Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

MCERA

Issued By
Steven Bland
Plan Administrator
Bren Horrocks
Fiscal Supervisor

Merced County Employees' Retirement Association

A Pension Trust Fund of the County of Merced, California

3199 M Street
Merced, California 95348
(209) 725-3636
www.mcera.co.merced.ca.us

Historic Merced Theatre:
Originally opened in 1931 at the corner of Main
Street and Martin Luther King Way

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TABLE OF CONTENTS

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TABLE OF CONTENTS (CONTINUED)

Introductory Section


MERCED
MERCED

LETTER OF TRANSMITTAL

December 24, 2014

Dear Board Members:

As the Administrator of the Merced County Employees' Retirement Association (MCERA), it is a pleasure to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2014 and 2013. This report is intended to provide readers with complete and reliable information about MCERA's financial status, compliance with the law and MCERA policies. This is MCERA's 64th year of operation.

MCERA's Mission Statement and Core Values

MCERA's mission is to provide benefits to its members, to manage assets prudently in accordance with plan provisions and the Board of Retirement to provide competent and efficient services to our 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, notes to the 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, 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 the County of Merced, Superior Court of California for the County of Merced, Merced Cemetery District, the Transit Joint Powers Authority and the Merced County Regional Waste Management Authority for Merced County pursuant to the California Constitution, the County Employees' Retirement Law of 1937, Government Code Sections 31450 et. seq. (the 1937 Act), and the by-laws, policies and procedures adopted by the MCERA Board. The County of Merced Board of Supervisors also adopts resolutions, as permitted by the 1937 Act, which affect benefits of MCERA members.

The MCERA Board of Retirement is responsible for the general management of the retirement system, including making benefit determinations and managing the investment of the System's assets. The day-to -day management of MCERA is vested in an Administrator appointed by the Board.

The Board is comprised of nine members and two alternates; two elected by the active general membership, one regular and one alternate elected by the active safety membership, one 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, 2014 and 2013 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. Note, this document has been prepared in compliance with the new accounting standards, Governmental Accounting Standards Board (GASB) Statement 67 *Financial Reporting for Pension Plans* and all applicable prior and relevant standards.

Management is responsible to establish and maintain appropriate internal controls to ensure that the System's assets are protected from loss, theft or misuse. MCERA recognizes that even sound internal controls have inherent limitations. We believe 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 a control should not exceed the benefits to be derived and the assessment of costs and benefits requires estimates and judgments by management.

As of June 30, 2014, MCERA's net position restricted for pensions in trust totaled approximately $657.3

million reflecting an increase of approximately $94.3 million (approximately 16.7%) 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.

In 2012, the Governmental Accounting Standards Board (GASB) issued two standards (Statement No. 67 and No. 68) fundamentally changing the accounting and financial reporting requirements for pension benefits. GASB's intention with the new standards is to increase transparency in financial reporting. The new standards require pension systems to allocate the unfunded liability to all participating employers. Thus, the employers will reflect an "accounting only" liability on their financial statements. It separates financial reporting requirements from funding requirements.

Actuarial Funding Status

MCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan and obtaining optimum investment returns consistent with the a prudent level of risk. The higher the level of plan funding, the larger the ratio of assets accumulated to actuarial accrued liability and the higher the level of investment return potential.

Pursuant to provisions in the 1937 Act, MCERA engages an independent actuarial firm to perform 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 2013. As a result of the study, several economic and non economic assumptions were changed. The most recent actuarial valuation as of June 30, 2013, found the system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 51.4%. This decrease in the funding ratio (down from 54.2% as of June 30, 2012) was primarily due to MCERA's increase in unfunded actuarial accrued liabilities. A key factor in the increase in the liabilities was the change in actuarial assumptions for mortality improvements.

Investments

The Board of Retirement has exclusive control of all investments of the retirement system and is responsible for establishing investment objectives, strategies and policies. Pursuant to the California Constitution and the 1937 Act, the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In carrying out its investment responsibilities, the Board receives guidance from a professional investment consultant, 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 delineates 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 is in the Investment Section.

The assets of MCERA are exclusively managed by external professional investment management firms. A listing of the investment professionals and investment fees can be located on page 78.

For the fiscal year ending June 30, 2014, MCERA's investment return was a positive 17.9% and the annualized rate of return over the last three and five years was a positive 9.5% and 13.0%, respectively.

Service Efforts and Accomplishments

- Approved and adopted Employer and Member contribution rate for Tier 3 and Public Employees Pension Reform Act (PEPRA) Tier 4 Members.
- Approved additional costs to CPAS for implementation of Tier 3 and Tier 4 members.
- Approved the development of an independent website for MCERA.
- Approved the development of an imaging system.
- Adopted and implemented a COLA of 2.5% effective April 1, 2014 for Tier I members.
- For the tenth consecutive year, MCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MCERA's 2013—2012 Comprehensive Annual Financial Report.
- Approved a $10 million commitment to Raven Capital, a private equity manager.
- Approved a $10 million commitment to Ocean Avenue, a private equity manager.
- Approved and funded $21 million commitment to Copper Rock, an international equity manager.
- Approved and funded $20 million commitment to PanAgora, a small cap domestic equity manager.
- Approved and funded $15 million commitment to DFA, a small cap domestic equity fund.
- Approved and funded a $14 million commitment to Och-Ziff, a multi-strategy hedge fund.
- Approved and funded a $14 million commitment to Titan Master, a fund of hedge funds.
- Cheiron acquired EFI Actuaries, transition and personnel changes complete.
- Board fulfilled continuing education requirements.
- Board approved new asset allocation.
- We thank Maria Arevalo, Plan administrator from 2007 – 2014 for her dedication.

LETTER OF TRANSMITTAL
(Continued)

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its CAFR for the fiscal year ended June 30, 2013. 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 principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is MCERA's tenth Certificate of Achievement for Excellence in Financial Reporting. We believe our current report continues to conform to the Certificate of Achievement program requirements.

Acknowledgements

The compilation of this report reflects the dedicated efforts of MCERA staff and in particular, MCERA's Fiscal Supervisor, David (Bren) Horrocks and Retirement Officer, Angelo Lamas. I would like to express my greatest appreciation for their hard work. I would also like to thank MCERA's professional consultants; our actuary, our investment consultant and our auditor for their generous and invaluable assistance, especially in this first year of implementing GASB 67. Finally, I would like to acknowledge the Board of Retirement for its leadership and commitment to the highest fiduciary standards.

Respectfully submitted,

Steven Bland

Steven Bland MS, CFA, CAIA
Plan Administrator

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Merced County

Employees' Retirement Association

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement at June 30, 2014

Chair
David Ness

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

Trustee
Karen Adams

County Treasurer
Ex-officio Member

Vice Chair
Michael Rhodes

Elected by General Members
Term Expires 06-30-15

Trustee
Mark Bodley

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

Secretary
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 6-30-16

Trustee
Ronald Kinchloe

Elected by Retired Members
Term Expires 12-31-14

Trustee
James Pacheco

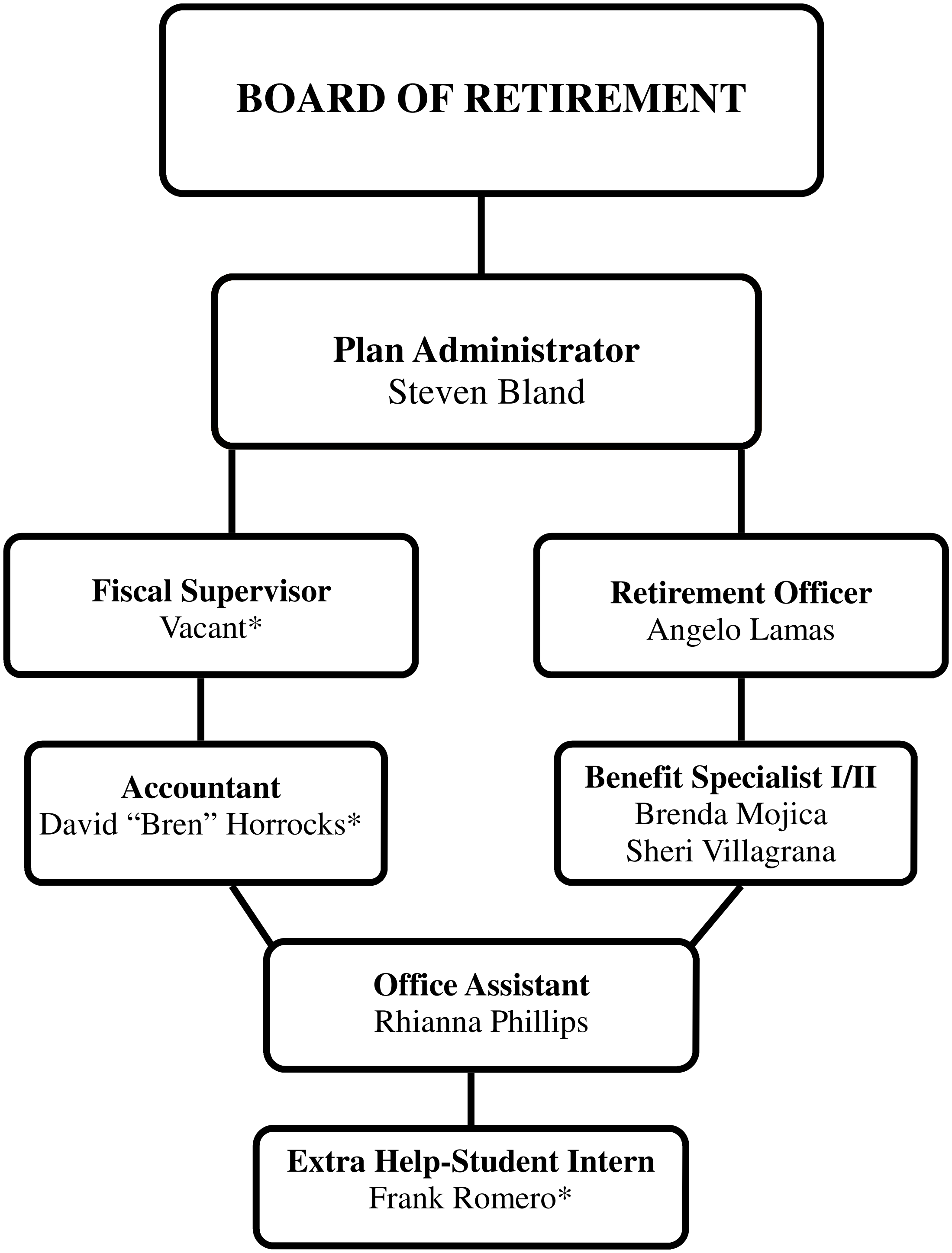
Elected by Safety Members
Term Expires 12-31-14

Trustee
Scott Johnston, Alternate

Elected by Retired Members
Term Expires 12-31-14

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Administrative Organization Chart at June 30, 2014



*Bren Horrocks was promoted to Fiscal Supervisor, Mark Harman was hired as the accountant, and Michelle Lee replaced Frank Romero as the Student Intern shortly after the end of the fiscal year.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants at June 30, 2014

CONSULTING SERVICES

INVESTMENT CONSULTANT
Strategic Investment Solutions, Inc
Paul Harte

ACTUARY
Cheiron, Inc
Graham A. Schmidt
David Holland

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
Public Pension Consultants
Manatt, Phelps, & Phillips
Hanson Bridgett

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
DFA
PanAgora

INTERNATIONAL EQUITY
Copper Rock
Grantham, Mayo, Van Otterloo & Co. LLC
Earnest Partners, LLC
Wells Capital Management

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

HEDGE FUND
Titan Advisors
Och-Ziff

COMMISSION RECAPTURE BROKERS
ConvergEx Group
Capital Institutional Services, Inc.


MERCED
MERCED

Financial Section


MERCED
MERCED

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, 2014 and 2013, 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, 2014 and 2013, 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. 67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25*, for the year ended June 30, 2014.

As described in Note 5 to the basic financial statements, based on an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, the total pension liability of participating employers exceeded the plan's fiduciary net position by $450.4 million. The actuarial valuation is very sensitive to the underlying actuarial assumptions, including a discount rate of 7.75 percent, which represents the long-term expected rate of return.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns, as listed in the table of contents 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 December 24, 2014 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
December 24, 2014

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, 2014 and 2013. 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, 2014, MCERA's fiduciary net position restricted for pensions totaled $657.3 million. All of the plan net position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.

- During the fiscal year 2014, MCERA's fiduciary net position restricted for pensions increased by $94.3 million (an increase of 16.7%). This increase essentially reflects an increase in the fair value of investments, net of benefits and expenses.

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2013, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 51.4%. In general, this indicates that for every one dollar of benefits due, MCERA has approximately $0.51 of assets available for payment.

- Additions to the Fiduciary Net Position increased by $39.1 million or 34.1% from $114.8 million in the prior fiscal year to $153.9 million in the current fiscal year. This Increase is primarily due to the increase in net investment income and employer contributions.

- Deductions from the Fiduciary Net Position increased from $56.9 million in the last fiscal year to $59.6 million in the current fiscal year (an increase of approximately 4.7%). This increase was primarily due to higher benefits paid, increases in 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 the financial section of MCERA's Comprehensive Annual Financial Report (CAFR). The financial statements are comprised of the following:

The ***Statement of Fiduciary Net Position*** is a point in time picture of account balances as of the fiscal years 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 Fiduciary 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 years.

Both financial statements are in compliance with the accounting principles and reporting guidelines set forth in Governmental Accounting Standards Board (GASB) Statement Nos. 28, 34, 40, 44, 51, 53, 63, and 67. 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 fiduciary 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 fiduciary 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 the employers' net pension liability 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. The ***Required Supplementary Information*** includes the Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and the Schedule of Investment Returns. The Schedule of Changes in Net Pension Liability and Related Ratios presents the changes in the employers' net pension liability. The Schedule of Employer Contributions provides historical information about actuarial determined contributions of the employer and the actual contributions made. The Schedule of Investment Returns represents the investment returns weighted by the cash inflows and outflows from the investment funds. Together, these schedules and the supporting ***Notes to Required Supplementary Information*** provide information to help promote understanding of the plan's fiduciary net position in relation to the total pension liability, employers' actual contributions and investment returns over time. Finally, the ***Other Supplementary Schedules*** represent information concerning MCERA's operations on a multi-year basis.

Financial Analysis

As previously noted, the fiduciary 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 $657.3 million. All of the net position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries. As of June 30, 2014 the net position totaled $657.3 million which is $94.3 million or (16.7%) more than the prior year. This result essentially reflects the increase of current investments at fair value of $86.8 million or (16.1%) and $6.9 million or (21.7%) increase in current and other assets. The Fiduciary net position as of June 30, 2013 totaled $563.0 million which is $57.8 million or (11.5%) more than the prior year. This result essentially reflects the increase of investments at fair value of $56.8 million or (11.7%).

The 2013-2014 fiscal year saw a continuation of the rally in equities from the lows of 2009 with gains across the board. The postponement of tapering by the Federal Reserve led to broad increases in the major indices during the first quarter of MCERA's fiscal year and assets increased by 5.3%. For the quarter ending December 31, 2013 improvements in economic fundamentals in the U.S and confidence that the Federal Reserve can taper while maintaining low rates through forward guidance led to an increase of 5.5% for the quarter. Third quarter of the fiscal year ending of March 31, 2014 was slowed due to uncertainty in Federal Reserve policy and inclement weather in the U.S. with a 2% increase in assets for MCERA. With investors continuing to reach for yield, lower grade corporate debt outperformed. European Central Bank's new easing measures boosted bank lending and led to a rise in Europe ex-UK equities in the fourth quarter ending June 30, 2014 fiscal year. Emerging markets return rose during the quarter as fears over sooner-than-expected Federal Reserve tightening diminished and geopolitical risk remained subdued. Global real estate stocks also did well with Europe's market reacting positively to bond yields as well as economic stimulus announcement. These factors led to an increase of 3.7% for the quarter and an accumulated increase of 17.9% in investments for the fiscal year.

MCERA's Fiduciary Net Position as of June 30, 2014 and 2013

	2014	2013	Increase/ (Decrease) Amount	% Change
Current and other assets	$38,634,773	$31,750,515	$6,884,258	21.7%
Investments at fair value	627,178,089	540,369,435	86,808,654	16.1%
Capital assets/prepaid insurance	2,128,552	1,622,459	506,093	31.2%
Total assets	667,941,414	573,742,409	94,199,005	16.4%
Current liabilities	10,616,496	10,722,336	(105,840)	-1.0%
Total liabilities	10,616,496	10,722,336	(105,840)	-1.0%
Net position	$657,324,918	$563,020,073	$94,304,845	16.7%

MCERA's Fiduciary 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	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%

Reserves

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under GASB Statement 67, 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 $54.5 million in the current fiscal year as a result of the increase in the financial markets.

MCERA's Reserves as of June 30, 2014, 2013 and 2012

	2014	2013	2012
Active members	$91,414,430	$87,608,519	$79,568,852
Employer advance	24,696,667	16,859,602	(189,538)
Retired members	386,355,789	377,071,253	375,032,417
Interest fluctuation	65,268,878	46,380,612	40,028,825
Market value fluctuation	89,589,154	35,100,087	10,692,043
Total reserves at fair value	$657,324,918	$563,020,073	$505,132,599

MCERA's Activities

An upturn in the investment markets resulted in a June 30, 2014 fiscal year increase of $94.3 million in MCERA's net position (an increase of approximately 16.7% from the previous year). The key elements of this increase is the result of the following changes in net position.

Changes in Fiduciary Net Position

A. Additions to Fiduciary 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 Fiduciary Net Position for the current fiscal year totaled $153.9 million. Overall, additions for the fiscal year increased by $39.1 million from the fiscal year ended June 30, 2013 primarily due to increases in the appreciation in fair value of investments. In the 2012-2013 fiscal year, additions totaled $114.8 million, which was a increase of $71.2 million from the total revenue in the 2011-2012 fiscal year primarily due to investment fair value. The Employer's contribution rate increased 4% due to the change in actuarial assumptions and experience of the System. The 4% contribution rate change resulted in increased contributions of $4.2 million or 9.7%. 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 Fiduciary Net Position
(For the Years Ended June 30, 2014 and 2013)

	2014	2013	Increase (Decrease) Amount	% Change
Employer contributions	$48,032,338	$43,783,663	$4,248,675	9.7%
Member contributions	9,642,819	9,927,749	(284,930)	-2.9%
Net investment income	96,219,056	61,083,399	35,135,657	57.5%
Total additions	$153,894,213	$114,794,811	$39,099,402	34.1%

Additions to Fiduciary 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%

B. Deductions from Fiduciary 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 $59.6 million an increase of 4.7% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew $3.1 million or 5.7%. Deductions for the 2012-2013 fiscal year totaled $56.9 million an increase of 8.7% from the previous year. The increase in expenses for the 2012-2013 fiscal year was attributed primarily to the retiree payroll which grew approximately 8.9%.

Deductions from Fiduciary Net Position
(For the Years Ended June 30, 2014 and 2013)

	2014	2013	Increase (Decrease) Amount	% Change
Benefits paid	$57,338,930	$54,257,547	$3,081,383	5.7%
Refunds of contributions	703,091	1,082,050	(378,959)	-35.0%
Administrative expense	1,434,671	1,496,338	(61,667)	-4.1%
Actuarial expense	112,676	71,402	41,274	57.8%
Total deductions	$59,589,368	$56,907,337	$2,682,031	4.7%

Deductions from Fiduciary 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%

Changes in Net Position
(For the Years Ended June 30, 2014 and 2013)

	2014	2013	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$48,032,338	$43,783,663	$4,248,675	9.7%
Members contributions	9,642,819	9,927,749	(284,930)	-2.9%
Net investment income	96,219,056	61,083,399	35,135,657	57.5%
Total additions	153,894,213	114,794,811	39,099,402	34.1%
Deductions				
Benefits paid	57,338,930	54,257,547	3,081,383	5.7%
Refunds of contributions	703,091	1,082,050	(378,959)	-35.0%
Administrative expense	1,434,671	1,496,338	(61,667)	-4.1%
Actuarial expense	112,676	71,402	41,274	57.8%
Total deductions	59,589,368	56,907,337	2,682,031	4.7%
Change in net position	94,304,845	57,887,474	36,417,371	62.9%
Net position restricted for pensions at beginning of the year	**$563,020,073**	**$505,132,599**	**$57,887,474**	11.5%
Net position restricted for pensions at end of year	**$657,324,918**	**$563,020,073**	**$94,304,845**	16.7%

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 (loss)/income	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				
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%
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%

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,

Steven Bland

Steven Bland MS, CFA, CAIA
Plan Administrator

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

STATEMENTS OF FIDUCIARY NET POSITION

As of June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$2,449,151	$2,344,805
Cash invested with BNY Mellon	7,834,346	10,123,758
Other cash and cash equivalents with BNY Mellon	15,754,516	5,475,149
Securities lending collateral	7,360,482	8,859,257
Total cash and short-term investments	33,398,495	26,802,969
Receivables:		
Bond interest	820,494	1,386,081
Dividends	264,316	283,220
Contributions	2,585,758	2,227,202
Securities sold	1,561,777	1,047,035
Other	3,933	4,008
Total receivables	5,236,278	4,947,546
Investments at fair value:		
U.S government and agency obligations	57,177,311	67,201,713
Domestic fixed income	111,566,693	82,944,970
Common stocks (domestic)	30,444,340	40,861,971
Common stocks (index funds)	152,338,457	142,050,349
Common stocks (international)	173,623,978	143,111,618
Real estate	43,459,903	39,258,498
Alternative investments	58,567,407	24,940,316
Total investments	627,178,089	540,369,435
Prepaid Expense	-	7,863
Capital assets: Net of accumulated depreciation of $73,125 and $71,835 respectively	2,128,552	1,614,596
Total assets	667,941,414	573,742,409
LIABILITIES		
Accounts payable	459,611	558,755
Securities lending obligation	7,360,482	8,859,257
Securities purchased	2,785,044	1,279,439
Unclaimed contributions	11,359	24,885
Total liabilities	10,616,496	10,722,336
Net position restricted for pensions	$657,324,918	$563,020,073

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013
ADDITIONS		
Contributions:		
Employer	$48,032,338	$43,783,663
Plan members	9,642,819	9,927,749
Total contributions	57,675,157	53,711,412
Investment Income from Investment Activities:		
Net appreciation in fair value of investments	86,886,413	52,053,576
Investment income	11,665,042	11,324,520
Other revenue	26,542	44,398
Less investment expenses	(2,434,091)	(2,471,537)
Net investment income	96,143,906	60,950,957
Securities Lending Activities:		
Securities lending income	12,852	20,866
Securities lending rebates	62,298	111,576
Net securities lending income	75,150	132,442
Total net investment income	96,219,056	61,083,399
Total additions	153,894,213	114,794,811
DEDUCTIONS		
Benefits paid	57,338,930	54,257,547
Refunds of contributions	703,091	1,082,050
Administrative expense	1,434,671	1,496,338
Actuarial expense	112,676	71,402
Total deductions	59,589,368	56,907,337
Net increase	94,304,845	57,887,474
Net position restricted for pensions at beginning of year	563,020,073	505,132,599
Net position restricted for pensions at end of year	$657,324,918	$563,020,073

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 employers are the County of Merced and the Merced Superior Courts. 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
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 are members of Tier I. Executive "A" Level management appointed prior to 12/31/2012 per Amendment to County Board of Supervisors Resolution 94-89, effective July 1, 2000 are 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 more tiers in 2012 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, 2014 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	154	999	1	1	36	202	-	-	1,393
Non-vested	5	200	40	206	1	20	3	36	511
INACTIVE MEMBERS									
Defered vested	84	107	-	-	3	16	-	-	210
Deferred non-vested	9	98	7	14	-	12	2	4	146
Reciprocity	63	149	1	-	21	39	-	1	274
Unclaimed members	3	16	-	-	-	-	-	-	19
Total active and inactive members	318	1,569	49	221	61	289	5	41	2,553
RETIRED MEMBERS									
Service retirements	1,291	201	1	-	183	10	-	-	1,686
Beneficiaries	188	9	-	-	37	-	-	-	234
Service connnected disability	42	9	-	-	72	12	-	-	135
Non-service connected disability	38	10	-	-	2	-	-	-	50
Survivors	16	6	-	-	5	1	-	-	28
Total retired members	1,575	235	1	-	299	23	-	-	2,133

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

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 and any member who was deferred or in inactive reciprocity status prior to the dates of adoption, 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.

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 contribution rates on based on entry age into the System, except for Tier IV which are 50% of the normal cost, and range between 5.67% and 12.71% for the fiscal years ended June 30, 2014 and June 30, 2013.

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. Plan Sponsors

The County of Merced, Merced Superior Court, and participating special districts are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to MCERA members not otherwise funded by employee contributions or investment earnings. Pursuant to provisions of the 1937 Act, the Retirement Board recommends annual contribution rates for adoption by the County Board of Supervisors each year based upon the rates recommended by the System's actuary.

The employers' actuarially determined contribution (ADC) is an actuarially determined 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. MCERA's actuarially determined contribution rates for the years ended June 30, 2014 and June 30, 2013 were 43.56% and 40.02% respectively of annual payroll.

In order to determine the ADC, 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

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 on page 60 in the Required Supplementary Information following the basic notes to the financial statements.

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 Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an Amendment of GASB Statement No. 14*.

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 statutory or legal requirements per GASB 67. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when currently 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 2014/2013 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, 2014 and 2013 were $1,434,671 and $1,496,338, respectively. The costs of administering the plan are financed by investment income.

E. Required Supplementary Information

A schedule of MCERA's change in net pension liability and employer contributions that provides information about the employer's annual contribution to the plan as well as the annual investment returns are presented on pages 59 and 60.

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 Fiduciary 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 (private equity, hedge funds, infrastructure, bank loans, and natural resources) is based on the partners' most recent financial statements for the quarter ending March 31 and adjusted for cash flow activities through June 30. The majority of MCERA's alternative investments or 99.8% 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 0.2% 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 Fiduciary 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 15, 2013, MCERA adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting of Pension Plans, an Amendment of GASB Statement No. 25.* This Statement replaces the requirements of Statement No. 25 and No. 50 related to pension plans that are administered through trusts of equivalent arrangements. The changes affect reporting by adding three new Required Supplementary Information (RSI) schedules. Additionally, the new standard also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements.

The new statement relates to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited external financial reports. While there has been a close relationship between how governments fund pensions and how they account and report information until now, the new guidance establishes a decided shift from a funding based approach to an accounting-based approach. This shift was designed to improve pension information and increase transparency, consistency, and comparability of pension information across governments.

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.

(1) *Investment Policy*

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. The following was MCERA Board's adopted asset allocation policy as of June 30, 2014 and June 30, 2013:

Asset Class	June 30, 2014 Target Allocation	June 30, 2013 Target Allocation
US Equity	28.4%	29.0%
International Equity	17.5%	24.0%
Emerging Markets Equity	6.1%	0.0%
Private Equity	7.0%	5.0%
Real Estate	8.0%	8.0%
Domestic Fixed Income	14.5%	34.0%
High Yield Fixed Income	5.0%	0.0%
Hedge Funds	4.5%	0.0%
Infrastructure	3.0%	0.0%
Natural Resources	3.0%	0.0%
Bank Loans	3.0%	0.0%
Cash	0.0%	0.0%
	100.0%	100.0%

(2) *Rate of Return*

For the ended June 30, 2014 and June 30, 2013, the annual money-weighted rate of return on MCERA's investments was 17.0% and 11.8% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 $2,449,151 and $2,344,805 at June 30, 2014 and 2013, 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.

All participants in the BNY Mellon pool proportionately share earnings and losses. Balances in the pooled accounts approximate fair value. At June 30, 2014 and 2013, short-term investments totaled $23,588,862 and $15,598,907, respectively, which is the total of cash invested with BNY Mellon and Other cash and cash equivalents with BNY Mellon.

MCERA's cash, short-term investments and investments stated at fair value as of June 30, 2014 and 2013 are presented as follows:

	Fair Value	
Cash and Short-term Investments	**2014**	**2013**
Cash invested with Merced County Treasury	$2,449,151	$2,344,805
Cash invested with BNY Mellon	7,834,346	10,123,758
Other cash and cash equivalents with BNY Mellon	15,754,516	5,475,149
Securities lending collateral	7,360,482	8,859,257
Total cash and short-term investments	33,398,495	26,802,969
Investments		
U.S. government and agency obligations	57,177,311	67,201,713
Domestic fixed income	111,566,693	82,944,970
Common stocks (domestic)	30,444,340	40,861,971
Common stocks (index funds)	152,338,457	142,050,349
Common stocks (international)	173,623,978	143,111,618
Real estate	43,459,903	39,258,498
Alternative investments	58,567,407	24,940,316
Total investments	627,178,089	540,369,435
Total	$660,576,584	$567,172,404

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 ratings represent the ratings of the underlying pooled investments as of June 30, 2014 and 2013:

Date	Weighted Average Maturity	Average Duration	Mis-Match	Aaa	A1	A2	NR*	A-1/P-1
				(Par Value Reported in Millions)				
June 30, 2014	1 day	68 days	0 days	$0.2	-	$13.8	$658.8	$191.2
June 30, 2013	1 days	103 days	0 days	$3.5	$20.4	-	$595.5	$382.2

*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, 2014 and 2013, 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, 2014 the fair value of securities on loan and the total cash and non-cash collateral received for those securities on loan were $9,852,364 and $10,088,680. 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 $75,150 for the year ended June 30, 2014.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Corporate	$253,108	$258,632	-
Equity	6,925,939	7,101,850	-
U.S. T-Notes	2,673,317	-	$2,728,198
TIPS	-	-	-
Total	$9,852,364	$7,360,482	$2,728,198

As of June 30, 2013 the fair value of securities on loan and the collateral received for those securities on loan were $18,289,905 and $18,740,386. 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

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, 2014 and 2013 the fair value of the alternative investment portfolios were $58,567,407 and $24,940,316, 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, 2014 was $32,339,665 and as of June 30, 2013 was $13,076,404. 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 port-folio 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, 2014 and 2013, 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, 2014 and 2013, the System had no single issuer that exceeded 5% of total investments or 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, 2014 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. Currently MCERA is invested in a comingled high yield fund that holds a B rating by Moody's. The County's pool and the short-term investment funds held with fiscal agent are unrated.

The table below presents the Moody's credit quality ratings of fixed income securities at June 30, 2014 and 2013:

Quality	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	NR*	NA**
Percent (%) of Fixed Income as of June 30, 2014	3.11%	3.41%	20.97%	15.00%	.06%	20.69%	.17%	.29%	16.56%	19.74%
Percent (%) of Fixed Income as of June 30, 2013	1.85%	2.87%	15.69%	12.64%	4.03%	9.06%	5.66%	.29%	19.42%	28.48%

*NR represents those securities that are not rated and includes FNMA and FHLMC mortgage backed securities that are not rated by credit rating agencies, but are perceived to have an implicit guarantee by the U.S. Government.
** 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, 2014 and 2013 the County's pool has a fair value of $588,460,697 and $638,171,045 respectively and a weighted average maturity of 449 days and 506 days, respectively.

As of June 30, 2014 and 2013 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 53 days and 39 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, 2014:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	**Fair Value 2014**	**Weight of Fixed Income 2014**	**Effective Duration (Years) 2014**	**Fair Value 2014**	**Weight of Fixed Income 2014**	**Effective Duration (Years) 2014**
U.S. government agency obligations	$33,990,248	25.38%	4.35	-	-	-
Commercial mortgage backed securities	3,131,344	2.34%	3.03	-	-	-
Asset backed securities	4,352,880	3.25%	3.20	-	-	-
U.S. treasury and TIPS	23,187,063	17.31%	8.60	-	-	-
Corporate and other credit	68,356,104	51.04%	5.87	-	-	-
Collateralized mortgage obligations	910,383	0.68%	8.29	-	-	-
Comingled fund	-	-	-	$34,815,982	100.00%	3.26
Total Fair Value	$133,928,022	100.00%		$34,815,982	100.00%	
Portfolio Effective Duration			**5.28**			**3.26**

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:

Investment Type	Core Bond Portfolio Fair Value 2013	Core Bond Portfolio Weight of Fixed Income 2013	Core Bond Portfolio Effective Duration (Years) 2013	High Yield Portfolio Fair Value 2013	High Yield Portfolio Weight of Fixed Income 2013	High Yield Portfolio Effective Duration (Years) 2012
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. tresury 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**

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, 2014 and 2013, MCERA did not hold any derivative instruments.

The following table represents securities and dividends receivable held in a foreign currency as of June 30, 2014 and 2013:

	Fair Value (U.S. Dollars)	
Currency	2014	2013
Czech koruna	$727,031	$582,674
Euro currency	10,179,816	8,066,496
Hong Kong dollar	2,624,127	3,784,630
Japanese yen	5,482,619	5,917,204
New Turkish lira	1,872,452	608,627
Norwegian krone	3,677,857	2,730,799
South Korean won	2,993,290	1,784,020
Swiss franc	1,884,837	1,578,436
Swedish krona	1,373,239	1,585,742
United Kingdom pound sterling	5,620,144	3,713,457
Total foreign currency	$36,435,412	$30,352,085

K. <u>Derivatives</u>

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 GABS Statement No. 53 as of June 30, 2014 and 2013.

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, 2014 and 2013.

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 2011	2012	2013	2014	Total
$42,077,309	$(31,385,349)	$24,408,044	$54,489,150	$89,589,154

F. <u>Ad-Hoc COLA Reserve</u>

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. <u>Contingency Reserve</u>

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, 2014 and 2013 is as follows:

	2014	2013
Active Members'	$91,414,430	$87,608,519
Employer Advance	24,696,667	16,859,602
Retired Members'	386,355,789	377,071,253
Interest Fluctuation	65,268,878	46,380,612
Market Value Fluctuation	89,589,154	35,100,087
	$657,324,918	$563,020,073

5. Net Pension Liability of Participating Employers

MCERA engages on an annual basis, an independent actuarial consulting firm, Cheiron, to conduct its annual actuarial valuation.

A. Actuarial Assumptions

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2013. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2014 and the Total Pension Liability as of the valuation date, June 30, 2013, using update procedures to roll forward to MCERA's fiscal year end of June 30, 2014. There were no significant events between the valuation date and the measurement date, so the roll forward procedures only included the addition of service cost and interest cost offset by actual benefit payments.

The components of the employers' Net Pension were as follows:

	FYE June 30, 2014	FYE June 30, 2013
Total Pension Liability	$ 1,107,731,050	$ 1,065,298,068
Plan Fiduciary Net Position	(657,324,918)	(563,020,073)
Net Pension Liability	$ 450,406,132	$ 502,277,995
Fiduciary Net Position as a Percentage of the Total Pension Liability	59.3%	52.9%

The Total Pension Liability was determined based on the June 30, 2013 actuarial valuation rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

ACTUARIAL VALUATION ASSUMPTIONS

Valuation Date	June 30, 2013
Investment Rate of Return	7.75%
Projected Salary Increases	3.00%, plus service-based rates
Attributed to Inflation	3.00%
Cost-of-Living Adjustments	For Tier 1, 100% of CPI to 3.0% annually with banking, assumed to be 2.60% annually

Post-retirement mortality rates were based on the RP2000 Combined tables projected to the year 2027 with adjustments for mortality improvements based on the Society of Actuaries Scale BB.

For pre-retirement mortality, withdrawal rates, disability rates and service retirement rates, the rates vary by age, service, gender and classification.

B. Long Term Expected Rate of Return

The long-term defined benefit pension plan return expectations were determined using a building-block approach. An inflation forecast is the baseline and various real return premiums (e.g. bonds, equities, etc.) are added to create nominal return expectations for each asset class. These expectations are combined to produce the long-term expected rate or return by weighting the expected nominal rates of return by the target asset allocation percentages and including an expected return from rebalancing uncorrelated asset classes. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2014 and June 30, 2013 are summarized in the following table:

	Long-Term Expected Real Rate of Return	
Asset Class	FYE June 30, 2014	FYE June 30, 2013
US Equity		
US Large Cap	5.3%	5.3%
US Small Cap	5.6%	5.6%
International Equity	5.6%	5.6%
Emerging Markets Equity	6.4%	6.1%
Private Equity	7.7%	7.8%
Real Estate	0.7%	0.0%
Domestic Fixed Income	3.9%	3.8%
High Yield Fixed Income	2.6%	2.1%
Hedge Funds	2.1%	1.7%
Infrastructure	2.8%	3.1%
Natural Resources	3.7%	4.1%
Bank Loans	5.0%	4.9%
Cash	1.5%	1.5%

C. Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of MCERA calculated using the discount rate of 7.75%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
2014 Net Pension Liability	$ 586,467,793	$ 450,406,132	$ 337,112,701
2013 Net Pension Liability	$ 635,135,608	$ 502,277,995	$ 391,827,529

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.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability and Related Ratios
For the Years Ending June 30, 2014 and 2013*

Total Pension Liability	
Service cost (MOY)	$ 19,384,434
Interest (includes interest on service cost)	81,090,569
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(58,042,021)
Net change in total pension liability	**42,432,982**
Total pension liability - beginning	**1,065,298,068**
Total pension liability - ending	**$ 1,107,731,050**
Fiduciary net position	
Contributions - employer	$ 48,032,338
Contributions - member	9,642,819
Net investment income	96,219,056
Benefits payments, including refunds of member contributions	(58,042,021)
Administrative expense	(1,547,347)
Net change in fiduciary net position	$ 94,304,845
Fiduciary net position - beginning	**563,020,073**
Fiduciary net position - ending	**$ 657,324,918**
Net pension liability - ending	**$ 450,406,132**
Fiduciary net position as a percentage of the total pension liability	**59.3%**
Covered employee payroll	$ 110,259,316
Net pension liability as a percentage of covered employee payroll	408.5%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available*

REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ending June 30, 2014 and 2013

Schedule of Employer Contributions

The schedule of employer contributions shows whether the employer has made contributions that are consistent with an actuarial method of funding the benefits to be provided consistent with the parameters established by GASB 67.

Schedule of Employer Contributions

Last 10 Fiscal Years

Dollar Amounts in Thousands

	2014	**2013**	**2012**	**2011**	**2010**
Actuarial Determined Contribution	$ 48,032	$ 43,784	$ 40,263	$ 36,662	$ 29,137
Contributions in Relation to the Actuarially Determined Contributions	48,032	43,784	40,263	36,662	29,137
Contributions Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$110,259	$109,410	$111,567	$117,296	$119,166
Contributions as a Percentage of Covered-Employee Payroll	43.56%	40.02%	36.09%	31.26%	24.45%

	2009	**2008**	**2007**	**2006**	**2005**
Actuarial Determined Contribution	$ 27,883	$ 23,751	$ 23,232	$ 14,750	$ 8,931
Contributions in Relation to the Actuarially Determined Contributions	27,883	23,751	23,232	14,750	8,931
Contributions Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$119,043	$111,764	$103,830	$ 98,170	$ 93,271
Contributions as a Percentage of Covered-Employee Payroll	23.42%	21.25%	22.38%	15.02%	9.58%

Schedule of Investment Returns

Fiscal Years ending June 30

	2014	**2013**
Annual money-weighted rate of return, net of investment expense	17.0%	11.8%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available*

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ending June 30, 2014 and 2013

1. CHANGES OF BENEFIT TERMS

There were no changes in benefit terms for fiscal year ended June 30, 2014.

2. CHANGES OF ASSUMPTIONS AND METHODS

There were no changes in assumptions approved by the Board of Retirement for fiscal year ended June 30, 2014.

3. METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Actuarial Valuation Methods and Assumptions

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5-year smoothed market, 70%/130% corridor around market
Amortization Method	Closed period as a level percentage of payroll, with 17 years remaining
Discount Rate	7.75%
Price Inflation	3.75%
Salary Increases	3.75%, plus merit component based on years of service
Cost-of-living adjustments	2.70%
Mortality	Sex distinct RP-2000 Combined Mortality setback two years for males

Changes to the assumptions

An actuarial valuation performed by MCERA's then actuary, Buck Consultants, in 2007 highlighted key assumptions to remain unchanged; the assumed discount rate was 8.0%, inflation rate was 4.5%, salary increase rate was 5.5%. The next valuation of the fund performed by EFI Actuaries in 2011 based upon the experience of the fund from 2007 to 2010 suggested that a number of these assumptions be changed. The discount rate was lowered to 7.75%, and the earnings and inflation rates were changed to 3.75%.

Schedule of Administrative Expenses
For the Years Ended June 30, 2014 and 2013

	2014	2013
Personnel Services:		
Salaries, wages and benefits	$896,994	$888,270
Office Expenses:		
Communications	2,584	2,895
Requested maintenance/ utilities/ cost allocation	77,146	72,171
Office supplies	6,115	3,158
Postage	8,540	6,683
Total Office Expense	94,385	84,907
Professional Services:		
Audit fees	47,694	49,053
Attorney fees	54,024	23,386
Disability stenographic fees/ investigations	350	600
Publications/ legal notices	15,636	534
Disability medical reviews/ services	18,344	11,577
Merced Dept. of Information Technology	186,182	329,680
Total Professional Services	322,230	414,830
Miscellaneous:		
Memberships	6,385	6,230
Fiduciary meeting	10,800	8,400
Fiduciary and staff travel/ training	38,987	35,012
Insurance	63,600	57,364
Depreciation expense	1,290	1,325
Total Miscellaneous Expenses	121,062	108,331
Total Administrative Expenses	$1,434,671	$1,496,338

Schedule of Investment Expenses
For the Years Ended June 30, 2014 and 2013

INVESTMENT MANAGERS' FEES	2014	2013
Domestic Equities		
Delta Asset Mgt	$74	-
Earnest Partners, LLC	-	$34,409
Mellon Capital Management	210,174	105,461
PanAgora Asset Mgt	121,329	-
Wentworth, Hauser & Violich	194,441	304,249
Total Domestic Equities	526,018	444,119
International Equities		
UBS Global Small Cap	38,804	218,570
Earnest Partners, LLC	441,061	411,937
Copper Rock International	112,086	-
Wells Capital Management	146,849	194,950
Total International Equities	738,800	825,457
Alternative Investments		
Invesco Private Capital	70,085	77,873
Real Estate		
UBS Global-Trumbull Property Mgmt	358,473	325,666
Fixed Income		
AXA Investment Managers	120,309	121,379
Barrow, Hanley, Mewhinney & Strauss	290,795	301,374
Total Fixed Income	411,104	422,753
Total Investment Managers' Fees	2,104,480	2,095,868
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	162,163	205,720
Investment Consultant		
Milliman, Inc.	-	123,827
SIS, Inc	165,000	41,250
Miscellaneous Investment Expense	2,448	4,872
Total Other Investment Expenses	329,611	375,669
Total Management Fees and Other Investment Expenses	2,434,091	2,471,537
Securities Lending Activity		
Management fee	34,239	59,420
Rebate fee	(96,537)	(170,996)
Total Securtiy Lending Activity Fees	(62,298)	(111,576)
Total Fees and Other Investment Expenses	$2,371,793	$2,359,961

OTHER SUPPLEMENTAL SCHEDULES

Schedules of Payments to Consultants
For the Years Ended June 30, 2014 and 2013

INVESTMENT PROFESSIONAL SERVICE FEES	2014	2013
Custodial services - BNY Mellon Asset Servicing	$162,163	$205,720
Investment consultant - SIS, Inc, Milliman, Inc and Others	167,448	169,949
Actuarial services - Cheiron Actuaries	112,676	71,402
Total investment professional service fees	$442,287	$447,071

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$47,694	$49,053
Legal services	54,024	23,386
Disability stenographic fees/investigations	350	600
Other specialized services	15,636	534
Disability medical reviews/services	18,344	11,577
Merced County Department of Information Systems	186,182	329,680
Total administrative professional service fees	$322,230	$414,830

Investment Section


MERCED
MERCED

STRATEGIC INVESTMENT SOLUTIONS, INC

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

PAUL S. HARTE
SENIOR VICE PRESIDENT

TEL 415/362-3484
FAX 415/362-2752
pharte@sis-sf.com

MERCED COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

Market Overview

Fiscal year 2014 (June 30, 2014) 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 with positive returns as yields fell over the last six months (January to June) of the fiscal year. As a diversified investor, the Merced County Employees' Retirement Association (MCERA) experienced a +17.9% gross return for the fiscal year. The +17.9% result was above MCERA's policy benchmark of +16.7% for the fiscal year by +120 basis points, and above the plan's actuarial rate of 7.75%.

Fiscal year 2014 was once again positive for the U.S. equity markets while foreign equity markets also experienced strong positive results but lagged the U.S. returns. For the fiscal year, the Russell 3000 U.S. Stock Index gained +25.2% and the MSCI ACWI (All Country World) ex-U.S. Index of foreign stocks gained +22.3%.

Within the US equity market, stocks of large companies outperformed small companies (+25.4% versus +23.6%) for the fiscal year. Growth stocks outperformed value on a relative basis in large caps (+26.9% versus +23.8%) and within small caps growth stocks also outperformed value stocks on a relative basis (+24.7% versus +22.5%).

International equities trailed the domestic equity market for fiscal year 2014. Developed Non-US stocks as measured by the MSCI EAFE Index gained +24.1% and Emerging Markets stocks as measured by the MSCI Emerging Markets Index gained +14.7%.

The US fixed income market produced a positive return (+4.4% Barclays Capital U.S. Aggregate Index) for the fiscal year ending June 30, 2014. U.S. High Yield bonds as measured by the Merrill Lynch U.S. High Yield Master II Index gained +11.8%.

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 +14.4% and the NCREIF ODCE Index gained +12.7% for fiscal year 2014.

STRATEGIC INVESTMENT SOLUTIONS, INC.

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 Real Estate, 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.

Investment Objectives

Investment returns achieved through June 30, 2014 have been calculated using a time-weighted rate of return methodology based upon market values. In fiscal year 2014, 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.

STRATEGIC INVESTMENT SOLUTIONS, INC.

Investment Results

PERIODS ENDED 6/30/14	ONE YEAR	THREE YEARS	FIVE YEARS
Domestic Equity	+26.3%	+15.4%	+19.1%
86% Russell 1000 / 14% Russell 2000 Index	+25.2%	+16.5%	+19.3%
Rank	21*	71	66
Non-US Equity	+23.2%	+7.1%	+13.3%
MSCI ACWI ex-US Index	+22.3%	+7.1%	+11.3%
Rank	34	51	27
Fixed Income	+6.0%	+5.4%	+6.7%
85.3% Barclays Cap US Aggregate / 14.7% ML HY Master II	+5.4%	+3.9%	+5.0%
Rank	52	46	53
Real Estate	+11.1%	+10.2%	+10.6%
25% FTSE NAREIT Dev. / 75% NCREIF ODCE	+13.3%	+12.2%	+9.8%
Rank	80	81	28
Private Equity	+18.2%	+8.2%	+10.3%
Russell 3000 + 300 bps (1-quarter lagged)	25.6%	+23.6%	+25.4%
Rank	23	61	73
Total Fund	+17.9%	+9.5%	+13.0%
*Policy Benchmark****	+16.7%	+10.6%	+13.3%
Public Fund Median	+16.0%	+9.6%	+12.6%
Rank**	14	56	39

*   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/24% MSCI ACWI ex-US/2.0% FTSE EPRA-NARIET Developed/6% NCREIF ODCE/5% Russell 3000 + 3% 1-quarter lagged

STRATEGIC INVESTMENT SOLUTIONS, INC.

Commentary

The domestic equity composite return for fiscal year 2014 was up +26.3% versus +25.2% for its custom index, or 110 bps of relative outperformance. The outperformance was a result of the Mellon Tangent strategy contributing a return of +30.2% compared to +24.6% for the S&P 500 index. Small Cap manager WHV was replaced during the fiscal year by PanAgora (funded Sept. 2013) and DFA (funded June 2014). 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 +23.2% compared to +22.3% for its custom index over the trailing 12 month period as of June 30, 2014, or 90 bps of relative outperformance. International equity small cap manager, UBS was replaced by Copper Rock (September 2013). International developed equity manager GMO outperformed the MSCI EAFE Index with a fiscal year return of +30.9% vs. +24.1% for the benchmark, or 680 bps of excess returns. Earnest Partners returned +20.4%, which trailed the MSCI ACWI ex-US Index return of +22.3% by -190 bps. Emerging markets equity manager Wells Capital returned +11.3%, which trailed the MSCI EM index return of +14.7%.

The Fixed Income composite returned +6.0% compared to +5.4% for its custom index, or 60 basis points of relative outperformance for the 12 month period as of June 30, 2014. U.S. Core Fixed Income manager Barrow Hanley returned +4.5% slightly above its Barclays Capital US Core Index benchmark of +4.4%. U.S. High Yield manager AXA returned +12.0% for the 2014 fiscal year which also slightly outperformed its Merrill Lynch U.S. High Yield Master II Index benchmark of +11.8%.

The Real Estate composite returned +11.1% compared to +13.3% for its custom index. Global REIT (Real Estate Investment Trust) manager European Investors provided a 2014 fiscal year return of +13.5% compared to +14.4% for its custom index. The UBS Trumbull Property strategy likewise trailed its custom index with a one-year return of +10.4% compared to +12.7% 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.

Private equity performance realized a gain of +18.2% for fiscal year 2014 and trailed the benchmark return of +25.6%. 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.

STRATEGIC INVESTMENT SOLUTIONS, INC.

Summary

The Retirement Association's total fund return over the fiscal year period was +17.9% gross, with a ranking in the 14th percentile. This return was ahead of the policy index of +16.7% by 120 basis points, and was also 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 6.6% modestly trailed the benchmark return of 6.8%. 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, 2014

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.

Total Fund Returns vs. Universe
Periods Ending June 30, 2014

	3 Mo	Fiscal YTD	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Inception Return	Inception Since
Total Fund	**3.7%**	**17.9%**	**15.1%**	**9.5%**	**13.0%**	**4.5%**	**6.6%**	**8.6%**	**Jan-95**
Fund Benchmark	*3.8%*	*16.7%*	*14.8%*	*10.6%*	*13.3%*	*5.2%*	*6.8%*	*5.9%*	*Jan-95*
IF Public DB Gross Rank	*44*	*14*	*24*	*56*	*39*	*75*	*73*	*51*	*Jan-95*
IF Public DB Gross Median	*3.6%*	*16.0%*	*13.8%*	*9.6%*	*12.6%*	*5.1%*	*7.2%*	*8.8%*	*Jan-95*

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

For the Year Ended June 30, 2014

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.

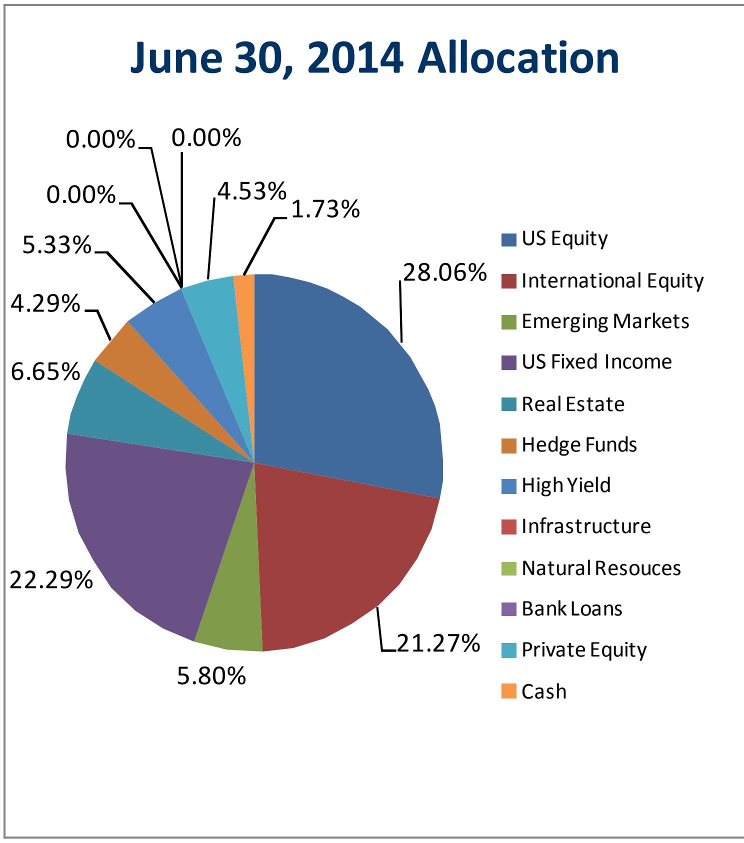
The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

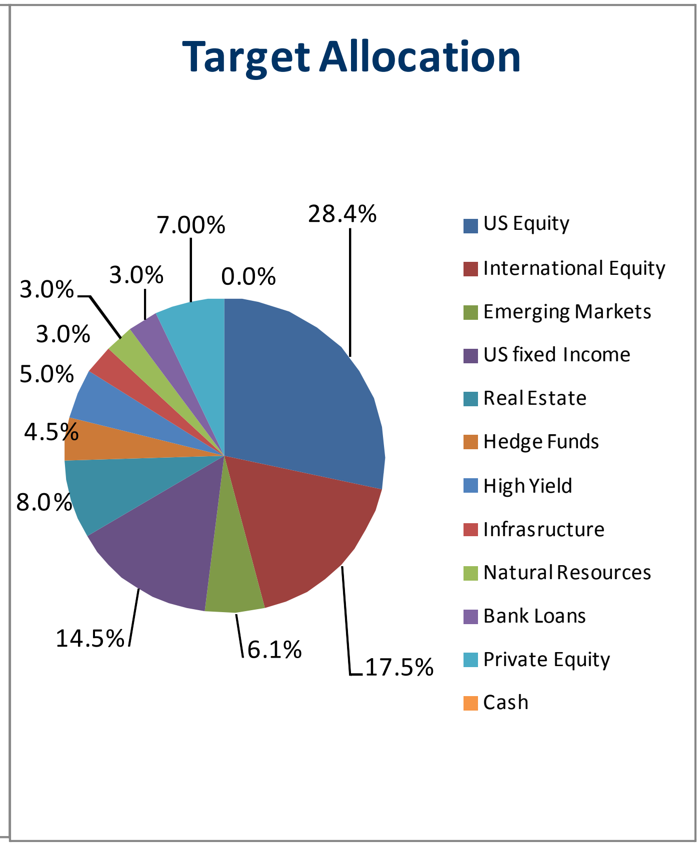
Summary of Proxy Voting Guidelines and Procedures

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, 2014





	Allocation June 30, 2014	Target	Allocation Ranges Minimum	Maximum	Allocation June 30 2013
US Equity	28.1%	28.4%	24.0%	33.0%	32.9%
International Equity	21.3%	17.5%	14.0%	20.0%	25.8%
Emerging Markets Equity	5.8%	6.1%	5.0%	7.5%	-
Private Equity	4.5%	7.0%	5.0%	8.0%	4.5%
Real Estate	6.7%	8.0%	7.0%	9.0%	6.9%
Domestic Fixed Income	22.3%	14.5%	12.0%	18.0%	27.7%
High Yield Fixed Income	5.3%	5.0%	4.0%	6.0%	-
Hedge Funds	4.3%	4.5%	4.0%	5.0%	-
Infrastructure	-	3.0%	2.0%	4.0%	-
Natural Resources	-	3.0%	2.0%	4.0%	-
Bank loans	-	3.0%	2.5%	3.5%	-
Cash	1.70%	0.0%	0.0%	0.0%	2.2%
	100.0%	100.0%			100%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY
For the Year Ending June 30, 2014

	Fair Value	Percent of Total
DOMESTIC EQUITY		
Large Cap Growth	$46,026,224	7.0%
Large Cap Value	45,186,749	6.8%
Mellon Tangent Added	61,125,484	9.3%
Small Cap	30,444,340	4.6%
Total Domestic Equity	182,782,797	27.7%
INTERNATIONAL EQUITY		
Large/Medium Core	63,912,844	9.7%
Large/Medium High Alpha	46,786,847	7.1%
Small Cap Growth	24,954,419	3.8%
Emerging Market	37,969,868	5.7%
Total International Equity	173,623,978	26.3%
FIXED INCOME		
Domestic Core	133,928,022	20.3%
High Yield	34,815,982	5.3%
Total Fixed Income	168,744,004	25.5%
ALTERNATIVE INVESTMENTS		
Private Equity	30,567,407	4.6%
Hedge Funds	28,000,000	4.2%
Total Alternative Investments	58,567,407	8.9%
REAL ESTATE		
Property Fund	34,282,291	5.2%
Global REIT	9,177,612	1.4%
Total Real Estate	43,459,903	6.6%
CASH AND SHORT-TERM INVESTMENTS	33,398,495	5.1%
Total Investments, Cash and Short-Term Investments	$660,576,584	100.0%

SCHEDULE OF INVESTMENT RESULTS
For the Year Ended June 30, 2014

	CURRENT	ANNUALIZED				
DOMESTIC EQUITY	**YEAR**	**3YR**	**5YR**	**7YR**	**10YR**	**Inception**
Large Cap Core						
Mellon Tangent	30.2%	-	-	-	-	32.4%
Index: S&P 500 Index	24.6%	-	-	-	-	26.2%
Large Cap Index						
Mellon Capital Mgmt. Large Cap Growth	26.9%	16.3%	19.3%	8.0%	8.2%	10.2%
Index: Russell 1000® Growth	26.9%	16.3%	19.2%	8.0%	8.2%	10.1%
Mellon Capital Mgmt. Large Cap Value	23.8%	17.0%	19.3%	4.9%	8.1%	10.6%
Index: Russell 1000® Value	23.8%	16.9%	19.2%	4.8%	8.0%	10.5%
Small Cap						
DFA*	-	-	-	-	-	-
PanAgora*	-	-	-	-	-	-
Index: Russell 2000	-	-	-	-	-	-
TOTAL DOMESTIC EQUITY	**26.3%**	**15.4%**	**19.1%**	**6.4%**	**8.3%**	**9.8%**
INDEX: 86% RUSSELL® 1000/14%/RUSSELL® 2000	**25.0%**	**16.0%**	**19.3%**	**6.5%**	**8.4%**	**10.1%**
INTERNATIONAL EQUITY						
Copper Rock*	-	-	-	-	-	-
GMO	30.9%	11.0%	14.1%	3.6%	-	3.3%
Earnest Partners, LLC	20.4%	6.0%	13.8%	-	-	5.8%
Wells Capital Emerging Market Fund	11.3%	-	-	-	-	3.3%
TOTAL INTERNATIONAL EQUITY	**23.2%**	**7.1%**	**13.3%**	**2.8%**	**8.1%**	**6.4%**
INDEX: INTERNATIONAL CUSTOM INDEX	**22.0%**	**7.2%**	**12.2%**	**1.6%**	**7.9%**	**6.4%**
FIXED INCOME						
AXA	12.0%	10.7%	-	-	-	11.3%
Barrow Hanley	4.5%	4.1%	-	-	-	4.8%
TOTAL FIXED INCOME	**6.0%**	**5.4%**	**6.7%**	**4.5%**	**4.5%**	**6.1%**
INDEX: U.S. FIXED INCOME CUSTOM INDEX	**6.1%**	**5.2%**	**6.8%**	**6.3%**	**5.8%**	**6.9%**
REAL ESTATE						
UBS Trumbull Property Fund	10.4%	10.4%	9.3%	3.4%	7.8%	8.6%
European Capital Management, Inc	13.5%	9.0%	16.6%	-	-	5.4%
TOTAL REAL ESTATE COMPOSITE	**11.1%**	**10.2%**	**10.6%**	**3.8%**	**8.1%**	**8.8%**
INDEX: REAL ESTATE CUSTOM INDEX	**13.3%**	**12.2%**	**9.8%**	**5.0%**	**8.7%**	**8.7%**
ALTERNATIVE INVESTMENTS**						
Invesco Private Capital IV	26.8%	6.5%	11.8%	9.0%	-	8.7%
Invesco Private Capital VI	2.1%	-	-	-	-	2.1%
Adams Street Partners, LLC	18.5%	13.9%	14.8%	9.1%	-	8.7%
Pantheon Ventures I, Inc.	18.7%	9%	10.2%	7.1%	-	4.7%
Pantheon Ventures II, Inc.	25.1%	-	-	-	-	13.1%
Pantheon Secondary	9.0%	2.6%	3.9%	6.3%	-	6.3%
Ocean Avenue*	-	-	-	-	-	-
Och-Ziff*	-	-	-	-	-	-
Titan Advisors*	-	-	-	-	-	-
TOTAL ALTERNATIVE INVESTMENTS	**18.2%**	**8.2%**	**10.3%**	**8.0%**	**-**	**7.4%**
INDEX: RUSSELL 3000 + 3.00%	**25.6%**	**23.6%**	**25.4%**	**11.9%**	**-**	**13.7%**
TOTAL FUND***	**17.9%**	**9.5%**	**13.0%**	**4.5%**	**6.6%**	**8.6%**
TOTAL FUND CUSTOM INDEX***	**16.7%**	**10.6%**	**13.3%**	**5.2%**	**6.8%**	**5.9%**

*There is no fiscal year data available because the fund hasn't had a full year of performance.
**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, 2014

PAR	BONDS		FAIR VALUE
7,604,560	U S TREASURY NOTE	2.000% 11/15/2021 DD 11/15/11	$7,653,125
7,140,915	U S TREASURY NOTE	0.875% 01/31/2017 DD 01/31/12	7,116,528
5,665,487	U S TREASURY NOTE	2.000% 02/15/2022 DD 02/15/12	5,650,743
2,713,695	U S TREASURY BOND	3.125% 11/15/2041 DD 11/15/11	2,766,666
1,741,480	FNMA POOL #0AB3382	4.000% 08/01/2041 DD 07/01/11	1,789,872
1,817,833	FHLMC POOL #Q0-9949	3.000% 08/01/2042 DD 07/01/12	1,738,571
1,721,925	BEAR STEARNS COS LLC/THE	7.250% 02/01/2018 DD 02/01/08	1,695,864
1,540,104	FHLMC POOL #G0-5753	5.000% 11/01/2039 DD 12/01/09	1,671,585
1,588,886	FNMA POOL #0AQ5095	3.000% 11/01/2027 DD 11/01/12	1,552,343
1,448,872	FNMA POOL #0AI1059	4.500% 06/01/2041 DD 06/01/11	1,455,210
			$33,090,507

SHARES	STOCKS	FAIR VALUE
42,253.000	SHIRE PLC ORD GBP0.05	$3,301,656
55,808.000	ARM HOLDINGS PLC	2,524,754
14,712.000	CORE LABORATORIES N V	2,457,787
45,900.000	ICON PLC	2,162,349
39,597.000	ICICI BANK LTD	1,975,890
41,100.000	DENSO CORPORATION NPV	1,961,586
6,146.000	ROCHE HLDG AG GENUSSCHEINE NPV	1,833,127
98,800.000	DNB ASA	1,806,522
42,745.000	AMADEUS IT HLD SA-A SHS0.0100	1,762,752
12,900.000	SCHOELLER BLECKMAN EUR1 (BR)	1,664,470
		$21,450,893

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.

REAL ESTATE
UBS Global Asset Management
European Capital Management, Inc

DOMESTIC EQUITY
Earnest Partners, LLC
Mellon Capital Management
PanAgora
Dimensional Fund Advisors

HEDGE FUND
Titan Advisors
Och-Ziff

INTERNATIONAL EQUITY
Copper Rock
Grantham, Mayo, Van Otterloo & Co., LLC
Earnest Partners, LLC
Wells Capital Management

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

COMMISSION RECAPTURE
ConvergEx Group
Capital Institutional Services, Inc

INVESTMENT MANAGERS' FEES	**2014**	**2013**
Equity Managers		
Domestic	$526,018	$444,119
International	738,800	825,457
Fixed Income Fees	411,104	422,753
Alternative Investment Managers	70,085	77,873
Real Estate Fees	358,473	325,666
Total Investment Managers' Fees	$2,104,480	$2,095,868
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$167,448	$169,949
Investment Custodial Fees	162,163	205,720
Other Investment Service Fees	(62,298)	(111,576)
Total Other Investment Service Fees	267,313	264,093
Total Investment Managers' and Other Service Fees	$2,371,793	$2,359,961

Actuarial Section


MERCED
MERCED

November 21, 2014

VIA ELECTRONIC MAIL

Actuarial Certification

This is the Actuary's Certification Letter for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Merced County Employees' Retirement Association (the Plan) as of June 30, 2014. This letter includes references to two documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2013 (transmitted April 10, 2014) and the GASB 67/68 Report as of June 30, 2014 (transmitted November 18, 2014).

Actuarial Valuation Report as of June 30, 2013

The purpose of the annual Actuarial Valuation Report as of June 30, 2013 is to determine the actuarial funding status of the Plan on that date and to calculate recommended contribution rates for the participating employers and Plan members for the Fiscal Year 2014-2015. The prior review was conducted as of June 30, 2012, and included recommended contribution rates for the Fiscal Year 2013-2014.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost and expected administrative expenses) plus a level percentage of payroll to amortize the unfunded actuarial liability (UAL). As of the valuation date (June 30, 2013), the amortization period is 16 years.

The funding objective of the Plan is to accumulate sufficient assets over each Member's working life to provide for Plan benefits after termination of employment or retirement. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. 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 Board of Retirement is responsible for establishing and maintaining the funding policy of the Plan.

We prepared the following schedules, which we understand will be included in the Actuarial Section of the CAFR, based on the June 30, 2013 actuarial valuation. All historical information prior to the June 30, 2013 actuarial valuation shown in these schedules is based on information reported by EFI Actuaries, which was acquired by Cheiron in January 2013.

1970 Broadway, Suite 1220, Oakland, CA 94612 Tel: 877-CHEIRON (243-4766) Fax: 703.893.2006 www.cheiron.us

- Statement of Current Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Development of 2013 Experience Gain/(Loss) (Analysis of Financial Experience)
- Solvency Test
- Schedule of Funding Progress
- Summary of Plan Provisions

We reviewed the actuarial assumptions shown in the schedules and found them to be reasonably appropriate for use under the Plan. The assumptions used in this report reflect the results of an Experience Study performed by Cheiron covering the period from July 1, 2010 through June 30, 2013, and approved by the Board. The assumptions used in the most recent valuation are intended to produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is expected to cover the years through 2016.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the requirements of the Actuarial Standards of Practice, in particular Standards No. 4, 27, 35 and 44.

GASB 67/68 Report as of June 30, 2014

The purpose of GASB 67/68 Report as of June 30, 2014, is to provide accounting and financial reporting information under GASB 67 for the Plan and under GASB 68 for the County of Merced and the Merced Superior Court. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2013, actuarial valuation updated to the measurement date of June 30, 2014. There were no significant events between the valuation date and the measurement date so the update procedures only included the addition of service cost and interest cost offset by actual benefit payments.

Beginning of year measurements are also based on the actuarial valuation as of June 30, 2013. The June 30, 2013, Total Pension Liability presented in the GASB 67/68 Report was based upon the same data, plan provisions, actuarial methods, and assumptions as were used in the Actuarial Valuation Report as of June 30, 2013.

Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year. In future years, liability gains and losses will be reported reflecting the liability gains and losses between actuarial valuation dates as well as any significant events during the update period.

Please refer to our GASB 67 report as of June 30, 2014, for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2014, GASB 67/68 report:

CHEIRON

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to the Schedule of Employer Contributions

We certify that the report was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB.

Disclaimers

In preparing our reports, we relied on information (some oral and some written) supplied by the Merced County Employees' Retirement Association. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

These reports are for the use of the Plan, the participating employers, and their auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of these reports is not an intended user and is considered a third party.

Cheiron's reports were prepared solely for the Plan for the purposes described herein, except that the Plan and participating employers' auditors may rely on these reports solely for the purpose of completing an audit related to the matters herein. They are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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

Respectfully Submitted,
Cheiron

Graham A. Schmidt, ASA, MAAA
Consulting Actuary
703-893-1456 x1137
gschmidt@cheiron.us

David Holland, FSA, MAAA
Consulting Actuary
703-893-1456 x1008
dholland@cheiron.us

CHEIRON

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, 2013):

Investment Rate of Return	7.75%, net of investment and administrative expenses
Inflation	3.00% per annum
Cost of Living Adjustments	For Tier 1, 100% of CPI to 3% annually with banking, assumed to be 2.6% 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	3.00%, plus service-based rates

B. Non-Economic Assumptions

The date of the last study of the Plan's actual experience was June 30, 2013. 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 Projected to 2027 using scale BB
General Member Females	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB
Safety Member	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB

Note: Information compiled from Actuarial Report prepared by Cheiron dated June 30, 2013.

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS
(Continued)

2. <u>Disability</u>

General Males	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB (3 year set-forward).
General Females	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB (3 year set-forward).
Safety Member	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB (3 year set-forward).

3. <u>For Employee Contribution Rate Purposes</u>

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 6/30/13 (See Schedule of Probabilities of Separation from Active Service).
Withdrawal Rates	Based upon the Experience Analysis as of 6/30/13 (See Schedule of Probabilities of Separation from Active Service).
Disability Rates	Based upon the Experience Analysis as of 6/30/13 (See Schedule of Probabilities of Separation from Active Service).
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/13 (See Schedule of Probabilities of Separation from Active Service).

Note: Information compiled from Actuarial Report prepared by Cheiron dated June 30, 2013

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS
(Continued)

Vested Termination	Rates of vested termination apply to active members who terminate their employment after five years of service and leave their contribution with the plan. Vested terminated General Members are assumed to begin receiving benefits at 59; terminated Safety Members are assumed to begin receiving benefits at age 53. Assumed rates of reciprocity at termination depend on participant type and years of service, and are based on the Experience Analysis as of June 30, 2013.
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 and Tier 3 members by 2.31%.

C. Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each Member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial liability is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases of 3% per year. The UAL as of June 30, 2013 is being amortized over a closed period of 16 years.

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 Cheiron dated June 30, 2013.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

GENERAL MEMBERS

	Service Retirement - Male (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%

	Service Retirement - Female (by Service)		
Age	10-19 Yrs	20-29 Yrs	30+ Yrs
50	2.50%	10.00%	10.00%
55	9.00%	35.00%	35.00%
60	25.00%	30.00%	35.00%
65	40.00%	50.00%	50.00%
70	100.00%	100.00%	100.00%

Service	Withdrawals	Transfers	Vested
0-4	90.0%	10.0%	0.0%
5-14	40.0%	12.0%	48.0%
15+	10.0%	10.0%	80.0%

	Service-Connected Disability		Non Service-Connected Disability	
Age	Female	Male	Female	Male
20	0.0040%	0.0027%	0.0000%	0.0000%
30	0.0115%	0.0133%	0.0067%	0.0533%
40	0.0190%	0.0320%	0.0300%	0.0867%
50	0.0600%	0.0640%	0.0600%	0.1600%
60	0.1575%	0.1120%	0.1533%	0.2800%
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%	3.10%
45-49	0.00%	7.60%
50-59	12.75%	32.90%
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	0.0000%	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	Withdrawals	Transfers	Vested Terminations
0-4	90.00%	10.0%	0.0%
5+	15.0%	42.5%	42.5%

RATES OF TERMINATION

Years of Service	General Male	General Female	Safety
0	25.0%	12.0%	20.8%
5	4.8%	7.5%	4.6%
10	4.8%	3.6%	4.6%
15	4.8%	3.0%	2.5%

Years of Service	General Male	General Female	Safety
20	2.5%	3.0%	0.0%
25	2.5%	3.0%	0.0%
30	0.0%	0.0%	0.0%

Note: Information compiled from Actuarial Report prepared by Cheiron dated June 30, 2013.

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%
7/1/2013	General	1,604	$91,737,348	$57,193	0.63%
	Safety	295	$18,699,145	$63,387	0.98%
	Total	1,899	$110,436,493	$58,155	0.64%

Note: Information compiled from Actuarial Report prepared by Cherion dated June 30, 2013. 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
6/30/08	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
6/30/13	1,996	103	$3,029	49	$856	2,050	$56,048	5.98%	$27,340

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
6/30/08	$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%
6/30/13	$73,311	$694,137	$297,850	$1,065,298	$547,264	100%	68%	0%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
For Years Ended June 30

	Actuarial (Gains)/Losses					
Plan Year Ending	Asset Sources ($ 000)	Liability Sources ($ 000)	Total ($ 000)	Changes in Plan Provisions ($ 000)	Changes in Assumptions/Methods ($ 000)	Total (Gain)/Loss ($ 000)
6/30/08	$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
6/30/13	$20,749	$4,199	$24,948	N/A	$49,294	$74,242

Note: Information compiled from Actuarial Report prepared by Cheiron dated June 30, 2013

SCHEDULE OF FUNDING PROGRESS

For Years Ended June 30

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Valuation Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
6/30/2007	$ 480,517	$ 652,482	$ 171,965	73.6%	$ 100,589	171.0%
6/30/2008	$ 488,347	$ 692,252	$ 203,905	70.5%	$ 109,253	186.6%
6/30/2009	$ 483,145	$ 809,681	$ 326,536	59.7%	$ 114,984	284.0%
6/30/2010	$ 509,561	$ 930,832	$ 421,271	54.7%	$ 115,384	365.1%
6/30/2011	$ 523,980	$ 933,917	$ 409,936	56.1%	$ 111,342	368.2%
6/30/2012	$ 528,728	$ 975,608	$ 446,880	54.2%	$ 106,581	419.3%
6/30/2013	$ 547,264	$1,065,298	$ 518,034	51.4%	$ 115,983	446.6%

REQUIRED SUPPLIMENTARY INFORMATION

A schedule of actuarially determined and actual contributions can be found on page 60 of this document. The schedule shows whether the employer has made contributions that are consistent with an actuarial method of funding the benefits to be provided consistent with the parameters established by GASB statement 67.

Statistical Section


MERCED
MERCED

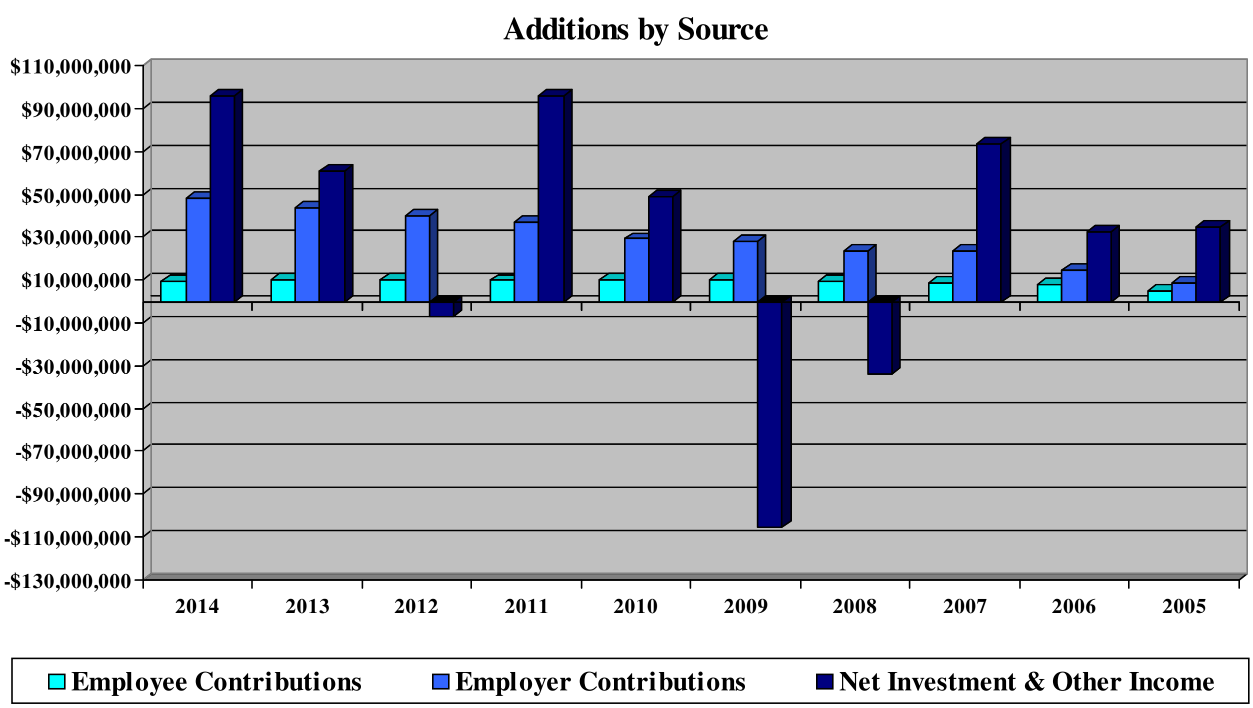
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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
6/30/05	$ 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
6/30/14	$ 9,642,819	$ 48,032,338	43.40%	$ 96,219,056	$ 153,894,213

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

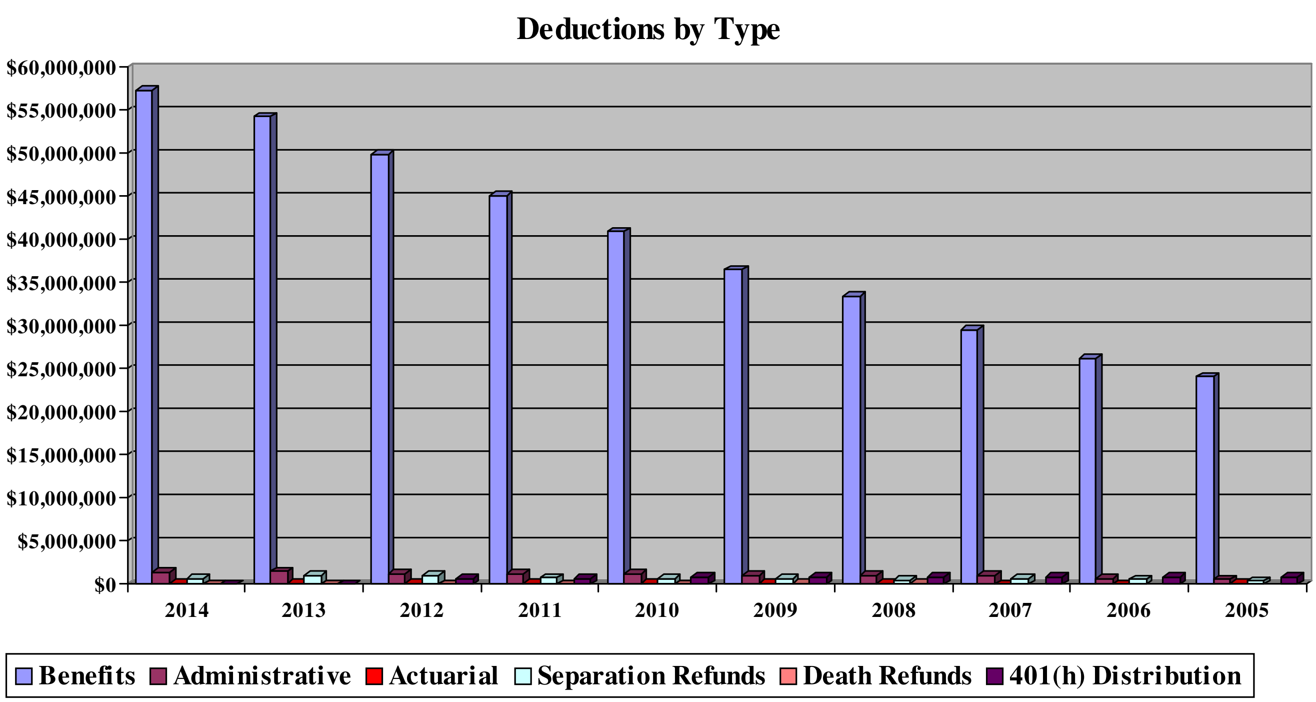


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401 (h) Distribution to County	Total
6/30/05	*	$ 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
6/30/14		$ 57,338,930	$ 1,434,671	$ 112,676	$ 703,091	-	-	$ 59,589,368

*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 FIDUCIARY NET POSITION

(Dollar Amount in thousands)

Additions	**6/30/14**	**6/30/13**	**6/30/12**	**6/30/11**	**6/30/10**
Plan members contributions	$9,643	$9,928	$10,416	$9,754	$9,864
Employer contributions	48,032	43,784	40,263	36,662	29,137
Net investment income/(loss)	96,219	61,083	(7,039)	96,032	48,772
Total additions	153,894	114,795	43,640	142,448	87,773
Deductions					
Benefits paid	57,339	54,258	49,839	45,022	40,929
Administrative expenses	1,435	1,496	1,180	1,189	1,171
Actuarial expenses	112	71	63	138	67
Refunds	703	1,082	1,052	767	673
401(h) distribution	-	-	734	650	850
Total deductions	59,589	56,907	52,868	47,766	43,690
Change in fiduciary net position	$94,305	$57,888	($9,228)	$94,683	$44,083
Net position restricted for pensions at beginning of the year	**$563,020**	**$505,132**	**$514,361**	**$419,678**	**$375,595**
Net position restricted for pensions at end of the year	**$657,325**	**$563,020**	**$505,133**	**$514,361**	**$419,678**

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Dollar Amounts in thousands)

	2014*	2013*	2012*	2011*	2010*	2009*	2008*	2007	2006	2005
Service Retirement										
Payroll:										
General	$41,442	$39,447	$35,897	$31,770	$28,665	$25,086	$22,868	$21,924	$18,081	$16,378
Safety	7,196	6,679	6,209	5,845	5,404	4,720	4,139	3,813	3,448	3,030
Total	$48,638	$46,126	$42,106	$37,615	$34,069	$29,806	$27,007	$25,737	$21,529	$19,408
Disability Retiree										
Payroll										
General	$2,600	$2,489	$2,230	$2,159	$2,154	$2,103	$1,975	$1,555	$1,527	$1,478
Safety	3,005	2,898	2,738	2,522	2,424	2,396	2,312	1,907	1,913	1,816
Total	$5,605	$5,387	$4,968	$4,681	$4,578	$4,499	$4,287	$3,462	$3,440	$3,294
Beneficiary/Survivors										
Payroll										
General	$2,346	$2,030	$2,035	$2,049	$1,762	$1,574	$1,686	$1,957	$1,734	$1,613
Safety	610	562	579	521	412	380	414	667	594	551
Total	$2,956	$2,592	$2,614	$2,570	$2,174	$1,954	$2,100	$2,624	$2,328	$2,164
Total Payroll Expense										
Payroll										
General	$46,387	$43,966	$40,162	$35,978	$32,580	$28,763	$26,529	$25,436	$21,342	$19,470
Safety	10,811	10,139	9,526	8,887	8,240	7,496	6,865	6,387	5,955	5,397
Total	$57,198	$54,105	$49,688	$44,865	$40,820	$36,259	$33,394	$31,823	$27,297	$24,867
Death Benefits										
General	$96	$96	$117	$81	$99	$179	N/A	N/A	N/A	N/A
Safety	18	12	9	N/A	9	41	N/A	N/A	N/A	N/A
Total	$114	$108	$126	$81	$108	$220	N/A	N/A	N/A	N/A
Separation Refund Expense										
General	$582	$985	$861	$729	$599	$562	N/A	N/A	N/A	N/A
Safety	121	97	190	37	74	122	N/A	N/A	N/A	N/A
Total	$703	$1,082	$1,051	$766	$673	$684	N/A	N/A	N/A	N/A
Active Death Expense										
General	$29	$44	$26	$82	N/A	$77	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	$29	$44	$26	$82	N/A	$77	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.

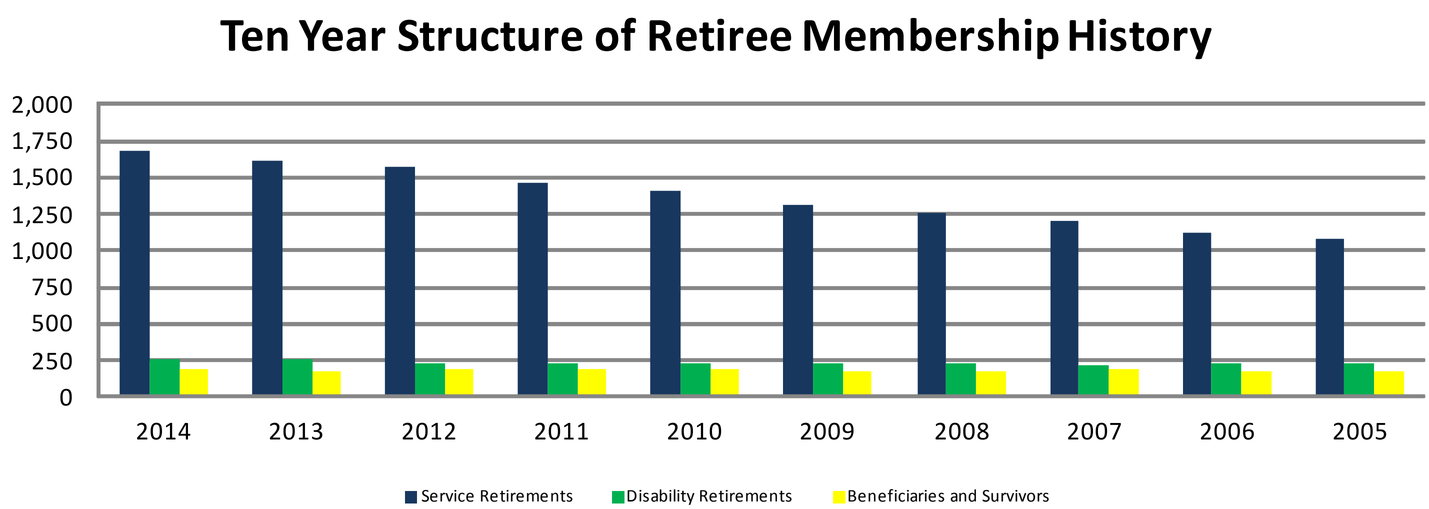
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

(Summary of Monthly Allowances Being Paid—As of June 30, 2014)

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	1,492	$2,315	193	$3,107	1685	$2,406
Disability	156	$1,390	104	$2,408	260	$1,797
Beneficiaries/Survivors	162	$1,200	25	$2,036	187	$1,312
Total Retired Members	1,810	$2,135	322	$2,798	2,132	$2,236

This schedule excludes separation refunds and death refunds



	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Service Retirements	1,685	1,613	1,570	1,463	1,411	1,307	1,258	1,209	1,119	1,073
Disability Retirements	260	257	236	233	230	234	233	222	227	232
Beneficiaries and Survivors	187	176	192	187	185	172	172	188	175	171
Total	2,132	2,046	1,998	1,883	1,826	1,713	1,663	1,619	1,521	1,476

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
GENERAL										
Number	1,810	1,730	1,693	1,590	1,545	1,454	1,412	1,381	1,294	1,260
Basic Annual Allowance	$37,646	$35,885	$32,933	$29,232	$26,331	$22,771	$22,592	$20,021	$16,553	$15,000
Average Basic Monthly Allowance	$1,733	$1,729	$1,621	$1,532	$1,420	$1,305	$1,333	$1,206	$1,066	$992
Total Annual Allowance	$46,387	$43,966	$40,161	$35,978	$32,561	$28,712	$28,019	$25,435	$21,341	$19,470
Average Total Monthly Allowance	$2,136	$2,118	$1,976	$1,886	$1,756	$1,646	$1,654	$1,533	$1,374	$1,288
SAFETY										
Number	322	316	305	293	281	259	251	238	228	217
Basic Annual Allowance	$8,279	$7,791	$7,379	$6,863	$6,401	$5,746	$5,262	$4,807	$4,508	$4,038
Average Basic Monthly Allowance	$2,143	$2,054	$2,016	$1,952	$1,898	$1,849	$1,747	$1,690	$1,648	$1,551
Total Annual Allowance	$10,811	$10,139	$9,527	$8,887	$8,240	$7,497	$6,878	$6,388	$5,956	$5,397
Average Total Monthly Allowance	$2,798	$2,674	$2,603	$2,528	$2,444	$2,412	$2,284	$2,246	$2,177	$2,073
TOTAL										
Number	2,132	2,046	1,998	1,883	1,826	1,713	1,663	1,619	1,522	1,477
Basic Annual Allowance	$45,925	$43,676	$40,312	$36,095	$32,732	$28,517	$27,854	$24,828	$21,061	$19,038
Average Basic Monthly Allowance	$1,795	$1,779	$1,681	$1,597	$1,494	$1,387	$1,396	$1,277	$1,153	$1,074
Total Annual Allowance**	$57,198	$54,106	$49,688	$44,865	$40,801	$36,209	$34,897	$31,823	$27,297	$24,867
Average Total Monthly Allowance	$2,236	$2,204	$2,072	$1,986	$1,862	$1,761	$1,749	$1,637	$1,495	$1,403

** 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, 2014

		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	89	24	41	18	0	5	1	0	56	5	20	8	0
251 - 500	158	34	84	17	4	6	13	0	122	4	28	3	1
501 - 750	190	59	92	29	4	2	4	0	155	9	23	3	0
751 - 1,000	196	58	85	31	7	1	14	0	170	7	15	2	2
1,001 - 1,250	186	68	68	19	4	8	19	0	159	3	18	5	1
1,251 - 1,500	149	58	55	15	2	11	8	0	135	3	7	4	0
1,501 - 1,750	135	60	38	12	2	18	5	0	117	0	14	4	0
1,751 - 2,000	118	52	37	8	1	17	3	0	108	0	9	1	0
Over 2,000	911	459	314	38	4	91	5	0	805	27	56	14	9
Total	**2,132**	**872**	**814**	**187**	**28**	**159**	**72**	**0**	**1,827**	**58**	**190**	**44**	**13**

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

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 07/01/2013 to 06/30/2014							
Average monthly benefit	$426.00	$1,121.00	$1,634.00	$2,714.00	$4,018.00	$5,013.00	$5,992.00
Average final average salary	$8,946.00	$4,750.00	$4,587.00	$5,441.00	$6,527.00	$6,566.00	$7,088.00
Number of retired members	7	17	22	16	15	13	13
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

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET
For the Years Ending June 30

		2013	2012
	ASSETS		
1.	Total actuarial value of assets	$547,263,743	$528,727,523
2.	Present value of future contributions by members	64,356,294	69,912,502
3.	Present value of future employer contributions for normal cost	71,247,618	91,834,761
4.	Present value of other future employer contributions (UAAL)	518,034,325	446,880,136
5.	Total Actuarial Assets	$1,200,901,980	$1,137,354,922
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$694,136,908	$632,318,639
7.	Present value of service retirement allowances payable to presently active member and their survivors	410,380,089	410,061,926
8.	Present value of allowances payable to current and future vested terminated members and their survivors	69,609,057	57,638,982
9.	Present value of disability retirement allowances payable to presently active members and their survivors	15,700,881	22,348,401
10.	Present value of death benefits payable on behalf of presently active members	5,603,365	7,760,482
11.	Present value of members' contributions to be returned upon withdrawal	5,471,680	7,226,492
12.	Special Reserves	-	-
13.	Total Actuarial Liabilities	$1,200,901,980	$1,137,354,922
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$1,200,901,980	$1,137,354,922
15.	Present value of future contributions by members and employers (items 2 and 3)	135,603,912	161,747,263
16.	Actuarial accrued liability (item 14 minus item 15)	1,065,298,068	975,607,659
17.	Actuarial value of assets	547,263,743	528,727,523
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$518,034,325	$446,880,136
19.	Funded Ratio	51.4%	54.2%

Note: Actuarial Balance Sheet provided by Cheiron Actuaries.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
County of Merced										
General Members	1,490	1,478	1,453	1,521	1,575	1,708	1,852	1,848	1,853	1,931
Safety Members	298	294	306	322	331	342	352	328	316	296
Total County of Merced	1,788	1,772	1,759	1,843	1,906	2,050	2,204	2,176	2,169	2,227
Percentage of Membership	93.56%	93.21%	92.53%	92.85%	93.44%	93.87%	94.19%	94.69%	95.22%	99.87%
Participating Agencies										
Merced Cemetery District	1	1	2	2	2	3	3	3	3	3
Percentage of Membership	.05%	.05%	.11%	.10%	.09%	.13%	.13%	.13%	.13%	.13%
Transit Joint Powers Authority	-	-	1	3	3	-	-	-	-	-
Percentage of Membership	-	-	.05%	.15%	.14%	-	-	-	-	-
Superior Court of California	112	115	126	137	137	137	133	119	106	-
Percentage of Membership	5.86%	6.05%	6.63%	6.90%	6.33%	6.01%	5.68%	5.17%	4.65%	-
Regional Waste Management Authority	10	13	13	-	-	-	-	-	-	-
Percentage of Membership	.52%	.68%	.68%	-	-	-	-	-	-	-
Total Members of Participating Agencies	123	129	142	142	142	140	136	122	109	3
Total Active Membership										
General	1,613	1,604	1,595	1,663	1,717	1,848	1,988	1,970	1,962	1,934
Safety	298	294	306	322	331	342	352	328	316	296
Total	1,911	1,899	1,901	1,985	2,048	2,190	2,340	2,298	2,278	2,230