

BROWN ARMSTRONG

Certified Public Accountants

Fresno County Employees' Retirement Association
Audit Committee presentation of the June 30, 2012 audit results
By: Connie Perez, CPA and Brooke Baird, CPA
Brown Armstrong Accountancy Corporation
December 19, 2012

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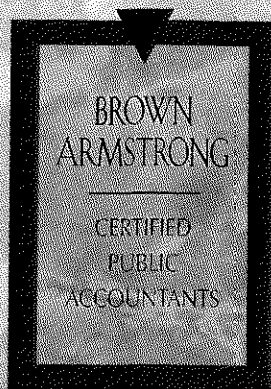
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Audit Committee and Board of Retirement of
Fresno County Employees' Retirement Association

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We have audited the financial statements of Fresno County Employees' Retirement Association (FCERA), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of FCERA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered FCERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FCERA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of FCERA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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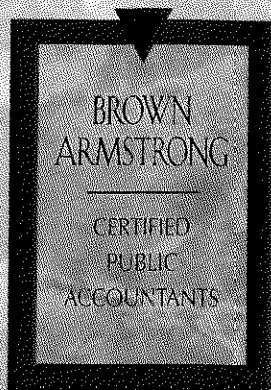
We noted certain matters that we reported to management of FCERA in a separate letter dated December 12, 2012.

This report is intended solely for the information and use of the Audit Committee, Board of Retirement, and management of FCERA, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 12, 2012



BROWN ARMSTRONG

Certified Public Accountants

REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Audit Committee and Board of Retirement of
Fresno County Employees' Retirement Association

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We have audited the financial statements of the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 26, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by FCERA are described in Note 2 to the financial statements. We noted no transactions entered into by FCERA during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the fair market value of investments.

Management's estimate of the fair market value of investments is derived by various methods as detailed in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures for deposits and investments in Notes 2 and 3 to the financial statements, Summary of Significant Accounting Policies and Deposits and Investments, respectively, were derived from FCERA's investment policy. Management's estimate of the fair market value of investments was derived by various methods as detailed in the notes.



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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the Management Representation Letter dated December 12, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the FCERA financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as FCERA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

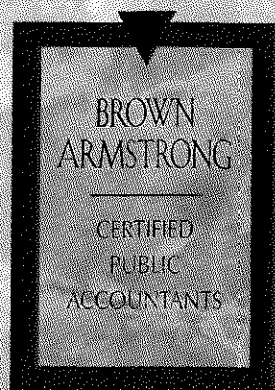
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This report is intended solely for the information and use of the Audit Committee, Board of Retirement, and management of FCERA, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 12, 2012



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Certified Public Accountants

AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

To the Audit Committee and Board of Retirement of
Fresno County Employees' Retirement Association

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We have audited the financial statements of the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2012, and have issued our report dated December 12, 2012. In planning and performing our audit of the financial statements of FCERA, we considered its internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the effectiveness of FCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of FCERA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that are listed in this report summarize our comments and suggestions regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various FCERA personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



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I. CURRENT YEAR CONDITIONS AND RECOMMENDATIONS

Condition Number 1 – Special District Salary Error

To ensure that employee pensionable payroll is properly calculated and provided to FCERA, we selected a sample of fifty (50) participants from the various participating employers and recalculated their pensionable salaries for a selected payroll period. During our analysis, we noted two (2) of the six (6) participants selected from Fresno Madera Area Agency on Aging (FMAAA) and one (1) of the two (2) participants selected from Clovis Veterans Memorial District (CVMD) had incorrect pensionable salaries entered into FCERA's pension system. Per further discussion with FCERA management, it was noted that updated salary information was provided to FCERA for the two (2) FMAAA employees and one (1) CVMD employee, but due to error by FCERA staff this information was not updated in FCERA's pension system.

Recommendation

FCERA management should provide FCERA staff with adequate training regarding payroll procedures, reinforcing the importance of entering correct pensionable salaries into the pension system. It is also recommended that FCERA review its records and confirm all salary changes within the last year with the participating employers, along with the timing of such changes, and emphasize the need for these such changes to be communicated to FCERA in a timely manner.

Views of Responsible Officials and Planned Corrective Action

FCERA management appreciates the exacting analyses performed by the audit team, the identification of errors on our part, and suggestions for improvement. FCERA's more important functional area is the administration of benefit determinations and the accuracy of payments to members.

FCERA line staff and supervisors are being re-trained on the importance of timely and accurate information being entered into the Pension system. Periodic review of the Special Districts will be completed by the Benefits Manager. Special Districts will have deadlines provided for submission of reports and payments to help ensure timeliness of data entry. With the implementation of the Arrivos Pension system in the spring of 2014, it is anticipated that the electronic templates to post member data will improve timeliness with the elimination of manual data entry.

Condition Number 2 – Missing Beneficiary Payment in Pensions Program

During our testing of participant eligibility, we reviewed FCERA's pension program and payroll ledger for correct benefit payment initiation. We selected a sample of twenty-five (25) current fiscal year retirees and beneficiaries and noted that one (1) beneficiary's benefit payment was not properly set up in FCERA's pension program prior to them receiving their initial benefit payment. This error did not affect the beneficiary's benefit payment amount.

Recommendation

We recommend FCERA management provide FCERA benefit staff with adequate training regarding benefit payroll procedures, reinforcing the importance of entering correct benefit payment information into the pension system to prevent duplicate or unrecorded payments from occurring.

Views of Responsible Officials and Planned Corrective Action

FCERA staff and supervisors are being re-trained on finalizing the pending actions of deceased members, along with understanding the reports that show when a payment to a beneficiary is made and the Pension system is not able to retrieve the information and a checklist will be provided to assist with the steps to be taken. Periodic review of the reports will be completed by the Benefits Manager. With the implementation of the Arrivos Pension system, workflows will assist staff to ensure final processing is completed or a supervisor is notified. The new system will display all payments made to a single payee without having to perform multiple searches which should help minimize the frequency of such errors.

Condition Number 3 – Cost of Living Adjustment

During our analysis of the accuracy of member benefit payments, we selected a sample of sixty (60) retirees and beneficiaries and noted one (1) retiree was incorrectly granted a COLA in 2010 when there was no COLA granted by the Board of Retirement. In addition, in 2011 FCERA decreased the member's COLA, when instead they should have granted an increase to the member's COLA. This resulted in incorrect COLA amounts being paid to the retiree during 2011 and 2012. In total, the member was underpaid \$2.71 per month, which resulted in a total of \$47.71 from April 1, 2011, to August 31, 2012. During our review of FCERA's correction to this member's account, we noted FCERA overlooked the overpayment of \$352.20 per benefit payment which occurred from April 1, 2010, to June 30, 2011. The overpayment has resulted in the member owing FCERA \$4,226.40, which has not been corrected.

Recommendation

We recommend FCERA perform a query in the benefit payment system as of April 30, 2010, for members who retired during the time period of April 2, 2009, through April 1, 2010, reviewing the data used to calculate their benefit payments, to ensure that no additional members received a COLA who should not have. Also, FCERA should contact the member mentioned in regards to obtaining the overpayment.

Views of Responsible Officials and Planned Corrective Action

This error occurred in 2009. In subsequent years, additional training and review was implemented to reduce the occurrence of missed or incorrect COLA calculations. The member who was over paid has been notified and provided with options for repayment. The Arrivos Pension system is being developed to enhance screening of this type of error.

Condition Number 4 – Incorrect Tier Benefit Payment

To ensure benefit payments are accurate, we recalculated retired participants' base benefits by confirming that correct factors were used in the retirement calculation prepared by FCERA. We selected a sample of sixty (60) retirees and beneficiaries. We noted one (1) retiree was incorrectly given a Tier II and Tier III benefit, when all contributions should have been converted to a Tier I benefit when the member paid for the conversion. The error occurred due to contributions being erroneously posted to Tier II and III which resulted in the computer calculating a portion that is being added separately to the benefit. The total overpayment paid to the member was \$1,149.13. The member is currently in process of repaying FCERA.

Recommendation

We recommend FCERA management provide benefit staff with adequate training regarding tier conversion of contributions, reinforcing the importance of entering the correct classification of contributions into the pension system to reduce the likelihood of an error occurring when calculating benefit payments.

Views of Responsible Officials and Planned Corrective Action

FCERA staff and supervisors have been re-trained to review their documents. In addition, we have established a reviewer for quality control to help ensure member tiers are correct. A checklist will be developed in the interim. This type of error should be greatly reduced with the Arrivos Pension system as the retirement process will display an error when a conflict has occurred that must be fixed prior to payment of benefits.

Condition Number 5 – Deceased Member

In an ongoing attempt to receive notification of member deaths in a timely manner, FCERA employs Small World Solutions, an independent mortality identification service. FCERA receives a death audit weekly report from Small World Solutions. Per our review of the death audit weekly report, performed June 7, 2012, we noted a benefit payment for a beneficiary who had died on March 3, 2012. After further inquiry with FCERA, it was noted that this member's account was terminated and refunded prior to death; however, the member's account in the benefit payment system was not updated nor were there any pending events noted during our review, but we did note a staff inserted a memo about the beneficiary's death. The member was receiving beneficiary payments for her deceased husband which was not further researched by FCERA.

Recommendation

We recommend FCERA calculate overpayment of benefits and contact the member's beneficiary on file for repayment. We also recommend FCERA implement a process to perform a review for each member reported on the Small World Solution's death audit weekly report. This review should include documentation noting that the member has been reported by Small World Solutions and verification if the member's payment has ceased and beneficiary has properly been set up, if applicable.

Views of Responsible Officials and Planned Corrective Action

FCERA has included in the procedures that while a deceased is a member, they may also be a beneficiary. FCERA staff needs further training to ensure that all payments for a particular individual are identified and stopped. This type of error is also being addressed in the design of the Arrivos Pension system. Entering a name or social security number will display all payment options the program's logic identifies for the member.

As indicated in the responses offered for several specific items, we believe that the new benefits administration system will help considerably in reducing the frequency of these types of errors. However, we also acknowledge that information systems remain only tools, and cannot substitute for ongoing efforts to enhance the quality of our analyses, execution and quality review procedures. Though we believe the new system will help management and staff in the future, we remain more than a full operating year away from implementation.

The recommendations provided by the audit team provide us an opportunity to dedicate special efforts to quality assurance in the processes you have highlighted in this year's review.

Condition Number 6 – Private Market Schedule

During our review of FCERA's internal private markets schedule that staff use to track cost and market value, investment income, management fees, and unrealized and realized gains/loss by individual manager, we noted staff oversights occurred in the preparation of the Colony and Hamilton Lane worksheets. FCERA's internal spreadsheets are prepared differently for each manager depending on their contract. With regards to Colony, FCERA incorrectly determined that all distributions, even if identified as return of capital when received, would be booked as income through the cash account. This error resulted in an overstatement of income and cost value for \$6,446,123 and an understatement of net appreciation. When reviewing Hamilton Lane, we noted that a column needed to be added to properly present the cashless activity to the fund. One cashless distribution was not entered, which resulted in an understatement of income and the cost value for \$3,066,367 and an overstatement of net appreciation. The net effect of these errors does not materially misstate the financial statements and have not been corrected by FCERA.

In addition to the above, we have noted two incorrect journal entries performed during the recording of realized and unrealized gain/loss. The net effect of the entries resulted in an overstatement of realized gain/loss and an understatement of unrealized gain/loss of \$4,040,203. Due to realized and unrealized gain/loss being classified on the same line item, the net effect of the net appreciation in fair value of investments on the financial statements is \$0. The reclassifications have not been corrected by FCERA.

Recommendation

We recommend FCERA correct the noted errors during fiscal year 2012-2013 and provide additional training to staff regarding the noted errors. We recommend FCERA corrects its internal private markets schedule and review all other spreadsheets for compliance. In addition, as there is no year-end comparison being performed, we recommend FCERA reconcile all private market managers in total for completeness.

Management Response

FCERA agrees with the observation and recommended corrective action for Colony Capital and Hamilton Lane investment cost values. FCERA also agrees with the corrective action for the realized gain/loss and unrealized gain/loss for Colony Capital and Warburg Pincus VIII. FCERA will make the corrective entries in fiscal year 2012 – 2013. Training will be provided to accounting staff responsible for monitoring and recording investment activity to the private market schedules. FCERA currently performs monthly updates to the private market spreadsheets for cash activity (capital calls and distributions) as well as quarterly updates based on the quarterly statements provided by each private market investment. Although the additional column described by the Auditors already exists on the spreadsheet, we agree that perhaps it is not being used as effectively as possible. Additional training and review will be implemented to ensure that the schedules agree to the detail provided by the partnerships and that the quarterly reporting agrees/reconciles to the year-end reporting provided by the partnerships, where possible.

Colony Capital

The Colony Capital private market spreadsheet will be updated with the corrective adjustments so that the cost of the investment will account for the return of capital distributions made to FCERA. The formulas within the spreadsheet that account for the adjustment for cost will be verified to function correctly when inputting return of capital transactions so that the cost of the investment will no longer be overstated.

Hamilton Lane

The Hamilton Lane private market spreadsheet will be updated to properly record both cash-less activity and gross capital call values. FCERA has been recording net capital call values to tie the spreadsheet to the cash account activity. This process has led to the understatement of actual cost in the investment. Staff will be trained on the correct process to ensure that the proper values are recorded for the monthly and quarterly investment activity in the private markets.

Realized and Unrealized Gain and Loss

The Colony Capital realized gain and unrealized gain amounts were manually inputted incorrectly to the wrong columns on the individual private market schedule at December 31, 2011. Realized gain was recorded at an amount of \$2,979,400. Unrealized gain was recorded at an amount of \$459,100. A corrective entry will be made to realized gain and unrealized gain in fiscal year 2012-2013.

The realized gain for Warburg Pincus VIII was incorrectly manually inputted at June 30, 2012. Staff did not recognize that the June 30, 2012, investment statement reported year-to-date amounts instead of quarterly amounts. The realized gain amount of \$4,793,808 recorded at June 30, 2012, included \$1,519,903 of realized gain already recorded at March 31, 2012. A corrective entry to realized gain and unrealized gain in the amount of \$1,519,903 will be made in fiscal year 2012-2013.

The Retirement Administrator will designate a team to assess current procedures associated with each condition indicated in the review of our audit group. Options to address our errors will be evaluated and we will assess our progress in implementing adopted improvements over the course of the coming year.

II. DISPOSITION OF PRIOR YEAR CONDITIONS

Condition Number 1 – Special District Salary Error

To ensure that employee pensionable payroll is properly calculated and provided to FCERA, we selected a sample of twenty-five (25) participants from the various participating employers and recalculated their pensionable salaries for a selected payroll period. During our testing, we noted three (3) of the five (5) participants selected from Fresno Madera Area Agency on Aging (FMAAA) and one (1) of the five (5) participants selected from Fresno Mosquito and Vector Control District (FMVCD) had incorrect pensionable salaries entered into FCERA's pension system. Per further discussion with management, it was noted that updated salary information was provided to FCERA for the three (3) FMAAA employees, but due to a change in staffing at FCERA this information was not updated in FCERA's pension system. With regards to the one (1) FMVCD employee, it was noted that the employer did not properly notify FCERA of the salary change.

Recommendation

FCERA should provide FCERA staff with adequate training regarding payroll procedures, reinforcing the importance of entering correct pensionable salaries into the pension system. It is also recommended that FCERA review its records and confirm all salary changes within the last year with the participating employers, along with the timing of such changes, and emphasize the need for these such changes to be communicated to FCERA in a timely manner.

Views of Responsible Officials and Planned Corrective Action

Previous staff training emphasized accuracy of payroll records being maintained. We have provided additional training on accuracy and timeliness of payroll records being maintained. With the implementation of the new pension administration system, these types of errors will be reduced.

Current Year Status

See current year condition number 1.

Condition Number 2 – Missing Member Files

During our recalculation of forty (40) active participants' current year contributions, it was noted that FCERA was unable to locate one (1) of the member's personnel files. Per discussion with management, it was noted that FCERA was aware of the missing file prior to our 2011 fiscal year-end audit, but did not perform the necessary procedures to obtain the adequate documentation for the participant's file. Due to the lack of documentation, we were unable to verify and trace relevant demographic data to source documents.

Recommendation

We recommend that FCERA perform the necessary procedures to obtain adequate documentation for the participant's personnel file immediately.

Views of Responsible Officials and Planned Corrective Action

FCERA is aware that files were lost during the move to our present location. As files are identified, FCERA has trained the staff to obtain adequate documentation for the member's file either from the Plan Sponsor or the member. With the implementation of the electronic data imaging system, lost files will no longer be an issue.

Current Year Status

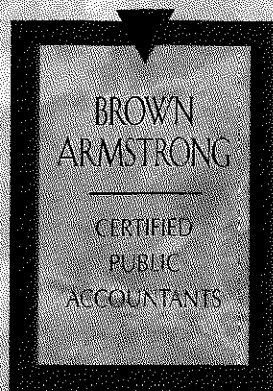
Currently in process of imaging files.

This information is intended solely for the use of the Audit Committee, Board of Retirement and management of FCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

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Bakersfield, California
December 12, 2012



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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Retirement of
Fresno County Employees' Retirement Association

We have audited the accompanying Statement of Plan Net Assets of the Fresno County Employees' Retirement Association (FCERA) as of June 30, 2012 and 2011, and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of FCERA management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 FCERA as of June 30, 2012 and 2011, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financials report for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

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REGISTERED with the Public Company
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Certified Public Accountants

Our audit was conducted for the purpose of forming opinions on the financial statements of FCERA as a whole. The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole. The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of FCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 12, 2012