Merced County Employees' Retirement Association

A Pension Trust Fund of the County of Merced, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2015 and 2014

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2015 and 2014

MCERA

Issued By
Angelo Lamas
Interim Plan Administrator
Bren Horrocks
Fiscal Supervisor

Merced County Employees' Retirement Association

A Pension Trust Fund of the County of Merced, California

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LETTER OF TRANSMITTAL

December 29, 2015

Dear Board Members:

As the Interim Administrator of the Merced County Employees' Retirement Association (MCERA), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2015 and 2014. 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 65th 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 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 Comprehensive Annual Financial Report is presented in five sections:

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

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

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

- The **Actuarial Section** contains the independent actuary's certification letter from MCERA's actuary, Cheiron Actuaries, along with a summary of actuarial assumptions and funding methods, and actuarial statistics.

- The **Statistical Section** presents information pertaining to MCERA's operations on a multi-year basis. The financial and operating information provides contextual data for MCERA's fiduciary 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, and the 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 may also adopt resolutions, as permitted by the 1937 Act, which may affect benefits of MCERA members.

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

The Board is comprised of nine members and two alternates; two elected by the active general membership, one regular and one alternate elected by the active safety membership, one regular and one alternate elected by the retired membership, four appointed by the County of Merced Board of Supervisors, and the County of Merced Treasurer, who serves as an ex-officio member. With the exception of the County Treasurer, Board members serve three-year terms, with no term limits.

Financial Information

A review of MCERA's fiscal affairs for the years ended June 30, 2015 and 2014 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 opined that the financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) and are free of material misstatement and that sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. This document has been prepared in compliance with the Governmental Accounting Standards Board Statement (GASB) 67 and all prior and relevant standards.

Management is responsible to establish and maintain appropriate internal controls to ensure that MCERA'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 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, 2015, MCERA's fiduciary net position restricted for pension benefits totaled approximately $672.3 million reflecting an increase of approximately $15.0 million (approximately 2.3%) in the fiduciary net position at the end of the previous fiscal year. This was primarily attributable to employer contributions and the appreciation in fair value of investments held by MCERA as explained more fully in the report of MCERA's investment consultant, which is located in the Investment Section of this CAFR.

Actuarial Funding Status

MCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan and obtaining optimum investment returns consistent with 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 impact of the changes was significant, so they were phased in over two years. The most recent actuarial valuation as of June 30, 2014, found the system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 60.0%. This increase in the funding ratio (up from 51.4% as of June 30, 2013) was primarily due to MCERA's investment return exceeding the actuarial assumptions (the Plan earned 4.6% on a market value basis). The return was partially offset by the second year of the two-year phase in of the change in assumptions from the 2013 experience study. A key factor in the decrease in the liabilities was the investment and demographic gains. The Plan's funded ratio further increased following the asset method change to use market value of assets instead of the actuarial value of the assets for the funding calculations. This parallels the changes made to the GASB disclosures under GASB statement 67, which now requires the Plan to use the market value of assets in the calculation of the funded ratio.

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 to create a portfolio 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 can be found in the Investment Section of this CAFR.

The assets of MCERA are exclusively managed by external professional investment management firms. A listing of the investment professionals and investment fees can be found on page 70.

For the fiscal year ending June 30, 2015, MCERA's investment return was a positive 4.6% and the annualized rate of return over the last three and five years was a positive 11.0% and 10.9%, respectively.

Service Efforts and Accomplishments

Pension Administration System

- Processed *active* payroll in the new Pension Administration System (CPAS), while simultaneously processing *active* payroll in the old software system for eight months for quality control purposes.

- Processed *retiree* payroll in the new Pension Administration System (CPAS), while simultaneously processing *retiree* payroll in the old software system for six months for quality control purposes.

- Tested the successful generation of 1099s in the new CPAS system.

- Tested reports that had been generated by the legacy software system and migrated successfully to the CPAS system.

- Approved the development of a web portal for the CPAS system for member use.

- Approved the development of an imaging system.

Administration

- Developed procedures to expedite liquidating securities for cash needs for benefits, expenses, and partnership cash calls.

- Developed and implemented an enhanced website for MCERA.

- Adopted and implemented a COLA of 2 ½% effective April 1, 2015 for Tier 1 members.

- For the eleventh consecutive year, MCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MCERA's 2013-2014 Comprehensive Annual Financial Report.

Investments

- Approved a $10 million commitment to KKR, an infrastructure manager.

- Approved a $10 million commitment to Morgan Stanley, an infrastructure manager.

- Approved a $7.5 million commitment to GSO (a subsidiary of Blackstone), a natural resources (real asset) manager specializing in energy.

- Approved a $5 million commitment to Taurus Mining Finance Fund LLC, a natural resources (real asset) manager specializing in lending to mining operations.

- Approved a $13 million commitment to Greenfield Acquisition Partners VII, a value-added real estate manager.

Management/Oversight

- Mark Bodley retired from the Board of Trustees. Ryan Paskin was appointed to fill that vacancy. The Board fulfilled continuing education requirements.

- In calendar year 2014, we hired two full time employees and two part time employees. Additionally, there was one promotion. This represented 55% of staff being new or new in their position. Training has come along nicely and staff is gaining significant skill and experience.

- Adopted the 2014 valuation with an amortization period to continue to pay the existing unfunded liability by June 30, 2029, yet provide some contribution rate stability for future gains and losses.

- Held performance evaluations of several vendors and staff.

- Issues raised in the auditor's report to the Board of Retirement issued in connection with the audit of the financial statements for Fiscal Year Ended June 30, 2014 have been addressed.

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, 2014. 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 eleventh 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 Bren Horrocks and Mark Harman. I would like to express my great appreciation for their hard work. I would also like to thank MCERA's professional consultants; our actuary, our investment consultant, and our auditor for their generous and invaluable assistance. Finally, I would like to acknowledge the Board of Retirement for its leadership and commitment to the highest fiduciary standards.

Respectfully submitted,

Angelo Lamas
Interim 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, 2014

Jeffrey R. Emer

Executive Director/CEO

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement at June 30, 2015

Chair
Michael Rhodes

Elected by General Members
Term Expires 06-30-18

Trustee
Karen Adams

County Treasurer
Ex-officio Member

Vice Chair
David Ness

Appointed by the Board of Supervisors
Term Expires 06-30-18

Trustee
Ryan Paskin

Appointed by the Board of Supervisors
Term Expires 06-30-17

Secretary
Alfonse 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 12-31-17

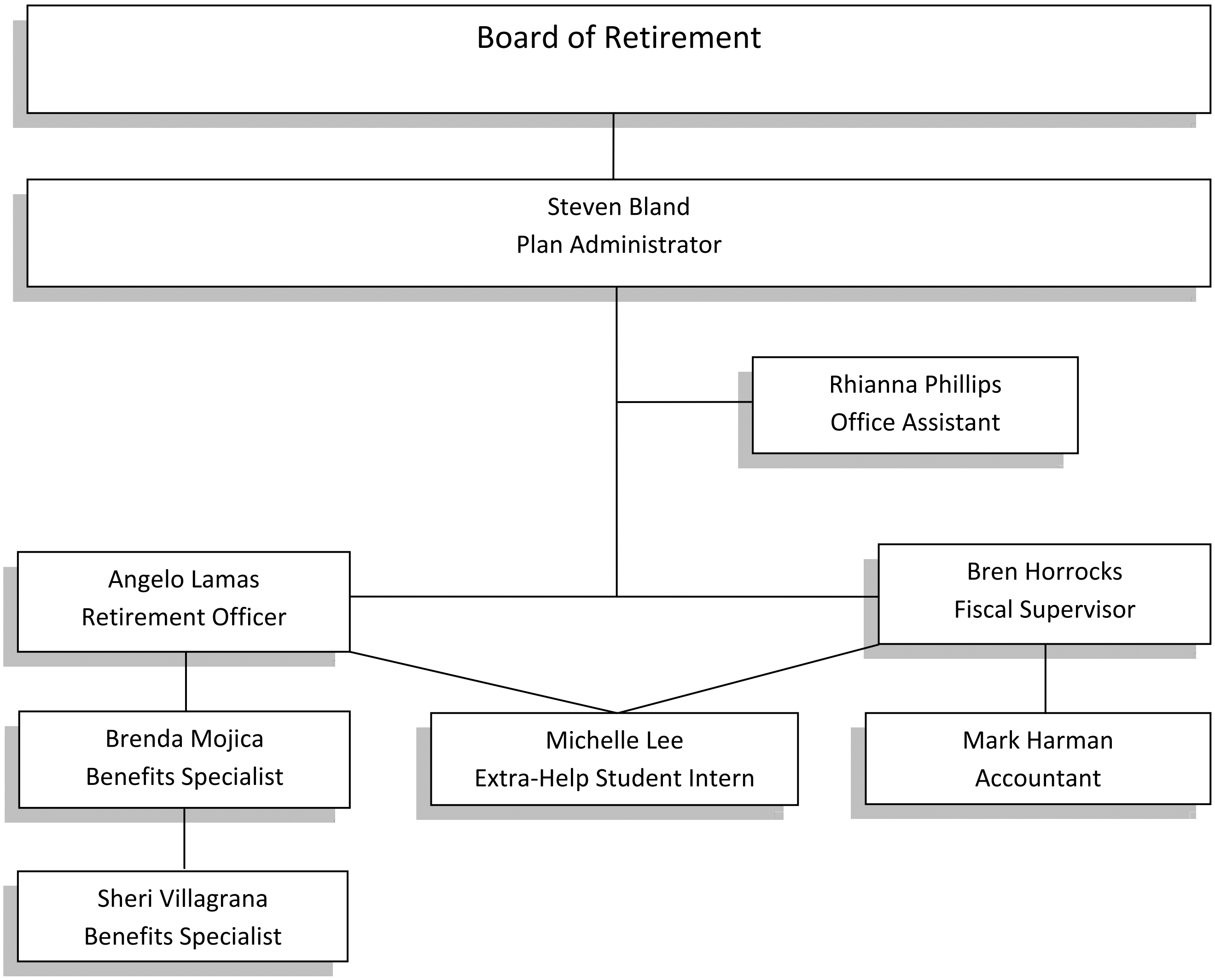
Trustee
James Pacheco

Elected by Safety Members
Term Expires 12-31-17

Trustee
Scott Johnston, Alternate

Elected by Retired Members
Term Expires 12-31-17

Merced County Employees' Retirement Association
Administrative Organization Chart
As of June 30, 2015



Merced County Employees' Retirement Association
List of Professional Consultants

As of June 30, 2015

Consulting Services

Investment Consultant
Strategic Investment Solutions, Inc.

Actuary
Cheiron, Inc.

Auditor
Macia Gini & O'Connell LLP

Master Custodian
BNY Mellon Asset Servicing

Data Processing
Merced County Information Systems

Legal Counsel
Merced County Counsel
Mason, Robbins, Browning & Godwin
Nossaman LLP
Public Pension Consultants, Inc.
Hanson Bridgett LLP

Medical Advisor
Dr. Charles Fracchia

Commission Recapture Brokers
ConvergEx Group
Capital Institutional Services, Inc.

Investment Services

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

Real Estate
UBS Global Asset Management
Greenfield Partners
BlackRock, Inc.

Domestic Equity
Mellon Capital Management
Dimensional Fund Advisors
PanAgora Asset Management, Inc.

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

Private Equity
Adams Street Partners, LLC
Pantheon Ventures, Inc.
Invesco Private Capital
Ocean Avenue Capital Partners
Raven Capital Management

Hedge Fund
Titan Advisors, LLC
Och-Ziff Capital Management

Infrastructure
KKR & Co. L.P.
Morgan Stanley

Bank Loans
Guggenheim

Commission Recapture Brokers
ConvergEx Group
Capital Institutional Services, Inc.

Note: Fees to investment processional can be found in the investment section on page 70.

Financial Section

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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, 2015 and 2014, 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, 2015 and 2014, 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 described in Note 5 to the basic financial statements, based on an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, the total pension liability of participating employers exceeded the plan's fiduciary net position by $464.0 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 this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 audits 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 audits were 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 audits 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 audits 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 29, 2015 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 29, 2015

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, 2015 and 2014. 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, 2015, MCERA's fiduciary net position restricted for pensions totaled $672.3 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 2015, MCERA's fiduciary net position restricted for pensions increased by $15.0 million (an increase of 2.3%). This increase reflects contributions and 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, 2014, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 60.0%. In general, this indicates that for every one dollar of benefits due, MCERA has approximately $0.60 of assets available for payment.

- Additions, as reflected in the Statement of Changes in Fiduciary Net Position, were $80.3 million in the fiscal year ended June 30, 2015. These additions include employer and employee contributions of $60.9 million, investment income of $9.6 million along with the fair value of investments increasing $12.6 million.

- Deductions, as reflected in the Statement of Changes in Fiduciary Net Position, increased from $59.6 million in the last fiscal year to $65.3 million in the current fiscal year (an increase of approximately 9.6%). This increase was primarily due to benefits paid, refunds of member contributions, and expenses associated with MCERA's new pension administration software.

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. The financial statements are comprised of the ***Statement of Fiduciary Net Position*** and the ***Statement of Changes in Fiduciary Net Position.***

The ***Statement of Fiduciary Net Position*** is a snapshot of account balances as of the fiscal year end. It indicates the assets available for future payments to retirees and any current liabilities. The difference between assets and liabilities represent the net position restricted for pensions. The statement also presents prior year-end balances for comparative purposes.

The ***Statement of Changes in Fiduciary Net Position*** provides a view of the current year additions to and deductions from the fund that caused the change in the net position during the fiscal year.

MCERA's financial statements are in compliance with the generally accepted accounting principles in the United States of America (GAAP) 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.

These 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. The current year's additions are recognized when earned and deductions recognized when incurred regardless of when cash is received or paid. 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 regarding MCERA's net position restricted for pensions is generally considered to be a good measure of MCERA's financial position. Over time, increases or decreases in the system's net position is one indicator of whether the system's financial health is improving or deteriorating. Other factors however, such as investment market conditions and 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. 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 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 Net Position may serve over time as a useful indication of MCERA's financial position. At the close of the fiscal year June 30, 2015, MCERA's net position exceeded its liabilities by $672.3 million. All of the Net Position is available to meet MCERA's ongoing obligations to plan participants and their beneficiaries. As of June 30, 2015 the Net Position totaled $672.3 million which is $15.0 million or (2.3%) more than the prior year. This result essentially reflects the excess of contributions and net investment income over benefits and administrative expenses at fair value of $28.8 million or (4.6%).

The 2014-2015 fiscal year saw continued economic expansion in the US and strong employment metrics helped support the S&P 500 which rose 1.1%. Small Cap Equities significantly underperformed in the US and declined 7.4%. Declining energy supply fears and the stronger US Dollar led energy stocks to fall 9.2% in the first quarter of the fiscal year. Although volatility picked up the S&P 500 rose 4.9%, small cap equities rose 9.7% and the decision by OPEC to not cut production led to sharp declines in the price of oil causing the Russell 3000 energy sector to fall 12.9% during the second quarter. Despite fears of rising defaults in the energy sector, lower-rated corporate bonds (BAA) rose 2.3%. The MSCI Emerging Markets Net Return Index rose 2.2%. REIT dividend yields were 3.4% and the European Central Bank officially began purchasing sovereign debt under its quantitative easing program which helped boost European equities 5.5% during the third quarter. During the fourth quarter corporate earnings and extended valuations limited both the S&P 500 and Russell 3000 gains. The drop in corporate earnings depressed the US corporate bond market. All of these market factors led to an accumulated increase of 4.6% in investments for the fiscal year.

Despite short-term variations in the stock market, MCERA's Management believes that the Plan remains in a financial position that will enable MCERA to meet its future obligations to participants and beneficiaries. MCERA remains focused on the long-term performance of the fund, dependent on a strong and successful investment program, risk management, and strategic planning.

MCERA's Fiduciary Net Position

For Fiscal Years Ended June 30, 2015 and 2014

	2015	2014	Increase/ (Decrease) Amount	% Change
Current and Other Assets	$20,014,086	$38,634,773	$(18,620,687)	-48.2%
Investments at Fair Value	656,008,621	627,178,089	28,830,532	4.6%
Capital Assets/Prepaid Insurance	2,288,508	2,128,552	159,956	7.5%
Total Assets	678,311,215	667,941,414	10,369,800	1.6%
Total Liabilities	5,991,846	10,616,496	(4,624,650)	-43.6%
Net Position	$672,319,369	$657,324,918	$14,994,451	2.3%

For Fiscal Years Ended 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%
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%

Reserves

Reserves are not required, nor recognized, under GAAP. These are not shown separately on the Statement of Fiduciary Net Position, but they equate to, and are accounts within, the Fiduciary Net Position held in trust for pension benefits and are vital to MCERA's operations. MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under GAAP and Governmental Accounting Standards Board (GASB) Statement 67, *Financial Reporting for Pension Plans*, investments are stated at fair value rather than at cost, and fair value includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are tracked in a reserve account called the Market Value Fluctuation Reserve. The Market Value Fluctuation Reserve decreased by $1.6 million in the current fiscal year as a result of the financial markets.

MCERA's Reserves
For Fiscal Years Ended June 30, 2015, 2014 and 2013

	2015	2014	2013
Active Members	$94,371,079	$91,414,430	$87,608,519
Employer Advance	54,991,997	24,696,667	16,859,602
Retired Members	363,943,635	386,355,789	377,071,253
Interest Fluctuation	71,025,234	65,268,878	46,380,612
Market Value Fluctuation	87,987,424	89,589,154	35,100,087
Total Reserves at Fair Value	$672,319,369	$657,324,918	$563,020,073

MCERA's Activities

A steady increase in the equity markets resulted in a June 30, 2015 fiscal year increase of $15 million in MCERA's Net Position (an increase of approximately 2.3% from the previous year). The key elements of this increase resulted in the following changes in Net Position.

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 Net Position for the fiscal year 2014-2015 totaled $80.3 million, which was a decrease from the 2013-2014 fiscal year's additions of $153.9 million. The 2013-2014 fiscal year additions were an increase of $39.1 million from the total additions in the 2012-2013 fiscal year primarily due to investments' fair value. The Employer's contribution rate increased due to the change in actuarial assumptions and experience of MCERA that have been phased in over a three year period. The increase in contribution rate resulted in increased contributions of approximately $4 million or 8.3%. 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 Fiscal Years Ended June 30, 2015 and 2014

	2015	2014	Increase/ (Decrease) Amount	% Change
Member Contributions	$8,945,316	$9,642,819	$(697,503)	-7.2%
Employer Contributions	52,005,656	48,032,338	3,965,377	8.3%
Net Investment Income	19,318,849	96,219,056	(76,900,207)	-79.9%
Total Additions	$80,269,821	$153,894,213	$(73,624,392)	-47.8%

For Fiscal Years Ended June 30, 2014 and 2013

	2014	2013	Increase/ (Decrease) Amount	% Change
Member Contributions	$9,642,819	$9,927,749	$(284,930)	-2.9%
Employer Contributions	48,032,338	43,783,663	4,248,675	9.7%
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 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. Effective for the 2011 fiscal year, the County Employees Retirement Law of 1937 (1937 Act) limits administration cost to the greater of 21/100ths of 1 percent of the Association's accrued actuarial liability or $2 million, as adjusted annually by the amount of an annual cost of living adjustment. The 1937 Act also allows for some expenses (such as computer related expenses and actuarial costs) to be excluded from the calculation. Deductions for the current fiscal year totaled $65.3 million, an increase of 9.5% from the previous year. The increase in deductions in the current fiscal year can be attributed primarily to the retiree payroll, which grew $4.4 million or 7.7%. Deductions for the 2013-2014 fiscal year totaled $59.6 million, an increase of 4.7% from the previous year. The increase in expenses for the 2013-2014 fiscal year was attributed primarily to the retiree payroll, which grew approximately 5.7%.

Deductions from Fiduciary Net Position
For Fiscal Years Ended June 30, 2015 and 2014

	2015	2014	Increase/ (Decrease) Amount	% Change
Benefits Paid	$61,780,089	$57,338,930	$4,441,159	7.7%
Refunds of Contributions	1,171,835	703,091	468,744	66.7%
Administrative Expense	2,197,281	1,434,671	762,610	53.2%
Actuarial Expense	126,165	112,676	13,489	12.0%
Total Deductions	$65,275,370	$59,589,368	$5,686,002	9.5%

For Fiscal 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%

Change in Fiduciary Net Position

As of June 30, 2015, Fiduciary Net Position increased $15 million resulting in a 2.3% increase in the Fiduciary Net Position over the previous fiscal year. This increase is due primarily to the increase in the fair value of investments. As of June 30, 2014, Fiduciary Net Position increased 16.7% over Fiscal Year 2013 equivalent to a gain of $94.3 million due primarily to an increase in the fair value of investments.

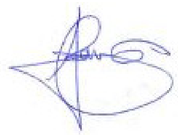
MCERA's Fiduciary Responsibilities

MCERA's Board and management are fiduciaries of the pension trust fund. Under the California Constitution, the Association'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,



Angelo Lamas
Interim Plan Administrator

Merced County Employees' Retirement Association

Statements of Fiduciary Net Position

As of June 30, 2015 and 2014

ASSETS	**2015**	**2014**
Cash and short-term investments		
Cash invested with Merced County Treasurer	$1,577,066	$2,449,151
Cash invested with BNY Mellon	5,379,699	7,834,346
Other cash and cash equivalents with BNY Mellon	3,803,346	15,754,516
Securities lending collateral	2,638,976	7,360,482
Total cash and short-term investments	13,399,087	33,398,495
Receivables		
Bond interest	645,358	820,494
Dividends	235,575	264,316
Contributions	2,951,115	2,585,758
Distributions	594,499	-
Securities sold	2,186,877	1,561,777
Other	1,575	3,933
Total receivables	6,614,999	5,236,278
Investments, at fair value		
U.S. government and agency obligations	53,798,734	57,177,311
Domestic fixed income	90,975,193	111,566,693
Common stock (domestic)	40,995,445	30,444,340
Common stock (index funds)	169,455,988	152,338,457
Common stock (international)	154,854,029	173,623,978
Real estate	53,867,884	43,459,903
Alternative investments	92,061,348	58,567,407
Total investments at fair value	656,008,621	627,178,089
Prepaid expenses	16,680	-
Capital assets: Net of accumulated depreciation		
of $214,320 and $73,125 respectively	2,271,828	2,128,552
TOTAL ASSETS	**678,311,215**	**667,941,414**
LIABILITIES		
Accounts payable	692,498	459,611
Securities lending obligation	2,638,976	7,360,482
Securities purchased	2,649,013	2,785,044
Unclaimed contributions	11,359	11,359
TOTAL LIABILITIES	**5,991,846**	**10,616,496**
Fiduciary Net Position Restricted for Pensions	**$672,319,369**	**$657,324,918**

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, 2015 and 2014

ADDITIONS	**2015**	**2014**
Contributions:		
Plan members	$8,945,316	$9,642,819
Employer	52,005,656	48,032,338
Total contributions	60,950,972	57,675,157
Investment income from investment activities		
Net appreciation in fair value of investments	12,647,924	86,886,413
Investment income	9,642,717	11,665,042
Other income	13,018	26,542
Less investment expenses	(3,007,179)	(2,434,091)
Net investment income	19,296,480	96,143,906
Securities lending activities		
Securities lending income	10,379	12,852
Net securities lending rebates	11,990	62,298
Net securities lending activities	22,369	75,150
Total net investment income	19,318,849	96,219,056
TOTAL ADDITIONS	**80,269,821**	**153,894,213**
DEDUCTIONS		
Benefits paid	61,780,089	57,338,930
Refunds of contributions	1,171,835	703,091
Administrative expenses	2,197,281	1,434,671
Actuarial expense	126,165	112,676
TOTAL DEDUCTIONS	**65,275,370**	**59,589,368**
Net increase	14,994,451	94,304,845
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	**657,324,918**	**563,020,073**
End of year	**$672,319,369**	**$657,324,918**

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

NOTE 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, the Merced Superior Courts, Regional Waste Management Authority, and Merced Cemetery District. 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 and one alternate
5. One elected safety member and one alternate

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

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, Merced Superior Courts, 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.

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.

Membership Structure on June 30, 2015 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	146	965	17	2	35	204	2	-	1,371
Non-vested	1	131	31	374	-	7	1	51	596
Inactive Members									
Deferred vested	81	150	5	1	1	24	-	-	262
Deferred non-vested	4	75	6	23	1	9	2	9	129
Reciprocity	57	142	1	-	15	36	-	1	252
Unclaimed members	3	16	-	-	-	-	-	-	19
Total active and inactive members	292	1,479	60	400	52	280	5	61	2,629
Retired Members									
Service retirements	1,264	248	1	-	178	15	-	-	1,706
Beneficiaries	198	9	-	-	41	-	-	-	248
Service connected disability	44	10	-	-	66	12	-	-	132
Non-service connected disability	34	12	-	-	1	1	-	-	48
Survivors	17	6	-	-	3	2	-	-	28
Total retired members	1,557	285	1	-	289	30	-	-	2,162

Membership Structure 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									
Deferred 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 connected 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

C. Benefit Provisions

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 Merced 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 adopted PEPRA Tier IV for all General and Safety members on January 1, 2013.

The following chart demonstrates the percentage of Final Average Salary a member of each tier would receive per year of service at different ages.

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%
	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%

Percentage of Final Average Salary for Each Year of Service (Rounded) for Merced 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%

(1) Retirement Options

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 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 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 3 - The member receives a reduced monthly retirement allowance, with the provision that 50% of the retiree's benefit will continue to be paid after the member's death to a beneficiary named at the time of retirement. As in Option No. 2, all payments stop at the death of both annuitants.

Option 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 MCERA's actuary and the cost is paid by the member.

(2) 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.

(3) Disability Benefits

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.

(4) 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.

(5) 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.

(6) 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 credit) may leave their contributions on deposit and continue to be credited interest or they can choose to withdraw their contributions at any time. A non-vested member that enters a reciprocal retirement system after terminating employment with a MCERA agency may wish to arrange for reciprocal benefits. Under a reciprocal arrangement the member funds are kept on deposit with MCERA.

(7) 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.

(8) 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, Merced Superior Courts, 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 are based on entry age into the System, except for Tier IV which are 50% of the normal cost, and range between 4.42% and 15.72% for the fiscal years ended June 30, 2015 and June 30, 2014. 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, 2015 and June 30, 2014 were 47.64% and 43.56% 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 54 in the Required Supplementary Information following the basic notes to the financial statements.

Note 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 Statement 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*. 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. 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 2014/2015 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 31580.2 (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 $2.3 million ($1,096.2 million x .21%) of administrative costs. For the fiscal years ending June 30, 2015 and 2014 total administrative costs were $2,197,281 of and $1,434,671 respectively. Included in these figure are computer technology related activities of $649,528 and $186,182 respectively. The costs of administering the plan are financed by the earnings of the retirement fund.

E. Required Supplementary Information

A schedule of the 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 53 and 54.

F. Administrative Budget and Professional Service Budget

MCERA's Budget consists of two components, an administrative budget 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 $5,000 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 Statements 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, infrastructure, 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. Hedge funds and bank loans are reported as of June 30. The majority of MCERA's alternative investments or 98.5% 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 investments. The assumptions are based on the best information available in the circumstances, which might include the partnership's own data. The remaining 1.5% 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. Future Accounting Pronouncement

GASB Statement No. 72, *Fair Value Measurements*, will come into affect for financial statements for fiscal years beginning after June 15, 2015. This statement enhances comparability of financial statements among government by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

Note 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 or 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 assets 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's adopted asset allocation policy as of June 30, 2015 and June 30, 2014:

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

(2) Rate of Return

For the fiscal years ended June 30, 2015 and June 30, 2014, the annual money-weighted rate of return on MCERA's investments was 1% and 17% 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 $1,577,066 and $2,449,151 at June 30, 2015 and 2014, respectively. Cash and investments included within the County Treasurer's pool are 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, bankers 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, 2015 and 2014, short-term investments totaled $9,183,045 and $23,588,862, 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, 2015 and 2014 are as follows:

	Fair Value	
Cash and Short-term Investments	**2015**	**2014**
Cash invested with Merced County Treasury	$1,577,066	$2,449,151
Cash invested with BNY Mellon	5,379,699	7,834,346
Other cash and cash equivalents with BNY Mellon	3,803,346	15,754,516
Securities lending collateral	2,638,976	7,360,482
Total cash and short-term investments	13,399,087	$33,398,495
Investments		
US government and agency obligations	53,798,734	57,177,311
Domestic fixed income	90,975,193	111,566,693
Common stocks (domestic)	40,995,445	30,444,340
Common stocks (index funds)	169,455,988	152,338,457
Common stocks (international)	154,854,029	173,623,978
Real estate	53,867,884	43,459,903
Alternative investments	92,061,348	58,567,407
Total Investments	656,008,621	627,178,089
Total	$669,407,708	$660,576,584

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 administer 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, 2015 and 2014:

Date	Weighted Average Maturity	Average Duration	Mis-Match	(Par Value Reported in Millions) Aaa	A1	A2	NR*	A-1/P-1
June 30, 2015	1 day	82 days	0 days	-	-	-	$2.6	-
June 30, 2014	1 day	68 days	0 days	$0.2	-	$13.8	$658.8	$191.2

*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, 2015 and 2014, 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, 2015 the fair value of securities on loan and the total cash and non-cash collateral received for those securities on loan were $11,864,301 and $12,133,330. 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 $22,369 for the year ended June 30, 2015.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Corporate	$1,373,694	-	$1,424,925
Equity	2,582,910	$2,638,976	-
U.S T-Notes/T-Bonds	7,907,697	-	8,069,429
Total	$11,864,301	$2,638,976	$9,494,354

As of June 30, 2014 the fair value of securities on loan and the collateral received for those securities on loan were $9,852,364 and $10,088,680. 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/T-Bonds	2,673,317	-	$2,728,198
Total	$9,852,364	$7,360,482	$2,728,198

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

Multiple components comprise MCERA's Alternative investments portfolio: venture capital, special equity partnerships (buy-outs, mezzanine funds, and secondary funds), hedge funds, infrastructure funds, and bank loan 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, 2015 and 2014 the fair values of the alternative investment portfolios were $92,061,348 and $58,567,407 respectively. The fair value of these alternative investments are reported based on the most current financial report available which the majority of the time is subject to a one (1) quarter lag adjusted for cash flows.

The balance of the unfunded capital to MCERA's private equity funds as of June 30, 2015 was $48,981,137 and as of June 30, 2014 was $32,339,665. Capital invested in private equity partnerships is subject to a relatively high degree of risk as compared to other potential investments, with the assumption that the investor will be rewarded with higher returns for that assumption of risk, (i.e. the "risk/return trade-off"). Controlling risk in the private equity portfolio is equally as important as seeking higher returns. MCERA controls risk by diversifying the portfolio based on geographic and economic region, liquidity, vintage year, firm, and time.

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

Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding the maximum exposure limits or lowering asset allocation exposure limits. Exposure through a fund of funds minimizes this risk.

Vintage year risk refers to the variability of private equity commitments over time. A secondary investment that is a vehicle in the special situation subclass allows the portfolio to gain prior year vintage exposure, further minimizing vintage risk.

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

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

F. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. MCERA does not have a formal policy for custodial credit risk. At June 30, 2015 and 2014, 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, 2015 and 2014, the System had no single issuer that exceeded 5% of total investments or fiduciary 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, 2015 MCERA's workout portfolio has a fair value of $1.2 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 commingled 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, 2015 and 2014:

Quality	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	NR*	NA**
Percent (%) of Fixed Income as of June 30, 2015	3.66%	3.01%	15.82%	12.82%	.03%	24.11%	.17%	.31%	20.91%	19.16%
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%

*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, 2015 and 2014 the County's pool has a fair value of $634,015,057 and $588,460,697 respectively and a weighted average maturity of 522 days and 449 days, respectively.

As of June 30, 2015 and 2014 the weighted average maturity of the short-term investment pooled funds with BNY Mellon was 37 days and 53 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, 2015:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	**Fair Value 2015**	**Weight of Fixed Income 2015**	**Modified Duration (years) 2015**	**Fair Value 2015**	**Weight of Fixed Income 2015**	**Effective Duration (years) 2015**
U.S. government agency obligations	$37,769,202	34.35%	4.42			
Commercial mortgage backed securities	2,757,909	2.51%	2.92			
Asset backed securities	6,959,752	6.33%	2.46			
U.S. treasury and TIPS	16,029,532	14.58%	7.92			
Corporate and other credit	45,693,390	41.56%	6.61			
Collateralized mortgage obligations	737,433	0.67%	5.07			
Commingled fund				$34,826,709	100.00%	3.61
Total Fair Value	$109,947,218	100.00%		$34,826,709	100.00%	
Portfolio Effective Duration			5.55			3.61

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			
Commingled 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

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, 2015 and 2014, MCERA did not hold any derivative instruments.

The following table represents securities and dividends receivable held in a foreign currency as of June 30, 2015 and 2014:

	Fair Value (U.S. Dollars)	
Currency	**2015**	**2014**
Brazil real	$802,641	-
Czech koruna	455,112	$727,031
Euro currency	6,833,327	10,179,816
Hong Kong dollar	1,213,621	2,624,127
Japanese yen	3,623,855	5,482,619
New Turkish lira	983,326	1,872,452
Norwegian krone	2,123,210	3,677,857
United Kingdom pound sterling	3,873,708	5,620,144
Singapore dollar	768,288	-
South Korean won	1,461,196	2,993,290
Swedish krona	868,533	1,373,239
Swiss franc	1,202,541	1,884,837
Total foreign currency	$24,209,358	$36,435,412

K. Derivatives

MCERA's investment policy permits the use of derivative instruments to minimize the exposure of certain 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 w ith interest payments that float or adjust periodically based upon a predetermined benchmark. While the market value of a floating-rate security is relatively insensitive to changes in interest rates, the income received is highly dependent upon the level of the reference rate over the life of the investment. Total return may be less than anticipated if future interest rate expectations are not met. As with any fixed income investment, there is a risk that the issuer will be unable to meet its payment obligations.

MCERA does not have any derivative instruments as defined by GASB 53 as of June 30, 2015 and 2014.

Note 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, 2015 and 2014.

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 employers 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 2012	2013	2014	2015	Total
$10,691,960	$24,408,044	$54,489,150	$(1,601,763)	$87,987,424

F. Contingency Reserve

The Contingency Reserve is comprised of surplus/excess earnings that are held as a reserve against deficiencies in investment earnings in other years, losses on investments, and other contingencies. As of June 30, 2012, the Contingency Reserve was not funded and all balances were transferred to the Interest Fluctuation Reserve. The Contingency Reserve will be funded and excluded from the actuarial value of assets only when the Plan's funded ratio is at or above 75%.

A summary of the various reserve accounts, which comprise fiduciary net position restricted for pensions at June 30, 2015 and 2014 is as follows:

Reserve	2015	2014
Active Members'	$94,371,079	$91,414,430
Employer Advance	54,991,997	24,696,667
Retired Members'	363,943,635	386,355,789
Interest Fluctuation	71,025,234	65,268,878
Market Value Fluctuation	87,987,424	89,589,154
Total Reserves	$672,319,369	$657,324,918

Note 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, 2014 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, 2015 and the Total Pension Liability as of the valuation date June 30, 2014, using update procedures to roll forward to MCERA's fiscal year end of June 30, 2015. 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 Liability were as follows:

	FYE June 30, 2015	FYE June 30, 2014
Total Pension Liability	$1,136,274,714	$1,107,731,050
Plan Fiduciary Net Position	(672,319,369)	(657,324,918)
Net Pension Liability	$463,955,345	$450,406,132
Fiduciary Net Position as a Percentage of the Total Pension Liability	59.17%	59.34%

The Total Pension Liabilities as of June 30, 2015 and June 30, 2014 were was determined based on the June 30, 2014 and June 30, 2013 actuarial valuations, respectively, rolled forward to June 30, 2015 and June 30, 2014, using the following actuarial assumptions applied to all periods included in the measurement:

	ACTUARIAL VALUATION ASSUMPTIONS
Valuation Date	June 30, 2014 and 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.

Pre-retirement mortality, withdrawal, disability and service retirement 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 of 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, 2015 and June 30, 2014 are summarized in the table on the following page.

Asset Class	Long-Term Expected Real Rate of Return FYE June 30, 2015	FYE June 30, 2014
US Equity		
US Large Cap	5.1%	5.3%
US Small Cap	5.5%	5.6%
International Equity	5.7%	5.6%
Emerging Markets Equity	6.5%	6.4%
Private Equity	7.5%	7.7%
Real Estate	3.7%	3.9%
Domestic Fixed Income	0.5%	0.7%
High Yield Fixed Income	3.0%	2.6%
Hedge Funds	2.8%	2.8%
Infrastructure	3.5%	3.7%
Natural Resources	5.3%	5.0%
Bank Loans	2.4%	2.1%
Cash	-0.5%	-0.7%

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%)
2015	Net Pension Liability	$601,683,685	$463,955,345	$349,169,185
2014	Net Pension Liability	$586,467,793	$450,406,132	$337,112,701

Note 6 – LITIGATION

MCERA is a defendant in various lawsuits and claims arising in the ordinary course of its operations. MCERA is a respondent in litigation challenging the constitutionality of legislation (Assembly Bill 197) that took effect on January 1, 2013, which resulted in MCERA excluding certain pay items from retirement allowance calculations that MCERA previously had included, primarily, as the result of a settlement agreement and prior litigation over the settlement agreement. The State of California intervened in the case to defend the constitutionality of AB 197. The State moved to consolidate the case with other similar cases pending in other jurisdictions and to transfer the consolidated cases to Contra Costa County Superior Court. The Contra Costa Superior Court issued a decision granting some of the requested equitable relief and denying other requested relief. The State appealed the Superior Court's decision as to the case against MCERA, and the petitioners in the case cross-appealed. A decision is expected during 2016. 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.

Schedule of Changes in Net Pension Liability and Related Ratios
For the Years Ending June 30, 2015 and 2014*

Total Pension Liability	**2015**	**2014**
Service cost (MOY)	$19,672,490	$19,384,434
Interest (includes interest on service cost)	84,203,356	81,090,569
Changes of benefit terms	-	-
Differences between expected and actual experience	(12,380,077)	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(62,951,924)	(58,042,021)
Net change in total pension liability	28,543,845	42,432,982
Total pension liability - beginning	1,107,730,869	1,065,298,068
Total pension liability - ending	$1,136,274,714	$1,107,731,050
Fiduciary net position		
Contributions - member	$8,945,316	$9,642819
Contributions - employer	52,005,656	48,032,338
Net investment income	19,318,849	96,219,056
Benefits payments, including refunds of member contributions	(62,951,924)	(58,042,021)
Administrative expense	(2,323,446)	(1,547,347)
Net change in fiduciary net position	$14,994,451	$94,304,845
Fiduciary net position - beginning	657,324,918	563,020,073
Fiduciary net position - ending	$672,319,369	$657,324,918
Net pension liability - ending	$463,955,345	$450,406,132
Fiduciary net position as a percentage of the total pension liability	59.17%	59.34%
Covered employee payroll	$110,111,994	$110,259,316
Net pension liability as a percentage of covered employee payroll	421.35%	408.50%

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

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 Statement 67.

Schedule of Employer Contributions
Last 10 Fiscal Years
Dollar Amounts in Thousands

	2015	**2014**	**2013**	**2012**	**2011**
Actuarially Determined Contribution	$52,006	$48,032	$43,784	$40,263	$36,662
Contributions in Relation to the Actuarially Determined Contribution	52,006	48,032	43,784	40,263	36,662
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$110,112	$110,259	$109,410	$111,567	$117,296
Contributions as a Percentage of Covered-Employee Payroll	47.23%	43.56%	40.02%	36.09%	31.26%

	2010	**2009**	**2008**	**2007**	**2006**
Actuarially Determined Contribution	$29,137	$27,883	$23,751	$23,232	$14,750
Contributions in Relation to the Actuarially Determined Contribution	29,137	27,883	23,751	23,232	14,750
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$119,166	$119,043	$111,764	$103,830	$98,170
Contributions as a Percentage of Covered-Employee Payroll	24.45%	23.42%	21.25%	22.38%	15.02%

Schedule of Investment Returns

The money-weighted rate of return is equivalent to the internal rate of return (IRR). Money-weighted rate of return incorporates the size and timing of cash flows.

Schedule of Investment Returns
Fiscal Years ending June 30

	2015	**2014**	**2013**
Annual money-weighted rate of return, net of investment expense	1.1%	17.0%	11.8%

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

Note 1 – CHANGES OF BENEFIT TERMS

There were no changes in benefit terms for the fiscal year ended June 30, 2015.

Note 2 – CHANGES OF ASSUMPTIONS AND METHODS

There were no changes in assumptions approved by the Board of Retirement for the fiscal year ended June 30, 2015.

Note 3 – METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

A. Actuarial Valuation Methods and Assumptions

Valuation Date	June 30, 2013
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 16 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

B. 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%, and 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, 2015 and 2014

Personnel Services:	2015	2014
Salaries, wages and benefits	$992,566	$896,994
Office Expenses:		
Communications	3,147	2,584
Requested maintenance/ utilities/ cost allocation	112,083	77,146
Office supplies	9,537	6,115
Postage	20,795	8,540
Total Office Expense	145,562	94,385
Professional Services:		
Audit fees	73,814	47,694
Attorney fees	43,200	54,024
Disability stenographic fees/ investigations	350	350
Publications/ legal notices	229	15,636
Disability medical reviews/ services	20,813	18,344
Merced Dept. of Information Technology/software	649,528	186,182
Total Professional Services	787,934	322,230
Miscellaneous:		
Memberships	6,460	6,385
Fiduciary meeting	10,700	10,800
Fiduciary and staff travel/ training	43,490	38,987
Insurance	69,374	63,600
Depreciation expense	141,195	1,290
Total Miscellaneous Expenses	271,219	121,062
Total Administrative Expenses	$2,197,281	$1,434,671

Schedule of Investment Expenses
For the Years Ended June 30, 2015 and 2014

INVESTMENT MANAGERS' FEES	2015	2014
Domestic Equities		
Delta Asset Mgt	-	$74
Dimensional Fund Advisors	$65,641	-
Mellon Capital Management	238,137	210,174
PanAgora Asset Mgt	149,990	121,329
Wentworth, Hauser & Violich	67	194,441
Total Domestic Equities	453,835	526,018
International Equities		
UBS Global Small Cap	-	38,804
Earnest Partners, LLC	324,877	441,061
Copper Rock International	263,476	112,086
Wells Capital Management	297,795	146,849
Total International Equities	886,148	738,800
Alternative Investments		
Invesco Private Capital	63,077	70,085
North Haven Infrastructure	215,063	-
Total Alternative Investments	278,140	70,085
Real Estate		
BlackRock	9,521	-
UBS Global-Trumbull Property Mgmt	397,962	358,473
Total Real Estate	407,483	358,473
Fixed Income		
AXA Investment Managers	46,399	120,309
Barrow, Hanley, Mewhinney & Strauss	295,020	290,795
Total Fixed Income	341,419	411,104
Total Investment Managers' Fees	2,367,025	2,104,480
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	270,453	162,163
Investment Consultant		
SIS, Inc	165,000	165,000
Miscellaneous Investment Expense	204,701	2,448
Total Other Investment Expenses	640,154	329,611
Total Management Fees and Other Investment Expenses	3,007,179	2,434,091
Securities Lending Activity		
Management fee	11,193	34,239
Rebate fee	(23,183)	(96,537)
Total Security Lending Activity Fees	(11,990)	(62,298)
Total Fees and Other Investment Expenses	$2,995,189	$2,371,793

Schedules of Payment to Consultants
For the Years Ended June 30, 2015 and 2014

INVESTMENT PROFESSIONAL SERVICE FEES	2015	2014
Custodial services - BNY Mellon Asset Servicing	$270,453	$162,163
Investment consultant - SIS, Inc, and Others	165,580	167,448
Actuarial services - Cheiron Actuaries	126,165	112,676
Total investment professional service fees	$562,198	$442,287

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$73,814	$47,694
Legal services	43,200	54,024
Disability stenographic fees/investigations	350	350
Other specialized services	229	15,636
Disability medical reviews/services	20,813	18,344
Software and Information Systems	649,528	186,182
Total administrative professional service fees	$787,934	$322,230

Investment Section

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STRATEGIC INVESTMENT SOLUTIONS

JOHN P. MEIER, CFA
Managing Director

September 8, 2015

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

Dear Board Members:

Market Overview

Fiscal year 2015 (June 30, 2015) saw mixed results within the capital market with gains in US equities but loses in Non-US stock markets. The US Fixed Income markets ended the fiscal year with positive returns as yields ended the year slightly lower than the year before, though rates appear to be set to rise on Fed expectations. As a diversified investor, The Merced County Employees' Retirement Association (MCERA) experienced a +3.2% gross return for the fiscal year. The +3.2% result was slightly below MCERA's policy benchmark of +3.5%, and below the plan's actuarial rate of 7.75%.

Fiscal year 2015 was once again positive for the U.S. equity markets while foreign equity markets lagged. For the fiscal year, the Russell 3000 U.S. Stock Index gained +7.3% and the MSCI ACWI (All Country World) ex-U.S. Index of foreign stocks lost a -5.3%.

Within the US equity market, stocks of large companies outperformed small companies (+7.4% versus +6.5%) for the fiscal year.   Growth stocks outperformed value on a relative basis in large caps (+10.6% versus +4.1%) and within small caps growth stocks also outperformed value stocks on a relative basis (+12.3% versus +0.8%).

International equities trailed the domestic equity market for fiscal year 2015. Developed Non-US stocks as measured by the MSCI EAFE Index lost -4.2% and Emerging Markets stocks as measured by the MSCI Emerging Markets Index lost -5.1%.

The US fixed income market produced a positive return (+1.9% 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 lost -0.4%.

Real estate returns were positive in domestic open-end area. The NCREIF-ODCE Index gained +13.9% for fiscal year 2015.

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 (28.4% US Equities, 23.6% Non-US Equities, 14.5% US Core Fixed Income, 5.0% US High Yield Fixed Income, 3.0% Floating Rate Notes/Loans, 8.0% Real Estate, 4.5% Absolute Return, 6.0% Real Assets and 7.0% 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, 2015 have been calculated using a time-weighted rate of return methodology based upon market values. In fiscal year 2015, 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.

Sincerely,

John P. Meier, CFA

Investment Results

PERIODS ENDED 6/30/15	ONE YEAR	THREE YEARS	FIVE YEARS
Domestic Equity *86% Russell 1000 / 14% Russell 2000 Index* Rank	+8.1% +7.3% 24*	+18.8% +17.7% 17	+17.5% +17.5% 51
Non-US Equity *MSCI ACWI ex-US Index* Rank	-3.9% -4.8% 63	+11.6% +10.6% 38	+10.2% +8.9% 26
Fixed Income *85.3% Barclays Cap US Aggregate / 14.7% ML HY Master II* Rank	+1.7% +1.5% 51	+3.2% +1.9% 41	+4.9% +3.4% 47
Real Estate *25% FTSE NAREIT Dev. / 75% NCREIF ODCE* Rank	+8.5% +11.5% 82	+9.9% +12.6% 83	+11.8% +12.6% 76
Private Equity *Russell 3000 + 300 bps* *(1-quarter lagged)*	+6.7% +15.4%	+6.7% +25.3%	+9.4% +24.4%
Total Fund *Policy Benchmark**** *Public Fund Median* Rank**	+3.2% +3.5% +3.1% 46	+11.0% +10.9% +10.3% 35	+10.9% +11.3% +10.6% 37

* 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

Total Fund Returns vs. Universe
Periods Ending June 30, 2015

	3 Mo	Fiscal YTD	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Inception Return	Inception Since
Total Fund	**0.2%**	**3.2%**	**10.3%**	**11.0%**	**10.9%**	**5.9%**	**6.0%**	**8.3%**	**Jan-95**
Fund Benchmark	*0.4%*	*3.5%*	*9.9%*	*10.9%*	*11.3%*	*6.7%*	*6.4%*	*5.8%*	*Jan-95*
IF Public DB Gross Rank	*40*	*46*	*25*	*35*	*37*	*60*	*79*		*Jan-95*
IF Public DB Gross Median	*0.0%*	*3.1%*	*9.5%*	*10.3%*	*10.6%*	*6.3%*	*6.5%*	*8.5%*	*Jan-95*

Outline of Investment Policies and Summary of Proxy Voting Guidelines and Procedures

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.

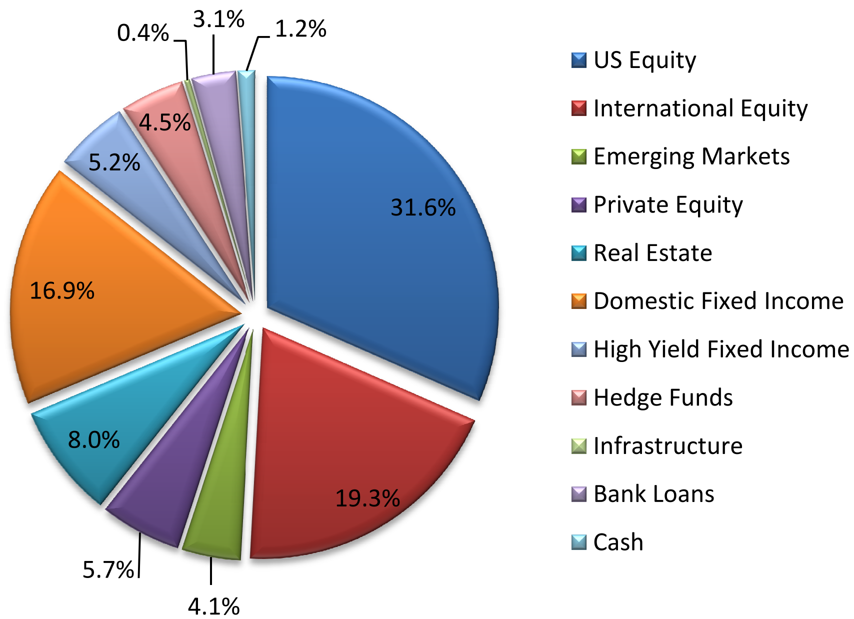
The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

Summary of Proxy Voting Guidelines and Procedures

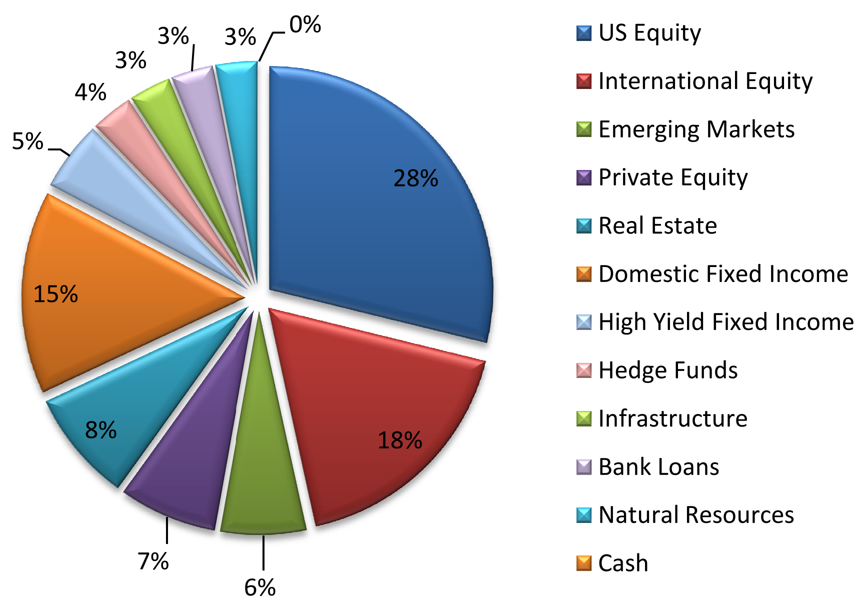
Voting of MCERA's proxy voting ballots shall be in accordance with MCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that when voting proxy ballots on behalf of MCERA, investment managers shall vote according to the best interests of the MCERA membership. On a quarterly basis, the investment managers are required to provide a report to MCERA detailing their proxy votes.

Asset Allocation Information
For the Year Ending June 30, 2015

June 30, 2015 Allocation



Target Allocation



	Allocation June 30, 2015	Target	Allocation Ranges Minimum	Maximum	Allocation June 30, 2014
US Equity	31.6%	28.4%	24.0%	33.0%	28.1%
International Equity	19.3%	17.5%	14.0%	20.0%	21.3%
Emerging Markets Equity	4.1%	6.1%	5.0%	7.5%	5.8%
Private Equity	5.7%	7.0%	5.0%	8.0%	4.5%
Real Estate	8.0%	8.0%	7.0%	9.0%	6.7%
Domestic Fixed Income	16.9%	14.5%	12.0%	18.0%	22.3%
High Yield Fixed Income	5.2%	5.0%	4.0%	6.0%	5.3%
Hedge Funds	4.5%	4.5%	4.0%	5.0%	4.3%
Infrastructure	0.4%	3.0%	2.0%	4.0%	-
Natural Resources	-	3.0%	2.0%	4.0%	-
Bank loans	3.1%	3.0%	2.5%	3.5%	-
Cash	1.2%	0.0%	0.0%	0.0%	1.70%
	100.0%	100.0%			100.0%

INVESTMENT SUMMARY

For the Year Ending June 30, 2015

	Fair Value	Percent of Total
DOMESTIC EQUITY		
Large Cap Growth	$52,110,106	7.8%
Large Cap Value	50,960,286	7.6%
Mellon Tangent Added	66,385,596	9.9%
Small Cap	40,995,445	6.1%
Total Domestic Equity	210,451,433	31.4%
INTERNATIONAL EQUITY		
Large/Medium Core	58,385,230	8.7%
Large/Medium High Alpha	42,084,282	6.3%
Small Cap Growth	26,941,442	4.0%
Emerging Market	27,443,075	4.1%
Total International Equity	154,854,029	23.1%
FIXED INCOME		
Domestic Core	109,947,218	16.4%
High Yield	34,826,709	5.2%
Total Fixed Income	144,773,927	21.6%
ALTERNATIVE INVESTMENTS		
Private Equity	39,477,811	5.9%
Hedge Funds	29,931,709	4.5%
Infrastructure	2,123,518	0.3%
Bank Loans	20,528,310	3.1%
Total Alternative Investments	92,061,348	13.8%
REAL ESTATE		
Property Fund	46,111,143	6.9%
Global REIT	7,756,741	1.2%
Total Real Estate	53,867,884	7.9%
CASH AND SHORT-TERM INVESTMENTS	13,399,087	2.0%
Total Investments, Cash and Short-Term Investments	$669,407,708	100.0%

Schedule of Investment Results

For the Year Ended June 30, 2015

	CURRENT	ANNUALIZED				
DOMESTIC EQUITY	**YEAR**	**3 YR**	**5 YR**	**7 YR**	**10 YR**	**Inception**
Large Cap Core						
Mellon Dynamic	8.6%	-	-	-	-	22.3%
Index: S&P 500	7.4%	-	-	-	-	18.3%
Large Cap Index						
Mellon Capital Growth	10.6%	18.0%	18.6%	10.5%	9.1%	10.2%
Index: Russell 1000® Growth	10.6%	18.0%	18.6%	10.5%	9.1%	10.2%
Mellon Capital Value	4.2%	17.4%	16.6%	8.7%	7.1%	10.0%
Index: Russell 1000® Value	4.1%	17.3%	16.5%	8.6%	7.0%	10.0%
Small Cap						
DFA	7.2%	-	-	-	-	7.2%
PanAgora	9.4%	-	-	-	-	14.2%
Index: Russell 2000®	6.5%	-	-	-	-	10.7%
Total Domestic Equity	**8.1%**	**18.8%**	**17.5%**	**9.5%**	**8.2%**	**9.7%**
Index: 86% Russell 1000®/14% Russell 2000®	**7.3%**	**17.7%**	**17.5%**	**9.7%**	**8.1%**	**9.8%**
INTERNATIONAL EQUITY						
Copper Rock	8.8%	-	-	-	-	13.6%
GMO	-8.1%	12.6%	11.2%	3.1%	-	1.7%
Earnest Partners, LLC	-3.3%	11.0%	9.5%	4.4%	-	4.4%
Wells Capital Emerging Markets Fund	-6.2%	3.3%	-	-	-	0.3%
Total International Equity	**-3.9%**	**11.6%**	**10.2%**	**3.3%**	**6.4%**	**5.7%**
Index: International Custom Index	**-4.8%**	**10.6%**	**8.9%**	**1.7%**	**5.0%**	**4.2%**
FIXED INCOME						
AXA	0.2%	7.8%	9.6%	-	-	9.1%
Barrow Hanley	2.0%	2.1%	3.8%	-	-	4.3%
Guggenheim Loan	*	-	-	-	-	2.3%
Total Fixed Income	**1.7%**	**3.2%**	**4.9%**	**4.3%**	**3.9%**	**5.9%**
Index: US Fixed Income Custom Index	**1.5%**	**1.9%**	**3.4%**	**4.6%**	**4.5%**	**6.1%**
REAL ESTATE						
UBS Trumbull Property Fund	12.7%	11.0%	12.2%	4.4%	7.0%	8.9%
BlackRock RE	*	-	-	-	-	-3.6%
Greenfield Partners	*	-	-	-	-	3.6%
Total Real Estate	**8.5%**	**9.9%**	**11.8%**	**4.6%**	**6.9%**	**8.8%**
Index: Real Estate Custom Index	**11.5%**	**12.6%**	**12.6%**	**5.3%**	**8.1%**	**8.9%**
ALTERNATIVE INVESTMENTS						
Invesco Private Capital IV	3.0%	4.0%	10.6%	6.6%	8.3%	8.3%
Invesco Private Capital VI	42.4%	-	-	-	-	3.7%
Adams Street Partners, LLC	12.6%	14.0%	13.4%	7.0%	5.1%	5.1%
Pantheon Ventures I, Inc.	3.2%	8.8%	8.6%	4.4%	-	3.05
Pantheon Ventures II, Inc.	3.8%	13.4%	-	-	-	9.3%
Pantheon Secondary	0.0%	0.4%	3.4%	0.1%	-	3.8%
Raven Capital	*	-	-	-	-	-6.6%
Ocean Avenue	-5.3%	-	-	-	-	-5.3%
Total Alternative Investments**	**6.7%**	**6.7%**	**9.4%**	**4.9%**	**5.6%**	**5.6%**
Index: Russell 3000® + 3.00%	**15.4%**	**25.3%**	**24.4%**	**15.7%**	**13.9%**	**13.9%**
HEDGE FUNDS						
Oz Domestic II	8.5%	-	-	-	-	8.5%
Titan	*	-	-	-	-	5.3%
Total Hedge Funds	**6.9%**	**-**	**-**	**-**	**-**	**6.9%**
Index: Hedge Fund Custom Index	**3.9%**	**-**	**-**	**-**	**-**	**3.9%**
INFRASTRUCTURE						
KKR Global II	*	-	-	-	-	7.5%
North Haven Infrastructure II	*	-	-	-	-	-
Total Infrastructure	-	-	-	-	-	7.6%
Index: CPI-U Headline +5%	-	-	-	-	-	2.4%
TOTAL FUND***	**3.2%**	**11.0%**	**10.9%**	**5.9%**	**6.0%**	**8.3%**
TOTAL FUND CUSTOM INDEX***	**3.5%**	**10.9%**	**11.3%**	**6.7%**	**6.4%**	**5.8%**

*There is no fiscal year data available; the fund doesn't have a full year. **Performance results lag by a quarter due to financial reporting constraints.

***Using time-weighted rate of return based on market rate return.

Top 10 Largest Holdings by Fair Value

For the Year Ending June 30, 2015

PAR	BONDS		FAIR VALUE
4,625,000	U S TREASURY NOTE	2.000% 11/15/2021 DD 11/15/11	$4,633,325
3,860,000	U S TREASURY BOND	3.125% 11/15/2041 DD 11/15/11	3,886,248
3,700,000	U S TREASURY NOTE	2.000% 02/15/2022 DD 02/15/12	3,699,408
3,025,000	U S TREASURY NOTE	2.375% 08/15/2024 DD 08/15/14	3,041,305
1,650,292	GNMA II POOL #0AL9364	3.500% 03/20/2045 DD 03/01/15	1,719,159
1,590,567	GNMA II POOL #0MA2602	4.000% 02/20/2045 DD 02/01/15	1,685,858
1,579,187	FNMA POOL #0AL5844	4.000% 09/01/2044 DD 09/01/14	1,682,908
1,441,830	FNMA POOL #0AB3382	4.000% 08/01/2041 DD 07/01/11	1,541,259
1,425,006	FNMA POOL #0AS3135	3.500% 08/01/2044 DD 07/01/14	1,470,763
1,263,623	FNMA POOL #0AQ5095	3.000% 11/01/2027 DD 11/01/12	1,313,473
			$24,673,706

SHARES	STOCKS	FAIR VALUE
36,997.000	ARM HOLDINGS PLC	$1,822,842
21,773.000	SHIRE PLC	1,744,650
25,819.000	ICON PLC	1,737,619
27,800.000	DENSO CORP	1,384,945
6,995.000	EVEREST RE GROUP LTD	1,273,160
73,306.000	DNB ASA	1,218,738
11,806.000	NOVARTIS AG	1,161,002
4,125.000	ROCHE HOLDING AG	1,156,439
28,689.000	AMADEUS IT HOLDING SA	1,142,919
22,457.000	CARNIVAL CORP	1,109,151
		$13,751,465

A complete list of portfolio holding is available upon request.

Schedule of Investment Management Fees and List of Investment Service Providers

INVESTMENT MANAGERS' FEES	2015	2014
Equity Managers		
Domestic	$453,835	$526,018
International	886,148	738,800
Fixed Income Fees	341,419	411,104
Alternative Investment Managers	278,140	70,085
Real Estate Fees	407,483	358,473
Total Investment Managers' Fees	$2,367,025	$2,104,480
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$165,000	$165,000
Investment Custodial Fees	270,453	162,163
Other Investment Service Fees	192,711	(59,850)
Total Other Investment Service Fees	628,165	267,313
Total Investment Managers' and Other Service Fees	$2,995,189	$2,371,793

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

Real Estate
UBS Global Asset Management
Greenfield Partners
BlackRock, Inc.

Domestic Equity
Mellon Capital Management
Dimensional Fund Advisors
PanAgora Asset Management, Inc.

Infrastructure
KKR & Co. L.P.
Morgan Stanley

Bank Loans
Guggenheim

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

Private Equity
Adams Street Partners, LLC
Pantheon Ventures, Inc.
Invesco Private Capital
Ocean Avenue Capital Partners
Raven Capital Management

Hedge Fund
Titan Advisors, LLC
Och-Ziff Capital Management

Commission Recapture Brokers
ConvergEx Group
Capital Institutional Services, Inc.

Actuarial Section

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December 1, 2015

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, 2015. This letter includes references to two documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2014 (transmitted February 19, 2015) and the GASB 67/68 Report as of June 30, 2015 (transmitted November 12, 2015).

Actuarial Valuation Report as of June 30, 2014

The purpose of the annual Actuarial Valuation Report as of June 30, 2014 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 2015-2016. The prior review was conducted as of June 30, 2013, and included recommended contribution rates for the Fiscal Year 2014-2015.

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. The Board of Retirement is responsible for establishing and maintaining the funding policy of the Plan.

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, 2014), the amortization period for the June 30, 2013 UAL is 15 years. For the June 30, 2014 valuation the Board of Retirement adopted a new funding policy for any subsequent unexpected change in the UAL after June 30, 2013. Any new sources of UAL due to actuarial gains and losses or method changes are amortized over a closed 24-year period, with a 5-year ramp up period at the beginning of the period, a 4-year ramp down at the end of the period, and 15 years of level payments as a percentage of payroll between the ramping periods. Assumption changes will be amortized over a closed 22-year period, with a 3-year ramp up period, 2-year ramp down period, and 17 years of level payments as a percentage of payroll. The Board also adopted a policy to replace the smoothed actuarial value of assets with the market value of assets for valuation purposes. These new amortization and funding policies in conjunction are a type of policy known as direct rate smoothing.

We prepared the following schedules, which we understand will be included in the Actuarial Section of the CAFR, based on the June 30, 2014 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.

- 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 2014 Experience Gain/(Loss) (Analysis of Financial Experience)
- Solvency Test
- 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, 2015

The purpose of the GASB 67/68 Report as of June 30, 2015, 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 other participating employers. 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, 2014, actuarial valuation updated to the measurement date of June 30, 2015. The beginning of year Total Pension Liability was based on the actuarial valuation as of June 30, 2013, updated to June 30, 2014. The Total Pension Liability measurements as of June 30, 2015 and June 30, 2014 presented in the GASB 67/68 Report were based upon the same data, plan provisions, actuarial methods, and assumptions as were used in the Actuarial Valuation Reports as of June 30, 2014 and June 30, 2013, respectively.

Please refer to our GASB 67 report as of June 30, 2015, 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, 2015, GASB 67/68 report:

- 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 and their auditor 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 auditor 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

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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, 2014):

Investment Rate of Return	7.75%, net 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	Market value of assets
Interest Credited to Active Member's Reserves	Pursuant to 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.

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 Members	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB

2. Disability

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

3. For Employee Contributions Rate Purposes

General Member	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB, blended 1/3 male and 2/3 female
Safety Members	Combined Healthy Retired Pensioners (RP) 2000 Projected to 2027 using scale BB, blended 3/4 male and 1/4 female

Note: information compiled from Actuarial report prepared by Cheiron dated June 30, 2014

Active Member Mortality	Based upon the Experience Analysis as of 6/30/2013 (see Schedule of Probabilities of Separation from Active Service)
Withdrawal Rates	Based upon the Experience Analysis as of 6/30/2013 (see Schedule of Probabilities of Separation from Active Service)
Disability Rates	Based upon the Experience Analysis as of 6/30/2013 (see Schedule of Probabilities of Separation from Active Service)
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/2013 (see Schedule of Probabilities of Separation from Active Service)
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 6/30/2013.
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. Effective with the June 30, 2014 valuation, any new sources of UAL due to actuarial gains and losses or method changes is amortized over a closed 24-year period, with a 5-year ramp up period at the beginning of the period, a 4-year ramp down at the end of the period, and 15 years of level payments as a percentage of payroll. Assumption changes will be amortized over a closed 22-

Note: information compiled from Actuarial report prepared by Cheiron dated June 30, 2014

year period, with a 3-year ramp up period, 2-year ramp down period, and 17 years of level payments as a percentage of payroll.

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, 2014

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 Terminations
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%	0.0133%	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

Age	Service Retirement (by Service)	
	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%

Service	Withdrawals	Transfers	Vested Terminations
0-4	90.0%	10.0%	0.0%
5+	15.0%	42.5%	42.5%

Age	Service Connected 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%

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, 2014

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
7/1/2005	General	1,892	$83,166,000	$43,957	4.09%
	Safety	295	$14,341,000	$48,614	4.29%
	Total	2,187	$97,507,000	$44,585	4.20%
7/1/2006	General	1,919	$85,864,000	$44,744	1.79%
	Safety	310	$15,274,000	$49,271	1.35%
	Total	2,229	$101,138,000	$45,374	1.77%
7/1/2007	General	1,917	$85,308,000	$44,501	-0.54%
	Safety	318	$15,281,000	$48,053	-2.47%
	Total	2,235	$100,589,000	$45,006	-0.81%
	General	1,921	$92,116,000	$47,952	7.75%
7/1/2008	Safety	339	$17,137,000	$50,552	-18.56%
	Total	2,260	$109,253,000	$48,342	-15.69%
	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%
	General	1,624	$91,704,083	$56,468	-1.27%
7/1/2014	Safety	300	$18,620,870	$62,070	-2.08%
	Total	1,924	$110,324,953	$57,341	-1.40%

Note: The data differs from the membership data in the notes to the financial statements due to timing differences and actuary cleansing of the data.

Note: information compiled from Actuarial report prepared by Cheiron dated June 30, 2014

Retirements 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 Allowances
2005	1,441	109	$2,445	49	$450	1,477	$24,867	9.16%	$16,836
2006	1,477	98	$2,007	53	$785	1,521	$27,297	9.77%	$17,934
2007	1,521	136	$4,419	38	$560	1,620	$31,823	16.58%	$19,644
2008	1,620	105	$2,757	67	$902	1,658	$34,603	8.74%	$20,870
2009	1,658	105	$3,403	52	$813	1,711	$37,748	9.09%	$22,062
2010	1,711	171	$6,098	56	$981	1,826	$43,653	15.65%	$23,907
2011	1,826	103	$2,627	44	$781	1,885	$46,177	5.64%	$24,465
2012	1,885	175	$6,485	64	$960	1,996	$52,888	14.68%	$26,497
2013	1,996	103	$3,029	49	$856	2,050	$56,048	5.98%	$27,340
2014	2,050	116	$3,950	31	$591	2,135	$60,297	7.58%	$28,242

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
2005	$49,162	$281,246	$259,386	$589,797	$428,813	100%	100%	38%
2006	$54,826	$305,589	$263,918	$624,333	$443,999	100%	100%	32%
2007	$59,299	$358,644	$234,539	$652,482	$480,517	100%	100%	28%
2008	$66,865	$370,764	$254,623	$692,252	$488,347	100%	100%	20%
2009	$65,126	$448,231	$296,324	$809,681	$483,145	100%	93%	0%
2010	$64,917	$532,695	$333,220	$930,832	$509,561	100%	83%	0%
2011	$65,723	$558,483	$309,711	$933,917	$523,980	100%	82%	0%
2012	$66,407	$632,319	$276,882	$975,608	$528,728	100%	73%	0%
2013	$73,311	$694,137	$297,850	$1,065,298	$547,264	100%	68%	0%
2014	$75,582	$739,428	$281,231	$1,096,241	$627,325	100%	79%	0%

Note: information compiled from Actuarial report prepared by Cheiron dated June 30, 2014

Actuarial Analysis of Financial Experience
For Years Ended June 30
(Dollar Amounts in Thousands)

Actuarial (Gains)/Losses				Changes in Plan Provisions	Changes in Assumptions/ Methods	Total (Gains)/Loss
Plan Year Ending	Asset Sources	Liability Sources	Total			
2005	$23,825	$9,230	$33,055	$2,435	$14,012	$49,502
2006	$13,444	$(2,866)	$10,578	$2,734	N/A	$13,312
2007	$(3,586)	$(3,693)	$(7,549)	N/A	$625	$(6,655)
2008	$48,840	$(14,186)	$34,654	N/A	N/A	$34,654
2009	$66,987	$23,892	$90,879	N/A	N/A	$90,879
2010	$16,151	$8,100	$24,251	N/A	$63,410	$87,661
2011	$30,955	$(13,824)	$17,131	N/A	$(12,918)	$(4,213)
2012	$40,054	$11,401	$51,455	N/A	$(16,069)	$35,386
2013	$20,749	$4,199	$24,948	N/A	$49,294	$74,242
2014	$(22,058)	$(12,533)	$(34,591)	N/A	$(36,803)	$(71,394)

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
2005	$428,813	$589,794	$160,981	72.7%	$97,507	165.1%
2006	$439,309	$619,644	$180,335	71.1%	$101,137	178.3%
2007	$480,517	$652,482	$171,965	73.6%	$100,589	171.0%
2008	$488,347	$692,252	$203,905	70.5%	$109,253	186.6%
2009	$483,145	$809,681	$326,536	59.7%	$114,984	284.0%
2010	$509,561	$930,832	$421,271	54.7%	$115,384	365.1%
2011	$523,980	$933,917	$409,936	56.1%	$111,342	368.2%
2012	$528,728	$975,608	$446,880	54.2%	$106,581	419.3%
2013	$547,264	$1,065,298	$518,034	51.4%	$115,983	446.6%
2014	$657,325*	$1,096,241	$438,916	60.0%	$115,939	378.6%

*Reflects change in asset valuation methodology from valuation value of assets to market value of assets effective for the 2014 actuarial valuation.

Required Supplementary Information

A schedule of actuarially determined and actual contributions can be found on page 54 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.

Note: information compiled from Actuarial report prepared by Cheiron dated June 30, 2014

Statistical Section

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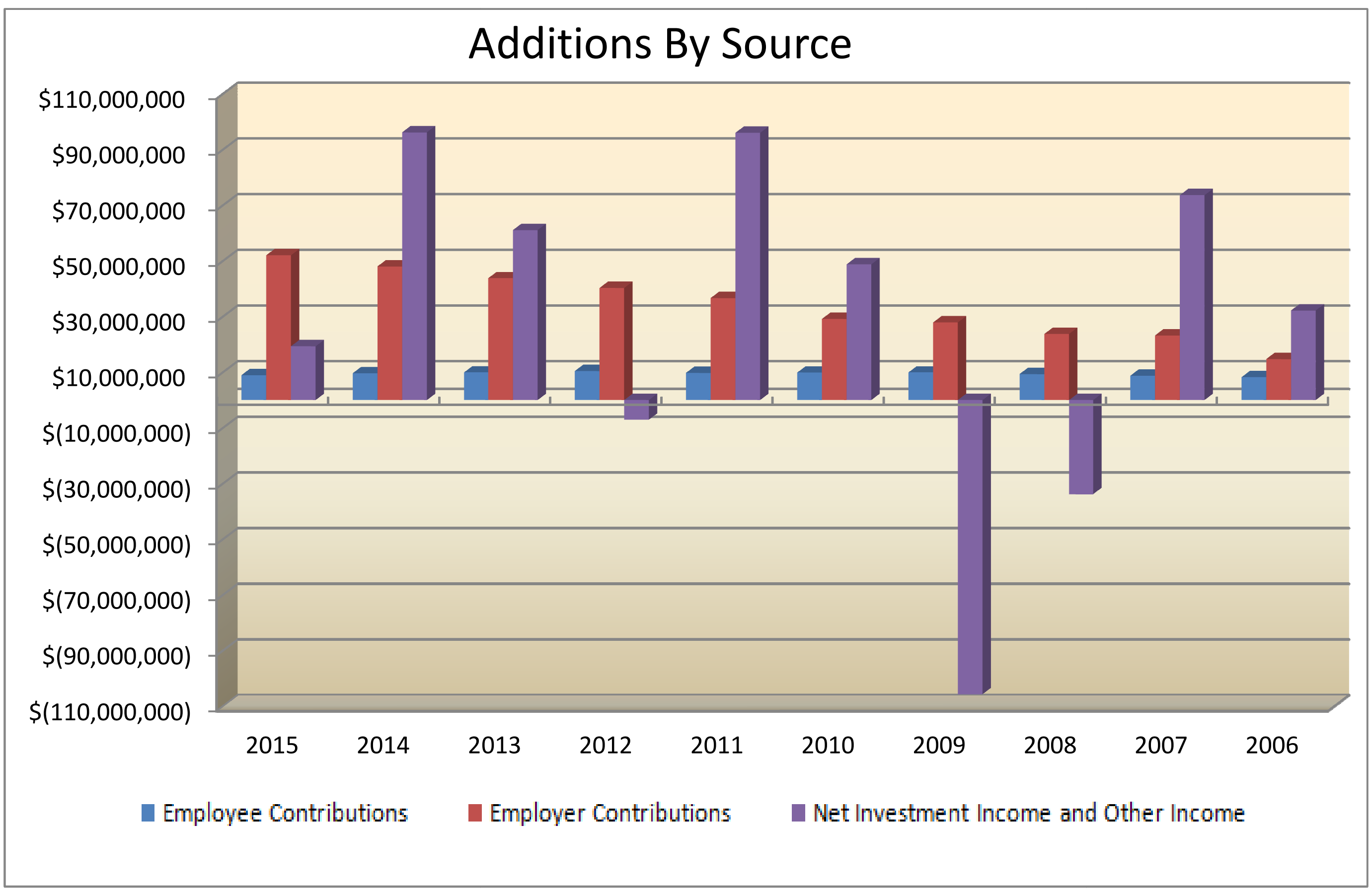
Merced County Employees' Retirement Association
Additions by Source

The Statistical Section presents information pertaining to MCERA's operations on a multi-year basis. The financial and operating information provides contextual data for MCERA's fiduciary net position, benefits, refunds, and different types of retirement benefits.

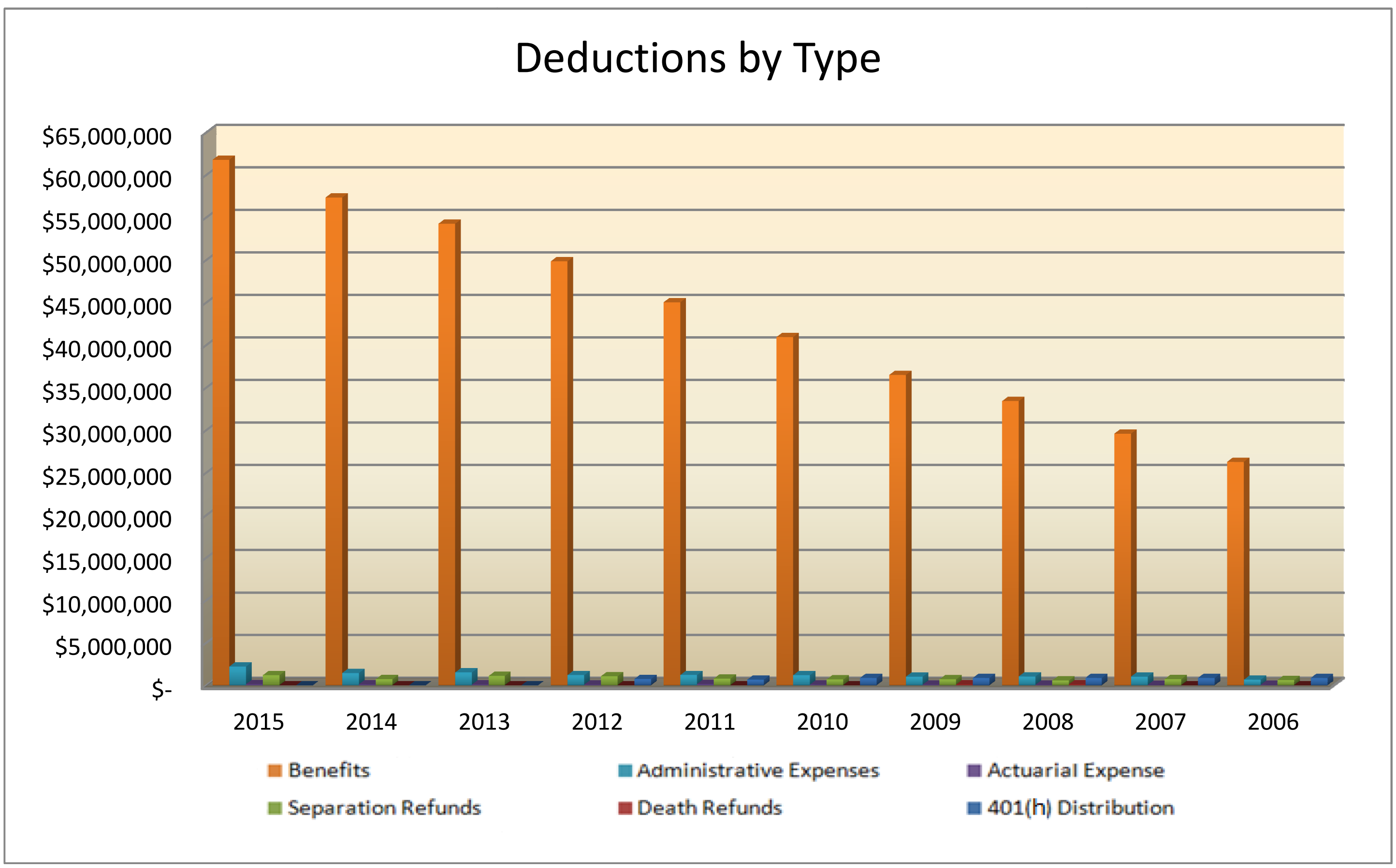
Fiscal Year Ending	Employee Contributions	Employer Contributions	Employer % of Covered Payroll	Net Investment Income and Other Income	Total
6/30/2006	$ 8,221,757	$ 14,749,934	15.02%	$ 32,191,872	$ 55,163,563
6/30/2007	$ 8,755,297	$ 23,232,099	21.33%	$ 73,614,145	$ 105,601,541
6/30/2008	$ 9,357,702	$ 23,751,437	21.34%	$ (33,797,400)	$ (688,261)
6/30/2009	$ 9,916,305	$ 27,882,650	23.42%	$ (105,689,276)	$ (67,890,321)
6/30/2010	$ 9,864,161	$ 29,136,704	24.46%	$ 48,772,246	$ 87,773,111
6/30/2011	$ 9,754,849	$ 36,662,121	31.26%	$ 96,031,519	$ 142,448,490
6/30/2012	$ 10,416,301	$ 40,262,881	36.09%	$ (7,039,276)	$ 43,639,906
6/30/2013	$ 9,927,749	$ 43,783,663	40.03%	$ 61,083,399	$ 114,794,811
6/30/2014	$ 9,642,819	$ 48,032,338	43.40%	$ 96,219,056	$ 153,894,213
6/30/2015	$ 8,945,316	$ 52,005,656	47.22%	$ 19,318,849	$ 80,269,821



Merced County Employees' Retirement Association
Deductions by Type

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401(d) Distribution to County	Total
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
6/30/15		$ 61,780,089	$ 2,197,281	$ 126,165	$ 1,171,835	$ -	$ -	$ 65,275,370

*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	6/30/15	6/30/14	6/30/13	6/30/12	6/30/11
Plan members contributions	$ 8,945	$ 9,643	$ 9,928	$ 10,416	$ 9,754
Employer contributions	52,005	48,032	43,784	40,263	36,662
Net investment income/(loss)	19,319	96,219	61,083	(7,039)	96,032
Total additions	80,269	153,894	114,795	43,640	142,448
Deductions					
Benefits paid	61,780	57,339	54,258	49,839	45,022
Refunds	1,172	703	1,082	1,052	767
Administrative expenses	2,197	1,435	1,496	1,180	1,189
Actuarial expenses	126	112	71	63	138
401(h) distribution	-	-	-	734	650
Total deductions	65,275	59,589	56,907	52,868	47,766
Change in fiduciary net position	14,994	94,305	57,888	(9,228)	94,683
Net position restricted for pensions at beginning of the year	657,325	563,020	505,132	514,361	419,678
Net position restricted for pensions at end of the year	$ 672,319	$ 657,325	$ 563,020	$ 505,132	$ 514,361

Additions	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06
Plan members contributions	$ 9,864	$ 9,916	$ 9,358	$ 8,755	$ 8,222
Employer contributions	29,137	27,883	23,751	23,232	14,750
Net investment income/(loss)	48,772	(105,689)	(33,797)	73,614	32,191
Total additions	87,773	(67,890)	(688)	105,601	55,163
Deductions					
Benefits paid	4,099	36,479	33,394	29,578	26,264
Refunds	673	761	653	704	602
Administrative expenses	1,171	1,005	1,030	1,014	649
Actuarial expenses	67	62	54	41	48
401(h) distribution	850	850	850	850	850
Total deductions	43,690	39,157	35,981	32,187	28,413
Change in fiduciary net position	44,083	(107,047)	(36,669)	73,414	26,750
Net position restricted for pensions at beginning of the year	375,595	482,642	519,311	445,897	419,147
Net position restricted for pensions at end of the year	$ 419,678.00	$ 375,595.00	$ 482,642.00	$ 519,311.00	$ 445,897.00

Merced County Employees' Retirement Association
Schedule of Benefit Expenses by Type
(Dollar Amount in Thousands)

	2015* *	2014*	2013*	2012*	2011*	2010*	2009*	2008*	2007	2006
Service Retirement										
Payroll										
General	$ 44,722	$ 41,442	$ 39,447	$ 35,897	$ 31,770	$ 28,665	$ 25,086	$ 22,868	$ 21,924	$ 18,081
Safety	7,854	7,196	6,679	6,209	5,845	5,404	4,720	4,139	3,813	3,448
Total	$ 52,576	$ 48,638	$ 46,126	$ 42,106	$ 37,615	$ 34,069	$ 29,806	$ 27,007	$ 25,737	$ 21,529
Disability Retiree										
Payroll										
General	$ 1,842	$ 2,600	$ 2,489	$ 2,230	$ 2,159	$ 2,154	$ 2,103	$ 1,975	$ 1,555	$ 1,527
Safety	2,623	3,005	2,898	2,738	2,522	2,424	2,396	2,312	1,907	1,913
Total	$ 4,465	$ 5,605	$ 5,387	$ 4,968	$ 4,681	$ 4,578	$ 4,499	$ 4,287	$ 3,462	$ 3,440
Beneficiary/Survivors										
Payroll										
General	$ 3,327	$ 2,346	$ 2,030	$ 2,035	$ 2,049	$ 1,762	$ 1,574	$ 1,686	$ 1,957	$ 1,734
Safety	1,258	610	562	579	521	412	380	414	667	594
Total	$ 4,585	$ 2,956	$ 2,592	$ 2,614	$ 2,570	$ 2,174	$ 1,954	$ 2,100	$ 2,624	$ 2,328
Total Payroll Expense										
Payroll										
General	$ 49,891	$ 46,387	$ 43,966	$ 40,162	$ 35,978	$ 32,580	$ 28,763	$ 26,529	$ 25,436	$ 21,342
Safety	$ 11,735	10,811	10,139	9,526	8,887	8,240	7,496	6,865	6,387	5,955
Total	$ 61,626	$ 57,198	$ 54,105	$ 49,688	$ 44,865	$ 40,820	$ 36,259	$ 33,394	$ 31,823	$ 27,297
Death Benefits										
General	$ 84	96	96	117	81	99	179	N/A	N/A	N/A
Safety	18	18	12	9	N/A	9	41	N/A	N/A	N/A
Total	$ 102	$ 114	$ 108	$ 126	$ 81	$ 108	$ 220	N/A	N/A	N/A
Separation Refund Expense										
General	$ 1,033	$ 582	$ 985	$ 861	$ 729	$ 599	$ 562	N/A	N/A	N/A
Safety	139	121	97	190	37	74	122	N/A	N/A	N/A
Total	$ 1,172	$ 703	$ 1,082	$ 1,051	$ 766	$ 673	$ 684	N/A	N/A	N/A
Active Death Expense										
General	$ 51	$ 29	$ 44	$ 26	$ 82	N/A	$ 77	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	N/A
Total	$ 51	$ 29	$ 44	$ 26	$ 82	N/A	$ 77	N/A	N/A	N/A

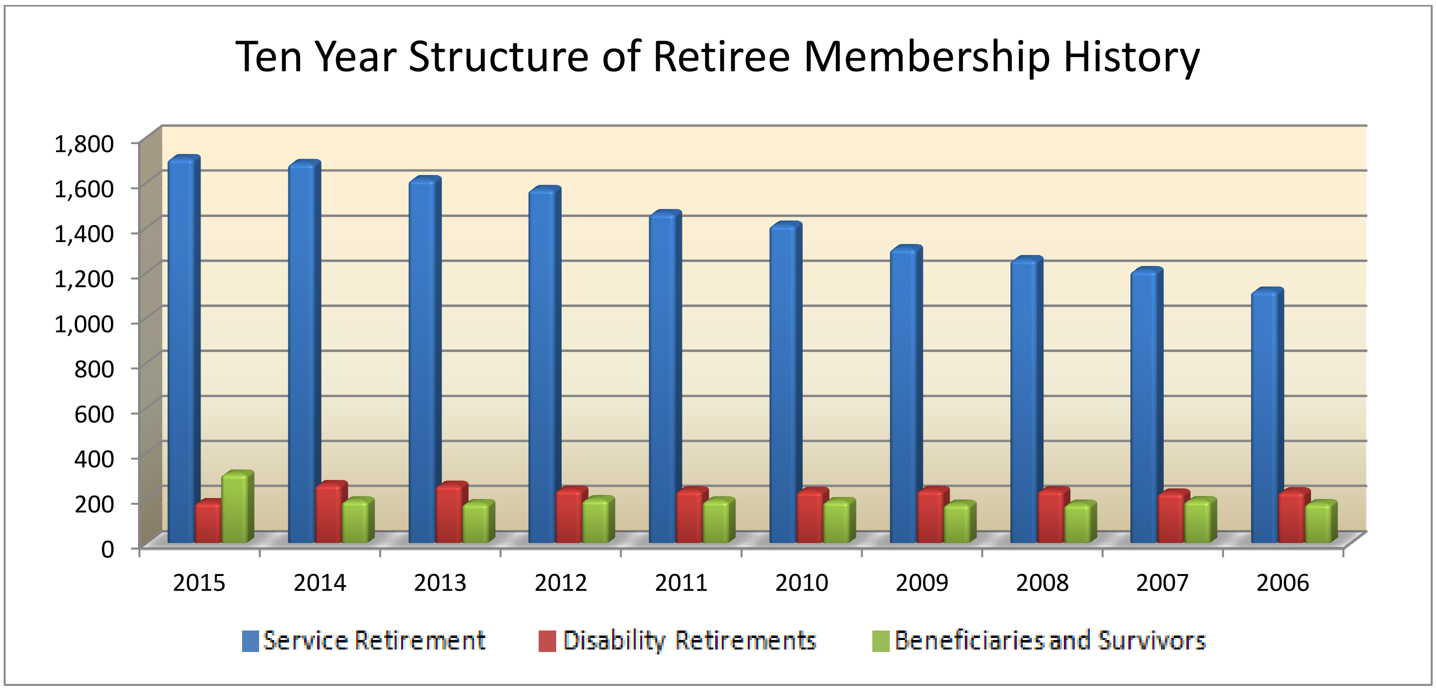
* Prior to 2008 this information was provided by the MCERA's actuary and included benefit payments expected to be distributed, refunds and 401(h) distribution to County and did not represent actual amounts distributed. In 2008 MCERA is calculating this information as actual benefits distributed. In 2009 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 and CPAS. In 2011, MCERA changed death refund expense to active death expense to better identify expense for active member death.
* During the 2015 fiscal year, MCERA Converted to the CPAS System. Because of differences in handling of data, beneficiaries of disability retiree decedents are now grouped with Beneficiary/Survivors.

Schedule of Retired Members by Type of Benefit

(Summary of Monthly Allowances Being Paid—As of June 30, 2015)

Type of Benefit	General Members		Safety Members		Total	
	Number	Average Monthly Allowances	Number	Average Monthly Allowances	Number	Average Monthly Allowances
Service Retirement	1,513	$2,519.68	193	$3,485.21	1,706	$2,628.91
Disability	100	1,667.29	80	2,604.34	180	2,083.76
Beneficiaries/Survivors	230	1,213.81	46	2,295.52	276	1,394.10
Total Retired Members	1,843	$2,310.46	319	$3,092.75	2,162	$2,425.89

This schedule excludes separation refunds and death refunds



	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
Service Retirement	1,706	1,686	1,613	1,570	1,463	1,411	1,307	1,258	1,209	1,119
Disability Retirements	180	262	257	236	233	230	234	233	222	227
Beneficiaries and Survivors	276	185	176	192	187	185	172	172	188	175
Total	2,162	2,133	2,046	1,998	1,883	1,826	1,713	1,663	1,619	1,521

*During the 2014-2015 fiscal year, MCERA migrated to a new pension administration system. Beneficiaries of disability retirees are no longer classified as disability retirements. This has resulted in a re-proportioning of these numbers.

Merced County Employees' Retirement Association
Summary of Retired Membership
For Years Ended June 30
(Basic and Total Annual Allowance Dollars in Thousands)

	2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
GENERAL										
Number	1,848	1,810	1,730	1,693	1,590	1,545	1,454	1,412	1,381	1,294
Basic Annual Allowance	$40,316	$37,646	$35,885	$32,933	$29,232	$26,331	$22,771	$22,592	$20,021	$16,553
Average Basic Monthly Allowance	$1,818	$1,733	$1,729	$1,621	$1,532	$1,420	$1,305	$1,333	$1,206	$1,066
Total Annual Allowance	$49,891	$46,387	$43,966	$40,161	$35,978	$32,561	$28,712	$28,019	$25,435	$21,341
Average Total Monthly Allowance	$2,250	$2,136	$2,118	$1,976	$1,886	$1,756	$1,646	$1,654	$1,533	$1,374
SAFETY										
Number	314	322	316	305	293	281	259	251	238	228
Basic Annual Allowance	$8,996	$8,279	$7,791	$7,379	$6,863	$6,401	$5,746	$5,262	$4,807	$4,508
Average Basic Monthly Allowance	$2,387	$2,143	$2,054	$2,016	$1,952	$1,898	$1,849	$1,747	$1,690	$1,648
Total Annual Allowance	$11,735	$10,811	$10,139	$9,527	$8,887	$8,240	$7,497	$6,878	$6,388	$5,956
Average Total Monthly Allowance	$3,114	$2,798	$2,674	$2,603	$2,528	$2,444	$2,412	$2,284	$2,246	$2,177
TOTAL										
Number	2,162	2,132	2,046	1,998	1,883	1,826	1,713	1,663	1,619	1,522
Basic Annual Allowance	$49,312	$45,925	$43,676	$40,312	$36,095	$32,732	$28,517	$27,854	$24,828	$21,061
Average Basic Monthly Allowance	$1,901	$1,795	$1,779	$1,681	$1,597	$1,494	$1,387	$1,396	$1,277	$1,153
Total Annual Allowance**	$61,626	$57,198	$54,106	$49,688	$44,865	$40,801	$36,209	$34,897	$31,823	$27,297
Average Total Monthly Allowance	$2,375	$2,236	$2,204	$2,072	$1,986	$1,862	$1,761	$1,749	$1,637	$1,495

* As of 2015, divorcees will be excluded from Membership data as they are technically not members and only represent a party to a single split benefit.

** 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, 2015

Amount of Monthly Benefit	Number of Members	Type of Retirement*							Option Selected**					
		1	2	3	4	5	6	7	U	1	2	3	4	SD
$1 - 250	80	19	34	22	0	4	1	0	50	5	18	7	0	0
$251 - 500	156	39	79	19	4	5	3	7	116	4	29	3	0	4
$501 - 750	190	53	94	30	4	2	1	6	151	8	23	4	0	4
$751 - 1,000	178	51	79	28	7	0	7	6	148	6	14	3	0	7
$1,001 - 1,250	183	67	71	20	4	5	14	2	151	4	19	4	1	4
$1,251 - 1,500	155	52	64	16	1	9	11	2	136	2	10	6	0	1
$1,501 - 1,750	145	55	48	16	2	12	7	5	120	1	16	5	1	2
$1,751 - 2,000	117	62	31	6	1	11	1	5	107	0	8	1	0	1
Over $2,000	958	456	352	43	5	84	3	15	840	28	61	14	10	5
	2,162	854	852	200	28	132	48	48	1,819	58	198	47	12	28

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

The monthly benefit for the following option varies dependent upon multiple factors:

Option SD—Pre-retirement death in service.

This year, due to the change in pension administration software, we were able to compile statistics for Type 7 retirees. Additionally, we are using a new option this year to differentiate beneficiaries of members who deceased while in service. These deceased members never retired and thus were unable to select an option. Therefore, we felt it necessary to separate these individuals into a new category.

Merced County Employees' Retirement Association
Retired Members Average Benefit Payments
Last Ten Years

Retirement Effective Dates	Years of Credited Service 0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/2014 to 6/30/2015							
Average monthly benefit	$448	$1,083	$1,650	$2,434	$2,981	$3,438	$8,150
Average final average salary	$7,700	$5,994	$5,007	$5,401	$5,303	$4,903	$8,849
Number of retired members	10	11	28	17	14	5	3
Period 7/1/2013 to 6/30/2014							
Average monthly benefit	$426	$1,121	$1,634	$2,714	$4,018	$5,013	$5,992
Average final average salary	$8,946	$4,750	$4,587	$5,441	$6,527	$6,566	$7,088
Number of retired members	7	17	22	16	15	13	13
Period 7/1/2012 to 6/30/2013							
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 7/1/2011 to 6/30/2012							
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 7/1/2010 to 6/30/2011							
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 7/1/2009 to 6/30/2010							
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 7/1/2008 to 6/30/2009							
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 7/1/2007 to 6/30/2008							
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 7/1/2006 to 6/30/2007							
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 7/1/2005 to 6/30/2006							
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

Information compiled from CPAS data

Merced County Employees' Retirement Association
Actuarial Balance Sheet
For the Years Ending June 30

	ASSETS	2015	2014
1.	Total actuarial value of assets	$ 657,324,917	$ 547,263,743
2.	Present value of future contributions by members	62,112,406	64,356,294
3.	Present value of future employer contributions for normal cost	68,613,059	71,247,618
4.	Present value of other future employer contributions (UAAL)	438,916,321	518,034,325
5.	Total Actuarial Assets	$ 1,226,966,703	$ 1,200,901,980
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$ 739,428,444	$ 694,136,908
7.	Present value of service retirement allowances payable to presently active member and their survivors	391,655,376	410,380,089
8.	Present value of allowances payable to current and future vested terminated members and their survivors	69,870,161	69,609,057
9.	Present value of disability retirement allowances payable to presently active members and their survivors	15,231,199	15,700,881
10.	Present value of death benefits payable on behalf of presently active members	5,413,034	5,603,365
11.	Present value of members' contributions to be returned upon withdrawal	5,368,489	5,471,680
12.	Special Reserves		-
13.	Total Actuarial Liabilities	$ 1,226,966,703	$ 1,200,901,980
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$ 1,226,966,703	$ 1,200,901,980
15.	Present value of future contributions by members and employers (items 2 and 3)	130,725,465	135,603,912
16.	Actuarial accrued liability (item 14 minus item 15)	1,096,241,238	1,065,298,068
17.	Actuarial value of assets	609,748,000	547,263,743
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$ 486,493,238	$ 518,034,325
19.	Funded Ratio	55.6%	51.4%

Note: Actuarial Balance Sheet prepared 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)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
County of Merced										
General Members	1,542	1,490	1,478	1,453	1,521	1,575	1,708	1,852	1,848	1,853
Safety Members	300	298	294	306	322	331	342	352	328	316
Total County of Merced	1,842	1,788	1,772	1,759	1,843	1,906	2,050	2,204	2,176	2,169
Percentage of Membership	93.65%	93.56%	93.21%	92.53%	92.85%	93.44%	93.87%	94.19%	94.69%	95.22%
Participating Agencies										
Merced Cemetery District	1	1	1	2	2	2	3	3	3	3
Percentage of Membership	0.05%	0.05%	0.05%	0.11%	0.10%	0.09%	0.13%	0.13%	0.13%	0.13%
Transit Joint Powers Authority	-	-	-	1	3	3	-	-	-	-
Percentage of Membership	-	-	-	0.05%	0.15%	0.14%	-	-	-	-
Superior Court of California	118	112	115	126	137	137	137	133	119	106
Percentage of Membership	6.00%	5.86%	6.05%	6.63%	6.90%	6.33%	6.01%	5.68%	5.17%	4.65%
Regional Waste Management Authority	6	10	13	13	-	-	-	-	-	-
Percentage of Membership	0.30%	0.52%	0.68%	0.68%	-	-	-	-	-	-
Total Members of Participating Agencies	125	123	129	142	142	142	140	136	122	109
Total Active Membership										
General	1,667	1,613	1,604	1,595	1,663	1,717	1,848	1,988	1,970	1,962
Safety	300	298	294	306	322	331	342	352	328	316
Total	1,967	1,911	1,899	1,901	1,985	2,048	2,190	2,340	2,298	2,278