Mendocino County Employees' Retirement Association

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

Comprehensive Annual Financial Report

2015-2014

Mendocino County Employees' Retirement Association

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

Comprehensive Annual Financial Report

For the fiscal years ended June 30, 2015 and 2014

Prepared by: Stan Conwell Financial/Investment Officer
James Wilbanks Ph.D. Retirement Administrator

MCERA
625-B Kings Court
Ukiah, California 95482
(707) 463-4328
www.co.mendocino.ca.us/retirement/

On the Cover: Point Arena Lighthouse, Mendocino County

Mendocino County Employees' Retirement Association
"MCERA"

MCERA is a retirement system, organized under the County Employees Retirement Law of 1937, which provides retirement, disability, and death benefits to the employees, retirees and former employees of the County of Mendocino, the Mendocino County Superior Court and the Russian River Cemetery District.

MCERA's principal responsibilities include: management of the trust fund; delivery of retirement, disability and death benefits to eligible members; administration of cost-of-living programs; and general assistance in retirement and related benefits.

Mission

To provide members and their beneficiaries with sustainable benefits and exceptional service through professional plan administration and prudent investment practices.

Guiding Principles

- We exist to serve our clients, sponsors and the taxpayers of Mendocino County.
- We act with integrity and respect for all.
- We think strategically and are continuously improving.
- We recognize people are our most valuable resource and our culture empowers staff.

Objectives

- MCERA will maintain a 100% success rate in the timely delivery of monthly retirement benefits.
- MCERA will be 100% funded by 2040.
- MCERA will maintain a 95% client approval rate.
- MCERA will maintain state of the art technology for pension administration.

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Introductory Section

Bowling Ball Beach, Mendocino County

James R. Wilbanks, Ph.D.
Retirement Administrator

Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

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

LETTER OF TRANSMITTAL

January 28, 2016

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

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Mendocino County Employees' Retirement Association (MCERA or System) as of and for the fiscal year ending June 30, 2015

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2015. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

<u>Mendocino County Employees' Retirement Association (MCERA)</u>

MCERA provides service retirement, disability, death and survivor benefits and is administered in accordance with the County Employees Retirement Law of 1937 (Government Code Section 31450, et seq.) Pursuant to certain provisions of the County Employees Retirement Law, MCERA is a multi-agency public employees' retirement system, established by the County of Mendocino on January 1, 1948, and is an independent agency within the County of Mendocino, with a separate operating budget and professional staff.

The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of the system, which includes administering plan benefits and managing the assets. The Board of Retirement and MCERA staff members are committed to act for the exclusive benefit of the plan and its participants, manage the assets of the plan prudently and administer benefits with impartiality. To fulfill this mandate, MCERA employs a skilled professional staff and independent consultants that operate under a system of governance, operational and fiduciary policies and procedures.

The Board is comprised of nine members and one alternate; two elected by the active general membership, one elected by the active safety membership, one regular and one alternate elected by the retired membership, four appointed by the Mendocino County Board of Supervisors, and the Mendocino County Treasurer, who serves as an ex-officio member.

Participating agencies in MCERA include the County of Mendocino, the Superior Court of Mendocino County and the Russian River Cemetery District.

Financial Reporting

MCERA management is responsible for establishing a system of internal controls to safeguard assets and for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and operating results of MCERA**.** Gallina LLP, has audited the financial statements and related disclosures. The financial statement audit provides reasonable assurance that MCERA’s financial statements are presented in conformity with accounting principles generally accepted in the United States and are free from material misstatements.

This report has been prepared in accordance with generally accepted accounting principles (“GAAP”) as promulgated by the Governmental Accounting Standards Board (“GASB”). GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management’s discussion and analysis (“MD&A”). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System’s MD&A can be found immediately following the independent auditor’s report

As of June 30, 2015, MCERA’s net position totaled approximately $444.2 million reflecting an increase of approximately $1.9 million or 0.43% in the net position at the end of the previous fiscal year.

Budget

The Board of Retirement's policy is that administrative expenses incurred in any year will not exceed twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability, unless authorized by a separate vote of the Board of Retirement.

The Board of Retirement approves MCERA's annual budget. The County Employees Retirement Law (CERL) limits MCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or $2 million, whichever is greater.

MCERA's actual administrative expense excluding IT costs for fiscal year 2014-15 was $812,938 which represented 0.16% of MCERA's June 30, 2013 actuarial accrued liability or 40.65% of the $2 million statutory cap. Further, MCERA administrative expenses were 75.84% of the more restrictive 0.21% budget limit imposed by Board Policy. MCERA used the June 30, 2013 actuarial accrued liability, the most recent figure available at the time, to develop and approve the fiscal year 2014-15 budget. MCERA’s actual administrative expense including IT costs for the fiscal year was $1,059,272 which represented 0.21% of MCERA’s June 30, 2013 actuarial accrued liability.

Major Initiatives and Significant Events

Several major initiatives were undertaken during the fiscal year and through January, 2016 including:

- MCERA hired a new Retirement Administrator.
- The Board of Retirement approved the outsourcing of the administrative review portion of disability applications. This is expected to reduce costs by more than $10,000 annually.
- Major phases of the pension automation system project were completed on time and within budget. The final stage of the project is currently underway with the new system entering production on January 1, 2016.
- The Board of Retirement hired a custodial bank at the August 19, 2015 meeting. MCERA managed the competitive RFP process internally and through the combined efforts of staff successfully procured custodial services from State Street Bank. By opting to manage the RFP internally rather than externally by MCERA’s investment consultant, MCERA saved $53,750 in search fees.
- MCERA began reviewing investment holdings to ensure the most fee-efficient vehicle is being utilized. With assistance from MCERA’s investment consultant, staff identified investment holdings that could be converted to different share classes or fund structure to reduce fees. Some fee savings can only be achieved through a custodian bank. The conversion process is ongoing, but the total fee savings when complete is estimated to be $110,000 per year based on 6/30/15 fair values. $41,000 of which can only be accessed through a custodial bank. In the future, access to separately managed accounts through a custodial bank will be an important tool as MCERA seeks to reduce investment fees further.
- MCERA submitted a determination letter filing with the Internal Revenue Service. The deadline for the current filing cycle is January 31, 2016. MCERA opted to file early to allow extra time to correct any issues should they arise during the filing process.

Investments

The Board of Retirement has exclusive control of all investments of the retirement system and is responsible for establishing investment objectives, strategies and policies. Pursuant to the California Constitution and the 1937 Act, the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In carrying out its investment responsibilities, the Board receives guidance from a professional investment consultant, Callan, Inc.

In accordance with state constitutional mandates, the Board adopts an investment policy designed to ensure diversification among asset classes and achieve MCERA's long-term investment objectives.
The investment return for the year ending June 30, 2015 was 3.11% which was ahead of the benchmark by 0.01%. The returns were 11.72%, 10.95%, 7.01% and 7.42% for the three, five, seven and ten year periods ending June 30, 2015, respectively. The rate of return on MCERA's investment portfolio is an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the Plan's annual additions to retirement plan assets.

More detailed information regarding MCERA's strategic asset allocation, professional investment advisors, and investment performance can be found in the Investment Section of this Report.

Funded Status and Actuarial Reporting

MCERA maintains a funding goal to establish contributions that fully fund the system's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding to pay promised benefits. Each year the actual experience of the system is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, the actuarial experience investigation is undertaken to review the actuarial assumptions and compare the actual experience during the preceding three year period with that expected under those assumptions.

In the June 30, 2015 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 70.2% which was an increase from the prior year's valuation funded ratio of 69.3%. The funded status increased primarily because of the recognition of deferred investment gains. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2015 was $182,152,920. There are 24 years remaining in the declining 30-year amortization period of the UAAL.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its comprehensive annual financial report for the fiscal year ended June 30, 2014. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized CAFR that meets the highest standards of governmental financial reporting.

Request for Information

The financial report is designed to provide the MCERA Board of Retirement, our membership, taxpayers, 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:

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

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

GFOA Certificate of Achievement

Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Mendocino County

Employees' Retirement Association

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Members of the Board of Retirement
June 30, 2015

Shari Schapmire, Chair
Treasurer – Tax Collector
County of Mendocino

Randy Goodman, Vice-Chair
Elected by Active General Membership

Tim Knudsen, Secretary
Elected by Retired Membership

Ted Stephens, Trustee
Appointed by the Board of Supervisors

John Sakowicz, Trustee
Appointed by the Board of Supervisors

Craig Walker, Trustee
Elected by Active Safety Membership

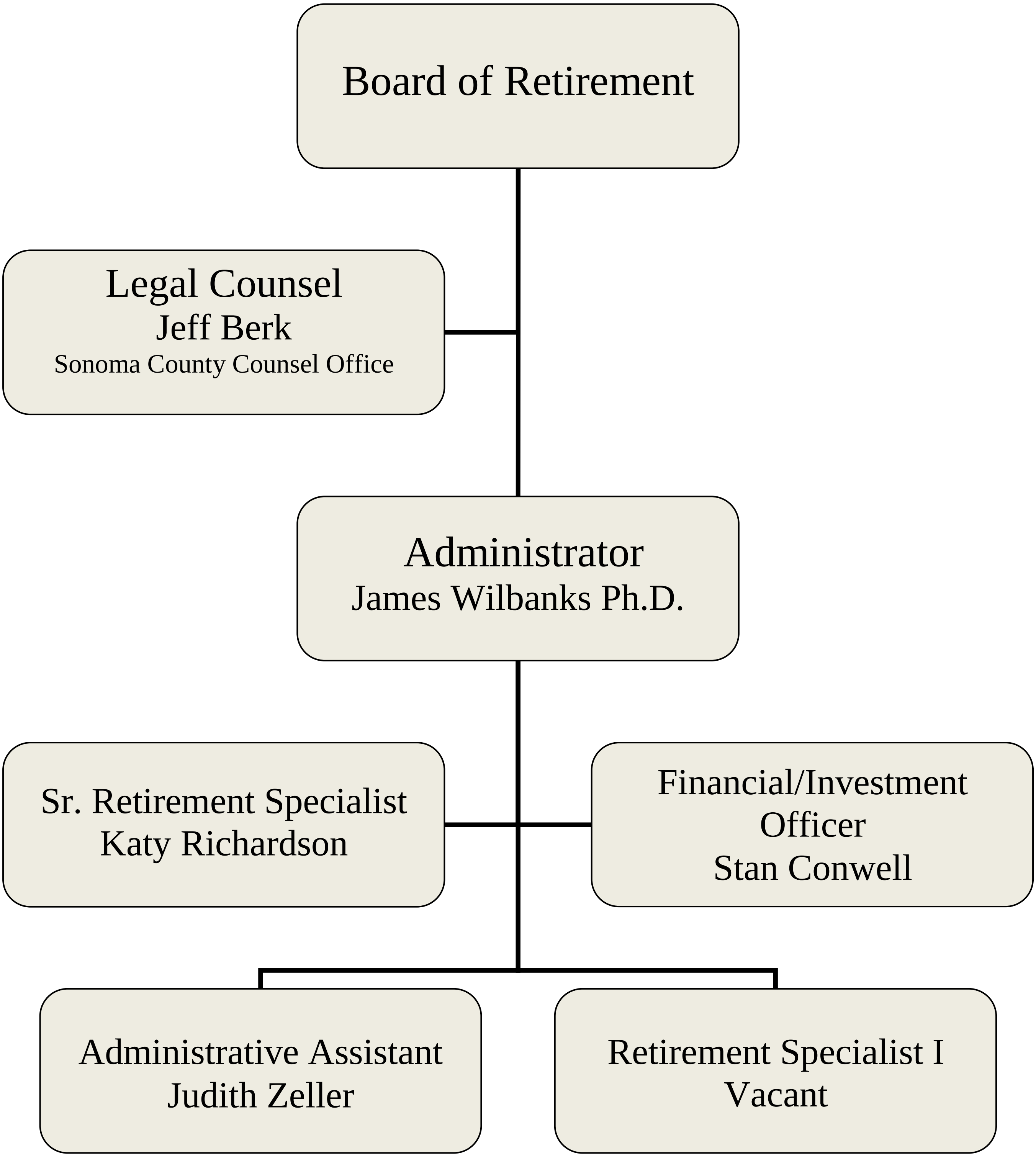
Kathryn Cavness, Trustee
Elected by Active General Membership

Dan Gjerde, Trustee and Member, Board of Supervisors
Appointed by the Board of Supervisors

Jerilyn Harris, Trustee
Appointed by the Board of Supervisors

Richard Shoemaker, Alternate Trustee
Elected by Retired Membership

Organization Chart
As of June 30, 2015



List of Professional Consultants
As of June 30, 2015

Actuary
The Segal Company

Disability Counsel
Law Office of Tony Graham

Fiduciary Counsel
Manatt, Phelps & Phillips, LLP

Investment Consultant
Callan Associates, Inc.

Independent Auditor
Gallina LLP

Legal Counsel
County Counsel, County of Sonoma

Tax Counsel
Hanson Bridgett, LLP

Note: List of Investment Managers is located on page 57 of the Investment Section of this report.

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Financial Section

Russian Gulch State Park, Mendocino County

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mendocino County Employees' Retirement Association (MCERA), a component unit of the County of Mendocino, which comprise the statement of net position as of June 30, 2015, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from MCERA's 2014 financial statements on which our report, dated February 4, 2015, expressed an unqualified opinion.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MCERA's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Retirement
Mendocino County Employees' Retirement Association
Independent Auditor's Report

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, 2015, and the changes its financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

As described in Note 5, based on the most recent actuarial valuation of the pension plan as of June 30, 2015, MCERA's independent actuary determined that, at June 30, 2015, the value of MCERA's actuarial accrued liability exceeded the actuarial value of its assets by $182 million. The most recent actuarial value of assets as of June 30, 2015 does not reflect the remaining deferred investment losses that will be recognized in the future.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedules of Changes in Net Pension Liability and Related Ratios, the Schedule of Funding Progress and the Schedule of Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, other supplemental information in the financial section, the investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Gallina LLP

Rancho Cordova, California
January 21, 2016

Management's Discussion and Analysis

This section presents Management's Discussion and Analysis (MD&A) of Mendocino County Employees' Retirement Association (MCERA or Plan) financial performance and a summary of MCERA's financial position and activities as of and for the fiscal year ended June 30, 2015. It is a narrative overview and analysis that is presented, in conjunction with the Retirement Administrator's Letter of Transmittal found in the Introductory Section and provides the financial statement reader with a clear picture of the Plan's overall financial status.

Mendocino County Employees' Retirement Association (MCERA)

MCERA provides service retirement, disability, death and survivor benefits and is administered in accordance with the County Employees Retirement Law of 1937 (Government Code Section 31450, et seq.) Pursuant to certain provisions of the County Employees Retirement Law, MCERA is a multi-agency public employees' retirement system, established by the County of Mendocino on January 1, 1948, and is an independent district within the County of Mendocino, with a separate operating budget and professional staff.

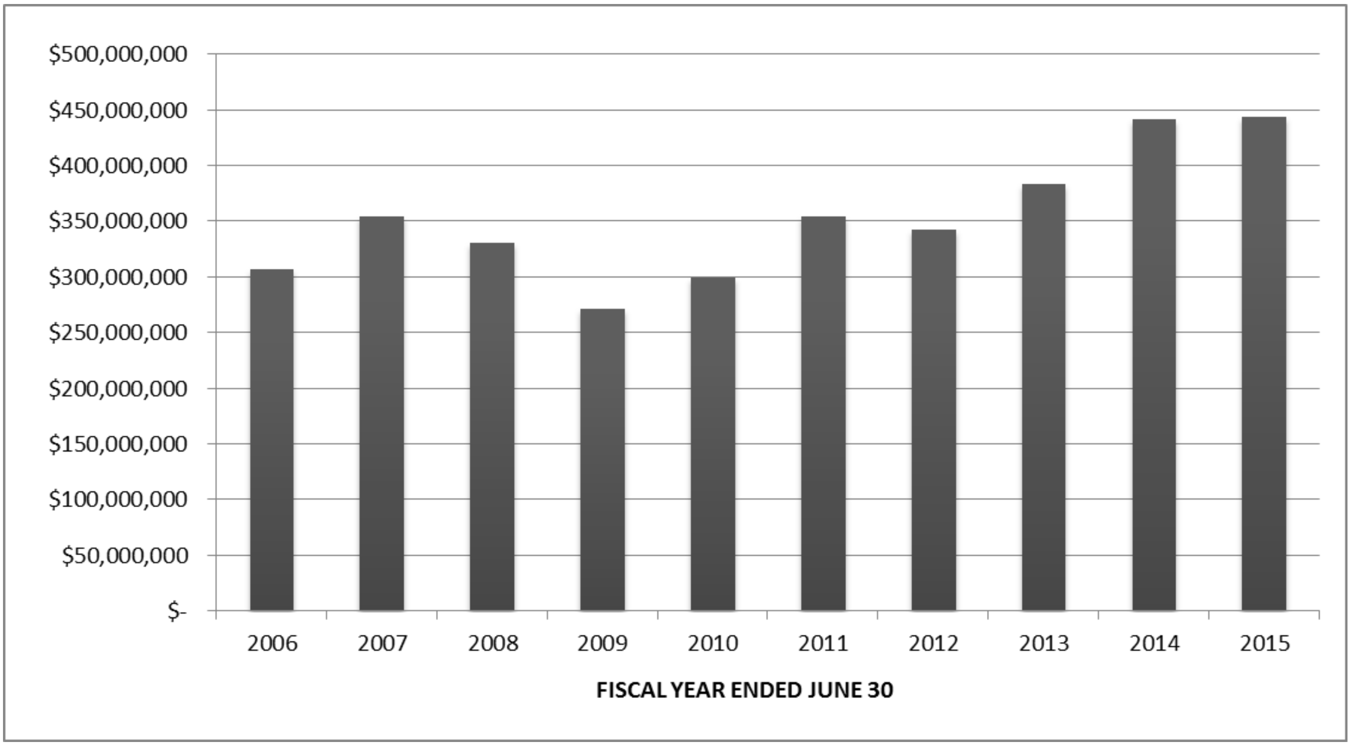
The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of the system, which includes administering plan benefits and managing the assets. The Board of Retirement and MCERA staff members are committed to act for the exclusive benefit of the plan and its participants, manage the assets of the plan prudently and administer benefits with impartiality. To fulfill this mandate, MCERA employs a skilled professional staff and independent consultants that operate under a system of governance, operational and fiduciary policies and procedures.

Participating agencies in MCERA include the County of Mendocino, the Superior Court of Mendocino County and the Russian River Cemetery District.

Financial Highlights

- Net position increased to $444.2 million which reflects an increase of 0.43% in net position during fiscal year 2014-15.
- Additions to plan assets for the fiscal year totaled $33 million. This was comprised of $15.2 million of employer contributions, $4.6 million of member contributions, and a net investment gain of $13.2 million.
- Expenses (deductions in plan assets) for the year were $31.1 million which included $30.05 million in benefit payments to retirees and beneficiaries and $1.05 million in total administrative expenses.
- MCERA's funded status increased to 70.2% from 69.3% over the fiscal year. The funded status is measured by the ratio of actuarial determined assets to actuarial determined liabilities. MCERA's unfunded actuarial accrued liability increased from $179.6 million to $182.1 million during the fiscal year.
- The net pension liability (NPL) increased from $142.1 million to $166.2 million during the fiscal year. The funded status based on fair value of assets decreased from 75.7% to 72.8%.

MCERA Net Assets Held in Trust for Pension Benefits



Overview of the Financial Statements

Managements' Discussion and Analysis serves as an introduction and overview of the MCERA Basic Financial Statements. The Basic Financial Statements and required disclosures are prepared in accordance with accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). MCERA's Basic Financial Statements are comprised of the following:

Statements of Net Position
The Statement of Net Position is a snapshot of account balances at year-end. It presents major categories of assets and liabilities at fiscal year-end. The difference between assets and liabilities, "Net Position," represents funds available to pay benefits. Increases and decreases in "Net Position," when analyzed over time, may serve as an indicator of whether MCERA's financial position is improving or deteriorating.

Statements of Changes in Net Position
The Statement of Changes in Net Position provides information on the financial activities that increased and decreased Plan Net Position. This statement covers the activity over a one-year period of time.

Notes to the Basic Financial Statements
The Notes to the Financial Statements are an integral part of the basic financial statements and provide background and detailed information regarding MCERA's policies, programs and activities.

Required Supplemental Information
The Required Supplemental Information contains supporting schedules pertaining to MCERA's net pension liability, pension actuarial methods, assumptions, funded status and annual required contributions.

Other Supplemental Information
Other supplemental information includes schedules pertaining to administrative expenses and investment expenses.

Budget

The Board of Retirement's policy is that administrative expenses incurred in any year will not exceed twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability, unless authorized by a separate vote of the Board of Retirement.

The Board of Retirement approves MCERA's annual budget. The County Employees Retirement Law (CERL) limits MCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or $2 million, whichever is greater.

MCERA's actual administrative expense excluding IT costs for fiscal year 2014-15 was $812,938 which represented 0.16% of MCERA's June 30, 2013 actuarial accrued liability or 40.65% of the $2 million statutory cap. Further, MCERA administrative expenses were 75.84% of the more restrictive 0.21% budget limit imposed by Board Policy. MCERA used the June 30, 2013 actuarial accrued liability, the most recent figure available at the time, to develop and approve the fiscal year 2014-15 budget. MCERA's actual administrative expense including IT costs for the fiscal year was $1,059,272 which represented 0.21% of MCERA's June 30, 2013 actuarial accrued liability.

Management Responsibility for Financial Reporting

MCERA management is responsible for establishing a system of internal controls to safeguard assets and for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and operating results of MCERA**.**

Financial Analysis

Table #1 below and Table #2 on the following page compare and summarize MCERA's financial activity for the current and prior fiscal years.

Table #1: MCERA Fiduciary Net Position
As of June 30, 2015 and 2014

(Dollars in Thousands)	2015	2014	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Cash and Short Term Investments	1,398	4,966	(3,568)	(71.85%)
Receivables & Other Assets	877	439	438	99.75%
Investments, at Fair Value	442,763	437,423	5,340	1.22%
Total Assets	$ 445,038	$ 442,828	$ 2,210	0.50%
Accounts Payable	365	204	161	78.92%
Accrued Expenses	456	315	141	44.76%
Total Liabilities[1]	$ 821	$ 520	$ 302	58.08%
Net Assets Held in Trust for Benefits	$ 444,217	$ 442,308	$ 1,908	0.43%

[1] Amounts may not total exactly due to rounding.

As of June 30, 2014 and 2013

(Dollars in Thousands)	2014	2013	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Cash and Short Term Investments	4,966	2,145	2,821	131.52%
Receivables & Other Assets	439	327	112	34.25%
Investments, at Fair Value	437,423	381,063	56,360	14.79%
Total Assets	$ 442,828	$ 383,535	$ 59,293	15.46%
Accounts Payable	204	114	90	78.95%
Accrued Expenses	315	224	91	40.63%
Total Liabilities[1]	$ 520	$ 338	$ 181	53.55%
Net Assets Held in Trust for Benefits	$ 442,308	$ 383,197	$ 59,112	15.43%

[1] Amounts may not total exactly due to rounding.

Table #2: Changes in MCERA Fiduciary Net Position
As of June 30, 2015 and 2014

(Dollars in Thousands)	2015	2014	Amount Increase (Decrease)	% Change Increase/ (Decrease)
Additions				
Employer Contributions	$ 15,164	$ 14,325	$ 839	5.86%
Member Contributions	4,652	4,576	76	1.66%
Net Investment Income	13,201	68,495	(55,294)	-80.73%
Total Additions	$ 33,017	$ 87,396	$ (54,378)	-62.22%
Deductions				
Retirement Benefits	$ 29,225	$ 26,702	$ 2,524	9.45%
Refund of Contributions	824	652	172	26.38%
Administrative Expenses	1,059	930	129	13.85%
Total Deductions	$ 31,108	$ 28,284	$ 2,824	9.99%
Net Increase/Decrease	$ 1,909	$ 59,112	$ (57,203)	-96.77%
Net Position at Beginning of Year	$ 442,308	$ 383,197	$ 59,111	15.43%
Net Position at End of Year[1]	$ 444,217	$ 442,308	$ 1,909	0.43%

(1) Amounts may not total exactly due to rounding.

As of June 30, 2014 and 2013

(Dollars in Thousands)	2014	2013	Amount Increase (Decrease)	% Change Increase/ (Decrease)
Additions				
Employer Contributions	$ 14,325	$ 14,260	$ 65	0.45%
Member Contributions	4,576	4,713	(137)	(2.91%)
Net Investment Income	68,495	48,890	19,605	40.10%
Total Additions	$ 87,396	$ 67,863	$ 19,533	28.78%
Deductions				
Retirement Benefits	$ 26,702	$ 25,501	$ 1,201	4.71%
Refund of Contributions	652	1,072	(420)	(39.18%)
Administrative Expenses	930	830	100	12.10%
Total Deductions	$ 28,284	$ 27,403	$ 881	3.21%
Net Increase/Decrease	$ 59,112	$ 40,460	$ 18,652	46.10%
Net Position at Beginning of Year	$ 383,197	$ 342,737	$ 40,460	11.80%
Net Position at End of Year	$ 442,309	$ 383,197	$ 59,112	15.43%

Additions to Plan Assets

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal year ended June 30, 2015 totaled $ 33 million and June 30, 2014 totaled $87.4 million. The decrease in revenues from 2014 to 2015 can be attributed primarily to a reduction in net investment income. The total balance of net assets increased from approximately $442 million in 2014 to $444 million in 2015.

Deductions in Plan Assets

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. These expenses for the fiscal years ended June 30, 2014 and June 30, 2015 were $28.3 million and $31.1 million respectively. The primary reason for this change was an increase in benefits paid to retirees.

MCERA Financial Reserves

Table #3: MCERA Reserves
As of June 30, 2015, 2014, and 2013

(Dollars in Thousands)	2015	2014	2013
Member Reserve	$ 63,301	$ 55,711	$ 57,320
Employer Reserve	(64,904)	(47,773)	(48,388)
Retiree Reserve	234,817	193,496	199,542
Cost of Living Reserve	114,393	92,946	93,694
Undesignated Reserve [1]	-	-	659
Contingency Reserve	4,450	4,428	3,835
Miscellaneous Reserves	-	(76)	200
Total Reserves	$ 352,057	$ 298,732	$ 306,862

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under GAAP, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses in the current period. MCERA has adopted a five-year smoothing methodology for investment gains and losses. This has the effect of smoothing both positive and negative fluctuations in investment performance versus assumptions and has a stabilizing effect on contribution rates.

[1] The undesignated reserve used historically for health care benefits of retirees was derived from excess earnings of the Association in prior years. The undesignated reserve was reviewed by MCERA's legal, actuarial, and tax advisors to develop findings and recommendations for submission under the IRS's Voluntary Correction Program (VCP). A favorable determination letter and compliance statement was issued by the IRS to MCERA on January 29, 2014.

Major Initiatives and Significant Events

Several major initiatives were undertaken during the fiscal year and through January, 2016 including:

- MCERA hired a new Retirement Administrator.
- The Board of Retirement approved the outsourcing of the administrative review portion of disability applications.
- Major phases of the pension automation system project were completed on time and within budget.
- The Board of Retirement approved the hiring of a custodial bank.
- MCERA began reviewing investment holdings to ensure the most fee-efficient vehicle is being utilized.
- MCERA submitted a determination letter filing with the Internal Revenue Service.

Investment and Economic Summary

In accordance with state constitutional mandates, the Board adopts a strategic asset allocation policy designed to ensure diversification among asset classes and achieve MCERA's long-term investment objectives. Although MCERA invests on a long-term horizon, short-term returns are important to discern developing trends.

The investment return for the year ending June 30, 2015 was 3.11% which was ahead of the benchmark by 0.01%. The returns were 11.72%, 10.95%, 7.01% and 7.42% for the three, five, seven and ten year periods ending June 30, 2015, respectively.

The rate of return on MCERA's investment portfolio is an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the Plan's annual additions to retirement plan assets.

Funded Status and Actuarial Reporting

MCERA maintains a funding goal to establish contributions that fully fund the plan's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding to pay promised benefits. Each year the actual experience of the plan is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, the actuarial experience investigation is undertaken to review the actuarial assumptions and compare the actual experience during the preceding three year period with that expected under those assumptions.

In the June 30, 2015 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 70.2% which was an increase from the prior year's valuation funded ratio of 69.3%. The actuarial value of assets excludes about $11.5 million in market gains that will be smoothed in over the next four years. Thus, on a fair value basis, the funded ratio would be 72.8%. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2015 was $182,152,920. On a fair value basis, the UAAL would be $166,164,493. The funded status increased primarily because of the recognition of deferred investment gains. The increase in the UAAL on an actuarial valuation basis can be attributed to the one year delay in the implementation of new employer contribution rates from the prior year's study and experience losses including decreased member mortality.

As of June 30, 2015, there are 24 years remaining in the declining 30-year amortization period of the UAAL. On or after July 1, 2012 any new UAAL will be amortized over different amortization periods. Investment gains and losses as well as any assumption and method changes will be amortized over an 18-year period.

The aggregate employer rate calculated in the June 30, 2015 valuation decreased to 32.55% of payroll from 32.99%. The effects of investment gains and lower than expected salary increases accounted for the majority of rate decrease. The aggregate employee rate increased to 9.86% of payroll from 9.83% due to a change in membership demographics.

Request for Information

The financial report is designed to provide the MCERA Board of Retirement, our membership, taxpayers, 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 Mendocino County Employees' Retirement Association, 625-B Kings Court, Ukiah, California 95482

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

Statement of Fiduciary Net Position
As of June 30, 2015 and 2014

ASSETS	2015	2014
Investments, at fair value:		
Mutual Funds	347,937,529	347,155,558
Public equity securities	53,190,622	52,733,876
Real estate partnerships	40,770,670	36,669,201
Cash equivalents	1,398,150	4,966,310
Real estate – 625 Kings Court, Ukiah, Ca	864,000	864,000
Total Investments, at fair value	444,160,971	442,388,945
Receivables:		
Member contributions receivable	113,026	104,280
Employer contributions receivable	545,830	328,334
Total Receivables	658,856	432,614
Other assets:	218,017	6,468
TOTAL ASSETS	$ 445,037,844	$ 442,828,027
LIABILITIES		
Liabilities:		
Accounts payable	365,017	204,392
Accrued expenses and other liabilities	455,471	315,187
TOTAL LIABILITIES	$ 820,488	$ 519,579
Net Position Held in Trust for Pension Benefits	**$ 444,217,356**	**$ 442,308,448**

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position
For The Years Ended June 30, 2015 and 2014

	2015	2014
Additions to net assets attributed to:		
Investment income (loss):		
Net realized and unrealized appreciation (depreciation) in fair value of investments	$ 3,007,763	$ 61,820,076
Rent income, net of expenses	79,907	87,069
Interest income	12,795	27,807
Dividend income	10,665,944	6,863,134
Investment expenses	(565,100)	(503,242)
Total investment income, net	13,201,309	68,294,844
Contributions:		
Member contributions	$ 4,651,960	$ 4,575,895
Employer contributions	15,164,044	14,324,752
Total contributions	19,816,004	18,900,647
Other income:	0	200,106
Total additions, net	$ 33,017,313	$ 87,395,597
Deductions from net assets attributed to:		
Benefits paid to retirees	30,049,133	27,353,529
Administrative expenses	1,059,272	930,437
Total deductions	$ 31,108,405	$ 28,283,966
Net increase (decrease)	1,908,908	59,111,631
Net Position held in trust for pension benefits:		
Balance at Beginning of Year	$ 442,308,448	$ 383,196,817
Balance at End of Year	**$ 444,217,356**	**$ 442,308,448**

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

For the Years ended June 30, 2015 and 2014

Note 1: 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.

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, 2015 MCERA owned no derivatives directly 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

Note 1: Summary of Significant Accounting Policies continued:

Custodial Credit Risk, continued:

credit risk because all securities are held directly with various investment companies in MCERA's name.

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.

Market and Credit Risk:

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of net position and the statement of changes in net position. 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. Quality ratings of MCERA's fixed income funds are summarized in the table on page 26. Investment allocation guidelines according to the investment policy are as follows:

	Allowable Range	Current Allocation
U.S Equity	33% - 43%	40%
Non-U.S. Equity	20% - 30%	24%
U.S. Fixed Income	23% - 33%	27%
Real Estate	4% - 14%	9%

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. Although MCERA does not have a specific policy to limit credit risk, MCERA seeks to mitigate risk through its investment policy constraints.

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 specific formal policy to manage interest rate risk. Nevertheless, MCERA's U.S. active bond funds are generally managed with duration limits to reduce interest rate risk. The quality and interest rate risk of MCERA's fixed income funds are summarized in the table on page 26.

Note 1: Summary of Significant Accounting Policies continued:

Commingled Fixed Income Funds

Fund Name	Fair Value	Weighted Average Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)	Weighted Average Quality Rating
Dodge & Cox Income	$ 59,093,728	4.43%	7.70	4.10	A+
PIMCO Total Return	58,685,664	3.30%	6.63	3.74	AA-
Total	$ 117,779,392	3.87%	7.17	3.92	A+

Foreign Currency Risk:

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or deposit. International portfolio managers are permitted to use defensive currency hedging to mitigate foreign currency risk through the use of forward currency contracts and currency futures as long as they are implemented in a timely and cost-effective manner. MCERA's international portfolio managers are allowed to invest in authorized countries. MCERA owns commingled investment vehicles and does not have direct exposure to foreign currency risk. Although MCERA does not have a specific policy regarding foreign currency risk, MCERA seeks to mitigate this risk through its investment policy constraints.

Investment Concentrations:

As of June 30, 2015 MCERA does not hold investments in any one organization that represent 5 percent or more of the Plan's Fiduciary Net Position.

Money Weighted Rate of Return:

For the fiscal year ended June 30, 2015 and June 30, 2014, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 3.10% and 18.00%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

Note 1: Summary of Significant Accounting Policies continued:

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 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. In addition, MCERA is also covered by the County's self-insurance program for general liability, unemployment, and workers' compensation coverage. The County's self-insurance program also includes a premium for excess coverage. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Income Taxes:

The Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC). No provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from federal and state income taxes under the provisions of the IRC Section 501 and California Revenue and Taxation Code Section 23701, respectively. The Plan obtained its latest determination letter dated January 29, 2014, in which the IRS stated that the Plan, as then designed, is in compliance with the applicable requirements of the Internal Revenue Code. MCERA has since submitted a determination letter request for the current filing cycle due January 31, 2016.

Administrative Expenses:

The Board of Retirement approves MCERA's annual budget. The County Employees Retirement Law (CERL) limits MCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or $2 million, whichever is greater. The Board of Retirement's policy is that administrative expenses incurred in any year will not exceed twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability, unless authorized by a separate vote of the Board of Retirement

MCERA’s actual administrative expense excluding IT costs for fiscal year 2014-15 was $812,938 which represented 0.16% of MCERA's actuarial accrued liability or 40.65% of the $2 million statutory cap.

Note 1: Summary of Significant Accounting Policies continued:

Schedule of Funding Progress:

The supplemental Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. The Schedule of Funding Progress can be found on page 70 in the Actuarial Section

Current and Future Accounting Pronouncements:

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* effective July 1, 2013. The objective of this statement is to improve financial reporting by state and local government pension plans. This statement separates funding from financial reporting and requires changes in presentation of the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosures regarding the pension liability and the sensitivity of the net pension liability to the discount rate. The total and net pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 6 and in the required supplementary information on page 37 and 42 respectively.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – replaces GASB Statements 27 and 50* effective July 1, 2014. The objective of this statement is to improve financial reporting by state and local government pension plans. This statement requires cost-sharing government employers that sponsor defined benefit plans to recognize their proportionate share of the net pension liability in their statement of net position. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. It also includes comprehensive footnote disclosures regarding the types of benefits and covered employees, how plan contributions are determined, and assumptions and methods used to calculate the pension liability.

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-12, Plan Accounting: Defined Benefit Pension Plans, Topic 960; Defined Contribution Plans, Topic 962; and Health and Welfare Benefit Plans, Topic 965: Part (I) Fully Benefit-Responsive Investment Contracts, Part (II) Plan Investment Disclosures, Part (III) Measurement Date Practical Expedient. The ASU simplifies employee benefit plan reporting with respect to fully benefit-responsive investment contracts, plan investment disclosures, and measurement date practical expedient. The amendments are effective for all plan years beginning after December 15, 2015. Earlier application of any or all of the three parts is permitted. The Plan is currently evaluating the impact of adopting the new standard on its financial statements.

Subsequent Events:

Management has evaluated all subsequent events through January 21, 2016, the date the financial statements were available to be issued. See Note 8 on page 41 for additional information.

Note 2: Description of Plan:

Description of Association and Applicable Provisions of the Law:

The Mendocino County Employees' Retirement Association (MCERA, Association, 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 by the County Retirement Act of 1937 (Chapter 677 Statutes of 1937). MCERA is a multiple-employer cost sharing defined benefit plan for the County of Mendocino, the Mendocino County Courts, and the Russian River Cemetery District (the Plan Sponsors). 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, 2015 consisted of the following:

Retirees and beneficiaries receiving benefits	1,379
Terminated plan members entitled to but not yet receiving benefits	414
Active plan members	1,107
Total	2,900
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 or Probation) members, and are assigned to one of five tiers based on entry date and job classification. Members become vested after five years of credited service.

Retirement benefits offered by the Plan include normal retirement, disability retirement and service-connected disability retirement. Retirement benefits are based on the years of service, final average salary, and age at retirement. A statutory benefit formula that varies based on a member's tier and type is used to determine monthly benefits. 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. The annual cost of living benefit is based upon the tier level of the member. Members hired after January 1, 2013 are not eligible for a cost of living benefit.

The Plan does not provide health benefits to members. Based on Mendocino County Board of Supervisors Resolution No. 98-147, County Council concluded that the County Board of Supervisors was ultimately responsible for dealing with any retiree health benefits that might be provided to retired employees of the County.

Note 3: 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 Position, except for real estate and cash equivalents, 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 managing 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 and may be subject to credit risk, concentration risk, and custodial credit risk.

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

The Association's cash and investments stated at fair value as of June 30, 2015 and 2014 are as follows:

		2015		2014
Cash in trust - Mendocino County	$	1,398,150	$	4,966,310
Total cash equivalents		1,398,150		4,966,310
U.S. Government and corporate bonds		117,779,392		115,476,682
International equities		86,734,247		90,904,226
Domestic equities – small cap		27,488,544		25,366,891
Domestic equities – mid cap		20,379,761		19,248,096
Domestic equities – large cap		95,555,585		96,159,663
Total mutual funds		347,937,529		347,155,558
Public equity securities		53,190,622		52,733,876
Real estate partnerships		40,770,670		36,669,201
Real estate – 625 Kings Court, Ukiah, CA		864,000		864,000
Total Cash Equivalents and Investments	$	444,160,971	$	442,388,945

Note 4: Fair Value Measurement of Investments:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the 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 ASC 820 are described below:

Level 1:
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan 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 observable 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 investments measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

Mutual funds, public equity securities, and real estate partnerships: Valued at the net asset value of shares held by the Plan at year end.

Real estate – 625 Kings Court, Ukiah, CA: Valued at the approximate fair value obtained through a broker price opinion.

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, 2015 and 2014:

Investments at Fair Value as of June 30, 2015	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Bond Funds	$ 117,779,392	$ -	$ -	$ 117,779,392
International securities	86,734,247	-	-	86,734,247
Domestic securities	143,423,890	-	-	143,423,890
Total mutual funds	347,937,529	-	-	347,937,529
Public equity securities	53,190,622	-	-	53,190,622
Real estate partnerships	40,770,670	-	-	40,770,670
Real estate - 625 Kings Court, Ukiah, CA	-	-	864,000	864,000
Total investments at fair value	$ 441,898,821	$ -	$ 864,000	$ 442,762,821

Investments at Fair Value as of June 30, 2014	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Bond Funds	$ 115,476,682	$ -	$ -	$ 115,476,682
International securities	90,904,226	-	-	90,904,226
Domestic securities	140,774,650	-	-	140,774,650
Total mutual funds	347,155,558	-	-	347,155,558
Public equity securities	52,733,876	-	-	52,733,876
Real estate partnerships	36,669,201	-	-	36,669,201
Real estate - 625 Kings Court, Ukiah, CA	-	-	864,000	864,000
Total investments at fair value	$ 436,558,635	$ -	$ 864,000	$ 437,422,635

Note 4: Fair Value Measurement of Investments, continued:

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, 2015 and 2014 as follows:

Commercial Building at 625 Kings Court, Ukiah California

	2015	2014
Fair value, beginning of year	$ 864,000	$ 864,000
Unrealized gain (loss)	-	-
Purchases	-	-
Sales	-	-
Issuances	-	-
Settlements	-	-
Fair value, end of year	$ 864,000	$ 864,000

Amount of total gains or losses for the period included in net appreciation in fair value of investments, attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2015	$ -

The following table represents the Plan's level 3 financial instruments and the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2015:

Instrument	Fair Value at June 30, 2015	Principal Valuation Technique
Real Estate-625 Kings Court, Ukiah, CA	$ 864,000	Fair Value = Broker Price Option

Note 5: Contributions:

The actuarially determined member contribution rates payable for fiscal year 2016-17 average 9.86 percent of payroll. The actual member rate depends on the member's age at the time of hire, General, Safety, or Probation membership, and tier. For fiscal year 2016- 17, employers are also required to contribute an actuarially determined rate of 32.55 percent of payroll in aggregate. The actual employer rate depends on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of the Plan. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability.

The UAAL as of June 30, 2015 is $182.2 million, which the Plan Sponsors are required to amortize in the future. The funded ratio at June 30, 2015 is 70.2%, as indicated on the Schedule of Funding Progress on page 70. The *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2015 recommended employer and member contribution rates that aggregate to 32.55% and 9.86%, respectively.

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, 2015
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	24 years (closed) 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	7.25%
Inflation rate	3.25%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.25% to 8.75%
* Includes inflation at	3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases.
Cost of living adjustments	3.00% of retirement income
Years of life expectancy for healthy members and all beneficiaries after retirement	For all members and all beneficiaries: RP-2000 members and all beneficiaries Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females.
Years of life expectancy after disability	For all members: RP-2000 Combined Healthy after disability Mortality Table projected with Scale BB to 2020, set forward 4 years for both males and females. The tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement based on a review of mortality experience as of the measurement date.

Note 5: Contributions continued:

Life expectancy after retirement for employee contribution rate purposes	General members: RP-2000 Combined Healthy employee contribution rate purposes Mortality Table projected with Scale BB for 2020, set back 1 year for males and with no setback for females, weighted 30% male and 70% female. Safety and Probation members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females, weighted 80% male and 20% female.

Using the projected payroll amounts for MCERA's membership groups and tiers that were used in the June 30, 2013 actuarial valuation, management has estimated the contributions are comprised of the following for the year ended June 30, 2015:

Estimated employer normal cost	$ 7,101,723
Estimated UAAL contributions	8,062,321
	$ 15,164,044

Note 6: Net Pension Liability:

GASB 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of MCERA's net pension liability at June 30, 2015 were as follows:

Total pension liability	$	610,381,849
Net position	$	444,217,356
Net pension liability	$	166,164,493
Net position as a percentage of total pension liability		72.80%

Disclosure of Information About Actuarial Methods and Assumptions:

The required Schedule of Changes in Net Pension Liability immediately following the Notes to the Financial Statements presents information about whether the plan fiduciary net position is increasing or decreasing over time relative to the total pension liability.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Note 6: Net Pension Liability, continued:

Actuarial Methods and Assumptions:

The total pension liability as of June 30, 2015 was determined by actuarial valuations as of June 30, 2014. The actuarial assumptions used in this June 30, 2015 valuation were based on the results of an experience study for the period from July 1, 2011 through June 30, 2014. They are the same as the assumptions used in the June 30, 2015 funding actuarial valuation for MCERA. Key methods and assumptions used in the latest actuarial valuation are presented below:

Valuation date	June 30, 2015
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	24 years (closed) 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	7.25%
Inflation rate	3.25%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.25% to 8.75%
* Includes inflation at	3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases.
Cost of living adjustments	3.00% of retirement income
Mortality for healthy members and all beneficiaries	For all members and all beneficiaries: RP-2000 members and all beneficiaries Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females.
Other assumptions	Same as those detailed in Note 5.

Note 6: Net Pension Liability, continued:

Assumed Asset Allocation:

The long-term expected rate of return on pension plan investments is determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting assumed inflation of 3.25%, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
U.S Large Cap Equity	26.20%	5.86%
U.S. Small Cap Equity	11.80%	6.56%
Global Equity	25.00%	6.85%
Domestic Fixed Income	28.00%	0.71%
Real Estate	9.00%	4.76%
Total	100.00%	

Discount Rate:

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Note 6: Net Pension Liability, continued:

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of MCERA as of June 30, 2015, calculated using the discount rate of 7.25%, as well as what MCERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1- percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net pension liability	246,110,988	166,164,493	100,314,400

Note 7: Reserves:

The Association had contingency reserves of $4,450,378, at June 30, 2015 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 7.25 percent of retirement 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 position for pension and other benefits at June 30, 2015 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

	2015	2014
Employee reserves	$ 63,301,162	$ 55,711,672
Employer reserves	(64,904,257)	(47,773,613)
Retiree reserves	349,210,064	286,441,596
Undesignated reserves (see Note 8)	-	-
1% Contingency reserve	4,450,378	4,428,280
Settlement reserve	-	-
Miscellaneous reserves	-	(75,849)
Total reserves	352,057,347	298,732,086
Cumulative unallocated net unrealized gain on investments	80,621,960	110,552,036
Total allocated reserves (smoothed market actuarial value after corridor limits)	432,679,307	409,284,122
Net assets in excess (deficit of reserves)	11,538,049	33,024,326
Net position held in trust for pension benefits	$ 444,217,356	$ 442,308,448

Note 8: 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 fair value of assets in MCERA's portfolio has decreased from $444 million to $411 million between July 1, 2015 and September 30, 2015. Growing uncertainty over global economic conditions weighed on capital markets resulting in increased volatility across all major asset classes.

At the August 19, 2015 Board of Retirement meeting two finalists from the custodial bank RFP process presented to the Board. State Street Bank was selected to provide basic custodial banking services for MCERA. MCERA has been without a custodial bank since 2011. The addition of a custodial bank will enhance internal controls, expand MCERA's financial reporting capabilities, and provide improved investment reports. Much of the expense of the custodial bank will be offset by investment fee savings resulting from access to separately managed accounts and similarly structured share classes.

MCERA submitted a determination letter request to the Internal Revenue Service (IRS) following its approval at the September 16, 2015 Board of Retirement meeting. MCERA's most recent favorable determination letter was issued by the IRS on January 29, 2014. The deadline for the current filing cycle is January 31, 2016. MCERA opted to file early to allow extra time to correct any issues should they arise during the filing process.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in Net Pension Liability and Related Ratios

	June 30, 2015	June 30, 2014	June 30, 2013
Total pension liability:			
Service cost	$ 12,058,526	$ 11,762,194	$ 12,083,893
Interest	42,156,056	39,412,370	37,805,390
Change of benefit terms	-	-	-
Differences between expected and actual experience	1,787,516	(8,040,343)	(1,868,814)
Changes in assumptions	-	58,186,913	-
Benefit payments, including refunds of employee contributions	(30,049,133)	(27,353,529)	(26,573,554)
Net change in total pension liability	25,952,965	73,967,605	21,446,915
Total pension liability - beginning of year	584,428,884	510,461,279	489,014,364
Total pension liability - end of year (a)	$ 610,381,849	$ 584,428,884	$ 510,461,279
Plan fiduciary net position:			
Contributions - employers'	$ 15,164,044	$ 14,324,752	$ 14,260,473
Contributions - members'	4,651,960	4,575,895	4,712,593
Net investment income	13,201,309	68,294,844	48,890,492
Benefit payments, including refunds of employee contributions	(30,049,133)	(27,353,529)	(26,573,554)
Administrative expense	(1,059,272)	(930,437)	(829,999)
Other	-	200,106	-
Net change in plan fiduciary net position	1,908,908	59,111,631	40,460,005
Plan fiduciary net position - beginning of year	442,308,448	383,196,817	342,736,812
Plan fiduciary net position - end of year (b)	$ 444,217,356	$ 442,308,448	$ 383,196,817
Net pension liability - end of year (a) - (b)	$ 166,164,493	$ 142,120,436	$ 127,264,462
Plan fiduciary net position as a % of the total pension liability	72.8%	75.7%	75.1%
Covered Member Payroll	$ 54,891,785	$ 53,813,882	$ 53,254,876
Plan net pension liability as a % of covered member payroll	302.7%	264.1%	239.0%

Trend Information: Schedules will ultimately show information for ten years. Additional years will be displayed as they become available prospectively.

Schedule of Employer Contributions
(Dollar amounts in thousands)

Year Ended	Annual Recommende Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	As a % of Covered Payroll: Annual Recommende Contribution	As a % of Covered Payroll: Actual Employer Contribution
6/30/06	$4,996	$3,947	$1,049	$57,665	9%	7%
6/30/07	$7,533	$7,533	$0	$65,899	11%	11%
6/30/08	$7,232	$7,232	$0	$70,880	10%	10%
6/30/09	$6,046	$8,560	($2,514)	$72,235	8%	12%
6/30/10	$9,571	$8,709	$862	$69,004	14%	13%
6/30/11	$9,554	$9,554	$0	$64,144	15%	15%
6/30/12	$11,811	$11,811	$0	$56,596	21%	21%
6/30/13	$14,260	$14,260	$0	$56,464	25%	25%
6/30/14	$14,325	$14,325	$0	$55,876	26%	26%
6/30/15	$15,164	$15,164	$0	$58,106	26%	26%

Note: The Schedule of Funding Progress can be found on page 70 in the Actuarial Section.

Schedule of Investment Returns

Fiscal Year	Annual Time-Weighted Rate of Return, Net of Investment Expense	Annual Money-Weighted Rate of Return, Net of Investment Expense[1]
2006	12.06%	N/A
2007	18.07%	N/A
2008	-3.82%	N/A
2009	-16.50%	N/A
2010	14.47%	N/A
2011	21.87%	N/A
2012	-1.04%	N/A
2013	14.52%	N/A
2014	18.07%	18.00%
2015	3.10%	3.10%

[1]Data for the money-weighted rate of return is not available for years prior to FY 2014.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Investment Management Fees And Other Investment Fees

For the Year ended June 30, 2015

Investment Management Fees:	Direct	Fund Level	Total
Large Cap Funds	$ -	$ 564,397	$ 564,397
Mid Cap Funds	-	152,409	152,409
Small/Micro Funds	67,150	231,415	298,565
International Equity Funds	160,198	628,445	788,643
Fixed Income Funds	-	519,718	519,718
Real Estate	-	367,981	367,981
Investment Consultant	145,600		145,600
Custodial Bank	-		-
Actuarial Expense	155,030		155,030
Other Investment Expense	37,122		37,122
Total Investment Expenses	$ 565,100	$ 2,464,365	$ 3,029,465

Schedule of Payments to Consultants (Other Than Investment Advisors)

For the Year ended June 30, 2015 and 2014

	2015	2014
Actuarial Expense	$ 155,030	$ 104,190
Audit Services	37,877	31,888
Pension IT Services	223,972	67,444
Accounting Services	15,849	72,245
Executive Search Services	39,987	-
Disability Medical Reviews	18,362	64,949
Legal Counsel		
General	107,839	105,756
Disability	29,407	48,835
Total Payments to Consultants	$ 628,323	$ 495,307

Schedule of Administrative Expenses
For the Year ended June 30, 2015 and 2014

		2015		2014
Personnel Services:				
Salaries and Wages		289,120		248,584
Other Benefits		81,480		61,728
Employee Retirement		83,759		80,724
Total Personnel Services		454,359		391,036
Professional Services:				
Legal Expense - General		107,839		105,756
Outside Legal Counsel - Disability		29,407		48,835
Disability Medical Review		18,362		64,949
External Audit Fees		37,877		31,888
Accounting Services		15,849		72,245
Executive Search Services		39,987		-
Total Professional Services		249,321		323,673
Miscellaneous:				
Office Expenses		20,034		28,957
Rent & Leases		51,756		51,606
Memberships		4,665		5,171
Prof & Spec Services – Other		9,025		14,357
Training & Travel		23,778		20,546
Total Miscellaneous		109,258		120,637
Total Administrative Expenses[1]	**$**	**812,938**	**$**	**835,346**
Total Information Technology (IT) Expense		246,334		95,091
Total Administrative and IT Expense	**$**	**1,059,272**	**$**	**930,437**

(1) Excludes Information Technology expenses as defined in Government Code section 31580.2

Administrative Budget: Government Code § 31580.2 states in part, "…the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of the following: 1) Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system. 2) Two million dollars ($2,000,000)…" MCERA's administrative expenses met the requirements of this section in Fiscal Year 2014/15 as the total expenses excluding IT expense were less than the administrative cap at 16/100% of the actuarial accrued liability. In Fiscal Year 2013/14 the expenses were 17/100% of the actuarial accrued liability excluding IT expenses.

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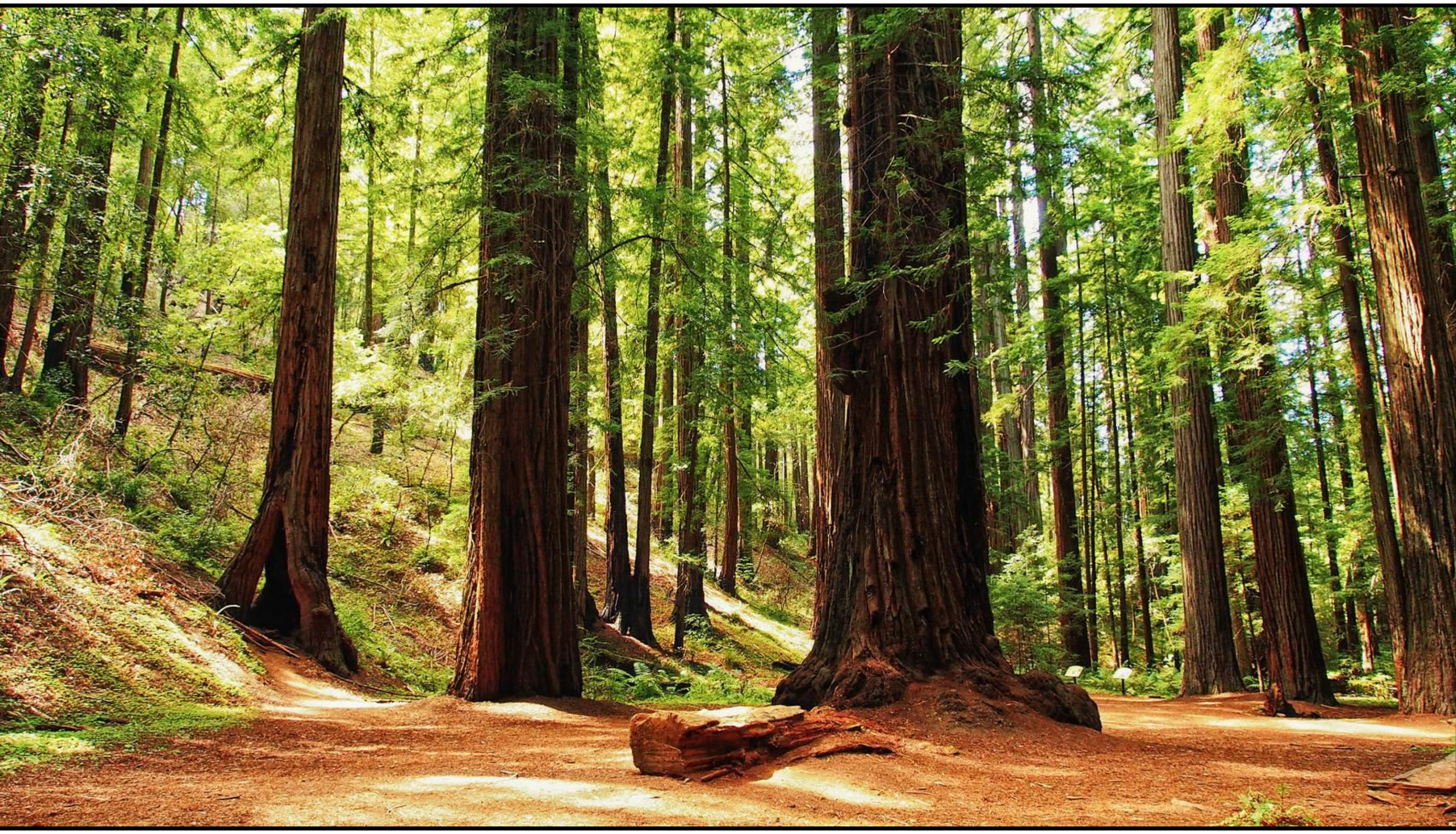
Investment Section



Montgomery Woods State Reserve, Mendocino County

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CONSULTING

Performance Summary

Mendocino County Employees' Retirement Association
Executive Summary
Fiscal Year Ended June 30, 2015

General Economic Conditions and Capital Markets Overview

The fiscal year ended June 30, 2015 saw substantial volatility in global financial markets. For the full fiscal year, broad market asset class returns were widely mixed; ranging from mid-single-digit losses from international equities to double-digit gains from real estate.

The fiscal year commenced with the ECB's surprise announcement of a rate cut and "Q€", and the unexpected departure of Bill Gross from PIMCO. An improving U.S. economy put upward pressure on interest rates, but a significant yield advantage relative to other developed markets helped to dampen this effect. While the U.S. economy gained traction, news from Europe and Japan was far bleaker with euro zone GDP barely positive in the 1st quarter of the fiscal year versus a U.S. reading of +5.0%. Broad U.S. equities, were muted (Russell 3000: +0.0%) given declines of 2.0% in July and 2.1% in September, bookending a 4.2% rally in August. Relatively attractive yields offered in the U.S. and expectations for higher rates propelled the dollar higher versus most currencies. This major strength in the US dollar relative to many foreign currencies pushed non-US equity returns well into negative territory, and MSCI ACWI ex-US endured a 5.2% loss. The flattening U.S. yield curve, weak foreign currencies, widening credit spreads, and falling inflation expectations led to disparate returns across bond indices (Barclays Aggregate: +0.2%). Commercial real estate investment activity was robust during quarter, resulting in gains for private real estate.

A massive slide in oil prices and a coincident rally in the U.S. dollar were the hallmark economic trends in the 2nd quarter of the fiscal year. U.S. GDP gained an unexpectedly moderate 2.2%. The U.S. dollar rose against the currencies of most of its trading partners as prospects for growth faded in the developed markets and the euro zone embarked on another round of QE. On the back of a strengthening U.S. dollar, minimal global economic growth, and weak commodity prices, a lopsided market emerged for U.S. equities. Energy sector returns collapsed in tandem with oil prices, while REITs posted the best results in all U.S. indices on the heels of low interest rates. Broad U.S. equities gained 5.2%. Market woes and tumbling oil prices weighed on developed foreign equities, sending the MSCI ACWI ex-US Index down 3.8%. Weakness in oil and a strengthening equity market drove the flattening of the yield curve for the 4th consecutive quarter (BC Aggregate Index: +1.8%). A flurry of commercial real estate transactions during the quarter underpinned prevailing real estate returns.

The 3rd quarter of the fiscal year put global macroeconomic factors at the forefront, namely worries over inflation and slowing economic growth. The economic picture in the U.S. was mixed and suggested that the recovery could be losing momentum given headwinds from a snowy winter, strong U.S. dollar and weak global demand. Uncertainty over the timing of the Fed's widely expected eventual rate hike contributed to market volatility during the quarter. Most public markets enjoyed moderate to strong growth. A strong performance from Asia and the Pacific region plus the arrival of ECB quantitative easing helped push international equity ahead of U.S. equity for the first time in a year (+3.6% versus +1.8%). The yield on the 10-year U.S. Treasury note declined for the fifth straight quarter as divergent central bank policies around the globe began to take hold (BC Aggregate Index: +1.6%). Private real estate continued to post positive results.

In the final quarter of fiscal year, global financial markets endured a fitful quarter and in the final weeks of the quarter, investor focus was clearly directed away from domestic issues and settled firmly elsewhere; largely on China, Greece and Puerto Rico. In the U.S., the quarter got off to a promising start through April and May. In June, however, the Russell 3000 Index dropped 1.7%, reducing U.S. equity results for the 3-month period to 0.1%. Developed foreign equities performed generally in line with domestic indices in U.S. dollar terms; however, positive currency impacts from the strengthening euro and pound masked weakness in local currency equity return. Interest rates rose during the quarter and the yield curve steepened. Mixed economic data and a weak preceding quarter kept the Fed on hold, but rising rates overseas put pressure on yields in the U.S. The Barclays U.S. Aggregate Index returned -1.7%, erasing most of its prior quarter gains.

Inflation remains contained in the U.S., even when the deflationary impacts of the drop in energy prices are removed. Core CPI (excludes food and energy) for the 12 months ended June 2015 registered at +1.8%. However, Headline CPI (including food and energy) was just +0.1% due to the impact of sharply falling energy prices in the latter half of 2014. The dramatic deflation in Energy is masking notable inflation elsewhere, particularly in Health Care and Housing, where prices are rising at nearly twice the rate of inflation.

The following table highlights the various asset class benchmark returns by quarter and for the fiscal year.

Index	**3Q14**	**4Q14**	**1Q15**	**2Q15**	**Fiscal Year**
US Equity (Russell 3000)	0.0%	5.2%	1.8%	0.1%	7.3%
Intl Equity (MSCI ACWI ex-US)	(5.2%)	(3.8%)	3.6%	0.7%	(4.8%)
Real Estate (NFI-ODCE)	3.2%	2.9%	3.2%	3.7%	13.6%
Fixed Income (BC Aggregate)	0.2%	1.8%	1.6%	(1.7%)	1.9%

Asset Allocation

As of June 30, 2015, the assets of MCERA were valued at $444.2 million, up from the total asset value at the start of the fiscal year, July 1, 2014, of $442.4 million. Approximately $13.7 million in investment gains and $11.9 million in net withdrawals accounted for the rise in assets. The Plan ended the fiscal year slightly overweight in domestic equity and real estate relative to its policy target while being slightly underweight to fixed income and international equity. All asset classes remain within their permitted ranges.

Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equity	175,504	39.5%	38.0%	1.5%	6,723
International Equity	107,844	24.3%	25.0%	(0.7%)	(3,196)
Domestic Fixed Income	117,779	26.5%	28.0%	(1.5%)	(6,586)
Domestic Real Estate	41,635	9.4%	9.0%	0.4%	1,660
Cash	1,398	0.3%	0.0%	0.3%	1,398
Total	444,161	100.0%	100.0%		

Total Fund Performance

MCERA's Total Fund advanced 3.1% for the fiscal year ending June 30, 2015, on par with the Fund's Policy Index. For the same time period measured, MCERA's money-weighted rate of return net of investment fees was also up 3.1%.

As shown in the fiscal year attribution below, active management slightly benefitted relative performance, while deviations from the policy target marginally detracted. Manager performance within domestic equity contributed the most to MCERA's Total Fund return, whereas manager performance within domestic fixed income hurt results the most.

For the fiscal year end, domestic equity composite ranked in the top quartile of the public fund domestic equity peer group, meanwhile international equity and Fixed Income portfolios landed in the bottom quartile versus their respective peers. Overall, the Total Fund ranked in the 53rd percentile among Public Fund Sponsor universe. Longer term annualized Total Fund returns rank favorably versus other public fund sponsors, finishing 39th, 25th and 8th for the trailing 5-, 7- and 10-year periods, respectively.

One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	39%	38%	8.44%	7.29%	0.43%	0.01%	0.44%
Domestic Fixed Income	27%	28%	1.13%	1.86%	(0.20%)	(0.00%)	(0.20%)
Domestic Real Estate	9%	9%	11.15%	11.76%	(0.05%)	(0.01%)	(0.06%)
International Equity	24%	25%	(5.07%)	(4.85%)	(0.07%)	(0.06%)	(0.13%)
Cash	1%	0%	0.00%	0.00%	0.00%	(0.03%)	(0.03%)
Total			**3.11% =**	**3.10% +**	**0.11% +**	**(0.09%)**	**0.01%**

Summary

During an environment marked by uncertainty and significant volatility, the MCERA portfolio posted gains, benefitting from the upswing of the US equity markets experienced during the fiscal year. The Fund remains well diversified across the broad capital markets and across many different investment strategies, which we believe will continue to lead to strong long-term investment results.

With significant uncertainty in a number of foreign countries and domestic growth expectations waning, risk and volatility appear to be on the upswing. Much anticipation rests on the timing and path of U.S. Fed interest rate policy and the subsequent impact on global financial markets. With expectations of muted returns and higher volatility, prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors remains Callan's recommended course.

Submitted by:

Greg T. Ungerman, CFA	Greg F. DeForrest, CFA	Alina Y. Vartanyan
Senior Vice President	Senior Vice President	Assistant Vice President

Outline of Investment Policies and Objectives

The Board of Retirement (Board) has exclusive control of all investments of the retirement system and is responsible for establishing investment objectives, strategies and policies.

Pursuant to the California Constitution and the 1937 County Employees' Retirement Act, the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In this regard, investment decisions are to be made in the sole interest and for the exclusive purpose of providing benefits to participants in the retirement system and their beneficiaries and defraying the reasonable expenses of administering the retirement system.

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the general goals of the investment program, the policies and procedures for management of the investments, specific assets allocations, rebalancing procedures and investment guidelines, performance objectives and risk controls. The Investment Policy also defines the principal duties of the Board, MCERA's investment consultant and MCERA's investment managers. The Board makes revisions to the Investment Policy as necessary.

Pursuant to the Investment Policy, the basic goal of MCERA's investment program is to obtain a fully funded plan status, while assuming a risk posture consistent with the Board's risk tolerance. In pursuing this goal, the Board has adopted a long-term investment horizon in which the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The primary investment objective is to meet the actuarial assumption for return on assets. The risk assumed in the pursuit of this investment objective must be appropriate for the return anticipated and consistent with the total diversification of the fund. All transactions undertaken will be for the sole benefit of MCERA's members and beneficiaries and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable associated administrative expenses.

The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

Investment Returns
For the Year Ended June 30, 2015

	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
Domestic Equities	**$ 175,504,293**	**39.51%**	**8.44%**	**19.09%**	**17.76%**
Russell 3000 Index			7.29 %	17.73 %	17.54 %
Large Cap Equities	**$ 120,436,383**	**27.12%**			
Vanguard S&P 500 Index	22,468,787	5.06 %	7.41 %	-	-
S&P 500 Index			7.42 %	17.31 %	17.34 %
Dodge & Cox Stock	23,440,178	5.28 %	4.54 %	20.44 %	17.79 %
Boston Partners	24,880,798	5.60 %	5.50 %	18.31 %	-
S&P 500 Index			7.42 %	17.31 %	17.34 %
Russell 1000 Value Index			4.13 %	17.34 %	16.50 %
Harbor Cap Appreciation	25,167,194	5.67 %	14.28 %	19.69 %	19.03 %
Janus Research	24,479,426	5.51 %	12.71 %	20.66 %	18.40 %
S&P 500 Index			7.42 %	17.31 %	17.34 %
Russell 1000 Growth Index			10.56 %	17.99 %	18.59 %
Mid Cap Equities	**$ 20,379,761**	**4.59%**			
Fidelity Low Priced Stock	5,239,963	1.18 %	7.06 %	18.46 %	17.19 %
Royce Total Return	4,798,388	1.08 %	(0.41 %)	14.32 %	13.83 %
Russell 2000 Index			6.49 %	17.81 %	17.08 %
Russell MidCap Value Index			3.67 %	19.13 %	17.73 %
Morgan Stanley	4,956,476	1.12 %	3.74 %	13.88 %	13.98 %
Janus Enterprise	5,384,934	1.21 %	13.17 %	19.18 %	18.75 %
Russell MidCap Growth Index			9.45 %	19.24 %	18.69 %
Small Cap Equities	**$ 25,904,729**	**5.83%**			
Prudential Small Cap Value	12,838,894	2.89 %	1.90 %	16.50 %	-
US Small Cap Value Index			1.69 %	16.63 %	15.86 %
Russell 2000 Value Index			0.78 %	15.50 %	14.81 %
Alliance US Small Growth	7,199,605	1.62 %	6.48 %	18.40 %	22.18 %
RS Investments	5,866,230	1.32 %	23.97 %	24.80 %	22.27 %
Russell 2000 Growth Index			12.34 %	20.11 %	19.33 %
Micro Cap Equities	**$ 8,783,420**	**1.98%**			
Managers Inst Micro Cap	8,783,420	1.98 %	9.30 %	20.33 %	19.49 %
Russell Microcap Index			8.21 %	19.25 %	17.48 %
Russell Micro Growth Index			14.41 %	22.13 %	19.76 %

Investment Returns, continued:

	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
International Equities	**$ 107,844,465**	**24.28%**	**(5.07%)**	**10.69%**	**8.35%**
EuroPacific	21,826,245	4.91 %	0.97 %	12.71 %	10.12 %
Harbor International	20,566,543	4.63 %	(4.13 %)	10.01 %	9.78 %
Columbia Acorn Int'l	11,196,474	2.52 %	(4.92 %)	11.31 %	10.59 %
Janus Overseas	17,083,719	3.85 %	(12.76 %)	4.93 %	(0.79 %)
Oakmark International	16,061,266	3.62 %	(2.53 %)	16.63 %	12.00 %
Mondrian International	21,110,219	4.75 %	(7.19 %)	9.15 %	-
MSCI EAFE Index			(4.22 %)	11.97 %	9.54 %
MSCI ACWI ex-US Index			(4.85 %)	9.92 %	8.23 %
Domestic Fixed Income	**$ 117,779,392**	**26.52%**	**1.13%**	**2.83%**	**4.08%**
Dodge & Cox Income	59,093,728	13.30 %	0.98 %	3.22 %	4.32 %
PIMCO	58,685,664	13.21 %	1.29 %	2.45 %	4.03 %
BC Aggregate Index			1.86 %	1.83 %	3.35 %
Real Estate	**$ 41,634,671**	**9.37%**	**11.15%**	**11.01%**	**13.85%**
Real Estate Custom Benchmark (1)			11.76 %	11.38 %	13.81 %
RREEF Public Fund	7,967,998	1.79 %	4.52 %	7.79 %	13.92 %
NAREIT			3.37 %	8.54 %	13.86 %
RREEF Private Fund	18,914,666	4.26 %	14.74 %	13.32 %	15.05 %
Cornerstone Patriot Fund	13,888,006	3.13 %	10.56 %	9.56 %	-
NFI-ODCE Equal Weight Index			13.64 %	11.93 %	13.28 %
625 Kings Court	864,000	0.19 %	9.70 %	17.12 %	7.87 %
Cash	**$ 1,398,150**	**0.31%**			
Total Fund	**$ 444,160,970**	**100.00%**	**3.11%**	**11.72%**	**10.95%**
Total Fund Benchmark*			3.10 %	10.73 %	10.93 %

* Current Quarter Target = 38.0% Russell 3000 Index, 28.0% Barclays Aggregate Index, 25.0% MSCI ACWI ex US Index, 7.2% NFI-ODCE Equal Weight Net and 1.8% NAREIT.

(1) Real Estate Custom Benchmark is 50% NAREIT Composite Index and 50% NFI-ODCE Equal Weight Net through 12/31/2011; and 20% NAREIT Composite Index and 80% NFI-ODCE Equal Weight Net thereafter.

Return calculations were prepared using the time-weighted rate of return.

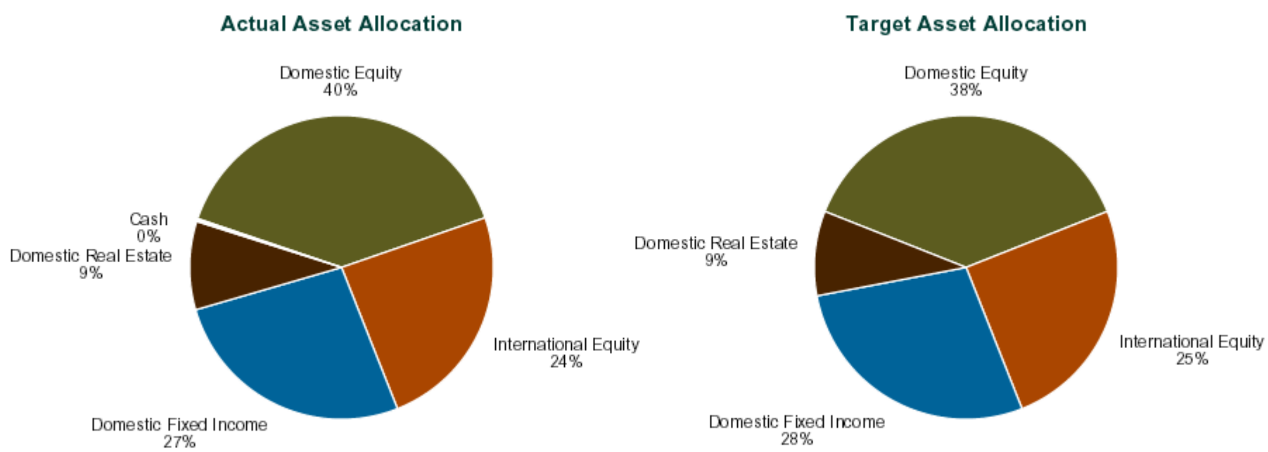
Asset Allocation

The Board reviews the Association's investment results each quarter. Periodically, the Board reviews the asset allocation, taking into consideration the latest actuarial study. Based on this review, the Board adopts an asset allocation mix with the goal of helping the Association achieve a fully funded status. Each asset class has a target allocation. The Association treats these targets as long-term funding objectives. Adhering to these targets allows the Association to keep investment risk at a manageable level and minimizes investment costs.

One keystone of asset allocation is diversification among asset classes. Diversification helps to maintain risk at a tolerable level. Therefore, the Board reviews the investment performance and volatility of each asset class on a regular basis over various time periods (quarterly, annually, multi-year) to ensure that the current allocation continues to meet the Association's needs.

Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract.

Target Asset vs. Actual Asset Allocation



Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equity	175,504	39.5%	38.0%	1.5%	6,723
International Equity	107,844	24.3%	25.0%	(0.7%)	(3,196)
Domestic Fixed Income	117,779	26.5%	28.0%	(1.5%)	(6,586)
Domestic Real Estate	41,635	9.4%	9.0%	0.4%	1,660
Cash	1,398	0.3%	0.0%	0.3%	1,398
Total	444,161	100.0%	100.0%		

Asset Allocation
June 30, 2015

Asset Class	Market Value	Actual Allocation	Target Allocation
Domestic Equities	$175,504,293	39.51%	38.00%
International Equities	107,844,465	24.28%	25.00%
Domestic Fixed Income	117,779,392	26.52%	28.00%
Domestic Real Estate	41,634,671	9.37%	9.00%
Cash (1)	1,398,150	0.31%	0.00%
Total Portfolio (2)	$444,160,970	100.00%	100.00%

Notes:
(1) Does not include accounts receivables or prepaid expenses
(2) Amounts may not total exactly due to rounding.

Schedule of Investment Management Fees And Other Investment Fees
For the Year ended June 30, 2015

Investment Management Fees:	Direct	Fund Level	Total
Large Cap Funds	$ -	$ 564,397	$ 564,397
Mid Cap Funds	-	152,409	152,409
Small/Micro Funds	67,150	231,415	298,565
International Equity Funds	160,198	628,445	788,643
Fixed Income Funds	-	519,718	519,718
Real Estate	-	367,981	367,981
Investment Consultant	145,600		145,600
Custodial Bank	-		-
Actuarial Expense	155,030		155,030
Other Investment Expense	37,122		37,122
Total Investment Expenses	$ 565,100	$ 2,464,365	$ 3,029,465

List of Investment Managers
June 30, 2015

Large Cap Equity
Vanguard S&P 500 Index
Dodge & Cox Stock
Boston Partners
Harbor Capital Appreciation
Janus Research

Mid Cap Equity
Fidelity Low Priced Stock
Royce Total Return
Morgan Stanley
Janus Enterprise

Small Cap Equity
Prudential Small Cap Value
AB US Small Growth
RS Investments
Managers Inst Micro Cap

International Equity
American Funds EuroPacific
Harbor International
Columbia Acorn International
Janus Overseas
Oakmark International
Mondrian International

Fixed Income
Dodge & Cox Income
PIMCO Total Return

Real Estate
RREEF Commingled Fund
RREEF America REIT II
Cornerstone Patriot Fund

Schedule of Top Ten Portfolio Holdings[1]
June 30, 2015

Ticker	Asset Class	Fund Name	Fair Value
DODIX	Fixed Income	Dodge & Cox Income	$ 58,181,251
PTTRX	Fixed Income	PIMCO Total Return	58,075,512
HACAX	Equity	Harbor Cap Appreciation	22,027,087
JRAIX	Equity	Janus Research	21,981,037
N/A	Equity	Boston Partners	21,812,671
RERGX	Equity	American Funds EuroPacific	21,626,087
HAINX	Equity	Harbor International	21,288,137
OAKIX	Equity	Oakmark International	21,227,412
DODGX	Equity	Dodge & Cox Stock	21,067,195
VINIX	Equity	Vanguard S&P 500 Index	20,525,894
		Total Top 10 Securities	$287,812,283

(1) MCERA owns commingled vehicles and does not directly hold indvidual stocks or bonds.

Note: A complete list of holdings is available upon request.

Actuarial Section

Anderson Valley, Mendocino County

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
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January 27, 2016

Board of Retirement
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482-5027

**Re: June 30, 2015 Actuarial Valuation for the
Mendocino County Employees' Retirement Association**

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2015 actuarial valuation of the Mendocino County Employees' Retirement Association (MCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by the Actuarial Standards of Practice (ASOPs). Actuarial valuations are performed on an annual basis with the last valuation completed on June 30, 2015. The actuarial calculations presented in the valuation report have been made on a basis consistent with our understanding of the historical funding methods used in the determination of the liability for retirement benefits.

The June 30, 2015 actuarial valuation is based on the plan of benefits verified by MCERA and on participant and financial data provided by MCERA. Segal conducted an examination of all participant data for reasonableness and we concluded that it was reasonable and consistent with the prior year's data. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report.

We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return on market value over a five-year period. The full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

One of the general goals of an actuarial valuation is to establish contribution rates that fully fund the Association's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial funding is based on the Entry Age Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL).

Board of Retirement
Mendocino County Employees' Retirement Association
January 27, 2016
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In the June 30, 2015 valuation, we applied the Board's funding policy to amortize the outstanding balance of the Association's UAAL from the June 30, 2012 valuation over a declining period, with 24 years remaining as of June 30, 2015. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different amortization periods depending on the source of the layer (gains and losses as well as changes in assumptions and methods are amortized over 18 years).

The actuarial computations made are for funding plan benefits. Accordingly, additional determinations will be needed for other purposes, such as satisfying accounting requirements under Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 and judging benefit security at termination of the plan.

Segal prepared all of the supporting schedules in the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) and certain schedules in the Financial Section, based on the results of the June 30, 2015 actuarial valuation. A listing of the supporting schedules Segal prepared for inclusion in the Financial Section as Required Supplementary Information prescribed by GASB[1], and in the Actuarial Section, is provided below:

Financial Section:

1) Schedule of Net Pension Liability*
2) Schedule of Changes in Net Pension Liability and Related Ratios*

Actuarial Section:

3) Summary of Assumptions and Funding Method
4) Probabilities of Separation from Active Service
5) Actuarial Assumptions for Merit and Promotional Salary Increase Rates
6) Schedule of Active Member Valuation Data
7) Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll
8) Solvency Test
9) Actuarial Analysis of Financial Experience
10) Development of Actuarial Value of Assets
11) Summary of Plan Provisions
12) Schedule of Funding Progress
13) Schedule of Contributions – Last Ten Fiscal Years*
14) Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of June 30, 2015*

** Source: Segal's GAS 67 valuation report as of June 30, 2015.*

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[1] These schedules were included in Segal's separate Governmental Accounting Standards (GAS) 67 actuarial valuation report as of June 30, 2015.

5410608v6/13459.001

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MCERA's staff prepared other trend data schedules in the Statistical Section based on information supplied in Segal's valuation report.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the Experience Analysis as of June 30, 2014. It is our opinion that the assumptions used in the June 30, 2015 valuation produce results that, in the aggregate, reflect the future experience of the Plan. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2017.

In the June 30, 2015 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 69.3% to 70.2%. The employer's aggregate contribution rate has decreased from 32.99% of payroll to 32.55% of payroll. The employee's aggregate rate has increased from 9.83% of payroll to 9.86% of payroll. The decrease in the employer rate is primarily due to an investment gain (under the smoothed assets method) and lower than expected salary increases for some members, offset somewhat by other actuarial losses.

In the June 30, 2015 valuation, the actuarial value of assets excluded $11.5 million in deferred investment gains, which represent 2.6% of the market value of assets. If these deferred investment gains were recognized immediately in the actuarial value of assets, the funded percentage would increase from 70.2% to 72.8%[2] and the aggregate employer contribution rate, expressed as a percentage of payroll, would decrease from 32.55% to about 30.5%.

To the best of our knowledge, the June 30, 2015 actuarial valuation report is complete and accurate and in our opinion presents the Plan's current funding information. The undersigned are members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Actuary

JRC/gxk
Enclosures

[2] Assumes that the balance in the Contingency Reserve would be included in the valuation value of assets.

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SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The Entry Age Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The funding policy adopted by the Board is to amortize the Association's outstanding balance of the unfunded actuarial accrued liability (UAAL) from the June 30, 2012 valuation over a declining period, with 24 years remaining as of June 30, 2015. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different amortization periods depending on the source of the layer (gains and losses as well as changes in assumptions and methods are amortized over 18 years). The Board has adopted the following economic assumptions for the June 30, 2015 valuation:

ASSUMPTIONS

Valuation Interest Rate	7.25%
Inflation Rate	3.25%
Across the Board Salary Increase	0.50%
Interest Credited to Member Accounts	7.25%
Consumer Price Index	Increases of 3.25% per year; retiree COLA increases due to CPI for General Tiers 1, 2, and 3, Safety Tiers 1 and 2, and Probation Tiers 1 and 2 subject to a 3% maximum change per year (no COLA increases for General Tier 4, Safety Tier 3, or Probation Tier 3)
Asset Valuation	Smoothed actuarial value

The following demographic and salary increase assumptions were used for the actuarial valuation as of June 30, 2015. The assumptions were selected by the actuary and approved by the Board.

Post-Retirement Mortality	
(a) Healthy	
General Members	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Safety and Probation Members	Same as Healthy General Members.
All Beneficiaries	Same as Healthy General Members.
(b) Disabled	
General Members	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward four years for both males and females.
Safety and Probation Members	Same as Disabled General Members.
(c) For Employee Contribution Rate Purposes	
General Members	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females, weighted 30% male and 70% female.
Safety and Probation Members	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males with no setback for females, weighted 80% male and 20% female.
Pre-Retirement Mortality	
(a) General Members	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
(b) Safety and Probation Members	Same as General Members.
Termination Rates	Based upon the Experience Analysis as of 6/30/2014 (Table 1).
Disability Rates	Based upon the Experience Analysis as of 6/30/2014 (Table 1).
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/2014 (Table 1).
Reciprocity Assumption	60% of members who terminate with a vested benefit are assumed to enter a reciprocal system. For reciprocals, 4.25% compensation increases per annum are assumed.
Salary Scales	As shown in Table 2.
Spouses and Dependents	75% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands.
Deferred Vested Retirement Age	60 for General members; 55 for Safety and Probation members. For deferred vested members who terminate with less than five years of service and are not vested, it is assumed they will retire at age 70 if they decide to leave their contributions on deposit.
Future Benefit Accruals	1.0 year of service per year of employment plus 0.019 years of additional service to anticipate conversion of unused sick leave for each year of employment, for members expected to retire directly from active employment and to receive a service retirement benefit.

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE - TABLE 1

General Members					
Years of Service	**Termination(1)** (Less Than 5 Years of Service)	**Age**	**Termination(1)** (5+ Years of Service)		
0	.1800	20	.0650		
1	.1600	30	.0650		
2	.1400	40	.0650		
3	.1200	50	.0650		
4	.1000	60	.0490		
Age	**Mortality Male(2)**	**Mortality Female(2)**	**Disability(4)**	**Service Retirement Tiers 1, 2, & 3**	**Service Retirement Tier 4**
20	.0003	.0002	.0001	0000	.0000
30	.0004	.0002	.0001	.0000	.0000
40	.0010	.0007	.0013	.0000	.0000
50	.0019	.0016	.0053	.0600	.0000
60	.0053	.0041	.0063	.1200	.0600

Safety and Probation Members							
Years of Service	**Termination(1)** (Less Than 5 Years of Service)	**Age**	**Termination(1)** (5+ Years of Service)				
0	.1350	20	.0500				
1	.1150	30	.0420				
2	.0950	40	.0320				
3	.0750	50	.0130				
4	.0550	60	.0000				
Age	**Mortality Male(3)**	**Mortality Female(3)**	**Disability(5)**	**Service Retirement Safety Tiers 1 & 2**	**Service Retirement Safety Tier 3**	**Service Retirement Probation Tiers 1 & 2**	**Service Retirement Probation Tier 3**
20	.0003	.0002	.0010	.0000	.0000	.0000	.0000
30	.0004	.0002	.0018	.0000	.0000	.0000	.0000
40	.0010	.0007	.0105	.0000	.0000	.0000	.0000
50	.0019	.0016	.0225	.0800	.0300	.0500	.0400
60	.0053	.0041	.0000	1.000	1.000	1.000	1.000

(1) *For members with less than five years of service, 85% of all terminated members will choose a refund of contributions and 15% will choose a deferred vested benefit. For members with five or more years of service, 25% of all terminated members will choose a refund of contributions and 75% will choose a deferred vested benefit. No termination is assumed after a member is eligible for retirement.*

(2) *10% of General deaths are assumed to be service connected deaths. The other 90% are assumed to be non-service connected deaths.*

(3) *50% of Safety and Probation deaths are assumed to be service connected deaths. The other 50% are assumed to be non-service connected deaths.*

(4) *40% of General disabilities are assumed to be service connected disabilities. The other 60% are assumed to be non-service connected disabilities.*

(5) *90% of Safety and Probation disabilities are assumed to be service connected disabilities. The other 10% are assumed to be non-service connected disabilities.*

The probabilities shown for each cause of separation represent the likelihood that a given member will separate at a particular age for the indicated reason. For example, if the probability of termination of a General member at age 30 with at least 5 years of service is 0.0650, then we are assuming that 6.50% of the active General members at age 30 with at least 5 years of service will terminate with vested rights during the next year.

ACTUARIAL ASSUMPTIONS FOR MERIT AND PROMOTIONAL SALARY INCREASE RATES - TABLE 2

Consists of the sum of three parts: A uniform inflation component of 3.25%; plus “across the board” salary increases of 0.50% per year; plus a service-related component for merit and promotion, summarized as follows:

Years of Service	General Members	Safety and Probation Members
0	5.00%	5.00%
1	3.75%	3.75%
2	3.50%	3.00%
3	2.75%	2.25%
4	2.25%	1.00%
5+	0.50%	0.50%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA[(1)]

Valuation Date	Plan Type	Number	Annual Payroll $	Monthly Average Pay $	Percentage of Increase in Average Pay[(2)]
6/30/2006					
	General	Not Available			
	Safety				
	Probation				
	Total				
6/30/2007					
	General	1,199	55,268,122	3,841	
	Safety	147	8,177,920	4,636	
	Probation	49	2,452,547	4,171	
	Total	1,395	65,898,589	3,937	
6/30/2008					
	General	1,207	59,194,561	4,087	6.4%
	Safety	156	9,157,574	4,892	5.5%
	Probation	47	2,528,198	4,483	7.5%
	Total	1,410	70,880,333	4,189	6.4%
6/30/2009					
	General	1,164	60,045,883	4,299	5.2%
	Safety	143	9,057,202	5,278	7.9%
	Probation	62	3,132,010	4,210	-6.1%
	Total	1,369	72,235,095	4,397	5.0%
6/30/2010[(3)]					
	General	1,071			
	Safety	130			
	Probation	53			
	Total	1,254	69,004,002[(4)]	4,586[(4)]	4.3%
6/30/2011					
	General	955	53,294,624	4,650	
	Safety	122	8,238,933	5,628	
	Probation	52	2,610,208	4,183	
	Total	1,129	64,143,765	4,735	-0.7%[(5)]
6/30/2012					
	General	895	45,850,427	4,269	-8.2%
	Safety	120	8,021,174	5,570	-1.0%
	Probation	54	2,724,487	4,204	0.5%
	Total	1,069	56,596,088	4,412	-6.8%
6/30/2013					
	General	894	45,512,393	4,242	-0.6%
	Safety	123	8,169,530	5,535	-0.6%
	Probation	55	2,782,060	4,215	0.3%
	Total	1,072	56,463,983	4,389	-0.5%
6/30/2014					
	General	900	44,672,084	4,136	-2.5%
	Safety	129	8,509,082	5,497	-0.7%
	Probation	52	2,695,082	4,319	2.5%
	Total	1,081	55,876,248	4,307	-1.9%
6/30/2015					
	General	930	46,587,735	4,175	0.9%
	Safety	125	8,862,821	5,909	7.5%
	Probation	52	2,655,840	4,256	-1.5%
	Total	1,107	58,106,396	4,374	1.6%

(1) *Information for 6/30/2007 - 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average individual salary increases received by members who worked the full year.*

(3) *The payroll information presented in this schedule is not separated by plan type in the previous actuary's June 30, 2010 valuation report.*

(4) *Based on Segal's June 30, 2011 valuation report, total compensation, including a projection for expected salary increases during 2010/2011 under the actuarial assumptions used in the valuation, is $71,729,795. Monthly average pay with the projection equates to $4,767.*

(5) *Determined using Segal's calculation of monthly average pay with projection as of June 30, 2010 (i.e., $4,767, pursuant to footnote 4 above).*

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL[1]

	Added to Rolls		Removed from Rolls		Rolls- End of Year				
Valuation Date	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances	Increase in Average Annual Allowances
6/30/2006	Not Available								
6/30/2007					907	$14,827,000		$16,347	
6/30/2008	82	$1,624,000	27	$252,000	962	16,199,000	9.3%	16,839	3.0%
6/30/2009	77	1,921,000	31	352,000	1,008	17,768,000	9.7%	17,627	4.7%
6/30/2010[2]					1,083	19,125,661[3]	7.6%	17,660	0.2%
6/30/2011	71	1,624,933	25	205,558[4]	1,129	21,296,641	7.1%[4]	18,863	6.8%
6/30/2012	108	2,599,055	20	388,743	1,217	23,506,953	10.4%	19,315	2.4%
6/30/2013	111	2,742,843	41	596,482	1,287	25,653,314	9.1%	19,933	3.2%
6/30/2014	81	2,281,673	40	710,084	1,328	27,224,903	6.1%	20,501	2.8%
6/30/2015	82	2,417,163	31	391,224	1,379	29,250,842	7.4%	21,212	3.5%

Note: Statutory COLAs are included in the "Added to Rolls" column.

(1) *Information from 6/30/2007 - 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *Information regarding members added to and removed from roll was not provided in the previous actuary's June 30, 2010 valuation report.*

(3) *This is the amount shown in the previous actuary's June 30, 2010 valuation report. Segal subsequently revised this amount to be $19,877,266 (which equates to an average annual allowance of $18,354) to correct for the annualization of the current service portion of the benefit for beneficiary records.*

(4) *Determined using Segal's corrected annual allowance as of 6/30/2010 of $19,877,266.*

SOLVENCY TEST[1]

(Dollars in Thousands)

		Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)					
Valuation Date	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	(1)	(2)	(3)
6/30/2006	Not Available							
6/30/2007								
6/30/2008	$62,348	$199,072	$112,412	$373,832	$353,421	100%	100%	82%
6/30/2009	64,102	218,613	120,481	403,196	336,263	100%	100%	44%
6/30/2010[2]				434,987	343,202			
6/30/2011	53,600	287,201	131,843	472,644	347,732	100%	100%	5%
6/30/2012	51,090	312,531	125,393	489,014	362,487	100%	100%	0%
6/30/2013	51,236	338,874	120,351	510,461	378,777	100%	97%	0%
6/30/2014	51,004	398,872	134,553	584,429	404,856	100%	89%	0%
6/30/2015	51,128	424,348	134,906	610,382	428,229	100%	89%	0%

This exhibit includes actuarially funded liabilities and assets.

(1) *Information as of 6/30/2008 & 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *The breakdown of the aggregate accrued liabilities was not provided in the previous actuary's June 30, 2010 valuation report.*

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE[1]

Items Impacting Unfunded Actuarial Accrued Liability (UAAL)
(Dollars in Thousands)

Plan Year Ending 6/30	2015	2014	2013	2012	2011	2010[2]	2009
Beginning of the Year UAAL Liability/(Surplus)	$179,573	$131,684	$126,527	$124,913	$91,785	$66,933	$20,411
Effect of Differences in Methods and Procedures Due to Change in Actuaries	-	-	-	-	9,035		-
Expected Change	748	3,247	3,118	6,929	7,638		805
Liability (Gain)/Loss	5,038	(3,310)	4,236	1,937	-		19,978[3]
Asset Return (Gain)/Loss	(5,723)	(6,471)	3,046	3,647	15,266		29,934
Salary Increase (Gain)/Loss	(1,752)	(3,764)	(5,243)	(13,844)	(11,363)		-
Retiree COLA Increase (Gain)/Loss	-	-	-	-	(5,887)		-
Change in Actuarial Assumptions and Procedures	-	58,187[4]	-	2,945	24,043		-
(Gain)/Loss Due to Reflecting Future Service Only Improvement for General Members	-	-	-	-	(5,604)		-
Change in Method to Determine Actuarial Value of Assets	-	-	-	-	-		(4,195)
(Gain)/Loss Due to One-Year Delay From Implementing Employer Contribution Rates	4,269[5]	-	-	-	-		-
End of the Year UAAL Liability/(Surplus)	$182,153	$179,573	$131,684	$126,527	$124,913	$91,785	$66,933

(1) *Information as of 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.*

(2) *The UAAL reconciliation was not provided in the previous actuary's valuation reports.*

(3) *Combined effect of liability (gain)/loss and change in actuarial assumptions.*

(4) *Combined effect of change in actuarial assumptions ($50,170) and change in method to value 100% of the COLA continuing to survivors of members who elected the unmodified option prior to September 17, 2014 ($8,017).*

(5) *In prior years, this item was included above in the "Expected Change."*

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

(Dollars in Thousands)

1.	Fair value of assets as of June 30, 2015					$444,217
		Actual Market Return (net)	**Expected Market Return (net)**	**Investment Gain / (Loss)**	**Deferred Factor**	**Deferred Return**
2.	Calculation of deferred return:					
	(a) Year ended June 30, 2008	$(15,554)	$28,043	$(43,597)		
	(b) Year ended June 30, 2009	(51,893)	26,211	(78,104)	see footnote (1) below	
	(c) Year ended June 30, 2010	38,133	21,358	16,774		
	(d) Year ended June 30, 2011	64,075	23,640	40,435	0%	$0
	(e) Year ended June 30, 2012	(4,078)	27,197	(31,275)	20%	(6,255)
	(f) Year ended June 30, 2013	48,890	26,235	22,655	40%	9,062
	(g) Year ended June 30, 2014	68,495	29,334	39,161	60%	23,496
	(h) Year ended June 30, 2015	13,201	31,658	(18,457)	80%	(14,765)
	(i) Total unrecognized return					$11,538
3.	Preliminary actuarial value of assets as of June 30, 2015: (1) – (2i)					$432,679
4.	Adjustment to be within 25% corridor of fair value					$0
5.	Final actuarial value of assets as of June 30, 2015: (3) + (4)					$432,679
6.	Actuarial value as a percentage of fair value: (5) / (1)					97.4%
7.	Non-pension reserves:					
	Contingency reserve					$4,450
8.	Valuation value of assets: (5) – (7)					$428,229

Actuarial Value of Assets:
For purposes of calculating the required contribution rates for the valuation, a smoothed fair value of the fund's assets is used. Under this approach, recognition is given each year to total earnings of the fund to date. The current method adjusts fair value to recognize, over a five-year period, differences between assumed and actual investment return.

[1] *Based on action taken by the Board in 2012, the total deferred return through June 30, 2011 has been recognized in four level amounts, with one year of recognition remaining after the June 30, 2015 valuation.*

Note: Amounts may not total exactly due to rounding.

SUMMARY OF PLAN PROVISIONS

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2015.

Membership
Membership usually begins with the first day of the pay period following the date of entrance into service.

Final Compensation
For General, Safety, and Probation Tiers 1, final compensation is defined as the highest consecutive twelve months of compensation earnable. For General Tiers 2 and 3, and Safety and Probation Tiers 2, final compensation is defined as the highest consecutive thirty-six months of compensation earnable. For General Tier 4, and Safety and Probation Tiers 3, final compensation is defined as the highest consecutive thirty-six months of pensionable compensation.

Return of Contributions
If a member should resign or die before becoming eligible for retirement, his or her contribution plus interest may be refunded. In lieu of receiving a return of contributions, a member may elect to leave his or her contributions on deposit. Members with five years of service may choose to receive a deferred vested benefit when eligible for retirement.

Service Retirement Benefit
For General Tiers 1, 2, and 3, and Safety and Probation Tiers 1 and 2, members are eligible to retire at age 50 with 10 years of service, or age 70 regardless of service, or after 30 years of service (20 years for Safety and Probation), regardless of age. For General Tier 4, members are eligible to retire at age 52 with 5 years of service or age 70 regardless of service. For Safety and Probation Tiers 3, members are eligible to retire at age 50 with 5 years of service or age 70 regardless of service.

Basis of Benefit Payments
Benefits are calculated based upon a combination of age, years of service, final compensation, and the benefit payment option selected by the member. For General Tiers 1, 2, and 3, and Safety and Probation Tiers 1 and 2, the maximum benefit payable to a member or beneficiary is 100% of final compensation. For General Tier 4, and Safety and Probation Tiers 3, there is no maximum benefit.

Cost of Living Benefit
For General Tiers 1, 2, and 3, and Safety and Probation Tiers 1 and 2, future cost of living benefit changes are based on the Consumer Price Index (CPI) up to a maximum of 3% per year. Any excess CPI is "banked." There are no cost of living benefits for General Tier 4, Safety Tier 3, and Probation Tier 3.

Disability Benefit
Members with 5 years of service, regardless of age, are eligible for a non-service connected disability. The benefit is 1.8% of final compensation for each year of service. Generally, the maximum benefit is 1/3 of final compensation. The benefit for a service connected disability is the greater of 50% of final compensation or the service retirement benefit (if eligible).

Death Benefit - Prior to Retirement
In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system. The death benefit is based on the salary earned during the last twelve months preceding the member's death, but not to exceed 6 month's salary.

If a member dies while eligible for service retirement or non-service connected disability, his or her spouse or domestic partner receives 60% of the allowance that the member would have received for retirement on the day of his or her death.

If a member dies in the performance of duty, the spouse or domestic partner will receive a lifetime benefit equal to 50% of the member's final compensation or a service retirement benefit whichever is higher.

Death Benefit - After Retirement
As part of the retirement process, members are required to select among several options for benefits continuation upon the member's death. For married retirees, the most common retirement option is the unmodified option, which pays the retiree's eligible spouse or domestic partner a lifetime benefit equal to 60% of the benefit the retiree was receiving.

Member's Contributions
Contribution rates for the employer and its covered employees are established and may be amended by the MCERA Board of Retirement, and then adopted by the County Board of Supervisors. The contribution rates are determined based on the benefit structure established by the employer. For General Tiers 1, 2, and 3, and Safety and Probation Tiers 1 and 2, members are required to

SUMMARY OF PLAN PROVISIONS (continued)

Member's Contributions (continued)
contribute a percentage of their annual covered salary and their particular contribution rate is based upon age at **entry** into the Association. For General Tier 4, and Safety and Probation Tiers 3, members are required to contribute at least 50% of the Normal Cost rate. The employer is required to contribute the remaining amount necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates.

<u>The Schedule of Funding Progress</u> is required supplementary information and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

SCHEDULE OF FUNDING PROGRESS [1]
(Dollar amounts in thousands)

Actuarial Valuation Date	Valuation Assets		Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll		UAAL as a Percent of Covered Payroll
7/1/1994	$75,976		$112,535	$36,559	67.50%	$27,185		134.50%
7/1/1995	$79,322		$121,027	$41,705	65.50%	$29,603		140.90%
7/1/1996	$84,992		$130,036	$45,044	65.40%	$29,587		152.20%
7/1/1997	$124,286		$140,783	$16,497	88.30%	$32,481		50.80%
7/1/1998	$134,836		$154,263	$19,427	87.40%	$35,586		54.60%
7/1/1999	$142,775		$173,250	$30,475	82.40%	$39,209		77.70%
7/1/2000	$150,056		$185,423	$35,367	80.90%	$44,132		80.10%
7/1/2001	$157,545		$204,699	$47,154	77.00%	$53,188		88.70%
7/1/2002	$158,115	(2)	$226,883	$68,768	69.70%	$57,701		119.20%
7/1/2003	$233,764	(3)	$243,342	$9,578	96.10%	$59,865		16.00%
7/1/2004	$239,191		$265,141	$25,950	90.20%	$59,075		43.90%
7/1/2005	$253,487		$289,467	$35,980	87.60%	$57,664		62.40%
7/1/2006	$288,461		$320,123	$31,662	90.10%	$57,665		54.90%
7/1/2007	$317,937		$358,259	$40,322	88.70%	$65,899		61.20%
7/1/2008	$353,421		$373,832	$20,411	94.50%	$70,880		28.80%
7/1/2009	$336,263		$403,196	$66,933	83.40%	$72,235		92.70%
7/1/2010	$343,202		$434,987	$91,785	78.90%	$69,004		133.00%
7/1/2011	$347,732		$472,644	$124,912	73.60%	$64,144	(4)	194.70%
7/1/2012	$362,487		$489,014	$126,527	74.10%	$56,596		223.60%
7/1/2013	$378,777		$510,461	$131,684	74.20%	$56,464		233.20%
7/1/2014	$404,856		$584,429	$179,573	69.30%	$55,876		321.40%
7/1/2015	$428,229		$610,382	$182,153	70.20%	$58,106		313.50%

(1) Information prior to 2011 has been extracted from the previous actuary's past valuation reports.

(2) Excludes proceeds from Pension Obligation Bonds issued in December 2002.

(3) Includes proceeds from Pension Obligation Bonds issued in December 2002 in the amount of 76,299,000.

(4) 6/30/2011 payroll includes a projection for expected salary increases during 2011/2012 under the actuarial assumptions used in valuation.

SCHEDULE OF CONTRIBUTIONS – LAST TEN FISCAL YEARS

Year Ended June 30	Actuarially Determined Contributions(1)	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll(2)	Contributions as a Percentage of Covered Employee Payroll
2006	$4,996,000	Not Disclosed in Prior Funding Valuation Reports	N/A	$59,691,438	N/A
2007	7,533,000		N/A	64,214,811	N/A
2008	7,232,000		N/A	68,447,683	N/A
2009	6,046,000		N/A	72,565,457	N/A
2010	9,571,000		N/A	70,384,677	N/A
2011	9,553,955	$9,533,955	$0	64,252,118	14.87%
2012	11,811,076	11,811,076	0	56,291,191	20.98%
2013	14,260,473	14,260,473	0	53,254,876	26.78%
2014	14,324,752	14,324,752	0	53,813,882	26.62%
2015	15,164,044	15,164,044	0	54,891,785	27.63%

(1) *Information prior to 2011 has been extracted from the previous actuary's past valuation reports.*

(2) *Covered-employee payroll shown represents Compensation Earnable and Pensionable Compensation. Only Compensation Earnable and Pensionable Compensation that would go into the determination of retirement benefits are included.*

PROJECTION OF PENSION PLAN'S FIDUCIARY NET POSITION FOR USE IN CALCULATION OF DISCOUNT RATE AS OF JUNE 30, 2015 ($ in millions)

Year Beginning July 1,	Projected Beginning Plan Fiduciary Net Position (a)	Projected Total Contributions (b)	Projected Benefit Payments (c)	Projected Administrative Expenses (d)	Projected Investment Earnings (e)	Projected Ending Plan Fiduciary Net Position (f) = (a) + (b) - (c) - (d) + (e)
2014	$442	$20	$30	$1	$13	$444
2015	444	23	33	1	32	465
2016	465	22	34	1	33	486
2017	486	21	36	1	34	504
2018	504	21	38	1	36	522
2019	522	21	40	1	37	539
2020	539	21	42	1	38	555
2021	555	21	44	1	39	570
2022	570	21	46	1	40	584
2023	584	21	48	1	41	597
2039	692	4 *	66	2	48	676
2040	676	4 *	66	2	46	659
2041	659	4 *	65	2	45	642
2042	642	4 *	64	2	44	623
2043	623	4 *	63	1	43	605
2088	728	2 *	1	2	53	780
2089	780	2 *	1	2	56	835
2090	835	2 *	1	2	61	895
2091	895	2 *	1	2	65	959
2092	959	2 *	1	2	69	1,028
2117	5,500	13 *	0 **	13	399	5,899
2118	5,899					
2118	Discounted Value: 4 ***					

* Mainly attributable to employer contributions to fund each year's annual administrative expenses.

** Less than $1 million, when rounded.

*** $5,899 million when discounted with interest at the rate of 7.25% per annum has a value of $4 million (or 0.98% of the Plan's Fiduciary Net Position) as of June 30, 2015.

PROJECTION OF PENSION PLAN'S FIDUCIARY NET POSITION FOR USE IN CALCULATION OF DISCOUNT RATE AS OF JUNE 30, 2015 (CONTINUED)

Notes:

(1) Amounts may not total exactly due to rounding.

(2) Amounts shown for the year beginning July 1, 2014 row are actual amounts, based on the unaudited financial statements provided by MCERA.

(3) Years 2024-2038, 2044-2087, and 2093-2116 have been omitted from this table.

(4) Column (a): Except for the "discounted value" shown for 2118, none of the projected beginning Plan Fiduciary Net Position amounts shown have been adjusted for the time value of money.

(5) Column (b): Projected total contributions include employee and employer normal cost contributions based on closed group projections (based on covered active members as of June 30, 2015); plus employer contributions to the unfunded actuarial accrued liability; plus contributions to fund each year's annual administrative expenses reflecting an 18-year amortization schedule. Contributions are assumed to occur halfway through the year, on average.

(6) Column (c): Projected benefit payments have been determined in accordance with paragraph 39 of GAS Statement No. 67, and are based on the closed group of active, inactive vested, retired members, and beneficiaries as of June 30, 2015. The projected benefit payments reflect the cost of living increase assumptions used in the June 30, 2015 report. In accordance with paragraph 31.b.(1)(e) of GASB Statement No. 67, the long-term expected rate of return on Plan investments of 7.25% was applied to all periods of projected benefit payments to determine the discount rate.

(7) Column (d): Projected administrative expenses are calculated as approximately 0.24% of the projected beginning Plan Fiduciary Net Position amount. The 0.24% portion was based on the actual fiscal year 2014-2015 administrative expenses as a percentage of the beginning Plan Fiduciary Net Position amount as of July 1, 2014. Administrative expenses are assumed to occur halfway through the year, on average.

(8) Column (e): Projected investment earnings are based on the assumed investment rate of return of 7.25% per annum.

(9) As illustrated in this Exhibit, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. In other words, there is no projected "cross-over date" when projected benefits are not covered by projected assets. Therefore, the long-term expected rate of return on Plan investments of 7.25% per annum was applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2015 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

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Statistical Section

Point Arena-Stronetta Public Lands, Mendocino County

This Section provides additional detailed information in order to promote a more comprehensive understanding of this year's financial statements, note disclosures, and supplemental information. In addition, this section provides multiyear trends of the financial and operation information in order to facilitate the understanding of how the organization's financial position and performance have changed over time. This section provides contextual data for MCERA's changes in net position, benefit expenses, retirement types benefit payments and membership data.

Schedule of Changes in Fiduciary Net Position
(Last Ten Fiscal Years)

(Dollars in Thousands)	2015	2014	2013	2012	2011
Additions					
Employer Contributions	$ 15,164	$ 14,325	$ 14,260	$ 11,811	$ 9,554
Member Contributions	4,652	4,576	4,713	4,840	5,447
Net Investment Income	13,201	68,495	48,890	(4,078)	64,075
Total Additions	**33,017**	**87,396**	**67,863**	**12,573**	**79,076**
Deductions					
Benefits Payments	29,225	26,702	25,500	22,955	22,269
Refunds of Contributions	824	652	1,073	1,225	1,167
Health Benefits (1)	-	-	-	-	-
Administrative Expenses	1,059	930	830	698	640
Total Deductions	**31,108**	**28,284**	**27,403**	**24,879**	**24,076**
Change in Plan Net Position	**$ 1,909**	**$ 59,112**	**$ 40,460**	**$(12,306)**	**$ 55,000**

(Dollars in Thousands)	2010	2009	2008	2007	2006
Additions					
Employer Contributions	$ 8,234	$ 8,561	$ 7,269	$ 7,231	$ 6,464
Member Contributions	6,502	6,836	6,613	6,002	5,998
Net Investment Income	38,128	(52,214)	(15,846)	52,299	32,079
Total Additions	**52,864**	**(36,817)**	**(1,964)**	**65,532**	**44,541**
Deductions					
Benefits Payments	23,161	21,480	15,640	14,153	12,878
Refunds of Contributions	1,061	734	1,064	1,036	1,068
Health Benefits (1)	-	-	4,017	3,382	3,410
Administrative Expenses	641	280	134	119	82
Total Deductions	**24,863**	**22,494**	**20,855**	**18,690**	**17,438**
Change in Plan Net Position	**$ 28,001**	**$(59,311)**	**$(22,819)**	**$ 46,842**	**$ 27,103**

(1) For years 2009 – 2011, amounts for health benefits are included in benefit payments.

Revenue by Source

(Dollars in Thousands)

Fiscal Year Ended 6/30	Employee Contributions	Employer/Other Contributions	Investment Net Income	Total
2005	$ 6,618	$ 6,481	$ 24,019	$ 37,118
2006	5,998	6,464	32,079	44,541
2007	6,002	7,231	52,299	65,532
2008	6,613	7,269	(15,846)	(1,964)
2009	6,836	8,561	(52,214)	(36,817)
2010	6,502	8,234	38,128	52,864
2011	5,447	9,554	64,075	79,076
2012	4,840	11,811	(4,078)	12,573
2013	4,713	14,260	48,890	67,863
2014	4,576	14,325	68,495	87,396
2015	$ 4,652	$15,164	$ 13,201	$ 33,017

Expenses by Type

(Dollars in Thousands)

Fiscal Year Ended 6/30	Benefits	Administrative/ Other Expenses	Refunds	Total
2005	$ 11,269	$ 2,720	$ 933	$ 14,922
2006	12,878	3,492	1,068	17,438
2007	14,153	3,501	1,036	18,690
2008	15,640	4,151	1,064	20,855
2009	21,480	280	734	22,494
2010	23,161	641	1,061	24,863
2011	22,269	640	1,167	24,076
2012	22,955	698	1,225	24,879
2013	25,500	830	1,073	27,403
2014	26,702	930	652	28,284
2015	$ 29,225	$ 1,059	$ 824	$ 31,108

Schedule of Benefit Expenses by Type

(Dollars in Thousands)

	2015	2014	2013	2012	2011[1]
Service Retirement Payroll:					
General	18,632	17,413	16,253	14,864	13,197
Safety	3,911	3,430	3,215	2,500	2,477
Total	$ 22,544	$ 20,843	$ 19,468	$ 17,364	$ 15,674
Disability Retirement Payroll:					
General	2,200	2,188	2,128	2,074	1,987
Safety	2,248	2,138	2,030	1,903	1,832
Total	$ 4,448	$ 4,325	$ 4,158	$ 3,977	$ 3,819
Beneficiary Payroll:					
General	1,632	1,526	1,485	1,487	1,335
Safety	629	532	524	485	471
Total	$ 2,260	$ 2,058	$ 2,027	$ 1,972	$ 1,806
Total Benefit Expense:					
General	22,464	21,126	19,865	18,425	16,519
Safety	6,789	6,100	5,787	4,889	4,780
Total	$ 29,252	$ 27,226	$ 25,692	$ 23,313	$ 21,299

(Dollars in Thousands)

	2010	2009	2008	2007	2006
Service Retirement Payroll:					
General	12,112	10,808	9,960	8,688	7,855
Safety	2,267	1,799	1,664	1,532	1,129
Total	$ 14,379	$ 12,607	$ 11,624	$ 10,220	$ 8,984
Disability Retirement Payroll:					
General	1,970	1,815	1,751	1,683	1,566
Safety	1,823	1,654	1,590	1,432	1,346
Total	$ 3,793	$ 3,469	$ 3,341	$ 3,115	$ 2,912
Beneficiary Payroll:					
General	679	1,269	1,171	1,138	1,001
Safety	275	422	404	359	352
Total	$ 954	$ 1,691	$ 1,575	$ 1,497	$ 1,353
Total Benefit Expense:					
General	14,761	13,892	12,882	11,509	10,422
Safety	4,365	3,875	3,658	3,323	2,827
Total	$ 19,126	$ 17,767	$ 16,540	$ 14,832	$ 13,249

(1) Estimated Based upon Annualized Benefit Amounts as of June 30, 2011.

Note: Amounts in table may not total exactly due to rounding.

Source of Data: Actuarial Valuation Reports (2006 – 2015)

Schedule of Retiree Members by Type of Benefit
(Summary of Monthly Allowances Being Paid – As of June 30, 2014 and June 30, 2015)

(Dollars in Thousands)

2015	General Members			Safety Members			Total		
	Number	Monthly Allowance		Number	Monthly Allowance		Number	Monthly Allowance	
Retired Members									
Service Retirement	944	$	1,553	113	$	326	1057	$	1,879
Disability	111		183	59		187	170		370
Beneficiaries	119		136	33		52	152		188
Total Retired Members	1,174	$	1,872	191	$	565	1,379	$	2,437

(Dollars in Thousands)

2014	General Members			Safety Members			Total		
	Number	Monthly Allowance		Number	Monthly Allowance		Number	Monthly Allowance	
Retired Members									
Service Retirement	910	$	1,451	102	$	286	1012	$	1,737
Disability	113		182	59		178	172		360
Beneficiaries	114		127	30		44	144		171
Total Retired Members	1,137	$	1,760	191	$	508	1,328	$	2,268

Source of data: June 30, 2014 and June 30, 2015 Actuarial Valuation Report

Schedule of Average Benefit Payment Amounts

	Number of Years Since Retirement						
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 +**
Valuation date 06/30/15							
Average Monthly Benefit	$ 1,915	$ 1,919	$ 1,545	$1,493	$ 1,742	$1,426	$1,548
Number of Retirees	437	369	223	126	106	59	59
Valuation date 06/30/14							
Average Monthly Benefit	$ 1,868	$ 1,841	$ 1,387	$1,485	$ 1,678	$1,484	$1,394
Number of Retirees	452	357	177	131	98	59	54
Valuation date 06/30/13							
Average Monthly Benefit	$ 1,806	$ 1,799	$ 1,333	$1,443	$ 1,686	$1,350	$1,388
Number of Retirees	453	338	167	126	93	60	50
Valuation date 06/30/12							
Average Monthly Benefit	$ 1,771	$1,683	$1,343	$1,452	$1,613	$1,314	$1,297
Number of Retirees	426	319	151	113	93	70	45
Valuation date 06/30/11							
Average Monthly Benefit	$ 1,777	$ 1,577	$ 1,379	$ 1,488	$ 1,429	$ 1,462	$ 975
Number of Retirees	396	271	157	126	83	56	40
Valuation date 06/30/10							
Average Monthly Benefit	$ 1,699	$ 1,363	$ 1,361	$ 1,429	$ 1,280	$ 1,324	$ 1,123
Number of Retirees	387	243	152	123	82	57	39
Valuation date 06/30/09							
Average Monthly Benefit	$ 1,707	$ 1,296	$ 1,361	$ 1,473	$ 1,337	$ 1,135	$ 1,229
Number of Retirees	371	190	154	117	80	62	34
Valuation date 06/30/08							
Average Monthly Benefit	$ 1,687	$ 1,262	$ 1,302	$ 1,533	$ 1,177	$ 1,150	$ 1,120
Number of Retirees	356	183	141	103	85	70	22
Valuation date 06/30/07							
Average Monthly Benefit	$ 1,564	$ 1,284	$ 1,288	$ 1,433	$ 1,116	$ 1,061	$ 967
Number of Retirees	322	171	130	111	88	63	22
Valuation date 06/30/06							
Average Monthly Benefit	$ 1,454	$ 1,307	$ 1,267	$ 1,276	$ 1,174	$ 909	$ 863
Number of Retirees	275	172	149	104	78	56	18

Source of data: Actuarial Valuation Reports (2006 – 2015). Data on Final Average Salary is not available and not included in this table.

Schedule of Participating Employers and Active Members
As of June 30

	Total Employees	County of Mendocino	Russian River Cemetery District	Superior Court
Year 2015				
Number of Covered Employees	1,107	1,053	4	50
Percentage to Total System	100%	95.12%	0.36%	4.52%
Year 2014				
Number of Covered Employees	1,081	1,026	4	51
Percentage to Total System	100%	94.91%	0.37%	4.72%
Year 2013				
Number of Covered Employees	1,072	1,021	4	47
Percentage to Total System	100%	95.25%	0.37%	4.38%
Year 2012				
Number of Covered Employees	1,069	1,011	4	54
Percentage to Total System	100%	94.57%	.37%	5.05%
Year 2011				
Number of Covered Employees	1,129	1,065	4	60
Percentage to Total System	100%	94.33%	.35%	5.32%
Year 2010				
Number of Covered Employees	1,254	1,186	5	63
Percentage to Total System	100%	94.58%	.40%	5.02%
Year 2009				
Number of Covered Employees	1,369	1,294	5	70
Percentage to Total System	100%	94.52%	.37%	5.11%
Year 2008				
Number of Covered Employees	1,410	1,335	5	70
Percentage to Total System	100%	94.68%	.36%	4.96%
Year 2007				
Number of Covered Employees	1,395	1,314	5	76
Percentage to Total System	100%	94.19%	.36%	5.45%
Year 2006				
Number of Covered Employees	1,312	1,225	5	82
Percentage to Total System	100%	93.37%	.38%	6.25%

Source of data: MCERA systems.

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END OF REPORT

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