# 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 Year Ended June 30, 2017*

**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 Year Ended June 30, 2017


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

MCERA
625-B Kings Court
Ukiah, California 95482
(707) 463-4328
www.menodocinocounty.org/retirement


On the Cover: Point Arena Lighthouse, Mendocino County

# Mendocino County Employees' Retirement Association

# "MCERA"

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

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

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

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

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

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# *Introductory Section*

Anderson Valley, Mendocino County

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

## LETTER OF TRANSMITTAL

December 21 , 2017

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, Plan or System) as of and for the fiscal year ending June 30, 2017.

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2017. 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. MCERA is an independent agency within the County of Mendocino with a separate operating budget and professional staff.

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

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

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

## Financial Reporting

MCERA management is responsible for establishing a system of internal controls to safeguard assets and for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and operating results of MCERA**.** Brown Armstrong Accountancy Corporation has audited the financial statements and related disclosures. Management recognizes the inherent limitations that internal controls do not provide absolute assurance against errors and material misstatement in the financial statements, and that we should only implement controls where benefits outweighs its costs. However, management is confident that the system of internal controls are designed to provide reasonable assurance that MCERA’s financial statements are presented in conformity with accounting principles generally accepted in the United States and are free from material misstatements.

This report has been prepared in accordance with generally accepted accounting principles (“GAAP”) as promulgated by the Governmental Accounting Standards Board (“GASB”). GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management’s discussion and analysis (“MD&A”). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System’s MD&A can be found on page 15.

## 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 costs 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 2016-17 was $822,558 which represented 0.12% of MCERA's actuarial accrued liability or 41.13% of the $2 million statutory cap. Further, MCERA administrative expenses were 57.64% of the more restrictive 0.21% budget limit imposed by Board Policy.

## Major Initiatives and Significant Events

Several major initiatives were undertaken during the fiscal year including:

- MCERA received a favorable review from the Internal Revenue Service, in the form of a determination letter in August 2016. This is of critical importance for maintaining the tax qualified status of the plan.
- Following the asset liability study conducted in the prior fiscal year, MCERA conducted a review of its asset category portfolios which resulted in the decision to terminate eight investment managers and hire three new managers.
- Additionally, MCERA initiated an investment manager search for International Small Cap equity, International Emerging Markets equity, and an Equal Weighted S&P 500 mandate.
- The Board adopted new actuarial assumptions, including a decrease in the assumed rate of return from 7.25% to 7.00% and other assumption changes based on the July 1, 2013, through June 30, 2016 Actuarial Experience Study.
- The Board voted to change the region of the Consumer Price Index (CPI) from the San Francisco-Oakland-San Jose Area to the Western Region of the United States for future cost of living adjustments (COLA).
- Staff completed an external audit request for proposal (RFP) resulting in a new external auditor after review and approval by the Audit and Budget Committee and adoption by the Board.
- Staff completed a study on MCERA’s unfunded actuarial accrued liability (UAAL).
- Board governance was enhanced with the adoption of numerous policy additions and updates.
- MCERA deployed a new client portal where our members may access information regarding their account and interact with MCERA more readily.
- A new Electronic Documents Management System (EDMS) was implemented. All client and critical records of MCERA have been digitized and stored electronically in an add-on to the Pension Administration System allowing for more efficient records retrieval. Additionally, EDMS provides more accessibility in the event of a disaster recovery scenario.
- MCERA developed and implemented plans to address maintenance on the real asset at 625 Kings Court, Ukiah, CA. The plan addressed a significant amount of deferred maintenance and will continue the building upkeep into the future to maximize the value of the investment.

## Investments

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

In accordance with state constitutional mandates, the Board adopts an investment policy designed to ensure diversification among asset classes and achieve MCERA's long-term investment objectives. The investment return for the year ending June 30, 2017 was 15.89% which exceeded the benchmark by 2.73%. Performance returns were 5.31%, 9.57%, 9.64%, and 5.76% for the three, five, seven, and ten year periods ending June 30, 2017, respectively.

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

More detailed information regarding MCERA's strategic asset allocation, professional investment managers, and investment performance can be found in the Investment Section of this report on page 44.

## 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 industry best practices. 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, an 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, 2017 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 69.9% which was a slight decrease from the prior year's valuation funded ratio of 70.7%. MCERA's unfunded actuarial accrued liability (UAAL) as of June 30, 2017, was $204.3 million. There are 22 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.

## Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its comprehensive annual financial report for the fiscal year ended June 30, 2016. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized CAFR that meets the highest standards of governmental financial reporting. The Certification of Achievement is valued for a period of one year. We believe that

this report for the fiscal year ended June 30, 2017 will again meet the requirements of the Certificate of Achievement Program and we are submitting it to the GFOA for consideration of an annual award.

## Request for Information

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

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

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

## GFOA Certificate of Achievement

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Mendocino County**

**Employees' Retirement Association**

**California**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

## Members of the Board of Retirement
## June 30, 2017

***Dan Gjerde***, Chair
Appointed by the Board of Supervisors

***Kathryn Cavness**,* Vice Chair
Elected by Active General Membership

***Tim Knudsen***, Secretary
Elected by Retired Membership

***Shari Schapmire***, Trustee
Treasurer – Tax Collector
County of Mendocino

***Jerilyn Harris***, Trustee
Appointed by the Board of Supervisors

***Leland Parker***, Trustee
Appointed by the Board of Supervisors

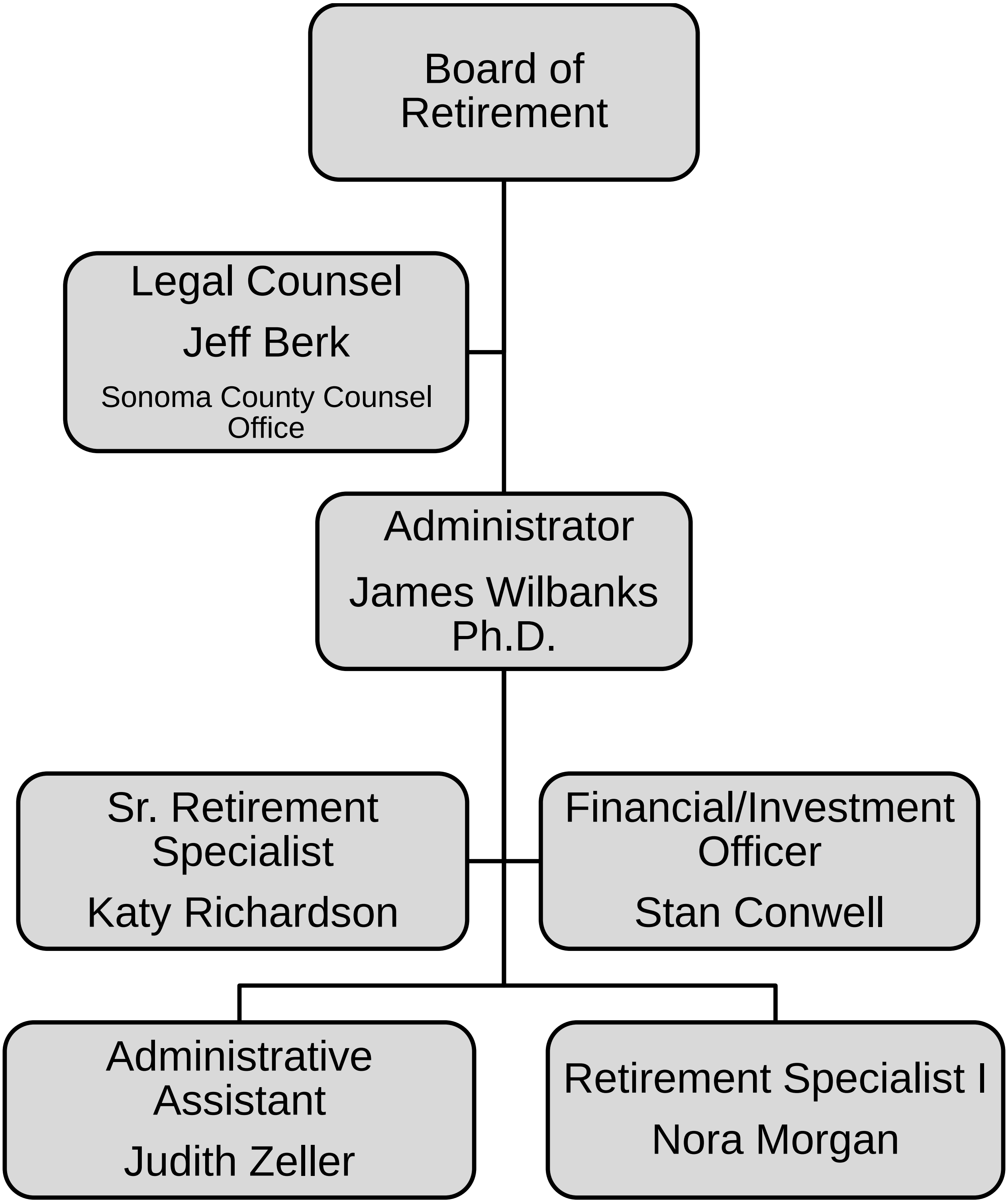
***Patrick Sullivan,*** Trustee
Elected by Active General Membership

***Craig Walker***, Trustee
Elected by Active Safety Membership

***Vacant***, Trustee
Appointed by the Board of Supervisors

***Richard Shoemaker***, Alternate Trustee
Elected by Retired Membership

**Organization Chart**
**As of June 30, 2017**




See page 41 and 54 for the schedule of investment management fees and other investment fees.
See page 41for the schedule of payments to consultant (other than investment managers).

# List of Professional Consultants
# As of June 30, 2017

## Actuary
Segal Consulting

## Disability Counsel
County Counsel, County of Sonoma

## Fiduciary Counsel
Nossaman, LLP

## Investment Consultant
Callan Associates, Inc.

## Independent Auditor
Brown Armstrong Accountancy Corporation

## Legal Counsel
County Counsel, County of Sonoma

## Tax Counsel
Hanson Bridgett, LLP

Note: List of Investment Managers is located on page 54 of the Investment Section of this report.

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# *Financial Section*

Russian Gulch State Park, Mendocino County

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

**FRESNO OFFICE**
10 RIVER PARK PLACE
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FRESNO, CA 93720
TEL 559.476.3592

**LAGUNA HILLS OFFICE**
23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

**STOCKTON OFFICE**
5250 CLAREMONT AVENUE
SUITE 150
STOCKTON, CA 95207
TEL 209.451.4833



BROWN ARMSTRONG
*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Audit and Budget Committee and Board of Retirement of
Mendocino County Employees' Retirement Association
Ukiah, California

### Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Mendocino County Employees' Retirement Association (MCERA), as of June 30, 2017, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise MCERA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of MCERA as of June 30, 2017, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information 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 considers 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MCERA's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Additional Information*

The introductory, investment, actuarial, and statistical sections have not been subjected to the 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of MCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong Accountancy Corporation

Bakersfield, California
December 4, 2017

**MENDOCINO COUNTY EMPLOYEES'**
**RETIREMENT ASSOCIATION**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**JUNE 30, 2017**

This section presents Management's Discussion and Analysis (MD&A) of the Mendocino County Employees' Retirement Association's (MCERA, System or Plan) financial results and a summary of MCERA's financial position and activities as of and for the fiscal year ended June 30, 2017. Comparative data from the prior fiscal year are also presented. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

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 of 1937, 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.

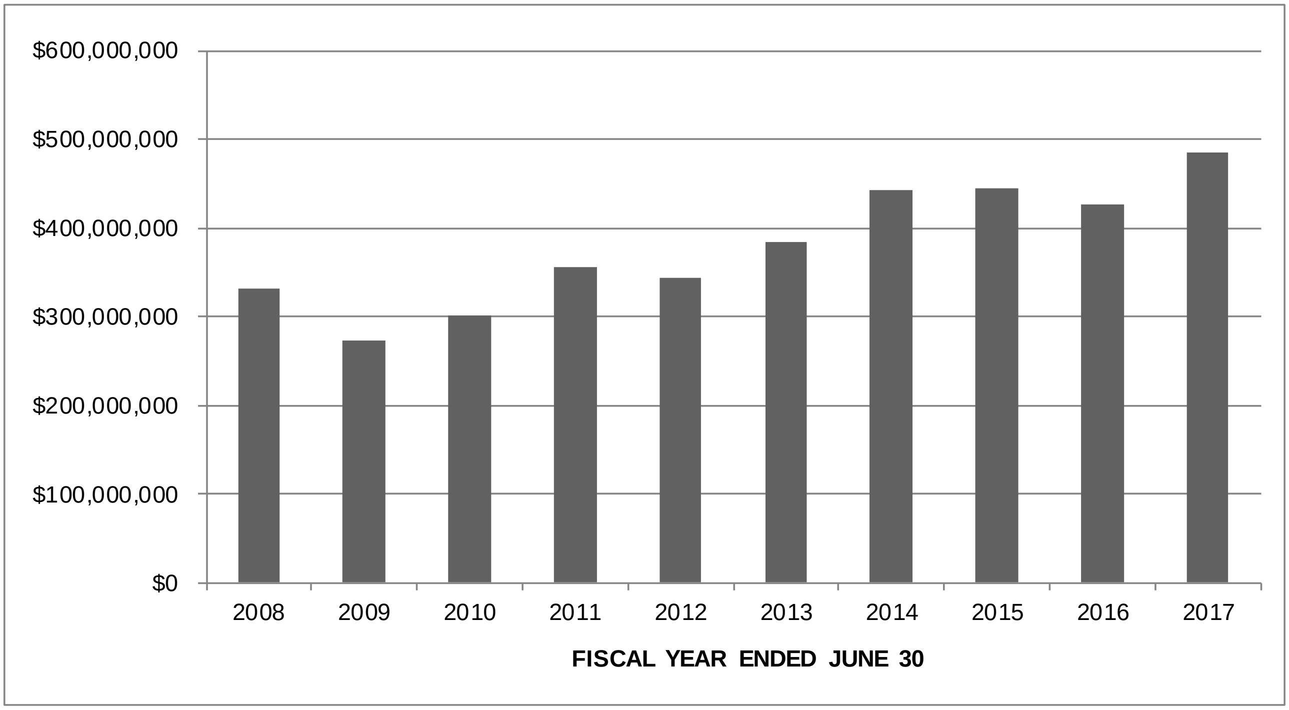
The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of MCERA, which includes administering MCERA benefits and managing the assets. The Board and MCERA staff members are committed to act for the exclusive benefit of MCERA and its participants, manage the assets of MCERA 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**

- Fiduciary net position increased to $484 million, which reflects an increase of 13.53% in net position during fiscal year 2016-17.
- Actuarial determined assets increased to $475 million, a 6.37% increase during the fiscal year 2016-17.
- Net total additions to fiduciary net position for the fiscal year totaled $91.5 million. This was comprised of $19.1 million of employer contributions, $5.7 million of member contributions, and a net investment gain of $66.7 million.
- Deductions in fiduciary net position for the year were $33.9 million, which included $31.6 million in benefit payments to retirees, $1.2 million in member refunds, and $1.1 million in total administrative expenses.
- MCERA's funded status decreased slightly to 69.9% from 70.7% over the fiscal year. The funded status is measured by the ratio of actuarial valuation value of assets to actuarial accrued liabilities.
- The net pension liability (NPL) decreased from $205.7 million to $195.5 million during the fiscal year 2016-17. The fiduciary net position as a percentage of the total pension liability increased from 67.5% to 71.2%.

**MCERA Fiduciary Net Position Held in Trust for Pension Benefits**




**Overview of the Financial Statements**

Management's 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 Fiduciary Net Position**
The Statement of Fiduciary 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, "Fiduciary Net Position," represents funds available to pay benefits. Increases and decreases in "Fiduciary 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 Fiduciary Net Position**
The Statement of Changes in Fiduciary Net Position provides information on the financial activities that increased and decreased Fiduciary 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 Supplementary Information**
The Required Supplementary Information consists of the MD&A and supporting schedules which Governmental Accounting Standards Board (GASB) requires to accompany the basic financial statements. The schedules include the following and can be found on pages 37-40.

- Schedule of Changes in Net Pension Liability and Related Ratios: This schedule displays the changes in net pension liability for all participating employers.
- Schedule of Employer Contributions: This schedule provides a 10 year history of the employer's actual contributions compared to the statutory actuarially determined contributions. The schedule also displays the employer contributions as a percentage of covered payroll.
- Schedule of Investment Returns: This table shows the money-weighted rate of return for investments net of investment management fees.

**Other Supplementary Information**
Other supplementary information includes schedules pertaining to administrative expenses, information technology expenses, investment management fees and other investment expenses, as well as payments to consultants (other than investment managers). Other supplementary information can be found on pages 41-42.

## Financial Analysis

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

**Table #1: MCERA Fiduciary Net Position**
**As of June 30, 2017**

| (Dollars in Thousands) | 2017 | 2016 | Amount Increase/ (Decrease) | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Cash Equivalents | $ 1,682 | $ - | $ 1,682 | 100.00% |
| Receivables | 1,081 | 938 | 143 | 15.25% |
| Capital Assets, Net | | | | |
| Software Equipment | 556 | 635 * | (79) | (12.44%) |
| Investments, at Fair Value | 482,152 | 426,471 | 55,681 | 13.06% |
| Total Assets | 485,471 | 428,044 | 57,427 | 13.42% |
| Cash Overdraft | - | 248 | (248) | (100.00%) |
| Accounts Payable | 126 | 288 | (162) | (56.25%) |
| Accrued Expenses and Other Liabilities | 1,318 | 1,170 * | 148 | 12.65% |
| Total Liabilities | 1,444 | 1,706 | (262) | (15.36%) |
| Fiduciary Net Position Held in Trust for Pension Benefits | $ 484,027 | $ 426,338 | $ 57,689 | 13.53% |

* Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications have no effect on the previously reported fiduciary net position.

**Table #2: Changes In Fiduciary Net Position**
**For the Fiscal Years Ended June 30, 2017 and 2016**

| (Dollars in Thousands) | 2017 | 2016 | Amount Increase (Decrease) | % Change Increase (Decrease) |
|---|---|---|---|---|
| Additions | | | | |
| Employer Contributions | $ 19,116 | $ 19,129 | $ (13) | (0.07%) |
| Member Contributions | 5,754 | 5,545 | 209 | 3.77% |
| Net Investment Income (Loss) | 66,670 | (10,352) | 77,022 | 744.03% |
| Total Additions | 91,540 | 14,322 | 77,218 | 539.16% |
| Deductions | | | | |
| Retirement Benefits | 31,617 | 30,435 | 1,182 | 3.88% |
| Refund of Contributions | 1,148 | 624 | 524 | 83.97% |
| Administrative Expenses | 1,086 | 1,142 | (56) | (4.90%) |
| Total Deductions | 33,851 | 32,201 | 1,650 | 5.12% |
| Net Increase (Decrease) | $ 57,689 | $ (17,879) | $ 75,568 | 422.66% |
| Fiduciary Net Position Held in Trust for Pension Benefits at Beginning of Year | $ 426,338 | $ 444,217 | $ (17,879) | (4.02%) |
| Fiduciary Net Position Held in Trust for Pension Benefits at End of Year | $ 484,027 | $ 426,338 | $ 57,689 | 13.53% |

**Additions to Fiduciary Net Position**

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 years ended June 30, 2017 and 2016, totaled $91.5 million and $14.3 million, respectively. The increase in revenues from 2016 to 2017 can be attributed primarily to a increase in net investment income. Employer contributions decreased slightly while member contributions increased resulting in a net increase in total contributions. Total net position increased from approximately $426 million in fiscal year (FY) 2016 to $484 million in FY 2017.

**Deductions from Fiduciary Net Position**

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 MCERA. These expenses for the fiscal years ended June 30, 2017 and 2016, were $33.8 million and $32.2 million, respectively. The primary reason for this change was an increase in benefits paid to retirees and refunds of contributions.

**MCERA Financial Reserves**

**Table #3: MCERA Reserves**
**As of June 30, 2017 and 2016**

| (Dollars in Thousands) | 2017 | 2016 |
|---|---|---|
| Member Reserve | $ 65,518 | $ 61,945 |
| Employer Reserve | (93,380) | (72,692) |
| Retiree Reserve | 270,040 | 246,403 |
| Cost of Living Reserve | 135,424 | 122,006 |
| Contingency Reserve | 4,855 | 4,287 |
| Total Reserves | $ 382,457 | $ 361,949 |

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

**Major Initiatives and Significant Events**

Several major initiatives were undertaken during the fiscal year including:

- MCERA received a favorable review from the Internal Revenue Service, in the form of a determination letter in August 2016. This is of critical importance for maintaining the tax qualified status of the plan.
- Following the asset liability study conducted in the prior fiscal year, MCERA conducted a review of its asset category portfolios which resulted in the decision to terminate eight investment managers and hire three new managers.
- Additionally, MCERA initiated an investment manager search for International Small Cap equity, International Emerging Markets equity, and an Equal Weighted S&P 500 mandate.
- The Board adopted new actuarial assumptions, including a decrease in the assumed rate of return from 7.25% to 7.00% and other assumption changes based on the July 1, 2013, through June 30, 2016 Actuarial Experience Study.
- The Board voted to change the region of the Consumer Price Index (CPI) from the San Francisco-Oakland-San Jose Area to the Western Region of the United States for future cost of living adjustments (COLA).
- Staff completed an external audit request for proposal (RFP) resulting in a new external auditor after review and approval by the Audit and Budget Committee and adoption by the Board.
- Staff completed a study on MCERA's unfunded actuarial accrued liability (UAAL).
- Board governance was enhanced with the adoption of numerous policy additions and updates.
- MCERA deployed a new client portal where our members may access information regarding their account and interact with MCERA more readily.
- A new Electronic Documents Management System (EDMS) was implemented. All client and critical records of MCERA have been digitized and stored electronically in an add-on to the Pension Administration System allowing for more efficient records retrieval. Additionally, EDMS provides more accessibility in the event of a disaster recovery scenario.
- MCERA developed and implemented plans to address maintenance on the real asset at 625 Kings Court, Ukiah, CA. The plan addressed a significant amount of deferred maintenance and will continue the building upkeep into the future to maximize the value of the investment.

**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, 2017, was 15.89% which exceeded the benchmark by 2.73%. Performance returns were 5.31%, 9.57%, 9.64%, and 5.76% for the three, five, seven, and ten year periods ending June 30, 2017, respectively.

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

**Funded Status and Actuarial Reporting**

MCERA maintains a funding goal to establish contributions that fully fund MCERA'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 MCERA is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, an 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, 2017 valuation, the ratio of actuarial valuation value of assets to the actuarial accrued liabilities was 69.9%, which was a decrease from the prior year's valuation funded ratio of 70.7%. The actuarial valuation value of assets excludes about $3.9 million in market gains that will be smoothed in over the next few years. Thus, on a market value basis, the funded ratio would be 71.2%. MCERA's unfunded actuarial accrued liability (UAAL) as of June 30, 2017, was $204.3 million. On a market value basis, the UAAL would be $195.5 million. The increase in the UAAL on an actuarial valuation basis can be attributed to changes in the actuarial assumptions as recognized on June 30, 2017. These losses were somewhat offset by better than expected investment performance and gains from lower than expected salary increases, and favorable retiree and beneficiary COLA experience.

As of June 30, 2017, there are 22 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, 2017 valuation increased to 34.92% of payroll from 31.77%. The net effect of changes in actuarial assumptions, experience gains, favorable investment returns, and lower than expected salary and COLA increases all contributed to the rate increase. The aggregate employee rate increased to 9.78% of payroll from 9.38% due to a change in actuarial assumptions.

**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

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**
**STATEMENT OF FIDUCIARY NET POSITION**
**AS OF JUNE 30, 2017**

| | |
|---|---|
| **ASSETS** | |
| Cash equivalents (Note 3): | $ 1,681,842 |
| Investments, at fair value (Notes 3 and 4): | |
| Fixed income | 103,647,530 |
| Domestic equities | 185,657,960 |
| International equities | 146,094,081 |
| Real estate partnerships | 45,602,751 |
| Real estate – 625 Kings Court, Ukiah, CA | 1,150,000 |
| Total Investments, at Fair Value | 482,152,322 |
| Receivables: | |
| Member contributions receivable | 210,269 |
| Employer contributions receivable | 722,286 |
| Other receivables | 148,758 |
| Total Receivables | 1,081,313 |
| Capital assets, net: | |
| Software equipment | 555,682 |
| **TOTAL ASSETS** | $ 485,471,159 |
| **LIABILITIES** | |
| Liabilities: | |
| Accounts payable | $ 125,944 |
| Accrued expenses and other liabilities | 1,318,498 |
| **TOTAL LIABILITIES** | $ 1,444,442 |
| **FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION BENEFITS** | $ 484,026,717 |

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

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | |
|---|---|
| **ADDITIONS TO FIDUCIARY NET POSITION ATTRIBUTED TO:** | |
| Investment income: | |
| Net realized and unrealized appreciation in fair value of investments | $ 59,658,631 |
| Dividend income | 7,535,361 |
| Rent income, net of expenses | 81,132 |
| Interest income | 12,653 |
| Investment expenses | (617,913) |
| Total investment income, net | 66,669,864 |
| Contributions (Note 5): | |
| Employer contributions | 19,116,426 |
| Member contributions | 5,753,907 |
| Total contributions | 24,870,333 |
| Total additions | 91,540,197 |
| **DEDUCTIONS FROM FIDUCIARY NET POSITION ATTRIBUTED TO:** | |
| Retirement benefits | 31,616,956 |
| Refund of contributions | 1,148,446 |
| Administrative expenses | 1,086,089 |
| Total deductions | 33,851,491 |
| Net increase | 57,688,706 |
| **FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION BENEFITS:** | |
| Balance at Beginning of Year | 426,338,011 |
| Balance at End of Year | $ 484,026,717 |

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

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**
**NOTES TO THE FINANCIAL STATEMENTS**
**JUNE 30, 2017**

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

Mendocino County Employees' Retirement Association (MCERA or the Plan) is governed by the Board of Retirement and is considered an independent entity. MCERA is a component unit of the County of Mendocino (the County) 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:

MCERA follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines, and financial statements are prepared using the accrual basis of accounting. MCERA member contributions are recognized in the period in which the contributions are due. Employer contributions to MCERA 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 MCERA.

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.

Investment Policy and Valuation of Investments:

The Board has exclusive control of MCERA's investments. Government Code Section 31595 of the CERL authorizes the Board to invest, or delegate the authority to invest, the assets of MCERA in any investment allowed by statute and deemed prudent in the informed opinion of the Board. The Board completed an in-depth asset-liability study and manager structure review that began in FY2016 and continued into FY 2017. A new target allocation and investment policy statement was adopted in FY 2017 and eight managers were terminated and three new managers were hired in an effort to consolidate and optimize the portfolio. The implementation of the new managers will continue into FY 2018. The new target allocation consists of 38% in Domestic Equity, 29% in International Equity, 22% in Domestic Fixed Income and 11% to Domestic Real Estate.

Investments are reported at fair value. Investments that do not have an established market are reported at estimated 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. Purchases and sales of securities are accounted for on a trade date basis and dividends declared but not received are accrued on the ex-dividend date. 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 MCERA investments.

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, 2017, MCERA owned no derivatives directly in its portfolio.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Custodial Credit Risk:

Custodial credit risk for deposits in the County trust account is assumed by the County. 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 either held by MCERA's custodial bank in MCERA's account or held directly with investment companies in MCERA's name.

MCERA's custodial bank maintains insurance to help protect against losses due to negligence, theft, and other related events.

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:

MCERA 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 Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. Quality ratings of MCERA's fixed income funds are summarized in the Commingled Fixed Income Funds table below. Investment allocation guidelines according to the Investment Policy are as follows:

| | Allowable Range | Current Allocation |
|---|---|---|
| U.S. Equity | 33% - 43% | 38.50% |
| Non-U.S. Equity | 24% - 34% | 30.30% |
| U.S. Fixed Income | 19% - 25% | 21.50% |
| Real Estate | 6% - 16% | 9.70% |

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 across a broad spectrum of sectors and geographies that have sound long-term growth potential. Similar restrictions apply to fixed income securities. Although MCERA does not have a specific policy to limit credit risk, MCERA seeks to mitigate risk through its Investment Policy constraints.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Interest Rate Risk:

Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. MCERA has not adopted a specific formal policy to manage interest rate risk. Nevertheless, MCERA's U.S. active bond funds are generally managed with duration limits to reduce interest rate risk. The quality and interest rate risk of MCERA's fixed income funds are summarized in the table below.

**Commingled Fixed Income Funds**

| Fund Name | Fair Value | Weighted Average Coupon | Weighted Average Maturity (Years) | Effective Duration (Years) | Weighted Average Quality Rating |
|---|---|---|---|---|---|
| Dodge & Cox Income | $ 51,906,821 | 4.20% | 7.97 | 4.22 | AA- |
| PIMCO Total Return | 51,740,709 | 2.77% | 7.64 | 5.08 | AA |
| Total | $ 103,647,530 | 3.49% | 7.81 | 4.65 | AA- |

Foreign Currency Risk:

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

Investment Concentrations:

As of June 30, 2017, MCERA does not hold investments in any one organization that represent 5 percent or more of MCERA's fiduciary net position.

Money Weighted Rate of Return:

For the fiscal year ended June 30, 2017, the annual money-weighted rate of return on MCERA investments, net of investment management expense, was 16.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Capital Assets:

Capital assets consist of MCERA's pension administrative system software, which is carried at a cost of $793,831 less accumulated amortization of $238,149.

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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 special district whose services commence after a given future date.

Risk Management:

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

MCERA 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 MCERA 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. MCERA obtained its latest determination letter dated August 11, 2016, in which the IRS stated that MCERA, as then designed, is in compliance with the applicable requirements of the IRC.

Administrative Expenses:

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

MCERA's actual administrative expense excluding IT costs for fiscal year 2016-17 was $822,558, which represented 0.12% of MCERA's actuarial accrued liability or 41.13% of the $2 million statutory cap.

New Accounting Standard Adopted:

**GASB Statement No. 82**

In April 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, to address a few concerns raised under Statements No. 67, No. 68, and No. 73 regarding the financial reporting for local governmental employers and pension plans.

The statement provides additional guidance for the following: (1) the presentation of payroll-related measures in the Required Supplementary Information section, (2) the treatment of deviations from the actuarial standards of practice when selecting actuarial assumptions, and (3) the classification of member contributions (i.e., "pick-up" contributions) for reporting purposes.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

New Accounting Standard Adopted (Continued):

MCERA has implemented GASB Statement No. 82 in an effort to present consistency throughout the reporting of GASB Statement No. 67 within these financial statements and GASB 68 which is provided to the employers for reporting in their own financial statements. As it pertains to MCERA, GASB Statement No. 82 amends Statement No. 67 and requires the presentation of covered payroll, defined as the payroll on which contributions are based, as well as ratios that utilize this measure.

Subsequent Events:

Management has evaluated all subsequent events after June 30, 2017, through December 4, 2017, the date the financial statements were available to be issued. Management did not identify any subsequent events that would require disclosure.

**NOTE 2 – DESCRIPTION OF PLAN**

Description of Plan and Applicable Provisions of the Law:

MCERA 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, the 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, 2017, consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 1,462 |
| Terminated plan members entitled to, but not yet receiving benefits | 479 |
| Active plan members | 1,123 |
| Total | 3,064 |
| 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 the County are eligible, but have not elected to participate.

Under the CERL, the management of MCERA is vested in the Board comprised of nine members and one alternate: two elected by the active general membership, one elected by the active safety membership, one regular and one alternate elected by the retired membership, four appointed by the Mendocino County Board of Supervisors, and the Mendocino County Treasurer, who serves as an ex-officio member.

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.

**NOTE 2 – <u>DESCRIPTION OF PLAN</u>** (Continued)

<u>Description of Plan and Applicable Provisions of the Law</u> (Continued):

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

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

**NOTE 3 – <u>CASH AND INVESTMENTS</u>**

Cash and investments are reported at fair value. Cash and investments that do not have an established market are reported at estimated fair value. All investments listed in the Statement of Fiduciary Net Position, except for real estate and cash equivalents, are registered securities held by MCERA's agent in MCERA's name. The Board of Retirement has exclusive control over all cash and investments of MCERA 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. Cash from deposits and cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasurer is responsible for the management, control, and safekeeping of all investments in the pooled fund. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value and may be subject to credit risk, concentration risk, and custodial credit risk.

**NOTE 3 – CASH AND INVESTMENTS** (Continued)

MCERA's cash and investments stated at fair value as of June 30, 2017, are as follows:

| | 2017 |
|---|---|
| Cash in trust - Mendocino County | $ 1,681,842 |
| Total cash equivalents | 1,681,842 |
| Fixed income | 103,647,530 |
| International equities | 146,094,081 |
| Domestic equities – small cap | 26,977,582 |
| Domestic equities – mid cap | 27,484,887 |
| Domestic equities – large cap | 131,195,491 |
| Real estate partnerships | 45,602,751 |
| Real estate – 625 Kings Court, Ukiah, CA | 1,150,000 |
| Total investments | 482,152,322 |
| Total Cash Equivalents and Investments | $ 483,834,164 |

**NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS**

MCERA follows GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72)*, which* establishes a fair value hierarchy based on three types of input to develop the fair value measurements for investments. The hierarchy gives the highest priority to Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The three levels of the fair value hierarchy under GASB 72 are described below.

Level 1:
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MCERA 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 inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

**NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS** (Continued)

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.

*Commingled funds:* Valued at the fair value of shares held by MCERA at year-end.

Certain investments which do not have a readily determinable fair value have been valued at Net Asset Value (NAV) per share (or its equivalent) provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with GAAP requirements. These investments are not categorized within the fair value hierarchy but disclosed in the schedule of investments measured at the NAV.

*Real estate partnerships:* Valued at the net asset value of shares held by MCERA at year-end.

*Real estate – 625 Kings Court, Ukiah, CA*: Valued at the approximate fair value obtained through professional appraisal that was completed in June 2017.

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 MCERA 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.

The following table set forth by level, within the fair value hierarchy, MCERA's investments at fair and net asset value as of June 30, 2017:

| | Investments at Fair Value as of June 30, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Investments by fair value level:** | | | | |
| Commingled funds: | | | | |
| Fixed income | $ - | $ 103,647,530 | $ - | $ 103,647,530 |
| International equities | 42,140,145 | 103,953,936 | - | 146,094,081 |
| Domestic equities | 153,724,279 | 31,933,681 | - | 185,657,960 |
| Real estate - 625 Kings Court, Ukiah, CA | - | - | 1,150,000 | 1,150,000 |
| Total investments by fair value level | $ 195,864,424 | $ 239,535,147 | $ 1,150,000 | $ 436,549,571 |
| **Investments measured at the net asset value (NAV):** | | | | |
| Real estate partnerships | | | | 45,602,751 |
| **Total investments measured at fair value level and NAV** | | | | $ 482,152,322 |

**NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS** (Continued)

The valuation method for investment measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

| | Investments at Net Asset Value as of June 30, 2017 | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Real estate partnerships [1] | $ 45,602,751 | 6,000,000 | Quarterly | 45 Days |
| Total investments measured at the NAV | $ 45,602,751 | | | |

[1] These are two real estate funds. They are real estate funds that invest primarily in a diversified portfolio of institutional quality multi-family, industrial, retail, and office assets in the United States. The fair values of the investments in this type have been determined using the NAV (or its equivalent) of MCERA's ownership interest in partners' capital.

The following table sets forth a summary of changes in the fair value of MCERA's Level 3 investments for the year ending June 30, 2017, as follows:

Commercial Building at 625 Kings Court, Ukiah California

| | 2017 |
|---|---|
| Fair value, beginning of year | $ 864,000 |
| Unrealized gain | 144,620 |
| Purchases | 141,380 |
| Sales | - |
| Issuances | - |
| Settlements | - |
| Fair value, end of year | $ 1,150,000 |
| 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, 2017. | $ 144,620 |

The following table represents MCERA's Level 3 financial instruments and the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2017. A professional appraisal was completed in June 2017.

| Instrument | Fair Value at June 30, 2017 | Principal Valuation Technique |
|---|---|---|
| Real Estate - 625 Kings Court, Ukiah, CA | $ 1,150,000 | Fair Value = Appraisal |

**NOTE 5 – CONTRIBUTIONS**

Contribution rates for the employer and its participating employees are established and may be amended by the MCERA Board of Retirement (and then shall be adopted by the County Board of Supervisors). The contribution rates are determined based on the benefit structure established by the employer. The Actuarial Valuation and Review report issued by The Segal Consulting as of June 30, 2015, recommended employer and member contribution rates that aggregate to 32.55% and 9.86%, respectively. The actual member and employer rates depend on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of MCERA. 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.

Using the projected payroll amounts for MCERA's membership groups and tiers that were used in the June 30, 2015 actuarial valuation, management has estimated the contributions are comprised of the following for the year ended June 30, 2017:

| | |
|---|---|
| Estimated Employer Normal Cost Contributions | $ 6,900,707 |
| Estimated UAAL Contributions | 12,215,719 |
| Total | $ 19,116,426 |

**NOTE 6 – NET PENSION LIABILITY**

GASB Statement No. 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 MCERA's fiduciary 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, 2017, were as follows:

| | |
|---|---|
| Total pension liability | $ 679,565,362 |
| Fiduciary net position | 484,026,717 |
| Net pension liability | $ 195,538,645 |
| Fiduciary net position as a percentage of total pension liability | 71.2% |

Disclosure of Information About Actuarial Methods and Assumptions:

The required Schedule of Changes in Net Pension Liability and Related Ratios immediately following the Notes to the Financial Statements presents information about whether the 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, 2017, was determined by actuarial valuation as of June 30, 2017. The actuarial assumptions used in this June 30, 2017 valuation were based on the results of an experience study for the period from July 1, 2013 through June 30, 2016. Key methods and assumptions used in the latest actuarial valuation are presented below:

| | |
|---|---|
| Valuation date | June 30, 2017 |
| Actuarial cost method | Entry age cost method (individual basis) |
| Amortization method | Level % of payroll for total unfunded liability |
| Remaining amortization period | 22 years (closed) for all unfunded actuarial accrued liability (UAAL) |
| Asset valuation method | Fair 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 fair value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the fair 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 | 7.00% |
| Inflation rate | 3.00% |
| Real across-the-board salary increase | 0.50% |
| Projected salary increases * | 4.00% to 8.50% |
| * Includes inflation at | 3.00% 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: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females. |
| Years of life expectancy after disability | For all members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvement Scale MP-2016, set forward four years for males and set forward six years for females.<br>The mortality tables contain a margin of about 20%, based on actual to expected deaths, as a provision to reflect future mortality improvement, based on a review of mortality experience as of the measurement date. |
| Life expectancy after retirement for employee contribution rate purposes | General members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females, weighted 30% male and 70% female.<br>Safety and Probation members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females, weighted 80% male and 20% female. |

**NOTE 6 – NET PENSION LIABILITY** (Continued)

Assumed Asset Allocation:

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

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting assumed inflation of 3.00%, 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 | 25.30% | 5.64% |
| U.S. Small Cap Equity | 12.70% | 6.24% |
| Global Equity | 29.00% | 6.70% |
| Domestic Fixed Income | 22.00% | 1.06% |
| Real Estate | 11.00% | 4.37% |
| Total | 100.00% | |

Discount Rate:

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2017. 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, MCERA’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, 2017.

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, 2017, calculated using the discount rate of 7.00%, 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 (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|
| Net pension liability | $ 284,720,480 | $ 195,538,645 | $ 122,096,468 |

**NOTE 7 – RESERVES**

MCERA had contingency reserves of $4,854,712 at June 30, 2017, 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 7.00% 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, 2017, (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

| | 2017 | 2016 |
|---|---|---|
| Employee reserves | $ 65,517,864 | $ 61,944,847 |
| Employer reserves | (93,379,762) | (72,691,901) |
| Retiree reserves | 405,463,897 | 368,408,812 |
| 1% Contingency reserve | 4,854,712 | 4,287,039 |
| Total reserves | 382,456,711 | 361,948,797 |
| Cumulative unallocated net unrealized gain on investments | 97,622,925 | 89,096,085 |
| Total allocated reserves (smoothed market actuarial value after corridor limits) | 480,079,636 | 451,044,882 |
| Fiduciary net position in excess (deficit of reserves) | 3,947,081 | (24,706,871) |
| Fiduciary net position held in trust for pension benefits | $ 484,026,717 | $ 426,338,011 |

**NOTE 8 – COMMITMENTS**

As of June 30, 2017, MCERA was committed to future purchases of a real estate investment at a cost of approximately $6 million.

# REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 |
|---|---|---|---|---|---|
| Total pension liability: | | | | | |
| Service cost | $ 12,356,900 | $ 12,125,153 | $ 12,058,526 | $ 11,762,194 | $ 12,083,893 |
| Interest | 45,532,301 | 44,005,882 | 42,156,056 | 39,412,370 | 37,805,390 |
| Change of benefit terms | - | - | - | - | - |
| Differences between expected and actual experience | (5,836,962) | (3,396,702) | 1,787,516 | (8,040,343) | (1,868,814) |
| Changes in assumptions | 28,220,986 | - | - | 58,186,913 | - |
| Benefit payments, including refunds of employee contributions | (32,765,402) | (31,058,643) | (30,049,133) | (27,353,529) | (26,573,554) |
| Net change in total pension liability | 47,507,823 | 21,675,690 | 25,952,965 | 73,967,605 | 21,446,915 |
| Total pension liability - beginning of year | 632,057,539 | 610,381,849 | 584,428,884 | 510,461,279 | 489,014,364 |
| Total pension liability - end of year (a) | $ 679,565,362 | $ 632,057,539 | $ 610,381,849 | $ 584,428,884 | $ 510,461,279 |
| Fiduciary net position: | | | | | |
| Contributions - employers' | $ 19,116,426 | $ 19,129,191 | $ 15,164,044 | $ 14,324,752 | $ 14,260,473 |
| Contributions - members' | 5,753,907 | 5,544,925 | 4,651,960 | 4,575,895 | 4,712,593 |
| Net investment income (loss) | 66,669,864 | (10,352,325) | 13,201,309 | 68,294,844 | 48,890,492 |
| Benefit payments, including refunds of employee contributions | (32,765,402) | (31,058,643) | (30,049,133) | (27,353,529) | (26,573,554) |
| Administrative expense | (1,086,089) | (1,142,493) | (1,059,272) | (930,437) | (829,999) |
| Other | - | - | - | 200,106 | - |
| Net change in fiduciary net position | 57,688,706 | (17,879,345) | 1,908,908 | 59,111,631 | 40,460,005 |
| Fiduciary net position - beginning of year | 426,338,011 | 444,217,356 | 442,308,448 | 383,196,817 | 342,736,812 |
| Fiduciary net position - end of year (b) | $ 484,026,717 | $ 426,338,011 | $ 444,217,356 | $ 442,308,448 | $ 383,196,817 |
| Net pension liability - end of year (a) - (b) | $ 195,538,645 | $ 205,719,528 | $ 166,164,493 | $ 142,120,436 | $ 127,264,462 |
| Fiduciary net position as a % of the total pension liability | 71.2% | 67.5% | 72.8% | 75.7% | 75.1% |
| Covered payroll | $ 59,801,480 | $ 57,407,928 | $ 54,891,785 | $ 53,813,882 | $ 53,254,876 |
| Net pension liability as a % of covered payroll | 327.0% | 358.3% | 302.7% | 264.1% | 239.0% |

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

## SCHEDULE OF EMPLOYER CONTRIBUTIONS
## (DOLLAR AMOUNTS IN THOUSANDS)

| | | | | | As a % of Covered Payroll | |
|---|---|---|---|---|---|---|
| Year Ended | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actuarially Determined Contribution | Actual Employer Contribution |
| 6/30/08 | $ 7,232 | $ 7,232 | $ - | $ 68,447 | 11% | 11% |
| 6/30/09 | 6,046 | 8,560 | (2,514) | 72,565 | 8% | 12% |
| 6/30/10 | 9,571 | 8,709 | 862 | 70,384 | 14% | 12% |
| 6/30/11 | 9,554 | 9,554 | - | 64,252 | 15% | 15% |
| 6/30/12 | 11,811 | 11,811 | - | 56,291 | 21% | 21% |
| 6/30/13 | 14,260 | 14,260 | - | 53,254 | 27% | 27% |
| 6/30/14 | 14,325 | 14,325 | - | 53,813 | 27% | 27% |
| 6/30/15 | 15,164 | 15,164 | - | 54,891 | 28% | 28% |
| 6/30/16 | 19,129 | 19,129 | - | 57,407 | 33% | 33% |
| 6/30/17 | 19,116 | 19,116 | - | 59,801 | 32% | 32% |

Note: The Schedule of Funding Progress can be found on page 68 in the Actuarial Section.

## SCHEDULE OF INVESTMENT RETURNS

| Fiscal Year | Annual Money-Weighted Rate of Return, Net of Investment Management Fees [1] |
|---|---|
| 2008 | N/A |
| 2009 | N/A |
| 2010 | N/A |
| 2011 | N/A |
| 2012 | N/A |
| 2013 | N/A |
| 2014 | 18.00% |
| 2015 | 3.10% |
| 2016 | (2.19)% |
| 2017 | 16.10% |

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

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

## NOTE 1 – SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

The total pension liability contained in this schedule was obtained from MCERA's actuary, Segal Consulting.

The service cost is based on the previous year's valuation, meaning the 2017 and 2016 values are based on the valuations as of June 30, 2016 and June 30, 2015, respectively. Both of the service costs have been calculated using the assumptions shown in the June 30, 2016 column as there had been no changes in the actuarial assumptions between the June 30, 2015 and 2016 valuations.

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

### Change in Assumptions

Triennially, MCERA requests that the actuary perform an analysis of all economic and non-economic assumptions in the form of an Experience Study. The most recent triennial analysis was performed as of June 30, 2016 for the period of July 1, 2013 through June 30, 2016. Based on the results of this study, the Retirement Board adopted new economic assumptions effective with the June 30, 2017 valuation. These key methods and assumption changes included adjusting the investment return from 7.25% to 7.00%; adjusting inflation from 3.25% to 3.00%; and mortality rate table changes. See Note 6 for details on the current actuarial methods and assumptions used in the June 30, 2017 actuarial valuation.

## NOTE 2 – SCHEDULE OF INVESTMENT RETURNS

The money-weighted return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## NOTE 3 – ACTUARIAL ASSUMPTIONS USED IN DETERMINING THE ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarial determined contribution rates for the year ending June 30, 2017, are calculated based on the June 30, 2015 actuarial valuation (two years prior to the end of the fiscal year in which contributions are reported). Details of the actuarial methods and assumptions used for the valuation are as 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 | 22 years (closed) for all UAAL remaining as of June 30, 2017 |
| Asset valuation method | Fair 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 fair value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the fair value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves. |

**NOTE C – <u>ACTUARIAL ASSUMPTIONS USED IN DETERMINING THE ACTUARIALLY DETERMINED CONTRIBUTIONS</u>** (Continued)

| | |
|---|---|
| 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 one year for males and with no set back 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 for both males and females.<br>The mortality tables contain a margin in excess of 10%, based on actual to expected deaths, as a provision appropriate to reasonably reflect future mortality improvement, 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 employee contribution rate purposes 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.<br>Safety and Probation members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and no set back for females, weighted 80% male and 20% female. |

Information in the Schedule of Employer Contributions prior to 2011 has been extracted from the previous actuary's past valuation reports. In addition, covered-employee payroll shown represents Compensation Earnable and Pensionable Compensation. Only Compensation Earnable and Pensionable Compensation that would go into the determination of retirement benefits are included.

# OTHER SUPPLEMENTARY INFORMATION

## SCHEDULE OF INVESTMENT MANAGEMENT FEES AND OTHER INVESTMENT EXPENSES FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| Investment Management Fees | Direct | Fund Level | Total | Total Assets |
|---|---|---|---|---|
| Large Cap Funds | $ - | $ 591,098 | $ 591,098 | $ 131,195,490 |
| Mid Cap Funds | - | 187,858 | 187,858 | 27,484,888 |
| Small Cap Funds | - | 305,702 | 305,702 | 26,977,582 |
| International Equity Funds | 208,932 | 699,241 | 908,173 | 146,094,081 |
| Fixed Income Funds | - | 453,912 | 453,912 | 103,647,530 |
| Real Estate | - | 429,928 | 429,928 | 46,752,751 |
| Investment Consultant | 147,784 | - | 147,784 | |
| Custodial Bank | 62,421 | - | 62,421 | |
| Actuarial Expense | 157,432 | - | 157,432 | |
| Other Investment Expense | 41,344 | - | 41,344 | |
| Total Investment Expenses | $ 617,913 | $2,667,739 | $ 3,285,652 | $ 482,152,322 |

## SCHEDULE OF PAYMENTS TO CONSULTANTS (OTHER THAN INVESTMENT MANAGERS) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | 2017 |
|---|---|
| Actuarial Expense | $ 157,431 |
| Audit Services | 38,500 |
| Custodian Services | 62,421 |
| Pension IT Services [1] | 243,900 |
| Disability Medical Reviews | 32,150 |
| Legal Counsel | |
| General | 70,320 |
| Disability | 3,414 |
| Total Payments to Consultants | $ 608,136 |

(1) Includes $240,559 paid to Levi, Ray & Shoup Inc. and $3,441 paid to Linea Solutions Inc.

## SCHEDULE OF ADMINISTRATIVE EXPENSES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | | |
|---|---|---|
| **Personnel Services:** | | |
| Salaries and Wages | $ | 337,024 |
| Other Benefits | | 90,421 |
| Employee Retirement | | 123,808 |
| Total Personnel Services | | 551,253 |
| **Professional Services:** | | |
| Legal Expense - General | | 70,320 |
| Outside Legal Counsel - Disability | | 3,414 |
| Disability Medical Review | | 32,150 |
| External Audit Fees | | 38,500 |
| Total Professional Services | | 144,384 |
| **Miscellaneous:** | | |
| Office Expenses | | 42,987 |
| Rent and Leases | | 52,800 |
| Memberships | | 5,095 |
| Board Meeting Stipends and Contracts | | 6,505 |
| Training and Travel | | 19,534 |
| Total Miscellaneous | | 126,921 |
| **Total Administrative Expenses**[1] | **$** | **822,558** |
| Total Information Technology (IT) Expense | $ | 263,531 |
| **Total Administrative and IT Expense** | **$** | **1,086,089** |

(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 2016-17 as the total expenses excluding IT expense were less than the administrative cap at 12/100% of the actuarial accrued liability.

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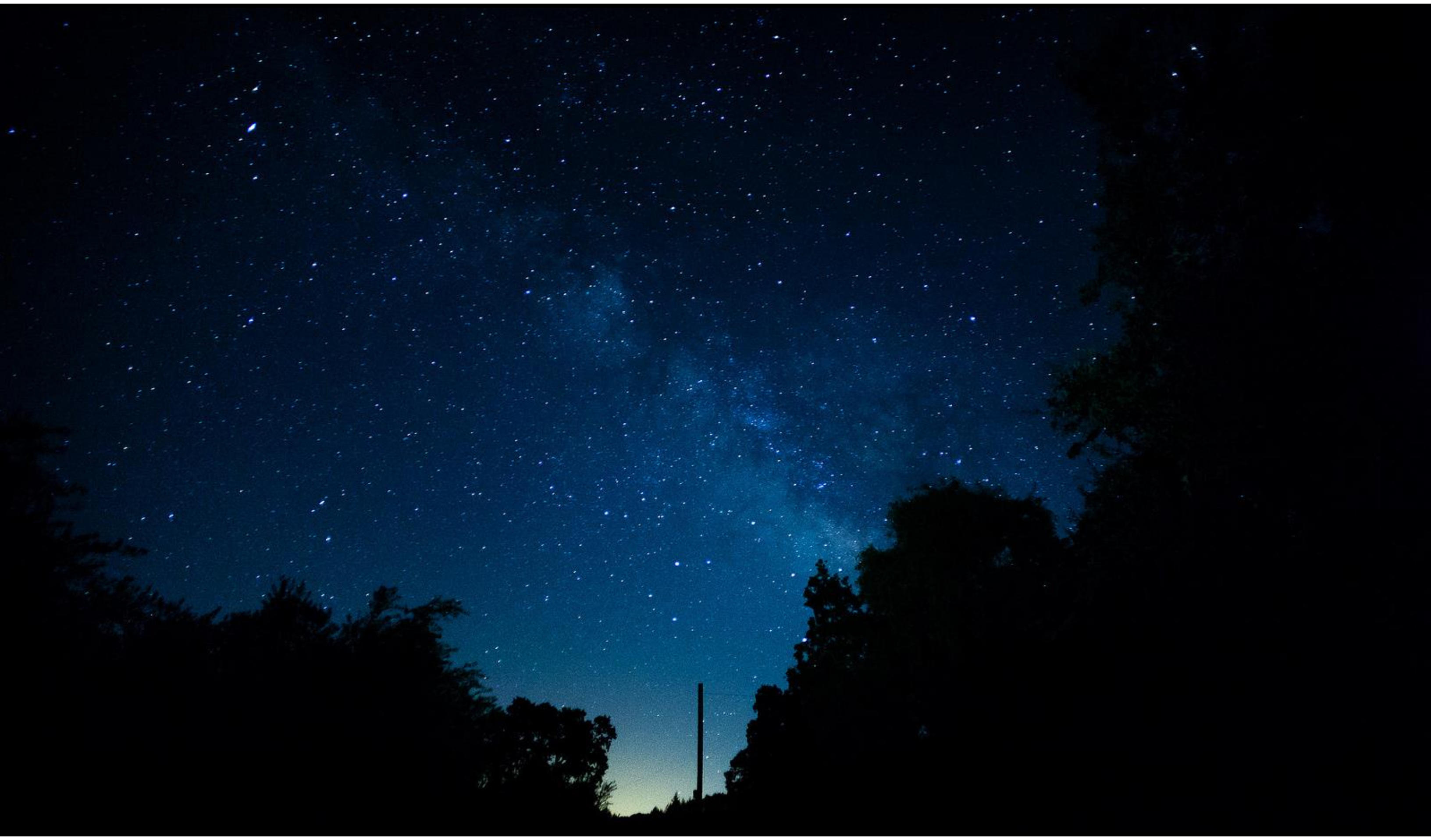
# *Investment Section*



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**Performance Summary**

## Mendocino County Employees' Retirement Association
## Executive Summary
## Fiscal Year Ended June 30, 2017

### General Economic Conditions and Capital Markets Overview

The fiscal year ended June 30, 2017 saw substantial political uncertainty and geopolitical turmoil, however global financial markets remained resilient. For the full fiscal year, broad market asset class returns were mixed; ranging from flat bond market, given low level of interest rates, to high single-digit gains in real estate, to impressive +20% from domestic and foreign equities.

The fiscal year commenced with a strong rebound in equity markets following the late June 2016 vote in the U.K. to leave the European Union (Brexit). Volatility was exceptionally low; a result of accommodative policies from central banks and slow but steady economic growth. The swift pivot, coupled with optimism about the U.S. economy and easing fears on China, led to a risk-on environment. Consistent with the risk-on theme, U.S. equities added 4.4% (Russell 3000), supported by reduced fears of slowing global growth, U.S. economy optimism, and delay in rate hike; the MSCI ACWI ex-U.S. rallied 7.0%, on the heels of dwindling Brexit anxieties and low volatility; and emerging markets (MSCI EM US$: +9.0%) topped performance in the accommodative macroeconomic environment. Despite the high level of disagreement points, the Fed left the rate unchanged, citing a desire for further evidence of continued economic recovery. The Bloomberg Aggregate Index posted incremental gains, eking out 46 basis points. Private real estate was up 2.0%, which was the lowest return since the first quarter of 2010, as expectations of a Fed rate increase eclipsed low long-term interest rates.

Stock and Bond markets endured a wild ride around the world in the 2nd quarter of the fiscal year, brought on by the surprising election results in the U.S., and the unsurprising December interest rate hike. Wild swings in sentiment and in confidence about the future moved markets around the globe. A post-election rally send U.S. stocks to record highs, cheered by good economic data, a rebound in corporate earnings, and speculation that Trump's presidency will bring lower taxes, lighter regulation, and increased spending. The Russell 3000 Index finished the quarter up 4.2%. Foreign markets did not fare as well. The U.S. dollar hit a multi-year high versus the euro and the yen and appreciated roughly 7% compared to a basket of currencies. This broad-based dollar strength eroded overseas returns for U.S. investors, despite hearty local returns. The MSCI ACWI ex-U.S. was down 1.2% for the quarter (but up 5.0% in local currency) and the MSCI EM US$ lost 4.2% (LC: +7.6%). The bond market also receded. The prospect of increased fiscal spending sparked concerns over higher inflation and tighter monetary policy, and led to a sharp sell-off in U.S. Treasuries. As interest rates in the U.S. rose sharply, the Bloomberg Aggregate Index lost footing and declined 3.0%. Private real estate continued its pace from the prior quarter, up another 2.0%.

The hallmark "risk-on" theme continued into the 3rd quarter of the fiscal year, as improving economic data trumped elevated geopolitical uncertainty. Economies in the U.S. and Europe continued to gain traction and the U.S. entered its 93rd month of expansion. As expected, the Fed raised rates in March by 25 bps, to a range of 0.75-1.00%; two more rate hikes were being predicted for the calendar year 2017. Markets

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were unfazed and both stocks and bonds rallied. Simultaneously, important and potentially divisive elections in Europe, an impeachment in South Korea, heightened tensions with North Korea, innuendo around Russia, civil war in Syria, the Brexit trigger, and an unconventional and inexperienced administration in the U.S. did not rile investors. The Russell 3000 surged 5.7%—it's best quarterly performance since the fourth quarter of 2015—as expectations for lower taxes, reduced regulation, and other pro-growth reforms helped propel U.S. equity prices to new highs. Non-U.S. stocks (+8.0%) also posted strong returns, bolstered by continuation of "risk on" theme and a softening U.S. dollar. Emerging market equities (+11.4%) rallied and beat developed markets, supported by a weaker dollar, economic growth in China, and rising industrial metal prices. The Treasury yield curve flattened during the quarter as short-term Treasuries rose while longer-term issues ticked downward, leading to fairly flat returns (+0.8%). Private real estate earned 1.6%, the lowest quarterly return since 2010, and eclipsed prior two quarters' mark of 2.0%.

At the forefront of the final quarter of the fiscal year was the Goldilocks sentiment: "Not too hot, not too cold, but just right." This sentiment, fueled by years of central bank accommodation and tepid economic growth has kept volatility at multi-decade lows, interest rates range-bound, and propelled domestic stock markets to new highs. Even persistent political drama and geopolitical headwinds have failed to create sufficient investor angst to unglue the markets. That said, it is safe to say that many investors are nervous and discovering "value" across market sectors is increasingly difficult. During the quarter, the Russell 3000 Index continued to inch higher (+3.0%), fueled by technology stocks, and despite the rate hike and turbulent events in the news; non-US equities (MSCI ACWI ex-U.S: +6.0%; MSCI EM US$: +6.3%) performed best, boosted by a weaker dollar; and bonds provided solid returns, supported by investors' search for stable yields. The Treasury yield curve flattened, with short rates up (consistent with the 25 basis points Fed rate hike in June, to a range of 1.00-1.25%) and longer rates falling, but the broad bond market managed to expand 1.5%. Private real estate set a new low mark since 2010 after increasing only 1.5%.

We are now eight years into the economic recovery in the U.S., arguably the latter stages of a mature expansion and at a point where inflationary pressures typically begin to build. Yet price and wage inflation remain stubbornly subdued. Headline inflation (CPI All-Urban Index) climbed above 2% in December 2016, stayed near 2.5% through April 2017, began to drift down in May, and was unchanged in June (0% inflation month to month); the year-over-year change ended June was 1.6%. The core measure of CPI (excluding food & energy) slipped to a year-over-year gain of 1.7% in June. This decline in core inflation is providing a headwind for the Fed and its efforts to bring interest rates back to "normal." Wage growth remains low, below 3%, where it has been for years, despite a tight labor market and an unemployment rate that fell to a 16-year low of 4.4% in June.

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

| Index | 3Q16 | 4Q16 | 1Q17 | 2Q17 | Fiscal Year |
|---|---|---|---|---|---|
| US Equity (Russell 3000) | 4.4% | 4.2% | 5.7% | 3.0% | 18.5% |
| Intl Equity (MSCI ACWI ex-U.S.) | 7.0% | (1.2%) | 8.0% | 6.0% | 21.0% |
| Real Estate (NFI-ODCE) | 2.0% | 2.0% | 1.6% | 1.5% | 7.2% |
| Fixed Income (Bloomberg Aggregate) | 0.5% | (3.0%) | 0.8% | 1.5% | (0.3%) |

## Asset Allocation

As of June 30, 2017, the assets of MCERA were valued at $483.8 million, up from the total asset value at the start of the fiscal year, July 1, 2016, of $426.2 million. Approximately $67.4 million in investment gains and $9.8 million in net withdrawals accounted for the increase in assets. Actual allocation to international equity was 1.2% above that of the target; it was offset by a relative underweight to real estate. All asset classes remain within their permitted ranges.

During the fiscal year, an asset liability study was conducted and as a result, a new asset allocation was selected to be implemented beginning October 1, 2016. The decision was made to stay with 38% in domestic equity, up international equity allocation from 25% to 29%, bring down fixed income exposure from 28% to 22%, and slightly increase real estate target from 9% to 11%.

| Asset Class | $000s Actual | Weight Actual | Target | Percent Difference | $000s Difference |
|---|---|---|---|---|---|
| Domestic Equity | 185,658 | 38.4% | 38.0% | 0.4% | 1,801 |
| International Equity | 146,094 | 30.2% | 29.0% | 1.2% | 5,783 |
| Domestic Fixed Income | 103,648 | 21.4% | 22.0% | (0.6%) | (2,796) |
| Domestic Real Estate | 46,753 | 9.7% | 11.0% | (1.3%) | (6,469) |
| Cash | 1,682 | 0.3% | 0.0% | 0.3% | 1,682 |
| Total | 483,834 | 100.0% | 100.0% | | |

## Total Fund Performance

MCERA's Total Fund gained 15.9% for the fiscal year ending June 30, 2017, and outperformed the Policy Index's 13.2% rise. For the same time period measured, MCERA's money-weighted rate of return net of investment fees was up 16.1%.

As shown in the fiscal year attribution below, active management benefitted relative performance, while the effect from deviations from the policy target was flat. Manager performance within domestic equity contributed the most to MCERA's Total Fund return, followed by helpful manager performance within domestic fixed income and international equity.

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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% | 22.56% | 18.51% | 1.50% | 0.02% | 1.52% |
| Domestic Fixed Income | 23% | 24% | 2.69% | (0.31%) | 0.78% | 0.04% | 0.83% |
| Domestic Real Estate | 10% | 11% | 5.48% | 5.60% | (0.01%) | 0.00% | (0.01%) |
| International Equity | 28% | 28% | 22.95% | 21.00% | 0.50% | (0.07%) | 0.43% |
| Cash | 1% | 0% | 0.00% | 0.00% | 0.00% | (0.05%) | (0.05%) |
| **Total** | | | **15.89% =** | **13.16% +** | **2.78% +** | **(0.05%)** | **2.73%** |

Overall, the Total Fund ranked in the 4th percentile within Callan's Public Fund Sponsor universe for the fiscal year. Longer term annualized Total Fund returns are roughly in-line or slightly ahead of the Policy Index and rank favorably versus other public fund sponsors, finishing 23rd, 39th, and 32nd for the trailing 5-, 7-, and 10-year periods, respectively.

## Summary

We entered 2017 with U.S. stock markets at record highs and historically low volatility. Not much has changed although geopolitical risks have not abated and the previously envisioned pro-growth policies sought by enthusiastic market participants remain elusive. That said, economic news has brightened outside of the U.S. with global economies seemingly on steadier footing and the prospect of reflation on the horizon. While consensus is that valuations remain stretched across asset classes, it is impossible to predict what will thwart this Goldilocks environment. We caution investors to temper return expectations and, as always, Callan encourages investors to maintain a long-term perspective and prudent asset allocation with appropriate levels of diversification. The Fund remains well diversified across the broad capital markets and across many different investment strategies.

Submitted by:

Greg F. DeForrest, CFA
Senior Vice President

Alina Y. Vartanyan, CFA
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 [1]
# For the Year Ended June 30, 2017

| | Market Value | % of Assets | Current Yr Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|
| **Domestic Equities** | **$185,657,960** | **38.37%** | **22.56%** | **8.41%** | **14.69%** |
| Russell 3000 Index | | | 18.51% | 9.10% | 14.58% |
| | | | | | |
| **Large Cap Equities** | **$131,195,490** | **27.12%** | | | |
| Vanguard S&P 500 Index | 24,392,434 | 5.04% | 17.86% | 9.59% | - |
| S&P 500 Index | | | 17.90% | 9.61% | 14.63% |
| | | | | | |
| Dodge & Cox Stock | 21,217,574 | 4.39% | 28.65% | 8.48% | 16.36% |
| Boston Partners | 31,933,682 | 6.60% | 20.05% | 6.70% | 13.78% |
| S&P 500 Index | | | 17.90% | 9.61% | 14.63% |
| Russell 1000 Value Index | | | 15.53% | 7.36% | 13.94% |
| | | | | | |
| Harbor Cap Appreciation | 32,644,523 | 6.75% | 24.46% | 10.69% | 15.26% |
| Janus Research | 21,007,277 | 4.34% | 18.49% | 9.80% | 15.59% |
| S&P 500 Index | | | 17.90% | 9.61% | 14.63% |
| Russell 1000 Growth Index | | | 20.42% | 11.11% | 15.30% |
| | | | | | |
| **Mid Cap Equities** | **$ 27,484,888** | **5.68%** | | | |
| Fidelity Low Priced Stock | 13,696,982 | 2.83% | 16.79% | 6.15% | 13.18% |
| Russell MidCap Value Index | | | 15.93% | 7.46% | 15.14% |
| | | | | | |
| Janus Enterprise | 13,787,906 | 2.85% | 21.15% | 12.20% | 16.14% |
| Russell MidCap Growth Index | | | 17.05% | 7.83% | 14.19% |
| | | | | | |
| **Small Cap Equities** | **$ 26,977,582** | **5.58%** | | | |
| Prudential Small Cap Value | 12,883,482 | 2.66% | 25.51% | 7.36% | 13.94% |
| US Small Cap Value Index | | | 21.08% | 7.37% | 14.07% |
| Russell 2000 Value Index | | | 24.86% | 7.02% | 13.39% |
| | | | | | |
| Alliance US Small Growth | 14,094,100 | 2.91% | 28.77% | 6.09% | 13.23% |
| Russell 2000 Growth Index | | | 24.40% | 7.64% | 13.98% |

(1) All return figures were calculated by MCERA's investment consultant and presented net of investment manager fees and time-weighted. Some figures may not total exactly due to rounding

## Investment Returns [1], continued:

| | Market Value | % of Assets | Current Yr Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|
| **International Equities** | **$146,094,081** | **30.20%** | **22.95%** | **0.69%** | **7.84%** |
| EuroPacific | 25,121,806 | 5.19% | 22.18% | 3.72% | 9.61% |
| Harbor International | 31,221,757 | 6.45% | 17.77% | -0.03% | 6.77% |
| Oakmark International | 34,105,596 | 7.05% | 41.26% | 3.83% | 12.75% |
| Mondrian International | 31,638,417 | 6.54% | 15.22% | -0.47% | 6.67% |
| Investec Emerging Markets Equity | 6,988,165 | 1.44% | | | |
| MSCI EAFE Index | | | 20.27% | 1.15% | 8.69% |
| MSCI ACWI ex-US Index | | | 21.00% | 1.27% | 7.70% |
| Columbia Acorn Int'l | 17,018,340 | 3.52 % | 17.47% | 1.16% | 8.47% |
| MSCI ACWI ex US Small Cap | | | 20.32% | 3.31% | 10.02% |
| **Domestic Fixed Income** | **$103,647,530** | **21.42%** | **2.69%** | **2.71%** | **3.10%** |
| Dodge & Cox Income | 51,906,821 | 10.73% | 3.24% | 2.85% | 3.45% |
| PIMCO | 51,740,709 | 10.69% | 2.15% | 2.57% | 2.76% |
| BC Aggregate Index | | | -0.31% | 2.48% | 2.21% |
| **Real Estate** | **$ 46,752,751** | **9.66%** | **5.48%** | **9.94%** | **10.34%** |
| Real Estate Custom Benchmark [2] | | | 5.60% | 10.23% | 10.62% |
| RREEF Private Fund | 20,997,613 | 4.34% | 6.96% | 11.00% | 11.64% |
| Barings Core Property Fund | 24,605,138 | 5.09% | 7.17% | 9.71% | 9.45% |
| NFI-ODCE Equal Weight Index | | | 7.23% | 10.67% | 10.84% |
| 625 Kings Court | 1,150,000 | 0.24% | 45.45% | 20.64% | 20.79% |
| **Cash** | **$ 1,681,842** | **0.35%** | | | |
| **Total Fund** | **$483,834,164** | **100.00%** | **15.89%** | **5.31%** | **9.57%** |
| Total Fund Benchmark [3] | | | 13.16% | 5.70% | 9.23% |

(1) All return figures were calculated by MCERA's investment consultant and presented net of investment manager fees and time-weighted. Some figures may not total exactly due to rounding.

2) Real Estate Custom Benchmark is 50% NAREIT Composite Index and 50% NFI-ODCE Equal Weight Net through 12/31/2011; 20% NAREIT Composite Index and 80% NFI-ODCE Equal Weight Net through 12/31/2016 and NFI-ODCE Equal Wt Net thereafter.

(3) Current Quarter Target = 38.0% Russell 3000 Index, 29.0% MSCI ACWI ex US Index, 22.0% Blmbr Aggregate and 11.0% NCREIF NFI-ODCE Eq Wt Net.

## Asset Allocation

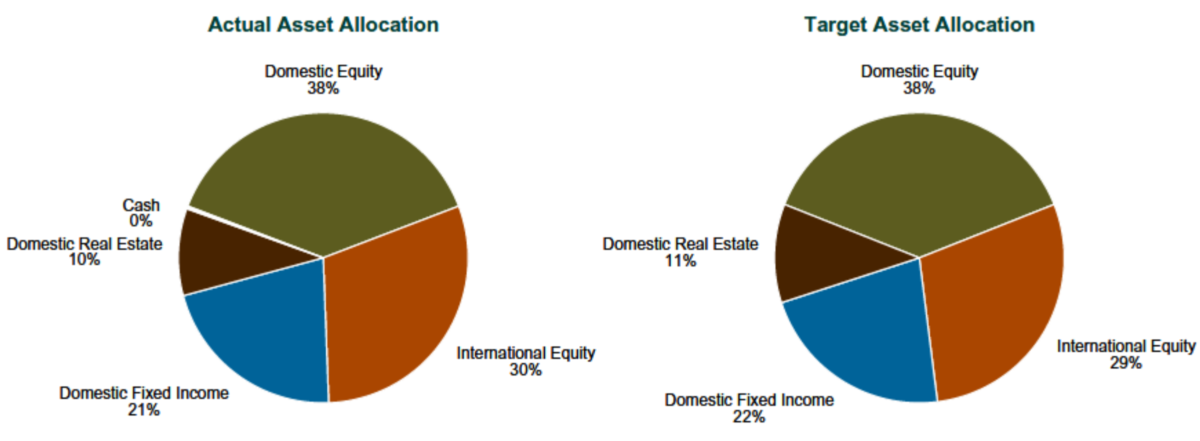
The Board reviews the Association's investment results each quarter. Periodically, the Board reviews the asset allocation, taking into consideration the latest actuarial study. Based on this review, the Board adopts an asset allocation mix with the goal of helping the Association achieve a fully funded 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 fund's investment management mandate.

The Board completed an in-depth asset-liability study and manager structure review that began in FY2016 and continued into FY 2017. A new target allocation and investment policy statement was adopted in FY 2017 and eight managers were terminated and three new managers were hired in an effort to consolidate and optimize the portfolio. The implementation of the new managers will continue into FY 2018. A comparison of the current asset allocation with the previous fiscal years asset allocation is provided on the following page. The current target allocation vs. actual allocation graph is displayed below:

### Target Asset vs. Actual Asset Allocation (1)




| Asset Class | $000s Actual | Weight Actual | Target | Percent Difference | $000s Difference |
|---|---|---|---|---|---|
| Domestic Equity | 185,658 | 38.4% | 38.0% | 0.4% | 1,801 |
| International Equity | 146,094 | 30.2% | 29.0% | 1.2% | 5,783 |
| Domestic Fixed Income | 103,648 | 21.4% | 22.0% | (0.6%) | (2,796) |
| Domestic Real Estate | 46,753 | 9.7% | 11.0% | (1.3%) | (6,469) |
| Cash | 1,682 | 0.3% | 0.0% | 0.3% | 1,682 |
| Total | 483,834 | 100.0% | 100.0% | | |

(1) Some figures may not total exactly due to rounding.

## Asset Allocation
## June 30 2017

| Asset Class | Market Value | Actual Allocation | Target Allocation |
|---|---|---|---|
| Domestic Equities | $ 185,657,960 | 38.37% | 38.00% |
| International Equities | 146,094,081 | 30.20% | 29.00% |
| Domestic Fixed Income | 103,647,530 | 21.42% | 22.00% |
| Domestic Real Estate | 46,752,751 | 9.66% | 11.00% |
| Cash | 1,681,842 | 0.35% | 0.00% |
| Total Portfolio | $ 483,834,164 | 100.00% | 100.00% |

## Asset Allocation
## June 30 2016
**(For Comparison Purposes)**

| Asset Class | Market Value | Actual Allocation | Target Allocation |
|---|---|---|---|
| Domestic Equities | $ 163,710,974 | 38.41% | 38.00% |
| International Equities | 96,976,684 | 22.75% | 25.00% |
| Domestic Fixed Income | 119,739,443 | 28.09% | 28.00% |
| Domestic Real Estate | 46,044,183 | 10.80% | 9.00% |
| Cash | (248,482) | -0.06% | 0.00% |
| Total Portfolio | $ 426,222,802 | 100.00% | 100.00% |

## Schedule of Investment Management Fees
## And Other Investment Fees
## For the year ended June 30, 2017

| Investment Management Fees | Direct | Fund Level | Total | Total Assets |
|---|---|---|---|---|
| Large Cap Funds | $ - | $ 591,098 | $ 591,098 | $ 131,195,490 |
| Mid Cap Funds | - | 187,858 | 187,858 | 27,484,888 |
| Small Cap Funds | - | 305,702 | 305,702 | 26,977,582 |
| International Equity Funds | 208,932 | 699,241 | 908,173 | 146,094,081 |
| Fixed Income Funds | - | 453,912 | 453,912 | 103,647,530 |
| Real Estate | - | 429,928 | 429,928 | 46,752,751 |
| Investment Consultant | 147,784 | - | 147,784 | |
| Custodial Bank | 62,421 | - | 62,421 | |
| Actuarial Expense | 157,432 | - | 157,432 | |
| Other Investment Expense | 41,344 | - | 41,344 | |
| Total Investment Expenses | $ 617,913 | $2,667,739 | $ 3,285,652 | $ 482,152,322 |

## List of Investment Managers
## June 30, 2017

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

***Mid Cap Equity***
Fidelity Low Priced Stock
Janus Enterprise

***Small Cap Equity***
Prudential Small Cap Value
AB US Small Growth

***International Equity***
American Funds EuroPacific
Harbor International
Oakmark International
Mondrian International
Investec Emerging Markets Equity
Columbia Acorn International

***Fixed Income***
Dodge & Cox Income
PIMCO Total Return

***Real Estate***
RREEF America REIT II
Barings Core Property Fund

## Schedule of Top Ten Portfolio Holdings[1]
## June 30, 2017

| Ticker | Asset Class | Fund Name | | Fair Value |
|---|---|---|---|---|
| DODIX | Fixed Income | Dodge & Cox Income | $ | 51,906,821 |
| PTTRX | Fixed Income | PIMCO Total Return | | 51,740,709 |
| N/A | Equity | Oakmark International | | 34,105,596 |
| HNACX | Equity | Harbor Cap Appreciation | | 32,644,523 |
| N/A | Equity | Boston Partners | | 31,933,682 |
| N/A | Equity | Mondrian International | | 31,638,417 |
| HNINX | Equity | Harbor International | | 31,221,757 |
| RERGX | Equity | American Funds EuroPacific | | 25,121,806 |
| N/A | Real Estate | Barings Core Property Fund | | 24,605,138 |
| VINIX | Equity | Vanguard S&P 500 Index | | 24,392,434 |
| | | Total Top 10 Securities | $ | 339,310,883 |

[1] MCERA owns commingled vehicles and does not directly hold individual stocks or bonds.

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

# *Actuarial Section*

Montgomery Woods, Mendocino County

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

December 6, 2017

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

**Re: June 30, 2017 Actuarial Valuation for the Mendocino County Employees' Retirement Association**

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2017 actuarial valuation of the Mendocino County Employees' Retirement Association (MCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by the Actuarial Standards of Practice (ASOPs). Actuarial valuations are performed on an annual basis. The actuarial calculations presented in the valuation report have been made on a basis consistent with our understanding of the historical funding methods used in the determination of the liability for retirement benefits.

The June 30, 2017 actuarial valuation is based on the plan of benefits verified by MCERA and on participant and financial data provided by MCERA. Segal conducted an examination of all participant data for reasonableness and we concluded that it was reasonable and consistent with the prior year's data. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report.

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

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

Board of Retirement
Mendocino County Employees' Retirement Association
December 6, 2017
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In the June 30, 2017 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 22 years remaining as of June 30, 2017. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different remaining amortization periods. (Gains and losses as well as changes in assumptions and methods are amortized over 18 years.)

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

Segal prepared all of the supporting schedules in the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) and certain supporting schedules in the Financial Section, based on the results of the June 30, 2017 actuarial valuation. A listing of the supporting schedules Segal prepared for inclusion in the Financial Section as Required Supplementary Information prescribed by GASB[1], and in the Actuarial Section, is provided below:

<u>Financial Section:</u>

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

<u>Actuarial Section:</u>

3) Summary of Assumptions and Funding Method
4) Probabilities of Separation from Active Service
5) Actuarial Assumptions for Merit and Promotional Salary Increase Rates
6) Schedule of Active Member Valuation Data
7) Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll
8) Solvency Test
9) Actuarial Analysis of Financial Experience
10) Development of Actuarial Value of Assets
11) Summary of Plan Provisions
12) Schedule of Funding Progress
13) Schedule of Contributions – Last Ten Fiscal Years*
14) Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of June 30, 2017*

** Source: Segal's GAS 67 valuation report as of June 30, 2017.*

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

[1] These schedules were included in Segal's separate Governmental Accounting Standards (GAS) 67 actuarial valuation report as of June 30, 2017

5515836v3/13459.001

Board of Retirement
Mendocino County Employees' Retirement Association
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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, 2016. It is our opinion that the assumptions used in the June 30, 2017 valuation produce results that, in the aggregate, reflect the future experience of the Plan. An experience analysis is performed every three years.[2] The next experience analysis is due to be performed as of June 30, 2019 and the assumptions adopted from that study will be used in the June 30, 2020 valuation.

In the June 30, 2017 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 70.7% to 69.9%. The employer's aggregate contribution rate has increased from 31.77% of payroll to 34.92% of payroll. The employee's aggregate rate has increased from 9.38% of payroll to 9.78% of payroll. The increase in the employer rate is primarily due to amortizing the prior year's UAAL over a smaller than expected total payroll, change in actuarial assumptions, and other actuarial losses. These losses were partially offset by gains from changes in membership demographics, the anticipated one-year delay in the future from implementing contribution rates developed in the June 30, 2017 valuation, higher than expected return on investments (after smoothing), lower than expected salary increases for some continuing active members, and lower than expected COLAs granted to retirees and beneficiaries.

In the June 30, 2017 valuation, the actuarial value of assets excluded $3.9 million in deferred investment gains, which represent 0.8% of the market value of assets. If these deferred investment gains were recognized immediately in the actuarial value of assets, the funded percentage would increase from 69.9% to 71.2%[3] and the aggregate employer contribution rate, expressed as a percentage of payroll, would decrease from 34.92% to about 33.8%.

To the best of our knowledge, the June 30, 2017 actuarial valuation report is complete and accurate and in our opinion presents the Plan's current funding information. The undersigned are members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

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

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

DNA/bqb
Enclosures

[2] The prior experience analysis was performed as of June 30, 2014; however, an alternative schedule was adopted by the Board to perform the experience analysis as of June 30, 2016. Future experience studies are scheduled to be performed every three years thereafter.

[3] 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 22 years remaining as of June 30, 2017. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different remaining amortization periods. (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, 2017 valuation:

### ASSUMPTIONS

| | |
|---|---|
| Valuation Interest Rate | 7.00% |
| Inflation Rate | 3.00% |
| Across the Board Salary Increase | 0.50% |
| Interest Credited to Member Accounts | 7.00% |
| Consumer Price Index | Increases of 3.00% 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, 2017. The assumptions were selected by the actuary and approved by the Board as part of the June 30, 2016 actuarial experience study.

| | |
|---|---|
| **Post-Retirement Mortality** | |
| *(a) Healthy* | |
| General Members & All Beneficiaries | RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Table projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females. |
| Safety and Probation Members | Same as Healthy General Members. |
| *(b) Disabled* | |
| General Members | RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Table projected 20 years with the two-dimensional improvement Scale MP-2016, set forward four years for males and set forward six years for females. |
| Safety and Probation Members | Same as Disabled General Members. |
| *(c) For Employee Contribution Rate Purposes* | |
| General Members | RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Table projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females, weighted 30% male and 70% female. |
| Safety and Probation Members | RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Table projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females, weighted 80% male and 20% female. |
| **Pre-Retirement Mortality** | |
| *(a) General Members* | RPH-2014 (Headcount-Weighted) Employee Mortality Table projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females. |
| *(b) Safety and Probation Members* | Same as General Members. |
| **Termination Rates** | Based upon the Experience Analysis as of 6/30/2016 (Table 1). |
| **Disability Rates** | Based upon the Experience Analysis as of 6/30/2016 (Table 1). |
| **Service Retirement Rates** | Based upon the Experience Analysis as of 6/30/2016 (Table 1). |
| **Reciprocity Assumption** | 60% of members who terminate with a vested benefit are assumed to enter a reciprocal system. For reciprocals, 4.00% compensation increases per annum are assumed. |
| **Salary Scales** | As shown in Table 2. |
| **Spouses and Dependents** | 75% of male employees and 50% of female employees assumed married at retirement, with wives assumed two years younger than husbands. |
| **Deferred Vested Retirement Age** | 60 for General members; 55 for Safety and Probation members. For deferred vested members who terminate with less than five years of service and are not vested, it is assumed they will retire at age 70 if they decide to leave their contributions on deposit. |
| **Future Benefit Accruals** | 1.0 year of service per year of employment plus 0.018 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 | .2200 | 20 | .0750 |
| 1 | .1600 | 30 | .0750 |
| 2 | .1400 | 40 | .0750 |
| 3 | .1300 | 50 | .0750 |
| 4 | .1200 | 60 | .0590 |

| Age | Mortality Male[2] | Mortality Female[2] | Disability[4] | Service Retirement Tiers 1, 2, & 3 | Service Retirement Tier 4 |
|---|---|---|---|---|---|
| 20 | .0004 | .0002 | .0001 | 0000 | .0000 |
| 30 | .0005 | .0002 | .0001 | .0000 | .0000 |
| 40 | .0007 | .0005 | .0013 | .0000 | .0000 |
| 50 | .0015 | .0013 | .0051 | .0600 | .0000 |
| 60 | .0042 | .0028 | .0060 | .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 | .1600 | 20 | .0740 |
| 1 | .1300 | 30 | .0540 |
| 2 | .1000 | 40 | .0340 |
| 3 | .0900 | 50 | .0220 |
| 4 | .0800 | 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 | .0004 | .0002 | .0010 | .0000 | .0000 | .0000 | .0000 |
| 30 | .0005 | .0002 | .0018 | .0000 | .0000 | .0000 | .0000 |
| 40 | .0007 | .0005 | .0165 | .0000 | .0000 | .0000 | .0000 |
| 50 | .0015 | .0013 | .0235 | .0800 | .0300 | .0500 | .0400 |
| 60 | .0042 | .0028 | .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) *100% of General deaths are assumed to be non-service connected deaths.*

(3) *100% of Safety and Probation deaths are assumed to be service connected deaths.*

(4) *35% of General disabilities are assumed to be service connected disabilities. The other 65% are assumed to be non-service connected disabilities.*

(5) *95% of Safety and Probation disabilities are assumed to be service connected disabilities. The other 5% 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 0.0750, then we are assuming that 7.50% 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 3.00%; plus “across the board” salary increases (other than inflation) 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 |
|---|---|---|
| 0-1 | 5.00% | 5.00% |
| 1-2 | 3.75% | 3.75% |
| 2-3 | 3.50% | 3.00% |
| 3-4 | 2.75% | 2.25% |
| 4-5 | 2.25% | 1.00% |
| 5-6 | 1.75% | 0.75% |
| 6-7 | 1.50% | 0.75% |
| 7-8 | 1.25% | 0.75% |
| 8-9 | 1.00% | 0.75% |
| 9-10 | 0.75% | 0.75% |
| 10+ | 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] |
|---|---|---|---|---|---|
| 6/30/2008 | | | | | |
| | General | 1,207 | 59,194,561 | 4,087 | |
| | Safety | 156 | 9,157,574 | 4,892 | |
| | Probation | 47 | 2,528,198 | 4,483 | |
| | **Total** | 1,410 | 70,880,333 | 4,189 | |
| 6/30/2009 | | | | | |
| | General | 1,164 | 60,045,883 | 4,299 | 5.2% |
| | Safety | 143 | 9,057,202 | 5,278 | 7.9% |
| | Probation | 62 | 3,132,010 | 4,210 | -6.1% |
| | **Total** | 1,369 | 72,235,095 | 4,397 | 5.0% |
| 6/30/2010[3] | | | | | |
| | General | 1,071 | | | |
| | Safety | 130 | | | |
| | Probation | 53 | | | |
| | **Total** | 1,254 | 69,004,002[4] | 4,586[4] | 4.3% |
| 6/30/2011 | | | | | |
| | General | 955 | 53,294,624 | 4,650 | |
| | Safety | 122 | 8,238,933 | 5,628 | |
| | Probation | 52 | 2,610,208 | 4,183 | |
| | **Total** | 1,129 | 64,143,765 | 4,735 | -0.7%[5] |
| 6/30/2012 | | | | | |
| | General | 895 | 45,850,427 | 4,269 | -8.2% |
| | Safety | 120 | 8,021,174 | 5,570 | -1.0% |
| | Probation | 54 | 2,724,487 | 4,204 | 0.5% |
| | **Total** | 1,069 | 56,596,088 | 4,412 | -6.8% |
| 6/30/2013 | | | | | |
| | General | 894 | 45,512,393 | 4,242 | -0.6% |
| | Safety | 123 | 8,169,530 | 5,535 | -0.6% |
| | Probation | 55 | 2,782,060 | 4,215 | 0.3% |
| | **Total** | 1,072 | 56,463,983 | 4,389 | -0.5% |
| 6/30/2014 | | | | | |
| | General | 900 | 44,672,084 | 4,136 | -2.5% |
| | Safety | 129 | 8,509,082 | 5,497 | -0.7% |
| | Probation | 52 | 2,695,082 | 4,319 | 2.5% |
| | **Total** | 1,081 | 55,876,248 | 4,307 | -1.9% |
| 6/30/2015 | | | | | |
| | General | 930 | 46,587,735 | 4,175 | 0.9% |
| | Safety | 125 | 8,862,821 | 5,909 | 7.5% |
| | Probation | 52 | 2,655,840 | 4,256 | -1.5% |
| | **Total** | 1,107 | 58,106,396 | 4,374 | 1.6% |
| 6/30/2016 | | | | | |
| | General | 943 | 49,280,041 | 4,355 | 4.3% |
| | Safety | 130 | 9,188,532 | 5,890 | -0.3% |
| | Probation | 50 | 2,746,381 | 4,577 | 7.5% |
| | **Total** | 1,123 | 61,214,954 | 4,543 | 3.9% |
| 6/30/2017 | | | | | |
| | General | 939 | 50,029,723 | 4,440 | 2.0% |
| | Safety | 130 | 9,400,111 | 6,026 | 2.3% |
| | Probation | 54 | 2,905,771 | 4,484 | -2.0% |
| | **Total** | 1,123 | 62,335,605 | 4,626 | 1.8% |

(1) *Information for 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) *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 |
| 6/30/2008 | 82 | $1,624,000 | | $252,000 | 962 | $16,199,000 | 9.3% | $16,839 | 3.0% |
| 6/30/2009 | 77 | $1,921,000 | 31 | $352,000 | 1,008 | 17,768,000 | 9.7% | 17,627 | 4.7% |
| 6/30/2010[2] | | | | | 1,083 | 19,125,661[3] | 7.6% | 17,660 | 0.2% |
| 6/30/2011 | 71 | 1,624,933 | 25 | 205,558[4] | 1,129 | 21,296,641 | 7.1%[4] | 18,863 | 6.8% |
| 6/30/2012 | 108 | 2,599,055 | 20 | 388,743 | 1,217 | 23,506,953 | 10.4% | 19,315 | 2.4% |
| 6/30/2013 | 111 | 2,742,843 | 41 | 596,482 | 1,287 | 25,653,314 | 9.1% | 19,933 | 3.2% |
| 6/30/2014 | 81 | 2,281,673 | 40 | 710,084 | 1,328 | 27,224,903 | 6.1% | 20,501 | 2.8% |
| 6/30/2015 | 82 | 2,417,163 | 31 | 391,224 | 1,379 | 29,250,842 | 7.4% | 21,212 | 3.5% |
| 6/30/2016 | 81 | 2,500,065 | 44 | 787,374 | 1,416 | 30,963,533 | 5.9% | 21,867 | 3.1% |
| 6/30/2017 | 79 | 2,201,625 | 33 | 786,926 | 1,462 | 32,378,232 | 4.6% | 22,147 | 1.3% |

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

(1) *Information from 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) *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) |
| 6/30/2008 | $62,348 | $199,072 | $112,412 | $373,832 | $353,421 | 100% | 100% | 82% |
| 6/30/2009 | 64,102 | 218,613 | 120,481 | 403,196 | 336,263 | 100% | 100% | 44% |
| 6/30/2010[2] | | | | 434,987 | 343,202 | | | |
| 6/30/2011 | 53,600 | 287,201 | 131,843 | 472,644 | 347,732 | 100% | 100% | 5% |
| 6/30/2012 | 51,090 | 312,531 | 125,393 | 489,014 | 362,487 | 100% | 100% | 0% |
| 6/30/2013 | 51,236 | 338,874 | 120,351 | 510,461 | 378,777 | 100% | 97% | 0% |
| 6/30/2014 | 51,004 | 398,872 | 134,553 | 584,429 | 404,856 | 100% | 89% | 0% |
| 6/30/2015 | 51,128 | 424,348 | 134,906 | 610,382 | 428,229 | 100% | 89% | 0% |
| 6/30/2016 | 50,019 | 442,323 | 139,715 | 632,057 | 446,773 | 100% | 90% | 0% |
| 6/30/2017 | 52,699 | 480,861 | 146,005 | 679,565 | 475,225 | 100% | 88% | 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 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010[2] | 2009 |
|---|---|---|---|---|---|---|---|---|---|
| Beginning of the Year UAAL Liability/(Surplus) | $185,284 | $182,153 | $179,573 | $131,684 | $126,527 | $124,913 | $91,785 | $66,933 | $20,411 |
| Effect of Differences in Methods and Procedures Due to Change in Actuaries | - | - | - | - | - | - | 9,035 | | - |
| Expected Change | 281 | 711 | 748 | 3,247 | 3,118 | 6,929 | 7,638 | | 805 |
| Liability (Gain)/Loss | 1,385 | (4,360) | 5,038 | (3,310) | 4,236 | 1,937 | - | | 19,978[3] |
| Asset Return (Gain)/Loss | (5,367) | 4,702 | (5,723) | (6,471) | 3,046 | 3,647 | 15,266 | | 29,934 |
| Salary Increase (Gain)/Loss | (3,164) | 2,342 | (1,752) | (3,764) | (5,243) | (13,844) | (11,363) | | - |
| Retiree COLA Increase (Gain)/Loss | (2,246) | - | - | - | - | - | (5,887) | | - |
| Change in Actuarial Assumptions and Procedures | 28,221 | - | - | 58,187[4] | - | 2,945 | 24,043 | | - |
| (Gain)/Loss Due to Reflecting Future Service Only Improvement for General Members | - | - | - | - | - | - | (5,604) | | - |
| Change in Method to Determine Actuarial Value of Assets | - | - | - | - | - | - | - | | (4,195) |
| (Gain)/Loss Due to One-Year Delay From Implementing Employer Contribution Rates | (54) | (264) | 4,269[5] | - | - | - | - | | - |
| End of the Year UAAL Liability/(Surplus) | $204,340 | $185,284 | $182,153 | $179,573 | $131,684 | $126,527 | $124,913 | $91,785 | $66,933 |

*(1) Information as of 6/30/2009 has been extracted from MCERA's June 30, 2009 CAFR. Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report. Information as of June 30, 2008 was not available.*

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

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

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

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

**DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS**
(Dollars in Thousands)

| | | Actual Market Return (net) | Expected Market Return (net) | Investment Gain / (Loss) | Deferred Factor | Deferred Return |
|---|---|---|---|---|---|---|
| 1. | Market value of assets as of June 30, 2017 | | | | | $484,026 |
| 2. | Calculation of deferred return: | | | | | |
| | (a) Year ended June 30, 2013 | $48,890 | $26,235 | $22,655 | 0% | $0 |
| | (b) Year ended June 30, 2014 | 68,495 | 29,334 | 39,161 | 20% | 7,832 |
| | (c) Year ended June 30, 2015 | 13,201 | 31,658 | (18,457) | 40% | (7,383) |
| | (d) Year ended June 30, 2016 | (10,352) | 31,933 | (42,285) | 60% | (25,371) |
| | (e) Year ended June 30, 2017 | 66,670 | 30,584 | 36,086 | 80% | 28,869 |
| | (f) Total unrecognized return | | | | | $3,947 |
| 3. | Preliminary actuarial value of assets as of June 30, 2017: (1) – (2f) | | | | | $480,080 |
| 4. | Adjustment to be within 25% corridor of market value | | | | | $0 |
| 5. | Final actuarial value of assets as of June 30, 2017: (3) + (4) | | | | | $480,080 |
| 6. | Actuarial value as a percentage of market value: (5) / (1) | | | | | 99.2% |
| 7. | Non-pension reserve: | | | | | |
| | Contingency reserve | | | | | $4,855 |
| 8. | Valuation value of assets: (5) – (7) | | | | | $475,225 |

**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.

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, 2017.

**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 5 years of service and 10 years of membership, or age 70 and vested, 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 and vested. For Safety and Probation Tiers 3, members are eligible to retire at age 50 with 5 years of service or age 70 and vested.

**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 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

**SUMMARY OF PLAN PROVISIONS (continued)**

**Member's Contributions (continued)**
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]**
**(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 |
|---|---|---|---|---|---|---|---|---|
| 6/30/1994 | $75,976 | | $112,535 | $36,559 | 67.50% | $27,185 | | 134.50% |
| 6/30/1995 | $79,322 | | $121,027 | $41,705 | 65.50% | $29,603 | | 140.90% |
| 6/30/1996 | $84,992 | | $130,036 | $45,044 | 65.40% | $29,587 | | 152.20% |
| 6/30/1997 | $124,286 | | $140,783 | $16,497 | 88.30% | $32,481 | | 50.80% |
| 6/30/1998 | $134,836 | | $154,263 | $19,427 | 87.40% | $35,586 | | 54.60% |
| 6/30/1999 | $142,775 | | $173,250 | $30,475 | 82.40% | $39,209 | | 77.70% |
| 6/30/2000 | $150,056 | | $185,423 | $35,367 | 80.90% | $44,132 | | 80.10% |
| 6/30/2001 | $157,545 | | $204,699 | $47,154 | 77.00% | $53,188 | | 88.70% |
| 6/30/2002 | $158,115 | (2) | $226,883 | $68,768 | 69.70% | $57,701 | | 119.20% |
| 6/30/2003 | $233,764 | (3) | $243,342 | $9,578 | 96.10% | $59,865 | | 16.00% |
| 6/30/2004 | $239,191 | | $265,141 | $25,950 | 90.20% | $59,075 | | 43.90% |
| 6/30/2005 | $253,487 | | $289,467 | $35,980 | 87.60% | $57,664 | | 62.40% |
| 6/30/2006 | $288,461 | | $320,123 | $31,662 | 90.10% | $57,665 | | 54.90% |
| 6/30/2007 | $317,937 | | $358,259 | $40,322 | 88.70% | $65,899 | | 61.20% |
| 6/30/2008 | $353,421 | | $373,832 | $20,411 | 94.50% | $70,880 | | 28.80% |
| 6/30/2009 | $336,263 | | $403,196 | $66,933 | 83.40% | $72,235 | | 92.70% |
| 6/30/2010 | $343,202 | | $434,987 | $91,785 | 78.90% | $69,004 | | 133.00% |
| 6/30/2011 | $347,732 | | $472,644 | $124,912 | 73.60% | $64,144 | (4) | 194.70% |
| 6/30/2012 | $362,487 | | $489,014 | $126,527 | 74.10% | $56,596 | | 223.60% |
| 6/30/2013 | $378,777 | | $510,461 | $131,684 | 74.20% | $56,464 | | 233.20% |
| 6/30/2014 | $404,856 | | $584,429 | $179,573 | 69.30% | $55,876 | | 321.40% |
| 6/30/2015 | $428,229 | | $610,382 | $182,153 | 70.20% | $58,106 | | 313.50% |
| 6/30/2016 | $446,773 | | $632,057 | $185,284 | 70.70% | $61,215 | | 302.70% |
| 6/30/2017 | $475,225 | | $679,565 | $204,340 | 69.90% | $62,336 | | 327.80% |

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

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

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

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

## SCHEDULE OF CONTRIBUTIONS – LAST TEN FISCAL YEARS

| Year Ended June 30 | Actuarially Determined Contributions(1) | Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency / (Excess) | Covered-Employee Payroll(2) | Contributions as a Percentage of Covered Employee Payroll |
|---|---|---|---|---|---|
| 2008 | $7,232,000 | Not Disclosed in Prior Funding Valuation Reports | N/A | $68,447,683 | N/A |
| 2009 | 6,046,000 | | N/A | 72,565,457 | N/A |
| 2010 | 9,571,000 | | N/A | 70,384,677 | N/A |
| 2011 | 9,553,955 | $9,533,955 | $0 | 64,252,118 | 14.84% |
| 2012 | 11,811,076 | 11,811,076 | 0 | 56,291,191 | 20.98% |
| 2013 | 14,260,473 | 14,260,473 | 0 | 53,254,876 | 26.78% |
| 2014 | 14,324,752 | 14,324,752 | 0 | 53,813,882 | 26.62% |
| 2015 | 15,164,044 | 15,164,044 | 0 | 54,891,785 | 27.63% |
| 2016 | 19,129,191 | 19,129,191 | 0 | 57,407,928 | 33.32% |
| 2017 | 19,116,426 | 19,116,426 | 0 | 59,801,480 | 31.97% |

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

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

## PROJECTION OF PENSION PLAN'S FIDUCIARY NET POSITION FOR USE IN CALCULATION OF DISCOUNT RATE AS OF JUNE 30, 2017
## ($ 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) |
|---|---|---|---|---|---|---|
| 2016 | $426 | $25 | $33 | $1 | $67 | $484 |
| 2017 | 484 | 26 | 36 | 1 | 33 | 505 |
| 2018 | 505 | 25 | 38 | 1 | 35 | 526 |
| 2019 | 526 | 25 | 40 | 1 | 36 | 546 |
| 2020 | 546 | 25 | 42 | 1 | 37 | 565 |
| 2021 | 565 | 24 | 44 | 1 | 39 | 583 |
| 2022 | 583 | 24 | 46 | 1 | 40 | 600 |
| 2023 | 600 | 24 | 48 | 2 | 41 | 616 |
| 2024 | 616 | 25 | 50 | 2 | 42 | 631 |
| 2025 | 631 | 25 | 52 | 2 | 43 | 645 |
| | | | | | | |
| 2041 | 702 | 4 * | 68 | 2 | 47 | 683 |
| 2042 | 683 | 4 * | 67 | 2 | 45 | 663 |
| 2043 | 663 | 4 * | 66 | 2 | 44 | 643 |
| 2044 | 643 | 4 * | 66 | 2 | 43 | 623 |
| 2045 | 623 | 4 * | 65 | 2 | 41 | 602 |
| | | | | | | |
| 2090 | 666 | 2 * | 1 | 2 | 47 | 712 |
| 2091 | 712 | 2 * | 1 | 2 | 50 | 761 |
| 2092 | 761 | 2 * | 0 ** | 2 | 53 | 814 |
| 2093 | 814 | 2 * | 0 ** | 2 | 57 | 871 |
| 2094 | 871 | 2 * | 0 ** | 2 | 61 | 931 |
| | | | | | | |
| 2119 | 4,723 | 12 * | 0 ** | 12 | 331 | 5,053 |
| 2120 | 5,053 | | | | | |
| 2120 | Discounted Value: 5 *** | | | | | |

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

** Less than $1 million, when rounded.

*** $5,053 million when discounted with interest at the rate of 7.00% per annum has a value of $5 million (or 0.98% of the Plan's Fiduciary Net Position) as of June 30, 2017.

Note that in preparing the above projections, we have not taken into consideration the one-year delay between the date of the contribution rate calculation and the implementation.

## PROJECTION OF PENSION PLAN'S FIDUCIARY NET POSITION FOR USE IN CALCULATION OF DISCOUNT RATE AS OF JUNE 30, 2017 (CONTINUED)

Notes:

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

(2) Amounts shown for the year beginning July 1, 2016 row are actual amounts, based on the unaudited financial statements provided by MCERA.

(3) Years 2026-2040, 2046-2089, and 2095-2118 have been omitted from this table.

(4) Column (a): Except for the "discounted value" shown for 2120, none of the projected beginning Plan Fiduciary Net Position amounts shown have been adjusted for the time value of money.

(5) Column (b): Projected total contributions include employee and employer normal cost contributions based on closed group projections (based on covered active members as of June 30, 2017); plus employer contributions to the unfunded actuarial accrued liability; plus contributions to fund each year's annual administrative expenses reflecting an 18-year amortization schedule. Contributions are assumed to occur halfway through the year, on average.

(6) Column (c): Projected benefit payments have been determined in accordance with paragraph 39 of GAS Statement No. 67, and are based on the closed group of active, inactive vested, retired members, and beneficiaries as of June 30, 2017. The projected benefit payments reflect the cost of living increase assumptions used in the June 30, 2017 report. In accordance with paragraph 31.b.(1)(e) of GASB Statement No. 67, the long-term expected rate of return on Plan investments of 7.00% was applied to all periods of projected benefit payments to determine the discount rate.

(7) Column (d): Projected administrative expenses are calculated as approximately 0.25% of the projected beginning Plan Fiduciary Net Position amount. The 0.25% portion was based on the actual fiscal year 2016 - 2017 administrative expenses as a percentage of the beginning Plan Fiduciary Net Position amount as of July 1, 2016. Administrative expenses are assumed to occur halfway through the year, on average.

(8) Column (e): Projected investment earnings are based on the assumed investment rate of return of 7.00% per annum.

(9) As illustrated in this Exhibit, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. In other words, there is no projected 'cross-over date' when projected benefits are not covered by projected assets. Therefore, the long-term expected rate of return on Plan investments of 7.00% per annum was applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2017 shown in our GAS 67 report, pursuant to paragraph 44 of GASB Statement No. 67.

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# *Statistical Section*

Point Arena-Stronetta Public Lands, Mendocino County

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

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

| (Dollars in Thousands) | **2017** | **2016** | **2015** | **2014** | **2013** |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $ 19,116 | $ 19,129 | $ 15,164 | $ 14,325 | $ 14,260 |
| Member Contributions | 5,754 | 5,545 | 4,652 | 4,576 | 4,713 |
| Net Investment Income | 66,670 | (10,352) | 13,201 | 68,495 | 48,890 |
| **Total Additions** | **91,540** | **14,322** | **33,017** | **87,396** | **67,863** |
| **Deductions** | | | | | |
| Benefits Payments | 31,617 | 30,435 | 29,225 | 26,702 | 25,500 |
| Refunds of Contributions | 1,148 | 624 | 824 | 652 | 1,073 |
| Health Benefits (1) | - | - | - | - | - |
| Administrative Expenses | 1,086 | 1,142 | 1,059 | 930 | 830 |
| **Total Deductions** | **33,851** | **32,201** | **31,108** | **28,284** | **27,403** |
| **Change in Fiduciary Net Position** | **$ 57,689** | **$(17,879)** | **$ 1,909** | **$ 59,112** | **$ 40,460** |

| (Dollars in Thousands) | **2012** | **2011** | **2010** | **2009** | **2008** |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $ 11,811 | $ 9,554 | $ 8,234 | $ 8,561 | $ 7,269 |
| Member Contributions | 4,840 | 5,447 | 6,502 | 6,836 | 6,613 |
| Net Investment Income | (4,078) | 64,075 | 38,128 | (52,214) | (15,846) |
| **Total Additions** | **12,573** | **79,076** | **52,864** | **(36,817)** | **(1,964)** |
| **Deductions** | | | | | |
| Benefits Payments | 22,956 | 22,269 | 23,161 | 21,480 | 15,640 |
| Refunds of Contributions | 1,225 | 1,167 | 1,061 | 734 | 1,064 |
| Health Benefits (1) | - | - | - | - | 4,017 |
| Administrative Expenses | 698 | 640 | 641 | 280 | 134 |
| **Total Deductions** | **24,879** | **24,076** | **24,863** | **22,494** | **20,855** |
| **Change in Fiduciary Net Position** | **$(12,306)** | **$ 55,000** | **$ 28,001** | **$(59,311)** | **$(22,819)** |

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

## Additions by Source

(Dollars in Thousands)

| Fiscal Year Ended 6/30 | Employee Contributions | Employer/Other Contributions | Investment Net Income | Total |
|---|---|---|---|---|
| 2008 | $ 6,613 | $ 7,269 | $ (15,846) | $ (1,964) |
| 2009 | 6,836 | 8,561 | (52,214) | (36,817) |
| 2010 | 6,502 | 8,234 | 38,128 | 52,864 |
| 2011 | 5,447 | 9,554 | 64,075 | 79,076 |
| 2012 | 4,840 | 11,811 | (4,078) | 12,573 |
| 2013 | 4,713 | 14,260 | 48,890 | 67,863 |
| 2014 | 4,576 | 14,325 | 68,495 | 87,396 |
| 2015 | 4,652 | 15,164 | 13,201 | 33,017 |
| 2016 | 5,545 | 19,129 | (10,352) | 14,322 |
| 2017 | $ 5,754 | $19,116 | $ 66,670 | $ 91,540 |

## Deductions by Type

(Dollars in Thousands)

| Fiscal Year Ended 6/30 | Benefits | Administrative/ Other Expenses | Refunds | Total |
|---|---|---|---|---|
| 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 | 22,956 | 698 | 1,225 | 24,879 |
| 2013 | 25,500 | 830 | 1,073 | 27,403 |
| 2014 | 26,702 | 930 | 652 | 28,284 |
| 2015 | 29,225 | 1,059 | 824 | 31,108 |
| 2016 | 30,435 | 1,142 | 624 | 32,201 |
| 2017 | $ 31,617 | $ 1,086 | $ 1,148 | $ 33,851 |

## Schedule of Benefit Expenses by Type
## As of June 30

(Dollars in Thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Service Retirement Payroll:** | | | | | |
| **General** | 20,653 | 19,787 | 18,632 | 17,413 | 16,253 |
| **Safety** | 4,395 | 4,050 | 3,911 | 3,430 | 3,215 |
| **Total** | $ 25,048 | $ 23,837 | $ 22,544 | $ 20,843 | $ 19,468 |
| **Disability Retirement Payroll:** | | | | | |
| **General** | 2,350 | 2,266 | 2,200 | 2,188 | 2,128 |
| **Safety** | 2,557 | 2,494 | 2,248 | 2,138 | 2,030 |
| **Total** | $ 4,907 | $ 4,759 | $ 4,448 | $ 4,325 | $ 4,158 |
| **Beneficiary Payroll:** | | | | | |
| **General** | 1,654 | 1,608 | 1,632 | 1,526 | 1,485 |
| **Safety** | 770 | 760 | 629 | 532 | 524 |
| **Total** | $ 2,424 | $ 2,368 | $ 2,260 | $ 2,058 | $ 2,027 |
| **Total Benefit Expense:** | | | | | |
| **General** | 24,657 | 23,661 | 22,464 | 21,126 | 19,865 |
| **Safety** | 7,722 | 7,304 | 6,789 | 6,100 | 5,787 |
| **Total** | $ 32,379 | $ 30,965 | $ 29,252 | $ 27,226 | $ 25,692 |

(Dollars in Thousands)

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Service Retirement Payroll:** | | | | | |
| **General** | 14,864 | 13,197 | 12,112 | 10,808 | 9,960 |
| **Safety** | 2,500 | 2,477 | 2,267 | 1,799 | 1,664 |
| **Total** | $ 17,364 | $ 15,674 | $ 14,379 | $ 12,607 | $ 11,624 |
| **Disability Retirement Payroll:** | | | | | |
| **General** | 2,074 | 1,987 | 1,970 | 1,815 | 1,751 |
| **Safety** | 1,903 | 1,832 | 1,823 | 1,654 | 1,590 |
| **Total** | $ 3,977 | $ 3,819 | $ 3,793 | $ 3,469 | $ 3,341 |
| **Beneficiary Payroll:** | | | | | |
| **General** | 1,487 | 1,335 | 679 | 1,269 | 1,171 |
| **Safety** | 485 | 471 | 275 | 422 | 404 |
| **Total** | $ 1,972 | $ 1,806 | $ 954 | $ 1,691 | $ 1,575 |
| **Total Benefit Expense:** | | | | | |
| **General** | 18,425 | 16,519 | 14,761 | 13,892 | 12,882 |
| **Safety** | 4,889 | 4,780 | 4,365 | 3,875 | 3,658 |
| **Total** | $ 23,313 | $ 21,299 | $ 19,126 | $ 17,767 | $ 16,540 |

Source of data: Data is derived from annualized monthly amounts reported in the actuarial valuation reports as of June 30, (2008 – 2017)
Note: Amounts in table may not total exactly due to rounding.

# Schedule of Retiree Members by Type of Benefit

(Summary of Monthly Allowances Being Paid – As of June 30, 2016 and June 30, 2017)

(Dollars in Thousands)

| FY 2017 | General Members | | | Safety Members | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Monthly Allowance | | Number | Monthly Allowance | | Number | Monthly Allowance | |
| **Retired Members** | | | | | | | | | |
| Service Retirement | 1,013 | $ | 1,721 | 122 | $ | 366 | 1,135 | $ | 2,087 |
| Disability | 112 | | 196 | 62 | | 213 | 174 | | 409 |
| Beneficiaries | 115 | | 138 | 38 | | 64 | 153 | | 202 |
| **Total Retired Members** | 1,240 | $ | 2,055 | 222 | $ | 643 | 1,462 | $ | 2,698 |

(Dollars in Thousands)

| FY 2016 | General Members | | | Safety Members | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Monthly Allowance | | Number | Monthly Allowance | | Number | Monthly Allowance | |
| **Retired Members** | | | | | | | | | |
| Service Retirement | 975 | $ | 1,649 | 115 | $ | 338 | 1090 | $ | 1,987 |
| Disability | 111 | | 189 | 61 | | 208 | 172 | | 397 |
| Beneficiaries | 117 | | 134 | 37 | | 63 | 154 | | 197 |
| **Total Retired Members** | 1,203 | $ | 1,972 | 213 | $ | 609 | 1,416 | $ | 2,581 |

Source of data: June 30, 2016 and June 30, 2017 Actuarial Valuation Report

## Schedule of Average Benefit Payment Amounts

| Valuation date 06/30/17 | Number of Years Since Retirement | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 + |
| **Retirees:** | | | | | | | |
| Average Monthly Benefit | $ 1,986 | $ 2,057 | $ 1,942 | $1,603 | $ 1,468 | $1,787 | $1,670 |
| Number of Retirees | 368 | 366 | 256 | 117 | 81 | 61 | 60 |
| Avg Final Average Salary (All Retirees) | | | | $ 5,287 | | | |
| **Beneficiaries:** | | | | | | | |
| Average Monthly Benefit | $ 1,461 | $ 1,300 | $ 1,236 | $ 917 | $ 1,381 | $1,534 | $1,280 |
| Number of Beneficiaries | 46 | 39 | 28 | 13 | 12 | 7 | 8 |
| Avg Final Average Salary (All Beneficiaries) | | | | N/A | | | |

| Valuation date 06/30/16 | Number of Years Since Retirement | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 + |
| **Retirees:** | | | | | | | |
| Average Monthly Benefit | $ 1,987 | $ 2,057 | $ 1,831 | $1,596 | $ 1,553 | $1,742 | $1,711 |
| Number of Retirees | 388 | 337 | 222 | 118 | 92 | 53 | 52 |
| Avg Final Average Salary (All Retirees) | | | | $ 5,398 | | | |
| **Beneficiaries:** | | | | | | | |
| Average Monthly Benefit | $ 1,484 | $ 1,181 | $ 1,134 | $ 843 | $ 1,484 | $1,576 | $1,136 |
| Number of Beneficiaries | 50 | 41 | 23 | 14 | 11 | 8 | 7 |
| Avg Final Average Salary (All Beneficiaries) | | | | N/A | | | |

## Schedule of Average Benefit Payment Amounts (Continued)

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

Source of data: Actuarial Valuation Reports (2008 – 2017). Final Average Salary data: MCERA Pension Software. Data on Final Average Salary is not available prior to fiscal year 2016.

# Schedule of Participating Employers and Active Members
# As of June 30

| | Total Employees | County of Mendocino | Russian River Cemetery District | Superior Court |
|---|---|---|---|---|
| **Year 2017** | | | | |
| Number of Covered Employees | 1,123 | 1,073 | 4 | 46 |
| Percentage to Total System | 100% | 95.55% | 0.36% | 4.10% |
| **Year 2016** | | | | |
| Number of Covered Employees | 1,123 | 1,066 | 4 | 53 |
| Percentage to Total System | 100% | 94.92% | 0.36% | 4.72% |
| **Year 2015** | | | | |
| Number of Covered Employees | 1,107 | 1,053 | 4 | 50 |
| Percentage to Total System | 100% | 95.12% | 0.36% | 4.52% |
| **Year 2014** | | | | |
| Number of Covered Employees | 1,081 | 1,026 | 4 | 51 |
| Percentage to Total System | 100% | 94.91% | 0.37% | 4.72% |
| **Year 2013** | | | | |
| Number of Covered Employees | 1,072 | 1,021 | 4 | 47 |
| Percentage to Total System | 100% | 95.25% | 0.37% | 4.38% |
| **Year 2012** | | | | |
| Number of Covered Employees | 1,069 | 1,011 | 4 | 54 |
| Percentage to Total System | 100% | 94.57% | .37% | 5.05% |
| **Year 2011** | | | | |
| Number of Covered Employees | 1,129 | 1,065 | 4 | 60 |
| Percentage to Total System | 100% | 94.33% | .35% | 5.32% |
| **Year 2010** | | | | |
| Number of Covered Employees | 1,254 | 1,186 | 5 | 63 |
| Percentage to Total System | 100% | 94.58% | .40% | 5.02% |
| **Year 2009** | | | | |
| Number of Covered Employees | 1,369 | 1,294 | 5 | 70 |
| Percentage to Total System | 100% | 94.52% | .37% | 5.11% |
| **Year 2008** | | | | |
| Number of Covered Employees | 1,410 | 1,335 | 5 | 70 |
| Percentage to Total System | 100% | 94.68% | .36% | 4.96% |

Source of data: MCERA systems.

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## END OF REPORT

***Mendocino County Employees' Retirement Association***

625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027