MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement
Marin County Employees' Retirement Association

We have audited the accompanying statement of plan net assets of the Marin County Employees' Retirement Association (MCERA) as of June 30, 2008 and 2007 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of MCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2 to the financial statements, in Fiscal Year 2008, MCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27.*

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the MCERA as of June 30, 2008 and 2007 and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of MCERA. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
July 17, 2009

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

We are pleased to provide this overview and analysis of the financial activities of the Marin County Employees' Retirement Association's (MCERA) for the year ended June 30, 2008. MCERA is the public employee retirement system established by the County of Marin on July 1, 1950, and is administered by the Board of Retirement to provide retirement, disability, and death and survivor benefits for its employees under the County Employees Retirement Act of 1937.

Financial Highlights

MCERA's plan net assets as of June 30, 2008 were $1,415,575,543. The plan net assets are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet MCERA's ongoing obligations.

Total net assets decreased by $100,987,842; primarily due to negative investment performance.

MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the date of the last actuarial evaluation, the funded ratio for all MCERA agencies was 85.41%. In general, this indicates that for every dollar of benefits due we had approximately $0.8541 of assets available for payment as of that date. The funding ratios of the employer entities included in MCERA were: 88.80% for the County of Marin and agencies, 72.49% for San Rafael, and 88.50% for Novato.

Declines to plan net assets for the year were $24,685,796 which includes member and employer contributions of $73,970,761, and total net investment loss of $98,656,557.

Deductions in plan net assets increased from $69,948,830 to $76,302,046 versus the prior year. The increase was due to an increase in retiree pension benefits and increased administrative expenses resulting from implementation of new CPAS software.

Overview of the Financial Statements

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

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

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

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

The statement of Changes in Plan Net Assets, on the other hand, provides a view of the current year additions to and deductions from the plan.

Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB) Pronouncements 25, 26, 28, 33, 34, 40, 44 and 50. These pronouncements require certain disclosures and also require the state and local governments to report using the full accrual method of accounting. MCERA complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets reports information about MCERA's activities. These statements include all assets and liabilities using the full accrual basis of accounting as practiced by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Investment gains and losses are reported on a trade-date basis and both realized and unrealized gains and losses on investments are shown.

These two statements report MCERA's net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – as one way to measure the system's financial position. 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 health.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning MCERA's progress in funding its obligations to provide pension benefits to members.

Financial Analysis

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Net assets held in trust for pension benefits as of June 30, 2008, totaled $1,415,575,543, a decrease of $100,987,842 over the prior year. MCERA's assets exceeded its liabilities at the end of the year. Below is a comparison of selected current and prior year balances:

	2008	2007	2006	Increase (Decrease) 2008/2007	Increase (Decrease) 2007/2006
Investments at fair value	$ 1,368,382,789	$1,457,945,270	$ 1,317,631,869	$ (89,562,481)	$ 140,313,401
Cash and short-term investments	51,958,299	65,447,652	156,021,017	(13,489,353)	(90,573,365)
Collateral held for securities loaned	109,220,513	108,163,050	-	1,057,463	108,163,050
Receivables and other assets	15,655,601	9,743,991	29,733,800	5,911,610	(19,989,809)
Total assets	1,545,217,202	1,641,299,963	1,503,386,686	(96,082,761)	137,913,277
Total liabilities	129,641,659	124,736,578	215,303,561	4,905,081	(90,566,983)
Net assets	$ 1,415,575,543	$1,516,563,385	$ 1,288,083,125	$(100,987,842)	$ 228,480,260

Additions to Plan Net Assets

There are three primary sources of funding for MCERA retirement benefits: earnings (losses) on investments of assets and employer and employee contributions. Income sources for the fiscal years June 30, 2008 and 2007 totaled $(24,685,795) and $298,429,090, respectively.

	2008	2007	2006	Increase (Decrease) 2008/2007	Increase (Decrease) 2007/2006
Employer contributions	$ 58,089,688	$ 50,117,033	$ 43,626,549	$ 7,972,655	$ 6,490,484
Plan members contributions	15,881,073	13,488,748	13,042,829	2,392,325	445,919
Net investment income	(98,656,557)	234,823,309	140,818,299	(333,479,866)	94,005,010
Total	$ (24,685,796)	$ 298,429,090	$ 197,487,677	$ (323,114,886)	$ 100,941,413

Deductions from Plan Net Assets

MCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refund of contributions to terminated employees, and the cost of administering the system. Below is a comparison of selected current and prior year balances:

	2008	2007	2006	Increase (Decrease) 2008/2007	Increase (Decrease) 2007/2006
Retirement benefits	$ 72,188,685	$ 67,322,500	$ 61,205,529	$ 4,866,185	$ 6,116,971
Retiree healthcare	-	-	8,997,848	-	(8,997,848)
Refund of contributions	530,647	627,743	821,943	(97,096)	(194,200)
Interest paid on prepaid contributions	-	-	204,109	-	(204,109)
Administrative	2,929,645	1,830,955	1,262,844	1,098,690	568,111
Legal expenses	563,428	36,504	10,730	526,924	25,774
Actuarial expenses	89,641	131,128	104,774	(41,487)	26,354
Total expenses	$ 76,302,046	$ 69,948,830	$ 72,607,777	$ 6,353,216	$ (2,658,947)

The Retirement Fund as a Whole

Despite variations in the stock market, MCERA's management believes that MCERA is in reasonably sound financial position to meet its obligations to the retired and current employees. The current financial position results from a diversified investment program that prudently manages risk to minimize loss, an effective system of cost control and strategic planning. Management believes there will continue to be sufficient assets to meet all benefit obligations.

Requests for Information

This financial report is designed to provide the Retirement Board, our membership, taxpayers, and investment managers with a general overview of MCERA finances and to demonstrate MCERA's accountability for the funds under its stewardship

Please address any questions about this report or requests for additional financial information to:

Marin County Employees' Retirement Association
3501 Civic Center Drive, Room 408
San Rafael, CA 94903

Respectively submitted,

/s/ Charnel K. Benner
Charnel K. Benner, CFP
Retirement Administrator

BASIC FINANCIAL STATEMENTS

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	June 30, 2008	June 30, 2007
Assets		
Cash and short term investments		
Cash and cash equivalents	$ 51,958,299	$ 65,447,652
Collateral held for securities loaned	109,220,513	108,163,050
Total Cash and Short-Term Investments	161,178,812	173,610,702
Receivables		
Contributions	4,644,531	1,418,324
Interest and dividends	2,151,790	2,172,237
Due from brokers for securities sold	8,105,837	5,260,254
Other receivables	121,516	135,796
Total Receivables	15,023,674	8,986,611
Investments at fair value		
Domestic fixed income	163,300,085	144,698,157
International fixed income	13,851,238	7,682,522
Domestic equities	664,531,571	725,665,541
International equities	330,617,261	401,029,249
Real estate	196,082,634	178,869,801
Total Investments	1,368,382,789	1,457,945,270
Prepaid insurance	631,927	757,380
Total Assets	1,545,217,202	1,641,299,963
Liabilities		
Accounts payable and accrued expenses	3,226,177	2,067,681
Due to brokers for securities purchased	15,533,786	7,450,271
Rental security deposits	661,183	753,740
Retiree payroll payable	-	6,301,836
Health Insurance Payable	1,000,000	-
Collateral held for securities loaned	109,220,513	108,163,050
Total Liabilities	129,641,659	124,736,578
Net Assets Held in Trust for Pension Benefits	$ 1,415,575,543	$ 1,516,563,385

(A schedule of funding progress is presented on page 18.)

The accompanying notes are an integral part of these financial statements.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008 AND 2007

	June 30, 2008	June 30, 2007
Additions		
Contributions		
Employers	$ 58,089,688	$ 50,117,033
Plan members	15,881,073	13,488,748
Total Contributions	73,970,761	63,605,781
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	(115,744,403)	218,376,915
Interest and dividends	21,351,241	19,640,737
Real estate operating income, net	3,603,771	4,722,322
Other investment income	210,228	65,002
Total investment income (loss)	(90,579,163)	242,804,976
Less investment expenses	8,987,364	8,190,180
Net investment income (loss)	(99,566,527)	234,614,796
Securities lending activities		
Securities lending income	4,459,265	5,994,754
Less expenses from securities lending activities	3,549,295	5,786,241
Net securities lending income	909,970	208,513
Total net investment income (loss)	(98,656,557)	234,823,309
Total Additions (Declines)	(24,685,796)	298,429,090
Deductions		
Benefits	72,188,685	67,322,500
Refunds	530,647	627,743
Administrative costs - Note 8	2,929,645	1,830,955
Legal expense	563,428	36,504
Actuarial expenses	89,641	131,128
Total Deductions	76,302,046	69,948,830
Net Increase (Decrease)	(100,987,842)	228,480,260
Net Assets Beginning of Year	1,516,563,385	1,288,083,125
Net Assets Held in Trust for Pension Benefits	$ 1,415,575,543	$ 1,516,563,385

The accompanying notes are an integral part of these financial statements.

NOTE 1 – PLAN DESCRIPTION

The Marin County Employees' Retirement Association (MCERA) was formed July 1, 1950, by the adoption of the County Employees' Retirement Law of 1937 (State of California Government Code Section 31502) by the Marin County Board of Supervisors pursuant to a vote of the people of Marin County to provide retirement benefits to the employees of Marin County and various special districts. On July 1, 1977, the City of San Rafael, San Rafael Redevelopment Agency, and the Novato Fire Protection District also became participants in the program.

The Plan is an agent multiple-employer public employee retirement system (PERS). Such plans cover employees of more than one employer and pool administrative and investment functions as a common investment and administrative agent for each employer. Administrative costs of MCERA are financed through investment earnings and paid by MCERA. As required under California Government Code Section 31520.1, MCERA is governed by the following Board of Retirement:

	Term Expires
Maya Gladstern	10/31/10
Sandy White	10/31/08
James Hufford	10/31/10
Karen Wofford, Safety Alternate	10/31/10
Allen Haim	10/31/09
Josh Thomas, Retiree Alternate	10/31/09
Peter Arrigoni	01/07/11
James Phillips	05/24/11
Gerald Richardson	08/15/11
Bernadette Bolger	03/15/11
Michael J. Smith	Ex-Officio

The Plan is operated under Section 31450 of the California Government Code related to employees. At June 30, 2008, the number of participating local government employers was:

County	1
City	1
California Superior Courts, Marin	1
Special Districts	7
Total	10

MCERA's membership consisted of the following as reported in the most recent actuarial valuation dated June 30, 2007:

	June 30, 2007	June 30, 2006
Active Members	2,837	2,784
Pensioners and Beneficiaries	2,220	2,140
Vested Deferreds	773	751
Total	5,830	5,675

NOTE 1 – PLAN DESCRIPTION (Continued)

As required by state statutes and MCERA by-laws, all regular-hire employees considered at least three-quarter time must participate in the County's pension plans. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. Employees are eligible to receive benefits upon reaching the age of 50 and 10 years of credited service or after 30 years of service (Safety, 20 years of service). Pension benefit amounts vary based on the individual's age and number of years in the retirement system. The maximum pension benefit is 100% of final compensation. Also, the pension plan provides for death benefits and disability benefits. All pension, death and disability benefits are determined in accordance with state statutes.

Contributions are determined based on a percentage of compensation for each entry age so as to provide a lifetime annuity commencing at age 50.

MCERA also provides a healthcare premium benefit to retirees with five or more years of qualifying service credit (substantially all retirees). The actuarial information presented on pages 18 through 19 excludes obligations for future health benefits. Separate asset reserves are maintained for health benefits for retirees of the City of San Rafael. All health benefits are funded on a pay-as-you go basis.

Employer and employee contributions are based on actuarial valuations that cover the mortality, service, and compensation experience of the members and beneficiaries, and the evaluation of the assets and liabilities of the retirement fund. The Board of Supervisors makes the necessary changes in County contribution rates and interest rates based upon the valuations and recommendations of the actuary. According to the June 30, 2007 actuarial valuation, depending on the age and classification at hire date, employees' weighted contributions are 11.09% of covered payroll for the County; San Rafael employees' weighted contributions are 16.01%; and Novato employees' weighted contributions are 24.87%.

Retiree and survivor benefits are adjusted annually for cost of living by the annual increase or decrease in the Consumer Price Index (CPI). In years when the CPI changes by more than specified limits, the excess is accumulated and applied to future years when the change in the CPI is less than those limits. The following limits are currently in effect: (a) 3% for City of San Rafael, (b) 2% for County retirees hired after June 30, 1980, and (c) 4% for all other retirees.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 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.

Investments are reported at fair value, except that short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates or by various outside pricing sources. The fair value of real estate investments is based on independent appraisals.

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

Cash

Cash includes deposits with various financial institutions, the County trust fund, and international currency holdings, which have original maturities of less than 90 days, translated to U.S. dollars using the exchange rates in effect at June 30, 2008 and 2007.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Implementation of New Accounting Pronouncements

MCERA adopted the Governmental Accounting Standards Board's (GASB) Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*, effective for the year ended June 30, 2008. This disclosure is presented in Note 10.

Reclassifications

Comparative data for the prior year has been presented in the selected sections of the accompanying Statements of Plan Net Assets and Changes in Plan Net Assets. Also, certain accounts presented in the prior year's data may have been reclassified in order to be consistent with the current year's presentation.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE

The County Employees Retirement Law of 1937 (Retirement Law) vests the Board of Retirement (Board) with exclusive control over MCERA's investment portfolio. The Board established an Investment Policy Statement in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the management of MCERA's assets (the Plan) by setting policy which the Investment Staff executes either internally, or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

The Investment Policy Statement encompasses the following:

- Criteria for Selecting & Terminating Investment Managers
- Investment Objective & Guidelines by Asset Class
- Duties & Responsibilities of MCERA Board
- Duties & Responsibilities of Staff, Investment Managers, Custodian & Investment Consultant
- Proxy Voting
- Statement of Objectives, Guidelines & Procedures for each Investment Manager

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MCERA seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To control Credit Risk, credit quality guidelines have been established.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Credit Risk (Continued)

The Domestic Fixed Income Core Portfolio must meet the following credit qualities:

- The portfolio will be invested only in investment grade securities as defined by one of the major rating agencies. The Core Fixed Income manager will maintain an overall portfolio quality rating of "AA-Aa3" or equivalent or better.

- The Core Fixed Income manager may invest up to 10% of the portfolio in 144A securities.

The Domestic Fixed Income Core Plus Portfolio must meet the same credit qualities listed above, except for the following:

- The Core Plus Fixed Income manager may invest up to 20% of the portfolio in securities rated below investment grade by at least one of the major rating agencies.

- The Core Plus Fixed Income may invest up to 20% of the portfolio in 144A securities.

As of June 30, 2008, the total MCERA fixed income portfolio maintained an Aa2 rating, (as represented by Moody's). The Core fixed income manager maintained an Aa2 rating, while the Core Plus Fixed Income manager maintained an Aa1 rating.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a financial institution's failure, MCERA would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. MCERA's deposits are not exposed to custodial credit risk as its deposits are eligible for and covered by "pass-through insurance" in accordance with applicable law and FDIC rules and regulations. Additional insurance against loss and theft is provided through a Financial Institution Bond.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MCERA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in MCERA's name, and held by the counterparty. MCERA's investment securities are not exposed to custodial credit risk because all securities are held by MCERA's custodial bank in MCERA's name. MCERA has investments in commingled funds that are not held by MCERA's custodial bank. However, investments 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. MCERA has no general policy on custodial credit risk for deposits.

Concentration of Credit Risk

As of June 30, 2008, MCERA did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

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

MCERA does not have a general policy to manage interest rate risk. To manage Interest Rate Risk, the modified adjusted duration of the Domestic Fixed Income Core and Core Plus Portfolios are restricted to +/- 25% of the Lehman Brothers Aggregate Bond Index's modified adjusted duration. Deviations from any of the stated guidelines require prior written authorization from MCERA.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

Interest Rate Risk (Continued)

As of June 30, 2008, MCERA's Core fixed income manager had a duration of 4.53 years, while MCERA's Core Plus Fixed Income manager had a duration of 5.89 years.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Forward currency contracts and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for currency hedging.

MCERA's exposure to Foreign Currency Risk in U.S. dollars as of June 30, 2008 and 2007 was $0 and $0, respectively.

NOTE 4 – REAL ESTATE

The following is a listing of California real estate held by MCERA (dollars in thousands):

	Appraised Value	
Location	2008	2007
Separate Properties:		
Sacramento	$ 6,110	$ 7,580
Sunnyvale	6,100	5,500
Sunnyvale SOLD 1/08	-	6,250
South San Francisco	9,500	8,400
Foster City	37,000	32,000
San Bruno	21,800	20,900
Pleasanton	33,070	31,050
Richmond	16,620	15,510
1 McInnis	12,630	-
Total	142,830	127,190
AEW Capital Management	2,669	2,320
ING Clarion	35,415	33,616
RREEF America REIT III	15,169	15,744
Total	53,253	51,680
Grand Total	$ 196,083	$ 178,870

NOTE 5 – SECURITIES LENDING TRANSACTIONS

State statutes and the investment policies of MCERA allow the plan to enter into securities lending transactions (loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future). Securities loaned are secured by cash collateral of 103% of the fair value of the loaned securities plus accrued interest. MCERA is not exposed to credit risk on security lending transactions because its custodian is required to indemnify MCERA against any related losses.

NOTE 5 – SECURITIES LENDING TRANSACTIONS (Continued)

Securities loaned include U.S. government and agencies securities, corporate bonds, and domestic corporate stock. MCERA is not restricted as to the amount of loans that can be made. MCERA cannot pledge or sell collateral securities received unless the borrower defaults. As of June 30, 2008 and 2007, the value of securities loaned by MCERA totaled $105,527,716 and $105,052,234, respectively. As of June 30, 2008 and 2007, the value of collateral held for securities loaned was $109,220,513 and $108,163,050, respectively.

NOTE 6 – CONCENTRATIONS

MCERA has entered into a custodial agreement with State Street. State Street custodies securities, and collects income for MCERA. The value of MCERA's investments under State Street's custodianship at June 30, 2008 and 2007 was approximately $628,239,650 and $631,000,000, respectively.

The following firms professionally manage MCERA's investments (dollars in thousands):

	Value of Investments	
	2008	2007
Woodmont Real Estate Services	$ 142,830	$ 127,190
RREEF	15,168	15,744
Western Asset Management	163,679	128,952
Wellington Management Company	152,040	133,452
Dodge & Cox	109,125	154,043
Mazama Capital Management	45,847	65,728
RCM Global Investors	124,246	149,037
Barclay's Global Investors	99,237	114,724
Dimensional Fund Advisors	54,688	64,209
Morgan Stanley	123,730	145,435
First Quadrant	19,744	20,615
Artisan Funds	117,495	143,826
Numeric Investors LP	35,536	31,291
Fidelity Market Neutral	38,093	31,319
Fidelity small Cap International	23,507	25,622
Analytic Investors - US	22,943	22,928
Analytic Investors - Japan	20,751	22,703
AEW Partners	2,669	2,320
ING Clairon	35,415	33,616
AXA Rosenberg International Small Cap Equity	21,639	25,191

NOTE 7 – OPERATING LEASES

MCERA holds real property on which it collects rental income under several operating lease arrangements. Generally, these leases provide for renewal options at the conclusion of fixed terms that vary in length. Rental income on all operating leases of MCERA amounted to $9,864,303 and $9,476,340 for the years ended June 30, 2008 and 2007, respectively.

NOTE 8 – ADMINISTRATIVE EXPENSES

California Government Code §31580.2 requires that the Board of Retirement may expend no more than .18% of the total assets of the retirement system for administrative expenses. However, per §31580.3 if during the year the expense of administration of the retirement system includes expenditures for software, hardware, and computer technology consulting services in support of that software or hardware, the expense incurred may not exceed the greater of the following: (1) The sum of eighteen hundredths of 1 percent of the total assets of the retirement system plus one million ($1,000,000). (2) Twenty-three hundredths of 1 percent of the total assets of the retirement system.

For the years ended June 30, 2008 and 2007, administrative expenses were $2,929,645, or .21% and $1,830,955, or .12% respectively, of the total net assets of the Plan at year-end. Due to the exclusion in §31580.3 mentioned above, MCERA is in compliance due to the implementation of new CPAS software. Administrative costs of the plan are financed through investment plan assets.

NOTE 9 – RISK MANAGEMENT

MCERA is exposed to various risks of loss related to torts, theft or damage to, or destruction of, assets, injuries to employees, and errors and omissions. To address these risk items, MCERA is covered by the following policies and programs:

$25,000,000	General Liability CSAC Excess Insurance Authority Liability Program Self-insurance retention of $500,000 per occurrence. County of Marin
$ 500,000	Workers' Compensation CSAC Excess Insurance Authority Liability Program Self-insured retention of $500,000 per occurrence. County of Marin
$10,000,000	Fidelity and Performance Bond CSAC Excess Insurance Authority Liability Program $5,000 deductible per occurrence. County of Marin

For each of the above self-insurance coverage limits, the County maintains a separate Internal Service Fund. Funding for each fund is actuarially determined.

$ 2,000,000	General Liability/Commercial Liability St. Paul Surplus Lines $1,000 deductible per occurrence MCERA
$10,000,000	Fiduciary Liability National Union Fire Insurance Self-insured retention, $100,000 per occurrence MCERA (includes waiver of trustee liability*)

* Premium for this waiver has been paid by each trustee individually.

In addition to the above, each investment manager and the Fund's custodian carries a separate fidelity bond as well as errors and omissions insurance at levels consistent with their total funds under management.

NOTE 10 – **ACTUARIAL VALUATIONS**

Pursuant to provisions in the County Employees Retirement Law of 1937 (CERL), MCERA engages and independent actuarial firm to perform an annual actual valuation. A system actuarial valuation is performed every three (3) years (i.e., triennial valuation). The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member contribution rates necessary to property fund the system. MCERA also hires and independent actuarial firm to audit the results of each triennial valuation.

The information displayed below presents the funded status of the most recent actuarial valuation. The Schedule of Funding Progress – Pension Plan in the Required Supplementary Information section immediately following the notes to the financial statements presents multiyear trend information regarding whether the actual value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability of benefits.

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
6/30/2007	$ 1,351,957	$ 1,582,929	$ 230,972	85.41%	$ 197,238	117.10%

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

Valuation date	June 30, 2007
Actuarial cost method	Entry age normal method
Amortization method	Level percentage, open
Asset valuation method	5-year smoothing process
Annual inflation rate	4.00%
Investment rate of return	8.00%
Postretirement benefit increase assumptions	COLA, maximum of 3.8%
Projected salary increases	6.62% general & 5.13% safety
Remaining amortization periods	
County of Marin	20 years
City of San Rafael	16 years
California Superior Court, Marin	11 years
Novato Fire Protection District	16 years
Southern Marin Fire Protection District	20 years
LAFCO	20 years
Marin Sonoma Mosquito Abatement	11 years
Tamalpais Community Service District	11 years
San Rafael Redevelopment	11 years
Marin City Community Services District	11 years

NOTE 11 – <u>CONTINGENCY RESERVE</u>

The Contingency Reserve is established as required by the County Employees Retirement Law to absorb possible future losses on investments. The reserve balance, per the County Employees Retirement Law, is one percent (1%) of the total market value of assets if excess earnings exist. MCERA's policy sets the targeted rate at 3%. The Contingency Reserve is 0% and 3% of the market value of total assets at June 30, 2008 and 2007, respectively. During fiscal year 2008, due to the severe financial crisis, MCERA did not have excess earnings to fund the Contingency Reserve.

NOTE 12 – <u>COMMITMENTS AND CONTINGENCIES</u>

<u>Litigation</u>

MCERA is defendant in various lawsuits and other claims arising in the ordinary course of its operations. MCERA's management and legal counsel estimate the ultimate outcome of such litigation will not have a material effect on MCERA's financial statements.

<u>Capital Commitments</u>

MCERA real estate investment managers identify and acquire investments on a discretionary basis. Each manager's investment activity is controlled by the Manager Investment Plan, which identifies the limitations on each manager's discretion. Such investment activities are further restricted by the amount of capital allocated or committed to each manager. Both the Manager Investment Plan and capital commitments are subject to approval by the MCERA Board of Retirement and may be updated as often as necessary to reflect MCERA investment preferences, as well as changes in market conditions.

NOTE 13 – <u>SUBSEQUENT EVENTS</u>

<u>Recent Market Events</u>

Subsequent to June 30, 2008, the global investment markets have been experiencing unprecedented, adverse events. Such events include restricted availability of capital and the continued write-down of mortgage-related assets led by defaults in sub-prime mortgages and the declining U.S. housing market. These events resulted in federal intervention due to the failure of several large domestic financial institutions. The markets continue to suffer significant turmoil from a general uncertainty about how to best address the expanded global credit crisis and losses that financial institutions are facing.

It is management's opinion that while the value of the MCERA fund has been affected by the turbulent market environment, the long-term nature of the Plan and its investment diversity are strengths. Because the values of individual investments fluctuate based on volatile market conditions, the amount of losses that MCERA will recognize in its future financial statements, if any, cannot be determined. Market fluctuations are a normal investment risk for a pension fund.

REQUIRED SUPPLEMENTARY INFORMATION

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN THOUSANDS)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
County of Marin						
6/30/1997	$ 420,794	$ 505,027	$ 84,233	83.32%	$ 88,466	95.22%
6/30/1998	482,546	529,165	46,619	91.19%	96,873	48.12%
6/30/1999	557,216	583,890	28,674	95.10%	107,689	26.60%
6/30/2000	634,412	644,262	9,850	98.50%	114,700	8.60%
6/30/2001	690,320	701,223	10,903	98.40%	122,253	8.90%
6/30/2002	711,789	798,404	86,615	89.20%	136,974	63.20%
6/30/2003	828,438	848,984	20,545	97.60%	138,004	14.90%
6/30/2004	843,169	938,211	95,042	90.00%	143,107	66.40%
6/30/2005	858,183	992,226	134,043	86.49%	141,272	94.88%
6/30/2006	908,767	1,090,344	181,578	83.00%	149,527	121.40%
6/30/2007	1,013,543	1,141,736	128,193	88.80%	159,177	80.50%
City of San Rafael						
6/30/1997	114,506	110,198	(4,308)	103.91%	16,928	(25.44)%
6/30/1998	131,142	124,239	(6,903)	105.56%	20,361	(33.90)%
6/30/1999	151,466	134,247	(17,219)	112.80%	23,293	(73.90)%
6/30/2000	171,663	156,806	(14,857)	109.50%	23,372	(63.60)%
6/30/2001	186,085	172,939	(13,146)	107.60%	25,650	(51.30)%
6/30/2002	190,563	187,118	(3,445)	101.80%	27,223	(12.70)%
6/30/2003	185,632	219,845	34,213	84.40%	27,453	124.60%
6/30/2004	188,956	248,665	59,709	76.00%	29,299	203.80%
6/30/2005	195,698	265,205	69,507	73.79%	28,357	245.11%
6/30/2006	209,785	306,079	96,294	68.54%	28,606	336.62%
6/30/2007	235,756	325,219	89,463	72.49%	30,180	296.43%
Novato Fire Protection District						
6/30/1997	51,687	45,163	(6,524)	114.45%	4,459	(146.3)%
6/30/1998	59,276	45,171	(14,105)	131.23%	5,097	(276.73)%
6/30/1999	68,394	48,570	(19,824)	140.80%	5,199	(381.30)%
6/30/2000	77,643	56,197	(21,446)	138.20%	5,726	(374.50)%
6/30/2001	84,806	71,471	(13,335)	118.70%	6,331	(210.60)%
6/30/2002	87,497	78,164	(9,333)	111.90%	6,119	(152.50)%
6/30/2003	84,865	84,841	(24)	100.00%	6,811	-0.40%
6/30/2004	84,814	90,861	6,047	93.00%	7,616	79.40%
6/30/2005	86,839	98,787	11,948	87.91%	7,889	151.45%
6/30/2006	92,390	109,131	16,741	84.66%	7,990	209.52%
6/30/2007	102,658	115,974	13,316	88.50%	7,881	168.96%
Total						
6/30/1997	586,987	660,388	73,401	88.89%	109,853	66.82%
6/30/1998	672,964	698,575	25,611	96.33%	122,331	20.94%
6/30/1999	777,076	766,707	(8,369)	101.10%	136,181	(6.10)%
6/30/2000	883,718	857,265	(26,453)	103.10%	143,798	(18.40)%
6/30/2001	961,211	945,633	(15,578)	101.60%	154,234	(10.10)%
6/30/2002	989,849	1,063,686	73,837	93.10%	170,316	43.40%
6/30/2003	1,098,935	1,153,669	54,734	95.30%	172,268	31.80%
6/30/2004	1,116,939	1,277,737	160,798	87.42%	180,022	89.32%
6/30/2005	1,140,720	1,356,218	215,498	84.11%	177,518	121.40%
6/30/2006	1,210,942	1,505,554	294,613	80.43%	186,123	158.29%
6/30/2007	1,351,957	1,582,929	230,972	85.41%	197,238	117.10%

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(DOLLAR AMOUNTS IN THOUSANDS)

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
County of Marin		
6/30/1997	$ 17,360	100%
6/30/1998	17,021	100%
6/30/1999	13,714	100%
6/30/2000	15,768	100%
6/30/2001	15,576	100%
6/30/2002	18,723	100%
6/30/2003	21,632	100%
6/30/2004	21,254	100%
6/30/2005	22,085	100%
6/30/2006	36,870	100%
6/30/2007	35,318	100%
City of San Rafael		
6/30/1997	2,917	100%
6/30/1998	2,690	100%
6/30/1999	2,480	100%
6/30/2000	2,358	100%
6/30/2001	2,187	100%
6/30/2002	2,880	100%
6/30/2003	4,134	100%
6/30/2004	7,364	100%
6/30/2005	7,653	100%
6/30/2006	4,231	100%
6/30/2007	11,187	100%
Novato Fire Protection District		
6/30/1997	896	100%
6/30/1998	327	100%
6/30/1999	252	100%
6/30/2000	273	100%
6/30/2001	301	100%
6/30/2002	383	100%
6/30/2003	1,125	100%
6/30/2004	2,259	100%
6/30/2005	2,343	100%
6/30/2006	2,526	100%
6/30/2007	3,612	100%
Total		
6/30/1997	21,173	100%
6/30/1998	20,038	100%
6/30/1999	16,446	100%
6/30/2000	18,399	100%
6/30/2001	18,064	100%
6/30/2002	21,986	100%
6/30/2003	26,891	100%
6/30/2004	30,877	100%
6/30/2005	32,081	100%
6/30/2006	43,627	100%
6/30/2007	50,117	100%