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

for the fiscal year ending June 30, 2001
a component unit of the County of San Mateo
Redwood City
State of California

SamCERA

Your San Mateo County Employees' Retirement Association

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, 2001

Sidney C. McCausland
Chief Executive Officer
SamCERA
702 Marshall, Suite 280
Redwood City, California 94063-1823

San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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THE INTRODUCTORY SECTION

SamCERA's Mission

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

SamCERA's Goals

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

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

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

SamCERA

San Mateo County Employees' Retirement Association
702 Marshall, Suite 280, Redwood City, CA 94063-1823
October 31, 2001

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

It is my honor to present to you *The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association for the fiscal years ending June 30, 2000 and June 30, 2001* (The Report).

This Report is submitted for your review. *SamCERA*'s management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. This Report was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions are reported on the accrual basis of accounting.

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

AUTHORITY, RESPONSIBILITIES & DUTIES

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

The Board of Retirement serves as fiduciary for all of SamCERA's members. The Board is responsible for administering the provisions of the 1937 Act that the Board of Supervisors has made applicable to San Mateo County. The Board of Retirement has adopted its *Mission & Goals; Statement of Strategic Services; Regulations of the Board of Retirement; SamCERA's Investment Plan; SamCERA's Service Plans, Reports & Administrative Budget; 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, four investment managers, a global custodian, real estate counsel and fiduciary counsel to help the Board fulfill its duties. The Board's professional consultants are listed on page 9.

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 nine is responsible for assuring that members', employers' and the Board's needs are met in accordance with the high standards set forth in *SamCERA's Mission & Goals*. *SamCERA*'s staff is sworn to carry out its fiduciary duties in accordance with Staff's *Code Of Fiduciary Conduct* and staff's own high *Performance Standards*.

SamCERA's members include all permanent employees of the County of San Mateo and the San Mateo County Mosquito Abatement District, vested former employees who elected deferred retirement and all current retirees and their eligible survivors and beneficiaries. More than 85% of *SamCERA*'s members are classified as General Members. General Members are covered by the applicable provisions of both the 1937 Act and Social Security. The remainder of *SamCERA*'s members are law enforcement employees classified as Safety or Probation Safety members. These members are covered by specific Safety Member provisions of the 1937 Act but are not covered by Social Security.

SamCERA's Membership as of June 30, 2001

Plan (Tier)	One	Two	Three	Four	Total
Retirees and beneficiaries currently receiving benefits:					
General	2,314	567	46	0	2,927
Safety	254	28	0	0	282
Probation	41	7	0	0	48
Subtotal	2,609	602	46	0	3,257
Terminated employees entitled to but not currently receiving benefits (Deferred):					
General	99	420	110	36	665
Safety	2	29	0	9	40
Probation	0	30	0	6	36
Subtotal	101	479	110	51	741
Current employees:					
Vested:					
General	395	1,883	158	11	2,429
Safety	79	206	0	1	315
Probation	35	89	0	2	131
Non-Vested:					
General	0	184	55	1,404	1,643
Safety	0	15	0	115	130
Probation	1	18	0	116	135
Subtotal	510	2,345	213	1,649	4,717
Total *SamCERA* Membership	3,220	3,426	369	1,700	8,715

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Report consists of five sections, as follows.

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

•**The Financial Section** presents information regarding *SamCERA*'s financial condition. This section contains the opinion of the Independent County Auditor, *SamCERA*'s financial statements and supplemental financial information. The County Auditor concludes that its audit of *SamCERA*'s financial statements, as set forth in the Financial Section, provided a reasonable basis for the Auditor to determine that the financial statements present *SamCERA*'s financial position fairly. During the fiscal year, Retirement Fund assets declined from $1.381 billion to $1.308 billion.

The collection of employer and employee contributions and investment income provide the reserves needed to finance retirement benefits. Contributions and investment income for the fiscal year totaled ($10,981,100) million.

Additions to SamCERA's Assets

Contributions	
Employer	$ 39,481,824
Member	15,287,232
Total Contributions	54,769,056
Investment Income	(62,588,978)
Less investment expense	(3,161,178)
Net Investment Income	(65,750,156
TOTAL ADDITIONS	($10,981,100)

The 1937 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 1937 Act permits thc payment of administrative and professional expenses from the Retirement Fund. Benefits and expenses for the fiscal year totaled $62.1 million.

Deductions from SamCERA's Assets

SamCERA Benefits:	
Service retirement allowance	$51,137,409
Disability retirement allowance	6,098,102
Medical benefits	858,555
Death and other benefits	712,679
Total Association benefits	58,806,745
Refunds of members' contributions	1,845,536
Administrative expense	1,491,429
TOTAL DEDUCTIONS	$62,143,710

•**The Investment Section** presents information regarding *SamCERA*'s investment program. All investments are made in accordance with the guidelines set forth in *SamCERA's Investment Plan* by fully discretionary institutional investment advisors retained by the Board. The section contains the investment consultant's 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 –4.25%, approximately 1.75% greater than the performance of its policy benchmark. Gray & Company resigned from the account on June 26, 2001 and was replaced by Strategic Investment Solutions. Strategic Investment Solutions had previously served as the Board's consultant for special studies.

SamCERA's Asset Allocation

	Target	June 30. 2001
Equity	65%	58.8%
Fixed Income	29%	32.6%
Real Estate	6%	8.1%
Cash	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, William M. Mercer, Inc., the funding status and a summary of other key actuarial information.

During the fiscal year, *SamCERA*'s Ventura Contingency Reserve for the contingent liability described in Note 5 of the Financial Statement grew to $37.7 million.

As of June 30, 2001 William M. Mercer reports that *SamCERA*'s Actuarial Assets of $1.384 billion are equal to 98.6% of *SamCERA*'s Accrued Actuarial Liabilities of $1.405 billion, with full funding targeted for the year 2011. *SamCERA*'s Unfunded Accrued Actuarial Liability totaled $19.5 million on June 30, 2001.

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

SamCERA's Comprehensive Annual Report for 2000 earned *SamCERA* its fourth Government Finance Officers Association of the United States and Canada *Certificate of Achievement for Excellence in Financial Reporting*. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principals and applicable legal requirements. The Certificate is valid for a period of one year only. Staff intends to submit this year's Report to the GFOA as well.

LOOKING FORWARD

The next fiscal year holds the promise of bringing the Board and staff even closer to the attainment of *SamCERA*'s Goals. A major effort is underway to complete the formal documentation of *SamCERA*'s *Business Continuity Plan*. Staff continues its efforts to simplify and streamline *SamCERA*'s services so that we can meet our members' needs in a caring, fair, accurate, timely and knowledgeable manner. Consequently, member education, board and staff training and task redesign continue to rank high on our list of priorities.

SamCERA has never been better able to serve our members and their employers.

I would like to thank

- All of *SamCERA*'s members for their support and recommendations.
- The members of the Board of Retirement for taking your fiduciary duty so seriously,
- My fellow staff members for always being there for our members,
- Our actuary, our investment consultant, our County Counsel and our investment managers for their dedicated efforts on behalf of our members.
- Gary Clifton for his efforts to produce the best report that we can.

I am honored to be on *SamCERA's* team.

Respectfully submitted,

Sid McCausland

Sid McCausland, Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County Employees' Retirement Association, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

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

President

Executive Director

Members of the Board of Retirement

for the fiscal year ending June 30, 2001

ARON H. HOFFMAN, Chair *appointed by the Board of Supervisors*

Aron Hoffman is a Certified Public Accountant in San Mateo. Mr. Hoffman has served as a City Council member and Mayor of the City of San Mateo. Aron joined the Board in July of 1997. Aron serves as Chair of the Board's Audit Committee.

WILLIAM R. COTTLE, Vice Chair *appointed by the Board of Supervisors*

William Cottle is a Principal with the pension consulting firm of Dorn, Helliesen & Cottle, Inc. Bill joined the Board in January of 1997. Bill serves as Chair of the Board's Investment Committee.

MICHAEL E. MCMAHON, Secretary *elected by SamCERA's General Members*

Michael McMahon is a Senior Auditor-Appraiser with the County. Michael joined the Board in October of 1993.

TOM E. BRYAN *elected by SamCERA's General Members*

Tom Bryan is a Supervising Assessor with San Mateo County and a Steward with SEIU Local 715. Tom joined the Board in July of 1986. He served as Chairman from 1989 until 1990.

LEE BUFFINGTON *Ex Officio per the '37 Act*

Lee Buffington serves as Tax Collector/Treasurer for San Mateo County. The law which created *SamCERA* designates the County Treasurer as a member of the Board of Retirement. Lee joined the Board in October of 1985. **SANDRA ARNOTT** serves as the Constitutional Alternate in Lee's absence.

JOHN J. CARBERRY *appointed by the Board of Supervisors*

John Carberry is a retired pension consultant with Paine Webber. John was appointed to the Board in January of 1993. He served as Chair from 1994 until 1996.

DONNA WILLS COLSON *appointed by the Board of Supervisors*

Donna Wills Colson is Client Services Officer with Tukman Capital Management. Donna joined the Board in August of 1998.

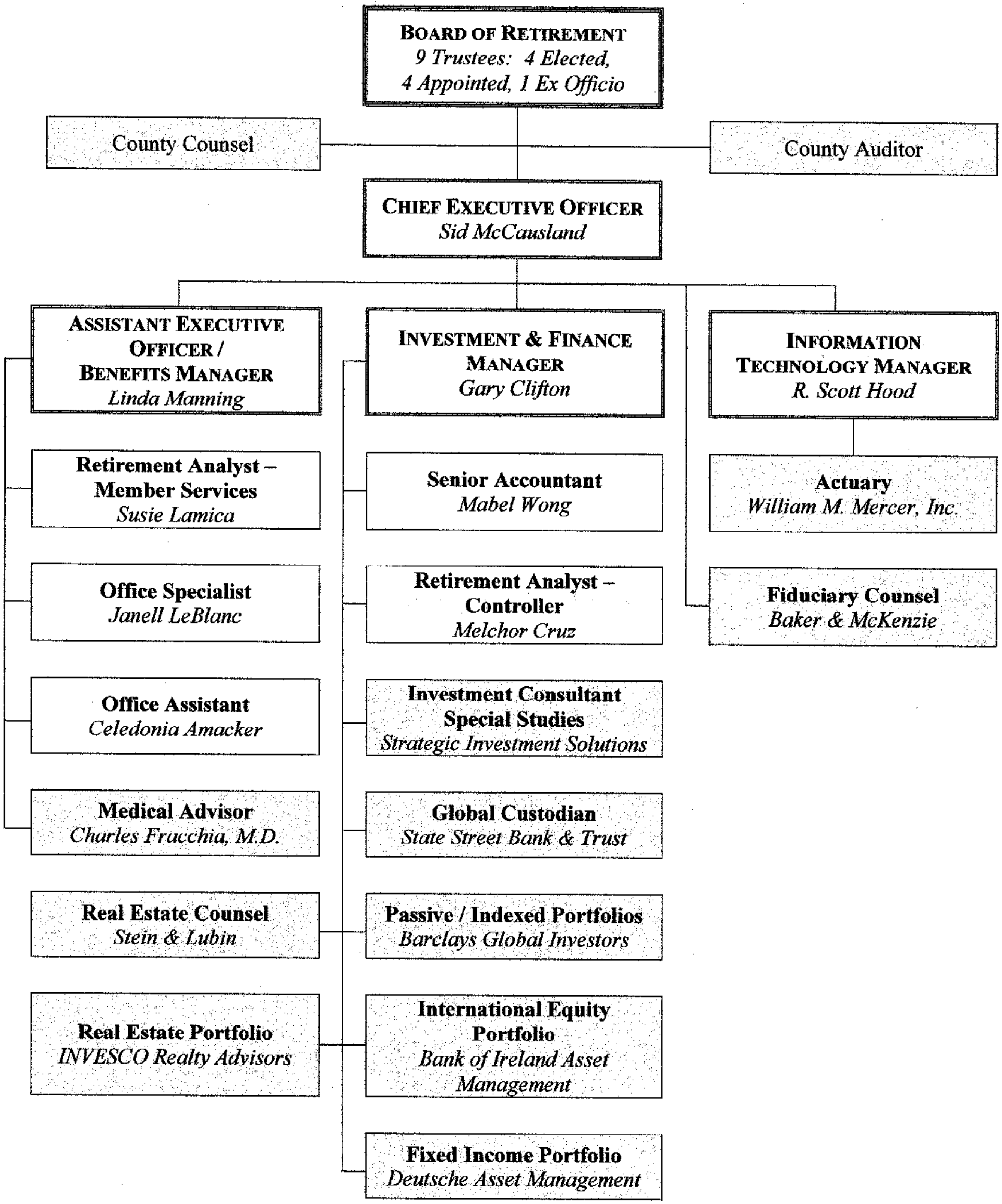
KEITH W. HOFFMAN *elected by SamCERA's Safety Members*

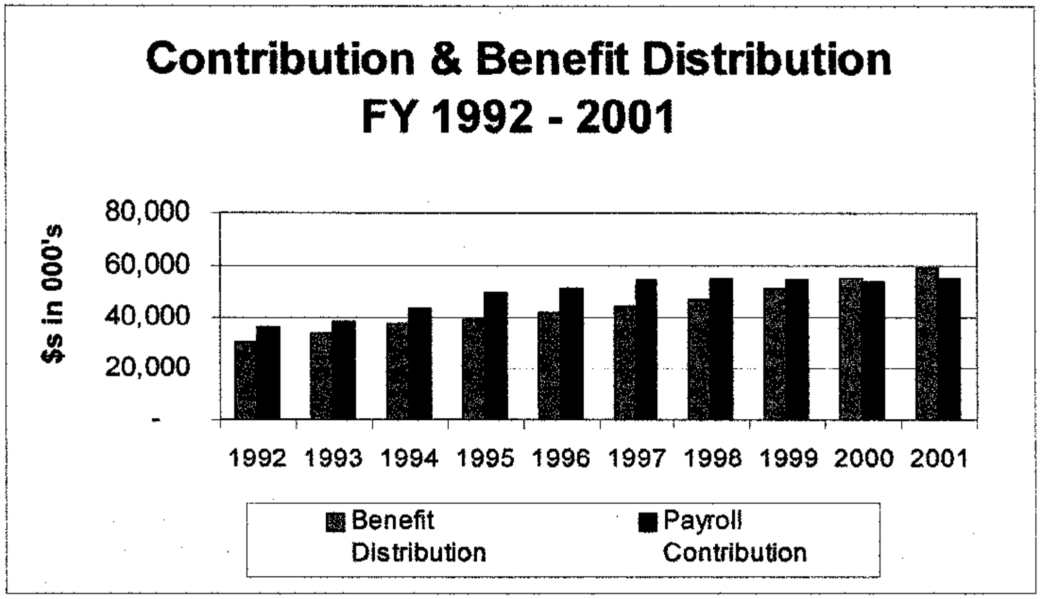
Keith Hoffman is a Detective Sergeant serving as Special Agent Supervisor for the County's Vehicle Theft Task Force. Keith is a Past President of the Organization of Deputy Sheriffs, and Past President and current Board Member of the San Mateo County Sheriff's office Association. Keith joined the Board in June of 2000. **ALMA R. SALAS,** Deputy Probation Officer III, was sworn in on May 22, 2001 to replace Sgt. Hoffman following his retirement.

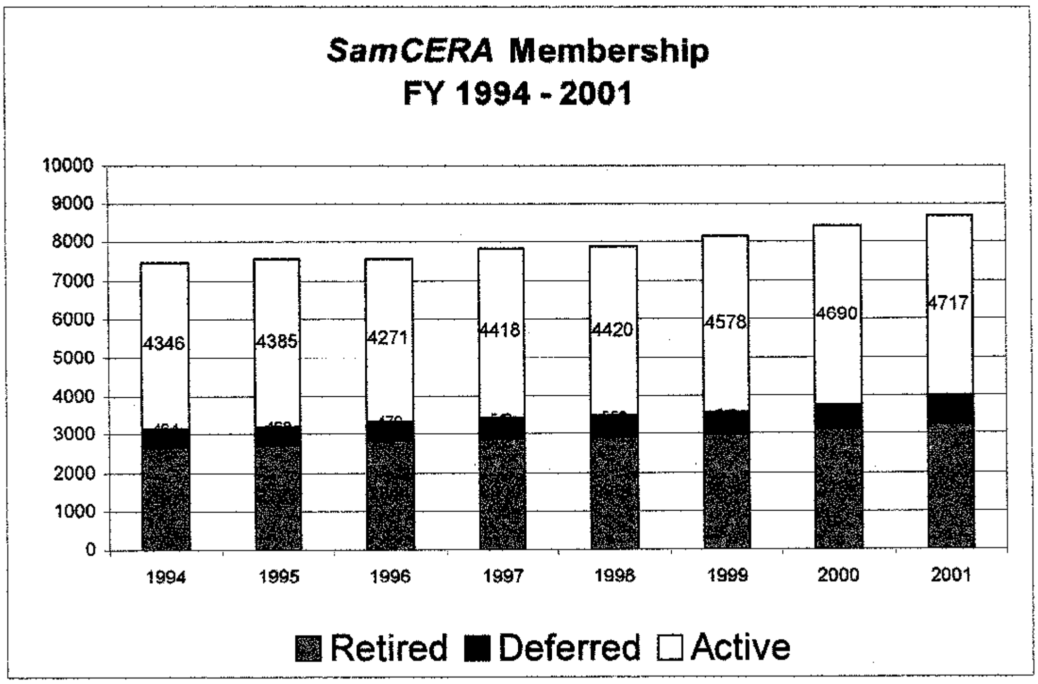
BETTE PERROTON STUART *elected by SamCERA's Retired Members*

Bette Perroton Stuart retired as your Retirement Officer in 1988 after nearly 20 years with the County. Bette joined the Board in December of 1990. She served as Chair from 1996-1998.

SAN MATEO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
June 30, 2001 Organization Chart

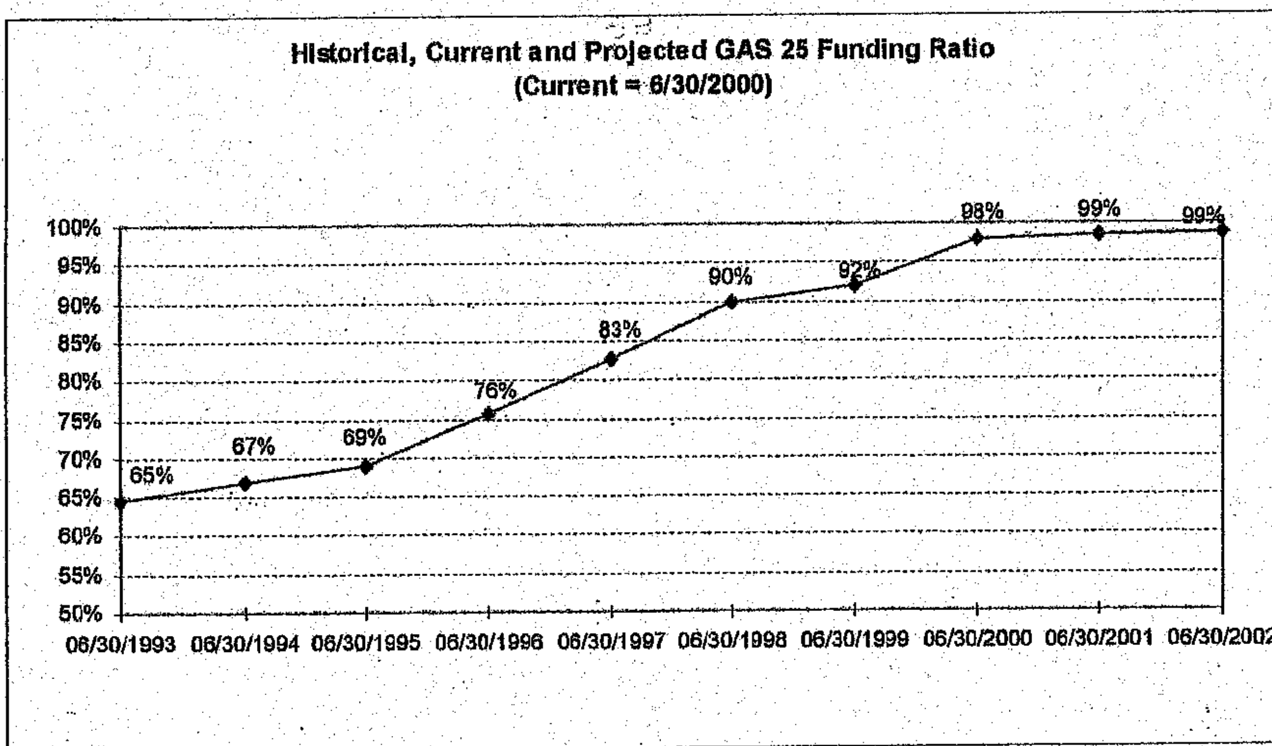



Contribution & Benefit Distribution
FY 1992 - 2001
$s in 000's
80,000
60,000
40,000
20,000
-
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Benefit Distribution
Payroll Contribution


SamCERA Membership
FY 1994 - 2001
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
4346
4385
4271
4418
4420
4578
4690
4717
1994
1995
1996
1997
1998
1999
2000
2001
Retired
Deferred
Active


THE FINANCIAL SECTION

Funding Ratio (GAS 25 Basis)



Office of Controller

TOM HUENING
CONTROLLER

ROBERT G. ADLER
ASSISTANT CONTROLLER

KANCHAN K. CHARAN
DEPUTY CONTROLLER

COUNTY OF SAN MATEO

555 COUNTY CENTER, 4TH FLOOR • REDWOOD CITY • CALIFORNIA 94063

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Independent Auditor's Report

To the Retirement Board
San Mateo County Employees' Retirement Association
Redwood City, California

We have audited the accompanying basic financial statements of the San Mateo County Employees' Retirement Association (Association), a component unit of the County of San Mateo, California, as of and for the year ended June 30, 2001 and 2000. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the San Mateo County Employees' Retirement Association as of June 30, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 (a) to the basic financial statements, the Association adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements —and Management's Discussion and Analysis —For State and Local Governments*, as of July 1, 2000. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2001, on our consideration of Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 8 and other pension information on pages 22 and 23, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses and professional services and fees on page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

County of San Mateo Controller

Redwood City, California
September 13, 2001

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Office of Controller

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CONTROLLER

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

To the Retirement Board
San Mateo County Employees' Retirement Association
Redwood City, California

We have audited the basic financial statements of the San Mateo County Employees' Retirement Association (Association), a component unit of the County of San Mateo, California, as of and for the year ended June 30, 2001 and 2000, and have issued our report thereon dated September 13, 2001. We conducted our audits 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the Board of Retirement and to management in a separate letter dated September 13, 2001.

This report is intended solely for the information and use of the audit committee, management, others within the Association, and the Retirement Board, and is not intended to be and should not be used by anyone other than these specified parties.

County of San Mateo Controller

Redwood City, California
September 13, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2000 – 2001

As management of the San Mateo County Employees' Retirement Association, we offer readers of *SamCERA's* financial statements this narrative overview and analysis of its financial activities for the fiscal year ending June 30, 2001. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3-6 of this report.

Financial Highlights

- The assets of SamCERA exceeded it liabilities at the close of the fiscal year. $1,307,971,618 in net assets are held in trust for pension benefits. All of the assets are available to meet SamCERA's ongoing obligation to plan participants and their beneficiaries.
- SamCERA's total net assets held in trust for pension benefits decreased by $73,124,810 or 5.3% primarily as a result of market depreciation.
- SamCERA's funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2001, the date of the last actuarial valuation, the funded ratio for SamCERA was 98.6%. In general, this indicates that for every dollar of accrued benefits SamCERA has approximately $0.99 of assets available for payment.
- Revenues (Additions to Plan Net Assets) for the year were negative $10,981,101, which includes member and employer contributions of $54,769,056 and an investment loss of $65,750,156 (including investment expense of $3,161,178).
- Expenses (Deductions in Plan Net Assets) increased from $56,207,488 to $62,143,710 over the prior year, or approximately 10.6%. Most of this increase was due to an increase in benefits paid.

Overview of Financial Statement

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

1. Statement of Fiduciary Net Assets
2. Statement of Changes in Fiduciary Net Assets
3. Notes to the Financial Statements

Please note, however that this report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Fiduciary Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Fiduciary Net Assets, on the other hand, provides a view of current year additions and deductions to the Plan. Both statements are in compliance with governmental Accounting Standards Board (GASB) Pronouncements 25, 26, 28, 33, and 34. These pronouncements require certain disclosures and require State and Local Governments to move to the full accrual method of accounting. SamCERA complies with all material requirements of these pronouncements.

The Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets report information about SamCERA's activities. These statements include assets and liabilities, using full accrual basis of accounting, which is similar to the accounting method 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 gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all Property and Equipment (Fixed Assets) are depreciated over their useful lives.

These two statements report SamCERA's net assets held in trust for pension benefits as one way to measure the Plan's financial position. Over time, increases and decreases in SamCERA's net assets are one indicator of whether it's financial health in improving or deteriorating. Other factors, such as market conditions, should be considered in measuring SamCERA's overall health. (Refer to SamCERA's financial statements on pages 18-19 of this report.)

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (Refer to Notes to the Financial Statements on pages 20-26 of this report.)

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning SamCERA's progress in funding its obligations to provide pension benefits to members, trends in employer contributions and other pertinent information as of the latest actuarial valuation. (Refer to Required Supplementary Schedules on page 27 of this report.)

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of SamCERA's financial position (refer to Table 1 below). The assets of SamCERA exceeded its liabilities at the close of the June 30, 2001 fiscal year. $1,307,971,618 in net assets are held in trust for pension benefits. All of the net assets are available to meet SamCERA's ongoing obligation to plan participants and their beneficiaries. Net assets decreased by 5.3% during the fiscal year ending June 30, 2001 due primarily to market depreciation.

SamCERA's Net Assets (Table 1)

For the Years Ended June 30, 2001 and 2000	2001	2000	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,301,831,377	$1,371,295,275	($69,463,898)	-5.1%
Other Assets	$16,358,182	$19,431,910	($3,073,728)	-15.8%
Total Assets	$1,318,189,559	$1,390,727,185	($72,537,626)	-5.2%
Total Liabilities	$10,271,941	$9,630,757	$641,184	6.7%
Net Assets	$1,307,971,618	$1,381,096,428	($73,178,810)	-5.3%

Despite recent market volatility SamCERA remains in a financial position to meet its obligations to the plan participants and beneficiaries.

Fixed Assets

As of June 30, 2001, SamCERA's investment in fixed assets totaled $18,190 (net of accumulated depreciation and amortization). This investment in fixed assets includes electronic equipment and software.

Reserves

SamCERA's Reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see Table 2 below). During the past four 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 implementation of five-year actuarial smoothing of investment gains and losses effective in Fiscal Year 1996, as recommended by William M. Mercer, SamCERA's actuary
- The creation of the Market Stabilization Account to account for the five-year actuarial smoothing of investment gains and losses effective in Fiscal Year 1996
- The creation of the Ventura Contingency Reserve to pre-fund retroactive retiree benefits that may result from an adverse decision in the matter of *Teamsters Local 856 vs. Board of Retirement, San Mateo County*, effective Fiscal Year 2000 (See Note 5).

GASB 25 includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are held in the Market Stabilization Account where they are amortized over five-years in accordance with a deferral schedule established by the actuary.

During the fiscal year actuarial unrealized losses totaled $180.7 million. This amount is the difference between the expected actuarial 8.25% return of $113.5 million and the actual actuarial unrealized investment return of -$67.2 million. $27.5 million of the fiscal year's actuarial unrealized losses were recognized as of June 30, 2001, while $153.2 million of the fiscal year's actuarial unrealized loss will be amortized over the next four years. As they are amortized, these amounts will be added to the Actuarial Accrued Liability. They will become part of the Unfunded Actuarial Accrued Liability and will be retired over the balance of the funding period through December 31, 2011. The impact on the employer contribution rate could be minimized by extending the duration of the Funding Period beyond 2011.

The June 30, 2001 Market Stabilization Account balance of -$127.6 million reflects the deferred actuarial unrealized losses of $153.2 from Fiscal Year 2001 offset by net deferred actuarial gains of $25.6 million from prior years.

SamCERA's Reserves (Table 2)

As of June 30, 2001 and 2000	2001	2000
Member Reserves	$199,422,289	$190,684,405
County Advanced Reserves	$186,813,259	$175,345,917
Retiree Reserves	$452,325,854	$398,239,836
Cost of Living Reserves	$546,133,752	$507,591,995
Contingency Reserves	$13,181,896	$13,907,273
Ventura Reserves	$37,714,795	$34,768,032
Market Stabilization Account	($127,620,227)	$60,558,970
Net Reserves held in Trust for Pension Benefits	$3,107,971,618	$1,381,096,428

Additions to Fiduciary Net Assets

The reserves needed to finance retirement benefits are accumulated through collection of employer and employee contributions and through earnings on investment income (net of investment expenses). For the year ended June 30, 2001 these items totaled a negative $10,981,100 due primarily to a reduction in market values, which appears as an investment loss. (refer to Table 3 below)

Additions to Fiduciary Net Assets (Table 3)

For the Years Ended June 30, 2001 and 2000	2001	2000	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$39,481824	$38,694,984	$786,840	2.0%
Employee Contributions	$15,287,232	$14,383,348	$903,884	6.3%
Investment Income/(Loss)	($62,588,978)	$129,768,442	($192,357,420)	-148.2%
Less Investment Expenses	($3,161,178)	($6,565,099)	$3,403,921	-51.8%
Total	($10,981,100)	$176,281,675	($187,262,776)	-106.2%

Deductions form Fiduciary Net Assets

SamCERA was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the Plan, refund of contributions to terminated employees, and the cost of administering the system.

Deductions for the year ending June 30, 2001 totaled $62,143,710, an increase of 10.6% over the prior fiscal year (refer to Table 4 below). SamCERA provided retirement benefits to a total of 3,257 participants with an average monthly benefit of $1,543 in FY2001 compared to 3,102 participants with $1,483 average benefit in FY2000. Deductions in fiduciary net assets when combined with the net decrease in additions to fiduciary net assets result in a net decrease of $73,124,810 for the year ending June 30, 2001.

Deductions in Fiduciary Net Assets (Table 4)

For the Years Ended June 30, 2001 and 2000	2001	2000	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$58,806,745	$53,090,250	$5,716,495	10.8%
Member Refunds	$1,845,536	$1,895,952	($50,416)	-2.7%
Administrative Expenses	$1,491,429	$1,221,286	$270,143	22.1%
Total	$62,143,710	$56,207,488	$5,936,222	10.6%

SamCERA's administration expenses increased in the amount of $270,143 or 22.11% in Fiscal Year 2000-2001. The increase is primarily attributable to the Salaries & Benefits Category, which experienced normal merit and longevity promotions in addition to a position that was double filled for part of the year. Since 1995 SamCERA has consistently been within its Administrative Budget. There are no material variances between planned expenditures and actual expenditures for the fiscal year ending June 30, 2001.

SamCERA's Fiduciary Responsibilities

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

Requests for Information

This financial report is designed to provide a general overview of the San Mateo County Employees' Retirement Association's finances for all those interested. 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
702 Marshall Street, Suite 280
Redwood City, California 94063-1823.
Phone: (650) 363-4581
Fax: (650) 261-9028.

Additional information is available on our website at www.samcera.org.

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2001

	2001	2000
Assets:		
Cash and Deposits (Notes 2 and 4)	$12,494,134	$14,471,045
Receivables:		
Contributions	1,076,973	1,019,263
Due from broker for investments sold	0	557,745
Investment income	2,676,529	3,260,815
Total Receivables	3,753,502	4,837,823
Prepaid Expense	92,356	89,371
Investments, at fair value (Notes 2 and 4)		
Domestic fixed income securities	423,373,435	379,638,815
Domestic equities	610,468,394	687,491,703
International equities	163,503,421	204,598,757
Real Estate	104,486,127	99,566,000
Total Investments	1,301,831,377	1,371,295,275
Fixed assets, at cost, net of accumulated Depreciation of $169,404 and $138,437 at 2000 and 1999, respectively. (Note 2)	18,190	33,671
Total Assets	1,318,189,559	1,390,727,185
Liabilities:		
Payables		
Investment management fees	395,233	822,921
Due to broker for investments purchased	775,132	0
Mortgage Note Payable (Note 6)		
Due within One Year	155,161	143,455
Due in more than one year	7,253,371	7,408,532
Other	1,639,044	1,255,849
Total Liabilities	10,217,941	9,630,757
Net Assets Held in Trust For Pension Benefits (Note 3)	$1,307,971,618	$1,381,096,428

(A Schedule of Funding Progress is presented on page 11)

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

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets
For The Year Ended June 30, 2001

	2001	2000
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 39,481,824	$ 38,694,984
Employee	15,287,232	14,383,348
Total Contributions	54,769,056	53,078,332
INVESTMENT INCOME/(LOSS)		
Interest and dividends	23,017,018	28,155,268
Net appreciation (depreciation) in fair value of investments	(85,605,996)	101,613,174
Less investment expense	(3,161,178)	(6,565,099)
Net Investment Income	(65,750,156)	123,203,343
Total Additions	(10,981,100)	176,281,675
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	51,137,409	46,339,311
Disability retirement allowance	6.098.102	5,298,397
Medical benefits	858,555	765,447
Death and other benefits	712,679	687,095
Total Association benefits	58,806.745	53,090,250
REFUNDS OF MEMBERS' CONTRIBUTIONS	1,845,536	1,895,952
ADMINISTRATIVE EXPENSE (Note 3)	1,491,429	1,221,286
Total Deductions	62,143,710	56,207,488
Net Increase	(73,124,810)	120,074,187
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	1,381,096,428	1,261,022,241
End of year	$1,307,971,618	$1,381,096,428

The accompanying Notes 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 County Employees Retirement Law of 1937 (the 1937 Act). Members should refer to this Law for more complete information.

General

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all employees of the County of San Mateo (the County) and the San Mateo County Mosquito Abatement District. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the County and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; the eighth member shall be a retired member elected from the retired membership. The Association has four plans, which cover members classified as general, safety or probation. Employees hired on or before July 6, 1980, became members of Plan One. Employees hired after July 6, 1980, became members of Plan Two. Employees hired on or after July 13, 1997 become members of Plan Four. New General Employees may also elect membership under Plan Three. New employees appointed to positions of active law enforcement become safety members under Plan Four. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers become members under Plan Four for probation officers. From January 1, 1993, general members in Plan Three with 5 years of continuous service have the option to change to the Plan they were eligible for at entry date.

The Association's plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2001, the Association membership consisted of the following:

	Plan One	Plan Two	Plan Three	Plan Four	Total
Retirees and beneficiaries currently receiving benefits:					
General	2,314	567	46	0	2,927
Safety	254	28	0	0	282
Probation	41	7	0	0	48
Subtotal	2,609	602	46	0	3,257
Terminated employees entitled to but not currently receiving benefits (deferred):					
General	99	420	110	36	665
Safety	2	29	0	9	40
Probation	0	30	0	6	36
Subtotal	101	479	110	51	741
Totals Forwarded	2,710	1,081	156	51	3,998

Note 1 - Plan Description – General (Continued)

	Plan One	Plan Two	Plan Three	Plan Four	Total
Totals Forwarded	2,710	1,081	156	51	3,998
Current employees:					
Vested:					
General	395	1,883	158	11	2,429
Safety	79	206	0	1	315
Probation	35	89	0	2	131
Non-Vested:					
General	0	184	55	1,404	1,643
Safety	0	15	0	115	130
Probation	1	18	0	116	134
Subtotal	510	2,345	213	1,649	4,717
Total	3,220	3,426	369	1,700	8,715

Benefit Provisions

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

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

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

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

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

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

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

Note 3 - Contributions, Administrative Expenses and Reserves

Contributions

Both the County and the employees make contributions to the Association. Employee contributions are mandatory except for those employees under Plan Three. The employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The rates are determined by age at entry into the Association and are based on a percentage of covered compensation. The average employee contribution rate for the fiscal year was 6.03%.

The County contribution rates for each plan are determined pursuant to Section 31453 of the 1937 Act and provide for the balance of the contributions which, when combined with projected investment earnings, will be needed to fund the benefits promised under the plan. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current year) and an amount required to amortize of the unfunded actuarial accrued liability over the period ending December 31, 2011. Details of funding progress, annual required contribution and contribution made by the County, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The County pays 100% of management employees' and unrepresented attorneys' contributions and 50% of confidential employees' and sheriff's sergeants contributions on a refundable basis. The County also pays 15% of Deputy Sheriff and Correctional Officers' contributions on a non-refundable basis.

Administrative Expenses

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

	2001	2000
Salaries and employee Benefits	$819,957	$635,779
Services and supplies	671,472	534,333
Depreciation	30,968	51,174
Salaries and employee Benefits	$1,491,429	$1,221,286

Reserves

Reserves required for reporting purposes by the 1937 Act:

	2001	2000
Member Deposit Reserve – Accumulated contributions and Interest	$199,422,289	$190,684,405
County Advance Reserve – Current Service	186,813,259	175,345,917
Retiree Reserves	452,325,854	398,239,836
Cost of Living Adjustment Reserve	546,133,752	507,591,995
Subtotal (Valuation Reserves)	1,384,695,154	1,271,862,153
Reserves required by Section 31592 of the 1937 Act:		
Ventura Contingency Reserve (Note 5)		
Reserve for Deficiencies in Interest Earnings and	37,714,795	34,768,032
Other Contingencies	13,181,896	13,907,273
Total Allocated Reserves	1,435,591,845	1,320,537,458
Market Stabilization Account	<127,620,227>	60,558,970
Net Assets Held in Trust for Pension Benefits	$1,307,971,618	$1,381,096,428

Reserves are restricted to specific purposes. Member contributions are credited to members deposit reserve. County contributions are credited to county advance reserves 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's reserves. The retiree reserves and the cost of living adjustment reserve represent amounts set aside for retirement benefits promised under the plan less benefits paid.

The reserves required by Section 31592 of the 1937 Act represent earnings in excess of the total interest credited to contributions and reserves. The 1937 Act requires that the excess earnings remain in the retirement fund as a reserve against any deficiencies in interest earnings in other years, losses on investments and other contingencies, except that, excess earnings exceeding one percent of the total assets of the Association may be transferred into the county advance reserves for payment of benefits described under the Act. Excess earnings from unrealized gains, being the difference between the market value and the book value of assets, were transferred to a market stabilization account as approved by the Board.

GASB 25 includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are held in the Market Stabilization Account where they are amortized over five-years in accordance with a deferral schedule established by the actuary. During the fiscal year actuarial unrealized losses totaled $180.7 million. This amount is the difference between the expected actuarial 8.25% return of $113.5 million and the actual actuarial unrealized investment return of -$67.2 million. $27.5 million of the fiscal year's actuarial unrealized losses were recognized as of June 30, 2001, while $153.2 million of the fiscal year's actuarial unrealized loss will be amortized over the next four years. The June 30, 2001 Market Stabilization Account balance of -$127.6 million reflects the deferred actuarial unrealized losses of $153.2 from Fiscal Year 2001 offset by net deferred actuarial gains of $25.6 million from prior years.

If actual earnings for the next five years are exactly 8.25%, the actuary estimates that the June 30, 2001 negative Market Stabilization Account balance will be amortized as follows: Fiscal year 2002/2003 $18.4 million; 2003/2004 $28.5 million; 2004/2005 $31.3 million; 2005/2006 $40.8 million and 2006/2007 $8.6 million. As they are amortized, these amounts will be added to the Actuarial Accrued Liability. They will become part of the Unfunded Actuarial Accrued Liability and will be retired over the balance of the funding period through December 31, 2011.

As of the reporting date, the reserves are fully funded on a five year smoothed value basis. The funding status takes into account the deferred unrealized loss of $127.6 million, which is detailed above. The Schedule of Funding Progress, as reported in the Required Supplementary Information, provides an analysis of plan funding on an actuarial basis.

Note 4 - Cash and Investments

Association's Investments

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

The Board approved its first comprehensive investment plan on September 29, 1994. The plan specified an asset allocation target of 50% equities, 40% fixed income securities, and 10% real estate. The current asset allocation, which was adopted on April 21, 2000, is 65% equities, 29% fixed income securities and 6% real estate. At June 30, 2001, actual asset allocation was 58.8% equities, 32.6% fixed income securities, 8.1% real estate and cash 0.5%.

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, 2001. Category 1 includes investments that are insured or registered or for which the securities are held by the Association or its agent in the Association's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Association's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Association's name. Investments in external investment pools and mutual funds cannot be categorized because the Association is not issued securities. As of June 30, 2001, the Association's investments were categorized as shown below.

The Association's cash and investments as of June 30, 2001 follow

	2001	2000
Cash and Deposits – (Not Categorized)		
County Treasurer	$ 2,073,174	$ 1,655,002
Custodians	10,420,960	12,816,043
Total Cash and Deposits	$12,494,134	$14,471,045
Investments – Categorized		
Category 1		
Domestic Fixed Income		
Obligations of the U.S. Treasury	$87,200,031	$ 65,040,306
Corporate Bonds	96,701,310	89,811,141
Total Category 1:	183,901,341	154,851,447
Category 3		
Repurchase Agreements	0	10,013,485
Total Categorized	183,901,341	$ 164,864,932
Investments- Not Categorized		
Commingled Funds:		
Domestic Fixed Income		
BGI US Debt Index Fund	$ 239,472,093	$ 214,773,882
Domestic Equities		
BGI Russell 1000 Index Fund	466,624,210	545,815,272
BGI Russell 2000 Index Fund	143,844,184	141,676,433
International Equities		
Bank of Ireland Asset Management	163,503,421	203,932,871
Sprucegrove Investment Services	0	665,885
Real Estate	104,486,127	99,566,000
Total Not Categorized	1,117,930,035	1,206,430,343
Total Investments	$1,301,831,377	$1,371,295,275

Security Lending

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

The Association had no securities on loan at fiscal year end and there was no activity during fiscal year ending June 30, 2001. However, investment managers are lending securities held in the name of indexed portfolios in which the Association has a unit value interest.

Note 5 – Contingent Liability

On August 14, 1997 the Supreme Court of the State of California issued a decision in the matter of *Ventura County Deputy Sheriff's Association vs. Board of Retirement of the Ventura County Employees' Retirement Association* which held that compensation paid in cash, even if not earned by all employees in the same grade or class, must be included in compensation earnable and final compensation on which an employee's retirement benefit is based. This California Supreme Court decision became final on October 1, 1997.

However, the *Ventura* decision was silent on two critical issues: terminal pay and retroactivity. These issues will be decided as a result of the current lawsuit, *Teamsters Local 856 vs. Board of Retirement, San Mateo County.* Similar litigation is pending in other counties. During the previous fiscal year, the trial court considered and rejected claims by petitioners that *Ventura* mandated the inclusion of terminal pay, third party payments, and employer pickups of employee contributions in the calculation of final compensation. During this fiscal year, the trial court considered and accepted claims by petitioners that *Ventura* should be applied retroactively and the pensions of all retirees and their beneficiaries, regardless of when they retired, must be recalculated.

The Association retained an actuary to estimate the financial impact of a range of possible decisions in the *Teamsters Local 856* litigation. In the event the *Teamsters Local 856* prevail, the Association estimates that as of the June 30, 1998 Actuarial Valuation the possible increase in the unfunded actuarial accrued liability ranges between $180.3 million and $264.9 million. However, if the Superior Court decision on the current litigation stands, it is estimated that the contingent liability totaled $15 million as of June 30, 2001, with interest on the liability compounding at the statutory interest rate. A $37,714,795 reserve has been established to set aside funds for this possible liability.

Note 6 – Mortgage Note Payable:

The Mortgage Note Payable at June 30, 2000 consists of a note payable on a real estate investment with terms, which include monthly payments of principal and interest, an interest rate of 7.87%, and a maturity date of September 1, 2006. Monthly payments until maturity are $61,058, with a principal payment due at maturity of $6,458,350. The note is secured by SamCERA's rental property. Principal payments under the notes payable for the next five years are as follows:

Year Ending June 30	Principal	Interest
2002	155,161	577,534
2003	167,823	564,872
2004	181,518	551,178
2005	196,330	536,366
2006	212,350	520,345
Thereafter	$6,495,350	$ 127,432
Total	$7,408,532	$2,877,727

Due within one year	$ 155,161
Due in more than one year	$7,252,371
Total	$7,408,532

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/96	752,110	986,902	234,792	76.21%	187,926	124.94%
6/30/97	856,679	1,037,431	180,752	82.58%	196,391	92.04%
6/30/98	992,314	1,104,070	111,756	89.88%	211,529	52.83%
6/30/99	1,109,417	1,205,554	96,137	92.03%	238,864	40.25%
6/30/00	1,271,565	1,291,694	20,129	98.44%	259,075	7.77%
6/30/01	1,384,586	1,404,060	19,474	98.61%	274,318	7.10%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1996	40,151	100%
1997	40,887	100%
1998	42,676	100%
1999	41,289	100%
2000	38,695	100%
2001	39,482	100%

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

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

Latest Actuarial valuation

Valuation Date	June 30, 2001
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent – closed
Remaining Amortization Period	10.5 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Projected Salary Increases*	6.25%
*Attributed to Inflation	4.25%
*Attributed to Adjustments for Merit and longevity	2.00%

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

THE INFORMATION WHICH FOLLOWS
IS SEPARATE FROM
THE NOTES TO THE FINANCIAL STATEMENT

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

Schedule of Administrative Expenses as of June 30, 2001 and 2000

	2001	2000
Salaries and Employee Benefits	819,957	$ 635,779
Services and Supplies	640,504	534,333
Depreciation	30,968	51.174
Total Administration Expense	$1,491,429	$1,221,286

Schedule of Investment Expense as of June 30, 2001 and 2000

	2001	2000
Investment Manager		
Bank of Ireland Asset Management	$742,964	$695,475
Barclays Global Investors	302,505	321,832
Boston Partners Asset Management	0	258,197
Deutsche Assct Management Inc.	486,063	500,498
Dresdner RCM	0	842,781
INVESCO Realty Advisors	643,000	725,654
Sprucegrove Investment Management	0	489,396
Westport Asset Management	0	1,055,957
Global Custodian		
State Street Bank	117,090	93,000
Bank of New York	0	5,885
Total Professional Expense	$2,291,622	$4,988,675

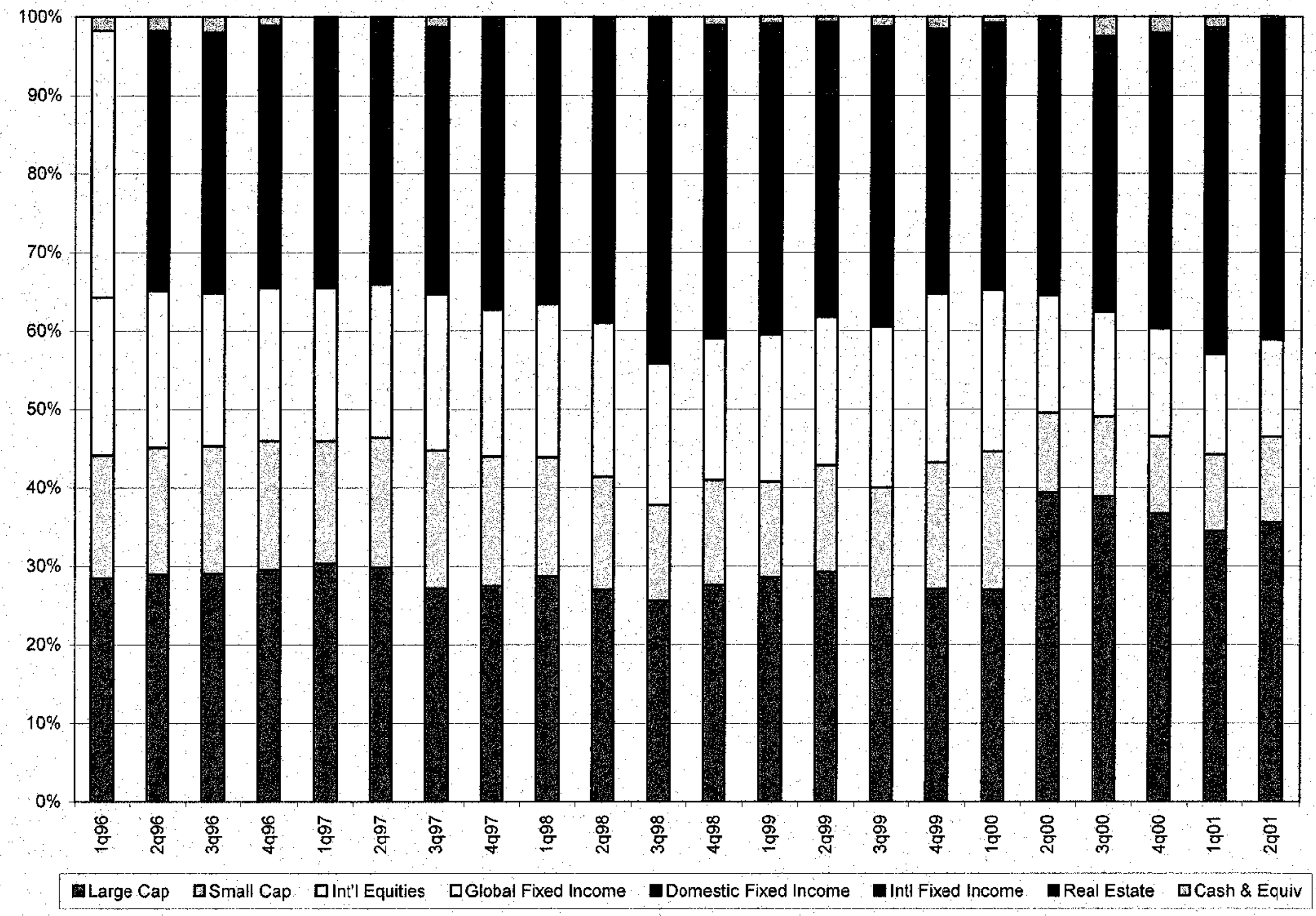
Schedule of Payments to Consultants as of June 30, 2001 and 2000

	2001	2000
Investment Consultant Expense		
Grey & Company	$ 95,000	$ 0
Watson Wyatt Investment Consulting	0	40,166
Actuarial Consultant Expense		
William M. Mercer	47,300	73,776
Milliman & Robertson	0	51,000
Real Estate Legal Consultant		
Stein & Lubin LLP	0	1,462
Total Consultant Expense	$142,300	$166,404

THE INVESTMENT SECTION

ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

PERIODS ENDED SEPTEMBER 30, 2001



STRATEGIC INVESTMENT SOLUTIONS, INC.

November 16, 2001

Board of Retirement
San Mateo County Employees' Retirement Association
702 Marshall Street, Suite 280
Redwood City, CA 94063

Dear Board Members:

For the fiscal year ended June 30, 2001, SamCERA's investment portfolio returned -4.25%, providing outperformance, albeit relative, to the policy benchmark's return of -6.00%. Given SamCERA's equity asset allocation target of 65% and fully passive US equity component, SIS believes that this is a very strong investment return. SamCERA's active managers all beat their benchmarks by a considerable amount during the fiscal year. Unfortunately, in this difficult market environment, SamCERA's total fund performance was less than the actuarial assumption of 8.25%.

After several years of robust economic growth and significant equity markets price gains, fiscal year 2001 brought painful changes to the capital markets as investors re-evaluated growth prospects for the world economy and its equity markets. Periods of extreme volatility and dramatic price declines characterized the world equity markets during the year. After reaching new historically high levels on extreme valuations in April of 2000, US equity markets fell relentlessly during the fiscal year, with only the June 2001 quarter producing a positive return in the broad market indexes. In international equity markets, negative local market returns coupled with US dollar strength yielded similarly dismal investment results for US investors.

On the positive side, the prospect of less robust economic growth and an accommodative Federal Reserve produced steadily falling interest rates during the period. This environment allowed high quality bonds to fulfill their traditional role in providing portfolio stability and positive returns through the difficult market period.

Asset allocation targets for SamCERA remained static for the fiscal year and are as follows:

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

SamCERA's policy benchmark, comprising the asset classes and target percentages listed above, ranked in the 79th percentile of Deutsche Bank Independent Consultant's Cooperative Public Funds Universe for the fiscal year ended June 30, 2001. SamCERA's portfolio return of -4.25% placed it in the 72nd percentile of this universe.

There were no changes to SamCERA's roster of investment managers or to its manager structure during the fiscal year. All of the plan's US Equity assets and approximately half of its Fixed Income assets were passively managed throughout the period.

Within this construct, equities were the driver of underperformance for the fund. The Russell 1000 Index, representing US Large Cap companies, returned -14.96 for the year ended June 30, 2001. BGI's Russell 1000 Index Fund exceeded the index return by 12 basis points. Bank of Ireland, SamCERA's active International Equity manager, beat its benchmark by 4.18%. Unfortunately, the MSCI ACWI ex-US Index, representing the broad Non-US Equity universe, lost 23.70% for the fiscal year. The US Small Cap market was flat for the fiscal year. BGI's Russell 2000 Index Fund return of 0.53% was in line with the Russell 2000 Index return of 0.57%.

BGI's index funds, given this tremendously difficult market environment, ranked in the third quartile of their respective peer universes (which include both active and passive managers) for the fiscal year. Throughout the last half of the nineties, index funds were consistent second quartile performers, however, for the last two years, active managers have prospered. It is important to note that BGI is successfully fulfilling its role within SamCERA's manager roster by providing index returns and risk in its various mandates. Bank of Ireland's active decisions placed the manager in the 43rd percentile of the International Equity universe for the fiscal year while the MSCI ACWI ex-US Index ranked in the 66th percentile.

US Fixed Income and Real Estate boosted the total fund by providing double-digit returns to SamCERA for the fiscal year. The Lehman Aggregate Index, a composite of investment grade bonds, posted an 11.23% return for the year ended June 30, 2001. BGI's US Debt Index Fund returned 11.37%, exceeding the Lehman Aggregate by 14 basis points. Deutsche Asset Management, SamCERA's active US Bond manager, returned 12.24% during the fiscal year. These returns put Deutsche in the top quartile of Core Fixed Income managers and BGI at a very respectable median level.

SamCERA's real estate return for the fiscal year was the highest of any of its asset classes. INVESCO, SamCERA's Real Estate manager, returned 13.16% for the year ended June 30 versus the NCREIF Index (one-quarter lag) return of 12.02%. INVESCO handily beat the real estate median return of 10.85%, placing the manager in the 27th percentile for the fiscal year. As the REIT component of the portfolio was divested prior to this fiscal year, INVESCO's performance was driven solely by direct investments in properties.

We believe that the most important performance evaluation is against the plan's passive benchmark. If the plan continues to exceed its benchmark, we believe it will eventually earn returns in excess of those required to meet its benefit promises. In that light, fiscal ~~20001~~ was a successful year for SamCERA, despite the negative absolute return.

2001

Sincerely,
Strategic Investment Solutions

Patrick Thomas
Margaret Jadallah

Margaret Jadallah and Patrick Thomas

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

INVESTMENT PHILOSOPHY

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

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

The Board believes that interest, dividends and capital appreciation must be pursued and captured, if the Actuarial Funding Objectives of the Retirement Fund are to be achieved.

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

The Board views Short-term Cash Equivalents as insignificant contributors to Real Returns in the long run.

INVESTMENT OBJECTIVES

It is the Investment Objective of the Board of Retirement to:

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

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

Provide for the full funding of the Pension Benefit Obligation by the year 2012.
Stabilize the employer contribution rate, as a percentage of payroll, for the present configuration of benefits, to the extent that the Board of Retirement has control.

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

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

INVESTMENT POLICY

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

INVESTMENT POLICY – (CONTINUED)

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

The Board discourages the use of Cash Equivalents, except for liquidity purposes and. Refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION

Asset Class	Allocation	June 30 Actual
Equity	65%	58.8%
Fixed Income	29%	32.6%
Real Estate	6%	8.1%
Cash	0%	0.5%

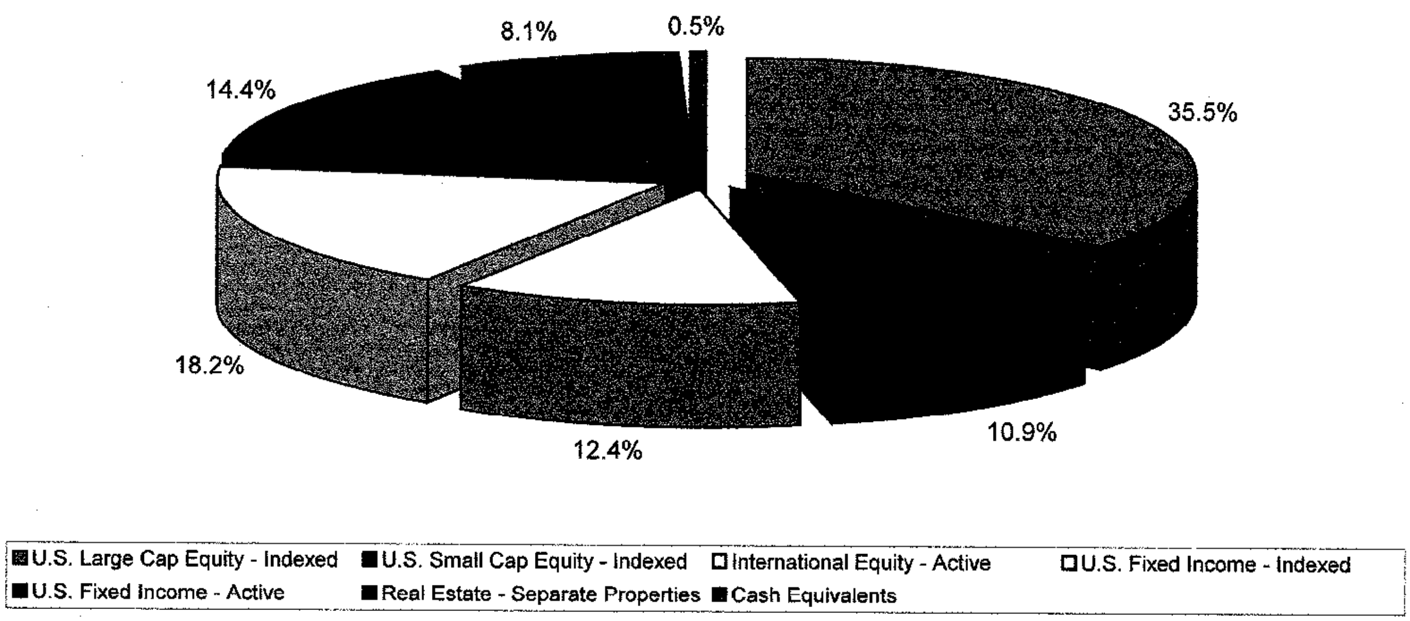
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	40%		35.5%	
Indexed		40%		35.5%
Domestic Small Capitalization	10%		10.9%	
Indexed		10%		10.9%
International	15%		12.4%	
Active		15%		12.4%
Total Equity	65%		58.8%	

Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	29%		32.6	
Indexed		16%		18.2%
Active		13%		14.4%
Total Fixed Income	29%		32.6%	

Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		8.1%
Total Real Estate	6%		8.1%	

Total Cash & Cash Equivalents	0%		0.5%	

Asset Allocation as of June 30, 2001



SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2001	Total time Weighted Rate of Return			
Asset Category	One Year	Two Years	Three Years	Five Years
Domestic Equity	<11.70%>	<1.10%>	3.20%	12.10%
Barclays Global Investors Russell 1000 Index Fund	<14.84%>	<3.59%>	4.31%	14.32%
Benchmark Russell 1000	<14.96%>	<3.61%>	4.24%	14.29%
Barclays Global Investors Russell 2000 Index Fund	0.53%	N/A	N/A	N/A
Benchmark Russell 2000	0.57%	7.23%	5.28%	9.60%
International Equity				
Bank of Ireland Asset Management	<19.52%>	<0.52%>	2.18%	N/A
Benchmark MSCI ACWI ex US	<23.70%>	<5.19%>	<1.01%>	N/A
Total Equity	<13.50%>	<1.40%>	1.50%	9.60%
Domestic Fixed Income				
Barclays Global Investors US Debt Index Fund	11.37%	7.96%	6.43%	7.53%
Benchmark Lehman Aggregate Bond Index	11.23%	7.84%	6.25%	7.47%
Deutsche Asset Management, Inc.	12.24%	N/A	N/A	N/A
Benchmark Lehman Aggregate Bond Index	11.23%	7.84%	6.25%	7.47%
Total Fixed Income	11.80%	7.79%	6.30%	7.10%
Real Estate				
INVESCO Realty Advisors	13.20%	11.10%	8.30%	N/A
NCREIF	12.02%	8.50%	6.73%	10.44%
Total Plan	<4.25%>	2.71%	3.68%	9.07%
Policy Benchmark	<6.00%>	1.38%	4.05%	8.65%

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

Schedule of Investment Portfolio by Asset Class and Manager

AS OF JUNE 30, 2001

Domestic Equity			
Barclays Global Investors	Russell 1000 Index Fund	$466,624,210	
	Russell 2000 Index Fund	$143,844,183	
Total Domestic Equity			$610,468,393
International Equity			
Bank of Ireland Asset Management	International Equity	$163,515,021	
Total International Equity			$163,515,021
Total Equity			$773,983,414
Domestic Fixed Income			
Barclays Global Investors	Us Debt Index Fund	$239,472,123	
Deutsche Asset Management, Inc.	Core Domestic Fixed Income	$189,581,515	
Total Domestic Fixed Income			$429,053,637
Total Fixed Income			$429,053,637
Real Estate			
INVESCO Realty Advisors	Separate Property Portfolio		$106,663,776
Unequitized Cash			$5,354,502
Fixed Assets, at cost, net of accumulated depreciation			$18,190
Receivables			
<less> Current Liabilities			$10,217,940
Net Portfolio as of June 30, 2001			$1,307,971,618

Schedule of Top Ten Equity and Fixed Income Securities

As of June 30, 2001

Top Ten Equity Securities*

Shares	Exchange	Ticker	Security Name	Market Value
405,116	NYSE	GE	GENERAL ELECTRIC CO COM	$19,749,394.23
178,234	NASD	MSFT	MICROSOFT CORP COM	$13,011,064.56
141,090	NYSE		EXXON MOBILE CORPORATION COM	$12,324,207.67
205,837	NYSE		CITIGROUP INC COM	$10,876,422.10
257,532	NYSE	PFE	PFIZER INC COM	$10,314,139.87
173,706	NYSE		AOL TIME-WARNER INC COM	$9,206,440.83
274,365	NASD	ANTC	INTEL CORP COM	$8,025,188.32
70,938	NYSE	IBM	INTL BUSINESS MACHINES CORP CO	$8,015,949.16
82,203	NYSE		AMERICAN INTL GROUP INC COM	$7,069,420.38
102,205	NED	ING	ING Groep NV CVA EURO.24	$6,679,625.85

*Some Domestic Equity Securities are owned in the Russell 1000 & Russell 2000 Index Fund managed by Barclays Global Investors.

Top Ten Fixed Income Securities*

Par/Book Value	Security Name			Issue ID	Market Value
9,526,000	UNITED STATES TREAS BDS	8.125%	08/15/19	912810ED6	$11,859,870.00
4,850,000	ENTERPRISE 144A	7.500%	06/15/03	26882XD44	$5,022,951.00
4,639,000	UNITED STATES TREAS BDS	6.125%	08/15/29	912810FJ2	$4,811,524.41
4,491,000	UNITED STATES TREAS NTS	6.125%	08/15/07	9128273E0	$4,715,550.00
3,660,000	AGFIRST FARM CR BK	8.393%	12/15/16	0845WAA6	$3,802,813.20
3,483,000	PEMEX FINANCE/AMBAC	6.550%	02/15/08	706448AQ0	$3,489,896.34
3,235,000	MMCA 00-1 A4	7.080%	02/15/05	553083AZ9	$3,357,048.47
3,291,069	FHR 2136 BD	6.500%	12/15/26	3133TK6D7	$3,327,073.51
3,319,700	FHLMC GP#C00731 C0	6.500%	03/01/29	31292GY42	$3,283,416.16
3,050,000	WEST VALLEY CITY, UTAH	7.670%	05/01/06	95640EDK8	$3,220,281.50

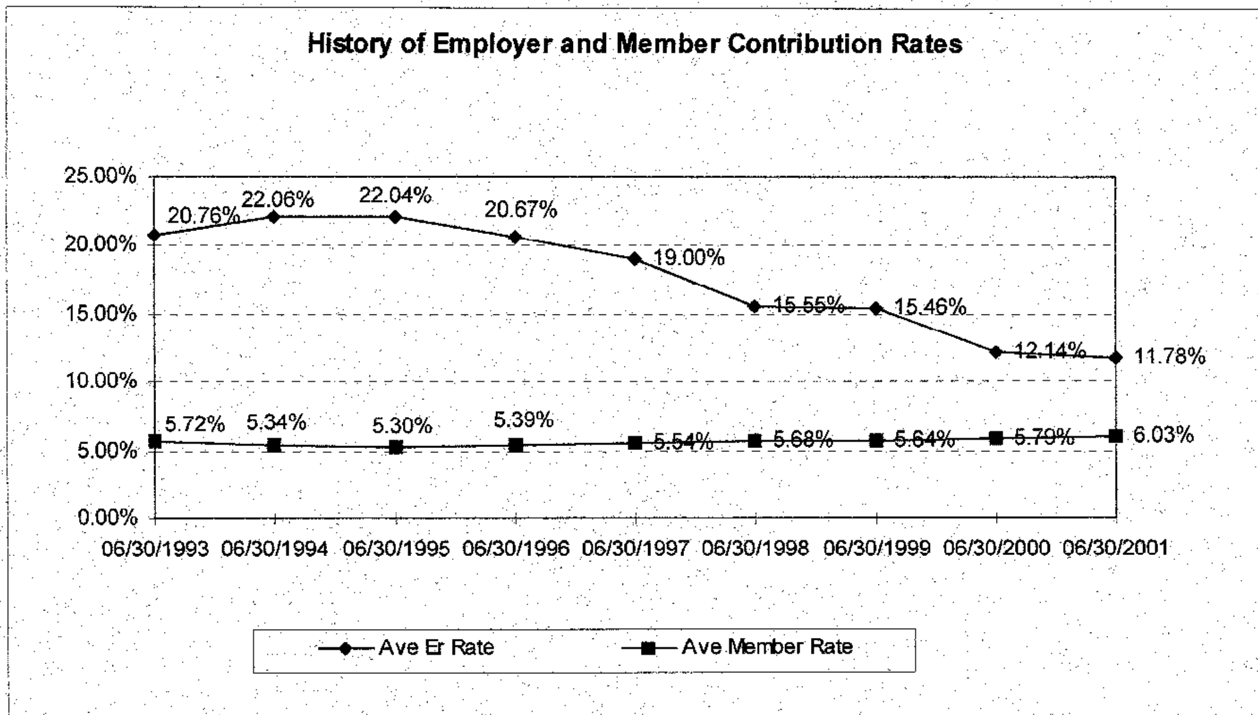
*Some Domestic Fixed Income Securities are owned in the US Debt Index Fund managed by Barclays Global Investors.

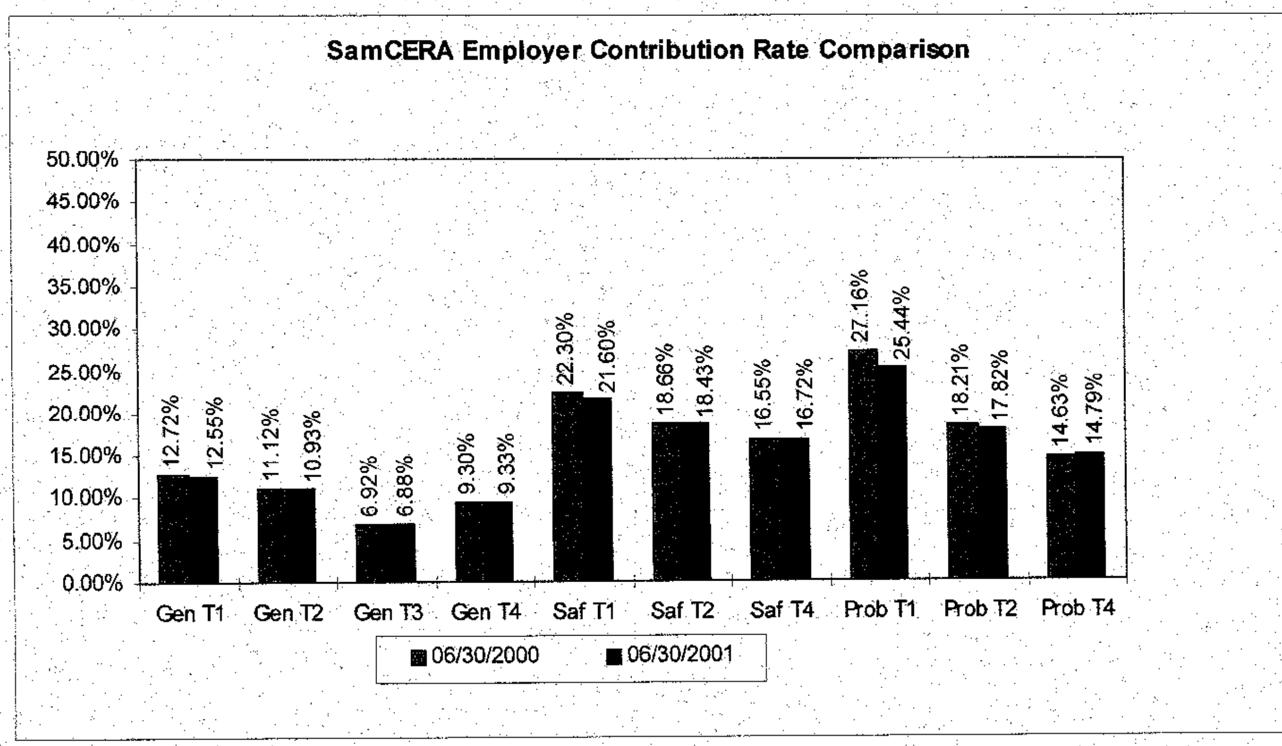
A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

Schedule of Professional Services and Fees
as of June 30, 2001 and 2000

	2001	2000
Investment Managers		
Barclays Global Investors	$302,505	$321,832
Bank of Ireland Asset Management	742,964	695,475
Boston Partners Asset Management	0	258,197
Deutsche Asset Management	486,063	500,498
Dresdner RCM Global Investors	0	842,781
INVESCO Realty Advisors (Management)	643,000	656,736
INVESCO Realty Advisors (Acquisition)	0	68,918
Westport Asset Management	0	1,055,957
Sprucegrove Investment Management	0	489,396
Investment Managers	2,174,532	4,889,790
Investment Consultant		
Gray & Company	95,000	0
Watson Wyatt Investment Consulting	0	40,166
Investment Consultants	95,000	40,166
Actuarial Consulting		
William M. Mercer	47,320	73,776
Milliman & Robertson Associates	0	51,000
Actuaries	47,320	124,776
Master Custodian		
State Street Bank and Trust Company	117,090	93,000
Master Custodians	117,090	93,000
Investment Legal Counsel		
Stein & Lubin LLP	0	1,462
Investment Legal Counsel	0	1,462
Total Professional Services	$2,433,942	$5,155,079

THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
20.76%
22.06%
22.04%
20.67%
19.00%
15.55%
15.46%
12.14%
11.78%
5.72%
5.34%
5.30%
5.39%
5.54%
5.68%
5.64%
5.79%
6.03%
06/30/1993
06/30/1994
06/30/1995
06/30/1996
06/30/1997
06/30/1998
06/30/1999
06/30/2000
06/30/2001
Ave Er Rate
Ave Member Rate


SamCERA Employer Contribution Rate Comparison
50.00%
45.00%
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
12.72%
12.55%
11.12%
10.93%
6.92%
6.88%
9.30%
9.33%
22.30%
21.60%
18.66%
18.43%
16.55%
16.72%
27.16%
25.44%
18.21%
17.82%
14.63%
14.79%
Gen T1
Gen T2
Gen T3
Gen T4
Saf T1
Saf T2
Saf T4
Prob T1
Prob T2
Prob T4
06/30/2000
06/30/2001

WILLIAM M. MERCER

Actuarial Certification

The annual actuarial valuation required for the San Mateo County Employees' Retirement Association has been prepared as of June 30, 2001 by William M. Mercer, Incorporated. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to determine a sound value for the Association's assets, liability and future contribution requirements. Our calculations are based upon member data and unaudited financial information provided to us by the Association's staff. This data has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior year's data.

The contribution requirements are determined as a percentage of payroll. Employer rates provide for both normal cost and a contribution to amortize the unfunded actuarial accrued liability. The amortization period for the unfunded actuarial accrued liability is 10½ years as of June 30, 2001. The contribution to the unfunded actuarial accrued liability is calculated to remain as a level percentage of future payroll (including projected payroll for future members). Payments to the unfunded actuarial accrued liability are calculated to increase at 4.25% per year. The period for amortizing the unfunded actuarial accrued liability is set by the Board of Retirement.

Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of Actuarial Value of Assets to Actuarial Accrued Liabilities increased from 98.4% to 98.6% during the year. There is progress being made toward achieving the funding objectives of the Association.

There are no changes to the economic and non-economic assumptions used in the current valuation.

The liabilities and costs in this valuation incorporate the Board's expansion of the pay items includable in Earnable Compensation in response to the 1997 California Supreme Court's decision in Ventura County Deputy Sheriff's Association vs. Board of Retirement, Ventura County Employee's Retirement Association. Terminal pay is excluded under the Board's policy and the expansion of Earnable Compensation only applies to retirees since October 1997 (i.e., no retroactive application).

In our opinion, the combined operation of the assumptions and methods applied in this valuation, fairly represent past and anticipated future experience of the Association and meet the parameters required by GASB Statement 25.

A list of supporting schedules we prepared for inclusion in the actuarial and financial sections of the Association's CAFR report is provided below:

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

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

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

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

William M. Mercer, Incorporated

Andy Yeung
Andy Yeung, ASA, EA, MAAA

11 / 6 / 2001
Date

Marcia L. Chapman
Marcia L. Chapman, FSA, EA, MAAA

11/ 6 / 2001
Date

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The following actuarial assumptions are based on the Actuarial Experience Study for the period of July 1, 1996 through June 30, 1999, which was adopted by the Retirement Board on January 25, 2000

Actuarial Assumptions and Cost Method

Valuation Date	June 30, 2001
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent – closed
Remaining Amortization Period	10.5 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Projected Salary Increases*	6.25%
*Attributed to Inflation	4.25%
*Attributed to Adjustments for Merit and longevity	2.00%

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

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

Actuarial Assumption		6/30/01	6/30/00	Change
Annual Inflation Rate		4.25%	4.25%	0.00%
Annual Investment Return		8.25%	8.25%	0.00%
Average Annual Salary Increases		6.25%	6.25%	0.00%

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

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

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

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

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

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

Summary of Recommendations

Employer Contribution Rates

	6/30/01	6/30/00	Change
Normal Cost Rate	10.96%	11.10%	-0.14%
Rate of Contribution to Unfunded Actuarial Accrued Liability	0.82%	0.82%	0.00%
Total Employer Rate	11.78%	11.92%	-0.14%
Estimated Annual Amount in Thousands *	$32,303	$31,449	-$392

Member Contribution Rates

	6/30/01	6/30/00	Change
General Members (Plans 1& 2)			
Age 25	5.46%	5.46%	0.00%
35	5.82%	5.82%	0.00%
45	6.54%	6.54%	0.00%
General Members (Plans 4)			
Age 25	5.21%	5.21%	0.00%
35	5.55%	5.55%	0.00%
45	6.24%	6.24%	0.00%
Safety Members (Plans 1& 2)			
Age 25	6.77%	6.77%	0.00%
35	6.84%	6.84%	0.00%
45	7.03%	7.03%	0.00%
Safety Members (Plans 4)			
Age 25	6.44%	6.44%	0.00%
35	6.51%	6.51%	0.00%
45	6.69%	6.69%	0.00%
Probation Members(Plans 1, 2 & 4)			
Age 25	7.58%	7.58%	0.00%
35	7.66%	7.66%	0.00%
45	7.87%	7.87%	0.00%
Estimated Annual Amount In Thousands *	$16,530	$15,002	$1,528

* Annual Contributions for June 30, 2001 and June 30, 2000 were estimated using payroll as of June 30, 2001 and June 30, 2000, respectively.

Summary of Significant Actuarial Statistics and Measures

Association Membership	6/30/01	6/30/00	Change
Active Members			
Number of Members	4,717	4,690	0.6%
Total Active Payroll in Thousands	$274,318	$259,075	5.9%
Average Monthly Salary	$4,846	$4,603	5.3%
Retired Members			
Number of Members			
Service Retirement	2,611	2,383	9.6%
Disability Retirement	300	280	7.1%
Beneficiaries	459	439	4.6%
Total Retiree Payroll in Thousands	$62,416	$55,192	13.1%
Average Monthly Pension	$1,543	$1,483	4.1%
Inactive Vested Members	747	646	15.6%
Asset Values			
Market Value in Thousands	$1,307,972	$1,381,096	-5.3%
Return on Market Value	-4.83%	9.57%	
Actuarial Value in Thousands	$1,435,592	$1,320,537	8.7%
Return on Actuarial Value	9.08%	14.40%	
Valuation Assets in Thousands	$1,384,586	$1,271,565	8.9%
Return on valuation Assets	9.20%	14.61%	
Liability Values			
Actuarial Accrued Liability in Thousands	$1,404,060	$1,291,694	8.7%
Unfunded Actuarial Accrued Liability	$19,474	$20,129	-3.3%
Funded Ratio			
GASB Number 25*	98.6%	98.4%	0.2%

*Based on Actuarial value of Assets for June 30, 2001 and June 30, 2000, respectively

Short-Term Solvency Test

Valuation Date	Active Member Contributions	Liability For Inactive Participants	Liability for Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liability Covered by Valuation Assets		
6/30/92	$96,601,000	$405,091,000	$321,958,000	$538,027,000	100%	100%	11%
6/30/93	91,173,000	473,297,000	330,690,000	585,980,000	100%	100%	7%
6/30/94	101,953,000	488,308,000	327,056,000	617,531,000	100%	100%	8%
6/30/95	107,385,000	507,002,000	343,441,000	663,629,000	100%	100%	14%
6/30/96	115,910,000	537,129,000	333,863,000	752,110,000	100%	100%	30%
6/30/97	130,736,000	565,593,000	351,246,000	1,047,575,000	100%	100%	49%
6/30/98	148,753,000	601,473,000	353,844,000	992,314,000	100%	100%	68%
6/30/99	157,826,000	629,653,000	416,489,000	1,104,833,000	100%	100%	76%
6/30/00	158,314,000	689,356,000	444,024,000	1,271,565,000	100%	100%	95%
6/30/01	$174,066,000	$789,104,000	$440,890,000	$1,384,586,000	100%	100%	96%

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	UALL as a Percentage of Covered Payroll
6/30/92	$538,027	$823,650	$285,623	65.32%	$176,432	161.89%
6/30/93	585,980	895,160	309,180	65.46%	174,992	176.68%
6/30/94	617,531	917,317	299,786	67.32%	183,786	163.12%
6/30/95	651,217	945,417	294,200	68.90%	188,822	155.81%
6/30/96	728,369	963,162	234,792	75.60%	187,926	124.94%
6/30/97	856,679	1,037,431	180,752	82.60%	196,391	92.00%
6/30/98	992,314	1,104,070	111,756	89.90%	211,259	52.90%
6/30/99	1,109,417	1,205,554	96,137	92.00%	238,864	40.20%
6/30/00	1,271,565	1,291,694	20,129	98.40%	259,075	7.80%
6/30/01	$1,384,586	$1,404,060	$19,474	98.61%	$274,318	7.10%

History of Employer Contribution Rates

	General Member			Safety Member			Probation Member		
Year	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
1995	7.43%	11.84%	19.27%	13.68%	16.72%	30.40%	12.02%	14.71%	26.73%
1996	8.09%	11.26%	19.35%	15.69%	17.17%	32.86%	15.76%	13.81%	29.57%
1997	8.20%	11.18%	19.38%	18.77%	17.95%	36.72%	20.32%	13.59%	33.91%
1998	9.52%	7.30%	16.82%	18.54%	12.04%	30.58%	21.01%	10.81%	31.82%
1999	9.28%	4.36%	13.64%	17.51%	7.85%	25.36%	19.48%	6.06%	25.54%
2000	9.85%	3.60%	13.45%	17.70%	7.24%	24.94%	19.26%	5.53%	24.79%
2001	9.95%	0.71%	10.66%	17.81%	1.51%	19.32%	17.94%	1.16%	19.10%
2002	9.71%	0.70%	10.41%	17.22%	1.50%	18.72%	16.76%	1.17%	17.93%

Active Member Valuation Data

Valuation Date		Members	Annual Salary	Average Annual Salary	% Change Average Salary
1992	General	3,771	$149,134,462	$39,548	3.11%
	Safety	388	$18,020,347	$46,444	6.11%
	Probation	217	$9,276,742	$42,750	2.03%
	Total	4,376	$176,431,551	$40,318	3.32%
1993	General	3,635	$148,119,833	$40,748	3.04%
	Safety	368	$17,536,495	$47,654	2.60%
	Probation	210	$9,335,793	$44,456	3.99%
	Total	4,213	$174,992,121	$41,536	3.02%
1994	General	3,729	$154,815,811	$41,517	1.89%
	Safety	397	$19,291,365	$48,593	1.97%
	Probation	220	$9,678,735	$43,994	-1.04%
	Total	4,346	$183,785,911	$42,289	1.81%
1995	General	3,765	$159,553,533	$42,378	2.07%
	Safety	407	$19,724,536	$48,463	-0.27%
	Probation	213	$9,546,040	$44,817	1.87%
	Total	4,385	$188,824,109	$43,061	1.83%
1996	General	3,665	$158,373,022	$43,212	1.97%
	Safety	400	$20,016,006	$50,040	3.25%
	Probation	206	$9,537,308	$46,298	3.30%
	Total	4,271	$187,926,336	$44,001	2.18%
1997	General	3,808	$166,043,510	$43,604	0.91%
	Safety	402	$20,860,840	$51,893	3.71%
	Probation	208	$9,487,864	$45,615	-1.48%
	Total	4,418	$196,392,214	$44,453	1.03%
1998	General	3,803	$177,079,000	$46,563	6.80%
	Safety	406	$24,404,000	$60,109	15.80%
	Probation	211	$10,046,000	$47,607	4.40%
	Total	4,420	$211,529,000	$47,857	7.70%
1999	General	3.908	$196,936,000	$50,393	8.20%
	Safety	425	$29,862,000	$70,264	16.90%
	Probation	245	$12,067,000	$49,253	3.4%
	Total	4,578	$238,865,000	$52,176	9.0%
2000	General	4,018	$214,625,000	$53,412	6.0%
	Safety	423	$31,180,000	$73,716	4.9%
	Probation	249	$13,270,000	$53,292	8.2%
	Total	4,690	$259,075,000	$55,236	5.9%
2001	General	4,040	$227,848,000	$56,400	5.6%
	Safety	416	$31,611,000	$75,984	3.1%
	Probation	261	$14,859,000	$56,928	6.8%
	Total	4,717	$274,318,000	$58,152	5.3%

Demographic Activity of Retirees and Beneficiaries

	Retiree Membership *						
Year	At Beginning Of Year	Additions	Withdrawals	At End of Year	Total Retiree Payroll	Percent Increase In Payroll	Average Monthly Allowance
6/30/92	2,439	N/A	N/A	2,477	$29,231,000	10.27%	$1,016
6/30/93	2,477	N/A	N/A	2,664	$32,014,000	9.52%	$1,091
6/30/94	2,664	N/A	N/A	2,674	$36,158,000	12.94%	$1,135
6/30/95	2,674	N/A	N/A	2,723	$38,011,000	5.12%	$1,176
6/30/96	2,723	N/A	N/A	2,844	$40,498,000	6.54%	$1,209
6/30/97	2,844	163	107	2,900	$42,338,000	4.54%	$1,255
6/30/98	2,900	149	118	2,931	$46,845,000	10.65%	$1,332
6/30/99	2,931	238	210	2,959	$50,491,000	7.80%	$1,422
6/30/00	2,959	219	76	3,102	$55,192,000	9.31%	$1,483
6/30/01	3,102	233	82	3,253	$62,416,000	13.1%	$1,543

* Retirees/Beneficiaries who are entitled to multiple benefits are only counted once.

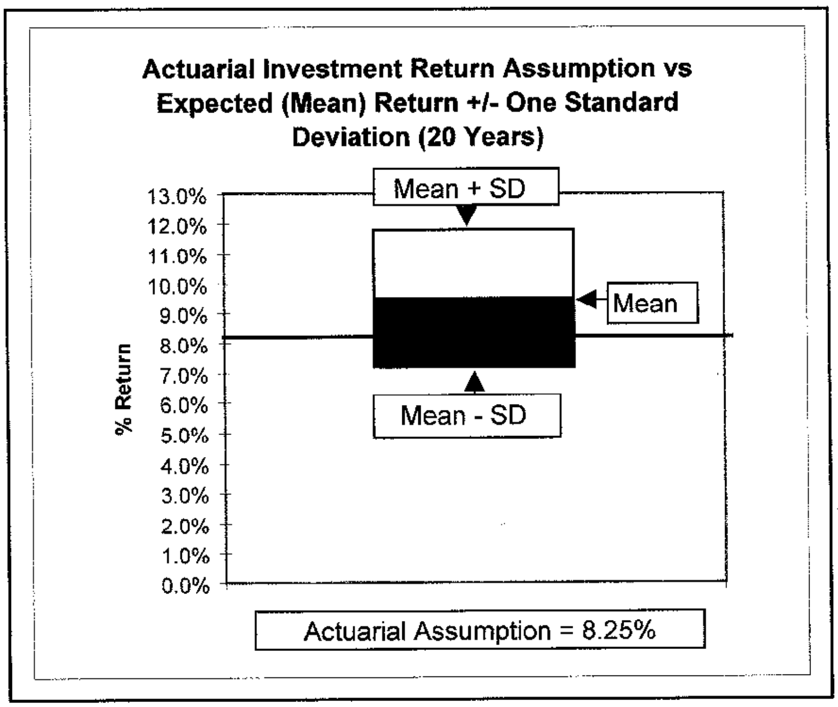
Actuarial Analysis of Financial Experience

Summary of (Gains) / Losses	Change In Liability				
	2001	2000	1999	1998	1997
Unfunded Liability as of July 1	20,129,000	96,137,000	111,756,000	180,752,000	234,793,000
Expected Change in UAAL	(700,000)	(3,535,000)			
Salary (Gain) / Loss	8,134,000	7,766,000	41,805,000	(1,791,000)	
Fewer Withdrawal than expected			6,103,000		
Liability corrections for part timers			(2,704,000)		
Retiree COLA more / (less) than expected	1,502,000	(1,356,000)	(2,999,000)	(8,000,000)	
Assets (Gain) / Loss	(12,157,000)	(71,409,000)	(67,009,000)	(59,136,000)	
Higher than expected contributions			(20,185,000)	(4,147,000)	
Inclusion of Ventura Non-terminal pay				9,140,000	
Assumption Change			(5,084,000)		
Reserve to offset Contingent Ventura Liability			32,145,000		
Miscellaneous Experience	2,566,000	(7,474,000)	2,309,000	(5,062,000)	
Consolidated Changes (detail is not available)					(54,041,000)
Unfunded Liability as of June 30	19,474,000	20,129,000	96,137,000	111,756,000	180,752,000

Probability of Separation Prior to Retirement

Age	Withdrawal		Death		Disability		Service
	Ordinary	Vested	Ordinary	Duty	Ordinary	Duty	Retirement
General Tier 1 Male Members							
20	0.1460	0.0000	0.0002	0.0001	0.0000	0.0000	0.0000
30	0.1170	0.0098	0.0003	0.0001	0.0003	0.0002	0.0000
40	0.0176	0.0166	0.0006	0.0001	0.0010	0.0008	0.0000
50	0.0000	0.0000	0.0022	0.0002	0.0026	0.0013	0.0107
60	0.0000	0.0000	0.0042	0.0004	0.0043	0.0025	0.0835
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tier 1 Female Members							
20	0.1540	0.0000	0.0002	0.0000	0.0000	0.0000	0.0000
30	0.0847	0.0080	0.0003	0.0000	0.0002	0.0002	0.0000
40	0.0096	0.0188	0.0005	0.0000	0.0006	0.0008	0.0000
50	0.0000	0.0079	0.0009	0.0000	0.0030	0.0013	0.0327
60	0.0000	0.0032	0.0024	0.0000	0.0019	0.0025	0.0804
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tiers 2 and 4 Male Members							
20	0.0400	0.0000	0.0002	0.0001	0.0000	0.0000	0.0000
30	0.0400	0.0100	0.0003	0.0001	0.0003	0.0002	0.0000
40	0.0200	0.0210	0.0006	0.0001	0.0010	0.0008	0.0000
50	0.0000	0.0245	0.0022	0.0002	0.0022	0.0018	0.0200
60	0.0000	0.0070	0.0042	0.0004	0.0045	0.0039	0.0750
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tiers 2 and 4 Female Members							
20	0.0493	0.0000	0.0002	0.0000	0.0000	0.0000	0.0000
30	0.0476	0.0125	0.0003	0.0000	0.0003	0.0001	0.0000
40	0.0240	0.0125	0.0005	0.0000	0.0030	0.0020	0.0000
50	0.0000	0.0125	0.0009	0.0000	0.0042	0.0020	0.0160
60	0.0000	0.0000	0.0024	0.0000	0.0073	0.0056	0.0568
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tier 3 Male Members							
20	0.0400	0.0000	0.0002	0.0001	0.0000	0.0000	0.0000
30	0.0400	0.0100	0.0003	0.0001	0.0002	0.0000	0.0000
40	0.0200	0.0210	0.0006	0.0001	0.0006	0.0001	0.0000
50	0.0000	0.0245	0.0022	0.0002	0.0016	0.0002	0.0000
60	0.0000	0.0070	0.0042	0.0004	0.0038	0.0009	0.1200
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
General Tier 3 Female Members							
20	0.1687	0.0000	0.0002	0.0000	0.0000	0.0000	0.0000
30	0.1080	0.0085	0.0003	0.0000	0.0001	0.0000	0.0000
40	0.0518	0.0240	0.0006	0.0000	0.0002	0.0001	0.0000
50	0.0157	0.0130	0.0022	0.0000	0.0010	0.0003	0.0000
60	0.0200	0.0060	0.0042	0.0000	0.0027	0.0008	0.0317
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Members							
20	0.0130	0.0500	0.0002	0.0005	0.0000	0.0008	0.0000
30	0.0130	0.0400	0.0003	0.0005	0.0003	0.0011	0.0000
40	0.0127	0.0150	0.0004	0.0006	0.0009	0.0047	0.0000
50	0.0000	0.0075	0.0009	0.0007	0.0012	0.0125	0.0362
60	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

Following is a chart which compares the recommended actuarial investment earnings assumption against the expected returns plus or minus one standard deviation. The expected return is based on Mercer's capital market assumptions and the standard deviation is based on a simulation of future returns over 20 years. The standard deviation is an annualized amount over the 20 year period. The expected return (net of expenses) is 9.4%, and the standard deviation is 2.7%. The 8.25% return is roughly equivalent to the 66th percentile of returns, meaning there is about a 34% chance that the actual 20 year investment return will be less than the Board's assumed investment return.



THE STATISTICAL SECTION

Schedule of Employer Contributions
(In Thousands Of Dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As A % of ARC
6/30/1996	$40,151	100%
6/30/1997	$42,887	100%
6/30/1998	$42,676	100%
6/30/1999	$41,289	100%
6/30/2000	$38,695	100%
6/30/2001	$39,482	100%

Schedule of Revenue by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/1996	$10,561	$40,151	$107,061	$157,773
6/30/1997	$11,198	$42,887	$152,473	$206,558
6/30/1998	$12,033	$42,676	$168,115	$222,824
6/30/1999	$12,586	$41,289	$83,550	$137,425
6/30/2000	$14,383	$38,695	$123,203	$176,282
6/30/2001	$15,287	$39,482	<$65,750>	<$10,981>

Schedule of Expenses by Type
(In thousands of Dollars)

Year End	Expenses	Retirement Benefits Paid	Refunds	Total
6/30/1996	$717	$40,498	$1,108	$42,323
6/30/1997	$909	$42,338	$1,462	$44,759
6/30/1998	$1,034	$45,398	$1,653	$48,085
6/30/1999	$1,070	$49,492	$1,640	$52,202
6/30/2000	$1,221	$53,090	$1,896	$56,207
6/30/2001	$1,491	$58,807	$1,846	$62,144

Summary of Retired and Inactive Member Benefits

Retired Members	2001	2000	1999	1998	1997	1996
Service Retirement						
Number	2,611	2,383	2,295	2,300	2,293	2,269
Annual Allowance						
Basic Only	$34,500,000	$30,059,000	$27,966,000	$26,159,000	$24,897,000	$23,652,000
Cola	$15,165,000	$13,692,000	$12,343,000	$11,910,000	$10,924,000	$10,480,000
Total	$49,665,000	$43,751,000	$40,309,000	$38,069,000	$35,821,000	$34,132,000
Average Monthly Payment	$1,585	$1,530	$1,464	$1,379	$1,302	$1,254
Disability Retirement						
Number	300	280	263	250	231	222
Annual Allowance						
Basic Only	$4,597,000	$4,014,000	$3,517,000	$3,115,000	$2,540,000	$2,347,000
Cola	$1,808,000	$1,591,000	$1,402,000	$1,303,000	$1,172,000	$1,074,000
Total	$6,405,000	$5,605,000	$4,919,000	$4,418,000	$3,712,000	$3,421,000
Average Monthly Payment	$1,779	$1,668	$1,559	$1,473	$1,339	$1,284
Beneficiaries						
Number	459	439	401	381	353	353
Annual Allowance						
Basic Only	$3,213,000	$2,950,000	$2,819,000	$2,154,000	$5,151,000	$1,921,000
Cola	$3,133,000	$2,886,000	$2,444,000	$2,204,000	$1,989,000	$1,784,000
Total	$6,346,000	$5,836,000	$5,263,000	$4,358,000	$4,140,000	$3,705,000
Average Monthly Payment	$1,152	$1,108	$1,094	$953	$918	$874
Total Retired Members						
Number	3,370	3,102	2,979	2,931	N/A	N/A
Annual Allowance						
Basic Only	$42,310,000	$37,023,000	$34,302,000	$31,428,000	N/A	N/A
Cola	$20,106,000	$18,169,000	$16,189,000	$15,417,000	N/A	N/A
Total	$62,416,000	$55,192,000	$50,491,000	$46,845,000	N/A	N/A
Average Monthly Payment	$1,543	$1,483	$1,422	$1,332	N/A	N/A
Inactive Members	747	646	613	522	518	470

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

	2001	2000	1999	1998	1997	1996
General Plan 1	$5,477	$5,143	$4,910	$4,451	$4,200	$4,045
General Plan 2	$4,934	$4,636	$4,301	$3,894	$3,573	$3,553
General Plan 3	$4,516	$4,197	$3,820	$3,522	$3,255	$3,285
General Plan 4	$4,177	$3,831	$3,483	$3,151	$0	$0
General Plan Total	$4,700	$4,451	$4,199	$3,880	$3,634	$3,601
Safety Plan 1	$7,327	$6,955	$6,400	$5,562	$4,670	$4,490
Safety Plan 2	$6,479	$6,102	$5,883	$4,906	$4,135	$3,967
Safety Plan 4	$5,375	$5,271	$4,957	$3,900	$0	$0
Safety Plan Total	$6,332	$6,143	$5,855	$5,009	$4,324	$4,170
Probation Plan 1	$5,861	$5,460	$5,100	$4,634	$4,358	$4,296
Probation Plan 2	$5,079	$4,654	$4,240	$3,941	$3,548	$3,608
Probation Plan 4	$4,100	$3,660	$3,119	$3,010	$0	$0
Probation Plan Total	$4,744	$4,441	$4,104	$3,968	$3,801	$3,858
Total	$4,846	$4,603	$4,348	$3,988	$3,704	$3,667

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