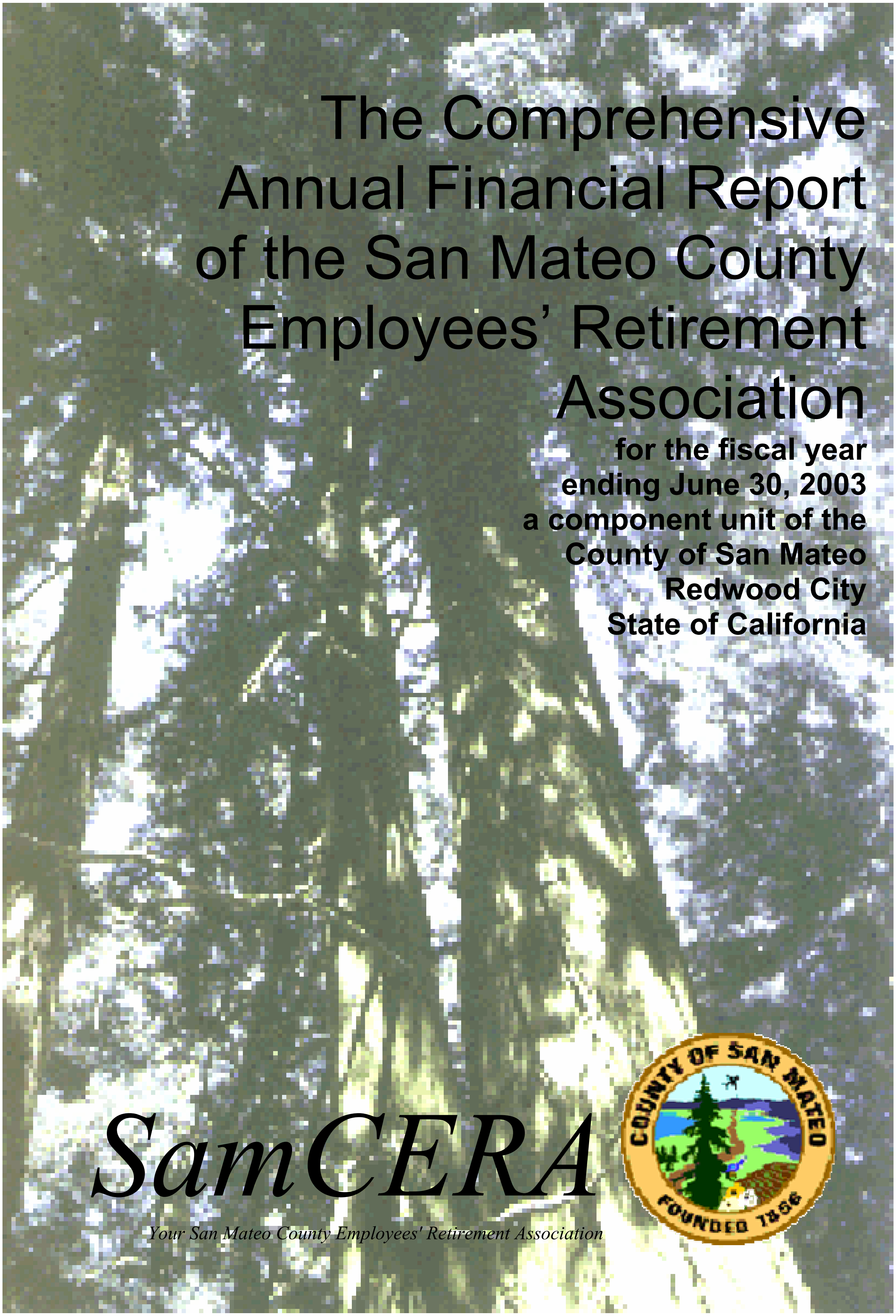


The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association

for the fiscal year ending June 30, 2003
a component unit of the County of San Mateo
Redwood City
State of California

SamCERA

Your San Mateo County Employees' Retirement Association

COUNTY OF SAN MATEO
FOUNDED 1856

San Mateo County

Employees' Retirement Association

A Component Unit of the County of San Mateo

Comprehensive Annual Financial Report

for the year ended June 30, 2003

Sidney C. McCausland

Chief Executive Officer

SamCERA

100 Marine Parkway, Suite 125

Redwood Shores, California 94065

San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

Page

THE INTRODUCTORY SECTION

SamCERA's Mission

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

SamCERA's Goals

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

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

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

SamCERA

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

October 28, 2003

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, 2003 and June 30, 2002* (The Report).

This Report is submitted for your review. *SamCERA*'s management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. Management's discussion and analysis of the data may be reviewed on pages 15-20. This Report was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions are reported using the accrual basis of accounting.

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

AUTHORITY, RESPONSIBILITIES & DUTIES

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

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

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

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

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

SamCERA's Membership as of June 30, 2003

Plan (Tier)	One	Two	Three	Four	Total
Retirees and beneficiaries currently receiving benefits:					
General	2,241	716	90	3	3,050
Safety	265	41	0	0	306
Probation	83	15	0	0	98
Subtotal	2,589	772	90	3	3,454
Terminated employees entitled to but not currently receiving benefits (Deferred):					
General	90	476	114	88	768
Safety	1	33	0	12	46
Probation	0	30	0	11	41
Subtotal	91	539	114	111	855
Current employees:					
Vested:					
General	369	1,822	61	161	2,413
Safety	68	208	0	26	302
Probation	28	104	0	21	153
Non-Vested:					
General	1	14	91	1,694	1,800
Safety	0	1	0	131	132
Probation	0	0	0	137	137
Subtotal	466	2,149	152	2,170	4,937
Total *SamCERA* Membership	3,146	3,460	356	2,284	9,246

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Report consists of five sections, as follows.

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

•**The Financial Section** presents information regarding *SamCERA*'s financial condition. This section contains the opinion of *SamCERA's* Independent Auditor, Brown Armstrong Paulden, McCown, Starbuck, & Keeter Accountancy Group, management's discussion and analysis, *SamCERA*'s financial statements and supplemental financial information. Brown Armstrong concludes that its audit of *SamCERA*'s financial statements, as set forth in the Financial Section, provided a reasonable basis for the Auditor to determine that the financial statements present *SamCERA*'s financial position fairly. During the fiscal year, Retirement Fund assets increased from $1.207 billion to $1.233 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 $97,869,723.

Additions to SamCERA's Assets

Contributions	
Employer	$36,069,587
Member	22,650,186
Total Contributions	58,719,773
Investment Income	42,721,213
Less investment expense	(3,571,263)
Net Investment Income	39,149,950
TOTAL ADDITIONS	$97,869,723

The '37 Act permits the use of Retirement Fund Assets to pay earned service retirement benefits, disability benefits, death benefits, and refunds of member contributions. In addition the '37 Act permits the payment of administrative and professional expenses from the Retirement Fund. Benefits and expenses for the fiscal year totaled $72.1 million.

Deductions from SamCERA's Assets

SamCERA Benefits:	
Service retirement allowance	$58,243,898
Disability retirement allowance	8,920,862
Medical benefits	1,085,878
Death and other benefits	738,658
Total Association benefits	68,989,296
Refunds of members' contributions	1,205,576
Administrative expense	1,886,892
TOTAL DEDUCTIONS	$72,081,765

Note 3 to the Financial Statements includes a discussion of *SamCERA's* Market Stabilization Account which is used to smooth the actuarial value of assets over a five-year period. As of June 30, 2003 there was a negative balance of ($154,249,171) in the Account. This amount is the unrecognized difference between *SamCERA*'s actual market returns and the returns that would have been generated if earnings had been at the actuarial interest rate of 8.25%. These actuarial shortfalls will be transferred onto the actuarial balance sheet over the next 4.5 years. Once on the actuarial balance sheet they will then need to be amortized over the remainder of *SamCERA*'s actuarial funding period ending June 30, 2022. These increases in contribution rates will be on top of increases resulting from the addition of benefit improvements during Fiscal Year 2003.

•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 3.84%, approximately 0.24% greater than the performance of its policy benchmark.

SamCERA's Asset Allocation

	Target	June 30. 2003
Equity	65.0%	65.3%
Fixed Income	29.0%	29.2%
Real Estate	6.0%	5.3%
Cash	0.0%	0.2%

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

As of June 30, 2003, William M. Mercer reported that *SamCERA*'s Actuarial Valuation Assets of $1.354 billion were equal to 76.0% of *SamCERA*'s Accrued Actuarial Liabilities of $1.782 billion, with full funding targeted for the year 2022. *SamCERA*'s Unfunded Actuarial Accrued Liability totaled $427.6 million on June 30, 2003, with an additional ($154.2) million in the Market Stabilization Account. Contribution rates will increase more than 95% between July 1, 2002 and July 4, 2004, as detailed in the following two tables:

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

Reconciliation of 2-year Cumulative Change in County Employer Contribution Rate

	% of Pay	% Change
Employer Rate Fiscal Year 2002-2003	**11.66**	
Enhanced Retirement Benefits	6.08	54.38%
Employee Cost Sharing	-1.00	-8.94%
Elimination of Deputies 15% pick-up	-0.20	-1.79%
Enhancements impact on rates	4.88	43.65%
Investment Shortfall Amortization	5.23	46.78%
Investment impact on rates	5.23	46.78%
Actuarial Assumptions Changes	2.44	21.82%
Market Stabilization Corridor Change	0.70	6.26%
2-years' experience other than expected	-0.47	-4.20%
20-year Amortization Period Change	-1.60	-14.31%
Actuarial impact on rates	1.07	9.57%
Two-year increase in employer rate	**11.18**	100.00%
Employer Rate Fiscal Year 2004-2005	**22.84**	*95.88%*

•**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 2002 earned *SamCERA* its sixth 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 courts are expected to order SamCERA to implement the retroactive component of the *Ventura* decision during the current fiscal year. The complexity and labor intensity of the implementation program will depend upon whether or not the parties are able to agree on a settlement that does not require extensive microfilm and microfiche research by SamCERA's staff. In spite of many challenges, the next fiscal year holds the promise of bringing the Board and staff closer to the attainment of *SamCERA*'s Goals. 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, including the management's discussion and analysis.

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

Respectfully submitted,

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, 2002

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

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

President

Executive Director

Also awarded in

1997, 1998, 1999, 2000 & 2001

Members of the Board of Retirement

for the fiscal year ending June 30, 2003

TOM E. BRYAN, Chair *elected by SamCERA's General Members, Third Member*
Tom Bryan is a Principal 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. His current term expires June 30, 2004.

DONNA WILLS COLSON, Vice Chair *appointed by the Board of Supervisors, Ninth Member*
Donna Wills Colson is Client Services Officer with Tukman Capital Management. Donna joined the Board in August of 1998. Her current term expires June 30, 2004

ALMA R. SALAS, Secretary *elected by SamCERA's Safety Members, Seventh Member*
Alma Salas is a Deputy Probation Officer III with Adult Probation. Alma joined the Board in May of 2001. Her current term expires June 30, 2003.

LEE BUFFINGTON *Ex Officio per the '37 Act, First Member*
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. His current term expires January 8, 2007.

WILLIAM R. COTTLE *appointed by the Board of Supervisors, Sixth Member*
William Cottle is a Senior Investment Consultant with Milliman USA, which acquired Bill's former firm, Dorn, Helliesen & Cottle, Inc., where he was a Managing Principal. Bill joined the Board in January of 1997. He served as Chairman from 2001 until 2002. Bill currently serves as Chair of the Board's Investment Committee. His current term expires June 30, 2003.

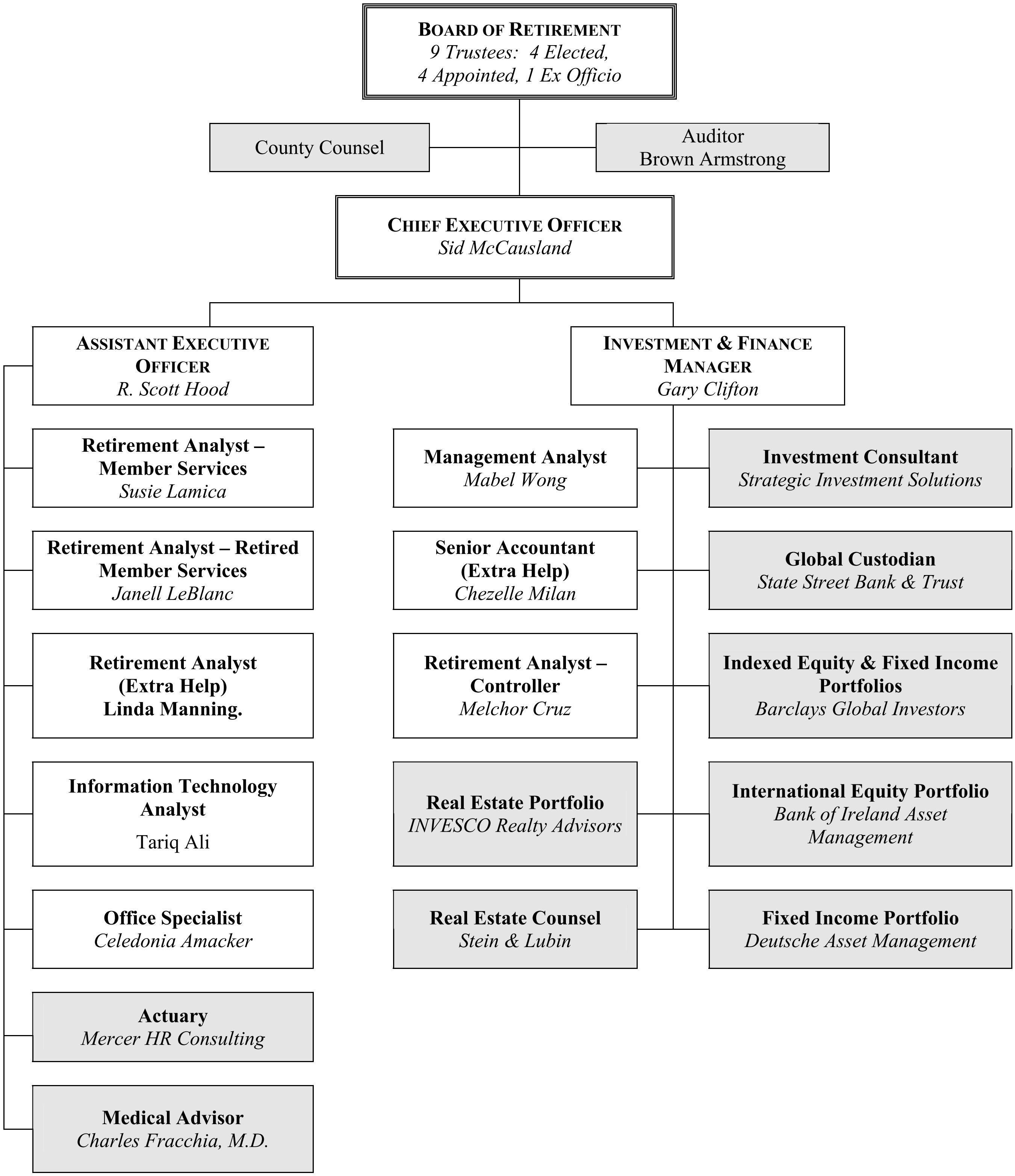
KENNETH A. LEWIS *appointed by the Board of Supervisors, Fifth Member*
Kenneth Lewis is the Treasurer of Franklin Resources. Kenneth joined the Board in September of 2001. His current term expires June 30, 2004.

MICHAEL E. MCMAHON *elected by SamCERA's General Members, Second Member*
Michael McMahon is a Senior Auditor-Appraiser with the County. Michael joined the Board in October of 1993. His current term expires June 30, 2003.

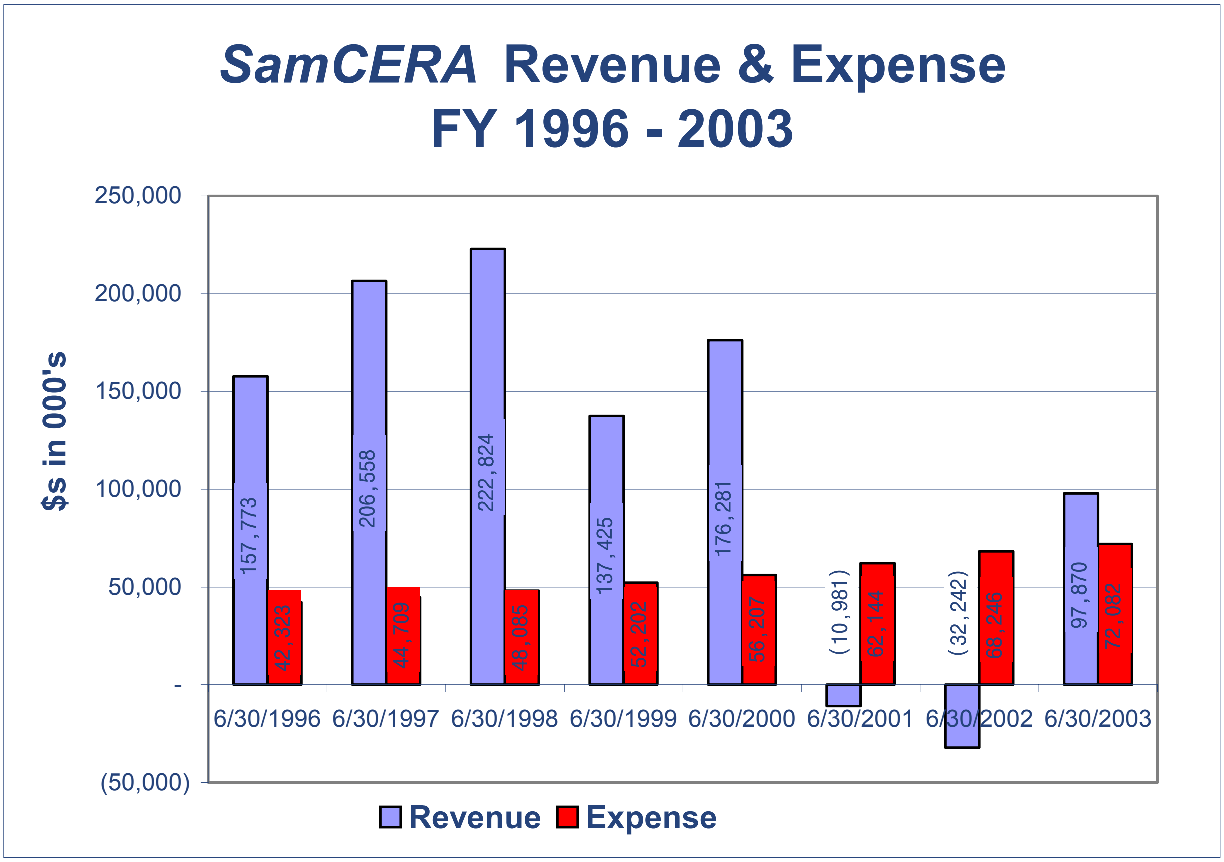
BETTE PERROTON STUART *elected by SamCERA's Retired Members, Eighth Member*
Bette Perroton Stuart retired as your Retirement Officer in 1988 after nearly 20 years with the County. Bette joined the Board in December of 1990. She served as Chair from 1996-1998. Her current term expires June 30, 2004.

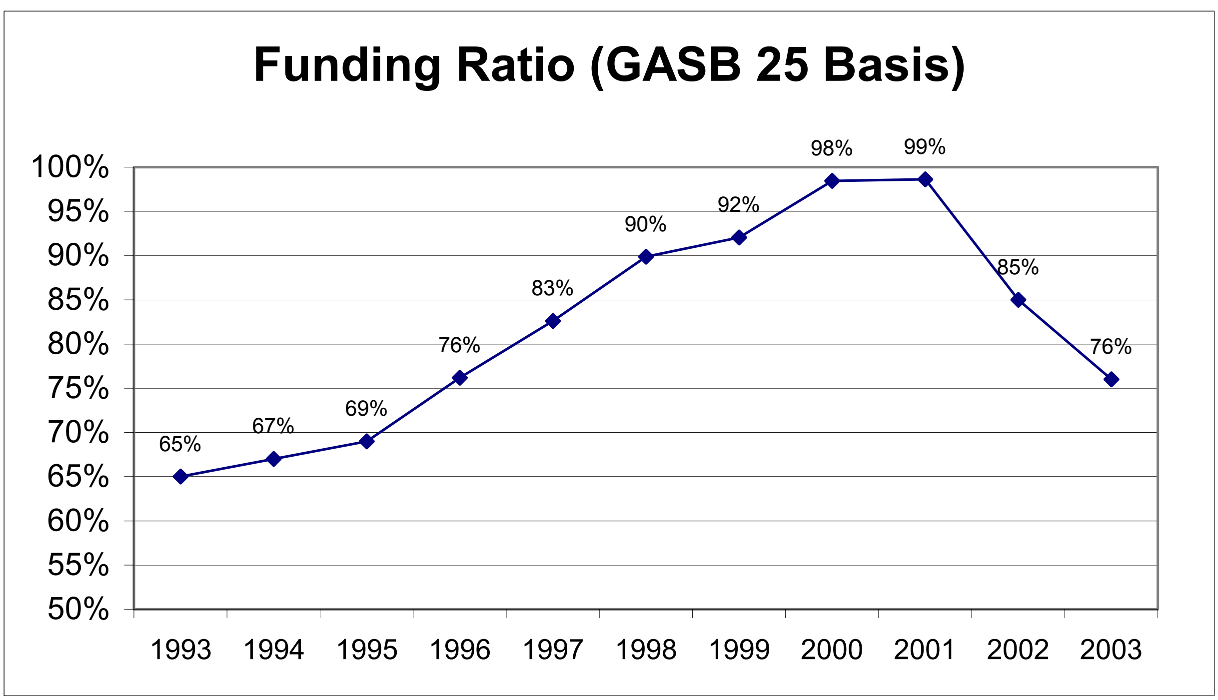
CHRISTINE D. TONSFELDT *appointed by the Board of Supervisors, Fourth Member*
Christine Tonsfeldt is an attorney who has worked with Brobeck, Phleger and Harrison and with Robertson Stephens & Co. including Robert Stephens Investment Management. In addition to her SamCERA duties, Christine is currently devoting herself to her young family. Christine joined the Board in January of 2002. Her current term expires June 30, 2003.

SAN MATEO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
June 30, 2003 Organization Chart




THE FINANCIAL SECTION


SamCERA Revenue & Expense
FY 1996 - 2003
$s in 000's
250,000
200,000
150,000
100,000
50,000
-
(50,000)
157,773
42,323
206,558
44,709
222,824
48,085
137,425
52,202
176,281
56,207
(10,981)
62,144
(32,242)
68,246
97,870
72,082
6/30/1996
6/30/1997
6/30/1998
6/30/1999
6/30/2000
6/30/2001
6/30/2002
6/30/2003
Revenue
Expense


Funding Ratio (GASB 25 Basis)
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
65%
67%
69%
76%
83%
90%
92%
98%
99%
85%
76%
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003

BROWN ARMSTRONG CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK & KEETER

CERTIFIED PUBLIC ACCOUNTANTS

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971
fax 661-324-4997

Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661-746-2145
fax 661-746-1218

INDEPENDENT AUDITOR'S REPORT

To the Members of the
San Mateo County Board of Retirement

We have audited the accompanying statement of fiduciary net assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2003 and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of management of SamCERA. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the San Mateo County Employees' Retirement Association as of and for the year ended June 30, 2002 were audited by other auditors, whose report dated September 20, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the San Mateo County Employees' Retirement Association as of June 30, 2003 and its changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules on pages 31 through 34, and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of SamCERA. The supporting schedules on pages 31 through 34 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2003, on our consideration of SamCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
August 14, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2003 – 2004

As fiduciaries of the San Mateo County Employees' Retirement Association, we offer readers of *SamCERA*'s financial statements this narrative overview and analysis of its financial activities for the fiscal year ending June 30, 2003.

Financial Highlights

- $1,233,271,537 in net assets are held in trust for pension benefits. All of the assets are available to meet S*amCERA's* ongoing obligation to plan participants and their beneficiaries.
- *SamCERA's* total net assets held in trust for pension benefits increased by $25,787,957 or 2.14% primarily as a result of market appreciation.
- *SamCERA's* funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2003, the date of the last actuarial valuation, the funded ratio for *SamCERA* was 76.0%.
- Revenues (Additions to Fiduciary Net Assets) for the year were $97,869,723, which includes member and employer contributions of $58,719,773 and an investment gain of $42,721,213 (excluding investment expense of $3,571,263).
- Expenses (Deductions in Fiduciary Net Assets) increased from $68,245,699 to $72,081,765 over the prior year, or approximately 5.62%. 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. Comparative Statements of Fiduciary Net Assets
2. Comparative Statements of Changes in Fiduciary Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

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

The Comparative Statement of Fiduciary Net Assets is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and any current liabilities that are owed as of June 30, 2003.

The Comparative Statement of Changes in Fiduciary Net Assets provides a view of additions and deductions to the Plan. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements 25, 26, 28, 33, 34, 40, and 41. These pronouncements require certain disclosures and require State and Local Governments to move to the full accrual method of accounting. *SamCERA* complies with all requirements of these pronouncements.

The Comparative Statement of Fiduciary Net Assets and the Comparative Statement of Changes in Fiduciary Net Assets report information about *SamCERA's* activities. These statements include assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown on a trade date basis, using fair values. All Property and Equipment (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 position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring *SamCERA's* overall financial position. (Refer to *SamCERA's* financial statements in the Financial Section of this CAFR.)

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements. (Refer to the Notes to the Financial Statements in the Financial Section of this CAFR.)

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

Other Supplementary Information section includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants. (Refer to Other Supplementary Information in the Financial Section of this CAFR.)

Financial Analysis

Over time, increases and decreases in *SamCERA's* Fiduciary Net Assets may serve as a useful indication of whether its financial position is improving or deteriorating (refer to Table 1 below). Other factors, such as financial market conditions, should also be taken into consideration when measuring *SamCERA's* overall financial wellbeing.

SamCERA's Fiduciary Net Assets held in trust for pension benefits as of June 30, 2003, totaled $1,233,271,537. All of the net assets are available to meet *SamCERA's* ongoing obligations to plan participants and their beneficiaries. Net assets increased by 2.14% during the fiscal year due primarily to market appreciation.

The Fiduciary Net Assets held in Trust for the payment of benefits has steadily increased over the past decade. However, in the years ending June 30, 2002 and June 30, 2001 Fiduciary Net Assets decreased by $100,488,038 and $73,124,810 respectively due to market depreciation.

SamCERA's Net Assets (Table 1)

For the Years Ended June 30, 2003 and 2002	2003	2002	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,228,233,376	$1,204,544,649	$23,688,727	1.97%
Other Assets	$28,076,894	$18,236,993	$9,839,901	53.96%
Total Assets	$1,256,310,270	$1,222,781,642	$33,528,628	2.74%
Total Liabilities	$23,038,732	$15,298,062	$7,740,670	50.60%
Net Assets	$1,233,271,537	$1,207,483,580	$25,787,957	2.14%

For the Years Ended June 30, 2002 and 2001	2002	2001	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,204,544,649	$1,301,831,377	($97,286,728)	-7.5%
Other Assets	$18,236,993	$16,358,183	$1,878,810	11.5%
Total Assets	$1,222,781,642	$1,318,189,559	(95,407,917)	-7.2%
Total Liabilities	$15,298,062	$10,217,941	$5,080,121	49.7
Net Assets	$1,207,483,580	$1,307,971,618	($100,488,038)	-7.7%

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

Capital Assets

As of June 30, 2003 *SamCERA's* investment in fixed assets totaled $3,437 (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 earnings, after deducting investment and administrative expenses (see Table 2 below). During the past seven 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. However, for actuarial purposes, unrealized gains and losses are held in the Market Stabilization Account where they are amortized onto the Actuarial Balance Sheet over five years in accordance with a deferral schedule established by the actuary.

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

As of June 30	2003	2002	2001
Member Reserves	$242,075,501	$218,545,868	$199,422,289
County Advanced Reserves	$199,095,646	$199,675,386	$186,813,259
Retiree Reserves	$400,082,439	$460,449,850	$452,325,854
Cost of Living Reserves	$500,364,498	$556,529,725	$546,133,752
Contingency Reserves	$13,757,625	$13,553,077	$13,181,896
Ventura Reserves	$32,145,000	$32,145,000	$37,714,795
Market Stabilization Account	($154,249,171)	($273,415,326)	($127,620,227)
Net Reserves held in Trust for Pension Benefits	$1,233,271,538	$1,207,483,580	$1,307,971,618

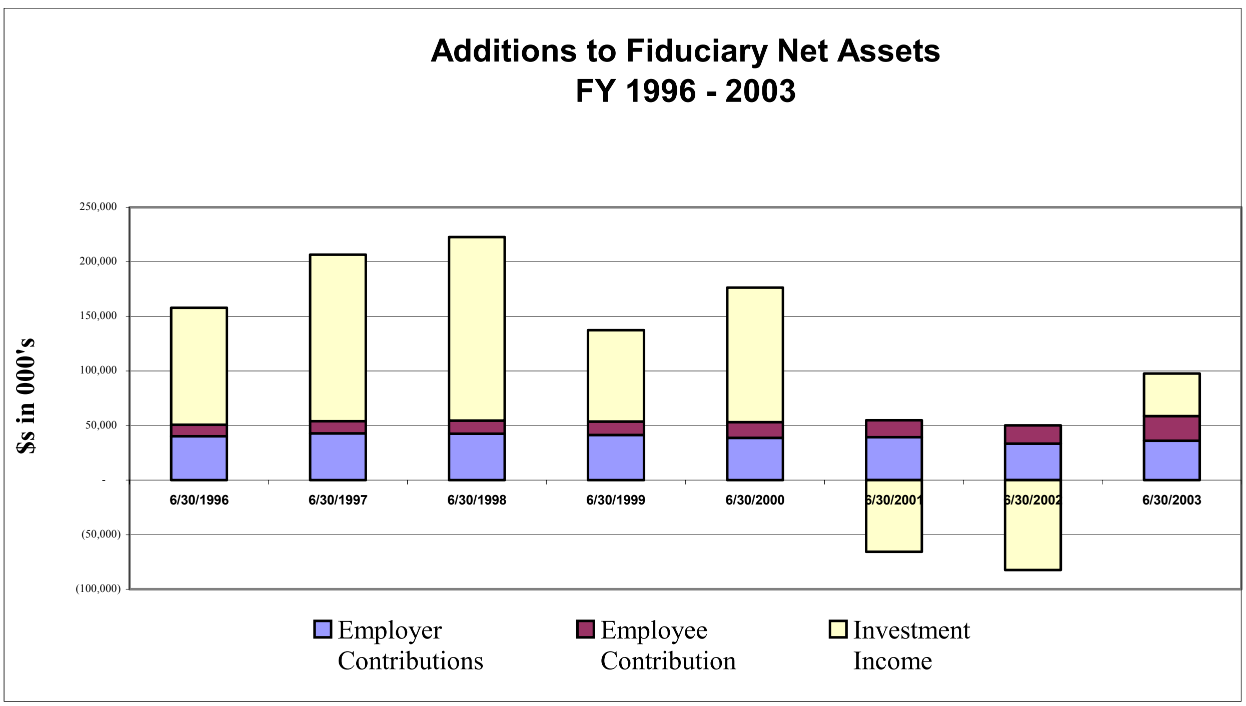
Additions to Fiduciary Net Assets

The reserves needed to finance retirement benefits are accumulated through collection of employer and employee contributions and through earnings on investments (net of investment expenses). Revenues for the fiscal year ended June 30, 2003 totaled $97,869,723. (Refer to Table 3 below)

Additions to Fiduciary Net Assets (Table 3)

For the Years Ended June 30, 2003 and 2002	2003	2002	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$36,069,587	$33,540,869	$2,528,718	7.5%
Employee Contributions	$22,650,186	$16,626,890	$6,023,296	36.2%
Investment Income/(Loss)	$42,721,213	($78,722,818)	$121,444,031	154.3%
Less Investment Expenses	($3,571,263)	($3,687,280)	$116,017	-3.2%
Total	$97,869,723	($32,242,339)	$130,112,062	403.5%

For the Years Ended June 30, 2002 and 2001	2002	2001	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$33,540,869	$39,481,824	($5,940,955)	-15.0%
Employee Contributions	$16,626,890	$15,287,232	$1,339,658	8.8%
Investment Income/(Loss)	($78,722,818)	($62,588,978)	($16,133,840)	-25.8%
Less Investment Expenses	($3,687,280)	($3,161,178)	($526,102)	16.6%
Total	($32,242,339)	($10,981,100)	($21,261,239)	-193.6%



Deductions from Fiduciary Net Assets

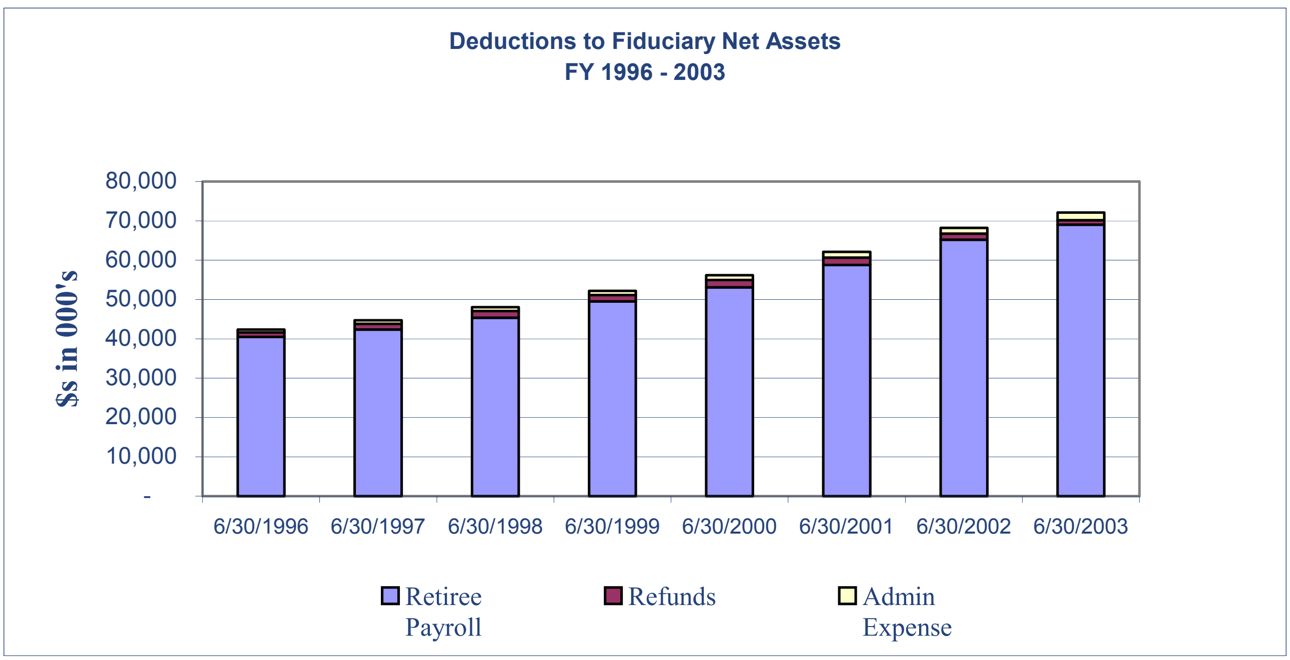
SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the Plan, refund of contributions to terminated employees, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2003 totaled $72,081,765 an increase of 5.6% over the prior fiscal year (refer to Table 4 below).

Deductions of $72,081,764 were exceeded by additions of $97,869,723, resulting in an increase of $25,787,959 in fiduciary net assets for the fiscal year ended June 30, 2003.

Deductions in Fiduciary Net Assets (Table 4)

For the Years Ended June 30, 2003 and 2002	2003	2002	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$68,989,296	$65,186,501	$3,802,795	5.83%
Member Refunds	$1,205,576	$1,550,671	($345,095)	-22.25%
Administrative Expenses	$1,886,892	$1,508,527	$378,365	25.08%
Total	$72,081,764	$68,245,699	$3,836,065	5.62%

For the Years Ended June 30, 2002 and 2001	2002	2001	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$65,186,501	$58,806,745	$6,379,756	10.8%
Member Refunds	$1,550,671	$1,845,536	($294,865)	-16.0%
Administrative Expenses	$1,508,527	$1,491,429	$17,098	1.1%
Total	$68,245,699	$62,143,710	$6,101,989	9.8%



Last fiscal year, retiree benefits increased at a decreasing rate while member refunds decreased. Management attributes these trends to the overall economic environment and anticipation of favorable labor negotiations by active members, which will result in enriched retirement benefits. These factors lead some active members to postpone testing the job market while others delayed their retirement applications.

The systems administrative expenses increased by $378,365, or 25.08% in fiscal year 2002-2003. The increased expenditures were primarily attributable to the cost of relocating *SamCERA's* office. In addition, *SamCERA* went from nine employees to ten with the addition of an Information Technology Analyst position. The additional position combined with normal merit and longevity promotions account for approximately one third of the budget increase.

SamCERA's professional services budget appears as a part of the investment expense. For the fiscal years ended June 30, 2003 and June 30, 2002, the expenditures for custodian services and investment consultant services were consistent with the original appropriations. The appropriation for actuarial services for fiscal year 2002/2003 was amended upward to allow for additional studies necessitated by benefit enhancements negotiated through the collective bargaining process. Last fiscal year, investment assets increased slower than anticipated, resulting in lower actual investment management fees than budgeted. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management.

The County Employees Retirement Law of 1937 limits *SamCERA's* administrative budget to eighteen-hundredths of 1 percent of the total assets of the retirement system. *SamCERA* has consistently been within its approved administrative budget and within the 18 basis point regulation. There are no material variances between planned expenditures and actual expenditures for the fiscal year ending June 30, 2003.

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

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

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

Respectfully submitted,

Gary Clifton

Gary Clifton
Investment and Finance Manager
September 23, 2003

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2003 and 2002

	2003	2002
Assets:		
Cash and Deposits (Notes 2 and 4)	$16,849,000	$12,754,011
Receivables:		
Contributions	1,288,978	993,577
Due from broker for investments sold	8,060,664	2,225,225
Investment income	1,740,186	2,134,968
Total Receivables	11,089,828	5,353,770
Prepaid Expense	134,628	120,619
Investments, at fair value (Notes 2 and 4)		
Domestic fixed income securities	354,572,249	392,176,289
Domestic equities	628,610,339	559,844,885
International equities	181,212,145	166,091,526
Real Estate	63,838,644	86,431,949
Total Investments	1,228,233,377	1,204,544,649
Fixed assets, at cost, net of accumulated Depreciation of $12,030 and $20,199 at 2003 and 2002, respectively. (Note 2)	3,437	8,593
Total Assets	1,256,310,270	1,222,781,642
Liabilities:		
Payables		
Investment management fees	370,957	517,629
Due to broker for investments purchased	14,634,147	6,158,723
Mortgage Note Payable (Note 6)		
Due within One Year	181,518	167,823
Due in more than one year	6,904,029	7,085,547
Other	948,082	1,368,340
Total Liabilities	23,038,733	15,298,062
Net Assets Held in Trust For Pension Benefits (Note 3)	$1,233,271,537	$1,207,483,580

(A Schedule of Funding Progress is presented on page 31)

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, 2003 and 2002

	2003	2002
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 36,069,587	$ 33,540,869
Employee	22,650,186	16,626,890
Total Contributions	58,719,773	50,167,759
INVESTMENT INCOME/(LOSS)		
Interest and dividends	16,520,506	20,755,342
Net appreciation (depreciation) in Fair value of investments	26,200,706	(99,478,160)
	42,721,212	(78,722,818)
Less investment expense	3,571,263	3,687,280
Net Investment Income (Loss)	39,149,949	(82,410,098)
Total Additions	97,869,722	(32,242,339)
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	58,243,898	55,304,277
Disability retirement allowance	8,920,862	8,125,463
Medical benefits	1,085,879	993,968
Death and other benefits	738,658	762,793
Total Association benefits	68,989,297	65,186,501
REFUNDS OF MEMBERS' CONTRIBUTIONS	1,205,576	1,550,671
ADMINISTRATIVE EXPENSE (Note 3)	1,886,892	1,508,527
Total Deductions	72,081,765	68,245,699
Net Increase (Decrease)	25,787,957	(100,488,038)
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	1,207,483,580	1,307,971,618
End of year	$1,233,271,537	$1,207,483,580

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 permanent employees of the County of San Mateo (the Primary Employer) and the San Mateo County Mosquito Abatement District. The Association is a Component Unit of the Primary Employer. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the County and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association’s safety membership; the eighth member shall be a retired member elected from the retired membership. The Association has four plans, which cover members classified as general, safety or probation. Employees hired on or before July 6, 1980, became members of Plan One. Employees hired after July 6, 1980, and before July 13, 1997, became members of Plan Two. Employees hired on or after July 13, 1997 become members of Plan Four. New General Employees may also elect membership under Plan Three. New employees appointed to positions of active law enforcement become safety members under Plan Four. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers become members under Plan Four for probation officers. From January 1, 1993, general members in Plan Three with 5 years of continuous service have the option to change to the Plan they were eligible for at entry date. Former Plan 3 members are authorized to purchase service credit in their current plan. Earned Plan 3 service credit is forfeited in an amount equivalent to the purchase.

The Association’s plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2003, the Association membership consisted of the following:

	Plan One	Plan Two	Plan Three	Plan Four	Total
Retirees and beneficiaries currently receiving benefits:					
General	2,241	716	90	3	3,050
Safety	265	41	0	0	306
Probation	83	15	0	0	98
Subtotal	2,589	772	90	3	3,454
Terminated employees entitled to but not currently receiving benefits (deferred):					
General	90	476	114	88	768
Safety	1	33	0	12	46
Probation	0	30	0	11	41
Subtotal	91	539	114	111	855
Totals Forwarded	2,680	1,311	204	114	4,309

Note 1 - Plan Description – General (Continued)

	Plan One	Plan Two	Plan Three	Plan Four	Total
Totals Forwarded	2,680	1,311	204	114	4,309
Current employees:					
Vested:					
General	369	1,822	61	161	2,413
Safety	68	208	0	26	302
Probation	28	104	0	21	153
Non-Vested:					
General	1	14	91	1,694	1,800
Safety	0	1	0	131	132
Probation	0	0	0	137	137
Subtotal	466	2,149	152	2,170	4,937
Total	3,146	3,460	356	2,284	9,246

Benefit Provisions

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

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

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

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

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

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

Note 2 - Significant Accounting Policies

Basis of Accounting

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

The financial activities of the Association (a component unit of the County) are blended with the basic financial statements of the County because the Association is an integral part of the County.

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

Cash and Investments

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

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

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

Fixed Assets

Fixed assets are valued at historical cost and are comprised of computer equipment. Depreciation has been computed using the straight-line method over the estimated useful life of 3 years.

Foreign Currency Transactions

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

Forward currency contracts are used 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 5.7%.

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 June 30, 2022. Details of funding progress, annual required contribution and contribution made by the County, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The County pays 100% of management employees', unrepresented attorneys' and sheriff's sergeants' contributions and 50% of confidential employees' contributions on a refundable basis. In addition members of certain bargaining units who are in a contributory retirement plan have a portion of their retirement deduction paid by the County based on individual years of service using schedules set forth in the Memorandums of Understanding. The County also paid 15% of Deputy Sheriff and Correctional Officers' contributions on a non-refundable basis through the end of the fiscal year.

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:

	2003	**2002**
Salaries and employee Benefits	$962,378	$837,666
Services and supplies	919,358	661,264
Depreciation	5,156	9,597
Salaries and employee Benefits	$1,886,892	$1,508,527

Reserves

Reserves required for reporting purposes by the 1937 Act:

	2003	2002
Member Deposit Reserve – Accumulated Contributions and Interest	$ 242,075,501	$ 218,545,868
County Advance Reserve – Current Service	199,095,646	199,675,386
Retiree Reserves	400,082,439	460,449,850
Cost of Living Adjustment Reserve	500,364,498	556,529,725
Subtotal (Valuation Reserves)	1,341,618,084	1,435,200,829
Reserves required by Section 31592 of the 1937 Act:		
Ventura Contingency Reserve (Note 5)	32,145,000	32,145,000
Reserve for Deficiencies in Interest Earnings and Other Contingencies	13,757,625	13,553,077
Total Allocated Reserves	1,387,520,709	1,480,898,906
Market Stabilization Account	<154,249,171>	<273,415,326>
Net Assets Held in Trust for Pension Benefits	$1,233,271,538	$1,207,483,580

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, however, 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.

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

The June 30, 2003 balance in the Market Stabilization Account of -$154.2 million reflects the balance of the current year's and previous four-and-a-half-year's net deferred returns.

Note 4 - Cash and Investments

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term investments with fiscal agents as well as deposits held in a pooled account with the County of San Mateo. All participants in the pool share earnings and losses. The short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All cash and cash equivalents are carried at cost, which approximates fair value. A summary of cash and cash equivalents as of June 30, 2003 and June 30, 2002 is provided below.

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, 2003, actual asset allocation was 65.3% equities, 29.3% fixed income securities, 5.3% real estate and cash 0.2%.

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, 2003. The Governmental Accounting Standards Board (GASB) Statement No. 3 established custodial credit risk categories. The Governmental Accounting Standards Board (GASB) Statement No. 40 updates the custodial credit risk disclosure requirements of Statement 3 and establishes and modifies disclosure requirements related to investment risks; credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The Association is early implementing Statement No. 40 in its financial statement's disclosures.

Investments in external investment pools and mutual funds cannot be categorized because the Association is not issued securities. *SamCERA* owns units in those investment. As of June 30, 2003 and 2002, the Association's investments were categorized as shown below.

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

	2003	**2002**
Cash Equivalent Investments (Not Categorized)		
Funds Pooled with County Treasurer	$ 1,433,724	$ 1,460,011
Short-Term Investment Funds held with Fiscal Agent	15,415,276	11,294,000
Total Cash equivalents	$ 16,849,000	$ 12,754,011
Investments – Categorized (Refer to the Table Below)		
Domestic Fixed Income (1)		
Government Obligations	$ 104,615,640	$ 59,739,415
Corporate Bonds	55,101,336	115,758,643
Total Categorized	159,716,976	175,498,058
Investments- Not Categorized		
Commingled Funds:		
Domestic Fixed Income		
BGI US Debt Index Fund (1)	194,855,273	216,678,241
Domestic Equities		
BGI Russell 1000 Index Fund	504,456,079	433,345,597
BGI Russell 2000 Index Fund	124,154,260	126,499,288
International Equities		
Bank of Ireland Asset Management	181,212,145	166,097,566
Real Estate	63,838,644	88,316,530
Total Not Categorized	1,068,516,401	1,029,046,591
Total Investments	$1,228,233,377	$1,204,544,649

(1) Fixed Income is presented for comparative

As of June 30, 2003 the Association had the following investments categorized for interest rate and credit risk. Information as of June 30, 2002 is not available.

Deutsche Asset Management Bond Portfolio

Investment Type	Fair Value	Weighted Average Maturity (Years)
United States Treasuries	$ 13,793,815	11.55
Single Family Mortgage Backed Securities	46,115,310	1.84
CMBS	5,663,455	5.52
Asset Backed Securities	22,903,610	4.54
Taxable Municipal Bonds	16,139,450	6.54
Corporate Bonds	55,101,336	9.91
Total Fair Value	$159,716,976	
Portfolio Weighted Average Maturity		6.37

Barclays Global Investor U.S. Debt Index Fund

Investment Type	Fair Value	Weighted Average Maturity (Years)
BGI U.S. Debt Index Fund	$194,855,284	5.84

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

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

On June 30, 2003 the quality breakdown of the Association's investments in bonds were rated as indicated in the table below.

Credit Risk	Active Management	Passive Management
AAA+	38.04%	68.12%
AAA	33.20%	6.05%
AA	4.97%	4.89%
A	14.11%	10.27%
BBB	9.68%	9.58%
Baa	0.00%	0.00%
NR	0.00%	1.09%
	100.00%	100.00%

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 security lending activities during fiscal year ended June 30, 2003. 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.

The *Ventura* decision was silent on two critical issues: terminal pay and retroactivity. These issues will be decided as a result of a current lawsuit, *Teamsters Local 856 vs. Board of Retirement, San Mateo County.* During the 2001 fiscal year, the trial court considered and rejected claims by petitioners that *Ventura* mandated the inclusion of terminal pay, third party payments, and employer pickups of employee contributions in the calculation of final compensation. During the 2002 fiscal year, the trial court considered and accepted claims by petitioners that *Ventura* should be applied retroactively and that the pensions of all retirees and their beneficiaries, regardless of when they retired, must be recalculated. Appeals of the trial court's decisions have been filed by both petitioners and defendants with the California Court of Appeals.

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 Teamsters Local 856 prevails, 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, the actuary estimates that the contingent liability totaled $16.2 million as of June 30, 2002, with interest on the liability compounding at 7% simple per annum. A $32,145,000 reserve has been established to set aside funds for this contingent liability.

Note 6 – Mortgage Note Payable:

The Mortgage Note Payable at June 30, 2003 consists of a note payable on a real estate investment with terms, including 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 the Association's rental property.

Principal payments under the notes payable for the next five years are as follows:

Year Ending June 30	Principal	Interest
2004	$ 181,518	$ 551,178
2005	196,330	536,366
2006	212,350	520,345
2007	6,495,349	127,432
Total	$7,085,547	$1,735,321

Due within one year	$ 181,518
Due in more than one year	6,904,029
Total	$7,085,547

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)
6/30/98	$ 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%
6/30/02	1,416,821	1,660,566	243,745	85.30%	301,891	80.70%
6/30/03	1,353,941	1,781,544	427,603	76.00%	323,896	132.00%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1998	$ 42,676	100%
1999	41,289	100%
2000	38,695	100%
2001	39,482	100%
2002	33,541	100%
2003	36,070	100%

Notes to Required Supplementary Information

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

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

Latest Actuarial Valuation

Valuation Date	June 30, 2003	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent – closed	
Remaining Amortization Period	19 years	
Asset Valuation Method	5-year smoothed market	
Actuarial Assumptions:		
Investment Rate of Return	8.00%	
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 annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Schedule of Funding Progress

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

As of June 30, 2003, the date of the last actuarial valuation, the San Mateo County Employees' Retirement System had a 76.0% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principals of entry age normal cost funding.

In this schedule, six years of historical information is presented. In 1994 the system changed its asset allocation from 100% fixed income to a well-diversified investment portfolio. The funded ratio steadily improved from 65.46% as of June 30, 1994 to 98.61% as of June 30, 2001. This was an important accomplishment for *SamCERA* especially since it was accomplished without the benefit of a Pension Benefit Obligation Bond. The Plan Sponsor granted enriched benefits in the 2002 Memorandum of Understanding, which resulted in the funded ratio retreating to 76.0% as of June 30, 2003.

SamCERA currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. *SamCERA* is funding the UAAL over a 20-year amortization period, which began July 1, 2002. There are currently 19 years remaining in the funding period, which is scheduled to end on June 30, 2022. A majority of retirement systems have a UAAL as they are not at a 100% funded status. In the opinion of most actuarial firms, a funded status in excess of 90% indicates that a retirement system is in a strong financial position to meet its current and future liabilities to its members.

Schedule of Employers' Contributions

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

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

Schedule of Administrative Expenses as of June 30, 2003 and 2002

	2003	2002
Salaries and Employee Benefits	$ 962,378	$ 837,666
Services and Supplies	919,358	661,264
Depreciation	5,156	9,597
Total Administration Expense	$1,886,892	$1,508,527

Administrative Budget Analysis
Budget to Actual Expenditure

	Budget Allotment (As Amended)	**Fiscal Year Expenditures**	**Percentage Expended**
Salaries	$ 797,000	$741,059	93.0%
Benefits	245,000	221,320	90.3%
Salaries & Benefits	$1,042,000	$962,379	92.4%
Board Expenses	8,000	4,200	52.5%
Insurance	60,000	60,000	100.0%
Medical Evaluation	20,000	6,712	33.6%
Member Education	15,000	14,735	98.2%
Education & Conference	29,500	28,365	96.2%
Transportation & Lodging	54,700	36,008	65.8%
Software License & Maintenance	60,000	29,187	48.6%
Property & Equipment	76,500	75,356	98.5%
General Office Supplies	15,000	12,206	81.4%
Postage, Printing & Copying	50,000	50,000	100.0%
Leased Facilities	90,000	87,085	96.8%
County Service	255,500	240,405	94.1%
Other Administration	278,800	275,099	98.7%
Services & Supplies	$1,013,000	$919,358	90.8%
Fixed Assets	0	0	0.0%
Depreciation	5,156	5,156	0.0%
Grand Total	$2,060,156	$1,886,892	91.6%

Schedule of Investment Expense
as of June 30, 2003 and 2002

	2003	2002
Investment Manager		
Bank of Ireland Asset Management	$ 680,165	$ 693,191
Barclays Global Investors	267,255	290,301
Deutsche Asset Management Inc.	439,365	463,061
INVESCO Realty Advisors	485,374	641,923
Global Custodian		
State Street Bank	117,171	117,129
Professional Expense	1,989,330	2,205,605
Consultant Expense	325,900	212,203
Interest Paid on Prepaid Contribution	1,256,033	1,269,472
Total Investment Expense	$3,571,263	$3,687,280

Schedule of Payments to Consultants
as of June 30, 2003 and 2002

	2003	2002
Investment Consultant Expense		
Strategic Investment Solutions	$175,000	$ 145,833
Gray & Company	0	6,069
Actuarial Consultant Expense		
Mercer Human Resources Consulting	150,900	60,300
Total Consultant Expense	$325,900	$212,203

Notes to the Other Supplementary Information

SamCERA's budget consists of two components, an administrative budget authorized by Government Code §31580.2 and a professional services budget authorized by Government Code §31596.1. *SamCERA's* budgets are on a fiscal year basis starting July 1st and ending June 30th. Each Spring, through a three month hearing process, the Retirement Board develops the following fiscal year's budget document. This document is published as *SamCERA's* Sources, Uses and Budget Report. It may be viewed at www.samcera.org.

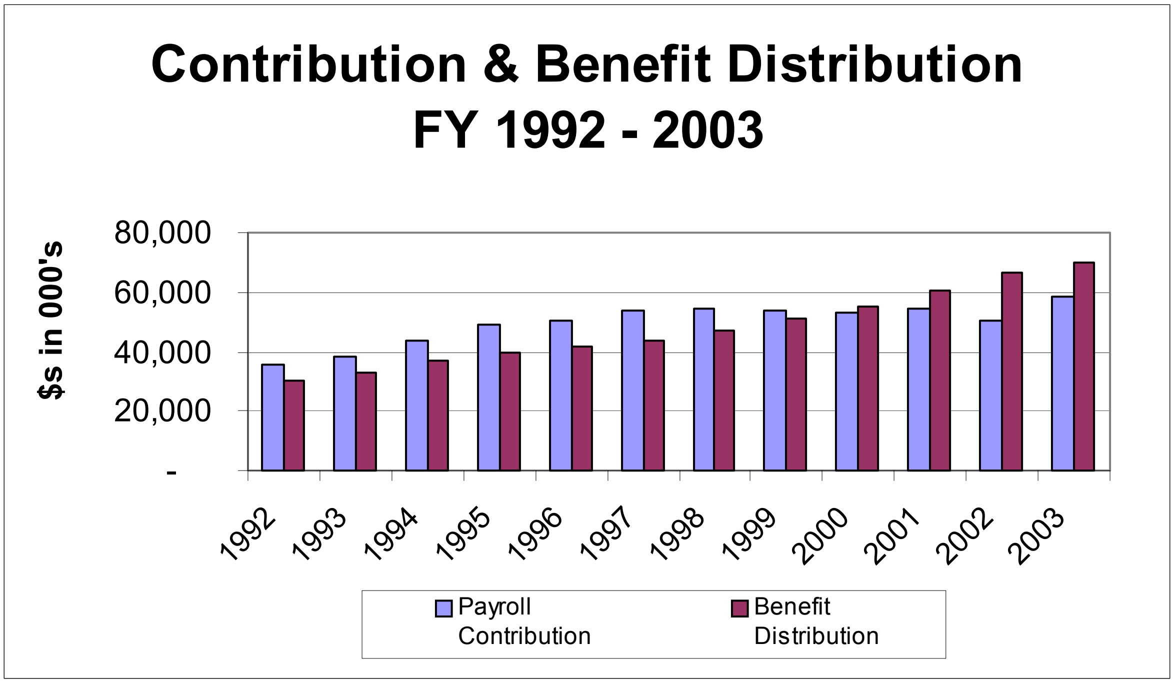
Administrative Services Budget

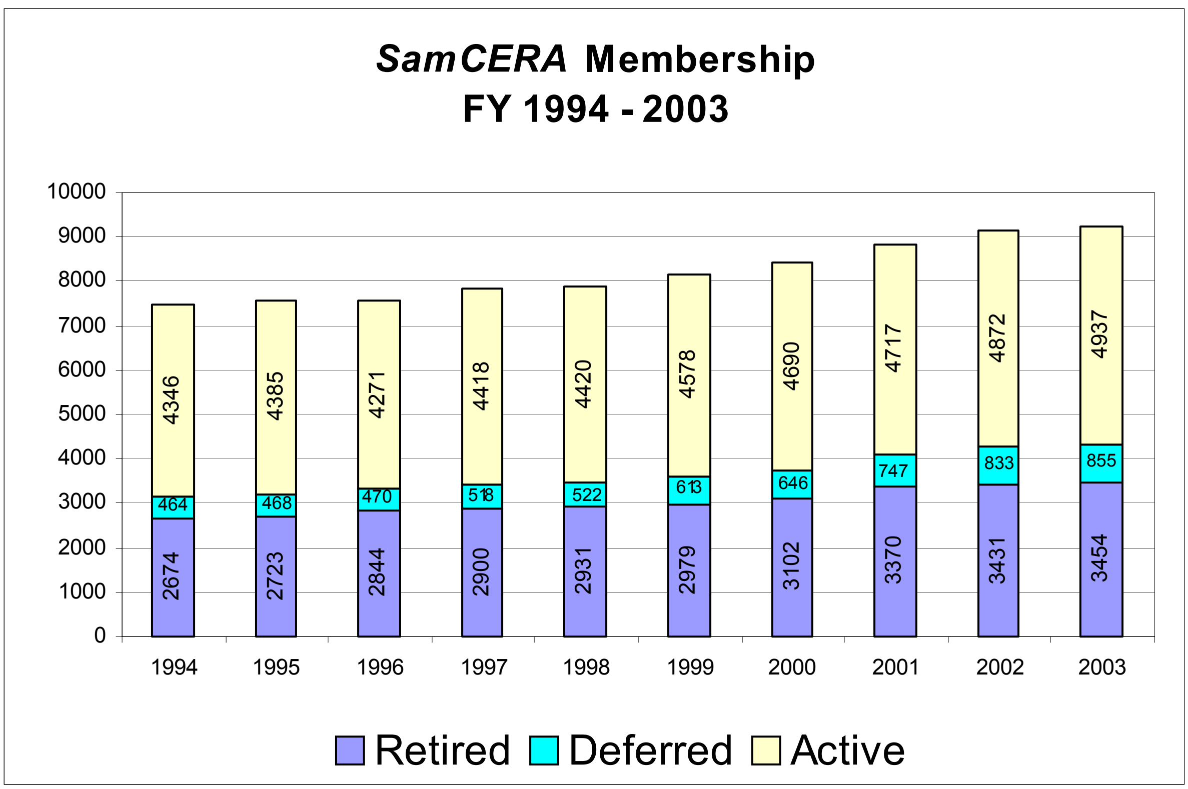
Government Code §31580.2 states in part, *". . . the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed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

Professional Services Budget

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

SamCERA's professional services budget is driven by contractual agreements with the Actuary, Custodian, Investment Consultant, and Investment Managers.

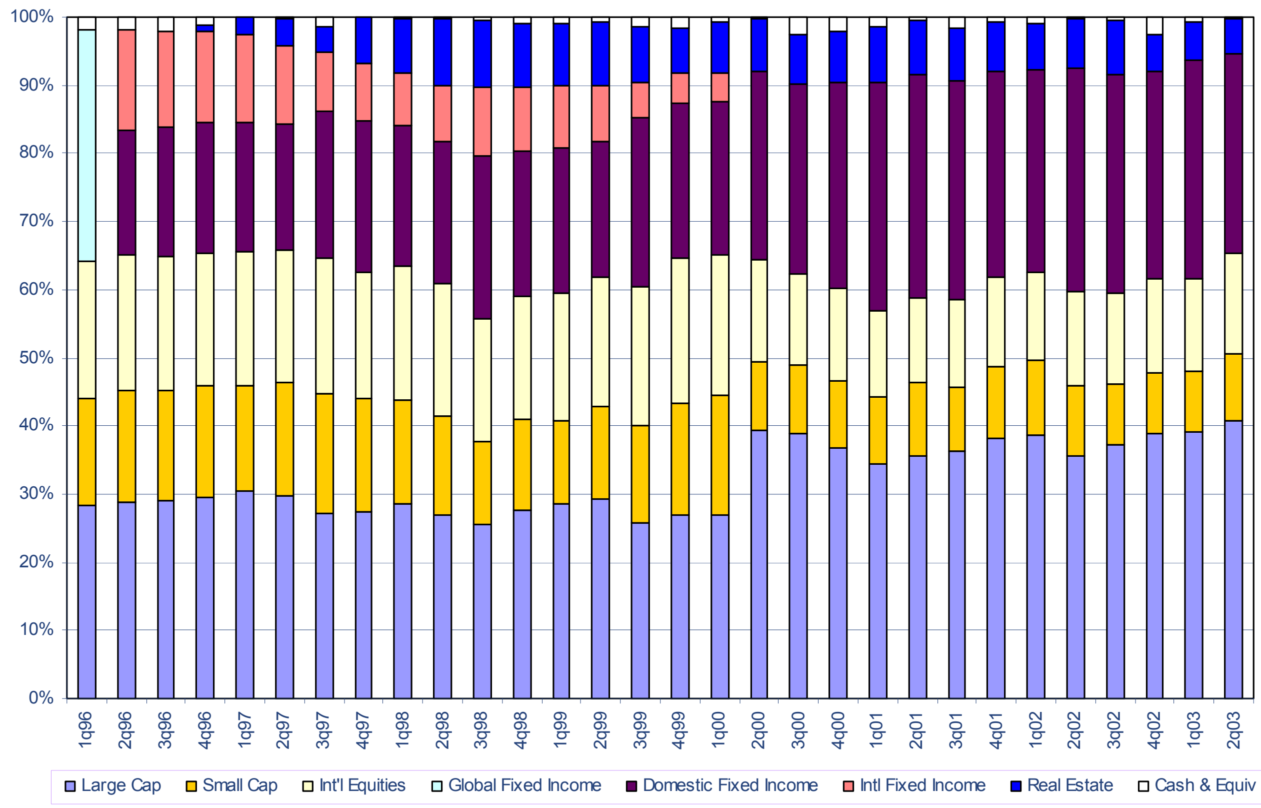

Contribution & Benefit Distribution
FY 1992 - 2003
$s in 000's
80,000
60,000
40,000
20,000
-
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Payroll Contribution
Benefit Distribution


SamCERA Membership
FY 1994 - 2003
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2674
464
4346
2723
468
4385
2844
470
4271
2900
518
4418
2931
522
4420
2979
613
4578
3102
646
4690
3370
747
4717
3431
833
4872
3454
855
4937
Retired
Deferred
Active

THE INVESTMENT SECTION

ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

PERIODS ENDED JUNE 30, 2003



STRATEGIC INVESTMENT SOLUTIONS, INC.

September 18, 2003

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

Dear Board Members:

Fiscal year 2003, with its continued anemic economic growth and poor equity market returns, brought extremely trying times to US Retirement Plans. Though one year removed from the seminal event of September 11, 2001, the world's economies and financial markets continued to feel its repercussions. Ongoing fears of further terrorist incidents, the aftermath of the US military intervention in Afghanistan, and the preparation, then execution, of the invasion of Iraq all contributed to an unsettled investment environment. World equity markets continued their relentless fall, finally reaching multi-year lows in October of 2002. A measure of hope returned to equity markets at fiscal year end through a powerful fourth quarter rally. Even so, US equities finished the year with a return only barely positive while International equities declined in value.

The Federal Reserve continued to respond aggressively to the difficult economic and equity market environment through further dramatic reductions in interest rates during the year. By the end of the year, the Fed had reduced the overnight lending rate to 1%, bringing the rate to its lowest level in 45 years. Government and high quality corporate bond prices increased as interest rates in general fell. High yield corporate bonds, in an early signal of an improving environment for riskier investments, posted the highest returns of any of the major asset classes. Investment real estate also performed well, posting a return of almost 8% during the year.

In this market setting, SamCERA's investment portfolio returned 3.84%. This result, though somewhat disappointing, was higher than the policy benchmark's return of 3.60%. An effective rebalancing policy at the total portfolio level and excellent performance from the real estate portfolio were responsible for SamCERA's 24 basis point return premium over the plan benchmark. Unfortunately, SamCERA's total fund performance was far below the plan's actuarial assumption of 8.25%.

Asset allocation targets for SamCERA remained constant 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 60th percentile of the Independent Consultant's Cooperative Large Public Funds Universe for the fiscal year ended June 30, 2003. SamCERA's portfolio return of 3.84% placed it in the 54th 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.

Recent equity returns have provided welcome relief for pension funds. Monthly, quarterly, year-to-date and even June 30th fiscal year returns were positive for most indexes. The S&P 500 Index returned to positive territory for the fiscal year with a one year return of +0.26%. The Russell 3000 Index was up +0.76% for the year ended June. The MSCI ACWI Free Ex-U.S. posted a +19.85% gain (U.S. Dollars) in the fourth fiscal quarter but remained in negative territory for the fiscal year at -4.20%.

For the fiscal year ended June, SamCERA lagged its equity benchmark, largely due to the underperformance of the Plan's international equity manager Bank of Ireland (-8.90% return). Poor stock selection as well as a strategic bias against emerging markets stocks has led to noteworthy underperformance versus the MSCI ACWI Free ex-U.S. Index. The BGI domestic equity funds posted approximately the returns of the Russell 1000 and Russell 2000 indexes for the fiscal year, meeting their passive objectives. A modest underweight to the BGI Russell 1000 Fund in mid 2002 detracted slightly from domestic equity performance versus SamCERA's benchmark.

While the equity portfolio for the fiscal year underperformed, the fixed income portfolio has been a relative success versus the bond market. For the fiscal year ended June, both fixed income managers exceeded the return of the Lehman Aggregate, Deutsche by a greater amount as would be expected. BGI posted a 10.47% return and Deutsche posted a 10.57% return for the fiscal year. The US bond market has been unusually strong with a June fiscal year return of 10.41%.

For the year ended June 2003, NCREIF returned 7.64% while SamCERA's real estate manager INVESCO achieved a noteworthy return of 15.06%. During fiscal year 2003, SamCERA will review its real estate asset class implementation to determine if a separate account structure provides appropriate diversification for the Plan.

The plan's return once again exceeded its policy benchmark during the year, returning 24 basis points above policy. The plan has continued to perform well during a very difficult capital market environment for retirement funds. We believe that SamCERA is coming through this period well positioned to fulfill its benefit obligations.

Sincerely,

Strategic Investment Solutions

Margaret Jadallah

Margaret Jadallah and Patrick Thomas

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

INVESTMENT PHILOSOPHY

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

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

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

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

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

INVESTMENT OBJECTIVES

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

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

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

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

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

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

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

INVESTMENT POLICY

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

INVESTMENT POLICY – (CONTINUED)

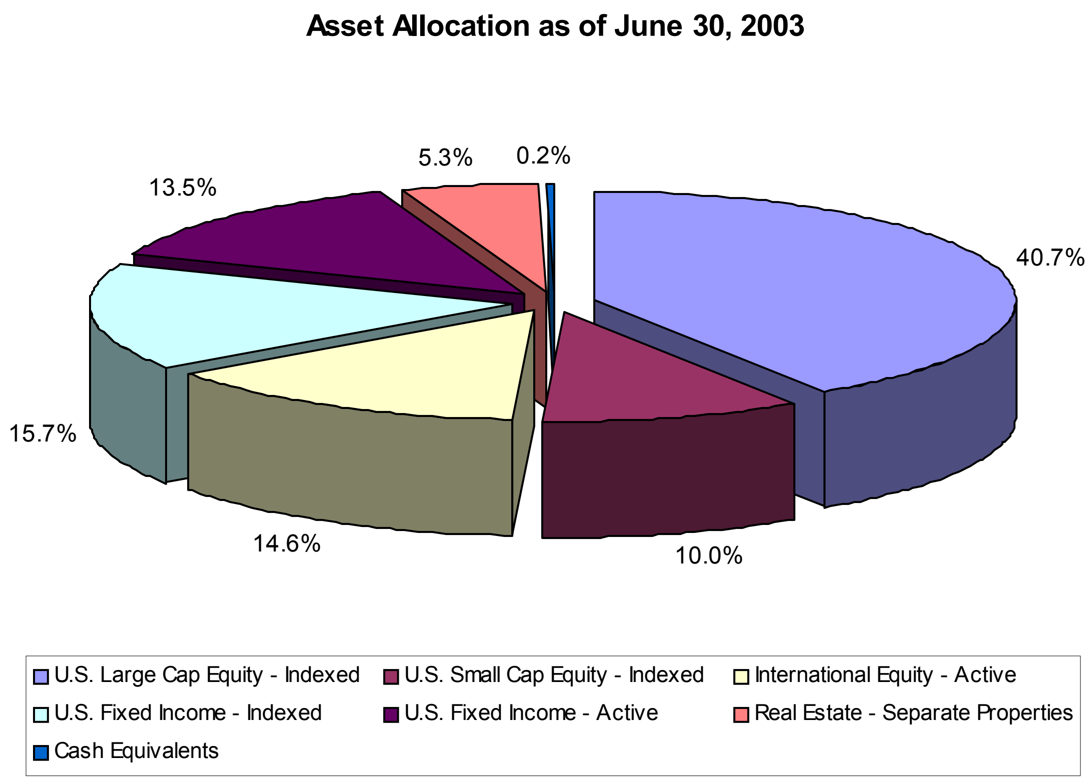
The Board retains the most qualified Investment Managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the Investment Managers to maximize their performance relative to their individual investment style benchmark. They are delegated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

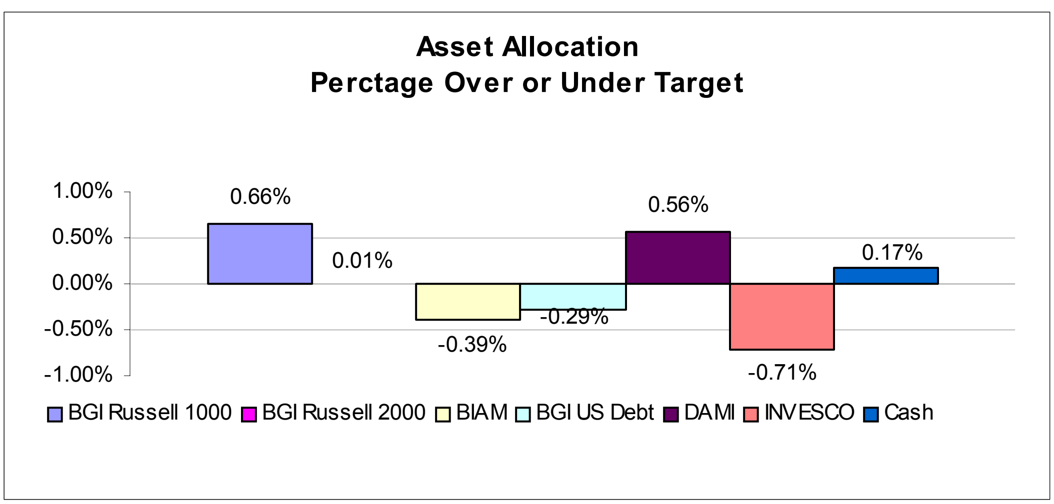
The Board discourages the use of Cash Equivalents, except for liquidity purposes and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION

Asset Class	Allocation		June 30 Actual	
Equity	65%		65.3%	
Fixed Income	29%		29.2%	
Real Estate	6%		5.3%	
Cash	0%		0.2%	
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	40%		40.7%	
Indexed		40%		40.7%
Domestic Small Capitalization	10%		10.0%	
Indexed		10%		10.0%
International	15%		14.6%	
Active		15%		14.6%
Total Equity	65%		65.3%	
Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	29%		29.2%	
Indexed		16%		15.7%
Active		13%		13.5%
Total Fixed Income	29%		29.2%	
Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		5.3%
Total Real Estate	6%		5.3%	
Total Cash & Cash Equivalents	0%		0.2%	

Asset Allocation	Market Value	Percentage
Large Capitalized U.S. Equities	$ 504,456,079	40.7%
Small Capitalized U.S. Equities	124,154,260	10.0%
International Equities	181,209,278	14.6%
U.S. Fixed Income	363,085,151	29.2%
Real Estate	65,374,559	5.3%
Cash	2,049,881	0.2%
Total	$1,240,329,208	100.0%


Asset Allocation as of June 30, 2003
40.7%
10.0%
14.6%
15.7%
13.5%
5.3%
0.2%
U.S. Large Cap Equity - Indexed
U.S. Small Cap Equity - Indexed
International Equity - Active
U.S. Fixed Income - Indexed
U.S. Fixed Income - Active
Real Estate - Separate Properties
Cash Equivalents


Asset Allocation
Perctage Over or Under Target
1.00%
0.50%
0.00%
-0.50%
-1.00%
0.66%
0.01%
-0.39%
-0.29%
0.56%
-0.71%
0.17%
BGI Russell 1000
BGI Russell 2000
BIAM
BGI US Debt
DAMI
INVESCO
Cash

SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2003	Total time Weighted Rate of Return			
Asset Category	One Year	Two Years	Three Years	Five Years
Domestic Equity	0.10%	<8.28%>	<9.43%>	<1.55.%>
Barclays Global Investors Russell 1000 Index Fund	0.98%	<8.94%>	<10.95%>	<1.21%>
Benchmark Russell 1000	0.95%	<8.95%>	<11.00%>	<1.25%>
Barclays Global Investors Russell 2000 Index Fund	<1.85%>	<5.24%>	<3.35%>	N/A
Benchmark Russell 2000	<1.64%>	<5.18%>	<3.30%>	N/A
International Equity				
Bank of Ireland Asset Management	<8.90%>	<8.66%>	<12.43%>	<2.29%>
Benchmark MSCI ACWI ex US	<4.19%>	<6.22%>	<12.54%>	<3.29%>
Total Equity	<2.07%>	<8.43%>	<10.17%>	<2.59%>
Domestic Fixed Income				
Barclays Global Investors US Debt Index Fund	10.47%	9.67%	10.23%	7.66%
Benchmark Lehman Aggregate Bond Index	10.57%	10.03%	10.76%	7.85%
Deutsche Asset Management, Inc.	9.49%	10.85%	8.66%	7.89%
Benchmark Lehman Aggregate Bond Index	10.41%	9.52%	10.08%	7.54%
Total Fixed Income	10.51%	9.80%	10.45%	7.69%
Real Estate				
INVESCO Realty Advisors	15.06%	7.73%	9.51%	8.00%
NCREIF	7.64%	6.56%	8.21%	6.84%
Total Plan	3.84%	<1.16%>	<2.20%>	1.72%
Policy Benchmark	3.60%	<1.61%>	<3.10%>	1.76%

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, 2003

Domestic Equity			
Barclays Global Investors	Russell 1000 Index Fund	$504,456,079	
	Russell 2000 Index Fund	$124,154,260	
Total Domestic Equity			$628,610,339
International Equity			
Bank of Ireland Asset Management	International Equity	$181,212,144	
Total International Equity			$181,212,144
Total Equity			$809,822,483
Domestic Fixed Income			
Barclays Global Investors	Us Debt Index Fund	$194,855,273	
Deutsche Asset Management, Inc.	Core Domestic Fixed Income	$159,716,976	$354,572,249
Total Domestic Fixed Income			
Total Fixed Income			$354,572,249
Real Estate			
INVESCO Realty Advisors	Separate Property Portfolio		63,838,644
Unequitized Cash			$16,849,000
Fixed Assets, at cost, net of accumulated depreciation			$3,437
Receivables & Prepaid Expenses			$11,224,456
<less> Current Liabilities			$23,038,732
Net Portfolio as of June 30, 2003			$1,233,271,537

Schedule of Top Ten Equity and Fixed Income Securities

As of June 30, 2003

TOP TEN EQUITY SECURITIES*

Shares	Exchange	Ticker	Security Name	Market Value
441,509	NYC	GE	GENERAL ELECTRIC CO.	$15,244,787
301,308	NYC	PFE	PFIZER INC.	$14,338,465
198,973	NYC	XOM	EXXON MOBIL CORPORATION	$12,757,004
277,440	NASDAQ	MSFT	MICROSOFT CORPORATION	$12,181,688
228,676	NYC	C	CITIGROUP INC.	$11,718,938
133,784	NYC	JNJ	JOHNSON & JOHNSON CO.	$8,164,078
102,160	NYC	WMT	WAL-MART STORES INC.	$7,587,207
121,032	NASDAQ	INTC	INTEL CORPORATION	$7,223,611
225,686	NYC	MRK	MERCK & CO. INC.	$7,221,997
76,059	NYC	IBM	INTL BUSINESS MACHINES CO.	$7,105,311

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

TOP TEN FIXED INCOME SECURITIES*

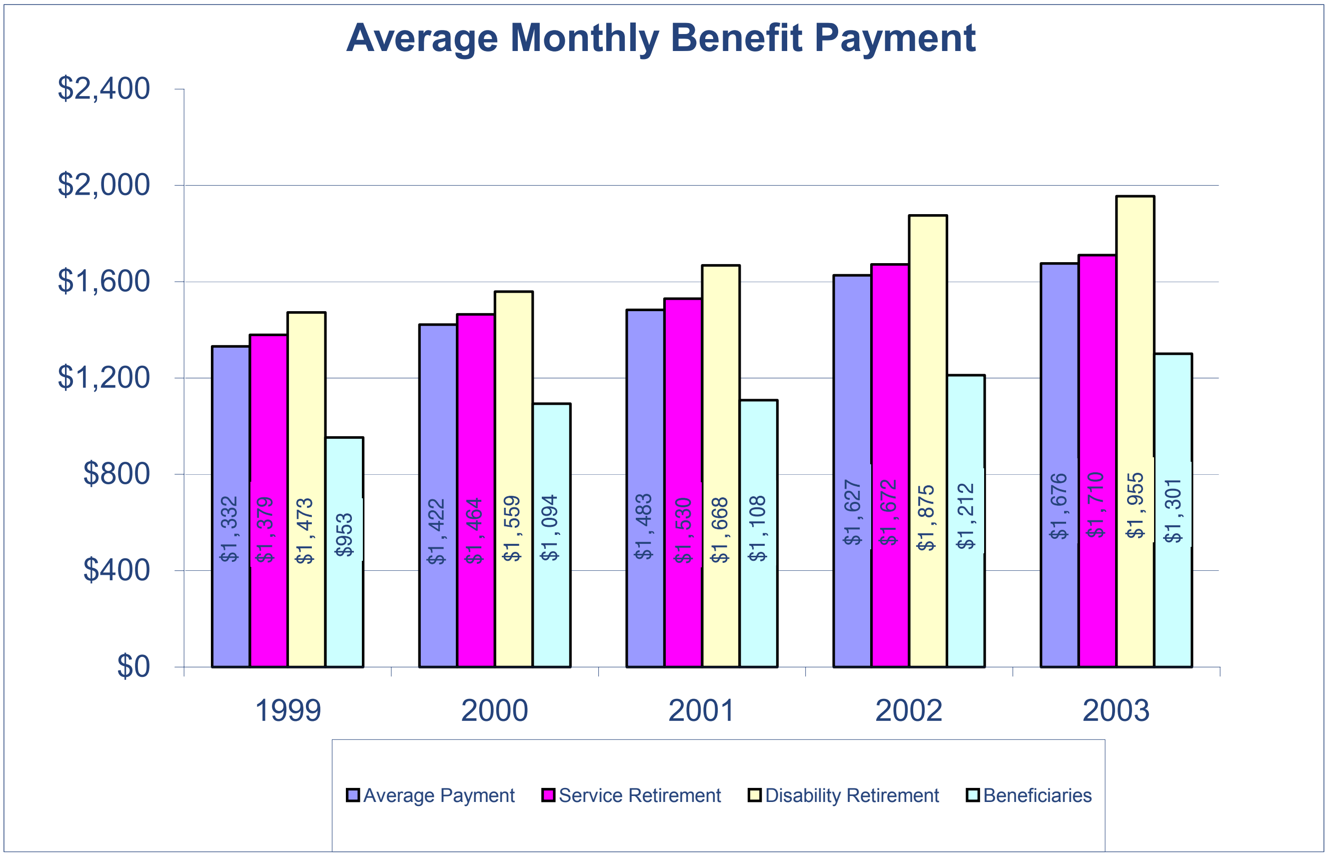
Par/Book Value	Security Name			Issue ID	Market Value
11,690,000	UNITED STATES TREAS BDS	6.000%	02/15/2026	912810EW4	$12,932,918
3,493,000	UNITED STATES TREASURY NOTES	6.125%	08/15/2007	9128273E0	$4,040,964
3,085,000	ROYAL BK SCOTLAND GROUP PLC	9.118%	03/31/2049	780097AE1	$3,977,922
3,787,000	UNITED STATES TREASURY NOTES	1.625%	04/30/2005	912828AX8	$3,811,852
3,483,000	PEMEX FIN LTD	6.550%	02/15/2008	706448AQ0	$3,807,476
3,520,000	FGOLD 15YR	5.950%	11/01/2008	3128H4E54	$3,543,815
3,340,000	FHLMC 5.5 30YR JUL TBA	5.550%	09/25/2031	02R052677	$3,351,965
3,410,000	FNMA TBA JUL 15 SINGLE FAM	4.500%	07/01/2018	01F042475	$3,478,733
3,050,000	WEST VY CITY UT MUN BLDG LEASE	7.670%	05/01/2006	95640EDK8	$3,457,175
11,690,000	UNITED STATES TREAS BDS	6.000%	02/15/2026	912810EW4	$12,932,918

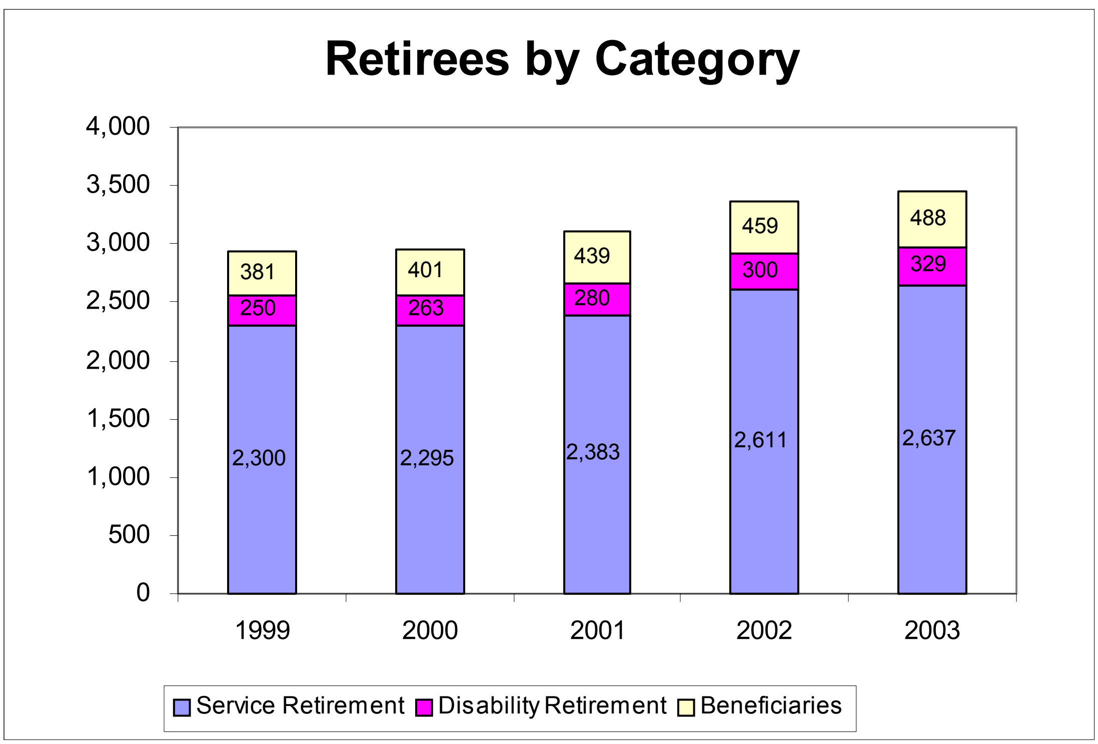
*Some Domestic Fixed Income Securities are owned in the US Debt Index Fund managed by Barclays Global Investors.

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

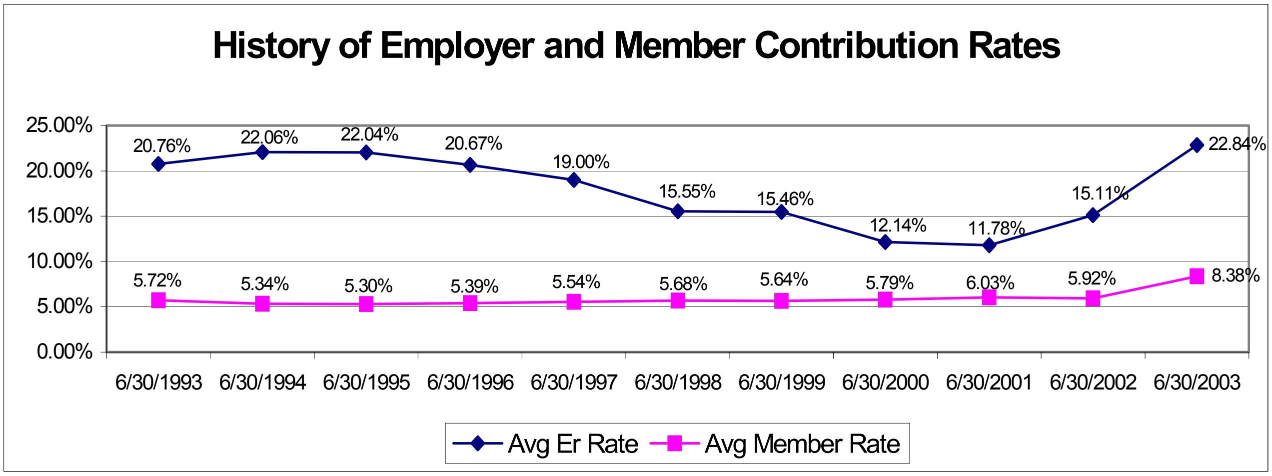
Schedule of Professional Services and Fees
as of June 30, 2003 and 2002

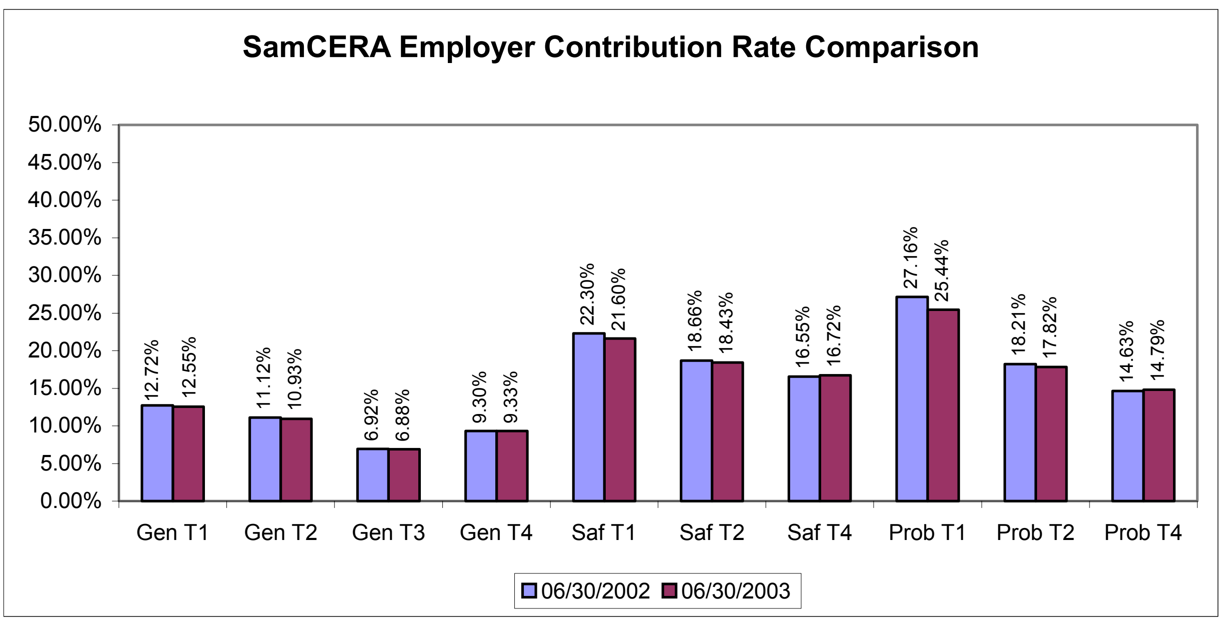
	2003	2002
Investment Managers		
Bank of Ireland Asset Management	$ 680,165	$ 693,191
Barclays Global Investors	267,255	290,301
Deutsche Asset Management Inc.	439,365	463,061
INVESCO Realty Advisors	485,374	641,923
Investment Managers	$1,872,159	$2,088,476
Investment Consultant		
Strategic Investment Solutions	$ 175,000	$ 145,833
Gray & Company	0	6,069
Investment Consultants	$ 175,000	$ 151,902
Actuarial Consulting		
William M. Mercer	$ 150,900	$ 60,300
Master Custodian		
State Street Bank and Trust Company	$ 117,171	$ 117,129
Total Professional Services	$2,315,230	$2,417,807


Average Monthly Benefit Payment
$2,400
$2,000
$1,600
$1,200
$800
$400
$0
$1,332
$1,379
$1,473
$953
$1,422
$1,464
$1,559
$1,094
$1,483
$1,530
$1,668
$1,108
$1,627
$1,672
$1,875
$1,212
$1,676
$1,710
$1,955
$1,301
1999
2000
2001
2002
2003
Average Payment
Service Retirement
Disability Retirement
Beneficiaries


Retirees by Category
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
381
250
2,300
401
263
2,295
439
280
2,383
459
300
2,611
488
329
2,637
1999
2000
2001
2002
2003
Service Retirement
Disability Retirement
Beneficiaries


THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
20.76%
22.06%
22.04%
20.67%
19.00%
15.55%
15.46%
12.14%
11.78%
15.11%
22.84%
5.72%
5.34%
5.30%
5.39%
5.54%
5.68%
5.64%
5.79%
6.03%
5.92%
8.38%
6/30/1993
6/30/1994
6/30/1995
6/30/1996
6/30/1997
6/30/1998
6/30/1999
6/30/2000
6/30/2001
6/30/2002
6/30/2003
Avg Er Rate
Avg 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
06/30/2002
06/30/2003

Actuarial Certification

The annual actuarial valuation required for the San Mateo County Employees' Retirement Association has been prepared as of June 30, 2003, by Mercer Human Resource Consulting. 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 19 years as of June 30, 2003. 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 percent 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 decreased from 85.3 percent to 76.0 percent during the year. There was a reduction in the funding ratio due to:

- Actual investment returns on actuarial value of assets less than the 8.25 percent rate assumed in the last valuation
- Reduction in anticipated future rate of investment return to 8.00 percent
- Reflection of benefit improvement for General members to 2 percent at 55.5 (Section 31676.14)

However, there is some offset to the unfunded actuarial accrued liabilities due to a reduction in the inflation assumption to 3 percent per year.
Changes have been made to the economic assumptions used in this valuation. Please see Appendix B for details.
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.

Actuarial Certification (continued)

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

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.

Mercer Human Resource Consulting

Marcia L. Chapman	Andy Yeung
Marcia L. Chapman, FSA, EA, MAAA	Andy Yeung, ASA, EA, MAAA
October 20, 2003	October 20, 2003
Date	Date

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

Actuarial Assumptions and Cost Method

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent – closed
Remaining Amortization Period	19.0 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.00%
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		6/30/03	6/30/02	Change
Annual Inflation Rate		3.00%	4.25%	-1.25%
Annual Investment Return		8.00%	8.25%	-0.25%
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 choose a deferred retirement.

Summary of Recommendations

Employer Contribution Rates

	06/30/03	06/30/02	Change
Normal Cost Rate	13.32%	12.98%	0.34%
Rate of Contribution to Unfunded Actuarial Accrued Liability	9.52%	5.71%	3.81%
Total Employer Rate	22.84%	18.69%	4.15%
Estimated Annual Amount in Thousands *	$73,995	$60,528	$13,467

Member Contribution Rates

		03/13/05 *	06/30/03 **	06/30/02 **	Change
General Members (Plans 1 & Plan 2)					
	Age 25	6.95%	5.90%	5.54%	0.36%
	35	7.24%	6.22%	5.90%	0.32%
	45	7.97%	6.89%	6.63%	0.26%
General Members (Plan 4)					
	Age 25	6.62%	5.63%	5.28%	0.35%
	35	6.90%	5.93%	5.63%	0.30%
	45	7.57%	6.57%	6.32%	0.25%
Safety Members (Plans 1 & Plan 2)					
	Age 21		8.43%	6.77%	1.66%
	25		8.48%	6.84%	1.64%
	30		8.66%	7.03%	1.63%
Safety Members (Plan 4)					
	Age 21		8.02%	6.44%	1.58%
	25		8.07%	6.51%	1.56%
	30		8.24%	6.69%	1.55%
Probation Members (Plans 1 & Plan 2)					
	Age 21		8.43%	7.97%	0.46%
	25		8.48%	8.05%	0.43%
	30		8.66%	8.27%	0.39%
Probation Members (Plan 4)					
	Age 21		8.02%	7.58%	0.44%
	25		8.07%	7.66%	0.41%
	30		8.24%	7.87%	0.37%
Estimated Annual Amount In Thousands			$27,153	$21,440	$5,713

* The Estimated Annual Amounts for Employee and Employer Contributions include cost sharing through June 30, 2005 weighted for Timing.

** The June 30, 2002, June 30, 2003 and March 16, 2005 rates above do not reflect changes in cost sharing and employer pickup arrangements effective after June 30, 2002. The details regarding cost sharing and employer pickup arrangements are discussed below

Summary of Significant Actuarial Statistics and Measures

Association Membership	6/30/03	6/30/02	Change
Active Members			
Number of Members	4,937	4,872	1.3%
Total Active Payroll in Thousands	$323,896	$301,891	7.3%
Average Monthly Salary	$5,467	$5,164	5.9%
Retired Members			
Number of Members			
Service Retirement	2,637	2,638	0.0%
Disability Retirement	329	316	4.1%
Beneficiaries	488	477	2.3%
Total Retiree Payroll in Thousands	$69,451	$66,974	3.7%
Average Monthly Pension	$1,676	$1,627	3.0%
Inactive Vested Members	855	833	2.6%
Asset Values			
Market Value in Thousands	$1,233,272	$1,207,484	2.1%
Return on Market Value	3.07%	-6.40%	
Actuarial Value in Thousands	$1,387,521	$1,448,980	-4.2%
Return on Actuarial Value	-3.43%	2.08%	
Valuation Assets in Thousands	$1,353,941	$1,416,821	-4.4%
Return on valuation Assets	-3.69%	3.44%	
Liability Values			
Actuarial Accrued Liability in Thousands	$1,781,544	$1,660,566	7.3%
Unfunded Actuarial Accrued Liability	$427,603	$243,745	75.4%
Deferred losses for Asset Smoothing Method	$154,249	$241,497	-36.1%
Funded Ratio			
GASB Number 25*	76.0%	85.3%	-9.3%

*Based on Actuarial value of Assets for June 30, 2003 and June 30, 2002, 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		
6/30/94	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%
6/30/02	190,450,000	866,985,000	785,082,000	1,416,850,000	100%	100%	46%
6/30/03	202,551,000	858,273,000	915,108,000	1,353,941,000	100%	100%	32%

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
6/30/94	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%
6/30/02	1,416,821	1,660,566	243,745	85.30%	301,891	80.7%
6/30/03	1,353,941	1,781,544	427,603	76.00%	323,896	132.0%

History of Employer Contribution Rates

	General Member			Safety Member			Probation Member		
Year	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
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%
2003	11.00%	4.60%	15.60%	21.99%	12.74%	34.73%	23.45%	8.10%	31.55%

Active Member Valuation Data

Valuation Date		Members	Annual Salary	Average Annual Salary	% Change Average Salary
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%
2002	General	4,159	$250,344,000	$60,192	6.7%
	Safety	431	$34,405,000	$79,824	5.1%
	Probation	282	$17,142,000	$60,792	6.8%
	Total	4,872	$301.891,000	$61,968	6.6%
2003	General	4,213	$267,150,000	$63,408	5.3%
	Safety	434	$37,973,000	$87,492	9.6%
	Probation	290	$18,773,000	$64,740	6.5%
	Total	4,937	$323,896,00	$65,964	5.9%

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
6/30/93	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
6/30/02	3,253	194	138	3,309	$66,974,000	7.3%	$1,627
6/30/03	3,309	128	115	3,322	$69,451,000	3.7%	$1,676

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

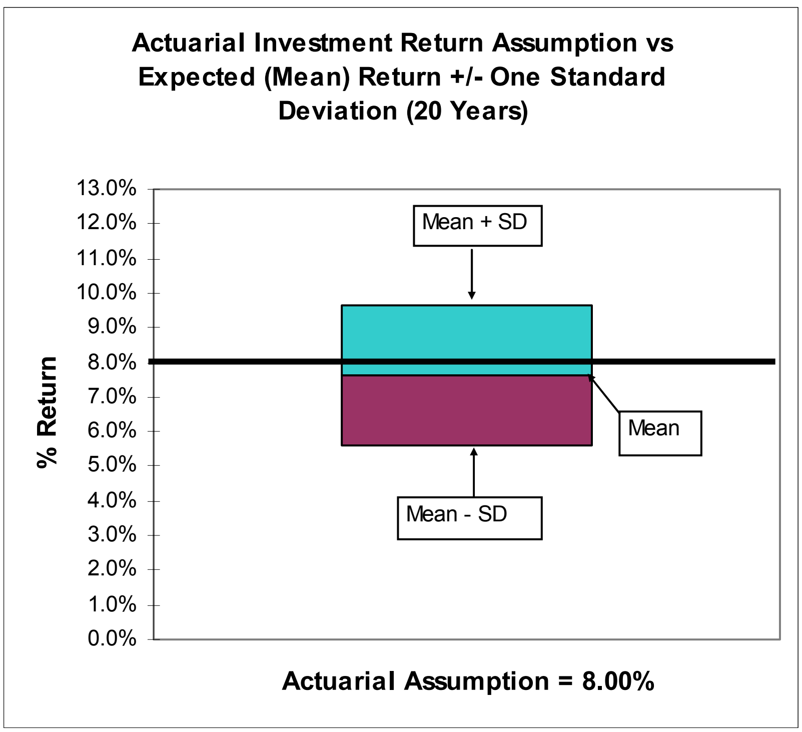
Actuarial Analysis of Financial Experience

Summary of (Gains) / Losses	Change In Liability				
	2003	2002	2001	2000	1999
Unfunded Liability as of July 1	243,745,000	19,474,000	20,129,000	96,137,000	111,756,000
Expected Change in UAAL	20.884,000	(2,125,000)	(700,000)	(3,535,000)	
Salary (Gain) / Loss	(4,907,000)	(3,400,000)	8,134,000	7,766,000	41,805,000
Fewer Withdrawal than expected	1,268,000	425,000			6,103,000
Liability corrections for part timers					(2,704,000)
Retiree COLA more / (less) than expected	(13,863,000)	8,499,000	1,502,000	(1,356,000)	(2,999,000)
Assets (Gain) / Loss	169,944,000	34,881,000	(12,157,000)	(71,409,000)	(67,009,000)
Higher than expected contributions					(20,185,000)
Inclusion of Ventura Non-terminal pay					
Change due to Assumption Changes	(7,797,000)	32,979,000			(5,084,000)
Change due to Amortization Period					
Change due to Actuarial Asset Corridor		31,919,000			
Reserve to offset Contingent Ventura Liability					32,145,000
Miscellaneous Experience	(5,138,000)	1,580,000	2,566,000	(7,474,000)	2,309,000
Change Due to New Formula	23,467,000	119,513,000			
Unfunded Liability as of June 30	427,603,000	243,745,000	19,474,000	20,129,000	96,137,000

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

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 7.62%, and the standard deviation is 2.03%. The 8.00% return is roughly equivalent to the 57th percentile of returns, meaning there is about a 57% 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
6/30/1997	$42,887	100%
6/30/1998	$42,676	100%
6/30/1999	$41,289	100%
6/30/2000	$38,695	100%
6/30/2001	$39,482	100%
6/30/2002	$33,541	100%
6/30/2003	$36,070	100%

Schedule of Revenue by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/1997	$11,198	$42,887	$152,473	$206,558
6/30/1998	$12,033	$42,676	$168,115	$222,824
6/30/1999	$12,586	$41,289	$83,550	$137,425
6/30/2000	$14,383	$38,695	$123,203	$176,282
6/30/2001	$15,287	$39,482	<$65,750>	<$10,981>
6/30/2002	$16,627	$33,541	<$82,410>	<$32,242>
6/30/2003	$22,650	$36,070	$39,150	$97,870

Schedule of Expenses by Type
(In thousands of Dollars)

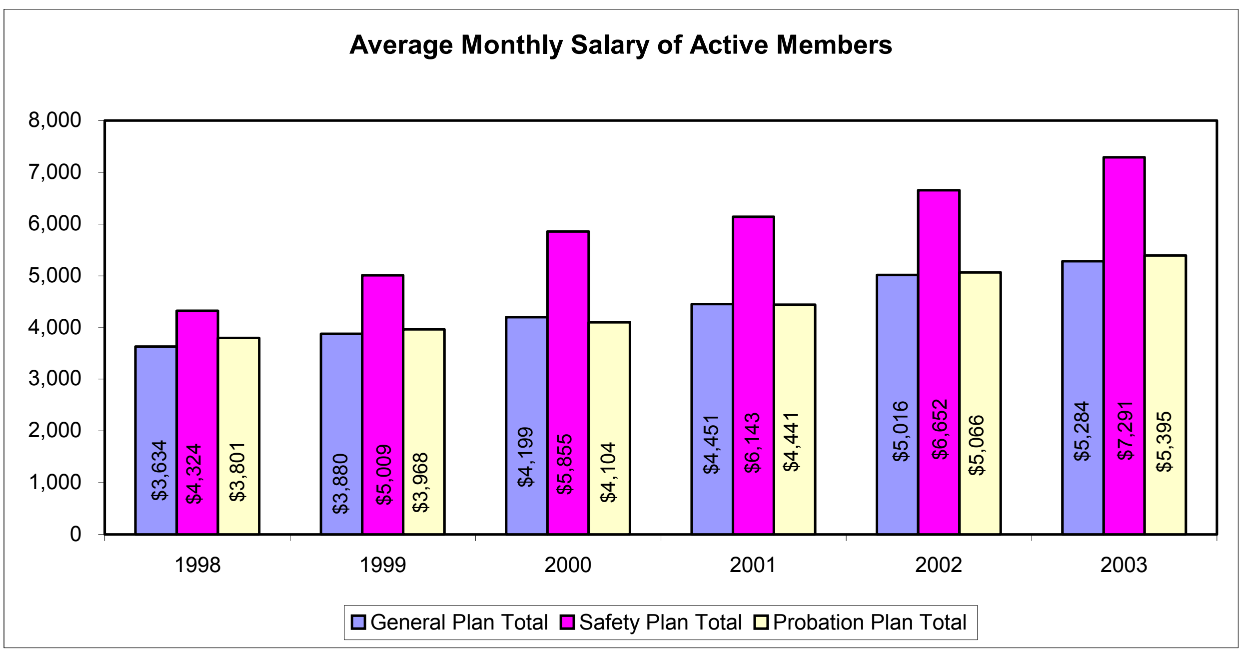
Year End	Administrative Expenses	Retirement Benefits Paid	Refunds	Total
6/30/1997	$909	$42,338	$1,462	$44,759
6/30/1998	$1,034	$45,398	$1,653	$48,085
6/30/1999	$1,070	$49,492	$1,640	$52,202
6/30/2000	$1,221	$53,090	$1,896	$56,207
6/30/2001	$1,491	$58,807	$1,846	$62,144
6/30/2002	$1,509	$65,186	$1,551	$68,246
6/30/2003	$1,887	$68,989	$1,206	$72,082

Summary of Retired and Inactive Member Benefits

Retired Members	2003	2002	2001	2000	1999	1998
Service Retirement						
Number	2,637	2,638	2,383	2,295	2,300	2,293
Annual Allowance						
Basic Only	$36,929,000	$36,260,000	$30,059,000	$27,966,000	$26,159,000	$24,897,000
Cola	$17,185,000	$16,668,000	$13,692,000	$12,343,000	$11,910,000	$10,924,000
Total	$54,114,000	$52,928,000	$43,751,000	$40,309,000	$38,069,000	$35,821,000
Average Monthly Payment	$1,710	$1,672	$1,530	$1,464	$1,379	$1,302
Disability Retirement						
Number	329	316	280	263	250	231
Annual Allowance						
Basic Only	$5,588,000	$5,061,000	$4,014,000	$3,517,000	$3,115,000	$2,540,000
Cola	$2,130,000	$2,049,000	$1,591,000	$1,402,000	$1,303,000	$1,172,000
Total	$7,718,000	$7,110,000	$5,605,000	$4,919,000	$4,418,000	$3,712,000
Average Monthly Payment	$1,955	$1,875	$1,668	$1,559	$1,473	$1,339
Beneficiaries						
Number	488	477	439	401	381	353
Annual Allowance						
Basic Only	$4,065,000	$3,548,000	$2,950,000	$2,819,000	$2,154,000	$5,151,000
Cola	$3,554,000	$3,388,000	$2,886,000	$2,444,000	$2,204,000	$1,989,000
Total	$7,619,000	$6,936,000	$5,836,000	$5,263,000	$4,358,000	$4,140,000
Average Monthly Payment	$1,301	$1,212	$1,108	$1,094	$953	$918
Total Retired Members						
Number	3,454	3,431	3,102	2,979	2,931	N/A
Annual Allowance						
Basic Only	$46,582,000	$44,869,000	$37,023,000	$34,302,000	$31,428,000	N/A
Cola	$22,869,000	$22,105,000	$18,169,000	$16,189,000	$15,417,000	N/A
Total	$69,451,000	$66,974,000	$55,192,000	$50,491,000	$46,845,000	N/A
Average Monthly Payment	$1,676	$1,627	$1,483	$1,422	$1,332	N/A
Inactive Members	855	833	646	613	522	518

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

	2003	2002	2001	2000	1999	1998
General Plan 1	$6,070	$5,806	$5,143	$4,910	$4,451	$4,200
General Plan 2	$5,573	$5,311	$4,636	$4,301	$3,894	$3,573
General Plan 3	$4,747	$4,737	$4,197	$3,820	$3,522	$3,255
General Plan 4	$4,886	$4,545	$3,831	$3,483	$3,151	N/A
General Plan Total	$5,284	$5,016	$4,451	$4,199	$3,880	$3,634
Safety Plan 1	$8,500	$7,820	$6,955	$6,400	$5,562	$4,670
Safety Plan 2	$7,518	$6,853	$6,102	$5,883	$4,906	$4,135
Safety Plan 4	$6,465	$5,789	$5,271	$4,957	$3,900	N/A
Safety Plan Total	$7,291	$6,652	$6,143	$5,855	$5,009	$4,324
Probation Plan 1	$6,548	$6,253	$5,460	$5,100	$4,634	$4,358
Probation Plan 2	$5,800	$5,542	$4,654	$4,240	$3,941	$3,548
Probation Plan 4	$4,924	$4,502	$3,660	$3,119	$3,010	N/A
Probation Plan Total	$5,395	$5,066	$4,441	$4,104	$3,968	$3,801
Total	$5,467	$5,164	$4,603	$4,348	$3,988	$3,704



To order you own copy of *SamCERA's*
June 30, 2003 *Comprehensive Annual Financial Report*,
complete the following form and send it to *SamCERA*,
either through the Pony at
RET 141,
or the U.S. Mail at
100 Marine Parkway, Suite 125, Redwood Shores, CA 94065:

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

To: *SamCERA* Date:
Please send me:
- ❑ *SamCERA's June 30, 2003 Comprehensive Annual Financial Report*
- ❑ *SamCERA's Sources, Uses and Budget report for Fiscal Year 2003-2004*
- ❑ *SamCERA's Dissolution of Marriage Guidelines*
- ❑ Change of Beneficiary Form
- ❑ Direct Deposit Application
- ❑ Notice of Public Meetings of *SamCERA*'s Board of Retirement
- ❑ Minutes of Public Meetings of *SamCERA*'s Board of Retirement

From:
Name:____________________________Title:__________________
Department or Other Employer:____
Pony Address, if applicable:________Date of Retirement, if applicable:________
Mailing Address:____