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VIA E-MAIL AND USPS

September 11, 2017

Dr. James R. Wilbanks
Retirement Administrator
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

**Re: Mendocino County Employees' Retirement Association (MCERA)
Addendum to the Governmental Accounting Standards (GAS) Statement 67
Actuarial Valuation as of June 30, 2016**

Dear James:

In our Governmental Accounting Standards (GAS) Statement 67 actuarial valuation report dated October 24, 2016, we provided the Net Pension Liability (NPL) and other elements that are required for completing the Plan's financial reporting requirements under GAS Statement 67. In this letter, we have provided as an Addendum to that report two additional schedules that the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel recommends be prepared by the Retirement Association's actuary (Segal Consulting) for use in allocating the NPL and pension expense by employer, before we issue the full companion report for the employer's financial reporting for MCERA under GAS Statement 68.

These two schedules have been developed based on the assumptions, methods, and results shown in our earlier report dated October 24, 2016. Exhibits A1 and A2 detail the method used for allocating the NPL and they provide the NPL amounts allocated to the three employers at the County, the Courts, and the Cemetery District in MCERA as of June 30, 2015 and June 30, 2016, respectively.¹

Exhibit B summarizes the allocated NPL, deferred outflows and inflows of resources, and pension expense by the three employers. Additional information required under GAS Statement 68 that each of the employers will need to disclose is provided in a separate report dated September 11, 2017.

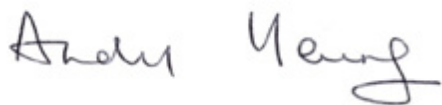
¹ The June 30, 2015 and June 30, 2016 NPL for the General membership class has been allocated to the three General employers in proportion to the employer contributions made by the employers during fiscal years 2014-2015 and 2015-2016, respectively. All of the June 30, 2015 and June 30, 2016 NPL for the Safety and Probation membership classes has been allocated to the County, as they are the sole active employer.

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The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please give us a call if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Andy Yeung". The signature is fluid and cursive, with the first name "Andy" and the last name "Yeung" clearly distinguishable.

Andy Yeung

JRC/bbf
Enclosures

AICPA Schedules for Mendocino County Employees' Retirement Association
Addendum to GAS Statement 67 Actuarial Valuation

EXHIBIT A1

Schedule of Employer Allocations as of June 30, 2015

Actual Employer Contributions by Employer and Membership Class
July 1, 2014 to June 30, 2015

Employer	General	General Percentage⁽¹⁾	Safety	Safety Percentage	Probation	Probation Percentage	Total Contributions	Total Percentage
County of Mendocino	\$9,703,567	90.446%	\$3,685,471	100.000%	\$750,003	100.000%	\$14,139,041	93.241%
Mendocino County Courts	975,397	9.092%	0	0.000%	0	0.000%	975,397	6.432%
Russian River Cemetery District	<u>49,606</u>	<u>0.462%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>49,606</u>	<u>0.327%</u>
Total for all Employers	\$10,728,570	100.000%	\$3,685,471	100.000%	\$750,003	100.000%	\$15,164,044	100.000%

⁽¹⁾ The unrounded percentages are used in the allocation of the NPL amongst the General employers.

Allocation of June 30, 2015 Net Pension Liability

Employer	General	General Percentage	Safety	Safety Percentage	Probation	Probation Percentage	Total NPL	Total Percentage
County of Mendocino	\$106,408,826	90.446%	\$42,960,066	100.000%	\$5,555,469	100.000%	\$154,924,361	93.236%
Mendocino County Courts	10,696,155	9.092%	0	0.000%	0	0.000%	10,696,155	6.437%
Russian River Cemetery District	<u>543,977</u>	<u>0.462%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>543,977</u>	<u>0.327%</u>
Total for all Employers	\$117,648,958	100.000%	\$42,960,066	100.000%	\$5,555,469	100.000%	\$166,164,493	100.000%

**AICPA Schedules for Mendocino County Employees' Retirement Association
Addendum to GAS Statement 67 Actuarial Valuation**

EXHIBIT A1

Schedule of Employer Allocations as of June 30, 2015 – continued

Notes:

Based on the July 1, 2014 through June 30, 2015 employer contributions as provided by MCERA.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Fiduciary Net Position (plan assets). The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan Fiduciary Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total MCERA Plan Fiduciary Net Position to total MCERA valuation value of assets.

The Safety and Probation membership classes have only one employer (the County), so all of the NPL for Safety and Probation is allocated to the County.

For the General membership class, the NPL is allocated based on the actual employer contributions within that membership class. The steps used for the allocation are as follows:

- First calculate the ratio of the employer's contributions to the total contributions for the membership class.
- This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.

If the employer is in several membership classes, the employer's total allocated NPL is the sum of its allocated NPL from each membership class. The proportionate share of total plan NPL is then the ratio of the employer's total allocated NPL to the total NPL of all employers.

**AICPA Schedules for Mendocino County Employees' Retirement Association
Addendum to GAS Statement 67 Actuarial Valuation**

EXHIBIT A2

Schedule of Employer Allocations as of June 30, 2016

**Actual Employer Contributions by Employer and Membership Class
July 1, 2015 to June 30, 2016**

Employer	General	General Percentage⁽¹⁾	Safety	Safety Percentage	Probation	Probation Percentage	Total Contributions	Total Percentage
County of Mendocino	\$12,504,761	91.385%	\$4,501,972	100.000%	\$943,598	100.000%	\$17,950,331	93.837%
Mendocino County Courts	1,113,230	8.135%	0	0.000%	0	0.000%	1,113,230	5.820%
Russian River Cemetery District	<u>65,630</u>	<u>0.480%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>65,630</u>	<u>0.343%</u>
Total for all Employers	\$13,683,621	100.000%	\$4,501,972	100.000%	\$943,598	100.000%	\$19,129,191	100.000%

⁽¹⁾ The unrounded percentages are used in the allocation of the NPL amongst the General employers.

Allocation of June 30, 2016 Net Pension Liability

Employer	General	General Percentage	Safety	Safety Percentage	Probation	Probation Percentage	Total NPL	Total Percentage
County of Mendocino	\$133,888,118	91.385%	\$51,841,780	100.000%	\$7,367,610	100.000%	193,097,508	93.864%
Mendocino County Courts	11,919,321	8.135%	0	0.000%	0	0.000%	11,919,321	5.794%
Russian River Cemetery District	<u>702,699</u>	<u>0.480%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>702,699</u>	<u>0.342%</u>
Total for all Employers	\$146,510,138	100.000%	\$51,841,780	100.000%	\$7,367,610	100.000%	\$205,719,528	100.000%

**AICPA Schedules for Mendocino County Employees' Retirement Association
Addendum to GAS Statement 67 Actuarial Valuation**

EXHIBIT A2

Schedule of Employer Allocations as of June 30, 2016 – continued

Notes:

Based on the July 1, 2015 through June 30, 2016 employer contributions as provided by MCERA.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Fiduciary Net Position (plan assets). The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan Fiduciary Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ratio of the total MCERA Plan Fiduciary Net Position to total MCERA valuation value of assets.

The Safety and Probation membership classes have only one employer (the County), so all of the NPL for Safety and Probation is allocated to the County.

For the General membership class, the NPL is allocated based on the actual employer contributions within that membership class. The steps used for the allocation are as follows:

- First calculate the ratio of the employer's contributions to the total contributions for the membership class.
- This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.

If the employer is in several membership classes, the employer's total allocated NPL is the sum of its allocated NPL from each membership class. The proportionate share of total plan NPL is then the ratio of the employer's total allocated NPL to the total NPL of all employers.

**AICPA Schedules for Mendocino County Employees' Retirement Association
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EXHIBIT B

Schedule of Pension Amounts by Employer as of June 30, 2016

	County of Mendocino	Mendocino County Courts	Russian River Cemetery District	Total for all Employers
Deferred Outflows of Resources				
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	\$1,131,093	\$173,143	\$17,548	\$1,321,784
Changes of Assumptions	6,710,309	411,210	24,243	7,145,762
Net Excess of Projected over Actual Earnings on Pension Plan Investments	27,301,614	1,828,474	107,797	29,237,885
Differences Between Expected and Actual Experience	<u>1,352,457</u>	<u>0</u>	<u>0</u>	<u>1,352,457</u>
Total Deferred Outflows of Resources	\$36,495,473	\$2,412,827	\$149,588	\$39,057,888
Deferred Inflows of Resources				
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	\$178,316	\$1,130,482	\$12,986	\$1,321,784
Changes of Assumptions	0	0	0	0
Differences Between Expected and Actual Experience	<u>3,681,833</u>	<u>303,784</u>	<u>17,909</u>	<u>4,003,526</u>
Total Deferred Inflows of Resources	\$3,860,149	\$1,434,266	\$30,895	\$5,325,310
Net Pension Liability as of June 30, 2015	\$154,924,361	\$10,696,155	\$543,977	\$166,164,493
Net Pension Liability as of June 30, 2016	\$193,097,508	\$11,919,321	\$702,699	\$205,719,528
Pension Expense				
Proportionate Share of Plan Pension Expense	\$36,040,990	\$2,036,458	\$120,058	\$38,197,506
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	<u>498,879</u>	<u>-502,383</u>	<u>3,504</u>	<u>0</u>
Total Employer Pension Expense	\$36,539,869	\$1,534,075	\$123,562	\$38,197,506

**AICPA Schedules for Mendocino County Employees' Retirement Association
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Notes:

Amounts shown in this exhibit were allocated by employer based on the Employer Allocation Percentage calculated in Exhibit A2.

In determining the pension expense:

- Any differences between projected and actual investment earnings on pension plan investments are recognized over a period of five years beginning with the year in which they occur.
- Current-period (i.e., 2015-2016) differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through MCERA determined as of June 30, 2015 (the beginning of the measurement period ending June 30, 2016) and is 2.81 years.
- Prior-period differences between expected and actual experience and changes of assumptions are continued to be recognized based on the expected remaining service lives of all employees calculated as of those prior measurement dates.

The average of the expected remaining service lives of all employees was determined by:

- Calculating each active employee's expected remaining service life as the present value of \$1 per year of future service at zero percent interest.
- Setting the remaining service life to zero for each nonactive or retired member.
- Dividing the sum of the above amounts by the total number of active employees and nonactive and retired members.