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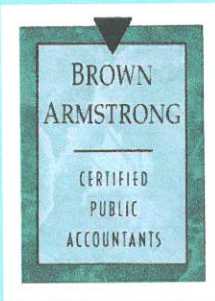
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Fresno County Employees' Retirement Association
Audit Committee presentation of the June 30, 2007 audit results
By: Connie M. Perez, CPA
Brown Armstrong Accountancy Corporation
December 19, 2007

Lynn R. Krausse, CPA, MST
Rosalva Flores, CPA
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Sharon Jones, CPA, MST
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Ryan S. Johnson, CPA
Michael C. Olivares, CPA
Amanda Fedewa, CPA
Jialan Su, CPA
Ariadne S. Prunes, CPA

1. Purpose of the Audit
2. The Audit Process
 - a. Timeline coordination with FCERA staff
 - b. Understanding and evaluation of FCERA internal controls through inquiry and observation
 - c. Confirmation of account balances, legal, active and retired participants, and actuary
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 - a. Independent Auditors Report (opinion) on financial statements – unqualified (“clean”) opinion
 - b. Required Communication to the Board of Retirement in accordance with professional standards
 - c. Report to Management
5. Questions and/or Comments?

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INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying statement of plan net assets of the Fresno County Employees' Retirement Association (FCERA) as of June 30, 2007 and 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2007 and 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.

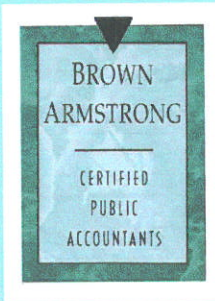
Management's Discussion and Analysis (MD&A) and the schedules designated as required supplementary information in the table of contents are not required parts of the financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied 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 Required Supplementary Information as listed in the table of contents is presented for purposes of additional analysis, as required by GASB, and is not a required part of the financial statements. This information is the responsibility of FCERA's management. Such information has been subjected to the auditing procedures applied by us in the audit of the 2007 and 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 and 2006 financial statements taken as a whole. The Other Supplementary information as listed in the table of contents, and the Investment, Actuarial and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements of FCERA. The Other Supplemental information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



Bakersfield, California
December 11, 2007



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**REQUIRED COMMUNICATION TO THE BOARD OF RETIREMENT
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the Board of Retirement of
Fresno County Employees' Retirement Association

We have audited the financial statements of the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2007, and have issued our report thereon dated December 11, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal controls of FCERA. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by FCERA are described in the notes to the financial statements.

We noted no transactions entered into by FCERA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

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

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on FCERA's financial reporting process (that is, cause future financial statements to be materially misstated). We did not propose audit adjustments that could in our judgment, either individually or in the aggregate, have a significant effect on FCERA's financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the information and use of the Board of Retirement and management of FCERA and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

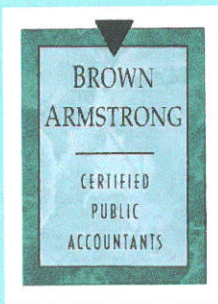
BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



By: Andrew J. Paulden

Bakersfield, California
December 11, 2007

**FRESNO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION
REPORT TO MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2007**



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Board of Retirement and Audit Committee
Fresno County Employees' Retirement Association
1111 H Street
Fresno, California 93721

Dear Board Members:

In planning and performing our audit for the Fresno County Employees Retirement Association ("FCERA") for the year ended June 30, 2007, we considered the internal control structure in order to determine our auditing procedures and not to provide assurance on the internal control structure. Although our audit was not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operations, and are submitting for your consideration, related recommendations designed to help FCERA make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to FCERA.

We appreciate the cooperation that we have received from FCERA in connection with developing these recommendations, and the opportunity to have been of service to you and others at FCERA. Should you have any questions about our recommendations, this letter, or other matters, please contact Andrew Paulden, Engagement Partner, at (661) 324-4971.

The accompanying comments and recommendations are intended solely for the information and use of management and others within FCERA.

Sincerely,

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

By: Andrew J. Paulden

**FRESNO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION**

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I. CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

No current year observations.

II. DISPOSITION OF PRIOR YEAR COMMENTS

1. Observation – Wire Transfers

As part of our cash analysis, we select a sample of wire transfers made during the year to test compliance with a formal policy for wire transfers. During this analysis we found that FCERA currently does not have a formal policy governing wire transfers.

Recommendation

We recommend that FCERA implement a board approved written policy. This policy should include individuals who are approved to initiate the transfer, documentation requirements for initiation, individuals that have been approved to confirm this initiation, correspondence with the financial institution receiving the transfer, support necessary to document the completion of the transfer, and the personnel approved to verify that the transfer was complete. Initiation, approval and verification should all be performed by separate individuals.

Management Response

FCERA agrees with this recommendation. Draft procedures will be formulated for presentation to the Board of Retirement for approval during the third quarter of fiscal year end June 30, 2007.

Current Year Status

Implemented.

2. Observation – Capital Assets

During our analysis of capital assets we noted the lack of a written capitalization policy establishing a threshold amount for the capitalization of assets. Due to the lack of consistent methodology for capitalization, we were unable to test the completeness and accuracy of FCERA's detailed capital asset summary. Furthermore, we were unable to determine if certain items expensed as repairs and maintenance should have been capitalized.

Recommendation

FCERA should implement a written policy regarding the capitalization of capital assets.

Management Response

FCERA agrees with this recommendation. FCERA has been following the policies of the County of Fresno, but will prepare draft procedures for presentation to the Board of Retirement for approval during the third quarter of fiscal year end June 30, 2007.

Current Year Status

Implemented.

3. Observation – Securities Lending Collateral

During our testing of securities lending cash collateral we noted that FCERA has no procedures in place to guarantee that the maintenance margins are meeting the stated requirements, as noted in the securities lending contract with Credit Suisse. We noted that there were two managers that had not maintained a proper maintenance margin percentage. Intech, who holds U.S. equity securities, was required contractually to maintain a maintenance margin of 102%, but an individual security fell to a maintenance margin of 95.7%. Also, a security held by TCW, was under the required maintenance ratio margin of 102%, as two individual securities were at 101.85%.

Recommendation

FCERA should implement procedures that require the review of these maintenance margins on a monthly or quarterly basis to make certain that they are in compliance with their contractual obligations. FCERA should also implement procedures whereby Credit Suisse notifies FCERA when any individual loan is not in compliance.

Management Response

FCERA agrees with this recommendation. Draft procedures will be presented to the Board of Retirement for approval during the third quarter of fiscal year end June 30, 2007.

Current Year Status

Implemented.

4. Observation – Reconciliation of Investments

During our analysis of investments, we noted that FCERA does not obtain reconciliations between individual investment managers and their custodian, Fifth Third Bank. As a result we noted that FCERA had a different cost basis for a number of investments from those reported by Fifth Third Bank. Additionally, we found that Fifth Third Bank classifies certain types of investments differently from the individual investment managers, which results in an incorrect classification for financial statement purposes as FCERA uses Fifth Third Bank reports for recording to their general ledger.

Recommendation

Reconciliations between the information reported by Fifth Third Bank and the information reported by the individual managers should be prepared on a monthly basis. The reconciling items should be fully explained and reviewed for propriety. FCERA staff should review these reconciliations for accuracy. We also recommend that FCERA require Fifth Third Bank and the individual investment managers to record cost basis consistently.

Management Response

FCERA partially agrees with this recommendation in that formal procedures are needed. However, please note FCERA does receive monthly reconciliations prepared by Fifth Third Bank, but we do not have procedures in place to monitor the timely receipt of the reconciliations. Thus FCERA did not react when reconciliations were not received for all managers. FCERA has since established a checklist to ensure the timely receipt of reconciliations. In addition, procedures will be prepared to document the review and timely follow-up of reconciliations and reconciling items. The draft procedures will be presented to the Board of Retirement for approval during the fourth quarter of fiscal year end June 30, 2007.

Current Year Status

Implemented.

5. Observation – Private Markets and Alternative Investments

During our analysis of investments we found that all changes to the private market and alternative investment accounts were being recorded to the Unrealized Gain/Loss account. FCERA was not properly identifying all management fees and realized gains for these investments and therefore not recording those items to the appropriate accounts.

Recommendation

We recommend that FCERA request that these managers provide them with detailed statements, which will show them the components making up the change to these accounts. This will allow them to properly record all transactions to the appropriate account.

Management Response

FCERA agrees with this recommendation and will request the necessary information from the managers to properly record the transactions.

Current Year Status

Implemented.

6. Observation – Form ADV

Form ADV is used to apply for registration as an investment advisor or to amend a registration. It consists of two parts. Part I contains general and personal information about the applicant. Part II contains information relating to the nature of the applicant's business, including basic operations, services offered, fees charged, types of clients advised, education and business backgrounds of associates and other business activities of the applicant. Form ADV-S is an annual update supplement to Form ADV required to be filed by persons registered as investment advisers with the Commission. It must be filed not later than 90 days after the end of the registrant's fiscal year.

While analyzing investments, we noted that FCERA does not receive and review ADV forms for all investment managers filing the form.

Recommendation

ADV forms should be obtained on a yearly basis to ensure that management is aware of all soft dollar arrangements between their Investment Managers and the brokers, and to ensure the Investment Managers are in compliance with their reporting requirements.

Management Response

FCERA agrees with this recommendation. All ADV Forms received by FCERA are reviewed for unusual items. However, FCERA will implement more formal procedures to ensure receipt and review of all ADVs and document their review for compliance with their reporting requirements.

Current Year Status

Implemented.

7. Observation – Manager Internal Control Reports (SAS 70)

FCERA does not require that investment managers provide copies of their statement on auditing standard (SAS 70), which reports on the processing of transactions by service organizations.

Recommendation

Investment managers should provide FCERA with their annual SAS 70 reports. FCERA should review these for any noted deficiencies. If necessary, investment managers should respond to FCERA regarding such deficiencies.

Management Response

FCERA agrees with this recommendation and will request the annual SAS 70 reports from the managers.

Current Year Status

Implemented.

8. Observation – Participant Data

During our testing of active participants, we noted of the 60 member's tested, one member was erroneously categorized as active due to clerical oversight and two members were erroneously categorized as active.

During our actuary testing of retiree participants, we noted of the 10 members tested one members' Gross Pension Payment and Health Benefit was incorrectly stated on the response to the confirmation request due to old cost of living data (from April 2003) being included in the extract file provided to the actuary for the year ended June 30, 2005.

Recommendation

It is critical that FCERA take the appropriate steps to ensure that all members are classified in the appropriate category as this information is used by the actuary for their annual valuation. Members should be tested on a sample basis to ensure that they are accounted for in the correct category. FCERA should confirm that the actuary has the most current information prior to commencing their valuation.

FCERA should test a sample of retired participants to ensure that their Gross Pension Payment and Health Benefit amounts are up to date. Any resulting differences should be discussed with the actuary and a determination should be made of the possible effect to the actuary report.

Management Response

FCERA agrees that member data should be accurate and makes every effort to keep it accurate. However, during major system overhauls, including benefit modifications that have been made, data imports have fallen behind schedule resulting in temporary inaccuracies. Please note, the delay in data imports does not impact the accuracy of benefits paid to members because retirement payroll is calculated outside of the system.

With regard to the retiree information, FCERA staff noted that there was not an active benefit payment screen associated with this member. We have modified our procedures to ensure that active benefit payment screens are created timely to prevent reoccurrence of this issue.

Current Year Status

Implemented.

9. Observation – Appraisals for Fresno Station and Administration Building

During our analysis of Investments and Capital Assets, we requested copies of the most current appraisals for both the Fresno Station and the Administration building. At the time of fieldwork, appraisals had not been performed of either building. FCERA is currently in the process of a lot split that will divide the lot between the Fresno Station and the Administration building. Their plans are to perform an appraisal of each property at that time.

Recommendation

FCERA should implement a policy requiring, at a minimum, a yearly appraisal of their properties.

Management Response

FCERA partially agrees. While FCERA agrees that an appraisal is warranted, we believe that bi-annual appraisals will be sufficient, unless local market conditions indicate that a more frequent appraisal is required. Draft procedures will be presented to the Board of Retirement for approval during the fourth quarter of fiscal year end June 30, 2007.

Current Year Status

Implemented.