MERCED COUNTY EMPLOYEES' RETIRMENT ASSOCIATION

A Pension Trust Fund of the County of Merced, California

Comprehensive Annual Financial Report

For the Years Ended June 30, 2008 and 2007

Issued By

Maria L. Arevalo
Plan Administrator
and
Gale Garcia, RPA
Fiscal Supervisor

MCERA

3199 M Street
Merced, CA 95348

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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LETTER OF TRANSMITTAL

Maria L. Arevalo
Plan Administrator

October 17, 2008

Dear Board Members:

As the Administrator of the Merced County Employees' Retirement Association (MCERA or the System), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2008 and 2007. 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 58th 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 administer 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 years ended June 30, 2008 and 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, 2008, MCERA's net assets held in trust totaled approximately $483 million reflecting a decrease of approximately $37 million (approximately 7.0%) in the net assets held in trust at the end of the previous fiscal year. This was primarily attributable to an increase in retiree payroll, decrease in investment income and the depreciation 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 higher the level of plan funding, the larger the ratio of assets accumulated to actuarial accrued liability and the higher the level of investment return potential.

Pursuant to provisions in the 1937 Act, MCERA engages an independent actuarial firm to perform 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, 2007, found the retirement system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 73.8%. The increase in the funding ratio (up from 71.1% as of June 30, 2006) was due primarily to MCERA's investment performance over the past five years. Deferred gains under the smoothing methodology exceed the deferred losses by $34.9 million as of June 30, 2007, and these deferred gains can be utilized to offset possible investment shortfalls in the future or to lower future costs.

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 fiscal 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.

LETTER OF TRANSMITTAL
(Continued)

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, 2008, MCERA's investment return was negative 6.0**%** and the annualized rate of return over the last three and five years was 6.1**%** and 8.2**%,** respectively.

Service Efforts and Accomplishments

Benefits

1. Initiated Brown Bag Lunch-time Retirement Information Sessions for members.
2. Developed new benefits PowerPoint presentations and member benefit materials.
3. Revised and adopted new disability regulations.
4. Added an additional medical advisor and attorney for disability cases.
5. Implemented a notification to members of service time available for purchase.
6. Developed new retirement application forms, new disability application forms, new contribution withdrawal forms.
7. Made benefit forms accessible on MCERA's website.

Operations

1. Hired a pension administration consultant to complete a feasibility study for a new PAS and implemented first stage.
2. Updated and automated procedures for tracking and calculating service time for members.
3. Upgraded the Retirement Accounting Analyst position to Fiscal Supervisor.
4. Filled the position of Retirement Officer.
5. Filled the position of Accountant.
6. For the fourth consecutive year, MCERA was awarded the GFOA Certificate for Achievement for Excellence in Financial Reporting for MCERA's 2006-2007 Comprehensive Annual Financial Report.
7. Adopted and implement a Records Retention Policy.
8. Began upgrade of MCERA's website.
9. Amended and adopted MCERA's Board By-Laws.

Fiscal

1. Transitioned from Lehman Brothers Core Fixed Income Fund to Lehman Brothers Enhanced Bond Index .
2. Transitioned from Nicholas/Applegate to UBS Small Cap International Equity Fund.
3. Transitioned from Invesco International Equity Fund to GMO International Equity Fund.
4. Hired European Investors for MCERA's global real estate (REIT) allocation.
5. Hired Earnest Partners for MCERA's international alpha allocation.
6. Completed MCERA's triennial experience study.
7. Revised and adopted MCERA's Investment Objectives and Policy Statement.

LETTER OF TRANSMITTAL
(Continued)

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, 2007. 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 fourth 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 fiscal supervisor, 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 auditor - 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, 2007

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, 2008

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

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

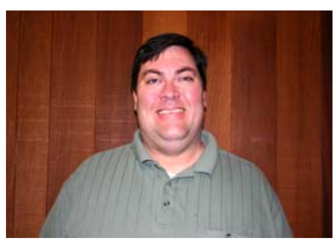
Ronald Kinchloe
Elected by General Members
Term Expires 06-30-09

Ralph Busby
Appointed by the Board of Supervisors
Term Expires 12-31-08

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 06-30-10



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, 2008

Board of Retirement

Maria L. Arevalo
Plan Administrator

Gale Garcia
Fiscal Supervisor

Yadira Vazquez
Retirement Officer

David Liu
Accountant

Roseann Guthrie
Benefit Specialist

Brenda Mojica
Account Clerk

Rhianna Phillips
Office Assistant

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
LIST OF PROFESSIONAL CONSULTANTS AT JUNE 30, 2008

CONSULTING SERVICES

INVESTMENT CONSULTANT
Milliman USA, William Cottle

ACTUARY
Buck Consultants, Harold Loeb

AUDITOR
Macias Gini & O'Connell, LLP

CUSTODIAN
BNY Mellon Asset Servicing

DATA PROCESSING
County Information
Management Systems

LEGAL COUNSEL
County Counsel of Merced County
Mason, Robbins, Gnass & Browning
C. Logan McKechnie

MEDICAL ADVISOR
Dr. Theresa Smith
Dr. Charles Fracchia

INVESTMENT SERVICES

FIXED INCOME
Lehman Brothers Asset Management
Aberdeen Asset Management

REAL ESTATE
UBS Global Asset Management
European Investors

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

INTERNATIONAL EQUITY
UBS Global Asset Management
Grantham, Mayo, Van Otterloo & Co. LLC
Earnest Partners, LLC

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

COMMISSION RECAPTURE BROKERS
Lynch, Jones & Ryan

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Financial Section

Old Merced County Courthouse

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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, 2008 and 2007, 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 Standar*ds, 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, 2008 and 2007, 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.

As described in Note 2, effective July 1, 2007, the Association adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No.27..*

Subsequent to year-end, the global financial markets experienced significant volatility which resulted in the decline in the overall fair market value of the Association's investment portfolio as described in Note 7.

In accordance with *Government Auditing Standards*, we have issued our report dated September 30, 2008, 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 and the Schedule of Employer Contributions on page 57 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 investment, 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, investment, 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 30, 2008

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 years ended June 30, 2008 and 2007. 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 $482,641,573. 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 decreased by $36,669,183 (a decrease of 7.1%). This decline essentially reflects the decline of investment income, the fair market value of investments and the decline of the offsetting cash collateral in the current assets and liabilities.

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 73.8%. In general, this indicates that for every one dollar of benefits due, MCERA has slightly more than $.73 of assets available for payment.

- Additions to Plan Net Assets for the year were negative $688,261, which includes member and employer contributions of $33,109,139, a net investment income loss of $34,000,458 and net securities lending income of $203,058.

- Deductions in Plan Net Assets increased from $32,187,506 in the last fiscal year to $35,980,922 in the current fiscal year (an increase of approximately 11.8%). This decrease was primarily due to higher benefits paid.

Overview of the Financial Statements

The following discussion and analysis are intended to help the reader understand the purpose and meaning of the key components within 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, 44 and 50. 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 MCERA's net assets held in trust to pay pension benefits is generally considered to be a good measure of the MCERA'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 $482,641,573. 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, 2008 totaled $482.6 million which is $36.7 million (or 7.1%) less than the prior year. This result essentially reflects the decline of current and other assets of 47.5% or ($36.7 million) and the decline of investments at fair value of 6.8% or ($34.8) million, offset by the decrease in the total liabilities of 53.1% or ($34.8 million).

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.

MCERA's portfolio suffered this fiscal year as difficulties continued in the financial markets, characterized by wide swings in volatility. The starting point of the market turmoil was the severe deterioration in conditions within the US sub-prime mortgage market. This deterioration in sub-prime loans is key to what happened in the markets more generally because these sub-prime loans backed a huge range of asset-backed securities (ABS) and collateralized debt obligation (CDOs). The complexity and lack of transparency of these CDOs and other structured investment vehicles have exacerbated the problems because there has been great uncertainty about the value of the underlying investments. This combined with the lack of transparency as to the current ownership of these troubled investments has triggered liquidity concerns within the banking sector. The market volatility has contributed to economic challenges such as high energy prices, declining payrolls, and increased inflation risks. Despite these market fluctuations and due to MCERA's prudently diversified investment program, MCERA's management and actuary concur that MCERA remains in a solid financial position to meet its obligations to the plan participants and beneficiaries. More detailed information is available in the investment section.

MCERA's Net Assets as of June 30, 2008 and 2007

	2008	2007	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and other assets	$40,566,134	$77,274,870	($36,708,736)	-47.5%
Investments at fair value	472,773,945	507,535,602	(34,761,657)	-6.8%
Capital assets	11,203	20,231	(9,028)	-44.6%
Total assets	513,351,282	584,830,703	(71,479,421)	-12.2%
Current liabilities	30,709,709	65,519,947	(34,810,238)	-53.1%
Total liabilities	30,709,709	65,519,947	(34,810,238)	-53.1%
Net assets	$482,641,573	$519,310,756	($36,669,183)	-7.1%

	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, 2007, and 2006

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. The Market Value Fluctuation Reserve decreased by $79,599,094 in the current fiscal year as a result of the downturn in the financial markets.

MCERA's Reserves as of June 30, 2008, 2007, and 2006

	2008	2007	2006
Active members	$66,865,149	$59,299,436	$54,825,607
Employer advance	53,533,258	52,448,854	66,763,872
Retired members	286,304,416	265,687,161	230,191,661
Ad-Hoc COLA	1,746,443	1,654,015	1,568,795
Interest fluctuation	25,444,465	7,818,008	-
Market value fluctuation	30,311,934	109,911,028	69,662,223
Contingency	15,352,318	18,558,664	18,194,769
Internal Revenue Code (IRC) Section 401(h)	3,083,590	3,933,590	4,689,794
Total reserves at fair value	$482,641,573	$519,310,756	$445,896,721

MCERA's Activities

A downturn in the investment markets resulted in a June 30, 2008 fiscal year decrease of $36,669,183 in MCERA's net assets (a decrease of approximately 7.1% from the previous year). The key elements of this decrease is the result of 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 $(688,261). Overall, revenues for the fiscal year were down $106,289,802 (approximately 100.7%) from the fiscal year ended June 30, 2007, due to investment fair value losses. In the 2006-2007 fiscal year, investment gains resulted in a positive $105,601,541 in total revenue, which was a increase of $50,437,978 from the total revenue in the 2005-2006 fiscal year. Employer and employee contributions increased in the current fiscal year due to the actuarial assumptions and experience of the System. The increase in the MCERA's employer and employee rates, due to the enhanced benefit levels are reflected in the actuarial valuation as of June 30, 2007. 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, 2008 and 2007)

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percent
Employer contributions	$23,751,437	$23,232,099	$519,338	2.2%
Member contributions	9,357,702	8,755,297	602,405	6.9%
Net investment income	(33,797,400)	73,614,145	(107,411,545)	-145.9%
Total additions	($688,261)	$105,601,541	($106,289,802)	-100.7%

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	73,614,145	32,191,872	41,422,273	128.7%
Total additions	$105,601,541	$55,163,563	$50,437,978	91.4%

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 include 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 $35,980,922, an increase of 11.8% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew approximately 12.9%. Deductions for the 2007 fiscal year totaled $32,187,506, an increase of 13.3% from the 2006 fiscal year. Retiree payroll and administrative expenses was the largest part of this increase, which grew 12.6% and 56.4% respectively.

Deductions from Plan Net Assets
(For the Years Ended June 30, 2008 and 2007)

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percent
Benefits paid	$33,394,363	$29,577,586	$3,816,777	12.9%
Administrative expenses	1,029,916	1,014,953	14,963	1.5%
Refunds of contributions	653,143	703,867	(50,724)	-7.2%
401(h) distribution to County	850,000	850,000	0	0.0%
Actuarial expense	53,500	41,100	12,400	30.2%
Total deductions	$35,980,922	$32,187,506	$3,793,416	11.8%

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Continued)

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

	2007	2006	Increase (Decrease) Amount	Increase (Decrease) Percent
Benefits paid	$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	-	0.0%
Actuarial expense	41,100	48,438	(7,338)	-15.1%
Total deductions	$32,187,506	$28,413,297	$3,774,209	13.3%

Changes in Net Assets
(For the Years Ended June 30, 2008 and 2007)

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Employer contributions	$23,751,437	23,232,099	519,338	2.2%
Members contributions	9,357,702	8,755,297	602,405	6.9%
Net investment income	(33,797,400)	73,614,145	(107,411,545)	-145.9%
Total additions	(688,261)	105,601,541	(106,289,802)	-100.7%
Deductions				
Benefits paid	33,394,363	29,577,586	3,816,777	12.9%
Administrative expenses	1,029,916	1,014,953	14,963	1.5%
Actuarial expenses	53,500	41,100	12,400	30.2%
Refunds of contributions	653,143	703,867	(50,724)	-7.2%
401(h) distribution to County	850,000	850,000	0	0.0%
Total deductions	35,980,922	32,187,506	3,793,416	11.8%
Change in net assets	(36,669,183)	73,414,035	(110,083,218)	-149.9%
Net asset held in trust at beginning of the year	$519,310,756	$445,896,721	$73,414,035	16.5%
Net assets held in trust at end of year	$482,641,573	$519,310,756	($36,669,183)	-7.1%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

	2007	2006	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Employer contributions	23,232,099	14,749,934	8,482,165	57.5%
Members contributions	8,755,297	8,221,757	533,540	6.5%
Net investment income	73,614,145	32,191,872	41,422,273	128.7%
Total additions	105,601,541	55,163,563	50,437,978	91.4%
Deductions				
Benefits paid	29,577,586	26,263,569	3,314,017	12.6%
Administrative expenses	1,014,953	649,080	365,873	56.4%
Actuarial expenses	41,100	48,438	(7,338)	-15.1%
Refunds of contributions	703,867	602,210	101,657	16.9%
401(h) distribution to County	850,000	850,000	0	0.0%
Total deductions	32,187,506	28,413,297	3,774,209	13.3%
Change in net assets	73,414,035	26,750,266	46,663,769	174.4%
Net assets held in trust at beginning of the year	**$445,896,721**	**$419,146,455**	**$26,750,266**	**6.4%**
Net assets held in trust at end of year	**$519,310,756**	**$445,896,721**	**73,414,035**	**16.5%**

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 an 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, 2008 and 2007

	2008	2007
ASSETS		
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$2,209,185	$4,903,776
Cash invested with BNY Mellon	1,275,438	962,934
Other cash and cash equivalents with BNY Mellon	8,783,505	15,032,995
Securities lending collateral	24,344,477	51,309,226
Receivables:		
Bond interest	441,883	1,086,032
Stock dividends	158,240	184,718
Contributions	803,146	620,893
Securities sold	2,532,808	3,161,315
Other	17,452	12,981
Total receivables	3,953,529	5,065,939
Investments at fair value:		
U.S government and agency obligations	19,313,900	57,427,648
Domestic fixed income	41,591,390	61,121,291
Domestic fixed income (index funds)	51,109,630	-
Common stocks (domestic)	166,039,934	224,139,859
Common stocks (index funds)	53,639,358	61,190,945
Common stocks (international)	82,975,316	55,705,055
Real estate	38,948,020	37,799,191
Alternative investments	19,156,397	10,151,613
Total investments	472,773,945	507,535,602
Capital assets: Net of accumulated depreciation of $61,026 and $51,997 respectively	11,203	20,231
Total assets	513,351,282	584,830,703
LIABILITIES		
Accounts payable	779,960	906,237
Securities lending obligation	24,344,477	51,309,226
Securities purchased	5,474,099	13,266,111
Unclaimed contributions	111,173	38,373
Total liabilities	30,709,709	65,519,947
Net assets held in trust for pension benefits	$482,641,573	$519,310,756

(A schedule of funding progress for pension benefits is presented on page 57).
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, 2008 and 2007

	2008	2007
ADDITIONS		
Contributions:		
Employer	$23,751,437	$23,232,099
Plan members	9,357,702	8,755,297
Total contributions	33,109,139	31,987,396
Investment Income (loss) from Investment Activities:		
Net appreciation (depreciation) in fair value of investments	(79,599,096)	40,248,806
Investment income	47,672,899	35,564,948
Other revenue	258,045	53,398
Less investment expenses	(2,332,306)	(2,302,469)
Net investment income (loss)	(34,000,458)	73,564,683
Securities Lending Activities:		
Securities lending income	1,419,347	1,424,740
Securities lending expenses	(1,216,289)	(1,375,278)
Net securities lending income	203,058	49,462
Total net investment income (loss)	(33,797,400)	73,614,145
Total additions	(688,261)	105,601,541
DEDUCTIONS		
Benefits paid	33,394,363	29,577,586
Refunds of contributions	653,143	703,867
Administrative expense	1,029,916	1,014,953
Actuarial expense	53,500	41,100
401(h) distribution to County	850,000	850,000
Total deductions	35,980,922	32,187,506
Net increase (decrease)	(36,669,183)	73,414,035
Net assets held in trust for pension benefits at beginning of year	519,310,756	445,896,721
Net assets held in trust for pension benefits at end of year	$482,641,573	$519,310,756

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008 and 2007

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 direction of the Board of Retirement.

MCERA, with its own governing board, is an independent governmental entity separate and distinct from the County and derives its authority from California Government Code 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 or any age with 30 years of service credit 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, 2008 was as follows:

	General		Safety		
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total**
Vested	437	793	85	89	1,404
Non-vested	9	749	1	177	936
INACTIVE MEMBERS					
Deferred and inter-system members	246	158	44	37	485
Unclaimed members	8	34			42
Total active members	700	1,734	130	303	2,867
RETIRED MEMBERS					
Service retirements	1,089	38	131		1,258
Beneficiaries	124	2	21		147
Service connected disability	69	4	84	6	163
Non-Service connected disability	60	6	4		70
Survivors	18	2	4	1	25
Total retired members	1,360	52	244	7	1,663

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 members	9	22			31
Total active 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 connnected 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

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, except County Cemetery members on March 15, 2005, Government Code Section 31664.1 for all Safety members, 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 any member who was deferred or in inactive reciprocity status prior to the dates of adoption.

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%

Percentage of Final Average Salary for Each Year of Service (Rounded) for the Merced County Cemetery District, Deferred, and Inactive Reciprocal Members Prior to Enhanced Benefit Adoption Dates.

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

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

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

(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 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 a reciprocal system member, this benefit is payable only to active members 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. Government Code Section 31621.8 set forth the basis for the determination of the normal rates of contribution for General Tier 1 and Tier II members. Government Code Section 31639.5 set forth the basis for the normal rates of contribution for Safety Tier 1 and Tier II. The law further provides that the contribution rates of members will be based on the age nearest birthday at the time of entrance into the System. Section 31453 states that no adjustment will be included in the rates of contribution for time prior to the effective date of any revisions. Member basic contributions are based on entry age into the System and the following actuarial assumptions:

1. Actuarial investment return of 8.16%
2. Salary scale assumption reflects 4.50% for inflation and graded merit and longevity increases up to 1.00%
3. Life expectancy
4. Members will cash out 90% of the maximum 160 hours annual leave under the Ventura decision in their final year of employment.

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 contribution rates for adoption by the County Board of Supervisors each year based upon the rates recommended by the System's actuary.

The employers' annual required contribution (ARC) is the actuarially determined level amount that is required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) attributed to past service cost over a period not to exceed thirty years.

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

Non-economic assumptions

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

Economic assumptions

- Rate of future investment earnings
    - inflation rate
    - real rate of return
- The relative increases in a member's salary from the date of the valuation to the date of separation from active service
    - merit increases
    - longevity increases

As of the June 30, 2007 actuarial valuation report, MCERA's inflation rate is 4.50%, investment return assumption effective rate is 8.16% and the merit and longevity increase is 1.00%. The County's annual required contribution (ARC) is $23.2 million and the percentage contributed was 100% for 2007. Employer contribution rates vary from year to year and depend on the level of benefits established; the rate of return on investments, and the cost of administering benefits. MCERA's Schedule of Employer Contributions for the pension benefit plan is presented in the RSI following the basic notes to the financial statements.

(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, is 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 .20% of the total assets of the retirement system. Exceeding the .18% limit is attributable to a decline in the total assets of the retirement system of 12.2%. MCERA's administrative costs increased slightly from the previous year by 1.5%, however, MCERA's net investment income decreased by 145.9%. After review, the Board of Retirement and MCERA's management determined that the administrative expenses incurred in the present fiscal year were reasonable and necessary for the performance of MCERA's fiduciary duties and expect the assets levels to increase in the future years.

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 page 57.

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 financial statements adjusted for cash flow activities through June 30. The valuation of alternative investments are based on the net asset value of those funds as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The total fund net asset value is adjusted for transactions arising in the period between the balance sheet date of the fund and the client reporting date. Valuations are increased by the cost of any calls and reduced by the total amount of any distributions of cash or stock in-specie.

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.

K. Implementation of New Accounting Pronouncement

MCERA implemented GASB No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Plan*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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 the 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 $2,209,185 and $4,903,776 at June 30, 2008 and 2007, respectively. Cash and investments included within the County Treasurer's pool is described in the County's Comprehensive Financial Report.

MCERA's cash, short-term investments and investments stated at fair value as of June 30, 2008 and 2007 are presented as follows:

	Fair Value	
Cash and Short-term Investments	**2008**	**2007**
Funds pooled with County Treasury	$2,209,185	$4,903,776
Funds pooled with BNY Mellon	1,275,438	962,934
Short-term investment funds	8,783,505	15,032,995
Securities lending collateral	24,344,477	51,309,226
Total cash and short-term investments	36,612,605	72,208,931
Investments		
U.S. Government and agency obligations	19,313,900	57,427,648
Domestic fixed income	41,591,390	61,121,291
Domestic fixed income (Index funds)	51,109,630	-
Common stocks (domestic)	166,039,934	224,139,859
Common stocks (index funds)	53,639,358	61,190,945
Common stocks (international)	82,975,316	55,705,055
Real estate	38,948,020	37,799,191
Alternative investments	19,156,397	10,151,613
Total investments	472,773,945	507,535,602
Total	$509,386,550	$579,744,533

(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, 2008 and 2007, short-term investment balances were $10,058,943 and $15,995,929, 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.

The maturities of investments made with collateral do not match the maturities of loaned securities. There is a mis-match that takes place. BNY Mellon monitors continually between the traders booking the loans and the reinvestment team using the collateral.

Mellon Global Securities Lending short-term investment pool as of June 30, 2008 and 2007:

	Weighted Average Maturity	Average Duration	Mis-Match	Credit Quality
June 30, 2008	20 days	103 days	20 days	A-1/P-1
June 30, 2007	32 days	76 days	19-20 days	A-1/P-1

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. dollar, 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, 2008 and 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, 2008 the fair value of securities on loan and the collateral received for those securities on loan were $24,401,445 and $25,512,260. 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 $203,058 for the year ended June 30, 2008.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Equity	$19,993,019	$20,480,654	$524,283
Exchange Traded	351,090	366,600	-
U.S. T-Bonds	2,557,444	1,966,750	643,500
U.S. T-Notes	1,499,892	1,530,473	-
Total	$24,401,445	$24,344,477	$1,167,783

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 net income net of expenses from securities lending was $49,462.

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	-
Equity	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, 2008 and 2007 the market value of the alternative investment portfolios were $19,156,397 and $10,151,613, respectively. The fair value of these alternative investments are reported based on the most current financial report available which is 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 June 30, 2008 was $16,606,353 and as of June 30, 2007 was $26,708,878. 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 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 is the amount of exposure to a private equity general partner. The maximum commitment to private equity is 3-7% of the total fund.

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, 2008 and 2007, MCERA had $10,058,943 and $15,995,929, 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, 2008 and 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 funds, external investment pools, and other pooled investments are excluded. MCERA's investment policy does not allow for an investment in any one issuer that is in excess of 5% of the value of a portfolio and no single industry (based on North American Industry Classification System (NAICS) codes) can represent more than 15% of the market value of the investment portfolio. These single security and single industry restrictions do not apply to U.S. Government issued or guaranteed investments, investments in mutual funds, external investment pools and other pooled investments.

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, 2008 and 2007.

	As of June 30, 2008						
Quality	AAA	AA	A	BAA	BA	BBB	NR*
Percentage of Total Fixed Income	75.17%	4.66%	6.25%	12.37%	0.55%	-	1.01%

	As of June 30, 2007						
Quality	AAA	AA	A	BAA	BA	BBB	NR*
Percentage of Total Fixed Income	78.53%	2.95%	6.51%	8.07%	0.46%	0.21%	3.27%

*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. During the fiscal year MCERA transitioned one of their actively managed bond portfolios to fund an enhanced index portfolio. The table below represents MCERA's only actively managed bond portfolio. MCERA's Enhanced Bond Index Fund had a weighted average maturity of 7.86 years, weighted average duration 4.73 years and weighted average quality of AA+. As of June 30, 2008 and 2007 the County's pool has a fair value of $620,179,322 and $599,958,707, respectively and a weighted average maturity of 574 days and 537 days, respectively. As of June 30, 2008 and 2007 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 47 days and 279 days, respectively.

The following table presents the effective duration at June 30, 2008 and 2007.

Investment Type	Fair Value 2008	Weight of Total Fixed Income 2008	Effective Duration (Years) 2008	Fair Value 2007	Weight of Total Fixed Income 2007	Effective Duration (Years) 2007
U.S Treasuries	$5,425,321	8.91%	8.16	$19,176,112	16.18%	6.25
U.S Agencies	4,778,691	7.85%	4.93	12,317,481	10.39%	4.46
U.S. Government mortgages	9,109,888	14.96%	4.63	23,671,988	19.97%	4.76
Municipal bonds	1,367,308	2.25%	8.87	2,262,067	1.91%	4.86
Commercial mortgage backed securities	9,698,752	15.93%	4.59	11,061,693	9.33%	3.99
Asset backed securities	1,730,669	2.84%	1.57	7,298,944	6.16%	0.91
Corporate and other credit	9,824,609	16.09%	6.52	19,475,131	16.43%	5.73
Collateralized mortgage obligations	14,478,642	23.78%	4.23	18,766,673	15.83%	2.25
Private placement	4,491,410	7.38%	6.55	4,518,850	3.81%	6.92
Total Fair Value	$60,905,290	100.00%		$118,548,939	100.00%	
Portfolio Effective Duration			5.00			4.51

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, 2008 and 2007.

Australia dollar	$280,064	$64,798
Bermuda dollar	-	1,061,920
Canada dollar	-	1,872,907
Cayman Island dollar	-	2,035,600
Chile peso	-	256,064
Norwegian krone	653,922	209,217
Euro currency	6,003,582	2,039,851
India rupee	-	991,790
Japanese yen	2,594,899	-
Mexico peso	1,120,823	488,770
Singapore dollar	1,153,174	765,720
Hong Kong dollar	4,235,645	-
Swiss franc	653,304	-
United Kingdom pound sterling	1,707,766	130,669
Total foreign currency	$18,403,179	$9,917,306

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, 2008 and 2007

	Fair Value	
Type of Derivatives	**2008**	**2007**
Collateralized Mortgage Obligations*	$19,257,333	$25,699,822
Total Derivatives	$19,257,333	$25,699,822

*The collateralized mortgage obligations per the derivatives schedule above also includes some of the U.S. government agency mortgages from the interest rate risk table on page 49.

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 have been established to account for the members, employers, and retirees' contributions. MCERA maintains the following reserves at June 30, 2008 and 2007.

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 the MCERA assets. The annual change in market value of MCERA's assets is as follows:

Accumulated through 2005	2006	2007	2008	Total
$ 66,069,510	$ 3,592,713	$ 40,248,806	$ (79,599,095)	$ 30,311,937

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.

A summary of the various reserve accounts, which comprise net assets available for pension benefits at June 30, 2008 and 2007 is as follows:

	2008	2007
Active Members	$66,865,149	$59,299,436
Employer Advance	53,533,258	52,448,854
Retired Members	286,304,416	265,687,161
Interest Fluctuation	25,444,465	7,818,008
Market Value Fluctuation	30,311,934	109,911,028
Ad-Hoc COLA	1,746,443	1,654,015
Contingency	15,352,318	18,558,664
IRC Section 401(h)	3,083,590	3,933,590
	$482,641,573	$519,310,756

5. Actuarial Valuation

MCERA engages on an annual basis, an independent actuarial consulting firm, Buck Consultants, to conduct its annual actuarial valuation. The purpose of the valuation is to:

- examine the financial position of the plan in relation to the benefits already promised.
- review the experience of the Association over the past year and identify reasons for changes in costs.
- recommend economic assumptions to be used in computing Association liabilities and costs.
- calculate the annual employer and employee contributions required to fund the Association in accordance with actuarial principles so that MCERA's benefit obligation can be met.
- project any emerging trends in Association costs.
- present items required for disclosure under Statement No. 25 and 50 of the Government Accounting Standards Board (GASB) and the annual CAFR.

Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The most recent triennial analysis was performed June 30, 2007. As a result of that analysis and information provided by MCERA and the County of Merced, the Board of Retirement approved certain changes to the actuarial assumptions, which were incorporated in the actuarial valuation as of June 30, 2007. The June 30, 2007 actuarial valuation determined that the actuarial value of assets are $484 million, the actuarial accrued liability is $656 million, the unfunded actuarial accrued liability (UAAL) is $172 million, the funded ratio is 73.8%, the covered payroll is $101 million and the UAAL as a percent of covered payroll is 171.0%.

The Government Accounting Standards Board Statement No. 25 (GASB 25) requires that the funding progress be shown based on the same funding method that was used to develop the System's contribution requirements, which is 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). The UAAL is the difference between the actuarial accrued liability and the actuarial value of assets. The difference between the UAAL and the expected UAAL is an actuarial gain or loss. MCERA adopted an actuarial value of assets method that recognizes the difference between expected and actual market returns, net of expenses, over a 5-year period and is referred to as smoothing. MCERA adopted a closed amortization period to fund the UAAL and as of June 30, 2007 has a remaining period of 17 years. MCERA's funded ratio as of June 30, 2007 is 2.7% higher than the funded ratio as of June 30, 2006 due primarily to strong investment returns over the past five years.

The required schedule of funding progress immediately following the notes to the basic financial statements present multiyear tread information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial balance sheet compares the present value of all future benefits anticipated to be paid for the current membership with the sources of funds to be used to provide these benefits. It illustrates that if recommended contribution levels made in the future prove out over time, current assets plus future employer and member contributions will be adequate to meet future benefit payments for the current membership.

The significant actuarial assumptions used to determine the annual required contribution for the current year are disclosed on page 39.

6. Litigation

MCERA is a defendant in various lawsuits and claims arising in the ordinary course of its operations. In September 2007, the Merced Superior Court issued a judgment in an action for declaratory relief filed by MCERA to clarify the interpretation of the 2000 settlement agreement in the Merced Ventura 2 case. MCERA's management and legal counsel have determined that the outcome of this case did not have a material effect on MCERA's financial statements.

7. Subsequent Events

Problems in the sub-prime real estate market that began to surface in the summer of 2007 have continued to have ramifications throughout the global financial system. The pack of these investments has caused major financial institutions to collapse, restricted lending throughout the worldwide credit markets and has caused severe declines in bond market prices. The result of this unprecedented turmoil has been a decline in market value of both the securities and bonds held in MCERA's portfolio. On at least a monthly basis, a review is undertaken of the fund's asset allocation, the performance of the fund managers and the fund's cash position to determine whether the trustees need to take any immediate action with regards to MCERA's investments. The chart below demonstrates the volatility of the recent market conditions.

	06/30/2008	09/30/2008	Changes $	Changes %
Total Investments	$472,773,945	$432,185,104	$40,588,841	9%

The decrease in MCERA's total investment reflects the decline of the market in general. MCERA's investments reflect a well balanced and diversified portfolio. In addition, given the market conditions after June 30, 2008, MCERA's management, investment consultant and custodial bank have monitored investments with regards to significant or unusual risk undertaken by any of its financial managers. These risks include the issuers' operating status, the marketability of securities, the risk of loss due to the composition of the underlying assets, downgrades of credit ratings below investment grade and illiquid short-term investments.

MCERA's equity holdings are diversified, liquid and marketable.

MCERA's well-diversified real estate fund may have properties that represent significant or unusual risk by virtue of the issuers' operating status. All of the properties appear to be marketable.

The fixed income markets have seen significant reduction of liquidity over the past 5 quarters. While MCERA's fixed income portfolios are not holding securities considered unmarketable, the fund does hold securities currently traded in less liquid markets which are difficult to sell, particularly those in the Non-Agency Mortgage Backed Securities (MBS) sector. The asset backed securities (ABS) and the MBS pose a minor risk of loss due to the composition of the underlying assets, however, MCERA's portfolios hold very high quality short-duration securities.

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)
7/1/02	$ 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%
7/1/07	$ 484,450	$ 656,415	$ 171,965	73.8%	$100,589	171.0%

Note: This information is compiled from MCERA's actuarial reports prepared by Buck Consultants.

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 reports prepared by Buck Consultants.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
June 30, 2008

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, 2007
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level percentage - Closed
Remaining Amortization Period	17 years from June 30, 2007
Asset Valuation Method	Five year smoothed market

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
June 30, 2008
(Continued)

Actuarial Assumptions

Investment Rate of Return	8.16%
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, 2008 and 2007

	2008	2007
Personnel Services:		
Salaries, wages and benefits	$542,501	$522,499
Office Expenses:		
Communications	2,280	1,527
Requested maintenance/ utilities/ cost allocation	58,943	110,712
Office supplies	6,267	7,966
Postage	2,919	2,769
Total Office Expense	70,409	122,974
Professional Services:		
Audit fees	41,047	52,045
Attorney fees	192,831	137,746
Disability stenographic fees/ investigations	2,440	1,450
Strategic Project Consulting	5,856	-
Publications/ legal notices	574	14,344
Disability medical reviews/ services	18,907	19,720
Merced Dept. of Information Technology	51,653	48,408
Total Professional Services	313,308	273,713
Miscellaneous:		
Memberships	4,730	5,875
Fiduciary meeting	7,000	7,000
Fiduciary and staff travel/ training	34,991	24,896
Insurance	47,948	48,967
Depreciation expense	9,029	9,029
Total Miscellaneous Expenses	103,698	95,767
Total Administrative Expenses	$1,029,916	$1,014,953

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES
SCHEDULES OF INVESTMENT EXPENSES
For the Years Ended June 30, 2008 and 2007

INVESTMENT MANAGERS' FEES	2008	2007
Domestic Equities		
Delta Asset Management	$329,634	$301,822
Earnest Partners, LLC	214,008	217,335
Mellon Capital Management	23,153	26,565
NorthPointe Capital	155,422	-
Wentworth, Hauser & Violich	283,070	274,905
Wasatch Advisors	26,728	239,887
Total Domestic Equities	1,032,015	1,060,514
International Equities		
UBS Global Small Cap	51,954	-
Earnest Partners, LLC	8,742	-
Invesco Global Asset Mangement	122,446	205,123
Total International Equities	183,142	205,123
Private Equity		
Invesco Private Capital	90,000	90,000
Real Estate		
UBS Global-Trumbull Property Mgmt	30,439	-
UBS Real Estate Separate Account (RESA)	375,626	394,618
Total Real Estate	406,065	394,618
Fixed Income		
Lehman Brothers	45,919	41,842
Aberdeen Asset Mangement	201,880	205,092
Total Fixed Income	247,799	246,934
Total Investment Managers' Fees	1,959,021	1,997,189
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	206,599	97,055
Investment Consultant		
Milliman, Inc.	150,880	146,844
Miscellaneous Investment Expense	15,806	61,381
Total Other Investment Expenses	373,285	305,280
Total Investment Managers' Fees and Other Investment Expenses	$2,332,306	$2,302,469

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES
SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2008 and 2007

INVESTMENT PROFESSIONAL SERVICE FEES	2008	2007
Actuarial services - Buck Consultants	$53,500	$41,100
Investment consultant - Milliman, Inc.	150,880	146,844
Custodial services - BNY Mellon Asset Servicing	206,599	97,055
Total investment professional service fees	$410,979	$284,999

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$41,047	$52,045
Legal services	192,831	137,746
Disability stenographic fees/investigations	2,440	1,450
Disability medical reviews/services	18,907	19,720
Merced County Department of Information Systems	51,653	48,408
Other specialized services	6,430	14,344
Total administrative professional service fees	$313,308	$273,713

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES
BUDGET ANALYSIS
BUDGET TO ACTUAL EXPENSES

For the Year Ended June 30, 2008

ADMINISTRATIVE SERVICES BUDGET	Budgeted Amounts	Actual Amounts Expended	Percentage of Appropriation Expended
Salaries, Wages and Benefits	$721,374	$542,501	75%
Communications	2,750	2,280	83%
Requested Maintenance/ utilities/ cost allocation	115,267	58,943	51%
Office Supplies	12,000	6,267	52%
Postage fees	5,000	2,919	58%
Audit fees	60,000	41,047	68%
Legal Fees	500,000	192,831	39%
Disability stenographic fees/ investigations	5,000	2,440	49%
Publications/ legal notices	600	574	96%
Disability medical reviews/ services	40,000	18,907	47%
Merced County Dept. of Information and Technology	84,000	51,653	61%
Memberships	5,050	4,730	94%
Fiduciary meetings/ education	9,600	7,000	73%
Fiduciary & staff travel/ training	48,396	34,991	72%
Fiduciary Insurance/ other	100,000	47,948	48%
Capital expenses/ depreciation expense	214,829	14,885	7%
Total Administrative Services Budget	1,923,866	1,029,916	54%
PROFESSIONAL SERVICES BUDGET			
Investment Managers/ custodial services/and other investment fees	2,373,820	2,181,427	92%
Actuarial fees	170,000	53,500	31%
Consultant fees	150,880	150,880	100%
Total Profession Services Budget	2,694,700	2,385,807	89%
Total Budget	$4,618,566	$3,415,723	74%

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Investment Section

Historical Merced Theater

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

August 18, 2008

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 an investment loss of 6.0% for the recently completed fiscal year ending June 30, 2008. The prior four consecutive years of strong equity and other asset class returns were reversed in the recently completed fiscal year. The Association's fiscal year return is significantly below the actuarial interest rate assumption of 8.0%. Also, the total fund return was marginally below the Retirement Association's total fund benchmark loss of 5.8%. This recently weakened fiscal posture results from negative returns in the domestic and international equity markets, whereas fixed income, real estate and private equity investments generated positive results.

The Retirement Association's total fund return over the past five years has averaged 8.2% versus the fund benchmark of 7.5% and the actuarial interest rate assumption of 8.0%. In spite of negative returns during the past fiscal year, the Retirement Association's five year return remains above the actuarial interest rate assumption by approximately 0.2% per year. Over the past five years, all asset classes produced positive and sometimes significant gains. During the last ten years, the total fund return was 5.8% and exceeded the benchmark return of 5.0% but did not exceed the actuarial interest rate.

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% Wilshire Real Estate Funds. In subsequent periods, the benchmark is 42% S&P 500, 8% Russell 2000, 6% EAFE, 38% Lehman Aggregate, 1% 90-day T-Bill, and 5% NCREIF Property Index. 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 2nd quarter 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). As of the first quarter 2008, the benchmark is 46.35% S&P 500, 7.65% Russell 2000®, 7% EAFE, 30% Lehman Aggregate, 1% 90-day T-Bill, 6% NCREIF Property Index, and 2% S&P 500 + 5.0% (private equity). The private equity target allocation of 5% is distributed to the S&P 500 (2.3%), the Russell 2000 (0.7%) and to the S&P 500 + 5.0% (2.0%). As the private equity allocation reaches 3% and then subsequently increases by 1%, the total fund benchmark will be changed to reflect the higher private equity investment allocation.

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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 substantially based on an analysis of the Retirement 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.

The Retirement Association was close to satisfying some of its return objectives, but ultimately did not reach these objectives in the past fiscal year.

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%. The Board has worked diligently to implement this target mix by the completion of the most recent fiscal year. The final piece of the target mix was implemented in a transition that occurred at the beginning of June. The portfolio as of the end of the fiscal year fully reflects the new target asset mix.

The structure of the international equity asset class is comprised of three managers. There is a large/mid cap core equity component, a high alpha core component, as well as a small cap portfolio. The funding of the private equity asset class continues and is now above the mid-point of its 5% allocation target. Significant progress has been made in the funding of the international equity and private equity asset classes. The new target asset mix and total fund benchmark will become effective as of July 1, 2008. The funding of the private equity asset class will continue over the next several years.

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Market Overview

The past fiscal year had weak equity market results, except for the quarter ending September 30, 2007. The domestic equity markets began the fiscal year with a modest gain of 2.1%, as measured by the S&P 500. During this third calendar quarter of 2007, eight of the ten S&P 500 sectors recorded gains and was led by Energy (+9.9%), Information Technology (+6.6%) and Industrials (+6.0%). Conversely, the Consumer Discretionary (-6.4%) and Financial (-4.3%) sectors recorded declines. Due to the poor results of financial stocks, value-oriented portfolios underperformed growth stocks.

This glimmer of a good start to the fiscal year began to fade with equity losses recorded in the fourth quarter of 2007. Stocks declined 3.3%, as measured by the S&P 500, which brought the equity index into negative territory for the first half of the fiscal year. Five of the ten S&P 500 sectors actually recorded modest gains and was led by Utilities (+7.6%), Energy (+4.4%) and Consumer Staples (+3.8%). The Financials (-14.4%) and Consumer Discretionary (-10.2%) sectors followed up their weak first fiscal quarter losses with significant declines. Due to the sustained poor results of financial stocks, value-oriented portfolios continued to underperform growth stocks

During the first calendar quarter of 2008, domestic equities suffered significant losses. The 9.5% loss on the S&P 500 produced a fiscal year to date loss for the S&P 500 of 10.6%. The housing market, slowing economic growth and the credit crisis were prevalent in equity investors' minds. All ten economic sectors had negative returns and the three largest sector losses were recorded by Information Technology (-15.2%), Financials (-13.9%) and Telecom Services (-13.7%). As one might expect, the growth equity investment style underperformed value in this quarter.

The final quarter of the fiscal year was marked by near record levels of volatility. The actions of the Federal Reserve and the U. S. Treasury seemed to support investors' confidence, but concerns crept into the market again in June and brought equities down for the last quarter of the fiscal year as well. The S&P 500 was down 2.7%, and there were severe sector performance differences. The Energy sector returned +17.2%, followed by Utilities (+8.0) and Materials (+4.4%). The worst performing sectors were Financials (-18.2%), Industrials (-10.0%) and Consumer Discretionary (-7.8%). Value stocks again underperformed growth-oriented securities.

While large cap stocks, as measured by the S&P 500, had a loss of 13.1% return for the fiscal year ending June 30, 2008, small cap stocks faired even worse. The fiscal year loss for the Russell 2000 was 16.2%, but was achieved with three consecutive quarterly losses and then a small gain the fourth quarter of the fiscal year. In the third quarter of 2007, the Russell 2000 lost 3.1%. Small cap stocks then declined 4.6% and 9.9% in the next two quarters and finished the fiscal year with a modest gain of 0.6%. There is some thought that the most recent return for the small cap index is signaling that the equity markets are starting a bottoming phase. If this expectation is correct, investors will begin to breathe a sigh of relief.

International equity had a fiscal year loss of 10.2%, and followed a generally comparable performance pattern of large cap domestic stocks. The EAFE Index returned +2.2% in the third quarter of 2007, and then registered three consecutive quarterly declines. The losses were 1.7%, 8.8% and 1.9%.

The past year's bond market results were unlike any period that we are aware of. The market went from a posture of rewarding increasing levels of risk to the most risk averse in many decades. Along the way, portions of the bond market ceased to function and bond prices became increasingly difficult to identify. The Lehman Aggregate Index return for the fiscal year ending June 30, 2008 was 7.1%. Quarterly returns were 2.9%, 3.0%, 2.2% and -1.0% during the past four quarters. Generating competitive returns with the Index became increasingly difficult for most managers, and in particular the Retirement Association's bond managers.

Real estate generated another solid return of 9.2% for the NCREIF Property index but performance started to reflect problems in the real estate marketplace. Returns were highest in the first quarter of the fiscal year, +3.6% and then steadily declined to +0.6% in the last quarter of the fiscal year. With the slowing economy and declining prices, real estate returns are likely to be lower than the mid-teen percentages experienced over the past five years.

Finally, private equity performance has been a boost to the Retirement Association's performance, although the relatively small allocation limits the asset classes' positive impact. Gross of fee returns have been 15% or higher over the past year. We look for private equity to do well in the future, although returns are likely to be lower than in the past couple of years.

Style Overview

Due to the severe pressure placed on the financial industry and their common stocks, value-oriented companies took a beating relative to growth-oriented securities. For the 2008 fiscal year, the Russell 1000 Value declined 16.2%, whereas the Russell 1000 Growth Index declined only 6.0%. This is quite a reversal of the six calendar years from 2001 through 2006 when the Russell 1000 Value Index strongly outperformed the Russell 1000 Growth Index. Large cap growth stocks outperformed large cap value stocks in three of the four quarters during the past fiscal year, and only underperformed value in the third quarter of the fiscal year. Due to the uncertainty surrounding our financial system and its organizations, there may continue to be increasing write-offs and financial stocks may decline more than the overall market. This may put the value equity style at somewhat of a disadvantage.

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Fund Overview

The total fund performance followed the overall equity market results. In the third quarter of 2007, the total Fund return was 2.2%, modestly out-performing the total Fund benchmark of 2.0%. This gain ranked the Fund in the second quartile (39th percentile) of pension funds. The fourth quarter of 2007 was a somewhat difficult quarter, and the total Fund recorded a loss of 1.1%, slightly more than the benchmark of 1.0% and ranked in the third quartile of pension funds (the 69th percentile). The calendar first quarter of 2008 was very difficult and the total Fund had a loss of 6.1%, which was well below the benchmark loss of 5.2%, and ranked in the third quartile of pension funds (74th percentile). During the calendar second quarter of 2008, the total Fund loss was 0.9%, better than the loss of the benchmark of 1.7% and ranked in the third quartile of pension funds (56th percentile).

As mentioned previously, the Retirement Association' total fund loss for fiscal year 2008 was 6.0%. This loss was slightly larger than the total fund benchmark loss of 5.8%, ranking it in the 69th percentile of pension funds.

Investment Results

The Association's total domestic equity segment recorded a loss of 11.9% in fiscal year 2008, which compares favorably to the equity markets (Russell 3000 down 12.7%). The median domestic equity manager posted a loss of 12.6%. Within the Retirement Association's manager structure, the large cap core equity managers, Delta Asset Management had a smaller decline than the median large cap core manager, whereas Earnest Partners underperformed the median core equity manager. Delta's equity only loss of 12.2% ranked in the 31st percentile of the large cap core equity style group and Earnest's equity only portfolio loss of 15.4% ranked in the 77th percentile. With a loss of 18.7% and ranking in the 63rd percentile of large cap value managers, the Russell 1000 Value index product managed by Mellon Capital trailed the median large cap value manager but slightly outperformed the index. Mellon Capital's Russell 1000 Growth Index product modestly trailed the median large cap growth manager and matched the index. This portfolio ranked in the 55th percentile of large cap growth managers with an equity only loss of 6.0%.

Within the small capitalization arena, Wentworth Hauser, a small cap core portfolio manager, posted an equity only loss of 5.1%, ranking in the 8th percentile of the small cap core style group. This performance was materially better than the 16.2% loss of the Russell 2000 Index and the 16.7% loss of the median small cap core equity manager. Wentworth generated the majority of this outperformance through sector selection. NorthPointe replaced Wasatch Advisors as the Association's small cap growth manager, but has had a very poor start. Performance exists for the last three quarters of the 2008 fiscal year. Its three quarter equity only loss of 24.1%, ranks in the 90th percentile of small cap growth managers. This manager was placed on watch subsequent to an on-site, due-diligence meeting with the firm.

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Stock selection and sector allocation decisions were both responsible for the under-performance of the benchmarks, but stock selection was particularly weak.

As discussed above, the international equity segment of the Retirement Association was significantly modified and increased. For fiscal year 2008, this segment had a loss of 6.6%, much better than the 10.2% loss of the MSCI EAFE Index. Invesco Global Asset Management was replaced by GMO, who had two full quarters of performance this fiscal year. GMO's loss of 8.4% was better than the EAFE Index loss of 10.6%, and ranked in the 29th percentile of international equity managers. UBS was hired during the past fiscal year as the Association's small cap core international equity manager and has done an excellent job. For the three quarters ending June 30, 2008, UBS had a loss of 3.4%, versus a loss of 14.8% for the EAFE Small Cap Index, and ranked in the 7th percentile of international equity managers. Finally, Earnest Partners was hired for the high alpha, core international equity assignment and was funded in mid-June.

The domestic fixed income segment is an area of weakness. The fixed income segment return of 3.1% significantly underperformed the Lehman Aggregate Bond Index return of 7.1% during the past fiscal year. Aberdeen Asset Management returned 2.3%, well below the Lehman Aggregate benchmark and ranked in the 80th percentile of fixed income managers. The Lehman Asset Management enhanced index portfolio also trailed the benchmark return, ranking in the 70th percentile, with a return of 4.1%. Aberdeen has been placed on the Association's watch list.

The UBS Brinson real estate account returned 5.3%, underperforming the benchmark NCREIF Property Index return of 9.2%. During the past fiscal year, the UBS Brinson real estate fund ranked in the 65th percentile of real estate managers. European Investors was funded in the later part of the fiscal year to manage a global REIT portfolio, but has also not had a good start to their relationship with the Retirement Association.

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 decreased steadily over the fiscal year, in part due to declining trading volume and increased trading efficiency. Additionally, the commission recapture program has been reviewed and a number of potential changes are being researched and considered. A significant percentage of equity trading is being executed through the program and during the last quarter of the fiscal year at a low cost.

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

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Association ranked above the benchmark in every period during the past ten years, except for the past year, which is only slightly lower. Additionally, the Retirement Association out-performed the median fund return in every time frame, except the past year.

Summary

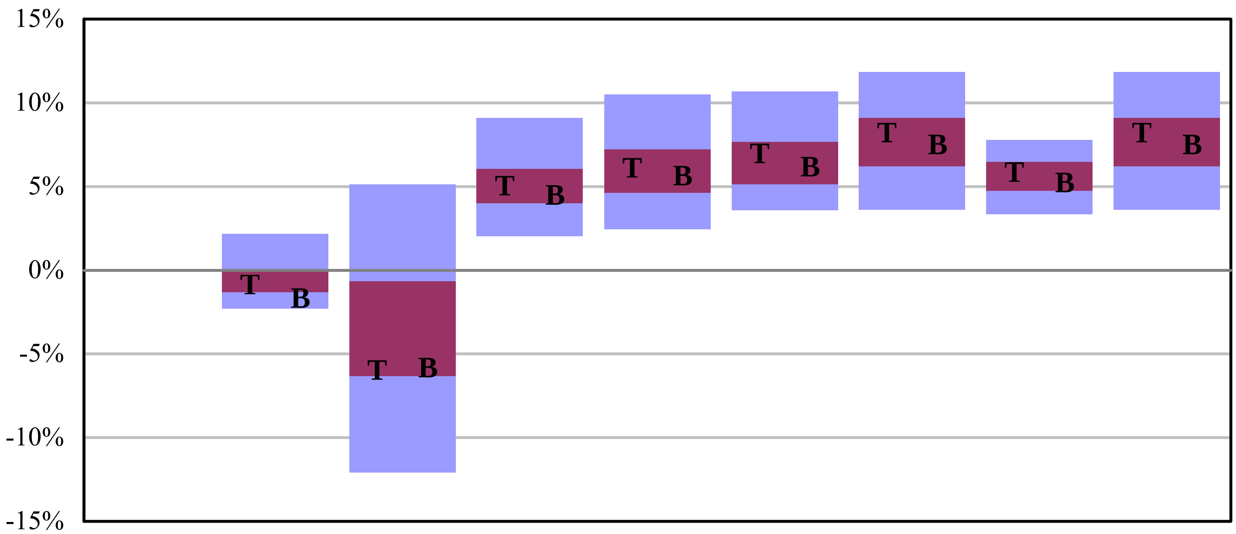
In conclusion, the fund experienced a difficult fiscal year with a loss of 6.0%. This loss was slightly more than the custom benchmark loss of 5.8% and below the Retirement Association's actuarial interest rate assumption. The combination of the Retirement Association's domestic equity investment managers produced a return above their benchmarks. The international equity segment outperformed its benchmark. The fixed income managers in total fell well short of their benchmarks, as did the real estate managers. Many of the managers are producing returns in line with or above their benchmarks, although close attention is being paid to the fixed income and real estate managers. 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, 2008



	Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
Total Fund (**T**)	-0.9	-6.0	5.1	6.1	7.0	8.2	5.9	5.8
Rank	*56*	*69*	*48*	*43*	*35*	*40*	*41*	*36*
Benchmark (**B**)	-1.7	-5.8	4.5	5.7	6.2	7.5	5.3	5.0
Rank	*87*	*67*	*63*	*51*	*54*	*53*	*59*	*69*

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

For the Year Ended June 30, 2008

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

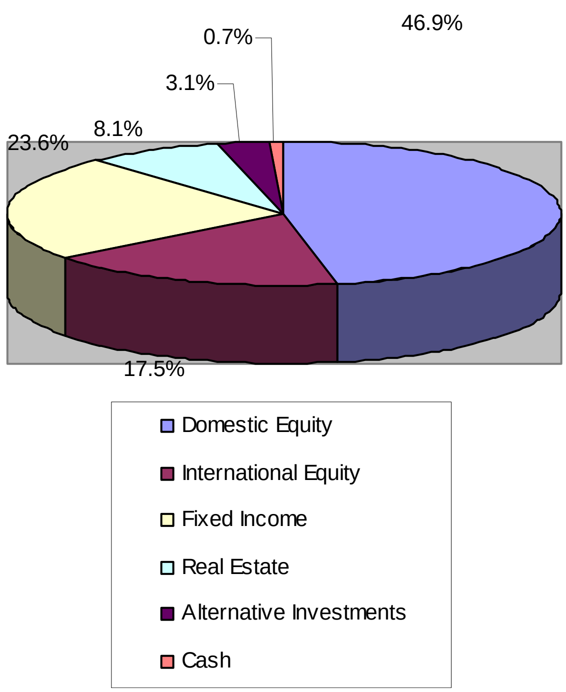
Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests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

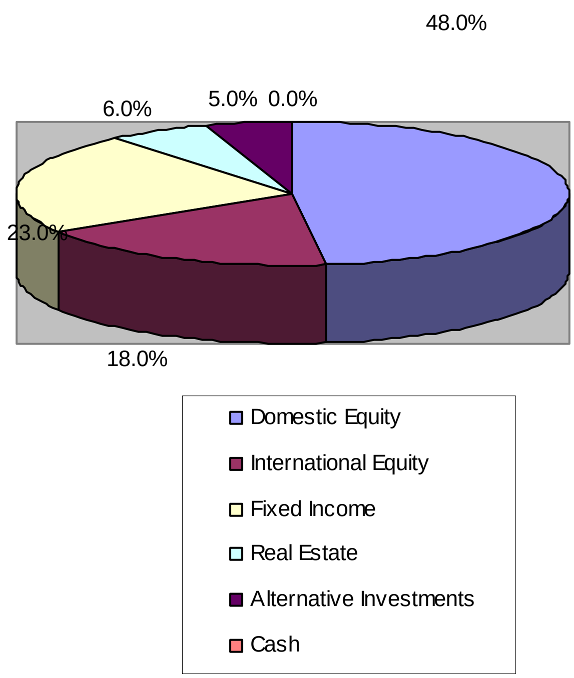
ASSET ALLOCATION INFORMATION

For the Year Ending June 30, 2008

JUNE 30, 2008 ALLOCATION



TARGET ALLOCATION



	June 30, 2008 Asset Allocation	Target Allocation		Allocation Range
Domestic Equity	46.9%	48.0%	+/-	10%
International Equity	17.5%	18.0%	+/-	4%
Fixed Income	23.6%	23.0%	+/-	6%
Real Estate	8.1%	6.0%	+/-	4%
Alternative Investments	3.1%	5.0%	+/-	2.5%
Cash	.7%	0.0%	+/-	1%
	100.0%	100.0%		

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY
For the Year Ending June 30, 2008

	Market Value	Percent of Total
DOMESTIC EQUITY:		
Large Cap Growth	$99,309,876	19%
Large Cap Value	69,047,618	14%
Small Cap Growth	19,791,290	4%
Small Cap Value	31,530,508	6%
Total Domestic Equity	219,679,292	43%
INTERNATIONAL EQUITY		
Large/Medium Core	45,956,161	9%
Large/Medium High Alpha	26,971,627	5%
Small Cap Growth	10,047,528	2%
Total International Equity	82,975,316	16%
FIXED INCOME		
Domestic Core	60,905,290	12%
Enhanced Index	51,109,630	10%
Total Fixed Income	112,014,920	22%
ALTERNATIVE INVESTMENTS	19,156,397	4%
REAL ESTATE		
Property Fund	32,826,297	6%
Global REIT	6,121,723	1%
Total Real Estate	38,948,020	8%
CASH AND SHORT-TERM INVESTMENTS	36,612,605	7%
Total Investments, Cash and Short-Term Investments	$509,386,549	100%

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.	-10.8%	4.1%	5.5%	5.4%	8.2%	3.4%	4.1%
Index: S&P 500	-13.1%	2.4%	4.4%	4.9%	7.6%	2.5%	2.9%
Large Cap Value							
Earnest Partners, LLC	-14.7%	1.2%	3.2%	5.5%	8.2%	3.0%	-
Index: Russell 1000	-12.4%	2.7%	4.8%	5.6%	8.2%	3.0%	3.4%
Large Cap Index							
Mellon Capital Mgmt. Large Cap Growth	-6.0%	5.8%	5.9%	4.9%	7.4%	-	-
Index: Russell 1000 Growth	-6.0%	5.8%	5.9%	4.9%	7.3%	1.1%	1.0%
Mellon Capital Mgmt. Large Cap Value	-18.7%	-0.5%	3.6%	6.1%	9.0%	-	-
Index: Russell 1000 Value	-18.8%	-.05%	3.5%	6.1%	8.9%	4.7%	4.9%
Small Cap Growth							
NorthPointe Asset Management	-	-	-	-	-	-	-
Index: Russell 2000 Growth	-10.8%	2.1%	6.1%	5.6%	10.4%	3.1%	2.8%
Small Cap Value							
Wentworth, Hauser & Violich	-4.8%	8.2%	12.7%	14.9%	19.4%	13.8%	15.2%
Index: Russell 2000	-16.2%	-1.2%	3.8%	5.2%	10.3%	5.6%	5.5%
TOTAL DOMESTIC EQUITY	**-11.9%**	**3.0%**	**5.2%**	**6.1%**	**9.1%**	**4.0%**	**3.9%**
INDEX: RUSSELL 3000	**-12.7%**	**2.4%**	**4.7%**	**5.6%**	**8.4%**	**3.2%**	**3.5%**
INTERNATIONAL EQUITY							
GMO	-	-	-	-	-	-	-
Earnest Partners, LLC	-	-	-	-	-	-	-
UBS Global Small Cap	-	-	-	-	-	-	-
TOTAL INTERNATIONAL EQUITY	**-6.6%**	**8.8%**	**14.1%**	**13.7%**	**16.8%**	**9.8%**	-
INDEX: MSCI EAFE	**-10.2%**	**7.1%**	**13.3%**	**13.5%**	**17.2%**	**9.5%**	**6.2%**
FIXED INCOME							
Lehman Brothers Enhanced Index.	4.1%	5.1%	3.0%	4.0%	3.2%	-	-
Aberdeen Asset Mgmt.	2.3%	4.3%	2.8%	4.0%	3.4%	5.4%	-
TOTAL FIXED INCOME	**3.1%**	**4.7%**	**2.9%**	**4.0%**	**3.3%**	**5.0%**	**5.5%**
INDEX: LEHMAN AGGREGATE	**7.1%**	**6.6%**	**4.1%**	**4.8%**	**3.9%**	**5.4%**	**5.7%**
REAL ESTATE							
UBS Trumbull Property Fund	**5.3%**	**12.2%**	**13.3%**	**15.2%**	**14.3%**	**11.9%**	-
European Investors	-	-	-	-	-	-	-
INDEX: NCRIEF PROPERTY INDEX	**9.2%**	**13.2%**	**15.0%**	**15.7%**	**14.7%**	**12.3%**	-
ALTERNATIVE INVESTMENTS**							
Invesco Private Capital	22.0%	20.5%	12.2%	-	-	-	-
Adams Street Partners, LLC	14.8%	16.3%	-	-	-	-	-
Pantheon Ventures, Inc.	17.3%	12.2%	-	-	-	-	-
TOTAL ALTERNATIVE INVESTMENTS	**22.3%**	**18.2%**	**10.9%**				
INDEX: S&P + 5.00%	**-8.7%**	**7.5%**	**9.6%**	**10.1%**	**12.9%**	**7.6%**	**8.0%**
TOTAL FUND*	**-6.0%**	**5.1%**	**6.1%**	**7.0%**	**8.2%**	**5.9%**	**5.8%**
TOTAL FUND CUSTOM INDEX*	**-5.8%**	**4.5%**	**5.7%**	**6.2%**	**7.5%**	**5.3%**	**5.0%**

*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 GMO and UBS.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TOP 10 LARGEST HOLDINGS BY FAIR VALUE

For the Year Ending June 30, 2008

PAR	BONDS	FAIR VALUE
2071000	U.S. TREASURY NOTE 3.875% DUE 5/15/2018	$2,054,225
1650000	U.S. TREASURY BOND 6.000% DUE 02/15/2026	1,933,082
1435000	U.S. TREASURY NOTE 3.375% DUE 6/30/2013	1,438,014
800000	WACH BK COML MTG TR 07-C31A A2 DUE 4/15/2047	789,064
760000	FHLMC MULTICLASS CTFS 2533 PE 5.500% DUE 12/15/2021	766,551
783067	CITIGROUP MTG LN TR 07 AR8 P/T VAR RT DUE 7/25/2037	731,142
720000	FHLMC MULTICALSS CTFS 2802 NE 5.000% DUE 2/15/2033	707,141
650000	PDEERNALES ELEC COOP 02 144A 6.202% 11/15/2032	614,289
585000	WACHOVIA BK SER 07-C32 CL A-PB VAR RT DUE 6/15/2049	582,297
553414	JPMORGAN MTG TR 2007-A1 6A1 VAR RT DUE 7/25/2035	529,867
		$10,145,672

SHARES	STOCKS	FAIR VALUE
74100	GENERAL ELECTRIC CO COM	$3,274,863
31958	EXXON MOBIL CORP	2,816,459
23100	IBM CORP COM	2,738,043
121700	INTEL CORP	2,614,116
19900	DEVON ENERGY CORP NEW COM	2,391,184
68744	JPMORGAN CHASE & CO COM	2,358,607
74600	MICROSOFT CORP COM	2,052,246
14580	APACHE CORP COM	2,026,620
20400	OCCIDENTAL PETE CORP COM	1,833,144
37350	CHART INDS INC COM PAR $0.01	1,816,704
		$23,921,986

A complete list of portfolio holding is available upon request.

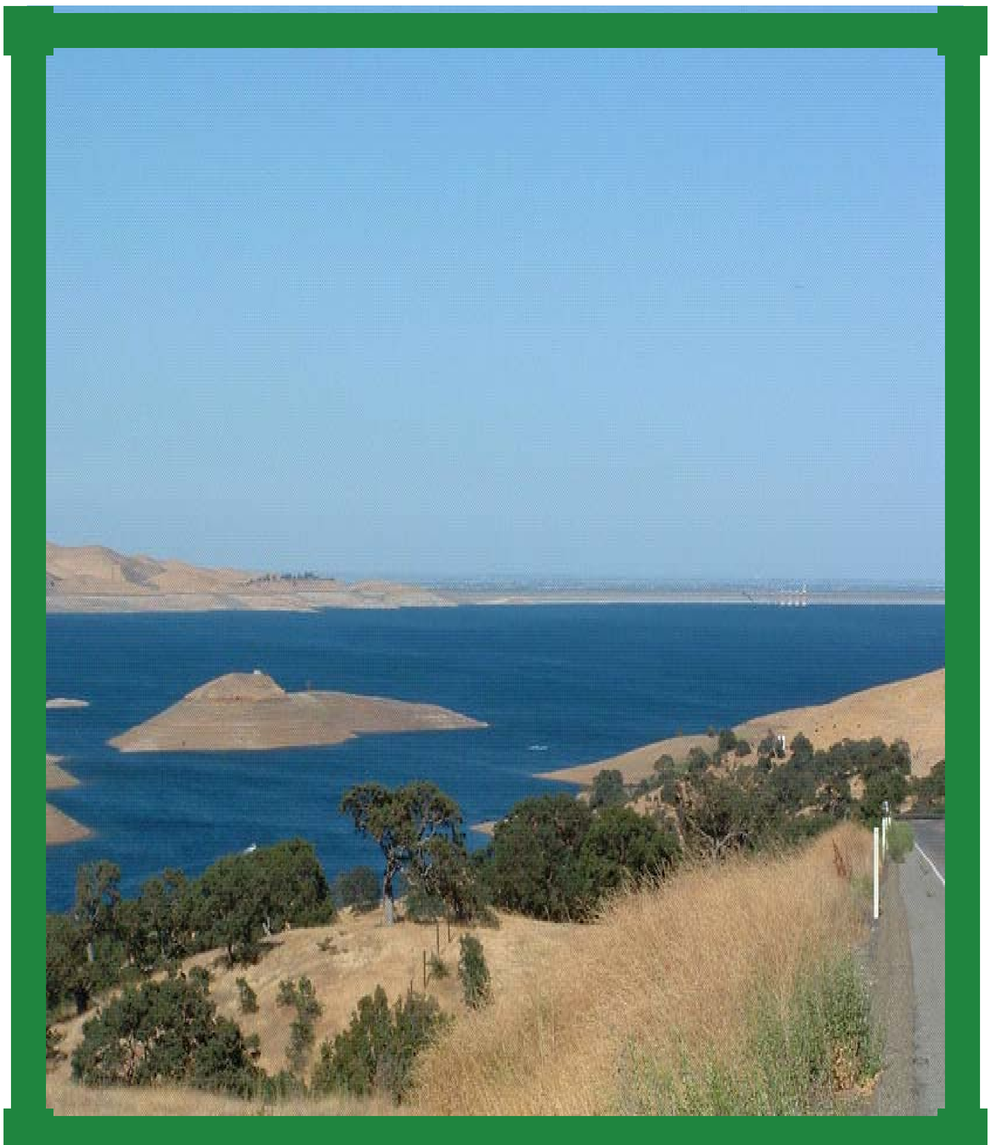
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

For the Years Ended June 30, 2008 and 2007

INVESTMENT MANAGERS' FEES	2008	2007
Equity Managers		
Domestic	$1,032,015	$1,060,514
International	183,142	205,123
Total Equity Managers' Fees	1,215,157	1,265,637
OTHER INVESTMENT MANAGERS' FEES		
Fixed Income Fees	247,799	246,934
Alternative Investment Managers	90,000	90,000
Real Estate Fees	406,065	394,618
Total Other Investment Managers' Fees	743,864	731,552
Total Investment Managers' Fees	$1,959,021	$1,997,189
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$150,880	$146,844
Investment Custodial Fees	206,599	97,055
Other Investment Service Fees	15,806	61,381
Total Other Investment Service Fees	373,285	305,280
Total Investment Managers' and Other Service Fees	$2,332,306	$2,302,469

Actuarial Section



San Luis Reservoir

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Actuary's Certification Letter

February 14, 2008

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 valuation was June 30, 2007. 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, 2007, the remaining amortization period for the UAAL was 17 years. The funding objective of the Association is to establish contribution rate 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 benefits provisions are changed.

For actuarial valuation purposes, Association asset are valued at Actuarial Value. Under this method, the asset 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.
resented 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 experiences was performed as of June 30, 2007 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, 2010.

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)

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, 2007):

Investment Rate of Return	8.00% (equates 8.16% effective rate) 3.50% future real rate, 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, 2007. The actuary compared the expected number of terminations from active service to the number actually experienced during a 3-year period and based on this comparison and the trends observed, the probabilities of separation were adjusted.

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, 2007.

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS
(Continued)

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

2. Disability

General Males	1981 Disability Mortality Table for General Members, males (no setback).
General Females	1981 Disability Mortality Table for General Members, females (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 6/30/07 (See Schedule of Probabilities of Separation from Active Service).
Withdrawal Rates	Based upon the Experience Analysis as of 6/30/07 (See Schedule of Probabilities of Separation from Active Service).
Disability Rates	Based upon the Experience Analysis as of 6/30/07 (See Schedule of Probabilities of Separation from Active Service).
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/07 (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, 2007.

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 17-year period from June 30, 2007.

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, 2007.

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	0.06688	0.00060	0.00130	0.00000	0.00030	0.00000	0.00096	0.02270
50	0.03036	0.00100	0.00240	0.06150	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

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	0.05208	0.00045	0.00040	0.00000	0.00015	0.00000	0.00038	0.02290
50	0.03320	0.00060	0.00180	0.06530	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

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	0.04500
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, 2007.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Annual Salary
07/01/2002	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%
07/01/2003	General	1,930	$76,971,000	$39,881	6.24%
	Safety	262	$11,615,000	$44,332	6.14%
	Total	2,192	$88,586,000	$40,413	6.29%
07/01/2004	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%
07/01/2005	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	4.20%
07/01/2006	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%
07/01/2007	General	1,917	$85,308,000	$44,501	-0.54%
	Safety	318	$15,281,000	$48,053	-2.47%
	Total	2,235	$100,589,000	$45,006	-0.81%

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2007.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL
(Dollar Amounts in Thousands)

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
6/30/02	1,259	N/A	N/A	N/A	N/A	1,295	$17,673	6.80%	$13,647
6/30/03	1,295	N/A	N/A	N/A	N/A	1,348	$20,369	15.25%	$15,110
6/30/04	1,348	124	2,807	31	396	1,441	$22,780	11.84%	$15,808
6/30/05	1,441	109	2,445	49	450	1,477	$24,867	9.16%	$16,836
6/30/06	1,477	98	2,007	53	785	1,521	$27,297	9.77%	$17,934
6/30/07	1,521	136	4,419	38	560	1,620	$31,823	16.58%	$19,644

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
6/30/02	$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%
6/30/07	$59,299	$358,644	$234,539	$652,482	$480,517	100%	100%	28%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
For Years Ended June 30
(Dollar Amounts in Thousands)

	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)
6/30/02	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)	$10,578	$ 2,734	N/A	$13,312
6/30/07	$(3,856)	$(3,693)	$(7,549)	N/A	$625	$(6,655)

Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2007.

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Statistical Section

Merced Multicultural Arts Center

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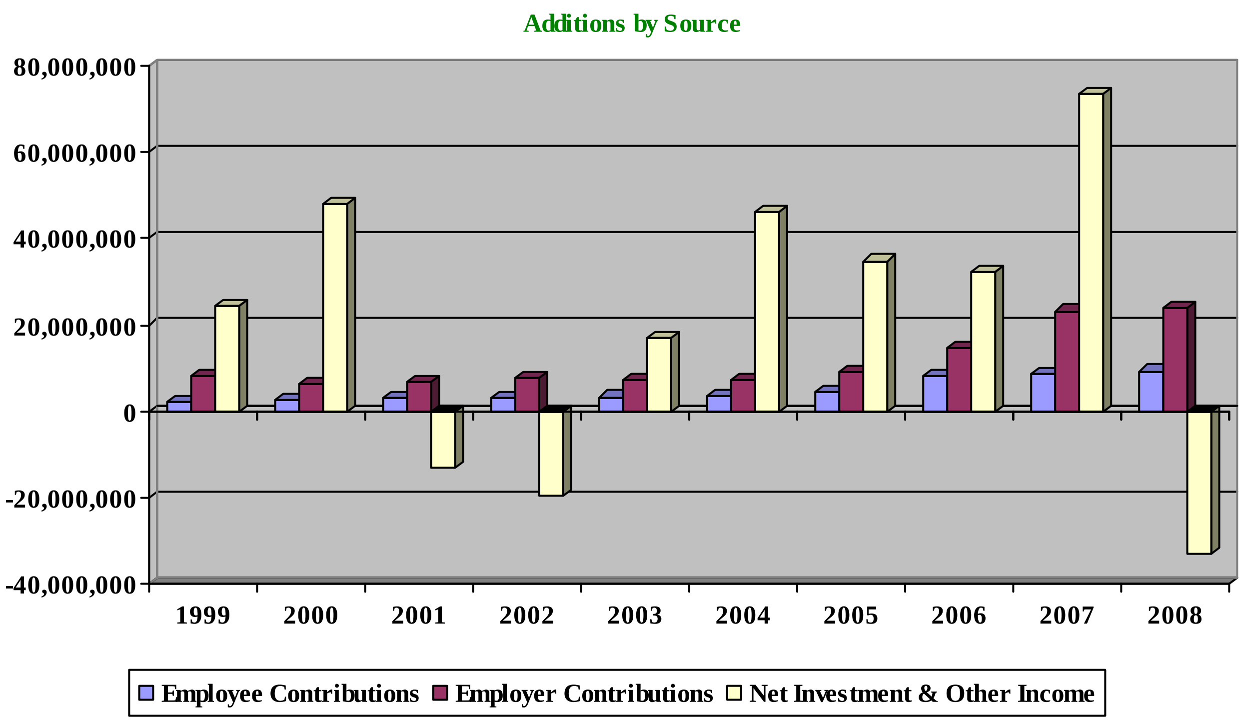
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ADDITIONS BY SOURCE

Fiscal Year Ending	Employee Contributions	Employer Contributions	Employer % of Covered Payroll	Net Investment Income and Other Income	Total
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
6/30/08	$ 9,357,702	$ 23,751,437 **	21.34%	$ (33,797,400)	$ (688,261)

*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.

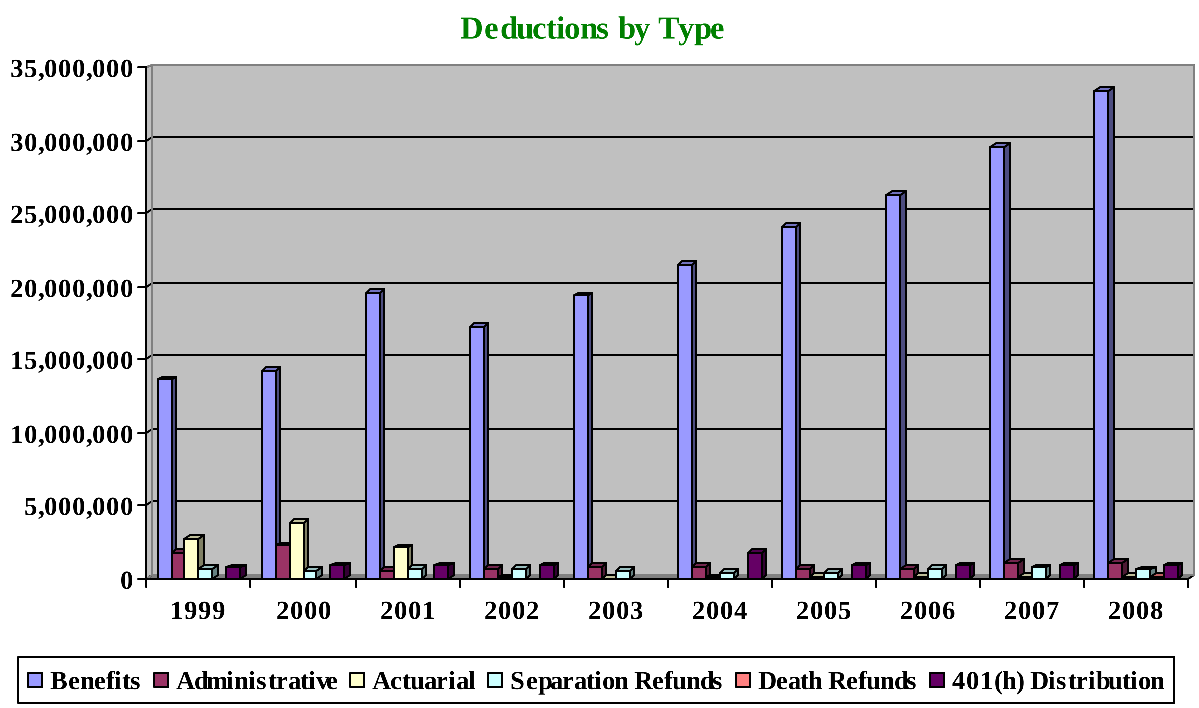


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401 (h) Distribution to County	Total
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
6/30/08		$ 33,394,363	$ 1,029,916	$ 53,500	$ 553,705	$ 99,438	$ 850,000	$ 35,980,922

*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.. MCERA separated the types of refunds as of 2008 presentation.



MERCED COUNTY EMPLOYEES' RETIREMENT
SCHEDULE OF CHANGES IN NET ASSETS
Last Ten Fiscal Years

(Amounts expressed in thousands)

Additions	**6/30/08**	**6/30/07**	**6/30/06**	**6/30/05**	**6/30/04**
Employee contributions	$9,358	$8,755	$8,222	$4,585	$3,347
Employer contributions	23,751	23,232	14,750	8,931	7,269
Net investment income	(33,797)	73,614	32,191	34,840	46,098
Total additions	(688)	105,601	55,163	48,356	56,714
Deductions					
Benefits paid	33,394	29,578	26,264	24,070	21,499
Administrative expenses	1,030	1,014	649	602	830
Actuarial expenses	54	41	48	62	-
Refunds	653	704	602	409	349
401(h) distribution	850	850	850	850	1,759
Total deductions	35,981	32,187	28,413	25,993	24,437
Change in net assets	($36,669)	$73,414	$26,750	$22,363	$32,277

Additions	**6/30/03**	**6/30/02**	**6/30/01**	**6/30/00**	**6/30/99**
Employee contributions	$3,298	$3,187	$3,043	$2,435	$2,273
Employer contributions	7,201	7,731	6,927	6,259	8,224
Net investment income	16,957	(19,790)	(13,342)	47,987	24,394
Total additions	27,456	(8,872)	(3,372)	56,681	34,891
Deductions					
Benefits paid	19,346	17,265	19,520	14,251	13,604
Administrative expenses	820	586	529	2,206	1,772
Actuarial expenses	-	7	2,079	3,833	2,677
Refunds	499	625	681	466	625
401(h) distribution	-	851	851	824	691
Total deductions	20,665	19,334	23,660	21,580	19,369
Change in net assets	$6,791	($28,206)	($27,032)	$35,101	$15,522

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollar Amounts in Thousands)

	2008*	2007	2006	2005	2004	2003	2002	2001	1999	1998
Service Retirement										
Payroll:										
General	$22,868	$21,924	$18,081	$16,378	$14,977	$13,197	$11,238	$11,158	$9,237	$8,274
Safety	4,139	3,813	3,448	3,030	2,506	2,349	1,908	1,810	1,547	1,320
Total	$27,007	$25,737	$21,529	$19,408	$17,483	$15,546	$13,146	$12,968	$10,784	$9,594
Disability Retiree										
Payroll										
General	$1,975	$1,555	$1,527	$1,478	$1,443	$1,388	$1,384	$1,339	$1,154	$1,061
Safety	2,312	1,907	1,913	1,816	1,769	1,572	1,483	1,362	1,122	1,054
Total	$4,287	$3,462	$3,440	$3,294	$3,212	$2,960	$2,867	$2,701	$2,276	$2,115
Beneficiary/Survivors										
Payroll										
General	$1,686	$1,957	$1,734	$1,613	$1,511	$1,347	$1,211	$1,130	$908	$891
Safety	414	667	594	551	575	515	449	439	430	431
Total	$2,100	$2,624	$2,328	$2,164	$2,086	$1,862	$1,660	$1,569	$1,338	$1,322
Total Benefit Expense										
Payroll										
General	$26,529	$25,436	$21,342	$19,470	$17,931	$15,932	$13,833	$13,627	$11,299	$10,227
Safety	6,865	6,387	5,955	5,397	4,849	4,437	3,840	3,609	3,099	2,804
Total	$33,394	$31,823	$27,297	$24,867	$22,780	$20,369	$17,673	$17,236	$14,398	$13,031

* Prior to 2008 this information was provided by the MCERA's actuary and included benefit payments expected to be distributed, refunds and 401(h) distribution to County and did not represent actual amounts distributed. As of 2008 MCERA is calculating this information as actual benefits distributed not including refunds or the 401(h) distribution to County.

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

(Summary of Monthly Allowances Being Paid—As of June 30, 2008)

(Dollar Amounts in Thousands)

	GENERAL MEMBERS		SAFETY MEMBERS		TOTAL	
	Number	Average Monthly Allowances	Number	Average Monthly Allowances	Number	Average Monthly Allowances
Service Retirement	1,127	$ 1,906	131	$ 345	1,258	$ 2,251
Disability	139	$ 165	94	$193	233	$ 358
Beneficiaries/Survivors	146	$ 141	26	$ 35	172	$ 176
Total Retired Members	1,412	$ 2,212	251	$573	1,663	$ 2,785

Note: Information compiled from County of Merced Information Systems 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)

	2008	2007	2006	2005	2004	2003	2002	2001	1999	1998
GENERAL TIER I										
Number	446	484	562	607	660	726	784	830	952	1,003
Annual Payroll**	$27,343	$26,949	$31,190	$32,249	$32,594	$34,233	$35,222	$35,125	$34,553	$35,763
Average Monthly Salary	$5,190	$4,688	$4,625	$4,427	$4,115	$3,929	$3,744	$3,527	$3,025	$2,971
Average Age	52.34	52.39	52.33	51.81	50.94	50.94	50.58	49.78	48.21	47.39
Average Service	20.85	19.62	19.24	18.80	17.29	17.29	16.48	15.72	14.11	13.30
GENERAL TIER II										
Number	1,542	1,486	1,357	1,285	1,164	1,204	1,150	1,020	758	549
Annual Payroll**	$68,715	$58,359	$54,674	$50,917	$44,429	$42,738	$37,379	$31,896	$20,086	$14,628
Average Monthly Salary	$3,775	$3,382	$3,358	$3,302	$3,181	$2,958	$2,709	$2,606	$2,208	$2,220
Average Age	41.68	41.90	41.91	41.84	40.78	40.78	40.01	39.56	38.73	39.04
Average Service	5.95	5.15	4.90	4.81	3.71	3.71	3.09	2.79	2.27	2.15
SAFETY TIER I										
Number	86	93	99	110	118	128	136	144	173	178
Annual Payroll**	$5,634	$5,425	$6,027	$6,421	$6,326	$6,426	$6,384	$6,130	$6,584	$6,617
Average Monthly Salary	$5,656	$4,861	$5,073	$4,864	$4,468	$4,184	$3,912	$3,547	$3,170	$3,098
Average Age	46.11	46.17	45.55	45.63	45.03	45.03	44.60	43.68	41.48	41.34
Average Service	18.95	18.11	17.32	16.95	15.78	15.78	15.08	14.08	11.66	11.17
SAFETY TIER II										
Number	266	235	211	185	150	134	113	90	48	31
Annual Payroll**	$12,584	$9,856	$9,247	$7,920	$6,167	$5,189	$4,016	$2,864	$1,301	$846
Average Monthly Salary	$3,972	$3,650	$3,652	$3,568	$3,426	$3,227	$2,962	$2,652	$2,259	$2,274
Average Age	32.63	32.93	32.56	32.28	33.31	33.31	32.54	31.51	32.34	30.84
Average Service	4.67	3.96	3.56	3.30	2.83	2.83	2.36	2.17	1.52	1.64
TOTAL										
Number	2,340	2,298	2,229	2,187	2,092	2,192	2,183	2,084	1,931	1,761
Annual Payroll**	$114,363	$100,589	$101,138	$97,507	$89,516	$88,586	$83,001	$76,015	$62,521	$57,854
Average Monthly Salary	$4,136	$3,751	$3,781	$3,715	$3,566	$3,368	$3,168	$3,040	$2,698	$2,738
Average Age	42.84	43.42	43.81	43.99	43.69	43.94	43.71	43.57	43.49	43.88
Average Service	9.11	8.67	8.94	9.18	8.61	8.86	8.61	8.69	8.93	9.40

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

Note: Information compiled from the County of Merced, Information Systems. MCERA had no actuarial valuation for the fiscal years ending 2000. Tier II was adopted in June 1994.

SUMMARY OF RETIRED MEMBERSHIP

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

	2008	2007	2006	2005	2004	2003	2002	2001	1999	1998
GENERAL										
Number	1,412	1,381	1,294	1,260	1,228	1,147	1,108	1,079	1,008	981
Basic Annual Allowance	$22,592	$20,021	$16,553	$ 15,000	$ 13,786	$ 12,119	$ 10,298	$ 10,383	$ 8,731	$7,924
Average Basic Monthly Allowance	$1,333	$1,206	$1,066	$ 992	$ 936	$ 880	$ 775	$ 802	$ 722	$673
Total Annual Allowance	$28,019	$25,435	$21,341	$19,470	$17,931	$ 15,932	$ 13,833	$ 13,627	$ 11,299	$10,227
Average Total Monthly Allowance	$1,654	$1,533	$1,374	$1,288	$1,217	$ 1,158	$ 1,040	$ 1,052	$ 934	$869
SAFETY										
Number	251	238	228	217	213	201	187	180	171	163
Basic Annual Allowance	$5,262	$4,807	$4,508	$4,038	$3,597	$ 3,300	$ 2,818	$ 2,671	$ 2,373	$2,156
Average Basic Monthly Allowance	$1,747	$1,690	$1,648	$1,551	$1,407	$ 1,368	$ 1,256	$ 1,237	$ 1,156	$1,102
Total Annual Allowance	$6,878	$6,388	$5,956	$5,397	$4,849	$ 4,437	$ 3,840	$ 3,609	$ 3,099	$2,804
Average Total Monthly Allowance	$2,284	$2,246	$2,177	$2,073	$1,897	$ 1,840	$ 1,711	$ 1,671	$ 1,510	$1,434
TOTAL										
Number	1,663	1,619	1,522	1,477	1,441	1,348	1,295	1,259	1,179	1,144
Basic Annual Allowance	$27,854	$24,828	$21,061	$19,038	$17,383	$ 15,419	$ 13,116	$ 13,054	$ 11,104	$10,080
Average Basic Monthly Allowance	$1,396	$1,277	$1,153	$1,074	$1,005	$ 953	$ 844	$ 864	$ 785	$734
Total Annual Allowance	$34,898	$31,823	$27,297	$24,867	$22,780	$ 20,369	$ 17,673	$ 17,236	$ 14,398	$13,031
Average Total Monthly Allowance	$1,749	$1,637	$1,495	$1,403	$1,317	$ 1,259	$ 1,137	$ 1,141	$ 1,018	$949

SUMMARY OF INACTIVE MEMBERSHIP*

	2008	2007	2006	2005	2004	2003	2002	2001	1999	1998
GENERAL										
Number	446	440	470	453	438	449	454	437	429	401
SAFETY										
Number	81	75	81	81	70	74	75	76	68	66
TOTAL										
Number	527	515	551	534	508	523	529	513	497	467

Note: Information compiled from MCERA's financial reports. This information includes refunds and 401(h) distribution..
*Includes unclaimed accounts.

RETIRED MEMBERS BY TYPE OF RETIREMENT

As of June 30, 2008

		Type of Retirement*							Option Selected**			
Amount of Monthly Benefit	Number of Members	1	2	3	4	5	6	7	Unmodified	Opt 1	Opt 2	Opt 3
1 - 250	97	24	47	18	0	7	1	0	71	6	16	4
251 - 500	163	26	77	29	6	10	15	0	132	6	23	2
501 - 750	201	50	96	34	7	2	12	0	169	10	18	4
751 - 1,000	200	65	81	32	5	8	9	0	174	8	16	2
1,001 - 1,250	168	63	61	16	2	6	20	0	154	4	7	3
1,251 - 1,500	143	61	46	10	4	19	3	0	129	2	10	2
1,501 - 1,750	101	45	29	5	1	20	1	0	95	1	5	0
1,751 - 2,000	102	48	23	4	0	23	4	0	92	3	7	0
Over 2000	488	282	119	15	4	65	3	0	445	15	24	4
Total	1663	664	579	163	29	160	68	0	1461	55	126	21

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 07/01/2007 to 06/30/2008							
Average monthly benefit	$417	$959	$1,496	$2,380	$2,828	$4,078	$5,214
Average final average salary	$6,765	$4,366	$4,714	$5,203	$6,662	$5,470	$4,311
Number of retired members	4	15	16	13	13	9	6
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 07/01/2005 to 06/30/2006							
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 07/01/2004 to 06/30/2005							
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 07/01/2003 to 06/30/2004							
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 07/01/2002 to 06/30/2003							
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 07/01/2001 to 06/30/2002							
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 07/01/2000 to 06/30/2001							
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 07/01/1999 to 06/30/2000							
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 07/01/1998 to 06/30/1999							
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

Information compiled from the County of Merced, Information Systems.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET

For the Years Ending June 30

		2007	2006
	ASSETS		
1.	Total actuarial value of assets	$ 484,450,302	$ 443,998,782
2.	Present value of future contributions by members	47,091,293	47,684,458
3.	Present value of future employer contributions for normal cost	49,706,073	49,770,986
4.	Present value of other future employer contributions (UAAL)	171,964,612	180,334,649
5.	Total Actuarial Assets	$ 753,212,280	$ 721,788,875
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$ 354,710,238	$ 300,899,027
7.	Present value of service retirement allowances payable to presently active member and their survivors	274,035,931	294,664,150
8.	Present value of allowances payable to current and future vested terminated members and their survivors	71,725,115	70,984,421
9.	Present value of disability retirement allowances payable to presently active members and their survivors	26,142,627	27,818,887
10.	Present value of death benefits payable on behalf of presently active members	5,020,996	5,229,118
11.	Present value of members' contributions to be returned upon withdrawal	17,643,783	17,503,478
12.	Special Reserves	3,933,590	4,689,794
13.	Total Actuarial Liabilities	$ 753,212,280	$ 721,788,875
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$ 753,212,280	$ 721,788,875
15.	Present value of future contributions by members and employers (items 2 and 3)	96,797,366	97,455,444
16.	Actuarial accrued liability (item 14 minus item 15)	656,414,914	624,333,431
17.	Actuarial value of assets	484,450,302	443,998,782
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$ 171,964,612	$ 180,334,649
19.	Funded Ratio	73.8%	71.1%

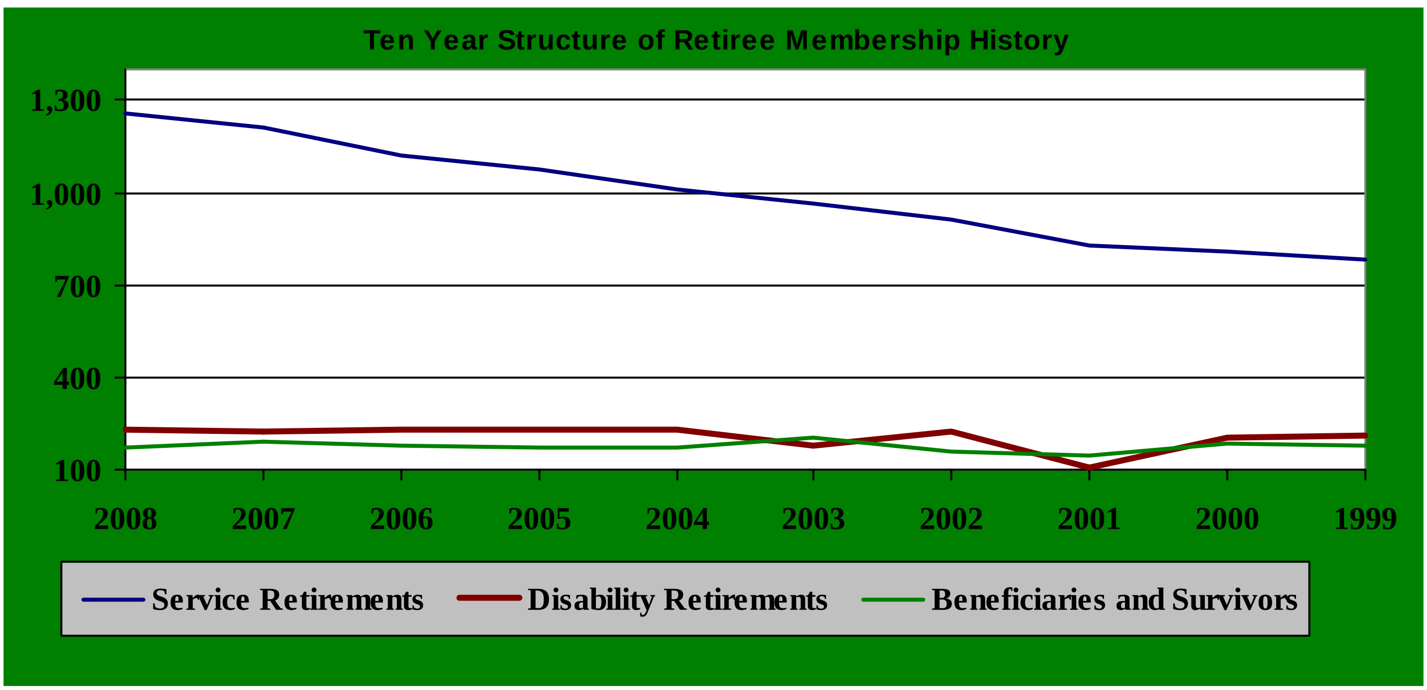
Actuarial Balance Sheet provided by Buck Consultants.

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	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
General Members	1,852	1,848	1,853	1,931	1,882	1,928	2,060	1,874	1,821	1,745
Safety Members	352	328	316	296	274	262	253	234	233	221
Total County of Merced	2,204	2,176	2,169	2,227	2,156	2,190	2,313	2,108	2,054	1,966
Percentage of Membership	94.19%	94.69%	95.22%	99.87%	99.91%	99.91%	99.87%	99.86%	99.86%	99.85%
Participating Agencies										
Merced Cemetery District	3	3	3	3	2	2	3	3	3	3
Percentage of Membership	.13%	.13%	.13%	.13%	.09%	.09%	.13%	.14%	.14%	.15%
Superior Court of California	133	119	106	-	-	-	-	-	-	-
Percentage of Membership	5.68%	5.17%	4.65%	-	-	-	-	-	-	-
Total Participating Agencies	136	122	109	3	2	2	3	3	3	3
Total Active Membership										
General	1,988	1,970	1,962	1,934	1,884	1,930	2,063	1,877	1,824	1,748
Safety	352	328	316	296	274	262	253	234	233	221
Total	2,340	2,298	2,278	2,230	2,158	2,192	2,316	2,111	2,057	1,969



	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Service Retirements	1,258	1,209	1,119	1,073	1,012	966	911	826	809	783
Disability Retirements	233	222	227	232	233	180	225	108	207	212
Beneficiaries and Survivors	172	188	175	171	171	202	158	145	184	180
Total	1,663	1,619	1,521	1,476	1,416	1,348	1,294	1,079	1,200	1,175