

AGENDA

AUDIT COMMITTEE MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

**One McInnis Parkway, 1st Floor
Retirement Board Chambers
San Rafael, CA**

December 8, 2021 – 11:00 a.m.

This meeting will be held via videoconference pursuant to MCERA Board of Retirement Resolution 2021/22-01, which invoked Government Code section 54953(e) for all MCERA Board and standing committee meetings through January 1, 2022.

Instructions for watching the meeting and/or providing public comment, as well as the links for access, are available on the [Watch & Attend Meetings](https://www.mcera.org/retirementboard/agendas-minutes/watchmeetings) page of MCERA's website. Please visit <https://www.mcera.org/retirementboard/agendas-minutes/watchmeetings> for more information.

The Board of Retirement encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board meetings.

CALL TO ORDER

ROLL CALL

MINUTES

August 4, 2021 Audit Committee meeting

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Board regarding any agenda item when the Board considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this time on matters within the Board's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Board concerning a non-agenda item. Members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

B. NEW BUSINESS

1. Financial Audit Review – Rosalva Flores, Brown Armstrong
Review and discuss audit results
2. Financial Statements (**Action**) – Rosalva Flores, Brown Armstrong
Review, discuss and possibly recommend that the Board adopt proposed June 30, 2021 Financial Statements
3. Future Meetings
Consider possible agenda topics for future meetings

Note on Process: Items designated for information are appropriate for Committee action if the Committee wishes to take action.



Agenda material is provided upon request. Requests may be submitted by email to MCERABoard@marincounty.org, or by phone at (415) 473-6147.

MCERA is committed to assuring that its public meetings are accessible to persons with disabilities. If you are a person with a disability and require an accommodation to participate in a County program, service, or activity, requests may be made by calling (415) 473-4381 (Voice), Dial 711 for CA Relay, or by email at least five business days in advance of the event. We will do our best to fulfill requests received with less than five business days' notice. Copies of documents are available in alternative formats upon request.

The agenda is available on the Internet at <http://www.mcera.org>

For consideration at December Committee meeting

MINUTES

AUDIT COMMITTEE MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

**One McInnis Parkway, 1st Floor
Retirement Board Chambers
San Rafael, CA**

August 4, 2021 – 9:00 a.m.

This meeting was held via videoconference pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020. The public was able to listen to and observe the meeting and provide comment through Zoom.

CALL TO ORDER

Chair Gladstern called the meeting to order at 9:04 a.m.

ROLL CALL

PRESENT: Block, Given, Gladstern, Silberstein

ABSENT: None

MINUTES

It was M/S Silberstein/Block to approve the April 7, 2021 Audit Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Block, Given, Gladstern, Silberstein

NOES: None

ABSTAIN: None

ABSENT: None

A. OPEN TIME FOR PUBLIC EXPRESSION

Note: The public may also address the Board regarding any agenda item when the Board considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this time on matters within the Board's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Board concerning a non-agenda item. Members of the Board may (1) briefly

For consideration at December Committee meeting

respond to statements made or questions posed by persons addressing the Board, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

B. NEW BUSINESS

1. Financial Audit Review – Interim Fieldwork Phase – Rosalva Flores, Partner, Brown Armstrong

Review and discuss interim fieldwork phase results

Rosalva Flores, Partner with Brown Armstrong, reported the interim fieldwork phase of the MCERA annual financial audit was performed the week of July 5, 2021. Interim fieldwork focuses on internal controls in key accounting areas, she said. Auditors look at new policies and conduct walkthroughs with staff regarding any changes in procedures. Then results are documented to identify strengths and potential opportunities for improvement. The lead auditor said walkthroughs are completed with the exception of a few remaining outstanding documents that have not yet been provided to the auditors.

Ms. Flores explained that a big part of auditing internal controls is verifying participant data. Using random samples of 40 members each for active and retired members, auditors send confirmations to participants who indicate whether the data is correct. Confirmations returned with favorable responses agreeing with the information allow auditors to reduce the number of recalculations, and those with unfavorable responses are recalculated. Using a random sample of 40 employees, auditors also verify the accuracy of reported pensionable compensation.

The results of the substantially completed interim fieldwork are positive, Ms. Flores said. Auditors met with management to discuss results and may have a few pending follow-up questions. She further stated that auditors are conducting fraud interviews with key management, staff, and Board members. Ms. Flores said one pending interview will be completed this week and there are no concerns with fraud interviews so far.

Trustee Block asked when auditors hope to have final private equity values prior to the closing of the books. In response Ms. Flores said auditors are still in the process of gathering private equity valuation confirmations, which Mr. Wickman said are not likely to be available before MCERA's June 30, 2021 books are closed. He said the adjustment for private equity will be identified and discussed with the Committee as in prior years.

In addition to the fieldwork discussed above, Ms. Flores said auditors gather information from Board and Committee meeting minutes, new contract agreements, and the internet for matters that should be considered in the audit. For example, on the internet auditors may find additional data to assess reported investment manager returns. Auditors also examine travel expenditures using a sample of 10 to make sure policies and procedures are followed and travel is business related. Investment manager fees are analyzed on a rotating basis. Indicating this is a potential risk area, Trustee Block asked if all investment manager fees are tested every year. Ms. Flores replied this process is rotated based on management's process for reviewing the fees.

For consideration at December Committee meeting

Ms. Flores noted in recent years auditors expanded the scope on information technology to assess risk and determine any additional procedures for general controls. She indicated this work will center around MCERA's Information Technology Security Assessment Report when it becomes available in August.

2. Future Meetings

Consider possible agenda topics for future meeting

Chair Gladstern asked about plans for future Committee meetings. Mr. Wickman said at the next Committee meeting on November 23, 2021 auditors will review draft Financial Statements and the Audit Report with the Committee. Trustee Block asked if MCERA's employer audits figure into the auditors' work. Mr. Wickman said that when available employer audit results will be provided to auditors so they can determine if there is a nexus between the work of the auditor and MCERA employer audits.

There being no further business, Chair Gladstern adjourned the meeting at 9:24 a.m.

Jeff Wickman
Retirement Administrator

On behalf of:
Maya Gladstern, Committee Chair

Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman, Retirement Administrator

B.1



Audit Committee Presentation of the Results of the June 30, 2021 Year End Financial Statement Audit

Brown Armstrong Accountancy Corporation

4200 Truxtun Avenue, Suite 300 | Bakersfield, CA 93309 | 661.324.4971 | Fax 661.324.4997

1919 Grand Canal Blvd., Suite C6 | Stockton, CA 95207 | 209.888.4751

Presented By: Rosalva Flores, CPA
Partner

December 8, 2021

The Audit Committee of the
Marin County Employees' Retirement Association
San Rafael, California

We are pleased to present to you the results of our audit of the Marin County Employees' Retirement Association (MCERA) basic financial statements for the fiscal year ended June 30, 2021.

We look forward to presenting the results of the audit and addressing your questions.

Sincerely,

Rosalva Flores, Partner
Brown Armstrong Accountancy Corporation

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Scope of Services Recap

- ❖ Audit of MCERA's financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States
- ❖ Other communications and reports required by professional standards including:
 - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with GAS
 - Required Communication at the Conclusion of an Audit in Accordance with Professional Standards (SAS 114)
 - Agreed Upon Conditions Report Designed to Improve Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)

Audit Timeline/Critical Dates List

- Kick-off AC entrance meeting presentation- April 7, 2021
- Population and Information Requests – May/June 2021
- Interim Fieldwork – July 5, 2021
 - Testing of Internal Controls
 - Walkthroughs and Understanding of Key Accounting Areas
 - Update Minutes and Agreements
- Final Fieldwork – September 8, 2021
 - Substantiate all Accounts and Balances
 - Review Confirmation Responses
- Audit Wrap Up Conference Call to Discuss Results of Fieldwork – September 24, 2021
- Draft Financial Statements and Funding Valuation and GASB Statement No. 67 Report Review – November 2021
- Draft Reports and Recommendations – November 2021
- Audit Committee Presentation to Review Draft Audit Reports – December 8, 2021
- Audit Opinions Issued – Open

Audit Areas of Focus^{B.1}

Significant Risk Areas	Brown Armstrong's Response
Revenue recognition	<ul style="list-style-type: none">• Test of controls was performed over contribution amounts as part of participant data• Confirmations from third parties• Other substantive analytics were also performed
Management override of controls	<ul style="list-style-type: none">• An understanding of controls over journal entries was obtained and a sample of individual journal entries was performed• Inquiries performed with individual(s) involved in the financial reporting process, and ensuring no inappropriate or unusual activity was noted relating to journal entry processing• Performed walkthroughs of significant audit areas to review adequate segregation of duties

Audit Areas of Focus^{B.1}

Significant Audit Areas	Brown Armstrong's Response
Investments and related earnings	<ul style="list-style-type: none">• Walkthrough of controls performed• High level analytics performed on investment income• Confirmations with custodian, managers, and consultants• Reviewed GASB Statement No. 72 valuation inputs and testing of Level determinations• Obtained audited financial statements and SOC reports
Participant data and actuary	<ul style="list-style-type: none">• Walkthrough and test of controls• Testing of participant data, including active and terminated members, and employer payroll<ul style="list-style-type: none">◦ Confirmed with participants, employers, and actuary• GASB Statement No. 67<ul style="list-style-type: none">◦ Money-weighted return◦ RSI schedules
Benefit payments	<ul style="list-style-type: none">• Walkthrough and test of controls• Testing of benefit payments• High level analytics
Employer and employee contributions	<ul style="list-style-type: none">• Walkthrough and test of controls• Confirmed with employers• High level analytics

Results of the Audit

Report	Opinion or Required Communication
Report on Financial Statements (Opinion)	Unmodified
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	No noncompliance noted No material weaknesses or significant deficiencies noted
Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)	<ul style="list-style-type: none">• Recommendation suggested related to Service Organization Controls (SOC) reports.• Recommendation suggested related to one participant discrepancy noted for employer payroll testing.

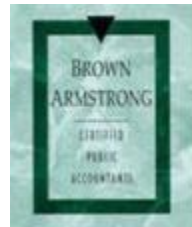
Results of the Audit

Report	Summary
Required Communication to the Members of the Audit Committee and Board of Retirement in Accordance with Professional Standards (SAS 114)	<ul style="list-style-type: none">• No new GASB standards implemented in FY 2021• Significant Estimates Reviewed<ul style="list-style-type: none">• Fair Value of Investments• Contribution and Net Pension Liability Estimates<ul style="list-style-type: none">✓ Based on Actuary Assumptions• Corrected and Uncorrected Misstatements – One adjustment proposed and corrected to true up private equity investments as a result of the lag in reporting and timing of the availability of the information – \$53 million• Disagreements with Management – None

Financial Statement Review

- Questions on the Financial Statements?

Thank Staff/Questions?



Rosalva Flores, CPA | Partner
Brown Armstrong Accountancy Corporation
Tel: 661.324.4971 | Email rflores@bacpas.com

**MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

**REPORTS TO THE BOARD OF RETIREMENT
AND AUDIT COMMITTEE
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

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**REQUIRED COMMUNICATION TO THE BOARD OF RETIREMENT AND AUDIT
COMMITTEE IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)**

To the Board of Retirement and Audit Committee of
Marin County Employees' Retirement Association
San Rafael, California

We have audited the basic financial statements, the schedule of cost sharing employer allocations and the schedule of employer pension amounts allocated by cost sharing plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals (referred to as the other information) of the Marin County Employees' Retirement Association (MCERA) for the fiscal year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our scope of services to you dated June 3, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MCERA are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by MCERA during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting MCERA's financial statements were:

- Management's estimate of the fair value of investments which was derived by various methods as detailed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The contribution amounts and net pension liability (asset) as detailed in notes to the financial statements, which are based on the actuarially-presumed interest rate and assumptions. We evaluated the key factors and assumptions used to develop the estimates of the contribution amounts and net pension liability (asset) in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures for investments in Notes 2, 3, 4, 5, and 6 to the financial statements, Summary of Significant Accounting Policies, Deposits and Investments, Securities Lending, Derivative Financial Instruments, and Real Estate, respectively, were derived from MCERA's investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes to the financial statements.
- Additionally, the disclosures related to the funding policies, net pension liability (asset), and actuarial methods and assumptions in Note 1, Plan Description; Note 7, Contributions; and Note 9, Net Pension Liability (Asset), were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of events far into the future.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material adjustment detected as a result of audit procedures was corrected by management and was the result of the last quarter final values not being available (lag in reporting) by the time MCERA closed the books.

Private Equity Investments	\$53,491,319	
Net Appreciation in Fair Value of Investments		\$53,491,319

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated _____, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to MCERA's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as MCERA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, Schedule of Contributions History, Schedule of Investment Returns, and Notes to the Required Supplementary Information, which are Required Supplementary Information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Retirement, the Audit Committee and management of MCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2021

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Retirement and Audit Committee of
Marin County Employees' Retirement Association
San Rafael, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marin County Employees' Retirement Association (MCERA) as of and for the fiscal year ended June 30, 2021, the related notes to the financial statements, which collectively comprise MCERA's basic financial statements, and the schedule of cost sharing employer allocations and the schedule of employer pension amounts allocated by cost sharing plan totals for all entities of the columns titled net pension liability (asset), total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals (referred to as the other information), and have issued our report thereon dated _____, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MCERA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements and the other information, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of MCERA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MCERA's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2021

**AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY,
INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING (MANAGEMENT LETTER)**

To the Board of Retirement and Audit Committee of
Marin County Employees' Retirement Association
San Rafael, California

In planning and performing our audit of the basic financial statements, the schedule of cost sharing employer allocations, and the schedule of employer pension amounts allocated by cost sharing plan totals for all entities of the columns titled net pension liability (asset), total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals (referred to as the other information) of the Marin County Employees' Retirement Association (MCERA) as of and for the fiscal year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered MCERA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of MCERA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MCERA's basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiencies. The recommendations listed in this report summarize our comments and suggestions regarding these matters.

We will review the status of the comment during our next audit engagement. We have already discussed these comments and suggestions with various MCERA personnel, and we will be pleased to discuss these in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2021

Current Year Finding and Recommendation**2021-1 – Review of the Service Organization Controls (SOC) Reports**

During our follow up of MCERA's controls and due diligence procedures over SOC reports review, we noted MCERA did not complete the collection and review of the SOC reports of its investment managers due to shortage of personnel in the current year.

Recommendation

Since a significant amount of the processing of MCERA's investment transactions are performed by the investment managers, it is important that MCERA review the reports on an annual basis. We recommend MCERA formalize the annual review of the SOC reports and document any findings or significant issues to internal control. A responsible individual should be assigned to perform this review as soon as the SOC reports are available.

Management Response

We thank the auditors for the opportunity to comment on the finding and recommendation regarding the review of the Service Organization Control (SOC) reports. MCERA supports continuous improvements and agrees with the auditors' recommendation.

MCERA, has developed, documented, and implemented an annual SOC report review process. The process includes identifying and directing staff to review the SOC reports, to maintain an SOC Report Review Log and to report significant SOC report issues to MCERA management.

MCERA believes that a formal SOC report review is the most efficient way of identifying potential control deficiencies early, prompting swift remediation, resulting in enhanced MCERA investment operational controls.

2021-2 – Participant Data

During our testing of pensionable pay items for active participants, we noted a discrepancy in the total gross salary for one (1) of the forty (40) participants tested. MCERA's pension administration system (CPAS) reflected total gross salary of \$1,173, while the payroll report from the employer reported total gross pay of \$1,219. Upon inquiry with management, it was discovered that the employer incorrectly reported pensionable hours and earnable salary for multiple pay periods since December 2020. This error affected the member's service credit and the final average compensation. The pensionable salary and the contributions were correct except for four (4) of the pay periods.

Recommendation

MCERA indicated this employer was on MCERA's list to perform a review over the reported information. As there was no individual that was close to retirement, the error does not have a current impact. This error would have been corrected prior to any benefit payment to the member. We understand MCERA has contacted the employer to make the corrections and as of the date of this letter, the corrections are still pending. We recommend MCERA continue with its effort to discuss with the employer to ensure the needed corrections are made.

Management Response

We thank the auditors for the opportunity to comment on the finding and recommendation regarding the salary discrepancy noted for one member. MCERA supports continuous improvements and agrees with the auditors' recommendation. MCERA has contacted the employer and will continue to work with them to correct the error and provide overall training and support on reporting accurate information.

Status of Prior Year Findings and Recommendations**2020-1 – Review of the Service Organization Controls (SOC) Reports**

During our understanding of MCERA's controls and due diligence procedures over investments, we noted MCERA does not formalize the collection and review of the SOC reports of its investment managers.

Recommendation

Since a significant amount of the processing of MCERA's investment transactions are performed by the investment managers, it is important that MCERA review the reports on an annual basis. We recommend MCERA formalize the annual review of the SOC reports and document any findings or significant issues to internal control.

Management Response

We thank the auditors for the opportunity to comment on the finding and recommendation regarding the review of the Service Organization Control (SOC) reports. MCERA supports continuous improvements and agrees with the auditors' recommendation.

MCERA, will develop, document and implement an annual SOC report review process. The process will include identifying and directing staff to review the SOC reports, to maintain an SOC Report Review Log and to report significant SOC report issues to MCERA management.

MCERA believes that a formal SOC report review is the most efficient way of identifying potential control deficiencies early, prompting swift remediation, resulting in enhanced MCERA investment operational controls.

Current Year Status

Partially implemented. Refer to current year finding 2021-1 Review of Service Organization Controls (SOC) Reports.

**MARIN COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement and Audit Committee of
Marin County Employees' Retirement Association
San Rafael, California

Report on the Financial Statements and Other Information

We have audited the accompanying Statement of Fiduciary Net Position of the Marin County Employees' Retirement Association (MCERA), as of June 30, 2021, the Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the basic financial statements, which collectively comprise MCERA's basic financial statements as listed in the table of contents. We have also audited the Schedule of Cost Sharing Employer Allocations of MCERA and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability (asset), total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals (also referred to as Other Information), as of and for the fiscal year ended June 30, 2021, listed as other information in the table of contents.

Management's Responsibility for the Financial Statements and Other Information

Management is responsible for the preparation and fair presentation of these basic financial statements and other information 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 basic financial statements and other information that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements and other information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements and other information, 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 basic financial statements and other information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control. Accordingly,

we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements and other information.

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

Opinions

In our opinion, the basic financial statements and other information referred to above present fairly, in all material respects, the fiduciary net position of MCERA as of June 30, 2021; the changes in its fiduciary net position for the fiscal year then ended; the Schedule of Cost Sharing Employer Allocations of MCERA; and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability (asset), total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals, as of and for the fiscal year ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated [REDACTED], 2021, on our consideration of MCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MCERA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCERA's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited MCERA's June 30, 2020, financial statements, and our report dated November 30, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2020, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
[REDACTED], 2021

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

This Management's Discussion and Analysis (MD&A) of the financial activities of the Marin County Employees' Retirement Association (MCERA or the System) is an overview of its fiscal operations for the fiscal year ended June 30, 2021. Readers are encouraged to consider the information presented in conjunction with the Basic Financial Statements and Notes to the Basic Financial Statements.

MCERA is a public employee retirement system established by the County of Marin on July 1, 1950, and is administered by the Board of Retirement to provide retirement, disability, and death and survivor benefits for its members under the County Employees Retirement Law of 1937 (CERL or 1937 Act) and the Public Employees' Pension Reform Act of 2013 (PEPRA).

Financial Highlights

MCERA's fiduciary net position as of June 30, 2021, was \$3,395,520,286. The fiduciary net position is restricted for payment of pension benefits to participants and their beneficiaries and is available to meet MCERA's ongoing obligations.

- Fiduciary net position increased by \$770,205,421 primarily as a result of employer and employee contributions and earnings from investments.
- Total additions, as reflected in the Statement of Changes in Fiduciary Net Position, were \$942,269,062, which includes employer and employee contributions of \$112,378,738, a net investment gain of \$829,744,340, and net securities lending income of \$145,984.
- Deductions from fiduciary net position increased from \$162,901,287 to \$172,063,641 from the prior year. The increase was mainly due to increases in retiree pension benefits and refunds.
- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2020, the date of the last actuarial valuation, the funded ratio for all MCERA agencies was 84.0% based on the ratio of market value of assets over actuarial liability. In general, this indicates that for every dollar of benefits due we had approximately \$0.84 of assets available for payment as of that date. The funding ratios of the employer entities included in MCERA were: 86.2% for the County of Marin and Special Districts, 76.2% for the City of San Rafael, and 84.0% for Novato Fire Protection District.

Overview of the Financial Statements

This MD&A serves as an introduction to the basic financial statements, which comprise the following components:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Basic Financial Statements

The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB) and are prepared utilizing the accrual basis of accounting.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about MCERA's activities. These statements include all assets and liabilities using the full accrual basis of accounting as practiced by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Investment gains and losses are reported on a trade-date basis and both realized and unrealized gains and losses on investments are shown.

The Statement of Fiduciary Net Position is the first basic financial report. This is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of fiscal year-end. The net position restricted for pension benefits, which is the assets less the liabilities, reflects the funds available for future use.

The Statement of Changes in Fiduciary Net Position is the second basic financial report. This report reflects the activities that occurred during the fiscal year and shows the impact of those activities as Additions to or Deductions from the plan.

These two statements report MCERA's net position restricted for pension benefits (net position) – the difference between assets and liabilities – as one way to measure MCERA's financial position. Over time, increases and decreases in MCERA's net position are indicators of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring MCERA's overall health.

Both statements are in compliance with standards issued by the GASB. These standards require certain disclosures and also require the state and local governments to report using the full accrual method of accounting. MCERA complies with all material requirements of these standards.

The Notes to the Basic Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the fiscal year.

In addition to the Basic Financial Statements, this report contains required supplementary information and schedules to illustrate the GASB Statement No. 67 financial reporting requirements. These schedules provide a broad scope of financial information, including a pension liability (asset) measurement and changes to the liability (asset), historical contributions, money-weighted investment return, and additional actuarial-related disclosures.

Other Information consists of two schedules pertaining to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The two schedules include the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan. Under GASB Statement No. 68, plan sponsors are required to report Net Pension Liability (Asset) on their balance sheets and changes in Net Pension Liability (Asset) on their operating statements as pension expenses, deferred inflows of resources, and deferred outflows of resources.

Financial Analysis

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Net position restricted for pension benefits as of June 30, 2021, totaled \$3,395,520,286, an increase of \$770,205,421 from the prior year. MCERA's assets exceeded its liabilities at the end of the fiscal year. Net position restricted for pension benefits represents funds available for future payments. However, of importance is the fact that, unlike private pension funds, public pension funds are not required to report the future liability of obligations owed to retirees in the Statement of Fiduciary Net Position, and only current liabilities are reported. Below is a comparison of current and prior year balances:

	2021	2020	Increase (Decrease) 2021/2020
Investments at fair value	\$ 3,288,944,227	\$ 2,538,866,806	\$ 750,077,421
Cash and cash equivalents	106,826,520	81,155,193	25,671,327
Capital assets (net of accumulated depreciation)	7,083,908	6,117,956	965,952
Cash collateral held for securities loaned	35,601,032	38,566,008	(2,964,976)
Receivables and other assets	18,610,737	14,440,248	4,170,489
Total assets	3,457,066,424	2,679,146,211	777,920,213
Total liabilities	61,546,138	53,831,346	7,714,792
Net position restricted for pension benefits	\$ 3,395,520,286	\$ 2,625,314,865	\$ 770,205,421

In order to determine whether the net position restricted for pension benefits will be sufficient to meet future obligations, the actuarial funded status must be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the members and the employers are needed to pay all expected future benefits.

MCERA's independent actuary, Cheiron, performed an actuarial valuation as of June 30, 2020, and determined that the funded ratio of the actuarial value of assets to the actuarial liability is 84.0%. The actuarial valuation as of June 30, 2019, determined the funded ratio to be 86.6%.

Additions to Fiduciary Net Position

There are three primary sources of funding for MCERA retirement benefits: earnings (losses) on investments of assets and employer and employee contributions. Income sources for the fiscal years ending June 30, 2021 and 2020, totaled \$942,269,062 and \$195,830,568, respectively.

	2021	2020	Increase (Decrease) 2021/2020
Employer contributions	\$ 80,359,731	\$ 75,643,075	\$ 4,716,656
Plan member contributions	32,019,007	30,913,997	1,105,010
Total net investment income	829,890,324	89,273,496	740,616,828
Total additions	\$942,269,062	\$195,830,568	\$746,438,494

Deductions from Fiduciary Net Position

MCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan; refund of contributions to terminated employees; and the cost of administering the system. Below is a comparison of selected current and prior year balances:

	2021	2020	Increase (Decrease) 2021/2020
Retirement benefits	\$166,139,520	\$157,185,816	\$ 8,953,704
Refund of contributions	1,540,282	1,107,711	432,571
Administrative expenses	3,572,267	3,731,976	(159,709)
Legal expenses	341,721	384,080	(42,359)
Computer expenses	279,871	339,025	(59,154)
Actuarial expenses	189,980	152,679	37,301
Total deductions	\$172,063,641	\$162,901,287	\$ 9,162,354

Change in Fiduciary Net Position

The changes in fiduciary net position during the reporting period was the net effect of factors that either added to or deducted from the fiduciary net position. Below is a summary of the change in fiduciary net position during the reported year, as compared to prior year:

	2021	2020	Increase (Decrease) 2021/2020
Total Additions	\$ 942,269,062	\$ 195,830,568	\$ 746,438,494
Total Deductions	172,063,641	162,901,287	9,162,354
Change in Fiduciary Net Position	770,205,421	32,929,281	737,276,140
Beginning of Year	\$2,625,314,865	\$2,592,385,584	32,929,281
End of Year	\$3,395,520,286	\$2,625,314,865	\$ 770,205,421

Reserves

MCERA's reserves are established in accordance with the requirements of the 1937 Act, utilizing contributions and the accumulation of investment income after satisfying administrative and investment expenses. Under GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses.

	2021	2020
Employee reserves	\$ 400,038,995	\$ 383,389,107
Employer reserves	407,961,885	392,272,098
Retiree reserves	2,125,124,151	1,925,195,638
Contingency reserves	33,955,203	0
Total reserves - restricted	2,967,080,234	2,700,856,843
Unrestricted reserves	428,440,052	0
Contra - Interest crediting	0	(75,541,978)
Total reserves - unrestricted	428,440,052	(75,541,978)
Total Net Position Restricted for Pension Benefits	\$3,395,520,286	\$2,625,314,865

The Retirement Fund as a Whole

MCERA's management believes that the funding policy adopted by the Board of Retirement, as reflected in the annual actuarial valuation, is reasonable and allows the System to meet its obligations to retirees, beneficiaries, and active members. The current financial position is a result of prudent economic and demographic assumptions, diversified investments, sufficient oversight to manage risk and minimize loss, an effective system of cost control, and strategic planning.

Requests for Information

This financial report is designed to provide the Board of Retirement, our membership, taxpayers, and investment managers with a general overview of MCERA finances and to demonstrate MCERA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to:

Marin County Employees' Retirement Association
One McInnis Parkway, Suite 100
San Rafael, California 94903-2764

Copies of this report are available at the above address and on MCERA's website at www.mcera.org.

Respectfully submitted,



La Valda Marshall
Accounting Unit Manager

BASIC FINANCIAL STATEMENTS

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2021
(WITH COMPARATIVE TOTALS)

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Assets		
Cash and short-term investments		
Cash and cash equivalents	\$ 106,826,520	\$ 81,155,193
Cash collateral on loaned securities	35,601,032	38,566,008
	<hr/>	<hr/>
Total Cash and Short-Term Investments	142,427,552	119,721,201
Receivables		
Contributions	5,281,118	4,286,708
Interest and dividends	3,091,284	2,996,029
Due from brokers for securities sold	7,818,052	5,925,680
Other receivables	2,243,007	1,151,365
	<hr/>	<hr/>
Total Receivables	18,433,461	14,359,782
Investments at fair value		
Domestic fixed income	494,083,206	494,927,212
International fixed income	70,297,645	59,844,678
Domestic equities	1,067,027,753	729,940,946
International equities	727,552,625	558,370,697
Private equity	444,009,053	301,423,512
Opportunistic	29,941,119	0
Real estate equity	294,538,314	271,490,961
Real assets	161,494,512	122,868,800
	<hr/>	<hr/>
Total Investments at Fair Value	3,288,944,227	2,538,866,806
Capital assets (net of accumulated depreciation)	7,083,908	6,117,956
Prepaid insurance	177,276	80,466
	<hr/>	<hr/>
Total Assets	3,457,066,424	2,679,146,211
	<hr/>	<hr/>
Liabilities		
Accounts payable and accrued expenses	649,350	1,438,717
Due to brokers for securities purchased	25,295,756	13,814,596
Retiree payroll payable	0	12,025
Obligations under securities lending program	35,601,032	38,566,008
	<hr/>	<hr/>
Total Liabilities	61,546,138	53,831,346
	<hr/>	<hr/>
Net Position Restricted for Pension Benefits	<u><u>\$ 3,395,520,286</u></u>	<u><u>\$ 2,625,314,865</u></u>

The accompanying notes are an integral part of these financial statements.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS)**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Additions		
Contributions		
Employer	\$ 80,359,731	\$ 75,643,075
Plan member	32,019,007	30,913,997
Total Contributions	<u>112,378,738</u>	<u>106,557,072</u>
Investment income		
Net appreciation in fair value of investments	804,922,444	56,097,629
Interest and dividends	28,817,679	30,734,770
Real estate operating income, net	7,966,024	13,773,602
Other investment income	2,005,283	797,259
Total investment income	843,711,430	101,403,260
Investment expenses	<u>(13,967,090)</u>	<u>(12,341,144)</u>
Net Investment Income	<u>829,744,340</u>	<u>89,062,116</u>
Securities lending activities		
Securities lending income	208,902	817,626
Less expenses from securities lending activities	<u>(62,918)</u>	<u>(606,246)</u>
Net Securities Lending Activities	<u>145,984</u>	<u>211,380</u>
Total Net Investment Income	<u>829,890,324</u>	<u>89,273,496</u>
Total Additions	<u>942,269,062</u>	<u>195,830,568</u>
Deductions		
Benefits	166,139,520	157,185,816
Refunds	1,540,282	1,107,711
Administrative expenses	3,572,267	3,731,976
Legal expenses	341,721	384,080
Computer expenses	279,871	339,025
Actuarial expenses	<u>189,980</u>	<u>152,679</u>
Total Deductions	<u>172,063,641</u>	<u>162,901,287</u>
Change in Fiduciary Net Position	770,205,421	32,929,281
Net Position Restricted for Pension Benefits, Beginning of Year	<u>2,625,314,865</u>	<u>2,592,385,584</u>
Net Position Restricted for Pension Benefits, End of Year	<u>\$ 3,395,520,286</u>	<u>\$ 2,625,314,865</u>

The accompanying notes are an integral part of these financial statements.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 – PLAN DESCRIPTION

The Marin County Employees' Retirement Association (MCERA) was established on July 1, 1950. It is governed by the California Constitution; the County Employees Retirement Law of 1937 (CERL or 1937 Act, Government Code Section 31450 et seq.); the Public Employees' Pension Reform Act of 2013 (PEPRA, Government Code Section 7522); the provisions of California Government Code Section 7500 et seq.; and the bylaws, procedures, and policies adopted by MCERA's Board of Retirement. The Marin County Board of Supervisors may also adopt resolutions, as permitted by the CERL and PEPRA, which may affect the benefits of MCERA members. MCERA operates as a cost-sharing multiple employer defined benefit pension plan for the County of Marin (the County) and eight other participating employers: City of San Rafael, Local Agency Formation Commission (LAFCO), Marin City Community Services District (Marin CSD), Marin County Superior Court (Superior Court), Marin/Sonoma Mosquito and Vector Control District (Mosquito District), Novato Fire Protection District (Novato Fire), Southern Marin Fire Protection District (Southern Marin Fire), and Tamalpais Community Services District (Tamalpais CSD).

Administration

The Board of Retirement is responsible for the general administration and management of the retirement association. All Board of Retirement members, except the County Director of Finance, serve for a term of three years. By statute, Board of Retirement members include the following:

- The Director of Finance of the County (ex-officio).
- Four members who are qualified electors of the County and not connected with County government in any capacity, except that one may be a County Supervisor. The Board of Supervisors appoints these members.
- Two General members of MCERA elected by the General membership.
- One Safety member and one Safety member alternate elected by the Safety membership.
- One retired member and one retired member alternate elected by the retired membership.

Membership

MCERA provides retirement, disability, and death benefits to its general and safety members. Safety membership primarily includes law enforcement and firefighters of MCERA, as well as other classifications as allowed under the CERL and adopted by the employer. General membership is applicable to all other occupational classifications. The retirement benefits within the plan are tiered based on the participating employer and the date of the member's entry into MCERA membership. Additional information regarding the benefit structure is available by contacting MCERA. Membership data as of the current actuarial valuation report (fiscal year ending June 30, 2020):

	2020
Active Members (Vested and Non-Vested)	2,703
Retired Members and Beneficiaries	3,490
Terminated Vested (Deferred)	944
Total Membership	7,137

NOTE 1 – PLAN DESCRIPTION (Continued)**Benefit Provisions***Vesting*

Members become vested in retirement benefits upon completion of five years of credited service.

Service Retirement

MCERA's regular (service) retirement benefits are based on the years of credited service, final average compensation, and age at retirement, according to the applicable statutory formula. Members who qualify for service retirement are entitled to receive monthly retirement benefits for life.

General County members hired after July 1, 2008, Court members hired after January 1, 2009, and City of San Rafael members hired after July 1, 2011, are eligible to retire at age 55 if they have earned 10 years of credited service, unless they are "new members" as defined by PEPR (hereinafter "PEPR members"). All other General and Safety members, except PEPR members, are eligible to retire at age 50 if they have earned 10 years of credited service. Unless they are PEPR members, General members can retire at any age with 30 years of service and Safety members can retire at any age with 20 years of service. PEPR members who are Safety members are eligible to retire after five years of service upon reaching 50 years of age. PEPR members who are General members are eligible to retire after five years of service upon reaching 52 years of age. All members can retire at age 70 with no service requirement.

Death Benefits

MCERA provides specified death benefits to beneficiaries and members' survivors. The death benefits provided depend on whether the member is active or retired.

The basic active member death benefit consists of a member's retirement contributions plus interest plus one month's pay for each full year of service (up to a maximum of six months pay). Retiring members may choose from five retirement benefit payment options. Most retirees elect to receive the unmodified allowance which provides the maximum benefit to the retiree and a continuance of 60% of the retiree's allowance to the surviving spouse or registered domestic partner after the retiree's death. Other death benefits may be available based on the years of service, marital status, and whether the member has minor children.

Disability Retirement

A member with five years of service, regardless of age, who becomes permanently incapacitated for the performance of duty is eligible to apply for a nonservice-connected disability retirement. Any member who becomes permanently incapacitated for the performance of duty as a result of injury or disease arising out of and in the course of employment is eligible to apply for a service-connected disability retirement, regardless of service length or age.

Cost of Living Adjustment

Retirement allowances are indexed for inflation. Most retirees receive automatic basic cost of living adjustments (COLAs) based upon the Urban Consumer Price Index (UCPI) for the San Francisco Bay Area. These adjustments go into effect on April 1 each year. Annual COLA increases are statutorily capped at 2%, 3%, or 4% depending upon the member's retirement tier. When the UCPI exceeds the maximum statutory COLA for the member's tier, the difference is accumulated for use in future years when the UCPI is less than the maximum statutory COLA. The accumulated percentage carryover is known as the COLA Bank.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Reporting Entity**

MCERA, with its own governing board, is an independent governmental entity separate and distinct from the County. Actuarially determined financial data for MCERA is included in the County's annual financial report in the "Notes to Financial Statements" section.

Basis of Accounting

MCERA follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This basis of accounting recognizes income when earned and expenses when the obligation is incurred. Member and employer contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments consists of realized and unrealized gains and losses on those investments.

Administrative Expenses

MCERA's administrative costs are financed from investment income and are calculated pursuant to Government Code Section 31580.2 which provides that the administrative expenses incurred in any year may not exceed the greater of either 0.21% of the actuarial accrued liability of the system, or \$2,000,000, as adjusted annually by the amount of the annual COLA computed in accordance with Article 16.5. Expenses for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of MCERA.

For the fiscal year ended June 30, 2021, administrative expenses were \$3,572,267, or 0.12% of the actuarial liability as of June 30, 2019.

Cash and Cash Equivalents

Cash equivalents include deposits in MCERA's custodian bank, a financial institution, and pooled cash with the County Treasurer. Pooled cash is reported at amortized cost, which approximates fair value. Income on pooled cash is allocated on MCERA's average daily balance in relation to total pooled assets. Short-term investments with the custodian bank include foreign currencies, cash held in short-term investment funds, and other short-term, highly liquid investments. Short-term investments considered cash equivalents are recorded at cost, which approximates fair value.

Receivables

Receivables consist primarily of interest, dividends, investments in transition (i.e., traded but not yet settled), and contributions owed by the employing entities as of June 30, 2021.

Methods Used to Value Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. MCERA management uses information provided by the investment managers and the custodian bank to determine fair value.

GASB establishes a fair value hierarchy based on the following three distinct types of input to develop the fair value measurements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Methods Used to Value Investments** (Continued)

- **Level 1** reflects measurements based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- **Level 2** reflects measurements based on inputs, other than quoted prices, that are observable for an asset or a liability either directly or indirectly.
- **Level 3** reflects measurements based on unobservable inputs for an asset or a liability.

Fixed income securities, real estate investment trusts (REITs), common and preferred stocks, and derivatives are valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate investment funds are valued using periodic independent appraisals or internal valuation techniques, including discounted cash flows, sales comparisons, and cost approaches. Investments that are not traded on national exchanges or do not have pricing services (such as private equity funds) are valued based on fund share price or percentage of ownership as determined by the fund manager or general partner in accordance with the valuation methodology outlined in the partnership agreement.

Investment Concentrations

As of June 30, 2021, MCERA does not hold a concentration of investments in any one entity that represents 5 percent or more of the total investment portfolio or the fiduciary net position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Asset Allocation Policy and Expected Long-Term Rate of Return by Asset Class

The Board of Retirement has adopted an Investment Policy Statement (IPS), which provides the framework for the management of MCERA's investments. The IPS establishes MCERA's investment objectives and defines the principal duties of the Board of Retirement, the custodian bank, and the investment managers. The asset allocation plan is an integral part of the IPS and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. MCERA currently employs external investment managers to manage its assets subject to the provisions of the policy. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the plan.

Capital Assets

Capital assets are valued at historical cost less accumulated depreciation. Capital assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Equipment has a useful life of ten years, leasehold improvements and office space forty years, and twelve years for the benefit administration system.

MCERA signed an agreement on July 2, 2007, for the purchase of a building located at One McInnis Parkway, San Rafael, California 94903. The final purchase price for the building was \$17,300,000 and was finalized in October 2007. MCERA occupied the building on November 14, 2008. MCERA occupies 33% of the building and leases the other 67%. Therefore, the portion of the building occupied by MCERA was capitalized and is being depreciated over its useful life. The remaining 67% will be treated as an investment and, accordingly, marked to market value in addition to recognizing any earned income and expenses incurred. As of June 30, 2021, the capitalized portion of the building was \$6,143,227 and computers and equipment were \$940,681, net of accumulated depreciation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Other Post-Employment Benefits to Retirees**

The County of Marin and special districts provide Other Post-Employment Benefits to retirees (OPEB). Medical premiums are reimbursed to each retired employee who qualifies for one of the County's Benefit Plan Subsidies. Medicare premiums are also reimbursed to each retired employee who is covered under Medicare Part B and qualifies for one of the County's Benefit Plan Subsidies.

The Plan does not determine eligibility and does not negotiate for healthcare benefits or the Benefit Plan Subsidies, but acts solely as a conduit, which deducts premiums from benefit payments and applies the subsidies. The amount of subsidies applied for payment of medical premiums is billed to the County. Benefit eligibility, coverage and premium cost negotiations are the responsibility of the employer. As such, GASB Statement No. 74 does not apply.

Income Taxes

The plan qualifies under Section 401(a) of the Internal Revenue Code. 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 Internal Revenue Code Section 501 and California Revenue and Taxation Code Section 23701, respectively.

Use of Estimates

The preparation of MCERA's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Implementation of Accounting Standards

During the fiscal year ending June 30, 2021, there were no new accounting standards that were applicable to MCERA.

NOTE 3 – DEPOSITS AND INVESTMENTS

The CERL gives the Board of Retirement exclusive control over MCERA's investment portfolio. Except as otherwise expressly restricted by the California Constitution or other laws, the CERL allows the Board of Retirement to prudently invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction.

Moreover, the CERL requires the Board of Retirement, its officers, and employees to discharge their duties with respect to MCERA and the investment portfolio under the following rules:

- "The members of the retirement board shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
- The members of the retirement board shall discharge their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- The members of the retirement board shall diversify the investments of the system to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so."

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**Deposits**

MCERA maintains cash deposits to support its investment activities and operational needs. Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value. As of June 30, 2021, \$35.4 million was held with outside financial institutions and \$71.4 million was held by MCERA's master custodian, State Street. Substantially all of the cash held by State Street is swept daily into collective short-term investment funds.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the plan would not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. MCERA's deposits are covered by depository insurance or are collateralized by securities held with a financial institution in MCERA's name. The plan is only exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. As of June 30, 2021, \$557,405 of the plan's bank balances of \$818,388 was uninsured and uncollateralized.

Investments*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This risk is measured by the assignment of ratings by nationally recognized statistical rating organizations. MCERA has adopted policies specific to each investment manager to manage credit risk. In general, fixed income securities should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. The credit risk ratings of MCERA's fixed income investments as of June 30, 2021, as rated by Standard & Poor's, are listed below (all dollars in thousands). The credit risk schedule excludes the \$146.8 million commingled global bond fund, which is included in the fixed income category on the Statement of Fiduciary Net Position.

Rating Category	Fair Value
AAA	\$ 11,669
AA	12,363
A	59,685
BBB	131,886
BB	31,559
B	5,854
CCC	985
D	200
Agencies	12,285
U.S. Treasuries	16,772
No Rating	134,363
Total	\$ 417,621

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**Investments** (Continued)*Custodial Credit Risk – Investments*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the plan will not be able to recover the value of its investment or collateral securities that are in the 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 are held by the counterparty. MCERA's investment securities in general are not exposed to custodial credit risk because MCERA's securities are held by MCERA's custodial bank in MCERA's name; however, MCERA participates in securities lending transactions, as lender, and the securities loaned in those circumstances are exposed to some degree of custodial credit risk. MCERA has no general policy on custodial credit risk for investments; however, MCERA does require that its custodian maintain insurance to help protect against losses due to negligence, theft, and certain other events.

Concentrations

Concentration of credit risk is the risk of loss attributed to the concentration of the plan's investment in a single issuer. MCERA's investment policy limits exposure to any single investment manager or product. As of June 30, 2021, MCERA did not hold any investments in any one issuer that would represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from the policy requirement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

Interest rate risk is managed through MCERA's investment policy and investment guidelines, which require the effective duration of individual fixed income portfolios to remain within a defined range (75% to 125%) of the appropriate benchmark. The primary benchmarks for domestic and global fixed income portfolios are the Barclays Aggregate Bond Index, the Barclays Intermediate Credit Index, and the Citigroup World Government Bond Index. The interest rate risk schedule presents the weighted average duration of fixed income securities by investment category as of June 30, 2021. This schedule excludes the \$146.8 million commingled global bond fund, which is included in the fixed income category on the Statement of Fiduciary Net Position.

June 30, 2021 (all dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	\$ 20,913	1.70
Collateralized Mortgage Obligations	46,174	2.68
Corporate and Other Credit	225,403	5.76
Mortgage Pass-Throughs	15,907	10.51
Municipal Bonds	7,044	7.34
U.S. Treasuries	16,772	8.55
Total	\$332,213	
Other Bonds – No Duration	\$ 85,408	
Total	\$417,621	

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**Investments** (Continued)*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. MCERA invests, through its investment managers, in forward currency contracts and currency futures contracts (maturity ranging from at least 30 days and not to exceed one year for either instrument). Any financial results attributable to net currency gains or losses are included in the investment results for MCERA's appropriate asset class and are not reported separately. MCERA has no general investment policy with respect to foreign currency risk.

Forward currency contracts typically range from one to six months and are used to hedge against adverse movement in currency exchange rates and to facilitate settlement of transactions in foreign securities.

Futures currency contracts are used to hedge against a possible increase in the price of currency. Futures contracts are classified by category of underlying instrument such as equity, fixed income, commodity, or cash equivalent.

Although risk exists with respect to foreign currency denominated assets held in commingled vehicles, MCERA's direct foreign currency risk is minimal. The following table presents a summary of securities with non-U.S. Dollars (non-USD) base currencies as of June 30, 2021 (all dollars in thousands):

Base Currency or Country	Base Currency Code	Fair Value in U.S. Dollars
Euro	EUR	\$ 7,092
Mexican Peso	MXN	776
Total Non-USD Securities		\$7,868

Rate of Return

For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 32.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*, was issued to address accounting and financial reporting issues related to fair value measurement. MCERA follows GASB 72. The standard establishes a fair value hierarchy based on three types of inputs that measure the fair value of investments.

- *Level 1:* Reflects quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2:* Reflects prices that are based on similar observable inputs other than quoted market prices; and
- *Level 3:* Reflects prices that are based on unobservable sources.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case MCERA defaults to the lowest level input that is significant to the fair value measurement in its entirety. In determining the appropriate levels, a detailed analysis was performed of the assets and liabilities that are subject to GASB 72.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**Investments** (Continued)*Fair Value Measurements* (Continued)

At June 30, 2021, MCERA had the following fair value measurements:

		Quoted Prices in Active Markets for Identical Assets				Significant Other Observable Inputs	Significant Unobservable Inputs	
Investments by Fair Value Level		Total	Level 1	Level 2	Level 3			
Debt Securities								
Mortgage and Asset-Backed	\$	46,779,488	\$	0	\$46,779,488	\$	0	
Corporate Bonds		226,821,340		0	226,821,340		0	
U.S. Government Agency Securities		12,284,691		0	12,284,691		0	
Government Issues		32,816,350		0	32,816,350		0	
Municipal Obligations		7,044,382		0	7,044,382		0	
Commingled Bond Investments		238,634,600		0	238,634,600		0	
Total Debt Securities	\$	564,380,851	\$	0	\$ 564,380,851	\$	0	
Equity Securities								
Common Stock	\$1,096,521,725	\$1,096,521,725	\$	0	\$		0	
Preferred Stock	493,057	383,328		109,729			0	
Mutual Funds and Commingled Investments	697,565,596	350,001,639		347,563,957			0	
Total Equity Securities	\$1,794,580,378	\$1,446,906,692	\$	347,673,686	\$		0	
Other Assets								
Private Real Estate - Commingled Investments	\$	279,478,264	\$	0	\$	60,780,935	\$	218,697,329
Private Real Estate - Direct Ownership		15,060,050		0		0		15,060,050
Public Real Assets - Mutual Funds and Commingled Investments		161,494,512		56,734,796		104,759,716		0
Securities Lending Cash Collateral		35,601,032		0		35,601,032		0
Total Other Assets	\$	491,633,858	\$	56,734,796	\$	201,141,683	\$	233,757,379
Total Investments by Fair Value Level		\$2,850,595,087	\$1,503,641,488	\$1,113,196,220	\$	233,757,379		
Investments Measured at Net Asset Value (NAV)								
Private Equity Funds	\$	444,009,053						
Opportunistic Funds		29,941,119						
Total NAV Investments	\$	473,950,172						
Total Investments		\$3,324,545,259						
Investments in Derivative Instruments (all dollars in thousands)								
Forwards	\$	9	\$	9	\$	0	\$	0
Futures		1,633		1,633		0		0
Warrants		5		5		0		0
Total Derivatives	\$	1,647	\$	1,647	\$	0	\$	0

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**Investments** (Continued)*Fair Value Measurements* (Continued)

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds: quoted prices for similar securities in active markets;
- Repurchase Agreements, Negotiable Certificates of Deposit, and Collateralized Debt Obligations: matrix pricing based on the securities' relationship to benchmark quoted prices;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund; and
- Commingled and High-Yield Equity Investments: valued using matrix pricing techniques or quoted prices for similar securities in active markets.

Public real assets classified in Level 1 are valued using prices quoted in active markets for those securities. Public real assets and private real estate classified in Level 2 are commingled (collective) investment funds that are valued using matrix pricing techniques maintained by the various pricing vendors for those securities. Derivative instruments classified in Level 1 are valued directly from a predetermined primary external pricing vendor. Derivative instruments classified in Level 2 are valued using a market approach that considers benchmark interest rates and foreign exchange rates. Real estate investments classified in Level 3 are valued using periodic independent appraisals or internal valuation techniques, including discounted cash flows, sales comparisons, and cost approaches.

Investments measured at net asset value (NAV) are considered "alternative investments." Alternative investments are those for which exchange quotations are not readily available and are valued at the estimated fair value based on fund share price or percentage of ownership, as determined by the investment manager or general partner. The following table presents the redemption frequency (if currently eligible) and the redemption notice period for MCERA's alternative investments measured at NAV:

	Fair Value at June 30, 2021	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Funds ⁽¹⁾	\$444,009,053	\$ 94,718,090	N/A	N/A
Opportunistic Funds ⁽²⁾	\$ 29,941,119	\$ 73,202,045	N/A	N/A

- (1) Private Equity Funds:** MCERA's private equity portfolio is composed of ten fund of funds vehicles investing primarily in buyout funds, venture capital, and special debt situations. The fair value is based on MCERA's pro rata share and determined by the fund's general partner based on a variety of valuation methods including current market multiples for comparable companies, recent sales of comparable companies, net present value of expected cash flows, appraisals and adjustments to prevailing public market prices based on control and/or liquidity, as appropriate. Although the funds are not eligible for redemption, MCERA receives distributions as the underlying investments are sold. At the end of the life of a private equity fund, remaining investments are liquidated, and proceeds are distributed. Limited extensions to the fund term are

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**Investments** (Continued)*Fair Value Measurements* (Continued)

possible and are usually two years at the discretion of the General Partner and then longer if a majority of investors wish it.

- (2) **Opportunistic Funds:** MCERA's Opportunistic portfolio is comprised of three funds. The funds are illiquid limited partnerships and are valued at net asset value on a quarterly basis. Due to contractual limitations, the funds are not eligible for redemption but rather distribute capital proceeds over the funds' lifespans. Opportunistic investments are private closed end vehicles seeking investment opportunities resulting from market disruption within the credit and debt markets. All three funds were committed in September 2020 and typically have a lifespan of six to ten years.

NOTE 4 – SECURITIES LENDING

Under provisions of state statutes, the MCERA Board of Retirement permits MCERA to participate in a securities lending program whereby securities are transferred to independent broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities plus a fee in the future. MCERA's custodial bank, State Street, is the agent for its securities lending program. State Street is authorized to lend U.S. government obligations, U.S. bonds and equities, and international bonds and equities that are being held in custody to various borrowers such as banks and brokers. All securities loans can be terminated on demand by either the lender or the borrower.

U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. Mark-to-market is performed every business day subject to de minimis rules of change in value, and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the agent will be at least equal to the fair value of the borrowed securities. Collateral received may include cash, any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, U.S. and non-U.S. equities, and such other collateral as the parties may agree to in writing from time to time. Cash collateral is invested in a short-term investment pool. Non-cash collateral cannot be pledged or sold unless the borrower defaults. The following represents the balances relating to the securities lending transactions at June 30, 2021:

Securities Lent	Fair Value of Underlying Securities	Cash Collateral Received/ Securities Collateral Value	Cash Collateral Investment Value
Lent for cash collateral			
U.S. government and agency securities	\$ 5,400,336	\$ 5,495,628	\$5,495,628
Domestic equities and corporate fixed-income securities	29,385,737	30,105,404	30,105,404
Total lent for cash collateral	\$ 34,786,073	\$ 35,601,032	\$ 35,601,032
Lent for securities collateral			
U.S. government and agency securities	\$ 1,269,249	\$ 1,294,933	\$ 0
Total lent for cash and securities collateral	\$ 36,055,322	\$ 36,895,965	\$ 35,601,032

NOTE 4 – SECURITIES LENDING (Continued)

MCERA and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2021, the liquidity pool had an average duration of 20.28 days and an average weighted final maturity of 104.37 days for USD collateral. As of this date, the duration pool had an average duration of 22.98 days and an average weighted final maturity of 1,016.55 days for USD collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. On June 30, 2021, MCERA had no credit risk exposure to borrowers.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

Under the terms of the MCERA's IPS and investment guidelines, investment managers are permitted to use derivative instruments to implement market decisions and to control portfolio risk. Derivatives are contracts or securities whose cash flows or fair values are derived from the values of other securities, indices, or instruments, including, but not limited to, futures, forwards, options, swaps, and options on futures. MCERA's investment managers are not allowed to use derivatives for speculative purposes. Investment managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Derivative instruments are reported at fair value as determined by MCERA's bank custodian. The changes in fair value of derivative instruments are reported within the investment revenue classification. For financial reporting purposes, all MCERA derivatives are classified as investment derivatives.

Types of Permitted Derivative Investments*Futures Contracts*

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to manage currency exposure and facilitate the settlement of international security purchase and sale transactions.

Option Contracts

An option contract is a type of derivative in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

Swap Agreements

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows are tied to a "notional" or contract amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The fair value represents the gains or losses as of the prior marking-to-market.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**Investment Derivatives Summary**

The following is a summary of derivative instruments at June 30, 2021, with the net appreciation/(depreciation) that has occurred during the fiscal year (all dollars in thousands):

Investment Derivatives by Type	Net Appreciation/ (Depreciation) in Fair Value Amount	Classification	Fair Value	Notional Amount
Credit Default Swaps Written	\$ 36	Swaps	\$ 0	\$ 0
Fixed Income Futures Long	(6,065)	Futures	0	171,465
Fixed Income Futures Short	1,695	Futures	0	(61,411)
Foreign Currency Futures Long	163	Futures	0	600
Foreign Currency Futures Short	58	Futures	0	(6,125)
FX Forwards	12	Long-Term Instruments	9	2,420
Index Futures Long	19,987	Futures	0	5
Index Futures Short	(6,782)	Futures	0	(20)
Rights	2	Common Stock	7	31
Warrants	2	Common Stock	1,166	595
Total	\$ 9,108		\$ 1,182	\$107,560

Types of Derivative Risk*Counterparty Credit Risk*

To minimize counterparty credit risk exposure, MCERA investment managers continuously monitor credit ratings of counterparties. Should there be a counterparty failure, MCERA would be exposed to the loss of fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. Netting arrangements legally provide MCERA with a right of offset in the event of bankruptcy or default by the counterparty. MCERA has no general investment policy with respect to netting arrangements or collateral requirements. As of June 30, 2021, MCERA had no exposure to loss in case of default of a counterparty. In addition, MCERA had no collateral reducing exposure or liabilities subject to netting arrangements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MCERA measures derivative interest rate risk using duration. MCERA had no investment derivative interest rate risk as of June 30, 2021.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**Types of Derivative Risk** (Continued)*Foreign Currency Risk*

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. Currency forward contracts represent foreign exchange contracts that are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. MCERA had the following derivative foreign currency exposures as of June 30, 2021 (all dollars in thousands):

Derivative Type	Currency	Fair Value
Currency Forward Contracts	Brazilian Real	\$11
Currency Forward Contracts	Euro Currency	(17)
Currency Forward Contracts	Mexican Peso	11
Currency Forward Contracts	Russian Ruble	5
Currency Forward Contracts	Tunisian Dinar	6
Total Foreign Derivatives		\$16

NOTE 6 – REAL ESTATE

MCERA holds real estate assets directly and in commingled real estate funds. Real estate investments owned directly are appraised annually by independent third-party appraisers in accordance with the Uniform Standards of Professional Appraisal Practice. Properties held in commingled pools are subject to regular internal valuations by investment management firms/general partners with independent third-party appraisals accomplished at regular intervals. Internal valuation techniques include discounted cash flows, sales comparisons, and cost approaches, which typically involve a degree of expert judgment.

MCERA engages Woodmont Real Estate Services to manage the direct real estate investments and has investments in commingled real estate portfolios with other firms, as listed below. At June 30, 2021, the estimated fair value of MCERA's real estate portfolio was \$294,538,314.

MCERA has the following real estate holdings as of June 30, 2021 (all dollars in thousands):

	Fair Value
Direct Investments	
San Rafael	\$ 15,060
<i>Total Direct Investments</i>	\$ 15,060
Commingled Investments	
AEW Core	\$ 109,595
Blackrock REIT	60,781
UBS – TPF	109,102
<i>Total Commingled Investments</i>	\$ 279,478
Total Real Estate Investments	\$ 294,538

NOTE 7 – CONTRIBUTIONS

The funding objective of the Board of Retirement is to collect sufficient assets to permit the payment of all regular benefits promised under MCERA and to minimize the volatility of contribution rates from year to year as a percentage of covered payroll. As a condition of participation under the provisions of the CERL, members are required to pay a percentage of their salaries depending upon their age at date of entry into the plan, membership type, and benefit tier. There are three sources of funding for retirement benefits: employer contributions, member contributions, and the earnings on investments held by the plan.

Separate annual actuarial valuations are performed for three employer groups for the purpose of determining the funded position of the retirement plan and the employer and member contributions necessary to pay benefits for MCERA members not otherwise funded by current assets or projected member contributions or investment earnings. The three employer groups are: (1) City of San Rafael, (2) Novato Fire Protection District, and (3) County of Marin and the remaining special districts.

Employer Contributions

For fiscal year 2021, the employer contribution rates are actuarially determined by using the Entry Age Normal to Final Decrement funding method. Employer contribution rates are made up of two parts:

1. The Normal Cost or the cost of the employer's portion of the benefit that is allocated to the current year.
2. The payment to amortize the Unfunded Actuarial Liability (UAL). The UAL is the excess of the plan's accrued liability over its assets.

Member Contributions

Active members are required by statute to contribute toward pension plan benefits. The member contribution rates for non-PEPRA members are formulated separately for each employer group on the basis of age at the date of entry and actuarially calculated benefits. The member contribution rate for PEPRA members is a flat rate of at least 50 percent of the normal cost for the defined benefit plan, rounded to the nearest quarter of one percent, formulated separately for each employer. The CERL authorizes participating employers to "pickup" all or a portion of an employee's retirement contribution obligation on the employee's behalf; however, PEPRA eliminates that authorization as to PEPRA members, with a limited exception relating to contracts in effect on January 1, 2013. Interest is credited to member contributions every six months based on the prior six months ending balance. Members are not permitted to borrow against their contributions. Upon termination of employment, members may withdraw their contributions by requesting a refund of their accumulated contributions and interest. The employer paid contribution pickups are typically not refundable.

General member contributions range from 7.87% to 18.14%; Safety member contributions range from 13.59% to 24.69%. These figures include additional cost sharing for some members determined through labor negotiations.

NOTE 8 – RESERVES

MCERA carries accounts within Net Position Restricted for Pension Benefits as reserve accounts for various operating purposes. Reserves are neither required nor recognized under accounting principles generally accepted in the United States of America. These are not shown separately on the Statement of Fiduciary Net Position, as the sum of these reserves equals the Net Position Restricted for Pension Benefits. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses.

NOTE 8 – RESERVES (Continued)**Semi-Annual Interest Crediting**

MCERA updates reserve balances on a semi-annual basis as of June 30 and December 31 each year. At these times, MCERA carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the CERL. The amount of “net earnings” to be credited for the semi-annual period is calculated based on actuarial smoothing. To the extent that net earnings are available, interest is credited to specified components of reserves in a prescribed sequence according to MCERA policy.

Components of Reserves*Employee Reserve*

This represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest. Deductions include refunds of member contributions along with credited interest and transfers to Retiree Member Reserves made when a member retires.

Employer Reserve

This represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest. Deductions include transfers to the Retiree Member Reserves made when each member retires. Employer contribution rates are actuarially determined taking into account other events such as members electing refund of contributions.

Retiree Reserves

These represent funds accumulated to pay retirement benefits to retired members, including credited interest, reduced by payments to retired members, beneficiaries, and survivors. The *Retiree Pension Reserve* and the *Retiree Annuity Reserve* represent the total net accumulated transfers from the Employer Reserve and the Employee Reserve, respectively, both made at the time each member retires. The *Survivor Death Benefit and Continuance Reserve* represents the accumulated employer and employee contributions, plus credited interest, to be used to pay death and survivorship benefits. The *Cost of Living Reserve* represents the accumulated contributions of the employer and the members, plus credited interest, to be used to pay COLAs.

Statutory Contingency Reserve

This represents earnings in excess of the total interest credited to valuation reserves, up to 1% of fair value of MCERA’s total assets. The Contingency Reserve is treated as a non-valuation asset and is used as a reserve against deficiencies in available earnings in other years, as provided in Government Code Sections 31592 and 31592.2.

Unrestricted Earnings Reserve

This represents earnings in excess of the total interest credited to all other reserves that have not been allocated by the Board of Retirement to other reserves.

Contra Account

This is an accounting informational mechanism used to track any historical shortfalls of available earnings credited to valuation reserves other than the Unrestricted Earnings Reserve on or after December 31, 2009, relative to the earnings required to credit interest at the full valuation rate to those valuation reserves.

NOTE 9 – NET PENSION LIABILITY (ASSET)**Net Pension Liability of Employers**

The net pension liability (asset) (i.e., the plan's liability (asset) determined in accordance with GASB Statement No. 67 less the fiduciary net position) is shown below:

Change in Net Pension Liability (Asset) from Fiscal Year Ended (FYE) 2020 to FYE 2021 ^{1, 2}			
	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2020	\$3,083,089,828	\$2,625,314,865	\$ 457,774,963
Changes for the Year:			
Service Cost	68,379,239	0	68,379,239
Interest	207,084,921	0	207,084,921
Changes of Benefits	0	0	0
Differences Between Expected and Actual Experience	8,570,419	0	8,570,419
Changes of Assumptions	33,674,504	0	33,674,504
Contributions – Employer	0	80,359,731	(80,359,731)
Contributions – Plan Member	0	32,019,007	(32,019,007)
Net Investment Income	0	829,890,324	(829,890,324)
Benefit Payments	(167,679,802)	(167,679,802)	0
Administrative Expenses	0	(4,383,839)	4,383,839
Net Changes	150,029,281	770,205,421	(620,176,140)
Balances at June 30, 2021	\$3,233,119,109	\$3,395,520,286	\$ (162,401,177)

¹ The Net Pension Liability (Asset) was measured as of June 30, 2021 and determined based upon rolling forward the Total Pension Liability from the actuarial valuation as of June 30, 2020.

² Amounts may differ from June 30, 2021 Audited Financial Statements due to rounding.

Actuarial Assumptions

MCERA retains an independent actuarial firm to conduct actuarial valuations of the pension plan to monitor MCERA's funding status and to establish the contribution rate requirements for the plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation.

NOTE 9 – NET PENSION LIABILITY (ASSET) (Continued)**Actuarial Assumptions** (Continued)

The total pension liability as of June 30, 2021, was determined by an actuarial valuation as of June 30, 2020, updated to June 30, 2021, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67. Key methods and assumptions used in the latest actuarial valuations are presented below:

Inflation	2.50%
Salary Increases	3.00%
Investment Rate of Return	6.75%, net of pension plan investment expense
Mortality Assumptions	<p>Active General: Sex distinct Public General 2010 Employee Mortality Table with generational mortality improvements projected from 2010 using Projection Scale MP-2020.</p> <p>Active Safety: Sex distinct Public Safety 2010 Above-Median Income Employee Mortality Table with generational mortality improvements projected from 2010 using Projection Scale MP-2020.</p> <p>Retired General: Sex distinct Public General 2010 Healthy Retiree Mortality Table with generational mortality improvements projected from 2010 using Projection Scale MP-2020.</p> <p>Retired Safety: Sex distinct Public Safety 2010 Above-Median Income Healthy Retiree Mortality Table with generational mortality improvements projected from 2010 using Projection Scale MP-2020.</p>
Most Recent Experience Study	June 30, 2020 (conducted every three years)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges 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 by adding expected inflation.

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

Asset Class	June 30, 2021	
	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Short-Term Investments	0.00%	(1.00%)
Fixed Income	23.00%	(0.25%)
Domestic Equities	32.00%	4.60%
International Equities	22.00%	4.80%
Public Real Assets	7.00%	2.90%
Real Estate	8.00%	3.75%
Private Equity	8.00%	6.00%
Opportunistic	0.00%	0.00%
TOTAL	100.00%	

NOTE 9 – NET PENSION LIABILITY (ASSET) (Continued)**Discount Rate**

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2021. 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, 2021.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of MCERA as of June 30, 2021, calculated using the discount rate of 6.75%, as well as what MCERA's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Total Pension Liability	\$ 3,653,536,747	\$ 3,233,119,109	\$ 2,886,902,602
Fiduciary Net Position	<u>3,395,520,286</u>	<u>3,395,520,286</u>	<u>3,395,520,286</u>
Net Pension Liability (Asset)	<u>\$ 258,016,461</u>	<u>\$ (162,401,177)</u>	<u>\$ (508,617,684)</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	92.9%	105.0%	117.6%

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the fiscal year ending June 30, 2021, was as follows (all dollars in thousands):

	Balance June 30, 2020	Additions	Dispositions	Balance June 30, 2021
Capital Assets Being Depreciated:				
Building	\$ 3,140	\$ 0	\$ 0	\$ 3,140
Tenant Improvements	2,840	1,514	0	4,354
Equipment	145	0	0	145
Computer Software/Hardware	4,374	0	0	4,374
<i>Total Capital Assets Being Depreciated</i>	10,499	1,514	0	12,013
Less Accumulated Depreciation for:				
Building	(913)	(78)	0	(991)
Tenant Improvements	(258)	(102)	0	(360)
Equipment	(112)	(3)	0	(115)
Computer Software/Hardware	(3,098)	(365)	0	(3,463)
<i>Total Accumulated Depreciation</i>	(4,381)	(548)	0	(4,929)
Total Capital Assets, Net	\$ 6,118	\$ 966	\$ 0	\$ 7,084

Depreciation expense as of June 30, 2021, was \$548,072, and capitalized tenant improvements and equipment during the fiscal year June 30, 2021, were \$1,514,024.

NOTE 11 – COMMITMENTS AND CONTINGENCIES**Litigation**

MCERA has no pending litigation as of the date of these financial statements.

Securities Litigation

MCERA's Class Action Securities Litigation Policy provides guidelines for monitoring litigation and for determining the appropriate participation by MCERA. Compliance with the policy assures that the Board of Retirement will continue to protect the financial interests of MCERA and its members.

Capital Commitments

MCERA's real estate and private equity investment managers identify and acquire investments on a discretionary basis. Each manager's investment activity and discretion is controlled by MCERA's IPS and the guidelines and limitations set forth in the contract, subscription agreement, limited partnership agreement, and/or other contractual documents applicable to each manager. Such investments are further restricted by the amount of capital allocated or committed to each manager. MCERA's IPS, contractual obligations, and capital commitments are subject to approval by the Board of Retirement and may be updated as often as necessary to reflect MCERA's prudent determinations regarding its investments, as well as changes in market conditions.

During fiscal year 2021, MCERA funded \$368,249,309 of its private equity capital commitments and \$26,797,955 of its opportunistic capital commitments. As of June 30, 2021, outstanding commitments to the various investment managers, as approved by the Board of Retirement, totaled \$94,718,090 for private equity and \$73,202,045 for opportunistic.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through , 2021, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. In response, the County of Marin, issued a Shelter at Home order effective March 17, 2020, requiring non-essential businesses to temporarily close to the public. In June 2020 MCERA re-opened its office and has been operating with a hybrid on-site/remote work team since. This hybrid work environment has not created any issues for managing overall operations.

REQUIRED SUPPLEMENTARY INFORMATION

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS ¹

	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017
Total Pension Liability					
Service cost	\$ 68,379,239	\$ 63,855,331	\$ 63,587,459	\$ 61,074,664	\$ 57,090,773
Interest (includes interest on service cost) ²	207,084,921	203,816,884	195,274,191	188,096,539	184,139,800
Differences between expected and actual experience	8,570,419	15,620,886	16,721,629	(3,412,765)	(904,678)
Changes of assumptions	33,674,504	0	0	40,801,678	0
Benefit payments, including refunds of employee contributions ²	(167,679,802)	(158,293,527)	(149,212,984)	(139,856,672)	(131,937,062)
Net Change in Total Pension Liability	150,029,281	124,999,574	126,370,295	146,703,444	108,388,833
Total Pension Liability - Beginning	3,083,089,828	2,958,090,254	2,831,719,959	2,685,016,515	2,576,627,682
Total Pension Liability - Ending (a)	<u>\$3,233,119,109</u>	<u>\$3,083,089,828</u>	<u>\$2,958,090,254</u>	<u>\$2,831,719,959</u>	<u>\$2,685,016,515</u>
Fiduciary Net Position					
Contributions – employer ²	\$ 80,359,731	\$ 75,643,074	\$ 78,738,814	\$ 78,754,476	\$ 77,502,945
Contributions - plan member ²	32,019,007	30,913,996	30,010,459	28,628,627	28,053,775
Net investment income	829,890,324	89,273,498	136,483,513	221,839,196	248,347,501
Benefit payments, including refunds of employee contributions ²	(167,679,802)	(158,293,527)	(149,212,984)	(139,856,672)	(131,937,062)
Administrative expenses ²	(4,383,839)	(4,607,760)	(5,056,350)	(4,203,705)	(4,404,191)
Net Change in Fiduciary Net Position	770,205,421	32,929,281	90,963,452	185,161,922	217,562,968
Fiduciary Net Position - Beginning	2,625,314,865	2,592,385,584	2,501,422,132	2,316,260,210	2,098,697,242
Fiduciary Net Position - Ending (b)	<u>\$3,395,520,286</u>	<u>\$2,625,314,865</u>	<u>\$2,592,385,584</u>	<u>\$2,501,422,132</u>	<u>\$2,316,260,210</u>
Net Pension Liability (Asset) (a)-(b)	<u>\$ (162,401,177)</u>	<u>\$ 457,774,963</u>	<u>\$ 365,704,670</u>	<u>\$ 330,297,827</u>	<u>\$ 368,756,305</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	105.02%	85.15%	87.64%	88.34%	86.27%
Covered Payroll	\$ 272,441,885	\$ 264,730,129	\$ 253,964,938	\$ 248,532,086	\$ 242,045,311
Net Pension Liability (Asset) as a Percentage of Covered Payroll	(59.61%)	172.92%	144.00%	132.90%	152.35%

¹ The Schedule of Changes in Net Pension Liability (Asset) and Related Ratios is intended to show information for 10 years. Additional years will be displayed as they become available.

² Amounts may not sum to total due to rounding.

See accompanying notes to the required supplementary information.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS (Continued) ¹

	FYE 2016	FYE 2015	FYE 2014
Total Pension Liability			
Service cost	\$ 55,208,834	\$ 49,064,492	\$ 49,014,858
Interest (includes interest on service cost) ²	176,564,792	166,718,783	159,521,975
Differences between expected and actual experience	(212,631)	(31,054,298)	0
Changes of assumptions	0	144,753,646	0
Benefit payments, including refunds of employee contributions ²	(124,203,519)	(115,984,752)	(109,342,861)
Net Change in Total Pension Liability	107,357,476	213,497,871	99,193,972
Total Pension Liability - Beginning	2,469,270,206	2,255,772,335	2,156,578,363
Total Pension Liability - Ending (a)	<u>\$2,576,627,682</u>	<u>\$2,469,270,206</u>	<u>\$2,255,772,335</u>
Fiduciary Net Position			
Contributions – employer ²	\$ 75,260,980	\$ 68,915,072	\$ 69,980,201
Contributions - plan member ²	27,207,157	24,920,493	22,952,689
Net investment income	42,927,728	100,055,573	309,002,468
Benefit payments, including refunds of employee contributions ²	(124,203,519)	(115,984,752)	(109,342,861)
Administrative expenses ²	(4,379,760)	(4,654,623)	(4,503,845)
Net Change in Fiduciary Net Position	16,812,586	73,251,763	288,088,652
Fiduciary Net Position - Beginning	2,081,884,656	2,008,632,893	1,720,544,241
Fiduciary Net Position - Ending (b)	<u>\$2,098,697,242</u>	<u>\$2,081,884,656</u>	<u>\$2,008,632,893</u>
Net Pension Liability (Asset) (a)-(b)	<u>\$ 477,930,440</u>	<u>\$ 387,385,550</u>	<u>\$ 247,139,442</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	81.45%	84.31%	89.04%
Covered Payroll	\$ 238,185,040	\$ 223,825,880	\$ 218,340,721
Net Pension Liability (Asset) as a Percentage of Covered Payroll	200.66%	173.07%	113.19%

¹ The Schedule of Changes in Net Pension Liability (Asset) and Related Ratios is intended to show information for 10 years. Additional years will be displayed as they become available.

² Amounts may not sum to total due to rounding.

See accompanying notes to the required supplementary information.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CONTRIBUTIONS HISTORY**

	FYE 2021	FYE 2020	FYE 2019	FYE 2018	FYE 2017
Actuarially Determined Contributions	\$ 80,359,731	\$ 75,643,074	\$ 78,738,814	\$ 78,754,476	\$ 77,502,945
Contributions in Relation to the Actuarially Determined Contributions	80,359,731	75,643,074	78,738,814	78,754,476	77,502,945
Contribution Deficiency / (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll ¹	\$ 272,441,885	\$ 264,730,129	\$ 253,964,938	\$ 248,532,086	\$ 242,045,311
Contributions as a Percentage of Covered Payroll	29.50%	28.57%	31.00%	31.69%	32.02%
	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
Actuarially Determined Contributions	\$ 75,260,980	\$ 68,915,072	\$ 69,660,201	\$ 69,853,000	\$ 64,690,000
Contributions in Relation to the Actuarially Determined Contributions	75,260,980	68,915,072	69,660,201	69,853,000	64,690,000
Contribution Deficiency / (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll ¹	\$ 238,185,040	\$ 223,825,880	\$ 218,340,721	\$ 211,001,594	\$ 216,515,000
Contributions as a Percentage of Covered Payroll	31.60%	30.79%	31.90%	33.11%	29.88%

¹ In accordance with GASB Statement No. 82, Covered Payroll is the payroll on which contributions are based.

See accompanying notes to the required supplementary information.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT RETURNS***

	<u>FYE 2021**</u>	<u>FYE 2020**</u>	<u>FYE 2019**</u>	<u>FYE 2018**</u>	<u>FYE 2017**</u>
Annual Money- Weighted Rate of Return, Net of Investment Expense	32.75%	3.25%	5.41%	9.53%	12.21%
	<u>FYE 2016**</u>	<u>FYE 2015</u>	<u>FYE 2014</u>		
Annual Money- Weighted Rate of Return, Net of Investment Expense	2.15%	5.04%	18.16%		

* The Schedule of Investment Returns is intended to show information for 10 years. Additional years will be displayed as they become available.

** These calculations for the money-weighted rate of return, net of investment expense, were provided by MCERA's investment consultant, Callan Associates.

See accompanying notes to the required supplementary information.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

Total Pension Liability

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

Service Cost

The service cost is based on the previous year's valuation, meaning the 2021 and 2020 values are based on the valuations as of June 30, 2020 and June 30, 2019, respectively. The June 30, 2021 service costs have been calculated using the June 30, 2020 actuarial assumptions as described in Note 9 of the Notes to the Basic Financial Statements earlier in this report. The June 30, 2020 service costs have been calculated using the June 30, 2019 actuarial assumptions as described in Note 3 of the Notes to Required Supplementary Information on the following page.

Change in Assumptions

Triennially, MCERA requests that the actuary perform an analysis of all economic and non-economic assumptions in the form of an Experience Study. The most recent triennial Experience Study was for the period July 1, 2017 through June 30, 2020. Based on the results of this study, the Board of Retirement lowered the assumed rate of investment return from 7.00% to 6.75% effective with the June 30, 2020 valuation.

Covered Payroll

Covered payroll shown represents only the Compensation Earnable and Pensionable Compensation that is used in the determination of retirement benefits.

NOTE 2 – SCHEDULE OF INVESTMENT RETURNS

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

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

Valuation date	June 30, 2019 (to determine FY 2020-21 contributions)
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.
Key methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal to Final Decrement
Asset valuation method	As of the June 30, 2014 valuation, assets are valued using the market value. The assets used to compute the Unfunded Actuarial Liability (UAL) are the market value of assets, minus the value of any non-valuation contingency reserves.
Amortization method	<p>The UAL (or Surplus Funding) is amortized as a percentage of the projected salaries of present and future members of MCERA. Effective with the June 30, 2013 valuation, the UAL as of June 30, 2013, is amortized over a closed 17-year period (11 years remaining as of June 30, 2019), except for the additional UAL attributable to the extraordinary loss from 2009, which is being amortized over a separate closed period (19 years remaining as of June 30, 2019).</p> <p>Subsequent unexpected change in the unfunded actuarial liability after June 30, 2014, is amortized over a closed 24-year period (22 years for assumption changes) that includes a 5-year phase-in/out (3 years for assumption changes) of the payments/credits for each annual layer.</p>
Investment rate of return	7.00%
Inflation rate	2.75%
Cost of living adjustments (COLAs)	2.7% for tiers with a 4.0% COLA cap 2.6% for tiers with a 3.0% COLA cap 1.9% for tiers with a 2.0% COLA cap
Salary increases	3.00% (2.75% inflation plus 0.25% wage growth)
Retiree mortality	Rates of mortality for retired Members and their beneficiaries are given by California Public Employees Retirement System (CalPERS) 2017 Post-Retirement Healthy Mortality rates, adjusted by 90% for Males (General and Safety), with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2014 using Scale MP-2017.
Disabled mortality	Rates of mortality among disabled Members are given by CalPERS 2017 Disability Mortality rates (Non-Industrial rates for General members and Industrial Disability rates for Safety members), adjusted by 90% for Males (General and Safety) and 90% for General Females, with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2014 using Scale MP-2017.

A complete description of the methods and assumptions used to determine contribution rates for the fiscal year ending June 30, 2021, can be found in the June 30, 2019 actuarial valuation report.

OTHER INFORMATION

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF COST SHARING EMPLOYER ALLOCATIONS
AS OF JUNE 30, 2021 ¹**

Employer	Unfunded Liability (from the June 30, 2020 Actuarial Valuation)	Proportionate Share	Net Pension Liability (Asset) ²
County	\$279,082,561	55.8749%	\$ (90,741,495)
City of San Rafael	148,170,360	29.6650%	(48,176,309)
Novato Fire	34,993,749	7.0061%	(11,377,989)
Superior Court	11,570,299	2.3165%	(3,762,023)
Southern Marin Fire	17,578,363	3.5193%	(5,715,385)
Mosquito District	7,675,159	1.5366%	(2,495,456)
Tamalpais CSD	407,469	0.0816%	(132,519)
Marin City CSD	0	0%	0
LAFCO	0	0%	0
Total	<u>\$499,477,960</u>	<u>100.0000%</u>	<u>\$(162,401,177)</u>

¹ Numbers may not sum to total due to rounding.

² Proportionate share of net pension liability (asset) is based on the actuarial valuation.

See accompanying notes to the other information.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER PENSION AMOUNTS ALLOCATED BY COST SHARING PLAN
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2021 ¹**

Employer	Net Pension Liability (Asset)	Deferred Outflows of Resources			
		Differences Between Expected and Actual Economic Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
County	\$ (90,741,495)	\$10,291,410	\$ 14,111,697	\$19,509,888	\$ 43,912,995
City of San Rafael	(48,176,309)	5,463,897	7,492,156	2,797,308	15,753,361
Novato Fire	(11,377,989)	1,290,430	1,769,452	4,036,459	7,096,341
Superior Court	(3,762,023)	426,668	585,052	1,228,399	2,240,119
Southern Marin Fire	(5,715,385)	648,208	888,830	2,983,893	4,520,931
Mosquito District	(2,495,456)	283,021	388,082	822,106	1,493,209
Tamalpais CSD	(132,519)	15,030	20,609	410,881	446,520
Marin City CSD	0	0	0	80,986	80,986
LAFCO	0	0	0	58,644	58,644
Totals	<u>\$(162,401,177)</u>	<u>\$18,418,664</u>	<u>\$25,255,878</u>	<u>\$31,928,562</u>	<u>\$ 75,603,104</u>

¹ Numbers may not sum to total due to rounding.

See accompanying notes to the other information.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER PENSION AMOUNTS ALLOCATED BY COST SHARING PLAN (Continued)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2021 ¹

Employer	Deferred Inflows of Resources		
	Net Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources
County	\$ 260,907,980	\$ 3,567,865	\$ 264,475,845
San Rafael	138,520,789	25,731,783	164,252,572
Novato Fire	32,715,001	915,042	33,630,043
Superior Court	10,816,902	195,987	11,012,889
Southern Marin Fire	16,433,380	70,137	16,503,517
Mosquito District	7,175,157	702,858	7,878,015
Tamalpais CSD	381,031	711,103	1,092,134
Marin City CSD	0	4,669	4,669
LAFCO	0	29,118	29,118
Totals	\$ 466,950,240	\$31,928,562	\$ 498,878,802

¹ Numbers may not sum to total due to rounding.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER PENSION AMOUNTS ALLOCATED BY COST SHARING PLAN (Continued)
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2021 ¹

Pension Expense Excluding that Attributable to Employer-Paid Member Contributions			
Employer	Proportionate Share of Allocable Pension Plan Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Pension Expense Excluding that Attributable to Employer-Paid Member Contributions
County	\$(20,408,956)	\$ 5,527,173	\$(14,881,784)
City of San Rafael	(10,835,486)	(9,292,129)	(20,127,614)
Novato Fire	(2,559,059)	1,678,446	(880,613)
Superior Court	(846,129)	167,663	(678,465)
Southern Marin Fire	(1,285,465)	1,958,579	673,114
Mosquito District	(561,261)	170,290	(390,972)
Tamalpais CSD	(29,805)	(270,814)	(300,620)
Marin City CSD	0	46,070	46,070
LAFCO	0	14,722	14,722
Totals	\$(36,526,162)	\$ 0	\$(36,526,162)

¹ Numbers may not sum to total due to rounding.

**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO OTHER INFORMATION**

NOTE 1 – BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

Employers participating in Marin County Employees' Retirement Association (MCERA) are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. The Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan and Schedule of Cost Sharing Employer Allocations, along with MCERA's audited financial statements, the GASB Statement No. 67 Actuarial Valuation as of June 30, 2021, and the GASB Statement No. 68 Actuarial Valuation Based on a June 30, 2021 Measurement Date for Employer Reporting as of June 30, 2021, prepared by MCERA's independent actuary, provide the required information for financial reporting related to MCERA that employers may use in their financial statements.

The accompanying schedule was prepared by MCERA's independent actuary and was derived from information provided by MCERA in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations.

NOTE 2 – USE OF ESTIMATES IN THE PREPARATION OF THE SCHEDULES

The preparation of these schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – AMORTIZATION OF DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

The difference between projected and actual investment earnings on pension plan investments is amortized over 5 years on a straight-line basis. One-fifth was recognized in pension expense during the measurement period, and the remaining difference between projected and actual investment earnings on pension plan investments at June 30, 2021, is to be amortized over the remaining periods.

The changes in assumptions and differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through MCERA (active and inactive employees) determined as of June 30, 2020 (the beginning of the measurement period ending June 30, 2021) and is four years. Prior period changes of assumptions and differences between expected and actual experience are continued to be recognized based on the expected remaining service lives of all employees calculated as of those prior measurement dates.

In addition, the net effect of the change in the employer's proportionate share of the net pension liability (asset) and deferred outflows of resources and deferred inflows of resources is also recognized over the average expected remain service lives of all employees noted above. The difference between the actual employer contributions and the proportionate share of the employer contributions during the measurement period ending on June 30, 2021, is recognized over the same period as noted above. The Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan does not reflect contributions made to MCERA subsequent to the measurement date as defined in GASB Statement No. 68 Paragraphs 54, 55, and 57. Appropriate treatment of such amounts is the responsibility of the employers.