# MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

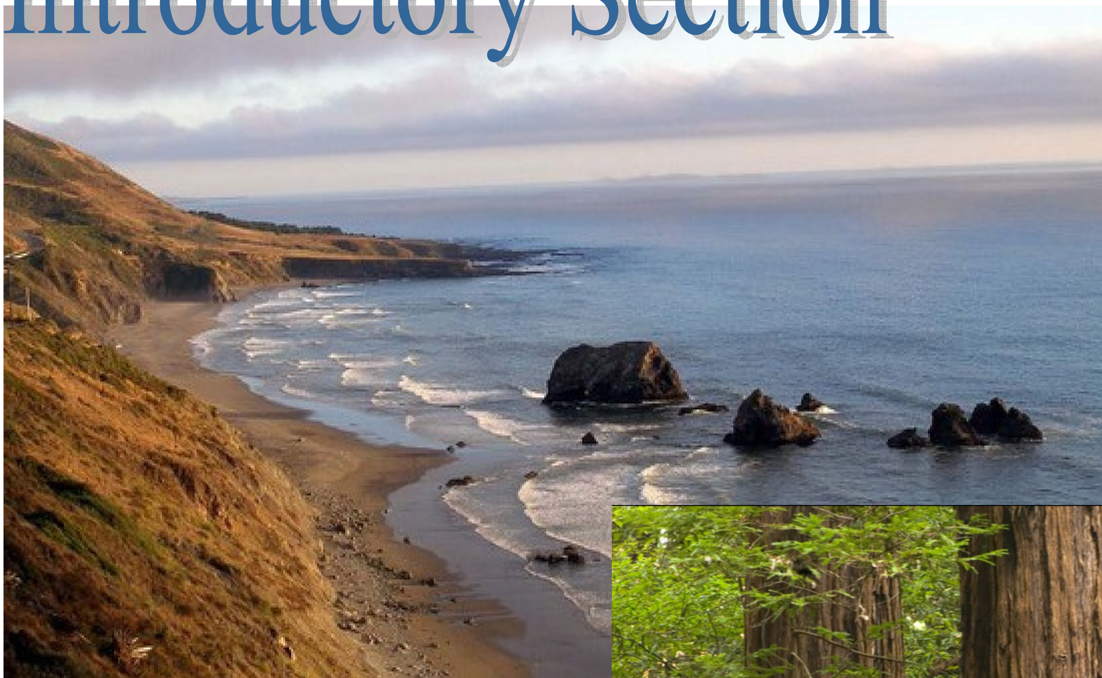
(Pension Trust Fund and Component Unit of the County of Mendocino, California)

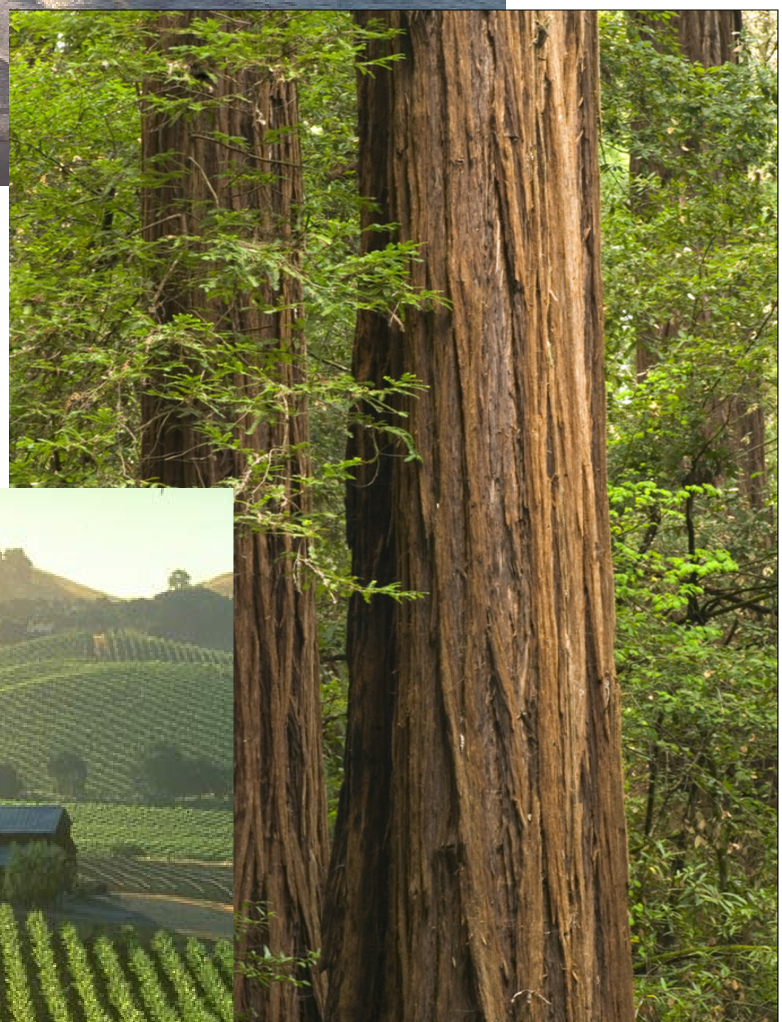
# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2009

# TABLE OF CONTENTS

# Introductory Section





James M. Andersen
Retirement Administrator

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

August 4, 2010

Board of Retirement
Mendocino County Employees' Retirement Association
Ukiah, CA 95482

Dear Board Members:

Please find enclosed the annual financial report of the Mendocino County Employees' Retirement Association (MCERA) for the fiscal year ending June 30, 2009.

MCERA is a multi-agency public employees' retirement system, established by the County of Mendocino on January 1, 1948. MCERA is operated and administered by the Board of Retirement (Board) to provide retirement, disability, death and survivors benefits for its members under the California State Government Code, Section 31450 et seq. (County Employees' Retirement Law of 1937).

Report Contents

MCERA management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of financial information within this CAFR, including all disclosures. The Comprehensive Annual Financial Report is divided into four sections:

The *Introductory Section* describes the organization and structure of MCERA, including this transmittal letter and a list of professional consultants.

The *Financial Section* presents the basic financial statements, report of the independent auditor, management discussion and analysis and supplemental schedules and notes to the financial statements.

The *Investment Section* reports on investment activity, investment policy, asset allocation and diversification and historical investment performance.

The *Actuarial Section* communicates the Plan's funding status and presents related actuarial information. It also contains the actuarial certification, actuarial assumptions and statistics and general plan information.

## MCERA and its Services

MCERA was established by Mendocino County to provide retirement allowances and other benefits to general and safety members employed by Mendocino County. Currently Mendocino County and 2 participating agencies are members of MCERA. The participating agencies are:

Mendocino County Superior Courts
Russian River Cemetery District

MCERA is governed by the California Constitution, the County Employees Retirement Law of 1937 (CERL), and the bylaws, regulations, policies and procedures adopted by the Board of Retirement. The Mendocino County Board of Supervisors may also adopt resolutions, as permitted by CERL, which may affect benefits to MCERA members.

The Board of Retirement is responsible for the management of MCERA and is comprised of nine members and one alternate member, the alternate member is a retiree alternate. Four board members are appointed by the Mendocino County Board of Supervisors, one board member is elected by the safety members, two board members are elected by the general members, and one board member and the alternate retiree member are elected by the retired members. The County Treasurer serves as an ex-officio member. Board members, with the exception of the County Treasurer, serve three-year terms with no term limits.

## Financial Information

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due or made. Investments are recorded at the fair market value of the assets.

An overview of MCERA's fiscal operations for the year ended June 30, 2009, is presented in Management's Discussion and Analysis (MD&A) located in the financial section of the CAFR. This transmittal letter, together with MD&A, provides an expanded view of the activities of MCERA.

MCERA's independent auditor, Jim Sligh, CPA, has audited the accompanying financial statements. Management believes an adequate system of internal control is in place and the accompany statements, schedules and tables are fairly presented and free from material misstatements.

## Actuarial Funding Status

MCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan status and obtaining optimum investment returns. Pursuant to CERL, MCERA engages an independent actuary to perform an actuarial valuation of the system on an annual basis. Economic assumptions are reviewed annually. Additionally, every three years, a triennial experience study is conducted, at which time non-economic assumptions are also updated. The most recent triennial experience study was conducted as of June 30, 2008 by Buck Consultants. Buck Consultants conducted the last actuarial valuation as of June 30, 2009 and determined the plan's funding ratio (ratio of plan assets to plan liabilities) to be 83.4% using the recommended assumptions.

Mendocino County issued $31 million of pension obligation bonds in December 1996 and $76 million of pension obligation bonds in December 2002 to satisfy the Unfunded Accrued Actuarial Liability (UAAL) for the County, calculated as of that date. A more detailed discussion of funding is provided in the Actuarial Section of this report.

## Investments

The Board of Retirement has exclusive control of all MCERA investments and is responsible for establishing investment objectives, strategies and policies. The California Constitution and Government Code Sections 31594 and 31595 authorized the Board of Retirement to invest in any investment deemed prudent in the Board's opinion.

The Board has adopted an Investment Policy, which provides a framework for the management of MCERA's investments. This policy establishes MCERA's investment objectives and defines the duties of the Board of Retirement and investment managers. The asset allocation is an integral part of the Investment Policy Statement and is designed to provide an optimum mix of asset classes with return expectations to insure growth of assets to meet future liabilities, minimize employer contributions and defray reasonable administrative costs. MCERA engages an Investment Consultant to analyze its investment policy and strategy, and to conduct periodic asset allocation studies. For fiscal years ended June 30, 2009 and June 30, 2008, the Plan's investments provided a (16.5%) and (3.82%) rate of return respectively. A summary of the asset allocation can be found in the Investment Section of this report.

## Service Efforts and Accomplishments

MCERA administration and staff moved to Suite B of the office building located at 625 Kings Court, Ukiah, CA in September 2007. MCERA is the legal owner of the office building. The building was purchased as a real estate investment for MCERA and approximately 2/3 of the building is leased to a department of the State of California.

## Acknowledgements

The compilation of this report reflects the combined efforts of people on MCERA's staff. It is intended to provide reliable information as the basis for making management decisions, as a means for determining compliance with legal provisions and as a means of determining responsible stewardship of the funds of MCERA. Both the accuracy of the data presented and the completeness and fairness of the presentation of the CAFR is the responsibility of the management of MCERA.

I congratulate the Board, staff and service providers of the Association for their commitment to MCERA and for their diligent work to assure the continued successful operation of MCERA.

Respectfully submitted,

James M. Andersen

James M. Andersen
Retirement Administrator

## BOARD OF RETIREMENT
## JUNE 30, 2009

*Tim Pearce*, Chair
Elected by Active Safety Membership

*Bob Mirata*, Vice – Chair
Appointed by the Board of Supervisors

*Dennis Huey*, Secretary
Elected by Retired Membership

*Shari Schapmire*, Ex-Officio trustee
Treasurer – Tax Collector

*Randy Goodman*, Trustee
Elected by Active General Membership

*Lloyd Weer*, Trustee
Elected by Active General Membership

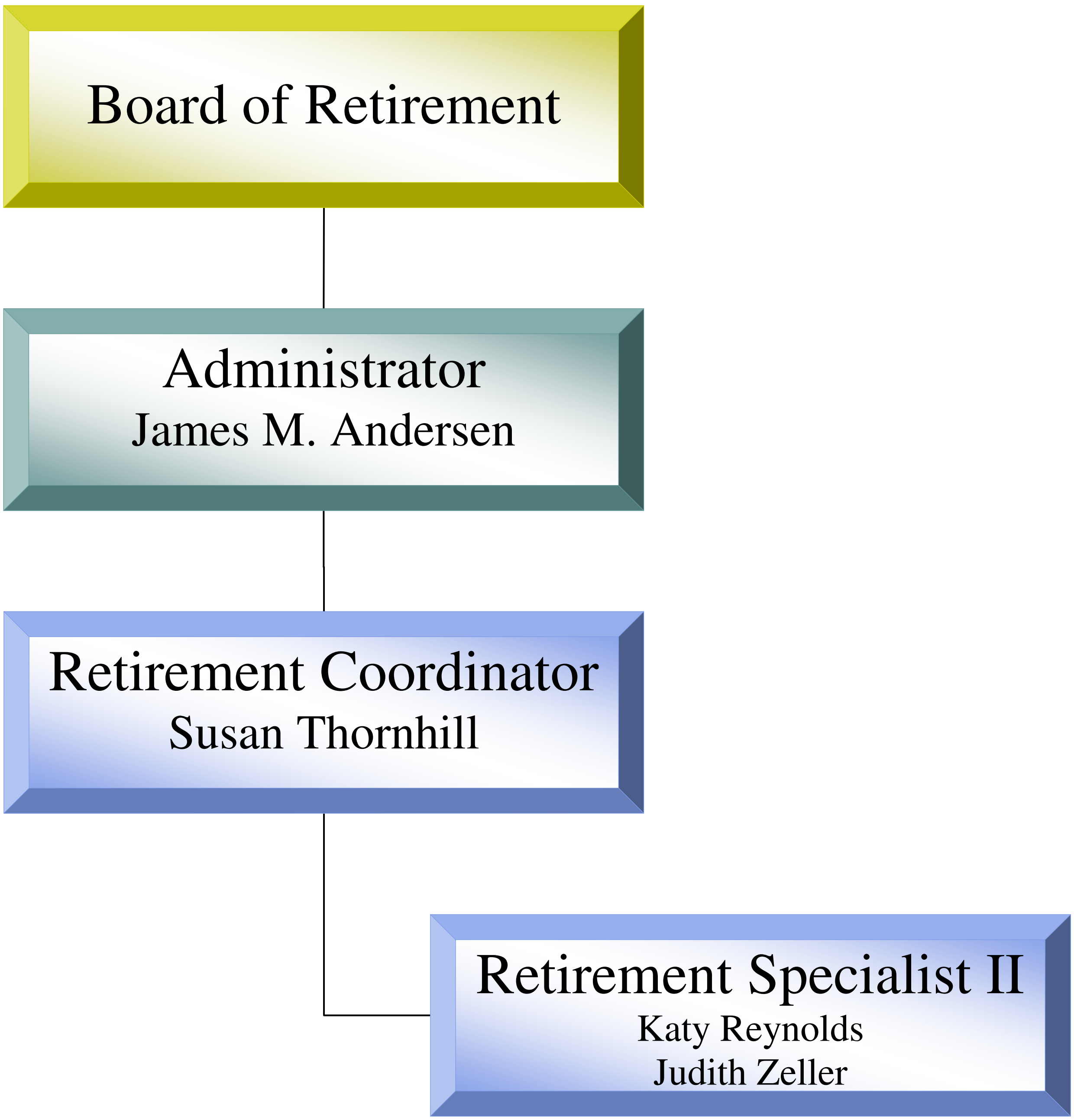
*Dr. Donald Coursey*, Trustee
Appointed by the Board of Supervisors

*Kendall Smith*, Trustee
Appointed by the Board of Supervisors

*Caren Callahan*, Trustee
Appointed by the Board of Supervisors

*Tim Knudsen*, Alternate Trustee
Elected by Retired Membership

## MCERA ORGANIZATION CHART
AS OF JUNE 30, 2009



# PROFESSIONAL CONSULTANTS

## Consulting Services

*Actuary*
Buck Consultants

*Auditor*
V. James Sligh, MBA, CPA

*Investment Custodian*
The Bank of New York

*Investment Consultant*
Callan Associates

*Legal Counsel*
County Counsel, County of Mendocino
Law Office of Tony Graham

*Technical and Data Service*
Munis Tyler Technologies

## Investment Management Services

*Fixed Income*
Bradford, & Marzec
Dodge & Cox

*Large Cap Value Equity*
Selected American
Investment Co. of America
Vanguard Growth & Inc
Dodge & Cox Stock

*Large Cap Growth Equity*
American Growth
Harbor Capital Appreciation
Janus Research

*Mid Cap Growth Equity*
Morgan Stanley
Janus Enterprise

*Mid Cap Value Equity*
Fidelity Low Priced Stock
Royce Total Return

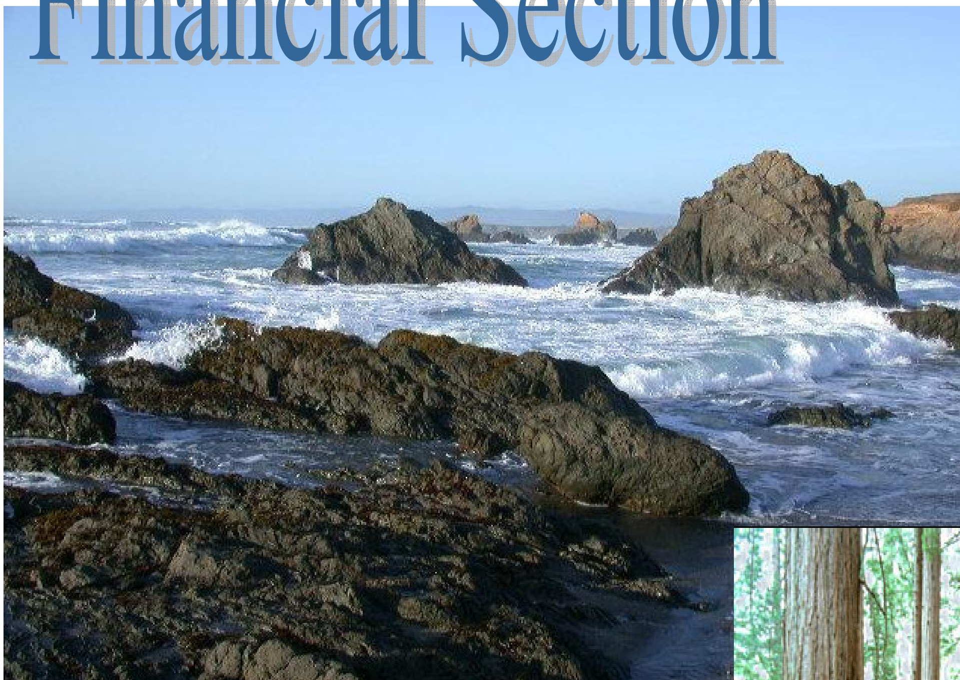
*Small Cap Growth Equity*
Alliance
R S Investments
Fremont U.S. Micro Cap

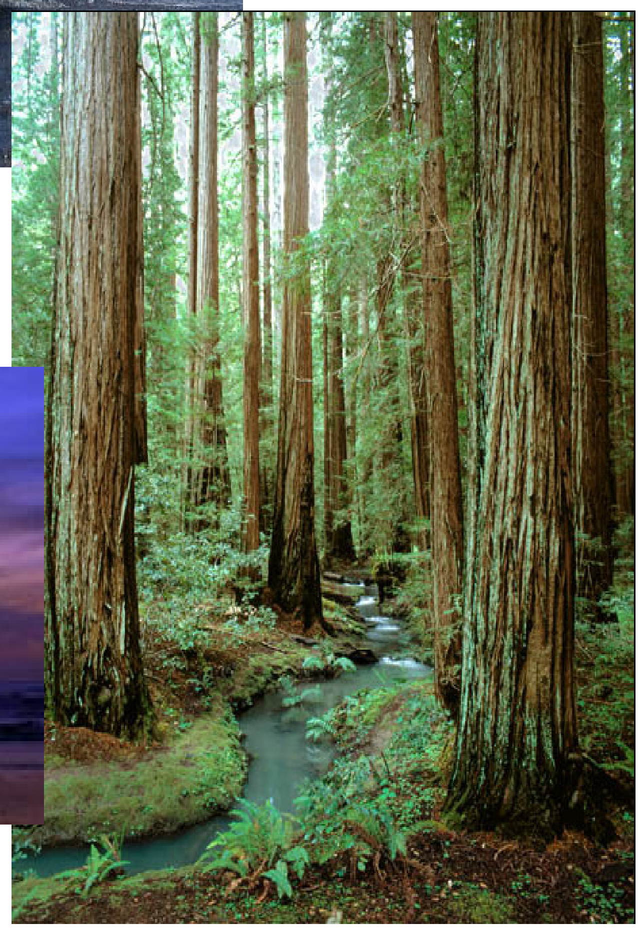
*Small Cap Value Equity*
Vanguard Small Cap Index

*International Equity*
Europacific
Harbor International
Acorn International
Artisan
Janus International
Oakmark

*Real Estate*
RREEF Commingled Fund
RREEF America REIT II

# Financial Section





V. James Sligh
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E-Mail slick@pacific.net

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

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying statement of plan net assets of the Mendocino County Employees' Retirement Association (Association), component unit of the County of Mendocino, California, as of June 30, 2009, and the related statement of changes in plan net assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Mendocino County Employees' Retirement Association as of June 30, 2009, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 31, 2009, on my consideration of the Association's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 12 through 15, and other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, supplementary information section, investment section, and the actuarial section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, as described in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2009, taken as a whole. The introductory, investment, and actuarial sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

V. James Sligh

V. James Sligh, CPA
Ukiah, California
December 31, 2009

## Management's Discussion and Analysis

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2009. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

As is typical of a CAFR, the following information is primarily a restatement of the Management's Discussion and Analysis (MD&A) section of the external audit conducted for the period ending June 30, 2009. This CAFR continues to restate as accurately as possible the information contained in the external audit. Upon review, staff believes that, while the numbers and tables are accurate, the narrative of the MD&A, and by extension the CAFR, does not describe the changes in market conditions and the Association's financial condition as completely and eloquently as we would like. For the period ending June 30, 2010, staff of MCERA will be making improvements and expanding the narrative of the MD&A section of both financial documents.

### Financial Highlights

MCERA net assets as of June 30, 2009 are $272 million. This amount reflects a decrease of 17.9% in net assets during Fiscal Year 2008-2009, primarily as a result of a net investment loss of $61.9 million from the prior year.

MCERA's funding objective is to meet the long-term benefit obligations through contributions and investment income. As of June 30, 2009 the date of our last actuarial valuation, the funding ratio was 83.4%. In general, this indicates that for every dollar of benefits owed we had approximately $.83 ½ of assets available for payment as of that date.

Revenues (additions to plan assets) for the year were $-36.5 million. This was comprised of $8.9 million of employer contributions, $6.8 million of member contributions and an investment return of $-52.2 million. The employer contributions increased by 17.8% (*correction to Audit MD&A*), due to increased contribution rates paid by the county, and employee contributions increased by 3.4% during the fiscal year.

Expenses (deductions in plan assets) for the year were $22.8 million, an increase of $1.7 million or 8% over the prior year. The increase in expenses primarily came from a $1.8 million (9.3%) (*correction to Audit MD&A*) increase in pension benefits. Administrative expenses increased $176,000 (41.3%) from the prior year.

### Overview of Financial Statements

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

- Statement of Plan Net Assets (page 17)
- Statement of Changes in Plan Net Assets (page 18)
- Notes to the Financial Statements (page 19)

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

The Statement of Changes in Plan Net Assets 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.

Both statements are in compliance with Government Accounting Standards Board (GASB) Statements No. 25, 28, 33, 34, 37, and 38. These pronouncements require certain disclosures and also require the state and local governments to report the full accrual method of accounting. MCERA complies with all material aspects of the pronouncements.

The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets report information about MCERA activities. These statements include all assets and liabilities, using the full accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments. All capital assets are depreciated over their useful lives.

Over time, increases and decreases in MCERA's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring MCERA's overall financial health.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Please note that this report also contains other supplemental information in addition to the basic financial statements themselves.

**MCERA's Net Assets**
For the Fiscal Years ended June 30, 2009 and 2008
(Dollars in Thousands)

| | **2009** | **2008** | **Amount Increase/ (Decrease)** | **% Change Increase/ (Decrease)** |
|---|---|---|---|---|
| Cash and Short Term Investments | 16,021 | 12,552 | 3,469 | 27.6% |
| Receivables | 1,843 | 3,996 | (2,153) | (53.9)% |
| Investments, at Fair Value | 254,779 | 316,696 | (61,917) | (19.6)% |
| Total Assets | 272,643 | 333,244 | (60,601) | (18.2)% |
| | | | | |
| Accounts Payable | 83 | 77 | 6 | 7.8% |
| Accrued Expenses | 24 | 4 | 20 | 500% |
| Investment Purchases | 495 | 1,810 | (1,315) | (72.6)% |
| Total Liabilities | 602 | 1,891 | (1,289) | (68.2)% |
| | | | | |
| Net Assets Held in Trust for Benefits | 272,041 | 331,352 | (59,311) | (17.9)% |

## The Retirement Fund as Whole

MCERA's net assets decreased 17.9% in 2009 reflecting negative investment returns of -16.5%. However, investment returns can vary significantly from year to year. MCERA maintains a diversified investment portfolio and asset allocation that is structured to meet the long term funding requirements of the plan. Despite variations in the stock market, 5 year investment returns, net of fees, are 3.33% (*amended from the audit MD&A*). MCERA Management and Actuary concur that MCERA remains in a financial position that will enable the plan to meet its obligations to participants and beneficiaries. The current financial position results from a strong and successful investment program, risk management and strategic planning.

## Investment Analysis

Investment returns decreased in 2009 with a negative -16.5% return at the total portfolio level. The period 2000 through 2002 included a very unusual three-year double digit decline in the U.S. stock market. The five year annualized portfolio return was 3.33%, net of fees (*amended from the audit MD&A*).. MCERA's asset allocation includes 39% U.S. equities, 20% international equities, 31% fixed income and 10% real estate. MCERA's asset allocation is based on a comprehensive investment policy. MCERA's total portfolio returns were -16.5%, -1.76% and 3.33% for the one, three and five year periods ended June 30, 2009, respectively. Real estate, included in the total portfolio percentage mentioned above, returned -2.26% from October 2004 through June 30, 2009.

**MCERA's Reserves**

For the Fiscal Years ended June 30, 2009, 2008 and 2007

(Dollars in Thousands)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Member Reserve | 64,102 | 62,348 | 58,036 |
| Employer Reserve | (2,560) | 3,459 | 10,687 |
| Annuitant Reserve | 155,083 | 150,148 | 132,687 |
| Cost of Living Reserve | 83,221 | 83,594 | 78,488 |
| Retiree Health Insurance Reserve | 6,345 | | |
| Contingency Reserve | 2,720 | 3,314 | 3,542 |
| Miscellaneous Reserves | 7 | 4 | (8) |
| Total Reserves | 308,919 | 302,867 | 283,432 |

## Reserves

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 loses. This has the effect of smoothing both positive and negative fluctuations in investment performance versus assumptions and has a stabilizing effect on contribution rates. An understanding of the smoothing methodology is an essential part in measuring MCERA's overall financial health.

**Additions to MCERA's Net Assets (1)**

For the Fiscal Years ended June 30, 2009 and 2008
(Dollars in Thousands)

| | 2009 | 2008 | Amount Increase/ (Decrease) | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Employer Contributions | 8,561 | 7,269 | 1,292 | 17.8% |
| Member Contributions | 6,836 | 6,613 | 223 | 3.4% |
| Administrative Expense Reimbursement | 322 | 292 | 30 | 10.3% |
| Net Investment Income | (52,214) | (15,846) | (36,368) | 229.5% |
| Total Additions | (36,495) | (1,672) | (34,823) | 2082.7% |

**Deductions to MCERA's Net Assets**

For the Fiscal Years ended June 30, 2009 and 2008
(Dollars in Thousands)

| | 2009 | 2008 | Amount Increase/ (Decrease) | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Retirement Benefits | 16,620 | 15,640 | 980 | 6.3% |
| Health Benefits | 4,860 | 4,017 | 843 | 21.0% |
| Refund of Contributions | 734 | 1,064 | (330) | -31.0% |
| Administrative Expenses | 602 | 426 | 176 | 41.3% |
| Total Deductions | 22,817 | 21,147 | 1,670 | 7.9% |
| | | | | |
| **Change in Net Assets** | (59,312) | (22,819) | (36,493) | 159.9% |

(1) The Additions to MCERA's Net Assets table has been amended from the past year to mirror the schedule prepared by the external auditor. This table removes Administrative Expense Reimbursement from Employer Contributions and establishes a separate line for that addition to Net Assets.

## Revenues (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, 2009 totaled $-36.5 million. The decrease in revenues can be attributed primarily to a negative investment income offset by slightly higher employee contributions, caused by the enhancement of benefits in October 2003. The decrease in investment income is primarily a result of world-wide recession and collapse in equity markets. The total balance of investment assets decreased from approximately $317 million in 2008 to $254 million in 2009 (*correction to Audit MD&A*). Return on investment was a negative return of -16.5% in 2009.

## Expenses (Deductions in Plan Assets)

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refund of contributions to terminated employees, and the cost of administering the system. These expenses for the fiscal year ended June 30, 2009 were $602 thousand, an increase of $176 thousand (41%), compared to expenses of $426 thousand for the year ended June 30, 2008. Pension benefits increased 6.3% primarily due to an increase in the number of retirees and average retiree payroll.

## Fiduciary Responsibility

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

## STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS
## As of June 30, 2009

### ASSETS

| | |
|---|---|
| Cash and Cash Equivalents | 16,021,408 |
| | |
| Receivables | |
| Employers | 62,607 |
| Investment Sales | 630,928 |
| Interest and Dividends | 1,145,550 |
| Other Receivables | 4,266 |
| Total Receivables | 1,843,351 |
| | |
| Investments, at fair value | |
| U.S. Government Bonds | 32,731,309 |
| International Bonds | 4,888,512 |
| Domestic Corporate Bonds | 62,002,452 |
| Domestic Stocks | 88,805,143 |
| International Stocks | 45,196,570 |
| Real Estate | 21,154,632 |
| Total Investments | 254,778,618 |
| | |
| Total Assets | 272,643,377 |

### LIABILITIES

| | |
|---|---|
| Accounts Payable | 83,391 |
| Accrued Expenses | 23,921 |
| Investment Purchases | 495,155 |
| Total Liabilities | 602,467 |
| | |
| Net Assets Held in Trust for Pension Benefits | 272,040,910 |

(A schedule of funding progress is included in the accompanying Required Supplementary Information)

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS
### For the year ended June 30, 2009

| | |
|---|---|
| **ADDITIONS** | |
| Contributions | |
| Employer | 8,561,368 |
| Plan Members | 6,836,202 |
| Total Contributions | 15,397,570 |
| | |
| Other Income | |
| Employer Reimbursement of | |
| Administrative Expenses | 321,910 |
| Total Other Income | 321,910 |
| | |
| Investment Income | |
| Net Appreciation (Depreciation) | |
| In Fair Value of Investments | (61,420,271) |
| Building Income Net of Expenses | 91,191 |
| Interest | 6,019,378 |
| Dividends | 3,531,770 |
| Total Investment Income | (51,777,932) |
| Less Investment Expenses | 436,606 |
| Net Investment Income (Loss) | (52,214,538) |
| Total Additions | (36,495,058) |
| | |
| **DEDUCTIONS** | |
| Retirement Benefits | 17,366,916 |
| Refund of Contributions | 734,403 |
| Health Care Benefits | 4,113,551 |
| Administrative Expenses | 601,879 |
| Total Deductions | 22,816,749 |
| | |
| Net Increase (Decrease) | (59,311,807) |
| | |
| Net Assets Held in Trust | |
| for Pension Benefits | |
| Beginning of Year | 331,352,717 |
| End of Year | 272,040,910 |

The accompanying notes are an integral part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

For the Year ended June 30, 2009

## Summary of Significant Accounting Policies

### 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.

### Cash and Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage securities are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. 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 the Association's investments. The Investment policy establishes the Association'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. The Association currently employs investment managers to manage its assets subject to the provisions of the Investment Policy.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash in trust with the Treasurer of the County of Mendocino and cash held for investment by bond investment managers. 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. Cash and cash equivalents are highly liquid investments with a short maturity and are recorded at cost, which approximates fair value.

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, 2009, are as follows:

| | |
|---|---|
| Cash in Trust - Mendocino County | 16,021,391 |
| Short-Term Investments - LAIF | 17 |
| Total Cash Equivalents | 16,021,408 |
| | |
| U.S. Government and Agency Bonds | 32,731,309 |
| International Bonds | 4,888,512 |
| Corporate Bonds | 62,002,452 |
| Domestic Stocks - Mutual Funds | 86,352,155 |
| Domestic Stocks | 2,452,988 |
| International Stocks - Mutual Funds | 45,196,570 |
| Real Estate | 21,154,632 |
| Total Investments | 254,778,618 |
| | |
| Total Cash Equivalents and Investments | 270,800,026 |

In addition, at June 30, 2009, there are short-term investments of $638,922 at the Bank of New York, and $206,413 at PIMCO Fund (a bond mutual fund) that are reported in the financial statements as interest, dividends, and investment sales receivable because these amounts represent current period earnings and securities sales that are to be immediately transferred to the Association. At June 30, 2009 the Association was owed $630,928 by investment managers for sales of securities.

## Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a failure in a depository financial institution, a government will not be able to recover its deposits or recover collateral securities that are in the possession of an outside party.

Custodial risk for deposits in the Mendocino County trust is assumed by the County of Mendocino. Short-term investments with the Bank of New York are not insured and are subject to risk of loss through market fluctuations, but risk of loss for fraudulent acts and lack of fidelity on the part of investment managers is covered by fidelity bonds for the Bank of New York investments. All the above short-term investments are stated at fair value.

In accordance with GASB Statement No. 40 disclosure requirements, cash invested in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Except for a statement that duties of the Board of Retirement, Association officers and employees shall be discharged with care, skill, prudence, and diligence, the Association has no formal policy for managing custodial credit risk.

## Credit Risk

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

| | Minimum | Maximum | Target |
|---|---|---|---|
| Fixed Income | 30% | 50% | 31% |
| United States Stocks | 25% | 45% | 35% |
| United States Small Cap Stocks | 5% | 15% | 7% |
| International Stocks | 0% | 25% | 17% |
| Real Estate | 0% | 10% | 10% |
| Short Term Cash | 0% | 5% | 0% |

The Association's Investment Policy does not allow for a single investment in real estate that is in excess of 5% of total assets. No single common stock investment, based on cost, shall exceed 2% of the assets of the Association, and may not exceed 5% of the shares outstanding. With respect to common stocks, the Association 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. Single security restrictions do not apply to investments in mutual funds. For fixed income investments, corporate debt issues must be rated "A" or better by the Standard and Poor corporation (S&P). An exception to this policy is that one particular fixed income investment manager is authorized to purchase corporate debt issues with a "BBB" rating by S&P to the extent of 25% of the total portfolio if the weighted average rating of the portfolio remains at "AA". Other fixed income securities allowed by the Association are instruments issued by agencies of, or guaranteed by, the U.S. Government; United States Treasury Bonds, Notes and Bills; certificates of deposit and Bankers Acceptances; Commercial paper of the highest quality. No more than 20% of the portfolio managed by one particular investment manager shall be invested in non-U.S. dollar bonds.

As of June 30, 2009, the Association's quality distribution of fixed income investments was as follows:

| Quality (S&P) | Percentage of Total Fixed Income Securities |
|---|---|
| U.S. Treasury | 4.1% |
| Government Agency | 31.0% |
| AAA | 14.2% |
| AA | 2.1% |
| A | 21.5% |
| BAA | 19.5% |
| BA | 3.1% |
| Other | 4.5% |
| | 100.0% |

The above analysis of quality distribution of fixed assets does not include fixed income investments in PIMCO Funds. No specific quality or duration data is available from PIMCO. Duration does not appear relevant for PIMCO Funds because it is a mutual fund and the Association does not own specific fixed income investments in the fund, and shares in the mutual fund owned by the Association have no maturity. The total fair market value of PIMCO shares owned by the Association at June 30, 2009 is $41,492,191. Interest income of $680,716 attributable to PIMCO Funds for the Year ended June 30, 2009, includes an undetermined amount of short term capital gains because all earnings of the fund are lumped together and labeled "Dividends & Short-Term Capital Gains" because it is a mutual fund.

## Interest Rate Risk

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

As of June 30, 2009, the Association had the following fixed income investments:

| Investment Type | Fair Value | Weight of Total Fixed Income | Effective Duration (In Years) |
|---|---|---|---|
| U.S. Treasuries | 2,377,578 | 4.09% | 2.31 |
| Government Agencies | 3,683,471 | 6.34% | 5.37 |
| Asset-Backed Securities | 1,794,129 | 3.09% | 0.30 |
| Corporate Bonds | 29,382,057 | 50.54% | 5.50 |
| Mortgages | 19,738,632 | 33.95% | 3.00 |
| International | 1,154,215 | 1.99% | 6.58 |
| Bond Mutual Fund (PIMCO) | 41,492,191 | NA | NA |
| Total Fair Value | 99,622,273 | 100.00% | |
| Portfolio Effective Duration | | | 4.25 |

## Highly Sensitive Investments

As of June 30, 2009, there were no investments that were sensitive to interest rate fluctuations.

## Derivatives

The Association'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. The Association does not use derivatives for speculative use or to create leverage.

During the year ended June 30, 2009 the Association had no derivatives in its portfolio.

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following tables represent securities held in a foreign currency (in U.S. dollars) as of June 30, 2009:

| Local Currency Name | Cash | Equity | Fixed Income | Total |
|---|---|---|---|---|
| Australian Dollars | 1,001 | 0 | 152,728 | 153,729 |
| Germany - Euros | 0 | 0 | 664,385 | 664,385 |
| New Zealand Dollars | 0 | 0 | 337,102 | 337,102 |
| Total | 1,001 | 0 | 1,154,215 | 1,155,216 |

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment, but held temporarily in foreign accounts until it is repatriated or expended.

The investments of the Association are governed primarily by an investment authority known as "The prudent person rule." The prudent person rule, as set forth in Section 31595 of the California Government Code, establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the Association.

## 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.

## Plan Description and Contribution Information

Membership in the plan at June 30, 2009 consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 1,009 |
| Terminated plan members entitled to but not yet receiving benefits | 309 |
| Active plan members | 1,391 |
| Total | 2,709 |
| | |
| Number of participating employers | 3 |

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

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) 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 2009, the Board of Retirement approved cost of living increases ranging from 0% to 3%, depending on date of retirement.

Health insurance benefits for retired employees have been funded by the plan in the past. As of September 1, 1998, the County of Mendocino has assumed responsibility for funding 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 Association earnings on investments are not in excess of required transfers of earnings to retirement reserve accounts. For eligibility for health care coverage, prior to September 1, 1998, retirees must have served the last ten years prior to retirement with the County of Mendocino. The retiree health benefit program qualifies under section 401(h) of the Internal Revenue Code. A payment reserve of $595.44 for each eligible retiree is set aside each month for health care costs. Health care claim payments to providers are made from this reserve. This health care subsidy amounted to $4,113,551 for the year ended June 30, 2009, and is included in the line item for benefit payments and subsidies on the Statement of Changes in Plan Net Assets. This subsidy is net of all health care payments by retirees, but is not reduced by reimbursements of $271,804 received from Medicare for healthcare and pharmaceutical subsidies applicable to Association benefits paid in prior years.

Beginning January 1, 2009, all retirees under the age of 65 were required to pay $96.40 each month as a reimbursement for health care paid by the Association, which is equivalent to the current cost of Medicare Part B each month. Also, retirees are required to pay $595.44 for each covered dependent per month for health coverage. The reserve is adjusted to actual medical costs at the end of each fiscal year. Beginning January 1, 2010, all retirees are required to reimburse the cost of health care through a payment of $75 per month, including those under 65 already paying $96.40 per month.

*Contributions*. Actuarially determined member contribution rates averaged 9.85 percent for the year ended June 30, 2009. The actual rate depends on the member's age at the time of hire, and tier. Employers are also required to contribute an actuarially determined rate, averaging 10.35 percent of salary for the year ended June 30, 2009. The employers' rate is adjusted periodically to maintain the appropriate funding status of the plan. The recommended rates for employees and employers for the year ended June 30, 2009 are 9.84 and 13.25 percent, respectively. The employer rates are actuarially determined to provide for the balance of contributions needed to fund the benefits promised (basic and cost of living).

Administrative costs of the plan (excluding investment expenses) are paid by the plan, and partially reimbursed by the employers, using an additional contribution rate calculated for that purpose. Beginning July 1, 2009, the County of Mendocino is no longer reimbursing the Association for administrative expenses.

The plan had an unfunded actuarially 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 Association 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 Association 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 funding agreement between the County of Mendocino and the Association indicates that the Association will keep the County of Mendocino informed of current investments, and that any unfunded pension liability will be eliminated in a timely manner. The proceeds from the 2002 pension obligation bonds reduced the unfunded pension liability to less than 10 percent of the actuarially 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 unfunded actuarially accrued liability (UAAL) that was not in excess of the target of 10 percent of the total pension liability. In November, 2009 that funding agreement was voided by mutual agreement between the Association Board of Retirement and the Mendocino County Board of Supervisors.

The UAAL as of June 30, 2009 is $66.9 million, which the County of Mendocino is required to amortize in the future. The funded ratio at June 30, 2009 is 83.4%, as indicated on the Schedule of Funding Progress. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

## Reserves

The Association had contingency reserves of $2,720,409, at June 30, 2009 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 8 percent of retiree 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, 2009 (under the five-year smoothed market asset valuation method for actuarial valuation purposes), is as follows:

| | |
|---|---|
| Employee reserves | 64,102,442 |
| Employer reserves | (2,559,708) |
| Retiree reserves | 238,303,919 |
| Retiree health care benefit reserves | 6,345,030 |
| 1% Contingency reserve | 2,720,409 |
| Miscellaneous reserves | 7,335 |
| Total reserves | 308,919,427 |
| Excess earnings – undesignated | 30,066,179 |
| Total allocated reserves (smoothed market actuarial value) | 338,985,606 |
| Net assets in excess (deficit) of reserves | (66,944,696) |
| Net assets available for benefits, at fair value | 272,040,910 |

Note: Total Reserves $300 less than audit due to footing error.

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

## Risk Management

The Association 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, the Association 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. The Association 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. The Association no longer pays a flat amount per covered retiree, but reimburses the County for claims to health care providers after the health care services are performed and billed.

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, 2009. For the year ended June 30, 2009, the Association had no excess earnings that can be used for the payment of retiree health benefits.

### Member Termination

Upon separation from the Association, 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

The Association 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.

### Current and Future Accounting Pronouncements

The Association adopted GASB Statement No. 50 – *Pension Disclosures*, an amendment of applicable note disclosure and Required Supplementary Information (RSI) of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, effective for the year ended June 30, 2008. The required information is disclosed in the note regarding contributions.

GASB Statement No. 53 – *Accounting and Reporting for Derivative instruments* becomes 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 the Association invests in derivative instruments in the future, this statement will be used to measure, recognize, and disclose those transactions.

GASB Statement No. 56 – *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* incorporates auditing standards of the AICPA regarding related party transactions, subsequent events, and going concern considerations into state and local governmental accounting and financial reporting standards. The guidance in this statement was considered for the preparation of these financial statements because the statement became effective upon issuance.

### Subsequent Events

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

Subsequent events have been reviewed through the date of this report; December 31, 2009.

## Financial Change

Since June 30, 2009, the U.S. and International equity markets have experienced a significant recovery in market value. In this environment, the MCERA assets increased in value roughly $30 million, or 11%, to a value at June 30, 2010, of just under $304 million. The asset allocation of the portfolio was reviewed and adjusted in 2010. Equities, especially Small Cap, and Real Estate have suffered the greatest losses relative to other asset classes. This has resulted in the allocation of fixed income assets exceeding targets. The Board will continue working with its investment consultants, Callan Associates, to more fully define asset mixes within the broader asset classes, evaluate current managers, and balance the investments to the newly adopted portfolio targets.

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|---|
| 7/1/2002 | 158,115 | * | 226,883 | 68,768 | 69.7% | 57,701 | 119.2% |
| 7/1/2003 | 233,764 | ** | 243,342 | 9,578 | 96.1% | 59,865 | 16.0% |
| 7/1/2004 | 239,191 | | 265,141 | 25,950 | 90.2% | 59,075 | 43.9% |
| 7/1/2005 | 253,487 | | 289,467 | 35,980 | 87.6% | 57,664 | 62.4% |
| 7/1/2006 | 288,461 | | 320,123 | 31,662 | 90.1% | 57,665 | 54.9% |
| 7/1/2007 | 317,937 | | 358,259 | 40,322 | 88.7% | 65,879 | 61.2% |
| 7/1/2008 | 353,421 | | 373,832 | 20,411 | 94.5% | 70,880 | 28.8% |
| 7/1/2009 | 336,263 | | 403,196 | 66,933 | 83.4% | 72,235 | 92.7% |

* Excludes proceeds from pension obligation bonds issued December, 2002
** Includes proceeds from pension obligation bonds issued December, 2002 in the amount of $76,299,000

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

| Year Ended | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 6/30/2002 | 6,348 | 100% |
| 6/30/2003 | 6,663 | 100% |
| 6/30/2004 | 4,158 | 63% |
| 6/30/2005 | 3,221 | 47% |
| 6/30/2006 | 4,996 | 79% |
| 6/30/2007 | 7,533 | 100% |
| 6/30/2008 | 7,232 | 100% |
| 6/30/2009 | 6,046 | 141% |

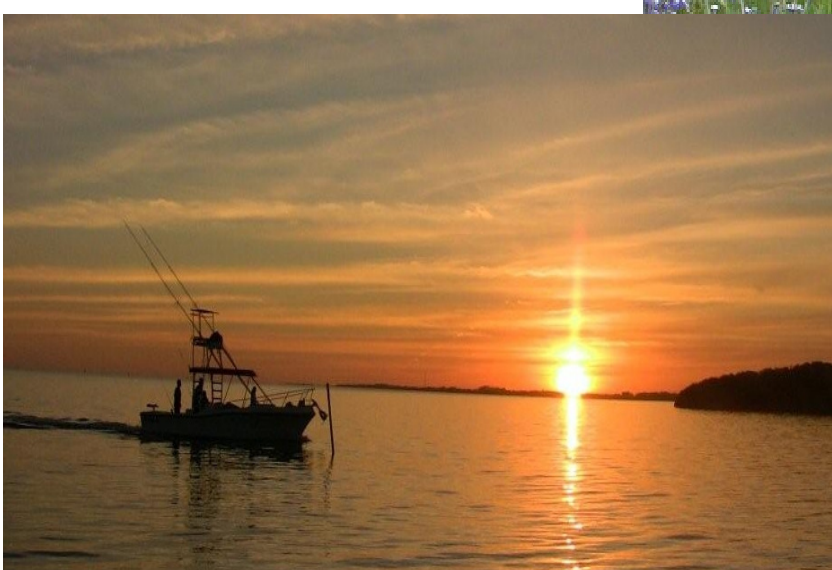
## SCHEDULE OF ADMINISTRATIVE EXPENSES
### For the Year ended June 30, 2009

| | |
|---|---|
| **Personal Services:** | |
| Salaries and Wages | 285,096 |
| Other Benefits | 44,737 |
| Employee Retirement | 44,857 |
| Total Personal Services | 374,690 |
| | |
| **Professional Services:** | |
| Outside Legal Counsel - Disability | 43,932 |
| Disability Hearing Officer/Medical Exams | 58,900 |
| External Audit Fees | 9,700 |
| Total Professional Services | 112,532 |
| | |
| **Miscellaneous:** | |
| Office Expenses | 83,178 |
| New Building Equipment | 1,627 |
| Insurance General | 1,266 |
| Memberships | 4,250 |
| Prof & Spec Services - Other | 7,900 |
| Transportation & Travel | 16,436 |
| Total Miscellaneous | 114,657 |
| | |
| **Total Administrative Expenses** | 601,879 |

## SCHEDULE OF INVESTMENT MANAGEMENT FEES AND OTHER INVESTMENT EXPENSES
### For the Year ended June 30, 2009

| | |
|---|---|
| **Investment Management Fees:** | |
| Bradford & Marzec | 44,963 |
| Dodge & Cox | 136,679 |
| Alliance Bernstein | 23,704 |
| Less Commission Recapture | (6,840) |
| Total Investment Management Fees | 198,506 |
| | |
| Investment Consultant Fees | 64,000 |
| Investment Custodian Fees | 48,797 |
| Fiduciary Insurance | 36,400 |
| Actuary Fees | 87,841 |
| Other Investment Expense | 1,062 |
| Total Investment Expenses | 436,606 |

# Investment Section



## INVESTMENT SUMMARY
## FOR THE YEAR ENDED JUNE 30, 2009

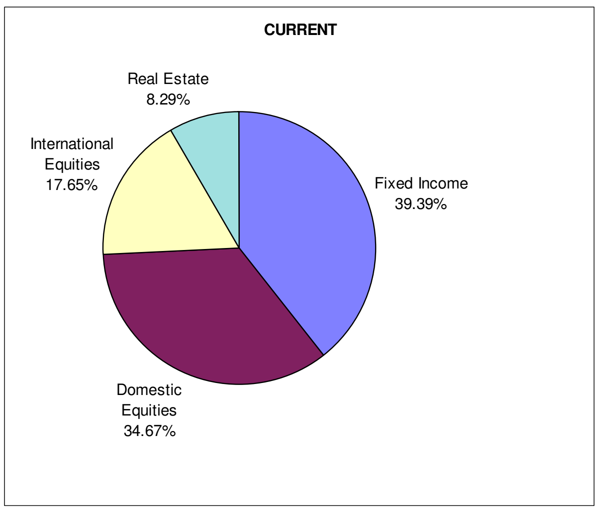
| | Market Value | % of Assets | Current Yr Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|
| FIXED INCOME | | | | | |
| Dodge & Cox | 42,995,850 | 17.20% | 7.73% | 6.64% | 5.22% |
| Bradford & Marzec | 15,134,232 | 5.99% | 10.27% | 7.33% | 5.74% |
| PIMCO | 41,492,191 | 16.20% | 9.26% | 8.41% | 6.36% |
| Lehman Aggregate | | | 6.05% | 6.43% | 5.02% |
| DOMESTIC EQUITY | | | | | |
| Alliance | 2,452,988 | 0.96% | -25.04% | -7.23% | -0.17% |
| R S Emerging | 1,980,178 | 0.77% | -25.14% | -8.37% | -2.52% |
| Fremont | 2,175,851 | 0.85% | -16.43% | -7.57% | -2.06% |
| Russell 2000 Growth | | | -24.85% | -7.84% | -1.32% |
| Vanguard Small Index | 8,636,022 | 3.37% | -23.33% | -10.82% | -1.41% |
| Mainstay | NA | | NA | NA | NA |
| MSCI Sm Cap Value (Spliced) | | | -23.55% | -10.94% | -1.49% |
| Morgan Stanley | 5,831,479 | 2.28% | -27.34% | -4.84% | 3.54% |
| Janus Enterprise | 5,863,315 | 2.29% | -31.55% | -4.46% | 1.88% |
| Russell Mid Growth | | | -30.33% | -7.92% | -0.44% |
| Fidelity LP Stock | 6,096,691 | 2.38% | -22.01% | -6.14% | 1.48% |
| Royce Total Return | 6,040,133 | 2.36% | -24.44% | -7.56% | -0.06% |
| Russell Mid Value | | | -30.52% | -11.07% | -0.43% |
| American Funds | 6,076,537 | 2.37% | -26.52% | -6.19% | 0.84% |
| Harbor Cap. Appreciation | 7,520,470 | 2.94% | -20.86% | -4.10% | 0.02% |
| Janus Research | 6,348,142 | 2.48% | -27.33% | -3.89% | -0.01% |
| Russell 1000 Growth | | | -24.51% | -5.45% | -1.83% |
| Selected American | 8,285,995 | 3.23% | -27.97% | -9.27% | -1.85% |
| Dodge & Cox Stock | 4,992,744 | 1.95% | -29.38% | -12.74% | -2.82% |
| Invest. Co. America | 8,741,666 | 3.41% | -21.92% | -6.90% | -0.31% |
| Vanguard Gr & Inc. | 7,762,932 | 3.03% | -29.72% | -6.11% | -3.58% |
| Russell 1000 Value | | | -29.03% | -11.11% | -2.13% |
| INTERNATIONAL EQUITY | | | | | |
| Europacific | 7,871,170 | 3.07% | -25.32% | -2.89% | 6.34% |
| Harbor International | 7,149,666 | 2.79% | -33.42% | -3.84% | 6.54% |
| Acorn International | 7,437,188 | 2.90% | -28.00% | 19.39% | 8.47% |
| Artisan International | 7,067,305 | 2.76% | -32.75% | -3.23% | 2.94% |
| Janus International | 7,797,529 | 3.04% | -24.02% | 2.41% | 14.83% |
| Oakmark International | 7,873,712 | 3.07% | -12.10% | -6.56% | 3.57% |
| MSCI EAFE | | | -31.36% | -7.98% | 2.31% |
| REAL ESTATE | | | | | |
| RREEF Public | 6,501,601 | 2.54% | -43.80% | -17.99% | -2.26% |
| NAREIT - Equity | | | -45.34% | -19.73% | -3.28% |
| RREEF Private | 13,878,031 | 5.42% | -34.57% | -7.29% | NA |
| NACRIEF | | | -31.25% | -5.00% | NA |
| 625 Kings Court | 775,000 | 0.34% | | | |
| TOTAL FUND | 254,778,618 | 100.00% | -16.50% | -1.76% | 3.33% |
| MCERA Policy Index | | | -14.98% | -1.77% | 2.90% |

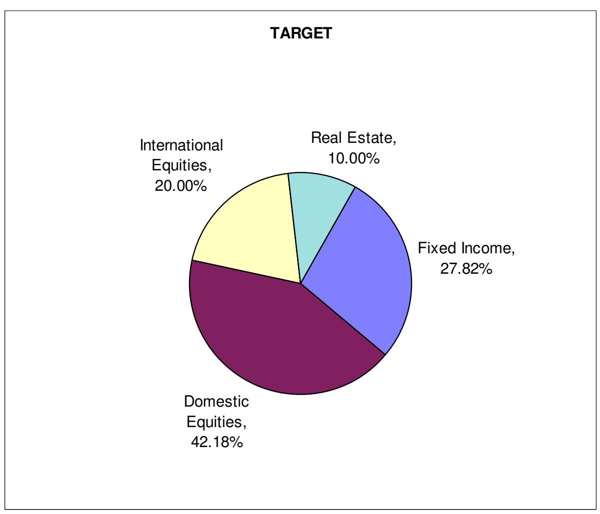
## ASSET ALLOCATION
### JUNE 30, 2009 (1)

| Asset Class | Market Value | Actual Allocation | Target Allocation |
|---|---|---|---|
| Fixed Income | 99,622,273 | 39.39% | 27.82% |
| Domestic Equities | 88,805,143 | 34.67% | 42.18% |
| International Equities | 45,196,570 | 17.65% | 20.00% |
| Real Estate | 21,154,632 | 8.29% | 10.00% |
| Total Portfolio | 254,778,618 | 100.00% | 100.00% |

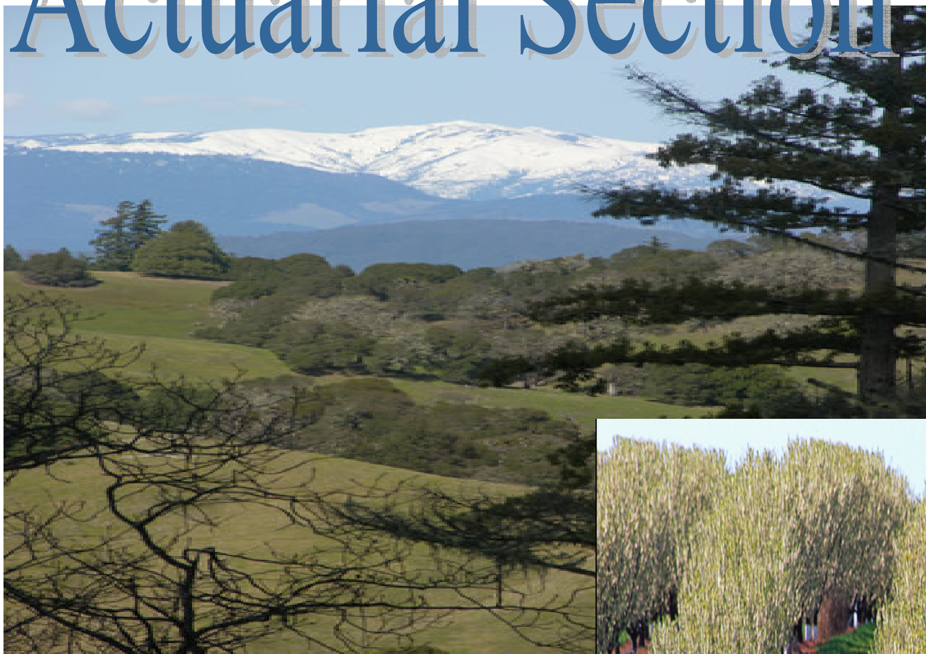
Notes:

(1) Does not include cash; accounts receivable, or prepaid expenses



# Actuarial Section



buckconsultants
an ACS company

January 20, 2010

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

Re: *Actuarial Certification of the Mendocino County Employees' Retirement Association*

Members of the Board:

Buck Consultants, LLC is the Consulting Actuary for the Mendocino County Employees' Retirement Association. Actuarial valuations are completed annually as of June 30 of each year. The date of the most recent actuarial valuation was June 30, 2009. In each actuarial study, we conduct an examination of all participant data for reasonableness.

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 payrolls to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 2009, the remaining amortization period for the UAAL was 30 years. The funding objective of the Association is to establish contribution rates that, over time, will remain as a level percentage of payrolls and will fully fund the liability for each participant by the participant's retirement date, unless Association benefit provisions are changed.

For actuarial valuation purposes, Association assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value, and spread all gains and losses (returns above or below expected returns) over five years. The Association's financial statements are audited by an outside auditor.

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by Buck as being appropriate for the valuation and Buck is solely responsible for the trend schedules presented in this report. An analysis of the Association's noneconomic experience was performed as of June 30, 2008 to establish the validity of these assumptions. The assumptions used in this valuation produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Association. The next experience analysis is due to be performed as of June 30, 2011.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully submitted,

Harold A. Loeb, A.S.A., E.A., M.A.A.A.
Principal and Consulting Actuary

**Summary of Actuarial Assumptions**

The Entry Age Normal Cost Method was used in conjunction with the following actuarial assumptions. The Unfunded Actuarial Accrued Liability amortization period is 30 years from the June 30, 2009 valuation date.

| | |
|---|---|
| 1. Investment Return: | 8.00% per annum. |
| 2. Interest Credited to Employee Accounts: | 8.00% per annum. |
| 3. Inflation: | 4.00% per annum. |
| 4. Salary Scale: | See Schedule 1. |
| 5. Asset Valuation: | Smoothed market value. |
| 6. Spouses and Dependents: | 90% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands. |
| 7. Rates of Termination of Employment: | See Schedules 2-5 |
| 8. Years of Life Expectancy after Retirement: | 1994 GA (x, y) for General Members<br>1994 GA (x) for Safety and Probation Members |
| 9. Years of Life Expectancy after Disability: | 1981 Disability General (x-5, x-2) for General<br>1981 Disability Safety (x-4) for Safety, 2 times rates for Probation |
| 10. Life Expectancy after Retirement for Employee Contribution Rate Purposes: | |
| ◆ General Members: | 1994 Group Annuity Table for Males, set back 3 years. |
| ◆ Safety and Probation Members: | 1994 Group Annuity Table for Males, with no setback. |
| 11. Reciprocity Assumption: | 50% of members who terminate with a vested benefit are assumed to enter a reciprocal system. |
| 12. Deferral Age for Vested Terminations: | 62 for General members; 55 for Safety. |
| 13. Sex: | All Safety members are assumed to be male. |

**Summary of Actuarial Assumptions**

**Schedule 1**

**Ratio of Current Compensation to Compensation Anticipated at Retirement**

| Age | General Members | Safety Members | Age | General Members | Safety Members |
|---|---|---|---|---|---|
| 20 | 0.539 | 0.659 | 46 | 0.887 | 0.933 |
| 21 | 0.564 | 0.678 | 47 | 0.892 | 0.937 |
| 22 | 0.587 | 0.696 | 48 | 0.896 | 0.942 |
| 23 | 0.612 | 0.715 | 49 | 0.901 | 0.947 |
| 24 | 0.635 | 0.733 | 50 | 0.905 | 0.951 |
| 25 | 0.658 | 0.750 | 51 | 0.910 | 0.956 |
| 26 | 0.681 | 0.766 | 52 | 0.914 | 0.961 |
| 27 | 0.702 | 0.780 | 53 | 0.919 | 0.966 |
| 28 | 0.723 | 0.795 | 54 | 0.923 | 0.971 |
| 29 | 0.744 | 0.810 | 55 | 0.928 | 0.975 |
| 30 | 0.766 | 0.824 | 56 | 0.933 | 0.980 |
| 31 | 0.783 | 0.837 | 57 | 0.937 | 0.985 |
| 32 | 0.800 | 0.849 | 58 | 0.942 | 0.990 |
| 33 | 0.818 | 0.860 | 59 | 0.947 | 0.995 |
| 34 | 0.835 | 0.872 | 60 | 0.951 | 1.000 |
| 35 | 0.840 | 0.883 | 61 | 0.956 | |
| 36 | 0.844 | 0.887 | 62 | 0.961 | |
| 37 | 0.848 | 0.892 | 63 | 0.966 | |
| 38 | 0.852 | 0.896 | 64 | 0.971 | |
| 39 | 0.857 | 0.901 | 65 | 0.975 | |
| 40 | 0.861 | 0.905 | 66 | 0.980 | |
| 41 | 0.865 | 0.910 | 67 | 0.985 | |
| 42 | 0.870 | 0.914 | 68 | 0.990 | |
| 43 | 0.874 | 0.919 | 69 | 0.995 | |
| 44 | 0.878 | 0.923 | 70 | 1.000 | |
| 45 | 0.883 | 0.928 | | | |

Note: Salary scale assumption reflects 4.00% for inflation and graded merit and longevity.

## RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

| Plan Year Ended June 30 | At Begin of Year | Added During Year | Annual Allowances Added to the Rolls | Removed During Year | Annual Allowances Removed from the Rolls | At End of Year | Annual Retiree Payroll | % Increase in Annual Retiree Payroll | Average Annual Allowance |
|---|---|---|---|---|---|---|---|---|---|
| 2007 | | | | | | 907 | $ 14,827,000 | | $ 16,347 |
| 2008 | 907 | 82 | $ 1,624,000 | 27 | $ 252,000 | 962 | $ 16,199,000 | 9.25% | $ 16,839 |
| 2009 | 962 | 77 | $ 1,921,000 | 31 | $ 352,000 | 1,008 | $ 17,768,000 | 9.69% | $ 17,627 |

## ACTIVE MEMBER VALUATION DATA

| Valuation Date | Plan Type | Number | Annual Payroll | Monthly Average Pay | % Increase in Average Pay* |
|---|---|---|---|---|---|
| 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 | |
| 6/30/2008 | General | 1,207 | $ 59,194,561 | $ 4,087 | 6.39% |
| | Safety | 156 | 9,157,574 | $ 4,892 | 5.52% |
| | Probation | 47 | 2,528,198 | $ 4,483 | 7.47% |
| | Total | 1,410 | $ 70,880,333 | $ 4,189 | 6.42% |
| 6/30/2009 | General | 1,164 | $ 60,045,883 | $ 4,299 | 5.19% |
| | Safety | 143 | 9,057,202 | $ 5,278 | 7.90% |
| | Probation | 62 | 3,132,010 | $ 4,210 | -6.09% |
| | Total | 1,369 | $ 72,235,095 | $ 4,397 | 4.96% |

*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 refect the average salary increases received by members who worked the full year.

## ACTUARIAL SOLVENCY TEST
(Dollars in thousands)

| | Aggregate Accrued Liabilities for: | | | | | Portion of Accrued Liabilities Covered by Reported Assets: | | |
|---|---|---|---|---|---|---|---|---|
| Valuation Date | Active Member Contributions | Retired/ Vested Members | Active Members (Employer Financed Portion) | Total | Actuarial Value of Assets | Active Member Contributions | Retired/ Vested Members | Active Members (Employer Financed Portion) |
| 6/30/2008 | 62,348 | 199,072 | 112,412 | 373,832 | 353,421 | 100% | 100% | 81.8% |
| 6/30/2009 | 64,102 | 218,613 | 120,481 | 403,196 | 336,263 | 100% | 100% | 44.4% |

## Actuarial Analysis of Financial Experience
(Dollars in thousands)

| Plan Years | 2007-2008 | 2008-2009 |
|---|---|---|
| Prior Valuation Unfunded Actuarial Accrued Liability | $ 40,322 | $ 20,411 |
| Expected Increase | (5,320) | 805 |
| Liability Gain (Loss) and Change in Actuarial Assumptions | 2,449 | 19,978 |
| Salary Increase Greater (Less) than Expected | - | - |
| Asset Return Less (Greater) than Expected | (17,040) | 29,934 |
| Change in Plan Provisions | - | - |
| Non-Economic and Economic Assumption Changes | - | - |
| Change in Method to Determine Actuarial Value of Assets | | (4,195) |
| Data Corrections | - | - |
| Transition in Actuaries | - | - |
| Retiree Mortality Less (Greater) than Expected | - | - |
| Ventura Payment for County | - | - |
| Ending Unfunded Actuarial Liability | $ 20,411 | $ 66,933 |

**PROBABILITY OF OCCURRENCE**

## Probabilities of Separation From Active Service

### Schedule 2 : General Members - Males

| Age | Withdrawal | Ordinary Death | Ordinary Disability | Service | Death While Eligible | Duty Death | Duty Disability | Terminated Vested |
|---|---|---|---|---|---|---|---|---|
| 20 | 0.21120 | 0.00040 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00014 | 0.01800 |
| 21 | 0.20724 | 0.00040 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00014 | 0.02700 |
| 22 | 0.20196 | 0.00040 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00014 | 0.02880 |
| 23 | 0.19668 | 0.00050 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00014 | 0.03060 |
| 24 | 0.19140 | 0.00050 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00014 | 0.03240 |
| 25 | 0.18612 | 0.00050 | 0.00003 | 0.00000 | 0.00010 | 0.00010 | 0.00029 | 0.03420 |
| 26 | 0.17952 | 0.00050 | 0.00003 | 0.00000 | 0.00010 | 0.00010 | 0.00029 | 0.03600 |
| 27 | 0.17292 | 0.00050 | 0.00006 | 0.00000 | 0.00010 | 0.00010 | 0.00029 | 0.04050 |
| 28 | 0.16500 | 0.00060 | 0.00006 | 0.00000 | 0.00010 | 0.00010 | 0.00043 | 0.04500 |
| 29 | 0.15576 | 0.00060 | 0.00009 | 0.00000 | 0.00010 | 0.00010 | 0.00043 | 0.04950 |
| 30 | 0.14520 | 0.00060 | 0.00013 | 0.00000 | 0.00020 | 0.00010 | 0.00043 | 0.05400 |
| 31 | 0.13332 | 0.00060 | 0.00016 | 0.00000 | 0.00020 | 0.00010 | 0.00058 | 0.05400 |
| 32 | 0.12276 | 0.00060 | 0.00020 | 0.00000 | 0.00020 | 0.00010 | 0.00058 | 0.05220 |
| 33 | 0.11484 | 0.00070 | 0.00026 | 0.00000 | 0.00020 | 0.00010 | 0.00072 | 0.04860 |
| 34 | 0.11220 | 0.00070 | 0.00032 | 0.00000 | 0.00030 | 0.00010 | 0.00072 | 0.04320 |
| 35 | 0.11088 | 0.00080 | 0.00038 | 0.00000 | 0.00030 | 0.00020 | 0.00072 | 0.03780 |
| 36 | 0.10956 | 0.00080 | 0.00048 | 0.00000 | 0.00030 | 0.00020 | 0.00072 | 0.03060 |
| 37 | 0.10956 | 0.00090 | 0.00058 | 0.00000 | 0.00030 | 0.00020 | 0.00087 | 0.02520 |
| 38 | 0.10824 | 0.00090 | 0.00067 | 0.00000 | 0.00040 | 0.00020 | 0.00101 | 0.02520 |
| 39 | 0.10692 | 0.00100 | 0.00077 | 0.00000 | 0.00040 | 0.00020 | 0.00116 | 0.02520 |
| 40 | 0.10296 | 0.00100 | 0.00086 | 0.00000 | 0.00040 | 0.00020 | 0.00130 | 0.05040 |
| 41 | 0.09504 | 0.00110 | 0.00099 | 0.00000 | 0.00050 | 0.00020 | 0.00145 | 0.05040 |
| 42 | 0.08712 | 0.00110 | 0.00111 | 0.00000 | 0.00050 | 0.00020 | 0.00159 | 0.05040 |
| 43 | 0.07920 | 0.00120 | 0.00124 | 0.00000 | 0.00050 | 0.00020 | 0.00173 | 0.05040 |
| 44 | 0.07260 | 0.00120 | 0.00140 | 0.00000 | 0.00050 | 0.00020 | 0.00202 | 0.05040 |
| 45 | 0.06600 | 0.00120 | 0.00156 | 0.00000 | 0.00060 | 0.00020 | 0.00231 | 0.04680 |
| 46 | 0.05940 | 0.00130 | 0.00173 | 0.00000 | 0.00070 | 0.00020 | 0.00260 | 0.04320 |
| 47 | 0.05280 | 0.00130 | 0.00185 | 0.00000 | 0.00080 | 0.00020 | 0.00289 | 0.03960 |
| 48 | 0.04752 | 0.00140 | 0.00201 | 0.00000 | 0.00090 | 0.00020 | 0.00332 | 0.04680 |
| 49 | 0.04356 | 0.00140 | 0.00220 | 0.00000 | 0.00100 | 0.00020 | 0.00376 | 0.05400 |
| 50 | 0.03960 | 0.00150 | 0.00239 | 0.03000 | 0.00110 | 0.00020 | 0.00434 | 0.06120 |
| 51 | 0.03696 | 0.00150 | 0.00258 | 0.03000 | 0.00130 | 0.00020 | 0.00491 | 0.06120 |
| 52 | 0.03564 | 0.00160 | 0.00275 | 0.03000 | 0.00150 | 0.00020 | 0.00549 | 0.05400 |
| 53 | 0.03432 | 0.00170 | 0.00293 | 0.03000 | 0.00170 | 0.00020 | 0.00607 | 0.03600 |
| 54 | 0.03300 | 0.00180 | 0.00309 | 0.03000 | 0.00190 | 0.00020 | 0.00665 | 0.00900 |
| 55 | 0.03168 | 0.00190 | 0.00328 | 0.09000 | 0.00210 | 0.00020 | 0.00723 | 0.02160 |
| 56 | 0.02904 | 0.00200 | 0.00348 | 0.06000 | 0.00230 | 0.00020 | 0.00780 | 0.00540 |
| 57 | 0.02640 | 0.00210 | 0.00364 | 0.06000 | 0.00250 | 0.00020 | 0.00853 | 0.00360 |
| 58 | 0.02376 | 0.00220 | 0.00379 | 0.06000 | 0.00270 | 0.00020 | 0.00925 | 0.00180 |
| 59 | 0.06336 | 0.00230 | 0.00392 | 0.07500 | 0.00290 | 0.00020 | 0.00997 | 0.00180 |
| 60 | 0.05544 | 0.00240 | 0.00405 | 0.07500 | 0.00310 | 0.00020 | 0.01069 | 0.00900 |
| 61 | 0.07920 | 0.00250 | 0.00415 | 0.09750 | 0.00330 | 0.00020 | 0.01156 | 0.01800 |
| 62 | 0.06600 | 0.00260 | 0.00427 | 0.11250 | 0.00350 | 0.00020 | 0.01243 | 0.00180 |
| 63 | 0.01056 | 0.00270 | 0.00437 | 0.05625 | 0.00370 | 0.00020 | 0.01329 | 0.00180 |
| 64 | 0.00792 | 0.00280 | 0.00446 | 0.09375 | 0.00390 | 0.00020 | 0.01416 | 0.00180 |
| 65 | 0.00000 | 0.00290 | 0.00452 | 0.26250 | 0.00410 | 0.00020 | 0.00000 | 0.00000 |
| 66 | 0.00000 | 0.00300 | 0.00462 | 0.30000 | 0.00430 | 0.00020 | 0.00000 | 0.00000 |
| 67 | 0.00000 | 0.00310 | 0.00468 | 0.31875 | 0.00450 | 0.00020 | 0.00000 | 0.00000 |
| 68 | 0.00000 | 0.00320 | 0.00475 | 0.33750 | 0.00470 | 0.00020 | 0.00000 | 0.00000 |
| 69 | 0.00000 | 0.00330 | 0.00478 | 0.35625 | 0.00490 | 0.00020 | 0.00000 | 0.00000 |
| 70 | 0.00000 | 0.00000 | 0.00000 | 1.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |

**PROBABILITY OF OCCURRENCE**

## Probabilities of Separation From Active Service

### Schedule 3 : General Members - Females

| Age | Withdrawal | Ordinary Death | Ordinary Disability | Service | Death While Eligible | Duty Death | Duty Disability | Terminated Vested |
|---|---|---|---|---|---|---|---|---|
| 20 | 0.25000 | 0.00026 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00028 | 0.01699 |
| 21 | 0.22500 | 0.00026 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00028 | 0.01714 |
| 22 | 0.20000 | 0.00026 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00028 | 0.01728 |
| 23 | 0.17500 | 0.00026 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00028 | 0.01742 |
| 24 | 0.16000 | 0.00026 | 0.00000 | 0.00000 | 0.00000 | 0.00010 | 0.00028 | 0.01771 |
| 25 | 0.15000 | 0.00039 | 0.00008 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.01800 |
| 26 | 0.14000 | 0.00039 | 0.00008 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.01829 |
| 27 | 0.13500 | 0.00039 | 0.00008 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.01858 |
| 28 | 0.13200 | 0.00039 | 0.00008 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.01886 |
| 29 | 0.13000 | 0.00039 | 0.00008 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.01901 |
| 30 | 0.12900 | 0.00052 | 0.00017 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.03888 |
| 31 | 0.12700 | 0.00052 | 0.00017 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.03974 |
| 32 | 0.12500 | 0.00052 | 0.00025 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.04060 |
| 33 | 0.12000 | 0.00052 | 0.00025 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.04176 |
| 34 | 0.11500 | 0.00052 | 0.00034 | 0.00000 | 0.00010 | 0.00010 | 0.00028 | 0.04262 |
| 35 | 0.11000 | 0.00065 | 0.00034 | 0.00000 | 0.00020 | 0.00010 | 0.00028 | 0.04464 |
| 36 | 0.10500 | 0.00065 | 0.00042 | 0.00000 | 0.00020 | 0.00010 | 0.00028 | 0.04580 |
| 37 | 0.10000 | 0.00065 | 0.00042 | 0.00000 | 0.00020 | 0.00010 | 0.00028 | 0.04608 |
| 38 | 0.09500 | 0.00078 | 0.00050 | 0.00000 | 0.00020 | 0.00010 | 0.00028 | 0.04550 |
| 39 | 0.09200 | 0.00078 | 0.00059 | 0.00000 | 0.00020 | 0.00010 | 0.00058 | 0.04492 |
| 40 | 0.09000 | 0.00078 | 0.00067 | 0.00000 | 0.00020 | 0.00010 | 0.00058 | 0.04464 |
| 41 | 0.08800 | 0.00078 | 0.00076 | 0.00000 | 0.00020 | 0.00010 | 0.00058 | 0.04464 |
| 42 | 0.08600 | 0.00078 | 0.00084 | 0.00000 | 0.00020 | 0.00010 | 0.00058 | 0.04464 |
| 43 | 0.08400 | 0.00091 | 0.00101 | 0.00000 | 0.00020 | 0.00010 | 0.00087 | 0.04608 |
| 44 | 0.08100 | 0.00091 | 0.00126 | 0.00000 | 0.00030 | 0.00010 | 0.00087 | 0.04608 |
| 45 | 0.07800 | 0.00091 | 0.00151 | 0.00000 | 0.00030 | 0.00010 | 0.00115 | 0.04608 |
| 46 | 0.07400 | 0.00104 | 0.00176 | 0.00000 | 0.00030 | 0.00010 | 0.00145 | 0.04464 |
| 47 | 0.06900 | 0.00104 | 0.00210 | 0.00000 | 0.00040 | 0.00010 | 0.00173 | 0.04320 |
| 48 | 0.06300 | 0.00104 | 0.00235 | 0.00000 | 0.00040 | 0.00010 | 0.00200 | 0.04176 |
| 49 | 0.05700 | 0.00117 | 0.00252 | 0.00000 | 0.00050 | 0.00010 | 0.00230 | 0.04032 |
| 50 | 0.05100 | 0.00117 | 0.00269 | 0.03000 | 0.00050 | 0.00010 | 0.00258 | 0.03744 |
| 51 | 0.04000 | 0.00130 | 0.00286 | 0.03000 | 0.00060 | 0.00010 | 0.00288 | 0.03168 |
| 52 | 0.03300 | 0.00130 | 0.00302 | 0.03000 | 0.00070 | 0.00010 | 0.00315 | 0.02592 |
| 53 | 0.02900 | 0.00143 | 0.00336 | 0.03000 | 0.00080 | 0.00010 | 0.00345 | 0.03456 |
| 54 | 0.02600 | 0.00143 | 0.00361 | 0.03000 | 0.00090 | 0.00010 | 0.00375 | 0.03024 |
| 55 | 0.02400 | 0.00143 | 0.00378 | 0.03000 | 0.00100 | 0.00010 | 0.00403 | 0.02721 |
| 56 | 0.02200 | 0.00156 | 0.00403 | 0.03000 | 0.00110 | 0.00010 | 0.00432 | 0.02376 |
| 57 | 0.06000 | 0.00156 | 0.00428 | 0.03000 | 0.00120 | 0.00010 | 0.00460 | 0.02031 |
| 58 | 0.05400 | 0.00169 | 0.00454 | 0.06000 | 0.00130 | 0.00010 | 0.00490 | 0.01686 |
| 59 | 0.04800 | 0.00169 | 0.00487 | 0.06000 | 0.00140 | 0.00010 | 0.00518 | 0.01296 |
| 60 | 0.04200 | 0.00182 | 0.00512 | 0.06000 | 0.00150 | 0.00010 | 0.00547 | 0.00864 |
| 61 | 0.03600 | 0.00182 | 0.00546 | 0.10000 | 0.00160 | 0.00010 | 0.00575 | 0.00864 |
| 62 | 0.03000 | 0.00195 | 0.00580 | 0.15000 | 0.00170 | 0.00010 | 0.00603 | 0.01152 |
| 63 | 0.02400 | 0.00195 | 0.00613 | 0.07500 | 0.00180 | 0.00010 | 0.00633 | 0.01152 |
| 64 | 0.01800 | 0.00208 | 0.00647 | 0.07500 | 0.00190 | 0.00010 | 0.00662 | 0.01152 |
| 65 | 0.00000 | 0.00208 | 0.00680 | 0.25000 | 0.00200 | 0.00010 | 0.00690 | 0.00000 |
| 66 | 0.00000 | 0.00221 | 0.00714 | 0.30000 | 0.00210 | 0.00010 | 0.00718 | 0.00000 |
| 67 | 0.00000 | 0.00221 | 0.00756 | 0.30000 | 0.00220 | 0.00010 | 0.00748 | 0.00000 |
| 68 | 0.00000 | 0.00234 | 0.00840 | 0.45000 | 0.00230 | 0.00010 | 0.00777 | 0.00000 |
| 69 | 0.00000 | 0.00234 | 0.00924 | 0.47500 | 0.00240 | 0.00010 | 0.00805 | 0.00000 |
| 70 | 0.00000 | 0.00000 | 0.00000 | 1.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |

**PROBABILITY OF OCCURRENCE**

## Probabilities of Separation From Active Service

### Schedule 4 : Probation Members

| Age | Withdrawal | Ordinary Death | Ordinary Disability | Service | Death While Eligible | Duty Death | Duty Disability | Terminated Vested |
|---|---|---|---|---|---|---|---|---|
| 20 | 0.18750 | 0.00030 | 0.00010 | 0.00000 | 0.00000 | 0.00100 | 0.00238 | 0.00000 |
| 21 | 0.18000 | 0.00030 | 0.00010 | 0.00000 | 0.00000 | 0.00100 | 0.00270 | 0.00000 |
| 22 | 0.17250 | 0.00030 | 0.00020 | 0.00000 | 0.00000 | 0.00100 | 0.00302 | 0.00000 |
| 23 | 0.16500 | 0.00030 | 0.00030 | 0.00000 | 0.00000 | 0.00100 | 0.00335 | 0.00000 |
| 24 | 0.15600 | 0.00030 | 0.00030 | 0.00000 | 0.00000 | 0.00100 | 0.00367 | 0.00000 |
| 25 | 0.14400 | 0.00040 | 0.00040 | 0.00000 | 0.00010 | 0.00100 | 0.00400 | 0.01350 |
| 26 | 0.13200 | 0.00040 | 0.00050 | 0.00000 | 0.00010 | 0.00100 | 0.00432 | 0.02025 |
| 27 | 0.12150 | 0.00040 | 0.00060 | 0.00000 | 0.00010 | 0.00100 | 0.00475 | 0.02700 |
| 28 | 0.11250 | 0.00040 | 0.00080 | 0.00000 | 0.00010 | 0.00100 | 0.00518 | 0.03375 |
| 29 | 0.10650 | 0.00040 | 0.00080 | 0.00000 | 0.00010 | 0.00100 | 0.00562 | 0.04050 |
| 30 | 0.10350 | 0.00050 | 0.00090 | 0.00000 | 0.00020 | 0.00100 | 0.00605 | 0.04725 |
| 31 | 0.09750 | 0.00050 | 0.00090 | 0.00000 | 0.00020 | 0.00100 | 0.00659 | 0.05400 |
| 32 | 0.08850 | 0.00050 | 0.00100 | 0.00000 | 0.00020 | 0.00100 | 0.00734 | 0.06075 |
| 33 | 0.08100 | 0.00050 | 0.00110 | 0.00000 | 0.00020 | 0.00110 | 0.00810 | 0.06750 |
| 34 | 0.07350 | 0.00060 | 0.00130 | 0.00000 | 0.00020 | 0.00110 | 0.00896 | 0.07425 |
| 35 | 0.06600 | 0.00060 | 0.00150 | 0.00000 | 0.00030 | 0.00110 | 0.00983 | 0.07425 |
| 36 | 0.06000 | 0.00060 | 0.00170 | 0.00000 | 0.00030 | 0.00110 | 0.01069 | 0.07761 |
| 37 | 0.05550 | 0.00060 | 0.00200 | 0.00000 | 0.00030 | 0.00120 | 0.01166 | 0.08100 |
| 38 | 0.05100 | 0.00070 | 0.00250 | 0.00000 | 0.00030 | 0.00120 | 0.01264 | 0.08100 |
| 39 | 0.04650 | 0.00070 | 0.00300 | 0.00000 | 0.00040 | 0.00120 | 0.01382 | 0.08100 |
| 40 | 0.04350 | 0.00080 | 0.00350 | 0.00000 | 0.00040 | 0.00130 | 0.01512 | 0.08100 |
| 41 | 0.04050 | 0.00090 | 0.00400 | 0.00000 | 0.00050 | 0.00130 | 0.01652 | 0.08100 |
| 42 | 0.03600 | 0.00100 | 0.00450 | 0.00000 | 0.00060 | 0.00140 | 0.01804 | 0.08100 |
| 43 | 0.03000 | 0.00110 | 0.00520 | 0.00000 | 0.00070 | 0.00150 | 0.01912 | 0.07761 |
| 44 | 0.02550 | 0.00120 | 0.00590 | 0.00000 | 0.00080 | 0.00160 | 0.02074 | 0.07425 |
| 45 | 0.02100 | 0.00130 | 0.00660 | 0.00000 | 0.00090 | 0.00170 | 0.02246 | 0.06750 |
| 46 | 0.01650 | 0.00140 | 0.00730 | 0.00000 | 0.00100 | 0.00180 | 0.02430 | 0.06075 |
| 47 | 0.01200 | 0.00150 | 0.00800 | 0.00000 | 0.00110 | 0.00180 | 0.02624 | 0.05400 |
| 48 | 0.00750 | 0.00160 | 0.00880 | 0.00000 | 0.00120 | 0.00190 | 0.02830 | 0.04050 |
| 49 | 0.00300 | 0.00170 | 0.00940 | 0.00000 | 0.00130 | 0.00200 | 0.03046 | 0.03375 |
| 50 | 0.00300 | 0.00180 | 0.01020 | 0.04000 | 0.00140 | 0.00210 | 0.03283 | 0.02700 |
| 51 | 0.00300 | 0.00190 | 0.01100 | 0.04000 | 0.00150 | 0.00220 | 0.03553 | 0.02025 |
| 52 | 0.00300 | 0.00200 | 0.01180 | 0.04000 | 0.00160 | 0.00220 | 0.03834 | 0.01350 |
| 53 | 0.00300 | 0.00210 | 0.01260 | 0.08000 | 0.00170 | 0.00230 | 0.04126 | 0.01350 |
| 54 | 0.00300 | 0.00220 | 0.01340 | 0.09000 | 0.00180 | 0.00240 | 0.04428 | 0.00675 |
| 55 | 0.00000 | 0.00230 | 0.01420 | 0.12500 | 0.00190 | 0.00250 | 0.04752 | 0.00000 |
| 56 | 0.00000 | 0.00240 | 0.01500 | 0.03750 | 0.00200 | 0.00260 | 0.05130 | 0.00000 |
| 57 | 0.00000 | 0.00250 | 0.01580 | 0.05000 | 0.00210 | 0.00270 | 0.05562 | 0.00000 |
| 58 | 0.00000 | 0.00260 | 0.01640 | 0.06250 | 0.00220 | 0.00280 | 0.06048 | 0.00000 |
| 59 | 0.00000 | 0.00270 | 0.01720 | 0.09375 | 0.00230 | 0.00290 | 0.06588 | 0.00000 |
| 60 | 0.00000 | 0.00000 | 0.00000 | 0.25000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |

## PROBABILITY OF OCCURRENCE

### Probabilities of Separation From Active Service

**Schedule 5: Safety Members**

| Age | Withdrawal | Ordinary Death | Ordinary Disability | Service | Death While Eligible | Duty Death | Duty Disability | Terminated Vested |
|---|---|---|---|---|---|---|---|---|
| 20 | 0.18750 | 0.00030 | 0.00005 | 0.00000 | 0.00000 | 0.00100 | 0.00238 | 0.00000 |
| 21 | 0.18000 | 0.00030 | 0.00005 | 0.00000 | 0.00000 | 0.00100 | 0.00270 | 0.00000 |
| 22 | 0.17250 | 0.00030 | 0.00010 | 0.00000 | 0.00000 | 0.00100 | 0.00302 | 0.00000 |
| 23 | 0.16500 | 0.00030 | 0.00015 | 0.00000 | 0.00000 | 0.00100 | 0.00335 | 0.00000 |
| 24 | 0.15600 | 0.00030 | 0.00015 | 0.00000 | 0.00000 | 0.00100 | 0.00367 | 0.00000 |
| 25 | 0.14400 | 0.00040 | 0.00020 | 0.00000 | 0.00010 | 0.00100 | 0.00400 | 0.00450 |
| 26 | 0.13200 | 0.00040 | 0.00025 | 0.00000 | 0.00010 | 0.00100 | 0.00432 | 0.00675 |
| 27 | 0.12150 | 0.00040 | 0.00030 | 0.00000 | 0.00010 | 0.00100 | 0.00475 | 0.00900 |
| 28 | 0.11250 | 0.00040 | 0.00040 | 0.00000 | 0.00010 | 0.00100 | 0.00518 | 0.01125 |
| 29 | 0.10650 | 0.00040 | 0.00040 | 0.00000 | 0.00010 | 0.00100 | 0.00562 | 0.01350 |
| 30 | 0.10350 | 0.00050 | 0.00045 | 0.00000 | 0.00020 | 0.00100 | 0.00605 | 0.01575 |
| 31 | 0.09750 | 0.00050 | 0.00045 | 0.00000 | 0.00020 | 0.00100 | 0.00659 | 0.01800 |
| 32 | 0.08850 | 0.00050 | 0.00050 | 0.00000 | 0.00020 | 0.00100 | 0.00734 | 0.02025 |
| 33 | 0.08100 | 0.00050 | 0.00055 | 0.00000 | 0.00020 | 0.00110 | 0.00810 | 0.02250 |
| 34 | 0.07350 | 0.00060 | 0.00065 | 0.00000 | 0.00020 | 0.00110 | 0.00896 | 0.02475 |
| 35 | 0.06600 | 0.00060 | 0.00075 | 0.00000 | 0.00030 | 0.00110 | 0.00983 | 0.02475 |
| 36 | 0.06000 | 0.00060 | 0.00085 | 0.00000 | 0.00030 | 0.00110 | 0.01069 | 0.02587 |
| 37 | 0.05550 | 0.00060 | 0.00100 | 0.00000 | 0.00030 | 0.00120 | 0.01166 | 0.02700 |
| 38 | 0.05100 | 0.00070 | 0.00125 | 0.00000 | 0.00030 | 0.00120 | 0.01264 | 0.02700 |
| 39 | 0.04650 | 0.00070 | 0.00150 | 0.00000 | 0.00040 | 0.00120 | 0.01382 | 0.02700 |
| 40 | 0.04350 | 0.00080 | 0.00175 | 0.00000 | 0.00040 | 0.00130 | 0.01512 | 0.02700 |
| 41 | 0.04050 | 0.00090 | 0.00200 | 0.00000 | 0.00050 | 0.00130 | 0.01652 | 0.02700 |
| 42 | 0.03600 | 0.00100 | 0.00225 | 0.00000 | 0.00060 | 0.00140 | 0.01804 | 0.02700 |
| 43 | 0.03000 | 0.00110 | 0.00260 | 0.00000 | 0.00070 | 0.00150 | 0.01912 | 0.02587 |
| 44 | 0.02550 | 0.00120 | 0.00295 | 0.00000 | 0.00080 | 0.00160 | 0.02074 | 0.02475 |
| 45 | 0.02100 | 0.00130 | 0.00330 | 0.00250 | 0.00090 | 0.00170 | 0.02246 | 0.02250 |
| 46 | 0.01650 | 0.00140 | 0.00365 | 0.00288 | 0.00100 | 0.00180 | 0.02430 | 0.02025 |
| 47 | 0.01200 | 0.00150 | 0.00400 | 0.00331 | 0.00110 | 0.00180 | 0.02624 | 0.01800 |
| 48 | 0.00750 | 0.00160 | 0.00440 | 0.00380 | 0.00120 | 0.00190 | 0.02830 | 0.01350 |
| 49 | 0.00300 | 0.00170 | 0.00470 | 0.00438 | 0.00130 | 0.00200 | 0.03046 | 0.01125 |
| 50 | 0.00300 | 0.00180 | 0.00510 | 0.02300 | 0.00140 | 0.00210 | 0.03283 | 0.00900 |
| 51 | 0.00300 | 0.00190 | 0.00550 | 0.02300 | 0.00150 | 0.00220 | 0.03553 | 0.00675 |
| 52 | 0.00300 | 0.00200 | 0.00590 | 0.02300 | 0.00160 | 0.00220 | 0.03834 | 0.00450 |
| 53 | 0.00300 | 0.00210 | 0.00630 | 0.04600 | 0.00170 | 0.00230 | 0.04126 | 0.00450 |
| 54 | 0.00300 | 0.00220 | 0.00670 | 0.05175 | 0.00180 | 0.00240 | 0.04428 | 0.00225 |
| 55 | 0.00000 | 0.00230 | 0.00710 | 0.06313 | 0.00190 | 0.00250 | 0.04752 | 0.00000 |
| 56 | 0.00000 | 0.00240 | 0.00750 | 0.07500 | 0.00200 | 0.00260 | 0.05130 | 0.00000 |
| 57 | 0.00000 | 0.00250 | 0.00790 | 0.10000 | 0.00210 | 0.00270 | 0.05562 | 0.00000 |
| 58 | 0.00000 | 0.00260 | 0.00820 | 0.12500 | 0.00220 | 0.00280 | 0.06048 | 0.00000 |
| 59 | 0.00000 | 0.00270 | 0.00860 | 0.37500 | 0.00230 | 0.00290 | 0.06588 | 0.00000 |
| 60 | 0.00000 | 0.00000 | 0.00000 | 1.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 |

Note: Information compiled from Actuarial Report prepared by Buck Consultants, dated June 30, 2009

## Summary of Major Plan Provisions

1. **Eligibility**

   First day of pay period following date of employment.

2. **Definition Of Salary**

   Highest 12 consecutive months of compensation earned for Tier 1 members and highest 36 consecutive months of compensation earned for Tier 2 and Tier 3 members.

3. **Service Retirement**

   *Normal retirement* –
   Ages 57, 50 and 55 for Sections 31676.12, 31664, and 31664.2 respectively.

   *Early retirement* –
   Age 50 and 10 years of service, or any age with 30 years of service for General and any age with 20 years of service for Safety.

   *Benefit* –
   1/50 times salary per year of service for General, Probation, and Safety members (3% for Safety Section 31664.2 members)

   *Benefit Adjustments* -
   Reduced for retirements before 57, 50 and 55 for Sections 31676.12, 31664, and 31664.2 respectively.
   Increased for retirements after 57, and 50 for Sections 31676.12, and 31664, respectively.

4. **Disability Retirement**

   *Nonservice connected (five years of service required)* -
   1.8% of salary per year of service, with a maximum of 33-1/3% if projected service is used (ages 65 for General, age 55 for Safety), or 90% of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible).

   *Service connected* -
   Greater of 50% of salary and service retirement benefit (if eligible).

**Summary of Major Plan Provisions (continued)**

**5. Death Before Retirement**

Refund of contributions plus 1/12 of salary per year of service up to 6 years.

If eligible for disability or service retirement -
60% of member's accrued allowance.

If service connected -
50% of salary.

**6. Death After Retirement**

*Service retirement or ordinary disability -*
60% of member's allowance payable to an eligible spouse.

*Service disability -*
100% of member's allowance payable to an eligible spouse.

**7. Vesting**

After five years of service.
Must leave contributions on deposit.

**8. Members' Contributions**

Based on entry age.

**9. Cost-Of-Living**

Maximum 3% COLA for all members depending on changes in prior year's CPI for the San Francisco-Oakland-San Jose Area.