Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2011

MCERA

Issued By
Maria L. Arevalo, Plan Administrator

Gale Garcia, RPA, Fiscal Supervisor
and
David Liu, Accountant

Merced County Employees' Retirement Association
A Pension Trust Fund of the County of Merced, California
3199 M Street
Merced, California 95348

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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American Goldfinch

Maria L. Arevalo
Plan Administrator

LETTER OF TRANSMITTAL

October 18, 2012

Dear Board Members:

As the Administrator of the Merced County Employees' Retirement Association (MCERA or the System), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2012 and 2011. 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 62nd year of operation.

MCERA's Mission Statement and Core Values

MCERA is committed to providing quality services and managing MCERA's assets in a prudent manner. In carrying out the policies and objectives, as set by the Board, the Board and MCERA staff will:

- Discharge their duties in accordance with fiduciary principles.
- Take responsibility for cost effective operations and minimize employer contributions.
- Display competency, courtesy and respect.
- Continue professional growth through education and training.
- Plan strategically for the future.

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, Milliman, 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, EFI Actuaries, along with a summary of actuarial assumptions and funding methods, and actuarial statistics.

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

MCERA and its Services

The Merced County Employees' Retirement Association is a public employee retirement system established by the County of Merced on July 1, 1950. MCERA is administered by the Board of Retirement to provide retirement, disability, death, and survivor benefits for eligible employees of the County of Merced, Superior Court of California for the County of Merced, Merced Cemetery District, the Transit Joint Powers Authority and the Merced County Regional Waste Management Authority for Merced County pursuant to the California Constitution, the County Employees' Retirement Law of 1937, Government Code Sections 31450 et. seq. (the 1937 Act), and the by-laws, policies and procedures adopted by the MCERA Board. The County of Merced Board of Supervisors 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, 2012 and 2011 is presented in Management's Discussion and Analysis (MD&A), which is located in the Financial Section of this CAFR. Together, the MD&A and this Letter of Transmittal provide an expanded overview of MCERA's financial activities for the years.

The audit of MCERA's financial statements has been performed by an independent auditor, Macias Gini & O'Connell LLP, who has attested that the financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. MCERA's management is responsible for establishing and maintaining the internal control structure designed to ensure that MCERA's assets are protected from loss, theft or misuse. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

As of June 30, 2012, MCERA's net assets held in trust totaled approximately $505.1 million reflecting a decrease of approximately $9.2 million (approximately 1.8%) in the net assets held in trust at the end of the previous fiscal year. This was primarily attributable to an increase in retiree payroll, decrease in investment income, and the depreciation 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 status and obtaining optimum investment returns consistent with the assumption of prudent 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 2010. As a result of the study, several economic and non economic assumptions were changed. The most recent actuarial valuation as of June 30, 2011, found the system's actuarial funding status (the ratio of actuarial assets to actuarial liabilities) to be 56.1%. This increase in the funding ratio (up from 54.7% as of June 30, 2010) was primarily due to MCERA's increase in actuarial value of assets and decrease in unfunded actuarial accrued liabilities. Also affecting the funded ratio was the amount of deferred losses which exceeded deferred gains by $12 million using MCERA's smoothing methodology, and the new assumption changes as of June 30, 2011.

Investments

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

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls.

The Investment Policy also defines the principal fiscal duties of the Board, MCERA's custodian bank and MCERA's investment managers.

The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. A summary of the asset allocation plan can be found in the Investment Section of this CAFR.

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

For the fiscal year ending June 30, 2012, MCERA's investment return was a negative 1.0% and the annualized rate of return over the last three and five years was a positive 11.5% and 0.5%, respectively.

Service Efforts and Accomplishments

- Conducted an emerging market strategy analysis and after evaluation of search finalists, MCERA hired Wells Capital Investment Management to manage an emerging market strategy.
- Conducted an additional review of private equity commitments and approved funding for Invesco private equity Fund VI.
- Approved and adopted updates to the MCERA Investment Objectives and Policy Statement to reflect additions of mid cap and emerging market strategies to MCERA portfolio.
- Conducted on site due diligence meeting with AXA High Yield Management, Adams Street Partners, EII and UBS Global (ex-US) Management.
- Approved and adopted a Statement of Actuarial Funding Policy to improve the Plan's funded status and reduce employer contribution volatility.
- Approved and adopted new disability regulations related to the authority to grant an applicant a good cause formal hearing.
- Approved and adopted amended MCERA Board By-Laws related to contribution redeposit, service credit purchases and benefit terms.
- Adopted and implemented a COLA of 3% effective April 1, 2012 for Tier 1 members.
- For the eighth consecutive year, MCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MCERA's 2010-2011 Comprehensive Annual Financial Report.

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, 2011. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.

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

Acknowledgements

The compilation of this report reflects the dedicated efforts of MCERA staff and in particular, MCERA's fiscal supervisor, Gale Garcia and accountant, David Liu. 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,

Maria L. Arevalo
Plan Administrator

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement at June 30, 2012

Ronald Kinchloe
Elected by Retired Members
Term Expires 12-31-14

Karen Rodriguez
Elected by General Members
Term Expires 06-30-13

Michael Rhodes
Elected by General Members
Term Expires 06-30-15

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

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

Karen Adams
County Treasurer
Ex-officio Member

Deidre Kelsey
Appointed by and Member of the Board of Supervisors
Term Expires 6-30-13

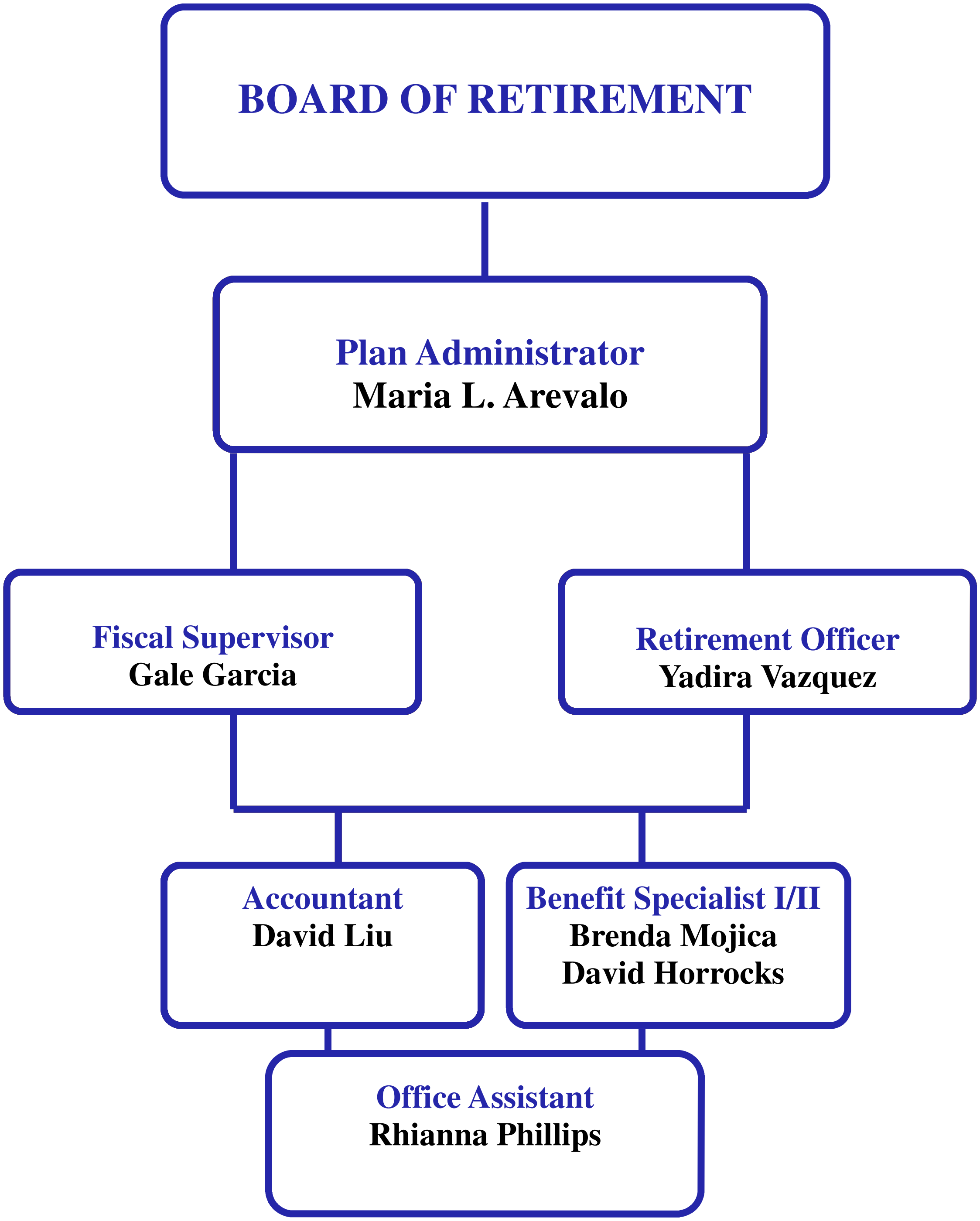
David Ness, Chair
Appointed by the Board of Supervisors
Term Expires 06-30-15

James Pacheco
Elected by Safety Members
Term Expires 12-31-14

Mary McWatters, Alternate
Elected by Safety Members
Term Expires 12-31-14

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Administrative Organization Chart at June 30, 2012



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants at June 30, 2012

CONSULTING SERVICES

INVESTMENT CONSULTANT
Milliman, Inc., William Cottle

ACTUARY
EFI Actuaries
Graham A. Schmidt
Robert T. McCory

AUDITOR
Macias Gini & O'Connell LLP

CUSTODIAN
BNY Mellon Asset Servicing

DATA PROCESSING
County Information
Management Systems

LEGAL COUNSEL
County Counsel of Merced County
Mason, Robbins, Gnass & Browning
Cohen Milstein Sellers & Toll PLLC
Bernstein Litowitz Berger & Grossmann LLP
Hanson Bridget LLP

MEDICAL ADVISOR
Dr. Charles Fracchia

INVESTMENT SERVICES

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

REAL ESTATE
UBS Global (EX US) Growth Asset Management
European Investors

DOMESTIC EQUITY
Earnest Partners, LLC
Mellon Capital Management
WHV

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

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

COMMISSION RECAPTURE BROKERS
ConvergEx Group
Capital Institutional Services, Inc.

Financial Section

Steller's Jay

MGO Certified Public Accountants.

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

Walnut Creek

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the Merced County Employees' Retirement Association (the Association), as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Merced County Employees' Retirement Association as of June 30, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2011, the Association's independent actuaries determined that, at June 30, 2011, the actuarial accrued obligation exceeded the actuarial value of its assets by $410 million. The most recent actuarial value of assets as of June 30, 2011 does not reflect all deferred investment losses that will be recognized in the future.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012, 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 and contracts 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 28 and the schedules of funding progress and employer contributions on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Sacramento, California
October 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Merced County Employees' Retirement Association (MCERA) for the fiscal years ended June 30, 2012 and 2011. 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, MCERA's net assets held in trust for the payment of pension benefits totaled $505.1 million. All plan net assets are available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.

- Over the fiscal year, MCERA's total net assets held in trust for pension benefits decreased by $9.2 million (a decrease of 1.8%). This decrease essentially reflects the net depreciation in fair value of investments and an increase in benefits paid.

- MCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2011, the date of MCERA's last actuarial valuation, MCERA's funded ratio was 56.1%. In general, this indicates that for every one dollar of benefits due, MCERA has approximately $0.56 of assets available for payment.

- Additions to Plan Net Assets decreased by $98,808,584 or 69.4% from $142,448,490 in the prior fiscal year to $43,639,906 in the current fiscal year. This decrease is primarily due to the decrease in net investment income.

- Deductions in Plan Net Assets increased from $47,766,026 in the last fiscal year to $52,868,164 in the current fiscal year (an increase of approximately 10.7%). This increase was primarily due to higher benefits paid and an increase in refunds of contributions.

Overview of the Financial Statements

The following discussion and analysis are intended to help the reader understand the purpose and meaning of the key components within MCERA's Comprehensive Annual Financial Report (CAFR). The CAFR is comprised of the following:

The ***Statement of Plan Net Assets*** is a point in time picture of account balances as of the fiscal year end. It indicates the assets available for future payments to retirees and any current liabilities. The difference between assets and liabilities represent the net assets held in trust for pension benefits. The statement also presents prior year-end balances for comparative purposes.

The ***Statement of Changes in Plan Net Assets***, on the other hand, provides a view of the current year additions to and deductions from the retirement plan that caused the change in the net assets during the fiscal year.

Both financial statements are in compliance with the accounting principles and reporting guidelines set forth in Governmental Accounting Standards Board (GASB) Statement Nos. 25, 28, 34, 40, 44, 50, 51 and 53. These pronouncements require certain disclosures, and also require that state and local governments report using the full accrual method of accounting. MCERA complies with all material requirements of these pronouncements.

The two financial statements report information about MCERA's financial activities. As previously noted, the statements include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. All investment gains or losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments. All capital assets are depreciated over their useful lives.

The information reported in these two financial statements regarding MCERA's net assets held in trust to pay pension benefits is generally considered to be a good measure of MCERA's financial position. Over time, increases or decreases in the system's net assets is one indicator of whether the system's financial health is improving or deteriorating. Other factors however, such as investment market conditions, should also be considered in measuring the retirement system's overall health.

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

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of MCERA's financial position. At the close of the fiscal year, MCERA's assets exceeded its liabilities by $505,132,599. All of the net assets are available to meet MCERA's ongoing obligations to plan participants and their beneficiaries.

Plan net assets as of June 30, 2012 totaled $505.1 million which is $9.2 million or (1.8%) less than the prior year. This result essentially reflects the decrease of investments at fair value of 2.7% or ($13.6 million) and a decrease in current and other assets of 13.5% or ($4.9 million).

Plan net assets as of June 30, 2011 totaled $514.4 million which is $94.7 million or 22.6% more than the prior year. This result essentially reflects the increase of investments at fair value of 23.3% or $93.9 million and a decrease in total liabilities of 12.1% or $2.7 million.

The fiscal year began with a significant decline in the equity markets, both domestic and international. This sharp decline was largely driven by the concerns related to Euro zone solvency and the prolonged debates regarding the U.S. budget and debt ceiling. In the first quarter of MCERA's fiscal year, assets declined 4.9% and a since inception return of 10.5% on a cumulative basis. For the quarter ending December 31, 2011, equities rose sharply on strong corporate earnings, improved U.S. economic data and optimism surrounding the Euro debt crisis. MCERA gained back over half of the prior quarter losses and finished with a cumulative return of 6.0%. This surge continued into MCERA's third quarter ending March 31, 2012 when the U.S. market experienced one of its best quarterly returns, increasing MCERA's assets by 7.4%. However, the rebound did not carry over to MCERA's fourth quarter. The global markets spent a good part of MCERA's fourth quarter giving up gains achieved during the second and third quarters as the U.S., other major markets and emerging markets showed signs of slowing economic growth. Although the short term volatility in the market is of concern, MCERA keeps a long-term investment focus when making decisions regarding MCERA's investments.

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

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

MCERA's Net Assets as of June 30, 2011, and 2010

	2011	2010	Increase/ (Decrease) Amount	% Change
Current and other assets	$36,058,421	$38,482,542	($2,424,121)	-6.3%
Investments at fair value	497,192,118	403,258,304	93,933,814	23.3%
Capital assets	901,056	445,889	455,167	102.1%
Total assets	534,151,595	442,186,735	91,964,860	20.8%
Current liabilities	19,790,738	22,508,342	(2,717,604)	-12.1%
Total liabilities	19,790,738	22,508,342	(2,717,604)	-12.1%
Net assets	$514,360,857	$419,678,393	$94,682,464	22.6%

Reserves

MCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. Under GASB Statement 25, investments are stated at fair value instead of at cost, and fair value includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are tracked in a reserve account called the Market Value Fluctuation Reserve. The Market Value Fluctuation Reserve decreased by $31,385,349 in the current fiscal year as a result of the decrease in the financial markets.

MCERA's Reserves as of June 30, 2012, 2011, and 2010

	2012	2011	2010
Active members	$79,568,852	$78,424,916	$70,916,880
Employer advance	(189,538)	36,785,899	19,074,045
Retired members	375,032,417	318,511,664	325,294,825
Interest fluctuation	40,028,825	19,867,082	-
Market value fluctuation	10,692,043	42,077,392	(24,611,312)
Ad-Hoc COLA	-	1,935,766	1,815,958
Contingency	-	16,024,548	25,804,407
Internal Revenue Code (IRC) Section 401(h)	-	733,590	1,383,590
Total reserves at fair value	$505,132,599	$514,360,857	$419,678,393

MCERA's Activities

A downturn in the investment markets resulted in a June 30, 2012 fiscal year decrease of $9.2 million in MCERA's net assets (a decrease of approximately 1.8% from the previous year). The key elements of this decrease is the result of the following changes in plan net assets.

Changes in Net Assets

A. Additions to Plan Net Assets

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 Plan Net Assets for the current fiscal year totaled $43,639,906. Overall, additions for the fiscal year decreased by $98,808,584 from the fiscal year ended June 30, 2011 primarily due to investment fair value losses. In the 2010-2011 fiscal year, additions totaled $142,448,490, which was an increase of $54,675,378 from the total revenue in the 2009-2010 fiscal year primarily due to increases in investment income and higher employer contributions. The Employer's contributions rate increased 6% over the 2010-2011 fiscal year due to the change in actuarial assumptions and experience of the System. The 6% contribution rate change resulted in increased contributions of $3.6 million 9.8%. The Investment section of this report provides a more detailed review of the investment markets and investment performance for the current fiscal year.

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

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

Additions to Plan Net Assets
(For the Years Ended June 30, 2011 and 2010)

	2011	2010	Increase (Decrease) Amount	% Change
Employer contributions	$36,662,122	$29,136,704	$7,525,418	25.8%
Member contributions	9,754,849	9,864,161	(109,312)	-1.1%
Net investment income	96,031,519	48,772,247	47,259,272	96.9%
Total additions	$142,448,490	$87,773,112	$54,675,378	62.3%

B. Deductions from Plan Net Assets

MCERA was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs include recurring benefit payments, as designated by the plan; refunds of contributions to terminated employees; and the cost of administering the retirement system.

Deductions for the current fiscal year totaled $52,868,164 an increase of 10.7% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew 10.7% or $4.8 million. Deductions for the 2010-2011 fiscal year totaled $47,766,026 an increase of 9.3% from the previous year. The increase in expenses for the 2010-2011 fiscal year was attributed primarily to the retiree payroll which grew approximately 10%.

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

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

Deductions from Plan Net Assets

(For the Years Ended June 30, 2011 and 2010)

	2011	2010	Increase (Decrease) Amount	% Change
Benefits paid	$45,022,104	$40,929,109	$4,092,995	10.0%
Refunds of contributions	766,692	673,160	93,532	13.9%
Administrative expense	1,189,030	1,170,605	18,425	1.6%
Actuarial expense	138,200	66,549	71,651	107.7%
401(h) distribution to County	650,000	850,000	(200,000)	-23.5%
Total deductions	$47,766,026	$43,689,423	$4,076,603	9.3%

Changes in Net Assets

(For the Years Ended June 30, 2012 and 2011)

	2012	2011	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$40,262,881	$36,662,122	$3,600,759	9.8%
Members contributions	10,416,301	9,754,849	661,451	6.8%
Net investment (loss)/income	(7,039,276)	96,031,519	(103,070,795)	-107.3%
Total additions	43,639,906	142,448,490	(98,808,584)	-69.4%
Deductions				
Benefits paid	49,839,653	45,022,104	4,817,549	10.7%
Refunds of contributions	1,051,526	766,692	284,834	37.2%
Administrative expense	1,180,083	1,189,030	(8,947)	-0.8%
Actuarial expense	63,312	138,200	(74,888)	-54.2%
401(h) distribution to County	733,590	650,000	83,590	12.9%
Total deductions	52,868,164	47,766,026	5,102,138	10.7%
Change in net assets	(9,228,258)	94,682,464	(103,910,722)	-109.7%
Net asset held in trust at beginning of the year	**$514,360,857**	**$419,678,393**	**$94,682,464**	22.6%
Net assets held in trust at end of year	**$505,132,599**	**$514,360,857**	**($9,228,257)**	-1.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Changes in Net Assets
(For the Years Ended June 30, 2011 and 2010)

	2011	2010	Increase (Decrease) Amount	% Change
Additions				
Employer contributions	$36,662,122	$29,136,704	$7,525,418	25.8%
Members contributions	9,754,849	9,864,161	(109,312)	-1.1%
Net investment income	96,031,519	48,772,246	47,259,273	96.9%
Total additions	142,448,490	87,773,111	54,675,379	62.3%
Deductions				
Benefits paid	45,022,104	40,929,109	4,092,995	10.0%
Refunds of contributions	766,692	673,160	93,532	13.9%
Administrative expense	1,189,030	1,170,605	18,425	1.6%
Actuarial expense	138,200	66,549	71,651	107.7%
401(h) distribution to County	650,000	850,000	(200,000)	-23.5%
Total deductions	47,766,026	43,689,423	4,076,603	9.3%
Change in net assets	94,682,464	44,083,688	50,598,776	114.8%
Net assets held in trust at beginning of the year	**$419,678,393**	**$375,594,705**	**$44,083,688**	11.7%
Net assets held in trust at end of year	**$514,360,857**	**$419,678,393**	**$94,682,464**	**22.6%**

MCERA's Fiduciary Responsibilities

MCERA's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the system's assets must be used exclusively for the benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the Retirement Board, the MCERA membership, taxpayers, investment managers, and creditors with an overview of MCERA's financial condition and to demonstrate accountability for the funds MCERA receives and manages. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to: Merced County Employees' Retirement Association, 3199 M Street, Merced, CA., 95348.

Respectfully submitted,

Maria L. Arevalo
Plan Administrator

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

STATEMENTS OF PLAN NET ASSETS

As of June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and short-term investments:		
Cash invested with Merced County Treasurer	$1,159,932	$1,546,066
Cash invested with BNY Mellon	8,920,447	4,623,140
Other cash and cash equivalents with BNY Mellon	6,960,218	5,963,700
Securities lending collateral	8,147,698	18,145,491
Total cash and short-term investments	25,188,295	30,278,397
Receivables:		
Bond interest	1,401,923	1,478,209
Stock dividends	289,399	246,860
Contributions	2,072,500	1,806,062
Securities sold	2,237,982	2,246,261
Other	16,034	2,632
Total receivables	6,017,838	5,780,024
Investments at fair value:		
U.S government and agency obligations	65,234,069	67,859,377
Domestic fixed income	81,128,495	72,878,775
Common stocks (domestic)	60,514,754	71,856,011
Common stocks (index funds)	83,161,093	91,767,260
Common stocks (international)	130,298,562	131,716,069
Real estate	36,004,799	34,114,016
Alternative investments	27,276,452	27,000,610
Total investments	483,618,224	497,192,118
Prepaid Expense	2,614	-
Capital assets: Net of accumulated depreciation of $70,509 and $69,364 respectively	1,242,758	901,056
Total assets	516,069,729	534,151,595
LIABILITIES		
Accounts payable	498,795	459,780
Securities lending obligation	8,147,698	18,145,491
Securities purchased	2,257,264	1,152,094
Unclaimed contributions	33,373	33,373
Total liabilities	10,937,130	19,790,738
Net assets held in trust for pension benefits	$505,132,599	$514,360,857

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Years Ended June 30, 2012 and 2011

	2012	2011
ADDITIONS		
Contributions:		
Employer	$40,262,881	$36,662,122
Plan members	10,416,301	9,754,849
Total contributions	50,679,182	46,416,971
Investment (Loss)/Income from Investment Activities:		
Net (depreciation)/appreciation in fair value of investments	(16,743,755)	85,841,437
Investment income	11,746,737	12,359,833
Other revenue	15,783	9,035
Less investment expenses	(2,177,833)	(2,233,790)
Net investment (loss)/income	(7,159,068)	95,976,515
Securities Lending Activities:		
Securities lending income	30,172	62,410
Securities lending (expenses)/rebates	89,620	(7,406)
Net securities lending income	119,792	55,004
Total net investment (loss)/income	(7,039,276)	96,031,519
Total additions	43,639,906	142,448,490
DEDUCTIONS		
Benefits paid	49,839,653	45,022,104
Refunds of contributions	1,051,526	766,692
Administrative expense	1,180,083	1,189,030
Actuarial expense	63,312	138,200
401(h) distribution to County	733,590	650,000
Total deductions	52,868,164	47,766,026
Net (decrease)/increase	(9,228,258)	94,682,464
Net assets held in trust for pension benefits at beginning of year	514,360,857	419,678,393
Net assets held in trust for pension benefits at end of year	$505,132,599	$514,360,857

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012 and 2011

1. PLAN DESCRIPTION

A. General Information

The Merced County Employees' Retirement Association (MCERA or the System) was established July 1, 1950, under and subject to the legislative authority of the State of California as enacted and amended in the County Employees Retirement Act of 1937 (the "1937 Act"). The retirement system was voter approved by a greater than 2/3 majority of the electorate of Merced County (The County). The System was integrated with Social Security on January 1, 1956. Members of the System at that time had a one–time option to convert to the new System or remain in the previous System. MCERA administers a cost sharing, multiple-employer defined benefit pension plan (the Plan). MCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

The management of the retirement system is vested in a Board of Retirement that consists of nine members and two alternates:

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

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

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

B. Membership Structure

(1) *General*

Plan members are classified as either General or Safety members. Membership becomes effective on the first day of service. Members include all permanent employees appointed to permanent positions or permanent part-time positions within the Merced County, Superior Court, Transit Joint Powers Authority, Regional Waste Management Authority and the Merced Cemetery District. Newly hired persons age 60 and over and elected officials may waive membership in the retirement system.

(2) *Multi-Tier Benefits*

All employees hired prior to June 13, 1994, and all executive "A" Level management (i.e., appointed and elected unrepresented managers per Amendment to County Board of Supervisors Resolution 94-89, effective July 1, 2000) are members of Tier I. The Tier I retirement benefit is based on the highest one year compensation. The minimum age to retire is 50 or any age with 30 years of service credit (20 years for Safety). General and Safety Tier I members are eligible for post-retirement cost of living adjustments.

The County Board of Supervisors adopted a new retirement tier (Tier II) for both General and Probation Safety members hired after June 13, 1994 and all other Safety members hired after July 1, 1998. Benefits for members under Tier II are based on 3 years final average salary and are not eligible for post-retirement cost of living adjustments. The minimum age to retire is 55 for General members or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit.

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

	General		Safety		
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total**
Vested	216	993	50	168	1,427
Non-vested	5	381	1	87	474
INACTIVE MEMBERS					
Defered vested	92	91	5	10	198
Deferred non-vested	5	85	0	12	102
Reciprocity	77	131	23	36	267
Unclaimed members	6	17	0	0	23
Total active and inactive members	401	1,698	79	313	2,491
RETIRED MEMBERS					
Service retirements	1,256	134	176	4	1,570
Beneficiaries	139	5	23	0	167
Service connnected disability	62	7	81	11	161
Non-service connected disability	59	11	5	0	75
Survivors	16	4	4	1	25
Total retired members	1,532	161	289	16	1,998

The structure of the membership on June 30, 2011 was as follows:

	General		Safety		
ACTIVE MEMBERS	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total**
Vested	294	939	59	140	1,432
Non-vested	8	422	1	122	553
INACTIVE MEMBERS					
Deferred vested	104	84	7	9	204
Deferred non-vested	5	93	-	15	113
Reciprocity	81	123	24	36	264
Unclaimed members	6	17	-	-	23
Total active and inactive members	498	1,678	91	322	2,589
RETIRED MEMBERS					
Service retirements	1,197	96	168	2	1,463
Beneficiaries	133	5	24	-	162
Service connnected disability	62	5	81	9	157
Non-service connected disability	60	12	4	-	76
Survivors	15	5	4	1	25
Total retired members	1,467	123	281	12	1,883

C. Benefit Provisions

(1) *Service Retirement Benefit*

Members with ten years of service and who have attained the minimum age of 50 (age 55 for General Tier II) 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 a lifetime monthly retirement benefits. Members who are at least 70 years of age are eligible to retire, regardless of years of service. The service retirement benefit is a percentage of monthly final average salary per year of service, depending on age at retirement. 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. The actual benefit paid will also be affected by the benefit payment option selected by the member.

The County Board of Supervisors adopted Government Code Section 31676.17 of the County Employees Retirement Law of 1937 for all County General members, Tier I and Tier II, except County Cemetery District members on March 15, 2005, Government Code Section 31664.1 for all Safety members, Tier I and Tier II, on July 1, 2005 and Government Code Section 31676.17 for Superior Court of California, County of Merced members on November 4, 2005. The enhanced benefits do not apply to any member who was deferred or in inactive reciprocity status prior to the dates of adoption.

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

	Tier I		Tier II	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	2.00%	3.00%	-	3.00%
55	2.50%	3.00%	2.50%	3.00%
60+	3.00%	3.00%	3.00%	3.00%

Percentage of Final Average Salary for Each Year of Service (Rounded) for the Merced County Cemetery District, Deferred, and Inactive Reciprocal Members Prior to Enhanced Benefit Adoption Dates.

	Tier I		Tier II	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	1.24%	2.00%	-	2.00%
55	1.67%	2.62%	1.49%	2.62%
60	2.18%	2.62%	1.92%	2.62%
65+	2.61%	2.62%	2.43%	2.62%

(2) ***Retirement Options***

Unmodified

Under the current "Fixed Formula" retirement, a member may elect the "unmodified" allowance, which provides the maximum allowance to the member for life, with a continuance of 60% of the allowance to the spouse or registered domestic partner if the spouse or registered domestic partner is designated as beneficiary. No allowance, however, shall be paid to a surviving spouse or domestic partner unless he or she is married to the member or has been registered as a domestic partner at least one year prior to the date of retirement. In the event of the death of the retiree, spouse or domestic partner, any balance of the retiree's contributions, less retirement allowances received, is payable to an alternate beneficiary.

Option No. 1

The member may elect to receive a slightly reduced monthly retirement allowance, payable throughout their life, with the provision that upon death, their accumulated contributions less the actual annuity payments received by the retiree, will be paid to a designated beneficiary. Under this option, beneficiaries may be changed after retirement.

Option No. 2

The member receives a considerably reduced monthly retirement allowance, with the provision that 100% of the retiree's benefit will continue to be paid after the member's death to a beneficiary named at the time of retirement. All payments stop at the death of both annuitants.

Option No. 3

A reduced monthly retirement allowance is paid to the member with 50% of the member's benefit continuing to the beneficiary after the member's death. As in Option No. 2, all payments stop at the death of both annuitants.

Option No. 4

The member receives a reduced monthly retirement allowance for life. The reduction depends on the member's age and the age of the member's beneficiary (ies). This is the only option that allows for multiple beneficiaries. A beneficiary does not have to be a spouse or domestic partner, but must have an insurable interest in the member's life. This option also allows the member to assign the percent of continuance to each beneficiary. This option and any estimates for this option are calculated by the MCERA's actuary and the cost is paid by the member.

(3) *Cost of Living Adjustment*

Annual cost-of-living adjustments (COLAs) to retirement allowances may be granted by the Retirement Board in accordance with governing law. The current maximum increase in a retirement allowance is 3% per year. Any increase is based on the change in the Bureau of Labor Statistics' Consumer Price Index (CPI) for All Urban Consumers for the calendar year prior to the April 1 effective date of the COLA. The amount of any actual CPI above the 3% maximum is accumulated. Accumulated COLAs may be used in future years, at the Retirement Board's discretion, when the cost-of-living change is less than the maximum 3%. Tier II members are not eligible for any cost-of-living increases in their monthly retirement allowances.

(4) *Disability Benefit*

Members with five years of service, regardless of age, are eligible for non-service connected disability benefits. Member benefits are 1.5% (1.8% for Safety members) of final average salary for each year of service. If this benefit does not equal 1/3 of final average salary, the benefit is increased by the above percentage of final average salary for the years that would have been credited had the member worked to age 65 (age 55 for Safety members). The total benefit cannot exceed 1/3 of the final average salary.

If the disability is service connected, the member may retire regardless of length of service, and the benefit is 50% of final average salary, unless the member is also eligible for a service retirement, in which case the member receives the greater of the two amounts.

(5) *Death Benefit Before Retirement*

In addition to the return of the member's contributions plus interest, MCERA provides a basic death benefit payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the System, based on the final year's average salary, but not to exceed six months salary. Depending on length of service, a monthly allowance could be selected by the surviving spouse to be paid for the rest of his or her life as an alternate benefit.

If a member dies while eligible for service retirement or non-service connected disability, the spouse may receive 60% of the allowance that the member would have received for retirement on the day of his or her death in lieu of the basic death benefit. If the member was below the qualifying retirement age at the time of death, the surviving spouse may elect to leave the member's accumulated contributions on deposit until such time as the member would have attained the qualifying age had he or she lived, at which time the spouse may exercise the option above. Unmarried minor children of the deceased member may continue to receive this allowance until marriage or attaining age 18 (21 if full-time student in an accredited school), upon the death of the surviving spouse or in place of the spouse if he or she does not survive the death of the member.

If a member dies as a result of service-connected injury or disease arising out of the course of his or her employment, his or her surviving spouse may elect, in lieu of the basic death benefit, to receive a monthly allowance of one-half of the member's final compensation.

Unmarried minor children of the member may receive the same monthly allowance prior to their marriage or attaining age 18 (21 if a full-time student in an accredited school) if there is no surviving spouse or upon the death of the spouse.

(6) *Death Benefit After Retirement*

Once a member dies after retirement, a lump sum amount of $3,000 (Government Code Section 31789.3 adopted May 2, 2006) is paid to the beneficiary or estate; however, if the member is a reciprocal system member, this benefit is payable only to active members of Merced County at the time of retirement.

If the retirement was for service-connected disability, 100% of the amount the member was receiving at the time of death is continued to the surviving spouse for life.

If the retirement was for other than service-connected disability, there are several options available to the member.

(7) Terminated Members

A member leaving covered employment after completing five years of credited service becomes eligible for a deferred retirement allowance, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated contributions. A member must elect deferred status within 180 days after termination. Members leaving employment with less than five years of service are not eligible to receive a retirement benefit. Non-vested members (less than five years of service) may leave their contributions on deposit and continue to be credited interest or they can choose to withdraw their contributions. County-paid employee contributions under various Memoranda of Understanding (salary negotiations) are not refundable. A non-vested member that enters a reciprocal retirement system after terminating employment with MCERA may wish to arrange for reciprocal benefits. Under a reciprocal arrangement the member funds are kept on deposit with MCERA.

(8) Vesting

Active members of the System receive a 100% vested interest in the Plan after five years of service, but cannot receive a service retirement benefit until they have been a member of the System for ten years and obtained age fifty for Tier I General members, Tier I and Tier II Safety members, and age fifty-five for Tier II General members. Safety members may receive a service retirement benefit after being a member of the system for 20 years regardless of age.

(9) *Contribution Rates*

The County Employees Retirement Law of 1937 establishes the basic obligations for employer and member contributions to the retirement system. The actual employer and members 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 the County, Merced Cemetery District, Transit Joint Powers Authority, Superior Court, Merced County Regional Waste Management Authority and earnings from investments.

A. Member

MCERA members are required to contribute a percentage of their annual covered salary. The rates are set to provide a retirement amount that is equal to a fractional part of the highest year (s) salary, based on membership and tier. Government Code Section 31621.8 set forth the basis for the determination of the normal rates of contribution for General Tier 1 and Tier II members. Government Code Section 31639.5 sets forth the basis for the normal rates of contribution for Safety Tier 1 and Tier II. The law further provides that the contribution rates of members will be based on the age nearest birthday at the time of entrance into the System. Section 31453 states that no adjustment will be included in the rates of contribution for time prior to the effective date of any revisions. Member basic contributions are based on entry age into the System and the following actuarial assumptions:

1. Actuarial investment return of 7.75%
2. The cost of living, or inflation rate, as measured by the Consumer Price Index (CPI) will increase at the rate of 3.75% per year
3. COLAs at the rate of 3.0% are assumed for Tier 1 members
4. 3.75% Base salary increases
5. Active, retired and disabled member mortality rates.

For members integrated with Social Security, the contributions are reduced by 1/3 of such contribution payable with respect to the first $350 of monthly salary.

B. County

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

The employers' annual required contribution (ARC) is the actuarially determined level amount that is required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) attributed to past service cost over a period not to exceed thirty years.

In order to determine the ARC, the actuary must first adopt assumptions with respect to certain factors such as:

Non-economic assumptions

- The probabilities of members separating from active service on account of:
    1. non vested and vested withdrawal
    2. retirement for service
    3. mortality
    4. service and non service connected disability
- The mortality rates to be experienced among retired persons

Economic assumptions

- Rate of future investment earnings
    1. inflation rate
    2. real rate of return
- The relative increases in a member's salary from the date of the valuation to the date of separation from active service
    1. merit increases
    2. longevity increases
    3. COLA

MCERA's actuarial assumptions as of June 30, 2011 and 2010:

	2011	2010
Inflation Rate	3.75%	3.75%
Investment Return Assumption Rate	7.75%	7.75%
Projected Salary Increases	3.75%	3.75%
Merit and Longevity Increase	Service-based	Service-based
Annual Required Contribution (ARC)	$36.7 million	$29.1 million
Percentage Contributed	100%	100%

Employer contribution rates vary from year to year and depend on the level of benefits established; the rate of return on investments, and the cost of administering benefits. MCERA's Schedule of Employer Contributions for the pension benefit plan is presented in the Required Supplementary Information following the basic notes to the financial statements. The 2011 assumption changes will effect the employer rates for the 2012/2013 fiscal year.

(10) *401(h) Distribution*

The County currently provides and administers a health care plan for both active members and eligible retirees. Since 1983, MCERA had provided financial support toward the cost of retiree health insurance through a transfer of funds from MCERA's Medical Trust reserve.

In the 2002-2003 fiscal year, MCERA adopted an Internal Revenue Code (IRC) Section 401(h) Plan to serve as a vehicle for providing this financial support. Funding financial support through a 401(h) reserve allowed the County to direct MCERA to use excess earnings from the Medical Trust reserve to replace County contributions to the 401(h) reserve. The Medical Trust reserve had been funded with excess earnings from years prior to 2002. The decision to provide financial support, or the level of such support, is in the sole discretion of the Retirement Board, and among other things, was contingent on the availability of surplus excess investment earnings to offset any employer contributions used to provide funding for the IRC Section 401(h) Plan. In May of 2006, the Retirement Board directed that the balance of funds in the Medical Trust reserve be used to replace the County's final contribution to the 401(h) and the Medical Trust reserve was then terminated. MCERA no longer funds or maintains the Medical Insurance Trust. The balance in the 401(h) reserve is $0 and $733,590 as of June 30, 2012 and 2011 respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

While the System is governed by the Board of Retirement and is considered an independent entity, it is a component unit of the County in accordance with GASB Statement No. 14 of the Governmental Accounting Standards Board.

B. Basis of Accounting

MCERA's financial statements are prepared on an accrual basis of accounting which recognizes income when earned and expenses when the obligation is incurred. Employer and employee contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments consists of realized and unrealized gains and losses on those investments.

C. Investment Expenses

Investment expenses include fees paid for investment consulting services, fund due diligence services, securities custodian services, and rebate and bank fees incurred during the reporting period. Fees paid are charged against the System's investment earnings pursuant to Sections

D. General Administrative Expense

MCERA's administrative costs for FY 2011/2012 are calculated pursuant to Government Code Section 31580.2, (a) which provides that the administrative expense 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. (b) Expenditures for computer software, hardware, and computer technology consulting services in support of the computer products shall not be considered a cost of administration of the system. The administrative limit per this government code section allows MCERA a maximum expense amount of $2,000,000. MCERA's administrative costs for the fiscal year ending June 30, 2012 and 2011 are $1,180,083 and $1,189,030, respectively. The costs of administering the plan are financed by investment income.

E. Required Supplementary Information

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

F. Administrative Budget and Professional Service Budget

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

G. Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Capital assets with an initial cost of more than $2,500 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Equipment and furniture are depreciated over eight years. MCERA's pension administration system (intangible assets) will be amortized over ten years.

H. Methods Used to Value Investments

Investments are reported at fair value in the accompanying Statement of Plan Net Assets. Cash deposited in the Merced County Treasurer's pool is stated at fair value. The value of the System's pool shares is determined on an amortized cost basis, which is not materially different from fair value.

The fair value of fixed income and equity investments are based upon the closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no reported sales and for unlisted securities, fair value is based upon the last reported sales price.

The real estate investment holdings are determined by the partners using industry standard appraisal techniques and assumptions, which are updated annually, to determine the fair value of these holdings. The appraisals incorporate subjective judgments and consider assumptions including capitalization rates, discount rates, cash flows, and other factors that are not observable in the market.

The fair value of alternative investments is based on the partners' most recent audited financial statements for the quarter ending March 31 and adjusted for cash flow activities through June 30. The majority of MCERA's alternative investments or 99.8% are determined by the partnerships using unobservable inputs which reflect the partnerships' own estimates about the assumptions that market participants would use in pricing the investment. The assumptions are based on the best information available in the circumstances, which might include the partnership's own data. The remaining .2% of MCERA's alternative investments are determined by the partnerships based on quoted market prices in active markets.

Management, in consultation with the investment advisor, has determined the reasonableness of the procedures used to calculate fair value for real estate and alternative investments.

I. Securities Transactions and Related Investment Income

Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities. The System presents, in the Statements of Changes in Plan Net Assets, the net appreciation in fair value of investments, which consists of realized and unrealized gains and losses on those investments.

J. Management's Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Implementation of New Accounting Pronouncement

Effective July 1, 2011, MCERA implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB No. 53* for the fiscal year ended June 30, 2012.

GASB Statement No. 64 is intended to improve financial reporting for state and local governments by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or swap counterparty's credit support provider. This statement sets forth criteria that establishes when effective hedging relationship continues and hedge accounting should continue to applied. GASB Statement No. 64 enhances comparability and improves financial reporting. Implementation of this standard did not have any impact on MCERA's financial reporting and disclosure as MCERA did not have any derivative instruments as defined by GASB Statement No. 53.

3. CASH AND INVESTMENTS

A. Investment Stewardship

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

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

B. Cash and Short-Term Investments

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

(1) *County Treasury*

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

Interest on funds in the County investment pool is computed quarterly based on the average daily balance. A deposit in the pooled account approximates fair value. The fair value of the System's cash invested with the County Treasurer totaled $1,159,932 and $1,546,066 at June 30, 2012 and 2011, respectively. Cash and investments included within the County Treasurer's pool is described in the County's Comprehensive Annual Financial Report.

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

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

MCERA's cash, short-term investments and investments stated at fair value as of June 30, 2012 and 2011 are presented as follows:

	Fair Value	
Cash and Short-term Investments	**2012**	**2011**
Cash invested with Merced County Treasury	$1,159,932	$1,546,066
Cash invested with BNY Mellon	8,920,447	4,623,140
Other cash and cash equivalents with BNY Mellon	6,960,218	5,963,700
Securities lending collateral	8,147,698	18,145,491
Total cash and short-term investments	25,188,295	30,278,397
Investments		
U.S. government and agency obligations	65,234,069	67,859,377
Domestic fixed income	81,128,495	72,878,775
Common stocks (domestic)	60,514,754	71,856,011
Common stocks (index funds)	83,161,093	91,767,260
Common stocks (international)	130,298,562	131,716,069
Real estate	36,004,799	34,114,016
Alternative investments	27,276,452	27,000,610
Total investments	483,618,224	497,192,118
Total	$508,806,519	$527,470,515

All participants in the BNY Mellon pool proportionately share earnings and losses. Balances in the pooled accounts approximate fair value. At June 30, 2012 and 2011, short-term investments and pooled fund balances were $15,880,665 and $10,586,840, respectively.

C. Securities Lending Program

State statutes and the Board of Retirement policies permit MCERA to participate in a securities lending program. MCERA's custodian, BNY Mellon and the lending agent Mellon Global Securities Lending administers its securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower) and in turn, MCERA receives collateral.

Collateral received may include cash, letters of credit or securities. The lending agent invests cash collateral received in short-term investment funds, money market funds and other similar investments the custodian may select. If securities or letters of credit are received as collateral, MCERA cannot pledge or sell the securities collateral unless the borrower defaults. The contract with the security lending agent requires them to indemnify MCERA if the borrowers fails to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay MCERA for income distributions by the securities' issuers while the securities are on loan.

The maturities of investments made with collateral do not match the maturities of loaned securities. BNY Mellon continually monitors the traders booking the loans and the reinvestment team using the collateral.

Mellon Global Securities Lending short-term investment pools as of June 30, 2012 and 2011:

Date	Weighted Average Maturity	Average Duration	Mis-Match	Aaa	Aa1	Aa2	Aa3	A1	A2	NR*
				(Par Value Reported in Millions)						
June 30, 2012	3 days	112 days	0 days	$8.6	-	$1.8	$4.1	$29.2	$3.4	$2,682.8
June 30, 2011	32 days	89 days	31 days	$478.1	$80.3	$1,439.7	$1,160.4	$1,201.3	$144.5	$1,881.1

*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 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, 2012 and 2011, 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, 2012 the fair value of securities on loan and the total cash and non-cash collateral received for those securities on loan were $18,085,572 and $18,503,439. MCERA's securities lending cash collateral is invested in pooled funds managed by BNY Mellon Asset Servicing, which is not rated by credit rating agencies. MCERA's income net of expenses from securities lending was $119,792 for the year ended June 30, 2012.

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

As of June 30, 2011 the fair value of securities on loan and the collateral received for those securities on loan were $18,327,120 and $18,819,879. MCERA's net income net of expenses from securities lending was $55,004 for the year ended June 30, 2011.

Security Type	Fair Value of Securities on Loan	Cash Collateral	Non-Cash Collateral
Corporate	$718,499	$735,597	-
Equity	15,832,330	16,264,682	-
Exchange Traded	835,082	856,494	-
U.S. T-Notes	941,200	288,708	$674,389
TIPS	9	9	-
Total	$18,327,120	$18,145,490	$674,389

D. Commission Recapture Policy

In order to minimize the net cost of trading, MCERA encourages its investment managers, on a "best efforts" basis to execute 25% to 35% of total trades annually through brokers who have a commission recapture program. MCERA's policies require investment managers to seek the best price and execution on all trades; this means that commission recapture trades should only be executed when such trades meet this standard. If an investment manager can execute the trade through MCERA's commission recapture brokerage firms while not incurring any incremental commission or market impact costs, then MCERA would like the manager to do so. This program should not interfere with or reduce an investment manager's incentive to reduce trading costs.

E. Alternative Investments

Two components comprise MCERA's alternative investments portfolio: venture capital and special equity partnerships (buy-outs, mezzanine funds, and secondary funds). Unlike public markets, where the investor has the ability to "cash out" of positions at any time, these private market investments are illiquid. Therefore, an investment in this category is a long-term commitment. As of June 30, 2012 and 2011 the fair value of the alternative investment portfolios were $27,276,452 and $27,000,610, respectively. The fair value of these alternative investments are reported based on the most current financial report available which is primarily subject to a one (1) quarter lag adjusted for cash flows.

The balance of the unfunded capital to MCERA's private equity funds as of June 30, 2012 was $14,980,793 and as of June 30, 2011 was $17,114,001. 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 diversification, geographic and economic region, liquidity, vintage year, firm, and time.

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

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

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

Firm risk is the amount of exposure to a private equity general partner. The maximum commitment to private equity is 5-8% of the total fund.

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, 2012 and 2011, MCERA had no investments that were exposed to custodial credit risk.

G. Credit 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, 2012 and 2011, the System had no single issuer that exceeded 5% of plan net assets. 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, 2012 MCERA's workout portfolio has a fair value of $2.3 million. These securities are being liquidated or held for longer time frames by comparing their individual fundamental values against executable market prices. MCERA's High Yield portfolio may allocate up to 20% in CCC rated securities. The County's pool and the short-term investment funds held with fiscal agent are unrated.

The following table presents the Moody's quality credit ratings of fixed income securities at June 30, 2012 and 2011:

Quality	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	NR*	NA**
Percent (%) of Fixed Income as of June 30, 2012	18.72%	3.44%	16.22%	13.85%	3.20%	9.46%	4.80%	.30%	3.09%	26.93%
Percent (%) of Fixed Income as of June 30, 2011	19.08%	5.61%	12.64%	11.43%	3.52%	8.61%	4.49%	.37%	2.61%	31.64%

*NR represents those securities that are not rated.
** NA represents those securities that are not applicable to the rating disclosure requirements.

I. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MCERA's Investment Policy Statement does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, MCERA's bond portfolios are managed duration neutral to their benchmarks, the Barclays U.S. Aggregate Bond Index, and the Merrill Lynch High Yield Master II.

As of June 30, 2012 and 2011 the County's pool has a fair value of $586,486,143 and $623,285,321 respectively and a weighted average maturity of 529 days and 337 days, respectively.

As of June 30, 2012 and 2011 the weighted average maturity of the short-term investment pooled funds with BNY Mellon were 50 days and 48 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, 2012:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	Fair Value 2012	Weight of Fixed Income 2012	Effective Duration (Years) 2012	Fair Value 2012	Weight of Fixed Income 2012	Effective Duration (Years) 2012
U.S. Government agency obligations	$31,479,322	26.26%	3.25	-	-	-
Commercial mortgage backed securities	2,752,563	2.30%	2.92	-	-	-
Asset backed securities	2,278,068	1.90%	1.63	-	-	-
U.S. Treasury and TIPS	33,754,747	28.16%	6.26	-	-	-
Corporate and other credit	48,330,076	40.32%	4.77	$26,507,936	100.00%	3.73
Collateralized mortgage obligations	1,259,852	1.05%	4.06	-	-	-
Total Fair Value	$119,854,628	100.00%		$26,507,936	100.00%	
Portfolio Effective Duration			**4.86**			**3.73**

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, 2011:

	Core Bond Portfolio			High Yield Portfolio		
Investment Type	Fair Value 2011	Weight of Fixed Income 2011	Effective Duration (Years) 2011	Fair Value 2011	Weight of Fixed Income 2011	Effective Duration (Years) 2011
U.S. Government agency obligations	$30,837,703	26.44%	4.07	-	-	-
Commercial mortgage backed securities	4,054,532	3.48%	3.48	-	-	-
Asset backed securities	1,944,830	1.67%	1.85	-	-	-
U.S. Tresury and TIPS	37,021,674	31.74%	6.71	-	-	-
Corporate and other credit	41,155,667	35.28%	4.98	$24,088,732	100.00%	4.26
Collateralized mortgage obligations	1,635,014	1.40%	3.82	-	-	-
Total Fair Value	$116,649,420	100.00%		$24,088,732	100.00%	
Portfolio Effective Duration			**4.80**			**4.26**

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, 2012 and 2011, MCERA did not hold any derivative instruments.

The following table represents securities and dividend receivable held in a foreign currency as of June 30, 2012 and 2011:

Currency	Fair Value (U.S. Dollars) 2012	2011
Euro currency	$6,474,010	$11,842,839
Hong Kong dollar	5,076,462	7,232,307
Japanese yen	5,225,254	5,584,304
Mexico peso	-	534,513
New Turkish lira	1,223,026	1,096,354
Norwegian krone	1,995,021	2,621,122
Singapore dollar	1,884,231	1,304,973
South Korean won	1,469,570	-
Swiss franc	1,116,353	1,068,755
Swedish krona	1,578,025	1,315,309
United Kingdom pound sterling	4,055,599	3,977,007
Total foreign currency	$30,097,551	$36,577,483

K. Derivatives

MCERA's investment policy permits the use of derivative instruments to minimize the exposure of certain of its investments to adverse fluctuations in financial and currency markets and enhance yields. The system does not use derivatives for speculative use or to create leverage. Derivatives permitted by MCERA's investment policy are financial futures (if exchange traded), currency forward contracts and currency options (exchange and OTC traded) and also derivative instruments which include interest rate swaps, options (if exchange traded), caps and floors as they apply to the above stated allowable derivative investments. The investments in futures contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. Also, the investments may be subject to market risk due to a change in the price of the underlying securities. Floating-rate investments are investments with interest payments that float or adjust periodically based upon a predetermined benchmark. While the market value of a floating-rate security is relatively insensitive to changes in interest rates, the income received is highly dependent upon the level of the reference rate over the life of the investment. Total return may be less than anticipated if future interest rate expectations are not met. As with any fixed income investment, there is a risk that the issuer will be unable to meet its payment obligations. MCERA does not have any derivative instruments as defined by GASB Statement No. 53 as of June 30, 2012 and 2011.

4. RESERVES

As required by the County Employees Retirement Law of 1937 and the Board of Retirement's policy, the following reserves for Net Assets Held in Trust for Pension Benefits have been established to account for the members, employers, and retirees' contributions. MCERA maintains the following reserves at June 30, 2012 and 2011.

A. Active Members' Reserves

These reserves represent the cumulative contributions made by active employees. Additions include member contributions and related earnings. Deductions include refunds of member contributions and, upon retirement, the member contributions plus interest credited to their account are transferred from this reserve to the Retired Members' Reserves.

B. Employer Advance Reserves

These reserves represent the cumulative contributions made by the County for future retirement payments to current active members. Additions include contributions from the employer and related earnings; deductions include transfers to the Retired Members' Reserve, and lump sum death benefits. During the fiscal year, the County introduced Voluntary Retirement Plan to active employees which increased the number of new retired member thus increased the transfer of employer advance reserves to retired member reserves.

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 2009	2010	2011	2012	Total
$(48,522,203)	$23,910,891	$66,688,704	$(31,385,349)	$10,692,043

F. Ad-Hoc COLA Reserve

This reserve was established in 1999 as the source of funds for an ad-hoc COLA granted to certain retirees and beneficiaries pursuant to Section 31874.3(b) of the 1937 Act. Eligibility for the COLA was limited to retirees with accumulated uncredited COLAs totaling 25 percentage points or more as of April 1, 1999. As of June 14, 2012, pursuant to the Actuarial Funding Policy adopted by the Board of Retirement, the Ad-Hoc Cola Reserve was eliminated and amounts in the reserve transferred to the Retired Members' Reserve.

G. Contingency Reserve

Prior to the fiscal year ending June 30, 2003, the Interest Fluctuation Reserve was also used as MCERA's contingency reserve. Effective June 30, 2003 the contingency reserve function was carried out through a separate account called the 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 eliminated and all balances was transferred to Interest Fluctuation Reserve. The Contingency Reserve will be funded and excluded from the actuarial value of assets when the Plan's funded ratio is at or above 75%.

H. Internal Revenue Code (IRC) Section 401(h)

In 2003, in accordance with the provisions of the 1937 Act and the Internal Revenue Code (IRC), MCERA established an IRC Section 401(h) Plan which serves as the vehicle for any MCERA support for retiree health insurance costs. By resolution, in May 2006, the Retirement Board provided a final amount of County contributions be directed into the 401(h). Retirees have no vested right to financial support for such costs from the IRC Section 401(h) Plan or otherwise, and the availability of such support is not guaranteed. As of April 4, 2012, all funds in the 401(h) reserve were distributed and the reserve eliminated.

A summary of the various reserve accounts, which comprise net assets available for pension benefits at June 30, 2012 and 2011 is as follows:

	2012	2011
Active Members	$79,568,852	$78,424,916
Employer Advance	(189,538)	36,785,899
Retired Members	375,032,417	318,511,664
Interest Fluctuation	40,028,825	19,867,082
Market Value Fluctuation	10,692,043	42,077,392
Ad-Hoc COLA	-	1,935,766
Contingency	-	16,024,548
IRC Section 401(h)	-	733,590
	$505,132,599	$514,360,857

5. Actuarial Valuation

MCERA engages on an annual basis, an independent actuarial consulting firm, EFI Actuaries, to conduct its annual actuarial valuation. The purpose of the valuation is to:

- examine the financial position of the plan in relation to the benefits already promised.
- review the experience of the System over the past year and identify reasons for changes in costs.
- recommend economic assumptions to be used in computing System liabilities and costs.
- calculate the annual employer and employee contributions required to fund the System in accordance with actuarial principles so that MCERA's benefit obligation can be met.
- project any emerging trends in System costs.
- present items required for disclosure under Statement No. 25 and 50 of the Government Accounting Standards Board (GASB).

Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. MCERA completed its most recent triennial analysis for the period July 1, 2007 to June 30, 2010. As a result of that analysis and information provided by MCERA and the County of Merced, the Board of Retirement approved certain changes to the actuarial assumptions, which were incorporated in the actuarial valuation as of June 30, 2010. MCERA's next triennial analysis will be reflected in the actuarial valuation as of June 30, 2013.

Funded Status as of the Most Recent Actuarial Valuation Date

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2011	$524.0	$933.9	$409.9	56.1%	$111.3	368.2%

A. Disclosure of Information About Actuarial Method and Assumptions

The Governmental Accounting Standards Board Statement No. 50 (GASB 50) requires that the funding progress be shown based on the same funding method that was used to develop the System's contribution requirements, which is the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payrolls to amortize the unfunded actuarial accrued liability (UAAL). The UAAL is the difference between the actuarial accrued liability and the actuarial value of assets. The difference between the UAAL and the expected UAAL is an actuarial gain or loss. As of June 30, 2011 MCERA has $12 million of deferred investment losses not yet recognized in the valuation. MCERA adopted an actuarial value of assets method that recognizes the difference between expected and actual market returns, net of expenses, over a 5-year period and is referred to as smoothing. MCERA Funding Policy extended the amortization period from 17 to 18 years, declining by one year until the minimum period of 10 years is reached.

The required schedule of funding progress immediately following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial balance sheet compares the present value of all future benefits anticipated to be paid for the current membership with the sources of funds to be used to provide these benefits. It illustrates that if recommended contribution levels made in the future prove out over time, current assets plus future employer and member contributions will be adequate to meet future benefit payments for the current membership.

The actuarial methods and assumptions used include techniques to reduce short term volatility in the actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used in the valuation year of June 30, 2011 are summarized in this note to conform to the disclosure requirements for GASB No. 50.

ACTUARIAL VALUATION ASSUMPTIONS

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll closed
Remaining Amortization Period	18 years from June 30, 2011
Asset Valuation Method	Actuarial value: Excess earnings smoothed over five years, 70%/130% corridor around market value
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	3.75%
Assumed Inflation Rate	3.75%
Assumed Post-employment Benefit Increase	For Tier 1, 100% of CPI to 3% annually with banking, assumed to be 2.7% annually

6. Litigation

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

7. Subsequent Event

On August 21, 2012 The Merced County Board of Supervisors adopted a new Tier III to be effective for all county employees hired on or after October 1, 2012.

Benefits for Tier III members are based on 3 years final average salary and are not eligible for post retirement cost of living adjustments. The minimum age to retire for Tier III General members is 55 or any age with 30 years of service credit pursuant to Government Code Section 31676.1 and 31672 .1 The minimum age to retire for Tier III Safety members is 50 or any age with 20 years of service credit.

On September 12, 2012, California Governor Brown signed AB 340 and AB 197, collectively the California Public Employees' Pension Reform Act of 2013, into law. The new law requires that California public retirement systems adopt a lower benefit formula applicable to all new employees effective January 1, 2013. MCERA is in the process of implementing the provisions of the new law.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percent of Covered Payroll (b-a/c)
6/30/06	$ 443,999	$ 624,333	$ 180,334	71.1%	$101,137	178.3%
6/30/07	$ 480,517	$ 652,482	$ 171,965	73.8%	$100,589	171.0%
6/30/08	$ 488,347	$ 692,252	$ 203,905	70.5%	$109,253	186.6%
6/30/09	$ 483,145	$ 809,681	$ 326,536	59.7%	$114,984	284.0%
6/30/10	$ 509,561	$ 930,832	$ 421,271	54.7%	$115,384	365.1%
6/30/11*	$ 523,980	$ 933,917	$ 409,936	56.1%	$111,342	368.2%

Note: This information is compiled from MCERA's actuarial reports prepared by EFI Actuaries.
* The Actuarial Value of Assets and Actuarial Accrued Liability exclude the Ad-hoc COLA and the 401(h) reserve. It's excluded because those assets are specifically designated to be used to pay for something other than the basic benefits of the Plan, which are measured using the accrued liability.

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

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/06	$ 14,750	100%
6/30/07	$ 23,232	100%
6/30/08	$ 23,751	100%
6/30/09	$ 27,883	100%
6/30/10	$ 29,137	100%
6/30/11	$ 36,662	100%

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

1. GASB STATEMENT NO. 25

MCERA applied the parameters established by Governmental Accounting Standards Board (GASB) Statement No. 25 in calculating and presenting the required actuarially determined information in the Schedule of Funding Progress and the Schedule of Employer Contributions.

2. FUNDING STATUS

Viewed in isolation, the dollar amounts of a retirement system's net assets, actuarial accrued liability (AAL) and unfunded actuarial accrued liability (UAAL), as reflected in the Schedule of Funding Progress, can be misleading when assessing the retirement system's funding status. Expressing the plan's net assets as a percentage of the AAL, however, provides one indication of the retirement system's funding status on a going concern basis. Analysis of this percentage (the Funded Ratio) over time will indicate whether the retirement system is becoming financially stronger or weaker. Generally, the higher the Funded Ratio, the stronger the retirement system.

Trends in the UAAL and the annual covered payroll are both affected by inflation. Expressing the UAAL as a percentage of covered payroll adjusted for the effects of inflation will also aid analysis of the retirement system's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

3. CHANGE IN PLAN COST FROM JUNE 30, 2010 TO JUNE 30, 2011

- Demographic experience caused an increase in the contribution rate.
- Pay increases were lower than expected.
- New members entered the Plan.
- Updated actuarial software and resulting funding calculations to reflect coming GASB requirements. There was no change to the Present Value of Benefits, but the Accrued Liability was lowered, while the Normal Cost increased.
- The one year contribution rate delay and shortfall in the fiscal year 2011 contribution caused a cost increase.
- Changes in the payroll used to amortize the unfunded liability increased the cost as a percentage of payroll.
- Growth in the valuation assets produced an actuarial loss.
- A temporary 5% pay reduction for most members groups was put in place effective January 1, 2012 through December 31, 2013.
- The amortization policy for the Plan's unfunded liability was changed.

The net impact of these changes to the pay increase assumption and funding policy decreased the current year employer contribution by 0.21% of payroll, or $1.9 million. This decrease becomes effective for the fiscal year 2012/2013.

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012	2011
Personnel Services:		
Salaries, wages and benefits	$835,326	$783,268
Office Expenses:		
Communications	3,267	4,103
Requested maintenance/ utilities/ cost allocation	86,791	68,814
Office supplies	4,140	5,411
Postage	2,133	2,607
Total Office Expense	96,331	80,935
Professional Services:		
Audit fees	47,145	47,145
Attorney fees	22,144	73,395
Disability stenographic fees/ investigations	938	350
Strategic Project Consulting	484	2,730
Publications/ legal notices	564	900
Disability medical reviews/ services	17,826	34,347
Merced Dept. of Information Technology	58,417	65,160
Total Professional Services	147,518	224,027
Miscellaneous:		
Memberships	6,140	5,630
Fiduciary meeting	8,600	8,900
Fiduciary and staff travel/ training	35,084	36,363
Insurance	49,939	48,761
Depreciation expense	1,145	1,146
Total Miscellaneous Expenses	100,908	100,800
Total Administrative Expenses	$1,180,083	$1,189,030

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF INVESTMENT EXPENSES
For the Years Ended June 30, 2012 and 2011

INVESTMENT MANAGERS' FEES	2012	2011
Domestic Equities		
Delta Asset Management	$ -	$96,038
Earnest Partners, LLC	119,620	132,062
Mellon Capital Management	36,762	29,661
Wentworth, Hauser & Violich	270,038	301,217
Total Domestic Equities	426,420	558,978
International Equities		
UBS Global Small Cap	182,537	188,783
Earnest Partners, LLC	412,547	427,179
Wells Capital Management	45,454	-
Total International Equities	640,538	615,962
Alternative Investments		
Invesco Private Capital	86,514	90,000
Real Estate		
UBS Global-Trumbull Property Mgmt	303,221	260,786
Fixed Income		
AXA Investment Managers	105,210	98,858
Barrow, Hanley, Mewhinney & Strauss	286,983	279,601
Total Fixed Income	392,193	378,459
Total Investment Mangers' Fees	1,848,886	1,904,185
OTHER INVESTMENT EXPENSES		
Global Custodian		
BNY Mellon Asset Servicing	157,607	150,259
Investment Consultant		
Milliman, Inc.	171,340	163,552
Miscellaneous Investment Expense	-	15,794
Total Other Investment Expenses	328,947	329,605
Total Management Fees and Other Investment Expenses	2,177,833	2,233,790
Securities Lending Activity		
Management fee	54,022	26,260
Rebate fee	(143,642)	(18,854)
Total Securtiy Lending Activity Fees	(89,620)	7,406
Total Fees and Other Investment Expenses	$2,088,213	$2,241,196

OTHER SUPPLEMENTAL SCHEDULES
SCHEDULES OF PAYMENTS TO CONSULTANTS
For the Years Ended June 30, 2012 and 2011

INVESTMENT PROFESSIONAL SERVICE FEES	2012	2011
Actuarial services - EFI Actuaries	$63,312	$138,200
Investment consultant - Milliman, Inc.	171,340	163,552
Custodial services - BNY Mellon Asset Servicing	157,607	150,259
Total investment professional service fees	$392,259	$452,011

ADMINISTRATIVE PROFESSIONAL SERVICE FEES		
Audit services - Macias Gini & O'Connell, LLP	$47,145	$47,145
Legal services	22,144	73,395
Disability stenographic fees/investigations	938	350
Disability medical reviews/services	17,826	34,347
Merced County Department of Information Systems	58,417	65,160
Other specialized services	1,048	3,630
Total administrative professional service fees	$147,518	$224,027

Investment Section

Western Meadowlark

650 California Street, 17th Floor
San Francisco, CA 94108
Tel (415) 403-1333 ***Fax*** (415) 986-2777
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August 20, 2012

Ms. Maria Arevalo
Plan Administrator
Merced County Employees' Retirement Association
3199 M Street
Merced, California 95348

Dear Ms. Arevalo:

The Merced County Employees' Retirement Association had an investment loss of 1.0% in the fiscal year ending June 30, 2012, which trailed the prior fiscal year gain of 23.6%. The Association's current fiscal year return is significantly below the actuarial interest rate assumption of 7.75%. Also, the total fund return was below the Retirement Association's total fund benchmark return of 2.3%. This loss results from negative returns in the equity asset classes.

The Retirement Association's total fund return over the past five years has averaged 0.5%, below the fund benchmark[1] of 1.6% and trailing the actuarial interest rate assumption of 7.75%. The large negative returns in fiscal year 2009 and the negative return in fiscal year 2012 caused the Retirement Association's five year return to be well below the actuarial interest rate assumption. Over the past five years, three of the major asset class returns were positive and two were below the actuarial interest rate. Private equity returned 8.1%, fixed income returned 4.8% and real estate returned 1.2%. During the last ten years, the Association's total fund return of 5.5% modestly trailed the benchmark return of 5.6% and trailed the actuarial interest rate.

[1]Prior to the first quarter of 1999 the total fund benchmark was CPI + 4%/year. From 1st quarter of 1999 through 4th quarter of 2001, the benchmark is 42% S&P 500, 8% Russell 2000, 6% EAFE, 38% Barclays Aggregate, 1% 90-day T-Bill, and 5% Wilshire Real Estate Funds. In subsequent periods, the benchmark is 42% S&P 500, 8% Russell 2000, 6% EAFE, 38% Barclays Aggregate, 1% 90-day T-Bill, and 5% NCREIF Property Index. We revised the total fund benchmark from the 2nd quarter of 2005 through the 3rd quarter of 2006 to reflect the changes in the March 2005 investment policy statement. From 2nd quarter of 2005 through 1st quarter 2007, the benchmark was 48.3% S&P 500, 7.7% Russell 2000®, 7% EAFE, 30% Barclays Aggregate, 1% 90-day T-Bill, and 6% NCREIF Property Index. As of March 31, 2007, the benchmark is 47.1% S&P 500, 7.9% Russell 2000®, 7% EAFE, 30% Barclays Aggregate, 1% 90-day T-Bill, 6% NCREIF Property Index, and 1% S&P 500 + 5.0% (private equity). From 1st quarter 2008 through 2nd quarter 2008, the benchmark is 46.35% S&P 500, 7.65% Russell 2000®, 7% EAFE, 30% Barclays Aggregate, 1% 90-day T-Bill, 6% NCREIF Property Index, and 2% S&P 500 + 5.0% (private equity). As of 3rd quarter 2008 the benchmark is 43.75% S&P 500, 6.25% Russell 2000®, 18% EAFE, 23% Barclays Aggregate, 6% NCREIF Property Index, and 3% S&P 500 + 5.0% (private equity). As of 4th quarter 2008 the benchmark was 43% S&P 500, 6% Russell 2000®, 18% EAFE, 23% Barclays Aggregate, 6% NCREIF Property Index, and 4% S&P 500 + 5.0% (private equity). As of 1st quarter 2009 the benchmark is 42% S&P 500, 6% Russell 2000®, 18% EAFE, 23% Barclays Aggregate, 6% NCREIF Property Index, and 5% S&P 500 + 5.0% (private equity). As of 1st quarter 2010, the benchmark is 25% S&P 500, 4% Russell 2000, 24% EAFE, 24% Barclays Aggregate, 5% ML High Yield Master II, 5% Barclays U.S. TIPS, 6% NCREIF ODCE Property Index, 2% FTSE EPRA/NAREIT Developed Index and 5% S&P 500 + 5.0% (private equity).

Summary of Investment Objectives

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

The primary investment objectives expected to be satisfied by the asset allocation target and investment manager structure, are:

1) At a minimum, achieve a nominal return equivalent to the Retirement Association's actuarial interest rate. Earn a total return that averages 4% to 6% in excess of the rate of inflation.

2) Exceed the return of the Retirement Association's passive, market-based, investment benchmark.

3) Achieve a total fund return ranking above the median of other public sector retirement funds. Risk-adjusted performance is expected to also be above that of the median pension fund.

The Retirement Association has not achieved these objectives in the past fiscal year, but did achieve all of them in fiscal year 2011.

Target Asset Mix & Total Fund Benchmark

The Association conducted an asset allocation study that was completed in mid-July 2009. It is also likely that another asset allocation study will be conducted in the fall of 2012. As a result of the 2009 study, a revised target asset mix was approved by the Board. This target mix includes the following allocations: domestic equity 29%; international equity 24%; domestic fixed income 24%; high yield fixed income 5%; inflation protected fixed income 5%; real estate 8%; and, private equity 5%. The Board implemented this asset mix during the 2010 fiscal year.

Market Overview

Overall, the past fiscal year had negative equity market results, except there were positive returns in two of the four quarters of the fiscal year period ending June 30, 2012. The domestic equity markets began the fiscal year with a significant loss of 13.9%, as measured by the S&P 500.

The significant loss in the third calendar quarter of 2011 was followed by substantial gains in the fourth quarter of 2011. Stocks rose 11.8%, as measured by the S&P 500, which reduced the equity market index loss to 3.7% for the first half of fiscal year 2012.

The equity market continued its positive momentum into the first calendar quarter of 2012, as the domestic equity market gained 12.6%. This gain brought the fiscal year to date gain for domestic equities to 8.4%, as measured by the S&P 500.

The final quarter of fiscal year 2012 was negative, with the S&P 500 losing 2.8%. For the full fiscal year, equity market returns were up 5.4%, as measured by the S&P 500 and 3.8% for the Russell 3000. Although the equity markets have sustained three years of positive results, the five-, seven- and ten-year equity results ending June 30, 2012 were modest in comparison, and ranged from a low of 0.2% to a high of 5.3%. These equity results remain well below historical averages.

The 5.4% return of S&P 500 during the fiscal year ending June 30, 2012 was better than the 2.1% loss of the Russell 2000. In the third quarter of calendar year 2011, the Russell 2000 lost 21.9%. Over the next two quarters small cap stocks rose 15.5% and 12.4%, respectively, before declining 3.5% in the final quarter of the fiscal year. Reversing the results in the prior fiscal year, small cap stocks trailed the overall equity market.

International equity essentially trailed the domestic equity market and recorded a fiscal year 2012 loss of 13.4%. The EAFE Index had a very large loss of 19.0% in the third quarter of 2011, followed by consecutive gains of 3.4% and 11.0%, and then a loss of 6.9% in the final quarter of fiscal year 2012.

The bond market, as measured by the Barclays Aggregate US Bond Index operated most of the year on a normal basis, although there were several periods of flight to quality during fiscal year 2012. The Barclays Aggregate Bond Index started the fiscal year with a substantial gain of 3.8%, which was followed up by a gain of 1.1% in the second quarter and a gain of 0.3% in the third quarter of the 2012 fiscal year. The final quarter of the year had satisfactory returns, as investors once again favored US Treasury securities and the overall bond market returned 2.1%. For the fiscal year, bonds returned 7.5%, as measured by the Barclays Aggregate Bond Index. The bond manager structure that was put in place approximately three years ago significantly outperformed the bond market with a return of 8.3% during the 2012 fiscal year.

Real estate returns were somewhat mixed in the global REIT and domestic open-end area. In the first quarter of the 2012 fiscal year, the FTSE EPRA-NAREIT Developed Index was down 17.3% and the NCREIF ODCE Index gained 3.6%. In the next two quarters the FTSE EPRA-NAREIT Global Index rose 7.0% and 12.0%, and the NCREIF ODCE Index gained

3.0% and 2.8%. In the final quarter, the FTSE EPRA-NAREIT Developed Index rose 2.2% and the NCREIF ODCE Index rose 2.6%. For the entire fiscal year, the FTSE EPRA-NAREIT Developed Index gained 2.4% and the NCREIF ODCE Index gained 12.4%. Due to slight underperformance by European Investors and to lower use of leverage by UBS Realty, the real estate composite underperformed its benchmark for the fiscal year, 9.2% versus 10.5%.

Finally, private equity performance was a positive contributor to the Retirement Association's performance. The gross of fee gain for the private equity segment was 9.1% for the fiscal year ending June 30, 2012, but lagged the S&P 500 +5% benchmark of 10.7%.

Style Overview

During the 2012 fiscal year, large cap growth stocks continued to outperform large cap value stocks. As measured by the Russell 1000 Growth Index, growth stocks returned 5.8%, versus 3.0% for the Russell 1000 Value Index. Mid and small cap stocks performed worse than large cap stocks. The Russell Mid Cap Index lost 2.3%, and the Russell 2000 lost 2.1%.

Fund Overview

In the third quarter of 2011, the total fund loss was 10.5%, significantly underperforming the total Fund benchmark loss of 8.8%. This loss ranked in the third quartile (74th percentile) of total funds. Of the five major segments of the total fund, only fixed income outperformed its segment benchmark. In the fourth quarter of 2011, there was slight underperformance of the total fund benchmark, with a gain of 6.0%, versus the total Fund benchmark gain of 6.1%. The total fund return ranked in the 32nd percentile, well above the median. During this quarter, two of the five total fund segments (international equity and domestic fixed income) outperformed their benchmarks.

The first quarter of 2012 was also a strong quarter. The total fund had a gain of 7.4%, which was behind the benchmark gain of 7.7%, and ranked in the 33rd percentile of all funds. In this quarter, domestic equity and fixed income outperformed their respective benchmarks.

During the calendar second quarter of 2012, the total fund lost 2.8%, and ranked in the 84th percentile. The total Fund underperformed its benchmark, which had a loss of 1.6%. International equity and fixed income continued to outperform their respective benchmarks.

As mentioned previously, the Retirement Association' total fund loss for fiscal year 2012 was 1.0%, versus a gain of 2.3% for the total fund benchmark. The total fund return ranked in the 88th percentile of all plans. The total fund benchmark ranked in the 25th percentile for fiscal year 2012.

Investment Results

The Association's total domestic equity segment recorded a loss of 1.0% for fiscal year 2012, which trailed the 3.8% gain of the Russell 3000. Relative to the S&P 500, the domestic equity segment underperformed the Index return of 5.4%. With respect to the large cap core equity managers, Earnest Partners underperformed the median large cap core manager, which returned 3.4%. Earnest Partners' domestic equity portfolio return of 0.0% ranked in the 80th percentile. With a gain of 5.8% and a ranking in the 23rd percentile of large cap growth managers, the Russell 1000 Growth index product managed by Mellon Capital did much better than the median large cap growth manager. Mellon Capital's Russell 1000 Value Index product also outperformed the median large cap value manager. This portfolio ranked in the 37th percentile of large cap value managers with a total portfolio gain of 3.1%. The Mellon Capital mid cap index did not have a full fiscal year return.

The small cap core portfolio manager, WHV, posted a loss of 10.9%, ranking in the 95th percentile of the small cap core style group. This performance was significantly below the 2.1% loss of the Russell 2000 Index and the 2.5% loss of the median small cap core equity manager.

For fiscal year 2012, the international equity segment of the Retirement Association had a total portfolio loss of 14.9%, equaling the 14.9% loss of the MSCI EAFE Index and ranked in the 77th percentile. GMO's loss of 11.9% was better than the EAFE Index loss of 13.4%, and ranked in the 42nd percentile of international equity managers. For the fiscal year ending June 30, 2012, the small cap international equity portfolio managed by UBS had a loss of 18.7%, versus a loss of 14.8% for the EAFE Small Cap Index, and ranked in the 96th percentile of international equity managers. Finally, Earnest Partners international equity portfolio had a loss of 15.7%, which was worse than the MSCI EAFE Index loss of 14.8% and ranked in the 85th percentile of international equity managers.

For the third consecutive year, the domestic fixed income segment outperformed the Barclays US Aggregate Bond Index. Barrow Hanley manages a core fixed income portfolio, a TIPS portfolio, as well as a workout portfolio which is undergoing a liquidation process of the remaining Standish Mellon portfolio. In addition, AXA manages a high yield fixed income portfolio. For the fiscal year 2012, the total fixed income segment returned 8.3%, versus 7.5% for the Barclays US Aggregate Bond Index and the bond segment performance ranked in the 40th percentile of fixed income portfolios.

The UBS Realty fund had a gain of 11.1% in the fiscal year ending June 30, 2012, versus a gain of 12.4% for the NCREIF ODCE Index. The primary reason for the below benchmark results is due to lower leverage by UBS than most of the funds comprising the real estate universe. European Investors' global REIT portfolio had a gain of 1.9%, which underperformed the FTSE EPRA/NAREIT Developed Index gain of 2.4%. Results for European Investors marginally detracted from the total real estate segment performance.

Similar to prior years, trading costs associated with the Retirement Association's domestic equity managers were reviewed to ensure that commission costs were reasonable and execution costs appropriate. A significant percentage of equity trading is being executed through the program and at reasonable costs. For the fiscal year ending June 30, 2012, 1.4 million shares were traded through the recapture brokers Lynch, Jones & Ryan and Capital Institutional Services. Commissions paid to these brokers totaled slightly more than $11,400 and slightly less than $6,100 was recaptured. A significant portion of these trades was for a low cost transition.

Performance Comparison

The last page of our letter provides a table comparing the Retirement Association's total fund returns to all funds. As stated above, the Association has had weak results in fiscal year ending June 30, 2012. Relative to all plans, the Association's return of -1.0% ranked in the 88th percentile. Performance also trails the benchmark over the past two years, the three through five year periods, and performance modestly trails the benchmark primarily due to prior fixed income managers that were terminated over the 10 year period.

Summary

Fiscal year 2012 was not a success relative to the Association's policies, objectives and benchmarks. At all times, the performance calculations were in line with CFA performance standards and the Fund was managed in accordance with the Retirement Association's policies.

Sincerely,

William R. Cottle

William R. Cottle, CFA

In reporting investment performance, Milliman, Inc. calculates rates of return for MCERA monthly using statements provided by BNY Mellon Bank. Milliman, Inc. reconciles these rates of return with those provided by the investment managers and verifies that the managers' published returns comply with the CFA Institute's Global Investment Performance Standards. We monitor any discrepancies (due to computational differences, securities pricing services, etc.) between Milliman, Inc. and the investment managers but find that they generally do not tend to persist over time. All rates of return presented in this report are gross of investment management fees. All rates of return presented in this report for time periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based.

Milliman

Total Fund Returns vs. Universe
Periods Ending June 30, 2012

	3 Mo	Fiscal YTD	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	7 Yrs	10 Yrs	Inception Return	Inception Since
Total Fund	**-2.8%**	**-1.0%**	**-1.0%**	**10.6%**	**11.5%**	**2.2%**	**0.5%**	**3.9%**	**5.5%**	**7.9%**	**Jan-95**
Fund Benchmark	*-1.6%*	*2.3%*	*2.3%*	*11.8%*	*12.2%*	*3.5%*	*1.6%*	*4.4%*	*5.6%*	*4.9%*	*Jan-95*
IF Public DB Gross Rank	*84*	*88*	*88*	*40*	*37*	*87*	*95*	*91*	*81*	*49*	*Jan-95*
IF Public DB Gross Median	*-1.9%*	*1.2%*	*1.2%*	*9.8%*	*10.9%*	*4.1%*	*2.7%*	*5.2%*	*6.1%*	*7.8%*	*Jan-95*

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

For the Year Ended June 30, 2012

Outline of Investment Policies

The Board of Retirement has exclusive control of all investments of the retirement system and is responsible for establishing investment objectives, strategies and policies.

Pursuant to the California Constitution and the 1937 Act, the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In this regard, investment decisions are to be made in the sole interest and for the exclusive purpose of providing benefits, minimizing employer contributions, and defraying the reasonable expenses of the retirement system.

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. The Investment Policy also defines the principal duties of the Board, MCERA's custodian bank, consultant, and MCERA's investment managers. The Board makes revisions to the Investment Policy as necessary.

Pursuant to the Investment Policy, the basic goal of MCERA's investment program is to obtain a fully funded plan status, while assuming a risk posture consistent with the Board's risk tolerance. In pursuing this goal, the Board has adopted a long-term investment horizon in which the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The primary investment objective is to exceed the actuarial assumption for return on assets. The risk assumed in the pursuit of this investment objective must be appropriate for the return anticipated and consistent with the total diversification of the fund.

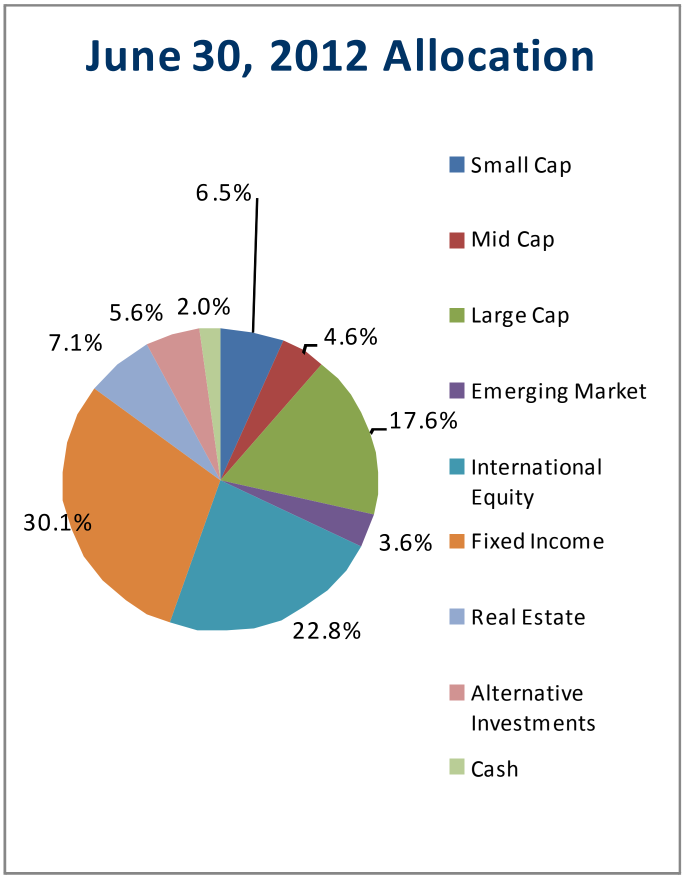
The asset allocation plan adopted by the Board is an integral part of MCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

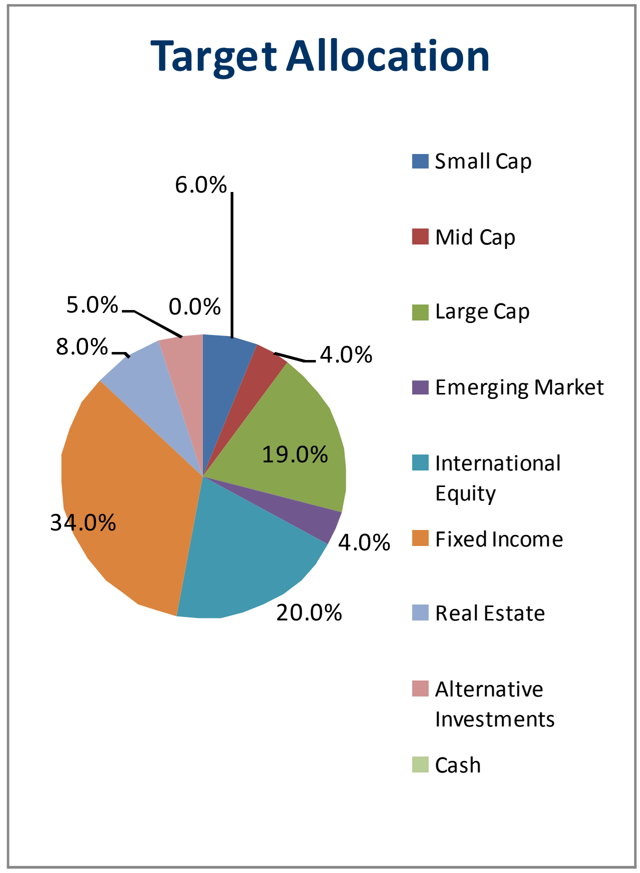
Summary of Proxy Voting Guidelines and Procedures

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ASSET ALLOCATION INFORMATION
For the Year Ending June 30, 2012





	June 30, 2012 Asset Allocation	Target Allocation	Allocation Range	
Large Cap	17.6%	19.0%	+/-	1.4%
Mid Cap	4.6%	4.0%	+/-	0.6%
Small Cap	6.5%	6.0%	+/-	0.5%
International Equity	22.8%	20.0%	+/-	2.8%
Fixed Income	30.1%	34.0%	+/-	3.9%
EM	3.6%	4.0%	+/-	0.4%
Real Estate	7.1%	8.0%	+/-	0.9%
Alternative Investments	5.6%	5.0%	+/-	0.6%
Cash	2.0%	0.0%	+/-	2.0%
	100.0%	100.0%		

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT SUMMARY
For the Year Ending June 30, 2012

	Market Value	Percent of Total
DOMESTIC EQUITY:		
Large Cap Growth	$45,650,786	9%
Large Cap Value	42,336,780	8%
Small Cap Core	23,154,823	5%
Mid Cap	32,533,458	6%
Total Domestic Equity	143,675,847	28%
INTERNATIONAL EQUITY		
Large/Medium Core	41,636,624	8%
Large/Medium High Alpha	54,205,398	11%
Small Cap Growth	16,156,610	3%
Emerging Market	18,299,930	4%
Total International Equity	130,298,562	26%
FIXED INCOME		
Domestic Core	119,854,627	24%
High Yield	26,507,936	5%
Total Fixed Income	146,362,564	29%
ALTERNATIVE INVESTMENTS	27,276,452	5%
REAL ESTATE		
Property Fund	28,628,896	6%
Global REIT	7,375,903	1%
Total Real Estate	36,004,799	7%
CASH AND SHORT-TERM INVESTMENTS	25,188,295	5%
Total Investments, Cash and Short-Term Investments	$508,806,519	100%

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT RESULTS

For the Year Ended June 30, 2012

	CURRENT	ANNUALIZED						
	YEAR	2YR	3YR	4YR	5YR	7YR	10YR	Inception
DOMESTIC EQUITY								
Large Cap Core								
Earnest Partners, LLC	0.0%	14.8%	14.9%	3.8%	-0.2%	3.5%	5.9%	2.3%
Index: Russell 1000®	4.4%	17.3%	16.6%	3.9%	0.4%	4.3%	5.7%	1.7%
Large Cap Index								
Mellon Capital Mgmt. Large Cap Growth	5.8%	19.6%	17.6%	5.2%	2.9%	5.5%	-	7.8%
Index: Russell 1000® Growth	5.8%	19.5%	17.5%	5.2%	2.9%	5.5%	6.0%	7.7%
Mellon Capital Mgmt. Large Cap Value	3.1%	15.3%	15.9%	2.5%	-2.1%	3.0%	-	7.7%
Index: Russell 1000® Value	3.0%	15.2%	15.8%	2.5%	-2.2%	2.9%	5.3%	7.7%
Small Cap								
WHV	-10.9%	14.1%	17.0%	2.3%	0.8%	6.7%	9.9%	11.9%
Index: Russell 2000	-2.1%	16.0%	17.8%	5.2%	0.5%	4.6%	7.0%	7.1%
Mid Cap								
Mellon Capital Mgmt. Mid Cap*	1.3%	-	-	-	-	-	-	22.0%
Index: S&P 400 Mid Cap	**1.2%**	**16.7%**	**19.4%**	**5.2%**	**2.5%**	**6.1%**	**8.2%**	**21.9%**
TOTAL DOMESTIC EQUITY	**-1.0%**	**15.4%**	**15.5%**	**3.1%**	**-0.1%**	**4.0%**	**5.9%**	**8.3%**
INDEX: RUSSELL® 3000	**3.8%**	**17.2%**	**16.7%**	**4.0%**	**0.4%**	**4.3%**	**5.8%**	**8.5%**
INTERNATIONAL EQUITY								
GMO	-11.9%	9.0%	7.6%	-3.6%	-	-	-	-4.8%
Earnest Partners, LLC	-15.7%	7.3%	10.5%	-0.3%	-	-	-	-0.3%
UBS Global Small Cap	-18.7%	10.5%	11.9%	-3.1%	-	-	-	-3.3%
Wells Capital Emerging Market Fund**	-	-	-	-	-	-	-	-
TOTAL INTERNATIONAL EQUITY	**-14.9%**	**8.2%**	**8.9%**	**-2.6%**	**-3.4%**	**4.3%**	**6.0%**	**4.5%**
INDEX: MSCI EAFE Gross	**-13.4%**	**6.5%**	**6.5%**	**-4.5%**	**-5.6%**	**2.8%**	**5.6%**	**2.9%**
FIXED INCOME								
AXA	8.2%	12.2%	-	-	-	-	-	10.8%
Barrow Hanley	8.2%	6.5%	-	-	-	-	-	7.3%
TOTAL FIXED INCOME	**8.3%**	**7.4%**	**8.6%**	**5.2%**	**4.8%**	**4.2%**	**4.7%**	**6.3%**
INDEX: BARCLAYS AGGREGATE	**7.5%**	**5.7%**	**6.9%**	**6.7%**	**6.8%**	**5.6%**	**5.6%**	**6.8%**
REAL ESTATE								
UBS Trumbull Property Fund	11.1%	14.0%	8.8%	-0.2%	0.9%	5.4%	7.8%	8.4%
European Investors	1.9%	17.1%	19.2%	5.7%	-	-	-	2.1%
TOTAL REAL ESTATE COMPOSITE	**9.2%**	**14.6%**	**10.5%**	**0.8%**	**1.2%**	**5.6%**	**8.0%**	**8.5%**
INDEX: REAL ESTATE BENCHMARK	**10.5%**	**12.8%**	**7.7%**	**0.1%**	**1.9%**	**6.2%**	**8.0%**	**8.0%**
ALTERNATIVE INVESTMENTS* **								
Invesco Private Capital	13.0%	21.8%	17.8%	8.8%	11.3%	10.2%	-	10.2%
Adams Street Partners, LLC	10.8%	15.1%	14.4%	4.7%	6.7%	-	-	8.4%
Pantheon Ventures, Inc.	3.4%	9.4%	9.0%	2.4%	5.2%	-	-	2.6%
Pantheon Secondary	5.7%	9.7%	5.8%	1.6%	**8.5%**	-	-	**8.5%**
Pantheon Ventures II, Inc. ****	-	-	-	-	-	-	-	**-4.8%**
TOTAL ALTERNATIVE INVESTMENTS	**9.1%**	**15.0%**	**12.1%**	**4.8%**	**8.1%**	**7.4%**	-	**7.4%**
INDEX: S&P + 5.00%	**10.7%**	**23.2%**	**22.1%**	**9.0%**	**5.2%**	**9.3%**	**10.6%**	**9.3%**
TOTAL FUND***	**-1.0%**	**10.6%**	**11.5%**	**2.2%**	**0.5%**	**3.9%**	**5.5%**	**7.9%**
TOTAL FUND CUSTOM INDEX***	**2.3%**	**11.8%**	**12.2%**	**3.5%**	**1.6%**	**4.4%**	**5.6%**	**4.9%**

*Performance for Mellon Capital Management Mid Cap current year return is for eleven months. The Performance return since inception is for nine months beginning October 2011 due to incomplete first quarter data.**Wells Capital Emerging Market Fund has not been funded for a complete quarter, therefore, no returns are calculated.***Performance results lags by two quarters due to financial reporting constraints. ****Pantheon Ventures II, Inc since inception return is for performance for two quarters only. *****Using time-weighted rate of return based on market rate return.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TOP 10 LARGEST HOLDINGS BY FAIR VALUE

For the Year Ending June 30, 2012

PAR	BONDS	FAIR VALUE
5,725,000	U S TREASURY NOTE 2.000% 01/31/2016 DD 01/31/11	$5,836,351
4,530,000	UNITED STATES TREASURY NOTE 3.625% 02/15/2021 DD 02/15/11	$4,723,567
2,803,315	US TREAS-CPI INFLATION INDEX 2.375% 01/15/2025 DD 07/15/04	$3,222,074
2,849,652	FNMA POOL #0AC3278 5.000% 09/01/2039 DD 09/01/09	$3,035,649
2,767,458	FHLMC POOL #G0-5753 5.000% 11/01/2039 DD 12/01/09	$2,961,152
2,618,631	FNMA POOL #0995024 5.500% 08/01/2037 DD 10/01/08	$2,849,908
2,561,721	FNMA POOL #0888100 5.500% 09/01/2036 DD 12/01/06	$2,787,972
2,565,000	U S TREASURY NOTES 2.000% 04/30/2016 DD 04/30/11	$2,603,885
2,342,590	US TREAS-CPI INFLATION INDEX 2.000% 01/15/2014 DD 01/15/04	$2,523,766
2,152,222	US TREAS-CPI INFLATION INDEX 2.125% 01/15/2019 DD 01/15/09	$2,445,462
		$32,989,786

SHARES	STOCKS	FAIR VALUE
100,900	ARM HOLDINGS PLC	$2,868,587
18,800	CORE LABORATORIES N V	$2,096,952
28,000	RIO TINTO PLC	$2,024,960
22,800	SCHOELLER BLECKMAN EUR1 (BR)	$1,974,470
59,800	SHIRE PLC ORD GBP0.05	$1,867,315
19,400	BHP BILLITON LTD	$1,835,822
120,600	DNB NOR ASA NOK10	$1,690,281
287,400	WEICHAI POWER CO 'H' CNY1	$1,676,846
28,070	CHART INDUSTRIES INC	$1,515,219
28,200	ERSTE GROUP BANK AG	$1,478,021
		$19,028,473

A complete list of portfolio holdings is available upon request.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND LIST OF INVESTMENT SERVICE PROVIDERS

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

REAL ESTATE
UBS Global Asset Management
European Investors

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

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

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

COMMISSION RECAPTURE
ConvergEx Group
Capital Institutional Services

INVESTMENT MANAGERS' FEES	2012	2011
Equity Managers		
Domestic	$426,420	$558,978
International	640,538	615,962
Fixed Income Fees	392,193	378,459
Alternative Investment Managers	86,514	90,000
Real Estate Fees	303,221	260,786
Total Investment Managers' Fees	$1,848,886	$1,904,185
OTHER INVESTMENT SERVICE FEES		
Investment Consultant Fees	$171,340	$163,552
Investment Custodial Fees	157,607	150,259
Other Investment Service Fees	(89,620)	23,200
Total Other Investment Service Fees	239,327	337,011
Total Investment Managers' and Other Service Fees	$2,088,213	$2,241,196

Actuarial Section

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ROBERT T. MCCRORY | Executive Vice *President*

February 29, 2012

Actuarial Certification

In this study, we conducted an examination of all participant data for reasonableness and consistency. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of the valuation date, the amortization period is 18 years.

The funding objective of the Plan is to accumulate assets during the working lifetime of each member so that, at retirement, sufficient assets will be on hand to provide the member the promised benefit. For actuarial valuation purposes, Plan assets are valued at Actuarial Value with adjustments for certain Special Reserves. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all investment gains and losses (returns above or below expected returns) over a period of five years, limited by a corridor that restrains the Actuarial Value to within 30% of the Market Value of assets.

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

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

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

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, to the best of our knowledge the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Respectfully Submitted,

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MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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, 2011):

Investment Rate of Return	7.75%, net of investment and administrative expenses
Inflation	3.75% per annum
Cost of Living Adjustments	For Tier 1, 100% of CPI to 3% annually with banking, assumed to be 2.7% annually
Asset Valuation Method	Five year smoothed market, 70%/130% corridor around market value
Interest Credited to Active Members Reserves	Pursuant to the MCERA Interest Crediting Policy, adopted March 13, 2003, interest will fall within a range from 0-2% below the valuation interest rate.
Projected Annual Salary Increases	3.75% plus service-based rates

B. Non-Economic Assumptions

The date of the last study of the Plan's actual experience was June 30, 2010. The actuary compared the expected number of terminations from active service to the number actually experienced during a 3-year period and based on this comparison and the trends observed, the probabilities of separation were adjusted.

Post-Retirement Mortality Tables Used:

1. Service

General Member Males	Combined Healthy Retired Pensioners (RP) 2000 (2 years setback)
General Member Females	Combined Healthy Retired Pensioners (RP) 2000

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2011.

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS
(Continued)

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

2. Disability

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

3. For Employee Contribution Rate Purposes

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

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

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2011.

SUMMARY OF ASSUMPTIONS AND FUNDING METHODS
(Continued)

Vested Termination	Rates of vested termination apply to active members who terminate their employment after five years of service and leave their contribution with the plan. Vested terminated General Members are assumed to begin receiving benefit at 59; terminated Safety Members are assumed to begin receiving benefit at age 53. 50% of vested terminated Safety members and 25% of vested terminated General members are assumed to be reciprocal.
Family Composition	50% of female General members, 80% of male General members, and 90% of Safety members are assumed to be married at retirement. Male spouses are assumed to be three years older than their wives.
Final Average Compensation Load	The final average compensation (FAC) for members projected to receive a service retirement benefit has been increased based on the assumption that members will have elements of pay included in their FAC which are not included in the annual pay provided to the Actuary (Ventura decision pays). The FAC for Tier 1 members has been increased by 6.92%, and the FAC for Tier 2 members by 2.31%.

C. Funding Method

Employer contributions are actuarially determined level percentage rates that are expressed as percentages of annual covered payroll. The liability is presently being funded on the Entry Age Normal Actuarial Cost Method. Any unfunded actuarial accrued liability (UAAL) is amortized as a level percentage of projected future payroll cost over an 18-year period from June 30, 2011.

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 EFI Actuaries dated June 30, 2011.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

GENERAL MEMBERS

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

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

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

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

SAFETY MEMBERS

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

Age	Safety Active Duty-Related Death
20	0.0300%
30	0.0600%
40	0.1700%
50	0.2700%
60	0.0000%

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

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

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

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2011.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Annual Salary
	General	1,919	$85,864,000	$44,744	1.79%
7/1/2006	Safety	310	$15,274,000	$49,271	1.35%
	Total	2,229	$101,138,000	$45,374	1.77%
	General	1,917	$85,308,000	$44,501	-0.54%
7/1/2007	Safety	318	$15,281,000	$48,053	-2.47%
	Total	2,235	$100,589,000	$45,006	-0.81%
	General	1,921	$92,116,000	$47,952	7.76%
7/1/2008	Safety	339	$17,137,000	$50,552	5.20%
	Total	2,260	$109,253,000	$48,342	7.41%
	General	1,848	$99,266,589	$53,716	12.02%
7/1/2009	Safety	342	$19,363,697	$56,619	12.00%
	Total	2,190	$118,630,286	$54,169	12.05%
7/1/2010	General	1,708	$94,915,436	$55,571	3.45%
	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%

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2011. The data differs from the membership data in the notes to the financial statements due to timing differences and actuary cleansing of the data.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

For Years Ended June 30

(Dollar Amounts in Thousands)

Year	Beginning of Year	Added During Year	Allowances Added ($ 000)	Removed During Year	Allowances Removed ($ 000)	End of Year	Retiree Payroll ($ 000)	% Increase In Retiree Payroll	Average Annual Allowance
6/30/06	1,477	98	$2,007	53	$785	1,521	$27,297	9.77%	$17,934
6/30/07	1,521	136	$4,419	38	$560	1,620	$31,823	16.58%	$19,644
6/30/08	1,620	105	$2,757	67	$902	1,658	$34,603	8.74%	$20,870
6/30/09	1,658	105	$3,403	52	$813	1,711	$37,748	9.09%	$22,062
6/30/10	1,711	171	$6,098	56	$981	1,826	$43,653	15.65%	$23,907
6/30/11	1,826	103	$2,627	44	$781	1,885	$46,117	5.64%	$24,465

SOLVENCY TEST

For Years Ended June 30

(Dollar Amounts in Thousands)

Actuarial Accrued Liabilities (AAL) For						Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	1 Active Member Contributions	2 Retirees and Beneficiaries	3 Active Members Employer Portion	Actuarial Accrued Liabilities	Valuation Assets	1	2	3
6/30/06	$54,826	$305,589	$263,918	$624,333	$443,999	100%	100%	32%
6/30/07	$59,299	$358,644	$234,539	$652,482	$480,517	100%	100%	28%
6/30/08	$66,865	$370,764	$254,623	$692,252	$488,347	100%	100%	20%
6/30/09	$65,126	$448,231	$296,324	$809,681	$483,145	100%	93%	0%
6/30/10	$64,917	$532,695	$333,220	$930,832	$509,561	100%	83%	0%
6/30/11	$65,723	$558,483	$309,711	$933,917	$523,980	100%	82%	0%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

For Years Ended June 30

(Dollar Amounts in Thousands)

Actuarial (Gains)/Losses						
Plan Year Ending	Asset Sources ($ 000)	Liability Sources ($ 000)	Total ($ 000)	Changes in Plan Provisions ($ 000)	Changes in Assumptions/Methods ($ 000)	Total (Gain)/Loss ($ 000)
6/30/06	$13,444	$(2,866)	$10,578	$ 2,734	N/A	$13,312
6/30/07	$(3,586)	$(3,693)	$(7,549)	N/A	$625	$(6,655)
6/30/08	$48,840	$(14,186)	$34,654	N/A	N/A	$34,654
6/30/09	$66,987	$23,892	$90,879	N/A	N/A	$90,879
6/30/10	$16,151	$8,100	$24,251	N/A	$63,410	$87,661
6/30/11	$30,955	$(13,824)	$17,131	N/A	$(12,918)	$(4,213)

Note: Information compiled from Actuarial Report prepared by EFI Actuaries dated June 30, 2011.

Statistical Section

Nuttall's Woodpecker

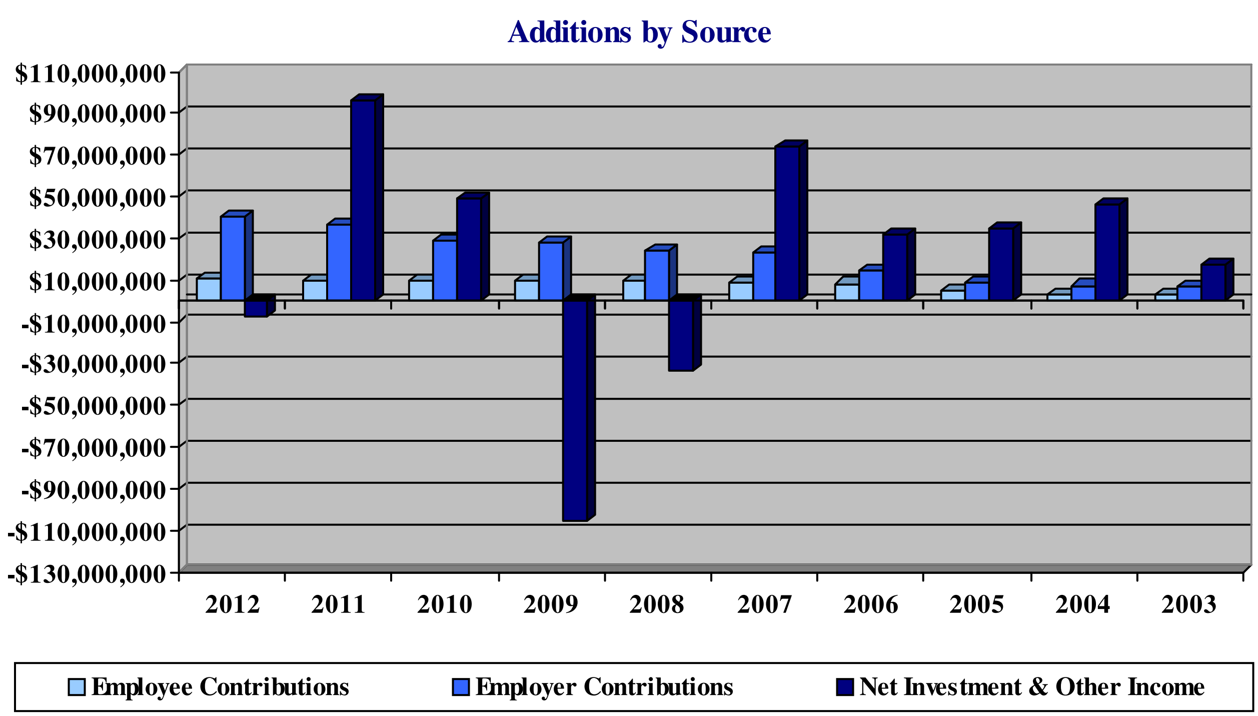
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ADDITIONS BY SOURCE

The Statistical Section presents information pertaining to MCERA's operations on a multi-year basis. The financial and operating information provides contextual data for MCERA's net assets, 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
6/30/03	$ 3,298,317	$ 7,200,728	8.21%	$ 16,957,409 *	$ 27,456,454
6/30/04	$ 3,347,455	$ 7,268,826	7.95%	$ 46,098,461 *	$ 56,714,742
6/30/05	$ 4,584,598	$ 8,930,842	9.57%	$ 34,840,502 *	$ 48,355,942
6/30/06	$ 8,221,757	$ 14,749,934	15.02%	$ 32,191,872	$ 55,163,563
6/30/07	$ 8,755,297	$ 23,232,099	21.33%	$ 73,614,145	$ 105,601,541
6/30/08	$ 9,357,702	$ 23,751,437	21.34%	$ (33,797,400)	$ (688,261)
6/30/09	$ 9,916,305	$ 27,882,650	23.42%	$(105,689,276)	$(67,890,321)
6/30/10	$ 9,864,161	$ 29,136,704	24.46%	$ 48,772,246	$ 87,773,111
6/30/11	$ 9,754,849	$ 36,662,121	31.26%	$ 96,031,519	$ 142,448,490
6/30/12	$10,416,301	$ 40,262,881	36.09%	$ (7,039,276)	$ 43,639,906

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

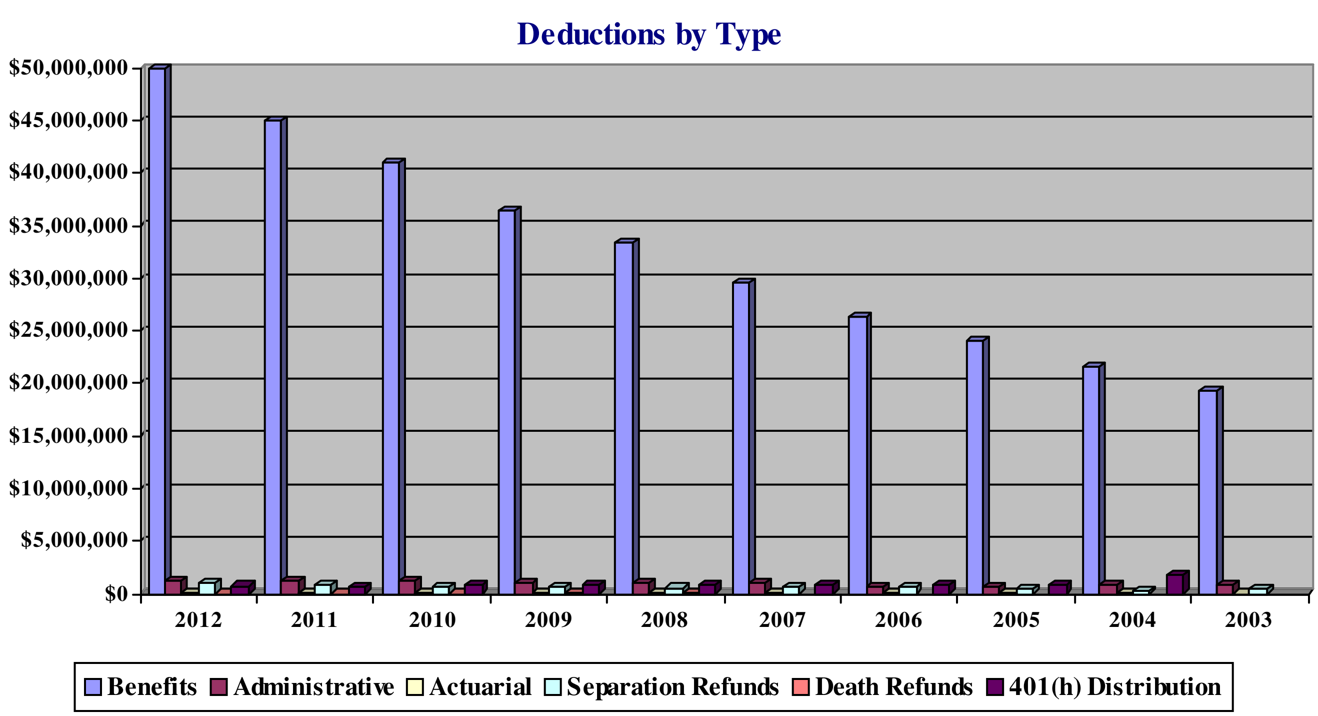


MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

DEDUCTIONS BY TYPE

Fiscal Year Ending		Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	Death Refunds	401 (h) Distribution to County	Total
6/30/03	*	$ 19,345,829	$ 820,341	-	$ 498,749	-	-	$ 20,664,919
6/30/04	*	$ 21,498,606	$ 830,439	-	$ 349,488	-	$ 1,758,550	$ 24,437,083
6/30/05	*	$ 24,069,742	$ 602,451	$ 61,951	$ 409,034	-	$ 850,000	$ 25,993,178
6/30/06	*	$ 26,263,569	$ 649,080	$ 48,438	$ 602,210	-	$ 850,000	$ 28,413,297
6/30/07		$ 29,577,586	$ 1,014,953	$ 41,100	$ 703,867	-	$ 850,000	$ 32,187,506
6/30/08		$ 33,394,363	$ 1,029,916	$ 53,500	$ 553,705	$ 99,438	$ 850,000	$ 35,980,922
6/30/09		$ 36,478,886	$ 1,005,060	$ 61,795	$ 683,528	$ 77,275	$ 850,000	$ 39,156,544
6/30/10		$ 40,929,109	$ 1,170,605	$ 66,549	$ 673,160	-	$ 850,000	$ 43,689,423
6/30/11		$ 45,022,104	$ 1,189,030	$ 138,200	$ 766,692	-	$ 650,000	$ 47,766,026
6/30/12		$ 49,839,653	$ 1,180,083	$ 63,312	$ 1,051,526	-	$ 733,590	$ 52,868,164

*Beginning with June 30, 2001 the amounts listed under Administrative, Investment, Depreciation, Actuarial Expense and Other Expenses have been reclassified to conform to the 2005 presentation.. MCERA separated the types of refunds as of 2008 presentation.



MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SCHEDULE OF CHANGES IN NET ASSETS

(Dollar Amount in thousands)

Additions	**6/30/12**	**6/30/11**	**6/30/10**	**6/30/09**	**6/30/08**
Plan members contributions	$10,416	$9,754	$9,864	$9,916	$9,358
Employer contributions	40,263	36,662	29,137	27,883	23,751
Net investment income/(loss)	(7,039)	96,032	48,772	(105,689)	(33,797)
Total additions	43,640	142,448	87,773	(67,890)	(688)
Deductions					
Benefits paid	49,839	45,022	40,929	36,479	33,394
Administrative expenses	1,180	1,189	1,171	1,005	1,030
Actuarial expenses	63	138	67	62	54
Refunds	1,052	767	673	761	653
401(h) distribution	734	650	850	850	850
Total deductions	52,868	47,766	43,690	39,157	35,981
Change in net assets	($9,228)	$94,683	$44,083	($107,047)	($36,669)
Net asset held in trust at beginning of the year	**$514,361**	**$419,678**	**$375,595**	**$482,642**	**$519,311**
Net asset held in trust at end of the year	**$505,133**	**$514,361**	**$419,678**	**$375,595**	**$482,642**

Additions	**6/30/07**	**6/30/06**	**6/30/05**	**6/30/04**	**6/30/03**
Plan members contributions	$8,755	$8,222	$4,585	$3,348	$3,298
Employer contributions	23,232	14,750	8,931	7,269	7,201
Net investment income	73,614	32,191	34,840	46,098	16,957
Total additions	105,601	55,163	48,356	56,715	27,456
Deductions					
Benefits paid	29,578	26,264	24,070	21,499	19,346
Administrative expenses	1,014	649	602	830	820
Actuarial expenses	41	48	62	-	-
Refunds	704	602	409	349	498
401(h) distribution	850	850	850	850	850
Total deductions	32,187	28,413	25,993	23,528	21,514
Change in net assets	$73,414	$26,750	$22,363	$33,187	5,942
Net asset held in trust at beginning of the year	**$445,897**	**$419,147**	**$396,784**	**$364,506**	**$357,714**
Net asset held in trust at end of the year	**$519,311**	**$445,897**	**$419,147**	**$396,784**	**$364,506**

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

	2012*	2011*	2010*	2009*	2008*	2007	2006	2005	2004	2003
Service Retirement										
Payroll:										
General	$35,897	$31,770	$28,665	$25,086	$22,868	$21,924	$18,081	$16,378	$14,977	$13,197
Safety	6,209	5,845	5,404	4,720	4,139	3,813	3,448	3,030	2,506	2,349
Total	$42,106	$37,615	$34,069	$29,806	$27,007	$25,737	$21,529	$19,408	$17,483	$15,546
Disability Retiree										
Payroll										
General	$2,230	$2,159	$2,154	$2,103	$1,975	$1,555	$1,527	$1,478	$1,443	$1,388
Safety	2,738	2,522	2,424	2,396	2,312	1,907	1,913	1,816	1,769	1,572
Total	$4,968	$4,681	$4,578	$4,499	$4,287	$3,462	$3,440	$3,294	$3,212	$2,960
Beneficiary/Survivors										
Payroll										
General	$2,035	$2,049	$1,762	$1,574	$1,686	$1,957	$1,734	$1,613	$1,511	$1,347
Safety	579	521	412	380	414	667	594	551	575	515
Total	$2,614	$2,570	$2,174	$1,954	$2,100	$2,624	$2,328	$2,164	$2,086	$1,862
Total Payroll Expense										
Payroll										
General	$40,162	$35,978	$32,580	$28,763	$26,529	$25,436	$21,342	$19,470	$17,931	$15,932
Safety	9,526	8,887	8,240	7,496	6,865	6,387	5,955	5,397	4,849	4,437
Total	$49,688	$44,865	$40,820	$36,259	$33,394	$31,823	$27,297	$24,867	$22,780	$20,369
Death Benefits										
General	$117	$81	$99	$179	N/A	N/A	N/A	N/A	N/A	N/A
Safety	9	N/A	9	41	N/A	N/A	N/A	N/A	N/A	N/A
Total	$126	$81	$108	$220	N/A	N/A	N/A	N/A	N/A	N/A
Separation Refund Expense										
General	$861	$729	$599	$562	N/A	N/A	N/A	N/A	N/A	N/A
Safety	190	37	74	122	N/A	N/A	N/A	N/A	N/A	N/A
Total	$1,051	$766	$673	$684	N/A	N/A	N/A	N/A	N/A	N/A
Active Death Expense										
General	$26	$82	N/A	$77	N/A	N/A	N/A	N/A	N/A	N/A
Safety	N/A	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A	N/A
Total	$26	$82	N/A	$77	N/A	N/A	N/A	N/A	N/A	N/A

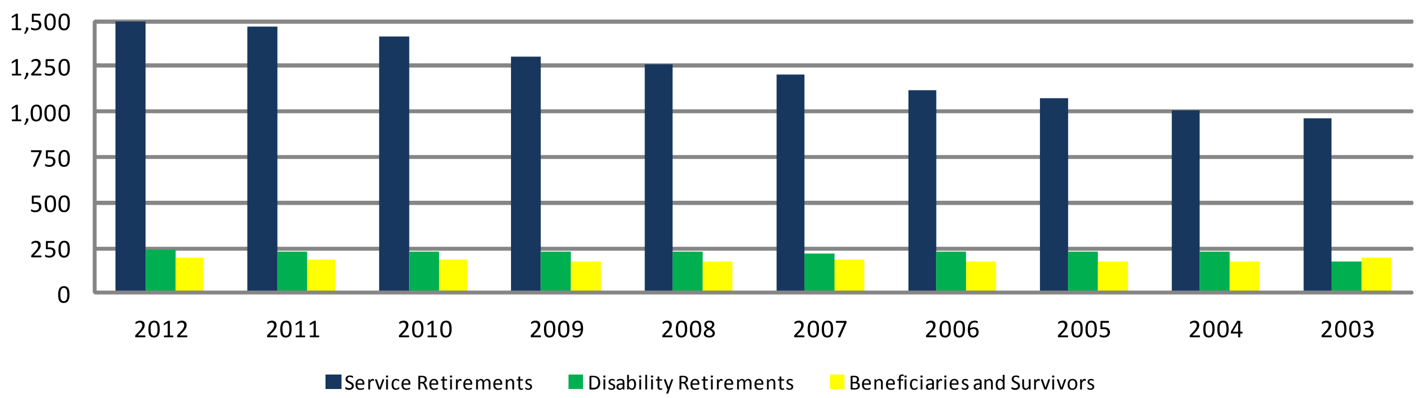
* Prior to 2008 this information was provided by the MCERA's actuary and included benefit payments expected to be distributed, refunds and 401(h) distribution to County and did not represent actual amounts distributed. In 2008 MCERA is calculating this information as actual benefits distributed. In 2009 MCERA added separation refunds, death refunds and death benefits. Prior to 2009 this information was not separately identified. The information was compiled from County of Merced Information Systems. In 2011 MCERA changed death refund expense to active death expense to better identify expense for active member death.

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
(Summary of Monthly Allowances Being Paid—As of June 30, 2012)

Type of Benefit	GENERAL MEMBERS Number	GENERAL MEMBERS Average Monthly Allowances	SAFETY MEMBERS Number	SAFETY MEMBERS Average Monthly Allowances	TOTAL Number	TOTAL Average Monthly Allowances
Service Retirement	1,390	$2,153	180	$2,875	1,570	$2,236
Disability	139	$1,337	97	$2,352	236	$1,754
Beneficiaries/Survivors	164	$1,020	28	$1,723	192	$1,123
Total Retired Members	1,693	$1,976	305	$2,603	1,998	$2,072

This schedule excludes separation refunds and death refunds

Ten Year Structure of Retiree Membership History



	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Service Retirements	1,570	1,463	1,411	1,307	1,258	1,209	1,119	1,073	1,012	966
Disability Retirements	236	233	230	234	233	222	227	232	233	180
Beneficiaries and Survivors	192	187	185	172	172	188	175	171	171	202
Total	1,998	1,883	1,826	1,713	1,663	1,619	1,521	1,476	1,416	1,348

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL										
Number	1,693	1,590	1,545	1,454	1,412	1,381	1,294	1,260	1,228	1,147
Basic Annual Allowance	$32,933	$29,232	$26,331	$22,771	$22,592	$20,021	$16,553	$15,000	$13,786	$12,119
Average Basic Monthly Allowance	$1,621	$1,532	$1,420	$1,305	$1,333	$1,206	$1,066	$992	$936	$880
Total Annual Allowance	$40,161	$35,978	$32,561	$28,712	$28,019	$25,435	$21,341	$19,470	$17,931	$15,932
Average Total Monthly Allowance	$1,976	$1,886	$1,756	$1,646	$1,654	$1,533	$1,374	$1,288	$1,217	$1,158
SAFETY										
Number	305	293	281	259	251	238	228	217	213	201
Basic Annual Allowance	$7,379	$6,863	$6,401	$5,746	$5,262	$4,807	$4,508	$4,038	$3,597	$ 3,300
Average Basic Monthly Allowance	$2,016	$1,952	$1,898	$1,849	$1,747	$1,690	$1,648	$1,551	$1,407	$ 1,368
Total Annual Allowance	$9,527	$8,887	$8,240	$7,497	$6,878	$6,388	$5,956	$5,397	$4,849	$ 4,437
Average Total Monthly Allowance	$2,603	$2,528	$2,444	$2,412	$2,284	$2,246	$2,177	$2,073	$1,897	$1,840
TOTAL										
Number	1,998	1,883	1,826	1,713	1,663	1,619	1,522	1,477	1,441	1,348
Basic Annual Allowance	$40,312	$36,095	$32,732	$28,517	$27,854	$24,828	$21,061	$19,038	$17,383	$ 15,419
Average Basic Monthly Allowance	$1,681	$1,597	$1,494	$1,387	$1,396	$1,277	$1,153	$1,074	$1,005	$ 953
Total Annual Allowance**	$49,688	$44,865	$40,801	$36,209	$34,897	$31,823	$27,297	$24,867	$22,780	$ 20,369
Average Total Monthly Allowance	$2,072	$1,986	$1,862	$1,761	$1,749	$1,637	$1,495	$1,403	$1,317	$ 1,259

** 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, 2012

		Type of Retirement*							Option Selected**				
Amount of Monthly Benefit	Number of Members	1	2	3	4	5	6	7	Unmodified	Opt 1	Opt 2	Opt 3	Opt 4
1 - 250	83	23	36	17	0	7	0	0	54	6	17	6	0
251 - 500	163	35	85	17	4	7	15	0	124	4	30	4	1
501 - 750	205	55	100	32	7	1	10	0	169	10	23	3	0
751 - 1,000	201	63	83	34	8	2	11	0	172	8	17	2	2
1,001 - 1,250	181	67	71	13	1	10	19	0	157	4	15	4	1
1,251 - 1,500	142	62	48	13	2	10	7	0	126	2	9	5	0
1,501 - 1,750	125	58	40	5	2	18	2	0	113	0	11	1	0
1,751 - 2,000	111	48	29	9	1	21	3	0	102	0	8	1	0
Over 2,000	787	410	257	27	5	82	6	0	702	24	46	11	4
Total	**1998**	**821**	**749**	**167**	**30**	**158**	**73**	**0**	**1719**	**58**	**176**	**37**	**8**

Notes:

*Type of Retirement:

1—Normal Retirement for age and service
2—Early retirement
3—Beneficiary payment, normal or early retirement
4—Beneficiary payment, death in service
5—Duty disability retirement
6—Non-duty disability retirement
7—Beneficiary payment, disability retirement

**Option Selected

Unmodified Plan: beneficiary receives 60 % continuance.
The following options reduce the retired member's monthly benefit:

Option 1—Beneficiary receives lump sum or member's unused contributions
Option 2—Beneficiary receives 100% of member's reduced allowance
Option 3—Beneficiary receives 50% of member's reduced allowance
Option 4—Multiple beneficiaries receive a designated percentage of a reduced allowance

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RETIRED MEMBERS AVERAGE BENEFIT PAYMENTS
Last Ten Years

	Years of Credited Service						
Retirement Effective Dates	**0-5**	**05-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
Period 07/01/2011 to 06/30/2012							
Average monthly benefit	$612	$899	$1,359	$2,476	$3,958	$4,683	$6,166
Average final average salary	$9,507	$4,097	$3,953	$5,148	$6,270	$6,257	$7,060
Number of retired members	5	9	26	27	36	15	24
Period 07/01/2010 to 06/30/2011							
Average monthly benefit	$805	$926	$1,120	$2,171	$3,693	$4,289	$8,010
Average final average salary	$8,545	$5,111	$4,042	$4,657	$5,715	$5,687	$8,180
Number of retired members	8	21	23	8	18	5	5
Period 07/01/2009 to 06/30/2010							
Average monthly benefit	$359	$1,247	$1,354	$2,831	$4,149	$4,563	$5,294
Average final average salary	$7,068	$6,819	$4,167	$5,713	$6,780	$6,148	$6,112
Number of retired members	7	14	25	24	31	15	22
Period 07/01/2008 to 06/30/2009							
Average monthly benefit	$485	$1,020	$1,321	$3,992	$4,521	$4,022	$6,335
Average final average salary	$7,668	$4,285	$4,545	$7,526	$7,935	$5,455	$7,172
Number of retired members	5	9	21	11	14	10	12
Period 07/01/2007 to 06/30/2008							
Average monthly benefit	$417	$959	$1,496	$2,380	$2,828	$4,078	$5,214
Average final average salary	$6,765	$4,366	$4,714	$5,203	$6,662	$5,470	$4,311
Number of retired members	4	15	16	13	13	9	6
Period 07/01/2006 to 06/30/2007							
Average monthly benefit	$1,650	$873	$1,291	$1,939	$3,209	$3,890	$6,176
Average final average salary	$14,598	$3,771	$4,449	$4,430	$5,348	$5,163	$7,070
Number of retired members	1	12	25	32	16	19	17
Period 07/01/2005 to 06/30/2006							
Average monthly benefit	$699	$1,000	$1,185	$2,176	$2,730	$3,290	$5,095
Average final average salary	$4,382	$3,499	$4,104	$4,726	$4,250	$4,542	$5,509
Number of retired members	5	13	16	13	8	13	10
Period 07/01/2004 to 06/30/2005							
Average monthly benefit	$657	$539	$1,212	$1,643	$1,620	$4,003	$5,101
Average final average salary	$6,041	$3,802	$4,476	$4,160	$3,190	$5,913	$6,591
Number of retired members	3	11	18	9	3	6	12
Period 07/01/2003 to 06/30/2004							
Average monthly benefit	$414	$510	$977	$1,332	$1,658	$2,870	$3,577
Average final average salary	$5,485	$3,238	$3,443	$3,789	$3,606	$4,768	$4,632
Number of retired members	5	14	19	30	16	11	23
Period 07/01/2002 to 06/30/2003							
Average monthly benefit	$953	$1,541	$1,236	$1,469	$2,080	$2,559	$5,693
Average final average salary	$4,854	$4,657	$4,018	$3,784	$4,669	$4,648	$7,125
Number of retired members	6	13	28	14	11	6	16

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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ACTUARIAL BALANCE SHEET
For the Years Ending June 30

		2011	2010
	ASSETS		
1.	Total actuarial value of assets	$ 526,713,896	$ 513,476,039
2.	Present value of future contributions by members	71,390,382	89,540,006
3.	Present value of future employer contributions for normal cost	93,318,369	77,786,428
4.	Present value of other future employer contributions (UAAL)	409,936,251	421,270,670
5.	Total Actuarial Assets	$1,101,358,898	$1,102,073,143
	LIABILITIES		
6.	Present value of retirement allowances payable to retired members and their survivors	$558,483,150	$532,694,876
7.	Present value of service retirement allowances payable to presently active member and their survivors	443,569,869	462,640,204
8.	Present value of allowances payable to current and future vested terminated members and their survivors	58,293,311	61,639,261
9.	Present value of disability retirement allowances payable to presently active members and their survivors	23,043,016	24,666,442
10.	Present value of death benefits payable on behalf of presently active members	8,081,816	8,782,584
11.	Present value of members' contributions to be returned upon withdrawal	7,154,272	7,735,133
12.	Special Reserves	2,733,464	3,914,643
13.	Total Actuarial Liabilities	$1,101,358,898	$1,102,073,143
	FUNDED RATIO		
14.	Present value of future benefits (items 6 to 12)	$1,101,358,898	$1,102,073,143
15.	Present value of future contributions by members and employers (items 2 and 3)	164,708,751	167,326,434
16.	Actuarial accrued liability (item 14 minus item 15)	936,650,147	934,746,709
17.	Actuarial value of assets	526,713,896	513,476,039
18.	Unfunded actuarial accrued liability (UAAL) (item 16 minus item 17)	$409,936,251	$412,270,670
19.	Funded Ratio	56.1%	54.7%

Note: Actuarial Balance Sheet provided by EFI Actuaries.

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
County of Merced										
General Members	1,453	1,521	1,575	1,708	1,852	1,848	1,853	1,931	1,882	1,928
Safety Members	306	322	331	342	352	328	316	296	274	262
Total County of Merced	1,759	1,843	1,906	2,050	2,204	2,176	2,169	2,227	2,156	2,190
Percentage of Membership	92.53%	92.85%	93.44%	93.87%	94.19%	94.69%	95.22%	99.87%	99.91%	99.91%
Participating Agencies										
Merced Cemetery District	2	2	2	3	3	3	3	3	2	2
Percentage of Membership	.11%	.10%	.09%	.13%	.13%	.13%	.13%	.13%	.09%	.09%
Transit Joint Powers Authority	1	3	3	-	-	-	-	-	-	-
Percentage of Membership	.05%	.15%	.14%	-	-	-	-	-	-	-
Superior Court of California	126	137	137	137	133	119	106	-	-	-
Percentage of Membership	6.63%	6.90%	6.33%	6.01%	5.68%	5.17%	4.65%	-	-	-
Regional Waste Management Authority	13	-	-	-	-	-	-	-	-	-
Percentage of Membership	0.68%	-	-	-	-	-	-	-	-	-
Total Participating Agencies	142	142	142	140	136	122	109	3	2	2
Total Active Membership										
General	1,595	1,663	1,717	1,848	1,988	1,970	1,962	1,934	1,884	1,930
Safety	306	322	331	342	352	328	316	296	274	262
Total	1,901	1,985	2,048	2,190	2,340	2,298	2,278	2,230	2,158	2,192