COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019

Mendocino County Employees Retirement Association

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

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019

Issued by:

JAMES WILBANKS, PH.D.
Executive Director

F. ROBERT REVELES
Financial/Investment Officer

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

625-B Kings Court, Ukiah, CA 95482
(707) 463-4328
www.mendocinocounty.org/retirement

Cover Photo: Point Arena Lighthouse. ©travelview/Adobe Stock

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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Letter of Transmittal

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

December 9, 2019

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

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, 2019. MCERA management is responsible for the contents of the CAFR.

The following section provides an overview and analysis of the MCERA financial activities for the year ended June 30, 2019. 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 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 14.

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, 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 2018-19 was $1,044,646 which represented 0.154% of MCERA's actuarial accrued liability or 52.23% of the $2 million statutory cap. Further, MCERA administrative expenses were 73.20% 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:

- In alignment with industry Best Practices, the Board and Staff conducted a Request for Proposals (RFP) for General Investment Consultant Services. After a rigorous review, the Board elected to retain the incumbent, Callan, LLC.
- After the conclusion of the RFP, the Board initiated an Asset/Liability Study to evaluate both the liabilities and the asset allocation to provide investment returns. The Study is on-going through the end of the reporting period.
- Additionally, the Board adopted an "Investment Beliefs Statement" to outline its beliefs and assumptions regarding the investment program. This statement is a convenient reference for the Board, Staff and Consultants as all work to build and improve the investment program.
- Staff presented an updated analysis of the appropriate region for the annual Cost of Living Adjustment (COLA) for retirees, based on changes in geography definitions of the U.S. Bureau of Labor Statistics.
- Board Governance was further enhanced, with the Board undertaking an evaluation of itself and its practices. Annual Board evaluations are an industry Best Practice. The evaluation results showed the MCERA Board to have a strong governance model.
- With the adoption of a Communication Strategy in the previous year, the Board and Staff continued the communication efforts in a number of ways. The Board now receives quarterly information on performance of communication efforts, with a presentation of Communication Metrics that highlight the performance of the MCERA Newsletter, uptake and utilization of Member Direct, and participation of County employees in the deferred compensation program.
- The Board held a meeting on the Mendocino Coast in an effort to be more inclusive of all stakeholders across the County.
- Staff also produced a new communication and education item to help MCERA members and the public understand the Unfunded Actuarial Accrued Liability (UAAL).
- MCERA staff developed, implemented and tested a comprehensive Business Continuity Plan (BCP) to prepare for disruptive events. With this plan in place, MCERA is better prepared for events such as the Public Safety Power Shutoffs that are likely to impact California.

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, 2019 was 3.94% which lagged the benchmark by 2.81%. Performance returns were 9.65%, 5.85%, 8.73%, and 9.51% for the three, five, seven, and ten year periods ending June 30, 2019, 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 45.

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, 2019 valuation, the ratio of actuarial valuation value of assets to the actuarial accrued liabilities was 70.6%, which was an increase from the prior year's valuation funded ratio of 70.4%. MCERA's unfunded actuarial accrued liability (UAAL) as of June 30, 2019, was $219.7 million. There are 20 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, 2018. 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, 2019 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, 2018

Christopher P. Morrill

Executive Director/CEO

Members of the Board of Retirement

As of June 30, 2019

Chair
Kathryn Cavness

Elected by
Active General Membership

Vice Chair
Leland Parker

Appointed by
the Board of Supervisors

Secretary
Tim Knudsen

Elected by
Retired Membership

Trustee
Shari Schapmire

Treasurer-Tax Collector
County of Mendocino

Trustee
Jerilyn Harris

Appointed by
the Board of Supervisors

Trustee
Dan Gjerde

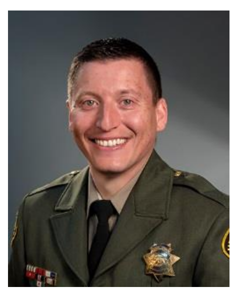
Appointed by
the Board of Supervisors

Trustee
Kathryn Smith

Appointed by
the Board of Supervisors

Trustee
Julie Forrester

Elected by
Active General Membership



Trustee
Quincy Cromer

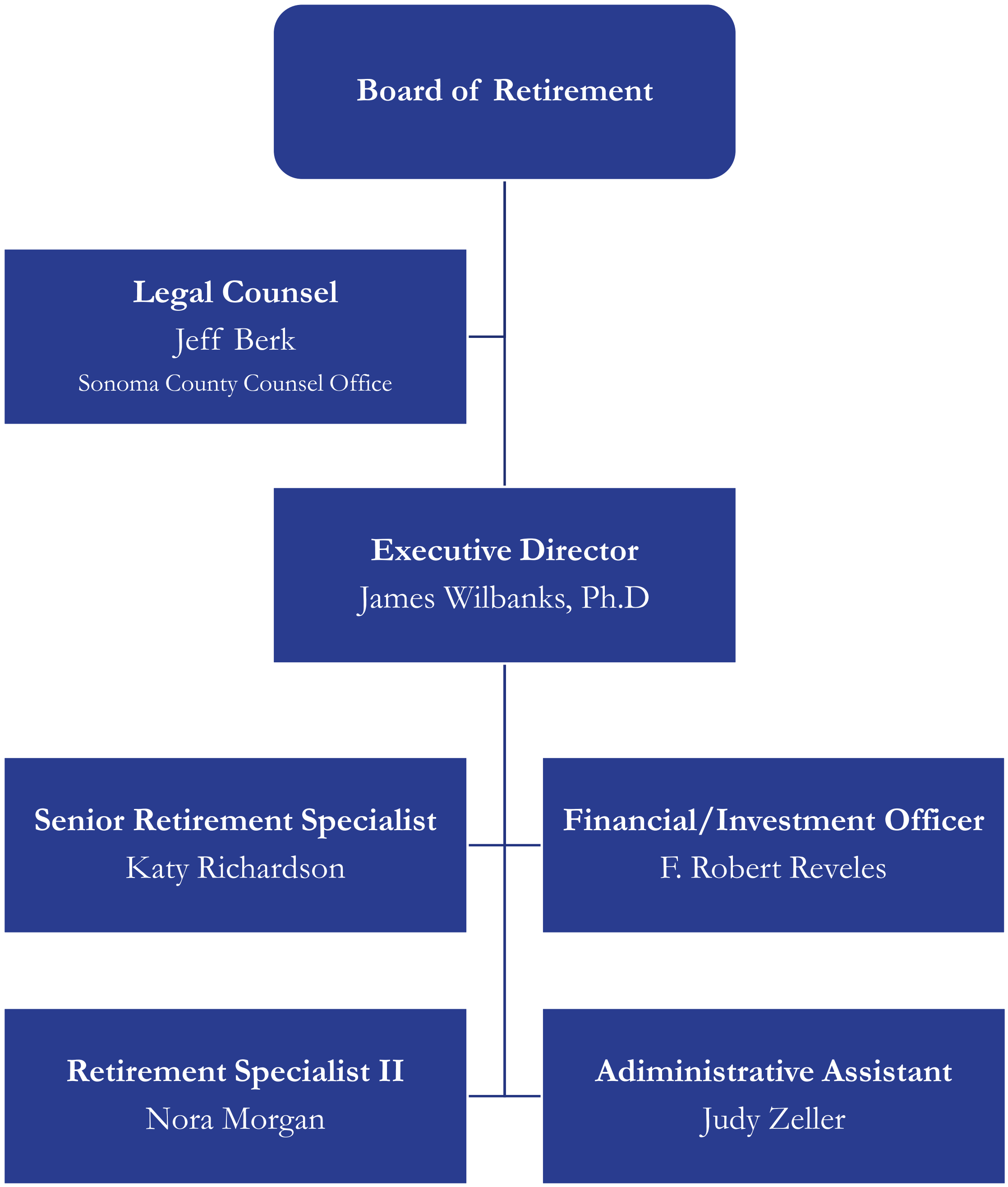
Elected by
Active Safety Membership

Trustee
Richard Shoemaker

Elected by
Retired Membership

Organization Chart

As of June 30, 2019



See page 42 and 53 for the schedule of investment management fees and other investment fees.
See page 42 for the schedule of payments to consultant (other than investment managers).

List of Professional Consultants

As of June 30, 2019

Actuary
Segal Consulting

Disability Counsel
County Counsel, County of Sonoma

Fiduciary Counsel
Nossaman, LLP

Investment Consultant
Callan Associates, LLC.

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.

Financial Section

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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WWW.BACPAS.COM

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

Independent Auditor's Report

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

Report on the Basic Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Mendocino County Employees' Retirement Association (MCERA), as of June 30, 2019, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the basic financial statements, which collectively comprise MCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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, 2019, and the changes in fiduciary net position for the fiscal year then ended in accordance 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 management's discussion and analysis and 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 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.

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.

Report on Summarized Comparative Information

We have previously audited MCERA's June 30, 2018 basic financial statements, and our report dated December 6, 2018, expressed an unmodified opinion on those audited basic financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2018, is consistent, in all material respects, with the audited basic financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, 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, agreements, and other matters. The purpose of that report is solely 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 effectiveness of MCERA's 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
November 25, 2019

Management's Discussion and Analysis – June 30, 2019

This section presents Management's Discussion and Analysis (MD&A) of Mendocino County Employees' Retirement Association's (MCERA or Plan) financial results and a summary of MCERA's financial position and activities as of and for the fiscal year ended June 30, 2019. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the basic 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.

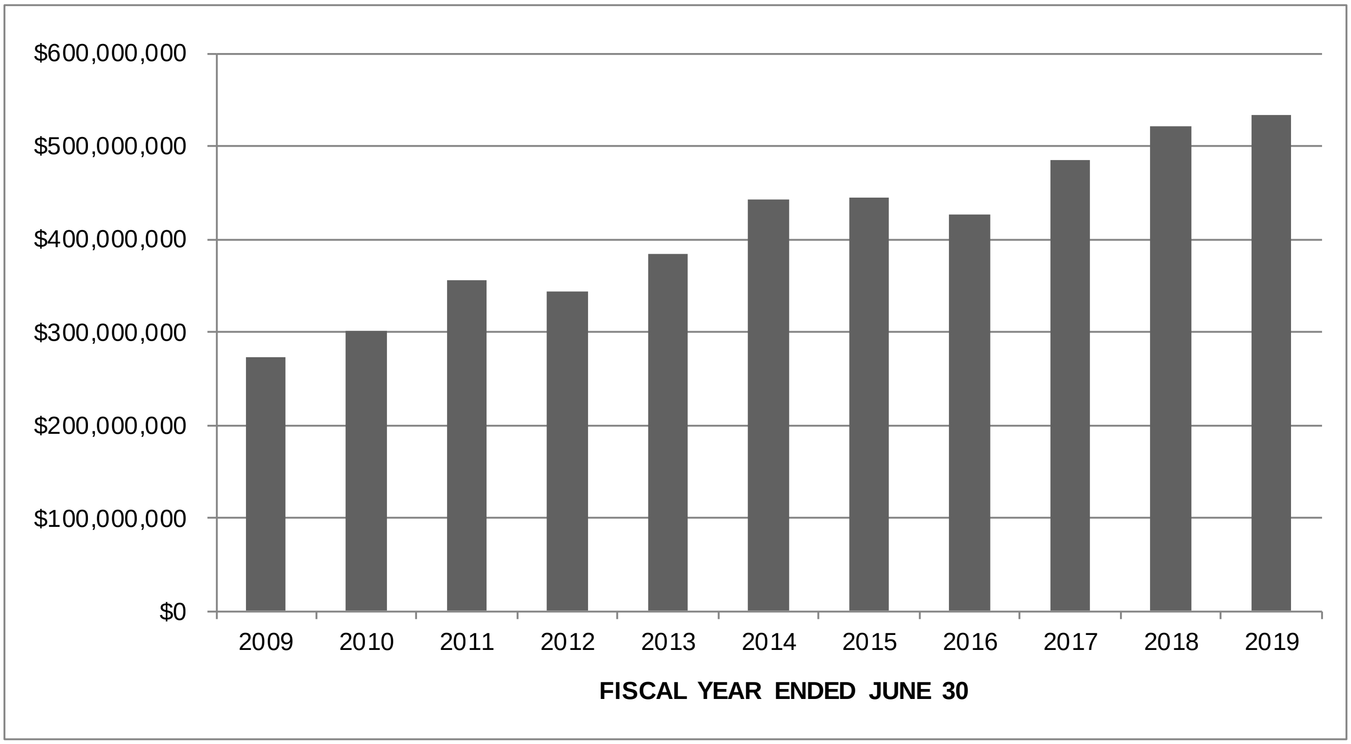
The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of MCERA, which includes administering MCERA benefits and managing the assets. The Board and MCERA staff members are committed to act for the exclusive benefit of MCERA and its participants, manage 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 $533 million, which reflects an increase of 2.36% in net position during fiscal year 2018-19.
- Actuarial determined assets increased to $527.4 million, a 4.5% increase during fiscal year 2018-19.
- Net total additions to fiduciary net position for the fiscal year totaled $50.2 million. This was comprised of $23.7 million of employer contributions, $6.5 million of member contributions, and a net investment gain of $20.0 million.
- Deductions in fiduciary net position for the fiscal year were $37.9 million, which included $35.7 million in benefit payments to retirees, $1.0 million in member refunds, and $1.2 million in total administrative expenses.
- MCERA's funded status increased to 70.6% from 70.4% 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) increased from $197.5 million to $214.8 million during fiscal year 2018-19. The fiduciary net position as a percentage of the total pension liability decreased from 72.5% to 71.3%.

MCERA Fiduciary Net Position Held in Trust for Pension Benefits



Overview of the Basic Financial Statements

The MD&A serves as an introduction and overview of MCERA's 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 fiscal 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 Basic 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 GASB requires to accompany the basic financial statements. The schedules include the following and can be found on pages 37-42.

- Schedules of Changes in Net Pension Liability and Related Ratios: This schedule displays the changes in NPL for all participating employers.
- Schedule of Employer Contributions: This schedule provides a 10 year history of the employers' 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 10 year history of the money-weighted rate of return for investments net of investment management fees.

Other Supplementary Information

The 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). The other supplementary information can be found on pages 43-44.

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 year.

Table 1: MCERA Fiduciary Net Position June 30, 2019 and 2018
(Dollars in Thousands)

	2019	2018	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Cash Equivalents	$ 278	$ 1,990	$ (1,712)	(86.03%)
Receivables	1,213	1,136	77	6.78%
Capital Assets, Net Software Equipment	397	476	(79)	(16.60%)
Investments, at Fair Value	532,277	518,369	13,908	2.68%
Total Assets	534,165	521,971	12,194	2.34%
Accounts Payable	232	286	(54)	(18.88%)
Accrued Expenses and Other Liabilities	1,206	1,255	(49)	(3.90%)
Total Liabilities	1,438	1,541	(103)	(6.68%)
Fiduciary Net Position Restricted for Pension Benefits	532,727	520,430	12,297	2.36%

Table 2: Changes in Fiduciary Net Position for the Fiscal Years Ended June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Amount Increase/ (Decrease)	% Change Increase/ (Decrease)
Additions				
Employer Contributions	$ 23,702	$ 20,431	$ 3,271	16.01%
Member Contributions	6,544	5,996	548	9.14%
Net Investment Income	19,959	45,272	(25.313)	(55.91%)
Total Additions	50,205	71,699	(21,494)	(29.98%)
Deductions				
Retirement Benefits	35,650	33,332	2,318	6.95%
Refund of Contributions	1,025	822	203	24.70%
Administrative Expenses	1,233	1,142	91	7.97%
Total Deductions	37,908	35,296	2,612	7.40%
Net Increase	12,297	36,403	(24,106)	(66.22%)
Fiduciary Net Position Restricted for Pension Benefits at Beginning of Year	$ 520,430	$ 484,027	$ 36,403	7.52%
Fiduciary Net Position Restricted for Pension Benefits at End of Year	$ 532,727	$ 520,430	$ 12,297	2.36%

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, 2019 and 2018, totaled $50.2 million and $71.7 million, respectively. The decrease in additions from 2018 to 2019 can be attributed primarily to a decrease in net investment income. Employer contributions and member contributions increased in FY 2019 as a result of higher non-safety covered payroll. During FY 2018, MCERA liquidated three investment funds for an additional $23.4 million in gains. Total net position increased from approximately $520 million in fiscal year (FY) 2018 to $533 million in FY 2019.

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 deductions for the fiscal years ended June 30, 2019 and 2018, were $37.9 million and $35.3 million, respectively. The primary reason for this change was an increase in benefits paid to retirees.

MCERA Financial Reserves

Table 3: MCERA Reserves as of June 30, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Member Reserve	$ 68,504	$ 67,721
Employer Reserve	(160,717)	(124,600)
Retiree Reserve	351,514	313,429
Cost of Living Reserve	176,288	158,819
Contingency Reserve	5,324	5,220
Total Reserves	$ 440,913	$ 420,589

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:

- In alignment with industry Best Practices, the Board and Staff conducted a Request for Proposals (RFP) for General Investment Consultant Services. After a rigorous review, the Board elected to retain the incumbent, Callan, LLC.
- After the conclusion of the RFP, the Board initiated an Asset/Liability Study to evaluate both the liabilities and the asset allocation to provide investment returns. The Study is on-going through the end of the reporting period.
- Additionally, the Board adopted an "Investment Beliefs Statement" to outline its beliefs and assumptions regarding the investment program. This statement is a convenient reference for the Board, Staff and Consultants as all work to build and improve the investment program.
- Staff presented an updated analysis of the appropriate region for the annual Cost of Living Adjustment (COLA) for retirees, based on changes in geography definitions of the U.S. Bureau of Labor Statistics.
- Board Governance was further enhanced, with the Board undertaking an evaluation of itself and its practices. Annual Board evaluations are an industry Best Practice. The evaluation results showed the MCERA Board to have a strong governance model.
- With the adoption of a Communication Strategy in the previous year, the Board and Staff continued the communication efforts in a number of ways. The Board now receives quarterly information on performance of communication efforts, with a presentation of Communication Metrics that highlight the performance of the MCERA Newsletter, uptake and utilization of Member Direct, and participation of County employees in the deferred compensation program.

- The Board held a meeting on the Mendocino Coast in an effort to be more inclusive of all stakeholders across the County.
- Staff also produced a new communication and education item to help MCERA members and the public understand the Unfunded Actuarial Accrued Liability (UAAL).
- MCERA staff developed, implemented and tested a comprehensive Business Continuity Plan (BCP) to prepare for disruptive events. With this plan in place, MCERA is better prepared for events such as the Public Safety Power Shutoffs that are likely to impact California.

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 fiscal year ending June 30, 2019, was 3.94% which lagged the benchmark by 2.81%. Performance returns were 9.65%, 5.85%, 8.73%, and 9.51% for the three, five, seven, and ten year periods ending June 30, 2019, 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, 2019 valuation, the ratio of actuarial valuation value of assets to the actuarial accrued liabilities was 70.6%, which was an increase from the prior year's valuation funded ratio of 70.4%. The actuarial valuation value of assets excludes about $35.4 thousand in market gains that will be smoothed in over the next few years. Thus, on a market value basis, the funded ratio would be 71.3%. MCERA's unfunded actuarial accrued liability (UAAL) as of June 30, 2019, was $219.7 million. On a market value basis, the UAAL would be $214.3 million. The increase in the UAAL on an actuarial valuation basis can be attributed to higher than expected active salary increases and unfavorable investment experience, offset to some degree by some experience gains.

As of June 30, 2019, there are 20 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, 2019 valuation increased from 34.13% of payroll to 34.56% of payroll. The net effect of lower than expected return on investments and higher than expected salary increases all contributed to the rate increase. The aggregate member rate calculated in the June 30, 2019 valuation decreased from 9.49% of payroll to 9.44% of payroll.

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

Basic Financial Statements

Statement of Fiduciary Net Position

June 30, 2019 (with Comparative Totals for 2018)

ASSETS	**June 30, 2019**	**June 30, 2018**
Cash equivalents (Note 3):	$ 277,833	$ 1,990,220
Investments at fair value (Notes 3 and 4)		
Fixed income	111,668,799	103,773,892
Domestic equities	214,240,611	207,674,170
International equities	146,238,125	150,450,203
Real estate partnerships	58,841,415	55,320,400
Real estate – 625 Kings Court, Ukiah, CA	1,288,000	1,150,000
Total investments, at fair value	532,276,950	518,368,665
Receivables:		
Member contributions receivable	231,239	214,942
Employer contributions receivable	861,411	747,689
Other receivables	120,458	173,288
Total receivables	1,213,108	1,135,919
Capital assets, net (Note 1):		
Software equipment	396,916	476,299
TOTAL ASSETS	$ 534,164,807	$ 521,971,103
LIABILITIES		
Liabilities		
Accounts payable	$ 232,059	$ 286,177
Accrued expenses and other liabilities	1,205,731	1,254,965
TOTAL LIABILITIES	$1,437,790	$1,541,142
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS	$ 532,727,017	$520,429,961

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

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2019 (with comparative Totals for 2018)

	June 30, 2019	June 30, 2018
ADDITIONS TO FIDUCIARY NET POSITION ATTRIBUTED TO:		
Investment income:		
Net realized and unrealized appreciation in fair value of	$ 13,100,919	$ 39,520,672
Dividend income	7,630,201	6,576,494
Rent income, net of expenses	82,760	80,606
Interest income	51,245	19,054
Investment expenses	(906,006)	(924,841)
Total investment income, net	19,959,119	45,271,985
Contributions (Note 5):		
Employer contributions	23,702,064	20,430,644
Member contributions	6,544,192	5,996,462
Total contributions	30,246,256	26,427,106
Total additions	50,205,375	71,699,091
DEDUCTIONS FROM FIDUCIARY NET POSITION ATTRIBUTED TO:		
Retirement benefits	35,650,289	33,331,909
Refund of contributions	1,024,612	821,763
Administrative expenses	1,233,418	1,142,175
Total deductions	37,908,319	35,295,847
Net increase	12,297,056	36,403,244
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS:		
Balance at beginning of year	520,429,961	484,026,717
Balance at end of year	$ 532,727,017	$ 520,429,961

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

Notes to the Basic Financial Statements

June 30, 2019

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 (GASB) Statements No. 14 and No. 61.

Basis of Accounting:

MCERA follows GASB accounting principles and reporting guidelines, and basic 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.

Comparative Data:

The amounts shown for the fiscal year ended June 30, 2018, in the accompanying basic financial statements are included to provide a basis for comparison with 2018 and present summarized totals only. Accordingly, the 2018 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with MCERA's basic financial statements for the fiscal year ended June 30, 2018, from which the summarized information was derived.

Use of Estimates:

The preparation of basic 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 basic financial statements and accompanying notes. Actual results could differ from these estimates.

Valuation of Investments:

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 investments to adverse fluctuations in financial and currency markets and to enhance yields. MCERA does not use derivatives for speculative use or to create leverage.

During the fiscal year ended June 30, 2019, MCERA owned no derivatives directly in its portfolio.

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 the 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. Investment allocation guidelines according to the Investment Policy are as follows:

	Allowable Range	Current Allocation
Domestic Equities	33%-43%	40.25%
International Equities	24%-34%	27.47%
Fixed Income	19%-25%	20.98%
Real Estate Partnerships	6%-16%	11.30%

MCERA's Investment Policy does not allow for a single investment in real estate that is in excess of 5 percent 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.

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	$56,045,125	4.43%	8.25	4.24	AA-
PIMCO Total Return	55,623,674	3.38%	7.13	5.03	AA-
Total	$111,668,799	3.91%	7.69	4.64	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, 2019, 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, 2019, the annual money-weighted rate of return on MCERA investments, net of investment management expense, was 4.00%. 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 $396,915.

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 (the Board), 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 basic 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 Internal Revenue Service (IRS) stated that MCERA, as then designed, is in compliance with the applicable requirements of the IRC.

Administrative Expenses:

The Board approves MCERA's annual budget. The County Employees Retirement Law of 1937 (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'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.

MCERA's actual administrative expense, excluding IT costs, for fiscal year 2018-19 was $1,044,646, which represented 0.15% of MCERA's actuarial accrued liability or 52.23% of the $2 million statutory cap.

Subsequent Events:

Management has evaluated all subsequent events after June 30, 2019, through November 25, 2019, the date the basic 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 CERL (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, 2019, consisted of the following:

Retirees and beneficiaries receiving benefits	1,552
Terminated plan members entitled to, but not yet receiving benefits	515
Active plan members	1,151
Total	3,218
Number of participating employers	3

A multiple-employer cost-sharing 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.

Description of Plan and Applicable Provisions of the Law:

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

Retirement benefits offered by the Plan include normal retirement, disability retirement, and service-connected disability retirement. Retirement benefits are based on the years of service, final average salary, and age at retirement. A statutory benefit formula that varies based on a member's tier and type is used to determine monthly benefits. A death benefit is available to beneficiaries. An annual cost of living adjustment of no more than 3 percent may be granted by the Board. 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 Counsel concluded that the County Board of Supervisors was ultimately responsible for dealing with any retiree health benefits that might be provided to retired employees of the County.

Member Termination:

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

Plan Termination:

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

Note 3 – Cash and Investments

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 has exclusive control over all cash and investments of MCERA and is responsible for establishing investment objectives, strategies, and policies.

The Board 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 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.

MCERA's cash and investments stated at fair value as of June 30, 2019, are as follows:

	2019
Cash equivalents	$ 277,833
Total cash equivalents	277,833
Fixed income	111,668,799
International equities	146,238,125
Domestic equities – small cap	30,246,288
Domestic equities – mid cap	33,304,116
Domestic equities – large cap	150,690,207
Real estate partnerships	58,841,415
Real estate – 625 Kings Court, Ukiah, CA	1,288,000
Total investments, at fair value	532,276,950
Total Cash and Investments	$ 532,554,783

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 which 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.

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 fiscal year-end.

Certain investments which do not have a readily determinable fair value have been valued at the 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 accounting principles generally accepted in the United States of America (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 NAV of shares held by MCERA at fiscal year-end.

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

The methods described above may produce a fair value calculation that may not be as indicative of net realizable value or reflective of future fair values. Furthermore, while 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 tables set forth by level, within the fair value hierarchy, MCERA's investments at fair value and the NAV as of June 30, 2019:

Investments at Fair Value as of June 30, 2019

	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
Commingled funds:				
Fixed income	$ -	$ 111,668,799	$ -	$ 111,668,799
International equities	-	146,238,125	-	146,238,125
Domestic equities	177,607,510	36,633,101	-	214,240,611
Real estate – 625 Kings Court, Ukiah, CA	-	-	1,288,000	1,288,000
Total investments by fair value level	$ 177,607,510	$ 294,540,025	$ 1,288,000	$ 473,435,535
Investment measured at the NAV:				
Real estate partnerships				$ 58,841,415
Total investments measured at fair value level and NAV				$ 532,276,950

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

Investments at NAV as of June 30, 2019

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate partnerships[1]	$ 58,841,415	$ -	Quarterly	45 Days
Total investments measured at the NAV	$ 58,841,415			

[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 fiscal year ending June 30, 2019, as follows:

Commercial Building at 625 Kings Court, Ukiah, California

	2019
Fair value, beginning of year	$ 1,150,000
Unrealized gain	138,000
Purchases	-
Sales	-
Issuances	-
Settlements	-
Fair value, end of year	$ 1,288,000
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, 2019	$ 138,000

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, 2019. A professional appraisal was completed in June 2017.

Instrument	Fair Value at June 30, 2019	Principal Valuation Technique
Real Estate – 625 Kings Court, Ukiah, CA	$ 1,288,000	Fair Value=Appraisal

Note 5 – Contributions

Contribution rates for the employers and their participating employees are established and may be amended by the MCERA Board (and then shall be adopted by the County Board of Supervisors). The contribution rates are determined based on the benefit structure established by the employers. The Actuarial Valuation and Review report issued by The Segal Company as of June 30, 2017, recommended employer and member contribution rates that aggregate to 34.92% and 9.78%, 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 (UAAL).

Using the projected payroll amounts for MCERA's membership groups and tiers that were used in the June 30, 2017 actuarial valuation, management has estimated the contributions are comprised of the following for the fiscal year ended June 30, 2019:

Estimated Employer Normal Cost Contributions	$ 7,642,762
Estimated UAAL Contributions	16,059,302
Total	$ 23,702,064

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, 2019, were as follows:

Total pension liability	$ 747,481,135
Fiduciary net position	532,727,017
Net pension liability	$ 214,754,118
Fiduciary net position as a percentage of total pension liability	71.3%

Disclosure of Information about Actuarial Methods and Assumptions:

The required Schedules 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.

Actuarial Methods and Assumptions:

The total pension liability as of June 30, 2019, was determined by actuarial valuation as of June 30, 2019. The actuarial assumptions used in the June 30, 2019 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, 2019
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	20 years (closed) for all 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. 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. 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.

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 for the June 30, 2019 valuation. 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 and subtracting expected investment expenses and a risk margin.

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

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equities – Large Cap	25.30%	5.64%
Domestic Equities – Small Cap	12.70%	6.24%
International Equities	29.00%	6.70%
Fixed Income	22.00%	1.06%
Real Estate Partnerships	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, 2019. 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, 2019.

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, 2019, 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	$ 310,996,796	$ 214,754,118	$ 135,328,238

Note 7 – Reserves

MCERA had contingency reserves of $5,324,149 at June 30, 2019, 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, 2019, (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

Reserves	2019
Member reserves	$ 68,503,788
Employer reserves	(160,717,397)
Retiree reserves	527,802,669
1% Contingency reserve	5,324,149
Total reserves	440,913,209
Cumulative unallocated net unrealized gain on investments	91,778,416
Total allocated reserves (smoothed market actuarial value after corridor limits	532,691,625
Fiduciary net position in excess (deficit of reserves)	35,392
Fiduciary net position restricted for pension benefits	$ 532,727,017

Required Supplementary Information

Schedules of Changes in Net Pension Liability and Related Ratios

Schedules of Changes in Net Pension Liability and Related Ratios
For 2019, 2018, and 2017

	June 30, 2019	June 30, 2018	June 30, 2017
Total pension liability (TPL):			
Service cost[1]	$ 13,422,284	$ 12,576,536[2]	$ 12,356,900
Interest	49,910,703	47,254,554	45,532,301
Change of benefit terms	-	-	-
Differences between expected and actual experience	2,897,805	12,682,464	(5,836,962)
Changes in assumptions	-	-	28,220,986
Benefit payments, including refunds of employee contributions	(36,674,901)	(34,153,672)	(32,765,402)
Net change in total pension liability	29,555,891	38,359,882	47,507,823
Total pension liability - beginning of year	717,925,244	679,565,362	632,057,539
Total pension liability - end of year (a)	$ 747,481,135	$717,925,244[3]	$ 679,565,362
Fiduciary net position:			
Contributions - employers'	$ 23,702,064	$ 20,430,644	$ 19,116,426
Contributions - members'	6,544,192	5,996,462	5,753,907
Net investment income (loss)	19,959,117	45,271,985	66,669,864
Benefit payments, including refunds of employee contributions	(36,674,901)	(34,153,672)	(32,765,402)
Administrative expense	(1,233,416)	(1,142,175)	(1,086,089)
Other	-	-	-
Net change in fiduciary net position	12,297,056	36,403,244	57,688,706
Fiduciary net position - beginning of year	520,429,961	484,026,717	426,338,011
Fiduciary net position - end of year (b)	$ 532,727,017	$ 520,429,961	$ 484,026,717
Net pension liability - end of year (a) - (b)	$ 214,754,118	$ 197,495,283	$ 195,538,645
Fiduciary net position as a % of the total pension liability	71.3%	72.5%	71.2%
Covered payroll[4]	$ 68,254,197	$ 64,340,578	$ 59,801,480
Net pension liability as a % of covered payroll	314.6%	307.0%	327.0%

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

[1] The service cost is based on the previous year's valuation, meaning the 2019 and 2018 values are based on the valuations as of June 30, 2018 and June 30, 2017, respectively. Both service costs have been calculated using the assumptions shown in Note 6 to the basic financial statements.
[2] Includes a decrease of approximately $0.1 million in the service cost as a result of a refinement in the method used to allocate the present value of benefits between the TPL and the present value of future service costs.
[3] Includes an increase of approximately $0.5 million in the TPL as a result of a refinement in the method used to allocate the present value of benefits between the TPL and the present value of future service costs.
[4] Covered payroll represents Compensation Earnable and Pensionable Compensation and is defined as the payroll on which contributions to the pension plan are based.

Schedules of Changes in Net Pension Liability and Related Ratios

For 2016, 2015, 2014, and 2013

	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Total pension liability (TPL):				
Service cost[1]	$ 12,125,153	$ 12,058,526	$ 11,762,194	$ 12,083,893
Interest	44,005,882	42,156,056	39,412,370	37,805,390
Change of benefit terms	-	-	-	-
Differences between expected and actual experience	(3,396,702)	1,787,516	(8,040,343)	(1,868,814)
Changes in assumptions	-	-	58,186,913	-
Benefit payments, including refunds of employee contributions	(31,058,643)	(30,049,133)	(27,353,529)	(26,573,554)
Net change in total pension liability	21,675,690	25,952,965	73,967,605	21,446,915
Total pension liability - beginning of year	610,381,849	584,428,884	510,461,279	489,014,364
Total pension liability - end of year (a)	$ 632,057,539	$ 610,381,849	$ 584,428,884	$ 510,461,279
Fiduciary net position:				
Contributions - employers'	$ 19,129,191	$ 15,164,044	$ 14,324,752	$ 14,260,473
Contributions - members'	5,544,925	4,651,960	4,575,895	4,712,593
Net investment income (loss)	(10,352,325)	13,201,309	68,294,844	48,890,492
Benefit payments, including refunds of employee contributions	(31,058,643)	(30,049,133)	(27,353,529)	(26,573,554)
Administrative expense	(1,142,493)	(1,059,272)	(930,437)	(829,999)
Other	-	-	200,106	-
Net change in fiduciary net position	(17,879,345)	1,908,908	59,111,631	40,460,005
Fiduciary net position - beginning of year	444,217,356	442,308,448	383,196,817	342,736,812
Fiduciary net position - end of year (b)	$ 426,338,011	$ 444,217,356	$ 442,308,448	$ 383,196,817
Net pension liability - end of year (a) - (b)	$205,719,528	$166,164,493	$ 142,120,436	$ 127,264,462
Fiduciary net position as a % of the total pension liability	67.5%	72.8%	75.7%	75.1%
Covered payroll[2]	$ 57,407,928	$ 54,891,785	$ 53,813,882	$ 53,254,876
Net pension liability as a % of covered payroll	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

[1] The service cost is based on the previous year's valuation, meaning the 2019 and 2018 values are based on the valuations as of June 30, 2018 and June 30, 2017, respectively. Both service costs have been calculated using the assumptions shown in Note 6 to the basic financial statements.
[2] Covered payroll represents Compensation Earnable and Pensionable Compensation and is defined as the payroll on which contributions to the pension plan are based.

Schedule of Employer Contributions

Schedule of Employer Contributions (Dollar Amounts in Thousands)

					As a % of Covered Payroll	
Year Ended	Actuarially Determined Contribution [1,2]	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll [3]	Actuarially Determined Contribution	Actual Employer Contribution
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%
6/30/18	20,431	20,431	-	64,341	32%	32%
6/30/19	23,702 [4]	23,702 [4]	-	68,254	35%	35%

[1] Information prior to 2011 has been extracted from the previous actuary's past valuation reports.
[2] Prior to year ended June 30, 2014, this amount was the Annual Required Contribution (ARC).
[3] Covered payroll represents Compensation Earnable and Pensionable Compensation and is defined as the payroll on which contributions to the pension plan are based.
[4] This amount includes additional UAAL contributions made by the Mendocino County Superior Court and the Russian River Cemetery District in FY 2018/2019 based on the minimum dollar UAAL amortization amount for FY 2017/2018. The Mendocino County Superior Court and the Russian River Cemetery District had paid $31,588 and $5,949 less than the minimum UAAL contributions in FY 2017/2018, respectively.

Schedule of Investment Returns

Schedule of Investment Returns

Fiscal Year	Annual Money-Weighted Rate of Return, Net of Investment Management Fees[1]
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	18.00%
2015	3.10%
2016	(2.19%)
2017	16.10%
2018	9.63%
2019	4.00%

[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 Mendocino County Employees' Retirement Association (MCERA)'s actuary, Segal Consulting.

The service cost is based on the previous year's valuation, meaning the 2019 and 2018 values are based on the valuations as of June 30, 2018 and June 30, 2017, respectively. The actuarial assumptions are described in Note 3 below.

Covered 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 Board of Retirement 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 in the notes to the basic financial statements for details on the current actuarial methods and assumptions used in the June 30, 2019 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 fiscal year ending June 30, 2019, are calculated based on the June 30, 2017 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 20, 2018 and 2017
Actuarial cost method	Entry age cost method (individual basis
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	21 and 22 years (closed) for all unfunded actuarial accrued liability (UAAL) remaining as of June 30, 2018 and 2017, respectively.

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 both males and set forward six years for females. 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 mortality 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 improvements Scale MP-2016, set back one year for meals and set forward one year for females, weighted 30% male and 70% female. Safety and Probation members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvements Scale MP-2016, set back one year for males and set forward one year for females, weighted 80% males and 20% female.

Other Supplementary Information

Schedule of Investment Management Fees and Other Investment Expenses

For the Fiscal Year Ended June 30, 2019

Investment Management Fees	Direct	Fund Level	Total
Domestic Equities – Large Cap	$ -	$ 427,384	$ 427,384
Domestic Equities – Mid Cap	-	215,922	215,922
Domestic Equities – Small Cap	-	230,488	230,488
International Equities	533,362	519,320	1,052,682
Fixed Income	-	485,639	485,639
Real Estate Partnerships	-	548,049	548,049
Investment Consultant	164,734	-	164,734
Custodial Bank	40,363	-	40,363
Actuarial Expense	125,278	-	125,278
Other Investment Expense	42,269	-	42,269
Total Investment Expenses	$ 906,006	$ 2,426,802	$ 3,332,808

Schedule of Payments to Consultants (Other Than Investment Managers)

For the Fiscal Year Ended June 30, 2019

	2019
Actuarial Expense	$ 125,278
Audit Services	42,217
Investment Consultant	164,734
Custodian Services	40,363
Pension IT Services	182,646
Disability Medical Reviews	44,355
Legal Counsel	
General	174,655
Disability	59,643
Total Payments to Consultants	$ 833,891

Schedule of Administrative Expenses

For the Fiscal Year Ended June 30, 2019

Personnel Services:	
Salaries and Wages	$ 389,839
Other Benefits	73,492
Employee Retirement	136,415
Total Personnel Services	599,746
Professional Services:	
Legal Expense – General	174,655
Outside Legal Counsel – Disability	59,643
Disability Medical Review	44,355
External Audit Fees	42,217
Total Professional Services	320,870
Miscellaneous:	
Office Expenses	32,687
Rent and Leases	53,484
Memberships	5,665
Board Meeting Stipends and Contracts	9,019
Training and Travel	23,175
Total Miscellaneous	124,030
Total Administrative Expenses[1]	$ 1,044,646
Total Information Technology (IT) Expense	$ 188,772
Total Administrative and IT Expense	$ 1,233,418

[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 2018-19 as the total expenses excluding IT expense were less than the administrative cap at 21/100% of the accrued actuarial liability.

Investment Section

Investment Consultant's Statement

Callan

FUND
SPONSOR
CONSULTING

Performance Summary

Mendocino County Employees' Retirement Association
Executive Summary
Fiscal Year Ended June 30, 2019

Market Overview

The beginning of the fiscal year marked the anniversary of Global Financial Crisis. Just a decade ago, some of the world's largest and most revered financial institutions, along with the modern financial system itself, were left staring into the abyss. Several events, beginning with the fire sale of Bear Stearns and failure of Lehman Brothers, quickly transitioned into a bailout of AIG, conservatorship of Fannie Mae and Freddie Mac, multiple emergency relief programs, and forced marriages of several global investment and commercial banks. The series of events would eventually translate into one of the most painful economic recessions on record. And yet, as grave as things appeared in September 2008 and during the months that followed, the global economy just 10 years later finds itself in the midst of one of the longest economic expansions in the modern era.

As the U.S. entered its 121st month of expansion and valuations were lofty across most markets, the eventuality and timing of a U.S. recession remained forefront on investors' minds. In second quarter of 2019, the Fed announced a relatively new policy objective—to "sustain the expansion"—stock markets approached record highs, and the 10-year U.S. Treasury yield hit a multi-year low.

Investors' appetite for risk, while elevated for much of 2018, evaporated as the calendar year drew to a close and wiped out positive returns for the year across broad asset classes (T-bills being a notable exception). Concerns over tighter monetary policy and the global withdrawal of stimulus measures, unresolved trade disputes, falling oil prices, slower global growth, and softer data in some U.S. indicators overshadowed other robust aspects of the domestic economy. U.S. Treasury prices rose, expectations for Fed hikes in 2019 dissipated, and the S&P 500 had its worst December since 1931. Market sentiment clearly reflected the "glass half empty" viewpoint, with the S&P 500 at one point falling nearly 20% from a record level hit only a few months earlier. Meanwhile, the "safe haven" status of U.S. Treasuries attracted investors and pushed yields lower—the yield of the 10-year Treasury dropped 55 bps from a multi-year high of 3.24% reached in early November to close the year at 2.69%.

The picture was more worrisome overseas. With ambiguities regarding Brexit, recession in Italy in the fourth quarter, and surprisingly weak manufacturing numbers (PMI 44.7) out of Germany, the ECB lowered its projections for euro zone GDP growth from 1.7% to 1.1%. It also indicated it would leave rates on hold at least through the end of the year. Further, in early March the ECB announced a new bank lending program to support growth. As compared to the year prior, Euro zone GDP grew 1.1% in the fourth quarter (+1.6% y-o-y), and the OECD estimates growth of just 1% for 2019, down from 1.8%. In Germany, the yield on the 10-year government bond turned negative for the first time since late 2016 and closed the quarter at -0.07%. China was also a worry—it lowered its growth target to 6.0%-6.5%, and the profits of industrial companies fell 14% in the first two months of 2019 versus one year ago, the worst since the Global Financial Crisis.

In hindsight, poor liquidity late in the fourth quarter exacerbated the sentiment-driven sell-off in risk markets (high yield and leveraged loans in particular) while unexpectedly dovish comments from the Fed in the early part of the year acted as a catalyst for a swift reversal. While there is some evidence of softening conditions in the U.S., data do not suggest that a recession is imminent. Corporate fundamentals remain solid, and while after-tax profits moderated. By the end of the second quarter 2019, U.S. equity markets approached record levels as investors were heartened by the potential for imminent Fed rate cuts. The S&P 500 Index rose 18.5% YTD June 2019.

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

Index	3Q18	4Q18	1Q19	2Q19	Fiscal Year
US Equity (Russell 3000)	7.1%	-14.3%	14.0%	4.1%	9.0%
Intl Equity (MSCI ACWI ex-U.S.)	0.8%	-11.4%	10.4%	3.2%	1.8%
Real Estate (NFI-ODCE)	1.9%	1.4%	1.5%	1.1%	6.0%
Fixed Income (Bloomberg Aggregate)	0.0%	1.6%	2.9%	3.1%	7.9%

Asset Allocation

As of June 30, 2019, the assets of MCERA were valued at $532.6 million, up from the total asset value at the start of the fiscal year, July 1, 2018, of $520.4 million. Approximately $20.8 million in investment gains and $8.6 million in net withdrawals accounted for the increase in assets. Actual allocation to domestic equity was 2.2% above that of the target; it was offset by a relative underweight to international equity and domestic fixed income. All asset classes remain within their permitted ranges.

Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equity	214,241	40.2%	38.0%	2.2%	11,870
International Equity	146,238	27.5%	29.0%	(1.5%)	(8,203)
Domestic Fixed Income	111,669	21.0%	22.0%	(1.0%)	(5,493)
Domestic Real Estate	60,129	11.3%	11.0%	0.3%	1,548
Cash	278	0.1%	0.0%	0.1%	278
Total	532,555	100.0%	100.0%		

Total Fund Performance

MCERA's Total Fund gained 4.0% for the fiscal year ending June 30, 2019, underperforming the Policy Index's 6.8% return. For the same time period measured, MCERA's money-weighted rate of return net of investment fees was 4.0%.

As shown in the fiscal year attribution below, active management detracted from relative performance, while the effect from deviations from the policy target had smaller negative impacts. Manager performance within international and domestic equity contributed the most to underperformance.

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	40%	38%	6.66%	8.98%	(0.91%)	(0.12%)	(1.02%)
Domestic Fixed Income	21%	22%	7.61%	7.87%	(0.07%)	(0.20%)	(0.27%)
Domestic Real Estate	11%	11%	6.63%	5.99%	0.07%	(0.12%)	(0.05%)
International Equity	28%	29%	(3.16%)	1.80%	(1.45%)	0.02%	(1.44%)
Cash	0%	0%	0.00%	0.00%	0.00%	0.00%	0.00%
Total			**3.97% =**	**6.75% +**	**(2.35%) +**	**(0.42%)**	**(2.78%)**

Overall, the Total Fund ranked in the 90th 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 33rd, 12th, and 19th for the trailing 5-, 7-, and 10-year periods, respectively.

Summary

Following a sharp market pull back in the fourth quarter of 2018, the U.S. economy continued to hum along in 2019 with equity and fixed income markets posting stellar year-to-date returns. The consumer continued to be a bright spot, bolstering services sectors, while manufacturing dampened growth.

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	Claire Telleen, CFA Senior 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

Investment Return[1]s for the Year Ended June 30, 2019

	Fair Value	% of Assets	Current Year Return	3 Year Return	5 Year Return
Domestic Equities	**$214,240,611**	**40.23%**	**6.66%**	**15.37%**	**9.81%**
Russell 3000 Index			8.98%	14.02%	10.19%
Large Cap Equities	**$150,690,207**	**28.30%**			
Vanguard S&P 500 Index	37,847,215	7.11%	10.39%	14.15%	10.68%
S&P 500 Index			10.42%	14.19%	10.71%
SSGA S&P 500 Equal WT	38,238,231	7.18%	8.14%	-	-
S&P 500 Eq Weighted Index			8.18%	12.41%	9.14%
Boston Partners	36,633,102	6.88%	4.48%	11.26%	6.86%
S&P 500 Index			10.42%	14.19%	10.71%
Russell 1000 Value Index			8.46%	10.19%	7.46%
Harbor Capital Appreciation	37,971,659	7.13%	8.12%	20.28%	13.65%
S&P 500 Index			10.42%	14.19%	10.71%
Russell 1000 Growth Index			18.07%	18.07%	13.39%
Mid Cap Equities	**$33,304,116**	**6.25%**			
Fidelity Low Priced Stock	15,331,413	2.88%	-0.93%	9.34%	6.01%
Russell MidCap Value Index			3.68%	8.95%	6.72%
Janus Enterprise	17,972,703	3.37%	16.92%	19.02%	14.48%
Russell MidCap Growth Index			13.94%	16.49%	11.10%
Small Cap Equities	**$30,246,288**	**5.68%**			
Prudential Small Cap Value	12,392,574	2.33%	-13.06%	6.48%	3.54%
US Small Cap Value Index			-4.69%	8.89%	5.71%
Russell 2000 Value Index			-6.24%	9.81%	5.39%
AB US Small Growth	17,853,714	3.35%	10.70%	24.66%	12.43%
Russell 2000 Growth Index			-0.49%	14.69%	8.63%

[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:

	Fair Value	% of Assets	Current Year Return	3 Year Return	5 Year Return
International Equities	**$146,238,125**	**27.46%**	**-3.16%**	**8.33%**	**1.09%**
EuroPacific	27,006,170	5.07%	1.91%	10.84%	4.45%
Harbor International	28,766,945	5.40%	-6.05%	4.97%	-0.37%
Oakmark International	27,135,640	5.10%	-6.81%	11.07%	1.67%
Mondrian International	26,510,253	4.98%	1.70%	6.57%	0.70%
MSCI EAFE Index			1.08%	9.11%	2.25%
MSCI ACWI ex-US Index			1.80%	9.91%	2.65%
T-Rowe Price Int'l Small Cap	21,787,330	4.09%	-8.04%	-	-
MSCI ACWI ex US Small Cap			-5.94%	7.76%	2.77%
Investec Emerging Markets Equity	15,031,787	2.82%	0.10%	-	-
MSCI Emerging Markets Index			1.22%	10.66%	2.49%
Domestic Fixed Income	**$111,668,799**	**20.97%**	**7.61%**	**3.43%**	**3.14%**
Dodge & Cox Income	56,045,125	10.52%	7.58%	3.68%	3.27%
PIMCO Total Return	55,623,674	10.44%	7.64%	3.17%	3.02%
BC Aggregate Index			7.87%	2.31%	2.95%
Real Estate	**$60,129,415**	**11.29%**	**6.39%**	**6.36%**	**8.68%**
Real Estate Custom Benchmark [2]			5.99%	2.31%	2.95%
RREEF Private Fund	30,787,441	5.78%	6.48%	7.08%	9.43%
Barings Core Property Fund	28,053,974	5.27%	6.24%	6.91%	8.53%
NFI-ODCE Equal Weight Index			5.99%	6.97%	9.12%
625 Kings Court	1,288,000	0.24%	7.52%	13.75%	12.18%
Cash	**277,833**	**0.05%**			
Total Fund	**$532,554,783**	**100.00%**	**3.94%**	**9.65%**	**5.85%**
Total Fund Benchmark [3]			6.75%	9.46%	6.48%

[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

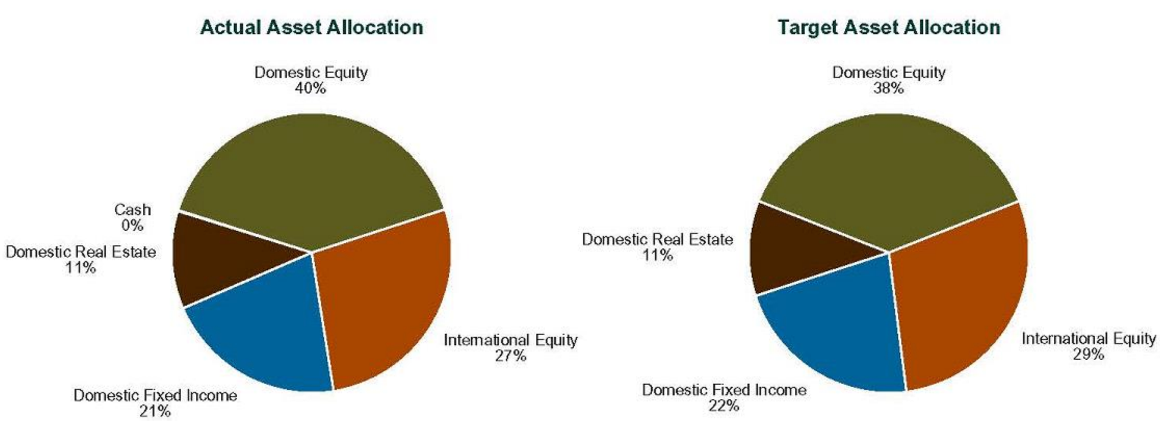
The Board reviews the Association's investment results each quarter. Periodically, the Board reviews the asset allocation, taking into consideration the latest actuarial study. Based on this review, the Board adopts an asset allocation mix with the goal of helping the Association achieve a fully funded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

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	214,241	40.2%	38.0%	2.2%	11,870
International Equity	146,238	27.5%	29.0%	(1.5%)	(8,203)
Domestic Fixed Income	111,669	21.0%	22.0%	(1.0%)	(5,493)
Domestic Real Estate	60,129	11.3%	11.0%	0.3%	1,548
Cash	278	0.1%	0.0%	0.1%	278
Total	532,555	100.0%	100.0%		

[1] Some figures may not total exactly due to rounding.

Asset Allocation June 30, 2019

Asset Class	Fair Value	Actual Allocation	Target Allocation
Domestic Equities	$ 214,240,611	40.23%	38.00%
International Equities	146,238,125	27.46%	29.00%
Domestic Fixed Income	111,668,799	20.97%	22.00%
Domestic Real Estate	60,129,415	11.29%	11.00%
Cash	277,833	0.05%	0.00%
Total Portfolio	$ 532,554,783	100.00%	100.00%

Asset Allocation June 30, 2018 (For Comparison Purposes)

Asset Class	Fair Value	Actual Allocation	Target Allocation
Domestic Equities	$ 207,674,170	39.91%	38.00%
International Equities	150,450,203	28.91%	29.00%
Domestic Fixed Income	103,773,892	19.94%	22.00%
Domestic Real Estate	56,470,400	10.85%	11.00%
Cash	1,990,220	0.38%	0.00%
Total Portfolio	$ 520,358,885	100.00%	100.00%

Schedule of Investment Management Fees and Other Investment Expenses

For the Year Ended June 30, 2019

Investment Management Fees	Direct	Fund Level	Total
Domestic Equities – Large Cap	$ -	$ 427,384	$ 427,384
Domestic Equities – Mid Cap	-	215,922	215,922
Domestic Equities – Small Cap	-	230,488	230,488
International Equity Funds	533,362	519,320	1,052,682
Fixed Income Funds	-	485,639	485,639
Real Estate	-	548,049	548,049
Investment Consultant	164,734	-	164,734
Custodial Bank	40,363	-	40,363
Actuarial Expense	125,278	-	125,278
Other Investment Expense	42,269	-	42,269
Total Investment Expenses	$ 906,006	$ 2,426,802	$ 3,332,808

List of Investment Managers

June 30, 2019

Large Cap Equity
Vanguard S&P 500 Index
SSGA S&P 500 Equal WT
Boston Partners
Harbor Capital Appreciation

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
T-Rowe Price Int'l Small Cap

Fixed Income
Dodge & Cox Income
PIMCO Total Return

Real Estate
RREEF America REIT II
Barings Core Property Fund

Schedule of Top Ten Portfolio Holdings

June 30, 2019

Schedule of Top Ten Portfolio Holdings[1], June 30, 2019

Ticker	Asset Class	Fund Name	Fair Value	
DODIX	Fixed Income	Dodge & Cox - Income	$	56,045,125
PTTRX	Fixed Income	PIMCO - Total Return		55,623,674
N/A	Equity	SSGA S&P 500 Equal WT		38,238,231
HNACX	Equity	Harbor Capital Appreciation Fund		37,971,659
VINIX	Equity	Vanguard S&P 500 Index		37,847,214
N/A	Equity	Boston Partners		36,633,102
N/A	Real Estate	RREEF America REIT II		30,787,441
HNINX	Equity	Harbor international		28,766,946
N/A	Real Estate	Barings Fund		28,053,974
N/A	Equity	Oakmark International CIT		27,135,640
		Total Top 10 Securities	$	377,103,006

Note: A complete list of holdings is available upon request

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

Actuarial Section

Actuary’s Certification Letter

Segal Consulting

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T 415.263.8200 www.segalco.com

December 30, 2019

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

Re: June 30, 2019 Actuarial Valuation for the Mendocino County Employees’ Retirement Association

Dear Members of the Board:

Segal Consulting (“Segal”) prepared the June 30, 2019 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, 2019 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 30, 2019
Page 2

In the June 30, 2019 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 20 years remaining as of June 30, 2019. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different remaining amortization periods. (For example, 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, 2019 actuarial valuation. A listing of the supporting schedules Segal prepared for inclusion in the Financial Section as Required Supplementary Information prescribed by GASB[1], and in the Actuarial Section, is provided below:

Financial Section:

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

Actuarial Section:

3) Summary of Assumptions and Funding Method
4) Probabilities of Separation from Active Service
5) Actuarial Assumptions for Merit and Promotion Salary Increase Rates
6) Schedule of Active Member Valuation Data
7) Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll
8) Schedule of Funded Liabilities by Type
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, 2019*

** Source: Segal's GAS 67 valuation report as of June 30, 2019.*

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, 2019.

5621411v3/13459.001

Board of Retirement
Mendocino County Employees' Retirement Association
December 30, 2019
Page 3

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, 2019 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, 2019 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 70.4% to 70.6%. The employer's aggregate contribution rate has increased from 34.13% of payroll to 34.56% of payroll. The employee's aggregate rate has decreased from 9.49% of payroll to 9.44% of payroll. The increase in the employer rate is primarily due to losses from the anticipated one-year delay in the future from implementing contribution rates developed in the June 30, 2019 valuation, the lower than expected return on investments (after smoothing), and the higher than expected salary increases for continuing General, Safety, and Probation active members. These losses were partially offset by gains from changes in membership demographics, amortizing the prior year's UAAL over a larger than expected total payroll, and other net actuarial gains.

In the June 30, 2019 valuation, the actuarial value of assets excluded a $35,392 net deferred investment gain, which represents less than 0.01% of the market value of assets. If the net deferred investment gain was recognized immediately in the actuarial value of assets, and assuming that the balance in the Contingency Reserve of $5.3 million would be included in the valuation value of assets, the funded percentage would increase from 70.6% to 71.3% and the aggregate employer contribution rate, expressed as a percentage of payroll, would decrease from 34.56% to about 34.0%.

To the best of our knowledge, the June 30, 2019 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	Andy Yeung, ASA, MAAA, FCA, EA
Senior Vice President & Actuary	Vice President & Actuary

DNA/jl
Enclosures

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[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.

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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 20 years remaining as of June 30, 2019. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different remaining amortization periods. (For example, 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, 2019 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 (There are 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, 2019. 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. (Page 64)
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

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.

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[3]	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

[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] 35% of General disabilities are assumed to be service connected disabilities. The other 65% are assumed to be non-service connected disabilities.

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[2]	Mortality Female[2]	Disability[3]	Service Retirement Safety Tiers 1 & 2	Service Retirement Safety Tier 3	Service Retirement Probation Tier 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	1.0000	1.0000	1.0000	1.0000

[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 Safety and Probation deaths are assumed to be service connected deaths.
[3] 95% of Safety and Probation disabilities are assumed to be service connected disabilities. The other 5% are assumed to be non-service connected disabilities.

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 $	Annual Average Pay $	Percentage of Increase in Average Pay[2]
6/30/2010[3]					
	General	1,071			
	Safety	130			
	Probation	53			
	Total	1,254	69,004,002[4]	55,032[4]**Error!**	4.3%
6/30/2011					
	General	955	53,294,624	55,800	
	Safety	122	8,238,933	67,536	
	Probation	52	2,610,208	50,196	
	Total	1,12	64,143,765	56,820	-0.7%[5]
6/30/2012					
	General	895	45,850,427	51,228	-8.2%
	Safety	120	8,021,174	66,840	-1.0%
	Probation	54	2,724,487	50,448	0.5%
	Total	1,06	56,596,088	52,944	-6.8%
6/30/2013					
	General	894	45,512,393	50,904	-0.6%
	Safety	123	8,169,530	66,420	-0.6%
	Probation	55	2,782,060	50,580	0.3%
	Total	1,07	56,463,983	52,668	-0.5%
6/30/2014					
	General	900	44,672,084	49,632	-2.5%
	Safety	129	8,509,082	65,964	-0.7%
	Probation	52	2,695,082	51,828	2.5%
	Total	1,081	55,876,248	51,684	-1.9%
6/30/2015					
	General	930	46,587,735	50,100	0.9%
	Safety	125	8,862,821	70,908	7.5%
	Probation	52	2,655,840	51,072	-1.5%
	Total	1,107	58,106,396	52,488	1.6%
6/30/2016					
	General	943	49,280,041	52,260	4.3%
	Safety	130	9,188,532	70,680	-0.3%
	Probation	50	2,746,381	54,924	7.5%
	Total	1,123	61,214,954	54,516	3.9%
6/30/2017					
	General	939	50,029,723	53,280	2.0%
	Safety	130	9,400,111	72,312	2.3%
	Probation	54	2,905,771	53,808	-2.0%
	Total	1,123	62,335,605	55,512	1.8%
6/30/2018					
	General	982	54,932,258	55,944	5.0%
	Safety	131	10,210,062	77,940	7.8%
	Probation	49	2,813,500	57,420	6.7%
	Total	1,162	67,955,820	58,476	5.3%
6/30/2019					
	General	971	57,461,580	59,172	5.8%
	Safety	137	11,013,741	80,388	3.1%
	Probation	43	2,648,854	61,596	7.3%
	Total	1,151	71,124,175	61,788	5.7%

[1] Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.

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[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**
6/30/2010[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%
6/30/2018	72	2,579,436	44	648,933	1,490	34,308,735	6.0%	23,026	4.0%
6/30/2019	101	3,312,777	39	757,798	1,552	36,863,714	7.4%	23,752	3.2%

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

[1] 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.

Schedule of Funded Liabilities By Type[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)
6/30/2010[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%
6/30/2018	54,154	504,502	158,806	717,462	504,804	100%	89%	0%
6/30/2019	55,478	531,602	159,985	747,065	527,367	100%	89%	0%

This exhibit includes actuarially funded liabilities and assets.

[1] 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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010[2]
Beginning of the Year UAAL Liability/(Surplus)	$212,658	$204,340	$185,284	$182,153	$179,573	$131,684	$126,527	$124,913	$91,785	$66,933
Effect of Differences in Methods and Procedures Due to Change in Actuaries	-	-	-	-	-	-	-	-	9,035	
Expected Change	(1,429)	(777)	281	711	748	3,247	3,118	6,929	7,638	
Liability (Gain)/Loss	(1,380)	212	1,385	(4,360)	5,038	(3,310)	4,236	1,937	-	
Asset Return (Gain)/Loss	4,842	(5,492)	(5,367)	4,702	(5,723)	(6,471)	3,046	3,647	15,266	
Salary Increase (Gain)/Loss	5,295	11,791	(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	-	549[3]	28,221	-	-	58,187[4]	-	2,945	24,043	
(Gain)/Loss Due to Reflecting Future Service Only Improvement for General Members	-	-	-	-	-	-	-	-	(5,604)	
(Gain)/Loss Due to One-Year Delay From Implementing Employer Contribution Rates	(288)	2,035	(54)	(264)	4,269[5]	-	-	-	-	
End of the Year UAAL Liability/(Surplus)	$219,698	$212,658	$204,340	$185,284	$182,153	$179,573	$131,684	$126,527	$124,913	$91,785

[1] Information as of 6/30/2010 has been extracted from the previous actuary's June 30, 2010 valuation report.
[2] The UAAL reconciliation was not provided in the previous actuary's valuation reports.
[3] Effect of including cost of $1,000 post-retirement lump sum death benefit.
[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, 2019					$532,727
2. Calculation of deferred return:					
a. Year ended June 30, 2015	$13,201	$31,658	$(18,457)	0%	$0
b. Year ended June 30, 2016	(10,352)	31,933	(42,285)	20%	(8,457)
c. Year ended June 30, 2017	66,670	30,584	36,086	40%	14,434
d. Year ended June 30, 2018	45,272	33,571	11,701	60%	7,020
e. Year ended June 30, 2019	19,959	36,162	(16,203)	80%	(12,962)
f. Total unrecognized return					$35
3. Preliminary actuarial value of assets as of June 30, 2018: (1) – (2f)					$532,692
4. Adjustment to be within 25% corridor of market value					$0
5. Final actuarial value of assets as of June 30, 2019: (3) + (4)					$532,692
6. Actuarial value as a percentage of market value: (5) / (1)					100.0%
7. Non-pension reserve:					
8. Contingency reserve					$5,324
9. Valuation value of assets: (5) – (7)					$527,367

Note: Amounts may not total exactly due to rounding.

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, 2019.

Plan Type and Plan Sponsors

Cost-sharing multiple-employer defined benefit plan. The participating employers are the County of Mendocino, the Superior Court of Mendocino, and the Russian River Cemetery District.

Actuarial Funding Policy

The Mendocino County Board of Retirement establishes the Actuarial Practices and Funding Policy to help ensure future benefit payments for members of MCERA.

MCERA's annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by following three components of this funding policy:

1. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefit to a given period:

2. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and

3. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Valuation Value of Assets in a systematic manner.

The Board has adopted the following regarding its actuarial funding policy:
Actuarial Cost Method: The Entry Age1actuarial cost method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Liability.
Asset Smoothing Method: The investment gains or losses of each valuation period, as a result of comparing the actual market return and the expected return on Valuation Value of Assets shall be recognized in level amount over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed 25% of the Market Value of Assets. The Board acknowledges the occasional need for and reserves the right to consider future ad-hoc adjustments to the asset smoothing method to achieve a more level pattern of recognition of the net deferred investment gains or losses after a period of significant market change followed by a period of market correction, upon receiving the necessary analysis from its actuary.

Amortization Policy: The UAAL (i.e., the difference between the Actuarial Accrued Liability and the Valuation Value of Assets), as of June 30, 2012 shall continue to be amortized over its declining 30-year schedule (with 22 years remaining as of June 30, 2017); Any new UAAL as a result of actuarial gains or losses identified in the actuarial valuations as of June 20, 2013 or later will be amortized over a period of 18 years; Any new UAAL as a result of change in the actuarial assumptions or methods, effective with the actuarial valuation as of June 2013 or later will be amortized over a period of 18 years; Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis: a. With the exception noted in b. below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years; b. The increase in UAAL resulting from a temporary retirement incentive will be funded over 5 years; UAAL shall be amortized over "closed" amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation; UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of estimated covered payroll, based on the current actuarial assumption for general payroll increase; In addition to the UAAL contribution rate, an amortization amount equal to the UAAL contribution rate times the covered payroll (as estimated in the actuarial valuation that establishes such UAAL contribution rate) shall be calculated for each employer. The final UAAL payment by each employer shall be equal to the UAAL contribution rate times the actual covered payroll or the above amortization amount, if greater; and, if an overfunding exists (i.e., the total of all UAAL becomes negative so that there is a surplus and the amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of CalPEPRA), such actuarial surplus and any subsequent surpluses will be amortized over an "open" amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

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.

In addition, a $1,000 lump sum death benefit is paid to the estate or designated beneficiary upon the member's death.

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 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.

Schedule of Funding Progress

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
6/30/1995	79,322	121,027	41,705	65.5%	29,603	140.9%
6/30/1996	84,992	130,036	45,044	65.4%	29,587	152.2%
6/30/1997	124,286	140,783	16,497	88.3%	32,481	50.8%
6/30/1998	134,836	154,263	19,427	87.4%	35,586	54.6%
6/30/1999	142,775	173,250	30,475	82.4%	39,209	77.7%
6/30/2000	150,056	185,423	35,367	80.9%	44,132	80.1%
6/30/2001	157,545	204,699	47,154	77.0%	53,188	88.7%
6/30/2002	158,115[2]	226,883	68,768	69.7%	57,701	119.2%
6/30/2003	233,764[3]	243,342	9,578	96.1%	59,865	16.0%
6/30/2004	239,191	265,141	25,950	90.2%	59,075	43.9%
6/30/2005	253,487	289,467	35,980	87.6%	57,664	62.4%
6/30/2006	288,461	320,123	31,662	90.1%	57,665	54.9%
6/30/2007	317,937	358,259	40,322	88.7%	65,899	61.2%
6/30/2008	353,421	373,832	20,411	94.5%	70,880	28.8%
6/30/2009	336,263	403,196	66,933	83.4%	72,235	92.7%
6/30/2010	343,202	434,987	91,785	78.9%	69,004	133.0%
6/30/2011	347,732	472,644	124,912	73.6%	64,144[4]	194.7%
6/30/2012	362,487	489,014	126,527	74.1%	56,596	223.6%
6/30/2013	378,777	510,461	131,684	74.2%	56,464	233.2%
6/30/2014	404,856	584,429	179,573	69.3%	55,876	321.4%
6/30/2015	428,229	610,382	182,153	70.2%	58,106	313.5%
6/30/2016	446,773	632,057	185,284	70.7%	61,215	302.7%
6/30/2017	475,225	679,565	204,340	69.9%	62,336	327.8%
6/30/2018	504,804	717,462	212,658	70.4%	67,956	312.9%
6/30/2019	527,367	747,065	219,698	70.6%	71,124	308.9%

[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] Starting with the 6/30/2011 valuation, payroll includes a projection for expected salary increases during the fiscal year following the valuation date, under the actuarial assumptions used in valuation.

Schedule of Contributions

Last Ten Fiscal Years

Year Ended June 30	Actuarially Determined Contributions[1,2]	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency / (Excess)	Covered Payroll[3]	Contributions as a Percentage of Covered Payroll
2010	9,571,000	Not Disclosed in Prior Funding Valuation Reports	N/A	70,384,677	N/A
2011	9,553,955	9,553,955	$0	64,252,118	14.87%
2012	11,811,076	11,811,076	0	56,291,191	20.98%
2013	14,260,473	14,260,473	0	53,254,876	26.78%
2014	14,324,752	14,324,752	0	53,813,882	26.62%
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%
2018	20,430,644	19,116,426	0	64,340,578	31.75%
2019	23,702,064[4]	23,702,064[4]	0	68,254,197	34.73%

[1] Information prior to 2011 has been extracted from the previous actuary's past valuation reports.
[2] Prior to the year ended June 30, 2014, this amount was the Annual Required Contribution (ARC).
[3] Covered payroll represents Compensation Earnable and Pensionable Compensation and is defined as the payroll on which contributions to the pension plan are based.
[4] This amount includes additional UAAL contributions made by the Mendocino County Superior Court and the Russian River Cemetery District during FY 2018/2019 based on the minimum dollar UAAL amortization amount for FY 2017/2018. We understand that the Mendocino County Superior Court and the Russian River Cemetery District had paid $31,588 and $5,949 less than the minimum UAAL contributions in FY 2017/2018, respectively.

Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate

As of June 30, 2019
(Dollars 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)
2018	$520	$30	$37	$1	$20	$533
2019	533	29	42	1	37	555
2020	555	29	43	1	38	578
2021	578	28	45	1	40	599
2022	599	28	47	1	41	620
2023	620	28	49	1	42	640
2024	640	28	51	2	44	659
2025	659	28	54	2	45	677
2026	677	29	56	2	46	695
2027	695	29	58	2	47	712
2043	749	5*	72	2	50	729
2044	729	4*	72	2	48	708
2045	708	4*	71	2	47	687
2046	687	4*	70	2	46	666
2047	666	4*	68	2	44	644
2092	731	2*	1	2	51	781
2093	781	2*	0**	2	55	835
2094	835	2*	0**	2	58	894
2095	894	2*	0**	2	63	956
2096	956	2*	0**	2	67	1,023
2121	5,187	12*	0**	12	363	5,550
2122	5,550					
2122	Discounted Value: 5***					

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

** Less than $1 million when rounded.

*** $5,550 million when discounted with interest at the rate of 7.00% per annum has a value of $5 million (or .98% of the Plan's Fiduciary Net Position) as of June 30, 2019

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.

Notes:

1. Amounts may not total exactly due to rounding.
2. Amounts shown for the year beginning July 1, 2018 row are actual amounts, based on the unaudited financial statements provided by MCERA.
3. Years 2028-2042, 2048-2091, and 2097-2120 have been omitted from this table.
4. Column (a): Except for the "discounted value" shown for 2122, none of the projected beginning Plan's 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, 2019); 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, 2019. The projected benefit payments reflect the cost of living increase assumptions used in the June 30, 2019 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 0.24% of the projected beginning Plan Fiduciary Net Position amount. The 0.24% portion was based on the actual fiscal year 2018 - 2019 administrative expenses as a percentage of the beginning Plan Fiduciary Net Position amount as of July 1, 2018. 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, 2019 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

Statistical Section

Summary of Statistical Data

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)

Schedule of Changes in Fiduciary Net Position for Years 2019, 2018, 2017 2016, 2015
(Dollars in Thousands)

	2019	2018	2017	2016	2015
Additions					
Employer Contributions	$ 23,702	$ 20,431	$ 19,116	$ 19,129	$ 15,164
Member Contributions	6,544	5,996	5,754	5,545	4,652
Net Investment Income	19,959	45,272	66,670	(10,352)	13,201
Total Additions	**50,205**	**71,699**	**91,540**	**14,322**	**33,017**
Deductions					
Benefits Payments	35,650	33,332	31,617	30,435	29,225
Refunds of Contributions	1,025	822	1,148	624	824
Administrative Expenses	1,233	1,142	1,086	1,142	1,059
Total Deductions	**37,908**	**35,296**	**33,851**	**32,201**	**31,108**
Change in Fiduciary Net Position	**$ 12,297**	**$ 36,403**	**$ 57,689**	**$(17,879)**	**$ 1,909**

Schedule of Changes in Fiduciary Net Position for Years 2014, 2013, 2012, 2011, 2010
(Dollars in Thousands)

	2014	2013	2012	2011	2010
Additions					
Employer Contributions	$ 14,325	$ 14,260	$ 11,811	$ 9,554	$ 8,234
Member Contributions	4,576	4,713	4,840	5,447	6,502
Net Investment Income	68,495	48,890	(4,078)	64,075	38,128
Total Additions	**87,396**	**67,863**	**12,573**	**79,076**	**52,864**
Deductions					
Benefits Payments	26,702	25,500	22,956	22,269	23,161
Refunds of Contributions	652	1,073	1,225	1,167	1,061
Administrative Expenses	930	830	698	640	641
Total Deductions	**28,284**	**27,403**	**24,879**	**24,076**	**24,863**
Change in Fiduciary Net Position	**$ 59,112**	**$ 40,460**	**$(12,306)**	**$ 55,000**	**$ 28,001**

Schedule of Additions by Source

(Dollars in Thousands)

Fiscal Year Ended 6/30	Employee Contributions	Employer/Other Contributions	Investment Net Income	Total
2019	$ 6,544	$ 23,702	$ 19,959	$ 50,205
2018	5,996	20,431	45,272	71,699
2017	5,754	19,116	66,670	91,540
2016	5,545	19,129	(10,352)	14,322
2015	4,652	15,164	13,201	33,017
2014	4,576	14,325	68,495	87,396
2013	4,713	14,260	48,890	67,863
2012	4,840	11,811	(4,078)	12,573
2011	5,447	9,554	64,075	79,076
2010	6,502	8,234	38,128	52,864

Schedule of Deductions by Type

(Dollars in Thousands)

Fiscal Year Ended 6/30	Benefits	Administrative/ Other Expenses	Refunds	Total
2019	$ 35,650	$ 1,233	$ 1,025	$ 37,908
2018	33,332	1,142	822	35,296
2017	31,617	1,086	1,148	33,851
2016	30,435	1,142	624	32,201
2015	29,225	1,059	824	31,108
2014	26,702	930	652	28,284
2013	25,500	830	1,073	27,403
2012	22,956	698	1,225	24,879
2011	22,269	640	1,167	24,076
2010	23,161	641	1,061	24,863

Schedule of Benefit Expenses by Type

As of June 30

Schedule of Benefit Expenses by Type for Years 2019, 2018, 2017 2016, 2015
(Dollars in Thousands)

	2019	2018	2017	2016	2015
Service Retirement Payroll:					
General	23,512	21,876	20,653	19,787	18,632
Safety	5,390	4,840	4,395	4,050	3,911
Total	$ 28,902	$ 26,716	$ 25,048	$ 23,837	$ 22,544
Disability Retirement Payroll:					
General	2,508	2,413	2,350	2,266	2,200
Safety	2,862	2,694	2,557	2,494	2,248
Total	$ 5,370	$ 5,107	$ 4,907	$ 4,759	$ 4,448
Beneficiary Payroll					
General	1,822	1,694	1,654	1,608	1,632
Safety	767	757	770	760	629
Total	$ 2,589	$ 2,450	$ 2,424	$ 2,368	$ 2,260
Total Benefit Expense:					
General	27,843	25,983	24,657	23,661	22,464
Safety	9,018	8,291	7,722	7,304	6,789
Total	$ 36,861	$ 34,273	$ 32,379	$ 30,965	$ 29,252

Source of data: Data is derived from annualized monthly amounts reported in the actuarial valuation reports as of June 30, (2010 – 2019)
Note: Amounts in table may not total exactly due to rounding.

Schedule of Benefit Expenses by Type for Years 2014, 2013, 2012, 2011, 2010

(Dollars in Thousands)

	2014	2013	2012	2011	2010
Service Retirement Payroll:					
General	17,413	16,253	14,864	13,197	12,112
Safety	3,430	3,215	2,500	2,477	2,267
Total	$ 20,843	$ 19,468	$ 17,364	$ 15,674	$ 14,379
Disability Retirement Payroll:					
General	2,188	2,128	2,350	2,266	2,200
Safety	2,138	2,030	2,557	2,494	2,248
Total	$ 4,325	$ 4,158	$ 3,977	$ 3,819	$ 3,793
Beneficiary Payroll					
General	1,526	1,485	1,654	1,608	1,632
Safety	532	524	770	760	629
Total	$ 2,058	$ 2,009	$ 1,972	$ 1,806	$ 954
Total Benefit Expense:					
General	21,126	19,865	18,425	16,519	14,761
Safety	6,100	5,787	4,889	4,780	4,365
Total	$ 27,226	$ 25,692	$ 23,313	$ 21,299	$ 19,126

Source of data: Data is derived from annualized monthly amounts reported in the actuarial valuation reports as of June 30, (2010 – 2019)
Note: Amounts in table may not total exactly due to rounding.

Schedule of Retiree Members by Type of Benefit

Summary of Monthly Allowances – As of June 30, 2017, June 30, 2018, and June 30, 2019
(Dollars in Thousands)

FY 2019

	General Members		Safety Members		Total	
	Number	Monthly Allowance	Number	Monthly Allowance	Number	Monthly Allowance
Retired Members						
Service Retirement	1,072	$ 1,959	146	$ 449	1,218	$ 2,408
Disability	111	209	67	238	178	447
Beneficiaries	118	152	38	64	156	216
Total Retired Members	1,301	$ 2,320	251	$ 751	1,552	$ 3,071

FY 2018

	General Members		Safety Members		Total	
	Number	Monthly Allowance	Number	Monthly Allowance	Number	Monthly Allowance
Retired Members						
Service Retirement	1,030	$ 1,823	131	$ 403	1,161	$ 2,226
Disability	111	201	65	225	176	426
Beneficiaries	115	141	38	63	153	204
Total Retired Members	1,256	$ 2,165	234	$ 691	1,490	$ 2,856

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

Source of data: June 30, 2017, June 30, 2018 and June 30, 2019 Actuarial Valuation Report

Schedule of Average Benefit Payment Amounts

Schedule of Average Benefit Payment Amount for Year 2019

	Number of Years Since Retirement						
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**
Valuation Date 6/30/2019 Retirees:							
Average Monthly Benefit	$ 570	$ 970	$ 1,419	$ 2,657	$ 2,340	$ 3,855	$ 5,557
Avg. Final Average Salary	$ 8,100	$ 5,100	$ 4,900	$ 6,200	$ 4,700	$ 5,500	$ 6,800
Number of Retirees	14	17	25	13	10	5	7
Valuation Date 6/30/2019 Beneficiaries:							
Average Monthly Benefit	$ 1,081	$ 879	$ 1,367	$ 1,022	$ 1,501	$ 0	$ 0
Avg. Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of Beneficiaries	4	4	4	2	1	0	0

Source of data: Actuarial Valuation Reports (2010 – 2019). Final Average Salary data: MCERA Pension Software. Years of Service Credit data: MCERA Pension Software.

Schedule of Average Benefit Payment Amount for Years 2018, 2017, and 2016

	Number of Years Since Retirement						
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**
Valuation Date 6/30/2018 Retirees:							
Average Monthly Benefit	$ 2,065	$ 2,115	$ 2,111	$1,560	$ 1,510	$ 1,866	$ 1,766
Number of Retirees	333	392	284	127	81	62	58
Avg. Final Average Salary (All Retirees)				$5,729			
Valuation Date 6/30/2018 Beneficiaries:							
Average Monthly Benefit	$ 1,344	$ 1,445	$ 1,330	$ 875	$ 1,342	$ 1,708	$1,224
Number of Retirees	47	38	27	13	14	6	8
Avg. Final Average Salary (All Beneficiaries)				N/A			
Valuation Date 6/30/2017 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			
Valuation Date 6/30/2017 Beneficiaries:							
Average Monthly Benefit	$ 1,461	$ 1,300	$ 1,236	$ 917	$ 1,381	$ 1,534	$ 1,280
Number of Retirees	46	39	28	13	12	7	8
Avg. Final Average Salary (All Beneficiaries)				N/A			
Valuation Date 6/30/2016 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			
Valuation Date 6/30/2016 Beneficiaries:							
Average Monthly Benefit	$ 1,484	$ 1,181	$ 1,134	$ 843	$ 1,484	$ 1,534	$ 1,280
Number of Retirees	50	41	23	14	11	8	7
Avg. Final Average Salary (All Beneficiaries)				N/A			

Source of data: Actuarial Valuation Reports (2010 – 2019). Final Average Salary data: MCERA Pension Software. Years of Service Credit data: MCERA Pension Software. Data on Final Average Salary is not available prior to fiscal year 2016. Years of Service Credit data is not available prior to fiscal year 2017.

Schedule of Average Benefit Payment Amount for Years 2015, 2014, 2013, 2012, 2011 and 2010

	Number of Years Since Retirement						
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**
Valuation Date 6/30/2015 Retirees:							
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 6/30/2014 Retirees:							
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 6/30/2013 Retirees:							
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 6/30/2012 Retirees:							
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 6/30/2011 Retirees:							
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 6/30/2010 Retirees:							
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

Source of data: Actuarial Valuation Reports (2010 – 2019). Final Average Salary data: MCERA Pension Software. Years of Service Credit data: MCERA Pension Software. Data on Final Average Salary is not available prior to fiscal year 2016. Years of Service Credit data is not available prior to fiscal year 2017.

Schedule of Participating Employers and Active Members

As of June 30

	Total Employees	County of Mendocino	Russian River Cemetery District	Superior Court
Year 2019				
Number of Covered Employees	1,151	1,094	5	52
Percentage to Total System	100%	95.05%	0.43%	4.52%
Year 2018				
Number of Covered Employees	1,162	1,111	4	47
Percentage to Total System	100%	95.61%	0.34%	4.04%
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%	0.37%	5.05%
Year 2011				
Number of Covered Employees	1,129	1,065	4	60
Percentage to Total System	100%	94.33%	0.35%	5.32%
Year 2010				
Number of Covered Employees	1,254	1,186	5	63
Percentage to Total System	100%	94.58%	0.40%	5.02%

Source of data: MCERA Pension Software.

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