

TO THE MEMBERS OF THE MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MCERA presents the 2013 Popular Annual Financial Report (PAFR) which summarizes the MCERA Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2013. 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 statement is to provide benefits to its members, to manage assets prudently in accordance with plan provisions and to provide competent and efficient services to our members."

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.

- Adopted an Earnable Compensation Board approval process to eliminate pension spiking in compliance with AB 340.
- Adopted and implemented 2% COLA for Tier 1 members.
- The Board issued an RFP for new investment consultant and completed the search in March 2013. The Board hired Strategic Investment Solutions, Inc for their investment consulting services.
- The Board authorized investment in an enhanced index fund and hired Mellon Capital to manage the Tangent Added Strategy.
- Terminated actively managed Domestic Large Cap manager, Earnest Partners, and transitioned account to a Large Cap Index fund, managed by Mellon Capital.
- Conducted disability training for Trustees to enhance their ability to make determinations on member disability applications.
- The Board approved the development of a new independent MCERA website.
- Conducted a search and hired a new Fiscal Operations Supervisor.

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, 2012. This is MCERA's eighth Certificate of Achievement for Excellence in Financial Reporting.

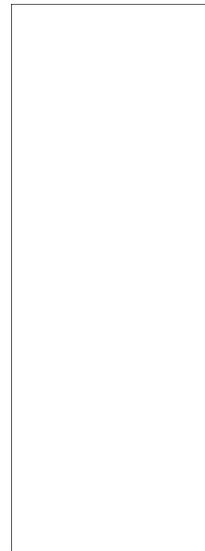


MCERA

A Pension Trust Fund of the County of Merced, California

For the fiscal years ended June 30, 2013 and 2012

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, 2013

Plan Administrator

Maria L. Arevalo

ISSUED BY

David Liu

Fiscal Supervisor

BOARD OF RETIREMENT

COUNTY TREASURER

Karen Adams

ELECTED BY GENERAL MEMBERS

Darlene Ingersoll

Michael Rhodes

ELECTED BY SAFETY MEMBERS

Jim Pacheco

Alternate Safety Member

Mary McWatters

ELECTED BY RETIRED MEMBERS

Ronald Kinchloe

Alternate Retired Member

Scott Johnston

APPOINTED BY THE BOARD OF SUPERVISORS

Deidre Kelsey

David Ness

Mark Bodley

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.

Maria L. Arevalo 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, 2013, MCERA's net assets held in trust totaled \$563,020,073.

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

Changes in MCERA Net Position (in thousands)

	2013	2012
ADDITIONS		
Plan Member Contributions	\$ 9,928	\$ 10,416
Employer Contributions	43,784	40,263
Net Investment Income	61,083	(7,039)
Total Additions	114,795	43,640
DEDUCTIONS		
401(h) Distribution to County	-	733
Benefits	54,258	49,840
Refunds of Contributions	1,082	1,052
Actuarial Expense	71	63
Administrative Expense	1,496	1,180
Total Deductions	56,907	52,868
Change in Net Position	\$ 57,887	\$ (9,228)

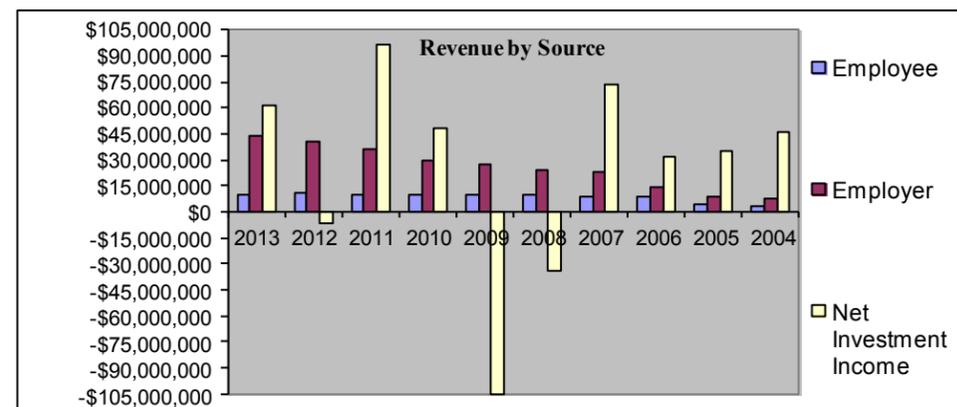
Net Position Restricted for Pensions

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 \$57.9 million (a increase of 11.5%). This result essentially reflects the increase of investments at fair value of 11.7% or (\$56.8 million).

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

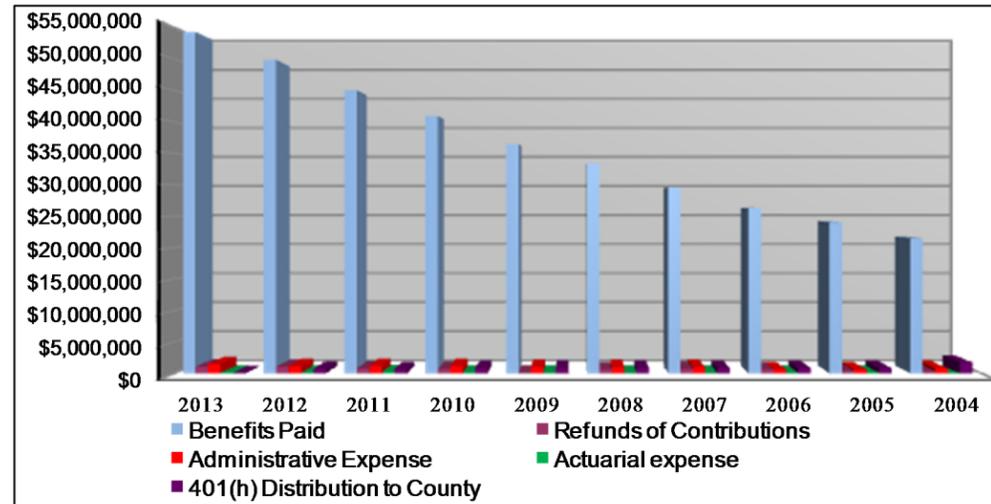
Fiscal years Ending 6/30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Employee Contributions	\$9,928	\$10,416	\$9,754	\$9,864	\$9,916	\$9,358	\$8,755	\$8,222	\$4,585	\$3,348
Employer Contributions	\$43,784	\$40,263	\$36,662	\$29,137	\$27,883	\$23,751	\$23,232	\$14,750	\$8,931	\$7,269
Net Investment Gain/(Loss)	\$61,083	\$-7,039	\$96,032	\$48,772	\$-105,689	\$-33,797	\$73,614	\$32,192	\$34,841	\$46,098



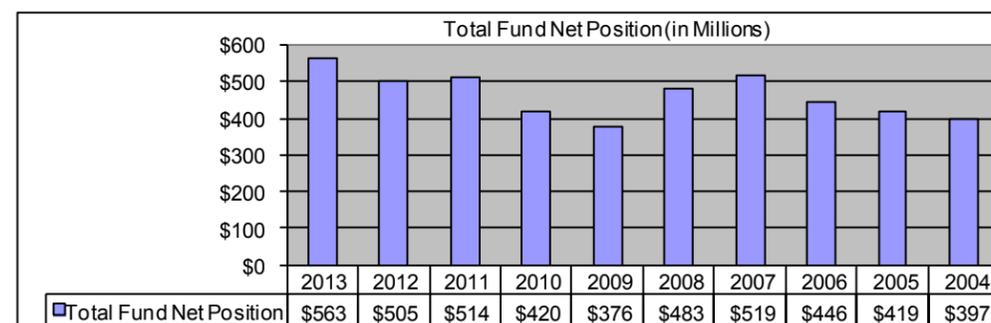
Deductions for the current fiscal year totaled \$56.9 an increase of 7.6% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree pay-roll, which grew approximately 8.9% or \$4.4 million.

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

Fiscal years ending 6/30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Benefits Paid	\$54,258	\$49,840	\$45,022	\$40,929	\$36,479	\$33,394	\$29,578	\$26,264	\$24,070	\$21,499
Refunds of contributions	\$1,082	\$1,052	\$767	\$673	\$761	\$653	\$704	\$602	\$409	\$349
Administrative Expense	\$1,496	\$1,180	\$1,189	\$1,171	\$1,005	\$1,030	\$1,015	\$649	\$602	\$830
Actuarial Expense	\$71	\$63	\$138	\$67	\$62	\$54	\$41	\$48	\$62	-
401(h) Distribution to County	-	\$733	\$650	\$850	\$850	\$850	\$850	\$850	\$850	\$1,759

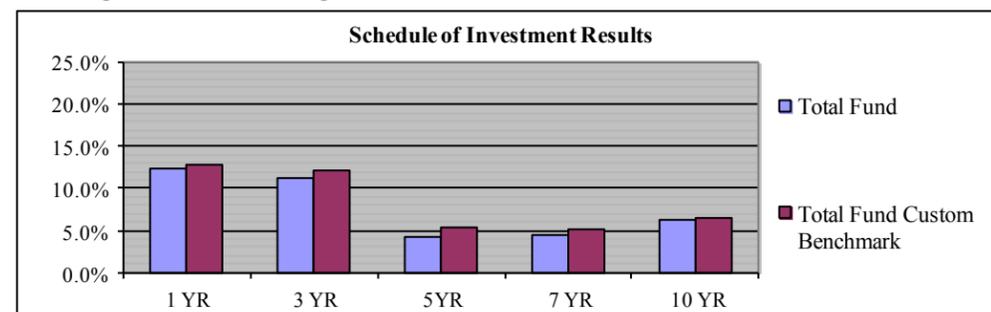


NET POSITION RESTRICTED FOR PENSIONS



INVESTMENTS

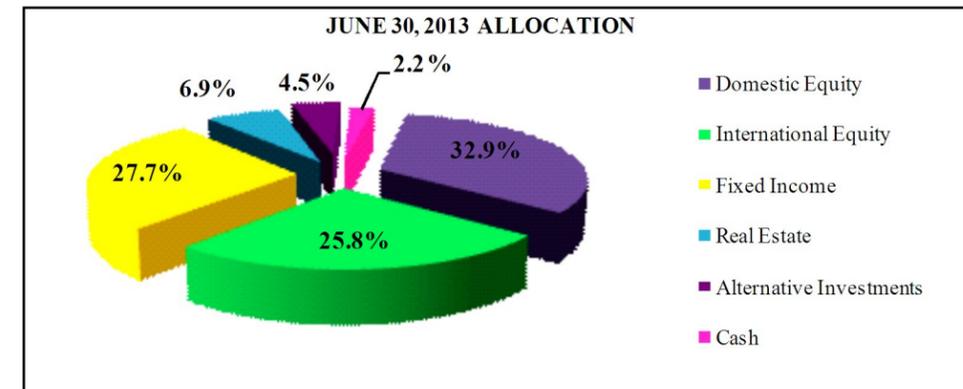
The MCERA Investment Policy defines the principal duties of the Board, MCERA's custodian bank, and MCERA's investment managers. For the fiscal year ending June 30, 2013 MCERA's total fund return was 12.4%. Which underperformed MCERA's policy benchmark of 12.9% by 50 basis points, but above the plan's actuarial rate of 7.75%



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 below has produced a well balanced and diversified portfolio.

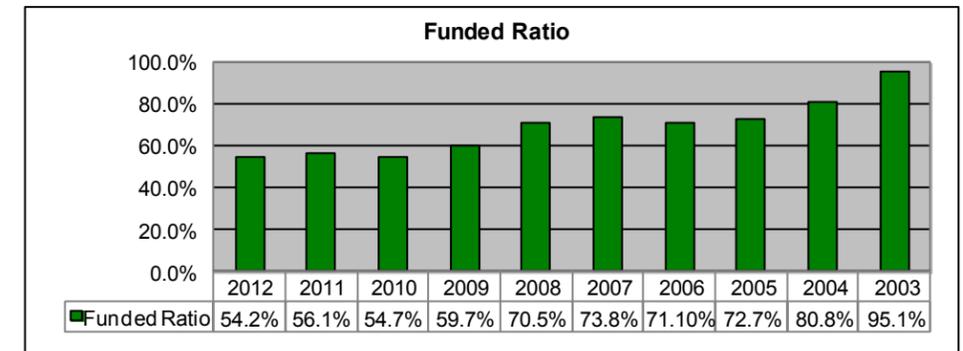
Actual Asset Allocation



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, 2012 found the retirement system's actuarial funding status to be 54.2%. 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
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
2009	2,190	1,713	\$21,132

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.