Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2010 and 2009

Issued By
Maria L. Arevalo
Plan Administrator

Gale Garcia, RPA
Fiscal Supervisor
And
David Liu, Accountant

MCERA

Merced County Employees' Retirement Association
A Pension Trust Fund of the County of Merced, California
3199 M Street
Merced, California 95348

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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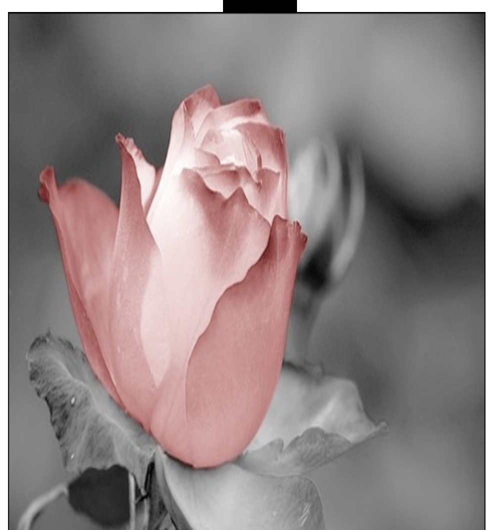


Maria L. Arevalo
Plan Administrator

LETTER OF TRANSMITTAL

October 14, 2010

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, 2010 and 2009. 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 60th 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 supplemental schedules and other supplemental 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, EFI Actuaries, 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. The financial and operating information provides contextual data for MCERA's Net Assets, benefits, refunds and different types of retirement benefits.

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 for the County of Merced, Merced Cemetery District and the Joint Powers Authority for Merced County 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 two alternates; 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, 2010 and 2009 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 years.

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, 2010, MCERA's net assets held in trust totaled approximately $420 million reflecting a increase of approximately $44 million (approximately 12%) in the net assets held in trust at the end of the previous fiscal year. This was primarily attributable to an increase in investment income and the appreciation in fair value of investments held by MCERA as explained more fully in the report of MCERA's investment consultant, which is located in the Investment Section of this CAFR.

Actuarial Funding Status

MCERA's funding objective is to meet long-term benefit promises by maintaining a well-funded plan status and obtaining optimum investment returns consistent with the assumption of prudent risk. The 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, 2009, found the retirement system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 59.7%. This decrease in the funding ratio (down from 70.5% as of June 30, 2008) was primarily due to MCERA's increase in unfunded actuarial accrued liabilities caused by 2008/2009 investment losses. Deferred losses under the smoothing methodology exceeded the deferred gains by $143 million as of June 30, 2009.

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, Inc.

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, 2010, MCERA's investment return was positive 13.4% and the annualized rate of return over the last three and five years was negative 5.7% and positive 1.3%, respectively.

Service Efforts and Accomplishments

- Completed contracts with CPAS Systems for the implementation of MCERA's new Pension Administration System and conducted initial kick off meeting of the project.
- Participated in the training with other 1937 Act retirement systems for the IRS Tax Determination Letter and initiated the preparation of the application process.
- Approved the addition of the Joint Powers Authority as a new district and member of MCERA.
- Per Government Code Section 31520.5, appointed the first alternate retired member representative to the Retirement Board of Trustees.
- Implemented VSP Vision Insurance Plan for Retired members.
- Issued RFP and retained new actuarial firm, EFI Actuaries, to perform actuarial services and an audit of MCERA's 2008 valuation.
- Adopted new amortization period, new corridor and new employer contribution rate.
- Retained Bernstein, Litowitz, Berger & Grossman LLP as portfolio monitoring and securities litigation counsel.
- Implemented two new asset allocations to High Yield Bonds and TIPS and adopted new asset allocation targets.
- Conducted a fixed income manager search and transitioned funds from Mellon Capital EB Aggregate Bond Index to two new fund managers, Barrow, Hanley, Mewhinney & Strauss, Inc. for a core fixed income and TIPS mandate and AXA Investment Management for a high yield bond mandate.
- Updated and amended the MCERA Investment Objectives and Policy Statement to include, among other changes, a description of new Asset Classes, requirements for the disclosure of any relationships with Placement agents and other third party agents and replaced the benchmark for the UBS Trumbull Property Fund portfolio.
- Per the requirements of AB 1584, adopted Resolution 2010-02, Policy for Placement Agent and other third party fee disclosures.
- Conducted on site Due-diligence meetings with fund managers UBS, AXA Management, GMO, and Barrow Hanley.

LETTER OF TRANSMITTAL
(Continued)

- Adopted Resolution 2010-01, MCERA COLA Policy, pertaining to the posting of positive or negative COLA amounts to retiree member pensions.

- Adopted and implemented a COLA of 2.5% for April 1, 2010 for retired Tier 1 members.

- Amended and adopted new Disability Hearing Regulations.

- For the sixth consecutive year, MCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MCERA's 2008-2009 Comprehensive Annual Financial Report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its CAFR for the fiscal year ended June 30, 2009. 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 sixth Certificate of Achievement for Excellence in Financial Reporting. We believe our current report continues to conform to the Certificate of Achievement program requirements.

Acknowledgements

The compilation of this report reflects the dedicated efforts of MCERA staff and in particular, MCERA's 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,

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, 2009

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

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

President

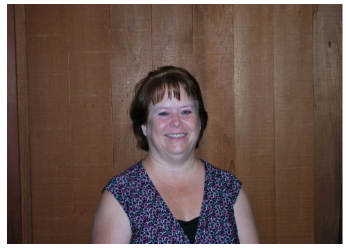
Jeffrey R. Emer

Executive Director

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement at June 30, 2010

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



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

Michael Rhodes
Elected by General Members
Term Expires 06-30-12

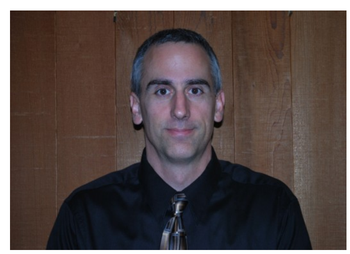
Alfonso Peterson
Appointed by the Board of Supervisors
Term Expires 12-31-11

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

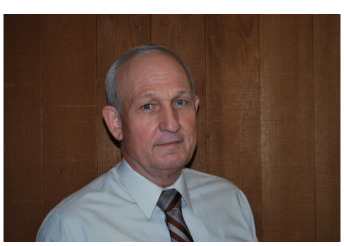
Karen Adams
County Treasurer
Ex-officio Member

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

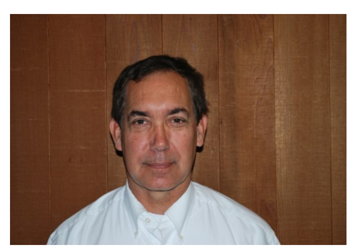
David Ness, Chair
Appointed by the Board of Supervisors
Term Expires 06-30-12



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



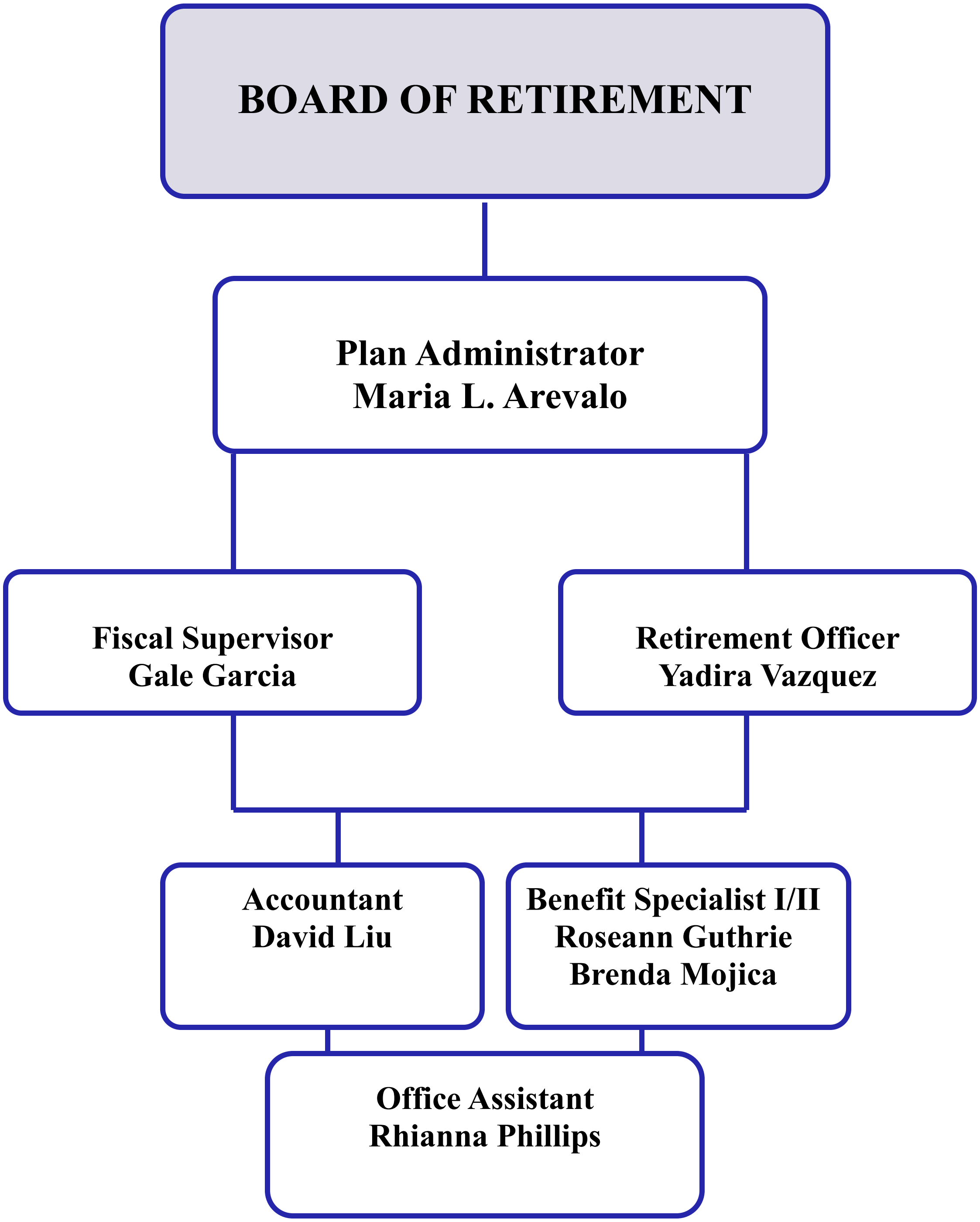
Ronald Kinchloe, Alternate
Elected by Retired Members
Term Expires 12-31-11



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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Administrative Organization Chart at June 30, 2010



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants at June 30, 2010

CONSULTING SERVICES

INVESTMENT CONSULTANT
Milliman, Inc., William Cottle

ACTUARY
EFI Actuaries
Graham A. Schmidt
Robert T. McCory

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
Barrow, Hanley, Mewhinney & Strauss, Inc.
AXA Investment Managers

REAL ESTATE
UBS Global Asset Management
European Investors

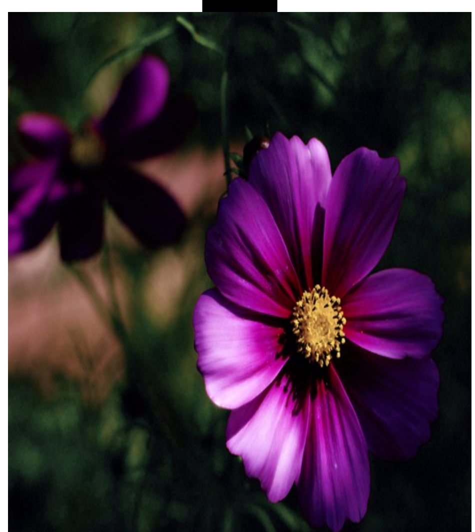
DOMESTIC EQUITY
Delta Asset Management
Earnest Partners, LLC
Mellon Capital Management
Wentworth, Hauser & Violich

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.

Financial Section



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, 2010 and 2009, 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, 2010 and 2009, 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 5, based on the most recent actuarial valuation as of June 30, 2009, the Association's independent actuaries determined that, at June 30, 2009, the actuarial accrued obligation exceeded the actuarial value of its assets by $327 million. The most recent actuarial value of assets as of June 30, 2009 does not include deferred investment losses that will be recognized in the future.

In accordance with *Government Auditing Standards*, we have issued our report dated October 6, 2010, 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, the Schedule of Funding Progress and the Schedule of Employer Contributions as listed in the table of contents 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 financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 6, 2010

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, 2010 and 2009. 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 $420 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 increased by $44.1 million (an increase of 11.7%). This increase essentially reflects the increase of investment income and the fair market value of investments.

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2009, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 59.7%. In general, this indicates that for every one dollar of benefits due, MCERA has approximately $0.60 of assets available for payment.

- Additions to Plan Net Assets increased by $155,663,432 or 229.3% from negative $67,890,321 in the prior fiscal year to a positive $87,773,111 in the current fiscal year. This increase is primarily due to the increase in net investment income.

- Deductions in Plan Net Assets increased from $39,156,544 in the last fiscal year to $43,689,423 in the current fiscal year (an increase of approximately 11.6%). 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, 50, 51 and 53. 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 MCERA's net assets held in trust to pay pension benefits is generally considered to be a good measure of 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 supplemental information concerning MCERA's funding status. The ***Required Supplemental 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 Supplemental Schedules*** provide information to help promote understanding of the changes in the funding status of the plan over time. Finally, the ***Other Supplemental 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 $419,678,393. 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, 2010 totaled $419.7 million which is $44.1 million or 11.7% more than the prior year. This result essentially reflects the increase of current and other assets of 19.5% or $6.3 million and the increase of investments at fair value of 11.6% or $42 million, offset by the increase in the total liabilities of 25.5% or $4.6 million.

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).

The global economy and stock markets began 2010 with confidence as the worst of the financial crisis and the Great Recession seemed to be behind us. However, by mid-April, the markets stalled with the Greek debt crisis, which shed light on the massive levels of sovereign debt, not only in the euro zone, but also in many developed countries. Near-term economic expectations softened and the risks to the growth outlook become tilted more to the downside limiting the pace of the recovery. There continues to be challenges to the fundamental strength of the U.S. economy. The list of near-term economic headwinds is long: lingering problems in residential and commercial real estate; tight credit; the consequences of tighter state and local budgets; the federal fiscal stimulus ramping down; the Bush tax cuts expiring at the end of this year; and tighter budgets overseas limiting global growth. Still, the U.S. recovery continued during the second quarter of this year with more business hiring workers and fewer cutting jobs, extremely low long-term interest rates, and manufacturers reporting the strongest increase in demand and production in nearly six years. The economy recovers from recessions in fits and starts with the early stages of expansion typically uneven across time and sectors. The consensus view is that we are in the midst of a U-shaped recovery (a gradual rise back to its previous peak) where the economic growth may be painfully slow in the quarters ahead. More detailed information is available in the investment section.

MCERA's Net Assets as of June 30, 2010 and 2009

	2010	2009	Increase/ (Decrease) Amount	% Change
Current and other assets	$38,482,542	$32,212,998	$6,269,544	19.5%
Investments at fair value	403,258,304	361,307,031	41,951,273	11.6%
Capital assets/prepaid insurance	445,889	8,785	437,104	4975.6%
Total assets	442,186,735	393,528,814	48,657,921	12.4%
Current liabilities	22,508,342	17,934,109	4,574,233	25.5%
Total liabilities	22,508,342	17,934,109	4,574,233	25.5%
Net assets	$419,678,393	$375,594,705	$44,083,688	11.7%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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		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)%

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 increased by $23,910,891 in the current fiscal year as a result of the increase in the financial markets.

MCERA's Reserves as of June 30, 2010, 2009, and 2008:

	2010	2009	2008
Active members	$70,916,880	$70,101,050	$66,865,146
Employer advance	19,074,045	44,220,349	53,533,258
Retired members	325,294,825	292,975,830	286,304,416
Interest fluctuation	-	-	25,444,465
Market value fluctuation	(24,611,312)	(48,522,203)	30,311,934
Ad-Hoc COLA	1,815,958	1,711,303	1,746,443
Contingency	25,804,407	12,874,786	15,352,318
Internal Revenue Code (IRC) Section 401(h)	1,383,590	2,233,590	3,083,590
Total reserves at fair value	$419,678,393	$375,594,706	$482,641,570

MCERA's Activities

An upturn in the investment markets resulted in a June 30, 2010 fiscal year increase of $44.1 million in MCERA's net assets (an increase of approximately 11.7% from the previous year). The key elements of this increase 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 $87,773,111. Overall, additions for the fiscal year increased $155,663,432 from the fiscal year ended June 30, 2009 primarily due to investment fair value gains. In the 2008-2009 fiscal year, investment losses resulted in a negative $67,890,321 in total additions, which was a decrease of $67,202,060 from the total revenue in the 2007-2008 fiscal year. The Employer's contributions rate increased 1.71% over the 2008-2009 fiscal year due to the change in actuarial assumptions and experience of the System. The 1.71% contribution rate change resulted in increased contributions of $1.3 million or 4.5%. Employer and employee contributions increased in the 2008-2009 fiscal year due to the actuarial assumptions and experience of the system. The increase in 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, 2010 and 2009)

	2010	2009	Increase (Decrease) Amount	% Change
Employer contributions	$29,136,704	$27,882,650	$1,254,054	4.5%
Member contributions	9,864,161	9,916,305	(52,144)	(0.5)%
Net investment income/(loss)	48,772,246	(105,689,276)	154,461,522	146.1%
Total additions	$87,773,111	($67,890,321)	$155,663,432	229.3%

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 income/(loss)	(105,689,276)	(33,797,400)	(71,891,876)	212.7%
Total additions	($67,890,321)	($688,261)	($67,202,060)	9764.0%

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 $43,689,423 an increase of 11.6% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew approximately 12.2% or $4.5 million. Deductions for the 2008-2009 fiscal year totaled $39,156,544, an increase of 8.8% from the previous year. The increase in expenses for the 2008-2009 fiscal year was attributed primarily to the retiree payroll which grew approximately 9.2%.

Deductions from Plan Net Assets
(For the Years Ended June 30, 2010 and 2009)

	2010	2009	Increase (Decrease) Amount	% Change
Benefits paid	$40,929,109	$36,478,886	$4,450,223	12.2%
Administrative expenses	1,170,605	1,005,060	165,545	16.5%
Refunds of contributions	673,160	760,803	(87,643)	(11.5)%
401(h) distribution to County	850,000	850,000	-	0.0%
Actuarial expense	66,549	61,795	4,754	7.7%
Total deductions	$43,689,423	$39,156,544	$4,532,879	11.6%

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%
Actuarial expense	61,795	53,500	8,295	15.5%
Total deductions	$39,156,544	$35,980,922	$3,175,622	8.8%

Changes in Net Assets
(For the Years Ended June 30, 2010 and 2009)

	2010	2009	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$29,136,704	$27,882,650	$1,254,054	4.5%
Members contributions	9,864,161	9,916,305	(52,144)	(0.5)%
Net investment gain/(loss)	48,772,246	(105,689,276)	154,461,522	(146.1)%
Total additions	87,773,111	(67,890,321)	155,663,432	(229.3)%
Deductions				
Benefits paid	40,929,109	36,478,886	4,450,223	12.2%
Administrative expenses	1,170,605	1,005,060	165,545	16.5%
Actuarial expenses	66,549	61,795	4,754	7.7%
Refunds of contributions	673,160	760,803	(87,643)	(11.5)%
401(h) distribution to County	850,000	850,000	-	0.0%
Total deductions	43,689,423	39,156,544	4,532,879	11.6%
Change in net assets	44,083,688	(107,046,865)	151,130,553	(141.2)%
Net asset held in trust at beginning of the year	**$375,594,705**	**$482,641,570**	**($107,046,865)**	**(22.2)%**
Net assets held in trust at end of year	**$419,678,393**	**$375,594,705**	**$44,083,688**	**11.7%**

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

	2009	2008	Increase (Decrease) Amount	Increase (Decrease) Percent
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 income/(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%
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 assets 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)%**

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, CA., 95348.

Respectfully submitted,

Maria L. Areval
Plan Administrator

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF PLAN NET ASSETS
As of June 30, 2010 and 2009

	2010	2009
ASSETS		
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$1,066,978	$4,301,501
Cash invested with BNY Mellon	2,311,085	3,008,186
Other cash and cash equivalents with BNY Mellon	13,024,951	7,751,981
Securities lending collateral	18,538,246	15,468,497
Receivables:		
Bond interest	1,513,478	90,640
Stock dividends	157,968	168,439
Contributions	1,417,791	1,035,345
Securities sold	445,679	382,022
Other	6,366	6,387
Total receivables	3,541,282	1,682,833
Investments at fair value:		
U.S government and agency obligations	27,723,650	49,603,648
Domestic fixed income	113,115,686	12,771,437
Domestic fixed income (index funds)	-	17,945,486
Common stocks (domestic)	93,212,816	120,536,402
Common stocks (index funds)	34,406,700	49,594,885
Common stocks (international)	83,547,325	62,567,853
Real estate	29,408,722	29,910,341
Alternative investments	21,843,405	18,376,979
Total investments	403,258,304	361,307,031
Prepaid Expense	1,575	3,150
Capital assets: Net of accumulated depreciation of $68,219 and $66,593, respectively	444,314	5,635
Total assets	442,186,735	393,528,814
LIABILITIES		
Accounts payable	1,158,348	843,013
Securities lending obligation	18,538,246	15,468,497
Securities purchased	2,627,128	1,437,979
Unclaimed contributions	184,620	184,620
Total liabilities	22,508,342	17,934,109
Net assets held in trust for pension benefits	$419,678,393	$375,594,705

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, 2010 and 2009

	2010	2009
ADDITIONS		
Contributions:		
Employer	$29,136,704	$27,882,650
Plan members	9,864,161	9,916,305
Total contributions	39,000,865	37,798,955
Investment Income/(loss) from Investment Activities:		
Net appreciation/(depreciation) in fair value of investments	42,191,587	(115,316,309)
Investment income/(loss)	8,387,164	11,162,155
Other revenue	23,738	82,889
Less investment expenses	(1,904,976)	(1,745,774)
Net investment income/(loss)	48,697,513	(105,817,039)
Securities Lending Activities:		
Securities lending income	48,571	234,814
Securities lending expenses	26,163	(107,051)
Net securities lending income	74,734	127,763
Total net investment/(loss)	48,772,247	(105,689,276)
Total additions	87,773,112	(67,890,321)
DEDUCTIONS		
Benefits paid	40,929,109	36,478,886
Refunds of contributions	673,160	760,803
Administrative expense	1,170,605	1,005,060
Actuarial expense	66,549	61,795
401(h) distribution to County	850,000	850,000
Total deductions	43,689,423	39,156,544
Net increase/(decrease)	44,083,688	(107,046,865)
Net assets held in trust for pension benefits at beginning of year	375,594,705	482,641,570
Net assets held in trust for pension benefits at end of year	$419,678,393	$375,594,705

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 two 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 alternate retired member
7. One elected safety member
8. 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, Joint Powers Authority, 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, 2010 was as follows:

	General		Safety		
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total**
Vested	321	861	65	117	1,364
Non-vested	11	524	-	149	684
INACTIVE MEMBERS					
Defered Vested	117	87	4	8	216
Deferred Non-vested	4	89	-	13	106
Reciprocity	91	116	31	34	272
Unclaimed Members	8	25	-	-	33
Total active and inactive members	552	1,702	100	321	2,675
RETIRED MEMBERS					
Service retirements	1,173	75	161	2	1,411
Beneficiaries	135	5	21	0	161
Service connnected disability	63	5	81	7	156
Non-Service connected disability	61	9	4	-	74
Survivors	16	3	4	1	24
Total retired members	1,448	97	271	10	1,826

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	400	805	74	92	1,371
Non-vested	9	634	1	175	819
INACTIVE MEMBERS					
Deferred Vested	128	60	4	10	202
Deferred Non-vested	6	69	-	11	86
Reciprocity	98	111	37	34	280
Unclaimed members	8	35	-	1	44
Total active and inactive members	649	1,714	116	323	2,802
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

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, Joint Powers Authority, 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. The cost of living, or inflation rate, as measured by the Consumer Price Index (CPI) will increase at the rate of 4.5% per year
3. COLAs at the rate of 3.0% are assumed for Tier 1 members
4. 4.5% Base salary increases
5. Active, retired and disabled member mortality rates.

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. mortality
    4. service and non service connected disability
- The mortality rates to be experienced among retired persons

Economic assumptions

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

As of the June 30, 2009 and 2008 actuarial valuation report:

	2009	2008
Inflation Rate	4.50%	4.50%
Investment Return Assumption Rate	8.16%	8.16%
Projected Salary Increases	4.50%	5.50%
Merit and Longevity Increase	Age-based	1.00%
Annual Required Contribution (ARC)	$27.9 million	$23.8 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 Supplemental 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 consists of realized and unrealized gains and losses on those 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 $1,795,936. MCERA's administrative costs for the fiscal year ending June 30, 2010 and 2009 are $1,170,605 and $1,005,060, respectively.

E. Required Supplemental 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. MCERA's pension administration system (intangible assets) will be amortized over ten 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 estimates 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. 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 System presents, in the Statements of Changes in Plan Net Assets, the net appreciation (depreciation) in fair value of investments, which consists of realized and unrealized gains and losses on those investments.

J. 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.

K. Reclassification

Certain reclassifications have been made to the prior year balances as of and for the year ended June 30, 2009, to be consistent with the presentation as of and for the year ended June 30, 2010.

L. Implementation of New Accounting Pronouncement

Effective July 1, 2009, MCERA implement GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* for the fiscal year ended June 30, 2010.

GASB Statement No. 51 defines intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful live extending beyond a single reporting period. The standard requires that qualifying intangible assets such as computer software, be reported as capital assets, and provides specific guidance on recognizing internally generated computer software.

GASB Statement No. 53 establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. This statement requires most derivative instruments to be measured at fair value and reported on the statement of net assets. GASB Statement No. 53 also establishes disclosure requirements, which include summary information of derivative instruments and the government's exposure to financial risks. Implementation of this standard did not have any impact on MCERA's financial reporting and disclosure as MCERA did not have any derivative instruments as defined by GASB Statement No. 53.

3. CASH AND INVESTMENTS

A. Investment Stewardship

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

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes MCERA's investment objectives and defines the principal duties of the Retirement Board, the custodian bank and the investment managers. The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. MCERA currently employs external investment managers to manage its assets subject to the provisions of the Investment Policy.

B. Cash and Short-Term Investments

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

(1) *County Treasury*

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

Interest on funds in the County investment pool is computed quarterly based on the average daily balance. A deposit in the pooled account approximates fair value. The fair value of the System's cash invested with the County Treasurer totaled $1,066,978 and $4,301,501 at June 30, 2010 and 2009, 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, 2010 and 2009 are presented as follows:

	Fair Value	
Cash and Short-term Investments	**2010**	**2009**
Funds pooled with County Treasury	$1,066,978	$4,301,501
Funds pooled with BNY Mellon	2,311,085	3,008,186
Other cash and cash equivalents with BNY Mellon	13,024,951	7,751,981
Securities lending collateral	18,538,246	15,468,497
Total cash and short-term investments	34,941,260	30,530,165
Investments		
U.S. Government and agency obligations	27,723,650	49,603,648
Domestic fixed income	113,115,686	12,771,437
Domestic fixed income (Index funds)	-	17,945,486
Common stocks (domestic)	93,212,816	120,536,402
Common stocks (index funds)	34,406,700	49,594,885
Common stocks (international)	83,547,325	62,567,853
Real estate	29,408,722	29,910,341
Alternative investments	21,843,405	18,376,979
Total investments	403,258,304	361,307,031
Total	$438,199,564	$391,837,196

(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-

All participants in the pool proportionately share earnings and losses. Balances in the pooled accounts approximate fair value. At June 30, 2010 and 2009, short-term investments and pooled fund balances were $15,336,036 and $10,760,167, 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. BNY Mellon continually monitors the traders booking the loans and the reinvestment team using the collateral.

Mellon Global Securities Lending short-term investment pools as of June 30, 2010 and 2009:

Date	Weighted Average Maturity	Average Duration	Mis-Match	Credit Quality (Par Value Reported in Billions) Aaa	Aa1	Aa2	Aa3	A1	A2	A3	NR*
June 30, 2010	36 days	69 days	36 days	$1,150.0	$1,002.3	$1,035.5	$936.7	$7,699.7	$66.0	-	$2,473.8
June 30, 2009	33 days	92 days	33 days	$2,337.5	$1,789.7	$277.7	$1,838.1	$1,450.3	$1,423.9	$48.9	$7,564.9

*NR represents those securities that are not rated.

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, 2010 and 2009, 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, 2010 the fair value of securities on loan and the total cash and non-cash collateral received for those securities on loan were $18,158,662 and $18,668,217. 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 $74,734 for the year ended June 30, 2010.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Corporate	$1,422,881	$1,456,663	-
Equity	$15,953,746	$16,406,966	$6,480
U.S. T-Notes	$661,017	$674,617	-
TIPS	$121,018	-	$123,491
Total	$18,158,662	$18,538,246	$129,971

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 net 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	-

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, 2010 and 2009 the fair value of the alternative investment portfolios were $21,843,405 and $18,376,979, 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, 2010 was $10,908,213 and as of June 30, 2009 was $12,307,604. 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. MCERA does not have a formal policy for custodial credit risk. At June 30, 2010 and 2009, MCERA had no investments that were 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, 2010 and 2009, 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. In 2009 the securities that are below investment grade were 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 Moody's quality credit ratings at June 30, 2010 and 2009:

Quality	AAA	AA	A	B	BA	BAA	BB	BBB	C	CA	CAA	CCC	NR*	NA**
Percent (%) of Fixed Income as of June 30, 2010	15.08%	4.57%	12.16%	8.34%	2.78%	12.53%	-	-	.06%	.40%	5.18%	-	5.26%	33.65%
Percent (%) of Fixed Income as of June 30, 2009	49.79%	2.78%	9.82%	1.79%	.32%	.02%	.86%	8.25%	-	-	.14%	.15%	.38%	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 and the Merrill Lynch High Yield Master II. During the fiscal year ending 2010, MCERA transitioned their Aggregate Bond Index Fund and Standish Global Workout Portfolio to an actively managed core bond portfolio and a High Yield portfolio.

As of June 30, 2010 and 2009 the County's pool has a fair value of $579,813,639 and $638,381,899, respectively and a weighted average maturity of 362 days and 225 days, respectively.

As of June 30, 2010 and 2009 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 47 days and 62 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, 2010:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	Fair Value 2010	Weight of Fixed Income 2010	Effective Duration (Years) 2010	Fair Value 2010	Weight of Fixed Income 2010	Effective Duration (Years) 2010
U.S. Government mortgages	$21,023,630	17.61%	2.28	-	-	-
Commercial mortgage backed securities	3,306,287	2.77%	4.08	-	-	-
Asset backed securities	1,135,626	0.95%	2.32	-	-	-
TIPS	46,010,549	38.55%	4.64	-	-	-
Corporate and other credit	39,894,986	33.42%	5.06	$21,479,887	100.00%	4.30
Collateralized mortgage obligations	7,988,371	6.69%	4.46	-	-	-
Total Fair Value	$119,359,449	100.00%		$21,479,887	100.00%	
Portfolio Effective Duration			**4.24**			**4.30**

MCERA's fixed income investments as of June 30, 2009:

	Workout Portfolio			Bond Index Fund Portfolio		
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	4.78%	1.77	-	-	-
Total Fair Value	12,932,339	100.00%		$67,388,232	100.00%	
Portfolio Effective Duration			3.06			4.29

J. <u>Foreign Currency</u>

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 with 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. As of June 30, 2010 and 2009, MCERA did not hold any derivative instruments.

The following table represents securities held in a foreign currency as of June 30, 2010 and 2009:

Currency	Fair Value (U.S. Dollars) 2010	2009
Australia dollar	$23,312	$ -
Norwegian krone	1,390,243	642,068
Euro currency	6,035,996	4,285,376
Japanese yen	3,515,292	1,738,281
Mexico peso	370,245	340,842
New Turkish Lira	964,657	-
Singapore dollar	831,667	582,154
Hong Kong dollar	4,679,194	3,363,502
Swiss franc	760,467	562,613
Swiss Krona	836,280	-
United Kingdom pound sterling	2,638,330	1,178,580
Total foreign currency	$22,045,683	$12,693,416

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 which include; 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. 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. MCERA does not have any derivative instruments as defined by GASB Statement No. 53 as of June 30, 2010 and 2009.

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, 2010 and 2009.

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

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. To the extent that net earnings are available, interest is credited to specified reserves. Interest is credited semi-annually according to MCERA's interest crediting policy.

E. Market Value Fluctuation Reserve

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

Accumulated through 2007	2008	2009	2010	Total
$ 109,911,029	$ (79,599,095)	$ (78,834,137)	$ 23,910,891	$(24,611,312)

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, 2010 and 2009 is as follows:

	2010	2009
Active Members	$70,916,880	$70,101,050
Employer Advance	19,074,045	44,220,349
Retired Members	325,294,825	292,975,830
Market Value Fluctuation	(24,611,312)	(48,522,203)
Ad-Hoc COLA	1,815,958	1,711,303
Contingency	25,804,407	12,874,786
IRC Section 401(h)	1,383,590	2,233,590
	$419,678,393	$375,594,705

5. Actuarial Valuation

MCERA engages on an annual basis, an independent actuarial consulting firm, EFI Actuaries, 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, 2009. MCERA's next triennial analysis will be reflected in the actuarial valuation as of June 30, 2010.

The June 30, 2009 actuarial valuation determined that the actuarial value of assets are $488 million, the actuarial accrued liability is $815 million, the unfunded actuarial accrued liability (UAAL) is $327 million, the funded ratio is 59.7%, the covered payroll is $115 million and the UAAL as a percent of covered payroll is 284.0%. The most recent actuarial value of assets as of June 30, 2009 dose not include deferred investment losses that will be recognized in the future.

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. Several changes were made to MCERA's Funding Policy—extending the amortization period from 15 to 18 years and widening the corridor around the market value of assets from 20% to 30%. The impact of these changes was to reduce the employer contribution rate for the fiscal year 2010-2011.

The required schedule of funding progress immediately following the notes to the basic financial statements present multiyear trend 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 SUPPLEMENTAL 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)
6/30/04	$ 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%
6/30/09*	$ 483,145	$ 809,681	$ 326,536	59.7%	$114,984	284.0%

Note: This information is compiled from MCERA's actuarial reports prepared by EFI Actuaries.
* The Actuarial Value of Assets and Actuarial Accrued Liability excludes the special reserves

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

Year Ended	Annual Required Contribution	Percentage Contributed
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%
6/30/09	$ 27,883	100%

Note: This information is compiled from MCERA's actuarial reports prepared by EFI Actuaries.

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES
June 30, 2010

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, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll - Closed
Remaining Amortization Period	18 years from June 30, 2009
Asset Valuation Method	Actuarial value: Excess earnings smoothed over five years, 70%/130% corridor around market value

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULE
June 30, 2010
(Continued)

Actuarial Assumptions

Investment Rate of Return	8.16%
Projected Salary Increases	4.5%
Assumed Inflation Rate	4.5%
Assumed Post-employment Benefit Increase	Up to 3% for Tier I members only

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Years Ended June 30, 2010 and 2009

	2010	2009
Personnel Services:		
Salaries, wages and benefits	$703,345	$695,117
Office Expenses:		
Communications	3,307	4,476
Requested maintenance/ utilities/ cost allocation	82,256	52,848
Office supplies	5,447	7,056
Postage	3,854	3,283
Total Office Expense	94,864	67,663
Professional Services:		
Audit fees	44,793	46,628
Attorney fees	42,205	14,418
Disability stenographic fees/ investigations	914	1,370
Strategic Project Consulting	132,915	14,004
Publications/ legal notices	635	600
Disability medical reviews/ services	5,800	22,998
Merced Dept. of Information Technology	59,495	45,830
Total Professional Services	286,757	145,848
Miscellaneous:		
Memberships	5,222	4,815
Fiduciary meeting	8,000	7,500
Fiduciary and staff travel/ training	22,089	27,452
Insurance	48,702	51,097
Depreciation expense	1,626	5,568
Total Miscellaneous Expenses	85,639	96,432
Total Administrative Expenses	$1,170,605	$1,005,060

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF INVESTMENT EXPENSES
For the Years Ended June 30, 2010 and 2009

INVESTMENT MANAGERS' FEES	2010	2009
Domestic Equities		
Delta Asset Management	$212,050	$228,653
Earnest Partners, LLC	160,335	149,012
Mellon Capital Management	36,530	23,896
NorthPointe Capital	90,361	114,711
Wentworth, Hauser & Violich	236,954	171,308
Total Domestic Equities	736,230	687,580
International Equities		
UBS Global Small Cap	105,252	67,615
Earnest Partners, LLC	232,258	137,558
Total International Equities	337,510	205,173
Private Equity		
Invesco Private Capital	90,000	90,000
Real Estate		
UBS Global-Trumbull Property Mgmt	201,508	252,430
Total Real Estate	201,508	252,430
Fixed Income		
Lehman Brothers	-	28,817
Aberdeen Asset Mangement	-	101,887
AXA Investment Managers	27,383	-
Barrow, Hanley, Mewhinney & Strauss	122,583	-
Mellon Capital Management	-	8,008
Standish Global Workout Solutions	65,833	34,167
Total Fixed Income	215,799	172,879
Total Investment Managers' Fees	1,581,046	1,408,062
Securities Lending Activity		
Management fee	34,310	56,643
Rebate fee	(60,473)	50,408
Total Securtiy Lending Activity Fees	(26,163)	107,051
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	164,170	182,838
Investment Consultant		
Milliman, Inc.	159,070	154,874
Miscellaneous Investment Expense	690	-
Total Other Investment Expenses	323,930	337,712
Total Fees and Other Investment Expenses	$1,878,814	$1,852,825

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2010 and 2009

INVESTMENT PROFESSIONAL SERVICE FEES	2010	2009
Actuarial services - Buck Consultants	$66,549	$61,795
Investment consultant - Milliman, Inc.	159,070	154,874
Custodial services - BNY Mellon Asset Servicing	164,170	182,838
Total investment professional service fees	$389,789	$399,507

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$44,793	$46,628
Legal services	42,205	14,418
Disability stenographic fees/investigations	914	1,370
Disability medical reviews/services	5,800	22,998
Merced County Department of Information Systems	59,495	45,830
Other specialized services	133,550	14,604
Total administrative professional service fees	$286,757	$145,848

Investment Section

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San Francisco, CA 94108
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August 12, 2010

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 gain of 13.4% in the fiscal year ending June 30, 2010. The prior fiscal year's loss of 21.4% was substantially reversed this year, as capital markets rebounded strongly. The Association's fiscal year return is significantly above the actuarial interest rate assumption of 8.0%. Also, the total fund return was above the Retirement Association's total fund benchmark return of 13.1%. This gain results from positive returns in all asset classes.

The Retirement Association's total fund return over the past five years has averaged +1.3%, slightly below the fund benchmark of +1.6% and trailing the actuarial interest rate assumption of 8.0%. The large negative returns in fiscal year 2009 caused the Retirement Association's five year return to be below the actuarial interest rate assumption by approximately 6.7% per year. Over the past five years, domestic equities produced slightly negative returns (-0.3%), whereas all other asset classes produced positive returns. During the last ten years, the Association's total fund return of 2.6% modestly exceeded the benchmark return of 2.5%, 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). As of 1st quarter 2010, the benchmark is 25% S&P 500, 4% Russell 2000, 24% EAFE, 24% Barclays Aggregate, 5% ML High Yield Master II, 5% Barclays U.S. TIPS, 6% NCREIF ODCE Property Index, 2% FTSE EPRA/NAREIT Developed Index and 5% S&P 500 + 5.0% (private equity).

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Summary of Investment Objectives

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

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

1) At a minimum, achieve a nominal return equivalent to the Retirement Association's actuarial interest rate. Earn a total return that averages 4% to 6% in excess of the rate of inflation.

2) Exceed the return of the Retirement Association' passive, market-based, investment benchmark.

3) Achieve a total fund return ranking above the median of other public sector retirement funds. Risk-adjusted performance is expected to also be above that of the median pension fund.

The Retirement Association has achieved all of 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 implemented this asset mix during the 2010 fiscal year.

Market Overview

The past fiscal year had strong equity market results, except for the last quarter of the fiscal year, the three-month period ending June 30, 2010. The domestic equity markets began the fiscal year with a significant gain of 15.6%, as measured by the S&P 500.

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The large returns of the third calendar quarter of 2009 were followed up with substantial gains in the fourth quarter of 2009. Stocks rose 6.0%, as measured by the S&P 500, which brought the equity index to 22.6% for the first half of the fiscal year.

The market continued its positive momentum in the first calendar quarter of 2010, as the domestic equity market gained another 5.4%. This gain brought the fiscal year to date gain for domestic equities to 29.2%.

The final quarter of the fiscal year could not sustain the positive results of the prior three quarters and the S&P 500 declined 11.4%. In spite of this decline, equities during the fiscal year were up 14.4%. Although the positive results for the fiscal year were a relief, the three-, five- and ten- year equity results ending June 30, 2010 were down 9.8%, 0.8% and 1.6%, respectively. Only the seven-year equity returns were positive at 2.8% but still substantially below their long-term average.

It is not surprising that the rebound of the S&P 500 of 14.4% for the fiscal year ending June 30, 2010 was smaller than the Russell 2000 gain of 21.5%. In the third quarter of fiscal 2010, the Russell 2000 gained 19.3%. Over the next two quarters, small cap stocks rose 3.9% and 8.9%, before declining 9.9% in the final quarter of the fiscal year. As we had anticipated last year, we felt that small cap stocks would lead the overall market and did so for most of the past fiscal year.

International equity underperformed domestic stocks but had a 6.4% return in fiscal year 2010. The EAFE Index had a huge gain of 19.5% in the third quarter of 2009, followed by consecutive gains of 2.2% and 0.9% over the next two quarters. In the last quarter of fiscal year 2010, the EAFE Index fell 13.7%.

The bond market, as measured by the Barclays Aggregate US Bond Index, began to operate on a more normal basis, although there was another flight to quality at the end of the fiscal year. The Barclays Aggregate Bond Index started the fiscal year with a gain of 3.7%, which was followed up by 0.2% and 1.8% in the second and third quarters of the 2010 fiscal year. The final quarter of the year had strong returns, as investors once again favored US Treasury securities and the overall bond market returned 3.5%. For the full fiscal year, bonds returned 9.5%, which is quite good relative to long-term returns. The new bond manager structure that was put in place during the past year significantly outperformed the bond market with a return of 11.1%.

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Real estate returns were strong based on the global REIT index but weak in the domestic open -end area. In the first quarter of the fiscal year, the FTSE EPRA-NAREIT Global Index was up 25.2%, whereas the NCREIF ODCE Index lost 7.4%. This same pattern of performance continued in the next two quarters as the FTSE EPRA-NAREIT Global Index rose 4.0% and 3.5%, while the NCREIF ODCE Index lost 3.4% in both quarters. In the final quarter, performance reversed with the FTSE EPRA-NAREIT Global Index declining 7.8% and the NCREIF ODCE Index rising 4.4%. For the entire fiscal year, the FTSE EPRA-NAREIT Global Index gained 24.3% and the NCREIF ODCE Index lost 0.5%. The real estate composite outperformed its benchmark for the full year.

Finally, private equity performance was a positive contributor to the Retirement Association's performance. The gross of fee gain for the private equity segment was 6.6% for the full fiscal year ending June 30, 2010, but lagged the S&P 500 +5% benchmark of 20.1%. We expect improved results in the next several quarters.

Style Overview

During the 2010 fiscal year, large cap value stocks significantly outperformed large cap growth stocks. As measured by the Russell 1000 Value Index, value stocks returned 16.9%, versus 13.6% for the Russell 1000 Growth Index. Mid and small cap stocks performed even better than did large cap stocks. The Russell Mid Cap Index returned 25.1%, and the Russell 2000 returned 21.5%.

Fund Overview

In the third quarter of 2009, the total Fund gain was 12.1%, underperforming the total Fund benchmark gain of 12.7%. This gain ranked in the first quartile (22^{nd} percentile) of total funds. Of the five major segments of the total Fund, domestic equity and fixed income outperformed their segment benchmarks but international equity, real estate and private equity trailed. In the fourth quarter of 2009 there was a slight underperformance of the total Fund benchmark, with a gain of 3.4%, versus the total Fund benchmark gain of 3.5%. The total Fund return ranked in the 38^{th} percentile, well above the median. During this quarter, three of the five total Fund segments outperformed their benchmarks.

The calendar first quarter of 2010 was also a reasonably solid quarter. The total Fund had a gain of 3.3%, which was better than the benchmark gain of 3.1%, and ranked in the 52^{nd} percentile of all Funds. In this quarter, domestic and international equities outperformed their respective benchmarks, as did real estate.

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During the calendar second quarter of 2010, the total Fund loss was 5.4%, and ranked in the 61st percentile. However, the total Fund outperformed its benchmark, which had a loss of 5.9%. Two of the five asset class segments outperformed their benchmarks.

As mentioned previously, the Retirement Association' total fund gain for fiscal year 2010 was 13.4%, versus 13.1% for the total Fund benchmark. The total Fund return ranked in the 33rd percentile of all Plans and in the 17th percentile of all public pension plans.

Investment Results

The Association's total domestic equity segment recorded a gain of 15.7% in fiscal year 2010, which matched the return of the Russell 3000. Relative to the S&P 500, the domestic equity segment outperformed the 14.4% of the Index. With respect to the large cap core equity managers, both Delta Asset Management and Earnest Partners underperformed the median large cap core manager. Delta's equity only gain of 10.4% ranked in the 92nd percentile of the large cap core equity style group and Earnest Partner's equity only portfolio gain of 13.1% ranked in the 80th percentile. Delta is likely to be put on the Association's watch list. With a gain of 13.7% and a ranking in the 35th 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 slightly trailed the median large cap value manager. This portfolio ranked in the 51st percentile of large cap value managers with an equity only gain of 16.9%.

Within the small capitalization arena, Wentworth Hauser, a small cap core portfolio manager, posted an equity only gain of 23.7%, ranking in the 43rd percentile of the small cap core style group. This performance was better than the 21.5% gain of the Russell 2000 Index and the 22.9% gain of the median small cap core equity manager. NorthPointe was terminated during the year for underperformance.

For fiscal year 2010, the international equity segment of the Retirement Association had a gain of 10.3%, significantly better than the 6.4% gain of the MSCI EAFE Index and ranked in the 46th percentile. GMO's gain of 4.8% was below the EAFE Index gain of 6.4%, and ranked in the 80th percentile of international equity managers.

For the fiscal year ending June 30, 2010, the small cap international equity portfolio managed by UBS had a gain of 14.9%, versus a gain of 12.3% for the EAFE Small Cap Index, and ranked in the 20th percentile of international equity managers. Finally, Earnest Partners international equity portfolio had a gain of 17.3%, which was significantly better than the MSCI EAFE Index and ranked in the 15th percentile of international equity managers.

In a reversal of the prior year's fixed income segment results, the domestic fixed income segment outperformed the Barclays US Aggregate Bond Index. Barrow Hanley was hired to manage a core fixed income portfolio, a TIPS portfolio, as well as to oversee the liquidation process of the remaining portion of the Standish Mellon workout portfolio. In addition, AXA was hired to manage a high yield fixed income portfolio. For the fiscal year 2010, the total fixed income segment returned 11.1%, versus 9.5% for the Barclays US Aggregate Bond Index and the bond segment performance ranked in the 43rd percentile of fixed income portfolios.

The UBS Realty fund had a loss of 0.9% in the fiscal year ending June 30, 2010, versus a loss of 0.5% for the NCREIF ODCE Index. European Investors global REIT portfolio had a gain of 23.6%, which slightly trailed the FTSE EPRA/NAREIT Global Index gain of 24.3%. Results for European Investors have been beneficial to the total real estate segment results.

Similar to last year, trading costs associated with the Retirement Association's domestic equity managers were reviewed to ensure that commission costs were reasonable and execution costs appropriate. A significant percentage of equity trading is being executed through the program and at reasonable costs. For the fiscal year ending June 30, 2010, 1.4 million shares were traded through the recapture brokers Lynch, Jones & Ryan and Capital Institutional Services. Commissions paid to these brokers totaled slightly less than $30,000 and slightly more than $12,000 was recaptured. A significant portion of these trades was for a low cost transition.

Performance Comparison

The last page of our letter provides a table comparing the Retirement Association's total fund returns to all funds, as well as all public pension plans. As stated above, the Association has had a dramatic turnaround in the fiscal year ending June 30, 2010. Relative to all plans, the Association's return of 13.4% ranked in the 33rd percentile and versus all public pension funds, ranked in the 17th percentile for the same time period. These are very strong results. Performance trails the benchmark over the two through five year periods due to prior fixed income managers that were terminated. The Retirement Association has exceeded its benchmark over the past the past seven and ten years.

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Summary

Fiscal year 2010 was a success relative to the Association's policies, objectives and benchmarks. We expect to maintain this improvement in the coming years. 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.

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Total Fund Returns vs. Universe
Periods Ending June 30, 2010

	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	**-5.4%**	**-2.2%**	**1.1%**	**13.4%**	**-5.6%**	**-5.7%**	**-0.4%**	**1.3%**	**4.1%**	**2.6%**
Ranking vs. Total Funds	61	66	59	33	80	80	81	81	68	67
Ranking vs. Total Pub. Pension Funds	48	57	52	17	91	88	86	91	87	76
Fund Benchmark	**-5.9%**	**-3.0%**	**0.3%**	**13.1%**	**-4.2%**	**-4.7%**	**0.1**	**1.6**	**4.0**	**2.5**
Ranking vs. Total Funds	70	80	76	37	70	71	74	77	70	71
Ranking vs. Total Pub. Pension Funds	56	84	80	18	77	83	80	85	91	84

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

For the Year Ended June 30, 2010

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.

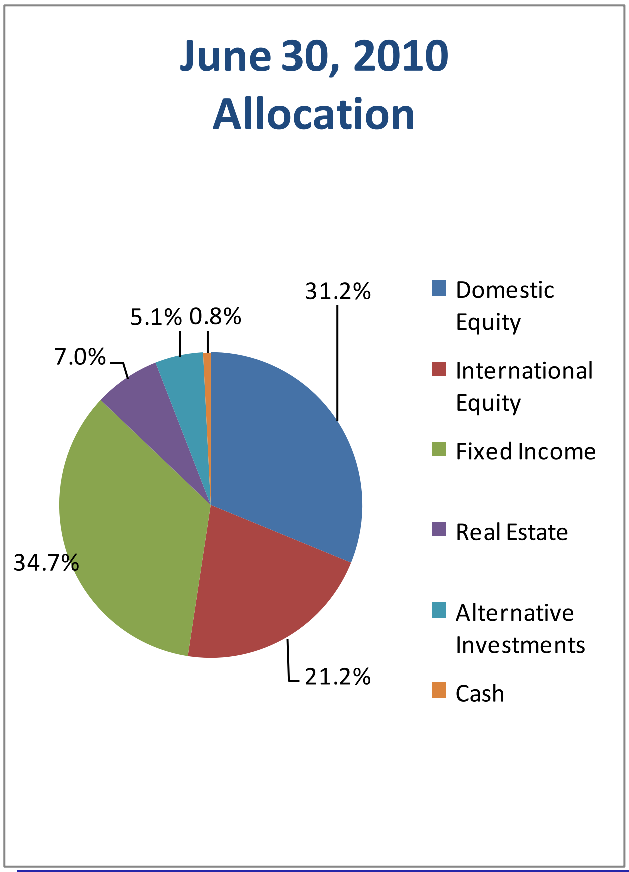
Summary of Proxy Voting Guidelines and Procedures

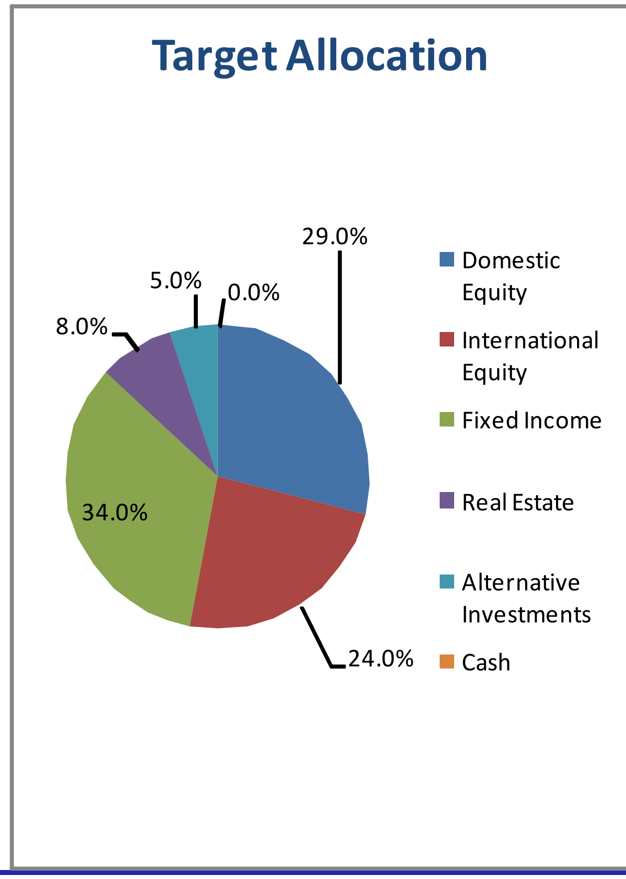
Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests 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, 2010





	June 30, 2010 Asset Allocation	Target Allocation		Allocation Range
Domestic Equity	31.2%	29.0%	+/-	2.2%
International Equity	21.2%	24.0%	+/-	2.8%
Fixed Income	34.7%	34.0%	+/-	0.7%
Real Estate	7.0%	8.0%	+/-	1.0%
Alternative Investments	5.1%	5.0%	+/-	0.1%
Cash	0.8%	0.0%	+/-	0.8%
	100.0%	100.0%		

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY
For the Year Ending June 30, 2010

	Market Value	Percent of Total
DOMESTIC EQUITY:		
Large Cap Growth	$16,897,111	4%
Large Cap Value	17,509,590	4%
Large Cap Core	65,614,615	15%
Small Cap Core	27,598,200	6%
Total Domestic Equity	127,619,516	29%
INTERNATIONAL EQUITY		
Large/Medium Core	35,469,528	8%
Large/Medium High Alpha	38,248,697	9%
Small Cap Growth	9,829,100	2%
Total International Equity	83,547,325	19%
FIXED INCOME		
Domestic Core	119,359,450	27%
High Yield	21,479,886	5%
Total Fixed Income	140,839,336	32%
ALTERNATIVE INVESTMENTS	21,843,405	5%
REAL ESTATE		
Property Fund	23,922,171	6%
Global REIT	5,486,551	1%
Total Real Estate	29,408,722	7%
CASH AND SHORT-TERM INVESTMENTS	34,941,260	8%
Total Investments, Cash and Short-Term Investments	$438,199,564	100%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT RESULTS

For the Years Ending June 30, 2010

	CURRENT	ANNUALIZED					
	YEAR	2YR	3YR	4YR	5YR	7YR	10YR
DOMESTIC EQUITY							
Large Cap Growth							
Delta Asset Mgmt.	11.6%	-8.6%	-9.3%	-2.5%	-0.4%	3.1%	-0.5%
Index: S&P 500	14.4%	-8.1%	-9.8%	-3.0%	-0.8%	2.8%	-1.6%
Large Cap Value							
Earnest Partners, LLC	15.2%	-6.2%	-9.1%	-2.6%	-0.7%	3.9%	-
Index: Russell 1000®	15.2%	-8.1%	-9.6%	-2.8%	-0.6%	3.3%	-1.2%
Large Cap Index							
Mellon Capital Mgmt. Large Cap Growth	13.7%	-7.4%	-6.9%	-1.0%	0.4%	2.9%	-
Index: Russell 1000® Growth	13.6%	-7.4%	-6.9%	-1.0%	0.4%	2.9%	-5.1%
Mellon Capital Mgmt. Large Cap Value	17.0%	-8.8%	-12.3%	-4.7%	-1.6%	3.6%	-
Index: Russell 1000® Value	16.9%	-8.9%	-12.3%	-4.8%	-1.7%	3.5%	2.4%
Small Cap Value							
Wentworth, Hauser & Violich	22.9%	-8.3%	-7.1%	-0.4%	3.8%	10.7%	8.2%
Index: Russell 2000	21.5%	-4.6%	-8.6%	-2.9%	0.4%	5.8%	3.0%
TOTAL DOMESTIC EQUITY	**15.7%**	**-8.0%**	**-9.3%**	**-2.7%**	**-0.3%**	**3.9%**	**-0.3%**
INDEX: RUSSELL® 3000	**15.7%**	**-7.8%**	**-9.5%**	**-2.9%**	**-0.5%**	**3.5%**	**-0.9%**
INTERNATIONAL EQUITY							
GMO	4.8%	-14.7%	-	-	-	-	-
Earnest Partners, LLC	17.3%	-7.3%	-	-	-	-	-
UBS Global Small Cap	14.9%	-15.%	-	-	-	-	-
TOTAL INTERNATIONAL EQUITY	**10.3%**	**-12.2%**	**-10.45%**	**-2.3%**	**2.7%**	**7.7%**	**2.4%**
INDEX: MSCI EAFE	**6.4%**	**-14.3%**	**-12.9%**	**-4.2%**	**1.4%**	**7.2%**	**0.6%**
FIXED INCOME							
AXA	-	-	-	-	-	-	-
Barrow Hanley	-	-	-	-	-	-	-
TOTAL FIXED INCOME	**11.1%**	**3.0%**	**3.0%**	**3.8%**	**2.9%**	**3.2%**	**5.2%**
INDEX: BARCLAYS U.S. AGGREGATE	**9.5%**	**7.8%**	**7.6%**	**7.2%**	**5.5%**	**5.0%**	**6.5%**
REAL ESTATE							
UBS Trumbull Property Fund	-0.9%	-12.6%	-7.0%	-1.0%	2.1%	5.9%	6.5%
European Investors	23.6%	-4.6%	-	-	-	-	-
TOTAL REAL ESTATE COMPOSITE	**2.8%**	**-11.4%**	**-6.9%**	**-0.9%**	**2.2%**	**5.9%**	**6.6%**
INDEX: NCRIEF PROPERTY INDEX	**-1.5%**	**-11.0%**	**-4.7%**	**0.4%**	**3.8%**	**6.7%**	**6.9%**
ALTERNATIVE INVESTMENTS**							
Invesco Private Capital	10.2%	-2.8%	4.8%	8.2%	-	-	-
Adams Street Partners, LLC	13.0%	-4.7%	1.4%	5.2%	-	-	-
Pantheon Ventures, Inc.	8.4%	-4.1%	2.6%	3.8%	-	-	-
Pantheon Secondary	-1.7%	-6.0%	7.7%	-	-	-	-
TOTAL ALTERNATIVE INVESTMENTS	**6.6%**	**-4.5%**	**3.7%**	**6.3%**	-	-	-
INDEX: S&P + 5.00%	**20.1%**	**-3.5%**	**-5.3%**	**1.8%**	**4.2%**	**8.0%**	**3.3%**
TOTAL FUND*	**13.4%**	**-5.6%**	**-5.7%**	**-0.4%**	**1.3%**	**4.1%**	**2.6%**
TOTAL FUND CUSTOM INDEX*	**13.1%**	**-4.2%**	**-4.7%**	**0.1%**	**1.6%**	**4.0%**	**2.5%**

*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, 2010

PAR	BONDS	FAIR VALUE
10,055,000	U S TREASURY NOTES 2.125% 05/31/2015 DD 05/31/10	$10,227,845
8,465,000	U S TREASURY NOTE 1.375% 02/15/2012 DD 02/15/09	$8,580,717
5,955,000	U S TREASURY NOTE 3.500% 05/15/2020 DD 05/15/10	$6,232,265
3,582,543	FNMA POOL #0888100 5.500% 09/01/2036 DD 12/01/06	$3,858,184
3,453,925	FNMA POOL #0995024 5.500% 08/01/2037 DD 10/01/08	$3,719,670
3,192,843	FHLMC POOL #G0-5753 5.000% 11/01/2039 DD 12/01/09	$3,382,051
3,158,661	FNMA POOL #0AC3278 5.000% 09/01/2039 DD 09/01/09	$3,350,455
2,717,775	US TREAS-CPI INFLATION INDEX 2.375% 01/15/2025 DD 07/15/04	$3,014,828
2,772,530	US TREAS-CPI INFLAT 2.000% 01/15/2014 DD 01/15/04	$2,953,604
2,086,544	US TREAS-CPI INFLAT 2.125% 01/15/2019 DD 01/15/09	$2,276,941
		$47,596,560

SHARES	STOCKS	FAIR VALUE
15000	INTERNATIONAL BUSINESS MACHINE	$1,852,200
139200	ARM HOLDINGS PLC SPONSORED ADR	$1,726,080
88000	INTEL CORP	$1,711,600
114619	BANK OF AMERICA CORP	$1,647,075
43244	JPMORGAN CHASE & CO	$1,583,163
27698.34	EXXON MOBIL CORP	$1,580,744
49800	ICON PUB LTD CO SPONSORED ADR	$1,438,722
18400	OCCIDENTAL PETROLEUM CORP	$1,419,560
185500	ORIENT OVERSEAS INT USD0.10	$1,338,757
9900	GOLDMAN SACHS GROUP INC/THE	$1,299,573
		$15,597,474

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, 2010 and 2009

FIXED INCOME
AXA Investment Managers
Barrow, Hanley, Mewhinney & Strauss, Inc.

REAL ESTATE
UBS Global Asset Management
European Investors

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

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

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

COMMISSION RECAPTURE
Lynch Jones & Ryan
Capital Institutional Services

INVESTMENT MANAGERS' FEES	2010	2009
Equity Managers		
Domestic	$736,230	$687,581
International	337,510	205,173
Total Equity Managers' Fees	1,073,740	892,754
OTHER INVESTMENT MANAGERS' FEES		
Fixed Income Fees	$215,799	$172,878
Alternative Investment Managers	90,000	90,000
Real Estate Fees	201,508	252,430
Total Other Investment Managers' Fees	507,307	515,308
Total Investment Managers' Fees	$1,581,047	$1,408,062
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$159,070	$154,874
Investment Custodial Fees	164,170	182,838
Other Investment Service Fees	(26,163)	107,051
Total Other Investment Service Fees	297,077	444,763
Total Investment Managers' and Other Service Fees	$1,878,124	$1,852,825

Actuarial Section

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www.efi-actuaries.com

ROBERT T. MCCRORY | Executive Vice *President*

June 4, 2010

Actuarial Certification

This report presents the results of the annual actuarial review of the MCERA Retirement Plan (the Plan) as of June 30, 2009. The prior review was conducted as of June 30, 2008 by Buck Consultants.

In this study, we conducted an examination of all participant data for reasonableness and consistency. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of the valuation date, the amortization period is 18 years.

The funding objective of the Plan is to accumulate assets during the working lifetime of each member so that, at retirement, sufficient assets will be on hand to provide the member the promised benefit. For actuarial valuation purposes, Plan assets are valued at Actuarial Value with adjustments for certain Special Reserves. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all investment gains and losses (returns above or below expected returns) over a period of five years, limited by a corridor that restrains the Actuarial Value to within 30% of the Market Value of assets.

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions were developed by the prior actuary in the course of an analysis of experience which covered the period from July 1, 2004 through June 30, 2007. We will review and update these assumptions as necessary as part of the next experience analysis, expected to cover the years 2007 through 2010.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, to the best of our knowledge the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully Submitted,

Graham A. Schmidt, ASA	Robert T. McCrory, FSA
(415) 439-5313	(206) 328-8628

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, 2009):

Investment Rate of Return	8.16%, net of investment and administrative expenses
Inflation	4.50% per annum.
Cost of Living Adjustments	Up to 3% per annum for Tier 1
Asset Valuation Method	Five year smoothed market, 70%/130% corridor around market value
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	4.50% base salary 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 EFI Actuaries dated June 30, 2009.

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 4.50% per year.

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2009.

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS
(Continued)

Vested Termination	Rates of vested termination apply to active members who terminate their employment after five years of service and leave their contribution with the plan. Vested terminated General Members are assumed to begin receiving benefit at 60; terminate Safety Members are assumed to begin receiving benefit at age 50. 50% of vested terminated members are assumed to be reciprocal.
Family Composition	50% of female General members, 80% of male General members, and 90% of Safety members are assumed to be married at retirement.

C. Funding Method

Employer contributions are actuarially determined level percentage rates that are expressed as percentages of annual covered payroll. The liability is presently being funded on the Entry Age Normal Actuarial Cost Method. Any unfunded actuarial accrued liability (UAAL) is amortized as a level percentage of projected future payroll cost over a 18-year period from June 30, 2009.

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 EFI Actuaries dated June 30, 2009

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

GENERAL MEMBERS – MALES

Age	Withdrawal	Ordinary Death	Non Service-Connected Disability	Service Retirement	Death While Eligible	Duty Death	Service-Connected Disbility	Vested Termination
20	20.90%	0.0300%	0.0000%	0.00%	0.0000%	0.0000%	0.0100%	0.00%
30	14.85%	0.0400%	0.0800%	0.00%	0.0100%	0.0000%	0.0400%	1.85%
40	6.69%	0.0600%	0.1300%	0.00%	0.0300%	0.0000%	0.1000%	2.27%
50	3.04%	0.1000%	0.2400%	6.15%	0.1100%	0.0000%	0.1900%	2.32%
60	1.32%	0.1700%	0.4200%	16.00%	0.3100%	0.0000%	0.3400%	1.48%
70	0.00%	0.0000%	0.0000%	100.00%	0.0000%	0.0000%	0.0000%	0.00%

GENERAL MEMBERS – FEMALES

Age	Withdrawal	Ordinary Death	Non Service-Connected Disability	Service Retirement	Death While Eligible	Duty Death	Service-Connected Disbility	Vested Termination
20	17.20%	0.0150%	0.0000%	0.00%	0.0000%	0.0000%	0.0080%	0.00%
30	12.72%	0.0230%	0.0200%	0.00%	0.0075%	0.0000%	0.0230%	1.93%
40	5.21%	0.0450%	0.0400%	0.00%	0.0150%	0.0000%	0.0380%	2.29%
50	3.32%	0.0600%	0.1800%	6.53%	0.0600%	0.0000%	0.1200%	1.98%
60	1.04%	0.0830%	0.4600%	16.00%	0.2100%	0.0000%	0.3150%	1.43%
70	0.00%	0.0000%	0.0000%	100.00%	0.0000%	0.0000%	0.0000%	0.00%

SAFETY MEMBERS

Age	Withdrawal	Ordinary Death	Non Service-Connected Disability	Service Retirement	Death While Eligible	Duty Death	Service-Connected Disbility	Vested Termination
20	13.00%	0.0300%	0.0000%	0.00%	0.0000%	0.0300%	0.6500%	0.00%
30	7.80%	0.0500%	0.0300%	0.00%	0.0100%	0.0600%	0.8380%	4.50%
40	2.50%	0.1600%	0.0600%	0.00%	0.0200%	0.1700%	1.2750%	1.66%
50	0.90%	0.2100%	0.1200%	4.50%	0.1000%	0.2700%	1.9880%	0.70%
60	0.00%	0.0000%	0.0000%	100.00%	0.0000%	0.0000%	0.0000%	0.00%
70	0.00%	0.0000%	0.0000%	100.00%	0.0000%	0.0000%	0.0000%	0.00%

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2009.

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
	General	1,824	$77,023,000	$42,228	5.88%
7/1/2004	Safety	268	$12,493,000	$46,616	5.15%
	Total	2,092	$89,516,000	$42,790	5.88%
	General	1,892	$83,166,000	$43,957	4.09%
7/1/2005	Safety	295	$14,341,000	$48,614	4.29%
	Total	2,187	$97,507,000	$44,585	4.20%
	General	1,919	$85,864,000	$44,744	1.79%
7/1/2006	Safety	310	$15,274,000	$49,271	1.35%
	Total	2,229	$101,138,000	$45,374	1.77%
	General	1,917	$85,308,000	$44,501	-0.54%
7/1/2007	Safety	318	$15,281,000	$48,053	-2.47%
	Total	2,235	$100,589,000	$45,006	-0.81%
	General	1,921	$92,116,000	$47,952	7.76%
7/1/2008	Safety	339	$17,137,000	$50,552	5.20%
	Total	2,260	$109,253,000	$48,342	7.41%
7/1/2009	General	1,848	$99,266,589	$53,716	12.02%
	Safety	342	$19,363,697	$56,619	12.00%
	Total	2,190	$118,630,286	$54,169	12.05%

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2009.

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
6/30/04	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	1,658	$34,603	8.74%	$20,870
6/30/09	1,658	105	$3,403	52	$813	1,711	$37,748	9.09%	$22,062

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 Retirees and Beneficiaries	3 Active Members Employer Portion	Actuarial Accrued Liabilities	Valuation Assets	1	2	3
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%
6/30/09	$65,126	$448,231	$296,324	$809,681	$483,145	100%	93%	0%

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)
6/30/04	$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
6/30/09	$66,987	$23,892	$90,879	N/A	N/A	$90,879

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2009.

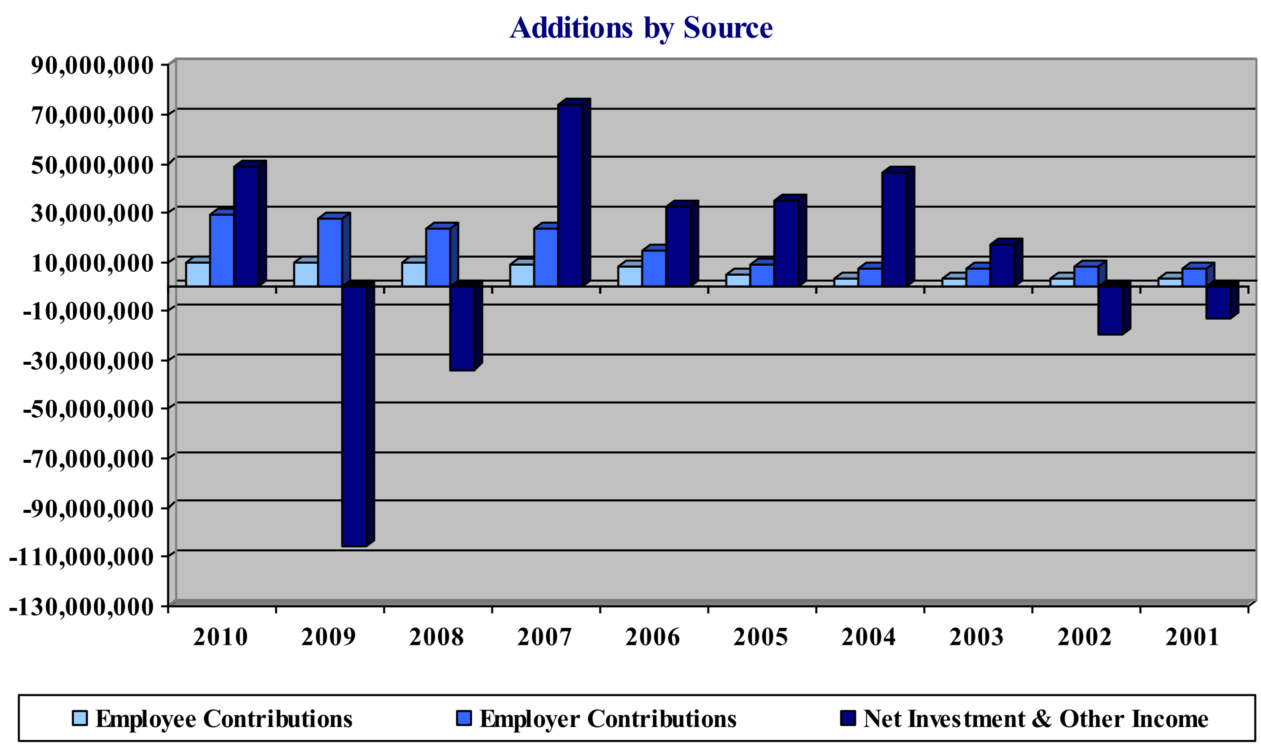
Statistical Section

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
6/30/01	$ 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)
6/30/10	$ 9,864,161	$ 29,136,704 **	24.46%	$ 48,772,246	$ 87,773,111

*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 in February 1999.

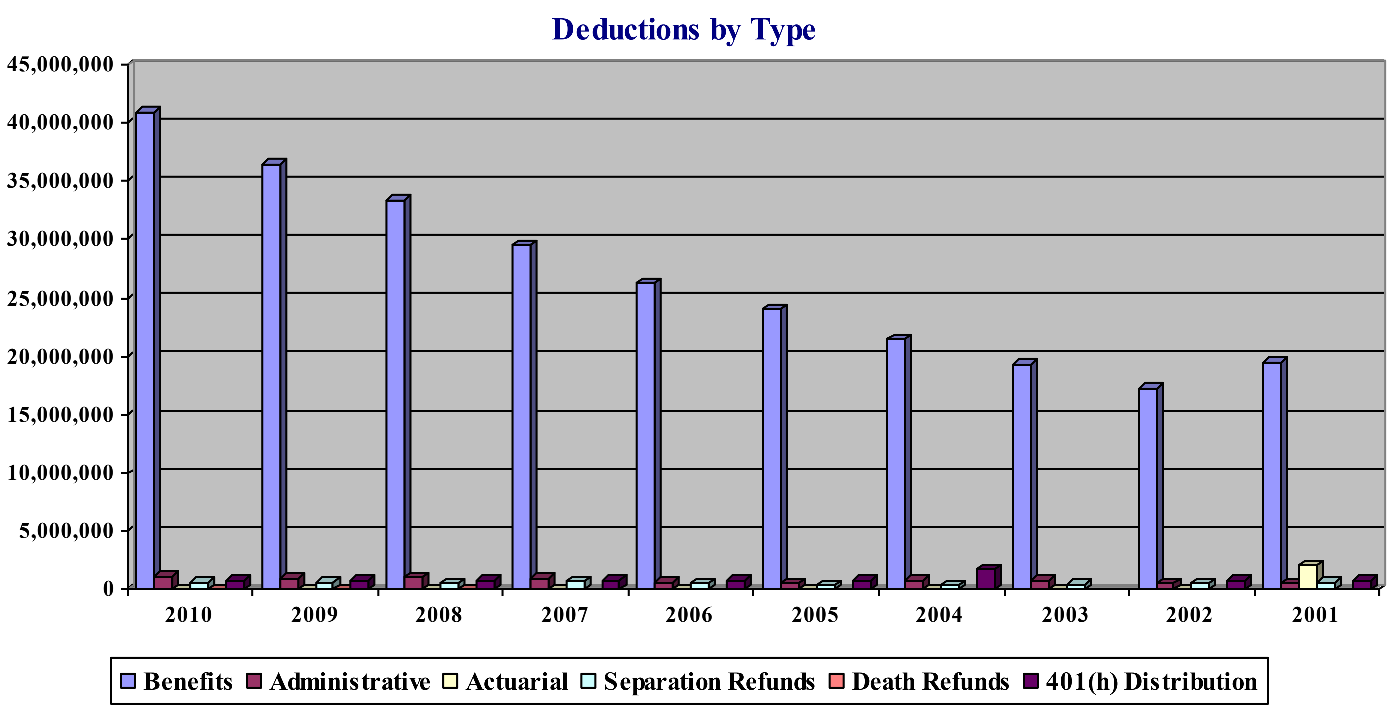


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401 (h) Distribution to County	Total
6/30/01	*	$ 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
6/30/10		$ 40,929,109	$ 1,170,605	$ 66,549	$ 673,160	-	$ 850,000	$ 43,689,423

*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	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06
Employee contributions	$9,864	$9,916	$9,358	$8,755	$8,222
Employer contributions	29,137	27,883	23,751	23,232	14,750
Net investment income	48,772	(105,689)	(33,797)	73,614	32,191
Total additions	87,773	(67,890)	(688)	105,601	55,163
Deductions					
Benefits paid	40,929	36,479	33,394	29,578	26,264
Administrative expenses	1,171	1,005	1,030	1,014	649
Actuarial expenses	67	62	54	41	48
Refunds	673	761	653	704	602
401(h) distribution	850	850	850	850	850
Total deductions	43,690	39,157	35,981	32,187	28,413
Change in net assets	$44,083	($107,047)	($36,669)	$73,414	$26,750
Net asset held in trust at beginning of the year	**$375,595**	**$482,642**	**$519,311**	**$445,897**	**$419,147**
Net asset held in trust at end of the year	**$419,678**	**$375,595**	**$482,642**	**$519,311**	**$445,897**

Additions	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01
Employee contributions	$4,585	$3,348	$3,298	$3,187	$3,043
Employer contributions	8,931	7,269	7,201	7,731	6,927
Net investment income	34,840	46,098	16,957	(19,790)	(13,299)
Total additions	48,356	56,715	27,456	(8,872)	(3,329)
Deductions					
Benefits paid	24,070	21,499	19,346	17,265	19,521
Administrative expenses	602	830	820	586	532
Actuarial expenses	62	-	-	7	44
Refunds	409	349	498	625	681
401(h) distribution	850	850	850	850	850
Total deductions	25,993	23,528	21,514	19,333	21,628
Change in net assets	$22,363	$33,187	$5,942	($28,205)	($24,957)
Net asset held in trust at beginning of the year	**$396,784**	**$364,506**	**$357,714**	**$385,920**	**$410,878**
Net asset held in trust at end of the year	**$419,147**	**$396,784**	**$364,506**	**$357,714**	**$385,920**

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollar Amounts in Thousands)

	2010*	2009*	2008*	2007	2006	2005	2004	2003	2002	2001
Service Retirement										
Payroll:										
General	$28,665	$25,086	$22,868	$21,924	$18,081	$16,378	$14,977	$13,197	$11,238	$11,158
Safety	5,404	4,720	4,139	3,813	3,448	3,030	2,506	2,349	1,908	1,810
Total	$34,069	$29,806	$27,007	$25,737	$21,529	$19,408	$17,483	$15,546	$13,146	$12,968
Disability Retiree										
Payroll										
General	$2,154	$2,103	$1,975	$1,555	$1,527	$1,478	$1,443	$1,388	$1,384	$1,339
Safety	2,424	2,396	2,312	1,907	1,913	1,816	1,769	1,572	1,483	1,362
Total	$4,578	$4,499	$4,287	$3,462	$3,440	$3,294	$3,212	$2,960	$2,867	$2,701
Beneficiary/Survivors										
Payroll										
General	$1,762	$1,574	$1,686	$1,957	$1,734	$1,613	$1,511	$1,347	$1,211	$1,130
Safety	412	380	414	667	594	551	575	515	449	439
Total	$2,174	$1,954	$2,100	$2,624	$2,328	$2,164	$2,086	$1,862	$1,660	$1,569
Total Payroll Expense										
Payroll										
General	$32,580	$28,763	$26,529	$25,436	$21,342	$19,470	$17,931	$15,932	$13,833	$13,627
Safety	8,240	7,496	6,865	6,387	5,955	5,397	4,849	4,437	3,840	3,609
Total	$40,821	$36,259	$33,394	$31,823	$27,297	$24,867	$22,780	$20,369	$17,673	$17,236
Death Benefits										
General	$99	$179	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Safety	9	41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$108	$220	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Separation Refund Expense										
General	$599	$562	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Safety	74	122	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$673	$684	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Death Refund Expense										
General	N/A	$ 77	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	N/A	$77	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.

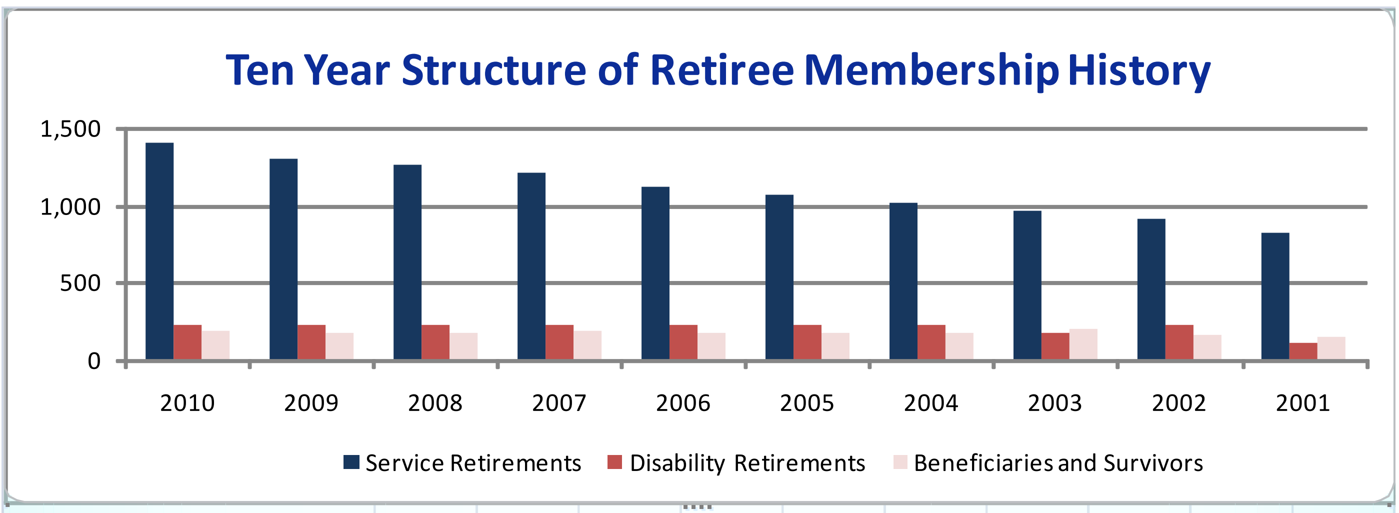
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

(Summary of Monthly Allowances Being Paid—As of June 30, 2010)

	GENERAL MEMBERS		SAFETY MEMBERS		TOTAL	
Type of Benefit	Number	Average Monthly Allowances	Number	Average Monthly Allowances	Number	Average Monthly Allowances
Service Retirement	1,248	$1,913	163	$2,763	1,441	$2,011
Disability	138	$1,301	92	$2,196	230	$1,659
Beneficiaries/Survivors	159	$923	26	$1,321	185	$ 979
Total Retired Members	1,545	$1,756	281	$2,444	1,826	$1,862

This schedule excludes separation refunds and death refunds



	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service Retirements	1,411	1,307	1,258	1,209	1,119	1,073	1,012	966	911	826
Disability Retirements	230	234	233	222	227	232	233	180	225	108
Beneficiaries and Survivors	185	172	172	188	175	171	171	202	158	145
Total	1,826	1,713	1,663	1,619	1,521	1,476	1,416	1,348	1,294	1,079

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SUMMARY OF RETIRED MEMBERSHIP

For Years Ended June 30, 2010
(Basic and Total Annual Allowance Dollars in Millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
GENERAL										
Number	1,545	1,454	1,412	1,381	1,294	1,260	1,228	1,147	1,108	1,079
Basic Annual Allowance	$26,331	$22,771	$22,592	$20,021	$16,553	$ 15,000	$ 13,786	$ 12,119	$ 10,298	$ 10,383
Average Basic Monthly Allowance	$1,420	$1,305	$1,333	$1,206	$1,066	$ 992	$ 936	$ 880	$ 775	$ 802
Total Annual Allowance	$32,561	$28,712	$28,019	$25,435	$21,341	$19,470	$17,931	$ 15,932	$ 13,833	$ 13,627
Average Total Monthly Allowance	$1,756	$1,646	$1,654	$1,533	$1,374	$1,288	$1,217	$ 1,158	$ 1,040	$ 1,052
SAFETY										
Number	281	259	251	238	228	217	213	201	187	180
Basic Annual Allowance	$6,401	$5,746	$5,262	$4,807	$4,508	$4,038	$3,597	$ 3,300	$ 2,818	$ 2,671
Average Basic Monthly Allowance	$1,898	$1,849	$1,747	$1,690	$1,648	$1,551	$1,407	$ 1,368	$ 1,256	$ 1,237
Total Annual Allowance	$8,240	$7,497	$6,878	$6,388	$5,956	$5,397	$4,849	$ 4,437	$ 3,840	$ 3,609
Average Total Monthly Allowance	$2,444	$2,412	$2,284	$2,246	$2,177	$2,073	$1,897	$ 1,840	$ 1,711	$ 1,671
TOTAL										
Number	1,826	1,713	1,663	1,619	1,522	1,477	1,441	1,348	1,295	1,259
Basic Annual Allowance*	$32,732	$28,517	$27,854	$24,828	$21,061	$19,038	$17,383	$ 15,419	$ 13,116	$ 13,054
Average Basic Monthly Allowance	$1,494	$1,387	$1,396	$1,277	$1,153	$1,074	$1,005	$ 953	$ 844	$ 864
Total Annual Allowance**	$40,801	$36,209	$34,897	$31,823	$27,297	$24,867	$22,780	$ 20,369	$ 17,673	$ 17,236
Average Total Monthly Allowance	$1,862	$1,761	$1,749	$1,637	$1,495	$1,403	$1,317	$ 1,259	$ 1,137	$ 1,141

* 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, 2010

		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	90	24	43	16	0	7	0	0	62	7	15	6	0
251 - 500	158	31	78	20	6	7	16	0	122	4	29	3	0
501 - 750	216	52	108	38	6	2	10	0	183	10	19	4	0
751 - 1,000	190	65	78	29	6	3	9	0	161	9	17	2	1
1,001 - 1,250	178	67	64	15	2	8	22	0	160	3	10	4	1
1,251 - 1,500	142	55	53	10	2	15	7	0	128	1	9	4	0
1,501 - 1,750	113	51	28	10	3	20	1	0	106	0	7	0	0
1,751 - 2,000	99	45	27	2	0	22	3	0	87	2	9	1	0
Over 2000	640	351	191	21	4	69	4	0	573	20	36	11	0
Total	**1826**	**741**	**670**	**161**	**29**	**153**	**72**	**0**	**1582**	**56**	**151**	**35**	**2**

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 06/30/2010							
Average monthly benefit	$359	$1,247	$1,354	$2,831	$4,149	$4,563	$5,294
Average final average salary	$7,068	$6,819	$4,167	$5,713	$6,780	$6,148	$6,112
Number of retired members	7	14	25	24	31	15	22
Period 07/01/2008 to 06/30/2009							
Average monthly benefit	$485	$1,020	$1,321	$3,992	$4,521	$4,022	$6,335
Average final average salary	$7,668	$4,285	$4,545	$7,526	$7,935	$5,455	$7,172
Number of retired members	5	9	21	11	14	10	12
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

Note: Information compiled from the County of Merced, Information Systems.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET

For the Years Ending June 30

		2009	2008
	ASSETS		
1.	Total actuarial value of assets	$ 488,273,117	$ 488,346,514
2.	Present value of future contributions by members	61,341,417	50,043,253
3.	Present value of future employer contributions for normal cost	72,246,261	52,431,151
4.	Present value of other future employer contributions (UAAL)	326,535,834	203,905,703
5.	Total Actuarial Assets	$ 948,396,629	$ 794,726,621
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$ 448,230,960	$ 370,764,441
7.	Present value of service retirement allowances payable to presently active member and their survivors	353,267,128	295,719,233
8.	Present value of allowances payable to current and future vested terminated members and their survivors	79,916,268	56,891,283
9.	Present value of disability retirement allowances payable to presently active members and their survivors	34,598,434	27,916,203
10.	Present value of death benefits payable on behalf of presently active members	7,799,138	5,380,230
11.	Present value of members' contributions to be returned upon withdrawal	19,456,340	19,619,323
12.	Special Reserves	5,128,361	18,435,908
13.	Total Actuarial Liabilities	$ 948,396,629	$ 794,726,621
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$ 948,396,629	$ 794,726,621
15.	Present value of future contributions by members and employers (items 2 and 3)	133,587,678	102,474,404
16.	Actuarial accrued liability (item 14 minus item 15)	814,808,951	692,252,217
17.	Actuarial value of assets	488,273,117	488,346,514
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	326,535,834	$ 203,905,703
19.	Funded Ratio	59.7%	70.5%

Note: Actuarial Balance Sheet provided by EFI Actuaries.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
County of Merced										
General Members	1575	1,708	1,852	1,848	1,853	1,931	1,882	1,928	2,060	1,874
Safety Members	331	342	352	328	316	296	274	262	253	234
Total County of Merced	1,906	2,050	2,204	2,176	2,169	2,227	2,156	2,190	2,313	2,108
Percentage of Membership	93.44%	93.87%	94.19%	94.69%	95.22%	99.87%	99.91%	99.91%	99.87%	99.86%
Participating Agencies										
Merced Cemetery District	2	3	3	3	3	3	2	2	3	3
Percentage of Membership	.09%	.13%	.13%	.13%	.13%	.13%	.09%	.09%	.13%	.14%
Joint Powers	3	-	-	-	-	-	-	-	-	-
Percentage of Membership	.14%	-	-	-	-	-	-	-	-	-
Superior Court of California	137	137	133	119	106	-	-	-	-	-
Percentage of Membership	6.33%	6.01%	5.68%	5.17%	4.65%	-	-	-	-	-
Total Participating Agencies	142	140	136	122	109	3	2	2	3	3
Total Active Membership										
General	1,717	1,848	1,988	1,970	1,962	1,934	1,884	1,930	2,063	1,877
Safety	331	342	352	328	316	296	274	262	253	234
Total	2,048	2,190	2,340	2,298	2,278	2,230	2,158	2,192	2,316	2,111