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, 2007 and 2006

Issued By

Maria L. Arevalo
Plan Administrator

Gale Garcia, RPA
Accounting Analyst

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

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

Maria L. Arevalo
Plan Administrator

LETTER OF TRANSMITTAL

October 1, 2007

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, 2007 and 2006. This report is intended to provide readers with complete and reliable information about the MCERA's financial status, compliance with the law and MCERA policies. This is MCERA's 57th year of operation.

MCERA's Mission Statement and Core Values

MCERA is committed to providing quality services and managing MCERA's assets in a prudent manner. In carrying out the policies and objectives, as set by the Board, the Board and MCERA staff will:

- Discharge their duties in accordance with fiduciary principals.
- Take responsibility for cost effective operations and minimize employer contributions.
- Display competency, courtesy and respect.
- Continue professional growth through education and training.
- Plan strategically for the future.

The Comprehensive Annual Financial Report (CAFR)

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

- The **Introductory Section-**describes MCERA's management and organizational structure; identifies the members of the MCERA Board of Retirement (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, Macias, Gini & O'Connell, LLP, along with MCERA management's discussion and analysis of MCERA's financial statements, supplementary financial information, the financial statements, explanatory notes, supplementary schedules, and MCERA's funding status.

- 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-**contains the independent actuary's certification, Buck Consultants, along with a summary of actuarial assumptions and methods, and actuarial statistics.

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

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, 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 and one alternate; two elected by the active general membership, one regular and one alternate 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, 2007 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, Macias Gini & O'Connell, LLP, 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.

As of June 30, 2007, MCERA's net assets held in trust totaled approximately $519 million reflecting an increase of approximately $73 million (approximately 16.5%) over the net assets held in trust at the end of the previous fiscal year. This increase was primarily due to increased employer and employee contributions and increases in the net appreciation in fair value of investments held by MCERA 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 valuation as of June 30, 2006, found the retirement system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 71.1%. The funded percentage decreased from 72.7% in 2005. This decrease can be attributed primarily to pension benefit increases and the incorporation of the past year's losses resulting from the 5 year smoothing method which spreads all gains and losses (returns above or below expected returns) over 5 years.

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 the 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, 2007, investments provided a 17.4% rate of return. MCERA's annualized rate of return over the last three and five years was 11.7% and 10.7% **,** respectively.

Service Efforts and Accomplishments

An annual Cost of Living increase of 3% was approved by the Board of Retirement for all eligible retirees and beneficiaries effective April 1, 2007 with a future carry-over of .5% for all members retired on or before April 1, 2007.

The Board considered and adopted a new asset allocation plan from a study performed by MCERA's consultant, Milliman USA. The new plan includes an increased (18%) allocation to international equities, an enhanced bond index fund and a decreased allocation to fixed income. For additional information please refer to page 63, under heading "**Target Asset Mix & Total Fund Benchmark",** located in the investment section.

The Board undertook a search for a custodial bank and hired Mellon Asset Servicing. The conversion process was completed November 1, 2006.

LETTER OF TRANSMITTAL
(Continued)

The Board hired a new small cap international manager, two new private equity managers, and a small cap growth manager.

MCERA has two new Board members, Ron Kinchloe elected by the general members and David Ness appointed by the Board of Supervisors.

MCERA staff is in the process of drafting an RFI/RFP for a new benefit administration software system.

Staff is working with MCERA's master custodian to develop methods of streamlining the retirement plan's financial reporting procedures and methods.

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 the MCERA for its CAFR for the fiscal year ended June 30, 2006. 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 third 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 in particular, MCERA's account analyst, Gale Garcia. I would like to express my great appreciation for their hard work. I would also like to thank MCERA's professional consultants – particularly our actuary, our investment consultant and our auditors – for their generous and invaluable assistance. Finally, I would like to acknowledge 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, 2006

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT AT JUNE 30, 2007

LeRoy Gilsdorf
Elected by Retired Members
Term Expires 12-31-08

Karen Rodriguez, Chair
Elected by General Members
Term Expires 06-30-10

Ronald Kinchloe
Elected by General Members
Term Expires 06-30-09

Ralph Busby
Appointed by the Board of Supervisors
Term Expires 12-31-09

Jim Lindsey
Appointed by the Board of Supervisors
Term Expires 06-30-08

Karen Adams
County Treasurer
Ex-officio Member

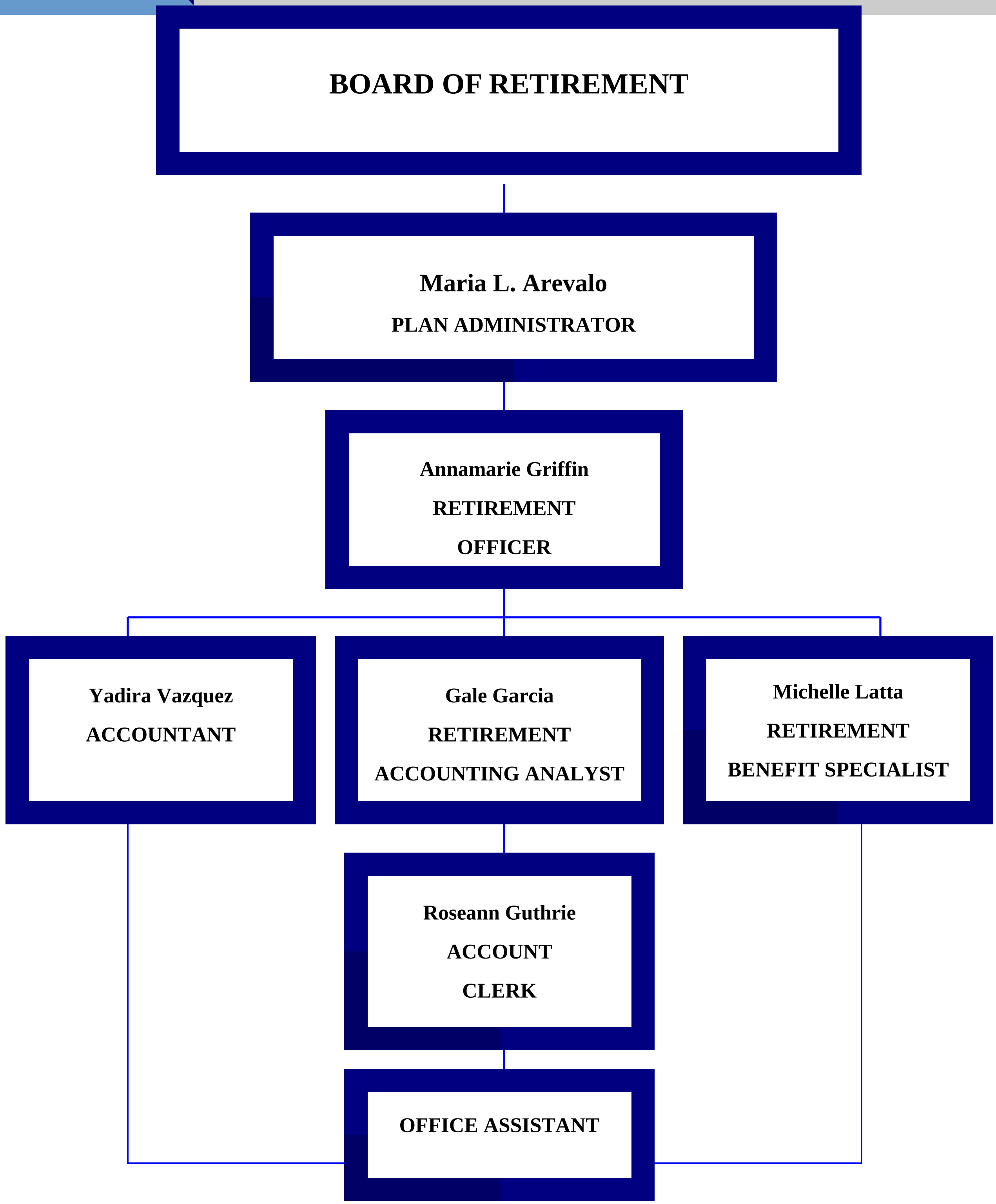
Kathleen Crookham
Appointed by and Member of the Board of Supervisors
Term Expires 06-30-08

David Ness
Appointed by the Board of Supervisors
Term Expires 06-30-09

David Baker
Elected by Safety Members
Expires 12-31-08

Dwayne McCoy, Alternate
Elected by Safety Members
Term Expires 12-31-08

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
ORGANIZATION CHART AT JUNE 30, 2007



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

LIST OF PROFESSIONAL CONSULTANTS AT JUNE 30, 2007

CONSULTING SERVICES

INVESTMENT CONSULTANT
Milliman USA
William Cottle

ACTUARY
Buck Consultants
Harold Loeb

AUDITOR
Macias Gini & O'Connell, LLP

CUSTODIAN
Mellon Asset Servicing
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
Aberdeen Asset Management

REAL ESTATE
UBS Global Asset Management

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

INTERNATIONAL EQUITY
Invesco Global Asset Management
Nicholas Applegate

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

COMMISSION RECAPTURE BROKERS
Donaldson & Co.
Lynch, Jones & Ryan

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Financial Section

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MGO

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the Merced County Employees' Retirement Association (the Association), as of June 30, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Merced County Employees' Retirement Association as of June 30, 2007 and 2006, and the changes in plan net assets for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated September 27, 2007, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 21 through 28, the Schedule of Funding Progress on page 54 and the Schedule of Employer Contributions on page 54 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, other supplemental schedules in the financial section and the investments, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental schedules in the financial section 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. The introductory, investments, actuarial and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financials statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
September 27, 2007

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, 2007 and 2006. 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 $519,310,756. 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 $73,414,035 (an increase of 16.5%).

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2006, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 71.1%. In general, this indicates that for every one dollar of benefits due, MCERA has slightly more than $.71 of assets available for payment.

- Additions to Plan Net Assets for the year were a positive $105,601,541, which includes member and employer contributions of $31,987,396, a net investment gain of $73,564,683, and net securities lending income of $49,462.

- Deductions in Plan Net Assets increased from $28,413,297 in the last fiscal year to $32,187,506 in the current fiscal year (an increase of approximately 13.3%).

Overview of the Financial Statements

The following discussion and analysis is intended to help the reader understand the purpose and meaning of the key components within MCERA's Comprehensive Annual Financial Report (CAFR). The CAFR is comprised of the following:

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 difference between assets and liabilities represent the net assets held in trust for pension benefits. The statement also presents prior year-end balances for comparative purposes.

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 that caused the change in the net assets during the fiscal year.

Both financial statements are in compliance with the accounting principles and reporting guidelines set forth in Governmental Accounting Standards Board (GASB) Statements 25, 28, 34, 40 and 44. 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.

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 $519,310,756. 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, 2007 totaled $519.3 million which is $73.4 million (or 16.5%) more than the prior year. This result essentially reflects the 16.4% (or $71.4 million) increase in the investments fair value of assets and $51.3 million securities lending program.

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. For the third consecutive year the plan's net assets experienced solid growth. The investment markets, particularly equity markets continued to be volatile. The third and forth quarters of 2006 was strong with the S&P 500 returning 5.7% and 6.7%, respectively. The first quarter of 2007 slowed and registered only modest gains with the S&P 500 returning 0.7%. The second quarter rallied with the S&P 500 returning 6.3%. 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 as of June 30, 2007 and 2006

	2007	2006	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and Other Assets	$ 77,274,870	$ 20,495,905	$ 56,778,965	277.0%
Investments at Fair Value	507,535,602	436,105,973	71,429,629	16.4%
Capital Assets	20,231	29,260	(9,029)	-30.9%
Total Assets	584,830,703	456,631,138	128,199,565	28.1%
Current Liabilities	65,519,947	10,734,417	54,785,530	510.4%
Total Liabilities	65,519,947	10,734,417	54,785,530	510.4%
Net Assets	$ 519,310,756	$ 445,896,721	$ 73,414,035	16.5%

MCERA's Net Assets as of June 30, 2006, and 2005

	2006	2005	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and Other Assets	$ 20,495,905	$ 22,016,476	$ (1,520,571)	(6.9)%
Investments at Fair Value	436,105,973	410,750,152	25,355,821	6.2%
Capital Assets	29,260	28,551	709	2.5%
Total Assets	456,631,138	432,795,179	23,835,959	5.5%
Current Liabilities	10,734,417	13,648,724	(2,914,307)	(21.4)%
Total Liabilities	10,734,417	13,648,724	(2,914,307)	(21.4)%
Net Assets	$ 445,896,721	$ 419,146,455	$ 26,750,266	6.4%

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 a solid performance in the investment markets (and the corresponding increase in the fair value of MCERA's investments), the Market Value Fluctuation Reserve increased by $40,248,805 in the current fiscal year, resulting in a positive closing balance of $109,911,028. The investment performance was positive in the current fiscal year (approximately 17.4% before fees).

MCERA's Reserves as of June 30, 2007, 2006, and 2005

	2007	2006	2005
Active Member Reserves	$ 59,299,436	$ 54,825,607	$ 49,161,941
Employer Advance Reserves	52,448,854	66,763,872	73,309,666
Retired Member Reserves	265,687,161	230,191,661	219,322,395
Ad-Hoc COLA Reserve	1,654,015	1,568,795	1,553,241
Interest Fluctuation Reserve	7,818,008	-	-
Market Value Fluctuation Reserve	109,911,028	69,662,223	66,069,509
Medical Insurance Trust	-	-	2,610,752
Contingency Reserve	18,558,664	18,194,769	4,327,952
Internal Revenue Code (IRC) Section 401(h)	3,933,590	4,689,794	2,790,999
Total Reserves at Fair Value	$ 519,310,756	$ 445,896,721	$ 419,146,455

MCERA's Activities

An upturn in the investment markets resulted in a June 30, 2007 fiscal year increase of $73,414,035 in MCERA's net assets (an increase of approximately 16.5% 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 $105,601,541. Overall, revenues for the fiscal year were up $50,437,978 (approximately 91.4%) from the fiscal year ended June 30, 2006, due to investment fair value gains and increased employee and employer contributions. In the 2005-2006 fiscal year, investment gains resulted in a positive $55,163,563 in total revenue, which was a increase of $6,807,621 from the total revenue in the 2004-2005 fiscal year. Employer and employee contributions increased in the current fiscal year due to the actuarial assumptions and experience of the Association. The increase in the MCERA's employer and employee rates, due to the enhanced benefit levels are reflected in the actuarial valuation for June 30, 2006. 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, 2007 and 2006)

	2007	2006	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employer Contributions	$ 23,232,099	$ 14,749,934	$ 8,482,165	57.5%
Member Contributions	8,755,297	8,221,757	533,540	6.5%
Net Investment Income/(Loss)	73,614,145	32,191,872	41,422,273	128.7%
Total Additions	$ 105,601,541	$ 55,163,563	$ 50,437,978	91.4%

Additions to Plan Net Assets
(For the Years Ended June 30, 2006 and 2005)

	2006	2005	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employer Contributions	$ 14,749,934	$ 8,930,842	$ 5,819,092	65.2%
Member Contributions	8,221,757	4,584,598	3,637,161	79.3%
Net Investment Income/(Loss)	32,191,872	34,840,502	(2,648,630)	(7.6)%
Total Additions	**$ 55,163,563**	**$ 48,355,942**	**$ 6,807,621**	**14.1%**

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 $32,187,506, an increase of 13.3% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll and administrative expenses, which grew approximately 12.6% and 56.4% respectively. Deductions for the 2006 fiscal year totaled $28,413,297, an increase of 9.3% from the 2005 fiscal year. Retiree payroll and refund of contributions was the largest part of this increase, which grew 9.1% and 47.2% respectively.

Deductions in Plan Net Assets
(For the Years Ended June 30, 2007 and 2006)

	2007	2006	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Benefits	$ 29,577,586	$ 26,263,569	$ 3,314,017	12.6%
Administrative Expenses	1,014,953	649,080	365,873	56.4%
Refunds of Contributions	703,867	602,210	101,657	16.9%
401(h) Distribution to County	850,000	850,000	0.00	0%
Actuarial Expense	41,100	48,438	(7,338)	-15.1%
Total Deductions	$ 32,187,506	$ 28,413,297	$ 3,774,209	13.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Deductions in Plan Net Assets
(For the Years Ended June 30, 2006 and 2005)

	2006	2005	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Benefits	$ 26,263,569	$ 24,069,742	$ 2,193,827	9.1%
Administrative Expense	649,080	602,451	46,629	7.7%
Refunds of Contributions	602,210	409,034	193,176	47.2%
401(h) Distribution to County	850,000	850,000	-	0%
Actuarial Expense	48,438	61,951	(13,513)	(21.8)%
Total Deductions	$ 28,413,297	$ 25,993,178	$ 2,420,119	9.3%

Changes in Net Assets
(For the Years Ended June 30, 2007, 2006 and 2005)
(Amounts Expressed in Thousands)

Additions	06/30/07	06/30/06	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent	06/30/06	06/30/05	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 8,755	$ 8,222	$ 534	6.5%	$ 8,222	$ 4,585	$ 3,637	79.3%
Employer contributions	23,232	14,750	8,482	57.5%	14,750	8,931	5,819	65.2%
Net investment income	73,614	32,191	41,423	128.7%	32,191	34,840	(2,649)	(7.6%)
Total additions	105,601	55,163	50,439	91.4%	55,163	48,356	6,807	14.1%
Deductions								
Benefits paid	29,578	26,264	3,314	12.6%	26,264	24,070	2,194	9.1%
Administrative expenses	1,014	649	365	56.4%	649	602	47	7.8%
Actuarial Expenses	41	48	7	-15.1%	48	62	(14)	(22.6%)
Refunds	704	602	102	16.9%	602	409	193	47.2%
401(h) Distribution to County	850	850	-	-	850	850	-	0%
Total deductions	32,187	28,413	3,774	13.3%	28,413	25,993	2,420	9.3%
Change in net assets	$ 73,414	$ 26,750	$ 46,664	174.4%	$ 26,750	$ 22,363	$ 4,387	19.6%
Net assets held in trust at end of year	$519,311	$445,897	$73,414	16.5%	$445,897	$419,146	$26,750	6.4%

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
STATEMENTS OF PLAN NET ASSETS
As of June 30, 2007 and 2006

ASSETS	June 30, 2007	June 30, 2006
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$ 4,903,776	$ 8,569,708
Cash invested with BNY Mellon	962,934	-
Other cash and cash equivalents with BNY Mellon	15,032,995	7,725,097
Securities lending collateral	51,309,226	-
Receivables:		
Bond interest	1,086,032	1,024,623
Stock dividends	184,718	163,818
Contributions	620,893	485,794
Securities sold	3,161,315	2,481,865
Other	12,981	-
Total receivables	5,065,939	4,156,100
Investments at fair value:		
U.S. government and agency obligations	57,427,648	58,210,041
Domestic fixed income	61,121,291	60,497,695
Common stocks (individual equities)	224,139,859	188,036,203
International equity fund (commingled)	55,705,055	43,947,332
Mellon Capital Mgmt (index fund)	61,190,945	50,564,107
UBS Real Estate Separate Account (RESA)	37,324,191	31,212,368
Alternative investments	10,151,613	3,163,227
Direct real estate investment	475,000	475,000
Total investments	507,535,602	436,105,973
Prepaid expenses	-	45,000
Capital assets: Net of accumulated depreciation of $51,997 and $42,969 respectively	20,231	29,260
Total assets	584,830,703	456,631,138
LIABILITIES		
Accounts payable	906,237	1,318,449
Securities lending obligation	51,309,226	
Securities purchased	13,266,111	9,373,556
Unclaimed contributions	38,373	42,412
Total liabilities	65,519,947	10,734,417
Net assets held in trust for pension benefits	$ 519,310,756	$ 445,896,721

(A Schedule of Funding Progress for pension benefits is presented on page 54)

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Years Ended June 30, 2007 and 2006

	June 30, 2007	June 30, 2006
ADDITIONS		
Contributions:		
Employer	$ 23,232,099	$ 14,749,934
Plan members	8,755,297	8,221,757
Total contributions	31,987,396	22,971,691
Investment Income from Investment Activities:		
Net appreciation in fair value of investments	40,248,806	3,592,713
Investment income	35,564,948	31,010,792
Other revenue	53,398	51,748
Less investment expenses	(2,302,469)	(2,463,381)
Net investment income	73,564,683	32,191,872
Securities Lending Activities:		
Securities lending income	1,424,740	-
Securities lending expenses	(1,375,278)	-
Net securities lending income	49,462	-
Total Net Investment Income	73,614,145	32,191,872
Total Additions	105,601,541	55,163,563
DEDUCTIONS		
Benefits	29,577,586	26,263,569
Refunds of contributions	703,867	602,210
Administrative expense	1,014,953	649,080
Actuarial expense	41,100	48,438
401(h) distribution to County	850,000	850,000
Total deductions	32,187,506	28,413,297
Net increase	73,414,035	26,750,266
Net assets held in trust for pension benefits at beginning of year.	445,896,721	419,146,455
Net assets held in trust for pension benefits at end of year.	$ 519,310,756	$ 445,896,721

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007 and 2006

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 and one alternate:

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
7. One alternate 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-time positions within the Merced County, Superior Court, 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 minimum age to retire is 55 for General members Tier II and 50 for Safety members Tier II or any age with 20 years of service for Safety.

The structure of the membership on June 30, 2007 was as follows:

	GENERAL		SAFETY		
Active Members	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**TOTAL**
Vested	464	736	90	76	1,366
Non-Vested	20	750	3	159	932
Inactive Members					
Deferred and Inter-System Members	261	148	48	27	484
Unclaimed	9	22			31
TOTAL MEMBERS	754	1,656	141	262	2,813
Retired Members					
Service Retirements	1,060	27	120	2	1,209
Beneficiaries	140	2	22		164
Service Connected Disability	68	2	83	3	156
Non-service Connected Disability	56	6	4		66
Survivors	18	2	4		24
TOTAL RETIRED MEMBERS	1,342	39	233	5	1,619

The structure of the membership on June 30, 2006 was as follows:

	GENERAL		SAFETY		
Active Members	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**TOTAL**
Vested	547	638	96	61	1,342
Non-Vested	21	756	3	156	936
Inactive Members					
Deferred and Inter-System Members	273	128	57	19	477
Unclaimed	9	23	1		33
TOTAL MEMBERS	850	1,545	157	236	2,788
Retired Members					
Service Retirements	992	15	110	2	1,119
Beneficiaries	130	-	19	-	149
Service Connected Disability	71	1	85	3	160
Non-service Connected Disability	58	5	4	-	67
Survivors	19	2	5	-	26
TOTAL RETIRED MEMBERS	1,270	23	223	5	1,521

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.

The County Board of Supervisors adopted Government Code Section 31676.17 of the County Employees Retirement Law of 1937 for all County General members (Tier I and Tier II) on March 15, 2005, Government Code Section 31664.1 for all Safety member (Tier I and Tier II) on July 1, 2005 and Government Code Section 31676.17 for Superior Court of California, County of Merced members on November 4, 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.

Percentage of Final Average Salary for Each Year of Service (Rounded)
Current Employees

	Tier I		Tier II	
Retirement Age	General	Safety	General	Safety
50	2.00%	3.00%	-	3.00%
55	2.50%	3.00%	2.50%	3.00%
60+	3.00%	3.00%	3.00%	3.00%

Merced County Cemetery District, Deferred, and Reciprocal Prior to March 15, 2005

	Tier I		Tier II	
Retirement Age	General	Safety	General	Safety
50	1.24%	2.00%	-	2.00%
55	1.67%	2.62%	1.49%	2.62%
60	2.18%	2.62%	1.92%	2.62%
65+	2.61%	2.62%	2.43%	2.62%

(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 provision 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.

Option No. 2

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

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

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

(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 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 $3,000 (Government Code Section 31789.3 adopted May 2, 2006) is paid to the beneficiary or estate; however, if the member is an reciprocal system member, this benefit is payable only if you were an active member of Merced County at the time of retirement.

If the retirement was for service-connected disability, 100% of the amount the member was receiving at the time of death is continued to the surviving spouse for life.

If the retirement was for other than 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.

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

(9) *Contribution Rates*

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

Benefits payable by the System are financed through member contributions, employer contributions from the County, Merced Cemetery District, Superior Court, County of Merced and earnings from investments.

A. Member

MCERA members are required to contribute a percentage of their annual covered salary. The rates are set to provide a retirement amount that is equal to a fractional part of the highest year(s) salary, based on membership and tier. Contribution rates that are actuarially determined are based on a formula reflecting the member's age of entry in the System. For members integrated with Social Security, the contributions are reduced by 1/3 of such contribution payable with respect to the first $350 of monthly salary.

B. County

The County and participating employers are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to MCERA members not otherwise funded by employee contributions or investment earnings. Pursuant to provisions of the 1937 Act, the 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) *401(h) Distribution*

The County currently provides and administers a health care plan for both active members and eligible retirees. Since 1983, MCERA had provided financial support toward the cost of retiree health insurance through a transfer of funds from MCERA's Medical Trust reserve.

In the 2002-2003 fiscal year, MCERA adopted an Internal Revenue Code (IRC) Section 401(h) Plan to serve as a vehicle for providing this financial support. Funding financial support through a 401(h) reserve allowed the County to direct MCERA to use excess earnings from the Medical Trust reserve to replace County contributions to the 401(h) reserve. The Medical Trust reserve had been funded with excess earnings from years prior to 2002. The decision to provide financial support, or the level of such support, had been in the sole discretion of the Retirement Board, and among other things, was 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. In May of 2006, the Retirement Board directed that the balance of funds in the Medical Trust reserve be used to replace the County's final contribution to the 401(h) and the Medical Trust reserve was then terminated. MCERA no longer funds or maintains the Medical Insurance Trust.

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 expenses 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.

C. Investment Expenses

Investment expenses include fees paid for investment consulting service, 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.

D. General Administrative Expense

MCERA's administrative costs are calculated pursuant to Government Code Section 31580.2, which provides that the expense incurred in any year may not exceed .18%. of the total assets of the retirement system. MCERA's administrative expenses are charged against the plan's earnings. MCERA's administrative expenses in the current fiscal year totaled .17%.

E. 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 employer's Annual Required Contribution (ARC) and the percentage of the ARC recognized by the plan are presented on pages 54-56.

F. Administrative Budget and Professional Service 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.

G. Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Capital assets with an initial cost of more than $2,500 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.

H. 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. Cash deposited in the Merced County Treasurer's pool is stated at fair value. The value of the System's pool shares is determined on an amortized cost basis, which is not a material difference from fair value. The fair value of the real estate investment holdings has been determined using industry standard appraisal techniques and assumptions. The real estate portfolio managers use appraisals, which are updated annually, to determine the fair value of these holdings. The valuation of alternative investments is based on partnerships' March 31, 2007 financial statements adjusted for cash flow activities through June 30, 2007.

I. 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.

J. 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. Realized and unrealized gains and losses are included in the calculation of net appreciation in the fair value of investments.

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 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 and Short-Term Investments

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

(1) *County Treasury*

Cash from deposits and the cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasury Oversight Committee is responsible for regulatory oversight of the pool. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value. The fair value of the System's cash invested with the County Treasurer totaled $4,903,776 and $8,569,708 at June 30, 2007 and 2006 respectively. Cash and investments included within the County Treasurer's pool is described in the County's Comprehensive Annual Financial Report.

MCERA'S cash, short-term investments and investments stated at fair value as of June 30, 2007 and 2006 are presented as follows:

	Fair Value	
Cash and Short-Term Investment	**2007**	**2006**
Funds pooled with County Treasury	$ 4,903,776	$ 8,569,708
Funds pooled with BNY Mellon	962,934	-
Short-term investment funds	15,032,995	7,725,097
Securities lending collateral	51,309,226	-
Total cash and short-term investments	72,208,931	16,294,805
Investments		
U.S Government & agency obligations	57,427,648	58,210,041
Domestic fixed income	61,121,291	60,497,695
Common stocks (individual equities)	224,139,859	188,036,203
UBS Real Estate Separate Account and Direct Investment	37,799,191	31,687,368
Alternative investments	10,151,613	3,163,227
Mellon Capital Mgmt (index fund)	61,190,945	50,564,107
International equity fund (commingled)	55,705,055	43,947,332
Total investments	507,535,602	436,105,973
TOTAL	$ 579,744,533	$ 452,400,778

(2) *Short-Term Investment Funds*

The short-term investment funds that are in the custody of BNY Mellon 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. At June 30, 2007 and 2006, short-term investment balances were $15,995,929 and $7,725,097, respectively, which are held in the System's name and are not insured. The System is not exposed to custodial credit risk with respect to these deposits.

C. Securities Lending Program

State statues and the Board of Trustees' policies permit MCERA to participate in a securities lending program. MCERA's custodian, BNY Mellon and the lending agent Mellon Global Securities Lending administers its securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower) in turn, MCERA receives cash as collateral.

Collateral received may include cash, letters of credit or securities. The lending agent invests the collateral received in short-term investment funds, money market funds and other similar investments the custodian may select. If securities or letters of credit are received as collateral, MCERA cannot pledge or sell the securities collateral unless the borrower defaults. The contract with the security lending agent requires them to indemnify MCERA if the borrowers fails to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay MCERA for income distributions by the securities' issuers while the securities are on loan.

As of June 30, 2007 Mellon Global Securities Lending short-term investment pool has a weighted-average maturity of 32 days and the average duration of 76 days. The maturities of investments made with collateral do no match the maturities of loaned securities. There is a mis-match that takes place. The mismatch is averaging about 19/20 days and Mellon monitors continually between the traders booking the loans and the reinvestment team using the collateral.

Under this borrowing arrangement, the lending agent is responsible for maintaining an adequate level of collateral in an amount equal to approximately 102% of the market value of loaned securities and 105% with respect to foreign securities except in the case of loans of foreign securities which are denominated and payable in U.S. dollars, in which event the required percentage shall be 102%. If the market value of the loaned securities falls below the required percentage, the lending agent shall require that the borrower deliver an amount of additional collateral by the close of the next business day. As of June 30, 2007, MCERA has no credit risk exposure to borrowers because the amounts MCERA owes the borrower exceed the amounts the borrower owes to MCERA.

MCERA may, in its sole and absolute discretion, direct the lending agent to terminate any loan at any time and for any reason.

As of June 30, 2007 the fair value of securities on loan and the collateral received for those securities on loan were $55,255,235 and $56,962,307 MCERA's securities lending cash collateral is invested in pooled funds managed by BNY Mellon Asset Servicing, which is not rated by credit rating agencies. MCERA's income net of expenses from securities lending was $49,462 for the year ended June 30, 2007.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Agencies/Other Government	$ 2,912,783	$ 2,953,442	-
Corporate	457,253	481,100	-
Equities	33,851,508	31,928,558	$ 3,270,000
U.S. T-Bonds	7,106,919	5,452,470	1,745,913
U.S. T-Notes	10,926,772	10,493,656	637,168
Total	$ 55,255,235	$ 51,309,226	$ 5,653,081

D. Commission Recapture Policy

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

E. Alternative Investments

Two components comprise the MCERA's fund alternative investments portfolio: venture capital and special equity partnerships (buy-outs, mezzanine funds, and secondary funds). Unlike public markets, where the investor has the ability to "cash out" of positions at any time, these private market investments are illiquid. Therefore, an investment in this category is a long-term commitment. As of June 30, 2007 and 2006 the market value of the alternative investment portfolios were $10,151,613 and $3,163,227 respectively. The fair value of these alternative investments are reported based on the most current financial report available which are subject to a 1 to 2 quarter lag adjusted for cash flows.

The balance of the unfunded capital to MCERA's private equity funds as of March 31, 2007 was $26,708,878 and as of June 30, 2006 was $14,661,773. The unfunded capital at June 30, 2007 is currently not available. Capital invested in private equity partnerships is subject to a relatively high degree of risk as compared to other potential investments, with the assumption that the investor will be rewarded with higher returns for that assumption of risk, i.e. the "risk/return trade-off". Controlling risk in the private equity portfolio is equally as important as seeking higher returns. MCERA controls risk by diversification, geographic and economic region, liquidity, vintage year, firm, and time.

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

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

Firm Risk
Firm risk is the amount of exposure to a private equity general partner. The maximum commitment to private equity is 5-10% of the total fund.

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

F. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The MCERA does not have a formal policy for custodial credit risk. At June 30, 2007 and 2006, MCERA had $15,995,929 and $7,725,097 respectively in deposits that were uninsured and uncollateralized.

G. Credit Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2007, the System had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S government and investments in mutual fund, external investment pools, and other pooled investments are excluded. MCERA's investment policy does not allow for an investment in any one issuer that is in excess of 5% of the value of a portfolio and no single industry (based on North American Industry Classification System (NAICS) codes) can represent more than 15% of the 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.

H. Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligation as described by nationally recognized statistical rating organizations—rating agencies— as of the date of the financial statements. An investment grade security is defined as a security which has been rated investment grade (BBB or higher) by at least one (but preferably two) of the three nationally recognized rating agencies; Fitch Ratings, Moody's Investor Service, and Standard & Poor's. MCERA requires that no more that 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. The County's pool and the short-term investment funds held with fiscal agent are unrated.

The following table presents the quality credit ratings at June 30, 2007 and 2006.

As of June 30, 2007								
Quality	AAA	AA	A	BAA	BA	BBB	BB	NR*
Percentage of Total Fixed Income	78.53%	2.95%	6.51%	8.07%	0.46%	0.21%	-	3.27%
As of June 30, 2006								
Quality	AAA	AA	A	BAA	BA	BBB	BB	NR
Percentage of Total Fixed Income	77.26%	3.06%	9.42%	-	-	9.93%	0.33%	-

*NR represents those securities that are not rated.

I. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MCERA's Investment Policy Statement does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, MCERA's bond portfolios are managed duration neutral to their benchmark, the Lehman Brothers Aggregate Bond Index. As of June 30, 2007 and 2006 the County's pool has a fair value of $599,958,707 and $560,891,522 respectively and a weighted average maturity of 537 days and 343 days respectively. As of June 30, 2007 and 2006 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 279 days and 209 days respectively.

The following table presents the effective duration at June 30, 2007 and 2006.

Investment Type	Fair Value 2007	Weight of Total Fixed Income 2007	Effective Duration 2007	Fair Value 2006	Weight of Total Fixed Income 2006	Effective Duration 2006
U.S. Treasuries	$ 19,176,112	16.18%	6.25	$ 20,720,307	17.45%	5.86
U.S. Agencies	12,317,481	10.39%	4.46	22,101,663	18.62%	4.29
U.S. Government mortgages	23,671,988	19.97%	4.76	7,709,184	6.49%	2.34
Municipal Bonds	2,262,067	1.91%	4.86	3,803,982	3.20%	2.94
Commercial mortgage backed securities	11,061,693	9.33%	3.99	-	-	-
Asset backed securities	7,298,944	6.16%	.91	49,106,347	41.37%	4.27
Corporate and other credit	19,475,131	16.43%	5.73	14,027,679	11.82%	6.44
Collateralized mortgage obligations	18,766,673	15.83%	2.25	-	-	-
Private Placement	4,518,850	3.81%	6.92	-	-	-
Short-Term Bills/Notes	-	-		1,238,574	1.05%	.39
Total Fair Value	$ 118,548,939	100.00%		$ 118,707,736	100.00%	
Portfolio Effective Duration			4.51			4.76

J. Foreign Currency

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. MCERA's investment policy on foreign currency is as follows:

MCERA's international equity managers are permitted to invest in developed countries and will be measured against a reasonable version of the MSCI EAFE Index (Europe, Australia, and Far East). Assets in international equity portfolios will be primarily composed of foreign ordinary shares and ADR's (including ADR's that are 144A securities). Management firms will continually monitor the country, currency, sector and security selection risks associated their international portfolios. All the risks will be included in the manager's quarterly reports and performance attribution based on these factors. Currency hedging, consistent with the stated derivative policy, is an acceptable investment activity. The use of currency futures, and forward currency contracts are permitted to assist investment managers in mitigating portfolio risk.

The following table represents securities held in a foreign currency as of June 30, 2007 and 2006.

Currency	Fair Market Value (US Dollars) 2007	2006
Australia Dollar	$ 64,798	
Bermuda Dollar	1,061,920	
Canada Dollar	1,872,907	
Cayman Island Dollar	2,035,600	
Chile Peso	256,064	
Denmark Krone	209,217	
Euro Currency	2,039,851	$ 61,766
India Rupee	991,790	
Mexico Peso	488,770	
Singapore Dollar	765,720	
United Kingdom Pound Sterling	130,669	
Total foreign currency	$9,917,306	$ 61,766

K. 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 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.

Schedule of Derivatives
As of June 30, 2007 and 2006

Type of Derivatives	Fair Market Value 2007	Fair Market Value 2006
Collateralized Mortgage Obligations*	$ 25,699,822	$ 14,458,455
Floating-Rate Notes	-	4,667,048
Total Derivatives	$ 25,699,822	$ 19,125,503

*The collateralized mortgage obligations per the derivatives schedule above also includes some of the US government agency mortgages from the interest rate risk table on page 48.

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, 2007 and 2006 respectively, are as follows:

A. Active Members' Reserves

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

B. Employer Advance Reserves

These reserves represent the cumulative contributions made by the 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, and lump sum death benefits.

C. Retired Members' Reserves

These reserves are established upon the retirement of an employee. Employee contributions plus interest earnings credited to the employee account are transferred from the Active 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 pension benefits in an amount computed in accordance with the 1937 Act.

D. Interest Fluctuation Reserve

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 was created and the Interest Fluctuation Reserve is used for interest crediting purposes and for holding any funds allocated by the Retirement Board as a reserve for future interest earnings deficiencies.

E. Market Value Fluctuation Reserve

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

Accumulated thru 2004	2005	2006	2007	TOTAL
$ 45,993,069	$20,076,440	$3,592,713	$40,248,806	$109,911,028

F. Ad-Hoc COLA Reserve

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.

G. Contingency Reserve

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.

H. Internal Revenue Code (IRC) Section 401(h)

In 2003, in accordance with the provisions of the 1937 Act and the Internal Revenue Code (IRC), MCERA established an IRC Section 401(h) Plan which serves as the vehicle for any MCERA support for retiree health insurance costs. By resolution, in May 2006, the Retirement Board provided a final amount of County contributions be directed into the 401(h). 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.

Reserve Balances as of June 30, 2007 and 2006.

	2007	2006
Active Members	$ 59,299,436	$ 54,825,607
Employer Advance	52,448,854	66,763,872
Retired Members	265,687,16	230,191,66
Interest Fluctuation	7,818,008	-
Market Value Fluctuation	109,911,02	69,662,223
Ad-Hoc COLA	1,654,015	1,568,795
Contingency	18,558,664	18,194,769
IRC Section 401(h)	3,933,590	4,689,794
	$ 519,310,75	$ 445,896,72

5. Litigation

MCERA is a defendant in various lawsuits and claims arising in the ordinary course of its operations. In December 2006 MCERA initiated an action for declaratory relief in Merced Superior Court to clarify the interpretation of the 2000 settlement agreement in the Merced Ventura 2 case. That case is still in litigation. 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

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)
7/1/01	$ 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%
7/1/05	$ 428,813	$ 589,794	$ 160,981	72.7%	$ 97,507	165.1%
7/1/06	$ 443,999	$ 624,333	$ 180,335	71.1%	$101,137	178.3%

* Includes "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, 2006.

Schedule of Employer Contributions
Pension Benefit Plan
(Dollar amounts in thousands)

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/02	$ 7,731	100%
6/30/03	$ 7,201	100%
6/30/04	$ 7,269	100%
6/30/05	$ 8,931	100%
6/30/06	$ 14,750	100%
6/30/07	$ 23,232	100%

Note: This information is compiled from MCERA's actuarial report prepared by Buck Consultants dated June 30, 2006.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES
June 30, 2007

1. GASB STATEMENTS 25

MCERA applied the parameters established by Governmental Accounting Standards Board (GASB) Statement 25 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:

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level percentage - Closed
Remaining Amortization Period	18 years from June 30, 2006
Asset Valuation Method	Five year smoothed market

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES
June 30, 2007
(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, 2007 and 2006

	2007	2006
Personnel Services:		
Salaries, Wages and Benefits	$ 522,499	$ 414,611
Office Expenses:		
Communications	1,527	2,033
Requested Maintenance/Utilities/Cost Allocation	110,712	18,559
Office Supplies	7,966	9,397
Postage	2,769	4,886
Total Office Expense	122,974	34,875
Professional Services:		
Audit Fees	52,045	20,322
Attorney Fees	137,746	36,096
Disability Stenographic Fees/Investigations	1,450	2,310
Publications & Legal Notices	14,344	1,025
Disability Medical Reviews/Services	19,720	22,826
Merced Dept of Information Technology	48,408	31,314
Total Professional Services	273,713	113,893
Miscellaneous:		
Memberships	5,875	2,305
Fiduciary Meetings	7,000	5,500
Fiduciary and Staff Travel/Training	24,896	20,516
Insurance Liability/Other	48,967	48,925
Depreciation Expense	9,029	8,455
Total Miscellaneous Expenses	95,767	85,701
Total Administrative Expenses	$1,014,953	$ 649,080

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

SCHEDULE OF INVESTMENT EXPENSES

For the years ended June 30, 2007 and 2006

INVESTMENT MANAGERS	2007	2006
UBS Real Estate Separate Account (RESA)	$ 394,618	$ 340,961
Delta Asset Mgmt	301,822	279,318
Earnest Partners, LLC	217,335	199,024
Wasatch Advisors	239,887	230,131
Mellon Capital Mgmt	26,565	19,813
Wentworth, Hauser, & Violich	274,905	243,861
Invesco Global Asset Mgmt	205,123	272,891
Aberdeen Asset Mgmt/Deutsche Asset Mgmt	205,092	208,052
Lehman Brothers Asset Mgmt/Lincoln Capital Mgmt	41,842	72,837
Invesco Private Capital	90,000	90,000
GLOBAL CUSTODIAN		
BNY Mellon /Bank of New York	97,055	140,489
TOTAL PROFESSIONAL EXPENSE	2,094,244	2,097,377
CONSULTANT EXPENSE	146,844	144,896
OTHER INVESTMENT EXPENSE	61,381	221,108
TOTAL INVESTMENT MANAGER FEES, AND OTHER INVESTMENT EXPENSES	$ 2,302,469	$ 2,463,381

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the years ended June 30, 2007 and 2006

INVESTMENT PROFESSIONAL SERVICE FEES	2007	2006
Actuarial Services - Buck Consultants	$ 41,100	$ 48,438
Investment Consultant - Milliman, Inc.	146,844	144,896
Custodial Services - BNY Mellon/Bank of New York Western Trust Company	97,055	140,489
TOTAL INVESTMENT PROFESSIONAL SERVICE FEES	$ 284,999	$ 333,823

ADMINISTRATIVE PROFESSIONAL SERVICE FEES	2007	2006
Audit Services - Macias Gini & O'Connell, LLP	$ 52,045	$ 20,322
Legal Services Mason, Robbins, Gnass & Browning Disability Attorney Steefel, Levitt & Weiss-Litigation Attorney	137,746	36,096
Disability Stenographic Fees/Investigations	1,450	1,918
Disability Medical Reviews/Services	19,720	22,826
Merced Dept. of Information Technology	48,408	31,314
Other Specialized Services	14,344	1,493
TOTAL ADMINISTRATIVE PROFESSIONAL SERVICE FEES	$ 273,713	$ 113,969

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES

Budget Analysis
Budget to Actual Expenditure
For the year ended June 30, 2007

Administrative Services Budget	Budgeted Amounts	Actual Amounts Expended	Percentage of Appropriation Expended
Salaries, Wages and Benefits	$ 587,972	$ 522,499	88.9%
Communications	2,200	1,527	69.4%
Requested Maintenance/Utilities/Cost Allocation	161,400	110,712	68.6%
Office Supplies	13,050	7,966	61.0%
Postage	5,000	2,769	55.4%
Audit Fees	51,000	52,045	102.0%
Attorney Fees	161,000	137,747	85.6%
Disability Stenographic Fees/Investigations	5,000	1,450	29.0%
Publications & Legal Notices	21,000	14,344	68.3%
Disability Medical Reviews/Services	35,000	19,720	56.3%
Merced Dept. of Information and Technology	73,378	48,408	66.0%
Memberships	5,050	5,875	116.3%
Fiduciary Meeting/Education	9,600	7,000	72.9%
Fiduciary and Staff Travel/Training	31,470	24,895	79.1%
Insurance Liability/Other	40,000	48,967	122.4%
Capital Expense/Depreciation Expense	9,029	9,029	0.00%
Total Administrative Budget	1,211,149	1,014,953	83.8%
Professional Services Budget			
Investment Manager, Custodial Services, and Other Investment Expenses	2,320,000	2,155,625	92.9%
Actuarial Services	170,000	41,100	24.2%
Consultant Fees	160,000	146,844	91.8%
Total Professional Budget	2,650,000	2,343,569	88.4%
Total Budget	$3,861,149	$3,358,522	87.0%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment section

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A MILLIMAN GLOBAL FIRM
Milliman
Consultants and Actuaries

650 California Street, 17th Floor
San Francisco, CA 94108
Tel (415) 403-1333 Fax (415) 986-2777
www.milliman.com

August 24, 2007

Ms. Maria Arevalo
Plan Administrator
Merced County Employees' Retirement Association
3199 M Street
Merced, California 95348

Dear Ms. Arevalo:

The Merced County Employees' Retirement Association had a positive investment return of 17.4% for the recently completed fiscal year ending June 30, 2007. Due to the continued rebound of the equity market and strong performance in most other asset classes, this is the fourth 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 16.0%.

The Retirement Association's total fund return over the past five years has averaged 10.7% versus the fund benchmark of 9.9% and the actuarial interest rate assumption of 8.0%. With strong returns during the past year, over the past five years, the Retirement Association has exceeded the actuarial interest rate assumption by approximately 2.7% per year. This improved fiscal posture results from strong domestic and international equity markets over the past 4 years. During the last ten years, the total fund return was 8.2% and easily exceeded the benchmark return of 6.2% and slightly exceeded 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

Prior 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% Wilsire 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. We revised the total fund benchmark from the 2nd quarter of 2005 through the 3rd quarter of 2006 to reflect the changes in the March 2005 investment policy statement. From 2nd quarter of 2005 through 1st quarter 2007, the benchmark is 48.3% S&P 500, 7.7% Russell 2000®, 7% EAFE, 30% Lehman Aggregate, 1% 90-day T-Bill, and 6% NCREIF Property Index. As of June 30, 2007, the benchmark is 47.1% S&P 500, 7.9% Russell 2000®, 7% EAFE, 30% Lehman Aggregate, 1% 90-day T-Bill, 6% NCREIF Property Index, and 1% S&P 500 + 5.0% (private equity). The private equity target allocation of 5% is distributed to the S&P 500 (3.1%), the Russell 2000 (0.9%) and to the S&P 500 + 5.0% (1.0%). As the private equity allocation reaches 2% and then subsequently increases by 1%, the total fund benchmark will be changed to reflect the higher private equity investment allocation.

Association' 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:

1) At a minimum, achieve a nominal return equivalent to the Retirement Association's 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 three of these objectives, including its 30th percentile ranking versus other plans.

Target Asset Mix & Total Fund Benchmark

The Association conducted an asset allocation study that was completed in mid-April 2007. A revised target asset mix was accepted by the Board. This target mix includes the following allocations: domestic equity 48%; international equity 18%; domestic fixed income 23%; real estate 6%; and, private equity 5%. This target mix is significantly different than the Association's current asset mix. The target allocations to international equity and private equity are substantially above current levels and the allocation to domestic fixed income is much lower than at present.

The Board has set in motion efforts to bring the current asset mix close to the target, but the structure of the international equity asset class will undergo substantial change. In addition, it will take a number of years for the private equity allocation to approach its target level. Due to the necessary implementation steps, the new target and total fund benchmark will be recognized for performance measurement purposes when the current asset mix is materially closer to the target levels. It is our expectation that the majority of the above mentioned work will be completed by year-end and that most of the new target can be implemented in the first quarter of 2008. The only subsequent delayed implementation of the target mix will be in the private equity asset class.

Market Overview

The past fiscal year had reasonably strong equity market results, except for the quarter ending March 31st 2007. The domestic equity markets began the fiscal year with a gain of 5.7%, as measured by the S&P 500. During this third calendar quarter of 2006, seven of the ten S&P 500 sectors recorded gains and was led by Telecommunication Services and Healthcare. Both sectors were up over 10%, respectively. Further gains were recorded in the fourth quarter of 2006, with stocks appreciating 6.7%, as measured by the S&P 500. All ten sectors were positive, with Materials and Energy registering gains over 11% each. During the first calendar quarter of 2007, domestic equities had a modest gain of 0.7%, as based on the S&P 500, but recorded significant volatility. Seven economic sectors had positive returns and were led by Utilities and Materials (9.2% and 8.7%, respectively). The fiscal year 2007 was closed out by another strong quarter. The equity market, as measured by the S&P 500, had a 6.3% return, and was led by the Energy sector that returned 14.9%. All sectors except Utilities had positive returns.

Small cap stocks also had four consecutive quarterly gains during the fiscal year, but had greater volatility than the S&P 500. In the third quarter of 2006, the Russell 2000 gained only 0.4%. International equity had a reasonably strong return of 4.0%. Domestic bond performance was also strong, with the Lehman Aggregate Index up 3.8%. Real estate had a good return, with a gain of 3.5%, as measured by the NCREIF Property Index.

During the fourth quarter of 2006, all of the capital markets had gains. As stated previously, the S&P 500 returned 6.7%, the Russell 2000 8.9% and international equities returned 10.4%. Domestic bond returns were up 1.2% for the quarter, and the NCREIF Property Index returned 4.5%.

The equity markets generated modest gains in the fiscal year's third quarter. The S&P 500 was up 0.7% and the Russell 2000 rose 2.0%. International stocks were up 4.2%. The domestic bond market recorded another gain, with a 1.5% return, based on the Lehman Aggregate Bond Index. Real estate was up during the quarter, with a return of 3.6%, based on the NCREIF Property Index.

Finally, in the second calendar quarter of 2007 (or the fourth quarter of the fiscal year) domestic equity results were up significantly. The S&P 500 gained 6.3% and small cap stocks returned 4.4%, as represented by the Russell 2000. International stocks had a gain of 6.7%. Domestic bond performance was weak with a return of -0.5%. And, finally, the real estate market achieved a strong return of 4.6%.

Style Overview

Although value-oriented stocks outperformed growth-oriented securities over the past twelve months, there has been a change in this relationship during the last six months. For the year, the Russell 1000 Value Index returned 21.9% and the Russell 1000 Growth Index returned 19.1%. However, over the past six months, the Russell 1000 Growth index returned 8.1% and the Russell 1000 Value returned 6.2%. There was also a change in the superiority of small capitalization stocks versus large capitalization. During the year, the S&P 500 returned 20.6% versus 16.4% for the Russell 2000. International stocks continued their superiority versus domestic stocks, with the MSCI EAFE Index returning 27.5%. Fixed income had a reasonable year, as the Lehman Aggregate had a gain of 6.1%. Real estate returns remained strong with a 17.2% return (based on the NCREIF Property Index) but trailed domestic and international stocks.

Fund Overview

The total fund performance followed the overall equity market results. In the third quarter of 2006, the total Fund return was 4.2%, under-performing the total Fund benchmark of 4.3%. This gain, however, ranked the Fund in the first quartile (12th percentile) of pension funds. The fourth quarter of 2006 was another strong quarter, and the total Fund returned 5.4%, modestly exceeding the total Fund benchmark of 5.3%), and ranked in the second quartile of pension funds (42nd percentile). In the calendar first quarter of 2007, the total Fund had a modest gain of 1.5%, which was better than the benchmark return of 1.4%, ranking it in the third quartile of pension funds (74th percentile). During the calendar second quarter of 2007, the total Fund gain was 5.3%, above the benchmark (4.0%) and ranked in the first quartile of pension funds (16th percentile).

As mentioned earlier, the Retirement Association' total fund gain for fiscal year 2007 was 17.4%. This was better than the total fund benchmark return of 16.0%, ranking it in the 30th percentile of pension funds.

Investment Results

The Association's total domestic equity segment recorded a gain of 20.4% in fiscal year 2007, which compares favorably to the equity markets. The median domestic equity manager posted a gain of 19.8%. Within the Retirement Association's manager structure, both of the two large cap core equity managers, Earnest Partners and Delta Asset Management, exceeded the median large cap core manager. Earnest's equity only portfolio return of 21.0%, ranked in the 26th percentile of the large cap core group, and Delta's equity only return of 22.1% ranked in the 17th percentile of the same equity style group. With a return of 21.9% and ranking in the 65th percentile of large cap value managers, the Russell 1000 Value index product managed by Mellon Capital trailed the median large cap value manager and matched the index. Mellon Capital's Russell 1000 Growth Index product exceeded the median large cap growth manager and matched the index, ranking in the 30th percentile of large cap growth managers with an equity only gain of 19.1%.

Within the small capitalization arena, Wentworth Hauser, a small cap core portfolio manager, posted an equity only return of 23.3%, ranking in the 25th percentile. This result was materially better than the 16.4% return of the Russell 2000 Index and the 19.1% return of the median small cap core equity manager. Wentworth generated this out-performance through both sector selection and stock selection. Wasatch Advisors, the Association's small cap growth manager, had an equity only return of 13.0%, ranking in the 81st percentile of small cap growth managers. Wasatch significantly under-performed the Russell 2000 Growth Index return of 16.8% and the 18.7% return of the median small cap growth equity manager. Stock selection and sector allocation decisions were both responsible for the under-performance of the benchmarks. This manager has been recently replaced by NorthPointe Capital.

The international equity segment of the Retirement Association's total Fund had a gain of 26.8% for fiscal year 2007, less than the 27.5% return of the MSCI EAFE Index. Invesco Global Asset Management ranked in the 74th percentile of international equity managers. Under-performance of the benchmark is due to a lower risk profile and no exposure to small capitalization securities. Nicholas-Applegate's international small cap product was added due to the structural deficiency of the Invesco portfolio. Results were very strong in its first partial quarter at the end of the fiscal year. It should be noted that Invesco and other large cap core managers are being evaluated at the present time. In addition, large cap high alpha generation international equity managers will also be considered for an assignment in the Association's international equity investment manager structure.

The domestic fixed income segment return of 6.2% out-performed the Lehman Aggregate Bond Index return of 6.1% for the past fiscal year. Fiscal year performance for the Aberdeen Asset Management portfolio was 6.4%, better than the Lehman Aggregate benchmark. This portfolio ranked in the 28th percentile of fixed income managers. The Lehman Asset Management account marginally trailed the benchmark return, ranking in the 44th percentile, with a return of 6.0%. This portfolio is in the process of being converted to an enhanced index portfolio structure.

The UBS Brinson real estate account returned 19.6%, out-performing the benchmark NCREIF Property Index return of 17.2%. The UBS Brinson real estate fund ranked in the 14th 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 increased during the fiscal year, in part due to higher trading volume. 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.

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 Retirement Association ranked above the benchmark in every period during the past ten years. Additionally, the Retirement Association out-performed the median fund return in every time frame.

Summary

In conclusion, the fund experienced another good fiscal year with a gain of 17.4%. This was better than the custom benchmark return of 16.0% 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 in total exceeded their benchmarks, as did the real estate manager. However, the Invesco international equity portfolio under-performed its benchmark. With a few 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.

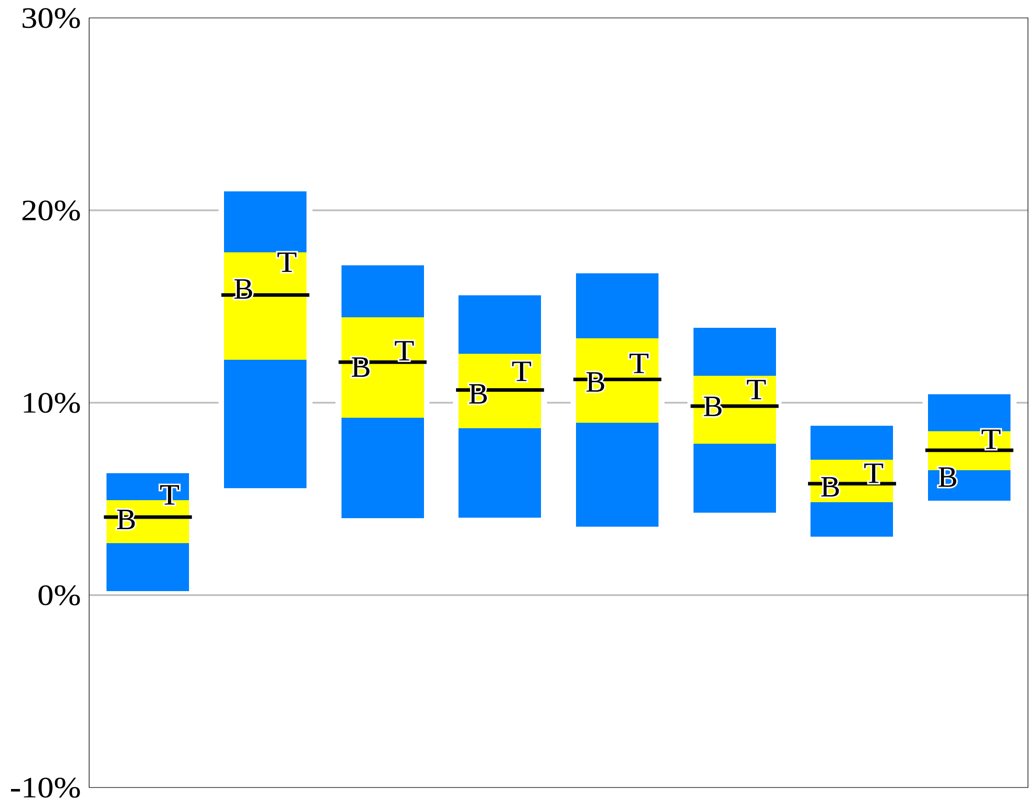
Sincerely,

William R. Cottle

William R. Cottle, CFA

Total Fund Returns vs. Universe

Periods Ending June 30, 2007



	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								
5th Percentile	6.3	21.0	17.1	15.6	16.7	13.9	8.8	10.4
25th Percentile	4.9	17.8	14.4	12.5	13.4	11.4	7.0	8.5
Median	4.1	15.6	12.1	10.7	11.2	9.8	5.8	7.5
75th Percentile	2.7	12.2	9.2	8.7	9.0	7.9	4.8	6.5
95th Percentile	0.2	5.6	4.0	4.0	3.5	4.3	3.0	4.9
Total Fund (**T**)	5.3	17.4	12.8	11.7	12.1	10.7	6.4	8.2
Rank	*16*	*30*	*40*	*34*	*39*	*34*	*39*	*33*
Fund Benchmark (**B**)	4.0	16.0	11.9	10.5	11.1	9.9	5.7	6.2
Rank	*52*	*46*	*52*	*52*	*50*	*49*	*53*	*81*

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

For the Year Ended June 30, 2007

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

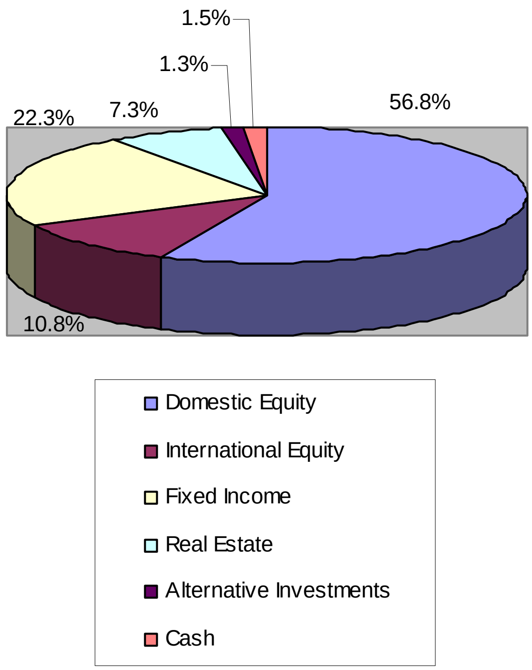
Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests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

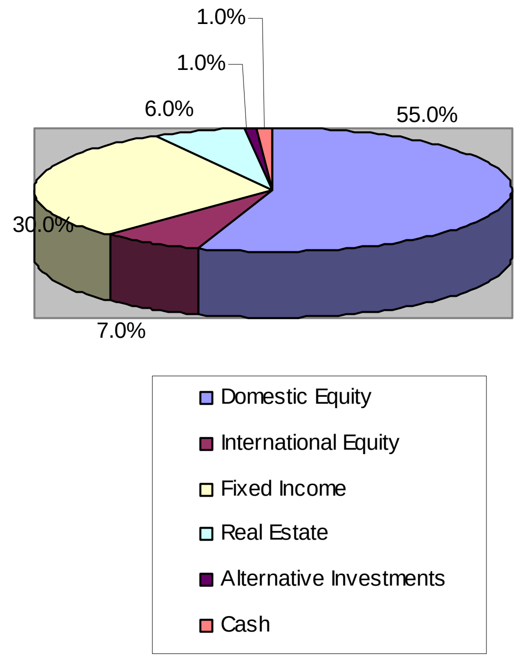
ASSET ALLOCATION INFORMATION

For the Year Ending June 30, 2007

JUNE 30, 2007 ALLOCATION



TARGET ALLOCATION



	June 30, 2007 Asset Allocation	Target Allocation		Allocation Range
Domestic Equity	56.8%	55.0%	+/-	10%
International Equity	10.8%	7.0%	+/-	4%
Fixed Income	22.3%	30.0%	+/-	6%
Real Estate	7.3%	6.0%	+/-	4%
Alternative Investments	1.3%	1.0%	+/-	2.5%
Cash	1.5%	1.0%	+/-	1%
	100.0%	100.0%		

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY
For the Year Ending June 30, 2007

	MARKET VALUE	% OF TOTAL
DOMESTIC EQUITY:		
Large Cap Growth	$ 132,136,775	22.8%
Large Cap Value	91,594,547	15.8%
Small Cap Growth	23,435,277	4.0%
Small Cap Value	38,164,205	6.6%
TOTAL DOMESTIC EQUITY	285,330,804	49.2%
INTERNATIONAL EQUITY	55,705,055	9.6%
FIXED INCOME	118,548,939	20.4%
ALTERNATIVE INVESTMENTS	10,151,613	1.8%
REAL ESTATE	37,799,191	6.5%
TOTAL INVESTMENTS	222,204,798	38.3%
CASH AND SHORT-TERM INVESTMENTS	72,208,931	12.5%
TOTAL INVESTMENTS, CASH AND SHORT-TERM INVESTMENTS	$ 579,744,533	100.0%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT RESULTS

For the Years Ending June 30

	CURRENT	ANNUALIZED					
	YEAR	2YR	3YR	4YR	5YR	7YR	10YR
DOMESTIC EQUITY							
Large Cap Growth							
Delta Asset Mgmt.	21.4%	14.7%	11.4%	13.5%	10.6%	3.6%	8.0%
Index: S&P 500	20.6%	14.5%	11.7%	13.5%	10.7%	2.2%	7.1%
Large Cap Value							
Earnest Partners, LLC	20.1%	13.6%	13.2%	14.8%	12.3%	4.2%	-
Index: Russell 1000	20.4%	14.6%	12.3%	14.1%	11.3%	2.6%	7.6%
Large Cap Index							
Mellon Capital Mgmt. Large Cap Growth	19.1%	12.4%	8.7%	11.0%	-	-	-
Index: Russell 1000 Growth	19.1%	12.4%	8.7%	10.9%	9.3%	-4.4%	4.4%
Mellon Capital Mgmt. Large Cap Value	21.9%	16.9%	16.0%	17.3%	-	-	-
Index: Russell 1000 Value	21.9%	16.9%	15.9%	17.2%	13.3%	9.4%	9.9%
Small Cap Growth							
Wasatch Advisors	12.2%	8.2%	6.1%	10.2	-	-	-
Index: Russell 2000 Growth	16.8%	15.7%	11.8%	16.4%	13.1%	0.9%	5.3%
Small Cap Value							
Wentworth, Hauser & Violich	22.9%	22.7%	22.3%	26.3%	19.9%	15.5%	16.8%
Index: Russell 2000	16.4%	15.5%	13.5%	18.1%	13.9%	8.4%	9.1%
TOTAL DOMESTIC EQUITY	**20.4%**	**14.9%**	**12.9%**	**15.1%**	**12.3%**	**3.9%**	**7.2%**
INDEX: RUSSELL 3000	20.1%	14.7%	12.4%	14.4%	11.5%	3.0%	7.6%
INTERNATIONAL EQUITY							
Invesco Global Asset Mgmt	25.9%	25.7%	21.1%	23.3%	16.1%	8.4%	-
Nicholas/Applegate							
TOTAL INTERNATIONAL EQUITY	**26.8%**	**26.1%**	**21.4%**	**23.6%**	**16.3%**	**8.5%**	**-**
INDEX: MSCI EAFE	27.5%	27.3%	22.7%	25.2%	18.2%	7.0%	8.0%
FIXED INCOME							
Lehman Brothers Asset Mgmt.	6.0%	2.5%	4.0%	3.0%	-	-	-
Aberdeen Asset Mgmt.	6.4%	3.0%	4.6%	3.6%	5.2%	6.8%	-
TOTAL FIXED INCOME	**6.2%**	**2.8%**	**4.3%**	**3.4%**	**4.7%**	**6.1%**	**6.2%**
INDEX: LEHMAN AGGREGATE	6.1%	2.6%	4.0%	3.1%	4.5%	6.0%	6.0%
REAL ESTATE							
UBS Realty Investors LLC	**19.6%**	**17.6%**	**18.7%**	**16.7%**	**15.3%**	**12.9%**	-
Index: NCRIEF Property Index	17.2%	18.0%	18.0%	16.2%	14.4%	12.3%	-
ALTERNATIVE INVESTMENTS**							
Invesco Private Capital	18.9%	7.6%	-	-	-	-	-
Adams Street Partners, LLC	17.7%	-	-	-	-	-	-
Pantheon Ventures, Inc.	8.3%	-	-	-	-	-	-
TOTAL ALTERNATIVE INVESTMENTS	**14.4%**	**5.7%**					
Index: S&P + 5.00%	**26.5%**	**20.1%**	**17.2%**	**19.1%**	**16.2%**	**7.3%**	**12.5%**
TOTAL FUND*	**17.4%**	**12.8%**	**11.7%**	**12.1%**	**10.7%**	**6.4%**	**8.2%**
TOTAL FUND CUSTOM INDEX*	**16.0%**	**11.9%**	**10.5%**	**11.1%**	**9.9%**	**5.7%**	**6.2%**

*Using time-weighted rate of return based on market rate of return.
**Performance results lags by two quarters due to financial reporting constraints.
*** Total international equity includes partial quarter for Nicholas/Applegate
is 100% NCREIF.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TOP 10 LARGEST HOLDINGS BY FAIR VALUE

For the Year ending June 30, 2007

PAR	BONDS	FAIR VALUE
3,182,000	U.S. Treasury Note 4.625% Due 02/29/2012	$ 3,142,225
2,057,000	U.S. Treasury Bond 6.000% Due 02/15/2026	2,245,987
1,477,000	U.S Treasury Bond 8.750% Due 08/15/2020	1,973,183
1,975,000	U.S. Treasury Note 4.625% Due 12/31/2011	1,951,102
1,180,000	FNMA SF MTG 6.000% Due 07/01/2037	1,167,138
800,000	U.S. Treasury Bond 8.125% Due 08/15/2021	1,031,252
1,040,000	FHLMC GOLD SFM 5.500% Due 071/01/2036	1,002,976
980,000	FNMA SF MTG 5.500% Due 07/01/2037	945,112
920,000	US Treasury Note 4.875% Due 04/30/2011	918,896
776,848.56	JP Morgan MTG TR VAR RT% Due 7/25/2035	760,566
		$ 15,138,437

SHARES	STOCKS	FAIR VALUE
46,758	EXXON MOBIL CORP	$ 3,922,061
87,700	GENERAL ELECTRIC CO COM	3,357,156
64,600	CITIGROUP INC COM	3,313,334
64,054	BANK OF AMERICA CORP	3,131,600
95,000	MICROSOFT CORP COM	2,799,650
12,700	GOLDMAN SACHS GROUP INC COM	2,752,725
32,200	DEVON ENERGY CORP NEW COM	2,520,938
88,700	CISCO SYS INC COM	2,470,295
28,296	CHEVRON CORP COM	2,383,655
48,144	JPMORGAN CHASE & CO COM	2,332,577
		$ 28,983,991

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, 2006 and 2005

INVESTMENT MANAGERS' FEES	2007	2006
Equity Managers		
Domestic	$ 1,060,514	$ 972,147
International	205,123	272,891
Total equity managers' fees	1,265,637	1,245,038
Bond Managers	246,934	280,889
Alternative Investments	90,000	90,000
Real Estate	394,618	340,961
Total Other Investment Management Fees	731,552	711,850
TOTAL INVESTMENT MANAGEMENT FEES	$ 1,997,189	$ 1,956,888
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$ 146,844	$ 144,896
Investment Custodial Fees	97,055	140,489
Other Investment Service Fees	61,381	221,108
Total Other Investment Service Fees	305,280	506,493
TOTAL INVESTMENT MANAGER AND OTHER SERVICE FEES	$ 2,302,469	$ 2,463,381

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Actuarial section

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Actuary's Certification Letter

March 1, 2007

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. Actuarial valuations are completed annually as of June 30 of each year. The date of the most recent actuarial valuation was June 30, 2006. 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 payrolls to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 2006, the remaining amortization period for the UAAL was 18 years. The funding objective of the Association is to establish contribution rates that, over time, will remain as a level percentage of payrolls and will fully fund the liability for each participant by the participant's retirement date, unless Association benefit provisions are changed.

For actuarial valuation purposes, Association assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value, and spread 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 Buck as being appropriate for the valuation and Buck is solely responsible for the trend schedules presented in this report. An analysis of the Association's noneconomic experience was performed as of June 30, 2004 to establish the validity of these assumptions. The assumptions used in this valuation produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Association. The next experience analysis is due to be performed as of June 30, 2007.

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,

Harold A. Loeb, A.S.A., E.A., M.A.A.A.

Principal and Consulting Actuary

1801 Century Park East, Suite 500 • Los Angeles, CA 90067
310.282.8232 • 310.282.0881 (fax)

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, 2006):

Investment Rate of Return	8.00% (equates 8.16% effective rate) 3.50% real, 4.50% inflation.
Inflation	4.50% per annum.
Cost of Living Adjustments	Up to 3% per annum for Tier 1
Asset Valuation Method	Five year smoothed market
Interest Credited to Active Members	
	Reserves 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.
Average Annual Salary Increases	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, 2005. 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, 2006.

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

Pre-Retirement Mortality	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
Withdrawal Rates	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
Disability Rates	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/04 (See Schedule of Probabilities of Separation from Active Service)
Salary Growth	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, 2006.

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 18-year period from June 30, 2006.

D. Plan Description

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

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2006.

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	0.00008	0.00000
30	0.14850	0.00040	0.00080	0.00000	0.00010	0.00000	0.00040	0.01850
40	0.08030	0.00060	0.00130	0.00000	0.00030	0.00000	0.00096	0.02270
50	0.04180	0.00100	0.00240	0.09000	0.00110	0.00000	0.00192	0.02320
60	0.01320	0.00170	0.00420	0.16000	0.00310	0.00000	0.00336	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	0.17200	0.00015	0.00000	0.00000	0.00000	0.00000	0.00008	0.00000
30	0.12720	0.00023	0.00020	0.00000	0.00008	0.00000	0.00023	0.01930
40	0.06480	0.00045	0.00040	0.00000	0.00015	0.00000	0.00038	0.02290
50	0.03320	0.00060	0.00180	0.09000	0.00060	0.00000	0.00120	0.01980
60	0.01040	0.00083	0.00460	0.16000	0.00210	0.00000	0.00315	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	0.00650	0.00000
30	0.07800	0.00050	0.00030	0.00000	0.00010	0.00060	0.00840	0.02280
40	0.02500	0.00160	0.00060	0.00000	0.00020	0.00170	0.01280	0.01660
50	0.00900	0.00260	0.00120	0.04500	0.00100	0.00270	0.01990	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, 2006.

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
7/1/01	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%
7/1/05	General	1,892	$83,166,000	$43,957	4.09%
	Safety	295	$14,341,000	$48,614	4.29%
	Total	2,187	$97,507,000	$44,585	4.19%
7/1/06	General	1,919	$85,864,000	$44,744	1.79%
	Safety	310	$15,274,000	$49,271	1.35%
	Total	2,229	$101,138,000	$45,374	1.77%

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2006.

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
7/1/01	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
7/1/05	1,441	109	2,445	49	450	1,477	$24,867	9.16%	$16,836
7/1/06	1,477	98	2,007	53	785	1,522	$27,297	9.77%	17,934

SOLVENCY TEST

(Dollar Amounts in Thousands)

	Actuarial Accrued Liabilities (AAL) For					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	1 Active Member Contributions	2 Retirants and Beneficiaries	3 Active Members Employer Portion	Actuarial Accrued Liabilities	Valuation Assets	1	2	3
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%
6/30/05	$49,162	$281,246	$259,386	$589,794	$428,813	100%	100%	38%
6/30/06	$54,826	$305,589	$263,918	$624,333	$443,999	100%	100%	32%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
For Years Ended June 30

	Actuarial (Gains)/Losses					
Plan Year Ending	Asset Sources ($ 000)	Liability Sources ($ 000)	Total ($ 000)	Changes in Plan Provisions ($ 000)	Changes in Assumptions/Methods ($ 000)	Total (Gain)/Loss ($ 000)
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
6/30/05	$23,825	$ 9,230	$33,055	$ 2,435	$14,012	$49,502
6/30/06	$13,444	$(2,866)	$10,579	$ 2,734	N/A	$13,312

Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2006.

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Statistical Section

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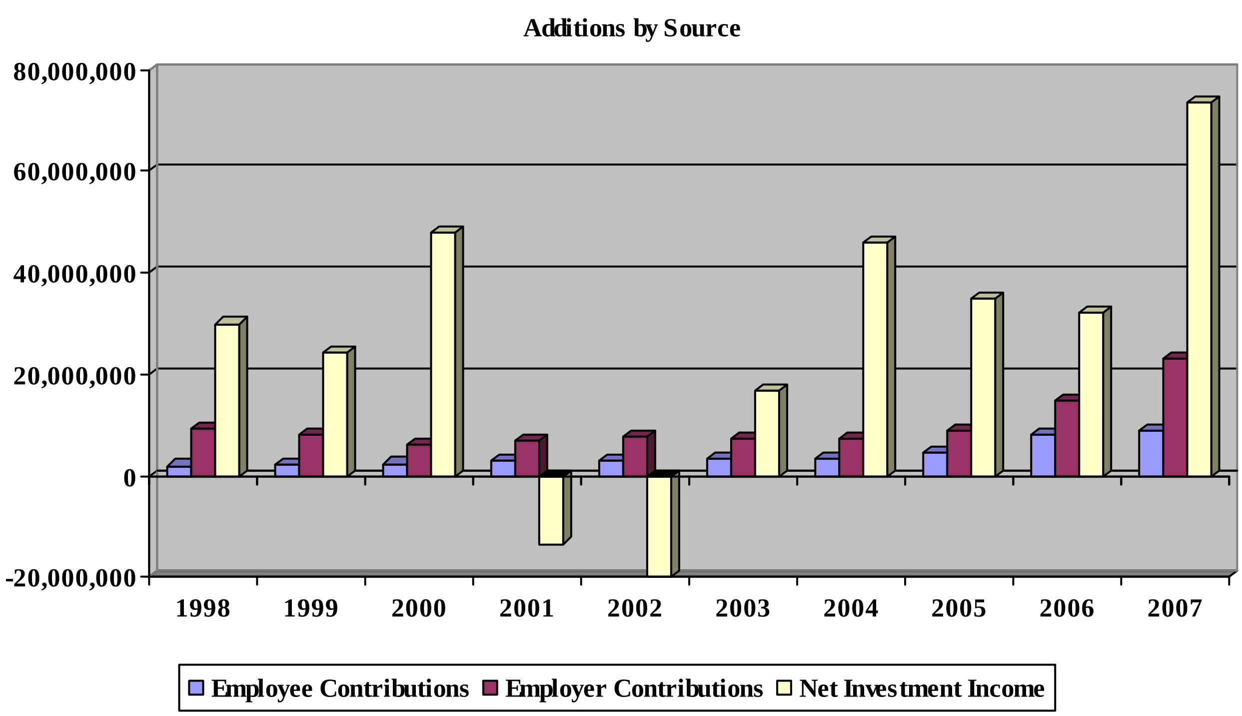
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ADDITIONS BY SOURCE

Fiscal Year Ending	Employee Contributions	Employer Contributions	Employer % of Covered Payroll	Net Investment Income	Total
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
6/30/06	$ 8,221,757	$ 14,749,934 **	15.02%	$ 32,191,872	$ 55,163,563
6/30/07	$ 8,755,297	$ 23,232,099 **	21.33%	$ 73,614,145	$ 105,601,541

*Beginning with June 30, 2001 the amounts listed under Net Investment Income have been reclassified to conform to the 2006 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.

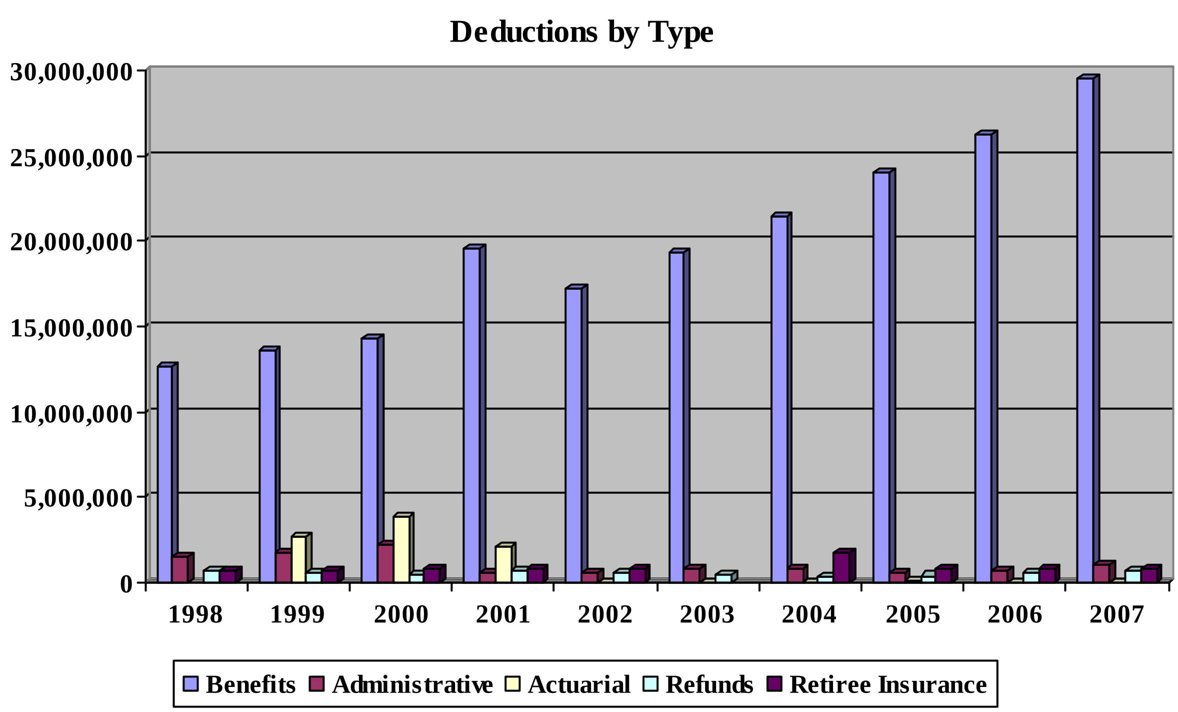


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Refunds	Retiree Insurance Premium	Total
06/30/98		$ 12,601,445	$ 1,479,445	-	$ 646,853	$ 690,702	$ 15,418,445
6/30/99		$ 13,604,448	$ 1,772,025	$ 2,676,827	$ 624,867	$ 690,702	$ 19,368,869
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
6/30/06	*	$ 26,263,569	$ 649,080	$ 48,438	$ 602,210	$ 850,000	$ 28,413,297
06/30/07		$ 29,577,586	$ 1,014,953	$ 41,100	$ 703,867	$ 850,000	$ 32,187,506

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



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Schedule of Changes in Net Assets
Last Ten Fiscal Years
(Amounts Expressed in Thousands)

Additions	06/30/07	06/30/06	06/30/05	06/30/04	06/30/03
Employee contributions	$ 8,755	$ 8,222	$ 4,585	$ 3,347	$ 3,298
Employer contributions	23,232	14,750	8,931	7,269	7,201
Net investment income	73,614	32,191	34,840	46,098	16,957
Total additions	105,601	55,163	48,356	56,714	27,456
Deductions					
Benefits paid	29,578	26,264	24,070	21,499	19,346
Administrative expenses	1,014	649	602	830	820
Actuarial expenses	41	48	62	-	-
Refunds	704	602	409	349	499
Retiree insurance	850	850	850	1,759	-
Total deductions	32,187	28,413	25,993	24,437	20,665
Change in net assets	$73,414	$ 26,750	$ 22,363	$ 32,277	$ 6,791

Additions	06/30/02	06/30/01	06/30/00	06/30/99	06/30/98
Employee contributions	$ 3,187	$ 3,043	$ 2,435	$ 2,273	$ 2,040
Employer contributions	7,731	6,927	6,259	8,224	9,253
Net investment income	(19,790)	(13,342)	47,987	24,394	29,983
Total additions	(8,872)	(3,372)	56,681	34,891	41,276
Deductions					
Benefits paid	17,265	19,520	14,251	13,604	12,602
Administrative expenses	586	529	2,206	1,772	1,479
Actuarial Expenses	7	2,079	3,833	2,677	-
Refunds	625	681	466	625	647
Retiree insurance	851	851	824	691	691
Total deductions	19,334	23,660	21,580	19,369	15,419
Change in net assets	$ (28,206)	$ (27,032)	$ 35,101	$ 15,522	$ 25,857

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollar Amounts in Thousands)

	2006	2005	2004	2003	2002	2001	1999	1998	1997	1996
Service Retirement										
Payroll:										
General	$18,081	$16,378	$14,977	$13,197	$11,238	$11,158	$9,237	$8,274	$7,777	$6,352
Safety	3,448	3,030	2,506	2,349	1,908	1,810	1,547	1,320	1,219	1,129
Total	$21,529	$19,408	$17,483	$15,546	$13,146	$12,968	$10,784	$9,594	$8,996	$7,481
Disability Retiree										
Payroll										
General	$1,527	$1,478	$1,443	$1,388	$1,384	$1,339	$1,154	$1,061	$989	$906
Safety	1,913	1,816	1,769	1,572	1,483	1,362	1,122	1,054	1,002	952
Total	$3,440	$3,294	$3,212	$2,960	$2,867	$2,701	$2,276	$2,115	$1,991	$1,858
Beneficiary										
Payroll										
General	$1,734	$1,613	$1,511	$1,347	$1,211	$1,130	$908	$891	$836	$706
Safety	594	551	575	515	449	439	430	431	407	369
Total	$2,328	$2,164	$2,086	$1,862	$1,660	$1,569	$1,338	$1,322	$1,243	$1,075
Total Benefit Expense										
Payroll										
General	$21,342	$19,470	$17,931	$15,932	$13,833	$13,627	$11,299	$10,227	$9,603	$7,964
Safety	5,955	5,397	4,849	4,437	3,840	3,609	3,099	2,804	2,629	2,450
Total	$27,297	$24,867	$22,780	$20,369	$17,673	$17,236	$14,398	$13,031	$12, 232	$10,414

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

(Summary of Monthly Allowances Being Paid—As of June 30, 2006)

	GENERAL MEMBERS		SAFETY MEMBERS		TOTAL	
	Number	Monthly Allowance	Number	Monthly Allowance	Number	Monthly Allowance
Service Retirement	1,013	$ 1,506,722	113	$ 287,356	1,126	$ 1,794,078
Disability	105	$ 127,219	80	$ 159,417	185	$ 286,636
Beneficiaries	176	$ 144,479	35	$ 49,538	211	$ 194,017
Total Retired Members	1,294	$ 1,778,420	228	$ 496,311	1,522	$ 2,274,731

Note: Information compiled from Actuarial Report prepared by Buck Consultants. Information for the fiscal year ending June 30, 2007 was not available for this report. MCERA had no actuarial valuation in 2000.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF ACTIVE MEMBERSHIP
For Years Ended June 30
(Annual Payroll Dollars in Millions)

	2006	2005	2004	2003	2002	2001	1999	1998	1997	1996
GENERAL TIER I										
Number	562	607	660	726	784	830	952	1,003	1,072	1,604
Annual Payroll**	$31,190	$32,249	$32,594	$34,233	$35,222	$35,125	$34,553	$35,763	$35,157	$52,467
Average Monthly Salary	$4,625	$4,427	$4,115	$3,929	$3,744	$3,527	$3,025	$2,971	$2,733	$2,726
Average Age	52.33	51.81	50.94	50.94	50.58	49.78	48.21	47.39	46.68	45.51
Average Service	19.24	18.80	17.29	17.29	16.48	15.72	14.11	13.30	12.34	10.87
GENERAL TIER II										
Number	1,357	1,285	1,164	1,204	1,150	1,020	758	549	392	401
Annual Payroll**	$54,674	$50,917	$44,429	$42,738	$37,379	$31,896	$20,086	$14,628	$9,624	$9,986
Average Monthly Salary	$3,358	$3,302	$3,181	$2,958	$2,709	$2,606	$2,208	$2,220	$2,046	2,075
Average Age	41.91	41.84	40.78	40.78	40.01	39.56	38.73	39.04	38.62	38.02
Average Service	4.90	4.81	3.71	3.71	3.09	2.79	2.27	2.15	1.87	1.17
SAFETY TIER I										
Number	99	110	118	128	136	144	173	178	190	195
Annual Payroll**	$6,027	$6,421	$6,326	$6,426	$6,384	$6,130	$6,584	$6,617	$6,560	$6,702
Average Monthly Salary	$5,073	$4,864	$4,468	$4,184	$3,912	$3,547	$3,170	$3,098	$2,877	$2,864
Average Age	45.55	45.63	45.03	45.03	44.60	43.68	41.48	41.34	40.20	39.72
Average Service	17.32	16.95	15.78	15.78	15.08	14.08	11.66	11.17	10.28	9.84
SAFETY TIER II										
Number	211	185	150	134	113	90	48	31	14	12
Annual Payroll**	$9,247	$7,920	$6,167	$5,189	$4,016	$2,864	$1,301	$846	$351	$266
Average Monthly Salary	$3,652	$3,568	$3,426	$3,227	$2,962	$2,652	$2,259	$2,274	$2.089	$1,847
Average Age	32.56	32.28	33.31	33.31	32.54	31.51	32.34	30.84	31.07	34.00
Average Service	3.56	3.30	2.83	2.83	2.36	2.17	1.52	1.64	1.64	1.00
TOTAL										
Number	2,229	2,187	2,092	2,192	2,183	2,084	1,931	1,761	1,668	2,212
Annual Payroll**	$101,138	$97,507	$89,516	$88,586	$83,001	$76,015	$62,521	$57,854	$51,692	$69,421
Average Monthly Salary	$3,781	$3,715	$3,566	$3,368	$3,168	$3,040	$2,698	$2,738	$2,583	$2,615
Average Age	43.81	43.99	43.69	43.94	43.71	43.57	43.49	43.88	43.92	43.58
Average Service	8.94	9.18	8.61	8.86	8.61	8.69	8.93	9.40	9.55	8.97

** 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, 2007 was not available for this report. MCERA had no actuarial valuation for the fiscal years ending 2000. Tier II was adopted in June 1994.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF RETIRED MEMBERSHIP
For Years Ended June 30
(Basic and Total Annual Allowance Dollars in Millions)

	2006	2005	2004	2003	2002	2001	1999	1998	1997	1996
GENERAL										
Number	1,294	1,260	1,228	1,147	1,108	1,079	1,008	981	947	834
Basic Annual Allowance	$16,553	$ 15,000	$ 13,786	$ 12,119	$ 10,298	$ 10,383	$ 8,731	$7,924	$7,554	$6,119
Average Basic Monthly Allowance	$1,066	$ 992	$ 936	$ 880	$ 775	$ 802	$ 722	$673	$665	$611
Total Annual Allowance	$21,341	$19,470	$17,931	$ 15,932	$ 13,833	$ 13,627	$ 11,299	$10,227	$9,603	$7,964
Average Total Monthly Allowance	$1,374	$1,288	$1,217	$ 1,158	$ 1,040	$ 1,052	$ 934	$869	$845	$796
SAFETY										
Number	228	217	213	201	187	180	171	163	158	148
Basic Annual Allowance	$4,508	$4,038	$3,597	$ 3,300	$ 2,818	$ 2,671	$ 2,373	$2,156	$2,071	$1,941
Average Basic Monthly Allowance	$1,648	$1,551	$1,407	$ 1,368	$ 1,256	$ 1,237	$ 1,156	$1,102	$1,092	$1,093
Total Annual Allowance	$5,956	$5,397	$4,849	$ 4,437	$ 3,840	$ 3,609	$ 3,099	$2,804	$2,628	$2,450
Average Total Monthly Allowance	$2,177	$2,073	$1,897	$ 1,840	$ 1,711	$ 1,671	$ 1,510	$1,434	$1,386	$1,380
TOTAL										
Number	1,522	1,477	1,441	1,348	1,295	1,259	1,179	1,144	1,105	982
Basic Annual Allowance	$21,061	$19,038	$17,383	$ 15,419	$ 13,116	$ 13,054	$ 11,104	$10,080	$9,625	$8,060
Average Basic Monthly Allowance	$1,153	$1,074	$1,005	$ 953	$ 844	$ 864	$ 785	$734	$726	$684
Total Annual Allowance	$27,297	$24,867	$22,780	$ 20,369	$ 17,673	$ 17,236	$ 14,398	$13,031	$12,231	$10,414
Average Total Monthly Allowance	$1,495	$1,403	$1,317	$ 1,259	$ 1,137	$ 1,141	$ 1,018	$949	$922	$884

SUMMARY OF INACTIVE MEMBERSHIP*

	2006	2005	2004	2003	2002	2001	1999	1998	1997	1996
GENERAL										
Number	470	453	438	449	454	437	429	401	406	212
SAFETY										
Number	81	81	70	74	75	76	68	66	65	69
TOTAL										
Number	551	534	508	523	529	513	497	467	471	281

Note: Information compiled from Actuarial Report prepared by Buck Consultants. Information for the fiscal year ending June 30, 2007 was not available for this report. *Includes unclaimed accounts.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIRED MEMBERS BY TYPE OF RETIREMENT
As of June 30, 2007

Amount of Monthly Benefit	Number of Members	Type of Retirement* 1	2	3	4	5	6	7	Option Selected** Unmodified	Opt 1	Opt 2	Opt 3
1 - 250	103	27	48	20	0	7	1	0	76	6	17	4
251 - 500	164	26	76	30	7	10	14	1	135	6	21	2
501 - 750	208	48	103	38	5	2	12	0	182	10	13	3
751 - 1,000	206	73	80	24	5	10	14	0	179	9	16	2
1,001 - 1,250	160	62	60	14	2	9	13	0	148	2	6	4
1,251 - 1,500	140	64	43	9	4	16	3	1	127	3	9	1
1,501 - 1,750	106	43	28	7	1	26	1	0	99	1	6	0
1,751 - 2,000	94	45	20	7	0	16	5	1	84	3	7	0
Over 2000	437	257	106	11	4	58	1	0	411	6	16	4
Total	1618	645	564	160	28	154	64	3	1441	46	111	20

Notes:

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

**Option Selected

Unmodified Plan: beneficiary receives 60 % continuance.

The following options reduce the retired member's monthly benefit:
- Option 1—Beneficiary receives lump sum or member's unused contributions
- Option 2—Beneficiary receives 100% of member's reduced allowance
- Option 3—Beneficiary receives 50% of member's reduced allowance

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIRED MEMBERS AVERAGE BENEFIT PAYMENTS

Last ten years

	Years of Credited Service						
Retirement Effective Dates	0-5	05-10	10-15	15-20	20-25	25-30	30+
Period 07/01/2006 to 06/30/2007							
Average monthly benefit	$ 1,650	$ 873	$ 1,291	$ 1,939	$ 3,209	$ 3,890	$ 6,176
Average final average salary	$ 14,598	$ 3,771	$ 4,449	$ 4,430	$ 5,348	$ 5,163	$ 7,070
Number of retired members	1	12	25	32	16	19	17
Period 07/01/05 to 06/30/06							
Average monthly benefit	$ 699	$ 1,000	$ 1,185	$ 2,176	$ 2,730	$ 3,290	$ 5,095
Average final average salary	$ 4,382	$ 3,499	$ 4,104	$ 4,726	$ 4,250	$ 4,542	$ 5,509
Number of retired members	5	13	16	13	8	13	10
Period 07/01/04 to 06/30/05							
Average monthly benefit	$ 657	$ 539	$ 1,212	$ 1,643	$ 1,620	$ 4,003	$ 5,101
Average final average salary	$ 6,041	$ 3,802	$ 4,476	$ 4,160	$ 3,190	$ 5,913	$ 6,591
Number of retired members	3	11	18	9	3	6	12
Period 07/01/03 to 06/30/04							
Average monthly benefit	$ 414	$ 510	$ 977	$ 1,332	$ 1,658	$ 2,870	$ 3,577
Average final average salary	$ 5,485	$ 3,238	$ 3,443	$ 3,789	$ 3,606	$ 4,768	$ 4,632
Number of retired members	5	14	19	30	16	11	23
Period 07/01/02 to 06/30/03							
Average monthly benefit	$ 953	$ 1,541	$ 1,236	$ 1,469	$ 2,080	$ 2,559	$ 5,693
Average final average salary	$ 4,854	$ 4,657	$ 4,018	$ 3,784	$ 4,669	$ 4,648	$ 7,125
Number of retired members	6	13	28	14	11	6	16
Period 07/01/01 to 06/30/02							
Average monthly benefit	$ 438	$ 780	$ 1,005	$ 1,130	$ 1,398	$ 1,485	$ 4,310
Average final average salary	$ 4,229	$ 4,216	$ 3,877	$ 3,383	$ 3,604	$ 3,217	$ 5,437
Number of retired members	5	11	17	16	9	4	8
Period 07/01/00 to 06/30/01							
Average monthly benefit	$ 161	$ 638	$ 927	$ 1,511	$ 1,580	$ 1,516	$ 4,113
Average final average salary	$ 4,292	$ 3,688	$ 3,660	$ 3,878	$ 3,823	$ 2,976	$ 5,146
Number of retired members	8	7	18	13	16	5	4
Period 07/01/99 to 06/30/00							
Average monthly benefit	$ 64	$ 510	$ 762	$ 1,017	$ 1,556	$ 2,060	$ 1,776
Average final average salary	$ 4,116	$ 3,069	$ 3,208	$ 3,120	$ 3,358	$ 3,303	$ 2,975
Number of retired members	4	10	17	9	5	8	3
Period 07/01/98 to 06/30/99							
Average monthly benefit	$ 127	$ 493	$ 840	$ 1,115	$ 1,493	$ 2,026	$ 2,204
Average final average salary	$ 3,572	$ 3,327	$ 3,451	$ 3,090	$ 3,224	$ 3,662	$ 3,112
Number of retired members	4	9	21	4	8	5	5
Period 07/01/97 to 06/30/98							
Average monthly benefit	$ 124	$ 780	$ 552	$ 989	$ 1,354	$ 2,184	$ 2,878
Average final average salary	$ 3,793	$ 3,894	$ 2,509	$ 2,815	$ 3,072	$ 2,997	$ 3,180
Number of retired members	2	4	22	6	7	2	8

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET

For the Year Ending June 30

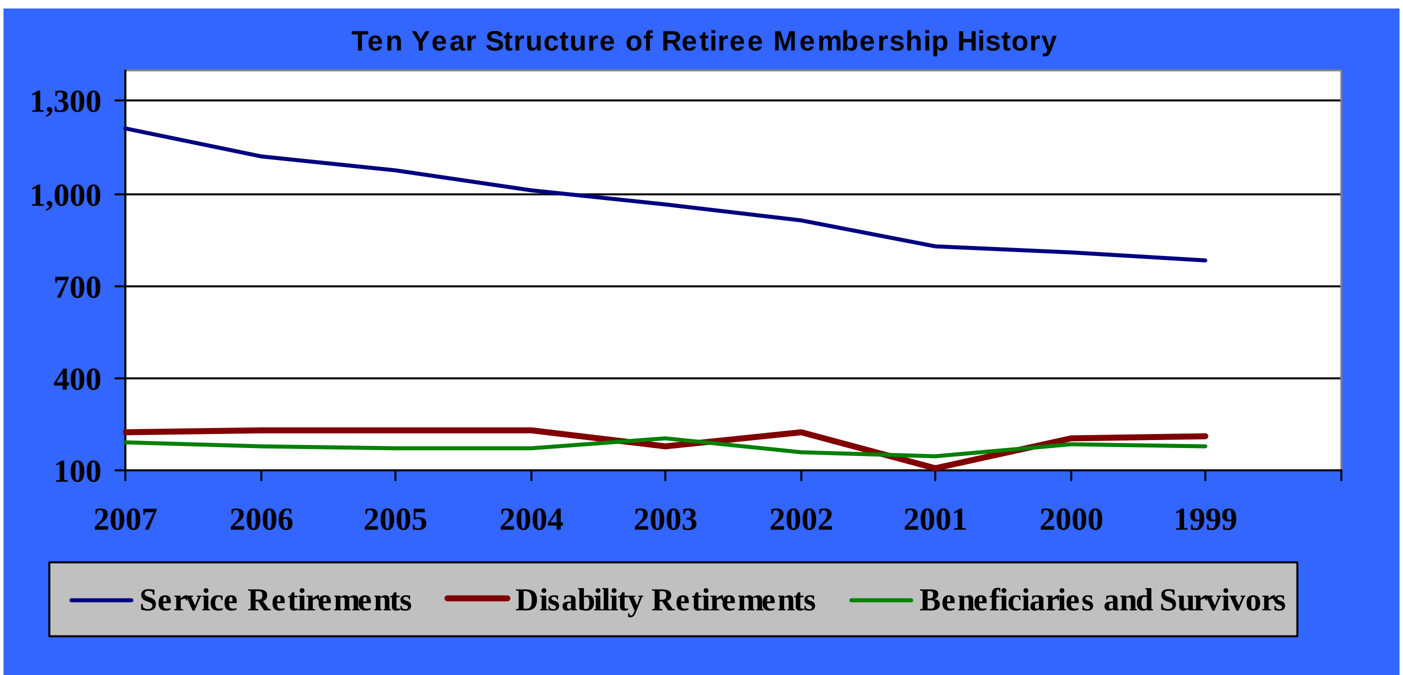
		2006	2005
	ASSETS		
1.	Total actuarial value of assets	$ 443,998,782	$ 428,813,477
2.	Present value of future contributions by members	47,684,458	46,403,626
3.	Present value of future employer contributions for normal cost	49,770,986	48,660,586
4.	Present value of other future employer contributions (UAAL)	180,334,649	160,980,930
5.	Total Actuarial Assets	$ 721,788,875	$ 684,858,619
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$ 300,899,027	$ 274,772,830
7.	Present value of service retirement allowances payable to presently active member and their survivors	294,664,150	288,296,652
8.	Present value of allowances payable to current and future vested terminated members and their survivors	70,984,421	67,239,410
9.	Present value of disability retirement allowances payable to presently active members and their survivors	27,818,887	26,848,431
10.	Present value of death benefits payable on behalf of presently active members	5,229,118	5,022,347
11.	Present value of members' contributions to be returned upon withdrawal	17,503,478	16,205,719
12.	Special Reserves	4,689,794	6,473,230
13.	Total Actuarial Liabilities	$ 721,788,875	$ 684,858,619
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$ 721,788,875	$ 684,858,619
15.	Present value of future contributions by members and employers (items 2 and 3)	97,455,444	95,064,212
16.	Actuarial accrued liability (item 14 minus item 15)	624,333,431	589,794,407
17.	Actuarial value of assets	443,998,782	428,813,477
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$ 180,334,649	$ 160,980,930
19.	Funded Ratio	71.1%	72.7%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Current Year and Nine Years Ago
(Information Compiled from Plan's Data Base)

County of Merced	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Members	1,848	1,853	1,931	1,882	1,928	2,060	1,874	1,821	1,745	1,608
Safety Members	328	316	296	274	262	253	234	233	221	215
Total County of Merced	2,176	2,169	2,227	2,156	2,190	2,313	2,108	2,054	1,966	1,823
Percentage of Membership	94.69%	95.22%	99.87%	99.91%	99.91%	99.87%	99.86%	99.86%	99.85%	99.84%
Participating Agencies										
Merced Cemetery District	3	3	3	2	2	3	3	3	3	3
Percentage of Membership	.13%	.13%	.13%	.09%	.09%	.13%	.14%	.14%	.15%	.16%
Superior Court of California	119	106	-	-	-	-	-	-	-	-
Percentage of Membership	5.17%	4.65%	-	-	-	-	-	-	-	-
Total Participating Agencies	122	109	3	2	2	3	3	3	3	3
Total Active Membership										
General	1,970	1,962	1,934	1,884	1,930	2,063	1,877	1,824	1,748	1,611
Safety	328	316	296	274	262	253	234	233	221	215
Total	2,298	2,278	2,230	2,158	2,192	2,316	2,111	2,057	1,969	1,826



	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Service Retirements	1,209	1,119	1,073	1,012	966	911	826	809	783	818
Disability Retirements	222	227	232	233	180	225	108	207	212	162
Beneficiaries and Survivors	188	175	171	171	202	158	145	184	180	156
Total	1,619	1,521	1,476	1,416	1,348	1,294	1,079	1,200	1,175	1,136