MCERA

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Merced County Employees' Retirement Association

A Pension Trust Fund of the County of Merced, California

Issued By

Maria L. Arevalo
Plan Administrator

David Liu
Fiscal Supervisor

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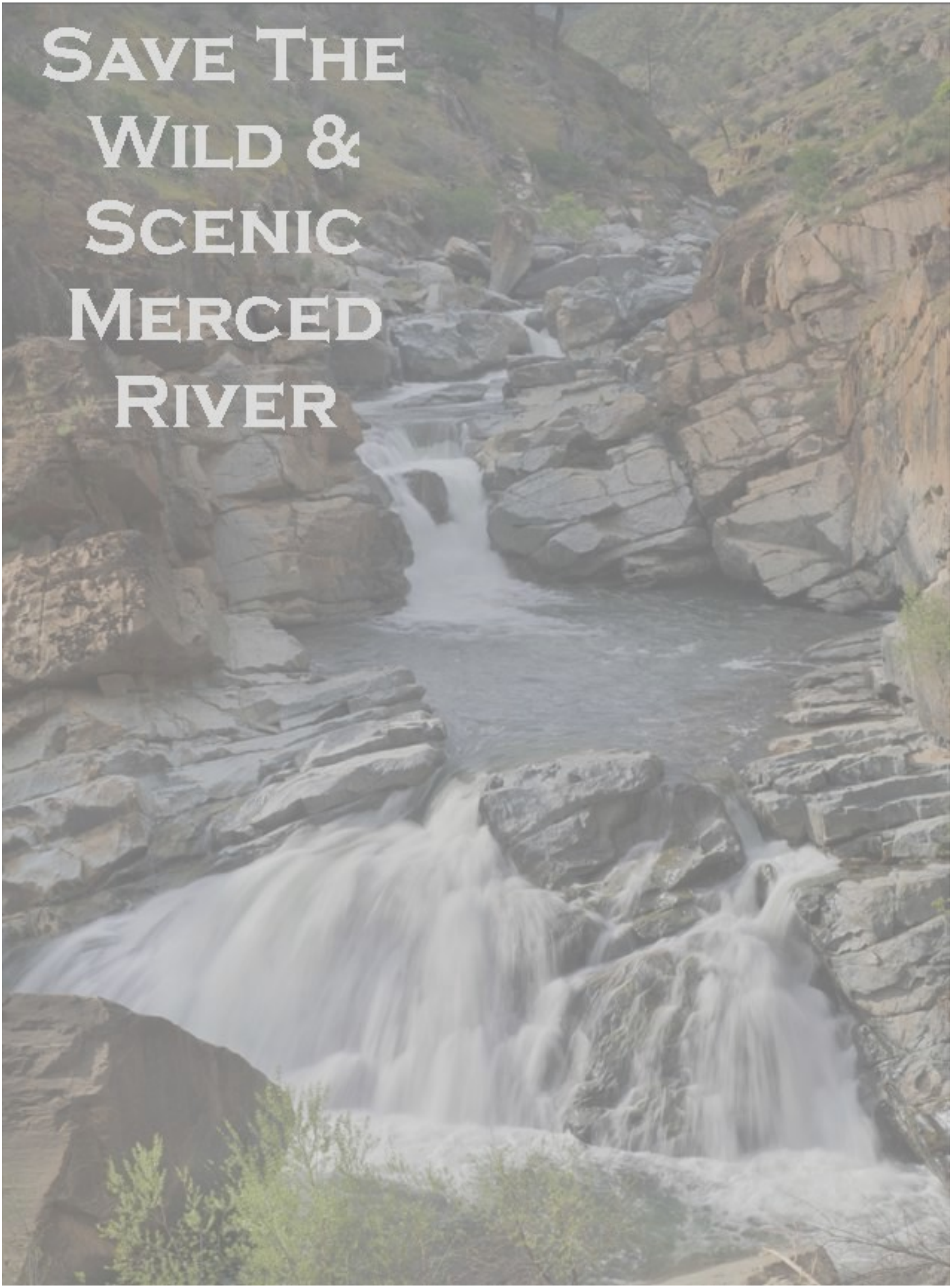
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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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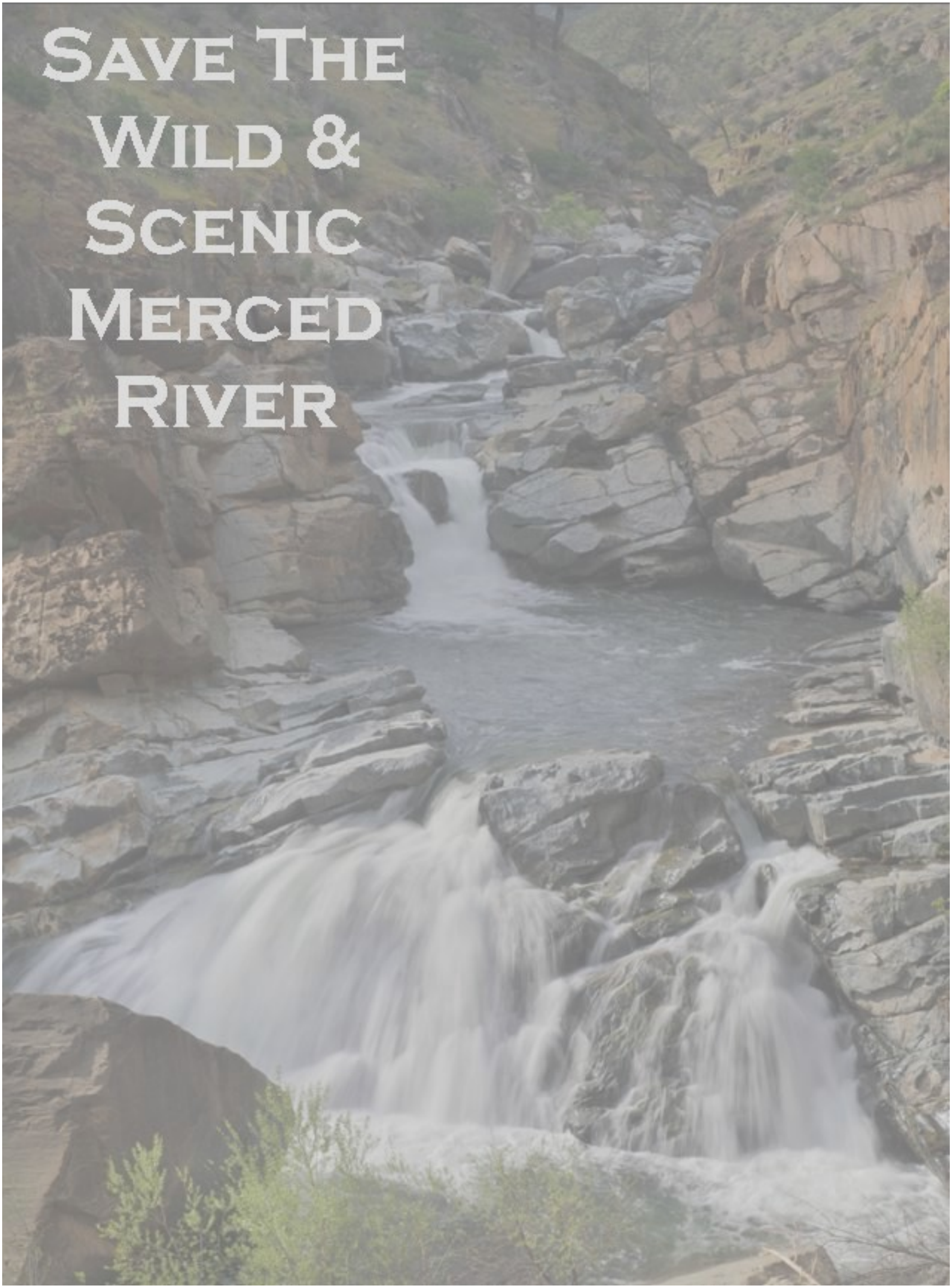
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MCERA

LETTER OF TRANSMITTAL

Maria L. Arevalo
Plan Administrator

October 7, 2013

Dear Board Members:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) of the Merced County Employees' Retirement Association (MCERA or the System), for the fiscal years ended June 30, 2013 and 2012. This report is designed to provide complete and reliable information about MCERA's financial status, compliance with the law and MCERA policies. This is MCERA's 63rd year of providing secure retirement income to its members.

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 required financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Comprehensive Annual Financial Report is presented in five sections:

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

- The **Financial Section** presents the report of the independent auditor, Macias Gini & O'Connell LLP, along with MCERA management's discussion and analysis, basic financial statements, required supplementary schedules and other supplemental schedules.

- The **Investment Section** contains a report on MCERA's investment performance from MCERA's investment consultant, Strategic Investment Solutions, 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, Cheiron EFI Actuaries, along with a summary of actuarial assumptions and funding 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 position, 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 provide retirement, disability, death, and survivor benefits for eligible employees of Merced County, Merced County Superior Court of California, Merced Cemetery District, the Transit Joint Powers Authority and the Merced County Regional Waste Management Authority. MCERA is governed by the California Constitution, the County Employees' Retirement Law of 1937, and the by-laws, policies and procedures adopted by the MCERA Board. The Merced County 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 a Plan 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 regular and one alternate elected by the retired membership, four appointed by the Merced County Board of Supervisors, and the Merced County 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, 2013 and 2012 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, are free of material misstatement and sufficient internal controls exist to provide reasonable assurance regarding the safe keeping of assets and fair presentation of the financial statements and supporting schedules.

Management is responsible for implementing and maintaining appropriate internal controls to ensure that the System's assets are protected from loss, theft or misuse. MCERA believes the internal controls are designed to provide reasonable but, not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

As of June 30, 2013, MCERA's net position restricted for pensions in trust totaled approximately $563 million reflecting an increase of approximately $57.9 million (approximately 11.5%) in the net position restricted for pensions at the end of the previous fiscal year. This was primarily attributable to an increase in employer contributions and the appreciation in fair value of investments held by MCERA as explained more fully in the Investment Section of this CAFR.

Actuarial Funding Status

MCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan status and obtaining optimum investment returns consistent with the assumption of prudent risk. The Board had adopted an Acturial Funding Policy which guides the Board in meeting this objective.

Pursuant to provisions in the 1937 Act, MCERA engages an independent actuarial firm to perform annual actuarial valuations of the System. As part of the valuation, economic assumptions are reviewed and, in addition, every three years a triennial experience study of MCERA membership is conducted and non-economic assumptions are reviewed and modified as necessary. The most recent triennial experience study was conducted in 2010. The most recent actuarial valuation as of June 30, 2012, found the System's actuarial funded status (the ratio of actuarial assets to actuarial liabilities) to be 54.2%. This decrease in the funding ratio (down from 56.1% as of June 30, 2011) was due primarily to MCERA's increase in unfunded actuarial accrued liabilities.

Investments

Pursuant to the California Constitution and the 1937 Act, the Board of Retirement has exclusive control of all investments of the retirement system and is authorized to make any investment deemed prudent in the informed judgment of the Board. In making these decisions, 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, Strategic Investment Solutions, 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.

The assets of MCERA are exclusively managed by external professional investment management firms. A listing of the investment professionals and investment fees can be found on page 77.

For the fiscal year ending June 30, 2013, MCERA's investment return was a positive 12.4% and the annualized rate of return over the last three and five years was a positive 11.2% and 4.2%, respectively.

Service Efforts and Accomplishments

During this past year, service efforts and accomplishments reflect the goals of our mission statement:

"MCERA's mission is to provide benefits to its members, to manage assets prudently in accordance with plan provisions and to provide competent and efficient services to our members."

Provide Member Benefits

- Requested and received an actuarial determination of Employer and Member contribution rates for a new Tier III implemented in October 2012 and for a new Tier IV (PEPRA Tier) implemented in January 2013.
- Requested and received a legal analysis of the impact of AB 340 and AB197 legislation on MCERA pension benefit calculations and approved and adopted Resolution 2013-4 for implementation of the new pension legislation provisions.
- Adopted CERL Section 31641.56 to give deferred MCERA members the ability to purchase extra help time as retirement service.
- Adopted an Earnable Compensation Board approval process to eliminate pension spiking in compliance with AB 340.
- Conducted a legal analysis of county, court and district pay codes to determine eligibility for inclusion in earnable compensation.
- Adopted and implemented a COLA of 2% effective April 1, 2013 for Tier I members.

Manage Assets Prudently

- The Board issued an RFP for a new investment consultant and completed the search in March 2013. The Board selected Strategic Investment Solutions, Inc for their investment consulting experience and extensive in house resources and research capability.

- Conducted a Board survey of goals and priorities for a new asset allocation plan and initiated an asset allocation study.

- The Board authorized investment in an enhanced index and hired Mellon Capital to manage the Tangent Added Strategy.

- After conducting an analysis of mid cap holdings in the Fund's portfolio, terminated the Mid Cap strategy allocation and transitioned amounts to add to the Large Cap Index and Tangent Added Strategy.

- Terminated actively managed Domestic Large Cap manager, Earnest Partners and transitioned account to Large Cap Index Fund manager, Mellon Capital.

- Conducted analysis of MCERA's portfolio manager structure and implemented searches for a new small cap international manager and an additional small cap domestic manager.

Competent and efficient Services

- Sent staff and Trustees to trainings conducted by the California Association of Public Retirement Systems and the State Association of County Retirement Systems including Principals of Pension Management for Trustees, the Pension Investment Seminar and round table events.

- The Board approved and adopted a Trustee and Education Policy in compliance with AB 1519; each Trustee will attend at least 25 hours of education every two years that they serve on the Retirement Board, annual results of training will be posted on the MCERA website.

- Adopted new Board By-laws authorizing procedures for the correction of errors and omissions related to pension benefit payments and contribution amounts.

- Conducted disability training for Trustees to enhance their ability to make determinations on member disability applications.

- Pursuant to the ongoing implementation of a new integrated pension administration system, staff worked with the vendor, CPAS to add a new Tier IV and PEPRA Tier to the system. Full implementation of the system is expected for early 2014.

- The Board approved the development of a new independent MCERA website.

- Conducted a search and hired a new Fiscal Operations Supervisor.

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, 2012. 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 ninth 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 preparation of this annual report reflects the dedicated efforts of MCERA staff and in particular, MCERA's fiscal supervisor, David Liu and consultant, Gale Garcia. It is intended to provide concise and reliable information regarding the Retirement Board's management of its fiduciary responsibility to the system and its members. I would like to thank MCERA's auditor for their generous guidance and assistance and on behalf of the MCERA Board and staff, I would also like to thank all our advisors and consultants who contribute to the successful operation of MCERA..

Respectfully submitted,

Maria L. Arevalo
Plan Administrator

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Merced County

Employees' Retirement Assocation

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement at June 30, 2013

Chair
David Ness

Appointed by the Board of Supervisors
Term Expires 06-30-15

Trustee
Alfonso Peterson

Appointed by the Board of Supervisors
Term Expires 12-31-15

Trustee
Darlene Ingersoll

Elected by General Members
Term Expires 6/30/16

Trustee
Deidre Kelsey

Appointed by the Board of Supervisors
Term Expires 6-30-13

Trustee
James Pacheco

Elected by Safety Members
Term Expires 12-31-14

Trustee
Karen Adams

County Treasurer
Ex-officio Member

Trustee
Mark Bodley

Appointed by the Board of Supervisors
Term Expires 06-30-14

Trustee
Mary McWatters, Alternate

Elected by Safety Members
Term Expires 12-31-14

Trustee
Michael Rhodes

Elected by General Members
Term Expires 06-30-15

Trustee
Ronald Kinchloe

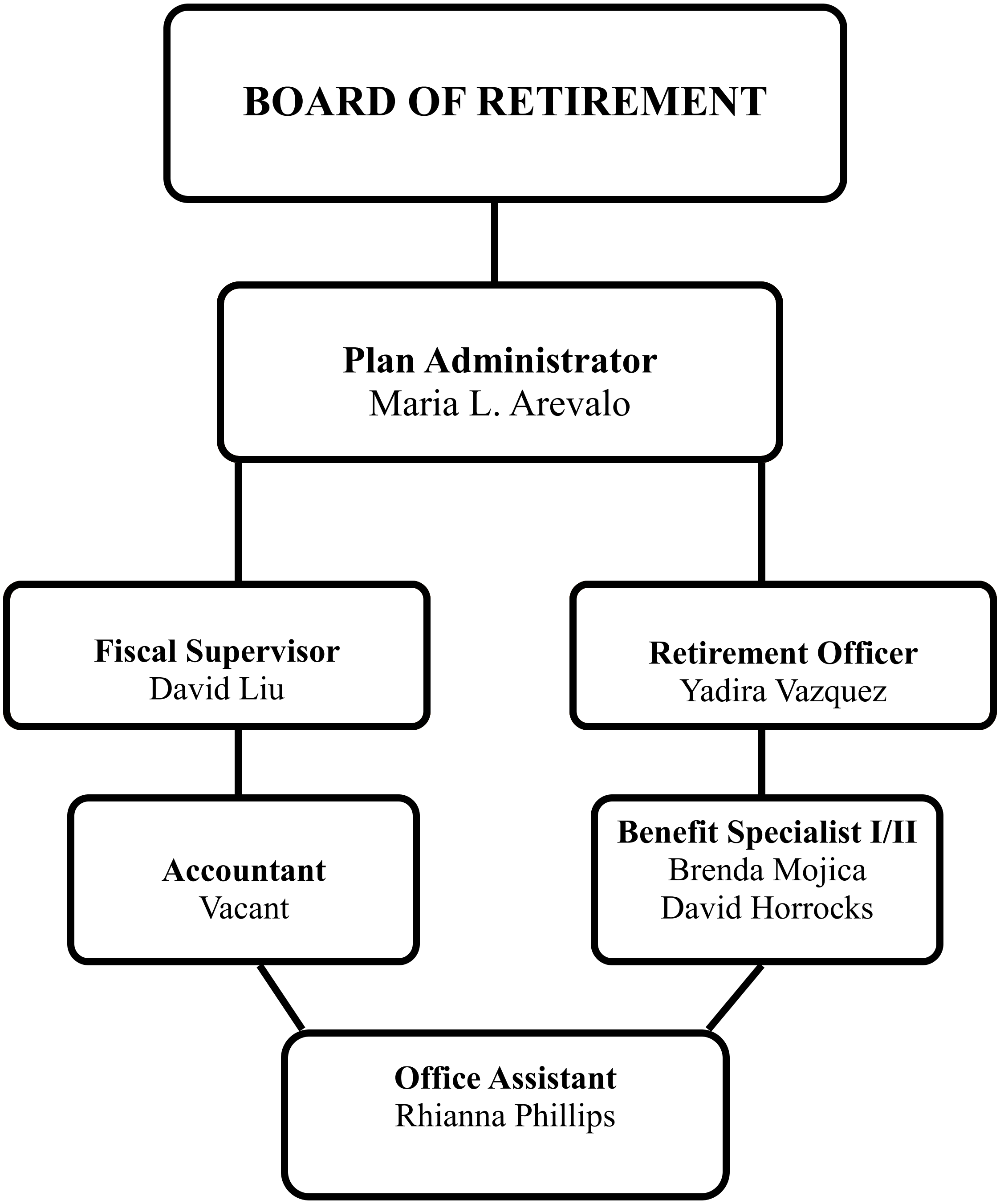
Elected by Retired Members
Term Expires 12-31-14

Trustee
Scott Johnston, Alternate

Elected by Retired Members
Term Expires 12-31-14

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Administrative Organization Chart at June 30, 2013



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants at June 30, 2013

CONSULTING SERVICES

INVESTMENT CONSULTANT
Strategic Investment Solutions, Inc
Paul Harte

ACTUARY
Cheiron EFI, a division of Cherion, Inc
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, Browning & Godwin

MEDICAL ADVISOR
Dr. Charles Fracchia

INVESTMENT SERVICES

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

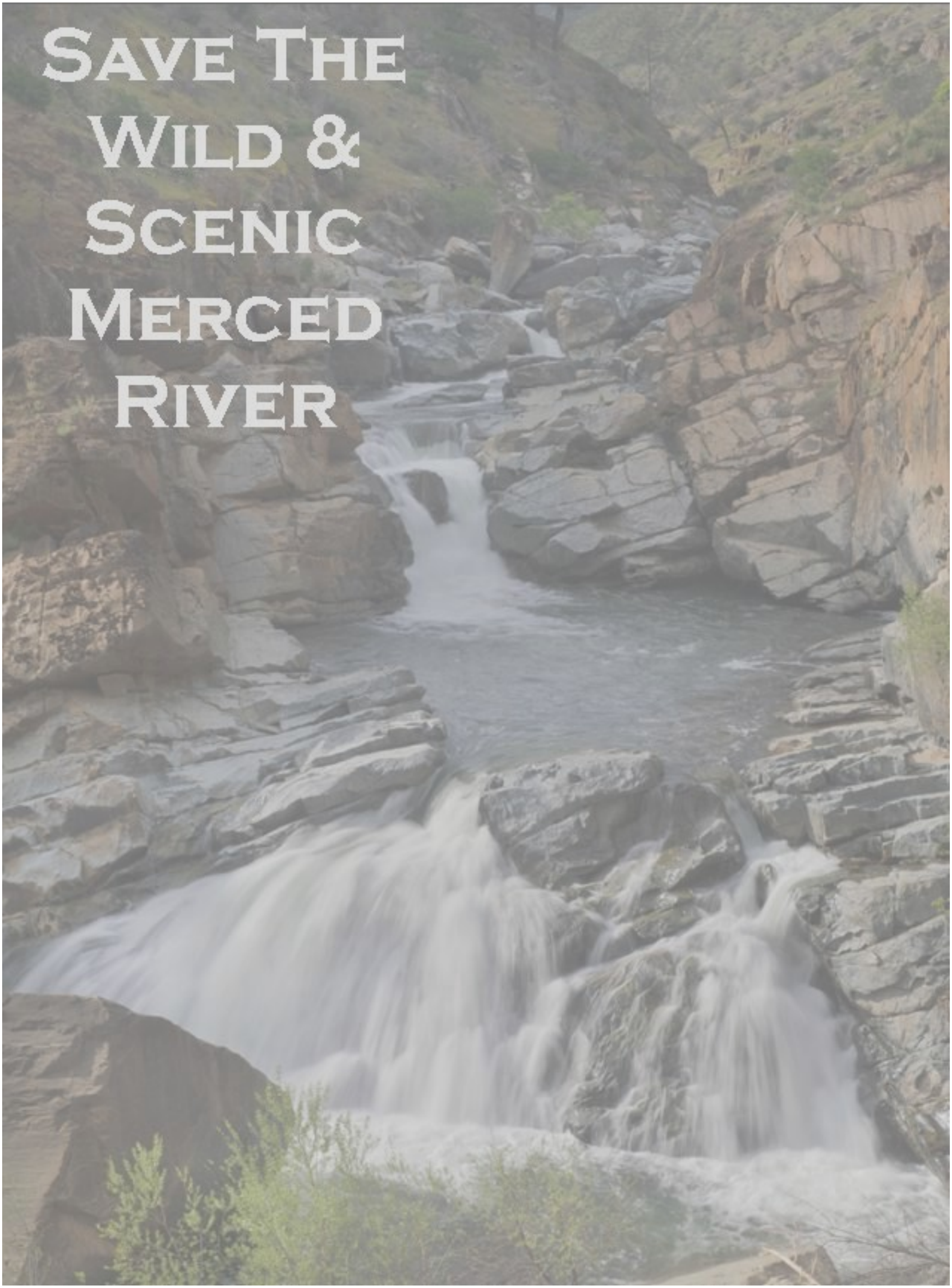
REAL ESTATE
UBS Global Asset Management
European Capital Management, Inc

DOMESTIC EQUITY
Mellon Capital Management
WHV

INTERNATIONAL EQUITY
UBS Global (EX US) Asset Management
Grantham, Mayo, Van Otterloo & Co. LLC
Earnest Partners, LLC
Wells Capital Management

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

COMMISSION RECAPTURE BROKERS
ConvergEx Group
Capital Institutional Services, Inc.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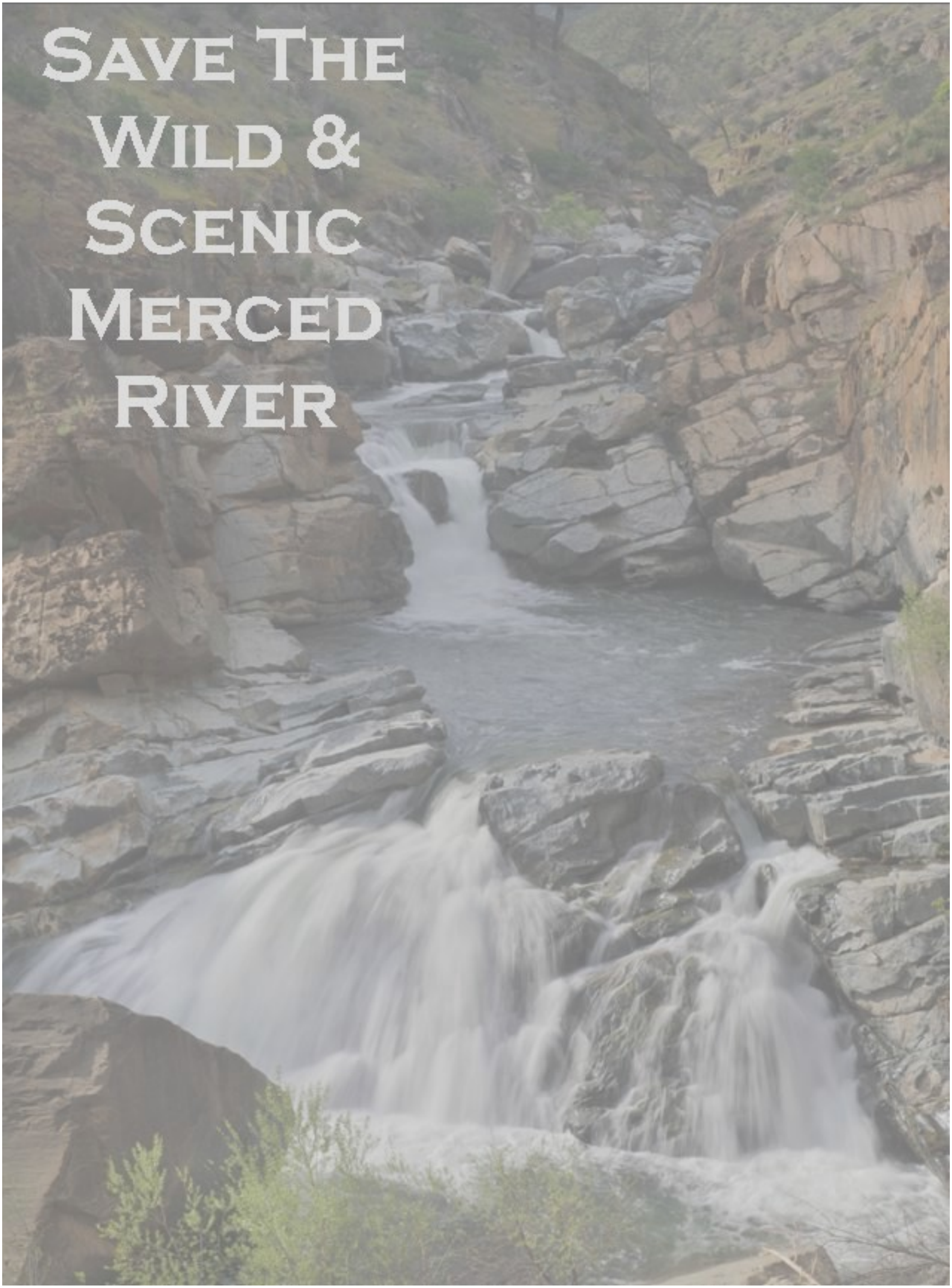
Merced
River


Save The
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Scenic
Merced
River

Financial Section

MGO Certified Public Accountants.

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

Walnut Creek

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Merced County Employees' Retirement Association (the Association), a component unit of the County of Merced, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Merced County Employees' Retirement Association as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the basic financial statements, the Association adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

As described in Note 5 to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2012, the Association's independent actuaries determined that, at June 30, 2012, the actuarial accrued obligation exceeded the actuarial value of its assets by $447 million. The most recent actuarial value of assets as of June 30, 2012 does not reflect all deferred investment losses that will be recognized in the future. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 22 through 29 and the schedules of funding progress and employer contributions on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Association's basic financial statements. The introductory section, other supplemental schedules in the financial section, 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental schedules 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 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, contracts and grant agreements 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* in considering the Association's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
October 7, 2013

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, 2013 and 2012. 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 June 30, 2013, MCERA's net position restricted for pensions totaled $563 million. All of the plan net position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.

- Over the fiscal year 2013, MCERA's net position restricted for pensions increased by $57.9 million (a increase of 11.5%). This increase essentially reflects an increase in the fair value of investments and employer contributions.

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2012, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 54.2%. In general, this indicates that for every one dollar of benefits due, MCERA has approximately $0.54 of assets available for payment.

- Additions to the Plan Net Position increased by $71.2 million or 163.1% from $43.6 million in the prior fiscal year to $114.8 million in the current fiscal year. This increase is primarily due to the increase in net investment income and employer contributions.

- Deductions from the Plan Net Position increased from $52.9 million in the last fiscal year to $56.9 million in the current fiscal year (an increase of approximately 7.6%). This increase was primarily due to higher benefits paid, increases in administrative and actuarial expenses.

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 Position*** 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 position restricted for pensions. The statement also presents prior year-end balances for comparative purposes.

The ***Statement of Changes in Plan Net Position***, 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 position 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, 53 and 63. 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 revenues are recognized when earned and expenses recognized when incurred regardless of when cash is received or paid. All investment gains or losses are shown at the trade date, not the 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 position restricted for pensions is generally considered to be a good measure of MCERA's financial position. Over time, increases or decreases in the system's net position is one indicator of whether the system's financial health is improving or deteriorating. Other factors however, such as investment market conditions and funded ratio should also be considered in measuring the retirement system's overall health.

The ***Notes to Basic Financial Statements*** are an integral part of the financial report and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning MCERA's funding progress. The ***Required Supplementary Information*** includes the Schedule of Funding Progress and Schedule of Employer Contributions. The Schedule of Funding Progress provides historical information about the actuarial funding status of the plan and reflects the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Employer Contributions provides historical information about annual required contributions of the employer and the actual contributions made. Together, these schedules and the supporting ***Notes to Required Supplementary Information*** provide information to help promote understanding of the changes in the funding status of the plan over time. Finally, the ***Other Supplementary Schedules*** represent information concerning MCERA's operations on a multi-year basis.

Financial Analysis

As previously noted, net position may serve over time as a useful indication of MCERA's financial position. At the close of the fiscal year, MCERA's net position exceeded its liabilities by $563 million. All of the net position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.

Plan net position as of June 30, 2013 totaled $563 million which is $57.9 million or (11.5%) more than the prior year. This result essentially reflects the increase of investments at fair value of 11.7% or ($56.8 million).

Plan net position as of June 30, 2012 totaled $505 million which is $9.2 million or (1.8%) less than the prior year. This result essentially reflects the decrease of investments at fair value of 2.7% or ($13.6 million) and a decrease in current and other assets of 13.5% or ($4.9 million). The overall $18.5 million decrease in assets was offset by the $8.9 million decrease in liabilities.

The 2012-2013 fiscal year began with a significant rally in the equity markets, both domestic and international. This increase was largely driven by the additional stimulus from the Federal Reserve and the continued growth of the U.S. economy. In the first quarter of MCERA's fiscal year, assets increased by 4.8% and a since inception return of 8.0% on a cumulative basis. For the quarter ending December 31, 2012, domestic equity market results were mixed due to the uncertainty of the U.S. Presidential election and the "fiscal cliff" of automatic spending cuts and tax increases, and their resulting impact on the U.S. economy. The International markets continued to grow with the help of the European Central Bank providing more stimulus. MCERA gained 2.7% for the quarter, beating the benchmark of 2.2%. This surge continued into MCERA's third quarter ending March 31, 2013 when both the U.S. and the developed International Equity markets rose sharply on improved U.S. economic data and the Central Bank efforts to support economic growth in Europe, increasing MCERA's assets by 4.9%. Stocks continued their 2013 rally through the third week of May before reversing course. The International markets spent a good part of June giving up gains achieved during the first two months of MCERA's fourth quarter. In spite of MCERA's negative return of 0.4% for quarter ending June 30, 2013, the total fund returned 12.4% for the fiscal year. Despite the short term market volatility, MCERA keeps a long-term investment focus when making decisions regarding MCERA's investments.

MCERA's Net Position as of June 30, 2013 and 2012

	2013	2012	Increase/ (Decrease) Amount	% Change
Current and other assets	$31,750,515	$31,206,133	$544,382	1.7%
Investments at fair value	540,369,435	483,618,224	56,751,211	11.7%
Capital assets/prepaid insurance	1,622,459	1,245,372	377,087	30.3%
Total assets	573,742,409	516,069,729	57,672,680	11.2%
Current liabilities	10,722,336	10,937,130	(214,794)	-2.0%
Total liabilities	10,722,336	10,937,130	(214,794)	-2.0%
Net position	$563,020,073	$505,132,599	$57,887,474	11.5%

MCERA's Net Position as of June 30, 2012 and 2011

	2012	2011	Increase/ (Decrease) Amount	% Change
Current and other assets	$31,206,133	$36,058,421	($4,852,288)	-13.5%
Investments at fair value	483,618,224	497,192,118	(13,573,894)	-2.7%
Capital assets	1,245,372	901,056	344,316	38.2%
Total assets	516,069,729	534,151,595	(18,081,866)	-3.4%
Current liabilities	10,937,130	19,790,738	(8,853,608)	-44.7%
Total liabilities	10,937,130	19,790,738	(8,853,608)	-44.7%
Net position	$505,132,599	$514,360,857	($9,228,258)	-1.8%

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 $24.4 million in the current fiscal year as a result of the increase in the financial markets.

MCERA's Reserves as of June 30, 2013, 2012 and 2011

	2013	2012	2011
Active members	$87,608,519	$79,568,852	$78,424,916
Employer advance	16,859,602	(189,538)	36,785,899
Retired members	377,071,253	375,032,417	318,511,664
Interest fluctuation	46,380,612	40,028,825	19,867,082
Market value fluctuation	35,100,087	10,692,043	42,077,392
Ad-Hoc COLA	-	-	1,935,766
Contingency	-	-	16,024,548
Internal Revenue Code (IRC) Section 401(h)	-	-	733,590
Total reserves at fair value	$563,020,073	$505,132,599	$514,360,857

MCERA's Activities

An upturn in the investment markets resulted in a June 30, 2013 fiscal year increase of $57.9 million in MCERA's net position (an increase of approximately 11.5% from the previous year). The key elements of this increase is the result of the following changes in plan net position.

Changes in Net Position

A. Additions to Plan Net Position

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 the Plan Net Position for the current fiscal year totaled $114.8 million. Overall, additions for the fiscal year increased by $71.2 million from the fiscal year ended June 30, 2012 primarily due to increases in the appreciation in fair value of investments. In the 2011-2012 fiscal year, additions totaled $43.6 million, which was a decrease of $98.8 million from the total revenue in the 2010-2011 fiscal year primarily due to investment fair value losses. The Employer's contribution rate increased 4% over the 2011-2012 fiscal year due to the change in actuarial assumptions and experience of the System. The 4% contribution rate change resulted in increased contributions of $3.5 million or 8.7%. 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 Position
(For the Years Ended June 30, 2013 and 2012)

	2013	2012	Increase (Decrease) Amount	% Change
Employer contributions	$43,783,663	$40,262,881	$3,520,782	8.7%
Member contributions	9,927,749	10,416,301	(488,552)	-4.7%
Net investment income/(loss)	61,083,399	(7,039,276)	68,122,675	967.8%
Total additions	$114,794,811	$43,639,906	$71,154,905	163.1%

Additions to Plan Net Position
(For the Years Ended June 30, 2012 and 2011)

	2012	2011	Increase (Decrease) Amount	% Change
Employer contributions	$40,262,881	$36,662,122	$3,600,759	9.8%
Member contributions	10,416,301	9,754,849	661,452	6.8%
Net investment (loss)/income	(7,039,276)	96,031,519	(103,070,795)	-107.3%
Total additions	$43,639,906	$142,448,490	($98,808,584)	-69.4%

B. Deductions from Plan Net Position

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 $56.9 million an increase of 7.6% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew 8.9% or $4.4 million. Deductions for the 2011-2012 fiscal year totaled $52.9 million an increase of 10.7% from the previous year. The increase in expenses for the 2011-2012 fiscal year was attributed primarily to the retiree payroll which grew approximately 10.7%.

Deductions from Plan Net Position
(For the Years Ended June 30, 2013 and 2012)

	2013	2012	Increase (Decrease) Amount	% Change
Benefits paid	$54,257,547	$49,839,653	$4,417,894	8.9%
Refunds of contributions	1,082,050	1,051,526	30,524	2.9%
Administrative expense	1,496,338	1,180,083	316,255	26.8%
Actuarial expense	71,402	63,312	8,090	12.8%
401(h) distribution to County	-	733,590	(733,590)	-100.0%
Total deductions	$56,907,337	$52,868,164	$4,039,173	7.6%

Deductions from Plan Net Position
(For the Years Ended June 30, 2012 and 2011)

	2012	2011	Increase (Decrease) Amount	% Change
Benefits paid	$49,839,653	$45,022,104	$4,817,549	10.7%
Refunds of contributions	1,051,526	766,692	284,834	37.2%
Administrative expense	1,180,083	1,189,030	(8,947)	-0.8%
Actuarial expense	63,312	138,200	(74,888)	-54.2%
401(h) distribution to County	733,590	650,000	83,590	12.9%
Total deductions	$52,868,164	$47,766,026	$5,102,138	10.7%

Changes in Net Position
(For the Years Ended June 30, 2013 and 2012)

	2013	2012	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$43,783,663	$40,262,881	$3,520,782	8.7%
Members contributions	9,927,749	10,416,301	(488,552)	-4.7%
Net investment income/(loss)	61,083,399	(7,039,276)	68,122,675	967.8%
Total additions	114,794,811	43,639,906	71,154,905	163.1%
Deductions				
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Refunds of contributions	1,082,050	1,051,526	30,524	2.9%
Administrative expense	1,496,338	1,180,083	316,255	26.8%
Actuarial expense	71,402	63,312	8,090	12.8%
401(h) distribution to County	-	733,590	(733,590)	-100.0%
Total deductions	56,907,337	52,868,164	4,039,173	7.6%
Change in net position	57,887,474	(9,228,258)	67,115,732	727.3%
Net position restricted for pensions at beginning of the year	**$505,132,599**	**$514,360,857**	**($9,228,258)**	-1.8%
Net position restricted for pensions at end of year	**$563,020,073**	**$505,132,599**	**$57,887,474**	11.5%

Changes in Net Position
(For the Years Ended June 30, 2012 and 2011)

	2012	2011	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$40,262,881	$36,662,122	$3,600,759	9.8%
Members contributions	10,416,301	9,754,849	661,452	6.8%
Net investment (loss)/income	(7,039,276)	96,031,519	(103,070,795)	-107.3%
Total additions	43,639,906	142,448,490	(98,808,584)	-69.4%
Deductions				
Benefits paid	49,839,653	45,022,104	4,817,549	10.7%
Refunds of contributions	1,051,526	766,692	284,834	37.2%
Administrative expense	1,180,083	1,189,030	(8,947)	-0.8%
Actuarial expense	63,312	138,200	(74,888)	-54.2%
401(h) distribution to County	733,590	650,000	83,590	12.9%
Total deductions	52,868,164	47,766,026	5,102,138	10.7%
Change in net position	(9,228,258)	94,682,464	(103,910,722)	-109.7%
Net position restricted for pensions at beginning of the year	**$514,360,857**	**$419,678,393**	**$94,682,464**	22.6%
Net position restricted for pensions at end of year	**$505,132,599**	**$514,360,857**	**($9,228,258)**	-1.8%

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,

MaLA

Maria L. Arevalo
Plan Administrator

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

STATEMENTS OF PLAN NET POSITION

As of June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$2,344,805	$1,159,932
Cash invested with BNY Mellon	10,123,758	8,920,447
Other cash and cash equivalents with BNY Mellon	5,475,149	6,960,218
Securities lending collateral	8,859,257	8,147,698
Total cash and short-term investments	26,802,969	25,188,295
Receivables:		
Bond interest	1,386,081	1,401,923
Dividends	283,220	289,399
Contributions	2,227,202	2,072,500
Securities sold	1,047,035	2,237,982
Other	4,008	16,034
Total receivables	4,947,546	6,017,838
Investments at fair value:		
U.S government and agency obligations	67,201,713	65,234,069
Domestic fixed income	82,944,970	81,128,495
Common stocks (domestic)	40,861,971	60,514,754
Common stocks (index funds)	142,050,349	83,161,093
Common stocks (international)	143,111,618	130,298,562
Real estate	39,258,498	36,004,799
Alternative investments	24,940,316	27,276,452
Total investments	540,369,435	483,618,224
Prepaid Expense	7,863	2,614
Capital assets: Net of accumulated depreciation of $71,835 and $70,509 respectively	1,614,596	1,242,758
Total assets	573,742,409	516,069,729
LIABILITIES		
Accounts payable	558,755	498,795
Securities lending obligation	8,859,257	8,147,698
Securities purchased	1,279,439	2,257,264
Unclaimed contributions	24,885	33,373
Total liabilities	10,722,336	10,937,130
Net position restricted for pensions	$563,020,073	$505,132,599

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF CHANGES IN PLAN NET POSITION
For the Years Ended June 30, 2013 and 2012

	2013	2012
ADDITIONS		
Contributions:		
Employer	$43,783,663	$40,262,881
Plan members	9,927,749	10,416,301
Total contributions	53,711,412	50,679,182
Investment Income/(Loss) from Investment Activities:		
Net appreciation/(depreciation) in fair value of investments	52,053,576	(16,743,755)
Investment income	11,324,520	11,746,737
Other revenue	44,398	15,783
Less investment expenses	(2,471,537)	(2,177,833)
Net investment income/(loss)	60,950,957	(7,159,068)
Securities Lending Activities:		
Securities lending income	20,866	30,172
Securities lending rebates	111,576	89,620
Net securities lending income	132,442	119,792
Total net investment income/(loss)	61,083,399	(7,039,276)
Total additions	114,794,811	43,639,906
DEDUCTIONS		
Benefits paid	54,257,547	49,839,653
Refunds of contributions	1,082,050	1,051,526
Administrative expense	1,496,338	1,180,083
Actuarial expense	71,402	63,312
401(h) distribution to County	-	733,590
Total deductions	56,907,337	52,868,164
Net increase/(decrease)	57,887,474	(9,228,258)
Net position restricted for pensions at beginning of year	505,132,599	514,360,857
Net position restricted for pensions at end of year	$563,020,073	$505,132,599

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

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 alternates:

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

Day to day management of MCERA is vested in a Plan Administrator who is appointed by and serves at the direction of the Board of Retirement.

MCERA, with its own governing board, is an independent governmental entity separate and distinct from the County and derives its authority from California Government Code Sections 31450 et seq., and the California Constitution.

B. Membership Structure

(1) *General*

Plan members are classified as either General or Safety members. Membership becomes effective on the first day of service. Members include all permanent employees appointed to permanent positions or permanent part-time positions within the Merced County, Superior Court, Transit Joint Powers Authority, Regional Waste Management 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 Probation Safety members hired after June 13, 1994 and all other Safety members hired after July 1, 1998. 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 or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit.

The County Board of Supervisors adopted two new retirement tiers in fiscal year 2012-2013 for both General and Safety members. Members hired between October 2012 and December 2012 are Tier III. Tier IV was adopted after the State of California approved AB 340, the Public Employee Pension Reform Act of 2013 (PEPRA). New members defined by the new legislation and hired after January 1, 2013 are Tier IV. Both Tier III and Tier IV benefits are based on 3 years final average salary and are not eligible for post-retirement cost of living adjustments. For Tier III, the minimum age to retire is 55 for General members or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit. For Tier IV, the minimum age to retire is 52 for General members with 5 years of service credit and 50 for Safety members with 5 years of service credit.

The structure of the membership on June 30, 2013 was as follows:

	General				Safety				
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier III**	**Tier IV**	**Tier I**	**Tier II**	**Tier III**	**Tier IV**	**Total**
Vested	192	1,016	-	-	42	196	-	-	1,446
Non-vested	6	285	42	66	2	43	2	9	455
INACTIVE MEMBERS									
Defered vested	89	106	-	-	4	15	-	-	214
Deferred non-vested	5	95	2	3	-	14	2	-	121
Reciprocity	71	128	-	-	21	36	-	-	256
Unclaimed members	5	16	-	-	-	-	-	-	21
Total active and inactive members	368	1,646	44	69	69	304	4	9	2,513
RETIRED MEMBERS									
Service retirements	1,262	160	-	-	183	8	-	-	1,613
Beneficiaries	179	9	-	-	34	-	-	-	222
Service connnected disability	44	8	-	-	72	11	-	-	135
Non-service connected disability	39	7	-	-	2	-	-	-	48
Survivors	17	5	-	-	5	1	-	-	28
Total retired members	1,541	189	-	-	296	20	-	-	2,046

The structure of the membership on June 30, 2012 was as follows:

	General		Safety		
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total**
Vested	216	993	50	168	1,427
Non-vested	5	381	1	87	474
INACTIVE MEMBERS					
Deferred vested	92	91	5	10	198
Deferred non-vested	5	85	-	12	102
Reciprocity	77	131	23	36	267
Unclaimed members	6	17	-	-	23
Total active and inactive members	401	1,698	79	313	2,491
RETIRED MEMBERS					
Service retirements	1,256	134	176	4	1,570
Beneficiaries	139	5	23	-	167
Service connnected disability	62	7	81	11	161
Non-service connected disability	59	11	5	-	75
Survivors	16	4	4	1	25
Total retired members	1,532	161	289	16	1,998

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, III) 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 lifetime monthly retirement benefits for Tier I, II and III. Members who are at least 70 years of age are eligible to retire, regardless of years of service. Tier IV members are eligible for retirement with 5 years of service and a minimum age of 50 (Safety) and 52 (General). The service retirement benefit is a percentage of monthly final average salary per year of service, depending on age at retirement and tier. 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 (not applicable to Tier IV Members). 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 District members, on March 15, 2005; Government Code Section 31664.1 for all Safety members, Tier I and Tier II, on July 1, 2005; Government Code Section 31676.17 for Superior Court of California and County of Merced members on November 4, 2005; Government Code Section 31676.1 for General members, Tier III, on October 1, 2012, and Government Code Section 31664 for all Safety members, Tier III, on October 1, 2012. The County also adopted PEPRA Tier IV for all General and Safety members on January 1, 2013. 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%

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

	Tier III		Tier IV	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	-	2.00%	-	2.00%
55	1.49%	2.62%	1.30%	2.50%
57	1.64%	2.62%	1.50%	2.70%
65	2.43%	2.62%	2.30%	2.70%
67+	2.43%	2.62%	2.50%	2.70%

(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 retirement 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 monthly retirement allowance is paid to the member with 50% of the member's benefit 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 monthly retirement allowance 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, III, and IV members are not eligible for any cost-of-living increases in their monthly 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***

Once 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, Tier II and Tier III Safety members, age fifty-five for Tier II and Tier III General members, and age fifty-two for Tier IV General members. Members may receive a service retirement benefit after being a member of the system for 30 years for General members and 20 years for Safety members regardless of age. Tier IV members can receive a service retirement benefit with five years of service credit at age fifty-two for General members and age fifty for safety members.

(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 member 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 Merced County, Merced Cemetery District, Transit Joint Powers Authority, Merced County Superior Court, Merced County Regional Waste Management Authority 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 sets forth the basis for the determination of the normal rates of contribution for General Tier I and Tier II members. Government Code Section 31639.5 sets 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 except for Tier IV and the following actuarial assumptions:

1. Actuarial investment return of 7.75%
2. The cost of living, or inflation rate, as measured by the Consumer Price Index (CPI) will increase at the rate of 3.75% per year
3. COLAs at the rate of 3.0% are assumed for Tier I members with banking assumed to be 2.7%
4. 3.75% 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

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

MCERA's actuarial assumptions as of June 30, 2012 and 2011:

	2012	2011
Inflation Rate	3.75%	3.75%
Investment Return Assumption Rate	7.75%	7.75%
Projected Salary Increases	3.75%	3.75%
Merit and Longevity Increase	Service-based	Service-based
Annual Required Contribution (ARC)	$40.3 million	$36.7 million
Percentage Contributed	100%	100%

Employer contribution rates vary from year to year and depend on the level of benefits established; the rate of return on investments, and the cost of administering benefits. MCERA's Schedule of Employer Contributions for the pension benefit plan is presented in the Required Supplementary Information 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. The balance in the 401(h) reserve is $0 as of June 30, 2013 and 2012 respectively.

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 services, fund due diligence 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 Section 31596.1 of the 1937 Act.

D. General Administrative Expense

MCERA's administrative costs for fiscal year 2012/2013 are calculated pursuant to Government Code Section 31580.2 (a) which provides that the administrative expenses incurred in any year may not exceed the greater of either (1) twenty-one hundredths of 1 percent (.21%) of the actuarial accrued liability of the system or (2) two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost of living adjustment computed in accordance with Article 16.5. Government Code Section 31580 (b) provides that expenditures for computer software, hardware, and computer technology consulting services in support of the computer products shall not be considered a cost of administration of the system. The administrative limit per this government code section allows MCERA a maximum expense amount of $2,121,800. MCERA's administrative costs for the fiscal year ending June 30, 2013 and 2012 were $1,496,338 and $1,180,083, respectively. The costs of administering the plan are financed by investment income.

E. Required Supplementary Information

A schedule of MCERA's funding progress that reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and a schedule of employer contributions that provides information about the employer's Annual Required Contribution (ARC) and the percentage of the ARC recognized by the plan are presented on page 57.

F. Administrative Budget and Professional Service Budget

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

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 Position. 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 materially different 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 the last reported sales price.

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 is based on the partners' most recent audited 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 99.3% 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 0.7% 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 Position, the net appreciation 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. Implementation of New Accounting Pronouncement

Effective July 1, 2012, MCERA adopted the provisions of Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures.

L. Effect of Future New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67. *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25.* This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts of equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

3. CASH AND INVESTMENTS

A. Investment Stewardship

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

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

B. Cash and Short-Term Investments

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

(1) County Treasury

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

Interest on funds in the County investment pool is computed quarterly based on the average daily balance. A deposit in the pooled account approximates fair value. The fair value of the System's cash invested with the County Treasurer totaled $2,344,805 and $1,159,932 at June 30, 2013 and 2012, respectively. Cash and investments included within the County Treasurer's pool is described in the County's Comprehensive Annual Financial Report.

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

The short-term investment funds that are in the custody of BNY Mellon are liquidity funds. The cash is invested in short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, banker's acceptances, time deposits and floating rate notes.

MCERA's cash, short-term investments and investments stated at fair value as of June 30, 2013 and 2012 are presented as follows:

	Fair Value	
Cash and Short-term Investments	**2013**	**2012**
Cash invested with Merced County Treasury	$2,344,805	$1,159,932
Cash invested with BNY Mellon	10,123,758	8,920,447
Other cash and cash equivalents with BNY Mellon	5,475,149	6,960,218
Securities lending collateral	8,859,257	8,147,698
Total cash and short-term investments	26,802,969	25,188,295
Investments		
U.S. government and agency obligations	67,201,713	65,234,069
Domestic fixed income	82,944,970	81,128,495
Common stocks (domestic)	40,861,971	60,514,754
Common stocks (index funds)	142,050,349	83,161,093
Common stocks (international)	143,111,618	130,298,562
Real estate	39,258,498	36,004,799
Alternative investments	24,940,316	27,276,452
Total investments	540,369,435	483,618,224
Total	$567,172,404	$508,806,519

All participants in the BNY Mellon pool proportionately share earnings and losses. Balances in the pooled accounts approximate fair value. At June 30, 2013 and 2012, short-term investments totaled $15,598,907 and $15,880,665, respectively. Which is the total of cash invested with BNY Mellon and Other cash and cash equivalents with BNY Mellon.

C. Securities Lending Program

State statutes and the Board of Retirement 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) and in turn, MCERA receives collateral.

Collateral received may include cash, letters of credit or securities. The lending agent invests cash 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 borrower 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, 2013 and 2012:

Date	Weighted Average Maturity	Average Duration	Mis-Match	Aaa	Aa2	Aa3	A1	A2	NR*	A-1/P-1
				(Par Value Reported in Millions)						
June 30, 2013	1 day	103 days	0 days	$3.5	-	-	$20.4	-	$595.5	$382.2
June 30, 2012	3 days	112 days	0 days	$8.6	$1.8	$4.1	$29.2	$3.4	$2,682.8	-

*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 domestic loaned securities and 105% with respect to foreign securities except in the case of loans of foreign securities which are denominated and payable in U.S. dollars, in which event the required percentage shall be 102%. If the market value of the loaned securities falls below the required percentage, the lending agent shall require that the borrower deliver an amount of additional collateral by the close of the next business day. As of June 30, 2013 and 2012, 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, 2013 the fair value of securities on loan and the total cash and non-cash collateral received for those securities on loan were $18,289,905 and $18,740,386. MCERA's securities lending cash collateral is invested in pooled funds managed by BNY Mellon Asset Servicing, which are not rated by credit rating agencies. MCERA's income net of expenses from securities lending was $132,442 for the year ended June 30, 2013.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Corporate	$56,242	$57,567	-
Equity	9,006,962	8,801,690	$443,333
U.S. T-Notes	7,689,983	-	$7,867,760
TIPS	1,536,718	-	$1,570,036
Total	$18,289,905	$8,859,257	$9,881,129

As of June 30, 2012 the fair value of securities on loan and the collateral received for those securities on loan were $18,085,572 and $18,503,439. MCERA's income net of expenses from securities lending was $119,792 for the year ended June 30, 2012.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Corporate	$9,596	$9,798	-
Equity	7,709,307	7,914,674	-
Exchange Traded	218,830	223,226	-
U.S. T-Notes	8,426,140	-	$8,598,645
TIPS	1,721,699	-	$1,757,096
Total	$18,085,572	$8,147,698	$10,355,741

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 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, 2013 and 2012 the fair value of the alternative investment portfolios were $24,940,316 and $27,276,452, respectively. The fair value of these alternative investments are reported based on the most current financial report available which is primarily 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, 2013 was $13,076,404 and as of June 30, 2012 was $14,980,793. 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 diversifying the portfolio based on geographic and economic region, liquidity, vintage year, firm, and time.

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

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.

Vintage year 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.

Firm risk is the amount of exposure to a private equity general partner. The maximum commitment to private equity is 5-8% of the total fund. There are no limits on commitments to individual partners or funds.

Time Risk refers to the long duration of the investment, which makes it difficult to predict business, economic and managerial developments that may have a significant impact on the value of the investments.

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, 2013 and 2012, MCERA had no investments that were exposed to custodial credit risk.

G. Credit Risk 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, 2013 and 2012, the System had no single issuer that exceeded 5% of plan net position. 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's core fixed income portfolio requires that no more than 5% of an investment manager's fixed income portfolio 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. This is the case of MCERA's workout portfolio that is managed by MCERA's core fixed income manager. As of June 30, 2013 MCERA's workout portfolio has a fair value of $1.4 million. These securities are being liquidated or held for longer time frames by comparing their individual fundamental values against executable market prices. MCERA's High Yield portfolio may allocate up to 20% in CCC rated securities. The County's pool and the short-term investment funds held with fiscal agent are unrated.

The following table presents the Moody's credit quality ratings of fixed income securities at June 30, 2013 and 2012:

Quality	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	NR*	NA**
Percent (%) of Fixed Income as of June 30, 2013	18.14%	2.87%	15.69%	12.64%	4.03%	9.06%	5.66%	0.29%	3.14%	28.48%
Percent (%) of Fixed Income as of June 30, 2012	18.72%	3.44%	16.22%	13.85%	3.20%	9.46%	4.80%	.30%	3.09%	26.93%

*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 benchmarks, the Barclays U.S. Aggregate Bond Index, and the Merrill Lynch High Yield Master II.

As of June 30, 2013 and 2012 the County's pool has a fair value of $638,171,045 and $586,486,143 respectively and a weighted average maturity of 506 days and 337 days, respectively.

As of June 30, 2013 and 2012 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 39 days and 50 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, 2013:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	Fair Value 2013	Weight of Fixed Income 2013	Effective Duration (Years) 2013	Fair Value 2013	Weight of Fixed Income 2013	Effective Duration (Years) 2013
U.S. government agency obligations	$30,358,962	25.12%	5.08	-	-	-
Commercial mortgage backed securities	2,874,522	2.38%	3.22	-	-	-
Asset backed securities	2,693,252	2.23%	1.03	-	-	-
U.S. Treasury and TIPS	36,842,751	30.49%	7.00	-	-	-
Corporate and other credit	47,068,299	38.95%	4.76	$29,297,372	100.00%	4.00
Collateralized mortgage obligations	1,011,525	0.84%	3.76	-	-	-
Total Fair Value	$120,849,311	100.00%		$29,297,372	100.00%	
Portfolio Effective Duration			**5.35**			**4.00**

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, 2012:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	Fair Value 2012	Weight of Fixed Income 2012	Effective Duration (Years) 2012	Fair Value 2012	Weight of Fixed Income 2012	Effective Duration (Years) 2012
U.S. government agency obligations	$31,479,322	26.26%	3.25	-	-	-
Commercial mortgage backed securities	2,752,563	2.30%	2.92	-	-	-
Asset backed securities	2,278,068	1.90%	1.63	-	-	-
U.S. Tresury and TIPS	33,754,747	28.16%	6.26	-	-	-
Corporate and other credit	48,330,076	40.32%	4.77	$26,507,936	100.00%	3.73
Collateralized mortgage obligations	1,259,852	1.05%	4.06	-	-	-
Total Fair Value	$119,854,628	100.00%		$26,507,936	100.00%	

J. Foreign Currency

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

MCERA's international equity managers are permitted to invest in developed countries and will be measured against a reasonable version of the MSCI EAFE Index (Europe, Australia, and Far East). Assets in international equity portfolios will be primarily composed of foreign ordinary shares and American Depository Receipts (including ADR's that are 144A securities). Management firms will continually monitor the country, currency, sector, and security selection risks associated 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, 2013 and 2012, MCERA did not hold any derivative instruments.

The following table represents securities and dividends receivable held in a foreign currency as of June 30, 2013 and 2012:

Currency	Fair Value (U.S. Dollars) 2013	2012
Czech koruna	$582,674	-
Euro currency	8,066,496	$6,474,010
Hong Kong dollar	3,784,630	5,076,462
Japanese yen	5,917,204	5,225,254
New Turkish lira	608,627	1,223,026
Norwegian krone	2,730,799	1,995,021
Singapore dollar	-	1,884,231
South Korean won	1,784,020	1,469,570
Swiss franc	1,578,436	1,116,353
Swedish krona	1,585,742	1,578,025
United Kingdom pound sterling	3,713,457	4,055,599
Total foreign currency	$30,352,085	$30,097,551

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, 2013 and 2012.

4. RESERVES

As required by the County Employees Retirement Law of 1937 and the Board of Retirement's policy, the following reserves for Net Position Restricted for Pensions have been established to account for the members, employers, and retirees' contributions. MCERA maintains the following reserves at June 30, 2013 and 2012.

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 Members' 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 2010	2011	2012	2013	Total
$(24,611,312)	$66,688,704	$(31,385,349)	$24,408,044	$35,100,087

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. As of June 14, 2012, pursuant to the Actuarial Funding Policy adopted by the Board of Retirement, the Ad-Hoc Cola Reserve was eliminated and amounts in the reserve transferred to the Retired Members' Reserve.

G. 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. As of June 30, 2012, the Contingency Reserve was not funded and all balances were transferred to the Interest Fluctuation Reserve. The Contingency Reserve will be funded and excluded from the actuarial value of assets only when the Plan's funded ratio is at or above 75%.

A summary of the various reserve accounts, which comprise net position restricted for pensions at June 30, 2013 and 2012 is as follows:

	2013	2012
Active Members	$87,608,519	$79,568,852
Employer Advance	16,859,602	(189,538)
Retired Members	377,071,253	375,032,417
Interest Fluctuation	46,380,612	40,028,825
Market Value Fluctuation	35,100,087	10,692,043
	$563,020,073	$505,132,599

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. MCERA completed its most recent triennial analysis for the period July 1, 2007 to June 30, 2010. 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, 2010. MCERA's next triennial analysis will be reflected in the actuarial valuation as of June 30, 2013.

Funded Status as of the Most Recent Actuarial Valuation Date (Dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2012	$528.7	$975.6	$446.9	54.2%	$106.6	419.3%

A. Disclosure of Information About Actuarial Method and Assumptions

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. As of June 30, 2012 MCERA has $24 million of deferred investment losses not yet recognized in the valuation. MCERA adopted an actuarial value of assets method that recognizes the difference between expected and actual market returns, net of expenses, over a 5-year period and is referred to as smoothing. MCERA amortization period as of June 30, 2012 has a remaining period of 17 years, declining by one year until the minimum period of 10 years is reached.

The required schedule of funding progress immediately following the notes to the basic financial statements presents 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 actuarial methods and assumptions used include techniques to reduce short term volatility in the actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used in the valuation year of June 30, 2012 are summarized in this note to conform to the disclosure requirements for GASB No. 50.

ACTUARIAL VALUATION ASSUMPTIONS

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll closed
Remaining Amortization Period	17 years from June 30, 2012
Asset Valuation Method	Actuarial value: Excess earnings smoothed over five years, 70%/130% corridor around market value
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	3.75%, plus service-based rates
Assumed Inflation Rate	3.75%
Assumed Post-employment Benefit Increase	For Tier 1, 100% of CPI to 3% annually with banking, assumed to be 2.7% annually

6. Litigation

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUIRED SUPPLEMENTARY INFORMATION
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)
6/30/07	$ 480,517	$ 652,482	$ 171,965	73.8%	$100,589	171.0%
6/30/08	$ 488,347	$ 692,252	$ 203,905	70.5%	$109,253	186.6%
6/30/09	$ 483,145	$ 809,681	$ 326,536	59.7%	$114,984	284.0%
6/30/10	$ 509,561	$ 930,832	$ 421,271	54.7%	$115,384	365.1%
6/30/11	$ 523,980	$ 933,917	$ 409,936	56.1%	$111,342	368.2%
6/30/12	$ 528,728	$ 975,608	$ 446,880	54.2%	$106,581	419.3%

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

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

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/07	$ 23,232	100%
6/30/08	$ 23,751	100%
6/30/09	$ 27,883	100%
6/30/10	$ 29,137	100%
6/30/11	$ 36,662	100%
6/30/12	$ 40,263	100%

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

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 position, 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 position 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. CHANGE IN PLAN COST FROM JUNE 30, 2011 TO JUNE 30, 2012

- Demographic experience caused an increase in the contribution rate.
- Pay increases were lower than expected.
- New members entered the Plan.
- The one year contribution rate delay and shortfall in the fiscal year 2012 contribution caused a cost increase.
- Changes in the payroll used to amortize the unfunded liability increased the cost as a percentage of payroll.
- Growth in the valuation assets produced an actuarial loss.
- The assumptions for female mortality were updated.
- An assumption used for calculating employee contributions changed.

The net impact of these changes decreased the current year employer contribution by 1.38% of payroll, or $1.5 million. The total net change in employer cost was a 4.05% increase as a percentage of payroll. This increase becomes effective for the fiscal year 2013/2014.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Years Ended June 30, 2013 and 2012

	2013	2012
Personnel Services:		
Salaries, wages and benefits	$888,270	$835,326
Office Expenses:		
Communications	2,895	3,267
Requested maintenance/ utilities/ cost allocation	72,171	86,791
Office supplies	3,158	4,140
Postage	6,683	2,133
Total Office Expense	84,907	96,331
Professional Services:		
Audit fees	49,053	47,145
Attorney fees	23,386	22,144
Disability stenographic fees/ investigations	600	938
Strategic Project Consulting	-	484
Publications/ legal notices	534	564
Disability medical reviews/ services	11,577	17,826
Merced Dept. of Information Technology	329,680	58,417
Total Professional Services	414,830	147,518
Miscellaneous:		
Memberships	6,230	6,140
Fiduciary meeting	8,400	8,600
Fiduciary and staff travel/ training	35,012	35,084
Insurance	57,364	49,939
Depreciation expense	1,325	1,145
Total Miscellaneous Expenses	108,331	100,908
Total Administrative Expenses	$1,496,338	$1,180,083

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

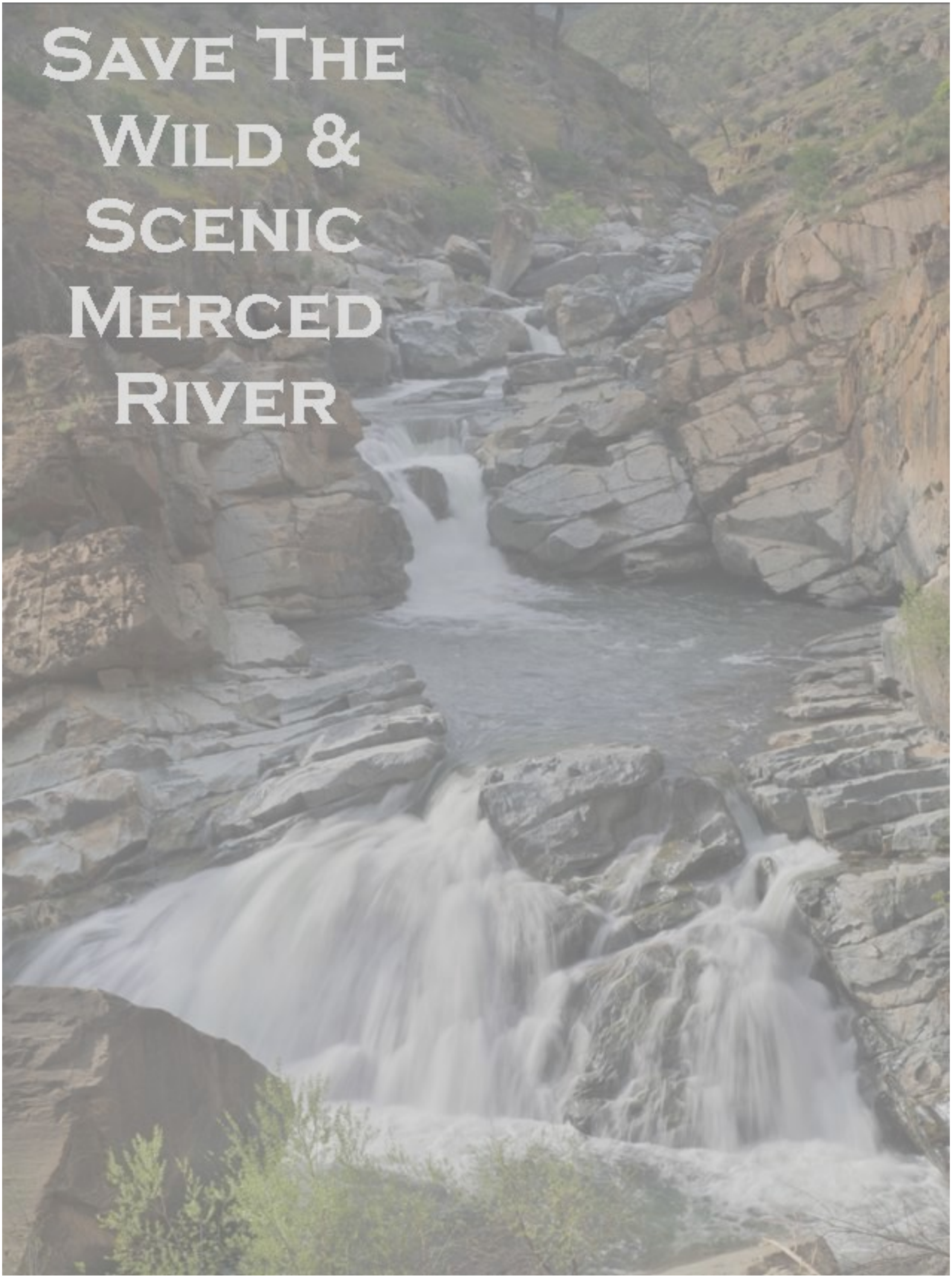
OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF INVESTMENT EXPENSES
For the Years Ended June 30, 2013 and 2012

INVESTMENT MANAGERS' FEES	2013	2012
Domestic Equities		
Earnest Partners, LLC	$34,409	$119,620
Mellon Capital Management	105,461	36,762
Wentworth, Hauser & Violich	304,249	270,038
Total Domestic Equities	444,119	426,420
International Equities		
UBS Global Small Cap	218,570	182,537
Earnest Partners, LLC	411,937	412,547
Wells Capital Management	194,950	45,454
Total International Equities	825,457	640,538
Alternative Investments		
Invesco Private Capital	77,873	86,514
Real Estate		
UBS Global-Trumbull Property Mgmt	325,666	303,221
Fixed Income		
AXA Investment Managers	121,379	105,210
Barrow, Hanley, Mewhinney & Strauss	301,374	286,983
Total Fixed Income	422,753	392,193
Total Investment Managers' Fees	2,095,868	1,848,886
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	205,720	157,607
Investment Consultant		
Milliman, Inc.	123,827	171,340
SIS, Inc	41,250	
Miscellaneous Investment Expense	4,872	-
Total Other Investment Expenses	375,669	328,947
Total Management Fees and Other Investment Expenses	2,471,537	2,177,833
Securities Lending Activity		
Management fee	59,420	54,022
Rebate fee	(170,996)	(143,642)
Total Securtiy Lending Activity Fees	(111,576)	(89,620)
Total Fees and Other Investment Expenses	$2,359,961	$2,088,213

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF PAYMENTS TO CONSULTANTS
For the Years Ended June 30, 2013 and 2012

INVESTMENT PROFESSIONAL SERVICE FEES	2013	2012
Custodial services - BNY Mellon Asset Servicing	205,720	157,607
Investment consultant - SIS, Inc, Milliman, Inc and Others	169,949	171,340
Actuarial services - EFI Actuaries	$71,402	$63,312
Total investment professional service fees	$377,682	$330,959

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$49,053	$47,145
Legal services	23,386	22,144
Disability stenographic fees/investigations	600	938
Other specialized services	534	1,048
Disability medical reviews/services	11,577	17,826
Merced County Department of Information Systems	329,680	58,417
Total administrative professional service fees	$414,830	$147,518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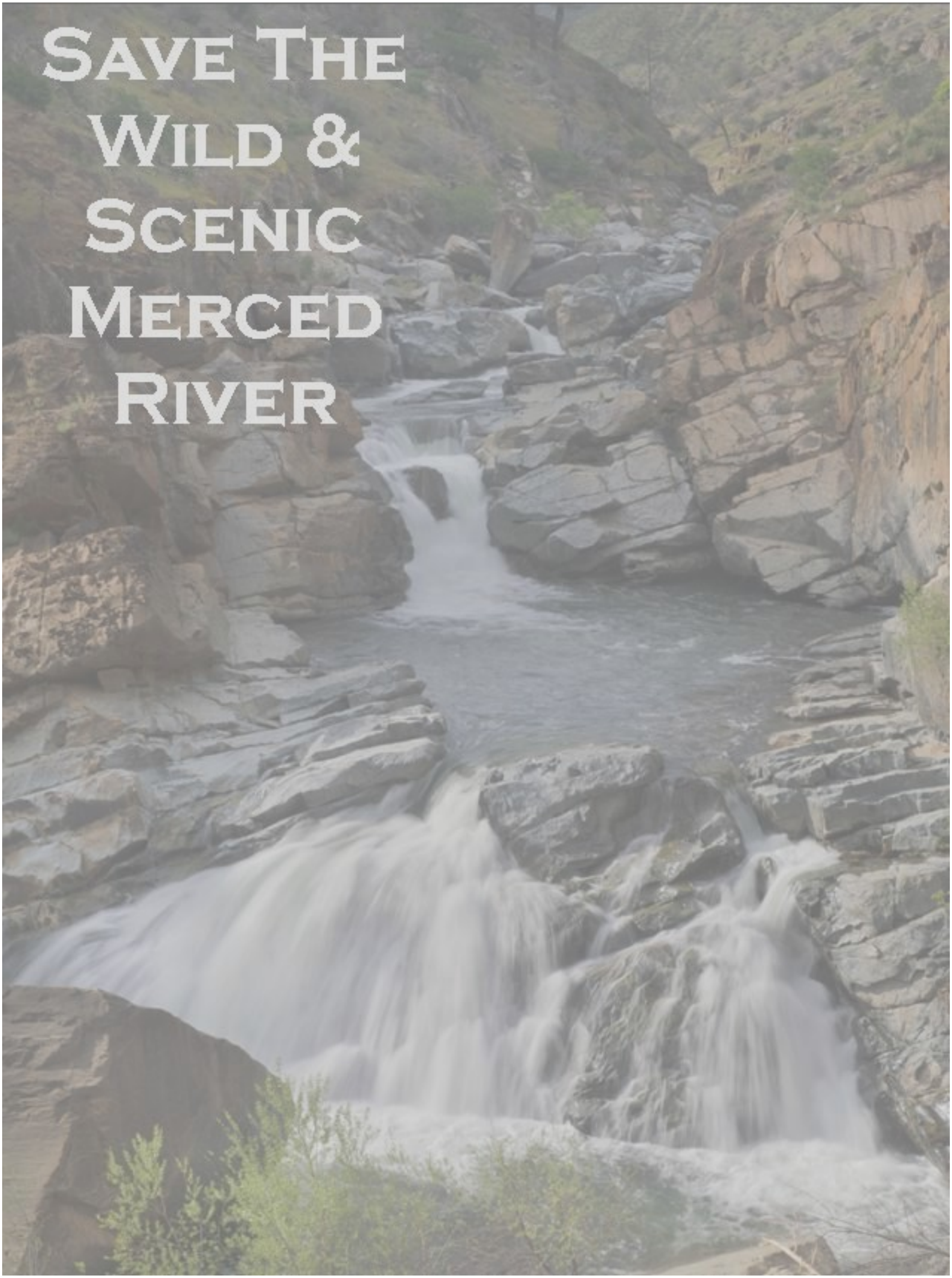
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Investment Section

STRATEGIC INVESTMENT SOLUTIONS, INC

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MERCED COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

Market Overview

Fiscal year 2013 (June 30, 2013) saw a continuation of the rally in equities off of their lows from March 9, 2009 with strong gains in US equities in excess of 20% and positive returns in Non-US stock markets. The US Fixed Income markets ended the fiscal year relatively flat as a discussion of tapering quantitative easing in the May-June 2013 period led to a fairly dramatic rise in interest rates. As a diversified investor, The Merced County Employees' Retirement Association (MCERA) experienced a +12.4% return for the fiscal year. The +12.4% result was below MCERA's policy benchmark of +12.9% for the fiscal year by -50 basis points, but above the plan's actuarial rate of 7.75%.

Fiscal year 2013 was once again positive for the US equity markets while foreign equity markets also experienced positive results but trailed the US markets by a significant amount as a rising US dollar had a negative effect on foreign markets returns. For the fiscal year, the Russell 3000 US Stock Index gained +21.5% and the MSCI ACW (All Country World) ex-US Index of foreign stocks gained +14.1%.

Within the US equity market, stocks of small companies outperformed large companies (+24.2% versus +21.2%) for the fiscal year. Value stocks outperformed growth on a relative basis in large caps (+25.3% versus +17.1%) and within small caps value stocks also outperformed growth stocks on a relative basis (+24.8% versus +23.7%).

International equities trailed the domestic equity market for fiscal year 2013. Developed Non-US stocks as measured by the MSCI EAFE Index gained +19.1% and Emerging Markets stocks as measured by the MSCI Emerging Markets Index gained +3.2%.

STRATEGIC INVESTMENT SOLUTIONS, INC.

The US fixed income market produced a negative return (-0.7% Barclays Capital US Aggregate Index) for the fiscal year ending June 30, 2013. US High Yield bonds as measured by the Merrill Lynch US High Yield Master Index gained +9.4%.

Real estate returns were positive in the global REIT and domestic open-end area. The FTSE EPRA-NAREIT Developed Index as a proxy for global REIT's was up +14.3% and the NCREIF ODCE Index gained +10.9% for fiscal year 2013.

Investment Policy, Asset Deployment Policy and Performance Measurement Standards

The MCERA 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's liabilities and cash flow requirements. Other factors considered in the construction of the policy target are an effort to maximize the return on invested assets, and an attempt to minimize risk exposures.

MCERA periodically reviews and updates its policy statement. The primary financial objective is to earn a long-term return sufficient to avoid deterioration in funded status. The system's actuary estimates this return requirement to be 7.75%. Secondary goals are to outperform the asset allocation-weighted benchmark (29.0% US Equities, 24.0% Non-US Equities, 29.0% US Core Fixed Income, 5% US High Yield Fixed Income, 6.0% Private Equity, 2.0% Global REITs, and 5.0% Private Equity) and to rank in the top forty percent of a universe of public pension funds.

At quarterly intervals, the System reviews performance at the total fund, asset class and individual manager levels. At each level, returns are evaluated versus appropriate indexes and peers. Comparisons with peers seek top forty percentile results.

STRATEGIC INVESTMENT SOLUTIONS, INC.

Investment Objectives

Investment returns achieved through June 30, 2013 have been calculated using a time-weighted rate of return methodology based upon market values. In fiscal year 2013, MCERA met its management goals of ensuring sufficient funds available to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, and adding marginal value.

Investment Results

PERIODS ENDED 6/30/13	ONE YEAR	THREE YEARS	FIVE YEARS
Domestic Equity	+22.8%	+17.9%	+6.7%
86% Russell 1000 / 14% Russell 2000 Index	+21.5%	+18.7%	+7.3%
Rank	28*	72	69
Non-US Equity	+17.2%	+11.1%	+1.1%
83% MSCI EAFE / 17% MSCI EM	+16.4%	+9.6%	-0.7%
Rank	35	20	28
Fixed Income	+2.0%	+5.5%	+4.5%
85.3% Barclays Cap US Aggregate / 14.7% ML HY Master II	-1.0%	+3.4%	+5.1%
Rank	29	40	91
Real Estate	+10.2%	+13.1%	+2.6%
25% FTSE NAREIT Dev. / 75% NCREIF ODCE	+11.9%	+12.5%	+2.4%
Rank	52	69	69
Private Equity	-1.9%	+9.0%	+3.4%
Russell 3000 + 300 bps (1-quarter lagged)	35.7%	+27.2%	+13.9%
Rank	99	70	64
Total Fund	+12.4%	+11.2%	+4.2%
*Policy Benchmark****	+12.9%	+12.2%	+5.4%
Public Fund Median	+11.7%	+10.8%	+4.8%
Rank**	33	37	75

STRATEGIC INVESTMENT SOLUTIONS, INC.

* Ranking 1 is best, 100 is worst.
** Rankings source – Investor Force Universe
***Policy Benchmark is 25.0% Russell 1000/ 4.0% Russell 2000/ 29.0% BC US Agg./5.0% ML High Yield Master II/20.0% MSCI EAFE/4.0% MSCI Emerging Markets/2.0% FTSE EPRA-NARIET Developed/6% NCREIF ODCE/5% Russell 3000 + 3% 1-quarter Lagged

Commentary

The domestic equity composite return for fiscal year 2013 was up +22.8% versus +21.5% for its custom index, or 130 bps of relative outperformance. The outperformance was a result of WHV returning +27.2% relative to +24.2% for the Russell 2000 index and the Mellon Tangent strategy contributing a 6 month return of +16.9% compared to 13.8% for the S&P 500 index. The remaining domestic equity exposures (US Large Cap Growth and Value) are held in passive strategies which performed in line with the benchmarks.

The international equity composite returned +17.2% compared to +16.4% for its custom index over the trailing 12 month period as of June 30, 2013. International equity small cap manager, UBS and emerging markets equity manager Wells Capital both outperformed their benchmarks with fiscal year returns of +25.8% and +5.8%, respectively, compared to +21.3% for the MSCI EAFE Small Cap index and +3.2% for the MSCI Emerging Markets Index. Earnest Partners and GMO returned +17.4% and +18.6%, respectively, which trailed the MSCI EAFE index return of +19.1%.

The Real Estate composite returned +10.2% compared to +11.9% for its custom index. Global REIT (Real Estate Investment Trust) manager European Investors provided a 2013 fiscal year return of +11.6% compared to +14.3% for its custom index. The UBS Trumbull Property strategy likewise trailed its custom index with a one-year return of +9.8% compared to +10.9% for the benchmark. The primary reason for the below benchmark results is due to lower leverage by UBS than most of the funds comprising the real estate universe.

STRATEGIC INVESTMENT SOLUTIONS, INC.

Finally, private equity performance realized a loss of -1.9% for fiscal year 2013 and significantly trailed the benchmark return of +35.7%. It is important to note that Private Equity has a long-term focus and a one-year comparison may not be overly meaningful, especially if a public market, which is used to benchmark the asset class, has an exceptionally strong performance in a given year. One should expect the asset class return and benchmark to converge over time as the portfolio matures and new commitments are made across a spectrum of vintage years.

Summary

The Retirement Association's total fund return over the fiscal year period was +12.4%, with a ranking in the 33rd percentile. This trailed the policy index of +12.9%, but was well ahead of its actuarial interest rate assumption of 7.75%. Over the trailing ten year period, the Retirement Association's total fund return of 6.2% modestly trailed the benchmark return of 6.4%. At all times, the performance calculations were in line with industry standards and the Fund was managed in accordance with the Retirement Association's policies.

Paul S. Harte
Senior Vice President
Strategic Investment Solutions, Inc.
August 19, 2013

STRATEGIC INVESTMENT SOLUTIONS, INC.

In reporting investment performance, SIS, Inc. calculates rates of return for MCERA monthly using statements provided by BNY Mellon Bank. SIS, 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 SIS, 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.

STRATEGIC INVESTMENT SOLUTIONS, INC.

Total Fund Returns vs. Universe
Periods Ending June 30, 2013

								Inception	
	3 Mo	Fiscal YTD	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Return	Since
Total Fund	**-0.4%**	**12.4%**	**5.5%**	**11.2%**	**4.2%**	**4.4%**	**6.2%**	**8.1%**	**Jan-95**
Fund Benchmark	*0.1%*	*12.9%*	*7.6%*	*12.2%*	*5.4%*	*5.1%*	*6.4%*	*5.4%*	*Jan-95*
IF Public DB Gross Rank	*61*	*33*	*74*	*37*	*75*	*85*	*88*	*51*	*Jan-95*
IF Public DB Gross Median	*-.02%*	*11.7%*	*6.4%*	*10.8%*	*4.8%*	*5.1%*	*7.0%*	*8.1%*	*Jan-95*

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

For the Year Ended June 30, 2013

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, consultant, 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.

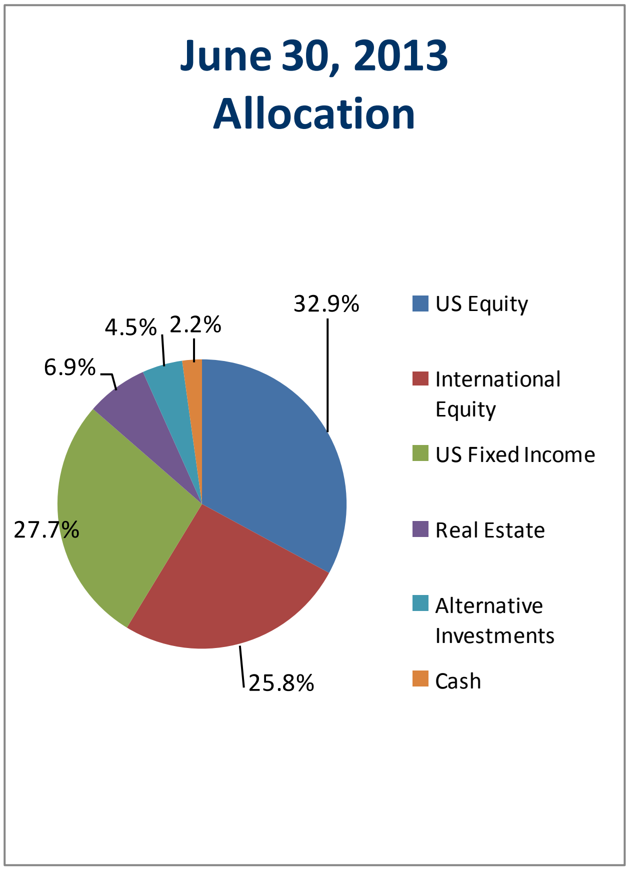
The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

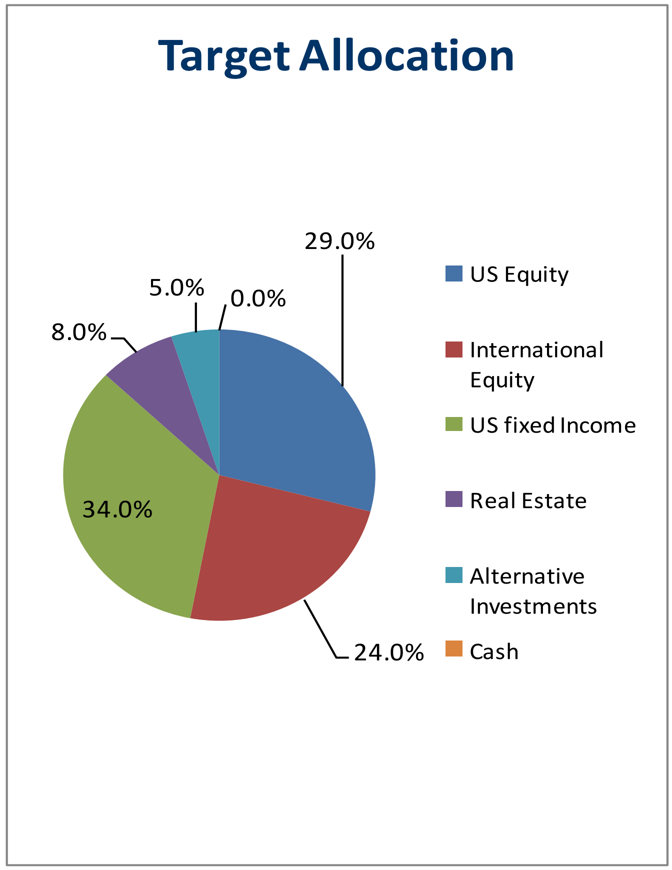
Summary of Proxy Voting Guidelines and Procedures

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, 2013





	June 30, 2013 Asset Allocation	Target Allocation		Allocation Range
US Equity	32.9%	29%	+/-	5.0%
International Equity	25.8%	24%	+/-	5.0%
US Fixed Income	27.7%	34%	+/-	13%/15%
Real Estate	6.9%	8.0%	+/-	2.0%
Alternative Investments	4.5%	5.0%	+/-	3%/5%
Cash	2.2%	0.0%	+/-	1%
	100.0%	100.0%		

INVESTMENT SUMMARY

For the Year Ending June 30, 2013

	Fair Value	Percent of Total
DOMESTIC EQUITY		
Large Cap Growth	$47,313,984	8%
Large Cap Value	47,800,425	8%
Mellon Tangent Added	46,935,940	8%
Small Cap Value - WHV	40,861,971	8%
Total Domestic Equity	182,912,320	32%
INTERNATIONAL EQUITY		
Large/Medium Core - GMO	49,140,970	9%
Large/Medium High Alpha - EP Int	54,289,458	10%
Small Cap Growth	20,327,964	4%
Emerging Market	19,353,226	3%
Total International Equity	143,111,618	25%
FIXED INCOME		
Domestic Core	120,849,311	21%
High Yield	29,297,372	5%
Total Fixed Income	150,146,683	26%
ALTERNATIVE INVESTMENTS	24,940,316	4%
REAL ESTATE		
Property Fund	31,089,306	6%
Global REIT	8,169,192	1%
Total Real Estate	39,258,498	7%
CASH AND SHORT-TERM INVESTMENTS	26,802,969	5%
Total Investments, Cash and Short-Term Investments	$567,172,404	100%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT RESULTS

For the Year Ended June 30, 2013

	CURRENT	ANNUALIZED					
	YEAR	2YR	3YR	5YR	7YR	10YR	Inception
DOMESTIC EQUITY							
Large Cap Core							
Mellon Tangent *	-	-	-	-	-	-	-
Index: S&P 500 Index	-	-	-	-	-	-	-
Large Cap Index							
Mellon Capital Mgmt. Large Cap Growth	17.1%	11.3%	18.7%	7.5%	7.0%	7.4%	8.7%
Index: Russell 1000® Growth	17.1%	11.3%	18.7%	7.5%	7.0%	7.4%	8.6%
Mellon Capital Mgmt. Large Cap Value	25.3%	13.7%	18.6%	6.7%	4.6%	7.9%	8.9%
Index: Russell 1000® Value	25.3%	13.6%	18.5%	6.7%	4.6%	7.8%	8.9%
Small Cap							
WHV	27.2%	6.5%	18.3%	6.9%	7.2%	12.9%	12.1%
Index: Russell 2000	24.2%	10.3%	18.7%	8.8%	5.8%	9.5%	7.5%
TOTAL DOMESTIC EQUITY	**22.8%**	**10.3%**	**17.9%**	**6.7%**	**5.6%**	**7.9%**	**9.0%**
INDEX: 86% RUSSELL® 1000/14%/RUSSELL® 2000	**21.5%**	**12.3%**	**18.7%**	**7.3%**	**5.8%**	**7.8%**	**9.2%**
INTERNATIONAL EQUITY							
GMO	18.6%	2.2%	12.1%	0.5%	-	-	-1.5%
Earnest Partners, LLC	17.4%	-0.6%	10.5%	3.0%	-	-	3.0%
UBS Global Small Cap	25.8%	1.2%	15.4%	2.1%	-	-	1.2%
Wells Capital Emerging Market Fund	5.8%	-	-	-	-	-	-2.6%
TOTAL INTERNATIONAL EQUITY	**17.2%**	**-0.1%**	**11.1%**	**1.1%**	**3.2%**	**8.7%**	**5.3%**
INDEX: INTERNATIONAL CUSTOM INDEX	**16.4%**	**0.2%**	**9.6%**	**-0.7%**	**1.5%**	**7.9%**	**3.7%**
FIXED INCOME							
AXA	11.8%	10.0%	12.0%	-	-	-	11.4%
Barrow Hanley	-0.2%	3.9%	4.2%	-	-	-	4.9%
TOTAL FIXED INCOME	**2.0%**	**5.1%**	**5.5%**	**4.5%**	**4.6%**	**3.9%**	**6.1%**
INDEX: U.S. FIXED INCOME CUSTOM INDEX	**-1.0%**	**3.2%**	**3.4%**	**5.1%**	**5.6%**	**4.5%**	**6.3%**
REAL ESTATE							
UBS Trumbull Property Fund	9.8%	10.5%	12.6%	1.7%	4.6%	7.8%	8.5%
European Capital Management, Inc	11.6%	6.6%	15.2%	6.8%	-	-	3.9%
TOTAL REAL ESTATE COMPOSITE	**10.2%**	**9.7%**	**13.1%**	**2.6%**	**4.9%**	**8.1%**	**8.6%**
INDEX: REAL ESTATE CUSTOM INDEX	**11.9%**	**11.2%**	**12.5%**	**2.4%**	**5.4%**	**8.4%**	**8.3%**
ALTERNATIVE INVESTMENTS**							
Invesco Private Capital	-15.6%	-2.3%	7.8%	3.4%	8.0%	-	6.6%
Adams Street Partners, LLC	12.5%	11.6%	14.2%	6.2%	9.0%	-	8.9%
Pantheon Ventures I, Inc.	5.6%	4.5%	8.1%	3.1%	5.6%	-	3.0%
Pantheon Ventures II, Inc.	14.2%	-	-	-	-	-	**5.7%**
Pantheon Secondary	-6.2%	-0.4%	4.1%	-	-	-	5.9%
TOTAL ALTERNATIVE INVESTMENTS	**-1.9%**	**3.5%**	**9.0%**	**3.4%**	**7.4%**	-	**6.2%**
INDEX: RUSSELL 3000 + 3.00%	**35.7%**	**22.6%**	**27.2%**	**13.9%**	**12.0%**	-	**12.3%**
TOTAL FUND* **	**12.4%**	**5.5%**	**11.2%**	**4.2%**	**4.4%**	**6.2%**	**8.1%**
TOTAL FUND CUSTOM INDEX* **	**12.9%**	**7.6%**	**12.2%**	**5.4%**	**5.1%**	**6.4%**	**5.4%**

* Mellon Tangent was incepted in December 2012 so there is no fiscal year data available because the fund had not had a full year of performance yet.
**Performance results lags by two quarters due to financial reporting constraints. ***Using time-weighted rate of return based on market rate return.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TOP 10 LARGEST HOLDINGS BY FAIR VALUE

For the Year Ending June 30, 2013

PAR	BONDS	FAIR VALUE
9,895,000	U S TREASURY NOTE 2.000% 02/15/2022 DD 02/15/12	$9,677,805
9,115,000	U S TREASURY NOTE 0.875% 01/31/2017 DD 01/31/12	$9,100,781
3,080,000	U S TREASURY NOTE 2.000% 04/30/2016 DD 04/30/11	$3,198,395
2,945,000	U S TREASURY BOND 3.125% 11/15/2041 DD 11/15/11	$2,760,938
1,800,043	FHLMC POOL #G0-5753 5.000% 11/01/2039 DD 12/01/09	$1,992,864
2,015,000	U S TREASURY NOTE 2.000% 11/15/2021 DD 11/15/11	$1,980,201
1,777,783	FNMA POOL #0AC3278 5.000% 09/01/2039 DD 09/01/09	$1,944,095
1,893,837	FHLMC POOL #Q0-9949 3.000% 08/01/2042 DD 07/01/12	$1,848,858
1,542,176	FNMA POOL #0AQ5095 3.000% 11/01/2027 DD 11/01/12	$1,592,019
1,337,538	US TREAS-CPI INFLAT 1.750% 01/15/2028 DD 01/15/08	$1,498,564
		$35,594,520

SHARES	STOCKS	FAIR VALUE
15,400	CORE LABORATORIES N V	$2,335,564
56,855	ARM HOLDINGS PLC	$2,059,857
41,100	DENSO CORPORATION NPV	$1,930,150
45,900	ICON PLC	$1,626,237
51,700	GETINGE AB SER'B'NPV	$1,561,084
16,520	CHART INDUSTRIES INC	$1,554,367
49,000	SHIRE PLC ORD GBP0.05	$1,549,537
6,146	ROCHE HLDG AG GENUSSCHEINE NPV	$1,526,513
50,057	DIAGEO ORD 28 101/108P	$1,427,323
98,800	DNB ASA	$1,423,090
		$16,993,722

A complete list of portfolio holdings is available upon request.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND LIST OF INVESTMENT SERVICE PROVIDERS

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

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

REAL ESTATE
UBS Global Asset Management
European Capital Management, Inc

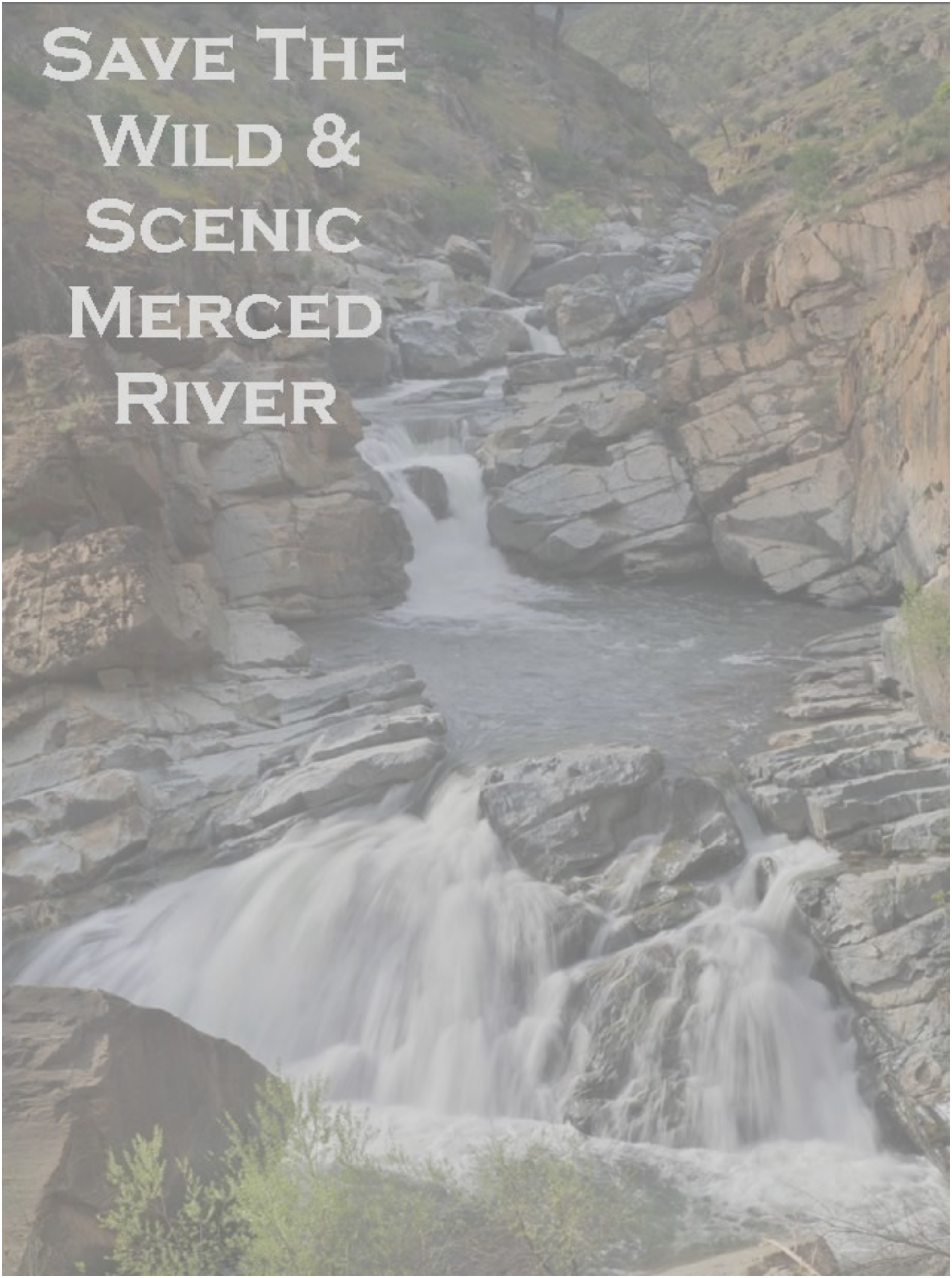
PRIVATE EQUITY
Invesco Private Equity
Adams Street Partners, LLC
Pantheon Ventures, Inc.

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

COMMISSION RECAPTURE
ConvergEx Group
Capital Institutional Services, Inc

INVESTMENT MANAGERS' FEES	**2013**	**2012**
Equity Managers		
Domestic	$444,119	$426,420
International	825,457	640,538
Fixed Income Fees	422,753	392,193
Alternative Investment Managers	77,873	86,514
Real Estate Fees	325,666	303,221
Total Investment Managers' Fees	$2,095,868	$1,848,886
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$169,949	$171,340
Investment Custodial Fees	205,720	157,607
Other Investment Service Fees	(111,576)	(89,620)
Total Other Investment Service Fees	264,093	239,327
Total Investment Managers' and Other Service Fees	$2,359,961	$2,088,213

Actuarial Section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www.efi-actuaries.com

ROBERT T. MCCRORY | Executive Vice *President*

March 5, 2013

Actuarial Certification

This report presents the results of the annual actuarial review of the MCERA Retirement Plan as of June 30, 2012. The prior review was conducted as of June 30, 2011.

Data on active and inactive Members and their beneficiaries as of the valuation date was supplied by the Plan Administrator on electronic media. As is usual in studies of this type, Member data was neither verified nor audited. However, we conducted an examination of all participant data for reasonableness and consistency. The financial information provided by the Plan Administrator included the Statement of Change in Plan Net Assets Available for Benefits and Statement of Plan Net Assets Available for Benefits, both of which are included in the Plan's Comprehensive Annual Financial Report.

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 level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of the valuation date, the amortization period is 17 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.

The actuarial assumptions were developed by the EFI and approved by the Board during the course of an analysis of experience which covered the period from July 1, 2007 through June 30, 2010. The assumptions used in the most recent valuation are intended to produce results that will reasonably approximate the anticipated future experience of the Plan. The next experience analysis is expected to cover the years 2010 through 2013.

Our firm has prepared all of the schedules presented in the actuarial report.

GASB Statement No. 25 requires preparation of trend data schedules of funding status and employer contributions. To produce the required schedules, we have relied upon information from our files and contained in the reports of other actuaries employed by the sponsor in completing the schedules.

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. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. This report does not address any contractual or legal issues. We are not attorneys, and our firm dose not provide any legal services or advice.

Respectfully Submitted,

Graham A. Schmidt, ASA
(415) 829-7122

Robert T. McCrory, FSA
(206) 328-8628

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, 2012):

Investment Rate of Return	7.75%, net of investment and administrative expenses
Inflation	3.75% per annum
Cost of Living Adjustments	For Tier 1, 100% of CPI to 3% annually with banking, assumed to be 2.7% annually
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.
Projected Annual Salary Increases	3.75%, plus service-based rates

B. Non-Economic Assumptions

The date of the last study of the Plan’s actual experience was June 30, 2010. 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	Combined Healthy Retired Pensioners (RP) 2000 (2 years setback)
General Member Females	Combined Healthy Retired Pensioners (RP) 2000

Note: Information compiled from Actuarial Report prepared by Cheiron EFI Actuaries dated June 30, 2012.

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS (Continued)

Safety Member	Combined Healthy Retired Pensioners (RP) 2000 (2 years setback).

2. Disability

General Males	Combined Healthy Retired Pensioners (RP) 2000 (3 year set-forward).
General Females	Combined Healthy Retired Pensioners (RP) 2000 (3 year set-forward).
Safety Member	Combined Healthy Retired Pensioners (RP) 2000 (3 year set-forward).

3. For Employee Contribution Rate Purposes

General Member	Combined Healthy Retired Pensioners (RP) 2000 for Males (2 year setback).
Safety Member	Combined Healthy Retired Pensioners (RP) 2000 for Males (2 year setback).

Active Member Mortality	Based upon the Experience Analysis as of 6/30/10 (See Schedule of Probabilities of Separation from Active Service).
Withdrawal Rates	Based upon the Experience Analysis as of 6/30/10 (See Schedule of Probabilities of Separation from Active Service).
Disability Rates	Based upon the Experience Analysis as of 6/30/10 (See Schedule of Probabilities of Separation from Active Service).
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/10 (See Schedule of Probabilities of Separation from Active Service).

Note: Information compiled from Actuarial Report prepared by Cheiron EFI Actuaries dated June 30, 2012.

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 benefits at 59; terminated Safety Members are assumed to begin receiving benefits at age 53. 50% of vested terminated Safety members and 25% of vested terminated General 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. Male spouses are assumed to be three years older than their wives.
Final Average Compensation Load	The final average compensation (FAC) for members projected to receive a service retirement benefit has been increased based on the assumption that members will have elements of pay included in their FAC which are not included in the annual pay provided to the Actuary (Ventura decision pays). The FAC for Tier 1 members has been increased by 6.92%, and the FAC for Tier 2 members by 2.31%.

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 an 17-year period from June 30, 2012.

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 Cherion EFI Actuaries dated June 30, 2012.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

GENERAL MEMBERS

	Service Retirement (by Service)		
Age	10-19 Yrs	20-29 Yrs	30+ Yrs
50	2.50%	5.00%	7.50%
55	9.00%	18.00%	27.00%
60	25.00%	25.00%	37.50%
65	40.00%	40.00%	40.00%
70	100.00%	100.00%	100.00%

	Vested Termination	
Service	Female	Male
0-4	0.00%	1.00%
5-9	4.00%	3.30%
10-14	2.50%	5.50%
15-19	2.50%	5.50%
20-29	2.50%	2.00%
30+	0.00%	0.00%

Service	Withdrawals (All)
0	33.00%
1	15.00%
2	10.00%
3-4	7.00%
5-6	3.00%
7	1.50%
8-9	1.50%
10-19	1.50%
20-29	0.50%
30+	0.00%

	Service-Connected Disability		Non Service-Connected Disability	
Age	Female	Male	Female	Male
20	0.0040%	0.0040%	0.0000%	0.0000%
30	0.0115%	0.0200%	0.0200%	0.0800%
40	0.0190%	0.0480%	0.0400%	0.1300%
50	0.0600%	0.0960%	0.1800%	0.2400%
60	0.1575%	0.1680%	0.4600%	0.4200%
65	0.0000%	0.0000%	0.0000%	0.0000%

SAFETY MEMBERS

	Service Retirement (by Service)	
Age	10-19 Yrs	20+ Yrs
40-44	0.00%	2.50%
45-49	0.00%	5.00%
50-59	7.50%	25.00%
60+	100.00%	100.00%

Age	Active Member Mortality
20	0.0300%
30	0.0600%
40	0.1700%
50	0.2700%
60	0.0000%

Age	Service-Connect Disability (All)	Non Service-Connected Disability (All)
20	0.3250%	0.0000%
30	0.4190%	0.0300%
40	0.6375%	0.0600%
50	0.9940%	0.1200%
60	0.0000%	0.0000%
65	0.0000%	0.0000%

Service	Vested Termination (All)
0-4	1.50%
5-9	4.50%
10-14	3.00%
15-19	0.50%
20-29	0.00%
30+	0.00%

Service	Withdrawals (All)
0	25.00%
1	12.50%
2	5.00%
3-4	5.00%
5-6	2.50%
7	2.50%
8-9	1.00%
10-19	0.00%
20-29	0.00%
30+	0.00%

Note: Information compiled from Actuarial Report prepared by Cherion EFI Actuaries dated June 30, 2012.

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	1,917	$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	7.75%
7/1/2008	Safety	339	$17,137,000	$50,552	5.20%
	Total	2,260	$109,253,000	$48,342	7.41%
	General	1,848	$99,266,589	$53,716	12.02%
7/1/2009	Safety	342	$19,363,697	$56,619	12.00%
	Total	2,190	$118,630,286	$54,169	12.05%
	General	1,708	$94,915,436	$55,571	3.45%
7/1/2010	Safety	330	$19,692,515	$59,674	5.40%
	Total	2,038	$114,607,951	$56,236	3.81%
7/1/2011	General	1,659	$94,976,978	$57,250	3.02%
	Safety	321	$19,768,859	$61,585	3.20%
	Total	1,980	$114,745,837	$57,952	3.05%
7/1/2012	General	1,596	$90,706,280	$56,834	-0.73%
	Safety	305	$19,145,091	$62,771	1.93%
	Total	1,901	$109,851,371	$57,786	-0.29%

Note: Information compiled from Actuarial Report prepared by Cherion EFI Actuaries dated June 30, 2012. The data differs from the membership data in the notes to the financial statements due to timing differences and actuary cleansing of the data.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

For Years Ended June 30

(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
6/30/07	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
6/30/10	1,711	171	$6,098	56	$981	1,826	$43,653	15.65%	$23,907
6/30/11	1,826	103	$2,627	44	$781	1,885	$46,117	5.64%	$24,465
6/30/12	1,885	175	$6,485	64	$960	1,996	$52,888	14.68%	$26,497

SOLVENCY TEST

For Years Ended June 30

(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
6/30/07	$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%
6/30/10	$64,917	$532,695	$333,220	$930,832	$509,561	100%	83%	0%
6/30/11	$65,723	$558,483	$309,711	$933,917	$523,980	100%	82%	0%
6/30/12	$66,407	$632,319	$276,882	$975,608	$528,728	100%	73%	0%

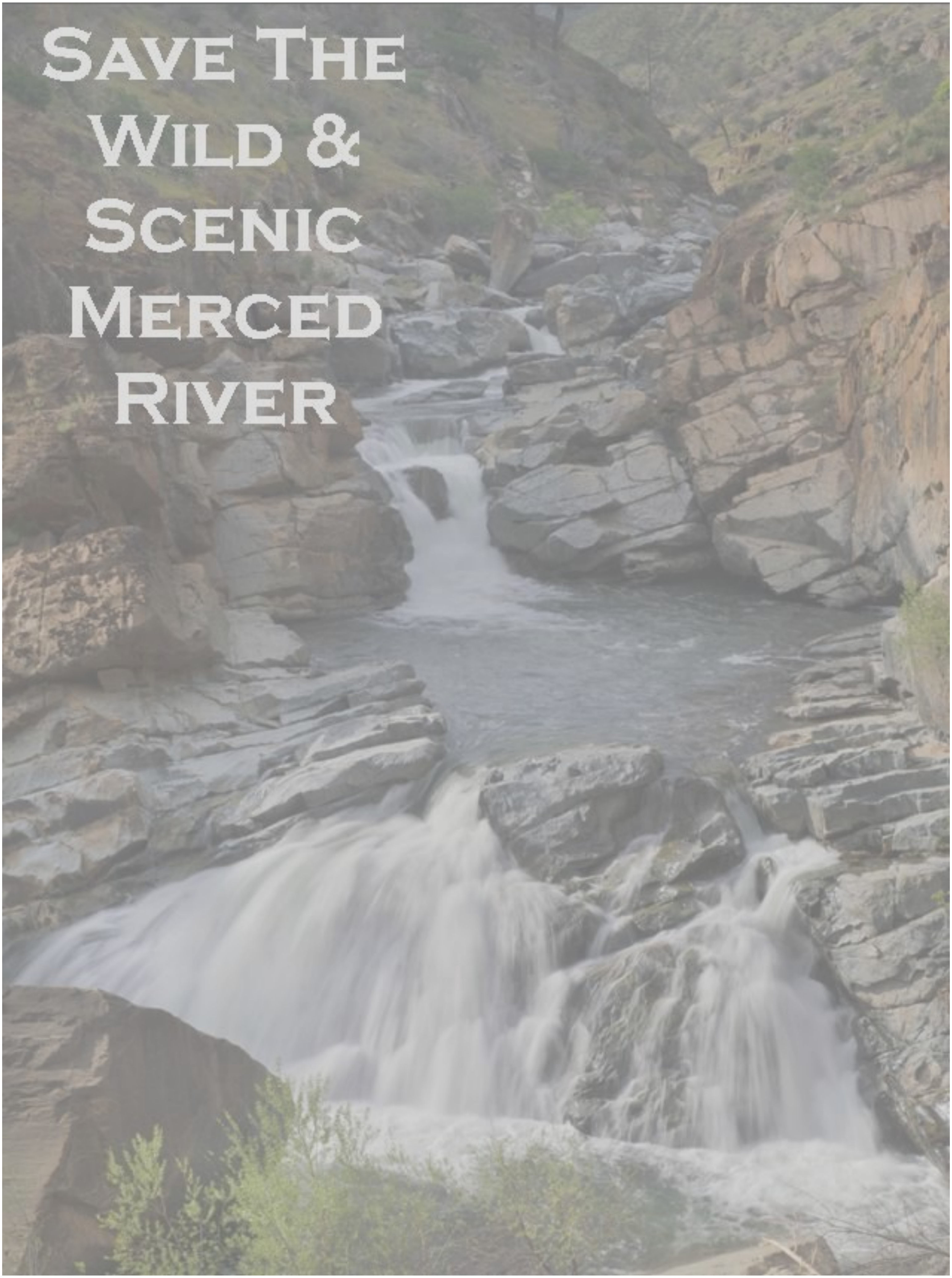
ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

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)
6/30/07	$(3,586)	$(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
6/30/10	$16,151	$8,100	$24,251	N/A	$63,410	$87,661
6/30/11	$30,955	$(13,824)	$17,131	N/A	$(12,918)	$(4,213)
6/30/12	$40,054	$11,401	$51,455	N/A	$(16,069)	$35,386

Note: Information compiled from Actuarial Report prepared by Cherion EFI Actuaries dated June 30, 2012.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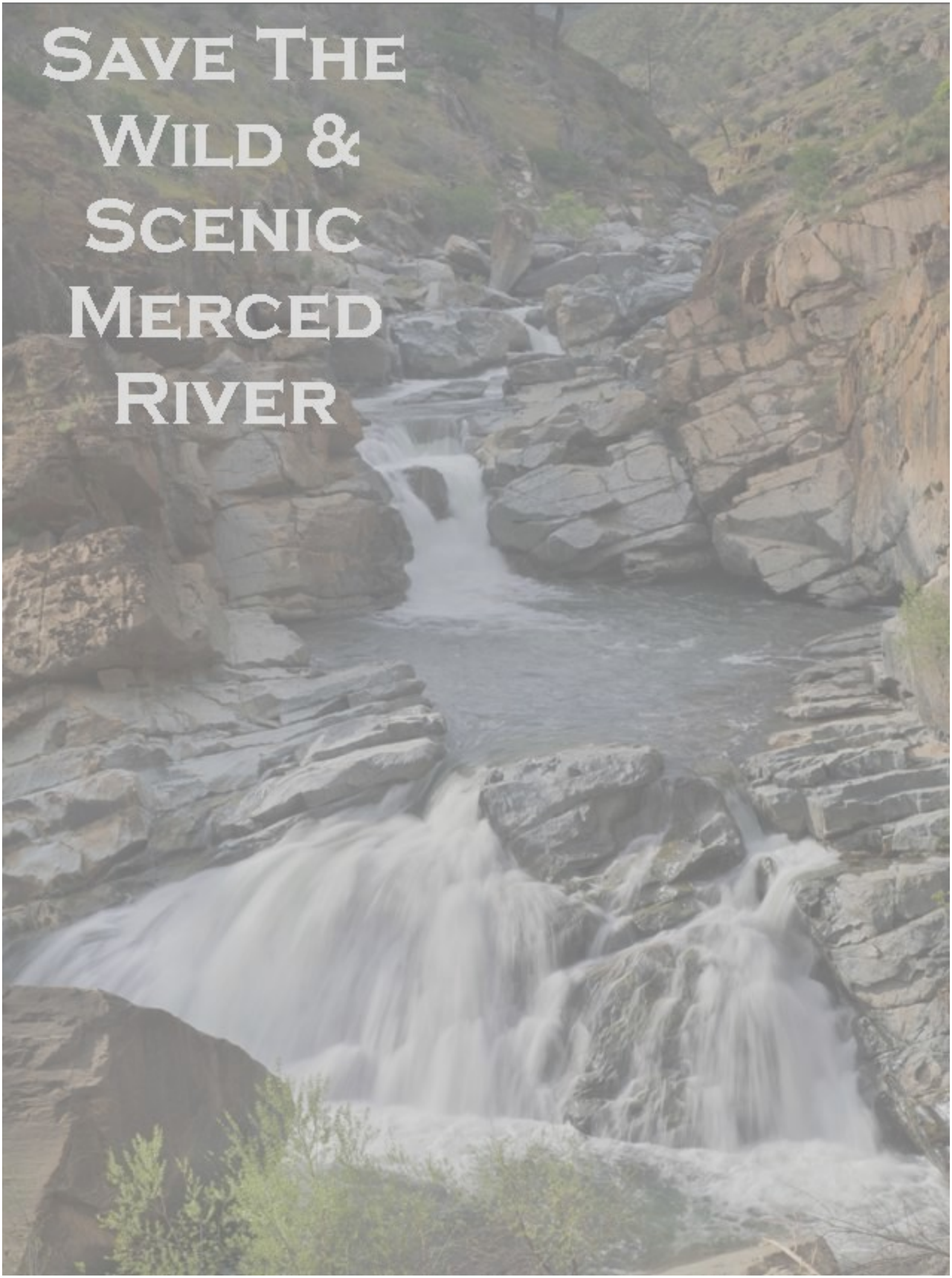
Statistical Section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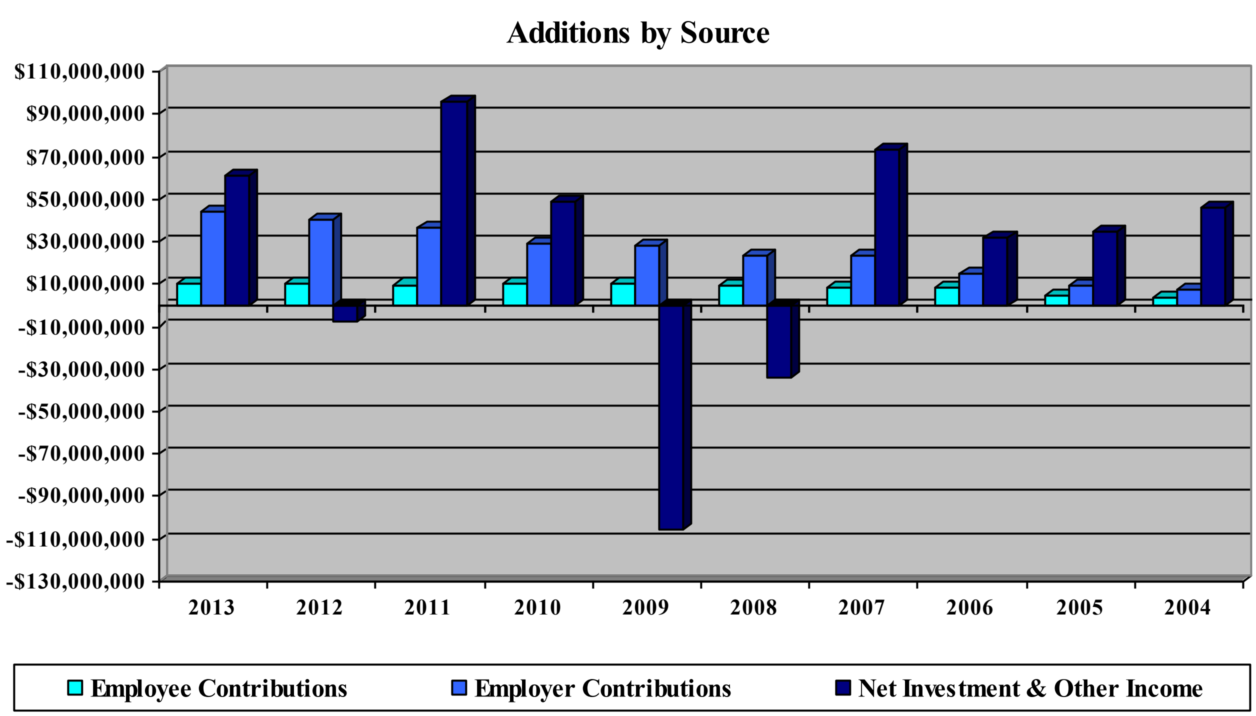
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ADDITIONS BY SOURCE

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 position, benefits, refunds and different types of retirement benefits.

Fiscal Year Ending	Employee Contributions	Employer Contributions	Employer % of Covered Payroll	Net Investment Income and Other Income	Total
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
6/30/11	$ 9,754,849	$ 36,662,121	31.26%	$ 96,031,519	$ 142,448,490
6/30/12	$10,416,301	$ 40,262,881	36.09%	$ (7,039,276)	$ 43,639,906
6/30/13	$ 9,927,749	$ 43,783,663	40.03%	$ 61,083,399	$ 114,794,811

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

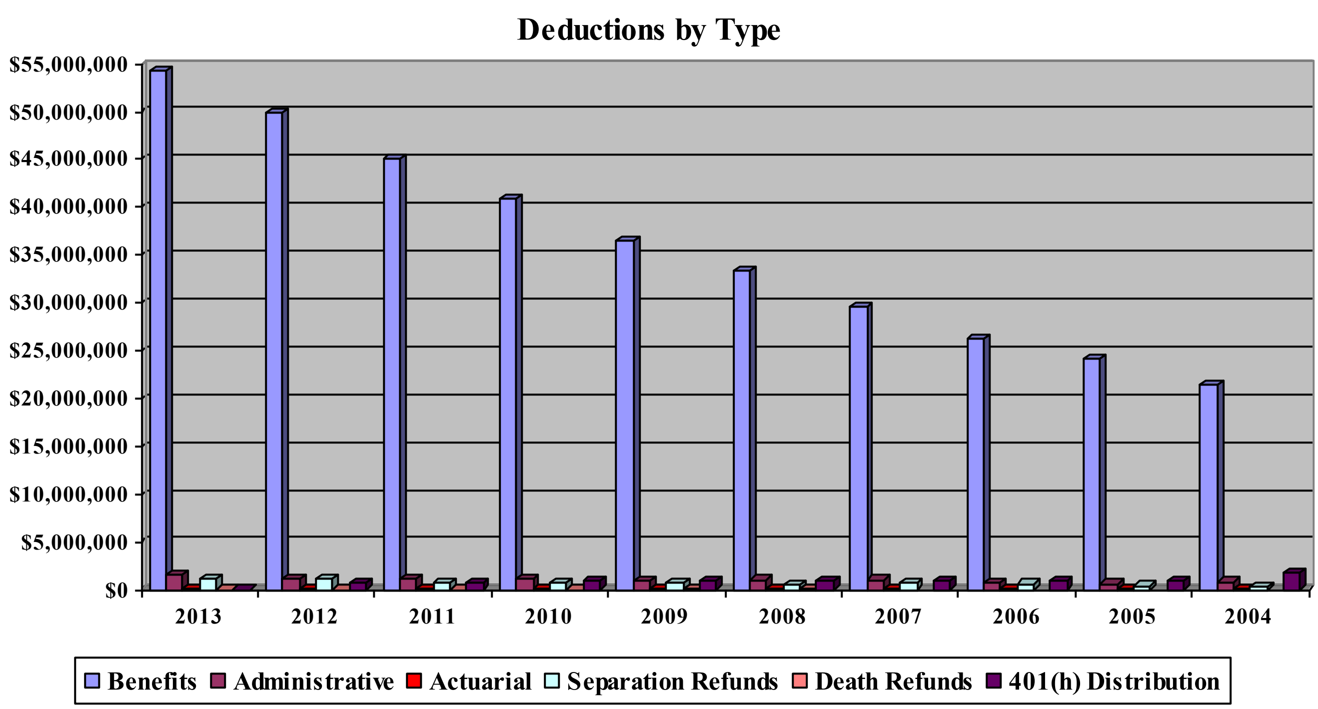


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401 (h) Distribution to County	Total
6/30/04	*	$ 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
6/30/07		$ 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
6/30/11		$ 45,022,104	$ 1,189,030	$ 138,200	$ 766,692	-	$ 650,000	$ 47,766,026
6/30/12		$ 49,839,653	$ 1,180,083	$ 63,312	$ 1,051,526	-	$ 733,590	$ 52,868,164
6/30/13		$ 54,257,547	$ 1,496,338	$ 71,402	$ 1,082,050	-	-	$ 56,907,337

*Beginning with June 30, 2001 the amounts listed under Administrative, 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 POSITION
(Dollar Amount in thousands)

Additions	**6/30/13**	**6/30/12**	**6/30/11**	**6/30/10**	**6/30/09**
Plan members contributions	$9,928	$10,416	$9,754	$9,864	$9,916
Employer contributions	43,784	40,263	36,662	29,137	27,883
Net investment income/(loss)	61,083	(7,039)	96,032	48,772	(105,689)
Total additions	114,795	43,640	142,448	87,773	(67,890)
Deductions					
Benefits paid	54,258	49,839	45,022	40,929	36,479
Administrative expenses	1,496	1,180	1,189	1,171	1,005
Actuarial expenses	71	63	138	67	62
Refunds	1,082	1,052	767	673	761
401(h) distribution	-	734	650	850	850
Total deductions	56,907	52,868	47,766	43,690	39,157
Change in net position	$57,888	($9,228)	$94,683	$44,083	($107,047)
Net position restricted for pensions at beginning of the year	**$505,132**	**$514,361**	**$419,678**	**$375,595**	**$482,642**
Net position restricted for pensions at end of the year	**$563,020**	**$505,133**	**$514,361**	**$419,678**	**$375,595**

Additions	**6/30/08**	**6/30/07**	**6/30/06**	**6/30/05**	**6/30/04**
Plan members contributions	$9,358	$8,755	$8,222	$4,585	$3,348
Employer contributions	23,751	23,232	14,750	8,931	7,269
Net investment income	(33,797)	73,614	32,191	34,840	46,098
Total additions	(688)	105,601	55,163	48,356	56,715
Deductions					
Benefits paid	33,394	29,578	26,264	24,070	21,499
Administrative expenses	1,030	1,014	649	602	830
Actuarial expenses	54	41	48	62	-
Refunds	653	704	602	409	349
401(h) distribution	850	850	850	850	850
Total deductions	35,981	32,187	28,413	25,993	23,528
Change in net position	($36,669)	$73,414	$26,750	$22,363	33,187
Net position restricted for pensions at beginning of the year	**$519,311**	**$445,897**	**$419,147**	**$396,784**	**$364,506**
Net position restricted for pensions at end of the year	**$482,642**	**$519,311**	**$445,897**	**$419,147**	**$396,784**

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF BENEFIT EXPENSES BY TYPE
(Dollar Amounts in thousands)

	2013*	2012*	2011*	2010*	2009*	2008*	2007	2006	2005	2004
Service Retirement										
Payroll:										
General	$39,447	$35,897	$31,770	$28,665	$25,086	$22,868	$21,924	$18,081	$16,378	$14,977
Safety	6,679	6,209	5,845	5,404	4,720	4,139	3,813	3,448	3,030	2,506
Total	$46,126	$42,106	$37,615	$34,069	$29,806	$27,007	$25,737	$21,529	$19,408	$17,483
Disability Retiree										
Payroll										
General	$2,489	$2,230	$2,159	$2,154	$2,103	$1,975	$1,555	$1,527	$1,478	$1,443
Safety	2,898	2,738	2,522	2,424	2,396	2,312	1,907	1,913	1,816	1,769
Total	$5,387	$4,968	$4,681	$4,578	$4,499	$4,287	$3,462	$3,440	$3,294	$3,212
Beneficiary/Survivors										
Payroll										
General	$2,030	$2,035	$2,049	$1,762	$1,574	$1,686	$1,957	$1,734	$1,613	$1,511
Safety	562	579	521	412	380	414	667	594	551	575
Total	$2,592	$2,614	$2,570	$2,174	$1,954	$2,100	$2,624	$2,328	$2,164	$2,086
Total Payroll Expense										
Payroll										
General	$43,966	$40,162	$35,978	$32,580	$28,763	$26,529	$25,436	$21,342	$19,470	$17,931
Safety	10,139	9,526	8,887	8,240	7,496	6,865	6,387	5,955	5,397	4,849
Total	$54,105	$49,688	$44,865	$40,820	$36,259	$33,394	$31,823	$27,297	$24,867	$22,780
Death Benefits										
General	$96	$117	$81	$99	$179	N/A	N/A	N/A	N/A	N/A
Safety	12	9	N/A	9	41	N/A	N/A	N/A	N/A	N/A
Total	$108	$126	$81	$108	$220	N/A	N/A	N/A	N/A	N/A
Separation Refund Expense										
General	$985	$861	$729	$599	$562	N/A	N/A	N/A	N/A	N/A
Safety	97	190	37	74	122	N/A	N/A	N/A	N/A	N/A
Total	$1,082	$1,051	$766	$673	$684	N/A	N/A	N/A	N/A	N/A
Active Death Expense										
General	$44	$26	$82	N/A	$77	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	$44	$26	$82	N/A	$77	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. In 2011 MCERA changed death refund expense to active death expense to better identify expense for active member death.

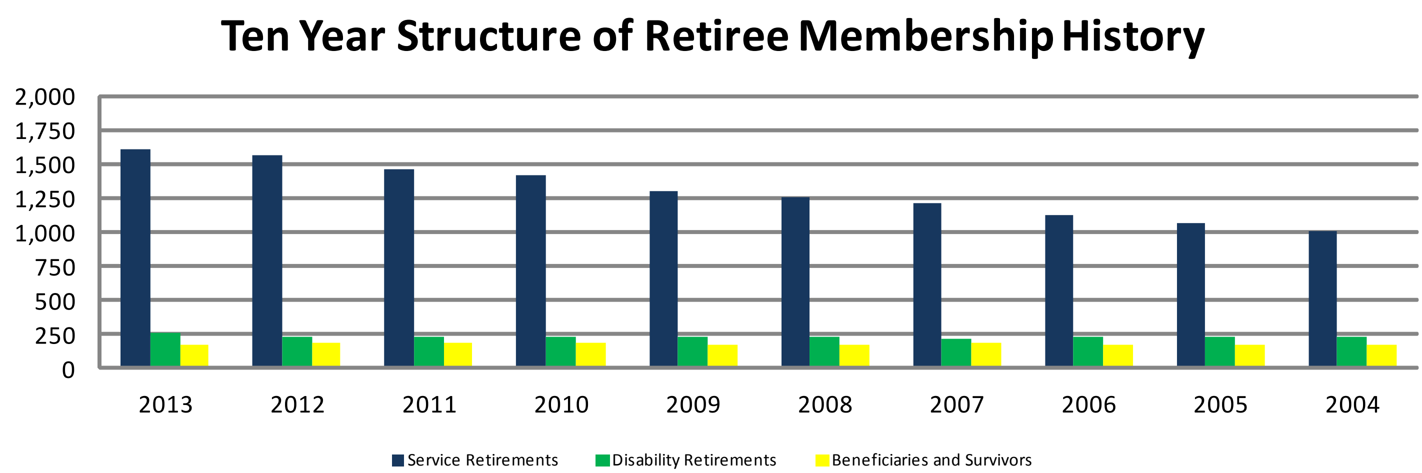
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

(Summary of Monthly Allowances Being Paid—As of June 30, 2013)

Type of Benefit	GENERAL MEMBERS Number	GENERAL MEMBERS Average Monthly Allowances	SAFETY MEMBERS Number	SAFETY MEMBERS Average Monthly Allowances	TOTAL Number	TOTAL Average Monthly Allowances
Service Retirement	1,422	$2,312	191	$2,914	1,613	$2,383
Disability	155	$1,339	102	$2,368	257	$1,747
Beneficiaries/Survivors	153	$1,096	23	$2,030	176	$1,218
Total Retired Members	1,730	$2,118	316	$2,674	2,046	$2,204

This schedule excludes separation refunds and death refunds



	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Service Retirements	1,613	1,570	1,463	1,411	1,307	1,258	1,209	1,119	1,073	1,012
Disability Retirements	257	236	233	230	234	233	222	227	232	233
Beneficiaries and Survivors	176	192	187	185	172	172	188	175	171	171
Total	2,046	1,998	1,883	1,826	1,713	1,663	1,619	1,521	1,476	1,416

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
GENERAL										
Number	1,730	1,693	1,590	1,545	1,454	1,412	1,381	1,294	1,260	1,228
Basic Annual Allowance	$35,885	$32,933	$29,232	$26,331	$22,771	$22,592	$20,021	$16,553	$15,000	$13,786
Average Basic Monthly Allowance	$1,729	$1,621	$1,532	$1,420	$1,305	$1,333	$1,206	$1,066	$992	$936
Total Annual Allowance	$43,966	$40,161	$35,978	$32,561	$28,712	$28,019	$25,435	$21,341	$19,470	$17,931
Average Total Monthly Allowance	$2,118	$1,976	$1,886	$1,756	$1,646	$1,654	$1,533	$1,374	$1,288	$1,217
SAFETY										
Number	316	305	293	281	259	251	238	228	217	213
Basic Annual Allowance	$7,791	$7,379	$6,863	$6,401	$5,746	$5,262	$4,807	$4,508	$4,038	$3,597
Average Basic Monthly Allowance	$2,054	$2,016	$1,952	$1,898	$1,849	$1,747	$1,690	$1,648	$1,551	$1,407
Total Annual Allowance	$10,139	$9,527	$8,887	$8,240	$7,497	$6,878	$6,388	$5,956	$5,397	$4,849
Average Total Monthly Allowance	$2,674	$2,603	$2,528	$2,444	$2,412	$2,284	$2,246	$2,177	$2,073	$1,897
TOTAL										
Number	2,046	1,998	1,883	1,826	1,713	1,663	1,619	1,522	1,477	1,441
Basic Annual Allowance	$43,676	$40,312	$36,095	$32,732	$28,517	$27,854	$24,828	$21,061	$19,038	$17,383
Average Basic Monthly Allowance	$1,779	$1,681	$1,597	$1,494	$1,387	$1,396	$1,277	$1,153	$1,074	$1,005
Total Annual Allowance**	$54,106	$49,688	$44,865	$40,801	$36,209	$34,897	$31,823	$27,297	$24,867	$22,780
Average Total Monthly Allowance	$2,204	$2,072	$1,986	$1,862	$1,761	$1,749	$1,637	$1,495	$1,403	$1,317

** Total Annual Allowance includes COLA, and partial monthly payment/one-time catch up payment. Excludes death refunds, lump sum death benefits and separation refunds.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIRED MEMBERS BY TYPE OF RETIREMENT
As of June 30, 2013

		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	81	22	38	15	0	5	1	0	51	5	19	6	3
251 - 500	165	37	85	18	4	7	14	0	127	4	29	4	1
501 - 750	189	51	96	32	5	1	4	0	154	9	23	3	0
751 - 1,000	195	61	80	32	8	1	13	0	167	6	18	2	2
1,001 - 1,250	187	66	70	19	20	11	19	0	161	5	16	4	1
1,251 - 1,500	141	61	53	12	1	8	6	0	129	2	6	4	0
1,501 - 1,750	133	57	41	9	3	19	4	0	117	0	14	2	0
1,751 - 2,000	115	52	31	8	1	20	3	0	105	0	9	1	0
Over 2,000	840	433	279	31	4	86	7	0	746	25	51	11	7
Total	**2046**	**840**	**773**	**176**	**46**	**158**	**71**	**0**	**1757**	**56**	**185**	**37**	**14**

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

Retirement Effective Dates	Years of Credited Service						
	0-5	05-10	10-15	15-20	20-25	25-30	30+
Period 07/01/2012 to 06/30/2013							
Average monthly benefit	$467	$1,240	$1,750	$2,183	$3,895	$4,201	$6,431
Average final average salary	$8,663	$6,466	$5,215	$4,591	$7,293	$5,695	$7,463
Number of retired members	4	11	24	15	9	8	6
Period 07/01/2011 to 06/30/2012							
Average monthly benefit	$612	$899	$1,359	$2,476	$3,958	$4,683	$6,166
Average final average salary	$9,507	$4,097	$3,953	$5,148	$6,270	$6,257	$7,060
Number of retired members	5	9	26	27	36	15	24
Period 07/01/2010 to 06/30/2011							
Average monthly benefit	$805	$926	$1,120	$2,171	$3,693	$4,289	$8,010
Average final average salary	$8,545	$5,111	$4,042	$4,657	$5,715	$5,687	$8,180
Number of retired members	8	21	23	8	18	5	5
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

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET
For the Years Ending June 30

		2012	2011
	ASSETS		
1.	Total actuarial value of assets	$528,727,523	$526,713,896
2.	Present value of future contributions by members	69,912,502	71,390,382
3.	Present value of future employer contributions for normal cost	91,834,761	93,318,369
4.	Present value of other future employer contributions (UAAL)	446,880,136	409,936,251
5.	Total Actuarial Assets	$1,137,354,922	$1,101,358,898
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$632,318,639	$558,483,150
7.	Present value of service retirement allowances payable to presently active member and their survivors	410,061,926	443,569,869
8.	Present value of allowances payable to current and future vested terminated members and their survivors	57,638,982	58,293,311
9.	Present value of disability retirement allowances payable to presently active members and their survivors	22,348,401	23,043,016
10.	Present value of death benefits payable on behalf of presently active members	7,760,482	8,081,816
11.	Present value of members' contributions to be returned upon withdrawal	7,226,492	7,154,272
12.	Special Reserves	-	2,733,464
13.	Total Actuarial Liabilities	$1,137,354,922	$1,101,358,898
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$1,137,354,922	$1,101,358,898
15.	Present value of future contributions by members and employers (items 2 and 3)	161,747,263	164,708,751
16.	Actuarial accrued liability (item 14 minus item 15)	975,607,659	936,650,147
17.	Actuarial value of assets	528,727,523	526,713,896
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$446,880,136	$409,936,251
19.	Funded Ratio	54.2%	56.1%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
County of Merced										
General Members	1,478	1,453	1,521	1,575	1,708	1,852	1,848	1,853	1,931	1,882
Safety Members	294	306	322	331	342	352	328	316	296	274
Total County of Merced	1,772	1,759	1,843	1,906	2,050	2,204	2,176	2,169	2,227	2,156
Percentage of Membership	93.21%	92.53%	92.85%	93.44%	93.87%	94.19%	94.69%	95.22%	99.87%	99.91%
Participating Agencies										
Merced Cemetery District	1	2	2	2	3	3	3	3	3	2
Percentage of Membership	.05%	.11%	.10%	.09%	.13%	.13%	.13%	.13%	.13%	.09%
Transit Joint Powers Authority	-	1	3	3	-	-	-	-	-	-
Percentage of Membership	-	.05%	.15%	.14%	-	-	-	-	-	-
Superior Court of California	115	126	137	137	137	133	119	106	-	-
Percentage of Membership	6.05%	6.63%	6.90%	6.33%	6.01%	5.68%	5.17%	4.65%	-	-
Regional Waste Management Authority	13	13	-	-	-	-	-	-	-	-
Percentage of Membership	.68%	.68%	-	-	-	-	-	-	-	-
Total Participating Agencies	129	142	142	142	140	136	122	109	3	2
Total Active Membership										
General	1,607	1,595	1,663	1,717	1,848	1,988	1,970	1,962	1,934	1,884
Safety	294	306	322	331	342	352	328	316	296	274
Total	1,901	1,901	1,985	2,048	2,190	2,340	2,298	2,278	2,230	2,158