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, 2014 AND 2013

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, 2014 and 2013

Prepared by: JAMES R. WILBANKS, Ph.D.
Retirement Administrator

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

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 Statement

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

Goals

- Enhance communications and customer service provided by the Association
- Increase the effectiveness of internal operations
- Establish optimal board governance
- Ensure prudent management of contributions and investment of retirement fund assets

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Introductory Section

James R. Wilbanks, Ph.D.
Retirement Administrator

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

LETTER OF TRANSMITTAL

February 28, 2015

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, 2014.

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2014. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

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 assets available for benefits increased to $442.3 million which reflects an increase of 15.43% in net assets during Fiscal Year 2014. Additions to plan assets for the fiscal year were $87.4 million. This was comprised of $ 14.3 million of employer contributions, $ 4.6 million of member contributions and a net investment gain of $68.3 million. Expenses (deductions in plan assets) for the year were $28.3 million which included $27.4 million in benefit payments to retirees and beneficiaries and $0.9 million in administrative expenses.

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 expense), 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 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 including IT expense was $930,437 which represented 0.16% of MCERA's actuarial accrued liability or 46.5% of the $2 million statutory cap.

MANAGEMENT RESPONSIBILITY OF FINANCIAL REPORTING

MCERA management is responsible for establishing a system of internal control 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.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

Several major initiatives were undertaken during the year including:

- The Board of Retirement adopted new actuarial assumptions including a decrease in the assumed rate of return from 7.75% to 7.25% based on the triennial Actuarial Experience Study.
- MCERA initiated a search for a permanent Retirement Administrator and approved a new Financial/Investment Officer position.
- Work began on the implementation of the pension automation system.
- Adopted revisions to the disability application procedures.
- Completed an Asset Allocation and Liability study.
- The Internal Revenue Service (IRS) issued MCERA a favorable determination letter and compliance statement regarding the Plan's Voluntary Correction Program (VCP) which was filed in 2011.

ACCOUNTING SYSTEMS AND REPORTS

MCERA management is responsible for establishing a system of internal control to safeguard assets and for the presentation of the accompanying basic financial statements. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free from any material misstatements. Internal control, no matter how well designed, implemented and conducted, can provide only reasonable assurance to management and the board of directors of the achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all systems of internal control. These include realities that human judgment in decision making can be faulty, external events outside the organization's control may arise, and breakdowns can occur because of human failures such as making errors. Additionally, controls can be circumvented by two or more people colluding, and because management can override the system of internal control. Oversight is provided by the MCERA Audit and Budget Committee. Gallina LLP audited the accompanying basic financial statements and related disclosures.

The CAFR was prepared in accordance with GAAP and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management discussion and analysis (MD&A).

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. MCERA's MD&A can be found immediately following the independent auditor's report.

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 keep in mind.

The investment return for the year ending June 30, 2014 was 18.07% which was ahead of the benchmark by 0.80%. The returns were 10.19%, 13.29% and 5.96% for three, five and seven year periods ending June 30, 2014, respectively.

The Association adopted an assumed rate of investment return of 7.25% for the year ending June 30, 2014. The adopted rate is a 0.50% decrease from the prior year's 7.75% assumed rate of return. The rate of return on MCERA's investment portfolio in 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 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 while paying 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 December 1996, the County issued its Taxable Pension Obligation Bonds in the aggregate principal amount of $30,720,000. In December 2002, the County issued its Taxable Pension Obligation Bonds, Refunding Series 2002 in the aggregate principal amount of $91,945,000 to defease a portion of the 1996 POBs and to provide funds to allow the County to refund its then current unfunded actuarial accrued liability for retirement benefits for County employees. The County has contributed to the Association an aggregate amount of $106,411,000 from the issuance of the 1996 POBs and the 2002 POBs to reduce the UAAL. As of June 30, 2014, the 2002 POBs are outstanding in the principal amount of $72,245,000 with annual payment requirements of approximately $8,000,000 due in July of each year until July 2026.

In the June 30, 2014 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 69.3% which was a decrease from the prior year's valuation funded ratio of 74.2%. The actuarial value of assets excludes about $33 million in market gains that will be smoothed in over the next four years. Thus, on a market value basis, the funded ratio would be 75.7%. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2014 was $179,573,042. On a market value basis, the UAAL would be $142,120,436. Both the decrease in the funded status and the increase in the UAAL on an actuarial valuation can be attributed mainly to the decrease in the assumed rate of return from 7.75% to 7.25%.

As of June 30, 2014, there are 25 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 contribution rate calculated in this valuation increased to 33.38% of payroll from 26.00%. The change in the assumed rate of return accounted for 7.05% of the 7.38% net increase in the employer contribution rate. Similarly, the aggregate employee contribution rate increased to 10.15% of payroll from 9.30%.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank the members of the System for their continued confidence in MCERA during the past year and the Board of Retirement for its dedicated effort in supporting the System throughout this past year. Finally, I would like to thank the consultants, professional service providers and staff for their commitment to MCERA and their diligent work to assure the System's continued success.

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:

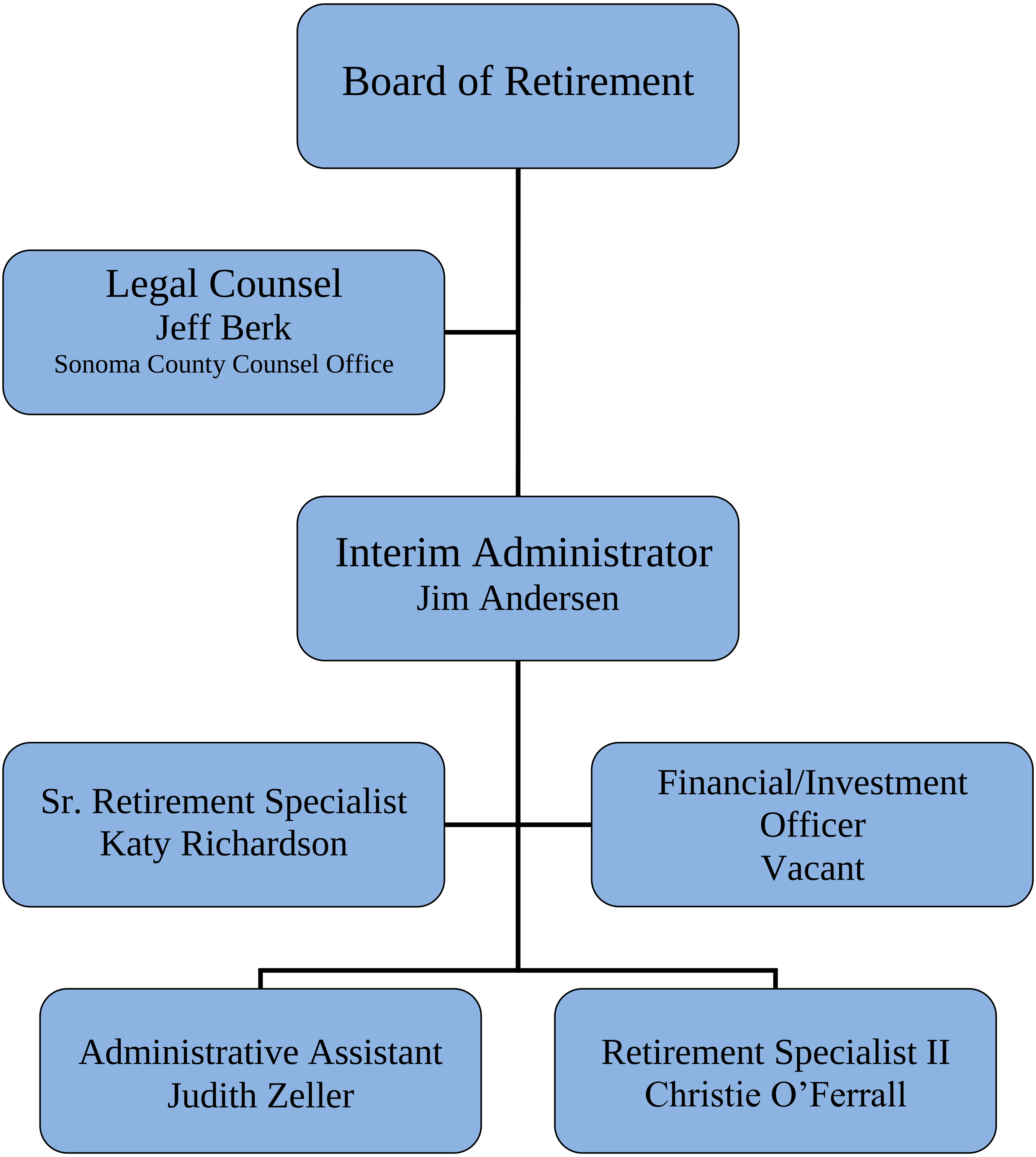
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

MEMBERS OF THE BOARD OF RETIREMENT
JUNE 30, 2014

ORGANIZATION CHART
AS OF JUNE 30, 2014



List of Professional Consultants
As of June 30, 2014

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

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, 2014, 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 2013 financial statements on which our report, dated March 11, 2014, 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, 2014, 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, 2014, MCERA's independent actuary determined that, at June 30, 2014, the value of MCERA's actuarial accrued liability exceeded the actuarial value of its assets by $180 million. The most recent actuarial value of assets as of June 30, 2014 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
February 4, 2015

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, 2014. 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.

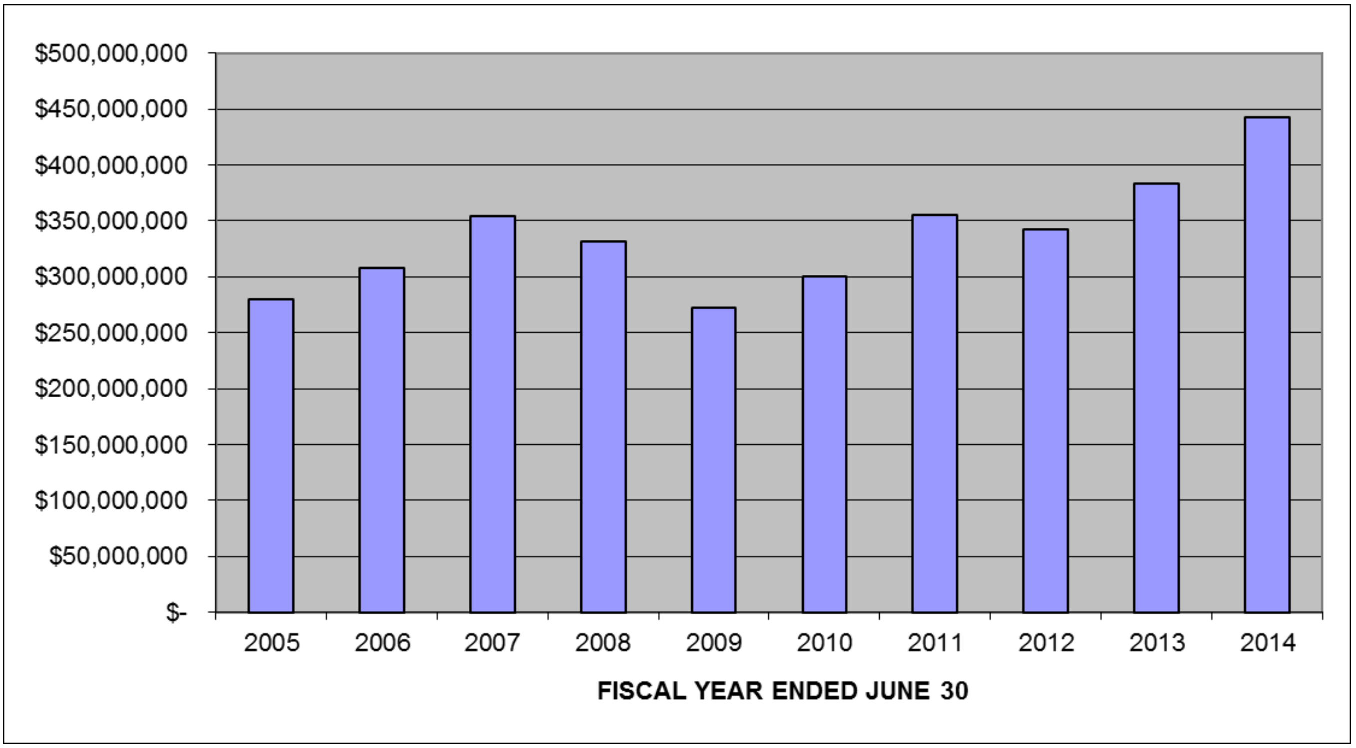
To fulfill this mandate, MCERA employs a skilled professional staff and independent consultants that operate under a system of governance, operational and fiduciary policies and procedures.

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

FINANICAL HIGHLIGHTS

- MCERA's net assets available for benefits as of June 30, 2014 were $442 million which was an increase from the prior fiscal year net asset value of $383 million; an increase of 15.43%.
- Additions to plan assets amounted to $87.4 million as of June 30, 2014, which represented a 28.78% increase from the previous fiscal year, and was comprised of $ 14.3 million of employer contributions, $ 4.6 million of member contributions and a net investment income gain of $ 68.3 million.
- Expenses (deductions from plan assets) for the year were $28.3 million, a 3.21% increase from the previous fiscal year, which included $27.4 million in benefit payments to retirees and beneficiaries and $0.9 million in administrative expenses.
- MCERA funding status for the pension plan, as measured by the ratio of actuarial value of assets to the actuarial value of liabilities, decreased to 69.3% as of June 30, 2014 from the previous fiscal year funding ratio of 74.2%.

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 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 expense), 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 including IT expense for the fiscal year 2013-14 was $930,437 which represented 0.16% of MCERA's actuarial accrued liability or 46.5% of the $2 million statutory cap.

MANAGEMENT RESPONSIBILITY FOR FINANICAL REPORTING

MCERA management is responsible for establishing a system of internal control 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 NET POSITION
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.

As of June 30, 2013 and 2012

(Dollars in Thousands)	2013	2012	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Cash and Short Term Investments	2,145	2,355	(210)	(8.92%)
Receivables & Other Assets	327	283	44	15.55%
Investments, at Fair Value	381,063	340,498	40,565	11.91%
Total Assets	$ 383,535	$ 343,136	$ 40,399	11.77%
Accounts Payable	114	142	(28)	(19.72%)
Accrued Expenses	224	257	(33)	(12.84%)
Total Liabilities[1]	$ 338	$ 399	$ (61)	(15.29%)
Net Assets Held in Trust for Benefits	$ 383,197	$ 342,737	$ 40,460	11.80%

Table #2: CHANGES IN MCERA FIDUCIARY NET POSITION
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%

As of June 30, 2013 and 2012

(Dollars in Thousands)	2013	2012	Amount Increase (Decrease)	% Change Increase/ (Decrease)
Additions				
Employer Contributions	$ 14,260	$ 11,811	$ 2,449	20.73%
Member Contributions	4,713	4,840	(127)	(2.62%)
Net Investment Income	48,890	(4,079)	52,969	1298.58%
Total Additions	$ 67,863	$ 12,572	$ 55,291	439.79%
Deductions				
Retirement Benefits	$ 25,501	$ 22,955	$ 2,546	11.09%
Refund of Contributions	1,072	1,225	(153)	(12.49%)
Administrative Expenses	830	698	132	18.91%
Total Deductions	$ 27,403	$ 24,878	$ 2,525	10.15%
Net Increase/Decrease	$ 40,460	$ (12,306)	$ 52,766	428.78%
Net Position at Beginning of Year	$ 342,737	$ 355,043	$ (12,306)	(3.47%)
Net Position at End of Year	$ 383,197	$ 342,737	$ 40,460	11.80%

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, 2014 totaled $ 87.4 million and June 30, 2013 totaled $67.9 million. The increase in revenues from 2013 to 2014 can be attributed primarily to gains in the net appreciation in the fair value of investments. The total balance of net assets increased from approximately $383 million in 2013 to $442 million in 2014.

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, 2013 were $28.3 million and $27.4 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, 2014 and 2013

(Dollars in Thousands)	2014	2013	2012
Member Reserve	$ 55,711	$ 57,320	$ 62,998
Employer Reserve	(47,773)	(48,388)	(35,311)
Retiree Reserve	193,496	199,542	180,571
Cost of Living Reserve	92,946	93,694	90,402
Undesignated Reserve [1]	0	659	659
Contingency Reserve	4,428	3,835	3,551
Miscellaneous Reserves	(76)	200	257
Total Reserves	$ 298,732	$ 306,862	$ 303,127

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under GASB 25, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses in the current period. MCERA has adopted a five-year smoothing methodology for investment gains and 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 year including:

- The Board of Retirement adopted new actuarial assumptions including a decrease in the assumed rate of return from 7.75% to 7.25% based on the triennial Actuarial Experience Study.
- MCERA initiated a search for a permanent Retirement Administrator and approved a new Financial/Investment Officer position.
- Work began on the implementation of the pension automation system.
- Adopted revisions to the disability application procedures.
- Completed an Asset Allocation and Liability study.
- The Internal Revenue Service (IRS) issued MCERA a favorable determination letter and compliance statement regarding the Plan's Voluntary Correction Program (VCP) which was filed in 2011.

ACCOUNTING SYSTEMS AND REPORTS

MCERA management is responsible for establishing a system of internal control to safeguard assets and for the presentation of the accompanying basic financial statements. Oversight is provided by MCERA Audit and Budget Committee. Gallina LLP audited the accompanying basic financial statements and related disclosures.

The CAFR was prepared in accordance with GAAP and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management discussion and analysis (MD&A).

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, 2014 was 18.07% which was ahead of the benchmark by 0.80%. The returns were 10.19%, 13.29% and 5.96% for three, five and seven year periods ending June 30, 2014, respectively.

The Association adopted an assumed rate of investment return of 7.25% for the year ending June 30, 2014. The adopted rate is a 0.50% decrease from the prior year’s 7.75% assumed rate of return. 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 December 1996, the County issued its Taxable Pension Obligation Bonds (POBs) in the aggregate principal amount of $30,720,000. In December 2002, the County issued its Taxable Pension Obligation Bonds, Refunding Series 2002 in the aggregate principal amount of $91,945,000 to defease a portion of the 1996 POBs and to provide funds to allow the County to refund its then current unfunded actuarial accrued liability for retirement benefits for County employees. The County has contributed to the Association an aggregate amount of $106,411,000 from the issuance of the 1996 POBs and the 2002 POBs to reduce the UAAL. As of June 30, 2014, the 2002 POBs are outstanding in the principal amount of $72,245,000 with annual payment requirements of approximately $8,000,000 due in July of each year until July 2026.

In the June 30, 2014 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 69.3% which was a decrease from the prior year's valuation funded ratio of 74.2%. The actuarial value of assets excludes about $33 million in market gains that will be smoothed in over the next four years. Thus, on a market value basis, the funded ratio would be 75.7%. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2014 was $179,573,042. On a market value basis, the UAAL would be $142,120,436. Both the decrease in the funded status and the increase in the UAAL on an actuarial valuation basis can be attributed mainly to the decrease in the assumed rate of return from 7.75% to 7.25%.

As of June 30, 2014, there are 25 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. New UAAL for each fiscal year which arises from investment gains and losses as well as variances from actuarial assumptions will be amortized over an 18-year period.

The aggregate employer contribution rate calculated in the June 30, 2014 valuation increased to 33.38% of payroll from 26.00%. The change in the assumed rate of return accounted for 7.05% of the 7.38% net increase in the employer contribution rate. Similarly, the aggregate employee contribution rate increased to 10.15% of payroll from 9.30%.

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, 2014 and 2013

ASSETS	2014	2013
Investments, at fair value:		
Mutual Funds	347,155,558	304,575,349
Public equity securities	52,733,876	42,628,539
Real estate partnerships	36,669,201	32,994,779
Cash equivalents	4,966,310	2,144,879
Real estate – 625 Kings Court, Ukiah, Ca	864,000	864,000
Total Investments, at fair value	442,388,945	383,207,546
Receivables:		
Member contributions receivable	104,280	81,192
Employer contributions receivable	328,334	233,170
Total Receivables	432,614	314,362
Other assets:	6,468	13,162
TOTAL ASSETS	$ 442,828,027	$ 383,535,070
LIABILITIES		
Liabilities:		
Accounts payable	204,392	114,416
Accrued expenses and other liabilities	315,187	223,837
TOTAL LIABILITIES	$ 519,579	$ 338,253
Net Position Held in Trust for Pension Benefits	**$ 442,308,448**	**$ 383,196,817**

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, 2014 and 2013

	2014	2013
Additions to net assets attributed to:		
Investment income (loss):		
Net realized and unrealized appreciation (depreciation) in fair value of investments	$ 61,820,076	$ 41,174,278
Rent income, net of expenses	87,069	76,752
Interest income	27,807	23,223
Dividend income	6,863,134	8,248,645
Investment expenses	(503,242)	(632,406)
Total investment income, net	68,294,844	48,890,492
Contributions:		
Member contributions	$ 4,575,895	$ 4,712,593
Employer contributions	14,324,752	14,260,473
Total contributions	18,900,647	18,973,066
Other income:	200,106	-
Total additions, net	$ 87,395,597	$ 67,863,558
Deductions from net assets attributed to:		
Benefits paid to retirees	27,353,529	26,573,554
Administrative expenses	930,437	829,999
Total deductions	$ 28,283,966	$ 27,403,553
Net increase (decrease)	59,111,631	40,460,005
Net Position held in trust for pension benefits:		
Balance at Beginning of Year	$ 383,196,817	$ 342,736,812
Balance at End of Year	**$ 442,308,448**	**$ 383,196,817**

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, 2014 and 2013

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, 2014 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:

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. Investment allocation guidelines according to the investment policy are as follows:

	Allowable Range	Current Allocation
U.S Equity	33% - 43%	39%
Non-U.S. Equity	20% - 30%	26%
U.S. Fixed Income	23% - 33%	26%
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. Credit ratings of MCERA’s fixed income securities are not available.

Interest Rate Risk:

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

Investment Concentrations:

As of June 30, 2014 MCERA does not hold investments in any one organization that represent 5 percent or more of the Plan’s Fiduciary Net Position.

Note 1: Summary of Significant Accounting Policies, continued:

Money Weighted Rate of Return:

For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 18.00 percent. 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.

Risk Management:

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

The Mendocino County Department of Human Resources administers the retiree medical program for County retirees. As described in Note 2, MCERA filed under the IRS VCP procedure to correct past issues in the funding of health benefits for retired employees. The IRS reviewed this application and issued a compliance statement dated January 29, 2014 approving of the VCP procedure submitted by MCERA.

Note 1: Summary of Significant Accounting Policies, continued:

Based on Mendocino County Board of Supervisors Resolution No. 98-147, County Counsel 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.

Administrative Expenses:

The Board of Retirement approves MCERA's annual budget and administrative expenses are financed by earnings of the retirement fund. 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 expense), 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 including IT expense was $930,437 which represented 0.16% of MCERA's actuarial accrued liability or 46.5% of the $2 million statutory cap.

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.

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 42.

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

Note 1: Summary of Significant Accounting Policies, continued:

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.

Subsequent Events:

Management has evaluated all subsequent events through February 4, 2015, the date the financial statements were available to be issued. See Note 9 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, 2014 consisted of the following:

Retirees and beneficiaries receiving benefits	1,328
Terminated plan members entitled to but not yet receiving benefits	394
Active plan members	1,081
Total	2,803
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.

Retirement benefits offered by the Plan include normal retirement, disability retirement and service-connected disability retirement. A death benefit is available to beneficiaries. An annual

Note 2: Description of Plan, continued:

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, but not available to new members hired after January 1, 2013.

Description of Association and Applicable Provisions of the Law, continued:

The Cost of Living Adjustment may be increased up to the maximum of three percent (3%) by applying accumulated adjustments carried forward from those years where the increase in the reported cost of living exceeded three percent. Effective April 1, 2014, for benefit recipients who began receiving benefits on or before April 1, 1985, their allowances will be increased by a 3.0% COLA, with 0.5% deducted from their COLA banks. For benefit recipients who began or will begin receiving benefits on April 2, 1985 through April 1, 2014, their allowances will be increased by 2.5% with no reduction in their COLA banks, since their COLA banks are presently at zero.

Health benefits for retired employees have been funded by the Plan in the past. Reimbursements of retiree medical costs paid by the County of Mendocino were made in the past from a MCERA account established with "excess earnings" as allowed under the CERL and intended to represent a retiree medical account under section 401(h) of the Internal Revenue Code. There were no amounts paid from the retiree medical account during the year ended June 30, 2014. On January 28, 2011 MCERA filed under the IRS voluntary correction program (VCP) procedure to correct past issues in the funding of health benefits for retired employees. The IRS reviewed this application and issued a compliance statement dated January 29, 2014 approving of the VCP procedure submitted by MCERA.

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.

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.

Note 3: Investments, continued:

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

Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and 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.

The Association's cash and investments stated at fair value as of June 30, 2014 and 2013 are as follows:

	2014	**2013**
Cash in trust - Mendocino County	$ 4,966,310	$ 2,144,879
Total cash equivalents	4,966,310	2,144,879
U.S. Government and corporate bonds	115,476,682	93,171,941
International equities	90,904,226	79,092,535
Domestic equities – small cap	25,366,891	25,054,335
Domestic equities – mid cap	19,248,096	19,618,107
Domestic equities – large cap	96,159,663	87,638,431
Total mutual funds	347,155,558	304,575,349
Public equity securities	52,733,876	42,628,539
Real estate partnerships	36,669,201	32,994,779
Real estate – 625 Kings Court, Ukiah, CA	864,000	864,000
Total Cash Equivalents and Investments	$ 442,388,945	$ 383,207,546

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, 2014.

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, 2014 and 2013:

	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

	Investments at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds	$ 93,171,941	$ -	$ -	$ 93,171,941
International securities	79,092,535	-	-	79,092,535
Domestic securities	132,310,873	-	-	132,310,873
Total mutual funds	304,575,349	-	-	304,575,349
Public equity securities	42,628,539	-	-	42,628,539
Real estate partnerships	32,994,779	-	-	32,994,779
Real estate - 625 Kings Court, Ukiah, CA	-	-	864,000	864,000
Total investments at fair value	$ 380,198,667	$ -	$ 864,000	$ 381,062,667

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, 2014 and 2013 as follows:

Commercial Building at 625 Kings Court, Ukiah California

	2014	2013
Fair value, beginning of year	$ 864,000	$ 738,992
Unrealized gain (loss)	-	125,008
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, 2014	$ -

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, 2014:

Instrument	Fair Value at June 30, 2014	Principal Valuation Technique
Real Estate-625 Kings Courts, Ukiah, CA	$ 864,000	Fair Value = Broker Price Option

Note 5: Contributions:

The actuarially determined member contribution rates payable for fiscal year 2015-16 average 10.15 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 2015-16, employers are also required to contribute an actuarially determined rate of 33.38 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 Plan had an unfunded actuarial accrued liability of $47,154,000 at June 30, 2001. This unfunded liability was being amortized through June 30, 2017, at which time it was anticipated the Plan would be fully funded. In December 1996, the Plan Sponsors issued pension obligation bonds, of which $30,112,488 of the proceeds were contributed to the Plan. In December 2002, due to a continued downward spiral of market values for MCERA investments, the Plan Sponsors issued additional pension obligation bonds. The total of bonds sold was $92,208,602, of which $76,299,000 was transferred to the Plan for additional investment, $13,220,061 was used to defease fifty percent of the 1996 pension obligation bonds, and the remainder of $2,689,541 was used to pay the costs of issuing the bonds. The proceeds from the 2002 pension obligation bonds reduced the unfunded pension liability to less than 10 percent of the actuarial accrued liability at June 30, 2004. The funding agreement in effect prior to July 1, 2009 indicated that the Plan Sponsors were not required to fund the UAAL that was not in excess of the target of 10 percent of the total pension liability. In November 2009, that funding agreement was voided by mutual agreement between the Association Board of Retirement and the Mendocino County Board of Supervisors. Subsequent to the funding agreement, the Board of Retirement stipulated that the Plan Sponsors must amortize the UAAL over a 30-year period from June, 2009.

The UAAL as of June 30, 2014 is $179.6 million, which the Plan Sponsors are required to amortize in the future. The funded ratio at June 30, 2014 is 69.3%, as indicated on the Schedule of Funding Progress on page 71 in the Actuarial Section. The 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 *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2014 recommended employer and member contribution rates that aggregate to 33.38% and 10.15%, 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, 2014
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	25 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, 2012 actuarial valuation, management has estimated the contributions are comprised of the following for the year ended June 30, 2014:

Estimated employer normal cost	$ 7,164,626
Estimated UAAL contributions	7,160,126
	$ 14,324,752

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, 2014 were as follows:

Total pension liability	$	584,428,884
Net position	$	442,308,448
Net pension liability	$	142,120,436
Net position as a percentage of total pension liability		75.68%

<u>Disclosure of Information About Actuarial Methods and Assumptions</u>:

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, 2014 was determined by actuarial valuations as of June 30, 2014. The actuarial assumptions used in this June 30, 2014 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, 2014 funding actuarial valuation for MCERA. Key methods and assumptions used in the latest actuarial valuation are presented below:

Valuation date	June 30, 2014
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	25 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.

Assumed Asset Allocation, continued:

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, 2014. 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, 2014.

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, 2014, 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	219,678,759	142,120,436	78,313,271

Note 7: Reserves:

The Association had contingency reserves of $4,428,280, at June 30, 2014 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, 2014 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

	2014	**2013**
Employee reserves	$ 55,711,672	$ 57,319,952
Employer reserves	(47,773,613)	(48,388,438)
Retiree reserves	286,441,596	293,235,630
Undesignated reserves (see Note 8)	-	658,654
1% Contingency reserve	4,428,280	3,835,531
Settlement reserve	-	200,106
Miscellaneous reserves	(75,849)	235
Total reserves	298,732,086	306,861,670
Cumulative unallocated net unrealized gain on investments	110,552,036	75,750,705
Total allocated reserves (smoothed market actuarial value after corridor limits)	409,284,122	382,612,375
Net assets in excess (deficit of reserves)	33,024,326	584,442
Net position held in trust for pension benefits	$ 442,308,448	$ 383,196,817

Note 8: Other Income:

MCERA's actuary, Segal Consulting, determined that the employee basic contribution rate for fiscal years 2009-10, 2010-11, and 2011-12, as calculated by the Plan's prior actuary, was higher in the aggregate than it should have been. This resulted in a corresponding underpayment by employers during those same periods. MCERA worked with a team of professionals from 2011 to 2014 to establish the correct employee basic contribution rate, reimburse overpayments, and collect underpayments to the pension fund based on the corrected rates, and ensure the correction was in accordance with all tax laws and regulations. Corrected rates were in effect January 8, 2012, and the project was completed during the 2013-14 fiscal year.

MCERA entered into a settlement agreement with the prior actuary for an agreed upon amount which was deposited into a settlement reserve. After payment was made to all professionals working on the project to correct the error, a balance of $200,106 remained from the agreed upon settlement amount. The balance of $200,106 was transferred from a settlement reserve to the employer pension reserve during 2013-14 and recognized as other income during the year ended June 30, 2014.

Note 9: 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 $442 million to $436 million between July 1, 2014 and December 31, 2014. Capital markets continue to be highly volatile resulting in significant swings in market value, both positive and negative.

MCERA submitted a Voluntary Correction Program (VCP) filing with the IRS, stating that it recognized and posted excess earnings of $9.6 million, for fiscal years ending June 30, 2004 through 2006 that may not have been fully consistent with Government Code Section 31529.4 and/or IRC Section 401(h). The excess earnings postings were reviewed by tax counsel, an actuary and an accounting firm to develop findings and recommendations for submission to the IRS. A favorable determination letter and compliance statement was issued by the IRS to MCERA on January 29, 2014. MCERA worked with tax counsel to implement corrective actions and adopt appropriate model regulations. In line with the recommended actions, approximately $8.95 million were added to the UAAL and are being collected over the remaining 25 years of the UAAL amortization schedule, and the residual amount of excess earnings, totaling $658,654, previously classified as undesignated reserves, was credited to employer reserves as of June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

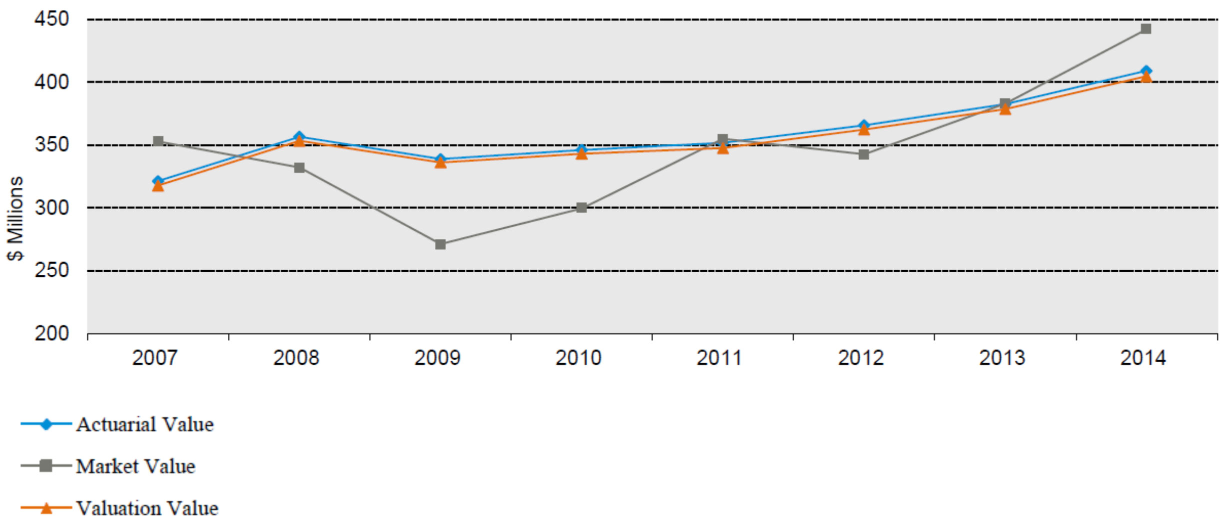
Schedules of Changes in Net Pension Liability and Related Ratios

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

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

The following chart shows the change in market value, actuarial value and the valuation value of assets over the past eight years.

Market Value, Actuarial Value and Valuation Value of Assets as of June 30, 2007 – 2014



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]
2005	10.87%	N/A
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%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
GASB 25
(dollar amounts in thousands)

Year Ended		Annual Recommended Contribution		Percentage Contributed
12/31/93		$2,939		100%
6/30/95	(1)	$5,182		100%
6/30/96		$4,348		100%
6/30/97		$33,691	(2)	100%
6/30/98		$2,661		100%
6/30/99		$3,165		100%
6/30/00		$3,787		100%
6/30/01		$7,216		100%
6/30/02		$6,348		100%
6/30/03		$6,663		100%
6/30/04		$4,158		63%
6/30/05		$3,221		47%
6/30/06		$4,996		79%
6/30/07		$7,533		100%
6/30/08		$7,232		100%
6/30/09		$6,046		141%
6/30/10		$9,571		91%
6/30/11		$9,554		100%
6/30/12		$11,811		100%
6/30/13		$14,260		100%
6/30/14		$14,325		100%

(1) Reflects 18 months of contributions due to a change in the financial reporting year.
(2) Includes proceeds from Pension Obligation Bonds.

Note: The Schedule of Funding Progress can be found on page 71 in the Actuarial Section.

SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year ended June 30, 2014 and 2013

	2014	2013
Personnel Services:		
Salaries and Wages	248,584	260,130
Other Benefits	61,728	65,715
Employee Retirement	80,724	88,520
Total Personnel Services	391,036	414,365
Professional Services:		
Outside Legal Counsel – Disability	31,220	12,555
Disability Hearing Officer/Medical Exams	82,564	19,199
External Audit Fees	31,888	27,763
Total Professional Services	145,672	59,517
Miscellaneous:		
Office Expenses	28,957	28,910
Rent & Leases	51,606	51,200
Legal Expense	105,756	119,400
Memberships	5,171	5,050
Prof & Spec Services – Other	86,602	77,355
Training & Travel	20,546	31,446
Total Miscellaneous	298,638	313,361
Total Administrative Expenses[1]	$ **835,346**	$ **787,243**
Total Information Technology (IT) Expense	95,091	42,756
Total Administrative and IT Expense	$ **930,437**	$ **829,999**

(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 2013/14 as the total expenses including IT expense were less than the administrative cap at 16/100% of the actuarial accrued liability. In Fiscal Year 2012/13 the expenses were 17/100% of the actuarial accrued liability.

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Investment Section

Callan

FUND
SPONSOR
CONSULTING

Performance Summary

Mendocino County Employees' Retirement Association
Executive Summary
Fiscal Year Ended June 30, 2014

General Economic Conditions and Capital Markets Overview

The fiscal year ended June 30, 2014 saw impressive gains within equity markets. Following strong gains in the first quarter of the fiscal year, global equities largely continued their advance through the second quarter. A number of financial and geopolitical events dampened the returns in the third quarter of the fiscal year, but kept global equity returns in the positive territory. During the quarter ended June 30, 2014, equity markets marched steadily upward and finished the fiscal year with mid-single-digit returns. For the full fiscal year, broad market asset classes delivered positive returns, with solid single-digit returns from fixed income and strong double-digit gains from domestic and developed international equities. Foreign equities performed very well in the first and fourth quarters of the fiscal year, outpacing US equity results, but US equities finished on top in the second and third quarters of the fiscal year, as well as the full fiscal year. Emerging market equities were laggards among global markets and underperformed developed equities in all but the last quarter of the period; nevertheless, the MSCI Emerging Markets Index finished with a notable 14.7% for the year. Meanwhile, fixed income markets posted positive returns in the second half of the year, after being soundly beaten in the first half of the period. Overall, the Barclays Aggregate Index was up 4.4% during the year.

During the year, investor focus was largely dominated by political and economic issues around the world. The fiscal year commenced with global equity markets rally from salient and positive economic news such as the first positive European GDP reading in 18 months and an upward revision for U.S. GDP. However, geopolitical events and U.S. policy makers threatened to derail the trend as the civil war in Syria escalated and political brinksmanship in the U.S. Congress has led to a federal government shutdown. U.S. policy makers were faced with an October 17, 2013 deadline to raise the debt ceiling or risk a default on U.S. government obligations. The 2nd quarter of the fiscal year began with stocks selling off early in October due to political uncertainty surrounding the U.S. government shutdown and its impact on the nascent economic recovery; however, by mid-October stocks began a nearly uninterrupted ascent through the end of the year. A late December rally spurred by the fairly benign Fed announcement of the commencement of "taper" in January drove U.S. equity indices to finish the year at all-time highs. With an impending regime change underway at the head of the Fed from Bernanke to Yellen, the outgoing Chairman appeared to be setting the stage for his successor to execute a slow reduction in stimulus. The third quarter of the fiscal year presented a number of events that weighed on investor sentiment throughout much of the quarter. Rates fell as severe weather conditions distorted the economic picture, particularly in January and February. Devaluations in several emerging markets currencies, concerns over a slowdown in China, and the unfolding crisis in Ukraine led to modest gains in U.S. equities. However, non-U.S. developed and emerging markets equities underperformed domestic stock indices.

The Federal Reserve continued to execute its reduction of monthly bond purchases from the $85 billion level in place through much of 2013 to $55 billion, effective in April 2014. Yellen spurred a sharp rally on the quarter's final day by stating that "the economy is still considerably short of the two goals assigned to the Federal Reserve" which are low stable inflation and maximum sustainable employment. With inflation firmly below the Fed's 2% target and unemployment stubbornly above 6.5%, it seemed unlikely that the Fed's zero interest rate policy will end even once the QE bond purchases are terminated. In the final quarter of fiscal year, equity investors shunned numerous geopolitical crises, as can be seen by near record lows volatility and stock markets posting broad gains. U.S. bonds posted solid returns in the

2Q2014 as interest rates continued to drop on mixed economic data, unrest in the Middle East and Ukraine, and falling yields overseas. Yields in Europe hit all-time lows after the European Central Bank unveiled unprecedented stimulus packages in June to spur growth and stave off deflation. The ECB went from ZIRP (Zero Interest Rate Policy) to NIRP (Negative Interest Rate Policy) lowering the deposit facility rate to -0.1% for the first time ever.

Fiscal year ended with asset categories from equities to fixed income to alternatives achieving returns well ahead of long term annual expectations. The market environment reacted favorably to economic improvements, including: 44 consecutive months of positive job growth (the unemployment rate declined from 10.2% in October 2009 to 6.1% in June 2014); a moderate rise in household spending; home prices that were up 8.8% year-over-year in May; and continued subdued inflation. Signs of inflation have begun to percolate, but the Consumer Price Index still sits below the Fed's long-term 2% objective.

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

Index	**3Q13**	**4Q13**	**1Q14**	**2Q14**	**Fiscal Year**
US Equity (Russell 3000)	6.3%	10.1%	2.0%	4.9%	25.2%
Intl Equity (MSCI ACWI ex-US)	10.2%	4.8%	0.6%	5.2%	22.3%
Real Estate (NFI-ODCE)	3.2%	2.9%	2.3%	2.5%	11.4%
Fixed Income (BC Aggregate)	0.6%	(0.1%)	1.8%	2.0%	4.4%

Asset Allocation

As of June 30, 2014, the assets of MCERA were valued at $442.4 million, up from the total asset value at the start of the fiscal year, July 1, 2013, of $383.5 million. Approximately $68.2 million in investment gains and $9.3 million in net withdrawals accounted for the rise in assets. The Plan ended the year slightly overweight in domestic equity and international equity relative to its policy target while being slightly underweight to fixed income and real estate. All asset classes remain within their permitted ranges.

Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equity	170,937	38.6%	38.0%	0.6%	2,829
International Equity	113,476	25.7%	25.0%	0.7%	2,879
Domestic Fixed Income	115,477	26.1%	28.0%	(1.9%)	(8,392)
Domestic Real Estate	37,533	8.5%	9.0%	(0.5%)	(2,282)
Cash	4,966	1.1%	0.0%	1.1%	4,966
Total	442,389	100.0%	100.0%		

Total Fund Performance

MCERA's Total Fund advanced 18.1% for the fiscal year ending June 30, 2014, 0.8% ahead of the Fund's benchmark return. For the same time period measured, MCERA's money-weighted rate of return net of investment fees was up 18.0%, outperformance the policy index by 0.7%.

As shown in the fiscal year attribution below, both active management and the effect of asset allocation benefitted relative performance during the period. Aggregate performances of the underlying managers in the Domestic Equity and Domestic Fixed Income asset classes contributed to the Total Fund's outperformance for the year, by adding 29 and 39 basis points, respectively, to the MCERA Total Fund return for the year. In addition, underweighting Domestic Fixed Income added 29 basis points. Furthermore, each asset class composite's fiscal year return ranked well versus its respective peers. Overall, the Total Fund's return of 18.1% landed 17th among Public Fund Sponsor peers. Longer term annualized results also rank favorably versus peers, finishing 28th, 24th and 7th 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%	25.83%	25.22%	0.29%	0.04%	0.33%
Domestic Fixed Income	26%	28%	5.77%	4.37%	0.39%	0.29%	0.68%
Domestic Real Estate	9%	9%	11.17%	11.84%	(0.06%)	0.01%	(0.04%)
International Equity	25%	25%	22.24%	22.27%	(0.01%)	0.02%	0.01%
Cash	1%	0%	0.00%	0.00%	0.00%	(0.17%)	(0.17%)
Total			**18.07% =**	**17.27% +**	**0.61% +**	**0.19%**	**0.80%**

Summary

The MCERA portfolio benefitted from the upswing of the broad equity markets experienced during the fiscal year. The portfolio cleanly outpaced its target benchmark during the year; driven by positive manager effects from domestic equity and domestic fixed income asset classes, this performance reflects favorable manager selection and adherence to the strategic policy target asset allocation. 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.

U.S. economic conditions appear stable yet recent history is being revised down and growth expectations are being trimmed. Inflationary fears have reemerged in the U.S. while Europe is struggling to fend off deflationary concerns and Japan continues to try to manufacture whatever inflation it can. Given continued uncertainty, Callan recommends prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors..

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, 2014

	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
Domestic Equities	**$ 170,936,856**	**38.64%**	**25.83%**	**15.99%**	**19.73%**
Russell 3000 Index			25.22 %	16.46 %	19.33 %
Large Cap Equities	**$ 119,627,335**	**27.04%**			
Vanguard S&P 500 Index	23,915,904	5.41 %	-	-	-
S&P 500 Index			24.61 %	16.58 %	18.83 %
Dodge & Cox Stock	23,740,684	**5.37%**	30.61 %	19.24 %	6.67 %
Robeco	23,467,671	5.30 %	22.08 %	17.38 %	-
S&P 500 Index			24.61 %	16.58 %	18.83 %
Russell 1000 Value Index			23.81 %	16.92 %	19.23 %
Harbor Cap Appreciation	23,908,393	**5.40%**	31.41 %	15.57 %	18.26 %
Janus Research	24,594,682	5.56 %	27.69 %	15.29 %	19.32 %
S&P 500 Index			24.61 %	16.58 %	18.83 %
Russell 1000 Growth Index			26.92 %	16.26 %	19.24 %
Mid Cap Equities	**$ 19,248,097**	**4.35%**			
Fidelity Low Priced Stock	4,894,239	1.11 %	22.20 %	15.41 %	20.11 %
Royce Total Return	4,817,934	1.09 %	20.89 %	13.43 %	18.38 %
Russell 2000 Index			23.64 %	14.57 %	20.21 %
Russell MidCap Value Index			27.76 %	17.56 %	22.97 %
Morgan Stanley	4,777,613	1.08 %	20.72 %	8.24 %	19.20 %
Janus Enterprise	4,758,310	1.08 %	22.30 %	14.31 %	20.31 %
Russell MidCap Growth Index			26.04 %	14.54 %	21.16 %
Small Cap Equities	**$ 24,025,625**	**5.43%**			
Prudential Small Cap Value	12,598,958	2.85 %	23.64 %	14.68 %	-
US Small Cap Value Index			24.02 %	15.73 %	21.21 %
Russell 2000 Value Index			22.54 %	14.65 %	19.88 %
Alliance US Small Growth	6,694,534	1.51 %	27.84 %	17.18 %	25.39 %
RS Investments	4,732,133	1.07 %	23.04 %	14.13 %	22.30 %
Russell 2000 Growth Index			24.73 %	14.49 %	20.50 %
Micro Cap Equities	**$ 8,035,800**	**1.82%**			
Managers Inst Micro Cap	8,035,800	1.82 %	23.28 %	16.83 %	20.63 %
Russell Microcap Index			24.98 %	15.94 %	20.03 %
Russell Micro Growth Index			26.70 %	15.42 %	19.93 %

Investment Returns, continued:

	Market Value	% of Assets	Current Yr Return	3 Year Return	5 Year Return
International Equities	**$ 113,475,898**	**25.65%**	**22.24%**	**6.88%**	**12.74%**
EuroPacific	21,616,103	4.89 %	22.35 %	7.40 %	11.99 %
Harbor International	21,451,635	4.85 %	21.57 %	6.94 %	13.58 %
Columbia Acorn Int'l	11,776,362	2.66 %	22.52 %	9.57 %	15.65 %
Janus Overseas	19,581,811	4.43 %	21.76 %	(1.43)%	5.98 %
Oakmark International	16,478,315	3.72 %	20.93 %	12.02 %	17.15 %
Mondrian International	22,571,671	5.10 %	23.74 %	8.04 %	-
MSCI EAFE Index			23.57 %	8.10 %	11.77 %
MSCI ACWI ex-US Index			22.27 %	6.21 %	11.59 %
Domestic Fixed Income	**$ 115,476,682**	**26.10%**	**5.77%**	**4.60%**	**6.19%**
Dodge & Cox Income	58,101,918	13.13 %	6.62 %	4.88 %	6.86 %
PIMCO	57,374,764	12.97 %	4.89 %	4.32 %	6.39 %
BC Aggregate Index			4.37 %	3.66 %	4.85 %
Real Estate	**$ 37,533,200**	**8.48%**	**11.17%**	**9.93%**	**14.05%**
Real Estate Custom Benchmark (1)			11.84 %	10.64 %	15.43 %
RREEF Public Fund	7,623,257	1.72 %	12.12 %	10.16 %	22.78 %
NAREIT			13.27 %	11.62 %	22.82 %
RREEF Private Fund	16,484,323	3.73 %	13.16 %	11.64 %	10.58 %
Cornerstone Patriot Fund	12,561,621	2.84 %	8.03 %	-	-
NFI-ODCE Equal Weight Index			11.37 %	11.21 %	8.48 %
625 Kings Court	864,000	0.20 %	12.62 %	14.40 %	6.35 %
Cash	**$ 4,966,310**	**1.12%**			
Total Fund	**$ 442,388,945**	**100.00%**	**18.07%**	**10.19%**	**13.29%**
Total Fund Benchmark*			17.27 %	10.08 %	12.94 %

* 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.

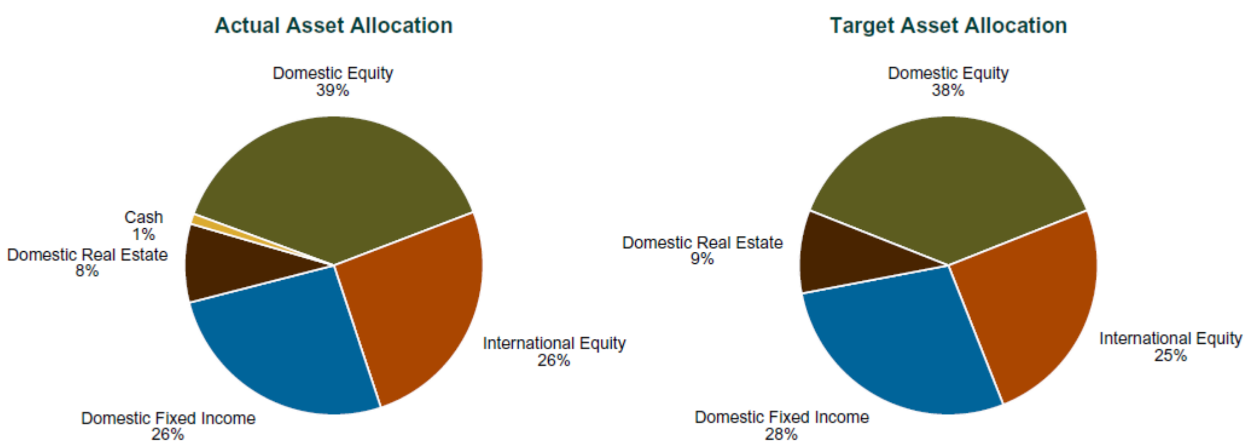
Asset Allocation

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	170,937	38.6%	38.0%	0.6%	2,829
International Equity	113,476	25.7%	25.0%	0.7%	2,879
Domestic Fixed Income	115,477	26.1%	28.0%	(1.9%)	(8,392)
Domestic Real Estate	37,533	8.5%	9.0%	(0.5%)	(2,282)
Cash	4,966	1.1%	0.0%	1.1%	4,966
Total	442,389	100.0%	100.0%		

ASSET ALLOCATION
June 30, 2014

Asset Class	Market Value	Actual Allocation	Target Allocation
Domestic Equities	$170,936,856	38.64%	38.00%
International Equities	113,475,898	25.65%	25.00%
Domestic Fixed Income	115,476,682	26.10%	28.00%
Domestic Real Estate	37,533,200	8.48%	9.00%
Cash (1)	4,966,310	1.12%	0.00%
Total Portfolio	$442,388,945	100.00%	100.00%

Notes:

(1) Does not include accounts receivables or prepaid expenses

SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND OTHER INVESTMENT EXPENSES
For the Year ended June 30, 2014

Investment Management Fees:	Direct	Fund Level	Total
Large Cap Funds	-0-	$ 525,422	$ 525,422
Mid Cap Funds	-0-	$ 159,348	$ 159,348
Small/Micro Funds	$ 64,680	$ 231,468	$ 296,148
International Equity Funds	$ 159,497	$ 576,277	$ 735,774
Fixed Income Funds	-0-	$ 414,845	$ 414,845
Real Estate	-0-	$ 307,219	$ 307,219
Investment Consultant Fees	$ 145,600	-0-	$ 145,600
Investment Custodial Fees	-0-	-0-	-0-
Actuary Fees	$ 104,190	-0-	$ 104,190
Other Investment Expense	$ 29,275	-0-	$ 29,275
Total Investment Expenses	$ 503,242	$ 2,214,579	$ 2,717,821

LIST OF INVESTMENT MANAGERS

Large Cap Equity
Vanguard S&P 500 Index
Dodge & Cox Stock
Robeco
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
Alliance US Small Growth
R S Investments
Managers Inst Micro Cap

International Equity
Europacific
Harbor International
Columbia Acorn International
Janus Overseas
Oakmark International
Mondrian International

Fixed Income
Dodge & Cox Income
PIMCO

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

Actuarial Section

Segal Consulting

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T 415.263.8200 www.segalco.com

January 28, 2015

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

Re: June 30, 2014 Actuarial Valuation for the Mendocino County Employees' Retirement Association

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2014 actuarial valuation of the Mendocino County Employees' Retirement Association. 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 Actuarial Standards of Practice (ASOPs). Actuarial valuations are performed on an annual basis with the last valuation completed on June 30, 2014. 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 determination of the liability for retirement benefits.

The June 30, 2014 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

Board of Retirement
Mendocino County Employees' Retirement Association
January 28, 2015
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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).

In the June 30, 2014 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 25 years remaining as of June 30, 2014. 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).

Segal prepared all of the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report (CAFR). A listing of the supporting schedules Segal prepared for inclusion in the financial section as Supplementary Information required by GASB is provided below (note that these schedules were included in Segal's separate Governmental Accounting Standards (GAS) 67 actuarial valuation report as of June 30, 2014):

1. Schedule of Net Pension Liability
2. Schedule of Changes in Net Pension Liability and Related Ratios
3. Schedule of Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of June 30, 2014
4. Schedule of Contribution History

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, 2014 valuation produce results, which, 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, 2014 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 74.2% to 69.3%. The employer's aggregate contribution rate has increased from 26.00% of payroll to 33.38% of payroll. The employee's aggregate rate has increased from 9.30% of payroll to 10.15% of payroll. The increase in both the employer and the employee rates is primarily as a result of changes in the actuarial assumptions in the current valuation.

In the June 30, 2014 valuation, the actuarial value of assets excluded $33 million in deferred investment gains, which represent 7.5% of the market value of assets. If these deferred investment gains were recognized immediately in the actuarial value of assets, the funded

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percentage would increase from 69.3% to 75.7%[1] and the aggregate employer contribution rate, expressed as a percentage of payroll, would decrease from 33.38% to about 28.0%.

To the best of our knowledge, the June 30, 2014 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	Andy Yeung, ASA, MAAA, FCA, EA
Senior Vice President & Actuary	Vice President & Associate Actuary

JRC/bqb
Enclosures

[1] 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 25 years remaining as of June 30, 2014. 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, 2014 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, 2014. 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.

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD, continued:

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 future 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]
6/30/2005					
	General	Not Available			
	Safety				
	Probation				
	Total				
6/30/2006					
	General				
	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%

(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
6/30/2005	Not Available								
6/30/2006									
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%

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)
6/30/2005	Not Available							
6/30/2006								
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%

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	2014	2013	2012	2011	2010[2]	2009
Beginning of the Year UAAL Liability (Surplus)	$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	3,247	3,118	6,929	7,638		805
Liability (Gain)/Loss	(3,310)	4,236	1,937	-		19,978[3]
Asset Return (Gain)/Loss	(6,471)	3,046	3,647	15,266		29,934
Salary Increase (Gain)/Loss	(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)
End of the Year UAAL Liability (Surplus)	$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).*

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

(Dollars in Thousands)

		Actual Market Return (net)	Expected Market Return (net)	Investment Gain / (Loss)	Deferred Factor	Deferred Return
1.	Market value of assets as of June 30, 2014					$442,308
2.	Calculation of deferred return:					
	(a) Year ended June 30, 2008	$(15,554)	$28,043	$(43,597)	see footnote (1) below	
	(b) Year ended June 30, 2009	(51,893)	26,211	(78,104)		
	(c) Year ended June 30, 2010	38,133	21,358	16,774		
	(d) Year ended June 30, 2011	64,075	23,640	40,435	25%	$613
	(e) Year ended June 30, 2012	(4,078)	27,197	(31,275)	40%	(12,510)
	(f) Year ended June 30, 2013	48,890	26,235	22,655	60%	13,593
	(g) Year ended June 30, 2014	68,495	29,334	39,161	80%	31,329
	(h) Total unrecognized return					$33,024
3.	Preliminary actuarial value of assets as of June 30, 2014: (1) – (2h)					$409,284
4.	Adjustment to be within 25% corridor of market value					$0
5.	Final actuarial value of assets as of June 30, 2014: (3) + (4)					$409,284
6.	Actuarial value as a percentage of market value: (5) / (1)					92.5%
7.	Non-pension reserves:					
	Contingency reserve					$4,428
8.	Valuation value of assets: (5) – (7)					$404,856

Actuarial Value of Assets:
For purposes of calculating the required contribution rates for the valuation, a smoothed market 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 market 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, 2014 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, 2014.

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.

The Schedule of Funding Progress 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)
GASB 25
(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%

(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	Contributions as a Percentage of Covered Employee Payroll
2005	$3,221,000	Not Disclosed in Prior Funding Valuation Reports	N/A	$60,134,933	N/A
2006	4,996,000		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	$9,553,955	$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%

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

Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of June 30, 2014 ($ 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)
2013	$383	$19	$27	$1	$68	$442
2014	442	22	30	1	32	466
2015	466	22	32	1	33	488
2016	488	21	33	1	35	509
2017	509	19	35	1	36	529
2018	529	18	37	1	38	547
2019	547	18	39	1	39	564
2020	564	18	41	1	40	580
2021	580	18	43	1	41	595
2022	595	18	45	1	42	609
2039	691	1	64	1	48	674
2040	674	1	64	1	47	657
2041	657	1	63	1	45	638
2042	638	1	63	1	44	619
2043	619	1	62	1	43	600
2089	630	0	1	1	46	673
2090	673	0	1	1	49	720
2091	720	0	1	1	52	769
2092	769	0	1	2	56	823
2093	823	0	1	2	60	880
2115	3,669	0	0 *	7	266	3,927
2116	3,927					
2116 Discounted Value:	3 **					

* Less than $1 million, when rounded.

** $3,927 million when discounted with interest at the rate of 7.25% per annum has a value of $3.1 million as of June 30, 2014.

Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of June 30, 2014 ($ in millions) - continued

Notes:

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

(2) Amounts shown in the year beginning July 1, 2013 row are actual amounts, based on the unaudited financial statements provided by MCERA.

(2) Years 2023-2038, 2044-2088, and 2094-2114 have been omitted from this table.

(3) Column (a): Except for the "discounted value" shown for 2116, none of the projected beginning plan fiduciary net position amounts shown have been adjusted for the time value of money.

(4) Column (b): Projected total contributions include employee and employer normal cost rates applied to closed group projected payroll (based on covered active members as of June 30, 2014), plus employer contributions to the unfunded actuarial accrued liability. Contributions are assumed to occur halfway through the year, on average. (Since this is a long-term projection, we have ignored the one-year delay between the date of the valuation and the fiscal year the contribution rates from that valuation are actually implemented in this illustration.)

(5) Column (c): Projected benefit payments have been determined in accordance with paragraph 39 of GASB Statement No. 67, and are based on the closed group of active, inactive vested, retired members, and beneficiaries as of June 30, 2014. The projected benefit payments reflect the cost of living increase assumption used in the June 30, 2014 valuation report. Benefit payments are assumed to occur at the end of each month. 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% per annum was applied to all periods of projected benefit payments to determine the discount rate.

(6) Column (d): Projected administrative expenses are calculated as approximately 0.20% of the projected beginning plan fiduciary net position amount. The 0.20% corresponds to the administrative expense portion of the Association's future expense component of the investment return assumption, as recommended in our 2014 experience study report and adopted by the Board. Administrative expenses are assumed to occur halfway through the year, on average.

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

(8) 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, 2014 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

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Statistical Section

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)	2014	2013	2012	2011	2010
Additions					
Employer Contributions	$ 14,325	$ 14,260	$ 11,811	$ 9,554	$ 8,234
Member Contributions	4,576	4,713	4,840	5,447	6,502
Net Investment Income	68,495	48,890	(4,078)	64,075	38,128
Total Additions	**67,863**	**67,863**	**12,573**	**79,076**	**52,864**
Deductions					
Benefits Payments	26,702	25,500	22,955	22,269	23,161
Refunds of Contributions	652	1,073	1,225	1,167	1,061
Health Benefits [1]			-	-	-
Administrative Expenses	930	830	698	640	641
Total Deductions	**28,284**	**27,403**	**24,879**	**24,076**	**24,863**
Change in Plan Net Position	**$59,112**	**$40,460**	**$(12,306)**	**$ 55,000**	**$ 28,001**

(Dollars in Thousands)	2009	2008	2007	2006	2005
Additions					
Employer Contributions	$ 8,561	$ 7,269	$ 7,231	$ 6,464	$ 6,481
Member Contributions	6,836	6,613	6,002	5,998	6,618
Net Investment Income	(52,214)	(15,846)	52,299	32,079	24,019
Total Additions	**(36,817)**	**(1,964)**	**65,532**	**44,541**	**37,118**
Deductions					
Benefits Payments	21,480	15,640	14,153	12,878	11,269
Refunds of Contributions	734	1,064	1,036	1,068	933
Health Benefits	-	4,017	3,382	3,410	2,680
Administrative Expenses	280	134	119	82	40
Total Deductions	**22,494**	**20,855**	**18,690**	**17,438**	**14,922**
Change in Plan Net Position	**$(59,311)**	**$(22,819)**	**$ 46,842**	**$ 27,103**	**$ 22,196**

[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

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

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollars in Thousands)

	2014	2013	2012	2011[1]	2010
Service Retirement Payroll:					
General	17,413	16,253	14,864	13,197	12,112
Safety	3,430	3,215	2,500	2,477	2,267
Total	$ 20,843	$ 19,468	$ 17,364	$ 15,674	$ 14,379
Disability Retirement Payroll:					
General	2,188	2,128	2,074	1,987	1,970
Safety	2,138	2,030	1,903	1,832	1,823
Total	$ 4,325	$ 4,158	$ 3,977	$ 3,819	$ 3,793
Beneficiary Payroll:					
General	1,526	1,485	1,487	1,335	679
Safety	532	524	485	471	275
Total	$ 2,058	$ 2,027	$ 1,972	$ 1,806	$ 954
Total Benefit Expense:					
General	21,126	19,865	18,425	16,519	14,761
Safety	6,100	5,787	4,889	4,780	4,365
Total	$ 27,226	$ 25,692	$ 23,313	$ 21,299	$ 19,126

(Dollars in Thousands)

	2009	2008	2007	2006	2005
Service Retirement Payroll:					
General	10,808	9,960	8,688	7,855	7,321
Safety	1,799	1,664	1,532	1,129	822
Total	$ 12,607	$ 11,624	$ 10,220	$ 8,984	$ 8,143
Disability Retirement Payroll:					
General	1,815	1,751	1,683	1,566	1,410
Safety	1,654	1,590	1,432	1,346	1,176
Total	$ 3,469	$ 3,341	$ 3,115	$ 2,912	$ 2,586
Beneficiary Payroll:					
General	1,269	1,171	1,138	1,001	971
Safety	422	404	359	352	314
Total	$ 1,691	$ 1,575	$ 1,497	$ 1,353	$ 1,285
Total Benefit Expense:					
General	13,892	12,882	11,509	10,422	9,702
Safety	3,875	3,658	3,323	2,827	2,312
Total	$ 17,767	$ 16,540	$ 14,832	$ 13,249	$ 12,014

[1] **Estimated Based upon Annualized Benefit Amounts as of June 30, 2011.**

Source of Data: Actuarial Valuation Reports (2005 – 2014)

SCHEDULE OF RETIREE MEMBERS BY TYPE OF BENEFIT
(Summary of Monthly Allowances Being Paid – As of June 30, 2014)

(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	168	$	508	1,328	$	2,268

(Dollars in Thousands)

2013	General Members			Safety Members			Total		
	Number		Monthly Allowance	Number		Monthly Allowance	Number		Monthly Allowance
Retired Members									
Service Retirement	874	$	1,354	99	$	268	973	$	1,622
Disability	113		177	57		169	170		346
Beneficiaries	113		124	31		45	144		169
Total Retired Members	1100	$	1,655	187	$	482	1,287	$	2,137

Source of data: June 30, 2013 and June 30, 2014 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 06/30/14							
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
Valuation date 06/30/05							
Average Monthly Benefit	$ 1,345	$ 1,321	$ 1,293	$ 1,157	$ 1,061	$ 876	$ 705
Number of Retirees	248	170	142	100	84	51	14

Source of data: Actuarial Valuation Reports (2005 – 2014). 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 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%
Year 2005				
Number of Covered Employees	1,333	1,258	6	69
Percentage to Total System	100%	94.37%	.45%	5.18%

Source of data: MCERA systems.

END OF REPORT