

Merced County Employees' Retirement Association

A Pension Trust Fund of the County of Merced, California

MCERA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Merced, California



Comprehensive Annual
Financial Report

For the years ended June 30, 2005 and 2004

Issued By

Maria L. Arevalo
Plan Administrator

Gale Garcia
Fiscal Operations

MCERA
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
3199 M Street
Merced, CA 95348



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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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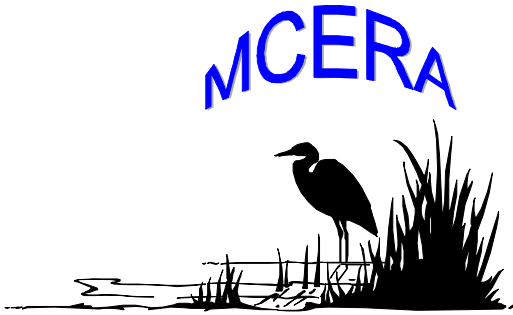
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Introductory Section



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**MERCED COUNTY EMPLOYEES' RETIREMENT
ASSOCIATION**

**3199 "M" Street
Merced, California 95348
Telephone 209-725-3636
Fax 209-725-3637**

**Maria L. Arevalo
Plan Administrator**

LETTER OF TRANSMITTAL

September 1, 2005

Dear Board Members:

As the Administrator of the Merced County Employees' Retirement Association (MCERA), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005 and 2004.

The Comprehensive Annual Financial Report (CAFR)

The **Introductory Section** describes MCERA's management and organizational structure; identifies the members of the MCERA Board of Retirement (the Board); provides a listing of the professional consultants utilized by MCERA; and presents this Letter of Transmittal.

The **Financial Section** presents the report of the independent auditor, Brown Armstrong Paulden McCown Starbuck & Keeter Accountancy Corporation, along with MCERA management's discussion and analysis of MCERA's financial statements and supplementary financial information; and the financial statements, explanatory notes and supplementary schedules themselves.

The **Investment Section** contains a report on MCERA's investment performance from MCERA's investment consultant, Milliman USA, along with information regarding MCERA's investment policies, asset allocation, investment holdings and investment management fees.

The **Actuarial Section** communicates MCERA's funding status, and presents other actuarial-related information, including the certification of MCERA's actuary, Buck Consultants.

The **Statistical Section** presents information pertaining to MCERA's operations on a multi-year basis.

The accuracy of the data and the completeness and fairness of the presentation of the CAFR, including all disclosures, is the responsibility of MCERA management.

LETTER OF TRANSMITTAL (Continued)

The discussion that follows serves as a brief introduction to and overview of the information contained in the sections of the CAFR noted above.

MCERA and its Services

The Merced County Employees' Retirement Association is a public employee retirement system established by the County of Merced on July 1, 1950. MCERA is administered by the Board of Retirement to provide retirement, disability, death, and survivor benefits for eligible employees of the County of Merced, Superior Court of California, County of Merced and the Merced Cemetery District pursuant to the California Constitution, the County Employees' Retirement Law of 1937 (Government Code Sections 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 of Retirement is responsible for the general management of the retirement system, including making benefit determinations and managing the investment of the system'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; two elected by the active general membership, one elected by the active safety membership, one 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 year ended June 30, 2005 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 year.

The audit of MCERA's financial statements has been performed by an independent auditor, Brown Armstrong Paulden McCown Starbuck & Keeter Accountancy Corporation, who has attested that the financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. MCERA's management is responsible for establishing and maintaining the internal control structure designed to ensure that MCERA's assets are protected from loss, theft or misuse. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

MCERA's financial statements were prepared using the accrual basis of accounting, which recognizes revenue when earned and liabilities when they are incurred, regardless of when payment

LETTER OF TRANSMITTAL (Continued)

is due or made. The *Statement of Plan Net Assets* is a point in time presentation of account balances as of the fiscal year end. It indicates the assets available for future payments to retirees and any current liabilities. The *Statement of Changes in Plan Net Assets* presents the current year additions and deductions to the retirement plan. Both statements comply with the pronouncements of the Governmental Accounting Standard Board (GASB), which require certain disclosures and methods of accounting. The *Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition, the *Required Supplementary Schedules* and supporting *Notes to Required Supplementary Schedules* provide information concerning the retirement system's progress in funding its obligation to provide pension benefits to MCERA members. Finally, the *Other Supplementary Schedules* present information concerning MCERA's operations on a multi-year basis.

The information in these financial statements, schedules and supporting notes regarding the retirement system's net assets held in trust to pay pension benefits is generally considered to be a good measure of the retirement system's financial position. Over time, increases or decreases in the retirement system's net assets is one indicator of whether the system's financial health is improving or deteriorating. Other factors however, such as investment market conditions, should also be considered in measuring the retirement system's overall health.

As of June 30, 2005, MCERA's net assets held in trust totaled approximately \$419.1 million reflecting an increase of approximately \$22.4 million (approximately 5.6%) over the net assets held in trust at the end of the previous fiscal year. This increase was primarily due to a modest upturn in the investment markets as explained more fully in the report of MCERA's investment consultant, which is located in the Investment Section of this CAFR.

Actuarial Funding Status

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

Pursuant to provisions in the 1937 Act, MCERA engages an independent actuarial firm to perform actuarial valuations of the system. As part of the valuation, economic assumptions are reviewed regularly. In addition, every three years a triennial experience study of the MCERA membership is conducted and non-economic assumptions are modified as necessary. The most recent actuarial and triennial valuation as of June 30, 2004, found the retirement system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 80.8%

LETTER OF TRANSMITTAL (Continued)

Investments

The Board of Retirement has exclusive control of all investments of the retirement system 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 carrying out its investment responsibilities, the Board receives guidance from a professional investment consultant, Milliman USA.

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 defines the principal duties of the Board, MCERA's custodian bank and MCERA's 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 can be found 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 professionals who provide services to MCERA can be found on page 15 of this CAFR.

For the fiscal year ending June 30, 2005, investments provided a 9.5% rate of return. MCERA's annualized rate of return over the last three and five years was 9.4% and 3.9% , respectively.

Service Efforts and Accomplishments

The Merced County Board of Supervisors adopted enhanced retirement benefits for county employees pursuant to Government Code Sections 31676.17 and 31664.1. Prior to the adoption of the benefits, commonly known as 3% at 50 for Tier I & Tier II safety members and 3% @ 60 for general members, the Board of Supervisors reviewed various actuarial studies of the cost and implementation of the new benefit levels. The new benefit levels were adopted on March 15, 2005 for general members and will become effective July 1, 2005 for safety members. The Superior Court, Merced County is presently in the process of adopting similar benefit levels.

LETTER OF TRANSMITTAL

(Continued)

MCERA has also installed the necessary software to implement a new imaging program for the electronic storage of member files and documents. The new program will eliminate the need for excessive paper retention and will improve the accessibility of records.

Also in the last year, the MCERA Retirement Board, pursuant to its investment policy, undertook a search for private equity after approving a 5% asset allocation to this investment class. The Board selected Invesco Private Capital, Adams Street Partners, LLC, and Pantheon Ventures, Inc. as managers for this investment allocation.

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, 2004. 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 principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is MCERA's first 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 the MCERA staff and I thank them for their hard work. I would also like to express my appreciation to MCERA's professional consultants – particularly our actuary, our investment consultant and our auditors – for their generous and invaluable assistance. Finally, I would like to express my gratitude to the Board of Retirement for its leadership and commitment to the highest fiduciary standards.

Respectfully submitted,



Maria L. Arevalo
Plan Administrator

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, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

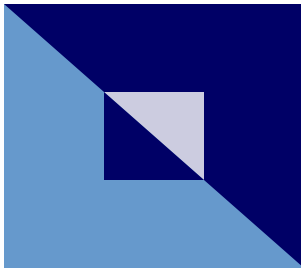


Nancy L. Zjelle

President

Jeffrey R. Egan

Executive Director



**MERCED COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

BOARD OF RETIREMENT AT JUNE 30, 2005

TRUSTEES

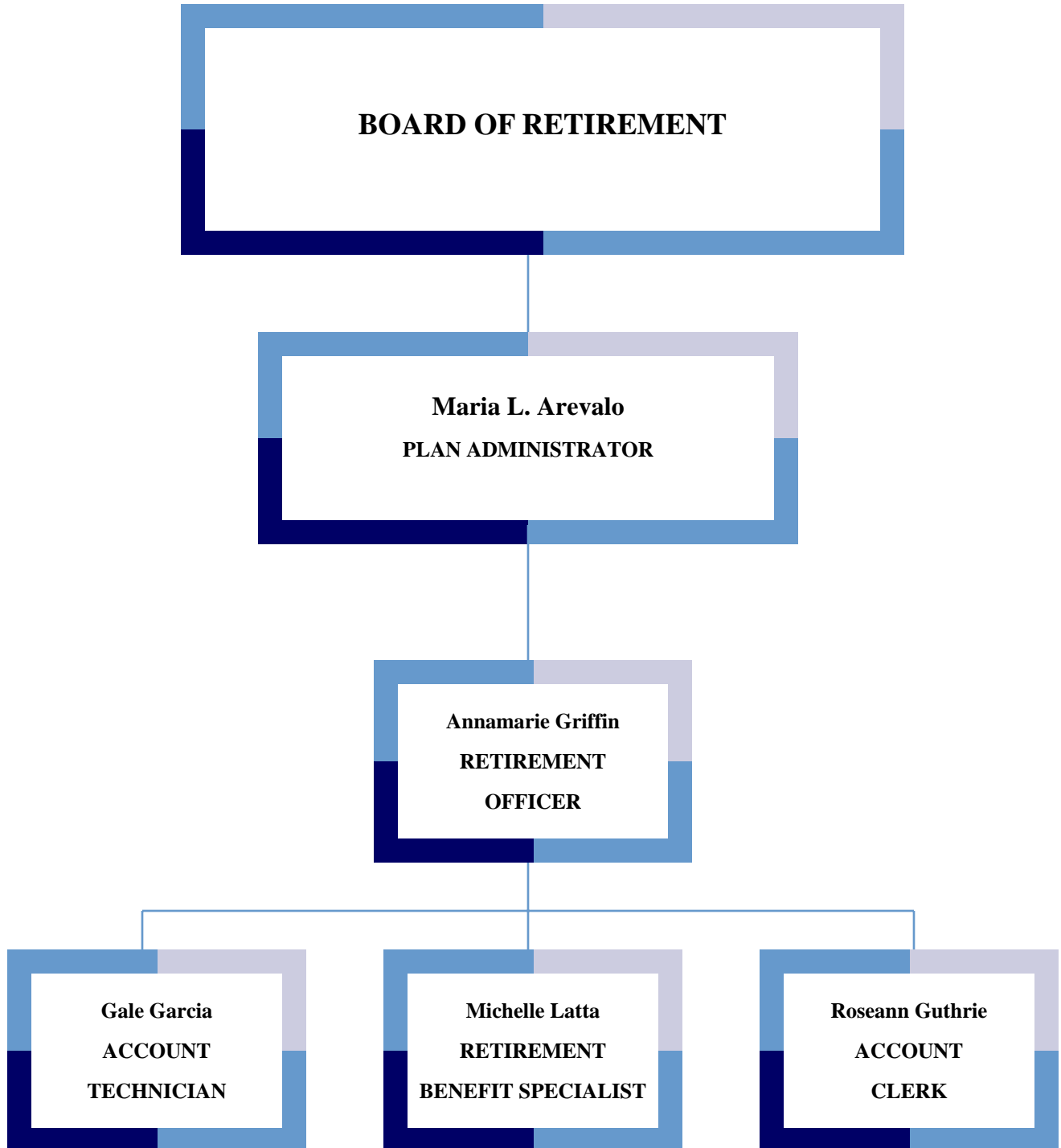
APPOINTED/ELECTED

TERM EXPIRES

LeRoy Gilsdorf (Chairman)	Elected by Retired Members	January 1, 2006
Karen Rodriguez Human Services Agency	Elected by General Members	July 1, 2007
Karen Adams	County Treasurer	January 1, 2007
Donald Washburn (Vice-Chairman)	Elected by General Members	July 1, 2006
Kathleen Crookham County Supervisor	Appointed by County Board of Supervisors	July 1, 2007
Janey Cabral	Appointed by County Board of Supervisors	July 1, 2006
Ralph Busby	Appointed by County Board of Supervisor	January 1, 2006
Jim Lindsey	Appointed by County Board of Supervisors	July 1, 2005
Ken Thurman County Sheriff's Department	Elected by Safety Members	January 1, 2006

**MERCED COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

ORGANIZATION CHART AT JUNE 30, 2005





**MERCED COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

LIST OF PROFESSIONAL CONSULTANTS AT JUNE 30, 2005

CONSULTING SERVICES

INVESTMENT CONSULTANT

Milliman USA

ACTUARY

Buck Consultants

AUDITOR

**Brown Armstrong Paulden
McCown Starbuck & Keeter
Accountancy Corporation**

CUSTODIAN

The Bank Of New York

DATA PROCESSING

**County Information
Management Systems**

LEGAL COUNSEL

**County Counsel of Merced County
Mason, Robbins, Gnass & Browning**

MEDICAL ADVISOR

Dr. Theresa Smith

INVESTMENT SERVICES

FIXED INCOME

**Lehman Brothers Asset Management
Deutsche Asset Management**

REAL ESTATE

**UBS Global Asset Management
PaineWebber Limited Partnership**

DOMESTIC EQUITY

**Delta Asset Management
Earnest Partners, LLC
Mellon Capital Management
Wasatch Advisors
Wentworth, Hauser & Violich**

INTERNATIONAL EQUITY

Invesco Global Asset Management

PRIVATE EQUITY

**Invesco Private Capital
Adams Street Partners, LLC
Pantheon Ventures, Inc.**

COMMISSION RECAPTURE BROKERS

**Donaldson & Co.
Lynch, Jones & Ryan
BNY ESI & Co.**



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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Financial Section



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**BROWN ARMSTRONG
PAULDEN McCOWN STARBUCK & KEETER**
CERTIFIED PUBLIC ACCOUNTANTS

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971 Fax 661-324-4997
e-mail: barrinfo@barrepa.com

Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661-746-2145 Fax 661-746-1218

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Harvey J. McCown, MBA, CPA
Steven R. Starbuck, CPA
Aileen K. Keeter, CPA
Chris M. Thornburgh, CPA

INDEPENDENT AUDITOR'S REPORT

Eric H. Xin, MBA, CPA
Lynn R. Krausse, CPA, MST
Bradley M. Hankins, CPA
Thomas M. Young, CPA
Rosalva Flores, CPA
Connie M. Perez, CPA
Sharon Jones, CPA, MST
Diana Branthoover, CPA
Matthew Gilligan, CPA
Terri Swan, CPA
Dominic Brown, CPA
Ryan Johnson, CPA

To the Members of the
Merced County Employees' Retirement Association

We have audited the accompanying statement of plan net assets of the Merced County Employees' Retirement Association (MCERA) as of June 30, 2005 and 2004 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of MCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Merced County Employees Retirement Association as of June 30, 2005 and 2004 and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2H to the financial statements, in 2005, MCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*.

The management's discussion and analysis as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of MCERA. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of MCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Paulden", is written over the printed name of the firm.

Bakersfield, California
September 1, 2005

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) for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the Letter of Transmittal.

Financial Highlights

- At the close of the fiscal year, MCERA's net assets held in trust for the payment of pension benefits totaled \$419,146,455. All plan net assets are available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.
- Over the fiscal year, MCERA's total net assets held in trust for pension benefits increased by \$22,362,764 (an increase of 5.6%).
- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2004, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 80.8%. In general, this indicates that for every one dollar of benefits due, MCERA has slightly more than \$.80 of assets available for payment.
- Additions to Plan Net Assets for the year were a positive \$48,355,942, which includes member and employer contributions of \$13,515,440 and a net investment gain of \$34,840,502.
- Deductions in Plan Net Assets increased from \$24,437,083 in the last fiscal year to \$25,993,178 in the current fiscal year (an increase of approximately 6.4%).

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to MCERA's basic financial statements, which are comprised of these components:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Basic Financial Statements
4. Required Supplementary Schedules
5. Other Supplementary Schedules

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The *Statement of Plan Net Assets* is a point in time picture of account balances as of the fiscal year end. It indicates the assets available for future payments to retirees and any current liabilities.

The *Statement of Changes in Plan Net Assets*, on the other hand, provides a view of the current year additions to and deductions from the retirement plan.

Both financial statements are in compliance with the accounting principles and reporting guidelines set forth in Governmental Accounting Standards Board (GASB) Statements 25, 26, 28, 33 and 34. These pronouncements require certain disclosures, and also require that state and local governments report using the full accrual method of accounting. MCERA complies with all material requirements of these pronouncements.

The two 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, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. All investment gains or losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments. All capital assets are depreciated over their useful lives.

The information reported in these two financial statements regarding the retirement system's net assets held in trust to pay pension benefits is generally considered to be a good measure of the retirement system's financial position. Over time, increases or decreases in the retirement system's net assets is one indicator of whether the system's financial health is improving or deteriorating. Other factors however, such as investment market conditions, should also be considered in measuring the retirement system'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 concerning MCERA's funding status. The *Required Supplementary Schedules* include the Schedule of Funding Progress and Schedule of Employer Contributions. The Schedule of Funding Progress provides historical information about the actuarial funding status of the plan and reflects the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Employer Contributions provides historical information about annual required contributions of the employer and the actual contributions made. Together, these schedules and the supporting *Notes to Required Supplementary Schedules* provide information to help promote understanding of the changes in the funding status of the plan over time. Finally, the *Other Supplementary Schedules* represent information concerning MCERA's operations on a multi-year basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of MCERA's financial position. At the close of the fiscal year, MCERA's assets exceeded its liabilities by \$419,146,455. All of the net assets are available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.

Plan net assets as of June 30, 2005 totaled \$419.1 million which is \$22.3 million or 5.6% more than the prior year. This result essentially reflects the 4.4% increase in the balance of MCERA's investments during 2005. Plan net assets had increased 8.8% in 2004 due to the stock market rebound that year.

The increase in plan net assets is a direct result of strict adherence to MCERA's Investment Guidelines, Policies, and Procedures. The disciplined approach, combined with the asset allocation and rebalancing program adopted by MCERA's Board, have enabled MCERA to maximize any upturns in the Market. Much like the past few years, the investment markets were quite volatile during the year, with investment performance varying widely from quarter to quarter. Despite these market fluctuations, MCERA's management and actuary concur that MCERA remains in a solid financial position to meet its obligations to the plan participants and beneficiaries. MCERA's sound financial position is a result of a prudently diversified investment program designed to maximize the return on invested assets while minimizing risk exposure. More detailed information is available in the investment section.

MCERA's Net Assets for the Years Ended June 30, 2005 and 2004

	2005	2004	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and Other Assets	\$ 22,016,476	\$ 21,750,577	\$ 265,899	1.2%
Investments at Fair Value	410,750,152	393,560,050	17,190,102	4.4%
Fixed Assets	28,551	36,434	(7,883)	-21.6%
Total Assets	432,795,179	415,347,061	17,448,118	4.2%
Current Liabilities	13,648,724	18,563,370	(4,914,646)	-26.5%
Total Liabilities	13,648,724	18,563,370	(4,914,646)	-26.5%
Net Assets	\$ 419,146,455	\$ 396,783,691	22,362,764	5.6%

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

MCERA's Net Assets for the Years Ended June 30, 2004 and 2003

	2004	2003	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and Other Assets	\$ 21,750,577	\$ 15,817,812	\$ 5,932,765	37.5%
Investments at Fair Value	393,560,050	365,259,126	28,300,924	7.75%
Fixed Assets	36,434	44,317	(7,883)	(17.7)%
Total Assets	415,347,061	381,121,255	34,225,806	8.9%
Current Liabilities	18,563,370	16,615,223	1,948,147	11.7%
Total Liabilities	18,563,370	16,615,223	1,948,147	11.7%
Net Assets	\$ 396,783,691	\$ 364,506,032	\$ 32,277,659	8.8%

Reserves

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. MCERA previously implemented GASB Statement 25, which impacted the reserve accounts and the amount of interest credited to reserve accounts. Under GASB Statement 25, investments are stated at fair value instead of 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. As a result of the modest upturn in the investment markets (and the corresponding increase in the fair value of MCERA's investments), the Market Value Fluctuation Reserve increased by \$20,076,440 in the current fiscal year, resulting in a positive closing balance of \$66,069,509. The investment performance was positive in the current fiscal year (approximately 9.5% before fees).

MCERA's Reserves for the Years Ended June 30, 2005, 2004, and 2003

	2005	2004	2003
Active Member Reserves	\$ 49,161,941	\$ 48,707,821	\$ 48,378,964
Employer Advance Reserves	73,309,666	86,260,253	91,368,990
Retired Member Reserves	219,322,395	204,267,473	198,758,208
Ad-Hoc COLA Reserve	1,553,241	1,544,447	1,541,975
Interest Fluctuation Reserve	-	-	-
Market Value Fluctuation Reserve	66,069,509	45,993,069	13,293,506
Medical Insurance Trust	2,610,752	5,301,792	7,519,329
Contingency Reserve	4,327,952	3,967,837	3,645,060
Internal Revenue Code (IRC) Section 401(h)	2,790,999	740,999	-
Total Reserves at Fair Value	\$ 419,146,455	\$ 396,783,691	\$ 364,506,032

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

MCERA's Activities

A modest upturn in the investment markets resulted in a June 30, 2005 fiscal year increase of \$22,362,764 in MCERA's net assets (an increase of approximately 5.6% from the previous year). The key elements of this increase is in direct relationship with the following changes in plan net assets.

Changes in Net Assets

A. Additions to Plan Net Assets

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 Plan Net Assets for the current fiscal year totaled a positive \$48,355,942, primarily due to investment gains. Overall, revenues for the fiscal year were down \$8,358,800 (approximately 14.7%) from the fiscal year ended June 30, 2004, for similar reasons. In the 2003-2004 fiscal year, investment gains resulted in a positive \$56,714,742 in total revenue, which was an increase of \$29,258,288 from the total revenue in the 2002-2003 fiscal year. Employer contributions increased in the current fiscal year due to investment returns that were below the corresponding actuarial assumed rate of return. Employee contributions increased in part, due to enhanced benefit levels. The Investment Section of this report provides a more detailed review of the investment markets and investment performance for the current fiscal year.

Additions to Plan Net Assets
(For the Years Ended June 30, 2005 and 2004)

	2005	2004	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employer Contributions	\$ 8,930,842	\$ 7,268,826	\$ 1,662,016	22.9%
Member Contributions	4,584,598	3,347,455	1,237,143	37%
Net Investment Income/(Loss)	34,840,502	46,098,461	(11,257,959)	-24.4%
Total Additions	\$ 48,355,942	\$ 56,714,742	\$ (8,358,800)	(14.7)%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Additions to Plan Net Assets
(For the Years Ended June 30, 2004 and 2003)

	2004	2003	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employer Contributions	\$ 7,268,826	\$ 7,200,728	\$ 68,098	.9%
Member Contributions	3,347,455	3,298,317	49,138	1.4%
Net Investment Income/(Loss)	46,098,461	16,957,409	29,141,052	171.8%
Total Additions	\$ 56,714,742	\$ 27,456,454	\$ 29,258,288	106.5%

B. Deductions from Plan Net Assets

MCERA was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan; refunds of contributions to terminated employees; and the cost of administering the retirement system.

Deductions for the current fiscal year totaled \$25,993,178, an increase of 6.4% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew approximately 12% due to an increase in the number and average amount of benefits paid to retirees. There was a slight decrease in administrative cost due to a plan administrator vacancy.

Deductions in Plan Net Assets
(For the Years Ended June 30, 2005 and 2004)

	2005	2004	Increase/ (Decrease) Amount	Increase/ (Decrease) Per- cent
Retiree Payroll	\$ 24,069,742	\$ 21,498,606	\$ 2,571,136	12%
Administrative Expenses	602,451	830,439	(227,988)	(27.5)%
Refunds of Contributions	409,034	349,488	59,546	17%
Retiree Health Insurance	850,000	1,758,550	(908,550)	(51.7)%
Actuarial Expense	61,951	-	61,951	100%
Total Deductions	\$ 25,993,178	\$ 24,437,083	\$ 1,556,095	6.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Deductions in Plan Net Assets
(For the Years Ended June 30, 2004 and 2003)

	2004	2003	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retiree Payroll	\$ 21,498,606	\$ 19,345,829	\$ 2,152,777	11.1%
Administrative Expense	830,439	820,341	10,098	1.2%
Refunds of Contributions	349,488	498,749	(149,261)	(29.9)%
Retiree Health Insurance	1,758,550	-	1,758,550	100.0%
Actuarial Expense	-	-		
Total Deductions	\$ 24,437,083	\$ 20,664,919	\$ 3,772,164	18.2%

MCERA's Fiduciary Responsibilities

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

Requests for Information

This financial report is designed to provide the Retirement Board, the MCERA membership, taxpayers, investment managers and creditors 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
3199 M Street
Merced, California 95348

Respectfully submitted,



Maria L. Arevalo
Plan Administrator

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

STATEMENT OF PLAN NET ASSETS

As of June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 15,708,360	\$ 14,903,752
Receivables:		
Other	5,175	—
Bond Interest	1,035,337	1,286,353
Stock Dividends	160,823	131,751
Contributions	937,532	512,998
Securities Sold	4,169,249	4,915,723
Total Receivables	<u>6,308,116</u>	<u>6,846,825</u>
Investments at Fair Value:		
Bonds U.S. Government	70,123,894	76,722,296
Bonds U.S. Corporate	60,072,558	60,560,855
Common Stocks (Individual Equities)	169,817,224	157,186,367
Invesco (International Equity Fund)	35,024,262	31,124,795
Mellon Capital Mgmt (Index Fund)	45,973,407	42,661,155
UBS Real Estate Separate Account (RESA)	28,132,565	24,761,454
Alternative Investments	1,131,242	68,128
Direct Real Estate Investment	475,000	475,000
Total Investments	<u>410,750,152</u>	<u>393,560,050</u>
Property, Fixtures, and Equipment		
Net of Accumulated Depreciation of \$34,513 and \$26,630 respectively	<u>28,551</u>	<u>36,434</u>
Total Assets	<u>432,795,179</u>	<u>415,347,061</u>
<u>LIABILITIES</u>		
Accounts Payable	1,219,946	1,182,601
Securities Purchased	12,386,414	17,337,586
Unclaimed Contributions	42,364	43,183
Total Liabilities	<u>13,648,724</u>	<u>18,563,370</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 419,146,455</u>	<u>\$ 396,783,691</u>

(A Schedule of Funding Progress for pension benefits is presented on page 50)

The accompanying notes are an integral part of these financial statements

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>ADDITIONS</u>		
Contributions:		
Employer	\$ 8,930,842	\$ 7,268,826
Plan Members	4,584,598	3,347,455
Total Contributions	13,515,440	10,616,281
Net Appreciation in Fair Value of Investments	20,076,440	32,699,563
Partnership Income	4,196	(308)
Investment Income	16,992,698	15,286,215
Other Revenue	58,442	118,412
Less Investment Expenses	(2,291,274)	(2,005,421)
Net Investment Income	34,840,502	46,098,461
Total Additions	48,355,942	56,714,742
<u>DEDUCTIONS</u>		
Post Employment Health Subsidies	850,000	1,758,550
Benefits	24,069,742	21,498,606
Refunds of Contributions	409,034	349,488
Actuarial Expense	61,951	—
Administrative Expense	602,451	830,439
Total deductions	25,993,178	24,437,083
Net increase	22,362,764	32,277,659
Net assets held in trust for pension benefits at beginning of year	396,783,691	364,506,032
End of year	\$ 419,146,455	\$ 396,783,691

The accompanying notes are an integral part of these financial statements

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

1. PLAN DESCRIPTION

A. General Information

The Merced County Employees' Retirement Association (MCERA or the System) 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 retirement system was voter approved by a greater than 2/3 majority of the electorate of Merced County (The County). The System was integrated with Social Security on January 1, 1956. Members of the System at that time had a one-time option to convert to the new System or remain in the previous System. MCERA administers a cost sharing, multiple-employer defined benefit pension plan (the Plan). MCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

The management of the retirement system MCERA is vested in a Board of Retirement that consists of nine members:

1. County Treasurer
2. Two elected general members
3. One member of the County Board of Supervisors
4. Three members appointed by the County Board of Supervisors who are not affiliated with county government
5. One elected retired member
6. One elected safety member

Day to day management of MCERA is vested in a Plan Administrator who is appointed by and serves at the pleasure 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 Sections 31450 et seq., and the California Constitution.

B. Membership Structure

(1) *General*

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-

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

time positions within the Merced County, Superior Court, County of Merced, and the Merced Cemetery District. Newly hired persons age 60 and over and elected officials may waive membership in the retirement system.

(2) *Multi-Tier Benefits*

All employees hired prior to June 13, 1994, and all executive "A" Level management (i.e., appointed and elected unrepresented managers per Amendment to County Board of Supervisors Resolution 94-89, effective July 1, 2000) are members of 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.

The County Board of Supervisors adopted a new retirement tier (Tier II) for both General and Safety members hired after June 13, 1994. Benefits for members under Tier II are based on 3 years final average salary and are not eligible for post-retirement cost of living adjustments.

The structure of the membership on June 30, 2005 was as follows:

	GENERAL		SAFETY		TOTAL
	Tier 1	Tier 11	Tier 1	Tier 11	
<u>Active Members</u>					
Vested	593	555	109	55	1,312
Non-Vested	19	767	2	130	918
<u>Inactive Members</u>					
Deferred and Inter-System Members	283	104	57	16	460
Unclaimed	9	22	1	-	32
TOTAL MEMBERS	904	1,448	169	201	2,722
<u>Retired Members</u>					
Service Retirements	965	6	102	-	1,073
Beneficiaries	128	-	19	-	147
Service Connected Disability	73	1	86	3	163
Non-service Connected Disability	61	4	4	-	69
Survivors	19	-	5	-	24
TOTAL RETIRED MEMBERS	1,246	11	216	3	1,476

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

The structure of the membership on June 30, 2004 was as follows:

	GENERAL		SAFETY		TOTAL
	Tier I	Tier II	Tier I	Tier II	
<u>Active Members</u>					
Vested	671	442	121	31	1,265
Non-Vested	19	752	-	122	893
<u>Inactive Members</u>					
Deferred and Inter-System Members	294	94	55	13	456
Unclaimed	9	23	1	-	33
TOTAL MEMBERS	993	1,311	177	166	2,647
<u>Retired Members</u>					
Service Retirements	914	2	96	-	1,012
Beneficiaries	125	-	18	-	143
Service Connected Disability	74	-	84	3	161
Non-service Connected Disability	64	4	4	-	72
Survivors	21	-	7	-	28
TOTAL RETIRED MEMBERS	1,198	6	209	3	1,416

C. Benefit Provisions

(1) *Service Retirement Benefit*

Members with ten years of service and who have attained the minimum age of 50 (age 55 for General Tier II) are eligible to receive a lifetime monthly retirement benefit. A member with 30 years of service (20 years for Safety), regardless of age is eligible for retirement benefits. Members who are at least 70 years of age are eligible to retire, regardless of years of service. The service retirement benefit is a percentage of monthly final average salary per year of service, depending on age at retirement. For members integrated with Social Security, the benefit is reduced by 1/3 of the percentage multiplied by the first \$350 of monthly final average salary, per year of service credited after January 1, 1956. The actual benefit paid will also be affected by the benefit payment option selected by the member.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

The County Board of Supervisors adopted enhanced benefits for all County General members (Tier I and Tier II), Resolution No. 2005/37 on March 15, 2005. The enhanced benefits do not apply to County members who, on March 15, 2005 were deferred, reciprocal or a Merced County Cemetery District employee. Superior Court of California, County of Merced members have initiated the process of acquiring similar enhanced benefits.

Percentage of Final Average Salary for Each Year of Service (Rounded)				
Retirement Age	Tier I		Tier II	
	General	Safety	General	Safety
50	2.00%	2.00%	-	2.00%
55	2.50%	2.62%	2.50%	2.62%
60+	3.00%	2.62%	3.00%	2.62%

(2) *Retirement Options*

Unmodified

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 No. 1

The member may elect to receive a slightly reduced monthly retirement allowance, payable throughout his or her life, with the proviso that upon his or her death, his or her 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.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

Option No. 2

The member receives a considerably reduced monthly allowance, with the proviso 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 No. 3

A reduced allowance is paid to the member with 50% of the member's allowance continuing to the beneficiary after the member's death. As in Option No. 2, all payments stop at the death of both annuitants.

(3) *Cost of Living Adjustment*

Annual cost-of-living adjustments (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 for All Urban Consumers (CPI) 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 Retirement Board's discretion, when the cost-of-living change is less than the maximum 3%. Tier II members are not eligible for any cost-of-living increases in their retirement allowances.

(4) *Disability Benefit*

Members with 5 years of service, regardless of age, are eligible for non-service connected disability benefits. Tier I 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.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

Tier II non-service connected disability benefits are 20%, plus an additional 2% for each year between 5 & 15 years of service, of their final 3 year average salary. The total benefit cannot exceed 40% of final 3 year 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.

(5) *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 System, based on the final year's average salary, but not to exceed six (6) months salary. Depending on length of service, a monthly allowance could be selected by the surviving spouse to be paid 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 one-half of the member's final compensation. Unmarried minor children of the member may receive the same monthly allowance

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

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.

(6) *Death Benefit After Retirement*

If a member dies after retirement, a lump sum amount of \$1,000 is paid to the beneficiary or estate; however, if the member is an inter-retirement system member, this benefit is payable only by the retirement system under which the member last worked.

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 service-connected disability, there are several options available to the member.

(7) *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) may leave their contributions on deposit and continue to be credited interest or they can choose to withdraw their contributions. County-paid employee contributions under various Memoranda of Understanding (salary negotiations) are not refundable. A non-vested member that enters a reciprocal retirement system after terminating employment with MCERA may wish to arrange for reciprocal benefits. Under a reciprocal arrangement the member funds are kept on deposit with MCERA.

(8) *Vesting*

Active members of the System 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 System for ten years and obtained age fifty for Tier I General members, Tier I and Tier II Safety members, and age fifty-five for Tier II General members.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

Safety members may receive a service retirement benefit after being a member of the system for 20 years regardless of age.

(9) *Contribution Rates*

Member

The basic member rates are based on a formula reflecting the member's age of entry in the System. 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. 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.

County

The County rates are actuarially determined to provide for the balance of the contributions needed to fund the promised benefits as set forth in the 1937 Act. Pursuant to provisions of the 1937 Act, the Retirement Board recommends annual contributions rates for adoption by the County Board of Supervisors each year based upon the rates recommended by the System's actuary.

(10) *Post Retirement Health Care*

The County currently provides a health care plan for both active members and eligible retirees. In order to qualify for post-retirement health care coverage under the County program, an individual receiving a regular service retirement benefit or an individual receiving a non-service connected disability retirement benefit must have a minimum of ten years of service under MCERA. There is no minimum service requirement for individuals receiving a service connected disability benefit. Under the County program, retirees pay a percentage of their health insurance premium and 100% of the premium for any dependents. In December 2001, the County implemented a "Service Year Rate Structure Plan" for determining the amount the County would pay toward an eligible retiree's health insurance premium. Under the "Service Year Rate Structure Plan," the individual's years of service are utilized as the basis for determining the level of subsidy to be provided by the County. Retiree health and dental benefits are not vested and the continued availability of such benefits is not guaranteed. The County reserves the right to amend or terminate the program at any time, as permitted by law.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

In the 2002-2003 fiscal year, MCERA adopted an Internal Revenue Code (IRC) Section 401(h) Plan to serve as the vehicle for providing financial support from MCERA for retiree health insurance costs. Pursuant to the provisions of the 1937 Act and the IRC, the Retirement Board will make an annual determination of MCERA's ability to provide financial assistance to defray such costs. The decision to provide financial support, or the level of such support, will be in the sole discretion of the Retirement Board, and among other things, will be contingent on the availability of surplus excess investment earnings to offset any employer contributions used to provide funding for the IRC Section 401(h) Plan. Payments from the IRC Section 401(h) Plan began with the 2003-2004 fiscal year.

Retirees have no vested right to receive such financial support from the IRC Section 401(h) Plan or any other MCERA reserve, and the availability of such support is not guaranteed. MCERA reserves the right to alter the level of financial support, to alter the method by which it provides such support, or to terminate such support, as permitted by law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

While the System 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. 14 of the Government Accounting Standards Board.

B. Basis of Accounting

MCERA's financial statements are prepared on an accrual basis of accounting, which recognizes income when earned, and expenditures when the obligation is incurred. Employer and employee contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by MCERA is recorded as an increase (decrease) to investment income based on the valuation of investments.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

C. Methods Used to Value Investments

Investments are reported at fair value in the accompanying Statement of Plan Net Assets 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 last reported sales price. Short-term investments are reported at cost, which approximates fair value.

D. Transfer-Retirement Payroll

Retirement payroll transfers are transfers from active member reserves to retired member reserves made at the time of retirement for the purposes of paying future retirement benefits to the retiring member.

E. Management's Estimates

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.

F. Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Capital assets with an initial cost of more than \$2,500.00 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.

G. Liability for Earned Compensated Absences

Unused vacation leave may be accumulated by MCERA employees up to a specified maximum and is paid at the time of termination from the County. There is no maximum on the amount of unused sick leave which employees may accumulate; however, MCERA is not obligated to pay for unused sick leave if an employee terminates prior to retirement. Upon retirement, employees are entitled to be paid for up to one half of their unused sick leave, up to a specified maximum, depending on the employee's job classification.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

The remainder of the accumulated balance will be credited towards time worked for retirement purposes. The current portion of MCERA's obligation relating to employees' rights to receive compensation for future absences is attributable to services already rendered and is recorded as a liability on the Statement of Plan Net Assets.

H. Current and Future Accounting Pronouncements

In March of 2003, Governmental Accounting Standards Board (GASB) issued Statement #40, *Deposit and Investment Risk Disclosures - An Amendment of GASB #3*, effective for fiscal year ending June 30, 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In April of 2004, GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans - statement supersedes the interim guidance included in Statement # 26 (Financial Reporting for Postemployment Healthcare Plan Administered by Defined Benefit Pension Plans)*. This statement provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans. This statement is effective June 30, 2006, and has not been early implemented. The impact on the financial statements of this standard has not been determined.

In May 2004, GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section - An amendment of NCGA Statement #1*, effective fiscal periods beginning after June 15, 2005. This statement establishes new guidelines for supplementary information to be included in the statistical section for those entities preparing a Comprehensive Annual Financial Report (CAFR). This statement has not been early implemented.

I. Reclassification of Financial Statement Presentation

Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 financial statement presentation. Such reclassifications had no effect on net increase in net plan assets as previously reported.

3. CASH AND INVESTMENTS

A. Investment Stewardship

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

California Constitution and California Government Code Sections 31594 and 31595, the Retirement Board is authorized to invest in any investment the Board deems prudent.

The Board of Retirement 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 Retirement Board, the custodian bank and the investment managers. The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. MCERA currently employs external investment managers to manage its assets subject to the provisions of the Investment Policy.

B. Cash or Cash Equivalent

Cash and cash equivalents consist of short-term investments held by the County Treasurer and MCERA's custodian bank, the Bank of New York. 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 Treasurer is responsible for the management, control and safekeeping of all investments in the pooled fund. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value.

(2) *Short-Term Investment Funds*

The short-term investment funds that are in the custody of Bank of New York 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, banker's acceptances, time deposits and floating-rate notes. All participants in the pool proportionately share earnings and losses. Deposits in the pooled accounts approximate fair value.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

C. Credit Concentration / Custodial Risk

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 market value of the account. 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.

D. Securities Transactions and Related Investment Income

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.

Unrealized gains and losses on investments are reported as "net appreciation (depreciation) in the fair value of investments." The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments. MCERA'S cash and investments stated at fair value as of June 30, 2005 and 2004 are presented as follows:

Cash Equivalents	Fair Value	
	2005	2004
Funds Pooled with County	\$ 4,064,191	\$ 2,654,140
Short-Term Investment Funds held with Fiscal Agents	11,644,169	12,249,612
Total Cash Equivalents	15,708,360	14,903,752
Investments		
U.S. Government & Agency Bonds	70,123,894	76,722,296
Corporate Bonds	60,072,558	60,560,855
Domestic Stocks	169,817,224	157,186,367
Total Investments	300,013,676	294,469,518
Investments		
Real Estate	28,607,565	25,236,454
Alternative Investments	1,131,242	68,128
Domestic Stocks-Mutual Fund	45,973,407	42,661,155
International Stocks-Commingled Fund	35,024,262	31,124,795
Total Investments	110,736,476	99,090,532
TOTAL CASH EQUIVALENTS & INVESTMENTS	\$ 426,458,512	\$ 408,463,802

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

E. Interest Rate Risk

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. MCERA's bond portfolios are managed duration neutral to their benchmark, the Lehman Brothers Aggregate Bond Index. 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 requires that no more than 5% of an investment's managers fixed income portfolio may 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.

As of June 30, 2005 MCERA had the following fixed income investments:

Investment Type	Fair Value	Weight of Total Fixed Income	Effective Duration
U.S. Treasuries	\$ 18,817,968	14.45%	5.60
U.S. Agencies	59,205,854	45.47%	5.86
Asset Backed Securities	8,203,325	6.31%	4.77
Corporate Bonds	41,912,654	32.19%	7.03
Municipal Bonds	530,163	.41%	7.08
Other Government	1,526,488	1.17%	4.67
Total Fair Value	\$ 130,196,452	100.00%	
Portfolio Effective Duration			6.13

Quality	Percentage of Total Fixed Income
Government	22.5%
AAA	54.2%
AA	4.2%
A	8.6%
BAA	10.2%
BA	0.3%
	100.0%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

F. Derivatives

MCERA's investment policy permits the use of derivative instruments to minimize the exposure of certain of its investments to adverse fluctuations in financial and currency markets and enhance yields. The system does not use derivatives for speculative use or to create leverage. Derivatives permitted by MCERA's investment policy are financial futures (if exchange traded), currency forward contracts and currency options (exchange and OTC traded) and also derivative instruments with allocation limits which include; interest only mortgage collateralized mortgage obligations, principal only mortgage (CMOs), interest rate swaps, options (if exchange traded), caps and floors as they apply to the above stated allowable derivative investments. The investments in futures contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. Also, the investments may be subject to market risk due to a change in the price of the underlying securities. The investments in CMOs may be subject to credit risks, such as the credit quality rating of the underlying security may be downgraded by rating organizations and the mortgages can be prepaid. CMOs also bear market risk, as the market may be sensitive to interest rate fluctuations. Floating-rate investments are investments with interest payments that float or adjust periodically based upon a predetermined benchmark. While the market value of a floating-rate security is relatively insensitive to changes in interest rates, the income received is highly dependent upon the level of the reference rate over the life of the investment. Total return may be less than anticipated if future interest rate expectations are not met. As with any fixed income investment, there is a risk that the issuer will be unable to meet its payment obligations.

A summary of the various derivative instruments as of June 30, 2005 is as follows:

**Schedule of Derivatives
For the Years Ended June 30, 2005 and 2004**

Type of Derivatives	
Collateralized Mortgage Obligations	\$ 24,078,125
Floating -Rate Notes	\$ 7,199,135

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

4. RESERVES

As required by the County Employees Retirement Law of 1937 or the Board of Retirement's policy, the following reserves for Net Assets in Trust for Pension Benefits and post employment healthcare benefits have been established to account for the members, employers, and retirees' contributions. Reserve balances at June 30, 2005 are as follows:

A. Active Members' Reserves \$ 49,161,941

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 his/her account are transferred from this reserve to the Retired Members' Annuity Reserves.

B. Employer Advance Reserves \$ 73,309,666

These reserves represent the cumulative contributions made by the County for future retirement payments to current active members. Additions include contributions from the employer and related earnings; deductions include transfers to the Retired Member Reserve, lump sum death benefits, and supplemental disability payments under legislated rehabilitation programs.

C. Retired Members' Reserves \$ 219,322,395

These reserves are established upon the retirement of an employee. His/her contributions plus the interest earning credited to his/her account are transferred from the Active Member 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 System pays the retiree his/her pension benefits in an amount computed in accordance with the 1937 Act.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

D. Interest Fluctuation Reserve \$ 0.00

Prior to June 30, 2003, the Interest Fluctuation Reserve served as both the interest crediting account and the contingency reserve. Effective June 30, 2003, a separate Contingency Reserve has been created and the Interest Fluctuation Reserve will be used for interest crediting purposes and for holding any funds allocated by the Retirement Board as a reserve for future interest earnings deficiencies.

E. Medical Insurance Trust \$ 2,610,752

This account was established as a reserve to assist with the System's discretionary financial assistance for retiree health insurance costs. Over time, the account has been funded with surplus/excess investment earnings. In accordance with the provisions of the 1937 Act and the Internal Revenue Code (IRC), unless MCERA's investments produce current year excess investment earnings, it may be necessary to utilize funds from the Medical Insurance Trust to offset any employer contributions used to provide funding for the IRC Section 401(h) Plan, which serves as the vehicle for any MCERA support for retiree health insurance costs beginning with the 2003-2004 fiscal year. Retirees have no vested right to financial support for such costs from the IRC Section 401(h) Plan or otherwise, and the availability of such support is not guaranteed. The amount of such support, if any, will be determined annually in the sole discretion of the Retirement Board. This reserve is not subject to market fluctuations and can only be decreased or increased at the direction of the Retirement Board.

F. Market Value Fluctuation Reserve \$ 66,069,509

The Board of Retirement established this "designation" account on June 30, 1997 to track the increase (or decrease) in the market value of System assets. The annual change in market value of MCERA's assets is shown below:

<u>Accumulated thru 2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>TOTAL</u>
\$(2,495,045)	\$15,788,551	\$32,699,563	\$20,076,440	\$66,069,509

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

G. Ad-Hoc COLA Reserve \$ 1,553,240

This reserve was established in 1999 as the source of funds for an ad-hoc COLA granted to certain retirees and beneficiaries pursuant to Section 31874.3(b) of the 1937 Act. Eligibility for the COLA was limited to retirees with accumulated uncredited COLAs totaling 25 percentage points or more as of April 1, 1999.

H. Contingency Reserve \$ 4,327,952

Prior to the fiscal year ending June 30, 2003, the Interest Fluctuation Reserve was also used as MCERA's contingency reserve. Effective June 30, 2003 the contingency reserve function will be carried out through a separate account called the Contingency Reserve. The Contingency 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.

I. Internal Revenue Code (IRC) Section 401(h) \$2,790,999

MCERA adopted and implemented an Internal Revenue Code (IRC) Section 401(h) Plan to serve as the vehicle for providing financial support for retiree health care costs.

Reserves as of June 30, 2005

	2005	2004	2003	2002	2001	2000
Active Member Reserves	\$ 49,161,941	\$ 48,707,821	\$ 48,378,964	\$ 50,940,716	\$ 49,481,396	\$ 46,658,754
Employer Advance Reserves	\$ 73,309,666	\$ 86,260,253	\$ 91,368,990	\$ 108,864,811	\$ 109,324,461	\$ 106,476,444
Retired Member Reserves	\$ 219,322,395	\$ 204,267,473	\$ 198,758,208	\$ 187,694,191	\$ 183,519,659	\$ 169,396,423
Interest Fluctuation Reserve	\$ -	\$ -	\$ -	\$ -	\$ 7,794,732	\$ 23,259,376
Medical Insurance Trust	\$ 2,610,752	\$ 5,301,792	\$ 7,519,329	\$ 9,783,076	\$ 10,633,788	\$ 10,633,778
Market Fluctuation Reserve	\$ 66,069,509	\$ 45,993,069	\$ 13,293,506	\$ (2,495,045)	\$ 22,300,377	\$ 47,081,612
Ad-Hoc Reserve	\$ 1,553,240	\$ 1,544,447	\$ 1,541,975	\$ 1,600,748	\$ 1,595,651	\$ 1,538,477
Contingency Reserve	\$ 4,327,952	\$ 3,967,837	\$ 3,645,060	\$ -	\$ -	\$ -
Litigation Reserve	\$ -	\$ -	\$ -	\$ 1,008,577	\$ 966,163	\$ 5,270,759
IRC Section 401(h)	2,790,999	740,999	-	-	-	-
Facility/System Reserve	\$ -	\$ -	\$ -	\$ 317,423	\$ 304,074	\$ 281,951

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

5. INVESTMENT EXPENSES

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

6. GENERAL ADMINISTRATIVE EXPENSES

The System's general administrative expenses are funded by investment income. Section 31580.2 of the 1937 Act currently states that such expenses shall be limited to eighteen-hundredths of one percent (.18%) of the System's total assets. Due to reduced asset levels resulting from the protracted period of poor performance in the investment markets, this benchmark has become increasingly difficult for 1937 Act retirement systems to meet. In recognition of this fact, effective January 1, 2004, Section 31580.3 was added to the 1937 Act to provide more flexibility in establishing the administrative cost limit. Under Section 31580.3 the alternative administrative cost ceiling may not exceed .23% of the total asset value of the retirement system as of the selected valuation date. The MCERA Board of Retirement adopted Section 31580.3 on September 9, 2004 for determining the administrative cost ceiling for the fiscal year ended June 30, 2004 and June 30, 2005.

MCERA's administrative expenses in the current fiscal year totaled .14%. MCERA's administrative cost limit declined in the current fiscal year due primarily to reduced costs associated with salaries, wages and benefits with the departure of our plan administrator, requested maintenance costs, and attorney fees.

7. LITIGATION

MCERA is a defendant in various lawsuits and claims arising in the ordinary course of its operations. MCERA's management and legal counsel estimate that the ultimate outcome of such litigation will not have a material effect on MCERA's financial statements.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

(Continued)

8. REQUIRED SUPPLEMENTARY INFORMATION

A schedule of the MCERA's funding progress that reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and a schedule of employer contributions that provides information about the annual required contributions of the employer's Annual Required Contribution (ARC) and the percentage of the ARC recognized by the plan are presented, where available, on the following pages as Required Supplementary Information.

9. ADMINISTRATIVE BUDGET AND PROFESSIONAL SERVICES BUDGET

MCERA's budget consists of two components, an administrative budget authorized by Government Code §31580.2 and a professional services budget authorized by Government code §31596.1. MCERA's budgets are on a fiscal year basis starting July 1st and ending June 30.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUIRED SUPPLEMENTARY SCHEDULES

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percent of Covered Payroll (b-a/c)
7/1/98	\$ 260,884	\$ 333,771	\$ 72,887	78.2%	\$ 57,854	126.0%
7/1/99	\$ 354,467	\$ 351,252	\$ (3,215)	100.9%	\$ 62,521	(5.1)%
7/1/01	\$ 411,710	\$ 404,316	\$ (7,394)	101.8%	\$ 76,015	(9.7)%
7/1/02	\$ 424,613	\$ 421,435	\$ (3,178)	100.8%	\$ 83,001	(3.8)%
7/1/03	\$ 428,959	\$ 451,181	\$ 22,222	95.1%	\$ 88,586	25.1%
7/1/04	\$ 430,054	\$ 531,938	\$ 101,884	80.8%	\$89,516	113.8%

* Excludes "Other Designated Reserves" and the liabilities associated with these reserves

Note: This information is compiled from MCERA's actuarial report prepared by Buck Consultants dated June 30, 2004. MCERA had no actuarial valuation prepared for the fiscal year ended 07/01/00.

Schedule of Employer Contributions

Pension Benefit Plan

(Dollar amounts in thousands)

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/99	\$ 69,919*	100%
6/30/00	\$ 6,259	100%
6/30/01	\$ 6,927	100%
6/30/02	\$ 7,731	100%
6/30/03	\$ 7,201	100%
6/30/04	\$ 7,269	100%

* Includes proceeds from Pension Obligation Bonds.

Note: This information is compiled from MCERA's actuarial report prepared by Buck Consultants dated June 30, 2004.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

June 30, 2005

1. GASB STATEMENTS 25 AND 26

MCERA applied the parameters established by Governmental accounting Standards Board (GASB) Statement 25 and 26 in calculating and presenting the required actuarially determined information in the Schedule of Funding Progress and the Schedule of Employer Contributions.

2. FUNDING STATUS

Viewed in isolation, the dollar amounts of a retirement system's net assets, actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL), as reflected in the Schedule of Funding Progress, can be misleading when assessing the retirement system's funding status. Expressing the plan's net assets as a percentage of the AAL, however, provides one indication of the retirement system's funding status on a going concern basis. Analysis of this percentage (the Funded Ratio) over time will indicate whether the retirement system is becoming financially stronger or weaker. Generally, the higher the Funded Ratio, the stronger the retirement system.

Trends in the UAAL and the annual covered payroll are both affected by inflation. Expressing the UAAL as a percentage of covered payroll adjusted for the effects of inflation will also aid analysis of the retirement system's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

3. ACTUARIAL ASSUMPTIONS

The information presented in the Schedule of Funding Progress and the Schedule of Employer Contributions was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

<i>Valuation Date</i>	June 30, 2004
<i>Actuarial Cost Method</i>	Entry Age Normal Actuarial Cost Method
<i>Amortization Method</i>	Level percentage - Closed
<i>Remaining Amortization Period</i>	13 years from June 30, 2004
<i>Asset Valuation Method</i>	Five year smoothed market

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

June 30, 2005

(Continued)

Actuarial Assumptions

Investment Rate of Return	8.0%
Projected Salary Increases	5.5%
Assumed Inflation Rate	4.5%
Assumed Post-employment Benefit Increase	Up to 3% for Tier I members only

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2005 and 2004

Personnel Services:	2005	2004
Salaries, Wages and Benefits	\$ 309,139	\$ 380,835
Office Expenses:		
Communications	1,816	2,037
Requested Maintenance	51,260	171,150
Office Supplies	5,310	4,434
Postage	4,286	3,973
Equipment Rent/Lease	-	3,967
Total Office Expense	62,672	185,561
Professional Services:		
Audit Fees	13,803	22,784
Attorney Fees	31,537	81,664
Disability Stenographic Fees/Investigations	1,860	1,170
Publications & Legal Notices	27,234	-
Disability Medical Reviews/Services	27,483	35,706
Merced Dept of Information Technology	25,375	18,392
Total Professional Services	127,292	159,716
Miscellaneous:		
Memberships	1,926	2,175
Fiduciary Meetings	9,000	7,687
Fiduciary and Staff Travel/Training	16,937	19,134
Insurance Liability/Other	66,988	67,448
Software/Other Expense	614	-
Depreciation Expense	7,883	7,883
Total Miscellaneous Expenses	103,348	104,327
Total Administrative Expenses	\$ 602,451	\$ 830,439

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES

For the Years Ended June 30, 2005 and 2004

INVESTMENT MANAGERS	2005	2004
UBS Real Estate Separate Account (RESA)	\$ 304,270	\$ 280,565
Delta Asset Mgmt	265,656	271,725
Earnest Partners, LLC	184,812	198,336
Wasatch Advisors	204,711	247,861
Mellon Capital Mgmt	25,081	16,257
Wentworth, Hauser, & Violich	186,826	196,349
Invesco Global Asset Mgmt	234,479	198,945
Deutsche Asset Mgmt	222,992	236,751
Lincoln Capital Mgmt	45,547	48,723
Invesco Private Capital	165,847	-
Adams Street Partners, LLC	2,917	-
Pantheon Ventures, Inc,	20,776	-
GLOBAL CUSTODIAN		
Bank of New York	125,357	114,189
TOTAL PROFESSIONAL EXPENSE	1,989,271	1,809,701
CONSULTANT EXPENSE	135,950	195,720
BROKERAGE COMMISSIONS & FEES	163,773	-
OTHER INVESTMENT EXPENSE	2,280	-
TOTAL INVESTMENT MANAGER FEES, AND OTHER INVESTMENT EXPENSES	\$ 2,291,274	\$ 2,005,421

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2005 and 2004

INVESTMENT PROFESSION SERVICE FEES	2005	2004
ACTUARIAL SERVICES		
Buck Consultants/Mellon Human Resources & Investor Solutions	\$ 61,951	\$ 64,813
INVESTMENT CONSULTANT		
Milliman USA	135,950	130,907
CUSTODIAL SERVICES		
Bank of New York Western Trust Company	125,357	114,189
TOTAL INVESTMENT PROFESSIONAL SERVICE FEES	\$ 323,258	\$ 309,909
ADMINISTRATIVE PROFESSIONSL SERVICE FEES		
AUDIT SERVICES		
Brown Armstrong Paulden McCown Starbuck & Keeter	\$ 13,803	\$ 22,784
LEGAL SERVICES		
Mason, Robbins, Gnass & Browning-Disability Attorney	31,537	81,664
DISABILITY STENOGRAPHIC FEES/ INVESTIGATIONS	1,860	1,170
DISABILITY MEDICAL REVIEWS/SERVICES	27,483	35,706
MERCED DEPT. OF INFORMATION TECHNOLOGY	25,375	18,392
OTHER SPECIALIZED SERVICES	29,514	-
TOTAL ADMINISTRATIVE PROFESSIONAL SERVICE FEES	\$ 129,572	\$ 159,716

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

**Budget Analysis
Budget to Actual Expenditure
June 30, 2005**

Administrative Services Budget	Budgeted Amounts	Actual Amounts Expended	Percentage of Appropriation Expended
Salaries, Wages and Benefits	\$ 398,874	\$ 309,139	77.5%
Communications	2,500	1,816	72.7%
Requested Maintenance/Utilities/Cost Allocation	59,820	51,260	85.7%
Office Supplies	11,630	5,310	45.7%
Postage	8,500	4,286	50.4%
Equipment Rent/Lease	5,500	-	0.0%
Audit Fees	31,000	13,803	44.5%
Attorney Fees	60,000	31,537	52.6%
Disability Stenographic Fees/Investigations	10,500	1,860	17.7%
Publications & Legal Notices	30,000	27,234	90.8%
Disability Medical Reviews/Services	72,500	27,483	37.9%
Merced Dept. of Information and Technology	66,756	25,375	38.0%
Memberships	2,350	1,926	81.9%
Fiduciary Meeting	10,080	9,000	89.3%
Fiduciary and Staff Travel/Training	39,222	16,937	43.2%
Insurance Liability/Other	101,974	66,988	65.7%
Software/Other Expense	164,005	614	.4%
Depreciation Expense	-	7,883	100%
Total Administrative Budget	1,075,211	602,451	56.0%
Professional Services Budget			
Investment Manager, Custodial Services, and Other Investment Expenses	2,403,000	2,155,324	89.7%
Actuarial Services	110,000	61,951	56.3%
Consultant Fees	160,000	135,950	85.0%
Total Professional Budget	2,673,000	2,353,225	88.0%
Total Budget	\$ 3,748,211	\$ 2,955,976	78.9%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment section



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Milliman
Consultants and Actuaries

650 California Street, 17th Floor
 San Francisco, CA 94108-2702
 Tel +1 415 403.1333
 Fax +1 415 403.1334
 www.milliman.com

August 2, 2005

Ms. Nancy Havens
 Interim Plan Administrator
 Merced County Employees' Retirement Association
 3199 M Street
 Merced, California 95348

Dear Ms. Havens:

The Merced County Employees' Retirement Association had a positive investment return of 9.5% for the recently completed fiscal year ending June 30, 2005. Due to the continued rebound of the equity market and strong performance in all the other asset classes, this is the second consecutive year that the Association's fiscal year return has been above the actuarial interest rate assumption. This total fund return was also solidly above the Retirement Association's total fund benchmark return of 7.9%.

The Retirement Association's total fund return over the past five years has averaged 3.9% versus the fund benchmark¹ of 3.3% and the actuarial interest rate assumption of 8.0%. Over the past five years, the Retirement Association has fallen short of the actuarial interest rate assumption by approximately 4.1% per year. During the last ten years, the total fund return has been 9.5% and easily exceeded the benchmark return of 5.2% and the actuarial interest rate.

Summary of Investment Objectives

The Board holds fiduciary responsibility for the Retirement Association. Given that investment performance is primarily determined by asset allocation decisions, the Board has adopted a diversified asset allocation target. This target is partially based on an analysis of the Retirement Association's liabilities and their cash flow requirements. Other factors considered in the construction of the target are an effort to maximize the return on invested assets, and an attempt to minimize risk exposures.

The primary investment objectives expected to be satisfied by the asset allocation target and investment manager structure, are:

¹Prior to the first quarter of 1999 the total fund benchmark was CPI + 4%/year. From 1st quarter of 1999 through 4th quarter of 2001, the benchmark is 42% S&P 500, 8% Russell 2000, 6% EAFE, 38% Lehman Aggregate, 1% 90-day T-Bill, and 5% Wilshire Real Estate Funds. In subsequent periods, the benchmark is 42% S&P 500, 8% Russell 2000, 6% EAFE, 38% Lehman Aggregate, 1% 90-day T-Bill, and 5% NCREIF Property Index. The Board has adopted a revised asset mix that also includes the Private Equity asset class. This asset class is currently being funded, and as of June 30, 2005 had an allocation to three private equity fund of funds that totaled 0.3% of total fund assets. As this commitment increases, the total fund benchmark will incorporate the new asset class.



Milliman

Consultants and Actuaries

650 California Street, 17th Floor
 San Francisco, CA 94108-2702
 Tel +1 415 403.1333
 Fax +1 415 403.1334
 www.milliman.com

- 1) At a minimum, achieve a nominal return equivalent to the Retirement Association' actuarial interest rate. Earn a total return that averages 4% to 6% in excess of the rate of inflation.
- 2) Exceed the return of the Retirement Association' passive, market-based, investment benchmark.
- 3) Achieve a total fund return ranking above the median of other public sector retirement funds. Risk-adjusted performance is expected to also be above that of the median pension fund.

In the past fiscal year, the Retirement Association successfully achieved all of these objectives.

Market Overview

The past fiscal year had a fair amount of volatility. The domestic equity markets began the fiscal year with a loss of 1.9%, as measured by the S&P 500. During this third calendar quarter of 2004, four of the ten S&P 500 sectors recorded losses. Information Technology had nearly a 10% decline, whereas the Energy sector returned 11.0%. In the fourth quarter of 2004, the equity markets rallied, with a 9.2% return. All ten sectors had positive returns, and the Consumer Discretionary and Information Technology sectors had the highest returns (approximately 13.5%). During the first calendar quarter of 2005, domestic equities regressed to small declines. The S&P 500 lost 2.2%, and six of the ten sectors had negative returns. However, the Energy sector continued to record phenomenal returns, with a 17.7% gain. The equity markets closed out the fiscal year with a small gain. For the calendar quarter ending June 30, 2005, the S&P 500 rose 1.4%. Six sectors had increases, with the Utility sector achieving the highest return (+9.3%).

As with the large cap portion of the equity markets, in the third quarter of 2004, the Russell 2000 lost 2.9%. International equity also had a small loss of 0.2%. However, domestic bond performance was strong, with the Lehman Aggregate Index up 3.2%. Real estate also had good returns, with a gain of 3.1%, as measured by the NCREIF Property Index.

During the fourth quarter of 2004, both the domestic and international equity markets rose sharply, while the bond and real estate markets had more modest gains. The S&P 500 return of 9.2% paled in comparison to the Russell 2000 return of 14.1% and international equities return of 15.4%. Domestic bond returns were up 1.0% for the quarter, and the NCREIF Property Index returned a solid 3.4%.

The domestic equity market losses in the fiscal year's third quarter, were more severe in small cap stocks. The S&P 500 was down 2.2% and the Russell 2000 declined 5.3%. International stocks were slightly negative, with a 0.1% loss. The domestic bond market also declined, with a 0.5% loss, based on the Lehman Aggregate Bond Index. Real estate was the only positive performing asset class during the quarter, with a return of 3.5%, based on the NCREIF Property Index



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Finally, in the second calendar quarter of 2005 (or the fourth quarter of the fiscal year) domestic equity results were again positive. The S&P 500 returned 1.4% and small cap stocks gained 4.3%, as represented by the Russell 2000. International stocks had a small decline of 0.8%. Domestic bond performance rebounded with a strong return of 3.0%. And, finally, the real estate market achieved a strong 5.3% return.

Style Overview

During the fiscal year, value oriented stocks continued to strongly outperform growth-oriented securities. The Russell 1000 Value Index returned 14.1%, whereas the Russell 1000 Growth Index returned only 1.7%. Small capitalization stocks modestly outperformed large cap stocks. The Russell 2000 returned 9.5%, versus 6.3% for the S&P 500. International stocks had higher returns, with the MSCI EAFE Index returning 14.1%. This was again another year when bonds outperformed large cap stocks. The Lehman Aggregate Index returned 6.8% versus 6.3% for the S&P 500. The highest performing asset class was domestic real estate. The NCREIF Property Index returned 18% in the fiscal year.

Fund Overview

The total fund performance followed the overall equity market results. In the third quarter of 2004, the total Fund declined 0.1%, under-performing the total Fund benchmark. This loss ranked the Fund in the third quartile (66th percentile) of pension funds. With the sharp upward move made by the equity markets in the fourth quarter of 2004, the total Fund returned 7.0%, exceeding the total Fund benchmark, and ranked in the third quartile of pension funds (55th percentile). In the calendar first quarter of 2005, the total Fund had a loss of 0.5%, which was better than the benchmark loss of 1.3%, ranking it in the second quartile of pension funds (30th percentile). During the calendar second quarter of 2005, the total Fund return was 3.0%, above the benchmark (+2.3%) and ranked in the first quartile of pension funds (7th percentile).

As mentioned earlier, the Retirement Association' total fund gain for fiscal year 2005 was 9.5%. This was better than the total fund benchmark return of 7.9%, ranking it in the 26th percentile of pension funds, up from 50th a year ago.

Investment Results

This investment information is presented in compliance with the Performance Presentation Standards of the CFA Institute.



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The Association's total domestic equity segment recorded a gain of 9.0% in fiscal year 2005, which compares favorably to the equity markets. The median domestic equity manager posted a gain of 8.1%. Within the Retirement Association's manager structure, one of the two large cap core equity managers, Earnest Partners, beat the median manager (before fees). Earnest returned 12.5%, ranking in the 25th percentile. Delta's return of 5.2% under-performed the overall market (S&P 500), the median large cap core equity manager and the Russell 1000 Index. With a return of 14.1% and ranking in the 16th percentile, the Russell 1000 Value index product managed by Mellon Capital out-performed the median large cap value manager and matched the index. Mellon Capital's Russell 1000 Growth Index product under-performed the median large cap growth manager but matched the index, ranking in the 90th percentile with a gain of 1.7%.

Within the small capitalization arena, Wentworth Hauser, a small cap core portfolio manager, posted a gain of 21.6%, ranking in the 3rd percentile. This result was materially better than the 9.5% gain of the Russell 2000 Index and the 10.2% gain of the median small cap core equity manager. Wentworth generated this out-performance primarily through sector selection and secondarily through stock selection. Wasatch Advisors, the small cap growth manager, gained 2.1%, ranking in the 88th percentile. Wasatch under-performed the Russell 2000 Growth Index return of 4.3% and the 4.2% return of the median small cap growth equity manager. Stock selection was the primary factor for under-performance.

The international equity segment of the Retirement Association's total Fund had a gain of 12.5% for fiscal year 2005, less than the 14.1% gain of the MSCI EAFE Index. Invesco Global Asset Management ranked in the 74th percentile of international equity managers.

The domestic fixed income segment return of 7.4% out-performed the Lehman Aggregate Bond Index return of 6.8% for the past fiscal year. Fiscal year performance for the Deutsche Asset Management portfolio was 7.8%, higher than the Lehman Aggregate benchmark. This portfolio ranked in the 14th percentile of fixed income managers. The Lehman Asset Management account marginally exceeded the benchmark return, ranking in the 36th percentile.

The UBS Brinson real estate account returned 20.8%, out-performing the benchmark NCREIF Property Index return of 18.0%. The UBS Brinson real estate fund ranked in the 24th percentile of real estate managers during the past fiscal year.

Similar to last year, trading costs associated with the Retirement Association' domestic equity managers were reviewed to ensure that commission costs were reasonable and execution costs appropriate. Overall commission and price penalty costs were stable, which indicates that effective trading is being practiced. Additionally, the commission recapture program is being implemented through a number of brokerage firms. A significant percentage of equity trading is being executed through the program at a low cost, resulting in meaningful cost recapture.

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Asset Allocation

The Retirement Association's total fund ended the fiscal year with all asset segments within their allocation target ranges. As mentioned above, the allocation to private equity is growing. The domestic fixed income, domestic equity, international equity and real estate asset classes are marginally above target levels.

Performance Comparison

The last page of our letter provides a table comparing the Retirement Association's total fund returns to all pension funds. The vertical bands represent the range of fund performance with the blue band representing the 25th percentile at the top and 75th percentile at bottom. The solid black line represents the median fund's performance. As the graph illustrates, the fund ranked above the benchmark in every period over the past ten years. Additionally, the Retirement Association out-performed the median fund return in every time frame except for the past two- and five-year periods. In these periods, the Association ranked in the 52nd and 54th percentiles.

Summary

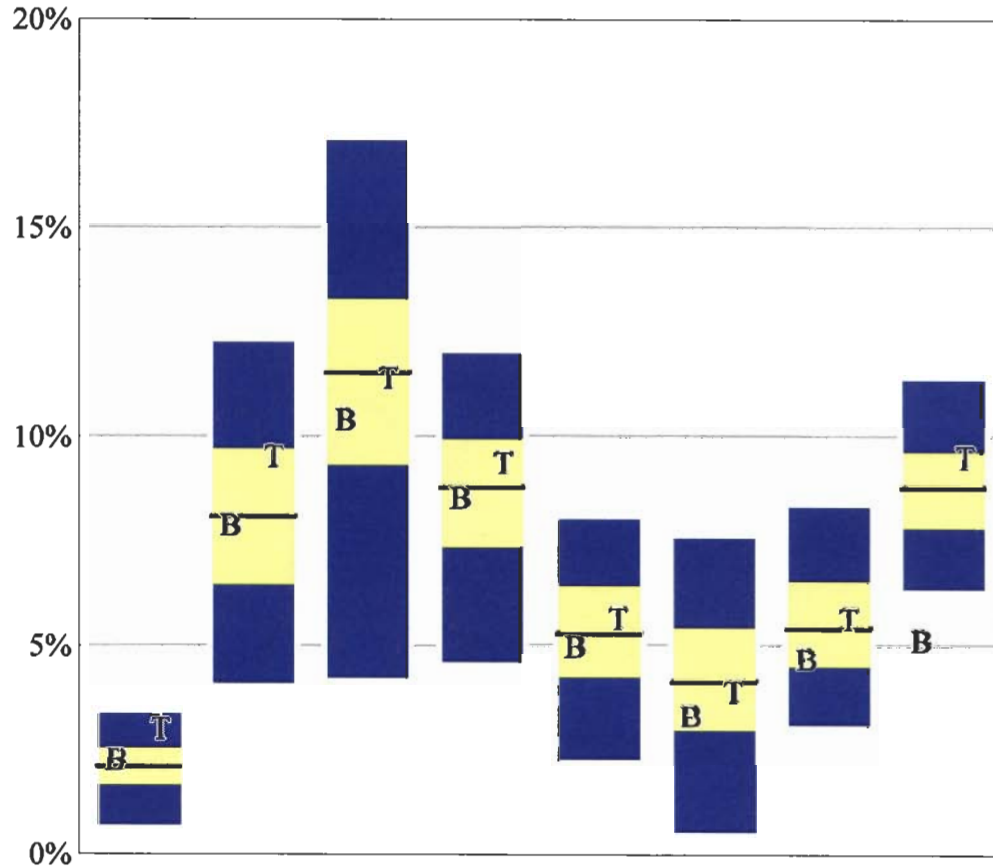
In conclusion, the fund experienced another good fiscal year with a gain of 9.5%. This was better than the custom benchmark return of 7.9% and above the Retirement Association's actuarial interest rate assumption. The combination of the Retirement Association's domestic equity investment managers produced a return above their benchmarks. The fixed income managers and the real estate manager exceeded their benchmarks. However, the international equity manager under-performed its benchmark again, and the domestic small cap growth manager under-performed its benchmark. These situations continue to be closely monitored. Therefore, with two exceptions, the managers are producing returns in line with or above their benchmarks. At all times, the Fund was managed in accordance with the Retirement Association's policies.

Sincerely,

William R. Cottle, CFA



Total Fund Returns vs. Universe
 Periods Ending June 30, 2005



	Last Quarter	Last 1 Yr	Last 2 Yrs	Last 3 Yrs	Last 4 Yrs	Last 5 Yrs	Last 7 Yrs	Last 10 Yrs
Total Fund Universe								
5 th Percentile	3.3	12.2	17.0	12.0	8.0	7.5	8.2	11.3
25 th Percentile	2.4	9.6	13.2	9.9	6.4	5.4	6.4	9.5
Median	2.0	8.1	11.5	8.8	5.3	4.1	5.3	8.7
75 th Percentile	1.6	6.4	9.3	7.3	4.2	2.9	4.4	7.7
95 th Percentile	0.7	4.1	4.2	4.6	2.2	0.5	3.0	6.3
Total Fund (T)	3.0	9.5	11.4	9.4	5.7	3.9	5.7	9.5
<i>Rank</i>	7	26	52	34	42	54	42	25
Fund Benchmark (B)	2.3	7.9	10.4	8.6	5.0	3.3	4.7	5.2
<i>Rank</i>	30	53	61	53	55	65	65	99

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OUTLINE OF INVESTMENT POLICIES AND SUMMARY OF PROXY VOTING GUIDELINES AND PROCEDURES

For the Year Ended June 30, 2005

Outline of Investment Policies

The Board of Retirement has exclusive control of all investments of the retirement system 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 retirement system.

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 defines the principal duties of the Board, MCERA's custodian bank 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

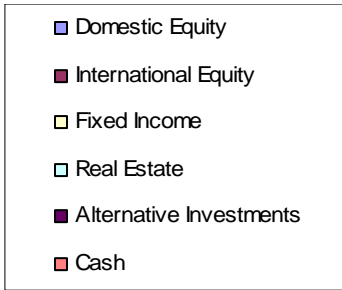
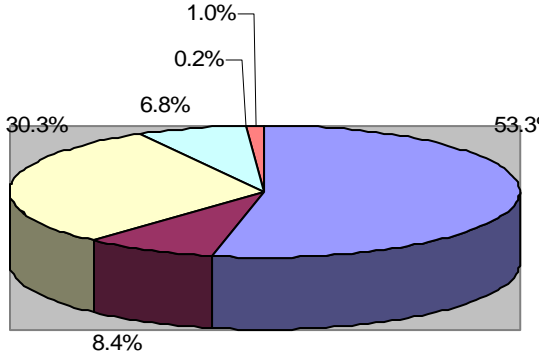
Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests 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

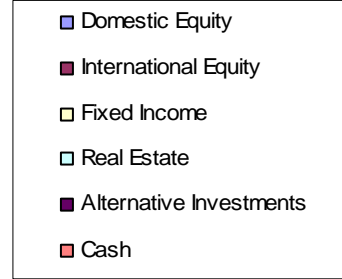
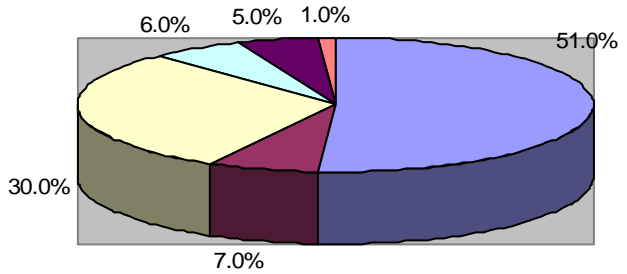
ASSET ALLOCATION INFORMATION

For the Year Ending June 30, 2005

JUNE 30, 2005 ALLOCATION



TARGET ALLOCATION



	June 30, 2005 Asset Allocation	Target Allocation Adopted August 18, 2003	Allocation Range	
Domestic Equity	53.3%	51.0%	+ / -	10%
International Equity	8.4%	7.0%	+ / -	4%
Fixed Income	30.3%	30.0%	+ / -	6%
Real Estate	6.8%	6.0%	+ / -	4%
Alternative Investments	0.2%	5.0%	+ / -	7%
Cash	1.0%	1.0%	+ / -	1%
	100.0%	100.0%		

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY

For the Year Ending June 30, 2005

	MARKET VALUE	% OF TOTAL
DOMESTIC EQUITY:		
Large Cap Growth	\$ 93,666,751	22.0%
Large Cap Value	77,357,132	18.1%
Small Cap Growth	19,949,897	4.7%
Small Cap Value	24,816,851	5.8%
TOTAL DOMESTIC EQUITY	215,790,631	50.6%
INTERNATIONAL EQUITY	35,024,262	8.2%
FIXED INCOME	130,196,452	30.5%
ALTERNATIVE INVESTMENTS	1,131,242	.2%
REAL ESTATE	28,607,565	6.7%
TOTAL INVESTMENTS	\$ 194,959,521	45.7%
CASH AND CASH EQUIVALENTS	15,708,360	3.7%
TOTAL INVESTMENTS, CASH AND CASH EQUIVALENTS	\$ 426,458,512	100.0%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT RESULTS

For the Years Ending June 30

	Current Year	ANNUALIZED					
	1YR	2YR	3YR	4YR	5YR	7YR	10YR
DOMESTIC EQUITY							
Large Cap Growth							
Delta Asset Mgmt.	5.2%	12.4%	8.0%	1.9%	-0.5%	3.5%	10.7%
Index: S&P 500	6.3%	12.5%	8.3%	1.0%	-2.4%	2.2%	9.9%
Large Cap Value							
Earnest Partners, LLC	12.5%	16.0%	11.5%	2.9%	0.7%	-	-
Index: Russell 1000	7.9%	13.6%	9.2%	1.7%	-1.9%	2.8%	10.2%
Large Cap Index							
Mellon Capital Mgmt. Large Cap Growth	1.7%	9.5%	-	-	-	-	-
Index: Russell 1000 Growth	1.7%	9.5%	7.3%	-2.4%	-10.4%	-1.1%	7.4%
Mellon Capital Mgmt. Large Cap Value	14.1%	17.6%	-	-	-	-	-
Index: Russell 1000 Value	14.1%	17.5%	11.0%	5.6%	6.6%	5.5%	12.0%
Small Cap Growth							
Wasatch Advisors	2.1%	12.2%	-	-	-	-	-
Index: Russell 2000 Growth	4.3%	17.1%	11.4%	0.9%	-4.5%	1.4%	5.2%
Small Cap Value							
Wentworth, Hauser & Violich	21.6%	30.0%	18.0%	14.6%	12.7%	16.3%	-
Index: Russell 2000	9.5%	20.8%	12.8%	7.0%	5.7%	6.3%	9.9%
TOTAL DOMESTIC EQUITY	9.0%	15.3%	10.7%	3.2%	-0.3%	3.3%	9.8%
INDEX: RUSSELL 3000	8.1%	14.1%	9.5%	2.1%	-1.4%	3.0%	10.1%
INDEX: S&P 500	6.3%	12.5%	8.3%	1.0%	-2.4%	2.2%	9.9%
INTERNATIONAL EQUITY							
Invesco Global Asset Mgmt	12.5%	21.0%	10.1%	6.7%	2.1%	-	-
Index: MSCI EAFE	14.1%	23.1%	12.5%	6.6%	-0.2%	3.3%	5.6%
FIXED INCOME							
Lehman Brothers Asset Management	6.9%	3.5%	-	-	-	-	-
Deutsche Asset Mgmt.	7.8%	4.3%	6.7%	7.5%	8.4%	-	-
TOTAL FIXED INCOME	7.4%	4.0%	6.1%	6.5%	7.5%	6.6%	6.9%
INDEX: LEHMAN AGGREGATE	6.8%	3.5%	5.8%	6.5%	7.4%	6.4%	6.8%
REAL ESTATE							
UBS Realty Investors LLC	20.8%	15.8%	13.8%	10.8%	11.1%	-	-
Index: NCREIF Property Index	18.0%	14.4%	12.1%	10.4%	10.0%	10.2%	10.3%
ALTERNATIVE INVESTMENTS**							
Invesco Private Capital	-	-	-	-	-	-	-
Adams Street Partners, LLC	-	-	-	-	-	-	-
Pantheon Ventures, Inc.	-	-	-	-	-	-	-
TOTAL FUND*	9.5%	11.4%	9.4%	5.7%	3.9%	5.7%	9.5%
TOTAL FUND CUSTOM INDEX*	7.9%	10.4%	8.6%	5.0%	3.3%	4.7%	5.2%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TOP 10 LARGEST HOLDINGS BY FAIR VALUE

For the Year ending June 30, 2005

PAR	BONDS	FAIR VALUE
1,363,000	U.S. Treasury Bond 6.0000% Due 02/15/26 Cusip #912810EW4	\$ 1,679,366
1,594,000	U.S. Treasury Note 3.0000% Due 12/31/06 Cusip #912828DF4	1,579,367
2,025,000	Oregon School Boards Assn. Due 06/30/14 Cusip #686053CD9	1,350,574
1,295,000	U.S. Treasury Note 3.1250% Due 5/15/07 Cusip #912828CG3	1,282,762
1,155,000	Ford Motor Credit Co. 6.875% Due 02/01/06 Cusip #345397TR4	1,166,538
1,163,000	U.S. Treasury Note 6.625% Due 07/15/19 Cusip #912828CN8	1,159,139
740,000	U.S. Treasury Bond 8.1250% Due 08/15/21 Cusip #912810EKO	1,074,272
835,000	U.S. Treasury Bond 6.1250% Due 08/15/29 Cusip #912810FJ2	1,066,161
975,000	GNMA 5.0000% Due 12/16/32 Cusip #38374RFM8	974,244
975,000	FHLMC 30 YR Gold 5.0000% Due 8/01/34 Cusip #02R050689	972,867
		\$ 12,305,290
		\$ 12,305,290

SHARES	STOCKS	FAIR VALUE
46,758	EXXON MOBILE CORP.	\$ 2,687,182
57,600	CITIGROUP, INC.	2,662,848
52,990	BANK OF AMERICA CORP.	2,416,874
95,000	MICROSOFT CORP.	2,359,800
65,400	GENERAL ELECTRIC CO.	2,266,110
45,600	SOUTHWESTERN ENERGY CO.	2,142,288
32,500	QUICKSILVER RES. INC.	2,077,725
92,400	CISCO SYS. INC.	1,765,764
66,900	INTEL CORP.	1,743,414
30,500	MERRILL LYNCH & CO., INC.	1,677,805
		\$ 21,799,810
		\$ 21,799,810

A complete list of the portfolio holdings is available upon request

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**SCHEDULE OF INVESTMENT FEES AND SERVICES AND OTHER
PROFESSIONAL INVESTMENT SERVICE PROVIDERS**

For the Years Ended June 30, 2005 and 2004

INVESTMENT MANAGERS' FEES	2005	2004
Equity Managers		
Domestic	\$ 867,088	\$ 930,528
International	234,479	198,945
Total equity managers' fees	1,101,567	1,129,473
Bond Managers	268,538	285,474
Alternative Investments	189,540	
Real Estate	304,269	280,565
Total Investment Management Fees	\$ 1,863,914	\$ 1,695,512
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	\$ 135,950	\$ 130,907
Investment Custodial Fees	125,357	114,189
Actuarial Services	-	64,813
Brokerage Commissions and Fees	163,773	-
Other Investment Service Fees	2,280	
Total Other Investment Service Fees	\$ 427,360	\$ 309,909
TOTAL INVESTMENT MANAGER AND OTHER SERVICE FEES	\$ 2,291,274	\$ 2,005,421

* Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 financial statement presentations. Such reclassifications had no effect on net increase in net plan assets as previously reported.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Actuarial section



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Actuary's Certification Letter

June 2, 2005

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

Re: *Actuarial Certification of the Merced County Employees' Retirement Association*

Members of the Board:

Buck Consultants, LLC. is the Consulting Actuary for the Merced County Employees' Retirement Association. The date of the most recent actuarial valuation was June 30, 2004. In each actuarial study, we conduct an examination of all participant data for reasonableness.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 2004, the remaining amortization period for the UAAL was 13 years. The funding objective of the Plan is to establish contribution rates which, over time, will remain as a level percentage of payroll unless Plan benefit provisions are changed and which are designed to fully fund the Plan's liabilities.

For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all gains and losses (returns above or below expected returns) over five years. The Association's financial statements are audited by an outside auditor.

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by us as being appropriate for use under the Plan. An analysis of the Plan's noneconomic experience was performed as of June 30, 2004 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is due to be performed as of June 30, 2007.

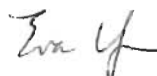
We have also prepared the trend tables in the financial section.

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 parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully submitted,



Michael Moehle, F.S.A., E.A., M.A.A.A.
Principal and Consulting Actuary



Eva Yum, F.S.A., E.A.
Director and Consulting Actuary

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF ASSUMPTIONS AND FUNDING 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, 2004):

<i>Investment Rate of Return</i>	8.00% per annum (equates 8.16% effective rate) 3.50% real, 4.50% inflation.
<i>Inflation</i>	4.50% per annum.
<i>Cost of Living Adjustments</i>	Up to 3% per annum for Tier 1
<i>Asset Valuation Method</i>	Five year smoothed market
<i>Interest Credited to Active Members Reserves</i>	Pursuant to the MCERA Interest Crediting Policy, adopted March 13, 2003, interest will fall within a range from 0-2% below the valuation interest rate.
<i>Average Annual Salary Increases</i>	5.50% (4.50% inflation, 1.00% average merit and longevity increase)

B. Non-Economic Assumptions

The date of the last study of the Plan's actual experience was June 30, 2004. There have been no changes in actuarial assumptions or methods since that valuation.

Post-Retirement Mortality Tables Used:

1. Service

General Member Males	1994 Group Annuity Mortality Table for Males (unadjusted)
General Member Females	1994 Group Annuity Mortality Table for Females (unadjusted)

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2004.

**MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SUMMARY OF ASSUMPTIONS AND FUNDING METHODS**

(Continued)

Safety Member	1994 Group Annuity Mortality Table for Males (1 year setback)
---------------	--

2. Disability

General Males	1981 Disability Mortality Table for General Members, (no setback)
---------------	--

General Females	1981 Disability Mortality Table for General Members (5 year setback)
-----------------	---

Safety Member	1981 Disability Mortality Table for Safety Members, (1 year setback)
---------------	---

3. For Employee Contribution Rate Purposes

General Member	1994 Group Annuity Mortality Table for Males (set back 3 years)
----------------	--

Safety Member	1994 Group Annuity Mortality Table for Males (unadjusted)
---------------	--

<i>Pre-Retirement Mortality</i>	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
--	--

<i>Withdrawal Rates</i>	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
--------------------------------	--

<i>Disability Rates</i>	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
--------------------------------	--

<i>Service Retirement Rates</i>	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
--	--

<i>Salary Growth</i>	Total increases of 5.5% per year, reflecting 4.5% for inflation and an average of 1% per year for merit and longevity
-----------------------------	---

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2004.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS

(Continued)

C. Funding Method

Employer contributions are actuarially determined level percentage rates that are expressed as percentages of annual payroll. The liability is presently being funded on the Entry Age Normal Actuarial Cost Method. Any unfunded actuarial accrued liability (UAAL) is amortized as a level percentage of projected future payroll cost over a 13-year period from June 30, 2004.

D. Plan Description

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

GENERAL MEMBERS – MALES

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	0.20900	0.00030	0.00000	0.00000	0.00000	0.00000	0.00010	0.00000
30	0.14850	0.00040	0.00080	0.00000	0.00010	0.00000	0.00050	0.01850
40	0.08030	0.00060	0.00130	0.00000	0.00030	0.00000	0.00120	0.02270
50	0.04180	0.00100	0.00240	0.06000	0.00110	0.00000	0.00240	0.02320
60	0.01320	0.00170	0.00420	0.16000	0.00310	0.00000	0.00420	0.01480
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

GENERAL MEMBERS – FEMALES

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	0.21500	0.00020	0.00000	0.00000	0.00000	0.00000	0.00010	0.00000
30	0.15900	0.00030	0.00020	0.00000	0.00010	0.00000	0.00030	0.01930
40	0.08100	0.00060	0.00040	0.00000	0.00020	0.00000	0.00050	0.02290
50	0.04150	0.00080	0.00180	0.06000	0.00080	0.00000	0.00160	0.01980
60	0.01300	0.00110	0.00460	0.16000	0.00280	0.00000	0.00420	0.01430
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

SAFETY MEMBERS

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	0.13000	0.00030	0.00000	0.00000	0.00000	0.00030	0.00520	0.00000
30	0.07800	0.00050	0.00030	0.00000	0.00010	0.00060	0.00670	0.02280
40	0.02500	0.00160	0.00060	0.00000	0.00020	0.00170	0.01020	0.01660
50	0.00900	0.00260	0.00120	0.03000	0.00100	0.00270	0.01590	0.00700
60	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2004.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Salary
7/1/98	General	1,552	\$50,391,000	\$32,468	6.15%
	Safety	209	\$ 7,462,000	\$35,708	5.40%
	Total	1,761	\$57,853,000	\$35,853	15.69%
7/1/99	General	1,710	\$54,639,000	\$31,953	-1.59%
	Safety	221	\$ 7,882,000	\$35,665	-0.12%
	Total	1,931	\$62,521,000	\$32,378	-9.69%
7/1/01	General	1,850	\$67,021,000	\$36,228	13.38%
	Safety	234	\$ 8,994,000	\$38,436	7.77%
	Total	2,084	\$76,015,000	\$36,476	12.66%
7/1/02	General	1,934	\$72,601,000	\$37,539	3.62%
	Safety	249	\$10,400,000	\$41,767	8.67%
	Total	2,183	\$83,001,000	\$38,022	4.24%
7/1/03	General	1930	\$76,971,000	\$39,882	6.24%
	Safety	262	\$11,615,000	\$44,332	6.14%
	Total	2192	\$88,586,000	\$40,413	6.28%
7/1/04	General	1,824	\$77,023,000	\$42,228	5.88%
	Safety	268	\$12,493,000	\$46,616	5.15%
	Total	2,092	\$89,516,000	\$42,790	5.88%

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2004.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED
FROM RETIREE PAYROLL**

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 Allowance
7/1/98	1,105	N/A	N/A	N/A	N/A	1,144	\$13,031	6.54%	\$11,391
7/1/99	1,144	N/A	N/A	N/A	N/A	1,179	\$14,398	10.49%	\$12,212
7/1/01	1,179	N/A	N/A	N/A	N/A	1,259	\$16,548	14.93%	\$13,144
7/1/02	1,259	N/A	N/A	N/A	N/A	1,295	\$17,673	6.80%	\$13,647
7/1/03	1,295	N/A	N/A	N/A	N/A	1,348	\$20,369	15.25%	\$15,110
7/1/04	1,348	124	2,807	31	396	1,441	\$22,780	11.84%	\$15,808

SOLVENCY TEST

(Dollar Amounts in Thousands)

Valuation Date	Actuarial Accrued Liabilities (AAL) For				Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	1	2	3	Actuarial Accrued Liabilities		1	2	3
	Active Member Contributions	Retirants and Beneficiaries	Active Members Employer Portion			1	2	3
6/30/98	\$40,571	\$177,565	\$115,635	\$333,771	\$260,884	100%	100%	46%
6/30/99	\$43,736	\$187,535	\$119,981	\$351,252	\$354,467	100%	100%	100%
6/30/01	\$49,481	\$211,439	\$143,396	\$404,316	\$411,710	100%	100%	100%
6/30/02	\$50,941	\$212,359	\$158,135	\$421,435	\$424,613	100%	100%	100%
6/30/03	\$48,379	\$238,727	\$164,075	\$451,181	\$428,959	100%	100%	86%
6/30/04	\$48,708	\$265,193	\$218,037	\$531,938	\$430,054	100%	100%	53%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

For Years Ended June 30

Plan Year Ending	Actuarial (Gains)/Losses			Changes in Plan Provisions (\$ 000)	Changes in Assumptions/Methods (\$ 000)	Total (Gain)/Loss (\$ 000)
	Asset Sources (\$ 000)	Liability Sources (\$ 000)	Total (\$ 000)			
6/30/99	N/A	N/A	(6,212)	N/A	N/A	(6,212)
6/30/00	N/A	N/A	14,316	N/A	N/A	14,316
6/30/01	N/A	N/A	(804)	N/A	N/A	(804)
6/30/02	N/A	N/A	(7,565)	N/A	N/A	(7,565)
6/30/03	15,639	11,232	26,871	N/A	N/A	26,871
6/30/04	18,204	5,320	23,524	51,722	3,646	78,892

Information compiled from Actuarial Report prepared by Buck Consultants. MCERA had no actuarial valuation for the year ending 06/30/2000.



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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Statistical Section

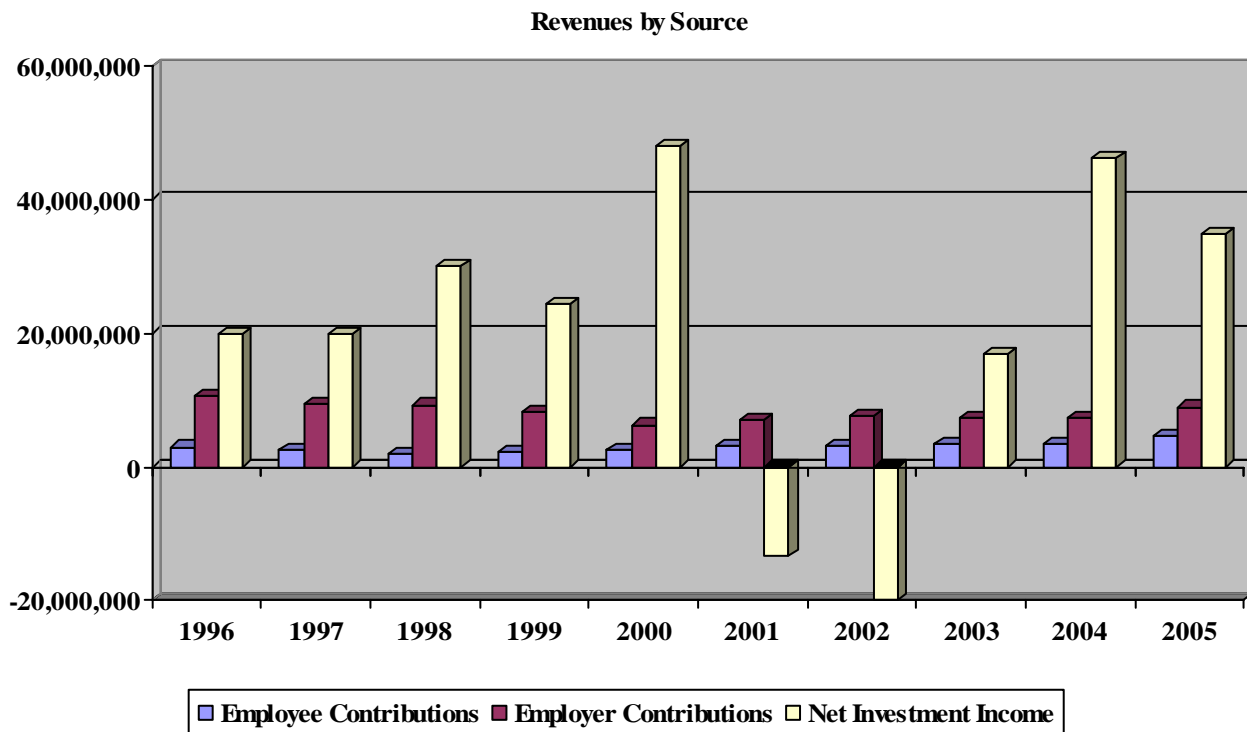
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REVENUES BY SOURCE

Fiscal Year Ending	Employee Contributions	Employer Contributions	% Covered Payroll	Net Investment Income	Total
6/30/96	\$ 2,985,456	\$ 10,566,379	15.67%	\$ 19,866,443	\$ 33,418,278
6/30/97	\$ 2,632,852	\$ 9,494,988	16.20%	\$ 19,851,280	\$ 31,979,121
6/30/98	\$ 2,039,856	\$ 9,253,420	17.38%	\$ 29,982,575	\$ 41,275,851
6/30/99	\$ 2,273,270	\$ 8,223,833 **	13.65%	\$ 24,394,230	\$ 34,891,333
6/30/00	\$ 2,435,360	\$ 6,259,387 **	9.37%	\$ 47,987,209	\$ 56,681,956
6/30/01	\$ 3,042,813	\$ 6,926,949 **	9.66%	\$ (13,342,217) *	\$ (3,372,455)
6/30/02	\$ 3,186,740	\$ 7,731,363 **	9.64%	\$ (19,789,912) *	\$ (8,871,809)
6/30/03	\$ 3,298,317	\$ 7,200,728 **	8.21%	\$ 16,957,409 *	\$ 27,456,454
6/30/04	\$ 3,347,455	\$ 7,268,826 **	7.95%	\$ 46,098,461 *	\$ 56,714,742
6/30/05	\$ 4,584,598	\$ 8,930,842 **	9.57%	\$ 34,840,502 *	\$ 48,355,942

*Beginning with June 30, 2001 the amounts listed under Net Investment Income have been reclassified to conform to the 2005 presentation.

**Does not consider net proceeds from the insurance of Pension Obligation Bonds issued by the County of Merced in the amount of \$61,694,915.



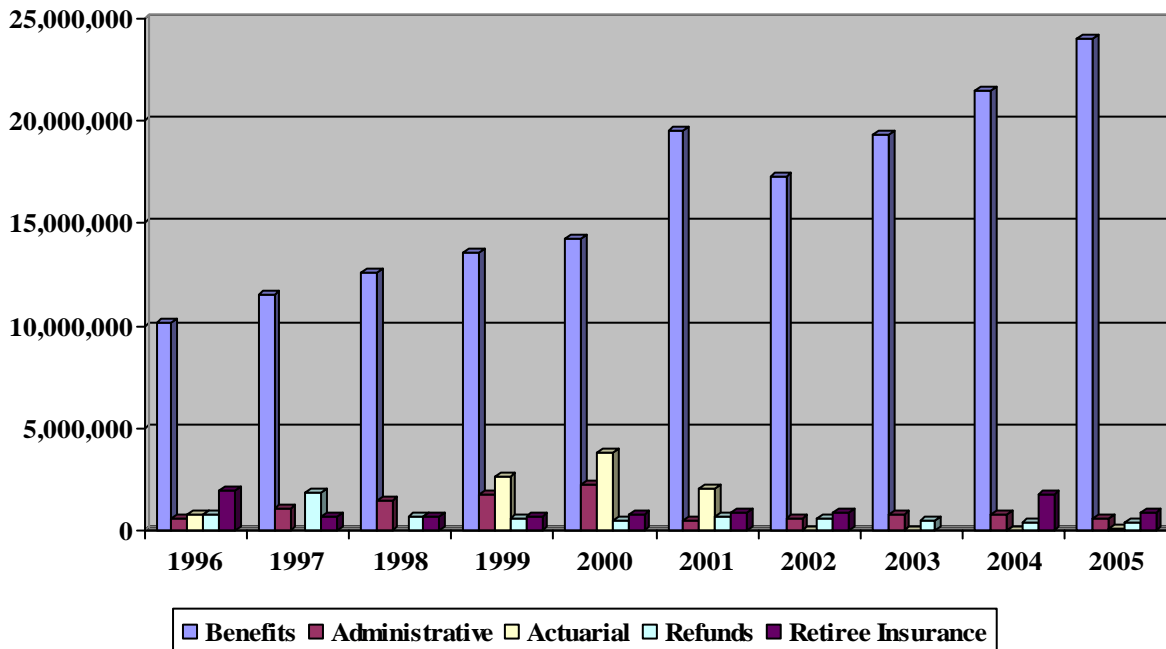
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

EXPENSES BY TYPE

Fiscal Year Ending	Benefits	Administrative Expenses	Actuarial Expense	Refunds	Retiree Insurance Premium	Total
06/30/96	\$ 10,192,661	\$ 547,785	\$ 734,492	\$ 754,319	\$ 1,940,903	\$ 14,170,160
06/30/97	\$ 11,494,535	\$ 1,089,118	-	\$ 1,842,437	\$ 669,118	\$ 15,095,208
06/30/98	\$ 12,601,445	\$ 1,479,445	-	\$ 646,853	\$ 690,702	\$ 15,418,654
6/30/99	\$ 13,604,448	\$ 1,772,025	\$ 2,676,827	\$ 624,867	\$ 690,702	\$ 19,368,871
6/30/00	\$ 14,251,035	\$ 2,206,015	\$ 3,833,565	\$ 466,009	\$ 823,642	\$ 21,580,266
6/30/01 *	\$ 19,520,377	\$ 528,918	\$ 2,078,546	\$ 681,371	\$ 850,702	\$ 23,659,914
6/30/02 *	\$ 17,264,575	\$ 586,146	\$ 7,403	\$ 625,159	\$ 850,702	\$ 19,333,985
6/30/03 *	\$ 19,345,829	\$ 820,341	-	\$ 498,749	-	\$ 20,664,919
6/30/04 *	\$ 21,498,606	\$ 830,439	-	\$ 349,488	\$ 1,758,550	\$ 24,437,083
6/30/05 *	\$ 24,069,742	\$ 602,451	\$ 61,951	\$ 409,034	\$ 850,000	\$ 25,993,178

*Beginning with June 30, 2001 the amounts listed under Administrative, Investment, Depreciation and Other Expenses have been reclassified to conform to the 2005 presentation.

Expenses by Type



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF BENEFIT EXPENSES BY TYPE

	2004	2003	2002	2001	1999	1998
Service Retirement						
Payroll:						
General	\$14,977,309	\$ 13,197,281	\$ 11,238,309	\$ 11,157,801	\$ 9,236,694	\$ 8,274,248
Safety	2,505,740	2,349,395	1,907,697	1,809,038	1,547,208	1,319,522
Total	\$17,483,049	\$ 15,546,676	\$ 13,146,006	\$ 12,966,839	\$ 10,783,902	\$ 9,593,770
Disability Retiree						
Payroll						
General	\$1,442,940	\$ 1,387,716	\$ 1,383,977	\$ 1,338,951	\$ 1,154,350	\$ 1,061,206
Safety	1,769,092	1,572,219	1,483,222	1,361,704	1,121,929	1,054,283
Total	\$3,212,032	\$ 2,959,935	\$ 2,867,199	\$ 2,700,655	\$ 2,276,279	\$ 2,115,489
Beneficiary						
Payroll						
General	\$1,510,781	\$ 1,347,253	\$ 1,211,042	\$ 1,130,018	\$ 907,837	\$ 891,117
Safety	574,568	515,143	449,468	438,723	429,842	430,607
Total	\$2,085,349	\$ 1,862,396	\$ 1,660,510	\$ 1,568,741	\$ 1,337,679	\$ 1,321,724
Total Benefit Expense						
Payroll						
General	\$17,931,030	\$ 15,932,250	\$ 13,833,328	\$ 13,626,770	\$ 11,298,881	\$ 10,226,571
Safety	4,849,400	4,436,757	3,840,387	3,609,465	3,098,979	2,804,412
Total	\$22,780,430	\$ 20,369,007	\$ 17,673,715	\$ 17,236,235	\$ 14,397,860	\$ 13,030,983

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

	GENERAL MEMBERS		SAFETY MEMBERS		TOTAL	
	Number	Monthly Allowance	Number	Monthly Allowance	Number	Monthly Allowance
Service Retirement	947	\$ 1,248,109	97	\$ 208,812	1,044	\$ 1,456,921
Disability	106	\$ 120,245	78	\$ 147,424	184	\$ 267,669
Beneficiaries	175	\$ 125,898	38	\$ 47,881	213	\$ 173,779
Total Retired Members	1,228	\$ 1,494,252	213	\$ 404,117	1,441	\$ 1,898,369

Note: Information compiled from Actuarial Report prepared by Buck Consultants. Information for the fiscal year ending. Information for the fiscal year ending June 30, 2005 was not available for this report.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF ACTIVE MEMBERSHIP For Years Ended June 30

	2004	2003	2002	2001	1999	1998	1997
GENERAL TIER I							
Number	660	726	784	830	952	1,003	1,072
Annual Payroll**	\$32,594,000	\$34,233,000	\$35,222,000	\$35,125,000	\$34,553,000	\$35,763,000	\$35,157,000
Average Monthly Salary	\$4,115	\$3,929	\$3,744	\$3,527	\$3,025	\$2,971	\$2,733
Average Age	50.94	50.94	50.58	49.78	48.21	47.39	46.68
Average Service	17.29	17.29	16.48	15.72	14.11	13.30	12.34
GENERAL TIER II							
Number	1,164	1,204	1,150	1,020	758	549	392
Annual Payroll**	\$44,429,000	\$42,738,000	\$37,379,000	\$31,896,000	\$20,086,000	\$14,628,000	\$9,624,000
Average Monthly Salary	\$3,181	\$2,958	\$2,709	\$2,606	\$2,208	\$2,220	\$2,046
Average Age	40.78	40.78	40.01	39.56	38.73	39.04	38.62
Average Service	3.71	3.71	3.09	2.79	2.27	2.15	1.87
SAFETY TIER I							
Number	118	128	136	144	173	178	190
Annual Payroll**	\$6,326,000	\$6,426,000	\$6,384,000	\$6,130,000	\$6,584,000	\$6,617,000	\$6,560,000
Average Monthly Salary	\$4,468	\$4,184	\$3,912	\$3,547	\$3,170	\$3,098	\$2,877
Average Age	45.03	45.03	44.60	43.68	41.48	41.34	40.20
Average Service	15.78	15.78	15.08	14.08	11.66	11.17	10.28
SAFETY TIER II							
Number	150	134	113	90	48	31	14
Annual Payroll**	\$6,167,000	\$5,189,000	\$4,016,000	\$2,864,000	\$1,301,000	\$846,000	\$351,000
Average Monthly Salary	\$3,426	\$3,227	\$2,962	\$2,652	\$2,259	\$2,274	\$2,089
Average Age	33.31	33.31	32.54	31.51	32.34	30.84	31.07
Average Service	2.83	2.83	2.36	2.17	1.52	1.64	1.64
TOTAL							
Number	2,092	2,192	2,183	2,084	1,931	1,761	1,668
Annual Payroll**	\$89,516,000	\$88,586,000	\$83,001,000	\$76,015,000	\$62,521,000	\$57,854,000	\$51,692,000
Average Monthly Salary	\$3,566	\$3,368	\$3,168	\$3,040	\$2,698	\$2,738	\$2,583
Average Age	43.69	43.94	43.71	43.57	43.49	43.88	43.92
Average Service	8.61	8.86	8.61	8.69	8.93	9.40	9.55

** Represents the annualization of active members' pay rates on June 30.

Note: Information compiled from Actuarial Report prepared by Buck Consultants. Information for the fiscal year ending June 30, 2005 was not available for this report.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF RETIRED MEMBERSHIP For Years Ended June 30

	2004	2003	2002	2001	1999	1998
GENERAL						
Number	1,228	1,147	1,108	1,079	1,008	981
Basic Annual Allowance	\$ 13,786,000	\$ 12,119,000	\$ 10,298,000	\$ 10,383,000	\$ 8,731,000	\$ 7,924,000
Average Basic Monthly Allowance	\$ 936	\$ 880	\$ 775	\$ 802	\$ 722	\$ 673
Total Annual Allowance	\$17,931,000	\$ 15,932,000	\$ 13,833,000	\$ 13,627,000	\$ 11,299,000	\$ 10,227,000
Average Total Monthly Allowance	\$1,217	\$ 1,158	\$ 1,040	\$ 1,052	\$ 934	\$ 869
SAFETY						
Number	213	201	187	180	171	163
Basic Annual Allowance	\$3,597,000	\$ 3,300,000	\$ 2,818,000	\$ 2,671,000	\$ 2,373,000	\$ 2,156,000
Average Basic Monthly Allowance	\$1,407	\$ 1,368	\$ 1,256	\$ 1,237	\$ 1,156	\$ 1,102
Total Annual Allowance	\$4,849,000	\$ 4,437,000	\$ 3,840,000	\$ 3,609,000	\$ 3,099,000	\$ 2,804,000
Average Total Monthly Allowance	\$1,897	\$ 1,840	\$ 1,711	\$ 1,671	\$ 1,510	\$ 1,434
TOTAL						
Number	1,441	1,348	1,295	1,259	1,179	1,144
Basic Annual Allowance	\$17,383,000	\$ 15,419,000	\$ 13,116,000	\$ 13,054,000	\$ 11,104,000	\$ 10,080,000
Average Basic Monthly Allowance	\$1,005	\$ 953	\$ 844	\$ 864	\$ 785	\$ 734
Total Annual Allowance	\$22,780,000	\$ 20,369,000	\$ 17,673,000	\$ 17,236,000	\$ 14,398,000	\$ 13,031,000
Average Total Monthly Allowance	\$1,317	\$ 1,259	\$ 1,137	\$ 1,141	\$ 1,018	\$ 949

SUMMARY OF INACTIVE MEMBERSHIP						
	2005	2004	2003	2002	2001	1999
GENERAL						
Number	418	438	449	454	437	429
SAFETY						
Number	74	70	74	75	76	68
TOTAL						
Number	492	508	523	529	513	497

Note: Information compiled from Actuarial Report prepared by Buck Consultants. Information for the fiscal year ending June 30, 2005 was not available for this report.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET

For the Year Ending June 30

	2004	2003
ASSETS		
1. Total actuarial value of assets	\$ 430,053,925	\$ 428,959,466
2. Present value of future contributions by members	42,218,183	17,346,408
3. Present value of future employer contributions for normal cost	42,437,607	40,820,451
4. Present value of other future employer contributions (UAAL)	101,884,508	22,221,472
5. Total Actuarial Assets	\$ 616,594,223	\$ 509,347,797
LIABILITIES		
6. Present value of retirement allowances payable to retired members and their survivors	\$ 258,185,204	\$ 230,228,921
7. Present value of service retirement allowances payable to presently active member and their survivors	247,605,621	183,533,293
8. Present value of allowances payable to current and future vested terminated members and their survivors	60,451,246	50,598,518
9. Present value of disability retirement allowances payable to presently active members and their survivors	24,077,021	20,830,491
10. Present value of death benefits payable on behalf of presently active members	4,478,901	4,360,621
11. Present value of members' contributions to be returned upon withdrawal	14,788,673	11,297,830
12. Special Reserves	7,007,557	8,498,123
13. Total Actuarial Liabilities	\$ 616,594,223	\$ 509,347,797
FUNDED RATIO		
14. Present value of future benefits (items 6 to 12)	\$ 616,594,223	\$ 509,347,797
15. Present value of future contributions by members and employers (items 2 and 3)	84,655,790	58,166,859
16. Actuarial accrued liability (item 14 minus item 15)	531,938,433	451,180,938
17. Actuarial value of assets	430,053,925	428,959,466
18. Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	\$ 101,884,508	\$ 22,221,472
19. Funded Ratio	80.8%	95.1%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

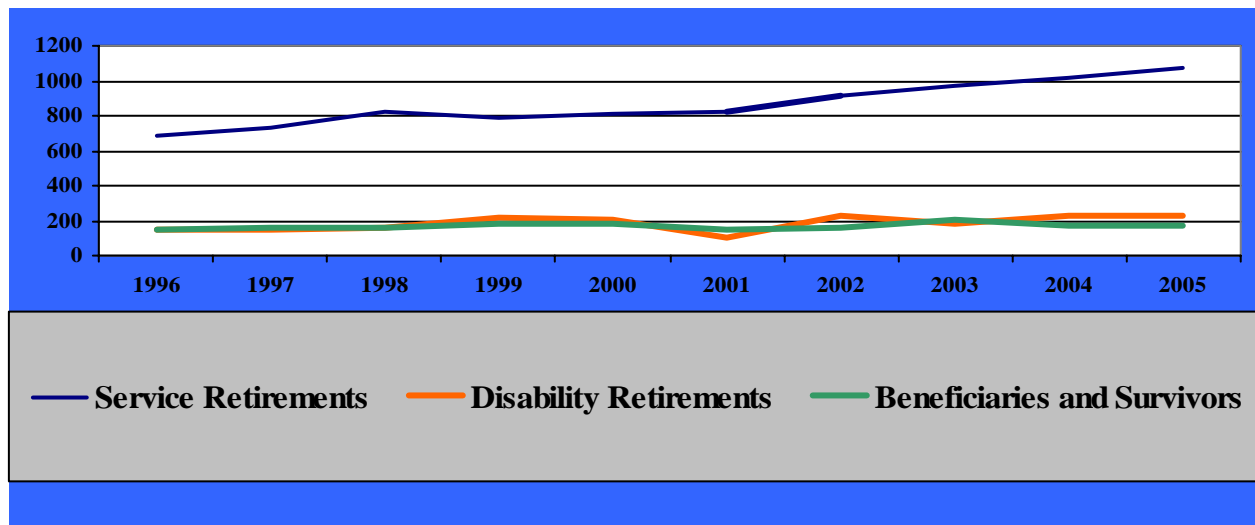
PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

For the Years Ended June 30, 2005 and 2004

County of Merced	2005	2004
General Members	1,931	1,882
Safety Members	296	274
Total County of Merced	2,227	2,156
Participating Agencies		
Merced Cemetery District	3	2
Total Merced Cemetery District	3	2
Total Active Membership		
General	1,934	1,884
Safety	296	274
Total	2,230	2,158

TEN YEAR RETIREE MEMBERSHIP HISTORY

For fiscal years 1996-2005



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Service Retirements	681	733	818	783	809	826	911	966	1,012	1,073
Disability Retirements	144	152	162	212	207	108	225	180	233	232
Beneficiaries and Survivors	152	155	156	180	184	145	158	202	171	171
Total	977	1,040	1,136	1,175	1,200	1,079	1,294	1,348	1,416	1,476



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