

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

2013 - 2014



Fresno County Employees' Retirement Association

A component Unit of the County of Fresno
Fresno, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

ISSUED BY

DONALD C. KENDIG, CPA
RETIREMENT ADMINISTRATOR

and

BECKY VAN WYK, CPA
ASSISTANT RETIREMENT ADMINISTRATOR

FCERA

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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A COMPONENT UNIT OF THE COUNTY OF FRESNO

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INTRODUCTORY SECTION



Donald C. Kendig, CPA
Retirement Administrator

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

Dr. Rod Coburn, III, Chair
Robert Dowell, Vice Chair
Marion Austin
Laura P. Basua
Judith Case McNairy
Vicki Crow
Eulalio Gomez
Steven J. Jolly

December 29, 2014

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

Dear Board Members:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the Fresno County Employees' Retirement Association (FCERA), the Association, for the fiscal years ended June 30, 2014 and 2013.

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

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

FCERA MISSION STATEMENT AND CORE VALUES

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

In carrying out this mission, we endeavor to:

- Honor our fiduciary duties set out in laws that govern fiduciaries
- Exhibit accuracy, honesty and integrity in all of our work
- Coordinate our efforts with professional and advisors
- Render timely and responsive service to members and partner organizations
- Work as a team to solve members' problems and overcome challenges
- Exercise constant diligence in operations and prudent management of assets
- Provide regular, accessible and effective education to members and others

FCERA AND ITS SERVICES

FCERA is a cost-sharing multiple employer public retirement system established by the County Board of Supervisors on January 1, 1945 to provide retirement, disability, death and survivor benefits for its members under the California State Government Code, Section 31450 *et. seq.*, (the County Employees Retirement Law of 1937, hereinafter "CERL") and Section 7522 *et. Seq.*, (the Public Employees' Pension Reform Act of 2013, hereinafter "PEPRA"). The retirement plan is administered by a Board, which consists of nine voting members and a retiree alternate.

FCERA is governed by the California Constitution, the CERL, the PEPRA, and regulations, procedures, and policies adopted by the Board. The Fresno County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect benefits for FCERA members.

The Board is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investments of the Association's assets. The Board defines the duties and oversees the activities of the Retirement Administrator, who in turn, directs and oversees the staff and operations of the Administrative Office. Participating employer entities include:

- County of Fresno
- Superior Court of California, County of Fresno
- Clovis Veterans Memorial District
- Fresno-Madera Area Agency on Aging
- Fresno Mosquito and Vector Control District

FINANCIAL INFORMATION

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

Brown Armstrong Accountancy Corporation (the Auditor) provides financial statement independent audit services to FCERA. The Auditor attests that these financial statements are presented in accordance with GAAP and that the financial statements are free of any material misstatement. Management is responsible for assuring that internal accounting controls are sufficient to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Controls have inherent limitations and do rely on human diligence. Because of these inherent limitations, the internal controls are not exact in their nature, which may lead to the risk that errors or misstatements may occur but may not be identified immediately. FCERA's management believes it has prudent controls in place to reduce the inherent risk within its financial reporting and accounting systems.

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

During the fiscal year, management implemented GASB Statement No. 67 which caused an increase in the number of schedules in the Required Supplementary Information section. These new schedules provide a broad scope of financial information and are further described in the MD&A.

GENERAL OPERATIONS

Administering the retirement benefits *for the members and beneficiaries in a prudent, accurate, timely and cost-effective manner* begins with ongoing direct services to active and retired members, efficient management of the office and business operations, and facilitating the work of the Board, advisors, and professional service providers. Several noteworthy events and major ongoing projects required particular attention and effort during the year.

Dr. Rod Coburn, III remained chair of the Board, for an additional one year term, providing consistency in Board leadership, while two positions on the Board changed. Regina Wheeler resigned her position as Retiree Representative effective August 31, 2013, with Robert Dowell duly nominated and ran unopposed for the Retiree Representative position on the Board effective October 16, 2013. Alan Cade, Jr., Vice Chair, resigned effective June 11, 2014, with Robert Dowell, assuming the Vice Chair

roll. The Alternate Retiree Member position remained vacant for the remainder of the fiscal year.

No structural changes were undertaken with respect to the organization chart, but the Retirement Administrator position became vacant with Becky Van Wyk, the Assistant Retirement Administrator assuming the Interim Retirement Administrator role.

Significant progress was achieved in the development of systems that will enhance records management and benefits management with the transition from the existing "Pensions" pension administration system to the new "Arrivos" pension administration system took place on November 17, 2014, marking the finishing stages to the systems development and implementation. Work still needs to be completed to document all workflows, process, and procedures. Major projects also included the finalization of the implementation of PEPRA, enacted by the Legislature and the recruitment of a new Retirement Administrator.

Lastly, it was recently discovered that FCERA recorded a portion of the proceeds of the County's 2004 Pension Obligation Bonds (POBs) to the Health Benefit Reserve. The accounting error resulted in non-vested benefits being paid to retirees for a period of approximately six months without appropriate funding. The MD&A and subsequent event provided in the notes to the financial statements (NOTE 9) discuss this item in further detail.

ASSET MANAGEMENT AND INVESTING

The Investment Policy adopted by the Board defines the framework within which the administration, general consultant and third party investment managers endeavor to meet our mission to *...achieve investment and funding objectives within prudent levels of risk.*

The overall strategic asset allocation has a greater impact on investment performance than portfolio manager selection or the timing of allocations. The asset allocation process determines a fund's optimal target allocations, which are expected to achieve objectives related to expected return, liquidity and risk (defined as volatility). The reflected through the choice of investments at the asset class level.

Under this policy the Board operates under a standard of fiduciary care in California commonly known as the "prudent person rule" which requires that the Board discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. When the Board contracts with professional investment advisors their discretion is defined by our Investment Policy and the discretion provided by contract and guidelines prescribed by the Board. In exercising discretion when managing assets, such service providers become co-fiduciaries to the members.

The rule requires the Board to diversify the investments of the fund, unless it is clearly prudent not to do so under the circumstances. The Board therefore makes basic policy decisions with respect to the fund, including, but not limited to, the strategic allocation of assets to various investment classes. As of June 30, 2014, and including June 30, 2013, the categorical targets were as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| • Equities..... | 36 % | 53 % |
| • Fixed Income | 31 % | 26 % |
| • Real Assets | 11 % | 10 % |
| • Private Credit and Private Equity.... | 14 % | 7 % |
| • Hedge Strategies..... | 8 % | 4 % |

During the 2013-14 fiscal year, the Board made significant changes to the strategic asset allocation reducing Equities 17%, from 53%, increasing Fixed Income 5%, from 26%, increasing Real Assets 1% from 10%, doubling Private Credit and Private Equity from 7%, and doubling Hedge Strategies from 4%. These changes are the results from the endeavor of the Board and Wurts & Associates to design an asset and strategy mix that anticipates a low-return market environment for the next 5 to 10 years, and reduces our vulnerability to any general market downturn similar to those witnessed in 2000 and 2008.

ACTUARIAL FUNDING STATUS

The CERL prescribes that the Board should engage a qualified, independent actuarial firm to perform regular valuations of the retirement plan. Further, a detailed study of the retirement plan's economic and non-economic assumptions (forecast parameters) is undertaken every three years, wherein the fund actuary makes recommendations to the Board regarding the assumptions to be used to measure the liabilities and assets of the fund. The primary purpose for these studies is to help determine the actuarially required (and stable) level of contributions needed to meet costs associated with annually accruing benefit commitments (normal cost) and eliminate any past unfunded liabilities (Unfunded Actuarial Accrued Liability or "UAAL") within an accepted amortization period.

The actuarial valuation as of June 30, 2013, completed by The Segal Company, determined that the ratio of plan assets to plan liabilities was 75.0%, which represented a decline over the same ratio on June 30, 2012, of 76.1%. Our funding policy employs a five-year "smoothing" methodology, whereby 20% of a fiscal year's market loss, or gain, in a given fiscal year, is recognized over each of five succeeding years to dampen the "noise" of short-term investment market volatility, creating a lesser "actuarial" loss, or gain. This results in five years "layers" of actuarial losses and gains, resulting in one net actuarial loss or gain that goes into the valuation and determination of employer contributions. In addition, the policy imposes an absolute "corridor" of +/- 30% to the actuarial value of assets (AVA) relative to the market value of assets (MVA). This

constrains the variance between the AVA and MVA and prevents the employer contribution requirements from not being sufficient on one side of the corridor, or from being too high on the other. These techniques are used to produce reliable, stable and serially manageable changes to required contributions for participating employers.

As part FCERA's June 30, 2013 Actuarial valuation, the Board adopted an assumed rate of return of 7.25%, net of administration and investment expenses, a 0.5% reduction over the prior year's 7.75% assumption. A reduction of this assumption has a direct effect on employer and employee contribution requirements as the reduction increases the current cost of future benefits (normal cost), which is funded by both the employers and employees. A reduction of this assumption also markedly increases UAAL, which is funded out of employer contributions. This assumption also has a direct effect on employer contributions relative to market performance (market value). This means that any return of less than 7.25% is considered a loss, and gains are not realized until after 7.25% has been exceeded. A positive aspect of a lower assumed rate of return is that the likelihood of market returns exceeding it is improved resulting in a higher likelihood of lower contribution requirements going forward.

Finally, even though the ratio of plan assets to plan liabilities decreased 1.1%, from 76.1% to 75%, which is a move away from the funding goal of 100%, the majority of the change is attributable to the reduction of the assumed rate of return and how the pension liabilities are discounted. In actuality, the lower assumed rate of return increases contributions improving funding progress going forward, and the lowered assumed rate of return increases the likelihood that investment returns will meet, or exceed, expectations, further increasing the changes of improved funding progress.

BUDGET

The first part of our mission is to *administer the retirement benefits for the members and beneficiaries in a prudent, accurate, timely and cost-effective manner...*

Each year in April, the Retirement Administrator provides the Board with a proposed budget for the coming year. The Budget is considered, modified and approved for implementation on July 1 of the succeeding fiscal year. Government Code section 31580.2 provides for the adoption by the Board an annual budget covering the entire expense of administration. This expense of administration is a direct charge against the earnings of the fund and shall not exceed the greater of twenty-one hundredths of one percent (0.21%) of the accrued actuarial liability of the retirement plan or two million dollars (\$2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment (COLA). Government Code section 31580.2(b) provides that expenditures for software, hardware and computer technology are not considered a cost of administration. For fiscal year end June 30, 2014, administrative expenses represented 0.08% of the accrued actuarial liability of the plan. Administrative expenses have historically been well below the statutory limitation.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to FCERA for its CAFR for the fiscal year ended June 30, 2013, which marks seventeen consecutive years that FCERA has achieved this prestigious award. FCERA also received the GFOA award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR). The PAFR provides FCERA's membership with condensed and concise information in an easier to read format than presented in the CAFR.

ACKNOWLEDGMENTS

I am fortunate to have joined FCERA towards the end of the preparation of this CAFR, after a significant portion of the work had already been done. The preparation of this CAFR reflects the combined efforts of the FCERA staff, Becky Van Wyk, Conor Hinds and their supportive staff, and the consultants, Wurts & Associates, Segal Consulting, and Brown Armstrong Accountancy Corporation, all who made significant contributions of time and expertise.

Lastly, FCERA is a large and complex organization with many contributors to its success. For their commitment to FCERA and for their diligent work to assure FCERA's continued successful operation, sincere thanks are owed to the Board of Retirement trustees, all FCERA staff, and all of our expert consultants and investment advisors.

Respectfully submitted,

A handwritten signature in black ink that reads "Donald C. Kendig". The signature is written in a cursive, flowing style.

Donald C. Kendig, CPA
Retirement Administrator



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Fresno County
Employees' Retirement Association
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
THE BOARD OF RETIREMENT
As of June 30, 2014**



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



VICE CHAIRPERSON
ROBERT DOWELL*
Elected by Retirees
Present term expires December 31, 2016



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



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



MEMBER
JUDY CASE MCNAIRY
Appointed by Board of Supervisors
Present term expires December 31, 2014



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



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



MEMBER
STEVEN JOLLY
Appointed by Board of Supervisors
Present term expires December 31, 2015



MEMBER
VACANT
Elected by General Members
Present term expires December 31, 2015

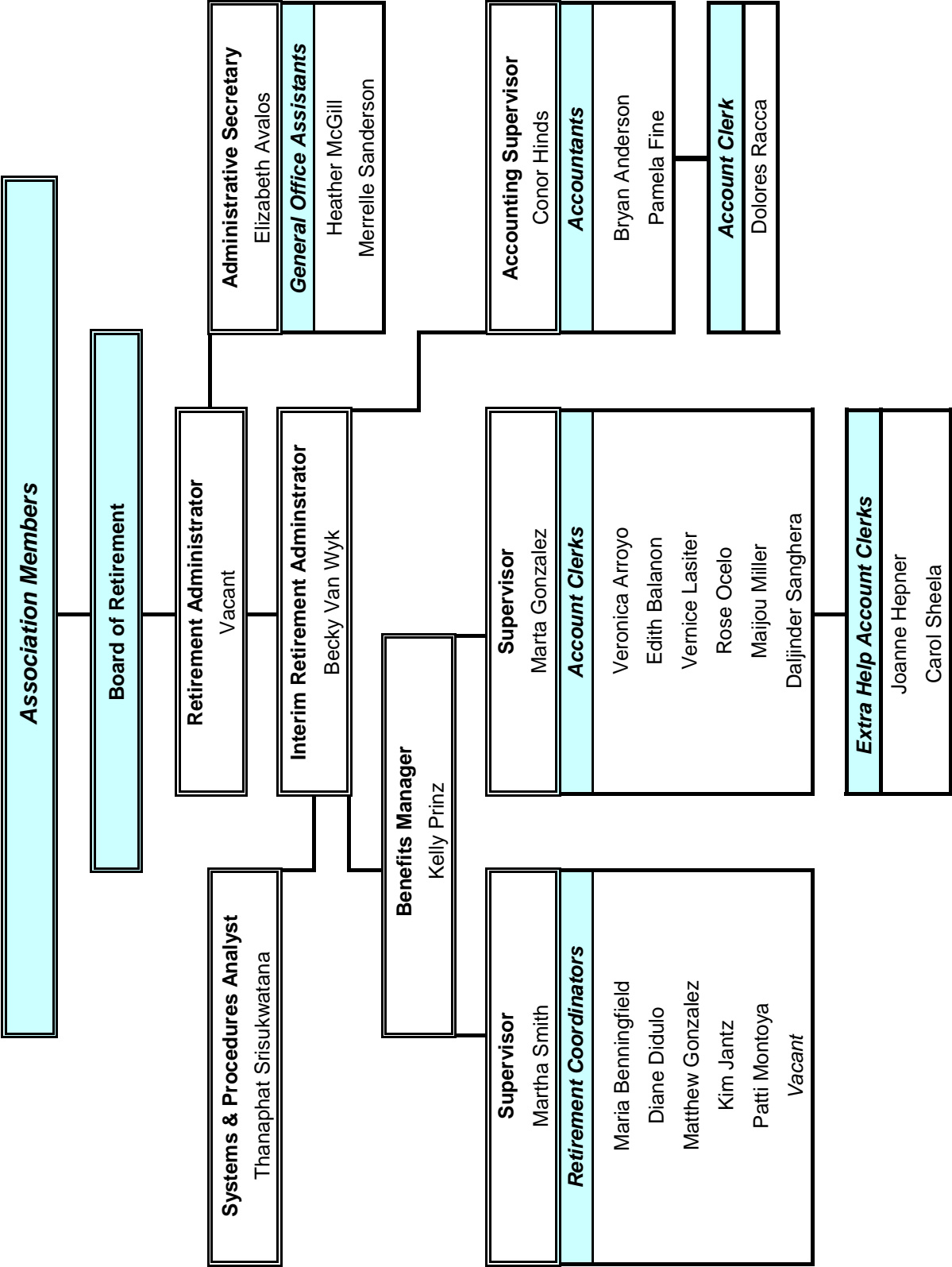


ALTERNATE RETIRED MEMBER
VACANT
Alternate Retired Member - Elected by Retirees
Present term expires December 31, 2013

* Robert Dowell replaced Alan Cade, Jr. as Vice Chair on June 18, 2014

* Alan Cade, Jr. resigned his position on the Board on June 11, 2014

ADMINISTRATIVE
ORGANIZATION CHART
at June 30, 2014



List of Professional Consultants

CONSULTING SERVICES

Actuary

- The Segal Company

Auditor

- Brown Armstrong Accountancy Corporation

Commission Recapture Services

- BNY ConvergeEx

Custodian Bank

- Northern Trust (As of April 1, 2013)

Investment Consultant

- Wurts & Associates

Legal Counsel

- Bernstein Litowitz Berger & Grossmann LP
- Cohen Milstein
- Harvey Leiderman, Reed Smith LLP
- Joseph J. Tabacco, Jr., Berman Devalerio
- Rafael Stone, Foster Pepper PLLC
- Fresno County Counsel

Securities Lending

- Northern Trust

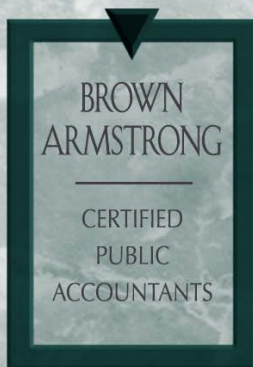
Technical and Pension System Design

- Linea Solutions, Inc.
- Tegrit Group
- Peter Stalder

A complete list of Investment Managers can be found on page 72 of the Investment Section.

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FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Fresno County Employees' Retirement Association (FCERA) as of June 30, 2014 and 2013, and the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise FCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FCERA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of FCERA as of June 30, 2014 and 2013, and the changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

MAIN OFFICE

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FAX 559.476.3593

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FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2014, FCERA implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which modified the current financial reporting of pension plans. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of FCERA that collectively comprise FCERA's basic financial statements. The other supplementary information and the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used in the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of FCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCERA's internal control over financial reporting and compliance and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 29, 2014

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the Fresno County Employees' Retirement Association (FCERA) for the years ended June 30, 2014 and 2013. We encourage readers to take into account the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal, as well as the Financial Statements.

Financial Highlights

- FCERA's net position at the close of fiscal year 2014 totaled \$4.0 billion (net position restricted for pension benefits), an increase of \$551 million, or 15.7% from 2013, primarily as a result of the net appreciation in the Fair Value of Investments. The June 30, 2013 net position of \$3.5 billion represented an increase of \$351 million over the \$3.1 billion balance as of June 30, 2012.
- Total additions, as reflected in the Statement of Changes in Fiduciary Net Position, for the year ended June 30, 2014, were \$778.6 million, which includes employer and employee contributions of \$195.5 million, investment gains of \$581.8 million, and net securities lending income of \$1.4 million. Fiscal year 2013 investment income and gains were up from 2012. These gains totaled \$378.4 million for the year ended June 30, 2013, compared to losses of \$10.2 million in 2012.
- Employer contributions increased from \$158.6 million in 2013 to \$165.3 million in 2014 primarily as the result of an increase in contribution rates attributed to the decrease in the actuarial interest assumption from 7.75% to 7.25% and past losses recognized. Contribution rates are applied on a July through June fiscal year basis and increased as of July 1, 2013.
- Plan member contributions decreased for 2014 when compared to 2013, mainly due to layoffs and lower salaries. For 2014, 2013, and 2012, plan member contributions were \$30.2 million, \$30.5 million, and \$32.6 million, respectively.
- Total deductions, as reflected in the Statement of Changes in Fiduciary Net Position, increased from \$216.6 million to \$227.9 million over the prior year, or approximately 5.2%, mainly attributed to the pension payroll. Benefits paid to retirees and beneficiaries increased from \$210.7 million in 2013 to \$222.3 million in 2014, or approximately 5.5%. This increase can be attributed to an increase in the number of new retirees and an annual cost-of-living (COLA) increase. The increase in the Pension Benefits from 2013 over 2012 was approximately 8.9%, primarily attributed to new retirees and the cost-of living increase.

FCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2013, the date of FCERA's last actuarial valuation, the funded ratio for FCERA was 75.0%. In general, this indicates that for every dollar of projected benefits due FCERA has approximately \$0.75 to cover its obligation.

- The main drivers of performance for the fiscal year were domestic and international equity markets, which rallied in the third quarter and fourth quarters of 2013 and second quarter of 2014, largely as a result of the improving United States economy. The total investment portfolio finished the fiscal year with a strong return of 17.1%, net of fees, compared to 11.9% return, net of fees, in 2013.
- In August 2014 FCERA staff identified an accounting error that occurred at June 30, 2004 which overstated the *non-vested* Health Benefit Reserve (BOR). The discovery of the overstatement has lead to a reclassification of \$8,682 representing POB funds that were originally intended for the *vested* Health Benefit Reserve VS (Section 9 benefits). In addition to the reclassification of POB funds, FCERA has adjusted the credited interest between both Health Benefit Reserves. An additional \$9,247 of interest has been credited to the *vested* Health Benefit Reserve VS (Section 9 benefits) as of June 30, 2014.

Overview of the Financial Statements

This Management Discussion and Analysis is intended to serve as an introduction to FCERA's financial statements, which are comprised of these components:

1. Statement of Fiduciary Net Position
2. Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

The implementation of GASB Statement No. 67 caused an increase in the number of schedules in the Required Supplementary Information section. These new schedules provide a broad scope of financial information including a pension liability measurement and changes to the liability, historical contributions, money-weighted investment return and additional actuarial related disclosures.

The Statement of Fiduciary Net Position is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of year-end. The net position, which is the assets less the liabilities, reflects the funds available for future use.

The Statement of Changes in Fiduciary Net Position, provides a view of current year additions to and deductions from the plan. The trend of additions versus deductions to the plan will indicate whether FCERA's financial position is improving or deteriorating over time.

Both financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the GASB, using the accrual basis of accounting. FCERA complies with all material requirements of these principles and guidelines.

All of the current year's additions and deductions are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all capital assets are depreciated over their useful lives.

Other factors, such as market conditions, should be considered in measuring FCERA's overall financial strength.

The Notes to the Financial Statements are an integral part of the financial report and provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide detailed discussion of key policies, programs, and activities that occurred during the year.

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information as of the latest actuarial valuation concerning FCERA's progress in funding its obligations to provide pension benefits to members. The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information for the past six years about the actuarially funded status of the plan, and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the Schedule of Employer Contributions, presents historical trend information about annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

Other Supplementary Information. The schedules of administrative expenses, administrative budget analysis, investment expenses, and payments to consultants are presented following the required supplementary information.

Financial Analysis

As of June 30, 2014, FCERA has \$4.0 billion in net position restricted for pension benefits, which means that assets of \$4.5 billion exceed liabilities of \$0.5 billion. At June 30, 2013 and 2012, FCERA's net position restricted for pension benefits totaled \$3.5 billion and \$3.1 billion, respectively. The net position restricted for pension benefits is

available to meet FCERA's ongoing obligation to plan participants and their beneficiaries.

As of June 30, 2014, the net position restricted for pension benefits increased by 15.7% over 2013, and increased by 11.1% over 2012, primarily due to the changes in the fair value of investments. Current assets and current liabilities also change by offsetting amounts due to the recording of the securities lending cash collateral.

Capital Assets

FCERA's investment in capital assets increased from \$5.0 million to \$7.0 million (net of accumulated depreciation and amortization). The investment in capital assets includes servers, equipment, and furniture. The total increase in FCERA's investment in capital assets from 2013 to 2014 was 39.7%. The increase of 32.5% from 2012 to 2013 is primarily because of the work completed on the new pension administration system.

Starting in fiscal year 2012, FCERA follows Government Code Section 31580.2, which allows expensing of software, hardware, and computer technology consulting services in support of the software or hardware used in the administration of the retirement system. During fiscal years 2014 and 2013, FCERA expensed \$2,101,009 and \$1,378,799 of software, hardware, and computer technology consulting services, respectively.

Net Position Restricted for Benefits (Dollars in Thousands)

| | 2014 | 2013 | 2012 | % Change 2014-2013 | % Change 2013-2012 |
|---|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| Current Assets | \$ 550,246 | \$ 654,790 | \$ 479,222 | -16.0% | 36.6% |
| Investments | 3,964,180 | 3,438,193 | 3,054,990 | 15.3% | 12.5% |
| Capital Assets, net | 7,033 | 5,035 | 3,801 | 39.7% | 32.5% |
| Total Assets | 4,521,459 | 4,098,018 | 3,538,013 | 10.3% | 15.8% |
| Total Liabilities | 471,330 | 598,566 | 389,500 | 21.3% | 53.7% |
| Net Position Restricted for Benefits | \$ 4,050,129 | \$ 3,499,452 | \$ 3,148,513 | 15.7% | 11.1% |

FCERA has annual valuations completed by its independent actuary, The Segal Company. The purpose of the valuation is to determine the future contributions by the members and employers needed to pay all the expected future benefits. Despite variations in the stock market, FCERA's management and independent actuary concur that FCERA remains in a financial position that will enable the plan to meet its obligations to participants and beneficiaries. FCERA remains focused on the long-term performance of the fund, dependent on a strong and successful investment program, risk management and strategic planning

FCERA's Activities

Changes in FCERA's Fiduciary Net Position (Dollars in Thousands)

| Additions | 2014 | 2013 | 2012 | % Change 2014-2013 | % Change 2013-2012 |
|-------------------------------|------------|------------|------------|-----------------------|-----------------------|
| Employer Contributions | \$ 165,309 | \$ 158,572 | \$ 157,869 | 4.2% | .4% |
| Plan Member Contributions | 30,154 | 30,516 | 32,627 | -1.2% | -6.5% |
| Net Investment Income(Loss) | 581,786 | 377,235 | (11,304) | 54.2% | 3437.2% |
| Net Securities Lending Income | 1,383 | 1,248 | 1,062 | 10.8% | 17.5% |
| Total | \$ 778,632 | \$ 567,571 | \$ 180,254 | 37.2% | 214.9% |

| Deductions | 2014 | 2013 | 2012 | % Change 2014-2013 | % Change 2013-2012 |
|------------------|------------|------------|------------|-----------------------|-----------------------|
| Pension Benefits | \$ 222,289 | \$ 210,745 | \$ 193,535 | 5.5% | 8.9% |
| Refunds | 2,103 | 2,211 | 1,786 | -4.9% | 23.8% |
| Administrative | 3,542 | 3,634 | 3,587 | -2.5% | 1.3% |
| Other | 21 | 42 | 10 | -50% | 320.0% |
| Total | \$ 227,955 | \$ 216,632 | \$ 198,918 | 5.2% | 8.9% |

| | | | | | |
|------------------------|------------|------------|-------------|-------|---------|
| Change in net position | \$ 550,677 | \$ 350,939 | \$ (18,664) | 56.9% | 1980.3% |
|------------------------|------------|------------|-------------|-------|---------|

Additions to Fiduciary Net Position

The primary sources to finance the benefits that FCERA provides to its members are accumulated through the collection of member (employee) and employer contributions and through the earnings on investments (net of investment expenses). The Net Investment Income or Loss for the years ended June 30, 2014, 2013, and 2012 totaled \$581.8 million, \$377.2 million, and \$-11.3 million, respectively.

By year-end, total additions had increased by \$211 million over 2013, or 37.2%, due primarily to investment gains being higher than in the previous year. For 2013, total additions had increased by \$387 million over 2012, or 214.9%. The Investment Section of this report reviews the result of investment activity for the year ended June 30, 2014.

Deductions from Fiduciary Net Position

The primary uses of FCERA's assets include the payment of benefits to retirees and their beneficiaries, refund of contributions to terminated employees, and the cost of administering the system. Deductions in the year ended June 30, 2014 totaled \$227.9 million, an increase of 5.2% over June 30, 2013. 2013 had an increase of \$17.7 million or a 8.9% change from June 30, 2012. The increases are mostly attributed to the additional benefit payments for retirees as well as the growth in the number and average amount of benefits paid to retirees year over year.

The Board of Retirement approves the annual budget for FCERA. The California Government Code Section 31580.2(a) limits the annual administrative expense to not exceed the greater of either of the following: (1) twenty-one hundredths of one percent (0.21%) of the accrued actuarial liability of the retirement system; (2) two million dollars (\$2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5. Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products are not considered a cost of administration of the retirement system. FCERA has consistently met its administrative expense budget for the current year and prior years.

Pension Liabilities

As GASB Statement No. 67 requires, FCERA reports the Total Pension Liability and the Net Pension Liability as calculated by FCERA's actuary. It is important to note that these liabilities are solely calculated for financial reporting purposes and are not intended to provide information about the funding of FCERA's benefits.

FCERA's Total Pension Liability as of June 30, 2014, was \$4.93 billion resulting from an increase of 1.6 percent from \$4.85 billion as of June 30, 2013. FCERA's Net Pension Liability as of June 30, 2014, was \$878 million, representing a decrease of 35.0 percent from \$1,350.8 million as of June 30, 2013. This \$473 million decrease in liabilities is primarily as a result of the gains from lower than expected active salary increases and lower than expected retiree COLA increases during 2012/2013 (because liabilities are rolled forward from June 30, 2013 to June 30, 2014, these gains are first reported in the June 30, 2014 results).

Under GASB Statement No. 67, the Fiduciary Net Position as a percentage of the Total Pension Liability is required to be presented. For the fiscal years ended June 30, 2014 and 2013, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 82.18 percent and 72.15 percent, respectively. The change is a 13.9 percent increase and is due to the somewhat moderate growth in Total Pension Liability of only \$78 million compared to the increase in FCERA's Fiduciary Net Position of \$551 million, which results in an improved financial position at June 30, 2014.

Net Pension Liability

As of June 30, 2014 and 2013 *
(Dollars in Thousands)

| | 2014 | 2013 | \$ Change | % Change |
|--|--------------|--------------|--------------|----------|
| Total Pension Liability | \$ 4,928,183 | \$ 4,850,282 | \$ 77,901 | 1.6% |
| Less: Fiduciary Net Position | (4,050,129) | (3,499,452) | (550,677) | 15.7% |
| Net Pension Liability | \$ 878,054 | \$ 1,350,830 | \$ (472,776) | -35.0% |
| Fiduciary Net Position as a Percentage of Total Pension Liability | 82.18% | 72.15% | | 13.9% |

* FCERA will provide 3 year comparative data for Net Pension Liability as of June 30, 2015.

FCERA's Fiduciary Responsibilities

FCERA's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the Board, our membership, taxpayers, investment managers, and others with a general overview of FCERA's financial condition and to demonstrate FCERA's accountability for the funds under its stewardship.

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

FCERA
Attn: Accounting Unit
1111 H Street
Fresno, CA 93721

Respectfully submitted,



Becky Van Wyk, CPA
Assistant Retirement Administrator
December 29, 2014

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|------------------------|
| ASSETS: | | |
| Cash and cash equivalents with fiscal agents | \$ 98,575 | \$ 147,321 |
| Securities lending investments pool: | | |
| Short term investments | 339,376 | 333,988 |
| Receivables: | | |
| Investment income receivables | 99,845 | 162,184 |
| Administrative receivables | 52 | 50 |
| Contributions receivables | 12,165 | 10,984 |
| Securities lending receivables | 110 | 157 |
| Total receivables | <u>112,172</u> | <u>173,375</u> |
| Investments, at fair value: | | |
| Domestic and international fixed income | 1,718,428 | 920,283 ¹ |
| Domestic and international equities | 1,598,926 | 1,885,493 ¹ |
| Private equity | 271,295 | 262,581 ² |
| Real estate | 147,620 | 142,229 ² |
| Hedge funds | 147,051 | 144,053 ² |
| Private credit | 80,860 | 83,554 ² |
| Total investments | <u>3,964,180</u> | <u>3,438,193</u> |
| Prepaid expenses | 123 | 106 |
| Capital assets | | |
| Nondepreciable | 5,508 | 3,343 |
| Depreciable, net of accumulated depreciation | 1,525 | 1,692 |
| Total capital assets, net | <u>7,033</u> | <u>5,035</u> |
| Total assets | <u>4,521,459</u> | <u>4,098,018</u> |
| LIABILITIES: | | |
| Accounts payable - purchase of investments | 128,638 | 261,484 |
| Cash collateral payable for securities lending | 339,376 | 333,988 |
| Administrative accounts payable | 3,289 | 3,056 |
| Securities lending bank and broker fees | 27 | 38 |
| Total liabilities | <u>471,330</u> | <u>598,566</u> |
| NET POSITION RESTRICTED FOR PENSION BENEFITS | <u>\$ 4,050,129</u> | <u>\$ 3,499,452</u> |

¹ Restated to show comparison to 2014.

² Restated to show new Private Credit allocation effective FY 2014.

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Employers | \$ 165,309 | \$ 158,572 |
| Plan members | 30,154 | 30,516 |
| Total contributions | <u>195,463</u> | <u>189,088</u> |
| Investment income: | | |
| From investment activities | | |
| Net appreciation in fair value of investments | 507,904 | 308,870 |
| Interest | 32,852 | 21,953 |
| Dividends | 33,682 | 41,925 |
| Private markets | 22,598 | 19,096 |
| Investment expenses | (15,795) | (15,154) |
| Miscellaneous income | 545 | 545 |
| Net investment income, before securities lending | <u>581,786</u> | <u>377,235</u> |
| From securities lending activities | | |
| Securities lending income | 1,746 | 2,018 |
| Securities lending expenses | | |
| Borrower rebate expenses | - | (195) |
| Security lending management fees | (363) | (575) |
| Net income from securities lending activities | <u>1,383</u> | <u>1,248</u> |
| Net investment income | <u>583,169</u> | <u>378,483</u> |
| Total additions | <u>778,632</u> | <u>567,571</u> |
| DEDUCTIONS: | | |
| Benefits paid to plan members and beneficiaries | 222,289 | 210,745 |
| Refunds of member contributions | 2,103 | 2,211 |
| Administrative expenses | 3,542 | 3,634 ¹ |
| Other | 21 | 42 ² |
| Total deductions | <u>227,955</u> | <u>216,632</u> |
| CHANGE IN NET POSITION | 550,677 | 350,939 |
| NET POSITION RESTRICTED FOR PENSION BENEFITS | | |
| BEGINNING OF YEAR | <u>3,499,452</u> | <u>3,148,513</u> |
| END OF YEAR | <u>\$ 4,050,129</u> | <u>\$ 3,499,452</u> |

¹ Restated as defined in Government Code Section 31580.2, excludes Information Technology expenses.

² Information Technology expenses.

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 1 - DESCRIPTION OF THE RETIREMENT PLAN (THE ASSOCIATION)

The following description of the Fresno County Employees' Retirement Association (FCERA) is provided for general information purposes only. FCERA is governed by the Board of Retirement (Board) under the 1937 County Employees Retirement Law (1937 Act) and the California Public Employees Pension Reform Act (PEPRA) of 2013. Members should refer to the 1937 Act and PEPRA for more complete information.

General

FCERA is a contributory defined benefit plan initially organized under the provisions of the 1937 Act on January 1, 1945. Effective January 1, 2013, PEPRA added requirements and benefit levels for new members joining the Association after January 1, 2013 as well as modifying some provisions of the 1937 Act for existing members. It provides benefits upon retirement, death or disability of members. FCERA is a cost-sharing, multiple-employer plan that includes substantially all full-time employees and permanent part-time employees who work 50% or more for the County of Fresno (County), the Superior Court of California-County of Fresno, Clovis Veterans Memorial District, Fresno-Madera Area Agency on Aging and Fresno Mosquito & Vector Control. An employee becomes eligible for membership commencing with the pay period following the date of employment in a permanent position.

FCERA membership at June 30, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Retirees and beneficiaries receiving benefits | 6,626 | 6,403 |
| Terminated employees entitled to benefits but not yet receiving them (Deferred Members) | 1,401 | 1,263 |
| Current employees: | | |
| Vested: | | |
| General Tier 1 | 3,863 | 4,160 |
| General Tier 2 | 91 | 78 |
| General Tier 3 | 463 | 415 |
| Safety Tier 1 | 611 | 658 |
| Safety Tier 2 | 30 | 33 |
| Nonvested: | | |
| General Tier 1 | 124 | 153 |
| General Tier 2 | 85 | 123 |
| General Tier 3 | 386 | 505 |
| General Tier 4 | 264 | 305 |
| General Tier 5 | 815 | 260 |
| Safety Tier 1 | 7 | 6 |
| Safety Tier 2 | 32 | 36 |
| Safety Tier 4 | 65 | 67 |
| Safety Tier 5 | 88 | 42 |
| Total current employees | <u>6,924</u> | <u>6,841</u> |
| Total membership | <u><u>14,951</u></u> | <u><u>14,507</u></u> |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Benefit Provisions

The Board, under the provisions of the 1937 Act, administers benefit provisions adopted by the Plan Sponsors. Benefits are based upon a combination of age, years of service, final average salary for the highest year (or average three one-year periods) of employment, benefit tier (including membership classification) and the payment option selected by the member. Disability and death benefits are additionally based upon whether the disability was service connected or not and whether the death occurred before or after retirement. Retirement benefit payments consist of regular retirement benefits and depending on date of retirement may include cost of living benefits, supplemental benefits, supplemental annuity benefits, and vested health benefits. Benefits may also include a supplemental cost of living and a nonvested health benefit if approved by the Board. General members enrolled in Tiers 1, 2, 3, or 4 may retire at age 50 with 10 years of service, at any age with 30 years of service, or at age 70 with any years of service. General members enrolled in Tier 5 may retire at age 52 with 5 years of service. Safety members enrolled in Tiers 1, 2, or 4 may retire at age 50 with 10 years of service or at any age with 20 years of service. Safety members enrolled in Tier 5 may retire at age 50 with 5 years of service.

At June 30, 2014, there were five tiers for general members and four tiers for safety members. Safety and General Tiers 1, 2, 3 and 4 are closed to new members unless they meet the requirements under Government Code Section 7522 et al. Safety includes members in active law enforcement or certain other "Safety" classifications as designated by the Board.

Disability retirements may be granted as service connected with no minimum service credit required or non-service connected with five years of service credit required.

On September 12, 2012, PEPRA was signed into law by Governor Jerry Brown, establishing a new tier for General and Safety employees entering FCERA membership on or after January 1, 2013. The benefit formula for General members is 2.5% at age 67 and the Safety formula is 2.5% at age 57. Benefits under the new PEPRA tiers are based on a consecutive three-year final average compensation period. Additionally, PEPRA limits the amount of compensation FCERA can use to calculate a retirement benefit. The 2014 compensation limits are \$115,064 for members covered by Social Security and \$138,077 for members not covered by Social Security and will be adjusted in future years for changes in the Consumer Price Index. Most FCERA members are covered by Social Security.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Benefit Provisions (continued)

The tiers and their basic provisions are listed below:

| Tier Name | Governing Code | Effective Date | Basic Provisions | Vested Health Benefit | Final Average Salary Period | Plan Sponsors |
|---------------------|--|--------------------|---|-----------------------|-----------------------------|-------------------------------|
| Pre-Ventura General | GC 31676.12 | Various | 2.0% at 57; maximum 3% cost of living benefit | No | Highest 1 – year | All |
| General Tier 1 | GC 31676.14 and the Settlement Agreement | January 1, 2001 | 2.5% at 55; maximum 3% cost of living benefit | Yes | Highest 1 - year | All |
| General Tier 2 | GC31676.16 | September 12, 2005 | 2.0% at 55; maximum 3% cost of living benefit | Yes | Highest 1 - year | County and FMAAA ¹ |
| General Tier 3 | GC 31676.15 | December 17, 2007 | 2.0% at 55; maximum 3% cost of living benefit | Yes | 3 Highest Years | County |
| General Tier 4 | GC 31676.1 | June 11, 2012 | 2.0% at 61; no cost of living benefit | No | 3 Highest Years | County |
| General Tier 5 | GC 7522.20 | January 1, 2013 | 2.5% at 67; no cost of living benefit | No | Highest 3 Consecutive Years | All |
| Pre-Ventura Safety | GC 31664 | Various | 2.0% at 50; maximum 3% cost of living benefit | No | Highest 1 – year | All |
| Safety Tier 1 | GC 31664 and the Settlement Agreement | January 1, 2001 | 2.5% at 50; maximum 3% cost of living benefit | Yes | Highest 1 - year | County and NCFPD ² |
| Safety Tier 2 | GC 31664.2 | September 12, 2005 | 3.0% at 55; maximum 3% cost of living benefit | Yes | Highest 1 - year | County |
| Safety Tier 4 | GC 31664 | June 11, 2012 | 2.0% at 50; no cost of living benefit | Yes | 3 Highest Years | County |
| Safety Tier 5 | GC 7522.25(c) | January 1, 2013 | 2.5% at 57; no cost of living benefit | No | Highest 3 Consecutive Years | All |

¹ FMAAA – Fresno-Madera Area Agency on Aging

² NCFPD – North Central Fire Protection District . NCFPD withdrew active membership from FCERA as of August 31, 2007.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

Administration

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

FCERA's financial statements are prepared using the accrual basis of accounting. Investment income is recognized when it is earned and expenses are recognized in the period in which they are incurred. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds of prior contributions are recognized when due and payable under the provisions of the plan.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

Cash and cash equivalents with fiscal agent include deposits in the County Treasurer's commingled cash and investment pool and investments held by the custodian bank. Investments with the custodian bank are comprised of foreign currencies, cash held in a short-term investment fund and other short-term, highly liquid investments. Short-term investments considered cash equivalents are recorded at cost, which approximates fair value. The County Treasurer's commingled cash and investment pool operates in accordance with appropriate state laws and regulations and is governed by an investment policy formally adopted by the County. (Please refer to the Comprehensive Annual Financial Report prepared by the County for additional information on the County Treasurer's commingled cash and investment pool.)

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

Asset Allocation Policy

In March 2014, the Board adopted new policy targets which resulted from an asset liability study conducted in the fourth quarter of 2013. The new policy reduced the investment risk by reducing equity exposure and restructuring the fixed income portfolio. The new asset allocation policy is incorporated into FCERA's updated Investment Policy Statement, which helps guide the manner in which FCERA invests.

Investment Concentrations

FCERA does not hold investments in any one organization that represent 5 percent or more of the Association's Fiduciary Net Position.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2014, FCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*; and amendment of GASB Statement No. 25. The requirements for GASB Statement No. 67 necessitate changes and additions in the Notes to the Financial Statements, Required Supplementary Information, and Other Supplementary Information. Significant changes include calculation of total and net pension liability for financial reporting, comprehensive footnote disclosure regarding pension liability, sensitivity of net pension liability to the discount rate, additional investment disclosure, expected long-term discount

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Accounting Pronouncements (continued)

rate, and annual money-weighted rate of return on investment. The net pension liability and related ratios as determined by GASB Statement No. 67 is presented in the Required Supplementary Information. Other requirements are reflected in the Notes to the Financial Statements, Required Supplementary Information, and Other Supplementary Information sections.

The new standards require the County and outside Districts to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time and provide a more comparable measure of the annual costs of pension benefits by employer. This proportionate share is based on the employer's long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For the County and outside Districts, the new financial reporting provisions are effective for fiscal year ending June 30, 2015.

FCERA has established a Task Force comprised of key stakeholders from the County, outside Districts, and external professional service providers to discuss the requirements for implementation of the new accounting standards, GASB Statements Nos. 67 & 68. The Task Force is establishing timelines and a framework for preliminary implementation decisions.

Long-term Expected Rate of Return by Asset Class

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table on page 30.

The long-term expected rate of return assumption was developed using recent economic assumptions included in the latest Actuarial Experience Study completed in August 2013. Since the development of these assumptions, adjustments were approved by the Board in December 2013 to the target allocation of investments, referred to as Mix B. The impact of the adjustments to the new asset allocation by selecting Mix B, compared to the economic assumptions developed in the Actuarial Experience Study, is

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Expected Rate of Return by Asset Class (Continued)

not considered substantial enough to invalidate the long-term expected rate of return assumption. However, users of this report must be aware that due to the selection of Mix B there is a difference in the target allocation presented on page 30 and the target allocation presented in the Investment Section on page 64.

| | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------------------|------------------------------|---|
| Large Cap U.S. Equity | 24% | 6.10% |
| Small Cap U.S. Equity | 5% | 6.88% |
| Developed International Equity | 19% | 6.87% |
| Emerging International Equity | 5% | 8.22% |
| U.S. Core Fixed Income | 19% | 0.63% |
| TIPS | 4% | -0.11% |
| Emerging Market Debt | 3% | 3.85% |
| Real Estate | 6% | 4.93% |
| Commodities | 4% | 3.93% |
| Hedge Funds | 4% | 3.46% |
| Private Equity | 7% | 12.68% |
| Total | 100% | |

Net Pension Liability

GASB Statement No. 67 requires public pension plans to disclose the net pension liability of the plan. The net pension liability is measured as the total pension liability less the amount of the plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of FCERA's net pension liability at June 30, 2014, are disclosed below and on page 31.

| | June 30, 2014 | June 30, 2013 |
|---|------------------|--------------------|
| Total pension liability | \$4,928,183 | \$4,850,282 |
| Fiduciary net position | 4,050,129 | 3,499,452 |
| Net pension liability | <u>\$878,054</u> | <u>\$1,350,830</u> |
| Fiduciary net position as a percentage of the total pension liability | 82.18% | 72.15% |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Pension Liability (Continued)

The measurement date of the net pension liability was determined at June 30, 2014 and June 30, 2013. Fiduciary net position (plan assets) was valued as of the measurement date while the total pension liability was determined based upon rolling forward the total pension liability from actuarial valuations as of June 30, 2013 and 2012, respectively.

Actuarial Assumptions used in this GASB analysis:

| | |
|---------------------------|---|
| Inflation | 3.25% |
| Salary Increases | General: 4.75% to 10.75% and Safety: 5.25% to 10.75%, vary by service, including inflation. |
| Investment Rate of Return | 7.25%, net of pension plan investment expense, including inflation. |

Discount rate

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2014 and June 30, 2013. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

Sensitivity of the net pension liability to changes in the discount rate. The schedule on the following page presents the net pension liability of FCERA as of June 30, 2014, calculated using the discount rate of 7.25%, as well as what the FCERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sensitivity of the net pension liability to changes in the discount rate (Continued)

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|------------------------|-------------------------------------|------------------------|
| FCERA's net pension liability as of June 30, 2014 | \$1,557,810 | \$878,054 | \$320,682 |

Money-Weighted Rate of Return

For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 17.53 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Prior year money-weighted rate of returns are not available. Additional years to be presented in fiscal year ended June 30, 2015.

Capital Assets

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

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Expenses

FCERA's Board annually approves the budget for administrative expenses. Under the California State Government Code Section 31580.2 administrative expenses are limited to 0.21% of the accrued actuarial liability of the Plan. Previously, administrative expenses were limited to 23 basis points of total assets. As a result of the change in basis points, the information technology expenses are no longer included in the administrative expenses. The Schedule of Information Technology Expenses includes computer software, hardware, computer maintenance and equipment. With the exclusion of the information technology costs, FCERA's administrative expenses totaled 0.08% of the accrued actuarial liability of the Plan.

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying *Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position*. Also certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

NOTE 3 - DEPOSITS AND INVESTMENTS

Except as otherwise expressly restricted by the California Constitution and by law, the Board may, at its discretion, invest, or delegate FCERA to invest the assets of FCERA through the purchase, holding, or sale of any form or type of instrument, or financial transaction when prudent in the informed opinion of the Board. In addition, the Board has established an investment policy that places limits on the compositional mix of cash, fixed income and equity securities, alternative investments, and real estate investments. FCERA currently employs external investment managers to manage its assets subject to the guidelines of the investment policy. GASB Statement No. 40 and Statement No. 53 detail the disclosure requirements associated with FCERA's deposits, investments and derivatives. The statements identify the following risks: investment risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Rather than creating an across the board policy addressing limitations on credit ratings of certain debt securities, FCERA, has chosen to manage the investment risks detailed in GASB Statements No. 40 and No. 53 by requiring each investment manager responsible for a separately held portfolio to follow specific agreed upon investment guidelines that meet the requirements of FCERA for the individual investment mandate. FCERA's investment guidelines do not govern control over commingled portfolios and therefore only apply to separately held portfolios.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk - deposits. This type of risk associated with deposits is the risk that, in the event of a failure in a depository financial institution, a government will not be able to recover its deposits or recover collateral securities that are in the possession of an outside party. FCERA does not have a policy for managing custodial credit risk. As of June 30, 2014, all domestic deposits were insured, registered and held by the custodian bank in FCERA's name. FCERA held foreign currencies deposits at June 30, 2014 with a United States Dollar value of \$3,626, of which \$0 is subject to custodial credit risk since the deposits were registered or held in FCERA's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. FCERA's investments are not subject to custodial credit risk because investments are insured and registered in FCERA's name. FCERA's investment policy does not limit the amount of securities that can be held by counterparties.

Credit risk. Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This risk is measured by the assignment of ratings by nationally recognized statistical rating organizations. FCERA has adopted policies specific to each investment manager to manage credit risk. In general, fixed income securities should be well diversified to avoid undue exposure to any single economic sector, industry or individual security. The County's external investment pool is unrated for credit risk purposes. The credit ratings disclosed on page 35 were obtained from Moody's rating agency as of June 30, 2014 and June 30, 2013.

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FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

| Investment Type | | Minimum Policy Rating | Exempt from Disclosure | Rating at Year End June 30, 2014 | | | | Not Rated |
|----------------------------------|---------------------|-----------------------------|------------------------------|----------------------------------|-------------------|-----------------|-------------------|--------------|
| | | | | Aaa/ P1 | Baa | Caa | | |
| Securities lending - investments | | | | | | | | |
| Quality D Investment Fund | \$ 339,376 | Aaa/ P1 | \$ - | \$ 339,376 | \$ - | \$ - | \$ - | - |
| Subtotal | <u>339,376</u> | | <u>-</u> | <u>339,376</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| US Government and agencies | | | | | | | | |
| US treasury notes | 193,249 | N/A | 193,249 | - | - | - | - | - |
| Federal agency securities | 161,963 | B3 | 143,159 | 18,416 | - | - | - | 388 |
| Subtotal | <u>355,212</u> | | <u>336,408</u> | <u>18,416</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>388</u> |
| Domestic fixed income | 341,435 | B3 | - | 48,949 | 188,445 | 1,305 | - | 102,736 |
| Mortgages | 46,772 | B3 | 982 | 32,699 | 571 | 364 | - | 12,156 |
| Foreign fixed income | 337,483 | B3 | - | 101,564 | 175,657 | - | - | 60,262 |
| TIPS | 158,780 | N/A | 158,780 | - | - | - | - | - |
| Barclays US AGG Index Fund | 478,746 | AA | - | - | - | - | - | 478,746 |
| | <u>\$ 2,057,804</u> | | <u>\$ 496,170</u> | <u>\$ 541,004</u> | <u>\$ 364,673</u> | <u>\$ 1,669</u> | <u>\$ 654,288</u> | |

| Investment Type | | Minimum Policy Rating | Exempt from Disclosure | Rating at Year End June 30, 2013 | | | | Not Rated |
|----------------------------------|---------------------|-----------------------------|------------------------------|----------------------------------|-------------------|------------------|-------------------|---------------|
| | | | | Aaa/ P1 | Baa | Caa | | |
| Securities lending - investments | | | | | | | | |
| Quality D Investment Fund | \$ 333,988 | Aaa/ P1 | \$ - | \$ 333,988 | \$ - | \$ - | \$ - | - |
| Subtotal | <u>333,988</u> | | <u>-</u> | <u>333,988</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| US Government and agencies | | | | | | | | |
| US treasury notes | 143,568 | N/A | 143,568 | - | - | - | - | - |
| Federal agency securities | 203,723 | B3 | 149,120 | 27,877 | 14,886 | - | - | 11,840 |
| Subtotal | <u>347,291</u> | | <u>292,688</u> | <u>27,877</u> | <u>14,886</u> | <u>-</u> | <u>-</u> | <u>11,840</u> |
| Domestic fixed income | 302,510 | B3 | - | 123,406 | 117,071 | 744 | - | 61,289 |
| Mortgages | 36,896 | B3 | - | 21,744 | 7,473 | - | - | 7,679 |
| Foreign fixed income | 130,025 | B3 | - | 13,646 | 61,187 | 15,733 | - | 39,459 |
| Opportunistic Fixed Income | 103,561 | N/A | - | - | - | - | - | 103,561 |
| | <u>\$ 1,254,271</u> | | <u>\$ 292,688</u> | <u>\$ 520,661</u> | <u>\$ 200,617</u> | <u>\$ 16,477</u> | <u>\$ 223,828</u> | |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. FCERA has not adopted a policy to manage interest rate risk. FCERA selected the segmented time distribution method for the following investments subject to interest rate risk at June 30, 2014 and June 30, 2013.

| Investment Type | Remaining Maturity in Months at June 30, 2014 | | | | |
|----------------------------------|---|-----------------|------------------|----------------------|------------|
| | Less than 12 months | 13 to 60 months | 61 to 120 months | More than 120 months | |
| Securities lending - investments | | | | | |
| Quality D Investment Fund | \$ 339,376 | \$ 339,376 | \$ - | \$ - | \$ - |
| Subtotal | 339,376 | 339,376 | - | - | - |
| US Government and agencies | | | | | |
| US Treasury notes | 193,249 | 1,109 | 128,788 | 24,147 | 39,205 |
| Federal agency securities | 161,963 | 58 | 2,219 | 2,445 | 157,241 |
| Subtotal | 355,212 | 1,167 | 131,007 | 26,592 | 196,446 |
| Domestic fixed income | 341,435 | 8,135 | 91,988 | 82,310 | 159,002 |
| Mortgages | 46,772 | - | - | - | 46,772 |
| Foreign fixed income | 337,483 | 5,128 | 111,457 | 131,566 | 89,332 |
| Barclays US AGG Index Fund | 478,746 | 4 | 247,177 | 162,822 | 68,743 |
| TIPS Index Fund | 158,780 | - | 54,729 | 48,403 | 55,648 |
| Total Investments | \$ 2,057,804 | \$ 353,810 | \$ 636,358 | \$ 451,693 | \$ 615,943 |

| Investment Type | Remaining Maturity in Months at June 30, 2013 | | | | |
|----------------------------------|---|-----------------|------------------|----------------------|------------|
| | Less than 12 months | 13 to 60 months | 61 to 120 months | More than 120 months | |
| Securities lending - investments | | | | | |
| Quality D Investment Fund | \$ 333,988 | \$ 333,988 | \$ - | \$ - | \$ - |
| Subtotal | 333,988 | 333,988 | - | - | - |
| US Government and agencies | | | | | |
| US Treasury notes | 143,568 | - | 62,183 | 30,447 | 50,938 |
| Federal agency securities | 203,723 | 944 | 6,816 | 2,310 | 193,653 |
| Subtotal | 347,291 | 944 | 68,999 | 32,757 | 244,591 |
| Domestic fixed income | 302,510 | 13,895 | 46,717 | 60,294 | 181,604 |
| Mortgages | 36,896 | - | - | - | 36,896 |
| Foreign fixed income | 130,025 | 528 | 13,592 | 64,865 | 51,040 |
| Opportunistic Fixed Income | 103,561 | 8,658 | 33,212 | 51,356 | 10,335 |
| Total Investments | \$ 1,254,271 | \$ 358,013 | \$ 162,520 | \$ 209,272 | \$ 524,466 |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2014 FCERA has \$31,710 invested in the County external investment pool, which has a dollar weighted average maturity of 2.6 years, compared to \$27,799 and a dollar weighted average maturity of 2.4 years at June 30, 2013.

Concentration of credit risk. This is the risk of loss attributed to the concentration of the FCERA's investment in a single issuer. FCERA's investment policy does not permit any one manager to invest more than five percent of the market value of its portion of the portfolio in any one issue, with the exception of investments issued by the US Government and its agencies. As of June 30, 2014, no investments in any one issuer are greater than five percent of total investments. Investment managers authorized to invest in below investment grade securities are limited to holding no more than 20% of their portfolio market value in such securities.

Foreign currency risk. This is the risk that FCERA will not be able to recover the value of its investment in local currency when the exchange value of the currency lowers. FCERA has not adopted a policy to manage the foreign currency risk. FCERA's investment in foreign currency at June 30, 2014 and June 30, 2013 are as follows:

| <u>Currency</u> | | <u>Fair Market Value at</u> <u>June 30, 2014</u> |
|--------------------------|----|---|
| British Pound Sterling | \$ | 475 |
| Colombian Peso | | 252 |
| Euro Currency | | 1,015 |
| Hong Kong Dollar | | 122 |
| Japanese Yen | | 867 |
| Mexican Peso | | 82 |
| Nigerian Naira | | 381 |
| Other Foreign Currencies | | 432 |
| Total Foreign Currency | \$ | <u>3,626</u> |

| <u>Currency</u> | | <u>Fair Market Value at</u> <u>June 30, 2013</u> |
|--------------------------|----|---|
| Australian Dollar | \$ | 63 |
| Canadian Dollar | | 82 |
| Euro Currency | | 967 |
| Hong Kong Dollar | | 61 |
| Japanese Yen | | 1,029 |
| Norwegian Krone | | 78 |
| Other Foreign Currencies | | 51 |
| Pound Sterling | | 227 |
| Total Foreign Currency | \$ | <u>2,558</u> |

Foreign currency tables expressed in US dollars and thousands

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Derivatives. The investment derivatives schedule below reports the fair value and notional value of the derivatives held by FCERA at June 30, 2014. For reporting purposes, FCERA's derivatives are classified as investment derivatives. FCERA, through its external investment managers, enters into forward foreign currency contracts as well as equity rights to hedge against changes in the fair values of foreign bonds and equity securities, primarily denominated in European and Asian currencies. It is possible that, due to foreign exchange fluctuations, FCERA may be exposed to a potential loss. At June 30, 2014, FCERA has approximately \$-335 of its \$787,495 international fixed income and international equity portfolio invested in such forward foreign currency and equity rights contracts. At June 30, 2013, approximately \$13 of FCERA's \$799,797 international fixed income and international equity portfolio was invested through the use of such forward foreign currency contracts.

Investment Derivatives

| Investment Derivatives | June 30, 2014 | | Changes in Fair Value for 2014 | |
|---------------------------|-----------------------|---------------|-----------------------------------|-------------|
| | <u>Notional Value</u> | | <u>Fair Value</u> | |
| Credit Default Swaps | \$ | - | \$ | 25 |
| Fixed Income Futures | | 24,220 | | - |
| Forward Foreign Currency | | - | | (335) |
| Interest Rate Swaps | | - | | (232) |
| Options | | - | | 294 |
| Rights | | - | | 195 |
| Grand Totals | \$ | 24,220 | \$ | (53) |

| Investment Derivatives | June 30, 2013 | | Changes in Fair Value for 2013 | |
|---------------------------|-----------------------|---------------|-----------------------------------|--------------|
| | <u>Notional Value</u> | | <u>Fair Value</u> | |
| Credit Default Swaps | \$ | - | \$ | (28) |
| Fixed Income Futures | | 64,211 | | - |
| Forward Foreign Currency | | (14) | | (14) |
| Interest Rate Swaps | | - | | 1,108 |
| Options | | - | | 402 |
| Rights | | - | | 27 |
| Grand Totals | \$ | 64,197 | \$ | 1,495 |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

FCERA could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. FCERA anticipates that counterparties will be able to satisfy their obligations under the contracts. FCERA's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures, including requirements for collateral at certain defined levels. At June 30, 2014, FCERA held \$875 collateral to offset potential risks it may encounter through counterparty transactions. At June 30, 2013, no known collateral was held to offset potential risks it may encounter through counterparty transactions.

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

Counterparty Credit Risk

Counterparty Credit Ratings at June 30, 2014

| | Aa | A | Exchange Traded | Not Rated | Total |
|-----------------|-------------|-------------|----------------------------|------------------|----------------|
| Futures | \$ - | \$ - | \$ - | \$ - | \$ - |
| Options | - | - | - | 294 | 294 |
| Rights/Warrants | - | - | - | 195 | 195 |
| Swaps | - | - | - | (207) | (207) |
| Forwards | - | - | - | (335) | (335) |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (53)</u> | <u>\$ (53)</u> |

Counterparty Credit Risk

Counterparty Credit Ratings at June 30, 2013

| | Aa | A | Exchange Traded | Not Rated | Total |
|-----------------|----------------|-----------------|----------------------------|------------------|-----------------|
| Futures | \$ - | \$ - | \$ - | \$ - | \$ - |
| Options | 15 | 392 | (5) | - | 402 |
| Rights/Warrants | - | - | - | 27 | 27 |
| Swaps | (42) | 749 | - | - | 707 |
| Forwards | - | - | - | (14) | (14) |
| | <u>\$ (27)</u> | <u>\$ 1,141</u> | <u>\$ (5)</u> | <u>\$ 13</u> | <u>\$ 1,122</u> |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2014 and June 30, 2013, FCERA was exposed to Foreign Currency Risk related to its investments in equity rights and forward contracts denominated in foreign currencies.

Foreign Currency Risks at Fair Value at June 30, 2014

| Currency Name | Equities | Forward Currency Contracts | | Total Exposure |
|----------------------|-----------------|-----------------------------------|---------------------|-----------------------|
| | | Net Receivables | Net Payables | |
| Brazil Real | \$ - | \$ 156 | \$ (699) | \$ (543) |
| British Pound | - | 35 | (26) | 9 |
| Chilean Peso | - | 2 | - | 2 |
| Chinese Yen | - | - | (1) | (1) |
| Colombian Peso | - | 5 | (63) | (58) |
| Euro | 195 | 18 | (23) | 190 |
| Hungarian Forint | - | - | (50) | (50) |
| Indonesia Rupiah | - | 64 | (128) | (64) |
| Indian Rupee | - | 48 | (18) | 30 |
| Japanese Yen | - | 10 | (26) | (16) |
| Mexican Peso | - | 31 | (7) | 24 |
| Malaysia Ringgit | - | 171 | (74) | 97 |
| Nigerian Naira | - | - | (6) | (6) |
| Peruvian Nuevo Sol | - | - | (2) | (2) |
| Phillipine Peso | - | - | (25) | (25) |
| Polish Zloty | - | 46 | (35) | 11 |
| Romanian Leu | - | 23 | (1) | 22 |
| Russian Ruble | - | 170 | (69) | 101 |
| South African Rand | - | 154 | (48) | 106 |
| South Korean Won | - | 10 | - | 10 |
| Swiss Franc | - | - | (1) | (1) |
| Thai Bhat | - | 11 | (10) | 1 |
| Turkey | - | 23 | (2) | 21 |
| Total | \$ 195 | \$ 977 | \$ (1,314) | \$ (142) |

Foreign Currency Risks at Fair Value at June 30, 2013

| Currency Name | Equities | Forward Currency Contracts | | Total Exposure |
|----------------------|-----------------|-----------------------------------|---------------------|-----------------------|
| | | Net Receivables | Net Payables | |
| Canadian Dollar | \$ - | \$ 59 | \$ (44) | \$ 15 |
| Euro | 27 | 16 | (33) | 10 |
| Swiss Franc | - | - | (1) | (1) |
| Pound Sterling | - | 98 | (93) | 5 |
| Japanese Yen | - | 43 | (59) | (16) |
| Total | \$ 27 | \$ 216 | \$ (230) | \$ 13 |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

Interest rate risk applies to derivatives such as Fixed Income Options, Credit Default Swaps, Interest Rate Swaps, Forward Foreign Currency and Rights. At June 30, 2014 and June 30, 2013, FCERA was exposed to the following interest rate risk on its investments in these securities. The tables below displays the maturity periods of these derivative investments.

Interest Rate Risk for Derivatives at June 30, 2014

| Investment Types | Fair Value | Investment Maturities (in months) | | | | Total |
|----------------------------|-------------------|--|-----------------|------------------|----------------------|----------------|
| | | Less than 12 | 13 to 60 | 61 to 120 | More than 120 | |
| Credit Default Swaps | \$ 25 | \$ 15 | \$ 5 | \$ 7 | \$ (2) | \$ 25 |
| Fixed Income Futures | - | - | - | - | - | - |
| Forward Currency Contracts | (335) | (335) | - | - | - | (335) |
| Interest Rate Swaps | (232) | - | (109) | (10) | (113) | (232) |
| Options | 294 | 43 | 251 | - | - | 294 |
| Rights | 195 | 32 | 162 | 1 | - | 195 |
| Total | \$ (53) | \$ (245) | \$ 309 | \$ (2) | \$ (115) | \$ (53) |

Interest Rate Risk for Derivatives at June 30, 2013

| Investment Types | Fair Value | Investment Maturities (in months) | | | | Total |
|----------------------------|-------------------|--|-----------------|------------------|----------------------|-----------------|
| | | Less than 12 | 13 to 60 | 61 to 120 | More than 120 | |
| Credit Default Swaps | \$ (28) | \$ - | \$ (37) | \$ 19 | \$ (10) | \$ (28) |
| Fixed Income Futures | - | - | - | - | - | - |
| Forward Currency Contracts | (14) | (14) | - | - | - | (14) |
| Interest Rate Swaps | 1,108 | - | - | 494 | 614 | 1,108 |
| Options | 402 | 138 | 264 | - | - | 402 |
| Rights | 27 | 27 | - | - | - | 27 |
| Total | \$ 1,495 | \$ 151 | \$ 227 | \$ 513 | \$ 604 | \$ 1,495 |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Securities Lending. The Board authorized FCERA, through its custodian bank, to enter into securities lending transactions, whereby securities owned by FCERA are loaned on a short-term basis to various banks and brokers. Securities on loan include domestic and international stocks, US government agency and domestic bonds. All securities on loan must be collateralized at 102% of the fair value of the loaned securities, except for non-United States based equities which are initially collateralized at 105%. Collateral may take the form of cash, commercial paper, certificates of deposit, bankers' acceptances, repurchase and reverse repurchase agreements, obligations issued or guaranteed as to interest and principal by the United States Government (or agencies or instrumentalities thereof), bank time deposits, variable rate demand notes, State Street Bank and Trust Company money market mutual fund and any common trust fund maintained by a bank or other financial institution or any commingled or pooled trust.

The lending agreement places no restriction on the amount of loans that can be made. FCERA's lending agent is authorized to invest and reinvest cash collateral, but it is not expressly permitted to pledge or sell securities collateral without borrower default. FCERA's agent invests cash collateral in individual securities and the securities are held by the trustee in FCERA's name. The maturities of the investments made with the cash collateral generally match the maturities of their securities on loan.

Securities on Loan - At year-end, FCERA had no credit risk exposure to borrowers because the collateral received exceeded the amount owed to borrowers. As of June 30, 2014, there were no violations of the securities lending provisions and no losses resulted within the securities lending program due to borrower default.

Reinvestment of Collateral - FCERA is subject to credit risk through the reinvestment of collateral cash which FCERA received at the time securities were placed on loan. The risk can include the devaluation of the underlying securities where the collateral has been reinvested. As of June 30, 2014, FCERA believes that if a borrower of a loaned security called on its collateral that it would be reasonably possible that devaluation would be experienced and due to market conditions FCERA would encounter difficulty finding a buyer to take on the reinvested security and thus making it uncertain when the collateral would become available.

FCERA is unable to quantify the dollar devaluation that would have existed if collateral had been called upon. Income from these transactions is reported on the Statement of Changes in Fiduciary Net Position. Securities on loan are reported at fair value on the statement of Fiduciary Net Position. The carrying values of the securities lending investment pool for 2014 and 2013 were \$339,376 and \$333,988, respectively. The fair values of loaned securities are listed on the following page:

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|----------------------------------|-----------------------------|-----------------------------|
| Domestic equity | \$ 129,534 | \$ 153,686 |
| International equity | 11,633 | 35,233 |
| Total equity on loan | <u>141,167</u> | <u>188,919</u> |
| US Government and agencies | 134,936 | 109,465 |
| Domestic bonds | 33,796 | 26,471 |
| Foreign Bonds | 11,566 | - |
| Total bonds on loan | <u>180,298</u> | <u>135,936</u> |
| Total equities and bonds on loan | <u><u>\$ 321,465</u></u> | <u><u>\$ 324,855</u></u> |

Highly Sensitive Investments. FCERA utilizes investments that are highly sensitive to interest rate changes in its actively managed fixed income portfolio. Highly sensitive investments include mortgage-backed securities, asset-backed securities and collateralized mortgage obligations. FCERA's investment portfolio contains certain variable rate notes and collateralized mortgage obligations. At June 30, 2014 and 2013, FCERA had approximately \$78,826 and \$73,714 in these investments, respectively.

| <u>Investment Type</u> | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|--------------------------------------|-----------------------------|-----------------------------|
| Asset - Backed / Variable Rate Notes | \$ 32,054 | \$ 36,818 |
| Collateralized Mortgage Obligations | 46,772 | 36,896 |
| Forward Foreign Currency | (335) | (14) |
| Total | <u><u>\$ 78,491</u></u> | <u><u>\$ 73,700</u></u> |

NOTE 4 - INVESTMENT TRADES RECEIVABLE AND PAYABLE

Investment trades receivable and payable include forward currency contracts, and sales and purchases of investments. Forward currency contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2014, forward foreign currency contracts receivable and payable totaled \$923 and \$1,310, respectively. At June 30, 2013, forward foreign currency contracts receivable and payable totaled \$27,093 and \$27,108, respectively.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)

JUNE 30, 2014 AND 2013

(Amounts expressed in thousands)

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in depreciable capital assets for the fiscal years ended June 30, 2014 and 2013:

| | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Dispositions/ Reclassifications</u> | <u>Balance June 30, 2014</u> |
|--|---------------------------------|------------------|--|----------------------------------|
| Capital assets, depreciated: | | | | |
| Computer hardware/software | \$ 926 | \$ - | \$ - | \$ 926 |
| Furniture and fixtures | 164 | - | - | 164 |
| Equipment | 81 | - | - | 81 |
| Building | 2,103 | - | - | 2,103 |
| Total capital assets, depreciable | <u>3,274</u> | <u>-</u> | <u>-</u> | <u>3,274</u> |
| Less accumulated depreciation for: | | | | |
| Computer hardware/software | (738) | (77) | | (815) |
| Furniture and fixtures | (134) | (15) | | (149) |
| Equipment | (74) | (5) | | (79) |
| Building | (636) | (70) | | (706) |
| Total accumulated depreciation | <u>(1,582)</u> | <u>(167)</u> | <u>-</u> | <u>(1,749)</u> |
| Total capital assets, depreciated, net | <u>1,692</u> | <u>(167)</u> | <u>-</u> | <u>1,525</u> |
| Total capital assets, net | <u>\$ 1,692</u> | <u>\$ (167)</u> | <u>\$ -</u> | <u>\$ 1,525</u> |
| Depreciation charged for the current year and included in administrative expenses totaled: | | <u>\$ 167</u> | | |
| | | | | |
| | <u>Balance</u> | <u>Additions</u> | <u>Dispositions/ Reclassifications</u> | <u>Balance</u> |
| | <u>July 1, 2012</u> | | | <u>June 30, 2013</u> |
| Capital assets, depreciated: | | | | |
| Computer hardware/software | \$ 926 | \$ - | | \$ 926 |
| Furniture and fixtures | 164 | - | - | 164 |
| Equipment | 81 | - | - | 81 |
| Building | 2,103 | - | - | 2,103 |
| Total capital assets, depreciable | <u>3,274</u> | <u>-</u> | <u>-</u> | <u>3,274</u> |
| Less accumulated depreciation for: | | | | |
| Computer hardware/software | (659) | (79) | | (738) |
| Furniture and fixtures | (118) | (16) | - | (134) |
| Equipment | (69) | (5) | - | (74) |
| Building | (566) | (70) | - | (636) |
| Total accumulated depreciation | <u>(1,412)</u> | <u>(170)</u> | <u>-</u> | <u>(1,582)</u> |
| Total capital assets, depreciated, net | <u>1,862</u> | <u>(170)</u> | <u>-</u> | <u>1,692</u> |
| Total capital assets, net | <u>\$ 1,862</u> | <u>\$ (170)</u> | <u>\$ -</u> | <u>\$ 1,692</u> |
| Depreciation charged for the current year and included in administrative expenses totaled: | | <u>\$ 170</u> | | |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 6 - CONTRIBUTIONS AND RESERVES

Contributions

Contributions are made by the members and the employers at rates recommended by FCERA's independent actuary and approved by the Board and the County Board of Supervisors. Employee contribution rates vary according to age, classification (safety or general), and benefit tier and are designed to provide funding for approximately one-fourth of the regular retirement benefits and one-half of all cost of living benefits. Members are required to contribute between 3.79% and 12.58% of their annual covered salary. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act.

Interest is credited to member contributions every six months based on the prior six months ending balance. Members are not permitted to borrow against their contributions. Upon termination of employment, members may withdraw their contributions by requesting a refund of their accumulated contributions and interest. Non-vested members may leave their contributions on deposit with FCERA without establishing reciprocity. These members receive interest on their contributions and may withdraw their contributions and interest at any time.

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

Contribution rates are actuarially determined using the entry age normal method and consist of normal cost (the estimated amount necessary to finance benefits earned by employees during the current year) and, beginning in 1980, the unfunded actuarial accrued liability was amortized over a 30 year period. Effective with the valuation completed for June 30, 2002, the amortization period was modified to allow a 30 year amortization period for changes in the unfunded actuarial accrued liability that result from plan amendments and a fifteen year amortization period for all other changes in the unfunded actuarial accrued liability. Schedule of employer contributions, which include 10 year trend data, are presented in the required supplementary information schedules on page 53. Details on funding progress are presented in the Actuarial Section on page 81.

Benefits attributable to employers' contributions do not become vested until completion of five years of credited service. A member may receive a regular retirement allowance after attaining age 50 provided that such member has attained at least 10 years of credited service; or at any age after 30 years of service for a general member and 20 years of service for a safety member.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)

Reserved and Designated Accounts of Net Position Restricted for Pension Benefits

Net Position Restricted for Pension Benefits is segregated into members' and employers' 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 an account for market stabilization. Effective as of fiscal year end June 30, 2009, the Contra Tracking Account was added to represent the amount of interest credited to reserve accounts that had not been paid for out of current or excess earnings.

The amounts and changes in reserves and designations for the year ended June 30, 2014 consist of the following:

| | Balance July 1, 2013 | Increase (Decrease) In Fiduciary Net Position | Net Transfers | Balance June 30, 2014 |
|--|-------------------------------------|--|--------------------------|--------------------------------------|
| Reserves: | | | | |
| Members' accumulated contributions | \$ 398,889 | \$ 28,051 | \$ (14,730) | \$ 412,209 |
| Current service reserve | 977,822 | 121,682 | (17,678) | 1,081,826 |
| Annuity pension reserve | 151,490 | (23,349) | 26,783 | 154,925 |
| Current service pension reserve | 1,073,078 | (106,401) | 169,932 | 1,136,609 |
| Settlement annuity pension reserve | 512,148 | (28,285) | 64,453 | 548,316 |
| Settlement benefit reserve | 104,214 | (6,738) | 8,101 | 105,577 |
| Cost of living adjustment reserve | 865,020 | 100 | 85,108 | 950,228 |
| Supplemental cost of living reserve | 2,131 | (751) | - | 1,380 |
| Survivors' death benefit reserve | 1,536 | (1,280) | 474 | 730 |
| Retiree health benefit reserve ¹ | 6,974 | (7,751) | - | (777) |
| Retiree health benefit reserve (VS) ¹ | 39,716 | (4,208) | 3,057 | 38,565 |
| Contingency reserve | - | - | 3,260 | 3,260 |
| Designated for market stabilization | (39,916) | - | 261,183 | 221,267 |
| Undistributed earnings | - | 579,607 | (579,607) | - |
| Contra Tracking Account ¹ | (593,650) | - | (10,336) | (603,986) |
| Net Position Restricted for Pension Benefits | \$ <u>3,499,452</u> | \$ <u>550,677</u> | \$ <u>-</u> | \$ <u>4,050,129</u> |

¹ Reserve balances beginning at July 1, 2013 have been restated to account for a correcting transfer of Pension Obligation Bonds (POB) funds plus interest. Refer to Note 9 – Subsequent Events for more information.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)

Reserved and Designated Accounts of Net Position Restricted for Pension Benefits (Continued)

The amounts and changes in reserves and designations for the year ended June 30, 2013 consist of the following:

| | Balance July 1, 2012 | Increase (Decrease) In Fiduciary Net Position | Net Transfers | Balance June 30, 2013 |
|--|-------------------------------------|--|--------------------------|--------------------------------------|
| Reserves: | | | | |
| Members' accumulated contributions | \$ 385,537 | \$ 28,305 | \$ (14,953) | \$ 398,889 |
| Current service reserve | 898,779 | 118,520 | (39,477) | 977,822 |
| Annuity pension reserve | 145,405 | (22,490) | 28,575 | 151,490 |
| Current service pension reserve | 999,266 | (100,043) | 173,855 | 1,073,078 |
| Settlement annuity pension reserve | 473,182 | (26,110) | 65,076 | 512,148 |
| Settlement benefit reserve | 103,218 | (7,020) | 8,016 | 104,214 |
| Cost of living adjustment reserve | 787,712 | (785) | 78,093 | 865,020 |
| Supplemental cost of living reserve | 3,021 | (890) | - | 2,131 |
| Survivors' death benefit reserve | 2,345 | (1,123) | 314 | 1,536 |
| Retiree health benefit reserve ¹ | 14,510 | (7,536) | - | 6,974 |
| Retiree health benefit reserve (VS) ¹ | 41,254 | (4,696) | 3,158 | 39,716 |
| Contingency reserve | - | - | - | - |
| Designated for market stabilization | (185,343) | - | 145,427 | (39,916) |
| Undistributed earnings | - | 374,807 | (374,807) | - |
| Contra Tracking Account ¹ | (520,373) | - | (73,277) | (593,650) |
| Net Position Restricted for Pension Benefits | <u>\$ 3,148,513</u> | <u>\$ 350,939</u> | <u>\$ -</u> | <u>\$ 3,499,452</u> |

¹ Reserve balances beginning at July 1, 2012 have been restated to account for a correcting transfer of Pension Obligation Bonds (POB) funds plus interest. Refer to Note 9 – Subsequent Events for more information.

Members' accumulated contributions include all member contributions net of refunds and benefits paid to members. At retirement, member balances are transferred to the *annuity* and *settlement annuity pension reserves* and the *cost of living adjustment reserve*. Employers' contributions are paid into *current service reserve*, *settlement annuity reserve* and *cost of living reserve*. The employer current service and settlement annuity contributions are combined in the *current service reserve*, although tracked separately within the *current service reserve* balance. When an employee retires, the employer portion of their accumulated contributions for current service and settlement annuity are transferred from the *current service reserve* into the *current service pension reserve* and the *settlement annuity pension reserve*. *Undistributed earnings* are credited with all investment income and charged with investment and other fees. Transfers from undistributed earnings to other reserves are made twice a year.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)

Reserved and Designated Accounts of Net Position Restricted for Pension Benefits (Continued)

Historically, the Board has authorized that an annual rate equal to the actuarial rate of return be apportioned as the interest. Effective July 1, 2007, the Board adopted a new interest crediting policy which implemented the following objectives: 1) maintain consistency between the reserving structure accounts and the actuarial funding policies of FCERA, 2) assure that the reserve values track the market value of assets over the long-term and 3) to the extent possible, maintain reasonable stability in both the interest crediting and contribution rates by avoiding charging short-term losses to reserves. This policy resulted in interest apportionments of \$159,158 for the December 31, 2013 interest-crediting period and \$165,030 for the June 30, 2014 interest-crediting period. The semi-annual rates of interest for the two periods were 3.875% and 3.875%, respectively. Any additional transfers out of undistributed earnings are made in accordance with the authorization of the Board. A corrective transfer to the vested Health Benefit Reserve (VS) was made at June 30, 2014. See Note 9, Subsequent Events for more information.

The *survivors' death benefit reserve* is credited with balances transferred from *members' accumulated contributions* and the employer *current service reserve*, in those instances where the survivor of an active deceased member is entitled to continuation benefits. The *current service reserve* consists of current service and settlement annuity contributions (which are tracked separately within the *current service reserve*). Lump sum survivor benefits are paid directly from *members' accumulated contributions* and the *current service reserve*. Pension and disability benefits are paid from the *annuity pension reserve*, *current service* and *settlement annuity pension reserves* and *cost of living adjustment reserve*.

Both the *retiree health benefit* and the *supplemental cost of living reserves* are non-valuation reserves approved annually by the Board. Non-valuation reserves are under the control of the Board and are not available to fund vested benefits of the Plan. The *retiree health benefit reserve* was initiated in 1987 to establish funds for payment of supplemental benefits which would provide retirees additional monies with the expectation (but not the requirement) that the funds be used to offset the cost of health insurance premiums. Effective with the actuarial valuation completed for the year ended June 30, 2003, the retiree health benefit reserve was apportioned into two reserves, the *retiree health benefit reserve* and the *retiree health benefit reserve (VS)* to more clearly account for the liability associated with additional health benefits granted as part of the Settlement Agreement negotiated between the County of Fresno and certified employee organizations in December 2000.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 6 - CONTRIBUTIONS AND RESERVES (Continued)

Reserved and Designated Accounts of Net Position Restricted for Pension Benefits (Continued)

The *supplemental cost of living reserve* was established in 1990 to provide additional benefits for eligible members. The benefit was adopted annually under Government Code Section 31874.3 to provide purchasing power protection to those retirees whose accumulated excess cost of living credits exceeds 25%, therefore the affected members changed each year. The *supplemental cost of living reserve* balance reflects Board approved transfers from *undistributed earnings*. Analysis of the expenditures of this reserve indicated that sufficient funding was unavailable to continue the benefit past August 2005. Thus, the Board authorized transfers sufficient to provide funds to continue the benefit at levels in existence at June 30, 2006.

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

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

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

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

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 7 - ACTUARIAL VALUATIONS

Pursuant to provisions in the 1937 Act, FCERA engages an independent actuarial firm to perform an annual actuarial valuation. An experience study is performed every three years (triennial experience study).

The economic and non-economic assumptions are updated at the time each triennial experience study is performed. Triennial experience studies serve as the basis for assumptions required in developing employer and member contribution rates necessary to properly fund the Association. FCERA periodically hires an independent actuarial firm to audit the results of the valuations. New assumptions were adopted by the Board of Retirement for the June 30, 2013 actuarial valuation based on the results of the June 30, 2012 triennial non-economic Experience Study and the June 30, 2012, Economic Assumptions Study.

Funded Status as of the Most Recent Actuarial Valuation Date

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Actuarial Projected Covered Payroll | Unfunded AAL Percentage of Covered Payroll |
|---|--|--|------------------------------------|-------------------------|--|---|
| June 30, 2013 | \$3,518,982 | \$4,694,780 | \$1,175,798 | 75.0% | \$370,079 | 317.7% |

Additional Funding Progress data is provided in the Actuarial Section which presents multi-year trend data about the Actuarial Value of Assets to Actuarial Accrued Liabilities and is located on page 81.

- | | |
|--------------------------------------|---|
| 1. Actuarial Cost Method: | Entry Age Normal Cost Funding Method |
| 2. Actuarial Asset Valuation Method: | Five-year smoothed method based on the difference between expected and actual return on the market value of assets for the 10 six-month periods as of the valuation date. The smoothing method was adopted effective for the June 30, 1998 valuation. |
| 3. Inflation: | 3.25% per annum |
| 4. Investment Rate of Return: | 7.25% effective annual interest rate, net of both investment and administrative expenses. |

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 7 - ACTUARIAL VALUATIONS (Continued)

5. Projected Salary Increases:

General Members: Salary increases range from 4.75% to 10.75% based on years of service (merit ranges from 1.00% to 7.00%; plus 3.25% inflation plus 0.50% "across the board" salary increase).

Safety Members: Salary increases range from 5.25% to 10.75% based on years of service (merit ranges from 1.50% to 7.00%; plus 3.25% inflation plus 0.50% "across the board" salary increase).

6. Post-Retirement Benefit Increases:

The Cost of Living Adjustment (COLA) is applied in accordance with changes to the Consumer Price Index but limited to a maximum of 3% per year. A supplemental COLA may be provided to certain members to limit the loss of purchasing power to no more than 25%. The COLA is available to General tiers 1, 2 & 3 and Safety tiers 1 & 2.

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

7. Amortization Method and Period:

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

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014 AND 2013
(Amounts expressed in thousands)

NOTE 7 - ACTUARIAL VALUATIONS (Continued)

The latest actuarial valuation increased the County normal cost rate from 19.24% to 20.55% of payroll primarily due to assumption changes. The County's required contribution rate to finance the UAAL increased from 28.80% to 32.97% of payroll. There is an increase in the total required contribution rate from the prior valuation of 5.48%, from 48.04% to 53.52% of payroll.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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

As of June 30, 2014, outstanding capital commitments to the various partnerships, as approved by the Board, totaled \$937,940. Subsequent to June 30, 2014, FCERA funded \$919,532 of these capital commitments. As of June 30, 2013, outstanding capital commitments to the various partnerships, as approved by the Board, totaled \$923,500.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events were evaluated from the year end report date of June 30, 2014 through December 29, 2014, which is the date the financial statements were available to be issued. Management determined the following event and transaction are subject to required disclosure.

Health Benefit Reserve Correction

In September 2014 an accounting error affecting the non-vested Health Benefit was identified when a review of the reserve balances beginning in Fiscal Year 2003-2004 disclosed that \$8,682 of the pension obligation bond proceeds were misclassified. The discovery led to a reclassification of \$8,682 representing pension obligation bond funds that were originally intended for the vested Health Benefit Reserve VS (Section 9 benefits).

In addition to the reclassification of pension obligation bond funds, FCERA has adjusted the credited interest between both Health Benefit Reserves. Interest in the amount of \$2,597 from December 2004 through June 2008 was transferred from the non-vested Health Benefit to the vested Health Benefit Reserve VS. An additional \$6,649 in interest was credited to the vested Health Benefit Reserve VS for the period of December 2008 through June 2014 in accordance with the current interest crediting policy.

***REQUIRED SUPPLEMENTARY
INFORMATION***

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014 AND 2013**

Schedule of Employer Contributions – Last Ten Fiscal Years

| Year Ended June 30 | Actuarially Determined Contributions | Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Annual Active Employee Payroll | Contributions as a Percentage of Annual Active Employee Payroll |
|--------------------|--------------------------------------|---|----------------------------------|--------------------------------|---|
| 2005 | \$56,296,000 | \$56,296,000 | 0 | \$343,244,000 | 16.40% |
| 2006 | 56,664,000 | 56,664,000 | 0 | 366,623,000 | 15.46% |
| 2007 | 69,997,000 | 69,997,000 | 0 | 370,720,000 | 18.88% |
| 2008 | 97,305,000 | 97,305,000 | 0 | 394,449,000 | 24.67% |
| 2009 | 113,959,000 | 113,959,000 | 0 | 399,799,000 | 28.50% |
| 2010 | 126,138,000 | 126,138,000 | 0 | 392,713,000 | 32.12% |
| 2011 | 130,290,000 | 130,290,000 | 0 | 385,204,000 | 33.82% |
| 2012 | 157,869,000 | 157,869,000 | 0 | 346,742,000 | 45.53% |
| 2013 | 158,572,000 | 158,572,000 | 0 | 346,808,000 | 45.72% |
| 2014 | 165,309,000 | 165,309,000 | 0 | 350,326,000 | 47.19% |

Schedule of Investment Returns – Pension Plan

For the Year Ended June 30, 2014

| | |
|--|--------|
| | 2014 * |
| Annual Money-Weighted Rate of Return, Net of Investment Expense | 17.53% |

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Actuarial Methods and Assumptions

As required by GASB Statement No. 67, FCERA's actuary completed a roll forward analysis to calculate the total pension and net pension liability information for financial reporting, as of June 30, 2014. The basis for these calculations was the latest Valuation Report, prepared for funding purposes. All actuarial methods and assumptions used for this roll forward analysis were the same as those used in the June 30, 2013 Valuation Report. Please see NOTE 7 – Actuarial Valuations, for the actuarial assumptions and methods used for the June 30, 2013 valuation report.

| | |
|-----------------------|--|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry age actuarial cost method |
| Amortization method | Level percent of payroll (3.75% payroll growth assumed). |

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION (Continued)
JUNE 30, 2014 AND 2013**

Actuarial Methods and Assumptions (continued)

| | |
|-------------------------------|---|
| Remaining amortization period | 20 years (declining) for UAAL established as of June 30, 2003 plus 15 years (declining) for UAAL due to actuarial gains or losses, changes in actuarial assumptions or plan amendments established on each subsequent valuation. |
| Asset valuation method | The actuarial value of assets is determined by recognizing any difference between the actual and the expected market return over 10 six-month interest crediting periods. The actuarial value of assets is further adjusted, if necessary, to be within 30% of the market value of assets. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of four and a half years from that date. |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% net of pension plan investment expense (includes inflation at 3.25%) |
| Inflation rate | 3.25% |
| Administrative expenses | 1.10% of payroll allocated to both the employer and member based on the components of the total contribution rate (before expenses) for the employer and member. |
| Projected salary increases | Rates vary by service type: |
| - General Members: | Salary increases range from 4.75% to 10.75%, including 3.25% inflation. |

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION (Continued)
JUNE 30, 2014 AND 2013**

Actuarial Methods and Assumptions (continued)

| | |
|----------------------------|--|
| - Safety Members: | Salary increases range from 5.25% to 10.75%, including inflation. |
| Cost of living adjustments | 3.00% of retirement income for General Tiers 1, 2 and 3, and Safety Tiers 1 and 2 0.00% for General and Safety Tiers 4 and 5. |
| Other assumptions | Same as the assumptions in the June 30, 2013 funding actuarial valuation, these assumptions will be brought forward and used in the June 30, 2014 funding actuarial valuation. |
| Other information: | All members with membership dates on or after January 1, 2013 enter the Tier 5 created PEPRA. |

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**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Schedule of Changes in Net Pension Liability and Related Ratios *

| | 2014 | 2013 |
|--|------------------------|------------------------|
| Total pension liability | | |
| Service cost | \$107,568,854 | \$98,293,207 |
| Interest | 341,121,326 | 338,460,778 |
| Change of benefit terms | - | - |
| Differences between expected and actual experience | (146,396,595) | (143,645,760) |
| Changes of assumptions | - | 265,552,249 |
| Benefit payments, including refunds of employee contributions | (224,392,602) | (212,956,631) |
| Net change in total pension liability | <u>\$77,900,983</u> | <u>\$343,703,843</u> |
| Total pension liability - beginning | 4,850,281,953 | 4,506,578,110 |
| Total pension liability – ending (a) | <u>\$4,928,182,936</u> | <u>\$4,850,281,953</u> |
| Fiduciary net position | | |
| Contributions - employer | \$165,309,213 | \$158,572,420 |
| Contributions - employee | 30,153,934 | 30,515,683 |
| Net investment income | 583,169,608 | 378,483,400 |
| Benefit payments, including refunds of employee contributions | (224,392,602) | (212,956,631) |
| Administrative expense | (3,541,682) | (3,633,683) |
| Other | (21,269) | (42,121) |
| Net change in fiduciary net position | \$550,677,202 | \$350,939,068 |
| Fiduciary net position - beginning | 3,499,451,731 | 3,148,512,663 |
| Fiduciary net position – ending (b) | <u>\$4,050,128,933</u> | <u>\$3,499,451,731</u> |
| Net pension liability – ending (a) – (b) | <u>\$878,054,003</u> | <u>\$1,350,830,222</u> |
| Fiduciary net position as a percentage of the total pension liability | 82.18% | 72.15% |
| Covered employee payroll | \$350,326,000 | \$346,808,000 |
| Net pension liability as percentage of covered employee payroll | 250.64% | 389.50% |

Notes to Schedule:

Benefit changes: All members with membership dates on or after January 1, 2013 enter the new tiers created by PEPRAs.

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***OTHER SUPPLEMENTARY
INFORMATION***

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

| | 2014 | 2013 |
|---|---------------------|----------------------|
| Personnel Services | | |
| Salaries and Benefits | \$ 2,182,199 | \$ 2,262,222 |
| Total Personnel Services | <u>2,182,199</u> | <u>2,262,222</u> |
| Office Expenses | | |
| Election Expenses | - | 12,892 |
| Office Supplies | 68,120 | 62,456 |
| Postage | 27,970 | 18,580 |
| Telephone | 8,603 | 9,145 |
| Utilities | 23,107 | 24,520 |
| Total Office Expenses | <u>127,800</u> | <u>127,593</u> |
| Other Services and Charges | | |
| Equipment / Furnishings | 3,912 | 1,547 ¹ |
| Insurance | 123,759 | 116,975 |
| Maintenance | 36,391 | 35,188 |
| Professional and Specialized Services | 492,181 | 508,449 ¹ |
| Disability Expenses | 162,812 | 159,007 |
| Data Processing Services | 166,334 | 167,293 |
| Transportation, Travel, and Education - Staff | 28,412 | 31,676 |
| Transportation, Travel, and Education - Board | 50,461 | 53,860 |
| Total Other Services and Charges | <u>1,064,262</u> | <u>1,073,995</u> |
| Depreciation | 167,421 | 169,872 |
| Total Administrative Expenses | <u>\$ 3,541,682</u> | <u>\$ 3,633,682</u> |

¹ Restated as defined in Government Code Section 31580.2, excludes Information Technology expenses.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
ADMINISTRATIVE BUDGET ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| | Approved Budget | Final Budget | Fiscal Year Expenditures | Percentage Expended |
|---|----------------------------|-------------------------|-------------------------------------|--------------------------------|
| Personnel Services | | | | |
| Salaries | \$ 1,436,501 | \$ 1,436,501 | \$ 1,326,554 | 92.35% |
| Benefits | 952,349 | 952,349 | 855,645 | 89.85% |
| Total Personnel Services | <u>2,388,850</u> | <u>2,388,850</u> | <u>2,182,199</u> | 91.35% |
| Professional Services | | | | |
| Actuarial ¹ | 100,000 | 100,000 | 49,951 | 49.95% |
| Legal Counsel | 265,000 | 265,000 | 120,479 | 45.46% |
| Professional Services - Disability | 95,000 | 95,000 | 162,812 | 171.38% |
| Other Professional Services | 305,281 | 305,281 | 321,751 | 105.40% |
| Total Professional Services | <u>765,281</u> | <u>765,281</u> | <u>654,993</u> | 85.59% |
| Travel, Transportation, and Education | | | | |
| Transportation, Travel, and Education - Board | 81,744 | 81,744 | 50,461 | 61.73% |
| Transportation, Travel, and Education - Staff | 45,800 | 45,800 | 28,412 | 62.03% |
| Total Travel, Transportation, and Education | <u>127,544</u> | <u>127,544</u> | <u>78,873</u> | 61.84% |
| Other | | | | |
| Data Processing | 158,155 | 158,155 | 166,334 | 105.17% |
| Depreciation | 170,814 | 170,814 | 167,421 | 98.01% |
| Insurance | 126,680 | 126,680 | 123,759 | 97.69% |
| Maintenance | 34,269 | 34,269 | 36,391 | 106.19% |
| Office Supplies | 144,221 | 144,221 | 127,800 | 88.61% |
| Total Other | <u>634,139</u> | <u>634,139</u> | <u>621,705</u> | 98.04% |
| Capital Assets ^{2 3} | <u>10,000</u> | <u>10,000</u> | <u>3,912</u> | 39.12% |
| Total Administrative Expenditures ⁴ | <u>\$ 3,925,814</u> | <u>\$ 3,925,814</u> | <u>\$ 3,541,682</u> | 90.22% |

¹ Excludes annual valuation costs which are included as part of investment expenses.

² Capital Assets are included in the adopted Administrative Budget when purchased. However, the costs are recognized as a result of the depreciation process.

³ Computer Equipment is included in Information Technology (IT) Infrastructure page 59.

⁴ As defined in Government Code Section 31580.2, excludes Information Technology expenses.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
ADMINISTRATIVE BUDGET ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Schedule of Information Technology Expenses

| | 2014 | 2013 |
|--|----------------------------|----------------------------|
| Property and Equipment | \$ 6,629 | \$ 7,066 |
| Pension System Maintenance | <u>14,640</u> | <u>35,055</u> ¹ |
| Subtotal Excluded IT Expenses ² | <u>21,269</u> | <u>42,121</u> |
| IT Infrastructure (Development in Progress) ³ | <u>2,094,380</u> | <u>1,371,733</u> |
| Total Information Technology Expense | <u><u>\$ 2,115,649</u></u> | <u><u>\$ 1,413,854</u></u> |

¹ Revised from prior year to disclose entire excluded IT costs.

² As defined by Government Code Section 31580.2.

³ IT Infrastructure amounts are accounted for in a development in progress account and disclosed in the financial statements under capital assets, non-depreciable.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|-----------------------------|-----------------------------|
| Investment Manager Fees | \$ 15,193,079 | \$ 14,624,628 |
| Custodian Service Fees ² | 116,668 | 114,087 |
| Actuarial Valuation Fees ^{1, 2} | 65,000 | - |
| Due Diligence Travel | 1,901 | 7,853 |
| Futures Commission Expense | - | 6,119 |
| Investment Legal Fees ² | 48,810 | 37,867 |
| Investment Consultant Fees ² | 369,167 | 363,192 |
| Subtotal Investment Expenses ² | <u>15,794,625</u> | <u>15,153,746</u> |
| Securities Lending Expenses | 362,890 | 770,035 |
| Total Investment Expenses | <u><u>\$ 16,157,515</u></u> | <u><u>\$ 15,923,781</u></u> |

¹ Actuarial Valuation Fees are the fees for producing the Actuarial Valuation Report.

² Investment Legal Fees, Investment Consultant Fees, Custodian Service Fees, and Actuarial Valuation Fees can also be found on page 61 as Payments to Consultants.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Disability Attorney Fees | \$ 65,653 | \$ 71,574 |
| Retirement Board Attorney Fees | 120,479 | 200,525 |
| Disability Medical, Investigation, and Copying Fees | 97,158 | 87,433 |
| Other Professional Expenses | 253,251 | 201,383 |
| Audit Fees | 68,500 | 60,500 |
| Actuarial Consulting Fees (non-actuary study costs) | 49,951 | 80,361 |
| Actuarial Valuation Fees ¹ | 65,000 | - |
| Investment Legal Fees ¹ | 48,810 | 37,867 |
| Custodian Service Fees ¹ | 116,668 | 114,087 |
| Investment Consultant Fees ¹ | 369,167 | 363,192 |
| Data Processing Fees | 166,334 | 167,293 |
| Total Payments to Consultants | <u>\$ 1,420,971</u> | <u>\$ 1,384,215</u> |

Refer to page 73 for information on fees paid to investment managers.

¹ Investment Legal Fees, Investment Consultant Fees, Custodian Service Fees, and Actuarial Valuation Fees can also be found on page 60 as Investment Expenses.

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INVESTMENT SECTION

October 9, 2014

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

Performance Summary

The FCERA investment portfolio ("the Portfolio") had a strong year, generating a 17.1% return net of fees for the fiscal year ending June 30, 2014.

The main drivers of performance for the fiscal year were domestic and international equity markets, which rallied significantly in the third and fourth quarter of 2013 as well as the second quarter of 2014. Largely attributable to an improving economic backdrop in the United States, domestic stocks as proxied by the Russell 3000, were up 25.2% for the year ending June 30th 2014. International stocks fared similarly well, as the MSCI All Country World Index (ex-U.S.) was up 22.3% over the same period. Fixed income markets experienced strong risk-adjusted performance, with the Barclays U.S. Aggregate Bond index up 4.4% for the fiscal year. This was driven by falling interest rates, despite continued tapering of quantitative easing by the Federal Reserve. Active management proved most beneficial within the fixed income space; FCERA's fixed income composite outperformed its benchmark by 2.0% after fees.

The Portfolio outperformed the Fund's Policy Index by 0.5% (net) for the fiscal year ending June 30, 2014. Active management within equities, and fixed income contributed to outperformance versus the policy. The Portfolio's investments in real estate and private equity underperformed their respective benchmarks. In aggregate, real estate investments appreciated 10.4% (net), while the benchmark index was up 12.7%. The private equity program trailed its benchmark for the fiscal year, returning 22.1% (net) versus the policy benchmark of 28.3%. This discrepancy is partially explained by the inherent challenges in benchmarking this asset class. The allocation to U.S. equities returned 26.1% (net), outperforming the benchmark by 0.9% while the Portfolio's international equities beat their benchmark by 1.5% (net), driven largely by the developed international value strategy. The Plan's worst performing investment was the allocation to hedge funds which gained 6.0% (net) for the year and underperformed the benchmark by 1.6%.

For the last three years ending June 30, 2014, the Portfolio returned 9.3% net of fees on an annualized basis, underperforming the Policy benchmark by 0.1%. Over the five-year period ending June 30, 2014, the Portfolio returned 13.1% net of fees, outperforming the Policy benchmark by 0.8%. For the trailing ten year period, the Portfolio returned 8.0% net, outperforming the Policy by 1.1%. In computing individual manager returns Wurts & Associates employs the industry standard approach of computing a time-weighted rate of return based on the market rate of return.

Plan Activity

Over the past fiscal year FCERA conducted prudent rebalancing and began aligning the Fund's allocation with new policy targets adopted in March of 2014. The new policy target, which was the result of an asset liability study conducted in Q4 of 2013, aims to derive a greater portion of total return from income-producing investments, thereby reducing the reliance on uncertain and volatile capital appreciation. The new policy reduces the equity, commodity and real estate allocations, transferring more of the Fund's assets towards a globally diversified fixed income portfolio (both public and private), infrastructure, and hedge funds. In response to the new policy targets, multiple manager searches were initiated with plans to execute during fiscal year 2015.

In May of 2014, FCERA began de-risking the Portfolio to the targets established in the investment policy statement by reducing equity exposure and restructuring the fixed income portfolio. Using transition management, a large scale rebalance involved transferring assets from domestic and international equity managers to: emerging markets equity, emerging markets debt, inflation-linked bonds, and broad market index funds designed to serve as a placeholder for future private investments.

Below is the broad policy asset allocation versus the actual allocation as of June 30, 2014.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Actual Allocation</u> |
|----------------------|--------------------------|--------------------------|
| Cash | 0% | 1.0% |
| Fixed Income | 31% | 43.0% |
| Large Cap Equity | 14% | 16.9% |
| Small Cap Equity | 3% | 3.4% |
| International Equity | 19% | 19.7% |
| Real Estate | 5% | 4.2% |
| Commodities | 3% | 3.3% |
| Infrastructure | 3% | 0.0% |
| Private Equity | 6% | 2.9% |
| Private Credit | 8% | 2.0% |
| Hedge Funds | 8% | 3.6% |

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

Sincerely,



Jeffrey MacLean
Chief Executive Officer

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION GENERAL INFORMATION

The goal of the Association is to provide retirement compensation, death benefits, and disability benefits to its members. The Association should meet this goal through prudent investment of employee and employer contributions.

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

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

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

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

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

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SUMMARY OF INVESTMENT OBJECTIVES
AS OF JUNE 30, 2014**

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

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

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

The Investment Results on page 69 are based on time-weighted rate of return using fair value and are annualized for three and five years. All other information is reported at fair value.

**TARGET AND ACTUAL ASSET ALLOCATIONS
AS OF JUNE 30, 2014**

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

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

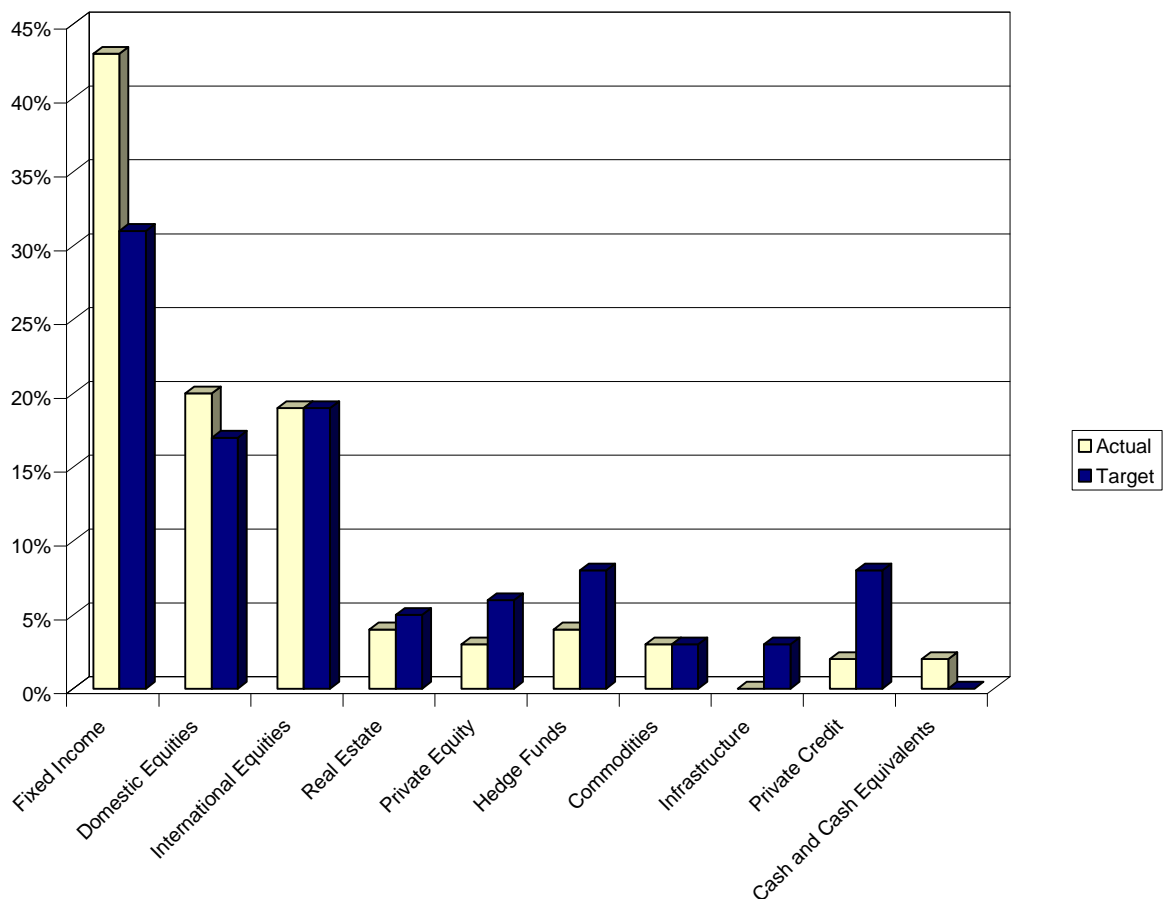
Over time, the Board implements the asset allocation plan by hiring investment managers to invest assets on behalf of the Association, subject to investment guidelines incorporated into each firm's investment management contract.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)
AS OF JUNE 30, 2014**

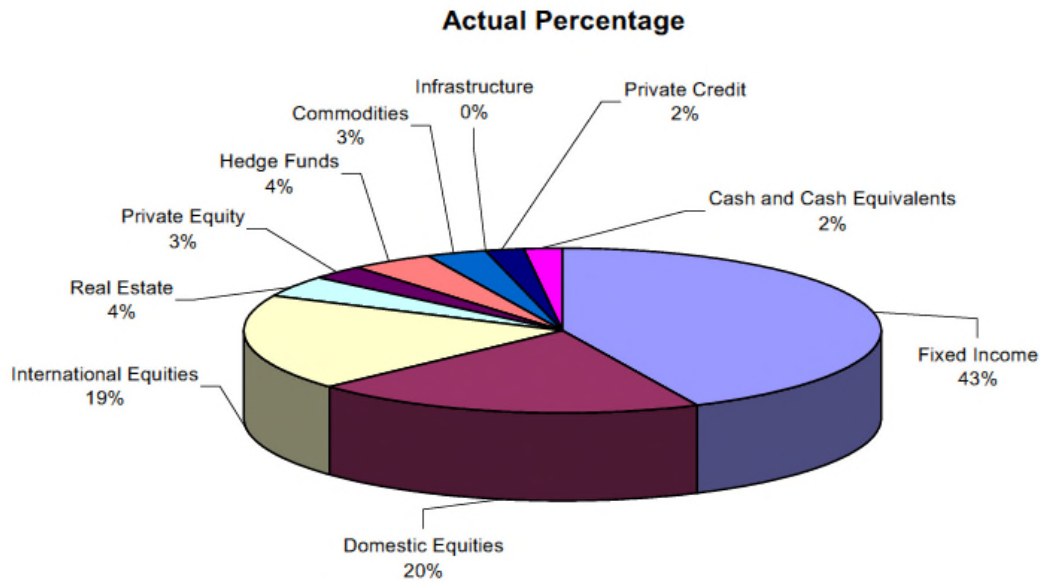
The information provided below and on subsequent pages is a representation of the Association's financial statements. Individually, they may not tie to the investment consultant's report on pages 63 to 64 of this Comprehensive Annual Financial Report (CAFR) due to the different reporting methodologies used by the investment consultant and the Association.

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

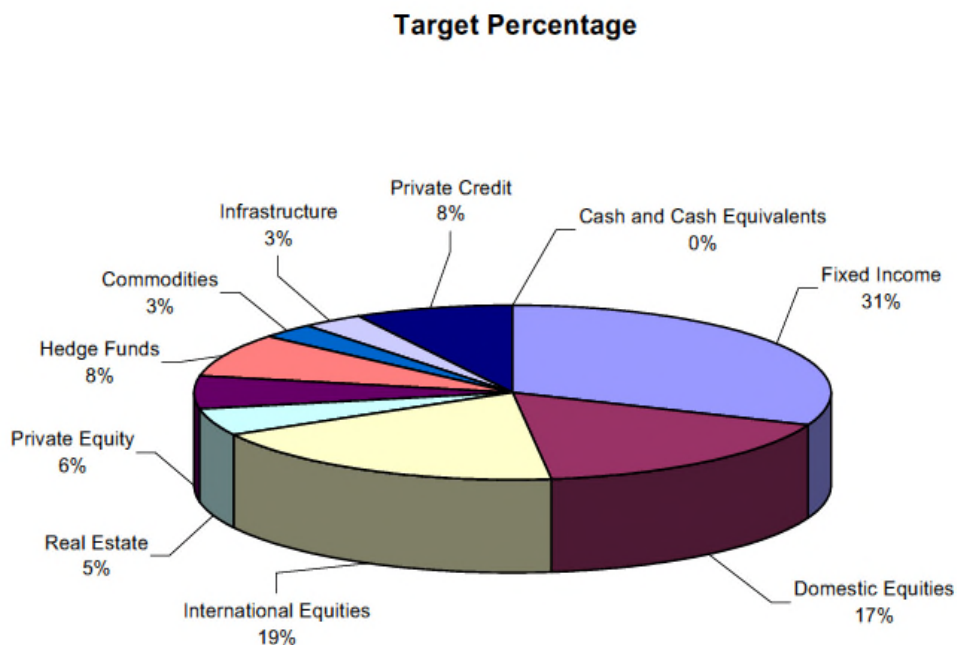
The 2013 – 2014 target and actual asset allocations are presented in the following graphs and charts.



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET AND ACTUAL ASSET ALLOCATIONS (Continued)
AS OF JUNE 30, 2014**



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



**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT RESULTS
AS OF JUNE 30, 2014**

| Investments | Current Year | 3-Year Return | 5-year Return |
|--|-------------------------|--------------------------|--------------------------|
| Fixed Income | | | |
| Domestic | 7.3% | 5.9% | 8.2% |
| Benchmark : BC Aggregate Index | 4.4% | 3.7% | 4.9% |
| Emerging Markets Debt | 4.7% | 0.0% ¹ | 0.0% ¹ |
| Benchmark : JP Morgan GBI EM Diversified | 4.3% | 0.0% | 0.0% |
| TIPS Index Fund | 4.4% | 3.5% | 5.5% |
| BC US TIPS | 4.4% | 3.6% | 5.6% |
| Equities | | | |
| Domestic Large Capital Value | 26.1% | 18.0% | 20.2% |
| Benchmark: Russell 1000 Value | 23.8% | 16.9% | 19.2% |
| Domestic Large Capital | 24.6% | 16.6% | 18.9% |
| Benchmark: S & P 500 Index | 24.6% | 16.6% | 18.8% |
| Domestic Large Capital Growth | 29.7% | 15.6% | 0.0% ¹ |
| Benchmark: Russell 1000 Growth | 26.9% | 16.3% | 0.0% |
| Domestic Small Capital Growth | 19.1% | 13.5% | 22.4% |
| Benchmark: Russell 2000 Growth | 24.7% | 14.5% | 20.5% |
| Domestic Small/Mid Capital Value | 30.2% | 15.8% | 0.0% ¹ |
| Benchmark : Russell 2500 Value | 24.9% | 16.0% | 0.0% |
| Emerging Markets Equity | 10.3% | 3.4% | 11.1% |
| Benchmark: MSCI Emerging Markets Free | 14.7% | -0.1% | 9.6% |
| International Equity | 27.6% | 10.7% | 0.0% |
| Benchmark : MSCI EAFE | 24.1% | 8.6% | 0.0% |
| International Equity Small Cap | 21.7% | 9.4% | 0.0% ¹ |
| Benchmark : S&P Developed ex US SC Index | 29.9% | 9.1% | 0.0% |
| Private Markets | | | |
| Real Estate | 11.0% | 11.1% | 9.7% |
| Benchmark : NCREIF Classic Property | 12.7% | 12.4% | 10.0% |
| Hedge Funds | 5.5% | 4.5% | 0.0% |
| Benchmark : HFRI FOF Composite Index | 7.6% | 3.3% | 0.0% |
| Private Equity | 22.4% | 11.9% | 14.8% |
| Benchmark : RUSS 3000 + 250 BP | 28.3% | 19.3% | 22.3% |
| Commodities | 8.6% | -4.8% | 0.0% ¹ |
| Benchmark : DJ UBS Commodity TR Index | 8.2% | -5.2% | 0.0% |
| Cash, Custodial and Investment Pool | | | |
| Cash | 0.0% | 0.2% | 0.6% |
| Benchmark: 90-Day Treasury Bill | 0.0% | 0.0% | 0.1% |
| Total Fund | 17.5% | 9.7% | 13.5% |

Notes: Hedge Funds, Private Equity and Commodities are net of fees. Private Equity returns are lagged one quarter.

Other investments are reported gross of fees. Investment results were prepared using a time-weighted rate of returned based on the market rate of return.

¹ There were no 3-year, 5-year or 10-year results available due to managers' mandates were funded between fiscal years 2008 to 2014.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT SUMMARY
AS OF JUNE 30, 2014**

(Amounts expressed in thousands)

| | Fair Value | Actual Percentages | Target Percentages |
|--|---------------------|--------------------|--------------------|
| Investments | | | |
| Domestic Fixed Income | \$ 866,953 | 21.34% | 19.00% |
| Foreign Fixed Income | 337,483 | 8.31% | 12.00% |
| U.S. Government and Agencies ¹ | 513,992 | 12.65% | 0.00% |
| Total Fixed Income | <u>1,718,428</u> | <u>42.30%</u> | <u>31.00%</u> |
| Domestic Equities | 793,821 | 19.54% | 17.00% |
| International Equities | 787,495 | 19.38% | 19.00% |
| Real Estate Investment Trusts | 17,610 | 0.44% | 0.00% |
| Total Equities | <u>1,598,926</u> | <u>39.36%</u> | <u>36.00%</u> |
| Private Markets and Alternatives | | | |
| Real Estate | 147,620 | 3.63% | 5.00% |
| Private Equity | 138,591 | 3.41% | 6.00% |
| Hedge Funds | 147,051 | 3.62% | 8.00% |
| Commodities | 132,704 | 3.27% | 3.00% |
| Infrastructure | - | 0.00% | 3.00% |
| Private Credit | 80,860 | 1.99% | 8.00% |
| Total Private Markets and Alternatives | <u>646,826</u> | <u>15.92%</u> | <u>33.00%</u> |
| Total Investments | <u>3,964,180</u> | <u>97.58%</u> | <u>100.00%</u> |
| Cash and Cash Equivalents | | | |
| Cash Held in County Investment Pool | 31,710 | 0.78% | 0.00% |
| Short - Term Investment with Fiscal Agent | 66,865 | 1.64% | 0.00% |
| Total Cash and Cash Equivalents | <u>98,575</u> | <u>2.42%</u> | <u>0.00%</u> |
| Total Investment, Cash and Cash Equivalents | <u>\$ 4,062,755</u> | <u>100.00%</u> | <u>100.00%</u> |

¹ Includes TIPS.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
LARGEST BOND AND STOCK HOLDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

LARGEST FIXED INCOME HOLDINGS (By Fair Value)

| Par | Name | Yield | Maturity Date | Fair Value |
|-----------------------|-------------------------|-------|---------------|-----------------------|
| \$ 2,865,713 | WA MORTGAGE BACKED | 3.55% | N/A | \$ 50,178,641 |
| 35,300,000 | UTD STATES TREAS | 0.25% | 09/30/2015 | 35,337,242 |
| 34,310,000 | UNITED STATES TREAS NTS | 0.88% | 06/15/2017 | 34,323,415 |
| 32,970,000 | UTD STATES TREAS | 0.50% | 6/30/2016 | 32,998,321 |
| 15,925,000 | UNITED STATES TREAS BDS | 3.35% | 05/15/2044 | 16,032,000 |
| 15,630,000 | UTD STATES TREAS | 1.63% | 06/30/2019 | 15,630,000 |
| 11,100,000 | GNMA POOL #MA1996 | 3.37% | 06/20/2044 | 11,898,978 |
| 1,365,000 | MEX BONDS DESARR | 0.06% | 10/06/1021 | 11,324,081 |
| 11,075,000 | UTD STATES TREAS | 2.13% | 06/20/2021 | 11,073,273 |
| 25,200 | BRAZIL(FED REP OF) | 0.01% | 1/1/2025 | 10,007,628 |
| <u>\$ 160,565,913</u> | Total | | | <u>\$ 228,803,579</u> |

LARGEST EQUITY HOLDINGS (By Fair Value)

| Shares | Name | Fair Value |
|----------------|-----------------------------|----------------------|
| 130,582 | APPLE INC COM STK | \$ 12,134,985 |
| 93,455 | EXXON MOBIL CORP COM | 9,409,049 |
| 46,864 | ADR BAIDU INC SPONSORED ADR | 8,754,664 |
| 58,351 | BAYER AG NPV (REGD) | 8,240,784 |
| 78,500 | UNION PAC CORP COM | 7,830,375 |
| 36,590 | VISA INC COM CLA STK | 7,709,879 |
| 24,000 | BIOGEN IDEC INC COM STK | 7,567,440 |
| 96,861 | NESTLE SA CHF0 10(REGD) | 7,503,779 |
| 63,014 | SCHLUMBERGER LTD COM COM | 7,432,501 |
| 34,579 | LINDE AG NPV | 7,352,498 |
| <u>662,796</u> | Total | <u>\$ 83,935,954</u> |

A complete list of portfolio holdings is available upon request.

INVESTMENT MANAGERS

Domestic Bonds

- Barclays Agg Bond Index Fund
- BlackRock Financial Management, Inc.
- Loomis Sayles
- Standish Mellon Asset Management Company, LLC (Closed 7/31/2013)
- State Street TIPS Index Fund
- Western Asset Management Company

Global Bonds

- Pimco EMD

Domestic Stocks

- Aronson, Johnson & Ortiz, LP
- Kalmar Investments
- State Street Global Advisors
- Systematic Financial Management
- Waddell & Reed Investment Management
- Wellington Management Company, LLP
- Winslow Capital Management

International Stocks

- Artisan Partners International
- Mondrian Investment Partners
- Research Affiliates

Private Markets Investment

- Angelo Gordon
- BCI Growth V, LP
- BlackRock Institutional Trust Company
- Common Sense Investment Management
- Grosvenor Capital Management
- Hamilton Lane
- Kohlberg Kravis Robert (KKR)
- Landmark Partners, Inc.
- Lone Star Management Company. IV, Ltd.
- New Mountain Capital, LLC
- Oaktree
- TCW Shop III/IV
- The Blackstone Group
- Warburg, Pincus and Company

Real Estate Investments

- Colony Capital
- Invesco Core Real Estate
- JMB Advisory Corporation
- TA Associates Realty

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FEES
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

| | 2014 | 2013 |
|---|----------------------|------------------------|
| Investment Managers' Fees | | |
| Domestic Equity Managers: | | |
| Aronson, Johnson & Ortiz, LP | \$ 533,627 | \$ 491,959 |
| Kalmar Management | 849,236 | 609,741 |
| State Street Global Advisors | 54,106 | 47,589 |
| Systematic Financial Management | 357,043 | 293,584 |
| Waddell & Reed Investment Management | 431,847 | 406,153 |
| Wellington Management Company, LLP | 569,034 | 528,104 |
| Winslow Capital Management | 454,787 | 400,669 |
| Total Domestic Equity Managers | <u>3,249,680</u> | <u>2,777,799</u> |
| International Equity Managers: | | |
| Artisan International | 1,013,196 | 302,137 |
| Mondrian Investment Partners | 2,142,373 | 2,019,118 |
| Oechsle International | - | 823,047 |
| Research Affiliates | 728,635 | 458,470 |
| Total International Equity Managers | <u>3,884,204</u> | <u>3,602,772</u> |
| Domestic Fixed Income Managers: | | |
| BlackRock Financial Management Inc. | 632,824 | 631,434 |
| Loomis Sayles | 681,129 | 764,704 |
| MetWest TALF | - | 56,351 |
| Pimco EMD | 565,678 | - |
| Standish Mellon Asset Management Company, LLC | 30,526 | 384,390 |
| State Street TIPS Index Fund | 29,239 | 13,295 |
| Western Asset Management Company | 782,446 | 586,852 |
| Total Domestic Fixed Income Managers | <u>2,721,842</u> | <u>2,437,026</u> |
| Private Market Managers: | | |
| Private Equity | 1,355,930 | 1,655,764 ¹ |
| Real Estate | 1,476,826 | 1,444,126 ¹ |
| Hedge Funds | 1,307,971 | 1,313,166 ¹ |
| Private Credit | 1,196,626 | 1,393,975 ¹ |
| Total Private Market Managers | <u>5,337,353</u> | <u>5,807,031</u> |
| Total Investment Managers' Fees | <u>\$ 15,193,079</u> | <u>\$ 14,624,628</u> |
| Other Investment Expenses | | |
| Securities Lending | \$ 362,890 | \$ 770,035 |
| Due Diligence Travel | 1,901 | 7,853 |
| Custodian Service Fees | 116,668 | 114,087 |
| Actuarial Valuation Fees | 65,000 | - |
| Futures Commission Expense | - | 6,119 |
| Consulting and Legal Fees | 417,977 | 401,059 |
| Total Other Investment Expenses | <u>\$ 964,436</u> | <u>\$ 1,299,153</u> |

¹ Restated to show comparison to new Private Credit allocation effective FY 2014.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| Brokerage Firm | Rank | Number of Shares Traded | Total Commissions | Commissions Per Share | Percentage of Commissions |
|---|-------------|------------------------------------|------------------------------|----------------------------------|--------------------------------------|
| Lynch, Jones And Ryan | 1 | 4,904,967 | \$ 146,077.39 | \$ 0.02978 | 10.59% |
| Merrill Lynch International Limited | 2 | 23,851,010 | 122,924.69 | 0.00515 | 8.91% |
| Merrill Lynch And Co., Inc. | 3 | 7,569,611 | 99,921.16 | 0.01320 | 7.24% |
| J.P. Morgan Clearing Corp. | 4 | 5,788,538 | 75,667.51 | 0.01307 | 5.48% |
| Goldman, Sachs And Co. | 5 | 2,293,523,597 | 74,399.41 | 0.00003 | 5.39% |
| Deutsche Bank Securities Inc. | 6 | 1,250,993,611 | 54,315.46 | 0.00004 | 3.94% |
| Morgan Stanley And Co., Llc | 7 | 513,914,651 | 53,855.67 | 0.00010 | 3.90% |
| Investment Technology Group Inc. | 8 | 4,488,164 | 52,357.22 | 0.01167 | 3.79% |
| Barclays Capital Inc | 9 | 1,763,996 | 38,636.79 | 0.02190 | 2.80% |
| Credit Suisse Ag, New York Branch | 10 | 982,290,189 | 32,757.58 | 0.00003 | 2.37% |
| Jefferies And Company, Inc. | 11 | 239,761,481 | 28,143.04 | 0.00012 | 2.04% |
| Merrill Lynch Piece Fenner & Smith | 12 | 719,129,660 | 23,943.93 | 0.00003 | 1.74% |
| Sg Americas Securities Corp | 13 | 133,497,705 | 22,462.80 | 0.00017 | 1.63% |
| J.P. Morgan Securities Plc | 14 | 216,168,370 | 22,203.91 | 0.00010 | 1.61% |
| Instinet Investment Services Limite | 15 | 1,581,640 | 21,880.06 | 0.01383 | 1.59% |
| Citigroup Global Markets Inc. | 16 | 61,737,362,478 | 21,831.85 | 0.00000 | 1.58% |
| Ubs Ag Stamford Branch | 17 | 4,592,566 | 21,690.94 | 0.00472 | 1.57% |
| Ubs Ag London Branch | 18 | 4,444,322 | 21,558.09 | 0.00485 | 1.56% |
| Rbc Capital Markets, Llc | 19 | 380,567,448 | 17,797.17 | 0.00005 | 1.29% |
| Bny Convergenx Execution Solutions | 20 | 499,440 | 13,199.65 | 0.02643 | 0.96% |
| Top 20 Firms by Commission Dollars | | 68,526,693,444 | \$ 965,624.32 | \$ 0.00001 | 69.98% |
| All other Brokerage Firms | | 5,174,663,751 | 414,315.57 | 0.00008 | 30.02% |
| Total Brokerage Commissions | | 73,701,357,195 | \$ 1,379,939.89 | \$ 0.00002 | 100.00% |

ACTUARIAL SECTION



100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8268 www.segalco.com

December 23, 2014

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

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

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2013 actuarial valuation of the Fresno County Employees' Retirement Association. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices and FCERA's funding policy that was last reviewed with the Board in 2014. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

Our calculations are based upon member data and financial information provided to us by the Association's staff. As part of the June 30, 2013 actuarial valuation, Segal conducted an examination of these data and found them to be reasonably consistent and comparable with data used for other purposes. However, the scope of this examination does not qualify as an audit. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period. Net deferred investment gains as of June 30, 2011 have been combined and will be recognized in equal amounts over nine six-month periods from that date. That amount plus any deferred gains and losses after June 30, 2011 are further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the market value of assets.

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

The UAAL is amortized as a level percentage of payroll over a declining 20-year period for the outstanding balance of the UAAL established as of the June 30, 2003 valuation and a separate 15-year period is used for new UAAL established on each subsequent valuation. Effective April 2011, any increase in UAAL due to benefit improvements is also amortized over 15 years. The progress being made towards meeting the funding objective through June 30, 2013 is illustrated in the Schedule of Funding Progress.

Note number 2 to the Financial Statements and the Required Supplemental Information (RSI) included in the Financial Section were prepared by the Association based on the results of the Governmental Accounting Standards Board Statement 67 (GASB 67) actuarial valuation as of June 30, 2014 prepared by Segal. For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the Schedule of Change in Net Pension Liability and Schedule of Employer Contributions as shown in the RSI. A listing of supporting schedules Segal prepared for inclusion in the Actuarial and Statistical Sections of the Association's CAFR is provided below. These schedules were prepared based on the results of the actuarial valuation as of June 30, 2013 for funding purposes.

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2012 Experience Analysis or in conjunction with the June 30, 2013 actuarial valuation. Note that the investment return assumption was developed without taking into consideration the impact of the Board's policy of utilizing excess earnings to provide contribution offsets and additional settlement and non-statutory benefits. It is our opinion that the assumptions used in the June 30, 2013 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2015 and assumptions approved in that analysis will be applied in the June 30, 2016 valuation.

For members with membership dates on or after January 1, 2013, they have been enrolled and reported in the new General and Safety Tier 5 under the California Public Employees' Pension Reform Act of 2013 (CalPEPRA).

In the June 30, 2013 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 76.1% to 75.0%. The employer's rate has increased from 47.37% of payroll to 53.52% of payroll, while the employee's rate has increased from 8.55% of payroll to 9.56% of payroll.

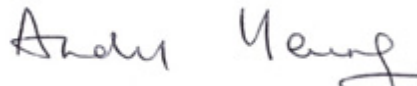
In the June 30, 2013 valuation, the actuarial value of assets included \$39.9 million in unrecognized deferred investment losses, which represented 1% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 75.0% to 74.1% and the aggregate employer contribution rate, expressed as a percentage of payroll, would increase from 53.5% to 54.5%.

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

Sincerely,



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



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

MYM/hy
Enclosures

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

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The Unfunded Actuarial Accrued Liability (UAAL) established as of the June 30, 2003 valuation is being amortized over a declining 30-year period with 20 years remaining as of June 30, 2013. Any new UAAL established on each subsequent valuation after June 30, 2003, as a result of actuarial gains or losses and changes in actuarial assumptions is amortized over a separate 15-year declining period. The increase in UAAL due to benefit improvements is amortized over 30 years. The following interest rate assumptions along with the post retirement and pre-retirement demographic experiences are based on the plan's actuarial experience through June 30, 2009. The actuarial valuation report as of June 30, 2013, was approved and adopted by the Fresno County Employees' Retirement Association Board of Retirement on January 15, 2014.

- | | | |
|----|---|--|
| 1. | Investment Rate of Return: | 7.25% per annum |
| 2. | Interest Credited to Employee Accounts: | Nominal rate of 3.00% per annum, compounded semiannually |
| 3. | Inflation: | 3.25% per annum |
| 4. | Salary Scale: | |
| | - General Members: | Salary increases range from 4.75% to 10.75% based on years of service (merit ranges from 1.00% to 7.00%; plus 3.25% inflation plus 0.50% "across the board" salary increase) |
| | - Safety Members: | Salary increases range from 5.25% to 10.75% based on years of service (merit ranges from 1.50% to 7.00%; plus 3.25% inflation plus 0.50% "across the board" salary increase) |
| 5. | Asset Valuation: | Smoothed market value |
| 6. | Spouses and Dependents: | 75% of male active members and 55% of female active members assumed married at retirement, with wives assumed three years younger than husbands |
| 7. | Rates of Termination of Employment: | 0.00% to 17.00%, depending on age, gender and service classification |

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

- | | | |
|-----|---|--|
| 8. | Years of Life Expectancy After Retirement: | |
| | - General Members: | RP – 2000 Combined Healthy Mortality with Scale AA to 2015, set back one year for males and two years for females |
| | - Safety Members: | RP – 2000 Combined Healthy Mortality with Scale AA to 2015, set back one year |
| 9. | Years of Life Expectancy After Disability: | RP - 2000 Combined Healthy Mortality set forward six years (males) and five years (females) for General members, and forward one year for Safety members |
| 10. | Life Expectancy After Retirement for Employee Contribution Rate Purposes: | |
| | - General Members: | RP - 2000 Combined Healthy Mortality with Scale AA to 2015, set back one year for males and two years for females, weighted 35% male and 65% female for members and 65% male and 35% female for beneficiaries |
| | - Safety Members: | RP - 2000 Combined Healthy Mortality with Scale AA to 2015, set back one year weighted 80% male and 20% female |
| 11. | Reciprocity Assumption: | 40% of General members and 65% of Safety members who terminate with a vested benefit are assumed to enter a reciprocal system |
| 12. | Vested Terminations: | Varies by age and years of service |
| 13. | Service and Disability Retirements: | Varies by tier of membership and by age |
| 14. | Gains & Losses: | 20 years (declining) for UAAL established as of June 30, 2003 plus 15 years (declining) for UAAL and change in actuarial assumptions established on each subsequent valuation. The increase in UAAL due to benefit improvements is amortized over 30 years |

Note: Information compiled from Actuarial Report prepared by The Segal Company as of June 30, 2013. Please refer to page 50 for the latest actuarial valuation methods.

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

| Valuation Date | Plan Type | Number | Annual Payroll (in thousands) | Average Monthly Salary | % Increase in Average Salary |
|------------------------|--------------|--------------|----------------------------------|---------------------------|---------------------------------|
| 6/30/2004 | General | 6,534 | \$ 283,136 | \$ 3,611 | 1.0% |
| | Safety | 911 | \$ 54,478 | \$ 4,983 | 1.0% |
| | Total | 7,445 | \$ 337,614 | \$ 3,779 | 1.0% |
| 6/30/2005 | General | 6,671 | \$ 295,741 | \$ 3,694 | 2.3% |
| | Safety | 963 | \$ 55,309 | \$ 4,786 | -4.0% |
| | Total | 7,634 | \$ 351,050 | \$ 3,832 | 1.5% |
| 6/30/2006 ¹ | General | 6,699 | \$ 315,031 | \$ 3,919 | 5.7% |
| | Safety | 987 | \$ 61,239 | \$ 5,170 | 7.4% |
| | Total | 7,686 | \$ 376,270 | \$ 4,080 | 4.8% |
| 6/30/2007 | General | 6,837 | \$ 339,368 | \$ 4,136 | 5.3% |
| | Safety | 965 | \$ 64,908 | \$ 5,605 | 7.8% |
| | Total | 7,802 | \$ 404,276 | \$ 4,318 | 7.5% |
| 6/30/2008 ² | General | 6,787 | \$ 355,992 | \$ 4,371 | 5.4% |
| | Safety | 953 | \$ 68,091 | \$ 5,954 | 5.9% |
| | Total | 7,740 | \$ 424,083 | \$ 4,566 | 5.7% |
| 6/30/2009 | General | 6,489 | \$ 351,233 | \$ 4,511 | 3.1% |
| | Safety | 918 | \$ 71,286 | \$ 6,471 | 8.0% |
| | Total | 7,407 | \$ 422,519 | \$ 4,754 | 4.1% |
| 6/30/2010 | General | 6,134 | \$ 342,741 | \$ 4,656 | 3.1% |
| | Safety | 812 | \$ 66,120 | \$ 6,786 | 4.6% |
| | Total | 6,946 | \$ 408,861 | \$ 4,905 | 3.2% |
| 6/30/2011 | General | 5,996 | \$ 337,646 | \$ 4,693 | 0.8% |
| | Safety | 767 | \$ 61,330 | \$ 6,663 | -1.8% |
| | Total | 6,763 | \$ 398,976 | \$ 4,916 | 0.2% |
| 6/30/2012 ³ | General | 5,900 | \$ 307,416 | \$ 4,342 | -8.1% |
| | Safety | 777 | \$ 58,180 | \$ 6,240 | -6.8% |
| | Total | 6,677 | \$ 365,596 | \$ 4,563 | -7.2% |
| 6/30/2013 ⁴ | General | 6,020 | \$ 309,356 | \$ 4,282 | -1.4% |
| | Safety | 846 | \$ 60,723 | \$ 5,981 | -4.3% |
| | Total | 6,866 | \$ 370,079 | \$ 4,492 | -1.6% |

Schedule revised from prior year to display 10 year trend data

¹ New benefit tier effective September 2005

² New benefit tier effective December 2007

³ New benefit tier effective June 2012

⁴ New benefit tier effective June 2012

Please see Note 1 Description of the Plan-Benefit Provisions page 26

Source: Public Pension Professionals Actuarial Valuation Reports dated June 30, 2004 & 2005

Source: The Segal Company Actuarial Valuation Reports dated June 30, 2006 through 2013

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND
REMOVED FROM RETIREE PAYROLL**
(Amounts expressed in thousands)

| Year | Number at Beginning of Year | Number Added to Rolls | Allowances Added | Number Removed From Rolls | Allowances Removed | Number at End of Year | Annual Allowance (in thousands) | Percent Increase in Annual Allowance | Average Annual Allowance (in thousands) | Percent Increase in Average Annual Allowance |
|---------|-----------------------------------|-----------------------------|---------------------|------------------------------------|-----------------------|-----------------------------|------------------------------------|---|---|--|
| 2004-05 | 4,234 | 285 | N/A | 118 | N/A | 4,401 | \$ 114,376 | 7.65% | \$ 26 | 3.59% |
| 2005-06 | 4,401 | 316 | N/A | 107 | N/A | 4,610 | 120,230 | 5.12% | 26 | 0.35% |
| 2006-07 | 4,610 | 315 | N/A | 146 | N/A | 4,779 | 130,568 | 8.60% | 27 | 4.75% |
| 2007-08 | 4,779 | 400 | N/A | 149 | N/A | 5,030 | 142,136 | 8.86% | 28 | 3.44% |
| 2008-09 | 5,030 | 393 | \$ 7,370 | 140 | \$ 1,051 | 5,283 | 154,794 | 8.91% | 29 | 3.68% |
| 2009-10 | 5,283 | 378 | 8,182 | 152 | 1,356 | 5,509 | 169,338 | 9.40% | 31 | 4.91% |
| 2010-11 | 5,509 | 414 | 9,022 | 154 | 1,827 | 5,769 | 180,063 | 6.33% | 31 | 1.53% |
| 2011-12 | 5,769 | 525 ¹ | 10,794 | 146 | 2,033 | 6,148 | 193,320 | 7.36% | 31 | 0.74% |
| 2012-13 | 6,148 | 397 | 8,249 | 142 | 2,132 | 6,403 | 210,654 | 8.97% | 33 | 4.64% |
| 2013-14 | 6,403 | 368 | 7,584 | 145 | 1,885 | 6,626 | 222,155 | 5.46% | 34 | 1.91% |

Schedule revised from prior year to display 10 year trend data

¹ Number Added to Rolls in Year 2011-12 has been revised to tie to the Number at End of Year and to reconcile with the Schedule of Membership reported in the Notes to the Financial Section in the 2011-2012 CAFR.

Source: Schedule provided by FCERA.

SCHEDULE OF FUNDING PROGRESS
(Amounts expressed in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Actuarial Projected Covered Payroll | Unfunded AAL Percentage of Covered Payroll |
|--------------------------------|---------------------------------------|--|------------------------|--------------------|--|--|
| 2003-04 | \$ 1,977,097 ¹ | \$ 2,017,971 | \$ 40,874 | 98.0% | \$ 337,614 | 12.1% |
| 2004-05 | 2,044,389 ² | 2,233,594 ^{2,3} | 189,205 ^{2,3} | 91.5% ² | 351,049 | 53.9% ³ |
| 2005-06 | 2,398,454 | 2,803,990 | 405,536 | 85.5% | 376,270 | 107.8% |
| 2006-07 | 2,610,269 ⁴ | 3,149,570 | 539,301 | 82.9% | 404,277 | 133.4% |
| 2007-08 | 2,812,423 | 3,429,990 | 617,567 | 82.0% | 424,083 | 145.6% |
| 2008-09 | 2,864,956 | 3,644,743 | 779,787 | 78.6% | 422,519 | 184.6% |
| 2009-10 | 2,983,044 | 4,092,464 | 1,109,420 | 72.9% | 408,861 | 271.3% |
| 2010-11 | 3,114,483 | 4,237,961 | 1,123,478 | 73.5% | 398,976 | 281.6% |
| 2011-12 | 3,305,045 | 4,345,402 | 1,040,357 | 76.1% | 365,596 | 284.6% |
| 2012-13 | 3,518,982 | 4,694,780 | 1,175,798 | 75.0% | 370,079 | 317.7% |

Schedule revised from prior year to display 10 year trend data

Source: Schedule provided by The Segal Company.

¹ Actuarial Value of Assets on the Solvency Test includes the total plan assets for all years. The Schedule of Funding Progress shown here reports only employers' assets for the year 2004, therefore, the amounts will not be consistent between the Solvency Test Schedule and the Schedule of Funding Progress.

² Results were prepared by FCERA's prior actuary and disclosed in the June 30, 2006 CAFR.

³ Before the Board amended its funding policy to eliminate the requirement that one half of the Cost of Living Adjustments UAAL be paid by members. After the amendment, the AAL was \$2,545,620, the AVA was \$2,270,141, the funded percentage was 89.2% and the UAAL was \$275,479.

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

| Changes to UAAL | | 2013 |
|------------------------|--|--------------|
| 1 | Unfunded actuarial accrued liability at beginning of year | \$ 1,040,357 |
| 2 | Total Normal Cost payable at middle of year | 101,137 |
| 3 | Actual employer and member contributions | (189,088) |
| 4 | Interest (full year on (1) plus half year on (2)+(3)) | 77,220 |
| 5 | Expected unfunded actuarial accrued liability at end of year | 1,029,626 |
| 6 | Actuarial (gain)/loss due to all changes: | |
| | <u>Experience (gain)/loss</u> | |
| | a. Loss from investment return | 26,162 |
| | b. Lower than expected salary increases | (60,554) |
| | c. Lower than expected COLA increases | (42,060) |
| | d. Fewer than expected healthy and disabled retirements | (22,418) |
| | e. Other experience gains | (13,871) |
| | f. Subtotal | (112,741) |
| | <u>Other changes</u> | |
| | g. Changes in actuarial assumptions | 258,913 |
| | h. Subtotal | 258,913 |
| 7 | Actual unfunded actuarial accrued liability at end of year (5)+(6f)+(6h). | \$ 1,175,798 |

| Changes to UAAL | | 2012 |
|------------------------|---|--------------|
| 1 | Unfunded actuarial accrued liability at beginning of year | \$ 1,123,478 |
| 2 | Total Normal Cost payable at middle of year | 107,623 |
| 3 | Actual employer and member contributions | (190,496) |
| 4 | Interest (full year on (1) plus half year on (2)+(3)) | 83,858 |
| 5 | Expected unfunded actuarial accrued liability at end of year | 1,124,463 |
| 6 | Actuarial (gain)/loss due to all changes: | |
| | <u>Experience (gain)/loss</u> | |
| | a. Loss from investment return | 54,368 |
| | b. Lower than expected salary increases | (151,076) |
| | c. Other experience (gain)/loss | 12,602 |
| | d. Subtotal | (84,106) |
| 7 | Actual unfunded actuarial accrued liability at end of year (5)+(6d). | \$ 1,040,357 |

Note: Information provided by The Segal Company.

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

(Amounts expressed in thousands)

| Actuarial Accrued Liabilities (AAL) for | | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|--|---|---------------------------------|---|--|---|
| Valuation Date | Active Member Contributions ^(a) (1) | Vested, Retirants and Beneficiaries (2) | Active Members Employer Financed (3) | Actuarial Value of Assets (AVA) | Active Member Contributions (1) | Vested, Retirants and Beneficiaries (2) | Active Members Employer Financed (3) |
| June 30, 2004 (b) \$ | 275,678 | \$ 1,254,674 | \$ 750,455 | \$ 2,265,388 | (c) 100% | 100% | 98% |
| June 30, 2005 (d) | 285,576 | 1,415,822 | 532,196 | 2,044,389 | 100% | 100% | 64% |
| June 30, 2006 | 301,758 | 1,515,599 | 986,633 | 2,398,454 | 100% | 100% | 59% |
| June 30, 2007 | 330,610 | 1,710,524 | 1,108,436 | 2,610,269 | (e) 100% | 100% | 51% |
| June 30, 2008 | 335,820 | 1,895,024 | 1,199,146 | 2,812,423 | 100% | 100% | 48% |
| June 30, 2009 | 356,159 | 2,055,024 | 1,233,560 | 2,864,956 | 100% | 100% | 37% |
| June 30, 2010 | 370,623 | 2,365,220 | 1,356,621 | 2,983,044 | 100% | 100% | 18% |
| June 30, 2011 | 379,029 | 2,486,960 | 1,371,972 | 3,114,483 | 100% | 100% | 18% |
| June 30, 2012 | 385,537 | 2,731,606 | 1,228,259 | 3,305,045 | 100% | 100% | 15% |
| June 30, 2013 | 398,888 | 2,961,186 | 1,334,706 | 3,518,982 | 100% | 100% | 12% |

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

(b) Results prepared by the Association's prior actuary and disclosed in the June 30, 2006 CAFR.

(c) Actuarial Value of Assets in the Solvency Test includes the total plan assets for all years. This differs from the Schedule of Funding Progress which reports only the employers' assets for the year 2004, therefore, the amounts will not be consistent between the Solvency Test Schedule and the Schedule of Funding Progress.

(d) Before the Board amended its policy to eliminate the requirement that one half of the Cost of Living Adjustments UAAL be paid by members. After the amendment, the AAL was \$2,545,620 and the AVA was \$2,270,141.

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

Source: Information provided by The Segal Company.

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

| Age | Total Terminations | Ordinary Death ¹ | Total Disability ² |
|---------------------------------|--------------------|-----------------------------|-------------------------------|
| General Members - Male | | | |
| 20 | 0.05500 | 0.00000 | 0.00010 |
| 30 | 0.04900 | 0.00040 | 0.00020 |
| 40 | 0.03880 | 0.00090 | 0.00040 |
| 50 | 0.03540 | 0.00150 | 0.00280 |
| 60 | 0.03100 | 0.00470 | 0.00780 |
| General Members - Female | | | |
| 20 | 0.05000 | 0.00000 | 0.00010 |
| 30 | 0.05000 | 0.00020 | 0.00020 |
| 40 | 0.04200 | 0.00050 | 0.00100 |
| 50 | 0.03350 | 0.00110 | 0.00190 |
| 60 | 0.03000 | 0.00360 | 0.00440 |
| Safety Members - Male | | | |
| 20 | 0.03750 | 0.00000 | 0.00010 |
| 30 | 0.03300 | 0.00040 | 0.00240 |
| 40 | 0.02200 | 0.00090 | 0.00620 |
| 50 | 0.01000 | 0.00150 | 0.01020 |
| 60 | 0.00400 | 0.00470 | 0.03000 |
| Safety Members - Female | | | |
| 20 | 0.03750 | 0.00000 | 0.00010 |
| 30 | 0.03300 | 0.00020 | 0.00240 |
| 40 | 0.02200 | 0.00050 | 0.00620 |
| 50 | 0.01000 | 0.00120 | 0.01020 |
| 60 | 0.00400 | 0.00410 | 0.03000 |

¹ All pre-retirement deaths are assumed to be non-service connected.

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

Note: Information compiled from Actuarial Report prepared by The Segal Company dated June 30, 2013. Assumptions for separation from active service are based on combined tiers with the exception of service retirement.

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

| Age | Service Retirement |
|---|--------------------|
| General Tier 1 - Male | |
| 50 | 0.04000 |
| 55 | 0.08000 |
| 60 | 0.25000 |
| 65 | 0.40000 |
| 70 | 1.00000 |
| General Tier 1 - Female | |
| 50 | 0.05000 |
| 55 | 0.09000 |
| 60 | 0.19000 |
| 65 | 0.40000 |
| 70 | 1.00000 |
| General Tier 2 - Male and Female | |
| 50 | 0.03000 |
| 55 | 0.08400 |
| 60 | 0.15000 |
| 65 | 0.35000 |
| 70 | 1.00000 |
| General Tier 3 - Male and Female | |
| 50 | 0.03000 |
| 55 | 0.08400 |
| 60 | 0.19200 |
| 65 | 0.43300 |
| 70 | 1.00000 |
| General Tier 4 - Male and Female | |
| 50 | 0.02000 |
| 55 | 0.04000 |
| 60 | 0.09000 |
| 65 | 0.25000 |
| 70 | 1.00000 |
| General Tier 5 - Male and Female | |
| 50 | 0.00000 |
| 55 | 0.03500 |
| 60 | 0.08500 |
| 65 | 0.24000 |
| 70 | 1.00000 |
| Safety Tiers 1 and 2 - Male and Female | |
| 50 | 0.06000 |
| 55 | 0.40000 |
| 60 | 0.50000 |
| 65 | 1.00000 |
| Safety Tiers 4 and 5 - Male and Female | |
| 50 | 0.04000 |
| 55 | 0.20000 |
| 60 | 0.50000 |
| 65 | 1.00000 |

Note: Information compiled from Actuarial Report prepared by The Segal Company dated June 30, 2013. Assumptions for separation from active service are based on combined tiers with the exception of service retirement.

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

| Years of Service | Refunds | Deferred Vested |
|-----------------------------|----------------|----------------------------|
| 0 | 90.00% | 10.00% |
| 1 | 90.00% | 10.00% |
| 2 | 90.00% | 10.00% |
| 3 | 90.00% | 10.00% |
| 4 | 90.00% | 10.00% |
| 5 | 30.00% | 70.00% |
| 6 | 30.00% | 70.00% |
| 7 | 30.00% | 70.00% |
| 8 | 30.00% | 70.00% |
| 9 | 30.00% | 70.00% |
| 10 | 30.00% | 70.00% |
| 11 | 30.00% | 70.00% |
| 12 | 30.00% | 70.00% |
| 13 | 30.00% | 70.00% |
| 14 | 30.00% | 70.00% |
| 15 | 15.00% | 85.00% |
| 16 | 15.00% | 85.00% |
| 17 | 15.00% | 85.00% |
| 18 | 15.00% | 85.00% |
| 19 | 15.00% | 85.00% |
| 20 or more | 15.00% | 85.00% |

Note: Probability of refunds by age are not available. Refunds are more closely associated with years of service. Information compiled from Actuarial Report prepared by The Segal Company dated June 30, 2013.

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

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

General Members - Male

| | |
|-----|-------|
| 50 | 32.70 |
| 60 | 23.40 |
| 70 | 15.10 |
| 80 | 8.30 |
| 90 | 3.80 |
| 100 | 1.90 |
| 110 | 1.50 |

General Members - Female

| | |
|-----|-------|
| 50 | 35.80 |
| 60 | 26.40 |
| 70 | 17.90 |
| 80 | 10.80 |
| 90 | 5.50 |
| 100 | 3.10 |
| 110 | 1.80 |

Safety Members - Male

| | |
|-----|-------|
| 50 | 32.70 |
| 60 | 23.40 |
| 70 | 15.10 |
| 80 | 8.30 |
| 90 | 3.80 |
| 100 | 1.90 |
| 110 | 1.50 |

Safety Members - Female

| | |
|-----|-------|
| 50 | 34.80 |
| 60 | 25.50 |
| 70 | 17.10 |
| 80 | 10.20 |
| 90 | 5.10 |
| 100 | 2.90 |
| 110 | 1.70 |

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

| Age | | Years of Life Expectancy | |
|------------------------|--|---------------------------------|---------------|
| General Members | | Male | Female |
| 20 | | 55.00 | 58.30 |
| 30 | | 45.20 | 48.40 |
| 40 | | 35.60 | 38.70 |
| 50 | | 26.20 | 29.10 |
| 60 | | 17.50 | 20.30 |
| 70 | | 10.20 | 12.80 |
| 80 | | 4.90 | 6.80 |
| 90 | | 2.30 | 3.50 |
| 100 | | 1.50 | 2.10 |
| 110 | | 1.30 | 1.40 |
| Safety Members | | Male | Female |
| 20 | | 59.90 | 62.30 |
| 30 | | 50.10 | 52.40 |
| 40 | | 40.40 | 42.60 |
| 50 | | 30.80 | 32.90 |
| 60 | | 21.70 | 23.70 |
| 70 | | 13.70 | 15.60 |
| 80 | | 7.20 | 9.00 |
| 90 | | 3.30 | 4.50 |
| 100 | | 1.70 | 2.70 |
| 110 | | 1.50 | 1.60 |

Note: Information provided by The Segal Company.

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

1. ELIGIBILITY

First day of pay period following date of employment in an eligible position.

2. DEFINITION OF SALARY

- Tiers 1 and 2
Highest 365 consecutive days of compensation earnable
- Tiers 3 and 4
Highest three-year average compensation earnable
- Tier 5
Highest average annual consecutive three-years of pensionable compensation

3. SERVICE RETIREMENT

Benefit Level

- Tier 1
 - General offers 2.5% at age 55, Government Code § 31676.14 and 31627.
 - Safety offers 2.5% at age 50, Government Code § 31664 and 31627.
- Tier 2
 - General offers 2% at age 55, Government Code § 31676.16.
 - Safety offers 2.29% at age 50, Government Code § 31664.2.
- Tier 3
 - General offers 2% at age 55, Government Code § 31676.15.
- Tier 4
 - General offers 1.49% at age 55, Government Code § 31676.1.
 - Safety offers 2% at age 50, Government Code § 31664.
- Tier 5
 - General offers 1% at age 52, Government Code § 7522.20.
 - Safety offers 2% at age 50, Government Code § 7522.25(d).

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION SUMMARY OF MAJOR PLAN PROVISIONS

Eligibility

- Early retirement
 - Tiers 1, 2, 3, and 4 - Age 50 with 10 years of service, or any age with 30 years of service for General, or any age with 20 years of service for Safety.
 - Tier 5 – Age 52 with 5 years of service for General or age 50 with 5 years of service for Safety
- Benefit Adjustments
 - General and Safety Tier 1
 - Reduced for retirement before age 55 and age 50, respectively.
 - Increased for retirement after age 55 and age 50, respectively.
 - Maximum benefit for retirement at or after age 60 and age 55, respectively.
 - General Tiers 2 and 3
 - Reduced for retirement before age 55
 - Increased for retirement after age 55
 - Maximum benefit for retirement at or after age 62 or age 65, respectively.
 - Safety Tier 2
 - Reduced for retirement before age 50
 - Increased for retirement after age 50
 - Maximum benefit for retirement at or after age 55
 - General and Safety Tier 4
 - Reduced for retirement before age 61 $\frac{1}{4}$, General only.
 - Increased for retirement after age 61 $\frac{1}{4}$ and age 50, respectively
 - Maximum benefit for retirement at or after age 65 or age 55, respectively.
 - General and Safety Tier 5
 - Reduced for retirement before age 62
 - Maximum benefit for retirement at or after age 67 or age 57, respectively.

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

4. DISABILITY RETIREMENT

- Non-service connected

1.5% for General and 1.8% for Safety of final average salary per year of service, with a maximum of 33.33% if projected service is used (age 65 for General, age 55 for Safety), or service retirement benefit (if eligible).

- Service-connected

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

5. DEATH BEFORE RETIREMENT

- Refund of contributions plus 1/12th of monthly salary per year of service, maximum of six months' salary.
- If eligible for non-service connected disability or service retirement, eligible beneficiary will receive 60% of member's accrued allowance.
- If service-connected, eligible beneficiary will receive 50% of final compensation or 100% of service retirement, if eligible.

6. DEATH AFTER RETIREMENT

- Service retirement or ordinary disability, eligible beneficiary will receive 60% of member's allowance payable to an eligible spouse.
- Service disability, eligible beneficiary will receive 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

Tiers 1, 2, 3, and 4 - Based on entry age.
Tier 5 – Flat rate as determined by valuation.

9. COST OF LIVING

Maximum 3% COLA for members enrolled in Tiers 1, 2, and 3. No COLA for members enrolled in Tier 4 or 5.

Note: Information for the Summary of Major Plan Provisions was compiled from the Actuarial Report prepared by The Segal Company dated June 30, 2013.

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STATISTICAL SECTION

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

STATISTICAL SECTION INFORMATION

This section contains additional comparative information in order to provide a more detailed understanding of the financial statements, note disclosures and supplementary information. The Financial trend information displayed on the following pages is intended to show how FCERA's financial position has changed over a period of time, including changes of plan net position, revenues and expenses, retiree benefit information and membership history.

TABLE OF CHANGES IN FIDUCIARY NET POSITION

Fiscal Years Ended 2005 through 2014

(Amounts expressed in thousands)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------------------|-------------------|--------------------|--------------------|-------------------|
| Additions | | | | | |
| Employer Contributions | \$ 126,138 | \$ 130,290 | \$ 157,869 | \$ 158,572 | \$ 165,309 |
| Member Contributions | 32,209 | 31,293 | 32,627 | 30,516 | 30,154 |
| Net Investment Income/(Loss) | 341,439 | 605,422 | (10,242) | 378,483 | 583,169 |
| Total Additions | 499,786 | 767,005 | 180,254 | 567,571 | 778,632 |
| Deductions ¹ | | | | | |
| Total Benefit Expense | \$ 169,526 | \$ 180,363 | \$ 193,535 | \$ 210,745 | \$ 222,289 |
| Refunds | 1,915 | 2,044 | 1,786 | 2,211 | 2,103 |
| Administrative Expense | 3,570 | 4,108 | 3,597 | 3,634 ² | 3,542 |
| Other | N/A | N/A | N/A | 42 ² | 21 |
| Total Deductions | 175,011 | 186,515 | 198,918 | 216,632 | 227,955 |
| Change in Fiduciary Net Position | \$ 324,775 | \$ 580,490 | \$ (18,664) | \$ 350,939 | \$ 550,677 |

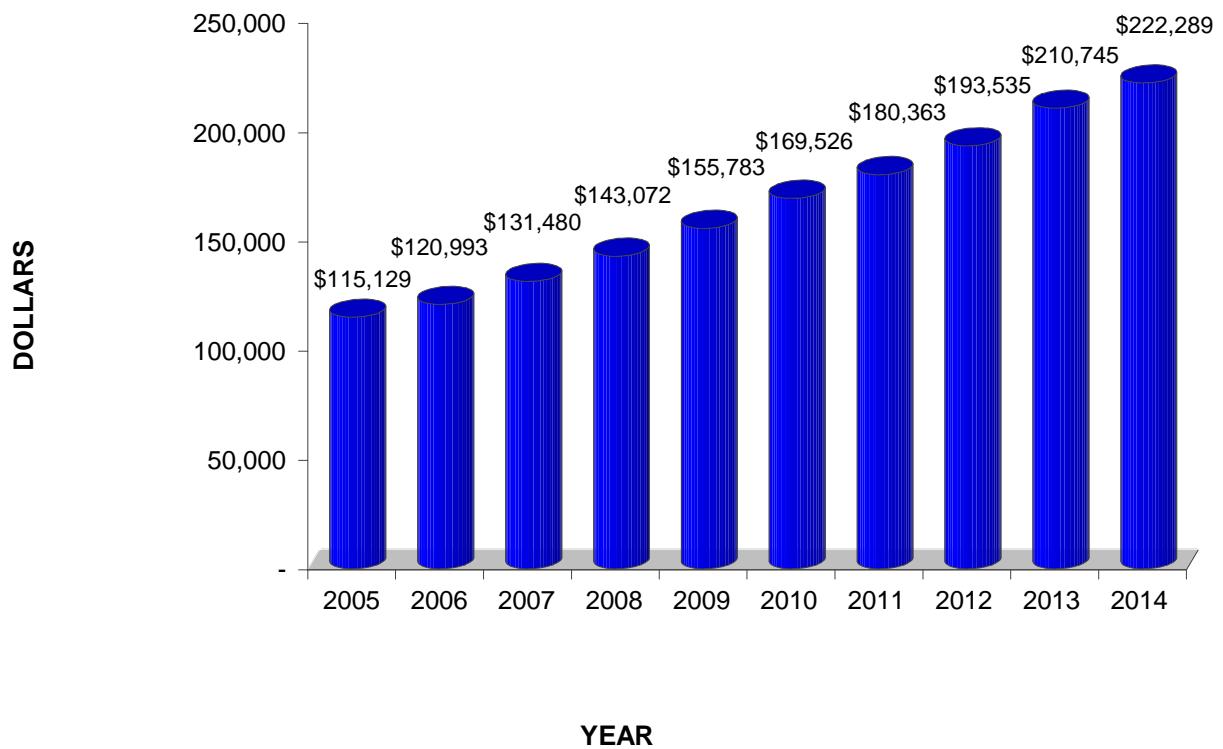
| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------------------|-------------------|-------------------|---------------------|---------------------|
| Additions | | | | | |
| Employer Contributions | \$ 56,343 | \$ 56,664 | \$ 69,997 | \$ 97,305 | \$ 113,959 |
| Member Contributions | 24,261 | 30,570 | 33,528 | 30,272 | 34,562 |
| Net Investment Income/(Loss) | 235,406 | 229,767 | 442,355 | (186,911) | (451,499) |
| Total Additions | 316,010 | 317,001 | 545,880 | (59,334) | (302,978) |
| Deductions ¹ | | | | | |
| Total Benefit Expense | \$ 115,129 | \$ 120,993 | \$ 131,480 | \$ 143,072 | \$ 155,783 |
| Refunds | 1,403 | 1,185 | 2,114 | 6,072 | 2,077 |
| Administrative Expense | 2,484 | 2,865 | 3,298 | 3,569 | 3,855 |
| Other | N/A | N/A | N/A | N/A | N/A |
| Total Deductions | 119,016 | 125,043 | 136,892 | 152,713 | 161,715 |
| Change in Fiduciary Net Position | \$ 196,994 | \$ 191,958 | \$ 408,988 | \$ (212,047) | \$ (464,693) |

¹ See page 103 for detailed information on Benefit and Refund deductions by type.

² Restated as defined in Government code Section 31580.2, excludes Information Technology expenses.

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

| YEAR-END | SERVICE | | SURVIVOR | | DISABILITIES | | TOTAL ¹ |
|----------|-----------|-----------|----------|----------|-----------------------|-----------------------|--------------------|
| | GENERAL | SAFETY | GENERAL | SAFETY | GENERAL | SAFETY | |
| 2005 | \$ 90,517 | \$ 23,233 | | \$ 1,379 | | | \$ 115,129 |
| 2006 | 96,590 | 23,148 | | 1,255 | | | 120,993 |
| 2007 | 100,807 | 20,542 | \$ 1,369 | 446 | \$ 3,952 ² | \$ 4,364 ² | 131,480 |
| 2008 | 110,819 | 21,074 | 1,312 | 459 | 4,489 | 4,919 | 143,072 |
| 2009 | 120,975 | 23,014 | 1,398 | 470 | 4,771 | 5,155 | 155,783 |
| 2010 | 131,465 | 24,758 | 1,392 | 536 | 5,015 | 6,360 | 169,526 |
| 2011 | 139,412 | 26,584 | 1,548 | 703 | 5,655 | 6,461 | 180,363 |
| 2012 | 151,022 | 28,698 | 1,899 | 741 | 4,883 | 6,292 | 193,535 |
| 2013 | 165,066 | 31,343 | 1,971 | 994 | 5,241 | 6,130 | 210,745 |
| 2014 | 173,829 | 33,021 | 2,004 | 1,200 | 5,411 | 6,824 | 222,289 |

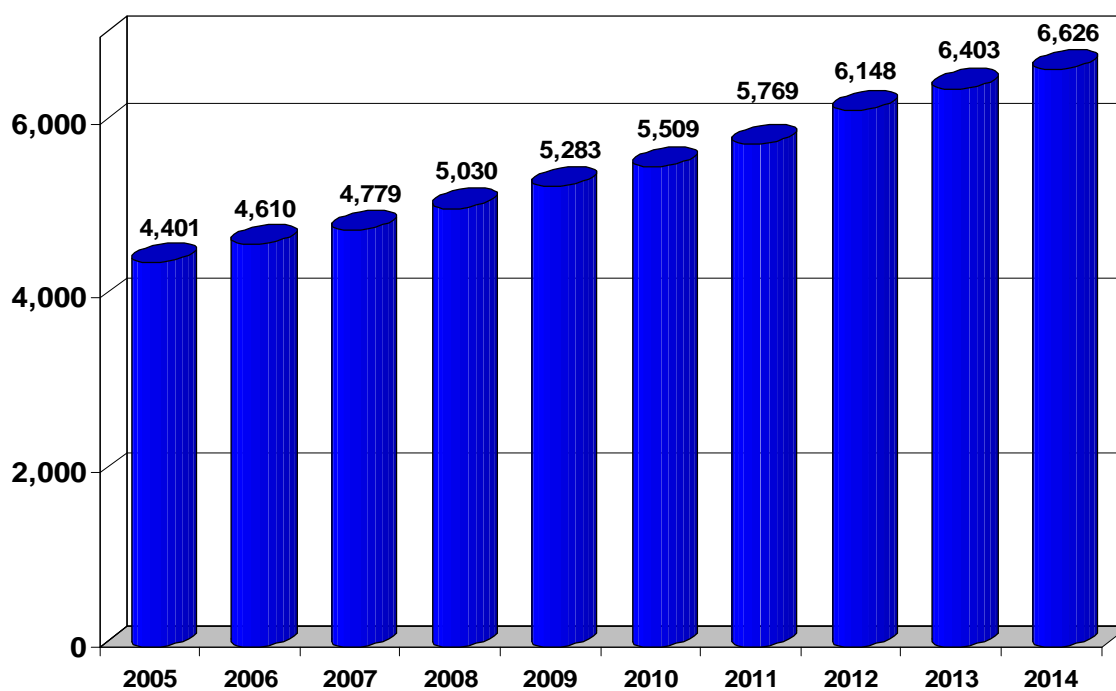


¹ Total Benefit Expenses are the actual expenses paid and will not equal Total Average Annual Benefits reported on page 96.

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

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

| YEAR-END | GENERAL | SAFETY | SURVIVOR | TOTAL |
|-----------------|----------------|---------------|-----------------|--------------|
| 2005 | 3,770 | 543 | 88 | 4,401 |
| 2006 | 3,956 | 565 | 89 | 4,610 |
| 2007 | 4,094 | 591 | 94 | 4,779 |
| 2008 | 4,303 | 631 | 96 | 5,030 |
| 2009 | 4,519 | 663 | 101 | 5,283 |
| 2010 | 4,705 | 702 | 102 | 5,509 |
| 2011 | 4,937 | 733 | 99 | 5,769 |
| 2012 | 5,276 | 772 | 100 | 6,148 |
| 2013 | 5,498 | 805 | 100 | 6,403 |
| 2014 | 5,687 | 841 | 98 | 6,626 |



Source: Schedule provided by FCERA

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

| Valuation Date | Plan Type | Annual ² Number | Total Average ¹ Annual Benefits | Annual Average Benefits | Average Monthly Benefits | % Change in Average Benefits |
|----------------|----------------|----------------------------|--|-------------------------|--------------------------|------------------------------|
| 6/30/2004 | General | 3,848 | \$ 87,041,760 | \$ 22,620 | \$ 1,885.00 | 5.0% |
| | Safety | 483 | 21,677,040 | 44,880 | 3,740.00 | 21.1% |
| | Total | <u>4,331</u> | <u>\$ 108,718,800</u> | <u>\$ 25,102</u> | <u>\$ 2,091.87</u> | 7.3% |
| 6/30/2005 | General | 3,929 | \$ 91,278,528 | \$ 23,232 | \$ 1,936.00 | 2.7% |
| | Safety | 489 | 19,182,492 | 39,228 | 3,269.00 | -12.6% |
| | Total | <u>4,418</u> | <u>\$ 110,461,020</u> | <u>\$ 25,002</u> | <u>\$ 2,083.54</u> | -0.4% |
| 6/30/2006 | General | 4,020 | \$ 97,474,788 | \$ 24,247 | \$ 2,020.62 | 4.4% |
| | Safety | 559 | 21,225,900 | 37,971 | 3,164.25 | -3.2% |
| | Total | <u>4,579</u> | <u>\$ 118,700,688</u> | <u>\$ 25,923</u> | <u>\$ 2,160.24</u> | 3.7% |
| 6/30/2007 | General Tier 1 | 4,224 | \$ 106,296,432 | \$ 25,165 | \$ 2,097.07 | 3.8% |
| | General Tier 2 | 2 | 69,984 | 34,992 | 2,916.00 | N/A |
| | Safety Tier 1 | 605 | 23,674,392 | 39,131 | 3,260.94 | 3.1% |
| | Total | <u>4,831</u> | <u>\$ 130,040,808</u> | <u>\$ 26,918</u> | <u>\$ 2,243.17</u> | 3.8% |
| 6/30/2008 | General Tier 1 | 4,405 | \$ 116,801,232 | \$ 26,516 | \$ 2,209.63 | 5.4% |
| | General Tier 2 | 2 | 72,600 | 36,300 | 3,025.00 | 3.7% |
| | Safety Tier 1 | 639 | 26,198,856 | 41,000 | 3,416.65 | 4.8% |
| | Total | <u>5,046</u> | <u>\$ 143,072,688</u> | <u>\$ 28,354</u> | <u>\$ 2,362.81</u> | 5.3% |
| 6/30/2009 | General Tier 1 | 4,481 | \$ 128,267,304 | \$ 28,625 | \$ 2,385.39 | 7.9% |
| | General Tier 2 | - | - | - | - | N/A |
| | Safety Tier 1 | 672 | 28,448,568 | 42,334 | 3,527.85 | 3.3% |
| | Total | <u>5,153</u> | <u>\$ 156,715,872</u> | <u>\$ 30,413</u> | <u>\$ 2,534.38</u> | 7.3% |
| 6/30/2010 | General Tier 1 | 4,908 | \$ 137,157,624 | \$ 27,946 | \$ 2,328.81 | -2.4% |
| | General Tier 2 | 5 | 151,680 | 30,336 | 2,528.00 | N/A |
| | General Tier 3 | 1 | 39,480 | 39,480 | 3,290.00 | N/A |
| | Safety Tier 1 | 722 | 31,247,496 | 43,279 | 3,606.59 | 2.2% |
| | Total | <u>5,636</u> | <u>\$ 168,596,280</u> | <u>\$ 29,914</u> | <u>\$ 2,492.85</u> | -1.6% |
| 6/30/2011 | General Tier 1 | 5,118 | \$ 145,020,096 | \$ 28,335 | \$ 2,361.28 | 1.4% |
| | General Tier 2 | 5 | 124,080 | 24,816 | 2,068.00 | -18.2% |
| | General Tier 3 | 2 | 42,960 | 21,480 | 1,790.00 | -45.6% |
| | Safety Tier 1 | 762 | 33,218,904 | 43,594 | 3,632.86 | 0.7% |
| | Total | <u>5,887</u> | <u>\$ 178,406,040</u> | <u>\$ 30,305</u> | <u>\$ 2,525.42</u> | 1.3% |
| 6/30/2012 | General Tier 1 | 5,425 | \$ 160,482,984 | \$ 29,582 | \$ 2,465.18 | 4.4% |
| | General Tier 2 | 5 | 127,740 | 25,548 | 2,129.00 | 2.9% |
| | General Tier 3 | 2 | 44,208 | 22,104 | 1,842.00 | 2.9% |
| | Safety Tier 1 | 803 | 36,393,984 | 45,323 | 3,776.88 | 4.0% |
| | Total | <u>6,235</u> | <u>\$ 197,048,916</u> | <u>\$ 31,604</u> | <u>\$ 2,633.64</u> | 4.3% |
| 6/30/2013 | General Tier 1 | 5,536 | \$ 167,842,464 | \$ 30,318 | \$ 2,526.53 | 2.5% |
| | General Tier 2 | 5 | 130,380 | 26,076 | 2,173.00 | 2.1% |
| | General Tier 3 | 3 | 59,988 | 19,996 | 1,666.33 | -9.5% |
| | Safety Tier 1 | 819 | 37,731,336 | 46,070 | 3,839.17 | 1.6% |
| | Total | <u>6,363</u> | <u>\$ 205,764,168</u> | <u>\$ 32,338</u> | <u>\$ 2,694.80</u> | 2.3% |

¹ Total Average Annual Benefits will not equal the Actual Total Benefit Expense reported on page 94.

² Total Annual Membership provided by the Actuary will not equal the Actual Membership reported on page 95.

Note: See page 97 for information organized by years of credited service in five year increments.

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

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

| Retirement Effective Date | Years of Credited Service | | | | | | |
|------------------------------|---------------------------|------------|--------------|--------------|--------------|--------------|--------------------|
| | <u>0-4</u> | <u>5-9</u> | <u>10-14</u> | <u>15-19</u> | <u>20-24</u> | <u>25-29</u> | <u>30 and over</u> |
| Period 7/1/2012 to 6/30/2013 | | | | | | | |
| Average monthly benefit | \$1,064 | \$1,341 | \$2,038 | \$3,268 | \$4,072 | \$4,714 | \$5,842 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 10 | 27 | 46 | 24 | 43 | 21 | 41 |
| Period 7/1/2011 to 6/30/2012 | | | | | | | |
| Average monthly benefit | \$331 | \$1,327 | \$1,972 | \$2,795 | \$3,605 | \$5,141 | \$6,031 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 7 | 47 | 89 | 60 | 90 | 50 | 65 |
| Period 7/1/2010 to 6/30/2011 | | | | | | | |
| Average monthly benefit | \$699 | \$1,489 | \$1,847 | \$2,881 | \$3,140 | \$5,237 | \$5,703 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 16 | 47 | 63 | 57 | 58 | 29 | 40 |
| Period 7/1/2009 to 6/30/2010 | | | | | | | |
| Average monthly benefit | \$706 | \$1,144 | \$1,860 | \$2,996 | \$3,793 | \$4,692 | \$5,674 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 18 | 44 | 69 | 46 | 54 | 39 | 58 |
| Period 7/1/2008 to 6/30/2009 | | | | | | | |
| Average monthly benefit | \$539 | \$1,116 | \$1,772 | \$2,643 | \$3,746 | \$4,489 | \$5,937 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 11 | 51 | 75 | 59 | 50 | 34 | 54 |
| Period 7/1/2007 to 6/30/2008 | | | | | | | |
| Average monthly benefit | \$502 | \$1,365 | \$1,865 | \$2,668 | \$3,280 | \$4,657 | \$6,170 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 15 | 27 | 52 | 62 | 42 | 41 | 54 |
| Period 7/1/2006 to 6/30/2007 | | | | | | | |
| Average monthly benefit | \$332 | \$967 | \$1,525 | \$2,235 | \$2,642 | \$4,266 | \$5,325 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 7 | 26 | 58 | 47 | 33 | 33 | 51 |
| Period 7/1/2005 to 6/30/2006 | | | | | | | |
| Average monthly benefit | \$474 | \$846 | \$1,754 | \$2,531 | \$2,518 | \$4,146 | \$4,841 |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | 10 | 34 | 59 | 65 | 31 | 28 | 40 |
| Period 7/1/2004 to 6/30/2005 | | | | | | | |
| Average monthly benefit | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Period 7/1/2003 to 6/30/2004 | | | | | | | |
| Average monthly benefit | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Average Final Average Salary | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Number of retired members | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Notes: N/A means that information is not available.
Data for average monthly benefit and number of retired members is available for years beginning July 1, 2005.
Average final average salary is not available at this time due to system constraints.

Source: Information provided by The Segal Company.

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

| Date | Plan Type | Active Vested | Active Nonvested | Total Active Members | Deferred Members |
|-------------|------------------|----------------------|-------------------------|-----------------------------|-------------------------|
| 6/30/2005 | General | 4,203 | 2,537 | 6,740 | |
| | Safety | 664 | 303 | 967 | |
| | Total | <u>4,867</u> | <u>2,840</u> | <u>7,707</u> | <u>1,464</u> |
| 6/30/2006 | General | 4,535 | 2,144 | 6,679 | |
| | Safety | 710 | 287 | 997 | |
| | Total | <u>5,245</u> | <u>2,431</u> | <u>7,676</u> | <u>1,514</u> |
| 6/30/2007 | General | 4,707 | 2,108 | 6,815 | 1,465 |
| | Safety | 723 | 284 | 1,007 | 133 |
| | Total | <u>5,430</u> | <u>2,392</u> | <u>7,822</u> | <u>1,598</u> |
| 6/30/2008 | General | 4,596 | 2,133 | 6,729 | 1,466 |
| | Safety | 725 | 232 | 957 | 139 |
| | Total | <u>5,321</u> | <u>2,365</u> | <u>7,686</u> | <u>1,605</u> |
| 6/30/2009 | General | 4,476 | 1,967 | 6,443 | 1,403 |
| | Safety | 718 | 204 | 922 | 130 |
| | Total | <u>5,194</u> | <u>2,171</u> | <u>7,365</u> | <u>1,533</u> |
| 6/30/2010 | General | 4,536 | 1,568 | 6,104 | 1,379 |
| | Safety | 733 | 79 | 812 | 136 |
| | Total | <u>5,269</u> | <u>1,647</u> | <u>6,916</u> | <u>1,515</u> |
| 6/30/2011 | General | 4,581 | 1,374 | 5,955 | 1,325 |
| | Safety | 732 | 37 | 769 | 126 |
| | Total | <u>5,313</u> | <u>1,411</u> | <u>6,724</u> | <u>1,451</u> |
| 6/30/2012 | General | 4,605 | 1,259 | 5,864 | 1,289 |
| | Safety | 709 | 71 | 780 | 126 |
| | Total | <u>5,314</u> | <u>1,330</u> | <u>6,644</u> | <u>1,415</u> |
| 6/30/2013 | General | 4,653 | 1,346 | 5,999 | 1,131 |
| | Safety | 691 | 151 | 842 | 132 |
| | Total | <u>5,344</u> | <u>1,497</u> | <u>6,841</u> | <u>1,263</u> |
| 6/30/2014 | General | 4,417 | 1,674 | 6,091 | 1,264 |
| | Safety | 641 | 192 | 833 | 137 |
| | Total | <u>5,058</u> | <u>1,866</u> | <u>6,924</u> | <u>1,401</u> |

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

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

| | 2014 | | | 2005 | | |
|--|--------------------------|-------------|--|--------------------------|-------------|--|
| <u>Participating Employers</u> | <u>Covered Employees</u> | <u>Rank</u> | <u>Percentage of Covered Employees</u> | <u>Covered Employees</u> | <u>Rank</u> | <u>Percentage of Covered Employees</u> |
| County of Fresno | 6,474 | 1 | 93.50% | 7,611 | 1 | 98.75% |
| Superior Court County of Fresno ¹ | 412 | 2 | 5.95% | - | | 0.00% |
| Fresno-Madera Area Agency on Aging | 25 | 3 | 0.36% | 36 | 3 | 0.47% |
| Clovis Veterans Memorial District | 7 | 4 | 0.10% | 4 | 5 | 0.05% |
| Fresno Mosquito and Vector Control District | 6 | 5 | 0.09% | 9 | 4 | 0.12% |
| Fresno County Office of Education | - | - | 0.00% | 1 | 6 | 0.01% |
| North Central Fire Protection District | - | - | 0.00% | 46 | 2 | 0.60% |
| Total | 6,924 | | 100.00% | 7,707 | | 100.00% |

Note: See page 100 Schedule of Participating Employers and Active Members for covered employees from 2004 through 2013.

¹ On December 11, 2011 the Superior Court separated from the County of Fresno as a separate employer group.

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

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| County of Fresno | | | | | | | | | | |
| General Members | 5,641 | 5,533 | 5,376 | 5,912 | 6,059 | 6,395 | 6,681 | 6,762 | 6,623 | 6,684 |
| Safety Members | 833 | 842 | 780 | 769 | 812 | 922 | 957 | 968 | 957 | 927 |
| Total | 6,474 | 6,375 | 6,156 | 6,681 | 6,871 | 7,317 | 7,638 | 7,730 | 7,580 | 7,611 |

Participating Agencies (General Members)

| | | | | | | | | | | |
|--|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Clovis Veterans Memorial District | 7 | 9 | 8 | 8 | 8 | 9 | 8 | 5 | 6 | 4 |
| Fresno County Office of Education | - | - | - | - | - | - | - | - | - | 1 |
| Fresno Mosquito and Vector Control District | 6 | 5 | 5 | 5 | 6 | 8 | 7 | 8 | 8 | 9 |
| Fresno-Madera Area Agency on Aging | 25 | 26 | 28 | 30 | 31 | 31 | 33 | 35 | 37 | 36 |
| North Central Fire Protection | - | - | - | - | - | - | - | 5 | 5 | 6 |
| Superior Court County of Fresno ¹ | 412 | 426 | 447 | - | - | - | - | - | - | - |
| Total | 450 | 466 | 488 | 43 | 45 | 48 | 48 | 53 | 56 | 56 |

Participating Agencies (Safety Members)

| | | | | | | | | | | |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| North Central Fire Protection | - | - | - | - | - | - | - | 39 | 40 | 40 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 39 | 40 | 40 |

Total Active Members

| | | | | | | | | | | |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| General Members | 6,091 | 5,999 | 5,864 | 5,955 | 6,104 | 6,443 | 6,729 | 6,815 | 6,679 | 6,740 |
| Safety Members | 833 | 842 | 780 | 769 | 812 | 922 | 957 | 1,007 | 997 | 967 |
| Total | 6,924 | 6,841 | 6,644 | 6,724 | 6,916 | 7,365 | 7,686 | 7,822 | 7,676 | 7,707 |

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

¹ On December 11, 2011 the Superior Court disassociated from the County of Fresno to become a separate employer group.

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

| Effective Dates | | General | | | | | Safety | | | | | Actuarial Report for Year Ended |
|-----------------|-------------------------------|---------|---------------------|---------------------|---------------------|---------------------|--------|---------------------|---------------------|---------------------|----------|------------------------------------|
| | | Tier 1 | Tier 2 ¹ | Tier 3 ² | Tier 4 ⁴ | Tier 5 ⁵ | Tier 1 | Tier 2 ¹ | Tier 4 ⁴ | Tier 5 ⁵ | | |
| | | | | | | | | | | | | |
| July 1, 2013 | to June 30, 2014 | 44.99% | 42.86% | 41.64% | 33.88% | 32.70% | 67.17% | 67.21% | 54.15% | 51.76% | 06/30/12 | |
| July 1, 2012 | to June 30, 2013 ⁶ | 43.03% | 41.15% | 39.71% | 31.87% | 30.77% | 65.06% | 63.86% | 51.42% | 48.92% | 06/30/11 | |
| July 1, 2011 | to June 30, 2012 | 41.03% | 38.78% | 37.42% | N/A | N/A | 61.25% | 60.26% | N/A | N/A | 06/30/10 | |
| July 1, 2010 | to June 30, 2011 | 31.47% | 29.48% | 28.08% | N/A | N/A | 47.40% | 46.24% | N/A | N/A | 06/30/09 | |
| July 1, 2009 | to June 30, 2010 | 27.82% | 25.64% | 24.36% | N/A | N/A | 42.19% | 41.21% | N/A | N/A | 06/30/08 | |
| July 1, 2008 | to June 30, 2009 | 26.71% | 24.86% | 22.86% | N/A | N/A | 38.56% | 35.84% | N/A | N/A | 06/30/07 | |
| July 1, 2007 | to June 30, 2008 | 23.36% | 21.15% ³ | 21.80% | N/A | N/A | 31.34% | 29.37% | N/A | N/A | 06/30/06 | |
| July 1, 2006 | to June 30, 2007 | 18.37% | N/A | N/A | N/A | N/A | 20.76% | N/A | N/A | N/A | 06/30/05 | |
| July 1, 2005 | to June 30, 2006 | 14.14% | N/A | N/A | N/A | N/A | 25.02% | N/A | N/A | N/A | 06/30/04 | |
| July 1, 2004 | to June 30, 2005 | 15.71% | N/A | N/A | N/A | N/A | 21.23% | N/A | N/A | N/A | 06/30/03 | |

¹ New benefit tier effective September 2005.

² New benefit tier effective December 2007.

³ Includes a correction to the rate reported at June 30, 2008.

⁴ New benefit tier effective June 2012.

⁵ New benefit tier effective January 1, 2013

⁶ Includes a correction to the rates reported at June 30, 2013.

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

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

| Monthly Benefit Amount | Members Receiving a Benefit | Type of Retirement ¹ | | | | | | | Option Selected ² | | | | |
|------------------------------|-----------------------------------|---------------------------------|-----|-----|-----|----|----|-----|------------------------------|-----|-----|-----|----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | U | 1 | 2 | 3 | D |
| \$1 - 500 | 465 | 272 | 4 | 128 | 25 | 6 | 4 | 26 | 324 | 21 | 103 | 7 | 10 |
| 501 - 1,000 | 771 | 613 | 28 | 6 | 54 | 27 | 1 | 42 | 540 | 35 | 161 | 19 | 16 |
| 1,001 - 1,500 | 953 | 781 | 42 | 10 | 63 | 25 | 2 | 30 | 726 | 50 | 124 | 41 | 12 |
| 1,501 - 2,000 | 779 | 667 | 27 | 15 | 43 | 11 | 3 | 13 | 605 | 38 | 109 | 21 | 6 |
| 2,001 - 3,000 | 1,300 | 1,111 | 22 | 58 | 81 | 10 | 3 | 15 | 1,044 | 87 | 126 | 35 | 8 |
| 3,001 - 4,000 | 842 | 731 | 5 | 50 | 50 | 3 | 1 | 2 | 693 | 61 | 68 | 17 | 3 |
| 4,001 - 5,000 | 527 | 498 | - | 10 | 15 | 3 | 1 | - | 439 | 22 | 49 | 15 | 2 |
| 5,001 - 6,000 | 369 | 354 | 1 | 5 | 9 | - | - | - | 315 | 17 | 35 | 2 | - |
| Over 6,000 | 620 | 604 | 1 | 5 | 8 | - | - | 2 | 546 | 20 | 47 | 5 | 2 |
| Totals | 6,626 | 5,631 | 130 | 287 | 348 | 85 | 15 | 130 | 5,232 | 351 | 822 | 162 | 59 |

Notes:

¹ Type of Retirement

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

² Option Selected:

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

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

| Type of Benefit | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Service Benefits | | | | | | | | | | |
| General | \$ 90,517 | \$ 96,590 | \$ 100,807 | \$ 110,819 | \$ 120,975 | \$ 131,465 | \$ 139,412 | \$ 151,022 | \$ 165,066 | \$ 173,829 |
| Safety | 23,233 | 23,148 | 20,542 | 21,074 | 23,014 | 24,759 | 26,584 | 28,698 | 31,343 | 33,021 |
| Service Connected Disability¹ | | | | | | | | | | |
| General | - | - | 2,178 | 2,278 | 2,447 | 2,746 | 3,321 | 2,787 | 3,208 | 3,214 |
| Safety | - | - | 4,212 | 4,763 | 4,999 | 6,211 | 6,309 | 6,138 | 6,016 | 6,718 |
| Non-Service Connected Disability¹ | | | | | | | | | | |
| General | - | - | 1,774 | 2,210 | 2,324 | 2,269 | 2,334 | 2,096 | 2,033 | 2,197 |
| Safety | - | - | 152 | 156 | 156 | 148 | 152 | 154 | 114 | 107 |
| Non-Service Connected Disability Continuance¹ | | | | | | | | | | |
| General | - | - | 923 | 1,000 | 1,070 | 1,118 | 1,188 | 1,276 | 1,383 | 1,421 |
| Safety | - | - | 129 | 133 | 135 | 139 | 138 | 139 | 155 | 162 |
| Service Connected Disability Continuance¹ | | | | | | | | | | |
| General | - | - | 136 | 141 | 142 | 126 | 183 | 408 | 496 | 583 |
| Safety | - | - | 317 | 327 | 335 | 357 | 442 | 602 | 839 | 903 |
| Active Death Benefits² | 1,379 | 1,255 | 310 | 171 | 186 | 188 | 300 | 215 | 92 | 134 |
| Total Benefits | \$ 115,129 | \$ 120,993 | \$ 131,480 | \$ 143,072 | \$ 155,783 | \$ 169,526 | \$ 180,363 | \$ 193,535 | \$ 210,745 | \$ 222,289 |
| Type of Refund³ | | | | | | | | | | |
| Death | \$ - | \$ - | \$ 205 | \$ 345 | \$ 304 | \$ 338 | \$ 339 | \$ 425 | \$ 135 | \$ 134 |
| Miscellaneous - UAAL ⁴ | - | - | - | 4,140 | 13 | 1 | - | - | - | - |
| Separation | 1,403 | 1,185 | 1,909 | 1,587 | 1,760 | 1,576 | 1,705 | 1,361 | 2,076 | 1,969 |
| Total refunds | \$ 1,403 | \$ 1,185 | \$ 2,114 | \$ 6,072 | \$ 2,077 | \$ 1,915 | \$ 2,044 | \$ 1,786 | \$ 2,211 | \$ 2,103 |

¹ Prior to fiscal year 2007, all Disability Benefits were reported with Service Benefits.

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

³ Prior to fiscal year 2007, data was not available to categorize refunds.

⁴ UAAL means Unfunded Actuarial Accrued Liability.