MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of MCERA as of June 30, 2017, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong Accountancy Corporation

Bakersfield, California
December 4, 2017

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

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

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

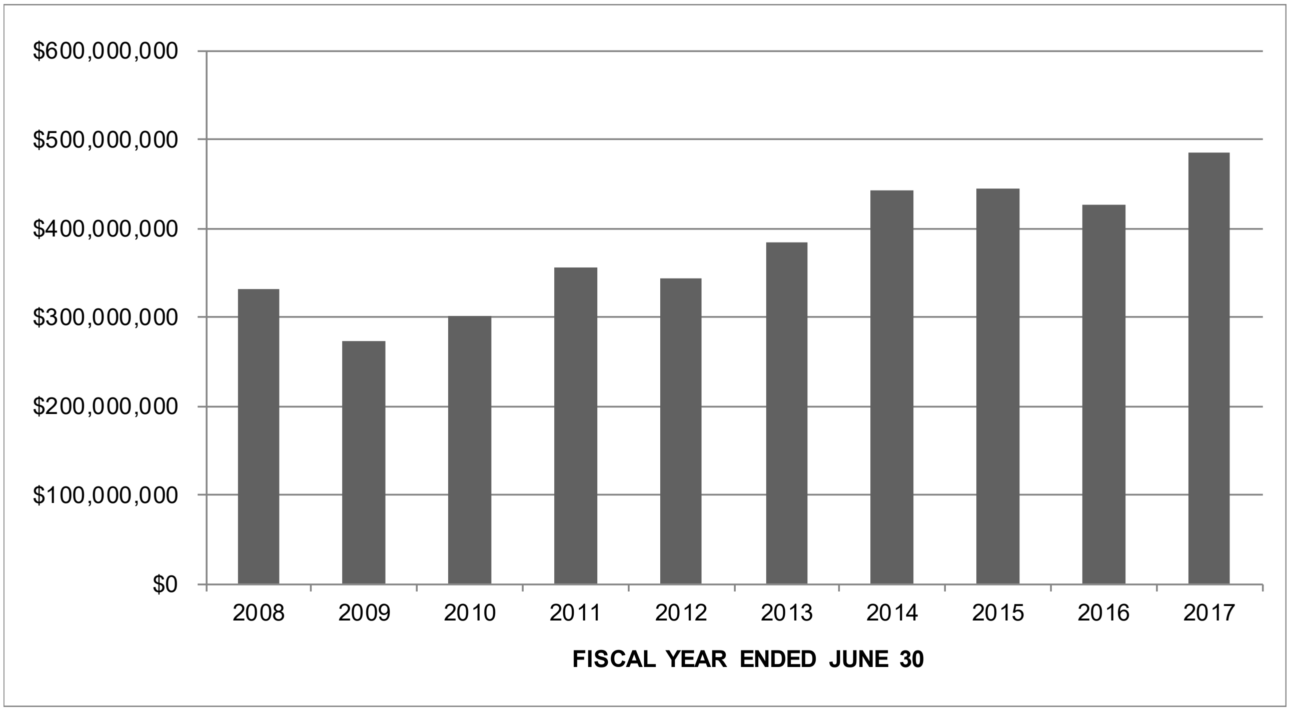
The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of MCERA, which includes administering MCERA benefits and managing the assets. The Board and MCERA staff members are committed to act for the exclusive benefit of MCERA and its participants, manage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

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

Financial Highlights

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

MCERA Fiduciary Net Position Held in Trust for Pension Benefits



Overview of the Financial Statements

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

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

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

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

Required Supplementary Information
The Required Supplementary Information consists of the MD&A and supporting schedules which Governmental Accounting Standards Board (GASB) requires to accompany the basic financial statements. The schedules include the following and can be found on pages 24-28.

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

Other Supplementary Information
Other supplementary information includes schedules pertaining to administrative expenses, information technology expenses, investment management fees and other investment expenses, as well as payments to consultants (other than investment managers). Other supplementary information can be found on pages 29-31.

Financial Analysis

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

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

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

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

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

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

Additions to Fiduciary Net Position

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal years ended June 30, 2017 and 2016, totaled $91.5 million and $14.3 million, respectively. The increase in revenues from 2016 to 2017 can be attributed primarily to a increase in net investment income. Employer contributions decreased slightly while member contributions increased resulting in a net increase in total contributions. Total net position increased from approximately $426 million in fiscal year (FY) 2016 to $484 million in FY 2017.

Deductions from Fiduciary Net Position

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering MCERA. These expenses for the fiscal years ended June 30, 2017 and 2016, were $33.8 million and $32.2 million, respectively. The primary reason for this change was an increase in benefits paid to retirees and refunds of contributions.

MCERA Financial Reserves

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

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

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

Major Initiatives and Significant Events

Several major initiatives were undertaken during the fiscal year including:

- MCERA received a favorable review from the Internal Revenue Service, in the form of a determination letter in August 2016. This is of critical importance for maintaining the tax qualified status of the plan.
- Following the asset liability study conducted in the prior fiscal year, MCERA conducted a review of its asset category portfolios which resulted in the decision to terminate 7 investment managers.
- Additionally, MCERA initiated an investment manager search for International Small Cap equity, International Emerging Markets equity, and an Equal Weighted S&P 500 mandate.
- The Board adopted new actuarial assumptions, including a decrease in the assumed rate of return from 7.25% to 7.00% and other assumption changes based on the July 1, 2013, through June 30, 2016 Actuarial Experience Study.
- The Board voted to change the region of the Consumer Price Index (CPI) from the San Francisco-Oakland-San Jose Area to the Western Region of the United States for future cost of living adjustments (COLA).
- Staff completed an external audit request for proposal (RFP) resulting in a new external auditor after review and approval by the Audit and Budget Committee and adoption by the Board.
- Staff completed a study on MCERA's unfunded actuarial accrued liability (UAAL).
- Board governance was enhanced with the adoption of numerous policy additions and updates.
- MCERA deployed a new client portal where our members may access information regarding their account and interact with MCERA more readily.
- A new Electronic Documents Management System (EDMS) was implemented. All client and critical records of MCERA have been digitized and stored electronically in an add-on to the Pension Administration System allowing for more efficient records retrieval. Additionally, EDMS provides more accessibility in the event of a disaster recovery scenario.
- MCERA developed and implemented plans to address maintenance on the real asset at 625 Kings Court, Ukiah, CA. The plan addressed a significant amount of deferred maintenance and will continue the building upkeep into the future to maximize the value of the investment.

Investment and Economic Summary

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

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

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

Funded Status and Actuarial Reporting

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

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

As of June 30, 2017, there are 22 years remaining in the declining 30-year amortization period of the UAAL. On or after July 1, 2012, any new UAAL will be amortized over different amortization periods. Investment gains and losses as well as any assumption and method changes will be amortized over an 18-year period.

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

Request for Information

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

Respectfully submitted,

James R. Wilbanks, Ph.D.
Retirement Administrator

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

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

Basis of Accounting:

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

Use of Estimates:

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

Valuation of Investments:

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities. Purchases and sales of securities are accounted for on a trade date basis and dividends declared but not received are accrued on the ex-dividend date. Unrealized gains and losses on investments are reported as net appreciation (depreciation) in fair value of investments. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of MCERA investments.

Derivatives:

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

During the year ended June 30, 2017, MCERA owned no derivatives directly in its portfolio.

Custodial Credit Risk:

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

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:

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

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

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

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

Interest Rate Risk:

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

Commingled Fixed Income Funds

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Risk:

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

Investment Concentrations:

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

Money Weighted Rate of Return:

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

Capital Assets:

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

Member Termination:

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

Plan Termination:

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

Risk Management:

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

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Income Taxes:

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

Administrative Expenses:

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

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

New Accounting Standard Adopted:

<u>GASB Statement No. 82</u>

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

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

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

Subsequent Events:

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

NOTE 2 – <u>DESCRIPTION OF PLAN</u>

Description of Plan and Applicable Provisions of the Law:

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

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

Description of Plan and Applicable Provisions of the Law (Continued):

Membership in the Plan at June 30, 2017, consisted of the following:

Retirees and beneficiaries receiving benefits	1,462
Terminated plan members entitled to, but not yet receiving benefits	479
Active plan members	1,123
Total	3,064
Number of participating employers	3

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

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 County Board of Supervisors Resolution No. 98-147, County Council concluded that the County Board of Supervisors was ultimately responsible for dealing with any retiree health benefits that might be provided to retired employees of the County.

NOTE 3 – <u>CASH AND INVESTMENTS</u>

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

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

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

NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS

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

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

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

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

Level 3:
Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

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.

NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS (Continued)

The following is a description of the valuation methodologies used for investments measured at fair value.

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

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

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

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

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

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

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

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

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

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

NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS (Continued)

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

Commercial Building at 625 Kings Court, Ukiah California

	2017
Fair value, beginning of year	$ 864,000
Unrealized gain	144,620
Purchases	141,380
Sales	-
Issuances	-
Settlements	-
Fair value, end of year	$ 1,150,000
Amount of total gains or losses for the period included in net appreciation in fair value of investments, attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2017.	$ 144,620

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

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

NOTE 5 – CONTRIBUTIONS

Contribution rates for the employer and its participating employees are established and may be amended by the MCERA Board of Retirement (and then shall be adopted by the County Board of Supervisors). The contribution rates are determined based on the benefit structure established by the employer. The Actuarial Valuation and Review report issued by The Segal Company as of June 30, 2015, recommended employer and member contribution rates that aggregate to 32.55% and 9.86%, respectively. The actual member and employer rates depend on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of MCERA. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability.

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

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

NOTE 6 – NET PENSION LIABILITY

GASB Statement No. 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of MCERA's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of MCERA's net pension liability at June 30, 2017, were as follows:

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

Disclosure of Information About Actuarial Methods and Assumptions:

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

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

NOTE 6 – NET PENSION LIABILITY (Continued)

Actuarial Methods and Assumptions:

The total pension liability as of June 30, 2017, was determined by actuarial valuation as of June 30, 2017. The actuarial assumptions used in this June 30, 2017 valuation were based on the results of an experience study for the period from July 1, 2013 through June 30, 2016. Key methods and assumptions used in the latest actuarial valuation are presented below:

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

NOTE 6 – NET PENSION LIABILITY (Continued)

Assumed Asset Allocation:

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

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting assumed inflation of 3.00%, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	25.30%	5.64%
U.S. Small Cap Equity	12.70%	6.24%
Global Equity	29.00%	6.70%
Domestic Fixed Income	22.00%	1.06%
Real Estate	11.00%	4.37%
Total	100.00%	

Discount Rate:

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, MCERA's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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

The following presents the net pension liability of MCERA as of June 30, 2017, calculated using the discount rate of 7.00%, as well as what MCERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

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

NOTE 7 – RESERVES

MCERA had contingency reserves of $4,854,712 at June 30, 2017, to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 7.00% of retirement reserve balances to those reserves.

NOTE 7 – RESERVES (Continued)

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. A summary of the various reserve accounts, which comprise net position for pension and other benefits at June 30, 2017, (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

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

NOTE 8 – COMMITMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

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

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

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(DOLLAR AMOUNTS IN THOUSANDS)

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

MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT RETURNS

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

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

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

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

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

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

Change in Assumptions

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

NOTE 2 – SCHEDULE OF INVESTMENT RETURNS

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

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

The actuarial determined contribution rates for the year ending June 30, 2017, are calculated based on the June 30, 2015 actuarial valuation (two years prior to the end of the fiscal year in which contributions are reported). Details of the actuarial methods and assumptions used for the valuation are as follows:

Valuation date	June 30, 2015
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	22 years (closed) for all UAAL remaining as of June 30, 2017
Asset valuation method	Fair value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the fair value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the fair value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.

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

Actuarial assumptions:	
Investment rate of return	7.25%
Inflation rate	3.25%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.25% to 8.75%
* Includes inflation at	3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases.
Cost of living adjustments	3.00% of retirement income
Years of life expectancy for healthy members and all beneficiaries after retirement	For all members and all beneficiaries: RP-2000 members and all beneficiaries Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no set back for females.
Years of life expectancy after disability	For all members: RP-2000 Combined Healthy after disability Mortality Table projected with Scale BB to 2020, set forward for both males and females. The mortality tables contain a margin in excess of 10%, based on actual to expected deaths, as a provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.
Life expectancy after retirement for employee contribution rate purposes	General members: RP-2000 Combined Healthy employee contribution rate purposes Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females, weighted 30% male and 70% female. Safety and Probation members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and no set back for females, weighted 80% male and 20% female.

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

OTHER SUPPLEMENTARY INFORMATION

MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND OTHER INVESTMENT EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Investment Management Fees	Direct	Fund Level	Total
Large Cap Funds	$ -	$ 591,098	$ 591,098
Mid Cap Funds	-	187,858	187,858
Small/Micro Funds	-	305,702	305,702
International Equity Funds	208,932	699,241	908,173
Fixed Income Funds	-	453,912	453,912
Real Estate	-	429,928	429,928
Investment Consultant	147,784	-	147,784
Custodial Bank	62,421	-	62,421
Actuarial Expense	157,432	-	157,432
Other Investment Expense	41,344	-	41,344
Total Investment Expenses	$ 617,913	$ 2,667,739	$ 3,285,652

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF PAYMENTS TO CONSULTANTS
(OTHER THAN INVESTMENT MANAGERS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OFADMINISTRATIVE EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

(1) Excludes Information Technology expenses as defined in Government Code Section 31580.2.

Administrative Budget: Government Code § 31580.2 states in part, "…the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of the following: 1) Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system. 2) Two million dollars ($2,000,000)…." MCERA's administrative expenses met the requirements of this section in fiscal year 2016-17 as the total expenses excluding IT expense were less than the administrative cap at 12/100% of the actuarial accrued liability.