MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Merced, California

Comprehensive Annual Financial Report

For the Years Ended June 30, 2009 and 2008

Issued By

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

MCERA

3199 M Street
Merced, California

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Introductory Section

According to a recent study, 85 percent of new electricity needs over the next 20 years could be met solely through conservation, and at half the cost of building power plants. This is a radical concept in an industry that typically meets growing demand by adding new production which can pay dividends to shareholders. But by all indications at the state and federal levels, energy efficiency's day has arrived which could produce future benefits of lower energy bills, as people use less energy, job creation and economic stimulus.

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MCERA

LETTER OF TRANSMITTAL

Maria L. Arevalo
Plan Administrator

October 15, 2009

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, 2009 and 2008. 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 59th 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, basic financial statements, required supplementary schedules and other supplementary schedules.

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

- The **Actuarial Section**-contains the independent actuary's certification letter from MCERA's actuary, 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, 2009 and 2008 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, 2009, MCERA's net assets held in trust totaled approximately $376 million reflecting a decrease of approximately $107 million (approximately 22.0**%**) 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, 2008, found the retirement system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 70.5%. This decrease in the funding ratio (down from 73.8% as of June 30, 2007) was due primarily to MCERA's investment performance over the past five years. Deferred losses under the smoothing methodology exceeded the deferred gains by $31 million as of June 30, 2008.

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 and investment fees can be found on page 78.

For the fiscal year ending June 30, 2009, MCERA's investment return was negative 21.4% and the annualized rate of return over the last three and five years was negative 4.6% and positive 0.6%, respectively.

Service Efforts and Accomplishments

- Issued an RFP for a new Pension Administration System and began evaluation of Responses
- Published "Pension Notes" a quarterly newsletter for members with information related to MCERA, its operations and members
- Implemented Board Education program including sessions on asset allocations, disability rules and regulations, FPPC practices, inflation
- Adopted Board and Staff Travel policy
- Completed upgrade of MCERA Website, posting Annual Reports, Member Handbooks and other MCERA documents
- Improved the reporting of tax information on form 1099 for new retirees
- With MCERA's consultant, conducted an analysis and review of MCERA's large capitalization equity manager structure
- Conducted a fixed income manager search and transitioned from Lehman Brothers Enhanced Index and Aberdeen Asset Management to Mellon Capital EB Aggregate Bond Index Fund
- Retained Mellon Standish Global Workout Solutions for the transition of the fixed income portfolio
- Conducted with MCERA's actuary, a long term analysis of the impact of market losses on future Employer and employee contributions
- For the fifth consecutive year, MCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MCERA's 2004-2008 Comprehensive Annual Financial Report
- Amended and adopted new Board election procedures
- Conducted due diligence meetings with Mellon Capital Management, NorthPointe Capital, GMO, and EII Global Property Fund

- Limited participation in Security Lending Program
- Issued RFI (Request for Information) for a Securities Monitoring Firm

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, 2008. 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 fifth 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; 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,

MaLA

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, 2008

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.

President

Executive Director

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement at June 30, 2009

Leon Teague
Elected by Retired Members
Term Expires 12-31-11

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

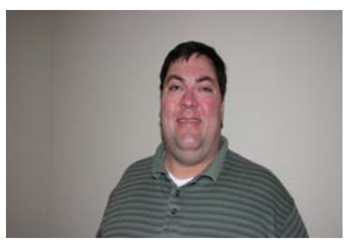
Ronald Kinchloe
Elected by General Members
Term Expires 06-30-09

Alfonso Peterson
Appointed by the Board of Supervisors
Term Expires 12-31-11

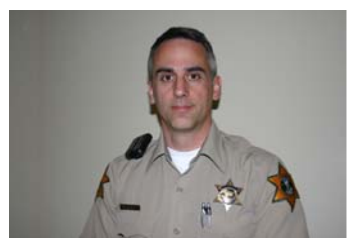
Mark Bodley
Appointed by the Board of Supervisors
Term Expires 06-30-11

Karen Adams
County Treasurer
Ex-officio Member

Deidre Kelsey
Appointed by and Member of the Board of Supervisors
Term Expires 12-31-11



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

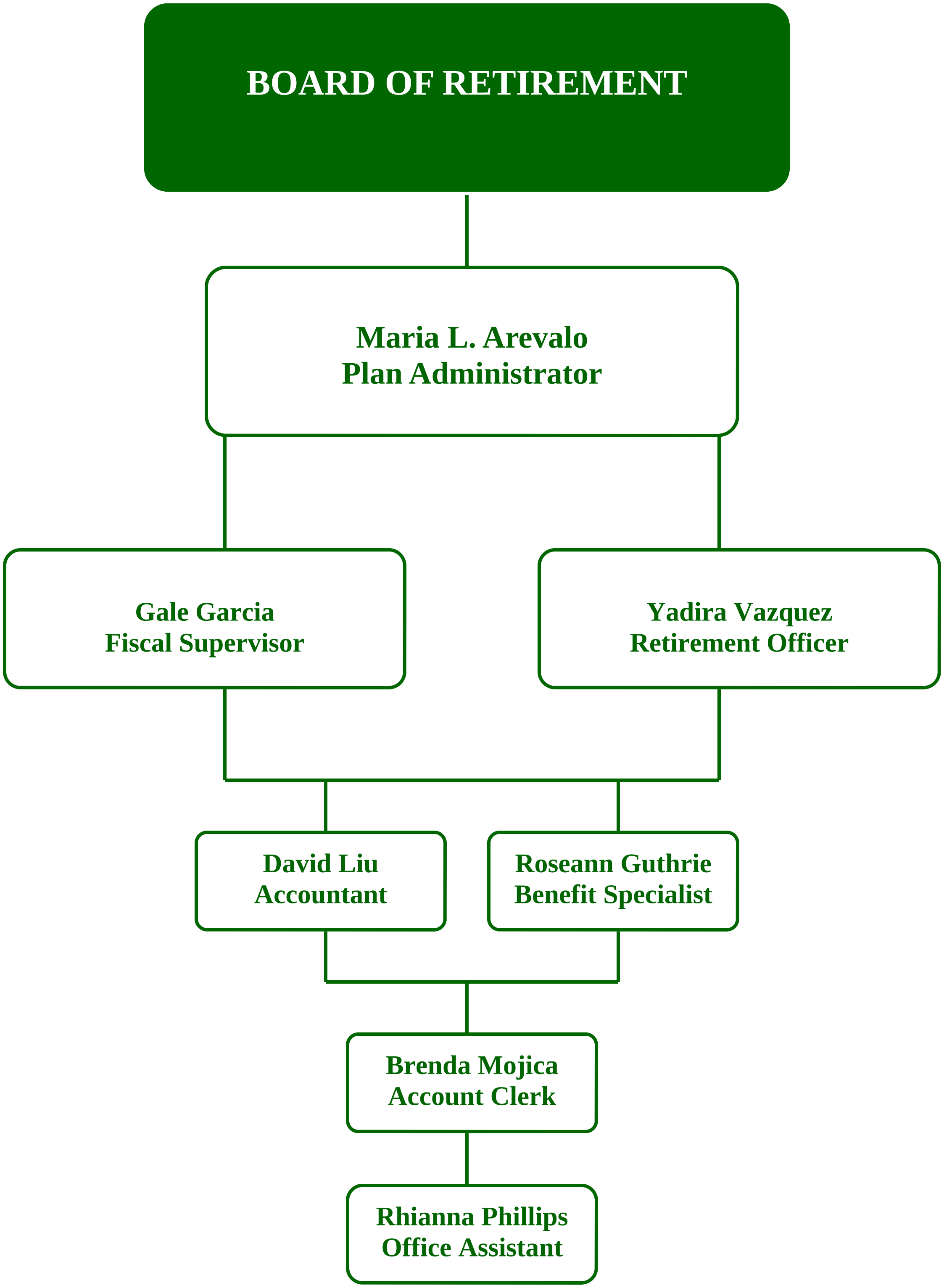


Tom Mackenzie
Elected by Safety Members
Expires 12-31-11

Dwayne McCoy, Alternate
Elected by Safety Members
Term Expires 12-31-11

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Administrative Organization Chart at June 30, 2009



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants at June 30, 2009

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

MEDICAL ADVISOR
Dr. Charles Fracchia

INVESTMENT SERVICES

FIXED INCOME
Mellon Capital Management
Standish Global Workout Solutions

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
Capital Institutional Services, Inc.

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Financial Section

This is a difficult time with the current economic troubles, but if we learn to look at the present from a broader evolutionary perspective, we will see the potential for a very different future. We must be creative in generating our own resources and discovering new ones. This carries the reward of pioneering a better future.

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MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

SACRAMENTO
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Merced County Employees' Retirement Association as of June 30, 2009 and 2008, 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..*

In accordance with *Government Auditing Standards*, we have issued our report dated September 18, 2009, 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 56 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 18, 2009

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, 2009 and 2008. 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 $376 million. 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 $107 million (a decrease of 22.2%). 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, 2008, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 70.5%. In general, this indicates that for every one dollar of benefits due, MCERA has slightly more than $.70 of assets available for payment.

- Additions to Plan Net Assets for the year were negative $67,890,321, which includes member and employer contributions of $37,798,955, a net investment loss of $105,817,039 and net securities lending income of $127,763.

- Deductions in Plan Net Assets increased from $35,980,922 in the last fiscal year to $39,156,544 in the current fiscal year (an increase of approximately 8.8%). This increase 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) Statement Nos. 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 $375,594,705. 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, 2009 totaled $375.6 million which is $107 million (or 22.2%) less than the prior year. This result essentially reflects the decline of current and other assets of 20.6% or ($8.4 million) and the decline of investments at fair value of 23.6% or ($111.4) million, offset by the decrease in the total liabilities of 41.6% or ($12.8 million).

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).

The U.S. recession deepened markedly in late 2008. The proximate cause of the crisis was the down turn of the housing cycle in the United States and the associated rise in delinquencies on subprime mortgages, which imposed substantial losses on many financial institutions and shook investor confidence in credit markets. The developments in the U.S. mortgage market were only one aspect of a much larger and more encompassing credit crisis whose impact transcended the mortgage market to affect many other forms of credit which included widespread declines in underwriting standards, breakdowns in lending oversight by investors and rating agencies, increased reliance on complex and opaque credit instruments that proved fragile under stress, and unusually low compensation for risk-taking. Heightened systemic risks, falling asset values, and tightening credit have in turn taken a heavy toll on institutional investors, business, consumer confidence and precipitated a sharp slowing in global economic activity. Despite this, it should be noted that the financial markets have been through significant downturns before and each time they have come back stronger. 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, 2009 and 2008

	2009	2008	Increase/ (Decrease) Amount	% Change
Current and other assets	$32,212,998	$40,566,131	($8,353,133)	-20.6%
Investments at fair value	361,307,031	472,773,945	(111,466,914)	-23.6%
Capital assets/prepaid insurance	8,785	11,203	(2,418)	-21.6%
Total assets	393,528,814	513,351,279	(119,822,465)	-23.3%
Current liabilities	17,934,109	30,709,709	(12,775,600)	-41.6%
Total liabilities	17,934,109	30,709,709	(12,775,600)	-41.6%
Net assets	$375,594,705	$482,641,570	($107,046,865)	-22.2%

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

	2008	2007	Increase/ (Decrease) Amount	% Change
Current and other assets	$40,566,131	$77,274,870	($36,708,739)	-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	513,351,279	584,830,703	(71,479,424)	-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	$482,641,570	$519,310,756	($36,669,186)	-7.1%

Reserves

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. 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 $78,834,137 in the current fiscal year as a result of the downturn in the financial markets.

MCERA's Reserves as of June 30, 2009, 2008, and 2007

	2009	2008	2007
Active members	$70,101,050	$66,865,146	$59,299,436
Employer advance	44,220,349	53,533,258	52,448,854
Retired members	292,975,830	286,304,416	265,687,161
Ad-Hoc COLA	1,711,303	1,746,443	1,654,015
Interest fluctuation	0	25,444,465	7,818,008
Market value fluctuation	(48,522,203)	30,311,934	109,911,028
Contingency	12,874,786	15,352,318	18,558,664
Internal Revenue Code (IRC) Section 401(h)	2,233,590	3,083,590	3,933,590
Total reserves at fair value	$375,594,705	$482,641,570	$519,310,756

MCERA's Activities

A downturn in the investment markets resulted in a June 30, 2009 fiscal year decrease of $107 million in MCERA's net assets (a decrease of approximately 22.2% 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 $(67,890,321). Overall, revenues for the fiscal year were down $67,202,060 from the fiscal year ended June 30, 2008 primarily due to investment fair value losses. In the 2007-2008 fiscal year, investment gains resulted in a negative $688,261 in total revenue, which was a decrease of $106,289,802 from the total revenue in the 2006-2007 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, 2009 and 2008)

	2009	2008	Increase (Decrease) Amount	% Change
Employer contributions	$27,882,650	$23,751,437	$4,131,213	17.4%
Member contributions	9,916,305	9,357,702	$558,603	6.0%
Net investment loss	(105,689,276)	(33,797,400)	($71,891,876)	212.7%
Total additions	($67,890,321)	($688,261)	($67,202,060)	9764.0%

Additions to Plan Net Assets
(For the Years Ended June 30, 2008 and 2007)

	2008	2007	Increase (Decrease) Amount	% Change
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/(loss)	(33,797,400)	73,614,145	(107,411,545)	-145.9%
Total additions	($688,261)	$105,601,541	($106,289,802)	-100.7%

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 $39,156,544, an increase of 8.8% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew approximately 9.2% or $3 million. Deductions for the 2008 fiscal year totaled $35,980,922, an increase of 11.8% from the previous year. The increase in expenses for the 2008 fiscal year was attributed primarily to the retiree payroll which grew approximately 12.9%.

Deductions from Plan Net Assets
(For the Years Ended June 30, 2009 and 2008)

	2009	2008	Increase (Decrease) Amount	% Change
Benefits paid	$36,478,886	$33,394,363	$3,084,523	9.2%
Administrative expenses	1,005,060	1,029,916	(24,856)	-2.4%
Refunds of contributions	760,803	653,143	107,660	16.5%
401(h) distribution to County	850,000	850,000	0	0.0%
Actuarial expense	61,795	53,500	8,295	15.5%
Total deductions	$39,156,544	$35,980,922	$3,175,622	8.8%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

	2008	2007	Increase (Decrease) Amount	% Change
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%
Actuarial expense	53,500	41,100	12,400	30.2%
Total deductions	$35,980,922	$32,187,506	$3,793,416	11.8%

Changes in Net Assets
(For the Years Ended June 30, 2009 and 2008)

	2009	2008	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$27,882,650	$23,751,437	4,131,213	17.4%
Members contributions	9,916,305	9,357,702	558,603	6.0%
Net investment loss	(105,689,276)	(33,797,400)	(71,891,876)	212.7%
Total additions	(67,890,321)	(688,261)	(67,202,060)	9764.0%
Deductions				
Benefits paid	36,478,886	33,394,363	3,084,523	9.2%
Administrative expenses	1,005,060	1,029,916	(24,856)	-2.4%
Actuarial expenses	61,795	53,500	8,295	15.5%
Refunds of contributions	760,803	653,143	107,660	16.5%
401(h) distribution to County	850,000	850,000	0	0.0%
Total deductions	39,156,544	35,980,922	3,175,622	8.8%
Change in net assets	(107,046,865)	(36,669,183)	(70,377,682)	191.9%
Net asset held in trust at beginning of the year	$482,641,570	$519,310,756	($36,669,186)	-7.1%
Net assets held in trust at end of year	$375,594,705	$482,641,570	($107,046,865)	-22.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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/loss	(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 assets 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	**$482,641,570**	**$519,310,756**	**($36,669,183)**	**-7.1%**

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, 2009 and 2008

	2009	2008
ASSETS		
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$4,301,501	$2,209,185
Cash invested with BNY Mellon	3,008,186	1,275,438
Other cash and cash equivalents with BNY Mellon	7,751,981	8,783,505
Securities lending collateral	15,468,497	24,344,477
Receivables:		
Bond interest	90,640	441,883
Stock dividends	168,439	158,240
Contributions	1,035,345	803,146
Securities sold	382,022	2,532,808
Other	6,387	17,452
Total receivables	1,682,833	3,953,529
Investments at fair value:		
U.S government and agency obligations	49,603,648	19,313,900
Domestic fixed income	12,771,437	41,591,390
Domestic fixed income (index funds)	17,945,486	51,109,630
Common stocks (domestic)	120,536,402	166,039,934
Common stocks (index funds)	49,594,885	53,639,358
Common stocks (international)	62,567,853	82,975,316
Real estate	29,910,341	38,948,020
Alternative investments	18,376,979	19,156,397
Total investments	361,307,031	472,773,945
Prepaid Expense	3,150	-
Capital assets: Net of accumulated depreciation of $66,593 and $61,026 respectively	5,635	11,203
Total assets	393,528,814	513,351,282
LIABILITIES		
Accounts payable	843,013	779,960
Securities lending obligation	15,468,497	24,344,477
Securities purchased	1,437,979	5,474,099
Unclaimed contributions	184,620	111,173
Total liabilities	17,934,109	30,709,709
Net assets held in trust for pension benefits	$375,594,705	$482,641,570

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, 2009 and 2008

	2009	2008
ADDITIONS		
Contributions:		
Employer	$27,882,650	$23,751,437
Plan members	9,916,305	9,357,702
Total contributions	37,798,955	33,109,139
Investment Income (loss) from Investment Activities:		
Net depreciation in fair value of investments	(78,834,137)	(79,599,096)
Investment income/(loss)	(25,320,017)	47,672,899
Other revenue	82,889	258,045
Less investment expenses	(1,745,774)	(2,332,306)
Net investment (loss)	(105,817,039)	(34,000,458)
Securities Lending Activities:		
Securities lending income	234,814	1,419,347
Securities lending expenses	(107,051)	(1,216,289)
Net securities lending income	127,763	203,058
Total net investment (loss)	(105,689,276)	(33,797,400)
Total additions	(67,890,321)	(688,261)
DEDUCTIONS		
Benefits paid	36,478,886	33,394,363
Refunds of contributions	760,803	653,143
Administrative expense	1,005,060	1,029,916
Actuarial expense	61,795	53,500
401(h) distribution to County	850,000	850,000
Total deductions	39,156,544	35,980,922
Net decrease	(107,046,865)	(36,669,183)
Net assets held in trust for pension benefits at beginning of year	482,641,570	519,310,756
Net assets held in trust for pension benefits at end of year	$375,594,705	$482,641,570

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009 and 2008

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 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, 2009 was as follows:

	General		Safety		
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total**
Vested	405	824	75	97	1,401
Non-vested	10	681	1	186	878
INACTIVE MEMBERS					
Deferred and inter-system members	228	174	41	39	482
Unclaimed members	8	35		1	44
Total active and inactive members	651	1,714	117	323	2,805
RETIRED MEMBERS					
Service retirements	1,113	51	143		1,307
Beneficiaries	123	4	20		147
Service connnected disability	65	5	80	7	157
Non-Service connected disability	65	8	4		77
Survivors	17	3	4	1	25
Total retired members	1,383	71	251	8	1,713

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 and inactive members	700	1,734	130	303	2,867
RETIRED MEMBERS					
Service retirements	1,089	38	131		1,258
Beneficiaries	124	2	21		147
Service connnected 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

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 their life, with the provision that upon death, their accumulated contributions less the actual annuity payments received by the retiree, will be paid to a designated beneficiary. Under this option, beneficiaries may be changed after retirement.

Option 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.

Option No. 4

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

(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 (CPI) for All Urban Consumers for the calendar year prior to the April 1 effective date of the COLA. The amount of any actual CPI above the 3% maximum is accumulated. Accumulated COLAs may be used in future years, at the 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 for the rest of his or her life as an alternate benefit.

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

If a member dies as a result of service-connected injury or disease arising out of the course of his or her employment, his or her surviving spouse may elect, in lieu of the basic death benefit, to receive a monthly allowance of 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, 2008 and 2007 actuarial valuation report

	2008	2007
Inflation Rate	4.50%	4.50%
Investment Return Assumption Rate	8.16%	8.16%
Projected Salary Increases	5.5%	5.5%
Merit and Longevity Increase	1.00%	1.00%
Annual Required Contribution (ARC)	$23.8 million	$23.2 million
Percentage Contributed	100%	100%

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 Required Supplementary Schedules 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 Governmental 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 31580.3, (a) (1) which provides that if during any year the expense of administration of the retirement system includes expenditures for software, hardware, and computer technology consulting services in support of that software, the expense incurred may not exceed the sum of eighteen hundredths of 1 percent (.18%) of the total assets of the retirement system plus one million dollars ($1,000,000). The administrative limit per this government code section allows MCERA a maximum expense amount of $1,708,352. MCERA's administrative costs for the fiscal year ending June 30, 2009 are $1,005,060.

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 56.

F. Administrative Budget and Professional Service Budget

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

G. Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Capital assets with an initial cost of more than $2,500 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Equipment and furniture are depreciated over eight years.

H. Methods Used to Value Investments

Investments are reported at fair value in the accompanying Statement of Plan Net Assets.

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

The fair value of the real estate investments are based on the partners' most recent financial statements for the quarter ending March 31 and adjusted for cash flow activities through June 30. The real estate investment holdings are determined by the partners using industry standard appraisal techniques and assumptions, which are updated annually, to determine the fair value of these holdings. The appraisals incorporate subjective judgments and consider assumptions including capitalization rates, discount rates, cash flows and other factors that are not observable in the market.

The fair value of alternative investments are based on the partners' most recent financial statements for the quarter ending March 31 and adjusted for cash flow activities through June 30. The majority of MCERA's alternative investments or 99.7% are determined by the partnerships using unobservable inputs which reflect the partnerships' own assumptions about the assumptions that market participants would use in pricing the investment. The assumptions are based on the best information available in the circumstances, which might include the partnership's own data. The remaining .3% of MCERA's alternative investments are determined by the partnerships based on quoted market prices in active markets.

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

I. 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. The realized gains and losses are included in the investment income (loss) line item in the financial statements. The net appreciation/(depreciation) in fair value of investments held by MCERA is recorded as a separate line item based on the valuation of investments monthly.

K. Implementation of New Accounting Pronouncement

Effective July 1, 2007, MCERA implemented GASB No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27. The reporting changes required by this Statement amended applicable note disclosure and RSI requirements of Statement No. 25, *Financial Reporting for Defined Benefit Plans,* 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 and $2,209,185 at June 30, 2009 and 2008, 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, 2009 and 2008 are presented as follows:

	Fair Value	
Cash and Short-term Investments	**2009**	**2008**
Funds pooled with County Treasury	$4,301,501	$2,209,185
Funds pooled with BNY Mellon	3,008,186	1,275,438
Short-term investment funds	7,751,981	8,783,505
Securities lending collateral	15,468,497	24,344,477
Total cash and short-term investments	30,530,165	36,612,605
Investments		
U.S. Government and agency obligations	49,603,648	19,313,900
Domestic fixed income	12,771,437	41,591,390
Domestic fixed income (Index funds)	17,945,486	51,109,630
Common stocks (domestic)	120,536,402	166,039,934
Common stocks (index funds)	49,594,885	53,639,358
Common stocks (international)	62,567,853	82,975,316
Real estate	29,910,341	38,948,020
Alternative investments	18,376,979	19,156,397
Total investments	361,307,031	472,773,945
Total	$391,837,196	$509,386,550

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

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. Balances in the pooled accounts approximate fair value. At June 30, 2009 and 2008, short-term investments and pooled fund balances were $10,760,167 and $10,058,943, respectively.

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, 2009 and 2008:

	Weighted Average Maturity	Average Duration	Mis-Match	Credit Quality
June 30, 2009	33 days	92 days	33 days	A-1/P-1
June 30, 2008	20 days	103 days	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, 2009 and 2008, 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, 2009 the fair value of securities on loan and the collateral received for those securities on loan were $15,037,947 and $15,468,497. 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 $127,763 for the year ended June 30, 2009.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Equity	$15,037,947	$15,468,497	-
Total	$15,037,947	$15,468,497	$0

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 net 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

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 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, 2009 and 2008 the fair value of the alternative investment portfolios were $18,376,979 and $19,156,397, respectively. The fair value of these alternative investments are reported based on the most current financial report available which is subject to a one (1) quarter lag adjusted for cash flows.

The balance of the unfunded capital to MCERA's private equity funds as of June 30, 2009 was $12,307,604 and as of June 30, 2008 was $16,606,353. 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, 2009 and 2008, MCERA is not exposed to custodial credit risk.

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, 2009 and 2008, 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 securities that are below investment grade are held with MCERA's investment workout manager, Standish Global Solutions, to be liquidated or held for longer time frames by comparing their individual fundamental values against executable market prices.

The following table presents the quality credit ratings at June 30, 2009 and 2008.

Quality As of June 30, 2009	% of Total Fixed Income As of June 30, 2009	% of Total Fixed Income As of June 30, 2008
AAA	49.79%	75.17%
AA	2.78%	4.66%
A	9.82%	6.25%
B	1.79%	-
BA	0.32%	0.55%
BAA	0.02%	12.37%
BB	0.86%	-
BBB	8.25%	-
CAA	0.14%	-
CCC	0.15%	-
NR*	0.38%	1.01%
NA**	25.71%	-

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

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 Barclays U.S. Aggregate Bond Index. During the fiscal year ending 2009, MCERA transitioned their actively managed bond portfolio and their enhanced bond index portfolio to one Aggregate Bond Index Fund. The securities that were not able to be transitioned due to their illiquidity, distressed nature or simply too large of a position were transferred to Standish Global Workout Solutions for liquidation.

As of June 30, 2009 and 2008 the County's pool has a fair value of $638,381,899 and $620,179,322, respectively and a weighted average maturity of 225 days and 574 days, respectively.

As of June 30, 2009 and 2008 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 62 days and 47 days, respectively.

The following table presents the fair value, weighted percentage of each sector, and the effective duration of MCERA's fixed income investments as of June 30, 2009:

	Standish Global Workout Solutions			Mellon Captal Aggregate Bond Fund		
Investment Type	Fair Value 2009	Weight of Fixed Income 2009	Effective Duration (Years) 2009	Fair Value 2009	Weight of Fixed Income 2009	Effective Duration (Years) 2009
U.S Treasuries	-	-	-	$17,392,903	25.81%	5.16
U.S Agencies	$147,065	1.14%	0.74	6,374,927	9.46%	3.48
U.S. Government mortgages	13,837	0.11%	5.35	25,674,916	38.10%	2.93
Commercial mortgage backed securities	1,204,680	9.32%	2.81	2,223,812	3.30%	3.96
Asset backed securities	2,576,492	19.92%	1.06	350,419	0.52%	2.44
Corporate and other credit	35,914	0.28%	3.94	15,371,255	22.81%	6.09
Collateralized mortgage obligations	8,334,688	64.45%	3.84	-	-	-
Private placement	619,663	4.79%	1.77	-	-	-
Total Fair Value	$12,932,339	95.22%		$67,388,232	100.00%	
Portfolio Effective Duration			3.06			4.29

MCERA's fixed income investments as of June 30, 2008:

Investment Type	Fair Value 2008	Weight of Fixed Income 2008	Effective Duration (Years) 2008
U.S Treasuries	$5,425,321	8.91%	8.16
U.S Agencies	4,778,691	7.85%	4.93
U.S. Government r	9,109,888	14.96%	4.63
Municipal bonds	1,367,308	2.25%	8.87
Commercial mortg	9,698,752	15.93%	4.59
Asset backed secu	1,730,669	2.84%	1.57
Corporate and oth	9,824,609	16.09%	6.52
Collateralized mort	14,478,642	23.78%	4.23
Private placement	4,491,410	7.38%	6.55
Total Fair Value	$60,905,290	100.00%	
Portfolio Effective Duration			5.00

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 American Depository Receipts (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, 2009 and 2008:

	Fair Value (U.S. Dollars)	
Currency	**2009**	**2008**
Australia dollar	-	$280,064
Norwegian krone	$642,068	653,922
Euro currency	4,285,376	6,003,582
Japanese yen	1,738,281	2,594,899
Mexico peso	340,842	1,120,823
Singapore dollar	582,154	1,153,174
Hong Kong dollar	3,363,502	4,235,645
Swiss franc	562,613	653,304
United Kingdom pound sterling	1,178,580	1,707,766
Total foreign currency	$12,693,415	$18,403,179

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, 2009 and 2008

Type of Derivatives	Fair Value 2009	Fair Value 2008
Collateralized Mortgage Obligations*	$8,481,753	$19,257,333
Total Derivatives	$8,481,753	$19,257,333

The collateralized mortgage obligations per the derivatives schedule above also includes some of the U.S. government agency mortgages from the interest rate tables on pages 49 and 50.

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, 2009 and 2008.

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 2006	2007	2008	2009	Total
$ 69,662,223	$ 40,248,806	$ (79,599,095)	$ (78,834,137)	$ (48,522,203)

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, 2009 and 2008 is as follows:

	2009	2008
Active Members	$70,101,050	$66,865,146
Employer Advance	44,220,349	53,533,258
Retired Members	292,975,830	286,304,416
Interest Fluctuation	0	25,444,465
Market Value Fluctuation	(48,522,203)	30,311,934
Ad-Hoc COLA	1,711,303	1,746,443
Contingency	12,874,786	15,352,318
IRC Section 401(h)	2,233,590	3,083,590
	$375,594,705	$482,641,570

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

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, 2008.

The June 30, 2008 actuarial valuation determined that the actuarial value of assets are $488 million, the actuarial accrued liability is $692 million, the unfunded actuarial accrued liability (UAAL) is $204 million, the funded ratio is 70.5%, the covered payroll is $109 million and the UAAL as a percent of covered payroll is 186.6%.

The Governmental Accounting Standards Board Statement No. 50 (GASB 50) 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, 2008 has a remaining period of 16 years. MCERA's funded ratio as of June 30, 2008 is 3.3% lower than the funded ratio as of June 30, 2007 due primarily to weak 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. MCERA's management and legal counsel estimate that the ultimate outcome of such litigation will not have a material effect on MCERA's financial statements.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUIRED SUPPLEMENTARY SCHEDULES

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percent of Covered Payroll (b-a/c)
6/30/03	$ 428,959	$ 451,181	$ 22,222	95.1%	$ 88,586	25.1%
6/30/04	$ 430,054	$ 531,938	$ 101,884	80.8%	$ 89,516	113.8%
6/30/05	$ 428,813	$ 589,794	$ 160,981	72.7%	$ 97,507	165.1%
6/30/06	$ 443,999	$ 624,333	$ 180,335	71.1%	$101,137	178.3%
6/30/07	$ 484,450	$ 656,415	$ 171,965	73.8%	$100,589	171.0%
6/30/08	$ 488,347	$ 692,252	$ 203,906	70.5%	$109,253	186.6%

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
6/30/03	$ 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%
6/30/08	$ 23,751	100%

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES
June 30, 2009

1. GASB STATEMENT NO. 25

MCERA applied the parameters established by Governmental Accounting Standards Board (GASB) Statement No. 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, 2008
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
Amortization Method	Level percentage - Closed
Remaining Amortization Period	16 years from June 30, 2008
Asset Valuation Method	Five year smoothed market

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
June 30, 2009
(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
SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2009 and 2008

	2009	2008
Personnel Services:		
Salaries, wages and benefits	$695,117	$542,501
Office Expenses:		
Communications	4,476	2,280
Requested maintenance/ utilities/ cost allocation	52,848	58,943
Office supplies	7,056	6,267
Postage	3,283	2,919
Total Office Expense	67,663	70,409
Professional Services:		
Audit fees	46,628	41,047
Attorney fees	14,418	192,831
Disability stenographic fees/ investigations	1,370	2,440
Strategic Project Consulting	14,004	5,856
Publications/ legal notices	600	574
Disability medical reviews/ services	22,998	18,907
Merced Dept. of Information Technology	45,830	51,653
Total Professional Services	145,848	313,308
Miscellaneous:		
Memberships	4,815	4,730
Fiduciary meeting	7,500	7,000
Fiduciary and staff travel/ training	27,452	34,991
Insurance	51,097	47,948
Depreciation expense	5,568	9,029
Total Miscellaneous Expenses	96,432	103,698
Total Administrative Expenses	$1,005,060	$1,029,916

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES
SCHEDULES OF INVESTMENT EXPENSES

For the Years Ended June 30, 2009 and 2008

INVESTMENT MANAGERS' FEES	2009	2008
Domestic Equities		
Delta Asset Management	$228,653	$329,634
Earnest Partners, LLC	149,012	214,008
Mellon Capital Management	23,896	23,153
NorthPointe Capital	114,711	155,422
Wentworth, Hauser & Violich	171,308	283,070
Wasatch Advisors	-	26,728
Total Domestic Equities	687,580	1,032,015
International Equities		
UBS Global Small Cap	67,615	51,954
Earnest Partners, LLC	137,558	8,742
Invesco Global Asset Mangement	-	122,446
Total International Equities	205,173	183,142
Private Equity		
Invesco Private Capital	90,000	90,000
Real Estate		
UBS Global-Trumbull Property Mgmt	252,430	30,439
UBS Real Estate Separate Account (RESA)	-	375,626
Total Real Estate	252,430	406,065
Fixed Income		
Lehman Brothers	28,817	45,919
Aberdeen Asset Mangement	101,887	201,880
Mellon Capital Management	8,008	-
Standish Global Workout Solutions	34,167	-
Total Fixed Income	172,879	247,799
Total Investment Managers' Fees	1,408,062	1,959,021
Securities Lending Activity		
Management fee	56,643	91,989
Rebate fee	50,408	1,124,299
Total Securtiy Lending Activity Fees	107,051	1,216,289
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	182,838	206,599
Investment Consultant		
Milliman, Inc.	154,874	150,880
Miscellaneous Investment Expense	-	15,806
Total Other Investment Expenses	337,712	373,285
Total Fees and Other Investment Expenses	$1,852,825	$3,548,594

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTARY SCHEDULES
SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2009 and 2008

INVESTMENT PROFESSIONAL SERVICE FEES	2009	2008
Actuarial services - Buck Consultants	$61,795	$53,500
Investment consultant - Milliman, Inc.	154,874	150,880
Custodial services - BNY Mellon Asset Servicing	182,838	206,599
Total investment professional service fees	$399,507	$410,979

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$46,628	$41,047
Legal services	14,418	192,831
Disability stenographic fees/investigations	1,370	2,440
Disability medical reviews/services	22,998	18,907
Merced County Department of Information Systems	45,830	51,653
Other specialized services	14,604	6,430
Total administrative professional service fees	$145,848	$313,308

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Investment Section

Every generation faces certain challenges. In the 1930s, it was the creation of Social Security. In the 1960s, there was putting a man on the moon and the Civil Rights Movement. In the 1980s it was ending the Cold War. A major challenge for this generation will be addressing investment in infrastructure, renewable energy, water conservation, healthcare and global climate change while promoting financial stability.

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August 19, 2009

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 21.4% in the recently completed fiscal year ending June 30, 2009. The prior fiscal year's loss of 6.0% was followed-up by an even greater loss, as capital markets exhibited extreme stress. As we are well aware, the turnaround in the markets that began in early March, 2009, mitigated even larger potential losses. The four consecutive years of strong equity and other asset class returns spanning 2003 through 2007 are a distant memory. The Association's fiscal year return is significantly below the actuarial interest rate assumption of 8.0%. Also, the total fund return was below the Retirement Association's total fund benchmark loss of 18.8%. This loss results from negative returns in all asset classes.

The Retirement Association's total fund return over the past five years has averaged +0.6% equaling the fund benchmark of +0.6% and trailing the actuarial interest rate assumption of 8.0%. The large negative returns in the past fiscal year, has caused the Retirement Association's five year return to be below the actuarial interest rate assumption by approximately 7.4% per year. Over the past five years, domestic equities produced negative returns, whereas all other asset classes produced small positive returns. During the last ten years, the Association's total fund return of 2.3% modestly exceeded the benchmark return of 2.0%, but trailed 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% Barclays 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% Barclays 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 was 48.3% S&P 500, 7.7% Russell 2000®, 7% EAFE, 30% Barclays Aggregate, 1% 90-day T-Bill, and 6% NCREIF Property Index. As of March 31, 2007, the benchmark is 47.1% S&P 500, 7.9% Russell 2000®, 7% EAFE, 30% Barclays Aggregate, 1% 90-day T-Bill, 6% NCREIF Property Index, and 1% S&P 500 + 5.0% (private equity). From 1st quarter 2008 through 2nd quarter 2008, the benchmark is 46.35% S&P 500, 7.65% Russell 2000®, 7% EAFE, 30% Barclays Aggregate, 1% 90-day T-Bill, 6% NCREIF Property Index, and 2% S&P 500 + 5.0% (private equity). As of 3rd quarter 2008 the benchmark is 43.75% S&P 500, 6.25% Russell 2000®, 18% EAFE, 23% Barclays Aggregate, 6% NCREIF Property Index, and 3% S&P 500 + 5.0% (private equity). As of 4th quarter 2008 the benchmark was 43% S&P 500, 6% Russell 2000®, 18% EAFE, 23% Barclays Aggregate, 6% NCREIF Property Index, and 4% S&P 500 + 5.0% (private equity). As of 1st quarter 2009 the benchmark is 42% S&P 500, 6% Russell 2000®, 18% EAFE, 23% Barclays Aggregate, 6% NCREIF Property Index, and 5% S&P 500 + 5.0% (private equity).

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 not able to achieve 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-July 2009. A revised target asset mix was approved by the Board. This target mix includes the following allocations: domestic equity 29%; international equity 24%; domestic fixed income 24%; high yield fixed income 5%; inflation protected fixed income 5%; real estate 8%; and, private equity 5%. The Board is presently working on an implementation plan and will be making changes over the next several months.

The structure of the domestic and international equity asset classes will be evaluated and a global equity allocation may be instituted, thereby limiting the amount of structural change. There will also be the introduction of high yield and inflation protected fixed income portfolios. With the severe decline in equity market values over much of the past two years, valuations of private equity have been slow to adjust. The same phenomenon exists in the real estate market. As private equity results are reported on a two-quarter lag, large losses are now being recorded by private equity and appraisal-based real estate funds. We expect private equity and appraisal-based real estate to continue to reflect significant losses for at least the next two quarters. Subsequently, they are expected to be a return enhancement to total Plan results.

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Market Overview

The past fiscal year had weak equity market results, except for the last quarter of the fiscal year, the three-month period ending June 30, 2009. The domestic equity markets began the fiscal year with a large loss of 8.4%, as measured by the S&P 500. During the third calendar quarter of 2008, seven of the ten S&P 500 sectors recorded losses, led by Energy (-24.6%) and the Materials sector (-22.0%). Conversely, the Consumer Staples sector returned +4.8%. Value-oriented stocks lost less than growth-oriented stocks in this quarter, -6.1% versus -12.3%.

The weak results of the third calendar quarter of 2008 were followed up with even larger losses in the fourth quarter of 2008. Stocks declined 21.9%, as measured by the S&P 500, which brought the equity index down 28.5% for the first half of the fiscal year. All ten of the S&P 500 sectors recorded losses, the majority of which lost more than 20%. The largest losses were recorded by the Financial sector (-36.9%) and Materials (-31.0%). The smallest loss was recorded by the Telecom Services sector (-1.3%). There was a great deal of fear in the marketplace and little optimism, in spite of the election of a new president of the United States of America.

The market continued to reflect pessimism as 2009 began. January and February were two of the worst monthly periods on record. At the end of the first week in March, there was some positive earnings news from the financial sector. This break led to a rebound since March 9th. For the first calendar quarter of 2009, the domestic equity market lost 11.0%. This loss brought the fiscal year to date loss for domestic equities to 36.3%, a staggering figure. Nine of the ten S&P 500 sectors registered losses, with the lone positive sector, Information Technology, generating a return of +4.3%. Growth-oriented stocks performed significantly better than value-oriented stocks, -4.1% versus -16.8%.

The final quarter of the fiscal year continued the rebound which began in March, with the S&P 500 up 15.9%. In spite of this very significant rally, equities during the fiscal year were down 26.2%. All 10 of the economic sectors had positive equity returns in this quarter, with the strongest return was recorded by the Financial sector, (+35.6%), followed by Information Technology (+19.7%). Growth and value stocks performed comparably.

The S&P 500 loss of 26.2% for the fiscal year ending June 30, 2009, was essentially comparable to the loss of the Russell 2000, 25.0%, although the Russell 2000 was more volatile. In the third quarter of 2008, the Russell 2000 lost 1.1%. Small cap stocks then declined 26.1% and 15.0%, before rebounding 20.7% in the final quarter of the fiscal year. Small cap stocks have started to perform reasonably well in the recent upturn and may continue to lead the overall market for several quarters.

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International equity had a fiscal year loss of 31.0%, and followed a generally comparable performance pattern of large cap domestic stocks. The EAFE Index lost 20.5% in the third quarter of 2008, followed by consecutive losses of 19.9% and 13.9% over the next two quarters. In the last quarter of fiscal year 2009, the EAFE Index was up 25.9%.

The bond market continued in unchartered territory during most of the 2009 fiscal year. For much of this period, bondholders wanted only high quality, historically riskless securities. This investment posture began to change to one of modest risk assumption toward the end of the fiscal year. The Barclays Aggregate Bond Index lost 0.5% in the quarter ending September 30, 2008, and was followed in the next two quarters by gains of 4.6% and 0.1%. The fiscal year ended with a quarterly gain of 1.8%. For the complete fiscal year ending June 30, 2009, the Barclays Aggregate Bond Index was up 6.1%. This return was not matched by the Association's fixed income managers, both of which were terminated in early 2009.

Real estate had a very poor year, with the NCREIF Property Index down 19.6%. Returns were weak in the first quarter of the fiscal year, -0.2%, and followed this loss with losses of 8.3%, 7.3% and finally, 5.2%. As mentioned previously, this appraisal-based real estate index is likely to continue to register meaningful declines over the next several quarters. With the significant loss of employment over the past two years, it may take some time for real estate to generate significantly positive returns.

Finally, private equity performance has recently been a significant drag on the Retirement Association's performance. The gross of fee loss for the private equity segment was 14.4% for the full fiscal year ending June 30, 2009. We believe it will be several quarters before private equity starts to again contribute to total Plan returns, as further write-downs are expected and there is a two-quarter performance lag in the data.

Style Overview

The market made only minor distinctions in terms of equity styles in the past year. If it was a stock, the equity market took it down significantly, until the upswing at fiscal year-end. Value-oriented stocks as measured by the Russell 1000 Value Index declined somewhat more than the Russell 1000 Growth Index, -29.0%, versus -24.5%.

Fund Overview

The total fund performance was adversely impacted by the poor results of the Association's fixed income managers. In the third quarter of 2008, the total Fund loss was 9.6%, underperforming the total Fund benchmark loss of 7.8%. This loss ranked in the fourth quartile (79th percentile) of total funds. Of the five major segments of the total Fund, only private equity outperformed its segment benchmark. In the fourth quarter of 2008 there was continued underperformance of the total Fund benchmark, with a loss of 16.5%, versus a loss of 14.9% for the total Fund benchmark. During this quarter, only the private equity segment outperformed its benchmark. The total fixed income segment return was -3.2%, versus its benchmark of 4.6%. This was the major contributor to below benchmark results. The total Fund ranking was in the fourth quartile of funds (the 85th percentile).

The calendar first quarter of 2009 was also very difficult but somewhat improved. The total Fund had a loss of 7.3%, which was better than the benchmark loss of 8.9%, but ranked in the fourth quartile of all funds (83rd percentile). In this quarter, domestic and international equities outperformed their respective benchmarks, as did private equity. Fixed income and real estate trailed their benchmarks.

During the calendar second quarter of 2009, the total Fund gain was 12.2%, and ranked in the 26th percentile. However, the total Fund gain fell below the benchmark return of 13.5% due to the poor results of private equity. All the other asset class segments outperformed their benchmarks.

As mentioned previously, the Retirement Association' total fund loss for fiscal year 2009 was 21.4%. This loss was larger than the total fund benchmark loss of 18.8%, ranking it in the 85th percentile of funds.

Investment Results

The Association's total domestic equity segment recorded a loss of 26.9% in fiscal year 2009, which is slightly more than the 26.6% loss of the Russell 3000. The median domestic equity manager posted a loss of 26.1%. Relative to the large cap core equity managers, both Delta Asset Management and Earnest Partners had smaller declines than the median large cap core manager. Delta's equity only loss of 26.0% ranked in the 35th percentile of the large cap core equity style group and Earnest's equity only portfolio loss of 24.8% ranked in the 23rd percentile. With a loss of 24.4% and a ranking in the 39th percentile of large cap growth managers, the Russell 1000 Growth index product managed by Mellon Capital did better than the median large cap growth manager. Mellon Capital's Russell 1000 Value Index product trailed the median large cap value manager. This portfolio ranked in the 73rd percentile of large cap value managers with an equity only loss of 28.7%.

Within the small capitalization arena, Wentworth Hauser, a small cap core portfolio manager, posted an equity only loss of 32.1%, ranking in the 83rd percentile of the small cap core style group. This performance was significantly below the 25.0% loss of the Russell 2000 Index and the 26.0% loss of the median small cap core equity manager. Wentworth generated the majority of this underperformance through its over-weight to energy.

NorthPointe had an extremely difficult start to its relationship with the Association, but has improved dramatically in the last two quarters of the 2009 fiscal year. For the 2009 fiscal year, the equity only loss of 32.9% ranks in the 83rd percentile of small cap growth managers. This manager remains on watch. Stock selection decisions were responsible for its underperformance.

For fiscal year 2009, the international equity segment of the Retirement Association had a loss of 30.2%, slightly better than the 31.0% loss of the MSCI EAFE Index and ranked in the 47th percentile. GMO's loss of 30.5% was slightly better than the EAFE Index loss of 31.0%, and ranked in the 52nd percentile of international equity managers. For fiscal year ending June 30, 2009, the small cap international equity portfolio managed by UBS had a loss of 37.1%, versus a loss of 28.1% for the EAFE Small Cap Index, and ranked in the 86th percentile of international equity managers. Finally, Earnest Partners international equity portfolio had a loss of 26.7%, which was less than the MSCI EAFE Index and ranked in the 30th percentile of international equity managers.

As was the case last year, the domestic fixed income segment pulled down total Plan results. Both Aberdeen and Lehman Brothers were terminated. Their assets were transitioned to a Barclays Aggregate Bond Index managed by Mellon Capital. The portion of the fixed income assets that could not be transferred into the Index was placed in a workout portfolio with Standish Mellon. This workout arrangement has been performing as expected and the size of the workout portfolio is shrinking. For the fiscal year, the bond segment lost 4.5% versus a benchmark return of +6.1%. Neither of the Association's bond managers successfully navigated the difficult bond market environment.

The UBS Realty fund had a loss of 23.0% in the fiscal year ending June 30, 2009, versus a loss of 19.6% for the NCREIF Property Index. It is our estimation that UBS Realty is properly managing its real estate fund and that relative results will improve in the coming fiscal year. European Investors global REIT portfolio had a loss of 26.4%, but this loss was significantly less than the FTSE EPRA/NAREIT Global Index loss of 37.2%. Results for European Investors have dramatically improved in the past two quarters.

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. Additionally, the commission recapture program has been reviewed and a new recapture broker has been added to the program. A significant percentage of equity trading is being executed through the program and at reasonable costs.

Performance Comparison

The last page of our letter provides a table comparing the Retirement Association's total fund returns to all funds. As stated above, the Association has underperformed the benchmark over the past four years. However, the Retirement Association has equaled the benchmark over the past five years, and exceeded it over the past seven and ten years. With the change in fixed income managers and implementation of the recently completed Asset Allocation Study, we expect the Association to once again outperform its benchmark and the median fund.

Summary

While much of this letter discusses difficult performance results, there has been a significant turnaround in the last quarter of the fiscal year 2009 and in the beginning of fiscal year 2010. We look for continued improvement across all fronts. We anticipate a significantly better 2010 fiscal year. Many of the managers are producing returns in line with or above their benchmarks. At all times, the performance calculations were in line with CFA performance standards and the Fund was managed in accordance with the Retirement Association's policies.

Sincerely,

William R. Cottle

William R. Cottle, CFA

In reporting investment performance, Milliman, Inc. calculates rates of return for MCERA monthly using statements provided by BNY Mellon Bank. Milliman, Inc. reconciles these rates of return with those provided by the investment managers and verifies that the managers' published returns comply with the CFA Institute's Global Investment Performance Standards. We monitor any discrepancies (due to computational differences, securities pricing services, etc.) between Milliman, Inc. and the investment managers but find that they generally do not tend to persist over time. All rates of return presented in this report are gross of investment management fees. All rates of return presented in this report for time periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based.

Milliman

Total Fund Returns vs. Universe
Periods Ending June 30, 2009

	Last Qtr	Last 2 Qtrs	Last 3 Qtrs	Last Year	Last Two Years	Last Three Years	Last Four Years	Last Five Years	Last Seven Years	Last Ten Years
Total Fund	12.2%	4.1%	-13.1%	-21.4%	-14.0%	-4.6%	-1.5%	0.6%	3.0%	2.3%
Ranking vs. Total Funds	26	57	86	85	85	85	84	82	72	63
Fund Benchmark	13.5%	3.4%	-12.0%	-18.8%	-12.5%	-3.9%	-1.1%	0.6%	2.9%	2.0%
Ranking vs. Total Funds	18	64	80	71	73	77	82	82	74	69

Offices in Principal Cities Worldwide

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

For the Year Ended June 30, 2009

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

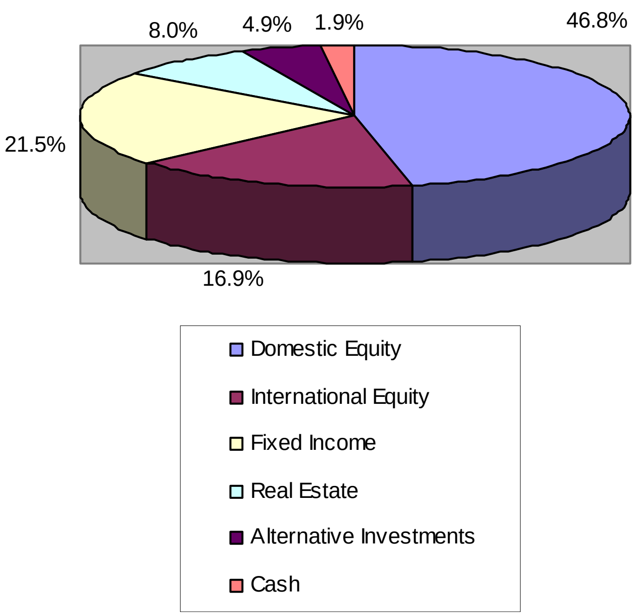
Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests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

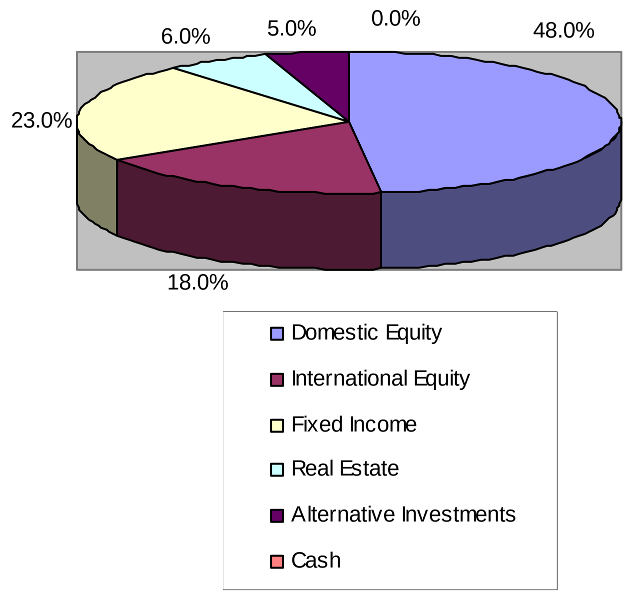
ASSET ALLOCATION INFORMATION

For the Year Ending June 30, 2009

JUNE 30, 2009 ALLOCATION



TARGET ALLOCATION
Asset allocation targets reflect the recommendation of the April 2007 asset alloction study



	June 30, 2009 Asset Allocation	Target Allocation		Allocation Range
Domestic Equity	46.8%	48.0%	+/-	5%
International Equity	16.9%	18.0%	+/-	4%
Fixed Income	21.5%	23.0%	+/-	5%
Real Estate	8.0%	6.0%	+/-	2%
Alternative Investments	4.9%	5.0%	+/-	2.%
Cash	1.9%	0.0%	+/-	2%
	100.0%	100.0%		

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY
For the Year Ending June 30, 2009

	Market Value	Percent of Total
DOMESTIC EQUITY:		
Large Cap Growth	$74,949,670	19%
Large Cap Value	59,694,845	15%
Small Cap Growth	13,256,411	3%
Small Cap Value	22,230,362	6%
Total Domestic Equity	170,131,287	43%
INTERNATIONAL EQUITY		
Large/Medium Core	34,048,512	9%
Large/Medium High Alpha	21,202,725	5%
Small Cap Growth	7,316,616	2%
Total International Equity	62,567,853	16%
FIXED INCOME		
Domestic Core	12,932,338	3%
Enhanced Index	67,388,232	17%
Total Fixed Income	80,320,570	20%
ALTERNATIVE INVESTMENTS	18,376,979	5%
REAL ESTATE		
Property Fund	25,426,248	7%
Global REIT	4,484,093	1%
Total Real Estate	29,910,341	8%
CASH AND SHORT-TERM INVESTMENTS	30,530,165	8%
Total Investments, Cash and Short-Term Investments	$391,837,196	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.	-25.1%	-18.3%	-6.8%	-3.2%	-1.6%	1.4%	-1.0%
Index: S&P 500	-26.2%	-19.9%	-8.2%	-4.3%	-2.2%	0.9%	-2.2%
Large Cap Value							
Earnest Partners, LLC	-23.6%	-19.3%	-7.8%	-4.3%	-1.1%	2.2%	-
Index: Russell 1000®	-26.7%	-19.9%	-8.2%	-4.2%	-1.9%	1.4%	-1.8%
Large Cap Index							
Mellon Capital Mgmt. Large Cap Growth	-24.5%	-15.8%	-5.5%	-2.7%	-1.8%	-	-
Index: Russell 1000® Growth	-24.5%	-15.7%	-5.4%	-2.7%	-1.8%	1.5%	-4.2%
Mellon Capital Mgmt. Large Cap Value	-28.9%	-24.0%	-11.0%	-5.7%	-2.1%	-	-
Index: Russell 1000® Value	-29.0%	-24.1%	-11.1%	-5.8%	-2.1%	1.1%	-0.2%
Small Cap Growth							
NorthPointe Asset Management	-32.6%	-	-	-	-	-	-
Index: Russell 2000 Growth	-24.8%	-18.1%	-7.8%	-2.7%	-1.3%	3.1%	-0.9%
Small Cap Value							
Wentworth, Hauser & Violich	-31.5%	-19.3%	-7.1%	-0.5%	3.6%	7.1%	10.1%
Index: Russell 2000	-25.0%	-20.7%	-9.9%	-4.3%	-1.7%	2.7%	2.4%
TOTAL DOMESTIC EQUITY	**-26.9%**	**-19.7%**	**-8.1%**	**-4.0%**	**-1.5%**	**2.1%**	**-0.7%**
INDEX: RUSSELL® 3000	**-26.6%**	**-19.9%**	**-8.4%**	**-4.2%**	**-1.8%**	**1.5%**	**-1.5%**
INTERNATIONAL EQUITY							
GMO	-30.5%	-	-	-	-	-	-
Earnest Partners, LLC	-26.7%	-	-	-	-	-	-
UBS Global Small Cap	-37.1%	-	-	-	-	-	-
TOTAL INTERNATIONAL EQUITY	**-30.2%**	**-19.3%**	**-6.2%**	**0.9%**	**3.1%**	**4.8%**	**3.1%**
INDEX: MSCI EAFE	**-31.0%**	**-21.2%**	**-7.5%**	**0.1%**	**2.8%**	**5.3%**	**1.6%**
FIXED INCOME							
Mellon Capital Management	-	-	-	-	-	-	-
Standish Mellon Global Solutions	-	-	-	-	-	-	-
TOTAL FIXED INCOME	**-4.5%**	**-0.8%**	**1.5%**	**1.0%**	**2.2%**	**3.1%**	**4.7%**
INDEX: BARCLAYS U.S. AGGREGATE	**6.1%**	**6.6%**	**6.4%**	**4.6%**	**5.0%**	**5.1%**	**6.0%**
REAL ESTATE							
UBS Trumbull Property Fund	-23.0%	-10.0%	-1.0%	2.9%	6.3%	7.4%	8.1%
European Investors	-26.4%	-	-	-	-	-	-
TOTAL REAL ESTATE COMPOSITE	-23.5%	-11.3%	-2.1%	2.1%	5.6%	7.0%	7.8%
INDEX: NCRIEF PROPERTY INDEX	**-19.6%**	**-6.3%**	**1.0%**	**5.1%**	**7.6%**	**8.1%**	**8.1%**
ALTERNATIVE INVESTMENTS**							
Invesco Private Capital	-14.4%	2.2%	7.5%	4.9%	-	-	-
Adams Street Partners, LLC	-19.7%	-4.0%	2.8%	-	-	-	-
Pantheon Ventures, Inc.	-15.1%	-0.2%	2.3%	-	-	-	-
Pantheon Secondary	-10.0%	12.7%	-	-	-	-	-
TOTAL ALTERNATIVE INVESTMENTS	**-14.4%**	**2.3%**	**6.2%**	**4.0%**	-	-	-
INDEX: S&P + 5.00%	**-22.5%**	**-15.9%**	**-3.6%**	**0.5%**	**2.6%**	**6.0%**	**2.7%**
TOTAL FUND*	**-21.4%**	**-14.0%**	**-4.6%**	**-1.5%**	**0.6%**	**3.0%**	**2.3%**
TOTAL FUND CUSTOM INDEX*	**-18.8%**	**-12.5%**	**-3.9%**	**-1.1%**	**0.6%**	**2.9%**	**2.0%**

*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, 2009

PAR	BONDS	FAIR VALUE
158,968	U.S. TREASURY NOTE 3.875% DUE 5/15/2010	$288,852
434,314	WAMU MTG P/T 07-Hyy CL 4-A1	281,883
439,179	BEAR STEARNS ARM 07-4 CL 22A1	276,384
490,000	WELLS FARGO MBS 06 AR11A6	275,287
267,450	WACHOVIA AUTO OWNER 06 A A-4	273,238
295,009	JP MORGAN CHASE 07-LDP10 A1S	271,969
495,000	WELLS FARGO MTG 06-AR8 CL 3A2	267,246
480,000	JP MORGAN MTG TR 2006 A1 2A4	265,714
375,000	WELLS FARGO MTG 05-AR13 CL A-1	265,260
308,293	WELLS FARGO MTG 2006-3 CL A1	254,623
		$2,720,456

SHARES	STOCKS	FAIR VALUE
33258	EXXON MOBIL CORP	$2,325,067
64744	JPMORGAN CHASE & CO COM	2,208,418
20400	IBM CORP COM	2,130,168
126000	INTEL CORP	2,093,575
74600	MICROSOFT CORP COM	1,773,242
26600	PROCTOR & GAMBLE CO COM	1,359,260
9000	GOLDMAN SACHS GROUP INC COM	1,326,960
53100	AT&T INC COM	1,319,004
26700	WAL MART STROES INC COM	1,293,348
22100	JOHNSON & JOHNSON COM	1,255,280
		$17,084,322

A complete list of portfolio holding is available upon request.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND LIST OF INVESTMENT SERVICE PROVIDERS

For the Years Ended June 30, 2009 and 2008

FIXED INCOME

Mellon Capital Management
Standish Global Workout Solution

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, Ban Otterloo & Co., LLC
Earnest Partners, LLC

PRIVATE EQUITY

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

COMMISSION RECAPTURE BROKERS

Lynch, Jones & Ryan
Capital Institutional Services, Inc.

INVESTMENT MANAGERS' FEES	2009	2008
Equity Managers		
Domestic	$687,581	$1,032,015
International	205,173	183,142
Total Equity Managers' Fees	892,754	1,215,157
OTHER INVESTMENT MANAGERS' FEES		
Fixed Income Fees	172,878	247,799
Alternative Investment Managers	90,000	90,000
Real Estate Fees	252,430	406,065
Total Other Investment Managers' Fees	515,308	743,864
Total Investment Managers' Fees	$1,408,062	$1,959,021
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$154,874	$150,880
Investment Custodial Fees	182,838	206,599
Other Investment Service Fees	107,051	1,232,094
Total Other Investment Service Fees	444,763	1,589,573
Total Investment Managers' and Other Service	$1,852,825	$3,548,594

Actuarial Section

The cycle of opportunity and growth has driven the economic success of this country. People, businesses and governments are looking toward sustainable solutions that will simultaneously allow continued growth while improving the quality of life. At this current crossroad, the nation's economy — and its environment — depend on it.

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Actuary's Certification Letter

January 26, 2009

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

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

Members of the Board:

Buck Consultants, LLC is the Consulting Actuary for the Merced County Employees' Retirement Association. Actuarial valuations are completed annually as of June 30 of each year. The date of the most recent actuarial valuation was June 30, 2008. 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, 2008, the remaining amortization period for the UAAL was 16 years. The funding objective of the Association is to establish contribution rates that, over time, will remain as a level percentage of payrolls and will fully fund the liability for each participant by the participant's retirement date, unless Association benefit provisions are changed.

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

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by Buck as being appropriate for the valuation and Buck is solely responsible for the trend schedules presented in the financial section of the CAFR. An analysis of the Association's noneconomic experience 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)

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS

A. Economic Assumptions

The following economic assumptions and non-economic assumptions were recommended by the actuary and adopted by the Board of Retirement as of the most recent actuarial valuation (dated June 30, 2008):

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, 2008.

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, 2008.

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 16-year period from June 30, 2008.

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, 2008.

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, 2008.

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
07/01/2003	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%
07/01/2008	General	1921	$92,116,000	$47,952	7.76%
	Safety	339	$17,137,000	$50,552	5.20%
	Total	2,260	$109,253,000	$48,342	7.41%

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2008.

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
6/30/03	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
6/30/08	1,620	105	$2,757	67	$902	1658	$34,603	8.74%	$20,870

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
6/30/03	$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%
6/30/08	$66,865	$370,764	$254,623	$692,252	$488,347	100%	100%	20%

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)
6/30/03	$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)
6/30/08	$48,840	$(14,186)	$34,654	N/A	N/A	$34,654

Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 2008.

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Statistical Section

We have seen the development of automobiles and fuel for automobiles that are more friendly to the environment. Robust markets for alternate fuels have also grown. Policy makers need to recognize that a robust market can also be developed to produce and process energy, electricity, and fuel with less impact on the environment.

Ultimately, it is about all of us taking responsibility for our environment and the impact we individually make on it.

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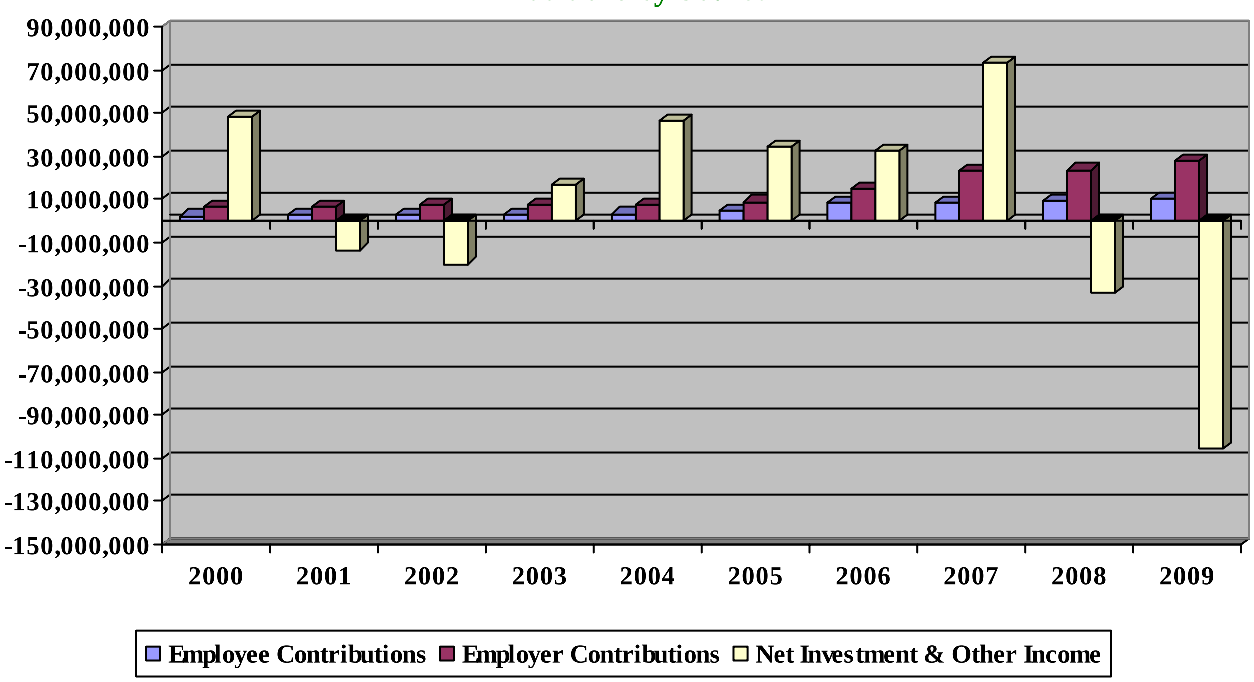
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ADDITIONS BY SOURCE

Fiscal Year Ending	Employee Contributions	Employer Contributions		Employer % of Covered Payroll	Net Investment Income and Other Income		Total
6/30/00	$ 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)
6/30/09	$ 9,916,305	$ 27,882,650	**	23.42%	$(105,689,276)		$(67,890,321)

*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.

Additions by Source

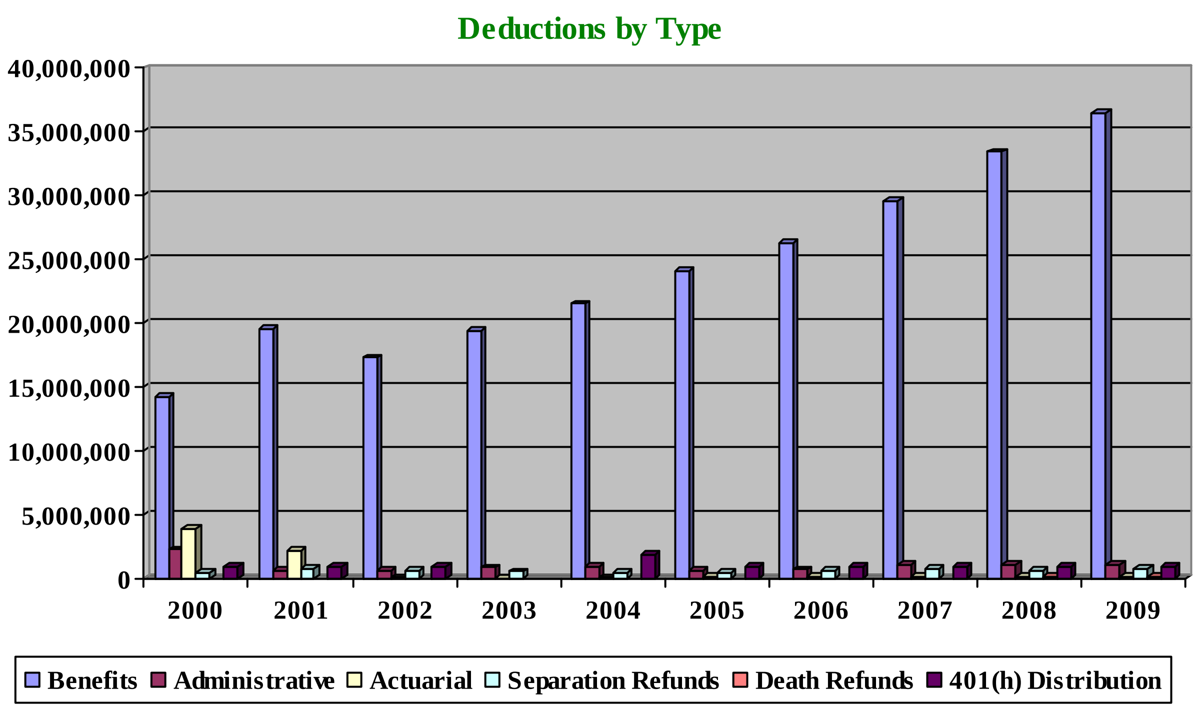


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401 (h) Distribution to County	Total
6/30/00		$ 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
6/30/09		$ 36,478,886	$ 1,005,060	$ 61,795	$ 683,528	$ 77,275	$ 850,000	$ 39,156,544

*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 ASSOCIATION
SCHEDULE OF CHANGES IN NET ASSETS

(Amounts expressed in thousands)

Additions	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Employee contributions	$9,916	$9,358	$8,755	$8,222	$4,585
Employer contributions	27,883	23,751	23,232	14,750	8,931
Net investment income	(105,689)	(33,797)	73,614	32,191	34,840
Total additions	(67,890)	(688)	105,601	55,163	48,356
Deductions					
Benefits paid	36,479	33,394	29,578	26,264	24,070
Administrative expenses	1,005	1,030	1,014	649	602
Actuarial expenses	62	54	41	48	62
Refunds	761	653	704	602	409
401(h) distribution	850	850	850	850	850
Total deductions	39,157	35,981	32,187	28,413	25,993
Change in net assets	($107,047)	($36,669)	$73,414	$26,750	$22,363
Net asset held in trust at beginning of the year	**$482,642**	**$519,311**	**$445,897**	**$419,147**	**$396,784**
Net asset held in trust at end of the year	**$375,595**	**$482,642**	**$519,311**	**$445,897**	**$419,147**

Additions	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00
Employee contributions	$3,348	$3,298	$3,187	$3,043	$2,436
Employer contributions	7,269	7,201	7,731	6,927	6,259
Net investment income	46,098	16,957	(19,790)	(13,299)	35,948
Total additions	56,715	27,456	(8,872)	(3,329)	44,643
Deductions					
Benefits paid	21,499	19,346	17,265	19,521	14,255
Administrative expenses	830	820	586	532	436
Actuarial expenses	-	-	7	44	74
Refunds	349	498	625	681	466
401(h) distribution	1,759	-	851	851	770
Total deductions	24,437	20,664	19,334	21,629	16,001
Change in net assets	$32,278	$6,792	($28,206)	($24,958)	$28,642
Net asset held in trust at beginning of the year	**$364,506**	**$357,714**	**$385,920**	**$410,878**	**$382,236**
Net asset held in trust at end of the year	**$396,784**	**$364,506**	**$357,714**	**$385,920**	**$410,878**

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollar Amounts in Thousands)

	2009*	2008*	2007	2006	2005	2004	2003	2002	2001	1999
Service Retirement										
Payroll:										
General	$25,086	$22,868	$21,924	$18,081	$16,378	$14,977	$13,197	$11,238	$11,158	$9,237
Safety	4,720	4,139	3,813	3,448	3,030	2,506	2,349	1,908	1,810	1,547
Total	$29,806	$27,007	$25,737	$21,529	$19,408	$17,483	$15,546	$13,146	$12,968	$10,784
Disability Retiree										
Payroll										
General	$2,103	$1,975	$1,555	$1,527	$1,478	$1,443	$1,388	$1,384	$1,339	$1,154
Safety	2,396	2,312	1,907	1,913	1,816	1,769	1,572	1,483	1,362	1,122
Total	$4,499	$4,287	$3,462	$3,440	$3,294	$3,212	$2,960	$2,867	$2,701	$2,276
Beneficiary/Survivors										
Payroll										
General	$1,574	$1,686	$1,957	$1,734	$1,613	$1,511	$1,347	$1,211	$1,130	$908
Safety	380	414	667	594	551	575	515	449	439	430
Total	$1,954	$2,100	$2,624	$2,328	$2,164	$2,086	$1,862	$1,660	$1,569	$1,338
Total Payroll Expense										
Payroll										
General	$28,763	$26,529	$25,436	$21,342	$19,470	$17,931	$15,932	$13,833	$13,627	$11,299
Safety	$7,496	6,865	6,387	5,955	5,397	4,849	4,437	3,840	3,609	3,099
Total	$36,259	$33,394	$31,823	$27,297	$24,867	$22,780	$20,369	$17,673	$17,236	$14,398
Death Benefits										
General	$179	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Safety	41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$220	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Separation Refund Expense										
General	$562	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Safety	122	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$684	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Death Refund Expense										
General	$ 77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Safety	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* 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. In 2008 MCERA is calculating this information as actual benefits distributed. In 2009 MCERA added separation refunds, death refunds and death benefits. Prior to 2009 this information was not separately identified. The information was compiled from County of Merced Information Systems.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

(Summary of Monthly Allowances Being Paid—As of June 30, 2009)

	GENERAL MEMBERS		SAFETY MEMBERS		TOTAL	
	Number	Average Monthly Allowances	Number	Average Monthly Allowances	Number	Average Monthly Allowances
Service Retirement	1,164	$ 1,792	143	$2,751	1,307	$ 1,897
Disability	143	$ 1,226	91	$2,195	234	$ 1,603
Beneficiaries/Survivors	147	$ 893	25	$ 1,267	172	$ 947
Total Retired Members	1,454	$ 1,646	259	$ 2,412	1,713	$ 1,761

This schedule excludes separation refunds and death refunds

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Service Retirements	1,307	1,258	1,209	1,119	1,073	1,012	966	911	826	809
Disability Retirements	234	233	222	227	232	233	180	225	108	207
Beneficiaries and Survivors	172	172	188	175	171	171	202	158	145	184

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	1999
GENERAL										
Number	1,454	1,412	1,381	1,294	1,260	1,228	1,147	1,108	1,079	1,008
Basic Annual Allowance	$22,771	$22,592	$20,021	$16,553	$ 15,000	$ 13,786	$ 12,119	$ 10,298	$ 10,383	$ 8,731
Average Basic Monthly Allowance	$1,305	$1,333	$1,206	$1,066	$ 992	$ 936	$ 880	$ 775	$ 802	$ 722
Total Annual Allowance	$28,712	$28,019	$25,435	$21,341	$19,470	$17,931	$ 15,932	$ 13,833	$ 13,627	$ 11,299
Average Total Monthly Allowance	$1,646	$1,654	$1,533	$1,374	$1,288	$1,217	$ 1,158	$ 1,040	$ 1,052	$ 934
SAFETY										
Number	259	251	238	228	217	213	201	187	180	171
Basic Annual Allowance	$5,746	$5,262	$4,807	$4,508	$4,038	$3,597	$ 3,300	$ 2,818	$ 2,671	$ 2,373
Average Basic Monthly Allowance	$1,849	$1,747	$1,690	$1,648	$1,551	$1,407	$ 1,368	$ 1,256	$ 1,237	$ 1,156
Total Annual Allowance	$7,497	$6,878	$6,388	$5,956	$5,397	$4,849	$ 4,437	$ 3,840	$ 3,609	$ 3,099
Average Total Monthly Allowance	$2,412	$2,284	$2,246	$2,177	$2,073	$1,897	$ 1,840	$ 1,711	$ 1,671	$ 1,510
TOTAL										
Number	1,713	1,663	1,619	1,522	1,477	1,441	1,348	1,295	1,259	1,179
Basic Annual Allowance*	$28,517	$27,854	$24,828	$21,061	$19,038	$17,383	$ 15,419	$ 13,116	$ 13,054	$ 11,104
Average Basic Monthly Allowance	$1,387	$1,396	$1,277	$1,153	$1,074	$1,005	$ 953	$ 844	$ 864	$ 785
Total Annual Allowance**	$36,209	$34,897	$31,823	$27,297	$24,867	$22,780	$ 20,369	$ 17,673	$ 17,236	$ 14,398
Average Total Monthly Allowance	$1,761	$1,749	$1,637	$1,495	$1,403	$1,317	$ 1,259	$ 1,137	$ 1,141	$ 1,018

* Basic Annual Allowance excludes COLA and partial monthly payment/one-time catch up payment

** Total Annual Allowance excludes partial monthly payment/one-time catch up payment.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIRED MEMBERS BY TYPE OF RETIREMENT
As of June 30, 2009

		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	Opt 4
1 - 250	98	24	46	20	0	7	1	0	71	7	14	6	0
251 - 500	158	26	75	26	7	7	17	0	124	4	27	3	0
501 - 750	207	46	103	36	6	2	14	0	175	10	18	4	0
751 - 1,000	197	63	77	37	6	5	9	0	169	9	17	2	0
1,001 - 1,250	175	66	61	17	2	9	20	0	158	3	10	4	0
1,251 - 1,500	130	51	45	8	4	17	5	0	119	1	8	2	0
1,501 - 1,750	112	52	31	7	1	19	2	0	103	1	8	0	0
1,751 - 2,000	94	40	21	6	0	23	4	0	85	2	7	0	0
Over 2000	542	313	140	17	4	65	3	0	493	16	29	4	0
Total	1713	681	599	174	30	154	75	0	1497	53	138	25	0

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
Option 4—Multiple beneficiaries receive a designated percentage of a 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 07/01/2009 to 06/30/2008							
Average monthly benefit	$485	$1,020	$1,321	$3,992	$4,521	$4,022	$6,335
Average final average salary	$7,668	$4,285	$4,545	$7,526	$7,935	$5,455	$7,172
Number of retired members	5	9	21	11	14	10	12
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

Information compiled from the County of Merced, Information Systems.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET

For the Years Ending June 30

		2008	2007
	ASSETS		
1.	Total actuarial value of assets	$ 488,346,514	$ 484,450,302
2.	Present value of future contributions by members	50,043,253	47,091,293
3.	Present value of future employer contributions for normal cost	52,431,151	49,706,073
4.	Present value of other future employer contributions (UAAL)	203,905,703	171,964,612
5.	Total Actuarial Assets	$ 794,726,621	$ 753,212,280
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$ 370,764,441	$ 354,710,238
7.	Present value of service retirement allowances payable to presently active member and their survivors	295,719,233	274,035,931
8.	Present value of allowances payable to current and future vested terminated members and their survivors	56,891,283	71,725,115
9.	Present value of disability retirement allowances payable to presently active members and their survivors	27,916,203	26,142,627
10.	Present value of death benefits payable on behalf of presently active members	5,380,230	5,020,996
11.	Present value of members’ contributions to be returned upon withdrawal	19,619,323	17,643,783
12.	Special Reserves	18,435,908	3,933,590
13.	Total Actuarial Liabilities	$ 794,726,621	$ 753,212,280
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$ 794,726,621	$ 753,212,280
15.	Present value of future contributions by members and employers (items 2 and 3)	102,474,404	96,797,366
16.	Actuarial accrued liability (item 14 minus item 15)	692,252,217	656,414,914
17.	Actuarial value of assets	488,346,514	484,450,302
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$ 203,905,703	$ 171,964,612
19.	Funded Ratio	70.5%	73.8%

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)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
County of Merced										
General Members	1,780	1,852	1,848	1,853	1,931	1,882	1,928	2,060	1,874	1,821
Safety Members	359	352	328	316	296	274	262	253	234	233
Total County of Merced	2,139	2,204	2,176	2,169	2,227	2,156	2,190	2,313	2,108	2,054
Percentage of Membership	93.87%	94.19%	94.69%	95.22%	99.87%	99.91%	99.91%	99.87%	99.86%	99.86%
Participating Agencies										
Merced Cemetery District	3	3	3	3	3	2	2	3	3	3
Percentage of Membership	.13%	.13%	.13%	.13%	.13%	.09%	.09%	.13%	.14%	.14%
Superior Court of California	137	133	119	106	-	-	-	-	-	-
Percentage of Membership	6.01%	5.68%	5.17%	4.65%	-	-	-	-	-	-
Total Participating Agencies	140	136	122	109	3	2	2	3	3	3
Total Active Membership										
General	1,920	1,988	1,970	1,962	1,934	1,884	1,930	2,063	1,877	1,824
Safety	359	352	328	316	296	274	262	253	234	233
Total	2,279	2,340	2,298	2,278	2,230	2,158	2,192	2,316	2,111	2,057