MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position Available for Benefits of the Marin County Employees' Retirement Association (MCERA), a component unit of the County of Marin, California, as of June 30, 2016, the Statement of Changes in Fiduciary Net Position Available for Benefits for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise MCERA's basic financial statements as listed in the foregoing table of contents. We have also audited the Schedules of Cost Sharing Employer Allocations of MCERA for the years ended June 30, 2016 and 2015, and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) as of and for the year ended June 30, 2016, 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 audits. We conducted our audits 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 audits 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 available for benefits of MCERA as of June 30, 2016, and the changes in its fiduciary net position available for benefits for the fiscal year then ended; the Schedules of Cost Sharing Employer Allocations of MCERA for the years ended June 30, 2016, and 2015; and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) as of and for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in 2016, MCERA adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*.

As discussed in Note 9 to the basic financial statements, based on the actuarial valuation of MCERA as of June 30, 2015 rolled forward to June 30, 2016, the total pension liability of the participating employers exceeded MCERA's fiduciary net position by $477,930,440. The fiduciary net position as a percentage of the total liability as of June 30, 2016, was 81.45%. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.25%, which represents the long-term expected rate of return.

Our opinion is not modified with respect to these matters.

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 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of MCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCERA's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited MCERA's June 30, 2015, financial statements, and our report dated October 28, 2015, 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, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 5, 2016

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR JUNE 30, 2016

This Management's Discussion and Analysis (MD&A) of the financial activities of Marin County Employees' Retirement Association (MCERA) is an overview of its fiscal operations for the fiscal year ended June 30, 2016. 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, 2016, was $2,098,697,242. The fiduciary net position is held in trust for payment of pension benefits to participants and their beneficiaries and is available to meet MCERA's ongoing obligations.

- Fiduciary net position increased by $16,812,586, 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 Available for Benefits were $145,395,865, which includes employer and employee contributions of $102,468,137, an investment gain of $42,730,153, and net securities lending income of $197,575.

- Deductions in fiduciary net position increased from $120,639,375 to $128,583,279 from the prior year. The increase was mainly due to an increase in retiree pension benefits.

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2015, the date of the last actuarial evaluation, the funded ratio for all MCERA agencies was 83.7% based on the ratio of actuarial 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: 86.4% for the County of Marin and Special Districts, 72.5% for the City of San Rafael, and 88.9% 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 Available for Benefits
- Statement of Changes in Fiduciary Net Position Available for Benefits
- Notes to the Basic Financial Statements
- Required Supplementary Information

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 Available for Benefits and the Statement of Changes in Fiduciary Net Position Available for Benefits 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 Available for Benefits 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 held in trust 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 Available for Benefits 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 or Deductions to the plan.

These two statements report MCERA's net position held in trust 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 statements 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 statements.

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 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 new schedules provide a broad scope of financial information, including a pension liability measurement and changes to the liability, historical contributions, money-weighted investment return, and additional actuarial-related disclosures.

Financial Analysis

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Net position held in trust for pension benefits as of June 30, 2016, totaled $2,098,697,242, an increase of $16,812,586 over the prior year. MCERA's assets exceeded its liabilities at the end of the year. The Total Fiduciary Net Position 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 Available for Benefits, and only current liabilities are reported. Below is a comparison of current and prior year balances:

	2016	2015	Increase (Decrease) 2016/2015
Investments at fair value	$ 2,056,368,827	$ 2,026,355,568	$ 30,013,259
Cash and cash equivalents	35,586,471	43,288,323	(7,701,852)
Capital assets (net of accumulated depreciation)	5,933,038	6,406,474	(473,436)
Collateral held for securities loaned	36,267,606	48,783,804	(12,516,198)
Receivables and other assets	10,705,140	11,142,967	(437,827)
Total assets	2,144,861,082	2,135,977,136	8,883,946
Total liabilities	46,163,840	54,092,480	(7,928,640)
Net position held in trust for pension benefits	$ 2,098,697,242	$ 2,081,884,656	$ 16,812,586

In order to determine whether the Fiduciary Net Position 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, 2015, and determined that the funded ratio of the actuarial value of assets to the actuarial liability is 83.7%. The actuarial valuation as of June 30, 2014, determined the funded ratio to be 84.3%.

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, 2016 and 2015, totaled $145,395,865 and $193,891,138, respectively.

	2016	2015	Increase (Decrease) 2016/2015
Employer contributions	$ 78,049,814	$ 72,867,357	$ 5,182,457
Plan member contributions	24,418,323	20,968,208	3,450,115
Total net investment income	42,927,728	100,055,573	(57,127,845)
Total additions	$ 145,395,865	$ 193,891,138	$ (48,495,273)

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:

	2016	2015	Increase (Decrease) 2016/2015
Retirement benefits	$ 123,226,093	$ 115,280,886	$ 7,945,207
Refund of contributions	977,426	703,866	273,560
Administrative expenses	3,514,621	3,668,546	(153,925)
Legal expenses	451,526	482,923	(31,397)
Computer expenses	273,381	333,364	(59,983)
Actuarial expenses	140,232	169,790	(29,558)
Total deductions	$ 128,583,279	$ 120,639,375	$ 7,943,904

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. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses.

Total Net Position Held in Trust for Pension Benefits as of June 30

	2016	**2015**
Employee reserves	$ 294,515,803	$ 273,573,890
Employer reserves	277,402,257	243,106,998
Retiree reserves	1,584,798,797	1,516,272,204
Contingency reserves	-	15,637,112
Total reserves - restricted	**2,156,716,857**	**2,048,590,204**
Unrestricted reserves	12,712	41,096,612
Contra - Interest crediting	(58,032,327)	(7,802,160)
Total reserves - unrestricted	**(58,019,615)**	**33,294,452**
Total Net Position Held in Trust for Pension Benefits	**$ 2,098,697,242**	**$ 2,081,884,656**

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 Retirement Board, 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,

/s/ Lisa Jackson

Lisa Jackson
Senior Accountant

BASIC FINANCIAL STATEMENTS

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS
AS OF JUNE 30, 2016 (with Comparative Totals)

	June 30, 2016	June 30, 2015
Assets		
Cash and short-term investments		
Cash and cash equivalents	$ 35,586,471	$ 43,288,323
Cash collateral on loaned securities	36,267,606	48,783,804
Total Cash and Short-Term Investments	71,854,077	92,072,127
Receivables		
Contributions	3,639,298	5,274,370
Interest and dividends	1,882,749	1,811,712
Due from brokers for securities sold	3,874,113	1,554,594
Other receivables	1,258,129	2,045,858
Total Receivables	10,654,289	10,686,534
Investments at fair value		
Domestic fixed income	277,371,287	243,056,642
International fixed income	61,756,871	63,900,038
Domestic equities	748,722,068	810,138,708
International equities	426,412,816	441,603,824
Private equity	192,518,905	158,919,340
Real estate	204,430,848	206,737,016
Real assets	145,156,032	102,000,000
Total Investments at Fair Value	2,056,368,827	2,026,355,568
Capital assets (net of accumulated depreciation)	5,933,038	6,406,474
Prepaid insurance	50,851	456,433
Total Assets	2,144,861,082	2,135,977,136
Liabilities		
Accounts payable and accrued expenses	1,462,413	1,661,533
Due to brokers for securities purchased	8,410,972	3,315,677
Rental security deposits	-	329,220
Retiree payroll payable	22,849	2,246
Obligations under securities lending program	36,267,606	48,783,804
Total Liabilities	46,163,840	54,092,480
Net Position Held in Trust for Pension Benefits	$ 2,098,697,242	$ 2,081,884,656

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

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED JUNE 30, 2016 (with Comparative Totals)

	June 30, 2016	June 30, 2015
Additions		
Contributions		
Employer	$ 78,049,814	$ 72,867,357
Plan member	24,418,323	20,968,208
Total Contributions	102,468,137	93,835,565
Investment income		
Net appreciation in fair value of investments	25,687,408	84,583,896
Interest and dividends	16,979,678	16,836,188
Real estate operating income, net	10,823,799	9,055,660
Other investment income	150,749	92,595
Total investment income	53,641,634	110,568,339
Less investment expenses	(10,911,481)	(10,763,096)
Net Investment Income	42,730,153	99,805,243
Securities lending activities		
Securities lending income	339,491	366,839
Less expenses from securities lending activities	(141,916)	(116,509)
Net Securities Lending Activities	197,575	250,330
Total Net Investment Income	42,927,728	100,055,573
Total Additions	145,395,865	193,891,138
Deductions		
Benefits	123,226,093	115,280,886
Refunds	977,426	703,866
Administrative expenses	3,514,621	3,668,546
Legal expenses	451,526	482,923
Computer expenses	273,381	333,364
Actuarial expenses	140,232	169,790
Total Deductions	128,583,279	120,639,375
Net Increase	16,812,586	73,251,763
Net Position Held in Trust for Pension Benefits, Beginning of Year	2,081,884,656	2,008,632,893
Net Position Held in Trust for Pension Benefits, End of Year	$ 2,098,697,242	$ 2,081,884,656

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

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 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 County Superior Court, Marin/Sonoma Mosquito and Vector Control District, Novato Fire Protection District, Southern Marin Fire Protection District, and Tamalpais Community Services District.

Administration

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

- The Director of Finance of the County.
- 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, 2015):

	2015
Active Members (Vested and Non-Vested)	2,609
Retired Members and Beneficiaries	2,939
Terminated Vested (Deferred)	653
Total Membership	**6,201**

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 PEPRA (hereinafter "PEPRA members"). All other General and Safety members, except PEPRA members, are eligible to retire at age 50 if they have earned 10 years of credited service. Unless they are PEPRA 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. PEPRA members who are Safety members are eligible to retire after five years of service upon reaching 50 years of age. PEPRA 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 month's 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 non-service 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 of Marin (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 which 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 expense 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. Expenditures 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 the retirement system.

For the year ended June 30, 2016, administrative expenses were $3,514,621, or 0.14% of the actuarial liability as of June 30, 2014.

Cash and Cash Equivalents

Cash equivalents include deposits in MCERA's custodian bank. 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, 2016.

Methods Used to Value Investments

Investments are reported at fair value. Fair value is the amount MCERA could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Fair value is determined by MCERA management based on information provided by the investment managers and the custodian bank. 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.

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 Retirement Board, 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, 2016, the capitalized portion of the building was $3,173,037 and computers and equipment were $2,760,001, net of accumulated depreciation.

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 conformity 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.

Reclassifications

Comparative data for the prior year has been presented in the selected sections of the accompanying Statements of Fiduciary Net Position Available for Benefits and Statement of Changes in Fiduciary Net Position Available for Benefits. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

NOTE 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

New Accounting Standards Adopted

<u>GASB Statement No. 72</u>

In March 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires state and local governments to use specific valuation techniques to measure the fair value of assets and liabilities that are appropriate to the circumstances. 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 establishes a fair value hierarchy based on three distinct types of inputs to develop fair value measurements:

- 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.

GASB Statement No. 72 also expands disclosures regarding the fair value hierarchy and valuation techniques that are used for the fair value measurements. MCERA implemented this statement in fiscal year 2016. There was no material impact on MCERA's financial statements as a result of the implementation of GASB Statement No. 72.

<u>Other New Statements</u>

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement No. 67 and No. 68;* and Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. GASB Statement No. 76 establishes the hierarchy of accounting principles generally accepted in the United States of America for state and local governments, in the context of the current governmental financial reporting environment. MCERA's fiduciary net position was not materially affected by these Statements.

NOTE 3 – <u>DEPOSITS AND INVESTMENTS</u>

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.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

- The members of the retirement board shall diversify the investments of the system so as 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."

Deposits

Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value. All cash and cash equivalents are 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, 2016, $341,314 of the plan's bank balances of $591,314 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, 2016, as rated by Standard & Poor's, are listed below (all dollars in thousands). The credit risk schedule excludes the $116 million commingled global bond fund, which is included in the fixed income category on the Statement of Fiduciary Net Position.

Rating Category	Fair Value
	2016
AAA	$ 30,643
AA	14,561
A	49,352
BBB	95,239
BB	11,868
B	1,873
CCC	395
Agencies	5,448
U.S. Treasuries	11,699
No Rating	2,085
Total	**$ 223,163**

NOTE 3 – <u>DEPOSITS AND INVESTMENTS</u> (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, 2016, 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, 2016. This schedule excludes the $116 million commingled global bond fund, which is included in the fixed income category on the Statement of Fiduciary Net Position.

June 30, 2016 (all dollars in thousands):

Investment Type	Fair Value	Weighted Average Duration (in Years)
Asset-Backed Securities	$ 23,498	0.33
Collateralized Mortgage Obligations	17,072	4.36
Corporate and Other Credit	165,446	5.71
Mortgage Pass-Throughs	2,924	7.22
Municipal Bonds	2,524	10.13
U.S. Treasuries	11,699	8.40
Total	**$223,163**	

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). Aside from net currency gains or losses reported as a component of investment income, no other amounts are recorded on the financial statements. 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.

MCERA invests primarily in commingled vehicles; as such, the foreign currency risk exposure is minimal. The following table presents a summary of securities with non-U.S. Dollars (non-USD) base currencies as of June, 30, 2016 (all dollars in thousands):

Base Currency Country	Base Currency Code	Fair Value in U.S. Dollars
Brazil	BRL	$ 199
Canada	CAD	(92)
Colombia	COP	154
International (Euro)	EUR	1,524
Russia	RUB	49
Thailand	THB	245
United Kingdom	GBP	283
Uruguay	UYU	169
Total Non-USD Securities		**$ 2,531**

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 2.15%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value of Investments

In fiscal year 2016, MCERA adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 establishes a fair value hierarchy based on three types of inputs that measure the fair value of investments.

- *Level 1:* Reflects quoted prices for identical investments 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.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fair Value of Investments (Continued)

At June 30, 2016, MCERA had the following fair value measurements:

Investments by Fair Value Level	June 30, 2016	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt Securities				
Mortgage and Asset-Backed	$ 40,720,328	$ -	$ 40,720,328	$ -
Corporate Bonds	165,440,460	-	165,440,460	-
U.S. Government and Agency Securities	4,016,126	-	4,016,126	-
Government Issues	10,561,975	-	10,561,975	-
Municipal Obligations	2,524,451	-	2,524,451	-
Total Debt Securities	**223,263,340**		**223,263,340**	**-**
Equity Securities				
Common Stock	78,452,969	78,452,969	-	-
Preferred Stock	730,206	384,833	200,200	145,173
Depository Receipts	3,394,291	3,394,291	-	-
Mutual Funds and Commingled Investments	1,017,411,924	750,310,846	267,101,078	-
Other - High Yield	75,145,494	-	75,145,494	-
Total Equity Securities	**1,175,134,884**	**832,542,939**	**342,446,772**	**145,173**
Other Assets				
Private Real Estate - Commingled Investments	194,470,798	-	-	194,470,798
Private Real Estate - Direct Ownership	9,960,050	-	-	9,960,050
Public Real Assets	145,156,032	77,618,521	67,537,511	-
Total Other Assets	**349,586,880**	**77,618,521**	**67,537,511**	**204,430,848**
Total Investments by Fair Value Level	**$1,747,985,104**	**$ 910,161,460**	**$633,247,623**	**$ 204,576,021**
Investments Measured at Net Asset Value (NAV)				
Private Equity Funds	192,518,905			
Commingled Global Bond Fund	115,864,818			
Total NAV Investments	**308,383,723**			
Total Investments	**$2,056,368,827**			
Investments in Derivative Instruments (all dollars in thousands)				
Swaps	$ (172)	$ -	$ (172)	$ -
Forwards	(20)	(20)	-	-
Total Derivatives	**$ (192)**	**$ (20)**	**$ (172)**	**$ -**

Investments (Continued)

Fair Value of Investments (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; and
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund.
- Commingled and high-yield equity investments: valued using matrix pricing techniques or quoted prices for similar securities in active markets.

Equity securities classified in Level 3 represent preferred stocks that are priced by the investment manager using internal fair value techniques or broker quotations for which there is not an independent pricing source.

Public real assets classified in Level 1 are valued using prices quoted in active markets for those securities. Public real assets 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, 2016	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Commingled Global Bond Fund (1)	$ 115,864,818	N/A	Monthly	10 business days prior to month end
Private Equity Funds (2)	192,518,905	$ 169,039,986	N/A	N/A
Total Investments Measured at NAV	**$ 308,383,723**			

(1) Commingled Global Bond Fund: MCERA has one global bond fund that is considered to be commingled in nature. This fund is valued at the net asset value of units held at the end of the period based on the fair value of the underlying investments. Under the terms of the Fund's Private Placement Memorandum (PPM), Unitholders may redeem all or part of their units in the Fund on any dealing day by providing the Investment Manager with written notice at least ten (10) business days prior to the dealing day upon which the redemption is to be effective. The Investment Manager may waive this notice requirement with the consent of the Custodial Trustee. In the event that a redemption is suspended pursuant to the Investment Manager's direction, the Investment Manager will apply reasonable best efforts to satisfy the Unitholder's request to redeem its Units in cash within ten (10) business days of the month end to which the request is effective. There were no restrictions on the ability to sell the investment during fiscal year 2016.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fair Value of Investments (Continued)

(2) Private Equity Funds: MCERA's private equity portfolio is composed of six funds investing primarily in buyout funds, venture capital, and special debt situations. The fair values of these funds have been determined using audited financial statements or estimates of net asset values from the prior quarter plus current quarter cash flows. The funds are not eligible for redemption.

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.

As of June 30, 2016, the fair value of securities loaned by MCERA totaled $35,624,727. As of June 30, 2016, the fair value of cash collateral held for securities loaned was $36,267,606.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

Under the terms of the MCERA's Investment Policy Statement (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.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Types of Permitted Derivative Investments (Continued)

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.

Investment Derivatives Summary

The following is a summary of derivative instruments at June 30, 2016, with the net appreciation/(depreciation) that has occurred during the year (all dollars in thousands):

Investment Derivatives by Type	Net Appreciation/ (Depreciation) in Fair Value Amount	Classification	Fair Value	Notional Amount
Credit Default Swaps Purchased	$ (17)	Swaps	$ (34)	$ 1,050
Credit Default Swaps Written	4	Swaps	-	-
Fixed Income Futures Long	7,176	Futures	-	86,700
Fixed Income Futures Short	(2,842)	Futures	-	(23,633)
Foreign Currency Futures Long	(56)	Futures	-	-
Foreign Currency Futures Short	14	Futures	-	(19,513)
Foreign Currency Forwards	(70)	Long-Term Instruments	(20)	5,345
Index Futures Long	(3,418)	Futures	-	-
Index Futures Short	4,258	Futures	-	(20)
Pay Fixed Interest Rate Swaps	(235)	Swaps	(138)	1,096
Total	**$ 4,814**		**$ (192)**	**$ 51,025**

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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, 2016, 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. The total fair value subject to counterparty credit risk for MCERA's derivatives, as rated by Standard & Poor's, is as follows (all dollars in thousands):

Rating Category	Fair Value Subject to Counterparty Credit Risk	
	2016	
A	$	92
Total	**$**	**92**

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 the following investment derivative interest rate risk (all dollars in thousands):

June 30, 2016:

Investment Type	Fair Value		Investment Maturities in Years							
			< 1		1-5		6-10		10+	
Credit Default Swaps Written	$	(34)	$	-	$	(34)	$	-	$	-
Pay Fixed Interest Rate Swaps		(138)		-		-		-		(138)
Total	**$**	**(172)**	**$**	**-**	**$**	**(34)**	**$**	**-**	**$**	**(138)**

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 (all dollars in thousands):

June 30, 2016:

Derivative Type	Foreign Currency	Fair Value	
Currency Forward Contracts	Euro	$	21
Currency Forward Contracts	Yen		(41)
Total Foreign Derivatives		**$**	**(20)**

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, 2016, the estimated fair value of MCERA's real estate portfolio was $204,430,848.

MCERA has the following real estate holdings as of June 30, 2016 (all dollars in thousands):

	Fair Value
Direct Investments	
San Rafael	$ 9,960
Total Direct Investments	**9,960**
Commingled Investments	
AEW Capital Management	$ 76
AEW Core	84,535
RREEF America REIT III	750
UBS – TPF	109,109
Total Commingled Investments	**194,470**
Total Real Estate Investments	**$ 204,430**

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 2016, 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.

NOTE 7 – <u>CONTRIBUTIONS</u> (Continued)

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 6.62% to 17.85%. Safety member contributions range from 10.34% to 23.77%. These figures include additional cost sharing for some members determined through labor negotiations.

NOTE 8 – <u>RESERVES</u>

MCERA carries accounts within Net Position Held in Trust 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 Available for Benefits, as the sum of these reserves equals the Net Position Held in Trust for Pension Benefits. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses.

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 Retired 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 Retired 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.

NOTE 8 – RESERVES (Continued)

Components of Reserves (Continued)

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

Net Pension Liability of Employers

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

Change in Collective Net Pension Liability from FYE 2015 to FYE 2016*

	Increase (Decrease)		
	Total Pension Liability (a)	**Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances at June 30, 2015	**$ 2,469,270,206**	**$ 2,081,884,656**	**$ 387,385,550**
Changes for the Year:			
Service Cost	55,208,834	-	55,208,834
Interest	176,564,792	-	176,564,792
Changes of Benefits	-	-	-
Differences Between Expected and Actual Experience	(212,631)	-	(212,631)
Changes of Assumptions	-	-	-
Contributions – Employer	-	78,049,814	78,049,814
Contributions – Plan Member	-	24,418,323	24,418,323
Net Investment Income	-	42,927,728	(42,927,728)
Benefit Payments	(124,203,519)	(124,203,519)	-
Administrative Expenses	-	(4,379,760)	4,379,760
Net Changes	107,357,476	16,812,586	90,544,890
Balances at June 30, 2016	**$2,576,627,682**	**$2,098,697,242**	**$477,930,440**

* The Net Pension Liability was measured as of June 30, 2016, and determined based upon rolling forward the Total Pension Liability from the actuarial valuation as of June 30, 2015.

NOTE 9 – NET PENSION LIABILITY (Continued)

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.

The total pension liability as of June 30, 2016, was determined by an actuarial valuation as of June 30, 2015, 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	2.75%
Salary Increases	3.00% (2.75% inflation plus .25% wage inflation)
Investment Rate of Return	7.25%, net of pension plan investment expense

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 arithmetic 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:

	June 30, 2016	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Cash and Short-Term Investments	---	---
Fixed Income	23.00%	.75%
Domestic Equities	32.00%	5.10%
International Equities	22.00%	5.30%
Private Real Estate	8.00%	3.75%
Public Real Assets	7.00%	3.55%
Private Equity	8.00%	5.90%
TOTAL	**100.00%**	

NOTE 9 – NET PENSION LIABILITY (Continued)

Discount Rate

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Total Pension Liability	2,917,971,690	2,576,627,682	2,295,992,848
Plan Fiduciary Net Position	2,098,697,242	2,098,697,242	2,098,697,242
Collective Net Pension Liability	819,274,448	477,930,440	197,295,606
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.9%	81.5%	91.4%

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the fiscal year ending June 30, 2016, was as follows (all dollars in thousands):

	Balance June 30, 2015	Additions	Dispositions	Balance June 30, 2016
Capital Assets Being Depreciated:				
Building	$ 3,140	$ -	$ -	$ 3,140
Tenant Improvements	781	-	-	781
Equipment	109	-	-	109
Computer Software/Hardware	4,374	-	-	4,374
Total Capital Assets Being Depreciated	**8,404**	**-**	**-**	**8,404**
Less Accumulated Depreciation for:				
Building	(520)	(79)	-	(599)
Tenant Improvements	(130)	(19)	-	(149)
Equipment	(72)	(11)	-	(83)
Computer Software/Hardware	(1,276)	(364)	-	(1,640)
Total Accumulated Depreciation	**(1,998)**	**(473)**	**-**	**2,471**
Total Capital Assets, Net	**$ 6,406**	**$ (473)**	**$ -**	**$ 5,933**

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation

A petition for Writ of Mandate was filed in January 2013 by various labor unions and individuals against MCERA and its Board of Retirement (collectively, "Respondents"), commencing Marin County Superior Court Case No. CV 1300318. The Petition challenges Respondents' actions implementing Government Code Section 31461, as amended, effective January 1, 2013 ("Amended Statute"). The Superior Court entered Judgment on the Petition in favor of Respondents on June 26, 2013. Petitioners appealed that Judgment to the First District Court of Appeal ("DCA"), commencing First DCA Case No. A139610. On August 17, 2016, the Division Two of the First DCA issued a published decision affirming the Superior Court's Judgment in favor of Respondents ("MAPE Decision"). Soon after, Petitioners/Appellants filed a Petition for Review of the MAPE Decision with the California Supreme Court. On November 22, 2016, the Supreme Court granted the petition for review. The Court also ordered, however, that further action in the matter, including submission of additional briefing, is deferred pending the decision of the Court of Appeal, First Appellate District, Division Four, in Alameda County Deputy Sheriff's Association et al. v. Alameda County Employees' Retirement Association, et al., A141913 ("Division Four Case") or pending further order of the Supreme Court. The Division Four Case involves three other county retirement systems who also were sued for their implementation of the Amended Statute, and in that case as well, the Contra Costa County Superior Court held that the Amended Statute is constitutional facially and as applied. The Contra Costa County Superior Court also, however, invoked estoppel as a basis to provide some limited relief to petitioners there. Those petitioners appealed the decision, and the three retirement system respondents and the Attorney General on behalf of Intervener State of California filed cross-appeals. Once the Division Four Case is finally resolved by the First DCA, the Supreme Court will direct the parties as to further actions in the case. If additional briefing is ordered, Respondents will continue to vigorously defend themselves in the litigation.

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 2016, MCERA funded $36,788,558 of its private equity capital commitments. As of June 30, 2016, outstanding commitments to the various investment managers, as approved by the Board of Retirement, totaled $169,039,986.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through December 5, 2016, which is the date the financial statements were available to be issued. There were no subsequent events with a material effect on the financial statements or note disclosures that took place after June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability			
Service cost	$ 55,208,834	$ 49,064,492	$ 49,014,858
Interest (includes interest on service cost)	176,564,792	166,718,783	159,521,975
Differences between expected and actual experience	(212,631)	(31,054,298)	-
Changes of assumptions	-	144,753,646	-
Benefit payments, including refunds of employee contributions	(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)	$ 2,576,627,682	$ 2,469,270,206	$ 2,255,772,335
Plan Fiduciary Net Position			
Contributions - employer	$ 78,049,814	$ 72,867,357	$ 74,396,755
Contributions - plan member	24,418,323	20,968,208	18,536,135
Net investment income	42,927,728	100,055,573	309,002,468
Benefit payments, including refunds of employee contributions	(124,203,519)	(115,984,752)	(109,342,861)
Administrative expenses	(4,379,760)	(4,654,623)	(4,503,845)
Net Change in Plan Fiduciary Net Position	16,812,586	73,251,763	288,088,652
Plan Fiduciary Net Position - Beginning	2,081,884,656	2,008,632,893	1,720,544,241
Plan Fiduciary Net Position - Ending (b)	$ 2,098,697,242	$ 2,081,884,656	$ 2,008,632,893
Net Pension Liability - Ending (a)-(b)	$ 477,930,440	$ 387,385,550	$ 247,139,442
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.45%	84.31%	89.04%
Covered Employee Payroll	$ 238,185,040	$ 223,825,880	$ 218,340,721
Net Pension Liability as a Percentage of Covered Employee Payroll	200.66%	173.07%	113.19%

* The Schedule of Changes in Net Pension Liability is intended to show information for 10 years. Additional years will be displayed as they become available.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF CONTRIBUTIONS HISTORY

	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
Actuarially Determined Contributions	$ 78,049,814	$ 72,867,357	$ 74,076,755	$ 69,853,000	$ 64,690,000
Contributions in Relation to the Actuarially Determined Contribution	78,049,814	72,867,357	74,076,755	69,853,000	64,690,000
Contribution Deficiency / (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll*	$ 238,185,040	$ 223,825,880	$ 218,340,721	$ 211,001,594	$ 216,515,000
Contributions as a Percentage of Covered Employee Payroll	32.77%	32.56%	33.93%	33.11%	29.88%

	FYE 2011	FYE 2010	FYE 2009	FYE 2008	FYE 2007
Actuarially Determined Contributions	$ 64,757,000	$ 56,271,000	$ 54,555,000	$ 58,090,000	$ 57,215,000
Contributions in Relation to the Actuarially Determined Contribution	64,757,000	56,271,000	54,555,000	58,090,000	57,215,000
Contribution Deficiency / (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll*	$ 215,969,000	$ 219,556,000	$ 214,449,000	$ 197,238,000	$ 186,123,000
Contributions as a Percentage of Covered Employee Payroll	29.98%	25.63%	25.44%	29.45%	30.74%

* Covered Employee Payroll amounts for FYE 2016, FYE 2015, and FYE 2014 are based on pensionable payroll provided by MCERA. For prior years, the amounts are based on projected payroll from the actuarial valuation.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT RETURNS*

	June 30, 2016**	June 30, 2015	June 30, 2014
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.

** The calculation for the fiscal year 2016 money-weighted rate of return, net of investment expense, was provided by MCERA's investment consultant, Callan Associates.

NOTE 1 – ACTUARIAL ASSUMPTIONS

Valuation date	June 30, 2014 (to determine FY 2015-16 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
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	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 (16 years remaining as of June 30, 2014), except for the additional UAL attributable to the extraordinary loss from 2008-2009, which is being amortized over a separate closed period (24 years as of June 30, 2014). Subsequent unexpected change in the unfunded actuarial liability after June 30, 2013, is amortized over 24 years (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.
Investment rate of return	7.25%
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) 2014 Post-Retirement Healthy Mortality rates, adjusted by 110% for Safety Males and 95% for General and Safety Females, with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2009 using Scale MP-2014.
Disabled mortality	Rates of mortality among disabled Members are given by CalPERS 2014 Disability Mortality rates (Non-Industrial rates for General members and Industrial Disability rates for Safety members), adjusted by 90% for Males and Females (General and Safety) with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2009 using Scale MP-2014.

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2016, can be found in the June 30, 2014 actuarial valuation report.

OTHER INFORMATION

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULES OF COST SHARING EMPLOYER ALLOCATIONS
AS OF JUNE 30, 2016 AND 2015

	June 30, 2016			June 30, 2015		
Employer	Unfunded Liability (from the June 30, 2015 Actuarial Valuation)	Proportionate Share	Net Pension Liability [1]	Unfunded Liability (from the June 30, 2014 Actuarial Valuation)	Proportionate Share	Net Pension Liability [1]
County	$ 219,178,258	54.4105%	$ 260,044,342	$ 194,886,509	52.5803%	$ 203,688,484
City of San Rafael	140,802,328	34.9538%	167,054,850	136,172,560	36.7394%	142,323,127
Novato Fire	18,386,657	4.5644%	21,814,657	16,677,446	4.4996%	17,430,800
Superior Court	11,376,755	2.8242%	13,497,711	11,268,580	3.0403%	11,777,683
Southern Marin Fire	5,904,553	1.4658%	7,005,504	5,772,318	1.5574%	6,033,143
Mosquito District	4,722,061	1.1722%	5,602,301	3,956,584	1.0675%	4,135,341
Tamalpais CSD	2,136,544	0.5304%	2,534,943	1,680,852	0.4535%	1,756,793
Marin City CSD	308,646	0.0766%	366,095	229,957	0.0620%	240,179
LAFCO	8,609	0.0021%	10,037	-	0.0000%	-
Total	$ 402,824,411	100.0000%	$ 477,930,440	$ 370,644,806	100.0000%	$ 387,385,550

[1] Proportionate share of net pension liability is based on the actuarial valuation.

MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER PENSION AMOUNTS
ALLOCATED BY COST SHARING PLAN
AS OF JUNE 30, 2016

		Deferred Outflows of Resources				Deferred Inflows of Resources			Pension Expense		
Employer	Net Pension Liability	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Net Differences Between Projected and Actual Investment Earnings on Pension Plan Investments	Total Deferred Outflows of Resources	Differences Between Expected and Actual Economic Experience	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Allocable Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Pension Expense
June 30, 2016											
County	$ 260,044,342	$ 39,380,591	$ 14,010,224	$ 23,469,042	$ 76,859,857	$ 8,535,170	$ 12,212,521	$ 20,747,691	$ 46,407,048	$ (1,449,423)	$ 44,957,625
City of San Rafael	167,054,850	25,298,450	14,629,279	15,076,726	55,004,455	5,483,071	16,613,042	22,096,113	29,812,310	986,963	30,799,273
Novato Fire	21,814,657	3,303,568	2,214,423	1,968,776	7,486,767	716,000	3,130,060	3,846,060	3,893,005	(469,266)	3,423,739
Superior Court	13,497,711	2,044,066	404,292	1,218,171	3,666,529	443,022	873,445	1,316,467	2,408,777	(4,964)	2,403,813
Southern Marin Fire	7,005,504	1,060,899	1,395,898	632,248	3,089,045	229,935	254,785	484,720	1,250,190	613,668	1,863,858
Mosquito District	5,602,301	848,401	698,815	505,608	2,052,824	183,877	644,288	828,165	999,777	147,143	1,146,920
Tamalpais CSD	2,534,943	383,887	378,473	228,779	991,139	83,202	23,308	106,510	452,381	180,961	633,342
Marin City CSD	366,095	55,441	80,974	33,040	169,455	12,016	-	12,016	65,332	31,646	96,978
LAFCO	10,037	1,520	89,089	906	91,515	329	150,018	150,347	1,791	(36,728)	(34,937)
Totals	$ 477,930,440	$ 72,376,823	$ 33,901,467	$ 43,133,296	$ 149,411,586	$ 15,686,622	$ 33,901,467	$ 49,588,089	$ 85,290,611	$ -	$ 85,290,611

NOTE 1 – BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

Employers participating in 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, 2016, and the GASB Statement No. 68 Actuarial Valuation Based on a June 30, 2016 Measurement Date for Employer Reporting as of June 30, 2017, 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

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, 2016, 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, 2015 (the beginning of the measurement period ending June 30, 2016) 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 collective net pension liability and collective 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, 2016, is recognized over the same period as noted above. The Schedule of Pension Amounts by Employer 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. Currently, MCERA is including the employer-paid member contribution in the calculation of the collective pension expense.