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VIA E-MAIL AND USPS

August 23, 2018

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, 2017**

Dear James:

In our Governmental Accounting Standards (GAS) Statement 67 actuarial valuation report dated October 24, 2017, 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, 2017. 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, 2016 and June 30, 2017, respectively.<sup>1</sup> As discussed, starting with fiscal year ending (FYE) June 30, 2017, contributions made by the Superior Court as debt service to the Pension Obligation Bonds (PBO) are no longer reported and included as employer contributions to MCERA.

Exhibit B summarizes the allocated NPL, deferred outflows and inflows of resources, and pension expense by the three employers. Additional information required under GAS

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<sup>1</sup> The June 30, 2016 and June 30, 2017 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 2015-2016 and 2016-2017, respectively. All of the June 30, 2016 and June 30, 2017 NPL for the Safety and Probation membership classes has been allocated to the County, as they are the sole active employer.

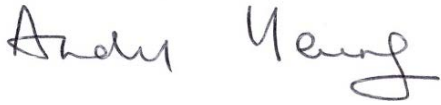
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Statement 68 that each of the employers will need to disclose will be provided in a separate report.

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/hy  
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, 2016**

Actual Employer Contributions by Employer and Membership Class July 1, 2015 to June 30, 2016								
Employer	General	General Percentage <sup>(1)</sup>	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 <sup>2</sup>	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%

<sup>(1)</sup> 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%

<sup>2</sup> Includes contributions made by the Superior Court as debt service to the Pension Obligation Bonds.

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

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**EXHIBIT A1**

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

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**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's Fiduciary Net Position (plan assets). The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan's 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's 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, 2017**

Actual Employer Contributions by Employer and Membership Class July 1, 2016 to June 30, 2017								
Employer	General	General Percentage <sup>(1)</sup>	Safety	Safety Percentage	Probation	Probation Percentage	Total Contributions	Total Percentage
County of Mendocino	\$12,484,331	93.228%	\$4,745,311	100.000%	\$979,902	100.000%	\$18,209,544	95.256%
Mendocino County Courts	847,916 <sup>3</sup>	6.332%	0	0.000%	0	0.000%	847,916	4.436%
Russian River Cemetery District	<u>58,966</u>	<u>0.440%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>58,966</u>	<u>0.308%</u>
Total for all Employers	\$13,391,213	100.000%	\$4,745,311	100.000%	\$979,902	100.000%	\$19,116,426	100.000%

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

Allocation of June 30, 2017 Net Pension Liability								
Employer	General	General Percentage	Safety	Safety Percentage	Probation	Probation Percentage	Total NPL	Total Percentage
County of Mendocino	\$129,936,815	93.228%	\$49,554,093	100.000%	\$6,608,916	100.000%	\$186,099,824	95.173%
Mendocino County Courts	8,825,103	6.332%	0	0.000%	0	0.000%	8,825,103	4.513%
Russian River Cemetery District	<u>613,718</u>	<u>0.440%</u>	<u>0</u>	<u>0.000%</u>	<u>0</u>	<u>0.000%</u>	<u>613,718</u>	<u>0.314%</u>
Total for all Employers	\$139,375,636	100.000%	\$49,554,093	100.000%	\$6,608,916	100.000%	\$195,538,645	100.000%

<sup>3</sup> Starting with fiscal year ending June 30, 2017, contributions made by the Superior Court as debt service to the Pension Obligation Bonds are no longer included as employer contributions to MCERA.

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

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**EXHIBIT A2**

**Schedule of Employer Allocations as of June 30, 2017 – continued**

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**Notes:**

Based on the July 1, 2016 through June 30, 2017 employer contributions as provided by MCERA.

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan's Fiduciary Net Position (plan assets). The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan's 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's 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, 2017**

	<b>County of Mendocino</b>	<b>Mendocino County Courts</b>	<b>Russian River Cemetery District</b>	<b>Total for all Employers</b>
<b>Deferred Outflows of Resources</b>				
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	\$1,755,212	\$0	\$5,538	\$1,760,750
Changes of Assumptions or Other Inputs	17,224,696	857,718	59,648	18,142,062
Difference Between Expected and Actual Experience in the Total Pension Liability	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Deferred Outflows of Resources</b>	\$18,979,908	\$857,718	\$65,186	\$19,902,812
<b>Deferred Inflows of Resources</b>				
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	\$0	\$1,729,753	\$30,997	\$1,760,750
Changes of Assumptions or Other Inputs	0	0	0	0
Net Excess of Actual over Projected Earnings on Pension Plan Investments	3,779,598	156,594	10,890	3,947,082
Difference Between Expected and Actual Experience in the Total Pension Liability	<u>4,502,108</u>	<u>214,433</u>	<u>14,912</u>	<u>4,731,453</u>
<b>Total Deferred Inflows of Resources</b>	\$8,281,706	\$2,100,780	\$56,799	\$10,439,285
<b>Net Pension Liability as of June 30, 2016</b>	\$193,097,508	\$11,919,321	\$702,699	\$205,719,528
<b>Net Pension Liability as of June 30, 2017</b>	\$186,099,824	\$8,825,103	\$613,718	\$195,538,645
<b>Pension Expense<sup>4</sup></b>				
Proportionate Share of Plan Pension Expense	\$31,689,912	\$1,416,195	\$98,487	\$33,204,594
Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>1,459,070</u>	<u>-1,440,874</u>	<u>-18,196</u>	<u>0</u>
<b>Total Employer Pension Expense</b>	\$33,148,982	-\$24,679	\$80,291	\$33,204,594

<sup>4</sup> As indicated earlier, starting with fiscal year ending (FYE) June 30, 2017, contributions made by the Superior Court as debt service to the Pension Obligation Bonds are no longer reported as employer contributions to MCERA. As a result, the Court's proportionate share of the NPL for FYE June 30, 2017 as compared to FYE June 30, 2016 has decreased.

**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., 2016-2017) differences between expected and actual experience and changes of assumptions 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, 2016 (the beginning of the measurement period ending June 30, 2017) and is 2.80 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.