

Richard A. White, Jr.  
Retirement Administrator



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

Date: January 15, 2014  
To: Board of Retirement  
From: Richard White, Retirement Administrator *RW*  
Subject: External Audit Report

**Audit Report.** Each year MCERA conducts an audit of its financial condition as required by Government Code Section 31593:

**§31593. Audit and report**

The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition. The retirement board may retain the services of a certified public accountant to perform the annual audit. That audit shall be performed in accordance with generally accepted auditing standards. The cost of the audit shall be considered a cost of the administration of the retirement system. The audit report shall address the financial condition of the retirement system, internal accounting controls, and compliance with applicable laws and regulations. A copy of the audit report shall be filed with the board of supervisors.

Nothing in this section shall preclude the retirement board from selecting the county auditor to perform the annual audit, and if so done, the cost of that audit shall be considered a cost of the administration of the retirement system.

At the request of the county board of supervisors, the county auditor may audit the accounts of the retirement system. The expense of that audit shall not be a cost chargeable by the county to the retirement system.

(Added by Stats. 1947, Ch. 424, Sec. 1)

(Repealed and added by Stats. 1998, Ch. 109 (A.B. 1766), Sec. 5 and 6)

Per the GC section, the Board may retain the services of a Certified Public Accountant (CPA) or use the County Auditor-Controller. The Association retained Gallina, LLP to conduct the annual audit of our financial statements and supplementary information for the year ended June 30, 2013.

The report was prepared by Daniel Matzinger and Crystal Ekanayake of Gallina and is included in your Board materials for your review, discussion and approval at the Board meeting. The audit report was prepared with the assistance of The Segal Company, Callan Associates and Hansen Bridgett.

This draft audit report was reviewed and approved by the Audit and Budget Committee at their January 7, 2013.

The approved audit report will be incorporated with the previously approved Actuarial Valuation into the Comprehensive Annual Financial Report (CAFR).

**Recommended Motion/Action:**

1. Accept the independent audit prepared by Gallina, LLP.
2. Transmit a copy of the audit to the Board of Supervisors per GC Section 5193, the Auditor-Controller, and State Controller's Office.

**Alternatives:**

None that provide for compliance with GC Section 5193.

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Date: January 15, 2014  
To: Board of Retirement  
From: Richard White, Retirement Administrator *rw*  
Subject: Monthly Investment Report

The fund's *target analysis report* and the *unrealized gain (loss) analysis report* as of **November 2013** are included for your review. The preliminary December 2013 statement account balance report is also included. These reports are preliminary and subject to change based upon further review and reporting to be conducted by our contract accounting service provider.

These two reports indicate that the performance of our investments, especially in the domestic equity assets classes, has continued to appreciate in value and I have re-balanced the portfolio through the last quarter to keep within the target ranges for each asset class as we approached the end of the year period.

Callan Associates will report the December 31, 2013 quarterly report to you at the February, 2014 board meeting.

1. **Investment Goal Statements (excerpts from MCERA Investment Policy Statement)**
  - a. The overall goal of MCERA's investments is to provide Plan participants with retirement, disability, and death and survivor benefits as provided for under the County Employees' Retirement Law of 1937. This will be accomplished through a carefully planned and executed long-term investment program.
  - b. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the Association.
  - c. All transactions undertaken will be for the sole benefit of MCERA's members and beneficiaries and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable associated administrative expenses.

## 2. MCERA Trust Fund Performance Information

### MCERA Investment Portfolio Performance as of June 30, 2013

	One Year	Three Year	Five Year	Seven Year	10-Year	17-Year
Returns	14.52%	11.36%	5.71%	5.95%	7.92%	6.73%
Benchmark	12.29%	11.59%	5.10%	5.03%	-	-

### MCERA Investment Portfolio Market Value

September 30, 2013	\$ 405,343,758
June 30, 2013	\$ 383,521,766
March 31, 2013	\$ 381,456,435
December 31, 2012	\$ 363,785,244

*NOTE: MCERA investment returns are reported net of investment manager fees and includes cash.*

## 3. Callan Associates update

Our consultants (Greg DeForrest and Greg Ungerman) and I spoke recently about the plans for future discussions with the Board which we anticipate bringing to you at the February 2014 meeting. Discussion items include (1) potential strategies to incorporate into the fixed income portfolio; (2) potential strategies to incorporate into the equity portfolio; (3) the use of a specialized financial institution.

## 4. Cash Management and Rebalancing Policy

The Board discussed the cash balance in the trust fund at the last meeting and directed that there be additional discussion at this meeting. I have included the Cash Management and Rebalancing Policy which was approved by the Board in 2012.

One of the objectives in this policy is to “maintain sufficient cash to pay three months (one calendar quarter) of member benefits, administrative and investment expenses, as well as intermittent expenses...”

The cash account balance is a fluid number which includes distributions from our fixed income managers (PIMCO and DODGE & COX) and has recently included cash held back during the rebalancing process – which was done throughout the last quarter. The December, 2013 member benefit payroll was \$ 2,159,458 and will grow slightly in the second quarter due to the COLA adjustment. The cash account balance as of December 31, 2013 was \$2, 276, 322 which represents approximately 0.5% of the trust fund account.

Staff monitors the cash account balance closely with the dual intent of having the cash available to meet our benefit payroll and administrative expenses while also complying with the policy objective to maintain the asset allocation within target ranges in order to maximize the opportunity to achieve investment returns from asset classes with a higher likelihood of appreciation in market value.

Additionally, the policy requires that the Board receive a monthly cash flow report which is included in the financial reporting agenda item.

Potential direction to staff on the cash balance item could include:

- Direct staff to prepare an updated cash management plan using the asset account balances as of December, 2013 quarter end.
- Include discussion on the cash management plan in the review of the Quarterly Investment Report scheduled for the February, 2014 meeting with Callan Associates.
- Direct staff to increase and maintain the cash account balance to a minimum amount equal to one-percent of the trust fund balance, as a short-term measure.

**Mendocino County Employee Retirement Association**  
**Investment Portfolio - Target Analysis**  
**November 30, 2013**

	A	B	C	D	F	G	H
	Market Value of Investments	Cash Reserved	Total Available	Percent of Portfolio	Target % (2013 Study)	Target In Dollars	Difference In Dollars
<b>Domestic Fixed Income</b>							
PIMCO - Total Return Institutional	\$ 54,515,791		\$ 54,515,791	13.08%	14.00%	\$ 58,345,000	\$(3,829,209)
Dodge & Cox - Income Fund	58,316,394		58,316,394	13.99%	14.00%	58,345,000	(28,606)
<b>Total Domestic Fixed Income</b>	<b>112,832,186</b>	-	<b>112,832,186</b>	<b>27.07%</b>	<b>28.00%</b>	<b>116,690,000</b>	<b>(3,857,814)</b>
<b>Small Cap Equities Growth</b>							
Alliance Bernstein - US Small Cap Growth Fund	6,287,918		6,287,918	1.51%	1.500%	6,251,250	36,668
RS Investments - Small Cap Growth Fund Y	4,536,965		4,536,965	1.09%	1.100%	4,584,250	(47,285)
Managers - Micro-Cap Institutional	8,760,312		8,760,312	2.10%	1.900%	7,918,250	842,062
<b>Total Small Cap Equities Growth</b>	<b>19,585,195</b>	-	<b>19,585,195</b>	<b>4.70%</b>	<b>4.500%</b>	<b>18,753,750</b>	<b>831,445</b>
<b>Small Cap Value</b>							
Prudential	11,767,823		11,767,823	2.82%	2.700%	11,252,250	515,573
<b>Total Small Cap Value</b>	<b>11,767,823</b>	-	<b>11,767,823</b>	<b>2.82%</b>	<b>2.700%</b>	<b>11,252,250</b>	<b>515,573</b>
<b>Total Small Cap Equities</b>	<b>31,353,018</b>	-	<b>31,353,018</b>	<b>7.52%</b>	<b>7.200%</b>	<b>30,006,000</b>	<b>1,347,018</b>
<b>Mid Cap Growth</b>							
Morgan Stanley	4,560,370		4,560,370	1.09%	1.150%	4,792,625	(232,255)
Janus - Enterprise Fund	4,399,600		4,399,600	1.06%	1.150%	4,792,625	(393,025)
<b>Total Mid Cap Growth</b>	<b>8,959,969</b>	-	<b>8,959,969</b>	<b>2.15%</b>	<b>2.300%</b>	<b>9,585,250</b>	<b>(625,281)</b>
<b>Mid Cap Value</b>							
Fidelity Low Priced Stock Fund	4,587,065		4,587,065	1.10%	1.150%	4,792,625	(205,560)
Royce - Total Return Fund	5,050,389		5,050,389	1.21%	1.150%	4,792,625	257,764
<b>Total Mid Cap Value</b>	<b>9,637,454</b>	-	<b>9,637,454</b>	<b>2.31%</b>	<b>2.300%</b>	<b>9,585,250</b>	<b>52,204</b>
<b>Total Mid Cap Equities</b>	<b>18,597,423</b>	-	<b>18,597,423</b>	<b>4.46%</b>	<b>4.600%</b>	<b>19,170,500</b>	<b>(573,077)</b>
<b>Large Cap Growth</b>							
Vanguard Institutional Index Fund	21,777,347		21,777,347	5.23%	4.900%	20,420,750	1,356,597
<b>Total Large Cap Core</b>	<b>21,777,347</b>	-	<b>21,777,347</b>	<b>5.23%</b>	<b>4.900%</b>	<b>20,420,750</b>	<b>1,356,597</b>
Harbor Capital Appreciation Fund	23,017,380		23,017,380	5.52%	5.300%	22,087,750	929,630
Janus - Research Fund	23,342,636		23,342,636	5.60%	5.300%	22,087,750	1,254,886
<b>Total Large Cap Growth</b>	<b>46,360,016</b>	-	<b>46,360,016</b>	<b>11.12%</b>	<b>10.600%</b>	<b>44,175,500</b>	<b>2,184,516</b>
<b>Large Cap Value</b>							
Selected Funds (Note 2)	-		-	0.00%	0.000%	-	-
Dodge & Cox Stock Fund	22,698,710		22,698,710	5.45%	5.300%	22,087,750	610,960
American Fund - Investment Company of America (Note 2)	-		-	0.00%	0.000%	-	-
ROBECO	21,629,303		21,629,303	5.19%	5.300%	22,087,750	(458,447)
Vanguard - Growth & Income Fund (Note 1)	-		-	0.00%	0.000%	-	-
<b>Total Large Cap Value</b>	<b>44,328,013</b>	-	<b>44,328,013</b>	<b>10.64%</b>	<b>10.60%</b>	<b>44,175,500</b>	<b>152,513</b>
<b>Total Large Cap Equities</b>	<b>112,465,377</b>	-	<b>112,465,377</b>	<b>26.99%</b>	<b>26.10%</b>	<b>108,771,750</b>	<b>3,693,626</b>
<b>International Stock</b>							
American Funds - EuroPacific	21,439,907		21,439,907	5.14%	4.700%	19,587,250	1,852,657
Harbor international	19,128,537		19,128,537	4.59%	4.700%	19,587,250	(458,713)
Columbia Management - International Fund	10,854,676		10,854,676	2.60%	2.500%	10,418,750	435,926
Janus Overseas	18,731,565		18,731,565	4.49%	4.700%	19,587,250	(855,685)
Mondrian	19,538,934		19,538,934	4.69%	4.700%	19,587,250	(48,316)
Oakmark	17,241,649		17,241,649	4.14%	3.800%	15,836,500	1,405,149
<b>Total International Stock</b>	<b>106,935,268</b>	-	<b>106,935,268</b>	<b>25.66%</b>	<b>25.100%</b>	<b>104,604,250</b>	<b>2,331,018</b>
<b>Real Estate</b>							
RREEF - Comingled Fund	6,453,667		6,453,667	1.55%	1.800%	7,501,500	(1,047,833)
RREEF - America REIT II	15,378,078		15,378,078	3.69%	3.500%	14,586,250	791,828
Cornerstone Fund	11,870,985		11,870,985	2.85%	3.500%	14,586,250	(2,715,265)
625 Kings Court	864,000		864,000	0.207%	0.200%	833,500	30,500
<b>Total Real Estate</b>	<b>34,566,729</b>	-	<b>34,566,729</b>	<b>8.29%</b>	<b>9.00%</b>	<b>37,507,500</b>	<b>(2,940,771)</b>
<b>Total Managed Investments</b>	<b>416,750,000</b>	-	<b>416,750,000</b>	<b>100.00%</b>	<b>100.00%</b>	<b>416,750,000</b>	<b>0</b>
<b>Total Invested Funds</b>	<b>417,614,000</b>	-	<b>416,750,000</b>	<b>100.000%</b>	<b>100.200%</b>	<b>416,750,000</b>	<b>0</b>
<b>Cash in County Treasury</b>	<b>2,452,441</b>		<b>2,452,441</b>	<b>0.585%</b>	<b>0.000%</b>	<b>-</b>	<b>-</b>
<b>Total All Available Funds</b>	<b>420,066,441</b>	-	<b>419,202,441</b>	<b>100.585%</b>	<b>100.200%</b>	<b>416,750,000</b>	<b>0</b>

**Note 1** This fund was liquidated in full as part of the December 2012 rebalance

**Note 2** These funds were fully liquidated as part of the September/October 2013 rebalance

**Mendocino County Employee Retirement Association**  
**Unrealized Gain (Loss) Analysis - Callan Basis**  
**November 30, 2013**

	A	B	C	E	F	
	Cost Basis	Market Value	Unrealized Gain	Start of Fiscal Year Market Value	Fiscal Year Change in Market Value	Updated to
<b>Domestic Fixed Income</b>						
1402	PIMCO - Total Return Institutional	\$ 51,644,992	\$ 54,515,791	\$ 2,870,799	\$ 47,352,582	\$ 7,163,209 11/30/2013
1401	Dodge & Cox - Income Fund	57,474,513	58,316,394	841,881	45,819,359	12,497,035 11/30/2013
	<b>Total Domestic Fixed Income</b>	<b>109,119,505</b>	<b>112,832,186</b>	<b>3,712,681</b>	<b>93,171,942</b>	<b>19,660,244</b>
<b>Small Cap Equities Growth</b>						
1441	Alliance Bernstein - US Small Cap Growth Fund	1,967,850	6,287,918	4,320,068	5,223,101	1,064,817 11/30/2013
1445	RS Investments - Small Cap Growth Fund Y	2,049,275	4,536,965	2,487,691	4,692,176	(155,211) 11/30/2013
	<b>Total Small Cap Growth</b>	<b>4,017,124</b>	<b>10,824,883</b>	<b>6,807,759</b>	<b>9,915,277</b>	<b>909,606</b>
1443	Managers - Micro-Cap Institutional	5,153,443	8,760,312	3,606,868	9,067,152	(306,840) 11/30/2013
	<b>Total Small/Micro Cap Equities Growth</b>	<b>9,170,568</b>	<b>19,585,195</b>	<b>10,414,627</b>	<b>18,982,429</b>	<b>602,766</b>
<b>Small Cap Value</b>						
1444	Prudential	9,170,949	11,767,823	2,596,874	11,295,007	472,816 11/30/2013
	<b>Total Small Cap Value</b>	<b>9,170,949</b>	<b>11,767,823</b>	<b>2,596,874</b>	<b>11,295,007</b>	<b>472,816</b>
	<b>Total small cap equities</b>	<b>18,341,517</b>	<b>31,353,018</b>	<b>13,011,501</b>	<b>30,277,437</b>	<b>1,075,581</b>
<b>Mid Cap Growth</b>						
1464	Morgan Stanley	2,953,250	4,560,370	1,607,120	4,831,131	(270,761) 11/30/2013
1463	Janus - Enterprise Fund	3,011,719	4,399,600	1,387,881	5,005,755	(606,155) 11/30/2013
	<b>Total Mid Cap Growth</b>	<b>5,964,969</b>	<b>8,959,969</b>	<b>2,995,001</b>	<b>9,836,886</b>	<b>(876,916)</b>
<b>Mid Cap Value</b>						
1466	Fidelity Low Priced Stock Fund	2,698,685	4,587,065	1,888,380	4,929,965	(342,900) 11/30/2013
1465	Royce - Total Return Fund	3,264,166	5,050,389	1,786,222	4,851,256	199,133 11/30/2013
	<b>Total Mid Cap Value</b>	<b>5,962,851</b>	<b>9,637,454</b>	<b>3,674,602</b>	<b>9,781,221</b>	<b>(143,768)</b>
	<b>Total mid cap equities</b>	<b>11,927,820</b>	<b>18,597,423</b>	<b>6,669,603</b>	<b>19,618,107</b>	<b>(1,020,684)</b>
<b>Large Cap Growth</b>						
	Vanguard Institutional Index Fund	20,500,000	21,777,347	1,277,347	-	21,777,347 11/30/2013
	<b>Total Large Cap Core</b>	<b>20,500,000</b>	<b>21,777,347</b>	<b>1,277,347</b>	<b>-</b>	<b>21,777,347</b>
1481	Harbor Capital Appreciation Fund	14,451,914	23,017,380	8,565,465.74	19,788,912	3,228,467 11/30/2013
1483	Janus - Research Fund	15,026,687	23,342,636	8,315,949.92	20,998,962	2,343,675 11/30/2013
	<b>Total Large Cap Growth</b>	<b>29,478,601</b>	<b>46,360,016</b>	<b>16,881,415.65</b>	<b>40,787,874</b>	<b>5,572,142</b>
<b>Large Cap Value</b>						
1485	Selected Funds (Note 2)	-	-	-	11,706,416	(11,706,416) 11/30/2013
1487	Dodge & Cox - Stock Fund	14,032,853	22,698,710	8,665,857.49	22,888,360	(189,650) 11/30/2013
1482	American Fund - Investment	-	-	-	12,255,780	(12,255,780) 11/30/2013
1484	Company of America (Note 2)	-	-	-	-	- 11/30/2013
1484	ROBECO	14,500,000	21,629,303	7,129,303.41	19,198,948	2,430,355 11/30/2013
	OPEN	-	-	-	-	-
	<b>Total Large Cap Value</b>	<b>28,532,853</b>	<b>44,328,013</b>	<b>15,795,160.90</b>	<b>66,049,504</b>	<b>(21,721,490.63)</b>
	<b>Total Large Cap Equities</b>	<b>78,511,453</b>	<b>112,465,377</b>	<b>33,953,923.37</b>	<b>106,837,378</b>	<b>5,627,998.47</b>
<b>International Stock</b>						
1422	American Funds - EuroPacific	14,901,330	21,439,907	6,538,577	18,506,488	2,933,419 11/30/2013
1423	Harbor international	15,448,545	19,128,537	3,679,991	18,116,355	1,012,181 11/30/2013
1421	Columbia Management - International Fund	6,129,417	10,854,676	4,725,259	9,611,637	1,243,039 11/30/2013
1424	Janus Overseas	18,707,173	18,731,565	24,392	16,082,019	2,649,547 11/30/2013
1425	Mondrian	17,299,962	19,538,934	2,238,971	18,206,490	1,332,444 11/30/2013
1426	Oakmark	11,200,777	17,241,649	6,040,872	16,776,036	465,613 11/30/2013
	<b>Total International Stock</b>	<b>83,687,205</b>	<b>106,935,268</b>	<b>23,248,063</b>	<b>97,299,025</b>	<b>9,636,243</b>
<b>Real Estate</b>						
1503	RREEF - Comingled Fund	6,651,482	6,453,667	(197,816)	6,799,442	(345,775) 11/30/2013
1502	RREEF - America REIT II	12,579,499	15,378,078	2,798,578	14,567,844	810,234 9/30/2013
1504	Cornerstone Fund	9,890,877	11,870,985	1,980,109	11,627,492	243,493 9/30/2013
	625 Kings Court	901,112	864,000	(37,112)	864,000	-
	<b>Total Real Estate</b>	<b>30,022,970</b>	<b>34,566,729</b>	<b>4,543,760</b>	<b>33,858,778</b>	<b>707,951</b>
	<b>Total investments</b>	<b>331,610,471</b>	<b>416,750,000</b>	<b>85,139,530</b>	<b>381,062,666</b>	<b>35,687,334</b>
	<b>Total Invested Funds</b>	<b>\$ 331,610,471</b>	<b>\$ 416,750,000</b>	<b>\$ 85,139,530</b>	<b>\$ 381,062,666</b>	<b>35,687,334</b>
						Note 1
	Balance Beg of Year	Balance End of Period	Change			
	Cash in County Treasury	\$ 2,459,241	\$ 2,452,441	\$ (6,800)		
	<b>Total all available funds</b>	<b>\$ 334,069,712</b>	<b>\$ 419,202,441</b>	<b>\$ 85,132,730</b>		

**Note 1** The fiscal year change does not account for funds sold in their entirety and therefore does not tie to Income Statement

**Note 2** These funds were fully liquidated as part of the September/October 2013 rebalance

**Mendocino County Employee Retirement Association**  
**Unrealized Gain (Loss) Analysis Financial Statement Basis**  
**November 30, 2013**

	A	B	C	E	F	
	Cost Basis	Market Value	Unrealized Gain	Start of Fiscal Year Market Value	Fiscal Year Change in Market Value	
<b>Mutual Funds</b>						
1402	PIMCO - Total Return Institutional	\$ 51,644,992	\$ 54,515,791	\$ 2,870,799	\$ 47,352,582	\$ 7,163,209
1401	Dodge & Cox - Income Fund	57,474,513	58,316,394	841,881	45,819,359	12,497,035
1426	Oakmark	11,200,777	17,241,649	6,040,872	16,776,036	465,613
1445	RS Investments - Small Cap Growth Fund Y	2,049,275	4,536,965	2,487,691	4,692,176	(155,211)
1443	Managers - Micro-Cap Institutional	5,153,443	8,760,312	3,606,868	9,067,152	(306,840)
1444	Prudential	9,170,949	11,767,823	2,596,874	11,295,007	472,816
1464	Morgan Stanley	2,953,250	4,560,370	1,607,120	4,831,131	(270,761)
1463	Janus - Enterprise Fund	3,011,719	4,399,600	1,387,881	5,005,755	(606,155)
1466	Fidelity Low Priced Stock Fund	2,698,685	4,587,065	1,888,380	4,929,965	(342,900)
1465	Royce - Total Return Fund	3,264,166	5,050,389	1,786,222	4,851,256	199,133
	Vanguard Institutional Index Fund	20,500,000	21,777,347	1,277,347	-	21,777,347
1481	Harbor Capital Appreciation Fund	14,451,914	23,017,380	8,565,466	19,788,912	3,228,467
1483	Janus - Research Fund	15,026,687	23,342,636	8,315,950	20,998,962	2,343,675
1485	Selected Funds (Note 2)	-	-	-	11,706,415.76	(11,706,415.76)
1487	Dodge & Cox - Stock Fund	14,032,853	22,698,710	8,665,857	22,888,360	(189,650)
1482	American Fund - Investment Company of America (Note 2)	-	-	-	12,255,780.20	(12,255,780.20)
1422	American Funds - EuroPacific	14,901,330	21,439,907	6,538,577	18,506,488	2,933,419
1423	Harbor international	15,448,545	19,128,537	3,679,991	18,116,355	1,012,181
1421	Columbia Management - International Fund	6,129,417	10,854,676	4,725,259	9,611,637	1,243,039
1424	Janus Overseas	18,707,173	18,731,565	24,392	16,082,019	2,649,547
	OPEN	-	-	-	-	-
	<b>Total Mutual Funds</b>	<b>267,819,688</b>	<b>334,727,116</b>	<b>66,907,428</b>	<b>304,575,349</b>	<b>30,151,767</b>
<b>Public Equity Securities</b>						
1484	ROBECO	14,500,000	21,629,303	7,129,303	19,198,948	2,430,355
1441	Alliance Bernstein - US Small Cap Growth Fund	1,967,850	6,287,918	4,320,068	5,223,101	1,064,817
1425	Mondrian	17,299,962	19,538,934	2,238,971	18,206,490	1,332,444
	<b>Total Public Equity Securities</b>	<b>33,767,812</b>	<b>47,456,155</b>	<b>13,688,343</b>	<b>42,628,539</b>	<b>4,827,616</b>
<b>Real Estate</b>						
1503	RREEF - Comingled Fund	6,651,482	6,453,667	(197,816)	6,799,442	(345,775)
1502	RREEF - America REIT II	12,579,499	15,378,078	2,798,578	14,567,844	810,234
1504	Cornerstone Fund	9,890,877	11,870,985	1,980,109	11,627,492	243,493
	625 Kings Court	901,112	864,000	(37,112)	864,000	0
	<b>Total Real Estate</b>	<b>30,022,970</b>	<b>34,566,729</b>	<b>4,543,760</b>	<b>33,858,778</b>	<b>707,951</b>
	<b>Total investments</b>	<b>331,610,471</b>	<b>416,750,000</b>	<b>85,139,530</b>	<b>381,062,666</b>	<b>35,687,334</b>
	<b>Total Invested Funds</b>	<b>\$ 331,610,471</b>	<b>\$ 416,750,000</b>	<b>\$ 85,139,530</b>	<b>\$ 381,062,666</b>	<b>\$ 35,687,334</b>
	<b>Cash in County Treasury</b>	<b>\$ 2,459,241</b>	<b>\$ 2,452,441</b>	<b>\$ (6,800)</b>		
	<b>Total all available funds</b>	<b>\$ 334,069,712</b>	<b>\$ 419,202,441</b>	<b>\$ 85,132,730</b>		

<b>MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION</b>			
<b>TRUST FUND ACCOUNT BALANCES</b>			
<i>Preliminary Report</i>			
<b>December 31, 2013</b>	<b>SHARES</b>	<b>NAV</b>	<b>Ending Market Value</b>
<b>DOMESTIC EQUITIES</b>			<b>\$ 168,126,820</b>
<b>LARGE CAP EQUITIES</b>			<b>116,072,759</b>
Dodge & Cox Stock Fund	138,762.1350	\$168.87	23,432,761.74
Robeco Large Cap	1,431,304.6540	\$15.58	22,299,153.99
Harbor Capital Appreciation Fund	420,483.2360	\$56.69	23,837,194.65
Janus Research Fund I Shares	553,983.6720	\$43.64	24,175,847.45
Vanguard Index Fund Institutional	131,898.6340	\$169.28	22,327,800.76
<b>MID CAP EQUITIES</b>			<b>\$ 19,670,646.30</b>
Fidelity Investments Low Priced Stock Fund	94,337.6840	\$49.46	4,665,941.85
The Royce Total Return Fund	349,062.1190	\$16.35	5,707,165.65
Morgan Stanley Mid Cap Growth Portfolio Class I	105,158.6450	\$45.31	4,764,738.20
Janus Enterprise Fund I Shares	55,136.8520	\$82.21	4,532,800.60
<b>SMALL CAP EQUITIES</b>			<b>23,266,816</b>
Prudential Target Small Cap Val Port	447,883.3230	\$26.84	12,021,188.39
Alliance Bernstein	133,843.3072	\$48.87	6,540,406.00
Rs Investments Small Cap Growth Fund Y	72,734.9090	\$64.69	4,705,221.26
<b>MICRO CAP EQUITIES</b>			<b>9,116,599</b>
Managers Micro-Cap Institutional	189,850.0410	\$48.02	9,116,598.97
<b>INTERNATIONAL EQUITIES</b>			<b>\$ 105,987,644</b>
American Fund: Euro Pacific Growth Fund	445,381.0720	\$49.03	21,837,033.96
Harbor International Fund	275,218.5480	\$71.01	19,543,269.09
Columbia Acom International Fund-Z	237,966.4040	\$46.68	11,108,271.74
Janus Overseas Fund I Shares	506,251.5820	\$36.95	18,705,995.95
Oakmark International Fund	537,190.4250	\$26.32	14,138,851.99
Mondrian All Countries World Ex-US Equity Fund	1,206,803.0221	\$17.11	20,654,221.00
<b>DOMESTIC FIXED INCOME</b>			<b>\$ 115,279,470</b>
Dodge & Cox Income Fund	4,278,532.2330	\$13.53	57,888,541.11
Pimco Total Return	5,368,655.6780	\$10.69	57,390,929.20
<b>REAL ESTATE</b>			<b>\$ 34,595,977</b>
RREEF Public (Real Estate Securities Commingled Fund)	203,776.0000	\$31.81	6,482,914.05
RREEF Private (America REIT II)	165,538.0000		15,378,078.00
Cornerstone Patriot Fund LP	117,186.2100		11,870,985.00
625 Kings Court	N/A	N/A	864,000.00
<b>CASH</b>			<b>\$ 2,276,322</b>
Cash account balance			2,276,322
<b>TOTAL FUND*</b>			<b>\$ 426,266,233</b>

# MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## CASH MANAGEMENT AND REBALANCING POLICY

### I. PURPOSE

The Cash Management and Rebalancing Policy is intended to expand upon the Investment Policy Statement and provide staff with clear cash management and asset rebalancing guidance for the Mendocino County Employees' Retirement Association (MCERA). As fiduciaries, the Board desires to maintain sufficient cash to pay the administrative and investment expenses of MCERA while endeavouring to meet assumed investment returns by maintaining targeted asset diversification within the total portfolio.

### II. OBJECTIVES

- A. Maintain sufficient cash to pay three months (one calendar quarter) of member benefits, administrative and investment expenses, as well as intermittent expenses, i.e., semi-annual transfers to the County's Debt Service Reserve collected through court payroll, fiscal year-end closing of the Retirement Budget Unit (1920), etc.
- B. Ensure a reasonable contingency of cash is maintained to address minor volatility in cash flows and to maintain a positive cash balance and positive quarterly interest apportionment from the County treasury.
- C. Notwithstanding OBJECTIVES A and B, maximize invested assets to provide the best opportunity to achieve investment returns from asset classes with a higher likelihood of appreciation in market value.
- D. Create a disciplined cycle of rebalancing assets classes to targets.

### III. POLICY GUIDELINES

- A. Not later than the Board's May meeting, staff will prepare a draft cash management plan for the following fiscal year. The plan will include sufficient cash to pay three months of ongoing member benefits, administrative and investment expenses, as well as known intermittent expenses.
- B. The projected balance of cash at the end of any calendar quarter will not fall below \$1 million.
- C. Primary sources of cash will be employer and employee contributions, dividends paid from bond funds, and quarterly sales of investments consistent with these Policy

Guidelines. Primary uses of cash disbursements will be member benefit payments, refunds of contributions, administrative and investment expenses. As fiduciaries, the Board understands that quarterly sales of investments to maintain a sufficient cash balance will occur during downward and upward trends in the market value of assets being sold, but believes it is prudent to assume that over the long-term the trends will be neutral.

- D. The Board will adopt a final cash management plan for the following fiscal year not later than its June meeting.
- E. A cash flow report comparing estimated to actual cash flows, as well as beginning and ending balances, will be prepared for each monthly Board meeting.
- F. Not later than thirty (30) days after the end of a calendar quarter, staff will review the percentage of the total investment portfolio by asset class to the target range of each asset class as established in the Investment Policy Statement. Asset classes that fall outside the target range will be rebalanced.
- G. While staff should understand the potential for an accounting gain or loss resulting from rebalancing asset classes, the primary purpose for rebalancing is to align the asset allocation with the Investment Policy Statement to achieve the long-term investment return contained in the Investment Policy Statement.
- H. At the same time staff evaluates the need to rebalance asset classes to target ranges, they will evaluate the need to sell assets to establish the cash balance in the cash management plan.

**V. POLICY REVIEW**

The Board shall review the Cash Management and Rebalancing Policy at least every three (3) years to ensure that it remains relevant and appropriate.

**VI. POLICY HISTORY**

The Board adopted this policy on 02/15/2012.

Richard A. White, Jr.  
Retirement Administrator



Telephone: (707) 463-4328  
(707) 467-6473  
Fax: (707) 467-6472

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

Date: January 15, 2014  
To: Board of Retirement  
From: Richard White, Retirement Administrator *rw*  
Subject: Monthly Financial Report

**A. Financial Reports**

The monthly reports for **November 2013** are included for your review.

**1. Statement of Plan Net Assets.**

- This report details a "snapshot" of account balances for the period covered and the fiscal year to date activity. The report indicates the assets available for future payments to retirees and any current liabilities owed.

**2. Statement of Changes in Plan Net Assets.**

- This report details a view of the current fiscal year additions to and deductions from the plan and covers the most recently available and the fiscal year to date activity.

**3. Cash Flow Analysis.**

- This report is a 'snapshot' of the cash available to MCERA during the reporting period. MCERA monitors the cash within the fund in accordance with the cash flow policy.

**4. Rental Income – Net of Expenses.**

- This report shows the rental income received by the two tenants (State of California and MCERA) and the expenses associated with the 625 Kings Court trust fund asset.

**5. Vendor Ledger.**

- This report is generated from the Peachtree accounting system and includes vendor transactions and balances for the month of **December 2013**.

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENT OF PLAN NET ASSETS**  
**November 30, 2013**  
**Preliminary**

**ASSETS**

**CASH AND EQUIVALENTS**

Trust Cash-held at county \$ 2,452,441

**TOTAL CASH AND EQUIVALENTS** 2,452,441

**CURRENT ASSETS**

Accounts Receivable 7,087  
 Recoupments 79,065

**TOTAL CURRENT ASSETS** 86,152

**PROPERTY AND EQUIPMENT**

Equipment 3,786

**TOTAL PROPERTY AND EQUIPMENT** 3,786

**INVESTMENTS, ADJUSTED TO MARKET**

Unrealized Gain(Loss) Invest 85,139,529  
 Fixed Income 109,119,505  
 International Equities 83,687,204  
 Small Cap Equities 18,341,517  
 Mid Cap Equities 11,927,821  
 Large Cap Equities 78,511,454  
 Real Estate 30,022,970

**TOTAL INVESTMENTS, AT MARKET** 416,750,000

**TOTAL ASSETS** \$ 419,292,379

**LIABILITIES**

**CURRENT LIABILITIES**

AMCRE Dues \$ 833  
 Federal Withholding 994  
 Wage Attchments 177  
 Accrued Wages - 1920 Account 169,216  
 PEDIT Trust Dental 18,826  
 AFLAC INSURANCE 3,642  
 Buck Settlement Reserve 200,106

**TOTAL CURRENT LIABILITIES** 393,794

**TOTAL NET ASSETS** \$ 418,898,585

**Note: This statement is preliminary and subject to change throughout the fiscal quarter as new information becomes available**

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**For the Five Months Ended November 30, 2013**  
**Preliminary**

	<b>CURRENT MONTH</b>	<b>YEAR TO DATE</b>
<b>ADDITIONS</b>		
<b>CONTRIBUTIONS</b>		
Employer	\$ 1,599,166	\$ 5,879,200
Plan Members	513,627	1,861,340
	<b>2,112,793</b>	<b>7,740,540</b>
<b>TOTAL CONTRIBUTIONS</b>		
<b>INVESTMENT INCOME</b>		
Unrealized Gain/(Loss) Invests	2,783,654	25,353,605
Rental Income, Net of Expenses	2,414	13,866
Interest	35	7,890
Dividends	100,820	1,062,609
Capital Gains	2,104,276	13,229,784
Less Investment Expense	(37,551)	(134,162)
	<b>4,953,648</b>	<b>39,533,592</b>
<b>Net Investment Income</b>		
	<b>7,066,441</b>	<b>47,274,132</b>
<b>TOTAL ADDITIONS</b>		
<b>DEDUCTIONS</b>		
Benefit Payment, Subsidies, & Refunds	(2,174,826)	(11,233,398)
Administrative Expenses	(73,971)	(338,964)
	<b>2,248,797</b>	<b>11,572,362</b>
<b>TOTAL DEDUCTIONS</b>		
<b>Increase (Decrease) in Net Assets</b>	<b>4,817,644</b>	<b>35,701,770</b>
<b>NET ASSETS</b>		
<b>Beginning of Period</b>	<b>414,080,945</b>	<b>383,196,816</b>
<b>End of Period</b>	<b>\$ 418,898,589</b>	<b>\$ 418,898,586</b>

**Note: This statement is preliminary and subject to change throughout the fiscal quarter as new information becomes available**

**MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**CASH FLOW ANALYSIS**  
**For the Five Months Ended November 30, 2013**  
**Preliminary**

	<b>CURRENT MONTH</b>	<b>YEAR TO DATE</b>
<b>ADDITIONS</b>		
<b>CONTRIBUTIONS</b>		
Employer	1,599,166	5,879,200
Plan Member	513,627	1,861,340
	<b>2,112,793</b>	<b>7,740,540</b>
<b>TOTAL CONTRIBUTIONS</b>		
<b>INVESTMENT INCOME</b>		
Rental Income, Net of Expenses	2,414	13,866
Interest	35	7,890
Dividends	100,820	903,062
Capital Gains	0	0
Less Investment Expense	(37,551)	(134,162)
	<b>65,718</b>	<b>790,656</b>
<b>TOTAL INVESTMENT INCOME</b>		
	<b>2,178,511</b>	<b>8,531,196</b>
<b>TOTAL ADDITIONS</b>		
<b>DEDUCTIONS</b>		
Benefit Payments and Subsidies	(2,174,826)	(11,233,398)
Administrative Expenses	(73,971)	(338,964)
	<b>(2,248,797)</b>	<b>(11,572,362)</b>
<b>TOTAL DEDUCTIONS</b>		
<b>OTHER INCREASES/(DECREASES)</b>		
Accounts Receivable	4,251	(76,834)
Accounts Payable	67,354	55,599
Buck Settlement	0	0
Sale/Purchase of Investments	1,000,000	3,055,603
	<b>1,071,605</b>	<b>3,034,368</b>
<b>TOTAL OTHER INCREASES/(DECREASES)</b>		
<b>INCREASE (DECREASE) IN CASH</b>	<b>\$ 1,001,319</b>	<b>\$ (6,798)</b>
<b>SUMMARY</b>		
Cash at End of Period	\$ 2,452,441	\$ 2,452,441
Cash at Beginning of Period	1,451,126	2,459,240
<b>INCREASE (DECREASE) IN CASH</b>	<b>\$ 1,001,315</b>	<b>\$ (6,799)</b>

**Note: This statement is preliminary and subject to change throughout the fiscal quarter as new information becomes available**

## Mendocino County Employees' Retirement Association

### Rental Income - Net of Expenses

For the Five Months Ending November 30, 2013

	<u>Current Month</u>		<u>Year to Date</u>			
<b>Revenues</b>						
Rental Income	\$	6,376	0.13	\$	31,878	0.08
Total Revenues		6,376	0.13		31,878	0.08
 <b>Building Expenses</b>						
Building Expenses		1,144	0.02		1,196	0.00
Landscape & Maintenance		1,557	0.03		6,375	0.02
Security		242	0.00		1,091	0.00
Insurance		0	0.00		2,450	0.01
Utilities		1,019	0.02		6,900	0.02
Total building operating expenses		3,962	0.08		18,012	0.05
Net Income	\$	2,414	0.05	\$	13,866	0.03

**MCERA**  
**Vendor Ledgers**  
**For the Period From Dec 1, 2013 to Dec 31, 2013**

Filter Criteria includes: Report order is by ID.

Vendor ID Vendor	Date	Trans No	Type	Paid	Debit Amt	Credit Amt	Balance
aflac AFLAC, INC.							0.00
allber Alliance Bernstein							0.00
allins Alliant Insurance Service							0.00
amcre AMCRE							0.00
antgra Anthony Graham							0.00
aonhek Hewitt Ennis Knupp, Inc							0.00
arbmed Arbitration and Mediation							0.00
att AT&T	12/19/13	04169774	CDJ		49.58	49.58	0.00
bobmir Bob Mirata							0.00
calapr CALAPRS							0.00
calass Callan Associates, Inc.							0.00
caldis California State Dusburse							0.00
calext California Exterminators							0.00
canser Canteen Services							0.00
capins Capital Insurance Group							0.00
chrofa Christie O'Farrall							0.00
cituki City of Ukiah							0.00
claads Class Ads							0.00
clemen Clearly Mendocino Water	12/19/13	04169853	CDJ		18.00	18.00	0.00
coumen County of Mendocino							0.00
curdis Curry's Discount Inc.	12/5/13	4168800	CDJ		12.19	12.19	0.00
	12/5/13	4168801	CDJ		43.20	43.20	0.00







**MCERA**  
**Vendor Ledgers**  
**For the Period From Dec 1, 2013 to Dec 31, 2013**

Filter Criteria includes: Report order is by ID.

Vendor ID Vendor	Date	Trans No	Type	Paid	Debit Amt	Credit Amt	Balance
<b>Report Total</b>					<u>15,236.54</u>	<u>15,236.54</u>	<u>0.00</u>