

**MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

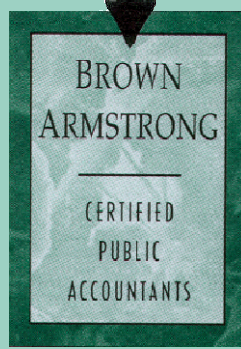
**FOR THE FISCAL YEARS
ENDED JUNE 30, 2009 AND 2008**

**MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
JUNE 30, 2009**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
 BASIC FINANCIAL STATEMENTS:	
Statement of Plan Net Assets	7
Statement of Changes in Plan Net Assets.....	8
Notes to Financial Statements	9
 REQUIRED SUPPLEMENTAL INFORMATION:	
Schedule of Funding Progress.....	21
Schedule of Employer Contributions.....	22

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



■ **Main Office**
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

■ 560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

■ 8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559.476.3592 Fax 559.476.3593

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, 2009 and 2008 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, MCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

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, 2009 and 2008 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 supplementary 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 supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
February 3, 2010

**MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

This Management's Discussion and Analysis (MD&A) of the financial activities of Marin County Employees' Retirement Association's (MCERA) is an overview of its fiscal operations for the year ended June 30, 2009. Readers are encouraged to consider the information presented in conjunction with the Financial Statements and Notes to the Financial Statements.

We are pleased to provide this overview and analysis of the financial activities of MCERA for the year ended June 30, 2009. 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, 2009 were \$1,130,021,285. 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.

- Net assets decreased by \$285,942,320; primarily due to negative investment performance.
- Total additions as reflected in the Statement of Changes in Plan Net Assets was a decline of \$203,878,894, primarily as a result of the net depreciation in the fair value of investments.
- Deductions in plan net assets increased from \$76,302,046 to \$82,063,426 versus the prior year. The increase was due to an increase in retiree pension benefits.
- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2008, the date of the last actuarial evaluation, the funded ratio for all MCERA agencies was 83.97%. In general, this indicates that for every dollar of benefits due we had approximately \$0.8397 of assets available for payment as of that date. The funding ratios of the employer entities included in MCERA were: 86.80% for the County of Marin and agencies, 72.91% for San Rafael, and 86.80% for Novato.

Overview of the Financial Statements

This MD&A serves as an introduction to the basic financial statements. MCERA has two basic financial statements, the notes to the financial statements, and two required supplementary schedules of historical trend information. The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

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 the first basic financial report. This is a snapshot of account balances at fiscal year end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of fiscal year end. The Net Assets Held in Trust for Pension Benefits, which are the assets less the liabilities, reflect the funds available for future use.

The Statement of Changes in Plan Net Assets is the second financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as Additions or Deductions to the plan. The trend of Additions versus Deductions to the plan will indicate the condition of MCERA's financial position over time.

Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB) Pronouncements 25, 26, 28, 33, 34, 40, 44, 50, 55, and 56. 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.

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs and activities that occurred during the year.

The *Schedule of Funding Progress* required supplementary schedule includes historical trend information about the actuarially funded status of MCERA, and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the *Schedule of Employer Contributions*, presents historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of MCERA over time.

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, 2009, totaled \$1,130,021,285, a decrease of \$285,942,320 over the prior year, taking into account a prior period adjustment of \$388,062 for the capitalization of CPAS. MCERA's assets exceeded its liabilities at the end of the year. The Total Plan Net Assets represent funds available for future payments. However, of importance, is the fact that unlike private pension funds, public pension funds are not required to report the future liability of obligations owed to retirees. Only current liabilities are reported in the Statement of Plan Net Assets. Below is a comparison of current and prior year balances:

	2009	2008	2007	Increase (Decrease) 2009/2008	Increase (Decrease) 2008/2007
Investments at fair value	\$ 1,005,525,154	\$ 1,364,854,777	\$ 1,457,945,270	\$ (359,329,623)	\$ (93,090,493)
Cash and short-term investments	118,021,449	51,958,299	65,447,652	66,063,150	(13,489,353)
Capital Assets (net of accumulated depreciation)	6,104,088	3,528,012	-	2,576,076	3,528,012
Collateral held for securities loaned	48,596,264	109,220,513	108,163,050	(60,624,249)	1,057,463
Receivables and other assets	8,515,264	15,655,601	9,743,991	(7,140,337)	5,911,610
Total assets	<u>1,186,762,219</u>	<u>1,545,217,202</u>	<u>1,641,299,963</u>	<u>(358,454,983)</u>	<u>(96,082,761)</u>
Total liabilities	<u>56,740,934</u>	<u>129,641,659</u>	<u>124,736,578</u>	<u>(72,900,725)</u>	<u>4,905,081</u>
Net assets	<u>\$ 1,130,021,285</u>	<u>\$ 1,415,575,543</u>	<u>\$ 1,516,563,385</u>	<u>\$ (285,554,258)</u>	<u>\$ (100,987,842)</u>

In order to determine whether Plan Net Assets will be sufficient to meet future obligations, the actuarial funded status needs to be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the members and the County of Marin are needed to pay all expected future benefits.

MCERA's independent actuary, EFI Actuaries, performed an actuarial valuation as of June 30, 2008 and determined that the funded ratio of the actuarial assets to the actuarial accrued liability is 83.97%. The actuarial valuation as of June 30, 2007 determined the funded ratio to be 85.41%.

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, 2009 and 2008 totaled \$(203,878,894) and \$(24,685,796), respectively.

	2009	2008	2007	Increase (Decrease) 2009/2008	Increase (Decrease) 2008/2007
Employer contributions	\$ 54,555,518	\$ 58,089,688	\$ 50,117,033	\$ (3,534,170)	\$ 7,972,655
Plan members contributions	17,397,816	15,881,073	13,488,748	1,516,743	2,392,325
Net investment income (loss)	<u>(275,832,228)</u>	<u>(98,656,557)</u>	<u>234,823,309</u>	<u>(177,175,671)</u>	<u>(333,479,866)</u>
Total	<u>\$ (203,878,894)</u>	<u>\$ (24,685,796)</u>	<u>\$ 298,429,090</u>	<u>\$ (179,193,098)</u>	<u>\$ (323,114,886)</u>

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:

	2009	2008	2007	Increase (Decrease) 2009/2008	Increase (Decrease) 2008/2007
Retirement benefits	\$ 77,417,556	\$ 72,188,685	\$ 67,322,500	\$ 5,228,871	\$ 4,866,185
Refund of contributions	1,065,627	530,647	627,743	534,980	(97,096)
Administrative	2,701,167	2,929,645	1,830,955	(228,478)	1,098,690
Legal expenses	762,963	563,428	36,504	199,535	526,924
Litigation settlement	13,000	-	-	13,000	-
Actuarial expenses	<u>103,113</u>	<u>89,641</u>	<u>131,128</u>	<u>13,472</u>	<u>(41,487)</u>
Total expenses	<u>\$ 82,063,426</u>	<u>\$ 76,302,046</u>	<u>\$ 69,948,830</u>	<u>\$ 5,761,380</u>	<u>\$ 6,353,216</u>

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
One McInnis Parkway, Room 100
San Rafael, CA 94903

Respectively submitted,

/s/ Lisa Jackson
Lisa Jackson
Senior Accountant

BASIC FINANCIAL STATEMENTS

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2009 AND 2008

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Assets		
Cash and short term investments		
Cash and cash equivalents	\$ 118,021,449	\$ 51,958,299
Collateral held for securities loaned	48,596,264	109,220,513
	<hr/>	<hr/>
Total Cash and Short-Term Investments	166,617,713	161,178,812
Receivables		
Contributions	1,971,016	4,644,531
Interest and dividends	1,845,957	2,151,790
Due from brokers for securities sold	3,173,376	8,105,837
Other receivables	825,830	121,516
	<hr/>	<hr/>
Total Receivables	7,816,179	15,023,674
Investments at fair value		
Domestic fixed income	124,423,217	163,300,085
International fixed income	9,953,463	13,851,238
Domestic equities	474,172,067	664,531,571
International equities	237,693,275	330,617,261
Private Equity	3,958,762	-
Real estate	155,324,370	192,554,622
	<hr/>	<hr/>
Total Investments	1,005,525,154	1,364,854,777
Capital assets (net of accumulated depreciation)	6,104,088	3,528,012
Prepaid insurance	699,085	631,927
	<hr/>	<hr/>
Total Assets	<u>1,186,762,219</u>	<u>1,545,217,202</u>
Liabilities		
Accounts payable and accrued expenses	1,883,639	3,226,177
Due to brokers for securities purchased	4,543,172	15,533,786
Rental security deposits	717,859	661,183
Health Insurance Payable	1,000,000	1,000,000
Collateral held for securities loaned	48,596,264	109,220,513
	<hr/>	<hr/>
Total Liabilities	56,740,934	129,641,659
Net Assets Held in Trust for Pension Benefits	<u>\$ 1,130,021,285</u>	<u>\$ 1,415,575,543</u>

(A schedule of funding progress is presented in the Required Supplementary Information in this Financial Section.)

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, 2009 AND 2008**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Additions		
Contributions		
Employer	\$ 54,555,518	\$ 58,089,688
Plan member	17,397,816	15,881,073
	<u>71,953,334</u>	<u>73,970,761</u>
Total Contributions		
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	(296,120,833)	(115,744,403)
Interest and dividends	21,857,378	21,351,241
Real estate operating income, net	5,045,796	3,603,771
Other investment income	510,941	210,228
	<u>(268,706,718)</u>	<u>(90,579,163)</u>
Total investment income (loss)		
Less investment expenses	7,955,952	8,987,364
	<u>(276,662,670)</u>	<u>(99,566,527)</u>
Net investment income (loss)		
Securities lending activities		
Securities lending income	1,806,467	4,459,265
Less expenses from securities lending activities	976,025	3,549,295
	<u>830,442</u>	<u>909,970</u>
Net securities lending income		
Total net investment income (loss)	<u>(275,832,228)</u>	<u>(98,656,557)</u>
Total Additions (Declines)	<u>(203,878,894)</u>	<u>(24,685,796)</u>
Deductions		
Benefits	77,417,556	72,188,685
Refunds	1,065,627	530,647
Administrative expenses - Note 8	2,701,167	2,929,645
Legal expense	762,963	563,428
Litigation Settlement	13,000	-
Actuarial expenses	103,113	89,641
	<u>82,063,426</u>	<u>76,302,046</u>
Total Deductions		
Net Increase (Decrease)	(285,942,320)	(100,987,842)
Net Assets Held in Trust for Pension Benefits, Beginning of Year	1,415,575,543	1,516,563,385
Prior Period Adjustment (Note 12)	388,062	-
	<u>1,415,963,605</u>	<u>1,516,563,385</u>
Net Assets Held in Trust for Pension Benefits, as Restated		
Net Assets Held in Trust for Pension Benefits, End of Year	<u>\$ 1,130,021,285</u>	<u>\$ 1,415,575,543</u>

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

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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. MCERA, with its own governing boards, is an independent governmental entity separate and distinct from the County of Marin (County). MCERA's Annual Financial Statements are included in the County's Annual Financial Report as a pension trust fund. Maintaining appropriate controls and preparing the financial statements are the responsibility of MCERA management. 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
Sherry Sweet	10/31/10
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, 2009, the number of participating local government employers was:

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

NOTE 1 – PLAN DESCRIPTION (Continued)

MCERA's membership consisted of the following as reported in the most recent actuarial valuation dated June 30, 2008:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Active Members (vested and non-vested)	2,818	2,767
Retired Members and Beneficiaries	2,294	2,215
Terminated Vested (deferred)	<u>724</u>	<u>751</u>
Total Membership	<u><u>5,836</u></u>	<u><u>5,733</u></u>

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. For the County of Marin members hired on or after July 1, 2008 and for Marin County Superior Courts members hired on or after January 1, 2008 the lifetime annuity commences at age 55.

MCERA also facilitates for the County of Marin a healthcare premium benefit provided to retirees with five or more years of qualifying service credit (substantially all retirees). MCERA does not hold any funds in a 401h account related to these benefits. As a result, 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, 2008 actuarial valuation, depending on the age and classification at hire date, employees' weighted contributions are 9.63% of covered payroll for the County; San Rafael employees' weighted contributions are 11.15%; and Novato employees' weighted contributions are 12.75%.

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

MCERA follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009 and 2008.

Capital Assets

Capital assets are valued at historical cost less accumulated depreciation. Capital assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Equipment has a useful life of ten years, leasehold improvements and office space forty years, and twelve years for the CPAS pension system.

MCERA signed an agreement on July 2, 2007 for the purpose of a building located on One McInnis Parkway, San Rafael, CA 94903. The final purchase price for the building was \$17,300,000 and was finalized in October 2007. MCERA occupied the building on November 14, 2008.

MCERA occupies 33% of the building and leases the other 67%. Therefore, the portion of the building occupied by MCERA was capitalized and is being depreciated over its useful life. The remaining 67% will be treated as an investment and accordingly marked to market in addition to recognizing any earned income and expenses incurred. As of June 30, 2009, the capitalized portion of the building was \$3,859,158 and computers and equipment were \$2,244,930, net of accumulated depreciation.

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.

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.

Implementation of New Accounting Pronouncements

The provisions of Governmental Standards (GASB) Statement No. 52, Land and other Real Estate held as Investments by Endowments, is to be implemented as of June 30, 2009, however, this provision is not applicable to the Plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Accounting Pronouncements (Continued)

Governmental Standards (GASB) Statements No. 55 and 56 were also implemented as of June 30, 2009. Statement No. 55, incorporating the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature, did not cause any real changes to the preparation process of the financial statements and did not have a significant impact on the financial statements, thus the Board does not expect this statement will result in a change in current practice. Statement No. 56, incorporating into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards, did not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. Thus, this provision did not cause any real changes to the preparation process of the financial statements and did not have a significant impact on the financial statements.

Reserves

The reserves represent the components of MCERA's net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy requirements and other benefits as they become due.

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 5% and 4% of the market value of total assets at June 30, 2009 and 2008, respectively. During fiscal year 2009, due to the severe financial crisis, MCERA did not have excess earnings to fund the Contingency Reserve.

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

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

- 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.

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, 2009, 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, 2009, 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.

NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURE (Continued)

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.

As of June 30, 2009, MCERA's Core fixed income manager had a duration of 4.0 years, while MCERA's Core Plus Fixed Income manager had a duration of 4.94 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, 2009 and 2008 was \$0 and \$0, respectively.

The MCERA invests indirectly, through its portfolio managers, in foreign currency forward transactions to limit its exposure to fluctuations in foreign currency exchange rates. Aside from net currency gains or losses reported as a component of investment income, no other amounts are recorded on the financial statements.

These forward transactions typically range from one to six months. When used in a hedging strategy, a loss in value of the underlying security, due to a weakening of a foreign currency relative to the U.S. dollar will result in an opposite gain in value of the foreign currency transaction. The reverse is true for a foreign currency, which strengthens relative to the U.S. dollar.

Foreign currency forward transactions are typically transacted with highly rated (usually AA or better) financial institutions; typically major worldwide commercial or investment banks. Counterparty risk occurs when the financial institution (who engages in the forward transaction with MCERA) has a liability due to MCERA and is unable to pay. This risk is monitored on a daily basis by the investment advisors and limited to maximum levels of exposure for the entire portfolio.

NOTE 4 – REAL ESTATE

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

Location	Appraised Value	
	2009	2008
Separate Properties:		
Sacramento	\$ 6,110	\$ 6,110
Sunnyvale*	6,100	6,100
South San Francisco	9,250	9,500
Foster City	26,000	37,000
San Bruno*	21,800	21,800
Pleasanton*	33,070	33,070
Richmond	16,620	16,620
1 McInnis*	9,490	9,102
Total	<u>128,440</u>	<u>139,302</u>
AEW Capital Management	1,649	2,669
ING Clarion	20,654	35,415
RREEF America REIT III	4,581	15,169
Total	<u>26,884</u>	<u>53,253</u>
Grand Total	<u>\$ 155,324</u>	<u>\$ 192,555</u>

* Valuations as of December 31, 2009 were performed for these properties which resulted in a decline in value of \$12,729,470. These declines will be reflected in the June 30, 2010 financial statements.

The Marin County Employees' Retirement Association, like all who invest in the real estate arena has seen substantial losses in the real estate portfolio. This decline, while other segments of the investment market are in recovery continues to decline due to the lag period between appraisals of properties in the various portfolios.

The Commercial real estate investment has suffered from a severe credit crunch for commercial sectors, sustained job losses and weak consumer spending, although the decline appears to be slowing. The national economy has begun a slow and cautious recovery, but the labor market, which often lags the broader economy, will turn around only gradually with sustained improvement unlikely before the second half of 2010. Because commercial real estate lags the labor market, it still has a ways to go before reaching its own low point.

The Association continues to closely monitor our real estate portfolio and expect improvement to assessed values later this year.

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, 2009 and 2008, the value of securities loaned by MCERA totaled \$47,164,924 and \$105,527,716, respectively. As of June 30, 2009 and 2008, the value of collateral held for securities loaned was \$48,596,264 and \$109,220,513, 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, 2009 and 2008 was approximately \$526,941,588 and \$628,239,650, respectively.

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

	Value of Investments	
	2009	2008
Woodmont Real Estate Services	\$ 128,440	\$ 142,830
Western Asset Management	77,204	163,679
Wellington Management Company	125,598	152,040
Dodge & Cox	77,578	109,125
Mazama Capital Management	32,665	45,847
RCM Global Investors	97,727	124,246
Barclay's Global Investors	70,392	99,237
Dimensional Fund Advisors	40,561	54,688
Morgan Stanley	93,080	123,730
First Quadrant	17,456	19,744
Artisan Funds	79,224	117,495
Numeric Investors LP	27,641	35,536
Fidelity Market Neutral	35,862	38,093
Fidelity small Cap International	16,119	23,507
Analytic Investors - US	21,871	22,943
Analytic Investors - Japan	20,190	20,751
AEW Partners	1,649	2,669
ING Clairon	20,654	35,415
RREEF	4,581	15,168
AXA Rosenberg International Small Cap Equity	13,074	21,640
Abbott	3,512	-
Pathway	447	-

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 \$10,005,646 and \$9,864,303 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, administrative expenses were \$2,701,167, or .23% and \$2,929,645, or .21% 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.

NOTE 9 – RISK MANAGEMENT (Continued)

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 properly 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)
6/30/2008	\$ 1,485,918	\$ 1,769,620	\$ 283,701	83.97%	\$ 214,449	132.29%

NOTE 10 – ACTUARIAL VALUATIONS (Continued)

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, 2008
Actuarial cost method	Entry age normal method
Amortization method	Level percentage, open/close
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	4.00%, plus service-based rates
Remaining amortization periods	
County of Marin	18 years
City of San Rafael	16 years
California Superior Court, Marin	18 years
Novato Fire Protection District	16 years
Southern Marin Fire Protection District	18 years
LAFCO	18 years
Marin Sonoma Mosquito Abatement	18 years
Tamalpais Community Service District	18 years
San Rafael Redevelopment	16 years
Marin City Community Services District	18 years

NOTE 11 – COMMITMENTS AND CONTINGENCIESLitigation

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.

Capital Commitments

MCERA real estate and Private Equity 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.

As of June 30, 2009, outstanding commitments to the various investment managers, as approved by the Board, totaled \$195,373,002. Subsequent to June 30, 2009, MCERA funded \$5,213,623 of these capital commitments.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

Net Assets Held in Trust for Pension Benefits, as Previously Reported	\$ 1,415,575,543
Prior Period Adjustment	
To capitalize CPAS software previously expensed	<u>388,062</u>
	<u>\$ 1,415,963,605</u>

NOTE 13 – SUBSEQUENT EVENTS

As a result of appraisals performed on four properties, MCERA experienced a decline of \$12,729,470 in the overall value of these properties. Refer to Note 4 – Real Estate for additional information.

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						
6/30/2003	\$ 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%
6/30/2008	1,111,115	1,280,206	169,091	86.80%	173,735	97.33%
City of San Rafael						
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%
6/30/2008	262,677	360,298	97,621	72.91%	31,854	306.46%
Novato Fire Protection District						
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%
6/30/2008	112,126	129,116	16,989	86.80%	8,860	191.75%
Total						
6/30/2003	1,098,935	1,153,670	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%
6/30/2008	1,485,918	1,769,620	283,701	83.97%	214,449	132.29%

**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		
6/30/2003	\$ 21,632	100%
6/30/2004	21,254	100%
6/30/2005	22,085	100%
6/30/2006	36,870	100%
6/30/2007	42,416	100%
6/30/2008	39,656	100%
City of San Rafael		
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%
6/30/2008	14,068	100%
Novato Fire Protection District		
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%
6/30/2008	4,366	100%
Total		
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	57,215	100%
6/30/2008	58,090	100%