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

Financial Statements
and Supplementary Information
for the year ended June 30, 2015

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Financial Statements and Supplementary Information
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Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Board of Retirement
June 30, 2015

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mendocino County Employees' Retirement Association (MCERA), a component unit of the County of Mendocino, which comprise the statement of net position as of June 30, 2015, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of MCERA as of June 30, 2015, and the changes to 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

Management's Discussion and Analysis on pages 5 through 9, and other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gallina LLP

Rancho Cordova, California
January 21, 2016

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited)
June 30, 2015

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

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 agency within the County of Mendocino, with a separate operating budget and professional staff.

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

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

Financial Highlights

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

Budget

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

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

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

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:

Statement 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.

Statement 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.

Overview of the Financial Statements, continued

Notes to the 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 Pension actuarial methods, assumptions, funded status and annual required contributions.

Management Responsibility of Financial Reporting

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

Major Initiatives and Significant Events

Several major initiatives were undertaken during the year including:

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

Investment and Economic Summary

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

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

Investment and Economic Summary, continued

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

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

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

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

Request for Information

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

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

Respectfully submitted,

James Wilbanks Ph.D.
Retirement Administrator

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Net Position
June 30, 2015

Assets

Investments, at fair value:		
Mutual funds		$ 347,937,529
Public equity securities		53,190,622
Real estate partnerships		40,770,670
Cash equivalents		1,398,150
Real estate - 625 Kings Court, Ukiah, CA		864,000
Total investments, at fair value		444,160,971
Receivables:		
Members' contributions	$ 113,026	
Employers' contributions	545,830	
Total receivables		658,856
Other assets		218,017
Total assets		$ 445,037,844

Liabilities

Liabilities:	
Accounts payable	$ 365,017
Accrued expenses and other liabilities	455,471
Total liabilities	$ 820,488

Net Position

Net position	$ 444,217,356

See accompanying notes.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Changes in Net Position
for the year ended June 30, 2015

Additions (deductions) to net assets attributed to:		
Investment income (expense):		
Net appreciation in fair value of investments		$ 3,007,763
Rent income, net of expenses		79,907
Interest income		12,795
Dividend income		10,665,944
Investment expenses		(565,100)
Net investment income		13,201,309
Contributions:		
Members'	$ 4,651,960	
Employers'	15,164,044	
Total contributions		19,816,004
Total additions, net		33,017,313
Deductions from net assets attributed to:		
Benefits paid to retirees	30,049,133	
Administrative expenses	1,059,272	
Total deductions		31,108,405
Net increase		1,908,908
Net position:		
Beginning of year		442,308,448
End of year		$ 444,217,356

See accompanying notes.

Note 1: Description of Plan:

Description of Association and Applicable Provisions of the Law:

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

Membership in the Plan at June 30, 2015 consisted of the following:

Retirees and beneficiaries receiving benefits	1,379
Terminating plan members entitled to but not yet receiving benefits	414
Active plan members	1,107
Total	2,900
Number of participating employers	3

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

All permanent employees who work at least 32 hours per week become members of the Plan on the first day of the pay period following employment. Employees are classified as either General or Safety (Law Enforcement or Probation) members, and are assigned to one of five tiers based on entry date and job classification. Members become vested after five years of credited service.

Retirement benefits offered by the Plan include normal retirement, disability retirement and service-connected disability retirement. Retirement benefits are based on the years of service, final average salary, and age at retirement. A statutory benefit formula that varies based on a member's tier and type is used to determine monthly benefits. A death benefit is available to beneficiaries. An annual cost of living adjustment of no more than 3 percent may be granted by the Board of Retirement. The annual cost of living benefit is based upon the tier level of the member. Members hired after January 1, 2013 are not eligible for a cost of living benefit.

Note 1: Description of Plan, continued:

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

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

Note 2: Summary of Significant Accounting Policies:

Reporting Entity:

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

Basis of Accounting:

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

Use of Estimates:

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

Note 2: Summary of Significant Accounting Policies, continued:

Derivatives:

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

During the year ended June 30, 2015 MCERA owned no derivatives directly in its portfolio.

Custodial Credit Risk:

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

Note 2: Summary of Significant Accounting Policies, continued:

Market and Credit Risk, continued:

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

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

Interest Rate Risk:

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

Member Termination:

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

Plan Termination:

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

Note 2: Summary of Significant Accounting Policies, continued:

Risk Management:

MCERA is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and major downturns in financial markets. For the past several years, MCERA has obtained coverage from commercial insurance companies for errors and omissions coverage related to activities of the Board of Retirement, but all other risks of loss, except losses due to depreciation in the fair 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.

Income Taxes:

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

Administrative Expenses:

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

Note 2: Summary of Significant Accounting Policies, continued:

Administrative Expenses, continued:

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

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

Schedule of Funding Progress:

The supplemental Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. The schedule can be found on page 32.

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 31.

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

Note 2: Summary of Significant Accounting Policies, continued:

Current and Future Accounting Pronouncements, continued:

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

Subsequent Events:

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

Note 3: Investments:

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

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

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

Note 3: Investments, continued:

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, 2015, are as follows:

Cash in trust - Mendocino County	$ 1,398,150
Total cash equivalents	1,398,150
U.S. Government and corporate bonds	117,779,392
International equities	86,734,247
Domestic equities - small cap	27,488,544
Domestic equities - mid cap	20,379,761
Domestic equities - large cap	95,555,585
Total mutual funds	347,937,529
Public equity securities	53,190,622
Real estate partnerships	40,770,670
Real estate - 625 Kings Court, Ukiah, CA	864,000
Total investments	$ 444,160,971

Note 4: Fair Value Measurement of Investments:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

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

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

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

Note 4: Fair Value Measurement of Investments, continued:

The following table set forth by level, within the fair value hierarchy, MCERA's investments at fair value as of June 30, 2015:

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

Note 4: Fair Value Measurement of Investments, continued:

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the year ending June 30, 2015:

	Real Estate - 625 Kings Court, Ukiah, CA
Beginning balance	$ 864,000
Realized gains	-
Unrealized gains relating to instruments still held as of June 30, 2015	-
Purchases	-
Sales	-
Issuances	-
Settlements	-
Ending balance	$ 864,000
Amount of total gains or losses for the period included in net appreciation in fair value of investments, attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2015	$ -

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

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

Note 5: Contributions:

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

The UAAL as of June 30, 2015 is $182.2 million, which the Plan Sponsors are required to amortize in the future. The funded ratio at June 30, 2015 is 70.2%, as indicated on the Schedule of Funding Progress on page 32. The *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2015 recommended employer and member contribution rates that aggregate to 32.55% and 9.86%, respectively.

Note 5: Contributions, continued:

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

Valuation date	June 30, 2015
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	24 years (declining/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 Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females.

Note 5: Contributions, continued:

Years of life expectancy after disability	For all members: RP-2000 Combined Healthy 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 improvemen based on a review of mortality experience as of the measurement date.
Life expectancy after retirement for employee contribution rate purposes	General members: RP-2000 Combined Healthy Mortality Table projected with Scale BB for 2020, set back 1 year for males and with no setback for females, weighted 30% male and 70% female. Safety and Probation members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females, weighted 80% male and 20% female.

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

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

Note 6: Net Pension Liability:

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

Total pension liability	$ 610,381,849
Net position	444,217,356
Net pension liability	$ 166,164,493
Net position as a percentage of total pension liability	72.8%

Disclosure of Information About Actuarial Methods and Assumptions:

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

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

Actuarial Methods and Assumptions:

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

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	24 years (declining/closed) for all UAAL

Note 6: Net Pension Liability, continued:

Actuarial Methods and Assumptions, continued:

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	Healthy: RP-2000 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.

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.

Note 6: Net Pension Liability, continued:

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	26.2%	5.86%
U.S. Small Cap Equity	11.8%	6.56%
Global Equity	25.0%	6.85%
Domestic Fixed Income	28.0%	0.71%
Real Estate	9.0%	4.76%
Total	100.0%	

Discount Rate:

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

Note 6: Net Pension Liability, continued:

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

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

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

Note 7: Reserves:

The Association had contingency reserves of $4,450,378, at June 30, 2015 to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 7.25 percent of retirement reserve balances to those reserves.

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. A summary of the various reserve accounts, which comprise net position for pension and other benefits at June 30, 2015 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

Employee reserves	$ 63,301,162
Employer reserves	(64,904,257)
Retiree reserves	349,210,064
1% contingency reserves	4,450,378
Total reserves	352,057,347
Cumulative unallocated net unrealized gain on investments	80,621,960
Total allocated reserves (smoothed actuarial value after corridor limits)	432,679,307
Net assets in excess of reserves	11,538,049
Net position held in trust for pension benefits	$ 444,217,356

Note 8: Subsequent Events:

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

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

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Required Supplementary Information (unaudited)
June 30, 2015

Schedules of Changes in Net Pension Liability and Related Ratios

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Required Supplementary Information (unaudited)
June 30, 2015

Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") - Entry Age (b)	Unfunded AAL ("UAAL") (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
6/30/2008	$ 353,421	$ 373,832	$ 20,411	94.5%	$ 70,880	28.8%
6/30/2009	336,263	403,196	66,933	83.4%	72,235	92.7%
6/30/2010	343,202	434,987	91,785	78.9%	69,004	133.0%
6/30/2011	347,732	472,644	124,912	73.6%	64,144	194.7%
6/30/2012	362,487	489,014	126,527	74.1%	56,596	223.6%
6/30/2013	378,777	510,461	131,684	74.2%	56,464	233.2%
6/30/2014	404,856	584,429	179,573	69.3%	55,876	321.4%
6/30/2015	428,229	610,382	182,153	70.2%	58,106	313.5%

Schedule of Employer Contributions
(dollar amounts in thousands)

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2008	$ 7,232	100%
6/30/2009	6,046	141%
6/30/2010	9,571	91%
6/30/2011	9,554	100%
6/30/2012	11,811	100%
6/30/2013	14,260	100%
6/30/2014	14,325	100%
6/30/2015	15,164	100%