# FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Report on Examination of
Financial Statements

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YEARS ENDED JUNE 30, 1986 AND 1985

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August 26, 1986

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

We have examined the statements of net assets available for plan benefits of the Fresno County Employees' Retirement Association as of June 30, 1986 and 1985, and the related statements of changes in net assets available for plan benefits for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Fresno County Employees' Retirement Association as of June 30, 1986 and 1985, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Touche Ross International

# FRESNO COUNTY
# EMPLOYEES' RETIREMENT ASSOCIATION

## STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

| | June 30 1986 | June 30 1985 |
|---|---|---|
| ASSETS: | | |
| Investments, at cost; market value of $357,371,000 and $282,936,000, respectively (Note C) | $297,004,000 | $260,135,000 |
| Cash | 18,073,000 | 9,303,000 |
| Interest and dividends receivable | 4,455,000 | 4,981,000 |
| Contributions and other receivables | 1,074,000 | 947,000 |
| | 320,606,000 | 275,366,000 |
| LIABILITIES - Warrants and accounts payable | 1,661,000 | 1,379,000 |
| NET ASSETS AVAILABLE FOR PLAN BENEFITS (Notes D and E) | $318,945,000 | $273,987,000 |

See notes to financial statements.

FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

| | Year ended June 30 | |
|---|---|---|
| | 1986 | 1985 |
| NET ASSETS AVAILABLE FOR PLAN BENEFITS, beginning of year | $273,987,000 | $243,949,000 |
| ADDITIONS: | | |
| Investment income: | | |
| Interest | 20,004,000 | 21,256,000 |
| Dividends | 4,870,000 | 3,277,000 |
| Realized net gain on sale of investments | 11,655,000 | 151,000 |
| District administrative fees | | 4,000 |
| | 36,529,000 | 24,688,000 |
| Contributions: | | |
| Employers | 17,263,000 | 17,045,000 |
| Employees | 7,653,000 | 7,461,000 |
| | 24,916,000 | 24,506,000 |
| | 61,445,000 | 49,194,000 |
| DEDUCTIONS: | | |
| Benefits paid to participants | 13,474,000 | 12,313,000 |
| Refunds of prior contributions | 1,869,000 | 1,599,000 |
| Health insurance premiums | 600,000 | 287,000 |
| Investment counselor fees | 468,000 | 275,000 |
| Custodial service fees | 41,000 | |
| Real estate consultant fees | 16,000 | |
| Actuarial service fees | 11,000 | |
| Fiduciary insurance premiums | 8,000 | 18,000 |
| Legal fees | | 1,000 |
| | 16,487,000 | 14,493,000 |
| NET INCREASE | 44,958,000 | 34,701,000 |
| ADJUSTMENT FOR THE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING METHOD (Note E) | | (4,663,000) |
| NET ASSETS AVAILABLE FOR PLAN BENEFITS, end of year | $318,945,000 | $273,987,000 |

See notes to financial statements.

FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1986 AND 1985

A. The Association and its Significant Accounting Policies:

The Fresno County Employees' Retirement Association ("Association") was organized under the provisions of the 1937 County Employees Retirement Law ("Law") on January 1, 1945. It provides benefits as defined by the Law upon retirement, death, or disability of members. Members include substantially all full-time employees and permanent part-time employees who work 50% or more of the County of Fresno, Clovis Memorial District, Fresno Mosquito Abatement District, North Central Fire Protection District, and part of the Fresno County Superintendent of Schools. An employee becomes eligible for membership commencing with the pay period following the date of employment to a permanent position. The following brief description of the Association is provided for general information purposes only. Members should refer to the Law for more complete information.

Association Membership

A summary of the number of Association employee members follows:

| | Year ended June 30 | |
|---|---|---|
| | 1986 | 1985 |
| Employee members: | | |
| Current retirees and beneficiaries: | | |
| Safety | 148 | 142 |
| General | 1,758 | 1,697 |
| Survivor's death | 34 | 32 |
| | 1,940 | 1,871 |
| Terminated vested participants: | | |
| Safety | 18 | 20 |
| General | 319 | 328 |
| | 337 | 348 |
| Active plan participants: | | |
| Vested | 3,829 | 3,494 |
| Nonvested | 1,914 | 2,216 |
| | 5,743 | 5,710 |
| Active plan participants: | | |
| Safety | 470 | 462 |
| General | 5,273 | 5,248 |
| | 5,743 | 5,710 |
| Active annual payroll | $133,720,000 | $135,415,000 |

FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1986 AND 1985

(Continued)

A. The Association and its Significant Accounting Policies (continued):

Benefits

Pension 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. Death and disability benefits are additionally based upon whether the disability was service connected, and whether the death occurred before or after retirement.

Contributions

Contributions are made by the members and the employers at rates recommended by the actuary. Employee contribution rates vary according to age and other factors, and are designed to provide funding for approximately one-fourth of the regular retirement benefits and half of all cost of living benefits. Members are credited with interest earned on their contributions every six months based on the prior six months ending balance. No member may borrow or withdraw his member contributions until retiring or terminating employment with the County or other covered districts when he may request a refund of accumulated contributions and interest. Member contributions forfeit to the Retirement Association if the member does not request refund within five years of terminating membership.

Employer rates 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.

Vesting

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; however, they are not payable until 10 years after the member commenced full-time employment or if later, retirement from County or District employment. A member may receive a regular retirement allowance after attaining age 50 providing at least 10 years have passed from entry into the system; or at any age after 30 years of service for a general member and 20 years of service for a safety member.

FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1986 AND 1985

(Continued)

A. The Association and its Significant Accounting Policies (continued):

Valuation of Investments

Investments in common stock, short-term corporate and government debt instruments, and the real estate investment fund are carried at cost. Investments in bonds and mortgage-backed pass-through certificates are carried at par value, net of unamortized premium or discount.

Disclosed market values are derived from quoted market prices.

Funding and Revenue Recognition

The employers currently fund, at a minimum, the amounts recommended by the actuary. These amounts are determined using the entry age normal cost method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of the unfunded liability over a 30 year period which began in 1978. These minimum contributions are recognized currently in the statement of changes in net assets available for benefits. Any funding in excess of the minimum is credited to deferred contributions in the statement of net assets available for benefits. Employees' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary.

B. Accumulated Benefits:

Accumulated benefits are those future periodic payments, including lump sum distributions, that are attributable under the Law to the service employees have rendered. Accumulated benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of accumulated benefits is determined by the Association's actuary and is that amount which results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations were (a) life expectancy of members (the 1971 Group Annuity Mortality Table was generally used, with minor adjustments for some groups), (b) retirement age assumptions (based upon experience), (c) membership withdrawal assumptions (based upon experience), (d) disability rates (1981 Disability Mortality Table was used), and (e) investment return. The assumed average rate of return on investments was 8.5%.

FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1986 AND 1985

(Continued)

B. Accumulated Benefits (continued):

A comparison of accumulated benefits and net assets available for benefits is presented below as of June 30, 1984, the most recent date for which such information is available (dollars in thousands):

| | |
|---|---|
| Actuarial present value of accumulated benefits: | |
| Vested benefits: | |
| Members currently receiving benefits | $129,918 |
| Other members | 107,993 |
| Nonvested benefits | 3,145 |
| | $241,056 |
| Net assets available for benefits | $243,949 |

A schedule of estimated changes in accumulated benefits between the two most recent actuarial valuations is presented below (dollars in thousands):

| | |
|---|---|
| Actuarial present value of accumulated benefits at April 8, 1982 | $196,640 |
| Increase (decrease) during the period attributable to: | |
| Change in assumed rate of return from 8% to 8.5% | (14,596) |
| Change in retirement age assumptions, based upon experience | 11,571 |
| Benefits accumulated: | |
| Increased salaries | 20,137 |
| Other | 16,272 |
| Benefits paid | (26,145) |
| Decrease in the discount period | 37,177 |
| Actuarial present value of accumulated benefits at June 30, 1984 | $241,056 |

Present members' accumulated contributions as of June 30, 1984 were $53,357,000. Accumulated contributions were credited with interest of 8.5% per annum during the year ended June 30, 1986 and 8.0% during the year ended June 30, 1985.

FRESNO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1986 AND 1985

(Continued)

C. Investments (dollars in thousands):

| | Year ended June 30 | |
|---|---|---|
| | 1986 | 1985 |
| Investments include: | | |
| Bonds: | | |
| Federal governmental agencies | $ 70,231 | $ 72,431 |
| Industrial companies | 31,815 | 26,315 |
| Financial institutions | 24,485 | 20,285 |
| Telephone and telegraph companies | 8,700 | 8,700 |
| Public utilities | 3,200 | 5,200 |
| Other corporate bonds | 2,900 | 2,900 |
| Railroad companies | 1,600 | 1,600 |
| Convertible bonds | 3,271 | 521 |
| Canadian companies and government | 5,500 | |
| Unamortized premium and discount, net | (2,416) | (2,066) |
| | 149,286 | 135,886 |
| Common stocks: | | |
| Utilities | 13,430 | 14,491 |
| Capital goods | 17,283 | 13,972 |
| Technology | 12,027 | 12,526 |
| Financial | 19,637 | 11,456 |
| Health | 9,064 | 8,644 |
| Consumer durables | 10,948 | 7,490 |
| Energy | 3,863 | 7,386 |
| Transportation | 6,252 | 5,528 |
| Consumer non-durables | 5,972 | 5,299 |
| Basic industries | 5,104 | 4,548 |
| Consumer services | 3,052 | 3,092 |
| Convertible securities | | 2,114 |
| | 106,632 | 96,546 |
| Mortgage-backed pass-through certificates: | | |
| Federal Home Loan Mortage Association | 19,514 | 17,923 |
| Government National Mortgage Association | 9,979 | 6,245 |
| Bank of America and Sears | 2,815 | 2,095 |
| Farmers Home Administration | 1,395 | 1,821 |
| Federal National Mortgage Association | 4,644 | 1,726 |
| Unamortized premium and discount, net | (2,261) | (2,107) |
| | 36,086 | 27,703 |
| Real estate investment fund | 5,000 | |
| TOTAL INVESTMENTS AT COST | $297,004 | $260,135 |

D. Net Assets Available for Benefits (continued):

Members' accumulated contributions include all contributions 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 is credited with all investment income and charged with investment and other fees and health insurance premiums. Transfers from undistributed earnings to other reserves are made twice a year at an annual rate of 8.5% in 1986 and 8.0% in 1985 of the balance in the transferee reserve. Any additional transfers out of undistributed earnings are made in accordance with authorization by the Retirement Board. The survivors' 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.

E. Accounting Changes:

In 1985, the Association adopted the completed transaction method in accounting for bond trades. Prior to 1985, the Association deferred all gains and losses from bond trades and amortized them on a straight-line basis over the remaining life of the bond traded out. This change was made to more accurately reflect net assets available for plan benefits by recording gains and losses in the period in which they occur. The completed transaction method has been applied to all bond trades and the effect of the change was to decrease the 1985 net increase in net assets available for plan benefits by $569,000. The cumulative effect of the change for years prior to 1985 resulted in a reduction of $4,663,000 in net assets available for plan benefits at June 30, 1985.