# *Mendocino County Employees' Retirement Association*

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

# *Comprehensive Annual Financial Report*

# *June 30, 2016*

# *Mendocino County Employees' Retirement Association*

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

# *Comprehensive Annual Financial Report*

For the fiscal year ended June 30, 2016

(With comparative data for the fiscal year ended June 30, 2015)

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

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

On the Cover: Point Arena Lighthouse, Mendocino County

# Mendocino County Employees' Retirement Association "MCERA"

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

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

## Mission

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

## Guiding Principles

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

## Objectives

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

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# *Introductory Section*

Bowling Ball Beach, Mendocino County

James R. Wilbanks, Ph.D.
Retirement Administrator

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(707) 467-6473
Fax: (707) 467-6472

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

## LETTER OF TRANSMITTAL

December 22, 2016

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

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Mendocino County Employees' Retirement Association (MCERA or System) as of and for the fiscal year ending June 30, 2016

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2016. 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 regular 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**.** Gallina LLP has audited the financial statements and related disclosures. The financial statement audit provides reasonable assurance that MCERA’s financial statements are presented in conformity with accounting principles generally accepted in the United States and are free from material misstatements.

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

As of June 30, 2016, MCERA’s net position totaled approximately $426.3 million reflecting a decrease of approximately $17.9 million or 4.03% in the net position at the end of the previous fiscal year.

**Budget**

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

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

MCERA's actual administrative expense excluding IT costs for fiscal year 2015-16 was $770,922 which represented 0.13% of MCERA's June 30, 2014 actuarial accrued liability or 38.55% of the $2 million statutory cap. Further, MCERA administrative expenses were 62.81% of the more restrictive 0.21% budget limit imposed by Board Policy. MCERA used the June 30, 2014 actuarial accrued liability, the most recent figure available at the time, to develop and approve the fiscal year 2015-16 budget. MCERA’s actual administrative expense including IT costs for the fiscal year was $1,142,493 which represented 0.20% of MCERA’s June 30, 2014 actuarial accrued liability.

**Major Initiatives and Significant Events**

Several major initiatives were undertaken during the fiscal year and through August 31, 2016 including:

- The Board of Retirement participated in a comprehensive Strategic Planning initiative. As a result of this process, the Board developed a Strategic Plan containing a Vision Statement, Mission Statement, measurable Objectives and Strategies. Additionally, the Board of Retirement implemented a Work Plan to ensure Staff efforts align with the Objectives outlined by the Board; and the Board reviews the Work Plan on a quarterly basis.
- The Board of Retirement, with assistance from staff and legal counsel, completed a comprehensive review and overhaul of Board policies. Additionally, the Board developed and adopted a schedule for future policy review to ensure the routine maintenance and review of all policies in accordance with the frequency required for each policy.
- The Board of Retirement held a joint meeting with the Board of Supervisors.
- The Association began a comprehensive effort to increase communications with Clients. To this end, staff implemented a quarterly seminar, called “Retirement 101” to provide members with information regarding the various facets of their Association benefits.
- The Association completed the outsourcing of the administrative review of disability applications.
- The pension administration system (PAS) was successfully launched on January 4, 2016. The PAS go-live was slightly delayed from the date planned at project inception, but the project was completed under budget.
- The Board of Retirement hired a custodian bank and transitioned to the new custodian. This hire has allowed monthly reporting on the investment portfolio to the Board.
- MCERA received a favorable determination letter from the Internal Revenue Service.

**Investments**

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

In accordance with state constitutional mandates, the Board adopts an investment policy designed to ensure diversification among asset classes and achieve MCERA's long-term investment objectives. The investment return for the year ending June 30, 2016 was (2.19) % which lagged the benchmark by 3.42%. The returns were 6.00%, 6.18%, 9.46% and 5.97% for the three, five, seven and ten year periods ending June 30, 2016, respectively.

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

More detailed information regarding MCERA’s strategic asset allocation, professional investment advisors, and investment performance can be found in the Investment Section of this report on page 49.

**Funded Status and Actuarial Reporting**

MCERA maintains a funding goal to establish contributions that fully fund the system's liabilities and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding to pay promised benefits. Each year, the actual experience of the system is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, 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, 2016 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 70.7% which was a slight increase from the prior year's valuation funded ratio of 70.2%. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2016 was $185,284,267. There are 23 years remaining in the declining 30-year amortization period of the UAAL.

**Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its comprehensive annual financial report for the fiscal year ended June 30, 2015. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized CAFR that meets the highest standards of governmental financial reporting.

**Request for Information**

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

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

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

## GFOA Certificate of Achievement

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Mendocino County**

**Employees' Retirement Association**

**California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

## Members of the Board of Retirement
## June 30, 2016

***Randy Goodman***, Chair
Elected by Active General Membership

***Dan Gjerde***, Vice Chair and Member, Board of Supervisors
Appointed by the Board of Supervisors

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

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

***Ted Stephens***, Trustee
Appointed by the Board of Supervisors

***John Sakowicz***, Trustee
Appointed by the Board of Supervisors

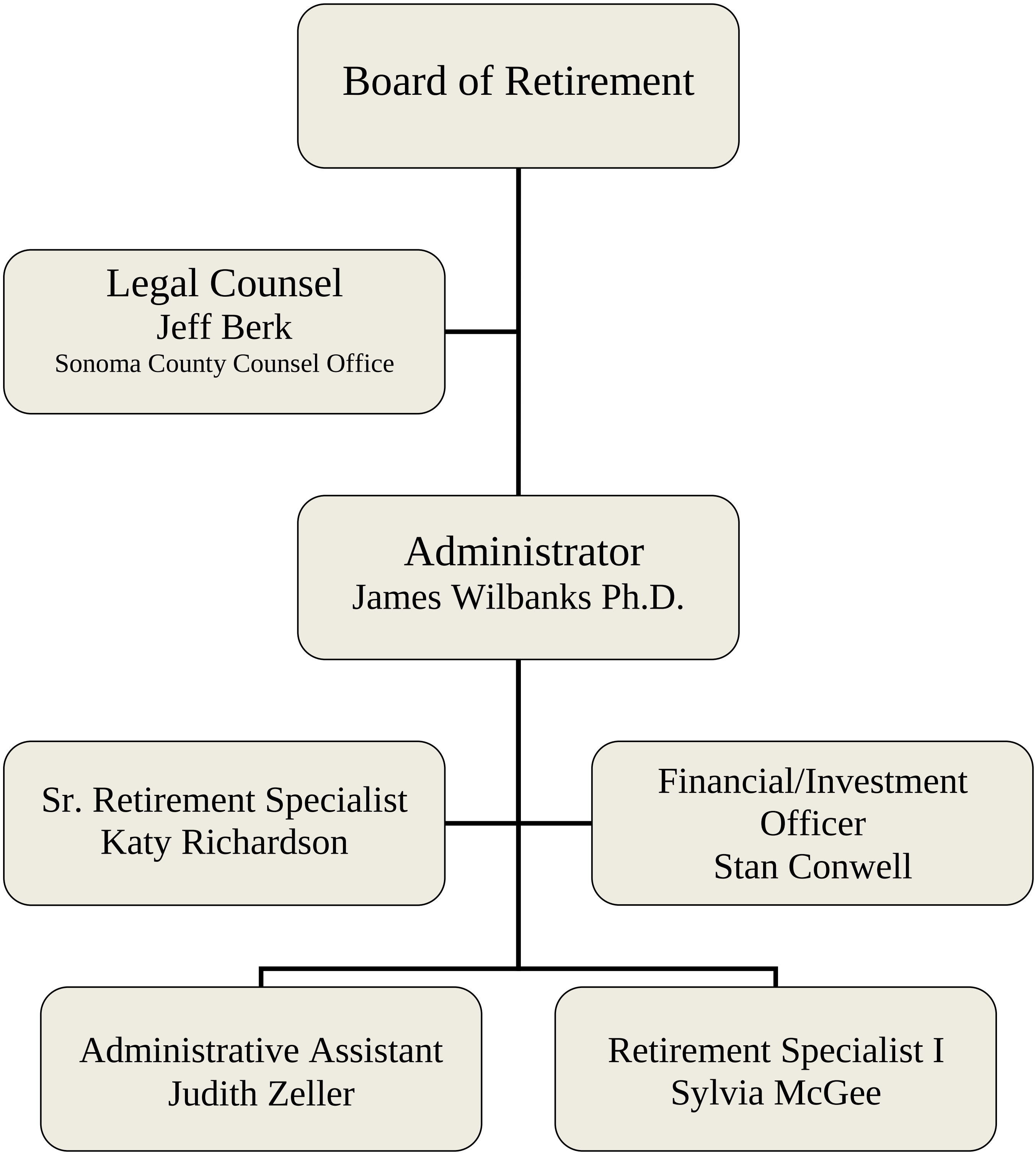
***Jerilyn Harris***, Trustee
Appointed by the Board of Supervisors

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

***Kathryn Cavness***, Trustee
Elected by Active General Membership

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

**Organization Chart**
**As of June 30, 2016**



# List of Professional Consultants
## As of June 30, 2016

**Actuary**
The Segal Company

**Disability Counsel**
Law Office of Tony Graham

**Fiduciary Counsel**
Manatt, Phelps & Phillips, LLP

**Investment Consultant**
Callan Associates, Inc.

**Independent Auditor**
Gallina LLP

**Legal Counsel**
County Counsel, County of Sonoma

**Tax Counsel**
Hanson Bridgett, LLP

Note: List of Investment Managers is located on page 59 of the Investment Section of this report.

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# ***Financial Section***

Russian Gulch State Park, Mendocino County

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Mendocino County Employees' Retirement Association (MCERA), a component unit of the County of Mendocino, which comprise the statement of net position as of June 30, 2016, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from MCERA's 2015 financial statements on which our report, dated January 21, 2016, expressed an unqualified opinion.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MCERA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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tel: 916.784.7800 ■ fax: 916.784.7850 ■ www.gallina.com

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of MCERA as of June 30, 2016, and the changes its financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplemental Information**

As described in Note 5, based on the most recent actuarial valuation of the pension plan as of June 30, 2016, MCERA's independent actuary determined that, at June 30, 2016, the value of MCERA's actuarial accrued liability exceeded the actuarial value of its assets by $185 million. The most recent actuarial value of assets as of June 30, 2016 does not reflect the remaining deferred investment losses that will be recognized in the future.

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

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

Gallina LLP
Rancho Cordova, California
December 22, 2016

# Management's Discussion and Analysis

This section presents Management's Discussion and Analysis (MD&A) of Mendocino County Employees' Retirement Association (MCERA or Plan) financial performance and a summary of MCERA's financial position and activities as of and for the fiscal year ended June 30, 2016. Comparative data from the prior fiscal year are also presented. It is a narrative overview and analysis that is presented, in conjunction with the Retirement Administrator's Letter of Transmittal found in the Introductory Section and provides the financial statement reader with a clear picture of the Plan's overall financial status.

## Mendocino County Employees' Retirement Association (MCERA)

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

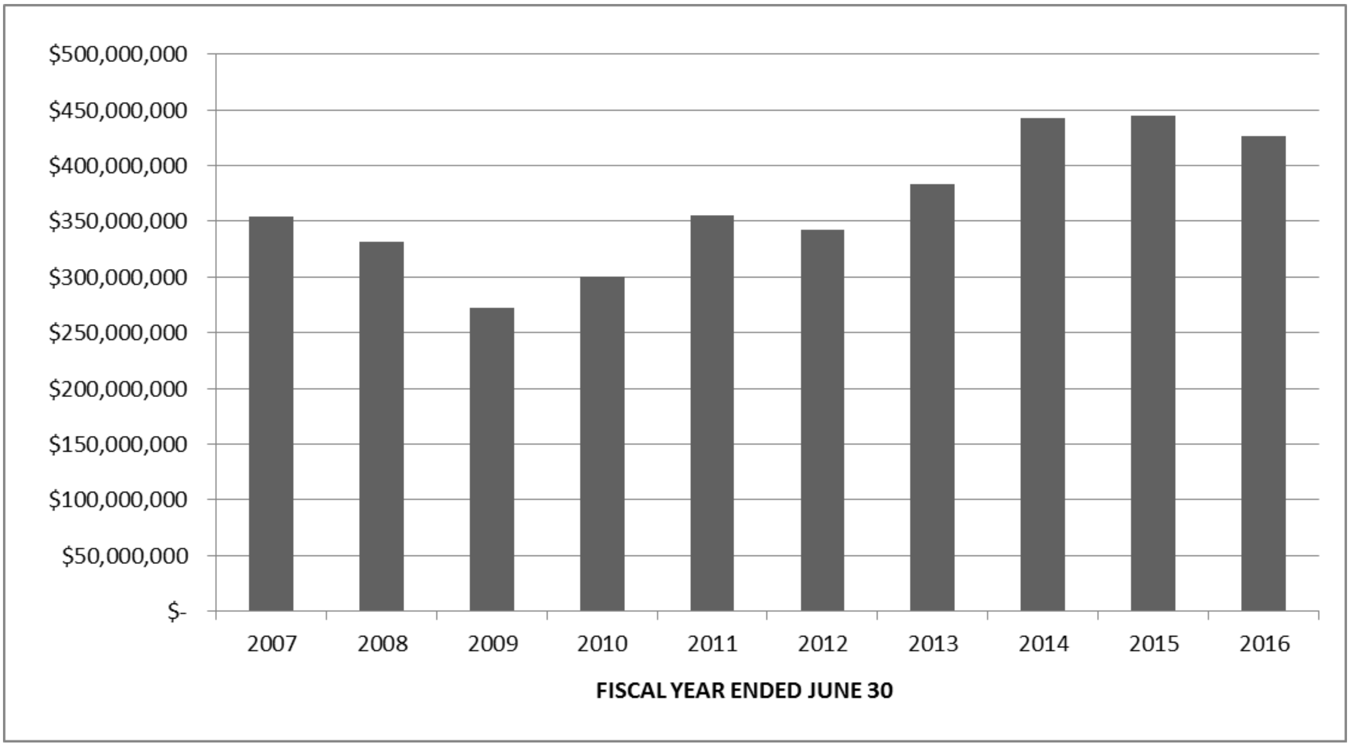
The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of the system, which includes administering plan benefits and managing the assets. The Board of Retirement and MCERA staff members are committed to act for the exclusive benefit of the plan and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

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

## Financial Highlights

- Net position decreased to $426.3 million which reflects a decrease of 4.03% in net position during fiscal year 2015-16.
- Actuarial determined assets increased to $446.7 million, a 4.3% increase during the fiscal year 2015-16.
- Net additions to plan assets for the fiscal year totaled $14.3 million. This was comprised of $19.1 million of employer contributions, $5.5 million of member contributions, and a net investment loss of $10.3 million.
- Expenses (deductions in plan assets) for the year were $32.2 million which included $31 million in benefit payments to retirees and beneficiaries and $1.1 million in total administrative expenses.
- MCERA's funded status increased slightly to 70.7% from 70.2% over the fiscal year. The funded status is measured by the ratio of actuarial determined assets to actuarial determined liabilities.
- The net pension liability (NPL) increased from $166.1 million to $205.7 million during the fiscal year 2015-16. The funded status based on market value of assets decreased from 72.8% to 67.5%.

**MCERA Net Assets Held in Trust for Pension Benefits**




**Overview of the Financial Statements**

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

**Statements of Net Position**

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

**Statements of Changes in Net Position**

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

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

**Required Supplemental Information**
The Required Supplemental Information contains supporting schedules which GASB requires to accompany the basic financial statements. The schedules include the following and can be found on pages 43-45:

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

**Other Supplemental Information**
Other supplemental information includes schedules pertaining to administrative expenses, information technology expenses, investment fees and expenses as well as payments to consultants other than investment advisors. Other supplemental information can be found on pages 46-47.

## Financial Analysis

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

**Table #1: MCERA Fiduciary Net Position**
**As of June 30, 2016 and 2015**

| (Dollars in Thousands) | 2016 | 2015 | Amount Increase/ (Decrease) | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Cash and Short Term Investments | - | 1,398 | (1,398) | (100.00%) |
| Receivables & Other Assets | 938 | 877 | 61 | 6.97% |
| Equipment | 1,294 | - | 1,294 | 100.00% |
| Investments, at Fair Value | 426,471 | 442,763 | (16,292) | (3.68%) |
| Total Assets | $ 428,703 | $ 445,038 | $ (16,335) | (3.67%) |
| | | | | |
| Cash Overdraft | 248 | - | 248 | 100.00% |
| Accounts Payable | 288 | 365 | (77) | (21.10%) |
| Accrued Expenses & Other Liabilities | 1,829 | 456 | 1,373 | 301.10% |
| Total Liabilities | $ 2,365 | $ 821 | $ 1,296 | 157.86% |
| | | | | |
| Net Assets Held in Trust for Benefits | $ 426,338 | $ 444,217 | $ (17,631) | (3.97%) |

**As of June 30, 2015 and 2014**

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

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

**Table #2: Changes in MCERA Fiduciary Net Position**
**As of June 30, 2016 and 2015**

| (Dollars in Thousands) | 2016 | 2015 | Amount Increase (Decrease) | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Additions | | | | |
| Employer Contributions | $ 19,129 | $ 15,164 | $ 3,965 | 26.15% |
| Member Contributions | 5,545 | 4,652 | 893 | 19.20% |
| Net Investment Income | (10,352) | 13,201 | (23,553) | -178.42% |
| Total Additions | $ 14,322 | $ 33,017 | $ (18,695) | -56.62% |
| Deductions | | | | |
| Retirement Benefits | $ 30,435 | $ 29,225 | $ 1,210 | 4.14% |
| Refund of Contributions | 624 | 824 | (200) | (24.27%) |
| Administrative Expenses | 1,142 | 1,059 | 83 | 7.81% |
| Total Deductions | $ 32,201 | $ 31,108 | $ 1,093 | 3.51% |
| Net Increase/Decrease | $ (17,879) | $ 1,909 | $ (19,788) | -1036.61% |
| | | | | |
| Net Position at Beginning of Year | $ 444,217 | $ 442,308 | $ 1,909 | 0.43% |
| Net Position at End of Year[1] | $ 426,338 | $ 444,217 | $ (17,879) | -4.02% |

**As of June 30, 2015 and 2014**

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

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

## Additions to Plan Assets

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal year ended June 30, 2016 totaled $ 14.3 million and $33 million on June 30, 2015. The decrease in revenues from 2015 to 2016 can be attributed primarily to a reduction in net investment income. This was offset somewhat by an increase in employer and employee contributions recommended by MCERA's actuary and adopted by the plan sponsors. Total net position decreased from approximately $444 million in FY 2015 to $426 million in FY 2016.

## Deductions in Plan Assets

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering the system. These expenses for the fiscal years ended June 30, 2016 and June 30, 2015 were $32.2 million and $31.1 million respectively. The primary reason for this change was an increase in benefits paid to retirees.

## MCERA Financial Reserves

**Table #3: MCERA Reserves**
**As of June 30, 2016, 2015, and 2014**

| (Dollars in Thousands) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Member Reserve | $ 61,945 | $ 63,301 | $ 55,711 |
| Employer Reserve | (73,036) | (64,904) | (47,773) |
| Retiree Reserve | 246,403 | 234,817 | 193,496 |
| Cost of Living Reserve | 122,005 | 114,393 | 92,946 |
| Contingency Reserve | 4,287 | 4,450 | 4,428 |
| Miscellaneous Reserves | - | - | (76) |
| Total Reserves | $ 361,604 | $ 352,057 | $ 298,732 |

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

**Major Initiatives and Significant Events**

Several major initiatives were undertaken during the fiscal year including:

- MCERA conducted an asset/liability study.
- The Board of Retirement attended a strategic planning event to assess objectives and prioritize projects.
- Work began on the Electronic Document Management System.
- Staff initiated a study on MCERA’s UAAL.
- MCERA held a joint meeting with the board of supervisors to review the current actuarial valuation report and discuss the long-term costs of the retirement system.
- Board governance was enhanced with the adoption of numerous policy additions and updates.

**Investment and Economic Summary**

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

The investment return for the year ending June 30, 2016 was (2.19%) which lagged the benchmark by 3.42%. The returns were 6.00%, 6.18%, 9.46% and 5.97% for the three, five, seven and ten year periods ending June 30, 2016, respectively.

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

**Funded Status and Actuarial Reporting**

MCERA maintains a funding goal to establish contributions that fully fund the System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding to pay promised benefits. Each year the actual experience of the System is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, 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, 2016 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 70.7% which was an increase from the prior year's valuation funded ratio of 70.2%. The actuarial value of assets excludes about $24.7 million in market losses that will be smoothed in over the next few years. Thus, on a market value basis, the funded ratio would be 67.5%. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2016 was

$185,284,267. On a market value basis, the UAAL would be $205,719,528. The increase in the UAAL on an actuarial valuation basis can be attributed to investment losses as recognized on June 30, 2016 as well as losses from higher than expected salary increases. These losses were somewhat offset by gains in the delay of the implementation of the June 30, 2015 employer contribution rates and other experience gains.

As of June 30, 2016, there are 23 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, 2016 valuation decreased to 32.05% of payroll from 32.14%. The net effect of investment loss, experience gains, and changes in membership demographics contributed to the rate decrease. The aggregate employee rate increased very slightly to 9.65% of payroll from 9.64% due to a change in membership demographics.

**Request for Information**

The financial report is designed to provide the MCERA Board of Retirement, our membership, taxpayers, investment managers and creditors with a general overview of MCERA finances and to account for the money it receives. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Mendocino County Employees' Retirement Association, 625-B Kings Court, Ukiah, California 95482

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

# Statement of Fiduciary Net Position

**As of June 30, 2016**

**(with comparative data as of June 30, 2015)**

| **ASSETS** | | **2016** | | **2015** |
|---|---|---|---|---|
| Investments, at fair value: | | | | |
| Mutual Funds | | 328,200,751 | | 347,937,529 |
| Public equity securities | | 52,226,173 | | 53,190,622 |
| Real estate partnerships | | 45,180,183 | | 40,770,670 |
| Cash equivalents | | - | | 1,398,150 |
| Real estate – 625 Kings Court, Ukiah, Ca | | 864,000 | | 864,000 |
| Total Investments, at fair value | | 426,471,107 | | 444,160,971 |
| Receivables: | | | | |
| Member contributions receivable | | 175,359 | | 113,026 |
| Employer contributions receivable | | 614,064 | | 545,830 |
| Total Receivables | | 789,423 | | 658,856 |
| Equipment: | | 1,294,316 | | - |
| Other assets: | | 149,019 | | 218,017 |
| TOTAL ASSETS | $ | 428,703,865 | $ | 445,037,844 |
| **LIABILITIES** | | | | |
| Liabilities: | | | | |
| Accounts payable | | 288,422 | | 365,017 |
| Cash Overdraft | | 248,482 | | - |
| Accrued expenses and other liabilities | | 1,828,950 | | 455,471 |
| TOTAL LIABILITIES | $ | 2,365,854 | $ | 820,488 |
| **Net Position Held in Trust for Pension Benefits** | $ | **426,338,011** | $ | **444,217,356** |

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

# Statement of Changes in Fiduciary Net Position

**For The Year Ended June 30, 2016**

**(with comparative data for the year ended June 30, 2015)**

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **Additions to net assets attributed to:** | | | | |
| Investment income (loss): | | | | |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | $ | -17,597,996 | $ | 3,007,763 |
| Rent income, net of expenses | | 79,384 | | 79,907 |
| Interest income | | 11,865 | | 12,795 |
| Dividend income | | 7,644,287 | | 10,665,944 |
| Investment expenses | | (489,865) | | (565,100) |
| Total investment income, net | | -10,352,325 | | 13,201,309 |
| Contributions: | | | | |
| Member contributions | $ | 5,544,925 | $ | 4,651,960 |
| Employer contributions | | 19,129,191 | | 15,164,044 |
| Total contributions | | 24,674,116 | | 19,816,004 |
| Total additions, net | $ | 14,321,791 | $ | 33,017,313 |
| **Deductions from net assets attributed to:** | | | | |
| Benefits paid to retirees | | 31,058,643 | | 30,049,133 |
| Administrative expenses | | 1,142,493 | | 1,059,272 |
| Total deductions | $ | 32,201,136 | $ | 31,108,405 |
| Net increase (decrease) | | -17,879,345 | | 1,908,908 |
| **Net Position held in trust for pension benefits:** | | | | |
| Balance at Beginning of Year | $ | 444,217,356 | $ | 442,308,448 |
| **Balance at End of Year** | $ | **426,338,011** | $ | **444,217,356** |

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

# NOTES TO THE FINANCIAL STATEMENTS

For the Year end June 30, 2016
(with comparative date from fiscal year ended June 30, 2015)

## Note 1: Summary of Significant Accounting Policies:

Reporting Entity:

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

Basis of Accounting:

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

Use of Estimates:

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

Derivatives:

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

During the year ended June 30, 2016 MCERA owned no derivatives directly in its portfolio.

Custodial Credit Risk:

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

**Note 1: Summary of Significant Accounting Policies continued:**

Custodial Credit Risk, continued:

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

Except for a statement that duties of the Board of Retirement, MCERA officers and employees shall be discharged with care, skill, prudence, and diligence, MCERA has no formal policy for managing custodial credit risk.

Market and Credit Risk:

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of net position and the statement of changes in net position.

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. Quality ratings of MCERA's fixed income funds are summarized in the table on page 26. Investment allocation guidelines according to the investment policy are as follows:

| | Allowable Range | Current Allocation |
|---|---|---|
| U.S Equity | 33% - 43% | 38% |
| Non-U.S. Equity | 20% - 30% | 23% |
| U.S. Fixed Income | 23% - 33% | 28% |
| Real Estate | 4% - 14% | 11% |

MCERA's Investment Policy does not allow for a single investment in real estate that is in excess of 5% of total assets. With respect to common stocks, MCERA has a goal of diversifying the portfolio among a cross-section of sectors that have sound long-term growth potential. Similar restrictions apply to fixed income securities. Although MCERA does not have a specific policy to limit credit risk, MCERA seeks to mitigate risk through its investment policy constraints.

Interest Rate Risk:

Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. MCERA has not adopted a specific formal policy to manage interest rate risk. Nevertheless, MCERA's U.S. active bond funds are generally managed with duration limits to reduce interest rate risk. The quality and interest rate risk of MCERA's fixed income funds are summarized in the table on page 26.

**Note 1: Summary of Significant Accounting Policies continued:**

**Commingled Fixed Income Funds**

| Fund Name | Fair Value | Weighted Average Coupon | Weighted Average Maturity (Years) | Effective Duration (Years) | Weighted Average Quality Rating |
|---|---|---|---|---|---|
| Dodge & Cox Income | $ 60,180,844 | 4.72% | 8.40 | 4.00 | A+ |
| PIMCO Total Return | 59,558,599 | 3.17% | 9.08 | 5.73 | AA |
| Total | $ 119,739,443 | 3.95% | 8.74 | 4.86 | A+ |

Foreign Currency Risk:

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

Investment Concentrations:

As of June 30, 2016 MCERA does not hold investments in any one organization that represent 5 percent or more of the Plan's Fiduciary Net Position.

Money Weighted Rate of Return:

For the fiscal year ended June 30, 2016 and June 30, 2015, the annual money-weighted rate of return on Plan investments, net of investment managment expense, was (2.19)% and 3.10%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Member Termination:

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

Plan Termination:

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

**Note 1: Summary of Significant Accounting Policies continued:**

Risk Management:

MCERA is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and major downturns in financial markets. For the past several years, MCERA has obtained coverage from commercial insurance companies for errors and omissions coverage related to activities of the Board of Retirement, but all other risks of loss, except losses due to depreciation in the fair market value of investments, is assumed by the sponsoring employers. MCERA has effectively managed risk through various employee education and prevention programs and careful selection of investments. In addition, MCERA is also covered by the County's self-insurance program for general liability, unemployment, and workers' compensation coverage. The County's self-insurance program also includes a premium for excess coverage. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Income Taxes:

The Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC). No provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from federal and state income taxes under the provisions of the IRC Section 501 and California Revenue and Taxation Code Section 23701, respectively. The Plan obtained its latest determination letter dated August 11, 2016, in which the IRS stated that the Plan, as then designed, is in compliance with the applicable requirements of the Internal Revenue Code.

Administrative Expenses:

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

MCERA's actual administrative expense including IT costs for fiscal year 2015-16 was $1,142,493 which represented 0.18% of MCERA's actuarial accrued liability or 57.12% of the $2 million statutory cap.

**Note 1: Summary of Significant Accounting Policies continued:**

Schedule of Funding Progress:

The supplemental Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. The Schedule of Funding Progress can be found on page 72 in the Actuarial Section

Current and Future Accounting Pronouncements:

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* effective July 1, 2013. The objective of this statement is to improve financial reporting by state and local government pension plans. This statement separates funding from financial reporting and requires changes in presentation of the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosures regarding the pension liability and the sensitivity of the net pension liability to the discount rate. The total and net pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 6 and in the required supplementary information on page 43.

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

GASB Statement No. 72 – *Fair Value Measurement and Application – supersedes portions of GASB Statements 10, 25, 31, 43, 53, 62, 67 and amends portions of GASB Statements 3, 10, 14, 25, 31, 34, 43, 51, 52, 53, 60, 61, 62, and 67* effective July 1, 2015. The objective of this statement is to enhance comparability of financial statements among governments and public employee retirement systems by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's and public employee retirement systems' financial position.

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans, Topic 960; Defined Contribution Plans, Topic 962; and Health and Welfare Benefit Plans, Topic 965: Part (I) Fully*

**Note 1: Summary of Significant Accounting Policies continued:**

Current and Future Accounting Pronouncements, continued:

*Benefit-Responsive Investment Contracts, Part (II) Plan Investment Disclosures, Part (III) Measurement Date Practical Expedient*. Part I eliminates the requirements to measure the fair value of fully benefit-responsive investment contracts and provide certain disclosures. Contract value is the only required measure for fully benefit-responsive investment contracts. Part II eliminates the requirements to disclose individual investments that represent 5 percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Part III is not applicable to the Plan. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Parts I and II are to be applied retrospectively. Management has elected to adopt Parts I and II early in these financial statements, via retrospective application.

Subsequent Events:

Management has evaluated all subsequent events through December 22, 2016, the date the financial statements were available to be issued. See Note 8 on page 42 for additional information.

**Note 2: Description of Plan:**

Description of Association and Applicable Provisions of the Law:

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

Membership in the Plan at June 30, 2016 consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 1,416 |
| Terminated plan members entitled to but not yet receiving benefits | 428 |
| Active plan members | 1,123 |
| Total | 2,967 |
| Number of participating employers | 3 |

**Note 2: Description of Plan:**

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

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

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

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

**Note 3: Investments:**

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

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

Cash equivalents consist of cash in trust with the Treasurer of the County of Mendocino. Cash from deposits and cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasurer is responsible for the management, control and

**Note 3: Investments continued:**

safekeeping of all investments in the pooled fund. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value and may be subject to credit risk, concentration risk, and custodial credit risk.

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

The Association's cash and investments stated at fair value as of June 30, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Cash in trust - Mendocino County | $ -248,482 | $ 1,398,150 |
| Total cash equivalents | -248,482 | 1,398,150 |
| U.S. Government and corporate bonds | 119,739,443 | 117,779,392 |
| International equities | 74,135,177 | 86,734,247 |
| Domestic equities – small cap | 30,959,109 | 27,488,544 |
| Domestic equities – mid cap | 19,585,630 | 20,379,761 |
| Domestic equities – large cap | 90,061,170 | 95,555,585 |
| Total mutual funds | 334,480,529 | 347,937,529 |
| Public equity securities | 45,946,395 | 53,190,622 |
| Real estate partnerships | 45,180,183 | 40,770,670 |
| Real estate – 625 Kings Court, Ukiah, CA | 864,000 | 864,000 |
| Total Cash Equivalents and Investments | $ 426,222,625 | $ 444,160,971 |

**Note 4: Fair Value Measurement of Investments:**

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

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

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

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

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

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

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

*Mutual funds, and public equity securities:* Valued at the fair value of shares held by the Plan at year end.

*Public equity securities and real estate partnerships:* Valued at the net asset value of shares held by the Plan at year end

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

**Note 4: Fair Value Measurement of Investments, continued:**

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

The following table set forth by level, within the fair value hierarchy, MCERA's investments at fair and net asset value as of June 30, 2016:

| | Investments at Fair Value as of June 30, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Investments by fair value level:** | | | | |
| Mutual Funds: | | | | |
| Bond Funds | $ 119,739,443 | $ - | $ - | $ 119,739,443 |
| International securities | 74,135,177 | - | - | 74,135,177 |
| Domestic securities | 140,605,909 | - | - | 140,605,909 |
| Total mutual funds | 334,480,529 | - | - | 334,480,529 |
| Public equity securities | 23,104,705 | - | - | 23,104,705 |
| Real estate - 625 Kings Court, Ukiah, CA | - | - | 864,000 | 864,000 |
| Total investments by fair value level | $ 357,585,234 | $ - | $ 864,000 | $ 358,449,234 |
| **Investments measured at the net asset value (NAV):** | | | | |
| Public equity securities | | | | 22,841,690 |
| Real estate partnerships | | | | 45,180,183 |
| Total NAV | | | | 68,021,873 |
| Total investments measured at fair value | | | | $ 426,471,107 |

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

| | Investments at Net Asset Value as of June 30, 2016 | | |
|---|---|---|---|
| | Fair Value | Redemption Frequency | Redemption Notice Period |
| Public equity securities (1) | $ 22,841,690 | Monthly | 10 Days |
| Real estate partnerships (2) | 45,180,183 | Monthly - Quarterly | 10-45 Days |
| Total investments measured at the NAV | $ 68,021,873 | | |

## Note 4: Fair Value Measurement of Investments, continued:

(1) This fund is an international equity fund that is commingled in nature. It is valued at the NAV of units held at the end of the period based upon fair value of the underlying investments.

(2) These are three real estate funds. They include two real estate funds that invest primarily in a diversified portfolio of institutional quality multi-family, industrial, retail and office assets in the United States. One fund invests Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). The fair values of the investments in this type have been determined using the NAV (or its equivalent) of the Plan's ownership interest in partners' capital

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

| | Investments at Fair Value as of June 30, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Investments by fair value level:** | | | | |
| Mutual Funds: | | | | |
| Bond Funds | $ 117,779,392 | $ - | $ - | $ 117,779,392 |
| International securities | 86,734,247 | - | - | 86,734,247 |
| Domestic securities | 143,423,890 | - | - | 143,423,890 |
| Total mutual funds | 347,937,529 | - | - | 347,937,529 |
| Public equity securities | 32,080,403 | - | - | 32,080,403 |
| Real estate - 625 Kings Court, Ukiah, CA | - | - | 864,000 | 864,000 |
| Total investments by fair value level | $ 380,017,932 | $ - | $ 864,000 | $ 380,881,932 |
| **Investments measured at the net asset value (NAV):** | | | | |
| Public equity securities | | | | 21,110,219 |
| Real estate partnerships | | | | 40,770,670 |
| Total NAV | | | | 61,880,889 |
| Total investments measured at fair value | | | | $ 442,762,821 |

**Unfunded Commitments:**
MCERA had no unfunded commitments as of June 30, 2016 and June 30, 2015.

**Note 4: Fair Value Measurement of Investments, continued:**

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

Investments at Net Asset Value as of June 30, 2015

| | | Fair Value | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Public equity securities [1] | $ | 21,110,219 | Monthly | 10 Days |
| Real estate partnerships [2] | | 40,770,670 | Monthly - Quarterly | 10-45 Days |
| Total investments measured at the NAV | $ | 61,880,889 | | |

(1) This fund is an international equity fund that is commingled in nature. It is valued at the NAV of units held at the end of the period based upon fair value of the underlying investments.

(2) These are three real estate funds. They include two real estate funds that invest primarily in a diversified portfolio of institutional quality multi-family, industrial, retail and office assets in the United States. One fund invests Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). The fair values of the investments in this type have been determined using the NAV (or its equivalent) of the Plan's ownership interest in partners' capital

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the year ending June 30, 2016 and 2015 as follows:

Commercial Building at 625 Kings Court, Ukiah California

| | | **2016** | | **2015** |
|---|---|---|---|---|
| Fair value, beginning of year | $ | 864,000 | $ | 864,000 |
| Unrealized gain (loss) | | - | | - |
| Purchases | | - | | - |
| Sales | | - | | - |
| Issuances | | - | | - |
| Settlements | | - | | - |
| Fair value, end of year | $ | 864,000 | $ | 864,000 |

| | | |
|---|---|---|
| Amount of total gains or losses for the period included in net appreciation in fair value of investments, attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2016 | $ | - |

**Note 4: Fair Value Measurement of Investments, continued:**

The following table represents the Plan's level 3 financial instruments and the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2016: The broker price opition was completed in August, 2013.

| Instrument | Fair Value at June 30, 2016 | Principal Valuation Technique |
|---|---|---|
| Real Estate-625 Kings Court, Ukiah, CA | $ 864,000 | Fair Value = Broker Price Option |

**Note 5: Contributions:**

The actuarially determined member contribution rates payable for fiscal year 2017-18 average 9.65 percent of payroll. The actual member rate depends on the member's age at the time of hire, General, Safety, or Probation membership, and tier. For fiscal year 2017- 18, employers are also required to contribute an actuarially determined rate of 32.05 percent of payroll in aggregate. The actual employer rate depends on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of the Plan. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability.

The UAAL as of June 30, 2016 is $185.3 million, which the Plan Sponsors are required to amortize in the future. The funded ratio at June 30, 2016 is 70.7%, as indicated on the Schedule of Funding Progress on page 22 The *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2016 recommended employer and member contribution rates that aggregate to 32.05% and 9.65%, respectively.

**Note 5: Contributions continued:**

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

| | |
|---|---|
| Valuation date | June 30, 2016 |
| Actuarial cost method | Entry age cost method (individual basis) |
| Amortization method | Level % of payroll for total unfunded liability |
| Remaining amortization period | 23 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 | 7.25% |
| Inflation rate | 3.25% |
| Real across-the-board salary increase | 0.50% |
| Projected salary increases * | 4.25% to 8.75% |
| * Includes inflation at | 3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases. |
| Cost of living adjustments | 3.00% of retirement income |
| Years of life expectancy for healthy members and all beneficiaries after retirement | For all members and all beneficiaries: RP-2000 members and all beneficiaries Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females. |
| Years of life expectancy after disability | For all members: RP-2000 Combined Healthy after disability Mortality Table projected with Scale BB to 2020, set forward 4 years for both males and females.<br>The tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement based on a review of mortality experience as of the measurement date. |

**Note 5: Contributions continued:**

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

Using the projected payroll amounts for MCERA's membership groups and tiers that were used in the June 30, 2014 actuarial valuation, management has estimated the contributions are comprised of the following for the year ended June 30, 2016:

| | |
|---|---|
| Estimated employer normal cost | $ 6,840,709 |
| Estimated UAAL contributions | 12,288,482 |
| | $ 19,129,191 |

**Note 6: Net Pension Liability:**

GASB 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of MCERA's net pension liability at June 30, 2016 were as follows:

| | | |
|---|---|---|
| Total pension liability | $ | 632,057,539 |
| Net position | $ | 426,338,011 |
| Net pension liability | $ | 205,719,528 |
| Net position as a percentage of total pension liability | | 67.50% |

Disclosure of Information About Actuarial Methods and Assumptions:

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

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

**Note 6: Net Pension Liability, continued:**

Actuarial Methods and Assumptions:

The total pension liability as of June 30, 2016 was determined by actuarial valuations as of June 30, 2015. The actuarial assumptions used in this June 30, 2016 valuation were based on the results of an experience study for the period from July 1, 2011 through June 30, 2014. They are the same as the assumptions used in the June 30, 2016 funding actuarial valuation for MCERA. Key methods and assumptions used in the latest actuarial valuation are presented below:

| | |
|---|---|
| Valuation date | June 30, 2016 |
| Actuarial cost method | Entry age cost method (individual basis) |
| Amortization method | Level % of payroll for total unfunded liability |
| Remaining amortization period | 23 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 | 7.25% |
| Inflation rate | 3.25% |
| Real across-the-board salary increase | 0.50% |
| Projected salary increases * | 4.25% to 8.75% |
| * Includes inflation at | 3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases. |
| Cost of living adjustments | 3.00% of retirement income |
| Mortality for healthy members and all beneficiaries | For all members and all beneficiaries: RP-2000 members and all beneficiaries Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females. |
| Other assumptions | Same as those detailed in Note 5. |

**Note 6: Net Pension Liability, continued:**

Assumed Asset Allocation:

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

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

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

Discount Rate:

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

**Note 6: Net Pension Liability, continued:**

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

The following presents the net pension liability of MCERA as of June 30, 2016, calculated using the discount rate of 7.25%, as well as what MCERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1- percentage-point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Net pension liability | 287,050,003 | 205,719,528 | 138,544,001 |

**Note 7: Reserves:**

The Association had contingency reserves of $4,287,039, at June 30, 2016 to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 7.25 percent of retirement reserve balances to those reserves. The contingency reserve in the June 30, 2016 actuarial report differs slightly from the figure in this report due to adjustments in total assets that were made during the production of this report. The adjustments included the addition of equipment as well as recognizing the cash overdraft as a liability.

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, 2016 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

| | 2016 | 2015 |
|---|---|---|
| Employee reserves | $ 61,944,587 | $ 63,301,162 |
| Employer reserves | (73,036,234) | (64,904,257) |
| Retiree reserves | 368,408,812 | 349,210,064 |
| 1% Contingency reserve | 4,287,039 | 4,450,378 |
| Total reserves | 361,604,204 | 352,057,347 |
| Cumulative unallocated net unrealized gain on investments | 89,440,678 | 80,621,960 |
| Total allocated reserves (smoothed market actuarial value after corridor limits) | 451,044,882 | 432,679,307 |
| Net assets in excess (deficit of reserves) | (24,706,871) | 11,538,049 |
| Net position held in trust for pension benefits | $ 426,338,011 | $ 444,217,356 |

**Note 8: Subsequent Events:**

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

The fair value of assets in MCERA's portfolio has increased from $426 million to $444 million between July 1, 2016 and September 30, 2016. Capital markets saw a decline in volatility and a growing appetite for risk during the quarter. Non- U.S. Equity performed particularly well as fears over "Brexit" dwindled during the quarter.

At the September, 2016 Board of Retirement meeting the Board adopted an updated Investment Policy Statement. The new policy was a result of the 2016 asset and liability study conducted by MCERA's investment consultant. One of the main purposes of the study was to evaluate MCERA's current strategic asset allocation and determine if any changes should be made. At the conclusion of the study, the Board adopted a new asset allocation target to reduce the allocation to fixed income and increase the allocation to international equities and real estate, and that change was incorporated into the updated Investment Policy Statement. The updated Investment Policy Statement can be viewed on MCERA’s website.
http://www.co.mendocino.ca.us/retirement/board.htm

**REQUIRED SUPPLEMENTARY INFORMATION**

## Schedules of Changes in Net Pension Liability and Related Ratios
## 2016 & 2015

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Total pension liability: | | |
| Service cost | $ 12,125,153 | $ 12,058,526 |
| Interest | 44,005,882 | 42,156,056 |
| Change of benefit terms | - | - |
| Differences between expected and actual experience | (3,396,702) | 1,787,516 |
| Changes in assumptions | - | - |
| Benefit payments, including refunds of employee contributions | (31,058,643) | (30,049,133) |
| Net change in total pension liability | 21,675,690 | 25,952,965 |
| Total pension liability - beginning of year | 610,381,849 | 584,428,884 |
| Total pension liability - end of year (a) | $ 632,057,539 | $ 610,381,849 |
| Plan fiduciary net position: | | |
| Contributions - employers' | $ 19,129,191 | $ 15,164,044 |
| Contributions - members' | 5,544,925 | 4,651,960 |
| Net investment income | (10,352,325) | 13,201,309 |
| Benefit payments, including refunds of employee contributions | (31,058,643) | (30,049,133) |
| Administrative expense | (1,142,493) | (1,059,272) |
| Other | - | - |
| Net change in plan fiduciary net position | (17,879,345) | 1,908,908 |
| Plan fiduciary net position - beginning of year | 444,217,356 | 442,308,448 |
| Plan fiduciary net position - end of year (b) | $ 426,338,011 | $ 444,217,356 |
| Net pension liability - end of year (a) - (b) | $ 205,719,528 | $ 166,164,493 |
| Plan fiduciary net position as a % of the total pension liability | 67.5% | 72.8% |
| Covered Member Payroll | $ 57,407,928 | $ 54,891,785 |
| Plan net pension liability as a % of covered member payroll | 358.3% | 302.7% |

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

# Schedules of Changes in Net Pension Liability and Related Ratios
# 2014 & 2013

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

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

## Schedule of Employer Contributions
**(Dollar amounts in thousands)**

| Year Ended | Annual Recommended Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Covered Payroll | As a % of Covered Payroll: Annual Recommended Contribution | As a % of Covered Payroll: Actual Employer Contribution |
|---|---|---|---|---|---|---|
| 6/30/07 | $7,533 | $7,533 | $0 | $65,899 | 11% | 11% |
| 6/30/08 | 7,232 | 7,232 | - | 70,880 | 10% | 10% |
| 6/30/09 | 6,046 | 8,560 | (2,514) | 72,235 | 8% | 12% |
| 6/30/10 | 9,571 | 8,709 | 862 | 69,004 | 14% | 13% |
| 6/30/11 | 9,554 | 9,554 | - | 64,144 | 15% | 15% |
| 6/30/12 | 11,811 | 11,811 | - | 56,596 | 21% | 21% |
| 6/30/13 | 14,260 | 14,260 | - | 56,464 | 25% | 25% |
| 6/30/14 | 14,325 | 14,325 | - | 55,876 | 26% | 26% |
| 6/30/15 | 15,164 | 15,164 | - | 58,106 | 26% | 26% |
| 6/30/16 | $19,129 | $19,129 | $0 | $61,215 | 31% | 31% |

Note: The Schedule of Funding Progress can be found on page 72 in the Actuarial Section.

## Schedule of Investment Returns

| Fiscal Year | Annual Money-Weighted Rate of Return, Net of Investment Management Fees [1] |
|---|---|
| 2007 | N/A |
| 2008 | N/A |
| 2009 | N/A |
| 2010 | N/A |
| 2011 | N/A |
| 2012 | N/A |
| 2013 | N/A |
| 2014 | 18.00% |
| 2015 | 3.10% |
| 2016 | (2.19)% |

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

**OTHER SUPPLEMENTARY INFORMATION**

## Schedule of Investment Management Fees And Other Investment Expenses

### For the Year ended June 30, 2016

| Investment Management Fees: | Direct | Fund Level | Total |
|---|---|---|---|
| Large Cap Funds | $ - | $ 571,222 | $ 571,222 |
| Mid Cap Funds | - | 158,607 | 158,607 |
| Small/Micro Funds | 11,274 | 266,810 | 278,084 |
| International Equity Funds | 164,611 | 557,330 | 721,941 |
| Fixed Income Funds | - | 532,747 | 532,747 |
| Real Estate | - | 409,307 | 409,307 |
| Investment Consultant | 145,600 | | 145,600 |
| Custodial Bank | 22,424 | | 22,424 |
| Actuarial Expense | 106,394 | | 106,394 |
| Other Investment Expense | 39,562 | | 39,562 |
| Total Investment Expenses | $ 489,865 | $ 2,496,023 | $ 2,985,888 |

## Schedule of Payments to Consultants (Other Than Investment Advisors)

### For the Year ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Actuarial Expense | $ 106,394 | $ 155,030 |
| Audit Services | 37,000 | 37,877 |
| Custodian Services | 22,424 | - |
| Pension IT Services | 328,588 | 223,972 |
| Accounting Services | - | 15,849 |
| Executive Search Services | - | 39,987 |
| Disability Medical Reviews | 19,955 | 18,362 |
| Legal Counsel | | |
| General | 71,612 | 107,839 |
| Disability | - | 29,407 |
| Total Payments to Consultants | $ 585,973 | $ 628,323 |

## Schedule of Administrative Expenses
### For the Year ended June 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| **Personnel Services:** | | | |
| Salaries and Wages | | 319,784 | 289,120 |
| Other Benefits | | 90,764 | 81,480 |
| Employee Retirement | | 124,086 | 83,759 |
| Total Personnel Services | | 534,634 | 454,359 |
| **Professional Services:** | | | |
| Legal Expense - General | | 71,612 | 107,839 |
| Outside Legal Counsel - Disability | | - | 29,407 |
| Disability Medical Review | | 19,955 | 18,362 |
| External Audit Fees | | 37,000 | 37,877 |
| Accounting Services | | 5,528 | 15,849 |
| Executive Search Services | | - | 39,987 |
| Total Professional Services | | 134,095 | 249,321 |
| **Miscellaneous:** | | | |
| Office Expenses | | 17,121 | 20,034 |
| Rent & Leases | | 52,272 | 51,756 |
| Memberships | | 5,095 | 4,665 |
| Prof & Spec Services – Other | | 7,100 | 9,025 |
| Training & Travel | | 20,605 | 23,778 |
| Total Miscellaneous | | 102,193 | 109,258 |
| **Total Administrative Expenses** [1] | $ | **770,922** | $ **812,938** |
| Total Information Technology (IT) Expense | | 371,571 | 246,334 |
| **Total Administrative and IT Expense** | $ | **1,142,493** | $ **1,059,272** |

(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 2015/16 as the total expenses excluding IT expense were less than the administrative cap at 13/100% of the actuarial accrued liability. In Fiscal Year 2014/15 the expenses were 16/100% of the actuarial accrued liability excluding IT expenses.

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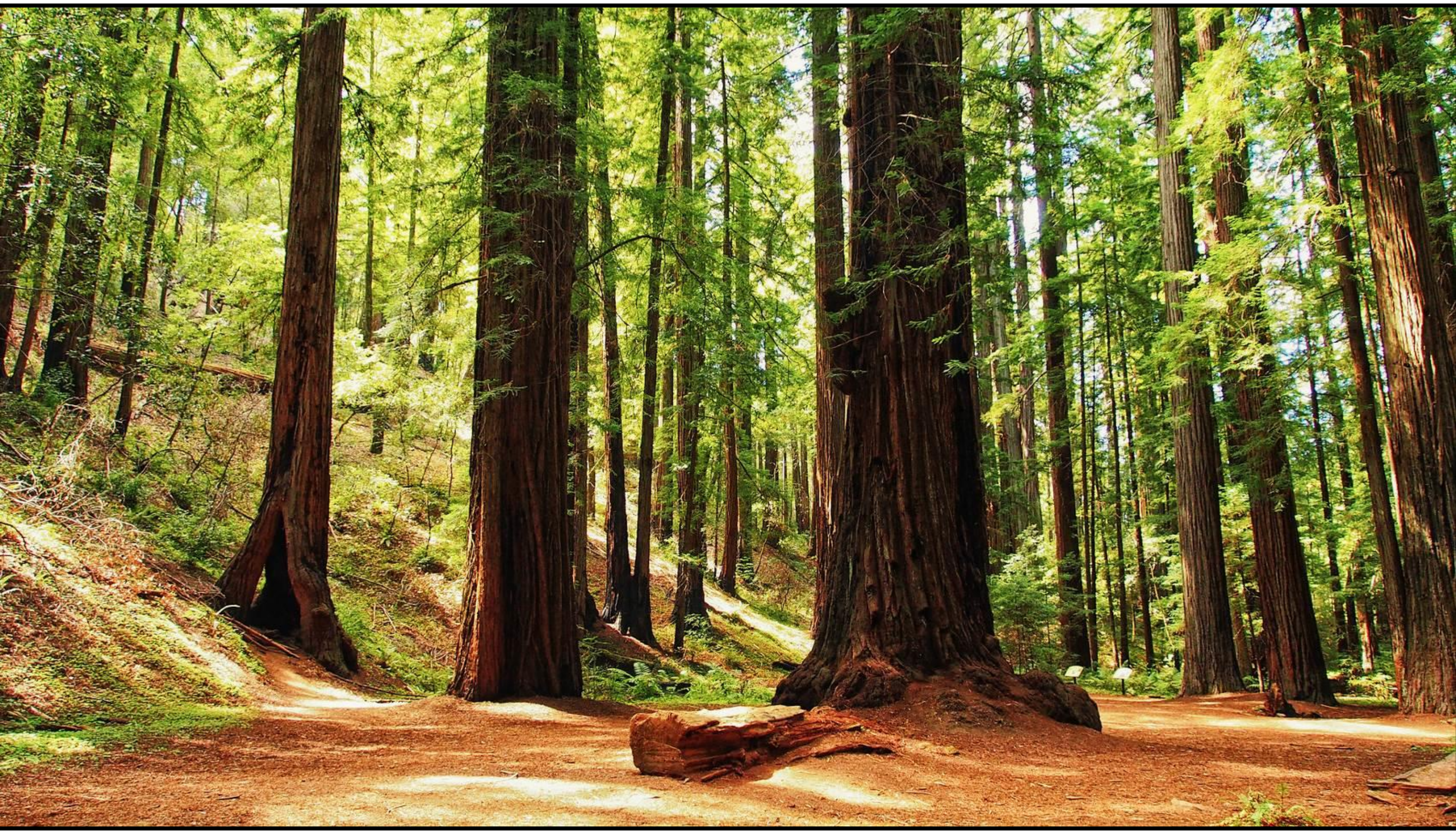
# *Investment Section*



Montgomery Woods State Reserve, Mendocino County

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**Performance Summary**

## Mendocino County Employees' Retirement Association
## Executive Summary
## Fiscal Year Ended June 30, 2016

### General Economic Conditions and Capital Markets Overview

The fiscal year ended June 30, 2016 saw substantial volatility in global financial markets. For the full fiscal year, broad market asset class returns were widely mixed; ranging from nearly double-digit losses from international equities to double-digit gains from real estate.

The fiscal year commenced with heightened volatility spurred by growing concerns over slowing global economic growth. Sharp declines in commodity prices and uncertainty over the magnitude and pace of China's slowdown and the resultant effect on other markets were central points of worry. Emerging markets equities and currencies were especially hard hit. Investors were keenly focused on statements from the Fed in attempts to gauge the timing of the widely anticipated first hike in interest rates since 2006, but the quarter ended with no action. US equities suffered their worst quarterly performance in four years as a result of August 2015's market selloff. The Russell 3000 Index slumped 7.3%. Foreign equities' performance was even more dismal, as both developed and emerging markets equities posted double digit declines (MSCI ACWI ex-US: -12.1%; MSCI EM US$: -17.8%). Emerging markets were severely impacted by slowing growth, falling commodity prices and capital outflows. Currencies were hit especially hard (MSCI EM Local: -12.0%). "Risk off" sentiment prevailed in the fixed income markets, and bonds served its "flight to quality" role. The Bloomberg Barclays Aggregate Index was up 1.2%. Commercial real estate investment activity was robust during quarter, resulting in gains for private real estate.

The 2$^{nd}$ quarter of the fiscal year was the strongest quarter of the fiscal year for equities, but the weakest for fixed income, as the Federal Reserve raised interest rates for the first time in nearly a decade, citing improved labor market conditions and subdued inflation. After a stumbling previous quarter, US indices landed one of their strongest single months since the financial crisis (Russell 3000, October: +7.9%). Yet a slowing Chinese economy, other weak emerging markets, commodity price declines, and the strength of the US dollar led to a middling November and disappointing December. Nonetheless, the Russell 3000 was up a solid 6.3% in the quarter. Not far behind, foreign equity markets gained 3.3%, driven by surging merger activity, robust tech sector gains, and stronger than-expected corporate profits. The Federal Reserve deemed the US economy to be in a strong enough position for a rate increase, and raised the Fed Funds target from its 7-year "near zero" target to 0.25% - 0.50% at its December 2015 meeting. Yields rose, the yield curve flattened, and the Bloomberg Barclays Aggregate Index lost 0.6%. A flurry of commercial real estate transactions during the quarter underpinned prevailing real estate returns.

At the forefront of the 3$^{rd}$ quarter of the fiscal year was a dramatic tale of two halves, split between "risk off" and "risk on" sentiment. Falling commodity prices and broad-based concerns over global economic growth contributed to poor performance in both the equity and corporate bond markets, as well as a sharp rally in US Treasuries through mid-February. February 11$^{th}$ marked the intra-quarter low in US stocks, oil prices, high yield bonds and risk appetite. Citing concerns over global growth as well as less supportive

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conditions in the US, the FOMC elected to keep rates unchanged at the two meetings held during the quarter. Equities commenced the quarter on very weak footing with many indices down 5% to 10%, in the month of January. The weakness continued through mid-February at which point the Russell 3000 staged a strong rally through quarter-end. Despite the weak start, the Russell 3000 rose 1.0% for the quarter. Foreign equities followed a similar path; however, most broad indices failed to fully recover. A weaker dollar helped to mitigate losses (MSCI ACWI ex-US Local: -3%; US$: -0.3%). Emerging markets was the exception, rallying about 20% from its January nadir to finish with a strong gain (MSCI EM US$: +5.8%). Yields fell nearly 50 bps during a volatile first quarter. The yield curve flattened further in markets abundant with uncertainty over global economic growth. The Bloomberg Barclays Aggregate Index gained 3.0%. Private real estate earned 2.2%, the lowest quarterly return since 2010. Capital flows to core funds declined, as more investors reached their allocation targets. As a result, entry queues have also declined by more than 40% for the ODCE funds over the past six months.

June 23rd, the day when British voters narrowly approved the Brexit referendum was the hallmark event of the final quarter of the fiscal year. Investor complacency was replaced with shock and markets reacted fiercely - volatility spiked, global bond yields fell sharply, the pound hit a 31-year low, stock markets plunged, and gold surged. Two trillion dollars were erased from global equity markets in one day, marking the largest daily loss ever. US equity index performance was positive for the quarter but masked significant volatility. The Russell 3000 staged a strong recovery in the wake of the sharp Brexit-related decline in late June, and closed up 2.6% for the quarter. Foreign equities continued on their negative trajectory with a -0.4% return (MSCI ACWI ex-US Index) while emerging markets held on to post a +0.7% (MSCI EM Index). Yields declined across the maturity spectrum. The Bloomberg Barclays Aggregate Index increased 2.2% as all sectors rallied. Private real estate gained 2.0%, a decrease from prior quarter and a new low since 2010. The US real estate market has become increasingly attractive and has captured nearly 30% of global capital allocations in 2016. Investors are flooding into the US due to low government bond yields globally, uncertainty caused by the Brexit vote, and concerns about China's slowing growth.

Inflation remains contained in the US. Core CPI (excludes food and energy) for the 12 months ended June 2016 registered at +2.3%. Headline CPI (including food and energy) came in at +1.0%. Inflation in the US is firming partly because housing and medical costs are rising. Housing costs account for one-third of CPI and are up 3.5% year-over-year. The price of oil, however, fell 15.4% in July, hitting a three-month low on the back of increased drilling from U.S. producers and a strengthening U.S. dollar.

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

| Index | 3Q15 | 4Q15 | 1Q16 | 2Q16 | Fiscal Year |
|---|---|---|---|---|---|
| US Equity (Russell 3000) | (7.3%) | 6.3% | 1.0% | 2.6% | 2.1% |
| Intl Equity (MSCI ACWI ex-US) | (12.1%) | 3.3% | (0.3%) | (0.4%) | (9.8%) |
| Real Estate (NFI-ODCE) | 3.4% | 3.2% | 2.2% | 2.0% | 11.2% |
| Fixed Income (BB Aggregate) | 1.2% | (0.6%) | 3.0% | 2.2% | 6.0% |

Callan



## Asset Allocation

As of June 30, 2016, the assets of MCERA were valued at $426.2 million, down from the total asset value at the start of the fiscal year, July 1, 2015, of $444.2 million. Approximately $9.9 million in investment losses and $8.1 million in net withdrawals accounted for the decline in assets. The Plan ended the fiscal year slightly overweight in domestic equity and real estate relative to its policy target while being slightly underweight to international equity. All asset classes remain within their permitted ranges.

| Asset Class | $Dollars Actual | Weight Actual | Target | Percent Difference | Difference |
|---|---|---|---|---|---|
| Domestic Equity | 163,710,974 | 38.4% | 38.0% | 0.4% | 1,746,311 |
| International Equity | 96,976,684 | 22.8% | 25.0% | (2.2%) | (9,579,016) |
| Domestic Fixed Income | 119,739,443 | 28.1% | 28.0% | 0.1% | 397,058 |
| Domestic Real Estate | 46,044,183 | 10.8% | 9.0% | 1.8% | 7,684,132 |
| Cash | -248,482 | -0.1% | 0.0% | (0.1%) | (248,482) |
| Total | 426,222,802 | 100.0% | 100.0% | | |

## Total Fund Performance

MCERA's Total Fund lost 2.2% for the fiscal year ending June 30, 2016, and underperformed the Policy Index's 1.2% rise. For the same time period measured, MCERA's money-weighted rate of return net of investment fees was also down 2.2%.

As shown in the fiscal year attribution below, active management significantly weighted down relative performance, while deviations from the policy target marginally helped. Manager performance within domestic equity detracted the most from MCERA's Total Fund return, followed by negative manager performance within international equity and domestic fixed income.

### 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 | 38% | 38% | (4.04%) | 2.14% | (2.39%) | (0.03%) | (2.42%) |
| Domestic Fixed Income | 27% | 28% | 4.33% | 6.00% | (0.46%) | (0.10%) | (0.55%) |
| Domestic Real Estate | 10% | 9% | 13.34% | 13.50% | (0.02%) | 0.09% | 0.07% |
| International Equity | 24% | 25% | (12.35%) | (9.80%) | (0.66%) | 0.12% | (0.54%) |
| Cash | 0% | 0% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Total** | | | **(2.19%) =** | **1.23% +** | **(3.50%) +** | **0.08%** | **(3.42%)** |

Overall, the Total Fund ranked in the 92nd percentile within Callan's Public Fund Sponsor universe for the Year. Longer term annualized Total Fund returns are keeping up with the Policy Index and rank favorably versus other public fund sponsors, finishing 42nd and 29th for the trailing 7- and 10-year periods, respectively.

## Summary

Economies around the world are on divergent paths and global politics have emerged as an equally important influence on markets. The market environment is abundant with uncertainty and significant volatility, and as such, prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors remains Callan's recommended course. The Fund remains well diversified across the broad capital markets and across many different investment strategies.

Submitted by:

Greg T. Ungerman, CFA
Senior Vice President

Greg F. DeForrest, CFA
Senior Vice President

Alina Y. Vartanyan, CFA
Assistant Vice President

**Outline of Investment Policies and Objectives**

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

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

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

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

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

# Investment Returns
# For the Year Ended June 30, 2016

| | Market Value | % of Assets | Current Yr Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|
| **Domestic Equities** | **$ 163,710,974** | **38.41%** | (4.04 %) | **9.41%** | **10.19%** |
| Russell 3000 Index | | | 2.14 % | 11.13 % | 11.60 % |
| | | | | | |
| **Large Cap Equities** | **$ 113,166,236** | **26.55%** | | | |
| Vanguard S&P 500 Index | 22,812,377 | 5.35 % | 3.97 % | - | - |
| S&P 500 Index | | | 3.99 % | 11.66 % | 12.10 % |
| | | | | | |
| Dodge & Cox Stock | 21,933,343 | 5.15 % | (5.09 %) | 8.28 % | 10.44 % |
| Boston Partners | 23,104,704 | 5.42 % | (4.09 %) | 7.29 % | 10.35 % |
| S&P 500 Index | | | 3.99 % | 11.66 % | 12.10 % |
| Russell 1000 Value Index | | | 2.86 % | 9.87 % | 11.35 % |
| | | | | | |
| Harbor Cap Appreciation | 22,211,427 | 5.21 % | (4.65 %) | 12.71 % | 10.96 % |
| Janus Research | 23,104,385 | 5.42 % | (0.88 %) | 12.57 % | 11.35 % |
| S&P 500 Index | | | 3.99 % | 11.66 % | 12.10 % |
| Russell 1000 Growth Index | | | 3.02 % | 13.07 % | 12.35 % |
| | | | | | |
| **Mid Cap Equities** | **$ 19,585,630** | **4.60%** | | | |
| Fidelity Low Priced Stock | 5,012,567 | 1.18 % | (4.34 %) | 7.77 % | 9.50 % |
| Royce Total Return | 4,805,386 | 1.13 % | 0.15 % | 6.44 % | 7.80 % |
| Russell 2000 Index | | | (6.74 %) | 7.08 % | 8.36 % |
| Russell MidCap Value Index | | | 3.25 % | 11.00 % | 11.70 % |
| | | | | | |
| Morgan Stanley | 4,219,166 | 0.99 % | (14.88 %) | 2.16 % | 2.29 % |
| Janus Enterprise | 5,548,511 | 1.30 % | 3.04 % | 12.56 % | 11.74 % |
| Russell MidCap Growth Index | | | (2.14 %) | 10.52 % | 9.98 % |
| | | | | | |
| **Small Cap Equities** | **$ 23,343,856** | **5.48%** | | | |
| Prudential Small Cap Value | 12,421,863 | 2.91 % | -3.25 % | 6.82 % | 8.26 % |
| US Small Cap Value Index | | | 0.54 % | 8.23 % | 9.64 % |
| Russell 2000 Value Index | | | (2.58 %) | 6.36 % | 8.15 % |
| | | | | | |
| Alliance US Small Growth | 6,279,778 | 1.47 % | -12.93 % | 5.92 % | 8.38 % |
| RS Investments | 4,642,215 | 1.09 % | -20.87 % | 6.47 % | 7.84 % |
| Russell 2000 Growth Index | | | (10.75 %) | 7.74 % | 8.51 % |
| | | | | | |
| **Micro Cap Equities** | **$ 7,615,252** | **1.79%** | | | |
| Managers Inst Micro Cap | 7,615,252 | 1.79 % | -13.30 % | 5.32 % | 8.61 % |
| Russell Microcap Index | | | (12.06 %) | 5.95 % | 8.20 % |
| Russell Micro Growth Index | | | (18.47 %) | 5.73 % | 7.48 % |

## Investment Returns, continued:

| | Market Value | % of Assets | Current Yr Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|
| **International Equities** | **$ 96,976,684** | **22.75%** | **(12.35%)** | **0.57%** | **0.31%** |
| EuroPacific | 21,684,238 | 5.09 % | (9.57 %) | 3.76 % | 2.50 % |
| Harbor International | 21,647,323 | 5.08 % | (11.51 %) | 1.04 % | 0.74 % |
| Columbia Acorn Int'l | 10,901,809 | 2.56 % | (7.30 %) | 2.59 % | 3.00 % |
| Oakmark International | 19,901,625 | 4.67 % | (18.69 %) | (1.41 %) | 2.18 % |
| Mondrian International | 22,841,690 | 5.36 % | (7.81 %) | 1.92 % | 1.53 % |
| MSCI EAFE Index | | | (10.16 %) | 2.06 % | 1.68 % |
| MSCI ACWI ex-US Index | | | (9.80 %) | 1.62 % | 0.56 % |
| **Domestic Fixed Income** | **$ 119,739,443** | **28.09%** | **4.33%** | **3.73%** | **3.85%** |
| Dodge & Cox Income | 60,180,844 | 14.12 % | 4.36 % | 3.96 % | 3.98 % |
| PIMCO | 59,558,599 | 13.97 % | 4.31 % | 3.48 % | 3.71 % |
| BC Aggregate Index | | | 6.00 % | 4.06 % | 3.76 % |
| **Real Estate** | **$ 46,044,183** | **10.80%** | **13.34%** | **11.89%** | **10.85%** |
| Real Estate Custom Benchmark (1) | | | 13.50 % | 12.36 % | 11.43 % |
| RREEF Public Fund | 8,629,981 | 2.02 % | 22.69 % | 12.87 % | 11.38 % |
| NAREIT | | | 22.72 % | 12.84 % | 12.02 % |
| RREEF Private Fund | 21,073,910 | 4.94 % | 11.42 % | 13.10 % | 12.21 % |
| Cornerstone Patriot Fund | 15,476,292 | 3.63 % | 11.44 % | 10.00 % | - |
| NFI-ODCE Equal Weight Index | | | 11.24 % | 12.08 % | 11.70 % |
| 625 Kings Court | 864,000 | 0.20 % | 10.03 % | 10.77 % | 12.56 % |
| **Cash** | **$ (248,482)** | **-0.06%** | | | |
| **Total Fund** | **$ 426,222,802** | **100.00%** | **(2.19%)** | **6.00%** | **6.18%** |
| Total Fund Benchmark* | | | 1.23 % | 6.97 % | 6.84 % |

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

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

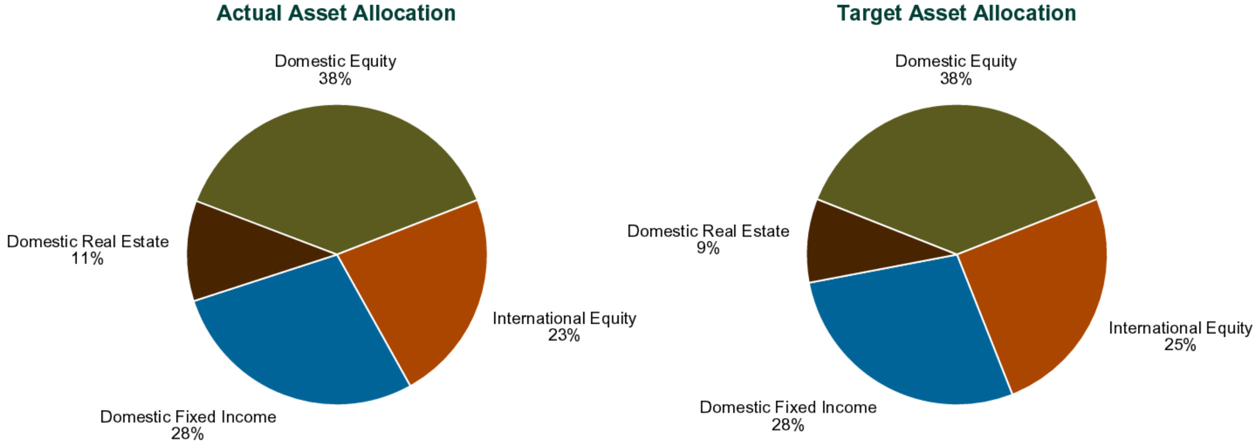
## Asset Allocation

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

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

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

### Target Asset vs. Actual Asset Allocation




| Asset Class | $Dollars Actual | Weight Actual | Target | Percent Difference | Difference |
|---|---|---|---|---|---|
| Domestic Equity | 163,710,974 | 38.4% | 38.0% | 0.4% | 1,746,311 |
| International Equity | 96,976,684 | 22.8% | 25.0% | (2.2%) | (9,579,016) |
| Domestic Fixed Income | 119,739,443 | 28.1% | 28.0% | 0.1% | 397,058 |
| Domestic Real Estate | 46,044,183 | 10.8% | 9.0% | 1.8% | 7,684,132 |
| Cash | -248,482 | -0.1% | 0.0% | (0.1%) | (248,482) |
| Total | 426,222,802 | 100.0% | 100.0% | | |

# Asset Allocation
## June 30, 2016

| Asset Class | Market Value | Actual Allocation | Target Allocation |
|---|---|---|---|
| Domestic Equities | $163,710,974 | 38.41% | 38.00% |
| International Equities | 96,976,684 | 22.75% | 25.00% |
| Domestic Fixed Income | 119,739,443 | 28.09% | 28.00% |
| Domestic Real Estate | 46,044,183 | 10.80% | 9.00% |
| Cash [1] | (248,482) | -0.06% | 0.00% |
| Total Portfolio [2] | $426,222,802 | 100.00% | 100.00% |

Notes:

[1] Does not include accounts receivables or prepaid expenses

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

# Schedule of Investment Management Fees And Other Investment Fees
## For the Year ended June 30, 2016

| Investment Management Fees: | Direct | Fund Level | Total |
|---|---|---|---|
| Large Cap Funds | $ - | $ 571,222 | $ 571,222 |
| Mid Cap Funds | - | 158,607 | 158,607 |
| Small/Micro Funds | 11,274 | 266,810 | 278,084 |
| International Equity Funds | 164,611 | 557,330 | 721,941 |
| Fixed Income Funds | - | 532,747 | 532,747 |
| Real Estate | - | 409,307 | 409,307 |
| Investment Consultant | 145,600 | | 145,600 |
| Custodial Bank | 22,424 | | 22,424 |
| Actuarial Expense | 106,394 | | 106,394 |
| Other Investment Expense | 39,562 | | 39,562 |
| Total Investment Expenses | $ 489,865 | $ 2,496,023 | $ 2,985,888 |

## List of Investment Managers
**June 30, 2016**

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

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

***Small Cap Equity***
Prudential Small Cap Value
AB US Small Growth
RS Investments
AMG Managers Emerging Opportunities

***International Equity***
American Funds EuroPacific
Harbor International
Columbia Acorn International
Oakmark International
Mondrian International

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

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

## Schedule of Top Ten Portfolio Holdings[1]
**June 30, 2016**

| Ticker | Asset Class | Fund Name | Fair Value |
|---|---|---|---|
| DODIX | Fixed Income | Dodge & Cox Income | $ 60,180,844 |
| PTTRX | Fixed Income | PIMCO Total Return | 59,558,599 |
| N/A | Equity | Boston Partners | 23,104,704 |
| JRAIX | Equity | Janus Research | 23,104,385 |
| N/A | Equity | Mondrian International | 22,841,690 |
| VINIX | Equity | Vanguard S&P 500 Index | 22,812,377 |
| HACAX | Equity | Harbor Cap Appreciation | 22,211,427 |
| DODGX | Equity | Dodge & Cox Stock | 21,933,343 |
| RERGX | Equity | American Funds EuroPacific | 21,684,238 |
| HAINX | Equity | Harbor International | 21,647,323 |
| | | Total Top 10 Securities | $299,078,930 |

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

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

# *Actuarial Section*

Anderson Valley, Mendocino County

Segal Consulting

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

December 9, 2016

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

**Re: June 30, 2016 Actuarial Valuation for the Mendocino County Employees' Retirement Association**

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2016 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, 2016 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 9, 2016
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In the June 30, 2016 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 23 years remaining as of June 30, 2016. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different amortization periods depending on the source of the layer (gains and losses as well as changes in assumptions and methods are amortized over 18 years).

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

Segal prepared all of the supporting schedules in the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) and certain supporting schedules in the Financial Section, based on the results of the June 30, 2016 actuarial valuation. A listing of the supporting schedules Segal prepared for inclusion in the Financial Section as Required Supplementary Information prescribed by GASB[1], and in the Actuarial Section, is provided below:

Financial Section:

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

Actuarial Section:

3) Summary of Assumptions and Funding Method
4) Probabilities of Separation from Active Service
5) Actuarial Assumptions for Merit and Promotional Salary Increase Rates
6) Schedule of Active Member Valuation Data
7) Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll
8) Solvency Test
9) Actuarial Analysis of Financial Experience
10) Development of Actuarial Value of Assets
11) Summary of Plan Provisions
12) Schedule of Funding Progress
13) Schedule of Contributions – Last Ten Fiscal Years*
14) Projection of Pension Plan's Fiduciary Net Position for Use in Calculation of Discount Rate as of June 30, 2016*

** Source: Segal's GAS 67 valuation report as of June 30, 2016.*

[1] These schedules were included in Segal's separate Governmental Accounting Standards (GAS) 67 actuarial valuation report as of June 30, 2016.

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the Experience Analysis as of June 30, 2014. It is our opinion that the assumptions used in the June 30, 2016 valuation produce results that, in the aggregate, reflect the future experience of the Plan. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2017.

In the June 30, 2016 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 70.2% to 70.7%. The employer's aggregate contribution rate has decreased from 32.14% of payroll to 32.05% of payroll. The employee's aggregate rate has increased from 9.64% of payroll to 9.65% of payroll. The decrease in the employer rate is primarily due to change in membership demographics, amortizing the prior year's UAAL over a larger than expected total payroll, and other actuarial gains, partially offset by an investment loss (under the smoothed assets method) and larger than expected salary increases for some members.

In the June 30, 2016 valuation, the actuarial value of assets excluded $24.7 million in deferred investment losses, which represent 5.8% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 70.7% to 67.5%[2] and the aggregate employer contribution rate, expressed as a percentage of payroll, would increase from 32.05% to about 34.8%.

To the best of our knowledge, the June 30, 2016 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

Andy Yeung

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

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

DNA/hy
Enclosures

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

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## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The Entry Age Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The funding policy adopted by the Board is to amortize the Association's outstanding balance of the unfunded actuarial accrued liability (UAAL) from the June 30, 2012 valuation over a declining period, with 23 years remaining as of June 30, 2016. In addition, any new UAAL established after June 30, 2012 has been amortized over separate layers with different amortization periods depending on the source of the layer (gains and losses as well as changes in assumptions and methods are amortized over 18 years). The Board has adopted the following economic assumptions for the June 30, 2016 valuation:

## ASSUMPTIONS

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

The following demographic and salary increase assumptions were used for the actuarial valuation as of June 30, 2016. The assumptions were selected by the actuary and approved by the Board as part of the June 30, 2014 actuarial experience study.

**Post-Retirement Mortality**

*(a) Healthy*

| | |
|---|---|
| General Members | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females. |
| Safety and Probation Members | Same as Healthy General Members. |
| All Beneficiaries | Same as Healthy General Members. |

*(b) Disabled*

| | |
|---|---|
| General Members | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward four years for both males and females. |
| Safety and Probation Members | Same as Disabled General Members. |

*(c) For Employee Contribution Rate Purposes*

| | |
|---|---|
| General Members | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females, weighted 30% male and 70% female. |
| Safety and Probation Members | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males with no setback for females, weighted 80% male and 20% female. |

**Pre-Retirement Mortality**

| | |
|---|---|
| *(a) General Members* | RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females. |
| *(b) Safety and Probation Members* | Same as General Members. |

| | |
|---|---|
| **Termination Rates** | Based upon the Experience Analysis as of 6/30/2014 (Table 1). |
| **Disability Rates** | Based upon the Experience Analysis as of 6/30/2014 (Table 1). |
| **Service Retirement Rates** | Based upon the Experience Analysis as of 6/30/2014 (Table 1). |
| **Reciprocity Assumption** | 60% of members who terminate with a vested benefit are assumed to enter a reciprocal system. For reciprocals, 4.25% compensation increases per annum are assumed. |
| **Salary Scales** | As shown in Table 2. |
| **Spouses and Dependents** | 75% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands. |
| **Deferred Vested Retirement Age** | 60 for General members; 55 for Safety and Probation members. For deferred vested members who terminate with less than five years of service and are not vested, it is assumed they will retire at age 70 if they decide to leave their contributions on deposit. |
| **Future Benefit Accruals** | 1.0 year of service per year of employment plus 0.019 years of additional service to anticipate conversion of unused sick leave for each year of employment, for members expected to retire directly from active employment and to receive a service retirement benefit. |

**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE - TABLE 1**

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

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

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

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

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

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

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

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

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

Consists of the sum of three parts: A uniform inflation component of 3.25%; plus "across the board" salary increases (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 | 5.00% | 5.00% |
| 1 | 3.75% | 3.75% |
| 2 | 3.50% | 3.00% |
| 3 | 2.75% | 2.25% |
| 4 | 2.25% | 1.00% |
| 5+ | 0.50% | 0.50% |

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA[1]

| Valuation Date | Plan Type | Number | Annual Payroll $ | Monthly Average Pay $ | Percentage of Increase in Average Pay[2] |
|---|---|---|---|---|---|
| 6/30/2007 | | | | | |
| | General | 1,199 | 55,268,122 | 3,841 | |
| | Safety | 147 | 8,177,920 | 4,636 | |
| | Probation | 49 | 2,452,547 | 4,171 | |
| | **Total** | 1,395 | 65,898,589 | 3,937 | |
| 6/30/2008 | | | | | |
| | General | 1,207 | 59,194,561 | 4,087 | 6.4% |
| | Safety | 156 | 9,157,574 | 4,892 | 5.5% |
| | Probation | 47 | 2,528,198 | 4,483 | 7.5% |
| | **Total** | 1,410 | 70,880,333 | 4,189 | 6.4% |
| 6/30/2009 | | | | | |
| | General | 1,164 | 60,045,883 | 4,299 | 5.2% |
| | Safety | 143 | 9,057,202 | 5,278 | 7.9% |
| | Probation | 62 | 3,132,010 | 4,210 | -6.1% |
| | **Total** | 1,369 | 72,235,095 | 4,397 | 5.0% |
| 6/30/2010[3] | | | | | |
| | General | 1,071 | | | |
| | Safety | 130 | | | |
| | Probation | 53 | | | |
| | **Total** | 1,254 | 69,004,002[4] | 4,586[4] | 4.3% |
| 6/30/2011 | | | | | |
| | General | 955 | 53,294,624 | 4,650 | |
| | Safety | 122 | 8,238,933 | 5,628 | |
| | Probation | 52 | 2,610,208 | 4,183 | |
| | **Total** | 1,129 | 64,143,765 | 4,735 | -0.7%[5] |
| 6/30/2012 | | | | | |
| | General | 895 | 45,850,427 | 4,269 | -8.2% |
| | Safety | 120 | 8,021,174 | 5,570 | -1.0% |
| | Probation | 54 | 2,724,487 | 4,204 | 0.5% |
| | **Total** | 1,069 | 56,596,088 | 4,412 | -6.8% |
| 6/30/2013 | | | | | |
| | General | 894 | 45,512,393 | 4,242 | -0.6% |
| | Safety | 123 | 8,169,530 | 5,535 | -0.6% |
| | Probation | 55 | 2,782,060 | 4,215 | 0.3% |
| | **Total** | 1,072 | 56,463,983 | 4,389 | -0.5% |
| 6/30/2014 | | | | | |
| | General | 900 | 44,672,084 | 4,136 | -2.5% |
| | Safety | 129 | 8,509,082 | 5,497 | -0.7% |
| | Probation | 52 | 2,695,082 | 4,319 | 2.5% |
| | **Total** | 1,081 | 55,876,248 | 4,307 | -1.9% |
| 6/30/2015 | | | | | |
| | General | 930 | 46,587,735 | 4,175 | 0.9% |
| | Safety | 125 | 8,862,821 | 5,909 | 7.5% |
| | Probation | 52 | 2,655,840 | 4,256 | -1.5% |
| | **Total** | 1,107 | 58,106,396 | 4,374 | 1.6% |
| 6/30/2016 | | | | | |
| | General | 943 | 49,280,041 | 4,355 | 4.3% |
| | Safety | 130 | 9,188,532 | 5,890 | -0.3% |
| | Probation | 50 | 2,746,381 | 4,577 | 7.5% |
| | **Total** | 1,123 | 61,214,954 | 4,543 | 3.9% |

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

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

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

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

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

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

| | Added to Rolls | | Removed from Rolls | | Rolls- End of Year | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Valuation Date | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances | Increase in Annual Allowances | Average Annual Allowances | Increase in Average Annual Allowances |
| 6/30/2007 | | | | | 907 | $14,827,000 | | $16,347 | |
| 6/30/2008 | 82 | $1,624,000 | 27 | $252,000 | 962 | 16,199,000 | 9.3% | 16,839 | 3.0% |
| 6/30/2009 | 77 | 1,921,000 | 31 | 352,000 | 1,008 | 17,768,000 | 9.7% | 17,627 | 4.7% |
| 6/30/2010[2] | | | | | 1,083 | 19,125,661[3] | 7.6% | 17,660 | 0.2% |
| 6/30/2011 | 71 | 1,624,933 | 25 | 205,558[4] | 1,129 | 21,296,641 | 7.1%[4] | 18,863 | 6.8% |
| 6/30/2012 | 108 | 2,599,055 | 20 | 388,743 | 1,217 | 23,506,953 | 10.4% | 19,315 | 2.4% |
| 6/30/2013 | 111 | 2,742,843 | 41 | 596,482 | 1,287 | 25,653,314 | 9.1% | 19,933 | 3.2% |
| 6/30/2014 | 81 | 2,281,673 | 40 | 710,084 | 1,328 | 27,224,903 | 6.1% | 20,501 | 2.8% |
| 6/30/2015 | 82 | 2,417,163 | 31 | 391,224 | 1,379 | 29,250,842 | 7.4% | 21,212 | 3.5% |
| 6/30/2016 | 81 | 2,500,065 | 44 | 787,374 | 1,416 | 30,963,533 | 5.9% | 21,867 | 3.1% |

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

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

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

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

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

## SOLVENCY TEST[1]

(Dollars in Thousands)

| | | Aggregate Accrued Liabilities for | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | | | | | |
| Valuation Date | Active Member Contributions | Retired/ Vested Members | Active Members (Employer Financed Portion) | Total | Actuarial Value of Assets | (1) | (2) | (3) |
| 6/30/2007 | Not Available | | | | | | | |
| 6/30/2008 | $62,348 | $199,072 | $112,412 | $373,832 | $353,421 | 100% | 100% | 82% |
| 6/30/2009 | 64,102 | 218,613 | 120,481 | 403,196 | 336,263 | 100% | 100% | 44% |
| 6/30/2010[2] | | | | 434,987 | 343,202 | | | |
| 6/30/2011 | 53,600 | 287,201 | 131,843 | 472,644 | 347,732 | 100% | 100% | 5% |
| 6/30/2012 | 51,090 | 312,531 | 125,393 | 489,014 | 362,487 | 100% | 100% | 0% |
| 6/30/2013 | 51,236 | 338,874 | 120,351 | 510,461 | 378,777 | 100% | 97% | 0% |
| 6/30/2014 | 51,004 | 398,872 | 134,553 | 584,429 | 404,856 | 100% | 89% | 0% |
| 6/30/2015 | 51,128 | 424,348 | 134,906 | 610,382 | 428,229 | 100% | 89% | 0% |
| 6/30/2016 | 50,019 | 442,323 | 139,715 | 632,057 | 446,773 | 100% | 90% | 0% |

*This exhibit includes actuarially funded liabilities and assets.*

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

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

**ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE**[(1)]

Items Impacting Unfunded Actuarial Accrued Liability (UAAL)

(Dollars in Thousands)

| Plan Year Ending 6/30 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010[(2)] | 2009 |
|---|---|---|---|---|---|---|---|---|
| Beginning of the Year UAAL Liability/(Surplus) | $182,153 | $179,573 | $131,684 | $126,527 | $124,913 | $91,785 | $66,933 | $20,411 |
| Effect of Differences in Methods and Procedures Due to Change in Actuaries | - | - | - | - | - | 9,035 | | - |
| Expected Change | 711 | 748 | 3,247 | 3,118 | 6,929 | 7,638 | | 805 |
| Liability (Gain)/Loss | (4,360) | 5,038 | (3,310) | 4,236 | 1,937 | - | | 19,978[(3)] |
| Asset Return (Gain)/Loss | 4,702 | (5,723) | (6,471) | 3,046 | 3,647 | 15,266 | | 29,934 |
| Salary Increase (Gain)/Loss | 2,342 | (1,752) | (3,764) | (5,243) | (13,844) | (11,363) | | - |
| Retiree COLA Increase (Gain)/Loss | - | - | - | - | - | (5,887) | | - |
| Change in Actuarial Assumptions and Procedures | - | - | 58,187[(4)] | - | 2,945 | 24,043 | | - |
| (Gain)/Loss Due to Reflecting Future Service Only Improvement for General Members | - | - | - | - | - | (5,604) | | - |
| Change in Method to Determine Actuarial Value of Assets | - | - | - | - | - | - | | (4,195) |
| (Gain)/Loss Due to One-Year Delay From Implementing Employer Contribution Rates | (264) | 4,269[(5)] | - | - | - | - | | - |
| End of the Year UAAL Liability/(Surplus) | $185,284 | $182,153 | $179,573 | $131,684 | $126,527 | $124,913 | $91,785 | $66,933 |

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

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

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

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

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

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

| | | Actual Market Return (net) | Expected Market Return (net) | Investment Gain / (Loss) | Deferred Factor | Deferred Return |
|---|---|---|---|---|---|---|
| 1. | Market value of assets as of June 30, 2016 | | | | | $426,338 |
| 2. | Calculation of deferred return: | | | | | |
| | (a) Year ended June 30, 2012 | $(4,078) | $27,197 | $(31,275) | 0% | $0 |
| | (b) Year ended June 30, 2013 | 48,890 | 26,235 | 22,655 | 20% | 4,531 |
| | (c) Year ended June 30, 2014 | 68,495 | 29,334 | 39,161 | 40% | 15,664 |
| | (d) Year ended June 30, 2015 | 13,201 | 31,658 | (18,457) | 60% | (11,074) |
| | (e) Year ended June 30, 2016 | (10,352) | 31,933 | (42,285) | 80% | (33,828) |
| | (f) Total unrecognized return | | | | | $(24,707) |
| 3. | Preliminary actuarial value of assets as of June 30, 2016: (1) – (2f) | | | | | $451,045 |
| 4. | Adjustment to be within 25% corridor of market value | | | | | $0 |
| 5. | Final actuarial value of assets as of June 30, 2016: (3) + (4) | | | | | $451,045 |
| 6. | Actuarial value as a percentage of market value: (5) / (1) | | | | | 105.8% |
| 7. | Non-pension reserve: | | | | | |
| | Contingency reserve | | | | | $4,272 |
| 8. | Valuation value of assets: (5) – (7) | | | | | $446,773 |

**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, 2016.

### Membership

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

### Final Compensation

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

### Return of Contributions

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

### Service Retirement Benefit

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

### Basis of Benefit Payments

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

### Cost of Living Benefit

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

### Disability Benefit

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

### Death Benefit - Prior to Retirement

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

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

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

### Death Benefit - After Retirement

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

### Member's Contributions

Contribution rates for the employer and its covered employees are established and may be amended by the MCERA Board of Retirement, and then adopted by the County Board of Supervisors. The contribution rates are determined based on the benefit structure established by the employer. For General Tiers 1, 2, and 3, and Safety and Probation Tiers 1 and 2, members are required to contribute a percentage of their annual covered salary and their particular contribution rate is based upon age at entry into the Association. For General Tier 4, and Safety and Probation Tiers 3, members are required to

**SUMMARY OF PLAN PROVISIONS (continued)**

**Member's Contributions (continued)**
contribute at least 50% of the Normal Cost rate. The employer is required to contribute the remaining amount necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates.

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

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

| Actuarial Valuation Date | Valuation Assets | | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | | UAAL as a Percent of Covered Payroll |
|---|---|---|---|---|---|---|---|---|
| 7/1/1994 | $75,976 | | $112,535 | $36,559 | 67.50% | $27,185 | | 134.50% |
| 7/1/1995 | $79,322 | | $121,027 | $41,705 | 65.50% | $29,603 | | 140.90% |
| 7/1/1996 | $84,992 | | $130,036 | $45,044 | 65.40% | $29,587 | | 152.20% |
| 7/1/1997 | $124,286 | | $140,783 | $16,497 | 88.30% | $32,481 | | 50.80% |
| 7/1/1998 | $134,836 | | $154,263 | $19,427 | 87.40% | $35,586 | | 54.60% |
| 7/1/1999 | $142,775 | | $173,250 | $30,475 | 82.40% | $39,209 | | 77.70% |
| 7/1/2000 | $150,056 | | $185,423 | $35,367 | 80.90% | $44,132 | | 80.10% |
| 7/1/2001 | $157,545 | | $204,699 | $47,154 | 77.00% | $53,188 | | 88.70% |
| 7/1/2002 | $158,115 | (2) | $226,883 | $68,768 | 69.70% | $57,701 | | 119.20% |
| 7/1/2003 | $233,764 | (3) | $243,342 | $9,578 | 96.10% | $59,865 | | 16.00% |
| 7/1/2004 | $239,191 | | $265,141 | $25,950 | 90.20% | $59,075 | | 43.90% |
| 7/1/2005 | $253,487 | | $289,467 | $35,980 | 87.60% | $57,664 | | 62.40% |
| 7/1/2006 | $288,461 | | $320,123 | $31,662 | 90.10% | $57,665 | | 54.90% |
| 7/1/2007 | $317,937 | | $358,259 | $40,322 | 88.70% | $65,899 | | 61.20% |
| 7/1/2008 | $353,421 | | $373,832 | $20,411 | 94.50% | $70,880 | | 28.80% |
| 7/1/2009 | $336,263 | | $403,196 | $66,933 | 83.40% | $72,235 | | 92.70% |
| 7/1/2010 | $343,202 | | $434,987 | $91,785 | 78.90% | $69,004 | | 133.00% |
| 7/1/2011 | $347,732 | | $472,644 | $124,912 | 73.60% | $64,144 | (4) | 194.70% |
| 7/1/2012 | $362,487 | | $489,014 | $126,527 | 74.10% | $56,596 | | 223.60% |
| 7/1/2013 | $378,777 | | $510,461 | $131,684 | 74.20% | $56,464 | | 233.20% |
| 7/1/2014 | $404,856 | | $584,429 | $179,573 | 69.30% | $55,876 | | 321.40% |
| 7/1/2015 | $428,229 | | $610,382 | $182,153 | 70.20% | $58,106 | | 313.50% |
| 7/1/2016 | $446,773 | | $632,057 | $185,284 | 70.70% | $61,215 | | 302.70% |

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

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

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

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

## SCHEDULE OF CONTRIBUTIONS – LAST TEN FISCAL YEARS

| Year Ended June 30 | Actuarially Determined Contributions[1] | Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Covered-Employee Payroll[2] | Contributions as a Percentage of Covered Employee Payroll |
|---|---|---|---|---|---|
| 2007 | $7,533,000 | Not Disclosed in Prior Funding Valuation Reports | N/A | $64,214,811 | N/A |
| 2008 | 7,232,000 | | N/A | 68,447,683 | N/A |
| 2009 | 6,046,000 | | N/A | 72,565,457 | N/A |
| 2010 | 9,571,000 | | N/A | 70,384,677 | N/A |
| 2011 | 9,553,955 | $9,533,955 | 0 | 64,252,118 | 14.87% |
| 2012 | 11,811,076 | 11,811,076 | 0 | 56,291,191 | 20.98% |
| 2013 | 14,260,473 | 14,260,473 | 0 | 53,254,876 | 26.78% |
| 2014 | 14,324,752 | 14,324,752 | 0 | 53,813,882 | 26.62% |
| 2015 | 15,164,044 | 15,164,044 | 0 | 54,891,785 | 27.63% |
| 2016 | 19,129,191 | 19,129,191 | 0 | 57,407,928 | 33.32% |

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

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

## PROJECTION OF PENSION PLAN'S FIDUCIARY NET POSITION FOR USE IN CALCULATION OF DISCOUNT RATE AS OF JUNE 30, 2016
## ($ 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) |
|---|---|---|---|---|---|---|
| 2015 | $444 | $25 | $31 | $1 | -$10 | $426 |
| 2016 | 426 | 24 | 35 | 1 | 30 | 445 |
| 2017 | 445 | 23 | 36 | 1 | 32 | 462 |
| 2018 | 462 | 23 | 38 | 1 | 33 | 479 |
| 2019 | 479 | 24 | 40 | 1 | 34 | 496 |
| 2020 | 496 | 25 | 42 | 1 | 35 | 513 |
| 2021 | 513 | 25 | 44 | 1 | 36 | 530 |
| 2022 | 530 | 25 | 46 | 1 | 37 | 545 |
| 2023 | 545 | 26 | 48 | 1 | 38 | 560 |
| 2024 | 560 | 26 | 50 | 1 | 39 | 574 |
| 2040 | 688 | 4 * | 66 | 2 | 47 | 672 |
| 2041 | 672 | 4 * | 66 | 2 | 46 | 654 |
| 2042 | 654 | 4 * | 65 | 2 | 45 | 636 |
| 2043 | 636 | 4 * | 65 | 2 | 44 | 617 |
| 2044 | 617 | 4 * | 64 | 2 | 42 | 598 |
| 2089 | 697 | 2 * | 1 | 2 | 51 | 747 |
| 2090 | 747 | 2 * | 1 | 2 | 54 | 800 |
| 2091 | 800 | 2 * | 1 | 2 | 58 | 858 |
| 2092 | 858 | 2 * | 1 | 2 | 62 | 919 |
| 2093 | 919 | 2 * | 1 | 2 | 67 | 985 |
| 2118 | 5,271 | 14 * | 0 ** | 14 | 382 | 5,654 |
| 2119 | 5,654 | | | | | |
| 2119 | Discounted Value: 4 *** | | | | | |

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

** Less than $1 million, when rounded.

*** $5,654 million when discounted with interest at the rate of 7.25% per annum has a value of $4 million (or 0.98% of the Plan's Fiduciary Net Position) as of June 30, 2016.

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

## PROJECTION OF PENSION PLAN'S FIDUCIARY NET POSITION FOR USE IN CALCULATION OF DISCOUNT RATE AS OF JUNE 30, 2016 (CONTINUED)

Notes:

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

(2) Amounts shown for the year beginning July 1, 2015 row are actual amounts, based on the unaudited financial statements provided by MCERA.

(3) Years 2025-2039, 2045-2088, and 2094-2117 have been omitted from this table.

(4) Column (a): Except for the "discounted value" shown for 2119, none of the projected beginning Plan Fiduciary Net Position amounts shown have been adjusted for the time value of money.

(5) Column (b): Projected total contributions include employee and employer normal cost contributions based on closed group projections (based on covered active members as of June 30, 2016); 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, 2016. The projected benefit payments reflect the cost of living increase assumptions used in the June 30, 2016 report. In accordance with paragraph 31.b.(1)(e) of GASB Statement No. 67, the long-term expected rate of return on Plan investments of 7.25% was applied to all periods of projected benefit payments to determine the discount rate.

(7) Column (d): Projected administrative expenses are calculated as approximately 0.26% of the projected beginning Plan Fiduciary Net Position amount. The 0.26% portion was based on the actual fiscal year 2015 - 2016 administrative expenses as a percentage of the beginning Plan Fiduciary Net Position amount as of July 1, 2015. Administrative expenses are assumed to occur halfway through the year, on average.

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

(9) As illustrated in this Exhibit, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. In other words, there is no projected 'cross-over date' when projected benefits are not covered by projected assets. Therefore, the long-term expected rate of return on Plan investments of 7.25% per annum was applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2016 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

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# *Statistical Section*

Point Arena-Stronetta Public Lands, Mendocino County

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

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

| (Dollars in Thousands) | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $ 19,129 | $ 15,164 | $ 14,325 | $ 14,260 | $ 11,811 |
| Member Contributions | 5,545 | 4,652 | 4,576 | 4,713 | 4,840 |
| Net Investment Income | (10,352) | 13,201 | 68,495 | 48,890 | (4,078) |
| **Total Additions** | **14,321** | **33,017** | **87,396** | **67,863** | **12,573** |
| **Deductions** | | | | | |
| Benefits Payments | 30,435 | 29,225 | 26,702 | 25,500 | 22,955 |
| Refunds of Contributions | 624 | 824 | 652 | 1,073 | 1,225 |
| Health Benefits [1] | - | - | - | - | - |
| Administrative Expenses | 1,142 | 1,059 | 930 | 830 | 698 |
| **Total Deductions** | **32,201** | **31,108** | **28,284** | **27,403** | **24,879** |
| **Change in Plan Net Position** | **$(17,879)** | **$ 1,909** | **$ 59,112** | **$ 40,460** | **$(12,306)** |

| (Dollars in Thousands) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $ 9,554 | $ 8,234 | $ 8,561 | $ 7,269 | $ 7,231 |
| Member Contributions | 5,447 | 6,502 | 6,836 | 6,613 | 6,002 |
| Net Investment Income | 64,075 | 38,128 | (52,214) | (15,846) | 52,299 |
| **Total Additions** | **79,076** | **52,864** | **(36,817)** | **(1,964)** | **65,532** |
| **Deductions** | | | | | |
| Benefits Payments | 22,269 | 23,161 | 21,480 | 15,640 | 14,153 |
| Refunds of Contributions | 1,167 | 1,061 | 734 | 1,064 | 1,036 |
| Health Benefits [1] | - | - | - | 4,017 | 3,382 |
| Administrative Expenses | 640 | 641 | 280 | 134 | 119 |
| **Total Deductions** | **24,076** | **24,863** | **22,494** | **20,855** | **18,690** |
| **Change in Plan Net Position** | **$ 55,000** | **$ 28,001** | **$(59,311)** | **$(22,819)** | **$ 46,842** |

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

## Additions by Source

(Dollars in Thousands)

| Fiscal Year Ended 6/30 | Employee Contributions | Employer/Other Contributions | Investment Net Income | Total |
|---|---|---|---|---|
| 2007 | $ 6,002 | $ 7,231 | $ 52,299 | $ 65,532 |
| 2008 | 6,613 | 7,269 | (15,846) | (1,964) |
| 2009 | 6,836 | 8,561 | (52,214) | (36,817) |
| 2010 | 6,502 | 8,234 | 38,128 | 52,864 |
| 2011 | 5,447 | 9,554 | 64,075 | 79,076 |
| 2012 | 4,840 | 11,811 | (4,078) | 12,573 |
| 2013 | 4,713 | 14,260 | 48,890 | 67,863 |
| 2014 | 4,576 | 14,325 | 68,495 | 87,396 |
| 2015 | 4,652 | 15,164 | 13,201 | 33,017 |
| 2016 | $ 5,545 | $19,129 | $ (10,352) | $ 14,321 |

## Deductions by Type

(Dollars in Thousands)

| Fiscal Year Ended 6/30 | Benefits | Administrative/ Other Expenses | Refunds | Total |
|---|---|---|---|---|
| 2006 | $ 12,878 | $ 3,492 | $ 1,068 | $ 17,438 |
| 2007 | 14,153 | 3,501 | 1,036 | 18,690 |
| 2008 | 15,640 | 4,151 | 1,064 | 20,855 |
| 2009 | 21,480 | 280 | 734 | 22,494 |
| 2010 | 23,161 | 641 | 1,061 | 24,863 |
| 2011 | 22,269 | 640 | 1,167 | 24,076 |
| 2012 | 22,955 | 698 | 1,225 | 24,879 |
| 2013 | 25,500 | 830 | 1,073 | 27,403 |
| 2014 | 26,702 | 930 | 652 | 28,284 |
| 2015 | 29,225 | 1,059 | 824 | 31,108 |
| 2016 | $ 30,434 | $ 1,142 | $ 624 | $ 32,201 |

## Schedule of Benefit Expenses by Type

(Dollars in Thousands)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Service Retirement Payroll:** | | | | | |
| **General** | 19,787 | 18,632 | 17,413 | 16,253 | 14,864 |
| **Safety** | 4,050 | 3,911 | 3,430 | 3,215 | 2,500 |
| **Total** | $ 23,837 | $ 22,544 | $ 20,843 | $ 19,468 | $ 17,364 |
| **Disability Retirement Payroll:** | | | | | |
| **General** | 2,266 | 2,200 | 2,188 | 2,128 | 2,074 |
| **Safety** | 2,494 | 2,248 | 2,138 | 2,030 | 1,903 |
| **Total** | $ 4,759 | $ 4,448 | $ 4,325 | $ 4,158 | $ 3,977 |
| **Beneficiary Payroll:** | | | | | |
| **General** | 1,608 | 1,632 | 1,526 | 1,485 | 1,487 |
| **Safety** | 760 | 629 | 532 | 524 | 485 |
| **Total** | $ 2,368 | $ 2,260 | $ 2,058 | $ 2,027 | $ 1,972 |
| **Total Benefit Expense:** | | | | | |
| **General** | 23,661 | 22,464 | 21,126 | 19,865 | 18,425 |
| **Safety** | 7,304 | 6,789 | 6,100 | 5,787 | 4,889 |
| **Total** | $ 30,965 | $ 29,252 | $ 27,226 | $ 25,692 | $ 23,313 |

(Dollars in Thousands)

| | 2011(1) | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Service Retirement Payroll:** | | | | | |
| **General** | 13,197 | 12,112 | 10,808 | 9,960 | 8,688 |
| **Safety** | 2,477 | 2,267 | 1,799 | 1,664 | 1,532 |
| **Total** | $ 15,674 | $ 14,379 | $ 12,607 | $ 11,624 | $ 10,220 |
| **Disability Retirement Payroll:** | | | | | |
| **General** | 1,987 | 1,970 | 1,815 | 1,751 | 1,683 |
| **Safety** | 1,832 | 1,823 | 1,654 | 1,590 | 1,432 |
| **Total** | $ 3,819 | $ 3,793 | $ 3,469 | $ 3,341 | $ 3,115 |
| **Beneficiary Payroll:** | | | | | |
| **General** | 1,335 | 679 | 1,269 | 1,171 | 1,138 |
| **Safety** | 471 | 275 | 422 | 404 | 359 |
| **Total** | $ 1,806 | $ 954 | $ 1,691 | $ 1,575 | $ 1,497 |
| **Total Benefit Expense:** | | | | | |
| **General** | 16,519 | 14,761 | 13,892 | 12,882 | 11,509 |
| **Safety** | 4,780 | 4,365 | 3,875 | 3,658 | 3,323 |
| **Total** | $ 21,299 | $ 19,126 | $ 17,767 | $ 16,540 | $ 14,832 |

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

Source of Data: Actuarial Valuation Reports (2007 – 2016)
Note: Amounts in table may not total exactly due to rounding.

# Schedule of Retiree Members by Type of Benefit
## (Summary of Monthly Allowances Being Paid – As of June 30, 2015 and June 30, 2016)

(Dollars in Thousands)

| FY 2016 | General Members | | | Safety Members | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | | Monthly Allowance | Number | | Monthly Allowance | Number | | Monthly Allowance |
| **Retired Members** | | | | | | | | | |
| Service Retirement | 975 | $ | 1,649 | 115 | $ | 338 | 1090 | $ | 1,987 |
| Disability | 111 | | 189 | 61 | | 208 | 172 | | 397 |
| Beneficiaries | 117 | | 134 | 37 | | 63 | 154 | | 197 |
| **Total Retired Members** | 1,203 | $ | 1,972 | 213 | $ | 609 | 1,416 | $ | 2,580 |

(Dollars in Thousands)

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

Source of data: June 30, 2015 and June 30, 2016 Actuarial Valuation Report

## Schedule of Average Benefit Payment Amounts

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

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

Source of data: Actuarial Valuation Reports (2006 – 2016). Final Average Salary data: MCERA Pension Software. Data on Final Average Salary is not available prior to fiscal year 2016.

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

| | Total Employees | County of Mendocino | Russian River Cemetery District | Superior Court |
|---|---|---|---|---|
| **Year 2016** | | | | |
| Number of Covered Employees | 1,123 | 1,066 | 4 | 53 |
| Percentage to Total System | 100% | 94.92% | 0.36% | 4.72% |
| **Year 2015** | | | | |
| Number of Covered Employees | 1,107 | 1,053 | 4 | 50 |
| Percentage to Total System | 100% | 95.12% | 0.36% | 4.52% |
| **Year 2014** | | | | |
| Number of Covered Employees | 1,081 | 1,026 | 4 | 51 |
| Percentage to Total System | 100% | 94.91% | 0.37% | 4.72% |
| **Year 2013** | | | | |
| Number of Covered Employees | 1,072 | 1,021 | 4 | 47 |
| Percentage to Total System | 100% | 95.25% | 0.37% | 4.38% |
| **Year 2012** | | | | |
| Number of Covered Employees | 1,069 | 1,011 | 4 | 54 |
| Percentage to Total System | 100% | 94.57% | .37% | 5.05% |
| **Year 2011** | | | | |
| Number of Covered Employees | 1,129 | 1,065 | 4 | 60 |
| Percentage to Total System | 100% | 94.33% | .35% | 5.32% |
| **Year 2010** | | | | |
| Number of Covered Employees | 1,254 | 1,186 | 5 | 63 |
| Percentage to Total System | 100% | 94.58% | .40% | 5.02% |
| **Year 2009** | | | | |
| Number of Covered Employees | 1,369 | 1,294 | 5 | 70 |
| Percentage to Total System | 100% | 94.52% | .37% | 5.11% |
| **Year 2008** | | | | |
| Number of Covered Employees | 1,410 | 1,335 | 5 | 70 |
| Percentage to Total System | 100% | 94.68% | .36% | 4.96% |
| **Year 2007** | | | | |
| Number of Covered Employees | 1,395 | 1,314 | 5 | 76 |
| Percentage to Total System | 100% | 94.19% | .36% | 5.45% |

Source of data: MCERA systems.

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# END OF REPORT

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