MENDOCINO COUNTY EMPLOYEES'RETIREMENT ASSOCIATION

(A Pension Trust Fund and Component Unit of the County of Mendocino, California)

MCERA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Mendocino County Employees' Retirement Association

A Pension Trust Fund and Component Unit of the County of Mendocino, California

Comprehensive Annual Financial Report

For the fiscal years ended June 30, 2012 and 2011

Prepared by: RICHARD A. WHITE, JR.
Retirement Administrator

MCERA
625-B Kings Court
Ukiah, California 95482
(707)463-4328
www.co.mendocino.ca.us/retirement/

Mendocino County Employees' Retirement Association
"MCERA"

MCERA is a retirement system, organized under the County Employees Retirement Law of 1937, which provides retirement, disability, and death benefits to the employees, retirees and former employees of the County of Mendocino, the Mendocino County Superior Court and the Russian River Cemetery District.

MCERA's principal responsibilities include: management of the trust fund; delivery of retirement, disability and death benefits to eligible members; administration of cost-of-living programs; and general assistance in retirement and related benefits.

Mission Statement

To provide members and their beneficiaries with sustainable benefits and exceptional service through professional plan administration and prudent investment practices.

Goals

- Enhance communications and customer service provided by the Association
- Increase the effectiveness of internal operations
- Establish optimal board governance
- Explore ways to ensure prudent management of contributions and investment of retirement fund assets

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Introductory Section

Richard A. White, Jr.
Retirement Administrator

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

LETTER OF TRANSMITTAL

April 11, 2013

Board of Retirement
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Mendocino County Employees' Retirement Association (MCERA or System) as of and for the fiscal year ending June 30, 2012, the System's 64th year of operation.

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2012. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

MCERA

MCERA provides service retirement, disability, death and survivor benefits and is administered in accordance with the County Employees Retirement Law of 1937 (Government Code Section 31450, et seq.) Pursuant to certain provisions of the County Employees Retirement Law, MCERA is a multi-agency public employees' retirement system, established by the County of Mendocino on January 1, 1948, and is an independent district within the County of Mendocino, with a separate operating budget and professional staff.

The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of the system, which includes administering plan benefits and managing the assets. The Board of Retirement and MCERA staff members are committed to act for the exclusive benefit of the plan and its participants, manage the assets of the plan prudently and administer benefits with impartiality.

To fulfill this mandate, MCERA employs a skilled professional staff and independent consultants that operate under a system of governance, operational and fiduciary policies and procedures.

Participating agencies in MCERA include the County of Mendocino, the Superior Court of Mendocino and the Russian River Cemetery District.

FINANCIAL HIGHLIGHTS

Net assets available for benefits decreased to $342.7 million. This amount reflects a decrease of 3.47% in net assets during Fiscal Year 2011-12. Additions to plan assets for the fiscal year were $ 12.6 million. This was comprised of $ 11.8 million of employer contributions, $ 4.8 million of member contributions and a net investment loss of $ 4.0 million. Expenses (deductions in plan assets) for the year were $24.8 million which included $24.1 million in benefit payments to retirees and beneficiaries and $0.7 million in administrative expenses.

ADMINISTRATIVE EXPENSES

The Board of Retirement approves MCERA's annual budget. The County Employees Retirement Law (CERL) limits MCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or $2 Million, whichever is greater. Previously, the limit was eighteen hundredths of one percent (0.18%) of MCERA's total assets.

MCERA's actual administrative expense was $698,463 which represented 0.14% of MCERA's actuarial accrued liability or 34.92% of the $2 million statutory cap.

MANAGEMENT RESPONSIBILITY OF FINANCIAL REPORTING

MCERA management is responsible for establishing a system of internal control to safeguard assets and for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and operating results of MCERA.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

Several major initiatives were undertaken during the year including:

- ♦ Negotiated a settlement agreement with the Association's former actuary for errors and omissions in prior reports and to finance the cost of correcting an error in employee contribution rates from July 2009 to January 2012.
- ♦ Significant progress was made in the project to determine the extent of overpayments or underpayments by members from July 2009 to January 2012, and to correct any errors in compliance with all Internal Revenue Service regulations.
- ♦ Engaged a new actuary to conduct a triennial experience study of economic and demographic assumptions, the recommendations of which were incorporated into the June 30, 2011 valuation study and used in the June 30, 2012 actuarial valuation.
- ♦ The recruitment and selection process for a Retirement Administrator to succeed the current administrator who retired was completed on June 4, 2012.
- ♦ Implemented several new policies to bring the Association closer to best management practices, including a cash management policy, Internal Revenue Service compliant retiree health care policy, overpayment collection policy, and placement agent policy.
- ♦ Engaged in a memorandum of understanding with the Assessor/Clerk Recorder for fiscal and accounting services.

ACCOUNTING SYSTEMS AND REPORTS

MCERA management is responsible for establishing a system of internal control to safeguard assets and for the presentation of the accompanying basic financial statements. Oversight is provided by MCERA Audit and Budget Committee. Gallina, LLC audited the accompanying basic financial statements and related disclosures.

The CAFR was prepared in accordance with GAAP and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. MCERA's MD&A can be found immediately following the independent auditor's report.

INVESTMENT AND ECONOMIC SUMMARY

In accordance with state constitutional mandates, the Board adopts a strategic asset allocation policy designed to ensure diversification among asset classes and achieve MCERA's long-term investment objectives. Although MCERA invests on a long term horizon, short term returns are important to keep in mind.

Investment returns in Fiscal Year 2011/12 fluctuated throughout the year along with the overall market conditions. The portfolio was down -1.04% for the fiscal year compared with the favorable returns in 2011 of 21.87%. Returns for the first quarter (2012) were 9.82% and for the second quarter were negative 3.19% reflecting the lost momentum in the economic recovery in the U.S.

Total portfolio returns were 11.35%, 2.09% and 5.63% for three, five and seven year periods ending June 30, 2012, respectively. These returns include periods during which MCERA recognized and posted excess earnings to the pension fund that were used to provide retiree health benefits. The Association maintains an assumed net rate of investment return of 7.75% per year. The rate of return on MCERA's investment portfolio in an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the plan's annual additions to retirement plan assets.

FUNDED STATUS AND ACTUARIAL REPORTING

MCERA maintains a funding goal to establish contributions that fully fund the System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding while paying promised benefits. Each year the actual experience of the System is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, the actuarial experience investigation is undertaken to review the actuarial assumptions and compare the actual experience during the preceding three year period with that expected under those assumptions.

In December 1996, the County issued its Taxable Pension Obligation Bonds in the aggregate principal amount of $30,720,000. In December 2002, the County issued its Taxable Pension Obligation Bonds, Refunding Series 2002 in the aggregate principal amount of $91,945,000 to defease a portion of the 1996 POBs and to provide funds to allow the County to refund its then current unfunded actuarial accrued liability for retirement benefits for County employees. The County has contributed to the Association an aggregate amount of $106,411,000 from the issuance of the 1996 POBs and the 2002 POBs to reduce the UAAL. As of June 1, 2012, the 2002 POBs are outstanding in the principal amount of $79,575,000 with annual payment requirements of approximately $8,000,000 due in July of each year until July 2025.

In the June 30, 2012 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 74.1% which was an increase from the prior year's valuation funded ratio of 73.6%. The Association's unfunded actuarial liability (UAAL) as of June 20, 2012 was $126,527,019. As of June 30, 2012, there are 27 years remaining in the declining 30-year amortization period of the UAAL.

The aggregate employer rate calculated in this valuation increased to 25.65% of payroll from 23.57% in last year's valuation. The aggregate employee rate increased to 9.76% of payroll from 9.73% in last year's valuation.

AWARDS AND ACHIEVEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to MCERA for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such basic financial statements must satisfy both accounting principles generally accepted in the United States of America and legal requirements.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank the members of the System for their continued confidence in MCERA during the past year. Also, I would like to express my thanks to the Board of Retirement for its dedicated effort in supporting the System throughout this past year. Finally, I would like to thank the consultants, professional service providers and staff for their commitment to MCERA and their diligent work to assure the System's continued success.

REQUEST FOR INFORMATION

The financial report is designed to provide the MCERA Board of Retirement, our membership, taxpayers, investment managers and creditors with a general overview of MCERA finances and to account for the money it receives. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

Respectfully submitted,

Richard A White

Richard A. White, Jr.
Retirement Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Mendocino County
Employees' Retirement Association
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

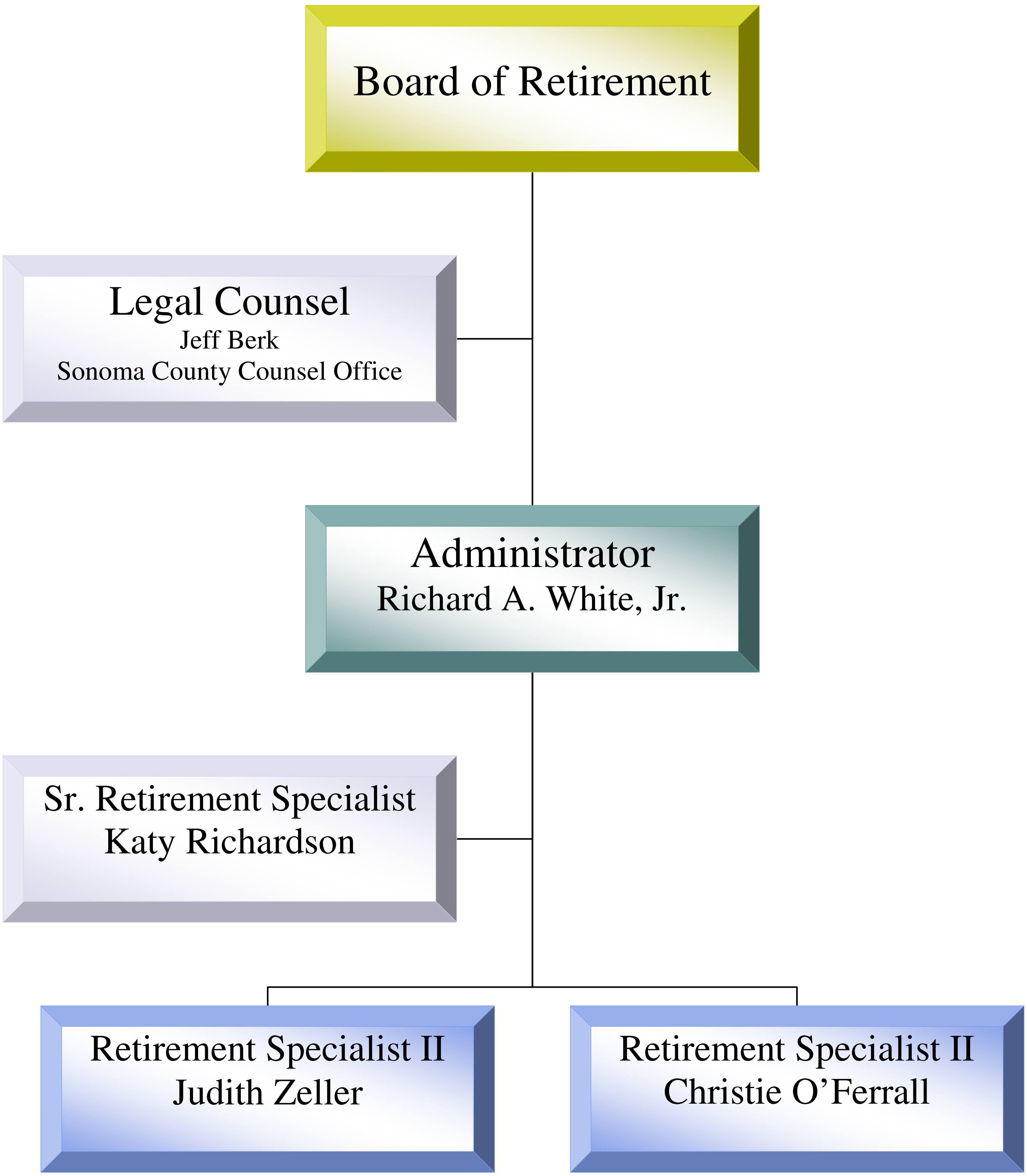
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

BOARD OF RETIREMENT
JUNE 30, 2012

MCERA ORGANIZATION CHART
AS OF JUNE 30, 2012



List of Professional Consultants
As of June 30, 2012

Actuary
The Segal Company

Disability Counsel
Law Office of Tony Graham

Fiduciary Counsel
Manatt, Phelps & Phillips, LLP

Investment Consultant
Callan Associates, Inc.

Independent Auditor
Gallina, LLP

Legal Counsel
County Counsel, County of Sonoma

Tax Counsel
Hanson Bridgett, LLP

Note: List of Investment Managers is located on page 51 of the Investment Section of this report.

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Financial Section

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Retirement
Mendocino County Employees' Retirement Association
Ukiah, California

We have audited the accompanying statement of net assets available for benefits of Mendocino County Employees' Retirement Association (MCERA), a component unit of the County of Mendocino, as of June 30, 2012, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of MCERA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from MCERA's 2011 financial statements on which our report, dated February 7, 2012, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of MCERA as of June 30, 2012, and the changes in plan assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, based on the most recent actuarial valuation of the pension plan as of June 30, 2012, MCERA's independent actuary determined that, at June 30, 2012, the value of MCERA's actuarial accrued liability exceeded the actuarial value of its assets by $127 million. The most recent actuarial value of assets as of June 30, 2012 does not reflect the remaining deferred investment losses that will be recognized in the future.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Funding Progress and the Schedule of Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, other supplemental information in the financial section, the investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Gallina LLP

Rancho Cordova, California
January 29, 2013

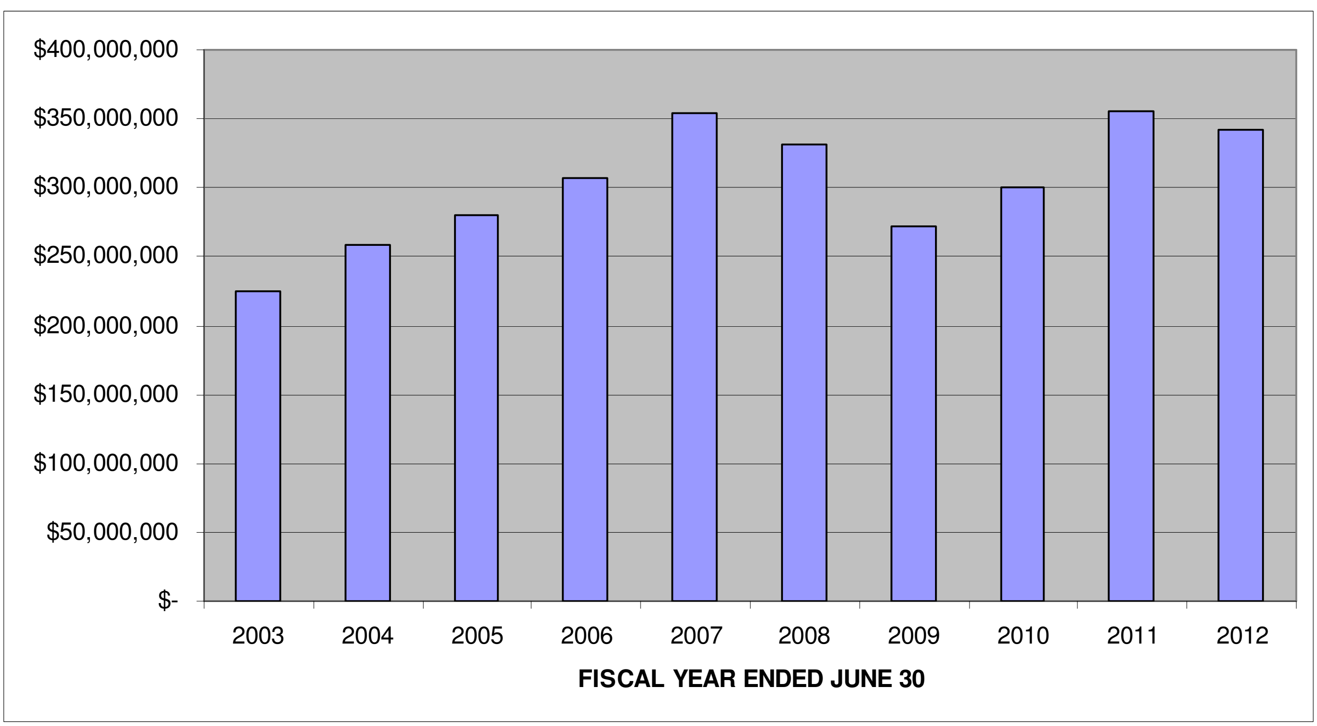
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis (MD&A) of Mendocino County Employees' Retirement Association (MCERA or system) financial performance and a summary of MCERA's financial position and activities as of and for the fiscal year ended June 30, 2012. It is a narrative overview and analysis that is presented, in conjunction with the Retirement Administrator's Letter of Transmittal found in the Introductory Section, provides the financial statement reader with a clear picture of the System's overall financial status.

FINANCIAL HIGHLIGHTS

- MCERA's net assets available for benefits as of June 30, 2012 were $342 million which was a decrease from the prior fiscal year net asset value of $355 million, a decrease of 3.47%.
- Additions to plan assets amounted to $12.6 million as of June 30, 2012 which represented an 84% decrease from the previous fiscal year. This was comprised of $ 11.8 million of employer contributions, $ 4.8 million of member contributions and a net investment loss of $ 4.0 million.
- Expenses (deductions from plan assets) for the year were $24.8 million, an 3.33% increase from the previous fiscal year, which included $24.1 million in benefit payments to retirees and beneficiaries and $0.7 million in administrative expenses.
- MCERA funding status for the pension plan, as measured by the ratio of actuarial value of assets to the actuarial value of liabilities, increased to 74.1% as of June 30, 2012 from the previous fiscal year funding ratio of 73.6%.

MCERA NET ASSETS HELD IN TRUST FOR PENSION BENEFITS



OVERVIEW OF THE FINANCIAL STATEMENTS

Managements' Discussion and Analysis serves as an introduction and overview of the MCERA Basic Financial Statements. The Basic Financial Statements and required disclosures are prepared in accordance with accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). MCERA's Basic Financial Statements are comprised of the following:

Statements of Net Assets
The Statements of Net Assets Available for Benefits is a snapshot of account balances at year-end. It presents major categories of assets and liabilities at fiscal year end. The difference between assets and liabilities, "Net Assets Held in Trust for Pension Benefits" represents funds available to pay benefits. The Statements of Net Assets includes prior year-end balances for comparative purposes. Increases and decreases in Net Assets Held in Trust for Pension Benefits, when analyzed over time, may serve as an indicator of whether MCERA's financial position is improving or deteriorating.

Statements of Changes in Net Assets
The Statements of Changes in Plan Net Assets provides information on the financial activities that increased and decreased Plan Net Assets. For comparative purposes, prior year-end balances are also provided. a view of the current year additions to and deductions from the plan. This statement covers the activity over a one-year period of time.

Notes to the Basic Financial Statements
The Notes to the Financial Statements are an integral part of the basic financial statements and provide background and detailed information regarding MCERA's policies, programs and activities.

Required Supplemental Information
The Required Supplemental Information contains supporting schedule pertaining to MCERA's Pension actuarial methods, assumptions, funded status and annual required contributions.

Other Supplemental Information
Other supplemental information includes schedules pertaining to administrative expenses and investment expenses.

FINANCIAL ANALYSIS

Table #1 and #2 compare and summarize MCERA's financial activity for the current and prior fiscal years.

Table #1: MCERA NET ASSETS
As of June 30, 2012 and 2011

(Dollars in Thousands)	2012	2011	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Cash and Short Term Investments	$ 2,355	$ 1,190	$ 1,165	97.9%
Receivables	283	367	(84)	-22.9%
Investments, at Fair Value	340,498	353,565	(13,067)	-3.70%
Total Assets	**343,136**	**355,122**	**(11,986)**	**-3.38%**
Accounts Payable	142	15	127	846.7%
Accrued Expenses	257	64	193	301.6%
Total Liabilities	**399**	**79**	**320**	**405.0%**
Net Assets Held in Trust for Benefits	$ 342,737	$ 355,043	$ (12,306)	-3.47%

Table #2: CHANGES IN MCERA NET ASSETS
As of June 30, 2012 and 2011

(Dollars in Thousands)	2012	2011	Increase (Decrease) Amount	% Change
Additions				
Employer Contributions	$ 11,811	$ 9,554	$ 2,257	24%
Member Contributions	4,840	5,447	(607)	-11%
Net Investment Income	(4,079)	64,075	(68,154)	-106%
Total Additions	**12,573**	**79,076**	**(66,503)**	**-84%**
Deductions				
Retirement Benefits (1)	22,955	22,269	1,911	9%
Refund of Contributions	1,225	1,167		%
Administrative Expenses	698	640	58	9%
Total Deductions	**24,879**	**24,076**	**803**	**3%**
Net Increase/Decrease	**(12,306)**	**55,000**	**(67,306)**	**-122%**
Net Assets at Beginning of Year	**355,043**	**300,043**	**55,000**	**18%**
Net Assets at End of Year	**$ 342,737**	**$ 355,043**	**$ (12,306)**	**-3.47%**

(1) Retirement benefits include transfers to Human Resources for retiree health care costs.

ADDITIONS TO PLAN ASSETS

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal year ended June 30, 2012 totaled $12.6 million and June 30, 2011 totaled $79.1 million. The decrease in revenues from 2011 to 2012 can be attributed primarily to losses in the fair value of investments. The total balance of net assets decreased from approximately $355 million in 2011 to $343 million in 2012.

DEDUCTIONS IN PLAN ASSETS

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering the system. These expenses for the fiscal years ended June 30, 2012 and June 30, 2011 were $24.9 million and $24.1 million respectively. The MCERA Board continues to review staffing levels and information technology needs during the upcoming year.

MCERA FINANCIAL RESERVES

Table #3: MCERA RESERVES
As of June 30, 2012 and 2011

(Dollars in Thousands)	2012	2011
Member Reserve	$ 62,998	$ 64,911
Employer Reserve	(35,311)	(25,775)
Annuitant Reserve	180,571	179,185
Cost of Living Reserve	90,402	84,867
Undesignated Reserve [1]	659	659
Contingency Reserve	3,551	3,551
Miscellaneous Reserves	257	22
Total Reserves	**$ 303,127**	**$ 307,420**

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under GASB 25, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses in the current period. MCERA has adopted a five-year smoothing methodology for investment gains and losses. This has the effect of smoothing both positive and negative fluctuations in investment performance versus assumptions and has a stabilizing effect on contribution rates.

[1] The undesignated reserve used historically for health care benefits of retirees was derived from excess earnings of the Association in prior years. The disposition of this reserve is still under review by MCERA's legal, actuarial, and fiscal advisors. It is still reflected in the actuarial report as "Retiree Health Insurance Reserve."

INVESTMENT AND ECONOMIC SUMMARY

Investment returns in Fiscal Year 2012 fluctuated throughout the year along with the overall market conditions. The portfolio was down -1.04% for the fiscal year compared with the favorable returns in 2011 with a 21.87%. Returns for the first quarter (2012) were 9.82% and for the second quarter were negative 3.19% reflecting the lost momentum in the economic recovery in the U.S.

Total portfolio returns were 11.35%, 2.09% and 5.63% for three, five and seven year periods ended June 30, 2012, respectively. These returns include periods during which MCERA recognized and posted excess earnings to the pension fund that were used to provide retiree health benefits.

The rate of return on MCERA's investment portfolio in an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the plan's annual additions to retirement plan assets.

STATEMENT OF PLAN NET ASSETS
As of June 30, 2012 and 2011

ASSETS	2012	2011
Investments, at fair value:		
Mutual Funds		
Bond funds	92,893,393	97,682,320
International securities	77,140,774	85,501,443
Domestic securities	139,988,255	139,836,328
Real estate	23,374,029	16,238,535
Cash equivalents	2,354,860	1,189,486
Real estate partnership	6,362,464	13,567,707
Real estate – 625 Kings Court, Ukiah, Ca	738,992	738,992
Total Investments, at fair value	342,852,767	354,754,811
Receivables:		
Member contributions receivable	75,196	76,187
Employer contributions receivable	204,466	229,617
Other receivables	-0-	57,574
Total Receivables	279,662	363,378
Other assets	3,786	3,786
TOTAL ASSETS	**$ 343,136,215**	**$ 355,121,975**
LIABILITIES		
Liabilities:		
Accounts payable	142,052	14,829
Accrued expenses and other liabilities	257,351	64,623
TOTAL LIABILITIES	**$ 399,403**	**$ 79,452**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$ 342,736,812**	**$ 355,042,523**

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN PLAN NET ASSETS
As of June 30, 2012 and 2011

	2012	2011
Additions to net assets attributed to:		
Investment income (loss):		
Net realized and unrealized appreciation (depreciation) in fair value of investments	$ (11,133,208)	$ 56,130,687
Rent income, net of expenses	45,644	24,761
Interest income	64,384	2,460,864
Dividend income	7,260,965	5,863,549
Investment expenses	(316,274)	(404,760)
Total investment income, net	(4,078,489)	64,075,101
Contributions:		
Member contributions	4,840,275	5,446,964
Employer contributions	11,811,076	9,553,955
Total contributions	16,651,351	15,000,919
Total additions,net	**$ 12,572,862**	**$ $ 79,076,020**
Deductions from net assets attributed to:		
Benefits paid to retirees	$ 24,180,110	$ 23,436,295
Administrative expenses	698,463	639,764
Total deductions	**$ 24,878,573**	**$ 24,076,059**
Net increase (decrease)	(12,305,711)	54,999,961
Net Assets Held in Trust for Pension Benefits Balance at Beginning of Year	**$ 355,042,523**	**$ 300,042,562**
Balance at End of Year	**$ 342,736,812**	**$ 355,042,523**

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

For the Years ended June 30, 2012 and 2011

Note 1: Summary of Significant Accounting Policies:

Reporting Entity:

MCERA is governed by the Board of Retirement and is considered an independent entity. The Association is a component unit of the County of Mendocino and is being reported as a Pension Trust Fund in the County's Financial Report in accordance with Governmental Accounting Standards Board Statement No. 14.

Basis of Accounting:

The Association follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines, and financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Retirement Administrator to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Derivatives:

MCERA's investment policy permits the use of derivative instruments to minimize the exposure of certain of its investments to adverse fluctuations in financial and currency markets and enhance yields. MCERA does not use derivatives for speculative use or to create leverage.

During the years ended June 30, 2012 and 2011 MCERA owned no derivatives directly in its portfolio.

Custodial Credit Risk:

Custodial risk for deposits in the Mendocino County trust is assumed by the County of Mendocino. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MCERA would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in MCERA's name, and held by the counterparty. MCERA's investment securities are not exposed to custodial credit risk because all securities are held by MCERA's custodial bank in MCERA's name, or by other qualified third party administrator trust accounts.

Note 1: Summary of Significant Accounting Policies, continued:

Except for a statement that duties of the Board of Retirement, MCERA officers and employees shall be discharged with care, skill, prudence, and diligence, MCERA has no formal policy for managing custodial credit risk.

Market and Credit Risk:

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. Investment allocation guidelines according to the investment policy are as follows:

	Allowable Range	Current Allocation
U.S. Equity	33% - 43%	41%
Non-U.S. Equity	20% - 30%	23%
U.S. Fixed Income	23% - 33%	27%
Real Estate	4% - 14%	9%

MCERA's Investment Policy does not allow for a single investment in real estate that is in excess of 5% of total assets. With respect to common stocks, MCERA has a goal of diversifying the portfolio among a cross-section of industries that have sound long-term growth potential. Similar restrictions apply to fixed income securities.

Interest Rate Risk:

Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. MCERA has not adopted a formal policy to manage interest rate risk.

Member Termination:

Upon separation from MCERA, members' accumulated contributions are refundable with interest accrued through the prior June 30 or December 31. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of the related vested benefits.

Plan Termination:

MCERA is administered in accordance with the provisions of California Government Code Section 31450 and accompanying code sections. California Government Code Section 31483 allows the governing body of the County, the County Courts, or special district, through the adoption of an ordinance or resolution, to terminate the applicability of the Plan to employees of the County, Courts, or district whose services commence after a given future date.

Note 1: Summary of Significant Accounting Policies, continued:

Risk Management:

MCERA is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and major downturns in financial markets. For the past several years, MCERA has obtained coverage from commercial insurance companies for errors and omissions coverage related to activities of the Board of Retirement, but all other risks of loss, except losses due to depreciation in the fair market value of investments, is assumed by the sponsoring employers. MCERA has effectively managed risk through various employee education and prevention programs and careful selection of investments. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The Mendocino County Department of Human Resources has assumed the duties of administering the health care claims of retirees. During the fiscal year ended June 30, 2011 MCERA came into full compliance with Internal Revenue Code Section 401(h) for any flow of funding.

Based on Mendocino County Board of Supervisors Resolution No. 98-147, County Counsel concluded that the County Board of Supervisors was ultimately responsible for the funding, administration and decision-making dealing with all aspects of the Plan. As a result, no incurred but not reported claims were included as liabilities on the financial statements for the year ended June 30, 2012. For the year ended June 30, 2012, MCERA had no excess earnings that can be used for the payment of retiree health benefits.

Current and Future Accounting Pronouncements:

GASB Statement No. 53 - Accounting and Reporting for Derivative Instruments became effective for all years beginning after June 15, 2009. This statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. If MCERA invests in derivative instruments in the future, this statement will be used to measure, recognize, and disclose those transactions.

GASB Statement No. 61 - The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government. Although the provisions for this statement are effective for fiscal years beginning after June 15, 2012, it seems to clarify and confirm the existing relationship of MCERA as a component unit of the County of Mendocino.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

Note 1: Summary of Significant Accounting Policies, continued:

Subsequent Events:

Management has evaluated all subsequent events through January 29, 2013, the date the financial statements were available to be issued. See Note 7 for additional information.

Note 2: Description of Plan:

Description of Association and Applicable Provisions of the Law:

The Mendocino County Employees' Retirement Association (MCERA or the Plan) is an integrated public retirement system established under and subject to the legislative authority of the State of California as enacted and amended by the County Retirement Act of 1937 (Chapter 677 Statutes of 1937). MCERA is a multiple-employer cost sharing defined benefit plan for the County of Mendocino, the Mendocino County Courts, and the Russian River Cemetery District. MCERA was approved by the Board of Supervisors to become effective January 1, 1948, and was integrated with Social Security on January 1, 1956.

Membership in the Plan at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Retirees and beneficiaries receiving benefits	1,217	1,129
Terminated plan members entitled to but not yet receiving benefits	356	389
Active plan members	1,069	1,129
Total	2,642	2,647
Number of participating employers	3	3

A cost-sharing multiple employer plan is a single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members. Other special districts within Mendocino County are eligible, but have not elected to participate.

All permanent employees who work at least 32 hours per week become members of the Plan on the first day of the pay period following employment. Employees are classified as either General or Safety (Law Enforcement or Probation) members, and are assigned to one of three tiers based on entry date and job classification.

Retirement benefits offered by the Plan include normal retirement, disability retirement and service-connected disability retirement. A death benefit is available to beneficiaries. An annual cost of living adjustment of no more than 3 percent may be granted by the Board of Retirement. For 2012 and 2011, the Board of Retirement approved a cost of living increase of 3.0%, depending on date of retirement, which became effective April 1 of each year.

Note 2: Description of Plan, continued:

Description of Association and Applicable Provisions of the Law, continued:

Health benefits for retired employees have been funded by the Plan in the past. As of September 1, 1998, the County of Mendocino had assumed responsibility for partial funding of the cost of health care for the retired employees of the County of Mendocino, and will be responsible for the cost of health care when MCERA earnings on investments are not in excess of required transfers of earnings to retirement reserve accounts. On September 22, 2009, the Board of Supervisors adopted a superceding resolution which stated that retiree health care would only be paid from earnings in excess of transfers to the retirement reserve accounts or by the retirees in the form of a premium. For eligibility for health care coverage, prior to September 1, 1998, retirees must have served 10 years prior to retirement with the County of Mendocino, and retire as an active member. The retiree health benefit program qualifies under section 401(h) of the Internal Revenue Code. Health care payments to reimburse the County of Mendocino for the cost of retiree health care were formally made from a special reserve that has been established as a result of prior excess earnings. There were no health care subsidy amounts paid during the year ended June 30, 2012. The health care subsidy amounted to $1,709,166 for the year ended June 30, 2011 and is included in the line item for benefit payments and subsidies on the statement of changes in net assets held in trust for pension benefits. This subsidy is net of all health care payments by retirees.

Note 3: Cash and Investments:

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. All investments listed in the Statement of Plan Net Assets are registered securities held by the Association's agent in the Association's name. The Board of Retirement has exclusive control over all investments of the Association and is responsible for establishing investment objectives, strategies and policies.

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes MCERA's investment objectives and defines the principal duties of the Board of Retirement and the investment managers. The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. MCERA currently employs investment managers to manage its assets subject to the provisions of the investment Policy.

Cash equivalents consist of cash in trust with the Treasurer of the County of Mendocino. Cash from deposits and cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasurer is responsible for the management, control and safekeeping of all investments in the pooled fund. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value.

Note 3: Investments, continued:

Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities. Unrealized gains and losses on investments are reported as "net appreciation (depreciation) in the fair value of investments." The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of Plan investments.

The Association's cash and investments stated at fair value as of June 30, 2012 and 2011 are as follows:

		2012		**2011**
Cash in trust - Mendocino County	**$**	2,354,860	$	1,189,486
Total cash equivalents		2,354,860		1,189,486
U.S. Government and corporate bonds		92,893,393		97,682,320
International equities		77,140,774		85,501,443
Domestic equities – small cap		21,518,466		21,760,587
Domestic equities – mid cap		21,744,297		22,610,177
Domestic equities – large cap		96,725,492		95,465,563
Real estate		23,374,029		16,238,536
Total mutual funds		333,396,451		339,258,626
Real estate partnerships		6,362,464		13,567,707
Real estate – 625 Kings Court, Ukiah, CA		738,992		738,992
Total Cash Equivalents and Investments	**$**	342,852,767	$	354,754,811

Note 4: Fair Value Measurement of Investments:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Note 4: Fair Value Measurement of Investments, continued:

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

Mutual funds and real estate partnership: Valued at the net asset value of shares held by the Plan at year end.

Real estate – 625 Kings Court, Ukiah, CA: Valued at cost, which approximates fair value.

The methods described above may produce a fair value calculation that may not be as indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 4: Fair Value Measurement of Investments, continued:

The following tables set forth by level, within the fair value hierarchy, MCERA's investments at fair value as of June 30, 2012 and 2011:

	Investments at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds	$ 92,893,393	$ -	$ -	$ 92,893,393
International securities	77,140,774	-	-	77,140,774
Domestic securities	139,988,255	-	-	139,988,255
Real estate	23,374,029	-	-	23,374,029
Total mutual funds	333,396,451	-	-	333,396,451
Real estate partnership	6,362,464	-	-	6,362,464
Real estate - 625 Kings Court, Ukiah, CA	-	-	738,992	738,992
Total investments at fair value	$ 339,758,915	$ -	$ 738,992	$ 340,497,907

	Investments at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Mutual Funds				
Bonds	$ 97,682,320	$ -	$ -	$ 97,682,320
International securities	85,501,443	-	-	85,501,443
Domestic securities	139,836,328	-	-	139,836,328
Real estate	29,806,242	-	738,992	30,545,234
Total investments at fair value	$ 352,826,333	$ -	$ 738,992	$ 353,565,325

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the year ending June 30, 2012 and 2011 as follows:

	Real Estate - 625 Kings Court, Ukiah, CA
Balance, beginning of year	$ 738,992
Unrealized gains (losses)	-
Purchases	-
Sales	-
Issuances	-
Settlements	-
Balance, end of year	$ 738,992

Note 5: Contributions:

The actuarially determined member contribution rates payable for fiscal year 2013-14 averaged 9.76 percent of payroll and 9.73 for the year ended June 30, 2011. The actual member rate depends on the member's age at the time of hire, General, Safety, or Probation membership, and tier. For fiscal year 2013-14, employers are also required to contribute an actuarially determined rate of 25.65 percent of payroll in aggregate. The employer aggregate rate was 23.57 percent of payroll for the year ended June 30, 2011. The actual employer rate depends on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of the Plan. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability.

The Plan had an unfunded actuarial accrued liability of $47,154,000 at June 30, 2001. This unfunded liability was being amortized through June 30, 2017, at which time it was anticipated the Plan would be fully funded. In December, 1996, the County of Mendocino issued pension obligation bonds, of which $30,112,488 of the proceeds were contributed to the Plan. In December, 2002, due to a continued downward spiral of market values for MCERA investments, the County of Mendocino issued additional pension obligation bonds. The total of bonds sold was $92,208,602, of which $76,299,000 was transferred to the Plan for additional investment, $13,220,061 was used to defease fifty percent of the 1996 pension obligation bonds, and the remainder of $2,689,541 was used to pay the costs of issuing the bonds. The proceeds from the 2002 pension obligation bonds reduced the unfunded pension liability to less than 10 percent of the actuarial accrued liability at June 30, 2004. The funding agreement in effect prior to July 1, 2009 indicated that the County was not required to fund the UAAL that was not in excess of the target of 10 percent of the total pension liability.

Note 5: Contributions, continued:

In November 2009, that funding agreement was voided by mutual agreement between the Association Board of Retirement and the Mendocino County Board of Supervisors. Subsequent to the funding agreement, the Board of Retirement stipulated that the County of Mendocino must amortize the UAAL over a 30-year period from June, 2009.

For the actuarial valuation for the year ended June 30, 2010, the prior actuary changed their assumptions regarding withdrawals by inactive members. This change in assumption affected the projected number of inactive members who would withdraw their contributions and forego a retirement, compared to those who would leave their contributions and vested benefits with the Plan and retire at a later date. The result was an estimated increase of $3.3 million in the County's contribution for the fiscal year ended June 30, 2012.

The UAAL as of June 30, 2011 is $124.9 million, which the County of Mendocino is required to amortize in the future and the funded ratio at June 30, 2011 was 73.6%. The *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2011 recommended employer and member contribution rates of 23.3% and 9.84%, respectively. The increase in contribution rates is due to a combination of factors, including lower than expected investment returns, amortization of the unfunded actuarial accrued liability over a smaller than previously projected total payroll and errors made by the previous actuary.

The UAAL as of June 30, 2012 is $126.5 million, which the County of Mendocino is required to amortize in the future. The funded ratio at June 30, 2012 is 74.1%, as indicated on the Schedule of Funding Progress on Page 36. The Actuarial Valuation and Review report issued by The Segal Company as of June 30, 2012 recommended employer and member contribution rates that aggregate to 25.65% and 9.76%, respectively.

Note 5: Contributions, continued:

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

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	27 years (declining/closed) for all UAAL
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the market value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.50% to 9.00%
* Includes inflation at	3.50% + 0.50% across-the-board salary increases
Cost of living adjustments	3.00% of retirement income
Years of life expectancy after retirement	General members: RP-2000 Combined Healthy Mortality Table for males and females, set back 2 years for males and 1 year for females Safety/Probation members: RP-2000 Combined Healthy Mortality Table for males and females, with no setback for males and 1 year set forward for females.
Years of life expectancy after disability	General members: RP-2000 Combined Healthy Mortality Table for males and females, set forward 2 years. Safety/Probation members: RP-2000 Combined Healthy Mortality Table for males and females, set forward 4 years.

Note 5: Contributions, continued:

Life expectancy after retirement for employee contribution rate purposes	General members: RP-2000 Combined Healthy Mortality Table for males and females, set back 2 years for males and 1 year for females weighted 30% male and 70% female. Safety/Probation members: RP-2000 Combined Healthy Mortality Table for males and females, with no setback for males and 1 year set forward for females weighted 80% male and 20% female.

Using the projected payroll amounts for MCERA's membership groups and tiers that were used in the June 30, 2010 actuarial valuation, management has estimated the contributions are comprised of the following for the year ended June 30, 2012:

Estimated employer normal cost contributions	$ 6,859,383
Estimated UAAL contributions	4,951,693
Total	$ 11,811,076

Note 6: Reserves:

The Association had contingency reserves of $3,550,728 and $3,550,728 at June 30, 2012 and 2011, respectively to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 7.75 percent of retirement reserve balances to those reserves.

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2012 and 2011 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

	2012	2011
Employee reserves	$ 62,997,613	$ 64,911,013
Employer reserves	(35,311,033)	(25,774,820)
Retiree reserves	270,972,746	264,051,864
Undesignated reserves (see Note 7)	658,654	658,654
1% Contingency reserve	3,550,728	3,550,728
Settlement reserve	248,093	-0-
Miscellaneous reserves	9,259	22,475
Total reserves	303,126,060	307,419,914
Cumulative unallocated net unrealized gain on investments	62,792,624	44,520,819
Total allocated reserves (smoothed market actuarial value after corridor limits)	365,918,684	351,940,733
Net assets in excess (deficit) of reserves	(23,181,872)	3,101,790
Net assets available for pension benefits, at fair value	$ 342,736,812	$ 355,042,523

The undesignated reserve used historically for providing health care benefits of retirees was derived from excess earnings of the Association in prior years.

Note 7: 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 therein.

The fair value of assets in MCERA's portfolio has increased from $343 million to $357 million between July 1, 2012 and December 31, 2012. Capital markets continue to be highly volatile resulting in significant swings in market value, both positive and negative.

Note 7: Subsequent Events, continued:

Since July 1, 2011, MCERA's new actuary, The Segal Company (Segal), determined that the employee basic contribution rate for fiscal years 2009-10, 2010-11 and 2011-12, as calculated by the prior actuary, was higher in the aggregate than it should have been. This resulted in a corresponding underpayment by employers during the same period. MCERA is working with a team of external and internal professionals to reimburse overpayments and collect underpayments to the pension fund based on the corrected rates, and in accordance with all tax laws and regulations. Corrected rates will be in effect January 8, 2012, and the project is expected to be completed before the end of fiscal year 2012-13.

MCERA submitted a Voluntary Correction Program (VCP) filing with the IRS, stating that it recognized and posted excess earnings of $9.6 million, for fiscal years ending June 30, 2004 through 2006 that may not have been fully consistent with Government Code Section 31529.4 and/or IRC Section 401(h). The residual amount of excess earnings recognized and posted over this time period has been classified as "Undesignated reserves" and was $658,654 at June 30, 2012. The excess earnings postings are being reviewed by tax counsel, actuary, and an accounting firm to develop findings and recommendations for submission to the IRS. The IRS review on issues common to retirement systems such as MCERA that are maintained under the County Employees' Retirement Law of 1937 has begun. The IRS review, including any issues specific to MCERA, is expected to be completed sometime in calendar year 2013.

Required Supplementary Information

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.

SCHEDULE OF FUNDING PROGRESS [1]
GASB 25
(Dollar amounts in thousands)

Actuarial Valuation Date	Valuation Assets		Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll		UAAL as a Percent of Covered Payroll
7/1/93	$ 72,062		$ 105,866	$ 33,804	68.1%	$ 25,930		130.4%
7/1/94	$ 75,976		$ 112,535	$ 36,559	67.5%	$ 27,185		134.5%
7/1/95	$ 79,322		$ 121,027	$ 41,705	65.5%	$ 29,603		140.9%
7/1/96	$ 84,992		$ 130,036	$ 45,044	65.4%	$ 29,587		152.2%
7/1/97	$ 124,286		$ 140,783	$ 16,497	88.3%	$ 32,481		50.8%
7/1/98	$ 134,836		$ 154,263	$ 19,427	87.4%	$ 35,586		54.6%
7/1/99	$ 142,775		$ 173,250	$ 30,475	82.4%	$ 39,209		77.7%
7/1/00	$ 150,056		$ 185,423	$ 35,367	80.9%	$ 44,132		80.1%
7/1/01	$ 157,545		$ 204,699	$ 47,154	77.0%	$ 53,188		88.7%
7/1/02	$ 158,115	(2)	$ 226,883	$ 68,768	69.7%	$ 57,701		119.2%
7/1/03	$ 233,764	(3)	$ 243,342	$ 9,578	96.1%	$ 59,865		16.0%
7/1/04	$ 239,191		$ 265,141	$ 25,950	90.2%	$ 59,075		43.9%
7/1/05	$ 253,487		$ 289,467	$ 35,980	87.6%	$ 57,664		62.4%
7/1/06	$ 288,461		$ 320,123	$ 31,662	90.1%	$ 57,665		54.9%
7/1/07	$ 317,937		$ 358,259	$ 40,322	88.7%	$ 65,899		61.2%
7/1/08	$ 353,421		$ 373,832	$ 20,411	94.5%	$ 70,880		28.8%
7/1/09	$ 336,263		$ 403,196	$ 66,933	83.4%	$ 72,235		92.7%
7/1/10	$ 343,202		$ 434,987	$ 91,785	78.9%	$ 69,004		133.0%
7/1/11	$ 347,732		$ 472,644	$ 124,912	73.6%	$ 64,144	(4)	194.7%
7/1/12	$ 362,487		$ 489,014	$ 126,527	74.1%	$ 56,596		223.6%

(1) Information prior to 2011 has been extracted from the previous actuary's past valuation reports.

(2) Excludes proceeds from Pension Obligation Bonds issued in December 2002.

(3) Includes proceeds from Pension Obligation Bonds issued in December 2002 in the amount of 76,299,000.

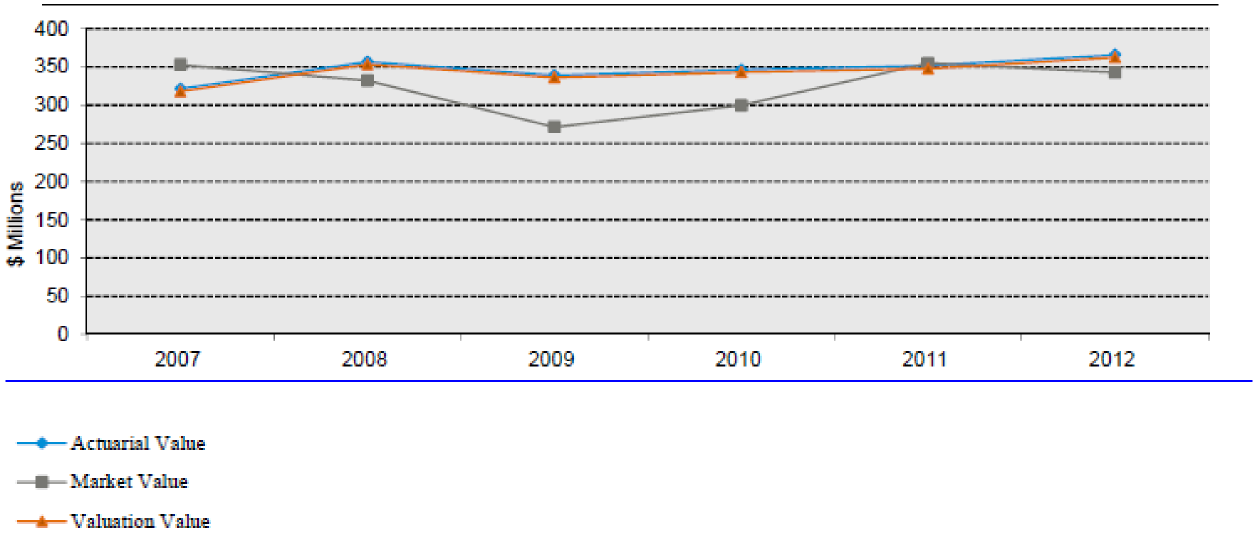
(4) 6/30/2011 payroll includes a projection for expected salary increases during 2011/2012 under the actuarial assumptions used in valuation.

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability as a measure that is influenced by the choice of actuarial cost method. Historical trend information is presented in the following schedules.

This information was determined as part of the actuarial valuations at the dates indicated. Governmental Accounting Standard Board (GASB) requires the Actuarially Required Contributions (ARC) and the Funding Status Schedules to be included and we do so in the following schedules.

This chart shows the change in market value, actuarial value and the valuation value of assets over the past six years.

Market Value, Actuarial Value and Valuation Value of Assets as of June 30, 2007 – 2012



SCHEDULE OF EMPLOYER CONTRIBUTIONS
GASB 25
(dollar amounts in thousands)

Year Ended	Annual Recommended Contribution	Percentage Contributed
12/31/92	$ 2,939	100%
12/31/93	$ 2,939	100%
6/30/95[1]	$ 5,182	100%
6/30/96	$ 4,348	100%
6/30/97	$33,691 [2]	100%
6/30/98	$ 2,661	100%
6/30/99	$ 3,165	100%
6/30/00	$ 3,787	100%
6/30/01	$ 7,216	100%
6/30/02	$ 6,348	100%
6/30/03	$ 6,663	100%
6/30/04	$ 4,158	63%
6/30/05	$ 3,221	47%
6/30/06	$ 4,996	79%
6/30/07	$ 7,533	100%
6/30/08	$ 7,232	100%
6/30/09	$ 6,046	141%
6/30/10	$ 9,571	91%
6/30/11	$ 9,554	100%
6/30/12	$ 11,811	100%

(1) Reflects 18 months of contributions due to a change in the financial reporting year.
(2) Includes proceeds from Pension Obligation Bonds.

SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year ended June 30, 2012 and 2011

	2012	2011
Personnel Services:		
Salaries and Wages	250,273	259,776
Other Benefits	65,571	57,332
Employee Retirement	59,935	47,748
Total Personnel Services	375,779	364,856
Professional Services:		
Outside Legal Counsel – Disability	60,897	57,069
Disability Hearing Officer/Medical Exams	70,887	61,785
External Audit Fees	22,935	17,924
Automation & Software	6,262	24,543
Total Professional Services	160,981	161,321
Miscellaneous:		
Office Expenses *	33,712	14,798
Insurance General	976	1,021
Memberships	4,500	4,500
Prof & Spec Services – Other	99,580	78,276
Transportation & Travel	22,935	14,992
Total Miscellaneous	161,703	113,587
Total Administrative Expenses	698,463	639,764

* Includes 1/2 of Building Expenses.

Administrative 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 the greater of the following: 1) Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system. 2) Two million dollars ($2,000,000)…" MCERA's administrative expenses met the requirements of this section in Fiscal Year 2011/12 as the expenses were 14/100% of the actuarial accrued liability.

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Investment Section

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FUND
SPONSOR
CONSULTING

Performance
Summary

Mendocino County Employees' Retirement Association
Executive Summary
Fiscal Year Ended June 30, 2012

General Economic Conditions and Capital Markets Overview

The fiscal year ended June 30, 2012 was characterized by marked volatility. After falling sharply in the first quarter of the fiscal year, equities notably recovered through the second and third quarters only to shed ground again in the final quarter. For the full fiscal year, broad market asset class returns were widely mixed, with double-digit negative returns from international equities and strong mid to high single-digit gains from fixed income.

As the fiscal year commenced, the U.S. Congress was embroiled in a bitter debate about the debt ceiling. The 11th hour resolution in early August averted a default on government obligations. However, much damage was done to credibility and confidence on both sides of the aisle. In a sharply-worded announcement, Standard & Poor's downgraded the credit rating of U.S. Treasury obligations from AAA to AA+ based on concerns surrounding the "effectiveness, stability, and predictability of American policymaking and political institutions." The market impact of the downgrade was rather interesting – while traditional expectations are that a downgrade would negatively impact bond prices, the flight to quality status of US Treasuries overrode the credit rating decline and pushed bond prices higher.

Turmoil in Europe continued to be a major headline right up to the final day of the fiscal year. In June both Spain and Cyprus formally requested bailout funds from the European Central Bank. Spain's bailout represented the fourth bailout of the five PIIGS countries, joining Portugal, Ireland, and Greece. After initially denying the need for bailout funds, Spain requested $125 billion (€100 billion) to shore up its faltering banking system. Italy, the remaining "I" in PIIGS, has avoided a bailout due in part to stronger fiscal position; despite a very high debt-to-GDP ratio (120%) Italy currently runs a budget surplus. While Cyprus is a small sovereign nation, it enjoyed a large banking sector due to a favorable tax landscape for Greek nationals. Cyprus requested approximately €2 billion or 10% of its GDP. In an interesting counterpoint to the PIIGS moniker coined in 2009, "FANGs" (Finland, Austria, Netherlands, Germany) has come to the fore as an acronym for the wealthy northern-European countries who's more stable economies may be relied upon to backstop the bailouts of the PIIGS.

While Europe captured many headlines, it was by no means quiet on the domestic front. Worries in the US surrounded the "fiscal cliff," the combination of spending cuts triggered by the failure of the 2011 "super committee," the expiration of enhanced jobless benefits, and the expiration of the Bush tax cuts and payroll tax holiday (among other things).

In the bond market, the Fed continued to hold short term rates at near zero levels while also remaining active in the longer portion of the yield curve as Operation Twist, set to expire at the end of June, was extended through the end of 2012. The continuation of Twist, coupled with significant demand for safe haven investments, has driven the yield on the 10-year US Treasury bond to historic lows. Other sovereign Treasury instruments considered safe havens have experienced similarly low yields.

Inflation data remain fairly benign throughout the fiscal year. Falling energy prices pulled the headline CPI rate down to 1.7% for the 12-months ended May 2012 and core CPI remained within the Federal Reserve's targeted range and well below the long term average of just over 4%.

The following table highlights the various asset class benchmark returns by quarter and for the fiscal year.

Index	**Q1**	**Q2**	**Q3**	**Q4**	**Fiscal Year**
US Equity (Russell 3000)	(15.3%)	12.1%	12.9%	(3.2%)	3.8%
Intl Equity (MSCI ACWI ex-US)	(19.8%)	3.8%	11.3%	(7.4%)	(14.2%)
Real Estate (NFI-ODCE)	3.3%	2.8%	2.6%	2.4%	11.5%
Fixed Income (BC Aggregate)	3.8%	1.1%	0.3%	2.1%	7.5%

Asset Allocation

As of June 30, 2012, the assets of MCERA were valued at $343.9 million, down from the total asset value at the start of the fiscal year, July 1, 2011, of $355.2 million. Approximately $3.8 million in investment losses and $7.6 million in net withdrawals accounted for the decline in assets. The Fund ended the quarter slightly overweight relative to its policy target in domestic equity and cash while being slightly underweight to fixed income and international equity. The Fund's domestic real estate allocation was nearly in line with that of the policy target. All asset classes remain within their permitted ranges.

Asset Class	$000s Actual	Percent Actual	Percent Target	Percent Difference	$000s Difference
Domestic Equity	139,988	40.7%	38.0%	2.7%	9,320
International Equity	77,141	22.4%	25.0%	(2.6%)	(8,825)
Domestic Fixed Income	92,893	27.0%	28.0%	(1.0%)	(3,388)
Domestic Real Estate	30,658	8.9%	9.0%	(0.1%)	(290)
Cash	3,183	0.9%	0.0%	0.9%	3,183
Total	343,864	100.0%	100.0%		

Total Fund Performance

MCERA's Total Fund returned -1.0% for the fiscal year ending June 30, 2012, 2.3% behind the Fund's benchmark return.

As is shown in the fiscal year attribution below, both active management and the effect of asset allocation hindered relative performance during the period. The final quarter of the fiscal year posed a very difficult environment for active management; amid a "risk off" environment, most domestic equity index returns ranked in the top quartile of Callan's actively managed style groups, indicating that the majority of active managers in each space underperformed the index.

However, despite a sharply negative absolute return, MCERA's international equity allocation actually contributed to relative returns for the fiscal year as the portfolio held a slight underweight to the asset class.

One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	39%	38%	0.22%	3.84%	(1.35%)	(0.07%)	(1.42%)
Domestic Fixed Income	28%	28%	6.45%	7.47%	(0.45%)	(0.29%)	(0.74%)
Domestic Real Estate	9%	9%	7.93%	9.52%	(0.12%)	0.00%	(0.12%)
International Equity	23%	25%	(14.54%)	(14.15%)	(0.06%)	0.17%	0.11%
Cash	1%	0%	0.32%	0.32%	0.00%	(0.16%)	(0.16%)
Total			**(1.04%) =**	**1.30% +**	**(2.01%) +**	**(0.34%)**	**(2.34%)**

Summary

Marked by falling interest rates and ensuing volatility within equity markets, the recent fiscal year was challenging for the MCERA portfolio. Still, the Fund remains well diversified across the broad capital markets and across many different investment strategies, which we believe will continue to lead to strong long-term investment results.

Consistent with the broad markets, MCERA has benefitted from the positive returns experienced during the first half of the fiscal year ended June 30, 2013; as of December 31, 2012, the Fund was up 7.7% for the fiscal year to date compared to 6.8% for the policy target. Still, we continue to forecast muted returns and increased volatility across asset classes. Due diligence reviews and an adherence to a well-developed investment policy remain the most prudent long-term course for investors.

Submitted by:

Greg T. Ungerman, CFA
Senior Vice President

Greg F. DeForrest, CFA
Senior Vice President

Outline of Investment Policies

The Board of Retirement (Board) has exclusive control of all investments of the retirement system and is responsible for establishing investment objectives, strategies and policies.

Pursuant to the California Constitution and the 1937 County Employees' Retirement Act, the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In this regard, investment decisions are to be made in the sole interest and for the exclusive purpose of providing benefits to participants in the retirement system and their beneficiaries and defraying the reasonable expenses of administering the retirement system.

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the general goals of the investment program, the policies and procedures for management of the investments, specific assets allocations, rebalancing procedures and investment guidelines, performance objectives and risk controls. The Investment Policy also defines the principal duties of the Board, MCERA's investment consultant and MCERA's investment managers. The Board makes revisions to the Investment Policy as necessary.

Pursuant to the Investment Policy, the basic goal of MCERA's investment program is to obtain a fully funded plan status, while assuming a risk posture consistent with the Board's risk tolerance. In pursuing this goal, the Board has adopted a long-term investment horizon in which the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The primary investment objective is to exceed the actuarial assumption for return on assets. The risk assumed in the pursuit of this investment objective must be appropriate for the return anticipated and consistent with the total diversification of the fund. All transactions undertaken will be for the sole benefit of MCERA's members and beneficiaries and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable associated administrative expenses.

The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2012

	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
Domestic Equities	**139,988,256**	**40.71%**	**0.22%**	**16.47%**	**0.79%**
Russell 3000 Index			3.84%	16.73%	0.39%
Large Cap Equities	**96,725,492**	**28.13%**			
Selected American	10,473,772	3.05%	(0.10%)	13.03%	(2.03%)
Investment Co of America	10,984,909	3.19%	2.83%	12.77%	(0.51%)
Vanguard Growth & Income	11,498,316	3.34%	6.16%	16.43%	(0.78%)
S&P 500 Index			5.45%	16.40%	0.22%
Dodge & Cox Stock	15,650,480	4.55%	(0.91%)	14.40%	(3.64%)
Robeco	14,932,945	4.34%	3.05%	-	-
S&P 500 Index			5.45%	16.40%	0.22%
Russell 1000 Value Index			3.01%	15.80%	(2.19%)
Growth Fund of America	10,787,740	3.14%	0.23%	12.45%	(0.15%)
Harbor Cap Appreciation	11,594,743	3.37%	2.88%	15.52%	3.53%
Janus Research	10,802,586	3.14%	(1.67%)	15.77%	1.53%
S&P 500 Index			5.45%	16.40%	0.22%
Russell 1000 Growth Index			5.76%	17.50%	2.87%
Mid Cap Equities	**21,744,297**	**6.32%**			
Fidelity Low Priced Stock	5,443,063	1.58%	(1.00%)	17.21%	1.72%
Royce Total Return	5,197,692	1.51%	(2.73%)	15.71%	0.70%
Russell 2000 Index			(2.08%)	17.80%	0.54%
Russell MidCap Value Index			(0.37%)	19.92%	(0.13%)
Morgan Stanley	5,358,956	1.56%	(10.92%)	19.12%	4.04%
Janus Enterprise	5,744,596	1.67%	(0.14%	19.00%	-
Russell MidCap Growth Index			(2.99%)	19.01%	1.90%
Small Cap Equities	**14,506,094**	**4.22%**			
Prudential Small Cap Value	6,530,308	1.90%	(2.79%)	-	-
US Small Cap Value Index			(0.65%)	18.82%	0.43%
Russell 2000 Value Index			(1.44%)	17.43%	(1.05%)
Alliance US Small Growth	4,294,108	1.25%	3.48%	25.85%	5.88%
RS Investments	3,681,678	1.07%	(5.19%)	20.39%	2.32%
Russell 2000 Growth Index			(2.71%)	18.09%	1.99%
Micro Cap Equities					
Managers Inst Micro Cap	7,012,372	2.04%	0.03%	17.02%	2.03%
Russell Microcap Index			(0.54%)	16.71%	(2.19%)
Russell Micro Growth Index			(3.44%)	15.93%	(1.16%)

	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
International Equities	**77,140,774**	**22.43%**	**(14.54%)**	**8.44%**	**(2.71%)**
EuroPacific	15,969,498	4.64%	(12.62%)	7.51%	(2.27%)
Harbor International	14,985,381	4.36%	(11.92%)	10.83%	(2.09%)
Columbia Acorn Int'l	8,118,937	2.36%	(9.31%)	12.57%	(0.85%)
Janus Overseas	12,124,351	3.53%	(27.68%)	0.33%	(5.50%)
Oakmark International	11,652,196	3.39%	(13.64%)	10.68%	(2.36%)
Mondrian International	14,290,411	4.16%	(9.98%)	-	-
MSCI EAFE Index			(13.83%)	5.96%	(6.10%)
MSCI ACWI ex-US Index			(14.15%)	7.43%	(4.18%)
Domestic Fixed Income	**92,893,393**	**27.01%**	**6.45%**	**7.89%**	**7.37%**
Dodge & Cox Income	46,261,236	13.45%	5.93%	8.55%	7.70%
PIMCO	46,632,157	13.56%	6.96%	8.69%	-
BC Aggregate Index			7.47%	6.93%	6.79%
Real Estate	**30,658,144**	**8.92%**	7.93%	16.18%	(1.00%)
RREEF Public Fund	6,362,464	1.85%	11.57%	32.54%	2.22%
NAREIT			12.40%	31.21%	2.03%
RREEF Private Fund	12,996,625	3.78%	9.70%	9.25%	(2.04%)
Cornerstone Patriot Fund	10,560,063	3.07%	-	-	-
NFI-ODCE Equal Weight Index			11.46%	6.78%	(2.12%)
625 Kings Court	738,992	0.21%	2.22%	(2.43%)	(1.46%)
Cash	3,182,951	0.93%			
Total Fund	**343,863,518**	**100.00%**	**(1.04%)**	**11.35%**	**2.09%**
Total Fund Benchmark*			1.30%	11.74%	1.53%

Note: The 1, 3 & 5 year returns are from the Callan Associates performance report dated June 30, 2012. Returns are reported Net of Fees and are calculated on a time-weighted basis.

* Current Quarter Target= 38.0% Russell 3000 Index, 28.0% Barclays Aggregate Index, 25.0% MSCI ACWI ex-US Index, 7.2% NFI-ODCE Equal Weight Net and 1.8% NAREIT.

Asset Allocation

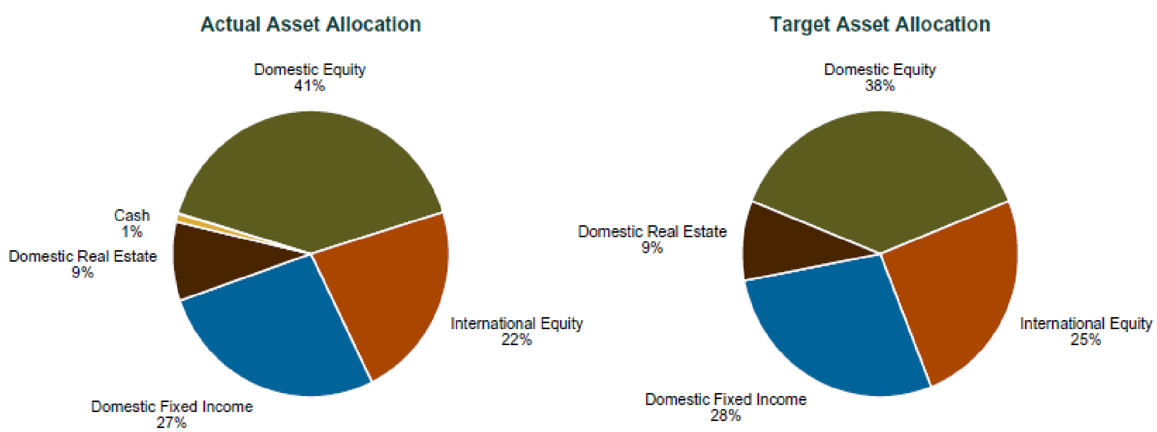
The Board reviews the Association's investment results each quarter. Periodically, the Board reviews the asset allocation, taking into consideration the latest actuarial study. Based on this review, the Board adopts an asset allocation mix with the goal of helping the Association achieve a fully funded status. Each asset class has a target allocation. The Association treats these targets as long-term funding objectives. Adhering to these targets allows the Association to keep investment risk at a manageable level and minimizes investment costs.

One keystone of asset allocation is diversification among asset classes. Diversification helps to maintain risk at a tolerable level. Therefore, the Board reviews the investment performance and volatility of each asset class on a regular basis over various time periods (quarterly, annually, multi-year) to ensure that the current allocation continues to meet the Association's needs.

Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract.

TARGET ASSET VS. ACTUAL ASSET ALLOCATION

The top left chart shows the Fund's asset allocation as of June 30, 2012. The top right chart shows the Fund's target asset allocation as outlined in the investment policy statement. The bottom chart ranks the fund's asset allocation and the target allocation versus the CAI Public Fund Sponsor Database.



ASSET ALLOCATION
JUNE 30, 2012 (1)

Asset Class	Market Value	Actual Allocation	Target Allocation
Domestic Equities	139,988,256	40.7%	38.0%
International Equities	77,140,774	22.4%	25.0%
Domestic Fixed Income	92,893,393	27.0%	28.00%
Domestic Real Estate	30,658,144	8.92%	9.00%
Total Portfolio	343,863,518	100.00%	100.00%

Notes:
(1) Does not include cash; accounts receivables, or prepaid expenses

SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND OTHER INVESTMENT EXPENSES
For the Year ended June 30, 2012

Investment Management Fees:		$ 2,169,025
Large Cap Funds	$ 466,080	
Mid Cap Funds	$ 174,141	
Small/Micro Funds	$ 214,917	
International Equity Funds	$ 601,994	
Fixed Income Funds	$ 413,431	
Real Estate	$ 298,462	
Investment Consultant Fees		$ 140,000
Investment Custodial Fees		-0-
Fiduciary Insurance		$ 34,500
Actuary Fees		$122,809
Other Investment Expense		-0-
Total Investment Expenses		$2,466,334

LIST OF INVESTMENT MANAGERS

Fixed Income
Dodge & Cox
PIMCO

Large Cap Equity
Selected American
Investment Co. of America
Vanguard Growth & Inc
Dodge & Cox Stock
Robeco
Growth Fund of America
Harbor Capital Appreciation
Janus Research

Mid Cap Equity
Morgan Stanley
Janus Enterprise
Fidelity Low Priced Stock
Royce Total Return

Small Cap Equity
Vanguard
Prudential Target
Alliance
R S Investments
Managers Inst Micro Cap

International Equity
Europacific
Harbor International
Columbia Alcorn International
Janus Overseas
Mondrian
Oakmark

Real Estate
RREEF Commingled Fund
RREEF America REIT II

Actuarial Section

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March 8, 2013

Board of Retirement
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482-5027

Re: Actuarial Valuation for the Mendocino County Employees' Retirement Association

Dear Members of the Board:

The Segal Company prepared the June 30, 2012 actuarial valuation of the Mendocino County Employees' Retirement Association. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2012 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return on market value over a five-year period. The full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

One of the general goals of an actuarial valuation is to establish rates which, over time, will remain level as a percentage of payroll unless plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL).

The entire balance of the UAAL as of June 30, 2012 is amortized as a level percentage of payroll over a declining 30-year period effective with the June 30, 2009 valuation. As of June 30, 2012, there are 27 years remaining in that 30-year schedule.

Board of Retirement
Mendocino County Employees' Retirement Association
March 8, 2013
Page 2

A listing of supporting schedules Segal prepared for inclusion in the Actuarial and Financial Sections of the Association's CAFR is provided below:

1. Summary of Assumptions and Funding Method;
2. Schedule of Active Member Valuation Data;
3. Schedule of Retirees and Beneficiaries Added To and Removed From Retiree Payroll;
4. Solvency Test;
5. Actuarial Analysis of Financial Experience;
6. Development of Actuarial Value of Assets; and
7. Summary of Plan Provisions.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the June 30, 2011 Experience Analysis. It is our opinion that the assumptions used in the June 30, 2012 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2014.

In the June 30, 2012 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 73.6% to 74.1%. The employer's aggregate contribution rate has increased from 23.57% of payroll to 25.65% of payroll. The employee's aggregate rate has increased from 9.73% of payroll to 9.76% of payroll due to a change in membership demographics.

In the June 30, 2012 valuation, the actuarial value of assets included $23.2 million in unrecognized deferred investment losses, which represent 7% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 74.1% to 70.1% and the aggregate employer contribution rate, expressed as a percentage of payroll, would increase from 25.65% to about 27.7%.

The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA	Andy Yeung, ASA, MAAA, FCA, EA
Senior Vice President & Actuary	Vice President & Associate Actuary

JRC/bqb
Enclosures

5237747v3/13459.001

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The funding policy adopted by the Board is to amortize the Association's entire balance of the unfunded actuarial accrued liability (UAAL) as of the valuation date over a declining 30-year period effective with the June 30, 2009 valuation. As of June 30, 2012, there are 27 years remaining in that 30-year schedule. The Board has adopted the following economic assumptions for the June 30, 2012 valuation:

ASSUMPTIONS

Valuation Interest Rate	7.75%
Inflation Rate	3.50%
Across the Board Salary Increase	0.50%
Interest Credited to Member Accounts	7.75%
Consumer Price Index	Increases of 3.50% per year, retiree COLA increases due to CPI subject to a 3% maximum change per year
Cost-of-Living Adjustments	3.00% of retirement income
Asset Valuation	Smoothed actuarial value

The following demographic and salary increase assumptions were used for the actuarial valuation as of June 30, 2012. The assumptions were selected by the actuary and approved by the Board.

Post-Retirement Mortality	
(a) Healthy	
General Members	RP-2000 Combined Healthy Mortality Table for Males and Females set back two years for males and set back one year for females
Safety and Probation Members	RP-2000 Combined Healthy Mortality Table for Males and Females with no setback for males and set forward one year for females
All Beneficiaries	Same as General Members
(b) Disabled	
General Members	RP-2000 Combined Healthy Mortality Table for Males and Females set forward two years
Safety and Probation Members	RP-2000 Combined Healthy Mortality Table for Males and Females set forward four years
(c) For Employee Contribution Rate Purposes	
General Members	RP-2000 Combined Healthy Mortality Table for Males and Females set back two years for males and set back one year for females, weighted 30% male and 70% female
Safety and Probation Members	RP-2000 Combined Healthy Mortality Table for Males and Females with no setback for males and set forward one year for females, weighted 80% male and 20% female
Pre-Retirement Mortality	
(a) General Members	RP-2000 Combined Healthy Mortality Table for Males and Females set back two years for males and set back one year for females
(b) Safety and Probation Members	RP-2000 Combined Healthy Mortality Table for Males and Females with no setback for males and set forward one year for females
Termination Rates	Based upon the Experience Analysis as of 6/30/2011 (Table 1)
Disability Rates	Based upon the Experience Analysis as of 6/30/2011 (Table 1)
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/2011 (Table 1)
Reciprocity Assumption	60% of members who terminate with a vested benefit are assumed to enter a reciprocal system. For reciprocals, 4.50% compensation increases per annum are assumed.
Salary Scales	As shown in Table 2
Spouses and Dependents	80% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands
Deferred Vested Retirement Age	60 for General members; 55 for Safety and Probation members. For future deferred vested members who terminate with less than five years of service and are not vested, it is assumed they will retire at age 70 if they decide to leave their contributions on deposit.
Future Benefit Accruals	1.0 year of service per year of employment plus 0.019 years of additional service to anticipate conversion of unused sick leave for each year of employment, for members expected to retire directly from active employment and to receive a service retirement benefit.

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE - TABLE 1

General Members

Years of Service	Termination(1) (Less Than 5 Years of Service)
0	.1450
1	.1150
2	.1050
3	.0950
4	.0850

Age	Termination(1) (5+ Years of Service)	Mortality Male(2)	Mortality Female(2)	Disability(4)	Service
20	.0450	.0003	.0002	.0001	.0000
30	.0450	.0004	.0002	.0002	.0000
40	.0450	.0010	.0006	.0006	.0000
50	.0450	.0019	.0016	.0053	.0500
60	.0220	.0053	.0044	.0074	.1000

Safety and Probation Members

Years of Service	Termination(1) (Less Than 5 Years of Service)
0	.1100
1	.0950
2	.0750
3	.0650
4	.0550

Age	Termination(1) (5+ Years of Service)	Mortality Male(3)	Mortality Female(3)	Disability(5)	Service
20	.0500	.0003	.0002	.0020	.0000
30	.0390	.0004	.0003	.0034	.0000
40	.0320	.0011	.0008	.0114	.0000
50	.0110	.0021	.0019	.0248	.0500
60	.0000	.0067	.0058	.0000	1.000

(1) *For members with less than five years of service, 85% of all terminated members will choose a refund of contributions and 15% will choose a deferred vested benefit. For members with five or more years of service, 25% of all terminated members will choose a refund of contributions and 75% will choose a deferred vested benefit. No termination is assumed after a member is eligible for retirement.*

(2) *10% of General deaths are assumed to be service connected deaths. The other 90% are assumed to be non-service connected deaths.*

(3) *50% of Safety and Probation deaths are assumed to be service connected deaths. The other 50% are assumed to be non-service deaths.*

(4) *50% of General disabilities are assumed to be service connected disabilities. The other 50% are assumed to be non-service connected disabilities.*

(5) *90% of Safety and Probation disabilities are assumed to be service connected disabilities. The other 10% are assumed to be non-service connected disabilities.*

The probabilities shown for each cause of separation represent the likelihood that a given member will separate at a particular age for the indicated reason. For example, if the probability of termination of a General member at age 30 with at least 5 years of service is 0.0450, then we are assuming that 4.50% of the active General members at age 30 with at least 5 years of service will terminate with vested rights during the next year.

ACTUARIAL ASSUMPTIONS FOR MERIT AND PROMOTIONAL SALARY INCREASE RATES - TABLE 2
As of June 30, 2012

Consists of the sum of three parts: A uniform inflation component of 3.50%; plus "across the board" salary increases of 0.50% per year; plus a service-related component for merit and promotion, summarized as follows:

Years of Service	General Members	Safety and Probation Members
0	5.00%	5.00%
1	3.75%	3.75%
2	3.50%	3.00%
3	2.75%	2.25%
4	2.25%	1.00%
5+	0.50%	0.50%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA[(1)]

Valuation Date	Plan Type	Number	Annual Payroll $	Monthly Average Pay $	Percentage of Increase in Average Pay[(2)]
6/30/2007					
	General	1,199	55,268,122	3,841	
	Safety	147	8,177,920	4,636	
	Probation	49	2,452,547	4,171	
	Total	1,395	65,898,589	3,937	7.5%
6/30/2008					
	General	1,207	59,194,561	4,087	6.4%
	Safety	156	9,157,574	4,892	5.5%
	Probation	47	2,528,198	4,483	7.5%
	Total	1,410	70,880,333	4,189	6.4%
6/30/2009					
	General	1,164	60,045,883	4,299	5.2%
	Safety	143	9,057,202	5,278	7.9%
	Probation	62	3,132,010	4,210	-6.1%
	Total	1,369	72,235,095	4,397	5.0%
6/30/2010[(3)]					
	General	1,071			
	Safety	130			
	Probation	53			
	Total	1,254	69,004,002[(4)]	4,586[(4)]	4.3%
6/30/2011					
	General	955	53,294,624	4,650	
	Safety	122	8,238,933	5,628	
	Probation	52	2,610,208	4,183	
	Total	1,129	64,143,765	4,735	-0.7%[(5)]
6/30/2012					
	General	895	45,850,427	4,269	-8.2%
	Safety	120	8,021,174	5,570	-1.0%
	Probation	54	2,724,487	4,204	0.5%
	Total	1,069	56,596,088	4,412	-6.8%

(1) *Information for 6/30/2007 - 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average individual salary increases received by members who worked the full year.*

(3) *The payroll information presented in this schedule is not separated by plan type in the previous actuary's June 30, 2010 valuation report.*

(4) *Based on Segal's June 30, 2011 valuation report, total compensation, including a projection for expected salary increases during 2010/2011 under the actuarial assumptions used in the valuation, is $71,729,795. Monthly average pay with the projection equates to $4,767.*

(5) *Determined using Segal's calculation of monthly average pay with projection as of June 30, 2010 (i.e., $4,767, pursuant to footnote 4 above).*

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL[1]

	Added to Rolls		Removed from Rolls		Rolls- End of Year			
Valuation Date	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
6/30/2007					907	$14,827,000		$16,347
6/30/2008	82	$1,624,000	27	$252,000	962	16,199,000	9.3%	16,839
6/30/2009	77	1,921,000	31	352,000	1,008	17,768,000	9.7%	17,627
6/30/2010[2]					1,083	19,125,661[3]	7.6%	17,660
6/30/2011	71	1,624,933	25	205,558[4]	1,129	21,296,641	7.1%[4]	18,863
6/30/2012	108	2,599,055	20	388,743	1,217	23,506,953	10.4%	19,315

Note: Statutory COLAs are included in the "Added to Rolls" column.

(1) *Information from 6/30/2007 - 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *Information regarding members added to and removed from roll was not provided in the previous actuary's June 30, 2010 valuation report.*

(3) *This is the amount shown in the previous actuary's June 30, 2010 valuation report. Segal subsequently revised this amount to be $19,877,266 (which equates to an average annual allowance of $18,354) to correct for the annualization of the current service portion of the benefit for beneficiary records.*

(4) *Determined using Segal's corrected annual allowance as of 6/30/2010 of $19,877,266.*

SOLVENCY TEST[1]
(Dollars in Thousands)

		Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)					
Valuation Date	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	(1)	(2)	(3)
6/30/2007				$358,259	$317,937			
6/30/2008	$62,348	$199,072	$112,412	373,832	353,421	100%	100%	82%
6/30/2009	64,102	218,613	120,481	403,196	336,263	100%	100%	44%
6/30/2010[2]				434,987	343,202			
6/30/2011	53,600	287,201	131,843	472,644	347,732	100%	100%	5%
6/30/2012	51,090	312,531	125,393	489,014	362,487	100%	100%	0%

This exhibit includes actuarially funded liabilities and assets.

(1) *Information as of 6/30/2007 has been extracted from the previous actuary's June 30, 2007 valuation report. Information as of 6/30/2008 & 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *The breakdown of the aggregate accrued liabilities was not provided in the previous actuary's June 30, 2010 valuation report.*

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE[1]
Items Impacting Unfunded Actuarial Accrued Liability (UAAL)
(Dollars in Thousands)

Plan Year Ending 6/30	2012	2011	2010[2]	2009	2008	2007[2]
Beginning of the Year UAAL Liability (Surplus)	$124,913	$91,785	$66,933	$20,411	$40,322	$31,662
Effect of Differences in Methods and Procedures Due to Change in Actuaries	-	9,035		-	-	
Expected Change	6,929	7,638		805	(5,320)	
Liability (Gain)/Loss	1,937	-		19,978[3]	2,449[3]	
Asset Return (Gain)/Loss	3,647	15,266		29,934	(17,040)	
Salary Increase (Gain)/Loss	(13,844)	(11,363)		-	-	
Retiree COLA Increase (Gain)/Loss	-	(5,887)		-	-	
Change in Actuarial Assumptions and Procedures	2,945	24,043		-	-	
(Gain)/Loss Due to Reflecting Future Service Only Improvement for General Members	-	(5,604)		-	-	
Change in Method to Determine Actuarial Value of Assets	-	-		(4,195)	-	
End of the Year UAAL Liability (Surplus)	$126,527	$124,913	$91,785	$66,933	$20,411	$40,322

(1) *Information as of 6/30/2007 has been extracted from the previous actuary's June 30, 2007 valuation report. Information as of 6/30/2008 & 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*
(2) *The UAAL reconciliation was not provided in the previous actuary's valuation reports.*
(3) *Combined effect of liability (gain)/loss and change in actuarial assumptions.*

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS[1]
(Dollars in Thousands)

		Actual Market Return (net)	Expected Market Return (net)	Investment Gain / (Loss)	Deferred Factor	Deferred Return
1.	Market value of assets as of June 30, 2012					$342,737
2.	Calculation of deferred return:					
	(a) Year ended June 30, 2008	$(15,554)	$28,043	$(43,597)	see footnote (2) below	
	(b) Year ended June 30, 2009	(51,893)	26,211	(78,104)		
	(c) Year ended June 30, 2010	38,133	21,358	16,774		
	(d) Year ended June 30, 2011	64,075	23,640	40,435	75%	1,839
	(e) Year ended June 30, 2012	(4,078)	27,197	(31,275)	80%	(25,020)
	(f) Total unrecognized return					$(23,182)
3.	Preliminary actuarial value of assets as of June 30, 2012: (1) – (2f)					$365,919
4.	Adjustment to be within 25% corridor of market value					$0
5.	Final actuarial value of assets as of June 30, 2012: (3) + (4)					$365,919
6.	Actuarial value as a percentage of market value: (5) / (1)					106.8%
7.	Non-pension reserves:					
	Contingency reserve					$3,431
8.	Valuation value of assets: (5) – (7)					$362,487

Actuarial Value of Assets:
For purposes of calculating the required contribution rates for the valuation, a modified market value of the fund's assets is used. Under this approach, recognition is given each year to total earnings of the fund to date. The current method adjusts market value to recognize, over a five-year period, differences between assumed and actual investment return.

(1) *At the request of the Board, actual and expected market returns on assets on or before June 30, 2010 have been restated based on MCERA's audited financial statements. After the restatement, the unrecognized deferred gain as of June 30, 2011 was reduced from $3,101,790 to $2,451,350.*

(2) *Based on action taken by the Board in 2012, the total deferred return through June 30, 2011 (restated, based on the information in footnote 1 above) has been recognized in four level amounts, with three years of recognition remaining after the June 30, 2012 valuation.*

Note: Amounts may not total exactly due to rounding.

SUMMARY OF PLAN PROVISIONS

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2012.

Membership
Membership usually begins with the first day of the pay period following the date of entrance into service.

Final Compensation
For Tier 1, final compensation is defined as the highest consecutive twelve months of compensation earnable. For Tier 2 and Tier 3, final compensation is defined as the highest consecutive thirty-six months of compensation earnable.

Return of Contributions
If a member should resign or die before becoming eligible for retirement, his or her contribution plus interest may be refunded. In lieu of receiving a return of contributions, a member may elect to leave his or her contributions on deposit. Members with five years of service may choose to receive a deferred vested benefit when eligible for retirement.

Service Retirement Benefit
Members are eligible to retire at age 50 with 10 years of service, or age 70 regardless of service, or after 30 years of service (20 years for Safety and Probation), regardless of age.

Basis of Benefit Payments
Benefits are based upon a combination of age, years of service, final compensation, and the benefit payment option selected by the member. The maximum benefit payable to a member or beneficiary is 100% of final compensation.

Cost of Living Benefit
Future cost of living benefit changes are based on the Consumer Price Index (CPI) up to a maximum of 3% per year. Any excess CPI is "banked."

Disability Benefit
Members with 5 years of service, regardless of age, are eligible for a non-service connected disability. The benefit is 1.8% of final compensation for each year of service. Generally, the maximum benefit is 1/3 of final compensation. The benefit for a service connected disability is the greater of 50% of final compensation or the service retirement benefit (if eligible).

Death Benefit - Prior to Retirement
In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system. The death benefit is based on the salary earned during the last twelve months preceding the member's death, but not to exceed 6 month's salary.

If a member dies while eligible for service retirement or non-service connected disability, his or her spouse or domestic partner receives 60% of the allowance that the member would have received for retirement on the day of his or her death.

If a member dies in the performance of duty, the spouse or domestic partner will receive a lifetime benefit equal to 50% of the member's final compensation or a service retirement benefit whichever is higher.

Death Benefit - After Retirement
As part of the retirement process, members are required to select among several options for benefits continuation upon the member's death. For married retirees, the most common retirement option is the unmodified option, which pays the retiree's eligible spouse or domestic partner a lifetime benefit equal to 60% of the benefit the retiree was receiving.

Member's Contributions
Contribution rates for the employer and its covered employees are established and may be amended by the MCERA Board of Retirement, and then adopted by the County Board of Supervisors. The contribution rates are determined based on the benefit structure established by the employer. Members are required to contribute a percentage of their annual covered salary and their particular contribution rate is based upon age at entry into the Association. The employer is required to contribute the remaining amount necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates.

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Statistical Section

This Section provides additional detailed information in order to promote a more comprehensive understanding of this year's financial statements, note disclosures, and supplemental information. In addition, this section provides multiyear trends of the financial and operation information in order to facilitate the understanding of how the organization's financial position and performance have changed over time. This section provides contextual data for MCERA's changes in nets assets, benefit expenses, retirement types benefit payments and membership data.

SCHEDULE OF CHANGES IN NET ASSETS
(Last Ten Fiscal Years)

(Dollars in Thousands)	2012	2011	2010	2009	2008
Additions					
Employer Contributions	$ 11,811	$ 9,554	$ 8,234	$ 8,561	$ 7,269
Member Contributions	4,840	5,447	6,502	6,836	6,613
Net Investment Income	(4,078)	64,075	38,128	(52,214)	(15,846)
Total Additions	**12,573**	**79,076**	**52,864**	**(36,817)**	**(1,964)**
Deductions					
Benefits Payments	22,955	22,269	23,161	21,480	15,640
Refunds of Contributions	1,225	1,167	1,061	734	1,064
Health Benefits [1]	-	-	-	-	4,017
Administrative Expenses	698	640	641	280	134
Total Deductions	**24,879**	**24,076**	**24,863**	**22,494**	**20,855**
Change in Plan Net Assets	**$ (12,306)**	**$ 55,000**	**$ 28,001**	**$(59,311)**	**$(22,819)**

(Dollars in Thousands)	2007	2006	2005	2004	2003
Additions					
Employer Contributions	$ 7,231	$ 6,464	$ 6,481	$ 6,299	$ 82,960
Member Contributions	6,002	5,998	6,618	6,649	5,341
Net Investment Income	52,299	32,079	24,019	34,487	7,433
Total Additions	**65,532**	**44,541**	**37,118**	**47,435**	**95,734**
Deductions					
Benefits Payments	14,153	12,878	11,269	10,234	9,353
Refunds of Contributions	1,036	1,068	933	728	962
Health Benefits	3,382	3,410	2,680	2,759	2,257
Administrative Expenses	119	82	40	158	76
Total Deductions	**18,690**	**17,438**	**14,922**	**13,879**	**12,648**
Change in Plan Net Assets	**$ 46,842**	**$ 27,103**	**$ 22,196**	**$33,556**	**$83,086**

[1] For years 2009 – 2011, amounts for health benefits are included in benefit payments.

REVENUE BY SOURCE

(Dollars in Thousands)

Fiscal Year Ended 6/30	Employee Contributions	Employer/Other Contributions	Investment Net Income	Total
2003	5,341	82,960 [1]	7,433	95,734
2004	6,649	6,299	34,487	47,435
2005	6,618	6,481	24,019	37,118
2006	5,998	6,464	32,079	44,541
2007	6,002	7,231	52,299	65,532
2008	6,613	7,269	(15,846)	(1,964)
2009	6,836	8,561	(52,214)	(36,817)
2010	6,502	8,234	38,128	52,864
2011	5,447	9,554	64,075	79,076
2012	4,840	11,811	(4,078)	12,573

EXPENSES BY TYPE

(Dollars in Thousands)

Fiscal Year Ended 6/30	Benefits	Administrative/ Other Expenses	Refunds	Total
2003	9,353	2,333	962	12,648
2004	10,234	2,917	728	13,879
2005	11,269	2,720	933	14,922
2006	12,878	3,492	1,068	17,438
2007	14,153	3,501	1,036	18,690
2008	15,640	4,151	1,064	20,855
2009	21,480	280	734	22,494
2010	23,161	641	1,061	24,863
2011	22,269	640	1,167	24,076
2012	22,955	698	1,225	24,879

(1) The Employer Contribution for 2003 includes $76,299,000 from proceeds of Pension Obligation Bonds the County issued to reduce Unfunded Actuarial Accrued Liability.

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollars in Thousands)

	2012	2011[1]	2010	2009	2008
Service Retirement Payroll:					
General	14,864	$ 13,197	$ 12,112	$ 10,808	$ 9,960
Safety	2,500	2,477	2,267	1,799	1,664
Total	17,364	15,674	14,379	12,607	11,624
Disability Retirement Payroll:					
General	2,074	1,987	1,970	1,815	1,751
Safety	1,903	1,832	1,823	1,654	1,590
Total	3,977	3,819	3,793	3,469	3,341
Beneficiary Payroll:					
General	1,487	1,335	679	1,269	1,171
Safety	485	471	275	422	404
Total	1,972	1,806	954	1,691	1,575
Total Benefit Expense:					
General	18,425	16,519	14,761	13,892	12,882
Safety	4,889	4,780	4,365	3,875	3,658
Total	$ 23,313	$ 21,299	$ 19,126	$ 17,767	$ 16,540

	2007	2006	2005	2004	2003
Service Retirement Payroll:					
General	8,688	7,855	7,321	6,143	5,890
Safety	1,532	1,129	822	563	337
Total	10,220	8,984	8,143	6,706	6,227
Disability Retirement					
Payroll:	1,683	1,566	1,410	1,273	1,161
General	1,432	1,346	1,176	1,113	1,039
Safety					
Total	3,115	2,912	2,586	2,386	2,200
Beneficiary Payroll:					
General	1,138	1,001	971	886	826
Safety	359	352	314	297	278
Total	1,497	1,353	1,285	1,183	1,104
Total Benefit Expense:					
General	11,509	10,422	9,702	8,302	7,877
Safety	3,323	2,827	2,312	1,973	1,654
Total	$ 14,832	$ 13,249	$ 12,014	$ 10,275	$ 9,531

[1] **Estimated Based upon Annualized Benefit Amounts as of June 30, 2011.**

Source of Data: Actuarial Valuation Reports (2003 – 2012)

SCHEDULE OF RETIREE MEMBERS BY TYPE OF BENEFIT
(Summary of Monthly Allowances Being Paid – As of June 30, 2012)

(Dollars in Thousands)

2011	**General Members**		**Safety Members**		**Total**	
	Number	**Monthly Allowance**	**Number**	**Month Allowance**	**Number**	**Monthly Allowance**
Retired Members						
Service Retirement	747	$ 1,100	77	$ 206	824	$ 1,306
Disability	113	165	56	153	169	318
Beneficiaries	107	111	29	39	136	150
Total Retired Members	967	$ 1,376	162	$ 398	1,129	$ 1,774

(Dollars in Thousands)

2012	**General Members**		**Safety Members**		**Total**	
	Number	**Monthly Allowance**	**Number**	**Month Allowance**	**Number**	**Monthly Allowance**
Retired Members						
Service Retirement	822	$ 1,239	83	$ 208	905	$ 1,447
Disability	114	173	56	159	170	332
Beneficiaries	113	124	29	40	142	164
Total Retired Members	1,049	$ 1,536	168	$ 407	1,217	$ 1,943

Source of data: June 30, 2011 and June 30, 2012 Actuarial Valuation Report

SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS

	Number of Years Since Retirement						
	0-4	5-9	10-14	15-19	20-24	25-29	30 +
Valuation date 06/30/12							
Average Monthly Benefit	$ 1,771	$1,683	$1,343	$1,452	$1,613	$1,314	$1,297
Number of Retirees	426	319	151	113	93	70	45
Valuation date 06/30/11							
Average Monthly Benefit	$ 1,777	$ 1,577	$ 1,379	$ 1,488	$ 1,429	$ 1,462	$ 975
Number of Retirees	396	271	157	126	83	56	40
Valuation date 06/30/10							
Average Monthly Benefit	$ 1,699	$ 1,363	$ 1,361	$ 1,429	$ 1,280	$ 1,324	$ 1,123
Number of Retirees	387	243	152	123	82	57	39
Valuation date 06/30/09							
Average Monthly Benefit	$ 1,707	$ 1,296	$ 1,361	$ 1,473	$ 1,337	$ 1,135	$ 1,229
Number of Retirees	371	190	154	117	80	62	34
Valuation date 06/30/08							
Average Monthly Benefit	$ 1,687	$ 1,262	$ 1,302	$ 1,533	$ 1,177	$ 1,150	$ 1,120
Number of Retirees	356	183	141	103	85	70	22
Valuation date 06/30/07							
Average Monthly Benefit	$ 1,564	$ 1,284	$ 1,288	$ 1,433	$ 1,116	$ 1,061	$ 967
Number of Retirees	322	171	130	111	88	63	22
Valuation date 06/30/06							
Average Monthly Benefit	$ 1,454	$ 1,307	$ 1,267	$ 1,276	$ 1,174	$ 909	$ 863
Number of Retirees	275	172	149	104	78	56	18
Valuation date 06/30/05							
Average Monthly Benefit	$ 1,345	$ 1,321	$ 1,293	$ 1,157	$ 1,061	$ 876	$ 705
Number of Retirees	248	170	142	100	84	51	14
Valuation date 06/30/04							
Average Monthly Benefit	$ 1,163	$ 1,219	$ 1,270	$ 1,137	$ 964	$ 902	$ 585
Number of Retirees	199	171	134	100	91	42	12
Valuation date 06/30/03							
Average Monthly Benefit	$ 1,169	$ 1,096	$ 1,305	$ 1,028	$ 975	$ 780	$ 811
Number of Retirees	198	154	123	107	92	36	7

Source of data: Actuarial Valuation Reports (2003 – 2012). Data on Final Average Salary is not available and not included in this table.

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS
As of June 30

	Total Employees	County of Mendocino	Russian River Cemetery District	Superior Court
Year 2012				
Number of Covered Employees	1,069	1,011	4	54
Percentage to Total System	100%	94.57%	.37%	5.05%
Year 2011				
Number of Covered Employees	1,129	1,065	4	60
Percentage to Total System	100%	94.33%	.35%	5.32%
Year 2010				
Number of Covered Employees	1,254	1,186	5	63
Percentage to Total System	100%	94.58%	.40%	5.02%
Year 2009				
Number of Covered Employees	1,369	1,294	5	70
Percentage to Total System	100%	94.52%	.37%	5.11%
Year 2008				
Number of Covered Employees	1,410	1,335	5	70
Percentage to Total System	100%	94.68%	.36%	4.96%
Year 2007				
Number of Covered Employees	1,395	1,314	5	76
Percentage to Total System	100%	94.19%	.36%	5.45%
Year 2006				
Number of Covered Employees	1,312	1,225	5	82
Percentage to Total System	100%	93.37%	.38%	6.25%
Year 2005				
Number of Covered Employees	1,333	1,258	6	69
Percentage to Total System	100%	94.37%	.45%	5.18%
Year 2004				
Number of Covered Employees	1,400	1,338	6	56
Percentage to Total System	100%	95.57%	.43%	4.00%
Year 2003				
Number of Covered Employees	1,472	1,418	5	49
Percentage to Total System	100%	96.33%	.34%	3.33%

Source of data: MCERA systems.