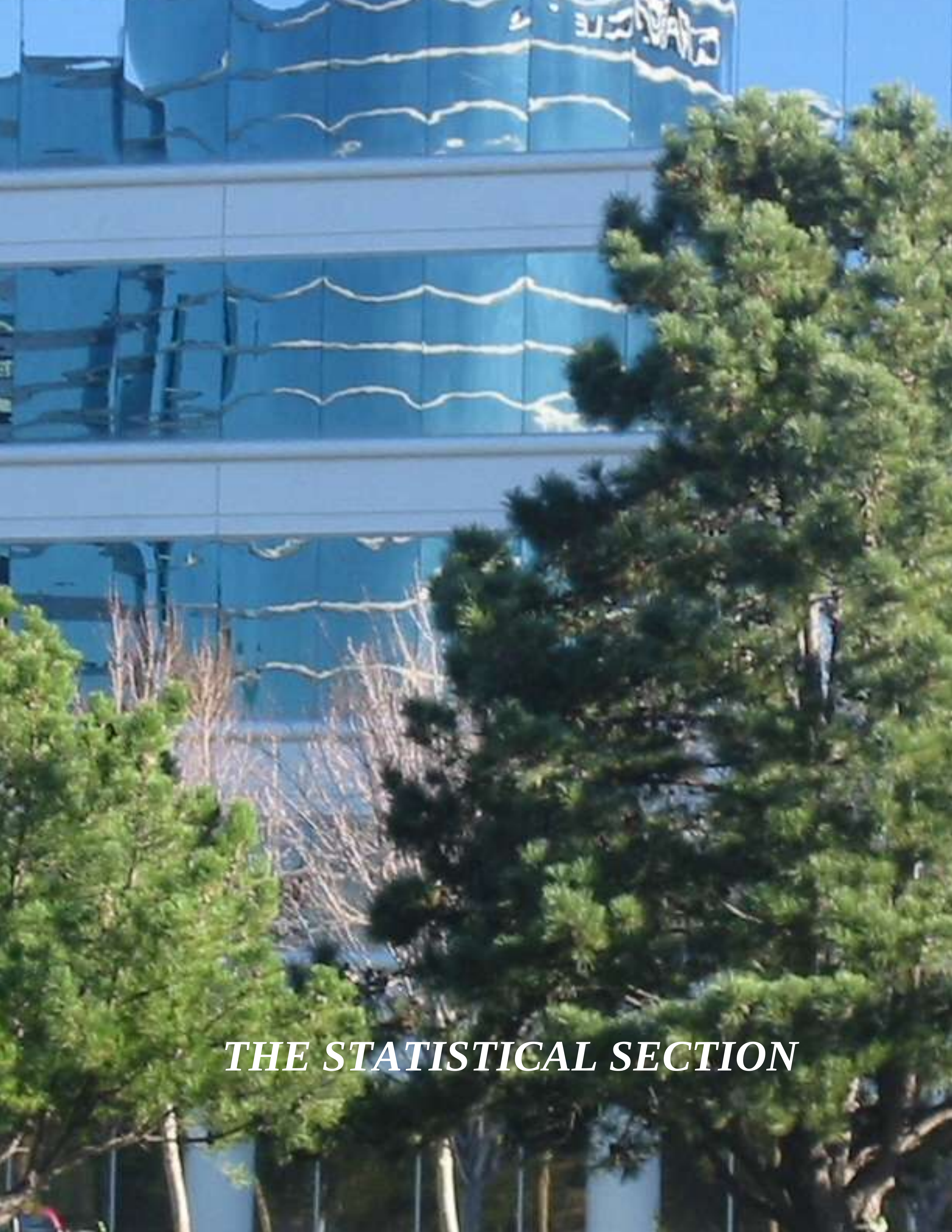
$2,400
$2,000
$1,600
$1,200
$800
$400
$0
$1,627
$1,672
$1,875
$1,212
$1,676
$1,710
$1,955
$1,301
$1,778
$1,824
$2,049
$1,338
$1,905
$1,964
$2,191
$1,360
$2,099
$2,190
$2,259
$1,469
$2,229
$2,324
$2,407
$1,572
2002
2003
2004
2005
2006
2007
Average Payment
Service Retirement
Disability Retirement
Beneficiaries

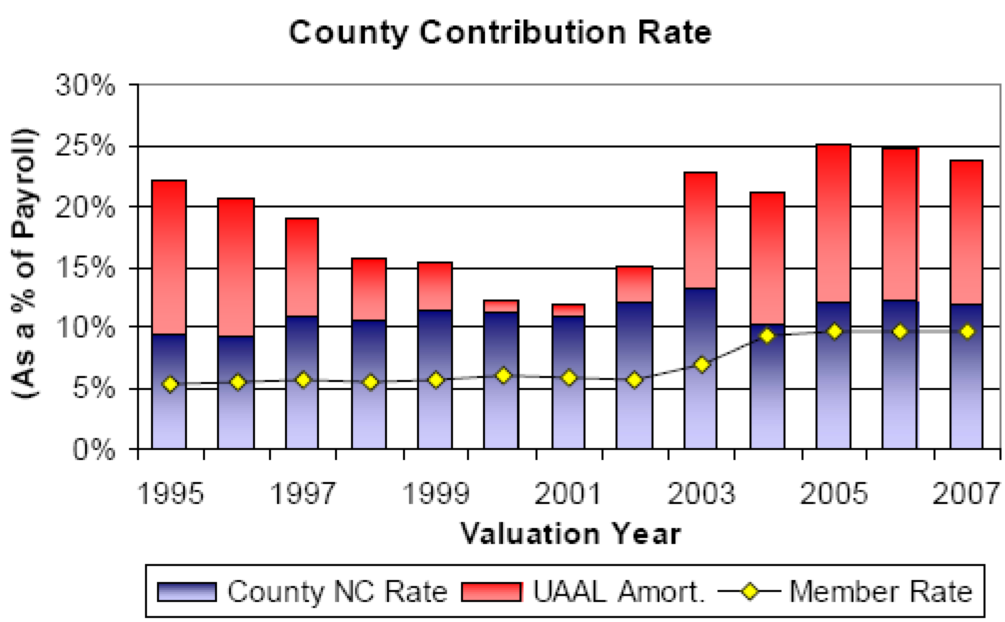

Retirees by Category
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
459
300
2,611
488
329
2,637
494
339
2,706
483
334
2,865
488
342
2,783
508
351
2,835
2002
2003
2004
2005
2006
2007
Service Retirement
Disability Retirement
Beneficiaries



THE STATISTICAL SECTION

Schedule of Employer Contributions
(In Thousands Of Dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As A % of ARC
6/30/1998	$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%
6/30/2007	$100,550	100%



Schedule of Revenues by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
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	$176,281
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
6/30/2007	$42,696	$100,550	$298,286	$441,532

Schedule of Expenses by Type
(In thousands of Dollars)

Year End	Administrative Expenses	Retirement Benefits Paid	Refunds	Total
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
6/30/2007	$2,783	$94,788	$2,244	$99,815

Summary of Retired and Inactive Member Benefits

Retired Members	2007	2006	2005	2004	2003	
Service Retirement						
Number	2,835	2,783	2,865	2,706	2,637	
Annual Allowance						
Basic Only	$59,687,000	$54,942,000	$49,760,000	$41,723,000	$36,929,000	
COLA	$19,382,000	$18,188,000	$17,759,000	$17,502,000	$17,185,000	
Total	$79,069,000	$73,130,000	$67,519,000	$59,225,000	$54,114,000	
Average Monthly Payment	$2,324	$2,190	$1,964	$1,824	$1,710	
Disability Retirement						
Number	351	342	334	339	329	
Annual Allowance						
Basic Only	$7,571,000	$6,915,000	$6,575,000	$6,164,000	$5,588,000	
COLA	$2,569,000	$2,356,000	$2,205,000	$2,172,000	$2,130,000	
Total	$10,140,000	$9,271,000	$8,780,000	$8,336,000	$7,718,000	
Average Monthly Payment	$2,407	$2,259	$2,191	$2,049	$1,955	
Beneficiaries						
Number	508	488	483	494	488	
Annual Allowance						
Basic Only	$5,220,000	$4,659,000	$4,084,000	$4,250,000	$4,065,000	
COLA	$4,361,000	$3,946,000	$3,800,000	$3,682,000	$3,554,000	
Total	$9,581,000	$8,605,000	$7,884,000	$7,932,000	$7,619,000	
Average Monthly Payment	$1,572	$1,469	$1,360	$1,338	$1,301	
Total Retired Members						
Number	3,694	3,614	3,682	3,539	3,454	
Annual Allowance						
Basic Only	$72,478,000	$66,516,000	$60,419,000	$52,137,000	$46,582,000	
COLA	$26,312,000	$24,490,000	$23,764,000	$23,356,000	$22,869,000	
Total	$98,790,000	$91,006,000	$84,183,000	$75,493,000	$69,451,000	
Average Monthly Payment	$2,229	$2,099	$1,905	$1,778	$1,676	
Inactive Members	1,151	1,089	872	877	855	

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	2002	2001	2000	1999	1998	
Service Retirement						
Number	2,638	2,383	2,295	2,300	2,293	
Annual Allowance						
Basic Only	$36,260,000	$30,059,000	$27,966,000	$26,159,000	$24,897,000	
COLA	$16,668,000	$13,692,000	$12,343,000	$11,910,000	$10,924,000	
Total	$52,928,000	$43,751,000	$40,309,000	$38,069,000	$35,821,000	
Average Monthly Payment	$1,672	$1,530	$1,464	$1,379	$1,302	
Disability Retirement						
Number	316	280	263	250	231	
Annual Allowance						
Basic Only	$5,061,000	$4,014,000	$3,517,000	$3,115,000	$2,540,000	
COLA	$2,049,000	$1,591,000	$1,402,000	$1,303,000	$1,172,000	
Total	$7,110,000	$5,605,000	$4,919,000	$4,418,000	$3,712,000	
Average Monthly Payment	$1,875	$1,668	$1,559	$1,473	$1,339	
Beneficiaries						
Number	477	439	401	381	353	
Annual Allowance						
Basic Only	$3,548,000	$2,950,000	$2,819,000	$2,154,000	$5,151,000	
COLA	$3,388,000	$2,886,000	$2,444,000	$2,204,000	$1,989,000	
Total	$6,936,000	$5,836,000	$5,263,000	$4,358,000	$7,140,000	
Average Monthly Payment	$1,212	$1,108	$1,094	$953	$918	
Total Retired Members						
Number	3,431	3,102	2,979	2,931	N/A	
Annual Allowance						
Basic Only	$44,869,000	$37,023,000	$34,302,000	$31,428,000	N/A	
COLA	$22,105,000	$18,169,000	$16,189,000	$15,417,000	N/A	
Total	$66,974,000	$55,192,000	$50,491,000	$46,845,000	N/A	
Average Monthly Payment	$1,627	$1,483	$1,422	$1,332	N/A	
Inactive Members	833	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)

	2007	2006	2005	2004	2003	
General Tier 1	$7,175	$6,749	$6,582	$6,514	$6,070	
General Tier 2	$6,688	$6,148	$6,045	$5,980	$5,573	
General Tier 3	$5,287	$4,988	$5,216	$5,101	$4,747	
General Tier 4	$5,714	$5,315	$5,476	$5,281	$4,886	
General Tier Total	$6,054	$5,652	$5,747	$5,642	$5,284	
Safety Tier 1	$10,212	$10,019	$9,701	$9,516	$8,500	
Safety Tier 2	$9,299	$8,585	$8,482	$8,530	$7,518	
Safety Tier 4	$7,882	$7,403	$7,564	$7,582	$6,465	
Safety Tier Total	$8,538	$8,062	$8,150	$8,267	$7,291	
Probation Tier 1	$8,522	$7,735	$7,216	$6,856	$6,548	
Probation Tier 2	$6,899	$6,479	$6,390	$6,291	$5,800	
Probation Tier 4	$5,766	$5,444	$5,741	$5,711	$4,924	
Probation Tier Total	$6,171	$5,860	$6,032	$6,019	$5,395	
Total	$6,260	$5,857	$5,955	$5,871	$5,467	

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

	2002	2001	2000	1999	1998	
General Tier 1	$5,806	$5,477	$5,143	$4,910	$4,451	
General Tier 2	$5,311	$4,934	$4,636	$4,301	$3,894	
General Tier 3	$4,737	$4,516	$4,197	$3,820	$3,522	
General Tier 4	$4,545	$4,177	$3,831	$3,483	$3,151	
General Tier Total	$5,016	$4,700	$4,451	$4,199	$3,880	
Safety Tier 1	$7,820	$7,327	$6,955	$6,400	$5,562	
Safety Tier 2	$6,853	$6,479	$6,102	$5,883	$4,906	
Safety Tier 4	$5,789	$5,375	$5,271	$4,957	$3,900	
Safety Tier Total	$6,652	$6,332	$6,143	$5,855	$5,009	
Probation Tier 1	$6,253	$5,861	$5,460	$5,100	$4,634	
Probation Tier 2	$5,542	$5,079	$4,654	$4,240	$3,941	
Probation Tier 4	$4,502	$4,100	$3,660	$3,119	$3,010	
Probation Tier Total	$5,066	$4,744	$4,441	$4,104	$3,968	
Total	$5,164	$4,846	$4,603	$4,348	$3,988	

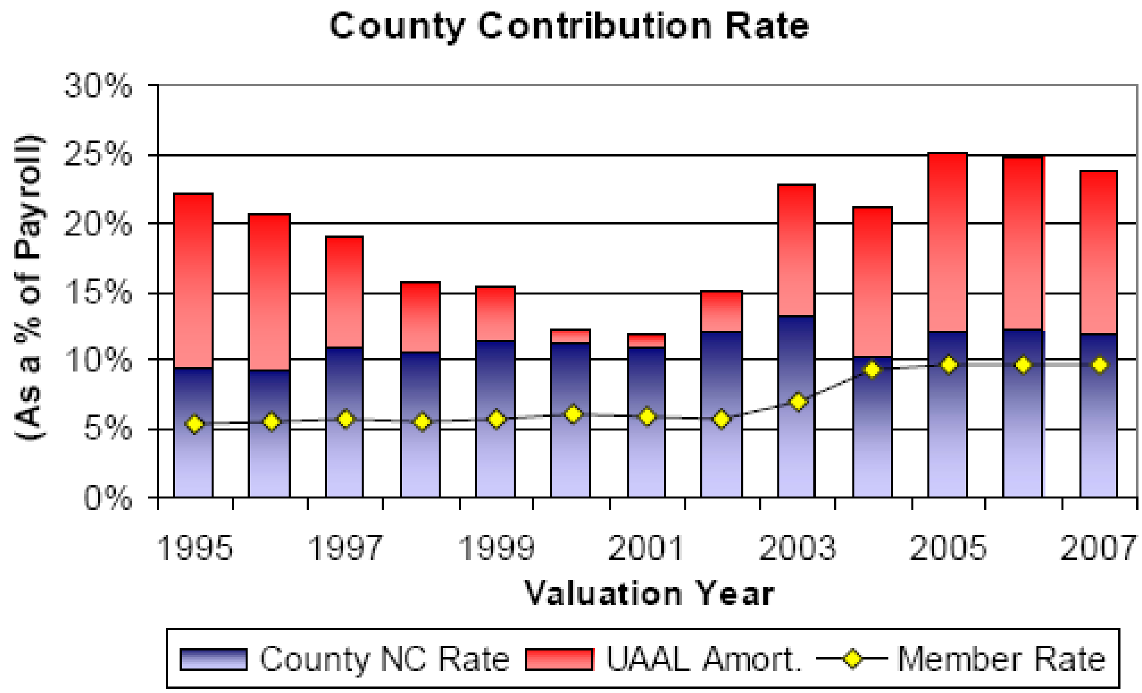
The data in the table above originates from PensionGold, *SamCERA's* retirement benefit administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports.

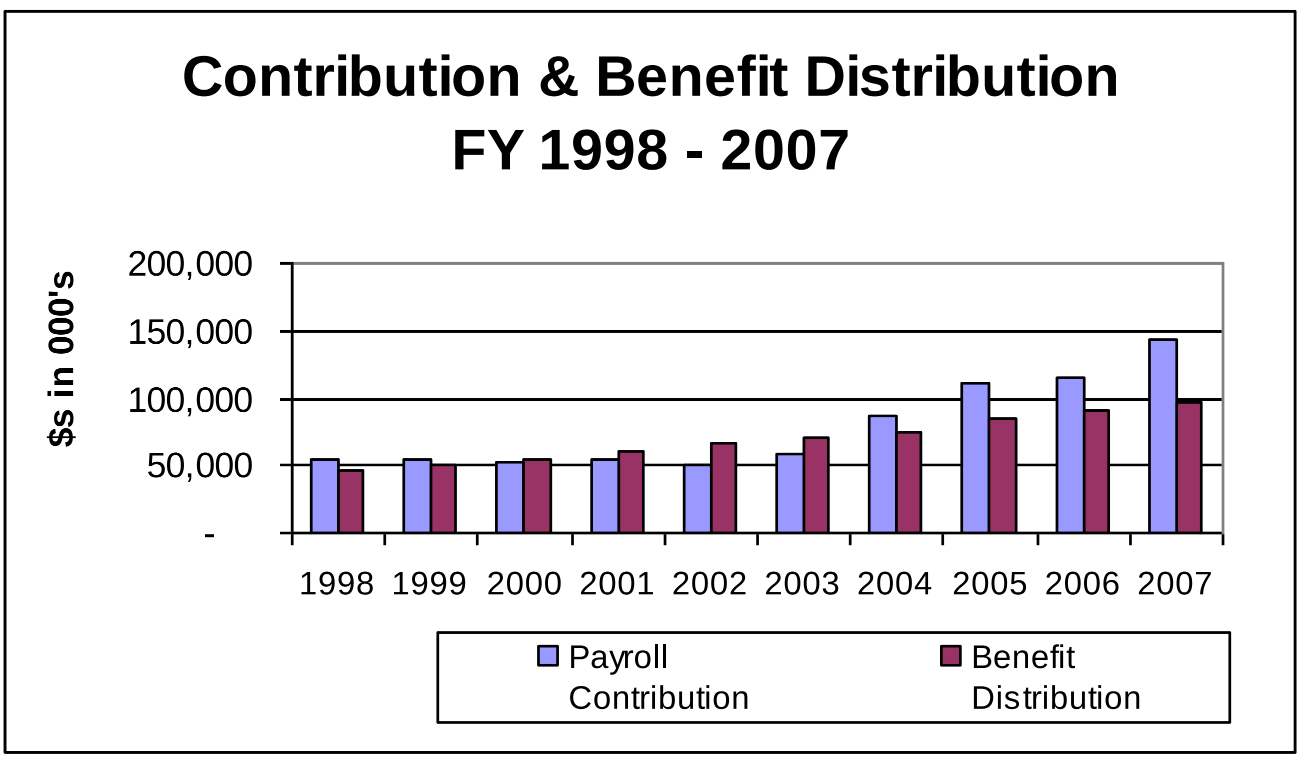
Participating Employers and Active Members

	2007	2006	2005	2004	2003	
County of San Mateo						
General Members	4,742	4,594	4,391	4,474	4,202	
Safety Members	443	428	409	411	434	
Safety/Probation Members	329	313	278	288	290	
Total	5,514	5,335	5,078	5,173	4,926	
San Mateo County Mosquito Abatement District						
General Members Total	25	20	20	13	11	
Total Active Membership	5,539	5,355	5,098	5,186	4,937	

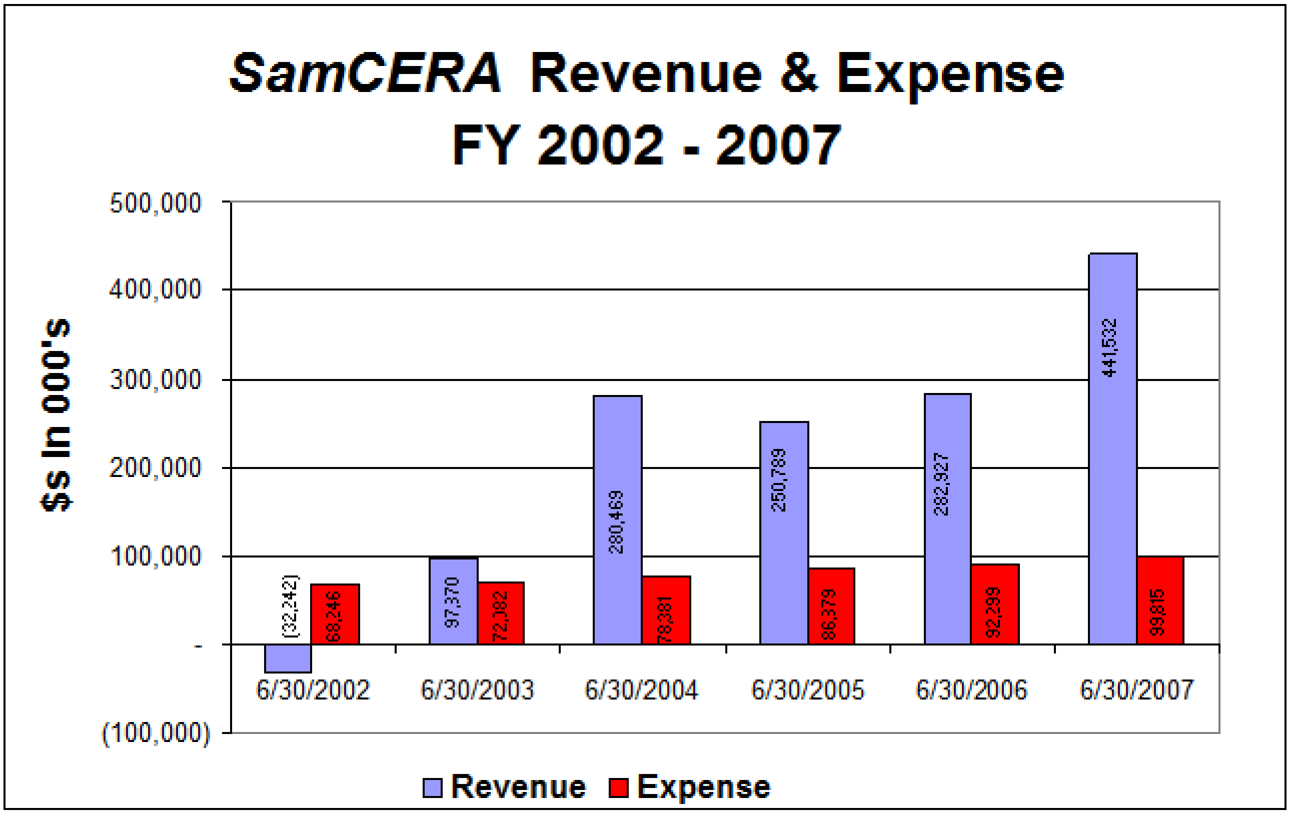
Participating Employers and Active Members (Continued)

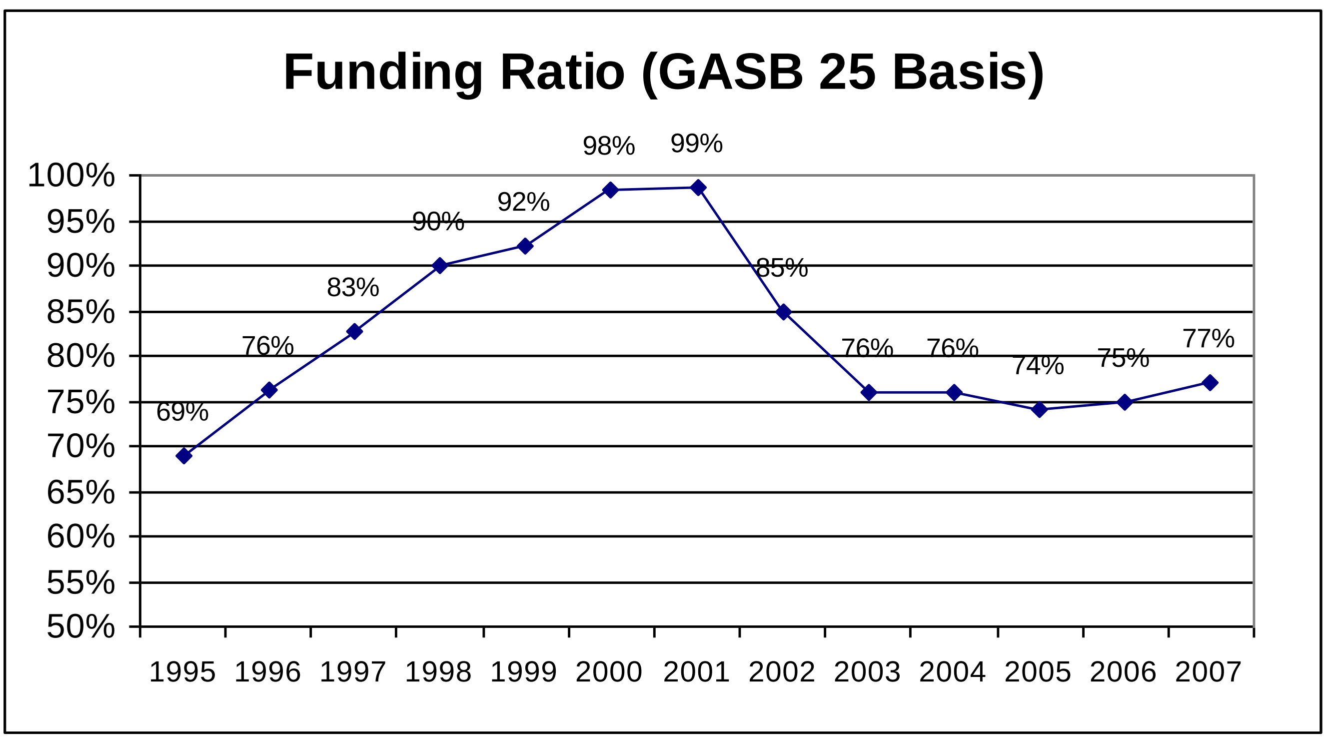
	2002	2001	2000	1999	1998	
County of San Mateo						
General Members	4,175	4,079	3,897	3,792	3,797	
Safety	431	416	425	406	402	
Safety/Probation Members	293	265	245	211	208	
Total	4,899	4,760	4,567	4,409	4,407	
San Mateo County Mosquito Abatement District						
General Members Total	11	11	11	11	11	
Total Active Membership	4,910	4,771	4,578	4,420	4,418	


County Contribution Rate
30%
25%
20%
15%
10%
5%
0%
(As a % of Payroll)
1995
1997
1999
2001
2003
2005
2007
Valuation Year
County NC Rate
UAAL Amort.
Member Rate


Contribution & Benefit Distribution
FY 1998 - 2007
200,000
150,000
100,000
50,000
-
$s in 000's
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
Payroll Contribution
Benefit Distribution

THE COMPLIANCE SECTION


SamCERA Revenue & Expense
FY 2002 - 2007
$s In 000's
500,000
400,000
300,000
200,000
100,000
-
(100,000)
(32,242)
68,246
97,370
72,382
280,469
78,381
250,789
86,379
282,927
92,299
441,532
99,815
6/30/2002
6/30/2003
6/30/2004
6/30/2005
6/30/2006
6/30/2007
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%
77%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007

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

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

We have audited the basic financial statements of the San Mateo County Employees' Retirement Association (*SamCERA*), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 9, 2007. 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 *SamCERA*'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *SamCERA*'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of *SamCERA*'s internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *SamCERA*'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 of *SamCERA*, 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 THORNBURG & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 9, 2007

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