

Comprehensive  
Annual  
Financial  
Report

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2006



Fresno County Employees' Retirement Association

A Component Unit of the County of Fresno  
Fresno, CA

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2006

ISSUED BY

ROBERTO L. PEÑA  
RETIREMENT ADMINISTRATOR

BECKY VAN WYK, CPA  
CHIEF ACCOUNTANT

**FCERA**

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
1111 H STREET  
FRESNO, CALIFORNIA 93721

A COMPONENT UNIT OF THE COUNTY OF FRESNO

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# INTRODUCTORY SECTION





Roberto L. Peña  
Retirement Administrator

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**BOARD OF RETIREMENT**

Steven J. Jolly, Chair  
Michael Cardenas, Vice Chair  
Vicki Crow  
Phil Larson  
A. Papaleo  
Stephanie Savrnach  
John P. Souza  
William Storey  
Ronald S. Frye, Alternate

December 11, 2006

Board of Retirement  
Fresno County Employees' Retirement Association  
1111 H Street  
Fresno, CA 93721

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Fresno County Employees' Retirement Association (FCERA) for the fiscal years ended June 30, 2006 and 2005. Information contained in this report is designed to provide a comprehensive and accurate review of the year's operations and is the responsibility of the Association's management.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The Association's MD&A can be found immediately following the Report of the Independent Auditor.

The required financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, the reporting guidelines for government entities, and the County Employees Retirement Law of 1937. Brown Armstrong, independent auditors, have audited the financial statements. The Board of Retirement (Board) adopts a budget each fiscal year to facilitate the oversight of the Retirement Office's administrative functions. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

## **STRUCTURE OF THE REPORT**

FCERA management is responsible for both the accuracy of the data and the completeness and fairness of the presentation of financial information, including all disclosures. The CAFR is presented in five sections:

- The **Introductory Section** includes the Letter of Transmittal, a description of FCERA's Board Members and organizational structure, a listing of professional services used and the Certificate of Achievement.
- The **Financial Section** contains the opinion of the independent certified public accountants, Brown, Armstrong, Paulden, McCown, Starbuck, Thornburg & Keeter Accountancy Corporation, the Management's Discussion and Analysis, the financial statements and notes and other required supplementary financial information.
- The **Investment Section** contains the investment consultant's statement produced by Wurts & Associates, FCERA's investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The **Actuarial Section** includes the certification letter produced by the independent actuary, Public Pension Professionals, along with supporting schedules and information.
- The **Statistical Section** contains graphs and schedules with comparative data related to revenues and expenses, active and deferred membership, retired membership, benefit expenses by type, average monthly benefits, participating employers, and employer contribution rates.

## **FCERA AND ITS SERVICES**

FCERA was established on January 1, 1945, to provide retirement allowances and other benefits to the safety and general members employed by Fresno County. Currently, Fresno County (including Superior Court of California – County of Fresno) and 5 other participating agencies are members of FCERA. The participating agencies include:

Clovis Memorial District  
 Fresno-Madera Area Agency on Aging  
 Fresno County Office of Education (limited membership)  
 Fresno Mosquito and Vector Control  
 North Central Fire Protection District

FCERA is governed by the California Constitution, the County Employees Retirement Law of 1937, and the regulations, procedures and policies adopted by FCERA's Board. The Fresno County Board of Supervisors may also adopt resolutions, as permitted by the County Employees Retirement Law of 1937, which may affect benefits of FCERA members.

The plan is administered by the Board of Retirement of the Fresno County Employees' Retirement Association (Board), which consists of nine members and a retiree alternate. The Board is responsible for establishing policies governing the administration of the

retirement plan, determining benefit allowances, and managing the investments of the system's assets. The Board oversees the Retirement Administrator and the FCERA staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937 and the bylaws, procedures, and policies adopted by the FCERA Board.

## **MAJOR INITIATIVES**

A lawsuit was filed by the County of Fresno against the FCERA Board of Retirement seeking a change in the method of calculating final compensation. As a result of the court's decision on this matter, the Board agreed to change the method of calculating final compensation from the highest 26 non-consecutive pay periods to 365 consecutive days.

By judgment dated October 25, 2005, the court: (a) granted judgment in favor of the County on its claim for declaratory relief, consistent with the court's previous Tentative Rulings; (b) dismissed, without prejudice, all remaining claims of the County and defenses asserted by Fresno Deputy Sheriffs' Association (FDSA); and (c) held in abeyance FDSA's cross-complaint against the FCERA and its Board, until the judgment on the County's claim for declaratory relief becomes final and all appeals from the judgment are exhausted. FDSA appealed the Judgment. Briefing of the appeal will be complete by mid December 2006 and oral argument will then be scheduled by the Court of Appeals.

As of this writing, the project is into its third phase and is approximately 71% complete with about 1,245 final compensation and retirement benefit recalculations prepared. As of June 30, 2006, overpayments in the amount of \$1,359,398 have been collected and underpayments to retirees in the amount of \$511,698 including interest have been issued. The project is scheduled for completion by Summer of 2007. A more detailed discussion is provided in the Notes to the Financial Statements.

## **INVESTMENTS**

The Board of Retirement adopted an investment policy that provides a framework for the management of FCERA's investments, including FCERA's investment objectives and the duties of the investment managers, custodian and investment consultant.

A pension fund's strategic asset allocation policy, implemented in a consistent and disciplined manner is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset class mix (target allocation) which is expected to achieve a specific set of investment objectives. FCERA employs a long-term investment strategy based on the target allocation. This long term view is reflected through the choice of investments including asset classes such as Domestic Fixed Income, Foreign Fixed Income, Domestic Equity, International Equities, Real Estate and Alternative Investments.

## **INVESTMENTS (continued)**

Under this policy the Board operates under a standard of care in California commonly known as the "prudent person rule" which requires that the Board discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

The rule requires the Board to diversify the investments of the fund, unless it is clearly prudent not to do so under the circumstances. The Board therefore makes basic policy decisions with respect to the fund, including, but not limited to, the allocation of assets to various investment classes. The Board delegates much discretion to professional investment advisors to execute investment policy subject only to policy and guidelines provided by the Board.

The Board is currently in the process of establishing a Cash Overlay Program with State Street Global Advisors and JP Morgan to equitize the administrative cash of the plan. Contracts have been signed with each manager. Funding of the cash overlay program is expected in the third quarter of fiscal year 2006 - 2007.

The Board also selected and signed contracts with State Street Global Advisors and Russell to perform transition management services. State Street Global Advisors was utilized in November 2005 with the transition of assets from Marvin and Palmer Emerging Markets and International accounts to newly funded managers, Mondrian Emerging Markets and Oechsle International.

For fiscal year 2006, the investments of the plan provided a gain, net of fees of 11.1%. Over the past three and five years, FCERA has reported a net of fees gain of 13% and 7.2%, respectively. The one, three and five years gross returns can be found on the *Investment Summary* schedule on page 53.

## **ACTUARIAL FUNDING STATUS**

Pursuant to provisions in the County Employees Retirement Law of 1937, FCERA engages an independent actuarial firm to perform an actuarial valuation of the system annually. Economic assumptions are reviewed annually. Additionally, every 3 years, the actuary performs a detailed review of plan assumptions and makes recommendations to the FCERA Board on the basis of factors such as the experience of the Plan members, the Plan's asset allocation and the economic environment. The non-economic assumptions may be updated at the time each triennial experience study is performed. The most recent triennial experience study, which was completed by Public Pension Professionals (P<sup>3</sup>) was performed as of June 30, 2003. The P<sup>3</sup> actuarial valuation as of June 30, 2005 determined the funding status (the ratio of system assets to system liabilities) to be 91.5%, using approved assumptions. A more detailed discussion of funding is provided in the Actuarial Section of this 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 the Association for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. This was the ninth consecutive year that the system has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, of which the contents conform to the program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

## **ACKNOWLEDGMENTS**

The compilation of this report reflects the combined effort of the Retirement Association office staff. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the Association's investment portfolio.

I would like to take this opportunity to thank each member for their confidence in the Association during the past year. I also want to express my thanks to the Board of Retirement for their dedicated effort in supporting the Association through the past year. Likewise, I also want to thank our consultants and staff for their commitment to the Association and for their diligent work to assure the Association's continued successful operation.

Respectfully submitted,

A handwritten signature in black ink that reads "Roberto L. Peña". The signature is written in a cursive style with a large initial 'R'.

Roberto L. Peña  
Retirement Administrator

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Fresno County Employees' Retirement Association California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

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.



*Carla E. Perry*

President

*Jeffrey R. Emer*

Executive Director

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
THE BOARD OF RETIREMENT**

**ADMINISTRATOR**

ROBERTO L. PEÑA  
Retirement Administrator

**CHAIRMAN**

STEVEN JOLLY  
Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 2006

**VICE CHAIRPERSON**

VERA DOMINGUEZ  
General Member - Elected by General Members  
Present term expires December 31, 2006

**MEMBER**

MICHAEL CARDENAS  
Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 2008

**MEMBER**

VICKI CROW, CPA  
Auditor-Controller/Treasurer-Tax Collector  
Ex-Officio Trustee

**MEMBER**

JOHN SOUZA  
Retired Member – Elected by Retirees  
Present term expires December 31, 2007

**MEMBER**

PHIL LARSON  
Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 2007

**MEMBER**

A. PAPAEO  
Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 2008

**MEMBER**

STEPHANIE SAVRNOCH  
General Member - Elected by General Members  
Present term expires December 31, 2007

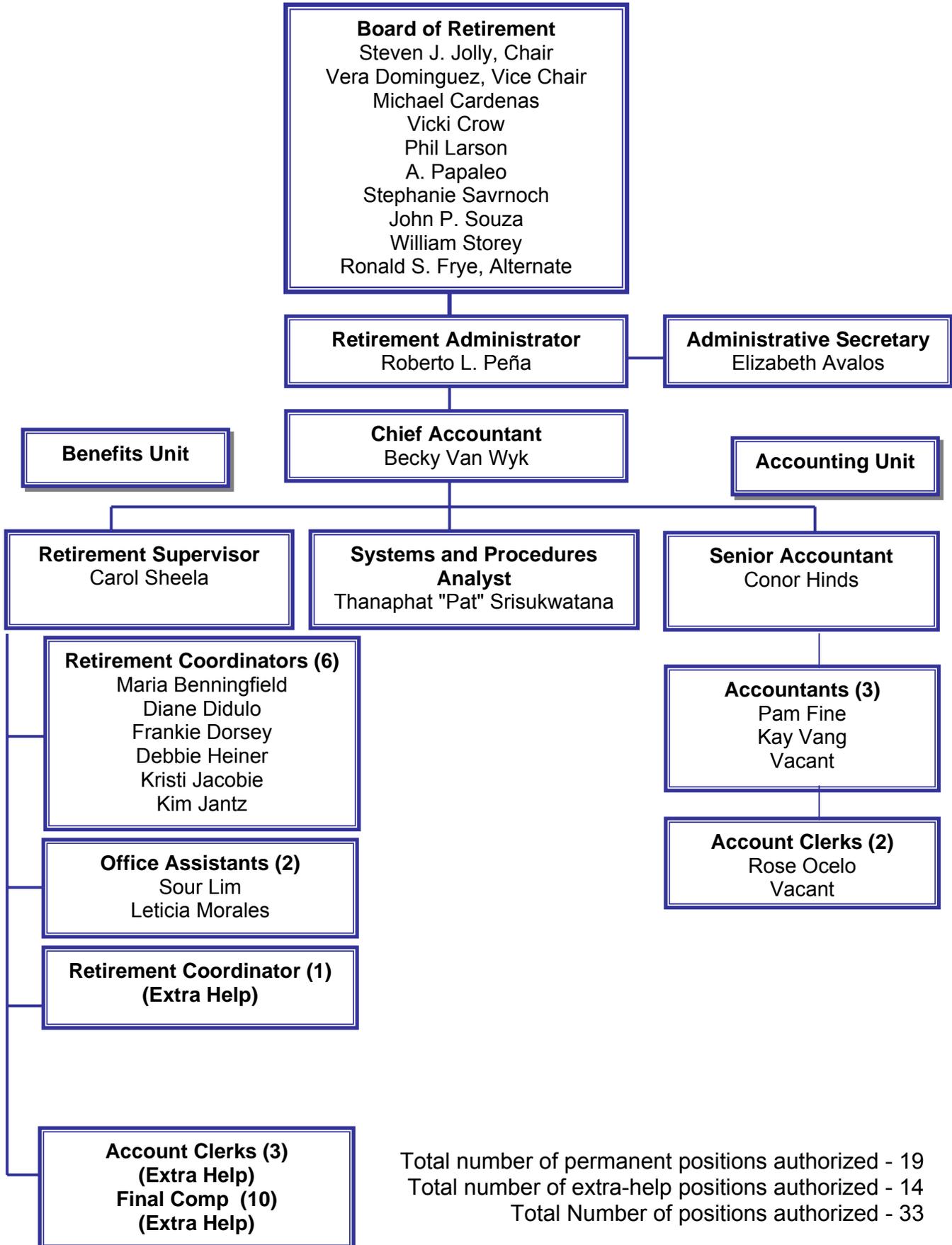
**MEMBER**

WILLIAM STOREY  
Safety Member - Elected by Safety Members  
Present term expires December 31, 2008

**ALTERNATE RETIRED MEMBER**

RONALD S. FRYE  
Alternate Retired Member - Elected by Retirees  
Present term expires December 31, 2007

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
ORGANIZATION CHART**



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
LIST OF PROFESSIONAL CONSULTANTS**

**CONSULTING SERVICES**

**ACTUARY**

Public Pension Professionals

**AUDITOR**

Brown Armstrong

**COMMISSION RECAPTURE SERVICES**

Lynch, Jones & Ryan

**CUSTODIAN BANK**

Fifth Third Bank

**INVESTMENT CONSULTANT**

Wurts & Associates

**LEGAL COUNSEL**

Richard H. Chasen

Bob Blum, Hanson Bridgett Marcus

Vlahos Rudy LLP

Harvey Leiderman, Reed Smith LLP

Ashley K. Dunning, Steefel Levitt & Weiss

Joseph J. Tabacco, Jr., Berman,

Devalerio, Pease, Tabacco,

Burt & Pucillo

Mitch Whitehead, Seyfarth Shaw LLP

County Counsel

**SECURITIES LENDING**

Credit Suisse First Boston

**INVESTMENT MANAGERS**

**DOMESTIC BONDS**

BlackRock Financial Management Inc.

Bradford & Marzec, Inc.

Loomis Sayles

Western Asset Management Company

**GLOBAL BONDS**

Grantham, Mayo, Van Otterloo & Co.

**DOMESTIC STOCKS**

Artisan Management

Aronson, Johnson & Ortiz, LP

Brandywine Asset Management, Inc.

Enhanced Investment Technologies, LLP.

aka (INTECH)

Kalmar Management

State Street Global Advisors

TCW Concentrated Core

Wellington Management Company, LLP.

**INTERNATIONAL STOCKS**

Marvin & Palmer Associates, Inc.

Mondrian Emerging

Templeton Investment Counsel, Inc.

Oechsle International

**PRIVATE MARKETS INVESTMENT**

BCI Growth V, LP

DT Investment Advisers, Inc.

Heitman/JMB Advisory Corporation

JE Robert Company, Inc.

Landmark Partners, Inc

Lone Star Management Co. IV, Ltd.

New Mountain Capital, LLC

Sentinel Real Estate Corporation

TA Associates Realty

TCW Asset Management Company

The Blackstone Group

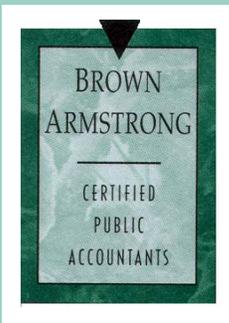
Warburg, Pincus and Co.

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# FINANCIAL SECTION





**BROWN ARMSTRONG PAULDEN**  
**McCOWN STARBUCK THORNBURGH & KEETER**  
**Certified Public Accountants**

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4200 Truxtun Ave., Suite 300  
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560 Central Avenue  
Shafter, California 93263  
Tel 661.746.2145 Fax 661.746.1218

Peter C. Brown, CPA  
Burton H. Armstrong, CPA, MST  
Andrew J. Paulden, CPA  
Harvey J. McCown, CPA  
Steven R. Starbuck, CPA  
Aileen K. Keeter, CPA  
Chris M. Thornburgh, CPA  
Eric H. Xin, CPA, MBA

**INDEPENDENT AUDITOR'S REPORT**

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

Lynn R. Krausse, CPA, MST  
Rosalva Flores, CPA  
Connie M. Perez, CPA  
Sharon Jones, CPA, MST  
Diana H. Branthoover, CPA  
Thomas M. Young, CPA  
Alicia Montgomery, CPA, MBA  
Matthew Gilligan, CPA  
Ryan S. Johnson, CPA  
Hanna J. Sheppard, CPA  
Michael C. Olivares, CPA  
Natalie M. Arduain, CPA  
Ryan J. Nielsen, CPA  
Amanda Fedewa, CPA  
Jian Ou-Yang, CPA  
Jialan Su, CPA

We have audited the accompanying statement of plan net assets of the Fresno County Employees' Retirement Association (FCERA) as of June 30, 2006 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the FCERA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fresno County Employees' Retirement Association as of and for the year ended June 30, 2005 were audited by other auditors, whose report dated September 30, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Fresno County Employees' Retirement Association as of June 30, 2006 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) and the schedules designated as required supplementary information in the table of contents are not required parts of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information designated as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of FCERA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the Introductory, Investment, Actuarial and Statistical sections in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on such data.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
December 8, 2006

## **Fresno County Employees' Retirement Association Management's Discussion and Analysis**

Our discussion and analysis of the financial performance of the Association provides an overview of the financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Letter of Transmittal in the Introductory Section of the Association's Comprehensive Annual Financial Report, and the Financial Statements, which follow this discussion.

### **Financial Highlights**

- Net assets held in trust by the Association, as reported on the *Statement of Plan Net Assets*, totaled \$2,529,664,000 as of June 30, 2006. Net assets increased by \$191,958,000 or 8.2%, consistent with economic and market conditions through out the year. Net assets totaled \$2,337,706,000 as of June 30, 2005. Financial and economic factors are also discussed in the Letter of Transmittal from the Retirement Administrator and in the Investment Section of this report.
- The *Statement of Changes in Plan Net Assets* reflects \$317,001,000 in additions to plan net assets for June 30, 2006. Of this amount, \$164,987,000 represents appreciation in the fair value of investments (52.1% of the total additions), interest and other investment income and expenses of \$64,780,000 (20.4% of the total additions) and employer and employee contributions of \$87,234,000 (27.5% of the total additions). At June 30, 2005, \$316,010,000 in additions to plan net assets is reported. The net increase was comprised of \$168,581,000 appreciation in the fair value of investments, (53.3% of the total additions), interest and other investment income of \$66,825,000 (21.1% of the total additions) and employer and employee contributions of \$80,604,000 (25.5% of the total additions).
- The *Statement of Changes in Plan Net Assets* for June 30, 2006 reflects total deductions from plan net assets of \$125,043,000, an increase of 5.1% over prior year deductions of \$119,016,000. Total deductions from plan net assets for June 30, 2005 totaled \$119,016,000, an increase of 8.2% over the prior year deductions of \$109,994,000. The majority of the increases represent increased benefits paid.
- The Association invests the retirement funds through a variety of investment managers and private markets. Investment profits and/or losses are allocated semi-annually based upon the fund reserve balances at the end of the prior six-month period.

### **Using this Comprehensive Annual Financial Report and Financial Statements**

This Comprehensive Annual Financial Report includes two financial statements. The *Statement of Plan Net Assets* provides a snapshot of account balances at the end of the year. This statement reports the assets available for future payments to members and any current liabilities that are owed at this time. These assets, less liabilities, provide a clear picture of the amount of funds that are available for future payments. The *Statement of Changes in Plan Net Assets*, on the other hand, provides a view of current year additions and deductions to the Plan.

Both statements are in compliance with Governmental Accounting Standard Board (GASB) Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*; GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 40, *Deposit and Investment Risk Disclosures*.

## **Fresno County Employees' Retirement Association Management's Discussion and Analysis (Continued)**

These statements provide standards regarding certain disclosures and the use of accounting principles by State and Local Governments. The Association complies with all material requirements of these pronouncements.

### **The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets**

The most important question asked about the Association's financial condition is, "Do we have sufficient assets to pay the benefits that have been promised to the membership?" The financial statements report information about the Association's activities in a way that helps answer this question. The actuarial valuation prepared for the one year period ended June 30, 2005 reported the funding ratio as 91.5%, a decrease of 6.5% from the funding ratio of 98.0% included in the valuation report as of June 30, 2004. The funding ratio indicates that at June 30, 2005 we have about \$0.92 for each \$1.00 of liability. These 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 revenues and expenses are taken into account regardless of when cash is received or paid and all investment gains and losses are shown at transaction date, not settlement date. Further, both realized and unrealized gains and losses on investments are presented and all capital assets (property and equipment) are depreciated over their estimated useful lives.

These two financial statements report the Association's net assets – the difference between assets and liabilities – as one way to measure the Plan's financial position. Over time, increases and decreases in the Association's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as market conditions, to assess the Association's overall health.

### **FCERA's Net Assets**

FCERA's net assets increased 8.2% in 2006, from a beginning value of \$2,337,706,000 to \$2,529,664,000. The increase was primarily due to increases in the net appreciation in fair value of investment held by FCERA. The net assets for June 30, 2005 increased \$196,994,000 (9.2%) from the June 30, 2004 balance of \$2,140,712,000 due to increases in the contributions received from employers and employees and the net appreciation in the fair value of investments during that period. Investment trades receivable and payable at June 30, 2006 decreased \$134,213,000 (78.3%) and \$109,844,000 (49.8%), respectively, over the June 30, 2005 balances of \$171,516,000 and \$220,550,000 due to fewer outstanding trades at year end 2006. The cash collateral payable for securities lending increased \$21,234,000 (6.3%) to \$356,419,000 from the June 30, 2005 balance of \$335,185,000. The June 30, 2005 balance of cash collateral payable for securities lending had increased 38.6%, or \$93,417,000 from the June 30, 2004 balance of \$241,768,000.

**Fresno County Employees' Retirement Association  
Management's Discussion and Analysis (Continued)**

**FCERA's Net Assets (Continued)**

(The following table presents the net assets amounts at end of fiscal years 2005 and 2006, in thousands).

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease) Amount</u>
Current and other assets	\$ 3,000,585	\$ 2,896,149	\$ 104,436
Capital assets	2,573	2,673	(100)
Total assets	<u>\$ 3,003,158</u>	<u>\$ 2,898,822</u>	<u>\$ 104,336</u>
Other liabilities			
Total liabilities	<u>473,494</u>	<u>561,116</u>	<u>(87,622)</u>
Net assets	<u>\$ 2,529,664</u>	<u>\$ 2,337,706</u>	<u>\$ 191,958</u>

**Additions to Plan Net Assets**

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments.

During the year ended June 30, 2006, total additions to plan net assets increased by \$991,000 (approximately 0.3%) from the prior year primarily due to the increase in contributions made by employers and plan members. During the year ended June 30, 2005, total additions to plan net assets decreased by 54.9% from the prior year primarily due to the receipt of \$398,141,000 in employer contributions from the proceeds of a Pension Obligation Bond issued by the County of Fresno in 2004. Net investment income decreased 2.4% and total contributions increased 8.2% for the year ended June 30, 2006. For the year ended June 30, 2005 net investment income decreased by 1.5%, while total contributions decreased by 82.5%. The decreases in total contributions were the result of the proceeds of the POB received during the year ended June 30, 2004. Employer contributions reported in the table (presented in thousands) below include retirement funds received from the County of Fresno and its member employers.

	<u>2006</u>	<u>2005</u>	<u>Increase/ (Decrease) Amount</u>
Additions:			
Contributions	\$ 87,234	\$ 80,604	\$ 6,630
Net investment income	<u>229,767</u>	<u>235,406</u>	<u>(5,639)</u>
Total Additions	<u>317,001</u>	<u>316,010</u>	<u>991</u>
Deductions:			
Benefits paid	122,178	116,532	5,646
Administrative costs	<u>2,865</u>	<u>2,484</u>	<u>381</u>
Total Deductions	<u>125,043</u>	<u>119,016</u>	<u>6,027</u>
Increase/decrease in net assets	191,958	196,994	(5,036)
Net assets, beginning of year	<u>2,337,706</u>	<u>2,140,712</u>	<u>196,994</u>
Net assets, end of year	<u>\$ 2,529,664</u>	<u>\$ 2,337,706</u>	<u>\$ 191,958</u>

## **Fresno County Employees' Retirement Association Management's Discussion and Analysis (Continued)**

### **Deductions From Plan Net Assets**

The primary deductions of the Plan include the payment of benefits to members and member beneficiaries, the refund of contributions to former members, and the cost of administering the retirement plan. Deductions for fiscal year 2006 totaled \$125,043,000, an increase of 5.1% over 2005. Deductions for fiscal year 2005 totaled \$119,016,000, an increase of 8.2% over the 2004 amount of \$109,994,000.

Administrative expenses are approved in an annual budget by the Association's Board and represented 0.10% and 0.08% of total assets in 2006 and 2005, respectively. Under the California State Government Code, Section 31580.2, administration expenses incurred in any given year shall not exceed 0.18% of the total assets of the retirement system. The Association has consistently met its budgets and continues to expect to do so.

The deductions in plan net assets of \$125,043,000 during 2006 combined with the contributions to plan net assets of \$87,234,000 and net investment income of \$229,767,000, which are depicted above, accounts for the net increase in plan assets of \$191,958,000 in 2006.

### **Reporting the Association's Fiduciary Responsibilities**

The Association is a fiduciary for the County of Fresno public employee retirement system. Accordingly, the Association is responsible for these assets under our trust arrangement, and they can only be used for trust beneficiaries and payment of plan expenses. The Association is responsible for ensuring that the assets reported in our financial statements are used for their intended purposes of paying retirement and disability benefits to the employees of the County of Fresno and its member employers.

### **The Retirement Fund As A Whole**

Although the fund's combined net assets increased during the past year, management believes, and actuarial studies concur, that the Association is in a financial position to meet its obligations to the retired and current employees of Fresno County and the other member employers. The current financial position results from a very strong and diversified investment program in prior years, cost control, and strategic planning. Management believes there will continue to be sufficient assets to meet all benefit obligations.

### **Contacting the Association's Financial Management**

This financial report is designed to provide the Retirement Board, our membership, employers, taxpayers, investment managers and creditors with a general overview of the Association's finances and to show the Association's accountability for the funds under its stewardship.

**Fresno County Employees' Retirement Association  
Management's Discussion and Analysis (Continued)**

**Contacting the Association's Financial Management (Continued)**

Questions about any of the information provided in this report or requests for additional financial information should be addressed to:

FCERA  
1111 H Street  
Fresno, CA 93721

Respectfully submitted,

A handwritten signature in black ink that reads "Becky Van Wyk". The signature is written in a cursive, flowing style.

Becky Van Wyk, CPA, CGFM  
Assistant Retirement Administrator

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**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2006 AND 2005**

(Amounts expressed in thousands)

	<b>2006</b>	<b>2005</b>
<b>ASSETS:</b>		
Cash and cash equivalents with fiscal agents (Note 3)	\$ 80,220	\$ 110,761
Securities lending investment pool:		
Short term investments	98,861	162,229
Long term investments	257,558	172,956
Total securities lending investments	356,419	335,185
Receivables:		
Investment trades receivable (Note 4)	37,303	171,516
Interest and dividends receivable	6,512	7,526
Contributions and other receivables	3,454	8,028
Securities lending receivable	1,408	595
Total receivables	48,677	187,665
Investments, at fair value (Note 3):		
U.S. Government and agencies fixed income	303,089	321,093
Domestic equity index fund	158,896	146,150
Domestic fixed income	306,185	339,318
Domestic equity	846,784	798,746
International equity	499,895	389,578
Foreign fixed income	87,077	71,355
Mortgages	147,105	15,095
REIT	969	-
Private markets and alternative investments	165,136	181,076
Total investments	2,515,136	2,262,411
Prepaid expenses	133	127
Capital assets (Note 5)		
Depreciable, net	2,573	2,673
Total capital assets, net	2,573	2,673
Total assets	3,003,158	2,898,822
<b>LIABILITIES:</b>		
Investment trades payable (Note 4)	110,706	220,550
Cash collateral payable for securities lending (Note 3)	356,419	335,185
Accounts payable	5,076	4,892
Securities lending bank and broker fees	1,293	489
Total liabilities	473,494	561,116
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 2,529,664</b>	<b>\$ 2,337,706</b>

(Note 6)

(A schedule of funding progress appears on page 40).

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
(Amounts expressed in thousands)

	<b>2006</b>	<b>2005</b>
<b>ADDITIONS:</b>		
Contributions:		
Employers	\$ 56,664	\$ 56,343
Plan members	30,570	24,261
Total contributions	87,234	80,604
Investment income:		
From investment activities		
Net appreciation in fair value of investments	164,987	168,581
Interest	33,866	27,829
Dividends	23,704	22,644
Private markets	15,575	23,763
Net income from investment activities	238,132	242,817
From securities lending activities		
Securities lending income	12,551	5,879
Securities lending expenses		
Borrower rebate expenses	(11,110)	(4,677)
Security lending management fees	(360)	(300)
Net income from securities lending activities	1,081	902
Miscellaneous income	782	570
Investment expense	(10,228)	(8,883)
Net investment income	229,767	235,406
Total additions	317,001	316,010
<b>DEDUCTIONS:</b>		
Benefits and refunds paid to plan members and beneficiaries	122,178	116,532
Administrative expenses	2,865	2,484
Total deductions	125,043	119,016
<b>NET INCREASE</b>	191,958	196,994
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
BEGINNING OF YEAR	2,337,706	2,140,712
END OF YEAR	\$ 2,529,664	\$ 2,337,706

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 - DESCRIPTION OF THE PLAN**

The following description of the Fresno County Employees' Retirement Association (Association) is provided for general information purposes only. The Association is governed by the Board of Retirement (Board) under the 1937 County Employees' Retirement Law (1937 Act). Members should refer to the 1937 Act for more complete information.

**General**

The Association is a contributory defined benefit plan initially organized under the provisions of the 1937 Act on January 1, 1945. It provides benefits upon retirement, death or disability of members. The Association is a cost-sharing, multiple-employer plan that includes substantially all full-time employees and permanent part-time employees who work 50% or more for the County of Fresno, including Superior Court of California-County of Fresno, (County), Clovis Memorial, Fresno Mosquito and Vector Control, North Central Fire Protection Districts, Fresno-Madera Area Agency on Aging and certain employees of the Fresno County Office of Education (collectively, the "Employers"). An employee becomes eligible for membership commencing with the pay period following the date of employment in a permanent position.

The Association membership at June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Retirees and beneficiaries receiving benefits	4,610	4,401
Terminated employees entitled to benefits but not yet receiving them (Deferred Members)	1,514	1,464
Current employees:		
Vested:		
General	4,535	4,203
Safety	710	664
Nonvested:		
General	2,144	2,537
Safety	<u>287</u>	<u>303</u>
Total current employees	<u>7,676</u>	<u>7,707</u>
Total membership	<u><u>13,800</u></u>	<u><u>13,572</u></u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 1 - DESCRIPTION OF THE PLAN (Continued)**

**Benefit Provisions**

The Board under the provisions of the 1937 Act administers benefit provisions. Benefits are based upon a combination of age, years of service, average monthly salary for the highest paid year of employment, the option selected by the participant, and whether the participant was employed as a safety member or as a general member. Disability and death benefits are additionally based upon whether the disability was service connected or not and whether the death occurred before or after retirement. Retirement benefit payments consist of regular retirement benefits, cost of living benefits, supplemental cost of living benefits, supplemental benefits or supplemental annuity benefits and health benefits. The supplemental cost of living and health benefits (non vested) are subject to annual approval by the Board.

The County of Fresno adopted a second retirement tier effective September 5, 2005. The optional Tier II retirement benefit offers a lower contribution rate for active members and a lower retirement benefit established at 2.0% at 55 for General members and 3.0% at 55 for Safety members compared to the Tier I benefit of 2.5% at 55 for General members and 3.27% at 55 for Safety members. The Tier II retirement option is available to new employees of the County of Fresno beginning September 5, 2005. Existing members were given the option to make a one-time, irrevocable election to transition to Tier II within 30 days of the adopted date.

**Administration**

The management of the Association is vested in the Board, which is composed of the following nine members and two alternate members:

1. County Treasurer,
2. Two members of the Association elected by the general members,
3. One member of the Association elected by the safety members,
4. One retired member of the Association elected by the retired members, and
5. Four members appointed by the County Board of Supervisors. These members shall be qualified electors of the County who are not connected with County government in any capacity, except one may be a County Supervisor.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 1 - DESCRIPTION OF THE PLAN (Continued)**

**Administration (Continued)**

6. One alternate member of the Association from the safety members who represents one of the other safety classifications not represented by the Board member who received the highest number of votes during the election, and
7. One alternate member of the Association elected by the retired members.

Administrative expenses are financed through the investment earnings of plan assets.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Fresno County Employees' Retirement Association (Association) is the public employee retirement system established by the County on January 1, 1945, and administered by the Board of Retirement to provide retirement, disability, death and survivor benefits for its employees under the 1937 Act. The Association is a component unit of the County of Fresno and is included in the County's Basic Financial Statements as a pension trust fund.

**Basis of Accounting**

The Association's financial statements are prepared using the accrual basis of accounting. Investment income is recognized when it is earned and expenses are recognized in the period in which they are incurred. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds of prior contributions are recognized when due and payable under the provisions of the plan.

**Implementation of GASB Statement No. 44**

During the year ended June 30, 2006, the Association implemented the provisions of Governmental Standards (GASB) Statement No. 44 *Economic Condition Reporting: The Statistical Section* as it applies to the Association. This Statement is effective for periods beginning after June 15, 2005. This Statement amends the portions of NCGA Statement 1 *Government Accounting and Financial Reporting Principles*, guiding the preparation of the Statistical section.

**Deposits and Investments**

Cash and cash equivalents with fiscal agent include deposits in the County Treasurer's commingled cash and investment pool and investments held by the custodian bank.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deposits and Investments (Continued)**

Investments with the custodian bank are comprised of foreign currencies, cash held in a short-term investment fund and other short-term, highly liquid investments. Short-term investments considered cash equivalents are recorded at cost, which approximates fair value. The County Treasurer's commingled cash and investment pool operates in accordance with appropriate state laws and regulations and is governed by an investment policy formally adopted by the County. (Please refer to the Comprehensive Annual Financial Report prepared by the County of Fresno for additional information on the County Treasurer's commingled cash and investment pool.)

Plan investments are reported at fair value. The fair values of equity and fixed income securities are derived from quoted market prices. The fair values of private market investments are estimated from fair values provided by the real estate investment funds, futures investment managers, and alternative investment managers (see Note 3). All investment purchases and sales are recorded on the trade date.

**Capital Assets**

Capital assets are valued at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of three years for computer equipment, five years for office equipment, ten years for furniture, twelve years for office remodeling, fifteen years for Wyatt Software (pensions system) and thirty years for buildings. Depreciation expense is reported as part of administrative expenses.

**Use of Estimates**

The preparation of 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. Actual results could differ from those estimates.

**Reclassifications**

Certain amounts in the investment section of the *Statements of Plan Net Assets*, investment income section of the *Statements of Changes in Plan Net Assets* and the Investment Sections' *Schedule of Fees* have been reclassified from prior year for presentation purposes. As of June 30, 2006, commercial paper is included in the domestic equity total. An amount of \$13,057 in commercial paper has been reclassified from domestic fixed income to domestic equity from the amounts reported at June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Reclassifications (Continued)**

As of June 30, 2006 the plan reports separately the amounts for private market management fees, dividend income, interest income and realized gains or losses. Based upon the responses from private market managers, the plan was only able to reclassify certain amounts, but not all. As a result of incorporating this change, current year private market expense and revenue components are not comparable to June 30, 2005.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Except as otherwise expressly restricted by the California Constitution and by law, the Board may, at its discretion, invest, or delegate the Association to invest the assets of the Association through the purchase, holding, or sale of any form or type of instrument, or financial transaction when prudent in the informed opinion of the Board. In addition, the Board has established an investment policy that places limits on the compositional mix of cash, fixed income and equity securities, alternative investments, and real estate investments. The Association currently employs external investment managers to manage its assets subject to the guidelines of the investment policy.

GASB Statement No. 40 establishes and modifies disclosure requirements associated with investment risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

*Custodial credit risk - deposits.* *Custodial credit risk – deposits* is the risk that in the event of a failure in a depository financial institution, a government will not be able to recover its deposits or recover collateral securities that are in the possession of an outside party. The Association does not have policy for managing custodial credit risk. As of June 30, 2006, all domestic deposits were insured, registered and held by the custodian bank in the Association's name.

The Association held foreign currencies deposits at June 30, 2006 with a United States Dollar value of \$7,090, of which \$7,043 is subject to custodial credit risk since the deposits were uncollateralized and not registered or held in the Association's name.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. FCERA's investments are not subject to custodial credit risk because investments are insured and registered in the Association's name. The Association's investment policy does not limit the amount of securities that can be held by counterparties.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

*Credit risk.* Credit risk is the risk that an issuer or other counter party to a debt instrument will not fulfill its obligations. This risk is measured by the assignment of ratings by nationally recognized statistical rating organizations. The Association has adopted policies specific to each investment manager to manage credit risk. In general fixed income securities should be well diversified to avoid undue exposure to any single economic sector, industry or individual security. The County of Fresno's external investment pool is unrated for credit risk purposes.

The credit ratings disclosed below were obtained from Moody's rating agencies as of June 30, 2006 and June 30, 2005.

Investment Type		Minimum Policy Rating	Exempt from Disclosure	Rating at Year End			
				Aaa/ P1	Baa/P1	Caa1	Not Rated
<b>Securities lending - investments</b>							
Asset backed security	\$ 34,056	Aaa/ P1	\$ -	\$ 34,056	\$ -	\$ -	\$ -
Corporate fixed income	243,629	Aaa/ P1	-	243,629	-	-	-
Repurchase agreements	78,734	Aaa/ P1	-	78,734	-	-	-
Subtotal	356,419		-	356,419	-	-	-
<b>US Government and agencies</b>							
US treasury notes	86,473	N/A	86,473	-	-	-	-
Federal agency securities	216,616	B3	-	216,616	-	-	-
Subtotal	303,089		86,473	216,616	-	-	-
Domestic fixed income	306,185	B3	-	188,783	105,650	260	11,492
Mortgages	147,105	B3	-	124,966	479	-	21,660
Foreign fixed income <sup>1</sup>	16,768	B3	-	15,320	45	-	1,403
	<u>\$ 1,129,566</u>		<u>\$ 86,473</u>	<u>\$ 902,104</u>	<u>\$ 106,174</u>	<u>\$ 260</u>	<u>\$ 34,555</u>

<sup>1</sup> Foreign fixed income of \$16,768 does not include Global Bond Fund of \$70,309. Global Bond Fund does not require disclosure of credit risk.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

Investment Type	Rating at Year End June 30, 2005					
	Minimum Policy Rating	Exempt from Disclosure	Aaa/ P1	Baa	Caa	Not Rated
Securities lending - investments						
Asset backed security	\$ 14,456	Aaa/ P1	\$ -	\$ 14,456	\$ -	\$ -
Corporate fixed income	223,534	Aaa/ P1	-	213,534	-	10,000
Repurchase agreements	97,195	Aaa/ P1	-	97,195	-	-
Subtotal	335,185		-	325,185	-	10,000
US Government and agencies						
US treasury notes	158,510	N/A	158,510	-	-	-
Federal agency securities	162,583	B3	-	145,144	1,642	15,797
Subtotal	321,093		158,510	145,144	1,642	15,797
Domestic fixed income <sup>1</sup>	339,318	B3	-	140,069	109,903	356
Mortgages	15,095	B3	-	14,226	869	-
Foreign fixed income <sup>2</sup>	4,186	B3	-	1,494	1,350	1,342
	<u>\$ 1,014,877</u>		<u>\$ 158,510</u>	<u>\$ 626,118</u>	<u>\$ 113,764</u>	<u>\$ 356</u>
						<u>\$ 116,129</u>

<sup>1</sup> At June 30, 2006, commercial paper in the amount of \$13,057 reclassified to domestic equity from domestic fixed income.

<sup>2</sup> Foreign fixed income of \$4,186 does not include Global Bond Fund of \$67,169. Global Bond Fund does not require disclosure of credit risk.

*Interest rate risk.* Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. The Association has not adopted a policy to manage interest rate risk. The Association selected the segmented time distribution method for the following investments subject to interest rate risk at June 30, 2006 and June 30, 2005.

Investment Type	Remaining Maturity in Months at June 30, 2006			
	Less than 12 months	13 to 60 months	61 to 120 months	More than 120 months
Securities lending - investments				
Asset backed securities	\$ 34,056	\$ 34,056	\$ -	\$ -
Corporate fixed income	243,629	171,633	71,996	-
Repurchase agreements	78,734	78,734	-	-
Subtotal	356,419	284,423	71,996	-
US Government and agencies				
US Treasury notes	86,473	823	6,341	526
Federal agency securities	216,616	6,024	10,969	2,588
Subtotal	303,089	6,847	17,310	3,114
Domestic fixed income	306,185	16,126	160,561	64,065
Mortgages	147,105	-	30,728	6,130
Foreign fixed income <sup>1</sup>	16,768	1,404	2,007	13,357
Total Investments	<u>\$ 1,129,566</u>	<u>\$ 308,800</u>	<u>\$ 282,602</u>	<u>\$ 86,666</u>
				<u>\$ 451,498</u>

<sup>1</sup> Foreign fixed income of \$16,768 does not include Global Bond Fund of \$70,309. Global Bond Fund does not require disclosure of interest rate risk.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

Investment Type	Remaining Maturity in Months at June 30, 2005			
	Less than 12 months	13 to 60 months	61 to 120 months	More than 120 months
Securities lending - investments				
Asset backed securities	\$ 14,456	\$ -	\$ 14,456	\$ -
Corporate fixed income	223,534	91,171	132,363	-
Repurchase agreements	97,195	97,195	-	-
Subtotal	335,185	188,366	146,819	-
US Government and agencies				
US Treasury notes	158,510	4,188	86,552	18,546
Federal agency securities	162,583	7,909	21,458	8,361
Subtotal	321,093	12,097	108,010	26,907
Domestic fixed income <sup>1</sup>	339,318	73,464	116,539	69,863
Mortgages	15,095	-	2,896	-
Foreign fixed income <sup>2</sup>	4,186	-	822	-
Subtotal	19,281	-	3,718	-
Total Investments	\$ 1,014,877	\$ 273,927	\$ 375,086	\$ 96,770
				\$ 269,094

<sup>1</sup> At June 30, 2006, commercial paper in the amount of \$13,057 reclassified to domestic equity from domestic fixed income.

<sup>2</sup> Foreign fixed income does not include Global Bond Fund of \$67,169. Global Bond Fund does not require disclosure of interest rate risk.

At June 30, 2006, the Association has \$34,999 invested in the County of Fresno external investment pool, which has a dollar weighted average maturity of 519 days, compared to \$21,131, and a dollar weighted average maturity of 431 days at June 30, 2005.

At June 30, 2006, the Association has \$70,309 invested in a global bond fund, which has a weighted average maturity of 6.9 years, compared to \$67,169 with a weighted average maturity of 6.65 years at June 30, 2005.

*Concentration of credit risk.* This is the risk of loss attributed to the concentration of the government's investment in a single issuer. FCERA's investment policy does not permit any one manager to invest more than five percent of the market value of its portion of the portfolio in any one issue, with the exception of investments issued by the US Government and its agencies. As of June 30, 2006 no investments in any one issuer is greater than five percent of total investments. Investment managers authorized to invest in below investment grade securities are limited to holding no more than 20% of their portfolio market value in such securities.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

*Foreign currency risk.* This is the risk that FCERA will not be able to recover the value of its investment in local currency when the exchange value of the currency lowers. The Association has not adopted a policy to manage the foreign currency risk. As of June 30, 2006, FCERA's investment in foreign currency was as follows:

<u>Currency</u>	<u>Fair Market Value (US Dollars)</u>
Brazilian Cruzeiro	\$ 47
Canadian Dollar	113
Czech Koruna	93
Euro	4,585
Japanese Yen	2,185
Mexican Peso	<u>67</u>
Total foreign currency	<u>\$7,090</u>

*Derivatives.* The Association, through its external investment managers, enters into forward foreign currency contracts to hedge against changes in the fair values of foreign bonds and equity securities, primarily denominated in European and Asian currencies. It is possible that, due to foreign exchange fluctuations, the Association may be exposed to a potential loss. At June 30, 2006, the Association has approximately \$20 million of its \$500 million international equity portfolio hedged through the use of such forward foreign currency contracts. At June 30, 2005, approximately \$118 million of the Association's \$390 million international equity portfolio was hedged through the use of such forward foreign currency contracts.

The Association could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Association anticipates that counterparties will be able to satisfy their obligations under the contracts. The Association's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures, including requirements for collateral at certain defined levels.

The Association's investment portfolio also contains certain variable rate notes and collateralized mortgage obligations. At June 30, 2006 and 2005, the Association had approximately \$179,952 and \$59,729 in these investments, respectively.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

*Securities Lending.* The Board authorized the Association, through its custodian bank, to enter into securities lending transactions, whereby securities owned by the Association are loaned on a short-term basis to various banks and brokers. Securities on loan include domestic and international stocks, US government agency and domestic bonds. Securities on loan must be collateralized at 102% of the market value of the loaned securities. Collateral may take the form of cash, commercial paper, certificates of deposit, bankers' acceptances, repurchase and reverse repurchase agreements, obligations issued or guaranteed as to interest and principal by the United States Government (or agencies or instrumentalities thereof), bank time deposits, variable rate demand notes, Credit Suisse First Boston's money market mutual fund and any common trust fund maintained by a bank or other financial institution or any commingled or pooled trust.

The lending agreement places no restriction on the amount of loans that can be made. The Association's lending agent is authorized to invest and reinvest cash collateral, but it is not expressly permitted to pledge or sell securities collateral without borrower default. The Association's agent invests cash collateral in individual securities and the securities are held by the trustee in the Association's name. The maturities of the investments made with the cash collateral generally match the maturities of their securities on loan.

At year-end, the Association has no credit risk exposure to borrowers as the amounts the Association owes the borrowers exceed the amounts the borrowers owe the Association. Furthermore, the lending agreement with the custodian requires the custodian to indemnify the Association if the borrower fails to return the securities.

There were no losses associated with securities lending transactions during the years ended June 30, 2006 and 2005. Income from these transactions is reported on the statement of changes in plan net assets. Securities on loan are reported at fair value on the statement of plan net assets. The carrying values of the securities lending investment pool for 2006 and 2005 were \$356,419 and \$335,185 respectively. The fair values of loaned securities were as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Domestic equity	\$ 269,765	\$ 167,419
International equity	34,660	17,380
Total equity on loan	<u>304,425</u>	<u>184,799</u>
U S government and agencies	36,466	131,503
Domestic bonds	4,721	10,392
Total bonds on loan	<u>41,187</u>	<u>141,895</u>
Total stocks and bonds on loan	<u>\$ 345,612</u>	<u>\$ 326,694</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 4 - INVESTMENT TRADES RECEIVABLE AND PAYABLE**

Investment trades receivable and payable include forward currency contracts, and sales and purchases of investments. Forward currency contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2006, forward foreign currency contracts receivable and payable totaled \$20,491 and \$20,381 respectively. At June 30, 2005, forward foreign currency contracts receivable and payable totaled \$118,085 and \$117,164 respectively. The remaining investment trades receivable and payable balances represent investment sales and investment purchases outstanding, respectively.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 5 – CAPITAL ASSETS**

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2006 and 2005:

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2006</b>
Capital assets, depreciated:				
Computer hardware/software	\$ 716	\$ 50	-	\$ 766
Furniture and fixtures	176	7	-	183
Equipment	68	-	-	68
Building	2,103	-	-	2,103
Total capital assets, depreciable	<u>3,063</u>	<u>57</u>	<u>-</u>	<u>3,120</u>
Less accumulated depreciation for:				
Computer hardware/software	(270)	(53)	-	(323)
Furniture and fixtures	(21)	(16)	-	(37)
Equipment	(23)	(18)	-	(41)
Building	(76)	(70)	-	(146)
Total accumulated depreciation	<u>(390)</u>	<u>(157)</u>	<u>-</u>	<u>(547)</u>
Total capital assets, depreciated, net	<u>2,673</u>	<u>(100)</u>	<u>-</u>	<u>2,573</u>
Total capital assets, net	<u>\$ 2,673</u>	<u>\$ (100)</u>	<u>\$ -</u>	<u>\$ 2,573</u>
Depreciation charged for the current year totaled:		<u>\$ 157</u>		

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2005</b>
Capital assets, depreciated:				
Computer hardware/software	\$ 657	\$ 59	-	\$ 716
Furniture and fixtures	167	9	-	176
Equipment	57	11	-	68
Building	2,103	-	-	2,103
Total capital assets, depreciable	<u>2,984</u>	<u>79</u>	<u>-</u>	<u>3,063</u>
Less accumulated depreciation for:				
Computer hardware/software	(219)	(51)	-	(270)
Furniture and fixtures	(7)	(14)	-	(21)
Equipment	(6)	(17)	-	(23)
Building	(6)	(70)	-	(76)
Total accumulated depreciation	<u>(238)</u>	<u>(152)</u>	<u>-</u>	<u>(390)</u>
Total capital assets, depreciated, net	<u>2,746</u>	<u>(73)</u>	<u>-</u>	<u>2,673</u>
Total capital assets, net	<u>\$ 2,746</u>	<u>\$ (73)</u>	<u>-</u>	<u>\$ 2,673</u>
Depreciation charged for the current year totaled:		<u>\$ 152</u>		

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 6 - CONTRIBUTIONS AND RESERVES**

**Contributions**

Contributions are made by the members and the employers at rates recommended by the Association's independent actuary and approved by the Board and the County Board of Supervisors. Employee contribution rates vary according to age and classification (safety or general), and are designed to provide funding for approximately one-fourth of the regular retirement benefits and one-half of all cost of living benefits. Members are required to contribute between 3.52% and 12.75% of their annual covered salary. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act.

Interest is credited to member contributions every six months based on the prior six months ending balance. No member may borrow or withdraw their contributions until retiring or terminating employment with the Employers, at which time they may request a refund of accumulated contributions and interest. Effective January 1, 2003, member contributions are no longer forfeited to the Association if the member does not request a refund within five years of terminating membership. New state laws allow nonvested members to leave their contributions on deposit with the Association without establishing reciprocity. These members receive interest on their contributions and may withdraw their contributions and interest at any time.

Employer contribution rates are determined pursuant to Section 31453 of the 1937 Act and are designed to provide funding for the remaining regular retirement and cost of living benefits, as well as all regular disability and survivor's benefits.

Contribution rates are actuarially determined using the entry age normal method and consist of normal cost (the estimated amount necessary to finance benefits earned by employees during the current year) and, beginning in 1980, the unfunded actuarial accrued liability was amortized over a 30 year period. Effective with the valuation completed for June 30, 2002, the amortization period was modified to allow a 30 year amortization period for changes in the unfunded actuarial accrued liability that result from plan amendments and a fifteen year amortization period for all other changes in the unfunded actuarial accrued liability. Details of funding progress, annual required contributions and percentage of contributions made by the employers are presented in the required supplementary information schedules on page 40.

Members' contributions, including interest, are 100% vested at all times. Effective with the valuation completed for June 30, 2003, the amortization period for the employees' portion of the unfunded accrued actuarial liability for the cost of living portion of the

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 6 – CONTRIBUTIONS AND RESERVES (Continued)**

**Contributions (Continued)**

benefit was extended to 30 years. This amortization period is consistent with the amortization period used for the employers' portion of the unfunded accrued actuarial liability. In addition, the Board of Retirement adopted a policy to limit any increase in employees' retirement contribution to 50% of the current rate. The purpose was to alleviate the impact of a rate increase that occurred as a result of changes to the economic and demographic assumptions included in the Analysis of Plan Experience for three years ended June 30, 2003 and implementation of the Settlement Agreement entered into by the County of Fresno and certified employee organizations in December 2000. Benefits attributable to employers' contributions do not become vested until completion of five years of credited service. A member may receive a regular retirement allowance after attaining age 50 for safety members or age 50 for general members provided that such member has attained at least 10 years of credited service; or at any age after 30 years of service for a general member and 20 years of service for a safety member.

**Reserves and Designations**

Net assets held in trust for pension benefits are segregated into members and employers' accumulated contributions (both employees and employers reserves as authorized by the 1937 Act) reserves established by the Board and undistributed earnings. The Board has established reserves for various benefit payments pursuant to the 1937 Act, and it has designated an account for market stabilization.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 6 – CONTRIBUTIONS AND RESERVES (Continued)**

**Reserves and Designations (Continued)**

The amounts and changes in reserves and designations for the year ended June 30, 2006 consist of the following:

	<u>Balance</u> <u>July 1</u> <u>2005</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Plan</u> <u>Net Assets</u>	<u>Net</u> <u>Transfers</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>
Reserves:				
Members' accumulated contributions	\$ 285,575	\$ 29,385	\$ (13,202) <sup>1</sup>	\$ 301,758
Current service reserve	615,638	49,855	(35,897)	629,596
Annuity pension reserve	94,941	(14,665)	19,746	100,022
Current service pension reserve	540,016	(54,117)	99,050	584,949
Supplemental annuity reserve	230,891	(9,966)	32,600	253,525
Supplemental benefit reserve	104,540	(8,836)	6,503	102,207
Cost of living adjustment reserve	406,423	(15,556)	40,140 <sup>2</sup>	431,007
Supplemental cost of living reserve	5,272	(1,749)	5,925 <sup>1</sup>	9,448
Survivors' death benefit reserve	3,117	(762)	185	2,540
Retiree health benefit reserve	67,269	(5,642)	(5,639) <sup>1,2</sup>	55,988
Retiree health benefit reserve (VS)	32,792	(2,891)	2,039	31,940
Contingency reserve	(49,164)	-	9,024	(40,140)
Designated for market stabilization	396	-	66,428	66,824
Undistributed earnings	-	226,902	(226,902)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net assets held in trust for Pension benefits	\$ <u>2,337,706</u>	\$ <u>191,958</u>	\$ <u>-</u>	\$ <u>2,529,664</u>

<sup>1</sup> On October 26, 2005, the Board of Retirement approved a transfer of \$5,374 from the Supplemental (Non-vested) Health Benefits reserve fund to make the Supplemental Cost of Living (Non-vested) reserve fund 100% funded in fixed dollar terms.

<sup>2</sup> On May 19, 2006, the Board of Retirement approved a transfer of \$4,115 from the Supplemental (Non-vested) Health Benefits reserve fund to pay the employee portion of unfunded liabilities related to the Temporary Annuity Options Cost of Living Adjustments for current retirees.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)**

**Reserves and Designations (Continued)**

The amounts and changes in reserves and designations for the year ended June 30, 2005 consist of the following (in thousands):

	<u>Balance</u> <u>July 1</u> <u>2004</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Plan</u> <u>Net Assets</u>	<u>Net</u> <u>Transfers</u>	<u>Balance</u> <u>June 30,</u> <u>2005</u>
Reserves:				
Members' accumulated contributions	\$ 213,962	\$ 22,857	\$ 48,756 <sup>3</sup>	\$ 285,575
Current service reserve	591,919	48,438	(24,719)	615,638
Annuity pension reserve	94,541	(13,729)	14,129	94,941
Current service pension reserve	528,789	(51,946)	63,173	540,016
Supplemental annuity reserve	214,241	(8,833)	25,483	230,891
Supplemental benefit reserve	108,925	(9,069)	4,684	104,540
Cost of living adjustment reserve	453,779	(12,701)	(34,655) <sup>3</sup>	406,423
Supplemental cost of living reserve	2,183	(1,982)	5,071	5,272
Survivors' death benefit reserve	3,715	(752)	154	3,117
Retiree health benefit reserve	74,482	(5,426)	(1,787)	67,269
Retiree health benefit reserve (VS)	34,110	(2,785)	1,467	32,792
Contingency reserve	(55,258)	-	6,094	(49,164)
Designated for market stabilization	(124,676)	-	125,072	396
Undistributed earnings	-	232,922	(232,922)	-
Net assets held in trust for pension benefits	<u>\$ 2,140,712</u>	<u>\$ 196,994</u>	<u>\$ -</u>	<u>\$ 2,337,706</u>

<sup>3</sup> At December 31, 2004 corrective transfers to the Member's accumulated contributions were made from the Cost of Living reserve to account for the incorrect recording of members' contributions in 2003-2004.

*Members' accumulated contributions* include all member contributions net of refunds and benefits paid to members. At retirement, member balances are transferred to the *annuity pension reserve* and the *cost of living adjustment reserve*. Employers' contributions are paid into the *current service reserve* (includes the contributions for the supplemental annuity) and *cost of living adjustment reserve*. When an employee retires, applicable balances are transferred from the *current service reserve* to the *current service pension reserve (and supplemental annuity reserve)*. *Undistributed earnings* are credited with all investment income and charged with investment and other fees. Transfers from undistributed earnings to other reserves are made twice a year. Historically, the Board has authorized that an annual rate equal to the actuarial rate of return be apportioned as the interest. However, during the fiscal year ended June 30, 2003, the Board adopted a new interest crediting policy that limits the amount available to apportion in lean years to the amount required to keep the non-valuation reserve

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)**

**Reserves and Designations (Continued)**

accounts within an established floor of 1% of net plan assets and ceiling of 3% of net plan assets. This policy resulted in interest apportionments of \$65,160 for the December 31, 2005 interest-crediting period and \$86,291 for the June 30, 2006 interest-crediting period. The semi-annual rates of interest for the two periods were 2.7303% and 3.5437%, respectively. Any additional transfers out of undistributed earnings are made in accordance with the authorization of the Board.

The *survivor's death benefit reserve* is credited with balances transferred from members' accumulated contributions and the current service reserve in those instances where the survivor is entitled to continuation benefits. Lump sum survivor benefits are paid directly from members' accumulated contributions and the current service reserve. Pension and disability benefits are paid from *the annuity pension reserve, current service pension reserve and cost of living adjustment reserve*.

Both the *retiree health benefit* and the *supplemental cost of living reserves* are non-valuation reserves approved annually by the Board. Non-valuation reserves are under the control of the Board of Retirement and are not available to fund vested benefits of the plan. The *retiree health benefit reserve* was initiated in 1987 to establish funds for payment of supplemental benefits which would provide retirees additional money to offset the cost of health insurance premiums. Effective with the actuarial valuation completed for the year ended June 30, 2003, the retiree health benefit reserve was apportioned into two reserves, the retiree health benefit reserve and the retiree health benefit reserve (VS) to more clearly account for the liability associated with additional health benefits granted as part of the Settlement Agreement negotiated between the County of Fresno and certified employee organizations in December 2000. The retiree health benefit reserve balances reflect Board approved transfers through June 30, 2006. These transfers result from the actuarial report completed for the period ended June 30, 2003 and the subsequent transfers to the supplemental cost of living reserve of \$5,374 authorized by the Board on October 26, 2005 and \$5,000 authorized by the Board on May 18, 2005.

*The supplemental cost of living reserve* was established in 1990 to provide additional benefits for eligible members. The benefit is adopted annually under Government Code Section 31874.3 to provide purchasing power protection to those retirees whose accumulated excess cost of living credits exceeds 25%, therefore the affected members changes each year. The *supplemental cost of living reserve* balance reflects Board approved transfers from *undistributed earnings*. Analysis of the expenditures of this reserve indicated that insufficient funding was available to continue the benefit past August 2005. Therefore, as noted in the preceding paragraph, transfers were

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)**

**Reserves and Designations (Continued)**

authorized in order to provide sufficient funds to continue the benefit. In addition, the Board agreed to freeze Supplemental Cost of Living benefits at existing levels.

The supplemental benefit reserve was established for the benefit increase given to retirees or the beneficiaries of retirees who retired prior to January 1, 2001.

The supplemental annuity benefit reserve was established for the benefit increase given to all members who retired on or after January 1, 2001.

The designation for market stabilization serves to spread unanticipated market gains and losses over a five-year period and represents a portion of the variance between net investment earnings and actuarial expectations based on the assumed rate of returns.

**NOTE 7 – COMMITMENTS**

The Association committed to invest in, and has partially funded, various private market investment funds. At June 30, 2006, the remaining commitments totaled \$48,389.

**NOTE 8 – FUTURE GASB PRONOUNCEMENTS**

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other Than Pension Plans*, which is effective for the financial statements for periods beginning after December 15, 2005. This statement establishes uniform financial reporting standards for Other Postemployment Benefit plans.

**NOTE 9 - FINAL COMPENSATION LITIGATION**

On May 7, 2003, the County of Fresno (County) brought suit against the FCERA and its Board of Retirement (County of Fresno vs. Board of Retirement of the County of Fresno [sic], Fresno County Employees Retirement Association, et al., Case No. 03-CE-CG-01569). The complaint alleges that the method by which the FCERA calculates its members' final compensation for purposes of establishing their retirement allowances (sometimes referred to as the "Fresno Method") violates the law. The County seeks a declaration that the Fresno Method is unlawful and a writ of mandate requiring the Board to change to another method of calculating retirement allowances. Two public employee unions filed complaints seeking to intervene in the case to contest the County's allegations; however, one of the unions subsequently withdrew its complaint in intervention. The remaining union, the Fresno Deputy Sheriffs' Association (FDSA)

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 9 - FINAL COMPENSATION LITIGATION (Continued)**

contends through its complaint in intervention and an additional cross-complaint against the FCERA and its Board, inter alia, that the Board of FCERA has the statutory authority to adopt the Fresno Method; that the County is estopped from challenging the Board's use of that method; and that the Board of FCERA is legally estopped from changing its practice as to all current active, deferred and retired members of the retirement system.

By order of the Fresno County Superior Court, trial of the issues in this action was bifurcated with Phase 1 addressing the legal issue of whether the Fresno Method is authorized by the statute governing the retirement system and Phase 2 addressing the issues raised by FDSA's complaint in intervention and cross-complaint.

On March 2, 2004, the Superior Court issued a Tentative Decision declaring that the Fresno Method did not comply with the statute. Thereafter, the Board of FCERA resolved to (a) immediately change its method of calculating retirement allowances for all future members of the retirement system, (b) recalculate all retirement allowances for all current retirees, effective September 1, 2004 and (c) recalculate all retirement allowances for current employees retiring after March 1, 2004 as of the date of their retirement. FDSA then filed a cross complaint against FCERA and its Board seeking to enjoin these changes to retirement allowances and/or to recover damages for such changes.

Following a trial in the action (Phase 2A) on September 3, 2004, the Superior Court denied FDSA's request for a preliminary injunction preventing the FCERA Board from implementing its planned changes to its method of calculating retirement allowances during the pendency of the litigation. On October 18, 2004, the Court issued its second Tentative Decision, ruling against the FDSA on all three issues presented during Phase 2A of the trial. The Court ruled: (a) that the members of the retirement system do not have vested, contractual rights to continuance of the Fresno Method of calculating their benefits; (b) that a previous settlement agreement in earlier litigation did not preclude the County from challenging the "Fresno Method"; and (c) that the Board of Retirement did not have discretionary authority to adopt a calculation method not permitted by statute.

Following the testing of software modifications, the FCERA began recalculating retirement benefits in November 2004.

By judgment dated October 25, 2005, the court: (a) granted judgment in favor of the County on its claim for declaratory relief, consistent with the court's previous Tentative Rulings; (b) dismissed, without prejudice, all remaining claims of the County and defenses asserted by FDSA; and (c) held in abeyance FDSA's cross-complaint against the FCERA and its Board, until the judgment on the County's claim for declaratory relief

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**  
**(Amounts expressed in thousands)**

**NOTE 9 - FINAL COMPENSATION LITIGATION (Continued)**

becomes final and all appeals from the judgment are exhausted. FDSA appealed the Judgment. Briefing of the appeal will be complete by mid December 2006 and oral argument will then be scheduled by the Court of Appeals.

**NOTE 10 – SUBSEQUENT EVENTS (NEW RETIREMENT TIER ESTABLISHED)**

The County of Fresno adopted a new, mandatory retirement tier for General members under Government Code section 31676.15 that will be effective June 18, 2007. This code section, as currently written, is only available to systems that do not participate in social security. Since the County of Fresno participates in social security, the County of Fresno and SEIU are jointly seeking urgency legislation to allow the County of Fresno to offer this benefit to its employees. The new tier, once available, will be mandatory for any new General member in a job classification covered by a collective bargaining agreement negotiated by Service Employees International Union (SEIU).

Also on June 18, 2007, any General member in a job classification represented by SEIU who was previously enrolled in Tier II will be automatically transferred to the new tier for all future service.

The negotiated agreement also provides for a final compensation calculation based on a consecutive three year period for all general service in this tier.

In addition, on June 18, 2007, the current Safety Tier II offered under Government Code section 31664.2 will become mandatory for any new employee in a job classification covered by a collective bargaining agreement negotiated by SEIU.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**SCHEDULE OF FUNDING PROGRESS**  
(Amounts expressed in thousands)

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL)</u>	<u>(3) Unfunded (Overfunded) AAL (2) - (1)</u>	<u>(4) Funded Ratio (1)/(2)</u>	<u>(5) Covered Payroll</u>	<u>(6) Unfunded (Overfunded) AAL Percentage of Covered Payroll (3)/(5)</u>
6/30/98	\$ 1,647,935	\$ 1,549,166	\$ (98,769)	106.4%	\$ 219,398	(45.0%)
6/30/00	1,698,282	1,719,905	21,623	98.7%	273,426	7.9%
6/30/02	1,674,900	<sup>1</sup> 1,932,300	257,400	86.7%	326,975	78.7%
6/30/03	1,922,149	<sup>1,2</sup> 1,953,490	<sup>2</sup> 30,841	98.4%	341,981	9.0%
6/30/04	1,977,097	<sup>1</sup> 2,017,971	40,874	98.0%	337,614	12.1%
6/30/05	2,337,311	2,545,620	<sup>3</sup> 208,309	91.8%	<sup>1</sup> 351,049	59.3%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
(Amounts expressed in thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2001	--	100.00%
2002	\$ 7,780	100.00%
2003	33,583	100.00%
2004	44,939	985.67% <sup>2</sup>
2005	56,296	100.00%
2006	56,663	100.00%

Actuarial reviews are performed annually effective with the year ended June 30, 2003.  
Source: Schedule prepared by Public Pension Professionals.

<sup>1</sup> Actuarial Value of Assets on the Schedule of Funding Progress includes only the employer assets in years 2002, 2003 and 2004. This differs from the MD&A on page 14 and the Solvency Test on page 66 for the same years. As of June 30, 2005 both the Schedule of Funding Progress and the Solvency Test report the total plan assets.

<sup>2</sup> On March 23, 2004, the County of Fresno issued Pension Obligation Bonds, which paid off a portion of the estimated Unfunded Actuarial Accrued Liability. The proceeds of the Pension Obligation Bonds (\$398,010) are included in the Actuarial Value of Assets as of June 30, 2003.

<sup>3</sup> As of June 30, 2005 all the liabilities of the Plan are represented in the in the AAL.

<sup>4</sup> On March 19, 1998, the County of Fresno issued Pension Obligation Bonds, which paid off the estimated Unfunded Actuarial Accrued Liability. As a result of the June 30, 1998 Actuary Valuation, the Board of Retirement elected to use a distribution of excess earnings to pay the employer contributions for approximately six years and six months beginning July 1, 1999. With the establishment of the enhanced benefits, Safety employers were required to begin making contributions during fiscal year 2002. General employers began making contributions during fiscal year 2003.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**LATEST ACTUARIAL VALUATION METHODS**

Valuation date	June 30, 2005
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent - closed
Remaining amortization period	27 years for plan amendments 14 years for all other adjustments to the unfunded actuarial accrued liability
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.16% (compounded semi-annually, 4.0% real return, 4.0% inflation)
Projected salary increases	Rates vary by service type:
- General Members:	Salary increases range from 9.0% to 4.75% (merit of 5.0% per year for the first five years of service and 0.75% thereafter; 4.0% inflation).
- Safety Members:	Salary increases range from 6.0% to 5.0% (merit of 2.0% per year for the first eight years of service and 1.0% thereafter; 4.0% inflation).
Cost of living adjustments	0 – 3% (tied to the change in Consumer Price Index)

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Personnel Services</b>		
Salaries and Benefits	\$ 1,378,483	\$ 1,287,710
Total Personnel Services	<u>1,378,483</u>	<u>1,287,710</u>
<b>Office Expenses</b>		
Election Expenses <sup>1</sup>	-	22,488
Office Supplies <sup>1</sup>	42,239	60,383
Postage	23,761	32,051
Telephone	3,725	13,876
Utilities <sup>1</sup>	<u>23,218</u>	<u>24,144</u>
Total Office Expenses	<u>92,943</u>	<u>152,942</u>
<b>Other Services and Charges</b>		
Bad Debt	5,482	-
Interest Refunded - Overpayment Policy <sup>2</sup>	69,597	9,342
Insurance Other	152,428	161,116
Maintenance	30,233	32,759
Professional and Specialized Services	597,023	450,651
Disability Expenses	157,206	92,741
Data Processing Services	173,958	105,454
Transportation, Travel, and Education - Staff	12,463	12,766
Transportation, Travel, and Education - Board	<u>38,599</u>	<u>25,631</u>
Total Other Services and Charges	<u>1,236,989</u>	<u>890,460</u>
<b>Depreciation</b>	<u>156,854</u>	<u>152,947</u>
Total Administrative Expenses	<u>\$ 2,865,269</u>	<u>\$ 2,484,059</u>

<sup>1</sup> Effective with fiscal year ended June 30, 2006 the election, office supplies and utilities are reported as itemized expenses. June 30, 2005 balances are being restated to reflect the change.

<sup>2</sup> Interest paid as a result of the Overpayment Policy adopted by the Board of Retirement effective with Fiscal Year Ended June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
ADMINISTRATIVE BUDGET ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Approved Budget	Final Budget	Fiscal Year Expenditures	Percentage Expended
<b>Personnel Services</b>				
Salaries	\$ 1,255,119	\$ 1,255,119	\$ 1,031,221	82.16%
Benefits	418,794	418,794	347,262	82.92%
Total Personnel Services	<u>1,673,913</u>	<u>1,673,913</u>	<u>1,378,483</u>	82.35%
<b>Professional Services</b>				
Actuarial <sup>1</sup>	140,000	140,000	137,250	98.04%
Legal Counsel	295,000	295,000	188,418	63.87%
Professional Services - Disability	98,000	98,000	157,206	160.41%
Other Professional Services	230,800	230,800	148,538	64.36%
Pensions System Maintenance	184,051	184,051	122,817	66.73%
Total Professional Services	<u>947,851</u>	<u>947,851</u>	<u>754,229</u>	79.57%
<b>Travel, Transportation, and Education</b>				
Transportation, Travel, and Education - Board	43,000	43,000	38,599	89.77%
Transportation, Travel, and Education - Staff	16,300	16,300	12,463	76.46%
Total Travel, Transportation, and Education	<u>59,300</u>	<u>59,300</u>	<u>51,062</u>	86.11%
<b>Other</b>				
Bad Debt Expenditures	-	-	5,482	N/A
Data Processing	125,634	125,634	173,958	138.46%
Depreciation	-	-	156,854	N/A
Insurance	164,468	164,468	152,428	92.68%
Interest Paid - Overpayment Policy	-	-	69,597	N/A
Maintenance	24,884	24,884	30,233	121.50%
Office Supplies	129,900	129,900	92,943	71.55%
Total Other	<u>444,886</u>	<u>444,886</u>	<u>681,495</u>	153.18%
<b>Capital Assets <sup>2</sup></b>				
	<u>7,000</u>	<u>7,000</u>	<u>-</u>	0.00%
<b>Total Administrative Expenditures</b>	<u><u>\$ 3,132,950</u></u>	<u><u>\$ 3,132,950</u></u>	<u><u>\$ 2,865,269</u></u>	91.46%

<sup>1</sup> Excludes annual valuation costs which are included as part of investment expenses.

<sup>2</sup> Capital Assets are included in the adopted Administrative Budget when purchased. However, the costs are recognized as a result of the depreciation process.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF INVESTMENT EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
Investment Manager Fees	\$ 9,332,278 <sup>1</sup>	\$ 7,754,115 <sup>1</sup>
Custodial Service Fees	244,173	449,590
Actuarial Valuation Fees <sup>2</sup>	53,400	37,600
Executive Office Operation	234,170	251,840
Due Diligence Travel	-	9,977 <sup>3</sup>
Futures Commission Expense	43,113 <sup>4</sup>	43,296 <sup>4</sup>
Foreign Tax Representation Fee	3,250 <sup>5</sup>	-
Investment Legal Fees	56,417 <sup>5</sup>	45,617
Investment Consultant	261,252 <sup>5</sup>	279,554
Subtotal Investment Expenses	<u>10,228,053</u>	<u>8,871,589</u>
Securities Lending Expenses	11,470,411 <sup>6</sup>	4,977,430 <sup>6</sup>
Total Investment Expenses	<u>\$ 21,698,464</u>	<u>\$ 13,849,019</u>

<sup>1</sup> Due to the reclassification of private market management fees in fiscal year ended June 30, 2006, current year investment manager fees are not comparable to June 30, 2005.

<sup>2</sup> Actuarial Valuation Fees are the fees for producing the Actuarial Valuation Report.

<sup>3</sup> Effective with fiscal year ended June 30, 2005, the Due Diligence Travel was reported as an itemized investment expense.

<sup>4</sup> Futures Commission Expense is recorded as part of Investment Expense on the Statement of Net Changes. Effective with fiscal year ended June 30, 2006, Futures Commission Expense is reported on the Schedule of Investment Expenses. June 30, 2005 balances are being restated to reflect the change.

<sup>5</sup> Foreign Tax Representation, Investment Legal and Investment Consultant Fees can also be found on page 45 as Payments to Consultants.

<sup>6</sup> Effective with fiscal year ended June 30, 2006, the Securities Lending Expense is reported on the Schedule of Investment Expenses. June 30, 2005 balances are being restated to reflect the change.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF PAYMENTS TO CONSULTANTS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
Disability Attorney Fees	\$ 29,769	\$ 25,388
Retirement Board Attorney Fees	188,418	276,994
Disability Medical, Investigation, and Copying Fees	127,437	67,354
Other Professional Expenses	8,451	747
Audit Fees	37,844	11,324
Foreign Tax Representation Fees	3,250	-
Actuarial Consulting Fees (non-actuary study costs)	137,250	102,200
Actuarial Report Fees	53,400	37,600
Investment Legal Fees	56,417	45,617
Custodial Fees	244,173	449,590
Investment Consultant	261,252	279,554
Data Processing Fees	173,958	105,454
Total Payments to Consultants	<u>\$ 1,321,619</u>	<u>\$ 1,401,822</u>

Refer to page 56 for information on fees paid to investment managers.

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# INVESTMENT SECTION



October 16, 2006

The Board of Retirement  
Fresno County Employees' Retirement Association  
1111 H Street  
Fresno, CA 93721

After a 12.1% gain for the fiscal year ending June 30, 2005, Fresno County Employees' Retirement Association ("FCERA") investment portfolio continued to post double-digit gains. FCERA's investment portfolio gained 11.1% (*fiscal year ending June 30, 2006*) and outperformed a majority of its peers. Both domestic and international equity indices experienced gains for the fiscal year, with international equities continuing to outperform domestic equities on a fiscal year-to-year basis. The fixed income indices posted slightly negative returns as the Federal Reserve pursued a tightening policy over the fiscal year.

The FCERA portfolio outperformed the Fund's Policy benchmark by 1.7% and the Median Public Fund in the Independent Consultants Cooperative Universe by 1.8%. This one-year return ranked the Fund in the 26<sup>th</sup> percentile amongst its peers. The outperformance was largely due to FCERA's relatively high allocation to international equity, which has returned 27.2% over the past fiscal year. Over the last three years, the MSCI EAFE Index has outperformed the S&P 500 Index on an average annualized basis by more than 13.0%.

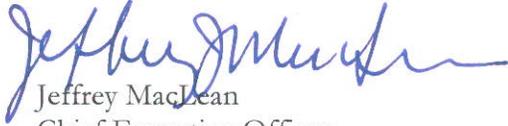
For the last three years ending June 30, 2006, the FCERA investment portfolio averaged 13.0% annually and outperformed the Policy benchmark by 1.4% and the Median Public Fund by 1.6%. These results ranked FCERA's investment portfolio in the 20<sup>th</sup> percentile amongst its peers. Over the five-year period ending June 30, 2006, the portfolio returned 7.2% on an average annualized basis. This return exceeded the Median Public Fund and the Policy benchmark as well.

For the fiscal year, FCERA's actual asset allocation fell within the minimum and maximum constraints and did not deviate enough from the target allocation to constitute any rebalancing. The largest discrepancy between the target allocation and the actual allocation is the underweight allocation to Private Markets. This underweight allocation is due to the time needed to conduct the necessary due diligence as it pertains to the Private Markets. All managers were in compliance with their respective guidelines and no decisions were made to replace or add managers to the fund during the past fiscal year.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Cash	0%	0.3%
Core Fixed Income	30%	30.8%
Domestic Equity	38%	39.6%
Global Fixed Income	3%	2.8%
International Equity	18%	19.8%
Private Markets	11%	6.7%

All of us here at Wurts and Associates appreciate the opportunity to assist the FCERA Board in meeting the Plan's investment objectives. We are pleased the investment results remain strong and look forward to providing continued service.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeffrey MacLean".

Jeffrey MacLean  
Chief Executive Officer

## **FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION GENERAL INFORMATION**

The goal of the Fresno County Employees' Retirement Association ("Association") is to provide retirement compensation, death benefits, and disability benefits to its members. The Association should meet this goal through prudent investment of employee and employer contributions.

The County Employees' Retirement Law of 1937 governs the Association. California Public Law (including Sections 31594 and 31595) also regulates Association action. Section 31594 and 31595 are especially important because they provide for prudent person governance of the plan. These laws do not specify the type, amount, and quality of plan investments. Rather, these laws guide the Association to make investments assumed to be in the best interest of the plan's beneficiaries. Such decisions should be consistent with the decisions of other investors possessing similar information.

The Retirement Board ("Board") has exclusive control of the investment of the employees' retirement fund. The assets of the Association are trust funds and shall be held for the exclusive purposes of providing benefits to its members in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the Association. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest the assets of the fund through the purchase, holding, or sale of any form or type of investment financial instrument, or financial transaction when prudent in the informed opinion of the Board.

The officers and employees of the Board shall discharge their duties to the Association as follows:

- The Board will act solely in the interest of and for exclusive purposes of providing benefits to participants and their beneficiaries. The Board will keep employer contributions to the Association at a minimum level. The Board will also pay reasonable expenses required to administer the plan.
- The Board will act like a prudent person under equivalent circumstances and having similar goals. Attention to care, skill, prudence, and diligence is of utmost importance when acting on behalf of the Association.
- The Board shall diversify the Association's investments to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. The diversification of the Association's portfolio is displayed in the tables and graphs included in the following pages.

The Association's assets are exclusively managed by external, professional investment management firms. The Board closely monitors the performance of the managers with the assistance of an external investment consultant.

## **FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION SUMMARY OF INVESTMENT OBJECTIVES**

The Association's primary objective is to efficiently allocate and manage the assets dedicated to the payment of retirement and disability benefits. While recognizing the importance of "preservation of capital", the Association also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long run.

To accomplish its investment objectives, the Association has established a series of procedures and guidelines. The procedures, grouped together as the Investment Policy, serve to guide the Association's investment program. The procedures also help to define the responsibilities of the Board members as they relate to the investment process.

The policy drives the investment actions of the Association. This policy considers various mixes of different investment asset class risk and return expectations for each mixed-class portfolio current and projected plan liabilities. The policy places responsibility for proxy voting with its equity investment managers.

The Investment Summary on page 53 reflects investment results based on time-weighted rate of return using fair value. All other information is reported at fair value.

### **TARGET AND ACTUAL ASSET ALLOCATIONS AS OF JUNE 30, 2006**

The Board reviews the Association's investment results each quarter. Periodically, the Board reviews the asset allocation, taking into consideration the latest actuarial study. Based on this review, the Board adopts an asset allocation mix with the goal of helping the Association achieve a fully funded status. Each asset class has a target allocation. The Association treats these targets as long-term funding objectives. Adhering to these targets allows the Association to keep investment risk at a manageable level and minimizes investment costs.

One keystone of asset allocation is diversification among asset classes. Diversification helps to maintain risk at a tolerable level. Therefore, the Board reviews the investment performance and volatility of each asset class on a regular basis over various time periods (quarterly, annually, multi-years) to ensure that the current allocation continues to meet the Association's needs.

Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract.

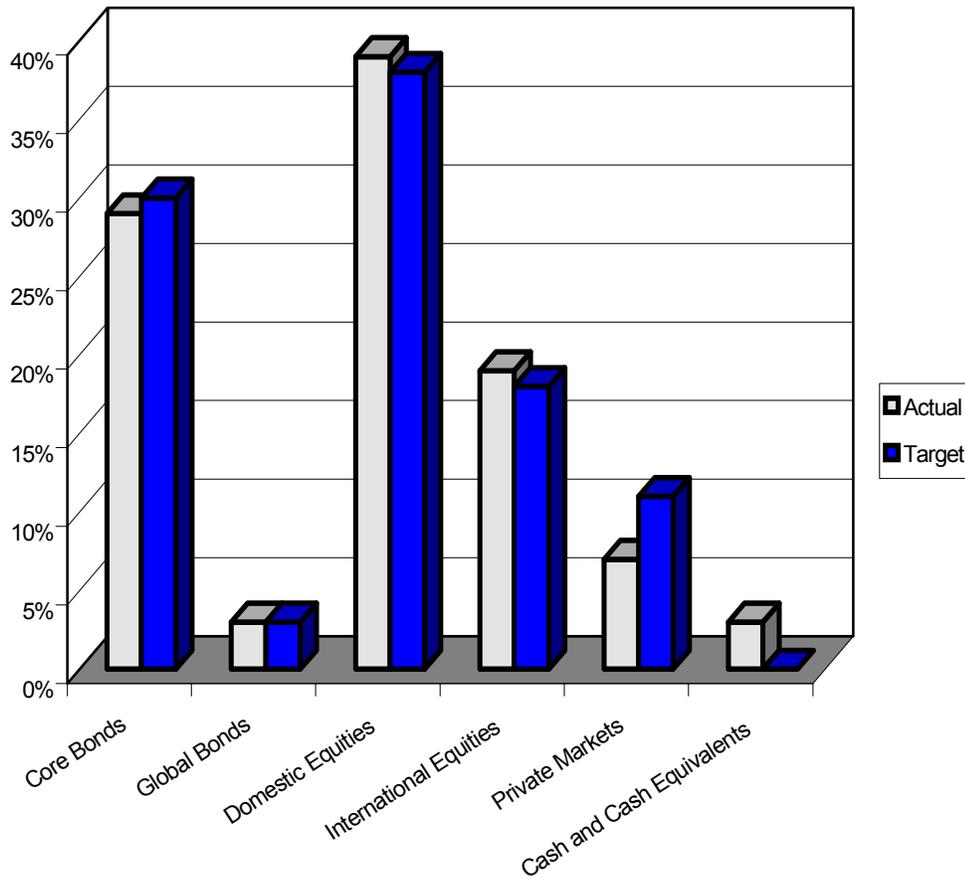
The information provided below and on subsequent pages is a representation of FCERA's financial statements. Individually, they may not tie to the investment

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
 TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)  
 AS OF JUNE 30, 2006**

consultant's report on pages 47-48 of this CAFR due to the different reporting methodologies used by the investment consultant and FCERA.

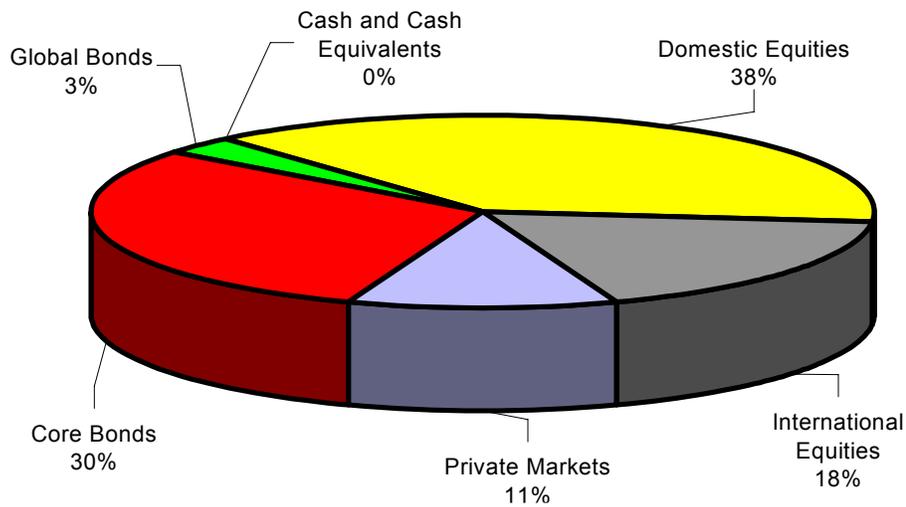
For example, the investment consultant reports cash held with investment managers as part of the investment manager's investment portfolio not as cash and cash equivalents as reported on the Investment Summary.

The 2005-06 target and actual asset allocations are presented in the following graphs and charts:

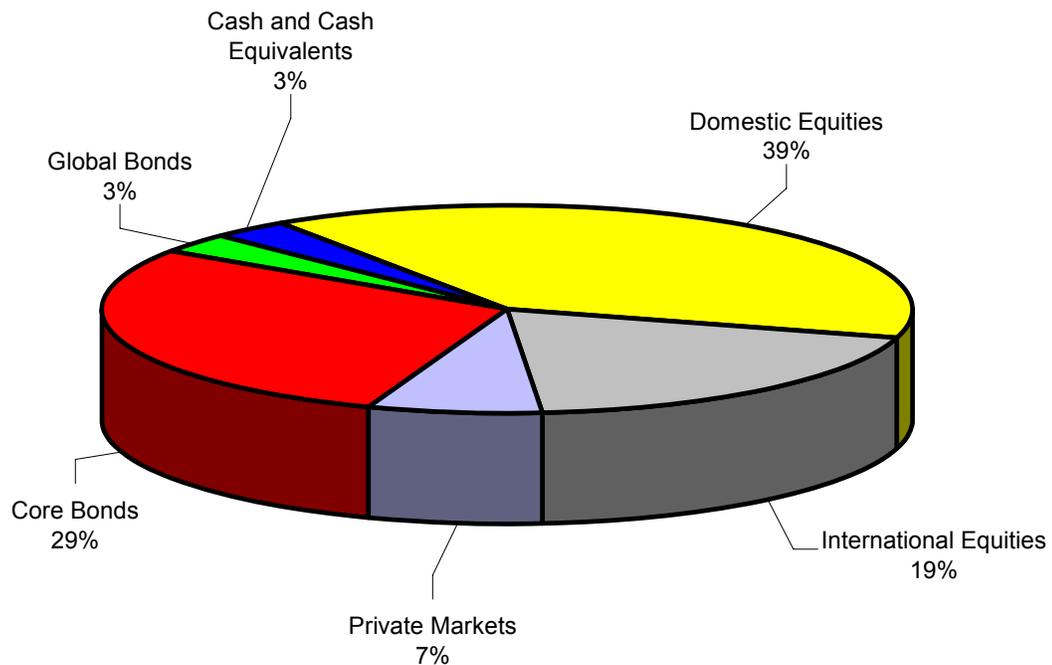


**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)  
AS OF JUNE 30, 2006**

**Target Percentages**



**Actual Percentages**



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
INVESTMENT SUMMARY  
AS OF JUNE 30, 2006**

<b>Total Funds</b>	<b>Current Year</b>	<b>3-Year Return</b>	<b>5-year Return</b>
<b>Fixed Income</b>			
Domestic	0.1%	2.7%	4.5%
Benchmark : LB Aggregate Index	-0.8%	2.0%	5.0%
Global	1.9%	6.5%	9.8%
Benchmark : JPM Global GBI T/U	1.2%	4.7%	8.8%
<b>Equities</b>			
Domestic Large Capital Value	11.8%	16.9%	9.2%
Benchmark: Russell 1000 Value	12.1%	15.7%	6.9%
Domestic Large Capital	8.7%	0.0%	0.0%
Benchmark: S & P 500 Index	8.6%	11.2%	2.5%
Domestic Large Capital Growth			
Intech S&P Barra	7.3%	0.0%	0.0%
Benchmark: S&P Growth Index	5.1%	7.4%	0.6%
TCW Core	4.4%	0.0%	0.0%
Benchmark: Russell 1000 Growth	6.1%	8.4%	-0.8%
Equity Small Capital Growth	9.8%	0.0%	0.0%
Benchmark: Russell 2000 Growth	14.6%	16.3%	3.5%
Domestic Small Capital Value	7.1%	18.8%	13.7%
Benchmark : Russell 2000 Value	14.6%	21.0%	13.1%
Emerging Markets Equity	3.9%	0.0%	0.0%
Benchmark: MSCI Emerging Markets Free International	35.9%	34.8%	21.5%
Templeton	23.1%	22.7%	9.1%
Benchmark : MSCI EAFE	27.1%	24.4%	10.4%
Oechsle	8.8%	0.0%	0.0%
Benchmark : MSCI EAFE	10.5%	24.4%	10.4%
<b>Private Markets</b>			
Real Estate	32.9%	19.9%	16.3%
Benchmark : NCREIF Classic Property	18.9%	15.3%	11.2%
Alternative Investments	18.4%	20.0%	9.5%
Benchmark : S&P 500 + 4.47%	13.4%	16.1%	7.1%
<b>Cash, Custodial and Investment Pool</b>			
Cash	4.2%	2.4%	2.2%
Benchmark: 90-Day Treasury Bill	4.0%	2.4%	2.3%
<b>Total</b>	<b>11.4%</b>	<b>13.4%</b>	<b>7.6%</b>

Notes:

Realty is net of fees and lagged one quarter. Other investments are gross of fees.

Securities Lending and Alternative Investments are lagged one quarter.

Investment results were prepared using a time-weighted rate of returned based on the market rate of return.

<sup>1</sup> There were no 3-year or 5-year results for Domestic Large Capital because it was funded on June 23, 2004.

<sup>2</sup> There were no current 3-year or 5-year results for Equity Small Capital Growth, because they were funded in November 2004.

<sup>3</sup> There were no current 3-year or 5-year results for Emerging Market Equity and Oechsle International, because they were funded in November 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
INVESTMENT SUMMARY  
AS OF JUNE 30, 2006**

	Fair Value	Actual Percentages	Target Percentages
<b>Investments</b>			
Domestic Bonds <sup>1</sup>	\$ 453,290	17.47%	30.00%
Global Bonds <sup>2</sup>	87,077	3.36%	3.00%
Agencies	<u>303,089</u>	<u>11.68%</u>	<u>0.00%</u>
Total Bonds	<u>843,456</u>	<u>32.51%</u>	<u>33.00%</u>
Domestic Stocks <sup>3</sup>	1,006,649	38.79%	38.00%
International Stocks	<u>499,895</u>	<u>19.26%</u>	<u>18.00%</u>
Total Stocks	<u>1,506,544</u>	<u>58.05%</u>	<u>56.00%</u>
Real Estate (Station Building)	1,792	0.07%	0.00%
Private Markets <sup>4</sup>	<u>163,344</u>	<u>6.29%</u>	<u>11.00%</u>
Total Investments	<u>2,515,136</u>	<u>96.92%</u>	<u>100.00%</u>
<b>Cash and Cash Equivalents</b>			
Cash Held in County Invesement Pool	34,999	1.35%	0.00%
Cash Held by Property Manager	141	0.00%	0.00%
Short Term Investment with Fiscal Agent	<u>45,080</u>	<u>1.73%</u>	<u>0.00%</u>
Total Cash and Cash Equivalents	<u>80,220</u>	<u>3.08%</u>	<u>0.00%</u>
<b>Total Investment, Cash and Cash Equivalents</b>	<u><u>\$ 2,595,356</u></u>	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

<sup>1</sup> Includes mortgages.

<sup>2</sup> Includes foreign bonds.

<sup>3</sup> Includes commercial paper.

<sup>4</sup> Includes real estate, futures, and alternative investments.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF FEES  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<b>Par</b>	<b>Name</b>	<b>Yield</b>	<b>Maturity Date</b>	<b>Fair Value</b>
\$	18,705,000	U.S. T-Note	4.875%	05/31/08	\$ 18,600,514
	16,264,000	FNMA TBA	5.000%	07/13/36	15,201,766
	15,478,000	FNMA TBA	6.000%	07/13/36	15,231,312
	15,135,000	U.S. T-Note	4.375%	12/31/07	14,954,682
	9,883,000	FNMA TBA	5.500%	07/13/36	9,490,764
	8,551,020	WA MTG Backed Sec Port			88,631,317
	8,000,000	FNMA TBA	6.000%	07/18/21	8,027,504
	6,100,000	FN TBA	5.500%	07/18/36	5,985,625
	477,843	WA OPP Int Inv Grade Port			10,215,805
	<u>370,826</u>	WA OPP High Yield Port			<u>5,492,680</u>
\$	<u>98,964,689</u>	Total			\$ <u>191,831,969</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
LARGEST STOCK HOLDINGS  
AS OF JUNE 30, 2006**

<b>Shares</b>	<b>Name</b>	<b>Fair Value</b>
393,666	Citigroup, Inc.	\$ 18,990,448
285,000	Exxon Corporation	17,484,750
269,600	Bank of America	12,967,760
387,600	Progressive Co.	9,965,196
136,970	Conoco Phillips	8,975,644
128,000	ChevronTexaco Corp.	7,943,680
18,700	Google Inc.	7,841,471
276,162	Glaxosmithkline PLC	7,717,846
197,400	Countrywide Financial	7,516,992
<u>110,690</u>	Schlumberger Limited	<u>7,207,026</u>
<u>2,203,788</u>	Total	\$ <u>106,610,813</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF FEES**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>Investment Managers' Fees</b>		
Domestic Equity Managers:		
Aronson, Johnson and Ortiz	\$ 548,320	\$ 541,069
Artisan Partners	600,723	321,141
Brandywine Asset Management	528,994	636,945
Intech S&P Barra Growth	697,553	632,741
Kalmar Management	361,830	376,399
State Greet Global Advisors	38,756	35,859
TCW Concentrated Core	729,093	674,786
Wellington Management Company	<u>513,406</u>	<u>502,149</u>
Total Domestic Equity Managers	<u>4,018,675</u>	<u>3,721,089</u>
International Equity Managers:		
Marvin and Palmer International	335,536	828,439
Marvin and Palmer Emerging	319,428	680,503
Mondrian Emerging	565,116	-
Oechsle International	577,633	-
Templeton Investments	<u>926,445</u>	<u>806,312</u>
Total International Equity Managers	<u>2,724,158</u>	<u>2,315,254</u>
Domestic Fixed Income Managers:		
BlackRock Financial Management, Inc.	473,512	424,484
Bradford and Marzec, Inc.	401,050	392,678
Grantham, Mayo & Van Otterloo	267,676 <sup>1</sup>	-
Loomis Sayles	329,318	328,476
State Street Global Advisors	-	12,834
Weiss, Peck & Greer	-	286,452
Western Asset Management	<u>451,291</u>	<u>70,173</u>
Total Domestic Fixed Income Managers	<u>1,922,847</u>	<u>1,515,097</u>
Private Market Managers:		
Alternative Investments	514,641 <sup>1</sup>	-
Real Estates	<u>151,957 <sup>1</sup></u>	<u>-</u>
Total Private Market Managers	<u>666,598</u>	<u>-</u>
<b>Total Investment Managers' Fees</b>	<b>\$ <u>9,332,278</u></b>	<b>\$ <u>7,551,440</u></b>
<b>Other Investment Expenses</b>		
Securities Lending Expense	\$ 11,470,411	\$ 4,977,430
Due Diligence Travel	-	9,977
Custodial Service Fees	244,173	449,590
Actuarial Valuation Fees	53,400	37,600
Executive Office Operation	234,170	251,840
Futures Commission Expense <sup>2</sup>	43,113	43,296
Consulting Fees	<u>320,919</u>	<u>336,495</u>
<b>Total Other Investment Expenses</b>	<b>\$ <u>12,366,186</u></b>	<b>\$ <u>6,106,228</u></b>

<sup>1</sup> Management fees are being reported and disclosed in 2006. Information is not available for 2005.

<sup>2</sup> Effective fiscal year ended June 30, 2006 Futures Commission Expense is reported as an itemized investment expense. June 30, 2005 is being restated to reflect the change.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2006**

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
ABG Securities	5,207,936	\$ 25,278	\$ 0.0049	1.51%
Amherst Securities	1,900,000	-	-	0.00%
Arch Securities	4,060,000	-	-	0.00%
BA Securities	10,702,333	-	-	0.00%
Banc of America Sec	25,572,983	20,427	0.0008	1.22%
Bbank of America NT & SA	366,985,066	-	-	0.00%
Bank of New York	3,770,733	11,501	0.0030	0.69%
Barclays Capital, INC	1,360,350,349	-	-	0.00%
Bear Stearns	35,604,595	17,030	0.0005	1.02%
Blaylock	66,800,000	-	-	0.00%
Bloomberg	1,863,154	27,732	0.0149	1.65%
BNP Paribas	15,603,139	4,163	0.0003	0.25%
BNY Direct Exec	73,891,451	13,919	0.0002	0.83%
Boston Financial	3,259,420	8,170	0.0025	0.49%
Cantor Fitzgerald	40,335,446	20,759	0.0005	1.24%
Capital Institution	2,020,140	37,132	0.0184	2.21%
CCM	18,679,206	-	-	0.00%
Chase Securities	8,177,000	-	-	0.00%
CIBC WorldMarkets	510,215	9,730	0.0191	0.58%
Citicorp/Citigroup Global	374,441,779	25,476	0.0001	1.52%
Countrywide	45,542,502	66	0.0000	0.00%
Credit Suisse	254,946,677	47,092	0.0002	2.81%
Deutsche Bank	262,287,553	34,842	0.0001	2.08%
Direct Securities	108,161,727	25,514	0.0002	1.52%
Dresdner Bank	1,965,572	9,310	0.0047	0.56%
Fifth Third Securities	70,540,184	106	0.0000	0.01%
First Boston Corporation	2,394,013	3,709	0.0015	0.22%
First Tennessee	7,973,000	-	-	0.00%
FTN Financial	2,529,908	-	-	0.00%
Goldman Sachs	649,240,856	113,330	0.0002	6.76%
Green Street	276,308,640	-	-	0.00%
Greenwich Capital Markets	32,500,726	-	-	0.00%
HSBC Securities	154,281,706	10,800	0.0001	0.64%
Investment Technology	581,593	11,436	0.0197	0.68%
ITG Group	2,053,634	34,271	0.0167	2.04%
Jeffries	2,043,327	26,426	0.0129	1.58%
Jones and Associates	619,025	17,994	0.0291	1.07%
JP Morgan	110,144,172	25,596	0.0002	1.53%
LaBranche Securities	695,140	141,135	0.2030	8.41%
Lehman Brothers	1,807,361,922	46,288	0.0000	2.76%
Liberatis Partners LLC	500,000	-	-	0.00%
Loop Capital	54,660,000	-	-	0.00%
Merrill, Lynch, Pierce	211,085,933	190,678	0.0009	11.37%

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF COMMISSIONS  
FOR THE YEAR ENDED JUNE 30, 2006**

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Mitsubishi Securities	13,500,000	\$ -	\$ -	0.00%
Mizuho Securities	43,913,346	1,825	0.0000	0.11%
Morgan Stanley Securities	330,515,142	83,869	0.0003	5.00%
National Australia	21,016,000	-	0.0000	0.00%
Nomura	8,748,631	3,004	0.0003	0.18%
Paribas	2,081,126	-	0.0000	0.00%
Rosenblatt	545,132	10,988	0.0202	0.66%
Salomon Smith Barney	3,308,216	-	0.0000	0.00%
Santander Investment	20,398,000	-	0.0000	0.00%
Smith Barney Capital	31,882,162	16,051	0.0005	0.96%
State Street Global Advisors	8,162,194	149,388	0.0183	8.91%
Toronto Dominion Securities	5,585,000	-	0.0000	0.00%
Toyota	2,330,000	-	0.0000	0.00%
UBS	208,792,618	75,639	0.0004	4.51%
Wachovia Securities	33,091,633	10,140	0.0003	4.51%
Warburg Dillion Reed	1,315,270	291	0.0002	0.02%
Warburg Securities	10,160,590	11,719	0.0012	0.70%
Washington Mutual	9,419,249	-	0.0000	0.00%
Weeden & Co.	775,100	15,766	0.0203	0.94%
Other Brokers	283,287,065	338,820	0.0012	20.20%
Total Investment Trade Commissions	7,516,979,229	1,677,410	0.0002	100.00% <sup>1</sup>

The Association has established a Directed Commission Recapture Program generated by equity and fixed income transactions. The Association communicates to its managers that best execution and best price are the primary considerations when a transaction is made.

- <sup>1</sup> Column may not foot due to rounding.
- <sup>2</sup> Brokers listed above with no commission fee are included to represent the true number of shares traded for comparison with total commissions paid.



# ACTUARIAL SECTION





**Public Pension  
Professionals, Inc.**

121 MacKinnon Place  
Oakland, CA 94610  
510-652-8420 (telephone)  
510-652-8421 (facsimile)  
irasummer@pensioncube.com (email)

Board of Retirement  
Fresno County Employees' Retirement Association  
1111 H Street  
Fresno, CA 93721  
(559) 457-0681 (Telephone)  
(559) 457-0318 (Facsimile)

Members of the Board:

The annual actuarial valuation required for the Fresno County Employees Retirement Association (FCERA) has been prepared as of June 30, 2005 by Public Pension Professionals, Incorporated. In preparing this valuation, we have employed generally accepted actuarial assumptions and methods to determine a sound value for the FCERA's assets, liabilities and future contribution requirements. The actuarial assumptions employed in the development of the recommended contribution rates were selected to be individually reasonable (taking into account the experience of the Plan and reasonable expectations) and which, in combination, offer the actuary's best estimate of anticipated experience under the Plan. In our opinion, these methodologies and assumptions meet the parameters required under Government Accounting Standards Board (GASB) Statement 25.

The financing objective of the system has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a 30-year period (15-year period for future gains and losses or changes in assumptions or methods), while maintaining contribution rates that remain relatively level, as a percentage of payroll, from generation to generation.

We assisted in the preparation of several schedules included in the actuarial, statistical and financial sections of FCERA's Comprehensive Annual Financial Report. These include:

1. Solvency Test
2. Actuarial Analysis of Financial Experience
3. Schedule of Funding Progress

We supplied the current year information for these schedules through the preparation of our annual valuation report and through additional reports prepared for FCERA staff. Data for years prior to the June 30, 2000 actuarial valuation were prepared by the prior actuary for FCERA.

Our calculations are based upon the member data and financial information supplied to us by FCERA staff. This data has not been audited, but has been reviewed and found to be internally consistent and consistent with the prior year's data.

I am a Fellow of the Society of Actuaries, an Enrolled Actuary under ERISA, a Fellow in the Conference of Consulting Actuaries, a Member of the American Academy of Actuaries, and have experience in performing actuarial valuations for public retirement systems. As such, I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

A handwritten signature in black ink that reads "Ira M. Summer". The signature is written in a cursive style and is positioned to the left of a vertical red line.

Ira M. Summer, FSA, EA, FCA, MAAA  
President

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The UAAL is being funded over 15 years from the June 30, 2003 valuation date. The following interest rate assumptions along with the post retirement and pre-retirement demographic experiences are based on the plan's actuarial experience through June 30, 2003. The actuarial valuation report was approved and adopted by the Fresno County Board of Retirement on June 4, 2006.

1. Investment Rate of Return: 8.16% per annum, compounded semiannually. (4.00% real, 4.00% inflation)
2. Interest Credited to Employee Accounts: 8.16% per annum, compounded semiannually
3. Inflation: 4.00% per annum
4. Salary Scale:
  - General Members: Salary increases range from 9.0% to 4.75% based on years of service (merit of 5.0% per year for the first five years of service and 0.75% thereafter; 4.0% inflation)
  - Safety Members: Salary increases range from 6.0% to 5.0% based on years of service (merit of 2.0% per year for the first eight years of service and 1.0% thereafter; 4.0% inflation)
5. Asset Valuation: Smoothed market value
6. Spouses and Dependents: 90% of male active members and 50% of female active members assumed married at retirement, with wives assumed three years younger than husbands
7. Rates of Termination of Employment: 0.00% to 16.50%, depending on age, gender and service classification
8. Years of Life Expectancy After Retirement: RP - 2000 Healthy Annuitant Mortality

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (Continued)**

9. Years of Life Expectancy After Disability: RP - 2000 Disabled Annuitant Mortality
10. Life Expectancy After Retirement for Employee Contribution Rate Purposes
- General Members: RP - 2000 Healthy Mortality with adjustment for white collar
  - Safety Members: RP - 2000 Healthy Mortality with adjustment for blue collar
11. Reciprocity Assumption: 50% of members who terminate with a vested benefit are assumed to enter a reciprocal system
12. Vested Terminations: Varies by age and years of service
13. Gender: All Safety members are assumed to be male
14. Gains & Losses: Gains and Losses are reflected in the UAAL and are funded over the period described above

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Date	Plan Type	Number	Annual Payroll	Average Monthly Salary	% Increase in Average Salary
June 30, 1998	General	5,200	\$ 181,813,000	\$ 2,914	7.1%
	Safety	<u>857</u>	<u>37,585,000</u>	\$ 3,655	11.4%
	Total	<u>6,057</u>	<u>\$ 219,398,000</u>	\$ 3,019	7.7%
June 30, 2000	General	6,195	\$ 227,910,000	\$ 3,066	5.2%
	Safety	<u>904</u>	<u>45,516,000</u>	\$ 4,196	14.8%
	Total	<u>7,099</u>	<u>\$ 273,426,000</u>	\$ 3,210	6.3%
June 30, 2002	General	6,811	\$ 275,646,000	\$ 3,373	10.0%
	Safety	<u>923</u>	<u>51,329,403</u>	\$ 4,634	10.4%
	Total	<u>7,734</u>	<u>\$ 326,975,000</u>	\$ 3,523	9.8%
June 30, 2003	General	6,660	\$ 286,278,925	\$ 3,582	6.2%
	Safety	<u>939</u>	<u>55,702,460</u>	\$ 4,943	6.7%
	Total	<u>7,599</u>	<u>\$ 341,981,385</u>	\$ 3,750	6.4%
June 30, 2004	General	6,534	\$ 283,135,520	\$ 3,611	1.0%
	Safety	<u>911</u>	<u>54,478,246</u>	\$ 4,983	1.0%
	Total	<u>7,454</u>	<u>\$ 337,613,766</u>	\$ 3,774	1.0%
June 30, 2005	General	6,671	\$ 295,740,566	\$ 3,694	2.3%
	Safety	<u>963</u>	<u>55,308,619</u>	\$ 4,786	-4.0%
	Total	<u>7,634</u>	<u>\$ 351,049,185</u>	\$ 3,832	1.5%

<sup>1</sup> Information compiled from biennial Actuarial Reports prepared by Buck Consultants dated June 30, 2000.

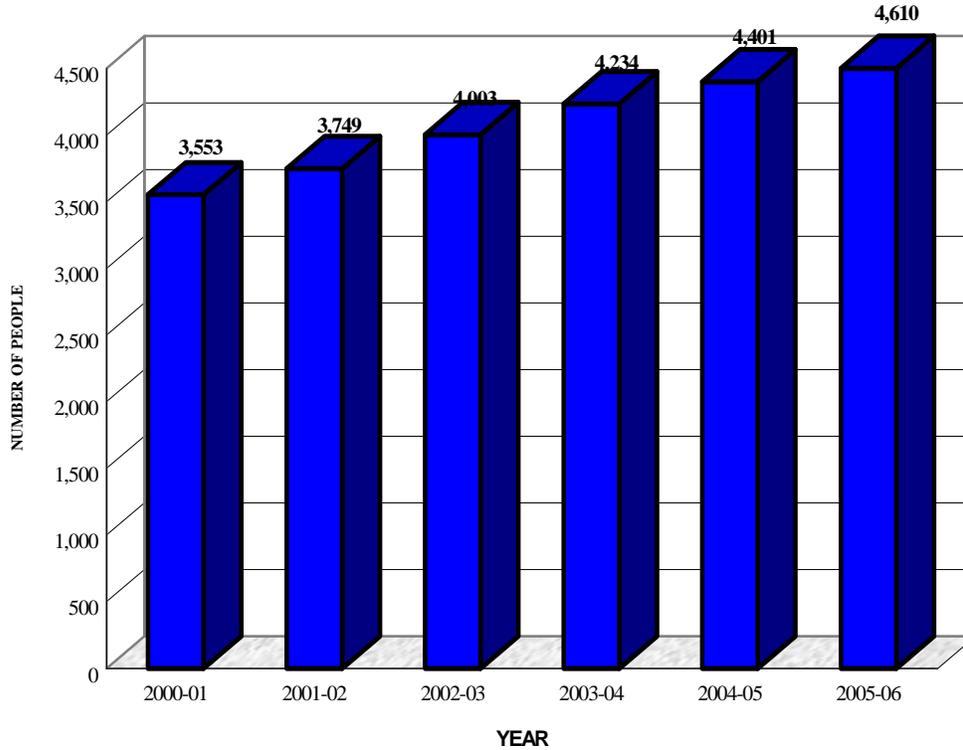
<sup>2</sup> Information compiled from biennial Actuarial Report prepared by Public Pension Professionals dated June 30, 2002.

<sup>3</sup> Information compiled from annual Actuarial Reports prepared by Public Pension Professionals dated June 30, 2003, 2004, and 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND  
REMOVED FROM RETIREE PAYROLL**

Year	Number at Beginning of Year	Number Added to Rolls	Number Removed From Rolls	Number at End of Year	Annual Allowance	Percent Increase in Annual Allowances	Average Annual Allowance	Percent Increase in Average Annual Allowance
2000-01	3,310	339	96	3,553	\$ 63,242,000	22.56%	\$ 17,800	14.18%
2001-02	3,553	284	88	3,749	81,022,000	28.11%	21,612	21.42%
2002-03	3,749	347	93	4,003	92,729,000	14.45%	23,165	7.19%
2003-04	4,003	335	104	4,234	106,247,000	14.58%	25,094	8.33%
2004-05	4,234	285	118	4,401	114,376,000	7.65%	25,989	3.57%
2005-06	4,401	316	107	4,610	120,230,000	5.12%	26,080	0.35%

**RETIRANTS AND BENEFICIARIES AT THE END OF THE YEAR**



Note: Annual allowances added to the rolls and annual allowances removed from the rolls as a dollar amount are not tracked and are currently not available.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF FUNDING PROGRESS**

(Amounts expressed in thousands)

The funding ratios are based on the Entry Age Normal cost funding method

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Overfunded) AAL	Funded Ratio	Covered Payroll	Unfunded (Overfunded) AAL Percentage of Covered Payroll
June 30, 1998	\$ 1,647,935	\$ 1,549,166	\$ (98,769)	106.4%	\$ 219,398	(45.0%)
June 30, 2000	1,698,282	1,719,905	21,623	98.7%	273,426	7.9%
June 30, 2002	1,674,900 <sup>2</sup>	1,932,300	257,400	86.7%	326,975	78.7%
June 30, 2003	1,922,149 <sup>2</sup>	1,953,490	30,841 <sup>1</sup>	98.9%	341,981	9.0%
June 30, 2004	1,977,097 <sup>2</sup>	2,017,971	40,874	98.0%	337,614	12.1%
June 30, 2005	2,337,311	2,545,620	208,309	91.8%	351,049	59.3%

<sup>1</sup> Includes a correction to amount reported at June 30, 2004.

<sup>2</sup> Actuarial Value of Assets on the Solvency Test includes the total plan assets for all years. The Summary of Funding Progress shown here and on page 40 reports only the employer's assets for the years 2002, 2003 and 2004, amounts will therefore not be consistent between the Solvency Test and the Summary of Funding Progress schedules. As of June 30, 2005 the Solvency Test and Summary of Funding Progress report the total plan assets.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF ANALYSIS OF FINANCIAL EXPERIENCE**

(Amounts expressed in thousands)

Changes to UAAL	2005	2004
Prior Valuation Unfunded Actuarial Accrued Liability	\$ 40,874	\$ 30,841
Expected Increase from Prior Valuation	4,516	22,780
Salary Increase Greater (Less) than Expected	(28,969)	(31,705)
Asset Return Less (Greater) than Expected	66,097	54,432
Other Experience	70,405	(35,474)
Actuarial Assumptions Changes	55,386	-
Ending Unfunded Actuarial Accrued Liability (Surplus)	<u>\$ 208,309</u>	<u>\$ 40,874</u>

Note: Information prepared by Public Pension Professionals.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SOLVENCY TEST**

(Amounts expressed in thousands)

Valuation Date	Actuarial Accrued Liabilities for			Actuarial <sup>2</sup> Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions (1)	Vested, Retirants and Beneficiaries (2)	Active Members Employer Financed (3)		Active Member Contributions (1)	Vested, Retirants and Beneficiaries (2)	Active Members Employer Financed (3)
June 30, 1998	\$ 211,171	\$ 456,118	\$ 881,877	\$ 1,647,935	100%	100%	111%
June 30, 2000	\$ 251,943	\$ 622,130	\$ 845,832	\$ 1,698,282	100%	100%	97%
June 30, 2002	\$ 263,170	\$ 985,447	\$ 683,692	\$ 1,824,038 <sup>1</sup>	100%	100%	84%
June 30, 2003	\$ 266,798	\$ 1,217,965	\$ 728,912	\$ 1,806,494 <sup>1</sup>	100%	100%	44%
June 30, 2004	\$ 275,678	\$ 1,254,674	\$ 750,455	\$ 2,265,388 <sup>1</sup>	100%	100%	98%
June 30, 2005	\$ 285,576	\$ 1,415,822	\$ 844,222	\$ 2,337,311	100%	100%	75%

<sup>1</sup> Actuarial Value of Assets on the Solvency Test includes the total plan assets for all years. This differs from the Summary of Funding Progress on page 40 and page 65 which reports only the employer's assets for the years 2002, 2003 and 2004, amounts will therefore not be consistent between the Solvency Test and the Summary of Funding Progress schedules. As of June 30, 2005 the Solvency Test and Summary of Funding Progress report the total plan assets.

<sup>2</sup> Amounts may not agree to prior year CAFRs due to revisions made by Actuary.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE**  
(current assumptions)

Age	Total Terminations	Ordinary Death	Service Retirement	Duty Death	Total <sup>1</sup> Disability
-----	--------------------	----------------	--------------------	------------	-------------------------------

**General Members - Male**

20	0.07500	0.00100	0.00000	0.00000	0.00005
30	0.06300	0.00120	0.00000	0.00000	0.00015
40	0.05300	0.00300	0.00000	0.00000	0.00046
50	0.04300	0.00600	0.05000	0.00000	0.00165
60	0.03300	0.00660	0.30000	0.00000	0.00386
70	0.00000	0.00000	1.00000	0.00000	0.00000

**General Members - Female**

20	0.08400	0.00030	0.00000	0.00000	0.00005
30	0.06960	0.00040	0.00000	0.00000	0.00020
40	0.05760	0.00100	0.00000	0.00000	0.00045
50	0.04560	0.00240	0.04000	0.00000	0.00140
60	0.03360	0.00560	0.20000	0.00000	0.00305
70	0.00000	0.00000	1.00000	0.00000	0.00000

**Safety Members - Males**

20	0.07010	0.00090	0.00000	0.00100	0.00060
30	0.05930	0.00116	0.00000	0.00100	0.00160
40	0.02070	0.00282	0.00000	0.00100	0.00490
50	0.00330	0.00559	0.06000	0.00100	0.01230
60	0.00000	0.00000	1.00000	0.00000	0.00000

**Safety Members - Females**

20	0.07010	0.00023	0.00000	0.00100	0.00060
30	0.05930	0.00032	0.00000	0.00100	0.00160
40	0.02070	0.00084	0.00000	0.00100	0.00490
50	0.00330	0.00200	0.06000	0.00100	0.01230
60	0.00000	0.00000	1.00000	0.00000	0.00000

<sup>1</sup> Beginning June 30, 2005 Actuarial Reports now report non-service connected and service connected disabilities as a combined probability of separation. One-third of General and Safety member disabilities are assumed to be service-connected.

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT**  
(current assumptions)

<b>Years of Service</b>	<b>Refunds</b>	<b>Deferred Vested</b>
0	100.00%	0.00%
1	100.00%	0.00%
2	100.00%	0.00%
3	100.00%	0.00%
4	100.00%	0.00%
5	25.00%	75.00%
6	25.00%	75.00%
7	25.00%	75.00%
8	25.00%	75.00%
9	25.00%	75.00%
10	16.70%	83.30%
11	16.70%	83.30%
12	16.70%	83.30%
13	16.70%	83.30%
14	16.70%	83.30%
15	10.00%	90.00%
16	10.00%	90.00%
17	10.00%	90.00%
18	10.00%	90.00%
19	10.00%	90.00%
20 or more	0.00%	100.00%

Note: Probability of refunds by age are not available. Refunds are more closely associated with years of service.

Information compiled from Actuarial Report prepared by Public Pension Professionals date June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT**  
(current assumptions)

<b>Age</b>	<b>Years of Life Expectancy</b>
<b>General Members - Male</b>	
50	30.93
60	22.46
70	14.48
80	8.06
90	3.97
100	2.33
110	2.07
<b>General Members - Female</b>	
50	34.12
60	25.13
70	16.98
80	10.00
90	5.38
100	3.47
110	2.28
<b>Safety Members - Male</b>	
50	28.83
60	20.61
70	13.31
80	7.61
90	3.98
100	2.37
110	2.11
<b>Safety Members - Female</b>	
50	32.86
60	23.69
70	15.77
80	9.43
90	5.15
100	3.37
110	2.20

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT**  
(current assumptions)

Age	Years of Life Expectancy
-----	--------------------------

**General and Safety Members - Male**

20	30.81
30	27.47
40	23.27
50	18.25
60	13.86
70	9.81
80	6.43
90	3.90
100	2.29
110	2.03

**General and Safety Members - Female**

20	46.81
30	40.06
40	32.78
50	25.15
60	18.62
70	12.98
80	8.42
90	5.12
100	3.33
110	2.18

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2005.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SUMMARY OF MAJOR PLAN PROVISIONS**

**1. ELIGIBILITY**

First of day of pay period following date of employment.

**2. DEFINITION OF SALARY**

Highest 365 consecutive days of compensation earnable.

**3. SERVICE RETIREMENT**

- Normal retirement age - 55 and 50 for the General and Safety 2.5% benefit formulas respectively.

- Early retirement

Age 50 with 10 years of service, or any age with 30 years of service for General, or any age with 20 years of service for Safety.

- Benefit

2.5% times final average salary per year of service.

- Benefit Adjustments

Reduced for retirement before 55 and 50 for General and Safety, respectively; 2.5% benefit formulas.

Increased for retirement after 55 and 50 for General and Safety, respectively; 2.5% benefit formulas respectively.

**4. DISABILITY RETIREMENT**

- Non-service connected

2.25% of final average salary per year of service, with a maximum of 33.33% if projected service is used (age 60 for General, age 55 for Safety), or 90% of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible).

- Service-connected

Greater of 50% of final average salary or service retirement benefit (if eligible)

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SUMMARY OF MAJOR PLAN PROVISIONS (continued)**

**5. DEATH BEFORE RETIREMENT**

- Refund of contributions plus 1/12th of monthly salary per year of service, maximum of six months salary.
- If eligible for non service connected disability or service retirement
  - 60% of member's accrued allowance.
- If service-connected
  - 50% of final compensation or 100% of service retirement, if eligible.

**6. DEATH AFTER RETIREMENT**

- Service retirement or ordinary disability
  - 60% of member's allowance payable to an eligible spouse.
- Service disability
  - 100% of member's allowance payable to an eligible spouse.

**7. VESTING**

- After five years of service.
- Must leave contributions on deposit.

**8. MEMBERS' CONTRIBUTIONS**

Based on entry age.

**9. COST-OF-LIVING**

Maximum 3% COLA for all members.

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2005.



# STATISTICAL SECTION



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**TABLE OF CHANGES IN PLAN NET ASSETS**  
**Fiscal Years Ended 1997 through 2006**  
(Amounts expressed in thousands)

	1997	1998	1999	2000	2001
<b>Additions</b>					
Employer Contributions	\$ 31,666	\$ 202,550 <sup>1</sup>	\$ 6,005	\$ -	\$ -
Member Contributions	7,087	7,168	7,775	9,198	9,973
Net Investment Income/Loss	204,115	250,001	105,166	133,170	(33,930)
<b>Total Additions</b>	<b>242,868</b>	<b>459,719</b>	<b>118,946</b>	<b>142,368</b>	<b>(23,957)</b>
<b>Deductions</b>					
Total Benefit Expense	41,688	44,816	47,198	52,223	63,881
Administrative Expense	757	721	764	867	2,235
Refunds <sup>2</sup>	5,346	1,772	1,568	2,275	1,146
<b>Total Deductions</b>	<b>47,791</b>	<b>47,309</b>	<b>49,530</b>	<b>55,365</b>	<b>67,262</b>
<b>Change in Plan Net Assets</b>	<b>\$ 195,077</b>	<b>\$ 412,410</b>	<b>\$ 69,416</b>	<b>\$ 87,003</b>	<b>\$ (91,219)</b>

<sup>1</sup> Includes proceeds from Pension Obligation Bonds.

<sup>2</sup> Refunds information by type of refund not available.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**TABLE OF CHANGES IN PLAN NET ASSETS (Continued)**  
**Fiscal Years Ended 1997 through 2006**  
(Amounts expressed in thousands)

	2002	2003	2004	2005	2006
<b>Additions</b>					
Employer Contributions	\$ 7,780	\$ 33,583	\$ 442,950 <sup>1</sup>	\$ 56,343	\$ 56,664
Member Contributions	14,434	19,974	18,239	24,261	30,570
Net Investment Income/Loss	(63,285)	27,390 <sup>3</sup>	238,877	235,406	229,767
Total Additions	(41,071)	80,947 <sup>3</sup>	700,066	316,010	317,001
<b>Deductions</b>					
Total Benefit Expense	81,784	92,887	107,052	115,129	120,993
Administrative Expense	1,544	2,059	2,001	2,484	2,865
Refunds <sup>2</sup>	870	904	941	1,403	1,185
Total Deductions	84,198	95,850	109,994	119,016	125,043
<b>Change in Plan Net Assets</b>	<b>\$ (125,269)</b>	<b>\$ (14,903)</b>	<b>\$ 590,072</b>	<b>\$ 196,994</b>	<b>\$ 191,958</b>

<sup>1</sup> Includes proceeds from Pension Obligation Bonds.

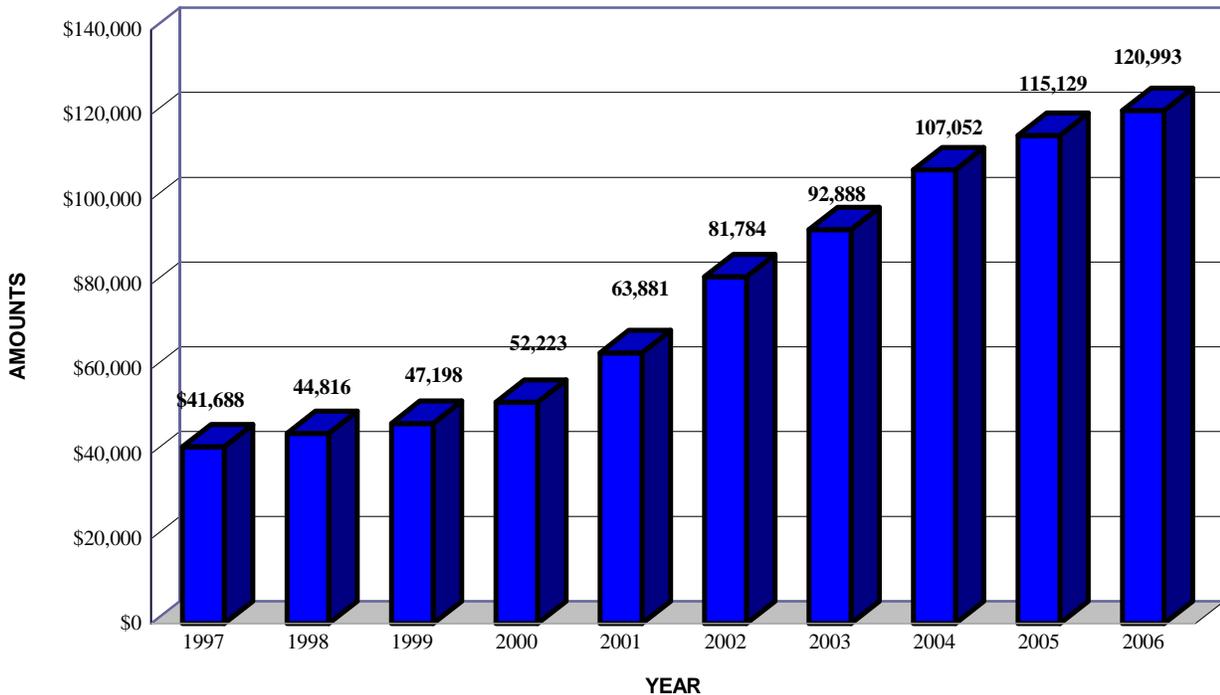
<sup>2</sup> Refunds information by type of refund not available.

<sup>3</sup> Amounts revised from prior year (2003) Comprehensive Annual Financial Report.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF BENEFIT EXPENSES BY TYPE**  
(Amounts expressed in thousands)

<b>YEAR END</b>	<b>GENERAL</b>	<b>SAFETY</b>	<b>SURVIVOR</b>	<b>TOTAL</b>
1997	\$ 35,082	\$ 6,074	\$ 532	\$ 41,688
1998	37,715	6,587	514	44,816
1999	39,263	7,239	696	47,198
2000	42,909	8,530	784	52,223
2001	52,480	10,529	872	63,881
2002	65,113	15,378	1,293	81,784
2003	72,875	18,710	1,303	92,888
2004	83,795	22,012	1,245	107,052
2005	90,517	23,233	1,379	115,129
2006	96,590	23,148	1,255	120,993 <sup>1</sup>

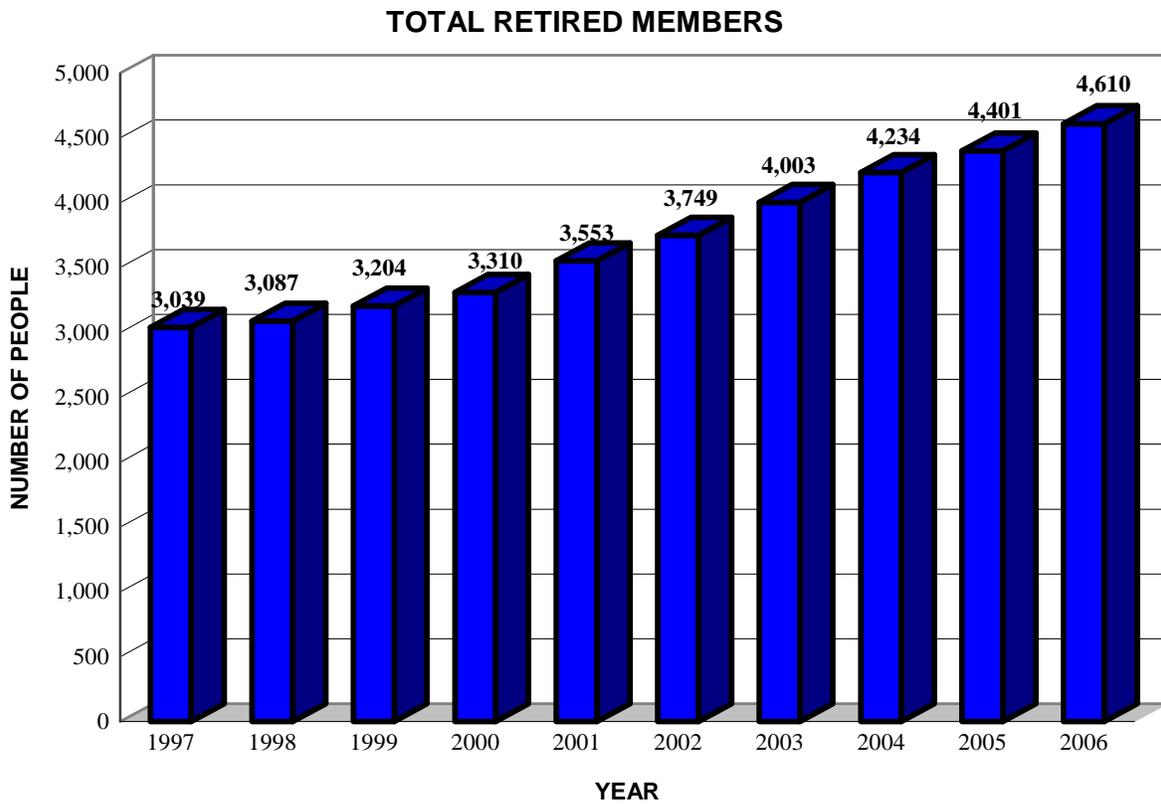
**BENEFIT EXPENSES**  
(amounts expressed in thousands)



<sup>1</sup> Total Benefit Expenses are an actual figure and will not equal Total Average Annual Benefits reported on page 77.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT**

<b>YEAR END</b>	<b>GENERAL</b>	<b>SAFETY</b>	<b>SURVIVOR</b>	<b>TOTAL</b>
1997	2,697	284	58	3,039
1998	2,732	292	63	3,087
1999	2,816	318	70	3,204
2000	2,897	338	75	3,310
2001	3,089	390	74	3,553
2002	3,235	435	79	3,749
2003	3,435	488	80	4,003
2004	3,635	516	83	4,234
2005	3,770	543	88	4,401
2006	3,956	565	89	4,610



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
AVERAGE ANNUAL BENEFIT AND MEMBERSHIP DISTRIBUTION OF  
RETIRED MEMBERS**

<b>Valuation Date</b>	<b>Plan type</b>	<b>Annual Number</b>	<b>Total Average<sup>3</sup> Annual Benefits</b>	<b>Annual Average Benefits</b>	<b>Average Monthly Benefits</b>	<b>% Increase in Average Benefits</b>
6/30/1996	General	2,721	\$ 32,505,087	\$ 11,946	\$ 995.50	13.7%
	Safety	280	5,327,290	19,026	1,585.50	6.2%
	<b>Total</b>	<b>3,001</b>	<b>\$ 37,832,377</b>	<b>\$ 30,972</b>	<b>\$ 2,581</b>	<b>9.0%</b>
6/30/1998	General	2,746	\$ 34,052,681	\$ 12,401	\$ 1,033.42	3.8%
	Safety	298	5,919,878	19,865	1,655.42	4.4%
	<b>Total</b>	<b>3,044</b>	<b>\$ 39,972,559</b>	<b>\$ 32,266</b>	<b>\$ 2,689</b>	<b>4.2%</b>
6/30/2000	General	2,901	\$ 38,686,107	\$ 13,335	\$ 1,111.25	7.5%
	Safety	330	7,581,842	22,975	1,914.58	15.7%
	<b>Total</b>	<b>3,231</b>	<b>\$ 46,267,949</b>	<b>\$ 36,310</b>	<b>\$ 3,026</b>	<b>12.5%</b>
6/30/2002	General	3,287	\$ 66,423,696	\$ 20,208	\$ 1,684.00	51.5%
	Safety	426	16,261,272	38,172	3,181.00	66.1%
	<b>Total</b>	<b>3,713</b>	<b>\$ 82,684,968</b> <sup>1</sup>	<b>\$ 58,380</b>	<b>\$ 4,865</b>	<b>60.8%</b>
6/30/2003	General	3,549	\$ 76,488,048	\$ 21,552	\$ 1,796.00	6.7%
	Safety	476	17,638,656	37,056	3,088.00	-2.9%
	<b>Total</b>	<b>4,025</b>	<b>\$ 94,126,704</b> <sup>2</sup>	<b>\$ 58,608</b>	<b>\$ 4,884</b>	<b>0.4%</b>
6/30/2004	General	3,848	\$ 87,041,760	\$ 22,620	\$ 1,885.00	5.0%
	Safety	483	21,677,040	44,880	3,740.00	21.1%
	<b>Total</b>	<b>4,331</b>	<b>\$ 108,718,800</b>	<b>\$ 67,500</b>	<b>\$ 5,625</b>	<b>15.2%</b>
6/30/2005	General	3,929	\$ 91,278,528	\$ 23,232	\$ 1,936.00	2.7%
	Safety	489	19,182,492	39,228	3,269.00	-12.6%
	<b>Total</b>	<b>4,418</b>	<b>\$ 110,461,020</b>	<b>\$ 62,460</b>	<b>\$ 5,205</b>	<b>-7.5%</b>

<sup>1</sup> Source: Biennial actuary reports through June 30, 2002.

<sup>2</sup> Source: Annual actuary reports commencing after June 30, 2002.

<sup>3</sup> Total Average Annual Benefits will not equal the Actual Total Benefit Expense reported on page 75.

Note: Information to organize by years of credited service in five year increments is not available.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF ACTIVE AND DEFERRED MEMBERS**

<b>Date</b>	<b>Plan Type</b>	<b>Active Vested</b>	<b>Active Nonvested</b>	<b>Total Active Members</b>	<b>Deferred Members</b>
6/30/1997	General	3,368	1,580	4,948	
	Safety	513	329	842	
	<b>Total</b>	<b>3,881</b>	<b>1,909</b>	<b>5,790</b>	<b>1,182</b>
6/30/1998	General	3,588	1,551	5,139	
	Safety	488	385	873	
	<b>Total</b>	<b>4,076</b>	<b>1,936</b>	<b>6,012</b>	<b>1,289</b>
6/30/1999	General	3,412	2,241	5,653	
	Safety	590	273	863	
	<b>Total</b>	<b>4,002</b>	<b>2,514</b>	<b>6,516</b>	<b>1,310</b>
6/30/2000	General	3,674	2,691	6,365	
	Safety	614	304	918	
	<b>Total</b>	<b>4,288</b>	<b>2,995</b>	<b>7,283</b>	<b>1,326</b>
6/30/2001	General	3,466	3,083	6,549	
	Safety	641	301	942	
	<b>Total</b>	<b>4,107</b>	<b>3,384</b>	<b>7,491</b>	<b>1,353</b>
6/30/2002	General	3,566	3,299	6,865	
	Safety	630	293	923	
	<b>Total</b>	<b>4,196</b>	<b>3,592</b>	<b>7,788</b>	<b>1,467</b>
6/30/2003	General	3,600	3,054	6,654	
	Safety	605	328	933	
	<b>Total</b>	<b>4,205</b>	<b>3,382</b>	<b>7,587</b>	<b>1,376</b>
6/30/2004	General	3,385	3,242	6,627	
	Safety	581	345	926	
	<b>Total</b>	<b>3,966</b>	<b>3,587</b>	<b>7,553</b>	<b>1,378</b>
6/30/2005	General	4,203	2,537	6,740	
	Safety	664	303	967	
	<b>Total</b>	<b>4,867</b>	<b>2,840</b>	<b>7,707</b>	<b>1,464</b>
6/30/2006	General	4,535	2,144	6,679	
	Safety	710	287	997	
	<b>Total</b>	<b>5,245</b>	<b>2,431</b>	<b>7,676</b>	<b>1,514</b>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS**

Year	Plan Type	County of Fresno	% of Total Covered Employees	Clovis Memorial	% of Total Covered Employees	Fresno County Office of Education	% of Total Covered Employees	Fresno Mosquito and Vector Control	% of Total Covered Employees
1997	General	4,926		3		3		9	
	Safety	803		0		0		0	
	<b>Total</b>	<b>5,729</b>	<b>99%</b>	<b>3</b>	<b>0%</b>	<b>3</b>	<b>0%</b>	<b>9</b>	<b>0%</b>
1998	General	5,098		3		2		9	
	Safety	833		0		0		0	
	<b>Total</b>	<b>5,931</b>	<b>99%</b>	<b>3</b>	<b>0%</b>	<b>2</b>	<b>0%</b>	<b>9</b>	<b>0%</b>
1999	General	5,605		4		3		10	
	Safety	825		0		0		0	
	<b>Total</b>	<b>6,430</b>	<b>99%</b>	<b>4</b>	<b>0%</b>	<b>3</b>	<b>0%</b>	<b>10</b>	<b>0%</b>
2000	General	6,312		4		3		10	
	Safety	877		0		0		0	
	<b>Total</b>	<b>7,189</b>	<b>99%</b>	<b>4</b>	<b>0%</b>	<b>3</b>	<b>0%</b>	<b>10</b>	<b>0%</b>
2001	General	6,494		4		1		10	
	Safety	902		0		0		0	
	<b>Total</b>	<b>7,396</b>	<b>99%</b>	<b>4</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>10</b>	<b>0%</b>
2002	General	6,807		3		1		10	
	Safety	884		0		0		0	
	<b>Total</b>	<b>7,691</b>	<b>99%</b>	<b>3</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>10</b>	<b>0%</b>
2003	General	6,596		4		1		10	
	Safety	893		0		0		0	
	<b>Total</b>	<b>7,489</b>	<b>99%</b>	<b>4</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>10</b>	<b>0%</b>
2004	General	6,571		3		1		9	
	Safety	889		0		0		0	
	<b>Total</b>	<b>7,460</b>	<b>99%</b>	<b>3</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>9</b>	<b>0%</b>
2005	General	6,684		4		1		9	
	Safety	927		0		0		0	
	<b>Total</b>	<b>7,611</b>	<b>99%</b>	<b>4</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>9</b>	<b>0%</b>
2006	General	6,623		6		0		8	
	Safety	957		0		0		0	
	<b>Total</b>	<b>7,580</b>	<b>99%</b>	<b>6</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>8</b>	<b>0%</b>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS (Continued)**

Year	Plan Type	Fresno Mosquito and Vector Control	% of Total Covered Employees	Fresno Madera Area Agency	% of Total Covered Employees	North Central Fire Protection	% of Total Covered Employees	Total Active Members
1997	General	9		0		7		4,948
	Safety	0		0		39		842
	<b>Total</b>	<b>9</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>46</b>	<b>1%</b>	<b>5,790</b>
1998	General	9		20		7		5,139
	Safety	0		0		40		873
	<b>Total</b>	<b>9</b>	<b>0%</b>	<b>20</b>	<b>0%</b>	<b>47</b>	<b>1%</b>	<b>6,012</b>
1999	General	10		25		6		5,653
	Safety	0		0		38		863
	<b>Total</b>	<b>10</b>	<b>0%</b>	<b>25</b>	<b>0%</b>	<b>44</b>	<b>1%</b>	<b>6,516</b>
2000	General	10		29		7		6,365
	Safety	0		0		41		918
	<b>Total</b>	<b>10</b>	<b>0%</b>	<b>29</b>	<b>0%</b>	<b>48</b>	<b>1%</b>	<b>7,283</b>
2001	General	10		34		6		6,549
	Safety	0		0		40		942
	<b>Total</b>	<b>10</b>	<b>0%</b>	<b>34</b>	<b>0%</b>	<b>46</b>	<b>1%</b>	<b>7,491</b>
2002	General	10		37		7		6,865
	Safety	0		0		39		923
	<b>Total</b>	<b>10</b>	<b>0%</b>	<b>37</b>	<b>0%</b>	<b>46</b>	<b>1%</b>	<b>7,788</b>
2003	General	10		36		7		6,654
	Safety	0		0		40		933
	<b>Total</b>	<b>10</b>	<b>0%</b>	<b>36</b>	<b>0%</b>	<b>47</b>	<b>1%</b>	<b>7,587</b>
2004	General	9		36		7		6,627
	Safety	0		0		37		926
	<b>Total</b>	<b>9</b>	<b>0%</b>	<b>36</b>	<b>0%</b>	<b>44</b>	<b>1%</b>	<b>7,553</b>
2005	General	9		36		6		6,740
	Safety	0		0		40		967
	<b>Total</b>	<b>9</b>	<b>0%</b>	<b>36</b>	<b>0%</b>	<b>46</b>	<b>1%</b>	<b>7,707</b>
2006	General	8		37		5		6,679
	Safety	0		0		40		997
	<b>Total</b>	<b>8</b>	<b>0%</b>	<b>37</b>	<b>0%</b>	<b>45</b>	<b>1%</b>	<b>7,676</b>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF EMPLOYER CONTRIBUTION RATES**

EFFECTIVE DATES		GENERAL	SAFETY	SOURCE
July 1, 2005	to June 30, 2006	14.14%	25.02%	06/30/04 <sup>1</sup>
July 1, 2004	to June 30, 2005	15.71%	21.23%	06/30/03 <sup>1</sup>
July 1, 2003	to June 30, 2004	15.38%	20.75%	06/30/02 <sup>1</sup>
July 1, 2002	to June 30, 2003	7.20%	24.88%	06/30/00 <sup>1</sup>
October 1, 2001	to June 30, 2002	0.00%	21.87%	06/30/00
July 1, 2000	to September 30, 2001	0.00%	0.00%	06/30/98
June 28, 1999	to June 30, 2000	0.00%	0.00%	06/30/98
March 20, 1998	to June 27, 1999	2.07%	5.93%	06/30/96
June 19, 1995	to March 19, 1998	10.81%	14.95%	06/30/94

<sup>1</sup> Non aggregate rates are reported in the valuation prepared for the annual period listed under "Source".

<sup>2</sup> The employer contribution rates reflect the aggregate rates as provided by Actuary.

<sup>3</sup> Employer rates were reduced through the use of undistributed earnings.

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