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# **FRESNO COUNTY EMPLOYEES RETIREMENT SYSTEM**

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

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 1999**

Fresno County  
Employees Retirement System

Fresno County, California



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 1999

ISSUED BY

GARY W. PETERSON  
AUDITOR - CONTROLLER / TREASURER - TAX COLLECTOR

## FCERA

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

A COMPONENT UNIT OF THE COUNTY OF FRESNO

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## TABLE OF CONTENTS

### INTRODUCTORY SECTION

Letter of Transmittal.....	1
Certificate of Achievement.....	5
Board of Retirement.....	6
Organization Chart.....	7
List of Professional Consultants.....	8

### FINANCIAL SECTION

Independent Auditor's Report.....	9
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#### Financial Statements

Statements of Plan Net Assets.....	10
Statements of Changes in Plan Net Assets.....	11
Notes to Financial Statements.....	12

#### Required Supplementary Information

Schedule of Funding Progress.....	22
Schedule of Employer Contributions.....	22
Latest Actuarial Valuation Methods.....	23
Year 2000 Compliance Efforts.....	24

#### Other Supplemental Information

Schedule of Administrative Expenses.....	26
Schedule of Investment Expenses.....	27
Schedule of Payments to Consultants.....	28

### INVESTMENT SECTION

Investment Consultant's Report.....	29
General Information.....	30
Summary of Investment Objectives.....	31
Investment Results Based on Fair Value.....	32
Target and Actual Asset Allocations.....	33
Largest Bond and Stock Holdings.....	35
Schedule of Fees and Commissions.....	36
Investment Summary.....	38



## TABLE OF CONTENTS

### ACTUARIAL SECTION

Actuary's Certification Letter.....	39
Summary of Actuarial Assumptions and Methods.....	40
Schedule of Active Member Valuation Data.....	41
Schedule of Retirants and Beneficiaries Added to and Removed from Retiree Payroll .....	42
Schedule of Funding Progress (GASB 25).....	43
Analysis of Financial Experience.....	44
Probabilities of Separation from Active Service .....	45
Years of Life Expectancy after Service Retirement .....	46
Years of Life Expectancy after Disability Retirement .....	47
Summary of Major Plan Provisions .....	48

### STATISTICAL SECTION

Schedule of Revenues by Source and Expenses by Type .....	50
Schedule of Benefit Expenses by Type.....	51
Schedule of Retired Members by Type of Retirement.....	52
Schedule of Average Annual Benefit and Membership Distribution of Retired General Members .....	53
Schedule of Average Annual Benefit and Membership Distribution of Retired Safety Members.....	55
Schedule of Active and Deferred Members .....	56
Schedule of Participating Employers and Active Members.....	57
Schedule of Employer Contribution Rates .....	58



INTRODUCTORY SECTION





## Employees Retirement Association

Gary W. Peterson  
Auditor-Controller/Treasurer-Tax Collector

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September 17, 1999

Board of Retirement  
Fresno County Employees' Retirement Association  
2281 Tulare Street  
Fresno, California 93715

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Fresno County Employees' Retirement Association ("Association") for the fiscal year ended June 30, 1999. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the Association's management. The required financial statements have been prepared in accordance with generally accepted accounting principles, 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.

The Association is a contributory defined benefit plan initially organized on January 1, 1945. 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, Clovis Memorial District, Fresno Mosquito and Vector Control District, North Central Fire District, Fresno-Madera Area Agency on Aging, and certain employees of the Fresno County Office of Education. The Association provides normal service retirement benefits for members who attain the age and service requirements or thirty years of service, regardless of age.

### Structure of the Report

This report is presented in five sections:

- The Introductory Section includes the transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting, the Association's management and organizational structure and a listing of the professional services used.
- The Financial Section includes the opinion of the independent auditor, Macias, Gini & Company LLP, and the financial statements and notes of the Association and supplemental information, including year 2000 compliance.

- The Investment Section includes the investment consultant's statement produced by Pension Consulting Alliance, Inc., the Association's investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, Buck Consultants, along with supporting schedules and information.
- The Statistical Section includes graphs and schedules with comparative data related to revenues and expenses, active and deferred membership, retired membership, benefit expenses by type, average annual benefits, participating employers, and employer contribution rates.

### **Investments**

The investments of the Association are governed primarily by an investment authority known as the "prudent person rule". The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the fund. The prudent person rule states that fiduciaries shall discharge their duties of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. By permitting further diversification of investments within a fund, the prudent person standard may enable a fund to reduce overall risk and increase returns.

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

The Association's performance during the fiscal year ended June 30, 1999, reflected the changes in market conditions. For the year, the portfolio earned a total return of 7.0%. Over long-term periods, the portfolio has earned total annualized returns of 15.8% over the past three years and 15.5% over the past five years. These earnings have significantly outperformed the prior actuarial assumed rate of 8.5% and the current rate of 8.25%. On a fair value basis, the total net assets available for benefits grew from \$1,625,611,000 to \$1,695,027,000.

### **Funding**

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The Association's funding objective is to meet long-term obligations through contributions and investment income. During fiscal 1997/98, the County of Fresno issued Pension Obligation Bonds, in the amount of \$184,910,000, to fully fund its portion of the Unfunded Actuarial Accrued Liability. As of June 30, 1998, the date of the Association's latest report on the experience analysis and actuarial valuation, the Association was fully funded.



## Revenues

The following schedule recaps the revenues of the Association for the last two fiscal years:

### Contributions and Investment Earnings (amounts in thousands)

	1999	1998	Increased/ (Decreased) Amount	Increased/ (Decreased) Percentage
Employers Contributions	\$ 6,005	\$ 202,550	\$ ( 196,545 )	(97.04%)
Employees Contributions	7,775	7,168	607	8.47%
Net Investment Income	<u>105,166</u>	<u>250,001</u>	<u>( 144,835 )</u>	(57.93%)
TOTAL	<u>\$ 118,946</u>	<u>\$ 459,719</u>	<u>\$ ( 340,773 )</u>	(74.13%)

## Expenses

The following schedule recaps the expenses of the Association for the last two fiscal years:

### Benefits and Other Expenses (amounts in thousands)

	1999	1998	Increased/ (Decreased) Amount	Increased/ (Decreased) Percentage
Benefits Paid to Participants	\$47,198	\$44,816	\$ 2,382	5.32%
Refunds of Prior Contributions	1,568	1,772	( 204 )	(11.51%)
Administrative Expenses	<u>764</u>	<u>721</u>	<u>43</u>	5.96%
TOTAL	<u>\$49,530</u>	<u>\$47,309</u>	<u>\$ 2,221</u>	4.69%

For the fiscal year 1998/99, overall revenue decreased 74.13% due primarily to the issuance of Pension Obligation Bonds in the prior fiscal year. The Association's investment performance reflects the changes in market conditions in 1998/99, as well as the Association's young private market investments.

## 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, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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 this current report continues to conform to the Certificate of Achievement program requirements, and are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

The compilation of this report reflects the combined effort of the Retirement 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 wish to express my appreciation to the staff of the Retirement office, whose hard work, professionalism and dedication are responsible for the timely preparation of this report, and to Macias, Gini & Company LLP for their professional assistance. 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 consultants and staff for their commitment to the Association and for their diligent work to assure the Association's continued successful operation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gary W. Peterson". The signature is fluid and cursive, with a large initial "G" and "P".

Gary W. Peterson  
Administrator



# Certificate of Achievement for Excellence in Financial Reporting


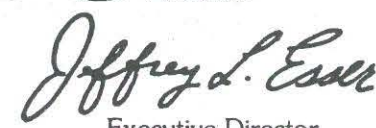
Presented to

Fresno County Employees'  
Retirement System,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1998

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



  
President  
  
Executive Director

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

**ADMINISTRATOR**

**GARY W. PETERSON**

Auditor-Controller/Treasurer-Tax Collector  
Statutory required.

**CHAIRMAN**

**JO JOHNSON**

Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 2000.

**SECRETARY**

**AMERICO PAPALEO**

Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 1999.

**MEMBER**

**PAUL KALPAKOFF**

Safety Member - Elected by Safety Members  
Present term expires December 31, 1999.

**MEMBER**

**BILL CASAREZ**

General Member - Elected by General Members  
Present term expires December 31, 2001.

**MEMBER**

**ALAN PETERS**

General Member - Elected by General Members  
Present term expires December 31, 2000.

**MEMBER**

**HIROSHI KUSAKAI**

Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 1999.

**MEMBER**

**JOHN SOUZA**

Retired Member - Elected by Retirees  
Present term expires December 31, 2001.

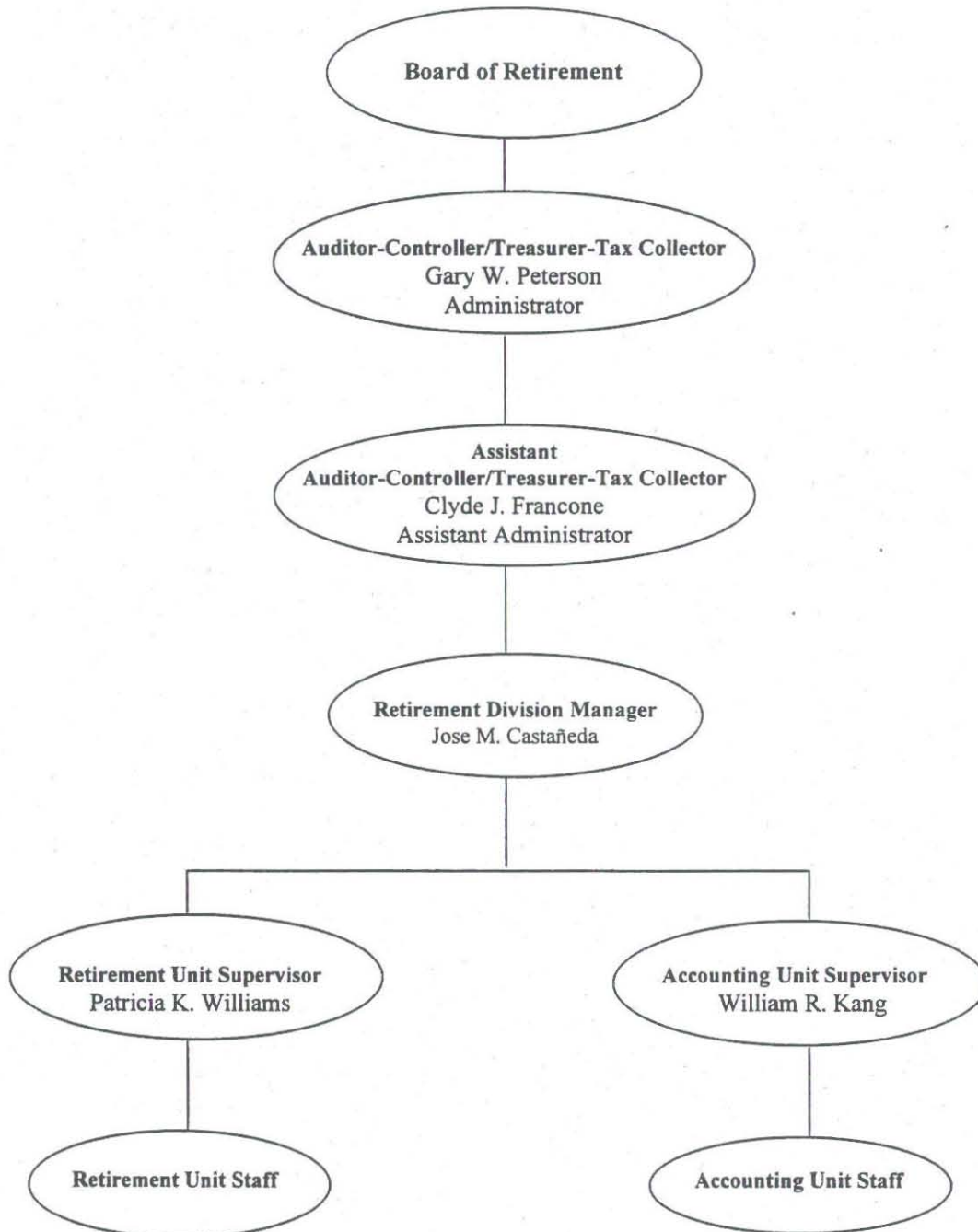
**MEMBER**

**JAMES LONG**

Qualified Elector - Appointed by Board of Supervisors  
Present term expires December 31, 2001.



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



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

**CONSULTING SERVICES**

**ACTUARY**

Buck Consultants

**AUDITOR**

Macias, Gini & Company, LLP

**COMMISSION RECAPTURE SERVICES**

Pension Fund Evaluations, Inc.

**CUSTODIAN BANK**

Fifth Third Bank

**INVESTMENT CONSULTANT**

Pension Consulting Alliance, Inc.

**LEGAL COUNSEL**

Stroup & de Goede

**SHAREHOLDER VOTING SERVICES**

Institutional Shareholder Services, Inc.

**INVESTMENT MANAGERS**

**DOMESTIC BONDS**

ARM Capital Advisors, Inc.  
Boston Partners Assets Management, LP  
Bradford & Marzec, Inc.

**GLOBAL BONDS**

Strategic Fixed Income, LP  
Grantham, Mayo, Van Otterloo & Co.

**DOMESTIC STOCKS**

Aronson & Partners  
Boston Partners Assets Management, LP  
Brandywine Asset Management, Inc.  
Independence Investment Associates, Inc.  
Provident Investment Counsel

**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.  
MIG Realty Advisors, Inc.  
Sentinel Real Estate Corporation  
TA Associates Realty  
The Blackstone Group  
Warburg, Pincus and Co.



FINANCIAL SECTION





Macias, Gini & Company LLP  
Certified Public Accountants

Partners  
Kenneth A. Macias  
Ernest J. Gini  
Kevin J. O'Connell

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Suite 200  
Sacramento, CA 95834  
916•928•4600  
916•928•2755 FAX  
www.maciasgini.com

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

RECEIVED  
OCT 19 1999  
AUDITOR-CONTROLLER  
ADMINISTRATION DIVISION

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of Fresno County Employees' Retirement Association (Association), a component unit of the County of Fresno, California, as of June 30, 1999 and 1998, and the related statements of changes in plan net assets for the 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Association as of June 30, 1999 and 1998, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Association is or will become year 2000 compliant, that the Association's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Association does business are or will become year 2000 compliant.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The data designated as other supplemental information in the table of contents is presented for purposes of additional analysis and is 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

Sacramento, California  
September 17, 1999



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 1999 AND 1998**  
(amounts expressed in thousands)

	1999	1998
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 92,993	\$ 71,527
Securities lending short-term investment pool	199,198	22
Total cash and cash equivalents (Note 3)	<u>292,191</u>	<u>71,549</u>
Receivables:		
Investment trades receivable (Note 4)	159,333	226,498
Interest and dividends receivable	8,753	8,255
Note receivable (Note 5)	640	544
Contributions and other receivables	3,567	3,645
Securities lending receivable	792	30
Total receivables	<u>173,085</u>	<u>238,972</u>
Investments, at fair value (Note 3):		
Domestic stocks	726,936	698,831
Domestic bonds	272,374	329,080
International stocks	317,577	280,427
Mortgage backed securities	136,035	122,567
Private markets	102,484	77,696
Global bonds	107,876	61,169
Total investments	<u>1,663,282</u>	<u>1,569,770</u>
Fixed assets, net of accumulated depreciation of \$67 and \$53, respectively	<u>347</u>	<u>290</u>
Total assets	<u>2,128,905</u>	<u>1,880,581</u>
<b>LIABILITIES:</b>		
Investment trades payable (Note 4)	180,395	250,168
Obligations for reverse repurchase agreement (Note 3)	50,685	--
Cash collateral payable for securities lending (Note 3)	199,198	22
Accounts payable	2,854	4,755
Securities lending bank and broker fees	746	25
Total liabilities	<u>433,878</u>	<u>254,970</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Note 6)</b>		
(A schedule of funding progress is presented on page 22)	<u>\$ 1,695,027</u>	<u>\$ 1,625,611</u>

See accompanying notes to financial statements.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**  
(amounts expressed in thousands)

	<u>1999</u>	<u>1998</u>
<b>ADDITIONS:</b>		
<b>Contributions:</b>		
Employers	\$ 6,005	\$ 202,550
Employees	7,775	7,168
Total contributions	<u>13,780</u>	<u>209,718</u>
<b>Investment income:</b>		
From investment activities		
Net appreciation in fair value of investments	51,766	200,262
Interest	37,479	32,250
Dividends	15,582	14,227
Private markets	5,199	7,332
Net income from investment activities	<u>110,026</u>	<u>254,071</u>
From securities lending activities		
Securities lending income	10,831	6,317
Securities lending expenses		
Borrower rebate expenses	(9,957)	(5,864)
Security lending management fees	(244)	--
Net income from securities lending activities	<u>630</u>	<u>453</u>
Miscellaneous income	638	418
Investment expense	(6,128)	(4,941)
Net investment income	<u>105,166</u>	<u>250,001</u>
Total additions	<u>118,946</u>	<u>459,719</u>
<b>DEDUCTIONS:</b>		
Benefits paid to participants	47,198	44,816
Refunds of prior contributions	1,568	1,772
Administrative expenses	764	721
Total deductions	<u>49,530</u>	<u>47,309</u>
<b>NET INCREASE</b>	<u>69,416</u>	<u>412,410</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,</b>		
<b>BEGINNING OF YEAR</b>	<u>1,625,611</u>	<u>1,213,201</u>
<b>END OF YEAR</b>	<u>\$ 1,695,027</u>	<u>\$ 1,625,611</u>

See accompanying notes to financial statements.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

**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, Clovis Memorial District, Fresno Mosquito and Vector Control District, North Central Fire Protection District, 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, 1999 and 1998 is as follows :

	<u>1999</u>	<u>1998</u>
Retirees and beneficiaries receiving benefits	3,204	3,087
Terminated employees entitled to benefits but not yet receiving them	1,310	1,289
Current employees:		
Vested:		
General	3,412	3,588
Safety	590	488
Nonvested:		
General	2,241	1,551
Safety	273	385
Total current employees	<u>6,516</u>	<u>6,012</u>
Total membership	<u><u>11,030</u></u>	<u><u>10,388</u></u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

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

**Benefit Provisions**

Benefit provisions are established by the Board under the provisions of the 1937 Act. 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 in law enforcement or fire suppression, 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 and health care benefits. The supplemental cost of living and health care benefits are subject to annual approval by the Board.

**Administration**

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

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

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

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

**Reporting Entity**

The Fresno County Employees' Retirement Association (Association) is the public employee retirement system established by Fresno 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 County Employees Retirement Act of 1937. The Association is a component unit of Fresno County's financial reporting entity and is included in the County's General Purpose Financial Statements as a pension trust fund.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

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

**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 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.

**Fixed Assets**

Fixed assets are valued at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of five years for equipment and ten years for furniture, structures and leasehold improvements.

**Reclassifications**

Certain reclassifications have been made to the 1998 financial statements to conform with the 1999 presentation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 which 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.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Investment Custodial Credit Risk**

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, 1999 and 1998 (in thousands).

<b>June 30, 1999</b>				
	<u>Category 1</u>	<u>Category 3</u>	<u>Non Categorized</u>	<u>Fair Value</u>
Short-term investments classified as cash and cash equivalents:				
Cash held in county investment pool	\$ 2,538	--	--	\$ 2,538
Short-term investments with fiscal agent	39,869	--	--	39,869
Securities lending short-term investment pool	--	--	\$ 199,198	199,198
Investment held by broker, under reverse repurchase agreements	--	--	50,586	50,586
Total cash and cash equivalents	<u>\$ 42,407</u>	<u>\$ --</u>	<u>\$ 249,784</u>	<u>\$ 292,191</u>

Investments:				
Domestic stocks	\$ 627,363	--	--	\$ 627,363
Domestic bonds	201,004	--	--	201,004
International stocks	296,555	--	--	296,555
Mortgage backed securities	136,035	--	--	136,035
Private markets	--	\$ 5,016	\$ 97,468	102,484
Global bonds	58,598	48,315	--	106,913
Securities on loan, collateralized with cash	--	--	192,928	192,928
Total investments	<u>\$ 1,319,555</u>	<u>\$ 53,331</u>	<u>\$ 290,396</u>	<u>\$ 1,663,282</u>

<b>June 30, 1998</b>				
	<u>Category 1</u>	<u>Category 3</u>	<u>Non Categorized</u>	<u>Fair Value</u>
Short-term investments classified as cash and cash equivalents:				
Cash held in county investment pool	\$ 2,859	--	--	\$ 2,859
Short-term investments with fiscal agent	18,343	--	\$ 50,325	68,668
Securities lending short-term investment pool	--	--	22	22
Total cash and cash equivalents	<u>\$ 21,202</u>	<u>\$ --</u>	<u>\$ 50,347</u>	<u>\$ 71,549</u>

Investments:				
Domestic stocks	\$ 698,809	--	--	\$ 698,809
Domestic bonds	329,080	--	--	329,080
International stocks	280,427	--	--	280,427
Mortgage backed securities	122,567	--	--	122,567
Private markets	--	--	\$ 77,696	77,696
Global bonds	54,828	\$ 6,341	--	61,169
Securities on loan, collateralized with cash	--	--	22	22
Total investments	<u>\$ 1,485,711</u>	<u>\$ 6,341</u>	<u>\$ 77,718</u>	<u>\$ 1,569,770</u>



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Investment Custodial Credit Risk (Continued)**

Custodial credit risk categories have been established by Governmental Accounting Standard Board (GASB) Statement No. 3. Category 1 includes investments that are insured or registered or for which the securities are held by the Association or its agents in the Association's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Association's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Association's name. In accordance with GASB Statement No. 3 disclosure requirements, private market investments are not categorized.

Deposits in the County investment pool are insured or collateralized with securities held by the Association or its agent in the Association's name.

**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, 1999, the Association has approximately \$26 million of its \$318 million foreign equity portfolio and its entire \$108 million foreign bond portfolio 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, 1999 and 1998, the Association had approximately \$90,727,000 and \$109,172,000 in these investments, respectively.

**Reverse Repurchase Agreements**

<b><u>Total Agreements</u></b>		<b><u>Total Underlying Securities</u></b>	
Proceeds	\$ 50,355,721	Fair Value	\$ 50,585,932
Accrued Interest	329,614	Accrued Interest	315,185
Obligation	<u>\$ 50,685,335</u>	Fair Value plus Accrued Interest	<u>\$ 50,901,117</u>

The Association is permitted to enter into reverse repurchase agreements under state statutes. Reverse repurchase agreements are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying the reverse repurchases normally exceeds the cash received, providing the dealer a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the Association or provide securities or cash of equal value, the Association would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$215,782. All sales of investments under reverse repurchase agreements are for fixed terms. The term to maturity of the investment should be the same as the term of the reverse repurchase agreement. Such matching existed at year end.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Securities Lending**

The Board authorized the Association, through its custodian bank, to enter into securities lending transactions, whereby securities owned by the Association are loaned on a short-term basis to various banks and brokers. Securities on loan include international and domestic stocks as well as global and domestic bonds. Securities on loan must be collateralized at 102% of the market value of domestic securities and at 105% of the market value of international securities. Collateral may take the form of cash, irrevocable letters of credit, tri-party repurchase agreements, or securities issued or guaranteed by the government. The lending agreement places no restriction on the amount of loans that can be made. The Association's lending agent is authorized to invest and reinvest cash collateral, but it is not expressly permitted to pledge or sell securities collateral without borrower default. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between the maturities of the investment pool and the Association's loans is affected by the securities loans of other entities that use the agent's pool, which the Association cannot determine. At year end, the Association has no credit risk exposure to borrowers as the amounts the Association owes the borrowers exceed the amounts the borrowers owe the Association. Furthermore, the lending agreement with the custodian requires the custodian to indemnify the Association if the borrower fails to return the securities.

There were no losses associated with securities lending transactions during the years ended June 30, 1999 or 1998. 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 (in thousands):

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Domestic stocks	\$ 99,573	\$ 22
International stocks	21,022	--
Total stocks on loan	<u>120,595</u>	<u>22</u>
Domestic bonds	71,370	--
Global bonds	963	--
Total bonds on loan	<u>72,333</u>	<u>--</u>
Total stocks and bonds on loan	<u>\$ 192,928</u>	<u>\$ 22</u>

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

Investment trades receivable and payable include forward foreign currency contracts of \$134,476,000 and \$212,579,000 at June 30, 1999 and 1998, respectively. The remaining receivable and payable balances represent investment sales and investment purchases outstanding, respectively.

**NOTE 5 - NOTE RECEIVABLE**

During the year ended June 30, 1997, the Association's investment in TCW Realty Fund VIA was redeemed by the fund manager. Accordingly, the Association was issued an interest bearing promissory note. At June 30, 1999, the note had a principal balance of \$640,000, which is scheduled to be fully satisfied in the year 2001.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

**NOTE 6 - CONTRIBUTIONS AND RESERVES**

**Contributions**

Contributions are made by the members and the employers at rates recommended by the Association's independent actuary and approved by the Board and the Fresno 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 2% and 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. Member contributions are forfeited to the Association if the member does not request a refund within five years of terminating membership.

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. Details of funding progress, annual required contributions and contributions made by the employers, and the latest actuarial valuation methods are presented in the required supplementary information schedules on pages 22 and 23.

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

**Reserves and Designations**

Net assets held in trust for pension benefits are segregated into members' accumulated contributions, reserves established by the Board and undistributed earnings. The Board has established reserves for various benefit payments pursuant to the 1937 Act, and it has designated a reserve for market stabilization. The reserves are generally based on actuarially determined amounts.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

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

The amounts and changes in reserves and designations for the year ended June 30, 1999 consist of the following (in thousands):

	<b>Balance July 1, 1998</b>	<b>Increase (Decrease) In Plan Net Assets</b>	<b>Net Transfers</b>	<b>Balance June 30, 1999</b>
Reserves:				
Members' accumulated contributions	\$ 211,171	\$ 6,207	\$ 22,116	\$ 239,494
Current service reserve	399,590	5,828	11,685	417,103
Annuity pension reserve	51,991	(6,742)	10,647	55,896
Current service pension reserve	252,853	(24,886)	74,457	302,424
Survivors' death benefit reserve	3,298	(453)	899	3,744
Cost of living adjustment reserve	252,446	(10,430)	52,988	295,004
Supplemental cost of living reserve	11,065	(1,827)	1,708	10,946
Contingency reserve	16,256	--	694	16,950
Retiree health insurance reserve	39,625	(2,683)	25,848	62,790
Designated for market stabilization	279,992	--	(156,338)	123,654
Undistributed earnings	107,324	104,402	(44,704)	167,022
Net assets held in trust for pension benefits	\$ <u>1,625,611</u>	\$ <u>69,416</u>	\$ <u>--</u>	\$ <u>1,695,027</u>

The amounts and changes in reserves and designations for the year ended June 30, 1998 consist of the following (in thousands):

	<b>Balance July 1, 1997</b>	<b>Increase (Decrease) In Plan Net Assets</b>	<b>Net Transfers</b>	<b>Balance June 30, 1998</b>
Reserves:				
Members' accumulated contributions	\$ 198,114	\$ 5,396	\$ 7,661	\$ 211,171
Current service reserve	193,570	202,378	3,642	399,590
Annuity pension reserve	50,777	(6,603)	7,817	51,991
Current service pension reserve	244,053	(23,935)	32,735	252,853
Survivors' death benefit reserve	2,644	(177)	831	3,298
Cost of living adjustment reserve	240,306	(9,459)	21,599	252,446
Supplemental cost of living reserve	11,939	(1,841)	967	11,065
Contingency reserve	12,132	--	4,124	16,256
Retiree health insurance reserve	39,022	(2,629)	3,232	39,625
Designated for market stabilization	144,864	--	135,128	279,992
Undistributed earnings	75,780	249,280	(217,736)	107,324
Net assets held in trust for pension benefits	\$ <u>1,213,201</u>	\$ <u>412,410</u>	\$ <u>--</u>	\$ <u>1,625,611</u>



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

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

Members' accumulated contributions include all contributions net of refunds and benefits paid of current members. At retirement or disability, balances are transferred to the annuity pension reserve and the cost of living adjustment reserve. Employers' contributions are paid into the current service reserve and cost of living adjustment reserve. When an employee retires, applicable balances are transferred from the current service reserve to the current service pension reserve. Undistributed earnings are credited with all investment income and charged with investment and other fees. Transfers from undistributed earnings to other reserves are made twice a year at an annual rate of 8.25% of the balance in the transferee reserve. Any additional transfers out of undistributed earnings are made in accordance with the authorization of the Board.

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

The retiree health insurance reserve was established during 1987 to provide funds for payment of supplemental benefits. The supplemental cost of living reserve was established in 1990 to provide additional benefits for eligible members who retired before April 1, 1981. The supplemental cost of living reserve balance reflects Board approved transfers from undistributed earnings.

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

On March 19, 1998, the County of Fresno issued \$184,910,000 in Pension Obligation Bonds (POBs), of which \$183,632,000 was transferred to the Association to fund the Unfunded Actuarial Accrued Liability (UAAL), and \$1,278,000, was used to pay the issuance costs.

**NOTE 7 - COMMITMENTS**

The Association committed to invest in, and has partially funded, various real estate investment funds. At June 30, 1999, the remaining commitments totaled \$65,446,000.

**NOTE 8 - CALIFORNIA SUPREME COURT DECISION**

On August 14, 1997, the Supreme Court of the State of California issued a decision in a case entitled Ventura County Deputy Sheriff's Association vs. Board of Retirement of Ventura County Employees' Retirement Association Case No. S055682. On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a County Retirement System operating under provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefits.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

**NOTE 8 – CALIFORNIA SUPREME COURT DECISION (CONTINUED)**

The Association, in conjunction with legal counsel, has worked toward implementing this court decision. The Board of Retirement voted to implement the changes as of October 1, 1997, the date the decision became final. Currently, there is litigation pending against the Association seeking retroactive application of the decision and the inclusion of additional compensation items in the calculation of retirement benefits. The final outcome of the matter is not known at this time.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 1999**

**SCHEDULE OF FUNDING PROGRESS**

(amounts in thousands)

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(3) Unfunded (Overfunded) AAL (2) - (1)</b>	<b>(4) Funded Ratio (1)/(2)</b>	<b>(5) Covered Payroll</b>	<b>(6) Unfunded (Overfunded) AAL Percentage of Covered Payroll (3)/(5)</b>
6/30/94	\$ 795,748	\$ 1,008,658	\$ 212,910	78.9%	\$ 217,439	97.9%
6/30/96	1,296,256	1,470,331	174,075	88.2%	191,114	91.1%
6/30/98	1,647,935	1,549,166	(98,769)	106.4%	219,398	(45.0%)

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(amounts in thousands)

<b>Year Ended June 30,</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
1992	\$ 18,771	100.00%
1993	19,995	100.00%
1994	21,428	100.00%
1995	22,707	100.00%
1996	26,468	100.00%
1997	31,666	100.00%
1998	18,918	100.00%
1999	6,005	100.00%

Actuarial reviews are performed biennially.

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 1999**

**LATEST ACTUARIAL VALUATION METHODS**

Valuation date	June 30, 1998
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent - closed
Remaining amortization period	12 years
Asset valuation method	5 year smoothed market*
Actuarial assumptions:	
Investment rate of return	8.25% (3.5% real return, 4.75% inflation)
Projected salary increases	5.75% (1.0% merit increase, 4.75% inflation)

\* Significant changes in Actuarial methods include a change from 3 year to a 5 year smoothed market.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR 2000 COMPLIANCE EFFORTS  
JUNE 30, 1999**

The Fresno County Retirement Employees' Association is a component unit of the County of Fresno and is included in the County of Fresno's "environment", for purposes of Year 2000 (Y2K) issues, along with the information systems and embedded electromechanical devices that are controlled by, or the responsibility of the County of Fresno Computer Services Department, that may be "date aware" and have "date aware" logic or data, and therefore, can potentially be Y2K problematic. Each County department is developing their own Y2K project plan that will run parallel with the overall Y2K Project Plan maintained by the Computer Services Department. Within the aforementioned environment, the Y2K problem potential relates to computer hardware (i.e., PC's, mini-computers, mainframe computers, etc.), operating systems, and application software, including all internal data. External to the environment, the Y2K problem potential relates to data created by external entities and data that is input to County of Fresno business processes. Additionally, any products purchased for use within the environment are also of concern, and therefore, subject to appropriate safeguards which must be imposed to prevent the unknown introduction of new Y2K problems/issues.

Y2K compliance means information technology that accurately processes date/time data (including, but not limited to calculating, comparing and sequencing) from, into, and between the twentieth and twenty-first centuries and the year 1999, 2000 and leap year calculations. Furthermore, Y2K compliant information technology, when used in combination with other information technology, shall accurately process date/time data if the other information technology properly exchanges date/time data with it. The following stages have been identified as necessary to implement a Y2K compliant system as outlined in Governmental Accounting Standards Board Technical Bulletin No. 99-1, issued in March 1999:

Awareness Stage – Encompasses establishing a budget and project plan (for example, a timeline or chart noting major tasks and due dates) for dealing with the year 2000.

The County created the "Year 2000 Project Plan" to identify and address Y2K issues.

Assessment Stage – When the organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission-critical systems and equipment (systems and equipment critical to conducting operations) to check for compliance.

An inventory of all task critical and support application software is underway to identify and address any areas that need Y2K remediation.

The County has identified and is implementing needed changes or upgrades to its computer systems to ensure they are Y2K compliant.

The County has identified and is in the process of further identifying internal databases which may be in need of remediation for Y2K compliance.

In addition the Plan will include due diligence effort to ensure compliance by vendors whose services to the County are reliant upon either their computer systems or computer systems from other agencies, as well as a risk assessment of each risk/problem identified which could potentially impact our Auditor-Controller/Treasurer-Tax Collector department based on health/safety, environmental, operational, public confidence or other category of impact.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR 2000 COMPLIANCE EFFORTS (CONTINUED)  
JUNE 30, 1999**

Remediation Stage – When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.

The County has purchased and is installing upgraded, Year 2000 compliant, versions of currently used software throughout the County and has conducted internal testing to ensure to the extent possible that the application is indeed compliant.

The County has obtained written documentation that its vendor-supplied systems are Y2K compliant, and has conducted internal testing to ensure to the extent possible that the applications are indeed compliant.

The County has obtained and continues to obtain written documentation from vendors assuring their systems are Y2K compliant to the extent possible.

The County has taken steps to remove and/or replace older mid-range computer hardware that has been identified as not Y2K compliant.

The County has taken steps to identify and upgrade or replace personal computers throughout the County that are not currently Y2K compliant. It is anticipated that all upgrades or replacements will be made prior to year end.

The County has taken steps to identify and upgrade or replace computer networking equipment or related software that is not Y2K compliant.

The County has taken steps to examine its non-computer systems which may be impacted by Y2K, including fire alarms & systems, security alarms, safety systems, and related devices.

Validation/Testing Stage – When the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and re-tested.

The County is in the process of testing network equipment, including printers and software.

In concert with County end users, Computer Services Department management will be developing contingency plans, should the third party manufacturers at issue falter with respect to the agreed upon product delivery and implementation schedules. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management does not guarantee that the County is or will be Year 2000 ready, that the County remediation efforts will be successful in whole or in part, or that parties with whom the County does business will be year 2000 ready.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF ADMINISTRATIVE EXPENSES  
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

	1999	1998
<b>Personnel Services</b>		
Salaries and Benefits	\$ 502,477	\$ 436,580
Total Personnel Services	<u>502,477</u>	<u>436,580</u>
<b>Office Expenses</b>		
Office Expense	<u>10,988</u>	<u>5,342</u>
<b>Other Services and Charges</b>		
Telephone Charges	5,114	4,148
Insurance Other	766	409
Maintenance - Equipment	192	506
Memberships	2,570	2,450
Miscellaneous	(35)	178
Postage	9,618	5,664
Professional and Specialized Services	137,129	130,763
Disability Expenses	42,551	65,115
Data Processing Services	26,598	52,302
Small Tools and Instruments	--	140
Transportation, Travel, and Education	1,556	257
Transportation, Travel - Commissions & Advisory Board	<u>10,125</u>	<u>8,828</u>
Total Other Services and Charges	<u>236,184</u>	<u>270,760</u>
<b>Depreciation</b>	14,430	8,503
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u><u>\$ 764,079</u></u>	<u><u>\$ 721,185</u></u>

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF INVESTMENT EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

	1999	1998
Investment Manager Fees	\$ 5,604,541	\$ 4,748,323
Fiduciary Insurance Premium	25,640	25,331
Custodial Service Fees	311,997	64,233
Actuarial Service Fees	71,250	3,500
Consulting Fees	115,000	90,000
Miscellaneous Expense	--	9,404
Investment Expense	<u>6,128,428</u>	<u>4,940,791</u>
Securities Lending Expenses	10,201,600	5,864,460
Total Investment Expenses	<u>\$ 16,330,028</u>	<u>\$ 10,805,251</u>



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF PAYMENTS TO CONSULTANTS  
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

	1999	1998
Disability Attorney Fees	\$ 24,939	\$ 54,103
Retirement Board Attorney Fees	38,454	25,058
External Audit Fees	12,491	10,210
Actuarial Consulting Fees	71,250	3,500
Investment Consulting Fees	115,000	90,000
Custodial Fees	311,997	64,233
Data Processing Fees	26,598	52,303
TOTAL PAYMENTS TO CONSULTANTS	<u>\$ 600,729</u>	<u>\$ 299,407</u>

Refer to page 36 for information on fees paid to investment professionals.



INVESTMENT SECTION



The FCERA investment portfolio grew by \$67.6 million over the past year reaching a value of \$1.69 billion on June 30, 1999. The FCERA portfolio is broadly diversified, holding investments ranging from publicly-traded bonds to privately-held partnerships. Clearly, the scale and breadth of investments make the management and oversight of these assets highly complex.

### Investment Allocation

The most critical factor influencing overall investment performance is the allocation of the FCERA portfolio across major asset classes. The current policy reflects asset allocation guidelines adopted by FCERA in October of 1997. The portfolio's actual allocation as of June 30, 1999 was modestly different from policy. Domestic equities were overweighted while private markets were underweighted reflecting the use of the domestic equity asset class as a holding place for private market assets as they are funded over time. The foreign fixed income and domestic fixed income asset classes were slightly underweighted relative to policy.

### Investment Results

Over the last year, the FCERA investment portfolio produced an overall return of 7.0%. This result trailed the FCERA policy benchmark by 590 basis points.<sup>1</sup> Active management decisions by FCERA's managers dampened value within all asset classes, except cash, over the latest year.

During the last three years, FCERA's portfolio generated a 15.8% return outperforming its policy benchmark by 0.8% per year on average. Over the last five years, the FCERA investment portfolio produced an average annual return of 15.5%, exceeding the policy benchmark by an average of 1.0% per year. FCERA's performance relative to its benchmark has deteriorated in recent periods. This result is due, in large part, to active management decisions by FCERA's managers.

*Pension Consulting Alliance, Inc.*

<sup>1</sup> The policy benchmark consists of passive managed asset class portfolios weighted by FCERAs' policy allocations. The difference between actual results and the benchmark are due to two factors: i) deviations from policy and ii) active decisions on the part of FCERA and its investment managers.

## FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION GENERAL INFORMATION

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

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

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

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

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

<u>Association's Portfolio</u>	<u>Target Allocations</u>	<u>Actual Allocations</u>
Domestic Bonds*	25%	23.26%
Global Bonds	9%	6.14%
Domestic Stocks	35%	41.39%
International Stocks	20%	18.08%
Private Markets**	10%	5.84%
Cash and Cash Equivalents	1%	5.29%

\* Includes mortgage backed securities

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

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



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

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

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

The policy drives the investment actions of the Association. This policy considers various mixes of different investment asset class risk and return expectations for each mixed-class portfolio current and projected plan liabilities. In addition, the Board has established proxy voting policies for its equity investments. The Board retains a firm to vote its own proxy voting fulfilling compliance with California law.

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENT RESULTS BASED ON FAIR VALUE**  
**AS OF JUNE 30, 1999**

TOTAL FUNDS	Current Year	Annualized Rate of Return for the Preceding	
		3 - Year	5 - Year
Bonds			
Domestic	2.5%	7.2%	7.5%
Benchmark : Lehman Aggregate	3.1%	7.2%	7.8%
Global	3.2%	3.7%	N/A
Benchmark : Salomon World Government	4.1%	4.1%	N/A
Stocks			
Domestic Value	8.3%	22.2%	22.0%
Benchmark Return at Actual Allocation	13.6%	23.5%	24.0%
Domestic Growth	23.3%	28.7%	27.9%
Benchmark Return at Actual Allocation	27.3%	30.0%	29.3%
Domestic Small Capital	-9.1%	14.8%	N/A
Benchmark : Russell 2000	1.5%	11.2%	N/A
International	4.9%	16.7%	N/A
Benchmark : MSCI EAFE	7.9%	9.1%	N/A
Private Markets			
Real Estate	15.1%	11.5%	9.9%
Benchmark : NCREIF	14.4%	13.5%	11.1%
Alternative Investments	1.6%	N/A	N/A
Benchmark : S&P 500 + 4.47%	24.9%	N/A	N/A
Cash, Custodial and Investment Pool			
Cash	4.9%	6.2%	5.6%
Benchmark: 90-Day Treasury Bill	4.7%	5.1%	5.2%
Benchmark Return at Actual Allocation	4.7%	5.1%	5.2%
TOTAL	7.0%	15.8%	15.5%

**Notes:**

Realty is net of fees and lagged one quarter.

Securities Lending is lagged one quarter.

Alternative Investment is lagged one quarter.

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



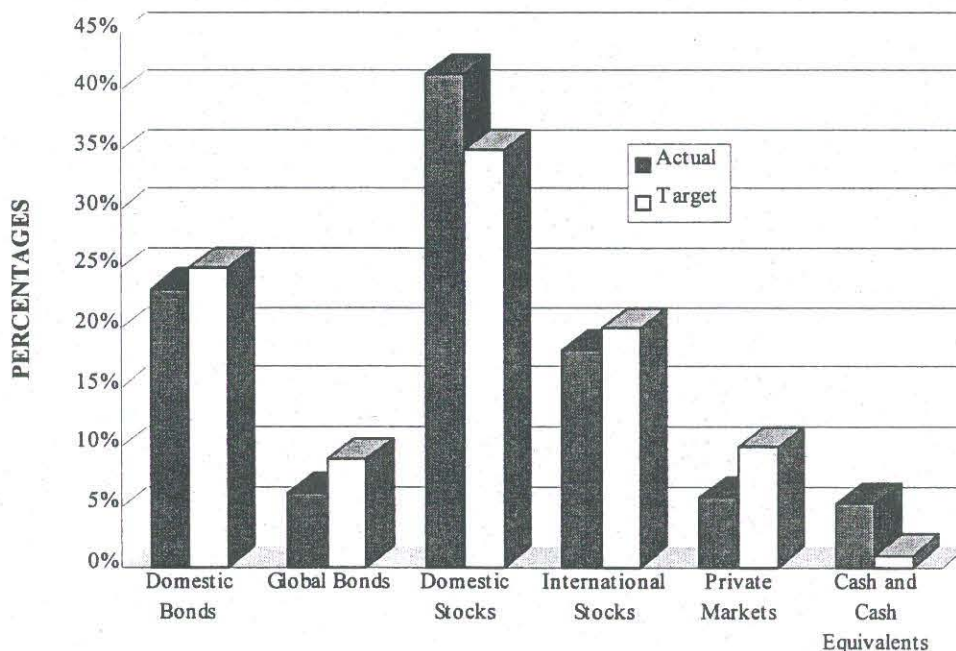
**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
TARGET AND ACTUAL ASSET ALLOCATIONS  
AS OF JUNE 30, 1999**

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

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

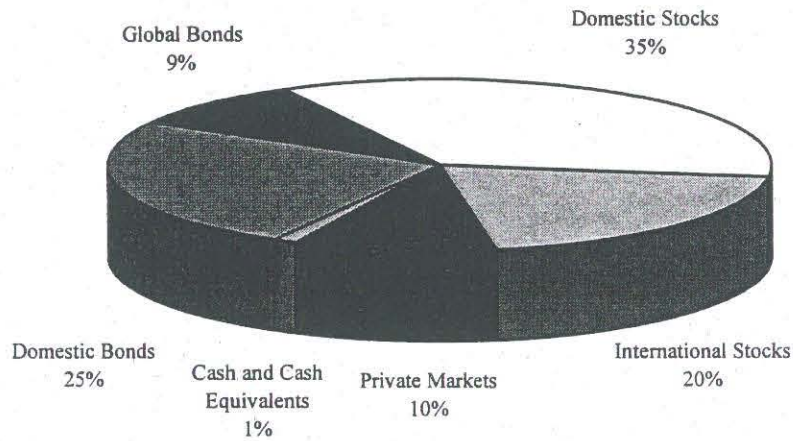
Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract. The 1998/99 target and actual asset allocations are presented in the following graphs:

**Target vs. Actual Asset Allocations  
(by percentages)**

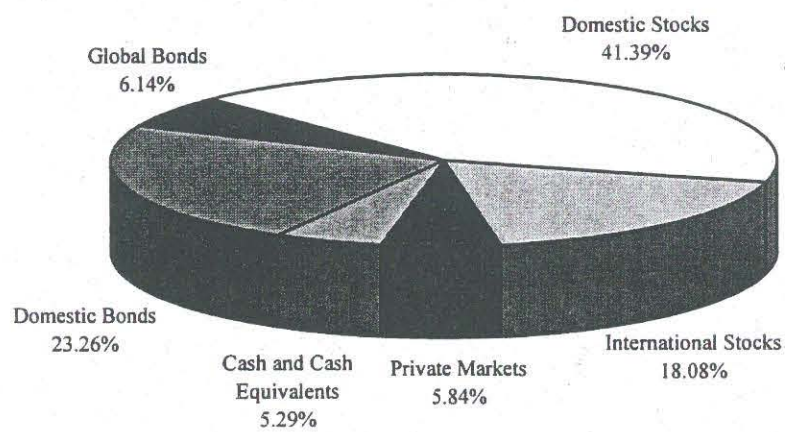


**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
TARGET AND ACTUAL ASSET ALLOCATIONS (CONTINUED)  
AS OF JUNE 30, 1999**

**Target Percentages**



**Actual Percentages**





**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**LARGEST BOND HOLDINGS**  
**AS OF JUNE 30, 1999**

PAR	NAME	FAIR VALUE
\$12,196,000	US TREASURY BOND 6.75% due 04/30/2000	\$ 12,388,994
8,193,000	GNMA 30 YEAR TREASURY BOND 7.00%	8,125,162
7,335,000	T-NOTE 5.875% due 02/15/2004	7,373,971
6,929,000	T-NOTE 6.625% due 05/15/2007	7,216,990
6,958,641	FNMA #251901 6.75% due 07/01/2013	6,864,814
6,259,000	US T-NOTE 5.25% due 05/15/2004	6,149,468
5,723,000	GNMA 5.00% TBA	5,540,760
5,622,000	US T-NOTE 4.50% due 9/30/2000	5,556,998
5,354,582	GMNA #0354566 7.5% due 04/15/2023	5,425,824
5,229,000	T-NOTE 6.375% due 9/30/2001	5,815,608
	TOTAL	\$ 70,458,589

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**LARGEST STOCK HOLDINGS**  
**AS OF JUNE 30, 1999**

SHARES	NAME	FAIR VALUE
342,300	CITIGROUP, INC.	\$ 16,259,250
162,700	MICROSOFT CORP.	14,673,506
135,500	TYCO INTERNATIONAL	12,838,625
172,800	FORD MOTOR COMPANY	9,752,400
106,500	MCI WORLDCOM, INC.	9,185,625
148,714	AT&T	8,300,100
151,707	WASTE MANAGEMENT	8,154,251
68,600	AMERICAN INT'L GROUP	8,030,488
170,500	BELLSOUTH	7,992,188
132,000	LOWE'S COMPANIES	7,482,750
	TOTAL	\$ 102,669,183

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, 1999 AND 1998**

	1999	1998
<b>Investment Manager Fees</b>		
Domestic Stocks	\$ 2,229,584	\$ 2,393,015
International Stocks	1,719,804	1,251,746
Domestic Bonds	1,067,994	833,624
Global Bonds	361,237	269,938
Private Markets	225,922	--
Total Investment Manager Fees	<u>\$ 5,604,541</u>	<u>\$ 4,748,323</u>
<b>Other Investment Expenses</b>		
Securities Lending Expense	\$ 10,201,600	\$ 5,864,460
Fiduciary Insurance Premium	25,640	25,331
Custodial Service Fees	311,997	64,233
Actuarial Service Fees	71,250	3,500
Miscellaneous Expense	--	9,404
Consulting Fees	115,000	90,000
Total Other Investment Expenses	<u>\$ 10,725,487</u>	<u>\$ 6,056,928</u>



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**SCHEDULE OF FEES AND COMMISSIONS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share	Percentage of Commissions
<b>Investment Trade Commissions</b>				
Everen Securities	5,861,865	\$ 293,182	\$ 0.0500	10.57%
Merrill Lynch, Pierce, Fenner & Smith Inc.	52,792,688	202,011	0.0038	7.28%
Banque Paribas	1,912,927	199,813	0.1045	7.20%
Citibank	8,822,999	147,080	0.0167	5.30%
Donaldson, Lufkin & Jenrette	2,912,752	145,924	0.0501	5.26%
Pershing	2,667,670	123,836	0.0464	4.46%
Broadcourt Corp.	1,893,300	113,459	0.0599	4.09%
Instinet Corp.	3,156,131	101,894	0.0323	3.67%
Morgan Stanley & Co. Inc.	833,468,423	95,451	0.0001	3.44%
Lehman Brothers	4,395,951	67,566	0.0154	2.44%
Goldman Sachs & Co.	1,670,773	64,558	0.0386	2.33%
Warburd Dillion Read	5,868,905	60,493	0.0103	2.18%
Pension Fund Evaluations Inc.	1,122,000	57,046	0.0508	2.06%
Dresdner Bank	1,128,721	57,012	0.0505	2.06%
Bear Stearns & Co Inc.	1,630,825	54,044	0.0331	1.95%
First Boston	8,745,790	50,966	0.0058	1.84%
Capital International Investors	712,569	42,345	0.0594	1.53%
HSBC	2,524,429	42,098	0.0167	1.52%
Kas Associates	313,950	40,384	0.1286	1.46%
Jefferies	874,505	39,517	0.0452	1.42%
Kleinwort Benson	1,812,600	34,690	0.0191	1.25%
Salomon Brothers Inc.	1,024,066	32,244	0.0315	1.16%
ABN AMRO Bank	548,600	30,602	0.0558	1.10%
Bank Leu, Zurich	7,202	28,748	3.9917	1.04%
Smith Barney Inc.	511,787	27,193	0.0531	0.98%
Other	72,744,548	621,480	0.0085	22.41%
Total Investment Trade Commissions	<u>1,019,125,976</u>	<u>\$ 2,773,636</u>	<u>\$ 0.0027</u>	<u>100.00%</u>

The Association has established a Directed Commission Recapture Program generated by equity and fixed income transactions. The Association provides each manager with a target amount of commissions that they will direct annually based on specific investment and trading styles. However, the Association communicates to its managers that best execution and best price are still the primary considerations when a transaction is made.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENT SUMMARY**  
**AS OF JUNE 30, 1999**  
(amounts in thousands)

	Fair Value	Actual Percentages	Target Percentages
<b>Investments</b>			
Domestic Bonds*	\$ 408,409	23.26%	25.00%
Global Bonds	107,876	6.14%	9.00%
Total Bonds	<u>516,285</u>	<u>29.40%</u>	<u>34.00%</u>
Domestic Stocks	726,936	41.39%	35.00%
International Stocks	317,577	18.08%	20.00%
Total Stocks	<u>1,044,513</u>	<u>59.47%</u>	<u>55.00%</u>
Private Markets**	102,484	5.84%	10.00%
Total Investments	<u>1,663,282</u>	<u>94.71%</u>	<u>99.00%</u>
<b>Cash and Cash Equivalents</b>			
Cash held in County Investment Pool	2,538	0.14%	***
Short term investment with fiscal agent	90,455	5.15%	***
Total Cash and Cash Equivalents	<u>92,993</u>	<u>5.29%</u>	<u>1.00%</u>
<b>TOTAL INVESTMENT, CASH AND CASH EQUIVALENTS</b>	<b>\$ <u>1,756,275</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

\* Includes mortgage backed securities.

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

\*\*\* The overall target allocation for Cash and Cash equivalents is 1% and is not broken down by the type of investment.



**ACTUARIAL SECTION**



ACTUARY'S  
CERTIFICATION  
LETTER

BUCK  
CONSULTANTS

100 California Street Suite 1300  
San Francisco, California 94111

September 3, 1999

Board of Retirement  
Fresno County  
Employees' Retirement Association  
P.O. Box 1247  
Fresno, California 93715-1247

Members of the Board:

Re: *Actuarial Certification of the  
Fresno County  
Employees' Retirement Association*

Buck Consultants, Inc. is the Consulting  
Actuary for the Fresno County Employees'  
Retirement Association.

The funding objective of the Plan is to establish contribution rates which, over time, will remain as a level percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of June 30, 1998, the remaining amortization period for the UAAL was 12 years. The progress being made towards the realization of the funding objective through June 30, 1998 is shown in the attached Exhibits.

Actuarial valuations and experience analyses are performed bi-annually. The date of the most recent actuarial valuation and experience analysis was June 30, 1998. At

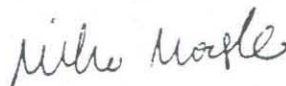
that time an analysis was made as to the appropriateness of all economic and non-economic assumptions. Recommendations were presented to, and adopted by, the Board. The next biennial study will be performed as of June 30, 2000.

For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

Our firm has prepared and/or reviewed all of the schedules presented in the actuarial section. All actuarial assumptions shown in the schedules were determined by us and adopted by the Board. These assumptions produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The employee census data and asset information were provided by the Retirement Office. The census data was reviewed, compared against the prior years and deemed reasonable. The asset information was accepted without further audit.

We certify that the Retirement Association is in sound financial condition and that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully submitted,



Michael Moehle, E.A., F.S.A., M.A.A.A.  
Principal and Consulting Actuary

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## 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 12 years from the June 30, 1998 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, 1998. The actuarial valuation report was approved and adopted by the Fresno County Board of Retirement on May 5, 1999.

- |     |  |  |
|-----|--|--|
| 1.  | Interest:  | 8.25% per annum. (3.5% real, 4.75% inflation)  |
| 2.  | Interest Credited to Employee Accounts:                                  | 8.25% per annum.   |
| 3.  | Inflation:   | 4.75% per annum.   |
| 4.  | Salary Scale:  | 5.75% per annum. (1% merit increase, 4.75% inflation)  |
| 5.  | Asset Valuation:   | 5 year smoothed market value.  |
| 6.  | Spouses and Dependents:  | 90% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands. |
| 7.  | Rates of Termination of Employment:                                      | 0% to 17%  |
| 8.  | Years of Life Expectancy After Retirement:                               | 1983 Group Annuity Mortality   |
| 9.  | Years of Life Expectancy After Disability:                               | 1981 Group Annuity Mortality   |
| 10. | Life Expectancy After Retirement for Employee Contribution Rate Purposes |  |
|     | - General Members:   | 1983 Group Annuity Table for Males, set back four years.   |
|     | - Safety Members:  | 1983 Group Annuity Table for Males, set back one year.   |
| 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. | Sex:   | All Safety members are assumed to be male.   |

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.

**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, 1994	General	6,091	\$ 189,354,000	\$ 2,591	7.2%
	Safety	<u>743</u>	<u>28,085,000</u>	\$ 3,150	10.6%
	Total	<u>6,834</u>	<u>\$ 217,439,000</u>	\$ 2,651	7.7%
June 30, 1996 **	General	4,856	\$ 158,601,000	\$ 2,722	5.1%
	Safety	<u>826</u>	<u>32,513,000</u>	\$ 3,280	4.1%
	Total	<u>5,682</u>	<u>\$ 191,114,000</u>	\$ 2,803	5.7%
June 30, 1998	General	5,200	\$ 181,813,000	\$ 2,914	7.1%
	Safety	<u>857</u>	<u>37,585,000</u>	\$ 3,655	11.4%
	Total	<u>6,057</u>	<u>\$ 219,398,000</u>	\$ 3,019	7.7%

\* Difference in membership balances for actuary purposes and financial statement schedule on page 12 reflects adjustments to actuary information made after the financial statements were prepared.

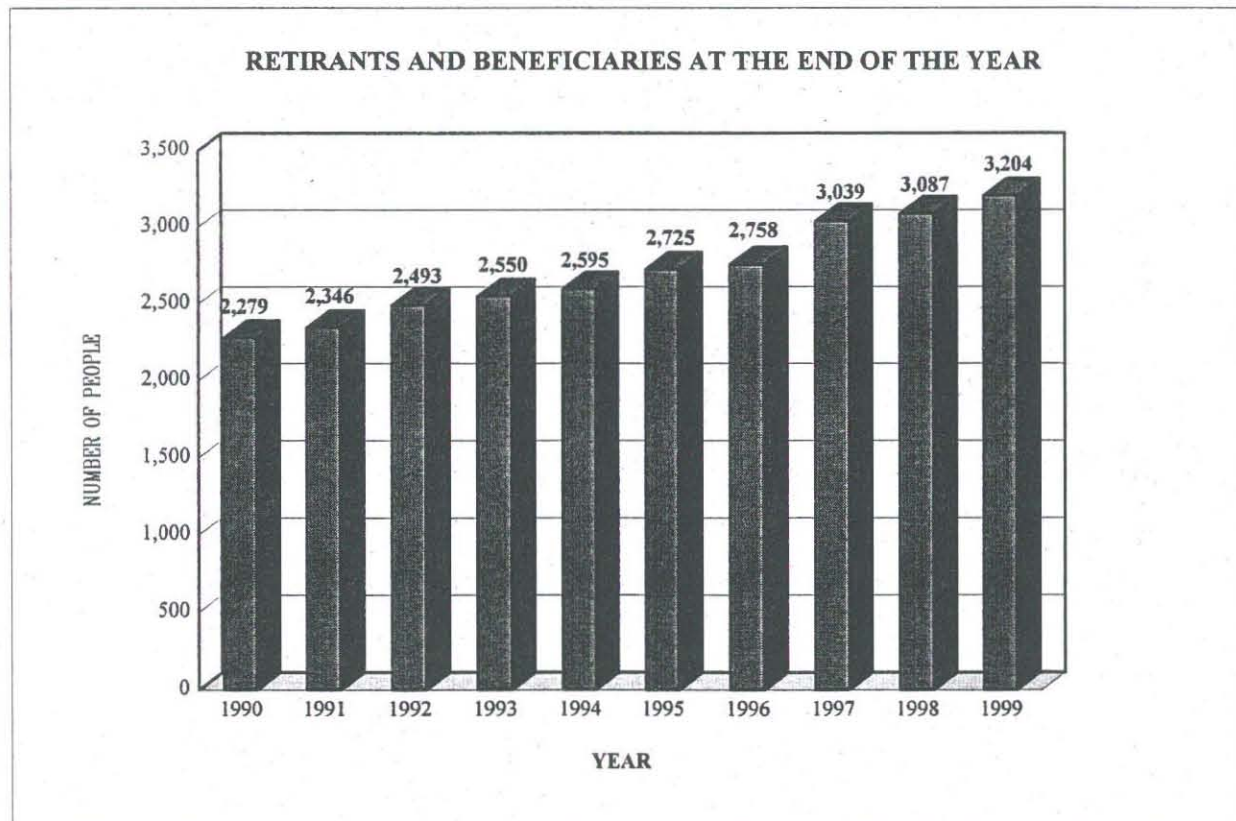
\*\* The actuary study performed at June 30, 1996 included a prospective adjustment for members who terminated membership in the Association due to the merger of Valley Medical Center with Community Hospitals of Central California in October 1996.

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.



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

Year	At Beginning of Year	Added During Year	Removed During Year	At End of Year
1990	2,199	127	47	2,279
1991	2,279	118	51	2,346
1992	2,346	209	62	2,493
1993	2,493	130	73	2,550
1994	2,550	110	65	2,595
1995	2,595	223	93	2,725
1996	2,725	124	91	2,758
1997	2,758	367	86	3,039
1998	3,039	130	82	3,087
1999	3,087	215	98	3,204



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF FUNDING PROGRESS (GASB 25)**

(amounts in thousands)

The funding ratios 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	78.9%	\$217,439	97.9%
June 30, 1996	1,296,256	1,470,331	174,075	88.2%	191,114	91.1%
June 30, 1998	1,647,935	1,549,166	(98,769)	106.4%	219,398	(45.0%)

The required employer contributions

Fiscal Year Ended	Annual Required Contributions	Percentage Contribution
June 30, 1994	\$ 21,428	100%
June 30, 1996	26,468	100%
June 30, 1998	202,550 *	100%

\* Includes proceeds from Pension Obligation Bonds.

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.



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

Changes to UAAL		1998
Prior Valuation Unfunded Actuarial Accrued Liability		\$ 174,075
Expected Increased from Prior Valuation		(5,322)
Salary Increase Greater (Less) than Expected		(6,464)
Asset Return Less (Greater) than Expected		(150,168)
Proceeds from Pension Obligation Bond		(183,632)
Other Experience		26,365
Actuarial Value of Assets Method Change		46,722
Economic and Non-Economic Assumption Changes		(345)
Ending Overfunded Actuarial Accrued Liability		<u><u>\$ (98,769)</u></u>

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.  
Significant changes in Actuarial methods include a change from 3 year to a 5 year smoothed market.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE**  
**(Current Assumptions)**

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

**General Members - Male**

20	0.16000	0.00020	0.00000	0.00000	0.00000	0.00010	0.00005	0.00045
30	0.13500	0.00040	0.00007	0.00000	0.00013	0.00010	0.00010	0.00630
40	0.03900	0.00060	0.00035	0.00000	0.00039	0.00010	0.00020	0.02070
50	0.01000	0.00130	0.00147	0.03500	0.00104	0.00010	0.00055	0.01080
60	0.01000	0.00240	0.00308	0.15000	0.00234	0.00030	0.00155	0.00540
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

**General Members - Female**

20	0.17000	0.00010	0.00000	0.00000	0.00000	0.00000	0.00010	0.00270
30	0.15000	0.00030	0.00010	0.00000	0.00008	0.00000	0.00020	0.00450
40	0.05500	0.00060	0.00030	0.00000	0.00008	0.00000	0.00030	0.01665
50	0.02600	0.00100	0.00110	0.04000	0.00022	0.00000	0.00060	0.01170
60	0.01300	0.00180	0.00230	0.14000	0.00045	0.00000	0.00170	0.00450
70	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

**Safety Members**

20	0.13000	0.00015	0.00000	0.00000	0.00000	0.00015	0.00048	0.00100
30	0.06400	0.00030	0.00030	0.00000	0.00015	0.00030	0.00104	0.02500
40	0.02200	0.00045	0.00100	0.00000	0.00022	0.00045	0.00312	0.01200
50	0.00500	0.00075	0.00160	0.07000	0.00060	0.00075	0.00848	0.00000
60	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT**  
**(Current Assumptions)**

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

**General Members - Male**

50	29.18
60	20.64
70	13.18
80	7.64
90	4.28
100	2.28
110	0.50

**General Members - Female**

50	34.92
60	25.67
70	17.13
80	10.20
90	5.41
100	2.36
110	0.50

**Safety Members**

50	30.08
60	21.46
70	13.84
80	8.10
90	4.54
100	2.45
110	0.74

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT  
(Current Assumptions)**

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

**General Members**

20	38.73
30	31.98
40	26.21
50	21.08
60	16.37
70	11.70
80	7.00
90	4.09
100	2.20
110	0.50

**Safety Members**

20	49.29
30	40.36
40	31.77
50	23.59
60	16.64
70	11.70
80	7.00
90	4.09
100	2.20
110	0.50

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.



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

**1. ELIGIBILITY**

First of pay period following pay period employed.

**2. DEFINITION OF SALARY**

Highest 12 consecutive months of compensation earnable.

**3. SERVICE RETIREMENT**

- Normal retirement age - 57 and 50 for Section 31676.12 and Section 31664, 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

1/50 times final average salary per year of service.

- Benefit Adjustments

Reduced for retirement before 57 and 50 for Section 31676.12 and Section 31664, respectively.

Increased for retirement after 57 and 50 for Section 31676.12 and Section 31664, respectively.

**4. DISABILITY RETIREMENT**

- Non-service connected

1.8% of final average salary per year of service, with a maximum of 33-1/3% if projected service is used (age 62 for General, age 55 for Safety), or 90% of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible).

- Service-connected

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

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

**5. DEATH BEFORE RETIREMENT**

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

**6. DEATH AFTER RETIREMENT**

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

**7. VESTING**

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

**8. MEMBERS' CONTRIBUTIONS**

Based on entry age.

**9. COST-OF-LIVING**

"Automatic" 3% COLA for all members.

Note: Information compiled from Actuarial Report prepared by Buck Consultants dated June 30, 1998.



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STATISTICAL SECTION



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE**

(amounts in thousands)

**REVENUES BY SOURCE**

EMPLOYER CONTRIBUTIONS						
Fiscal Year Ended June 30,	Member Contributions	Dollars Amounts	% of Annual Covered Payroll	Net Investment Income	Total	
1990	\$ 7,590	\$ 18,824	10.90%	\$ 50,448	\$ 76,862	
1991	8,162	20,635	12.56%	46,689	75,486	
1992	5,579	18,771	10.19%	67,911	92,261	
1993	6,056	19,995	10.10%	88,960	115,011	
1994	6,374	21,428	9.67%	82,378	110,180	
1995	6,723	22,707	9.73%	75,072	104,502	
1996	8,038	26,468	11.34%	125,679	160,185	
1997	7,087	31,666	11.03%	204,115	242,868	
1998	7,168	202,550 *	93.44%	250,001	459,719	
1999	7,775	6,005	2.57%	105,166	118,946	

\* Includes proceeds from Pension Obligation Bonds

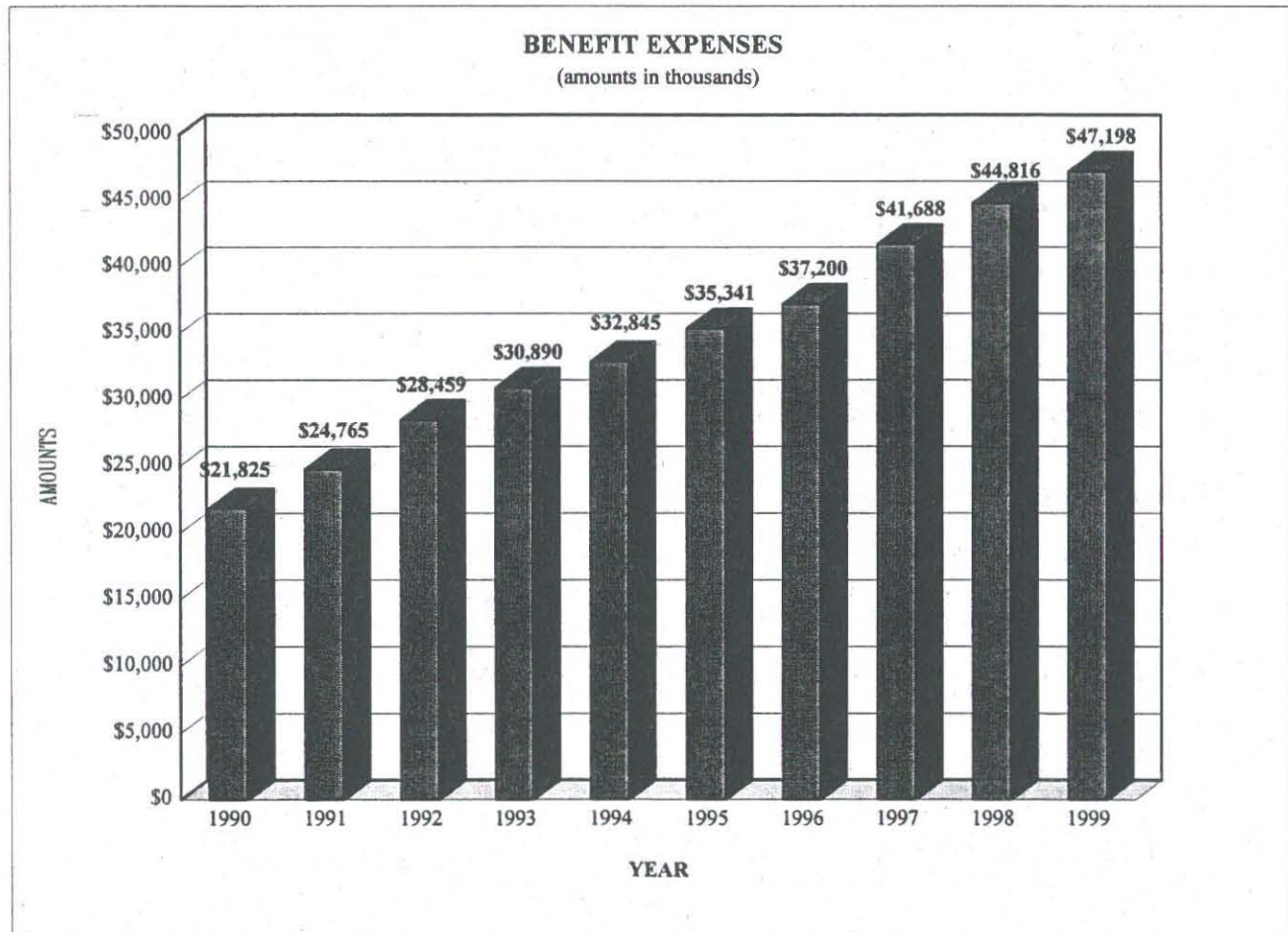
**EXPENSES BY TYPE**

Fiscal Year Ended June 30,	Benefits	Administrative Expenses	Refunds	Total
1990	\$ 21,825	\$ 356	\$ 2,386	\$ 24,567
1991	24,765	343	1,976	27,084
1992	28,459	421	1,726	30,606
1993	30,890	552	1,514	32,956
1994	32,845	520	1,478	34,843
1995	35,341	660	1,298	37,299
1996	37,200	787	1,678	39,665
1997	41,688	757	5,346	47,791
1998	44,816	721	1,772	47,309
1999	47,198	764	1,568	49,530

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

(amounts in thousands)

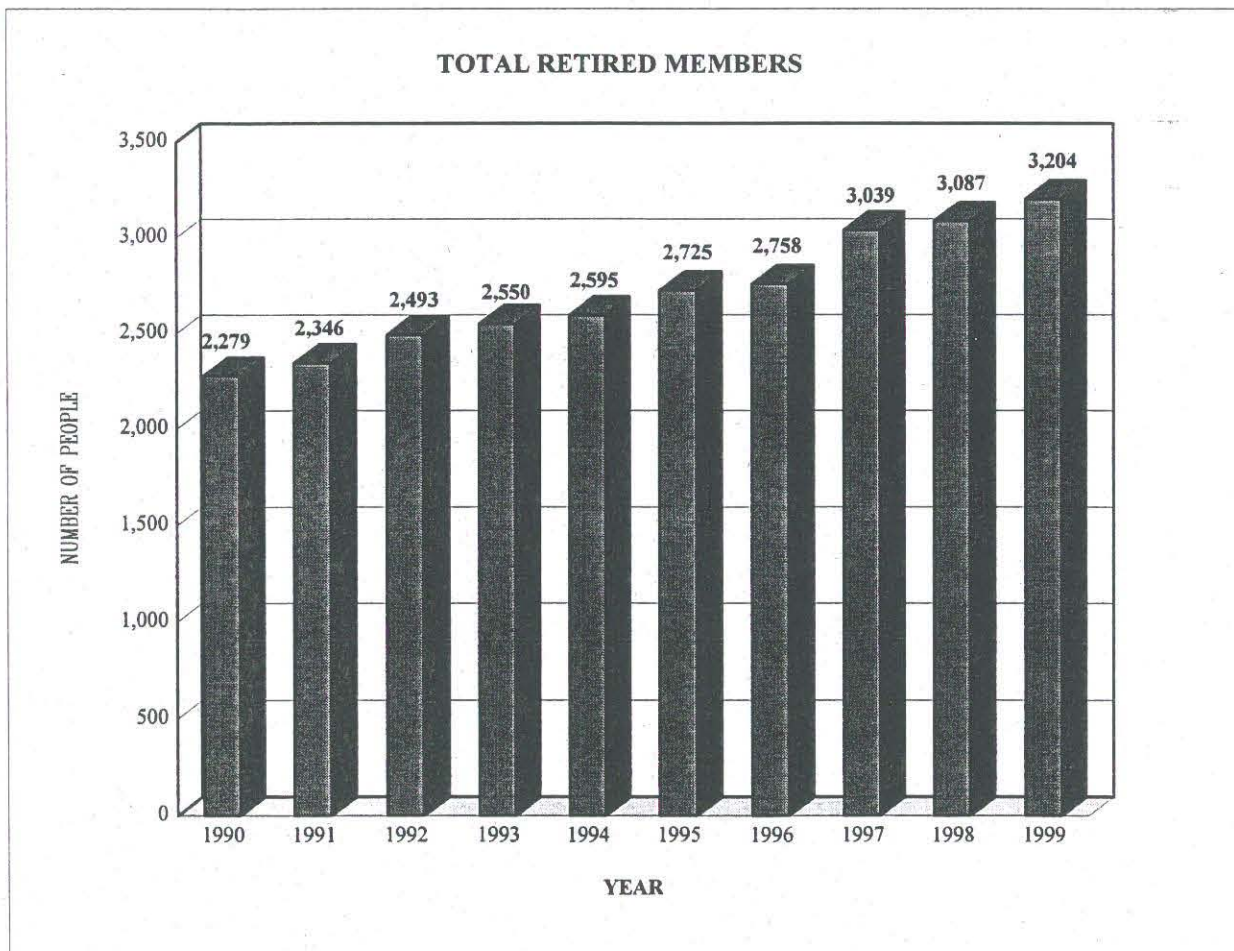
MEMBERS	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GENERAL	\$18,303	\$20,590	\$23,875	\$26,024	\$27,455	\$29,231	\$31,043	\$35,082	\$37,715	\$39,263
SAFETY	3,252	3,821	4,179	4,487	4,969	5,642	5,659	6,074	6,587	7,239
SURVIVOR	270	354	405	379	421	468	498	532	514	696
<b>TOTAL</b>	<b>\$21,825</b>	<b>\$24,765</b>	<b>\$28,459</b>	<b>\$30,890</b>	<b>\$32,845</b>	<b>\$35,341</b>	<b>\$37,200</b>	<b>\$41,688</b>	<b>\$44,816</b>	<b>\$47,198</b>





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

<b>MEMBERS</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
GENERAL	2,044	2,098	2,231	2,276	2,299	2,412	2,429	2,697	2,732	2,816
SAFETY	194	206	217	227	247	261	272	284	292	318
SURVIVOR	41	42	45	47	49	52	57	58	63	70
<b>TOTAL</b>	<b>2,279</b>	<b>2,346</b>	<b>2,493</b>	<b>2,550</b>	<b>2,595</b>	<b>2,725</b>	<b>2,758</b>	<b>3,039</b>	<b>3,087</b>	<b>3,204</b>



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
AVERAGE ANNUAL BENEFIT AND MEMBERSHIP DISTRIBUTION  
OF RETIRED GENERAL MEMBERS  
AS OF JUNE 30, 1998**

**MALES**

**YEARS OF RETIREMENT**

<b>CURRENT AGE</b>	<b>YEARS OF RETIREMENT</b>							<b>TOTAL</b>
	<b>0-4</b>	<b>5-9</b>	<b>10-14</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>30 &amp; Over</b>	
Below 45	3	4	0	0	0	0	0	7
	10,202	2,452	0	0	0	0	0	5,773
45-49	2	3	2	0	0	0	0	7
	14,474	12,242	11,723	0	0	0	0	12,731
50-54	53	1	1	3	1	0	0	59
	11,451	10,661	11,602	6,924	8,912	0	0	11,167
55-59	60	29	3	1	0	0	0	93
	18,257	10,083	10,989	13,712	0	0	0	15,425
60-64	85	59	39	3	2	0	0	188
	25,428	20,333	7,753	24,389	3,391	0	0	19,911
65-69	33	83	60	22	3	1	2	204
	16,899	22,322	14,229	7,777	18,219	1,719	3,922	17,154
70-74	8	37	75	43	10	4	2	179
	12,903	22,851	19,474	13,601	5,895	3,377	5,976	17,198
75-79	1	8	42	78	18	9	2	158
	974	8,401	17,198	17,061	7,360	4,746	2,075	14,561
80-84	0	1	7	35	36	6	0	85
	0	31,186	12,852	14,125	11,379	3,014	0	12,274
85 & Over	0	0	1	3	15	15	6	40
	0	0	16,385	11,592	11,277	6,738	3,531	8,564
TOTAL	245	225	230	188	85	35	12	1,020
	18,715	19,315	15,275	14,487	9,889	5,060	3,761	15,912



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
AVERAGE ANNUAL BENEFIT AND MEMBERSHIP DISTRIBUTION  
OF RETIRED GENERAL MEMBERS\* (CONTINUED)  
AS OF JUNE 30, 1998**

**FEMALES**

**YEARS OF RETIREMENT**

<b>CURRENT AGE</b>	<b>YEARS OF RETIREMENT</b>							<b>TOTAL</b>
	<b>0-4</b>	<b>5-9</b>	<b>10-14</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>30 &amp; Over</b>	
Below 45	4	3	4	0	0	0	0	11
	15,978	4,914	12,046	0	0	0	0	11,531
45-49	5	2	1	1	2	0	0	11
	6,890	11,913	25,093	26,534	8,959	0	0	11,620
50-54	118	4	1	2	1	1	0	127
	10,292	8,189	3,489	4,178	5,605	9,142	0	10,030
55-59	128	43	4	2	2	0	0	179
	11,900	9,095	13,105	6,170	9,745	0	0	11,165
60-64	101	71	35	6	3	3	0	219
	16,052	12,483	6,821	6,714	13,972	3,974	0	12,970
65-69	81	93	60	38	8	5	0	285
	14,344	12,928	9,813	6,922	9,909	4,307	0	11,638
70-74	16	79	117	56	25	10	1	304
	8,392	12,617	12,712	7,491	6,663	4,639	2,232	10,701
75-79	0	20	66	109	53	8	0	256
	0	14,057	13,037	10,734	5,999	2,387	0	10,346
80-84	0	2	7	59	86	28	6	188
	0	4,677	11,900	9,733	7,204	4,958	5,121	7,745
85 & Over	0	0	0	6	59	58	23	146
	0	0	0	8,406	5,913	4,553	4,084	5,187
TOTAL	453	317	295	279	239	113	30	1,726
	12,701	12,108	11,484	9,193	6,766	4,522	4,230	10,312

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
AVERAGE ANNUAL BENEFIT AND MEMBERSHIP DISTRIBUTION  
OF RETIRED SAFETY MEMBERS  
AS OF JUNE 30, 1998**

CURRENT AGE	YEARS OF RETIREMENT							TOTAL
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over	
Below 45	5	5	2	1	0	0	0	13
	19,593	9,821	22,905	19,606	0	0	0	16,345
45-49	11	8	3	0	0	0	0	22
	14,241	20,244	18,446	0	0	0	0	16,997
50-54	20	19	7	0	1	0	0	47
	21,347	15,566	16,375	0	13,144	0	0	18,095
55-59	19	12	8	2	1	0	0	42
	30,627	19,087	14,198	14,820	5,294	0	0	22,845
60-64	9	17	8	4	2	0	0	40
	26,911	28,607	15,145	12,644	16,594	0	0	23,336
65-69	4	3	21	15	3	1	0	47
	15,530	22,093	27,996	14,089	14,991	5,766	0	20,817
70-74	1	0	4	22	13	3	0	43
	3,400	0	61,540	22,870	13,604	9,228	0	22,261
75-79	0	0	0	8	8	10	0	26
	0	0	0	24,197	18,786	9,399	0	16,841
80-84	0	0	0	0	8	5	0	13
	0	0	0	0	11,673	14,897	0	12,913
85 & Over	0	0	0	0	0	5	0	5
	0	0	0	0	0	9,747	0	9,747
TOTAL	69	64	53	52	36	24	0	298
	22,771	20,132	24,238	19,382	14,365	10,444	0	19,865



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

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>Active Vested</b>										
General	2,779	2,963	2,868	2,803	3,537	4,318	3,627	3,368	3,588	3,412
Safety	381	354	294	464	466	451	551	513	488	590
Total	3,160	3,317	3,162	3,267	4,003	4,769	4,178	3,881	4,076	4,002
<b>Active Nonvested</b>										
General	2,973	2,864	3,017	3,153	2,527	1,973	2,614	1,580	1,551	2,241
Safety	221	312	429	258	280	331	275	329	385	273
Total	3,194	3,176	3,446	3,411	2,807	2,304	2,889	1,909	1,936	2,514
<b>Total Active Members</b>										
General	5,752	5,827	5,885	5,956	6,064	6,291	6,241	4,948	5,139	5,653
Safety	602	666	723	722	746	782	826	842	873	863
TOTAL	6,354	6,493	6,608	6,678	6,810	7,073	7,067	5,790	6,012	6,516
<b>Deferred Members</b>	563	624	665	708	722	745	792	1,182	1,289	1,310
TOTAL	563	624	665	708	722	745	792	1,182	1,289	1,310

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

	1993	1994	1995	1996	1997	1998	1999
<b>County of Fresno</b>							
General Members	5,929	6,039	6,266	6,218	4,926	5,098	5,605
Safety Members	682	707	743	788	803	833	825
Total	6,611	6,746	7,009	7,006	5,729	5,931	6,430
<b>Participating Agencies (General Members)</b>							
Clovis Memorial	4	4	4	3	3	3	4
Fresno County Office of Education	3	3	3	3	3	2	3
Fresno Mosquito and Vector Control	11	10	10	10	9	9	10
Fresno-Madera Area Agency on Aging	0	0	0	0	0	20	25
North Central Fire	9	8	8	7	7	7	6
Total	27	25	25	23	22	41	48
<b>Participating Agencies (Safety Members)</b>							
North Central Fire	40	39	39	38	39	40	38
Total	40	39	39	38	39	40	38
<b>Total Active Members</b>							
General Members	5,956	6,064	6,291	6,241	4,948	5,139	5,653
Safety Members	722	746	782	826	842	873	863
TOTAL	6,678	6,810	7,073	7,067	5,790	6,012	6,516



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

EFFECTIVE DATES			GENERAL	SAFETY
March 20, 1998	to	June 27, 1999	2.07%	5.93%
June 19, 1995	to	March 19, 1998	10.81%	14.95%
June 20, 1993	to	June 18, 1995	9.73%	13.59%
June 10, 1991	to	June 19, 1993	9.47%	13.59%
June 25, 1989	to	June 9, 1991	10.97%	17.28%
June 29, 1987	to	June 24, 1989	12.11%	17.32%
July 1, 1985	to	June 28, 1987	12.58%	16.72%
July 1, 1983	to	June 30, 1985	13.17%	17.00%
July 3, 1981	to	June 30, 1983	15.44%	24.50%

The employer contribution rates above reflect the aggregate rates.

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