MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Years Ended
June 30, 2007 and 2008

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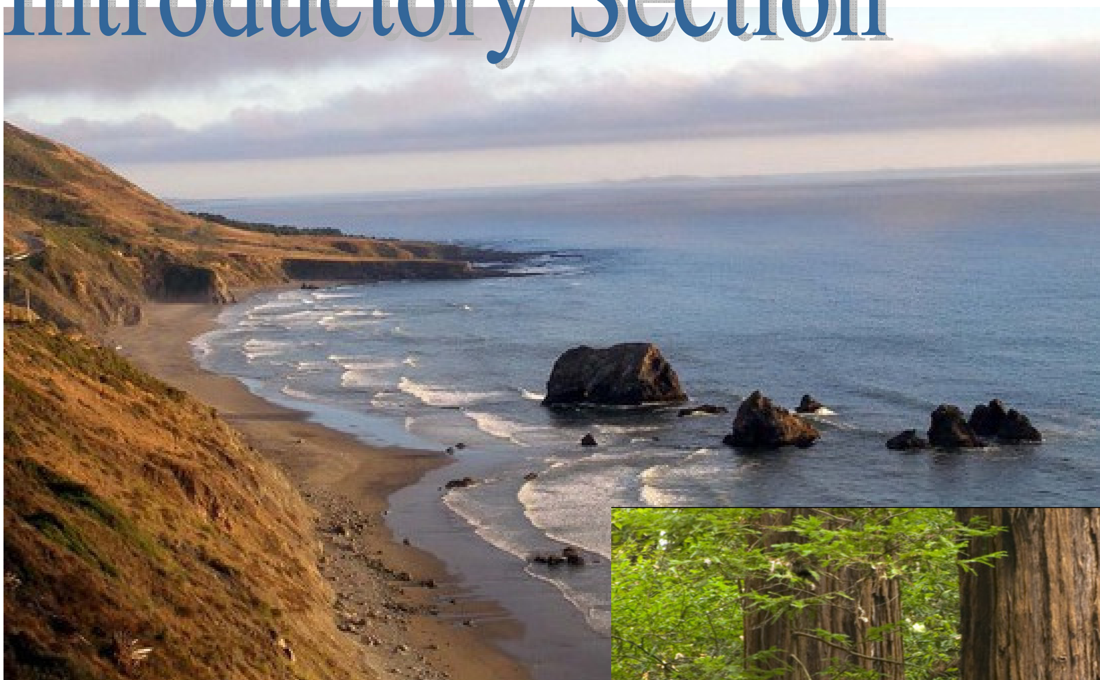

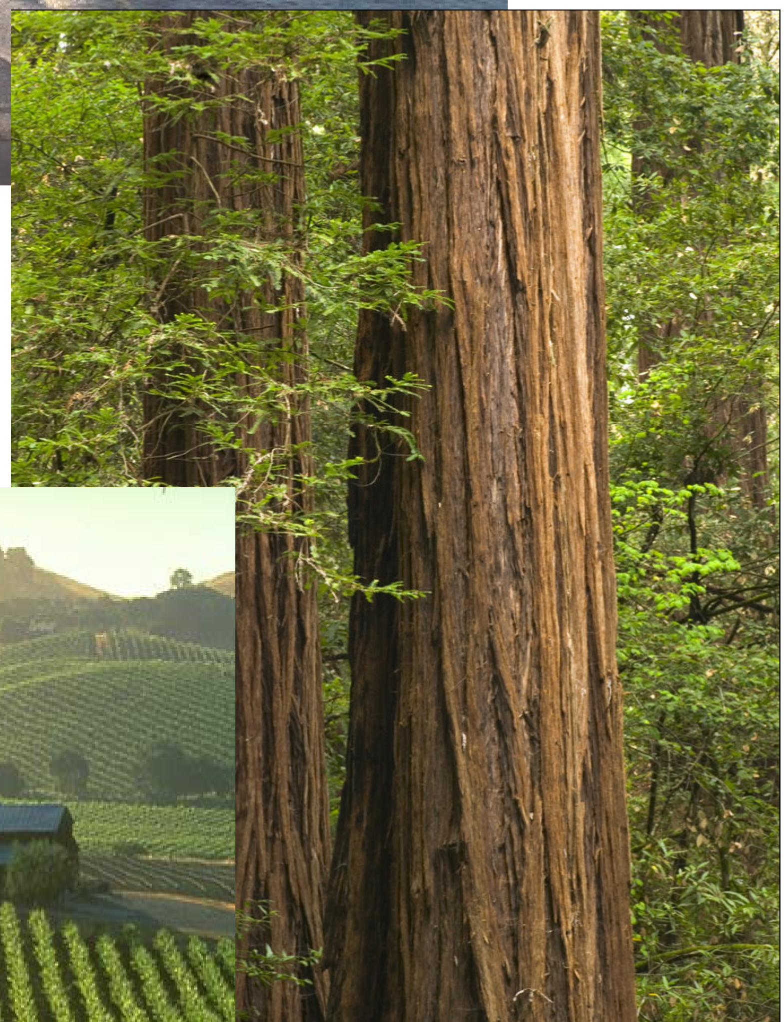

James M. Andersen
Retirement Administrator

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(707) 467-6473
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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

March 18, 2009

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, 2008, our 60th year in operations.

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 five 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 value of the assets.

An overview of MCERA's fiscal operations for the year ended June 30, 2008, is presented in the Management's Discussion and Analysis (MD&A), located in the financial section of the CAFR. This transmittal letter, together with the MD&A, provides an expanded view of the activities of MCERA.

Jim Sligh, CPA, MCERA's independent auditor, 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, 2008 and determined the plan's funding ratio (ratio of plan assets to plan liabilities) to be 94.5% 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 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 investment policy and strategy and conduct periodic asset allocation studies on behalf of MCERA. For fiscal years ended June 30, 2008 and June 30, 2007, the Plan's investments provided a (3.8%) and 18.07% 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 many 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
Retirement Administrator

BOARD OF RETIREMENT
JUNE 30, 2008

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

Steve Duman, Trustee
Elected by Active General Membership

Lloyd Weer, Trustee
Elected by Active General Membership

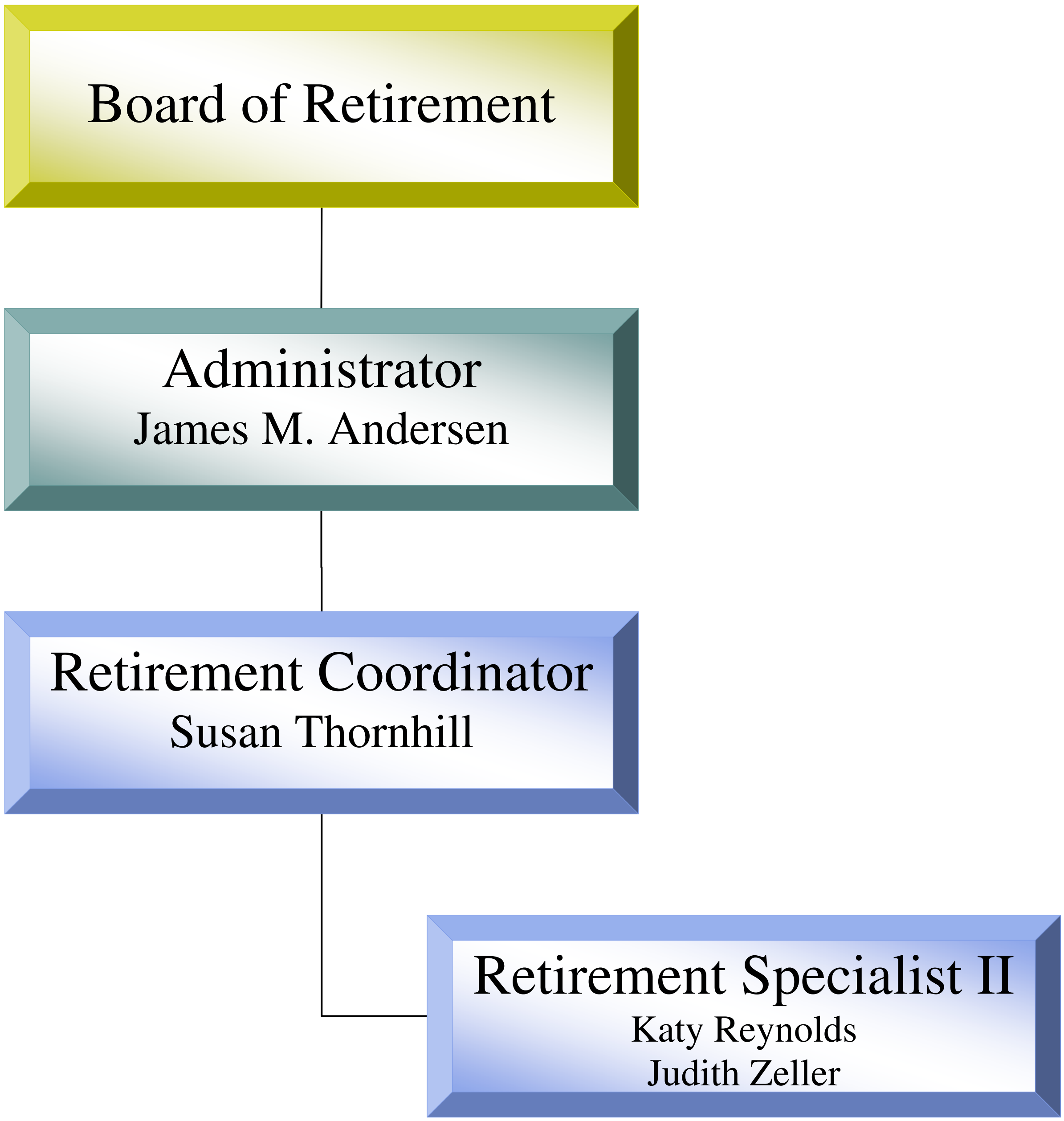
Dr. Donald Coursey, Trustee
Appointed by the Board of Supervisors

Kendall Smith, Trustee
Appointed by the Board of Supervisors

Eloise Grothe, Trustee
Appointed by the Board of Supervisors

Tim Knudsen, Alternate Trustee
Elected by Retired Membership

MCERA ORGANIZATION CHART
AS OF JUNE 30, 2008



PROFESSIONAL CONSULTANTS

Consulting Services

Actuary
Buck Consultants

Auditor
Jim Sligh, CPA

Investment Custodian
The Bank of New York

Investment Consultant
Peter Chan & Co.

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

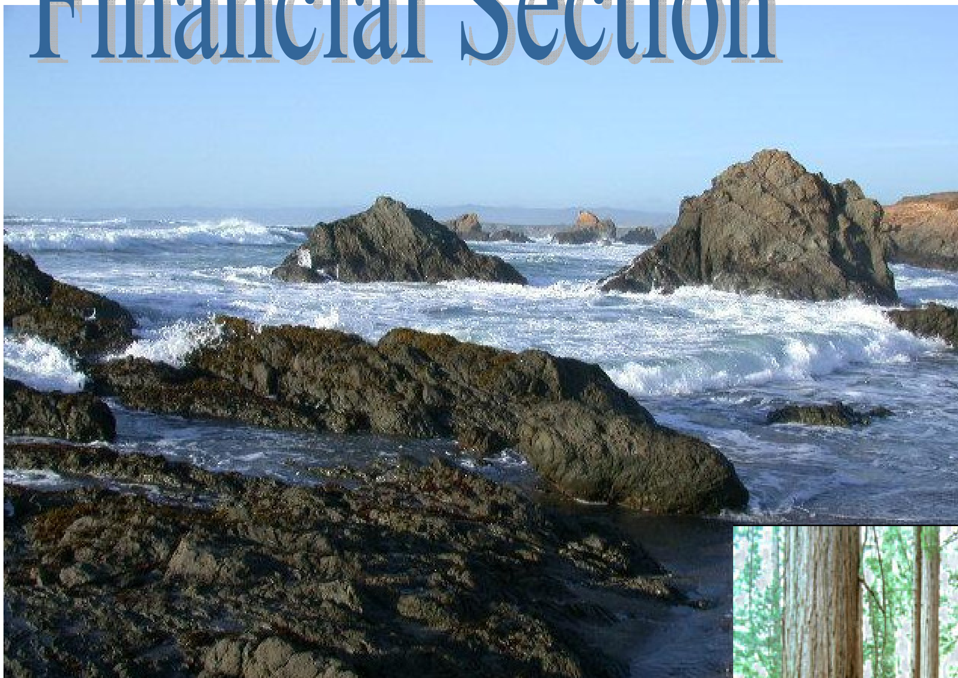
Small Cap Growth Equity
Alliance
R S Investments
Fremont U.S. Micro Cap

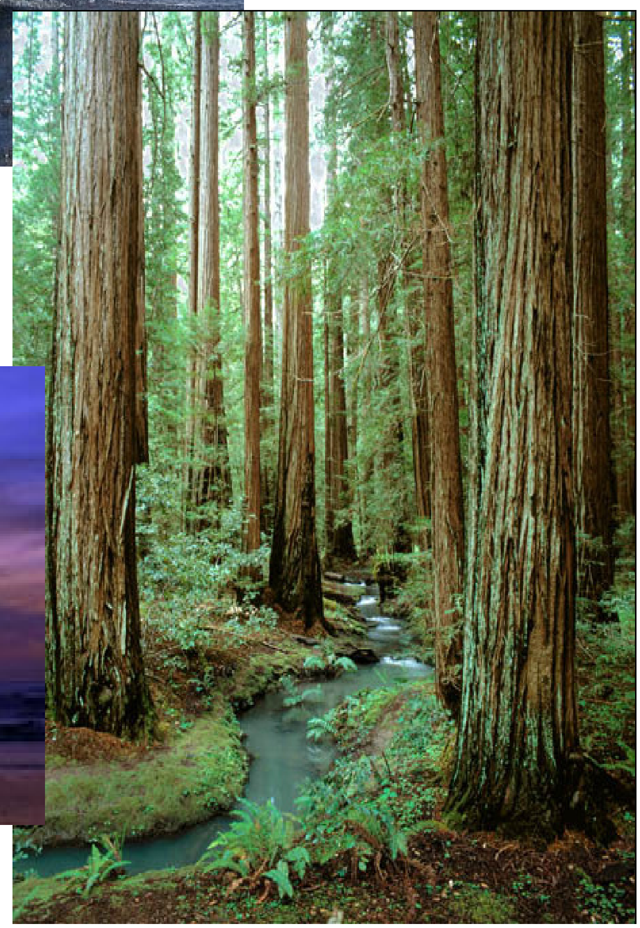
Small Cap Value Equity
Vanguard Small Cap Index
Mainstay

International Equity
Europacific
Harbor International
Acorn International
Artisan
Janus International
Oakmark

Real Estate
RREEF Commingled Fund
RREEF America REIT II

Financial Section





Independent Auditor's Report

Board of Retirement
Mendocino County Employees_ Retirement Association
Ukiah, California

I have audited the accompanying statements of plan net assets of the Mendocino County Employees' Retirement Association (Association) as of June 30, 2008, and the related statements 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, 2008, 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, 2008, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis, 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.

V. James Sligh, CPA
Ukiah, California
December 31, 2008

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, 2008. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

Financial Highlights

MCERA net assets as of June 30, 2008 are $331 million. This amount reflects a decrease of 6.5% in net assets during Fiscal Year 2007-2008, primarily as a result of a net investment loss of $15.8 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, 2008 the date of our last actuarial valuation, the funding ratio was 94.5%. In general, this indicates that for every dollar of benefits owed we had approximately $.94 ½ of assets available for payment as of that date.

Revenues (additions to plan assets) for the year were $-1.7 million. This was comprised of $7.3 million of employer contributions, $6.6 million of member contributions and an investment return of $-15.8 million. The employer contributions increased by .5 %, due to increased contribution rates paid by the county, and employee contributions increased by 10.2% during the fiscal year.

Expenses (deductions in plan assets) for the year were $21.1 million, an increase of $2.2 million or 11.4% over the prior year. The majority of the increase in expenses came from a $2.1 million (12.1%) increase in pension benefits. Administrative expenses increased $10,600 (2.5%) 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 16)
- Statement of Changes in Plan Net Assets (page 17)
- Notes to the Financial Statements (page 18)

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, 2008 and 2007

(Dollars in Thousands)

	2008	**2007**	**Amount Increase/ (Decrease)**	**% Change Increase/ (Decrease)**
Cash and Short Term Investments	12,552	9,638	2,914	30.0%
Receivables	3,996	16,598	(12,602)	(75.9%)
Investments, at Fair Value	316,696	329,355	(12,659)	(3.8%)
Total Assets	333,244	355,591	(22,347)	(6.3%)
Accounts Payable	77	108	(31)	(28.7%)
Accrued Expenses	4	0	4	0.0%
Investment Purchases	1,810	1,310	500	(38.2%)
Total Liabilities	1,891	1,418	473	(33.3%)
Net Assets Held in Trust for Benefits	331,353	354,172	(22,820)	(6.4%)

The Retirement Fund as Whole

MCERA's net assets decreased 6.4% in 2008 reflecting negative investment returns of -3.8%. 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 10.74%. This illustrates the importance of a long-term investment strategy incorporating structured diversification and a balanced investment portfolio. 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 2008 with a negative -3.8% 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. Even with this unusual U.S. stock market cycle, the five year annualized portfolio return was 10.74%, net of fees. 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 -3.82%, 8.36% and 10.74% for the one, three and five year periods ended June 30, 2008, respectively. Real estate, included in the total portfolio percentage mentioned above, returned 19.2% from October 2003 through June 30, 2008.

MCERA's Reserves
For the Fiscal Years ended June 30, 2008, 2007 and 2006
(Dollars in Thousands)

	2008	2007	2006
Member Reserve	62,348	58,036	54,037
Employer Reserve	3,459	10,687	18,271
Annuitant Reserve	150,148	132,687	117,116
Cost of Living Reserve	83,594	78,488	74,861
Contingency Reserve	3,314	3,542	3,068
Miscellaneous Reserves	4	(8)	0
Total Reserves	302,867	283,432	267,353

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

For the Fiscal Years ended June 30, 2008 and 2007
(Dollars in Thousands)

	2008	2007	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Employer Contributions	7,561	7,527	34	.5%
Member Contributions	6,613	6,002	610	10.2%
Net Investment Income	(15,847)	52,299	(68,145)	(103.5%)
Total Additions	(1,673)	65,828	(67,501)	(102.5%)

Deductions to MCERA's Net Assets

For the Fiscal Years ended June 30, 2008 and 2007
(Dollars in Thousands)

	2008	2007	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Retirement Benefits	15,640	14,153	1,487	10.5%
Health Benefits	4,017	3,382	635	18.8%
Refund of Contributions	1,064	1,036	28	2.7%
Administrative Expenses	426	416	10	2.4%
Total Deductions	21,147	18,987	2,160	11.3%
Change in Net Assets	(22,819)	46,842	(69,661)	(148.7%)

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, 2008 totaled $-1.7 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 a negative return in equity markets following an unusual three year up market cycle. The total balance of investment assets decreased from approximately $329 million in 2007 to $317 in 2008 due to a dramatic decrease in the market value of all investment categories at the end of the fiscal year. The return on investment was a negative return of -3.82% in 2008

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, 2008 were $426 thousand, an increase of $10 thousand (2.4%), compared to expenses of $416 thousand for the year ended June 30, 2007. Pension benefits increased 10.5% primarily due to a 6.1% increase in the number of retirees.

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 the beneficiaries.

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

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

I have audited the statement of plan net assets of the Mendocino County Employees' Retirement Association (Association) as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended, and have issued my report thereon dated December 31, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Association's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance

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

This report is intended for the information of the Board of Retirement, the management of the Mendocino County Employees' Retirement Association, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

V. James Sligh, CPA
Ukiah, California
December 31, 2008

STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

ASSETS	6/30/2008	6/30/2007
Cash and Cash Equivalents	12,552,229	9,637,652
Receivables		
Employers	87,337	44,383
Investment Sales	2,493,284	15,318,725
Interest and Dividends	1,410,953	1,226,433
Other Receivables	4,266	8,539
Total Receivables	3,995,840	16,598,080
Investments, at fair value		
U.S. Government Bonds	61,810,789	60,366,225
International Bonds	1,316,105	1,538,832
Domestic Corporate Bonds	38,428,796	34,127,543
Domestic Stocks	120,170,521	131,487,674
International Stocks	61,304,551	68,184,382
Real Estate	33,665,190	33,650,726
Total Investments	316,695,952	329,355,382
Total Assets	333,244,021	355,591,114
LIABILITIES		
Accounts Payable	77,055	108,645
Accrued Expenses	4,324	0
Investment Purchases	1,809,925	1,310,345
Total Liabilities	1,891,304	1,418,990
Net Assets Held in Trust for Pension Benefits	331,352,717	354,172,124

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

ADDITIONS	6/30/2008	6/30/2007
Contributions		
Employer	7,269,154	7,231,002
Plan Members	6,612,780	6,002,259
Total Contributions	13,881,934	13,233,261
Other Income		
Employer Reimbursement of		
Administrative Expenses	292,048	295,955
Total Other Income	292,048	295,955
Investment Income		
Net Appreciation (Depreciation)		
In Fair Value of Assets	(24,961,998)	44,232,592
Building Income Net of Expenses	34,570	
Interest	6,505,308	5,631,917
Dividends	2,936,213	2,772,558
Total Investment Income	(15,485,907)	52,637,067
Less Investment Expenses	306,647	337,677
Net Investment Income (Loss)	(15,792,554)	52,299,390
Total Additions	(1,618,572)	65,828,606
DEDUCTIONS		
Retirement Benefits	15,639,660	14,152,746
Refund of Contributions	1,064,287	1,035,899
Health Care Benefits	4,017,074	3,382,351
Administrative Expenses	426,194	415,588
Total Deductions	21,147,215	18,986,584
Net Increase (Decrease)	(22,765,787)	46,842,022
Net Assets Held in Trust		
for Pension Benefits		
Beginning of Year	354,172,127	307,330,102
End of Year	331,406,340	354,172,124

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended June 30, 2008

Summary of Significant Accounting Policies

Basis of Accounting

The Mendocino County Employees' Retirement Association (Association) 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 short-term investments at the Local Agency Investment Fund (LAIF) maintained by the Treasurer of the State of California. 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. The short-term funds in the Local Agency Investment Fund (LAIF), which is in the custody of the Treasurer of the State of California, are invested in various short term funds in accordance with Government Code Sections 16430 and 16480, the stated investment authority for LAIF. Deposits in the LAIF pooled account approximate 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, 2008, are as follows:

Cash in Trust - Mendocino County	12,552,229
Short-Term Investments - LAIF	0
Total Cash Equivalents	12,552,229
U.S. Government and Agency Bonds	61,810,789
International Bonds	1,316,105
Corporate Bonds	38,428,796
Domestic Stocks - Mutual Funds	113,101,198
Domestic Stocks	7,069,323
International Stocks - Mutual Funds	61,304,551
Real Estate	33,665,190
Total Investments	316,695,952
Total Cash Equivalents and Investments	329,248,181

In addition, at June 30, 2008, there are short-term investments of $1,309,282 at the Bank of New York, and $5,854 at the Local Agency Investment Fund, respectively, 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, 2008 the Association was owed $2,493,284 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 and the Local Agency Investment Fund (LAIF) 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 self-insurance by the State of California for LAIF investments, and fidelity bonds for the Bank of New York investments. All the above short-term investments, including investment in the LAIF investment pool, 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 is 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, 2008, the Association's quality distribution of fixed income investments was as follows:

Quality (S&P)	Percentage of Total Fixed Income Securities
U.S. Treasury	8.8%
Government Agency	45.3%
AAA	11.2%
AA	5.4%
A	14.5%
BAA	11.9%
BA	0.5%
Other	1.8%
	100.0%

Interest Rate Risk

The risk of changes in the interest rates adversely affecting the fair value of an investment is known as Interest Rate Risk. The Association has not adopted a formal policy to manage interest rate risk.

As of June 30, 2008, the Association had the following fixed income investments:

Investment Type	Fair Value	Weight of Total Fixed Income	Effective Duration (In Years)
U.S. Treasuries	8,882,431	8.75%	2.10
Government Agencies	3,464,092	3.41%	5.07
Asset-Backed Securities	2,728,296	2.69%	0.37
Corporate Bonds	35,550,576	35.00%	6.94
Mortgages	49,614,190	48.85%	3.20
International	1,538,832	1.30%	5.74
Total Fair Value	101,778,417	100.00%	
Portfolio Effective Duration			4.09

Highly Sensitive Investments

As of June 30, 2008, 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.

At June 30, 2008 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 as of June 30, 2008:

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian Dollars	720	0	320,210	320,930
Canadian Dollars	0	0	352,735	352,735
United Kingdom Pounds	0	0	643,160	643,160
Total	720	0	1,316,105	1,316,825

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 consisted of the following:

Retirees and beneficiaries receiving benefits	962
Terminated plan members entitled to but not yet receiving benefits	411
Active plan members	1,410
Total	2,783
Number of participating employers	3

Plan Description. The Association is administered under the authority of the County Employees' Retirement Law of 1937 and is a cost-sharing multiple employer plan that administers a defined benefit pension plan for the County of Mendocino, the Mendocino County Courts, and the Russian River Cemetery District. 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.

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 the Association health care reserves have been totally depleted and 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 10 years prior to retirement with the County of Mendocino. The retiree health benefit program qualifies under section 401(h) of the Internal Revenue Code.

Contributions. Actuarially determined member contribution rates averaged 9.82 percent for the year ended June 30, 2008. 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, 2008. 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 9.85 and 10.35 percent, respectively.

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.

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 indicates that the County is not required to fund the unfunded actuarially accrued liability (UAAL) if the UAAL does not exceed 10 percent of the total pension liability.

The UAAL as of June 30, 2008 is $20.4 million, less than the target balance of $37.4, therefore a contribution to fund the UAAL is not required under the current funding agreement. As a result, the actuaries have recommended employer and employee contribution rates for the year ended June 30, 2009 that are approximately the same as that of the prior fiscal year. The funded ratio at June 30, 2008 is 94.5%, as indicated on the Schedule of Funding Progress on Page 37.

As of June 30, 2008, the plan has no reserves of plan assets for future health care benefits of retirees. The plan had contingency reserves of $3,529,871 at June 30, 2008 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.

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, 2008 (under the five-year smoothed market asset valuation method for actuarial valuation purposes), is as follows:

Employee reserves	62,347,909
Employer reserves	3,458,878
Retiree reserves	233,742,128
Retiree health care benefit reserves	0
1% Contingency Reserve	3,313,527
Miscellaneous reserves	4,324
Total reserves	302,866,766
Excess earnings - undesignated	53,880,353
Total allocated reserves (smoothed market actuarial value)	356,747,119
Net assets in excess (deficit) of reserves	(25,394,402)
Net assets available for benefits, at fair value	331,352,717

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 pays claims to health care providers as 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, 2008.

Due to a 5-year smoothing actuarial method of calculating the net actuarial value of assets as of June 30, 2008, the Association has $53,880,353 in excess earnings that can be used for the payment of retiree health insurance. The calculation using the 5-year smoothing method will be performed every year, to arrive at a new determination of excess earnings.

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 or special district, through the adoption of an ordinance or resolution, to terminate the applicability of the plan to employees of the County or district whose services commence after a given future date.

Current and Future Accounting Pronouncements

The GASB recently released GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans;* GASB Statement No. 44*, Economic Condition Reporting; and* GASB Statement No. 50*, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27.*

GASB Statement No. 43 provides uniform financial reporting standards for plans that provide postemployment benefits such as health care benefits. This statement, if applicable, may require the Association to obtain actuarial valuations, and report in its financial statements, the funded status and funding progress of health care costs for retired members. Management is currently evaluating GASB Statement No. 43 and, if applicable, it will be implemented in the financial statements for the year ending June 30, 2008. The impact of this standard on the financial statements has not been determined.

GASB Statement No. 44 establishes new guidelines for supplementary information to be included in the statistical section for those entities preparing a Comprehensive Annual Financial Report (CAFR). This Statement is effective for statistical sections prepared for periods beginning after June 15, 2005.

GASB Statement No. 50 amends Statements 25 and 27 to require defined benefit pension plans and employers to present information about actuarial information in the notes to the financial statements, instead of in separate notes to required supplementary information. This change is effective for the report issued for the year ended June 30, 2008.

Subsequent Events

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

Financial Change

Since June 30, 2008, the U.S. and International equity markets have experienced a significant decline in market value. In this environment, the MCERA assets declined in value over $74 million, or 24%, to a value at December 31, 2008, of just over $236 million. The asset allocation of the portfolio was reviewed and adjusted in 2008. Equities, especially Small Cap and International, have suffered the greatest losses relative to other asset classes. This has resulted in the allocation of fixed income assets exceeding targets. The board is not rebalancing its portfolio at this time due to the realized losses that would be incurred, but continues to monitor the asset allocation closely.

Management Change

In November, 2008, the MCERA hired a new Retirement Administrator, Jim Andersen, to replace outgoing, long-time Administrator Tim Knudsen. Mr. Andersen is a former County Administrator for Mendocino County, and Assistant County Administrator for Sonoma and Mendocino Counties. Mr. Knudsen continues to provide services to MCERA, document policies and procedures, and to assure the smooth transition to new leadership.

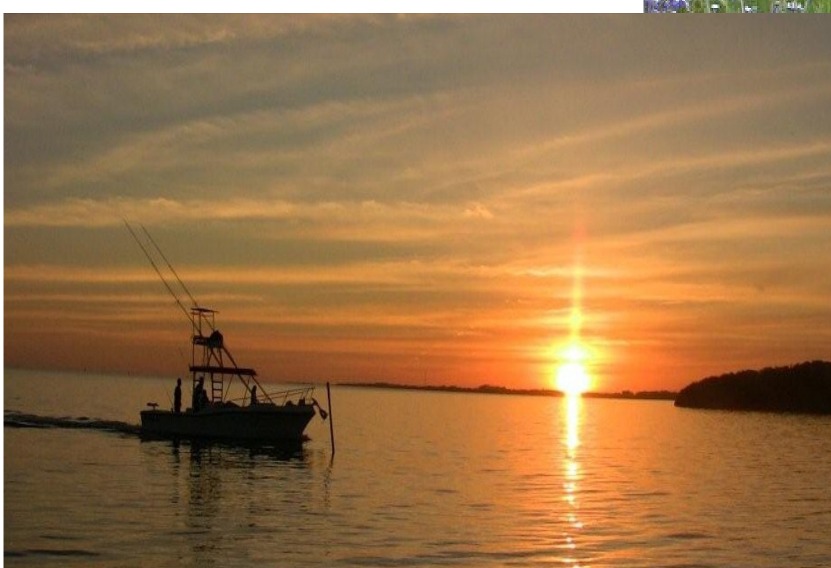
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year ended June 30, 2008

	2008	2007
Personal Services:		
Salaries and Wages	199,517	166,599
Other Benefits	33,803	25,519
Employee Retirement	25,679	30,502
Total Personal Services	258,999	222,620
Professional Services:		
Outside Legal Counsel - Disability	55,315	74,634
Disability Hearing Officer/Medical Exams	20,972	47,054
External Audit Fees	9,587	8,800
Other Professional Services	38,300	37,664
Fiduciary Insurance	36,105	
Total Professional Services	160,279	168,152
Miscellaneous:		
Office Expenses	19,090	12,131
New Building Equipment	16,696	
Insurance General	1,187	1,102
Memberships	4,250	250
Prof & Spec Services - Other	9,175	4,100
Transportation & Travel	16,211	10,889
Total Miscellaneous	66,609	28,472
Total Administrative Expenses	485,887	419,244

SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND OTHER INVESTMENT EXPENSES
For the Year ended June 30, 2008

	2008	2007
Investment Management Fees:		
Bradford & Marzec	35,341	48,879
Dodge & Cox	116,433	128,271
Alliance Bernstein	26,865	55,465
Total Investment Management Fees	178,639	232,615
Investment Consultant Fees:	45,875	43,500
Investment Custodian Fees:	37,191	36,712

Investment Section



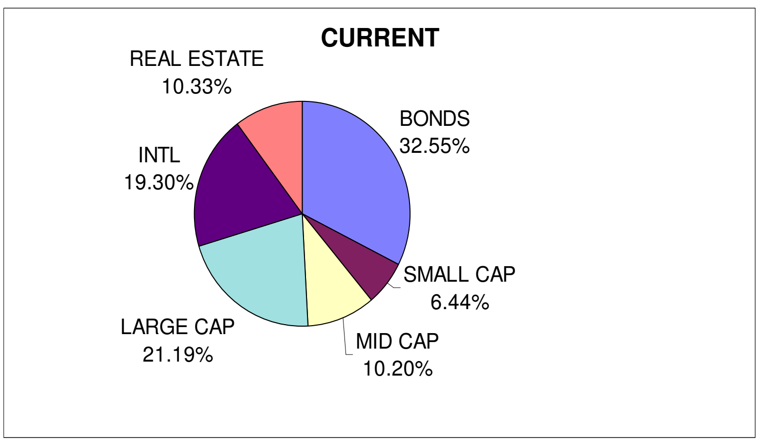
INVESTMENT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2008

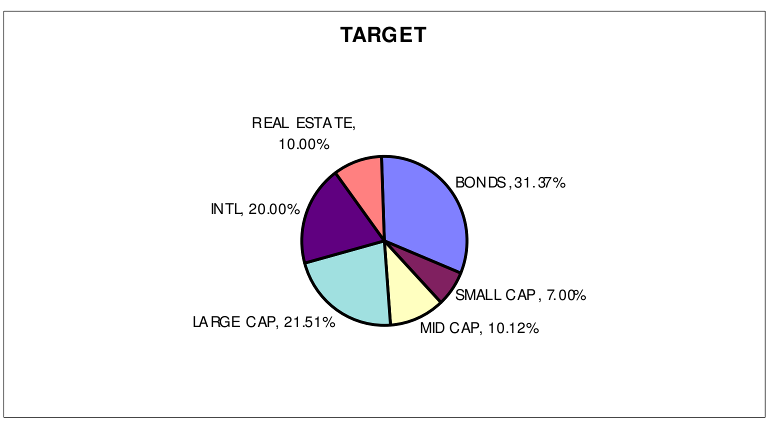
	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
FIXED INCOME					
Dodge & Cox	86,142,690	27.46%	5.38%	4.26%	3.97%
Bradford & Marzec	15,413,000	5.08%	5.32%	3.68%	3.96%
Lehman Aggegarte			7.13%	4.08%	3.86%
DOMESTIC EQUITY					
Alliance	3,272,600	1.03%	-10.92%	7.52%	11.95%
R S Emerging	2,645,094	0.83%	-14.14%	3.88%	8.50%
Fremont	2,603,564	0.82%	-17.44%	1.62%	5.71%
Russell 2000 Growth			-10.83%	6.08%	10.37%
Vanguard Small Index	6,143,999	1.93%	-20.27%	1.44%	10.43%
Mainstay	5,795,144	1.82%	-30.97%	-5.69%	8.52%
Russell 2000 Value			-21.64%	1.39%	10.01%
Morgan Stanley	8,025,239	2.53%	-0.78%	12.14%	16.29%
Janus Enterprise	8,565,238	2.70%	2.19%	13.17%	15.33%
Russell Mid Growth			-6.42%	8.19%	12.32%
Fidelity LP Stock	7,817,669	2.46%	-13.30%	5.83%	12.81%
Royce Total Return	7,994,363	2.52%	-11.51%	5.59%	10.45%
Russell Mid Value			-17.09%	4.97%	13.00%
American Funds	8,269,015	2.60%	-5.00%	9.13%	11.58%
Harbor Cap. Appreciation	9,503,920	2.99%	-2.54%	5.94%	8.72%
Janus Research	8,735,403	2.75%	-4.33%	9.55%	10.38%
Russell 1000 Growth			-5.96%	5.91%	7.32%
Selected American	11,503,338	3.62%	-13.22%	5.13%	9.11%
Dodge & Cox Stock	7,069,323	2.23%	-21.43%	2.75%	9.30%
Invest. Co. America	11,194,800	3.52%	-12.96%	5.33%	8.30%
Vanguard Gr & Inc.	11,031,812	3.47%	-13.49%	3.40%	7.45%
Russell 1000 Value			-18.78%	3.52%	8.92%
INTERNATIONAL EQUITY					
Europacific	10,539,333	3.32%	-3.92%	16.43%	19.00%
Harbor International	10,736,833	3.38%	-0.73%	21.85%	22.36%
Acorn International	10,329,144	3.25%	-6.69%	19.39%	24.15%
Artisan International	10,481,415	3.30%	-5.30%	15.93%	17.07%
Janus International	10,261,778	3.23%	-1.76%	29.14%	27.33%
Oakmark International	8,956,048	2.82%	-25.57%	5.56%	12.26%
MSCI EAFE			-10.15%	13.34%	17.16%
REAL ESTATE					
RREEF Public	11,568,257	3.64%	-14.71%	5.78%	15.20%
NAREIT - Equity			-13.63%	4.99%	14.31%
RREEF Private	21,246,933	6.69%	7.18%	13.40%	NA
NACRIEF			12.49%	16.10%	NA
625 Kings Court	850,000				
TOTAL FUND	316,695,952	100.00%	-3.82%	8.36%	10.74%
MCERA Policy Index			-4.71%	7.12%	9.90%

ASSET ALLOCATION
JUNE 30, 2008 (1)

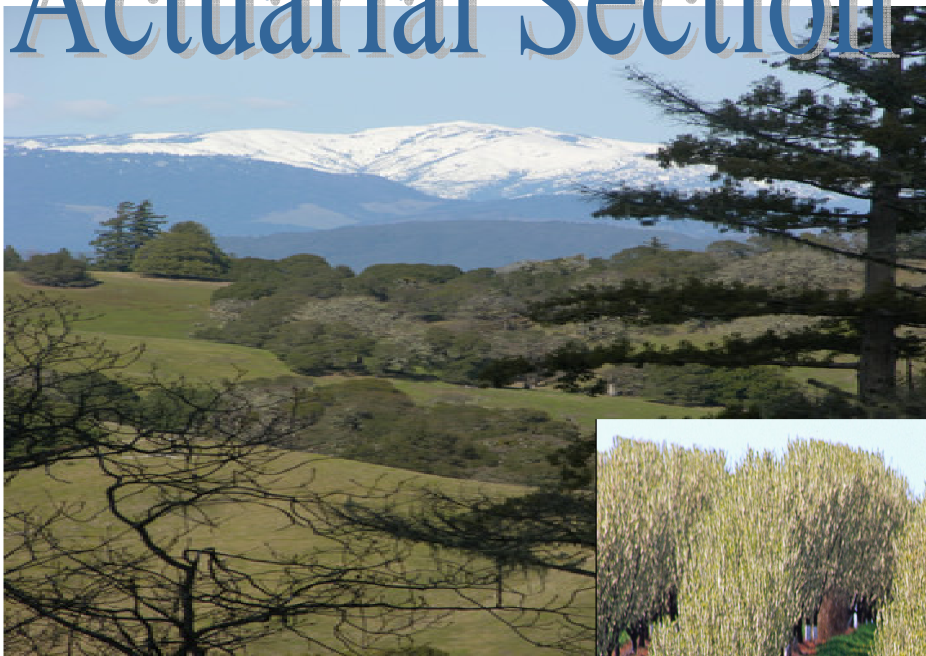
Asset Class	Market Value	Actual Allocation	Target Allocation
Fixed Income	101,555,690	32.07%	31.37%
Domestic Equities	120,170,521	37.94%	38.63%
International Equities	61,304,551	19.36%	20.00%
Real Estate (2)	33,665,190	10.63%	10.00%
Total Portfolio	316,695,952	100.00%	100.00%

Notes:
(1) Does not include cash; accounts receivables, or prepaid expenses
(2) Includes Kings Court building for 2008





Actuarial Section



buckconsultants an ACS company

January 26, 2009

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 20 of each year. The date of the most recent actuarial valuation was June 30, 2008. 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, 2008, the remaining amortization period for the UAAL was 9 years. The funding objective of the Association is to establish contribution rates that, overtime, will remain as 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 9 years from the June 30, 2008 valuation date.

1.	Investment Return:	8.00% per annum
2.	Interest Credited to Employee Accounts:	8.00% per annum
3.	Inflation:	4.75% 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 1994 GA (x) for Safety and Probation Members
9.	Yrs of Life Expectancy after Disability:	1981 Disability General (x-5, x-2) for General 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, no setback
11.	Reciprocity Assumptions:	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 4.75% for inflation and graded merit and longevity.

Actuarial

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

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%

* 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 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%	1	81.8%

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS

The following assumptions along with the post retirement and pre-retirement demographic experiences are based on the plan's actuarial experience trough June 30, 2008. The rates Produced by this valuation were adopted by the MCERA Board of Retirement on February 18, 2009.

Actuarial Assumptions

Post-Retirement Mortality

(1) Service - General

Males	1994 Group Annuity Table for Males, with no set back
Female	1994 Group Annuity Table for Females, with no set back
Safety	1994 Group Annuity Table for Males, with no set backs

(2) For Employee Contribution Rate Purposes

General	1994 Group Annuity Mortality Table for Males, set back 3 years
Safety	1994 Group Annuity Mortality Table for Males, with no set back
Pre-Retirement Mortality	Rates vary by age, gender and classification
Withdrawal Rates	Rates vary by age, gender and classification
Disability Rates	Rates vary by age, gender and classification
Service Retirement Rates	Rates vary by age, gender and classification
Asset Valuation	Smoothed Market Value
Valuation Date	June 30, 2008

Actuarial Analysis of Financial Experience

(Dollars in thousands)

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

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 ©	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**	242,342	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	317,931	358,259	40,322	88.7%	65,899	61.2%
7/1/2008	353,421	373,832	20,411	94.5%	70,880	28.8%

* 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 CONTRIBUTION

(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	106%

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 Section 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

Non-Service 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 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.