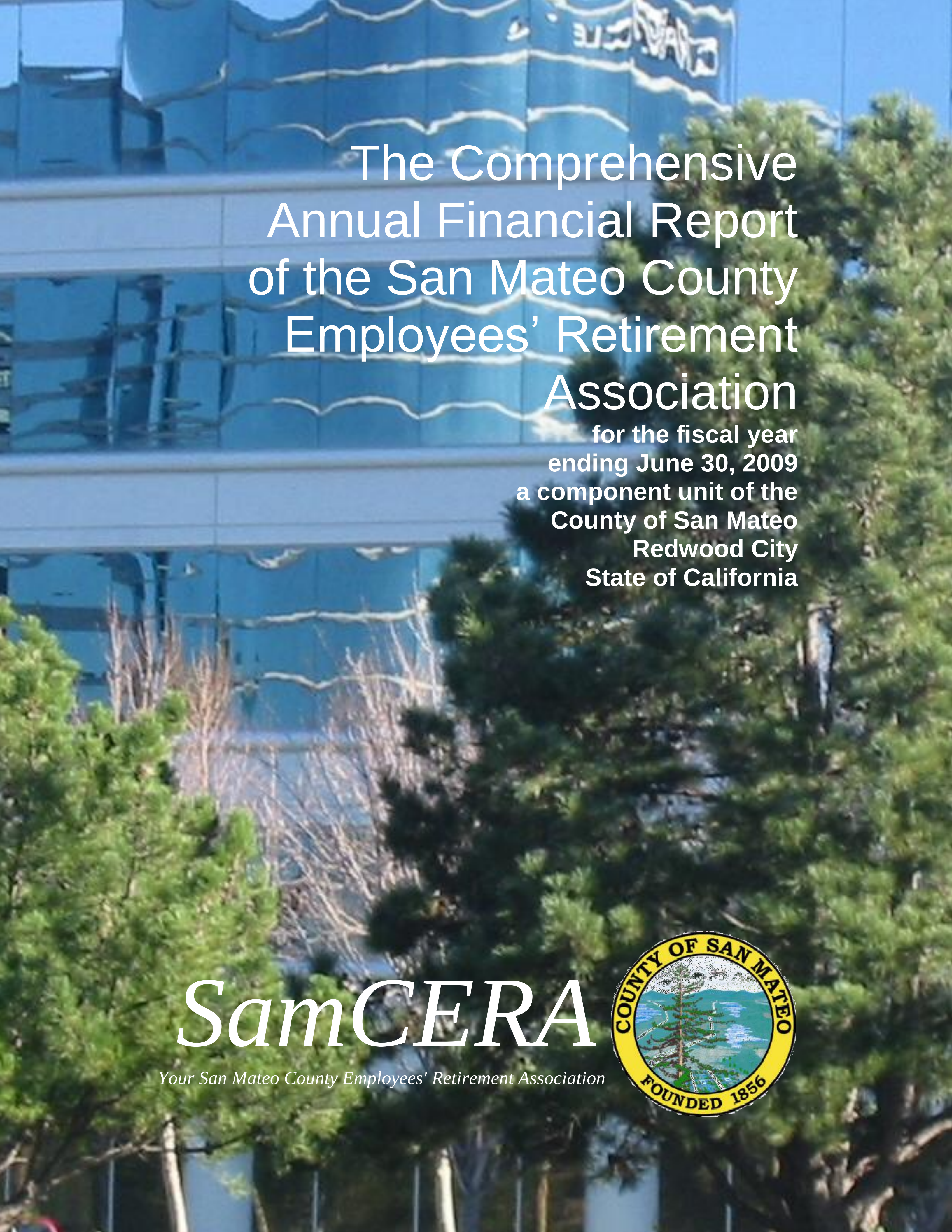

The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association

for the fiscal year ending June 30, 2009
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, 2009

C. David Bailey
Chief Executive Officer

Gary L. Clifton
Chief Investment Officer

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

San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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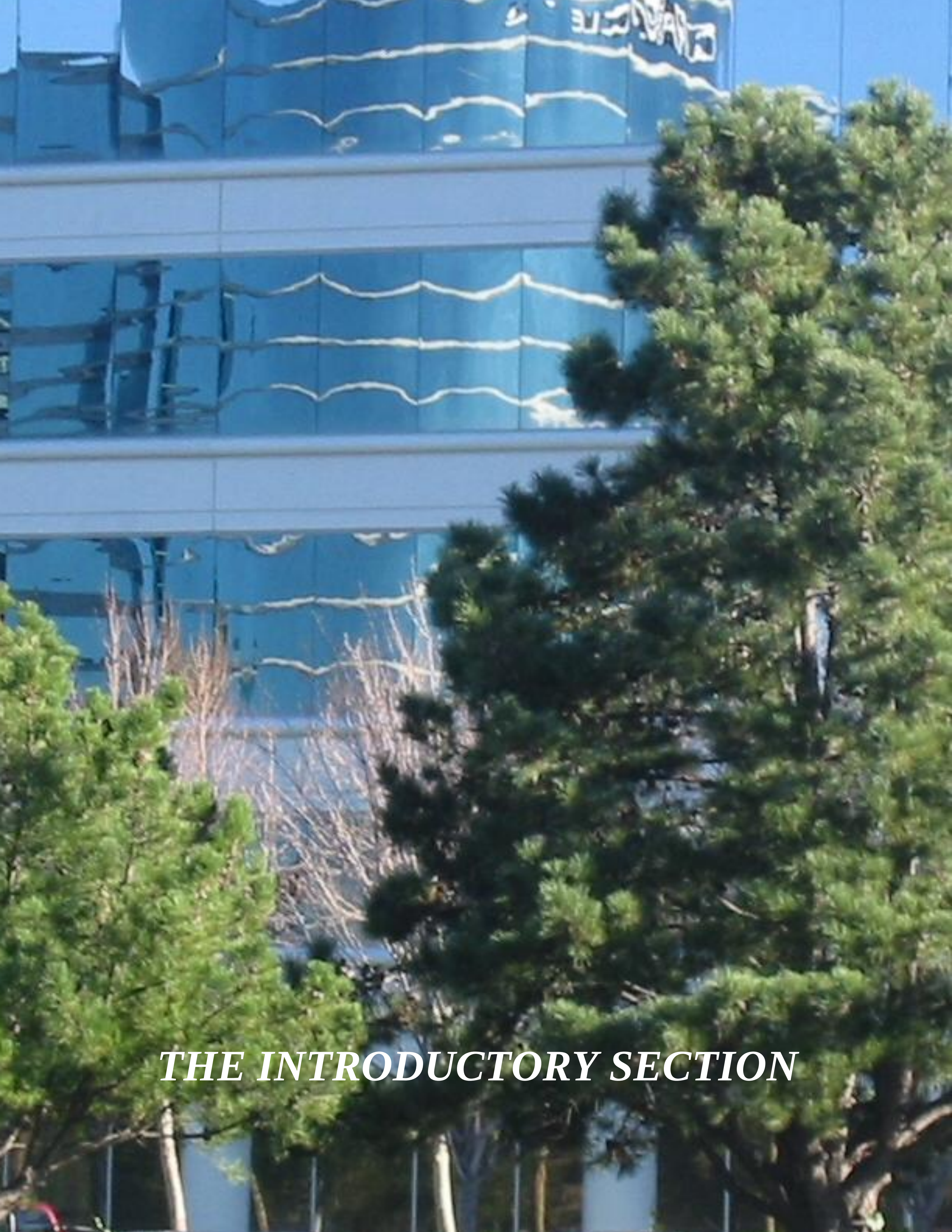


THE INTRODUCTORY SECTION

SamCERA's Mission

SamCERA exists to serve as loyal fiduciary for its members 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 in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to its employers.

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

SamCERA

San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065
samcera@samcera.org
Phone: 650-599-1234
Fax: 650-591-1488
Toll Free: 1-800-339-0761

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present the *Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association* for the fiscal years ending June 30, 2009, and June 30, 2008.

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 18-26.

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 the 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 chosen 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, 2009, 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 Policy; 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 14.

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 sixteen 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 and Vector Control District, vested former employees who elected deferred retirement, and all current retirees and benefit recipients. 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 Members 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, 2009

Plan (Tier)		One	Two	Three	Four	Total
Retirees and beneficiaries currently receiving benefits:						
	General	2,093	1,206	83	71	3,453
	Safety	291	88	0	6	385
	Probation	68	26	0	3	97
	Subtotal	2,452	1,320	83	80	3,935
Terminated employees entitled to but not currently receiving benefits (Deferred):						
	General	52	519	129	418	1,118
	Safety	2	38	0	28	68
	Probation	0	20	0	24	44
	Subtotal	54	577	129	470	1,230
Current employees:						
Vested:						
	General	104	1,265	65	1,493	2,927
	Safety	10	153	0	150	313
	Probation	6	88	0	146	240
Non-Vested:						
	General	0	0	89	1,761	1,850
	Safety	0	0	0	123	123
	Probation	0	0	0	90	90
	Subtotal	120	1,506	154	3,763	5,543
Total *SamCERA* Membership		2,626	3,403	366	4,313	10,708

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 Thornburgh & 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, provides 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 decreased from $2.011 billion to $1.591 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 were a negative $299,199,353.

Additions to SamCERA's Assets

Contributions	
Employer	$ 106,123,055
Employee	50,371,591
Total Contributions	156,494,646
Investment Income	(446,191,499)
Less investment expense	(11,117,817)
Net Investment Income	(457,309,316)
Net Security Lending Income	1,631,274
Other Additions	(15,957)
TOTAL ADDITIONS	($299,199,353)

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, asset management and professional expenses from the retirement fund. Benefits and expenses for the fiscal year totaled $120.1 million.

Deductions from SamCERA's Assets

SamCERA Benefits:	
Service retirement allowance	$99,208,814
Disability retirement allowance	13,816,561
Death and other benefits	965,432
Total Association benefits	113,990,807
Refunds of members' contributions	2,794,916
Administrative expense	3,286,995
Other Expenses	67,139
TOTAL DEDUCTIONS	$120,139,857

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, 2009.

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, 2009, the reserve was a negative $318,279,912. This amount is the unrecognized difference between *SamCERA*'s actual market returns and the returns generated by earnings equal to the actuarial interest rate of 7.75%. These actuarial losses will be transferred onto the actuarial balance sheet over the next 4.5 years. Once on the actuarial balance sheet they will be amortized over *SamCERA*'s actuarial funding period of 15 years. *SamCERA* employs a layered methodology that amortizes actuarial gains and losses over the 15-year period that begins in the year they are recognized on the actuarial balance sheet.

•**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 Policy* by 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 -21.26%, approximately 335 basis points less than the Median Public Plan, and 310 basis points less than the performance of its policy benchmark.

SamCERA's Asset Allocation

	Target	June 30, 2009
Equity	67.0%	61.6%
Fixed Income	27.0%	30.4%
Real Estate	6.0%	7.5%
Cash	0.0%	0.5%

•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, 2009, *SamCERA*'s Actuarial Valuation Assets of $1.910 billion were equal to 63.9% of *SamCERA*'s Accrued Actuarial Liabilities of $2.988 billion, with full funding targeted for the year 2022. *SamCERA*'s Unfunded Actuarial Accrued Liability totaled $1.078 billion on June 30, 2009. The Market Stabilization Account decreased to -$318.3 million.

The following table reflects recent contribution changes:

Contribution Rates Effective in Fiscal Year:	**2010-2011**	**2009-2010**	**2008-2009**
Employer Rate (Actuary's Estimated Aggregate)	**34.00%**	**23.62%**	**23.76%**
% Increase	*43.95%*	*-0.58%*	*-0.95%*
Employee Rate (Actuary's Estimated Aggregate)	**9.73%**	**9.74%**	**9.70%**
% Increase	*0.00%*	*0.04%*	*0.00%*

This report utilizes information from the actuarial valuation of the system as of June 30, 2009.

•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 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. The report noted no matters involving the internal control over financial reporting and its operations 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

As of July 1, 2008, **Natalie Kwan Lloyd** and **Albert David** became trustees of the retirement association. They were elected by the active members. Ms. Lloyd is an Appraiser in the San Mateo County Assessor's Office. She joined the board to serve out the unexpired term of Tom Bryan. Her term will expire June 30, 2010. Mr. David is an Information Services Dept. IMS-Health Relationship Manager. He is also a retired Army Reserve Lieutenant Colonel. He joined the board to serve out the unexpired term of Paul Hackleman. His shortened term expired June 30, 2009, but in mid-June Mr. David was re-elected to a full three-year term that will expire June 30, 2012. In that same election, Safety Alternate Alma Salas was re-elected to a three-year term. David Spinello, a Deputy with the San Mateo County Sheriff's Office, was elected to fill the Safety Member position.

Also in July 2008, the Board of Supervisors appointed **Ben Bowler** to fill the seat vacated by Scott Lee. Bowler is the Assistant Treasurer of Finance and Planning at Con-Way, Inc. His term will expire June 30, 2010.

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 for fiscal year 2008-2009 included Board Chair **Emily Tashman**, a finance professional who was appointed in January 2004; Vice Chair **David Wozniak**, a Deputy Sheriff first elected in June 2006; Secretary **Lee Buffington**, San Mateo County Treasurer (a member by virtue of his county office); **James Hooley**, retired Associate Superintendent of the San Mateo County Office of Education, first appointed in September 2003; **Bette Stuart**, the elected Retired Member who was first elected in 1988; and **Margaret Jadallah**, a Vice President with Bivium Capital Partners who was first appointed in August 2007. Deputy County Treasurer **Sandra Arnott** substitutes for the Treasurer when needed. Probation Services Manager **Alma Salas** is the Safety Alternate. **John Murphy** is the Retired Alternate.

SamCERA completed an expansion into additional office space in July 2008. The added square footage was immediately adjacent to its current office in Redwood Shores. The expansion provided a larger boardroom for conduct of member education programs, expansion space for future growth, more storage, more file space, more server space, sufficient office space to hire two vacant positions, a separate counseling room and a workroom for office equipment.

In August 2008 *SamCERA* issued an RFP for member education services. Seven firms responded. In early 2009 the winning proposer, Financial Knowledge Network (FKN), began a series of financial management seminars. The courses included such titles as, *Building Your Wealth (Retirement Planning for Mid-Career), Estate Planning: Understanding the Basics, Creating and Managing Wills & Trusts, Organizing and Managing Your Finances, Getting Out of Debt & Developing Smart Credit Habits*, and *How to Choose Financial Professionals.* Members sign up for the courses and receive their supervisor's approval through the county's online training website. All FKN courses are "conflict free," meaning the instructors don't offer to sell financial products or services to students of their classes.

Also in August *SamCERA* hired two firms to begin collecting from physicians the medical records of members who have applied for disability benefits and for whom the physicians are not responding in a timely manner. The goal is for this service to speed up the processing of applications. An analysis of the steps in the disability process that take the most time revealed that by far the most significant delays occurred while waiting for medical records from physicians.

In January 2009 the board approved a 3% cost of living adjustment (COLA) for most *SamCERA* retirees and beneficiaries. The increase was effective with April 2009 payments.

In late 2008, the staff reviewed their Strategic Plan during a two-day retreat and in subsequent in-office meetings. During the 2009 calendar year *SamCERA* pursued three major goals, all of which are derived from and consistent with *SamCERA's* mission statement. The goals are in the areas of Customer Services, Operations, and Financial Management.

In all there were 26 projects for the staff to initiate and/or complete during the 2009 calendar year. In the previous three years staff completed a total of 77 projects.

SamCERA believes it is prudent to periodically issue Requests for Proposals for all professional services. This allows the system to stay abreast of services and prices available in the market. In the coming months *SamCERA* will issue an RFP for audit services, investment consultant services and possibly custodial services.

Regarding investments, *SamCERA* like all institutional investors, suffered significant asset losses during the year, with overall fund value declining approximately 22%. During the downturn the Retirement Board continued to seek greater fund diversification and an improved manager structure. The board embarked on four separate manager searches within its US equity portfolio. The resulting changes reduced the fund's exposure to purely quantitative methodologies and increased the use of fundamental research managers in large cap growth and value mandates. The board also initiated action to replace its small cap value manager.

CERTIFICATE OF ACHIEVEMENT AND ACKNOWLEDGEMENTS

For the thirteenth 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, 2008. The certificate is reproduced on page 10.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the seventh year running. We received this honor for our PAFR, for the fiscal year ended June 30, 2008.

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 Public Pension Coordinating Council presented *SamCERA* its *Public Pension Standards Award* for 2009. The award recognizes that *SamCERA* has met professional standards for plan funding and administration as set forth in the Public Pension Standards of the Council. The standards judge retirement systems on their Funding Adequacy, Comprehensive Benefit Program, Actuarial Valuation, Independent Audit, Investments and Communications. The award is reproduced on page 11.

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,

C. David Bailey, Chief Executive Officer

September 15, 2009

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, 2008

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

PPCC

Public Pension Coordinating Council

Public Pension Standards Award

For Funding and Administration

2009

Presented to

San Mateo County Employees' Retirement Association

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Members of the Board of Retirement

for the fiscal year ending June 30, 2009

LEE BUFFINGTON, SECRETARY ***Ex Officio per the '37 Act, First Member***
Lee Buffington is the elected Tax Collector/Treasurer of San Mateo County. The law designates the County Treasurer as a permanent member of the Board of Retirement. Lee joined the board in October 1985. His term expires June 30, 2010.

ALBERT DAVID ***elected by SamCERA's General Members, Second Member***
Albert David is an Information Services Dept. IMS-Health Relationship Manager for San Mateo County. He is also a retired Army Reserve Lieutenant Colonel. He joined the board in July 2008 to serve out the unexpired term of Paul Hackleman. His term expires June 30, 2009.

NATALIE KWAN LLOYD ***elected by SamCERA's General Members, Third Member***
Natalie Kwan Lloyd is an Appraiser in the San Mateo County Assessor's Office. She joined the board in July 2008 to serve out the unexpired term of Tom Bryan. Her term expires June 30, 2010.

EMILY TASHMAN, 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. She was elected Vice Chair in July 2006 and Board Chair in April 2008. Her term expires June 30, 2009.

BENEDICT J. BOWLER ***appointed by the Board of Supervisors, Fifth Member***
Ben Bowler is the Assistant Treasurer of Finance and Planning at Con-Way, Inc. He was appointed in August 2008 to fill the unexpired term of the Fifth Member, which will expire 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 of Retirement in September 2003. His term expires June 30, 2009.

DAVID J. WOZNIAK, VICE CHAIR ***elected by SamCERA's Safety Members, Seventh Member***
David Wozniak is a Deputy with the San Mateo County Sheriff's Office. He was elected to the board in 2006 and began his term in July of that year. He was elected Board Vice Chair in April 2008. He is a member of the Audit Committee. His term expires on June 30, 2009.

BETTE PERROTON STUART ***elected by SamCERA's Retired Members, Eighth Member***
Bette Perroton Stuart retired as your Retirement Officer in 1988 after nearly 20 years with San Mateo County. Bette joined the board in December of 1990. She served as Chair from 1996 – 1998. Her term expires June 30, 2010.

MARGARET JADALLAH ***appointed by the Board of Supervisors, Ninth Member***
Margaret Jadallah is a Senior Vice President with Bivium Capital Partners, LLC. She was formerly Director of Manager Research with Strategic Investment Solutions during and in that role provided investment advice to the *SamCERA* board. Margaret was first appointed in August 2007. She is a member of the Investment Committee. Her term expires June 30, 2010.

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

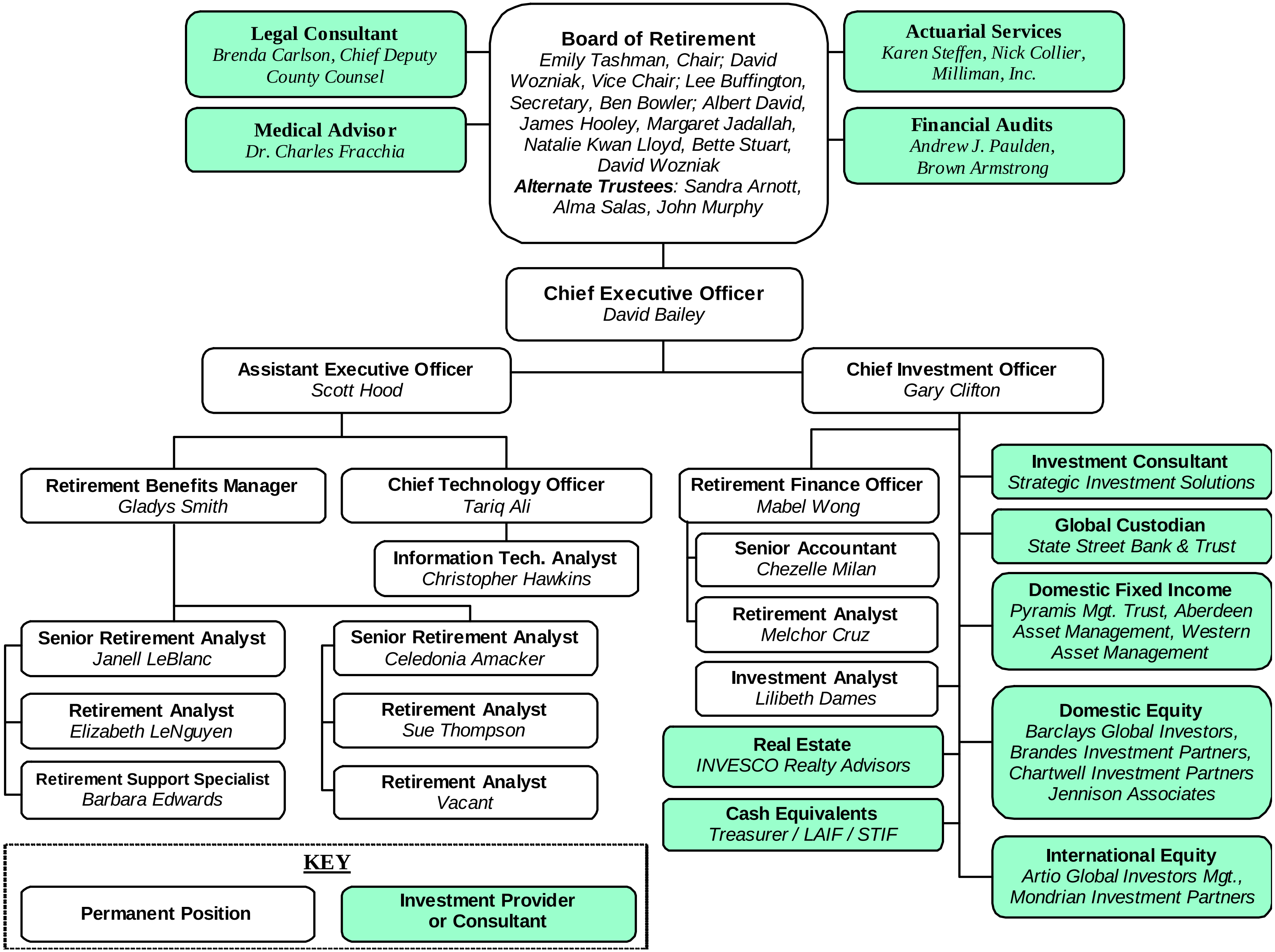
for the fiscal year ending June 30, 2009

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.

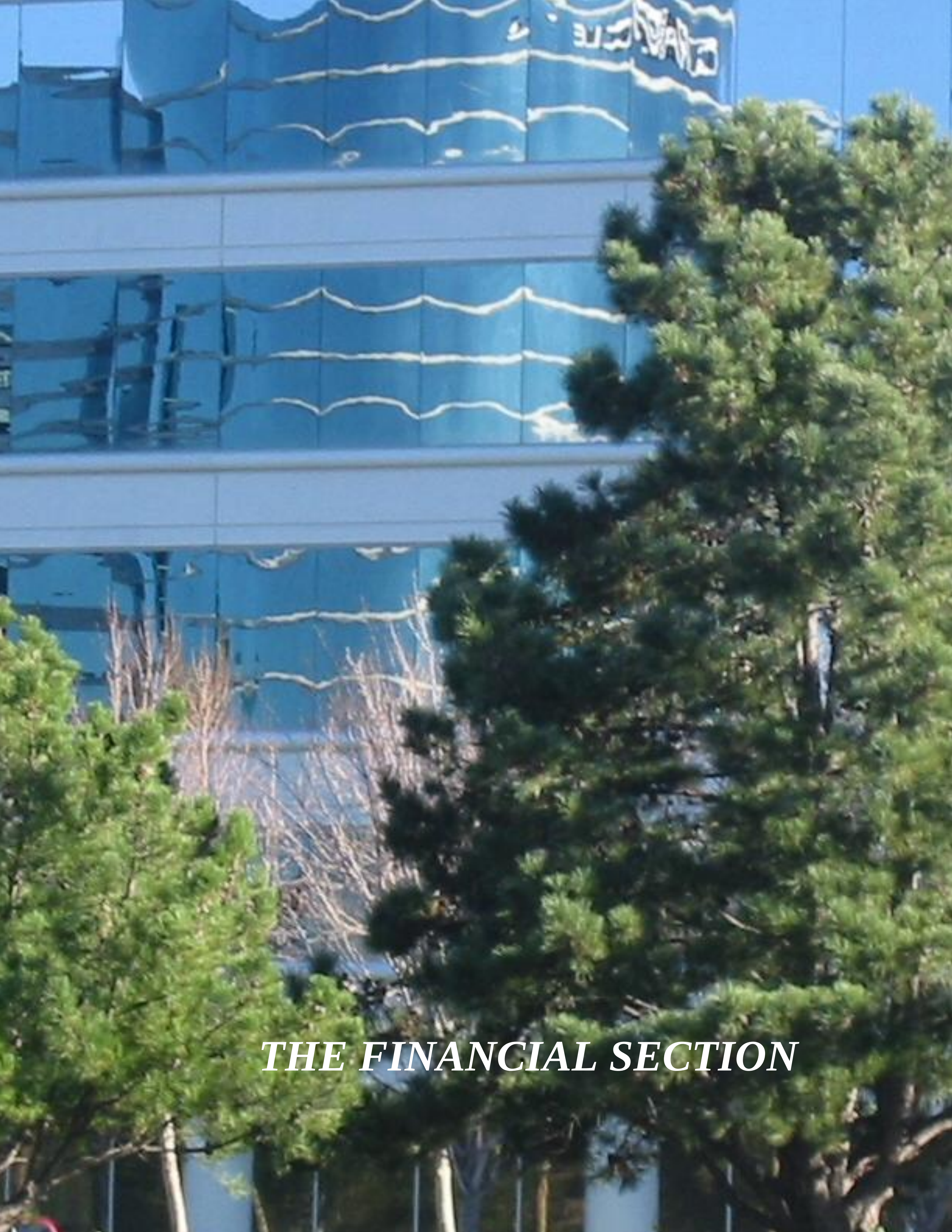
JOHN MURPHY ***elected by SamCERA's Retired Members, as Eighth Member Alternate***
John Murphy is a retired member of *SamCERA*. John was appointed by the Board of Retirement in July of 2006 to serve as the Retired Alternate. He serves in the absence of the Eighth Member. He was elected to the alternate 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 and was re-elected in 2009. She serves in the absence of the Second, Third and Seventh members. Her term expires June 30, 2009.

SamCERA 2008-2009 Organizational Chart



A Schedule of Professional Services and Fees may be found on page 66 of the Investment Section.



THE FINANCIAL SECTION

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Plan Net Assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2009 and 2008 and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of SamCERA management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2009 and 2008 and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the GASB. 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 as listed in the table of contents is presented for purposes of additional analysis, as required by GASB, and is not a required part of the basic financial statements. This information is the responsibility of SamCERA's management. Such information has been subjected to the auditing procedures applied by us in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 basic financial statements taken as a whole. The Other Supplementary information as listed in the table of contents, and the Investment, Actuarial and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of SamCERA. The Other Supplementary information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investments, actuarial and statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2009, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 15, 2009

FISCAL YEAR 2008 – 2009

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, 2009, and 2008. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 29, provides a clear picture of *SamCERA's* overall financial status and activities.

Financial Highlights

- $1,591,399,558 in net assets as of June 30, 2009, 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 decreased by $419,399,210 or -20.85% primarily as a result of negative investment returns.
- *SamCERA's* funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2009, the actuarial funded ratio for *SamCERA* dropped to 63.9% from 79.1%. The large decline is a combination of the recent devaluation of assets and *SamCERA's* policy that places a corridor around the actuarial smoothing methodology.
- Revenues (Additions to Fiduciary Net Assets) for the year were -$299,199,353 which includes employer contributions of $106,123,055, member contributions of $50,371,591, investment losses of $446,191,499 (excluding investment expense of $11,117,817), and other additions of -$15,957.
- Expenses (Deductions in Fiduciary Net Assets) increased from $109,827,443 to $120,139,857 over the prior year, or approximately 9.39%. The fiscal year 2009 expenses include $113,990,807 for benefit payments, $2,794,916 for member refunds, and $3,286,995 for administrative expenses. 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, for the past two years to provide clarity for the reader, *SamCERA*, as a component unit of San Mateo County, provided information similar to that required under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The information provided added to the confusion rather than provide clarity. *SamCERA* will reduce its note on post employment benefits to indicate that it does not administer post employment benefits.
- *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, 2009. 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 decrease in *SamCERA's* plan net assets for the year ended June 30, 2009, was -20.85%. This decrease reflects the overall downturn in the global capital markets. Although it is an indicator that *SamCERA's* financial position deteriorated during the past fiscal year, it does not represent a trend. *SamCERA's* total gross fund return of -21.26% underperformed *SamCERA's* 7.75% actuarial assumed interest rate. Additionally the outlook for the future deteriorated from an actuarial perspective due to a decrease in net deferred investment gains of $110.1 million from -$208.2 million in 2008 to -$318.3 million in 2009 which will be used to decrease 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 27-28.

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 29-47.

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 48-50.

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, 2009, totaled $1,591,399,558 which represents a decrease of $419,339,210 or -20.85% over the period. The decrease during the fiscal year is due mostly to market depreciation of investments. All of the net assets are available to meet *SamCERA's* ongoing obligations to plan participants and their beneficiaries.

In the table below total assets are comprised of investments at fair value and "other" assets. The other assets are cash and deposits, security lending cash collateral, receivables, prepaid expense and capital assets. The substantial decrease in other assets from 2008 to 2009 is attributed to the fact that the security lending cash collateral and due from brokers for investments sold were substantially lower than the previous year. The increase in other assets in 2008 from 2007 is due to the increase in receivables from brokers for investments sold and cash collateral, which appears after *SamCERA* reinstituted a security lending program. The total liabilities referred to in the table are the following payables: investment management fees, due to broker for investments purchased, collateral payable for securities lending and other payables, which are general small amounts for various reasons. The increase in total liabilities for 2009 is also due to the new securities lending program. *SamCERA* now discloses the collateral payable for securities lending. The increase from 2007 to 2008 represents an increase in payables due to brokers for investments purchased.

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

For the Years Ended June 30, 2009 and 2008	2009	2008	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,565,558,673	$1,992,209,133	-$426,650,460	-21.42%
Other Assets	$264,382,782	$413,641,515	-$149,258,733	-36.08%
Total Assets	$1,829,941,455	$2,405,850,648	-$575,909,193	-23.94%
Total Liabilities	$238,541,897	$395,111,880	-$156,569,983	-39.63%
Net Assets	$1,591,399,558	$2,010,738,768	-$419,339,210	-20.85%

For the Years Ended June 30, 2008 and 2007	2008	2007	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,992,209,133	$2,145,217,557	-$153,008,424	-7.13%
Other Assets	$413,641,515	$127,435,515	$286,206,000	224.59%
Total Assets	$2,405,850,648	$2,272,653,072	$133,197,576	5.86%
Total Liabilities	$395,111,880	$141,038,442	$254,073,438	180.14%
Net Assets	$2,010,738,768	$2,131,614,630	-$120,875,862	-5.67%

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

As of June 30, 2009, the balance of *SamCERA's* capital assets (net of accumulated depreciation and amortization) remained the same at $0. All capital assets were fully depreciated in 2007. There were no significant commitments made for capital expenditures in the fiscal year ended June 30, 2009.

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 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. This year *SamCERA's* Market Stabilization Account decreased by $110,081,722.

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

As of June 30	2009	2008	2007
Valuation Reserves:			
Member Reserves	$412,146,516	$385,300,221	$359,484,306
Employer Advanced Reserves	$235,873,867	$279,375,884	$267,208,723
Retiree Reserves	$636,170,664	$784,613,246	$662,143,559
Cost of Living Reserves	$625,488,423	$769,647,607	$692,471,430
Non-Valuation Reserves:			
Unallocated Earnings/Loss Account	$0	$0	-$4,577,107
Market Stabilization Account	-$318,279,912	-$208,198,190	$154,883,719
Net Reserves held in Trust for Pension Benefits	$1,591,399,558	$2,010,738,768	$2,131,614,630

Additions to Fiduciary Net Assets

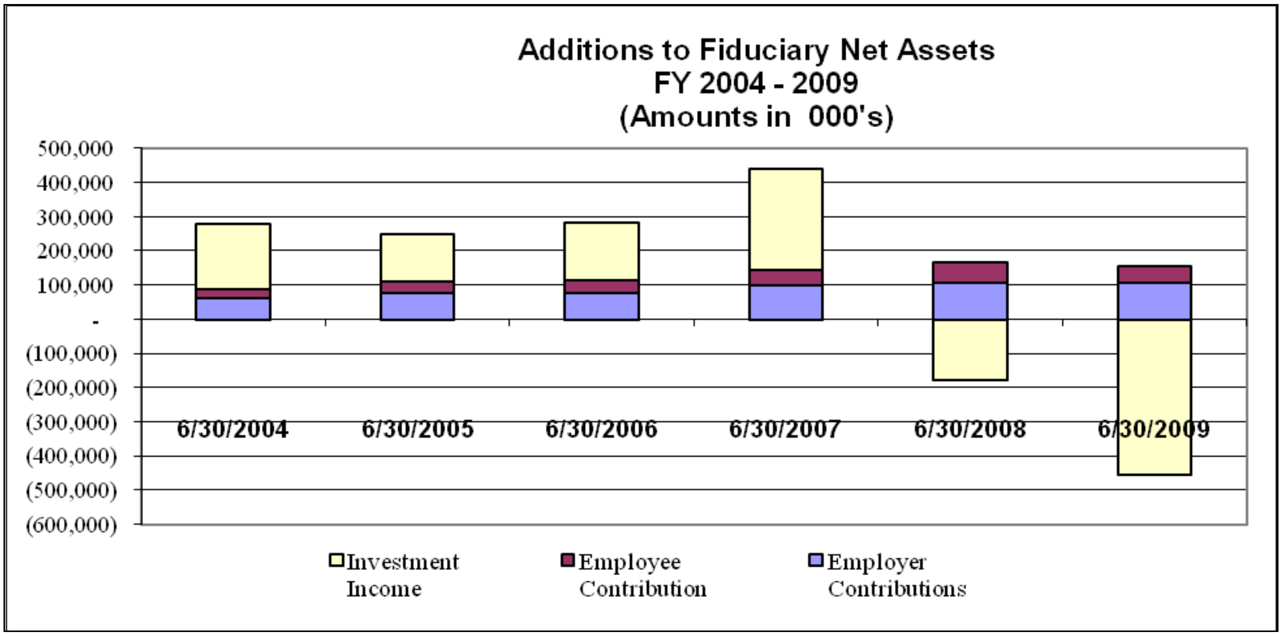
The primary sources of funding for *SamCERA* member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years ended June 30, 2009, and 2008 were -$299,199,353 and -$11,048,419, respectively. The decrease in 2009 was due to the decline in investment income as the stock market fell drastically beginning in September 2008 and lasting through March of 2009.

Employer contributions for 2009 were $106.1 million, an increase of $0.8 million over the prior year, primarily as a result of a pensionable wage increase of 3.0% over the prior year. Member contributions were $50.4 million. The $9.7 million decrease over 2008, is primarily due to less member service purchases in 2009. In 2008 the introduction of ARC (Additional Retirement Credit) added approximately $16.6 million in employee contributions. In 2009, service purchases decreased to $5.2 million as the majority of the ARC purchases were initiated in 2008.

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

For the Years Ended June 30, 2009 and 2008	2009	2008	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$106,123,055	$105,339,570	$783,485	0.74%
Member Contributions	$50,371,591	$60,111,183	-$9,739,592	-16.20%
Investment Income/(Loss)	-$446,191,499	-$166,998,502	-$279,192,997	167.18%
Less Investment Expenses	-$11,117,817	-$11,380,285	$262,468	-2.31%
Security Lending Income	$1,631,274	$1,698,567	-$67,293	-3.96%
Other Additions	-$15,957	$181,048	-$197,005	-108.81%
Total	-$299,199,353	-$11,048,419	-$288,150,934	2608.07%
Current Membership	10,708	10,567	141	1.33%

For the Years Ended June 30, 2008 and 2007	2008	2007	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$105,339,570	$100,549,570	$4,790,000	4.76%
Member Contributions	$60,111,183	$42,696,034	$17,415,149	40.79%
Investment Income/(Loss)	-$166,998,502	$308,936,504	-$475,935,006	-154.06%
Less Investment Expenses	-$11,380,285	-$10,676,682	-$703,603	6.59%
Security Lending Income	$1,698,567	$0	$1,698,567	N/A
Other Additions	$181,048	$26,560	$154,488	581.66%
Total	-$11,048,419	$441,531,986	-$452,580,405	-102.50%
Current Membership	10,567	10,384	183	1.76%



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, 2009, totaled $120,139,857 an increase of 9.39% over the prior fiscal year (refer to Table 4, page 25.)

Retirement annuities, survivor benefits, and permanent disability benefits were $114.0 million, an increase of $10 million or 9.64% over 2008. The growth in benefit payments was due to the combined effects of the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the increase in the average retirement allowance of those who were added to the retirement payroll.

Member refunds were $2.8 million in 2009, a decrease of $0.3 million or -9.09% over 2008.

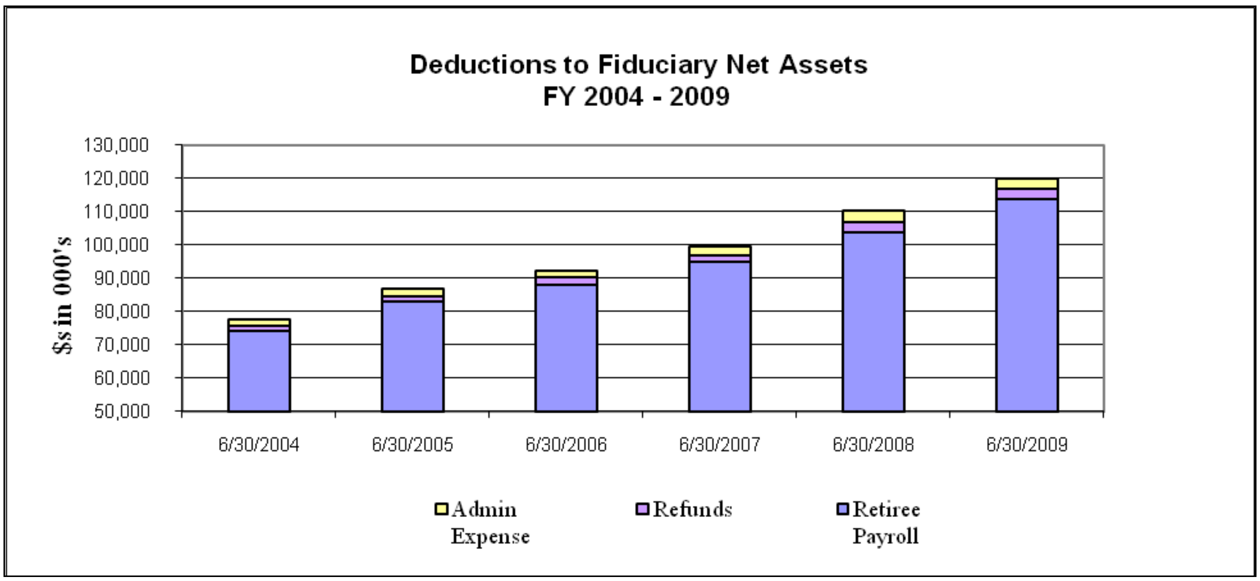
Administrative expense was $3.3 million for 2009. Administrative expense covers the basic costs of operating the retirement system. These include staffing, office expense, information technology systems, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary labor).

The system's administrative expenses increased by $511,982, or 18.45% in the 2008-2009 fiscal year. The increased expenditure for that year was primarily attributable to an increase in the salary and benefit categories due to an approved staff reclassification and compensation study implemented in this fiscal year. This expense is offset by a change in the current methodology for the accounting of administrative expenses. Administrative expenses related to investment were classified as part of investment expenses. Those in-house expenses appear under *SamCERA's* Asset Management Budget.

The annual amount of administrative expense is subject to legal and budgetary restrictions. Each year the Board of Retirement approves the annual budget in accordance with legal spending restrictions. The administrative expense represents approximately 0.18% of total assets. Government Code Section 31580.3 of the County Employees Retirement Law of 1937 limits *SamCERA's* administrative budget to twenty-three hundredths of 1 percent (0.23%) of the total assets of the retirement system. *SamCERA* has consistently been within its approved administrative budget and within the 23 basis point limitation.

Expenses of *SamCERA's* professional services are included with investment expense. For the fiscal years ended June 30, 2009, and June 30, 2008, the expenditures for actuarial services, custodian services and investment consultant services were consistent with the original appropriations. Investment management fees were slightly lower than budgeted due to assets not appreciating as fast as anticipated. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management.

Deductions of $120,139,857 exceeded additions of -$299,199,353, resulting in a decrease of $419,339,210 in fiduciary net assets for the fiscal year ended June 30, 2009.



Deductions in Fiduciary Net Assets (Table 4)

For the Years Ended June 30, 2009 and 2008	2009	2008	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$113,990,807	$103,970,063	$10,020,744	9.64%
Member Refunds	$2,794,916	$3,074,453	-$279,537	-9.09%
Administrative Expenses	$3,286,995	$2,775,013	$511,982	18.45%
Other Expense	$67,139	$7,914	$59,225	748.36%
Total	$120,139,857	$109,827,443	$10,312,414	9.39%
Benefit Recipients	3,935	3,842	93	2.42%

For the Years Ended June 30, 2008 and 2007	2008	2007	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$103,970,063	$94,788,302	$9,181,761	9.69%
Member Refunds	$3,074,453	$2,243,677	$830,776	37.03%
Administrative Expenses	$2,775,013	$2,582,026	$192,987	7.47%
Other Expense	$7,914	$201,168	-$193,254	-96.07%
Total	$109,827,443	$99,815,173	$10,012,270	10.03%
Benefit Recipients	3,842	3,694	148	4.01%

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 decreased by $419.3 million for the year ended June 30, 2009. The magnitude of this decrease is largely due to the depreciation of investment assets during the year.

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

For the Years Ended June 30, 2009 and 2008	2009	2008	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$2,010,738,768	$2,131,614,630	-$120,875,862	-5.67%
Total Additions	-$299,199,353	-$11,048,419	-$288,150,934	2608.07%
Total Deductions	$120,139,857	$109,827,443	$10,312,414	9.39%
Ending Plan Net Assets	$1,591,399,558	$2,010,738,768	-$419,339,210	-20.85%

For the Years Ended June 30, 2008 and 2007	2008	2007	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$2,131,614,630	$1,789,897,817	$341,716,813	19.09%
Total Additions	-$11,048,419	$441,531,986	-$452,580,405	-102.50%
Total Deductions	$109,827,443	$99,815,173	$10,012,270	10.03%
Ending Plan Net Assets	$2,010,738,768	$2,131,614,630	-$120,875,862	-5.67%

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 L. Clifton
Investment and Finance Manager
September 15, 2009

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2009, and 2008

	2009	2008
Assets:		
Cash and Deposits	$67,909,157	$64,334,888
Security Lending Cash Collateral	119,950,929	234,500,134
Total Cash	187,860,086	298,835,022
Receivables:		
Contributions	7,008,366	6,357,986
Due from broker for investments sold	64,890,282	103,095,295
Investment income	4,210,924	4,902,482
Security lending income	92,244	193,166
Other receivables	313,211	249,895
Total Receivables	76,515,027	114,798,824
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	482,472,397	597,506,051
Domestic equities	604,210,620	818,989,346
International equities	359,981,040	405,738,858
Real estate	118,894,616	169,974,878
Total Investments	1,565,558,673	1,992,209,133
Total Assets	1,829,941,455	2,405,850,648
Liabilities:		
Payables		
Investment management fees	1,132,707	1,502,949
Due to broker for investments purchased	110,091,607	158,454,659
Collateral payable for securities lending	119,950,929	234,500,134
Other	7,366,654	654,138
Total Liabilities	238,541,897	395,111,880
Net Assets Held in Trust For Pension Benefits (Note 3)	$1,591,399,558	$2,010,738,768

The accompanying Notes to the Financial Statements beginning on page 29 are an integral part of these financial statements.

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets
For The Years Ended June 30, 2009, and 2008

	2009	2008
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 106,123,055	$ 105,339,570
Member	50,371,591	60,111,183
Total Contributions	156,494,646	165,450,753
INVESTMENT INCOME		
Interest and dividends	42,096,352	47,565,116
Net appreciation (depreciation) in Fair value of investments	(488,287,851)	(214,563,618)
	(446,191,499)	(166,998,502)
Less investment expense	(11,117,817)	(11,380,285)
Net Investment Income	(457,309,316)	(178,378,787)
Security Lending Income		
Earnings	3,328,894	10,083,125
Less security lending expense	(1,697,620)	(8,384,558)
Net Security Lending Income	1,631,274	1,698,567
Other Additions	(15,957)	181,048
Total Additions	(299,199,353)	(11,048,419)
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	99,208,814	90,306,502
Disability retirement allowance	13,816,561	12,760,602
Survivor, death and other benefits	965,432	902,959
Total Association Benefits	113,990,807	103,970,063
REFUNDS OF MEMBERS' CONTRIBUTIONS	2,794,916	3,074,453
ADMINISTRATIVE EXPENSE (Note 3)	3,286,995	2,775,013
OTHER EXPENSE	67,139	7,914
Total Deductions	120,139,857	109,827,443
Net (Decrease)	(419,339,210)	(120,875,862)
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	2,010,738,768	2,131,614,630
End of year	$1,591,399,558	$2,010,738,768

The accompanying Notes to the Financial Statements beginning on page 29 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 and Vector Control 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, 2009, the Association membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	Tier One	Tier Two	Tier Three	Tier Four	Total
General	2,093	1,206	83	71	3,453
Safety	291	88	0	6	385
Probation	68	26	0	3	97
Subtotal	2,452	1,320	83	80	3,935
Terminated members entitled to but not currently receiving benefits (deferred):					
General	52	519	129	418	1,118
Safety	2	38	0	28	68
Probation	0	20	0	24	44
Subtotal	54	577	129	470	1,230
Totals Forwarded to Next Page	2,506	1,897	212	550	5,165

Note 1 - Plan Description

	Tier One	Tier Two	Tier Three	Tier Four	Total
Totals Forwarded from Prior Page	2,506	1,897	212	550	5,165
Current Members:					
Vested:					
General	104	1,265	65	1,493	2,927
Safety	10	153	0	150	313
Probation	6	88	0	146	240
Non-Vested:					
General	0	0	89	1,761	1,850
Safety	0	0	0	123	123
Probation	0	0	0	90	90
Subtotal	120	1,506	154	3,763	5,543
Total	2,626	3,403	366	4,313	10,708

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.

SamCERA is an independent public employee retirement system with its own governing board. *SamCERA's* financial statements are included in the County of San Mateo's financial statements as a component unit of the county. Maintaining appropriate controls and preparing the Association's financial statements are the responsibility of *SamCERA's* management.

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 – 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.

Security Lending Activity

Security Lending transactions are short-term collateralized loans of *SamCERA* securities for the purpose of generating additional investment income. For each lending transaction, *SamCERA* receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on SamCERA's statement of fiduciary net assets as if the lending transaction had not occurred.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, cash collateral held (or any security that can be sold or pledged without a default by the borrower) is separately reported on the statement of fiduciary net assets among the current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) is reported as a liability.

Non-cash collateral held is not reported on the statement of fiduciary net assets nor is there a corresponding liability reported on this statement. Note 4 – Deposit and Investment Risk Disclosure discloses the amount of securities lending non-cash collateral.

Income Taxes

The Internal Revenue Service has ruled that plans such as *SamCERA's* qualify under Section 401(a) of the Internal Revenue Code and are not subject to tax under present income tax laws. On January 1, 1987, the Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

Receivables

Receivables consist primarily of interest, dividends, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of June 30, 2009, and 2008.

Property, Plant and Equipment

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.

Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

Summarized Prior Year Information

The accompanying financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with SamCERA financial statements as of and for the year ended June 30, 2008, from which the summarized information was derived.

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 & Accounts. 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 and Vector Control District did not receive the enhanced benefits and do not make additional contributions. The average member rate, based on the actuarial valuation as of June 30, 2009, and effective July 1, 2010, remained at 9.74%, the same as the previous rate for the June 30, 2008, valuation, and effective July 1, 2009.

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. Beginning with the June 30, 2008 actuarial valuation *SamCERA* converted to the 15-year layered amortization methodology. Under this methodology, the original unfunded amount (UAAL) is amortized over 15 years as of the valuation date. Future actuarial gains and losses are amortized over new 15-year periods. The San Mateo County Mosquito and Vector Control District contributes a lower percentage of covered payroll than does San Mateo County, due to lower benefits provided to the Mosquito and Vector Control District employees. Details of the funding progress, annual required member contribution and employer contribution, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The average employer contribution rate increased from 23.62% for the valuation ended June 30, 2008, to 34.00% in the valuation ended June 30, 2009. The increase is almost entirely due to the exceptional market losses during the period which caused a sharp increase in the UAAL. The normal cost and UAAL contribution rates are shown in the following table.

	2009	2008	Change
Normal Cost	11.62%	11.69%	-0.07%
UAAL Amortization	22.38%	11.93%	10.45%
Total Contribution Rate	34.00%	23.62%	10.38%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (unit $000)	Percentage Contributed
2009	$106,123	100%
2008	$105,340	100%
2007	$100,550	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, 2009, 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. At the end of 2008/2009 the prepayment account had an excess balance of

$6,774,272 which included a credit to the county of $87,362 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2009/2010 employer contribution.

The worldwide economic downturn and specifically budget difficulties at the State of California have an impact upon the County of San Mateo's cash flow. As the fiscal year 2009/2010 begins, the county does not have funds to make the annual lump sum prepayment. Instead the county will provide the required contribution in conjunction with the biweekly basis payroll.

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 twenty-three hundredths of one percent (0.23%) of total system assets as set forth under Government Code Section 31580.3. *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 0.21% for the fiscal year ended June 30, 2009.

With the fiscal year ended June 30, 2009, *SamCERA* implemented two changes in the methodology for calculating administrative expenses. The first is to eliminate all in-house expenditures related to investments. The Board of Retirement wishes to have separate visibility for these expenditures and created an Asset Management Budget, which appears below. The second change is to invoke Government Code Section 31580.3 versus 31580.2 when determining compliance with administrative expenditure limitations. That section increases the expenditure limits from eighteen hundredths of one percent (0.18%)of the total assets to twenty-three hundredths of one percent (0.23%) of total system assets.

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:

	2009	**2008**
Salaries and member benefits	$2,110,498	$1,627,709
Services and supplies	1,176,497	1,147,304
Depreciation	0	0
Administrative Expenditures	$3,286,995	$2,775,013

Asset Management Expenses

The *SamCERA* Board of Retirement annually adopts the operating budget for the administration of *SamCERA*. The overall budget has three subdivisions. The first is the Administrative Budget as detailed above. The second is the Asset Management Budget, which is discussed here. The third is the Professional Services Budget, which appears in the Investment Section on page 70. The Asset Management and Professional Services Budgets are considered investment expenses.

SamCERA's Asset Management Budget contains in-house expenses that relate directly to the investment and management of the Association's assets. Those expenses include staff salary and benefits directly tied to investment, education, due diligence and office overhead.

	2009	2008
Salaries and member benefits	$429,738	$287,077
Services and supplies	165,415	169,046
Asset Management Expenditures	$595,153	$456,123

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 Earnings / 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 involves spreading the difference between actual and expected market return 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, 2009, 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, 2009, *SamCERA's* experienced a negative allocation of earnings to reserves of $317.7 million. Earnings on average, 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. The actuarial smoothed interest rate was -16.44% and 1.50% at December 31, 2008, and June 30, 2009, respectively.

Reserves required for reporting purposes by the 1937 Act:

	2009	2008
Member Deposit Reserve	$ 412,146,516	$ 385,300,221
Employers' Advance Reserve – Current Service	235,873,867	279,375,884
Retiree Member Reserve	636,170,664	784,613,246
Cost-of-Living Adjustment Reserve	625,488,423	769,647,607
Total Allocated Reserves	1,909,679,470	2,218,936,958
Unallocated Earnings / Losses Account	0	0
Market Stabilization Account	-318,279,912	-208,198,190
Net Assets Held in Trust for Pension Benefits	$1,591,399,558	$2,010,738,768

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, 2009, balance in the Market Stabilization Account of -$318.3 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, 2009, actual asset allocation was 61.6% equities, 30.4% fixed income securities, 7.5% real estate and 0.5% 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, 2009. 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, 2009, *SamCERA* had no investments that were exposed to custodial risk. *SamCERA* does not have a general policy addressing custodial credit risk, but it is the practice of the Association that all investments are insured, registered, or held by the plan or its agent in the Association's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in *SamCERA's* name.

Security Lending Collateral Credit Risk – All of the cash collateral received for securities lending is invested in the State Street Navigator Securities Lending Prime Portfolio, which is not rated by credit rating agencies. All investments will qualify as "eligible securities" within the meaning of Rule 2(a)-7 of the Investment Companies Act of 1940. The portfolio seeks to maintain a stable net asset value per share of $1.00 by valuing its portfolio using an amortized cost method and will comply with the requirements of Rule 2(a)-7.

Security Lending Collateral Interest Rate Risk – Cash collateral from loans of securities are invested in the State Street Navigator Securities Lending Prime Portfolio. Its average effective duration is restricted to 90 days or less. As of June 30, 2009, and 2008, the actual effective duration was 46 days and 41 days, respectively. SamCERA did not reinstitute its securities lending program until July 1, 2007.

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 Policy* 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, 2009, *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, 2009, 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	$8,002,387	4.59%	11.17	6.66
Asset Backed Securities	8,995,311	3.16%	4.66	3.99
CMBS	15,382,412	3.20%	5.92	4.59
CMO	32,923,770	1.84%	6.24	7.38
Commingled Funds	14,290,292	8.48%		3.88
Convertible	463,350	5.25%	.08	1.74
Corporate Bonds	94,237,568	6.79%	10.49	6.04
Mortgage Pass Through	100,145,952	5.05%	5.25	3.81
Taxable Municipal Bonds	4,978,291	6.97%	7.79	4.52
Preferred Stock	223,552	2.08%	0.00	0.57
Private Placement	143,750	7.63%	5.67	1.56
Swaps	511,076			
United States Treasuries	29,099,721	2.92%	12.51	9.05
Sovereign Governments	10,578,277	6.51%	13.75	8.04
Totals	$319,975,709	5.15%	8.27	5.58

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	$159,408,720	4.59%	13.59	3.61

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 Policy 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 Barclays Capital 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 Barclays Capital 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 uses the output to align the portfolio duration to that of the benchmark.

Credit Risk – 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 Policy* 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, 2009 the quality breakdown of the Association's investments in bonds were rated as indicated in the table below.

Credit Risk	Active Management	Commingled Management
AAA	45.2%	62.2%
AA	2.5%	4.6%
A	6.3%	12.7%
BBB	29.5%	19.8%
Less than BBB	16.3%	0.7%
NR	0.2%	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. *SamCERA's* policy states forward currency contracts and currency futures are permitted for defensive currency hedging to mitigate foreign currency risk on the portfolio.

The foreign currency risk analysis schedule on the following page shows the fair value of investments that are exposed to foreign currency risk by investment type and currency denomination. The schedule offers the magnitude of risk for each foreign currency.

Local Currency	Common Stock	Foreign Currency	Mutual Fund	Preferred Stock	Rights	Total
Australian Dollar	$28,192,245	$572,713			$1,056,757	$29,821,715
Brazilian Real	$91,500	$12,087		$1,607,227		$1,710,814
Bulgaria Lev	$626,997	$164,195				$791,192
Canadian Dollar	$7,850,109	$19,767				$7,869,876
Czech Koruna	$2,778,622	$166,066				$2,944,688
Danish Krone	$1,032,574					$1,032,574
Euro Currency	$107,185,644	$241,091		$75,868	$34,581	$107,537,184
Hong Kong Dollar	$17,857,640	$21,985				$17,879,625
Hungarian Forint	$2,402,736					$2,402,736
Indonesian Rupiah		$3,226				$ 3,226
Japanese Yen	$52,954,405	$436,310	$5,263,068			$58,653,783
Mexican Peso	$177,016					$177,016
New Zealand Dollar	$1,220,816					$1,220,816
Norwegian Krone	$1,802,560					$1,802,560
Philippine Peso		$5,873				$ 5,873
Polish Zloty	$76,217					$ 76,217
Pound Sterling	$45,023,247	$1			$277,099	$45,300,347
Romanian Leu	$11,603	$39,827				$ 51,430
South Korean Won	$27,538					$ 27,538
Russian Ruble	$8,300,789					$8,300,789
Singapore Dollar	$442,352					$442,352
South African Rand	$4,891,371	$7,291				$4,898,662
South Korean Won	$2,048,505					$2,048,505
Swedish Krona	$16,299,076	$8,882				$16,307,958
Thailand Bhat		$2,405				$ 2,405
Total	$301,293,562	$1,701,719	$5,263,068	$1,683,095	$1,368,437	$311,309,881

Securities Lending Activity

Beginning on July 1, 2007, the Board of Retirement policies authorize *SamCERA* to participate in a securities lending program. Security Lending transactions are short-term collateralized loans of *SamCERA* securities for the purpose of generating additional investment income. *SamCERA* has a securities lending agreement in place that authorizes the securities lending agent to lend *SamCERA* securities to broker-dealers and banks pursuant to a loan agreement. For each securities loan, *SamCERA* receives either cash or non-cash collateral. *SamCERA* invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of non-cash collateral, the borrower also pays *SamCERA* a loan premium.

For the year ended June 30, 2009, on behalf of *SamCERA*, the securities lending agent lent *SamCERA* securities to borrowers under the securities lending agreement and *SamCERA* received cash, securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters-of credit as collateral.

SamCERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default therefore, such non-cash collateral is not reported on the statements of plan net assets.

Borrowers were required to deliver collateral for each loan (“margin”) equal to:

- Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and
- Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

Moreover borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

SamCERA did not impose any restrictions for the year ended June 30, 2009, on the amount of loans that the securities lending agent made on its behalf. The securities lending agent indemnified *SamCERA* by agreeing to purchase replacement securities or supplement the amount of cash collateral in the event the borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay *SamCERA* for any income distributions on loaned securities. There were no losses during the year ended June 30, 2009, resulting from a default of the borrowers or the securities lending agent.

SamCERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short term investment pool managed by the securities lending agent. As of June 30, 2009, this investment pool had an average duration of 54.0 days, and an average weighted maturity of 45.7 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. For the year ended June 30, 2009, *SamCERA* had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of June 30, 2009, *SamCERA* had securities on loan with a total value of $115.5 million and the cash and other collateral held against the loaned securities of $120.0.

Note 5 – Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. *SamCERA* manages and finances these risks by purchasing commercial insurance and through the County of San Mateo’s self-insurance program.

SamCERA is covered by the County of San Mateo’s self-insurance program for general liability and workers’ compensation coverage. For general liability coverage, the county maintains a self insurance retention of $600 per occurrence for claims occurring from May 22, 2009 through May 22, 2010. For workers’ compensation coverage, the county maintains a self-insured retention of $1,000 per occurrence. Excess coverages for both of the above are provided by commercial companies that are limited to the following:

- Real and personal property in excess of $100 per incident, but limited to a maximum of $500,000.

- Earthquake in excess of $250 or 5.0% of the replacement value, whichever is more per incident, but limited to a maximum of $25,000 in aggregate.

- Flood damage in excess of 5.0% of the replacement value per location, but limited to a maximum of $25,000 in aggregate.

- General liability in excess of $600 per incident, but limited to a maximum of $55,000.

- Worker's compensation in excess of $1,000 per incident, but limited to a statutory amount.

- Auto liability in excess of $600 per incident, but limited to a maximum of $55,000.

- Malpractice in excess of $10 per incident, but limited to a maximum of $25,000 per claim and aggregate.

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years and there has not been a significant reduction in coverage in fiscal year 2008-2009.

SamCERA pays for risk management administration via a Memorandum of Understanding with the County's Human Resources Department and via a pro-rata share of certain insurances based on the number of employees.

The Board of Retirement purchases separate Fiduciary Liability coverage for actual or alleged breach of fiduciary duties through a policy provided by Travelers. Limits of coverage are $10,000,000 annual aggregate with a $50,000 deductible.

Note 6 – 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 purpose of the valuation is to reassess the magnitude of *SamCERA's* benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actuarial cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Milliman, Inc. completed the actuarial valuation as of June 30, 2008, and June 30, 2009, and determined the funding status (the ratio of system assets to system liabilities) to be 79.1% and 63.9%, respectively. The June 30, 2009, funding status was established based on entry age normal actuarial cost methods, an assumed 7.75% investment return, an assumed 4.0% annual total payroll growth rate, an inflation rate of 3.5% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

The most recent actuarial valuation is June 30, 2009. The valuation discloses the actuarial value of asset at $1.910 billion with an actuarial accrued liability of $2.988 billion for a funded ratio of 63.9%. The unfunded actuarial accrued liability is $1.078 billion, which is 247.02% percent of the $436.4 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2010, was set equal to 22.38% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.62% for a total contribution rate of 34.00% of payroll. A schedule of *SamCERA's* funding progress may be found in the required supplementary information on page 48. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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, 2009	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent of Payroll	
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods. This is referred to as 15-year layered amortization.	
Asset Valuation Method	5-year smoothed market	
Actuarial Assumptions:		
Investment Rate of Return	7.75%	
Price Inflation (CPI)	3.50%	
Payroll Increases	4.00%	
Average 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.

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 7 – Capital Commitments

SamCERA's real estate investment is in a core fund. The core fund manager identifies and acquires investments on a discretionary basis. The manager's investment activity is controlled by core fund documents. The investment activities are further restricted by the amount of capital allocated or committed. The core fund's investment documents and *SamCERA's* capital commitments are subject to approval by the Board of Retirement. As of June 30, 2009, *SamCERA* had no outstanding capital commitments to the core fund.

Note 8 – Related Party Transactions

By necessity, *SamCERA* is involved in various business transactions with the County of San Mateo, the primary plan sponsor. *SamCERA* funds the county for the cost of services provided by the following departments: County Counsel, Auditor-Controller, Purchasing, Human Resources, Information Services and the Department of Hospitals and Clinics. In addition, *SamCERA* reimburses the county for the salary and benefits of SamCERA staff members paid through the county and the costs of services in the areas of reprographics, telecommunications, and the Board of Retirement elections.

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.

Note 10 – Subsequent Events

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of final reports, which may have a material effect on the financial statements or disclosures contained there in.

Implementation of New Equity Investment Structure

As a culmination to *SamCERA's* domestic large & small cap equities structure review, the board selected six new managers. They are AXA Rosenberg Investment Management; Barrow, Hanley, Mewhinney, & Strauss, Inc; BlackRock Capital Management, Inc.; D.E. Shaw Investment Management, LLC; T. Rowe Price Associates, Inc; and The Boston Company Asset Management. Investment Management Agreements were executed with those firms in May and July of 2009.

The mandates were implemented on July 31, 2009. Assets under a small cap value mandate were redeployed from Brandes Investment Partners to The Boston Company Asset Management. Large cap assets in the Barclays Global Investors' Alpha Tilts portfolio, an enhanced Index, were redeployed into fundamental mandates. AXA Rosenberg Investment Management, D.E. Shaw Investment Management and T. Rowe Price each received $80 million under a large cap core mandate. Barrow, Hanley, Mewhinney & Strauss, Inc. and BlackRock Capital Management, Inc. each received $125 million under a large cap value and large cap growth mandates respectively.

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 (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/04	$1,452,621	$1,921,328	$468,707	75.6%	$365,385	128.28%
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%
6/30/08	$2,218,937	$2,806,222	$587,285	79.1%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.9%	$436,424	247.02%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	$60,042	100%
2005	$76,931	100%
2006	$76,090	100%
2007	$100,550	100%
2008	$105,340	100%
2009	$106,123	100%

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.

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 is on the following page.

Latest Actuarial Valuation of Plan Assets & Liabilities

Valuation Date	June 30, 2009	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent of Payroll	
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods. This is referred to as 15-year layered amortization.	
Asset Valuation Method	5-year smoothed market	
Actuarial Assumptions:		
Investment Rate of Return	7.75%	
Price Inflation (CPI)	3.50%	
Payroll Increases	4.00%	
Average 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.

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 greater a system's funded ratio, the better position it will be in to meet all of its future liabilities.

As of June 30, 2009, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 63.9% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principles of entry age normal cost funding.

SamCERA currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. With the actuarial valuation of June 30, 2008, *SamCERA* is converted to the 15-year layered amortization methodology, which is explained above.

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, 2009 and 2008

	2009	2008
Salaries and Member Benefits	$2,110,498	$1,627,709
Services and Supplies	1,176,497	1,147,304
Depreciation	0	0
Total Administrative Expense	$3,286,995	$2,775,013

Administrative Budget Analysis
Budget to Actual Expenditure
As of June 30, 2009

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$1,792,400	$1,460,053	81.5%
Benefits	694,800	650,445	93.6%
Salaries & Benefits	**2,487,200**	**2,110,498**	**84.9%**
Board Expenses	10,800	5,900	54.6%
Insurance	85,000	71,700	84.4%
Medical Evaluation	32,000	17,420	54.4%
Member Education	60,000	20,365	33.9%
Education & Conference	95,000	55,784	58.7%
Transportation & Lodging	75,000	39,072	52.1%
Software License & Maintenance	0	0	0%
Property & Equipment	50,000	90,847	181.7%
General Office Supplies	25,000	23,553	94.2%
Postage, Printing & Copying	150,000	58,123	38.7%
Leased Facilities	260,000	241,303	92.8%
County Service	289,100	345,136	119.4%
Audit Services	40,500	36,899	91.1%
IT Infrastructure	590,000	150,046	25.4%
Other Administration	50,000	20,349	40.7%
Services & Supplies	**1,812,400**	**1,176,497**	**64.9%**
Capital Assets	**0**	**0**	**0.0%**
Depreciation	**0**	**0**	**0.0%**
Grand Total	**$4,299,600**	**$3,286,995**	**76.4%**

Schedule of Asset Management Expenses
as of June 30, 2009 and 2008

	2009	2008
Salaries and Member Benefits	$429,738	$287,077
Services and Supplies	165,415	169,046
Depreciation	0	0
Total Asset Management Expense	$595,153	$456,123

Schedule of Investment Expenses
For the Years Ended June 30, 2009 and 2008

	2009	2008
Investment Manager		
Aberdeen Asset Management	$ 396,594	$ 463,943
Artio Global Management (1)	871,419	1,099,093
Barclays Global Investors	1,157,979	1,634,707
Brandes Investment Partners	180,491	339,160
Chartwell Investment Partners	260,309	404,444
Goldman Sachs Asset Management	0	196,908
INVESCO Realty Advisors	706,648	734,242
Jennison Associates	485,334	159,741
Mondrian Investment Partners	507,716	602,635
Pyramis Global Advisors	260,504	284,472
State Street Global Advisors	(5,458)	20,522
Western Asset Management	399,269	446,405
Global Custodian		
State Street Bank	134,351	132,108
Investment Consultant	283,941	273,367
Professional Expense	5,639,098	6,791,747
Asset Management Expense	595,153	456,123
Other Investment Related Expense	536,737	557,967
Interest Paid on Prepaid Contribution	4,346,830	3,574,448
Total Investment Expense	$11,117,817	$11,380,285

(1) Formerly known as Julius Baer Investment Management

Schedule of Payments to Consultants
For the Years Ended June 30, 2009 and 2008

	2009	2008
Investment Consultant Expense		
Strategic Investment Solutions	$200,000	$197,500
Actuarial Consultant Expense		
Milliman, Inc.	83,941	75,867
Total Consultant Expense	$283,941	$273,367

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.

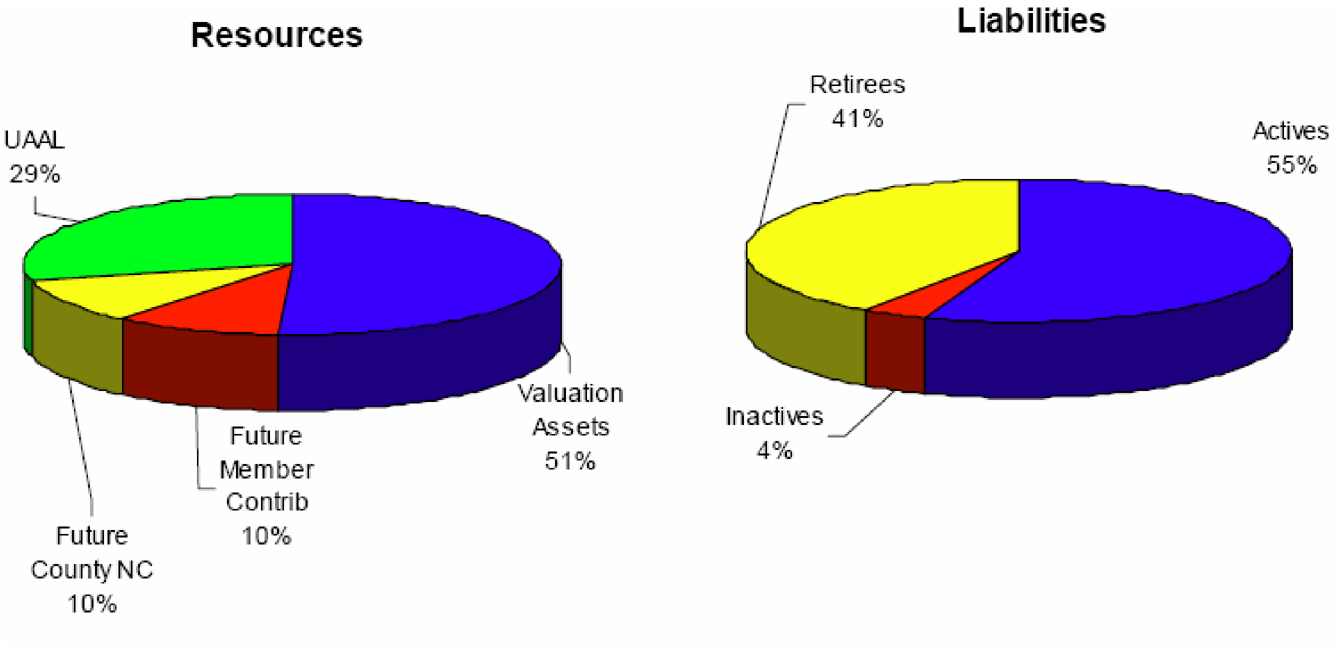
(c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.

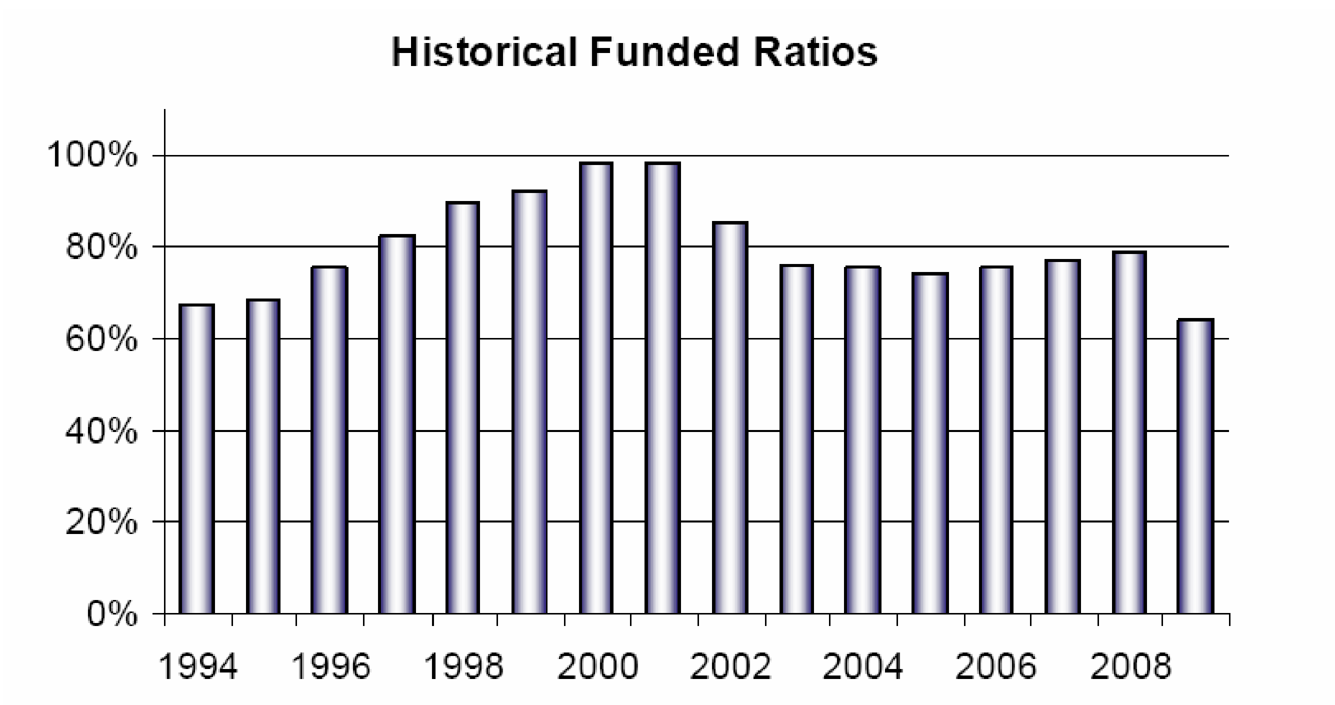
(d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.

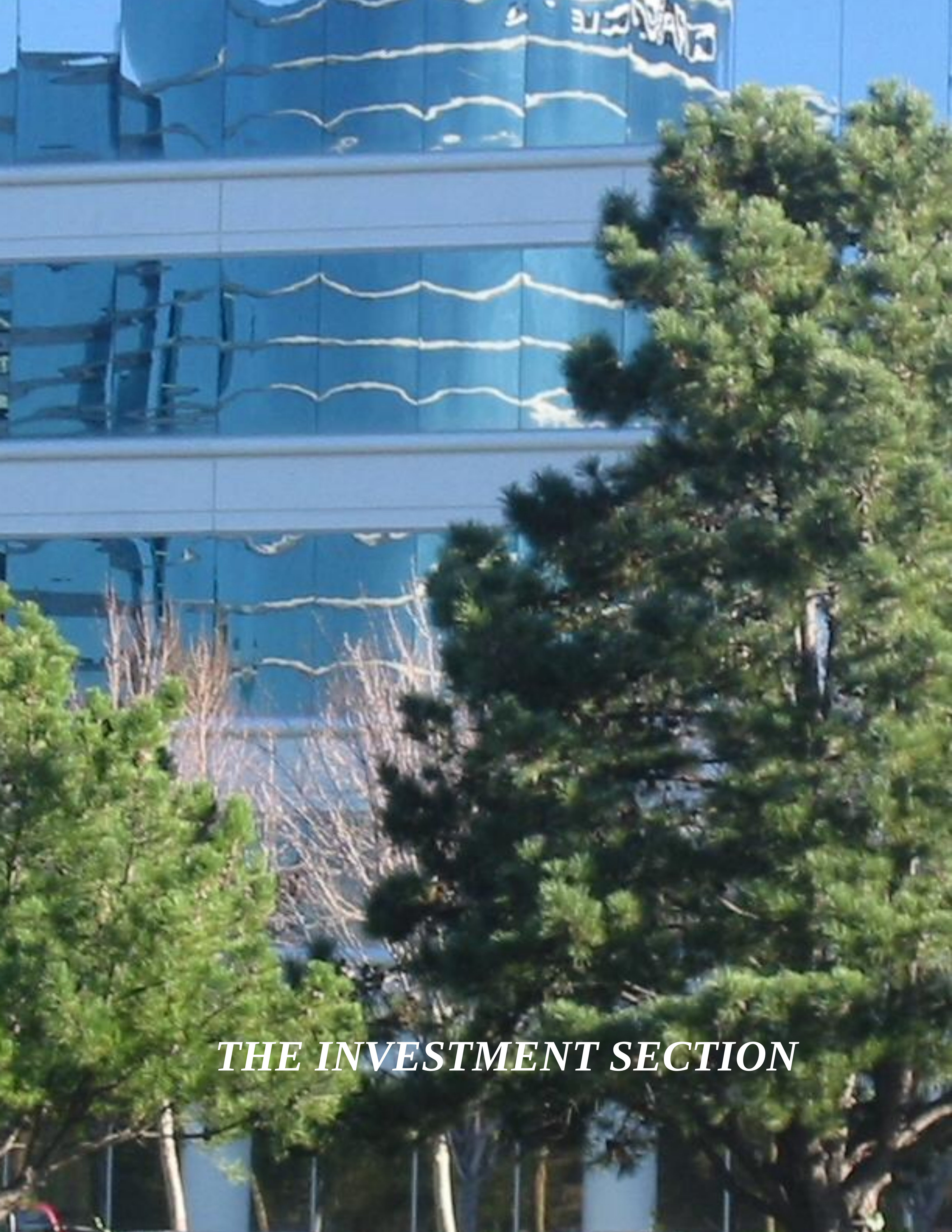
(e) The compensation to an attorney for services rendered pursuant to §*31607 or legal representation rendered pursuant to* §*31529.1."*

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

Actuarial Balance Sheet

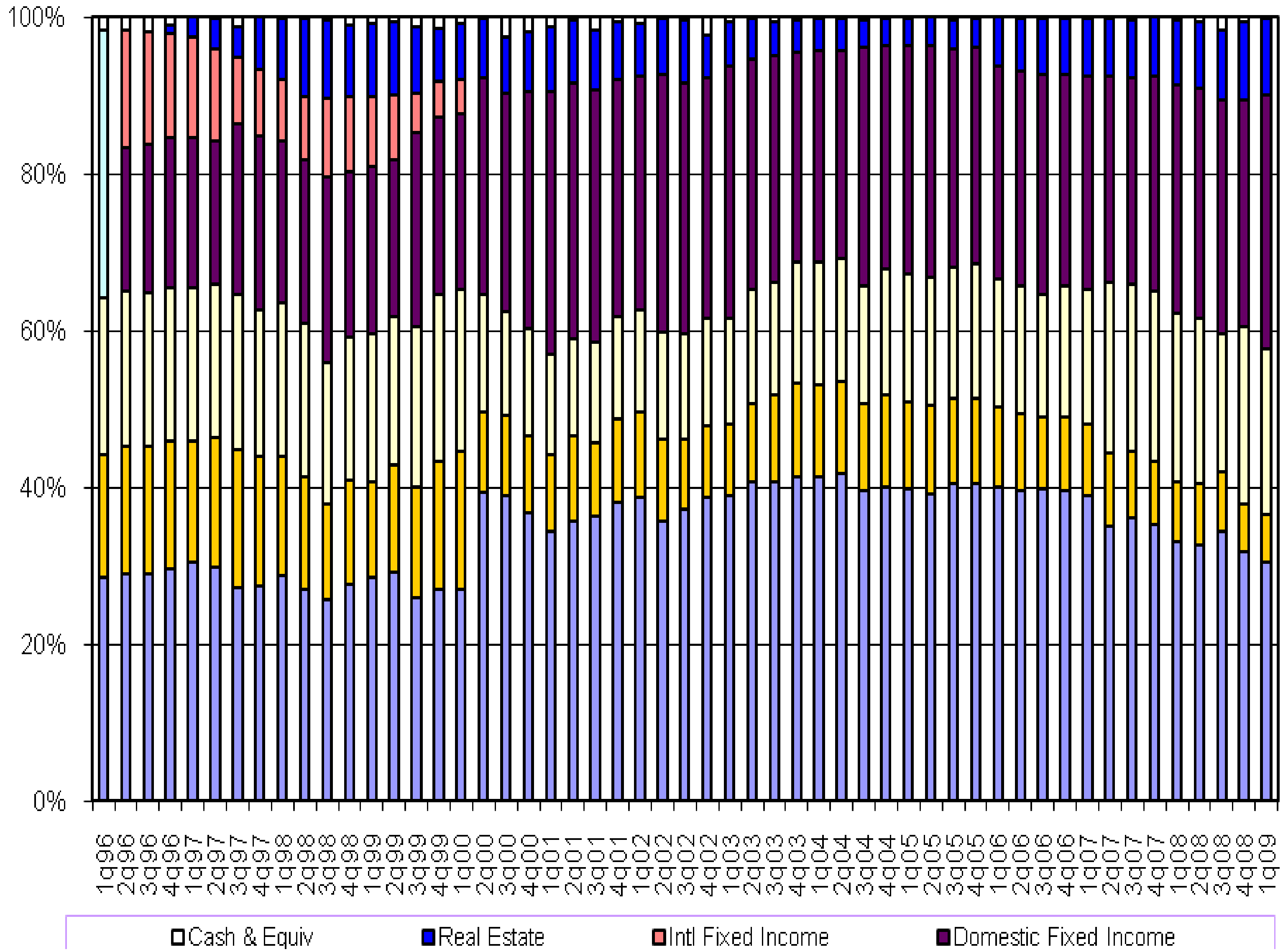






THE INVESTMENT SECTION

Actual Historical Quarterly Asset Allocation
Periods Ended June 30, 2009



SamCERA

San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065
samcera@samcera.org
Phone: 650-599-1234
Fax: 650-591-1488
Toll Free: 1-800-339-0761

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 portfolio performance for the period ended June 30, 2009. This data was compiled by *SamCERA's* investment staff; investment consultant, Strategic Investment Solutions; and master custodian, State Street Bank & Trust. It is presented in accordance with Global Investment Performance Standards (GIPS).

The last fiscal year was unprecedented for the global economy and global capital markets, which resulted in negative trailing twelve-month returns for most plan sponsors, including *SamCERA*. The San Mateo County Employees' Retirement Association (*SamCERA*) investment portfolio closed the fiscal year with a fair value of $1.6 billion, and returned -21.26% for the trailing twelve months. The fiscal year-end asset allocation stood at 38% domestic equity, 23% international equity, 30% domestic fixed income, 8% real estate, and 1% cash.

Major accomplishments for the investment program this fiscal year included the expansion of the asset classes. The Board of Retirement has moved in a methodical manner to initiate a program to diversify *SamCERA's* large cap equity portfolio and reduce risk. The board also opined to measure the large and small cap growth and value mandates against the Russell 1000 or 2000 Growth or Value Indexes.

Additionally, the board reaffirmed its best practices procedure by issuing an Investment Consultant Request for Proposal, which is scheduled for September 2009.

The 2007-2008 fiscal year ended on a dismal note. From a peak in October 2007, the DJIA had declined 20%. The eight-month journey has roughly followed the news of the sub-prime mortgage crisis, with a significant drop after the Bear Stearns collapse in March 2008, and a rally when the economy appeared to recover slightly in April and May. However, in June, as the price of oil rose to record levels above $140 per barrel accompanied by continued U.S. dollar weakness, the pain in the financial sector showed no signs of easing and the losses gained momentum. Regardless of how ugly that news was, long term investors knew that this too would pass. The question was when. Let's follow the progression of the economic developments in the 2008-2009 fiscal year.

The new fiscal year beginning on July 1, 2008, saw a barrage of bad economic and financial news creating a depressing backdrop for consumers, businesses and the financial markets. The FDIC takeover of IndyMac, a $32.0 billion depository institution and mortgage lender was the largest bank failure in the past two decades. The Federal Reserve Bank (Fed) and U.S. Treasury announced plans to shore up investor confidence in Fannie Mae and Freddie Mac with a projected cost to U.S. taxpayers of as much as $25 billion. The Fed used its emergency authority as the lender of last resort to open up its discount window to alleviate potential liquidity troubles. These actions and the fact that many major financials subsequently reported better earnings (or in many cases at least smaller losses) than analysts had feared helped calm the markets. As a result, the S&P financial sector's index jumped over 20% at the end of July, helping lift the overall market benchmark from its 2 ½ year low.

In August crude oil futures tumbled more than 20% since touching a record high $147.27 a barrel on July 11 providing some relief to consumers. The national average price for regular gasoline was at $3.67 a gallon, still about $1 higher than it was a year ago. Nearly one-third of U.S. homeowners who purchased homes in the last five years owed more on their mortgages than their properties were worth. It now appears that real consumption will be flat to down in the quarter ending September 30th given the breakdown in July auto sales. Consumer confidence appeared to bottom out but the level was so low as to point to continued consumption weakness ahead. So far in this credit crisis we have seen about $500 billion in bank write-offs. The IMF suggests that the total write-offs by all banks might reach $1 trillion. It appears the excesses of poor credit judgment and the process of de-leveraging will take a while to unwind.

What a September! Lehman Brothers declared the largest bankruptcy in U.S. history. Merrill Lynch, anticipating that it would be the market's next target agreed to sell itself to Bank of America for 1.8 times tangible book value. Two of the four remaining independent investment banks disappeared within a 24-hour period. Deciding that AIG (unlike Lehman) was actually "too big to fail," the Fed lent it up to $85 billion in exchange for a 79.8% equity stake in the company. AIG's failure highlighted the problems in the multi-trillion dollar credit default swap market. T-bill yields fell below 0% on Wednesday, September 17th, and fear spread to the only remaining two investment banks, Morgan Stanley and Goldman Sachs, as credit default swaps traded at record levels. The oldest money-market fund, Reserve Primary became the first in 14-years to fall below $1 NAV on Lehman losses. Barclays purchased Lehman's North American investment banking business for $1.75 billion. The Federal Reserve and central banks in Europe and Asia pumped up to $180 billion into money markets to free up lending between banks. Stock markets soared and Treasuries sold off at the end of Thursday, September 18th, on speculation that the government would meet that night. The U.S. government on Friday, September 19th, announced a broad rescue plan for the financial system, including a program to buy hundreds of billions of dollars of bad mortgages and other forms of debt that had been weighing down U.S. financial companies. The U.S. Treasury Department also announced a temporary program to guarantee deposits in U.S. money market mutual funds. The U.S. Securities and Exchange Commission (SEC) temporarily prohibited the short selling of stock in 799 financial services companies. The Federal Reserve on Sunday, September 21st, said it had granted a request by the last two investment banks to change their status to bank holding companies. By the end of September, the financial system had clearly entered a new and prolonged phase of the financial crisis.

U.S. stocks continued to fall in October. On Tuesday, October 07, 2008, on speculation that banks and real-estate companies were running short of money as the credit crisis worsened, the Standard & Poor's 500 Index broke below 1,000 for the first time since 2003. The decline extended the 2008 calendar year tumble to 32%, the market's worst yearly slump since 1937. The Dow Jones Industrial Average dropped 29% year to date in 2008. That was also the worst yearly performance in 71 years.

November saw an acceleration of the financial crisis and more evidence that the U.S. economy was in a recession. Some of the headlines summarized events during the month related to the financial crisis: Middle Eastern investors pumped up to $11.8 billion into Barclays; Citigroup lost $1.4 billion in the 3rd quarter; as many as 1,800 publicly traded financial institutions could seek assistance from the government under the Treasury Department's $700 billion rescue plan; Goldman Sachs cut about 3,200 employees, or 10% of its workforce; Citigroup planned to cut 52,000 jobs, leaving the 2nd largest U.S. bank with about 300,000 employees worldwide; the Federal Reserve hiked its support for insurer AIG to about $150 billion after an initial bailout attempt failed to stem massive losses; U.S. Treasury Secretary Henry Paulson planned to use the 2nd half of the $700 billion rescue program to help relieve pressures on consumer credit; Goldman Sachs suspended its rating on GM and said the automaker needs at least $22 billion in federal aid to survive a deepening industry downturn; the FDIC proposed using $24 billion in government financing to modify mortgage loans and help avoid a projected 1.5 million U.S. home foreclosures; GMAC filed to become a bank holding company, joining the growing list of lenders making such a move to qualify for U.S. Treasury funds; the government bailed out Citigroup, agreeing to cover most of the potential losses on $306 billion of high-risk assets and injected $20 billion in new capital; and, the U.S. government unveiled two new programs that would provide $800 billion to try to help unfreeze the market for consumer debt.

Ending the calendar year with a review of recent statistics continued to indicate there had been no improvement in economic conditions over the last few months. Nearly all debt and equity markets experienced further declines during the September to early November period in 2008 as investors around the world agonized over the possibility of a collapse in the financial system. The market was in a deflationary environment. Consumer's psychology and behavior was one of why buy now if prices are likely to be more attractive in the next month or quarter. Since 70% of U.S. GDP was directly tied to consumer spending more attention needed to be paid to consumer psychology. The massive "support dollars" allocated through the American Recovery and Reinvestment Act of 2009 were not reaching "main street."

We began the second half of the fiscal year with U.S. stocks suffering their worst January ever as measured by the Dow Jones Industrial Average and S&P 500 Index. The Labor Department reported that the number of Americans receiving unemployment benefits, 4.78 million, reached an all-time record. Volatile markets saddled U.S. companies with a $409 billion deficit on pension plans as of December 31st, reversing a $60 billion surplus a year earlier.

February followed the worst January ever by declining sharply. Companies that make up the S&P 500 Index were on track to post a collective quarterly loss for the first time ever. A speech by Treasury Secretary Geithner on February 10th did little to allay concerns about the government's ability to restore the health of the banking industry and revive the economy. Over the next nine trading days the S&P dropped to 743, a decline of -14.6%. There was speculation that the government might have to nationalize the hardest hit companies. Federal regulators responded by saying that they will launch a revamped program to shore up the nation's troubled banks that included the option of increasing government ownership in financial institutions.

By March the U.S. Government had transitioned from a referee to a player in the financial markets. The central bank had begun the process of buying up to an additional $750 billion of agency mortgage backed securities, up to an additional $100 billion of agency debt, and up to $300 billion of longer-dated Treasury securities. In addition to these efforts, the Fed and Treasury sought to enhance market liquidity by introducing a number of new programs. A couple of examples included the Primary Dealer Credit Facility that provided certain dealers access to public money and the Term Asset Backed Securities Lending Facility (TALF) that provided funding for lenders making car loans, advancing consumer credit lines and providing student loans. Another example was the $750 billion Troubled Asset Relief Program (TARP) which was used to inject capital directly into the banking system, would fund public-private investment funds (PPIF) to remove impaired, mortgage-related assets from private-sector balance sheets. In mid-March the markets staged a sharp rally. The economic data released in March contained some releases that exhibited their first month of improving comps in quite some time. U.S. mortgage rates were lower and home sales were on the rise. These reports were fed into consumer confidence which stabilized over the prior month or two. March may have marked the bottom of the recession.

In April the economy started to show some signs that the rate of decline slowed down. The effects of deleveraging were significant in almost every country in the world with the result being domestic weakness and the rate of global trade declining precipitously. That said, the central banks (and particularly the U.S. Fed) appeared to be producing enough money to make up for contracting credit and the effects of a major reflation on the part of governments have been very positive for global equities since early March. Government guarantees also were behind much of the improvement in credit markets over recent weeks, as government became the primary engine of expansion, while households and businesses continued to retrench and reposition. April continued the strong rally in equities.

Equity markets and interest rates continued to move higher in May as the degree of pessimism weakened across many metrics. During the month of May, the economic data released in the U.S. did not worsen and in many cases began to take on a more positive tone which in turn became a catalyst for a rally in a broad range of risk assets. The financial markets shrugged off the release of the U.S. bank stress results for the 19 largest bank holding companies and focused on the "green shoots" of recovery. Based on the stress tests, regulators projected that the 19 banks could experience $600 billion in aggregate losses in 2009 and 2010 and would need to raise their capital buffers by $185 billion.

June was a slightly positive month for equities ending one of the best quarters ever. The recent price appreciation in global securities was aided by the central bank liquidity being created along with portfolio managers who had to play catch up from their previous risk averse positioning. Financial institutions in the U.S. would rather return TARP money than to use that capital to make loans.

The improvement in U.S. economic growth rates over the last few months of the fiscal year was directly affected by the rapid and large disbursement of transfers and the tax cut from the stimulus. It appears that the financial markets weathered the financial meltdown and the challenge for investors was how to position oneself for the sobering post-crash reality that was underway.

In the wake of the collapse in housing, the economy and financial markets, the asset side of American's families had shrunk remarkably. Americans shifted to net savers (spending less than they earn) and began the long process of paying down debt to repair their personal balance sheets. The ramifications of this secular trend (many called it a "new normal") would be quite profound. The debt burden has to come down, which most likely means more saving and lower economic growth for many years to come.

Investing behavior may also have to adjust to this "new normal". The investing class may have to become less speculative and the days of returns being generated solely by leverage and low interest rates instead of "old school" smarts may have to go away for awhile. We hope investment professionals employed by *SamCERA* will understand this profound change. Households, businesses and governments still have too much debt and must de-leverage. The act of de-leveraging will lead to slower economic growth, lower rates of consumption and higher structural unemployment.

Respectfully submitted,

Gary Clifton

Gary L. Clifton
Chief Investment Officer
September 15, 2009

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

August 24, 2009

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

Dear Board Members:

Fiscal year 2009 will be long remembered for one of the worst capital market and economic crises in US history. In the Fall of 2008, a nasty, but seemingly manageable "credit crunch" affecting mostly the residential housing and credit markets exploded into a financial systemic crisis. In a one month period, the markets saw the failure of the investment bank Lehman Bothers, the government seizure of mortgage entities Fannie Mae and Freddie Mac, and the government equity purchase of insurance giant American International Group. The failure and near failure (with failures prevented only by unprecedented government intervention) of these and other key financial institutions destroyed investor confidence in the global capital markets, and caused investment losses and market dislocations that redound to the economy and financial markets to this day.

Government authorities at virtually all levels have responded aggressively to the crisis, in many cases taking unprecedented action. The Federal Reserve, the Treasury and Congress have enacted an alphabet soup of policies and programs to provide assistance to large financial institutions, to facilitate the credit markets, to aid homeowners, and broadly simply to engender participant confidence in the system. A level of government involvement in the private markets that would have been unthinkable before the fall of 2008 is now accepted, even welcomed as necessary given the scope and severity of the crisis. In addition to the various assistance programs, the Federal Reserve also acted very aggressively to address the systemic risk to the financial system by cutting banks' overnight lending rate down to just above zero by fiscal year end. The Federal Reserve also took the extraordinary steps of extending the term of its official lending program, accepting non-cash collateral for its official lending, and opening its discount window to investment banks.

After enduring the early stages of the market crisis largely unscathed, the real economy has been dramatically affected over the last year. Lower home and equity prices, combined with job losses, have greatly curtailed consumer buying power. As a result, the global economy suffered its worst contraction in 60 years during the fiscal year. The unemployment rate in the US exceeded 9%, with most economists expecting it to continue to climb into the double digits before peaking in 2010.

At fiscal year end, signs of improvement in the capital markets are coming into evidence. Global equity markets have rallied strongly since the market low in early March; credit markets have begun to function more normally as liquidity and confidence return. The consensus of most market participants is that the worst of the economic contraction is over and that the risk of a systemic failure of the global financial system has largely passed.

Despite these late improvements, in total capital markets struggled through a dreadful year. Global Equities specifically, and risk assets in general, struggled against negative sentiment. The broad US Equity market, as measured by the Russell 3000 Index, declined 26.6% during the year. The Russell 1000 large cap component of US Equity fell 26.7%, while the small cap Russell 2000 fared only slightly better, falling 25.0%. International Equity investments, performed even worse for dollar-based investors, as the Developed Markets index lost 31.0%, while Emerging Markets lost 27.8%. Investment Grade US Bonds (Lehman Aggregate) provided some shelter for investors, returning 6.1% for the year. However, high yield bonds returned -3.5%, reflecting the difficult credit environment during the year. The NCREIF Index of institutional Real Estate posted a negative 19.6% return.

PLAN INVESTMENT RESULTS

Against this extremely challenging economic and market backdrop, the SamCERA portfolio suffered through a difficult year in Fiscal 20009. The San Mateo County Employees' Retirement Association (the Association) total Plan returned -21.26%, or 3.1% below the -18.16% return on its Policy Index, and far below the Association's 7.75% actuarial return expectation. The Association also lagged its peers, performing 3.35% below the Independent Consultants Cooperative (ICC) Large Public Fund Universe median return of -17.91%.

The Association's US Equity portfolio underperformed its equity policy benchmark by 2.01% during the fiscal year. Similarly to fiscal 2008, the quantitatively managed large cap strategy and the deep value small cap strategy were notable detractors from performance. Both of these managers made up some lost ground in the final quarter of the fiscal year resulting in a quarterly return for the US Equity Composite above both the policy benchmark and the US Equity Median. During the year, SamCERA conducted searches to replace the large cap quantitative manager with a methodologically diverse group of five US large cap managers, and to replace the deep value small cap manager with a more conservatively managed small value product.

During fiscal year 2009, SamCERA's International Equity composite returned -32.34% versus the benchmark's return of -30.54%. The international composite return also trailed the median international equity composite return by 2.52%.

The Plan's Total Fixed Income composite return of -0.78% significantly lagged the Barclays Aggregate Index's 6.05% return for the fiscal year. All three of SamCERA's bond managers were adversely affected by their systematic portfolio underweights to US Treasury securities and corresponding overweights to corporate and mortgage bonds. In a bond environment that severely penalized even lower risk investment grade bonds, all three managers underperformed for the year. The second half of fiscal 2009 saw a strong reversal of these negative performance trends. During the second half of the fiscal year, the Plan's Total Fixed

Income composite positive return of 7.82% was 5.92 percentage points ahead of the benchmark and in the top quartile for Independent Consultants Cooperative (ICC) Large Public Fund Universe.

For the year ended June 2009, NCREIF posted a -19.57% return while the System's Real Estate composite posted a return of -29.83%. However, this very weak benchmark relative return was only 0.50% behind the median manager in the Real Estate universe, placing the composite in the 51st percentile.

ASSET ALLOCATION AND MANAGER STRUCTURE

During fiscal 2009, SamCERA maintained the Asset Allocation targets that were set at the end of fiscal year 2007. A new Asset Liability Study is scheduled for fiscal 2010.

During fiscal 2009 SamCERA undertook the four separate searches required to complete the implementation of its Manager Structure initiative to diversify its US equity portfolio. The US Equity manager structure study suggested that the large capitalization portfolio should be diversified by reducing the exposure to purely quantitative methodologies, and through introducing fundamental research managers in large cap growth and value mandates. SamCERA also decided to replace its small cap value manager. At year end, the four searches have been completed, and SamCERA is in the process of funding six investments mandates in US equity, including the replacement of its small cap value manager.

Although fiscal 2009 was very challenging, the SamCERA portfolio continues to generate long term results for its participants in a risk averse, cost effective, and prudent fashion. The challenges of the market crisis of the last two years have caused SamCERA to re-evaluate and reaffirm its long term strategic plan, while also making important changes to its US equity structure and its roster of managers that should both diversify the portfolio and allow for improved performance. Given its defensive, highly liquid design, the Plan came through the year well positioned to take advantage of the investment opportunities made available to it by the market crisis of fiscal 2009. SIS firmly believes that the portfolio will to return to its customary strong performance as the markets continue to normalize in 2009.

Sincerely,

Strategic Investment Solutions

Patrick Thomas

* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. The performance calculation methodology is consistent with the CFAI Global Investment Performance Standards®.

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 the Global Investment Performance (GIP) 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)

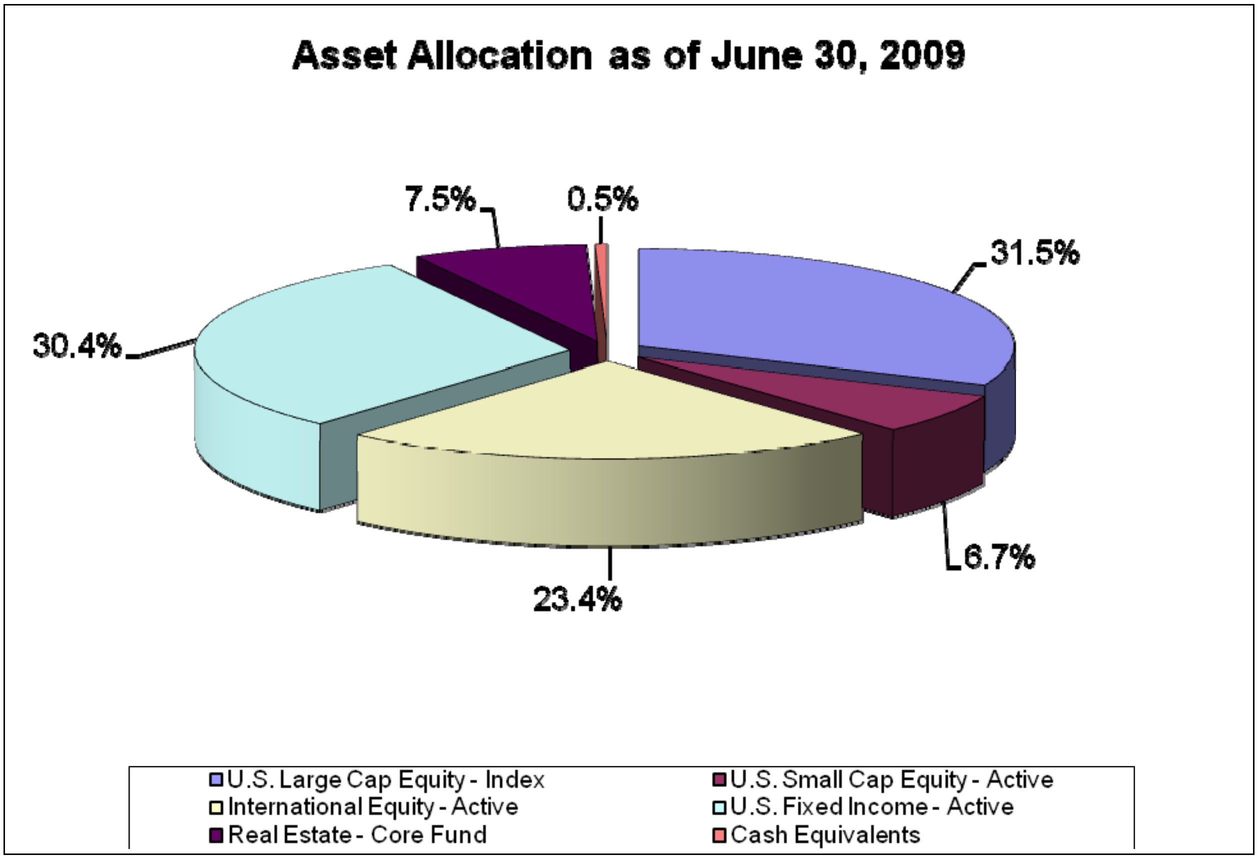
The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated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

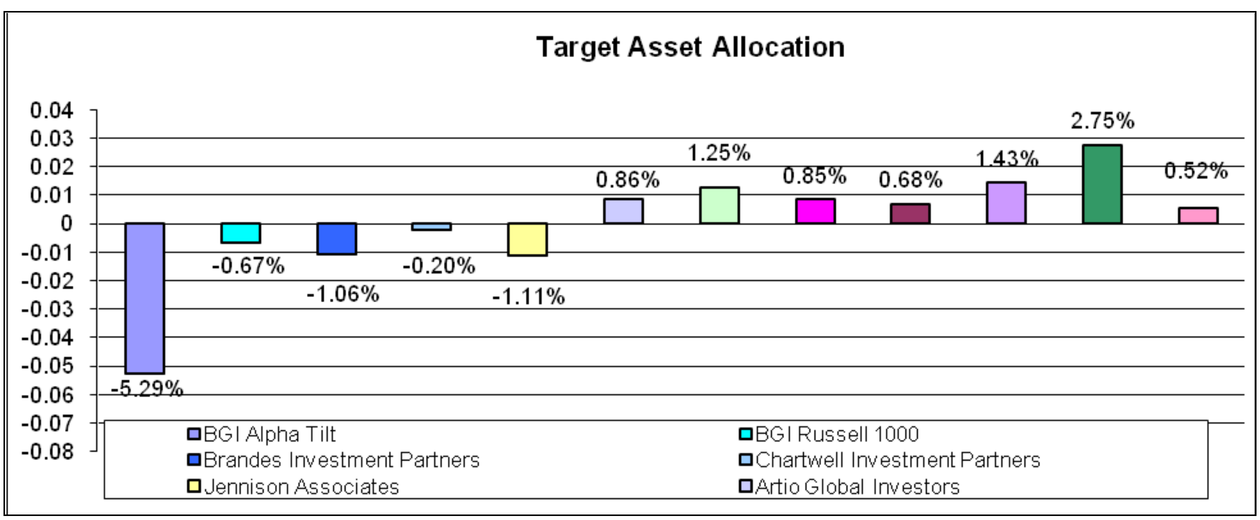
The board discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

Asset Class	Allocation		June 30 Actual	
Equity	67%		61.6%	
Fixed Income	27%		30.4%	
Real Estate	6%		7.5%	
Cash	0%		0.5%	
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	37%		31.5%	
Indexed		37%		31.5%
Domestic Small Capitalization	9%		6.7%	
Active		9%		6.7%
International	21%		23.4%	
Active		21%		23.4%
Total Equity	67%		61.6%	
Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	27%		30.4%	
Enhanced Indexed		9%		10.0%
Active		18%		20.4%
Total Fixed Income	27%		30.4%	
Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		7.5%
Total Real Estate	6%		7.5%	
Total Cash & Cash Equivalents	0%		0.5%	

Asset Allocation	**Market Value**
Large Capitalized U.S. Equities	$501,313,186
Small Capitalized U.S. Equities	106,983,530
International Equities	373,159,331
U.S. Fixed Income	483,592,201
Real Estate	118,894,616
Cash & Deposits	7,456,694
Total	$1,591,399,558


Asset Allocation as of June 30, 2009
7.5%
0.5%
31.5%
30.4%
6.7%
23.4%
U.S. Large Cap Equity - Index
U.S. Small Cap Equity - Active
International Equity - Active
U.S. Fixed Income - Active
Real Estate - Core Fund
Cash Equivalents


Target Asset Allocation
0.04
0.03
0.02
0.01
0
-0.01
-0.02
-0.03
-0.04
-0.05
-0.06
-0.07
-0.08
-5.29%
-0.67%
-1.06%
-0.20%
-1.11%
0.86%
1.25%
0.85%
0.68%
1.43%
2.75%
0.52%
BGI Alpha Tilt
BGI Russell 1000
Brandes Investment Partners
Chartwell Investment Partners
Jennison Associates
Artio Global Investors

SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2009

Asset Category	Total Time Weighted Rate of Return			
	One Year	Two Years	Three Years	Five Years
Domestic Equity				
Barclays Global Investors Alpha Tilts Index Fund	-28.13%	-21.35%	-10.13%	N/A
Barclays Global Investors Russell 1000 Index Fund	-26.62%	-19.78%	-8.12%	-1.81%
Large Cap Composite	-27.79%	-21.04%	-9.59%	-2.21%
Benchmark Russell 1000	-26.69%	-19.85%	-8.20%	-1.85%
Brandes Investment Partners	-38.96%	-39.29%	-24.20%	N/A
Chartwell Investment Partner	-32.57%	-22.23%	-10.52%	N/A
Jennison Associates	-26.17%	N/A	N/A	N/A
Small Cap Composite	-30.80%	-27.15%	-15.51%	-5.85%
Benchmark Russell 2000	-25.02%	-20.73%	-9.89%	-1.71%
International Equity				
Artio Global Management	-37.51%	-24.11%	-8.07%	N/A
Mondrian Investment Partners	-26.90%	-18.83%	-4.73%	N/A
International Composite	-32.34%	-21.47%	-6.38%	3.77%
Benchmark MSCI ACWI ex US – Free	-30.54%	-19.29%	-5.35%	4.95%
Total Equity Composite	-29.41%	-21.84%	-9.47%	-1.19%
Domestic Fixed Income				
Aberdeen Asset Management, Inc.	-7.53%	-2.59%	0.41%	1.66%
Pyramis Global Advisors	5.09%	4.09%	4.73%	N/A
Western Asset Management	0.30%	0.98%	2.71%	N/A
Benchmark BC Aggregate Bond Index	6.05%	6.58%	6.43%	5.01%
Total Fixed Income Composite	-0.78%	0.83%	2.63%	3.03%
Real Estate				
INVESCO Realty Advisors Core Fund	-29.83%	-12.69%	-4.47%	N/A
Total Real Estate Composite	-29.83%	-12.69%	-4.47%	5.92%
NCREIF	-19.57%	-6.27%	0.99%	7.61%
Cash				
Cash Composite	-2.58%	0.66%	1.88%	2.47%
Benchmark 91 Day Treasury Bill Index	0.95%	2.28%	3.25%	3.17%
Total Fund				
Composite Investment Portfolio	-21.26%	-14.73%	-5.36%	0.66%
Policy Benchmark	-18.16%	-11.79%	-3.03%	1.97%

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, 2009

Domestic Equity			
Barclays Global Investors	Russell 1000 Alpha Tilts	$392,579,131	
	Russell 1000 Index Fund	$108,734,344	
Brandes Investment Partners		$18,106,661	
Chartwell Asset Management		$32,112,952	
Jennison		$52,677,532	
Total Domestic Equity			$ 604,210,620
International Equity			
Artio Global Management		$175,864,584	
Mondrian Investment Management		$184,116,456	
Total International Equity			$ 359,981,040
Total Equity			$964,191,660
Domestic Fixed Income			
Aberdeen Asset Management, Inc.	Domestic Core	$154,705,406	
Pyramis Global Advisors	Domestic Enhanced Index	$158,989,810	
Western Asset Management	Domestic Core Plus	$168,777,181	
Total Domestic Fixed Income			$ 482,472,397
Total Fixed Income			$ 482,472,397
Real Estate			
INVESCO Realty Advisors	U.S. Core Real Estate Fund		$ 118,894,616
Unequitized Cash			$ 187,860,087
Receivables & Prepaid Expenses			$ 76,522,695
<less> Current Liabilities			$ 238,541,897
Net Portfolio as of June 30, 2009			$1,591,399,558

Schedule of Top Ten Equities and Fixed Income Securities

As of June 30, 2009

TOP TEN EQUITY SECURITIES*

Shares	Exchange	Ticker	Security Name	Market Value
270,034	NYSE	XOM	EXXON MOBIL CORPORATION	$18,878,114
410,492	NASDAQ	MSFT	MICROSOFT CORPORATION	$ 9,757,404
131,659	NYSE	CVX	CHEVRON CORP	$ 8,722,440
243,222	NYSE	JPM	JPMORGAN CHASE & CO.	$ 8,296,308
55,264	NASDAQ	AAPL	APPLE, INC	$ 7,871,277
18,303	NASDAQ	GOOG	GOOGLE, INC-CL A	$ 7,716,753
299,405	NYSE	T	AT&T	$ 7,437,242
437,190	NASDAQ	INTC	INTEL CORPORATION	$ 7,235,506
148,050	NYSE	KO	THE COCA-COLA COMPANY	$ 7,104,895
138,725	NYSE	PG	PROCTOR & GAMBLE COMPANY	$ 7,088,872

*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

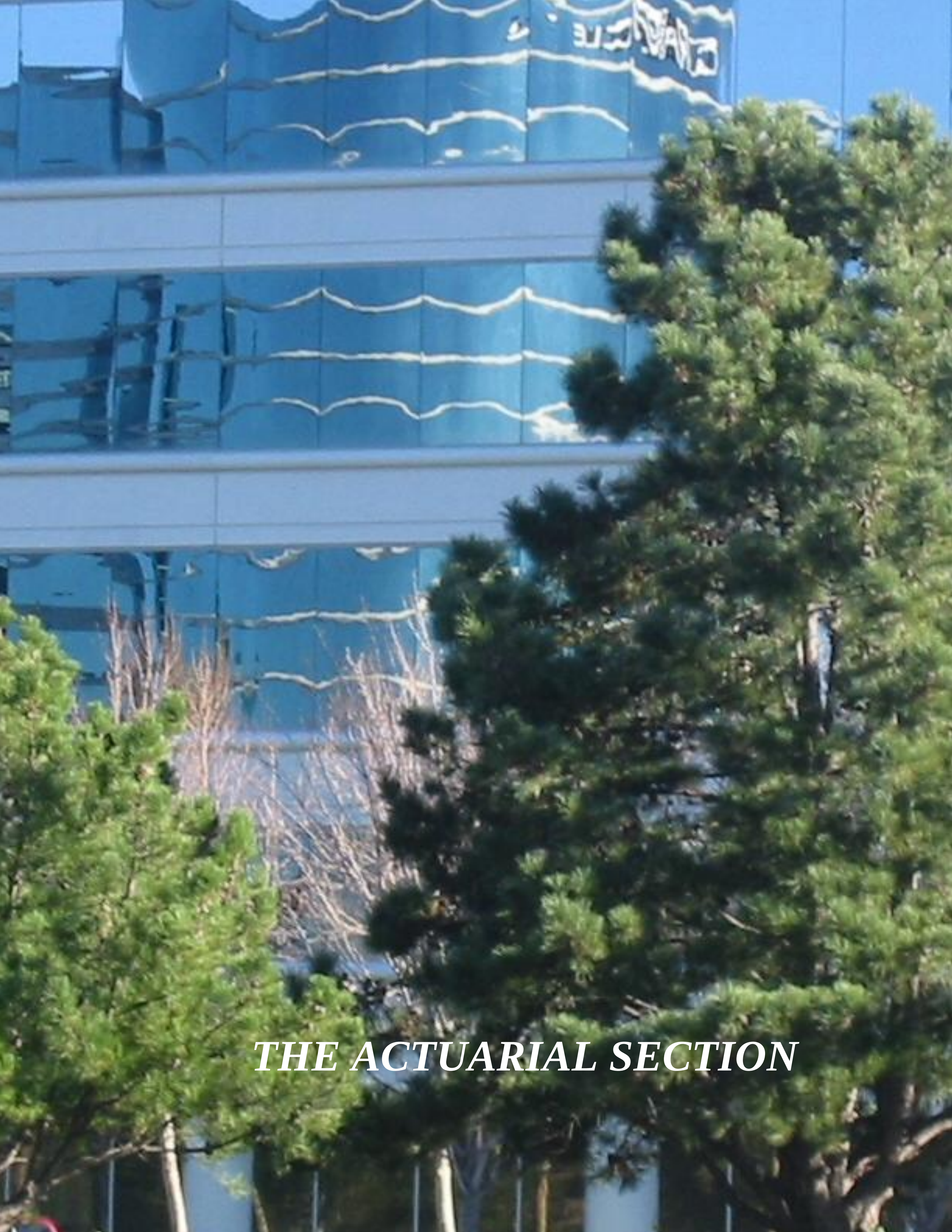
Par/Book Value	Security Name			Rating S&P/Moodys	Issue ID	Market Value
28,700,000	FNMA 30yr JUL FWD	5.000%	07/01/2039	AAA/Aaa	01FO50676	$28,782,393
9,276,861	US TREASURY T-NOTE	2.750%	02/15/2019	AAA/Aaa	912828KD1	$8,822,993
7,211,416	UST NOTES	2.000%	01/15/2014	AAA/Aaa	912828BW9	$8,578,172
5,985,830	US TREASURY N/B	3.250%	05/31/2016	AAA/Aaa	912828KW9	$5,986,075
3,634,279	FNMA 30yr POOL 979505	5.000%	04/01/2038	AAA/Aaa	31414XU67	$3,962,535
2,947,533	DEUTSCHE BANK AG, NY	5.240%	08/30/2011		19599SFU4	$3,227,582
3,808,220	US TREASURY T-BOND	3.500%	02/15/2039	AAA/Aaa	912810QA9	$3,624,780
3,242,002	FHLMC 30yr GOLD POOL	5.500%	12/01/2036	AAA/Aaa	3128M4A45	$3,388,236
3,212,241	UST NOTES	2.625%	06/30/2014	AAA/Aaa	912828KY5	$3,222,658
3,002,406	GNMA II 30yr JUL FWD	6.000%	07/01/2039	AAA/Aaa	21H060671	$3,019,630

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

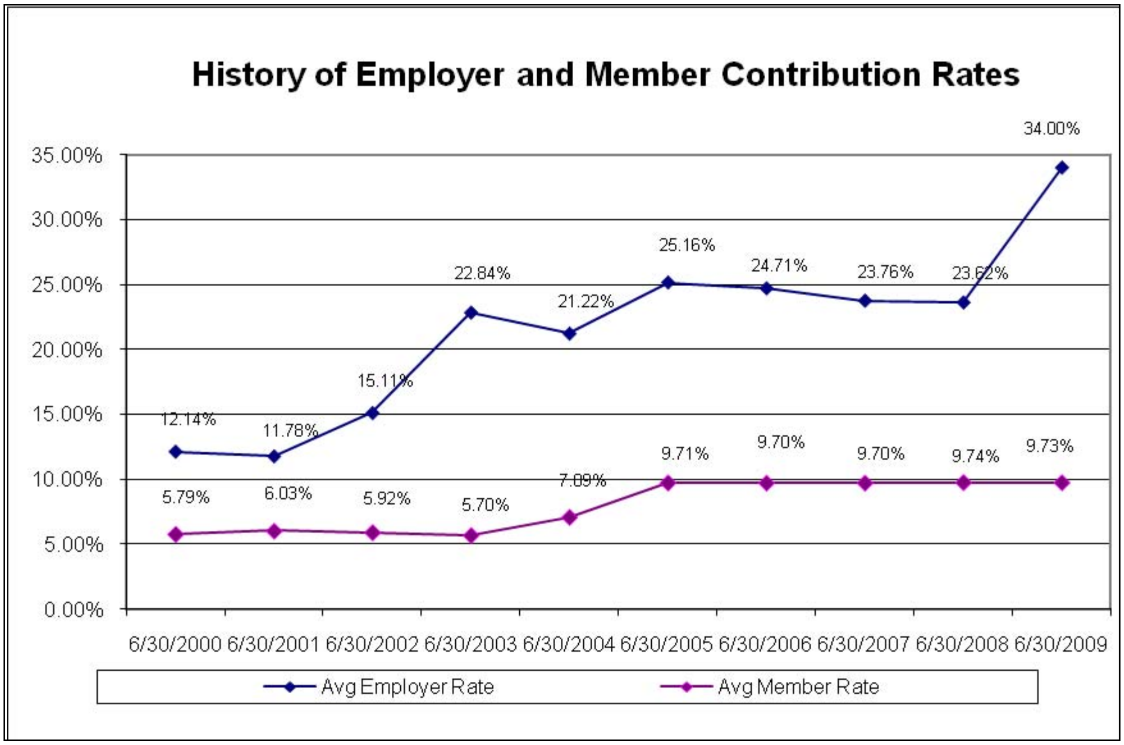
Schedule of Professional Services and Fees
as of June 30, 2009 and 2008

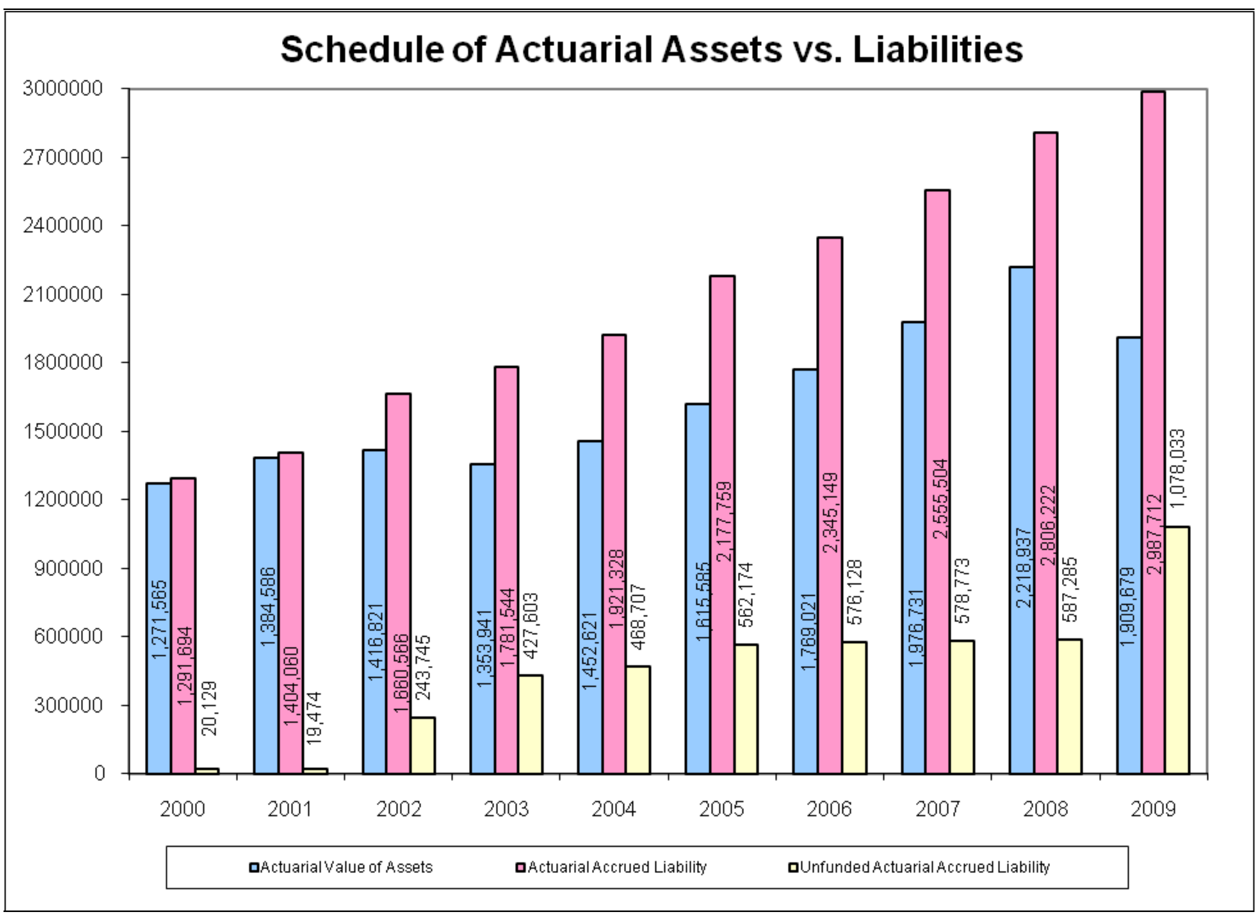
	2009	2008
Investment Managers		
Aberdeen Asset Management Inc.	$ 396,594	$ 463,943
Artio Global Management (1)	871,419	1,099,093
Barclays Global Investors	1,157,979	1,634,707
Brandes Investment Partners	180,491	339,160
Chartwell Investment Partners	260,309	404,444
Goldman Sachs Asset Management	0	196,908
INVESCO Realty Advisors	706,648	734,242
Jennison Associates	485,334	159,741
Mondrian Investment Partners	507,716	602,635
Pyramis Global Advisors	260,504	284,472
State Street Global Advisors	(5,458)	0
Western Asset Management	399,269	446,405
Investment Managers	5,220,805	6,365,750
Investment Consultant		
Strategic Investment Solutions	$ 200,000	$ 197,500
Actuarial Consulting		
Milliman	$ 83,941	$ 75,867
Master Custodian		
State Street Bank and Trust Company	$ 134,352	$ 132,108
Total Professional Services	$5,639,098	$6,771,225

(1) Formerly known as Julius Baer Investment Management



THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
12.14%
11.78%
15.11%
22.84%
21.22%
25.16%
24.71%
23.76%
23.62%
34.00%
5.79%
6.03%
5.92%
5.70%
7.09%
9.71%
9.70%
9.70%
9.74%
9.73%
6/30/2000 6/30/2001 6/30/2002 6/30/2003 6/30/2004 6/30/2005 6/30/2006 6/30/2007 6/30/2008 6/30/2009
Avg Employer Rate
Avg Member Rate


Schedule of Actuarial Assets vs. Liabilities
3000000
2700000
2400000
2100000
1800000
1500000
1200000
900000
600000
300000
0
1,271,565
1,291,694
20,129
1,384,586
1,404,060
19,474
1,416,821
1,660,566
243,745
1,353,941
1,781,544
427,603
1,452,621
1,921,328
468,707
1,615,585
2,177,759
562,174
1,769,021
2,345,149
576,128
1,976,731
2,555,504
578,773
2,218,937
2,806,222
587,285
1,909,679
2,987,712
1,078,033
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Actuarial Value of Assets
Actuarial Accrued Liability
Unfunded Actuarial Accrued Liability

1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940
Fax +1 206 623 3485

milliman.com

September 15, 2009

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, 2007	77.4%
June 30, 2008	79.1%
June 30, 2009	63.9%

The funded ratio has decreased in the last year due to the market decline that occurred in late 2008 and early 2009.

It is our opinion that *SamCERA* will continue to maintain a sound financial condition as of June 30, 2009 and later, as long as employer contributions are made based on a sound financial policy, such as the current funding policy. Under this 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 initial UAAL as of June 30, 2008 is funded over a closed period ending June 30, 2023. The amortization of any future changes in the UAAL is funded over closed 15-year layers which are determined annually.

It should be noted that the 2009 valuation results defer a portion of the market loss on assets that occurred in the fiscal year ending June 30, 2009 and earlier. Thus, the funded ratio is expected to be lower once that market loss is reflected in the 2010 and later valuations. We are currently discussing alternative funding options for the Board's consideration. If an alternative approach is adopted, it may affect the results shown in the above chart.

The June 30, 2009 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. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. 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 2008. The assumptions were based on the triennial investigation of experience study report as of April 30, 2008. Assumptions will be reviewed again in 2011.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for *SamCERA* consistent with our understanding of their funding requirements and goals. The 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, determined as the difference of the actual market value to the expected market value. The actuarial assets are restricted to not vary more than 20% from the market value. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. 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. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

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, 2009 actuarial valuation report. In particular, it should be noted that many of the June 30, 2005 and earlier 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 prior to 2006 shown in the data summaries and those shown in 2006 and later.

We certify that the June 30, 2009 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, 2009, valuation are based on the results of the actuarial experience study for the period July 1, 2005, through April 30, 2008. This study was adopted by the Board of Retirement on August 26, 2008.

Actuarial Assumptions and Cost Method

Valuation Date	June 30, 2009	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent of Payroll	
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2009). This is referred to as 15-year layered amortization.	
Asset Valuation Method	5-year smoothed market	
Actuarial Assumptions:		
Investment Rate of Return	7.75%	
Price Inflation (CPI)	3.50%	
Payroll Increases	4.00%	
Average Projected Salary Increases	5.20%	
*Attributed to Inflation		4.00%
*Attributed to Adjustments for Merit and Longevity		1.20%

Entry Age 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 (UAAL) as of June 30, 2008 was amortized over a declining 15-year period. Future changes in the UAAL, including the change in UAAL as of June 30, 2009 is amortized over new 15-year periods, referred to as 15-year layered amortization.

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, 2009, 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, 2009, valuation.

Actuarial Assumption		6/30/09	6/30/08	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. Tier 3 benefits are not eligible for post-retirement increases.

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 two years.

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 three 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%.

Safety Males Same as General except minimum is 1.0%.

General Females RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and minimum rate of 1.25%.

Safety Females Same as General except minimum is 1.0%.

Separation from Active Status

The probabilities of separation from active status are shown on page 85.

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 San Mateo County Mosquito and Vector Control 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), minus (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)

	06/30/09	06/30/08	Change
Normal Cost Rate	11.62%	11.69%	(0.07%)
Rate of Contribution to Unfunded Actuarial Accrued Liability	22.38%	11.93%	10.45%
Total Employer Rate	34.00%	23.62%	10.38%

It should be noted that the 34.00% & 23.62% 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 82.

Member Contribution Rates (1)

		07/01/09	07/01/08	Change (2)
General Members – County				
Tier 1 & Tier 2	Age 25	9.03%	9.03%	0.00%
	35	10.22%	10.22%	0.00%
	45	11.67%	11.67%	0.00%
Tier 4	Age 25	8.78%	8.78%	0.00%
	35	9.91%	9.91%	0.00%
	45	11.26%	11.26%	0.00%
General Members – SMCM&VCD				
Tier 1 & Tier 2	Age 25	5.20%	5.20%	0.00%
	35	6.23%	6.23%	0.00%
	45	7.48%	7.48%	0.00%
Tier 4	Age 25	4.98%	4.98%	0.00%
	35	5.97%	5.97%	0.00%
	45	7.16%	7.16%	0.00%
Safety Members – Other than Deputy Sheriff (3)				
Tier 1 & Tier 2	Age 25	13.16%	13.16%	0.00%
	35	14.78%	14.78%	0.00%
	45	16.52%	16.52%	0.00%
Tier 4	Age 25	12.81%	12.81%	0.00%
	35	14.37%	14.37%	0.00%
	45	15.83%	15.83%	0.00%
Probation Members (Reflects Employer Pick-up)				
Tier 1 & Tier 2	Age 25	10.03%	10.03%	0.00%
	35	11.33%	11.33%	0.00%
	45	12.71%	12.71%	0.00%
Tier 4	Age 25	9.75%	9.75%	0.00%
	35	10.99%	10.99%	0.00%
	45	12.16%	12.16%	0.00%

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

(2) The change represents the rates effective 07/01/2010 (based on the 6/30/09 valuation) minus the 07/01/2009 rates (based on the 6/30/08 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 of service 4.5%.

Summary of Significant Actuarial Statistics and Measures

Association Membership	6/30/09	6/30/08	Change	
Active Members				
Number of Members	5,543	5,500	0.8%	
Average Age	44.9	44.5	0.9%	
Average Credited Service	9.6	9.3	3.2%	
Total Active Payroll in Thousands	$445,152	$424,586	4.8%	
Average Monthly Salary	$6,692	$6,433	4.0%	
Retired Members				
Number of Members				
Service Retirement	3,032	2,958	2.5%	
Disability Retirement	369	361	2.2%	
Beneficiaries	534	523	2.1%	
Average Age	71.3	71.2	0.1%	
Total Retiree Payroll in Thousands	$119,052	$109,616	8.6%	
Average Monthly Pension	$2,521	$2,378	6.0%	
Inactive Vested Members	1,230	1,225	0.4%	
Asset and Liability Values				
Asset Values				
Market Value in Thousands	$1,591,400	$2,010,739	(20.9)%	
Return on Market Value	-22.5%	-8.2%		
Valuation Assets in Thousands	$1,909,679	$2,218,937	(13.9)%	
Return on Valuation Assets	-14.1%	9.4%		
Liability Values				
Actuarial Accrued Liability in Thousands	$2,987,712	$2,806,222	6.5%	
Unfunded Actuarial Accrued Liability in Thousands	$1,078,033	$587,285	83.6%	
Deferred Asset (Gains)/Losses	$318,279	$208,198	52.9%	
Required County Contribution Rate for All Plans as a Percentage of Total Payroll				
Gross Normal Cost	21.35%	21.43%	(0.08)	bps
Member Contributions	9.73%	9.74%	(0.01)	bps
County Normal Cost	11.62%	11.69%	(0.07)	bps
UAAL Amortization	22.38%	11.93%	10.45	bps
Total County Rate	34.00%	23.62%	10.38	bps
Funded Ratio				
GASB Number 25 *	63.9%	79.1%	(19.2)	bps

*Based on actuarial value of assets for June 30, 2009, and June 30, 2008, 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		
6/30/00	$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%
6/30/08	$2,218,937	$385,300	$1,550,875	$870,047	100%	100%	32%
6/30/09	$1,909,679	$412,147	$1,670,547	$905,018	100%	90%	0%

(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
6/30/00	$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	80.73%
6/30/03	$1,353,941	$1,781,544	$427,603	76.0%	$323,896	132.02%
6/30/04	$1,452,621	$1,921,328	$468,707	75.6%	$365,385	128.28%
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%
6/30/08	$2,218,937	$2,806,222	$587,285	79.1%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.9%	$436,424	247.02%

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 36% less than liabilities. The Funded Ratio decreased sharply from June 30, 2008. The most significant reason for the decrease in the funded ratio was the market depreciation of investments.

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
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%
2008	10.16%	9.81%	19.97%	19.32%	27.31%	46.63%	20.05%	12.81%	32.86%
2009	10.11%	18.40%	28.51%	19.21%	51.83%	71.04%	19.92%	23.84%	43.76%

History of Employer Contribution Rates – San Mateo County Mosquito and Vector Control District

	General Member		
Year	Normal	UAAL	Total
2006	8.76%	8.18%	16.94%
2007	8.50%	7.76%	16.26%
2008	8.55%	8.04%	16.59%
2009	8.25%	15.09%	23.34%

Active Member Valuation Data

Valuation Date		Members (1)	Annual Salary	Average Annual Salary	% Change Average Salary
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%
2008	General	4,743	$353,518,525	$74,535	2.6%
	Safety	432	$46,326,906	$107,238	4.7%
	Probation	325	$24,741,003	$76,126	2.8%
	Total	5,500	$424,586,434	$77,198	2.8%
2009	General	4,777	$370,760,830	$77,614	4.1%
	Safety	436	$48,120,081	$110,367	2.9%
	Probation	330	$26,270,802	$79,608	4.6%
	Total	5,543	$445,151,713	$80,309	4.0%

(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	Addition	Withdrawal	At End of Year	Annual Payroll Increase	Annual Payroll Decrease	Total Retiree Payroll	Percent Increase In Payroll	Average Monthly Allowance
6/30/00	2,959	219	76	3,102	N/A	N/A	$55,192,000	9.31%	$1,483
6/30/01	3,102	233	82	3,253	N/A	N/A	$62,416,000	13.1%	$1,543
6/30/02	3,253	194	138	3,309	N/A	N/A	$66,974,000	7.3%	$1,627
6/30/03	3,309	128	115	3,322	N/A	N/A	$69,451,000	3.7%	$1,676
6/30/04	3,466	193	120	3,539	N/A	N/A	$75,492,876	8.7%	$1,778
6/30/05	3,539	238	95	3,682	N/A	N/A	$84,183,000	11.5%	$1,905
6/30/06	3,519	206	112	3,613	N/A	N/A	$91,006,000	8.1%	$2,099
6/30/07	3,613	155	74	3,694	N/A	N/A	$98,790,000	8.6%	$2,229
6/30/08	3,694	218	70	3,842	N/A	N/A	$109,616,000	11.0%	$2,378
6/30/09	3,842	159	66	3,935	$12,717,000	$3,281,000	$119,052,000	8.6%	$2,521

(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.

Actuarial Analysis of Financial Experience
($000)

Summary of (Gains) / Losses	Change In Liability				
	2009	2008	2007	2006	2005
Unfunded Liability as of July 1	$587,285	$578,773	$576,128	$562,174	$468,707
Expected Change in UAAL	($11,786)	($ 31,649)	($ 16,745)	$ 2,980	($ 1,700)
Salary (Gain) / Loss	($ 10,081)	($ 19,946)	$ 45,157	$ 19,671	($ 34,300)
Fewer Withdrawal than Expected					
Retiree COLA more / (less) than expected	$ 1,080	$ 937	($ 3,380)	($ 13,862)	($ 26,197)
Assets (Gain) / Loss	$522,444	($ 20,078)	($ 22,639)	($ 1,363)	$ 8,934
Change due to Assumption Changes		$ 61,011			$152,500
Ventura Benefits & Asset transfers					($ 21,801)
Miscellaneous Experience	($ 10,909)	$ 18,237	$ 252	$ 6,528	$ 16,031
Change Due to New Formula					
Unfunded Liability as of June 30	$1,078,033	$587,285	$578,773	$576,128	$562,174

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.

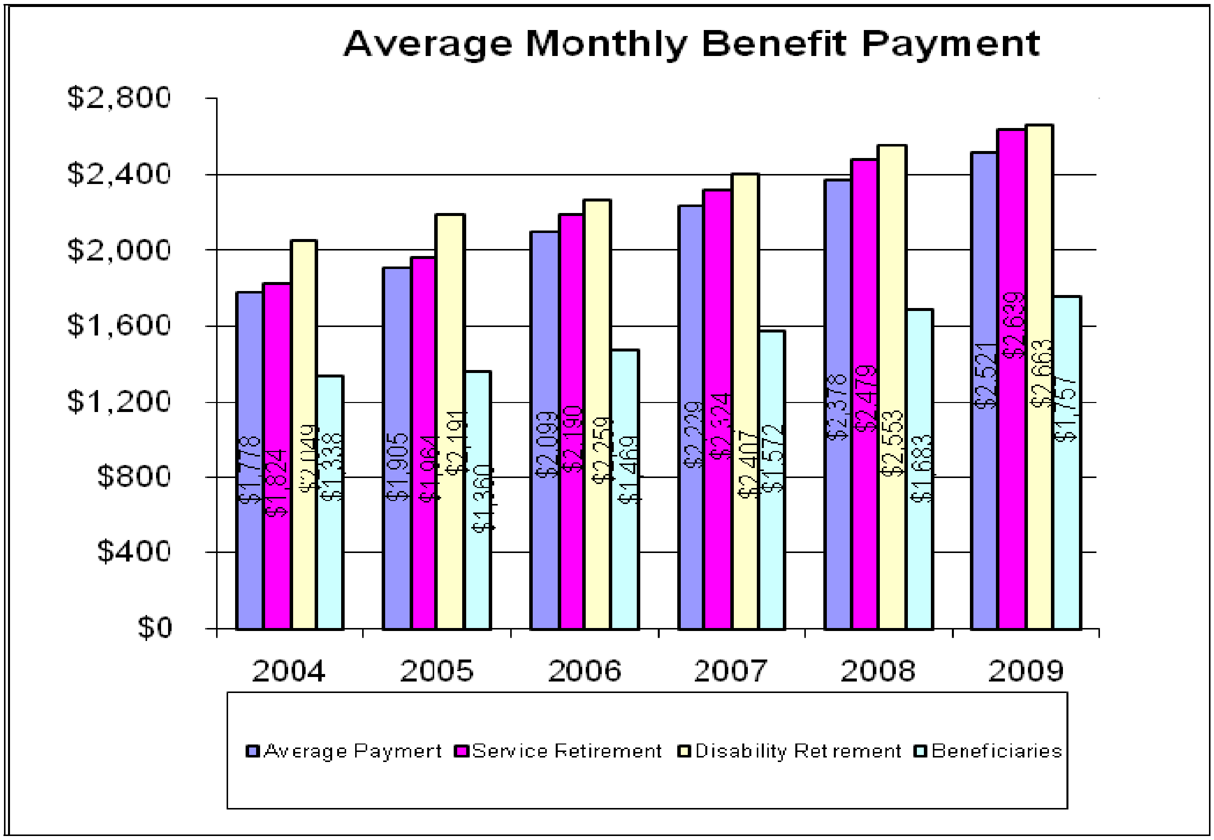
Service Death – Member dies before retirement; death is service related.

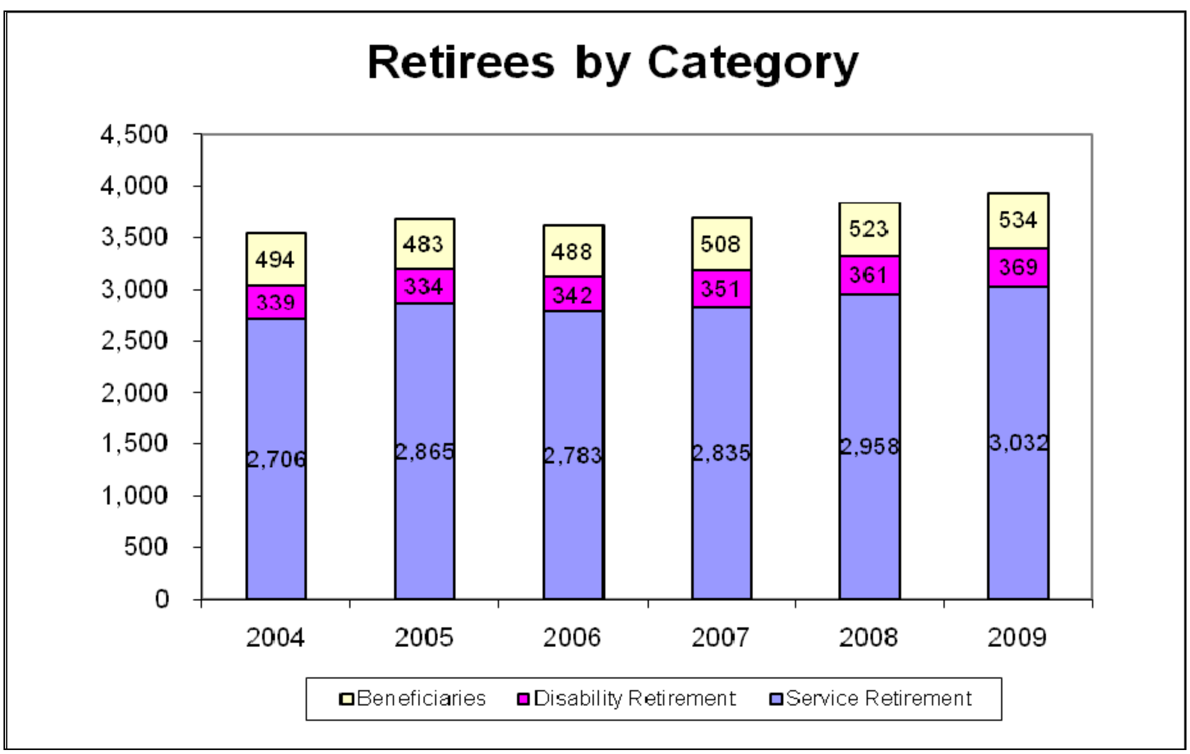
Ordinary Death – Member dies before retirement; death is not service related.

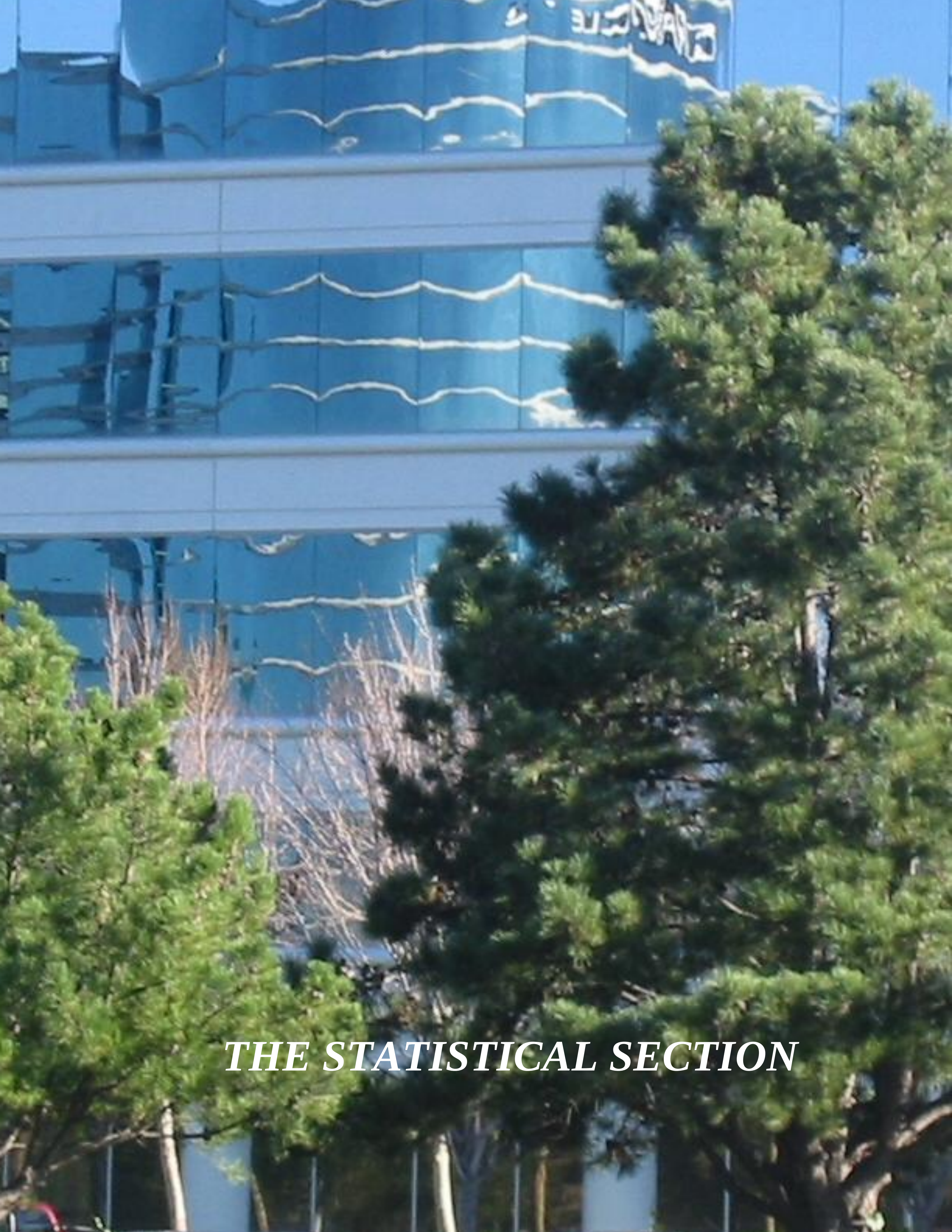
In the table below each rate represents the probability that a member will separate from service at each age due to a particular cause.

Probability of Separation During Active Service

Years of	Other Terminations			Disability		Death while Active		Service
Service	Ordinary	Vested	Age	Ordinary	Service	Ordinary	Service	Retirement
General Plan 1, 2 & 4 Male Members								
0	0.1300	0.0000	20	0.0002	0.0003	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0002	0.0004	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0004	0.0007	0.0010	0.0000	0.0000
15	0.0099	0.0191	50	0.0009	0.0013	0.0019	0.0000	0.0600
20	0.0040	0.0150	60	0.0015	0.0022	0.0040	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0091	0.0000	1.0000
General Plan 1, 2 & 4 Female Members								
0	0.1300	0.0000	20	0.0002	0.0003	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0002	0.0004	0.0002	0.0000	0.0000
10	0.0172	0.0238	40	0.0004	0.0007	0.0006	0.0000	0.0000
15	0.0099	0.0191	50	0.0009	0.0013	0.0013	0.0000	0.0600
20	0.0040	0.0150	60	0.0015	0.0022	0.0030	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0066	0.0000	1.0000
General Plan 3 Male Members								
0	0.1300	0.0000	20	0.0000	0.0000	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0000	0.0000	0.0010	0.0000	0.0000
15	0.0099	0.0191	50	0.0000	0.0000	0.0019	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0040	0.0000	0.0300
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0091	0.0000	1.0000
General Plan 3 Female Members								
0	0.1300	0.0000	20	0.0000	0.0000	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0002	0.0000	0.0000
10	0.0172	0.0238	40	0.0000	0.0000	0.0006	0.0000	0.0000
15	0.0099	0.0191	50	0.0000	0.0000	0.0013	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0030	0.0000	0.0400
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0066	0.0000	1.0000
Safety and Probation Male Members								
0	0.0800	0.0000	20	0.0003	0.0012	0.0003	0.0010	0.0000
5	0.0105	0.0128	30	0.0004	0.0014	0.0004	0.0010	0.0000
10	0.0071	0.0099	40	0.0006	0.0022	0.0010	0.0010	0.0000
15	0.0041	0.0079	50	0.0009	0.0035	0.0019	0.0010	0.2000
20	0.0008	0.0032	60	0.0017	0.0067	0.0040	0.0010	1.0000
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0091	0.0010	1.0000
Safety and Probation Female Members								
0	0.0800	0.0000	20	0.0003	0.0012	0.0002	0.0010	0.0000
5	0.0105	0.0128	30	0.0004	0.0014	0.0002	0.0010	0.0000
10	0.0071	0.0099	40	0.0006	0.0022	0.0006	0.0010	0.0000
15	0.0041	0.0079	50	0.0009	0.0035	0.0013	0.0010	0.2000
20	0.0008	0.0032	60	0.0017	0.0067	0.0030	0.0010	1.0000
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0066	0.0010	1.0000


Average Monthly Benefit Payment
$2,800
$2,400
$2,000
$1,600
$1,200
$800
$400
$0
2004
2005
2006
2007
2008
2009
$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
$2,378
$2,479
$2,553
$1,683
$2,521
$2,639
$2,663
$1,757
Average Payment
Service Retirement
Disability Retirement
Beneficiaries


Retirees by Category
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2004
2005
2006
2007
2008
2009
494
339
2,706
483
334
2,865
488
342
2,783
508
351
2,835
523
361
2,958
534
369
3,032
Beneficiaries
Disability Retirement
Service Retirement



THE STATISTICAL SECTION

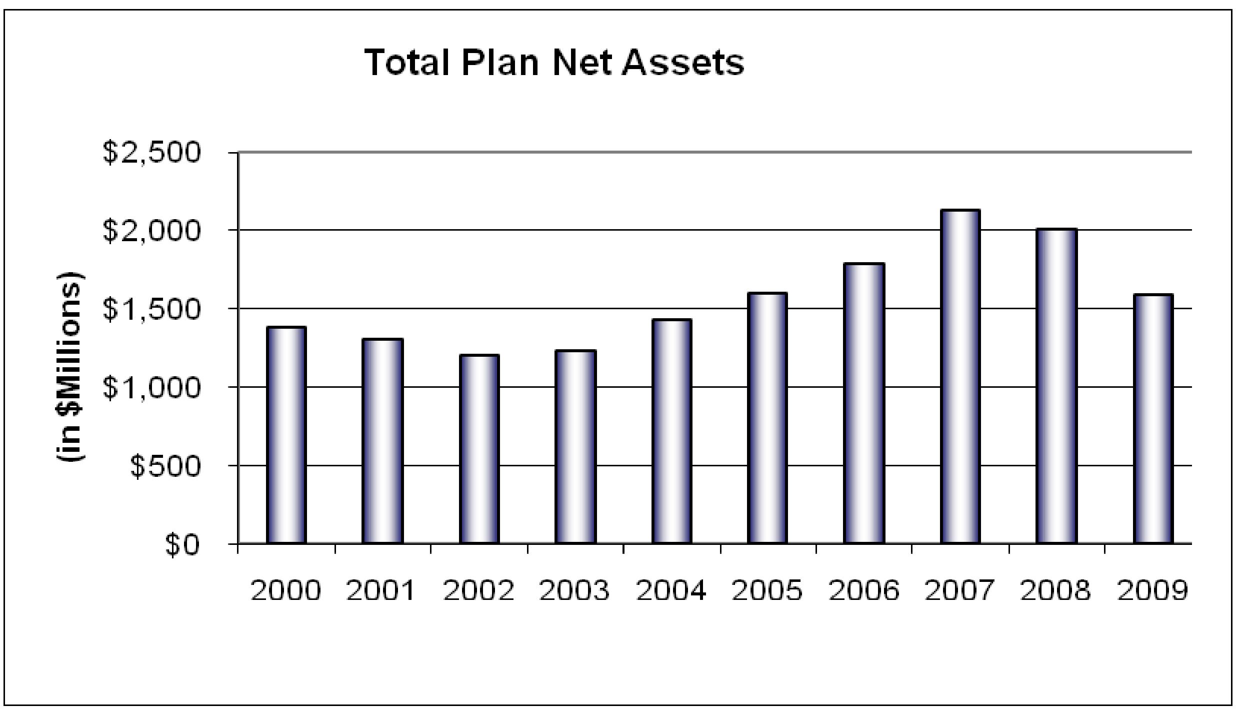
Schedule of Employer Contributions
(In Thousands Of Dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As A % of ARC
6/30/2000	$38,695	100%
6/30/2001	$39,482	100%
6/30/2002	$33,541	100%
6/30/2003	$36,070	100%
6/30/2004	$60,042	100%
6/30/2005	$76,931	100%
6/30/2006	$76,090	100%
6/30/2007	$100,550	100%
6/30/2008	$105,340	100%
6/30/2009	$106,123	100%

Changes in Pension Plan Net Assets Last Ten Fiscal Years
As of June 30
(Dollars in Thousands)

	2009	2008	2007	2006	2005
Additions					
Employer Contributions	$106,123	$105,340	$100,550	$76,090	$76,931
Member Contributions	50,372	60,111	42,696	39,962	33,647
Total Contributions	**156,495**	**165,451**	**143,246**	**116,052**	**110,578**
Investment Income (net of expenses)	-457,309	-177,923	298,260	166,826	140,132
Security Lending Income	1,631	1,699	0	0	0
Miscellaneous Additions	-16	181	26	49	79
Total Additions	**-299,199**	**-11,048**	**441,532**	**282,927**	**250,789**
Deductions					
Retiree Benefits	113,991	103,970	94,788	87,915	83,182
Member Benefits	2,795	3,075	2,244	2,258	1,458
Administrative Expenses	3,287	3,231	2,582	2,086	2,235
Other Expenses	67	8	201	40	4
Total Deductions	**120,140**	**109,827**	**99,815**	**92,299**	**86,879**
Change in Pension Plan Net Assets	**-$419,339**	**-$120,876**	**$341,717**	**$190,628**	**$163,910**

Changes in Pension Plan Net Assets Last Ten Fiscal Years (Continued) As of June 30 (Dollars in Thousands)					
	2004	**2003**	**2002**	**2001**	**2000**
Additions					
Employer Contributions	$60,042	$36,070	$33,541	$39,482	$38,695
Member Contributions	27,094	22,650	16,627	15,287	14,383
Total Contributions	**87,136**	**58,720**	**50,168**	**54,769**	**53,078**
Investment Income (net of expenses)	193,107	39,142	-82,410	-65,750	123,203
Security Lending Income	0	0	0	0	0
Miscellaneous Additions	226	8	0	0	0
Total Additions	**280,469**	**97,870**	**-32,242**	**-10,981**	**176,281**
Deductions					
Retiree Benefits	74,016	68,989	65,186	58,807	53,090
Member Benefits	1,734	1,206	1,551	1,846	1,896
Administrative Expenses	1,912	1,887	1,509	1,491	1,221
Other Expenses	719	0	0	0	0
Total Deductions	**78,381**	**72,082**	**68,246**	**62,144**	**56,207**
Change in Pension Plan Net Assets	**$202,088**	**$25,788**	**-$100,488**	**-$73,125**	**$120,074**



Schedule of Revenues by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/2000	$14,383	$38,695	$123,203	$176,281
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
6/30/2008	$60,111	$105,340	-$176,043	-$10,592
6/30/2009	$50,372	$106,123	-$455,694	-$299,199

Schedule of Expenses by Type
(In thousands of Dollars)

Year End	Administrative Expenses	Retirement Benefits Paid	Refunds	Total
6/30/2000	$1,221	$53,090	$1,896	$56,207
6/30/2001	$1,491	$58,807	$1,846	$62,144
6/30/2002	$1,509	$65,186	$1,551	$68,246
6/30/2003	$1,887	$68,989	$1,206	$72,082
6/30/2004	$2,631	$74,016	$1,734	$78,381
6/30/2005	$2,239	$83,182	$1,458	$86,879
6/30/2006	$2,126	$87,915	$2,258	$92,299
6/30/2007	$2,783	$94,788	$2,244	$99,815
6/30/2008	$3,239	$103,970	$3,075	$110,284
6/30/2009	$3,354	$113,991	$2,795	$120,140

Summary of Retired and Inactive Member Benefits

Retired Members	2009	2008	2007	2006	2005	
Service Retirement						
Number	3,032	2,958	2,835	2,783	2,865	
Annual Allowance						
Basic Only	$73,038,000	$66,704,000	$59,687,000	$54,942,000	$49,760,000	
COLA	$22,964,000	$21,289,000	$19,382,000	$18,188,000	$17,759,000	
Total	$96,002,000	$87,993,000	$79,069,000	$73,130,000	$67,519,000	
Average Monthly Payment	$2,639	$2,479	$2,324	$2,190	$1,964	
Disability Retirement						
Number	369	361	351	342	334	
Annual Allowance						
Basic Only	$8,722,000	$8,214,000	$7,571,000	$6,915,000	$6,575,000	
COLA	$3,070,000	$2,847,000	$2,569,000	$2,356,000	$2,205,000	
Total	$11,792,000	$11,061,000	$10,140,000	$9,271,000	$8,780,000	
Average Monthly Payment	$2,663	$2,553	$2,407	$2,259	$2,191	
Beneficiaries						
Number	534	523	508	488	483	
Annual Allowance						
Basic Only	$6,052,000	$5,757,000	$5,220,000	$4,659,000	$4,084,000	
COLA	$5,206,000	$4,805,000	$4,361,000	$3,946,000	$3,800,000	
Total	$11,258,000	$10,562,000	$9,581,000	$8,605,000	$7,884,000	
Average Monthly Payment	$1,757	$1,683	$1,572	$1,469	$1,360	
Total Retired Members						
Number	3,935	3,842	3,694	3,614	3,682	
Annual Allowance						
Basic Only	$87,812,000	$80,675,000	$72,478,000	$66,516,000	$60,419,000	
COLA	$31,240,000	$28,941,000	$26,312,000	$24,490,000	$23,764,000	
Total	$119,052,000	$109,616,000	$98,790,000	$91,006,000	$84,183,000	
Average Monthly Payment	$2,521	$2,378	$2,229	$2,099	$1,905	
Inactive Members	1,230	1,225	1,151	1,089	872	

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	2004	2003	2002	2001	2000	
Service Retirement						
Number	2,706	2,638	2,638	2,383	2,295	
Annual Allowance						
Basic Only	$41,723,000	$36,260,000	$36,260,000	$30,059,000	$27,966,000	
COLA	$17,502,000	$16,668,000	$16,668,000	$13,692,000	$12,343,000	
Total	$59,225,000	$52,928,000	$52,928,000	$43,751,000	$40,309,000	
Average Monthly Payment	$1,824	$1,672	$1,672	$1,530	$1,464	
Disability Retirement						
Number	339	316	316	280	263	
Annual Allowance						
Basic Only	$6,164,000	$5,061,000	$5,061,000	$4,014,000	$3,517,000	
COLA	$2,172,000	$2,049,000	$2,049,000	$1,591,000	$1,402,000	
Total	$8,336,000	$7,110,000	$7,110,000	$5,605,000	$4,919,000	
Average Monthly Payment	$2,049	$1,875	$1,875	$1,668	$1,559	
Beneficiaries						
Number	494	477	477	439	401	
Annual Allowance						
Basic Only	$4,250,000	$3,548,000	$2,950,000	$2,819,000	$2,154,000	
COLA	$3,682,000	$3,388,000	$2,886,000	$2,444,000	$2,204,000	
Total	$7,932,000	$6,936,000	$5,836,000	$5,263,000	$4,358,000	
Average Monthly Payment	$1,338	$1,212	$1,108	$1,094	$953	
Total Retired Members						
Number	3,539	3,431	3,102	2,979	2,931	
Annual Allowance						
Basic Only	$52,137,000	$44,869,000	$37,023,000	$34,302,000	$31,428,000	
COLA	$23,356,000	$22,105,000	$18,169,000	$16,189,000	$15,417,000	
Total	$75,493,000	$66,974,000	$55,192,000	$50,491,000	$46,845,000	
Average Monthly Payment	$1,778	$1,627	$1,483	$1,422	$1,332	
Inactive Members	877	833	646	613	522	

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)

	2009	2008	2007	2006	2005	
General Tier 1	$7,534	$7,252	$7,175	$6,749	$6,582	
General Tier 2	$7,120	$6,872	$6,688	$6,148	$6,045	
General Tier 3	$5,791	$5,619	$5,287	$4,988	$5,216	
General Tier 4	$6,212	$5,914	$5,714	$5,315	$5,476	
General Tier Total	$6,468	$6,211	$6,054	$5,652	$5,747	
Safety Tier 1	$10,889	$11,113	$10,212	$10,019	$9,701	
Safety Tier 2	$10,135	$9,612	$9,299	$8,585	$8,482	
Safety Tier 4	$8,610	$8,349	$7,882	$7,403	$7,564	
Safety Tier Total	$9,197	$8,937	$8,538	$8,062	$8,150	
Probation Tier 1	$9,751	$9,791	$8,522	$7,735	$7,216	
Probation Tier 2	$7,341	$6,960	$6,899	$6,479	$6,390	
Probation Tier 4	$6,291	$5,978	$5,766	$5,444	$5,741	
Probation Tier Total	$6,634	$6,344	$6,171	$5,860	$6,032	
Total	$6,692	$6,433	$6,260	$5,857	$5,955	

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

	2004	2003	2002	2001	2000	
General Tier 1	$6,514	$6,070	$5,806	$5,477	$5,143	
General Tier 2	$5,980	$5,573	$5,311	$4,934	$4,636	
General Tier 3	$5,101	$4,747	$4,737	$4,516	$4,197	
General Tier 4	$5,281	$4,886	$4,545	$4,177	$3,831	
General Tier Total	$5,642	$5,284	$5,016	$4,700	$4,451	
Safety Tier 1	$9,516	$8,500	$7,820	$7,327	$6,955	
Safety Tier 2	$8,530	$7,518	$6,853	$6,479	$6,102	
Safety Tier 4	$7,582	$6,465	$5,789	$5,375	$5,271	
Safety Tier Total	$8,267	$7,291	$6,652	$6,332	$6,143	
Probation Tier 1	$6,856	$6,548	$6,253	$5,861	$5,460	
Probation Tier 2	$6,291	$5,800	$5,542	$5,079	$4,654	
Probation Tier 4	$5,711	$4,924	$4,502	$4,100	$3,660	
Probation Tier Total	$6,019	$5,395	$5,066	$4,744	$4,441	
Total	$5,871	$5,467	$5,164	$4,846	$4,603	

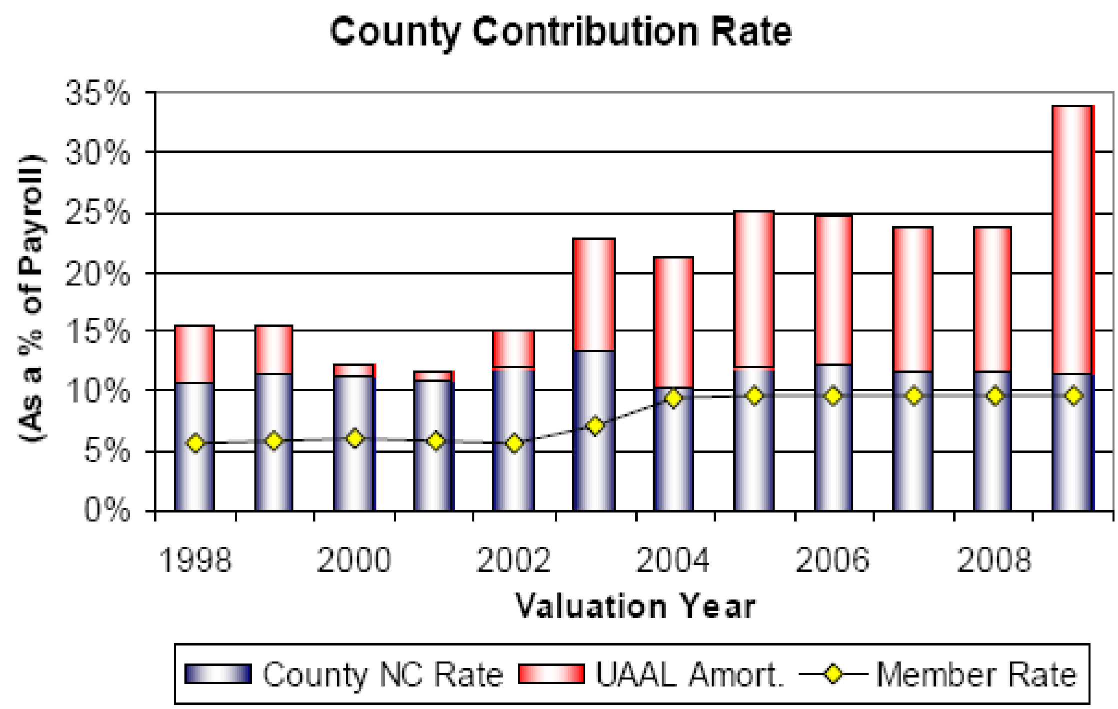
The data in the table above originates from PensionGold, *SamCERA's* retirement benefit administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports.

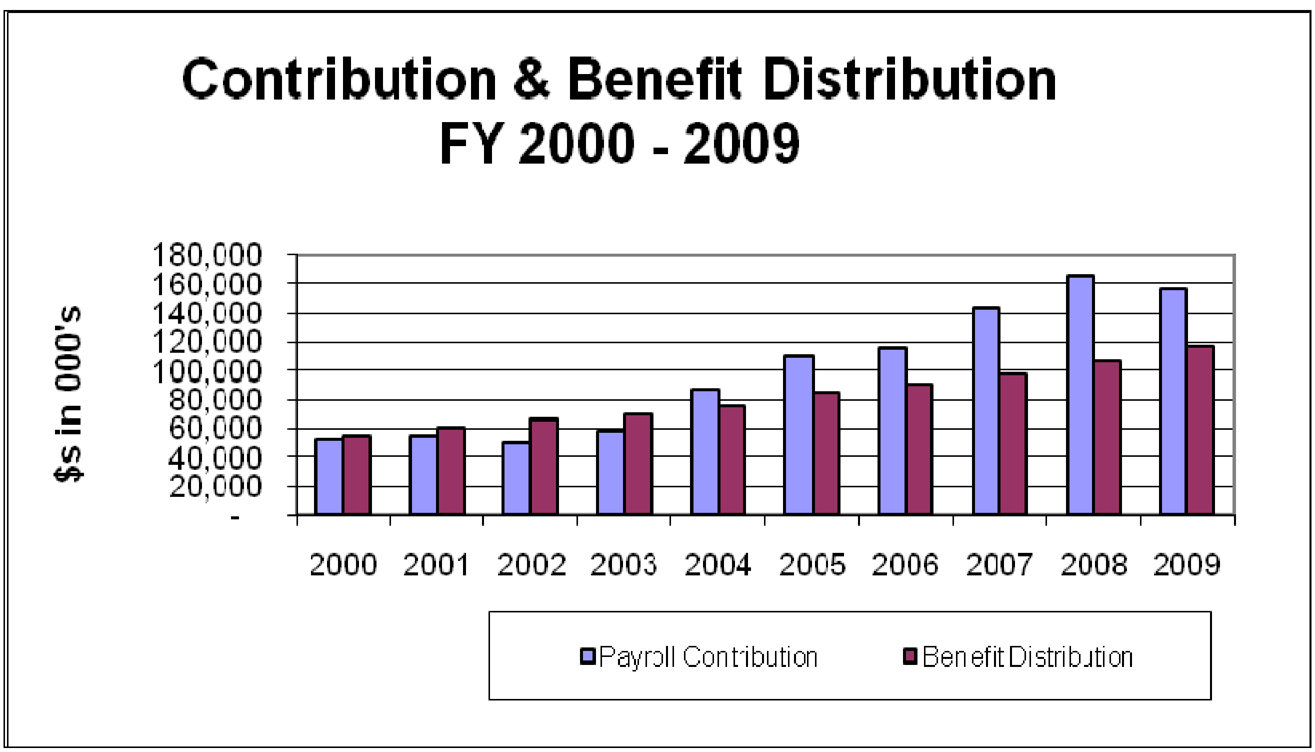
Participating Employers and Active Members

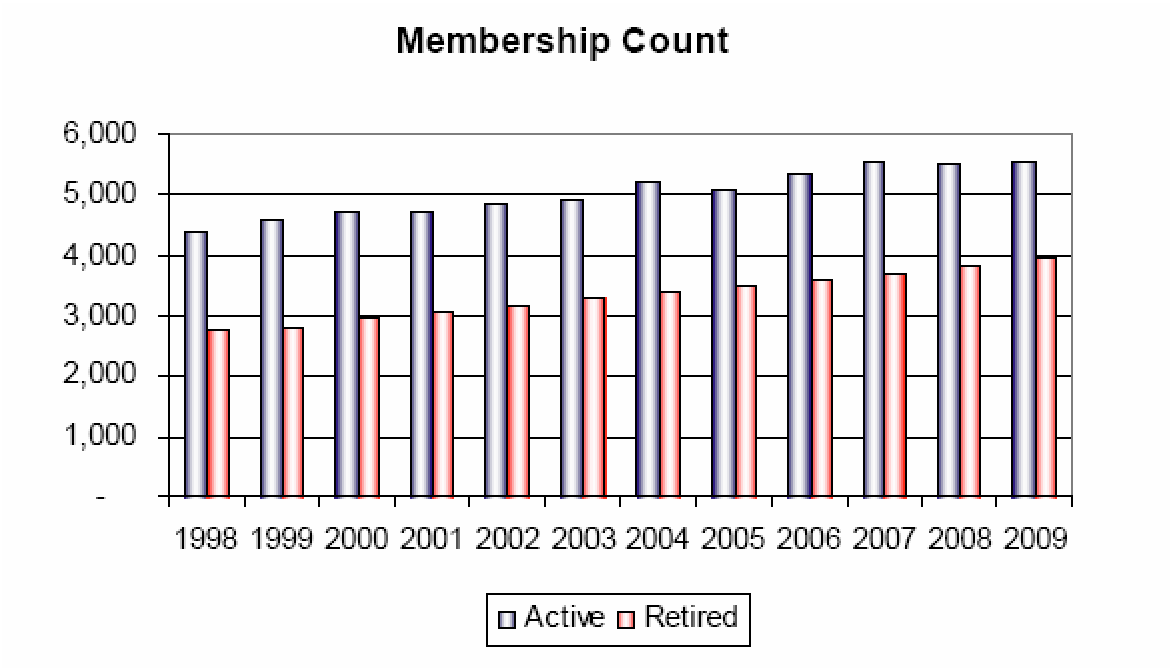
	2009	2008	2007	2006	2005	
County of San Mateo						
General Members	4,752	4,718	4,742	4,594	4,391	
Safety Members	436	432	443	428	409	
Safety/Probation Members	330	325	329	313	278	
Total	5,518	5,475	5,514	5,335	5,078	
San Mateo County Mosquito and Vector Control District						
General Members Total	25	25	25	20	20	
Total Active Membership	5,543	5,500	5,539	5,355	5,098	

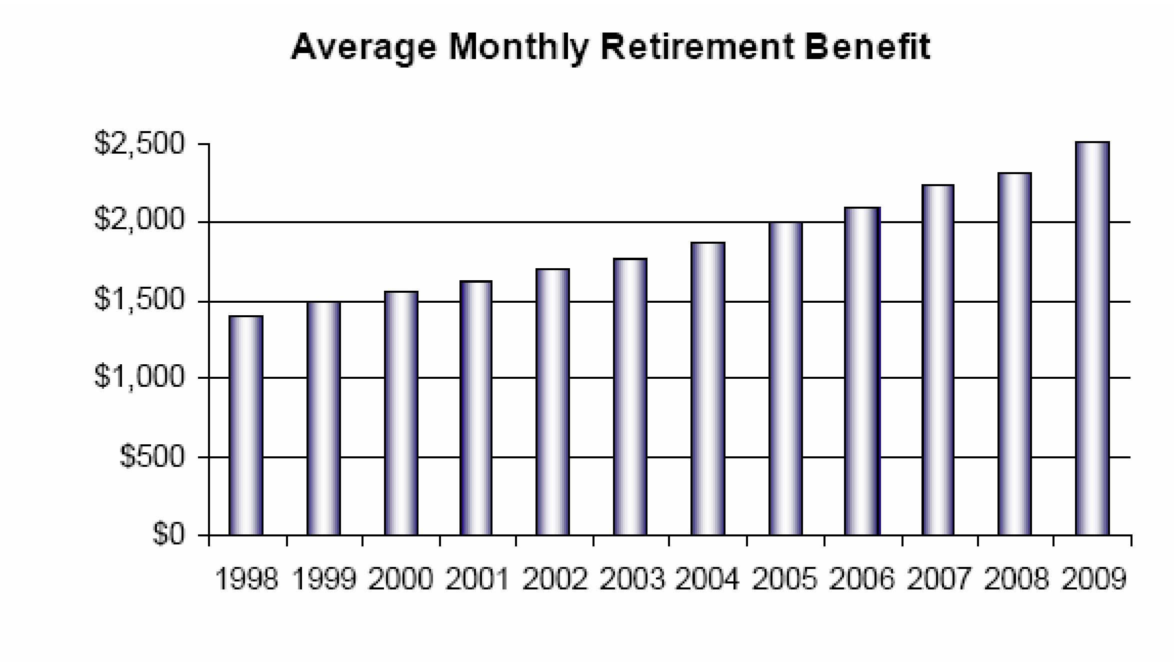
Participating Employers and Active Members (Continued)

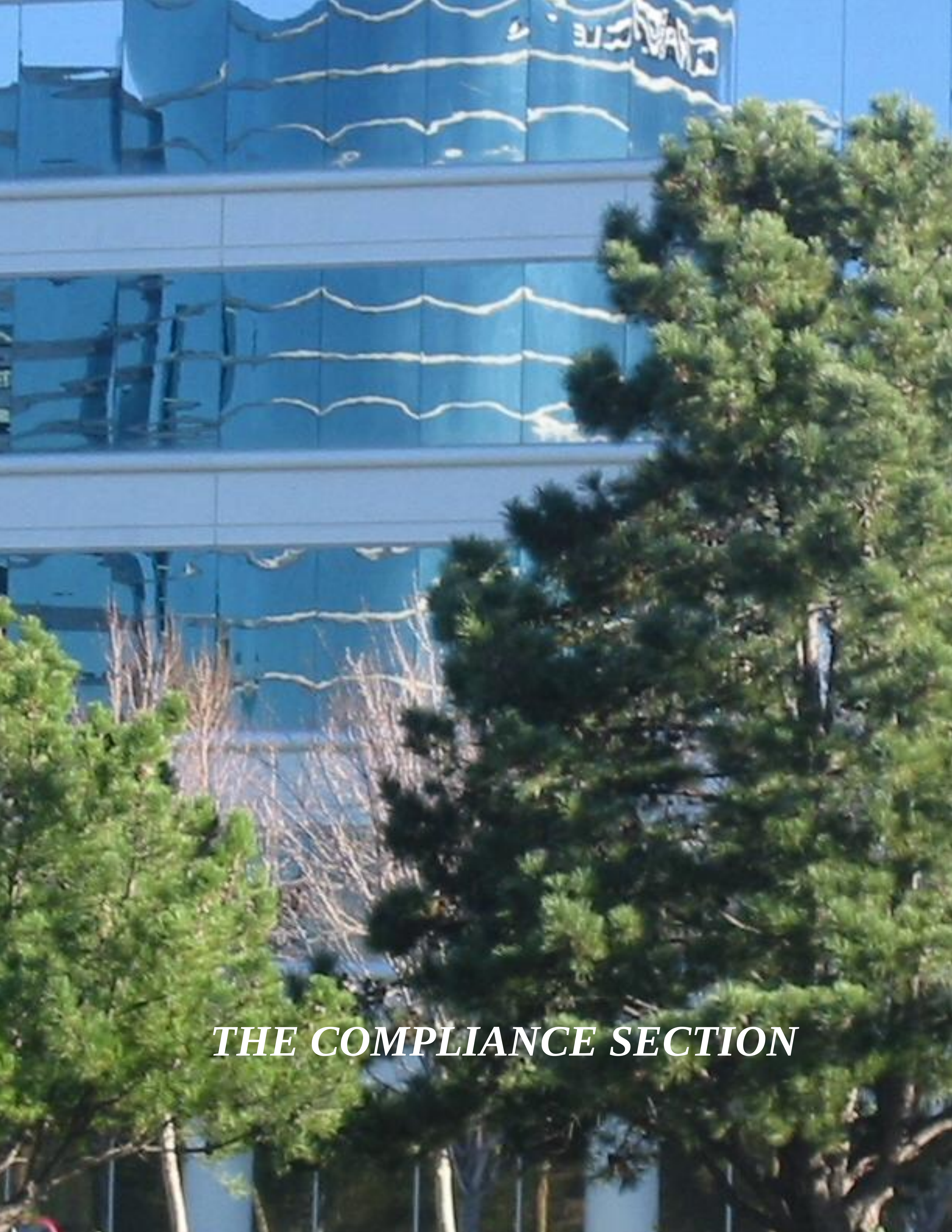
	2004	2003	2002	2001	2000	
County of San Mateo						
General Members	4,474	4,202	4,175	4,079	3,897	
Safety	411	434	431	416	425	
Safety/Probation Members	288	290	293	265	245	
Total	5,173	4,926	4,899	4,760	4,567	
San Mateo County Mosquito Abatement District						
General Members Total	13	11	11	11	11	
Total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


County Contribution Rate
35%
30%
25%
20%
15%
10%
5%
0%
(As a % of Payroll)
1998
2000
2002
2004
2006
2008
Valuation Year
County NC Rate
UAAL Amort.
Member Rate

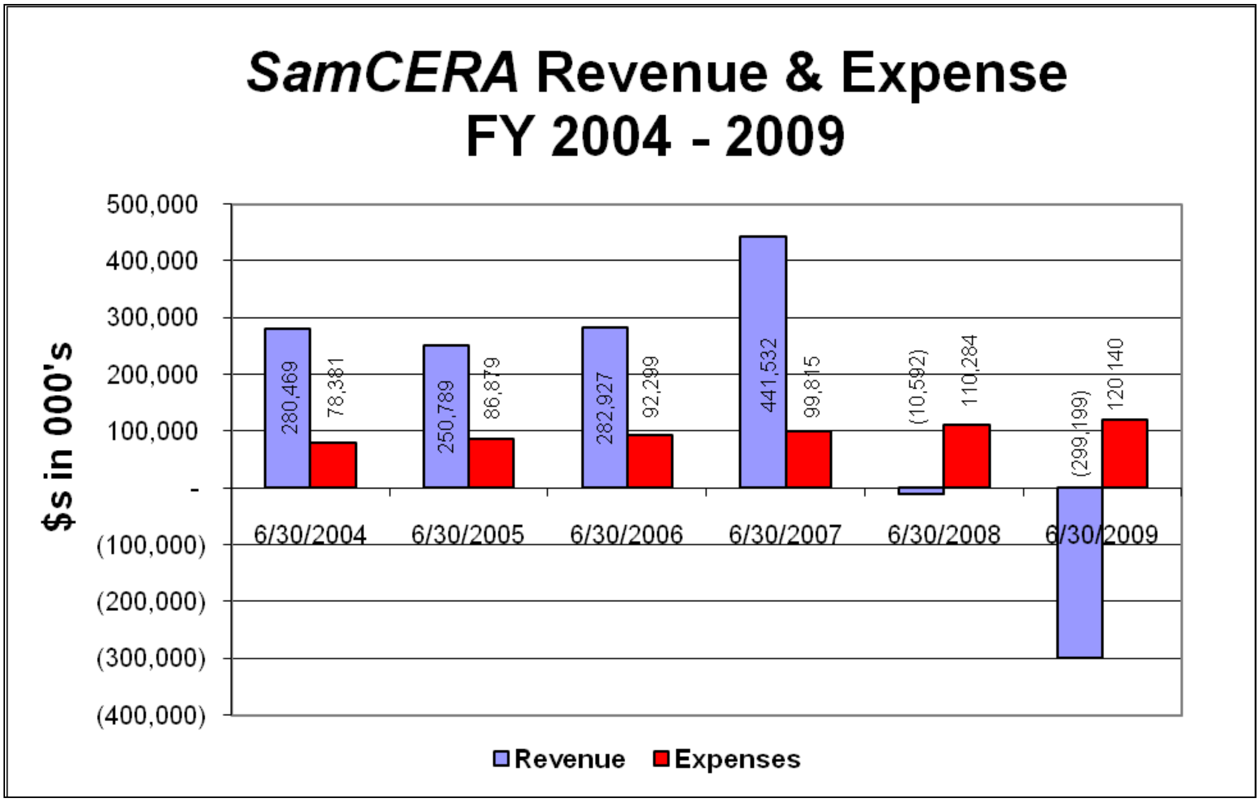

Contribution & Benefit Distribution
FY 2000 - 2009
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
-
$s in 000's
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Payroll Contribution
Benefit Distribution

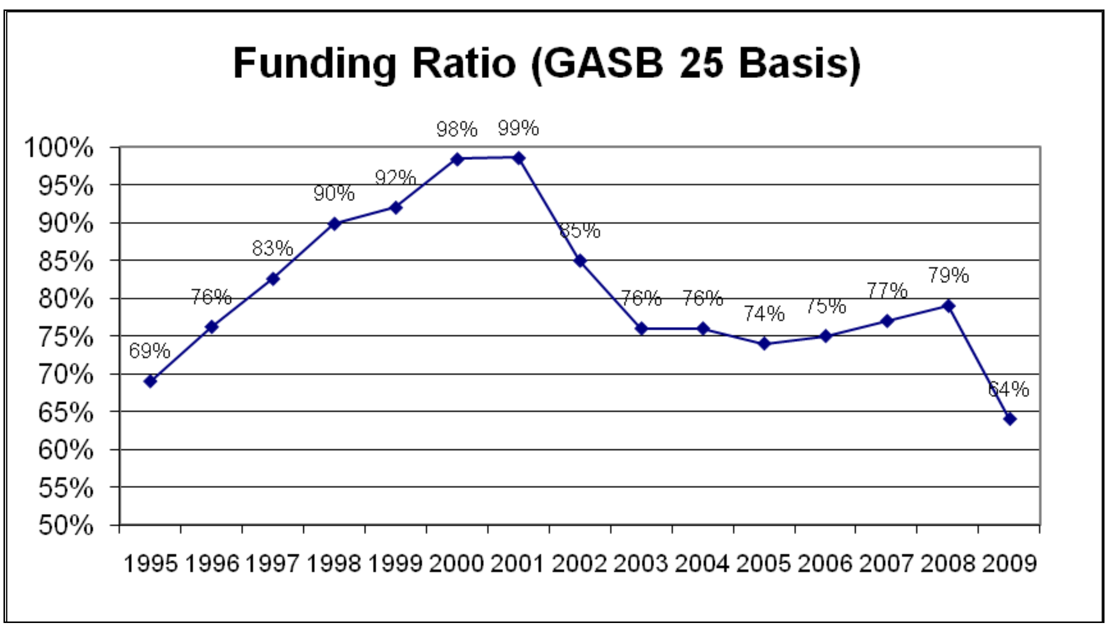

Membership Count
6,000
5,000
4,000
3,000
2,000
1,000
-
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
Active
Retired


Average Monthly Retirement Benefit
$2,500
$2,000
$1,500
$1,000
$500
$0
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009



THE COMPLIANCE SECTION


SamCERA Revenue & Expense
FY 2004 - 2009
$s in 000's
500,000
400,000
300,000
200,000
100,000
-
(100,000)
(200,000)
(300,000)
(400,000)
280,469
78,381
250,789
86,879
282,927
92,299
441,532
99,815
(10,592)
110,284
(299,199)
120,140
6/30/2004
6/30/2005
6/30/2006
6/30/2007
6/30/2008
6/30/2009
Revenue
Expenses


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%
79%
64%
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Brown Armstrong Paulden
McCown Starbuck Thornburgh & Keeter
Certified Public Accountants

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

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

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
Audit Committee/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, 2009, which collectively comprise SamCERA's basic financial statements and have issued our report thereon dated September 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 than 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 misstatement 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of SamCERA in a separate letter dated September 15, 2009.

This report is intended solely for the information and use of the Board of Retirement, Audit Committee 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 THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 15, 2009

To order your own copy of *SamCERA's*
June 30, 2009 *Comprehensive Annual Financial Report*,
complete the following form and send it to *SamCERA*,
either through the Pony at
RET 141,
or the U.S. Mail at
100 Marine Parkway, Suite 125, Redwood Shores, CA 94065

The Following Items Are Also Available Through
The San Mateo County Employees' Retirement Association's Web Site
www.samcera.org

To: *SamCERA* Date:
Please send me:
- ❑ *SamCERA's June 30, 2009 Comprehensive Annual Financial Report*
- ❑ *SamCERA's Sources, Uses and Budget Report for Fiscal Year 2009-2010*
- ❑ *SamCERA's Dissolution of Marriage Guidelines*
- ❑ Change of Beneficiary Form
- ❑ Direct Deposit Application
- ❑ Notice of Public Meetings of *SamCERA*'s Board of Retirement
- ❑ Minutes of Public Meetings of *SamCERA*'s Board of Retirement

From:
Name:_____________________________Title:___________________
Department or Other Employer:_______________________________
Pony Address, if applicable:________Date of Retirement, if applicable:________
Mailing Address:____