MCERA RETIREMENT BOARD MEETING AGENDA
THURSDAY, JANUARY 10, 2019
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
3199 M STREET, MERCED, CA 95348

Please turn your cell phone or other electronic device to non-audible mode and please refrain from using them during the Board meeting.

CALL TO ORDER: 8:15 A.M.

- ROLL CALL.
- APPROVAL OF MINUTES – December 13, 2018.

PUBLIC COMMENT

Members of the public may comment on any item under the Board's jurisdiction. Matters presented under this item will not be discussed or acted upon by the Board at this time. For agenda items, the public may make comments at the time the item comes up for Board consideration. Persons addressing the Board will be limited to a maximum of five (5) minutes in total. Please state your name for the record.

CLOSED SESSION

As provided in the Ralph M. Brown Act, Government Code sections 54950 et seq., the Board may meet in closed session with members of its staff, county employees and its attorneys. These sessions are not open to the public and may not be attended by members of the public. The matters the Board will meet on in closed session are identified below. Any public reports of action taken in the closed session will be made in accordance with Government Code sections 54957.1.

(1) DISCUSSION AND POSSIBLE ACTION REGARDING THREAT TO PUBLIC SERVICES OR FACILITIES
(Govt. Code § 54957)
Presentation of Confidential Audit findings - Brown Armstrong.

(1) **PUBLIC EMPLOYEE ANNUAL PERFORMANCE EVALUATION**
(Govt. Code § 54957)
Title: Retirement Plan Administrator

(2) DISABILITY RETIREMENT APPLICATIONS: PERSONNEL EXCEPTION
(Govt. Code § § 54957, 31532; Cal Const. art. I, § 1)

1. Informal Hearing
    a. None.
2. Formal Hearing
    a. None.
3. Disability update and possible action:
    a. Arroyo, Elizabeth
    b. Barba, Alejandro
    c. Burnett, Donald
    d. Estep, Jason
    e. Herrera, Yvonne
    f. Plascencia, Ramon
    g. Ramirez, Linda Ann

h. Smith, Derrell
i. Valizan, Mathew
j. Winder, Trudy

RETURN TO OPEN SESSION

Report on any action taken in closed session.

CONSENT CALENDAR

Consent matters are expected to be routine and may be acted upon, without discussion, as one unit. If an item is taken off the Consent Calendar for discussion, it will be heard as the last item(s) of the Board Action/Discussion as appropriate.

RETIREMENTS: Pursuant to Govt. Code § 31663.25 or § 31672
All items of earnable compensation for service or disability retirements listed below are in compliance with the pay code schedule approved by the Board of Retirement. The retirement is authorized; however, administrative adjustments may be necessary to alter the amount due to: audit, late arrival of data, court order, etc.

a.	Martin, Angela	D.A.	24 Yrs. Svc.	Eff. 12/22/2018
b.	Pace, Mark	Sheriff	22 Yrs. Svc.	Eff. 12/24/2018
c.	Barile, Paul	Sheriff	18 Yrs. Svc.	Eff. 12/28/2018
d.	Park, Mary Lou	Planning	6 Yrs. Svc.	Eff. 12/03/2018
e.	Dowhaniak, Susan	MCMC	15 Yrs. Svc.	Eff. 12/16/2018
f.	O’Banion, Jerald	BOS	32 Yrs. Svc.	Eff. 01/07/2019
g.	Berger, Richard	Public Defender	16 Yrs. Svc.	Eff. 01/05/2019
h.	Wilkins, Sha’Ron	Library	18 Yrs. Svc.	Eff. 01/05/2019
i.	Mason, Deborah	Probation	21 Yrs. Svc.	Eff. 01/05/2019
j.	Morse, Larry	D.A.	26 Yrs. Svc.	Eff. 01/08/2019

YTD fiscal year 2017/2018 retirees: 048
YTD fiscal year 2016/2017 retirees: 082
YTD fiscal year 2015/2016 retirees: 065

REFUND OF SERVICE PURCHASE: None.
DEATH BENEFIT: Chue Yang (in-service death).
MONTHLY BUDGET REPORT: Report will be available 1/24/2019.

REGULAR CALENDAR

BOARD ACTION[1]/DISCUSSION

1. Discussion and possible action on MCERA Annual Audit and CAFR by Brown Armstrong – Andy Paulden & Colin Lo.
2. Appointment of Ad Hoc Budget Committee for FY 2019/2020 to review draft budget - Chair.

[1] “Action” means that the Board may dispose of any item by any action, including but not limited to the following acts: approve, disapprove, authorize, modify, defer, table, take no action, or receive and file.

3. Review calendar of any training sessions and authorize expenditures for Trustees and Plan Administrator. Pursuant to Govt. Code § 31522.8 and MCERA's Trustees Education and Training Policy requirements. Examples of upcoming training and educational sessions:
    a. NCPERS Legislative Conference, January 27-29, 2019, Washington DC.
    b. CALAPRS Trustee Roundtable, February 1, 2019, Oakland, CA.
    c. Dimensional Fund Advisors Luncheon, February 28, 2019, San Francisco, CA.
    d. CALAPRS General Assembly, March 2–5, 2019, Monterey, CA.
    e. Advanced Principles of Pension Management for Trustees, March 27–29, 2019, Los Angeles, CA.
    f. Pension Bridge Annual Conference, April 9-10, 2019, San Francisco, CA.
    g. SACRS Spring Conference, May 7-10, 2019, Squaw Valley, CA.
    h. NCPERS Annual Conference & Exhibition, May 19-22, 2019, Austin, TX.
    i. Principles of Pension Management for Trustees, August 26-29, 2019 Malibu, CA.
    j. SACRS Fall Conference, November 12-15, 2019, Monterey, CA.

INFORMATION ONLY

MCERA Upcoming Board Meetings:

Please note: The MCERA Board Meeting and/or Education Day times and dates may be changed in accordance with the Ralph M. Brown Act by the MCERA Board as required.

- January 24, 2019
- February 14, 2019
- February 28, 2019

ADJOURNMENT

All supporting documentation is available for public review in the office of the Merced County Employees' Retirement Association, 3199 M Street, Merced, California, 95348 during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Friday.

The Agenda is available online at www.co.merced.ca.us/retirement

Any material related to an item on this Agenda submitted to the Merced County Employees' Retirement Association, after distribution of the Agenda packet is available for public inspection in the office of the Merced County Employees' Retirement Association.

Persons who require accommodation for a disability in order to review an agenda, or to participate in a meeting of the Merced County Employees' Retirement Association per the American Disabilities Act (ADA), may obtain assistance by requesting such accommodation in writing addressed to Merced County Employees' Association, 3199 M Street, Merced, CA 95348 or telephonically by calling (209) 726-2724. Any such request for accommodation should be made at least 48 hours prior to the scheduled meeting for which assistance is requested.

MCERA RETIREMENT BOARD MEETING MINUTES
THURSDAY, DECEMBER 13, 2018
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
3199 M Street Merced, CA 95348

ROLL CALL: 8:15 A.M.

Board Members Present: Darlene Ingersoll, David Ness, Al Peterson, Jerald O'Banion, Michael Rhodes, Janey Cabral, Sandy Teague, Jason Goins and Samuel Spangler. ***Counsel***: Forrest Hansen. ***Staff:*** Kristie Santos, Angelo Lamas, Mark Harman, Sheri Villagrana, and Brenda Mojica. ***Other:*** Cheiron; Graham Schmidt and Jacqui King.

Absent: Karen Adams and Ryan Paskin.

APPROVAL OF MINUTES: November 08, 2018.
Motion to approve the November 08, 2018 meeting minutes.
O'Banion/Peterson U/A (7-0).

PUBLIC COMMENT
No public comment.

CLOSED SESSION
The meeting went into closed session.

RETURN TO OPEN SESSION

(1) DISABILITY RETIREMENT APPLICATIONS: PERSONNEL EXCEPTION
Disability update and possible action:
Staff given direction.

CONSENT CALENDAR
RETIREMENTS:
All items of earnable compensation for service or disability retirements listed below are in compliance with the pay code schedule approved by the Board of Retirement. The retirement is authorized; however, administrative adjustments may be necessary to alter the amount due to: audit, late arrival of data, court order, etc.

a.	Mount, Cynthia	DWI	5 Yrs. Svc.	Eff. 11/20/2018
b.	Assante, Cheryl	Public Health	18 Yrs. Svc.	Eff. 11/10/2018
c.	Mahan, Gregory	Sheriff	22 Yrs. Svc.	Eff. 11/10/2018
d.	Lyons, Tamara	Elections	11 Yrs. Svc.	Eff. 11/24/2018
e.	Simms, Beverly	Public Health	15 Yrs. Svc.	Eff. 11/07/2018
f.	Ponder, Alicia	Elections	13 Yrs. Svc.	Eff. 11/10/2018
g.	Rodriguez, Aurora	H.S.A.	23 Yrs. Svc.	Eff. 12/01/2018

YTD fiscal year 2017/2018 retirees: 038
YTD fiscal year 2016/2017 retirees: 082
YTD fiscal year 2015/2016 retirees: 065

REFUND OF SERVICE PURCHASE: None.
DEATH BENEFIT: None.
MONTHLY BUDGET REPORT: Submitted.

Motion to approve Consent Calendar.
O'Banion/Goins U/A (7-0).

REGULAR CALENDAR

BOARD ACTION[1]/DISCUSSION

1. Discussion and possible action to adopt the preliminary actuarial employer and employee contribution rates as of June 30, 2018 for MCERA with rates effective July 1, 2019 - Cheiron.
   No action taken.

2. Discussion and possible action to recommend reappointment of Seat 9, Trustee Alfonse Peterson Seat 9 is due to terminate current term on December 31, 2018 to the MCERA Board of Retirement – Chair.
   Trustee Peterson recused himself and left the Board Room.
   Motion to approve and send recommendation letter to Board of Supervisors for reappointment of Alfonse Peterson to Seat 9 of the MCERA Retirement Board for term beginning January 1, 2019.
   Ness/Goins U/A (6-0).

3. Discussion and possible action to adopt the proposed interest crediting rates for the estimated Active, Retiree, and Employer Reserve Balances on December 31, 2018 - Staff.
   Motion to adopt proposed interest rate of 1.05% to be credited to the active reserves balances and 3.56% to retiree and employer reserves balances.
   Ness/O'Banion U/A (7-0).

4. Discussion and possible action on the quarterly budget ending September 2018 (Q1) (per Govt. Code §31580.2 as part of the annual budget process and expenditure limitation) – Staff.
   No action taken.

5. Discussion and possible action to adopt the 2019 MCERA Board of Retirement meeting calendar - Staff.
   Motion to adopt proposed 2019 MCERA Board of Retirement meeting calendar.
   O'Banion/Peterson U/A (7-0).

6. Discussion and possible action to cancel the December 27, 2018 MCERA Investment meeting - Staff.
   Motion to cancel December 27, 2018 MCERA Investment meeting.
   Goins/Cabral U/A (7-0).

[1] "Action" means that the Board may dispose of any item by any action, including but not limited to the following acts: approve, disapprove, authorize, modify, defer, table, take no action, or receive and file.

7. Discussion and possible action on Resolution for Jerry O'Banion - Chair.
   Motion to adopt Resolution for Trustee Jerry O'Banion for service on the MCERA Board of Retirement.
   Peterson/Cabral U/A (7-0).

8. Review calendar of any training sessions and authorize expenditures for Trustees and Plan Administrator. Pursuant to Govt. Code § 31522.8 and MCERA's Trustees Education and Training Policy requirements. Examples of upcoming training and educational sessions:
   a. Plan Administrator to attend one-day meeting with MCERA staff at CalPERS, January 16, 2019, Sacramento, CA.
   b. NCPERS Legislative Conference, January 27-29, 2019, Washington DC.
   c. CALAPRS General Assembly, March 2-5, 2019, Monterey, CA.
   d. Advanced Principles of Pension Management for Trustees, March 27-29, 2019, Los Angeles, CA.
   e. Pension Bridge Annual Conference, April 9-10, 2019, San Francisco, CA.
   f. SACRS Spring Conference, May 7-10, 2019, Squaw Valley, CA.
   g. NCPERS Annual Conference & Exhibition, May 19-22, 2019, Austin, TX.
   h. Principles of Pension Management for Trustees, August 26-29, 2019, Malibu, CA.
   i. SACRS Fall Conference, November 12-15, 2019, Monterey, CA.

   Motion to approve Plan Administrator to attend one-day meeting at CalPERS in Sacramento, January 16, 2019.
   Goins/Peterson U/A (7-0).

INFORMATION ONLY

1. Trustee Peterson provided a report on his attendance at the Fall 2018 SACRS Conference and Business Meeting.
2. Counsel Hansen reported on Wednesday, December 5, 2018 the California Supreme Court heard oral arguments on *CalFire Local 2881, et al. v. CalPERS, et al.*

ADJOURNMENT

The meeting adjourned at 9:34 a.m.

Respectfully submitted,

____
Darlene Ingersoll, Chair

____
Al Peterson, Secretary

____
Date

Merced County Employees' Retirement Association

Board of Retirement Presentation of the Results of the June 30, 2018 Year End Financial Statement Audit

Brown Armstrong Accountancy Corporation

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

Presented By: Andrew J. Paulden, CPA
Partner

Colin Lo, CPA
Audit Senior

January 10, 2019

The Board of Retirement of the
Merced County Employees' Retirement Association
3199 M Street
Merced CA 95348

We are pleased to present to you the results of our audit of the Merced County Employees' Retirement Association (MCERA) financial statements for the year ended June 30, 2018.

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

Sincerely,

Andrew J. Paulden, CPA/Partner
Brown Armstrong Accountancy Corporation

BROWN ARMSTRONG

CERTIFIED PUBLIC ACCOUNTANTS

Agenda

Slide

BROWN ARMSTRONG

CERTIFIED PUBLIC ACCOUNTANTS

Scope of Services Recap

- Audit of MCERA's financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States

- Other communications and reports required by professional standards including:
  - Required Communication at the Conclusion of an Audit in Accordance with Professional Standards (SAS 114)
  - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with GAS

BROWN ARMSTRONG

CERTIFIED PUBLIC ACCOUNTANTS

Audit Timeline/Critical Dates List

- First Week of Fieldwork – July 16, 2018
  - On-site Testing of Internal Controls
  - Walkthroughs and Understanding of Key Accounting Areas
  - Update Minutes and Agreements
- Second Week of Fieldwork - October 1, 2018
  - Substantiate all Accounts and Balances
  - Review Confirmation Responses
- Audit Wrap Up Conference Call to Discuss Results of Fieldwork – October 29, 2018
- CAFR Review and Draft Reports – November/December 2018
- Audit Opinions Issued - December 27, 2018 Issued Timely

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Audit Areas of Focus

Significant Risk Areas	Brown Armstrong's Response
Revenue recognition	• Test of controls was performed over contribution amounts as part of participant data • Confirmations from third parties • Other substantive analytics were also performed
Management override of controls	• An understanding of controls over journal entries was obtained and a sample of individual journal entries was performed • Inquiries performed with individual(s) involved in the financial reporting process, and ensuring no inappropriate or unusual activity was noted relating to journal entry processing • Performed walkthroughs of significant audit areas to review adequate segregation of duties.

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Audit Areas of Focus

Significant Audit Areas	Brown Armstrong's Response
Investments and related earnings	• Walkthrough of controls performed • High level analytics performed on investment income • Confirmation with custodian, managers, and consultants • Reviewed GASB Statement No. 72 valuation inputs and testing of Level determinations • Obtained audited financial statements and SOC reports

Participant data and actuary	• Walkthrough and test of controls
	•Testing of participant data, including active and terminated members, and employer payroll
	    • Confirmed with actuary
	    • Confirmed with employers
	• GASB Statement No. 67/68
	    • Money weighted return
	    • RSI schedules

Benefit payments	• Walkthrough and test of controls • Testing of benefit payments • High level analytics
Employer and employee contributions	• Walkthrough and test of controls • Confirmed with employers • High level analytics

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Results of the Audit

Required Audit Reports Issued	Summary
Report on Financial Statements (Opinion)	Unmodified
Required Communication to the Board of Retirement in Accordance with Professional Standards (SAS 114)	Significant Estimates Reviewed • Fair Value of Investments • Net Pension Liability Estimates ✓ Based on actuary assumptions Corrected and Uncorrected Misstatements - None Disagreements with Management - None
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	No noncompliance noted No material weaknesses, significant deficiencies, or control deficiencies identified

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Results of the Audit

Other Reports Issued	Summary
Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)	Current year status of agreed upon conditions and recommendations identified in the prior year
Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Information Technology (Management Letter for IT)	Current year status of agreed upon conditions and recommendations identified in the prior year

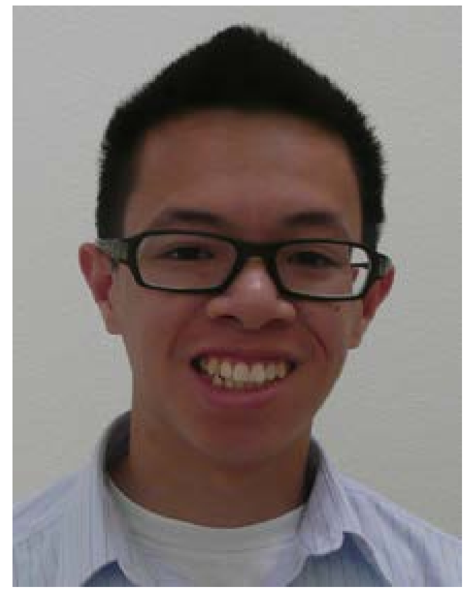
BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Financial Statement Review

- Review Process
- GFOA Award
- Questions on the CAFR

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Thank Staff/Questions?



Andrew J. Paulden, CPA | Partner
Brown Armstrong Accountancy Corporation
4200 Truxtun Avenue, Suite 300
Bakersfield, California 93309
Tel: 661-324-4971 **|** Email: apaulden@bacpas.com

Colin Lo, CPA | Audit Senior
Brown Armstrong Accountancy Corporation
1919 Grand Canal Blvd., Suite C6
Stockton, California 95207
Tel: 209-242-2349 **|** Email: clo@bacpas.com

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REPORT TO THE BOARD OF RETIREMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

MERCED COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

TABLE OF CONTENTS

BROWN
ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE
23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE
1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

BROWN ARMSTRONG

Certified Public Accountants

REQUIRED COMMUNICATION TO THE MEMBERS OF THE BOARD OF RETIREMENT IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)

To the Board of Retirement of the
Merced County Employees' Retirement Association
Merced, California

We have audited the financial statements and other information (financial statements) of the Merced County Employees' Retirement Association (MCERA) as of and for the fiscal year ended June 30, 2018, and have issued our report dated December 27, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 20, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MCERA are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2018. We noted no transactions entered into by MCERA during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the fair value of investments, which was derived by various methods as detailed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

- The net pension liability of participating employers, as detailed in the notes to the financial statements, is based on the actuarially-presumed interest rate and assumptions. We evaluated the key factors and assumptions used to develop the estimate of the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

- The disclosures for investments in Notes 2 and 3 to the financial statements, Summary of Significant Accounting Policies and Cash and Investments, respectively, were derived from MCERA's investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes to the financial statements.

- Additionally, the disclosures related to the funding policies, net pension liability, and actuarial methods and assumptions in Note 1, Plan Description and Note 5, Net Pension Liability of Participating Employers were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

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

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not identify any misstatements as a result of our audit procedures.

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

Management Representations
We have requested certain representations from management that are included in the management representation letter dated December 27, 2018.

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

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

Other Matters

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

We were engaged to report on the Schedules of Administrative Expenses, Schedules of Investment Expenses, and Schedules of Payments to Consultants, which accompany the financial statements but are not RSI. With respect to these other supplemental schedules, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplemental schedules to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restricted on Use

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2018

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

BROWN ARMSTRONG

Certified Public Accountants

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

To the Board of Retirement of the
Merced County Employees' Retirement Association
Merced, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Merced County Employees' Retirement Association (MCERA) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise MCERA's basic financial statements, and have issued our report thereon dated December 27, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2018

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BAKERSFIELD OFFICE (MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE
23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE
1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

BROWN ARMSTRONG
Certified Public Accountants

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

To the Board of Retirement of the
Merced County Employees' Retirement Association
Merced, California

In planning and performing our audit of the financial statements of Merced County Employees' Retirement Association (MCERA), as of and for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered MCERA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of MCERA's internal control.

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

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

The results of our audit disclosed no recommendations for the current year, and we are providing the disposition of the prior year comments.

Restriction on Use

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2018

Current Year Agreed Upon Conditions and Recommendations

No agreed upon conditions and recommendations in the current year.

Status of Prior Year Agreed Upon Conditions and Recommendations

Agreed Upon Condition 2017-1 – Retirement Applications

During our testing of retirees, we identified 2 out of 25 current year retirees that did not submit their applications within 60 days of retirement. As a result, MCERA was not in compliance with Section 31672 of the County Employees Retirement Law of 1937.

Recommendation

We recommend that MCERA verify that applications are being submitted within 60 days of retirement before new retirements are processed to be in compliance with Section 31672 of the County Employees Retirement Law of 1937.

Management Response

This was a training issue for some of our newer staff. All staff has been reminded of the 60-day requirement and to ensure that special attention is also paid to the retirement date vs. the received date.

Current Year Status

Recommendation was implemented.

Agreed Upon Condition 2017-2 – Missing Documentation in File

During our testing of retirees, we identified 3 out of 35 older retirees of which MCERA was unable to provide adequate proof of birth maintained within the participant's file. Documentation for one of the three members was subsequently provided and noted an error in reporting the retiree's birth date by one day; this did not affect the member's benefit. In addition, we identified 2 out of 35 older retirees of which MCERA was unable to provide adequate proof of marriage maintained within participant's file. We identified 10 out of 35 older retirees who received a Ventura benefit increase of which MCERA was unable to provide adequate documentation supporting the benefit increase.

Recommendation

We recommend that MCERA implement procedures to retain such records in order to support proper documentation required for retirement and calculation of benefits.

Management Response

Current MCERA procedures require that all retirement application documents be maintained in the members' retirement folder. This includes retaining any proof of birth, marriage and death for members. The instances above refer to retirements processed between 1983 and 2005. Current staff and Plan Administrator were hired from 2007-2016 and diligently work to ensure all documents are in order and pertinent retirement documents are maintained.

Current Year Status

Recommendation was implemented.

BROWN
ARMSTRONG
CERTIFIED
PUBLIC
ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE
23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE
1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Merced County Employees' Retirement Association
Merced, California

Report on the Financial Statements and Other Information

We have audited the accompanying Statements of Fiduciary Net Position of the Merced County Employees' Retirement Association (MCERA), a component unit of the County of Merced, as of June 30, 2018 and 2017, the related Statements of Changes in Fiduciary Net Position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise MCERA's basic financial statements as listed in the table of contents. We have also audited the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) as of and for the fiscal year ended June 30, 2018, listed as other information in the table of contents.

Management's Responsibility for the Financial Statements and Other Information

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 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.

Opinion

In our opinion, the financial statements and other information referred to above present fairly, in all material respects, the fiduciary net position of MCERA as of June 30, 2018 and 2017; its changes in fiduciary net position for the fiscal years then ended; and the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) as of and for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Additional Information

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

The other supplemental schedules are the responsibility of management and were derived from and relate 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 other information 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and other information and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, 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 agreements, 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.

Restriction on Use

Our report is intended solely for the information and use of the Board of Retirement and management of MCERA and MCERA employers and their auditors and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2018

Merced County Employees' Retirement Association

2018

Comprehensive Annual Financial Report

For the fiscal years ended June 30, 2018 and 2017

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

Issued by:

Kristen Santos

Plan Administrator

Mark A. Harman

Fiscal Manager

Merced County Employees' Retirement Association
A Pension Trust Fund of the County of Merced, California

3199 M Street, Merced, CA 95348

(209) 726-2724

www.co.merced.ca.us/2145/Retirement

mcera | Merced County Employees' Retirement Association

MCERA's mission is to provide benefits to its members, to manage assets prudently in accordance with plan provisions, and to provide competent and efficient services to our members

Merced County Employees' Retirement Association

Table of Contents

Merced County Employees' Retirement Association

Table of Contents (Continued)

Page Intentionally Left Blank

Introductory Section

Merced County Employees' Retirement Association

Letter of Transmittal

December 27, 2018

Dear Board Members:

As the administrator of the Merced County Employees' Retirement Association (MCERA, or the Association), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2018 and 2017. This Report is intended to provide readers with complete and reliable information about MCERA's financial status, compliance with the law and MCERA policies. This is MCERA's 68th year of operation.

MCERA's Mission Statement and Core Values

MCERA's mission is to provide benefits to its members, manage assets prudently in accordance with plan provisions, and provide competent and efficient services to our members.

The Comprehensive Annual Financial Report (CAFR)

MCERA management is responsible for both the accuracy of the data and the completeness and fairness of the financial information contained in this CAFR. The Comprehensive Annual Financial Report is presented in five sections:

- The **Introductory Section** describes MCERA's management and organizational structure, identifies the members of the MCERA Board of Retirement (Board), provides a listing of professional consultants utilized by MCERA, and presents this Letter of Transmittal.
- The **Financial Section** presents the report of the independent auditor, Brown Armstrong Accountancy Corporation, along with MCERA management's discussion and analysis, basic financial statements, required supplementary schedules, other supplemental schedules, and other information.
- The **Investment Section** contains a report on MCERA's investment performance from MCERA's investment consultant, Verus Investments, along with information regarding MCERA's investment policies, asset allocation, investment holdings, and investment management fees.
- The **Actuarial Section** contains the independent actuary's certification letter from MCERA's actuary, Cheiron Inc., along with a summary of actuarial assumptions and funding methods, and actuarial statistics.
- The **Statistical Section** presents information pertaining to MCERA's operations on a multi-year basis. The financial and operating information provides contextual data for MCERA's fiduciary net position, contributions, refunds, and different types of retirement benefits.

MCERA and its Services

MCERA is a public employee retirement system established by the County of Merced on July 1, 1950. MCERA is administered by the MCERA Board of Retirement to provide retirement, disability, death, and survivor benefits for eligible employees of the County of Merced, Superior Court of California for the County of Merced, Merced Cemetery District, and Regional Waste Management Authority for Merced County pursuant to the California Constitution, the County Employees' Retirement Law of 1937, Government code section 31450 et. Seq. (the 1937 Act), and the by-laws, policies, and procedures adopted by the MCERA Board. The County of Merced Board of Supervisors may also adopt resolutions, as permitted by the 1937 Act, which may affect benefits of MCERA members.

The MCERA Board is responsible for the general management of the association, including making benefit determinations and managing the investment of the Association's assets. The day-to-day management of MCERA is vested in an administrator appointed by the Board.

The Board is comprised of nine members and two alternates; two elected by the active general membership, one regular and one alternate elected by the active safety membership, one regular and one alternate elected by the retired membership, four appointed by the County of Merced Board of Supervisors, and the County of Merced Treasurer, who serves as an ex-officio member. With the exception of the County Treasurer, Board members serve three-year terms, with no term limits.

Financial Information

A review of MCERA's fiscal affairs for the years ended June 30, 2018 and 2017 is presented in Management's Discussion and Analysis (MD&A), which is located in the Financial Section of this CAFR. Together, the MD&A and this Letter of Transmittal provide an expanded overview of MCERA's financial activities for the fiscal years reported.

The audit of MCERA's financial statements has been performed by an independent auditor, Brown Armstrong Accountancy Corporation, who has opined that the financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) and are free of material misstatement and that sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. This document has been prepared in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 82 and all prior and relevant standards.

Management is responsible for establishing and maintaining appropriate internal controls to ensure that MCERA's assets are protected from loss, theft, or misuse. MCERA recognizes that even sound internal controls have inherent limitations. We believe that internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived and the assessment of control should not exceed the benefits to be derived and the assessment of costs and benefits requires estimates and judgments by management.

As of June 30, 2018, MCERA's fiduciary net position restricted for pension benefits totaled approximately $826.7 million reflecting an increase of approximately $72.9 million or 9.7% in fiduciary net position from the end of the previous fiscal year. This was primarily attributable to increase in fair value of investments.

Actuarial Funding Status

MCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan and obtaining optimum investment returns consistent with a prudent level of risk. The higher the level of plan funding, the larger the ratio of assets accumulated to actuarial accrued liability and the higher the level of investment return potential.

Pursuant to provisions in the 1937 Act, MCERA engages an independent actuarial firm to perform annual actuarial valuations of the Association. As part of the valuation, economic assumptions are reviewed and, in addition, every three years a triennial experience study of MCERA membership is conducted and non-economic assumptions are reviewed and modified as necessary. The most recent triennial experience study was conducted in 2016. As a result of the study, several economic and non-economic assumptions were changed. The impact of the changes were significant, so they are being phased in over two years. The most recent actuarial valuation as of June 30, 2017, reported the Association's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) is 59.8%. This increase in funding ratio (up from 55.8% as of June 30, 2016) was primarily due to MCERA's investment return meeting the actuarial assumptions.

Investments

The Board has exclusive control of all investments of the Association and is responsible for establishing investment objectives, strategies, and policies. Pursuant to the California Constitution and the 1937 Act, the Board is authorized to invest in any form or type of investment to create a portfolio deemed prudent in the informed judgement of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In carrying out its investment responsibilities, the Board receives guidance from professional investment consultants, Meketa Investment Group, Inc. and Cliffwater, LLC.

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk controls.

The Investment Policy also delineates the principal fiscal duties of the Board, MCERA's custodial bank, MCERA staff, and investment managers.

The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. A summary of the asset allocation plan is located in the Investment Section of this CAFR.

The assets of MCERA are exclusively managed by external professional investment management firms. A listing of the investment service providers and investment fees is located on pages 78 and 77, respectively.

For the fiscal year ended June 30, 2018 MCERA's investment return, net of fees, was a positive 9.2% and the annualized rate of return over the last three and five years was a positive 7.1% and 8.2%, respectively.

Service Efforts and Accomplishments

- Contracted with Meketa Investment Group for general investment consulting services commencing on March 23, 2018
- Adopted and implemented a cost of living adjustment (COLA) of 3% effective April 1, 2018 for Tier 1 retired members
- For the fourteenth consecutive year, MCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MCERA's 2016-2017 Comprehensive Annual Financial Report.
- Approved subscriptions in the following hedge funds:
    - Winton Futures Fund — $3,000,000
    - Graham Capital Absolute Return Fund — $3,000,000
    - Marshall Wace Eureka Fund — $3,000,000
    - Wellington Archipelago Partners Fund — $6,000,000
    - Silver Point Capital Fund — $7,000,000
    - KLS Diversified Fund — $5,000,000
- Approved commitments of $5,000,000 for each of the following private investments:
    - EnCap Energy Capital Fund XI

- Carlyle Realty Partners VIII
- Davidson Kempner Long Term Distressed Opportunities Fund IV
- GTCR Fund XII
- EnCap Flatrock Midstream Fund IV
- Carrick Capital Partners Fund III
- ISquared Global Infrastructure Fund II
- KKR Global Infrastructure Investors III
- Taconic Commercial Real Estate Dislocation Fund II
- Cressey & Co Fund VI
- TCV X
- Accel KKR Growth Capital Partners III

- Adopted the 2017 annual valuation report as presented by Cheiron

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its CAFR for the Fiscal Year Ended June 30, 2017. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. This is MCERA's fourteenth Certificate of Achievement for excellence in Financial Reporting. We believe our current report continues to conform to the Certificate of Achievement program requirements.

Acknowledgements

The compilation of this report reflects the dedicated efforts of MCERA staff and, in particular, MCERA's Mark Harman and Adriana Valdez. I would like to express my great appreciation for their hard work. I would also like to thank MCERA's professional consultants; our actuary, our investment consultants, and our auditor for their generous and invaluable assistance. Finally, I would like to acknowledge the Board for its leadership and commitment to the highest fiduciary standards.

Respectfully submitted,

Kristen Santos

Plan Administrator

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Merced County

Employees' Retirement Association

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

Merced County Employees' Retirement Association

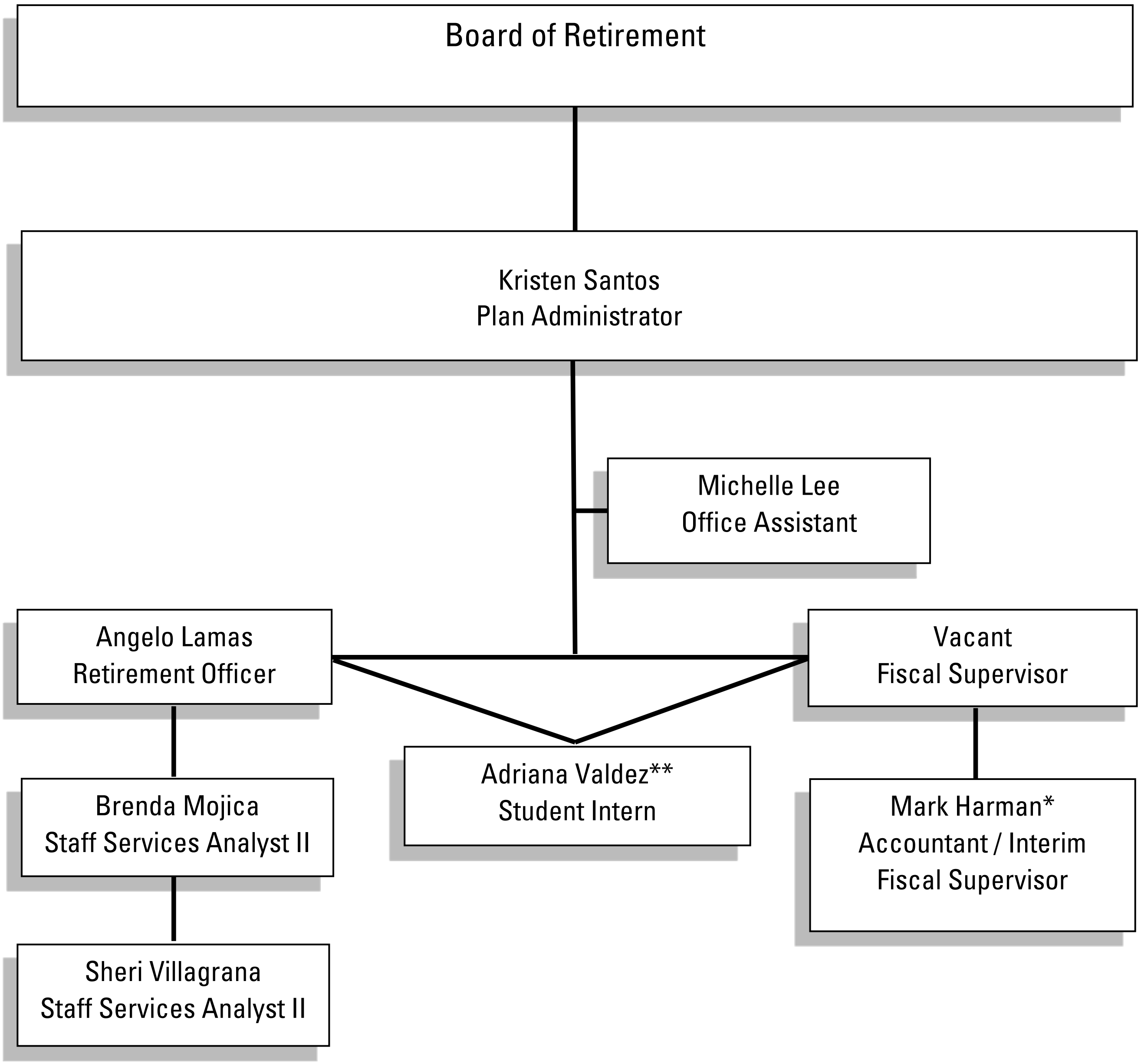
Members of the Board of Retirement
As of June 30, 2018

Trustees	**Term Expiration**	**Appointed/Elected by**
Darlene Ingersoll, Chair	December 31, 2019	General Members
Ryan Paskin, Vice Chair	December 31, 2019	Board of Supervisors
Alfonse Peterson, Secretary	December 31, 2018	Board of Supervisors
Karen Adams, County Treasurer	Permanent by office	Ex-officio Member
Janey Cabral	December 31, 2020	General Members
David Ness	December 31, 2019	Board of Supervisors
Jerry O'Banion	December 31, 2018	Board of Supervisors
Jason Goins	December 31, 2019	Safety Members
Sam Spangler, Alternate	December 31, 2019	Safety Members
Leon (Sandy) Teague	December 31, 2020	Retired Members
Michael Rhodes, Alternate	December 31, 2020	Retired Members

Merced County Employees' Retirement Association

Administrative Organization Chart

As of June 30, 2018



*Mark Harman was hired as Fiscal Manager of MCERA, effective 7/23/2018. The Fiscal Manager position replaced the Fiscal Supervisor position.

**Adriana Valdez was hired as MCERA's Accountant, effective 9/03/2018. Miranda Cooper replaced Adriana Valdez as the Student Intern, effective 9/10/2018.

Merced County Employees' Retirement Association

List of Professional Consultants
As of June 30, 2018

Consulting Services

Investment Consultant

Meketa Investment Group, Inc.

Cliffwater, LLC

Actuary

Cheiron, Inc.

Segal Consulting

Auditor

Brown Armstrong Accountancy Corporation

Master Custodian

Northern Trust Corporation

Electronic Systems Services

Merced County Information Systems

Legal Counsel

Merced County Counsel

Ted Cabral

Nossaman LLP

Public Pension Consultants, Inc.

Hanson Bridgett LLP

Medical Advisor

National Disability Evaluations, Inc.

Commission Recapture Brokers

ConvergEx Group

Capital Institutional Services, Inc.

Merced County Employees' Retirement Association

List of Professional Consultants (continued)
As of June 30, 2018

Investment Services

Fixed Income

Barrow, Hanley, Mewhinney & Strauss, Inc.
Vanguard

Domestic Equity

Mellon Capital Management
Dimensional Fund Advisors
PanAgora Asset Management, Inc.

International Equity

Mellon Capital Management
Wells Capital Management
Copper Rock Capital Partners, LLC

Real Asset Proxy

SSgA

Private Equity

Adams Street Partners, LLC
Pantheon Ventures, Inc.
Invesco Private Capital
Ocean Avenue Capital Partners
Raven Capital Management
Davidson Kempner Capital Management LP
GTCR LLC

Real Estate

UBS Global Asset Management
Greenfield Partners
Patron Capital
The Carlyle Group

Hedge Fund

Och-Ziff Capital Management
Wellington Alternative Investments
Graham Capital Management
KLS Diversified Asset Management
Winton Group, Ltd
Marshall Wace, LLP
Silver Point Capital, L.P.

Infrastructure

KKR & Co. L.P.
Morgan Stanley
ISquared Capital

Natural Resources

GSO Energy Select Opportunities Assc, LLC
Taurus Funds Management
EnCap Investments L.P.

Commission Recapture Brokers

ConvergEx Group
Capital Institutional Services, Inc.

Note: Fees to investment professionals are reported in the investment section on page 77

Financial Section

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE
23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE
1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Merced County Employees' Retirement Association
Merced, California

Report on the Financial Statements and Other Information

We have audited the accompanying Statements of Fiduciary Net Position of the Merced County Employees' Retirement Association (MCERA), a component unit of the County of Merced, as of June 30, 2018 and 2017, the related Statements of Changes in Fiduciary Net Position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise MCERA's basic financial statements as listed in the table of contents. We have also audited the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) as of and for the fiscal year ended June 30, 2018, listed as other information in the table of contents.

Management's Responsibility for the Financial Statements and Other Information

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 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.

Opinion

In our opinion, the financial statements and other information referred to above present fairly, in all material respects, the fiduciary net position of MCERA as of June 30, 2018 and 2017; its changes in fiduciary net position for the fiscal years then ended; and the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) as of and for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Additional Information

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

The other supplemental schedules are the responsibility of management and were derived from and relate 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 other information 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and other information and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, 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 agreements, 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.

Restriction on Use

Our report is intended solely for the information and use of the Board of Retirement and management of MCERA and MCERA employers and their auditors and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2018

Merced County Employees' Retirement Association

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the Merced County Employees' Retirement Association (MCERA, or the Association) for fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the Letter of Transmittal and the financial statements following this section.

Financial Highlights

- At the close of the fiscal year June 30, 2018, MCERA's fiduciary net position restricted for pensions totaled $826.7 million. All of the fiduciary net position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.
- During fiscal year 2018, MCERA's fiduciary net position restricted for pensions increased by $72.9 million. This change reflects the increase in fair value of investments.
- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2017, the date of MCERA's last actuarial funding valuation, MCERA's funded ratio was 59.8%. In general, this indicates that for every one dollar of benefits due, MCERA has approximately $0.59 of assets available for payment.
- Additions, as reflected in the Statements of Changes in Fiduciary Net Position, were $145.9 million in the fiscal year ended June 30, 2018. These additions include employer and employee contributions of $75.2 million, investment income of $6.9 million, a net appreciation in the fair value of investments of $67.0 million, and investment expenses of $3.3 million.
- Deductions, as reflected in the Statements of Changes in Fiduciary Net Position, increased from $69.1 million to $73.0 million in the current fiscal year (an increase of approximately 5.7%). This increase was primarily due to benefits paid.

Overview of the Financial Statements

The following discussion and analysis are intended to help the reader understand the purpose and meaning of the key components within the financial section. The financial statements are comprised of the ***Statements of Fiduciary Net Position*** and the ***Statements of Changes in Fiduciary Net Position.***

The ***Statements of Fiduciary Net Position*** is a snapshot of account balances as of the fiscal year end. It indicates the assets available for future payment to retirees and any current liabilities. The difference between assets and liabilities represent the fiduciary net position restricted for pensions. The statement also presents prior year-end balances for comparative purposes.

The ***Statements of Changes in Fiduciary Net Position*** provides a view of the current year additions to and deductions from the Association that caused the change in the net position during the fiscal year.

MCERA's financial statements are in compliance with the generally accepted accounting principles in the United States of America (GAAP) and reporting guidelines set for in Governmental Accounting Standards Board (GASB) Statement Nos. 28, 34, 40, 44, 51, 53, 63, 67, 72, and 82. These pronouncements require certain disclosures, and also require that defined pension plans of state and local governments report using the full accrual method of accounting. MCERA complies with all material requirements of these pronouncements.

These financial statements report information about MCERA's financial activities. As previously noted, the statements include all assets and liabilities using the full accrual basis of accounting. The current year's additions are recognized when earned and deductions are recognized when incurred regardless of when cash is received or paid. Investment gains or losses are shown at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses are reported. All capital assets are depreciated over their useful lives.

The information reported regarding MCERA's fiduciary net position restricted for pensions is generally considered to be a good measure of MCERA's financial position. Over time, increases or decreases in the Association's net position is one indicator of whether the Association's financial health is improving or deteriorating. Other factors however, such as investment market conditions and the employers' net pension liability should also be considered in measuring the Association's overall health.

The ***Notes to Basic Financial Statements*** are an integral part of the financial report and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information. The ***Required Supplementary Information*** includes the Schedules of Changes in Net Pension Liability and Related Ratios, Schedules of Employer Contributions, and the Schedules of Investment Returns. The Schedules of Changes in Net Pension Liability and Related Ratios presents the changes in the employers' net pension liability. The Schedules of Employer contributions provides historical information about actuarial determined contributions of the employer and the actual contributions made. The Schedules of Investment Returns represents the investment returns weighted by the cash inflows and outflows from the investment funds. Together, these schedules and the supporting ***Notes to Required Supplementary Information*** provide information to help promote understanding of the Association's fiduciary net position in relation to the total pension liability, employers' actual contributions and investment returns over time. ***Other Supplemental Schedules*** represent information concerning MCERA's operations on a multi-year basis. Finally, ***Other Information*** consists of two schedules pertaining to *GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.* The two schedules include the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan and the Schedule of Cost Sharing Employer Allocations. Under GASB Statement No. 68, plan sponsors are required to report Net Pension Liability on their balance sheets and changes in Net Pension Liability on their operating statements as pension expenses, deferred inflow of resources, and deferred outflows of resources.

Financial Analysis

As previously noted, the Net Position may serve over time as a useful indication of MCERA's financial position. At the close of the fiscal year June 30, 2018, MCERA's net position exceeded its liabilities by $826.7 million. All of the Net Position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries. As of June 30, 2018, the Net Position totaled $826.7 million, which is $72.9 million more than the prior year. This result essentially reflects the increase in net investment income at fair value, regardless of the increase in benefits and administrative expenses.

Despite short-term variations in the stock market, MCERA's Management believes that the Association remains in a financial position that will enable MCERA to meet its future obligations to participants and beneficiaries. MCERA remains focused on the long-term performance of the fund, dependent on a strong and successful investment program, risk management, and strategic planning.

MCERA's Fiduciary Net Position

For Fiscal Years Ended June 30, 2018 and 2017:

	2018	2017	Increase/ (Decrease) Amount	% Change
Current and Other Assets	$30,099,764	$13,651,586	$16,448,178	120.5%
Investments at Fair Value	796,055,093	738,615,821	57,439,272	7.8%
Capital Assets/Prepaid Expenses	1,884,965	2,208,948	(323,983)	-14.7%
Total Assets	828,039,822	754,476,355	73,563,467	9.8%
Total Liabilities	1,385,852	707,027	678,825	96.0%
Fiduciary Net Position Restricted for Pensions	$826,653,970	$753,769,328	$72,884,642	9.7%

For Fiscal Years Ended June 30, 2017 and 2016:

	2017	2016	Increase/ (Decrease) Amount	% Change
Current and Other Assets	$13,651,586	$21,418,134	$(7,766,548)	-36.3%
Investments at Fair Value	738,615,821	656,742,890	81,872,931	12.5%
Capital Assets/Prepaid Expenses	2,208,948	2,336,218	(127,270)	-5.4%
Total Assets	754,476,355	680,497,242	73,979,113	10.9%
Total Liabilities	707,027	10,481,418	(9,774,391)	-93.3%
Fiduciary Net Position Restricted for Pensions	$753,769,328	$670,015,824	$83,753,504	12.5%

The increase in current and other assets during the June 30, 2018 fiscal year is due to an increase of cash on hand from an asset rebalancing in progress with the Association's custodial bank and an increase of receivables from investments due to a large pending redemption from an investment manager. The increase in total liabilities during the June 30, 2018 fiscal year is mostly due to a pending securities purchase.

Reserves

Reserves are not required, nor recognized, under GAAP. These are not shown separately on the Statements of Fiduciary Net Position, but they equate to, and are accounts within, the Fiduciary Net Position Restricted for pensions and are vital to MCERA's operations. MCERA's reserves are established from contributions and accumulation of investment income after satisfying investment and administrative expenses. Under GAAP, including Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans,* investments are stated at fair value rather than at cost, and fair value includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are tracked in a reserve account called the Market Value Fluctuation Reserve. The Market Value Fluctuation Reserve increased by $46.1 million in the current fiscal year as a result of the financial markets and investment decisions.

MCERA's Reserves

For Fiscal Years Ended June 30, 2018, 2017 and 2016:

	2018	2017	2016
Active Members' Reserve	$105,474,936	$102,857,990	$99,056,799
Employer Advance Reserve	179,321,591	137,193,734	97,418,803
Retired Members' Reserve	284,111,465	290,581,132	327,318,139
Interest Fluctuation Reserve	85,096,244	96,564,849	107,807,790
Market Value Fluctuation Reserve	172,649,734	126,571,623	38,414,293
Total Reserves at Fair Value	$826,653,970	$ 753,769,328	$670,015,824

MCERA's Activities

A continuation of growth in financial markets resulted in the June 30, 2018 fiscal year increase of $72.9 million in MCERA's Net Position (an increase of 9.7% from the previous year). The key elements of this increase was the substantial rise in the fair value of investments.

Additions to Fiduciary Net Position

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expenses). Additions to the fiduciary net position for the fiscal year ended June 30, 2018 totaled $145.9 million. Overall, additions for the fiscal year decreased $6.9 million from the fiscal year ended June 30, 2017 primarily due to reduced growth in the appreciation in fair value of investments year-over-year. In fiscal year 2016-2017, additions totaled $152.8 million, which was an increase of $87.6 million from fiscal year 2015-2016. The employer contribution rate has increased due to the continued impact of changes in actuarial assumptions being phased in due to MCERA's experience study. Additionally, Merced County has contributed an additional 1% in contributions during the current fiscal year. The increased contribution rate resulted in increased employer contributions of approximately $4.4 million or 7.3% in fiscal year 2017-2018. The Investment Section of this report provides a more detailed review of the investment markets and investment performance for the current fiscal year.

For Fiscal Years Ended June 30, 2018 and 2017:

	2018	2017	Increase/ (Decrease) Amount	% Change
Member Contributions	$10,441,876	$9,384,621	$1,057,255	11.3%
Employer Contributions	$64,757,288	60,349,189	4,408,099	7.3%
Net Investment Income	$70,689,084	83,097,416	(12,408,332)	-14.9%
Total Additions	$145,888,248	$152,831,226	$(6,942,978)	-4.5%

For Fiscal Years Ended June 30, 2017 and 2016:

	2017	2016	Increase/ (Decrease) Amount	% Change
Member Contributions	$9,384,621	$9,042,663	$341,958	3.8%
Employer Contributions	60,349,189	56,617,088	3,732,101	6.6%
Net Investment Income	83,097,416	(388,209)	83,485,625	N/A
Total Additions	$152,831,226	$65,271,542	$87,559,684	134.1%

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 include recurring benefit payments, as designated by the plan; refunds of contributions to terminated employees; and the cost of administering the Association. Effective for the 2011 fiscal year, the County Employees Retirement Law of 1937 (1937 Act) limits administration costs to the greater of 21/100ths of 1 percent of the association's accrued actuarial liability or $2 million, as adjusted annually by the amount of an annual COLA. The 1937 Act also allows for some expenses (such as computer related expenses and actuarial costs) to be excluded from the calculation. Deductions for the current fiscal year totaled $73.0 million while in fiscal year 2016-2017 totaled $69.1 million, an increase of 5.7% from the previous year. The increase in deductions can be primarily attributed to the retiree payroll increase of 5.6%.

For Fiscal Years Ended June 30, 2018 and 2017:

	2018	2017	Increase/(Decrease) Amount	% Change
Benefits Paid	$69,836,223	$66,116,108	$3,720,115	5.6%
Refunds of Contributions	883,987	788,207	95,780	12.2%
Administrative Expense	2,177,186	1,966,898	210,288	10.7%
Actuarial Expense	106,210	206,509	(100,299)	-48.6%
Total Deduction	$73,003,606	$69,077,722	$3,925,884	5.7%

For Fiscal Years Ended June 30, 2017 and 2016:

	2017	2016	Increase/(Decrease) Amount	% Change
Benefits Paid	$66,116,108	$63,928,672	$2,187,436	3.4%
Refunds of Contributions	788,207	1,153,731	(365,524)	-31.7%
Administrative Expense	1,966,898	2,416,563	(449,665)	-18.6%
Actuarial Expense	206,509	76,121	130,388	171.3%
Total Deduction	$69,077,722	$67,575,087	$1,502,635	2.2%

Change in Fiduciary Net Position

As of June 30, 2018, Fiduciary Net Position increased $72.9 million resulting in a 9.7% increase in Fiduciary Net Position over the previous fiscal year. This increase is due primarily to the increase in the fair value of investments. As of June 30, 2017, Fiduciary Net Position increased $83.8 million resulting in a 12.5% increase in the Fiduciary Net Position from the previous fiscal year.

MCERA's Fiduciary Responsibilities

MCERA's Board and management are fiduciaries of the pension trust fund. Under the California Constitution, the Association's assets must be used exclusively for the benefit of the plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide MCERA's Board of Retirement, our membership, taxpayers, investment managers, creditors, and others with a general overview of MCERA's financial condition and to demonstrate accountability for the funds MCERA receives and manages. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to:

Merced County Employees' Retirement Association
Attn: Fiscal Operations
3199 M Street
Merced, CA 95348

T: 209.726.2724
F: 209.726.3637

Respectfully Submitted,

Mark A. Harman, MBA
Fiscal Manager
December 27, 2018

Merced County Employees' Retirement Association

Statements of Fiduciary Net Position
As of June 30, 2018 and 2017

Assets	**2018**	**2017**
Cash and short-term investments		
Cash invested with Merced County Treasurer	$5,842,004	$3,854,727
Cash invested with BNY Mellon	-	5,292,717
Other cash and cash equivalents with BNY Mellon	-	1,741,959
Cash invested with Northern Trust	10,944,975	-
Other cash and cash equivalents with Northern Trust	2,265,078	-
Total cash and short-term investments	19,052,057	10,889,403
Receivables		
Bond interest	815,971	704,271
Dividends	81,839	108,303
Contributions	1,597,575	1,512,670
Distributions	8,485,104	431,815
Other	67,218	5,124
Total receivables	11,047,707	2,762,183
Investments, at fair value		
U.S. government and agency obligations	72,311,297	67,194,200
Domestic fixed income	95,697,250	90,688,858
Common stock (domestic)	43,334,808	40,925,272
Common stock (index funds)	198,239,163	189,256,179
Common stock (international)	82,837,521	82,898,638
Common stock (international index funds)	115,367,843	107,338,378
Real estate	62,191,187	54,991,688
Alternative investments	126,076,024	105,322,608
Total investments at fair value	796,055,093	738,615,821
Prepaid expenses	35,470	113,692
Capital assets: Net of accumulated depreciation of $1,110,948 and $855,247	1,849,495	2,095,256
Total Assets	**828,039,822**	**754,476,355**
Liabilities		
Accounts payable	715,680	621,624
Securities purchased	557,731	-
Unclaimed contributions	112,441	85,403
Total Liabilities	**1,385,852**	**707,027**
Fiduciary Net Position Restricted for Pensions	**$826,653,970**	**$753,769,328**

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

Merced County Employees' Retirement Association

Statements of Changes in Fiduciary Net Position
For the fiscal years ended June 30, 2018 and 2017

Additions	**2018**	**2017**
Contributions		
Plan members	$10,441,876	$9,384,621
Employer	64,757,288	60,349,189
Total contributions	75,199,164	69,733,810
Investment income from investment activities		
Net appreciation in fair value of Investments	66,985,136	79,215,882
Investment income	6,926,711	6,482,887
Other income	42,616	22,244
Less investment expenses	(3,265,379)	(2,631,692)
Net investment income	70,689,084	83,089,321
Securities lending activities		
Securities lending income	-	13,003
Securities lending fees	-	(4,908)
Net securities lending activities	-	8,095
Total net investment income	70,689,084	83,097,416
Total Additions	**145,888,248**	**152,831,226**
Deductions		
Benefits paid	69,836,223	66,116,108
Refunds of contributions	883,987	788,207
Administrative expenses	2,177,186	1,966,898
Actuarial expenses	106,210	206,509
Total Deductions	**73,003,606**	**69,077,722**
Net increase	72,884,642	83,753,504
Fiduciary Net Position Restricted for Pensions		
Beginning of year	**753,769,328**	**670,015,824**
End of year	**$826,653,970**	**$753,769,328**

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

NOTE 1 - PLAN DESCRIPTION

A. General Information

The Merced County Employees' Retirement Association (MCERA, or the Association) was established July 1, 1950, under and subject to the legislative authority of the State of California as enacted and amended in the County Employees Retirement Act of 1937 (the "1937 Act"). The Association was voter approved by a greater than 2/3 majority of the electorate of Merced County (the County). The Association was integrated with Social Security on January 1, 1956. Members of the Association at that time had a one–time option to convert to the new Association or remain in the previous system. MCERA administers a cost sharing, multiple-employer defined benefit pension plan (the Plan). MCERA's employers are the County, the Merced Superior Courts, Regional Waste Management Authority, and Merced Cemetery District. MCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

The management of the Association is vested in a Board of Retirement (Board) that consists of nine members and two alternates:

1. County Treasurer
2. Two elected general members
3. Four members appointed by the County Board of Supervisors
4. One elected retired member and one alternate
5. One elected safety member and one alternate

Day to day management of MCERA is vested in a Plan Administrator who is appointed by and serves at the direction of the Board of Retirement.

MCERA, with its own governing board, is an independent governmental entity separate and distinct from the County and derives its authority from California Government Code Section 31450 et seq., and the California Constitution.

B. Membership

Plan members are classified as either General or Safety members. Membership becomes effective on the first day of service. Members include all permanent employees appointed to permanent positions or permanent part-time positions within Merced County, Merced Superior Courts, and the Merced Cemetery District. Newly hired persons age 60 and over and elected officials may waive membership in the Association.

All employees hired prior to June 13, 1994 are members of Tier I. Executive "A" Level management appointed prior to 12/31/2012 per Amendment to County Board of Supervisors Resolution 94-89, effective July 1, 2000 are Tier I. The Tier I retirement benefit is based on the highest one year compensation. The minimum age to retire is 50 or any age with 30 years of service credit (20 years for Safety). General and Safety Tier I members are eligible for post-retirement cost of living adjustments (COLA).

The County Board of Supervisors adopted a new retirement tier (Tier II) for both General and Probation Safety members hired after June 13, 1994 and all other Safety members hired after July 1, 1998. Benefits for members under Tier II are based on 3 years final average salary and are not eligible for post-retirement COLAs. The minimum age to retire is 55 for

General members or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit.

The County Board of Supervisors adopted two more tiers in 2012 for both General and Safety members. Members hired between October 1, 2012 and December 31, 2012 are Tier III. Tier IV was adopted after the State of California approved AB 340, the Public Employee Pension Reform Act of 2013 (PEPRA). New members defined by the new legislation and hired after January 1, 2013 are Tier IV. Both Tier III and Tier IV benefits are based on 3 years final average salary and are not eligible for post-retirement COLAs. For Tier III, the minimum age to retire is 55 for General members or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit. For Tier IV, the minimum age to retire is 52 for General members with 5 years of service credit and 50 for Safety members with 5 years of service credit.

As a result of existing litigation of Assembly Bills 340 and 197 (*Alameda County Deputy Sheriff's Assn. et al v. Alameda County Employees' Retirement Assn., et al. (2018) 19 Cal.App.5th 61*), on February 8, 2018, the Merced County Employees' Retirement Association Board Resolution 2018-01 which made vacation payout earnings pensionable for MCERA legacy members (Tiers I, II, and III), capped at the lesser of a member's annual vacation accrual amount, the leave hours actually included in the member's vacation pay-off, or 160 hours. The Board subsequently adopted Resolution 2018-03 to further clarify certain aspects of its earlier Resolution 2018-01. For Tier I, II, and III members who retired on or after July 12, 2014, the adoption of both Resolutions means that a maximum of 160 hours of vacation leave, a maximum of one year's vacation leave accrual, or the number of vacation hours actually included in the member's vacation pay-off, whichever is less will be added to such retiree's final average compensation, unless an exception applies.

Two new tiers were created for new members who established reciprocity with MCERA on or after February 8th, 2018 (the date which Resolution 2018-01 was adopted). Reciprocal members employed by the Merced Superior Court will enter into General Tier II-R and those employed by Merced County will enter into either General Tier III-R or Safety Tier III-R. The benefits of these new tiers are the same as their respective non-reciprocal tiers. However, these reciprocal tier members will not be able to include the additional 160 hours of vacation payout earnings to their final compensation in the calculation of final average compensation. Additionally, the employer and member contribution rates are lower for the new Tiers because the additional up to 160 hours of vacation payout hours is not included in a member's final compensation.

Membership Structure on June 30, 2018 was as follows:

	General Tiers					Safety Tiers				
Active Members	**I**	**II**	**III**	**III-R**	**IV**	**I**	**II**	**III**	**IV**	**Total**
Vested	107	866	46	4	53	22	170	6	3	1,277
Non-vested	-	10	8	-	727	-	3	-	116	864
Inactive Members										
Deferred vested	55	194	15	-	4	1	41	1	1	312
Deferred non-vested	3	72	8	-	161	-	8	2	29	283
Reciprocity	37	131	-	-	1	9	31	-	1	210
Unclaimed members	3	15	-	-	-	-	-	-	-	18
Total active and inactive members	205	1,288	77	4	946	32	253	9	150	2,964
Retired Members										
Service retirements	1,243	365	4	-	-	179	15	-	-	1,806
Beneficiaries	194	16	-	-	-	45	1	-	-	256
Service connected disability	37	14	-	-	-	67	21	-	-	139
Non-service connected disability	31	12	-	-	-	2	1	-	-	46
Survivors	15	6	-	-	-	4	2	-	-	27
Total retired members	1,520	413	4	-	-	297	40	-	-	2,274

Membership Structure on June 30, 2017 was as follows:

	General Tiers				Safety Tiers				
Active Members	**I**	**II**	**III**	**IV**	**I**	**II**	**III**	**IV**	**Total**
Vested	131	920	30	6	28	188	1	3	1,307
Non-vested	-	28	21	663	-	4	4	92	812
Inactive Members									
Deferred vested	63	173	8	2	1	35	-	-	282
Deferred non-vested	5	79	8	108	1	7	2	29	239
Reciprocity	41	136	-	-	9	33	-	1	220
Unclaimed members	3	15	-	-	-	-	-	-	18
Total active and inactive members	243	1,351	67	779	39	267	7	125	2,878
Retired Members									
Service retirements	1,248	317	2	-	175	15	-	-	1,757
Beneficiaries	197	14	-	-	47	-	-	-	258
Service connected disability	37	14	-	-	69	16	-	-	136
Non-service connected disability	32	13	-	-	1	1	-	-	47
Survivors	15	6	-	-	4	2	-	-	27
Total retired members	1,529	364	2	-	296	34	-	-	2,225

C. Benefit Provisions

- Safety Members and General Tier I Members with ten years of service and who have attained the minimum age of 50 are eligible to receive a lifetime monthly retirement benefit.
- General Members with 10 years of service who have attained the minimum age of 55 in Tiers II, II-R, III and III-R are eligible to receive a lifetime benefit.
- Safety members with 20 years of service, regardless of age are eligible for lifetime monthly retirement benefits for Tier I, II, III, and III-R
- General members with 30 years of service, regardless of age is eligible for lifetime monthly retirement benefits for Tier I, II, II-R, III, and III-R.
- Members who are at least 70 years of age are eligible to retire, regardless of years of service, for all Tiers.
- Tier IV Safety members are eligible for retirement with 5 years of service and a minimum age of 50.
- Tier IV General members are eligible for retirement with 5 years of service and a minimum age of 52.
- The service retirement benefit is a percentage of monthly final average salary per year of service, depending on age at retirement and Tier.
- For members integrated with Social Security, the benefit is reduced by 1/3 of the percentage multiplied by the first $350 of the monthly final average salary, per year of service credited after January 1, 1956 (not applicable to Tier 4 Members).
- The actual benefit paid will also be affected by the benefit payment option selected by the member.

The County Board of Supervisors adopted Government Code Section 31676.17 of the 1937 Act for all County General members, Tier I and Tier II, except Merced Cemetery District members and any member who was deferred or in inactive reciprocity status prior to the dates of adoption, on March 15, 2005; Government Code Section 31664.1 for all Safety members, Tier I and Tier II, on July 1, 2005; Government Code Section 31676.17 for Superior Court of California and County members on November 4, 2005; Government Code Section 31676.1 for General members, Tier III, on October 1, 2012, and Government Code Section 31664 for all Safety members, Tier III, on October 1, 2012. The County adopted PEPRA Tier IV for all General and Safety members on January 1, 2013.

The following chart demonstrates the percentage of Final Average Salary a member of each tier would receive per year of service at different ages.

Percentage of Final Average Salary for Each Year of Service (Rounded) Current Employees				
	Tier I		Tier II / Tier II-R	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	2.00%	3.00%	-	3.00%
55	2.50%	3.00%	2.50%	3.00%
60+	3.00%	3.00%	3.00%	3.00%
	Tier III / Tier III-R		Tier IV	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	-	2.00%	-	2.00%
55	1.49%	2.62%	1.30%	2.50%
57	1.64%	2.62%	1.50%	2.70%
65	2.43%	2.62%	2.30%	2.70%
67+	2.43%	2.62%	2.50%	2.70%

Percentage of Final Average Salary for Each Year of Service (Rounded) for Merced Cemetery District, Deferred, and Inactive Reciprocal Members Prior to Enhanced benefit adoption dates				
	Tier I		Tier II	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	1.24%	2.00%	-	2.00%
55	1.67%	2.62%	1.49%	2.62%
60	2.18%	2.62%	1.92%	2.62%
65+	2.61%	2.62%	2.43%	2.62%

(1) Retirement Options

Under the current "Fixed Formula" retirement, a member may elect the "**Unmodified**" allowance, which provides the maximum allowance to the member for life, with a continuance of 60% of the allowance to the spouse or registered domestic partner if the spouse or registered domestic partner is designated as beneficiary. No allowance, however, shall be paid to a surviving spouse or domestic partner unless he or she is married to the member or has been registered as a domestic partner at least one year prior to the date of retirement. In the event of the death of the retiree, spouse or domestic partner, any balance of the retiree's contributions, less retirement allowances received, is payable to an alternate beneficiary.

Option 1 - The member may elect to receive a slightly reduced monthly retirement allowance, payable throughout their life, with the provision that upon death, their accumulated contributions less the actual annuity payments received by the retiree will be paid to a designated beneficiary. Under this option, beneficiaries may be changed after retirement.

Option 2 - The member receives a considerably reduced monthly retirement allowance, with the provision that 100% of the retiree's benefit will continue to be paid after the member's death to a beneficiary named at the time of retirement. All payments stop at the death of both annuitants.

Option 3 - The member receives a reduced monthly retirement allowance, with the provision that 50% of the retiree's benefit will continue to be paid after the member's death to a beneficiary named at the time of retirement. As in Option 2, all payments stop at the death of both annuitants.

Option 4 - The member receives a reduced monthly retirement allowance for life. The reduction depends on the member's age and the age of the member's beneficiary(ies). This is the only option that allows for multiple beneficiaries. A beneficiary does not have to be a spouse or domestic partner, but must have an insurable interest in the member's life. This option also allows the member to assign the percent of continuance to each beneficiary. This option and any estimates for this option are calculated by MCERA's actuary and the cost is paid by the member.

(2) Cost of Living Adjustment

Annual COLAs to retirement allowances may be granted by the Retirement Board in accordance with governing law. The current maximum increase in a retirement allowance is 3% per year. Any increase is based on the change in the Bureau of Labor Statistics' Consumer Price Index (CPI) for All Urban Consumers for the calendar year prior to the April 1 effective date of the COLA. The amount of any actual CPI above the 3% maximum is accumulated. Accumulated COLAs may be used in future years, at the Board's discretion, when the cost-of-living change is less than the maximum 3%. Tier II, II-R, III, III-R, and IV members are not eligible for any cost-of-living increases in their monthly retirement allowances.

(3) Disability Benefits

Members with five years of service, regardless of age, are eligible for non-service connected disability benefits. Member benefits are 1.5% (1.8% for Safety members) of final average salary for each year of service. If this benefit does not equal 1/3 of final average salary, the benefit is increased by the above percentage of final average salary for the years that would have been credited had the member worked to age 65 (age 55 for Safety members). The total benefit cannot exceed 1/3 of the final average salary.

If the disability is service connected, the member may retire regardless of length of service, and the benefit is 50% of final average salary, unless the member is also eligible for a service retirement, in which case the member receives the greater of the two amounts.

(4) Death Benefit Before Retirement

In addition to the return of the member's contributions plus interest, MCERA provides a basic death benefit payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the Association, based on the final year's average salary, but not to exceed six months' salary. Depending on length of service, a monthly allowance could be selected by the surviving spouse to be paid for the rest of his or her life as an alternate benefit.

If a member dies while eligible for service retirement or non-service connected disability, the spouse may receive 60% of the allowance that the member would have received for retirement on the day of his or her death in lieu of the basic death benefit. If the member was below the qualifying retirement age at the time of death, the surviving spouse may elect to leave the member's accumulated contributions on deposit until such time as the member would have attained the qualifying age had he or she lived, at which time the spouse may exercise the option above. Unmarried minor children of the deceased member may continue to receive this allowance until marriage or attaining age 18 (21 if full-time student in an accredited school), upon the death of the surviving spouse or in place of the spouse if he or she does not survive the death of the member.

If a member dies as a result of service-connected injury or disease arising out of the course of his or her employment, his or her surviving spouse may elect, in lieu of the basic death benefit, to receive a monthly allowance of 1/2 of the member's final compensation.

Unmarried minor children of the member may receive the same monthly allowance prior to their marriage or attaining age 18 (21 if a full-time student in an accredited school) if there is no surviving spouse or upon the death of the spouse.

(5) Death Benefit After Retirement

Once a member dies after retirement, a lump sum amount of $3,000 (Government Code Section 31789.3 adopted May 2, 2006) is paid to the beneficiary or estate. However, if the member is a reciprocal system member, this benefit is payable only to active members of the County at the time of retirement.

If the retirement was for service-connected disability, 100% of the amount the member was receiving at the time of death is continued to the surviving spouse for life. If the retirement was for other than a service-connected disability, there are several options available to the member.

(6) Terminated Members

A member leaving covered employment after completing five years of credited service becomes eligible for a deferred retirement allowance, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated contributions. A member must elect deferred status within 180 days after termination. Members leaving employment with less than five years of service are not eligible to receive a retirement benefit. Non-vested members (less than five years of service credit) may leave their contributions on deposit and continue to be credited interest or they can choose to withdraw their contributions at any time. A non-vested member that enters a reciprocal retirement system after terminating employment with a MCERA agency may wish to arrange for reciprocal benefits. Under a reciprocal arrangement the member funds are kept on deposit with MCERA.

(7) Vesting

Active members of the Association receive a 100% vested interest in the Plan after five years of service, but cannot receive a service retirement benefit until they have been a member of the Association for ten years and obtained age fifty for Tier I General members; Tier I, Tier II, Tier III, and Tier III-R Safety members; and age fifty-five for Tier II, Tier II-R , Tier III, and Tier III-R General members. Members may receive a service retirement benefit after being a member of the Association for 30 years for General members and 20 years for Safety members regardless of age. Tier IV members can receive a service retirement benefit with five years of service credit and attaining age fifty-two for General members and age fifty for Safety members.

(8) Contribution Rates

The 1937 Act establishes the basic obligations for employer and member contributions to the Association. The actual employer and member contribution rates in effect each year are based on recommendations made by an independent actuary and adopted by the Board of Retirement.

Benefits payable by the Association are financed through member contributions, employer contributions from Merced County, Merced Cemetery District, Merced Superior Courts, Regional Waste Management Authority and earnings from investments.

a. Member
MCERA members are required to contribute a percentage of their annual covered salary. The rates are set to provide a retirement amount that is equal to a fractional part of the highest year(s) salary, based on membership and tier. Government Code Section 31621.8 sets forth the basis for the determination of the normal rates of contribution for General Tier I, Tier II, and Tier II-R members. Government Code Section 31639.5 sets forth the basis for the normal rates of contribution for Safety Tier I and Tier II members. The law further provides that the contribution rates of members will be based on the age nearest birthday at the time of entrance into the Association. Section 31453 states that no adjustment will be included in the rates of contribution for time prior to the effective date of any revisions. Member basic contribution rates are based on entry age into the Association, except for Tier IV, which are 50% of the normal cost, and range between 2.94% and 18.16% for the fiscal years ended June 30, 2018 and June 30, 2017. For members integrated with Social Security, the contributions are reduced by 1/3 of such contribution payable with respect to the first $350 of monthly salary.

b. Plan Sponsors
The County of Merced, Merced Superior Court, and participating special districts are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to MCERA members not otherwise funded by employee contributions or investment earnings. Pursuant to provisions of the 1937 Act, the Board recommends annual contribution rates for adoption by the County Board of Supervisors each year based upon the rates recommended by the Association's actuary.

The employers' actuarially determined contribution (ADC) is an actuarially determined amount that is required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) attributed to past service cost over a period not to exceed thirty years. MCERA's actuarially determined contribution rates for the fiscal years ended June 30, 2018 and 2017 were 50.58% and 50.02%, respectively, of annual payroll.

In order to determine the ADC, the actuary must first adopt assumptions with respect to certain factors such as the following:

Non-economic assumptions

- The probabilities of members separating from active service on account of:
    1. Non-vested and vested withdrawal
    2. Retirement for service
    3. Mortality
    4. Service and non-service connected disability
- The mortality rates to be experienced among retired persons

Economic assumptions

- Rate of future investment earnings
    1. Inflation rate
    2. Real rate of return
- The relative increases in a member's salary from the date of the valuation to the date of separation from active service
    1. Merit increases
    2. Longevity increases
    3. COLA

Employer contribution rates vary from year to year and depend on the level of benefits established; the rate of return on investments, and the cost of administering benefits. MCERA's Schedule of Employer Contributions for the pension benefit plan is presented on page 55 in the Required Supplementary Information following the notes to the basic financial statements.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

While the Association is governed by the Board of Retirement and is considered an independent entity, it is a component unit of the County in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an Amendment of GASB Statement No. 14.*

B. Basis of Accounting

MCERA's financial statements are prepared on an accrual basis of accounting, which recognizes income when earned and expenses when the obligation is incurred. Employer and employee contributions are recognized when due, pursuant to statutory or legal requirements per GASB Statement 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when currently due and payable in accordance with the benefit terms. The net appreciation (depreciation) in fair value of investments consists of realized and unrealized gains and losses on those investments.

C. Investment Expenses

Investment expenses include fees paid for investment consulting services, fund due diligence services, securities custodian services, and rebate and bank fees incurred during the reporting period. Fees paid are charged against the Association's investment earnings pursuant to Section 31596.1 of the 1937 Act.

D. General Administrative Expense

MCERA's administrative costs for fiscal years ended June 30, 2018 and 2017 are calculated pursuant to Government Code Section 31580.2 (a) which provides that the administrative expenses incurred in any year may not exceed the greater of either (1) twenty-one hundredths of 1 percent (.21%) of the actuarial accrued liability of the association or (2) two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost of living adjustment computed in accordance with Article 16.5. Government Code Section 31580.2 (b) provides that expenditures for computer software, hardware, and computer technology consulting services in support of the computer products shall not be considered a cost of administration of the Association. The administrative limit per this Government Code Section allows MCERA $2.6 million ($1,259.7 million x .21%) of administrative costs. For the fiscal years ended June 30, 2018 and 2017, total administrative costs were $2,177,186 and $1,966,898, respectively. Included in these figures are computer technology related activities of $310,216 and $338,375, respectively. The costs of administering the plan are financed by the earnings of the retirement fund.

E. Required Supplementary Information

Schedules of the changes in net pension liability and employer contributions that provides information about the employer's annual contribution to the plan as well as the annual investment returns are presented on pages 54 and 55.

F. Administrative Budget and Professional Service Budget

MCERA's Budget consists of two components, an administrative budget and a professional services budget authorized by Government Code Section 31596.1. MCERA's budgets are on a fiscal year basis starting July 1 and ending June 30.

G. Capital Assets

Capital Assets are carried at cost, net of 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 and furniture are depreciated over eight years. MCERA's pension administration system (intangible assets) is amortized over ten years.

MCERA reported $1,849,495 and $2,095,256 in capital assets as of June 30, 2018 and 2017, net of accumulated depreciation of $1,110,948 and $855,247, respectively. Of this amount, $146,513 is land held by the association, which is not subject to depreciation.

H. Methods Used to Value Investments

Investments are reported at fair value in the accompanying Statements of Fiduciary Net Position. Cash deposited in the Merced County Treasurer's pool is stated at fair value. The value of the Association's pool shares is determined on an amortized cost basis, which is not materially different from fair value.

The fair value of fixed income and equity investments are based upon the closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no reported sales and for unlisted securities, fair value is based upon the last reported sales price.

GASB Statement No. 72, *Fair Value Measurements*, became effective for financial statements for fiscal years beginning after June 15, 2015. This statement enhances comparability of financial statements among government by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

The real estate investment holdings are determined by the partners using industry standard appraisal techniques and assumptions, which are updated annually, to determine the fair value of these holdings. The appraisals incorporate subjective judgments and consider assumptions including capitalization rates, discount rates, cash flows, and other factors that are not observable in the market.

The fair value of alternative investments (private equity, hedge funds, infrastructure, and natural resources) is based on the partners' most recent financial statements for the quarter ended June 30. The majority of MCERA's alternative investments are determined by the partnerships using unobservable inputs, which reflect the partnerships' own estimates about the assumptions that market participants would use in pricing the investments. The assumptions are based on the best information available in the circumstances, which might include the partnership's own data. The remaining of MCERA's alternative investments are determined by the partnerships based on quoted market prices in active markets.

Management, in consultation with the investment advisor, has determined the reasonableness of the procedures used to calculate fair value for real estate and alternative investments.

I. <u>Securities Transactions and Related Investment Income</u>

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. The Association presents, in the Statements of Changes in Fiduciary Net Position, the net appreciation in fair value of investments, which consists of realized and unrealized gains and losses on those investments.

J. <u>Management's Estimates</u>

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 – CASH AND INVESTMENTS

A. Investment Stewardship

The Board has exclusive control over all investments of the Association and is responsible for establishing investment objectives, strategies and policies. Pursuant to the California Constitution and California Government Code Sections 31594 and 31595, the Board is authorized to invest in any investment the Board deems prudent.

(1) Investment Policy

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, the custodian bank, and the investment managers. The assets 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 minimizing risk exposure. MCERA currently employs external investment managers to manage its assets subject to the provisions of the Investment Policy. Below is MCERA's adopted asset allocation policy as of June 30, 2018 and 2017.

Asset Class	Target Allocation June 30, 2018 and 2017
US Equity	27%
International Equity	16%
Emerging Markets Equity	7%
Private Equity	9%
Real Estate	8%
Domestic Fixed Income	17%
Hedge Funds	5%
Infrastructure	3%
Natural Resources	3%
Bank Loans	5%
	100%

(2) Rate of Return

For the fiscal years ended June 30, 2018 and June 30, 2017, the annual money-weighted rate of return on MCERA's investments was 10.1% and 9.5%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. Cash and Short-Term Investments

Cash and cash equivalents consist of short-term investments held by the County Treasurer and MCERA's custodian bank, Northern Trust. Cash and cash equivalents are highly liquid investments with a short maturity. Cash and cash equivalents are recorded at cost, which approximates fair value.

(1) County Treasury

Cash from deposits and the cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasury Oversight Committee is responsible for regulatory oversight of the pool.

Interest on funds in the County investment pool is computed quarterly based on the average daily balance. A deposit in the pooled account approximates fair value. The fair value of the Association's cash invested with the County Treasurer totaled $5,842,004 and $3,854,727 at June 30, 2018 and 2017, respectively. Cash and investments included within the County Treasurer's pool are described in the County's Comprehensive Annual Financial Report.

(2) Short-Term Investment Funds and Funds Pooled with Northern Trust and BNY Mellon

As of July 1, 2017, MCERA transitioned custodians from BNY Mellon to Northern Trust. The short-term investment funds that are in the custody of and Northern Trust and BNY Mellon, respectively, are liquidity funds. The cash is invested in short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, bankers acceptances, time deposits and floating rate notes.

All participants in both the Northern Trust and BNY Mellon pools proportionately share earnings and losses. Balances in the pooled accounts approximate fair value. At June 30, 2018, short-term investments at Northern Trust totaled $13,210,053, which is the total of cash invested with Northern Trust and other cash and cash equivalents with Northern Trust. At June 30, 2017, short-term investments at BNY Mellon totaled $7,034,676, which is the total of cash invested with BNY Mellon and other cash and cash equivalents with BNY Mellon.

MCERA's cash and short-term investments stated at fair value as of June 30, 2018 and 2017 are as follows:

	Fair Value	
Cash and Short-term Investments	**2018**	**2017**
Cash invested with Merced County Treasury	$5,842,004	$3,854,727
Cash invested with Northern Trust	10,944,975	-
Other cash and cash equivalents with Northern Trust	2,265,078	-
Cash invested with BNY Mellon	-	5,292,717
Other cash and cash equivalents with BNY Mellon	-	1,741,959
Total cash and short-term investments	$19,052,057	$10,889,403

C. Fair Value Measurements

Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. MCERA holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of MCERA's activities, GASB Statement No. 72 establishes a hierarchy of inputs to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted process (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy. Categorization within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

Equity securities are generally valued based on quoted prices from an active market and are therefore categorized in Level 1. In the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or a price provided by the investment managers and are generally categorized in Level 3.

Fixed income securities classified in Level 2 are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. When independent price sources are not available, debt securities are priced based on the last traded price or a valuation provided by the investment manager and are categorized in level 3.

Funds priced using a net asset value (NAV) that is published daily and validated with a sufficient level of observable activity are categorized in Level 1. If observable activity is limited, yet supports that the NAV represents an exit value of the security at the measurement date, the securities are categorized in Level 2. Investments in nongovernmental entities that are measured at NAV as a practical expedient, such as alternative investments and real estate investments, are excluded from the fair value hierarchy if the NAV per share (or its equivalent) was calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Funds not meeting these criteria are categorized in Level 3.

Investments in real estate, other than collective investment funds which are categorized in Level 3, have been valued based on the NAV per share (or its equivalent), as provided by the general partner. This type includes three funds structured as limited partnerships. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 to 15 years.

MCERA is contracted with Cliffwater, LLC to assist with the association's hedge fund portfolio that has the appropriate risk and return characteristics. Specifically, MCERA has seven hedge funds with low market risk (low beta), equity market downside protection and diversification with unique investment strategies such as shorting, arbitrage, currencies and commodities. Return characteristics include reasonable expected returns that outperform bonds, reasonable expected returns that will be less that the expected returns on stocks and generate alpha of 4% net of fees. MCERA is dedicated to building a diversified portfolio of the following strategies; market neutral, credit event, equity long short, global macro and multi strategy. The fair values of the investments in these types has been determined using the NAV per share (or its equivalent) of the investments, as provided by the general partner. Funds may be subject to redemption restrictions, including lock-up periods and/or gate provisions, which prohibit redemptions for a specific time after capital is initially invested, or subject to limitations on the amount that can be withdrawn on any single redemption date.

Infrastructure includes three funds structured as limited partnerships that invest primarily in global infrastructure investments. The fair values of the investments in these types has been determined using the NAV per share (or its equivalents) of the investment as provided by the general partner.

Natural resources include five funds structured as limited partnerships that invest primarily in debt, equity, partnership interests, direct asset investments, working interests, and royalty interests of public and private mining and metals companies and companies within the energy markets including but limited to, companies engaged in the exploration and production of oil and natural gas, coal, midstream, energy services, refining and marketing, power generation, renewable energy, and other commodity driven sectors. The fair values of the investments in these types has been determined using the NAV per share (or its equivalents) of the investment as provided by the general partner.

The private equity portfolio includes sixteen funds structured as limited partnerships participating in diverse strategies including buyouts, venture capital/growth equity and opportunistic fund which includes such categories as distressed debt (debt instruments of companies which may be publically traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy), mezzanine, secondary, royalties, etc.) The fair values of the investments in these types has been determined using the NAV per share (or its equivalents) of the investment as provided by the general partner. These funds have a finite term. Distributions will be received as the underlying investments are sold, which is expected to occur over the next 5 to 17 years.

The plan has the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	**June 30, 2018**	**Quoted Prices in Active Markets for Identical Assets (Level1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Common Stock				
Domestic	$43,334,808	$ -	$ -	$43,334,808
Domestic Index Funds	198,239,163	-	-	198,239,163
International	82,837,521	-	-	82,837,521
International Index Fund	115,367,843	-	-	115,367,843
US Government and Agency Obligations				
US Treasury and TIPS	41,413,621	-	41,413,621	-
US Government Agency Obligations	30,897,676	-	30,897,676	-
Domestic Fixed Income				
Asset Backed Securities	6,621,624	-	6,621,624	-
Collateralized Mortgage Obligations	377,251	-	377,251	-
Commercial Mortgage Backed Securities	1,069,765	-	1,069,765	-
Corporate and Other Credit	51,053,407	-	51,053,407	-
Mutual Fund	36,575,203	36,575,203	-	-
Total Investment by Fair Value Level	$607,787,882	$ 36,575,203	$131,433,344	$439,779,335
Investments Measured at the Net Asset Value (NAV)				
Real Estate	62,191,187			
Alternative Investments				
Hedge Funds	38,047,855			
Infrastructure	15,453,332			
Natural Resources	8,128,292			
Private Equity	38,851,813			
Proxy Fund	25,594,732			
Total Alternative Investments	126,076,024			
Total Investments Measured at NAV	188,267,211			
Total Investments Measured at Fair Value and NAV	$796,055,093			

Investments Measured at the NAV	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Real Estate*	$62,191,187	$17,165,322	Quarterly	Indefinite
Alternative Investments				
Hedge Funds**	38,047,855	-	Varies	Varies
Infrastructure	15,453,332	16,595,600	N/A	N/A
Natural Resources	8,128,292	20,168,504	N/A	N/A
Private Equity	38,851,813	28,748,307	N/A	N/A
Proxy Fund	25,594,732	-	Monthly	T-2
Total Investments Measured at the NAV	$188,267,211	$82,677,733		

*Redemption and liquidity applies to UBS Trumbull Fund.. Redemption is given by a pro rata share of funds available for disbursement. Other real estate funds are closed-ended private LP funds.

**The seven hedge funds that were funded as of June 30th, 2018, have varying lockup periods and redemption notice requirements..

The plan has the flowing recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level	**June 30, 2017**	**Quoted Prices in Active Markets for Identical Assets (Level1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Common Stock				
Domestic	$40,925,272	$ -	$ -	$40,925,272
Domestic Index Funds	189,256,179	-	-	189,256,179
International	82,898,638	-	-	82,898,638
International Index Fund	107,338,378	-	-	107,338,378
US Government and Agency Obligations				
US Treasury and TIPS	32,272,101		32,272,101	-
US Government Agency Obligations	34,922,099	-	34,922,099	-
Domestic Fixed Income				
Asset Backed Securities	3,763,383	-	3,763,383	-
Bank Loans	35,418,493	-	-	35,418,493
Collateralized Mortgage Obligations	503,852	-	503,852	-
Commercial Mortgage Backed Securities	2,031,253	-	2,031,253	-
Corporate and Other Credit	48,971,877	-	48,971,877	-
Total Investment by Fair Value Level	$578,301,525	$ -	$122,464,565	$455,836,960
Investments Measured at the Net Asset Value (NAV)				
Real Estate	$54,991,688			
Alternative Investments				
Hedge Funds	16,472,769			
Infrastructure	8,355,506			
Natural Resources	3,861,318			
Private Equity	36,384,809			
Proxy Fund	40,248,206			
Total Alternative Investments	105,322,608			
Total Investments Measured at NAV	160,314,296			
Total Investments Measured at Fair Value and NAV	$738,615,821			

Investments Measured at the NAV	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Real Estate*	$54,991,688	$14,804,756	Quarterly	Indefinite
Alternative Investments				
Hedge Funds**	16,472,769	-	Annual	90 day
Infrastructure	8,355,506	12,256,694	N/A	N/A
Natural Resources	3,861,318	15,242,299	N/A	N/A
Private Equity	36,384,809	10,283,632	N/A	N/A
Proxy Fund	40,248,206	-	Monthly	T-2
Total Investments Measured at the NAV	$160,314,296	$52,587,381		

*Liquidity varies by fund. Redemption is given by a pro rata share of funds available for disbursement.

**One fund has a two your initial lock up period with quarterly redemption, 60 day notice period, and subject to available capital.

D. Securities Lending Program

State statutes and the Board of Retirement policies permit MCERA to participate in a securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower) and in turn, MCERA receives collateral.

When MCERA transitioned custodians to Northern Trust on July 1 2017, it was determined that participation in a securities lending program should be discontinued. Therefore, there are currently no securities on loan nor will there be for the foreseeable future.

E. Commission Recapture Policy

In order to minimize the net cost of trading, MCERA encourages its investment managers, on a "best efforts" basis, to execute 25% to 35% of total trades annually through brokers who have a commission recapture program. MCERA's policies require investment managers to seek the best price and execution on all trades. This means that commission recapture trades should only be executed when such trades meet this standard. If an investment manager can execute the trade through MCERA's commission recapture brokerage firms, while not incurring any incremental commission or market impact costs, then MCERA would like the manager to do so. This program should not interfere with or reduce an investment manager's incentive to reduce trading costs.

F. Real Estate and Alternative Investments

The balance of the unfunded capital to MCERA's real estate and alternative investments as of June 30, 2018 was $82,677,733 and as of June 30, 2017 was $52,587,381, respectively. Capital invested in private equity partnerships is subject to a relatively high degree of risk as compared to other potential investments, with the assumption that the investor will be rewarded with higher returns for that assumption of risk, (i.e. the "risk/return trade-off"). Controlling risk in the private equity portfolio is equally as important as seeking higher returns. MCERA controls risk by diversifying the portfolio based on geographic and economic region, liquidity, vintage year, firm, and time.

Geographic and Economic Region, referring to the selection of private equity investments, the portfolio does not favor particular economic or geographic regions. Most likely, the focus is globally oriented.

Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding the maximum exposure limits or lowering asset allocation exposure limits. Exposure through a fund of funds minimizes this risk.

Vintage year risk refers to the variability of private equity commitments over time. A secondary investment that is a vehicle in the special situation subclass allows the portfolio to gain prior year vintage exposure, further minimizing vintage risk.

Firm risk is the amount of exposure to a private equity general partner. The maximum commitment to private equity is 5% to 8% of the total fund. There are no limits on commitments to individual partners or funds.

Time Risk refers to the long duration of the investment, which makes it difficult to predict business, economic and managerial developments that may have a significant impact on the value of the investments.

G. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. MCERA does not have a formal policy for custodial credit risk. At June 30, 2018 and 2017, MCERA had no investments that were exposed to custodial credit risk.

H. Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2018 and 2017, the Association had no single issuer that exceeded 5% of total investments or fiduciary net position. Investments issued or explicitly guaranteed by the U.S government and investments in mutual funds, external investment pools, and other pooled investments are excluded. MCERA's investment policy does not allow for an investment in any one issuer that is in excess of 5% of the value of a portfolio and no single industry (based on North American Industry Classification System (NAICS) codes) can represent more than 15% of the fair value of the investment portfolio. These single security and single industry restrictions do not apply to U.S. government issued or guaranteed investments, investments in mutual funds, external investment pools, and other pooled investments.

I. Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligation as described by nationally recognized statistical rating organizations, rating agencies, as of the date of the financial statements. An investment grade security is defined as a security which has been rated investment grade (BBB or higher) by at least one (but preferably two) of the three nationally recognized rating agencies; Fitch Ratings, Moody's Investor Service, and Standard & Poor's. MCERA's core fixed income portfolio requires that no more than 5% of an investment manager's fixed income portfolio be invested in below investment grade rated securities (BB or B rated bonds). No security rated below single B may be purchased at any time. Securities that have at least a single B, but subsequently fall below single B ratings, shall be sold in an orderly manner. This is the case of MCERA's workout portfolio that is managed by MCERA's core fixed income manager. As of June 30, 2018 MCERA's workout portfolio has a fair value of $694 thousand. These securities are being liquidated or held for longer time frames by comparing their individual fundamental values against executable market prices. Midway through fiscal year 2017-2018, MCERA redeemed its bank loan portfolio.

The table below presents the Moody's credit quality ratings of fixed income securities at June 30, 2018 and 2017:

Quality	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	NR*	NA**
Percent of Fixed Income as of June 30, 2018	3.18%	2.96%	13.82%	12.89%	0.00%	0.03%	0.14%	0.17%	14.00%	52.81%
Percent of Fixed Income as of June 30, 2017	3.18%	2.65%	13.92%	13.66%	0.00%	0.05%	0.11%	0.25%	38.45%	27.73%

*NR represents those securities that are not rated and includes FNMA and FHLMC mortgage backed securities that are not rated by credit rating agencies, but are perceived to have an implicit guarantee by the U.S Government.

**NA represents those securities that are not applicable to the rating disclosure requirements.

J. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MCERA's Investment Policy Statement does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, MCERA's bond portfolios are managed duration neutral to their benchmarks, the Barclays U.S. Aggregate Bond Index, and the Barclays US Government 1-3 and 1-5 year Indices.

As of June 30, 2018 and 2017 the County's pool has a fair value of $907,952,142 and $861,396,645, respectively, and a weighted average maturity of 438 and 527 days, respectively.

As of June 30, 2018, the weighted average maturity of the short-term investment pooled funds with Northern Trust was 45 days. As of June 30, 2017, the weighted average maturity of the short-term investment pooled funds with BNY Mellon was 37 days.

The following table presents the fair value, weighted percentage of each sector, and the effective duration of MCERA's fixed income investments as of June 30, 2018:

		Core Bond Portfolio	
Investment Type	Fair Value 2018	Weight of Fixed Income 2018	Modified Duration (years) 2018
U.S. Government agency obligations	$30,897,676	18.39%	4.91
Commercial mortgage backed securities	1,069,765	0.64%	1.93
Asset backed securities	6,621,624	3.94%	1.03
U.S. Treasury and TIPS	41,413,621	24.65%	7.65
Corporate and other credit	51,053,407	30.39%	6.34
Collateralized mortgage obligations	377,251	0.22%	0.60
Mutual fund	36,575,203	21.77%	1.93
Total Fair Value	$168,008,547	100.00%	
Portfolio Effective Duration			5.38

The following table presents the fair value, weighted percentage of each sector, and the effective duration of MCERA's fixed income investments as of June 30, 2017:

		Core Bond Portfolio	
Investment Type	**Fair Value 2017**	**Weight of Fixed Income 2017**	**Modified Duration (years) 2017**
U.S. Government agency obligations	$32,272,101	20.44%	4.38
Commercial mortgage backed securities	2,031,253	1.29%	2.45
Asset backed securities	3,763,383	2.38%	2.54
U.S. Treasury and TIPS	34,922,099	22.12%	8.96
Corporate and other credit	48,971,877	31.02%	6.70
Collateralized mortgage obligations	503,852	0.32%	5.39
Commingled fund	35,418,493	22.43%	0.10
Total Fair Value	$157,883,058	100.00%	
Portfolio Effective Duration			5.84

K. Foreign Currency

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Assets in international equity portfolios will be primarily composed of foreign ordinary shares and American Depository Receipts (including ADR's that are 144A securities). Short term, high-grade fixed income securities may be purchased as previously stated, similar types of securities denominated in foreign currencies may be purchased, or the Fund's custodial sweep account may be employed. International equity portfolios will invest in stocks with market capitalizations consistent with their underlying benchmarks. Emerging market equity portfolios can invest in stock with large, mid, and small market capitalizations. Firms will continually monitor the country, currency, sector, and security selection risks associated with their international and emerging market portfolios. All the risks will be included in the manager's quarterly reports and performance attribution based on these factors. Currency hedging, consistent with the stated derivative policy, is an acceptable investment activity. However, prior to initiating such hedging activities, the firms must adequately demonstrate their capability and expertise in this area to the Board.

The following table represents securities and dividends receivable held in a foreign currency as of June 30, 2018 and 2017:

	Fair Value (U.S. Dollars)	
Currency	**2018**	**2017**
Czech koruna	$5,504	$23,168
Euro	6,524,344	2,934,904
Japanese yen	30,966	30,720
Norwegian krone	14,411	14,022
Swiss franc	11,777	12,211
Total foreign currency	$6,587,002	$3,015,025

L. 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 enhance yields. The association does not use derivatives for speculative use or to create leverage. Exposure to risk by use of derivative instruments must be consistent with MCERA's overall investment policy as well as an individual manager's specific investment guidelines. Any other derivative investment purpose may be allowed by the explicit authorization of the Board. MCERA does not have any derivative instruments as defined by GASB Statement No. 53 as of June 30, 2018 and 2017.

Note 4 – RESERVES

As required by the 1937 Act and the Board's policy, the following reserves for Net Position Restricted for Pensions have been established to account for the members', employers', and retirees' contributions. MCERA maintains the following reserves at June 30, 2018 and 2017.

A. Active Members' Reserves

These reserves represent the cumulative contributions made by active employees. Additions include member contributions and related earnings. Deductions include refunds of member contributions and, upon retirement, the member contributions plus interest credited to their account are transferred from this reserve to the Retired Members' Reserves.

B. Employer Advance Reserves

These reserves represent the cumulative contributions made by the employers for future retirement payments to current active members. Additions include contributions from the employer and related earnings. Deductions include transfers to the Retired Members' Reserve, and lump sum death benefits.

C. Retired Members' Reserves

These reserves are established upon the retirement of an employee. Employee contributions plus interest earnings credited to the employee account are transferred from the Active Members' Reserves to the Retired Members' Reserves. In addition, the present value of the actuarially determined pension benefits is also transferred from the Employer Advance Reserves to the Retired Members' Reserves. From these reserves, the Association pays the retiree pension benefits in an amount computed in accordance with the 1937 Act.

D. Interest Fluctuation Reserve

This Reserve is used for interest crediting purposes and for holding any funds allocated by the Retirement Board as a reserve for future interest earnings deficiencies. To the extent that net earnings are available, interest is credited to specified reserves. Interest is credited semi-annually according to MCERA's interest crediting policy.

E. Market Value Fluctuation Reserve

The Board of Retirement established this "designation" account on June 30, 1997 to track the increase (or decrease) in the fair value of the MCERA assets.

The annual change in fair value of MCERA's assets is as follows:

Accumulated Through 2014	2015	2016	2017	2018	Total
$89,589,154	$(1,601,763)	$(49,573,098)	$88,157,330	$46,078,111	$172,649,734

F. Contingency Reserve

This reserve is comprised of surplus/excess earnings that are held as a reserve against deficiencies in investment earnings in other years, losses on investments, and other contingencies. As of June 30, 2012, the Contingency Reserve was not funded and all balances were transferred to the Interest Fluctuation Reserve. The Contingency Reserve will be funded and excluded from the actuarial value of assets only when the Plan's funded ratio is at or above 75%.

A summary of the various reserve accounts, which comprise fiduciary net position restricted for pensions at June 30, 2018 and 2017 is as follows:

Reserve	2018	2017
Active Members'	$105,474,936	$102,857,990
Employer Advance	179,321,591	137,193,734
Retired Members'	284,111,465	290,581,132
Interest Fluctuation	85,096,244	96,564,849
Market Value Fluctuation	172,649,734	126,571,623
Total Reserves	$826,653,970	$753,769,328

Note 5 – NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

MCERA engages on an annual basis, an independent actuarial consulting firm, Cheiron, to conduct its annual actuarial valuation.

A. Actuarial Assumptions

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2016. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018 and the Total Pension Liability as of the valuation date June 30, 2017, using update procedures to roll forward to MCERA's fiscal year end of June 30, 2018. There were no significant events between the valuation date and the measurement date, so the roll forward procedures only included the addition of service cost and interest cost offset by actual benefit payments.

The components of the employers' Net Pension Liability were as follows:

	FYE June 30, 2018	FYE June 30, 2017
Total Pension Liability	$1,300,753,933	$1,241,024,880
Plan Fiduciary Net Position	(826,653,970)	(753,769,328)
Net Pension Liability	$474,099,963	$487,255,552
Fiduciary Net Position as a Percentage of the Total Pension Liability	63.55%	60.74%

The Total Pension Liabilities as of June 30, 2018 and June 30, 2017 were determined based on the June 30, 2017 and June 30, 2016 actuarial valuations, rolled forward to June 30, 2018 and June 30, 2017, respectively, using the following actuarial assumptions applied to all periods included in the measurement:

	ACTUARIAL VALUATION ASSUMPTIONS
Valuation Date	June 30, 2017 and June 30, 2016
Investment Rate of Return	7.25%
Projected Salary Increases	2.75%, plus service-based rates
Attributed to Inflation	2.75%
Cost-of-Living Adjustments	For Tier I, 100% of CPI up to 3.0% annually with banking, assumed to be 2.40 % and 2.60% annually

Post-retirement mortality rates for June 30, 2018 and June 30, 2017 were based on the CalPERS RP2009 tables, projected with MP-2016 and RP2000 Combined tables projected to the year 2027 with adjustments for mortality improvements based on the Society of Actuaries Scale BB, respectively.

Pre-retirement mortality, withdrawal, disability, and service retirement rates vary by age, service, gender, and classification.

B. Long-Term Expected Rate of Return

During the 2017-2018 Fiscal Year, MCERA transitioned from Verus to Meketa as its general investment consultant. Meketa's approach to determining the Long-Term Expected Rate of Return differs from Verus's approach.

Meketa's Long-Term capital market expectations are derived through a process that relies on both quantitative and qualitative methodologies. The first step in the process is to build out ten-year forecasts for each asset class identified using proprietary, valuation-based fundamental models that consider those critical factors driving asset class returns. The ten-year expectations serve as the primary foundation for longer-term, twenty-year expectations. Twenty-year return expectations are formed by combining our ten-year expectations for each asset class with the observed historical returns for each asset class to then infer a forecast of the following ten-year returns (i.e., years 11-20). The final step is a review by the Investment Committee to determine if any qualitative adjustments are necessary. Return assumption at the total Plan level is derived according to the underlying asset class weightings, using nominal rates of return.

For Verus, their long-term defined benefit pension plan return expectations were determined using a building-block approach. An inflation forecast is the baseline and various real return premiums (e.g. bonds, equities, etc.) are added to create nominal return expectations for each asset class. These expectations are combined to produce the long-term expected rate of return by weighting the expected nominal rates of return by the target asset allocation percentages and including an expected return from rebalancing uncorrelated asset classes.

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 and June 30, 2017 are summarized in the table below. Because Verus used a 10-year expected return, Meketa has provided a 10-year expected return for year-over-year comparability to Verus's FYE June 30, 2017 figures. The 20-year expected return shown will be used for year-over-year comparability for next fiscal year's CAFR.

Long-Term Expected Real Rate of Return

Asset Class	FYE June 30, 2018 20-year	FYE June 30, 2018 10-year	FYE June 30, 2017 10-year
US Equity			
US Large Cap	4.7%	3.3%	2.6%
US Small Cap	4.5%	3.0%	2.7%
International Equity	4.4%	3.8%	7.6%
Emerging Markets Equity	6.7%	6.7%	6.5%
Private Equity	6.2%	5.9%	7.9%
Real Estate	4.0%	3.3%	7.3%
Domestic Fixed Income	0.9%	0.4%	1.2%
High Yield Fixed Income	2.7%	1.9%	2.4%
Hedge Funds	2.5%	1.8%	4.2%
Infrastructure	3.9%	3.3%	4.5%
Natural Resources	6.1%	6.3%	7.9%
Bank Loans	2.3%	2.0%	2.4%
Cash	0.2%	-0.5%	0.1%

C. Discount Rate

The discount rate used to measure the Total Pension Liability was 7.25% for both June 30, 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of 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.

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

The following table presents the net pension liability of MCERA calculated using the discount rate of 7.25% for 2018 and 2017, as well as what the plan'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 Rate (7.25%)	1% Increase (8.25%)
2018 Net Pension Liability	$634,944,490	$474,099,963	$340,559,408
2017 Net Pension Liability	$641,795,361	$487,255,552	$359,075,981

Note 6 – LITIGATION

Prior to the passing of the California Public Employees' Pension Reform Act (PEPRA) in 2013, MCERA members were allowed to include up to 160 hours of additional vacation payout hours when terminating employment ("terminal pay") in their retirement allowance calculations under a Settlement Agreement that MCERA entered into in 2001. PEPRA prohibited the inclusion of that terminal pay in the retirement allowance calculations of people it defined as "new members" ("PEPRA members"). Other amendments to the law that governs MCERA enacted at that time, known as "AB 197," also prohibited the inclusion of that terminal pay in retirement allowance calculations of people who already were members of MCERA ("legacy members"). As a result of AB 197, and developments in litigation over the law, on July 12, 2014, MCERA ceased including that terminal pay in retirement allowance calculations for all tiers. MCERA already had excluded the terminal pay from the retirement allowance calculations of PEPRA members as of January 1, 2013.

In January 2018, a court of appeal ruled that AB 197 could not be applied by MCERA to legacy members. That case, Alameda County Deputy Sheriff's Assn. et al v. Alameda County Employees' Retirement Assn., et al. (2018) 19 Cal.App.5th 61 ("Alameda"), is now before the California Supreme Court on review. However, MCERA does not expect the Court to rule on the case for another year or two.

As a result of Alameda, on February 8, 2018, the MCERA Board of Retirement adopted Resolution 2018-1 which made vacation payout earnings pensionable for MCERA legacy members (Tiers I, II, and III), capped at the lesser of a member's annual vacation accrual amount, the leave hours actually included in the member's vacation pay-off, or 160 hours. The Board subsequently adopted Resolution 2018-3 to further clarify certain aspects of its earlier Resolution. For Tier I, II, and III members who retired on or after July 12, 2014, the adoption of both Resolutions means that a maximum of 160 hours of vacation leave, a maximum of one year's vacation leave accrual, or the number of vacation hours actually included in the member's vacation pay-off, whichever is less will be added to such retiree's final average compensation, unless an exception applies.

On July 1, 2018, MCERA began using additional vacation payout earnings for Tier I, II, and III members retirement calculations as provided in the above-referenced Resolutions. For members who retired after July 12, 2014 and through June 30, 2018, retirement benefits were re-calculated by MCERA's actuary to determine any increased values, with consideration of the employee's contributions owed to MCERA as a result of the increased retirement benefit and the actual amount of vacation hours cashed out upon retirement, capped as provided above.

As noted above, the California Supreme Court has accepted review of Alameda, and a decision is expected within the next two years. MCERA took this action pursuant to the decision of the First District Court of Appeal, because, notwithstanding review by the Supreme Court, Alameda provides persuasive guidance to MCERA. However, MCERA is unable to know with certainty the outcome of the Supreme Court review. Nevertheless, the MCERA Board determined that it was more important that its retirees receive the full payments that Alameda stated were due, rather than have the Board wait for final word on that legal determination from the Supreme Court that may not be provided for over a year.

Note 7—SUBSEQUENT EVENTS

The potential for subsequent events were evaluated from the year-end report date of June 30, 2018 through December 28, 2018, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that would require disclosure.

Merced County Employees' Retirement Association

Required Supplementary Information

Schedules of Changes in Net Pension Liability and Related Ratios
For the Years Ended June 30, 2018, 2017, 2016, 2015, and 2014*

Total Pension Liability	**2018**	**2017**	**2016**	**2015**	**2014**
Service cost (MOY)	$22,172,594	$19,512,609	$19,384,855	$19,672,490	$19,384,434
Interest (includes interest on service	89,402,353	88,982,290	86,323,551	84,203,356	81,090,569
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	2,914,187	(8,886,191)	(5,488,413)	(12,380,077)	-
Changes of assumptions	15,960,129	36,908,183	-	-	-
Benefit payments, including refunds of member contributions	(70,720,210)	(66,904,315)	(65,082,403)	(62,951,924)	(58,042,021)
Net changes in total pension liability	59,729,053	69,612,576	35,137,590	28,543,845	42,432,982
Total pension liability—beginning	1,241,024,880	1,171,412,304	1,136,274,714	1,107,730,869	1,065,298,068
Total pension liability—ending	$1,300,753,933	$1,241,024,880	$1,171,412,304	$1,136,274,714	$1,107,731,050

Fiduciary net position					
Contributions—member	$10,441,876	$9,384,621	$9,042,663	$8,945,316	$9,642,819
Contributions—employers	64,757,288	60,349,189	56,617,088	52,005,656	48,032,338
Net investment income	70,689,084	83,097,416	(388,209)	19,318,849	96,219,056
Benefit payments, including refunds of member contributions	(70,720,210)	(66,904,315)	(65,082,403)	(62,951,924)	(58,042,021)
Administrative expense	(2,283,396)	(2,173,407)	(2,492,684)	(2,323,446)	(1,547,347)
Net change in fiduciary net position	72,884,642	$83,753,504	$(2,303,545)	$14,994,451	$94,304,845
Fiduciary net position—beginning	753,769,328	670,015,824	672,319,369	657,324,918	563,020,073
Fiduciary net position—ending	$826,653,970	$753,769,328	$670,015,824	$672,319,369	$657,324,918
Net pension liability—ending	$474,099,963	$487,255,552	$501,396,480	$463,955,345	$450,406,132
Fiduciary net position as a percentage of the total pension liability	63.55%	60.74%	57.19%	59.17%	59.34%
Covered payroll	$126,705,902	$119,621,964	$114,397,644	$110,111,994	$110,259,316
Net pension liability as a percentage of covered payroll	374.17%	407.33%	438.29%	421.35%	408.50%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Information for this table was provided by Cheiron, Inc.

<u>Schedules of Employer Contributions</u>

The schedules of employer contributions shows whether the employer has made contributions that are consistent with an actuarial method of funding the benefits to be provided consistent with the parameters established by GASB Statement No. 67.

Schedules of Employer Contributions
Last 10 Fiscal Years Ended June 30
Dollar Amounts in Thousands

	2018	**2017**	**2016**	**2015**	**2014**
Actuarially Determined Contribution	$64,757	$60,349	$56,617	$52,006	$48,032
Contributions in Relation to the Actuarially Determined Contribution	64,757	60,349	56,617	52,006	48,032
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$126,706	$119,622	$114,398	$110,112	$110,259
Contributions as a Percentage of Covered Payroll	51.11%	50.45%	49.49%	47.23%	43.56%

	2013	**2012**	**2011**	**2010**	**2009**
Actuarially Determined Contribution	$43,784	$40,263	$36,662	$29,137	$27,883
Contributions in Relation to the Actuarially Determined Contribution	43,784	40,263	36,662	29,137	27,883
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$109,401	$111,567	$117,296	$119,166	$119,043
Contributions as a Percentage of Covered Payroll	40.02%	36.09%	31.26%	24.45%	23.42%

<u>Schedules of Investment Returns</u>

The money-weighted rate of return is equivalent to the internal rate of return (IRR). Money-weighted rate of return incorporates the size and timing of cash flows.

Schedules of Investment Returns
Fiscal Years ended June 30*

	2018	**2017**	**2016**	**2015**	**2014**	**2013**
Annual money-weighted rate of return, net of investment expense	10.1%	9.5%	-0.3%	1.1%	17.0%	11.8%

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

Merced County Employees' Retirement Association

Notes to Required Supplementary Information

Note 1 – CHANGES OF BENEFIT TERMS

There were no changes in benefit terms for the fiscal year ended June 30, 2018.

Note 2 – CHANGES OF ASSUMPTIONS AND METHODS

Assumptions were adopted by the Board at their November 17, 2016 meeting. Rate of return was updated to 7.25%, price inflation assumption decreased to 2.50%, post retirement COLA decrease to 2.40%, and the mortality to CalPERS 2009 with future improvements applying SOA MP-2016 projection scale on a generational basis.

Note 3 – METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

A. Actuarial Valuation Methods and Assumptions

	2018	2017	2016	2015	2014
Valuation Date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Effective Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value	Actuarial Value
Amortization Years Remaining*	24	24	24	16	17
Discount Rate	7.25%	7.75%	7.75%	7.75%	7.75%
Price Inflation	2.50%	3.00%	3.00%	3.75%	3.75%
Salary Increases**	2.75%	3.00%	3.00%	3.75%	3.75%
Cost-of-living adjustments	2.50%	2.60%	2.60%	2.70%	2.70%
Mortality***	See Notes	See Notes	See Notes	See Notes	See Notes

	2013	2012	2011	2010	2009
Valuation Date	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
Effective Date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Actuarial Value	Actuarial Value	Actuarial Value	Actuarial Value	Actuarial Value
Amortization Years Remaining*	18	18	18	16	17
Discount Rate	7.75%	8.16%	8.16%	8.00%	8.00%
Price Inflation	3.75%	3.75%	4.50%	4.50%	4.50%
Salary Increases**	3.75%	3.75%	4.50%	4.50%	4.50%
Cost-of-living adjustments	2.70%	2.70%	3.00%	3.00%	3.00%
Mortality***	See Notes	See Notes	See Notes	See Notes	See Notes

* Closed Period as a level percentage of payroll method used for all years shown .

** Includes merit component based on years of service.

*** As of 2016 valuation, CALPRS 2009 with future improvements applying SOA MP-2016 on a generational basis is used.
Basis Gender distinct RP-2000 Combined Mortality used for all valuation years shown prior to 2016.

B. Changes to the Assumptions

The actuarial valuation performed by MCERA's actuary for the June 30, 2017 measurement date included MCERA's discount rate of 7.25% and liability loads (approximately 6.92% load for Tier I and approximately 2.31% load for Tiers II and III) to account for the addition of the up to 160 hours of additional vacation earning payout hours to current active members.

Merced County Employees' Retirement Association

Other Supplemental Schedules

Schedules of Administrative Expenses
For the Fiscal Years Ended June 30, 2018 and 2017

Personnel Services:	**2018**	**2017**
Salaries, wages and benefits	$977,155	$899,384
Office Expenses:		
Communications	4,160	3,972
Requested maintenance / utilities / cost allocation	240,888	122,499
Office supplies	12,436	16,903
Postage	14,714	12,491
Total Office Expense	272,198	155,865
Professional Services:		
Audit Fees	58,338	80,754
Attorney fees	130,683	37,674
Disability stenographic fees / investigations	1,390	1,922
Publications / legal notices / Other	1,550	3,307
Disability medical reviews / services	41,910	50,628
Merced Dept. of Information Technology / Software	310,216	338,375
Total Professional Services	544,087	512,660
Miscellaneous:		
Memberships	5,160	5,633
Fiduciary meeting	11,000	11,100
Fiduciary and staff travel / training	31,887	44,920
Insurance	79,999	83,726
Depreciation expense	255,700	253,610
Total Miscellaneous Expenses	383,746	398,989
Total Administrative Expenses	$2,177,186	$1,966,898

Merced County Employees' Retirement Association

Other Supplemental Schedules (continued)

Schedules of Investment Expenses
For the Fiscal Years Ended June 30, 2018 and 2017

Investment managers' fees		
Domestic equities	**2018**	**2017**
Dimensional Fund Advisors	$74,381	$75,276
Mellon Capital Management	278,608	247,391
PanAgora Asset Management	167,364	161,736
Total domestic equities	520,353	484,403
International equities		
Mellon Capital Management	46,308	35,058
Earnest Partners, LLC	-	58,433
Copper Rock International	240,363	215,509
Wells Capital Management	557,286	398,818
Total international equities	843,957	707,818
Alternative investments		
Graham Capital	17,259	-
Invesco Private Capital	18,755	52,069
KKR	59,882	31,995
SSgA	98,746	26,809
Total alternative investments	194,642	110,873
Real estate		
BlackRock	-	4,119
UBS Global –Trumbull Property Management	374,215	423,433
Total real estate	374,215	427,552
Fixed income		
AXA Investment Managers	-	68,275
Barrow Hanley	308,470	277,090
Total fixed income	308,470	345,365
Total investment managers' fees	2,241,637	2,076,011
Other investment expenses		
Custodian	116,743	216,970
Investment counsel	316,124	79,072
Investment consultant	587,081	257,171
Miscellaneous investment expense	3,794	2,468
Total other investment expense	1,023,742	555,681
Total fees and other investment expenses	$3,265,379	$2,631,692

Merced County Employees' Retirement Association

Other Supplemental Schedules (continued)

Schedules of Payments to Consultants
For the Fiscal Years Ended June 30, 2018 and 2017

Investment professional service fees	**2018**	**2017**
Custodial services - Northern Trust, BNY Mellon	$116,743	$216,970
Investment consultant - Meketa, Verus Investments, Cliffwater LLC., and Others	587,081	257,171
Investment counsel - Nossaman LLP	316,124	79,072
Actuarial services - Cheiron Inc. and Segal Consulting	106,211	206,509
Total investment professional service fees	$1,126,159	$759,722

Administrative professional service fees		
Audit services - Brown Armstrong Accountancy Corporation	$58,338	$80,754
Legal services	130,683	37,674
Disability stenographic fees/investigations	1,390	1,922
Other specialized services	1,550	3,307
Disability medical reviews/services	41,910	50,628
Software and Information Systems	310,216	338,375
Total administrative professional service fees	$544,087	$512,660

Merced County Employees' Retirement Association

Other Information

Schedule of Cost Sharing Employer Allocations

For the Fiscal Year Ended June 30, 2018

Employer	2017-2018 Amortization Share of Pensionable Payroll	Employer Proportionate Share Percentage
County of Merced	$47,764,450	95.1298%
Merced Superior Court	2,419,282	4.8183%
Merced Cemetery District	26,060	0.0519%
Total	$50,209,792	100.0000%

The accompanying notes are an integral part of this schedule.

Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan
As of and for the Fiscal Year Ended June 30, 2018

		Deferred Outflows of Resources					Deferred Inflows of Resources					Pension Expense Excluding that Attributable to Employer-Paid Member Contributions		
Employer	Net Pension Liability	Differences Between Expected and Actual Experience	Net Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Re-sources	Differences Between Expected and Actual Experience	Net Differences Between Projected and Actual Investment Earnings	Changes of Assump-tions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportion-ate Share of Allocable Pension Expense	Net Amortization of Deferred amounts from Changes in Proportion and Differences Between Employer Contributions and Proportion-ate Share of Contributions	Total Pension Expense Excluding That Attributable to Employer – paid Member Contributions
County of Merced	$451,010,347	$2,079,195	$ -	$28,942,469	$1,228,855	$32,250,519	$5,531,987	$3,993,457	$ -	$80,704	$9,606,148	$50,199,540	$ -	$50,199,540
Merced Superior Court	22,843,559	105,311	-	1,465,929	376,252	1,947,492	280,194	202,268	-	744,321	1,226,783	2,542,594	-	2,542,594
Regional Waste Management	-	-	-	-	65	65	-	-	-	766,086	766,086	-	-	-
Merced Cemetery District	246,057	1,134	-	15,790	-	$16,924	3,018	2,179	-	14,061	19,258	27,387	-	27,387
Total	**$474,099,963**	**$2,185,640**	**$ -**	**$30,424,188**	**$1,605,172**	**$34,215,000**	**$5,815,199**	**$4,197,904**	**$ -**	**$1,605,172**	**$11,618,275**	**$52,769,521**	**$ -**	**$52,769,521**

Note: Information compiled form GASB 67/68 Report Prepared by Cheiron, Inc. dated June 30,2017

The accompanying notes are an integral part of this schedule.

Merced County Employees' Retirement Association

Notes to Other Information

A. 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 GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.*

MCERA's actuary prepares the GASB Statement No. 67 and No. 68 Actuarial Valuation based on June 30, 2018 measurement date for Employer Reporting as of June 30, 2019; in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations based on information provided by MCERA. This document provides the required information for financial reporting related to MCERA that employers may use in their financial statements.

B. Use of Estimates in the Preparation of these 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. However, actual results could differ from those estimates.

C. Amortization of Deferred Outflows and Deferred Inflows of Resources

The net 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/(credit) during the measurement period and the remaining net difference between projected and actual investment earnings on pension plan investments at June 30, 2018 is to be amortized over the remaining amortization periods.

The difference between expected and actual experience, changes in proportion, and the difference between employer contributions and proportionate share of contributions are amortized over the average of the expected remaining service lives of all employees that are provided with pensions through the plan determined as of the beginning of the related measurement period. Employers are required to recognize pension expense based on the balance of the closed period "layers" attributable to each measurement period. The average expected remaining service lives determined as of the beginning of each measurement period are described below:

Year ended June 30, 2018 – 4 years

Year ended June 30, 2017 – 4 years

Year ended June 30, 2016 – 4 years

Year ended June 30, 2015 – 4 years

Year ended June 30, 2014 – 4 years

The Schedule of Pension Amounts by Employer does not include contributions to the plan 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.

Page Intentionally Left Blank

Investment Section

MEKETA INVESTMENT GROUP

BOSTON MA
CHICAGO IL
MIAMI FL
PORTLAND OR
SAN DIEGO CA
LONDON UK

October 18, 2018

Board of Trustees
Merced County Employees' Retirement Association
3199 M Street
Merced, CA 95348

Dear Trustees:

Meketa Investment Group is grateful for the opportunity to report to the Board of Trustees of Merced County Employees' Retirement Association with an update on results along with commentary on the markets for the fiscal year ended June 30, 2018.

2018 FISCAL YEAR MARKET ENVIRONMENT OVERVIEW

The fiscal year was largely a story of two environments. In 2017, we saw synchronized global growth, low volatility, tax cuts in the U.S. at year-end, and a weak U.S. dollar. During the last two quarters of 2017 most asset classes were up, particularly riskier ones. Emerging markets lead the way in Q3 (+7.9%) and Q4 (+7.4%[1]). U.S. and international equities also posted strong returns over both quarters, while fixed income assets were largely up but with more modest returns in the risk on environment.

The trends of 2017 persisted into early 2018, but the environment quickly changed. In 2018, we have seen volatility increase from its very low levels, interest rates and inflation rise, the U.S. dollar rebound, and trade tensions between the U.S. and others heat-up. In this environment, U.S. equities were one of the few asset classes to perform, while international equities and most fixed income asset classes fell. High yield bonds did post a modest gain (+0.2%[2]) in the first two quarters of 2018.

The net result of the two environments on the fiscal year returns ending June 30, 2018 was that equities increased, particularly in the U.S, while in fixed income TIPS and high yield bonds posted relatively modest returns and the broad U.S. bond market slightly declined. Emerging market bonds fell.

1. MSCI Emerging Markets Index
2. Barclays High Yield

205 SE SPOKANE STREET SUITE 300 PORTLAND OR 97202
971 202 5082 www.meketagroup.com

For the fiscal year, U.S. equities, as represented by the Russell 3000, rose +14.8%. The trend of U.S. growth stocks outperforming value stocks persisted and small capitalization stocks (+17.6%) outperformed large capitalization (+14.5%) and mid-capitalization (+12.3%) stocks. The MSCI EAFE, representing foreign developed markets, increased at less than half the rate of U.S. equities, up +6.8%. Emerging market equities' strong returns in 2017 were balanced by an 8.0% decline in the second quarter of 2018 as a stronger dollar and trade tensions weighed on results. The MSCI Emerging Markets Equity index gained +8.2% for the full fiscal year.

Within fixed income, positive returns in the final two quarters of 2017 moved to concerns over rising interest rates and inflation creating headwinds in 2018. In the U.S., the Federal Reserve increased interest rates for the seventh time in June to a range of 1.75% to 2.00% and continued to reduce its balance sheet. The rate increases contributed to the flattening of the U.S. yield curve during the fiscal year. Over the trailing year, TIPS (+2.1%) and high yield bonds[2] (+2.6%) increased, while the broad U.S. bond market, represented by the Barclays Aggregate Index, fell 0.4%. Similar to emerging market equities, returns for emerging market bonds in the second quarter of 2018 weighed on the fiscal year results. In this case, more dramatically as the 10.4% decline in the second quarter for emerging market bonds (as represented by JPM GBI-EM Global Diversified – Local Currency) led to a -2.3% return for the trailing year.

Within other asset classes, natural resource stocks (S&P Global Natural Resources Index) rose +24.8%, commodities (Bloomberg Commodity Index) gained +7.4%, and REITS (MSCI U.S. REIT Index) gained +3.6%. Oil prices finished the fiscal year at over $60/barrel, representing a dramatic increase from their recent lows. Cuts from OPEC and strong growth globally contributed to the rise in oil prices.

LOOKING FORWARD

Looking forward, there are several issues that we continue to monitor. First, is the potential for major central banks to tighten monetary policy at the same time. Second, in the U.S., equity markets remain extended and the latest economic cycle has been long. Also in the U.S., trade policy remains another key issue. Next, is the declining growth in China and the impact of trade tensions with the U.S. Finally, political uncertainty and ongoing structural issues remain a concern in Europe.

After an extended period of monetary support through low interest rates and bond purchases from banks (i.e., quantitative easing), we could be moving into a period where central banks pull back support at the same time. The U.S. is further along in that process with the Federal Reserve increasing interest rates and reducing its balance sheet. It is also largely expected that the European Central Bank (ECB) will end its quantitative easing by year-end. If central banks begin pulling back support this could put further upward pressure on rates, weigh on economic growth, and tighten liquidity.

The U.S. economy and equity markets have experienced a long period of growth since the Global Financial Crisis due in part to central bank support. Late cycle dynamics of low unemployment and rising inflation are in place and valuations are stretched for equites. It is inevitable that growth will eventually slow and equity markets pull back, but the question is when. Other key issues in the U.S. include policy uncertainty related to tariffs, immigration, and strategic alliances.

China has the second largest economy behind the U.S.. After a long period of growth through government investment, it continues to manage a repositioning of its economy to one of consumption. This has led to a slowing of its economy and has hurt countries that depend on its trade. The recent trade tariffs between the U.S. and China is another key issue, which could have a disproportionately negative impact on China, as the U.S. is one of their largest export destinations. Another key issue in China remains the high debt levels, particularly in the corporate sector.

Europe continues to have the structural issue of having a single currency and central bank with fiscal policy resting with each individual country. Consequently, countries that are experiencing financial difficulties are unable to use the traditional tools of lowering interest rates and devaluing their currency to stimulate growth. This has caused tensions within the Eurozone as highlighted by the recent elections in Italy and the prior elections in Germany, as well as the on-going issues in Greece. Given the size of Italy's bond market and economy within the euro area a sovereign debt crisis or departure from the euro would have significant consequences.

We will continue to monitor these issues and others.

PERFORMANCE

The MCERA portfolio posted a 9.2% return on a net of fees basis for the fiscal year ended June 30, 2018, which exceeded the policy index by 40 basis points. From an absolute contribution standpoint, the U.S. equity segment of the portfolio was the key positive driver through a combination of strong performance over the period (+16.0%) along with the large exposure. Both small cap and large cap managers posted strong absolute results within this space. The non-U.S. equity segment recorded a 7.8% return, which matched the segment benchmark for the trailing fiscal year.

When evaluating the trailing year, the fixed income sleeve dampened overall results, underperforming the benchmark as well, 0.2% vs 0.6%, respectively. Results in the private equity composite were quite strong, exceeding the policy index, 20.9% vs 18.6%. The hedge fund sleeve was also able to significantly outperform the benchmark at 8.4% vs 5.5%. The portfolio's investments in real assets failed to keep up with the policy index, trailing by 2.1% for the period.

From a longer-term perspective, the portfolio posted a return of 7.1% for the trailing three years and 8.2% over the five-year period. Over both periods, the portfolio trailed the policy benchmark, by 0.5% for three years and 0.3% for five years. In terms of rank versus a comparable peer group, the MCERA portfolio was top quartile across one, three, and five year trailing periods.

INVESTMENT RESULTS

	Annualized Returns (%)		
Periods Ended June 30, 2018	**One Year**	**Three Years**	**Five Years**
U.S. Equity	16	12.9	14.4
80% Russell 1000 / 20% Russell 2000	15.2	11.6	13.3
Rank	*20*	*3*	*3*
International Equity	7.8	4.7	6
International Equity Custom Index	7.8	5.9	6.7
Rank	*34*	*65*	*63*
U.S. Fixed Income	0.2	2.3	2.8
U.S. Fixed Custom Index	0.6	2.5	2.9
Rank	*42*	*52*	*49*
Hedge Funds	8.4	3.8	N/A
Hedge Fund Custom Index	5.5	3	N/A
Rank	*7*	*22*	N/A
Private Equity (1-quarter lagged)	20.9	10	11.4
Thomson Reuters Cambridge PE Index	18.6	13.8	16.4
Rank	*6*	*53*	*48*
Real Assets (certain managers 1-quarter lagged)	7.8	7.3	7.8
Real Assets Custom Index	9.9	8.4	9
Rank	*12*	*1*	*1*
Total Portfolio	9.2	7.1	8.2
Policy Benchmark	8.8	7.6	8.5
Rank	*16*	*15*	*15*

RECENT DEVELOPMENTS

In the Board Education meeting on September 14, the Board made the decision to adopt a new asset allocation model. The option chosen would significantly increase exposure to private equity and hedge funds, establish allocations to opportunistic credit, while reducing the equities and interest rate sensitive segments. We look forward to working through the implementation plan through collaboration with Cliffwater, Staff, and the Board.

If you have any questions, please call us at (971)-202-5082

MLM, PN, hls

Merced County Employees' Retirement Association

Total Fund Returns vs. Universe
Period Ending June 30, 2018

	3 mo	Fiscal YTD	3 yrs	5 yrs	7 yrs	10 yrs	Inception Return	Since
Total Fund	1.3%	9.4%	7.4%	8.6%	7.7%	6.4%	8.2%	12/31/94
Fund Benchmark	1.4%	8.8%	7.6%	8.5%	8.3%	6.9%	6.0%	12/31/94
IF Public Defined Benefit Gross Rank	37	24	49	44	64	77	70	12/31/94
IF Public Defined Benefit Gross Median	1.1%	8.4%	7.1%	8.1%	7.8%	6.8%	8.3%	12/31/94

Outline of Investment Policies

The Board of Retirement has exclusive control of all investments of the Association and is responsible for establishing investment objectives, strategies, and policies.

Pursuant to the California Constitution and the 1937 Act, the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In this regard, investment decisions are to be made in the sole interest and for the exclusive purpose of providing benefits, minimizing employer contributions, and defraying the reasonable expenses of the Association.

The Board of Retirement has adopted an Investment Policy, adopted June 22, 2017, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. The Investment Policy also defines the principal duties of the Board, MCERA's custodian bank, consultant, and MCERA's investment managers. The Board makes revisions to the Investment Policy as necessary.

Pursuant to the Investment Policy, the basic goal of MCERA's investment program is to obtain a fully funded plan status, while assuming a risk posture consistent with the Board's risk tolerance. In pursuing this goal, the Board has adopted a long-term investment horizon in which the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The primary investment objective is to exceed the actuarial assumption for return on assets. The risk assumed in the pursuit of this investment objective must be appropriate for the return anticipated and consistent with the total diversification of the fund. The asset allocation plan, adopted by the Board, is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

Summary of Proxy Voting Guidelines and Procedures

Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests of the MCERA membership. On a quarterly basis, the investment managers are required to provide a report to MCERA detailing their proxy votes.

Merced County Employees' Retirement Association

Asset Allocation Information

For the Fiscal Year Ended June 30, 2018

Allocation Ranges	Allocation June 30, 2018	Target	Allocation Minimum	Allocation Maximum
Total Domestic Equity				
Large Cap	24.3%	22.0%	18.0%	26.0%
Small Cap	5.3%	5.0%	4.0%	6.0%
International Equity	17.0%	16.0%	14.0%	18.0%
Emerging Markets	7.4%	7.0%	5.0%	9.0%
Private Equity	4.8%	9.0%	7.0%	11.0%
Real Estate	7.6%	8.0%	6.5%	9.5%
Domestic Fixed Income	20.6%	17.0%	15.0%	19.0%
Bank Loan	0.0%	5.0%	4.0%	6.0%
Hedge Fund	4.7%	5.0%	4.0%	6.0%
Real Assets	6.0%	6.0%	4.5%	7.5%
Cash	2.3%	0.0%	0.0%	0.0%
	100.0%	100.0%		

Asset Allocation Information

For the Fiscal Year Ended June 30, 2017

Allocation Ranges	Allocation June 30, 2017	Target	Allocation Minimum	Allocation Maximum
Total Domestic Equity				
Large Cap	25.3%	22.0%	18.0%	26.0%
Small Cap	5.5%	5.0%	4.0%	6.0%
International Equity	18.0%	16.0%	14.0%	18.0%
Emerging Markets	7.3%	7.0%	5.0%	9.0%
Private Equity	4.9%	9.0%	7.0%	11.0%
Real Estate	7.3%	8.0%	6.5%	9.5%
Domestic Fixed Income	16.3%	17.0%	15.0%	19.0%
Bank Loan	4.7%	5.0%	4.0%	6.0%
Hedge Fund	2.2%	5.0%	4.0%	6.0%
Real Assets	7.0%	6.0%	4.5%	7.5%
Cash	1.5%	0.0%	0.0%	0.0%
	100.0%	100.0%		

Merced County Employees' Retirement Association

Investment Summary

For the Fiscal Year Ended June 30, 2018

	Fair Value	Percent of Total
Domestic Equity		
Large Cap	$121,940,407	15.0%
Large Cap Active	76,298,756	9.4%
Small Cap	43,334,808	5.3%
Total	241,573,971	29.7%
International Equity		
Large Cap	115,367,843	14.1%
Small Cap	22,875,613	2.8%
Emerging Market	59,961,908	7.4%
Total	198,205,364	24.3%
Fixed Income		
Domestic Core	131,433,344	16.1%
Mutual Fund	36,575,203	4.5%
Total	168,008,547	20.6%
Alternative Investments		
Private Equity	38,851,813	4.8%
Hedge Funds	38,047,854	4.7%
Real Assets	49,176,357	6.0%
Total	126,076,024	15.5%
Real Estate		
Domestic Property Fund	42,490,845	5.2%
Domestic Private Real Estate	14,723,835	1.8%
International Private Real Estate	4,976,507	0.6%
Total	62,191,187	7.6%
Cash and Short-Term Investments	19,052,057	2.3%
Total Investments, Cash and Short-Term Investments	$815,107,150	100.0%

Merced County Employees’ Retirement Association

Schedule of Investment Results (Gross of Fees)

For the Fiscal Year Ended June 30, 2018

	Current	Annualized				
Domestic Equity	**Year**	3Yrs	5Yrs	7Yrs	10Yrs	Inception
Large Cap:						
Mellon Large Cap Index	14.5	--	--	--	--	15.6
Mellon Dynamic	16.6	15.1	16.6	--	--	18.3
Small Cap:						
DFA	16.2	11.4	--	--	--	10.4
PanAgora	23.9	12.6	--	--	--	13.2
Total Domestic Equity	16.2	13.2	14.6	13.4	10.6	10.2
Index; 80% R1000/20% R2000	*15.2*	*11.6*	*13.3*	*13.0*	*10.2*	*10.0*
International Equity						
Copper Rock	10.5	5.2	--	--	--	8.2
Mellon International	7.5	--	--	--	--	11.6
Wells Capital	9.0	8.7	6.0	--	--	4.2
Total International Equity	**8.3**	**5.3**	**6.7**	**4.7**	**3.9**	**5.7**
Index: MSCI ASCI ex US	*7.8*	*5.9*	*6.7*	*4.8*	*2.9*	*4.5*
Fixed Income						
Barrow Hanley	-0.2	2.0	2.5	2.9	--	3.4
Vanguard Short-Term Treasury Index Fund	--	--	--	--	--	0.4
Total Fixed Income	**0.4**	**2.5**	**3.1**	**3.6**	**3.8**	**5.4**
Index: US Fixed Custom	*0.6*	*2.5*	*2.9*	*3.0*	*4.0*	*5.6*
Hedge Funds						
Oz Domestic II	8.8	5.7	--	--	--	6.4
Graham Absolute Return	--	--	--	--	--	4.4
Wellington-Archipelago	--	--	--	--	--	6.2
KLS Diversified	--	--	--	--	--	5.3
Winton	--	--	--	--	--	3.9
Marshall Wace Eureka	--	--	--	--	--	6.3
Silver Point Capital	--	--	--	--	--	4.6
Total Hedge Funds	**8.6**	**3.9**	**--**	**--**	**--**	**4.6**
Index: Hedge Fund Custom	*5.5*	*3.0*	--	--	--	*3.3*

Merced County Employees' Retirement Association

Schedule of Investment Results (Gross of Fees) (Continued)

	Current	Annualized				
Real Assets	**Year**	3Yrs	5Yrs	7Yrs	10Yrs	Inception
Proxy Fund						
SSgA	8.5	--	--	--	--	6.9
Private Real Estate						
UBS Trumbull	16.3	16.4	--	--	--	15.0
Greenfield GAP VII	50.2	--	--	--	--	18.6
Patron V	4.0	6.7	8.6	9.1	5.1	8.5
Carlyle Realty VIII	--	--	--	--	--	-27.1
Total Real Estate	**10.8**	**9.2**	**9.4**	**9.5**	**6.0**	**8.8**
Index: NCREIF ODCE	*7.5*	*8.4*	*10.0*	*10.4*	*4.3*	*7.5*
Private Infrastructure:						
KKR Global II	9.9	9.4	--	--	--	10.3
North Haven Infrastructure II	26.6	6.2	--	--	--	6.0
ISQ Global Infrastructure Fund II	--	--	--	--	--	--
Total Private Infrastructure	**16.0**	**5.1**	**--**	**--**	**--**	**6.6**
Index*: *S&P Global Infrastructure Net TR USD	*0.9*	*5.0*	*7.1*	*5.5*	--	*3.4*
Private Natural Resources:						
GSO Energy Opportunities	13.7	--	--	--	--	20.7
Taurus Mining	2.8	--	--	--	--	17.4
Taurus Mining Annex	16.1	--	--	--	--	30.7
EnCap XI	--	--	--	--	--	-43.2
EnCap IV	--	--	--	--	--	-8.2
Total Private Natural Resources	**8.4**	**--**	**--**	--	**--**	**19.3**
Index*: *S&P Global Natural Resources Index TR USD	*24.8*	*9.5*	*5.6*	*0.7*	*-0.6*	*21.1*
Total Real Assets	**9.9**	**8.4**	**9.0**	**--**	**--**	**--**
Index*: *Real Asset Custom	*7.8*	*8.0*	*8.7*	*8.8*	--	--

Merced County Employees' Retirement Association

Schedule of Investment Results (Gross of Fees) (Continued)

	Current	Annualized				
Alternative Investments	**Year**	3Yrs	5Yrs	7Yrs	10Yrs	Inception
Adams St	16.9	12.1	13.5	12.9	9.8	10.7
Invesco IV	26.9	13.4	17.1	11.2	10.0	10.5
Invesco VI	22.2	12.3	12.6	--	--	12.6
Ocean Ave II	41.2	17.5	--	--	--	11.3
Pantheon I	10.6	5.5	7.5	6.7	5.3	4.8
Pantheon II	17.0	13.9	13.9	--	--	12.0
Pantheon Secondary	2.6	0.3	2.0	1.3	1.0	4.1
Raven Asset Fund II	12.2	-1.9	--	--	--	-3.2
Davidson Kempner Long-Term Distressed Opportunities Fund IV	--	--	--	--	--	0.7
GTCR Fund XII	--	--	--	--	--	0.0
Total Alternative Investments**	**20.9**	**10.0**	**11.4**	**9.1**	**7.3**	**8.2**
Index: Thomson Reuters Cambridge Private Equity Index	*18.6*	*13.8*	*16.4*	*18.1*	--	--
Index: Cambridge Assoc. U.S. Private Equity Index	*18.6*	*12.6*	*13.7*	*13.0*	*10.8*	*13.0*
Total Fund* **	9.4	7.4	8.6	7.7	6.4	8.2
Total Fund Custom Index* **	*8.8*	*7.6*	*8.5*	*8.3*	*6.9*	*6.0*

*There is no fiscal year data available; the fund doesn't have a year.

**Performance results lag by a quarter due to financial reporting constraints.

***Using time-weighted rate of return based on market rate return and are presented gross of fees.

Merced County Employees' Retirement Association

Top 10 Largest Holdings by Fair Value

June 30, 2018

PAR	Bonds		Fair Value
7,430,000	U S TREASURY NOTE	2.375% 08/15/2024 DD 08/15/14	$7,253,248
7,385,000	U S TREASURY NOTE	2.000% 02/15/2022 DD 02/15/22	7,214,510
6,955,000	U S TREASURY BOND	2.500% 05/15/2016 DD 05/15/46	6,319,814
6,385,000	U S TREASURY NOTE	2.000% 11/15/2021 DD 11/15/11	6,251,062
5,360,000	U S TREASURY NOTE	0.750% 07-15-2019 DD 07/15/16	5,271,228
4,715,000	U S TREASURY BOND	3.125% 11/15/2041 DD 11/15/11	4,845,214
2,615,000	U S TREASURY NOTE	2.625% 02/23/2023 DD 02/28/18	2,604,480
1,765,000	U S TREASURY NOTE	2.000% 11/15/2026 DD 11/15/16	1,654,066
1,659,693	FNMA POOL #AS8796	3.000% 02/01/2047 DD 01/01/17	1,610,185
1,560,838	FNMA POOL #CA0808	4.000% 11/01/2047 DD 11/01/17	1,594,428
			$44,618,235

A complete list of portfolio holdings are available upon request.

Schedules of Investment Management Fees

June 30, 2018 and 2017

Investment Managers' Fees	**2018**	**2017**
Equity Managers		
Domestic	$520,353	$484,403
International	843,957	707,818
Fixed Income Managers	308,470	345,365
Alternative Investment Managers	194,642	110,873
Real Estate Managers	374,215	427,552
Total Investment Manager Fees	$2,241,637	$2,076,011
Other Investment Service Fees		
Investment Consultant Fees	$587,080	$256,666
Investment Custodial Fees	116,743	216,970
Investment Counsel Fees	316,124	79,072
Other Investment Service Fees	3,794	2,973
Total Other Investment Service Fees	1,023,742	555,681
Total Investment Managers' Fees and Other Investment Service Fees	$3,265,379	$2,631,692

Merced County Employees' Retirement Association

List of Investment Service Providers

June 30, 2018

Fixed Income

Barrow, Hanley, Mewhinney & Strauss, Inc.

Vanguard

Domestic Equity

Mellon Capital Management

Dimensional Fund Advisors

PanAgora Asset Management, Inc.

International Equity

Mellon Capital Management

Wells Capital Management

Copper Rock Capital Partners, LLC

Real Asset Proxy

SSgA

Private Equity

Adams Street Partners, LLC

Pantheon Ventures, Inc.

Invesco Private Capital

Ocean Avenue Capital Partners

Raven Capital Management

Davidson Kempner Capital Management LP

GTCR LLC

Real Estate

UBS Global Asset Management

Greenfield Partners

Patron Capital

The Carlyle Group

Hedge Fund

Och-Ziff Capital Management

Wellington Alternative Investments

Graham Capital Management

KLS Diversified Asset Management

Winton Group, Ltd

Marshall Wace, LLP

Silver Point Capital, L.P.

Infrastructure

KKR & Co. L.P.

Morgan Stanley

ISquared Capital

Natural Resources

GSO Energy Select Opportunities Assc, LLC

Taurus Funds Management

EnCap Investments L.P.

Commission Recapture Brokers

ConvergEx Group

Capital Institutional Services, Inc.

Actuarial Section

Via Electronic Mail

December 14, 2018

Actuarial Certification

This is the Actuary's Certification Letter for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Merced County Employees' Retirement Association (the Plan) as of June 30, 2018. This letter includes references to two documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2017 (transmitted March 14, 2018) and the GASB 67/68 Report as of June 30, 2018 (transmitted November 1, 2018).

Actuarial Valuation Report as of June 30, 2017

The purpose of the annual Actuarial Valuation Report as of June 30, 2017 is to determine the actuarial funding status of the Plan on that date and to calculate recommended contribution rates for the participating employers and Plan members for the Fiscal Year 2018-2019. The prior review was conducted as of June 30, 2016, and included recommended contribution rates for the Fiscal Year 2017-2018.

The funding objective of the Plan is to accumulate sufficient assets over each Member's working life to provide for Plan benefits after termination of employment or retirement. The Board of Retirement is responsible for establishing and maintaining the funding policy of the Plan.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost and expected administrative expenses) plus a level percentage of payroll to amortize the unfunded actuarial liability (UAL). As of the valuation date (June 30, 2017), the amortization period for the June 30, 2013 UAL is 12 years. For the June 30, 2014 valuation, the Board of Retirement adopted a new funding policy for any subsequent unexpected change in the UAL after June 30, 2013. Any new sources of UAL due to actuarial gains and losses or method changes are amortized over a closed 24-year period, with a five-year ramp up period at the beginning of the period, a four-year ramp down at the end of the period, and 15 years of level payments as a percentage of payroll between the ramping periods. Assumption changes will be amortized over a closed 22-year period, with a three-year ramp up period, two-year ramp down period, and 17 years of level payments as a percentage of payroll. The Board also adopted a policy to replace the smoothed actuarial value of assets with the market value of assets for valuation purposes. These new amortization and funding policies in conjunction are a type of policy known as direct rate smoothing.

We prepared the following schedules, which we understand will be included in the Actuarial Section of the CAFR, based on the June 30, 2017 actuarial valuation. All historical information prior to the June 30, 2013 actuarial valuation shown in these schedules is based on information reported by EFI Actuaries, which was acquired by Cheiron in January 2013.

- Statement of Current Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Development of 2017 Experience Gain/(Loss) (Analysis of Financial Experience)
- Solvency Test
- Summary of Plan Provisions

We reviewed the actuarial assumptions shown in the schedules and found them to be reasonably appropriate for use under the Plan. The assumptions used in this report reflect the results of an Experience Study performed by Cheiron covering the period from July 1, 2013 through June 30, 2016, and approved by the Board. The assumptions used in the most recent valuation are intended to produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis will cover the years through 2019.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the requirements of the Actuarial Standards of Practice, in particular Standards No. 4, 27, 35, and 44.

GASB 67/68 Report as of June 30, 2018

The purpose of the GASB 67/68 Report as of June 30, 2018, is to provide accounting and financial reporting information under GASB 67 for the Plan and under GASB 68 for the County of Merced and the other participating employers. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2017, actuarial valuation updated to the measurement date of June 30, 2018. The beginning of year Total Pension Liability was based on the actuarial valuation as of June 30, 2016, updated to June 30, 2017. The Total Pension Liability measurements as of June 30, 2018 and June 30, 2017 presented in the GASB 67/68 Report were based upon the same data, plan provisions, actuarial methods, and assumptions as were used in the Actuarial Valuation Reports as of June 30, 2017 and June 30, 2016, respectively.

Please refer to our GASB 67 report as of June 30, 2018, for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2018, GASB 67/68 report:

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to the Schedule of Employer Contributions

We certify that the report was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB.

Disclaimers

In preparing our reports, we relied on information (some oral and some written) supplied by the Merced County Employees' Retirement Association. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

These reports are for the use of the Plan and their auditor in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of these reports is not an intended user and is considered a third party.

Cheiron's reports were prepared solely for the Plan for the purposes described herein, except that the Plan auditor may rely on these reports solely for the purpose of completing an audit related to the matters herein. They are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. These reports do not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Respectfully Submitted,
Cheiron

Graham A. Schmidt, ASA, FCA, MAAA, EA
Consulting Actuary
703-893-1456 x1137
gschmidt@cheiron.us

Anne Harper, FSA, MAAA, EA
Consulting Actuary
703-893-1456 x1107
aharper@cheiron.us

Statement of Current Actuarial Assumptions and Methods

A. Economic Assumptions

The following economic assumptions and non-economic assumptions were recommended by the actuary and adopted by the Board of Retirement as of the most recent actuarial valuation (dated June 30, 2017):

Investment Rate of Return	7.25%, net investment and administrative expenses
Inflation	2.75% per annum
Cost of Living Adjustments	For Tier 1, 100% of CPI up to 3% annually with banking, assumed to be 2.4% annually
Asset Valuation Method	Market value of assets
Interest Credited to Active Member's Reserves	Pursuant to MCERA Interest Crediting Policy, adopted September 14, 2017, interest will fall within a range from 0% - the actuarial interest rate
Projected Annual Salary Increases	2.75%, Plus service-based rates

B. Non-Economic Assumptions

The date of the last study of the Plan's actual experience was June 30, 2016. The actuary compared the expected number of terminations from active service to the number actually experienced during a 3-year period and based on this comparison and the trends observed; the probabilities of separation were adjusted.

Mortality Tables Used:

1. Service

General Member Males	CalPERS 2009 Healthy Annuitant Mortality Table; projected using MP-2016 from 2009-2037
General Member Females	CalPERS 2009 Healthy Annuitant Mortality Table; projected using MP-2016 from 2009-2037
Safety Members	CalPERS 2009 Industrial Employees Mortality Table; projected using MP-2016 from 2009-2037

2. Disability

General Member Males	CalPERS 2009 Industrial Disability Mortality Table; projected using MP-2016 from 2009-2037
General Member Females	CalPERS 2009 Industrial Disability Mortality Table; projected using MP-2016 from 2009-2037
Safety Members	CalPERS 2009 Industrial Employees Mortality Table; projected using MP-2016 from 2009-2037

3. For Employee Contributions Rate Purposes

General Members	CalPERS 2009 projected using MP-2016 from 2009-2037
Safety Members	CalPERS 2009 projected using MP-2016 from 2009-2037

Statement of Current Actuarial Assumptions and Methods (Continued)

Active Member Mortality	CalPERS 2009 Healthy Annuitant Mortality Table; projected using MP-2016 from 2009-2037
Withdrawal Rates	Based upon the Experience Analysis as of 6/30/2016 (see Appendix B — Statement of Current Actuarial Assumptions.)
Disability Rates	Based upon the Experience Analysis as of 6/30/2016 (see Appendix B — Statement of Current Actuarial Assumptions.)
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/2016 (see Appendix B — Statement of Current Actuarial Assumptions.)
Vested Termination	Rates of vested termination apply to active members who terminate their employment after five years of service and leave their contribution with the plan. Vested terminated General Members are assumed to begin receiving benefits at 59; terminated Safety Members are assumed to begin receiving benefits at age 53. Assumed rates of reciprocity at termination depend on participant type and years of service, and are based on the Experience Analysis as of June 30, 2016.
Family Composition	50% of female General Members, 70% of male General Members, and 90% of Safety Members are assumed to be married at retirement. Male members are assumed to be three years older than their spouses.
Final Average Compensation Load	The final average compensation (FAC) for members projected to receive a service retirement benefit has been increased based on the assumption that members will have elements of pay included in their FAC which are not included in the annual pay provided to the Actuary (Ventura decision pays). The FAC for Tier 1 members has been increased by 6.92% and the FAC for Tier 2 and Tier 3 members by 2.31%.

C. Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each Member’s date of hire and assumed retirement. The Actuarial Liability is the difference between the present value of future benefits and the present value of future normal cost. The Unfunded Actuarial Liability (UAL) is the difference between the Actuarial Liability and the Actuarial Value of Assets.

The UAL is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases of 3% per year. The UAL as of June 30, 2013 is being amortized over a closed period of 16 years. Effective with the June 30, 2014 valuation, any new sources of UAL due to actuarial gains and losses or method changes is amortized over a closed 24-year period, with a 5-year ramp up period at the beginning of the period, a 4-year ramp down at the end of the period, and 15 years of level payments as a percentage of payroll. Assumption changes will be amortized over a closed 22-year period, with a 3-year ramp up period, 2-year ramp down period, and 17 years of level payments as a percentage of payroll.

D. Plan Description

A summary of plan provisions can is located in Note 1 of the **NOTES TO BASIC FINANCIAL STATEMENTS.**

Merced County Employees' Retirement Association

Probabilities of Separation from Active Service

GENERAL MEMBERS

Service Retirement – Male (by Service)			
Age	10-19 Yrs	20-29 Yrs	30+ Yrs
50	5.00%	10.00%	7.50%
55	10.00%	12.50%	27.00%
60	20.00%	25.00%	37.50%
65	35.00%	50.00%	40.00%
70	100.00%	100.00%	100.00%

Service	Withdrawals	Transfers	Vested Terminations
0-4	90.0%	10.0%	0.0%
5-14	40.0%	10.0%	50.0%
15+	10.0%	10.0%	80.0%

Service Retirement – Female (by Service)			
Age	10-19 Yrs	20-29 Yrs	30+ Yrs
50	2.50%	7.50%	25.00%
55	12.00%	25.00%	35.00%
60	15.00%	30.00%	35.00%
65	40.00%	50.00%	50.00%
70	100.00%	100.00%	100.00%

	Service-Connected Disability		Non-Service Connected Disability	
Age	Female	Male	Female	Male
20	0.0040%	0.0027%	0.0000%	0.0000%
30	0.0115%	0.0133%	0.0067%	0.0533%
40	0.0190%	0.0320%	0.0133%	0.0867%
50	0.0600%	0.0640%	0.0600%	0.1600%
60	0.1575%	0.1120%	0.1533%	0.2800%
65	0.0000%	0.0000%	0.0000%	0.0000%

SAFETY MEMBERS

Service Retirement (by Service)		
Age	10-19 Yrs	20+ Yrs
40-44	0.00%	3.10%
45-49	0.00%	7.60%
50	15.00%	32.90%
51-54	12.80%	32.90%
55-59	25.00%	32.90%
60+	100.00%	100.00%

	Active Member Mortality	
Age	Female	Male
20	0.0205%	0.0279%
30	0.0379%	0.0615%
40	0.0643%	0.0863%
50	0.1143%	0.1581%
60	0.2388%	0.3735%

Service	Withdrawals	Vested Terminations
0-4	90.0%	0.0%
5+	30.0%	45.0%

	Service Connected Disability	Non-Service Connected Disability
Age	(All)	(All)
20	0.0000%	0.0050%
30	0.2380%	0.0100%
40	0.5500%	0.0200%
50	0.9230%	0.0400%
60	3.0120%	0.1000%
65	3.6385%	0.1000%

RATES OF TERMINATION

Years of Service	General Male	General Female	Safety
0	22.5%	12.0%	20.8%
5	8.2%	7.5%	4.6%
10	4.5%	3.6%	4.6%
15	4.5%	3.0%	2.5%

Years of Service	General Male	General Female	Safety
20	4.5%	3.0%	0.0%
25	4.5%	3.0%	0.0%
30	0.0%	0.0%	0.0%

Note: Information compiled form Actuarial Report Prepared by Cheiron, Inc. dated June 30, 2017.

Merced County Employees’ Retirement Association

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Annual Salary
7/1/2008	General	1,921	$92,116,000	$47,952	7.75%
	Safety	339	$17,137,000	$50,552	5.20%
	Total	2,260	$109,253,000	$48,342	7.41%
7/1/2009	General	1,848	$99,266,589	$53,716	12.02%
	Safety	342	$19,363,697	$56,619	12.00%
	Total	2,190	$118,630,286	$54,169	12.05%
7/1/2010	General	1,708	$94,915,436	$55,571	3.45%
	Safety	330	$19,692,515	$59,674	5.40%
	Total	2,038	$114,607,951	$56,236	3.81%
7/1/2011					
	General	1,659	$94,976,978	$57,250	3.02%
	Safety	321	$19,768,859	$61,585	3.20%
	Total	1,980	$114,745,837	$57,952	3.05%
7/1/2012					
	General	1,596	$90,706,280	$56,834	-0.73%
	Safety	305	$19,145,091	$62,771	1.93%
	Total	1,901	$109,851,371	$57,786	-0.29%
7/1/2013					
	General	1,604	$91,737,348	$57,193	0.63%
	Safety	295	$18,699,145	$63,387	0.98%
	Total	1,899	$110,436,493	$58,155	0.64%
7/1/2014	General	1,624	$91,704,083	$56,468	-1.27%
	Safety	300	$18,620,870	$62,070	-2.08%
	Total	1,924	$110,324,953	$57,341	-1.40%
7/1/2015	General	1,664	$93,938,857	$56,454	-0.03%
	Safety	298	$18,397,233	$61,736	-0.54%
	Total	1,962	$112,336,090	$57,256	-0.15%
7/1/2016	General	1,729	$97,337,917	$56,297	-0.28%
	Safety	311	$19,394,922	$62,363	1.02%
	Total	2,040	$116,732,839	$57,222	-0.06%
7/1/2017	General	1,783	$102,498,328	$57,486	2.11%
	Safety	313	$20,136,323	$64,333	3.16%
	Total	2,096	$122,634,651	$58,509	2.25%

Note: Information compiled form Actuarial Report prepared by Cheiron, Inc. dated June 30, 2017. The data differs from the membership data in the notes to the financial statements due to timing differences and actuary changes in rounding of data.

Merced County Employees' Retirement Association

Schedule of Retirements and Beneficiaries Added to and Removed from Retiree Payroll
For Fiscal Years Ended June 30

Year	Beginning of Year	Added During Year	Allowances Added ($000)	Removed During Year	Allowances Removed ($000)	End of Year	Retiree Payroll ($000)	% Increase in Retiree Payroll	Average Annual Allowances
2008	1,620	105	$2,757	67	$902	1,658	$34,603	8.74%	$20,870
2009	1,658	105	$3,403	52	$813	1,711	$37,748	9.09%	$22,062
2010	1,711	171	$6,098	56	$981	1,826	$43,653	15.65%	$23,907
2011	1,826	103	$2,627	44	$781	1,885	$46,177	5.78%	$24,465
2012	1,885	175	$6,485	64	$960	1,996	$52,888	14.53%	$26,497
2013	1,996	103	$3,029	49	$856	2,050	$56,048	5.98%	$27,340
2014	2,050	116	$3,950	31	$591	2,135	$60,297	7.58%	$28,242
2015	2,135	100	$2,509	35	$720	2,200	$63,254	4.90%	$28,752
2016	2,200	68	$1,716	34	$946	2,234	$65,506	3.56%	$29,322
2017	2,234	85	$2,283	56	$1,023	2,263	$68,476	4.53%	$30,259

Note: The data differs from the membership data in the notes to the basic financial statements due to timing differences and rounding of data.

Solvency Test
For Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

	Actuarial Accrued Liabilities (AAL) For					Portion of Accrued Liabilities Covered by Reported Assets		
	1	2	3					
Valuation Date	Active Member Contributions	Retirees and Beneficiaries	Active Members Employer Portion	Actuarial Accrued Liabilities	Valuation Assets	1	2	3
2008	$66,865	$370,764	$254,623	$692,252	$488,347	100%	100%	20%
2009	$65,126	$448,231	$296,324	$809,681	$483,145	100%	93%	0%
2010	$64,917	$532,695	$333,220	$930,832	$509,561	100%	83%	0%
2011	$65,723	$558,483	$309,711	$933,917	$523,980	100%	82%	0%
2012	$66,407	$632,319	$276,882	$975,608	$528,728	100%	73%	0%
2013	$73,311	$694,137	$297,850	$1,065,298	$547,264	100%	68%	0%
2014	$75,582	$739,428	$281,231	$1,096,241	$657,325	100%	79%	0%
2015	$78,078	$765,738	$287,365	$1,131,181	$672,319	100%	78%	0%
2016	$81,880	$804,658	$314,657	$1,201,195	$670,016	100%	73%	0%
2017	$85,150	$834,643	$339,909	$1,259,702	$753,769	100%	80%	0%

Note: Information compiled form Actuarial Report prepared by Cheiron, Inc. dated June 30, 2017.

Merced County Employees’ Retirement Association

Actuarial Analysis of Financial Experience
For Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

Actuarial (Gains)/Losses						
Plan Year Ended	Asset Sources	Liability Sources	Total	Changes in Plan Provisions	Changes in Assumptions/ Methods	Total (Gains)/Loss
2008	$48,840	$(14,186)	$34,654	N/A	N/A	$34,654
2009	$66,987	$23,892	$90,879	N/A	N/A	$90,879
2010	$16,151	$8,100	$24,251	N/A	$63,410	$87,661
2011	$30,955	$(13,824)	$17,131	N/A	$(12,918)	$4,213
2012	$40,054	$11,401	$51,455	N/A	$(16,069)	$35,386
2013	$20,749	$4,199	$24,948	N/A	$49,294	$74,242
2014	$(22,058)	$(12,533)	$(34,591)	N/A	$(36,803)	$(71,394)
2015	$31,459	$(5,096)	$26,363	N/A	$7,636	$33,999
2016	$52,420	$(8,327)	$44,093	N/A	$41,488	$85,581
2017	$(34,498)	$2,720	$(31,778)	N/A	$18,639	$(13,139)

Schedule of Funding Progress
For Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Valuation Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Active Member Projected Payroll	Unfunded AL as a % of Covered Payroll
2008	$488,347	$692,252	$203,905	70.5%	$109,253	186.6%
2009	$483,145	$809,681	$326,536	59.7%	$114,984	284.0%
2010	$509,561	$930,832	$421,271	54.7%	$115,384	365.1%
2011	$523,980	$933,917	$409,937	56.1%	$111,342	368.2%
2012	$528,728	$975,608	$446,880	54.2%	$106,581	419.3%
2013	$547,264	$1,065,298	$518,034	51.4%	$115,983	446.6%
2014	$657,325*	$1,096,241	$438,916	60.0%	$115,939	378.6%
2015	$672,319*	$1,131,181	$458,862	59.4%	$117,822	389.5%
2016	$670,016*	$1,201,195	$531,179	55.8%	$123,018	431.8%
2017	$753,769*	$1,259,702	$505,933	59.8%	$129,624	390.3%

*Reflects change in asset valuation methodology from valuation value of assets to market value of assets effective for the 2014 actuarial valuation.

Note: Information compiled form Actuarial Report prepared by Cheiron, Inc. dated June 30, 2017.

Statistical Section

Merced County Employees' Retirement Association

The Statistical Section presents information pertaining to MCERA's operations on a multi-year basis. The financial and operating information provides contextual data for MCERA's fiduciary net position, benefits, refunds, and different types of retirement benefits. The data presented in this section was produced and compiled by the Association.

Additions by Source

Fiscal Year Ended	Employee Contributions	Employer Contributions	Employer % of Covered Payroll	Net Investment Income and Other Income	Total
6/30/2009	$ 9,916,305	$27,882,650	23.42%	$(105,689,276)	$(67,890,321)
6/30/2010	$ 9,864,161	$29,136,704	24.46%	$ 48,772,246	$ 87,773,111
6/30/2011	$ 9,754,849	$36,662,121	31.26%	$ 96,031,519	$142,448,489
6/30/2012	$10,416,301	$40,262,881	36.09%	$ (7,039,276)	$ 43,639,906
6/30/2013	$ 9,927,749	$43,783,663	40.03%	$ 61,083,399	$114,794,811
6/30/2014	$ 9,642,819	$48,032,338	43.40%	$ 96,219,056	$153,894,213
6/30/2015	$ 8,945,316	$52,005,656	47.22%	$ 19,318,849	$ 80,269,821
6/30/2016	$ 9,042,663	$56,617,088	49.50%	$ (388,209)	$ 65,271,542
6/30/2017	$ 9,384,621	$60,349,189	50.45%	$ 83,097,416	$152,831,226
6/30/2018	$10,441,876	$64,757,288	51.11%	$ 70,689,084	$145,888,248

Deductions by Type

Fiscal Year Ended	Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401(d) Distribution to County	Total
6/30/09	$36,478,886	$1,005,060	$ 61,795	$ 683,528	$ 77,275	$ 850,000	$39,156,544
6/30/10	$40,929,109	$1,170,605	$ 66,549	$ 673,160	$ -	$ 850,000	$43,689,423
6/30/11	$45,022,104	$1,189,030	$ 138,200	$ 766,692	$ -	$ 650,000	$47,766,026
6/30/12	$49,839,653	$1,180,083	$ 63,312	$ 1,051,526	$ -	$ 733,590	$52,868,164
6/30/13	$54,257,547	$1,496,338	$ 71,402	$ 1,082,050	$ -	$ -	$56,907,337
6/30/14	$57,338,930	$1,434,671	$ 112,676	$ 703,091	$ -	$ -	$59,589,368
6/30/15	$61,780,089	$2,197,281	$ 126,165	$ 1,171,835	$ -	$ -	$65,275,370
6/30/16	$63,928,672	$2,416,563	$ 76,121	$ 1,153,731	$ -	$ -	$67,575,087
6/30/17	$66,116,108	$1,966,898	$ 206,509	$ 788,207	$ -	$ -	$69,077,722
6/30/18	$69,836,223	$2,177,186	$ 106,210	$ 883,987	$ -	$ -	$73,003,606

Merced County Employees' Retirement Association

Schedules of Changes in Fiduciary Net Position

(Dollar Amount in Thousands)

Additions	**6/30/2018**	**6/30/2017**	**6/30/2016**	**6/30/2015**	**6/30/2014**
Plan members contributions	$10,442	$9,385	$9,043	$8,945	$9,643
Employer contributions	64,757	60,349	56,617	52,005	48,032
Net investment income/(loss)	70,689	83,097	(388)	19,319	96,219
Total additions	145,888	152,831	65,272	80,269	153,894
Deductions					
Benefits paid	69,836	66,116	63,929	61,780	57,339
Administrative expenses	2,177	1,966	2,417	2,197	1,435
Actuarial expenses	106	207	76	126	112
Refunds	884	788	1,154	1,172	703
401(h) distribution	-	-	-	-	-
Total deductions	73,003	69,077	67,576	65,275	59,589
Change in fiduciary net position	72,885	83,754	(2,304)	14,994	94,305
Net position restricted for pensions at beginning of the year	763,769	670,015	672,319	657,325	563,020
Net position restricted for pensions at end of the year	$826,654	$763,769	$670,015	$672,319	$657,325

Additions	**6/30/2013**	**6/30/2012**	**6/30/2011**	**6/30/2010**	**6/30/2009**
Plan members contributions	$9,928	$10,416	$9,754	$9,864	$9,916
Employer contributions	43,784	40,263	36,662	29,137	27,883
Net investment income/(loss)	61,083	(7,039)	96,032	48,772	(105,689)
Total additions	114,795	43,640	142,448	87,773	(67,890)
Deductions					
Benefits paid	54,258	49,839	45,022	40,929	36,479
Administrative expenses	1,496	1,180	767	673	761
Actuarial expenses	71	63	138	67	62
Refunds	1,082	1,052	1,189	1,171	1,005
401(h) distribution	-	734	650	850	850
Total deductions	56,907	52,868	47,766	43,690	39,157
Change in fiduciary net position	57,888	(9,228)	94,682	44,083	(107,047)
Net position restricted for pensions at beginning of the year	505,132	514,360	419,678	375,595	482,642
Net position restricted for pensions at end of the year	$563,020	$505,132	$514,360	$419,678	$375,595

Merced County Employees' Retirement Association

Schedules of Benefit Expenses by Type

(Total amount in Thousands)

	2018**	2017**	2016**	2015**	2014*	2013*	2012*	2011*	2010*	2009*
Service Retirement										
General	$50,551	$47,522	$46,126	$44,722	$41,442	$39,447	$35,897	$31,770	$28,665	$25,086
Safety	8,652	8,059	7,761	7,854	7,196	6,679	6,209	5,845	5,404	4,720
Total	$59,203	$55,581	$53,887	$52,576	$48,638	$46,126	$42,106	$37,615	$34,069	$29,806
Disability Retirement										
General	$2,032	$2,117	$1,953	$1,842	$2,600	$2,489	$2,230	$2,159	$2,154	$2,103
Safety	2,976	2,759	2,604	2,623	3,005	2,898	2,738	2,522	2,424	2,396
Total	$5,008	$4,876	$4,557	$4,465	$5,605	$5,387	$4,968	$4,681	$4,578	$4,499
Beneficiary/Survivor										
General	$3,808	$3,767	$3,667	$3,327	$2,346	$2,030	$2,035	$2,049	$1,762	$1,574
Safety	1,627	1,729	1,650	1,258	610	562	579	521	412	380
Total	$5,435	$5,496	$5,317	$4,585	$2,956	$2,592	$2,614	$2,570	$2,174	$1,954
Total payroll expense										
General	$56,391	$53,406	$51,746	$49,891	$46,387	$43,966	$40,162	$35,978	$32,581	$28,763
Safety	13,255	12,547	12,015	11,735	10,811	10,139	9,526	8,887	8,240	7,496
Total	$69,646	$65,953	$63,761	$61,626	$57,198	$54,105	$49,688	$44,865	$40,821	$36,259
Death Benefits										
General	$102	$111	$129	$84	$96	$96	$117	$81	$99	$179
Safety	18	12	15	18	18	12	9	-	9	41
Total	$120	$123	$144	$102	$114	$108	$126	$81	$108	$220
Separation Refund Expense										
General	$643	$674	$978	$1,033	$582	$985	$861	$729	$599	$562
Safety	241	114	176	139	121	97	190	37	74	122
Total	$884	$788	$1,154	$1,172	$703	$1,082	$1,051	$766	$673	$684
Active Death Expense										
General	$70	$40	$24	$51	$29	$44	$26	$82	$ -	$77
Safety	-	-	-	-	-	-	-	-	-	-
Total	$70	$40	$24	$51	$29	$44	$26	$82	$ -	$77

*In 2009, MCERA added separation refunds, death refunds, and death benefits. Prior to 2009, this information was not separately identified. The information was compiled from County of Merced Information Systems and CPAS. In 2011, MCERA changed death refund expense to active death expense to better identify expense for active member death.

**During the 2015 fiscal year, MCERA converted to the CPAS System. Because of differences in handling data, beneficiaries of disability retiree decedents are now grouped with Beneficiary/Survivors

Merced County Employees’ Retirement Association

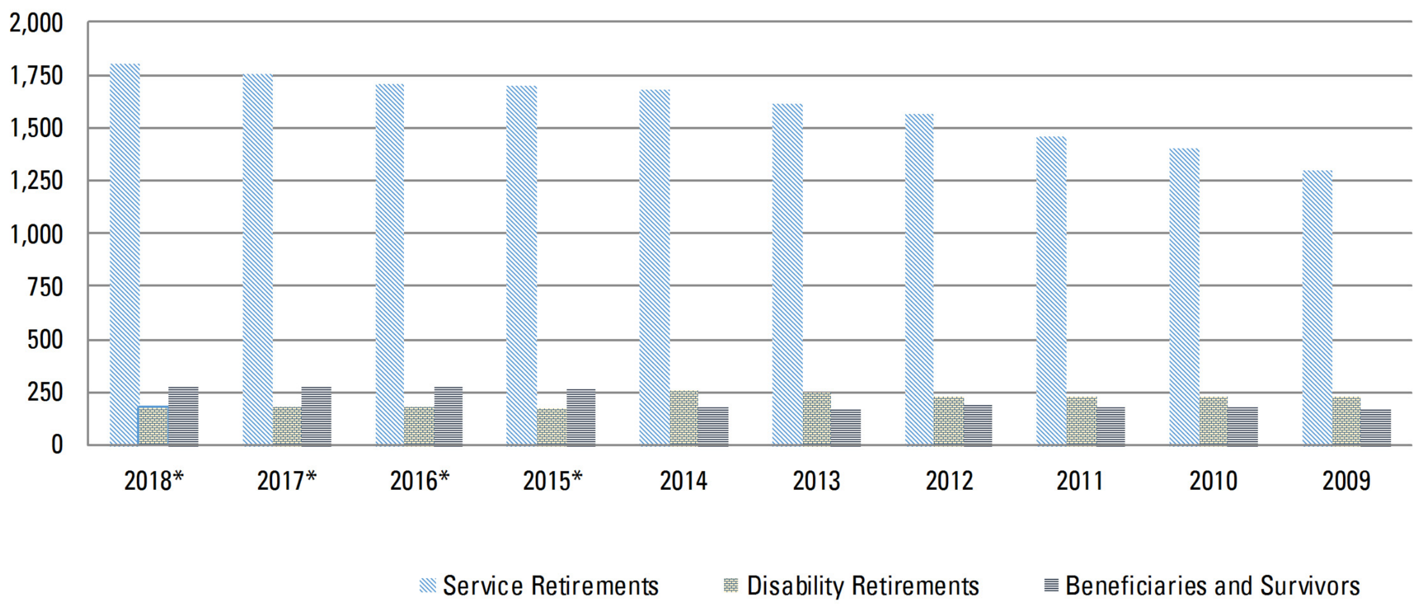
Schedule of Retired Members by Type of Benefit

(Summary of Monthly Allowances Being Paid-As of June 30, 2018)

	General Members		Safety Members		Total	
Type of Benefit	Number	Average Monthly Allowance	Number	Average Monthly Allowance	Number	Average Monthly Allowance
Service Retirement	1,612	2,698	194	$3,759	1,806	2,813
Disability	94	1,818	91	$2,793	185	2,297
Beneficiary/Survivor	231	1,354	52	$2,333	283	1,532
Total Retired Members	1,937	2,493	337	$3,283	2,274	2,610

This schedule excludes separation refunds and death refunds.

Ten Year Structure of Retiree Membership History



	2018*	2017*	2016*	2015*	2014	2013	2012	2011	2010	2009
Service Retirements	1,806	1,757	1,713	1,706	1,685	1,613	1,570	1,463	1,411	1,307
Disability Retirements	185	183	184	180	260	257	236	233	230	234
Beneficiaries and Survivors	283	285	286	276	187	176	192	187	185	172
Total	2,274	2,225	2,183	2,162	2,132	2,046	1,998	1,883	1,826	1,713

*During the 2014-2015 fiscal year, MCERA migrated to a new pension administration system. Beneficiaries of disability retirees are no longer classified as disability retirements. This has resulted in a re-proportioning of these numbers.

Merced County Employees' Retirement Association

Summary of Retired Membership

For Fiscal Years Ended June 30
(Basic Annual and Total Annual Allowance Dollars in Thousands)

	2018*	2017*	2016*	2015*	2014	2013	2012	2011	2010	2009
General										
Number	1,937	1,895	1,860	1,848	1,810	1,730	1,693	1,590	1,545	1,454
Basic annual allowance	$43,874	$41,930	$41,265	$40,316	$37,646	$35,885	$32,933	$29,232	$26,331	$22,771
Average basic monthly allowance	$1,888	$1,844	$1,849	$1,818	$1,733	$1,729	$1,621	$1,532	$1,420	$1,305
Total annual allowance**	$56,391	$53,406	$51,746	$49,891	$46,387	$43,966	$40,161	$35,978	$32,561	$28,712
Average total monthly allowance	$2,426	$2,349	$2,318	$2,250	$2,136	$2,118	$1,976	$1,886	$1,756	$1,646
Safety										
Number	337	330	323	314	322	316	305	293	281	259
Basic annual allowance	$9,783	$9,347	$9,086	$8,996	$8,279	$7,791	$7,379	$6,863	$6,401	$5,746
Average basic monthly allowance	$2,419	$2,360	$2,344	$2,387	$2,143	$2,054	$2,016	$1,952	$1,898	$1,849
Total annual allowance**	$13,255	$12,547	$12,015	$11,735	$10,811	$10,139	$9,527	$8,887	$8,240	$7,497
Average total monthly allowance	$3,278	$3,168	$3,100	$3,114	$2,798	$2,674	$2,603	$2,528	$2,444	$2,412
Total										
Number	2,274	2,225	2,183	2,162	2,132	2,046	1,998	1,883	1,826	1,713
Basic annual allowance	$53,657	$51,277	$50,351	$49,312	$45,925	$43,676	$40,312	$36,095	$32,732	$28,517
Average basic monthly allowance	$1,966	$1,920	$1,922	$1,901	$1,795	$1,779	$1,681	$1,597	$1,494	$1,387
Total annual allowance**	$69,646	$65,953	$63,761	$61,626	$57,198	$54,105	$49,688	$44,865	$40,801	$36,209
Average total monthly allowance	$2,552	$2,470	$2,434	$2,375	$2,236	$2,204	$2,072	$1,986	$1,862	$1,761

*As of 2015, divorcees will be excluded from Membership data as they are technically not members and only represent a party to a single split benefit.

**Total Annual Allowance includes COLA, and partial monthly payment/one-time catch up payment. Excludes death refunds, lump sum death benefits and separation refunds.

Merced County Employees' Retirement Association

Retired Members by Type of Retirement

As of June 30, 2018

Amount of Monthly Benefit	Number of Members	Type of Retirement* 1	2	3	4	5	6	7	Option Selected** U	1	2	3	4	SD
1-250	86	21	35	23	0	6	1	0	53	5	19	9	0	0
251-500	132	35	65	19	4	4	2	3	96	5	25	2	0	4
501-750	186	58	85	29	4	3	0	7	146	9	23	4	0	4
751-1,000	184	54	87	26	5	0	7	5	145	9	20	5	0	5
1,001-1,250	177	58	78	30	5	2	4	0	143	4	23	2	0	5
1,251-1,500	174	64	73	11	1	7	17	1	146	1	19	6	1	1
1,501-1,750	131	46	53	12	0	8	9	3	113	3	10	5	0	0
1,751-2,000	123	52	39	10	2	13	2	5	104	0	14	2	1	2
Over 2,000	1,081	502	401	50	6	96	4	22	940	29	77	21	8	6
	2,274	890	916	210	27	139	46	46	1,886	65	230	56	10	27

*Type of Retirement:
1-Normal retirement for age and service
2-Early retirement
3-Beneficiary payment, normal or early retirement
4-Beneficiary payment, death in service
5-Duty disability retirement
6-Non-duty disability retirement
7-Beneficiary payment, disability retirement

**Option Selected:
Unmodified Plan-Beneficiary receives 60% continuance

The following options reduce the retired member's monthly Benefit:

Option 1-Beneficiary receives lump sum or member's reduced allowance
Option 2-Beneficiary receives 100% of member's reduced allowance
Option 3-Beneficiary receives 50% of member's reduced allowance
Option 4-Multiple beneficiaries receive a designated percentage of a reduced allowance

The monthly benefit for the following option varies dependent upon multiple factors:

Option SD-Pre-retirement death in service

Merced County Employees' Retirement Association

Retired Members Average Benefit Payments

Last Ten Fiscal Years

	Years of Credited Service						
Retirement Effective Dates	**0-5**	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
Period 7/1/2017 to 6/30/2018							
Average monthly benefit	$309	$1,421	$1,432	$2,240	$4,202	$4,691	$4,969
Average final average salary	$6,936	$5,742	$4,324	$4,786	$6,713	$5,943	$5,639
Number of retired members	6	19	16	21	17	11	11
Period 7/1/2016 to 6/30/2017							
Average monthly benefit	$574	$1,044	$1,852	$1,657	$3,490	$4,866	$7,294
Average final average salary	$9,068	$6,544	$5,327	$4,073	$5,618	$6,112	$8,780
Number of retired members	11	15	19	18	13	6	3
Period 7/1/2015 to 6/30/2016							
Average monthly benefit	$212	$1,273	$2,067	$3,227	$2,997	$3,724	$4,669
Average final average salary	$7,449	$5,585	$6,322	$6,299	$4,703	$4,750	$4,875
Number of retired members	8	15	19	11	4	4	2
Period 7/1/2014 to 6/30/2015							
Average monthly benefit	$448	$1,083	$1,650	$2,434	$2,981	$3,438	$8,150
Average final average salary	$7,700	$5,994	$5,007	$5,401	$5,303	$4,903	$8,849
Number of retired members	10	11	28	17	14	5	3
Period 7/1/2013 to 6/30/2014							
Average monthly benefit	$426	$1,121	$1,634	$2,714	$4,018	$5,013	$5,992
Average final average salary	$8,946	$4,750	$4,587	$5,441	$6,527	$6,566	$7,088
Number of retired members	7	17	22	16	15	13	13
Period 7/1/2012 to 6/30/2013							
Average monthly benefit	$467	$1,240	$1,750	$2,183	$3,895	$4,201	$6,431
Average final average salary	$8,663	$6,466	$5,215	$4,591	$7,293	$5,695	$7,463
Number of retired members	4	11	24	15	9	8	6
Period 7/1/2011 to 6/30/2012							
Average monthly benefit	$612	$899	$1,359	$2,476	$3,958	$4,683	$6,166
Average final average salary	$9,507	$4,097	$3,953	$5,148	$6,270	$6,257	$7,060
Number of retired members	5	9	26	27	36	15	24
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	$805	$926	$1,120	$2,171	$3,693	$4,289	$8,010
Average final average salary	$8,545	$5,111	$4,042	$4,657	$5,715	$5,687	$8,180
Number of retired members	8	21	23	8	18	5	5
Period 7/1/2009 to 6/30/2010							
Average monthly benefit	$359	$1,247	$1,354	$2,831	$4,149	$4,563	$5,294
Average final average salary	$7,068	$6,819	$4,167	$5,713	$6,780	$6,148	$6,112
Number of retired members	7	14	25	24	31	15	22
Period 7/1/2008 to 6/30/2009							
Average monthly benefit	$485	$1,020	$1,321	$3,992	$4,521	$4,022	$6,335
Average final average salary	$7,668	$4,285	$4,545	$7,526	$7,935	$5,455	$7,172
Number of retired members	5	9	21	11	14	10	12

Merced County Employees' Retirement Association
Participating Employers and Active Members
Last Ten Fiscal Years

County of Merced	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General members	1,690	1,665	1,596	1,542	1,490	1,478	1,453	1,521	1,575	1,708
Safety members	320	320	311	300	298	294	306	322	331	342
Total County of Merced	2,010	1,985	1,907	1,842	1,788	1,772	1,759	1,843	1,906	2,050
Percentage of membership	93.88%	93.68%	93.39%	93.65%	93.56%	93.21%	92.53%	92.85%	93.07%	93.61%
Participating employers										
Merced Cemetery District	1	1	1	1	1	1	2	2	2	3
Percentage of membership	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.11%	0.10%	0.09%	0.13%
Transit Joint Powers Authority	-	-	-	-	-	-	1	3	3	-
Percentage of membership	-	-	-	-	-	-	0.05%	0.15%	0.14%	-
Merced Superior Court	130	133	129	118	112	115	126	137	137	137
Percentage of membership	6.07%	6.28%	6.32%	6.00%	5.86%	6.05%	6.63%	6.90%	6.33%	6.01%
Regional Waste Mgt Authority	-	-	5	6	10	13	13	-	-	-
Percentage of membership	-	-	0.24%	0.31%	0.52%	0.68%	0.68%	-	-	-
Total Active Membership										
General	1,821	1,799	1,731	1,667	1,613	1,607	1,595	1,663	1,717	1,848
Safety	320	320	311	300	298	294	306	322	331	342
Total	2,141	2,119	2,042	1,967	1,911	1,901	1,901	1,985	2,048	2,190

Merced County Employees' Retirement Association
3199 M Street
Merced, CA 95326
209.726.2724
www.co.merced.ca.us/2145/retirement