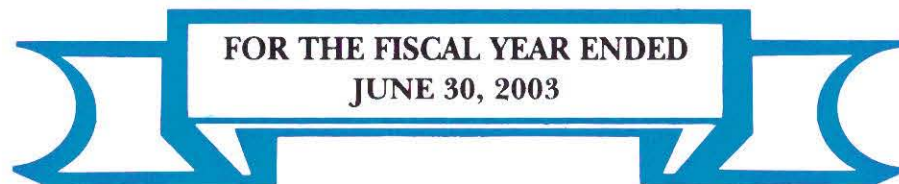


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**FRESNO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
A COMPONENT UNIT OF THE COUNTY OF FRESNO**



**Fresno County
Employees' Retirement Association**

Fresno County, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2003

ISSUED BY

ROBERTO L. PEÑA
RETIREMENT ADMINISTRATOR

BECKY VAN WYK, CPA
CHIEF ACCOUNTANT

F C E R A

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
2281 TULARE STREET, ROOM 102
FRESNO, CALIFORNIA 93721

A COMPONENT UNIT OF THE COUNTY OF FRESNO

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INTRODUCTORY SECTION



FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
Vicki Crow, Chairperson
John Souza, Secretary
Tom Abshire, Jr.
Juan Arambula
Michael Cardenas
Bill Casarez
Elvira Dominguez
A. Papaleo
Michael Thobe
Jerry Swan, Alternate

Roberto L. Peña
Retirement Administrator

December 5, 2003

Board of Retirement
Fresno County Employees' Retirement Association
2281 Tulare Street, Room 102
Fresno, CA 93721

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Fresno County Employees' Retirement Association ("Association") for the fiscal year ended June 30, 2003. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the Association's management. The required financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, the reporting guidelines for government entities, and the County Employees Retirement Law of 1937.

The Association is the public employee retirement system established by the County of Fresno (County) on January 1, 1945, and is administered by the Board of Retirement (Board) to provide retirement, disability, death, and survivor benefits for its employees under the County Employees Retirement Act of 1937. The Association is a cost-sharing, multi-employer contributory defined benefit plan that provides benefits to the County of Fresno, including Superior Court of California – County of Fresno, Fresno – Madera Area Agency on Aging, North Central Fire Protection District, Fresno Mosquito and Vector Control District, Clovis Memorial District and certain employees of the Fresno County Office of Education.

Macias, Gini & Company LLP, independent auditor, has audited the financial statements. The Board of Retirement (Board) adopts a budget each fiscal year to facilitate the oversight of the Retirement Office's administrative functions. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

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

Structure of the Report

This report is presented in five sections:

- The Introductory Section describes the Association's management and organizational structure and professional services used.
- The Financial Section contains the opinion of the independent auditor, Macias, Gini and Company LLP, the Management's Discussion and Analysis, the financial statements and notes and other required supplementary information of the Association.
- The Investment Section contains the investment consultant's statement produced by Wurts and Associates, the Association's investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, Public Pension Professionals, along with supporting schedules and information.
- The Statistical Section contains graphs and schedules with comparative data related to revenues and expenses, active and deferred membership, retired membership, benefit expenses by type, average monthly benefits, participating employers, and employer contribution rates.

Major Initiatives

The Board closed escrow on the purchase of a historical building and vacant lot on August 16, 2002 with plans to renovate the building to accommodate the staff of the Association. In March 2003, after reviewing cost estimates to renovate versus to build a new structure on the vacant lot, the Board elected to build a new structure. Construction of the new building began in November 2003 with an expected completion date of mid-May 2004.

Investments

The investments of the Association are governed primarily by an investment authority known as the "prudent person rule". The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the fund. The prudent person rule states that fiduciaries shall discharge their duties of diligence, care and skill which prudent men and women would ordinarily exercise under similar

circumstances in a like position. By permitting further diversification of investments within a fund, the prudent person standard may enable a fund to reduce overall risk and increase returns.

The prudent person rule permits the fund to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment advisors. The investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

The Association experienced continued losses during the fiscal year ended June 30, 2003. For the year, the portfolio earned a total return of 3.0%. Over long-term periods, the portfolio has earned total annualized returns of 0.9% over the past three years and 2.5% over the past five years. The five-year earnings have underperformed the actuarial assumption rate of 8.00%. On a fair value basis, the total net assets available for benefits declined from \$1,565,542,000 to \$1,550,704,000.

Funding

The Association's funding objective is to meet long-term obligations through contributions and investment income. As of June 30, 2002, the date of the Association's latest report on the experience analysis and actuarial valuation, the Association was funded at 86.7%, down from 98.6% at June 30, 2000. The decreased funding level was due to several factors, including the increased benefit levels adopted as of January 1, 2001, declining investment returns due to market conditions, and new actuary assumptions adopted for the valuation completed for the two year period ended June 30, 2002.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Association for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. This was the sixth 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.

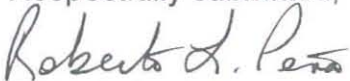
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet to the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

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

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Roberto L. Peña". The signature is fluid and cursive, with the first name "Roberto" being more prominent.

Roberto L. Peña
Retirement Administrator

RLP:ea

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fresno County Employees' Retirement System, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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.



President

Executive Director

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
THE BOARD OF RETIREMENT

ADMINISTRATOR

ROBERTO L. PEÑA
Retirement Administrator

CHAIR

VICKI CROW, CPA
Statutory Requirement - Auditor-Controller/Treasurer-Tax Collector
Present term expires December 31, 2006

SECRETARY

JOHN SOUZA
Retired Member - Elected by Retirees
Present term expires December 31, 2004

MEMBER

MICHAEL THOBE
Safety Member - Elected by Safety Members
Present term expires December 31, 2005

MEMBER

BILL CASAREZ
General Member - Elected by General Members
Present term expires December 31, 2004

MEMBER

TOM ABSHERE
Qualified Elector - Appointed by Board of Supervisors
Present term expires December 31, 2003

MEMBER

ELVIRA DOMINGUEZ
General Member - Elected by General Members
Present term expires December 31, 2003

MEMBER

MICHAEL CARDENAS
Qualified Elector - Appointed by Board of Supervisors
Present term expires December 31, 2005

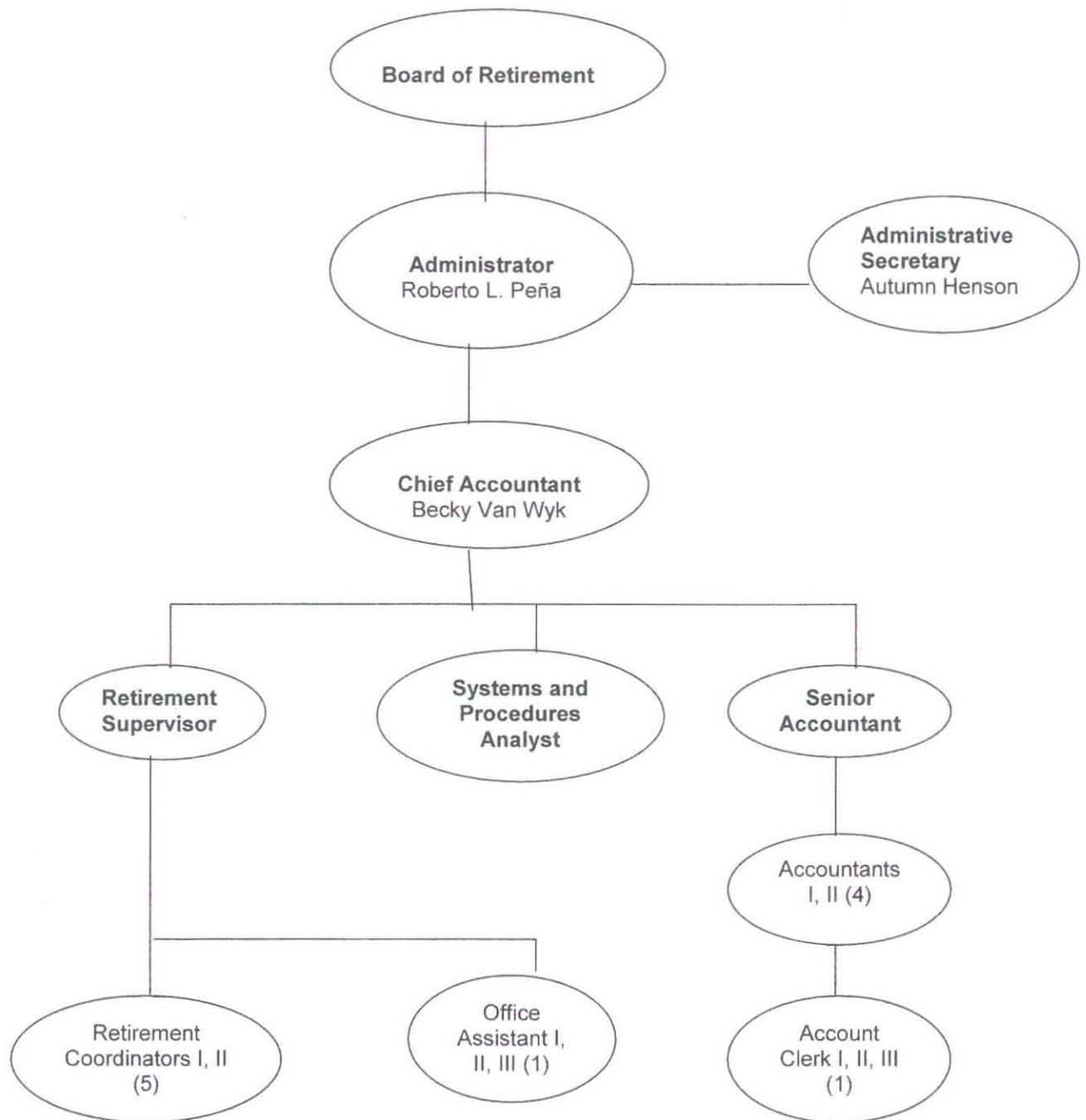
MEMBER

JUAN ARAMBULA
Qualified Elector - Appointed by Board of Supervisors
Present term expires December 31, 2004.

MEMBER

A. PAPALEO
Qualified Elector - Appointed by Board of Supervisors
Present term expires December 31, 2005.

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



Information regarding investment professionals who provide services to the pension plan can be found in the investment section of this report.

Total number of positions authorized – 17

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

CONSULTING SERVICES

ACTUARY

Public Pension Professionals

AUDITOR

Macias, Gini and Company, LLP

**COMMISSION RECAPTURE
SERVICES**

Pension Fund Evaluations, Inc.

CUSTODIAN BANK

Fifth Third Bank

INVESTMENT CONSULTANT

Wurts and Associates

LEGAL COUNSEL

Mary Beth de Goede and Associates
Richard H. Chasen
Bob Blum, Hanson Bridgett Marcus
Vlahos Rudy LLP
Harvey Leiderman, Steefel Levitt &
Weiss
Joseph J. Tabacco, Jr., Berman,
Devalerio, Pease, Tabacco, Burt &
Pucillo
Mitch Whitehead, Seyfarth Shaw
LLP

SECURITIES LENDING

Marshall & Ilsley Trust Company

INVESTMENT MANAGERS

DOMESTIC BONDS

Boston Partners Assets Management,
LP
Bradford & Marzec, Inc.
Loomis Sayles

GLOBAL BONDS

Grantham, Mayo, Van Otterloo & Co.

DOMESTIC STOCKS

Aronson & Partners
Brandywine Asset Management, Inc.
John A. Levin & Co., Inc.
Provident Investment Counsel
State Street Global Advisors
Wellington Management Company,
LLP.

INTERNATIONAL STOCKS

Marvin & Palmer Associates, Inc.
Templeton Investment Counsel, Inc.

PRIVATE MARKETS INVESTMENT

BCI Growth V, LP
CB Richard Ellis Investors, LLC
DT Investment Advisers, Inc.
Glenborough Institutional, Inc.
Heitman/JMB Advisory Corporation
JE Robert Company, Inc.
Landmark Partners, Inc.
New Mountain Capital, LLC
Sentinel Real Estate Corporation
TA Associates Realty
TCW III
The Blackstone Group
Warburg, Pincus and Co.

FINANCIAL SECTION



Macias, Gini & Company LLP
Certified Public Accountants and
Management Consultants

Partners

Kenneth A. Macias, Managing Partner
Ernest J. Gini
Kevin J. O'Connell
Richard A. Green
Jan A. Rosati
James V. Godsey

2497 W. Shaw Avenue
Suite 107
Fresno, CA 93711-3304
559•229•2261
559•229•2271 FAX
www.maciasgini.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of plan net assets of the Fresno County Employees' Retirement Association (Association), a component unit of the County of Fresno, California, as of June 30, 2003, and the related statement of changes in plan net assets for the fiscal year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of June 30, 2002, were audited by other auditors whose report dated November 8, 2002, expressed an unqualified opinion on those statements.

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

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2003, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

OFFICE LOCATIONS

Sacramento • Los Angeles • Fresno • San Francisco Bay Area

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

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

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

Macias, Gini & Co, LLP
Certified Public Accountants

Fresno, California
December 5, 2003

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Association provides an overview of the financial activities for the fiscal years ended June 30, 2003 and 2002. Please read it in conjunction with the Letter of Transmittal in the Introductory Section of the Association's Comprehensive Annual Financial Report, and the Financial Statements, which follow this discussion.

Financial Highlights

- Net assets held in trust by the Association, as reported on the *Statement of Plan Net Assets*, totaled \$1,550,640,000 as of June 30, 2003. Net assets decreased by \$14,902,000 or 1.0%, consistent with economic and market conditions through out the year. Net assets totaled \$1,565,542,000 as of June 30, 2002, which was a net decrease of \$125,269,112 (7.4%) from June 30, 2001. Financial and economic factors are also discussed in the Letter of Transmittal from the Retirement Administrator and in the Investment Section of this report.
- The *Statement of Changes in Plan Net Assets* reflects \$80,947,000 in additions to plan net assets. Of this amount, \$19,837,000 represents depreciation in the fair value of investments (a decrease to net additions of 24.5%). Most of the additions are due to interest of \$25,141,000 (31.1% of the net additions) and employer and employee contributions of \$53,557,000 (66.1% of the net additions). For June 30, 2002, a net decrease of \$41,070,849 in additions to plan net assets is reported. The net decrease was comprised of \$112,690,729 depreciation in the fair value of investments, interest and other investment income of \$49,405,746 and employer and employee contributions of \$22,214,134.
- The *Statement of Changes in Plan Net Assets* reflects total deductions from plan net assets of \$95,849,000, an increase of 13.8% over prior year deductions of \$84,198,000. Total deductions from plan net assets for June 30, 2002 totaled \$84,198,263, an increase of 25.2% over the prior year deductions of \$67,262,072. The majority of the increases represent increased benefits paid.
- The Association invests the retirement funds through a variety of investment managers and private markets. Investment profits and/or losses are allocated semi-annually based upon the fund balance at the end of the prior six-month period.

Using this Comprehensive Annual Financial Report and Financial Statements

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

Both statements are in compliance with Governmental Accounting Standard Board (GASB) Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*; GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*; and GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

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

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

The most important question asked about the Association's financial condition is, "Do we have sufficient assets to pay the benefits that have been promised to the membership?" The financial statements report information about the Association's activities in a way that helps answer this question. Our current funding ratio is 86.7%, which means we are under-funded in that we have \$0.86 for each \$1.00 of liability. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid and all investment gains and losses are shown at transaction date, not settlement date. Further, both realized and unrealized gains and losses on investments are presented and all capital assets (property and equipment) are depreciated over their estimated useful lives.

These two financial statements report the Association's net assets – the difference between assets and liabilities – as one way to measure the Plan's financial position. Over time, increases and decreases in the Association's net assets are one indicator of whether its financial health is improving or deteriorating. Positive net plan assets indicate that there are sufficient assets to pay benefits to the members and members' beneficiaries for their expected lifetimes. While negative net plan assets indicate an insufficiency of resources to pay the agreed upon benefits. You will need to consider other factors, such as market conditions, to assess the Association's overall health.

FCERA's Net Assets

FCERA's net assets decreased 1.0% in 2003, from a value of \$1,565,542,000 to \$1,550,640,000, as displayed in the following table (table presented in thousands). The decrease was primarily due to increases in the benefits and refunds paid to plan members and beneficiaries. Investment trades payable at June 30, 2003 increased \$53,754 (175.5%) over the June 30, 2002 balance of \$30,627 due to trades that did not settle until after the end of the fiscal year. The cash collateral payable for securities lending increased \$103,474 (56.2%) to \$287,709 from the June 30, 2002 balance of \$184,235.

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and other assets	\$ 1,925,192	\$ 1,783,780	\$ 141,412	7.90%
Capital Assets	627	563	64	11.40%
Total Assets	\$ 1,925,819	\$ 1,784,343	141,476	7.90%
Other liabilities				
Total liabilities	375,179	218,801	156,378	71.50%
Net assets	\$ 1,550,640	\$ 1,565,542	\$ (14,902)	-1.00%

Additions to Plan Net Assets

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

During the year ended June 30, 2003, total additions to plan net assets increased by 297.1% from the prior year due primarily to increased investment values. Overall, additions increased by \$122 million compared to the prior year. Net investment income increased by 143.3%, while total contributions increased by 141.1%. The increase was due to an increase in both employer and employees contribution rates. The investment section of this report reviews the results of investment activity for the fiscal year 2003. The additions to plan net assets for the fiscal year ended June 30, 2002 decreased \$17 million from June 30, 2001. Net investment income decreased \$29 million during the same period.

Employer contributions reported in the table (presented in thousands) below include retirement funds received from the County of Fresno and its member employers.

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Additions:				
Contributions	\$ 53,557	\$ 22,214	\$ 31,343	141.1%
Net Investment Income	27,390	(63,285)	90,675	143.3%
Total Additions	80,947	(41,071)	122,018	297.1%
Deductions:				
Benefits paid	93,791	82,654	11,137	13.5%
Administrative Costs	2,058	1,544	514	33.3%
Total Deductions	95,849	84,198	11,651	13.8%
Decrease in net assets	(14,902)	(125,269)	110,367	88.1%
Net assets - 7/1/02	1,565,542	1,690,811	(125,269)	-7.4%
Net assets - 6/30/03	\$ 1,550,640	\$ 1,565,542	\$ (14,902.00)	-1.0%

Deductions From Plan Net Assets

The primary deductions of the Plan include the payment of benefits to members and member beneficiaries, the refund of contributions to former members, and the cost of administering the retirement plan. Deductions for fiscal year 2003 totaled \$95,849,000, an increase of 13.8% over 2002. Deductions for fiscal year 2002 totaled \$84,198,000, an increase of 25.2% over the 2001 amount of \$67,262,073. The increase in benefits paid resulted primarily from an increase in the number of benefits paid, and an increase in the average benefit amount.

Administrative expenses are approved in an annual budget by the Association's Board and represented 0.11% and 0.10% of total assets in 2003 and 2002, respectively. Under the California State Government Code, Section 31580.2, administration expenses incurred in any given year shall not exceed 0.18% of the total assets of the retirement system. The Association has consistently met its budgets and continues to expect to do so.

The deductions in plan net assets of \$96 million during 2003, combined with the contributions to plan net assets of \$54 million and net investment income of \$27 million, which are depicted on the table above, accounts for the net decrease in plan assets of \$15 million in 2003.

Reporting the Association's Fiduciary Responsibilities

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

The Retirement Fund As A Whole

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

Contacting the Association's Financial Management

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers and creditors with a general overview of the Association's finances and to show the Association's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Roberto L. Peña, at 2281 Tulare Street, Room 102, Fresno, California 93721.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2003 AND 2002
(Amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
ASSETS:		
Cash and cash equivalents with fiscal agents	\$ 62,365	\$ 48,074
Securities lending short-term investment pool	287,708	184,235
Total cash and cash equivalents (Note 3)	<u>350,073</u>	<u>232,309</u>
Receivables:		
Investment trades receivable (Note 4)	61,427	30,946
Interest and dividends receivable	5,656	6,136
Contributions and other receivables	4,135	2,166
Securities lending receivable	366	325
Note receivable (Note 5)	809	769
Total receivables	<u>72,393</u>	<u>40,342</u>
Investments, at fair value (Note 3):		
Domestic stocks	633,876	533,279
Domestic bonds	158,687	233,787
International stocks	269,953	272,718
Mortgages	2,137	177,018
Private markets	173,209	177,382
Real estate (Station Building)	1,793	-
Global bond index fund	44,844	116,945
U.S. Government and agencies bonds	218,188	-
Total investments	<u>1,502,687</u>	<u>1,511,129</u>
Prepaid expenses	39	-
Capital assets (Note 6)		
Nondepreciable	111	-
Depreciable, net	516	563
Total capital assets, net	<u>627</u>	<u>563</u>
Total assets	<u>1,925,819</u>	<u>1,784,343</u>
LIABILITIES:		
Investment trades payable (Note 4)	84,391	30,627
Cash collateral payable for securities lending (Note 3)	287,709	184,235
Accounts payable	2,766	3,643
Securities lending bank and broker fees	313	296
Total liabilities	<u>375,179</u>	<u>218,801</u>
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS (Note 7)	<u>\$ 1,550,640</u>	<u>\$ 1,565,542</u>

(A schedule of funding progress appears on page 31).

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

(Amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
ADDITIONS:		
Contributions:		
Employers	\$ 33,583	\$ 7,780
Plan members	19,974	14,434
Total contributions	<u>53,557</u>	<u>22,214</u>
Investment income/(loss):		
From investment activities		
Net appreciation/(depreciation) in fair value of investments	(19,837)	(112,691)
Interest	25,141	29,299
Dividends	16,216	13,982
Private markets	9,450	10,635
Net income/(loss) from investment activities	<u>30,970</u>	<u>(58,775)</u>
From securities lending activities		
Securities lending income	4,957	5,187
Securities lending expenses		
Borrower rebate expenses	(4,153)	(4,637)
Security lending management fees	(216)	(193)
Net income from securities lending activities	<u>588</u>	<u>357</u>
Miscellaneous income	1,335	862
Investment expense	(5,503)	(5,729)
Net investment income/(loss)	<u>27,390</u>	<u>(63,285)</u>
Total additions/(subtractions)	<u>80,947</u>	<u>(41,071)</u>
DEDUCTIONS:		
Benefits and refunds paid to plan members and beneficiaries	93,791	82,654
Administrative expenses	2,058	1,544
Total deductions	<u>95,849</u>	<u>84,198</u>
NET INCREASE/(DECREASE)	(14,902)	(125,269)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,		
BEGINNING OF YEAR	<u>1,565,542</u>	<u>1,690,811</u>
END OF YEAR	<u><u>\$ 1,550,640</u></u>	<u><u>\$ 1,565,542</u></u>

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002**

NOTE 1 - DESCRIPTION OF THE PLAN

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

General

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

The Association membership at June 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Retirees and beneficiaries receiving benefits	4,003	3,749
Terminated employees entitled to benefits but not yet receiving them	1,376	1,467
Current employees:		
Vested:		
General	3,600	3,566
Safety	605	630
Nonvested:		
General	3,054	3,299
Safety	328	293
Total current employees	<u>7,587</u>	<u>7,788</u>
Total membership	<u><u>12,966</u></u>	<u><u>13,004</u></u>

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

Benefit Provisions

The Board under the provisions of the 1937 Act establishes benefit provisions. Benefits are based upon a combination of age, years of service, average monthly salary for the highest paid year of employment, the option selected by the participant, and whether the participant was employed as a safety member or as a general member. Disability and death benefits are additionally based upon whether the disability was service connected and whether the death occurred before or after retirement. Retirement benefit payments consist of regular retirement benefits, cost of living benefits, supplemental cost of living benefits, supplemental benefits or supplemental annuity benefits and health care benefits. The supplemental cost of living and health care benefits are subject to annual approval by the Board.

Administration

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

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

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

The Association's financial statements are prepared using the accrual basis of accounting. Investment income is recognized when it is earned and expenses are recognized in the period in which they are incurred. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds of prior contributions are recognized when due and payable under the provisions of the plan.

Cash 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.

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

Capital Assets

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Deposit and Investments Custodial Credit Risk

Custodial credit risk categories have been established by Governmental Accounting Standards Board (GASB) Statement No. 3. Risk classifications for cash and cash equivalents held with fiscal agent are categorized in the following manner. Category 1 includes cash and cash equivalents that are insured or collateralized with securities held by the Association or its fiscal agent in the Association's name. Book value of deposits does not differ materially from the bank balance of deposits.

In accordance with GASB Statement No. 3 disclosure requirements, cash held in the County investment pool, Securities lending short-term investment pool, mortgages, global bond index funds, private markets and securities on loan, collateralized with cash are not categorized.

For financial reporting purposes, the Association's investments are categorized below to provide an indication of the level of custodial credit risk assumed by the Association at June 30, 2003 and 2002.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

June 30, 2003	Category 1	Fair Value
Cash and cash equivalents with fiscal agent	\$ 55,814	\$ 55,814
Investments:		
Domestic stocks	\$ 477,518	477,518
Domestic bonds	138,853	138,853
U S government agencies and bonds	135,680	135,680
International stocks	250,409	250,409
Total investments	<u>\$ 1,002,460</u>	<u>1,002,460</u>
Investments not considered securities for the purposes of custodial risk classification:		
Cash held in County investment pool	\$ 6,551	6,551
Securities lending short-term investment pool	287,709	287,709
Mortgages	2,137	2,137
Global bond index fund	44,844	44,844
Private markets (investments in limited partnerships, hedge fund, real estate, and executive office operations)	175,002	175,002
Securities on loan, collateralized with cash	278,243	278,243
Total deposits and investments	<u>\$ 1,852,760</u>	<u>\$ 1,852,760</u>

June 30, 2002	Category 1	Fair Value
Cash and cash equivalents with fiscal agent	\$ 42,028	\$ 42,028
Investments:		
Domestic stocks	\$ 444,936	444,936
Domestic bonds	159,548	159,548
International stocks	259,403	259,403
Total investments	<u>\$ 863,887</u>	<u>863,887</u>
Investments not considered securities for the purposes of custodial risk classification:		
Cash held in County investment pool	\$ 6,046	6,046
Securities lending short-term investment pool	184,235	184,235
Mortgages	177,018	177,018
Global bond index fund	116,945	116,945
Private markets (investments in limited partnerships, hedge fund, real estate, and executive office operation)	177,382	177,382
Securities on loan, collateralized with cash	175,897	175,897
Total deposits and investments	<u>\$ 1,743,438</u>	<u>\$ 1,743,438</u>

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Derivatives

The Association, through its external investment managers, enters into forward foreign currency contracts to hedge against changes in the fair values of foreign bonds and equity securities, primarily denominated in European and Asian currencies. It is possible that, due to foreign exchange fluctuations, the Association may be exposed to a potential loss. At June 30, 2003, the Association has approximately \$47 million of its \$270 million foreign equity portfolio hedged through the use of such forward foreign currency contracts. At June 30, 2002, approximately \$4 million of the Association's \$273 million foreign equity portfolio was hedged through the use of such forward foreign currency contracts.

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

The Association's investment portfolio also contains certain variable rate notes and collateralized mortgage obligations. At June 30, 2003 and 2002, the Association had approximately \$12,076 and \$9,267 in these investments, respectively.

Securities Lending

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The lending agreement places no restriction on the amount of loans that can be made. The Association's lending agent is authorized to invest and reinvest cash collateral, but it is not expressly permitted to pledge or sell securities collateral without borrower default. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between the maturities of the investment pool and the Association's loans is affected by the securities loans of other entities that use the agent's pool, which the Association cannot determine. At year-end, the Association has no credit risk exposure to borrowers as the amounts the Association owes the borrowers exceed the amounts the borrowers owe the Association. Furthermore, the lending agreement with the custodian requires the custodian to indemnify the Association if the borrower fails to return the securities.

There were no losses associated with securities lending transactions during the years ended June 30, 2003 and June 30, 2002. 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 fair values of securities on loan were as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Domestic stocks	\$ 156,357	\$ 88,343
International stocks	19,544	13,315
Total stocks on loan	<u>175,901</u>	<u>101,658</u>
U S government agencies	82,508	-
Domestic bonds	19,834	74,239
Total bonds on loan	<u>102,342</u>	<u>74,239</u>
Total stocks and bonds on loan	\$ <u>278,243</u>	\$ <u>175,897</u>

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, 2003, forward foreign currency contracts receivable and payable totaled \$47,282 and \$46,466 respectively. At June 30, 2002, forward foreign currency contracts receivable and payable totaled \$4,162 and \$4,203 respectively. The remaining investment trades receivable and payable balances represent investment sales and investment purchases outstanding, respectively.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 5 - NOTE RECEIVABLE

During the year ended June 30, 1997, the fund manager redeemed the Association's investment in TCW Realty Fund VIA. Accordingly, the Association was issued an interest bearing promissory note. At June 30, 2003, the note had a balance of \$809, including interest due of \$274, which is scheduled to be repaid when all assets owned by the partnership are sold.

NOTE 6 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2003 and 2002:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital assets, not depreciated:				
Construction in progress	\$ -	\$ 111	\$ -	\$ 111
Capital assets, depreciated				
Computer hardware/software	643	15	(4)	654
Furniture and fixtures	75	22	(5)	92
Total capital assets, depreciated	<u>718</u>	<u>37</u>	<u>(9)</u>	<u>746</u>
Less accumulated depreciation for:				-
Computer hardware/software	(118)	(60)	5	(173)
Furniture and fixtures	(37)	(24)	4	(57)
Total accumulated depreciation	<u>(155)</u>	<u>(84)</u>	<u>9</u>	<u>(230)</u>
Total capital assets, depreciated, net	<u>563</u>	<u>(47)</u>	<u>-</u>	<u>516</u>
Total capital assets, net	<u>\$ 563</u>	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ 627</u>
Depreciation charged for the current year totaled:		<u>\$ 84</u>		

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 6 – CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2002</u>
Capital assets, depreciated				
Computer hardware/software	\$ 638	\$ 5	\$ -	\$ 643
Furniture and fixtures	75	-	-	75
Total capital assets, depreciated	<u>713</u>	<u>5</u>	<u>-</u>	<u>718</u>
Less accumulated depreciation for:				
Computer hardware/software	(60)	(58)	-	(118)
Furniture and fixtures	(22)	(15)	-	(37)
Total accumulated depreciation	<u>(82)</u>	<u>(73)</u>	<u>-</u>	<u>(155)</u>
Total capital assets, depreciated, net	<u>\$ 631</u>	<u>\$ (68)</u>	<u>\$ -</u>	<u>\$ 563</u>
Depreciation charged for the current year totaled:		<u>\$ 73</u>		

NOTE 7 - CONTRIBUTIONS AND RESERVES

Contributions

Contributions are made by the members and the employers at rates recommended by the Association's independent actuary and approved by the Board and the County Board of Supervisors. Employee contribution rates vary according to age and classification (safety or general), and are designed to provide funding for approximately one-fourth of the regular retirement benefits and one-half of all cost of living benefits. Members are required to contribute between 3% and 7% of their annual covered salary. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act.

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

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

Contribution rates are actuarially determined using the entry age normal method and consist of normal cost (the estimated amount necessary to finance benefits earned by employees during the current year) and amortization of the unfunded actuarial accrued liability beginning in 1980, over a 30 year period. Effective with the valuation completed for June 30, 2002, the amortization period has been 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, and the latest actuarial valuation methods are presented in the required supplementary information schedules on pages 31 and 32.

Members' contributions, including interest, are 100% vested at all times. Employers' contributions do not become vested until completion of five years of credited service at which time they become 100% vested. A member may receive a regular retirement allowance after attaining age 50 for safety members or age 55 for general members provided that such member has attained at least 10 years of credited service; or at any age after 30 years of service for a general member and 20 years of service for a safety member.

Reserves and Designations

Net assets held in trust for pension benefits are segregated into members' accumulated contributions, 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 a reserve for market stabilization. The reserves are generally based on actuarially determined amounts.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

Reserves and Designations

The amounts and changes in reserves and designations for the year ended June 30, 2003 consist of the following:

	<u>Balance July 1, 2002</u>	<u>Increase (Decrease) In Plan Net Assets</u>	<u>Net Transfers</u>	<u>Balance June 30, 2003</u>
Reserves:				
Members' accumulated contributions	266,609	19,069	(18,880)	266,798
Current service reserve	338,698	33,152	(87,192)	284,658
Annuity pension reserve	76,867	(11,061)	23,414	89,220
Current service pension reserve	407,393	(40,867)	123,194	489,720
Survivors' death benefit	4,226	(642)	580	4,164
Cost of living adjustment reserve	323,737	(16,008)	20,707	328,436
Supplemental cost of living reserve	6,443	(2,490)	213	4,166
Supplemental benefit reserve	88,304	(9,595)	25,345	104,054
Supplemental annuity reserve	160,569	(4,406)	35,170	191,333
Contingency reserve	15,655	-	(102,211)	(86,556)
Retiree health insurance reserve	88,577	(7,387)	16,707	97,897
Designated for market stabilization	(282,324)	-	59,074	(223,250)
Undistributed earnings	70,788	25,333	(96,121)	-
Net assets held in trust for Pension benefits	\$ 1,565,542	\$ (14,902)	\$ -	\$ 1,550,640

The amounts and changes in reserves and designations for the year ended June 30, 2002 consist of the following (in thousands):

	<u>Balance July 1, 2001</u>	<u>Increase (Decrease) In Plan Net Assets</u>	<u>Net Transfers</u>	<u>Balance June 30, 2002</u>
Reserves:				
Members' accumulated contributions	\$ 254,996	\$ 13,565	\$ (1,952)	\$ 266,609
Current service reserve	391,541	7,485	(60,328)	338,698
Annuity pension reserve	72,824	(9,685)	13,728	76,867
Current service pension reserve	388,441	(35,430)	54,382	407,393
Survivors' death benefit reserve	4,078	(608)	756	4,226
Cost of living adjustment reserve	329,406	(14,217)	8,548	323,737
Supplemental cost of living reserve	8,876	(2,433)	-	6,443
Supplemental benefit reserve	87,603	(9,807)	10,508	88,304
Supplemental annuity reserve	133,903	(2,360)	29,026	160,569
Contingency reserve	16,908	-	(1,253)	15,655
Retiree health insurance reserve	92,569	(6,950)	2,958	88,577
Designated for market stabilization	(133,110)	-	(149,214)	(282,324)
Undistributed earnings	42,776	(64,829)	92,841	70,788
Net assets held in trust for Pension benefits	\$ 1,690,811	\$ (125,269)	\$ -	\$ 1,565,542

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

Members' accumulated contributions include all member contributions net of refunds and benefits paid to members. At retirement, member balances are transferred to the *annuity pension reserve* and the *cost of living adjustment reserve*. Employers' contributions are paid into the *current service reserve* and *cost of living adjustment reserve*. When an employee retires, applicable balances are transferred from the *current service reserve* to the *current service pension reserve*. *Undistributed earnings* are credited with all investment income and charged with investment and other fees. Transfers from undistributed earnings to other reserves are made twice a year. Historically, the Board has authorized that an annual rate of 8.25% (the actuarial rate of return) of the reserve balance be apportioned as the interest. However, during the current year, the Board adopted a new interest crediting policy that limits the amount available to apportion in lean years to the amount required to keep the non-valuation reserve accounts within an established floor of 1% of net plan assets and ceiling of 3% of net plan assets. This policy resulted in interest apportionments of \$7,566 for the December 31, 2002 interest credit period and \$60,903 for the June 30, 2003 interest-crediting period. The annual rates of interest for the two periods were 0.4773% and 7.6370%, respectively. Any additional transfers out of undistributed earnings are made in accordance with the authorization of the Board.

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

Both the *retiree health benefit* and the *supplemental cost of living reserves* are approved annually by the Board. The *retiree health benefit reserve* was established during 1987 to provide funds for payment of supplemental benefits. The *supplemental cost of living reserve* was established in 1990 to provide additional benefits for eligible members whose unused cost of living "bucket" exceeds 25% (also known as purchasing power reserve). The purpose of the benefit is to maintain retirees' purchasing power at 75% of their original purchasing power. Both amounts paid and eligibility change on a yearly basis depending on the cost of living calculation performed by the actuary. For 2003, the benefit was available to members who retired on or April 1, 1981. The *supplemental cost of living reserve* balance reflects Board approved transfers from *undistributed earnings*. The retiree health benefit reserve balance reflects Board approved transfers through June 30, 2003. These transfers result from the actuary transfer completed for the period ended June 30, 2002. Per the settlement agreement accepted December 15, 2000, effective January 1, 2001 the health benefit is now tied directly to increases in undistributed earnings starting with the actuarial period ending June 30, 2002, and thereafter.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002
(amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

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

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

NOTE 8 – COMMITMENTS

The Association committed to invest in, and has partially funded, various private market investment funds. At June 30, 2003, the remaining commitments totaled \$96,095.

NOTE 9 – FUTURE GASB PRONOUNCEMENTS

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosure*, which is effective for the financial statements for periods beginning after June 15, 2004. This statement establishes and modified disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. These new disclosure requirements address the needs of users of financial statements identified by GASB.

The association will analyze the impact of this pronouncement to the financial statements in fiscal year 2003/04.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FUNDING PROGRESS

(amounts expressed in thousands)

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL)</u>	<u>(3) Unfunded (Overfunded) AAL (2) - (1)</u>	<u>(4) Funded Ratio (1)/(2)</u>	<u>(5) Covered Payroll</u>	<u>(6) Unfunded (Overfunded) AAL Percentage of Covered Payroll (3)/(5)</u>
6/30/96	1,296,256	1,470,331	174,075	88.2%	191,114	91.1%
6/30/98	1,647,935	1,549,166	(98,769)	106.4%	219,398	(45.0%)
6/30/00	1,698,282	1,719,905	21,623	98.7%	273,426	7.9%
6/30/02	1,674,900	1,932,300	257,400	86.7%	326,975	78.7%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(amounts expressed in thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1998	\$ 18,918	100.00%
1999	6,005	100.00%
2000	--*	100.00%
2001	--*	100.00%
2002	7,780	100.00%
2003	33,583	100.00%

Actuarial reviews are performed biennially.

1. The actuarial value of assets was based on historical cost for the year ended June 30, 1994. For the year ended June 30, 1996 and thereafter, the actuarial value of assets was based on a 5-year smoothed market method.

* On March 19, 1998, the County of Fresno issued Pension Obligation Bonds, which paid off the estimated Unfunded Actuarial Accrued Liability. As a result of the June 30, 1998 Actuary Study, the Board of Retirement elected to use a distribution of excess earnings to pay the employer beginning July 1, 1999. With the establishment of the enhanced benefits, Safety employers were required to begin contributions during fiscal year 2002. General employers began contributions during fiscal year 2003.

The accompanying notes are an integral part of this required supplemental information.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

LATEST ACTUARIAL VALUATION METHODS

Valuation date	June 30, 2002
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent - closed
Remaining amortization period	30 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	8.00% (4.0% real return, 4.0% inflation)
Projected salary increases	4.0% (1.0% merit increase, 3.0% inflation)
Cost of living adjustments Index)	0 – 3% (tied to the change in Consumer Price

The accompanying notes are an integral part of this required supplemental information.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Personnel Services		
Salaries and Benefits	\$ 851,653	\$ 848,108
Total Personnel Services	<u>851,653</u>	<u>848,108</u>
Office Expenses	<u>27,315</u>	<u>31,362</u>
Other Services and Charges		
Telephone Charges	6,433	3,832
Insurance Other	1,020	1,608
Maintenance	1,361	659
Memberships	4,980	3,565
Postage	24,786	9,849
Off Site Storage	413	413
Professional and Specialized Services	605,122	319,553
Disability Expenses	266,063	75,355
Gain/loss on sale of fixed assets	1,083	0
Data Processing Services	143,169	132,765
Transportation, Travel, and Education	19,498	2,449
Transportation, Travel - Commissions & Advisory Board	<u>21,815</u>	<u>28,916</u>
Total Other Services and Charges	<u>1,095,743</u>	<u>578,964</u>
Depreciation	83,935	85,928
Total Administrative Expenses	<u>\$ 2,058,646</u>	<u>\$ 1,544,362</u>

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Investment Manager Fees	\$ 4,596,992	\$ 5,097,524
Fiduciary Insurance Premium	33,017	28,244
Custodial Service Fees	360,225	375,201
Actuarial Service Fees	22,900	51,200
Executive Office Operation	168,090	--
Consulting Fees	322,096	177,643
	<u>\$ 5,503,320</u>	<u>\$ 5,729,812</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
Disability Attorney Fees	\$ 175,949	\$ 28,414
Retirement Board Attorney Fees	197,589	105,937
Disability Medical and Copying Fees	90,114	46,941
Architects	54,633	0
Communications Specialist	18,897	0
External Audit Fees	21,928	21,981
Actuarial Consulting Fees (non-actuary study costs)	252,369	68,760
Actuarial Consulting Fees	22,900	51,200
Proxy Voting Service	38,995	46,359
Securities Legal Fees	17,529	25,970
Custodial Fees	360,225	375,201
Data Processing Fees	143,169	132,765
Total Payments to Consultants	<u>\$ 1,394,297</u>	<u>\$ 903,528</u>

Refer to page 31 for information on fees paid to investment counselors.

INVESTMENT SECTION

The FCERA investment portfolio gained 3% over the past year and has a current value of \$1.53 billion as of June 30, 2003. The FCERA portfolio is broadly diversified, consisting of investments ranging from publicly-traded bonds to privately-held partnerships.

INVESTMENT ALLOCATION

The most critical factor influencing overall investment performance is the allocation of the FCERA portfolio across major asset classes. The current policy reflects the asset allocation guidelines as defined in FCERA's current Investment Policy Statement. The portfolio's actual allocation as of June 30, 2003 was slightly different from the policy. Domestic equities are slightly over weighted while domestic fixed income assets were under weighted. The domestic equity over weighting is driven primarily due to the recent rally in the equity market.

INVESTMENT RESULTS

Over the trailing twelve months, the FCERA portfolio produced an overall return of 3%. This result trailed the FCERA policy benchmark by 140 basis points. During the period, the portfolio's international equity allocation lagged its benchmark. This contributed to why the total portfolio trailed its policy index.

Over the trailing three years, FCERA's portfolio lost an annualized rate of return of 90 basis points, trailing its policy benchmark by 0.1%. Over the last five years the FCERA investment portfolio produced an average annual return of 2.5%, matching the policy benchmark.



Jeffrey MacLean
President

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 County employees. The Association should meet this goal through judicious investment of employee and employer contributions.

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

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

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

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
GENERAL INFORMATION (Continued)**

<u>Association's Portfolio</u>	<u>Target Allocations</u>	<u>Actual Allocations</u>
Core Bonds*	28%	20.48%
Global Bonds	3%	2.42%
Domestic Stocks	38%	34.25%
International Stocks	18%	14.58%
Private Markets**	11%	9.36%
Cash and Cash Equivalent	2%	18.91%

* Includes mortgages, US Government and Agencies

** Includes real estate, futures, and alternative investments

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. In addition, the Board has established proxy-voting policies for its equity investments. The Board retains a firm to vote its own proxy voting fulfilling compliance with California law.

The following schedules reflecting investment results were based on time-weighted rate of return using fair value.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT RESULTS BASED ON FAIR VALUE
AS OF JUNE 30, 2003

Total Funds	Current Year	Annualized Rate of Return for the	
		3-Year	5-year
Bonds			
Domestic	11.4%	8.1%	6.0%
Benchmark : LB Universal Index	11.5%	10.0%	7.4%
Global	13.0%	8.9%	6.4%
Benchmark : Salomon World Government	16.5%	8.8%	6.7%
Stocks			
Domestic Large Capital Value	2.0%	1.3%	N/A
Benchmark: Russell 1000 Value	-1.0%	-0.2%	1.1%
Domestic Growth	2.4%	N/A	N/A
Benchmark: S&P Growth	2.3%	-17.4%	-3.0%
Domestic Large Capital Growth	-5.3%	-25.3%	-9.1%
Benchmark: Russell 1000 Growth	2.9%	-21.5%	-5.0%
Domestic Small Capital Value	-1.7%	19.3%	6.1%
Benchmark : Russell 2000 Value	-3.8%	11.0%	5.0%
Domestic Value	-7.3%	2.4%	5.5%
Benchmark : 60 Russ Mc Val/40 Russ Top 200 Val	-0.8%	3.3%	2.4%
Emerging Markets Equity	1.0%	-4.8%	3.2%
Benchmark: MSCI Emerging Markets Free	6.9%	-7.1%	2.5%
International	-11.6%	-14.0%	-2.2%
Benchmark : MSCI EAFE	-6.1%	-13.2%	-3.7%
Private Markets			
Real Estate	11.3%	11.5%	12.3%
Benchmark : NCREIF Classic Property	5.8%	7.2%	9.5%
Alternative Investments	-4.6%	-2.7%	3.1%
Benchmark : S&P 500 + 4.47%	4.8%	-7.1%	2.8%
Cash, Custodial and Investment Pool			
Cash	1.5%	3.0%	3.4%
Benchmark: 90-Day Treasury Bill	1.5%	3.3%	4.1%
TOTAL	3.0%	-0.9%	2.5%

Notes:

Realty is net of fees and lagged one quarter.

Securities Lending is lagged one quarter.

Alternative Investment is lagged one quarter.

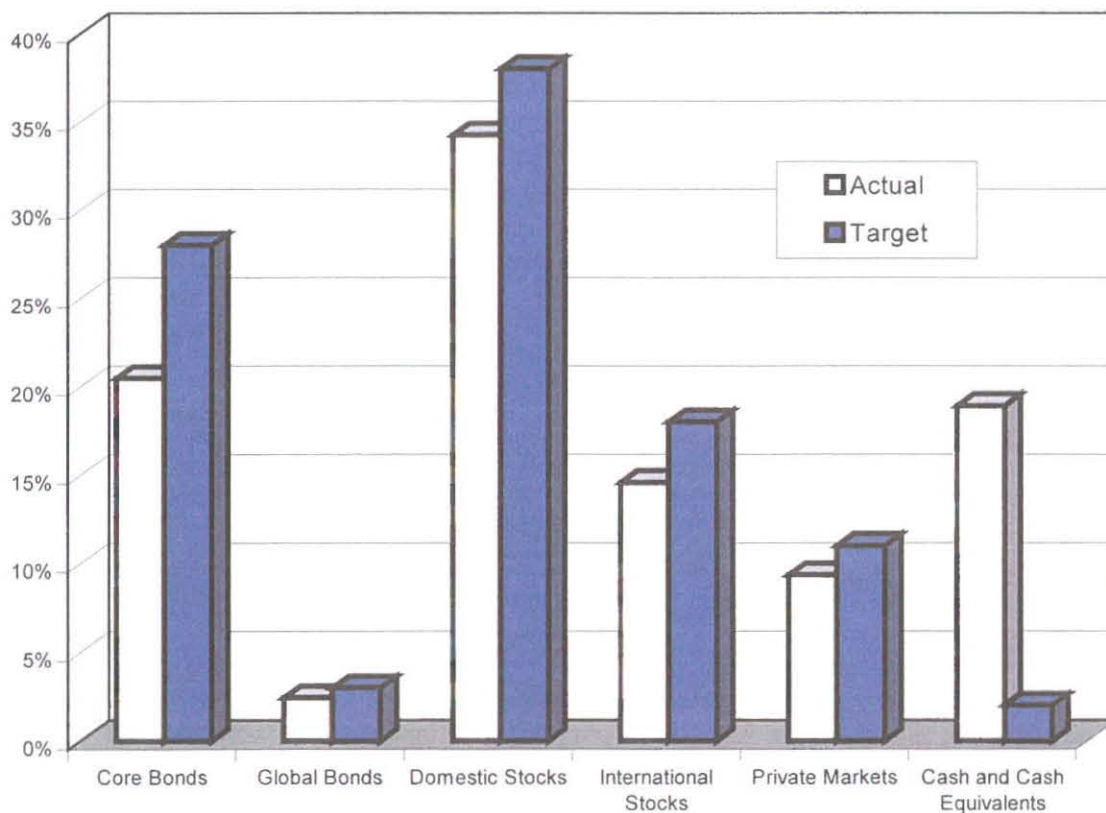
Investment results were prepared using a time-weighted rate of returned based on the market rate of return in accordance with AIMR's performance presentation standards.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET AND ACTUAL ASSET ALLOCATIONS
AS OF JUNE 30, 2003**

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

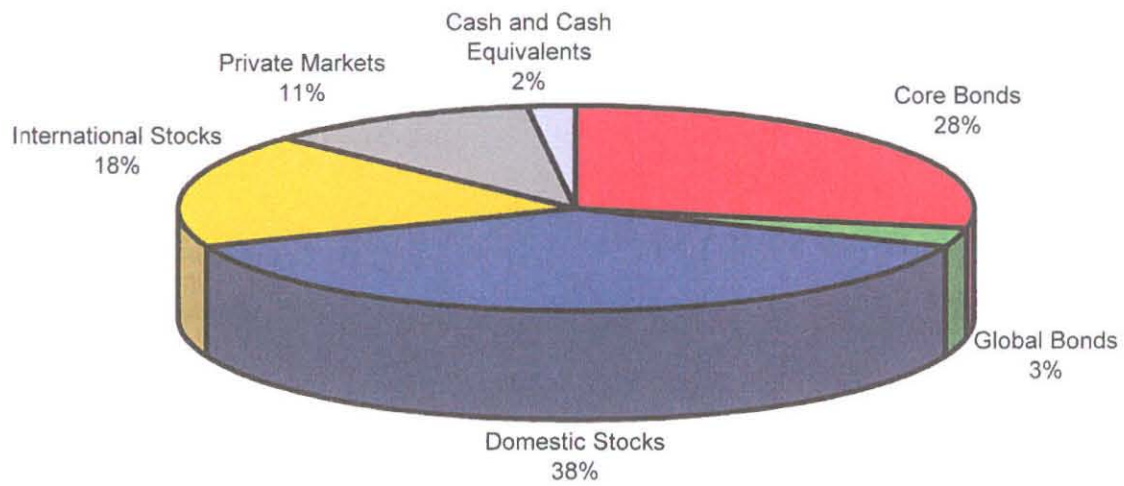
One keystone of asset allocation is diversification among asset classes. Diversification helps to maintain risk at a tolerable level. Therefore, the Board reviews the investment performance and volatility of each asset class on a regular basis over various time periods (quarterly, annually, multi-years)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

Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract. The 2002-03 target and actual asset allocations are presented in the following graphs:

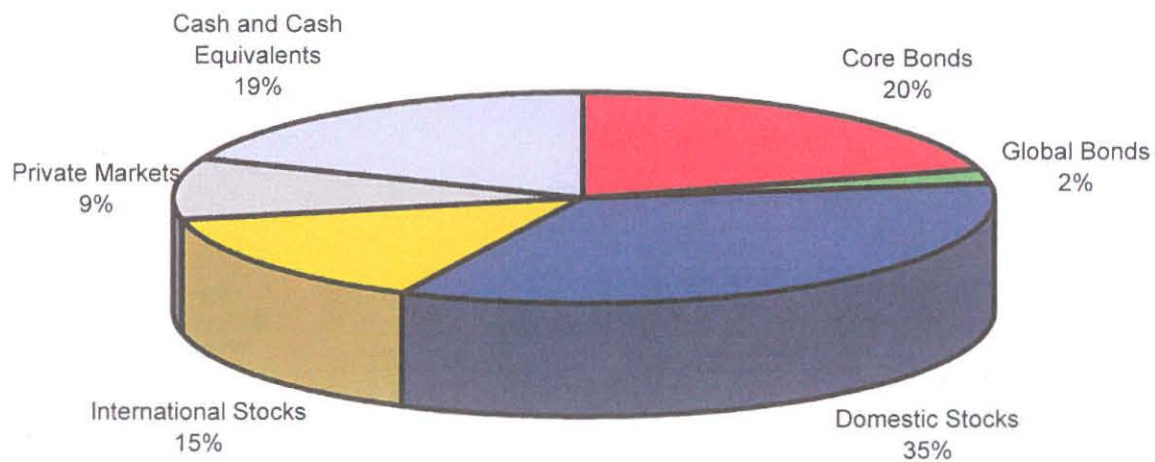


**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)
AS OF JUNE 30, 2003**

Target Percentages



Actual Percentages



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
LARGEST BOND HOLDINGS
AS OF JUNE 30, 2003**

PAR	NAME	FAIR VALUE
\$ 8,261,000	US T-BOND 5.375% 2/15/31	\$ 9,302,340
7,355,000	T-NOTE 6.125% 08/15/07	8,507,955
6,321,773	FNCL #670370 5.5 9/1/17	6,567,099
5,891,216	FNCL 6.5% 07/01/32	6,143,550
5,432,000	US T-NOTE 4.0% 11/15/2012	5,652,463
4,065,000	T-BOND 7.125% 02/15/23	5,447,259
5,043,853	FNCL 5.5% 03/01/33	5,222,161
4,250,000	T-NOTE 5.625% 5/15/2008	4,872,226
4,715,000	FNMA 3.5% 1/28/2008	4,852,673
4,317,000	FHLMC 30Y TBA JUL6 7/1/33	4,485,630
<u>\$ 55,651,842</u>	TOTAL	<u>\$ 61,053,356</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
LARGEST STOCK HOLDINGS
AS OF JUNE 30, 2003**

SHARES	NAME	FAIR VALUE
349,366	CITIGROUP, INC.	\$ 14,952,865
335,800	EXXON CORPORATION	12,058,578
303,135	PFIZER, INC.	10,352,060
116,300	BANK OF AMERICA	9,191,189
306,400	MICROSOFT CORP.	7,846,904
194,500	VERIZON	7,673,025
245,400	GENERAL ELECTRIC CO.	7,038,072
114,900	TEVA PHARMACEUTICALS	6,541,257
68,300	IBM	5,634,750
299,500	CISCO SYSTEMS	4,968,705
<u>2,333,601</u>	TOTAL	<u>\$ 86,257,405</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES AND COMMISSIONS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2003**

	2003	2002
Investment Manager Fees		
Domestic Stocks	\$ 1,945,545	\$ 2,185,902
International Stocks	1,435,461	1,704,658
Domestic Bonds	1,049,209	1,057,323
Private Markets	166,777	149,640
Total Investment Manager Fees	<u>\$ 4,596,992</u>	<u>\$ 5,097,523</u>
Other Investment Expenses		
Securities Lending Expense	\$ 4,369,153	\$ 4,829,676
Fiduciary Insurance Premium	33,017	28,244
Custodial Service Fees	360,225	375,201
Actuarial Service Fees	22,900	51,200
Executive Office Operation	168,090	-
Consulting Fees	322,096	177,643
Total Other Investment Expenses	<u>\$ 5,275,481</u>	<u>\$ 5,461,964</u>

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Alex Brown	4,488,558	\$ 7,045	\$0.0016	0.30%
Autranet, Inc	10,281,385	10,670	0.0010	0.45%
Bank of America	10,378,800	-	0.0000	0.00%
Bank One				
Capital Corp	2,435,791	-	0.0000	0.00%
Barclay	7,145,088	140	0.0000	0.01%
Bear, Stearns & Co	2,681,711	106,910	0.0399	4.51%
Boston Institutional				
Serv	6,172,800	63,379	0.0103	2.67%
Capital Institute	9,681,700	83,061	0.0086	3.51%
Chase Securities	2,535,500	324	0.0001	0.01%

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES AND COMMISSIONS (Continued)
FOR THE YEARS ENDED JUNE 30, 2002 AND 2003

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Credit Lyonnais Securities	10,054,690	51,349	0.0051	2.17%
Credit Suisse	7,501,600	26,650	0.0036	1.12%
CS First Boston	4,646,642	5,890	0.0013	0.25%
Deutsche Bank	6,483,221	112,458	0.0173	4.75%
Fifth Third Securities	3,789,430	2,266	0.0006	0.10%
First Boston Corp	3,279,971	26,721	0.0081	1.13%
First Tennessee	3,440,442	-	0.0000	0.00%
Goldman Sachs	2,865,146	145,829	0.0509	6.15%
Greenwich Capital Markets	16,933,394	3	0.0000	0.00%
JP Morgan Securities	18,823,448	47,716	0.0025	2.01%
Lehman	5,132,662	52,846	0.0103	2.23%
Lynch, Jones, & Ryan	7,500,700	518	0.0001	0.02%
Merrill Lynch Pierce	88,280,661	361,981	0.0041	15.28%
Morgan Stanley & Co	15,203,759	79,455	0.0052	3.35%
Salomon Brothers	46,609,187	28,802	0.0006	1.22%
Salomon Smith Barney	18,166,951	32,789	0.0018	1.38%
Warburg Securities	3,834,611	74,720	0.0195	3.15%
Wells Fargo	6,067,704	-	0.0000	0.00%
Other	<u>33,218,990</u>	<u>1,048,211</u>	<u>0.0316</u>	<u>44.23%</u>
Total Investment Trade Commissions	<u>357,634,542</u>	<u>\$2,369,733</u>	<u>\$0.0066</u>	<u>100.00%</u>

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT SUMMARY
AS OF JUNE 30, 2003

(amounts expressed in thousands)

	Fair Value	Actual Percentages	Target Percentages
Investments			
Domestic Bonds*	\$ 160,824	8.68%	28.00%
Global Bonds	44,844	2.42%	3.00%
US Government and Agencies	218,188	11.78%	0.00%
Total Bonds	<u>423,856</u>	<u>22.88%</u>	<u>31.00%</u>
Domestic Stocks	633,876	34.21%	38.00%
International Stocks	269,953	14.57%	18.00%
Total Stocks	<u>903,829</u>	<u>48.78%</u>	<u>56.00%</u>
Real Estate (Station Building)	1,793	0.10%	0.00%
Private Markets**	173,209	9.35%	11.00%
Total Investments	<u>1,502,687</u>	<u>81.11%</u>	<u>98.00%</u>
Cash and Cash Equivalents			
Cash held in County Investment Pool	6,551	0.35%	2.00%
Short term investment with fiscal agent	343,522	18.54%	0.00%
Total Cash and Cash Equivalents***	<u>350,073</u>	<u>18.89%</u>	<u>2.00%</u>
TOTAL INVESTMENT, CASH AND CASH EQUIVALENTS	<u><u>\$ 1,852,760</u></u>	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

* Includes mortgages.

** Includes real estate, futures, and alternative investments.

*** The overall target allocation for Cash and Cash Equivalents is 2% and is not broken down by the type of investment.

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ACTUARIAL SECTION



**Public Pension
Professionals, Inc.**

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

November 25, 2003

Board of Retirement
Fresno County Employees' Retirement Association
2281 Tulare Street, Room 102
Fresno, CA 93714
(559) 488-3486 (Telephone)
(559) 488-3493 (Facsimile)

Members of the Board:

The annual actuarial valuation required for the Fresno County Employees Retirement Association (FCERA) has been prepared as of June 30, 2002 by Public Pension Professionals, Incorporated. In preparing this valuation, we have employed generally accepted actuarial assumptions and methods to determine a sound value for the FCERA's assets, liabilities and future contribution requirements. In our opinion, the combined operation of the assumptions and methods applied in this valuation fairly represent past and anticipated future experience of FCERA and meet the parameters required by Government Accounting Standards Board Statement 25.

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

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

1. Schedule of Active Member Valuation Data
2. Schedule of Retirants and Beneficiaries Added to and Removed from Payroll
3. Solvency Test
4. Actuarial Analysis of Financial Experience
5. Schedule of Funding Progress

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

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

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

Sincerely,



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

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

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The UAAL is being funded over 15 years from the June 30, 2002 valuation date. The following interest rate assumptions along with the post retirement and pre-retirement demographic experiences are based on the plan's actuarial experience through June 30, 2002. The actuarial valuation report was approved and adopted by the Fresno County Board of Retirement on May 7, 2003.

- | | | |
|-----|--|--|
| 1. | Investment Rate of Return: | 8.00% per annum, compounded semiannually. (4.00% real, 4.00% inflation) |
| 2. | Interest Credited to Employee Accounts: | 8.00% per annum, compounded semiannually. |
| 3. | Inflation: | 4.00% per annum. |
| 4. | Salary Scale: | 4.00% per annum. (1% merit increase, 3.00% inflation) |
| 5. | Asset Valuation: | Smoothed market value. |
| 6. | Spouses and Dependents: | 90% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands. |
| 7. | Rates of Termination of Employment: | 0% to 16.50% |
| 8. | Years of Life Expectancy After Retirement: | 1994 Group Annuity Mortality |
| 9. | Years of Life Expectancy After Disability: | 1981 Disability Annuity Mortality |
| 10. | Life Expectancy After Retirement for Employee Contribution Rate Purposes | |
| | - General Members: | 1994 Group Annuity Table, set forward one Year |
| | - Safety Members: | 1994 Group Annuity Table for Males, with no adjustment |
| 11. | Reciprocity Assumption: | 50% of members who terminate with a vested benefit are assumed to enter a reciprocal system. |

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

- | | | |
|-----|---------------------------------------|---|
| 12. | Deferral Age for Vested Terminations: | 63 for General Members; 55 for Safety. |
| 13. | Sex: | All Safety members are assumed to be male. |
| 14. | Gains & Losses | Gains and Losses are reflected in the UAAL. They are found over the period described above. |

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2002.

Note: Adoption of new rates per Ventura Settlement.

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

Valuation Date	Plan Type	Number	Annual Payroll	Average Monthly Salary	% Increase in Average Salary
June 30, 1996 **	General	4,856	\$ 158,601,000	\$ 2,722	5.1%
	Safety	826	32,513,000	\$ 3,280	4.1%
	Total	<u>5,682</u>	<u>\$ 191,114,000</u>	<u>\$ 2,803</u>	5.7%
June 30, 1998	General	5,200	\$ 181,813,000	\$ 2,914	7.1%
	Safety	857	37,585,000	\$ 3,655	11.4%
	Total	<u>6,057</u>	<u>\$ 219,398,000</u>	<u>\$ 3,019</u>	7.7%
June 30, 2000	General	6,195	\$ 227,910,000	\$ 3,066	5.2%
	Safety	904	45,516,000	\$ 4,196	14.8%
	Total	<u>7,099</u>	<u>\$ 273,426,000</u>	<u>\$ 3,210</u>	6.3%
June 30, 2002	General	6,811	\$ 275,646,000	\$ 3,373	10.0%
	Safety	923	51,329,403	\$ 4,634	10.4%
	Total	<u>7,734</u>	<u>\$ 326,975,000</u>	<u>\$ 3,523</u>	9.8%

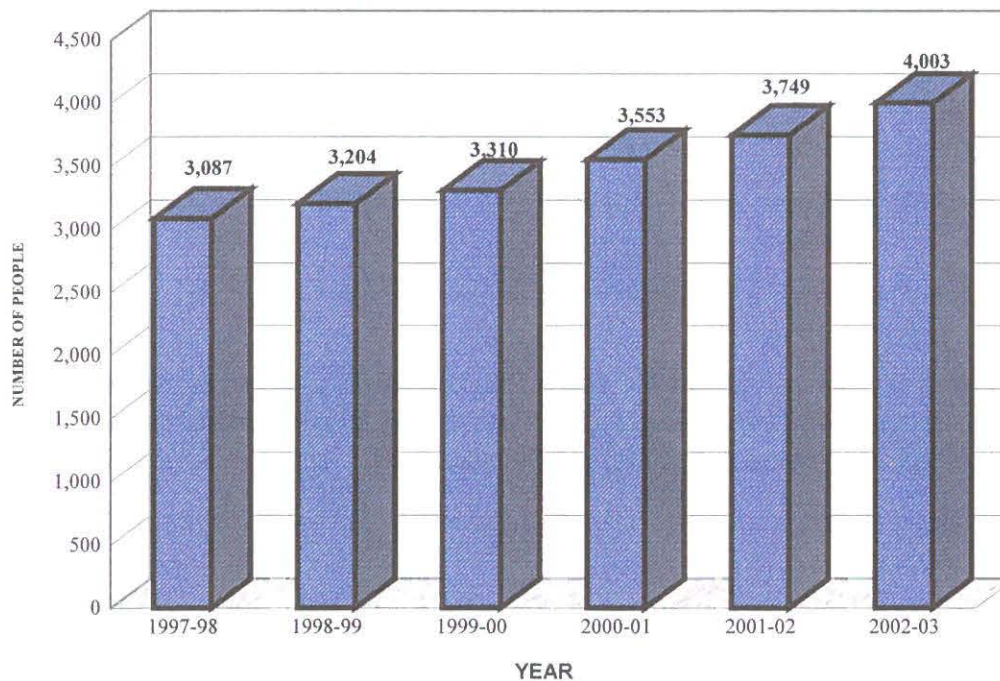
* The actuary study performed at June 30, 1996 included a prospective adjustment for members who terminated membership in the Association due to the merger of Valley Medical Center with Community Hospitals of Central California in October 1996.

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2002.

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

Year	Number at Beginning of Year	Number Added to Rolls	Number Removed From Rolls	Number at End of Year	Annual Allowance	% Increase in Annual Allowances	Average Annual Allowance	% Increase in Average Annual Allowance
1997-98	3,039	130	82	3,087	44,524,000	7.75%	14,423	6.08%
1998-99	3,087	215	98	3,204	46,583,000	4.62%	14,539	0.80%
1999-00	3,204	203	97	3,310	51,601,000	10.77%	15,589	7.22%
2000-01	3,310	339	96	3,553	63,242,000	22.56%	17,800	14.18%
2001-02	3,553	284	88	3,749	81,022,000	28.11%	21,612	21.42%
2002-03	3,749	347	93	4,003	92,729,000	14.45%	23,165	7.19%

RETIRANTS AND BENEFICIARIES AT THE END OF THE YEAR



FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FUNDING PROGRESS (GASB 25)
(amounts expressed in thousands)

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Overfunded) AAL	Funded Ratio	Covered Payroll	Unfunded (Overfunded) AAL Percentage of Covered Payroll
-----------------------------	---------------------------------	---	---------------------------------	-----------------	--------------------	---

June 30, 1994	\$ 795,748	\$ 1,008,658	\$ 212,910	78.90%	\$ 217,439	97.90%
June 30, 1996	1,296,256	1,470,331	174,075	88.20%	191,114	91.10%
June 30, 1998	1,647,935	1,549,166	(98,769)	106.4%	219,398	(45.0%)
June 30, 2000	1,698,282	1,719,905	21,623	98.7%	273,426	7.9%
June 30, 2002	1,674,900	1,932,300	257,400	86.7%	326,975	78.7%

The required employer contributions

Fiscal Year Ended	Annual Required Contributions	Percentage Contribution
-------------------	-------------------------------------	----------------------------

June 30, 1994	\$ 21,428	100%
June 30, 1996	21,468	100%
June 30, 1998	202,550 *	100%
June 30, 2000	-	N/A
June 30, 2002	110,996 **	100%

* Includes proceeds from Pension Obligation Bonds.

** Includes transfers from Undistributed Earnings.

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals Dated June 30, 2002.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF ANALYSIS OF FINANCIAL EXPERIENCE
(amounts expressed in thousands)

Changes to UAAL	2000	2002
Prior Valuation Unfunded Actuarial Accrued Liability	\$ (63,425)	\$ 21,623 *
Expected Increase from Prior Valuation	47,536	(24,661)
Salary Increase Greater (Less) than Expected	834	66,330
Asset Return Less (Greater) than Expected	8,308	100,658
Other Experience	22,804	68,109
Benefit Improvements	277,179	-
Asset Transfers for Benefit Improvements	(224,231)	-
Actuarial Assumptions Changes	(47,382)	32,787
Actuarial Value of Assets Method Change	-	18,097
Economic and Non-Economic Assumption Changes	-	(25,556)
Ending Unfunded Actuarial Accrued Liability (Surplus)	\$ <u>21,623</u>	\$ <u>257,387</u>

*Excludes the unused asset transfer of \$35,344,000 as of June 30, 1998.

Note: Information from actuarial valuations prior to June 30, 2002 was compiled from Actuarial Reports prepared by Buck Consultants. Information for June 30, 2002 prepared by Public Pension Professionals.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SOLVENCY TEST
(amounts expressed in thousands)

Valuation Date	Actuarial Accrued Liabilities for			Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions (1)	Vested, Retirants and Beneficiaries (2)	Active Members Employer Financed (3)		Active Member Contributions (1)	Vested, Retirants and Beneficiaries (2)	Active Members Employer Financed (3)
June 30, 1994	\$ 162,315	\$ 338,652	\$507,691	\$1,008,658	100%	100%	58%
June 30, 1996	\$ 190,456	\$ 439,643	\$840,232	\$1,296,256	100%	100%	79%
June 30, 1998	\$ 211,171	\$ 456,118	\$881,877	\$1,647,935	100%	100%	111%
June 30, 2000	\$ 251,943	\$ 622,130	\$845,832	\$1,698,282	100%	100%	97%
June 30, 2002	\$ 263,170	\$ 985,447	\$683,692	\$1,824,038	100%	100%	84%

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

Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
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General Members - Male

20	0.15500	0.00020	0.00000	0.00000	0.00000	0.00010	0.00010	0.00060
30	0.09000	0.00040	0.00010	0.00000	0.00010	0.00010	0.00010	0.00940
40	0.03900	0.00060	0.00030	0.00000	0.00040	0.00010	0.00020	0.02690
50	0.01000	0.00130	0.00110	0.03500	0.00100	0.00010	0.00060	0.01400
60	0.01000	0.00240	0.00230	0.15000	0.00230	0.00030	0.00160	0.00700
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

General Members - Female

20	0.16500	0.00010	0.00000	0.00000	0.00000	0.00000	0.00010	0.00270
30	0.09500	0.00030	0.00010	0.00000	0.00010	0.00000	0.00010	0.00450
40	0.03200	0.00060	0.00030	0.00000	0.00010	0.00000	0.00020	0.01670
50	0.02200	0.00100	0.00110	0.04000	0.00020	0.00000	0.00030	0.01170
60	0.01300	0.00180	0.00230	0.14000	0.00050	0.00000	0.00080	0.00450
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

Safety Members

20	0.10500	0.00020	0.00000	0.00000	0.00000	0.00020	0.00060	0.00010
30	0.06400	0.00030	0.00030	0.00000	0.00020	0.00030	0.00130	0.02500
40	0.01900	0.00050	0.00100	0.00000	0.00020	0.00050	0.00390	0.01200
50	0.00500	0.00080	0.00160	0.03000	0.00060	0.00080	0.10600	0.00000
60	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals
dated June 30, 2002.

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

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

General Members - Male

50	30.73
60	21.87
70	14.33
80	8.41
90	4.46
100	2.43
110	1.54

General Members - Female

50	33.98
60	24.74
70	16.58
80	9.76
90	5.02
100	2.54
110	1.55

Safety Members

50	30.73
60	21.87
70	14.33
80	8.41
90	4.46
100	2.43
110	1.57

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2002.

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

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

General Members

20	38.77
30	32.02
40	26.26
50	21.12
60	16.41
70	11.74
80	7.05
90	4.13
100	2.25
110	0.54

Safety Members

20	49.33
30	40.40
40	31.81
50	23.63
60	16.69
70	11.74
80	7.05
90	4.13
100	2.25
110	0.54

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2002

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

1. ELIGIBILITY

First of day of pay period following date of employment.

2. DEFINITION OF SALARY

Highest 12 consecutive months of compensation earnable.

3. SERVICE RETIREMENT

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

- Early retirement

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

- Benefit

1/40 times final average salary per year of service.

- Benefit Adjustments

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

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

4. DISABILITY RETIREMENT

- Non-service connected

2.25% of final average salary per year of service, with a maximum of 33-1/3% if projected service is used (age 60 for General, age 55 for Safety), or 90% of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible).

- Service-connected

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

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

5. DEATH BEFORE RETIREMENT

- Refund of contributions plus 1/12 of salary per year of service up to 6 years.
- If eligible for disability or service retirement
 - 60% of member's accrued allowance.
- If service-connected
 - 50% of salary.

6. DEATH AFTER RETIREMENT

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

7. VESTING

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

8. MEMBERS' CONTRIBUTIONS

Based on entry age.

9. COST-OF-LIVING

Maximum 3% COLA for all members.

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2002.

STATISTICAL SECTION

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TABLE OF REVENUE BY SOURCE AND EXPENSES BY TYPE
Fiscal Years Ended 1998 through 2003
(amounts expressed in thousands)

REVENUES BY SOURCE

Fiscal Year Ended June 30	Member Contributions	Employer Contributions	Net Investment Income	Total	Employer Contributions as a Percentage of Annual Covered Payroll
1998	7,168	202,550 *	250,001	459,719	93.4%
1999	7,775	6,005	105,166	118,946	2.6%
2000	9,198	-	133,170	142,368	0.0%
2001	9,973	-	(33,930)	(23,957)	0.0%
2002	14,434	7,780	(63,285)	(41,071)	2.6% **
2003	19,974	33,583	27,455	81,012	10.3%

* Includes proceeds from Pension Obligation Bonds

** Includes change to prior year (2002) percentage of Annual Covered Payroll

EXPENSES BY TYPE

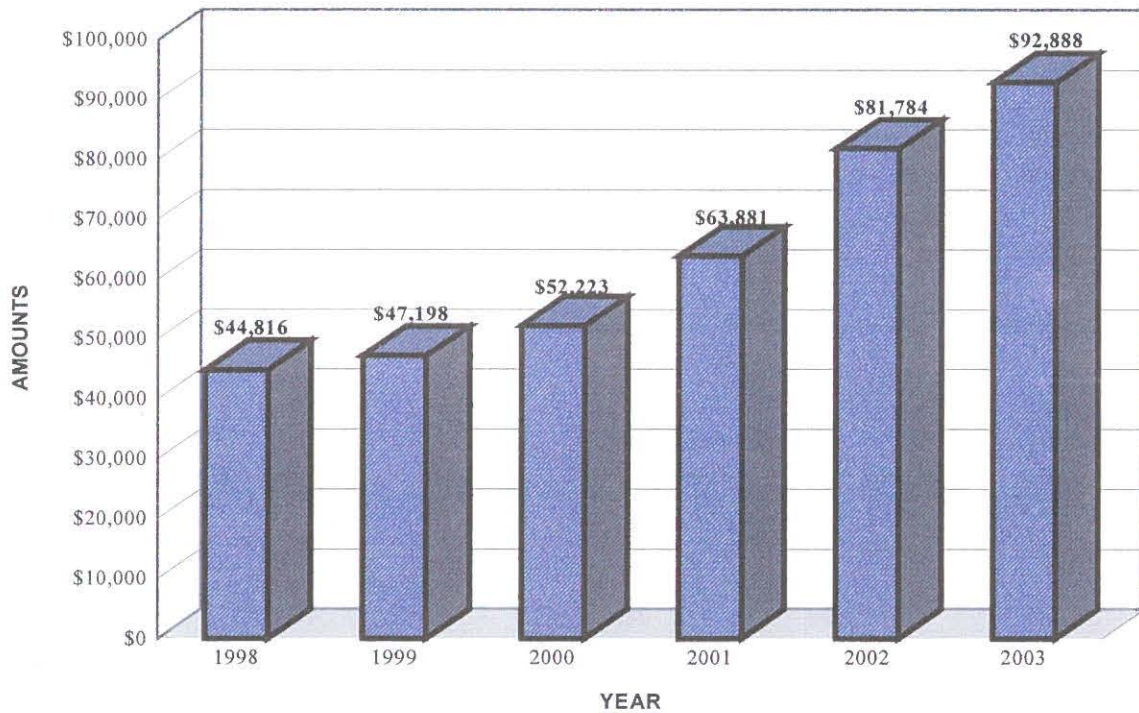
Fiscal Year Ended June 30	Benefits	Administrative Expenses	Refunds	Total
1998	44,816	721	1,772	47,309
1999	47,198	764	1,568	49,530
2000	52,223	867	2,275	55,365
2001	63,881	2,235	1,146	67,262
2002	81,784	1,544	870	84,198
2003	92,888	2,058	904	95,850

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

MEMBERS	1998	1999	2000	2001	2002	2003
GENERAL	\$ 37,715	\$ 39,263	\$ 42,909	\$ 52,480	\$ 65,113	\$ 72,875
SAFETY	6,587	7,239	8,530	10,529	15,378	18,710
SURVIVOR	514	696	784	872	1,293	1,303
TOTAL	\$ 44,816	\$ 47,198	\$ 52,223	\$ 63,881	\$ 81,784	\$ 92,888

BENEFIT EXPENSES

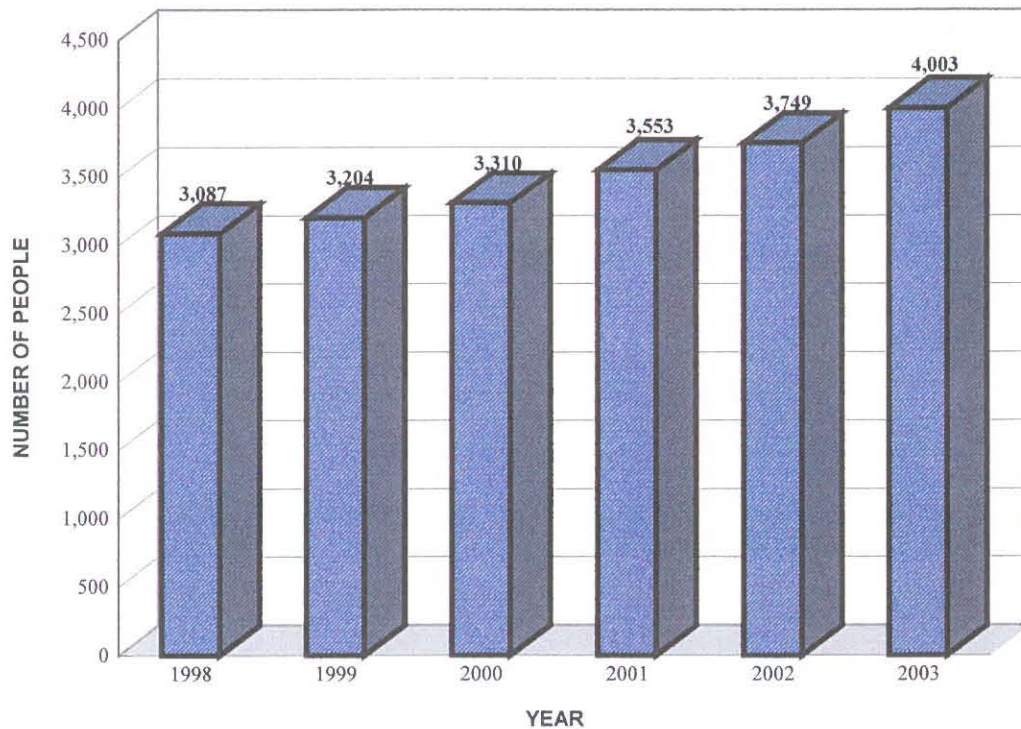
(amounts expressed in thousands)



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

MEMBERS	1998	1999	2000	2001	2002	2003
GENERAL	2,732	2,816	2,897	3,089	3,235	3,435
SAFETY	292	318	338	390	435	488
SURVIVOR	63	70	75	74	79	80
TOTAL	3,087	3,204	3,310	3,553	3,749	4,003

TOTAL RETIRED MEMBERS



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

Valuation Date	Plan type	Annual Number	Annual Benefits	Annual Average Benefits	% Increase in Average Benefits
6/30/1992	General	2,252	\$ 22,042,236	\$ 9,788	14.8%
	Safety	220	3,690,720	16,776	0.5%
	Total	<u>2,472</u>	<u>\$ 25,732,956</u>	<u>\$ 26,564</u>	5.4%
6/30/1994	General	2,349	\$ 24,672,182	\$ 10,503	7.3%
	Safety	256	4,586,192	17,915	6.8%
	Total	<u>2,605</u>	<u>\$ 29,258,374</u>	<u>\$ 28,418</u>	7.0%
6/30/1996	General	2,721	\$ 32,505,087	\$ 11,946	13.7%
	Safety	280	5,327,290	19,026	6.2%
	Total	<u>3,001</u>	<u>\$ 37,832,377</u>	<u>\$ 30,972</u>	9.0%
6/30/1998	General	2,746	\$ 34,052,681	\$ 12,401	3.8%
	Safety	298	5,919,878	19,865	4.4%
	Total	<u>3,044</u>	<u>\$ 39,972,559</u>	<u>\$ 32,266</u>	4.2%
6/30/2000	General	2,901	\$ 38,686,107	\$ 13,335	7.5%
	Safety	330	7,581,842	22,975	15.7%
	Total	<u>3,231</u>	<u>\$ 46,267,949</u>	<u>\$ 36,310</u>	12.5%
6/30/2002	General	3,287	\$ 66,423,696	\$ 20,208	51.5%
	Safety	426	16,261,272	38,172	66.1%
	Total	<u>3,713</u>	<u>\$ 82,684,968 *</u>	<u>\$ 58,380</u>	60.8%

Source: Biennial actuary reports.

* Actuary report prepared by Public Pension Professionals includes settlement benefits, except for health benefits, and purchasing power benefits.

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

	1998	1999	2000	2001	2002	2003
Active Vested						
General	3,588	3,412	3,674	3,466	3,566	3,600
Safety	488	590	614	641	630	605
Total	4,076	4,002	4,288	4,107	4,196	4,205
Active Nonvested						
General	1,551	2,241	2,691	3,083	3,299	3,054
Safety	385	273	304	301	293	328
Total	1,936	2,514	2,995	3,384	3,592	3,382
Total Active Members						
General	5,139	5,653	6,365	6,549	6,865	6,654
Safety	873	863	918	942	923	933
TOTAL	6,012	6,516	7,283	7,491	7,788	7,587
Deferred Members	1,289	1,310	1,326	1,353	1,467	1,376
TOTAL	1,289	1,310	1,326	1,353	1,467	1,376

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

	1998	1999	2000	2001	2002	2003
County of Fresno						
General Members	5,098	5,605	6,312	6,494	6,807	6,596
Safety Members	833	825	877	902	884	893
Total	5,931	6,430	7,189	7,396	7,691	7,489
Participating Agencies (General Members)						
Clovis Memorial	3	4	4	4	3	4
Fresno County Office of Education	2	3	3	1	1	1
Fresno Mosquito and Vector Control	9	10	10	10	10	10
Fresno-Madera Area Agency on Aging	20	25	29	34	37	36
North Central Fire Protection	7	6	7	6	7	7
Total	41	48	53	55	58	58
Participating Agencies (Safety Members)						
North Central Fire Protection	40	38	41	40	39	40
Total	40	38	41	40	39	40
Total Active Members						
General Members	5,139	5,653	6,365	6,549	6,865	6,654
Safety Members	873	863	918	942	923	933
TOTAL	6,012	6,516	7,283	7,491	7,788	7,587

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

EFFECTIVE DATES		GENERAL	SAFETY
July 1, 2002	to June 30, 2003	7.20%	24.88%
October 1, 2001	to June 30, 2002	0.00% *	21.87% *
July 1, 2000	to September 30, 2001	0.00% *	0.00% *
June 28, 1999	to June 30, 2000	0.00% *	0.00% *
March 20, 1998	to June 27, 1999	2.07%	5.93%
June 19, 1995	to March 19, 1998	10.81%	14.95%

The employer contribution rates above reflect the aggregate rates.

* Employer rates were reduced through the use of undistributed earnings.