

**Mendocino County Employees'
Retirement Association
(A Component Unit of the
County of Mendocino)**
Financial Statements
and Supplementary Information
for the year ended June 30, 2016

DRAFT
12/8/2016

**Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Financial Statements and Supplementary Information
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**Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Board of Retirement
June 30, 2016**

County Treasurer

Shari Schapmire, Trustee

Appointed by the Mendocino County Board of Supervisors

Jerilyn Harris, Trustee

John Sakowicz, Trustee

Ted Stephens, Trustee

Dan Gjerde, Vice Chairperson and Member, Board of Supervisors

Elected Members

Timothy J. Knudsen, Secretary

Randy Goodman, Chairperson

Kathryn Cavness, Trustee

Craig Walker, Trustee

Richard Shoemaker, Alternate Trustee

Administration

James Wilbanks, Retirement Administrator

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mendocino County Employees' Retirement Association (MCERA), a component unit of the County of Mendocino, which comprise the statement of net position as of June 30, 2016, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

Report on Supplemental Information

Management's Discussion and Analysis on pages 5 through 9, and other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rancho Cordova, California
December ##, 2016

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited)
June 30, 2016

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2016. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

Mendocino County Employees' Retirement Association (MCERA)

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

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

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

Financial Highlights

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2016

Budget

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

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

MCERA's actual administrative expense including IT costs for fiscal year 2014-15 was \$1,142,493 which represented 0.18% of MCERA's actuarial accrued liability or 57.12% of the \$2 million statutory cap.

Overview of the Financial Statements

Managements' 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 Net Position

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

Statement of Changes in Net Position

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

**Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2016**

Overview of the Financial Statements, continued

Notes to the Financial Statements

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

Required Supplemental Information

The Required Supplemental Information contains supporting schedules pertaining to MCERA's Pension actuarial methods, assumptions, funded status and annual required contributions.

Management Responsibility of Financial Reporting

MCERA management is responsible for establishing a system of internal controls to safeguard assets and for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and operating results of MCERA.

Major Initiatives and Significant Events

Several major initiatives were undertaken during the year including:

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

Investment and Economic Summary

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2016

Investment and Economic Summary, continued

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

Funded Status and Actuarial Reporting

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

In the June 30, 2016 valuation, the ratio of actuarial value of assets to the actuarial value of liabilities was 70.7% which was an increase from the prior year's valuation funded ratio of 70.2%. The actuarial value of assets excludes about \$24.7 million in market losses that will be smoothed in over the next few years. Thus, on a market value basis, the funded ratio would be 67.5%. The Association's unfunded actuarial accrued liability (UAAL) as of June 30, 2016 was \$185,284,267. On a market value basis, the UAAL would be \$205,719,528. The increase in the UAAL on an actuarial valuation basis can be attributed to investment losses as recognized on June 30, 2016 as well as losses from higher than expected salary increases. These losses were somewhat offset by gains in the delay of the implementation of the June 30, 2015 employer contribution rates and other experience gains.

As of June 30, 2016, there are 23 years remaining in the declining 30-year amortization period of the UAAL. On or after July 1, 2012 any new UAAL will be amortized over different amortization periods. Investment gains and losses as well as any assumption and method changes will be amortized over an 18-year period.

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

**Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2016**

Request for Information

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

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

Respectfully submitted,

James Wilbanks Ph.D.
Retirement Administrator

DRAFT
12/8/2016

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Net Position
June 30, 2016

Assets

| | | |
|--|------------|----------------|
| <u>Investments</u> , at fair value: | | |
| Mutual funds | | \$ 334,480,529 |
| Public equity securities | | 23,104,705 |
| Real estate - 625 Kings Court, Ukiah, CA | | 864,000 |
| Total investments, at fair value | | 358,449,234 |
| <u>Investments</u> , at net asset value: | | |
| Public equity security | 22,841,690 | |
| Real estate partnerships | 45,180,183 | |
| Total investments, at net asset value | | 68,021,873 |
| <u>Receivables</u> : | | |
| Members' contributions | \$ 175,359 | |
| Employers' contributions | 614,064 | |
| Total receivables | | 789,423 |
| <u>Software equipment</u> | | 1,294,316 |
| <u>Other assets</u> | | 149,019 |
| Total assets | | \$ 428,703,865 |

Liabilities

| | | |
|--|--|--------------|
| <u>Liabilities</u> : | | |
| Accounts payable | | \$ 288,422 |
| Cash equivalents overdraft | | 248,482 |
| Accrued expenses and other liabilities | | 1,828,950 |
| Total liabilities | | \$ 2,365,854 |

Net Position

| | | |
|---------------------|--|----------------|
| <u>Net position</u> | | \$ 426,338,011 |
|---------------------|--|----------------|

See accompanying notes.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Changes in Net Position
for the year ended June 30, 2016

Additions to (deductions from) net assets attributed to:

Investment income (expense):

| | |
|---|------------------|
| Net depreciation in fair value of investments | \$ (17,597,996) |
| Rent income, net of expenses | 79,384 |
| Interest income | 11,865 |
| Dividend income | 7,644,287 |
| Investment expenses | <u>(489,865)</u> |
| Net investment loss | (10,352,325) |

Contributions:

| | |
|----------------------|-------------------|
| Members' | \$ 5,544,925 |
| Employers' | <u>19,129,191</u> |
| Total contributions | <u>24,674,116</u> |
| Total additions, net | 14,321,791 |

Deductions from net assets attributed to:

| | |
|---------------------------|-------------------|
| Benefits paid to retirees | 31,058,643 |
| Administrative expenses | <u>1,142,493</u> |
| Total deductions | <u>32,201,136</u> |
| Net decrease | (17,879,345) |

Net position:

| | |
|-------------------|------------------------------|
| Beginning of year | <u>444,217,356</u> |
| End of year | <u><u>\$ 426,338,011</u></u> |

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements
June 30, 2016

Note 1: Description of Plan:

Description of Association and Applicable Provisions of the Law:

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

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

| | |
|---|-----------|
| Retirees and beneficiaries receiving benefits | 1,416 |
| Terminating plan members entitled to but not yet receiving benefits | 428 |
| Active plan members | 1,123 |
| Total | 2,967 |
| 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 Mendocino County are eligible, but have not elected to participate.

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

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies:

Reporting Entity:

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

Basis of Accounting:

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

Use of Estimates:

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

Derivatives:

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

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

Custodial Credit Risk:

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies, continued:

Market and Credit Risk:

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

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. Investment allocation guidelines according to the investment policy are as follows:

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

MCERA's Investment Policy does not allow for a single investment in real estate that is in excess of 5% of total assets. With respect to common stocks, MCERA has a goal of diversifying the portfolio among a cross-section of industries that have sound long-term growth potential. Similar restrictions apply to fixed income securities.

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 formal policy to manage interest rate risk.

Member Termination:

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

Plan Termination:

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies, continued:

Risk Management:

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

Income Taxes:

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

Administrative Expenses:

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

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

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

Schedule of Funding Progress:

The supplemental Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. The schedule can be found on page 31.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies, continued:

Current and Future Accounting Pronouncements:

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* effective July 1, 2013. The objective of this statement is to improve financial reporting by state and local government pension plans. This statement separates funding from financial reporting and requires changes in presentation of the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosures regarding the pension liability and the sensitivity of the net pension liability to the discount rate. The total and net pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 6 and in the required supplementary information on page 30.

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies, continued:

Current and Future Accounting Pronouncements, continued:

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans, Topic 960; Defined Contribution Plans, Topic 962; and Health and Welfare Benefit Plans, Topic 965: Part (I) Fully Benefit-Responsive Investment Contracts, Part (II) Plan Investment Disclosures, Part (III) Measurement Date Practical Expedient*. Part I eliminates the requirements to measure the fair value of fully benefit-responsive investment contracts and provide certain disclosures. Contract value is the only required measure for fully benefit-responsive investment contracts. Part II eliminates the requirements to disclose individual investments that represent 5 percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Part III is not applicable to the Plan. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Parts I and II are to be applied retrospectively. Management has elected to adopt Parts I and II early in these financial statements, via retrospective application.

Subsequent Events:

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

Note 3: Investments:

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 3: Investments, continued:

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

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

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

| | |
|--|------------------------------|
| Cash in trust - Mendocino County | <u>\$ (248,482)</u> |
| Total cash equivalents overdraft | <u>(248,482)</u> |
| U.S. Government and corporate bonds | 119,739,443 |
| International equities | 74,135,177 |
| Domestic equities - small cap | 30,959,109 |
| Domestic equities - mid cap | 19,585,630 |
| Domestic equities - large cap | <u>90,061,170</u> |
| Total mutual funds | <u>334,480,529</u> |
| Public equity securities | 45,946,395 |
| Real estate partnerships | 45,180,183 |
| Real estate - 625 Kings Court, Ukiah, CA | <u>864,000</u> |
| Total investments | <u><u>\$ 426,222,625</u></u> |

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 4: Fair Value Measurement of Investments:

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

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

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

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

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

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

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

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

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

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 4: Fair Value Measurement of Investments, continued:

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

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

(1) This fund is a domestic equity fund that is commingled in nature. It is valued at the fair value of shares held at the end of the period.

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

Mendocino County Employees' Retirement Association
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Notes to the Financial Statements, continued
June 30, 2016

Note 4: Fair Value Measurement of Investments, continued:

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

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

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

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

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

| | Real Estate - 625 Kings Court, Ukiah, CA |
|--|--|
| Beginning balance | \$ 864,000 |
| Realized gains | - |
| Unrealized gains relating to instruments still held as of June 30, 2016 | - |
| Purchases | - |
| Sales | - |
| Issuances | - |
| Settlements | - |
| Ending balance | <u>\$ 864,000</u> |
| Amount of total gains or losses for the period included in net appreciation in fair value of investments, attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2016 | <u>\$ -</u> |

Mendocino County Employees' Retirement Association
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Notes to the Financial Statements, continued
June 30, 2016

Note 4: Fair Value Measurement of Investments, continued:

The following table represents the Plan's level 3 financial instruments and the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2016:

| Instrument | Fair Value at June 30, 2016 | Principal Valuation Technique |
|---|--------------------------------|--|
| Real Estate-625 Kings Court, Ukiah, CA | \$ 864,000 | Fair Value = Broker Price Option (August 13, 2013) |

Note 5: Contributions:

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

The UAAL as of June 30, 2016 is \$185.3 million, which the Plan Sponsors are required to amortize in the future. The funded ratio at June 30, 2016 is 70.7%, as indicated on the Schedule of Funding Progress on page 31 The *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2016 recommended employer and member contribution rates that aggregate to 32.05% and 9.65%, respectively.

Mendocino County Employees' Retirement Association
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Notes to the Financial Statements, continued
June 30, 2016

Note 5: Contributions, continued:

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

| | |
|---|---|
| Valuation date | June 30, 2016 |
| Actuarial cost method | Entry age cost method (individual basis) |
| Amortization method | Level % of payroll for total unfunded liability |
| Remaining amortization period | 23 years (declining/closed) for all UAAL |
| Asset valuation method | Market 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 market value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the market value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves. |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% |
| Inflation rate | 3.25% |
| Real across-the-board salary increase | 0.50% |
| Projected salary increases * | 4.25% to 8.75% |
| * Includes inflation at | 3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases |
| Cost of living adjustments | 3.00% of retirement income |
| Years of life expectancy for healthy members and all beneficiaries after retirement | For all members and all beneficiaries: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females. |

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 5: Contributions, continued:

Years of life expectancy
after disability

For all members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward 4 years for both males and females.

The tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

Life expectancy after retirement
for employee contribution rate
purposes

General members: RP-2000 Combined Healthy Mortality Table projected with Scale BB for 2020, set back 1 year for males and with no setback for females, weighted 30% male and 70% female.

Safety and Probation members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females, weighted 80% male and 20% female.

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

| | |
|--|-----------------------------|
| Estimated employer normal cost contributions | \$ 6,840,709 |
| Estimated UAAL contributions | <u>12,288,482</u> |
| Total | <u><u>\$ 19,129,191</u></u> |

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 6: Net Pension Liability:

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

| | |
|---|------------------------------|
| Total pension liability | \$ 632,057,539 |
| Net position | <u>426,338,011</u> |
| Net pension liability | <u><u>\$ 205,719,528</u></u> |
| Net position as a percentage of total pension liability | 67.5% |

Disclosure of Information About Actuarial Methods and Assumptions:

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

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

Actuarial Methods and Assumptions:

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

| | |
|-------------------------------|--|
| Valuation date | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. |
| Actuarial cost method | Entry age cost method (individual basis) |
| Amortization method | Level % of payroll for total unfunded liability |
| Remaining amortization period | 23 years (declining/closed) for all UAAL |

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 6: Net Pension Liability, continued:

Actuarial Methods and Assumptions, continued:

| | |
|------------------------|---|
| Asset valuation method | Market 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 market value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the market value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves. |
|------------------------|---|

Actuarial assumptions:

| | |
|---|---|
| Investment rate of return | 7.25% |
| Inflation rate | 3.25% |
| Real across-the-board salary increase | 0.50% |
| Projected salary increases * | 4.25% to 8.75% |
| * Includes inflation at | 3.25% plus real across-the-board salary increase of 0.50% plus merit and longevity increases. |
| Cost of living adjustments | 3.00% of retirement income |
| Mortality for healthy members and all beneficiaries | Healthy: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back 1 year for males and with no setback for females. |
| Other assumptions | Same as those detailed in Note 5. |

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.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 6: Net Pension Liability, continued:

Assumed Asset Allocation, continued:

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

| | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|----------------------|--|
| U.S. Large Cap Equity | 26.2% | 5.86% |
| U.S. Small Cap Equity | 11.8% | 6.56% |
| Global Equity | 25.0% | 6.85% |
| Domestic Fixed Income | 28.0% | 0.71% |
| Real Estate | 9.0% | 4.76% |
| | <hr/> | |
| Total | 100.0% | |

Discount Rate:

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 6: Net Pension Liability, continued:

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

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

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

Note 7: Reserves:

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

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. A summary of the various reserve accounts, which comprise net position for pension and other benefits at June 30, 2016 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

| | |
|---|----------------|
| Employee reserves | \$ 61,944,587 |
| Employer reserves | (73,036,234) |
| Retiree reserves | 368,408,812 |
| 1% contingency reserves | 4,287,039 |
| Total reserves | 361,604,204 |
| Cumulative unallocated net unrealized gain on investments | 89,440,678 |
| Total allocated reserves (smoothed actuarial value after corridor limits) | 451,044,882 |
| Net assets in deficit of reserves | (24,706,871) |
| Net position held in trust for pension benefits | \$ 426,338,011 |

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2016

Note 8: Subsequent Events:

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

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

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

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Required Supplementary Information (unaudited)
June 30, 2016

Schedules of Changes in Net Pension Liability and Related Ratios

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

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

Mendocino County Employees' Retirement Association
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Required Supplementary Information (unaudited)
June 30, 2016

Schedule of Funding Progress (dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability ("AAL") - Entry Age (b) | Unfunded AAL ("UAAL") (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b - a) / c) |
|---------------------------------|--------------------------------------|--|--------------------------------------|-----------------------------|----------------------------|---|
| 6/30/2009 | \$ 336,263 | \$ 403,196 | \$ 66,933 | 83.4% | \$ 72,235 | 92.7% |
| 6/30/2010 | 343,202 | 434,987 | 91,785 | 78.9% | 69,004 | 133.0% |
| 6/30/2011 | 347,732 | 472,644 | 124,912 | 73.6% | 64,144 | 194.7% |
| 6/30/2012 | 362,487 | 489,014 | 126,527 | 74.1% | 56,596 | 223.6% |
| 6/30/2013 | 378,777 | 510,461 | 131,684 | 74.2% | 56,464 | 233.2% |
| 6/30/2014 | 404,856 | 584,429 | 179,573 | 69.3% | 55,876 | 321.4% |
| 6/30/2015 | 428,229 | 610,382 | 182,153 | 70.2% | 58,106 | 313.5% |
| 6/30/2016 | 446,773 | 632,057 | 185,284 | 70.7% | 61,215 | 302.7% |

Schedule of Employer Contributions
(dollar amounts in thousands)

| Year Ended | Annual Required Contribution | Percentage Contributed |
|-------------------|-------------------------------------|-------------------------------|
| 6/30/2009 | \$ 6,046 | 141% |
| 6/30/2010 | 9,571 | 91% |
| 6/30/2011 | 9,554 | 100% |
| 6/30/2012 | 11,811 | 100% |
| 6/30/2013 | 14,260 | 100% |
| 6/30/2014 | 14,325 | 100% |
| 6/30/2015 | 15,164 | 100% |
| 6/30/2016 | 19,129 | 100% |