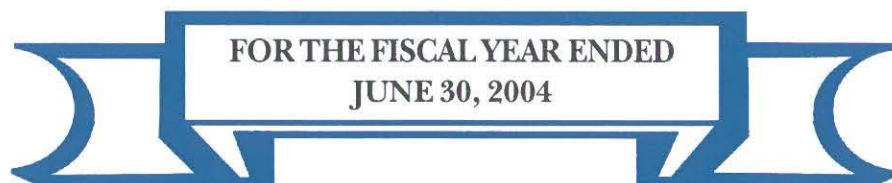




**FRESNO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

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



Fresno County, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2004

ISSUED BY

ROBERTO L. PEÑA
RETIREMENT ADMINISTRATOR

BECKY VAN WYK, CPA
CHIEF ACCOUNTANT

FCERA

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

A COMPONENT UNIT OF THE COUNTY OF FRESNO

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INTRODUCTORY SECTION



Roberto L. Peña
Retirement Administrator

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT

John P. Souza, Chair
Vera Dominguez, Vice Chair
Michael Cardenas
Bill Casarez
Vicki Crow
Steven J. Jolly
Phil Larson
A. Papaleo
Michael Thobe
Jerry Swan, Alternate

November 8, 2004

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Fresno County Employees' Retirement Association (FCERA) for the fiscal year ended June 30, 2004, our 59th and a half year of operation. Information contained in this report is designed to provide a comprehensive and accurate review of the year's operations and is the responsibility of the Association's management. 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. Macias, Gini & Company LLP, independent auditors, have audited the financial statements. The Board of Retirement (Board) adopts a budget each fiscal year to facilitate the oversight of the Retirement Office's administrative functions. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

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

REPORT CONTENTS

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

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

FCERA AND ITS SERVICES

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

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

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

The Board is responsible for the general management of FCERA and is currently comprised of 10 members, one of whom is a retiree alternate. Four Board members are appointed by the Fresno County Board of Supervisors, four Board members are elected by FCERA's active membership and two Board members, including the retiree alternate,

are elected by the retirees. The County Treasurer serves as an ex-officio member. Board members, with the exception of the County Treasurer, serve three year terms in office, with no term limits.

FINANCIAL INFORMATION

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due or made.

An overview of FCERA's fiscal operations for the year ended June 30, 2004, is presented in the Management's Discussion and Analysis (MD&A) which is located in the financial section of the CAFR. This transmittal letter, together with the MD&A, provides an expanded view of the activities of FCERA.

Macias, Gini & Company LLP, FCERA's independent auditor, has audited the accompanying financial statements. Management believes that an adequate system of internal control is in place and the accompanying statements, schedules and table are fairly presented and free from material misstatement.

INVESTMENTS

The Board has exclusive control of all retirement system investments and is responsible for establishing investment objectives, strategies and policies. The California Constitution and Government Cost Sections 31594 and 31595 authorize the Board to invest in any investment deemed prudent in the Board's opinion, a principle commonly known as the "prudent person rule".

The Board has adopted an Investment Policy, which provides the framework for the management of FCERA's investments. This policy establishes FCERA's investment objectives and defines the principal duties of the Board and investment managers. The asset allocation is an integral part of the Investment Policy and is designed to provide an optimum mix of asset classes with return expectations that reflect expected liabilities. A summary of the asset allocation can be found in the Investment Section of this report.

On a market value basis, the total net assets held in trust increased from \$1.55 billion at June 30, 2003 to \$2.14 billion at June 30, 2004. For the year ended June 30, 2004 FCERA's investment portfolio returned 16.6%, before investment management fees and reflected market conditions throughout the year. FCERA's annualized rate of return was 4.8% over the last three years and 4.2% over the last five years, gross of fees.

ACTUARIAL FUNDING STATUS

Pursuant to provisions in the County Employees Retirement Law of 1937, FCERA engages an independent actuarial firm to perform an actuarial valuation of the system

annually. Economic assumptions are reviewed annually. Additionally, every 3 years, a triennial experience study of the members of FCERA is completed. The non-economic assumptions are updated at the time each triennial experience study is performed. The most recent triennial experience study, which was completed by Public Pension Professionals (P³) was performed as of June 30, 2003. The P³ actuarial valuation as of June 30, 2003, determined the funding status (the ratio of system assets to system liabilities) to be 78.6%, using approved assumptions.

However, in March 2004, the County of Fresno issued \$402,898,000 of pension obligation bonds, of which \$398,010,000 was used to satisfy the majority of the Unfunded Actuarial Accrued Liability (UAAL) for the County, calculated as of that date which brought the funding status up to 98.4%. A more detailed discussion of funding is provided in the Actuarial Section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Association for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the seventh 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.

MAJOR INITIATIVES

The FCERA completed construction of a 9,000 square foot office building in May 2004. The building, which will benefit the association's members for many years, will be the home of the FCERA staff and includes a conference room and board room on site with a projection system.

Investment searches were completed for two new large cap growth equity managers and a core plus fixed income manager. In addition, one of the active domestic equity accounts was transitioned to a passive domestic equity index account to improve returns and decrease associated costs.

A lawsuit was filed against the Board by the County of Fresno to force a change in the method of calculating the final compensation used to determine retirement benefits. In

March 2004, the Board adopted a motion to change the method of calculating final compensation from using the 26 highest non-consecutive pay periods to using 365 consecutive days. It was anticipated that FCERA would be able to implement the new calculation in September 2004. However, due to additional programming changes to modify the software used to calculate retirement benefits, implementation of the change in calculating final compensation was implemented in November 2004.

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 larger and more prominent than the last name "Peña".

Roberto L. Peña
Retirement Administrator

RLP:bvw

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Fresno County
Employees' Retirement Association,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.



Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director

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

ADMINISTRATOR

ROBERTO L. PEÑA
Retirement Administrator

CHAIRMAN

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

VICE CHAIRPERSON

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

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

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

MEMBER

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

MEMBER

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

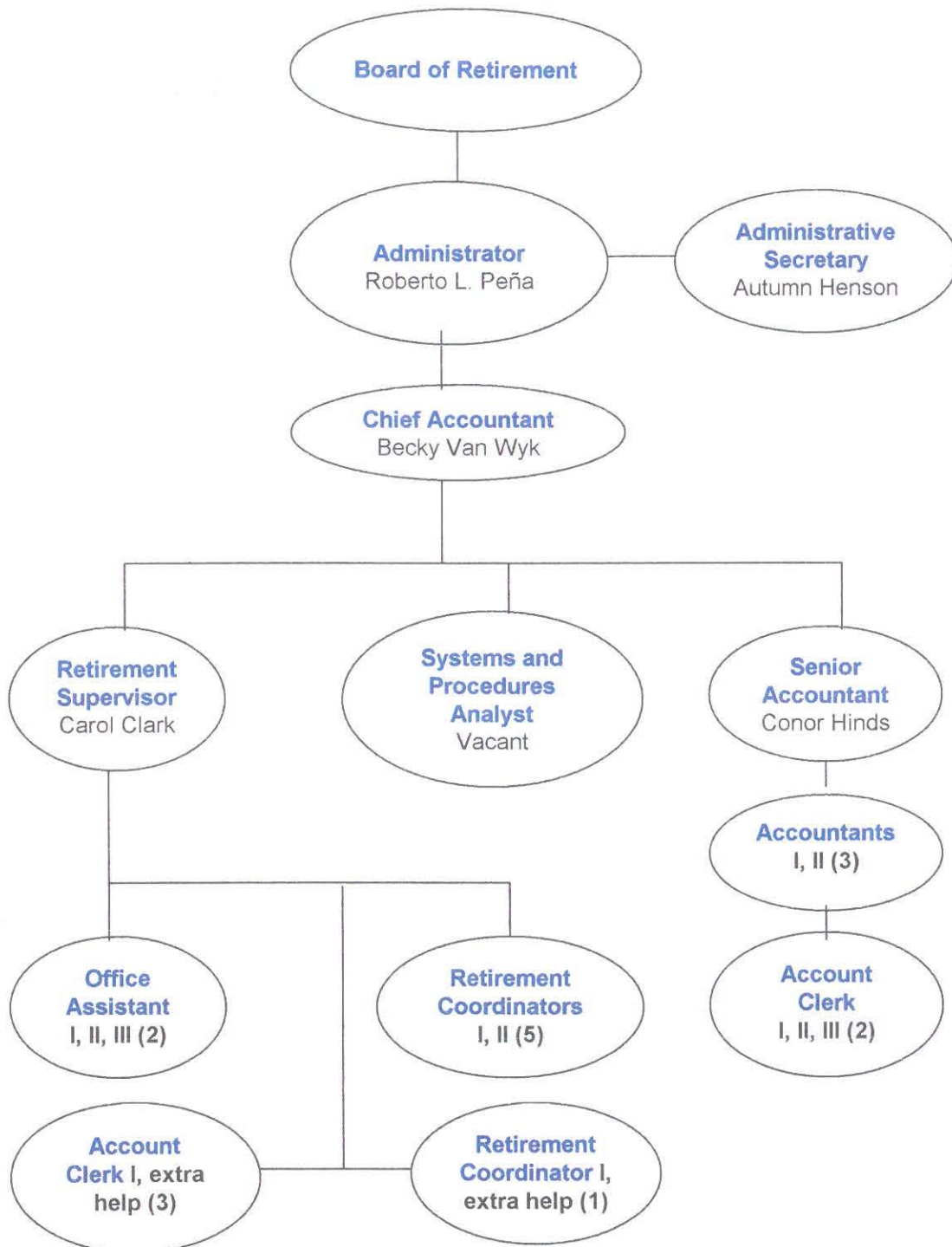
MEMBER

PHIL LARSON
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



Total number of positions authorized - 22

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

CONSULTING SERVICES

ACTUARY

Public Pension Professionals

AUDITOR

Macias, Gini and Company, LLP
Price Waterhouse Coopers

COMMISSION RECAPTURE SERVICES

Lynch, Jones & Ryan
BNY Brokerage Services

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
County Counsel

SECURITIES LENDING

Marshall & Ilsley Trust Company

INVESTMENT MANAGERS

DOMESTIC BONDS

BlackRock Financial Management Inc.
Boston Partners Assets Management, LP
Bradford & Marzec, Inc.
Loomis Sayles
State Street Global Advisors

GLOBAL BONDS

Grantham, Mayo, Van Otterloo & Co.
State Street Global Advisors

DOMESTIC STOCKS

Aronson, Johnson & Ortiz, LP
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.
Lone Star Management Co. IV, Ltd.
New Mountain Capital, LLC
Sentinel Real Estate Corporation
TA Associates Realty
TCW Asset Management Company
The Blackstone Group
Warburg, Pincus and Co.

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FINANCIAL SECTION



MACIAS GINI & COMPANY^{LLP}

3000 S Street, Ste. 300
Sacramento, California 95816

916.928.4600 PHONE
916.928.2755 FAX

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements 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, 2004 and 2003, and the related statements of changes in plan net assets for the fiscal years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2004 and 2003, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 + Company LLP

Certified Public Accountants

Fresno, California
November 8, 2004

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, 2004 and 2003. Please read it in conjunction with the Letter of Transmittal in the Introductory Section of the Association's Comprehensive Annual Financial Report, and the Financial Statements, which follow this discussion.

Financial Highlights

- Net assets held in trust by the Association, as reported on the *Statement of Plan Net Assets*, totaled \$2,140,712,000 as of June 30, 2004. Net assets increased by \$590,072,000 or 38.0%, consistent with economic and market conditions through out the year and receipt of the proceeds of a Pension Obligation Bond issued by the County of Fresno. Net assets totaled \$1,550,640,000 as of June 30, 2003, which was a net decrease of \$14,902,000 (1.0%) from June 30, 2002. 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 \$700,066,000 in additions to plan net assets. Of this amount, \$184,760,000 represents appreciation in the fair value of investments (an increase to net additions of 26.4%), interest of \$20,614,000 (2.9% of the net additions) and employer and employee contributions of \$461,189,000 (65.9% of the net additions). For June 30, 2003, a net increase of \$80,947,000 in additions to plan net assets is reported. The net increase was comprised of \$19,837,000 depreciation in the fair value of investments, interest and other investment income of \$50,807,000 and employer and employee contributions of \$53,557,000.
- The *Statement of Changes in Plan Net Assets* for June 30, 2004 includes receipt of \$398,141,000 in employer contributions received from the proceeds of Pension Obligation Bonds (POB) issued by the County of Fresno to fund a portion of the estimated Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2003.
- The *Statement of Changes in Plan Net Assets* for June 30, 2004 reflects total deductions from plan net assets of \$109,994,000, an increase of 14.8% over prior year deductions of \$95,849,000. Total deductions from plan net assets for June 30, 2003 totaled \$95,849,000, an increase of 13.8% over the prior year deductions of \$84,198,000. The majority of the increases represent increased benefits paid.
- The Association invests the retirement funds through a variety of investment managers and private markets. Investment profits and/or losses are allocated semi-annually based upon the fund 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. The actuarial valuation prepared for the one year period ended June 30, 2003 reported the funding ratio as 78.5%, a reduction of 8.2% from the funding ratio as of June 30, 2002. With the receipt of \$398,141,000 proceeds from the County's issuance of the POB, our current funding ratio increased to 98.4% which means we are under-funded in that we have \$0.98 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 increased 38.1% in 2004, from a beginning value of \$1,550,640,000 to \$2,140,712,000. The increase was primarily due to increases in the contributions received from employers and net appreciation in the fair value of investments. The net assets for June 30, 2003 decreased \$14,902,000 (1.0%) from the June 30, 2002 balance of \$1,565,542,000 due to decreases in the net appreciation in the fair value of investments during that period. Investment trades receivable and payable at June 30, 2004 increased \$157,874,000 (256.8%) and \$224,709,000 (266.3%), respectively, over the June 30, 2003 balances of \$61,427,000 and \$84,391,000 due to trades that did not settle until after the end of the fiscal year. The cash collateral payable for securities lending decreased \$45,941,000 (16.0%) to \$241,768,000 from the June 30, 2003 balance of \$287,709,000. The June 30, 2003 balance of cash collateral payable for securities lending had increased \$103,474,000 from the June 30, 2002 balance of \$184,235,000. This was a 56.2% increase in this account. (The following table presents the net assets amounts in thousands).

	2004	2003	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Current and other assets	\$ 2,694,928	\$ 1,925,192	\$ 769,736	40.0%
Capital assets	2,746	627	2,119	338.0%
Total assets	<u>\$ 2,697,674</u>	<u>\$ 1,925,819</u>	<u>771,855</u>	40.1%
Other liabilities				
Total liabilities	556,962	375,179	181,783	48.5%
Net assets	<u>\$ 2,140,712</u>	<u>\$ 1,550,640</u>	<u>\$ 590,072</u>	38.1%

During fiscal year 2004, FCERA completed construction of its new Administration Building. Construction costs of \$2,102,901 were capitalized to be recovered over 30 years.

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, 2004, total additions to plan net assets increased by 764.8% from the prior year due primarily to the receipt of \$398,141,000 in employer contributions from the proceeds of a POB issued by the County of Fresno. Net investment income increased by 772.1%, while total contributions increased by 761.1%. The investment section of this report reviews the results of investment activity for the fiscal year 2004. The additions to plan net assets for the fiscal year ended June 30, 2003 increased \$122 million from June 30, 2002. Net investment income increased \$91 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.

	2004	2003	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Additions:				
Contributions	\$ 461,189	\$ 53,557	\$ 407,632	761.1%
Net Investment Income	238,877	27,390	211,487	772.1%
Total Additions	<u>700,066</u>	<u>80,947</u>	<u>619,119</u>	764.8%
Deductions:				
Benefits paid	107,993	93,791	14,202	15.1%
Administrative Costs	2,001	2,058	(57)	-2.8%
Total Deductions	<u>109,994</u>	<u>95,849</u>	<u>14,145</u>	14.8%
Increase/decrease in net assets	590,072	(14,902)	604,974	4059.7%
Net assets, beginning of year	1,550,640	1,565,542	(14,902)	-1.0%
Net assets, end of year	<u>\$ 2,140,712</u>	<u>\$ 1,550,640</u>	<u>\$ 590,072</u>	38.1%

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 2004 totaled \$109,994,000, an increase of 14.8%

over 2003. Deductions for fiscal year 2003 totaled \$95,849,000, an increase of 13.8% over the 2002 amount of \$84,198,000. 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 0.07% and 0.11% of total assets in 2004 and 2003, 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 \$110 million during 2004 combined with the contributions to plan net assets of \$461 million and net investment income of \$239 million, which are depicted on the previous page, accounts for the net increase in plan assets of \$590 million in 2004.

Reporting the Association's Fiduciary Responsibilities

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

The Retirement Fund As A Whole

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

Contacting the Association's Financial Management

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

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

FCERA
1111 H Street
Fresno, CA 93721

Respectfully submitted,



Becky Van Wyk, CPA, CGFM

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2004 AND 2003

(Amounts expressed in thousands)

	2004	2003
ASSETS:		
Cash and cash equivalents with fiscal agents	\$ 86,671	\$ 62,365
Securities lending short-term investment pool	241,768	287,708
Total cash and cash equivalents (Note 3)	<u>328,439</u>	<u>350,073</u>
Receivables:		
Investment trades receivable (Note 4)	219,201	61,427
Interest and dividends receivable	6,475	5,656
Contributions and other receivables	4,993	4,135
Securities lending receivable	283	366
Note receivable (Note 5)	-	809
Total receivables	<u>230,952</u>	<u>72,393</u>
Investments, at fair value (Note 3):		
Commercial paper	63,898	-
U.S. Government and agencies bonds	360,486	218,188
Domestic bond index fund	96,622	-
Domestic equity index fund	137,235	-
Global bond index fund	48,803	44,844
Domestic bonds	171,521	158,687
Domestic stocks	721,731	633,876
International stocks	341,667	269,953
Foreign bonds	1,179	-
Mortgages	2,459	2,137
Private markets	189,796	175,002
Total investments	<u>2,135,397</u>	<u>1,502,687</u>
Prepaid expenses	140	39
Capital assets (Note 6)		
Nondepreciable	-	111
Depreciable, net	2,746	516
Total capital assets, net	<u>2,746</u>	<u>627</u>
Total assets	<u>2,697,674</u>	<u>1,925,819</u>
LIABILITIES:		
Investment trades payable (Note 4)	309,100	84,391
Cash collateral payable for securities lending (Note 3)	241,768	287,709
Accounts payable	5,863	2,766
Securities lending bank and broker fees	231	313
Total liabilities	<u>556,962</u>	<u>375,179</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
(Note 7)	<u>\$ 2,140,712</u>	<u>\$ 1,550,640</u>

(A schedule of funding progress appears on page 33).

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, 2004 AND 2003
(Amounts expressed in thousands)

	<u>2004</u>	<u>2003</u>
ADDITIONS:		
Contributions:		
Employers	\$ 442,949	\$ 33,583
Plan members	18,240	19,974
Total contributions	<u>461,189</u>	<u>53,557</u>
Investment income/(loss):		
From investment activities		
Net appreciation/(depreciation) in fair value of investments	184,760	(19,837)
Interest	20,614	25,141
Dividends	18,770	16,216
Private markets	20,268	9,450
Net income from investment activities	<u>244,412</u>	<u>30,970</u>
From securities lending activities		
Securities lending income	3,851	4,957
Securities lending expenses		
Borrower rebate expenses	(2,939)	(4,153)
Security lending management fees	(228)	(216)
Net income from securities lending activities	<u>684</u>	<u>588</u>
Miscellaneous income	418	1,335
Investment expense	(6,637)	(5,503)
Net investment income	<u>238,877</u>	<u>27,390</u>
Total additions	<u>700,066</u>	<u>80,947</u>
DEDUCTIONS:		
Benefits and refunds paid to plan members and beneficiaries	107,993	93,791
Administrative expenses	2,001	2,058
Total deductions	<u>109,994</u>	<u>95,849</u>
NET INCREASE/(DECREASE)	590,072	(14,902)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>1,550,640</u>	<u>1,565,542</u>
END OF YEAR	<u>\$ 2,140,712</u>	<u>\$ 1,550,640</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, 2004 AND 2003**

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, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Retirees and beneficiaries receiving benefits	4,234	4,003
Terminated employees entitled to benefits but not yet receiving them	1,378	1,376
Current employees:		
Vested:		
General	3,385	3,600
Safety	581	605
Nonvested:		
General	3,242	3,054
Safety	<u>345</u>	<u>328</u>
Total current employees	<u>7,553</u>	<u>7,587</u>
Total membership	<u><u>13,165</u></u>	<u><u>12,966</u></u>

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

Benefit Provisions

The Board under the provisions of the 1937 Act administers benefit provisions. Benefits are based upon a combination of age, years of service, average monthly salary for the highest paid year of employment, the option selected by the participant, and whether the participant was employed as a safety member or as a general member. Disability and death benefits are additionally based upon whether the disability was service connected 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 and two alternate members:

1. County Treasurer,
2. Two members of the Association elected by the general members,
3. One member of the Association elected by the safety members,
4. One retired member of the Association elected by the retired members, and
5. Four members appointed by the County Board of Supervisors. These members shall be qualified electors of the County who are not connected with County government in any capacity, except one may be a County Supervisor.
6. One alternate member of the Association from the safety members who represents one of the other safety classifications not represented by the Board member who received the highest number of votes during the election, and
7. One alternate member of the Association elected by the retired members.

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(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, 2004 AND 2003
(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 and domestic bond index funds, domestic equity 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, 2004 and 2003.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

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

<u>June 30, 2004</u>	<u>Category 1</u>	<u>Fair Value</u>
Cash and cash equivalents with fiscal agent	\$ 72,586	\$ 72,586
Investments:		
Commercial paper	63,898	63,898
Domestic stocks	615,514	615,514
Domestic bonds	169,759	169,759
Foreign bonds	1,179	1,179
U S government agencies and bonds	250,139	250,139
International stocks	325,625	325,625
Total investments	<u>1,426,114</u>	<u>1,426,114</u>
Investments not considered securities for the purposes of custodial risk classification:		
Cash held in County investment pool	14,085	14,085
Securities lending short-term investment pool	241,768	241,768
Mortgages	2,459	2,459
Domestic equity index fund	137,235	137,235
Domestic bond index fund	96,622	96,622
Global bond index fund	48,803	48,803
Private markets (investments in limited partnerships, hedge fund, real estate, and executive office operations)	189,796	189,796
Securities on loan, collateralized with cash	234,368	234,368
Total deposits and investments	<u>\$ 2,463,836</u>	<u>\$ 2,463,836</u>
<u>June 30, 2003</u>	<u>Category 1</u>	<u>Fair Value</u>
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 operation)	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>

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(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, 2004, the Association has approximately \$28 million of its \$342 million foreign equity portfolio hedged through the use of such forward foreign currency contracts. At June 30, 2003, approximately \$47 million of the Association's \$270 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, 2004 and 2003, the Association had approximately \$15,139 and \$12,076 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.

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.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

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

Securities Lending (Continued)

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, 2004 and June 30, 2003. 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, 2004</u>	<u>June 30, 2003</u>
Domestic stocks	\$ 106,217	\$ 156,357
International stocks	16,042	19,544
Total stocks on loan	122,259	175,901
U S government and agencies	110,347	82,508
Domestic bonds	1,762	19,834
Total bonds on loan	112,109	102,342
Total stocks and bonds on loan	\$ <u>234,368</u>	\$ <u>278,243</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, 2004, forward foreign currency contracts receivable and payable totaled \$28,085 and \$28,321 respectively. At June 30, 2003, forward foreign currency contracts receivable and payable totaled \$47,282 and \$46,466 respectively. The remaining investment trades receivable and payable balances represent investment sales and investment purchases outstanding, respectively.

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. The current redemption amount (90% of the original principal of \$569,666) of the note and \$299,305 of outstanding interest was paid off on August 25, 2003.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 6 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2004 and 2003:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2004</u>
Capital assets, not depreciable:				
Construction in progress	\$ 111	\$ -	\$ (111)	\$ -
Capital assets, depreciated:				
Computer hardware/software	654	3	-	657
Furniture and fixtures	92	136	(61)	167
Equipment	-	57	-	57
Building	-	2,103	-	2,103
Total capital assets, depreciable	<u>746</u>	<u>2,299</u>	<u>(61)</u>	<u>2,984</u>
Less accumulated depreciation for:				
Computer hardware/software	(173)	(46)	-	(219)
Furniture and fixtures	(57)	(9)	59	(7)
Equipment	-	(6)	-	(6)
Building	-	(6)	-	(6)
Total accumulated depreciation	<u>(230)</u>	<u>(67)</u>	<u>59</u>	<u>(238)</u>
Total capital assets, depreciated, net	<u>516</u>	<u>2,232</u>	<u>(2)</u>	<u>2,746</u>
Total capital assets, net	<u>\$ 627</u>	<u>\$ 2,232</u>	<u>\$ (113)</u>	<u>\$ 2,746</u>
Depreciation charged for the current year totaled:		<u>\$ 67</u>		

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2003</u>
Capital assets, not depreciable:				
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, depreciable	<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, 2004 AND 2003
(Amounts expressed in thousands)

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 5.4% and 20.5% 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.

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 33 and 34.

Members' contributions, including interest, are 100% vested at all times. Effective with the valuation completed for June 30, 2003, the amortization period for the employees' portion of the unfunded accrued actuarial liability for the cost of living portion of the benefit was extended to 30 years (from 15 years). This amortization period is

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

Contributions (Continued)

consistent with the amortization period used for the employers' portion of the unfunded accrued actuarial liability. In addition, the Board of Retirement adopted a policy to limit any increase in employees' retirement contribution to 50% of the current rate. The purpose was to alleviate the impact of a rate increase that occurred as a result of changes to the economic and demographic assumptions included in the Analysis of Plan Experience for three years ended June 30, 2003 and implementation of the Settlement Agreement entered into by the County of Fresno and the employee unions in December 2000. 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 (both employees and employers reserves as authorized by the 1937 Act), reserves established by the Board and undistributed earnings. The Board has established reserves for various benefit payments pursuant to the 1937 Act, and it has designated 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, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

Contributions (Continued)

The amounts and changes in reserves and designations for the year ended June 30, 2004 consist of the following:

	<u>Balance</u> <u>July 1</u> <u>2003</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Plan</u> <u>Net Assets</u>	<u>Net</u> <u>Transfers</u>	<u>Balance</u> <u>June 30,</u> <u>2004</u>
Reserves:				
Members' accumulated contributions	\$ 266,798	\$ 17,299	\$ (70,135)	\$ 213,962
Current service reserve	284,658	362,290	(55,029)	591,919
Annuity pension reserve	89,220	(12,826)	18,147	94,541
Current service pension reserve	489,720	(48,506)	87,575	528,789
Supplemental annuity reserve	191,333	(7,085)	29,993	214,241
Supplemental benefit reserve	104,054	(1,056)	5,927	108,925
Cost of living adjustment reserve	328,436	40,857	84,486	453,779
Supplemental cost of living reserve	4,166	(2,204)	221	2,183
Survivors' death benefit reserve	4,164	(683)	234	3,715
Retiree health benefit reserve ¹	97,897	2,127	(25,542)	74,482
Retiree health benefit reserve (VS) ¹	-	2,983	31,127	34,110
Contingency reserve	(86,556)	-	31,298	(55,258)
Designated for market stabilization	(223,250)	-	98,574	(124,676)
Undistributed earnings	-	236,876	(236,876)	-
Net assets held in trust for Pension benefits	\$ <u>1,550,640</u>	\$ <u>590,072</u>	\$ <u>-</u>	\$ <u>2,140,712</u>

- ¹ At the recommendation of the actuary, effective July 1, 2003 the Retiree health benefit reserve was apportioned between the benefit provided by the Board of Retirement and the benefit provided by the settlement agreement between the County of Fresno and the employee unions.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

Contributions (Continued)

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

	Balance July 1 2002	Increase (Decrease) In Plan Net Assets	Net Transfers	Balance June 30, 2003
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
Supplemental annuity reserve	160,569	(4,406)	35,170	191,333
Supplemental benefit reserve	88,304	(9,595)	25,345	104,054
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
Survivors' death benefit reserve	4,226	(642)	580	4,164
Retiree health insurance reserve	88,577	(7,387)	16,707	97,897
Contingency reserve	15,655	-	(102,211)	(86,556)
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	\$ <u>1,565,542</u>	\$ <u>(14,902)</u>	\$ <u>-</u>	\$ <u>1,550,640</u>

Members' accumulated contributions include all member contributions net of refunds and benefits paid to members. At retirement, member balances are transferred to the *annuity pension reserve* and the *cost of living adjustment reserve*. Employers' contributions are paid into the *current service reserve* (includes the contributions for the supplemental annuity) and *cost of living adjustment reserve*. When an employee retires, applicable balances are transferred from the *current service reserve* to the *current service pension reserve* (and *supplemental annuity reserve*). *Undistributed earnings* are credited with all investment income and charged with investment and other fees. Transfers from undistributed earnings to other reserves are made twice a year. Historically, the Board has authorized that an annual rate equal to the actuarial rate of return be apportioned as the interest. However, during the fiscal year ended June 30, 2003, the Board adopted a new interest crediting policy that limits the amount available to apportion in lean years to the amount required to keep the non-valuation reserve 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 \$74,418 for the December 31, 2003 interest-crediting period and \$32,585 for the June 30, 2004 interest-crediting period. The semi-annual rates of interest for the two periods were 4.0000% and 1.7045%, respectively. Any additional transfers out of undistributed earnings are made in accordance with the authorization of the Board.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 7 - CONTRIBUTIONS AND RESERVES (Continued)

Reserves and Designations (Continued)

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 initiated in 1987 to establish funds for payment of supplemental benefits which would provide retirees additional money to offset the cost of health insurance premiums purchased through any source. Effective with the actuarial valuation completed for the year ended June 30, 2003, the retiree health benefit reserve was apportioned to two reserves, retiree health benefit reserve and retiree health benefit reserve (VS) to more clearly account for the liability associated with additional health benefits granted as part of the Settlement Agreement negotiated between the County of Fresno and the employee unions in December 2000. The retiree health benefit reserve balances reflect Board approved transfers through June 30, 2004. These transfers result from the actuarial report completed for the period ended June 30, 2003.

The *supplemental cost of living reserve* was established in 1990 to provide additional benefits for eligible members who retired on or before April 1, 1981. The benefit is adopted annually under Government Code Section 31874.3 to provide purchasing power protection to those retirees whose accumulated excess cost of living credits exceeds 25%, therefore the affected members changes each year. The *supplemental cost of living reserve* balance reflects Board approved transfers from *undistributed earnings*.

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

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

On March 23, 2004, the County of Fresno issued \$402,898 in Pension Obligation Bonds, of which \$398,141 was transferred to the Association to fund the Unfunded Actuarial Accrued Liability (UAAL), and \$4,757 was used to pay issuance costs.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 8 – COMMITMENTS

The Association committed to invest in, and has partially funded, various private market investment funds. At June 30, 2004, the remaining commitments totaled \$67,975.

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.

This pronouncement is required to be implemented during the year ending June 30, 2005.

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

NOTE 10 - FINAL COMPENSATION LITIGATION

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
(Amounts expressed in thousands)

NOTE 10 - FINAL COMPENSATION LITIGATION (Continued)

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

On March 2, 2004, the Superior Court issued a Tentative Decision declaring that the Fresno Method did not comply with the statute. Thereafter, the Board of FCERA resolved to (a) immediately change its method of calculating retirement allowances for all future members of the retirement system, (b) recalculate all retirement allowances for all current retirees, effective September 1, 2004 and (c) recalculate all retirement allowances for current employees retiring after March 1, 2004 as of the date of their retirement.

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

Following the next status conference in the case, scheduled for mid January, 2005, a further trial on identified "Phase 2B" issues may be held. No dates have been set for the phase, nor any discovery commenced.

Following the testing of software modifications required to implement the Court's decision, the FCERA began recalculating retirement benefits in November 2004.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

SCHEDULE OF FUNDING PROGRESS

(Amounts expressed in thousands)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Overfunded) AAL (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll	(6) Unfunded (Overfunded) AAL Percentage of Covered Payroll (3)/(5)
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%
6/30/03	1,922,149 ²	1,953,490 ²	30,841	98.4%	341,981	9.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Amounts expressed in thousands)

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1999	\$ 6,005	100.00%
2000	-- ¹	100.00%
2001	-- ¹	100.00%
2002	7,780	100.00%
2003	33,583	100.00%
2004	44,939	985.67% ²

Actuarial reviews are performed annually effective with the year ended June 30, 2003.

¹ 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 contributions for approximately six years and six months beginning July 1, 1999. With the establishment of the enhanced benefits, Safety employers were required to begin contributions during fiscal year 2002. General employers began contributions during fiscal year 2003.

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

LATEST ACTUARIAL VALUATION METHODS

Valuation date	June 30, 2003
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent - closed
Remaining amortization period	28 years for plan amendments 7 years for all other adjustments to the unfunded actuarial accrued liability
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.16% (Compounded semi-annually, 4.0% real return, 4.0% inflation)
Projected salary increases	Rates vary by service type:
- General Members:	Salary increases range from 9.0% to 4.75% (merit of 5.0% per year for the first five years of service and 0.75% thereafter; 4.0% inflation).
- Safety Members:	Salary increases range from 6.0% to 5.0% (merit of 2.0% per year for the first eight years of service and 1.0% thereafter; 4.0% inflation).
Cost of living adjustments	0 – 3% (tied to the change in Consumer Price Index)

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Personnel Services		
Salaries and Benefits	\$ 1,077,080	\$ 851,653
Total Personnel Services	<u>1,077,080</u>	<u>851,653</u>
Office Expenses	<u>41,889</u>	<u>27,315</u>
Other Services and Charges		
Telephone Charges	2,377	6,433
Insurance Other	113,378	1,020
Maintenance	3,428	1,361
Memberships	-	4,980
Postage	25,001	24,786
Off Site Storage	-	413
Professional and Specialized Services	386,705	605,122
Disability Expenses	85,026	266,063
Gain/Loss on Sale of Fixed Assets	1,369	1,083
Data Processing Services	143,826	143,169
Transportation, Travel, and Education	18,168	19,498
Transportation, Travel - Commissions & Advisory Board	35,913	21,815
Total Other Services and Charges	<u>815,191</u>	<u>1,095,743</u>
Depreciation	66,957	83,935
 Total Administrative Expenses	 <u>\$ 2,001,117</u>	 <u>\$ 2,058,646</u>

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Investment Manager Fees	\$ 5,632,879	\$ 4,596,992
Fiduciary Insurance Premium	-	33,017 ¹
Custodial Service Fees	419,140	360,225
Actuarial Service Fees	32,325	22,900
Executive Office Operation	274,859	168,090
Consulting Fees	277,557	322,096
	<u>\$ 6,636,760</u>	<u>\$ 5,503,320</u>

¹ Effective with fiscal year ended June 30, 2004, the Fiduciary Insurance Premium (\$109,427) is being reported as an administrative expense.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004		2003
Disability Attorney Fees	\$ 13,748	¹	\$ 175,949
Retirement Board Attorney Fees	199,192		197,589
New Construction Legal Fees	3,000	²	-
Disability Medical and Copying Fees	71,278		90,114
Architects/Contractor/Public Work Professionals	133,000	²	54,633
Communications Specialist	969		18,897
External Audit Fees	26,856	³	21,928
Actuarial Consulting Fees (non-actuary study costs)	75,850		252,369
Actuarial Consulting Fees	32,325		22,900
Proxy Voting Service	-		38,995
Securities Legal Fees	28,201	³	17,529
Custodial Fees	419,140		360,225
Investment Consultant	222,500	³	222,500 ⁴
Data Processing Fees	143,826		143,169
Total Payments to Consultants	<u>\$ 1,369,885</u>		<u>\$ 1,616,797</u>

Refer to page 37 for information on fees paid to investment managers.

- ¹ FCERA improved tax reporting to members receiving a disability retirement benefit during Fiscal Year 2002-03 that required extensive legal review.
- ² At June 30, 2004, FCERA capitalized \$136,000 of payments to the architect, contractor, Public Works and attorney fees associated with construction of the new Administrative building.
- ³ Included on Schedule of Investment Expense as Consulting Fees.
- ⁴ Fees paid to Investment Consultant not reported on this schedule for Fiscal Year Ended June 30, 2003.

INVESTMENT SECTION

November 22, 2004

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

After a 3.0% gain in fiscal year ended June 30, 2003, Fresno County Employees' Retirement Association's ("FCERA") investment portfolio gained an outstanding 16.6% (*fiscal year ended June 30, 2004*). Most major equity indices experienced remarkable double digit gains while most fixed income indices experienced near zero or negative returns. Since establishing a record high close of 1,527.46 on March 24, 2000, the S&P 500 Index of large capitalization US stocks fell by almost 50% to a low of 776.76 on October 9, 2002. Since that time the S&P 500 has risen 47% to 1140.84 on June 30, 2004.

As detailed earlier, the FCERA investment portfolio gained 16.6% for the year ended June 30, 2004. This exceeded both the fund's Policy benchmark and the Median Public Fund in the ICC sample. Specifically, the investment portfolio outperformed its Policy benchmark return of 16.3% by 0.3% and the Median Public Fund return of 15.1% by 1.5%, ranking in the 34th percentile. The FCERA Portfolio outperformed the Median Public Fund due to the Fund's relatively higher international equity allocation. As U.S. equities, measured by the S&P 500 Index (+19.1%), have experienced strong performance, international equities, measured by the MSCI EAFE Index (+32.9%), performed even better. FCERA has benefited by allocating close to 18% in international equities over this time period. For the last 3 years, the FCERA Portfolio has gained 4.8% per year, which was -0.1% worse than the Policy benchmark, but 0.4% better than the Median Public Fund, and earned a ranking in the 40th percentile. This relative outperformance over other Public Funds was partly due to FCERA Portfolio's allocation to global bonds and real estate. Longer-term results are also impressive as the portfolio returned 4.2% and 6.8% for the 5- and 7-year periods, respectively. In both cases, these returns exceeded the Median Public Fund and matched the Policy benchmark. All of these returns were calculated in accordance with AIMR performance presentation standards.

During 2004 fiscal year, several underperforming managers were terminated. Provident Investment Counsel was terminated due to poor long term performance and John Levin & Company was terminated due to poor performance combined with organizational changes. As a result, Enhanced Investment Technologies (INTECH) and Trust Company of the West (TCW) were selected to manage the large cap growth mandates. SSgA Barra Growth strategy was also replaced with SSgA S&P 500 Index Fund. Near the end of the fiscal year, FCERA investment portfolio which had a growth style bias moved toward a more neutral posture. BlackRock was also hired to manage the plan's core plus fixed income mandate.

The past year's results have been outstanding for FCERA which has outperformed the Policy benchmark as well as the Median Public Fund. The long-term results have also been superior to that of the Median Public Fund and have matched the Policy benchmark. We believe that the hard work of the Board and staff during the trying times of the past few years are to be commended. We continue to believe that the fund is in a very good position to capture consistent, quality results in the years to come. All of us at Wurts & Associates have enjoyed serving FCERA and look forward to continued service. Thank you.

Sincerely,



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 its members. The Association should meet this goal through prudent investment of employee and employer contributions.

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

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

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

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

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

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

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

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

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

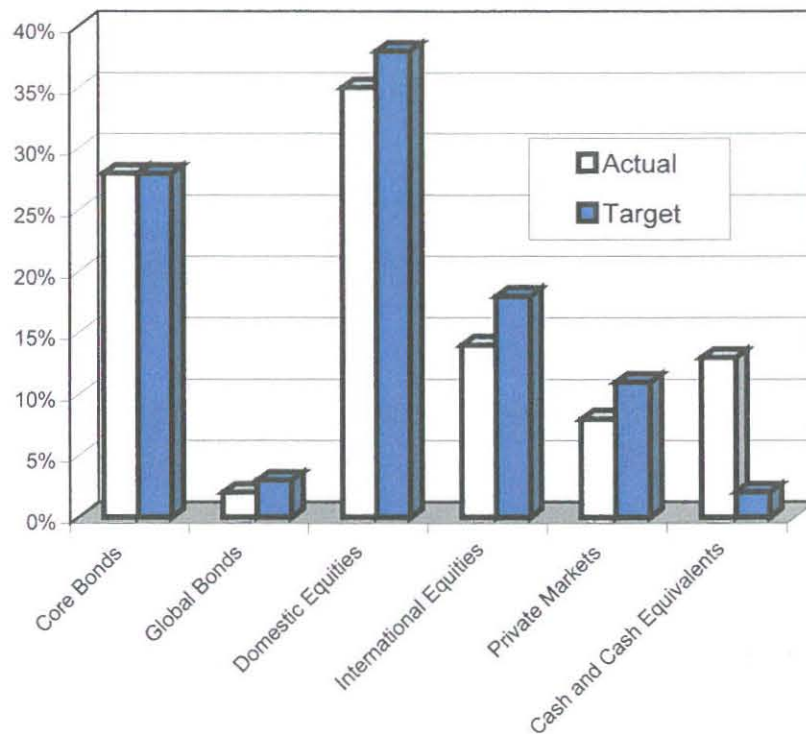
The schedules that follow reflect investment results based on time-weighted rate of return using fair value.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET AND ACTUAL ASSET ALLOCATIONS
AS OF JUNE 30, 2004**

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

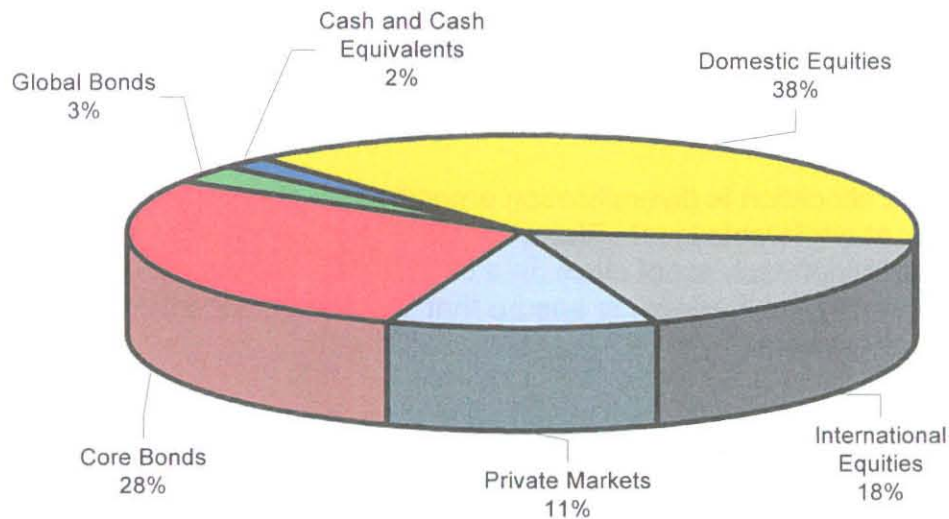
One keystone of asset allocation is diversification among asset classes. Diversification helps to maintain risk at a tolerable level. Therefore, the Board reviews the investment performance and volatility of each asset class on a regular basis over various time periods (quarterly, annually, multi-years)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

Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract. The 2003-04 target and actual asset allocations are presented in the following graphs:

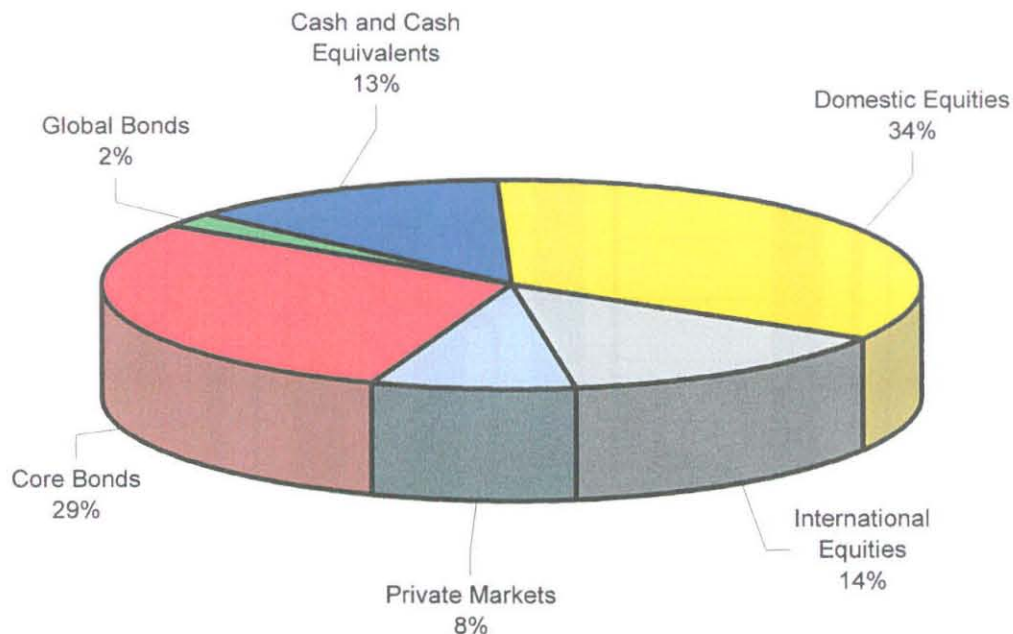


**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)
AS OF JUNE 30, 2004**

Target Percentages



Actual Percentages



FCERA funded a new manager on June 23, 2004 that resulted in large cash and cash equivalents balances pending the settlement of purchases of investment assets at the end of the period.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT SUMMARY
AS OF JUNE 30, 2004

(Amounts expressed in thousands)

Total Funds	Current Year	Annualized Rate of Return for the Preceding 3-Year 5-year	
Bonds			
Domestic	1.1%	5.1%	5.7%
Benchmark : LB Aggregate Index	0.3%	6.4%	6.9%
Global	8.7%	12.9%	7.5%
Benchmark : CITI World Govt Bond	5.7%	11.9%	7.0%
Equities			
Domestic Large Capital Value	22.0%	5.1%	8.4%
Benchmark: Russell 1000 Value	21.1%	3.0%	1.9%
Domestic Large Capital Growth	0.0%	0.0%	0.0%
Benchmark: S & P 500 Index	19.1%	-0.7%	-2.2%
Domestic Small Capital Value	34.3%	15.1%	13.8%
Benchmark : Russell 2000 Value	35.2%	12.2%	12.8%
Emerging Markets Equity	30.3%	10.6%	6.9%
Benchmark: MSCI Emerging Markets Free	33.5%	13.1%	3.3%
International	23.4%	-2.4%	-0.25%
Benchmark : MSCI EAFE	32.9%	4.3%	0.40%
Private Markets			
Real Estate	9.0%	10.4%	11.1%
Benchmark : NCREIF Classic Property	8.1%	6.2%	8.5%
Alternative Investments	17.7%	2.4%	5.6%
Benchmark : S&P 500 + 4.47%	24.2%	3.8%	2.2%
Cash, Custodial and Investment Pool			
Cash	1.0%	1.5%	2.6%
Benchmark: 90-Day Treasury Bill	1.0%	1.7%	3.3%
Total	16.6%	4.8%	4.2%

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.

There were no current year, 3-year or 5-year results for Domestic Large Capital Growth because it was funded on June 23, 2004.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT SUMMARY
AS OF JUNE 30, 2004
(Amounts expressed in thousands)

	Fair Value	Actual Percentages	Target Percentages
Investments			
Domestic Bonds ¹	\$ 334,500	13.58%	28.00%
Global Bonds	49,982	2.03%	3.00%
US Government and Agencies	360,486	14.63%	0.00%
Total Bonds	<u>744,968</u>	<u>30.24%</u>	<u>31.00%</u>
Domestic Stocks	858,966	34.86%	38.00%
International Stocks	341,666	13.87%	18.00%
Total Stocks	<u>1,200,632</u>	<u>48.73%</u>	<u>56.00%</u>
Real Estate (Station Building)	1,793	0.07%	0.00%
Private Markets ²	188,003	7.63%	11.00%
Total Investments	<u>2,135,396</u>	<u>86.67%</u>	<u>98.00%</u>
Cash and Cash Equivalents			
Cash Held in County Investment Pool	14,085	0.57%	2.00%
Short Term Investment with Fiscal Agent	314,355	12.76%	0.00%
Total Cash and Cash Equivalents ³	<u>328,440</u>	<u>13.33%</u>	<u>2.00%</u>
Total Investment, Cash and Cash Equivalents	<u><u>\$ 2,463,836</u></u>	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

¹ Includes mortgages.

² Includes real estate, futures, and alternative investments.

³ The overall target allocation for Cash and Cash Equivalents is 2% and is not broken down by the type of investment.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
LARGEST BOND HOLDINGS
AS OF JUNE 30, 2004**

Par	Name	Fair Value
\$ 63,900,000	FLHB Disc. Note 07/01/04	\$ 63,897,870
21,400,000	FNMA TBA 5.50% 07/15/34	21,293,000
17,000,000	US T-Note 2.75% 06/30/06	17,001,992
12,119,000	US T-Bond 5.375% 02/15/31	12,222,678
12,550,000	FNMA TBA 5.00% 07/15/34	12,118,594
11,255,000	US T-Note 4.00% 06/15/09	11,351,287
10,850,000	FNMA TBA 5.00% 07/15/19	10,860,177
10,150,000	FNMA TBA 6.00% 07/15/34	10,359,344
9,545,000	US T-Note 3.125% 05/15/07	9,545,000
8,050,000	FNMA 6.00% 05/15/08	8,670,542
<u>\$ 176,819,000</u>	Total	<u>\$ 177,320,484</u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
LARGEST STOCK HOLDINGS
AS OF JUNE 30, 2004**

Shares	Name	Fair Value
472,066	Citigroup, Inc.	\$ 21,951,069
175,100	Bank of America	14,816,962
353,500	General Electric Co.	11,453,400
262,700	Yahoo! Inc.	9,543,891
99,500	Ebay Inc.	9,149,025
95,500	Progressive Co.	8,146,150
342,462	AXA	7,541,481
130,200	Amazon.Com	7,082,880
74,100	Chevron Texaco Corp.	6,973,551
239,400	Microsoft Corp.	6,837,264
<u>2,244,528</u>	Total	<u>\$ 103,495,673</u>

A complete list of portfolio holdings is available upon request.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES AND COMMISSIONS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
Investment Managers' Fees		
Domestic Equity Managers:		
Aronson, Johnson and Ortiz	\$ 600,731	\$ 378,378
Brandywine Asset Management	756,861	471,174
John A. Levin and Company	386,742	285,797
Provident Investment Counsel	158,992	242,695
State Gtreet Global Advisors	72,889	50,000
Wellington Management Company	529,375	480,000
Total Domestic Equity Managers	<u>2,505,589</u>	<u>1,908,044</u>
International Equity Managers:		
Marvin and Palmer International	789,631	599,107
Marvin and Palmer Emerging	574,606	336,618
Templeton Investments	712,378	499,735
Total International Equity Managers	<u>2,076,616</u>	<u>1,435,461</u>
Domestic Fixed Income Managers:		
BlackRock Financial Management, Inc.	6,566	-
Boston Partners Asset Management, LP	273,564	283,273
Bradford and Marzec, Inc.	373,745	403,328
Loomis Sayles	220,296	362,609
State Street Global Advisors	2,800	-
Total Domestic Fixed Income Managers	<u>876,971</u>	<u>1,049,210</u>
Private Market Managers:		
Blackstone Capital Partners	173,703	166,777
Credit Suisse	-	37,500
Total Private Market Managers	<u>173,703</u>	<u>204,277</u>
Total Investment Managers' Fees	<u><u>\$ 5,632,879</u></u>	<u><u>\$ 4,596,992</u></u>
Other Investment Expenses		
Securities Lending Expense	\$ 3,167,453	\$ 4,369,153
Fiduciary Insurance Premium	-	33,017
Custodial Service Fees	419,140	360,225
Actuarial Service Fees	32,325	22,900
Executive Office Operation	274,859	168,090
Consulting Fees	277,557	322,096
Total Other Investment Expenses	<u><u>\$ 4,171,334</u></u>	<u><u>\$ 5,275,481</u></u>

¹ The majority of the private markets and alternative investment managers report earnings net of fees, thus there are no manager fees to report.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES AND COMMISSIONS (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Alex Brown	9,040,200	\$ 2,706	\$ 0.0003	0.13%
Alpha Brokerage A.E	39,300	1,952	0.0497	0.09%
Banco Santander De Negocios	233,220	5,351	0.0229	0.26%
Bank of America NT & SA	7,922,500	7,815	0.0010	0.37%
Bank of New York	6,730,006	10,627	0.0016	0.51%
Barclays Capital, Inc	110,246,000	-	0.0000	0.00%
Bear Hunter LLC	61,600	1,692	0.0275	0.08%
Bear, Stearns & Co, Inc	24,343,901	68,719	0.0028	3.29%
Bernstein	49,800	1,749	0.0351	0.08%
Black & Company	30,300	1,515	0.0500	0.07%
Bloomberg	701,097	14,062	0.0201	0.67%
BNP Paribas	3,514,800	1,497	0.0004	0.07%
BNP Prime Peregrine	23,052,000	9,052	0.0004	0.43%
BNY Direct Exec	39,144,100	6,734	0.0002	0.32%
Broadcourt	397,800	19,204	0.0483	0.92%
Brockhouse and Cooper	3,600,445	49,880	0.0139	2.39%
Burlington Capital	74,200	2,346	0.0316	0.11%
Cantor Fitzgerald Securities	802,275	23,364	0.0291	1.12%
Capitol Brokers	458,491	22,886	0.0499	1.10%
Capital Institute	92,361	4,607	0.0499	0.22%
Carnegie	99,700	3,023	0.0303	0.14%
Cazenove	29,600	1,480	0.0500	0.07%
Charles Schwab & Co.	175,700	8,120	0.0462	0.39%
CIBC World Markets	1,264,000	6,719	0.0053	0.32%
CIS Securities	411,700	8,234	0.0200	0.39%
CitiCorp	27,026,402	29,992	0.0011	1.44%
CitiGroup Global Markets	16,946,600	9,591	0.0006	0.46%
CLSA Securities (Thailand)	16,300	3,585	0.2199	0.17%
Cowen & Company	311,300	11,703	0.0376	0.56%
Credit Lyonnais Securities	5,717,425	45,838	0.0080	2.20%
Credit Suisse	16,453,166	38,065	0.0023	1.83%
CS First Boston	7,485,600	3,050	0.0004	0.15%
CSFB Europe London	6,803,100	11,965	0.0018	0.57%
Cuttone & Company	41,200	1,970	0.0478	0.09%
Daiwa Securities	39,500	2,502	0.0633	0.12%
Deutsche Bank	61,280,405	173,343	0.0028	8.31%
Dresdner Bank	143,500	4,174	0.0291	0.20%
Dresdner Kleinworth Wasse	731,636	12,494	0.0171	0.60%
Enskilda Securities	244,200	7,777	0.0318	0.37%
Exane Inc.	16,300	1,943	0.1192	0.09%

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES AND COMMISSIONS (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Fifth Third Securities	1,128,176,291	\$ 1,385	\$ 0.0000	0.07%
First Boston Corporation	1,059,137	20,411	0.0193	0.98%
First Union Capital	707,700	7,149	0.0101	0.34%
Fox-Pitt, Kelton Inc.	68,900	3,445	0.0500	0.17%
Goldis/Pittsburg	85,500	1,710	0.0200	0.08%
Goldman Sachs	132,725,356	154,446	0.0012	7.40%
Greenwich Capital Mkts	95,282,919	-	0.0000	0.00%
HSBC Securities	14,344,300	9,229	0.0006	0.44%
ING Securities	151,700	2,965	0.0195	0.14%
Instinet	236,541	4,193	0.0177	0.20%
Investec	489,800	4,424	0.0090	0.21%
ITG Group	1,214,662	23,377	0.0192	1.12%
Janney Montgomery Scott	38,700	1,802	0.0466	0.09%
Jeffries	2,309,687	13,443	0.0058	0.64%
JNK Securities	127,000	2,540	0.0200	0.12%
Jones & Associates	316,476	15,678	0.0495	0.75%
JP Morgan Securities	143,059,469	22,125	0.0002	1.06%
JPP Eurosecurities Inc.	23,200	2,240	0.0966	0.11%
Korea Central Depository	65,544	11,065	0.1688	0.53%
Labranche Financial Services	267,300	5,738	0.0215	0.28%
Lava Trading	79,900	1,598	0.0200	0.08%
Lazard Freres & Co.	289,600	3,894	0.0134	0.19%
Lehman Brothers	179,450,755	58,675	0.0003	2.81%
Liquidnet	453,555	9,143	0.0202	0.44%
Lynch, Jones & Ryan, Inc.	107,632	5,382	0.0500	0.26%
Macquarie Equities	489,535	7,810	0.0160	0.37%
McDonald & Company Securities	342,866	5,893	0.0172	0.28%
Merrill Lynch, Pierce	506,201,514	507,000	0.0010	24.31%
Mizuho	152	1,618	10.6447	0.08%
Morgan Stanley & Co.	77,170,226	107,346	0.0014	5.15%
Natexis	894,900	3,901	0.0044	0.19%
Nations Bank	57,800	2,586	0.0447	0.12%
Nomura Securities	2,919,400	5,685	0.0019	0.27%
Pereire-Tod	345,100	3,717	0.0108	0.18%
Pershing	1,016,500	13,263	0.0130	0.64%
Prudential Securities Inc.	383,700	2,280	0.0059	0.11%
Raymond James	40,600	2,013	0.0496	0.10%
Rosenblatt	317,550	6,351	0.0200	0.30%
Salomon Smith Barney/ Salomon Brothers	520,293,429	26,590	0.0001	1.27%
Samsung Securities	138,630	9,930	0.0716	0.48%
Societe Generale	155,800	8,512	0.0546	0.41%
Soundview	173,700	7,658	0.0441	0.37%
Spear Leeds Kellogg	1,082,500	3,625	0.0033	0.17%

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES AND COMMISSIONS (Continued)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
Standard & Poors	214,000	\$ 10,700	\$ 0.0500	0.51%
Stephens & Co.	29,000	1,450	0.0500	0.07%
Susquehanna Brokerage Service	633,900	12,984	0.0205	0.62%
UBS Securities	36,631,341	139,866	0.0038	6.71%
Veritas	97,500	4,875	0.0500	0.23%
Vonotobel Sec Ltd.	22,000	1,458	0.0663	0.07%
Wachovia Corporation	12,010,400	8,593	0.0007	0.41%
Warburg Securities	39,235,406	61,462	0.0016	2.95%
Other	364,303,580	74,805	0.0002	3.63%
Total Investment Trade Commissions	3,733,251,492	\$ 2,085,742	\$ 0.0006	100.00%

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.

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ACTUARIAL SECTION



**Public Pension
Professionals, Inc.**

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

November 30, 2004

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

Members of the Board:

The annual actuarial valuation required for the Fresno County Employees Retirement Association (FCERA) has been prepared as of June 30, 2003 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 30-year period (15-year period for future gains and losses or changes in assumptions or methods), while maintaining contribution rates that remain relatively level, as a percentage of payroll, from generation to generation.

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

1. 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,

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

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

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

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The UAAL is being funded over 15 years from the June 30, 2003 valuation date. The following interest rate assumptions along with the post retirement and pre-retirement demographic experiences are based on the plan's actuarial experience through June 30, 2003. The actuarial valuation report was approved and adopted by the Fresno County Board of Retirement on May 15, 2004.

- | | | |
|----|--|---|
| 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: | |
| | - General Members: | Salary increases range from 9.0% to 4.75% based on years of service (merit of 5.0% per year for the first five years of service and 0.75% thereafter; 4.0% inflation) |
| | - Safety Members: | Salary increases range from 6.0% to 5.0% based on years of service (merit of 2.0% per year for the first eight years of service and 1.0% thereafter; 4.0% inflation) |
| 5. | Asset Valuation: | Smoothed market value |
| 6. | Spouses and Dependents: | 90% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands |
| 7. | Rates of Termination of Employment: | 0.00% to 16.50%, depending on age, gender and service classification |
| 8. | Years of Life Expectancy After Retirement: | RP - 2000 Healthy Annuitant Mortality |

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

9. Years of Life Expectancy After Disability: RP - 2000 Disabled Annuitant Mortality
10. Life Expectancy After Retirement for
Employee Contribution Rate Purposes
- General Members: RP - 2000 Healthy Mortality with
adjustment for white collar
 - Safety Members: RP - 2000 Healthy Mortality with
adjustment for blue collar
11. Reciprocity Assumption: 50% of members who terminate with a
vested benefit are assumed to enter a
reciprocal system
12. Deferral Age for Vested Terminations: 63 for General Members; 55 for Safety
13. Gender: All Safety members are assumed to be
male
14. Gains & Losses Gains and Losses are reflected in the
UAAL and are funded over the period
described above

Note: Information compiled from Actuarial Report prepared by Public Pension
Professionals dated June 30, 2003.

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

Valuation Date		Plan Type	Number	Annual Payroll	Average Monthly Salary	% Increase in Average Salary
June 30, 1998	¹	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	¹	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	²	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%
June 30, 2003	³	General	6,660	\$ 286,278,925	\$ 3,582	6.2%
		Safety	939	55,702,460	4,943	6.7%
		Total	<u>7,599</u>	<u>\$ 341,981,385</u>	<u>\$ 3,750</u>	6.4%

¹ Information compiled from biennial Actuarial Reports prepared by Buck Consultants dated June 30, 1998 and 2000.

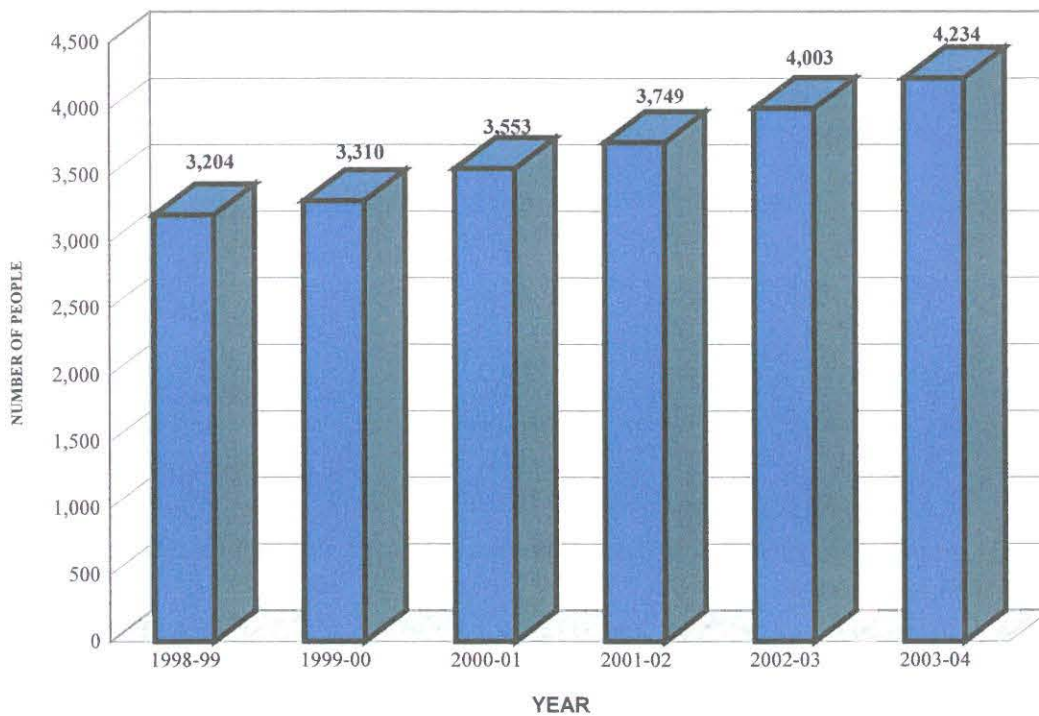
² Information compiled from biennial Actuarial Report prepared by Public Pension Professionals dated June 30, 2002.

³ Information compiled from annual Actuarial Report prepared by Public Pension Professionals dated June 30, 2003.

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

Year	Number at Beginning of Year	Number Added to Rolls	Number Removed From Rolls	Number at End of Year	Annual Allowance	Percent Increase in Annual Allowances	Average Annual Allowance	Percent Increase in Average Annual Allowance
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%
2003-04	4,003	335	104	4,234	106,247,000	14.58%	25,094	8.33%

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%
June 30, 2003	1,922,149	1,953,490	31,341	98.9%	341,981	9.2%

The required employer contributions

Fiscal Year Ended	Annual Required Contributions	Percentage Contribution
June 30, 1996	\$ 21,468	100.00%
June 30, 1998	202,550 ¹	100.00%
June 30, 2000	- ²	N/A
June 30, 2002	110,996 ³	100.00%
June 30, 2003	44,939	985.67% ⁴

¹ 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 contributions for approximately six years and six months beginning July 1, 1999. With the establishment of the enhanced benefits, Safety employers were required to begin contributions during fiscal year 2002. General employers began contributions during fiscal year 2003.

² No Annual Required Contributions due to transfers of Undistributed earnings resulting from receipt of the proceeds of the Pension Obligation Bonds.

³ Includes transfers from Undistributed earnings.

⁴ On March 23, 2004, the County of Fresno issued Pension Obligation Bonds, which paid off a portion of the estimated Unfunded Actuarial Accrued Liability. The proceeds of the Pension Obligation Bonds (\$398,010) are included in the Actuarial Value of Assets as of June 30, 2003.

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2003, and additional data supplied by the actuary after the receipt of proceeds of Pension Obligation Bond.

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

	Changes to UAAL	2002	2003
Prior Valuation Unfunded Actuarial Accrued Liability	\$	21,623	\$ 257,387
Expected Increase from Prior Valuation		(24,661)	(73,194)
Salary Increase Greater (Less) than Expected		66,330	31,634
Asset Return Less (Greater) than Expected		100,658	108,487
Proceeds from Pension Obligation Bond		-	(388,630)
Other Experience		68,109	78,123
Benefit Improvements		-	-
Asset Transfers for Benefit Improvements		-	-
Actuarial Assumptions Changes		32,787	17,034
Actuarial Value of Assets Method Change		18,097	-
Methodology Refinements from Prior Actuary		(25,556)	-
Ending Unfunded Actuarial Accrued Liability			
(Surplus)	\$	257,387	\$ 30,841

Note: Information prepared by Public Pensions 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	\$ 795,748 ¹	100%	100%	79%
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	\$ 1,674,900 ¹	100%	100%	84%
June 30, 2003	\$ 266,798	\$ 1,217,965	\$ 728,912	\$ 1,922,149	100%	100%	44%

¹ Correction to Actuarial Value of Assets as reported for period ending June 30, 2003.

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

Age	Total Terminations *	Ordinary Death	Ordinary Disability	Service	Duty Death	Duty Disability
------------	-----------------------------	-----------------------	----------------------------	----------------	-------------------	------------------------

General Members - Male

20	0.07500	0.00100	0.00010	0.00000	0.00000	0.00000
30	0.06300	0.00120	0.00010	0.00000	0.00000	0.00010
40	0.05300	0.00300	0.00030	0.00000	0.00000	0.00020
50	0.04300	0.00600	0.00110	0.05000	0.00000	0.00060
60	0.03300	0.00660	0.00260	0.30000	0.00000	0.00130
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000

General Members - Female

20	0.08400	0.00030	0.00010	0.00000	0.00000	0.00000
30	0.06960	0.00040	0.00010	0.00000	0.00000	0.00010
40	0.05760	0.00100	0.00030	0.00000	0.00000	0.00020
50	0.04560	0.00240	0.00090	0.04000	0.00000	0.00050
60	0.03360	0.00560	0.02100	0.20000	0.00000	0.00100
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000

Safety Members

20	0.07010	0.00100	0.00000	0.00000	0.00100	0.00060
30	0.05930	0.00120	0.00000	0.00000	0.00100	0.00160
40	0.02070	0.00300	0.00000	0.00000	0.00100	0.00490
50	0.00330	0.00600	0.00000	0.06000	0.00100	0.10760
60	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2003.

* Change in reporting format from June 2003. Total Terminations include both refunds (withdrawal) and deferred retirement (terminated vested). See the following table for additional information.

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

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

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

Information compiled from Actuarial Report prepared by
Public Pension Professionals dated June 30, 2003.

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

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

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2003.

Prior reports provided combined years of life expectancy for Safety members.

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

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

General and Safety Members - Male

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

General and Safety Members - Female

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

Note: Information compiled from Actuarial Report prepared by Public Pension Professionals dated June 30, 2003.

Prior reports provided separate years of life expectancy for Safety and General members.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION SUMMARY OF MAJOR PLAN PROVISIONS

1. ELIGIBILITY

First of day of pay period following date of employment.

2. DEFINITION OF SALARY

Highest 365 consecutive days of compensation earnable.

3. SERVICE RETIREMENT

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

- Early retirement

Age 50 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, respectively; 2.5% benefit formulas.

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

4. DISABILITY RETIREMENT

- Non-service connected

2.25% of final average salary per year of service, with a maximum of 33-1/3% 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 final compensation

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, 2003.

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STATISTICAL SECTION

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TABLE OF REVENUE BY SOURCE AND EXPENSES BY TYPE
Fiscal Years Ended 1999 through 2004
(Amounts expressed in thousands)

REVENUES BY SOURCE

Fiscal Year Ended June 30	Contributions		Net Investment		Employer Contributions as a Percentage of Annual Covered Payroll	
	Member	Employer	Income	Total		
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)	3.0%	¹
2003	19,974	33,583 ²	27,455 ²	81,014 ²	10.3%	
2004	18,240	442,949 ³	238,877	700,066	0.1%	

¹ Includes change to prior year (2002) percentage of Annual Covered Payroll

² Amounts revised from prior year (2003) Comprehensive Annual Financial Report

³ Includes proceeds from Pension Obligation Bonds

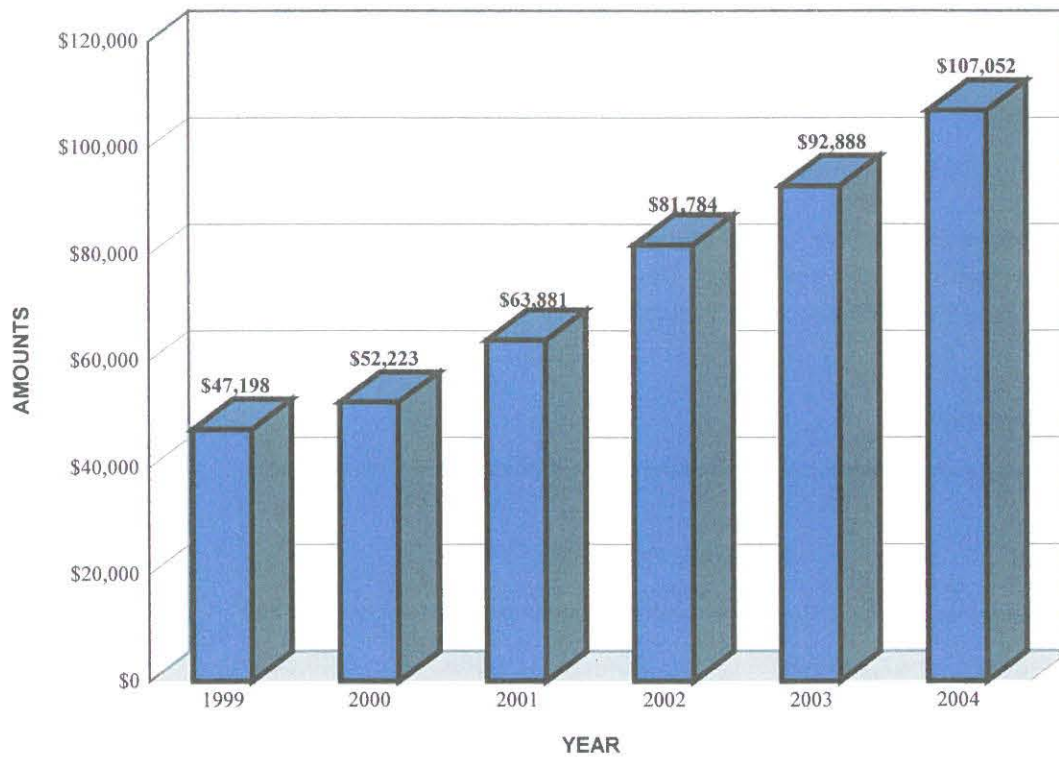
EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Administrative Expenses	Refunds	Total
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	92,887	2,059	904	95,850
2004	107,052	2,001	941	109,994

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

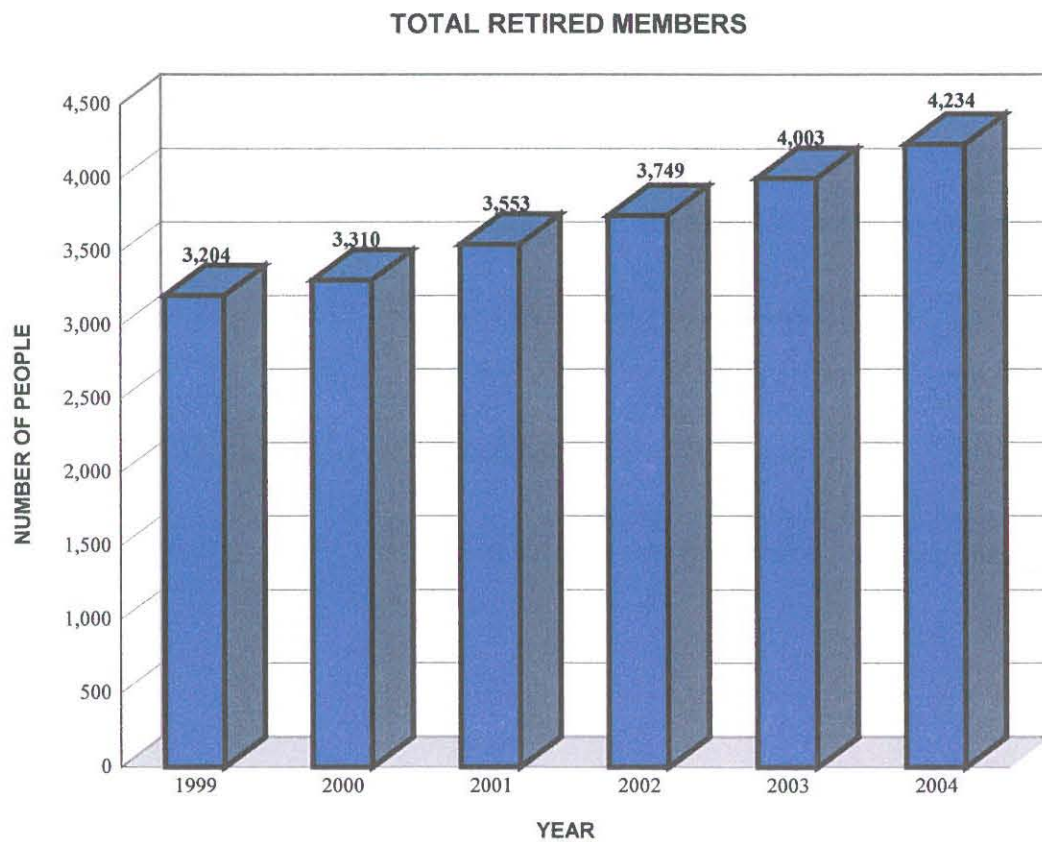
MEMBERS	1999	2000	2001	2002	2003	2004
GENERAL	\$ 39,263	\$ 42,909	\$ 52,480	\$ 65,113	\$ 72,875	\$ 83,795
SAFETY	7,239	8,530	10,529	15,378	18,710	22,012
SURVIVOR	696	784	872	1,293	1,303	1,245
TOTAL	\$ 47,198	\$ 52,223	\$ 63,881	\$ 81,784	\$ 92,888	\$ 107,052

BENEFIT EXPENSES
(amounts expressed in thousands)



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

MEMBERS	1999	2000	2001	2002	2003	2004
GENERAL	2,816	2,897	3,089	3,235	3,435	3,635
SAFETY	318	338	390	435	488	516
SURVIVOR	70	75	74	79	80	83
TOTAL	3,204	3,310	3,553	3,749	4,003	4,234



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
6/30/1994	General	2,349	\$ 24,672,182	\$ 10,503	23.2%
	Safety	256	4,586,192	17,915	7.4%
	Total	<u>2,605</u>	<u>\$ 29,258,374</u>	<u>\$ 28,418</u>	12.7%
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> ¹	<u>\$ 58,380</u>	60.8%
6/30/2003	General	3,549	\$ 76,488,048	\$ 21,552	6.7%
	Safety	476	17,638,656	37,056	-2.9%
	Total	<u>4,025</u>	<u>\$ 94,126,704</u> ²	<u>\$ 58,608</u>	0.4%

¹ Biennial actuary reports through June 30, 2003.

² Annual actuary reports commencing after June 30, 2003.

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

	1999	2000	2001	2002	2003	2004
Active Vested						
General	3,412	3,674	3,466	3,566	3,600	3,385
Safety	590	614	641	630	605	581
Total	4,002	4,288	4,107	4,196	4,205	3,966
Active Nonvested						
General	2,241	2,691	3,083	3,299	3,054	3,242
Safety	273	304	301	293	328	345
Total	2,514	2,995	3,384	3,592	3,382	3,587
Total Active Members						
General	5,653	6,365	6,549	6,865	6,654	6,627
Safety	863	918	942	923	933	926
TOTAL	6,516	7,283	7,491	7,788	7,587	7,553
 Deferred Members	1,310	1,326	1,353	1,467	1,376	1,378
TOTAL	1,310	1,326	1,353	1,467	1,376	1,378

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

	1999	2000	2001	2002	2003	2004
County of Fresno						
General Members	5,605	6,312	6,494	6,807	6,596	6,571
Safety Members	825	877	902	884	893	889
Total	6,430	7,189	7,396	7,691	7,489	7,460
Participating Agencies (General Members)						
Clovis Memorial	4	4	4	3	4	3
Fresno County Office of Education	3	3	1	1	1	1
Fresno Mosquito and Vector Control	10	10	10	10	10	9
Fresno-Madera Area Agency on Aging	25	29	34	37	36	36
North Central Fire Protection	6	7	6	7	7	7
Total	48	53	55	58	58	56
Participating Agencies (Safety Members)						
North Central Fire Protection	38	41	40	39	40	37
Total	38	41	40	39	40	37
Total Active Members						
General Members	5,653	6,365	6,549	6,549	6,654	6,627
Safety Members	863	918	942	923	933	926
TOTAL	6,516	7,283	7,491	7,472	7,587	7,553

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

EFFECTIVE DATES			GENERAL	SAFETY
July 1, 2003	to	June 30, 2004	15.38%	20.75%
July 1, 2002	to	June 30, 2003	7.20%	24.88%
October 1, 2001	to	June 30, 2002	0.00%	² 21.87% ^{1 2}
July 1, 2000	to	September 30, 2001	0.00%	² 0.00% ²
June 28, 1999	to	June 30, 2000	0.00%	² 0.00% ²
March 20, 1998	to	June 27, 1999	2.07%	¹ 5.93% ¹

¹ The employer contribution rates above reflect the aggregate rates.

² Employer rates were reduced through the use of undistributed earnings.