BOB MIRATA
CHAIRMAN
B.O.S. APPOINTEE

SHARI SCHAPMIRE
VICE-CHAIRMAN
TREASURER TAX COLLECTOR

TIM KNUDSEN
SECRETARY
ELECTED RETIRED MEMBER

SUPERVISOR KENDALL SMITH
B.O.S. APPOINTEE

JOHN SAKOWICZ
B.O.S. APPOINTEE

TED STEPHENS
B.O.S. APPOINTEE

LLOYD WEER
ELECTED
GENERAL MEMBER

RANDY GOODMAN
ELECTED GENERAL
MEMBER

CRAIG WALKER
ELECTED SAFETY
MEMBER

RICHARD SHOEMAKER
ELECTED RETIRED
ALTERNATE MEMBER

JIM ANDERSEN
RETIREMENT
ADMINISTRATOR

JEFF BERK
LEGAL COUNSEL

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION BOARD MEETING AGENDA FEBRUARY 15, 2012 – 8:30 A.M.

1) **ROLL CALL (8:30 A.M.)**

2) **APPROVAL OF THE MINUTES OF THE BOARD MEETING HELD JANUARY 18, 2012 (Estimated Time 5 min.)**

3) **PUBLIC COMMENT (Estimated Time 5 min.)**
Members of the public are welcome to address the board on subjects within the jurisdiction of the Board of Retirement regarding items both on and off the agenda. The board is prohibited by law from taking action on matters not on the agenda, but may ask questions to clarify the speaker's comment and/or briefly answer questions. The board limits testimony on matters not on the agenda to 5 minutes per person and not more than 10 minutes for a particular subject at the discretion of the Chair of the Board. To best facilitate public expression please complete the speaker form available at the entrance to the boardroom and present to the Clerk to the Board. If you wish to submit written comments please provide 13 copies to the Clerk to the Board prior to the start of the meeting. Public speakers are reminded to announce their names before they address the board.

4) **DISCUSSION AND POSSIBLE ACTION REGARDING QUARTERLY PERFORMANCE REPORT (CALLAN ASSOCIATES) (Approximate time 45 min.) (See the Investment Measurement Services Quarterly Review dated December 31, 2011 at www.co.mendocino.ca.us/retirement.**

5) **DISCUSSION AND POSSIBLE ACTION REGARDING 2010/11 INDEPENDENT FINANCIAL AUDIT REPORT (GALLINA LLP) (Approximate time 1 hour)**

BREAK (10 min.)

♦RETIREMENT ASSOCIATON CONFERENCE ROOM: 625-B KINGS COURT, UKIAH, CA 95482♦
♦PHONE 707-463-4328 FAX 707-467-6472♦ WWW.CO.MENDOCINO.CA.US/RETIREMENT♦

6) DISCUSSION AND POSSIBLE DIRECTION REGARDING THE JUNE 30, 2011 ACTUARIAL VALUATION REPORT AND POSSIBLE DIRECTION TO MODIFY THE TIME WHEN REPORTS WILL BE MADE AVAILABLE PRIOR TO ANY BOARD ACTION (TED STEPHENS) (Approximate time 20 min.)

7) DISCUSSION AND POSSIBLE ACTION REGARDING RETIREMENT ADMINISTRATOR'S REPORT (Estimated Time 30 min.)
   a) Withdrawal of contributions by terminating employees
   b) Billings for fees and services
   c) Presentation of Administrator's report

8) INVESTMENTS/FINANCIALS (Estimated Time 5 min.)
   a) Presentation of financial statements
   b) Action may be taken to terminate or hire investment managers at any meeting

9) DISCUSSION AND POSSIBLE ACTION REGARDING COST OF LIVING INCREASE EFFECTIVE APRIL 1, 2012 (Estimated Time 10 min.)

10) DISCUSSION AND POSSIBLE ACTION REGARDING CASH MANAGEMENT AND REBALANCING POLICY (Estimated Time 15 min.)

11) DISCUSSION AND POSSIBLE ACTION REGARDING OVERPAYMENT POLICY Estimated Time 15 min.)

12) DISCUSSION AND POSSIBLE ACTION REGARDING AUTHORIZED SIGNATURES RESOLUTION (Estimated Time 5 min.)

13) REPORT FROM EXECUTIVE RECRUITMENT AD HOC COMMITTEE (Estimated Time 5 min.)

14) REPORT FROM ATTENDEES OF THE CALLAN INVESTMENTS INSTITUTE'S THIRTY-SECOND NATIONAL CONFERENCE (Estimated Time 10 min.)

ADJORNMENT (Approximate time 12:20 P.M.)

(Pursuant to Government Code Section 54954, this agenda was posted 72 hours prior to the meeting.)

Mendocino County Employees' Retirement Association (A Component Unit of the County of Mendocino)

Financial Statements
and Supplementary Information
for the year ended June 30, 2011

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Financial Statements and Supplementary Information
Table of Contents

	Pages
Board of Retirement	2
Independent Auditor's Report	3
Management's Discussion and Analysis (unaudited)	4-5
Financial Statements:	
Statement of Net Assets Available for Benefits	6
Statement of Changes in Net Assets Available for Benefits	7
Notes to the Financial Statements	8-20
Required Supplementary Information (unaudited):	
Schedule of Funding Progress	21
Schedule of Employer Contributions	21

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Board of Retirement
June 30, 2011

County Treasurer

Shari Schapmire, Vice Chairperson

Appointed by the Mendocino County Board of Supervisors

Dr. Donald Coursey

Bob Mirata, Chairperson

Ted Stephens

Kendall Smith

Elected Members

Randy Goodman

Dennis Huey, Secretary

Craig Walker

Lloyd Weer

Timothy J. Knudsen, Retiree Alternate

Administration

Jim Andersen - Retirement Administrator

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

We have audited the accompanying statement of net assets available for benefits of Mendocino County Employees' Retirement Association ("MCERA"), a component unit of the County of Mendocino, as of June 30, 2011, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of MCERA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of MCERA as of June 30, 2011, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 4 through 8, and other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rancho Cordova, California
February 7, 2012

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited)
June 30, 2011

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association ("MCERA") financial activities for the year ended June 30, 2011. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

Assets and Revenues

MCERA's net assets as of June 30, 2011 are $355 million. This amount reflects an increase of 18.3% in net assets during Fiscal Year 2010-2011. Revenues (additions to plan assets) for the year were $79.1 million. This was comprised of $9.6 million of employer contributions, $5.4 million of member contributions and an investment return of $64.1 million. Expenses (deductions in plan assets) for the year were $24.1 million.

MCERA's net assets increased 18.3% in fiscal year 2010-11, reflecting a one year investment return on the total portfolio of 21.87%. Investment returns can vary significantly from year to year. MCERA maintains a diversified investment portfolio and asset allocation that is structured to meet the long term funding requirements of the plan within an acceptable level of investment risk. The five year investment returns, net of fees, are 5.76%.

The MCERA Board reviewed and selected four new managers in 2010-11 to address fixed income, large cap value domestic equities, international equities, and real estate investment targets. The MCERA Board terminated two separate fixed income managers and invested the proceeds in a fixed income mutual fund. MCERA also terminated one passive small cap value domestic equity fund and one international fund. The total portfolio return was 0.28% above its weighted benchmarks for 2010-2011, with 1.24% being attributable to manager performance and (1.53%) attributable to asset allocation. Considering both manager performance and asset allocation, international equities and cash produced a drag on the total return of the portfolio.

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal year ended June 30, 2011 totaled $79.1 million. The increase in revenues can be attributed primarily to investments. The total balance of investment assets increased from approximately $301 million in 2010 to $355 million in 2011. Subsequent to June 30, 2011, asset values have declined to approximately $325 million as of November 30, 2011. Employer contributions are declining due to reductions in the size of the workforce as well as wage concessions from employee bargaining units. MCERA has initiated discussions with its actuary and employers regarding the one year period between the fiscal year end valuation study and the effective date of the recommended employer and employee contribution rates.

Liabilities and Expenses

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering the system. Benefits paid to retirees increased $0.9 million over the previous fiscal year. An aging work force, management directed reductions in the workforce, wage concessions, and pension reform efforts may result in an acceleration of retirements by members. The most recent triennial actuarial study recommended a reduction in the assumed retirement age. However, the availability of retiree medical benefits and access to medical care may also impact the age at which retirements occur.

Funded Status and Actuarial Reporting

For the fiscal year ending June 30, 2011, the UAAL for MCERA was $124,912,676. This is an increase of $33,128,063 from the prior year. The funded status dropped from 78.9% to 73.6%. The primary reason for the increase in UAAL is smoothing in investment losses from 2008/09, resulting in an increase of $15,265,854. In addition, MCERA changed actuaries to The Segal Company. The new actuaries reallocated a portion of the normal cost to UAAL, resulting in an increase of $9,034,607. Finally, changes in actuarial assumptions (economic and demographic) from the experience study for fiscal years ending June 30, 2009 through 2011 resulted in an increase of $24,042,855. Actuarial gains serving to offset a portion of the increase in UAAL included: actual employer salaries being less than anticipated ($11,362,669); COLA adjustments for retirees being less than expected ($5,886,554); and a reflection that General Members only receive enhanced benefits for future service ($5,604,507).

Request for Information

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

MCERA
625 B Kings Court
Ukiah, CA 95482

Respectfully submitted,

James Andersen
Retirement Administrator

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Net Assets Available for Benefits
June 30, 2011

Assets

Investments, at fair value:		
Mutual funds	$ 353,565,325	
Cash equivalents	1,189,486	
Total investments, at fair value		$ 354,754,811
Receivables:		
Member contributions receivable	76,187	
Employer contributions receivable	229,617	
Other receivables	57,574	
Total receivables		363,378
Other assets		3,786
Total assets		$ 355,121,975

Net Assets Available for Benefits

Liabilities:		
Accounts payable	$ 14,829	
Accrued expenses and other liabilities	64,623	
Total liabilities		$ 79,452
Net assets available for benefits		$ 355,042,523

See accompanying notes.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Changes in Net Assets Available for Benefits
for the year ended June 30, 2011

Additions to net assets attributed to:			
Investment income:			
Net realized and unrealized appreciation in fair value of investments	$ 56,130,687		
Rent income, net of expenses	24,761		
Interest income	2,460,864		
Dividend income	5,863,549		
Investment expenses	(404,760)		
Total investment income, net		$ 64,075,101	
Contributions:			
Member contributions	5,446,964		
Employer contributions	9,553,955		
Total contributions		15,000,919	
Total additions			$ 79,076,020
Deductions from net assets attributed to:			
Benefits paid to retirees		23,436,295	
Administrative expenses		639,764	
Total deductions			24,076,059
Net increase			54,999,961
Net assets available for benefits:			
Beginning of year			300,042,562
End of year			$ 355,042,523

See accompanying notes.

Note 1: Description of Plan:

Description of Association and Applicable Provisions of the Law:

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

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

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

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

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

Retirement benefits offered by the Plan include normal retirement, disability retirement and service-connected disability retirement. A death benefit is available to beneficiaries. An annual cost of living adjustment of no more than 3 percent may be granted by the Board of Retirement. For 2011, the Board of Retirement approved cost of living increases ranging from 1.5% to 3.0%, depending on date of retirement, and became effective April 1, 2011.

Note 1: Description of Plan, continued:

Health benefits for retired employees have been funded by the Plan in the past. As of September 1, 1998, the County of Mendocino has assumed responsibility for funding the cost of health care for the retired employees of the County of Mendocino, and will be responsible for the cost of health care when MCERA earnings on investments are not in excess of required transfers of earnings to retirement reserve accounts. For eligibility for health care coverage, prior to September 1, 1998, retirees must have served 10 years prior to retirement with the County of Mendocino, and retire as an active member. The retiree health benefit program qualifies under section 401(h) of the Internal Revenue Code. Health care payments to reimburse the County of Mendocino for the cost of retiree health care are made from a special reserve that has been established as a result of prior excess earnings. This health care subsidy amounted to $1,709,166 for the year ended June 30, 2011, and is included in the line item for benefit payments and subsidies on the statement of changes in net assets held in trust for pension benefits. This subsidy is net of all health care payments by retirees.

Note 2: Summary of Significant Accounting Policies:

Reporting Entity:

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

Basis of Accounting:

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

Use of Estimates:

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

Note 2: Summary of Significant Accounting Policies, continued:

Derivatives:

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

During the year ended June 30, 2011 MCERA had no derivatives in its portfolio.

Custodial Credit Risk:

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

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

Credit Risk:

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

	Allowable Range	Current Allocation
U.S. Equity	33% - 43%	38%
Non-U.S. Equity	20% - 30%	25%
U.S. Fixed Income	23% - 33%	28%
Real Estate	4% - 14%	9%

Note 2: Summary of Significant Accounting Policies, continued:

Credit Risk, continued:

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

Interest Rate Risk:

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

Member Termination:

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

Plan Termination:

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

Risk Management:

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

Note 2: Summary of Significant Accounting Policies, continued:

Risk Management, continued:

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

Based on Mendocino County Board of Supervisors Resolution No. 98-147, County Counsel concluded that the County Board of Supervisors was ultimately responsible for the funding, administration and decision-making dealing with all aspects of the Plan. As a result, no incurred but not reported claims were included as liabilities on the financial statements for the year ended June 30, 2011. For the year ended June 30, 2011, MCERA had no excess earnings that can be used for the payment of retiree health benefits.

Current and Future Accounting Pronouncements:

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

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

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

Subsequent Events:

Management has evaluated all subsequent events through February 7, 2012, the date the financial statements were available to be issued. See Note 6 for additional information.

Note 3: Cash and Investments:

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

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

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

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

Note 3: Cash and Investments, continued:

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

Cash in trust- Mendocino County	$ 1,189,486
Total cash equivalents	1,189,486
U.S. Government and corporate bonds	97,682,320
International equities	85,501,443
Domestic equities - small cap	21,760,587
Domestic equities - mid cap	22,610,177
Domestic equities - large cap	95,465,563
Real estate	30,545,235
Total investments	353,565,325
Total cash equivalents and investments	$ 354,754,811

Note 4: Fair Value Measurement of Investments:

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

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

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Plan at year end.

Real estate – property: Valued at cost, which approximates fair value.

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

Note 4: Fair Value Measurement of Investments, continued:

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

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

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

	Real Estate - Property
Balance, beginning of year	$ 738,992
Unrealized gains (losses)	-
Purchases, sales, issuances and settlements (net)	-
Balance, end of year	$ 738,992

Note 5: Contributions:

Actuarially determined member contribution rates averaged 9.84 percent for the year ended June 30, 2011. The actual rate depends on the member's age at the time of hire, whether regular or safety, and tier. Employers are also required to contribute an actuarially determined rate, averaging 13.25 percent of salary for the year ended June 30, 2011. The employers' rate is adjusted periodically to maintain the appropriate funding status of the plan. The recommended rates for employees and employers for the year ended June 30, 2012 are 9.69 and 19.08 percent, respectively. The employer rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised (basic and cost of living), and the amortization of the unfunded actuarial accrued liability.

Note 5: Contributions, continued:

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

For the actuarial valuation for the year ended June 30, 2010, the actuary changed their assumptions regarding withdrawals by inactive members. This change in assumption affected the projected number of inactive members who would withdraw their contributions and forego a retirement, compared to those who would leave their contributions and vested benefits with the Plan and retire at a later date. The actuary formerly used each inactive member's age when determining who would withdraw their funds; now the actuary uses age and years of service for all inactive members. The result was an increase of $3.3 million in the County's contribution for the fiscal year ended June 30, 2012.

The UAAL as of June 30, 2011 is $124.9 million, which the County of Mendocino is required to amortize in the future. The funded ratio at June 30, 2011 is 73.6%, as indicated on the Schedule of Funding Progress on Page 21.

Note 5: Contributions, continued:

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

Valuation Date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	28 years (declining) for all UAAL
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the market value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.50% to 9.00%
* Includes inflation at	4.00%
Cost of living adjustments	3.00% of retirement income
Years of life expectancy after retirement	General members - RP2000 Combined Healthy Mortality Table for males and females, set back 2 years for males and 1 year for females Safety/Probation members - RP2000 Combined Healthy Mortality Table for males and females with no set back for males and 1 year set forward for females.
Years of life expectancy after disability	General members - RP2000 Combined Healthy Mortality Table for males and females, set forward 2 years. Safety/Probation members - RP2000 Combined Healthy Mortality Table for males and females set forward 4 years.

Note 5: Contributions, continued:

Life expectancy after retirement for employee contribution rate purposes	General members - RP2000 Combined Healthy Mortality Table for males and females, set back 2 years for males and 1 year for females. Safety/Probation members - RP2000 Combined Healthy Mortality Table for males and females with no set back for males and 1 year set forward for females.

Note 6: Reserves:

The Association had contingency reserves of $3,550,728, at June 30, 2011 to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 8 percent of retiree reserve balances to those reserves.

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

Employee reserves	$ 64,911,013
Employer reserves	(25,774,820)
Retiree reserves	264,051,864
Undesignated reserves	658,654
1% contingency reserves	3,550,728
Miscellaneous reserves	22,475
Total reserves	307,419,914
Excess earnings - undesignated	44,520,819
Total allocated reserves (smoothed market actuarial value after corridor limits)	351,940,733
Net assets in excess (deficit of reserves)	3,101,790
Net assets held in trust for pension benefits	$ 355,042,523

Note 6: Reserves, continued:

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

Note 7: Subsequent Events:

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

The market value of assets in MCERA's portfolio has decreased from $353 million to $327 million between July 1, 2011 and December 31, 2011. Capital markets continue to be highly volatile resulting in significant swings market value, both positive and negative.

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

MCERA has reached a settlement agreement with its former actuary, Buck Consultants, for errors and omissions. The settlement agreement was for $587,000, which included the estimated cost of the correction project described above.

Segal completed its triennial experience study of the years ending June 30, 2009 through 2011. Significant changes to economic assumptions included reducing the assumed earnings rate from 8% to 7.75% and introducing a wage rate percent increase. Significant changes to demographic assumptions included earlier retirement ages, mortality tables that assume retirees are living longer, more conservative assumptions on withdrawals from the pension system, and reduced expectations of disability retirements.

MCERA submitted a Voluntary Correction Program ("VCP") filing with the IRS, stating that it recognized and posted excess earnings for fiscal years ending June 30, 2004 through 2006 may not have been fully consistent with Government Code Section 31529.4 and/or IRC 401(h). The excess earnings postings are being reviewed by tax counsel, actuary, and an accounting firm to develop findings and recommendations for submission to the IRS.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Required Supplementary Information (unaudited)
June 30, 2011

Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") - Entry Age (b)	Unfunded AAL ("UAAL") (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
6/30/2005	$ 253,487	$ 289,467	$ 35,980	87.6%	$ 57,664	62.4%
6/30/2006	288,461	320,123	31,662	90.1%	57,664	54.9%
6/30/2007	317,937	358,259	40,322	88.7%	65,899	61.2%
6/30/2008	353,421	373,832	20,411	94.5%	70,880	28.8%
6/30/2009	336,263	403,196	66,933	83.4%	72,235	92.7%
6/30/2010	343,202	434,987	91,785	78.9%	69,004	133.0%
6/30/2011	347,732	472,644	124,912	73.6%	64,144	194.7%

Schedule of Employer Contributions (dollar amounts in thousands)

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2005	$ 3,221	47%
6/30/2006	4,996	79%
6/30/2007	7,533	100%
6/30/2008	7,232	100%
6/30/2009	6,046	141%
6/30/2010	9,571	91%
6/30/2011	9,554	100%

James M. Andersen
Retirement Administrator

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(707) 467-6473
Fax: (707) 467-6472

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

Date: February 7, 2012
To: Board of Retirement
From: Jim Andersen, Retirement Administrator
Subject: Discussion and Possible Action Regarding the Administrator's Report

Financial

1. As of the writing of this report, staff had received completed placement agent forms from all funds except one. We have been in contact with that fund and they are working toward completing the forms. I will update you at your February meeting. At this point, we have not received any information regarding placement agents that is inconsistent with appropriate practices per MCERA's placement agent policy.

2. Staff completed the annual report to the State Controller's Office (SCO), and submitted electronic and hard copies. As required, we also submitted the June 30, 2011 actuarial valuation report. The only outstanding item required by the SCO is the independent audit for June 30, 2011. We will submit that report once it is received for your Board's February meeting. Due to receiving MCERA's actuarial valuation in January and the independent audit in February, MCERA is submitting its work products after the December 31, 2011 deadline, but prior to when monetary penalties could be imposed (February 21, 2012). Staff will work closely with our actuary and auditor to discuss their work products for June 30, 2012 with the intent of meeting the SCO deadline next fiscal year.

3. Staff has been working with GALLINA to review and/or provide all necessary work to assist in their audit process. GALLINA will conduct an exit conference with the Board's ad hoc committee on budget and audits the week of February 6th. The independent audit report is on the Board's agenda for your February meeting.

4. Andy Yeung of The Segal Company (Segal) and I will be presenting the adopted retirement rates to the Board of Supervisors on February 14, 2012.

5. As requested by the Board, staff has amended the recaps of MCERA's portfolio to include cash as an asset class. Your final reports for January will reflect the changes.

6. Staff participated in a conference call with Segal on all outstanding projects. Those projects include: follow-up to questions from the presentation of the valuation study;

developing a COLA calculation for April 1, 2012; quality assurance work on the Correction of Contribution Rates Project; review of excess earnings, findings and recommendations; presentation of rates to the Board of Supervisors; access to the RAP program used while Buck Consultants (Buck) was our actuary; and accounting for reserves.

7. I met with Judith Boyette of Hanson Bridgett, Crystal Ekanayake of GALLINA and Paul Angelo of Segal on February 1st to discuss historical excess earnings practices and the action by MCERA to write down $9.6 million in assets and recognize an expense in the same amount. The meeting produced clear direction for each participant, and I expect a draft work product in the near future.

Legislation

There is nothing new to report at this time.

Automation

1. Per the Board's direction, staff contacted Linea Solutions (Linea) to move the start of the EDMS project out to the beginning of May. The change in start dates for the project will allow MCERA to complete or nearly complete the Correction of Contribution Rates Project. As discussed with the Board in January, we believe moving out the start date will increase the likelihood of successful completion of both projects.

2. San Luis Obispo Retirement System (SLO) will be onsite on February 23rd to provide a demonstration of their pension automation system (PAS). MCERA staff has attended a previous demonstration of the system, but there have been considerable upgrades since that time. SLO is interested in providing a "hosted" PAS for other retirement systems at what they believe will be a considerably lesser cost (based on transactions or usage time). Staff has invited County Information Services to attend the demonstration, as well as Linea. We believe it may also be beneficial to have two or three MCERA board members attend, but will look to the Board for direction.

Retiree Health Care

The Board of Supervisors took action at their January 24th meeting to suspend a previous action that would have virtually eliminated retiree health care for pre-Medicare retirees. As an alternative, the Board of Supervisors agreed to blend pre-Medicare retirees with active employees, but to require retirees to pay the full cost of their impact to the health care premiums (no implicit subsidy).

The premium cost has risen to the point where all retires, except those with no alternative (primarily due to pre-existing conditions), have chosen not to participate in the retiree health program. This has resulted in what has been commonly referred to as the "death spiral" for pre-Medicare retiree health care, in that only those with high health care costs and without alternatives participate in the program thereby leading to continually increasing health care premiums and out of pocket costs that consume much if not all of the retirees pension benefit. A group of retirees, with Board member Shoemaker acting as their primary spokesperson, has been

working very closely with the County to explore options for a sustainable health plan for pre-Medicare retirees.

The action of the Board of Supervisors does not impact MCERA or our application for a determination letter and VCP filing with the Internal Revenue Service (IRS).

Correction of Contribution Rates Project

A February 2012 project status report is attached for your review.

Miscellaneous

1. MCERA received three Public Records Act (PRA) requests. The first was very similar to the PRA from the Los Angeles Times, requesting extensive information on our retirees. Working with our attorney, MCERA responded that it would take up to ninety (90) days to produce the information, that all allowable costs must be reimbursed, and to communicate to MCERA in a letter if they still wanted us to proceed prior to MCERA committing resources to the PRA. The second PRA was from the law firm of Mastagni, Holstedt, Amick, Miller & Johnsen, representing the Mendocino County Deputy Sheriffs' Association, requesting information regarding previous documents related to retiree health care. MCERA is working closely with Mendocino County Counsel in responding to this request, as the County received an identical request. Finally, MCERA received a PRA from JEA Pension System Solutions for all proposals for preparing an Information Technology Roadmap. Staff has provided copies of those documents to the firm.

2. The Board of Supervisors reappointed Bob Mirata to the 9th Seat, and appointed John Sakowicz to the 4th seat at its January 23rd meeting. John will serve out the term of former Board member Don Coursey. Staff provided John with his orientation materials met with him on February 6, 2012.

3. I have been asked to meet again with the Grand Jury subcommittee on MCERA. The meeting is scheduled for February 15th at 2:00 PM. It was my assumption that your monthly meeting would be concluded in time to make that appointment.

4. Randy Goodman has notified me that the job sharing arrangement for accounting and auditing services is not an ideal arrangement for him, and he would like to commit all of his time to one agency or the other beginning July 1, 2012. Immediately subsequent to the Administrator recruitment, I recommend this issue be brought back to the Board for discussion and action. As noted in previous reports, I believe the accounting/auditing services are critical to the Administrator addressing management oversight, organizational development, and project management duties.

5. As a reminder, my last day physically in the office will be March 2, 2012. Your February meeting will be my last meeting as your Retirement Administrator.

JA

Project Charter

Project Name:

Correction of Contribution Rates

Expected Deliverables/Outcomes: *List of reports, recommendations, policies, processes, services, or other expected products from the project. Remember that deliverables are things, not actions. Number each deliverable.*

1. A report from the actuary containing the correctly calculated basic member contribution rates, for each tier and type of employee, for adoption by the Boards of Retirement and Supervisors to be effective January 1, 2012.
2. A report from the actuary containing the basic member contribution rates, for each tier and type of employee, which should have been used for fiscal years 2009/10 through December 31, 2011.
3. A secured, web based file transfer site (FTP).
4. A software program to compute, for all members who contributed during fiscal years 2009/10, 2010/11, and through December 31, 2011, the variance between the actual contribution and the corrected contribution rates plus interest rates recommended by general and tax counsel. The software program will be able to transfer member data to correspondence with members regarding their over/under payment (see 12).
5. A database containing a file for each member who made a contribution between July 1, 2009 and December 31, 2011, by pay period, displaying the variance and how it was calculated. The database will be capable of rolling up pay period variances into member and organizational variances.
6. A legal opinion from tax counsel, and associated advice, describing how refunds of any overpayments to members and collections of underpayments from members and plan sponsors can be accomplished in a manner that is compliant with IRS rules. The opinion will include all forms and procedures appropriate for tax reporting purposes.
7. A policy determining whether or not members who underpaid contributions will be required to make payments to the retirement system. The policy should identify all subgroups (e.g., retirees, deferred members, active members) and the rules for making payments, if any.
8. A report from the actuary and tax counsel containing alternatives and recommendations regarding the source for financing refunds of overpayments and receipt of underpayments, if any. The financing policy must address financing of cash flows, but also address the manner in which the retirement system will receive reimbursement from the plan sponsors for employer contributions that should have been made during fiscal year 2009/10 through December 31, 2011.
9. A report from the actuary, in close collaboration with the software vendor, containing the outcome of quality assurance samples from the database and quality assurance calculations at a summary, or plan, level.
10. A report from tax counsel and Retirement Administrator, as required by the IRS, containing controls that will limit exposure of such errors occurring in the future. The report will also contain a discussion of the alternatives for either supplementing our existing Voluntary Correction Plan (VCP) submitted to the IRS, or filing a new VCP.
11. A new or supplemental VCP.
12. A communication plan to members, plan sponsors and the media, including standardized correspondence to each of the stakeholders.

Project Owner: *The Project Owner provides or locates funding and resources for the project, approves project work plans, timelines, and budget, guides and directs the project manager, and in concert with the project manager delineates roles and responsibilities of the manager and project team. Overall they ensure successful completion of the project.*

The Board of Retirement.

Project Manager(s): *The project manager is responsible for ensuring that project planning, execution, and reporting occur. For purposes of the project, reports to Project Owner (though may be the same person).*

The Retirement Administrator.

Strong consideration should be given to a board ad hoc or steering committee, and a technical advisory committee (i.e., IT, Auditor, Legal and Actuary)

Other Departments Involved: *Please list those departments whose participation or support is necessary in order for the project to be completed.*

1. Information Services Division of the County General Services Agency: (a) set up FTP and (b) consultation on data sharing.
2. Auditor-Controller: (a) distribution of overpayments as directed; (b) possible collection of underpayments; (c) collaboration with tax counsel on forms and procedures to remain compliant for tax purposes; (d) implementing new rates; and (e) provision of payroll data to contractor.
3. Courts: (a) distribution of overpayments as directed; (b) possible collection of underpayments; (c) collaboration with tax counsel on forms and procedures to remain compliant for tax purposes; (d) implementing new rates; and (e) provision of payroll data to contractor.
4. Treasurer: collaboration on cash flow strategy for refunds of overpayments.
5. CEO: (a) collaboration on cash flow strategy and (b) collaboration on repayment to MCERA of sponsor underpayments.
6. County Counsel: advising the plan sponsor on reimbursing MCERA for underpayments of employer contributions.

Start/Finish:

1. Begin October 20, 2011.
2. Implement new, corrected rate January 1, 2012.
3. Balance of work products/milestone activities by June 30, 2012 (see milestone table).

Background/Summary: *(Optional)*

It was communicated by MCERA's previous actuary, Buck Consultants, and confirmed by its new actuary, The Segal Company, that members' basic contribution rates for fiscal years 2009/10, 2010/11 and 2011/12 were incorrectly computed, resulting in an overpayment of contributions by employees, in the aggregate, during that period. The project is to correct the employee and employer payments.

Resources Required: *Please note the name of the county department and whether existing and/or new personnel will be required, as well as any external resources. Note role they will play (examples would be Project manager, Subject Matter Experts, IT support, Project team member, etc): check box for existing or new.*

Department	Role	Existing	New
Retirement	Project Management	Yes	
Information Services	FTP site	Yes	
Auditor-Controller	Payroll data	Yes	
	Distributions/Collections	Yes	
	Implement new rate	Yes	
Courts	Payroll data	Yes	
	Distributions/Collections	Yes	
	Implement new rate	Yes	
Treasurer	Cash flow strategy	Yes	
CEO	Cash flow strategy	Yes	
	County contribution	Yes	
County Counsel	County contribution	Yes	
Peter Stalder, contractor	Software development		Yes
	Database development		Yes
The Segal Company	Establish correct rates		Yes
	Quality assurance		Yes
Hanson Bridgett	IRS compliance advice		Yes
	Future Internal Controls		Yes
	VCP review		Yes
Retirement	Communications	Yes	

Policy Review: *List and briefly describe Board of Retirements, Board of Supervisors or CEO policies that need to be considered and/or resolved before the project can be completed.*

1. The Board of Retirement must determine if a steering and/or technical advisory committee is desired, and, if so, to establish their composition.
2. The Board of Retirement must determine what interest rate will be used.
3. The Board of Retirement and Board of Supervisors must adopt corrected rates effective January 1, 2012.
4. The Board of Retirement must establish a policy regarding collection of underpayments. Any underpayments not collected will increase the plan sponsors' payments.
5. The Board of Supervisors, in coordination with the CEO, Treasurer, County Counsel, and MCERA (tax counsel) must determine the cash source for reimbursing overpayments of employee contributions.
6. The Board of Retirement, in coordination with the Board of Supervisors, CEO, collective counsels (County, MCERA, tax) and the actuary must determine the manner in which the retirement system will collect underpayments by the plan sponsor from July 1, 2009 to December 31, 2011.
7. The Board of Retirement, in coordination with tax counsel, must determine whether or not to submit a supplemental or new VCP to the IRS.

Assumptions/Constraints: *List any major assumptions and or constraints important to the project's success.*

1. Corrected employee contribution rates can be established by January 1, 2012, thereby setting limits around the corrective action.
2. An IRS compliant means of reimbursing members for overpayments of contributions can be determined and can be implemented by the County's finance system.
3. The Board of Retirement and Board of Supervisors can agree upon a strategy for correcting underpayment of employer contributions that meets the fiduciary standards for the BOR and is financially manageable for the BOS.
4. That the electronic data imaging (EDMS) project can be initiated concurrently or immediately following the contribution correction project.

Project Interdependencies and Inputs: *List by project name any other projects or initiatives upon which this project is dependent. Also note any projects or initiatives dependent upon this project.*

1. Application to the IRS for a Determination Letter and VCP.
2. The June 30, 2011 valuation study and 2009 to 2011 experience study.
3. The June 30, 2012 valuation study.
4. The fiscal year 2011/12 and/or 2012/13 County and Courts budgets.
5. The electronic data imaging (EDMS) project.

Risks: *(Optional)*

1. Employee/Member Relations. Likelihood of reduced employee/member confidence in the employer and MCERA during a critical period for the plan sponsor in Employee Relations and MCERA in its organizational development.
2. Rate increase and corrective action resulting in an economic hardship to the plan sponsors.
3. Limited alternatives for financing member reimbursements (cash flows) due to IRS constraints.
4. Change in project lead during project.
5. Unknown impact to MCERA's Determination Letter and VCP applications.

Exclusions: *Use this section, if necessary, to clarify what **will not** be addressed by the project.*

Member contribution rates were reviewed by The Segal Company (Segal) beginning with the June 30, 2010 actuarial valuation. Segal reviewed both the basic and COLA rates. An error was found in the basic rate, but the COLA rate was determined to be correct. As a result all previous COLA rates were assumed to be correct. Segal continued to review the basic rate until finding the first year in which the basic was correct, June 30, 2007 (for fiscal year 2008/09). Employee contributions rates were not reviewed for any other periods.

Milestones: *Note key events marking project progress*

1. Corrected rates from the actuary.
2. Determine interest rate for overpayment corrections.
3. Variances calculated for each member.
4. Determination of a tax forms and procedures for reimbursing overpayments by members.
5. Determination of the manner in which the plan sponsors will correct underpayments to the retirement system.
6. Completion of actuarial quality assurance work.
7. Determination regarding whether to submit a new or supplemental VCP.
8. Standardized communication to each member regarding their under/over payment, and how the corrective action plan will work.
9. Input corrected information into member ledgers, pension system.
10. Submission of the new or supplemental VCP.

Project Duration Estimates

Project Milestone	**Date Estimate** *(mo/day/year)*	**Confidence Level** *(high, medium, or low)*
Board of Retirement establish a steering committee and/or technical advisory committee (TAC)	10/19/2011	High
County IS set up an FTP site	10/21/2011	High
Corrected rates from the actuary	11/04/2011	High
Determine Interest rate to be applied	11/09/2011	High
Variances calculated for each member through June 30, 2011	12/09/2011	High
Board of Retirement adopt corrected rate for 2011/12	12/12/2011	High
Board of Supervisors adopt corrected rate for 2011/12	12/13/2011	High
Actuarial sampling and Quality Assurance of variance calculations through June 30, 2011	12/30/2011	High
Implement corrected rate for the balance of 2011/12	01/08/2012	High
Variances calculated for each member from July 1, 2011 through December 31, 2011	01/20/12	High

Actuarial sampling and Quality Assurance of variance calculations through December 31, 2011, and at the summary level	02/03/2012	High
Input corrections into County, Court and Retirement systems	02/10/2012	Moderate
Determination of a tax forms and procedures for reimbursing overpayments by members	02/15/2012	Low
Determination of whether or not to collect from members who underpaid contributions	02/15/2012	Low
Determine new project lead	03/21/2012	High
Determination on the manner in which the plan sponsors will correct underpayments to the retirement system	03/21/2012	Low
Standardized communication to each member regarding their under/over payment, and how the corrective action plan will work	03/21/2012	Moderate
Letter from tax counsel and the Retirement Administrator to the IRS regarding internal controls to avoid future errors/corrections	04/18/2012	
Determination regarding whether to submit a new or supplemental VCP	04/18/2012	
Submission of the new or supplemental VCP	06/20/2012	

Project Status: *For those projects underway, please note the date and indicate Green (low concern) Yellow (moderate concern) or Red (high concern) that project will exceed timeline, budget or scope.*

- Milestone 1 – Completed. That the Board establishes an ad hoc committee for staff guidance between meetings. On October 19th the Board established an ad hoc committee of Goodman and Walker. Staff was authorized to create a technical advisory committee (TAC) as needed.
- Milestone 2 – Completed. That County IS set up a secured FTP site on October 24th for transferring information between authorized project participants. Staff identified all individuals who would need access to the site, and IS established a security system and list of users.
- Milestone 3 – Completed. Corrected rates from the actuary. Segal has calculated correct employee and employer contribution rates for FY 2009/10, 2010/11, and 2011/12. The new rates have been provided to Peter Stalder for 2009/10 and 2010/11.
- Milestone 4 – Completed. Determine interest rate to be applied. The Board of Retirement acted at its November meeting to reimburse actual over and under payments, without the application of interest/earnings.
- Milestone 5 – Completed. Variances calculated for each member through June 30, 2011. Contracted consultant Peter Stalder has received all requested data for fiscal years 2009/10

and 2010/11. Peter has been working closely with the courts, Retirement, and County payroll on any information needs. The milestone was completed on December 6, 2011. Segal has been asked to begin to perform its Quality Assurance work.

- Milestone 6 – Completed. Board of Retirement adopts corrected rates for 2011/12. Segal has provided corrected employee and employer contribution rates to be effective January 8, 2012. The rates were adopted by the BOR and BOS on December 12th and 13th, respectively. New rate sheets have been sent to the County and courts for use in payroll administration.
- Milestone 7 – Completed. Board of Supervisors adopts corrected rates for 2011/12. See Milestone 6.
- Milestone 8 – Completed. Actuarial sampling and QA on variance calculations through January 8, 2012. Segal completed its review of 10 samples, selected by MCERA to represent a broad range of variables. Segal's draft report indicated no variances from Peter Stalder's calculations. The review did find a possible inconsistency in how safety COL rates are calculated by the actuary and how they are administered through the payroll system. This is a separate issue, and staff is reviewing the findings with the actuary.
- Milestone 9 – Completed. Implement correct employer and employee rates for the balance of fiscal year 2011/12. The County and Courts implemented new employer and employee regular retirement contributions rates, as calculated by Segal, and adopted by the Boards of Retirement and Supervisors, effective January 8, 2012 (pay period 2).
- Milestone 10 – Completed. Variance calculated for fiscal year 2011/12 through pay period 1. Staff has uploaded the data to the FTP site for use by Mr. Stalder, and variances have been calculated.
- Milestone 11 – In process. Actuarial sampling and QA on variance calculations for 2011/12, pay period 15 through 1. Segal is currently working on the final report of the QA findings. Segal will confirm the accuracy of the 10 sample files and the reasonableness of the final aggregate correction amounts.
- Milestone 12 – 02/10/12. Input correct data on employee contributions into retirement ledgers for use by MCERA, the County and Court. All payroll and MCERA staff managing member ledgers appear to be competent and ready to update ledgers once the final calculations are complete and Segal conducts its QA. We will not meet the milestone date, but I anticipated delivering the data to the County and Courts for inclusion in their payroll systems in the near future.
- Milestone 13 – 02/15/12. Determination of tax forms and procedures for reimbursing members. This milestone changed from moderate concern to high concern after discussions with Hanson Bridgett. Hanson Bridgett has participated in such corrections with other clients and the tax forms and payment methodology can largely be drawn from previous work. However, we are both concerned with the speed at which the work products are being produced, reviewed by staff and presented to the Board. It is my belief that we need to take time to carefully review these work products in order to ensure sound and enduring decisions.
- Milestone 14 – 02/15/12. Determination on whether or not to collect from members who underpaid contributions for the period under review. I will share the dollar amounts of under and over payments with the County and Courts on February 7, 2012. While the underpayments to the County are small compared to overpayments, the County may wish to take the time and discuss this issue as they will be the agency incurring the greatest impact. This may also require legal review. For the full two and one half fiscal years, the under-payments amounted to $37,717, compared to $764,169 in over payments (or 5.2% of the net overpayment of $726,452).

- Milestone 15 – 03/21/2012. The role of project lead will be handed-off to Katy Richardson. I will be available by telephone during the month of March to assist and answer any questions. This milestone has been moved up to 03/02/2012 due to the impending absence of the Retirement Administrator during March 2012. Originally it was anticipated that the only remaining milestones for the new lead would be the tactical reimbursement of members and the consideration of supplementing MCERA's VCP.
- Milestone 16 – 12/12/2011. Determination on the manner in which plan sponsors can correct underpayments. At its January 2012 meeting, the Board discussed a legal opinion from Hanson Bridgett and provided direction to staff and the contractor regarding a proposed solution for the plan sponsors. The Project Leader will be meeting with the County and Courts on February 7, 2012 to discuss the proposal. In addition, Hanson Bridgett will be developing a revised legal opinion on the proposal. As with the collection of underpayments from members, I believe this item will require review by the sponsors, as well as discussion and action by their respective boards. As a result, I believe the milestone will be accomplished 30 to 60 days later than was anticipated. We believe the proposed solution is sound, but the original milestone date did not provide for sufficient review of the solution.
- Milestone 17 – 03/21/12. Develop standardized communication to members regarding their over/under payment. Moderate concern exists due to the extensive number of work products being required of our tax counsel, Hanson Bridgett. While draft forms have been developed, staff believes that we may miss the milestone date. I do not see the development of correspondence as a significant hurdle in completion of the project.

Comments:

The parties (MCERA, County, Courts and contractors) are continuing to work well together.

COMPARISON OF CAST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION
DECEMBER 2011 FINAL

	A	B	C	D	E	F	G	H
	MARKET VALUE INVESTMENTS	CASH RESERVED	TOTAL AVAILABLE	PERCENT OF PORT.	% BY CLASS	TARGET % (2010 STUDY)	TARGET AS DOLLARS	DIFFERENCE AS DOLLARS
FIXED INCOME								
PIMCO	44,736,859		44,736,859	14.35%		14.000%	43,655,936	(1,080,923)
DODGE & COX INCOME	45,207,528		45,207,528	14.50%		14.000%	43,655,936	(1,551,592)
					28.844%	**28.000%**		
SMALL CAP GROWTH								
ALLIANCE	3,836,163		3,836,163	1.23%		1.000%	3,118,281	(717,882)
RS EMERGING	3,350,513		3,350,513	1.07%		1.000%	3,118,281	(232,232)
MANAGERS	6,334,857		6,334,857	2.03%		1.900%	5,924,734	(410,123)
					4.336%	**3.900%**		
SMALL CAP VALUE								
VANGUARD SMALL CAP INDEX	-		-	0.00%		0.000%	-	-
PRUDENTIAL	6,234,199		6,234,199	2.00%		1.900%	5,924,734	(309,465)
					1.999%	**1.900%**		
MID CAP GROWTH								
MORGAN STANLEY	5,023,258		5,023,258	1.61%		1.400%	4,365,594	(657,664)
JANUS ENTERPRISE	5,309,151		5,309,151	1.70%		1.400%	4,365,594	(943,557)
					3.313%	**2.800%**		
MID CAP VALUE								
FIDILITY LP STCK	5,061,954		5,061,954	1.62%		1.400%	4,365,594	(696,360)
ROYCE TOTAL RTN	4,986,547		4,986,547	1.60%		1.400%	4,365,594	(620,953)
					3.222%	**2.800%**		
LARGE CAP GROWTH								
GROWTH FUND OF AMERICA	9,807,657		9,807,657	3.15%		3.000%	9,354,843	(452,814)
HARBOR CAP APPRE	10,455,671		10,455,671	3.35%		3.000%	9,354,843	(1,100,828)
JANUS RESEARCH	10,044,259		10,044,259	3.22%		3.000%	9,354,843	(689,416)
					9.719%	**9.000%**		
LARGE CAP VALUE								
SELECTED AMERICAN	9,800,369		9,800,369	3.14%		3.000%	9,354,843	(445,526)
DODGE & COX	14,399,518		14,399,518	4.62%		4.400%	13,720,437	(679,081)
INVEST CO AMERICA	10,118,477		10,118,477	3.24%		3.000%	9,354,843	(763,634)
ROBECO	13,599,835		13,599,835	4.36%		4.400%	13,720,437	120,602
VAN GUARD GR&INC	10,427,056		10,427,056	3.34%		3.000%	9,354,843	(1,072,213)
					18.711%	**17.800%**		
INTERNATIONAL STOCK								
AMERICAN - EUROPACIFIC	15,137,843		15,137,843	4.85%		4.700%	14,655,921	(481,922)
HARBOR INTL	14,108,477		14,108,477	4.52%		4.700%	14,655,921	547,444
ACORN INTL	7,467,649		7,467,649	2.39%		2.500%	7,795,703	328,054
ARTISAN	-		-	0.00%		0.000%	-	-
JANUS INTL	12,139,762		12,139,762	3.89%		4.700%	14,655,921	2,516,159
MONDRIAN	13,166,168		13,166,168	4.22%		4.700%	14,655,921	1,489,753
OAKMARK	11,102,120		11,102,120	3.56%		3.800%	11,849,468	747,348
					23.449%	**25.100%**		
REAL ESTATE								
RREEF - COMMINGLED FUND	3,263,814		3,263,814	1.05%		1.700%	5,301,078	2,037,264
RREEF - AMERICA REIT II	16,708,407		16,708,407	5.36%		4.200%	13,096,781	(3,611,626)
NEW PRIVATE	-		-	0.00%		2.800%	8,731,187	8,731,187
					6.405%	**8.700%**		
TOTAL MANAGED INVEST.	**311,828,111**	**-**	**311,828,111**	**100.000%**	**100.000%**	**100.000%**	**311,828,111**	**0**
OTHER REAL ESTATE								
625 B KINGS COURT	738,992		738,992	0.236%		0.000%	-	-
					0.000%	**0.000%**		
INVESTED FUNDS AVAILABLE	**312,567,103**	**-**	**312,567,103**	**100.236%**	**100.000%**	**100.000%**	**311,828,111**	**0**

	CASH BALANCE	CASH RESERVED	TOTAL CASH BALANCE	PERCENT OF PORT.	% BY CLASS	TARGET % (2010 STUDY)	TARGET AS DOLLARS	DIFFERENCE AS DOLLARS
CASH	13,968,730		13,968,730	4.278%		0.000%	-	-
					0.000%	**0.000%**		
TOTAL FUNDS AVAILABLE	**326,535,833**	**-**	**326,535,833**	**104.514%**	**100.000%**	**100.000%**	**311,828,111**	**0**

COMPARISON OF COST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION
DECEMBER 2011 FINAL

	A	B	C	D	E	F	G	H
	COST VALUE	MARKET VALUE	UNREALIZED GAIN	GAIN BY CATEGORY	PRIOR MONTH GAIN/LOSS	MONTHLY CHANGE	START OF FISCAL YEAR (MARKET)	FISCAL YEAR CHANGE (MARKET)
FIXED INCOME								
PIMCO	41,813,409	44,736,859	2,923,450		2,731,369	192,081	47,208,923	(2,472,064)
DODGE & COX INCOME	45,574,513	45,207,528	(366,985)		(589,211)	222,226	50,473,381	(5,265,853)
				2,556,465				
SMALL CAP GROWTH								
ALLIANCE	1,967,850	3,836,163	1,868,313		1,887,653	(19,340)	4,149,842	(313,679)
RS EMERGING	2,500,101	3,350,513	850,412		955,672	(105,260)	3,883,292	(532,779)
MANAGERS	5,825,409	6,334,857	509,448		918,450	(409,002)	7,009,997	(675,140)
				3,228,173				
SMALL CAP VALUE								
VANGUARD SMALL CAP INDEX	0	-	-		-	-	-	-
PRUDENTIAL TARGET	7,172,930	6,234,199	(938,731)		(714,947)	(223,784)	6,717,460	(483,261)
				(938,731)				
MID CAP GROWTH								
MORGAN STANLEY	4,518,742	5,023,258	504,516		981,692	(477,176)	6,016,150	(992,892)
JANUS ENTERPRISE	5,232,908	5,309,151	76,243		119,970	(43,727)	5,752,795	(443,644)
				580,759				
MID CAP VALUE								
FIDILITY LP STCK	3,917,670	5,061,954	1,144,284		1,179,702	(35,418)	5,497,767	(435,813)
ROYCE TOTAL RTN	3,934,598	4,986,547	1,051,949		1,104,821	(52,872)	5,343,466	(356,919)
				2,196,233				
LARGE CAP GROWTH								
AMERICAN FUND	8,491,910	9,807,657	1,315,747		1,544,161	(228,414)	10,762,588	(954,931)
HARBOR CAP APPRE	8,783,960	10,455,671	1,671,711		1,900,719	(229,008)	11,269,773	(814,102)
JANUS RESEARCH	8,617,378	10,044,259	1,426,881		1,621,162	(194,281)	10,986,434	(942,175)
				4,414,339				
LARGE CAP VALUE								
SELECTED AMERICAN	8,861,931	9,800,369	938,438		974,778	(36,340)	10,484,731	(684,362)
DODGE & COX	13,893,630	14,399,518	505,888		411,795	94,093	15,957,294	(1,557,776)
INVEST CO AMERICA	9,225,397	10,118,477	893,080		896,409	(3,329)	10,682,563	(564,086)
ROBECO	14,500,000	13,599,835	(900,165)		(1,105,856)	205,691	14,491,030	(891,195)
VAN GUARD GR&INC	9,606,724	10,427,056	820,332		794,715	25,617	10,831,151	(404,095)
				2,257,573				
INTERNATIONAL STOCK								
EUROPACIFIC	14,519,688	15,137,843	618,155		1,250,268	(632,113)	16,443,168	(1,305,325)
HARBOR INTL	15,372,603	14,108,477	(1,264,126)		(641,836)	(622,290)	17,012,890	(2,904,413)
ACORN INTL	5,840,163	7,467,649	1,627,486		1,840,785	(213,299)	8,952,037	(1,484,388)
ARTISAN	-	-	-		-	-	-	-
JANUS INTL	15,257,471	12,139,762	(3,117,709)		(1,578,742)	(1,538,967)	14,726,811	(2,587,049)
MONDRIAN	14,442,987	13,166,168	(1,276,819)		(1,256,942)	(19,877)	14,874,406	(1,708,238)
OAKMARK	11,229,477	11,102,120	(127,357)		116,426	(243,783)	13,492,130	(2,390,010)
				(3,540,370)				
REAL ESTATE								
RREEF - COMMINGLED FUND	4,151,482	3,263,814	(887,668)		3,581,546	(4,469,214)	13,567,707	(10,303,893)
RREEF - AMERICA REIT II	15,376,019	16,708,407	1,332,388		1,493,357	(160,969)	16,238,535	469,872
NEW PRIVATE	-	-	-		-	-	-	-
				444,720				
TOTAL MANAGED INVEST.	**300,628,950**	**311,828,111**	**11,199,161**	**11,199,161**	**20,417,916**	**(9,218,755)**	**352,826,321**	**(40,998,210)**
OTHER REAL ESTATE								
625 B KINGS COURT	901,112	738,992	(162,120)		(162,120)	-	738,992	-
				(162,120)				
INVESTED FUNDS AVAILABLE	**301,530,062**	**312,567,103**	**11,037,041**	**11,037,041**	**20,255,796**	**(9,218,755)**	**353,565,313**	**(40,998,210)**

	BEGINNING MONTH CASH	ENDING MONTH CASH	INCREASE/ DECREASE	GAIN BY CATEGORY	PRIOR MONTH INC/DEC	MONTHLY CHANGE	START OF FISCAL YEAR BALANCE	FISCAL YEAR CHANGE
CASH	1,235,906	13,968,730	12,732,824		-	12,732,824	1,189,486	12,779,244
				12,732,824				
TOTAL FUNDS AVAILABLE	**302,765,968**	**326,535,833**	**23,769,865**	**23,769,865**	**20,255,796**	**3,514,069**	**354,754,799**	**(28,218,966)**

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2011
(FINAL)

	CURRENT MONTH	YEAR TO DATE
ADDITIONS		
CONTRIBUTIONS		
EMPLOYER	$ 1,251,314.21	$ 5,756,654.52
PLAN MEMBERS	1,059,722.65	2,994,799.04
TOTAL CONTRIBUTIONS	**2,311,036.86**	**8,751,453.56**
INVESTMENT INCOME		
RENTAL INCOME, NET OF EXPENSES	9,836.52	22,854.22
INTEREST	(516,668.08)	(484,571.71)
DIVIDENDS	2,761,668.52	4,274,146.92
CAPITAL GAINS	6,797,048.07	7,125,177.97
LESS INVESTMENT EXPENSE	(52,920.58)	(146,761.85)
TOTAL INVESTMENT INCOME	**8,998,964.45**	**10,790,845.55**
TOTAL ADDITIONS	**11,310,001.31**	**19,542,299.11**
DEDUCTIONS		
BENEFIT PAYMENTS AND SUBSIDIES	(2,441,255.17)	(11,473,524.90)
REFUNDS OF CONTRIBUTIONS	426,720.95	(173,948.77)
ADMINISTRATIVE EXPENSES	(49,335.89)	(93,456.47)
TOTAL DEDUCTIONS	**2,063,870.11**	**11,740,930.14**
INCREASE (DECREASE) IN NET ASSETS	**9,246,131.20**	**7,801,368.97**
NET ASSETS		
BEGINNING OF YEAR	**305,952,419.94**	**307,397,182.17**
END OF YEAR	**$ 315,198,551.14**	**$ 315,198,551.14**

UNAUDITED - FOR INTERNAL USE ONLY.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2011
(FINAL)

ASSETS		
CASH AND EQUIVALENTS		
GENERAL CASH	$ 12,968,729.99	
CASH TO BE INVESTED	1,000,000.00	
TOTAL CASH AND EQUIVALENTS		**13,968,729.99**
CURRENT ASSETS		
RECOUPMENTS	3,377.15	
TOTAL CURRENT ASSETS		**3,377.15**
PROPERTY AND EQUIPMENT		
EQUIPMENT	3,786.40	
TOTAL PROPERTY AND EQUIPMENT		**3,786.40**
INVESTMENTS, AT COST		
BONDS	87,387,922.60	
INTERNATIONAL EQUITIES	76,662,388.17	
SMALL CAP EQUITIES	21,383,960.85	
MID CAP EQUITIES	36,071,787.22	
LARGE CAP EQUITIES	59,595,389.63	
REAL ESTATE	20,428,612.94	
TOTAL INVESTMENTS, AT COST		**301,530,061.41**
TOTAL ASSETS		**$ 315,505,954.95**
LIABILITIES		
CURRENT LIABILITIES		
AMCRE DUES	$ 770.46	
WAGE ATTACHMENTS	176.74	
PEDIT TRUST DENTAL	18,119.04	
AFLAC INSURANCE	2,997.57	
BUCK SETTLEMENT RESERVE	285,340.00	
TOTAL CURRENT LIABILITIES		**307,403.81**
TOTAL NET ASSETS		**$ 315,198,551.14**

UNAUDITED - FOR MANAGEMENT PURPOSES ONLY

COMPARISON OF CAST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION
JANUARY 2012 PRELIMINARY

	A	B	C	D	E	F	G	H
	MARKET VALUE INVESTMENTS	CASH RESERVED	TOTAL AVAILABLE	PERCENT OF PORT.	% BY CLASS	TARGET % (2010 STUDY)	TARGET AS DOLLARS	DIFFERENCE AS DOLLARS
FIXED INCOME								
PIMCO	45,889,343		45,889,343	13.54%		14.000%	47,455,732	1,566,389
DODGE & COX INCOME	46,159,266		46,159,266	13.62%		14.000%	47,455,732	1,296,466
					27.155%	**28.000%**		
SMALL CAP GROWTH								
ALLIANCE	4,178,561		4,178,561	1.23%		1.000%	3,389,695	(788,866)
RS EMERGING	3,595,851		3,595,851	1.06%		1.000%	3,389,695	(206,156)
MANAGERS	6,839,672		6,839,672	2.02%		1.900%	6,440,421	(399,251)
					4.311%	**3.900%**		
SMALL CAP VALUE								
VANGUARD SMALL CAP INDEX	-		-	0.00%		0.000%	-	-
PRUDENTIAL	6,590,803		6,590,803	1.94%		1.900%	6,440,421	(150,382)
					1.944%	**1.900%**		
MID CAP GROWTH								
MORGAN STANLEY	5,406,259		5,406,259	1.59%		1.400%	4,745,573	(660,686)
JANUS ENTERPRISE	5,703,602		5,703,602	1.68%		1.400%	4,745,573	(958,029)
					3.278%	**2.800%**		
MID CAP VALUE								
FIDILITY LP STCK	5,373,633		5,373,633	1.59%		1.400%	4,745,573	(628,060)
ROYCE TOTAL RTN	5,219,305		5,219,305	1.54%		1.400%	4,745,573	(473,732)
					3.125%	**2.800%**		
LARGE CAP GROWTH								
GROWTH FUND OF AMERICA	10,514,546		10,514,546	3.10%		3.000%	10,169,085	(345,461)
HARBOR CAP APPRE	11,226,387		11,226,387	3.31%		3.000%	10,169,085	(1,057,302)
JANUS RESEARCH	10,788,278		10,788,278	3.18%		3.000%	10,169,085	(619,193)
					9.597%	**9.000%**		
LARGE CAP VALUE								
SELECTED AMERICAN	10,265,042		10,265,042	3.03%		3.000%	10,169,085	(95,957)
DODGE & COX	15,219,797		15,219,797	4.49%		4.400%	14,914,659	(305,138)
INVEST CO AMERICA	10,559,385		10,559,385	3.12%		3.000%	10,169,085	(390,300)
ROBECO	14,313,962		14,313,962	4.22%		4.400%	14,914,659	600,697
VAN GUARD GR&INC	10,851,567		10,851,567	3.20%		3.000%	10,169,085	(682,482)
					18.058%	**17.800%**		
INTERNATIONAL STOCK								
AMERICAN - EUROPACIFIC	16,059,989		16,059,989	4.74%		4.700%	15,931,567	(128,422)
HARBOR INTL	15,205,953		15,205,953	4.49%		4.700%	15,931,567	725,614
ACORN INTL	8,029,192		8,029,192	2.37%		2.500%	8,474,238	445,046
ARTISAN	-		-	0.00%		0.000%	-	-
JANUS INTL	14,277,994		14,277,994	4.21%		4.700%	15,931,567	1,653,573
MONDRIAN	14,618,533		14,618,533	4.31%		4.700%	15,931,567	1,313,034
OAKMARK	11,920,524		11,920,524	3.52%		3.800%	12,880,842	960,318
					23.634%	**25.100%**		
REAL ESTATE								
RREEF - COMMINGLED FUND	3,453,664		3,453,664	1.02%		1.700%	5,762,482	2,308,818
RREEF - AMERICA REIT II	16,708,407		16,708,407	4.93%		4.200%	14,236,720	(2,471,687)
CORNERSTONE	10,000,000		10,000,000	2.95%		2.800%	9,491,146	(508,854)
					8.898%	**8.700%**		
TOTAL MANAGED INVEST.	**338,969,515**	**-**	**338,969,515**	**100.000%**	**100.000%**	**100.000%**	**338,969,515**	**(0)**
OTHER REAL ESTATE								
625 B KINGS COURT	738,992		738,992	0.218%		0.000%	-	-
					0.000%	**0.000%**		
INVESTED FUNDS AVAILABLE	**339,708,507**	**-**	**339,708,507**	**100.218%**	**100.000%**	**100.000%**	**338,969,515**	**(0)**

	CASH BALANCE	CASH RESERVED	TOTAL CASH BALANCE	PERCENT OF PORT.	% BY CLASS	TARGET % (2010 STUDY)	TARGET AS DOLLARS	DIFFERENCE AS DOLLARS
CASH	2,459,636		2,459,636	0.719%		0.000%	-	-
					0.000%	**0.000%**		
TOTAL FUNDS AVAILABLE	**342,168,143**	**-**	**342,168,143**	**100.936%**	**100.000%**	**100.000%**	**338,969,515**	**(0)**

COMPARISON OF COST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION
JANUARY 2012 PRELIMINARY

	A	B	C	D	E	F	G	H
	COST VALUE	MARKET VALUE	UNREALIZED GAIN	GAIN BY CATEGORY	PRIOR MONTH GAIN/LOSS	MONTHLY CHANGE	START OF FISCAL YEAR (MARKET)	FISCAL YEAR CHANGE (MARKET)
FIXED INCOME								
PIMCO	41,813,409	45,889,343	4,075,934		2,923,450	1,152,484	47,208,923	(1,319,580)
DODGE & COX INCOME	45,574,513	46,159,266	584,753		(366,985)	951,738	50,473,381	(4,314,115)
				4,660,687				
SMALL CAP GROWTH								
ALLIANCE	1,967,850	4,178,561	2,210,711		1,868,313	342,398	4,149,842	28,719
RS EMERGING	2,500,101	3,595,851	1,095,750		850,412	245,338	3,883,292	(287,441)
MANAGERS	5,825,409	6,839,672	1,014,263		509,448	504,815	7,009,997	(170,325)
				4,320,724				
SMALL CAP VALUE								
VANGUARD SMALL CAP INDEX	0	-	-		-	-	-	-
PRUDENTIAL TARGET	7,172,930	6,590,803	(582,127)		(938,731)	356,604	6,717,460	(126,657)
				(582,127)				
MID CAP GROWTH								
MORGAN STANLEY	4,518,742	5,406,259	887,517		504,516	383,001	6,016,150	(609,891)
JANUS ENTERPRISE	5,232,908	5,703,602	470,694		76,243	394,451	5,752,795	(49,193)
				1,358,211				
MID CAP VALUE								
FIDILITY LP STCK	3,917,670	5,373,633	1,455,963		1,144,284	311,679	5,497,767	(124,134)
ROYCE TOTAL RTN	3,934,598	5,219,305	1,284,707		1,051,949	232,758	5,343,466	(124,161)
				2,740,670				
LARGE CAP GROWTH								
AMERICAN FUND	8,491,910	10,514,546	2,022,636		1,315,747	706,889	10,762,588	(248,042)
HARBOR CAP APPRE	8,783,960	11,226,387	2,442,427		1,671,711	770,716	11,269,773	(43,386)
JANUS RESEARCH	8,617,378	10,788,278	2,170,900		1,426,881	744,019	10,986,434	(198,156)
				6,635,963				
LARGE CAP VALUE								
SELECTED AMERICAN	8,861,931	10,265,042	1,403,111		938,438	464,673	10,484,731	(219,689)
DODGE & COX	13,893,630	15,219,797	1,326,167		505,888	820,279	15,957,294	(737,497)
INVEST CO AMERICA	9,225,397	10,559,385	1,333,988		893,080	440,908	10,682,563	(123,178)
ROBECO	14,500,000	14,313,962	(186,038)		(900,165)	714,127	14,491,030	(177,068)
VAN GUARD GR&INC	9,606,724	10,851,567	1,244,843		820,332	424,511	10,831,151	20,416
				5,122,071				
INTERNATIONAL STOCK								
EUROPACIFIC	14,519,688	16,059,989	1,540,301		618,155	922,146	16,443,168	(383,179)
HARBOR INTL	15,372,603	15,205,953	(166,650)		(1,264,126)	1,097,476	17,012,890	(1,806,937)
ACORN INTL	5,840,163	8,029,192	2,189,029		1,627,486	561,543	8,952,037	(922,845)
ARTISAN	-	-	-		-	-	-	-
JANUS INTL	15,257,471	14,277,994	(979,477)		(3,117,709)	2,138,232	14,726,811	(448,817)
MONDRIAN	15,442,987	14,618,533	(824,454)		(1,276,819)	452,365	14,874,406	(255,873)
OAKMARK	11,229,477	11,920,524	691,047		(127,357)	818,404	13,492,130	(1,571,606)
				2,449,796				
REAL ESTATE								
RREEF - COMMINGLED FUND	4,151,482	3,453,664	(697,818)		(887,668)	189,850	13,567,707	(10,114,043)
RREEF - AMERICA REIT II	15,376,019	16,708,407	1,332,388		1,332,388	-	16,238,535	469,872
CORNERSTONE	10,000,000	10,000,000	-		-	-	-	10,000,000
				634,570				
TOTAL MANAGED INVEST.	**311,628,950**	**338,969,515**	**27,340,565**	**27,340,565**	**11,199,161**	**16,141,404**	**352,826,321**	**(13,856,806)**
OTHER REAL ESTATE								
625 B KINGS COURT	901,112	738,992	(162,120)		(162,120)	-	738,992	-
				(162,120)				
INVESTED FUNDS AVAILABLE	**312,530,062**	**339,708,507**	**27,178,445**	**27,178,445**	**11,037,041**	**16,141,404**	**353,565,313**	**(13,856,806)**

	BEGINNING MONTH CASH	ENDING MONTH CASH	INCREASE/ DECREASE	GAIN BY CATEGORY	PRIOR MONTH INC/DEC	MONTHLY CHANGE	START OF FISCAL YEAR BALANCE	FISCAL YEAR CHANGE
CASH	13,968,730	2,459,636	(11,509,094)		-	(11,509,094)	1,189,486	1,270,150
				(11,509,094)				
TOTAL FUNDS AVAILABLE	**326,498,792**	**342,168,143**	**15,669,351**	**15,669,351**	**11,037,041**	**4,632,310**	**354,754,799**	**(12,586,656)**

James M. Andersen
Retirement Administrator

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

Date: January 25, 2012
To: Board of Retirement
From: Jim Andersen, Retirement Administrator
Subject: Discussion and Possible Action Regarding a Cost of Living Adjustment (COLA) as of April 1, 2012

Introduction

Pursuant to Government Code Section 31870.1, on or before April 1 of each year MCERA's actuary must calculate the amount of the cost of living adjustment (COLA), if any, that shall be granted to retirees for the year following April 1. The COLA may be increased up to the maximum of three percent (3%) by applying accumulated adjustments carried forward from those years where the increase in the reported cost of living exceeded three percent.

Discussion

Attached is The Segal Company's COLA calculation to be applied April 1, 2012. Staff has reviewed the report, including independently verifying the 2009 and 2010 indices. Also attached is a copy of Government Code Section 31870.1.

Recommended Motion/Action

Approve the Cost of Living Adjustment (COLA) calculated by The Segal Company for the period beginning April 1, 2012.

JA
Attachment

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Associate Actuary
ayeung@segalco.com

January 25, 2012

Mr. James M. Andersen
Retirement Administrator
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, California 95482

Re: Mendocino County Employees' Retirement Association Cost-of-Living Adjustments (COLA) as of April 1, 2012

Dear Jim:

We have determined the cost-of-living adjustments for the Association in accordance with Section 31870.1, as provided in the enclosed exhibit.

The cost-of-living factor to be used by the Association on April 1, 2012 is determined by comparing the December CPI for the San Francisco-Oakland-San Jose Area (with 1982-84 as the base period) in each of the past two years. The ratio of the past two December indices, 234.327 in 2011 and 227.658 in 2010, is 1.0293. The County Law section cited above indicates that the resulting percentage change of 2.93% should be rounded to the nearest one-half percent, which is 3.0%. Please note the above cost-of-living adjustment calculated using established procedures for MCERA may result in adjustments different from those calculated using alternative procedures by other systems.

The actual cost-of-living adjustment is independent of date of retirement. The CPI adjustment to be applied on April 1, 2012 is provided in Column (4) of the enclosed exhibit. The COLA bank on April 1, 2012 is provided in Column (5).

Please give us a call if you have any questions.

Sincerely,

Andy Yeung

AW/gxk
Enclosure

5172467v1/13459.001

Mendocino County Employees' Retirement Association
Cost-Of-Living Adjustment
As of April 1, 2012

Retirement Date			(1) April 1, 2011 Accumulated Carry-over	(2) CPI Change*	(3) CPI Rounded**	(4) CPI Used***	(5) April 1, 2012 Accumulated Carry-over****
Tiers 1, 2 and 3							
Section 31870.1							
Maximum Annual COLA			3.0%				
On or Before 4/1/1971			54.0%	2.93%	3.0%	3.0%	54.0%
04/02/1971	to	04/01/1972	52.0%	2.93%	3.0%	3.0%	52.0%
04/02/1972	to	04/01/1973	51.0%	2.93%	3.0%	3.0%	51.0%
04/02/1973	to	04/01/1974	50.5%	2.93%	3.0%	3.0%	50.5%
04/02/1974	to	04/01/1975	47.5%	2.93%	3.0%	3.0%	47.5%
04/02/1975	to	04/01/1976	42.5%	2.93%	3.0%	3.0%	42.5%
04/02/1976	to	04/01/1977	37.5%	2.93%	3.0%	3.0%	37.5%
04/02/1977	to	04/01/1978	37.0%	2.93%	3.0%	3.0%	37.0%
04/02/1978	to	04/01/1979	34.5%	2.93%	3.0%	3.0%	34.5%
04/02/1979	to	04/01/1980	30.0%	2.93%	3.0%	3.0%	30.0%
04/02/1980	to	04/01/1981	26.5%	2.93%	3.0%	3.0%	26.5%
04/02/1981	to	04/01/1982	14.5%	2.93%	3.0%	3.0%	14.5%
04/02/1982	to	04/01/1983	4.5%	2.93%	3.0%	3.0%	4.5%
04/02/1983	to	04/01/1984	2.0%	2.93%	3.0%	3.0%	2.0%
04/02/1984	to	04/01/1985	2.0%	2.93%	3.0%	3.0%	2.0%
04/02/1985	to	04/01/1986	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1986	to	04/01/1987	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1987	to	04/01/1988	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1988	to	04/01/1989	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1989	to	04/01/1990	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1990	to	04/01/1991	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1991	to	04/01/1992	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1992	to	04/01/1993	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1993	to	04/01/1994	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1994	to	04/01/1995	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1995	to	04/01/1996	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1996	to	04/01/1997	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1997	to	04/01/1998	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1998	to	04/01/1999	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/1999	to	04/01/2000	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2000	to	04/01/2001	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2001	to	04/01/2002	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2002	to	04/01/2003	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2003	to	04/01/2004	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2004	to	04/01/2005	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2005	to	04/01/2006	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2006	to	04/01/2007	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2007	to	04/01/2008	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2008	to	04/01/2009	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2009	to	04/01/2010	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2010	to	04/01/2011	0.0%	2.93%	3.0%	3.0%	0.0%
04/02/2011	to	04/01/2012		2.93%	3.0%	3.0%	0.0%

* Based on ratio of December 2011 CPI to December 2010 CPI for the San Francisco - Oakland - San Jose Area.
** Based on CPI change rounded to nearest one-half percent.
*** These are the cost-of-living adjustment factors to be applied on April 1, 2012.
**** These are the carry-over of the cost-of-living adjustments that have not been used on April 1, 2012.

James M. Andersen
Retirement Administrator

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

Date: December 22, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator
Subject: Discussion and Possible Action to Adopt a **Cash Management and Rebalancing Policy**

Introduction

MCERA, as any organization, requires a reasonable level of cash on hand to pay foreseeable and unexpected expenses of the association. The primary sources of cash are employer and employee contributions to the pension trust. The primary uses of cash are payments of member benefits, as well as administrative and investment expenses. Until the fall of 2010, employer and employee contributions were approximately equal to member benefits. In addition, regular income was received in the form of interest/dividend and principle payments from bond managers. The income from the bond managers was more than sufficient to pay administrative, investment and intermittent expenses. The cash balance in the pension trust consistently increased in value until it was reinvested in portfolio asset classes.

In the winter/spring of 2011, the Board gave direction to staff, at the advice of its investment consultants Callan Associates (Callan), to instruct all bond managers to reinvest income. The action served to eliminate the growth in cash, and direct the funds back into portfolio assets that are assumed to achieve a higher rate of return than cash in the County treasury. During this same period of time, the County and Courts (the primary plan sponsors) were reducing their respective work forces and seeking wage concessions in an effort to balance their budgets. The reduced wages, upon which employer and employee contributions are based, resulted in shrinking cash contributions to the pension fund. In addition, the use of cash for monthly pension benefits was growing with an increasing population of retired members. All of these variables resulted in an approximate $600,000 net use of cash per month.

The Board provided direction to staff to maintain a minimum balance of roughly $1 million in cash, and to sell assets to raise cash to a maximum of roughly $3 million. With a net use of approximately $600,000 per month, the direction resulted in the need to sell assets and raise cash on a quarterly basis. As the direction of the Board was implemented in the spring/summer of 2011, the market became more volatile and created a short-term environment wherein assets might be sold during a brief but significant dip in the market value of assets resulting in an accounting loss or reduced gain on the sale. The accounting impact is that less income is available to post to employee and employer reserves on a semi-annual basis. Callan maintained its position that the goal of MCERA, as they have communicated to their other institutional

clients, is to minimize cash on hand to what is reasonably needed for benefit payments and operations, and to maximize the amount of assets in other classes that yield a higher return and provide a greater contribution toward the long-term return on investment assumptions of the association. Notwithstanding their position, Callan has also communicated that the percentage of the portfolio assets allocated to cash is small enough (0.8% to 1.0%), that the Board would not be compromising its fiduciary responsibilities to maintain a slightly higher cash balance and reduce the amount of quarterly sales of assets.

Finally, consistent with its Investment Policy Statement (IPS), the Board directed that when staff is evaluating the need to sell assets in order to raise cash, they do so in conjunction with rebalancing asset classes to target ranges contained in the IPS.

Discussion

Attached is a recommended Cash Management and Rebalancing Policy for the Board to discuss and consider. The policy addresses the cash needs of MCERA and the fiduciary duty of the Board to invest funds prudently, including maintaining a diversified portfolio consistent with its IPS.

Also attached is a cash flow analysis for the 2011/12 fiscal year. The analysis is intended to provide the Board with an example of the cash management plan and cash flow report described in the recommended policy. It also provides the Board with data on key sources and uses of cash. **Please note** the recommended policy anticipates instructing our bond funds to begin sending dividends to MCERA as cash income rather than reinvesting those dividends into additional shares.

Recommended Motion/Action

1. Adopt the recommended Cash Management and Rebalancing Policy.

2. Direct staff to instruct bond fund managers to remit dividend income to MCERA as a cash payment.

Alternative

Staff has a neutral position on the alternative. Adopt the same cash policy, but continue to reinvest dividends from bond funds. This alternative would continue the prior Board direction that all investment income be reinvested into higher yielding asset classes rather than accumulate as cash. On the flip side, it will result in an increase of approximately $4 million annually in the sale of assets to raise sufficient cash for member benefits, administrative and investment expenses.

I will be happy to respond to any questions or comments you may have.

JA
Attachments

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

CASH MANAGEMENT AND REBALANCING POLICY

I. PURPOSE

The Cash Management and Rebalancing Policy is intended to expand upon the Investment Policy Statement and provide staff with clear cash management and asset rebalancing guidance for the Mendocino County Employees' Retirement Association (MCERA). As fiduciaries, the Board desires to maintain sufficient cash to pay the administrative and investment expenses of MCERA while endeavouring to meet assumed investment returns by maintaining targeted asset diversification within the total portfolio.

II. OBJECTIVES

A. Maintain sufficient cash to pay three months (one calendar quarter) of member benefits, administrative and investment expenses, as well as intermittent expenses, i.e., semi-annual transfers to the County's Debt Service Reserve collected through court payroll, fiscal year-end closing of the Retirement Budget Unit (1920), etc.

B. Ensure a reasonable contingency of cash is maintained to address minor volatility in cash flows and to maintain a positive cash balance and positive quarterly interest apportionment from the County treasury.

C. Notwithstanding OBJECTIVES A and B, maximize invested assets to provide the best opportunity to achieve investment returns from asset classes with a higher likelihood of appreciation in market value.

D. Create a disciplined cycle of rebalancing assets classes to targets.

III. POLICY GUIDELINES

A. Not later than the Board's May meeting, staff will prepare a draft cash management plan for the following fiscal year. The plan will include sufficient cash to pay three months of ongoing member benefits, administrative and investment expenses, as well as known intermittent expenses.

B. The projected balance of cash at the end of any calendar quarter will not fall below $1 million.

C. Primary sources of cash will be employer and employee contributions, dividends paid from bond funds, and quarterly sales of investments consistent with these Policy

Guidelines. Primary uses of cash disbursements will be member benefit payments, refunds of contributions, administrative and investment expenses. As fiduciaries, the Board understands that quarterly sales of investments to maintain a sufficient cash balance will occur during downward and upward trends in the market value of assets being sold, but believes it is prudent to assume that over the long-term the trends will be neutral.

D. The Board will adopt a final cash management plan for the following fiscal year not later than its June meeting.

E. A cash flow report comparing estimated to actual cash flows, as well as beginning and ending balances, will be prepared for each monthly Board meeting.

F. Not later than thirty (30) days after the end of a calendar quarter, staff will review the percentage of the total investment portfolio by asset class to the target range of each asset class as established in the Investment Policy Statement. Asset classes that fall outside the target range will be rebalanced.

G. While staff should understand the potential for an accounting gain or loss resulting from rebalancing asset classes, the primary purpose for rebalancing is to align the asset allocation with the Investment Policy Statement to achieve the long-term investment return contained in the Investment Policy Statement.

H. At the same time staff evaluates the need to rebalance asset classes to target ranges, they will evaluate the need to sell assets to establish the cash balance in the cash management plan.

V. POLICY REVIEW

The Board shall review the Cash Management and Rebalancing Policy at least every three (3) years to ensure that it remains relevant and appropriate.

VI. POLICY HISTORY

The Board adopted this policy on 02/15/2012.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CASH FLOW ANALYSIS

	JULY 2011 (ACTUAL)	AUGUST 2011 (ACTUAL)	SEPTEMBER 2011 (ACTUAL)	OCTOBER 2011 (ACTUAL)	NOVEMBER 2011 (ACTUAL)	DECEMBER 2011 (PROJECTED)	JANUARY 2012 (PROJECTED)	FEBRUARY 2012 (PROJECTED)	MARCH 2012 (PROJECTED)	APRIL 2012 (PROJECTED)	MAY 2012 (PROJECTED)	JUNE 2012 (PROJECTED)	TOTAL
BEGINNING CASH BALANCE	**1,189,485.82**	**515,891.24**	**2,995,249.43**	**3,046,432.93**	**2,926,995.11**	**2,348,955.99**	**4,596,155.99**	**4,246,555.99**	**3,615,555.99**	**3,402,755.99**	**2,732,955.99**	**2,098,155.99**	**1,189,485.82**
ADDITIONS													
CONTRIBUTIONS													
EMPLOYER	668,630.42	955,622.01	957,463.93	976,093.37	947,530.58	1,300,000.00	890,000.00	890,000.00	890,000.00	890,000.00	890,000.00	1,300,000.00	11,555,340.31
PLAN MEMBERS	323,438.21	408,371.20	395,286.84	394,985.70	412,994.44	395,000.00	395,000.00	395,000.00	395,000.00	395,000.00	395,000.00	395,000.00	4,700,076.39
TOTAL CONTRIBUTIONS	**992,068.63**	**1,363,993.21**	**1,352,750.77**	**1,371,079.07**	**1,360,525.02**	**1,695,000.00**	**1,285,000.00**	**1,285,000.00**	**1,285,000.00**	**1,285,000.00**	**1,285,000.00**	**1,695,000.00**	**16,255,416.70**
INVESTMENT INCOME													
RENTAL INCOME, NET OF EXPENSES	(264.90)	4,188.63	1,059.08	10,052.99	(2,018.10)	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	42,417.70
INTEREST	-	-	-	3,760.69	(0.18)	-	-	3,800.00	-	-	-	3,800.00	11,360.51
DIVIDENDS (NOTE 1)	121,599.18	114,198.93	608,837.12	128,627.02	139,788.09	600,000.00	128,000.00	128,000.00	550,000.00	128,000.00	128,000.00	550,000.00	3,325,050.34
CAPITAL GAIN	-	-	-	-	149.29	-	-	-	-	-	-	-	149.29
LESS INVESTMENT EXPENSE	-	(35,000.00)	-	(8,290.27)	(50,551.00)	-	(8,300.00)	-	-	(35,000.00)	-	(8,300.00)	(145,441.27)
TOTAL INVESTMENT INCOME	**121,334.28**	**83,387.56**	**609,896.20**	**134,150.43**	**87,368.10**	**604,200.00**	**123,900.00**	**136,000.00**	**554,200.00**	**97,200.00**	**132,200.00**	**549,700.00**	**3,233,536.57**
TOTAL ADDITIONS	**1,113,402.91**	**1,447,380.77**	**1,962,646.97**	**1,505,229.50**	**1,447,893.12**	**2,299,200.00**	**1,408,900.00**	**1,421,000.00**	**1,839,200.00**	**1,382,200.00**	**1,417,200.00**	**2,244,700.00**	**19,488,953.27**
DEDUCTIONS													
BENEFIT PAYMENTS AND SUBSIDIES	(1,778,713.31)	(1,789,945.59)	(1,730,434.09)	(1,888,840.74)	(1,844,336.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(22,332,269.73)
REFUNDS OF CONTRIBUTIONS	(74,980.80)	(147,723.18)	(158,005.99)	(8,513.26)	(183,110.63)	(100,000.00)	(100,000.00)	(100,000.00)	(100,000.00)	(100,000.00)	(100,000.00)	(210,000.00)	(1,382,333.86)
ADMINISTRATIVE EXPENSES	-	(3,306.04)	(23,309.76)	(21,051.00)	3,546.22	(22,000.00)	(22,000.00)	(22,000.00)	(22,000.00)	(22,000.00)	(22,000.00)	(622,000.00)	(798,120.58)
TOTAL DEDUCTIONS	**(1,853,694.11)**	**(1,940,974.81)**	**(1,911,749.84)**	**(1,918,405.00)**	**(2,023,900.41)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,732,000.00)**	**(24,512,724.17)**
OTHER INCREASES/DECREASES													
ACCOUNTS RECEIVABLE	57,707.11	120.61	120.61	120.61	120.61	-	-	-	-	-	-	-	58,189.55
ACCOUNTS PAYABLE	8,989.51	(27,168.38)	165.76	117.07	7.56	-	-	-	-	-	-	-	(17,888.48)
BUCK SETTLEMENT	-	-	-	293,500.00	(2,160.00)	(30,000.00)	263,500.00	(30,000.00)	(30,000.00)	(30,000.00)	(30,000.00)	(30,000.00)	374,840.00
SALE OF INVESTMENTS	-	3,000,000.00	-	-	-	2,000,000.00	-	-	-	-	-	-	5,000,000.00
TOTAL OTHER INCREASES/DECREASES	**66,696.62**	**2,972,952.23**	**286.37**	**293,737.68**	**(2,031.83)**	**1,970,000.00**	**263,500.00**	**(30,000.00)**	**(30,000.00)**	**(30,000.00)**	**(30,000.00)**	**(30,000.00)**	**5,415,141.07**
INCREASE (DECREASE) IN CASH	**(673,594.58)**	**2,479,358.19**	**51,183.50**	**(119,437.82)**	**(578,039.12)**	**2,247,200.00**	**(349,600.00)**	**(631,000.00)**	**(212,800.00)**	**(669,800.00)**	**(634,800.00)**	**(517,300.00)**	**391,370.17**
ENDING CASH BALANCE	**515,891.24**	**2,995,249.43**	**3,046,432.93**	**2,926,995.11**	**2,348,955.99**	**4,596,155.99**	**4,246,555.99**	**3,615,555.99**	**3,402,755.99**	**2,732,955.99**	**2,098,155.99**	**1,580,855.99**	**1,580,855.99**

NOTE 1: BOND FUND DIVIDENDS ARE CURRENTLY REINVESTED. THIS SHOWS ACTUAL AND PROJECTED DIVIDENDS AS IF REMITTED TO MCERA AND NOT REINVESTED FOR FY 2012.

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CASH FLOW ANALYSIS

	JULY 2011 (ACTUAL)	AUGUST 2011 (ACTUAL)	SEPTEMBER 2011 (ACTUAL)	OCTOBER 2011 (ACTUAL)	NOVEMBER 2011 (ACTUAL)	DECEMBER 2011 (PROJECTED)	JANUARY 2012 (PROJECTED)	FEBRUARY 2012 (PROJECTED)	MARCH 2012 (PROJECTED)	APRIL 2012 (PROJECTED)	MAY 2012 (PROJECTED)	JUNE 2012 (PROJECTED)	TOTAL
BEGINNING CASH BALANCE	**1,189,485.82**	**394,292.06**	**2,759,451.32**	**2,201,797.70**	**1,953,732.86**	**1,235,905.65**	**2,883,105.65**	**2,405,505.65**	**1,646,505.65**	**2,883,705.65**	**2,085,905.65**	**1,323,105.65**	**1,189,485.82**
ADDITIONS													
CONTRIBUTIONS													
EMPLOYER	668,630.42	955,622.01	957,463.93	976,093.37	947,530.58	1,300,000.00	890,000.00	890,000.00	890,000.00	890,000.00	890,000.00	1,300,000.00	11,555,340.31
PLAN MEMBERS	323,438.21	408,371.20	395,286.84	394,985.70	412,994.44	395,000.00	395,000.00	395,000.00	395,000.00	395,000.00	395,000.00	395,000.00	4,700,076.39
TOTAL CONTRIBUTIONS	**992,068.63**	**1,363,993.21**	**1,352,750.77**	**1,371,079.07**	**1,360,525.02**	**1,695,000.00**	**1,285,000.00**	**1,285,000.00**	**1,285,000.00**	**1,285,000.00**	**1,285,000.00**	**1,695,000.00**	**16,255,416.70**
INVESTMENT INCOME													
RENTAL INCOME, NET OF EXPENSES	(264.90)	4,188.63	1,059.08	10,052.99	(2,018.10)	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	42,417.70
INTEREST	-	-	-	3,760.69	(0.18)	-	-	3,800.00	-	-	-	3,800.00	11,360.51
CAPITAL GAIN	-	-	-	-	149.29	-	-	-	-	-	-	-	149.29
LESS INVESTMENT EXPENSE	-	(35,000.00)	-	(8,290.27)	(50,551.00)	-	(8,300.00)	-	-	(35,000.00)	-	(8,300.00)	(145,441.27)
TOTAL INVESTMENT INCOME	**(264.90)**	**(30,811.37)**	**1,059.08**	**5,523.41**	**(52,419.99)**	**4,200.00**	**(4,100.00)**	**8,000.00**	**4,200.00**	**(30,800.00)**	**4,200.00**	**(300.00)**	**(91,513.77)**
TOTAL ADDITIONS	**991,803.73**	**1,333,181.84**	**1,353,809.85**	**1,376,602.48**	**1,308,105.03**	**1,699,200.00**	**1,280,900.00**	**1,293,000.00**	**1,289,200.00**	**1,254,200.00**	**1,289,200.00**	**1,694,700.00**	**16,163,902.93**
DEDUCTIONS													
BENEFIT PAYMENTS AND SUBSIDIES	(1,778,713.31)	(1,789,945.59)	(1,730,434.09)	(1,888,840.74)	(1,844,336.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(1,900,000.00)	(22,332,269.73)
REFUNDS OF CONTRIBUTIONS	(74,980.80)	(147,723.18)	(158,005.99)	(8,513.26)	(183,110.63)	(100,000.00)	(100,000.00)	(100,000.00)	(100,000.00)	(100,000.00)	(100,000.00)	(210,000.00)	(1,382,333.86)
ADMINISTRATIVE EXPENSES	-	(3,306.04)	(23,309.76)	(21,051.00)	3,546.22	(22,000.00)	(22,000.00)	(22,000.00)	(22,000.00)	(22,000.00)	(22,000.00)	(622,000.00)	(798,120.58)
TOTAL DEDUCTIONS	**(1,853,694.11)**	**(1,940,974.81)**	**(1,911,749.84)**	**(1,918,405.00)**	**(2,023,900.41)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,022,000.00)**	**(2,732,000.00)**	**(24,512,724.17)**
OTHER INCREASES/DECREASES													
ACCOUNTS RECEIVABLE	57,707.11	120.61	120.61	120.61	120.61	-	-	-	-	-	-	-	58,189.55
ACCOUNTS PAYABLE	8,989.51	(27,168.38)	165.76	117.07	7.56	-	-	-	-	-	-	-	(17,888.48)
BUCK SETTLEMENT	-	-	-	293,500.00	(2,160.00)	(30,000.00)	263,500.00	(30,000.00)	(30,000.00)	(30,000.00)	(30,000.00)	(30,000.00)	374,840.00
SALE OF INVESTMENTS	-	3,000,000.00	-	-	-	2,000,000.00	-	-	2,000,000.00	-	-	2,000,000.00	9,000,000.00
TOTAL OTHER INCREASES/DECREASES	**66,696.62**	**2,972,952.23**	**286.37**	**293,737.68**	**(2,031.83)**	**1,970,000.00**	**263,500.00**	**(30,000.00)**	**1,970,000.00**	**(30,000.00)**	**(30,000.00)**	**1,970,000.00**	**9,415,141.07**
INCREASE (DECREASE) IN CASH	**(795,193.76)**	**2,365,159.26**	**(557,653.62)**	**(248,064.84)**	**(717,827.21)**	**1,647,200.00**	**(477,600.00)**	**(759,000.00)**	**1,237,200.00**	**(797,800.00)**	**(762,800.00)**	**932,700.00**	**1,066,319.83**
ENDING CASH BALANCE	**394,292.06**	**2,759,451.32**	**2,201,797.70**	**1,953,732.86**	**1,235,905.65**	**2,883,105.65**	**2,405,505.65**	**1,646,505.65**	**2,883,705.65**	**2,085,905.65**	**1,323,105.65**	**2,255,805.65**	**2,255,805.65**

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

Date: February 8, 2012
To: Board of Retirement
From: Jim Andersen, Retirement Administrator
Subject: Discussion and Possible Action to Adopt an Overpayment Policy

Introduction

The timing of bringing this policy to the Board is driven by several factors, including turnover of Administrators and preparation for developing electronic files which will include the need to "scrub" MCERA's files.

The policy is significantly revised from former drafts reviewed by the Board, and is modeled after the policy in place at the Sonoma County Employees' Retirement Association (SCERA). Currently, MCERA has no overpayment policy in place, and overpayments are addressed at the administrative level or, if material, brought to the Board for consideration.

Discussion

Given the catalysts for bringing this policy before the Board at this time, staff would like to explain to the Board why it chose and refined the policy before the Board today:

1. The policy does describe the efforts that will be used to collect overpayments to members.
2. The policy clarifies the authority of staff regarding the resolution of overpayments.
3. The policy requires a monthly report to the Board of all overpayments that have been resolved or upon which staff is working. This will assist the Board in assessing the frequency and magnitude of overpayment corrections.
4. The policy requires all overpayments of a material nature ($5,000 and above) to be brought to the Board for review and direction.
5. The policy requires review of its effectiveness no later than one year after its adoption. Given that this is a new policy, and the Board will be receiving monthly reports on overpayments, it may wish to amend the policy prior to the end of the standard review cycle of three years. Staff has attempted to create as much flexibility in the review and amendment of this policy as it will generate new information coming to the Board on a monthly basis and we recognize this information may result in the Board wanting to delve deeper into the frequency and magnitude of overpayments.

Recommended Motion/Action

1. Adopt the proposed Overpayment Policy.
2. Review the policy no later than one (1) year after its adoption.

JA
Attachment
Copy Jeff Berk, MCERA Counsel

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OVERPAYMENT POLICY

I. PURPOSE

The purpose of this policy is to establish criteria and a framework for resolving overpayments made to members.

II. BACKGROUND

While rare, overpayments to members can be caused in a variety of ways, including death related overpayment, incorrect computation and other miscellaneous causes.

III. OBJECTIVES

The primary objective is to preserve and protect fund assets and collect contributions in accordance with applicable law. If an overpayment has been identified, it should be corrected as soon as possible. When reasonable to do so, the overpayment should be recovered as discussed below.

IV. PROCESS FOR RESOLVING OVERPAYMENTS

A. Staff shall verify the overpayment, notify the member and correct future payments with the next available payroll and report the correction on the next Retirement Board agenda.

B. Staff shall initiate collection efforts which shall include the notice setting forth the amount owed, an explanation of the cause of and calculation of the amount owed, and the alternatives for repayment.

C. The procedure for collection of overpayments will be as follows.

1. Amounts of $100 or less will not be pursued.

2. Collection efforts on amounts between $100 and $1,000 may be ceased by the Retirement Administrator after a collection efforts have been completed, and

further efforts to recover the amount due will likely result in litigation; the costs of which would exceed the amount that could be recovered.

3. For amounts between $1,000 and $5,000, the Retirement Administrator has discretion, after the completion of collection efforts, to either commence further efforts such as negotiation or the intent to recommend litigation to the Board, or cease collection efforts. In exercising this discretion, the estimated cost of further negotiation and/or litigation will be considered against the amount due.

4. For amounts over $5,000, the Retirement Administrator shall, after collection efforts as well as negotiations have been completed, seek direction from the Board to either commence litigation or cease collection efforts.

5. All actions taken in (1) through (3) above shall be reported to the Board.

V. POLICY REVIEW

The Board shall review the Overpayment Policy at least every three (3) years to ensure that it remains relevant and appropriate. Notwithstanding the general review cycle, the Board shall review the Overpayment Policy no later than one (1) year after its adoption to determine its effectiveness.

VI. POLICY HISTORY

The Board adopted this policy on February 15, 2012.