

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020)**

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis.....	4
 <u>Basic Financial Statements</u>	
Statement of Fiduciary Net Position.....	11
Statement of Changes in Fiduciary Net Position	12
Notes to the Basic Financial Statements	13
 <u>Required Supplementary Information</u>	
Schedules of Changes in Net Pension Liability and Related Ratios	25
Schedule of Employer Contributions.....	26
Schedule of Investment Returns	27
Notes to the Required Supplementary Information.....	28
 <u>Other Supplementary Information</u>	
Schedule of Investment Management Fees and Other Investment Expenses.....	31
Schedule of Payments to Consultants (Other Than Investment Managers)	32
Schedule of Administrative Expenses.....	33

INDEPENDENT AUDITOR'S REPORT

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

Report on the Basic Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Mendocino County Employees' Retirement Association (MCERA), a pension trust fund and component unit of the County of Mendocino, California, as of June 30, 2021, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the basic financial statements, which collectively comprise MCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of MCERA as of June 30, 2021, and the respective changes in fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 MD&A and RSI 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MCERA's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited MCERA's June 30, 2020 basic financial statements, and our report dated November 23, 2020, expressed an unmodified opinion on those audited basic financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2020, is consistent, in all material respects, with the audited basic financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2021, on our consideration of MCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MCERA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 24, 2021

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

This section presents Management's Discussion and Analysis (MD&A) of Mendocino County Employees' Retirement Association's (MCERA or Plan) financial results and a summary of MCERA's financial position and activities as of and for the fiscal year ended June 30, 2021. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the basic financial statements.

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

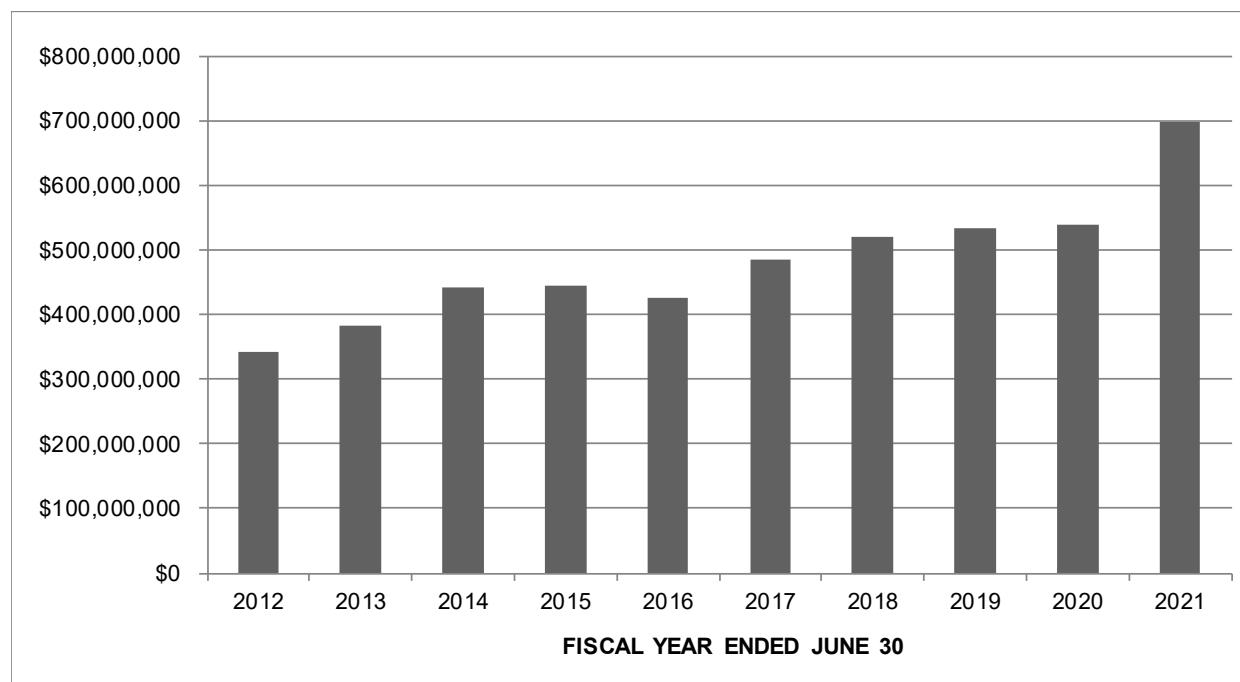
The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of MCERA, which includes administering MCERA benefits and managing the assets. The Board and MCERA staff members are committed to act for the exclusive benefit of MCERA and its participants, manage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

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

Financial Highlights

- Fiduciary net position increased to \$696.4 million, which reflects an increase of 29.2% in net position during fiscal year 2020-21.
- Actuarial determined assets increased to \$598.4 million, a 8.5% increase during fiscal year 2020-21.
- Net total additions to fiduciary net position for the fiscal year totaled \$199.9 million. This was comprised of \$26.3 million of employer contributions, \$7.1 million of member contributions, and a net investment gain of \$166.5 million.
- Deductions in fiduciary net position for the fiscal year were \$42.4 million, which included \$40.2 million in benefit payments to retirees, \$0.8 million in member refunds, and \$1.4 million in total administrative expenses.
- MCERA's funded status increased to 73.0% from 69.3% over the fiscal year. The funded status is measured by the ratio of actuarial valuation value of assets to actuarial accrued liabilities.
- The net pension liability (NPL) decreased from \$256.9 million to \$124.0 million during fiscal year 2020-21. The fiduciary net position as a percentage of the total pension liability increased from 67.7% to 84.9%.

MCERA Fiduciary Net Position Held in Trust for Pension Benefits



Overview of the Basic Financial Statements

The MD&A serves as an introduction and overview of MCERA's Basic Financial Statements. The Basic Financial Statements and required disclosures are prepared in accordance with accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). MCERA's Basic Financial Statements are comprised of the following:

Statement of Fiduciary Net Position

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

Statement of Changes in Fiduciary Net Position

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

The Required Supplementary Information consists of the MD&A and supporting schedules which GASB requires to accompany the basic financial statements. The schedules include the following and can be found on pages 25-30.

- Schedules of Changes in Net Pension Liability and Related Ratios: This schedule displays the 10 year history of the changes in NPL for all participating employers.
- Schedule of Employer Contributions: This schedule provides a 10 year history of the employers' actual contributions compared to the statutory actuarially determined contributions. The schedule also displays the employer contributions as a percentage of covered payroll.
- Schedule of Investment Returns: This table shows the 10 year history of the money-weighted rate of return for investments net of investment management fees.

Other Supplementary Information

The other supplementary information includes schedules pertaining to administrative expenses, information technology expenses, investment management fees and other investment expenses, as well as payments to consultants (other than investment managers). The other supplementary information can be found on pages 31-33.

Financial Analysis

Table #1 below and Table #2 on the following page compare and summarize MCERA's financial activity for the current and prior fiscal year.

**Table #1: MCERA Fiduciary Net Position
As of June 30, 2021 and 2020**

<u>(Dollars in Thousands)</u>	<u>2021</u>	<u>2020</u>	<u>Amount Increase/ (Decrease)</u>	<u>% Change Increase/ (Decrease)</u>
Cash Equivalents	\$ 110	\$ 221	\$ (111)	(50.23%)
Receivables	1,750	1,755	(5)	(0.28%)
Capital Assets, Net				
Software Equipment	238	318	(80)	(25.16%)
Investments, at Fair Value	<u>695,862</u>	<u>538,254</u>	<u>157,608</u>	<u>29.28%</u>
 Total Assets	 <u>697,960</u>	 <u>540,548</u>	 <u>157,412</u>	 <u>29.12%</u>
Accounts Payable	346	325	21	6.46%
Accrued Expenses and Other Liabilities	<u>1,173</u>	<u>1,234</u>	<u>(61)</u>	<u>(4.94%)</u>
 Total Liabilities	 <u>1,519</u>	 <u>1,559</u>	 <u>(40)</u>	 <u>(2.57%)</u>
 Fiduciary Net Position				
Restricted for Pension Benefits	<u>\$ 696,441</u>	<u>\$ 538,989</u>	<u>\$ 157,452</u>	<u>29.21%</u>

**Table #2: Changes in Fiduciary Net Position
For the Fiscal Years Ended June 30, 2021 and 2020**

(Dollars in Thousands)	2021	2020	Amount Increase (Decrease)	% Change Increase (Decrease)
Additions				
Employer Contributions	\$ 26,334	\$ 24,647	\$ 1,687	6.84%
Member Contributions	7,054	6,820	234	3.43%
Net Investment Income	<u>166,513</u>	<u>14,799</u>	<u>151,714</u>	<u>1,025.16%</u>
Total Additions	<u>199,901</u>	<u>46,266</u>	<u>153,635</u>	<u>332.07%</u>
Deductions				
Retirement Benefits	40,230	38,036	2,194	5.77%
Refund of Contributions	847	742	105	14.15%
Administrative Expenses	<u>1,372</u>	<u>1,226</u>	<u>146</u>	<u>11.91%</u>
Total Deductions	<u>42,449</u>	<u>40,004</u>	<u>2,445</u>	<u>6.11%</u>
Change in Fiduciary Net Position	157,452	6,262	151,190	2,414.40%
Fiduciary Net Position Restricted for Pension Benefits at Beginning of Year	<u>538,989</u>	<u>532,727</u>	<u>6,262</u>	<u>1.18%</u>
Fiduciary Net Position Restricted for Pension Benefits at End of Year	<u>\$ 696,441</u>	<u>\$ 538,989</u>	<u>\$ 157,452</u>	<u>29.21%</u>

Additions to Fiduciary Net Position

The primary sources to finance the benefits MCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal years ended June 30, 2021 and 2020, totaled \$199.9 million and \$46.3 million, respectively. The increase in additions from 2020 to 2021 can be attributed primarily to an increase in net investment income. Employer contributions and member contributions increased in fiscal year (FY) 2021 as a result of higher non-safety covered payroll. Total net position increased from approximately \$539.0 million in FY 2020 to \$696.4 million in FY 2021.

Deductions from Fiduciary Net Position

The primary uses of MCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering MCERA. These deductions for the fiscal years ended June 30, 2021 and 2020, were \$42.5 million and \$40.0 million, respectively. The primary reason for this change was an increase in benefits paid to retirees.

MCERA Financial Reserves

**Table #3: MCERA Reserves
As of June 30, 2021 and 2020**

<u>(Dollars in Thousands)</u>	<u>2021</u>	<u>2020</u>
Member Reserve	\$ 78,461	\$ 72,947
Employer Reserve	(268,535)	(183,343)
Retiree Reserve	492,370	372,555
Cost of Living Reserve	249,836	188,469
Contingency Reserve	<u>6,961</u>	<u>5,385</u>
Total Reserves	<u>\$ 559,093</u>	<u>\$ 456,013</u>

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under accounting principles generally accepted in the United States of America (GAAP), investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses in the current period. MCERA has adopted a five-year smoothing methodology for investment gains and losses. This has the effect of smoothing both positive and negative fluctuations in investment performance versus assumptions and has a stabilizing effect on contribution rates.

Major Initiatives and Significant Events

Several major initiatives were undertaken during the fiscal year including:

- The Board reviewed and revised the Overpayment Policy which resulted in the adoption of a new Error Correction Policy. While the old Overpayment Policy was only concerned with overpayments, the new Error Correction Policy includes underpayments and overpayments of both contributions and benefits.
- Infrastructure manager, JP Morgan, called capital in April 2021. This funded half the total infrastructure allocation (three of six percent). MCERA's other infrastructure manager, IFM, did not call capital in FY21.
- Extended the existing lease agreement with the State of California through February 2023. Roughly two-thirds of the 625 Kings Court building is leased to the Department of Rehabilitation.
- Renewed MCERA's 3-year contract with our Custodian State Street Bank and Trust Company for another term (Ends FY24).
- The Board reviewed a special study on re-amortization of the Unfunded Actuarial Accrued Liability (UAAL). The study highlighted the effects of shortening the UAAL amortization period, through three scenarios, on plan sponsor contribution rates.
- On June 30, 2021, MCERA received a compliance statement from the Internal Revenue Service regarding its application for voluntary correction. MCERA is in the process of completing the required corrections.
- In May 2021, the Mendocino County Board of Supervisors adopted classification study recommendations affecting most staff of the Plan. One staff was reclassified from a Retirement Specialist III to a new classification of Retirement Analyst, while two staff members were reclassified to Retirement Specialist III. The study recommendations include market adjustments for the salaries of the Specialist positions and the Finance/Investment Officer position.
- In July 2021, the California Supreme Court issued a decision in the *Alameda* case. The MCERA Board adopted Resolution 2020-08 implementing *Alameda* directives.

Investment and Economic Summary

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

The investment return for the fiscal year ended June 30, 2021, was 31.83% which exceeded the benchmark by 4.74%. Performance returns were 12.15%, 12.34%, 8.79%, and 9.21% for the three, five, seven, and ten year periods ending June 30, 2021, respectively.

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

Funded Status and Actuarial Reporting

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

In the June 30, 2021 valuation, the ratio of actuarial valuation value of assets to the actuarial accrued liabilities was 73.0%, which was an increase from the prior year's valuation funded ratio of 69.3%. The actuarial valuation value of assets excludes about \$91.0 million in deferred market gains that will be smoothed in over the next few years. Thus, on a market value basis, the funded ratio would be 84.9%. MCERA's unfunded actuarial accrued liability (UAAL) as of June 30, 2021, was \$221.5 million. On a market value basis, the UAAL would be \$123.5 million.

As of June 30, 2021, there are 18 years remaining in the declining 30-year amortization period of the UAAL. On or after July 1, 2012, any new UAAL resulting from plan amendments will be amortized over different amortization periods. Investment gains and losses as well as any assumption and method changes will be amortized over an 18-year period.

The aggregate employer rate calculated in the June 30, 2021 valuation decreased from 37.44% of payroll to 34.11% of payroll. The decrease was driven by higher than expected return on investments, lower than expected cost-of-living adjustment (COLA) increases for retirees and beneficiaries, amortizing prior year's UAAL over a larger than expected projected total payroll, and other experience gains. These gains were partially offset by higher than expected individual salary increases for active members. The aggregate member rate calculated in the June 30, 2021 valuation decreased from 10.04% of payroll to 10.02% of payroll.

In an effort to pay down the existing UAAL, the MCERA Board of Retirement is considering a number of alternative scenarios for FY23 contribution rates at the December 15, 2021 board meeting. These alternative scenario contribution rates will not be lower than the June 30, 2021 valuation contribution rates.

Request for Information

The financial report is designed to provide the MCERA Board of Retirement, our membership, taxpayers, investment managers, and creditors with a general overview of MCERA finances and to account for the money it receives. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Mendocino County Employees' Retirement Association, 625-B Kings Court, Ukiah, California 95482.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Doris L. Rentschler". The signature is fluid and cursive, with a large initial "D" and "R".

Doris L. Rentschler
Executive Director

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020)**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
ASSETS		
Cash equivalents (Note 3):	\$ 110,149	\$ 221,220
Investments, at fair value (Notes 3 and 4):		
Fixed income	147,625,144	114,218,831
Domestic equities	272,657,303	204,919,037
International equities	193,405,783	156,959,514
Real estate partnerships	64,005,697	60,868,842
Infrastructure	16,418,290	-
Real estate – 625 Kings Court, Ukiah, CA	<u>1,750,000</u>	<u>1,288,000</u>
Total investments, at fair value	695,862,217	538,254,224
Receivables:		
Member contributions receivable	335,978	298,142
Employer contributions receivable	1,339,462	1,217,318
Other receivables	<u>74,171</u>	<u>239,419</u>
Total receivables	1,749,611	1,754,879
Capital assets, net (Note 1):		
Software equipment	<u>238,149</u>	<u>317,533</u>
TOTAL ASSETS	<u>697,960,126</u>	<u>540,547,856</u>
LIABILITIES		
Liabilities:		
Accounts payable	345,480	325,490
Accrued expenses and other liabilities	<u>1,173,344</u>	<u>1,233,153</u>
TOTAL LIABILITIES	<u>1,518,824</u>	<u>1,558,643</u>
FIDUCIARY NET POSITION		
RESTRICTED FOR PENSION BENEFITS	<u>\$ 696,441,302</u>	<u>\$ 538,989,213</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR 2020)**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
ADDITIONS TO FIDUCIARY NET POSITION ATTRIBUTED TO:		
Investment income:		
Net realized and unrealized appreciation in fair value of investments	\$ 157,653,258	\$ 7,473,055
Dividend income	9,909,708	8,195,483
Rent income, net of expenses	91,661	91,454
Interest income	9,204	17,383
Investment expenses	<u>(1,150,409)</u>	<u>(978,719)</u>
Total investment income, net	166,513,422	14,798,656
Contributions (Note 5):		
Employer contributions	26,333,815	24,647,132
Member contributions	<u>7,053,907</u>	<u>6,820,687</u>
Total contributions	<u>33,387,722</u>	<u>31,467,819</u>
Total additions	<u>199,901,144</u>	<u>46,266,475</u>
DEDUCTIONS FROM FIDUCIARY NET POSITION ATTRIBUTED TO:		
Retirement benefits	40,229,479	38,036,004
Refund of contributions	847,162	741,783
Administrative expenses	<u>1,372,414</u>	<u>1,226,492</u>
Total deductions	<u>42,449,055</u>	<u>40,004,279</u>
Change in Fiduciary Net Position	157,452,089	6,262,196
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS:		
Balance at beginning of year	<u>538,989,213</u>	<u>532,727,017</u>
Balance at end of year	<u><u>\$ 696,441,302</u></u>	<u><u>\$ 538,989,213</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

Mendocino County Employees' Retirement Association (MCERA or the Plan) is governed by the Board of Retirement (Board) and is considered an independent entity. MCERA is a component unit of the County of Mendocino (the County) and is being reported as a Pension Trust Fund in the County's Financial Report in accordance with Governmental Accounting Standards Board (GASB) Statements No. 14; No. 39, as amended by GASB Statement No. 61; and No. 80.

Basis of Accounting:

MCERA follows GASB accounting principles and reporting guidelines, and basic financial statements are prepared using the accrual basis of accounting. MCERA member contributions are recognized in the period in which the contributions are due. Employer contributions to MCERA are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of MCERA.

Comparative Data:

The accompanying financial statements include summarized information from the prior year financial statements for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with MCERA's basic financial statements for the fiscal year ended June 30, 2020, from which the summarized information was derived.

Use of Estimates:

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

Valuation of Investments:

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments that do not have an established market are reported at estimated fair value. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned, and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities. Purchases and sales of securities are accounted for on a trade date basis, and dividends declared but not received are accrued on the ex-dividend date. Unrealized gains and losses on investments are reported as net appreciation (depreciation) in fair value of investments. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of MCERA investments.

Derivatives:

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

During the fiscal year ended June 30, 2021, MCERA owned no derivatives directly in its portfolio.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Custodial Credit Risk:

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

MCERA's custodial bank maintains insurance to help protect against losses due to negligence, theft, and other related events.

Except for a statement that the duties of the Board of Retirement, MCERA officers, and employees shall be discharged with care, skill, prudence, and diligence, MCERA has no formal policy for managing custodial credit risk.

Market and Credit Risk:

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

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

	<u>Allowable Range</u>	<u>Current Allocation</u>
Domestic Equities	32% - 42%	39.18%
International Equities	20% - 30%	27.79%
Fixed Income	18% - 24%	21.22%
Real Estate Partnerships	6% - 16%	9.45%
Infrastructure	1% - 11%	2.36%

MCERA's Investment Policy does not allow for a single investment in real estate that is in excess of 5 percent of total assets at the time of purchase. With respect to common stocks, MCERA has a goal of diversifying the portfolio across a broad spectrum of sectors and geographies that have sound long-term growth potential. Similar restrictions apply to fixed income securities. Although MCERA does not have a specific policy to limit credit risk, MCERA seeks to mitigate risk through its Investment Policy constraints.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Interest Rate Risk:

Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. MCERA has not adopted a specific formal policy to manage interest rate risk. Nevertheless, MCERA's U.S. active bond funds are generally managed with duration limits to reduce interest rate risk. The quality and interest rate risk of MCERA's fixed income funds are summarized in the table below.

Commingled Fixed Income Funds					
Fund Name	Fair Value	Weighted Average Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)	Weighted Average Quality Rating
Dodge & Cox Income	\$ 73,527,697	3.11%	9.03	5.25	AA-
PIMCO Total Return	74,097,447	2.22%	7.74	5.54	AA-
Total	<u>\$ 147,625,144</u>	<u>2.67%</u>	<u>8.39</u>	<u>5.40</u>	<u>AA-</u>

Foreign Currency Risk:

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or deposit. International portfolio managers are permitted to use defensive currency hedging to mitigate foreign currency risk through the use of forward currency contracts and currency futures as long as they are implemented in a timely and cost-effective manner. MCERA's international portfolio managers are allowed to invest in authorized countries. MCERA owns commingled investment vehicles and does not have direct exposure to foreign currency risk. Although MCERA does not have a specific policy regarding foreign currency risk, MCERA seeks to mitigate this risk through its Investment Policy constraints.

Investment Concentrations:

As of June 30, 2021, MCERA does not hold investments in any one organization that represent 5 percent or more of MCERA's fiduciary net position.

Money-Weighted Rate of Return:

For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on MCERA investments, net of investment management expense, was 31.40%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Capital Assets:

Capital assets consist of MCERA's pension administrative system software, which is carried at a cost of \$793,831 less accumulated amortization of \$555,682.

Risk Management:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes:

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

MCERA recently discovered operational errors related to Plan interpretations. In order to mitigate the potential risk of MCERA losing tax qualification as a result of operational errors, MCERA filed for corrective action under the IRS Voluntary Correction Program (VCP). In accordance with the IRS Employee Plans Compliance Resolution System (EPCRS), MCERA is allowed to voluntarily correct any mistakes and avoid any potential adverse consequence.

Administrative Expenses:

The Board approves MCERA's annual budget. The County Employees Retirement Law of 1937 (CERL) limits MCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or \$2 million, whichever is greater. The Board's policy is that administrative expenses incurred in any year will not exceed twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability, unless authorized by a separate vote of the Board.

MCERA's actual administrative expense, excluding IT costs, for fiscal year 2020-21 was \$1,189,864, which represented 0.15% of MCERA's actuarial accrued liability or 59.49% of the \$2 million statutory cap.

Subsequent Events:

In compliance with governmental accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end through the date the financial statements were issued (November 24, 2021) to determine if these events are required to be disclosed in these financial statements.

On July 30, 2020, the California Supreme Court issued a decision in the case of Alameda County Deputy Sheriffs Association et al. v. Alameda County Employees Retirement Association and Board of Retirement of ACERA. The decision affects the benefits paid by MCERA to its members and/or contributions received by MCERA from its members. This issue is included in the VCP application. The financial statements as of June 30, 2021, reflect reduced retiree and beneficiary benefits as a result of reduced final average salary calculations caused by disallowed premium pays under the Alameda decision. The financial statements do not reflect reduced contributions for active members and deferred vested members. The effect of refunds to active and deferred vested members will be reflected in future financial statements.

NOTE 2 – DESCRIPTION OF PLAN

Description of Plan and Applicable Provisions of the Law:

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

NOTE 2 – DESCRIPTION OF PLAN (Continued)

Description of Plan and Applicable Provisions of the Law: (Continued)

Membership in the Plan at June 30, 2021, consisted of the following:

Retirees and beneficiaries receiving benefits	1,615
Terminated plan members entitled to, but not yet receiving benefits	577
Active plan members	<u>1,142</u>
Total	<u><u>3,334</u></u>
Number of participating employers	<u><u>3</u></u>

A multiple-employer cost-sharing plan is a single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members. Other special districts within the County are eligible, but have not elected to participate.

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

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

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

Member Termination:

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

Plan Termination:

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

NOTE 3 – CASH AND INVESTMENTS

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

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

Cash equivalents consist of cash in trust with the Treasurer of the County. Cash from deposits and cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasurer is responsible for the management, control, and safekeeping of all investments in the pooled fund. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value and may be subject to credit risk, concentration risk, and custodial credit risk.

MCERA's cash and investments stated at fair value as of June 30, 2021, are as follows:

Cash equivalents	\$ 110,149
Total cash equivalents	<u>110,149</u>
Fixed income	147,625,144
International equities	193,405,783
Domestic equities – small cap	37,248,728
Domestic equities – mid cap	44,046,438
Domestic equities – large cap	191,362,137
Real estate partnerships	64,005,697
Infrastructure	16,418,290
Real estate – 625 Kings Court, Ukiah, CA	<u>1,750,000</u>
Total investments, at fair value	<u>695,862,217</u>
Total Cash and Investments	<u><u>\$ 695,972,366</u></u>

NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS

MCERA follows GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), which establishes a fair value hierarchy based on three types of input to develop the fair value measurements for investments. The hierarchy gives the highest priority to Level 1 inputs which are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The three levels of the fair value hierarchy under GASB 72 are described below.

Level 1:

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

Level 2:

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

NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS (Continued)

Level 2: (Continued)

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

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

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

The following is a description of the valuation methodologies used for investments measured at fair value.

Commingled funds: Valued at the fair value of shares held by MCERA at fiscal year-end.

Certain investments which do not have a readily determinable fair value have been valued at the Net Asset Value (NAV) per share (or its equivalent) provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with accounting principles generally accepted in the United States of America (GAAP) requirements. These investments are not categorized within the fair value hierarchy but disclosed in the schedule of investments measured at the NAV.

Real estate partnerships: Valued at the NAV of shares held by MCERA at fiscal year-end.

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

Infrastructure: Valued at the NAV of shares held by MCERA at fiscal year-end.

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

The following tables set forth by level, within the fair value hierarchy, MCERA's investments at fair value and the NAV as of June 30, 2021:

	Investments as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
Commingled funds:				
Fixed income	\$ -	\$ 147,625,144	\$ -	\$ 147,625,144
International equities	-	193,405,783	-	193,405,783
Domestic equities	272,657,303	-	-	272,657,303
Real estate - 625 Kings Court, Ukiah, CA	-	-	1,750,000	1,750,000
Total investments by fair value level	<u>\$ 272,657,303</u>	<u>\$ 341,030,927</u>	<u>\$ 1,750,000</u>	<u>615,438,230</u>
Investments measured at the NAV:				
Real estate partnerships				64,005,697
Infrastructure				<u>16,418,290</u>
Total investments measured at the NAV				<u>80,423,987</u>
Total investments measured at fair value level and NAV				<u><u>\$ 695,862,217</u></u>

NOTE 4 – FAIR VALUE MEASUREMENT OF INVESTMENTS (Continued)

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

	Investments Measured at NAV as of June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate partnerships ⁽¹⁾	\$ 64,005,697	\$ -	Quarterly	45 Days
Infrastructure	16,418,290	16,731,045	Quarterly	90 Days
Total investments measured at the NAV	<u>\$ 80,423,987</u>			

⁽¹⁾ These are two real estate funds. They are real estate funds that invest primarily in a diversified portfolio of institutional quality multi-family, industrial, retail, and office assets in the United States. The fair values of the investments in this type have been determined using the NAV (or its equivalent) of MCERA's ownership interest in partners' capital.

The following table sets forth a summary of changes in the fair value of MCERA's Level 3 investments for the fiscal year ended June 30, 2021, as follows:

Commercial Building at 625 Kings Court, Ukiah California

	2021
Fair value, beginning of year	\$ 1,288,000
Unrealized gain	462,000
Purchases	-
Sales	-
Issuances	-
Settlements	-
Fair value, end of year	<u>\$ 1,750,000</u>
Amount of total gains or losses for the period included in net appreciation in fair value of investments, attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2021.	<u>\$ 462,000</u>

The following table represents MCERA's Level 3 financial instruments and the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2021. A professional appraisal was completed in June 2021. MCERA's policy is to obtain a professional appraisal every four years.

Instrument	Fair Value at June 30, 2021	Principal Valuation Technique
Real Estate - 625 Kings Court, Ukiah, CA	\$ 1,750,000	Fair Value = Appraisal

NOTE 5 – CONTRIBUTIONS

Contribution rates for the employers and their participating employees are established and may be amended by the MCERA Board (and then shall be adopted by the County Board of Supervisors). The contribution rates are determined based on the benefit structure established by the employers. The Actuarial Valuation and Review report issued by The Segal Company as of June 30, 2019, recommended employer and member contribution rates that aggregate to 34.56% and 9.44%, respectively. The actual member and employer rates depend on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of MCERA. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability (UAAL).

Using the projected payroll amounts for MCERA's membership groups and tiers that were used in the June 30, 2019 actuarial valuation, management has estimated the contributions are comprised of the following for the fiscal year ended June 30, 2021:

Estimated Employer Normal Cost Contributions	\$ 8,084,542
Estimated UAAL Contributions	<u>18,249,273</u>
Total	<u>\$ 26,333,815</u>

NOTE 6 – NET PENSION LIABILITY

GASB Statement No. 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of MCERA's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of MCERA's net pension liability at June 30, 2021, were as follows:

Total pension liability	\$ 820,413,438
Fiduciary net position	<u>696,441,302</u>
Net pension liability	<u>\$ 123,972,136</u>
Fiduciary net position as a percentage of total pension liability	84.9%

Disclosure of Information About Actuarial Methods and Assumptions:

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

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

NOTE 6 – NET PENSION LIABILITY (Continued)

Actuarial Methods and Assumptions:

The total pension liability as of June 30, 2021, was determined by actuarial valuation as of June 30, 2021. The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an experience study for the period from July 1, 2016 through June 30, 2019. Key methods and assumptions used in the latest actuarial valuation are presented below:

Valuation date	June 30, 2021
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period (1)	18 years (closed) for all UAAL
Asset valuation method	Fair value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return adjusted for investment expenses only and the expected return on the fair value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the fair value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.
Actuarial assumptions:	
Investment rate of return	6.75%
Inflation rate	2.75%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.25% to 8.25%
* Includes inflation at	2.75% plus real across-the-board salary increase of 0.50% plus merit and longevity increases.
Cost of living adjustments	2.75% of retirement income
Mortality for healthy members and all beneficiaries	General Members: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables with rates decreased by 5% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019. Safety and Probation Members: Pub-2010 Safety Healthy Retiree Amount-Weight Mortality Tables, projected generationally with the two-dimensional mortality improvement scale MP-2019. All Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Mortality Tables with rates increased by 5%, projected generationally with the two-dimensional mortality improvement scale MP-2019.
Years of life expectancy after disability	General Members: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables, with rates decreased by 5%, projected generationally with the two-dimensional mortality improvement scale MP-2019. Safety and Probation Members: Pub-2019 Safety Disabled Retiree Amount-Weighted Mortality Tables, projected generationally with the two-dimensional mortality improvement scale MP-2019.

NOTE 6 – NET PENSION LIABILITY (Continued)

Actuarial Methods and Assumptions: (Continued)

Life expectancy after retirement for employee contribution rate purposes

General members: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables with rates decreased by 5% for males and increased by 5% for females, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 30% male and 70% female.

Safety and Probation members: Pub-2010 Safety Healthy Retiree Amount-Weighted Mortality Tables, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 80% male and 20% female.

(1) The current amortization policy is a layered amortization, with the balance of the unfunded liability as of June 30, 2012 amortized as a level percentage of payroll over a closed 27-year period (18 years remaining as of June 30, 2021). Each subsequent year's unfunded liability attributable to experience gains or losses, assumption changes, and cost method changes is amortized as a level percentage of payroll over a new closed 18-year period.

Assumed Asset Allocation:

The long-term expected rate of return on pension plan investments is determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class for the June 30, 2021 valuation. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation and subtracting expected investment expenses and a risk margin.

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

	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
Domestic Equities - Large Cap	24.70%	5.49%
Domestic Equities - Small Cap	12.30%	6.10%
International Equities	25.00%	6.84%
Domestic Fixed Income	21.00%	1.09%
Real Estate Partnerships	11.00%	4.59%
Infrastructure	6.00%	5.30%
Total	<u>100.00%</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2021. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and 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

NOTE 6 – NET PENSION LIABILITY (Continued)Discount Rate: (Continued)

beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, MCERA's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2021.

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

The following presents the net pension liability of MCERA as of June 30, 2021, calculated using the discount rate of 6.75%, as well as what MCERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net pension liability	\$ 232,038,029	\$ 123,972,136	\$ 34,905,935

NOTE 7 – RESERVES

MCERA had contingency reserves of \$6,961,382 at June 30, 2021, to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 6.75% of retirement reserve balances to those reserves.

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. A summary of the various reserve accounts, which comprise net position for pension and other benefits at June 30, 2021, (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

Member reserves	\$ 78,460,834
Employer reserves	(268,534,655)
Retiree reserves	742,205,439
1% Contingency reserve	<u>6,961,382</u>
Total reserves	559,093,000
Cumulative unallocated net unrealized gain on investments	<u>46,296,707</u>
Total allocated reserves (smoothed market actuarial value after corridor limits)	605,389,707
Fiduciary net position in excess (deficit) of reserves	<u>91,051,595</u>
Fiduciary net position restricted for pension benefits	<u><u>\$ 696,441,302</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULES OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Total pension liability (TPL):									
Service cost ⁽¹⁾	\$ 15,601,020	\$ 13,639,319	\$ 13,422,284	\$ 12,576,536 ⁽²⁾	\$ 12,356,900	\$ 12,125,153	\$ 12,058,526	\$ 11,762,194	\$ 12,083,893
Interest	53,386,300	51,921,209	49,910,703	47,254,554	45,532,301	44,005,882	42,156,056	39,412,370	37,805,390
Change of benefit terms	- ⁽⁵⁾	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(3,342,689)	5,755,507	2,897,805	12,682,464	(5,836,962)	(3,396,702)	1,787,516	(8,040,343)	(1,868,814)
Changes of assumptions	-	15,826,065	-	-	28,220,986	-	-	58,186,913	-
Benefit payments, including refunds of employee contributions	(41,076,641)	(38,777,787)	(36,674,901)	(34,153,672)	(32,765,402)	(31,058,643)	(30,049,133)	(27,353,529)	(26,573,554)
Net change in total pension liability	24,567,990	48,364,313	29,555,891	38,359,882	47,507,823	21,675,690	25,952,965	73,967,605	21,446,915
Total pension liability - beginning of year	795,845,448	747,481,135	717,925,244	679,565,362	632,057,539	610,381,849	584,428,884	510,461,279	489,014,364
Total pension liability - end of year (a)	<u>\$ 820,413,438</u>	<u>\$ 795,845,448</u>	<u>\$ 747,481,135</u>	<u>\$ 717,925,244</u> ⁽³⁾	<u>\$ 679,565,362</u>	<u>\$ 632,057,539</u>	<u>\$ 610,381,849</u>	<u>\$ 584,428,884</u>	<u>\$ 510,461,279</u>
Fiduciary net position:									
Contributions - employers'	\$ 26,333,815	\$ 24,647,132	\$ 23,702,064	\$ 20,430,644	\$ 19,116,426	\$ 19,129,191	\$ 15,164,044	\$ 14,324,752	\$ 14,260,473
Contributions - members'	7,053,907	6,820,687	6,544,192	5,996,462	5,753,907	5,544,925	4,651,960	4,575,895	4,712,593
Net investment income (loss)	166,513,422	14,798,656	19,959,119	45,271,985	66,669,864	(10,352,325)	13,201,309	68,294,844	48,890,492
Benefit payments, including refunds of employee contributions	(41,076,641)	(38,777,787)	(36,674,901)	(34,153,672)	(32,765,402)	(31,058,643)	(30,049,133)	(27,353,529)	(26,573,554)
Administrative expense	(1,372,414)	(1,226,492)	(1,233,418)	(1,142,175)	(1,086,089)	(1,142,493)	(1,059,272)	(930,437)	(829,999)
Other	-	-	-	-	-	-	-	200,106	-
Net change in fiduciary net position	157,452,089	6,262,196	12,297,056	36,403,244	57,688,706	(17,879,345)	1,908,908	59,111,631	40,460,005
Fiduciary net position - beginning of year	538,989,213	532,727,017	520,429,961	484,026,717	426,338,011	444,217,356	442,308,448	383,196,817	342,736,812
Fiduciary net position - end of year (b)	<u>\$ 696,441,302</u>	<u>\$ 538,989,213</u>	<u>\$ 532,727,017</u>	<u>\$ 520,429,961</u>	<u>\$ 484,026,717</u>	<u>\$ 426,338,011</u>	<u>\$ 444,217,356</u>	<u>\$ 442,308,448</u>	<u>\$ 383,196,817</u>
Net pension liability - end of year (a) - (b)	\$ 123,972,136	\$ 256,856,235	\$ 214,754,118	\$ 197,495,283	\$ 195,538,645	\$ 205,719,528	\$ 166,164,493	\$ 142,120,436	\$ 127,264,462
Fiduciary net position as a % of the total pension liability	84.9%	67.7%	71.3%	72.5%	71.2%	67.5%	72.8%	75.7%	75.1%
Covered payroll ⁽⁴⁾	\$ 77,319,043	\$ 72,040,768	\$ 68,254,197	\$ 64,340,578	\$ 59,801,480	\$ 57,407,928	\$ 54,891,785	\$ 53,813,882	\$ 53,254,876
Net pension liability as a % of covered payroll	160.3%	356.5%	314.6%	307.0%	327.0%	358.3%	302.7%	264.1%	239.0%

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

⁽¹⁾ The service cost is based on the previous year's valuation, meaning the 2020 and 2021 values are based on the valuations as of June 30, 2019 and June 30, 2020, respectively. Both service costs have been calculated using the assumptions shown in Note 6 to the basic financial statements.

⁽²⁾ Includes a decrease of approximately \$0.1 million in the service cost as a result of a refinement in the method used to allocate the present value of benefits between the TPL and the present value of future service costs.

⁽³⁾ Includes an increase of approximately \$0.5 million in the TPL as a result of a refinement in the method used to allocate the present value of benefits between the TPL and the present value of future service costs.

⁽⁴⁾ Covered payroll represents Compensation Earnable and Pensionable Compensation and is defined as the payroll on which contributions to the pension plan are based.

⁽⁵⁾ We have reflected the reduction in retiree and beneficiary benefits under the Alameda Decision as an experience gain rather than as a plan amendment for the reasons discussed on page 5 of the June 30, 2021 GASB 67 report.

See accompanying notes to the required supplementary information.

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(DOLLAR AMOUNTS IN THOUSANDS)**

Fiscal Years Ended June 30:	Actuarially Determined Contribution ⁽¹⁾	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll ⁽²⁾	As a % of Covered Payroll	
					Actuarially Determined Contribution	Actual Employer Contribution
6/30/12	\$ 11,811	\$ 11,811	\$ -	\$ 56,291	21%	21%
6/30/13	14,260	14,260	-	53,254	27%	27%
6/30/14	14,325	14,325	-	53,813	27%	27%
6/30/15	15,164	15,164	-	54,891	28%	28%
6/30/16	19,129	19,129	-	57,407	33%	33%
6/30/17	19,116	19,116	-	59,801	32%	32%
6/30/18	20,431	20,431	-	64,341	32%	32%
6/30/19	23,702 ⁽³⁾	23,702 ⁽³⁾	-	68,254	35%	35%
6/30/20	24,647	24,647	-	72,041	34%	34%
6/30/21	26,334	26,334	-	77,319	34%	34%

⁽¹⁾ Prior to year ended June 30, 2014, this amount was the Annual Required Contribution (ARC).

⁽²⁾ Covered payroll represents Compensation Earnable and Pensionable Compensation and is defined as the payroll on which contributions to the pension plan are based.

⁽³⁾ This amount includes additional UAAL contributions made by the Mendocino County Superior Court and the Russian River Cemetery District in FY 2018/2019 based on the minimum dollar UAAL amortization amount for FY 2017/2018. The Mendocino County Superior Court and the Russian River Cemetery District had paid \$31,588 and \$5,949 less than the minimum UAAL contributions in FY 2017/2018, respectively.

See accompanying notes to the required supplementary information.

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

Fiscal Years Ended June 30:	Annual Money-Weighted Rate of Return, Net of Investment Management Fees ⁽¹⁾
2012	N/A
2013	N/A
2014	18.00%
2015	3.10%
2016	(2.19)%
2017	16.10%
2018	9.63%
2019	4.00%
2020	2.97%
2021	31.40%

⁽¹⁾ Data for the money-weighted rate of return is not available for years prior to FY 2014.

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

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

The total pension liability contained in this schedule was obtained from Mendocino County Employees' Retirement Association (MCERA)'s actuary, The Segal Group.

The service cost is based on the previous year's valuation, meaning the 2021 and 2020 values are based on the valuations as of June 30, 2020 and June 30, 2019, respectively. The actuarial assumptions are described in Note 3 below.

Covered payroll shown represents Compensation Earnable and Pensionable Compensation. Only Compensation Earnable and Pensionable Compensation that would go into the determination of retirement benefits are included.

Change in Assumptions

Triennially, MCERA requests that the actuary perform an analysis of all economic and non-economic assumptions in the form of an Experience Study. The most recent triennial analysis was performed as of June 30, 2020, for the period of July 1, 2016 through June 30, 2019. Based on the results of this study, the Board of Retirement adopted new economic assumptions effective with the June 30, 2021 valuation. These key methods and assumption changes included adjusting the investment return from 7.00% to 6.75%; adjusting inflation from 3.00% to 2.75%; and mortality rate table changes. See Note 6 in the notes to the basic financial statements for details on the current actuarial methods and assumptions used in the June 30, 2021 actuarial valuation.

NOTE 2 – SCHEDULE OF INVESTMENT RETURNS

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

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

The actuarial determined contribution rates for the fiscal year ended June 30, 2021, are calculated based on the June 30, 2019 actuarial valuation (two years prior to the end of the fiscal year in which contributions are reported). Details of the actuarial methods and assumptions used for the valuation are as follows:

Valuation date	June 30, 2020 and 2019
Actuarial cost method	Entry age cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	19 and 20 years (closed) for all unfunded actuarial accrued liability (UAAL) remaining as of June 30, 2020 and 2019, respectively.
Asset valuation method	Fair value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the fair value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the fair value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.

NOTE 3 – ACTUARIAL ASSUMPTIONS USED IN DETERMINING THE ACTUARIALLY DETERMINED CONTRIBUTIONS (Continued)

Actuarial assumptions:

Investment rate of return	6.75% for 2020 and 7.00% for 2019
Inflation rate	2.75% for 2020 and 3.00% for 2019
Real across-the-board salary increase	0.50%
Projected salary increases *	4.25% to 8.25% for 2020 and 4.00% to 8.50% for 2019
* Includes inflation at	2.75% for 2020 and 3.00% for 2019 plus real across-the-board salary increase of 0.50% plus merit and longevity increases.

Cost of living adjustments 2.75% for 2020 and 3.00% for 2019 of retirement income
Mortality for healthy members and all beneficiaries 2020 - General Members: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables with rates decreased by 5% for males and increased by 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2019.

2020 - Safety and Probation Members: Pub-2010 Safety Healthy Retiree Amount-Weight Mortality Tables, projected generationally with the two-dimensional mortality improvement scale MP-2019.

2020 - All Beneficiaries: Pub-2010 Contingent Survivor Amount-Weighted Mortality Tables with rates increased by 5%, projected generationally with the two-dimensional mortality improvement scale MP-2019.

2019 - For all members and all beneficiaries: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvement Scale MP-2016, set back one year for males and set forward one year for females.

Years of life expectancy after disability 2020 - General Members: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables, with rates decreased by 5%, projected generationally with the two-dimensional mortality improvement scale MP-2019.

2020 - Safety and Probation Members: Pub-2019 Safety Disabled Retiree Amount-Weighted Mortality Tables, projected generationally with the two-dimensional mortality improvement scale MP-2019.

2019 - For all members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvement Scale MP-2016, set forward four years for both males and set forward six years for females.

2019 - The mortality tables contain a margin of about 20%, based on actual to expected deaths, as a provision to reflect future mortality improvement, based on a review of mortality experience as of the mortality date.

NOTE 3 – ACTUARIAL ASSUMPTIONS USED IN DETERMINING THE ACTUARIALLY DETERMINED CONTRIBUTIONS(Continued)

Life expectancy after retirement for employee contribution rate purposes

2020 - General members: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables with rates decreased by 5% for males and increased by 5% for females, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 30% male and 70% female.

2020 - Safety and Probation members: Pub-2010 Safety Healthy Retiree Amount-Weighted Mortality Tables, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 80% male and 20% female.

2019 - General members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvements Scale MP-2016, set back one year for males and set forward one year for females, weighted 30% male and 70% female.

2019 - Safety and Probation members: RPH-2014 (Headcount-Weighted) Healthy Annuitant Mortality Tables projected 20 years with the two-dimensional improvements Scale MP-2016, set back one year for males and set forward one year for females, weighted 80% males and 20% female.

OTHER SUPPLEMENTARY INFORMATION

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND OTHER INVESTMENT EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

<u>Investment Management Fees</u>	
Domestic Equities - Large Cap	\$ -
Domestic Equities - Mid Cap	-
Domestic Equities - Small Cap	-
International Equities	680,209
Infrastructure	111,439
Fixed Income	-
Real Estate Partnerships	-
Investment Consultant	177,188
Custodial Bank	62,407
Actuarial Expense	68,000
Other Investment Expense	<u>51,166</u>
Total Investment Expenses	<u><u>\$ 1,150,409</u></u>

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OF PAYMENTS TO CONSULTANTS
(OTHER THAN INVESTMENT MANAGERS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Actuarial Expense	\$ 68,000
Audit Services	39,981
Investment Consultant	177,188
Custodian Services	62,407
General Consultant	100,681
Pension IT Services	166,866
Disability Medical Reviews	17,655
Legal Counsel	
General	179,795
Disability	<u>19,095</u>
Total Payments to Consultants	<u><u>\$ 831,668</u></u>

**MENDOCINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Personnel Services:	
Salaries and Wages	\$ 472,251
Other Benefits	85,819
Employee Retirement	<u>168,369</u>
Total Personnel Services	726,439
Professional Services:	
Legal Expense - General	179,795
Outside Legal Counsel - Disability	19,095
Disability Medical Review	17,655
General Consultant - Actuary	100,681
External Audit Fees	<u>39,981</u>
Total Professional Services	357,207
Miscellaneous:	
Office Expenses	24,022
Rent and Leases	54,363
Memberships	5,883
Board Meeting Stipends and Contracts	16,885
Training and Travel	<u>5,065</u>
Total Miscellaneous	<u>106,218</u>
Total Administrative Expenses¹	<u><u>\$ 1,189,864</u></u>
Total Information Technology (IT) Expense	<u>\$ 182,550</u>
Total Administrative and IT Expense	<u><u>\$ 1,372,414</u></u>

⁽¹⁾ Excludes Information Technology expenses as defined in Government Code Section 31580.2.

Administrative Budget: Government Code § 31580.2 states in part, "...the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of the following: 1) Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system. 2) Two million dollars (\$2,000,000)...." MCERA's administrative expenses met the requirements of this section in fiscal year 2020-21 as the total expenses excluding IT expense were less than the administrative cap at 21/100% of the accrued actuarial liability.