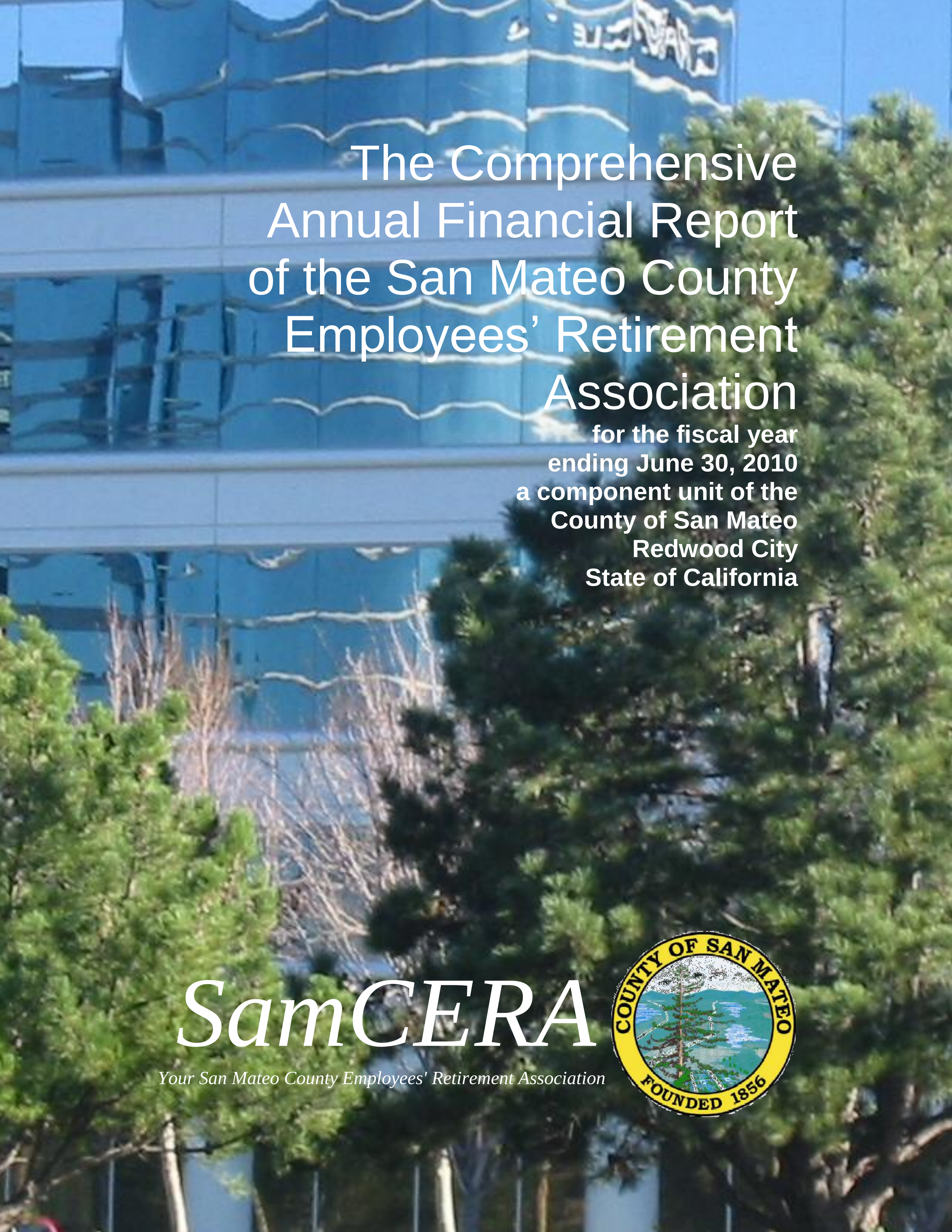

The Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association

for the fiscal year ending June 30, 2010
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, 2010

C. David Bailey
Chief Executive Officer

Gary L. Clifton
Chief Investment Officer

Mabel Wong
Retirement Finance Officer

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

San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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San Mateo County Employees' Retirement Association

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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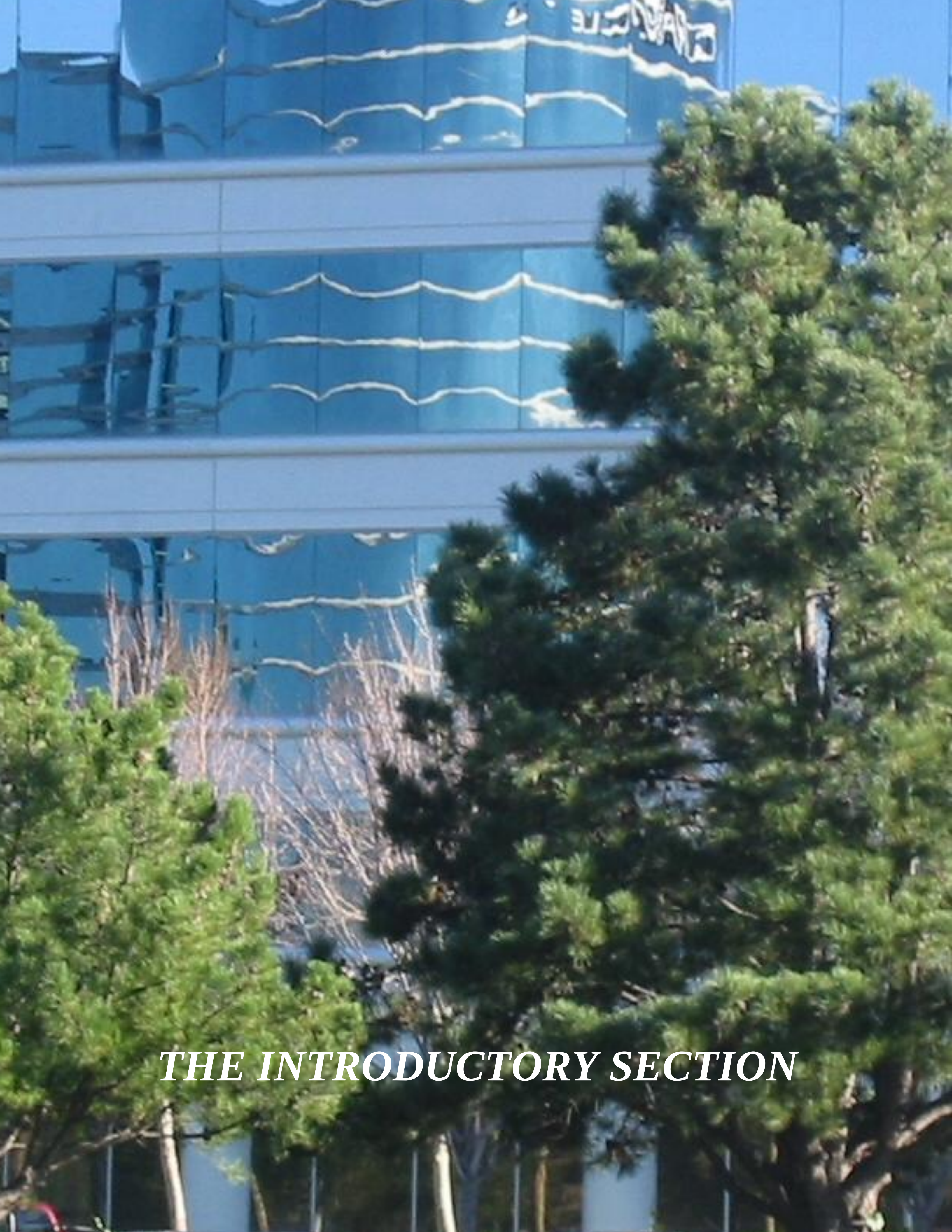

THE INTRODUCTORY SECTION

SamCERA's Mission

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

SamCERA's Goals

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

Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to its employers.

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

SamCERA

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Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present the *Comprehensive Annual Financial Report of the San Mateo County Employees' Retirement Association* for the fiscal years ending June 30, 2010, and June 30, 2009.

SamCERA's management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. Management's discussion and analysis of the data may be reviewed on pages 16-24.

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

The accounting firm of Brown Armstrong Paulden Accountancy Corporation provides audit services to *SamCERA*. The financial audit ensures that *SamCERA's* financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. Internal controls are reviewed to ensure that *SamCERA's* operating policies and procedures are being adhered to and that the controls are sufficient to ensure accurate and reliable financial reporting and to safeguard *SamCERA's* assets.

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

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

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

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

SamCERA engages an independent actuarial consulting firm, Milliman, Inc., to conduct an annual actuarial valuation of the plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and employee contribution rates can be adjusted accordingly. *SamCERA* strives to provide the most recent financial and actuarial data in its annual report. Therefore, the actuarial valuation of June 30, 2010, is used in this CAFR.

AUTHORITY, RESPONSIBILITIES & DUTIES

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

SamCERA provides retirement, disability and death benefits for its eligible members in accordance with the provisions of the Constitution of the State of California and the provisions of Section 17 of Article XVI of the Constitution of the State of California and the County Employees' Retirement Law of 1937 commencing at Government Code Section 31450 as well as applicable statutes, regulations and case law.

The Board of Retirement serves as fiduciary for all of *SamCERA's* members. The board is responsible for administering the provisions of the '37 Act that the Board of Supervisors has made applicable to San Mateo County. The Board of Retirement has adopted its *Mission & Goals; Statement of Strategic Services; Regulations of the Board of Retirement; SamCERA's Investment Policy; SamCERA's Sources, Uses and Budget Report; Conflict of Interest Code; Code of Fiduciary Conduct* and *Delegation of Authority, et al* to document the board's policies. In addition, the board has executed contracts for the professional services of an actuary, investment consultant, investment managers, and a global custodian to help the board fulfill its duties. The board's professional consultants are highlighted in the organizational chart on page 12.

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

SamCERA's members include all permanent employees of the County of San Mateo and the San Mateo County Mosquito and Vector Control District, vested former employees who elected deferred retirement, and all current retirees and benefit recipients. More than 85% of *SamCERA*'s members are classified as General Members. General Members are covered by the applicable provisions set forth in the '37 Act and the laws and rules governing federal Social Security benefits. The remainder of *SamCERA*'s members are law enforcement employees classified as Safety Members or Probation Safety Members. These members are covered by specific Safety Member provisions of the '37 Act but are not covered by Social Security.

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

LOOKING BACKWARD AND FORWARD

Board Changes

Two new trustees were appointed to the Board of Retirement near the close of 2009.

Lauryn Agnew is a Principal at Seal Cove Financial and serves as Chair of the investment committees of United Way of the Bay Area and the Girls Scouts of Northern California. She also serves on the Finance Committee for the Immaculate Conception Academy in San Francisco. Ms. Agnew had prior service on the Board of Retirement from 1989 to 1998.

Eric Tashman is a public finance partner in the San Francisco law office of Sidley Austin where he is head of the firm's West Coast public finance practice group. The two new trustees replaced James Hooley and Emily Tashman.

Four members of the Board of Retirement were elected, appointed or re-elected in June 2010.

Paul Hackleman, former Benefits Manager for San Mateo County, was elected in June to serve as the Retired Member of the Board of Retirement. Paul replaced long-time board member Bette Stuart. Paul served as the county Benefits Manager from 1982 through March 2008. He is also a former member of the Retirement Board, having served from June 2005 through March 2008 while actively employed. Today he is the head of I.C. Benefits Consulting.

John Murphy was re-elected to serve as the Retired Member Alternate. John was first elected to the alternate position in 2007. He substitutes in the absence of the Retired Member.

Natalie Kwan Lloyd ran unopposed for one of the active member seats on the board. Natalie was first elected in 2008 to serve out the unexpired term of Tom Bryan, who retired. She is an Appraiser in the County Assessor's Office.

Ben Bowler was reappointed to the board by the Board of Supervisors. Ben was first appointed to the board in 2008, also to fill an unexpired term. Ben is the Assistant Treasurer of Finance and Planning for Con-Way, Inc.

Each board term is three years. All four of these trustee's terms will expire on June 30, 2013.

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

2010 saw the retirement of board member **Bette Perroton Stuart**. Of the many people who have contributed time and effort to make *SamCERA* what it is today, it would be hard to find anyone who has contributed more than Bette Stuart. Bette was associated with the retirement system in one way or another for nearly 40 years.

In December 1969 Bette went to work for San Mateo County Treasurer Ross Conti. At that time the Treasurer was the administrator of the retirement system and Bette was the "Retirement Officer," handling all the benefits-side responsibilities of the association. Bette served in that position for more than 19 years before retiring in April 1988.

Two years later she ran for and was elected by the retired membership to serve as a trustee on the retirement board. She has been reelected to serve as *SamCERA's* retired trustee continuously since December 1990. When her last term ended on June 30, 2010, she had served 19 years and 7 months on the Retirement Board.

As a member of the Retirement Board, Bette held every board officer position, including serving as Board Chair from 1996-1998. She saw the association transition out of the Treasurer's Office to become an independent agency. During her association with the fund she saw it grow from $35 million in 1969 to $1.8 billion on June 30, 2010—51 times larger.

As a *SamCERA* employee, a retiree, and a trustee, Bette supported the retirement association with four decades of her time, effort and guidance.

Elections

SamCERA and its county Elections Division are planning to allow Internet voting for the next trustee elections to be held in June 2012. All previous elections have been by paper ballot. The hope is that an Internet election will increase turnout, which has been about 20% of eligible voters for recent elections.

After substantial research, *SamCERA* believes that an Internet election will not only be secure, but probably more secure than a paper ballot election. It will also be green (less paper and less gas burned in delivery of ballots), and more convenient for voters (no more envelope sealing, walking to the mailbox, etc.)

Investments

SamCERA was honored recently to be among three public pension plans nationwide nominated for Mid-Sized Plan of the Year, an award presented by *The Money Management Letter*.

SamCERA was nominated because of changes the Retirement Board made in 2009 to further diversify the investments of the plan. We are pleased the *SamCERA* board was recognized for its proactive approach and hard work.

SamCERA took part in the rebound in the financial markets returning 12.8% for the 2009-10 fiscal year.

SamCERA issued a request for proposals for an investment consulting firm in October 2009. When a winning firm was chosen in May 2010, the board elected to continue its relationship with Strategic Investment Services of San Francisco.

Soon thereafter the board began working with Strategic Investment Services on an Asset/Liability Study. As a result of this work, the board opined in August 2010 to transition to an allocation in which 20 percent of the fund is in alternative asset classes.

Consultants

SamCERA believes it is prudent to periodically issue Requests for Proposals for all professional services. This allows the system to stay abreast of services and prices available in the market. At its March meeting, the board voted to retain the services of investment consultant SIS and independent auditor Brown Armstrong.

Actuarial Valuation

The *SamCERA* Board of Trustees accepted the June 30, 2010, Actuarial Valuation presented by Milliman, Inc. at its September 28, 2010, meeting. The valuation methodology produced a slightly lower average employer contribution rate. However, the retirement board, with Milliman's support, chose to leave employer contribution rates unchanged for the 2011-12 fiscal year. Milliman projects that rates will begin to rise again following the 2011-12 fiscal year, as all the losses of prior years are recognized in the rate setting process.

Maintaining the current rate will lower the level of future increases and help keep *SamCERA* on a path toward greater fiscal strength. The county of San Mateo also supported the decision.

Cost of Living Allowance

The Bay Area experienced very low inflation during 2009, according to the U.S. Bureau of Labor Statistics, resulting in a ½% (0.5%) cost of living adjustment for most *SamCERA* retirees and beneficiaries. *SamCERA* compares the average Consumer Price Index (CPI) level of one year to the average CPI of the next year in its calculation. We became concerned earlier in the year because the law requires *SamCERA* (and all other plans that operate under the 1937 Act) to reduce retirees' monthly payments if the economic area encompassing their county experiences "deflation." Learning this put the ½% increase in perspective.

Information Technology

SamCERA has virtualized most of its technology infrastructure, which brings many advantages in technology administration, and eases the task of offsite disaster recovery. In fiscal year 2010-11 we will move toward digitizing all member documents and transitioning to a new pension administration system.

Strategic Planning

In late 2009, the staff reviewed their Strategic Plan during a two-day retreat. During the 2010 calendar year *SamCERA* pursued three major goals, all of which are derived from and consistent with *SamCERA's* mission statement. The goals are in the areas of Customer Services, Operations, and Financial Management.

In all there were 39 projects for the staff to initiate and/or complete during the 2009 calendar year. In the previous three years staff completed a total of 92 projects.

CERTIFICATE OF ACHIEVEMENT AND ACKNOWLEDGEMENTS

For the fourteenth consecutive year, the Government Finance Officers Association (GFOA) has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of our Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. The certificate is reproduced on page 8.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the eighth year running. We received this honor for our PAFR for the fiscal year ended June 30, 2009.

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

The Public Pension Coordinating Council presented *SamCERA* its *Public Pension Standards Award* for 2009. The award recognizes that *SamCERA* has met professional standards for plan funding and administration as set forth in the Public Pension Standards of the Council. The standards judge retirement systems on their Funding Adequacy, Comprehensive Benefit Program, Actuarial Valuation, Independent Audit, Investments and Communications. The award is reproduced on page 9.

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

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

Respectfully submitted,

C. David Bailey, Chief Executive Officer

October 6, 2010

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, 2009

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

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2009

Presented to

San Mateo County Employees' Retirement Association

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

Members of the Board of Retirement

for the fiscal year ending June 30, 2010

LEE BUFFINGTON, SECRETARY ***Ex Officio per the '37 Act, First Member***
Lee Buffington is the elected Tax Collector/Treasurer of San Mateo County. The law designates the County Treasurer as a permanent member of the Board of Retirement. Lee joined the board in October 1985. His final term as Treasurer will end December 31, 2010.

ALBERT DAVID ***elected by SamCERA's General Members, Second Member***
Albert David is an Information Services Dept. IMS-Health Relationship Manager for San Mateo County. He is also a retired Army Reserve Lieutenant Colonel. He joined the board in July 2008 to serve out the unexpired term of Paul Hackleman. He was reelected to a full term in 2009 and serves as Board Vice Chair and a member of the Investment Committee. His term will expire June 30, 2012.

NATALIE KWAN LLOYD ***elected by SamCERA's General Members, Third Member***
Natalie Kwan Lloyd is an Appraiser in the San Mateo County Assessor's Office. She joined the board in July 2008 to serve out the unexpired term of Tom Bryan. She is Chair of the Audit Committee. In June 2010 she was elected to a full tern which will expire June 30, 2013.

ERIC TASHMAN ***appointed by the Board of Supervisors, Fourth Member***
Eric Tashman is a public finance partner in the San Francisco office of law firm Sidley Austin where he is head of the firm's West Coast public finance practice group. He was appointed by the Board of Supervisors in 2009. He is a member of the Audit Committee. His term expires June 30, 2012.

BENEDICT J. BOWLER ***appointed by the Board of Supervisors, Fifth Member***
Ben Bowler is the Assistant Treasurer of Finance and Planning at Con-Way, Inc. He was appointed in August 2008 to fill the unexpired term of the Fifth Member. He is chair of the Investment Committee. In June 2010 he was reappointed to a full term, which will expire June 30, 2013.

LAURYN AGNEW ***appointed by the Board of Supervisors, Sixth Member***
Lauryn Agnew is a Principal at Seal Cove Financial and Chair of the Investment Committee at United Way of the Bay Area. She was appointed by the Board of Supervisors in 2009. She is a member of the Investment Committee. Her term expires June 30, 2012.

DAVID SPINELLO ***elected by SamCERA's Safety Members, Seventh Member***
David Spinello is a Deputy with the San Mateo County Sheriff's Office. He was elected to the board in 2009 and began his term in July of that year. He is a member of the Audit Committee. His term expires on June 30, 2012.

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

MARGARET JADALLAH ***appointed by the Board of Supervisors, Ninth Member***
Margaret Jadallah is a Managing Director and Director of Research with Bivium Capital. She was first appointed in August 2007. She is the Board Chair and a member of the Investment Committee. Her term expires June 30, 2010.

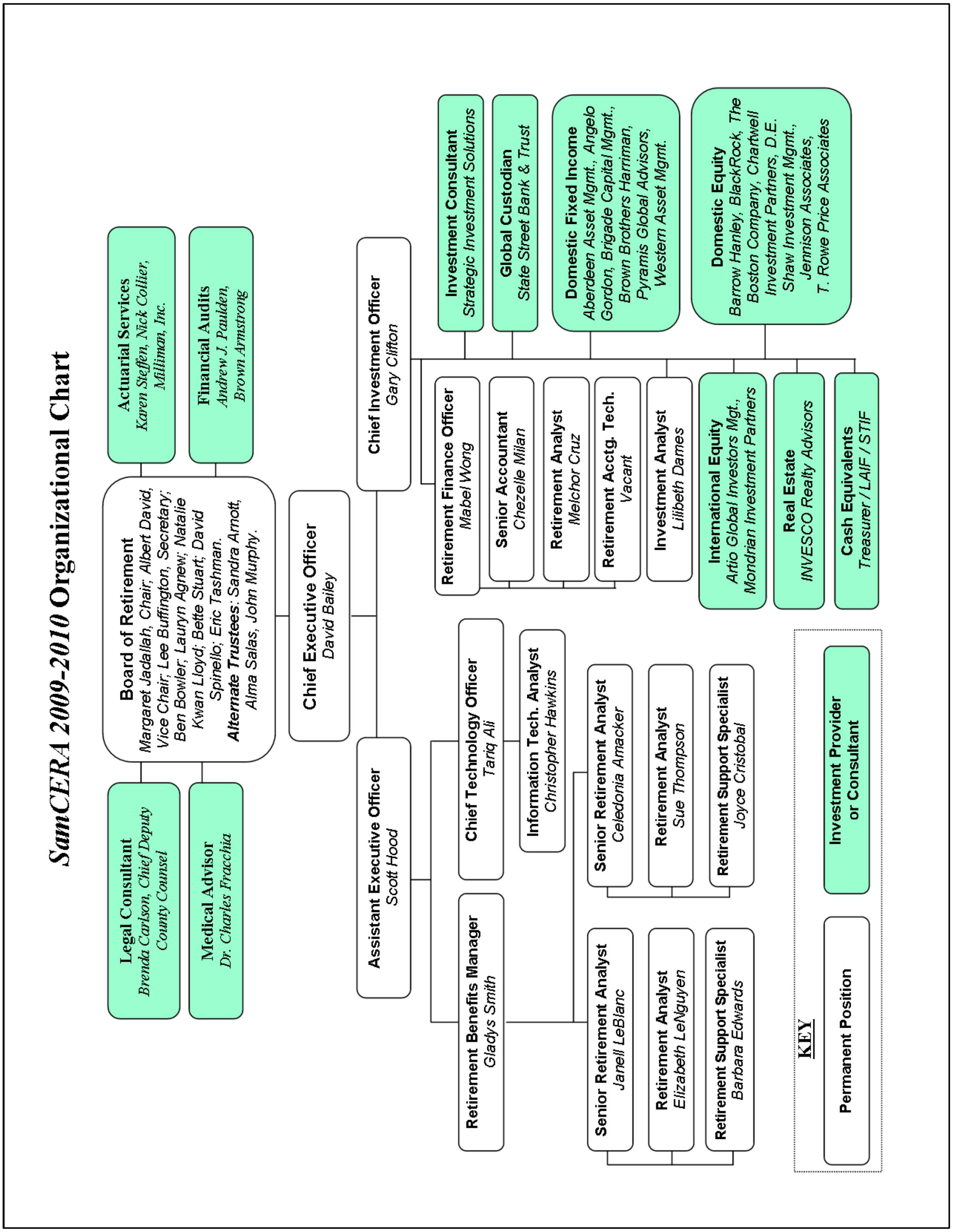
Members of the Board of Retirement (continued)
Alternate Board Members

for the fiscal year ending June 30, 2010

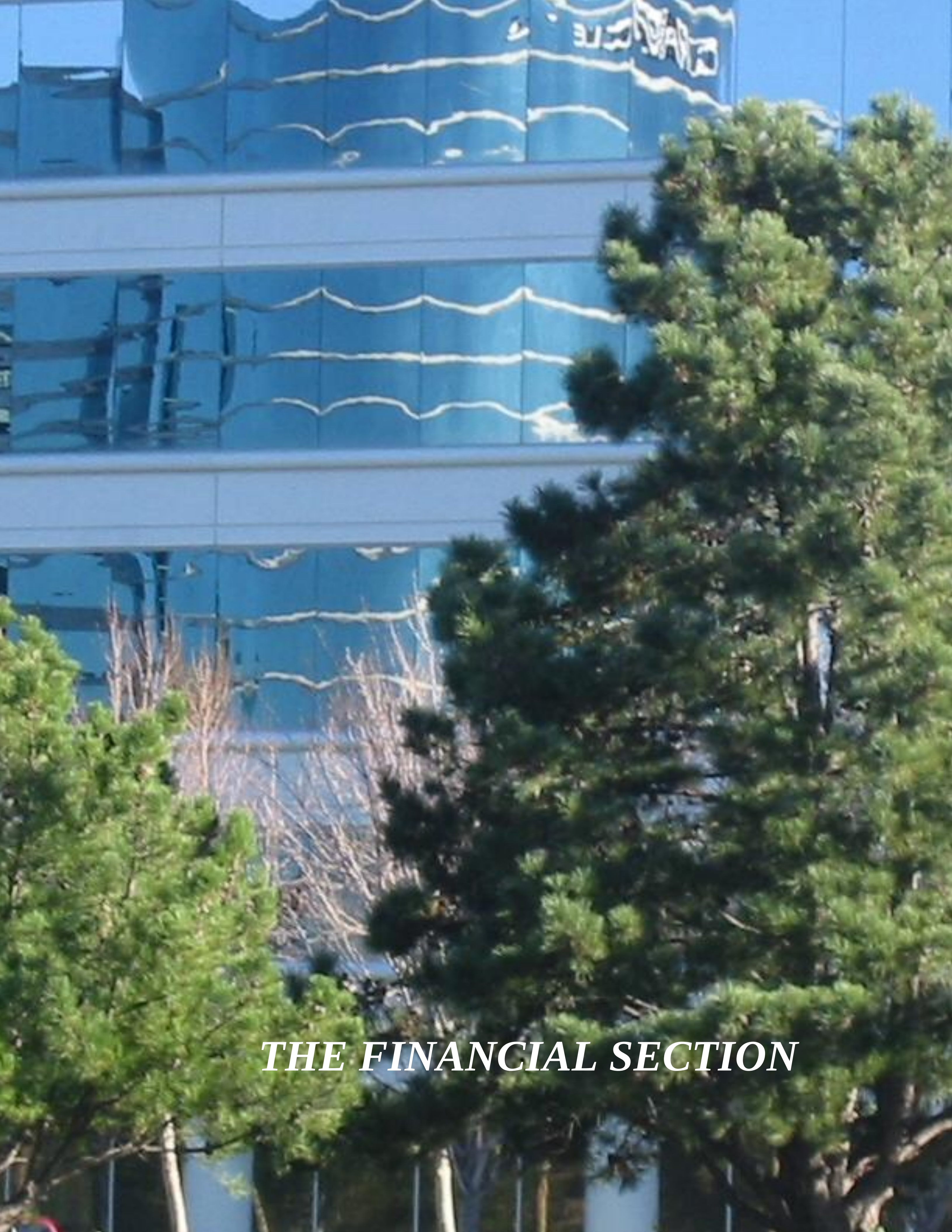
SANDRA ARNOTT ***constitutional alternate for County Treasurer***
Sandra Arnott is the San Mateo County Deputy Treasurer and substitutes for the County Treasurer on the Board of Retirement in his absence. She is the Board Treasurer and a member of the Audit Committee.

JOHN MURPHY ***elected by SamCERA's Retired Members as Eighth Member Alternate***
John Murphy was appointed by the Board of Retirement in July 2006 to serve as the Retiree Alternate. He was elected to the alternate position in June 2007 and again in 2010. He substitutes in the absence of the Eighth Member. His term is the same as that of the Eighth Member and will, therefore, expire June 30, 2013.

ALMA R. SALAS ***elected by the Safety Membership, Safety Alternate***
Alma Salas is a Probation Services Manager with San Mateo County Probation. Alma joined the board in May of 2001. She served as Board Chair during the 2004-2005 fiscal year. She was elected to serve as the "Safety Alternate" for a term beginning July 2006. In this role she serves in the absence of the Second, Third, and Seventh members. Her current term will expire June 30, 2012.



A Schedule of Professional Services and Fees may be found on page 68 of the Investment Section.



THE FINANCIAL SECTION

Peter C. Brown, CPA
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Fiduciary Net Assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2010 and 2009, and the related Statement of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of SamCERA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, in 2010, SamCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2010 and 2009, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Required Supplementary Information as listed in the table of contents is presented for purposes of additional analysis, as required by GASB, and is not a required part of the basic financial statements. This information is the responsibility of SamCERA's management. Such information has been subjected to the auditing procedures applied by us in the audit of the 2010 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2010 basic financial statements taken as a whole. The Other Supplementary Information as listed in the table of contents, and the

Investment, Actuarial and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of SamCERA. The Other Supplementary Information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial and Statistical Sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2010, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
October 6, 2010

FISCAL YEAR 2009 – 2010

As fiduciaries of the San Mateo County Employees' Retirement Association, we offer readers of *SamCERA*'s financial statements this narrative overview and analysis of its financial position and results of operation for the fiscal years ended June 30, 2010, and 2009. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 27, provides a clear picture of *SamCERA's* overall financial status and activities.

Financial Highlights

- $1,815,896,455 in net assets as of June 30, 2010, 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 $224,496,897, or 14.11% primarily as a result of positive investment returns.
- *SamCERA's* funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2010, the actuarial funded ratio for *SamCERA* increased to 70.3% from 63.9%. The increase is a combination of the last year's 12.8% return, which was greater than the actuarial assumption rate of 7.75% and the fact that due to *SamCERA's* smoothing policy the 2007-08 and 2008-09 fiscal year losses have not being fully recognized.
- Revenues (Additions to Fiduciary Net Assets) for the year were $352,779,756, which includes employer contributions of $106,265,329, member contributions of $50,318,477, investment gains of $204,317,017 (excluding investment expense of $8,905,477), security lending income of $742,936 and other additions of $41,474.
- Expenses (Deductions in Fiduciary Net Assets) increased from $120,139,857 to $128,282,859 over the prior year, or approximately 6.78%. The fiscal year 2010 expenses include $122,141,091 for benefit payments, $2,736,025 for member refunds, $3,372,967 for administrative expenses and $32,776 for other expenses. Most of this increase was due to an increase in benefits paid.
- *SamCERA* is implementing GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, effective for the year ended June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Overview of Financial Statements

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

1. Comparative Statements of Fiduciary Net Assets
2. Comparative Statements of Changes in Fiduciary Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

Please note, however, that this report also contains clarifying information to supplement the basic financial statements listed above.

The Comparative Statement of Fiduciary Net Assets is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of June 30, 2010. The net assets, which are assets less liabilities, reflect the funds available for future use.

The Comparative Statement of Changes in Fiduciary Net Assets provides a view of all the activities that occurred during the fiscal year and shows the impact of those activities as additions and deductions to the plan. Both statements are in compliance with Governmental Accounting Standards Board (GASB) pronouncements.

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

These two statements report *SamCERA's* net assets held in trust for pension benefits as one way to measure the plan's financial position. Over time, increases and decreases in *SamCERA's* net assets are one indicator of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring *SamCERA's* overall financial position. The increase in *SamCERA's* plan net assets for the year ended June 30, 2010, was 14.11%. This increase reflects in part the overall asset appreciation in the global capital markets. Although it is an indicator that *SamCERA's* financial position improved during the past fiscal year, it does not represent a trend. *SamCERA's* total gross fund return of 12.80% outperformed *SamCERA's* 7.75% actuarial assumed interest rate. However, the outlook is for a future deterioration of the funding level due to the smoothing of losses from the 2007-08 and 2008-09 fiscal years. The net deferred investment losses increased by $44.9 million from -$318.3 million in 2009 to -$363.2 million in 2010. Those deferred losses will be used to decrease actuarial assets over the next four to five years.

SamCERA's Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets appear on pages 25 and 26.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year. Notes to the Financial Statements appear on pages 27-47.

Required Supplementary Information follows the notes and provides additional information and detail concerning *SamCERA's* progress in funding its obligations to provide pension benefits to members, the trend of employers' contributions, pertinent actuarial information as of the latest valuation, and notes to the schedules of trend information. Although the postemployment benefit program is administered by the plan sponsor, San Mateo County, as clarification for the casual reader, *SamCERA's* Notes include a schedule detailing the county's progress in funding its obligation to provide other post employment benefits. Required Supplementary Information appears on pages 48-50.

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

Financial Analysis

Tables 1, 2, and 3 summarize and compare *SamCERA's* financial results for current and prior periods.

SamCERA's Fiduciary Net Assets held in trust for pension benefits as of June 30, 2010, totaled $1,815,896,455 which represents an increase of $224,496,897 or 14.11% over the period. The increase during the fiscal year is due mostly to employer and employee contributions and partially to market appreciation of investments. All of the net assets are available to meet *SamCERA's* ongoing obligations to plan participants and their beneficiaries.

In the table below total assets are comprised of investments at fair value and "other" assets. The other assets are cash and deposits, security lending cash collateral, receivables, prepaid expense and capital assets. The increase in other assets from 2009 to 2010 is attributed to the fact that the security lending cash collateral and due from brokers for investments sold were higher than the previous year. The increase in other assets in 2009 from 2008 is also due to an increase in receivables from brokers for investments sold and cash collateral, which appears after *SamCERA* reinstituted a security lending program. The total liabilities referred to in the table are the following payables: investment management fees, due to broker for investments purchased, collateral payable for securities lending and other payables, which in general are relatively small payable amounts for various reasons. The increase in total liabilities for 2010 is due to an increase in collateral payable for securities lending. The increase from 2008 to 2009 represents an increase in payables due to brokers for investments purchased.

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

For the Years Ended June 30, 2010 and 2009	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,753,167,629	$1,565,558,673	$187,608,956	11.98%
Other Assets	$352,017,057	$264,382,782	$87,634,275	33.15%
Total Assets	$2,105,184,686	$1,829,941,455	$275,243,231	15.04%
Total Liabilities	$289,288,231	$238,541,897	$50,746,334	21.27%
Net Assets	$1,815,896,455	$1,591,399,558	$224,496,897	14.11%

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

Despite recent market volatility and enriched retirement benefits, *SamCERA* remains in a good financial position to meet its obligations to plan participants and beneficiaries.

Capital Assets

As of June 30, 2010, the balance of *SamCERA's* capital assets (net of accumulated depreciation and amortization) remained at $0. The capital expenditures in the fiscal year ended June 30, 2010 were for various technology infrastructures. The purchases were generally less than $15,000 and expensed in the fiscal year.

Reserves

The statement of *SamCERA's* reserves as shown in Table 2 indicates how *SamCERA's* fiduciary net assets have accumulated. *SamCERA's* reserves are established from employer and member contributions and the accumulation of investment earnings, after deducting investment and administrative expenses (see Table 2 below). When a member retires, the fiduciary net assets attributable to that member are transferred to the Retiree Reserves from the Member Reserves and County Advanced Reserves. During the past several years the following significant board actions have impacted the reserve accounts:

- The adoption of the Governmental Accounting Standard Board Pronouncement 25, which mandates that investments be stated at fair value, effective in Fiscal Year 1996.
- The creation of the Market Stabilization Account as recommended by William M. Mercer, *SamCERA's* actuary at that time.
- The Board of Retirement adopted a policy in 2002 which states that the amount of investment earnings added or subtracted from the Market Stabilization Account cannot exceed 20% of the investment return. If it does, then the excess is allocated to the Valuation Reserves.

In December and June of each year, the actuarial assumed investment returns are credited to each of the Valuation Reserves. When actual investment returns differ from the actuarial assumed investment returns, the surplus or deficit is recorded in the Market Stabilization Account. The balance of the account is allocated to the Valuation Reserves over a five-year period. This process reduces the volatility of annual contribution rates for the employers. This year *SamCERA's* Market Stabilization Account increased by $44,899,379.

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

As of June 30	2010	2009	2008
Valuation Reserves:			
Member Reserves	$449,354,818	$412,146,516	$385,300,221
Employer Advanced Reserves	$264,507,768	$235,873,867	$279,375,884
Retiree Reserves	$693,630,776	$636,170,664	$784,613,246
Cost of Living Reserves	$682,673,956	$625,488,423	$769,647,607
Non-Valuation Reserves:			
Unallocated Earnings/Loss Account	$88,908,428	$0	$0
Market Stabilization Account	-$363,179,291	-$318,279,912	-$208,198,190
Net Reserves held in Trust for Pension Benefits	$1,815,896,455	$1,591,399,558	$2,010,738,768

Additions to Fiduciary Net Assets

The primary sources of funding for *SamCERA* member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years

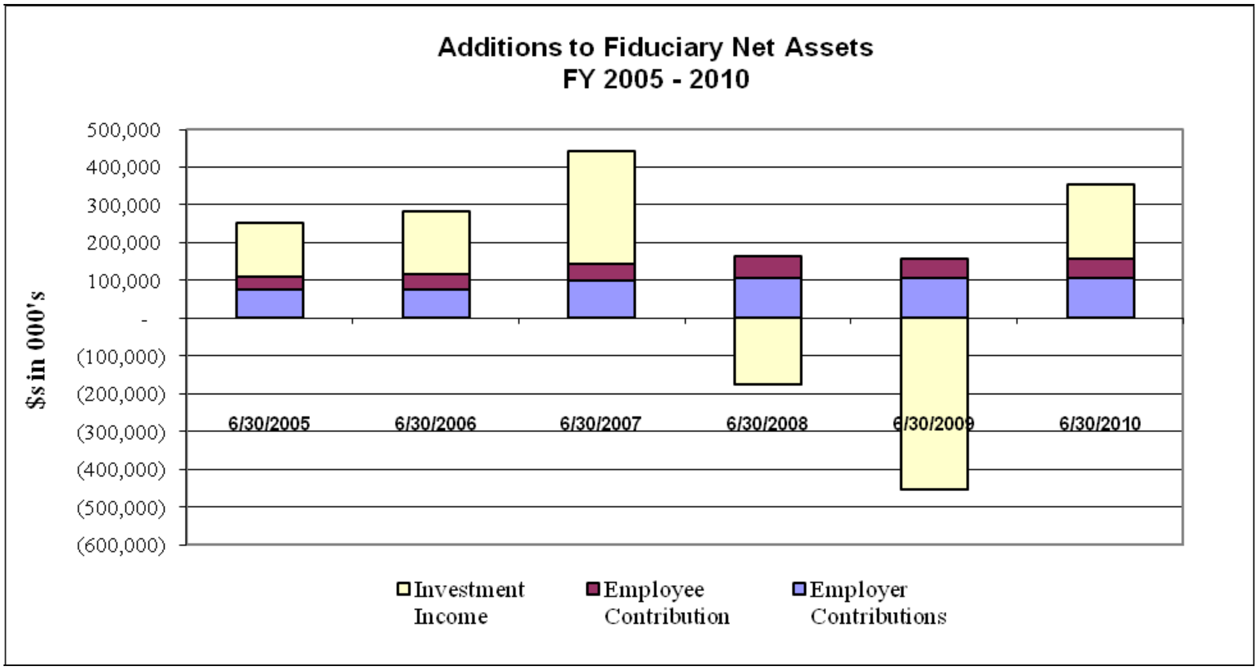
2010 was partially due to appreciation in investment income as the stock market began to come back after the dramatic market decline from September 2008 through March of 2009. Employer and employee contributions also added to the increase in additions to Fiduciary Net Assets.

Employer contributions for 2010 were $106.3 million, an increase of $0.1 million over the prior year. The increase was slight primarily as a result of contribution requirements and total payroll remaining relatively stable. Member contributions were $50.3 million. The $53 thousand decrease over 2009, is primarily due to a decrease in purchases of member service credit. In 2008 the introduction of ARC (Additional Retirement Credit) added approximately $16.6 million in employee contributions. In 2009, service purchases decreased to $5.2 million as the majority of the ARC purchases were initiated in 2008.

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

For the Years Ended June 30, 2010 and 2009	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$106,265,329	$106,123,055	$142,274	0.13%
Member Contributions	$50,318,477	$50,371,591	-$53,114	-0.11%
Investment Income/(Loss)	$204,317,017	-$446,191,499	$650,508,516	145.79%
Less Investment Expenses	-$8,905,477	-$11,117,817	$2,212,341	19.90%
Security Lending Income	$742,936	$1,631,274	-$888,338	-54.46%
Other Additions	$41,474	-$15,957	$57,431	359.91%
Total	$352,779,756	-$299,199,353	$651,979,110	217.91%
Current Membership	10,556	10,708	-152	-1.42%

For the Years Ended June 30, 2009 and 2008	2009	2008	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$106,123,055	$105,339,570	$783,485	0.74%
Member Contributions	$50,371,591	$60,111,183	-$9,739,591	-16.20%
Investment Income/(Loss)	-$446,191,499	-$166,998,502	-$279,192,997	-167.18%
Less Investment Expenses	-$11,117,817	-$11,380,285	$262,467	2.31%
Security Lending Income	$1,631,274	$1,698,567	-$67,293	-3.96%
Other Additions	-$15,957	$181,048	-$197,005	-108.81%
Total	-$299,199,353	-$11,048,419	-$288,150,935	-2,608.07%
Current Membership	10,708	10,567	141	1.33%



Deductions from Fiduciary Net Assets

SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated members, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2010, totaled $128,282,859 an increase of 6.78% over the prior fiscal year (refer to Table 4, page 23.)

Retirement annuities, survivor benefits, and permanent disability benefits were $122.1 million, an increase of $8.2 million or 7.15% over 2009. The growth in benefit payments was due to the combined effects of the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the increase in the average retirement allowance of those who were added to the retirement payroll.

Member refunds were $2.7 million in 2010, a decrease of $0.1 million or -2.11% over 2009.

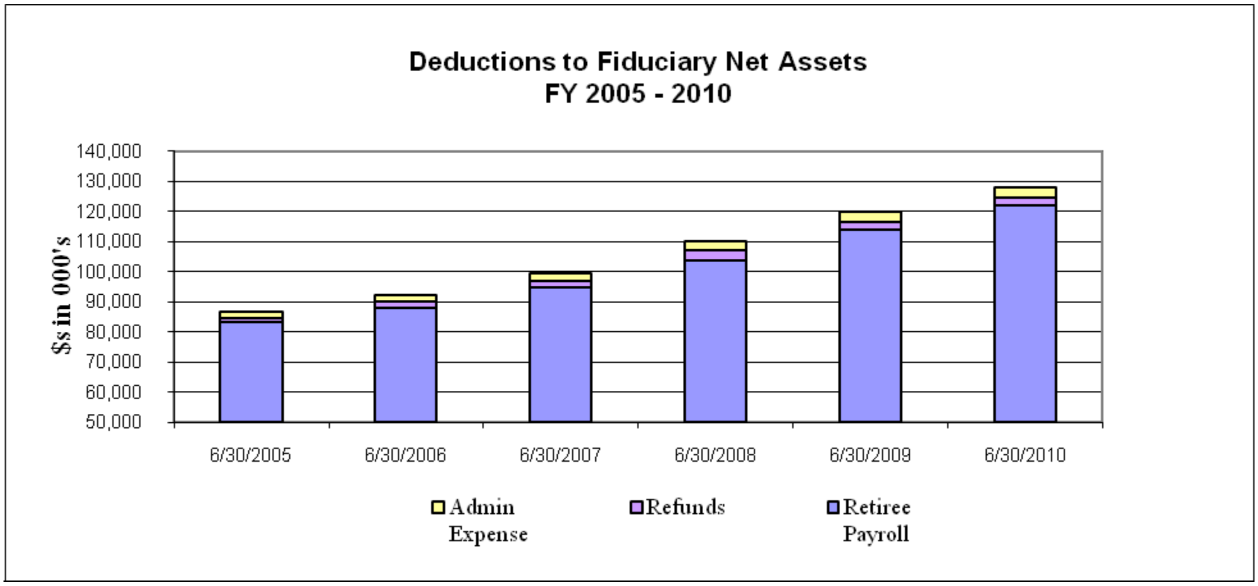
Administrative expense was $3.4 million for 2010. Administrative expense covers the basic costs of operating the retirement system. These include staffing, office expense, information technology systems, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary labor).

The system's administrative expenses increased by $85,972, or 2.62% in the 2009-2010 fiscal year. The increased expenditure is attributable to acquisition of capital asset that provides enhancements to *SamCERA's* technology infrastructure.

The annual amount of administrative expense is subject to legal and budgetary restrictions. Each year the Board of Retirement approves the annual budget in accordance with legal spending restrictions. The administrative expense represents approximately 0.19% of total assets. Government Code Section 31580.3 of the County Employees Retirement Law of 1937 limits *SamCERA's* administrative budget to twenty-three hundredths of 1 percent (0.23%) of the total assets of the retirement system. *SamCERA* has consistently been within its approved administrative budget and within the 23 basis point limitation.

Expenses of *SamCERA's* professional services are included with investment expense. For the fiscal years ended June 30, 2010, and June 30, 2009, the expenditures for actuarial services, custodian services and investment consultant services were consistent with the original appropriations. Investment management fees were slightly lower than budgeted due to assets not appreciating as fast as anticipated. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management.

Deductions of $128,282,859 are less than additions of $352,779,756, resulting in a increase of $224,496,897 in fiduciary net assets for the fiscal year ended June 30, 2010.



Deductions in Fiduciary Net Assets (Table 4)

For the Years Ended June 30, 2010 and 2009	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$122,141,091	$113,990,807	$8,150,284	7.15%
Member Refunds	$2,736,025	$2,794,916	-$58,891	-2.11%
Administrative Expenses	$3,372,967	$3,286,995	$85,972	2.62%
Other Expense	$32,776	$67,139	-$34,363	-51.18%
Total	$128,282,859	$120,139,857	$8,143,002	6.78%
Benefit Recipients	4,002	3,935	67	1.70%

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

The change in fiduciary net assets consists of total additions reduced by total deductions. Table 5 below shows condensed information about this financial activity. Fiduciary net assets increased by $224.5 million for the year ended June 30, 2010. The magnitude of this increase is largely due to the appreciation of investment assets during the year.

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

For the Years Ended June 30, 2010 and 2009	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,591,399,558	$2,010,738,768	-$419,339,210	-20.85%
Total Additions	$352,779,756	-$299,199,353	$651,979,109	217.91%
Total Deductions	$128,282,859	$120,139,857	$8,143,002	6.78%
Ending Plan Net Assets	$1,815,896,455	$1,591,399,558	$224,496,897	14.11%

For the Years Ended June 30, 2009 and 2008	2009	2008	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$2,010,738,768	$2,131,614,630	-$120,875,862	-5.67%
Total Additions	-$299,199,353	-$11,048,419	-$288,150,934	-2,608.07%
Total Deductions	$120,139,857	$109,827,443	$10,312,414	9.39%
Ending Plan Net Assets	$1,591,399,558	$2,010,738,768	-$419,339,210	-20.85%

SamCERA's Fiduciary Responsibilities

SamCERA's board and management staff are fiduciaries of the pension trust fund. Under the California Constitution and the County Employees' Retirement Law of 1937, assets of the retirement system can only be used for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

These Financial Statements are designed to provide *SamCERA's* board, membership, taxpayers, investment managers, and interested parties a general overview of the San Mateo County Employees' Retirement Association's financial position and to show accountability for the funds it receives.

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

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

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

Respectfully submitted,

Gary L. Clifton
Chief Investment Officer
October 6, 2010

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets
June 30, 2010, and 2009

	2010	2009
Assets:		
Cash and deposits	$74,232,656	$67,909,157
Security lending cash collateral	181,645,752	119,950,929
Total dash	255,878,408	187,860,086
Receivables:		
Contributions	7,464,274	7,008,366
Due from broker for investments sold	83,850,705	64,890,282
Investment income	4,654,787	4,210,924
Security lending income	47,427	92,244
Other receivables	113,787	313,211
Total Receivables	96,130,980	76,515,027
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	505,441,320	482,472,397
Domestic equities	797,467,287	604,210,620
International equities	341,048,550	359,981,040
Real estate	109,210,472	118,894,616
Total Investments	1,753,167,629	1,565,558,673
Total Assets	2,105,184,686	1,829,941,455
Liabilities:		
Payables		
Investment management fees	1,562,410	1,132,707
Due to broker for investments purchased	105,212,469	110,091,607
Collateral payable for securities lending	181,645,752	119,950,929
Other	867,600	7,366,654
Total Liabilities	289,288,231	238,541,897
Net Assets Held in Trust For Pension Benefits	$1,815,896,455	$1,591,399,558

The accompanying Notes to the Financial Statements beginning on page 27 are an integral part of these financial statements.

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets
For The Years Ended June 30, 2010, and 2009

	2010	2009
Additions:		
CONTRIBUTIONS (Note 3)		
Employer	$ 106,265,329	$ 106,123,055
Member	50,318,477	50,371,591
Total Contributions	156,583,806	156,494,646
INVESTMENT INCOME (LOSS)		
Interest and dividends	42,179,828	42,096,352
Net appreciation (depreciation) in Fair value of investments	162,137,189	(488,287,851)
	204,317,017	(446,191,499)
Less investment expense	(8,905,477)	(11,117,817)
Net Investment Income (Loss)	195,411,540	(457,309,316)
SECURITY LENDING INCOME		
Earnings	988,514	3,328,894
Less security lending expense	(245,578)	(1,697,620)
Net Security Lending Income	742,936	1,631,274
OTHER ADDITIONS (DECLINES)	41,474	(15,957)
Total Additions (Declines)	352,779,756	(299,199,353)
Deductions:		
ASSOCIATION BENEFITS:		
Service retirement allowance	106,607,286	99,208,814
Disability retirement allowance	14,585,746	13,816,561
Survivor, death and other benefits	948,059	965,432
Total Association Benefits	122,141,091	113,990,807
REFUNDS OF MEMBERS' CONTRIBUTIONS	2,736,025	2,794,916
ADMINISTRATIVE EXPENSE (Note 3)	3,372,967	3,286,995
OTHER EXPENSE	32,776	67,139
Total Deductions	128,282,859	120,139,857
Net Increase (Decrease)	224,496,897	(419,339,210)
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	1,591,399,558	2,010,738,768
End of year	$1,815,896,455	$1,591,399,558

The accompanying Notes to the Financial Statements beginning on page 27 are an integral part of these financial statements.

Note 1 - Plan Description

The following description of the San Mateo County Employees' Retirement Association (the Association) is provided for general information purposes. The Association is governed by the California Constitution, the County Employees' Retirement Law of 1937 (a component of the California Government Code) and the bylaws, procedures and policies adopted by the Board of Retirement.

General

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County of San Mateo (the Primary Employer) and the San Mateo County Mosquito and Vector Control District. The Association is a Component Unit of the Primary Employer. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the county and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; the eighth member shall be a retired member elected from the retired membership.

The Association has four tiers, which cover members classified as general, safety or probation. Members hired on or before July 6, 1980, became members of Tier One. Members hired after July 6, 1980, and before July 13, 1997, became members of Tier Two. Members hired on or after July 13, 1997, become members of Tier Four. New General Members may also elect membership under Tier Three, a non-contributory plan. New employees appointed to positions of active law enforcement become safety members under Tier Four. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers become members under Tier Four for probation officers. From January 1, 1993, general members in Tier Three with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Tier 3 members are authorized to purchase service credit in their current plan. Earned Tier 3 service credit is forfeited in an amount equivalent to the purchase.

The Association is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2010, the Association membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	Tier One	Tier Two	Tier Three	Tier Four	Total
General	2,031	1,282	90	101	3,504
Safety	286	100	0	9	395
Probation	69	29	0	5	103
Subtotal	2,386	1,411	90	115	4,002
Terminated members entitled to but not currently receiving benefits (deferred):					
General	42	498	117	430	1,087
Safety	2	32	0	29	63
Probation	1	28	0	28	57
Subtotal	45	558	117	487	1,207
Totals Forwarded to Next Page	2,431	1,969	207	602	5,209

Note 1 - Plan Description

	Tier One	Tier Two	Tier Three	Tier Four	Total
Totals Forwarded from Prior Page	2,431	1,969	207	602	5,209
Current Members:					
Vested:					
General	81	1,185	71	1,689	3,026
Safety	8	143	0	171	322
Probation	3	81	0	155	239
Non-Vested:					
General	0	0	79	1,504	1,583
Safety	0	0	0	103	103
Probation	0	0	0	74	74
Subtotal	92	1,409	150	3,696	5,347
Total	2,523	3,378	357	4,298	10,556

Benefit Provisions

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

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

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

Cash and Investments

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

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

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

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

Security Lending Activity

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

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

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

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

Income Taxes

The Internal Revenue Service has ruled that plans such as *SamCERA's* qualify under Section 401(a) of the Internal Revenue Code and are not subject to tax under present income tax laws. On January 6, 1988, the Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

Receivables

Receivables consist primarily of interest, dividends, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of June 30, 2010, and 2009.

Property, Plant and Equipment

Capital assets are valued at historical cost, net of accumulated depreciation. Capital assets with an initial cost of more than $3,000 and an estimated useful life in excess of three years are capitalized and depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives for the assets in each category are as follows: office furniture – seven years; office equipment – five years; business continuity assets – three years; computer hardware – three years; and computer software – three years.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

Foreign Currency Transactions

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

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

Reclassification

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

Summarized Prior Year Information

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

Accordingly, such information should be read in conjunction with *SamCERA* financial statements as of and for the year ended June 30, 2009, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

SamCERA implemented GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, effective for the year ended June 30, 2010. Of the intangible assets to which this Statement refers computer software is the only one that applies to *SamCERA*. It was considered, but not necessary to report as a capital asset. Software purchased in fiscal year 2009-2010 was expensed in that year.

SamCERA also implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments*, for the fiscal year ended June 30, 2010. As *SamCERA* records all of its investments at fair market value and has no hedging derivatives, there was no financial statement effect from implementing the new standards.

Note 3 - Contributions, Administrative Expenses and Reserves

Contributions

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

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

Interest Crediting is explained in this Note under Reserves & Accounts. The Association's Tier Three is a non-contributory plan for members. For the other tiers, the member basic contribution rates are based on age at entry into the Association and are a percentage of covered compensation. Under a Memorandum of Understanding with San Mateo County, its General Members contribute an additional 3.0% of covered salary to help offset benefits. Employees of the San Mateo County Mosquito and Vector Control District did not receive the enhanced benefits and do not make additional contributions. The average member rate, based on the actuarial valuation as of June 30, 2010, and effective July 1, 2011, is 9.71%, a reduction of 0.03 basis points from the previous rate for the June 30, 2009, valuation, and effective July 1, 2010.

The participating employers are required by statute to contribute the amounts necessary to fund the estimated benefits accruing to *SamCERA* members not otherwise funded by member contributions or expected investment earnings. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by members during the current year) and an amount required to amortize the unfunded actuarial accrued liability. Beginning with the June 30, 2008 actuarial valuation *SamCERA* converted to the 15-year layered amortization methodology. Under this methodology, the original unfunded amount (UAAL) is amortized over 15 years as of the valuation date. Future actuarial gains and losses are amortized over new 15-year periods. The San Mateo County Mosquito and Vector Control District contributes a lower percentage of covered payroll than does San Mateo County, due to lower benefits provided to the Mosquito and Vector Control District employees. Details of the funding progress, annual required member contribution and employer contribution, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The Board of Retirement, with the support of the actuary and the plan sponsor chose to leave employer contribution rates unchanged for the 2011-12 fiscal year, even though, the June 30, 2010 actuarial valuation calculated contributions would decrease from 34.00% for the valuation ended June 30, 2009, to 31.40% for the valuation ended June 30, 2010. The calculated decrease is almost entirely due to higher than expected earnings on investments. Due to *SamCERA's* corridor policy those earnings are entirely reflected in the Actuarial Value of Assets. The determination to leave rates unchanged is based in part on actuary projects that rates will begin to rise again following the 2011-12 fiscal year, as all the losses of prior years are recognized in the rate setting process.

The normal cost and UAAL contribution rates are shown in the following table.

	2010	2009	Change
Normal Cost	11.57%	11.62%	-0.05%
UAAL Amortization	22.43%	22.38%	+0.05%
Total Contribution Rate	34.00%	34.00%	0.00%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (unit $000)	Percentage Contributed
2010	$106,265	100%
2009	$106,123	100%
2008	$105,340	100%

Effective May 2, 2010, the county reduced from 100% to 75% the percentage it pays of management employees', unrepresented attorneys' and sheriff's sergeants' contributions. As of October 31, 1999, the county pays 70% of confidential employees' contributions. Both are on a refundable basis. In addition, members of certain bargaining units who are in a contributory retirement plan have a portion of their retirement deduction paid by the county based on individual years of service using schedules set forth in a Memorandum of Understanding. Effective April 23, 2006, the county pays 20% of Safety/Probation contributions on a non-refundable basis.

For the fiscal year ended June 30, 2010, the county paid its employer contributions due to *SamCERA* as it came due on a bi-weekly basis until mid-year. On January 15, 2010, the county made a prepayment of the estimated remaining required contribution. The prepayment is based on the adopted actuarial contribution rates and the estimated remaining covered payroll by tier discounted by the actuarial assumption rate. Throughout the rest of the year, when the bi-weekly payroll became known, the prepayment was reduced by actual contributions owed. At year end there is a true-up based on the actual contributions owed. At the end of 2009/2010 the prepayment account had an excess balance of $105,227 which included a credit to the county of $75,760 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2010/2011 employer contribution.

The worldwide economic downturn and specifically budget difficulties at the State of California have an impact upon the County of San Mateo's cash flow. As the fiscal year 2010/2011 begins, the county does not have funds to make the annual lump sum prepayment. Instead the county will provide the required contribution in two installments.

Administrative Expenses

The *SamCERA* Board of Retirement annually adopts the operating budget for the administration of *SamCERA*. The administrative expenses are charges against earnings of the retirement fund and are limited to twenty-three hundredths of one percent (0.23%) of total system assets as set forth under Government Code Section 31580.3. *SamCERA's* policy is to assess compliance with the limitation based on an asset valuation, which is the average of the Net Assets Held in Trust for Pension Benefits. The average is a simple calculation of the sum of the assets at the beginning of the year and the assets at the end of the year divided by two. *SamCERA's* administrative expenses totaled 0.19% for the fiscal year ended June 30, 2010.

With the fiscal year ended June 30, 2009, *SamCERA* implemented two changes in the methodology for calculating administrative expenses. The first is to eliminate all in-house expenditures related to investments. The Board of Retirement wishes to have separate visibility for these expenditures and created an Asset Management Budget, which appears below. The second change is to invoke

Government Code Section 31580.3 versus 31580.2 when determining compliance with administrative expenditure limitations. That section increases the expenditure limits from eighteen hundredths of one percent (0.18%) of the total assets to twenty-three hundredths of one percent (0.23%) of total system assets.

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

	2010	2009
Salaries and member benefits	$2,147,698	$2,110,498
Services and supplies	1,120,862	1,176,497
Capital assets	104,406	0
Administrative Expenditures	$3,372,967	$3,286,995

Asset Management Expenses

The *SamCERA* Board of Retirement annually adopts the operating budget for the administration of *SamCERA*. The overall budget has three subdivisions. The first is the Administrative Budget as detailed above. The second is the Asset Management Budget, which is discussed here. The third is the Professional Services Budget, which appears in the Investment Section on page 68. The Asset Management and Professional Services Budgets are considered investment expenses.

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

	2010	2009
Salaries and member benefits	$397,465	$429,738
Services and supplies	111,067	165,415
Capital assets	16,063	0
Asset Management Expenditures	$524,595	$595,153

Reserves and Accounts

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

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

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

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

Cost of Living Adjustment Reserve – This reserve represents the total accumulated employer contributions for future cost of living adjustments under provisions of the 1937 Act. Additions include contributions from employers and credited interest. Deductions include payments to retired members, beneficiaries and survivors. Effective April 1 of each year, for those members retired on or prior to April 1, the board adjusts the retirement allowances by a percentage of the total allowance to approximate the nearest one-half of one percent of the percentage of the annual increase in the cost of living for the preceding calendar year. The cost of living increase is based on that shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers in the San Francisco, Oakland, and San Jose Bay Area. The increase is capped at 5.0% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3.0% for Tier 2 and 2.0% for Tier 4. Tier 3 has no cost of living adjustment.

SamCERA's **Non-Valuation Reserves and Accounts:**

Reserves

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

Accounts

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

Effective January 1, 1993, the Board of Retirement provided for the implementation of Actuarial Standards Board Standard of Practice No. 4 and adopted five-year smoothing of all returns for valuing actuarial assets and calculating the unfunded actuarial accrued liability. Effective June 30, 1997, the board provided for the implementation of Governmental Accounting Standard No. 25 and authorized the creation of a Market Stabilization Account to reconcile differences between the market value of assets and the actuarial value of assets. Effective retroactive to June 30, 2002, the board amended its Market Stabilization Account policy to limit the difference between the market value of assets and the actuarial value of assets to not more than ±20% of the market value. The board's objective in adopting this policy is to minimize the impact of short-term volatility in the market value of the retirement fund on employer and member contribution rates by smoothing market returns over a five-year period. All of the board's prior decisions regarding the Market Stabilization Account were assembled into a single policy decision as Resolution 03-04-01, which was adopted by the board on August 26, 2003.

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

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

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

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

Semi-Annual Interest Crediting – *SamCERA* updates reserve balances on a semi-annual basis as of December 31 and June 30 each year. At these times, *SamCERA* carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to all reserves, except the Member Deposit Reserves, at the actuarial assumed interest rate of 3.875% semi-annually for the fiscal year ended June 30, 2010, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement's interest crediting policy Member Deposit Reserves are credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate, but the rate credited cannot be less than zero.

Allocation of Earnings to Reserves – For the year ended June 30, 2010, *SamCERA's* distributed allocation of earnings to reserves of $148.8 million and retained $88.9 million as unapplied interest crediting. Earnings on average, resulting from the five-year smoothing process, were sufficient to provide credits to the reserves at the actuarial assumed interest rate in effect during the year, 3.875% semi-annually. The actuarial smoothed interest rate was 16.31% and -3.30% at December 31, 2009, and June 30, 2010, respectively.

Reserves required for reporting purposes by the 1937 Act:

	2010	2009
Member Deposit Reserve	$ 449,354,818	$ 412,146,516
Employers' Advance Reserve – Current Service	264,507,768	235,873,867
Retiree Member Reserve	693,630,776	636,170,664
Cost-of-Living Adjustment Reserve	682,673,956	625,488,423
Total Allocated Reserves	2,090,167,318	1,909,679,470
Unallocated Earnings / Losses Account	88,908,428	0
Market Stabilization Account	-363,179,291	-318,279,912
Net Assets Held in Trust for Pension Benefits	$1,815,896,455	$1,591,399,558

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. County contributions are credited to County Advance Reserve and the Cost of Living Adjustment Reserve. At retirement, a member's accumulated contributions plus interest and the related county contributions are transferred to the Retiree Reserve. The Retiree Reserve and the Cost of Living Adjustment Reserve represent amounts set aside for retirement benefits promised under the plan less benefits paid.

The reserves required by Section 31592 of the 1937 Act represent earnings in excess of the total interest credited to contributions and reserves. The 1937 Act requires that the excess earnings remain in the retirement fund as a reserve against any deficiencies in interest earnings in other years, losses on investments and other contingencies. However, excess earnings exceeding one percent of the total assets of the Association may be transferred into the County Advance Reserve for payment of benefits described under the Act.

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

The June 30, 2010, balance in the Market Stabilization Account of -$363.2 million reflects the balance of the current year's and previous four years' net deferred returns. It also reflects the implementation of *SamCERA's* 80% to 120% corridor policy.

On June 26, 2004, *SamCERA* adopted an Interest Crediting Policy which mandates Actuarial Valuation Reserves be credited at the Actuarial Interest Rate. The policy acknowledges that actual earnings may be greater than or less than the Actuarial Interest Rate. An Undistributed Earnings / Losses Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

Note 4 – Deposit and Investment Risk Disclosure

The County Employees Retirement Law of 1937 vests the Board of Retirement with exclusive control over *SamCERA's* investment portfolio. Except as otherwise expressly restricted by the California Constitution and by law, the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board.

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

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

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

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

Deposits

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

Investments

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

The board approved its first comprehensive investment plan on September 29, 1994. The plan specified an asset allocation target of 50% equities, 40% fixed income securities, and 10% real estate. The current asset allocation, which was adopted on January 23, 2007, is 67% equities, 27% fixed income securities and 6% real estate. At June 30, 2010, actual asset allocation was 64.2% equities, 29.0% fixed income securities, 6.0% real estate and 0.8% cash. Please read the Note 10 – Subsequent Events on page 47. It details a substantially different asset allocation, which was adopted by the board on August 24, 2010.

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, 2010. The Governmental Accounting Standards Board (GASB) Statement No. 3 established custodial credit risk categories. The GASB Statement No. 40 and Statement No. 53 update the custodial credit risk disclosure requirements of Statement No. 3 and establish and modify disclosure requirements related to investment risk, credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

SamCERA has chosen to manage the investment risks described by GASB Statements No. 40 and 53 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that investment manager rather than adopting across the board investment policies with respect to manager risk. The guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of the Association. Separately *SamCERA's* guidelines also require manager's investment return performance to compare favorably with performance of a relative passive market index over specific periods.

SamCERA's investment consultant and investment staff continually monitor all investment managers for compliance with respective guidelines.

Derivatives

SamCERA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments*, for the fiscal year ended June 30, 2010. As *SamCERA* records all of its investments at fair market value and has no hedging derivatives, there was no financial statement effect from implementing the new standards. Further disclosure on the derivative positions held at fiscal year-end are contained in the table below. In comparison to *SamCERA's* total investments at fair value, the fair value of *SamCERA's* derivative positions as of June 30, 2010 is not material.

SamCERA's investments contain various derivative positions as of and for the year ended June 30, 2010, primarily in swaps and foreign currency forward positions. As of June 30, 2010, *SamCERA* held derivatives with a notional amount of $26,930,304 and a fair value of $33,089. The data as of June 30, 2009, is not available. Changes in fair value during fiscal year 2010 are reported in the statement of changes in fiduciary net assets as a component of investment income. No derivatives were held that would be classified as hedging derivatives – all are classified as investment derivatives.

The fair values of the derivatives are determined using a pricing service and validated by *SamCERA's* custodians. Management of *SamCERA* accepts these valuations. For foreign currency forwards, published foreign exchange rates are the primary source of information.

The fair values of currency forward contracts are determined using a proprietary pricing service, which uses published foreign exchange rates as the primary source. The fair values of credit rate swaps, interest rate swaps and warrants are determined using the custodian pricing vehicles. The fair value of TBA transactions are also determined by the custodian pricing vehicles.

As of June 30, 2010, *SamCERA's* derivatives were not subject to custodial credit risk. However, they are subject to other risks.

Investment Derivatives

For the Year Ended June 30, 2010

	Notional Value	Fair Value
Credit Default Swaps Bought	$761,552	$142,891
Credit Default Swaps Written	$289,000	($20,952)
FX Forwards	$0	($91,297)
Pay Fixed Interest Rate Swaps	$4,840,000	($396,026)
Rights	$594,248	$139,027
TBA Transactions Long	$20,380,000	$110,565
Warrants	$65,504	$148,881
Total	**$26,930,304**	**$33,089**

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

SamCERA has investments in four fixed income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. *SamCERA's Investment Policy* does not have a formal policy that limits investment duration as a means of managing its exposure to fair value losses arising from increasing interest rates. The Association's active bond portfolios are managed duration neutral to their benchmark, the Barclays Capital Aggregate Bond Index. Its enhanced index portfolio does not rely on active duration management, but instead maintains duration within a very narrow band around that of the benchmark (for the Barclays Capital Aggregate Bond Index, approximately +/- 0.20 year of the index). To facilitate this, Pyramis Global Advisors models the option-adjusted durations of the securities that comprise the index on a daily basis, and uses the output to align the portfolio duration to that of the benchmark.

Credit Risk – Derivatives – *SamCERA* is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to credit risk include credit default and interest rate swaps, currency forward contracts, rights, warrants and TBA transactions. To minimize credit risk exposure, *SamCERA's* investment managers continuously monitor credit rating of counter parties. Should there be a counterparty failure, *SamCERA* would be exposed to the loss of fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. *SamCERA* has no general investment policy with respect to netting arrangements or collateral requirements. Netting arrangements legally provide *SamCERA* with a right of offset in the event of bankruptcy or default by the counterparty. As of June 30, 2010, *SamCERA* has no exposure to loss in case of default of a counter party, In addition, *SamCERA* has no collateral reducing exposure or liabilities subject to netting arrangements

Custodial Credit Risk – **Deposits** – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, *SamCERA* will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. *SamCERA* has no general policy on custodial credit risk for deposits.

SamCERA maintains operation cash deposits to support day-to-day cash management requirements. As of June 30, 2010, cash held with a financial institution in a pooled money market fund totaled $2.5 million. As of June 30, 2009, cash held with a financial institution totaled $1.3 million. Cash held in the San Mateo County Treasurer's investment pool was $11.6 million and $7.2 million as of June 30, 2010 and 2009, respectively. These deposits are uninsured and uncollateralized, and subject to custodial credit risk.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, *SamCERA* will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held in the name of *SamCERA.* The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments and investments in pools. As of June 30, 2010, *SamCERA* had no investments that were exposed to custodial risk. *SamCERA* does not have a general policy addressing custodial credit risk, but it is the practice of the Association that all investments are insured, registered, or held by the plan or its agent in the Association's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in *SamCERA's* name.

Custodial Credit Risk – Derivatives – As of June 30, 2010, *SamCERA's* investments did not include collateral associated with derivatives activity.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of *SamCERA's* investment in a single issuer of securities. *SamCERA's Investment Policy* states no investment shall constitute more than 5% of a company's outstanding equity. When measuring this aspect of compliance the board will consider its ownership in relation to the "free float" of a particular security. As of June 30, 2010, *SamCERA* did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments.

As of June 30, 2010, the Association had the following investments categorized for interest rate and credit risk:

Active Fixed Income Portfolio Characteristics
Aberdeen Asset Management, Pyramis Global Advisors & Western Asset Management Bond Portfolios Combined

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Agency	$9,880,871	3.97%	11.24	7.47
Asset Backed Securities	18,359,988	2.71%	6.04	3.45
Commercial Mortgage-Backed Securities	27,076,761	2.91%	16.99	3.95
Collateralized Mortgage Obligations	46,096,571	2.48%	8.43	5.30
Commingled Funds	12,297,465			
Corporate Bonds	140,760,644	6.10%	9.96	6.48
Mortgage Pass Through	111,642,429	4.89%	10.48	6.34
Taxable Municipal Bonds	4,307,660	5.84%	32.90	10.81
Derivatives	33,089			
Other Assets	5,564,090			
United States Treasuries	100,135,078	2.78%	10.78	7.50
Yankee	5,933,208	5.41%	11.21	6.59
	$482,087,854	4.36%	10.39	6.18

Enhanced Index Fixed Income Portfolio Characteristics
Angelo Gordon PPIP Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Angelo Gordon	$23,353,466	4.84%	21.21	4.45

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *SamCERA's Investment Policy* seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class. To control credit risk, credit quality guidelines have been established. *SamCERA's Investment Policy* has three requirements addressing fixed income quality. First, the minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value. Second, the minimum quality rating eligible for the portfolio must be "B" or better (as rated by Standard & Poor's or Moody's equivalent). The third requirement is that no more than 10% of *SamCERA's* fixed income assets under a manager's supervision shall be invested in securities with a rating below "Baa3," "BBB-," "P-1" or "A-1." The Association's core plus fixed income manager was given an exemption and may hold more than 10% in assets rated below BBB.

On June 30, 2010, the quality breakdown of the Association's investments in bonds were rated as indicated in the table below.

Credit Risk	Active Management	Commingled Management
AAA	51.6%	13.8%
AA	1.2%	1.7%
A	4.7%	9.8%
BBB	0.0%	25.6%
Less than BBB	38.8%	47.5%
NR	3.7%	1.6%
	100.00%	100.00%

Foreign Currency Risk – Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair values of an investment or deposit. *SamCERA's* international equity managers are permitted to invest in authorized countries. *SamCERA's* policy states forward currency contracts and currency futures are permitted for defensive currency hedging to mitigate foreign currency risk on the portfolio.

The foreign currency risk analysis schedule on the following page shows the fair value of investments that are exposed to foreign currency risk by investment type and currency denomination. The schedule offers the magnitude of risk for each foreign currency. The foreign currency positions are denominated in U.S. dollars. They are not denominated in their native currencies.

Local Currency	Common Stock	Foreign Currency	Preferred Stock	Rights	Depository Receipt	Warrants	Total
Australian Dollar	$18,063,923	$156,025				$148,882	$18,368,830
Brazilian Real	$2,345,360	$101,802	823,894				$3,271,056
Canadian Dollar	$12,705,630	$510,225					$13,215,855
Czech Koruna	$1,997,286	$81,391					$2,078,677
Danish Krone	$1,435,248						$1,435,248
Euro Currency	$81,790,483	$440,797	$787,623	$139,028	$3,060,467		$86,218,398
Hong Kong Dollar	$8,908,239						$8,908,239
Hungarian Forint	$1,107,320	$33,668					$1,140,988
Indonesian Rupiah	$290,697	$4,502					$ 295,469
Japanese Yen	$49,947,976	$417,563					$50,365,539
Mexican Peso	$590,424	$179,863					$770,287
New Bulgaria Lev	$264,406						$264,406
New Taiwan Dollar	$5,248,617	$1,172,228					$6,420,845
New Zealand Dollar	$897,173						$897,173
Norwegian Krone	$1,990,208						$1,990,208
Philippine Peso		$6,098					$6,098
Polish Zloty	$2,892,628	$97,635					$ 2,990,263
Pound Sterling	$52,324,123	$86,498					$52,410,621
Singapore Dollar	$6,162,583	$4,122					$6,166,705
South African Rand	$3,529,235						$3,529,235
South Korean Won	$2,651,576	$62,262					$2,713,839
Swedish Krona	$1,875,582						$1,875,582
Swiss Franc	$21,364,972						$21,364,9722
Total	$278,383,963	$3,354,678	$1,611,517	$139,028	$3,060,467	$148,882	$286,698,535

Foreign Currency Risk – Foreign Exchange Contracts - Foreign currency contracts are subject to foreign currency risk. Foreign exchange contracts include forward contracts and spot contracts. Currency forward contracts are derivatives and generally serve to hedge or offset the impact of foreign currency exchange rate fluctuations on the reported U.S. dollar fair value of investments denominated in foreign currencies. Spot contracts are generally used when *SamCERA* is required to make or receive payments in a foreign currency. Spot contracts are agreements to buy or sell a certain amount of foreign currency at the current market rate, for settlement in two business days.

There was no dollar impact from foreign exchange contracts on foreign exchange currency risk as of June 30, 2010.

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

Security Lending Collateral Interest Rate Risk – Cash collateral from loans of securities are invested in the State Street Navigator Securities Lending Prime Portfolio. Its average effective duration is restricted to 90 days or less. As of June 30, 2010, and 2009, the actual effective duration was 25 days and 46 days, respectively.

Securities Lending Activity

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

For the year ended June 30, 2010, on behalf of *SamCERA*, the securities lending agent lent *SamCERA* securities to borrowers under the securities lending agreement and *SamCERA* received cash, securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters-of credit as collateral.

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

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

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

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

SamCERA did not impose any restrictions for the year ended June 30, 2010, on the amount of loans that the securities lending agent made on its behalf. The securities lending agent indemnified *SamCERA* by agreeing to purchase replacement securities or supplement the amount of cash collateral in the event the borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay *SamCERA* for any income distributions on loaned securities. There were no losses during the year ended June 30, 2010, resulting from a default of the borrowers or the securities lending agent.

SamCERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short term investment pool managed by the securities lending agent. As of June 30, 2010, this investment pool had an average duration of 48.2 days, and an average weighted maturity of 24.9 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. For the year ended June 30, 2010, *SamCERA* had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of June 30, 2010, *SamCERA* had securities on loan with a total value of $175.7 million and the cash and other collateral held against the loaned securities of $181.7 million.

Note 5 – Risk Management

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

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

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

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

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

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

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

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

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

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years and there has not been a significant reduction in coverage in fiscal year 2009-2010.

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

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

Note 6 – Actuarial Valuation

Pursuant to provisions in the County Employees Retirement Law of 1937, *SamCERA* engages an independent actuarial firm, Milliman, Inc., to perform an annual actuarial valuation to monitor its funding status and funding integrity. The purpose of the valuation is to reassess the magnitude of *SamCERA's* benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actuarial cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Milliman, Inc. completed the actuarial valuation as of June 30, 2009, and June 30, 2010, and determined the funding status (the ratio of system assets to system liabilities) to be 63.9% and 70.3%, respectively. The June 30, 2010, funding status was established based on entry age normal actuarial cost methods, an assumed 7.75% investment return, an assumed 4.0% annual total payroll growth rate, an inflation rate of 3.5% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

The most recent actuarial valuation is June 30, 2010. The valuation discloses the actuarial value of asset at $2.179 billion with an actuarial accrued liability of $3.098 billion for a funded ratio of 70.3%. The unfunded actuarial accrued liability is $919.4 million, which is 214.53% percent of the $428.6 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2011, was set equal to 19.83% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.57% for a total contribution rate of 31.40% of payroll. However, the Board of Retirement chose to retain the higher contribution rate for another year. A schedule of *SamCERA's* funding progress may be found in the required supplementary information on page 48. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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

Latest Actuarial Valuation of Plan Assets & Liabilities

Valuation Date	June 30, 2010	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent of Payroll	
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2010). This is referred to as 15-year layered amortization.	
Asset Valuation Method	5-year smoothed market with 20% corridor	
Actuarial Assumptions:		
Investment Rate of Return	7.75%	
Price Inflation (CPI)	3.50%	
Payroll Increases	4.00%	
Average Projected Salary Increases	5.20%	
Attributed to Inflation		4.00%
Attributed to Adjustments for Merit and Longevity		1.20%

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

Cost of Living Adjustments

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

Note 7 – Capital Commitments

Pursuant to the terms of the Limited Partnership Agreement of AG GECC Public-Private Investment Fund, L.P., *SamCERA* made a capital commitment of $35 million. As of June 30, 2010, in accordance with the provisions of the Partnership Agreement, the fund has called 62.5% of all partner's commitment. For *SamCERA* that represents a total calling of $21,875,000 with a remaining commitment of $13,125,000.

Note 8 – Related Party Transactions

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

Note 9 – Contingent Liability

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

Note 10 – Subsequent Events

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

Financial Disclosures

Subsequent to June 30, 2010, and through October 6, 2010, the date through which management evaluated subsequent events and on which the financial statements were issued, *SamCERA* did not identify any subsequent financial events that required disclosure.

Implementation of New Equity Investment Structure

At the Board of Retirement's August 24th meeting, the trustees concluded an asset/liability modeling study and adopted a new asset allocation. The new allocation allows for 20% of the portfolio to be invested in alternative investments. The alternatives portfolio will be 40% private equity, 30% risk parity, 15% commodities and 15% hedge funds. Funding for alternative investments comes by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%. *SamCERA* does not have an allocation to cash.

San Mateo County Employees' Retirement Association
Required Supplementary Information
(Amounts in thousands)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/05	$1,615,585	$2,177,759	$562,174	74.2%	$334,315	168.16%
6/30/06	$1,769,021	$2,345,149	$576,128	75.4%	$363,648	158.43%
6/30/07	$1,976,731	$2,555,504	$578,773	77.4%	$407,812	141.92%
6/30/08	$2,218,937	$2,806,222	$587,285	79.1%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.9%	$436,424	247.02%
6/30/10	$2,179,076	$3,098,453	$919,377	70.3%	$428,559	214.53%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	$76,931	100%
2006	$76,090	100%
2007	$100,550	100%
2008	$105,340	100%
2009	$106,123	100%
2010	$106,265	100%

Notes to the Required Supplementary Information

The Association provides the valuation of plan assets and liabilities, which is normally carried out as of June 30th of each year, and contribution requirements resulting from such valuations become effective on July 1st of the next fiscal year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation of plan assets and liabilities is on the following page.

Latest Actuarial Valuation of Plan Assets & Liabilities

Valuation Date	June 30, 2010	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent of Payroll	
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2010). This is referred to as 15-year layered amortization.	
Asset Valuation Method	5-year smoothed market with 20% corridor	
Actuarial Assumptions:		
Investment Rate of Return	7.75%	
Price Inflation (CPI)	3.50%	
Payroll Increases	4.00%	
Average Projected Salary Increases	5.20%	
Attributed to Inflation		4.00%
Attributed to Adjustments for Merit and Longevity		1.20%

Cost of Living Adjustments

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

Schedule of Funding Progress

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

As of June 30, 2010, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 70.3% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principles of entry age normal cost funding.

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

Schedule of Employers' Contributions

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

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

Schedule of Administrative Expenses
as of June 30, 2010 and 2009

	2010	2009
Salaries and Member Benefits	$2,147,698	$2,110,498
Services and Supplies	1,120,862	1,176,497
Capital Assets	104,407	0
Total Administrative Expense	$3,372,967	$3,286,995

Administrative Budget Analysis
Budget to Actual Expenditure
As of June 30, 2010

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$1,595,600	$1,472,709	92.3%
Benefits	691,400	674,989	97.6%
Salaries & Benefits	**2,287,000**	**2,147,698**	**93.9%**
Board Expenses	10,800	6,800	63.0%
Insurance	90,000	68,952	76.6%
Medical Evaluation	32,000	53,365	166.8%
Member Education	60,000	58,784	98.0%
Education & Conference	62,400	55,332	88.7%
Transportation & Lodging	70,200	51,357	73.2%
Technology Infrastructure	260,000	110,029	42.3%
Property & Equipment	78,000	31,431	40.3%
General Office Supplies	25,000	26,922	107.7%
Postage, Printing & Copying	150,000	59,834	39.9%
Leased Facilities	218,400	193,721	88.7%
County Service	311,800	314,149	100.8%
Audit Services	40,500	36,348	89.7%
Other Administration	50,000	53,838	107.7%
Services & Supplies	**1,459,100**	**1,120,862**	**76.8%**
Capital Assets	**200,000**	**104,407**	**52.2%**
Depreciation	**0**	**0**	
Grand Total	**$3,946,100**	**$3,372,967**	**85.5%**

Schedule of Asset Management Expenses
as of June 30, 2010 and 2009

	2010	2009
Salaries and Member Benefits	$397,465	$429,738
Services and Supplies	111,067	165,415
Capital Assets	16,063	0
Total Asset Management Expense	$524,595	$595,153

Schedule of Investment Expenses
For the Years Ended June 30, 2010 and 2009

	2010	2009
Investment Manager		
Aberdeen Asset Management	$ 390,993	$ 396,594
Artio Global Management	942,496	871,419
AXA Rosenberg Investment Management	157,794	0
Barclays Global Investors	0	1,157,979
Barrow, Hanley, Mewhinney, & Strauss	574,230	0
BlackRock Capital Management	726,741	0
The Boston Company	315,278	0
Brandes Investment Partners	11,236	180,491
Chartwell Investment Partners	300,510	260,309
D.E. Shaw Investment Management	421,132	0
Invesco Realty Advisors	631,782	706,648
Jennison Associates	685,083	485,334
Mondrian Investment Partners	510,044	507,716
Pyramis Global Advisors	244,677	260,504
State Street Global Advisors	0	(5,458)
T. Rowe Price Associates	306,556	0
Western Asset Management	391,708	399,269
Global Custodian		
State Street Bank	140,569	134,352
Investment & Actuarial Consultants	277,553	283,941
Sub-total Professional Expense	7,028,382	5,639,098
Asset Management Expense	524,595	595,153
Other Investment Related Expense	570,789	536,736
Interest Paid on Prepaid Contribution	781,711	4,346,830
Total Investment Expense	$8,905,477	$11,117,817

Schedule of Payments to Consultants
For the Years Ended June 30, 2010 and 2009

	2010	2009
Investment Consultant Expense		
Strategic Investment Solutions	$200,820	$200,000
Actuarial Consultant Expense		
Milliman, Inc.	76,733	83,941
Total Consultant Expense	$277,553	$283,941

Notes to the Other Supplementary Information

Administrative Services Budget

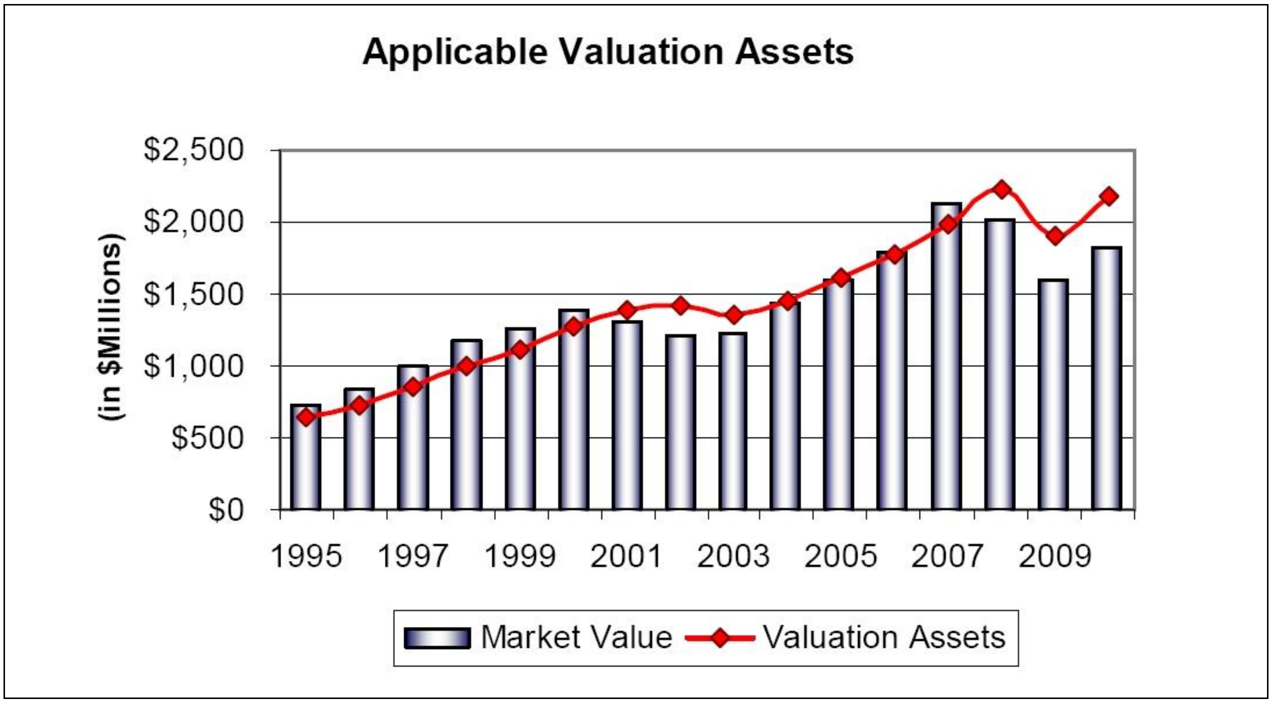
Government Code §31580.2 states in part, *". . . the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed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

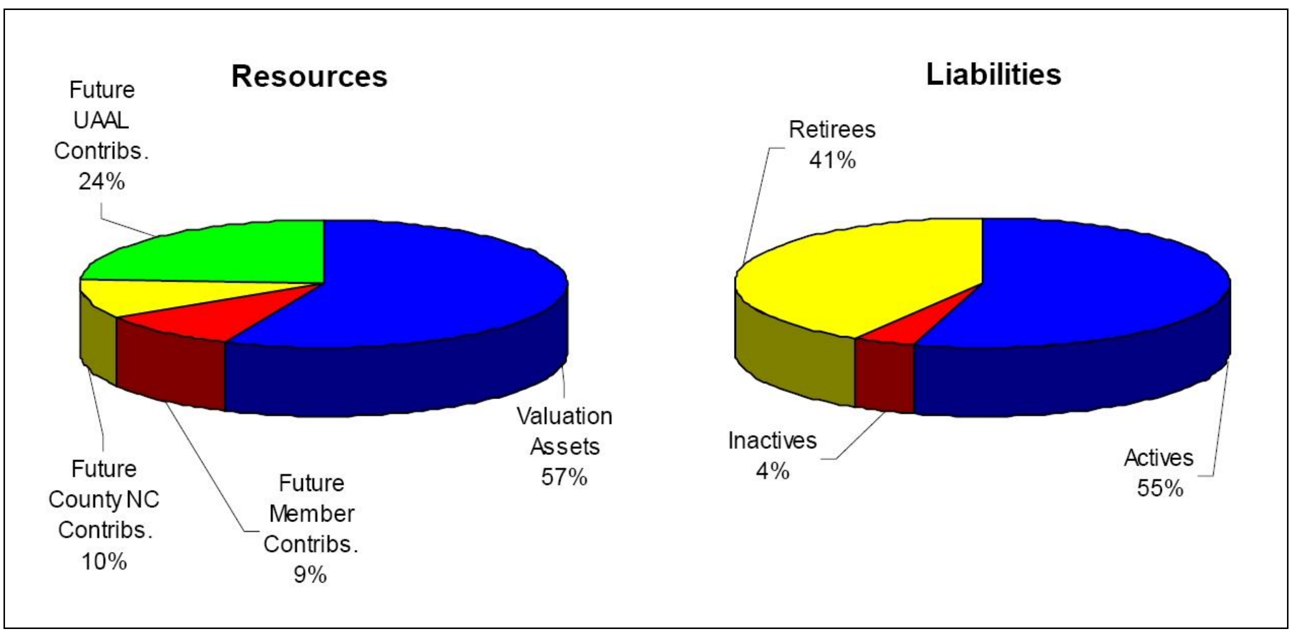
Professional Services Budget

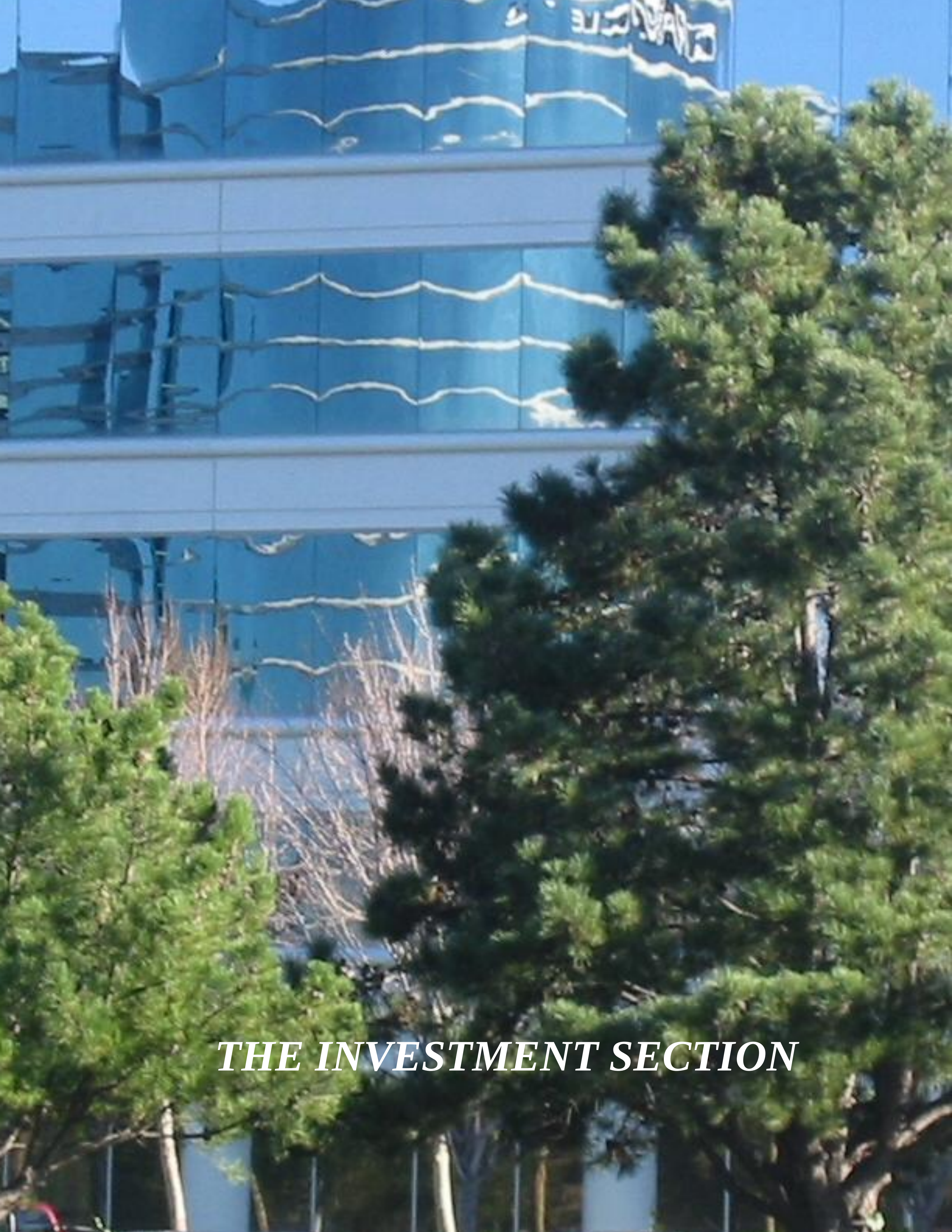
Government Code §31596.1 states that "*The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board:*

(a) The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §*31453.*
(b) The compensation of any bank or trust company performing custodial services.
(c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.
(d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.
(e) The compensation to an attorney for services rendered pursuant to §*31607 or legal representation rendered pursuant to* §*31529.1."*

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

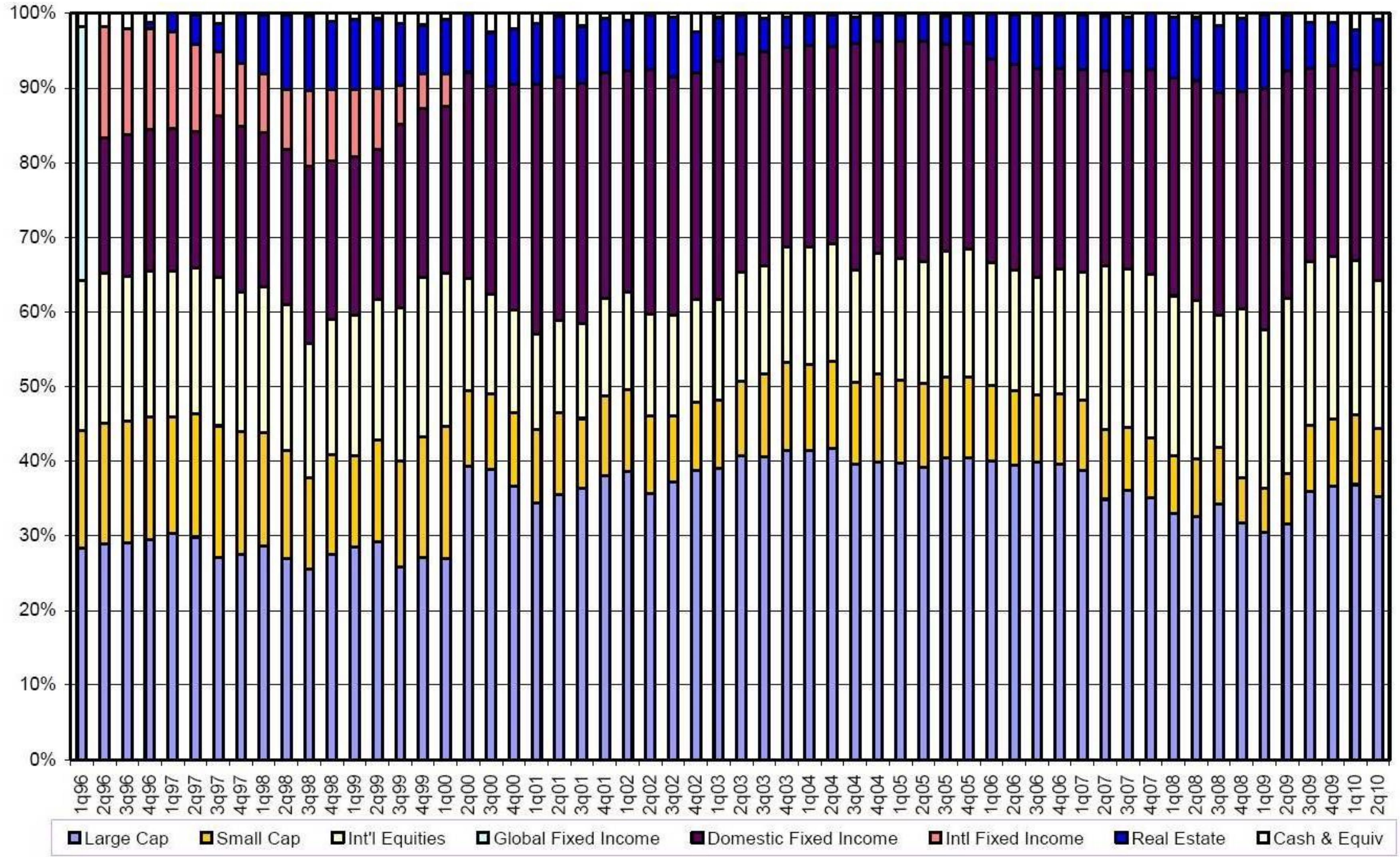

Applicable Valuation Assets
$2,500
$2,000
$1,500
$1,000
$500
$0
(in $Millions)
1995
1997
1999
2001
2003
2005
2007
2009
Market Value
Valuation Assets


Resources
Future UAAL Contribs. 24%
Valuation Assets 57%
Future Member Contribs. 9%
Future County NC Contribs. 10%
Liabilities
Retirees 41%
Inactives 4%
Actives 55%



THE INVESTMENT SECTION

Actual Historical Quarterly Asset Allocation
Period Ended June 30. 2010



SamCERA

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Phone: 650-599-1234
Fax: 650-591-1488
Toll Free: 1-800-339-0761

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of *SamCERA's* investment operations, I am pleased to present reports on the pension fund's investments and portfolio performance for the period ended June 30, 2010. This data was compiled by *SamCERA's* investment staff, its investment consultant Strategic Investment Solutions, and the master custodian State Street Bank & Trust. The reported performance is presented in accordance with Global Investment Performance Standards (GIPS).

The market improvement that began on March 9, 2009, continued through most of the fiscal year. However, the year ended with a sharp drop in June 2010. In the early part of the fiscal year the U.S. economic statistics continued to reflect a picture of improving by weak growth at a low level of output relative to capacity. In September 2009, Federal Reserve Chairman Ben Bernanke said that the worst U.S. recession since the Great Depression was probably over, but the recovery would be slow. It was not until September 2010 that the National Bureau of Economic Research, the arbiter of U.S. business cycles, made it official. The 2007-2009 recession, which wiped out 7.3 million jobs, cut 4.1% from economic output and cost Americans 21% of their net worth, officially ended in June 2009.

Even though the "recession" statistically ended it still felt very real to many Americans even a year later. The economy faced stubbornly slow growth and thus persistently high unemployment. The liquidity provided by the U.S. Federal Reserve did not get into the economy where it was intended to go. Instead it created a liquidity-driven bull market with the money going into stocks, bonds, commodities, etc. With so much stimulus spending by the central banks and governments, the real equilibrium level of the economy was obscured. But it was obvious that the deleveraging process to repair household budgets, corporate balance sheets and government budgets still had a ways to go.

By January 2010 the markets were looking at a new concern. There was growing uncertainty about how Greece would fund its imbalances and similar concerns about Spain and Portugal. At the beginning of March Greece raised badly needed cash with a well-received bond issue, passing a key test of its ability to avoid a debt default. May was a month of de-risking with steep losses in all equity markets amid continued worries that officials in the euro area had failed to resolve the sovereign debt crisis. This sell-off brought excessive pessimism back into the market, which lasts through the fiscal year end and the first few months of fiscal year 2010-2011.

Over the immediate future, economic growth is likely to be moderate and inflation is projected to stay low. However, it is widely expected that inflation will accelerate longer term due to the large fiscal deficits. This environment is likely to produce nominal investment returns in the 7% to 8% range over the next five to ten years and real returns in the 5% range.

As described above, most of the fiscal year ended June 30, 2010, provided positive market returns. In that environment *SamCERA* achieved a return of 12.80% on the overall portfolio, which exceeds the actuarial assumed rate of 7.75%. Small cap equities at 25.7% and fixed income at 17.0% were the best performing asset categories. The next best categories were large cap equities, 13.6% and international equities, 8.0%. *SamCERA's* commercial real estate portfolio was in line with national real estate. Its annual performance was a negative 7.3%

Portfolio appreciation and investment income added approximately $200 million to the fund, raising the net portfolio market value to $1.816 billion.

The biggest challenge facing the fund last year was to properly diversify of the plan's assets. To meet this challenge the trustees embarked upon a study to restructure the fixed income portfolio and an asset liability modeling study.

The fixed income study was completed in September with the board opining to add a Public-Private Investment Program (PPIP) mandate, a U.S. Treasury Inflation Protected Securities (TIPS) mandate, a Credit Opportunities mandate and a Global Bond mandated, all of which nicely added to the diversification of the fixed income portfolio. Angelo Gordon was hired in October to implement the PPIP strategy. Brown Brothers Harriman was hired in January to implement the TIPS mandate. Brigade Capital Management was hired in July for the credit opportunities. The board intends to hire Franklin Templeton in October of 2010 for the global bond mandate.

The board completed the asset liability modeling in August, after the close of the fiscal year. The study resulted in an asset allocation which adds alternative investments to the portfolio. The new allocation is 53% equities, 22% fixed income, 20% alternative and 5% real estate. The new alternative portfolio will be constructed with 40% private equity, 30% risk parity, 15% hedge funds and 15% commodities. It will take a couple of years to fully implement some of the alternative strategies.

At the Board of Retirement's August 24th meeting, the trustees concluded an asset/liability modeling and adopted a new asset allocation. The new allocation allows for 20% of the portfolio to be invested in alternative investments. The alternatives portfolio will be 40% private equity, 30% risk parity, 15% commodities and 15% hedge funds. Funding for alternative investments comes by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%. *SamCERA* does not have an allocation to cash.

Respectfully submitted,

Gary Clifton

Gary Clifton
Chief Investment Officer
October 6, 2010

STRATEGIC INVESTMENT SOLUTIONS, INC.

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

TEL 415/362-3484 ■ FAX 415/362-2752

October 6, 2010

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

Dear Board Members:

After the extraordinary market trauma of the fall of 2008 that saw the failure, or emergency government rescue, of several key financial institutions, and the destruction of investor confidence in the global capital markets, market and investor confidence began a gradual process of healing during fiscal 2010.

Fiscal year 2010 began with signs that improvements in the capital markets were already underway as global equity markets rallied strongly and credit markets began to function more normally as liquidity and confidence returned. As a consensus among investors grew that the risk of a systemic market failure had passed, markets continued an uneven but largely positive path for most of fiscal 2010, until investor fear abruptly returned in the last quarter of the fiscal year.

Overall, it was a strongly positive year for risk assets and for overall portfolios that remained truly oriented to longer investment horizons. Global Equities and risk assets of all kinds bounced back strongly during the year. The broad US Equity market, as measured by the Russell 3000 Index, returned 15.7% during the year. The Russell 1000 large cap component of US Equity gained 15.2%, while the small cap Russell 2000 fared even better, returning 21.5%. International Equity investments, which for US-based investors faced the headwind of dollar strength, provided slightly lower returns: the Developed Markets index returned 6.4%, while Emerging Markets performed much better at 23.5%. Investment Grade US Bonds (Barclays Aggregate) continue to provide smoother, but still positive returns for investors, with another positive showing of 9.5% for the year. High yield bonds returned 26.8%, reflecting the dramatically improved credit environment during the year. The only major asset class to post a negative return in fiscal 2010 was real estate as the NCREIF Index of institutional Real Estate posted a negative 1.5% return.

PLAN INVESTMENT RESULTS

In this generally positive environment, the *SamCERA* portfolio delivered a solid absolute return during fiscal 2010. The San Mateo County Employees' Retirement Association (the Association) total Plan returned 12.8%, or .07% above the 12.7% return on its Policy Index, and well above the Association's 7.75% actuarial return expectation. The Association slightly lagged its peers, performing .66% below the Independent Consultants Cooperative (ICC) Large Public Fund Universe median return of 13.5%.

The Association's US Equity portfolio underperformed its equity policy benchmark by .70% during the fiscal year, which placed it just below its median peer, in the 55th percentile of the universe. In the first half of the fiscal year, the Association diversified the portfolio's US Large Cap exposure, replacing the quantitative enhanced index strategy, BlackRock Alpha Tilts, with four methodologically distinct enhanced index strategies. One of these replacement managers, AXA Rosenberg, was terminated in the fourth quarter of the fiscal year due to organizational instability resulting from the disclosure of a coding error. The comparative weakness of the US large cap managers was partly offset by the strong performance of the Small Cap Composite, which returned 25.7% for fiscal 2010, more than 400 basis points ahead of the Russell 2000 index and almost 300 basis points ahead of the median peer, placing the composite in the 28th percentile in its universe. Toward the beginning of the fiscal year, the Association hired The Boston Company, a risk-aware small value strategy to replace Brandes.

During fiscal 2010, *SamCERA's* International Equity Composite returned 8.0% versus the benchmark's return of 10.9%. The International Equity Composite return also trailed the median peer return by 99 basis points, performing in the 63rd percentile.

The Plan's Total Fixed Income Composite return of 17.0% significantly exceeded the Barclays Aggregate Index's 9.5% return for the fiscal year. All three of *SamCERA's* core bond managers staged solid recoveries after being hurt by overweight positions in corporate credit and mortgages in fiscal 2009. The situation reversed in fiscal 2010, when all three of these core bond managers were top quartile performers. The Association also invested in the Angelo Gordon GECC PPI Fund during the year, a fund created to participate in the US Government's Public-Private Investment Program. Angelo Gordon's 12.9% return for the second half of the fiscal year was among the strongest of the eight managers selected for the PPI program, and contributed to the strength of *SamCERA's* Total Fixed Income Composite. The composite's 17.0% return for the fiscal year was in the 29th percentile and 447 basis points ahead of the median peer in the Independent Consultants Cooperative (ICC) Large Public Fund Universe.

For the year ended June 2010, NCREIF posted a -1.5% return while the Association's Real Estate Composite posted a return of -7.3%. However, this weak benchmark relative return was only 30 basis points behind the median manager in the real estate universe, placing the composite in the 53rd percentile.

ASSET ALLOCATION AND MANAGER STRUCTURE

As the fiscal year ended, *SamCERA* was in the early stages of an asset allocation study. The study contemplates a strategic broadening of the *SamCERA* portfolio to include a substantial allocation to Private Equity, Commodities, Hedge Funds and other Alternative Investments.

During fiscal 2010 *SamCERA* undertook four separate searches required to complete the implementation of the Association's initiative to diversify its fixed income portfolio. The Association determined that it could increase the diversification within the fixed income portfolio by introducing several distinct types of specialist fixed income strategies. As mentioned, the Angelo Gordon PPI strategy was funded. In addition, the Association completed a TIPS manager search, an opportunistic credit manager search, and began a global bond manager search. These mandates will be funded in fiscal 2011.

During fiscal 2010 the *SamCERA* portfolio exceeded its policy index while providing strong absolute returns that were generated for its participants in a risk averse, cost effective, and prudent fashion. The Association also re-evaluated and reaffirmed its long term strategic plan, while also beginning the process of diversifying the portfolio with enhanced public equity and fixed income portfolios structures. Finally, work is underway to introduce a significant strategic allocation to Alternative investments to increase the diversification of the plan and improved its risk-adjusted performance. Given its efficient, highly liquid design, the Plan came through the recent market turmoil well positioned to take advantage of the investment opportunities made available to it by the market crisis of fiscal 2009. SIS firmly believes that the steps that the Association has initiated in fiscal 2010 will enable it to capitalize on these inherent strengths.

Sincerely,

Strategic Investment Solutions

Patrick Thomas
Senior Vice President

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

SamCERA's Investment Policy 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.

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

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

Calculations for compliance with these objectives will be prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance (GIP) standards.

INVESTMENT POLICY

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

INVESTMENT POLICY – (CONTINUED)

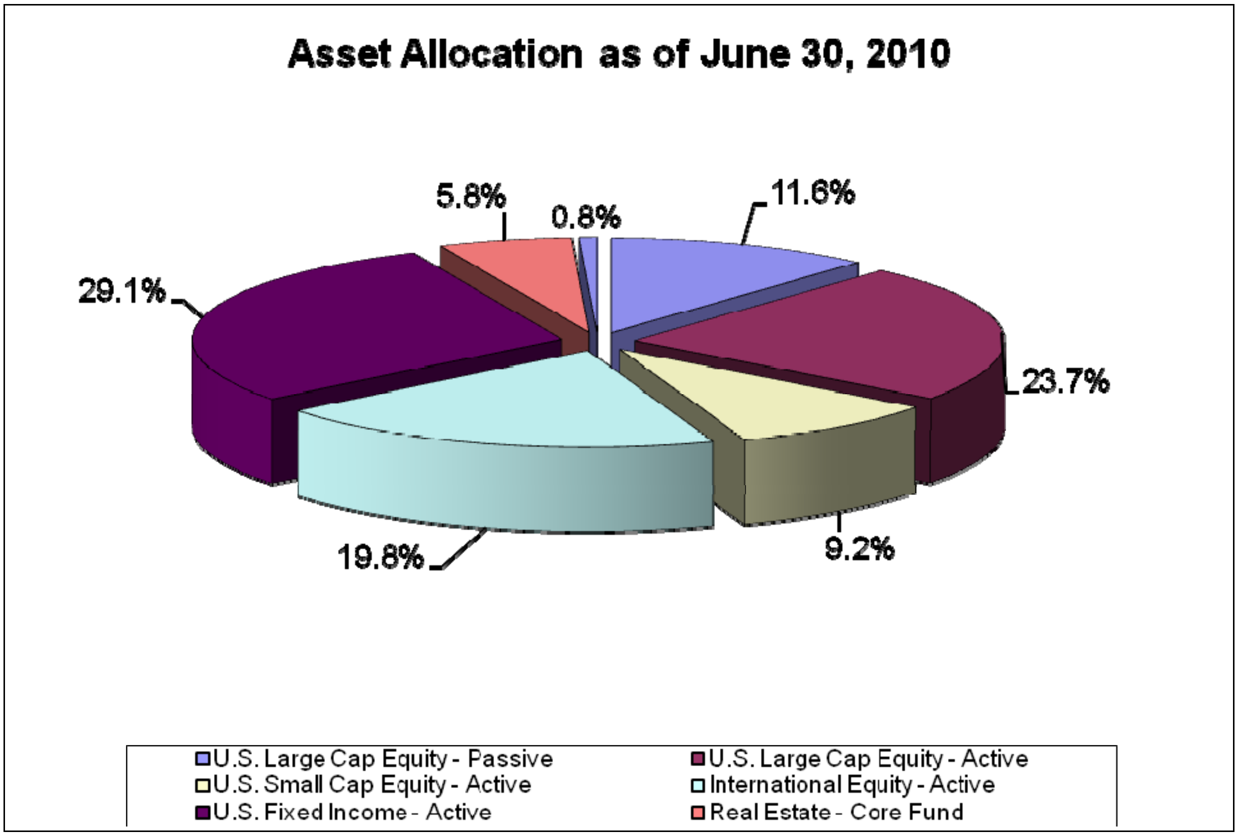
The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated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

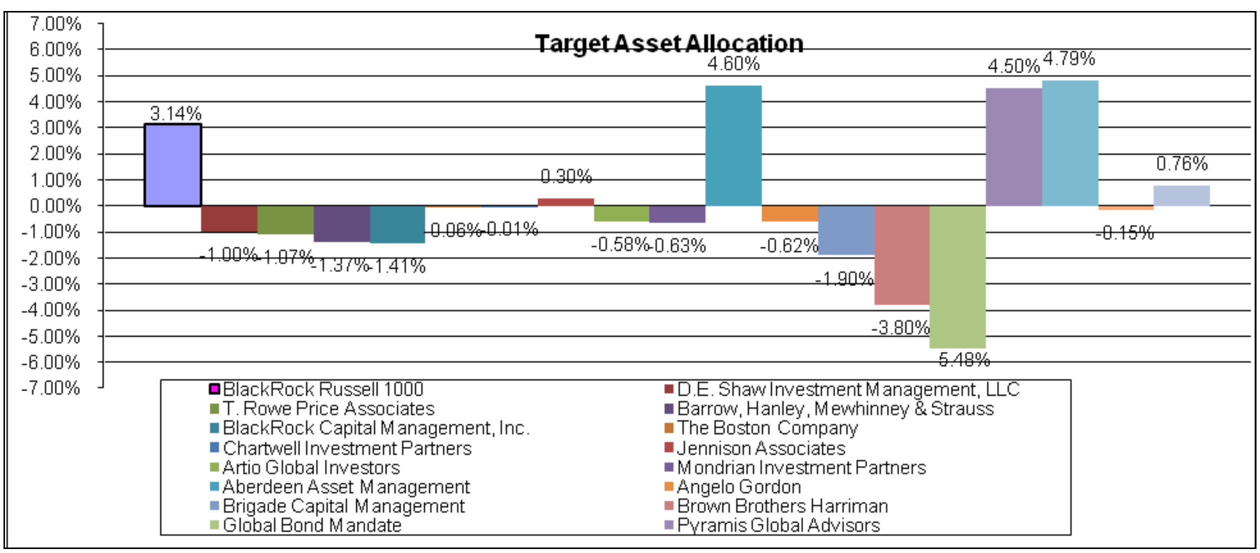
The board discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

Asset Class	Allocation		June 30 Actual	
Equity	67%		64.2%	
Fixed Income	27%		29.0%	
Real Estate	6%		6.0%	
Cash	0%		0.8%	
Equity Management Style	Allocation		June 30 Actual	
Domestic Large Capitalization	37%		35.3%	
Indexed		37%		35.3%
Domestic Small Capitalization	9%		9.2%	
Active		9%		9.2%
International	21%		19.7%	
Active		21%		19.7%
Total Equity	67%		64.2%	
Fixed Income Management Style	Allocation		June 30 Actual	
Domestic Fixed Income	27%		29.0%	
Enhanced Indexed		9%		9.1%
Active		18%		19.9%
Total Fixed Income	27%		29.0%	
Real Estate Management Style	Allocation		June 30 Actual	
Core Separate Property Portfolio		6%		6.0%
Total Real Estate	6%		6.0%	
Total Cash & Cash Equivalents	0%		0.8%	

Asset Allocation	**Market Value**
Large Capitalized U.S. Equities	$637,488,913
Small Capitalized U.S. Equities	166,562,897
International Equities	357,558,758
U.S. Fixed Income	525,730,149
Real Estate	109,210,472
Cash & Deposits	19,345,266
Total	$1,815,896,455


Asset Allocation as of June 30, 2010
5.8%
0.8%
11.6%
29.1%
23.7%
19.8%
9.2%
U.S. Large Cap Equity - Passive
U.S. Large Cap Equity - Active
U.S. Small Cap Equity - Active
International Equity - Active
U.S. Fixed Income - Active
Real Estate - Core Fund


Target Asset Allocation
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
-1.00%
-2.00%
-3.00%
-4.00%
-5.00%
-6.00%
-7.00%
3.14%
-1.00%
-1.07%
-1.37%
-1.41%
-0.06%
-0.01%
0.30%
-0.58%
-0.63%
4.60%
-0.62%
-1.90%
-3.80%
-5.48%
4.50%
4.79%
-0.15%
0.76%
BlackRock Russell 1000
D.E. Shaw Investment Management, LLC
T. Rowe Price Associates
Barrow, Hanley, Mewhinney & Strauss
BlackRock Capital Management, Inc.
The Boston Company
Chartwell Investment Partners
Jennison Associates
Artio Global Investors
Mondrian Investment Partners
Aberdeen Asset Management
Angelo Gordon
Brigade Capital Management
Brown Brothers Harriman
Global Bond Mandate
Pyramis Global Advisors

SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2010 — Total Time Weighted Rate of Return

Asset Category	One Year	Two Years	Three Years	Five Years
Domestic Equity				
BlackRock Russell 1000 Index Fund	15.32%	-8.00%	-9.46%	-0.49%
D.E. Shaw Investment Management, LLC	N/A	N/A	N/A	N/A
T. Rowe Price Associates	N/A	N/A	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	N/A	N/A	N/A	N/A
BlackRock Capital Management, Inc.	N/A	N/A	N/A	N/A
Large Cap Composite	13.55%	-9.45%	-10.87%	-1.49%
Benchmark Russell 1000	15.24%	-8.09%	-9.54%	-0.56%
The Boston Company	N/A	N/A	N/A	N/A
Chartwell Investment Partners	21.91%	-9.33%	-9.66%	0.02%
Jennison Associates	26.78%	-3.25%	N/A	N/A
Small Cap Composite	25.67%	-6.75%	-12.63%	-3.27%
Benchmark Russell 2000	21.48%	-4.56%	-8.61%	0.37%
International Equity				
Artio Global Management	8.79%	-17.55%	-14.43%	2.04%
Mondrian Investment Partners	7.27%	-11.45%	-10.92%	2.93%
International Composite	8.02%	-14.51%	-12.66%	2.52%
Benchmark MSCI ACWI ex US – Free	10.87%	-12.25%	-10.27%	3.84%
Total Equity Composite	13.36%	-10.55%	-11.53%	-0.72%
Domestic Fixed Income				
Aberdeen Asset Management, Inc.	17.83%	4.38%	3.79%	3.56%
Angelo Gordon	N/A	N/A	N/A	N/A
Pyramis Global Advisors	14.49%	9.69%	7.45%	N/A
Western Asset Management	18.39%	8.97%	6.48%	5.18%
Benchmark BC Aggregate Bond Index	9.50%	7.76%	7.55%	5.54%
Total Fixed Income Composite	17.00%	7.76%	5.97%	4.79%
Real Estate				
INVESCO Realty Advisors Core Fund	-7.29%	-19.34%	-10.92%	0.06%
Total Real Estate Composite	-7.29%	-19.34%	-10.92%	0.06%
NCREIF	-1.48%	-10.98%	-4.70%	3.79%
Cash				
Cash Composite	0.85%	-0.88%	0.72%	2.04%
Benchmark 91 Day Treasury Bill Index	0.16%	0.55%	1.57%	2.77%
Total Fund				
Composite Investment Portfolio	12.8%	-5.74%	-6.39%	1.14%
Policy Benchmark	12.73%	-3.95%	-4.27%	2.50%

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

Schedule of Investment Portfolio by Asset Class and Manager

AS OF JUNE 30, 2010

Domestic Equity			
BlackRock Russell 1000 Index Fund	Russell 1000 Index Fund	$210,228,921	
D.E. Shaw Investment Management, LLC	Large Cap Core	$85,719,253	
T. Rowe Price Associates	Large Cap Core	$83,959,593	
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	$126,708,322	
BlackRock Capital Management, Inc.	Large Cap Growth	$126,536,669	
The Boston Company	Small Cap Value	$39,276,668	
Chartwell Investment Partners	Small Cap Growth	$39,201,426	
Jennison Associates	Small Cap Core	$85,836,435	
Total Domestic Equity			$ 797,467,287
International Equity			
Artio Global Management	International Growth	$166,736,072	
Mondrian Investment Management	International Value	$174,312,478	
Total International Equity			$ 341,048,550
Total Equity			$1,138,515,837
Domestic Fixed Income			
Aberdeen Asset Management, Inc.	Domestic Core	$163,095,747	
Angelo Gordon	Domestic Credit Opportunity	$23,353,466	
Pyramis Global Advisors	Domestic Enhanced Index	$165,152,318	
Western Asset Management	Domestic Core Plus	$153,839,789	
Total Domestic Fixed Income			$ 505,441,320
Total Fixed Income			$ 505,441,320
Real Estate			
INVESCO Realty Advisors	U.S. Core Real Estate Fund		$ 109,210,472
Unequitized Cash			$ 255,878,408
Receivables & Prepaid Expenses			$ 96,138,649
<less> Current Liabilities			$ 289,288,231
Net Portfolio as of June 30, 2010			$1,815,896,455

Schedule of Top Ten Equities and Fixed Income Securities

As of June 30, 2010

TOP TEN EQUITY SECURITIES*

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

*Some Domestic Equity Securities are owned in the Russell 1000 Index Fund managed by BlackRock Capital Management.

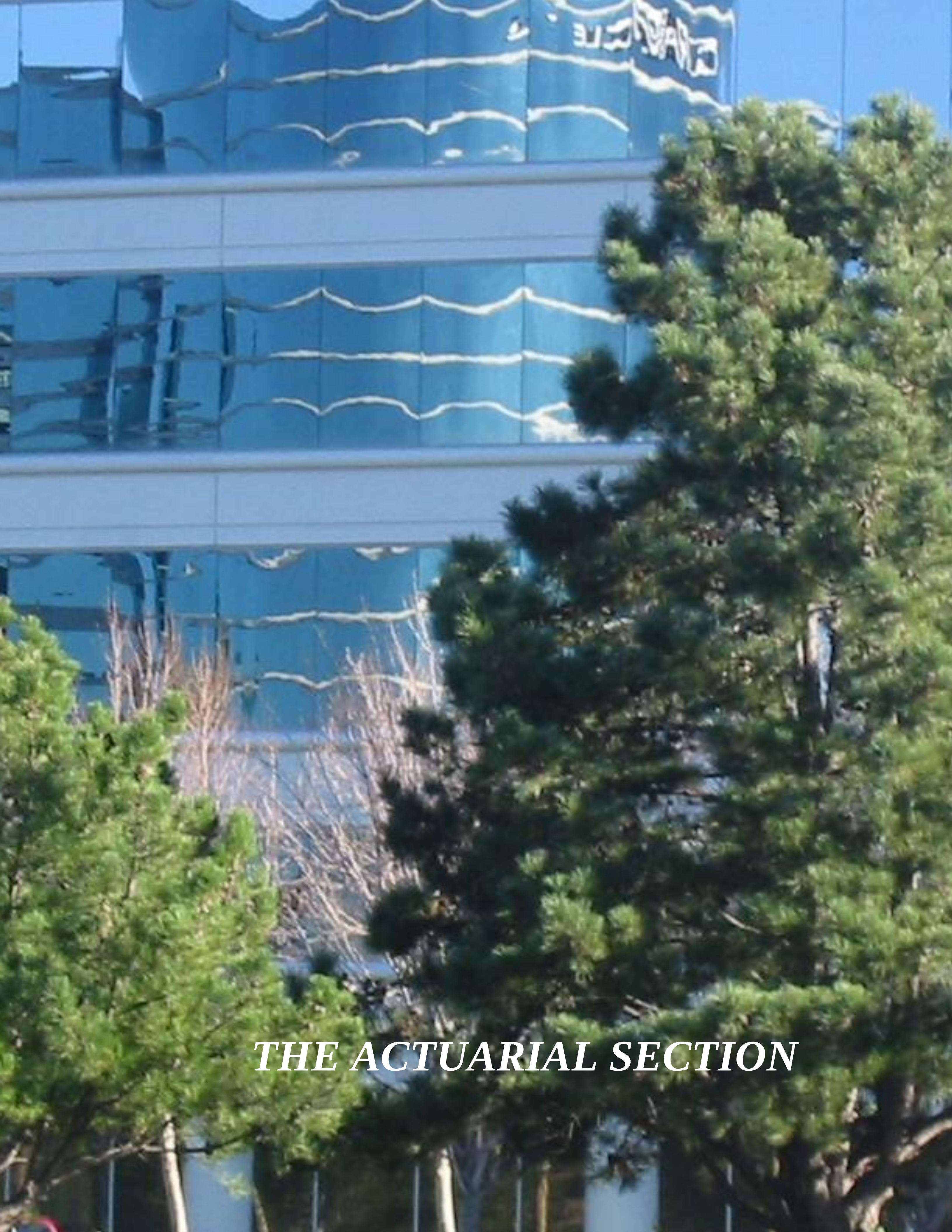
TOP TEN FIXED INCOME SECURITIES

Par/Book Value	Security Name			Rating S&P/Moodys	Issue ID	Market Value
$ 17,338,068	US TREASURY NOTE	2.63	7/31/2014	AAA/Aaa	912828LC2	$18,311,587
$ 8,228,000	US TREASURY NOTE	1.125	6/15/2013	AAA/Aaa	912828NH9	$ 8,260,747
$ 6,843,291	US TREASURY NOTE	0.88	2/29/2012	AAA/Aaa	912828MQ0	$ 6,900,942
$ 4,350,000	US TREASURY BOND	4.625	2/15/2040	Aaa	912810QE1	$ 4,889,670
$ 4,545,602	US TREASURY NOTE	2.63	12/31/2014	AAA/Aaa	912828ME7	$ 4,736,387
$ 4,034,829	US TREASURY NOTE	1.38	1/15/2020	AAA/Aaa	912828MF4	$ 4,197,008
$ 3,386,754	US TREASURY BOND	4.50	8/15/2039	AAA/Aaa	912810QC5	$ 3,796,574
$ 2,938,674	US TREASURY NOTE	2.38	2/28/2015	AAA/Aaa	912828MR8	$ 3,052,806
$ 2,580,200	US TREASURY NOTE	1.75	3/31/2014	AAA/Aaa	912828KJ8	$ 2,627,932
$ 2,173,288	FNMA 4.50% 7/40 TBA	4.50	7/1/2040	NONE	35S99LRP8	$ 2,255,710

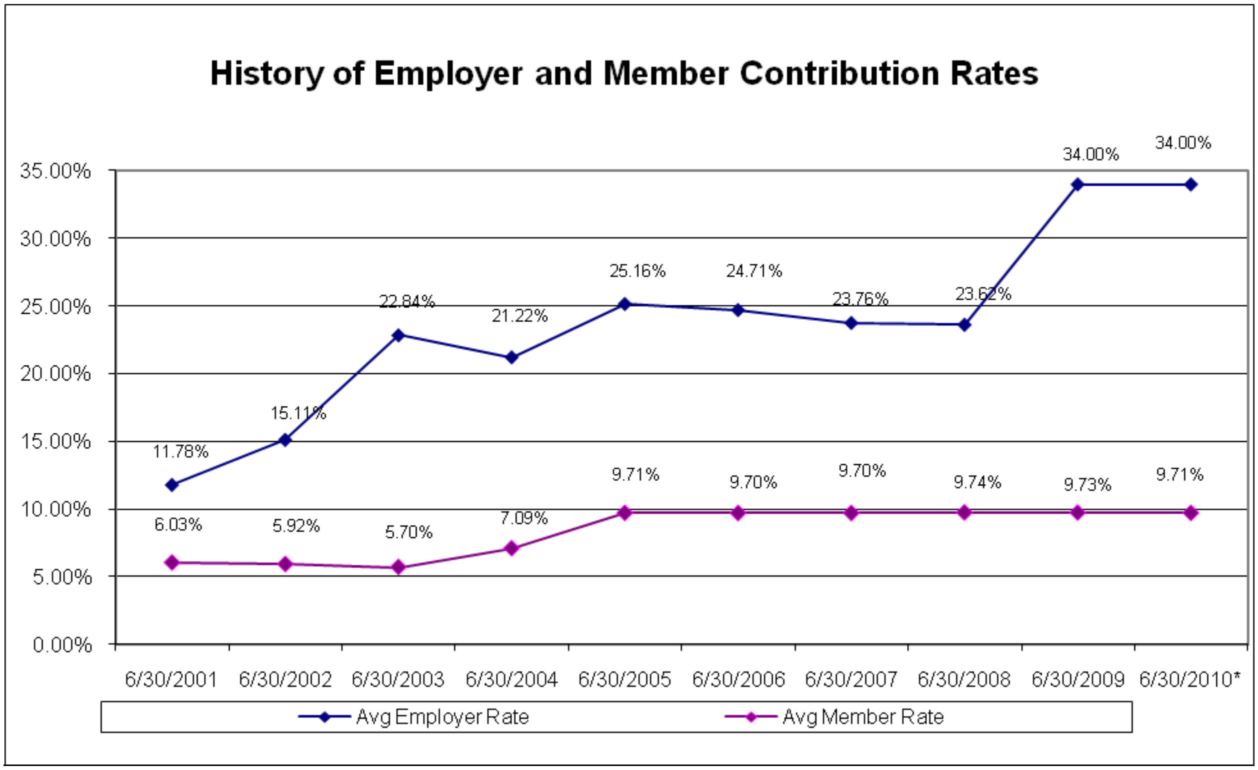
A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

Schedule of Professional Services and Fees
as of June 30, 2010 and 2009

	2010	2009
Investment Managers		
Aberdeen Asset Management Inc.	$ 390,993	$ 396,594
Artio Global Management	942,496	871,419
AXA Rosenberg	157,794	0
Barclays Global Investors	0	1,157,979
Barrow, Hanley, Mewhinney & Strauss	574,230	0
BlackRock Capital Management, Inc	726,741	0
The Boston Company	315,278	0
Brandes Investment Partners	11,236	180,491
Chartwell Investment Partners	300,510	260,309
D.E. Shaw Investment Management, LLC	421,132	0
Invesco Realty Advisors	631,782	706,648
Jennison Associates	685,083	485,334
Mondrian Investment Partners	510,044	507,716
Pyramis Global Advisors	244,677	260,504
State Street Global Advisors	0	(5,458)
T. Rowe Price Associates	306,556	0
Western Asset Management	391,708	399,269
Investment Managers	6,610,260	5,220,805
Investment Consultant		
Strategic Investment Solutions	$ 200,820	$ 200,000
Actuarial Consulting		
Milliman	$ 76,733	$ 83,941
Master Custodian		
State Street Bank and Trust Company	$ 140,569	$ 134,352
Total Professional Services	$7,028,382	$5,639,098



THE ACTUARIAL SECTION


History of Employer and Member Contribution Rates
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
11.78%
15.11%
22.84%
21.22%
25.16%
24.71%
23.76%
23.62%
34.00%
34.00%
6.03%
5.92%
5.70%
7.09%
9.71%
9.70%
9.70%
9.74%
9.73%
9.71%
6/30/2001
6/30/2002
6/30/2003
6/30/2004
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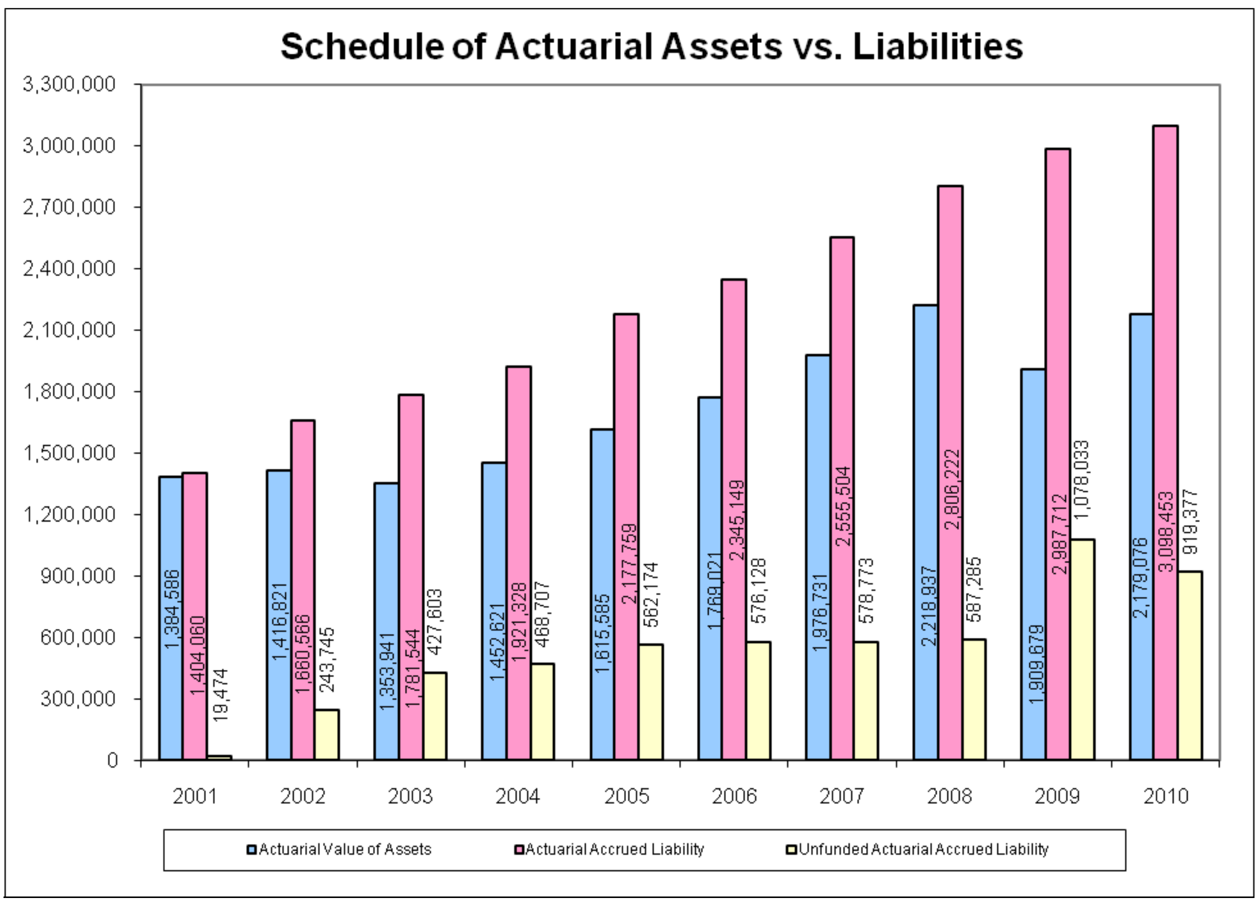
6/30/2008
6/30/2009
6/30/2010*
Avg Employer Rate
Avg Member Rate


Schedule of Actuarial Assets vs. Liabilities
3,300,000
3,000,000
2,700,000
2,400,000
2,100,000
1,800,000
1,500,000
1,200,000
900,000
600,000
300,000
0
1,384,586
1,404,060
19,474
1,416,821
1,660,566
243,745
1,353,941
1,781,544
427,603
1,452,621
1,921,328
468,707
1,615,585
2,177,759
562,174
1,769,021
2,345,149
576,128
1,976,731
2,555,504
578,773
2,218,937
2,806,222
587,285
1,909,679
2,987,712
1,078,033
2,179,076
3,098,453
919,377
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Actuarial Value of Assets
Actuarial Accrued Liability
Unfunded Actuarial Accrued Liability

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October 6, 2010

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

Dear Members of the Board:

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

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

Valuation Date	Funded Status
June 30, 2008	79.1%
June 30, 2009	63.9%
June 30, 2010	70.3%

The funded ratio has increased in the last year due to higher than expected earnings and the full reflection of those earnings in the actuarial value of assets due to the impact of the 120% asset corridor.

It is our opinion that *SamCERA* will continue to maintain a sound financial condition as of June 30, 2010 and later, as long as employer contributions are made based on a sound financial policy, such as the current funding policy. Under this policy, the County's contributions are set equal to the normal cost rate plus the amortization payment of any Unfunded Actuarial Accrued Liability (UAAL). The amortization of the initial UAAL as of June 30, 2008 is funded over a closed period ending June 30, 2023. The amortization of any future changes in the UAAL is funded over closed 15-year layers which are determined annually. It should be noted that the 2010 valuation results defer a portion of the market loss on assets that occurred in the fiscal year ending June 30, 2009 and earlier. Thus, the funded ratio is expected to be lower once that market loss is reflected in the 2011 and later valuations unless earnings continue to exceed the assumed rate.

The June 30, 2010 valuation results are based on the membership data and the asset information provided by *SamCERA*. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of *SamCERA's* current benefit provisions and the actuarial assumptions which were last reviewed and adopted by the Board in 2008. The assumptions were based on the triennial investigation of experience study report as of April 30, 2008. Assumptions will be reviewed again in 2011.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for *SamCERA* consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses, determined as the difference of the actual market value to the expected market value. The actuarial assets are restricted to not vary more than 20% from the market value. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for *SamCERA* for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning *SamCERA*'s operations, and uses *SamCERA*'s data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We assisted *SamCERA* staff in preparing the supporting schedules in this section and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our June 30, 2010 actuarial valuation report. In particular, it should be noted that many of the June 30, 2005 and earlier statistics were provided by the prior actuary and were on a different basis than we are using. This may affect the comparability between the years prior to 2006 shown in the data summaries and those shown in 2006 and later.

We certify that the June 30, 2010 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Karen I. Steffen

Karen I. Steffen, FSA, EA, MAAA
Consulting Actuary

Nick Collier

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

KIS/NJC/nlo

Actuarial Assumptions and Cost Method

The actuary assumptions used in the valuations are intended to estimate the future experience of the members of *SamCERA* and of *SamCERA* itself in areas that affect the projected benefit flow and anticipated investment earnings. The actuarial assumptions used to determine the liabilities for the June 30, 2010, valuation are based on the results of the actuarial experience study for the period July 1, 2005, through April 30, 2008. This study was adopted by the Board of Retirement on August 26, 2008.

Actuarial Assumptions and Cost Method

Valuation Date	June 30, 2010	
Actuarial Cost Method	Entry Age	
Amortization Method	Level Percent of Payroll	
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2010). This is referred to as 15-year layered amortization.	
Asset Valuation Method	5-year smoothed market with 20% corridor	
Actuarial Assumptions:		
Investment Rate of Return	7.75%	
Price Inflation (CPI)	3.50%	
Payroll Increases	4.00%	
Average Projected Salary Increases	5.20%	
*Attributed to Inflation		4.00%
*Attributed to Adjustments for Merit and Longevity		1.20%

Entry Age Actuarial Cost Method

Entry Age is the age at the member’s date of entry. Actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The normal cost is calculated by summing the normal cost for each individual and dividing this amount by the total payroll for current members expected to earn a benefit during the year. This normal cost rate is then multiplied by the total current salaries. The total unfunded actuarial accrued liability (UAAL) as of June 30, 2008 was amortized over a declining 15-year period. Future changes in the UAAL, including the change in UAAL as of June 30, 2010 is amortized over new 15-year periods, referred to as 15-year layered amortization.

Actuarial Asset Valuation Method

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

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 7.75%, compounded annually, net of both investment and administrative expenses. This rate was adopted effective for the June 30, 2005, valuation and reaffirmed by the board for use in the June 30, 2010, valuation.

Projected Salary Increase

The rate of annual salary increases assumed for the purpose of the valuation is 5.20%. It is comprised of two components, inflation and merit and longevity increases. The inflation component is 4.0%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2005, valuation and reaffirmed by the board for use in the June 30, 2010, valuation.

Actuarial Assumption		6/30/10	6/30/09	Change
Annual Inflation Rate		3.50%	3.50%	0.00%
Annual Investment Return		7.75%	7.75%	0.00%
Average Annual Salary Increases		5.20%	5.20%	0.00%

Cost-of-Living Adjustments

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

Post-retirement Mortality Rates

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

Post-retirement Mortality – Service Retirement

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

Safety Males Same as General.

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

Safety Females Same as General.

Post-retirement Mortality – Disability Retirement

General Males RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and minimum rate of 1.5%.

Safety Males Same as General except minimum is 1.0%.

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

Safety Females Same as General except minimum is 1.0%.

Separation from Active Status

The probabilities of separation from active status are shown on page 83.

Summary of Plan Provisions

The Association provides basic retirement, disability and death benefits based on a defined benefit formula which uses final average salary, years of service, and age to calculate benefits payable and, in addition, provides annual cost-of-living adjustments upon retirement for members of Tiers One, Two and Four. The benefits of Tier Three are reduced by Social Security benefits received by the member.

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

Employees of the San Mateo County Mosquito and Vector Control District are eligible for participation in all General Tiers, except Tier 3.

Eligibility for Tiers is dependent upon the following entry dates:

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

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

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

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

Eligibility for service retirement allowance is dependent upon the following:

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

Final Compensation:

Tiers 1 & 2	Monthly average of a member's highest twelve consecutive months of compensation.
Tiers 3 & 4	Monthly average of a member's highest three twelve consecutive months of compensation.

Monthly Allowance:

General Members Tiers 1, 2 & 4	1/60 x Final Compensation x General Age Factor x Years of Service.

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

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

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

The 1937 Act vests the Board of Supervisors with the authority to initiate benefits. However, Government Code Section 31592.2 empowers the Board of Retirement to provide health benefits when the Section 31592 reserve exceeds 1% of assets.

Summary of Recommendations

San Mateo County Contribution Rates (1)

	06/30/10	06/30/09	Change
Normal Cost Rate	11.57%	11.62%	-0.05%
Rate of Contribution to Unfunded Actuarial Accrued Liability	22.43%	22.38%	+0.05%
Total Employer Rate	34.00%	34.00%	0.00%

It should be noted that the 34.00% Total Employer Rate is a weighted average for all *SamCERA* tiers. The actual percent of payroll to be contributed by the county varies by plan. On September 28, 2010, the Board of Retirement voted to retain the contribution rate from the June 30, 2009, actuarial valuation rather than the lower rate calculated in the June 30, 2010, valuation. A history of employer rates by class is on Page 80.

Member Contribution Rates (1)

		07/01/10	07/01/09	Change (2)
General Members – County				
Tier 1 & Tier 2	Age 25	9.03%	9.03%	0.00%
	35	10.22%	10.22%	0.00%
	45	11.67%	11.67%	0.00%
Tier 4	Age 25	8.78%	8.78%	0.00%
	35	9.91%	9.91%	0.00%
	45	11.26%	11.26%	0.00%
General Members – SMCM&VCD (4)				
Tier 1 & Tier 2	Age 25	6.03%	5.20%	0.83%
	35	7.22%	6.23%	0.99%
	45	8.67%	7.48%	1.19%
Tier 4	Age 25	5.78%	4.98%	0.80%
	35	6.91%	5.97%	0.94%
	45	8.26%	7.16%	1.10%
Safety Members – Other than Deputy Sheriff (3)				
Tier 1 & Tier 2	Age 25	13.16%	13.16%	0.00%
	35	14.78%	14.78%	0.00%
	45	16.52%	16.52%	0.00%
Tier 4	Age 25	12.81%	12.81%	0.00%
	35	14.37%	14.37%	0.00%
	45	15.83%	15.83%	0.00%
Probation Members (Reflects Employer Pick-up)				
Tier 1 & Tier 2	Age 25	10.03%	10.03%	0.00%
	35	11.33%	11.33%	0.00%
	45	12.71%	12.71%	0.00%
Tier 4	Age 25	9.75%	9.75%	0.00%
	35	10.99%	10.99%	0.00%
	45	12.16%	12.16%	0.00%

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

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

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

(4) Beginning with the 6/30/2010 actuarial valuation, all current and future Mosquito and Vector Control District members contribute the same basic member rates as General County members.

Summary of Significant Actuarial Statistics and Measures

Association Membership	6/30/10	6/30/09	Change	
Active Members				
Number of Members	5,347	5,543	(3.5%)	
Average Age	45.4	44.9	1.1%	
Average Credited Service	10.2	9.6	6.3%	
Total Active Payroll in Thousands	$437,130	$445,152	(1.8%)	
Average Monthly Salary	$6,813	$6,692	1.8%	
Retired Members				
Number of Members				
Service Retirement	3,108	3,032	2.5%	
Disability Retirement	365	369	(1.1%)	
Beneficiaries	529	534	(0.9%)	
Average Age	71.3	71.3	0.0%	
Total Retiree Payroll in Thousands	$122,141	$119,052	2.6%	
Average Monthly Pension	$2,601	$2,521	3.2%	
Inactive Vested Members	1,207	1,230	(1.9%)	
Asset and Liability Values				
Asset Values				
Market Value in Thousands	$1,815,896	$1,591,400	14.1%	
Return on Market Value	12.2%	-22.5%	3,470	bps
Valuation Assets in Thousands	$2,179,076	$1,909,679	14.1%	
Return on Valuation Assets	12.7%	-14.1%	2,680	bps
Liability Values				
Actuarial Accrued Liability in Thousands	$3,098,453	$2,987,712	3.7%	
Unfunded Actuarial Accrued Liability in Thousands	$919,377	$1,078,033	(14.7%)	
Deferred Asset (Gains)/Losses	$363,179	$318,279	14.1%	
Required County Contribution Rate for All Plans as a Percentage of Total Payroll				
Gross Normal Cost	21.28%	21.35%	(0.07)	bps
Member Contributions	9.71%	9.73%	(0.02)	bps
County Normal Cost	11.57%	11.62%	(0.05)	bps
UAAL Amortization	22.43%	22.38%	0.05	bps
Total County Rate	34.00%	34.00%	(0.00)	bps
Funded Ratio				
GASB Number 25 *	70.3%	63.9%	10.0%	

*Based on actuarial value of assets for June 30, 2010, and June 30, 2009, respectively.

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

Short-Term Solvency Test (in Thousands)

Valuation Date	Valuation Assets	Active Member Contributions	Retirees and Beneficiaries (2)	Active Members (Employer Financed Portion)	Portion of Accrued Liability Covered by Valuation Assets		
6/30/01	$1,384,586	$174,066	$ 789,104	$440,890	100%	100%	96%
6/30/02	$1,416,850	$190,450	$ 866,985	$785,082	100%	100%	46%
6/30/03	$1,353,941	$202,551	$ 858,273	$915,108	100%	100%	32%
6/30/04	$1,452,621	$259,731	$ 942,765	$718,832	100%	100%	35%
6/30/05	$1,615,585	$281,231	$1,133,351	$763,177	100%	100%	26%
6/30/06	$1,769,021	$317,521	$1,234,005	$793,623	100%	100%	27%
6/30/07	$1,976,731	$359,484	$1,348,013	$848,007	100%	100%	32%
6/30/08	$2,218,937	$385,300	$1,550,875	$870,047	100%	100%	32%
6/30/09	$1,909,679	$412,147	$1,670,547	$905,018	100%	90%	0%
6/30/10	$2,179,076	$449,355	$1,745,146	$903,952	100%	99%	0%

(2) Includes deferred vested

Schedule of Funding Progress (in Thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	UAAL as a Percentage of Covered Payroll
6/30/01	$1,384,586	$1,404,060	$ 19,474	98.6%	$274,318	7.10%
6/30/02	$1,416,821	$1,660,566	$243,745	85.3%	$301,891	80.74%
6/30/03	$1,353,941	$1,781,544	$427,603	76.0%	$323,896	132.02%
6/30/04	$1,452,621	$1,921,328	$468,707	75.6%	$365,385	128.28%
6/30/05	$1,615,585	$2,177,759	$562,174	74.2%	$334,315	168.16%
6/30/06	$1,769,021	$2,345,149	$576,128	75.4%	$363,648	158.43%
6/30/07	$1,976,731	$2,555,504	$578,773	77.4%	$407,812	141.92%
6/30/08	$2,218,937	$2,806,222	$587,285	79.1%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.9%	$436,424	247.02%
6/30/10	$2,179,076	$3,098,453	$919,377	70.3%	$428,559	214.53%

Funded Ratio is a measurement of the funded status of the plan. The Funded Ratio is calculated by dividing the Valuation Assets by the Actuarial Accrued Liability. In the table above, *SamCERA's* Funded Ratio indicates assets are approximately 30% less than liabilities. The Funded Ratio increased dramatically from June 30, 2009. The most significant reasons for the increase in the funded ratio was the market appreciation of investments and contributions by the employer and employee.

History of Employer Contribution Rates

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

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

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

Unfunded Actuarial Accrued Liability is the excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

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

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

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

History of Employer Contribution Rates – County

	General Member			Safety Member			Probation Member		
Year	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2001	9.95%	0.71%	10.66%	17.81%	1.51%	19.32%	17.94%	1.16%	19.10%
2002	9.71%	0.70%	10.41%	17.22%	1.50%	18.72%	16.76%	1.17%	17.93%
2003	11.00%	4.60%	15.60%	21.99%	12.74%	34.73%	23.45%	8.10%	31.55%
2004	9.76%	8.25%	18.01%	15.34%	24.82%	40.16%	16.17%	15.28%	31.45%
2005	10.36%	10.38%	20.74%	20.43%	32.02%	52.45%	21.10%	16.43%	37.53%
2006	10.49%	9.97%	20.46%	20.18%	30.52%	50.70%	21.59%	14.85%	36.44%
2007	10.19%	9.46%	19.65%	19.94%	29.32%	49.26%	20.83%	14.06%	34.89%
2008	10.16%	9.81%	19.97%	19.32%	27.31%	46.63%	20.05%	12.81%	32.86%
2009	10.11%	18.40%	28.51%	19.21%	51.83%	71.04%	19.92%	23.84%	43.76%
2010	10.05%	16.35%	26.40%	19.01%	44.50%	63.51%	19.85%	21.62%	41.47%

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

	General Member		
Year	Normal	UAAL	Total
2007	8.50%	7.76%	16.26%
2008	8.55%	8.04%	16.59%
2009	8.25%	15.09%	23.34%
2010	11.70%	16.35%	28.05%

Active Member Valuation Data

Valuation Date		Members (1)	Annual Salary	Average Annual Salary	% Change Average Salary
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	$323,896,000	$65,964	6.4%
2004	General	4,487	$303,786,879	$67,700	6.8%
	Safety	411	$40,796,852	$99,202	13.4%
	Probation	288	$20,800,813	$72,225	11.6%
	Total	5,186	$365,384,544	$70,448	6.8%
2005	General	4,411	$304,289,437	$68,984	1.9%
	Safety	409	$39,999,593	$97,799	-1.4%
	Probation	278	$20,123,863	$72,388	0.2%
	Total	5,098	$364,412,893	$71,482	1.4%
2006	General	4,614	$312,934,324	$67,823	-1.7%
	Safety	428	$41,407,772	$96,747	-1.1%
	Probation	313	$22,009,210	$70,317	-2.9%
	Total	5,355	$376,351,306	$70,280	-1.7%
2007	General	4,767	$346,319,017	$72,649	7.1%
	Safety	443	$45,386,411	$102,452	5.9%
	Probation	329	$24,364,268	$74,056	5.3%
	Total	5,539	$416,069,696	$75,116	6.9%
2008	General	4,743	$353,518,525	$74,535	2.6%
	Safety	432	$46,326,906	$107,238	4.7%
	Probation	325	$24,741,003	$76,126	2.8%
	Total	5,500	$424,586,434	$77,198	2.8%
2009	General	4,777	$370,760,830	$77,614	4.1%
	Safety	436	$48,120,081	$110,367	2.9%
	Probation	330	$26,270,802	$79,608	4.6%
	Total	5,543	$445,151,713	$80,309	4.0%
2010	General	4,609	$363,305,740	$78,825	1.6%
	Safety	425	$48,576,912	$114,299	3.6%
	Probation	313	$25,247,595	$80,663	1.3%
	Total	5,347	$437,130,247	$81,752	1.8%

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

Demographic Activity of Retirees and Beneficiaries

	Retiree Membership (1)								
Year	At Beginning Of Year	Addition	Withdrawal	At End of Year	Annual Payroll Increase (in 000s)	Annual Payroll Decrease (in 000s)	Total Retiree Payroll (in 000s)	Percent Increase In Payroll	Average Annual Allowance
6/30/01	3,102	233	82	3,253	N/A	N/A	$62,416	13.1%	$18,516
6/30/02	3,253	194	138	3,309	N/A	N/A	$66,974	7.3%	$19,524
6/30/03	3,309	128	115	3,322	N/A	N/A	$69,451	3.7%	$20,112
6/30/04	3,466	193	120	3,539	N/A	N/A	$75,493	8.7%	$21,336
6/30/05	3,539	238	95	3,682	N/A	N/A	$84,183	11.5%	$22,860
6/30/06	3,519	206	112	3,613	N/A	N/A	$91,006	8.1%	$25,188
6/30/07	3,613	155	74	3,694	N/A	N/A	$98,790	8.6%	$26,748
6/30/08	3,694	218	70	3,842	N/A	N/A	$109,616	11.0%	$28,536
6/30/09	3,842	159	66	3,935	$12,717	$3,281	$119,052	8.6%	$30,252
6/30/10	3,935	163	96	4,002	$9,076	$3,240	$124,888	4.9%	$31,212

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

Actuarial Analysis of Financial Experience
($000)

Summary of (Gains) / Losses	Change In Liability				
	2010	2009	2008	2007	2006
Unfunded Liability as of July 1	$1,078,033	$587,285	$578,773	$576,128	$562,174
Expected Change in UAAL	$27,388	($11,786)	($ 31,649)	($ 16,745)	$ 2,980
Salary (Gain) / Loss	($43,598)	($ 10,081)	($ 19,946)	$ 45,157	$ 19,671
Retiree COLA more / (less) than expected	($41,258)	$ 1,080	$ 937	($ 3,380)	($ 13,862)
Assets (Gain) / Loss	($88,485)	$522,444	($ 20,078)	($ 22,639)	($ 1,363)
Change due to Assumption Changes			$ 61,011		
Miscellaneous Experience	($ 12,703)	($ 10,909)	$ 18,237	$ 252	$ 6,528
Change Due to New Formula					
Unfunded Liability as of June 30	$919,377	$1,078,033	$587,285	$578,773	$576,128

Rates of Separation From Active Service

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

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

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

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

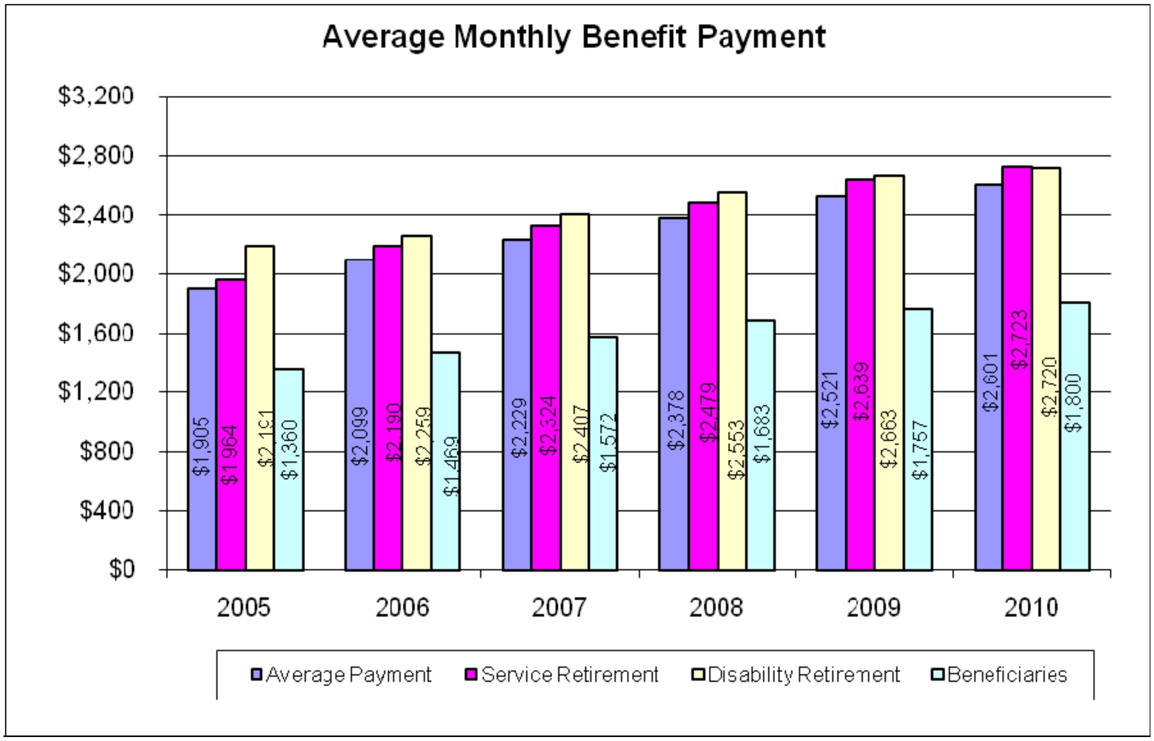
Service Death – Member dies before retirement; death is service related.

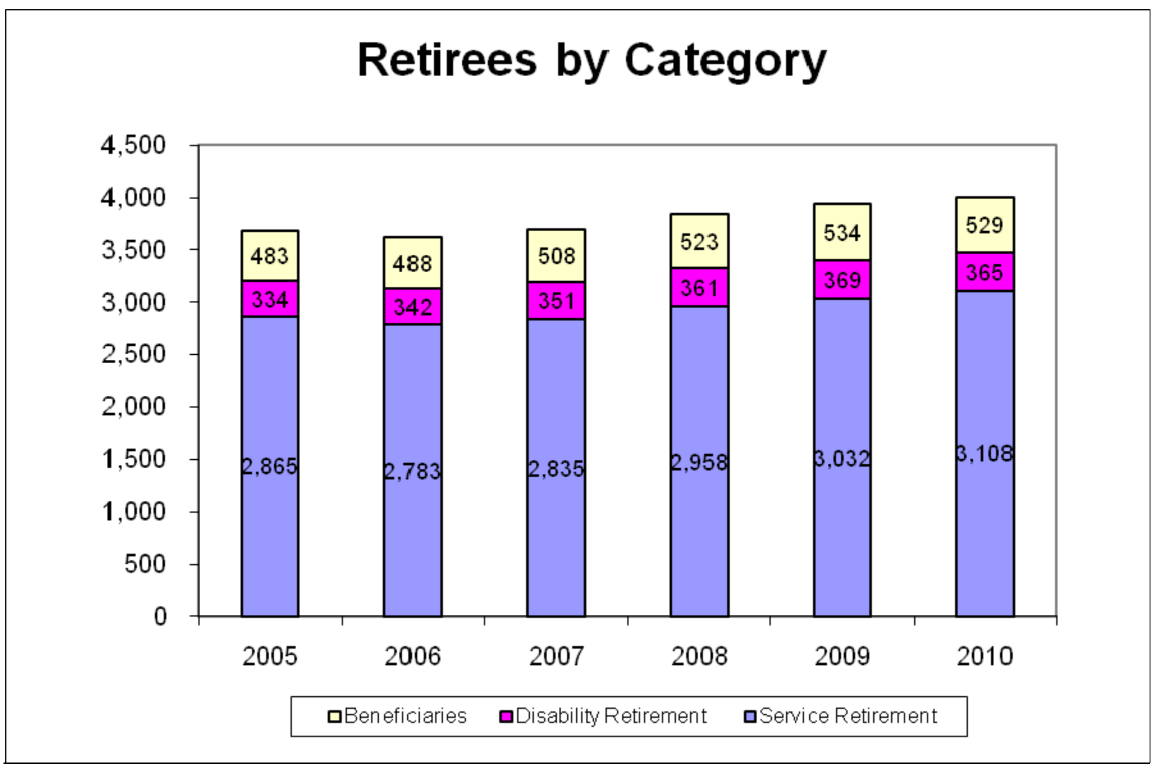
Ordinary Death – Member dies before retirement; death is not service related.

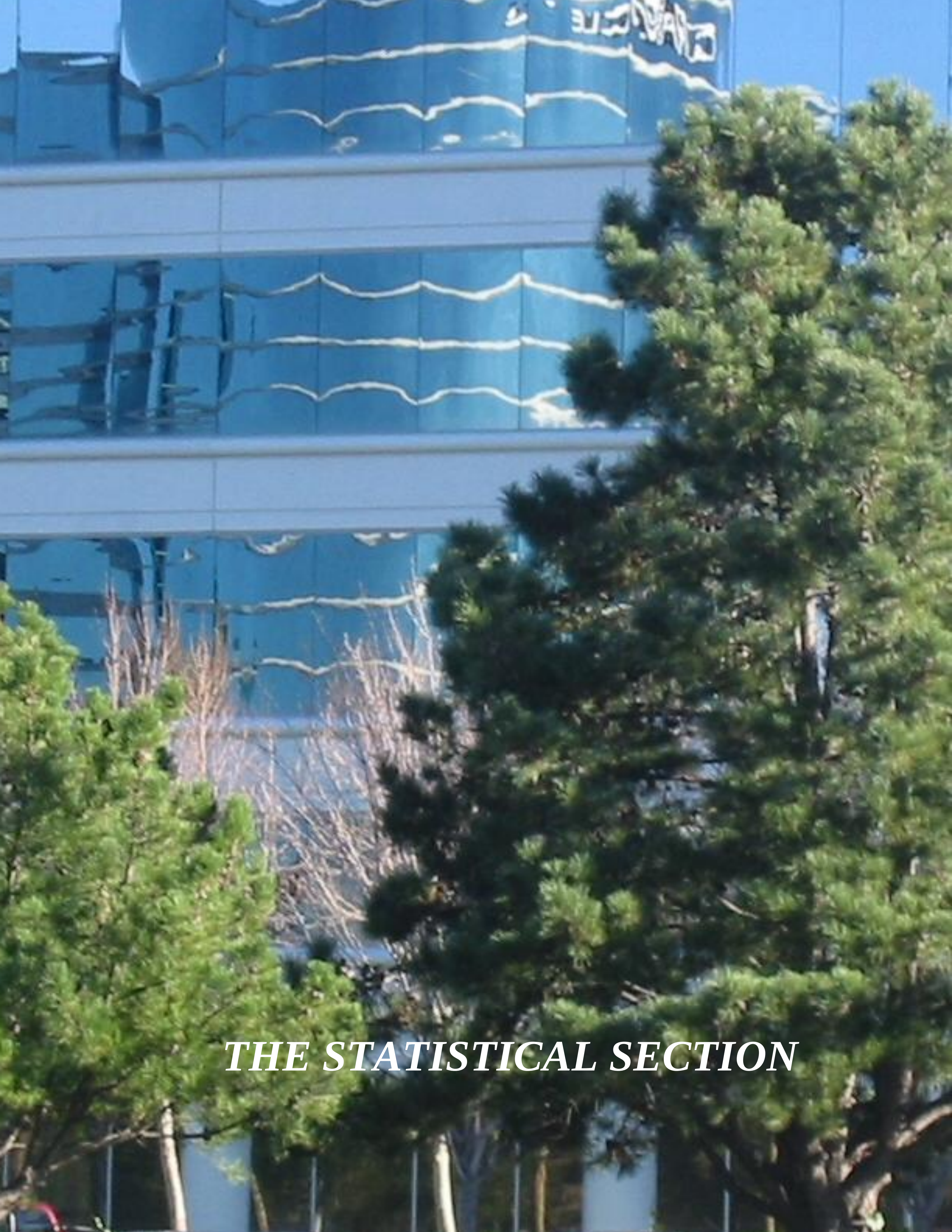
In the table below each rate represents the probability that a member will separate from service at each age due to a particular cause.

Probability of Separation During Active Service

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


Average Monthly Benefit Payment
$3,200
$2,800
$2,400
$2,000
$1,600
$1,200
$800
$400
$0
2005
2006
2007
2008
2009
2010
$1,905
$1,964
$2,191
$1,360
$2,099
$2,190
$2,259
$1,469
$2,229
$2,324
$2,407
$1,572
$2,378
$2,479
$2,553
$1,683
$2,521
$2,639
$2,663
$1,757
$2,601
$2,723
$2,720
$1,800
Average Payment
Service Retirement
Disability Retirement
Beneficiaries


Retirees by Category
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2005
2006
2007
2008
2009
2010
483
334
2,865
488
342
2,783
508
351
2,835
523
361
2,958
534
369
3,032
529
365
3,108
Beneficiaries
Disability Retirement
Service Retirement



THE STATISTICAL SECTION

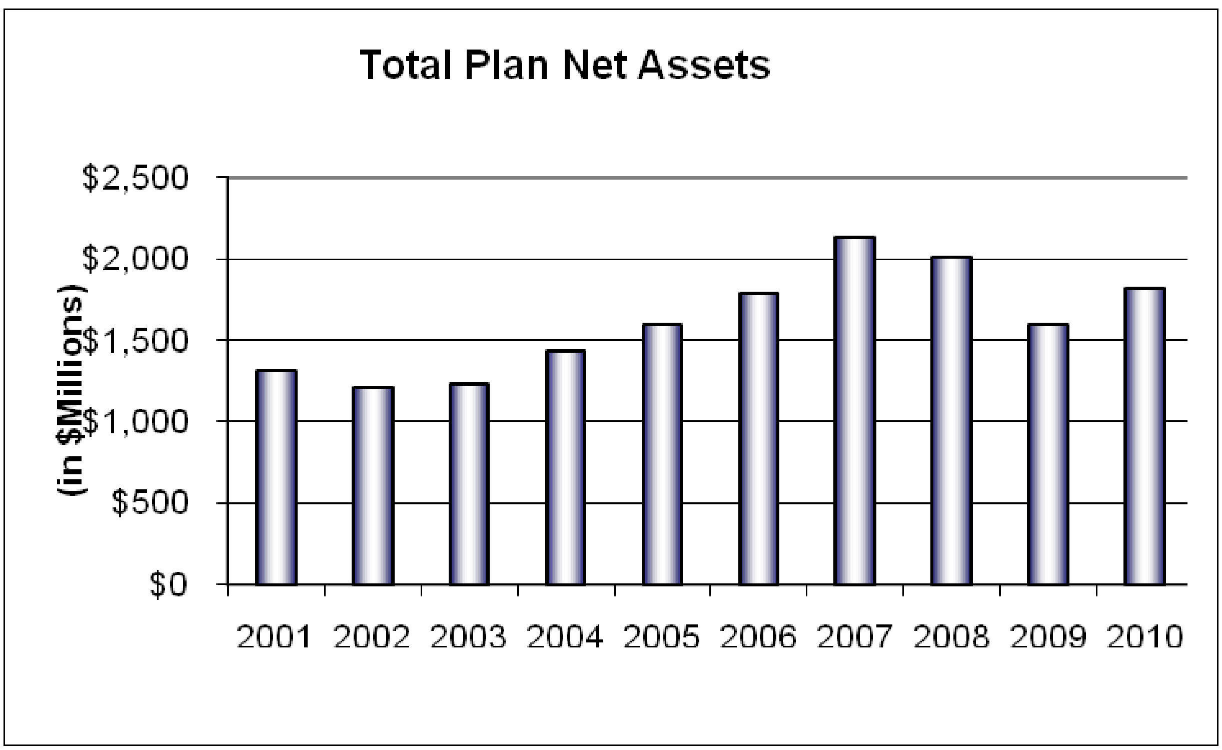
Schedule of Employer Contributions
(In Thousands Of Dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As A % of ARC
6/30/2001	$39,482	100%
6/30/2002	$33,541	100%
6/30/2003	$36,070	100%
6/30/2004	$60,042	100%
6/30/2005	$76,931	100%
6/30/2006	$76,090	100%
6/30/2007	$100,550	100%
6/30/2008	$105,340	100%
6/30/2009	$106,123	100%
6/30/2010	$106,265	100%

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

	2010	**2009**	**2008**	**2007**	**2006**
Additions					
Employer Contributions	$106,265	$106,123	$105,340	$100,550	$76,090
Member Contributions	50,319	50,372	60,111	42,696	39,962
Total Contributions	**156,584**	**156,495**	**165,451**	**143,246**	**116,052**
Investment Income/Loss (net of expenses)	195,412	-457,309	-178,379	298,260	166,826
Security Lending Income	743	1,631	1,699	0	0
Miscellaneous Additions	41	-16	181	26	49
Total Additions (Declines)	**352,780**	**-299,199**	**-11,048**	**441,532**	**282,927**
Deductions					
Retiree Benefits	122,141	113,991	103,970	94,788	87,915
Member Refunds	2,736	2,795	3,075	2,244	2,258
Administrative Expenses	3,373	3,287	2,774	2,582	2,086
Other Expenses	33	67	8	201	40
Total Deductions	**128,283**	**120,140**	**109,827**	**99,815**	**92,299**
Change in Pension Plan Net Assets	**$224,497**	**-$419,339**	**-$120,875**	**$341,717**	**$190,628**

Changes in Pension Plan Net Assets Last Ten Fiscal Years (Continued) As of June 30 (Dollars in Thousands)					
	2005	**2004**	**2003**	**2002**	**2001**
Additions					
Employer Contributions	$76,931	$60,042	$36,070	$33,541	$39,482
Member Contributions	33,647	27,094	22,650	16,627	15,287
Total Contributions	**110,578**	**87,136**	**58,720**	**50,168**	**54,769**
Investment Income (net of expenses)	140,132	193,107	39,142	-82,410	-65,750
Security Lending Income	0	0	0	0	0
Miscellaneous Additions	79	226	8	0	0
Total Additions	**250,789**	**280,469**	**97,870**	**-32,242**	**-10,981**
Deductions					
Retiree Benefits	83,182	74,016	68,989	65,186	58,807
Member Benefits	1,458	1,734	1,206	1,551	1,846
Administrative Expenses	2,235	1,912	1,887	1,509	1,491
Other Expenses	4	719	0	0	0
Total Deductions	**86,879**	**78,381**	**72,082**	**68,246**	**62,144**
Change in Pension Plan Net Assets	**$163,910**	**$202,088**	**$25,788**	**-$100,488**	**-$73,125**



Schedule of Revenues by Source
(In thousands of Dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/2001	$15,287	$39,482	-$65,750	-$10,981
6/30/2002	$16,627	$33,541	-$82,410	-$32,242
6/30/2003	$22,650	$36,070	$39,150	$97,870
6/30/2004	$27,094	$60,042	$193,333	$280,469
6/30/2005	$33,647	$76,931	$140,211	$250,789
6/30/2006	$39,963	$76,090	$166,874	$282,927
6/30/2007	$42,696	$100,550	$298,286	$441,532
6/30/2008	$60,111	$105,340	-$176,043	-$10,592
6/30/2009	$50,372	$106,123	-$455,694	-$299,199
6/30/2010	$50,319	$106,265	$196,196	$352,780

Schedule of Expenses by Type
(In thousands of Dollars)

Year End	Administrative Expenses	Retirement Benefits Paid	Refunds	Total
6/30/2001	$1,491	$58,807	$1,846	$62,144
6/30/2002	$1,509	$65,186	$1,551	$68,246
6/30/2003	$1,887	$68,989	$1,206	$72,082
6/30/2004	$2,631	$74,016	$1,734	$78,381
6/30/2005	$2,239	$83,182	$1,458	$86,879
6/30/2006	$2,126	$87,915	$2,258	$92,299
6/30/2007	$2,783	$94,788	$2,244	$99,815
6/30/2008	$3,239	$103,970	$3,075	$110,284
6/30/2009	$3,287	$113,991	$2,795	$120,073
6/30/2010	$3,373	$122,141	$2,736	$128,249

Summary of Retired and Inactive Member Benefits

Retired Members	2010	2009	2008	2007	2006	
Service Retirement						
Number	3,108	3,032	2,958	2,835	2,783	
Annual Allowance						
Basic Only	79,007,000	$73,038,000	$66,704,000	$59,687,000	$54,942,000	
COLA	$22,542,000	$22,964,000	$21,289,000	$19,382,000	$18,188,000	
Total	$101,549,000	$96,002,000	$87,993,000	$79,069,000	$73,130,000	
Average Monthly Payment	$2,723	$2,639	$2,479	$2,324	$2,190	
Disability Retirement						
Number	365	369	361	351	342	
Annual Allowance						
Basic Only	$8,988,000	$8,722,000	$8,214,000	$7,571,000	$6,915,000	
COLA	$2,926,000	$3,070,000	$2,847,000	$2,569,000	$2,356,000	
Total	$11,914,000	$11,792,000	$11,061,000	$10,140,000	$9,271,000	
Average Monthly Payment	$2,720	$2,663	$2,553	$2,407	$2,259	
Beneficiaries						
Number	529	534	523	508	488	
Annual Allowance						
Basic Only	$6,309,000	$6,052,000	$5,757,000	$5,220,000	$4,659,000	
COLA	$5,116,000	$5,206,000	$4,805,000	$4,361,000	$3,946,000	
Total	$11,425,000	$11,258,000	$10,562,000	$9,581,000	$8,605,000	
Average Monthly Payment	$1,800	$1,757	$1,683	$1,572	$1,469	
Total Retired Members						
Number	4,002	3,935	3,842	3,694	3,613	
Annual Allowance						
Basic Only	$94,304,000	$87,812,000	$80,675,000	$72,478,000	$66,516,000	
COLA	$30,584,000	$31,240,000	$28,941,000	$26,312,000	$24,490,000	
Total	$124,888,000	$119,052,000	$109,616,000	$98,790,000	$91,006,000	
Average Monthly Payment	$2,601	$2,521	$2,378	$2,229	$2,099	
Inactive Members	1,207	1,230	1,225	1,151	1,089	

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

The data in the table above originates from PensionGold, *SamCERA's* retirement benefits administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports. The total payroll above will differ from the actual payroll due to a last month projection used by the actuary.

Summary of Retired and Inactive Member Benefits (Continued)

Retired Members	2005	2004	2003	2002	2001	
Service Retirement						
Number	2,865	2,706	2,638	2,638	2,383	
Annual Allowance						
Basic Only	$49,760,000	$41,723,000	$36,260,000	$36,260,000	$30,059,000	
COLA	$17,759,000	$17,502,000	$16,668,000	$16,668,000	$13,692,000	
Total	$67,519,000	$59,225,000	$52,928,000	$52,928,000	$43,751,000	
Average Monthly Payment	$1,964	$1,824	$1,672	$1,672	$1,530	
Disability Retirement						
Number	334	339	316	316	280	
Annual Allowance						
Basic Only	$6,575,000	$6,164,000	$5,061,000	$5,061,000	$4,014,000	
COLA	$2,205,000	$2,172,000	$2,049,000	$2,049,000	$1,591,000	
Total	$8,780,000	$8,336,000	$7,110,000	$7,110,000	$5,605,000	
Average Monthly Payment	$2,191	$2,049	$1,875	$1,875	$1,668	
Beneficiaries						
Number	483	494	477	477	439	
Annual Allowance						
Basic Only	$4,084,000	$4,250,000	$3,548,000	$2,950,000	$2,819,000	
COLA	$3,800,000	$3,682,000	$3,388,000	$2,886,000	$2,444,000	
Total	$7,884,000	$7,932,000	$6,936,000	$5,836,000	$5,263,000	
Average Monthly Payment	$1,360	$1,338	$1,212	$1,108	$1,094	
Total Retired Members						
Number	3,682	3,539	3,431	3,102	2,979	
Annual Allowance						
Basic Only	$60,419,000	$52,137,000	$44,869,000	$37,023,000	$34,302,000	
COLA	$23,764,000	$23,356,000	$22,105,000	$18,169,000	$16,189,000	
Total	$84,183,000	$75,493,000	$66,974,000	$55,192,000	$50,491,000	
Average Monthly Payment	$1,905	$1,778	$1,627	$1,483	$1,422	
Inactive Members	872	877	833	646	613	

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

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

	2010	2009	2008	2007	2006	
General Tier 1	$7,543	$7,534	$7,252	$7,175	$6,749	
General Tier 2	$7,193	$7,120	$6,872	$6,688	$6,148	
General Tier 3	$5,818	$5,791	$5,619	$5,287	$4,988	
General Tier 4	$6,348	$6,212	$5,914	$5,714	$5,315	
General Tier Total	$6,569	$6,468	$6,211	$6,054	$5,652	
Safety Tier 1	$11,578	$10,889	$11,113	$10,212	$10,019	
Safety Tier 2	$10,548	$10,135	$9,612	$9,299	$8,585	
Safety Tier 4	$8,931	$8,610	$8,349	$7,882	$7,403	
Safety Tier Total	$9,525	$9,197	$8,937	$8,538	$8,062	
Probation Tier 1	$8,922	$9,751	$9,791	$8,522	$7,735	
Probation Tier 2	$7,393	$7,341	$6,960	$6,899	$6,479	
Probation Tier 4	$6,456	$6,291	$5,978	$5,766	$5,444	
Probation Tier Total	$6,722	$6,634	$6,344	$6,171	$5,860	
Total	$6,813	$6,692	$6,433	$6,260	$5,857	

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

	2005	2004	2003	2002	2001	
General Tier 1	$6,582	$6,514	$6,070	$5,806	$5,477	
General Tier 2	$6,045	$5,980	$5,573	$5,311	$4,934	
General Tier 3	$5,216	$5,101	$4,747	$4,737	$4,516	
General Tier 4	$5,476	$5,281	$4,886	$4,545	$4,177	
General Tier Total	$5,747	$5,642	$5,284	$5,016	$4,700	
Safety Tier 1	$9,701	$9,516	$8,500	$7,820	$7,327	
Safety Tier 2	$8,482	$8,530	$7,518	$6,853	$6,479	
Safety Tier 4	$7,564	$7,582	$6,465	$5,789	$5,375	
Safety Tier Total	$8,150	$8,267	$7,291	$6,652	$6,332	
Probation Tier 1	$7,216	$6,856	$6,548	$6,253	$5,861	
Probation Tier 2	$6,390	$6,291	$5,800	$5,542	$5,079	
Probation Tier 4	$5,741	$5,711	$4,924	$4,502	$4,100	
Probation Tier Total	$6,032	$6,019	$5,395	$5,066	$4,744	
Total	$5,955	$5,871	$5,467	$5,164	$4,846	

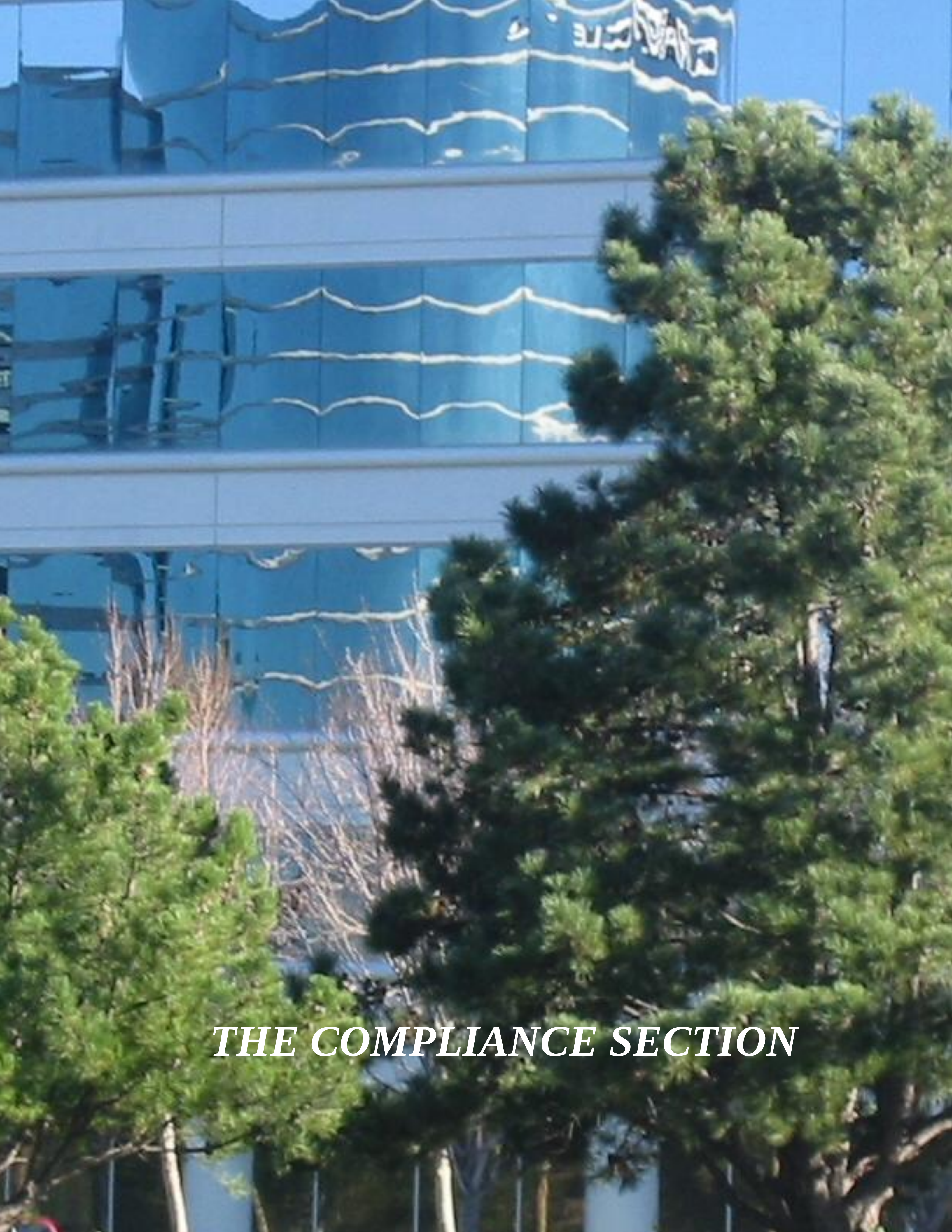
The data in the table above originates from PensionGold, *SamCERA's* retirement benefit administration system. For the years 2001 through 2005 it also appears in *SamCERA's* actuarial valuation reports.

Participating Employers and Active Members

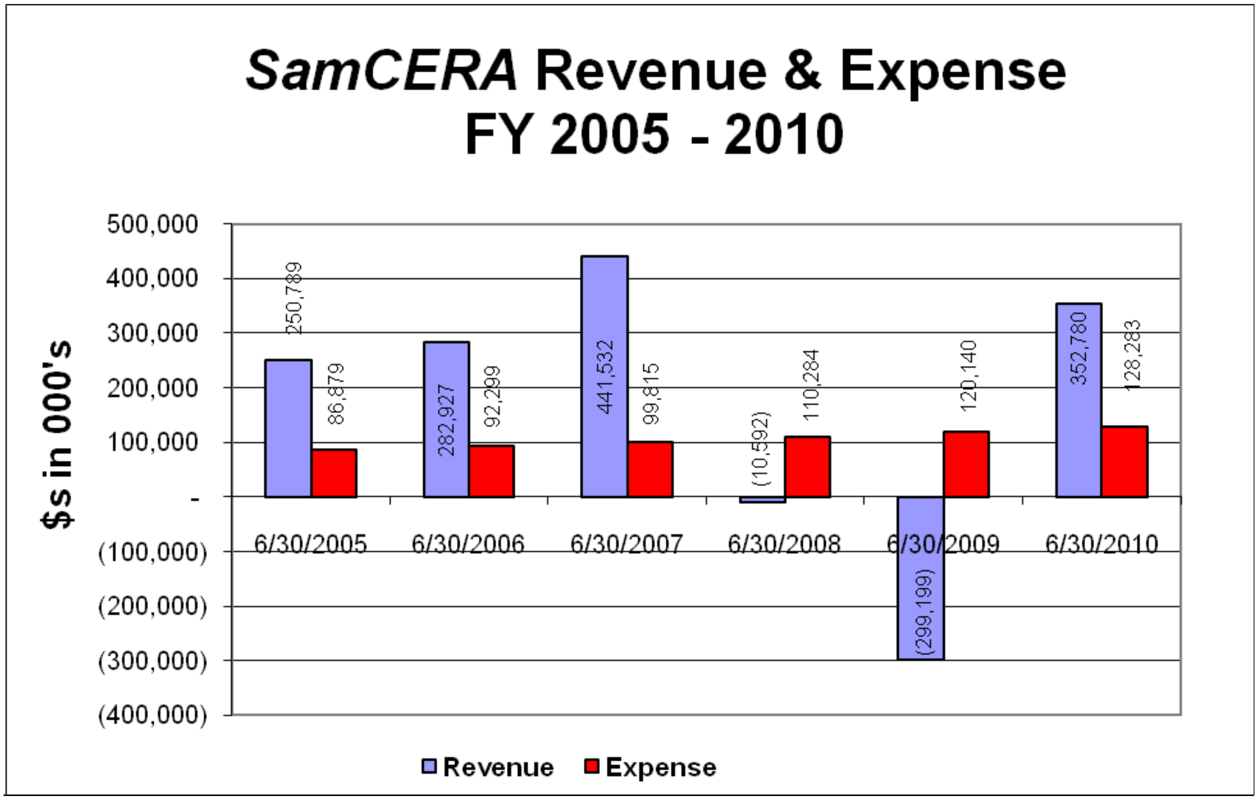
	2010	2009	2008	2007	2006	
County of San Mateo						
General Members	4,589	4,758	4,718	4,742	4,594	
Safety Members	425	436	432	443	428	
Safety/Probation Members	313	330	325	329	313	
Total	5,327	5,524	5,475	5,514	5,335	
San Mateo County Mosquito and Vector Control District						
General Members Total	20	19	25	25	20	
Total Active Membership	5,347	5,543	5,500	5,539	5,355	

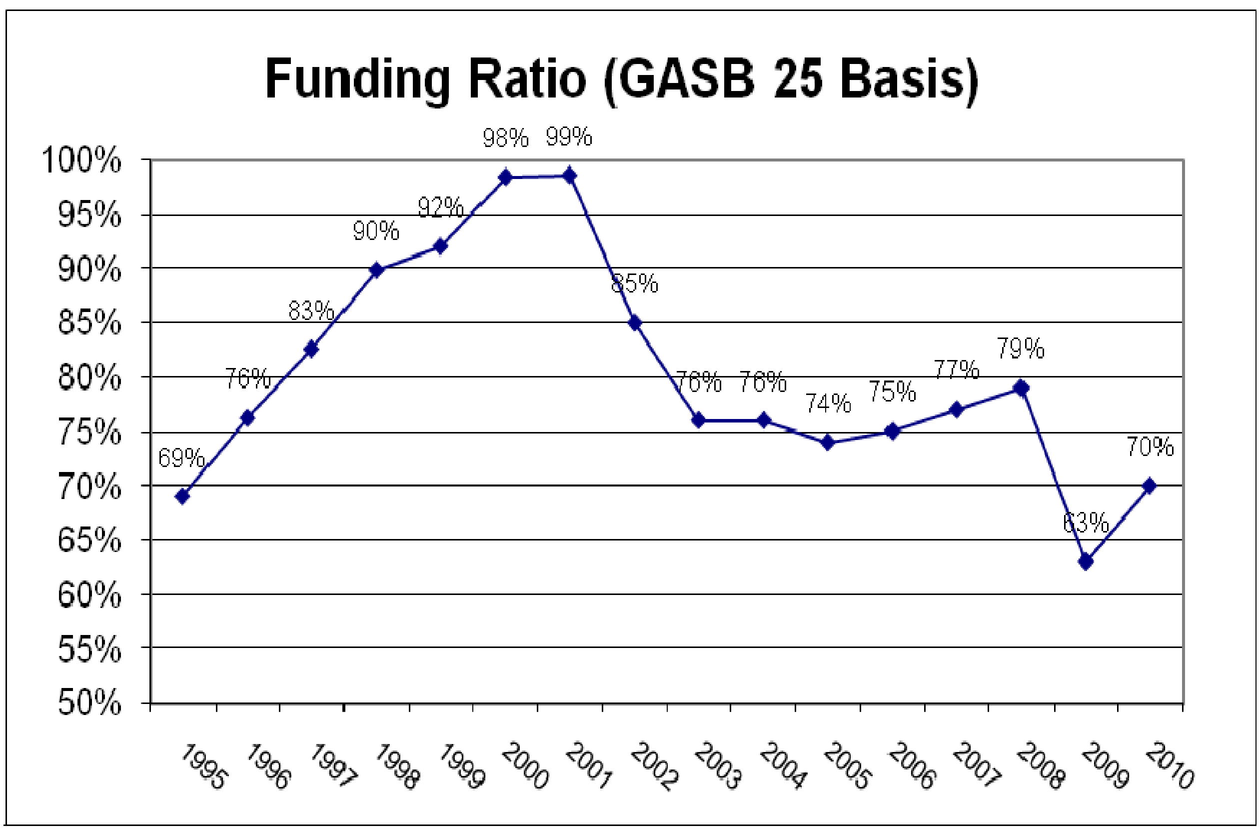
Participating Employers and Active Members (Continued)

	2005	2004	2003	2002	2001	
County of San Mateo						
General Members	4,391	4,474	4,202	4,175	4,079	
Safety	409	411	434	431	416	
Safety/Probation Members	278	288	290	293	265	
Total	5,078	5,173	4,926	4,899	4,760	
San Mateo County Mosquito Abatement District						
General Members Total	20	13	11	11	11	
Total Active Membership	5,098	5,186	4,937	4,910	4,771	



THE COMPLIANCE SECTION


SamCERA Revenue & Expense
FY 2005 - 2010
$s in 000's
500,000
400,000
300,000
200,000
100,000
-
(100,000)
(200,000)
(300,000)
(400,000)
250,789
86,879
282,927
92,299
441,532
99,815
(10,592)
110,284
(299,199)
120,140
352,780
128,283
6/30/2005
6/30/2006
6/30/2007
6/30/2008
6/30/2009
6/30/2010
Revenue
Expense


Funding Ratio (GASB 25 Basis)
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
69%
76%
83%
90%
92%
98%
99%
85%
76%
76%
74%
75%
77%
79%
63%
70%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starbuck, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
Richard L. Halle, CPA, MST
Aileen K. Keeter, CPA

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

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

In planning and performing our audit of the financial statements of San Mateo County Employees' Retirement Association (SamCERA) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered SamCERA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SamCERA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of SamCERA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of SamCERA in a separate letter dated October 6, 2010.

This report is intended solely for the information and use of the Board of Retirement, Audit Committee and management of SamCERA, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
October 6, 2010

To order your own copy of *SamCERA's*
June 30, 2010 *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 City, 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, 2010 Comprehensive Annual Financial Report*
- ❑ *SamCERA's Sources, Uses and Budget Report for Fiscal Year 2010-2011*
- ❑ *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:____