

TO THE MEMBERS OF THE MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MCERA presents the 2012 Popular Annual Financial Report (PAFR) which summarizes the MCERA Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2012. . The financial data presented in the PAFR is derived from the CAFR and is consistent with Generally Accepted Accounting Principals (GAAP) and was prepared in accordance with accounting principles and reporting guidelines as set forth by the Government Accounting Standards Board. It is published to provide a view of MCERA's overall financial position and services for the fiscal year. A copy of the MCERA CAFR can be obtained by contacting the MCERA office or on-line at www.mcera.merced.ca.us.

MANAGEMENT AND RESPONSIBILITIES

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

INVESTMENT POLICY OBJECTIVES

The Board has adopted an Investment Policy which provides the framework for the management of MCERA's investments. The Investment Policy establishes the investment program goals, asset allocations, performance objectives and risk controls. The primary investment objectives are to insure the payment of all benefit obligations and to meet the assumed rate of return .

CORE VALUES

In carrying out the policies and objectives, set by the Board, the Board and MCERA staff will (1) discharge its duties in accordance with fiduciary principals (2) take responsibility for cost effective operations (3) seek to minimize employer contributions; (4) display competency, courtesy, and respect; (5) continue professional growth through education and training; and (6) plan strategically for the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

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

Benefits– Approved and adopted new disability regulations related to authority to grant an applicant a good cause formal hearing. Adopted and implemented 3% COLA for Tier 1 members. Approved and adopted a number of amended MCERA Board By-Laws to enhance member service.

Operations– Approved and adopted updates to the MCERA Investment Objectives and Policy Statement. Approved and adopted a Statement of Actuarial Funding Policy to guide the Board's actions to improve the Plan's funded status and reduce employer contribution volatility.

Fiscal– Conducted an emerging market strategy analysis and hired Wells Capital Investment Management. Conducted additional review of private equity commitments and approved funding for Invesco private equity fund VI.

Award for Outstanding Achievement for Excellence in Financial Reporting: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MCERA for its CAFR for the fiscal year ended June 30, 2011. This is MCERA's eighth Certificate of Achievement for Excellence in Financial Reporting.

A Pension Trust Fund of the County of Merced, California
For the fiscal years ended June 30, 2012 and 2011



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

MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

POPULAR ANNUAL FINANCIAL REPORT For the Year ending June 30, 2012

Plan Administrator

Maria L. Arevalo

ISSUED BY

Gale Garcia, RPA

Fiscal Supervisor

and

David Liu, Accountant

BOARD OF RETIREMENT

COUNTY TREASURER

Karen Adams

ELECTED BY GENERAL MEMBERS

Karen Rodriguez

Michael Rhodes

ELECTED BY SAFETY MEMBERS

Jim Pacheco

Alternate Safety Member

Mary McWatters

ELECTED BY RETIRED MEMBERS

Ronald Kinchloe

APPOINTED BY THE BOARD OF SUPERVISORS

Deidre Kelsey

David Ness

Mark Bodley

Alfonso Peterson

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

Maria L. Arevalo, Retirement Plan Administrator



**Retirement Board Meeting
Dates**

**Second and Fourth Thursday of
each month at 8:15 A.M.**

Phone: 209-725-3636

Fax: 209-725-3637

MCERA is committed to providing excellent service for its plan participants

ASSETS

As of June 30, 2012, MCERA's net assets held in trust totaled \$505,132,599.

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

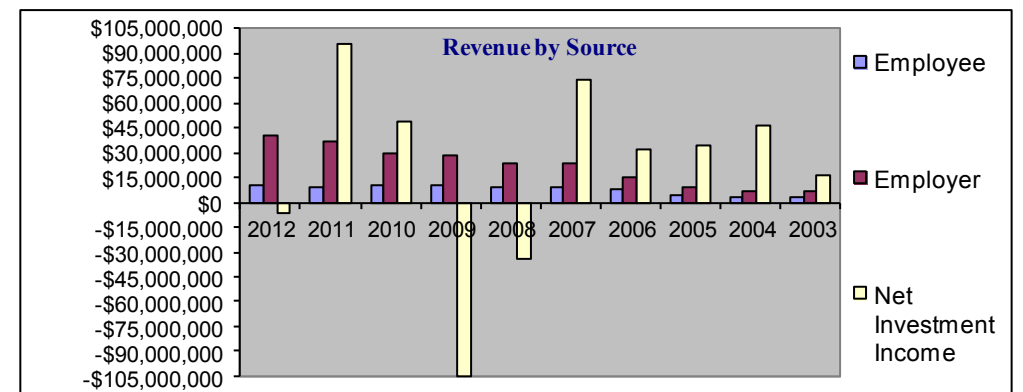
Changes in MCERA Net Assets (in thousands)

	2012	2011
ADDITIONS		
Plan Member Contributions	\$ 10,416	\$ 9,755
Employer Contributions	40,263	36,662
Net Investment Income	(7,039)	96,032
Total Additions	43,640	142,448
DEDUCTIONS		
401(h) Distribution to County	733	650
Benefits	49,840	45,022
Refunds of Contributions	1,052	767
Actuarial Expense	63	138
Administrative Expense	1,180	1,189
Total Deductions	52,868	47,766
Change in Net Assets	\$ (9,228)	\$ 94,682
Net assets held in trust for pension benefits		
Net Assets at beginning of year	\$ 514,361	\$ 419,678
Net Assets at end of year	\$ 505,133	\$ 514,361

Over the past fiscal year, MCERA's total net assets held in trust for pension benefits decreased by \$9.2 million (a decrease of 1.8%). This amount reflects a decrease in the fair value of investments of 2.7% and a decrease in current and other assets of 13.5% attributable to reduced securities lending income.

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

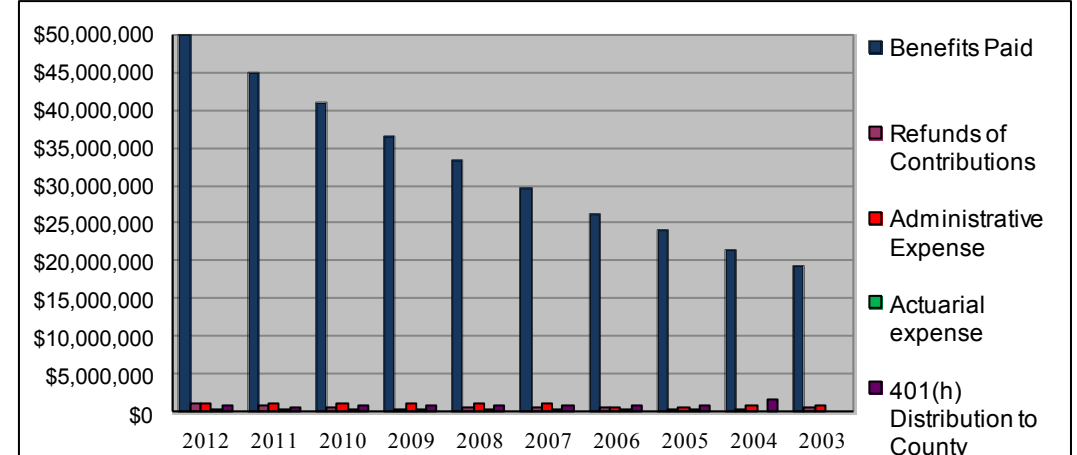
Fiscal years Ending 6/30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Employee Contributions	\$10,416	\$9,754	\$9,864	\$9,916	\$9,358	\$8,755	\$8,222	\$4,584	\$3,347	\$3,298
Employer Contributions	\$40,263	\$36,662	\$29,137	\$27,883	\$23,751	\$23,232	\$14,750	\$8,931	\$7,269	\$7,201
Net Investment Gain/(Loss)	\$-7,039	\$96,032	\$48,772	\$-105,689	\$-33,797	\$73,614	\$32,192	\$34,841	\$46,098	\$16,957



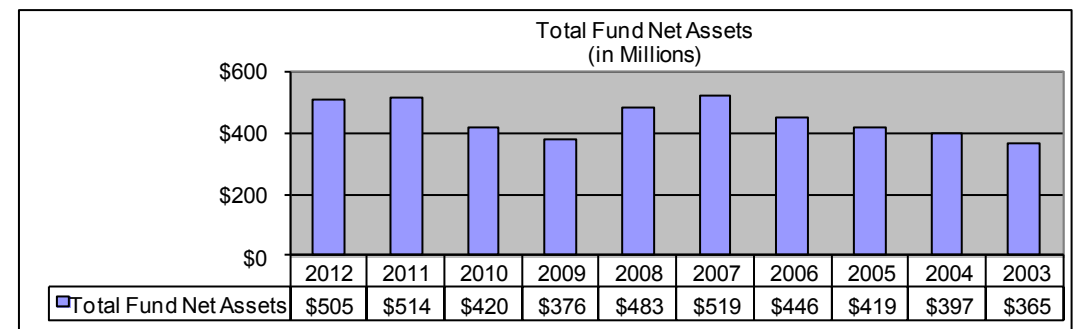
Deductions for the current fiscal year totaled \$52.9 an increase of 10.7% from the previous year. The increase in expenses in the current fiscal year can be attributed primarily to the retiree payroll, which grew approximately 10.7% or \$4.8 million.

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

Fiscal years ending 6/30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Benefits Paid	\$49,840	\$45,022	\$40,929	\$36,479	\$33,394	\$29,578	\$26,264	\$24,070	\$21,499	\$19,346
Refunds of contributions	\$1,052	\$767	\$673	\$761	\$653	\$704	\$602	\$409	\$349	\$499
Administrative Expense	\$1,180	\$1,189	\$1,171	\$1,005	\$1,030	\$1,015	\$649	\$602	\$830	\$820
Actuarial Expense	\$63	\$138	\$67	\$62	\$54	\$41	\$48	\$62	-	-
401(h) Distribution to County	\$733	\$650	\$850	\$850	\$850	\$850	\$850	\$850	\$1,759	-

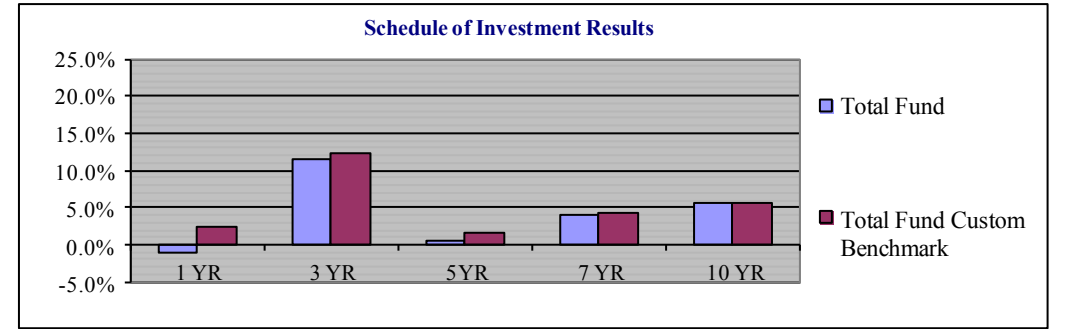


NET ASSETS HELD IN TRUST FOR PENSION BENEFITS



INVESTMENTS

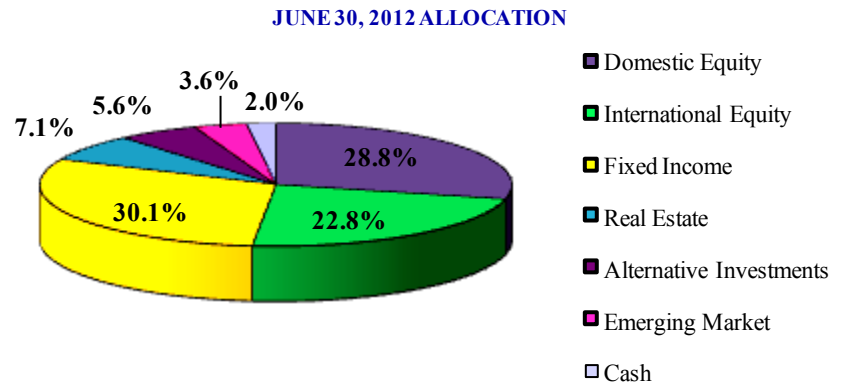
The MCERA Investment Policy defines the principal duties of the Board, MCERA's custodian bank, and MCERA's investment managers. For the fiscal year ending June 30, 2012 MCERA's total fund return was -1.0% which underperformed MCERA's total fund benchmark of 2.3%. This year's loss results from negative returns in the equity asset classes.



ASSET ALLOCATION

The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. The asset allocation plan is adopted by the Board of Retirement and as shown below has produced a well balanced and diversified portfolio.

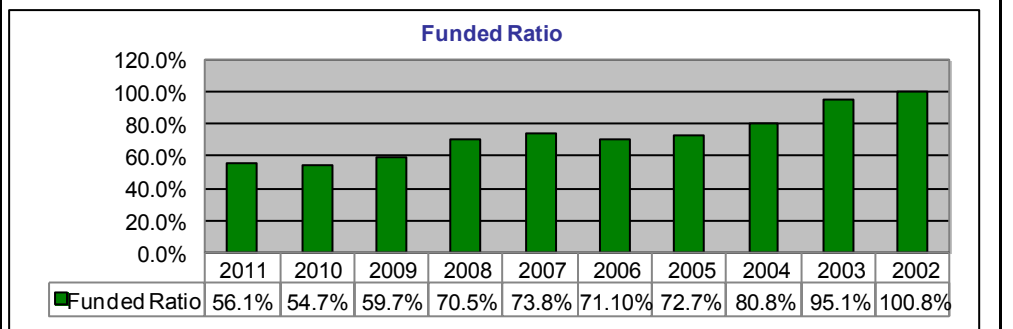
Actual Asset Allocation



ACTUARIAL

MCERA's overall funding ratio compares the amount of benefits promised to the assets available to pay those benefits. MCERA's most recent actuarial valuation, as of June 30, 2011 found the retirement system's actuarial funding status to be 56.1%. In this fiscal year, the Board of Retirement adopted an Actuarial Funding policy to direct MCERA's funding objective to maintain a status that allows for the payment of its long term benefit obligations.

Actuarial Funding Status for the Past 10 Years



ACTIVE MEMBERSHIP AND BENEFICIARIES

Fiscal years ending 6/30	Active Members	Retired Members and Beneficiaries	Average Annual Benefit Received
2012	1,901	1,998	\$24,864
2011	1,985	1,883	\$23,832
2010	2,048	1,826	\$22,344
2009	2,190	1,713	\$21,132
2008	2,340	1,663	\$20,082

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

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