

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012



# 2012

**Fresno County Employees' Retirement Association**

A component Unit of the County of Fresno

Fresno, California

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

ISSUED BY

PHILLIP KAPLER  
RETIREMENT ADMINISTRATOR

**FCERA**

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
1111 H STREET  
FRESNO, CALIFORNIA 93721-2515  
[www.FCERA.org](http://www.FCERA.org)

A COMPONENT UNIT OF THE COUNTY OF FRESNO

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## INTRODUCTORY SECTION



Phillip Kapler  
Retirement Administrator

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
BOARD OF RETIREMENT  
Eulalio Gomez, Chair  
John Souza, Vice Chair  
Marion Austin  
Laura Basua  
Judith G. Case  
Dr. Rod Coburn, III  
Franz Criego  
Vicki Crow  
Steven J. Jolly  
Regina Wheeler, Alternate

December 12, 2012

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

Dear Board Members:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the Fresno County Employees' Retirement Association (FCERA), for the fiscal years ended June 30, 2012 and 2011.

The CAFR provides policymakers, members, employers, regulatory and other users with a comprehensive and accurate review of the year's operations. In addition, it serves as a source of reliable information for making responsible management decisions, determining compliance with legal requirements and demonstrating the stewardship of the Board, staff and key consultants who serve the members of FCERA. The management of FCERA is responsible for both the accuracy of the data and the completeness and fairness of the presentation of financial information, including all disclosures.

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 complement the MD&A and should be read in conjunction with it. FCERA's MD&A can be found immediately following the Report of the Independent Auditor.

## **FCERA AND ITS SERVICES**

FCERA is a cost-sharing multiple employer public retirement system established by the County Board of Supervisors on January 1, 1945 to provide retirement, disability, death and survivor benefits for its members under the California State Government Code, Section 31450 etc. seq. (County Employees Retirement Law of 1937). Currently, Fresno County (including Superior Court of California – County of Fresno) and three other participating agencies are active members of FCERA. Participating agencies include:

- i Clovis Veterans Memorial District
- i Fresno-Madera Area Agency on Aging
- i Fresno Mosquito Abatement and Vector Control

FCERA is governed by the California Constitution, the County Employees Retirement Law of 1937, in conjunction with 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 for FCERA's 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 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 FCERA's Board.

### **FCERA MISSION STATEMENT AND CORE VALUES**

Our mission is to administer the retirement benefits for the members and beneficiaries in a prudent, accurate, timely and cost-effective manner, while administering fund assets in a manner that achieves investment and funding objectives within prudent levels of risk. In carrying out its mission, we endeavor to:

- i        Serve in a manner consistent with the fiduciary duties set out in laws that govern fiduciaries.
- i        Conduct ourselves in accordance with a high degree of honesty and integrity.
- i        Coordinate our efforts with professional advisors that operate at the forefront in their respective fields.
- i        Instill confidence among clients through timely and responsive service.
- i        Work as a team to solve members' problems and overcome challenges.
- i        Respond to member needs in a timely and consistent manner.
- i        Promote the security of member benefits through diligence in operations and prudent management of assets and
- i        Provide regular, accessible and effective education to members and others.

### **FINANCIAL INFORMATION**

Responsibility for the accuracy, completeness, fair presentation of information and all disclosures in the report rests with FCERA's management. In addition, management is also responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that FCERA's financial reporting is accurate and reliable. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of the cost and benefits requires estimates and judgments by management.

Brown Armstrong Accountancy Corporation (Brown Armstrong) provides financial statement independent audit services to FCERA. The independent financial audit states that FCERA's

financial statements are presented in accordance with generally accepted accounting principles and are free of any material misstatement. FCERA's management is responsible for providing sufficient internal accounting controls to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Although, there are built-in controls to assure reasonable reporting, these controls have inherent limitations and do rely on human diligence. Because of these inherent limitations, the internal controls are not exact in their nature, which may lead to the risk that errors or misstatements may occur but may not be identified immediately. FCERA's management believes it has prudent controls in place to reduce the inherent risk within its financial reporting and accounting systems.

The accompanying financial statements and transactions are prepared on the accrual basis of accounting. Revenues are recognized when earned, regardless of the date of collection and expenses are recognized when incurred, regardless of when a corresponding cash outlay is made.

## **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 is generally deemed to have a greater impact on investment performance than active manager selection or the timing of allocations. The asset allocation process determines a fund's optimal asset class mix (target allocation) which is expected to achieve a specific set of investment objectives Incorporating expected returns, liquidity and risk (defined as volatility). FCERA employs a long-term, diversified investment strategy based on the target allocations. This long term view is reflected through the choice of investments at the asset class level, including Domestic & International Equities Emerging Markets; Domestic, Global & Opportunistic Fixed Income; Real Assets that includes Real Estate, Commodities and Treasury Inflation Protected Securities (TIPS); Alternative Investments, Term Asset-Backed Securities Loan Facility (TALF) and Hedge Funds.

Under this policy the Board operates under a standard of fiduciary 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. When the Board contracts with professional investment advisors their discretion is defined by our Investment Policy and the discretion provided by contract and guidelines prescribed by the Board, Such service providers become co-fiduciaries to the members.

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 current broad category targets are as follows:

i	Equities.....	53 %
i	Fixed Income .....	26 %
i	Real Assets.....	10 %
i	Private equity.....	7 %
i	Hedge Strategies .....	4 %

During the 2012 fiscal year, with the advisement of the Investment Consultant, the Board strategically rebalanced the investment portfolio, reallocating funds from the TIPS mandate to high yield bonds and international equities. The Board also funded an additional \$37 million to Invesco Real Estate Fund and committed an additional \$15 million to its private equity mandate by selecting Oaktree Opportunites IX, L.P., a distressed debt fund.

For the fiscal year ended June 30, 2012, FCERA's investment portfolio experienced a return, net of fees, of -0.5% compared to a return of 22.3% for the year ended June 30, 2011. FCERA's annualized investment rates of return over the last three and five years, net of fees, were 12.1% and 2.2%, respectively. The Investment Section of this report provides more information on this subject. Additional information can be found on the FCERA website at <http://www.fcera.org>

## **ACTUARIAL FUNDING STATUS**

FCERA's funding objective is to meet long-term benefit promises by implementing an actuarially prudent funding plan as well as to obtain excellent investment returns consistent with our assumptions and parameters of what constitute prudent risk. The greater the overall plan funding status, the larger the ratio of assets currently available to pay for current and projected liabilities of the plan.

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. Additionally, every three years, the actuary performs a detailed study of the system's economic and non-economic assumptions and makes recommendations to FCERA's Board based on the experience of the Plan relative to expected demographic and economic outcomes.

Each triennial experience review serves as the basis for changes in how costs and revenues are then forecast in subsequent annual actuarial valuations. Economic and non-economic assumptions may be updated at the time each triennial experience study is performed. Further, economic assumptions may be reviewed and modified on an annual basis if so needed. The goal is always to derive the clearest possible understanding of what drives cost and asset accumulation for the Plan, and determine the most accurate information on required contributions that can be obtained.

The most recent triennial experience study for the three year period from July 1, 2006 through June 30, 2009 was performed and presented to the Board in June 2010. The recommended demographic and economic assumptions were approved by the Board for

inclusion in the June 30, 2010 Actuarial Valuation. The demographic assumptions included changes to the retirement, disability and mortality rates while the economic assumptions included changes to the inflation rate and the assumed rate of return.

The actuarial valuation as of June 30, 2011 completed by The Segal Company, determined the the ratio of plan assets to plan liabilities, to be 73.5%, which was a slight improvement over the same ratio of 72.9% on June 30, 2010. The Board's funding policy uses a five-year smoothing technique to help level the potential wide swings from year to year in investments and a Market Value of Assets (MVA) Corridor to avoid the smoothed Actuarial Value of Assets (AVA) from getting too far away from the MVA. The corridor limits the AVA to be no greater than 130% and no less than 70% of the MVA.

## **BUDGET**

The Board of Retirement approves FCERA's annual administrative budget. The California State Government Code Section 31580.2 was amended effective January 1, 2010 to limit the expenses of the plan to the greater of either (a) .21 percent of the accrued actuarial liability of the plan or (b) Two million dollars, as adjusted annually by the computed cost-of-living adjustment. For fiscal year 2012 the administrative expenses represented 0.07% of the accrued actuarial liability of the plan. For prior years the County Employees Retirement Law of 1937 limited FCERA's annual administrative budget to eighteen hundredth of one percent (.18%) of the plan's total assets. FCERA's administrative expenses have historically been well below the statutory limitation. For the years ended June 30, 2011 and 2010, budgeted administrative expenses were within the established budget by the Board of Retirement at about .12% of total assets for each year.

## **SIGNIFICANT EVENTS AND INITIATIVES**

Among the most noteworthy and significant events FCERA worked on during the fiscal year are:

- i Welcomed three new Trustees to the Board of Retirement, Laura Basua, Dr. Rod Coburn, III and Marion Austin.
- i As a continuation of the IT Road Map developed by Linea Solutions, The Board of Retirement selected Tegrit Technologies after a multi-nation search for a suitable replacement Pension Administration System. Tegrit Technologies was selected to implement their Arrivos Pension Administration System with an anticipated go live date of end of 1<sup>st</sup> quarter 2014.
- i Began testing and training with the OnBase document management system. The OnBase system will allow seamless integration of viewing member data in a scanned electronic format when utilizing the Arrivos Pension Administration System.
- i Coordinated with Fresno County Superior Court to assist in their separation from The County of Fresno as of December 11, 2011.
- i Began testing and implementation of the newly approved Tier IV retirement benefit level which was effective with pay period beginning June 11, 2012.

- i Initiated and completed a national search for the vacant Retirement Administrator position.

## **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 FCERA for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the sixteenth 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.

FCERA is also the recipient of the GFOA award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR). The PAFR provides FCERA's membership with condensed and concise information in an easier to read format than presented in the CAFR. FCERA received this honor on its first submission for the award for the fiscal year ended June 30, 2011.

## **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 assessing the stewardship of the members' assets, entrusted to the care of the Board, staff and dedicated consultants.

This is a large and complex enterprise. For their commitment to FCERA and for their diligent work to assure FCERA's continued successful operation, sincere thanks are owed to the Board members, Association staff, our expert consultants and investment advisors.

Respectfully,



Phillip Kapler  
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, 2011

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



*Linda C. Danison*

President

*Jeffrey R. Enner*

Executive Director

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
THE BOARD OF RETIREMENT  
As of June 30, 2012



CHAIRMAN  
EULALIO GOMEZ  
Elected by Safety Members  
Present term expires December 31, 2014



VICE CHAIRPERSON  
JOHN P. SOUZA  
Elected by Retirees  
Present term expires December 31, 2013



MEMBER  
MARION AUSTIN  
Appointed by Board of Supervisors  
Present term expires December 31, 2014



MEMBER  
LAURA BASUA  
Elected by General members  
Present term expires December 31, 2014



MEMBER  
DR. ROD COBURN, III  
Appointed by Board of Supervisors  
Present term expires December 31, 2014



MEMBER  
FRANZ CRIEGO  
Elected by General Members  
Present term expires December 31, 2012



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



MEMBER  
STEVEN JOLLY  
Appointed by Board of Supervisors  
Present term expires December 31, 2012



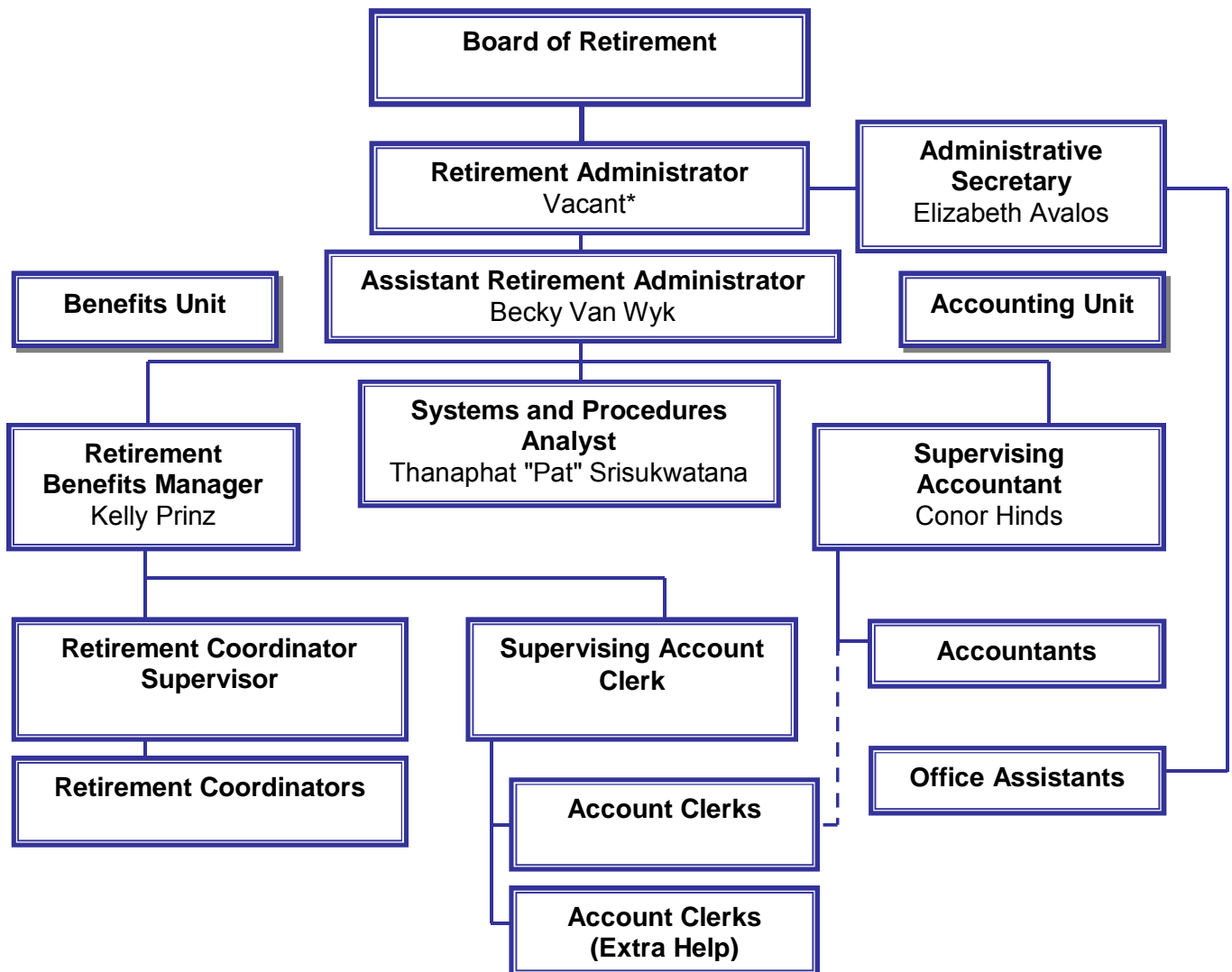
MEMBER  
PHIL LARSON \*  
Appointed by Board of Supervisors  
Present term expires December 31, 2012



ALTERNATE RETIRED MEMBER  
REGINA WHEELER  
Alternate Retired Member - Elected by Retirees  
Present term expires December 31, 2013

\* Phil Larson resigned from the Board of Retirement on August 15, 2012.

**INTRODUCTION**  
**ADMINISTRATIVE ORGANIZATIONAL CHART**  
**As of June 30, 2012**



\* Phillip Kapler became the Retirement Administrator on July 2, 2012.  
Total number of permanent positions authorized - 25  
Total number of extra-help/contracted positions authorized - 6  
Total Number of positions authorized - 31

## List of Professional Consultants

### **CONSULTING SERVICES**

#### **Actuary**

The Segal Company

#### **Auditor**

Brown Armstrong Accountancy Corporation

#### **Commission Recapture Services**

BNY ConvergeX

#### **Custodian Bank**

State Street Bank & Trust

#### **Investment Consultant**

Wurts & Associates

#### **Legal Counsel**

Bernstein Litowitz Berger & Grossmann LP

Cohen Milstein

Harvey Leiderman, Reed Smith LLP

Joseph J. Tabacco, Jr., Berman Devalerio

Rafael Stone, Foster Pepper PLLC

County Counsel

#### **Securities Lending**

State Street Global Advisors

#### **Technical and Pension System Design**

Linea Solutions, Inc.

Tegrit Group

### **INVESTMENT MANAGERS**

#### **Domestic Bonds**

BlackRock Financial Management Inc.

Loomis Sayles

MetWest TALF

Standish Mellon Asset Management

Company, LLC

State Street TIPS Index Fund

Western Asset Management Company

#### **Global Bonds**

Grantham, Mayo, Van Otterloo & Co.

### **INVESTMENT MANAGERS**

*(continued)*

#### **Domestic Stocks**

Aronson, Johnson & Ortiz, LP

Kalmar Investments

State Street Global Advisors

Systematic Financial Management

Waddell & Reed Investment Management

Wellington Management Company, LLP

Winslow Capital Management

#### **International Stocks**

Mondrian Investment Partners

Oechsle International

Research Affiliates

Templeton Investment Counsel, Inc.

#### **Private Markets Investment**

Angelo Gordon

BCI Growth V, LP

BlackRock Institutional Trust Company

Common Sense Investment Management

Grosvenor Capital Management

Hamilton Lane

Kohlberg Kravis Robert (KKR)

Landmark Partners, Inc

Lone Star Management Co. IV, Ltd.

New Mountain Capital, LLC

TCW Shop III/IV

The Blackstone Group

Warburg, Pincus and Co.

#### **Real Estate Investments**

Colony Capital

Invesco Core Real Estate

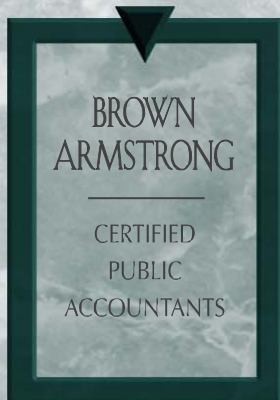
JMB Advisory Corporation

JE Robert Company, Inc.

Sentinel Real Estate Corporation

TA Associates Realty

## FINANCIAL SECTION



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

### MAIN OFFICE

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BAKERSFIELD, CA 93309

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EMAIL info@bacpas.com

#### 560 CENTRAL AVENUE

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TEL 661.746.2145

FAX 661.746.1218

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FRESNO, CALIFORNIA 93711

TEL 559.476.3592

FAX 559.476.3593

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SUITE 908B

PASADENA, CALIFORNIA 91101

TEL 626.240.0920

FAX 626.240.0922

#### 5250 CLAREMENT AVENUE

SUITE 237

STOCKTON, CA 95207

TEL 209.451.4833

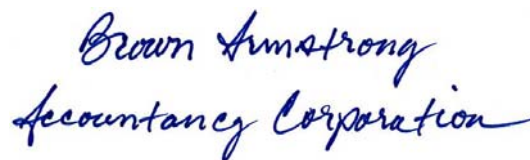


REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

Our audit was conducted for the purpose of forming opinions on the financial statements of FCERA as a whole. The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
December 12, 2012

**Fresno County Employees' Retirement Association**  
**Management's Discussion and Analysis**  
**(Amounts expressed in thousands)**

Our discussion and analysis of the financial performance of the Fresno County Employees' Retirement (FCERA) provides an overview of the financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Letter of Transmittal in the Introductory Section of FCERA's Comprehensive Annual Financial Report, and the Financial Statements, which follow this discussion.

**Financial Highlights**

- i Net assets held in trust by FCERA, as reported on the *Statement of Plan Net Assets*, totaled \$3,148,513 as of June 30, 2012. Net assets decreased by \$18,664, or .6%, consistent with economic and market conditions throughout the year. Net assets totaled \$3,167,177 as of June 30, 2011. Financial and economic factors are also discussed in the Letter of Transmittal from the Retirement Administrator and in the Investment Section of this report.
- i The *Statement of Changes in Plan Net Assets* reflects \$180,254, in additions to plan net assets for June 30, 2012, primarily due to an increase in the employer and employee contributions. Employer contributions which totaled \$157,869 or 82.9% of the total contributions of \$190,496. Employee contributions of \$32,627 represented 17.1% of the total contributions received. Interest and other income added \$101,553, with net income from securities lending adding \$1,062. At June 30, 2011, \$767,005 in additions to plan net assets was reported. The net increase was comprised of \$548,702 appreciation in the fair value of the investments, along with employer and employee contributions of \$161,583, securities lending net income of \$1,215 and interest and other income in the amount of \$70,439.
- i The *Statement of Changes in Plan Net Assets* for June 30, 2012 reflects total deductions from plan net assets of \$198,918. Benefit payments of \$193,535 comprised 97.3% of the total deductions, with refunds of contributions in the amount of \$1,786 and administrative fees totaling \$3,597 representing .9% and 1.8%, respectively, of the total deductions. The June 30, 2011 total deductions from the plan net assets were \$186,515 with benefit payments of \$180,363 which comprised 96.7% and refunds of contributions in the amount of \$2,044 and administrative fees totaling \$4,108 which represented 1.1% and 2.2%, respectively, of the total deductions.
- i FCERA 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.
- i FCERA finalized the sale of the Fresno Station Business Center on January 31, 2011 to the Ellis Family Partnership III, for a total consideration of \$775.

**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 Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB).

**Fresno County Employees' Retirement Association  
Management's Discussion and Analysis (Continued)  
(Amounts expressed in thousands)**

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

The most important question asked about FCERA'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 FCERA's activities in a way that helps answer this question. The actuarial valuation prepared for the one year period ended June 30, 2011 reported the funding ratio as 73.5%, an increase of .6% from the funding ratio of 72.9% included in the valuation report as of June 30, 2010. The funding ratio indicates that at June 30, 2011 we have about \$0.74 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 FCERA'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 FCERA'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 FCERA's overall health.

**FCERA's Net Assets**

FCERA's net assets decreased .6% in 2012, from a beginning value of \$3,167,177 to \$3,148,513. The decrease was primarily due to the net depreciation in the fair value of investments held by FCERA. The net assets for June 30, 2011 increased \$580,490, 22.4% from the June 30, 2010 balance of \$2,586,687, primarily due to increases in the net fair value of investments held by FCERA during that period. Investment trades receivable and payable at June 30, 2012 increased 72.3% to \$121,333 and 68.2% to \$158,551, respectively, over the June 30, 2011 balances of \$70,436 and \$94,267, due to an increase in outstanding trades at year end 2012. The cash collateral payable for securities lending decreased 9.1% from \$250,675 at June 30, 2011 to \$227,952. The June 30, 2011 balance of cash collateral payable for securities lending had increased 14.5%, or \$31,665 from the June 30, 2010 balance of \$219,010.

**Fresno County Employees' Retirement Association  
Management's Discussion and Analysis (Continued)  
(Amounts expressed in thousands)**

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

The following table presents the net assets at the end of fiscal years 2012, 2011 and 2010.

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>Increase/ (Decrease) 2012-2011</b>	<b>Increase/ (Decrease) 2011-2010</b>
Current and other assets	\$ 3,534,212	\$ 3,513,028	\$ 2,881,482	\$ 21,184	\$ 631,546
Capital assets	3,801	2,533	2,193	1,268	340
Total assets	<u>3,538,013</u>	<u>3,515,561</u>	<u>2,883,675</u>	<u>22,452</u>	<u>631,886</u>
Other liabilities					
Total liabilities	<u>389,500</u>	<u>348,384</u>	<u>296,988</u>	<u>41,116</u>	<u>51,396</u>
Net assets	<u>\$ 3,148,513</u>	<u>\$ 3,167,177</u>	<u>\$ 2,586,687</u>	<u>\$ (18,664)</u>	<u>\$ 580,490</u>

**Changes 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, 2012, total additions to plan net assets decreased from the prior year to the amount of \$180,254, primarily due to the decrease in net investment income. Additions increased during the year ended June 30, 2011 in the amount of \$767,005 from the previous year mainly due to an increase in investment income. Total contributions increased 17.9% for the year ended June 30, 2012, primarily due to the increase in the employer contribution rates. For the year ended June 30, 2011, contributions had increased 2.0% over the prior year. The following table displays summary data on the changes in plan net assets.

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>Increase/ (Decrease) 2012-2011</b>	<b>Increase/ (Decrease) 2011-2010</b>
Additions:					
Contributions	\$ 190,496	\$ 161,583	\$ 158,347	\$ 28,913	\$ 3,236
Net investment income/(loss)	(10,242)	605,422	341,439	(615,664)	263,983
Total Additions/(Subtractions)	<u>180,254</u>	<u>767,005</u>	<u>499,786</u>	<u>(586,751)</u>	<u>267,219</u>
Deductions:					
Benefits paid	193,535	180,363	169,526	13,172	10,837
Refunds of contributions	1,786	2,044	1,915	(258)	(129)
Administrative costs	3,597	4,108	3,570	(511)	538
Total Deductions	<u>198,918</u>	<u>186,515</u>	<u>175,011</u>	<u>12,403</u>	<u>11,246</u>
Increase/(decrease) in net assets	(18,664)	580,490	324,775	(599,154)	255,715
Net assets, beginning of year	<u>3,167,177</u>	<u>2,586,687</u>	<u>2,261,912</u>	<u>580,490</u>	<u>324,775</u>
Net assets, end of year	<u>\$ 3,148,513</u>	<u>\$ 3,167,177</u>	<u>\$ 2,586,687</u>	<u>\$ (18,664)</u>	<u>\$ 580,490</u>

**Fresno County Employees' Retirement Association  
Management's Discussion and Analysis (Continued)  
(Amounts expressed in thousands)**

**Changes to Plan Net Assets (Continued)**

The primary deductions of the plan include the payment of benefits to members and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement plan. Deductions for fiscal year 2012 totaled \$198,918, an increase of 6.7% over 2011. Deductions for fiscal year 2011 totaled \$186,515, an increase of 6.6% over the 2010 amount of \$175,011.

Administrative expenses are approved in an annual budget by FCERA's Board and in 2012 represented 0.08% of the accrued actuarial liability of the Plan. In prior years, administrative expenses were based on the total assets and represented 0.12% of the total assets in both 2011 and 2010. Prior to January 1, 2010, the California State Government Code, Section 31580.2 limited administrative expenses incurred in any given year shall to 0.18% of the total assets of the retirement system. Effective January 1, 2010, the statute was amended to limit the expense incurred to the greater of either (a) .21 percent of the accrued actuarial liability of the retirement system or (b) Two million dollars, as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5 (commencing with Section 31870 of the CERL) and excluded expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products from inclusion as administrative costs. FCERA's administrative budget adopted for Fiscal Year 2010-11 was calculated under the old statutory language while the administrative budget for Fiscal Year 2011-12, while originally calculated under the old statutory language was amended to comply with the new statutory language.

The total deductions in plan net assets of \$198,918 during 2012 combined with the contributions of \$190,496 and the net investment loss of \$10,242, which are depicted on page 19, account for the net decrease in plan assets of \$18,664 in 2012.

**Reporting FCERA's Fiduciary Responsibilities**

FCERA is a fiduciary for the County of Fresno public employee retirement system. Accordingly, FCERA is responsible for these assets under our trust arrangement, and they can only be used for trust beneficiaries and payment of plan expenses. FCERA 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 decreased during the past year, management believes, and actuarial studies concur, that FCERA 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.

**Fresno County Employees' Retirement Association  
Management's Discussion and Analysis (Continued)  
(Amounts expressed in thousands)**

**Future Changes**

June 25, 2012, GASB approved two new standards, Statement No. 67, Financial Reporting for Pension Plans and Statement No. 68, Accounting and Financial Reporting for Pensions.

Statement No. 67 replaces Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. The Statement of Plan Net Assets will become the Statement of Fiduciary Net Position and the Statement of Changes in Plan Net Assets will be the Statement of Changes in Fiduciary Net Position. Statement No. 67 requires enhancements to the financial statement notes, in addition to new information on the annual money-weighted rates of return along with 10 year RSI schedules. Statement No. 68 replaces Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures. Defined benefit pension plans will be required to recognize their long-term pension obligation as a liability. For plans such as ours, a "cost - sharing multiple employer plan", Statement No. 68 requires the employer to recognize a share of the pension liability, based on an updated set of calculations and to report the liability on the face of our plan sponsors' statements of fiduciary net assets, but not on FCERA's statements, on our employers' statements. In essence, FCERA will report to our employers their share of the unfunded liability.

Statement No. 67 will be in effect for fiscal years beginning after June 15, 2013. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

**Contacting FCERA'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 FCERA's finances and to show FCERA's accountability for the funds under its stewardship.

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 93721-2515

Respectfully submitted,



Becky Van Wyk, CPA  
Assistant Retirement Administrator

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

	<b>2012</b>	<b>2011</b>
<b>ASSETS:</b>		
Cash and cash equivalents with fiscal agents	\$ 109,955	\$ 99,860
Securities lending investments pool:		
Short term investments	227,952	250,675
	<u>227,952</u>	<u>250,675</u>
Receivables:		
Investment income receivables	130,743	79,289
Administrative receivables	47	84
Contributions receivables	10,140	8,222
Securities lending receivables	191	126
Total receivables	<u>141,121</u>	<u>87,721</u>
Investments, at fair value:		
U.S. Government and agencies fixed income	331,486	291,221
Domestic fixed income	459,270	419,471
Foreign fixed income	98,054	73,342
Domestic equity	851,320	953,831
International equity	699,704	728,060
Mortgages	30,177	43,193
Credit default/interest rate swaps	(215)	(574)
Foreign exchange forward contracts	263	3
Rights - international equity	22	20
REITs	16,102	11,750
Private markets and alternative investments	568,807	554,300
Total investments	<u>3,054,990</u>	<u>3,074,617</u>
Prepaid expenses	<u>194</u>	<u>155</u>
Capital assets		
Nondepreciable	1,939	502
Depreciable, net of accumulated depreciation	1,862	2,031
Total capital assets, net	<u>3,801</u>	<u>2,533</u>
Total assets	<u>3,538,013</u>	<u>3,515,561</u>
<b>LIABILITIES:</b>		
Investment accounts payable	158,551	94,267
Cash collateral payable for securities lending	227,952	250,675
Administrative accounts payable	2,933	3,403
Securities lending bank and broker fees	64	39
Total liabilities	<u>389,500</u>	<u>348,384</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u><u>\$ 3,148,513</u></u>	<u><u>\$ 3,167,177</u></u>

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

	<b>2012</b>	<b>2011</b>
<b>ADDITIONS:</b>		
Contributions:		
Employers	\$ 157,869	\$ 130,290
Plan members	32,627	31,293
Total contributions	<u>190,496</u>	<u>161,583</u>
Investment income:		
From investment activities		
Net appreciation/(depreciation) in fair value of investments	(98,040)	548,702
Interest	26,807	27,367
Dividends	32,148	24,316
Private markets	42,441	18,402
Net income from investment activities	<u>3,356</u>	<u>618,787</u>
From securities lending activities		
Securities lending income	1,381	1,827
Securities lending expenses		
Borrower rebate expenses	(67)	(331)
Security lending management fees	(252)	(281)
Net income from securities lending activities	<u>1,062</u>	<u>1,215</u>
Miscellaneous income	157	354
Investment expenses	(14,817)	(14,934)
Net investment income/(loss)	<u>(10,242)</u>	<u>605,422</u>
Total additions	<u>180,254</u>	<u>767,005</u>
<b>DEDUCTIONS:</b>		
Benefits paid to plan members and beneficiaries	193,535	180,363
Refunds of member contributions	1,786	2,044
Administrative expenses	3,597	4,108
Total deductions	<u>198,918</u>	<u>186,515</u>
NET INCREASE (DECREASE)	(18,664)	580,490
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>3,167,177</u>	<u>2,586,687</u>
END OF YEAR	<u>\$ 3,148,513</u>	<u>\$ 3,167,177</u>

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

**NOTE 1 - DESCRIPTION OF THE PLAN**

The following description of the Fresno County Employees' Retirement Association (FCERA) is provided for general information purposes only. FCERA 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**

FCERA 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. FCERA 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 (County), the Superior Court of California-County of Fresno, Clovis Veterans Memorial District, Fresno-Madera Area Agency on Aging and Fresno Mosquito Vector Control. An employee becomes eligible for membership commencing with the pay period following the date of employment in a permanent position.

FCERA membership at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Retirees and beneficiaries receiving benefits	6,148	5,769
Terminated employees entitled to benefits but not yet receiving them (Deferred Members)	1,415	1,451
Current employees:		
Vested:		
General Tier 1	4,383	4,478
General Tier 2	47	26
General Tier 3	174	77
General Tier 4	1	-
Safety Tier 1	695	724
Safety Tier 2	14	8
Nonvested:		
General Tier 1	223	559
General Tier 2	167	141
General Tier 3	819	674
General Tier 4	50	-
Safety Tier 1	6	7
Safety Tier 2	55	30
Safety Tier 4	10	-
Total current employees	<u>6,644</u>	<u>6,724</u>
Total membership	<u><u>14,207</u></u>	<u><u>13,944</u></u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(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 adopted by the Plan Sponsors. Benefits are based upon a combination of age, years of service, final average salary for the highest year (or average three one-year periods) of employment, benefit tier (including membership classification) and the payment option selected by the 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 and depending on date of retirement may include cost of living benefits, supplemental benefits, supplemental annuity benefits, and vested health benefits. Benefits may also include a supplemental cost of living and a non-vested health benefit if approved by the Board of Retirement.

At June 30, 2012, there were four tiers for general members and three tiers for safety members available for the Plan Sponsors and their employees to adopt. The general tiers and their basic provisions are listed below:

<b>Tier Name</b>	<b>Governing Code</b>	<b>Effective Date</b>	<b>Basic Provisions</b>	<b>Vested Health Benefit</b>	<b>Final Average Salary Period</b>	<b>Plan Sponsors</b>
Pre-Ventura General	GC 31676.12	Various	2.0% at 57; maximum 3% cost of living; benefit	No	Highest 1 - year	All
General Tier 1	GC 31676.14 and the Settlement Agreement	January 1, 2001	2.5% at 55; maximum 3% cost of living; benefit	Yes	Highest 1 - year	All
General Tier 2	GC31676.16	September 12, 2005	2.0% at 55; maximum 3% cost of living; benefit	Yes	Highest 1 - year	County FMAAA
General Tier 3	GC 31676.15	December 17, 2007	2.0% at 55; maximum 3% cost of living; benefit	Yes	3 Highest Years	County
General Tier 4	GC 31676.1	June 11, 2012	2.0% at 61; no cost of living	No	3 Highest Years	County

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

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

**Benefit Provisions (Continued)**

The safety tiers and their basic provisions are listed below:

<b>Tier Name</b>	<b>Governing Code</b>	<b>Effective Date</b>	<b>Basic Provisions</b>	<b>Vested Health Benefit</b>	<b>Final Average Salary Period</b>	<b>Plan Sponsors</b>
Pre-Ventura Safety	GC 31664	Various	2.0% at 50; maximum 3% cost of living; benefit	No	Highest 1 – year	All
Safety Tier 1	GC 31664 and the Settlement Agreement	January 1, 2001	2.5% at 50; maximum 3% cost of living; benefit	Yes	Highest 1 - year	County NCFPD
Safety Tier 2	GC 31664.2	September 12, 2005	3.0% at 55; maximum 3% cost of living; benefit	Yes	Highest 1 - year	County
Safety Tier 4	GC 31664	June 11, 2012	2.0% at 50; no cost of living	Yes	3 Highest Years	County

**Administration**

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

1. County Treasurer,
2. Two active members of FCERA elected by the general members,
3. One active member of FCERA elected by the safety members,
4. One retired member of FCERA elected by the retired members,
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,
6. One alternate member of FCERA elected by the retired members.

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

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

**Reporting Entity**

The Fresno County Employees' Retirement Association (FCERA) 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. FCERA 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**

FCERA'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.

**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. 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, fifteen years

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

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

**Capital Assets (Continued)**

for Wyatt Software (pensions system) and thirty years for buildings. Depreciation expense is reported as part of administrative expenses.

**Income Taxes**

The Internal Revenue Service (IRS) has ruled that Plans such as FCERA qualify under Section 401(a) of the Internal Revenue Code (IRC) which prevents the Plan from being subjected to taxation under present income tax laws. In 1988 the FCERA Plan was determined by the IRS to be tax qualified. In accordance with this determination, no provisions for income taxes have been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under provisions of the IRC, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

**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.

**Administrative Expenses**

FCERA's Board of Retirement annually approves the budget for administrative expenses. Under the California State Government Code Section 31580.2 administrative expenses are limited to 0.21% of the accrued actuarial liability of the Plan. Previously, administrative expenses were limited to 23 basis points of total assets. As a result of the change in basis points, the information technology expenses are no longer included in the administrative expenses. Effective in FCERA's Comprehensive Annual Financial Report for fiscal year ended June 30, 2012, there is a new schedule for Information Technology Expenses. The Schedule of Information Technology Expenses includes computer software, hardware, computer maintenance and equipment. With the exclusion of the information technology costs, FCERA's administrative expenses totaled 0.07% of the accrued actuarial liability of the Plan.

**Implementation of New Accounting Pronouncements**

FCERA did not implement any new accounting pronouncements during fiscal year 2011 – 2012.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

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

Except as otherwise expressly restricted by the California Constitution and by law, the Board may, at its discretion, invest, or delegate FCERA to invest the assets of FCERA 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. FCERA currently employs external investment managers to manage its assets subject to the guidelines of the investment policy.

Governmental Accounting Standards Board (GASB) Statement No. 40 and Statement No. 53 detail the disclosure requirements associated with FCERA's deposits, investments and derivatives. The statements identify the following risks: investment risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Rather than creating an across the board policy addressing limitations on credit ratings of certain debt securities, FCERA, has chosen to manage the investment risks detailed in GASB Statements No.40 and No. 53 by requiring each investment manager responsible for a separately held portfolio to follow specific agreed upon investment guidelines that meet the requirements of FCERA for the individual investment mandate. FCERA's investment guidelines do not govern control over commingled portfolios and therefore only apply to separately held portfolios.

*Custodial credit risk - deposits.* This type of risk associated with 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. FCERA does not have a policy for managing custodial credit risk. As of June 30, 2012, all domestic deposits were insured, registered and held by the custodian bank in FCERA's name. FCERA held foreign currencies deposits at June 30, 2012 with a United States Dollar value of \$2,445, of which \$0 is subject to custodial credit risk since the deposits were registered or held in FCERA'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 FCERA's name. FCERA's investment policy does not limit the amount of securities that can be held by counterparties.

*Credit risk.* Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This risk is measured by the assignment of ratings by nationally recognized statistical rating organizations. FCERA 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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

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

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 agency as of June 30, 2012.

Investment Type		Minimum Policy Rating	Exempt from Disclosure	Rating at Year End June 30, 2012			
				Aaa/ P1	Baa	Caa	Not Rated
Securities lending - investments							
Quality D Investment Fund	\$ 227,952	Aaa/ P1	\$ -	\$ 227,952	\$ -	\$ -	\$ -
Subtotal	227,952		-	227,952	-	-	-
US Government and agencies							
US treasury notes	183,188	N/A	183,188	-	-	-	-
Federal agency securities	148,298	B3	-	141,008	1,527	-	5,763
Subtotal	331,486		183,188	141,008	1,527	-	5,763
Domestic fixed income	363,346	B3	-	146,866	175,281	3,670	37,529
Mortgages	30,177	B3	-	23,360	3,887	1,001	1,929
Foreign fixed income	98,034	B3	-	56,073	41,688	-	273
Opportunistic Fixed Income Fund	95,971	AA	-	95,971	-	-	-
Global Bond Fund	20	AA	-	-	-	-	20
	<u>\$ 1,146,986</u>		<u>\$ 183,188</u>	<u>\$ 691,230</u>	<u>\$ 222,383</u>	<u>\$ 4,671</u>	<u>\$ 45,514</u>

**Interest rate risk.** Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. FCERA has not adopted a policy to manage interest rate risk. FCERA selected the segmented time distribution method for the following investments subject to interest rate risk at June 30, 2012.

Investment Type	Remaining Maturity in Months at June 30, 2012			
	Less than 12 months	13 to 60 months	61 to 120 months	More than 120 months
Securities lending - investments				
Quality D Investment Fund	\$ 227,952	\$ 227,952	\$ -	\$ -
Subtotal	227,952	227,952	-	-
US Government and agencies				
US Treasury notes	151,755	3,229	63,248	44,727
Federal agency securities	148,298	1,210	4,145	139,323
Subtotal	300,053	4,439	67,393	184,050
Domestic fixed income	363,346	8,040	161,884	98,892
Mortgages	30,177	-	-	1,128
Foreign fixed income	98,034	1,021	38,103	37,955
Global Bond Fund	20	-	-	-
Opportunistic Fixed Income Fund	95,971	9,530	48,388	26,306
TIPS Index Fund	31,433	-	11,274	10,664
Total Investments	<u>\$ 1,146,986</u>	<u>\$ 250,982</u>	<u>\$ 327,042</u>	<u>\$ 219,116</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

At June 30, 2012, FCERA has \$27,249 invested in the County of Fresno external investment pool, which has a dollar weighted average maturity of 2.8 years, compared to \$27,252 and a dollar weighted average maturity of 2.6 years at June 30, 2011.

*Concentration of credit risk.* This is the risk of loss attributed to the concentration of the FCERA'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, 2012, no investments in any one issuer are 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.

*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. FCERA has not adopted a policy to manage the foreign currency risk. As of June 30, 2012, FCERA's investment in foreign currency was as follows:

<u>Currency</u>	<u>Fair Market Value</u>
Australian Dollar	\$ 132
Canadian Dollar	192
Danish Krone	235
Euro Currency	148
Hong Kong Dollar	129
Japanese Yen	708
Norwegian Krone	63
Other Foreign Currencies	33
Pound Sterling	303
Singapore Dollar	128
Swedish Krona	77
Swiss Franc	297
Total Foreign Currency	<u>\$ 2,445</u>

Foreign currency table expressed in US Dollars and thousands

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

*Derivatives.* The investment derivatives schedule below reports the fair value and notional value of the derivatives held by FCERA at June 30, 2012. For reporting purposes, FCERA's derivatives are classified as investment derivatives. FCERA, 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, FCERA may be exposed to a potential loss. At June 30, 2012, FCERA has approximately \$16,792 of its \$699,704 international equity portfolio hedged through the use of such forward foreign currency contracts. At June 30, 2011, approximately \$13,417 of FCERA's \$728,060 international equity portfolio was hedged through the use of such forward foreign currency contracts.

Investment Derivatives

<b>Investment Derivatives</b>	<b>June 30, 2012</b>		<b>Changes in Fair Value for 2012</b>
	<b><u>Notional</u></b>	<b><u>Fair Value</u></b>	<b><u>Fair Value</u></b>
<b>Credit Default Swaps</b>	\$ 18,074	\$ (94)	\$ (387)
<b>Interest Rate Swaps</b>	40,700	(121)	(2,201)
<b>Fixed Income Futures</b>	10,900	-	(38)
<b>Options</b>	21,398	65	117
<b>FX Forwards</b>	16,792	263	882
<b>Rights</b>	40	22	205
<b>Grand Totals</b>	<b>\$ 107,904</b>	<b>\$ 135</b>	<b>\$ (1,422)</b>

FCERA could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. FCERA anticipates that counterparties will be able to satisfy their obligations under the contracts. FCERA'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. At June 30, 2012, FCERA did not hold any collateral to offset potential risks it may encounter through counterparty transactions.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

FCERA's counterparty exposure is detailed in the following schedule:

**Counterparty Credit Risk**

**Counterparty Credit Ratings**

<b>Ratings</b>	<b>Credit Default Swaps</b>	<b>Interest Rate Swaps</b>	<b>Forward Foreign Currency Contracts</b>	<b>Total</b>
Aa3	\$ 59	\$ -	\$ 245	\$ 304
Aa2	28	-	100	128
Aa1	136	5	-	141
Subtotal Investments in Assets Position	223	5	345	573
Investments in Liability Position	(317)	(125)	(83)	(525)
<b>Total Investments in Asset / (Liability) Position</b>	<b>\$ (94)</b>	<b>\$ (120)</b>	<b>\$ 262</b>	<b>\$ 48</b>

At June 30, 2012, FCERA was exposed to Foreign Currency Risk related to its investments in equity rights and forward contracts denominated in foreign currencies.

**Foreign Currency Risks at Fair Value**

<b>Currency Name</b>	<b>Equities</b>	<b>Forward Currency Contracts</b>		<b>Total Exposure</b>
		<b>Net Receivables</b>	<b>Net Payables</b>	
Australian Dollar	\$ -	\$ 62	\$ -	\$ 62
Canadian Dollar	63	(65)	6	4
Euro	-	(2)	260	258
Pound Sterling	-	-	1	1
<b>Total</b>	<b>\$ 63</b>	<b>\$ (5)</b>	<b>\$ 267</b>	<b>\$ 325</b>

The derivative securities included as equities above consist of rights. Foreign currency forward contracts are commitments to purchase or sell a stated amount of foreign currency at a specific future date.

Interest rate risk applies to derivatives such as Fixed Income Options, Credit Default Swaps and Interest Rate Swaps. At June 30, 2012, FCERA was exposed to the following interest rate risk on its investments in these securities. The table on the following page displays the maturity periods of these derivative investments.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Interest Rate Risk for Derivatives**

<b>Investment Types</b>	<b>Fair Value</b>	<b>Investment Maturities (in months)</b>				<b>Total</b>
		<b>Less than 12</b>	<b>13 to 60</b>	<b>61 to 120</b>	<b>More than 120</b>	
Credit Default Swaps	\$ (94)	\$ -	\$ (75)	\$ -	\$ (19)	\$ (94)
Interest Rate Swaps	(120)	-	(116)	-	(4)	(120)
Forward FX Contracts	262	262	-	-	-	262
<b>Total</b>	<b>\$ 48</b>	<b>\$ 262</b>	<b>\$ (191)</b>	<b>\$ -</b>	<b>\$ (23)</b>	<b>\$ 48</b>

*Securities Lending.* The Board authorized FCERA, through its custodian bank, to enter into securities lending transactions, whereby securities owned by FCERA 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. All securities on loan must be collateralized at 102% of the market value of the loaned securities, except for non-United States based equities which are initially collateralized at 105%. 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, State Street Bank and Trust Company 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. FCERA'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. FCERA's agent invests cash collateral in individual securities and the securities are held by the trustee in FCERA's name. The maturities of the investments made with the cash collateral generally match the maturities of their securities on loan.

*Securities on Loan -* At year end, FCERA had no credit risk exposure to borrowers because the collateral received exceeded the amount owed to borrowers. As of June 30, 2012, there were no violations of the securities lending provisions and no losses resulted within the securities lending program due to borrower default.

*Reinvestment of Collateral -* FCERA is subject to credit risk through the reinvestment of collateral cash which FCERA received at the time securities were placed on loan. The risk can include the devaluation of the underlying securities where the collateral has been reinvested. As of June 30, 2012, FCERA believes that if a borrower of a loaned security called on its collateral that it would be reasonably possible that devaluation would be experienced and due to market conditions FCERA would encounter difficulty finding a

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(Amounts expressed in thousands)

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

**Reinvestment of Collateral (Continued)**

buyer to take on the reinvested security and thus making it uncertain when the collateral would become available.

FCERA is unable to quantify the dollar devaluation that would have existed if collateral had been called upon. 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 2012 and 2011 were \$227,952 and \$250,675, respectively. The fair values of loaned securities were as follows:

	<u><b>June 30, 2012</b></u>	<u><b>June 30, 2011</b></u>
Domestic equity	\$ 89,508	\$ 138,526
International equity	31,413	20,691
Total equity on loan	<u>120,921</u>	<u>159,217</u>
US Government and agencies	48,119	55,186
Domestic bonds	56,876	32,013
Total bonds on loan	<u>104,995</u>	<u>87,199</u>
Total equities and bonds on loan	<u><u>\$ 225,916</u></u>	<u><u>\$ 246,416</u></u>

*Highly Sensitive Investments.* FCERA utilizes investments that are highly sensitive to interest rate changes in its actively managed fixed income portfolio. Highly sensitive investments include mortgage-backed securities, asset-backed securities and collateralized mortgage obligations. FCERA's investment portfolio contains certain variable rate notes and collateralized mortgage obligations. At June 30, 2012 and 2011, FCERA had approximately \$62,385 and \$72,208 in these investments, respectively.

<u><b>Investment Type</b></u>	<u><b>June 30, 2012</b></u>	<u><b>June 30, 2011</b></u>
Asset - Backed / Variable Rate Notes	\$ 34,768	\$ 29,015
Collateralized Mortgage Obligations	27,617	43,193
Forward Foreign Currency	16,881	14,282
Total	<u><u>\$ 79,266</u></u>	<u><u>\$ 86,490</u></u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
(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, 2012, forward foreign currency contracts receivable and payable totaled \$16,881 and \$16,618, respectively. At June 30, 2011, forward foreign currency contracts receivable and payable totaled \$14,282 and \$14,279, respectively.

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**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
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**NOTE 5 - CAPITAL ASSETS**

The following is a summary of changes in depreciable capital assets for the fiscal years ended June 30, 2012 and 2011:

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Dispositions/ Reclassifications</b>	<b>Balance June 30, 2012</b>
Capital assets, depreciated:				
Computer hardware/software	\$ 938	\$ -	\$ (12)	\$ 926
Furniture and fixtures	164	-	-	164
Equipment	81	-	-	81
Building	2,103	-	-	2,103
Total capital assets, depreciable	<u>3,286</u>	<u>-</u>	<u>(12)</u>	<u>3,274</u>
Less accumulated depreciation for:				
Computer hardware/software	(593)	(78)	12	(659)
Furniture and fixtures	(102)	(16)	-	(118)
Equipment	(64)	(5)	-	(69)
Building	(496)	(70)	-	(566)
Total accumulated depreciation	<u>(1,255)</u>	<u>(169)</u>	<u>12</u>	<u>(1,412)</u>
Total capital assets, depreciated, net	<u>2,031</u>	<u>(169)</u>	<u>-</u>	<u>1,862</u>
Total capital assets, net	<u>\$ 2,031</u>	<u>\$ (169)</u>	<u>\$ -</u>	<u>\$ 1,862</u>
Depreciation charged for the current year and included in administrative expenses totalled:		<u>\$ 169</u>		
	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Dispositions/ Reclassifications</b>	<b>Balance June 30, 2011</b>
Capital assets, depreciated:				
Computer hardware/software	\$ 841	\$ 97	\$ -	\$ 938
Furniture and fixtures	164	-	-	164
Equipment	75	6	-	81
Building	2,103	-	-	2,103
Total capital assets, depreciable	<u>3,183</u>	<u>103</u>	<u>-</u>	<u>3,286</u>
Less accumulated depreciation for:				
Computer hardware/software	(516)	(77)	-	(593)
Furniture and fixtures	(86)	(16)	-	(102)
Equipment	(59)	(5)	-	(64)
Building	(426)	(70)	-	(496)
Total accumulated depreciation	<u>(1,087)</u>	<u>(168)</u>	<u>-</u>	<u>(1,255)</u>
Total capital assets, depreciated, net	<u>2,096</u>	<u>(65)</u>	<u>-</u>	<u>2,031</u>
Total capital assets, net	<u>\$ 2,096</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ 2,031</u>
Depreciation charged for the current year and included in administrative expenses totalled:		<u>\$ 168</u>		

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**NOTE 6 - CONTRIBUTIONS AND RESERVES**

**Contributions**

Contributions are made by the members and the employers at rates recommended by FCERA's independent actuary and approved by the Board and the County Board of Supervisors. Employee contribution rates vary according to age, classification (safety or general), and benefit tier 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 3.79% and 12.58% 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. Members are not permitted to borrow against their contributions. Upon termination of employment, members may withdraw their contributions by requesting a refund of their accumulated contributions and interest. Non-vested members may leave their contributions on deposit with FCERA 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 survivors' 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 45.

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 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.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**

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

**Reserved and Designated Accounts of Net Assets Held in Trust for Pension Benefits**

Net assets held in trust for pension benefits are segregated into members' and employers' accumulated contributions (both members' 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. Effective fiscal year end June 30, 2009, the Contra Tracking Account was added to represent the amount of interest credited to reserve accounts that had not been paid for out of current or excess earnings.

The sum of all the reserve balances may not tie directly to the total of Net Assets Held in Trust for Pension Benefits due to rounding. The amounts and changes in reserves and designations for the year ended June 30, 2012 consist of the following:

	<b>Balance July 1, 2011</b>	<b>Increase (Decrease) In Plan Net Assets</b>	<b>Net Transfers</b>	<b>Balance June 30, 2012</b>
Reserves:				
Members' accumulated contributions	\$ 378,666	\$ 30,841	\$ (23,970)	\$ 385,537
Current service reserve	861,744	117,510	(80,475)	898,779
Annuity pension reserve	133,573	(21,199)	33,031	145,405
Current service pension reserve	895,053	(91,804)	196,017	999,266
Settlement annuity pension reserve	425,969	(23,314)	70,527	473,182
Settlement benefit reserve	102,528	(7,268)	7,958	103,218
Cost of living adjustment reserve	709,959	3,560	74,193	787,712
Supplemental cost of living reserve	4,076	(1,055)	-	3,021
Survivors' death benefit reserve	3,006	(1,077)	416	2,345
Retiree health benefit reserve	32,985	(7,195)	-	25,790
Retiree health benefit reserve (VS)	27,572	(3,824)	2,106	25,854
Contingency reserve	-	-	-	-
Designated for market stabilization	15,635	-	(200,978)	(185,343)
Undistributed earnings	-	(13,839)	13,839	-
Contra Tracking Account	(423,589)	-	(92,664)	(516,253)
Net assets held in trust for pension benefits	\$ <u>3,167,177</u>	\$ <u>(18,664)</u>	\$ <u>-</u>	\$ <u>3,148,513</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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**NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)**

**Reserved and Designated Accounts of Net Assets Held in Trust for Pension Benefits (Continued)**

The amounts and changes in reserves and designations for the year ended June 30, 2011 consist of the following:

	<b>Balance July 1, 2010</b>	<b>Increase (Decrease) In Plan Net Assets</b>	<b>Net Transfers</b>	<b>Balance June 30, 2011</b>
Reserves:				
Members' accumulated contributions	\$ 369,420	\$ 29,249	\$ (20,003)	\$ 378,666
Current service reserve	787,238	98,219	(23,713)	861,744
Annuity pension reserve	127,583	(19,961)	25,951	133,573
Current service pension reserve	830,847	(84,411)	148,617	895,053
Settlement annuity pension reserve	390,349	(20,768)	56,388	425,969
Settlement benefit reserve	101,905	(7,539)	8,162	102,528
Cost of living adjustment reserve	643,031	(2,825)	69,753	709,959
Supplemental cost of living reserve	5,262	(1,188)	2	4,076
Survivors' death benefit reserve	3,814	(1,097)	289	3,006
Retiree health benefit reserve	39,874	(6,889)	-	32,985
Retiree health benefit reserve (VS)	28,898	(3,613)	2,287	27,572
Contingency reserve	-	-	-	-
Designated for market stabilization	(441,494)	-	457,129	15,635
Undistributed earnings	-	601,313	(601,313)	-
Contra Tracking Account	(300,040)	-	(123,549)	(423,589)
Net assets held in trust for pension benefits	<u>\$ 2,586,687</u>	<u>\$ 580,490</u>	<u>\$ -</u>	<u>\$ 3,167,177</u>

*Members' accumulated contributions* include all member contributions net of refunds and benefits paid to members. At retirement, member balances are transferred to the *annuity* and *settlement annuity pension reserves* and the *cost of living adjustment reserve*. Employers' contributions are paid into *current service reserve*, *settlement annuity reserve* and *cost of living reserve*. The employer current service and settlement annuity contributions are combined in the *current service reserve*, although tracked separately within the *current service reserve* balance. When an employee retires, the employer portion of their accumulated contributions for current service and settlement annuity are transferred from the *current service reserve* into the *current service pension reserve* and the *settlement annuity pension 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.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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**NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)**

**Reserved and Designated Accounts of Net Assets Held in Trust for Pension Benefits (Continued)**

Historically, the Board has authorized that an annual rate equal to the actuarial rate of return be apportioned as the interest. Effective July 1, 2007, the Board adopted a new interest crediting policy which implemented the following objectives: 1) maintain consistency between the reserving structure accounts and the actuarial funding policies of FCERA, 2) assure that the reserve values track the market value of assets over the long-term and 3) to the extent possible, maintain reasonable stability in both the interest crediting and contribution rates by avoiding charging short-term losses to reserves. This policy resulted in interest apportionments of \$137,100 for the December 31, 2011 interest-crediting period and \$142,702 for the June 30, 2012 interest-crediting period. The semi-annual rates of interest for the two periods were 3.875% and 3.875%, respectively. Any additional transfers out of undistributed earnings are made in accordance with the authorization of the Board. No additional transfers were made in fiscal year ended June 30, 2012.

The *survivors' death benefit reserve* is credited with balances transferred from *members' accumulated contributions* and the employer *current service reserve*, in those instances where the survivor of an active deceased member is entitled to continuation benefits. The *current service reserve* consists of current service and settlement annuity contributions (which are tracked separately within the *current service reserve*). 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* and *settlement annuity pension reserves* 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 monies with the expectation (but not the requirement) that the funds be used 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.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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**NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)**

**Reserved and Designated Accounts of Net Assets Held in Trust for Pension Benefits (Continued)**

The *supplemental cost of living reserve* was established in 1990 to provide additional benefits for eligible members. The benefit was 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 changed 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 sufficient funding was unavailable to continue the benefit past August 2005. Thus, the Board of Retirement authorized transfers sufficient to provide funds to continue the benefit at levels in existence at June 30, 2006.

The *supplemental benefit reserve* was established to account for the benefit increase given to retirees or the beneficiaries of retirees who retired prior to January 1, 2001, as part of the Settlement Agreement approved December 2000.

The *supplemental annuity benefit* reserve was established to account for the benefit increase given to members who retired on or after January 1, 2001, as part of the Settlement Agreement approved December 2000.

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.

FCERA maintains a Statutory Contingency Reserve based on 1% of the total valuation account reserve balances. As part of the Interest Credit policy modified by the Board in September 2008, the Board established an additional Board Contingency Reserve of up to 2% of the total Plan Net Assets. Funding of this additional reserve is subject to Board approval.

The Contra Tracking Account represents interest that has been credited to the reserve accounts that was not available to be paid out of the current or excess earnings. A balance in this account is the result of the application of the Board's full interest crediting policy and will be replenished in subsequent periods when there are sufficient earnings.

**NOTE 7 - ACTUARIAL VALUATIONS**

Pursuant to provisions in the County Employees Retirement Law of 1937, FCERA engages an independent actuarial firm to perform an annual actuarial valuation. An experience study is performed every three (3) years (i.e., triennial experience study).

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
**(Amounts expressed in thousands)**

**NOTE 7 - ACTUARIAL VALUATIONS (Continued)**

The economic and non-economic assumptions are updated at the time each triennial experience study is performed. Triennial experience studies serve as the basis for assumptions required in developing employer and member contribution rates necessary to properly fund the system. FCERA periodically hires an independent actuarial firm to audit the results of the valuations. New assumptions were adopted by the Board of Retirement for the June 30, 2010 actuarial valuation based on the results of the June 30, 2009 triennial non-economic Experience Study and the June 30, 2010 Economic Assumptions Study.

**Funded Status as of the Most Recent Actuarial Valuation Date**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded AAL Percentage of Covered Payroll</b>
June 30, 2011	\$3,114,483	\$4,237,961	\$1,123,478	73.5%	\$398,976	281.6%

Additional Funding Progress data is provided in the Required Supplementary Information section which presents multi-year trend data about the Actuarial Value of Assets to Actuarial Accrued Liabilities is located on page 45.

- |                                      |   |
|--------------------------------------|---|
| 1. Actuarial Cost Method:            | Entry Age Normal Cost Funding Method  |
| 2. Actuarial Asset Valuation Method: | Five-year smoothed method based on the difference between expected and actual return on the market value of assets for the 10 six-month periods as of the valuation date. The smoothing method was adopted effective for the June 30, 1998 valuation. |
| 3. Inflation:                        | 3.50% per annum   |
| 4. Investment Rate of Return:        | 7.75% effective annual interest rate, net of both investment and administrative expenses. This rate was originally adopted for the June 30, 2010 valuation and remain unchanged for the June 30, 2011 valuation.                                      |

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
**(Amounts expressed in thousands)**

**NOTE 7 - ACTUARIAL VALUATIONS (Continued)**

5. Projected Salary Increases:

General Members: Salary increases range from 5.00% to 11.00% based on years of service (merit ranges from 1.00% to 7.00%; plus 3.50% inflation plus 0.50% "across the board" salary increase).

Safety Members: Salary increases range from 5.50% to 11.00% based on years of

service (merit ranges from 1.50% to 7.00%; plus 3.50% inflation plus 0.50% "across the board" salary increase).

These rates were originally adopted for the June 30, 2010 valuation and remained unchanged for the June 30, 2011 valuation.

6. Post-Retirement Benefit Increases:

The Cost of Living Adjustment (COLA) is applied in accordance with changes to the Consumer Price Index but limited to a maximum of 3% per year. A supplemental COLA may be provided to certain members to limit the loss of purchasing power to no more than 25%.

Post-retirement benefit increase of 3% per year is assumed for the valuation in accordance with the benefits provided. These adjustments, which are based on the Consumer Price Index, are assumed payable each year in the future as they are equal to the expected increase in the Consumer Price Index of 3.0% per year. This rate was adopted for the June 30, 1978 valuation.

7. Amortization Method and Period:

22 years (declining) for UAAL established as of June 30, 2003 plus 15 years (declining) for UAAL and change in actuarial assumptions established on each subsequent valuation. The increase in UAAL due to benefit improvements is amortized over 30 years. The plan selects a closed method.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2012 AND 2011**  
**(Amounts expressed in thousands)**

**NOTE 7 - ACTUARIAL VALUATIONS (Continued)**

The latest actuarial valuation decreased the County normal cost rate from 19.63% to 19.44% of payroll primarily due to assumption changes. The County's required contribution rate to finance the UAAL increased from 24.38% to 26.66% of payroll. There is an increase in the total required contribution rate from the prior valuation of 2.09%, from 44.01% to 46.10% of payroll.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**Capital Commitments**

FCERA invests in real estate and private equity partnerships. Each partnership's investment activity is controlled by a general partner and defined in the prospectus and Commitment Agreement. The Commitment Agreement defines the period of the investment which is typically five to ten years and the capital commitment. The Board of Retirement approves the capital commitment at the time the partnership agreement is approved.

As of June 30, 2012, outstanding capital commitments to the various partnerships, as approved by the Board, totaled \$838,500. Subsequent to June 30, 2012, FCERA funded \$779,627 of these capital commitments.

**NOTE 9 - SUBSEQUENT EVENTS**

Management has reviewed and evaluated subsequent to June 30, 2012 and through December 12, 2012, the date of the Independent Auditor's Report, and identified the following subsequent event requiring disclosure.

The Governor of California signed Assembly Bill 340 into law on September 12, 2012 which establishes the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), mandatory retirement tier for public retirement systems operating under specified statutes including the 1937 Act. The Bill which is effective January 1, 2013 requires a consecutive three-year final compensation period, lower benefit levels, and eliminates employer pickup of employee retirement contributions for all new employees. FCERA, along with most other public retirement systems in California, is analyzing the impact of the new law on its pension administration system and employers in order to develop an implementation plan.

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## REQUIRED SUPPLEMENTARY INFORMATION

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Amounts expressed in thousands)**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Value of Assets (AVA)</b>	<b>(2) Actuarial Accrued Liability (AAL)</b>	<b>(3) Unfunded AAL (UAAL) (2) - (1)</b>	<b>(4) Funded Ratio (1)/(2)</b>	<b>(5) Covered Payroll</b>	<b>(6) UAAL as a Percentage of Covered Payroll (3)/(5)</b>
6/30/06	\$ 2,398,454	\$ 2,803,990	\$ 405,536	85.5%	\$ 376,270	107.8%
6/30/07	2,610,269	3,149,570	539,301	82.9%	404,277	133.4%
6/30/08	2,812,423	3,429,990	617,567	82.0%	424,083	145.6%
6/30/09	2,864,956	3,644,743	779,787	78.6%	422,519	184.6%
6/30/10	2,983,044	4,092,464	1,109,420	72.9%	408,861	271.3%
6/30/11	3,114,483	4,237,961	1,123,478	73.5%	398,976	281.6%

Beginning with the year ended 2003, actuarial valuations are performed annually. The actuarial valuations completed for 2004 and 2005 were prepared by FCERA's prior actuary and disclosed in the June 30, 2006 CAFR. The actuarial value of assets in the Solvency Test, located on page 7F, includes the total plan assets for all years.

At June 30, 2007, the actuarial value of assets (AVA) decreased by \$3,169 for a net overpayment of member contributions discounted to June 30, 2007.

The schedules displayed on this page were prepared by FCERA's current actuary, The Segal Company.

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

<b>Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
2007	\$ 69,997	100.00%
2008	97,305	100.00%
2009	113,959	100.00%
2010	126,138	100.00%
2011	130,290	100.00%
2012	157,869	100.00%

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Amounts expressed in thousands)**

**LATEST ACTUARIAL VALUATION METHODS**

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent of payroll for total unfunded liability – The plan selects a closed method
Remaining amortization period	22 years for plan amendments 15 years for all other adjustments to the unfunded actuarial accrued liability
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (includes inflation at 3.50%)
Projected salary increases	Rates vary by service type:
- General Members:	Salary increases range from 5.00% to 11.00% (merit ranges from 1.00% to 7.00%; plus 3.50% inflation plus 0.50% “across the board” salary increase).
- Safety Members:	Salary increases range from 5.50% to 11.00% (merit ranges from 1.50% to 7.00%; plus 3.50% inflation plus 0.50% “across the board” salary increase).
Cost of living adjustments	0 – 3% (tied to the change in Consumer Price Index)

## OTHER SUPPLEMENTARY INFORMATION

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF ADMINISTRATIVE EXPENSES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Personnel Services</b>		
Salaries and Benefits	\$ 2,212,250	\$ 2,165,428
Total Personnel Services	<u>2,212,250</u>	<u>2,165,428</u>
<b>Office Expenses</b>		
Election Expenses	14,894	17,843
Office Supplies	57,831	68,756
Postage	25,698	42,933
Telephone	6,335	3,265
Utilities	<u>24,493</u>	<u>24,759</u>
Total Office Expenses	<u>129,251</u>	<u>157,556</u>
<b>Other Services and Charges</b>		
Equipment	32,015	-
Interest Refunded - Overpayment Policy	-	105
Insurance Other	110,338	150,712
Maintenance	34,028	34,276
Professional and Specialized Services	548,153	1,004,921
Disability Expenses	176,420	235,320
Data Processing Services	125,327	125,432
Transportation, Travel, and Education - Staff	23,698	31,752
Transportation, Travel, and Education - Board	<u>37,314</u>	<u>35,162</u>
Total Other Services and Charges	<u>1,087,293</u>	<u>1,617,680</u>
<b>Depreciation</b>	168,929	167,649
Total Administrative Expenses	<u><u>\$ 3,597,723</u></u>	<u><u>\$ 4,108,313</u></u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
ADMINISTRATIVE BUDGET ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Approved Budget	Final Budget	Fiscal Year Expenditures	Percentage Expended
<b>Personnel Services</b>				
Salaries	\$ 1,347,769	\$ 1,347,769	\$ 1,347,752	100.00%
Benefits	880,845	880,845	864,498	98.14%
Total Personnel Services	<u>2,228,614</u>	<u>2,228,614</u>	<u>2,212,250</u>	99.27%
<b>Professional Services</b>				
Actuarial <sup>1</sup>	60,000	60,000	66,704	111.17%
Legal Counsel	170,000	170,000	210,120	123.60%
Professional Services - Disability	220,000	220,000	176,420	80.19%
Other Professional Services	750,150	216,150	286,223	132.42%
Pensions System Maintenance <sup>3</sup>	18,000	-	-	0.00%
Total Professional Services	<u>1,218,150</u>	<u>666,150</u>	<u>739,467</u>	111.01%
<b>Travel, Transportation, and Education</b>				
Transportation, Travel, and Education - Board	41,100	41,100	37,314	90.79%
Transportation, Travel, and Education - Staff	31,960	31,960	23,698	74.15%
Total Travel, Transportation, and Education	<u>73,060</u>	<u>73,060</u>	<u>61,012</u>	83.51%
<b>Other</b>				
Data Processing	137,543	137,543	125,327	91.12%
Depreciation	-	170,000	168,929	99.37%
Equipment <sup>6</sup>	-	-	32,015	0.00%
Insurance	115,386	115,386	110,338	95.63%
Maintenance	37,557	37,557	34,028	90.60%
Office Supplies	119,183	119,183	114,357	95.95%
Total Other	<u>409,669</u>	<u>579,669</u>	<u>584,994</u>	100.92%
<b>Capital Assets</b> <sup>2 4</sup>	<u>825,000</u>	<u>19,200</u>	<u>-</u>	0.00%
<b>Total Administrative Expenditures</b> <sup>5</sup>	<u>\$ 4,754,493</u>	<u>\$ 3,566,693</u>	<u>\$ 3,597,723</u>	100.87%

<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.

<sup>3</sup> Pensions System Maintenance included in IT Infrastructure.

<sup>4</sup> Computer Equipment included in IT Infrastructure.

<sup>5</sup> As defined in Government Code Section 31580.2, excludes Information Technology expenses.

<sup>6</sup> Budgeted in Prior Year.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
ADMINISTRATIVE BUDGET ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Schedule of Information Technology Expenses**

	<b>2012</b>	<b>2011</b>
Property and Equipment	\$ 9,745	\$ - <sup>1</sup>
IT Infrastructure	<u>1,387,753</u>	<u>-</u> <sup>2</sup>
Total Information Technology Expense	<u><u>\$ 1,397,498</u></u>	<u><u>\$ -</u></u>

<sup>1</sup> 2011 Property and Equipment was included with Capital Assets under Administrative Expense.

<sup>2</sup> 2011 IT Infrastructure Expense was included with Administrative Expense.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF INVESTMENT EXPENSES**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
Investment Manager Fees	\$ 14,110,342	\$ 13,952,424
Custodian Service Fees	116,903 <sup>2</sup>	124,805
Actuarial Valuation Fees <sup>1</sup>	165,000 <sup>2</sup>	61,000
Executive Office Operation	24,997	366,697
Due Diligence Travel	-	2,749
Futures Commission Expense	4,480	3,195
Investment Legal Fees	53,582 <sup>2</sup>	91,368 <sup>2</sup>
Investment Consultant	341,679 <sup>2</sup>	331,667 <sup>2</sup>
Subtotal Investment Expenses	<u>14,816,983</u>	<u>14,933,905</u>
Securities Lending Expenses	319,003	612,069
Total Investment Expenses	<u><u>\$ 15,135,986</u></u>	<u><u>\$ 15,545,974</u></u>

<sup>1</sup> Actuarial Valuation Fees are the fees for producing the Actuarial Valuation Report.

<sup>2</sup> Investment Legal Fees, Investment Consultant Fees, Custodian Service Fees, and Actuarial Valuation Fees can also be found on page 4J as Payments to Consultants.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF PAYMENTS TO CONSULTANTS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
Disability Attorney Fees	\$ 75,529	\$ 88,592
Retirement Board Attorney Fees	210,120	333,321
Disability Medical, Investigation, and Copying Fees	100,891	146,728
Other Professional Expenses	231,403	392,805
Audit Fees	54,820	55,180
Actuarial Consulting Fees (non-actuary study costs)	66,704	103,196
Actuarial Valuation Fees	165,000 <sup>1</sup>	61,000 <sup>1</sup>
Investment Legal Fees	53,582 <sup>1</sup>	91,368 <sup>1</sup>
Custodian Service Fees	116,903 <sup>1</sup>	124,805 <sup>1</sup>
Investment Consultant	341,679 <sup>1</sup>	331,667 <sup>1</sup>
Data Processing Fees	125,327	125,432
Total Payments to Consultants	\$ <u>1,541,958</u>	\$ <u>1,854,094</u>

Refer to page 58 for information on fees paid to investment managers.

<sup>1</sup> Investment Legal Fees, Investment Consultant Fees, Custodian Service Fees, and Actuarial Valuation Fees can also be found on page 41 as Investment Expenses.

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## INVESTMENT SECTION

September 28, 2012

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

### Performance Summary

The FCERA investment portfolio ("the Portfolio") encountered a challenging year for investment performance, generating a -0.5% return net of fees for the fiscal year ending June 30, 2012. This performance ranked FCERA in the 80<sup>th</sup> percentile in the BNY Mellon Trust Universes – Total Public Funds Universe ("BNY").

The main drivers of performance for the fiscal year were domestic and international equity markets, which encountered significant volatility prompted by concerns over the sustainability of central banks in the U.S. and in Europe; drawdowns were very pronounced in the third quarter of 2011 and the second quarter of 2012. Conversely, domestic and international equity markets experienced strong positive returns during the fourth quarter of 2011 and first quarter of 2012. This was driven by stronger-than-expected economic data, the debt ceiling being increased in the U.S., and a renewed sense of optimism that the fiscal challenges facing the European Union could be resolved. The polarizing and unusually volatile nature of global equity markets has proved to be a difficult environment for active management, as many managers struggled to keep pace with their benchmarks during the current period. Yields decreased across most fixed income sectors during the year, causing the asset class to be among the best performing, returning 7.5% as measured by the Barclays U.S. Aggregate Bond Index.

The Portfolio underperformed the Fund's Policy Index by 1.1% and underperformed the Median Public Fund in the BNY Universe benchmark by 1.6%. On a relative basis, the Portfolio ranked in the fourth quartile of its peer group. The allocations to U.S. equities and alternatives drove performance relative to the policy benchmark. The allocation to U.S. equities returned 1.6%, trailing the benchmark by 2.2%. The small cap value manager and large cap growth managers underperformed their benchmarks by significant margins. The private equity program trailed its benchmark for the fiscal year, returning 1.3% versus the policy benchmark of 6.5%. This discrepancy is partially explained by the inherent challenges in benchmarking this asset class as well as the lack of deal volume in private markets during the previous periods, causing a more prolonged J-Curve. Active management in international equity mitigated the extent of underperformance for the year. The relatively lower ranking within the peer universe is largely attributable to the Portfolio having a greater allocation to international equity than the median allocation; international equity was the Portfolio's worst performing asset class for the 12 months ending June 30, 2012.

For the last three years ending June 30, 2012, the Portfolio returned 12.1% net of fees on an annualized basis, outperforming the Policy benchmark by 1.0% and the Median Public Fund by 0.4%. These results ranked the Portfolio in the 37<sup>th</sup> percentile among its peers. Over the five-year period ending June 30, 2012, the Portfolio returned 2.2% net of fees, outperforming the Policy benchmark by 0.8% and the Median Public Fund by 0.3%. FCERA ranked in the 41<sup>st</sup> percentile over the five-year period. In computing individual manager returns Wurts & Associates employs the

industry standard approach of computing a time-weighted rate of return based on the market rate of return.

#### Plan Activity

Over the past fiscal year FCERA conducted prudent rebalancing to take advantage of market rallies in TIPS and equities. In September 2011, in response to decreased real yields in inflation-indexed bonds combined with attractive spreads in the high yield sector and more favorable valuations in international equity markets, the Plan conducted a rebalance of assets, reducing exposure to TIPS while increasing exposure to high yield and international equity. FCERA also funded an additional commitment of \$37 million to core real estate. In April of 2012 the Portfolio was rebalanced to reduce the overweight that resulted from strong first quarter performance in equity markets; assets were re-allocated to fixed income. In May of 2012 FCERA took additional steps to align the private equity allocation with Policy, making a \$15 million commitment to Oaktree Opportunities IX, L.P., a distressed debt fund.

Below is the policy asset allocation versus the actual allocation as of June 30, 2012.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Cash	0%	1.1%
Fixed Income	26%	29.8%
Large Cap Equity	24%	23.6%
Small Cap Equity	5%	4.5%
International Equity	24%	22.7%
Real Estate	6%	5.7%
Commodities	4%	3.1%
Private Equity	7%	6.2%
Hedge Funds	4%	3.3%

All of us here at Wurts & Associates appreciate the opportunity to assist the FCERA Board in meeting the Plan's investment objectives. We look forward to continuing to providing guidance to help navigate ever-changing capital markets.

Sincerely,



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:

- i 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.
- i 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.
- i 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 Results on page 51 are based on time-weighted rate of return using fair value and are annualized for three and five years. All other information is reported at fair value.

### **TARGET AND ACTUAL ASSET ALLOCATIONS AS OF JUNE 30, 2012**

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.

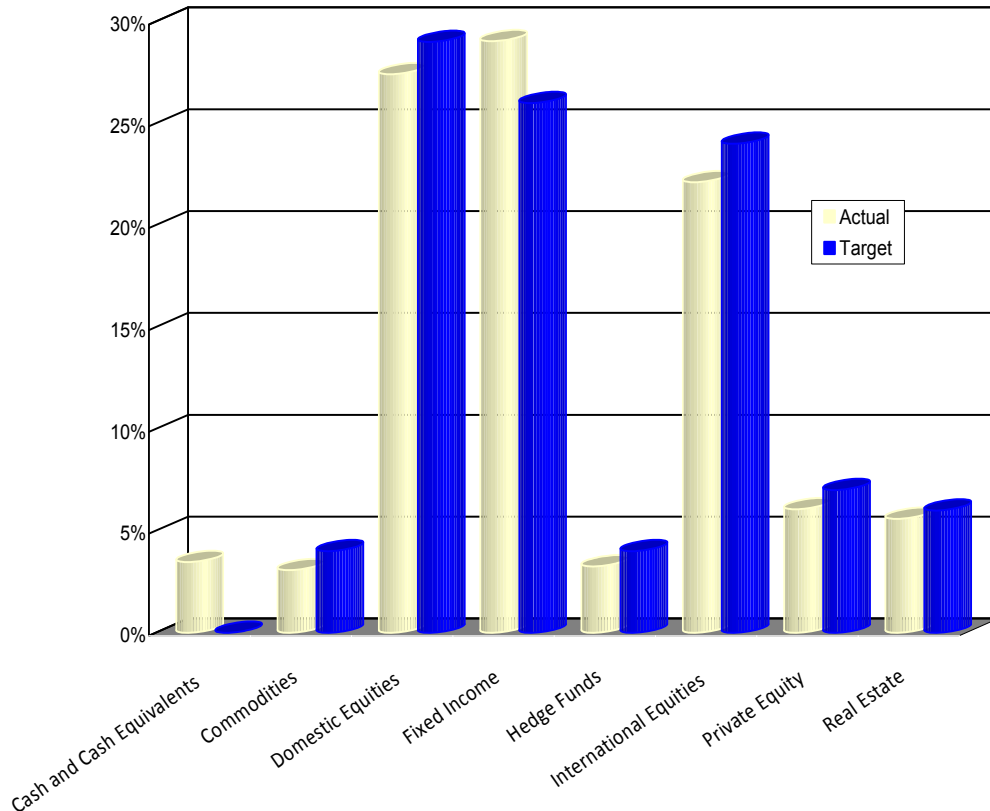
Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
TARGET AND ACTUAL ASSET ALLOCATIONS  
AS OF JUNE 30, 2012**

The information provided below and on subsequent pages is a representation of the Association's financial statements. Individually, they may not tie to the investment consultant's report on pages 51 to 52 of this Comprehensive Annual Financial Report (CAFR) due to the different reporting methodologies used by the investment consultant and the Association.

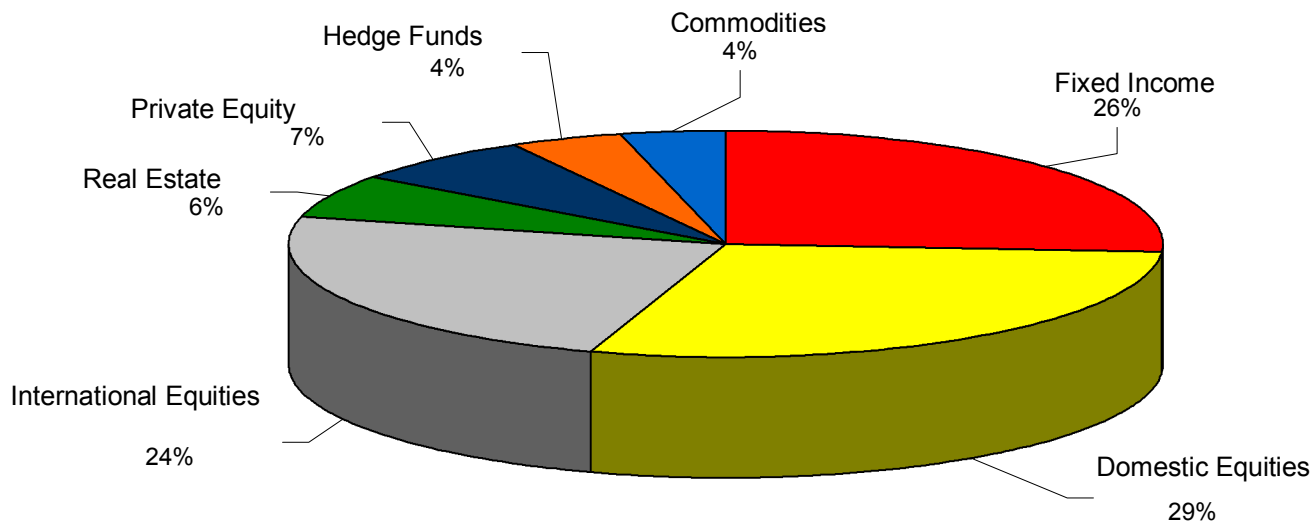
For example, the investment consultant reports cash held with investment managers as part of the investment manager's investment portfolio not as cash and cash equivalents as reported on the Investment Summary. Also, the Target Asset Allocation calls for all cash requirements of FCERA to be classified as Fixed Income. However, the Association's actual operating cash is reported separately in the Financial Statements and on the Investment Summary.

The 2011 - 2012 target and actual asset allocations are presented in the following graphs and charts:



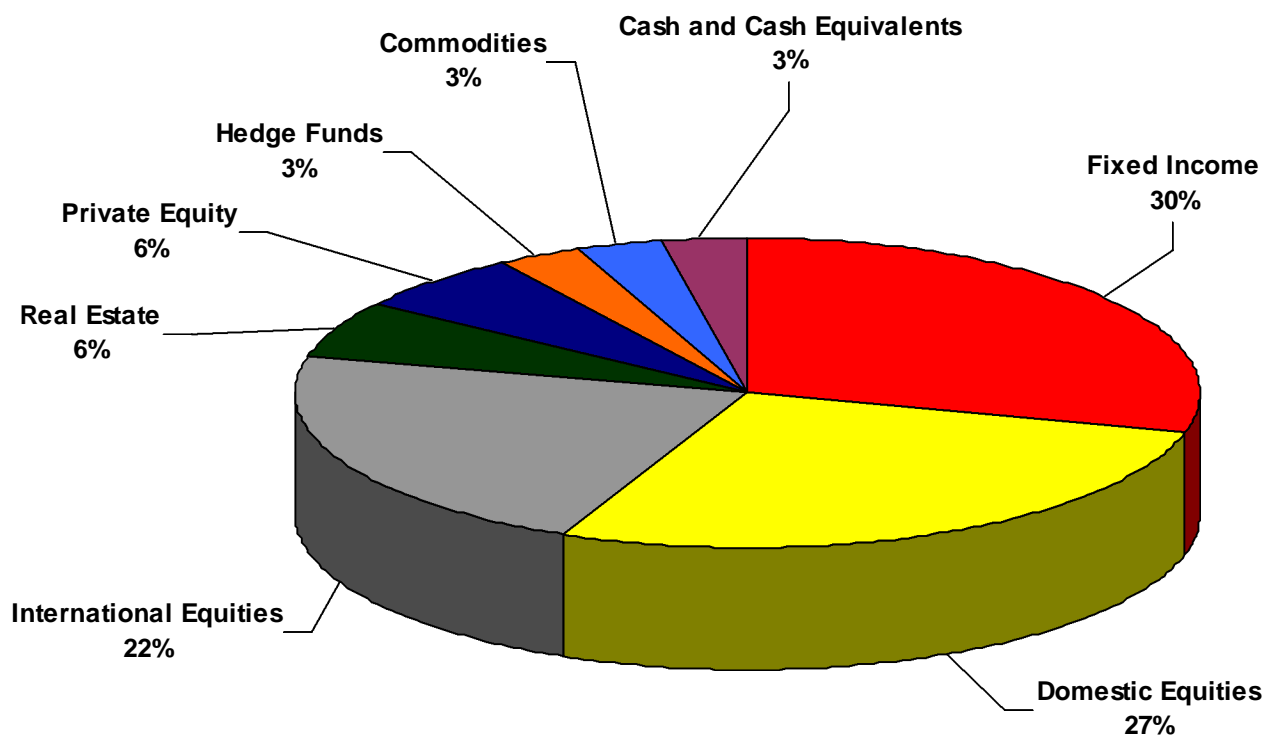
**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)  
AS OF JUNE 30, 2012**

**Target Percentage**



Note: Per Investment Policy the cash requirements of FCERA will be classified under Fixed Income.

**Actual Percentage**



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
INVESTMENT RESULTS  
AS OF JUNE 30, 2012**

<b>Investments</b>	<b>Current Year</b>	<b>3-Year Return</b>	<b>5-year Return</b>
<b>Fixed Income</b>			
Domestic	8.6%	10.3%	8.0%
Benchmark : BC Aggregate Index	7.5%	6.9%	6.8%
Domestic Opportunistic	4.8%	11.3%	0.0% <sup>1</sup>
Benchmark : BC Aggregate + 300 BPS	10.7%	10.1%	0.0%
TIPS Index Fund	11.6%	9.6%	0.0% <sup>1</sup>
BC US TIPS	11.7%	9.6%	0.0%
TALF Funds	-4.3%	0.0% <sup>1</sup>	0.0% <sup>1</sup>
Benchmark : BC Aggregate Index	7.5%	0.0%	0.0%
<b>Equities</b>			
Domestic Large Capital Value	2.5%	16.1%	-1.2%
Benchmark: Russell 1000 Value	3.0%	15.8%	-2.2%
Domestic Large Capital	5.5%	16.4%	0.3%
Benchmark: S & P 500 Index	5.4%	16.4%	0.2%
Domestic Large Capital Growth	2.2%	0.0% <sup>1</sup>	0.0% <sup>1</sup>
Benchmark: Russell 1000 Growth	5.8%	0.0%	0.0%
Domestic Small Capital Growth	-1.2%	22.9%	5.7%
Benchmark: Russell 2000 Growth	-2.7%	18.1%	2.0%
Domestic Small/Mid Capital Value	-5.3%	0.0% <sup>1</sup>	0.0% <sup>1</sup>
Benchmark : Russell 2500 Value	-1.5%	0.0%	0.0%
Emerging Markets Equity	-7.2%	12.5%	3.0%
Benchmark: MSCI Emerging Markets Free	-15.7%	10.1%	0.2%
International Equity	-14.5%	5.0%	-6.0%
Benchmark : MSCI EAFE	-13.4%	6.5%	-5.6%
International Equity Small Cap	-8.3%	0.0% <sup>1</sup>	0.0% <sup>1</sup>
Benchmark : S&P Developed ex US SC Index	-15.8%	0.0%	0.0%
<b>Private Markets</b>			
Real Estate	7.7%	7.5%	-1.0%
Benchmark : NCREIF Classic Property	12.0%	8.8%	2.5%
Hedge Funds	-0.3%	3.1%	-0.4%
Benchmark : HFRI FOF Composite Index	-4.4%	2.2%	-2.0%
Private Equity	1.3%	12.7%	2.9%
Benchmark : RUSS 3000 + 250 BP	6.5%	19.6%	2.9%
Commodities	-14.3%	0.0% <sup>1</sup>	0.0% <sup>1</sup>
Benchmark : DJ UBS Commodity TR Index	-14.3%	0.0%	0.0%
<b>Cash, Custodial and Investment Pool</b>			
Cash	0.1%	0.9%	1.7%
Benchmark: 90-Day Treasury Bill	0.1%	0.1%	0.8%
<b>Total Fund</b>	<b>-0.2%</b>	<b>12.5%</b>	<b>2.5%</b>

**Notes:**

Hedge Funds, Private Equity and Commodities are net of fees and lagged one quarter. Other investments are reported gross of fees. Investment results were prepared using a time-weighted rate of return based on the market rate of return.

<sup>1</sup> There were no 3-year or 5-year results available due to managers' mandates were funded between fiscal year 2005 to 2010.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENT SUMMARY**  
**AS OF JUNE 30, 2012**  
**(Amounts expressed in thousands)**

	Fair Value	Actual Percentages	Target Percentages
<b>Investments</b>			
Domestic Fixed Income <sup>1</sup>	\$ 489,495	15.47%	22.00%
Foreign Fixed Income	98,054	3.10%	0.00%
US Government and Agencies <sup>2</sup>	331,486	10.47%	4.00%
Total Fixed Income	919,035	29.04%	26.00%
Domestic Equities	851,342	26.90%	29.00%
International Equities	699,704	22.11%	24.00%
REITs	16,102	0.51%	0.00%
Total Equities	1,567,148	49.52%	53.00%
Private Markets and Alternatives			
Real Estate	176,769	5.58%	6.00%
Private Equity	191,699	6.06%	7.00%
Hedge Funds	103,122	3.26%	4.00%
Commodities	97,217	3.07%	4.00%
Total Investments	3,054,990	96.53%	100.00%
<b>Cash and Cash Equivalents</b>			
Cash Held in County Investment Pool	27,249	0.86%	0.00%
Cash Held in Checking Account	49	0.00%	0.00%
Short - Term Investment with Fiscal Agent	82,657	2.61%	0.00%
Total Cash and Cash Equivalents	109,955	3.47%	0.00%
<b>Total Investment, Cash and Cash Equivalents</b>	<u>\$ 3,164,945</u>	<u>100.00%</u>	<u>100.00%</u>

<sup>1</sup> Includes mortgages and TALF investments.

<sup>2</sup> Includes TIPS.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
AS OF JUNE 30, 2012**

**LARGEST FIXED INCOME HOLDINGS (By Fair Value)**

<b>Par</b>	<b>Name</b>	<b>Yield</b>	<b>Maturity Date</b>	<b>Fair Value</b>
\$ 3,070,150	WA MORTGAGE BACKED	4.420%	N/A	\$ 48,790,835
24,845,000	US TREASURY N/B	0.320%	04/30/2014	24,814,938
19,800,000	BRSF327Z5 IRS USD RF LIBOR	N/A	06/26/2014	19,800,000
13,470,000	US TREASURY N/B	0.720%	5/31/2017	13,407,903
12,685,000	US TREASURY N/B	1.080%	04/30/2019	12,825,677
11,399,642	FNMA 30YR 889579	1.490%	05/01/2038	12,568,219
10,800,000	BRSERFJL1 IRS USD RV LIBOR	N/A	05/10/2017	10,800,000
9,968,186	FNMA 30YR AE0949	1.080%	02/01/2041	10,625,986
10,160,000	BRSF1Z4C8 CDS USD RF LIBOR	N/A	06/20/2017	10,082,916
9,465,000	US TREASURY N/B	0.310%	01/31/2014	9,456,482
<u>\$ 125,662,978</u>	Total			<u>\$ 173,172,956</u>

**LARGEST EQUITY HOLDINGS (By Fair Value)**

<b>Shares</b>	<b>Name</b>	<b>Fair Value</b>
43,720	APPLE INC	\$ 25,532,480
164,688	EXXON MOBIL CORP	14,092,352
137,109	SAP AG COMMON	8,098,745
42,800	FANUC CORP	6,946,485
15,100	MASTERCARD INC CLASS A	6,494,661
115,800	STARBUCKS CORP	6,174,456
71,350	MONSANTO CO	5,906,353
257,400	BRIDGESTONE CORP	5,855,132
67,050	PHILIP MORRIS INTERNATIONAL	5,850,783
40,271	NOVO NORDISK A/S B	5,832,840
<u>955,288</u>	Total	<u>\$ 90,784,287</u>

A complete list of portfolio holdings is available upon request.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF FEES**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
<b>Investment Managers' Fees</b>		
Domestic Equity Managers:		
Aronson, Johnson & Ortiz, LP	\$ 451,827	\$ 432,562
INTECH	-	324,779
Kalmar Management	651,466	967,778
State Street Global Advisors	44,219	66,966
Systematic Financial Management	258,660	408,509
Waddell & Reed Investment Management	407,168	211,490
Wellington Management Company, LLP	464,975	455,139
Winslow Capital Management	404,364	214,955
Total Domestic Equity Managers	<u>2,682,679</u>	<u>3,082,178</u>
International Equity Managers:		
Mondrian Investment Partners	1,796,996	2,151,997
Oechsle International	1,279,567	917,846
Research Affiliates	140,515	23,057
Templeton Investment Council, Inc.	-	715,253
Total International Equity Managers	<u>3,217,078</u>	<u>3,808,153</u>
Domestic Fixed Income Managers:		
BlackRock Financial Management Inc.	432,283	351,394
Loomis Sayles	757,220	656,774
MetWest TALF	210,600	250,682
PIMCO TALF	-	102,869
Standish Mellon Asset Management Company, LLC	350,927	348,706
State Street TIPS Index Fund	30,740	27,731
Western Asset Management Company	239,850	340,164
Total Domestic Fixed Income Managers	<u>2,021,620</u>	<u>2,078,320</u>
Private Market Managers:		
Alternative Investments	3,086,738	3,503,362
Real Estate	1,829,390	1,480,411
Hedge Funds	1,272,837	-
Total Private Market Managers	<u>6,188,965</u>	<u>4,983,773</u>
<b>Total Investment Managers' Fees</b>	<u>\$ 14,110,342</u>	<u>\$ 13,952,424</u>
<b>Other Investment Expenses</b>		
Securities Lending	\$ 319,003	\$ 612,069
Due Diligence Travel	-	2,749
Custodian Service Fees	116,903	124,805
Actuarial Valuation Fees	165,000	61,000
Executive Office Operation	24,997	366,697
Futures Commission Expense	4,480	3,195
Consulting and Legal Fees	395,261	423,035
<b>Total Other Investment Expenses</b>	<u>\$ 1,025,644</u>	<u>\$ 1,593,550</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF COMMISSIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Abel Noser Corp.	514,400.00	\$ 6,687.20	0.0130	0.78%
Barclays Capital LE	2,566,733.00	37,203.23	0.0324	4.33%
BMO Capital Markets	41,560.00	1,503.40	0.0362	0.18%
BNP Paribas Brokerage Securities Inc.	569,665.00	5,098.16	0.0089	0.59%
BNY Brokerage	47,850.00	1,690.00	0.0353	0.20%
BNY Convergenx LJR	1,055,642.00	34,879.96	0.0330	4.06%
Buckingham Research Group Inc.	30,469.00	914.07	0.0300	0.11%
Canaccordgenuity Inc.	30,050.00	1,131.58	0.0377	0.13%
Cantor Fitzgerald & Co.	814,720.00	4,884.47	0.0060	0.57%
Citigroupglobal Markets Inc.	16,847,795.30	57,335.02	0.0034	6.68%
Cowen and Company LLC	241,595.00	9,037.23	0.0374	1.05%
Credit Suisse Securities (Europe) LTD	249,042.00	3,902.77	0.0157	0.45%
Credit Suisse Securities (USA) LLC	782,695,454.66	23,864.49	0.0000	2.78%
CSI US Institutional Desk	192,686.00	6,368.42	0.0331	0.74%
Daiwa Securities America Inc.	92,800.00	4,298.69	0.0463	0.50%
Deutsche Bank Securities Inc.	834,268,434.12	35,519.78	0.0000	4.14%
Dougherty Company	32,755.00	1,146.42	0.0350	0.13%
Evercore Group LLC	83,010.00	3,320.40	0.0400	0.39%
Friedman Billings & Ramsey	202,625.00	6,183.75	0.0305	0.72%
Goldman Sachs & Co.	643,993,415.41	99,422.57	0.0001	11.58%
Goldman Sachs International	2,654,617.00	9,942.13	0.0037	1.16%
Guggenheim Capital Markets LLC	34,245.00	1,184.80	0.0346	0.14%
Hibernia Southcoast Capital Inc.	50,070.00	1,748.46	0.0349	0.20%
Instinet	614,136.00	3,851.73	0.0063	0.45%
Instinet U.K. LTD	4,175,742.00	16,078.23	0.0039	1.87%
Investment Technology Group Inc.	2,442,511.00	30,010.32	0.0123	3.49%
ISI Group Inc.	566,914.00	12,042.37	0.0212	1.40%
J P Morgan Securities Inc.	89,721,177.00	38,333.90	0.0004	4.46%
Janney Montgomery, Scott Inc.	349,364.90	2,644.80	0.0076	0.31%
Jefferies & Company Inc.	17,834,841.80	5,399.29	0.0003	0.63%
JMP Securities	39,990.00	1,590.70	0.0398	0.19%
JNK Securities Inc.	104,600.00	2,292.00	0.0219	0.27%
Jones Trading Institutional Services LLC	32,550.00	976.50	0.0300	0.11%
Keefe Bruyette & Woods Inc.	57,710.00	2,177.40	0.0377	0.25%
Kepler Equities Paris	182,610.00	2,574.95	0.0141	0.30%
Keybanc Capital Markets Inc.	451,075.00	2,201.55	0.0049	0.26%
King, CI & Associates Inc.	75,450.00	1,131.77	0.0150	0.13%
Knight Direct LLC	784,658.00	6,335.18	0.0081	0.74%
Knight Equity Markets L.P.	162,360.00	5,455.56	0.0336	0.64%
Lazard Capital Markets LLC	302,400.00	2,029.00	0.0067	0.24%
Leerink Swann and Company	39,575.00	1,187.25	0.0300	0.14%
Liquid Net Inc.	2,481,337.00	36,284.69	0.0146	4.23%
Longbow Securities LLC	66,585.00	2,295.90	0.0345	0.27%
Macquarie Securities (USA) Inc.	97,405.00	3,918.45	0.0402	0.46%
Merrill Lynch Pierce Fenner & Smith Inc.	4,321,683.00	30,295.79	0.0070	3.53%
Merrill Lynch Professional Clearing Corp.	33,355.00	1,334.20	0.0400	0.16%

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF COMMISSIONS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Morgan Keegan & Co. Inc.	160,195.00	\$ 1,324.33	0.0083	0.15%
Morgan Stanley Co. Inc.	448,636,288.60	48,631.70	0.0001	5.66%
Needham & Company	290,365.00	9,142.53	0.0315	1.06%
Nomura Securities International Inc.	5,528,759.00	11,366.01	0.0021	1.32%
Oppenheimer & Co. Inc.	277,290.00	3,215.71	0.0116	0.37%
Pacific Crest Securities	134,785.00	4,149.55	0.0308	0.48%
Parel	43,757.00	1,278.16	0.0292	0.15%
Piper Jaffray	365,780.00	12,163.79	0.0333	1.42%
Pulse Trading LLC	202,043.00	2,550.43	0.0126	0.30%
Raymond James and Associates Inc.	157,050.00	5,784.76	0.0368	0.67%
RBC Capital Markets	27,431,352.70	17,095.20	0.0006	1.99%
Robert W. Baird Co. Inc.	798,671.74	10,820.97	0.0135	1.26%
Rochdale Sec Corp.(CLS Thru 443)	49,100.00	1,473.00	0.0300	0.17%
Rosenblatt Securities LLC	706,100.00	6,493.50	0.0092	0.76%
Sanford C. Bernstein Co. LLC	731,392.00	12,348.27	0.0169	1.44%
Scott & Stringfellow Inc.	197,995.00	1,659.58	0.0084	0.19%
Sg Americas Securities LLC	17,384,600.00	22,592.00	0.0013	2.63%
State Street Bank And Trust Co.	2,313,520.00	14,250.98	0.0062	1.66%
State Street Global Markets	22,118,020.75	11,117.39	0.0005	1.29%
Stephens Inc.	45,550.00	1,653.76	0.0363	0.19%
Sterne Agee & Leach Inc.	919,555.38	5,278.90	0.0057	0.62%
Stifel Nicolaus & Co Inc.	1,605,610.00	10,561.56	0.0066	1.23%
Suntrust Capital Markets Inc.	190,087.00	3,513.91	0.0185	0.41%
UBS	6,129.00	11,015.79	1.7973	1.28%
UBS Ag	3,489,749.25	7,509.33	0.0021	0.87%
UBS Securities LLC	105,936,454.53	22,272.54	0.0002	2.59%
Wedbush Morgan Securities Inc.	24,620.00	859.93	0.0349	0.10%
Weeden & Co.	51,110.00	1,417.40	0.0277	0.17%
Wells Fargo Securities LLC	2,014,321.00	6,245.28	0.0031	0.73%
William Blair & Company LLC	257,955.00	7,178.39	0.0278	0.84%
Other	114,607,449.46	16,003.95	0.0001	1.86%
	<u>3,168,923,318.60</u>	<u>\$ 858,677.13</u>	<u>0.0003</u>	<u>100.00%</u>

## ACTUARIAL SECTION



THE SEGAL COMPANY  
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308  
T 415.263.8200 F 415.263.8290 www.segalco.com

January 18, 2012

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

**Re: Actuarial Valuation for the Fresno County Employees' Retirement Association**

Dear Members of the Board:

The Segal Company prepared the June 30, 2011 actuarial valuation of the Fresno County Employees' Retirement Association. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

Our calculations are based upon member data and financial information provided to us by the Association's staff. As part of the June 30, 2011 actuarial valuation, The Segal Company (Segal) conducted an examination of these data and found them to be reasonably consistent and comparable with data used for other purposes. However, the scope of this examination does not qualify as an audit. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the market value of assets.

One of the general goals of an actuarial valuation is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL).



The UAAL is amortized as a level percentage of payroll over a declining 22-year period for the outstanding balance of the UAAL established as of the June 30, 2003 valuation and a separate 15-year period is used for new UAAL established on each subsequent valuation. Any increase in UAAL due to benefit improvements is amortized over 30 years. The progress being made towards meeting the funding objective through June 30, 2011 is illustrated in the Schedule of Funding Progress.

For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the Schedule of Funding Progress as shown in the Required Supplementary Information. A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the Association's CAFR is provided below:

1. Solvency test;
2. Actuarial Analysis of Financial Experience;
3. Schedule of Funding Progress;
4. Average Benefit Payments; and
5. Years of Life Expectancy After Service and Disability Retirement.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2009 Experience Analysis or in conjunction with the June 30, 2010 actuarial valuation. Note that the investment return assumption was developed without taking into consideration the impact of the Board's policy of utilizing excess earnings to provide contribution offsets and additional settlement and non-statutory benefits. It is our opinion that the assumptions used in the June 30, 2011 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2012.

In the June 30, 2011 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 72.9% to 73.5%. The employer's rate has increased from 43.79% of payroll to 46.10% of payroll, while the employee's rate has decreased from 8.81% of payroll to 8.80% of payroll.

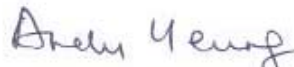
In the June 30, 2011 valuation, the actuarial value of assets included \$15.6 million in unrecognized deferred investment gains, which represented 0.5% of the market value of assets. This is a significant change compared to the total unrecognized investment losses of \$441.5 million as of June 30, 2010. These investment gains will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will help offset any investment losses that may occur after June 30, 2011.

The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President & Actuary



Andy Yeung, ASA, MAAA, FCA, EA  
Vice President & Associate Actuary

MYM/kek  
Enclosures

## 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 Unfunded Actuarial Accrued Liability (UAAL) established as of the June 30, 2003 valuation is being amortized over a declining 30-year period with 22 years remaining as of June 30, 2011. Any new UAAL established on each subsequent valuation after June 30, 2003 as a result of actuarial gains or losses and changes in actuarial assumptions is amortized over a separate 15-year declining period. The increase in UAAL due to benefit improvements is amortized over 30 years. 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, 2009. The actuarial valuation report as of June 30, 2011 was approved and adopted by the Fresno County Board of Retirement on December 7, 2011.

1. Investment Rate of Return: 7.75% per annum
2. Interest Credited to Employee Accounts: Nominal rate of 3.00% per annum, compounded semiannually
3. Inflation: 3.50% per annum
4. Salary Scale:
  - General Members: Salary increases range from 5.00% to 11.00% based on years of service (merit ranges from 1.00% to 7.00%; plus 3.50% inflation plus 0.50% "across the board" salary increase).
  - Safety Members: Salary increases range from 5.50% to 11.00% based on years of service (merit ranges from 1.50% to 7.00%; plus 3.50% inflation plus 0.50% "across the board" salary increase).
5. Asset Valuation: Smoothed market value
6. Spouses and Dependents: 80% of male active members and 55% 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 17.00%, depending on age, gender and service classification

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

8. Years of Life Expectancy After Retirement:
  - General Members: RP – 2000 Healthy Annuitant Mortality with adjustment for white collar workers set back two years
  - Safety Members: RP – 2000 Healthy Annuitant Mortality with adjustment for blue collar workers set back three years
9. Years of Life Expectancy After Disability: RP - 2000 Healthy Annuitant Mortality set forward four years for General members and back three years for Safety members
10. Life Expectancy After Retirement for Employee Contribution Rate Purposes:
  - General Members: RP - 2000 Healthy Annuitant Mortality with adjustment for white collar workers weighted 35% male and 65% female
  - Safety Members: RP - 2000 Healthy Annuitant Mortality with adjustment for blue collar workers weighted 80% male and 20% female
11. Reciprocity Assumption: 40% of General members and 60% of Safety 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. Service and Disability Retirements: Varies by tier of membership and by age
14. Gains & Losses: 22 years (declining) for UAAL established as of June 30, 2003 plus 15 years (declining) for UAAL and change in actuarial assumptions established on each subsequent valuation. The increase in UAAL due to benefit improvements is amortized over 30 years.

Note: Information compiled from Actuarial Report prepared by The Segal Company as of June 30, 2011. Please refer to page 43 for the latest actuarial valuation methods.

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

Valuation Date	Plan Type	Number	Annual Payroll (in thousands)	Average Monthly Salary	% Increase in Average Salary
6/30/2006	General Tier 1	6,559	\$ 310,007	\$ 3,938	6.6%
	General Tier 2	140	5,024	2,990	100.0%
	Safety Tier 1	973	60,661	5,195	8.5%
	Safety Tier 2	14	578	3,440	100.0%
	Total	7,686	\$ 376,270	4,080	4.8%
6/30/2007	General Tier 1	6,537	\$ 328,403	4,186	6.3%
	General Tier 2	300	10,965	3,046	1.9%
	Safety Tier 1	934	63,392	5,656	8.9%
	Safety Tier 2	31	1,516	4,075	18.5%
	Total	7,802	\$ 404,276	4,318	5.8%
6/30/2008	General Tier 1	6,117	\$ 329,751	4,492	7.3%
	General Tier 2	123	6,640	4,499	47.7%
	General Tier 3 <sup>1</sup>	547	19,601	2,986	100.0%
	Safety Tier 1	888	64,592	6,062	7.2%
	Safety Tier 2	65	3,499	4,486	10.0%
	Total	7,740	\$ 424,083	4,566	5.7%
6/30/2009	General Tier 1	5,723	\$ 318,409	4,636	3.2%
	General Tier 2	136	8,270	5,067	12.7%
	General Tier 3 <sup>1</sup>	630	24,554	3,248	8.7%
	Safety Tier 1	856	67,334	6,555	8.2%
	Safety Tier 2	62	3,952	5,312	18.4%
	Total	7,407	\$ 422,519	4,754	4.1%
6/30/2010	General Tier 1	5,371	\$ 308,147	4,781	3.1%
	General Tier 2	138	8,537	5,155	1.7%
	General Tier 3 <sup>1</sup>	625	26,057	3,474	7.0%
	Safety Tier 1	772	63,304	6,833	4.2%
	Safety Tier 2	40	2,816	5,867	10.5%
	Total	6,946	\$ 408,861	4,905	3.2%
6/30/2011	General Tier 1	5,079	\$ 295,831	4,854	1.5%
	General Tier 2	166	10,127	5,084	-1.4%
	General Tier 3 <sup>1</sup>	751	31,688	3,516	1.2%
	Safety Tier 1	729	58,645	6,703	-1.9%
	Safety Tier 2	38	2,685	5,888	0.3%
	Total	6,763	\$ 398,976	4,916	0.2%

<sup>1</sup> New benefit tier effective December 2007.

Note: Valuation data from June 30, 2006 on are compiled from annual Actuarial Reports prepared by The Segal Company.

**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	Allowances Added	Number Removed From Rolls	Allowances Removed	Number at End of Year	Annual Allowance (in thousands)	Percent Increase in Annual Allowance	Average Annual Allowance (in thousands)	Percent Increase in Average Annual Allowance
2006-07	4,610	315	N/A	146	N/A	4,779	\$ 130,568	8.60%	\$ 27	4.75%
2007-08	4,779	400	N/A	149	N/A	5,030	142,136	8.86%	28	3.44%
2008-09	5,030	393	\$ 7,370	140	\$ 1,051	5,283	154,794	8.91%	29	3.68%
2009-10	5,283	378	8,182	152	1,356	5,509	169,338	9.40%	31	4.91%
2010-11	5,509	414	9,022	154	1,827	5,769	180,063	6.33%	31	1.53%
2011-12	5,769	524	10,794	146	2,033	6,147	193,320	7.36%	31	0.77%

N/A = Data not available

**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 (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Unfunded AAL Percentage of Covered Payroll
June 30, 2006	\$ 2,398,454	\$ 2,803,990	\$ 405,536	85.5%	\$ 376,270	107.8%
June 30, 2007	2,610,269 <sup>1</sup>	3,149,570	539,301	82.9%	404,277	133.4%
June 30, 2008	2,812,423	3,429,990	617,567	82.0%	424,083	145.6%
June 30, 2009	2,864,956	3,644,743	779,787	78.6%	422,519	184.6%
June 30, 2010	2,983,044	4,092,464	1,109,420	72.9%	408,861	271.3%
June 30, 2011	3,114,483	4,237,961	1,123,478	73.5%	398,976	281.6%

<sup>1</sup> Assets decreased by \$3,169 for the net overpayment of member contributions discounted to June 30, 2007.

Source: Schedule provided by The Segal Company.

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

(Amounts expressed in thousands)

<b>Changes to UAAL</b>		<b>2011</b>
1	Unfunded actuarial accrued liability at beginning of year	\$ 1,109,420
2	Gross Normal Cost payable at middle of year	109,946
3	Actual employer and member contributions	(161,583)
4	Interest (full year on (1) plus half year on (2)+(3))	83,979
5	Expected unfunded actuarial accrued liability at end of year	1,141,762
6	Actuarial (gain)/loss due to all changes:	
	<u>Experience (gain)/loss</u>	
a.	Loss from investment return	86,508
b.	Lower than expected salary increases	(72,369)
c.	Lower than expected COLA increases	(42,861)
d.	Higher than expected liability for new retirees	9,792
e.	Reclassification of certain retirees to beneficiaries by the Association	(1,610)
f.	Other experience (gain)/loss	2,256
g.	Subtotal	(18,284)
7	Actual unfunded actuarial accrued liability at end of year (5)+(6g).	\$ 1,123,478

Note: Information provided by The Segal Company.

<b>Changes to UAAL</b>		<b>2010</b>
1	Unfunded actuarial accrued liability at beginning of year	\$ 779,787
2	Gross Normal Cost payable at middle of year	106,445
3	Actual employer and member contributions	(158,347)
4	Interest (full year on (1) plus half year on (2)+(3))	60,307
5	Expected unfunded actuarial accrued liability at end of year	788,192
6	Actuarial (gain)/loss due to all changes:	
	<u>Experience (gain)/loss</u>	
a.	Loss from investment return	105,575
b.	Lower than expected salary increases	(41,794)
c.	Lower than expected COLA increases	(41,269)
d.	Fewer retiree and beneficiary deaths than expected	10,106
e.	Other experience (gain)/loss	7,502
f.	Subtotal	40,120
	<u>Other Changes</u>	
g.	Change in actuarial assumptions	281,108
h.	Subtotal	281,108
7	Actual unfunded actuarial accrued liability at end of year (5)+(6f)+(6h).	\$ 1,109,420

Note: Information provided by The Segal Company.

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

(Amounts expressed in thousands)

Actuarial Accrued Liabilities (AAL) for					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active Member Contributions <sup>(a)</sup> (1)	Vested, Retirants and Beneficiaries (2)	Active Members Employer Financed (3)	Actuarial Value of Assets (AVA)	Active Member Contributions (1)	Vested, Retirants and Beneficiaries (2)	Active Members Employer Financed (3)
June 30, 2006	\$ 301,758	\$ 1,515,599	\$ 986,633	\$ 2,398,454	100%	100%	59%
June 30, 2007	330,610	1,710,524	1,108,436	2,610,269 (b)	100%	100%	51%
June 30, 2008	335,820	1,895,024	1,199,146	2,812,423	100%	100%	48%
June 30, 2009	356,159	2,055,024	1,233,560	2,864,956	100%	100%	37%
June 30, 2010	370,623	2,365,220	1,356,621	2,983,044	100%	100%	18%
June 30, 2011	379,029	2,486,960	1,371,972	3,114,483	100%	100%	18%

(a) Equal to the total balance (in market value) of the reserve account maintained for member contributions.

(b) Assets decreased by \$3,169 for the net overpayment of member contributions discounted to June 30, 2007.

Source: Information provided by The Segal Company.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE**  
(Amounts expressed in thousands)

<b>Age</b>	<b>Total Terminations</b>	<b>Ordinary Death <sup>1</sup></b>	<b>Total Disability <sup>2</sup></b>
<b>General Members - Male</b>			
20	0.06000	0.00000	0.00010
30	0.05400	0.00040	0.00020
40	0.04350	0.00080	0.00050
50	0.03700	0.00170	0.00280
60	0.03000	0.00450	0.00760
<b>General Members - Female</b>			
20	0.07500	0.00000	0.00010
30	0.07200	0.00020	0.00020
40	0.04700	0.00060	0.00100
50	0.03700	0.00130	0.00190
60	0.03000	0.00370	0.00420
<b>Safety Members - Male</b>			
20	0.04000	0.00000	0.00010
30	0.03700	0.00040	0.00240
40	0.02700	0.00120	0.00560
50	0.01000	0.00200	0.00940
60	0.00000	0.00560	0.01200
<b>Safety Members - Female</b>			
20	0.04000	0.00000	0.00010
30	0.03700	0.00020	0.00240
40	0.02700	0.00060	0.00560
50	0.01000	0.00160	0.00940
60	0.00000	0.00340	0.01200

<sup>1</sup> All pre-retirement deaths are assumed to be non-service connected.

<sup>2</sup> One-third of General disabilities are assumed to be duty disabilities. The other two-third are assumed to be ordinary disabilities. 100% of Safety disabilities are assumed to be by duty disabilities.

Note: Information compiled from Actuarial Report prepared by The Segal Company dated June 30, 2011. Assumptions for separation from active service are based on combined tiers with the exception of service retirement.

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

Age	Service Retirement
-----	--------------------

**General Tier 1 - Male**

50	0.03000
55	0.09000
60	0.30000
65	0.40000
70	1.00000

**General Tier 1 - Female**

50	0.04000
55	0.10000
60	0.18000
65	0.35000
70	1.00000

**General Tier 2 - Male and Female**

50	0.03000
55	0.08400
60	0.15000
65	0.35000
70	1.00000

**General Tier 3 - Male and Female**

50	0.03000
55	0.08400
60	0.19200
65	0.43300
70	1.00000

**Safety Tiers 1 and 2 - Male and Female**

50	0.05000
55	0.35000
60	1.00000
65	1.00000
70	1.00000

Note: Information compiled from Actuarial Report prepared by The Segal Company dated June 30, 2011. Assumptions for separation from active service are based on combined tiers with the exception of service retirement.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**PROPORTION OF WITHDRAWALS FROM ACTIVE SERVICE**  
(current assumptions)

<b>Years of Service</b>	<b>Refunds</b>	<b>Deferred Vested</b>
0	90.00%	10.00%
1	90.00%	10.00%
2	90.00%	10.00%
3	90.00%	10.00%
4	90.00%	10.00%
5	30.00%	70.00%
6	30.00%	70.00%
7	30.00%	70.00%
8	30.00%	70.00%
9	30.00%	70.00%
10	30.00%	70.00%
11	30.00%	70.00%
12	30.00%	70.00%
13	30.00%	70.00%
14	30.00%	70.00%
15	30.00%	70.00%
16	30.00%	70.00%
17	30.00%	70.00%
18	30.00%	70.00%
19	30.00%	70.00%
20 or more	30.00%	70.00%

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 The Segal Company dated June 30, 2011.

**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	33.00
60	23.80
70	15.40
80	8.60
90	4.00
100	1.90
110	1.50
<b>General Members - Female</b>	
50	35.60
60	26.30
70	17.70
80	10.60
90	5.50
100	3.00
110	1.80
<b>Safety Members - Male</b>	
50	32.00
60	22.80
70	14.80
80	8.60
90	4.30
100	2.10
110	1.50
<b>Safety Members - Female</b>	
50	35.30
60	26.00
70	17.50
80	10.60
90	5.60
100	3.20
110	1.90

Note: Information provided by The Segal Company.

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

<b>Age</b>		<b>Years of Life Expectancy</b>	
<b>General Members</b>		<b>Male</b>	<b>Female</b>
20		56.30	59.00
30		46.50	49.20
40		36.80	39.40
50		27.40	29.90
60		18.60	21.00
70		11.10	13.30
80		5.60	7.30
90		2.50	3.70
100		1.50	2.30
110		1.40	1.40
<b>Safety Members</b>		<b>Male</b>	<b>Female</b>
20		60.90	64.60
30		51.10	54.70
40		41.50	44.90
50		32.00	35.30
60		22.80	26.00
70		14.80	17.50
80		8.60	10.60
90		4.30	5.60
100		2.10	3.20
110		1.50	1.90

Note: Information provided by The Segal Company.

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

### **1. ELIGIBILITY**

First day of pay period following date of employment.

### **2. DEFINITION OF SALARY**

- i Tier 1 and 2  
Highest 365 consecutive days of compensation earnable.
- i Tier 3 and 4  
Highest three-year average final compensation earnable.

### **3. SERVICE RETIREMENT**

- i Tier 1  
General offers 2.5% at age 55, Government Code Sections 31676.12, 31676.14 and 31627.  
Safety offers 2.5% at age 50, Government Code Sections 31664 and 31627.
- i Tier 2  
General offers 2% at age 55, Government Code Section 31676.16.  
Safety offers 2.29% at age 50, Government Code Section 31664.2.
- i Tier 3  
General offers 2% at age 55, Government Code Section 31676.15.
- i Tier 4  
General offers 1.67% at age 57 ½ or 2% at age 61 ¼, Government Code Section 31676.1.  
Safety offers 2% at age 50, Government Code Section 31664.
- i 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.

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

i Benefit

2.5% times final average salary per year of service for General and Safety Tier 1.

2.0% times final average salary per year of service for General Tier 2 and Tier 3.

2.29% times final average salary per year of service for Safety Tier 2.

1.67% times final average salary per year of service for General Tier 4.

2% times final average salary per year of service for Safety Tier 4.

i Benefit Adjustments

Reduced for retirement before age 55 and age 50 for General and Safety Tier 1, respectively; 2.5% benefit formulas.

Increased for retirement after age 55 and age 50 for General and Safety Tier 1, respectively; 2.5% benefit formulas respectively.

Reduced for retirement before age 55 for General Tier 2 and 3, and increased after age 55; 2.0% benefit formulas.

Increased for retirement after age 50 for Safety Tier 2 and reduced before age 50; 2.29% benefit formulas.

Increased for retirement after age 61  $\frac{1}{4}$  for General Tier 4.  
Increased retirement after age 50 for Safety Tier 4. No COLA's granted to retirees in Tier 4.

**4. DISABILITY RETIREMENT**

i Non-service connected

1.5% for General and 1.8% for Safety of final average salary per year of service, with a maximum of 33.33% if projected

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

i Non-service connected (Continued)

service is used (age 65 for General, age 55 for Safety), or service retirement benefit (if eligible).

i Service-connected

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

**5. DEATH BEFORE RETIREMENT**

i Refund of contributions plus 1/12th of monthly salary per year of service, maximum of six months' salary.

i If eligible for non-service connected disability or service retirement

- 60% of member's accrued allowance.

i If service-connected

- 50% of final compensation or 100% of service retirement, if eligible.

**6. DEATH AFTER RETIREMENT**

i Service retirement or ordinary disability

- 60% of member's allowance payable to an eligible spouse.

i Service disability

- 100% of member's allowance payable to an eligible spouse.

**7. VESTING**

i After five years of service.

i Must leave contributions on deposit.

**8. MEMBERS' CONTRIBUTIONS**

Based on entry age.

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

**9. COST OF LIVING**

Maximum 3% COLA for members enrolled in Tiers 1, 2, 3. No COLA for members enrolled in Tier 4<sup>1</sup>.

<sup>1</sup> Modified as a result of new tier adopted by the County Board of Supervisors.

Note: Information for the Summary of Major Plan Provisions was compiled from the Actuarial Report prepared by The Segal Company dated June 30, 2011.

## STATISTICAL SECTION

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**TABLE OF CHANGES IN PLAN NET ASSETS**  
**Fiscal Years Ended 2003 through 2012**  
(Amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Additions</b>										
Employer Contributions	\$ 33,583	\$ 442,950 <sup>1</sup>	\$ 56,343	\$ 56,664	\$ 69,997	\$ 97,305	\$ 113,959	\$ 126,138	\$ 130,290	\$ 157,869
Member Contributions	19,974	18,239	24,261	30,570	33,528	30,272	34,562	32,209	31,293	32,627
Net Investment Income/(Loss)	27,390 <sup>3</sup>	238,877	235,406	229,767	442,355	(186,911)	(451,499)	341,439	605,422	(10,242)
<b>Total Additions</b>	<b>80,947 <sup>3</sup></b>	<b>700,066</b>	<b>316,010</b>	<b>317,001</b>	<b>545,880</b>	<b>(59,334)</b>	<b>(302,978)</b>	<b>499,786</b>	<b>767,005</b>	<b>180,254</b>
<b>Deductions <sup>2</sup></b>										
Total Benefit Expense	92,887	107,052	115,129	120,993	131,480	143,072	155,783	169,526	180,363	193,535
Administrative Expense	2,059	2,001	2,484	2,865	3,298	3,569	3,855	3,570	4,108	3,597
Refunds	904	941	1,403	1,185	2,114	6,072	2,077	1,915	2,044	1,786
<b>Total Deductions</b>	<b>95,850</b>	<b>109,994</b>	<b>119,016</b>	<b>125,043</b>	<b>136,892</b>	<b>152,713</b>	<b>161,715</b>	<b>175,011</b>	<b>186,515</b>	<b>198,918</b>
<b>Change in Plan Net Assets</b>	<b>\$ (14,903)</b>	<b>\$ 590,072</b>	<b>\$ 196,994</b>	<b>\$ 191,958</b>	<b>\$ 408,988</b>	<b>\$ (212,047)</b>	<b>\$ (464,693)</b>	<b>\$ 324,775</b>	<b>\$ 580,490</b>	<b>\$ (18,664)</b>

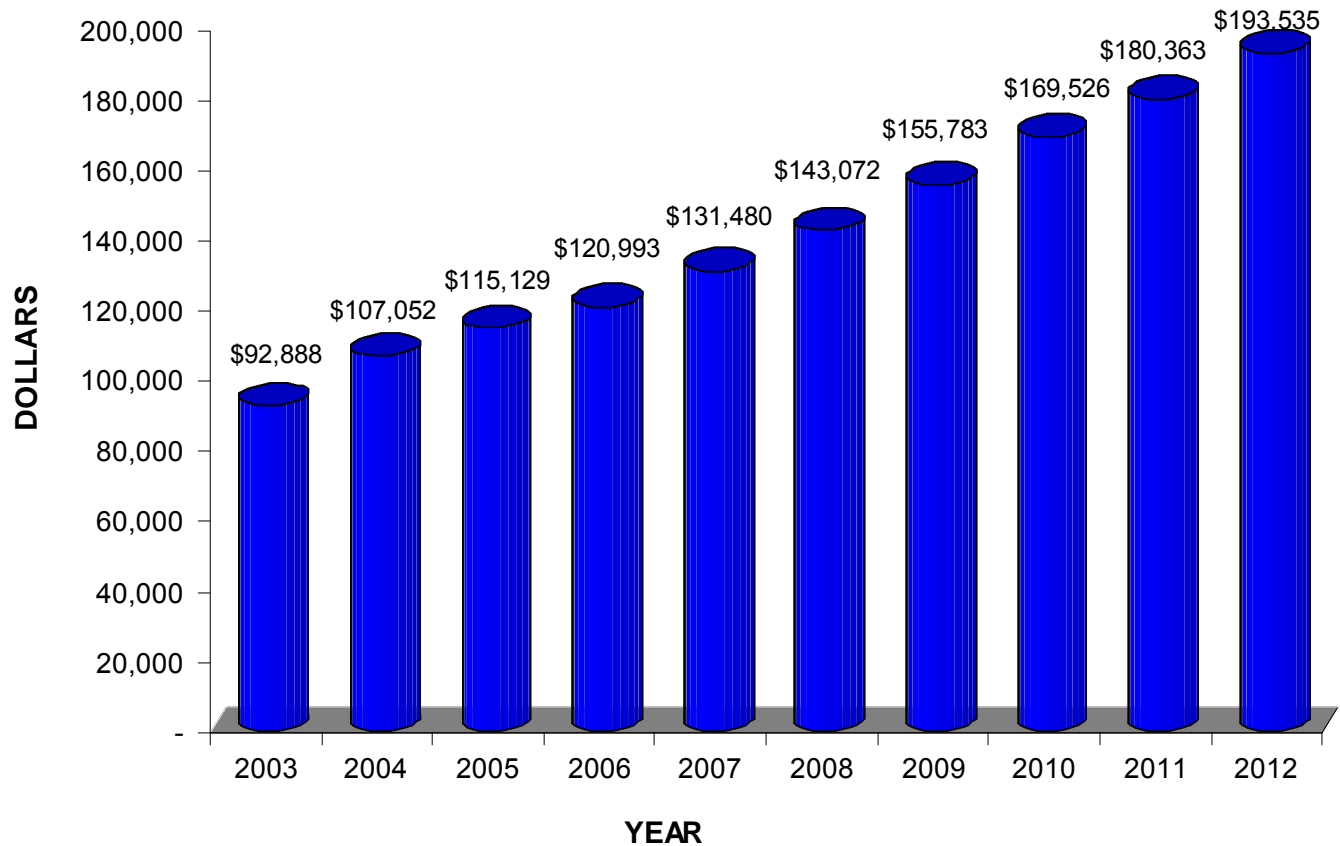
<sup>1</sup> Includes proceeds from Pension Obligation Bonds.

<sup>2</sup> See page 89 for detailed information on Benefit and Refund deductions by type.

<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)

YEAR-END	SERVICE		SURVIVOR		DISABILITIES		TOTAL <sup>1</sup>
	GENERAL	SAFETY	GENERAL	SAFETY	GENERAL	SAFETY	
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
2007	100,807	20,542	\$ 1,369	446	\$ 3,952 <sup>2</sup>	\$ 4,364 <sup>2</sup>	131,480
2008	110,819	21,074	1,312	459	4,489	4,919	143,072
2009	120,975	23,014	1,398	470	4,771	5,155	155,783
2010	131,465	24,758	1,392	536	5,015	6,360	169,526
2011	139,412	26,584	1,548	703	5,655	6,461	180,363
2012	151,022	28,698	1,899	741	4,883	6,292	193,535

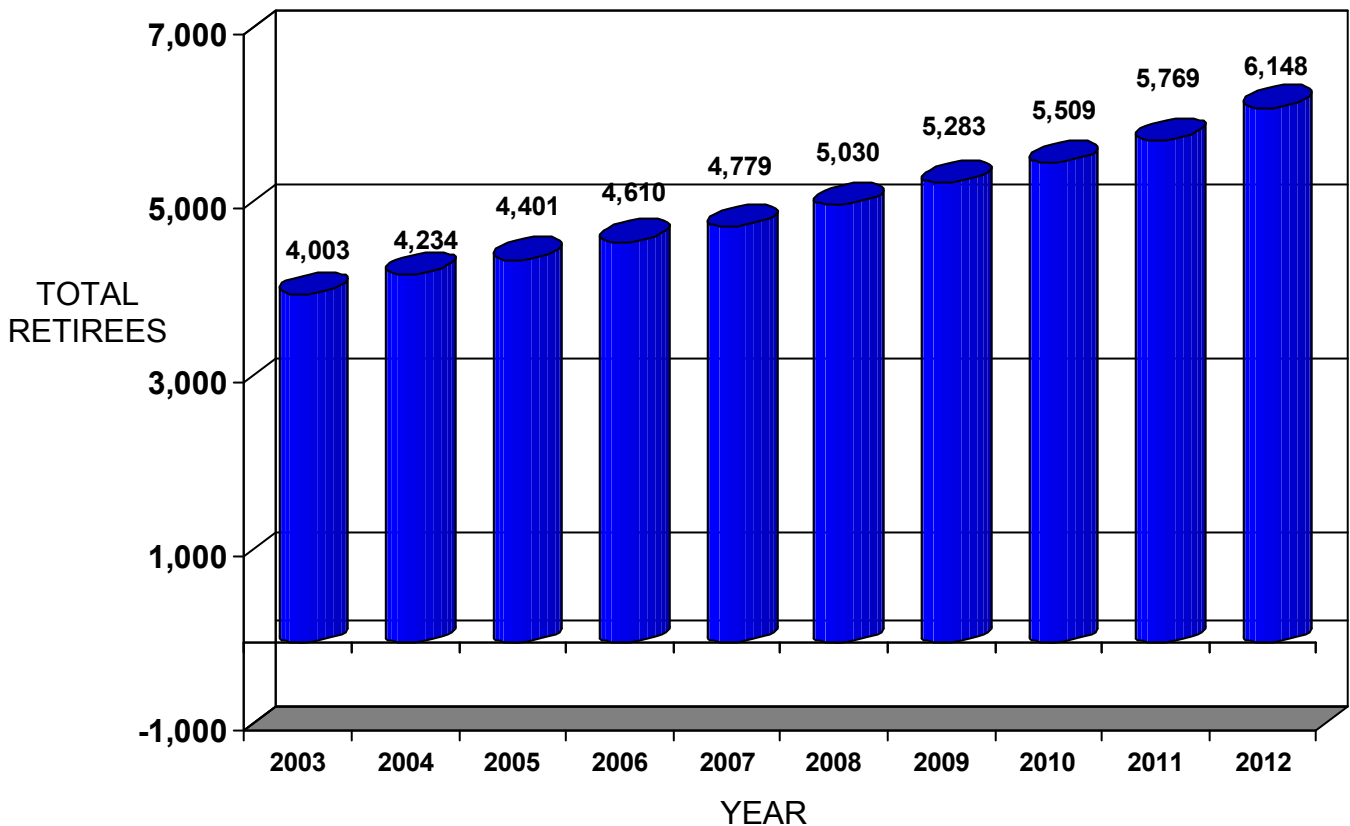


<sup>1</sup> Total Benefit Expenses are the actual expenses paid and will not equal Total Average Annual Benefits reported on page 84.

<sup>2</sup> Effective fiscal year ended June 30, 2007, Disability Benefit Expenses are reported separately from Service Retirement Benefit Expenses.

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

<b>YEAR-END</b>	<b>GENERAL</b>	<b>SAFETY</b>	<b>SURVIVOR</b>	<b>TOTAL</b>
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
2007	4,094	591	94	4,779
2008	4,303	631	96	5,030
2009	4,519	663	101	5,283
2010	4,705	702	102	5,509
2011	4,937	733	99	5,769
2012	5,276	772	100	6,148



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

<b>Valuation Date <sup>4</sup></b>	<b>Plan Type</b>	<b>Annual <sup>3</sup> Number</b>	<b>Total Average <sup>2</sup> Annual Benefits</b>	<b>Annual Average Benefits</b>	<b>Average Monthly Benefits</b>	<b>% Change in Average Benefits</b>
6/30/2003 <sup>1</sup>	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%
	Total	<u>4,025</u>	<u>\$ 94,126,704</u>	<u>\$ 23,386</u>	<u>\$ 1,948.79</u>	5.0%
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%
	Total	<u>4,331</u>	<u>\$ 108,718,800</u>	<u>\$ 25,102</u>	<u>\$ 2,091.87</u>	7.3%
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%
	Total	<u>4,418</u>	<u>\$ 110,461,020</u>	<u>\$ 25,002</u>	<u>\$ 2,083.54</u>	-0.4%
6/30/2006	General	4,020	\$ 97,474,788	\$ 24,247	\$ 2,020.62	4.4%
	Safety	559	21,225,900	37,971	3,164.25	-3.2%
	Total	<u>4,579</u>	<u>\$ 118,700,688</u>	<u>\$ 25,923</u>	<u>\$ 2,160.24</u>	3.7%
6/30/2007	General Tier 1	4,224	\$ 106,296,432	\$ 25,165	\$ 2,097.07	3.8%
	General Tier 2	2	69,984	34,992	2,916.00	N/A
	Safety Tier 1	605	23,674,392	39,131	3,260.94	3.1%
	Total	<u>4,831</u>	<u>\$ 130,040,808</u>	<u>\$ 26,918</u>	<u>\$ 2,243.17</u>	3.8%
6/30/2008	General Tier 1	4,405	\$ 116,801,232	\$ 26,516	\$ 2,209.63	5.4%
	General Tier 2	2	72,600	36,300	3,025.00	3.7%
	Safety Tier 1	639	26,198,856	41,000	3,416.65	4.8%
	Total	<u>5,046</u>	<u>\$ 143,072,688</u>	<u>\$ 28,354</u>	<u>\$ 2,362.81</u>	5.3%
6/30/2009	General Tier 1	4,481	\$ 128,267,304	\$ 28,625	\$ 2,385.39	7.9%
	General Tier 2	-	-	-	-	N/A
	Safety Tier 1	672	28,448,568	42,334	3,527.85	3.3%
	Total	<u>5,153</u>	<u>\$ 156,715,872</u>	<u>\$ 30,413</u>	<u>\$ 2,534.38</u>	7.3%
6/30/2010	General Tier 1	4,908	\$ 137,157,624	\$ 27,946	\$ 2,328.81	-2.4%
	General Tier 2	5	151,680	30,336	2,528.00	N/A
	General Tier 3	1	39,480	39,480	3,290.00	N/A
	Safety Tier 1	722	31,247,496	43,279	3,606.59	2.2%
	Total	<u>5,636</u>	<u>\$ 168,596,280</u>	<u>\$ 29,914</u>	<u>\$ 2,492.85</u>	-1.6%
6/30/2011	General Tier 1	5,118	\$ 145,020,096	\$ 28,335	\$ 2,361.28	1.4%
	General Tier 2	5	124,080	24,816	2,068.00	-18.2%
	General Tier 3	2	42,960	21,480	1,790.00	-45.6%
	Safety Tier 1	762	33,218,904	43,594	3,632.86	0.7%
	Total	<u>5,887</u>	<u>\$ 178,406,040</u>	<u>\$ 30,305</u>	<u>\$ 2,525.42</u>	1.3%

<sup>1</sup> Source: Annual actuary reports commencing June 30, 2003.

<sup>2</sup> Total Average Annual Benefits will not equal the Actual Total Benefit Expense reported on page 82.

<sup>3</sup> Total Annual Membership provided by the Actuary will not equal the Actual Membership reported on page 83.

<sup>4</sup> FCERA will display nine years of valuation data at June 30, 2012 rather than display ten years due to Biennial Actuary reporting prior to June 30, 2003.

Note: See page 81 for information organized by years of credited service in five year increments.

Note: Effective with fiscal year ended June 30, 2007 the schedule has been expanded to display membership by benefit tier.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF AVERAGE BENEFIT PAYMENTS BY YEARS OF CREDITED SERVICE**

Retirement Effective Date	Years of Credited Service						
	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30 and over</u>
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	\$699	\$1,489	\$1,847	\$2,881	\$3,140	\$5,237	\$5,703
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	16	47	63	57	58	29	40
Period 7/1/2009 to 6/30/2010							
Average monthly benefit	\$706	\$1,144	\$1,860	\$2,996	\$3,793	\$4,692	\$5,674
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	18	44	69	46	54	39	58
Period 7/1/2008 to 6/30/2009							
Average monthly benefit	\$539	\$1,116	\$1,772	\$2,643	\$3,746	\$4,489	\$5,937
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	11	51	75	59	50	34	54
Period 7/1/2007 to 6/30/2008							
Average monthly benefit	\$502	\$1,365	\$1,865	\$2,668	\$3,280	\$4,657	\$6,170
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	15	27	52	62	42	41	54
Period 7/1/2006 to 6/30/2007							
Average monthly benefit	\$332	\$967	\$1,525	\$2,235	\$2,642	\$4,266	\$5,325
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	7	26	58	47	33	33	51
Period 7/1/2005 to 6/30/2006							
Average monthly benefit	\$474	\$846	\$1,754	\$2,531	\$2,518	\$4,146	\$4,841
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	10	34	59	65	31	28	40
Period 7/1/2004 to 6/30/2005							
Average monthly benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Period 7/1/2003 to 6/30/2004							
Average monthly benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Period 7/1/2002 to 6/30/2003							
Average monthly benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Period 7/1/2001 to 6/30/2002							
Average monthly benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: N/A means that information is not available.

Note: Data for average monthly benefit, final average salary, and number of retired members will be available for years beginning July 1, 2005.

Source: Information provided by The Segal Company.

**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>
6/30/2003	General	3,600	3,054	6,654	
	Safety	605	328	933	
	Total	<u>4,205</u>	<u>3,382</u>	<u>7,587</u>	<u>1,376</u>
6/30/2004	General	3,385	3,242	6,627	
	Safety	581	345	926	
	Total	<u>3,966</u>	<u>3,587</u>	<u>7,553</u>	<u>1,378</u>
6/30/2005	General	4,203	2,537	6,740	
	Safety	664	303	967	
	Total	<u>4,867</u>	<u>2,840</u>	<u>7,707</u>	<u>1,464</u>
6/30/2006	General	4,535	2,144	6,679	
	Safety	710	287	997	
	Total	<u>5,245</u>	<u>2,431</u>	<u>7,676</u>	<u>1,514</u>
6/30/2007	General	4,707	2,108	6,815	1,465
	Safety	723	284	1,007	133
	Total	<u>5,430</u>	<u>2,392</u>	<u>7,822</u>	<u>1,598</u>
6/30/2008	General	4,596	2,133	6,729	1,466
	Safety	725	232	957	139
	Total	<u>5,321</u>	<u>2,365</u>	<u>7,686</u>	<u>1,605</u>
6/30/2009	General	4,476	1,967	6,443	1,403
	Safety	718	204	922	130
	Total	<u>5,194</u>	<u>2,171</u>	<u>7,365</u>	<u>1,533</u>
6/30/2010	General	4,536	1,568	6,104	1,379
	Safety	733	79	812	136
	Total	<u>5,269</u>	<u>1,647</u>	<u>6,916</u>	<u>1,515</u>
6/30/2011	General	4,581	1,374	5,955	1,325
	Safety	732	37	769	126
	Total	<u>5,313</u>	<u>1,411</u>	<u>6,724</u>	<u>1,451</u>
6/30/2012	General	4,605	1,259	5,864	1,289
	Safety	709	71	780	126
	Total	<u>5,314</u>	<u>1,330</u>	<u>6,644</u>	<u>1,415</u>

Note: Effective with fiscal year ended June 30, 2007, Deferred Members column is classified between General and Safety.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS**  
**Current Year and Nine Years Ago**

	<b>2012</b>			<b>2003</b>		
<b><u>Participating Employers</u></b>	<b><u>Covered Employees</u></b>	<b><u>Rank</u></b>	<b><u>Percent of Total System</u></b>	<b><u>Covered Employees</u></b>	<b><u>Rank</u></b>	<b><u>Percent of Total System</u></b>
County of Fresno	6,156	1	92.66%	7,489	1	98.71%
Superior Court County of Fresno**	447	2	6.73%	-		0.00%
Fresno-Madera Area Agency on Aging	28	3	0.42%	36	3	0.48%
Clovis Veterans Memorial District	8	4	0.12%	4	5	0.05%
Fresno Mosquito and Vector Control	5	5	0.07%	10	4	0.13%
Fresno County Office of Education	-	-	0.00%	1	6	0.01%
North Central Fire Protection District	-	-	0.00%	47	2	0.62%
Total	<u>6,644</u>		<u>100.00%</u>	<u>7,587</u>		<u>100.00%</u>

Note: See page 81 Schedule of Participating Employers and Active Members for covered employees from 2003 through 2012.

\*\*On December 11, 2011 the Superior Court separated from the County of Fresno as a separate employer group.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>County of Fresno</b>										
General Members	5,376	5,912	6,059	6,395	6,681	6,762	6,623	6,684	6,571	6,596
Safety Members	780	769	812	922	957	968	957	927	889	893
Total	6,156	6,681	6,871	7,317	7,638	7,730	7,580	7,611	7,460	7,489
<b>Participating Agencies (General Members)</b>										
Clovis Veterans Memorial District	8	8	8	9	8	5	6	4	3	4
Fresno County Office of Education	-	-	-	-	-	-	-	1	1	1
Fresno Mosquito and Vector Control	5	5	6	8	7	8	8	9	9	10
Fresno-Madera Area Agency on Aging	28	30	31	31	33	35	37	36	36	36
North Central Fire Protection	-	-	-	-	-	5	5	6	7	7
Superior Court County of Fresno**	447	-	-	-	-	-	-	-	-	-
Total	488	43	45	48	48	53	56	56	56	58
<b>Participating Agencies (Safety Members)</b>										
North Central Fire Protection	-	-	-	-	-	39	40	40	37	40
Total	0	0	0	0	0	39	40	40	37	40
<b>Total Active Members</b>										
General Members	5,864	5,955	6,104	6,443	6,729	6,815	6,679	6,740	6,627	6,654
Safety Members	780	769	812	922	957	1,007	997	967	926	933
Total	6,644	6,724	6,916	7,365	7,686	7,822	7,676	7,707	7,553	7,587

Note: North Central Fire Protection District withdrew active membership from the Retirement Plan as of August 31, 2007.

\*\*On December 11, 2011 the Superior Court separated from the County of Fresno as a separate employer group.

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

<b>Effective Dates</b>			<b>General</b>			<b>Safety</b>		<b>Actuarial Report for Year Ended</b>	
			<b>Tier 1</b>	<b>Tier 2<sup>2</sup></b>	<b>Tier 3<sup>3</sup></b>	<b>Tier 1</b>	<b>Tier 2<sup>2</sup></b>		
68	July 1, 2011	to June 30, 2012	41.03%	38.78%	37.42%	61.25%	60.26%	06/30/10	<sup>1</sup>
	July 1, 2010	to June 30, 2011	31.47%	29.48%	28.08%	47.40%	46.24%	06/30/09	<sup>1</sup>
	July 1, 2009	to June 30, 2010	27.82%	25.64%	24.36%	42.19%	41.21%	06/30/08	<sup>1</sup>
	July 1, 2008	to June 30, 2009	26.71%	24.86%	22.86%	38.56%	35.84%	06/30/07	<sup>1</sup>
	July 1, 2007	to June 30, 2008	23.36%	21.15%	21.80%	31.34%	29.37%	06/30/06	<sup>1</sup>
	July 1, 2006	to June 30, 2007	18.37%	N/A	N/A	20.76%	N/A	06/30/05	<sup>1</sup>
	July 1, 2005	to June 30, 2006	14.14%	N/A	N/A	25.02%	N/A	06/30/04	<sup>1</sup>
	July 1, 2004	to June 30, 2005	15.71%	N/A	N/A	21.23%	N/A	06/30/03	<sup>1</sup>
	July 1, 2003	to June 30, 2004	15.38%	N/A	N/A	20.75%	N/A	06/30/02	<sup>1</sup>
	July 1, 2002	to June 30, 2003	7.20%	N/A	N/A	24.88%	N/A	06/30/00	<sup>1</sup>

<sup>1</sup> Non aggregate rates are reported in the valuation prepared for these years only.

<sup>2</sup> New benefit tier effective September 2005.

<sup>3</sup> New benefit tier effective December 2007.

<sup>4</sup> Includes a correction to the rate reported at June 30, 2008.

Note: As of fiscal year ended June 30, 2008, rates will be displayed by benefit tiers.

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

Monthly Benefit Amount	Members Receiving a Benefit	Type of Retirement <sup>1</sup>							Option Selected <sup>2</sup>					
		1	2	3	4	5	6	7	U	1	2	3	4	D
\$1 - 500	312	262	4	3	15	6	-	22	196	15	89	5	1	6
501 - 1,000	975	794	45	22	58	27	2	27	760	42	122	43	-	8
1,001 - 1,500	737	614	26	27	43	10	2	15	588	35	89	19	-	6
1,501 - 2,000	1,265	1,067	18	106	49	9	5	11	1,039	65	120	30	-	11
2,001 - 3,000	793	680	5	75	25	4	2	2	672	42	60	16	-	3
3,001 - 4,000	480	453	1	13	10	1	2	-	395	20	48	15	-	2
4,001 - 5,000	332	322	1	6	3	-	-	-	294	14	24	-	-	-
5,001 - 6,000	748	604	35	5	44	27	2	31	553	30	131	19	1	14
Over 6,000	506	488	-	12	5	-	-	1	456	11	36	3	-	-
Totals	<b>6,148</b>	<b>5,284</b>	<b>135</b>	<b>269</b>	<b>252</b>	<b>84</b>	<b>15</b>	<b>109</b>	<b>4,953</b>	<b>274</b>	<b>719</b>	<b>150</b>	<b>2</b>	<b>50</b>

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**Notes:**

<sup>1</sup> Type of Retirement

- 1 = Normal retirement
- 2 = Non-service connected disability
- 3 = Service connected disability
- 4 = Beneficiary payment - normal retirement
- 5 = Survivor non-service connected disability
- 6 = Survivor service connected disability
- 7 = Ex spouses

<sup>2</sup> Option Selected:

- U = Unmodified: Eligible Surviving Spouse receives 60% continuance.
- The following options reduce the retired member's monthly benefit:
  - 1 = Beneficiary receives funds remaining in member's account.
  - 2 = Beneficiary receives 100% continuance of member's reduced monthly benefit.
  - 3 = Beneficiary receives 50% continuance of member's reduced monthly benefit.
  - 4 = Multiple beneficiaries receive a continuance calculated by Retirement Board's actuary.
  - D = Beneficiary receives disability retirement continuance for eligible active member death.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF BENEFITS AND REFUND DEDUCTIONS FROM PENSION PLAN NET ASSETS BY TYPE**  
**Last Ten Fiscal Years**  
(Amounts expressed in thousands)

<b>Type of Benefit</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Service Benefits										
General	\$ 72,875	\$ 83,795	\$ 90,517	\$ 96,590	\$ 100,807	\$ 110,819	\$ 120,975	\$ 131,465	\$ 139,412	\$ 151,022
Safety	18,710	22,012	23,233	23,148	20,542	21,074	23,014	24,759	26,584	28,698
Service Connected Disability <sup>1</sup>										
General	-	-	-	-	2,178	2,278	2,447	2,746	3,321	2,787
Safety	-	-	-	-	4,212	4,763	4,999	6,211	6,309	6,138
Non-Service Connected Disability <sup>1</sup>										
General	-	-	-	-	1,774	2,210	2,324	2,269	2,334	2,096
Safety	-	-	-	-	152	156	156	148	152	154
Non-Service Connected Disability Continuance <sup>1</sup>										
General	-	-	-	-	923	1,000	1,070	1,118	1,188	1,276
Safety	-	-	-	-	129	133	135	139	138	139
Service Connected Disability Continuance <sup>1</sup>										
General	-	-	-	-	136	141	142	126	183	408
Safety	-	-	-	-	317	327	335	357	442	602
Active Death Benefits <sup>2</sup>	1,303	1,245	1,379	1,255	310	171	186	188	300	215
<b>Total Benefits</b>	<b>\$ 92,888</b>	<b>\$ 107,052</b>	<b>\$ 115,129</b>	<b>\$ 120,993</b>	<b>\$ 131,480</b>	<b>\$ 143,072</b>	<b>\$ 155,783</b>	<b>\$ 169,526</b>	<b>\$ 180,363</b>	<b>\$ 193,535</b>
<b>Type of Refund<sup>3</sup></b>										
Death	\$ -	\$ -	\$ -	\$ -	\$ 205	\$ 345	\$ 304	\$ 338	\$ 339	\$ 425
Miscellaneous - UAAL <sup>4</sup>	-	-	-	-	-	4,140	13	1	-	-
Separation	904	941	1,403	1,185	1,909	1,587	1,760	1,576	1,705	1,361
<b>Total refunds</b>	<b>\$ 904</b>	<b>\$ 941</b>	<b>\$ 1,403</b>	<b>\$ 1,185</b>	<b>\$ 2,114</b>	<b>\$ 6,072</b>	<b>\$ 2,077</b>	<b>\$ 1,915</b>	<b>\$ 2,044</b>	<b>\$ 1,786</b>

<sup>1</sup> Prior to fiscal year 2007, all Disability Benefits were reported with Service Benefits.

<sup>2</sup> Prior to fiscal year 2007, Active Death Benefits included survivor continuances for service connected disability and non-service connected benefits. Beginning in 2007, survivor continuance for service connected disability and non-service connected disability benefits are reported separately.

<sup>3</sup> Prior to fiscal year 2007, data was not available to categorize refunds.

<sup>4</sup> UAAL means Unfunded Actuarial Accrued Liability.

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