

TO THE MEMBERS OF THE MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MCERA presents the 2014 Popular Annual Financial Report (PAFR) which summarizes the MCERA Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2014. The financial data presented in the PAFR is derived from the CAFR and is consistent with Generally Accepted Accounting Principals (GAAP) and was prepared in accordance with accounting principles and reporting guidelines as set forth by the Government Accounting Standards Board. It is published to provide a view of MCERA's overall financial position and services for the fiscal year. A copy of the MCERA CAFR can be obtained by contacting the MCERA office or on-line at www.mcera.merced.ca.us.

MANAGEMENT AND RESPONSIBILITIES

Pursuant to the provisions of the County Employees' Retirement Law of 1937, MCERA's management is vested in a nine member and two alternate member Board of Retirement. The Board acts in a fiduciary capacity in making decisions related to the general management of the retirement system including making benefit determinations and setting and monitoring all investment policy and objectives. The Board appoints a Retirement Plan Administrator who is responsible for the day to day operations of the retirement system. The Board adopts an annual budget covering the expense of administration of the system. Members of the Board have a legal duty to use the assets of the plan for the benefit of plan participants and beneficiaries and to act in the best interests of the plan.

INVESTMENT POLICY OBJECTIVES

The Board 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 allocations, performance objectives and risk controls. The primary investment objectives are to insure the payment of all benefit obligations and to meet the assumed rate of investment return.

MCERA'S MISSION STATEMENT

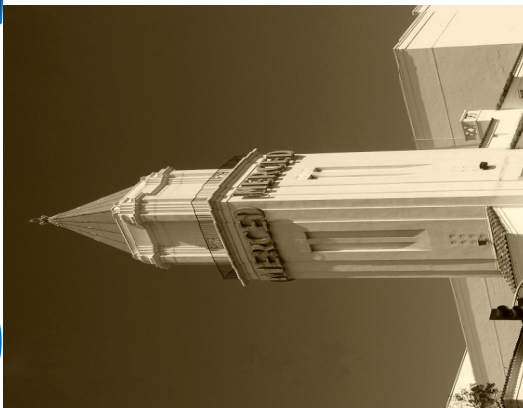
"MCERA's mission is to provide benefits to its members, to manage assets prudently in accordance with plan provisions and the board of trustees to provide competent and efficient services to our members."

SERVICE EFFORTS AND ACCOMPLISHMENTS

The Board and the MCERA staff are committed to providing timely and personalized member services while striving to be an efficient organization. The Board and staff of MCERA had a productive year. Below is a summary of MCERA's accomplishments. Please see MCERA's CAFR on our website to view a complete list.

- Approved and adopted Employer and Member contribution rate for Tier 3 and PEPRA Tier 4 Members
- Supported the continued progress of the CPAS software implementation
- Approved the development of independent website for MCERA
- Approved the development of an imaging system
- Adopted and implemented a COLA of 2.5% effective April 1, 2014 for Tier I members
- Cheiron acquired EFI Actuaries, transition and personnel changes complete
- Board fulfilled continuing education requirements
- Board approved new asset allocation

Award for Outstanding Achievement for Excellence in Financial Reporting: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its CAFR for the fiscal year ended June 30, 2013. This is MCERA's tenth Certificate of Achievement for Excellence in Financial Reporting.



A Pension Trust Fund of the County of Merced, California

For the fiscal years ended June 30, 2014 and 2013

MERCED COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION
3199 M STREET
MERCED, CA 95348

MCERA is committed to providing excellent service for its plan participants



MERCED COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

POPULAR ANNUAL FINANCIAL REPORT For the Year ending June 30, 2014

ISSUED BY
Bren Horrocks
Fiscal Supervisor

BOARD OF RETIREMENT

COUNTY TREASURER
Karen Adams

ELECTED BY GENERAL MEMBERS
Darlene Ingersoll
Michael Rhodes

ELECTED BY SAFETY MEMBERS
Jim Pacheco

ELECTED BY RETIRED MEMBERS
Ronald Kinchloe
Alternate Retired Member
Scott Johnston

APPOINTED BY THE BOARD OF SUPERVISORS
Mark Bodley
Deidre Kelsey
David Ness
Alfonso Peterson

This PAFR is not intended to replace the CAFR which provides a more complete report of MCERA's financial position and operating costs. The financial report is designed to provide tax payers, MCERA's membership and plan sponsors with an overview of MCERA's financial condition and to demonstrate accountability for the funds MCERA receives and manages. Questions concerning this report or the CAFR should be addressed to MCERA.

Steven Bland, Retirement Plan Administrator

Retirement Board Meeting
Dates
Second and Fourth Thursday of
each month at 8:15 A.M.

Phone: 209-725-3636
Fax: 209-725-3637

NET POSITION

As of June 30, 2014, MCERA's net assets held in trust totaled \$657,324,917.

The table below shows how current financial transactions have impacted the net asset base.

Changes in MCERA Net Position (in thousands)

	2014	2013
ADDITIONS		
Plan Member Contributions	\$ 9,643	\$ 9,928
Employer Contributions	48,032	43,784
Net Investment Income	96,129	61,083
Total Additions	153,894	114,795
DEDUCTIONS		
401(h) Distribution to County	\$ -	\$ -
Benefits	57,339	54,258
Refunds of Contributions	703	1,082
Actuarial Expense	113	71
Administrative Expense	1,434	1,496
Total Deductions	59,589	56,907
Change in Net Position	\$ 94,305	\$ 57,887

Net Position Restricted for Pensions

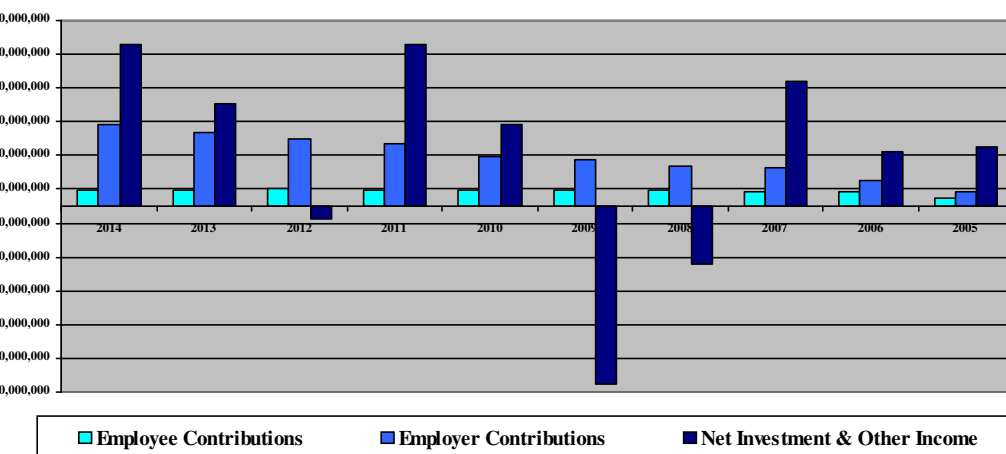
Net Position Restricted for Pensions at beginning of year	\$505,133	\$514,361
Net Position Restricted for Pensions at end of year	\$563,020	\$505,133

Over the past fiscal year, MCERA's total net position held in trust for pension benefits increased by \$94.3 million (an increase of 16.7%). This increase essentially reflects an increase in the fair value of investments and net of benefits and expenses.

Additions to Plan Net Position (All \$ amounts in thousands)

Fiscal years Ending 6/30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Employee Contributions	\$9,643	\$9,928	\$10,416	\$9,754	\$9,864	\$9,916	\$9,358	\$8,755	\$8,222	\$4,585
Employer Contributions	\$48,032	\$43,784	\$40,263	\$36,662	\$29,137	\$27,883	\$23,751	\$23,232	\$14,750	\$8,931
Net Investment Gain/(Loss)	\$96,129	\$61,083	\$-7,039	\$96,032	\$48,772	\$-105,689	\$-33,797	\$73,614	\$32,192	\$34,841

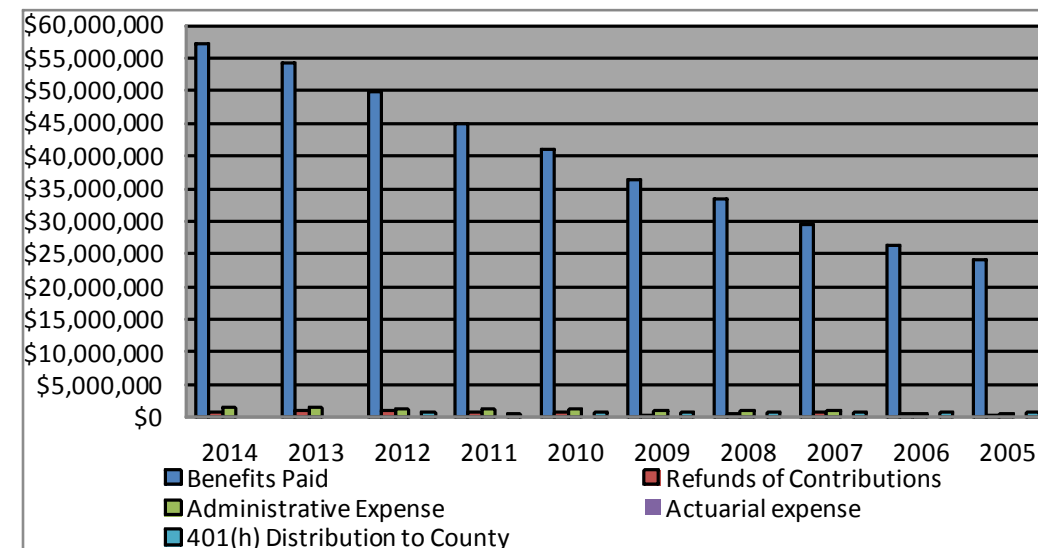
Additions by Source



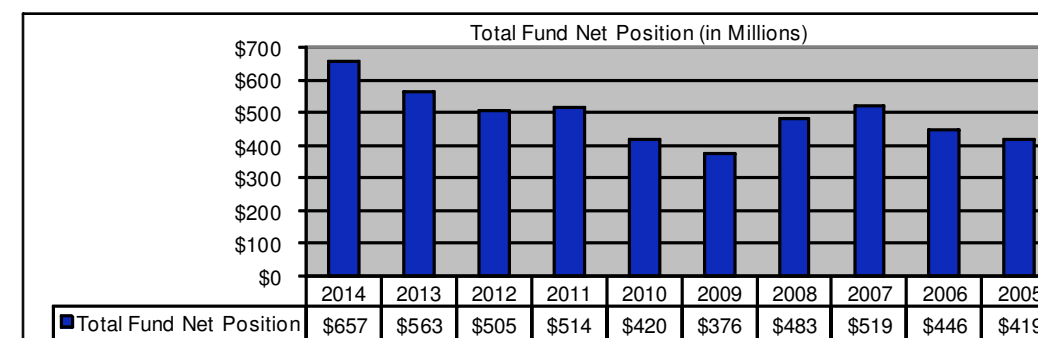
Deductions for the current fiscal year totaled \$59.6 million an increase of 4.7% from the previous year. This increase was primarily due to higher benefits paid, increases in administrative and actuarial expenses.

Deductions from Plan Net Position (All \$ Amounts in Thousands)

Fiscal years ending 6/30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Benefits Paid	\$57,339	\$54,258	\$49,840	\$45,022	\$40,929	\$36,479	\$33,394	\$29,578	\$26,264	\$24,070
Refunds of contributions	\$703	\$1,082	\$1,052	\$767	\$673	\$761	\$653	\$704	\$602	\$409
Administrative Expense	\$1,434	\$1,496	\$1,180	\$1,189	\$1,171	\$1,005	\$1,030	\$1,015	\$649	\$602
Actuarial Expense	\$113	\$71	\$63	\$138	\$67	\$62	\$54	\$41	\$48	\$62
401(h) Distribution to County	-	-	\$733	\$650	\$850	\$850	\$850	\$850	\$850	\$850

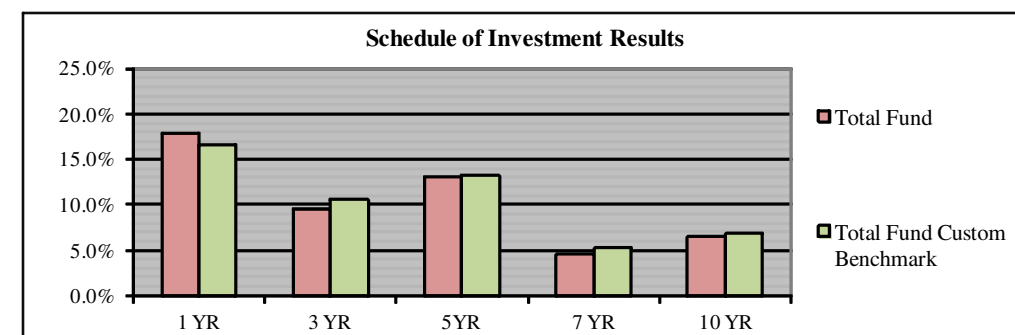


NET POSITION RESTRICTED FOR PENSIONS



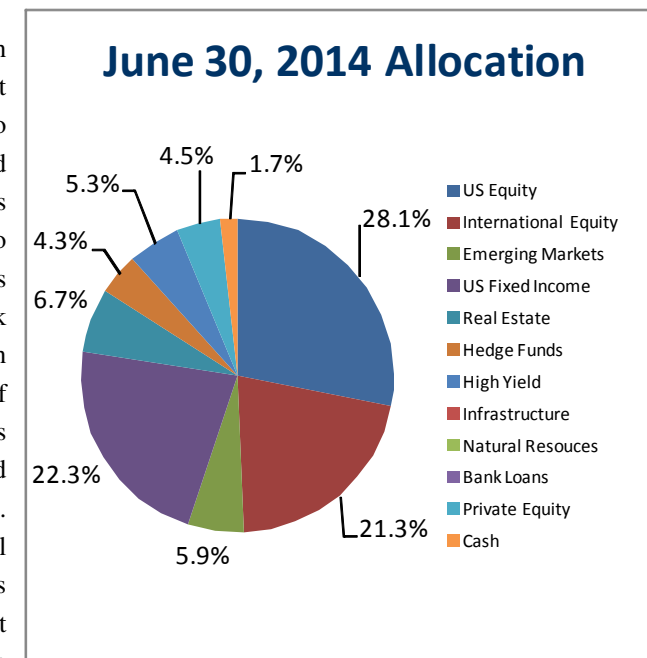
INVESTMENTS

The MCERA Investment Policy defines the principal duties of the Board, MCERA's custodian bank, and MCERA's investment managers. For the fiscal year ending June 30, 2014 MCERA's total fund return was 17.9%, which outperformed MCERA's policy benchmark of 16.7% by 120 basis points and outperformed the plan's actuarial rate of 7.75% by 1,015 basis points.



ASSET ALLOCATION

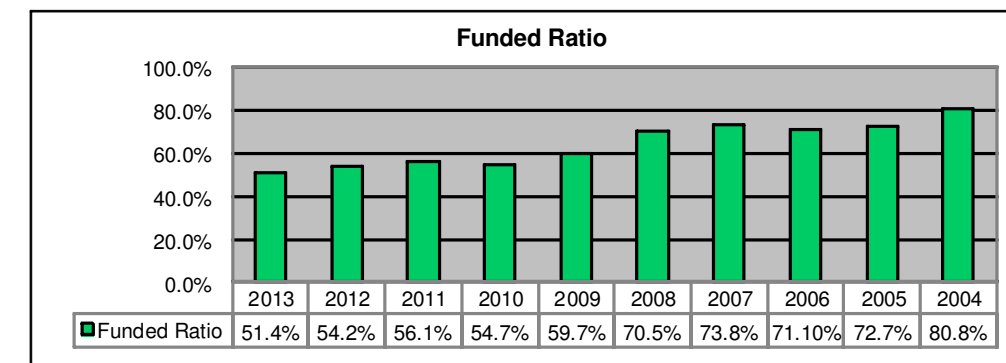
The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. The asset allocation plan is adopted by the Board of Retirement and as shown has produced a well balanced and diversified portfolio. Infrastructure, Natural Resources, and Bank Loans mandates are new to the asset allocation and had not been funded as of June 30, 2014.



ACTUARIAL

MCERA's overall funding ratio compares the amount of benefits promised to the assets available to pay those benefits. MCERA's most recent actuarial valuation, as of June 30, 2013 found the retirement system's actuarial funding status to be 51.4%. The Board of Retirement adopted an Actuarial Funding policy to direct MCERA's funding objective to maintain a status that allows for the payment of its long term benefit obligations.

Actuarial Funding Status for the Past 10 Years



HISTORICAL MEMBERSHIP

Fiscal years ending 6/30	Active Members	Retired Members and Beneficiaries	Average Annual Benefit Received
2014	1,904	2,132	\$26,828
2013	1,901	2,046	\$26,448
2012	1,901	1,998	\$24,864
2011	1,985	1,883	\$23,832
2010	2,048	1,826	\$22,344

Membership includes employees of Merced County, Merced Superior Court, Merced Cemetery District, Transit JPA and Regional Waste Management Authority.

Average Annual Benefit is the average benefit received including the basic retirement pension plus COLAs.