City of Fresno Employees Retirement System

A Pension Trust Fund of the City of Fresno (California) CARING FOR YOUR FUTURE

2012 Comprehensive Annual Financial Report

for fiscal years ended June 30, 2012 and 2011

City of Fresno Retirement Systems
Caring For Your Future

City of Fresno Employees Retirement System

Comprehensive Annual Financial Report

For the Years ended June 30, 2012 and 2011

Stanley L. McDivitt

Retirement Administrator

Kathleen Riley Brown

Assistant Retirement Administrator

Yvonne Arellano

Benefits Manager

A Pension Trust Fund of the City of Fresno (California)

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www.CFRS-CA.org

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Photographs throughout this document provided by Lorinda Salvador, Retirement Counselor.
Staff photograph taken by Yolanda Smith, Accountant-Auditor II, City of Fresno Payroll Division.

Mission Statement

To provide System members and the employer with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Board and Staff Commitment

To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.

Goals

- *To create an environment in which Board Members can maximize their performance as trustees.*
- *To improve the level of benefits and delivery of services provided to members and employees.*
- *To improve communications with members and the employer.*
- *To attract, develop and retain competent and professional staff.*
- *To achieve and maintain top quartile investment performance as measured by the Public Fund Universe.*

SECTION 1 - INTRODUCTION

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM
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Retirement Administrator
Stanley L. McDivitt

Letter of Transmittal

Dear Board Members:

As Retirement Administrator of the City of Fresno Employees Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2012 and 2011.

It is unfortunately appropriate to acknowledge an important milestone as we enter the second half of 2012. July 2007 – five years ago – is widely recognized as the start of the financial crisis that triggered the global recession and the period called the Great Recession. This crisis did not end when global equity markets bottomed in March 2009 or when the global business cycle turned upward several months later. Europe's sovereign debt crisis and renewed recession, in addition to the sluggish US recovery, is another chapter within a larger narrative associated with the financial crisis. This narrative is that the global economy entered a period of deleveraging in July 2007, and this deleveraging is occurring at different paces in different regions. The US housing market was the focus in 2007 and 2008; today, it is peripheral Europe.

Thus far, the remedies for this age of deleveraging have produced uninspiring results. Monetary policy has reached its limits and is becoming less effective with each new stimulus move. Interest rates have been slashed to 0% in the developed world. There have been repeated doses of nonconventional stimulus such as quantitative easing and targeted liquidity injections into the financial systems. While these measures may have averted a complete meltdown of the global financial system and muted the deflationary pressures associated with deleveraging, they have done little to set in motion a self-sustained business cycle expansion.

Fiscal policy has also done little to contribute to a self-sustained expansion. While stimulus back in 2008 and 2009 placed a floor under the economy, deficit spending, combined with the drop in revenues, led to large government deficits and rising debt. It is for these reasons, that today we continue to face these global financial issues.

Global equity markets declined significantly in the second quarter of 2012 as slowing global growth and renewed concerns about the survival of the euro reversed the majority of the gains of the first quarter. The sluggish, uneven outlook for the global economy, when coupled with the numerous political and policy risks, suggests high-quality investments are likely to remain the leaders in global equity markets.

Despite these overwhelming challenges of the global economy, the City of Fresno Employees Retirement System (the System) is fully funded on both a market value and actuarial basis. From a long-term perspective the System is positioned to provide a solid rate of return that is equal to or better than the respective asset classes market indices even as we enter yet another year that is filled with uncertainty in the global economic and financial markets. The Retirement Board (the Board) carefully managed the investment portfolio through last year's continued turbulence in the global financial markets and we remain confident that new investment opportunities will arise and the Board, with the required amount of due diligence and vigilance, will position the System's investments for future long-term growth.

In fiscal year 2012, the System's returns were somewhat favorable when compared to other institutional investors. The System's one-year return was (0.11) percent; 0.61 percent below its policy benchmark return of 0.50 percent; and underperforming its actuarial interest rate assumption of 8.00 percent by (8.11) percent. The five-year annualized return of 1.38 percent was positive but below its policy benchmark return of 1.95 percent by 0.57 percent. The System's fifteen-year annualized return at 6.57 percent exceeded its policy benchmarks for that period by 0.28 percent but underperformed the actuarial interest rate assumption by 1.43 percent for the same period.

The Employees System remains highly funded and well positioned to serve our members and retirees. The System's 15 year, 20 year, and 25 year long-term returns of 6.57 percent, 8.42 percent, and 8.54 percent, respectively, as of June 30, 2012, illustrate the System's ability to achieve our long-term objectives over extended periods of time. Meanwhile, the System's actuarial and market value funding status continues to be the highest of any public pension defined benefit plan in California.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The Comprehensive Annual Financial Report (CAFR) of the City of Fresno Employees Retirement System for the years ended June 30, 2012 and 2011 is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. For a general overview of the City of Fresno Employees Retirement System's finances, please refer to the Management's Discussion and Analysis letter in the Financial Section of this report. The CAFR consists of six sections:

The Introductory Section contains our Mission Statement, a Letter of Transmittal, a description of the System's management and organizational structure, a listing of the professional service providers, and the Government Financial Officers Association's Certificate of Achievement for Excellence in Financial Reporting.

The Financial Section contains the opinion of the independent auditor, Brown Armstrong Accountancy Corporation, Management's Discussion and Analysis Letter and the basic financial statements of the System.

The Investment Section includes the Retirement Administrator's Investment Report, a letter from the System's Investment Consultant, Wilshire Associates Inc., recapping the fiscal year investment results and activities, along with performance and asset allocation information.

The Actuarial Section includes the certification letter produced by the independent actuary, The Segal Company, along with supporting schedules and information.

The Statistical Section contains significant detailed data pertaining to the System.

The Compliance Section contains the Independent Auditor's Report on Internal Control over Financial Reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

I trust that you and the members of the System will find this CAFR helpful in understanding the System, and our commitment to financial integrity and member services.

THE EMPLOYEES RETIREMENT SYSTEM AND ITS SERVICES

The Employees Retirement System was established on June 1, 1939, under Charter Section 910 and is governed by Article 5 of Chapter 3 of the City of Fresno Municipal Code. The System provides retirement allowances and other benefits to the non-safety members employed by the City of Fresno. The System also provides lifetime retirement, disability, and death benefits to its members. The Retirement Board is responsible for the prudent investment of member and employer contributions, and defraying reasonable expenses of administration.

The Employees Retirement Board is responsible for establishing policies governing the administration of the System, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 5 of Chapter 3 of the Fresno Municipal Code and the

California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that "the members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has ... "the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

The Retirement Board has five (5) members, two (2) management employees who are appointed by the Mayor and confirmed by the City Council, one (1) employee who is elected by the manual workers of the System, and one (1) employee who is elected by the clerical or supervisory workers of the System, both of which serve a four-year term. The fifth and final member of the Board is a qualified elector of the City, not connected with its government, elected by the previously designated four members.

The Board oversees the Retirement Administrator and staff in the performance of their duties in accordance with the Municipal Code and the Board's Rules, Regulations and Policies.

MAJOR INITIATIVES

In 2010, the Board retained the services of the law firm of Ice Miller to assist them in reviewing the Employees Retirement System from a tax compliance perspective. Ice Miller assisted the Board in its decision to apply for a determination letter and to submit the plans into the IRS's voluntary compliance program for any corrections of minor issues. Amendments to enhance compliance with Internal Revenue Code provisions were incorporated into two ordinances which were submitted and approved by City Council. The Board filed with the Internal Revenue Service for a tax determination letter and the plan was submitted into the IRS's voluntary compliance program (VCP).

On October 11, 2011, the Board received notification from the IRS that it has made a favorable determination on the plan based upon the information that we supplied. The letter of determination relates only to the status of the plan under the Internal Revenue Code. It expires on January 31, 2014. Therefore, the System will submit a request for a favorable determination prior to the expiration of the current letter of determination.

The Board, jointly with the Fire and Police Retirement Board, retained IT Consultant, L.R. Wechsler, Ltd., to provide consulting services to differentiate and identify, through knowledgeable business analysis and comparison of vendor proposals, appropriate, cost-effective quality proposals for the Retirement Systems' new pension administration system. The Request for Proposal (RFP) bid document was issued by the Boards in September 2011. The objective of the RFP was to solicit proposals from public retirement system implementation vendors for a new, integrated pension administration solution to replace the Retirement Systems' existing Pension Gold system. Specifically, vendors were to propose a solution consisting of the implementation of a fully integrated retirement system and customizations to that system to meet the mandatory requirements.

In response to the Boards' RFP for a fully integrated Pension Administration Solution, the Boards established an Information Technology Committee that was tasked with evaluating retirement solution proposals by the bidders, PensionGold Retirement Solutions (LRS) and CPAS, to determine and recommend the optimal vendor solution for the City of Fresno Retirement Systems (CFRS).

Following the IT Committee's review and due diligence, staff recommended and the Board's approved PensionGold Retirement Solutions' Version 3, Hosted, as the preferred pension solution for CFRS. This selection was based on LRS' ability to meet CFRS' Pension Solution Requirements, past performance as well as LRS' proposed Pension Solution upgrade costs. The IT Committee and staff recommendation was also supported by L.R. Wechsler, Ltd., the Boards' independent IT Consultant.

PensionGold Version 3 is a web based, fully integrated software system, which includes Workflow, Imaging, Audit, General Ledger export and Member Self-Service functionality. As a Hosted Solution, LRS will maintain the system hardware and software at its Data Center located at its corporate headquarters in Springfield, IL. Disaster recovery is at a second, smaller LRS Data Center located in its Bloomington, IL office 70 miles away. LRS currently provides general website and application hosting services to over 140 clients.

During fiscal year 2012, the Board, jointly with the Fire & Police Retirement System Board, adopted a new Asset Allocation Plan. This new Asset Allocation increases allocations to high yield and real estate, and introduces an allocation to private value-added real estate and an allocation to inflation protection assets which may be composed of US TIPS and Commodities. Through a phased implementation approach, the Boards will fund increased allocations to high yield and real estate by reducing core fixed income and real estate securities (REITS). The implementation timeline incorporates a plan to develop policy and strategy throughout 2012 in preparation for implementation of Inflation

Protection Assets in early 2013. In the meantime, proposed allocations to inflation protection assets will remain allocated to core fixed income and equities.

The Boards conducted an evaluation of Global REITs with educational presentations from both of the Systems' current REIT managers to review updated information and gain more knowledge about global REIT opportunities.

Following a thorough review and analysis of high yield manager candidates, the Boards conducted interviews and held on-site investment due diligence meetings with finalists in their high yield manager search. Effective July 2, 2012, the Boards implemented a new High Yield Active Core portfolio managed by MacKay Shields. With selection of MacKay Shields and funding of the new high yield portfolio in fiscal year 2013, the Boards have completed implementation of the increased allocation to High Yield fixed income in accordance with their new Asset Allocation. In addition, the Boards reviewed and adopted modifications to their Investment Objectives and Policy Statement specifically for small capitalization and high yield portfolios.

The Board, with the assistance of their actuary and staff, completed the annual actuarial valuations for June 30, 2011 which incorporated changes in certain Economic Actuarial Assumptions reviewed and adopted for the prior fiscal year period.

PROFESSIONAL SERVICES

Professional Services Consultants and Investment Portfolio Managers are retained by the Board to provide professional services essential to the effective and efficient operation of the System.

An opinion from the certified public accountant and the actuary are included in this report along with a summary investment report from the Board's Investment Consultant. The Consultants and Investment Managers retained by the Board are listed in the following section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive annual financial reports.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City of Fresno Employees Retirement System has received a Certificate of Achievement for the last fourteen years. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACTUARIAL FUNDING STATUS

The System's funding objective is to meet long-term benefit promises by retaining a well-funded plan status and obtaining superior investment returns while minimizing employer contributions. The Board's objective for employer contributions is to establish a rate as a level percent of member payroll. The greater the level of overall plan funding, the larger the ratio of assets accumulated compared to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers.

The June 30, 2011, actuarial valuation is presented in this CAFR. As of June 30, 2011, the funded ratio of the Employees Retirement System was 116.8 percent. The funded ratio was determined by using the actuarial value of the assets in accordance with Governmental Accounting Standards Board Statement No. 25. The actuarial accrued liability of the System at June 30, 2011 amounted to $788,110,000. The actuarial value of assets at June 30, 2011 amounted to $979,108,334 and the valuation value of assets amounted to $920,217,334. The market value of the assets at June 30, 2011 amounted to $964,376,504.

The Board engages an independent actuarial consulting firm to conduct annual actuarial valuations of the System. The valuation purpose is to reassess the magnitude of the benefit commitments. This is compared to the assets expected to be available to support those commitments so employer and member contributions can be adjusted accordingly. Recommendations are presented to the Board for consideration. The Segal Company is the System's independent actuarial consultant.

The Actuarial Section of this report contains a more detailed discussion of funding.

ACCOUNTING SYSTEM & REPORTS

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that System assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with the management of the System.

The accounting firm of Brown Armstrong Accountancy Corporation provides financial audit services. The financial audit ensures that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The System recognizes that even sound internal controls have their inherent limitations. Internal controls are reviewed to ensure that the System's operating policies and procedures are being adhered to and that controls are adequate to ensure accurate and reliable financial reporting and to safeguard the System's assets.

This report has been prepared in accordance with Generally Accepted Accounting Principles for State and Local Governments (GAAP) as established by the Governmental Accounting Standards Board (GASB).

The System's transactions are reported on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when the payment is made.

INVESTMENTS

Article XVI, Section 17(c) of the Constitution of the State of California, provides that "the members of the Retirement Board of a public pension or retirement system shall discharge their 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 aim." By permitting further diversification of investments within a fund, the prudent expert rule may enable a fund to reduce overall risk and increase returns. A summary of the asset allocation can be found in the Investment Section of this report.

The prudent expert rule permits the Board to establish an investment policy based upon professional advice and counsel, and allows for delegation of investment authority to professional investment advisors. The Investment Objectives and Policy Statement of the Board outline the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the policy in accordance with the Board policy and guidelines.

For the fiscal years ended June 30, 2012 and June 30, 2011, the System's investments provided a (0.11) percent and 24.26 percent rate of return, respectively.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the System.

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley Brown, Yvonne Arellano, Alberto Magallanes, Karen Rolle, Pattie Laygo, Andrea Ketch, Patricia Basquez, Phillip Carbajal, Lori Salvador; and the Board's consultants, for their assistance in the preparation of this report and for their ongoing commitment to serve the Board and the members of the System. I also would like to thank the Board members for their support in accomplishing the many tasks and goals over the past year.

Respectfully Submitted,

Stanley L. McDivitt
Retirement Administrator

November 27, 2012

Retirement Board Members

As of June 30, 2012

Randy Nason

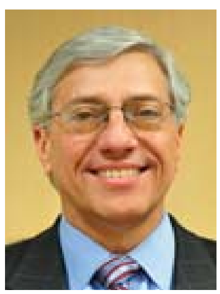
Elected by
Manual Worker Members

Marvell French

Appointed by
Retirement Board

Jeff Beatty

Elected by
Clerical & Supervisory Worker Members



Mark Scott

Appointed by Mayor

Terry Bond

Appointed by Mayor

Retirement Administrative Staff

BACK ROW (left to right)

Karen Espiritu, Accountant-Auditor, Alberto Magallanes, Senior Accountant-Auditor, Pattie Laygo, Executive Assistant, Phillip Carbajal, Retirement Counselor, Andrea Ketch, Accountant-Auditor, Patti Basquez, Retirement Counselor, Lorinda Salvador, Retirement Counselor, Donna Gaab, Retirement Counselor

FRONT ROW (left to right)

Kathleen Riley Brown, Assistant Retirement Administrator, Stanley McDivitt, Retirement Admnistrator, Yvonne Arellano, Retirement Benefits Manager

Administration of the System

Administration

The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See pages xii and xiii for outside consultants and investment managers and page 46 for a schedule of brokerage commissions.)

Member Services

This section is responsible for providing all benefit services to the members of the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, membership counseling, and membership training.

Investment Compliance And Financial Reporting

This section is responsible for monitoring compliance with the Board's Investment Objectives and Policy Statement and for all of the financial records and reports including financial statements, control and balancing of payroll and the System's employer and members contributions, and reconciliation of investments.

Executive Assistant

This position is responsible for providing administrative and clerical support services for the Board and the retirement staff.

Administrative Organizational Structure

RETIREMENT BOARD

Retirement Administrator
Stanley L. McDivitt

AUDITORS

CUSTODIAL BANK

PORTFOLIO MANAGERS

LEGAL COUNSEL

ACTUARY

INVESTMENT CONSULTANT

MEDICAL ADVISOR

Executive Assistant
Pattie Laygo

Member Services
Yvonne Arellano

Investment Compliance
And Financial Reporting
Kathleen Riley Brown

Professional Services Consultants

Custodial Bank
NORTHERN TRUST
Chicago, Illinois

General Legal Advisor
SALTZMAN AND JOHNSON LAW CORPORATION
San Francisco, California

Investment Legal Advisor
FOLEY & LARDNER LLP
Boston, Massachusetts

Tax Counsel
ICE MILLER LLP
Indianapolis, Indiana

Investment Consultant
WILSHIRE ASSOCIATES INC.
Santa Monica, California

Information Technology
L.R. WECHSLER LTD.
Fairfax, Virginia

Actuary
THE SEGAL COMPANY
San Francisco, California

Medical Advisor
BENCHMARK MEDICAL CONSULTANTS
Sacramento, California

Independent Auditor
BROWN ARMSTRONG ACCOUNTANCY CORPORATION
Bakersfield, California

Investment Portfolio Managers

Domestic Equity

Large Cap
BlackRock , San Francisco, CA
JP Morgan Asset Mgmt, New York, NY

Small Cap
Eagle Asset Management, Inc., St. Petersburg, FL
Kennedy Capital Mgt. Inc., St. Louis, MO
TCW Asset Management Company, Los Angeles, CA

International & Emerging Markets

International
BlackRock, San Francisco, CA
Baillie Gifford & Co., Edinburgh, Scotland
Principal Global Investors, DesMoines, IA
Pyramis Global Advisors Trust Co., Boston, MA

Emerging Market
Batterymarch Financial Management, Inc., Boston, MA
Wellington Management Company, LLP, Boston, MA

Fixed Income
Dodge & Cox, San Francisco, CA
Prudential Investment Mgt, Inc., Newark, NJ

High Yield
Loomis Sayles, Boston, MA

Real Estate

Private Real Estate Investments
JP Morgan Asset Mgt, New York, NY

Real Estate Investment Trust (REIT)
Principal Real Estate Investors, Des Moines, IA
Heitman, LLC., Chicago, IL.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno

Employees Retirement System

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

Also awarded 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011

SECTION 2 - FINANCIAL

Independent Auditor's Report

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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4200 TRUXTUN AVENUE
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PASADENA, CALIFORNIA 91101
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FAX 626.240.0922

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STOCKTON, CA 95207
TEL 209.451.4833

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement
City of Fresno Employees Retirement System
Fresno, California

We have audited the accompanying Statements of Plan Net Assets Available for Benefits of the City of Fresno Employees Retirement System as of June 30, 2012 and 2011, and the related Statements of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Employees Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets Available for Benefits of the City of Fresno Employees Retirement System, as of June 30, 2012 and 2011, and its Changes in Plan Net Assets Available for Benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the financial statements in 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 financial statements, and other knowledge we obtained during our audits of the 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules 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 of the City of Fresno Employees Retirement System. The Supplemental Schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the Introductory, Investment, Actuarial, and Statistical Sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the City of Fresno Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 27, 2012

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Employees Retirement System (the System) for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page iii of this report.

FINANCIAL HIGHLIGHTS

The net assets of the System are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet the System's ongoing obligations.

At the close of the fiscal year 2012, the assets of the System exceed its liabilities by $930,402,725; as of fiscal year 2011, the assets of the System exceeded its liabilities by $964,376,504 and as of fiscal year 2010, the assets of the System exceeded its liabilities by $806,570,870.

The System's total net assets held in trust for pension benefits decreased by $33,973,779 or 3.52 percent for fiscal year 2012; increased by $157,805,634 or 19.57 percent for fiscal year 2011; and increased by $70,992,066 or 9.65 percent for fiscal year 2010 primarily as a result of the performance of the investment markets.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2011, the date of the last actuarial valuation, the funded ratio for the System was 116.8 percent. In general, this indicates that for every dollar of benefits due we have approximately $1.17 of assets available for payment as of that date.

As of the June 30, 2010, the date of the previous annual actuarial valuation, the funded ratio for the System was 122.5 percent; and as of June 30, 2009, the funded ratio for the System was 133.9 percent.

ADDITIONS TO PLAN NET ASSETS

Additions for the fiscal year 2012 decreased $191,154,753 or 94.44 percent over the prior year from $202,415,194 to $11,260,441 which includes member contributions of $5,507,139, employer contributions of $11,373,870, a net investment income loss of $6,132,173 and net securities lending income of $511,605.

Prior fiscal year 2011 additions increased $88,896,329 or 78.31 percent over the previous fiscal year 2010 from $113,518,865 to $202,415,194 which includes member contributions of $5,275,219, employer contributions of $8,214,569, a net investment income gain of $188,448,518 and net securities lending income of $476,888.

For fiscal year 2010 additions increased $306,022,945 or 158.97 percent from ($192,504,080) to $113,518,865 which included member contributions of $5,740,404, employer contributions of $3,267,115, a net investment income loss of $104,126,239 and securities lending income of $385,107.

DEDUCTIONS IN PLAN NET ASSETS

Deductions for the fiscal year increased $624,660 or 1.40 percent over the prior fiscal year from $44,609,560 to $45,234,220.

Prior fiscal year 2011 deductions increased $2,082,761 or 4.90 percent over the fiscal year 2010 from $42,526,799 to $44,609,560.

Fiscal year 2010 deductions increased $1,579,099 or 3.86 percent over the fiscal year 2009 from $40,947,700 to $42,526,799.

The current year increase in deductions is due primarily to the increases in retirees and the respective retirement benefits paid in 2012 even though there was a decrease in the Post Retirement Supplemental Benefits paid over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the System's financial statements, which are comprised of these components:

1. Statement of Plan Net Assets Available for Benefits
2. Statement of Changes in Plan Net Assets Available for Benefits
3. Notes to the Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Plan Net Assets Available for Benefits is a point in time or a snapshot of account balances as of the fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities.

The Statement of Changes in Plan Net Assets Available for Benefits, on the other hand, provides a view of current year additions to and deductions from the System. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements. These pronouncements require certain disclosures and require State and Local governments to report using the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

The System's funding ratio at June 30, 2011 was 116.8 percent, which means the System's fund has approximately $1.17 available for each $1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits report information about the System's activities.

These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the 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.

These two statements report the System's net assets held in trust for pension benefits (net assets), which is the difference between assets and liabilities. This is generally considered to be a good way to measure the System's financial position. Over time, increases and decreases in the System's net assets are indicators of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring the System's overall health.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension benefits to members.

The schedules of administrative expenses, investment management fees and other investment related expenses, and payments to consultants are presented immediately following the required supplemental information.

FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2012 by $930,402,725. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

In fiscal year 2012, the System's net assets decreased by 3.52 percent in part due to declines in the global investment markets; while in 2011 and 2010, the System's net assets increased by 19.57 percent and 9.65 percent, respectively, largely due to rebounds in the global investment markets.

Historical long-term performance rates of returns demonstrate that the System has been able to meet or exceed its actuarial assumed rate of return of 8.00 percent. As of June 30, 2012, the System's 25-year annualized return is 8.54 percent and its 20-year annualized return is 8.42 percent.

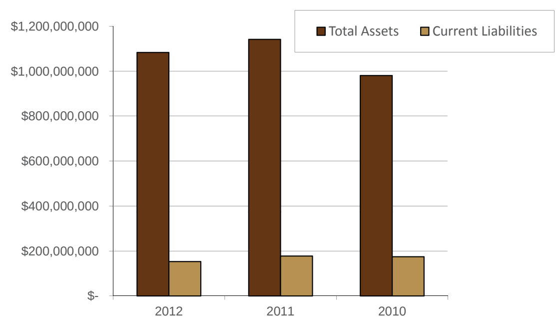
Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and carefully managed investment and risk management program.

TABLE 1 - EMPLOYEES RETIREMENT SYSTEM NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2012, 2011 AND 2010

	FY 2012	FY 2011	FY 2012 Increase/(Decrease) Amount	FY 2012 Increase/(Decrease) Percent
Current and Other Assets	$156,472,558	$168,585,430	$(12,112,872)	(7.19%)
Investments at Fair Value	926,803,350	973,125,596	(46,322,246)	(4.76%)
Total Assets	$1,083,275,908	$1,141,711,026	$(58,435,118)	(5.12%)
Current Liabilities	152,873,183	177,334,522	(24,461,339)	(13.79%)
Net Assets	$930,402,725	$964,376,504	$(33,973,779)	(3.52%)

	FY 2011	FY 2010	FY 2011 Increase/(Decrease) Amount	FY 2011 Increase/(Decrease) Percent
Current and Other Assets	$168,585,430	$163,179,159	$5,406,271	3.31%
Investments at Fair Value	973,125,596	817,641,097	155,484,499	19.02%
Total Assets	$1,141,711,026	$980,820,256	$160,890,770	16.40%
Current Liabilities	177,334,522	174,249,386	3,085,136	1.77%
Net Assets	$964,376,504	$806,570,870	$157,805,634	19.57%



RESERVES

Reserves are not required, nor recognized under GAAP. The reserves are not shown separately on the Statement of Plan Net Assets, but they equate to and are accounts within the net assets held in trust for plan benefits and are vital to the System's operations. They are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Investments of the System are stated at fair value instead of at cost and fair value, which includes the recognition of unrealized gains and losses in the current period.

The System's major reserve accounts, described in Note 4 – Net Assets Available for Benefits, include Active Member Reserves, Employer Advance/Retired Reserves, DROP Reserves, PRSB Reserve and City Surplus Reserve.

Deferred Retirement Option Program (DROP) Reserve represents funds reserved for Deferred Retirement Option Program benefits accumulated by active members and retired members. DROP is an alternate method of receiving retirement benefits. It is a voluntary program as described by the conditions and requirements of Municipal Code Section 3-566. A DROP account is a nominal, bookkeeping account established within the System for each DROP participant. Monthly amounts credited to DROP accounts include an amount which represents the service retirement allowance which the member would have received if the member had retired on the date the member commenced DROP participation and interest credited at the five year average interest rate as adopted by the Retirement Board (the Board) in accordance with Municipal Code requirements.

Post Retirement Supplemental Benefit (PRSB) Reserve represents surplus earnings that have been allocated but not distributed to eligible participants in accordance with Municipal Code Section 3-567. PRSB is a supplemental benefit distributed to eligible participants in accordance with Municipal Code Section 3-567, if and only if distributable actuarial surplus is available to provide such a benefit. Actuarial surplus means the amount by which the actuarial value of the System's assets exceeds one hundred and ten percent (110%) of the System's actuarial accrued liabilities.

City Surplus Reserve represents that portion of distributable actuarial surplus that has allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-567 Post Retirement Supplemental Benefits. The City Surplus Reserve Account accrues interest at the average gross rate of return earned by the System's entire investment portfolio for each of the three prior fiscal years, including realized and unrealized gains and losses and as reduced by all investment related expenses.

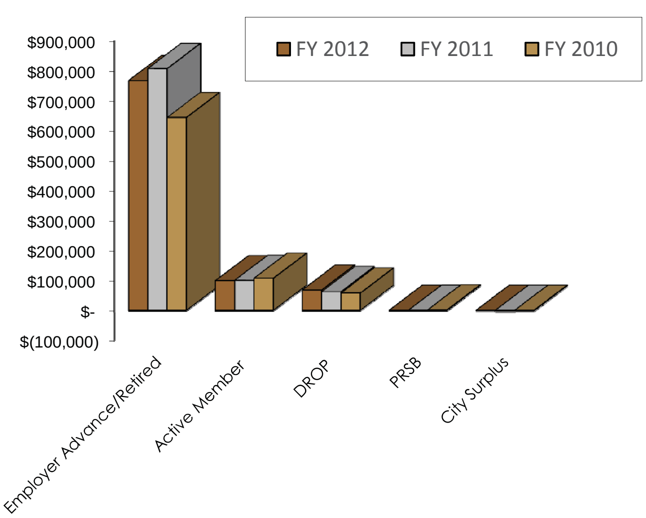
Table 2 shows that the vast majority of reserves are generated from Employer Advance and Retired reserves. DROP reserves represent funds credited for participants who elected to participate in the Deferred Retirement Option Program. PRSB Reserve presents that portion of distributable actuarial surplus that has been allocated for PRSB but not yet distributed to eligible participants. Additions and deductions from PRSB occur when surpluses and allocations occur, respectively. The City Surplus reserve represents that portion of distributable actuarial surpluses and accrued interest, reduced by required City normal pension contributions. The City Surplus Reserve Account shall be drawn upon in subsequent years if needed to reduce or eliminate the City's annual pension contribution requirement.

The City Surplus Reserve Account was negative for fiscal years 2012, 2011 and 2010 due to the differences between the actual and estimated surplus allocation to the City for offsetting the City's contributions for those fiscal years. The City's normal contribution rate for fiscal year 2013 includes funding of the fiscal year 2012 deficit City Surplus Reserve balance.

TABLE 2 – EMPLOYEES RETIREMENT SYSTEM'S RESERVES

FOR THE YEARS ENDED JUNE 30, 2012, 2011 AND 2010 (IN THOUSANDS)

	FY 2012	FY 2011	FY 2010
Employer Advance/Retired Reserves	$765,298	$805,667	$642,762
Active Member Reserves	98,580	99,819	106,658
DROP Reserves	67,524	61,642	57,178
PRSB Reserves	82	212	1,531
City Surplus Reserves	(1,081)	(2,963)	(1,558)
Net Assets Available for Benefits	$930,403	$964,377	$806,571



CAPITAL ASSETS

The capital assets of the System presently consist of furniture for the 7,900 square foot office space occupied by the Retirement Administrative Office.

SYSTEM'S ACTIVITIES

Attributable in part to the continued turmoil in global financial markets, the System's assets decreased $33,973,779 for the fiscal year resulting in a 3.52 percent decrease in net assets for the fiscal year ended June 30, 2012. Primarily attributable to the global economic recoveries in fiscal year 2011, the System's assets increased $157,805,634 resulting in a 19.57 percent increase in net assets for the fiscal year ended June 30, 2011, and for the fiscal year ended June 30, 2010, the System's assets increased $70,992,066 resulting in a 9.65 percent increase in net assets for the fiscal year ended June 30, 2010.

Key elements of the additions to and deductions from the System's net assets for fiscal year 2012, 2011 and 2010 are described in the following sections.

ADDITIONS TO SYSTEM'S NET ASSETS

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and member contributions and through earnings on investment income [net of investment expense]. Additions for the fiscal year ended June 30, 2012 totaled $11,260,441.

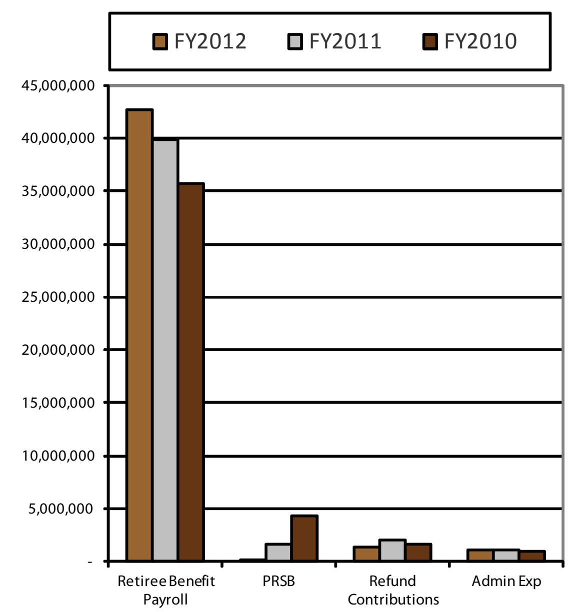
For the fiscal year ended June 30, 2012, overall additions had decreased by $191,154,753 or 94.44 percent from the prior year, primarily due to the performance of the investment markets; for fiscal year ended June 30, 2011, overall additions increased by $88,896,329 or 78.31 percent; and for fiscal year ended June 30, 2010, overall additions increased by $306,022,945 or 158.97 percent from the prior year. The investment section of this report reviews the details of results of investment activity for the fiscal year ended June 30, 2012.

DEDUCTIONS FROM SYSTEM'S NET ASSETS

The System was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refunds of contributions to terminated employees, and the cost of administering the System.

Deductions for the fiscal year ended June 30, 2012, totaled $45,234,220 which was an increase of $624,660 or 1.40 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the amount of contributions refunded to terminated members and increased benefit payments due to the number of retirees from the prior year.

The System's increases in total deductions have closely paralleled inflation and are reflective of the membership and services provided. The System has consistently met its Administrative Budget. There are no material variances between planned expenditures and actual expenditures.



CHANGES IN PLAN NET ASSETS (CONDENSED)

FOR THE YEARS ENDED JUNE 30, 2012, 2011 AND 2010 (IN THOUSANDS)

	FY 2012	FY 2011	FY 2012 Increase/(Decrease) Amount	FY 2012 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$11,373,870	$8,214,569	$3,159,301	38.46%
Member Contributions	5,507,139	5,275,219	231,920	4.40%
Net Investment Income (Loss) *	(5,620,568)	188,925,406	(194,545,974)	(102.98%)
Total Additions (Declines)	$11,260,441	$202,415,194	$(191,154,753)	(94.44%)
Deductions				
Benefit Payments	$42,695,972	$39,900,410	$2,795,562	7.01%
PRSB	137,746	1,587,450	(1,449,704)	(91.32%)
Refunds of Contributions	1,313,292	2,092,260	(778,968)	(37.23%)
Administrative Expenses	1,087,210	1,029,440	57,770	5.61%
Total Deductions	$45,234,220	$44,609,560	$624,660	1.40%
Increase (Decrease) in Plan Net Assets	(33,973,779)	157,805,634	(191,779,413)	(121.53%)
Beginning Plan Net Assets	964,376,504	806,570,870	157,805,634	19.57%
Ending Plan Net Assets	$930,402,725	$964,376,504	$(33,973,779)	(3.52%)

* Net of investment expense of $4,568,601 and $5,016,946 for June 30, 2012 and 2011, respectively.

	FY 2011	FY 2010	FY 2011 Increase/(Decrease) Amount	FY 2011 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$8,214,569	$3,267,115	$4,947,454	151.43%
Member Contributions	5,275,219	5,740,404	(465,185)	(8.10%)
Net Investment Income (Loss) *	188,925,406	104,511,346	84,414,060	80.77%
Total Additions (Declines)	$202,415,194	$113,518,865	$88,896,329	78.31%
Deductions				
Benefit Payments	$39,900,410	$35,698,609	$4,201,801	11.77%
PRSB	1,587,450	4,247,837	(2,660,387)	(62.63%)
Refunds of Contributions	2,092,260	1,651,169	441,091	26.71%
Administrative Expenses	1,029,440	929,184	100,256	10.79%
Total Deductions	$44,609,560	$42,526,799	$2,082,761	4.90%
Increase (Decrease) in Plan Net Assets	157,805,634	70,992,066	86,813,568	122.29%
Beginning Plan Net Assets	806,570,870	735,578,804	70,992,066	9.65%
Ending Plan Net Assets	$964,376,504	$806,570,870	$157,805,634	19.57%

* Net of investment expense of $5,016,946 and $5,415,586 for June 30, 2011 and 2010, respectively.

SYSTEM'S FIDUCIARY RESPONSIBILITIES

The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets must be used exclusively for the benefit of plan participants and their beneficiaries.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers, and creditors with a general overview of the City of Fresno Employees Retirement System's finances, and to show accountability for the funds it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Fresno Employees Retirement System
2828 Fresno Street Suite 201
Fresno, California 93721-1327

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

November 27, 2012

Statement of Plan Net Assets Available for Benefits

AS OF JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash (Note 5)	$1,099,451	$1,303,391
Collateral Held for Securities Lent (Note 7)	113,875,862	150,723,905
Receivables		
Receivables for Investments Sold	35,784,735	9,180,107
Interest and Dividends	3,460,076	3,324,085
Other Receivables	2,137,640	3,900,469
Total Receivables	**41,382,451**	**16,404,661**
Prepaid Expenses	68,088	102,840
Total Current Assets	**156,425,852**	**168,534,797**
Investments at Fair Value (Note 5)		
Domestic Equity	322,738,059	348,138,387
International Developed Market Equities	171,917,177	192,794,516
Government Bonds	135,096,842	152,751,124
Corporate Bonds	130,182,472	118,962,688
Real Estate	102,835,465	92,317,681
International Emerging Market Equities	34,756,051	42,596,639
Short-Term Investments	29,277,284	25,564,561
Total Investments	**926,803,350**	**973,125,596**
Capital Assets Net of Accumulated Depreciation (Note 10)	46,706	50,633
Total Assets	**1,083,275,908**	**1,141,711,026**
LIABILITIES		
Collateral Held for Securities Lent (Note 7)	113,875,862	150,723,905
Payable for Investments Purchased	35,825,816	21,590,558
Other Liabilities	1,019,721	1,070,049
Payable for Foreign Currency Purchased	2,151,784	3,950,010
Total Liabilities	**152,873,183**	**177,334,522**
Net Assets Held In Trust for Benefits (Note 4)	**$930,402,725**	**$964,376,504**

The notes to the financial statements on pages 14 to 28 are an integral part of this statement.

Statement of Changes in Plan Net Assets Available for Benefits

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
ADDITIONS		
Contributions (Note 3)		
Employer	$11,373,870	$8,214,569
Members	5,507,139	5,275,219
Total Contributions	**16,881,009**	**13,489,788**
Investment Income		
Net Appreciation (Depreciation) in Value of Investments	(24,578,287)	170,018,578
Interest	12,845,330	12,144,912
Dividends	9,990,325	11,137,342
Other Investment Related	51,271	45,526
Total Investment Income (Loss)	(1,691,361)	193,346,358
Less: Investment Expense	(4,440,812)	(4,897,840)
Total Net Investment Income (Loss)	**(6,132,173)**	**188,448,518**
Securities Lending Income		
Securities Lending Earnings (Note 7)	639,394	595,994
Less: Securities Lending Expense	(127,789)	(119,106)
Net Securities Lending Income	**511,605**	**476,888**
Total Additions	**11,260,441**	**202,415,194**
DEDUCTIONS		
Benefit Payments	42,695,972	39,900,410
Post Retirement Supplemental Benefits (Note 9)	137,746	1,587,450
Refunds of Contributions	1,313,292	2,092,260
Administrative Expense	1,087,210	1,029,440
Total Deductions	**45,234,220**	**44,609,560**
Net Increase (Decrease)	**(33,973,779)**	**157,805,634**
NET ASSETS HELD IN TRUST FOR BENEFITS		
BEGINNING OF THE YEAR	**964,376,504**	**806,570,870**
END OF THE YEAR	**$930,402,725**	**$964,376,504**

The notes to the financial statements on pages 14 to 28 are an integral part of this statement.

Notes to Financial Statements

1 DESCRIPTION OF THE SYSTEM

The Employees Retirement System ("System") was established on June 1, 1939, and is governed by Article 5 of Chapter 3 of the City of Fresno Municipal Code. It is administered by the Retirement Board (Board) but not under the control of the City Council. The System is a single employer public employee retirement system that includes substantially all full time employees, other than sworn officers of the Fire and Police Departments.

Total participants of the System were comprised as follows at June 30, 2012 and 2011:

	2012	2011
Active Members		
Vested	1,638	1,639
Non-vested	267	354
Total Active Members	1,905	1,993
Retirees and Beneficiaries of Deceased Retirees		
Currently Receiving Benefits	1,662	1,622
Inactive Vested Members	217	212
Total	3,784	3,827

Pension benefits are based upon a combination of age, years of service, monthly salary, and the option selected by the participant. Death and disability benefits are additionally based upon whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions do not become vested until completion of 5 years of credited service when the member becomes 100 percent vested, but are not payable until the member attains the age of 55. Effective January 28, 2008, members may retire at age 50 with an actuarially equivalent service retirement benefit.

Contributions are made by the members and the employer at rates recommended by the System's independent actuary and adopted by the Retirement Board. Member contribution rates vary according to age and are designed to provide funding for approximately one third of retirement benefit basic normal costs and one-half of the cost-of-living component.

The City's contribution rate is designed to provide funding for the remaining regular retirement and cost-of-living benefits, as well as all regular disability and survivors' benefits.

Cost-of-living increases for retirees under the Employees Retirement System are provided for in the Municipal Code, and are determined by changes in the Consumer Price Index.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Retirement System, with its own governing board, is an independent governmental entity separate and distinct from the City of Fresno. The System's annual financial statements are included in the City of Fresno Annual Financial Report as a pension trust fund.

Basis of Accounting

The System uses the accrual basis of accounting. Investment income is recognized when it is earned and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the plan as defined in Section 3-523 and 3-529 of the Municipal Code.

Securities lending transactions are accounted for in accordance with Governmental Accounting Standards Board (GASB) Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, which establishes reporting standards for securities lending transactions. In accordance with Statement No. 28, cash received as collateral on securities lending transactions and investments made with that cash are reported as assets and liabilities, and the results from these transactions are reported in the Statement of Plan Net Assets. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Plan Net Assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

VALUATION OF INVESTMENTS

System investments are reported at fair value, calculated as cost plus unrealized gains or losses. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments in both bonds and mortgage-backed pass-through certificates are carried at fair value.

Cost values, as shown, are derived from Master Custodial Transaction Records. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the System administrator to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the financial statements have been reclassified to be consistent and comparable from year to year.

3 CONTRIBUTIONS

AUTHORITY TO COLLECT

The responsibility for both City and employee contributions to the System is mandated by the City of Fresno Municipal Code Sections 3-523 and 3-529.

FUNDING STATUS & METHOD

The funding ratio as of June 30, 2011 was 116.8% using the projected unit credit cost method. The System's actuary uses a five-year smoothing of market gains and losses above and below the assumed actuarial rate of return to derive the actuarial valuation value of assets. As of the fiscal year ended June 30, 2011, the actuarial valuation value of assets was $920.2 million.

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multi-year trend information about whether actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities for benefits.

The liability is being funded on the Projected Unit Credit Cost method and currently has a Prefunded Actuarial Accrued Liability (PAAL). Under this method, the employer contribution rate provides for the current cost (normal cost) plus a level percentage of payroll to amortize any prefunded actuarial accrued liability (PAAL). Actuarial gains and losses are incorporated into the PAAL and are amortized over a 15-year period.

The progress being made towards meeting the System's funding objective through June 30, 2011 is illustrated in the Schedule of Funding Progress shown below and in the Required Supplemental Schedule on page 29.

3 CONTRIBUTIONS CONTINUED

SCHEDULE OF FUNDING PROGRESS

FOR THE THREE YEARS ENDING JUNE 30, 2012

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) /Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) /Unfunded AAL Percentage of Covered Payroll (4) / (5)
2009	$958	$715	133.9%	$(243)	$139	(174.3)%
2010	$926	$756	122.5%	$(170)	$131	(129.6)%
2011	$920	$788	116.8%	$(132)	$118	(112.4)%

The valuation interest rate is 8.00%; total salary scale increases of 4.00% (3.50% for inflation) plus 0.50% across the board salary increase; plus merit and promotion increases based on completed years of service were based on the June 30, 2010 Experience Analysis and the June 30, 2010 Economic Assumptions Report.

These actuarial assumptions were adopted by the Retirement Board on December 14, 2011 for implementation as of July 1, 2012.

LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2011
Actuarial Cost Method	Projected Unit Credit Actuarial Cost Method Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.
Amortization Method	Level Percentage of Payroll for (Prefunded)/Unfunded Actuarial Accrued Liability
Remaining Amortization Period	15 Year open (subject to change) non-declining period for all Prefunded Actuarial Accrued Liability; No Unfunded Actuarial Accrued Liability currently exists
Asset Valuation Method	Actuarial Value of Assets, determined by phasing in (5-year Smoothed Market Value) any differences between the actual and expected return on market value of assets over 5 years.
Actuarial Assumptions	
Investment Rate of Return	8.00%
Projected Salary Increases	4.60% Plus Merit and Promotion increases (Service and Age)
Attributed to Inflation	3.50%
Cost-of-Living Adjustments	3.50%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation and investment returns. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

3 CONTRIBUTIONS CONTINUED

FUNDING POLICY

The Employer currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the projected unit credit method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded or prefunded actuarial accrued liability.

These minimum contributions are recognized currently in the statement of changes in net assets available for benefits. Members' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary. Costs of administering the System are charged against System assets.

Total contributions to the System for fiscal year 2012 totaled $16,881,009. Members contributed $5,507,139 and the City made contributions of $11,373,870. The remaining Employer contributions were offset by the prefunded actuarial accrued liability of the System.

Contributions aggregating $16,881,009 ($11,373,870 employer contributions and $5,507,139 member contributions) were made in fiscal year 2012, based on an actuarial valuation determined as of June 30, 2010, which became effective for the year ended June 30, 2012. During fiscal year 2012, the Employer contribution rate was set at 10.70 percent; however, only a cash contribution of $11,373,870 was required from the City due to the use of prefunded actuarial accrued liability of the System. The System's member contributions represented 10.29 percent and 4.98 percent, respectively, of the fiscal year 2012 covered payroll.

Contributions aggregating $13,489,788 ($8,214,569 employer contributions and $5,275,219 member contributions) were made in fiscal year 2011, based on an actuarial valuation determined as of June 30, 2009, which became effective for the year ended June 30, 2011. During fiscal year 2011, the Employer contribution rate was set at 11.09%; however, only a cash contribution of $8,214,569 was required from the City due to the use of prefunded actuarial accrued liability of the System. The Systems' Employer and member contributions represented 6.89 percent and 4.42 percent, respectively, of the fiscal year 2011 covered payroll.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The employer's required normal contributions to the System for fiscal year 2012 were partially offset by the System's prefunded actuarial accrued liability in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2010, as follows:

Normal Cost:	
Required Annual Contribution Amount	$11,822,646
Less: Prefunded Actuarial Accrued Liability Applied	(448,776)
Net Employer Contributions	$11,373,870
Pensionable Payroll Amount (Fiscal Year 2012)	$110,492,026

4 NET ASSETS AVAILABLE FOR BENEFITS

Net assets available for benefits are segregated into Active Member Reserves (members' accumulated contributions) and reserves established by the Board for various benefit payments.

Reserves are established by the System from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. Note: The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due.

The System's major reserves are as follows:

ACTIVE MEMBER RESERVES represent the total accumulated member contributions. Additions include member contributions and investment earnings; deductions include refunds of member contributions and transfers to Employer Advance/Retired Reserves.

EMPLOYER ADVANCE/RETIRED RESERVES represent the total accumulated employer contributions for future retirement payments to current active and vested terminated members and the total accumulated transfers from Active Member Reserves and investment earnings, less payments to retired members and transfers to the DROP Reserve. Additions include contributions from the employer, transfers from Active Member Reserve and investment earnings; deductions include payments to retired members and transfers to the DROP Reserve.

4 NET ASSETS AVAILABLE FOR BENEFITS CONTINUED

DEFERRED RETIREMENT OPTION PROGRAM RESERVE ("DROP RESERVE") represents funds reserved for Deferred Retirement Option Benefits accumulated by members and retirees.

POST RETIREMENT SUPPLEMENTAL RESERVE (PRSB) represents surplus earnings that have been allocated but not distributed to eligible retirees in accordance with Municipal Code Section 3-567 "Post Retirement Supplemental Benefit."

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-567 "Post Retirement Supplemental Benefit." The City Surplus Reserve Account was negative for fiscal years 2012 and 2011 due to the differences between the actual and estimated surplus allocation for the city for offsetting the City's contributions for those years . The City's normal contribution rate for fiscal year 2013 includes funding of the fiscal year 2012 deficit City Surplus Reserve balance.

Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserves and the Employer Advance/Retired Reserves. Active members in the Deferred Retirement Option Program accrue interest on their accumulated DROP accounts monthly at an interest rate annually adopted by the Board.

The amount of reserves for the year ended June 30, 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Employer Advance/Retired Reserves	$765,298	$805,667
Active Member Reserves	98,580	99,819
DROP Reserves	67,524	61,642
PRSB Reserves	82	212
City Surplus Reserves	(1,081)	(2,963)
Net Assets Available for Benefits	$930,403	$964,377

5 DEPOSITS AND INVESTMENTS

The System's investment guidelines reflect the duties imposed by an investment standard known as the "prudent expert rule." The prudent expert rule establishes a standard for all fiduciaries which includes anyone who has discretionary authority with respect to the System's investments.

Northern Trust serves as custodian of the System's investments. The System's asset classes include U.S. Equity, International Equity, Emerging Market Equity, U.S. Fixed Income, and Real Estate. Any class may be held in direct form, pooled form, or both. The System has fourteen external investment managers, managing eighteen individual portfolios.

Investments at June 30, 2012 and 2011 consist of the following (In thousands):

	2012	2011
Investments at Fair Value		
Domestic Equity	$322,738	$348,138
International Developed Market Equities	171,917	192,794
Government Bonds	135,097	152,751
Corporate Bonds	130,182	118,963
Real Estate	102,836	92,318
International Emerging Market Equities	34,756	42,597
Short-Term Investments	29,277	25,565
Total Investments at Fair Value	$926,803	$973,126

5 DEPOSITS AND INVESTMENTS CONTINUED

The Board has established a policy for investing, specifying the following target allocations with a minimum and maximum range for each of these asset classes:

Asset Class	Minimum	Target	Maximum
Domestic Equities			
Large-Cap	17.0%	22.5%	25.0%
Small-Cap	4.0%	7.5%	12.0%
International Equities			
Developed Markets	16.0%	22.8%	30.0%
Emerging Markets	0.0%	7.2%	10.0%
Real Estate	5.0%	15.0%	24.0%
Domestic Fixed Income	10.0%	15.0%	25.0%
High Yield Bonds	4.0%	10.0%	14.0%
Cash	0.0%	0.0%	2.0%
		100%	

Allowable securities must meet the reporting requirements of the Securities and Exchange Commission and must meet a "prudent expert" standard for investing. In no case may the System have five or more percent of System net assets invested in any one organization.

The Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the non-correlated economic behavior of diverse asset classes. The result is a well-diversified portfolio.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Retirement System investment securities are not exposed to custodial credit risk since all securities are registered in the System's name and held by the System's custodial bank.

Custodial credit risk for deposits is the risk that, in the event of the failure of depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Any cash associated with the System's investment portfolios not invested at the end of a day are temporarily swept overnight to Northern Trust Collective Short-Term Investment Fund.

That portion of the System's cash held by the City in a Trust account as part of the City's cash investment pool totaled $370,296 and $29,473 at June 30, 2012 and 2011, respectively. Accordingly, the System's investments in the pool are held in the name of the City and are not specifically identifiable.

Disclosure of the legal and contractual provisions of the City's investment policy and carrying amounts by type of investments may be found in the notes to the City's separate Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

Credit and Interest Rate Risk

Credit risk associated with the System's debt securities is identified by their ratings in the table that follows. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System has no general policy on credit and interest rate risk. The System limits its investments in below investment grade bonds and monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio.

5 DEPOSITS AND INVESTMENTS CONTINUED

The average duration of the System's debt portfolios in years is also listed in the following table:

	2012			2011		
Type of Investment	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset-Backed Securities	$2,320,798	BBB+	3.38	$1,581,796	BBB-	1.89
Commercial Mortgage-Backed Securities	5,579,052	AA	2.98	5,789,506	AA+	3.29
Corporate Bonds	113,211,715	BBB-	3.65	99,690,925	BBB-	5.05
Corporate Convertible Bonds	2,978,007	B	6.34	2,887,071	B-	6.21
Guaranteed Fixed Income	-	-	-	540,273	AA+	1.11
Non-Government backed C.M.O.s	3,508,595	B-	4.11	5,303,051	B+	3.19
Convertible Equity	859,538	B+	2.27	1,030,266	B+	5.96
Other Fixed Income	3,454	NR	13.00	46,575	NR	13.00
Common Stock	211,214	NR	13.00	1,108,165	NR	13.00
Preferred Stock	1,510,099	BB-	4.87	985,060	BB-	4.67
Government Agencies	6,195,000	AAA	3.42	7,437,514	AAA	3.67
Government Bonds	45,413,396	AAA	4.98	51,606,222	AAA	4.18
Government Mortgage-Backed Securities	72,770,161	AAA	1.61	86,015,572	AAA	2.29
Index Linked Government Bonds	-	-	-	10,029	CC	1.32
Municipal/Provincial Bonds	10,718,285	A	9.27	7,681,787	A-	10.01
Total Credit Risk Fixed Income	$265,279,314			$271,713,812		

Per section 5.5(6) of the System's Investment Policy Statement, no more than 15 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). Therefore, at least 85 percent of the manager's fixed income portfolio must be invested in investment grade securities. Intermediate bond portfolios shall maintain an average credit quality of A+ or better.

High yield fixed income portfolios, in accordance with section 5.5(7) of the Systems' Investment Policy Statement, shall maintain an average credit quality rating equal to or higher than that of the Barclays US Corporate High Yield Index. Based on the Barclays US Corporate High Yield Index, a high yield manager's portfolio shall have a constraint of the benchmark weight plus 5 percent in bonds rated Caa1/CCC+ or lower with non-rated bonds being limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of the Barclays US Corporate High Yield index. No more than 25 percent of a high yield manager's portfolio may be invested in foreign securities; within this limit, a manager may allocate up to 20 percent in emerging market government securities including both non-US dollar denominated securities and US dollar denominated Yankee securities and up to 15 percent of the portfolio may be invested in non-US dollar denominated securities.

High yield bond portfolios may hold up to the benchmark weight plus 5 percent of assets in Rule 144A bond issues with or without registration rights. No more than 10 percent of the high yield manager's portfolio may be invested in convertibles or preferreds; and no more than 20% may be invested in securitized bank debt. No single security and/or issuer can represent more than 5 percent of the market value of a portfolio at the time of purchase, and no single industry can represent more than 25 percent of the market value of the account at the time of purchase.

Firms that manage fixed income portfolios will continually monitor the risk associated with their fixed income investments. They will be expected to report as a component of their quarterly report, a risk/reward analysis of the management decisions relative to their benchmarks. Statistics that relate performance variance to effective duration decisions will be included in each quarterly report.

5 DEPOSITS AND INVESTMENTS CONTINUED

CONCENTRATION RISK

The investment portfolio as of June 30, 2012 and 2011 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

FOREIGN CURRENCY RISK

Foreign Currency Risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit. The System has no general investment policy with respect to foreign currency risk. The System's investment policy guidelines allow international developed and emerging equity managers to hedge their currency risks in foreign countries through the purchase of derivatives. Used as a defensive measure and in an effort to control the risks associated with international portfolios, international equity investment managers are permitted to invest in forward currency contracts, swaps currency futures, and exchange-traded index futures that represent broad equity exposure to countries represented in their respective benchmark index.

The following positions represent the System's exposure to foreign currency risk as of June 30, 2012, and 2011.

2012

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$11,852,308	$-	$-	$3,352	$11,855,660
BRL	Brazilian Real	Brazil	2,190,372			7,094	2,197,466
CAD	Canadian Dollar	Canada	5,371,364				5,371,364
CHF	Swiss Franc	Switzerland	10,828,591	(292)			10,828,299
COP	Colombian Peso	Colombia	97,588				97,588
CZK	Czech Koruna	Czech Repbulic	97,755				97,755
DKK	Danish Krone	Denmark	3,538,903				3,538,903
EUR	Euro	Europe	37,518,069	30,075		13	37,548,157
GBP	British Pound Sterling	United Kingdom	38,547,782	(38)		398	38,548,142
HKD	Hong Kong Dollar	Hong Kong	14,432,756			13,668	14,446,424
HUF	Hungarian Forint	Hungary	143,975				143,975
IDR	Indonesian Rupiah	Indonesia	578,005			3,063	581,068
ILS	New Israeli Shekel	Israel	157,181				157,181
INR	Indian Rupee	India	1,946,731			2,368	1,949,099
JPY	Japanese Yen	Japan	28,300,152	484		38,987	28,339,623
KRW	South Korean Won	South Korea	7,614,708			530	7,615,238
MXN	Mexican Peso	Mexico	1,777,889			45,576	1,823,465
MYR	Malaysian Ringgit	Malaysia	544,640			4,349	548,989
NOK	Norwegian Krone	Norway	2,962,954				2,962,954
NZD	New Zealand Dollar	New Zealand	690,641				690,641
PHP	Philippine Peso	Philippines	146,205				146,205
PLN	Polish Zloty	Poland	287,194	(382)			286,812
SEK	Swedish Krona	Sweden	6,735,191				6,735,191
SGD	Singapore Dollar	Singapore	4,038,864			5,932	4,044,796
THB	Thai Baht	Thailand	1,644,690				1,644,690
TRY	Turkish Lira	Turkey	2,397,299				2,397,299
TWD	New Taiwan Dollar	Taiwan	5,115,710			33,693	5,149,403
USD	United States Dollar	United States	-	1,196	3,454		4,650
ZAR	South African Rand	South Africa	4,019,957	(752)		2,796	4,022,001
Total Equities (In USD)			193,577,474	30,291	3,454	161,819	193,773,038
Total Non-USD Equities (In USD)			$193,577,474	$29,095	$-	$161,819	$193,768,388

5 DEPOSITS AND INVESTMENTS CONTINUED

2011

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$13,280,069	$(1,026)	$-	$19,989	$13,299,032
BRL	Brazilian Real	Brazil	4,496,826			436,742	4,933,568
CAD	Canadian Dollar	Canada	6,604,332				6,604,332
CHF	Swiss Franc	Switzerland	12,483,677	1,096		44,444	12,529,217
CLP	Chilean Peso	Chile	(121,096)	(701)			(121,797)
COP	Colombian Peso	Colombia	124,244				124,244
CZK	Czech Koruna	Czech Repbulic	209,725				209,725
DKK	Danish Krone	Denmark	4,824,887	(1,908)			4,822,979
EGP	Egyptian Pound	Egypt	25,926				25,926
EUR	Euro	Europe	47,785,529	(4,114)		4,976	47,786,391
GBP	British Pound Sterling	United Kingdom	36,855,016	25			36,855,041
HKD	Hong Kong Dollar	Hong Kong	14,557,828	(2)		26,656	14,584,482
HUF	Hungarian Forint	Hungary	564,146			3,558	567,704
IDR	Indonesian Rupiah	Indonesia	2,044,838			68,629	2,113,467
ILS	New Israeli Shekel	Israel	159,966				159,966
INR	Indian Rupee	India	2,171,555			2,966	2,174,521
JPY	Japanese Yen	Japan	31,027,889	32			31,027,921
KRW	South Korean Won	South Korea	9,119,420			2,720	9,122,140
MXN	Mexican Peso	Mexico	1,376,214			44,517	1,420,731
MYR	Malaysian Ringgit	Malaysia	947,065				947,065
NOK	Norwegian Krone	Norway	4,305,549				4,305,549
PHP	Philippine Peso	Philippines	121,620				121,620
PLN	Polish Zloty	Poland	569,205	(11)			569,194
SEK	Swedish Krona	Sweden	7,712,647				7,712,647
SGD	Singapore Dollar	Singapore	4,373,479			15,747	4,389,226
THB	Thai Baht	Thailand	810,590			2	810,592
TRY	Turkish Lira	Turkey	1,414,766				1,414,766
TWD	New Taiwan Dollar	Taiwan	3,275,363				3,275,363
USD	United States Dollar	United States	-	3,324	5,532		8,856
ZAR	South African Rand	South Africa	4,674,678	(1,075)		46,977	4,720,580
Total Equities (In USD)			215,795,953	(4,360)	5,532	717,923	216,515,048
Total Non-USD Equities (In USD)			$215,795,953	$(7,684)	$-	$717,923	$216,506,192

5 DEPOSITS AND INVESTMENTS CONTINUED

Per section 5.5(5) of the System's Investment Objectives and Policy Statement, assets in international equity portfolios shall consist of liquid, publicly traded equity and equity like securities traded on major stock exchanges as well as cash and cash equivalents as necessary. Securities will be primarily composed of foreign ordinary shares and depository receipts (ADR's and GDR's including ADR's and GDR's that are 144A securities). Securities that are 144A securities, including ADR and GDR 144A securities are authorized investments which in aggregate cannot exceed 10 percent of the portfolio. Primarily large capitalization securities may be held, although investments in small and mid capitalization securities in developed and emerging markets are also allowed. Firms will continually monitor their country, currency, sector and security selection risks associated with their international portfolios. All of the risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

The System's complete Investment Objectives and Policy Statement can be found on the System's website at www.CFRS-CA.org or by contacting the Retirement Office at 2828 Fresno Street, Suite 201, Fresno, CA 93721.

6 DERIVATIVES

The Retirement Board has authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. The acceptable investment purposes for the use of derivatives are as follows:

a. Mitigation of risk (or risk reduction).

b. A useful substitute for an existing, traditional investment.

c. To provide investment value to the portfolio while being consistent with the System's overall and specific investment policies.

d. To obtain investment exposure which is appropriate for the manager's investment strategy and the System's investment guidelines, but which could not be made through traditional investment securities.

The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

Derivative financial instruments held by the System consist of the following:

Cash securities that contain derivative features include callable bonds, structural notes and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets.

Financial instruments whose value is dependent upon a contractual price or rate relative to one or more reference prices or rates, applied to a notional amount, including interest rate futures, options, swaps and caps, and foreign currency futures and forward contracts. Some of these instruments are exchange-traded and others are traded over-the-counter (OTC).

MARKET RISK

Market risk is the risk of change in value of an instrument in response to changes in a market price or index. While all investments are subject to market risk, derivatives often have a higher degree of market risk than other types of investment instruments. Values of cash securities containing derivative features are often more susceptible to market risk than other types of fixed income securities, because the amounts and/or timing of their scheduled cash flows may fluctuate under changing market conditions, according to their contractual terms. For other types of derivatives, amounts of contractual cash flows may be either positive or negative depending upon prevailing market conditions relative to the reference prices or rates, and thus the values of such instruments may be positive or negative, despite the fact that little or no cash is initially exchanged to enter into such contracts.

CREDIT RISK

Credit risk of cash securities containing derivative features, as explained, is based upon the credit worthiness of the issuers of such securities. The Retirement Board establishes minimum credit requirements for such securities. The other derivative instruments described above are subject to credit risk to the extent their value is a positive market value, and the counter-party to such contract fails to perform under the terms of the instrument.

6 DERIVATIVES CONTINUED

Exchange-traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange margin requirements. Equity Index Swaps are derivatives and represent an agreement between two parties to swap two sets of equity values. Equity Futures are contracts used to replicate an underlying stock market index. These equity futures can be used for hedging against an existing equity position, or speculating on future movements of the index.

As of June 30, 2012 and 2011, the Employees Retirement System held a total value of $3,120,313 and $2,745,470, respectively, in derivative holdings. These holdings consisted of Right/Warrants, Foreign Currency Forwards and Futures designed to synthetically created equity returns held as components of the System's international equity investments, and S&P 500 E Mini Index Futures, S&P MidCap 400 E MINI Index Futures and a variety of ACWIxUS index related futures as components of the System's investments in its international equity portfolios, BlackRock S&P 500 Equity Index, Russell 1000, and ACWIexUS Funds. These derivatives are used for the purpose of synthetically creating equity returns, synthetically creating floating rates and to buy and sell credit protection on the assets.

There is no net counterparty exposure for which there is a positive replacement cost to the fund. The details of these derivative holdings are as follows:

Derivative Type:	FY 2012		FY 2011	
	Notional Amount	Fair Value	Fair Value	FY 2012 - FY 2011 Change in Fair Value
Rights/Warrants	432*	$3,454	$5,532	$(2,078)
Foreign Currency Forward	$30,291	30,291	(4,360)	34,651
Future Contracts - Domestic Equity Index	-	2,502,845	2,317,842	185,003
Future Contracts - International Equity Index	-	583,723	426,456	157,267
	Total	$3,120,313	$2,745,470	

Derivative Type:	FY 2011		FY 2010	
	Notional Amount	Fair Value	Fair Value	FY 2011 - FY 2010 Change in Fair Value
Rights/Warrants	434*	$5,532	$3,600	$1,932
Foreign Currency Forward	$(4,360)	(4,360)	21,964	(26,324)
Future Contracts - Domestic Equity Index	-	2,317,842	1,583,424	734,418
Swaps	-	426,456	-	426,456
	Total	$2,745,470	$1,608,988	

* Shares

7 SECURITIES LENDING

The City of Fresno Municipal Code and the Retirement Board's policies permit the Retirement Board of the City of Fresno Fire and Police Retirement System and the City of Fresno Employees Retirement System to use investments of both Systems to enter into securities lending transactions, i.e., loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Systems have contracted with Northern Trust, their custodian, to manage the securities lending program for the Systems and all securities held in a separately managed account are available for lending. As securities lending agent, Northern Trust calculates collateral margins and accepts collateral in the form of cash or marketable securities and irrevocable bank letters of credit for all securities lending transactions. Transactions are collateralized at 102 percent of market value (contract value) for domestic securities and 105 percent of market value (contract value) for international securities. Collateral is marked to market daily. When a loan is secured by cash, a rebate is negotiated and the cash collateral is invested according to the guidelines in the collateral pool.

As designated by the Boards, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2012 had a weighted average duration of 108 days, average maturity is 39 days and an average monthly yield of 0.33 percent. The relationship between the maturities of the investment pool and the Systems' loans is affected by the maturities of the security loans made by other entities that use the Northern Trust Core U.S.A. Collateral Section and a definitive statement of that relationship cannot be formulated by the Systems. As of June 30, 2012, the CORE USA Cash Collateral Fund had 0.02 percent exposure in below investment grade long-term securities and there were no known credit risks related to the securities lending transactions.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The Systems cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the Systems against losses and will replace or reimburse the Systems for any borrowed securities not replaced. In general, the average term of all System loans is overnight or "on demand". All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the Systems' loans was approximately 115 days as of June 30, 2012.

The System's securities lending income is as follows:

SECURITIES LENDING INCOME

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Gross Income	$639,394	$595,994
Expenses:		
Bank Fees	127,789	119,106
Total Expenses	127,789	119,106
Net Income from Securities Lending	$511,605	$476,888

7 SECURITIES LENDING CONTINUED

Fair Value of Loaned Securities
as of June 30, 2012 and 2011

	FY 2012			FY 2011		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$ 25,819,036	$ -	$ 25,819,036	$ 41,888,501	$569,119	$ 42,457,620
Domestic Equities	58,220,606	6,199	58,226,805	74,698,942	8,641	74,707,583
Domestic Fixed	17,565,839	-	17,565,839	14,566,461	-	14,566,461
International Equities	10,785,735	208,067	$ 10,993,802	15,562,431	122,977	$ 15,685,408
Total Value	$112,391,216	$214,266	$112,605,482	$146,716,335	$700,737	$147,417,072

Fair Value of Collateral Received for Loaned Securities
as of June 30, 2012 and 2011

	FY 2012			FY 2011		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$26,215,518	$ -	$26,215,518	$42,766,125	$581,222	$ 43,347,347
Domestic Equities	58,580,300	6,193	58,586,493	76,106,560	8,800	76,115,360
Domestic Fixed	17,777,026	-	17,777,026	14,849,758	-	14,849,758
International Equities	11,085,065	211,760	11,296,825	16,284,783	126,657	16,411,400
Total Value	$113,657,909	$217,953	$113,875,862	$150,007,226	$716,679	$150,723,905

8 ADMINISTRATIVE EXPENSES

Section 3-532 of the Fresno Municipal Code provides that all administrative costs of the System shall be a charge against the assets of the System. Per the Municipal Code, the administrative expenses are a component of the City's contribution calculation.

9 POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (PRSB)

The System is not obligated to provide for or fund any other post-employment benefits as retirees do not receive paid healthcare benefits from the System. The Post Retirement Supplemental Benefit ("PRSB") Program was created as a contingent program to provide supplemental distributions to eligible retirees which they could use to pay for various post retirement expenses. The Retirement Board will annually review the actuarial valuation report and declare an actuarial surplus, if available, in accordance with the procedures in Municipal Code Section 3-567.

If an actuarial surplus is declared by the Board, the surplus is allocated into two components. One component composed of two-thirds of the declared surplus shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post retirement supplemental benefit recipients in accordance with procedures in Municipal Code Section 3-567(f)(4). Any unused portion shall be reserved in the PRSB Reserve and drawn upon in subsequent years if needed.

For the fiscal year ended June 30, 2012, the System distributed PRSB benefits in the amount of $137,746 to eligible retirees and offset required City pension contributions by $2,380,291. As of June 30, 2012, the City Surplus Reserve balance was ($1,081,177) and the PRSB Reserve balance was approximately $81,918, of which $81,918 is committed for PRSB distribution for the months of July through December 2012.

The City Surplus Reserve balance as of June 30, 2012 represents a City contribution shortfall for fiscal year 2012. This contribution shortfall is a result of the difference between the actual and the projected June 30, 2011 surplus which was allocated to the City in the June 30, 2010 actuarial valuation used for setting the City's contribution rate for fiscal year 2012. The City's normal contribution rate for fiscal year 2012 has factored in the contribution shortfall to recover the shortfall reflected in the City Surplus Reserve balance.

10 CAPITAL ASSETS

Capital assets are carried at cost, net of accumulated depreciation. Capital assets with an initial cost of $250 or more and an estimated useful life in excess of one year are capitalized and depreciated using the straight-line method. Capital assets presently consist of furniture for the System's Retirement Offices located at 2828 Fresno Street, Fresno, California.

11 CAPITAL ASSETS

Under the lease agreement with CFRS Realty Holding Corporation, the holding corporation formed jointly by the Retirement Boards to take ownership of the building, effective September 19, 2005, the City of Fresno Employees and City of Fresno Fire and Police Retirement Boards and their staff occupy approximately 7,900 square feet of the second floor of the renovated building at 2828 Fresno Street. The term of the lease is ten years with an option for two additional five year extensions.

Under the terms of the lease agreement the Systems share equally a base rent of $10,706 per month which amounts to $1.35 per square foot per month, triple net.

12 RELATED PARTY TRANSACTIONS

The Retirement System is involved in various business transactions with the City of Fresno, the primary plan sponsor. These include reimbursement to the City for the salaries and benefits of Retirement Staff members paid through the City, reimbursement to the City Personnel Department for personnel consulting services, and reimbursement to the City Information Services Department for computer and telephone support.

The Retirement Systems lease office space from the CFRS Realty Holding Corporation, a title holding company controlled jointly by the City of Fresno Employees and City of Fresno Fire and Police Retirement Systems. See note 11 for a description of this arrangement.

13 SUBSEQUENT EVENTS

Adjustments to or disclosure pertaining to events or transactions that occur after the balance sheet date but prior to the issuance of the annual financial statement in which material effect on the financial statement could exist require adjustments and disclosure.

The following conditions did not exist as of June 30, 2012, but arose subsequent to that date and may have a future impact on the System.

Change in Actuarial Methodology for Funding Purposes

On October 10, 2012, the Board adopted a change in actuarial cost methodology from the Projected Unit Credit (PUC) method currently used for funding purposes to the Entry Age Normal (EAN) method as it is the EAN method which is used by a substantial majority of the retirement systems in California and nationwide. Importantly, the Board made this change due to the recently adopted Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 which substantially revises the financial reporting requirements for governmental pension plans and their sponsors.

The Board's actuary has estimated the impact of switching from the PUC to the EAN cost method using the June 30, 2011 actuarial valuation information would be to decrease the employer's Normal Cost contribution rate by about 0.9 percent of payroll. Using the EAN cost method would decrease on average the individual member contribution rates by about 0.1 percent of payroll. The actuarial accrued liability would increase by about $52 million and the System's funded ratio would decrease from 116.3 percent to approximately 109.1 percent.

Date of Management Review

The date to which events occurring after June 30, 2012, have been evaluated for possible adjustments to the financial statements or disclosures is November 27, 2012, which is the date the financial statements were available to be issued.

Required Supplemental Schedules

for the Years June 30, 2012 and 2011

The information presented in the Supplemental Schedules was determined as part of the actuarial valuations during the most recent annual actuarial valuation dated June 30, 2011:

1 SCHEDULE OF FUNDING PROGRESS

Historical trend information, restated in accordance with GASB Statement No. 25 and designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due, is as follows:

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
2011	$920	$788	116.8%	$(132)	$118	(112.4)%
2010	$926	$756	122.5%	$(170)	$131	(129.6)%
2009	$958	$715	133.9%	$(243)	$139	(174.3)%
2008	$981	$690	142.2%	$(291)	$133	(218.7)%
2007	$927	$631	146.8%	$(295)	$122	(241.5)%
2006	$848	$614	138.1%	$(234)	$111	(209.7)%
2005	$791	$566	139.8%	$(225)	$103	(219.7)%
2004	$742	$554	133.8%	$(187)	$100	(187.9)%
2003	$699	$546	128.1%	$(153)	$97	(157.4)%
2002	$749	$530	141.3%	$(219)	$93	(235.2)%

2 SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Thousands)

Year Ended June 30	Actuarially Required Contribution (ARC)		Contributions as a % of ARC
2012	$	11,374	100%
2011	$	8,215	100%
2010	$	3,267	100%
2009	$	1,345	100%
2008	$	355	100%
2007	$	1,566	100%
2006	$	0	100%
2005	$	0	100%
2004	$	0	100%
2003	$	0	100%

Notes to the Required Supplemental Schedules

for the Years June 30, 2012 and 2011

ACTUARIAL ASSUMPTION

The Segal Company, the System's actuary, performed the most recent annual actuarial valuation as of June 30, 2011, which computes the contribution requirements (employer and member contributions rates for fiscal year 2013), and determines the funding status of the plan.

These actuarial assumptions, used to compute the contribution requirements and to determine funding status, were adopted by the Retirement Board on December 14, 2011 for implementation as of July 1, 2012.

1. Annual inflation is assumed at 3.50%.

2. Annual investment return is assumed to be 8.00%.

3. The City contribution rate for fiscal year 2013 is set at 12.36% (normal cost of 11.37% is offset by applying prefunded actuarial accrued liability of -0.14% and the City required contribution of 12.36%, which includes 1.13% for the contribution shortfall from the prior year).

4. Average member contribution rate is 8.37% (basic only), although individual rates depend upon entry age.

5. Accrued benefits and costs are calculated using the projected unit credit method.

6. Withdrawal, disability and salary increase assumptions are based on actual System experience.

7. Post retirement mortality assumptions for the healthy are based on the Society of Actuaries' RP-2000 Combined Healthy Mortality Table (separate tables for males and females) set back two years.

8. Post retirement mortality assumptions for disabled are based on the Society of Actuaries' RP-2000 Combined Healthy Mortality Table (separate tables for males and females) set forward four years. Set back two years for beneficiaries weighted 35 percent male and 65 percent female.

9. Actuarial valuation of assets is based upon a five-year smoothed recognition of realized and unrealized capital gains and losses which are more or less than the actuarial assumed return of 8.00%.

10. Projected salary increase assumption is assumed to be 3.50% plus 0.50% across the board salary increases, plus merit and promotion increases based on completed years of service.

11. Post retirement benefit increases are based on the Consumer Price Index (CPI) for each year to a maximum of 5.00% per year.

12. The amortization period for Prefunded Actuarial Accrued Liability is an open non-declining 15-year period.

Supplemental Schedules

Schedule of Administrative Expenses

for the Years June 30, 2012 and 2011

	2012	2011
Personnel Services		
Staff Salaries	$336,982	$320,178
Fringe Benefits	121,293	99,715
Total Personnel Services	$458,275	$419,893
Professional Services		
Actuarial	$87,137	$108,383
Legal Counsel	57,989	80,169
Information Systems Services	45,576	32,832
Specialized Services	124,585	104,148
Total Professional Services	$315,287	$325,532
Communication		
Printing	$34,100	$33,890
Telephone	5,686	4,564
Postage	2,955	2,336
Total Communication	$42,741	$40,790
Rentals		
Office Rent	$64,241	$64,241
Common Area Maintenance (CAM) Charges	25,681	20,144
Total Rentals	$89,922	$84,385
Other		
Education and Conference	$20,758	$22,232
Membership & Dues	2,831	2,648
Subscriptions & Publications	413	102
Office Supplies	5,489	6,025
Computer Equipment	4,682	-
Equipment Lease	1,780	725
Insurance	94,870	96,153
Miscellaneous	2,521	4,183
Reimbursement to City for Services	42,275	21,496
Depreciation	5,366	5,276
Total Other	$180,985	$158,840
Total Administrative Expenses	$1,087,210	$1,029,440

Schedule of Investment Management Fees and Other Investment Related Expenses

for the Years June 30, 2012 and 2011

	2012	2011
Investment Manager Fees		
Equity		
Domestic	$850,110	$1,021,299
International	1,329,975	1,782,348
Fixed Income		
Domestic	518,348	495,053
Real Estate	786,645	561,303
Total Investment Manager Fees	3,485,078	3,860,003
Other Investment Expenses		
Foreign Income Taxes	780,196	882,222
Custodial Services	38,268	42,760
Investment Consultant	105,533	103,184
Investment Legal Counsel	26,154	4,056
Analytical Database Service	5,583	5,615
Total Other Investment Expenses	955,734	1,037,837
Total Fees & Other Investment Expenses	4,440,812	4,897,840
Securities Lending Expenses		
Agent Fees	127,789	119,106
Total Securities Lending Expenses	127,789	119,106
Total Investment Expenses	$4,568,601	$5,016,946

Schedule of Payments to Consultants

for the Years June 30, 2012 and 2011

	2012	2011
Legal Services	$57,989	$80,169
Actuarial Services	87,137	108,383
Miscellaneous	99,320	77,648
City Information Services	45,576	32,832
Medical Consultant	25,265	26,500
Total Payments to Consultants	$315,287	$325,532

SECTION 3 - INVESTMENT SECTION

Investment Report from the Retirement Administrator

Analysis Of Issues Affecting Our Portfolio In FY 2012

The world is experiencing a "three-peat." The global economy and financial markets hit bottom in 2009. Since then, every year – 2010, 2011 and 2012 – has opened with a note of optimism. Stock markets rallied as economic indicators improved. And improving equity prices gave businesses the confidence to ramp up investment spending and start hiring.

In each year, instead of things warming up with the Spring months, optimism has been dashed. In 2010, it was largely the first Greek debt crisis. It derailed European sentiment, and quickly wounded the U.S. By the end of May, the stock market was down for the year, and there was widespread talk of a double-dip recession. Fortunately, by year end the outlook brightened.

The world's economies and stock markets entered 2011 gaining traction. But the Spring again brought gloom. The Japanese disaster set off a global supply chain disruption, energy costs spiked and the Eurozone debt crisis re-emerged. By the Summer, U.S. sovereign debt issues were laid bare by the S&P downgrade of the nation's credit rating, and fears of a double dip were again rampant.

Following the script of the previous year, by the Fall the world's economy began healing. After a tumultuous 2011, stock prices erased their mid-year losses. Entering 2012, global growth was gaining steam, and equity markets rallied impressively during the first quarter. The European Central Bank's Long-Term Refinancing Operations pumped the financial system with liquidity. This calmed nerves and encouraged hope that the problems on the continent's periphery would be managed. In China, a deceleration in economic activity seemed to be managed, in fact desirable. Fears that the economy in general, and the residential markets in particular, were overheating were alleviated as the country looked on track for a more sustainable, balanced expansion pace. The U.S. appeared to be on a particular roll. Job gains surprised on the upside, retail and auto sales were buoyant, and manufacturing accelerated. There was widespread speculation that the nation was finally in a "virtuous cycle" supporting a self re-enforcing expansion. The primary worry was spiking oil prices.

What a difference a couple of months make. For the third year in a row, the world's economic resiliency is being severely tested. Europe has re-entered crisis mode. Recent election results amply demonstrate "austerity fatigue" in the South and "bailout fatigue" in the North. Data coming out of China are increasingly indicating a slowdown. The December – February growth spurt in the U.S. now appears to have been largely driven by unusually warm weather, and it's now payback time. The country's own debt issues are re-simmering with talk of the "Fiscal Cliff" – if unresolved by early 2013, tax cuts will disappear and spending cuts will be triggered pushing the U.S. into an extreme austerity mode.

It's being clearly demonstrated that the world is more integrated than ever – through trade and financial flows, and perhaps more importantly through sentiment which ebbs and flows globally. The world's correcting equity markets are now signaling a breakdown in confidence. Double dip fears are rising. The hopeful outlook is that the world's current slowdown will be temporary. And like in the past two years, growth will re-ignite by the Fall. After all, corporations remain flush with cash, they and households have de-levered, and low interest rates and declining commodity prices give the most stressed developed nations some breathing room.

The world is inter-connected, but economies have and will move at different speeds. The same is true for the global investment markets.

In spite of the overwhelming challenges of the global economy, the continued prudent leadership of the Employee Retirement System Board is undoubtedly the most important factor in the long-term success of our System. Our Board understands that the Retirement System's portfolio requires a sound and stable strategy for meeting investment goals over the long–term and that in times of unprecedented financial market volatility a well-diversified portfolio with strong controls to manage risk and ensure compliance are likely to produce superior performance relative to its indices over the long term.

During fiscal year 2012, the Board, jointly with the Fire & Police Retirement System Board, adopted a new Asset Allocation Plan. This new Asset Allocation increases allocations to high yield and real estate, and introduces an allocation to private value-added real estate and an allocation to inflation protection assets which may be composed of US TIPS and Commodities. The Boards approved a phased implementation that funds the increased allocations by reducing core fixed income by 11 percent, total equity by 4 percent and real estate securities (REITS) by 1 percent. The implementation timeline includes a plan to implement Inflation Protection Assets in early 2013 following policy and strategy development throughout 2012. Meanwhile proposed allocations to inflation protection assets will remain allocated to core fixed income and equities.

The Boards conducted an evaluation of Global REITs with educational presentations from both of the Systems' current REIT managers to review updated information and gain more knowledge about global REIT opportunities. The Boards plan to resume evaluation of real estate opportunities given the current market conditions and expect to complete these efforts during the next fiscal year.

During the first quarter of 2012, the Boards reviewed the analysis of high yield manager candidates, conducted interviews and held on-site investment due diligence meetings with finalists in their high yield manager search. Subsequently, the Boards selected MacKay Shields to manage a High Yield Active Core portfolio commencing July 2, 2012, which completes implementation of the Boards new increased allocation to High Yield fixed income. In addition, the Boards reviewed and adopted modifications to its Investment Objectives and Policy Statement specifically for small capitalization and high yield portfolios.

In June, the Boards approved a proposal from Cortex Applied Research to provide services in connection with their decision to conduct an Investment Consultant search. The Boards issued a Request for Proposal for General Investment Consulting Services in August, inviting proposals from qualified investment consulting firms and expect to evaluate and select a firm that can best meet the Systems' needs for the future by calendar year end.

Even with the continuation of these overwhelming challenges of the global economy, the System is well funded at or near a fully funded status on a market value basis. From a long-term perspective the System is positioned to provide a solid rate of return that is equal to or better than the respective asset classes market indices even as we enter yet another year of uncertainty in the global financial markets.

INVESTMENT PERFORMANCE

Highlighted Investment Performance of the City of Fresno Employees Retirement System Investment Portfolio for FY 2012:

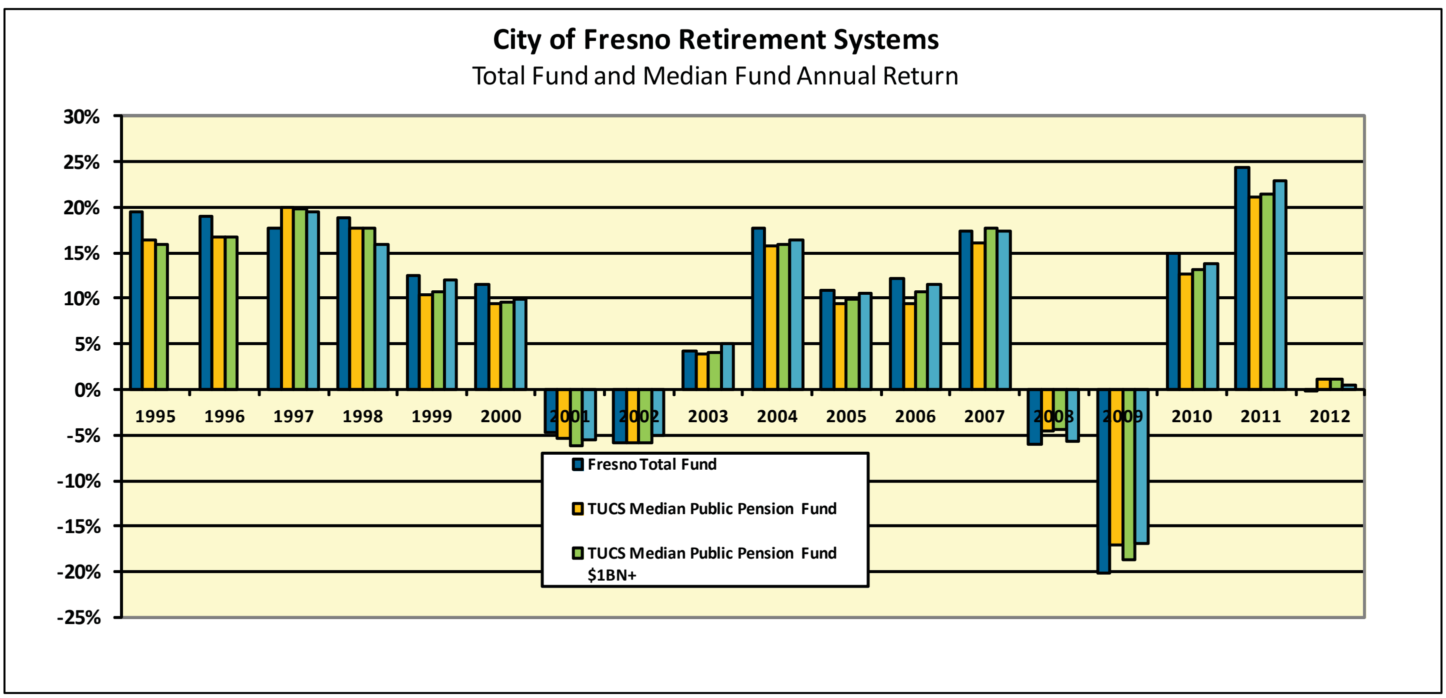
	Return
Total Fund	(0.11)%
Domestic Equity	1.63%
International Equity	(12.00)%
Fixed Income	6.77%
Real Estate	12.61%
Fiscal Year End Fund Value:	$930,402,725

The principal goals of the System's Retirement Board in managing the Retirement System's Investment Portfolios are the following:

1) To fund the System's benefit payments
2) To assume a prudent risk posture to minimize the cost of meeting the obligations of the System ;
3) To achieve rates of return above inflation;
4) To comply with legal statutes and regulations; and
5) To maintain a fully funded pension status.

These are the fundamental goals as stated in the Board's Investment Objectives and Policy Statement. The Employees Retirement Board has strong controls in place to manage the overall investment objectives of the Employees Retirement System assets and hold the fiduciary responsibility for the System.

The System's Total Fund Returns Versus Wilshire Associates Public Pension Funds (Gross of Fee) Returns for the Period Ended June 30, 2012, ranked the System in the bottom quartile (79th percentile) of our Investment Consultant's universe of all public funds. For three years ended June 30, 2012, the System's Total Fund Returns of 12.53 percent ranked the System in the top quartile (19th percentile), exceeding its policy weighted benchmark by 0.53 percent and also exceeding the Median Wilshire Public Pension Funds return of 11.66 percent and the Median Wilshire Public Pension Funds ($1Billion+ in assets) by 0.87 percent 0.68 percent respectively. Over the past ten years, the Systems' investment returns have remained sound and outperformed its policy benchmark in six of the ten year and the median fund returns as shown in the following chart seven out of ten years.



SUMMARY OF PORTFOLIO RESULTS

The fiscal year, ended June 30, 2012, marked another extraordinarily volatile year which ended with a slight decline in performance for the City of Fresno Employees Retirement System. The System experienced a total investment loss of 0.11 percent for the fiscal year ended June 30, 2012, underperforming the System's actuarial interest rate assumption of 8.00 percent by 8.11 percent and underperforming the System's policy benchmark (a weighted average of the Fund's asset classes and their respective benchmarks) return of 0.50 percent by 0.61 percent. Over the longer term, our investment results remain sound with annualized returns of 8.42 percent over the past twenty years. However, the System's ten-year annualized returns averaged 6.73 percent underperforming its policy benchmarks return of 6.91 percent for the period by 0.18 percent. After paying all benefits and expenses of the System, the year-end value of the System reached $930.4 million.

GENERAL INFORMATION

The System's investment assets are managed by external investment management firms. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term strategies. The System's goal is to fund benefit payments, while assuming a risk posture that is consistent with the Board's risk tolerance, protecting against loss of purchasing power by achieving rates of return above inflation, and to maintain a fully funded pension status.

SUMMARY OF GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

The Retirement Board, having sole and exclusive authority and sole and exclusive fiduciary responsibility for the investment and administration of the System, and its assets, has adopted an Investment Objectives and Policy Statement which reflects the Board's policies for management of the System's investments. The Board reserves the right to amend, supplement or rescind this Statement at any time. This Investment Objectives and Policy Statement establishes the investment program goals and policies, asset allocation policies, performance objectives, investment management policies and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian and consultants.

The System's primary investment objective is to take prudent risk, as necessary, to minimize the cost of meeting the obligations of the System. The purpose of the Investment Objectives and Policy Statement is to express in operational terms: Return expectations, prudence with respect to risk and compliance with statutes and regulations.

An integral part of the overall investment policy is the strategic asset allocation policy. This allocation mix is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. This emphasizes a maximum diversification of the portfolio that protects the System from declines that a particular asset class may experience in a given period. Both traditional assets (cash, bonds, domestic stocks, fixed income and mortgages) and nontraditional assets (real estate, international stock and emerging equity market stock) are included in the mix.

Total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the System. Prudent risk taking is warranted within the context of overall portfolio diversification to meet this objective. All activities will be conducted so as to serve the best interests of the System's members and beneficiaries.

SUMMARY OF PROXY VOTING GUIDELINES AND PROCEDURES

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established proxy voting guidelines and procedures which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of plan participants. These guidelines consist of preferences with respect to specific, recurring proxy-voting issues followed by a general statement of voting policies. The System will at all times strive to cast proxy votes so as to advance the overall good of the System.

The Board incorporates International equity proxy voting guidelines for share-blocking markets into its Proxy Voting policy. Share-blocking markets are markets of countries outside the U.S. and Canada, which restrict trade activity by shareholders who vote proxies. For portfolio managers managing assets in these international developed and emerging market countries, the requirement to vote proxies may prevent the full exercise of their fiduciary duty to manage the portfolio in the best interest of the Systems. Therefore, under these circumstances, the portfolio manager is granted the authority to choose whether or not to vote proxies in share-blocking markets based upon the manager's determination of what is in the best interest of the Systems.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of June 30, 2012, the Retirement System's portfolio was slightly under-weight in total equities, with 57.87 percent in total equities versus the target of 60.0 percent. Domestic equities were slightly under-weight with 29.64 percent versus the target of 30.0 percent, and international equity with 21.15 percent developed and 7.08 percent emerging markets was slightly under-weight total international equity with 28.23 percent versus the target of 30.0 percent. Fixed income with 31.17 percent was 6.17 percent over-weight its target of 25.0 percent and real estate at 10.91 percent was 4.09 percent under-weight its target of 15.0 percent.

The investments were further diversified into the following asset classes and target percentages:

	Actual	Target
Asset Classification		
Domestic Equities:		
Large-Cap	21.6%	22.5%
Small-Cap	8.0%	7.5%
International Equities:		
Developed Markets	21.1%	22.8%
Emerging Markets	7.1%	7.2%
Fixed Income:		
Domestic Fixed Income	24.7%	15.0%
High Yield Fixed Income	6.5%	10.0%
Real Estate:		
Private Real Estate	6.3%	12.0%
Public (REITs)	4.6%	3.0%
Cash:	0.1%	0.0%
Total	100.0%	100.0%

This asset class diversification along with portfolio investment style diversification is all part of the Retirement Board's Investment Risk Management Program. The investment returns presented herein are based on a time-weighted rate of return methodology based upon market values.

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

November 27, 2012

INVESTMENT CONSULTANT'S REPORT

Wilshire

October 2, 2012

City of Fresno Employees and Fire & Police Retirement Boards
2828 Fresno Street, Suite 201
Fresno, California 93721-1327

Introduction and Overview

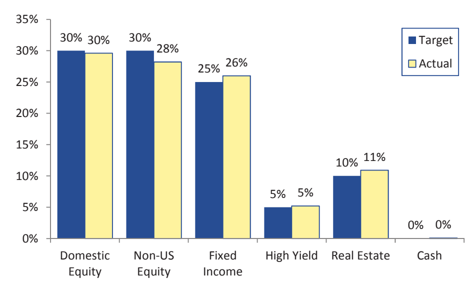
Wilshire independently calculated the Funds' fiscal year performance results using the individual portfolio market valuations and cash flows provided by the Funds' custodian bank, the Northern Trust Company. The investment information is presented in conformance with the Global Investment Performance Standards of the Chartered Financial Analyst Institute (CFAI, formerly AIMR). For the fiscal year ended June 30, 2012, the combined systems experienced a total loss of -0.11% gross of fees[1]. Over the last year, the fund underperformed its weighted benchmark[2] return of 0.50% by 0.61% (gross of fees). The combined systems continue to maintain a healthy funding level despite the turbulent investment environment of the past five fiscal years and ended the fiscal year with $2.01 billion in assets.

For the year ending June 30, 2012, the Systems' gross of fee performance of -0.11% ranked in the bottom quartile (79th percentile) of all public pension funds gross of fee performance in Wilshire's database.

The Systems' total return over the past five years has been an annualized average of +1.38% gross of fees versus the policy weighted benchmark return of +1.95% and the 8.00% actuarial interest rate assumption. Over the past five years, the Systems have underperformed the benchmark by 0.57% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +6.73% gross of fees versus a return of +6.91% for the composite policy weighted benchmark return. Over this time period, the Systems underperformed the policy weighted benchmark return by 0.18% per year.

The Systems' portfolios are managed in accordance with the guidelines established in the Boards' Investment Objectives and Policy Statement. This investment policy statement is reviewed periodically and revised regularly.

At the end of the fiscal year, investment allocations in all asset classes were close to their policy targets and within reasonable rebalancing ranges.



[1] Based on Wilshire's independent calculation of performance results which are within a reasonable tolerance of the actual returns reported by the Systems' custodian, the Northern Trust.

Wilshire Associates
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401 TEL 310.451.3051 FAX 310.458.0520 www.wilshire.com

Performance Comparison

The following table compares the total return for the Systems to all other public pension funds in the TUCS universe and the Systems' benchmark. The table illustrates that the Systems' performance during fiscal 2012 was below that of the median public pension fund after leading in 2010 and 2011. From 2003 to 2012, the Systems ranked above the median in seven out of ten years, and outperformed the weighted benchmark in six out of ten years**.**

	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Fresno Total Fund	4.30%	17.69%	10.92%	12.13%	17.43%	-6.00%	-20.08%	14.92%	24.30%	-0.11%
TUCS Median Public Pension Fund	3.94%	15.75%	9.36%	9.44%	16.08%	-4.51%	-17.06%	12.70%	21.11%	1.15%
TUCS Median Public Pension Fund $1BN+	4.02%	15.88%	9.95%	10.72%	17.69%	-4.36%	-18.76%	13.09%	21.46%	1.12%
Weighted Benchmark	5.09%	16.40%	10.60%	11.57%	17.34%	-5.61%	-16.95%	13.75%	22.90%	0.50%

For the one-year period ending June 30, 2012:

- The Systems' domestic equity composite return of 1.63% gross of fees underperformed the domestic equity policy weighted benchmark return of 3.58% but outperformed the TUCS median peer return 0.02% respectively.
- The Systems' international equity composite return of -12.00% gross of fees outperformed the international equity policy weighted benchmark return of -13.98% but underperformed the TUCS median peer return of -10.64%. This outperformance was driven by the performance of the Systems' developed market managers which offset the underperformance of the active emerging market managers.
- The Systems' total fixed income composite return of 6.77% underperformed the fixed income policy weighted benchmark return of 7.52% and 6.94% for the TUCS median peer. The Systems' core fixed income composite return of 7.28% gross of fees underperformed the Barclays Aggregate policy index return of 7.47% due to higher exposure to corporate credit markets versus the index. The Systems' high yield fixed income composite return of 4.24% gross of fees trailed the Barclays High Yield policy index return of 7.27%.
- The Systems' real estate composite returned 12.61% gross of fees which was below the real estate policy weighted benchmark return of 13.02%, but outperformed the TUCS median peer return of 11.08%. This was primarily driven by a rebound in private real estate valuations during the year.

As the Systems' investment consultant, Wilshire Associates provides investment advice, asset and liability studies, manager investment due diligence and monitoring, and detailed quarterly performance reports. Wilshire is privileged to work together with the Boards and Staff in evaluating additional opportunities to enhance both the Systems asset allocation and the existing manager lineup. Wilshire remains confident in the longer-term outlook for the plan as the Systems continue to meet participant needs through timely benefit payments and a high level of service.

Sincerely,

Thomas Toth, CFA
Managing Director

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1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401 TEL 310.451.3051 FAX 310.458.0520 www.wilshire.com

[2]City of Fresno Policy Weighted Index Benchmarks

Performance Weighted Benchmarks	3/1/2011 - 6/30/2012	10/1/2008 - 2/28/2011	7/1/2005 - 9/30/2008	2/1/2005 - 6/30/2005	7/1/2004 - 1/31/2005	7/1/2003 - 6/30/2004	7/1/2002 - 6/30/2003	4/1/2001 - 6/30/2002	3/1/1997 - 3/31/2001	9/13/1995 - 2/28/1997
SP 500 Index	22.5%	22.5%	30.0%	30.0%	30.0%	31.45%	30.0%	29.0%	32.0%	40.0%
Russell 2000 Growth Index	3.75%	3.75%	5.0%	5.0%	5.0%	5.275%	6.0%	6.0%	5.0%	3.5%
Russell 2000 Value Index	3.75%	3.75%	5.0%	5.0%	5.0%	5.275%	6.0%	6.0%	5.0%	3.5%
Russell Mid-Cap Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	4.0%	4.0%	4.0%
Total Domestic Equity	*30.0%*	*30.0%*	*40.0%*	*40.0%*	*40.0%*	*42.0%*	*45.0%*	*45.0%*	*46.0%*	*51.0%*
MSCI EAFE Index	13.0%	19.5%	17.0%	17.0%	17.0%	15.0%	9.0%	9.0%	10.0%	7.0%
MSCI ACWIxUS Index	13.0%	6.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MSCI EMF Index	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%	0.0%
Total International Equity	*30.0%*	*30.0%*	*20.0%*	*20.0%*	*20.0%*	*18.0%*	*11.0%*	*11.0%*	*12.0%*	*7.0%*
Barclays Aggregate	25.0%	25.0%	25.0%	25.0%	25.0%	28.0%	28.0%	28.0%	25.0%	37.0%
Barclays High Yield	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	2.0%	2.0%	0.0%	0.0%
Barclays Gov/Credit/LB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.0%	7.0%	5.0%	0.0%
JPMorgan Non US Govt Bond	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.0%	4.0%
Total Fixed Income	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*32.0%*	*37.0%*	*37.0%*	*38.0%*	*41.0%*
NCREIF-ODCE Value Weighted Gross	6.0%	6.0%	6.0%	7.5%	10.0%	8.0%	7.0%	7.0%	4.0%	1.0%
Wilshire Real Estate Securities Index	4.0%	4.0%	4.0%	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Value Added Real Estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Real Estate	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*8.0%*	*7.0%*	*7.0%*	*4.0%*	*1.0%*
Total Fund	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

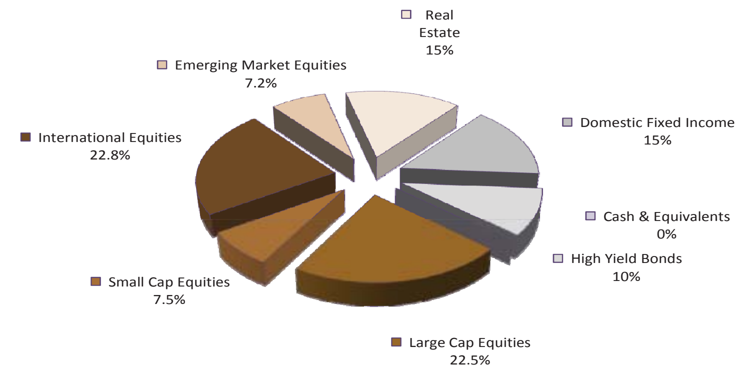
Investment Results

	Annualized - As of June 30, 2012				
	1 year	3 years	5 years	10 years	15 years
Total Fund	-0.11	12.53	1.38	6.73	6.57
Median TUCS Public Fund	1.15	11.66	1.82	6.32	6.08
Median TUCS Public Fund $1BN+	1.12	11.85	1.74	6.63	6.09
Benchmark: Weighted Indexes	0.50	12.00	1.95	6.91	6.29
Domestic Equity Large Cap	4.49	17.09	0.39	5.47	4.73
Median Large Cap Equity	2.50	15.39	0.77	6.15	6.35
Benchmark: S&P 500	5.45	16.40	0.22	5.33	4.77
Domestic Equity Small Cap	-5.33	18.97	1.92	7.20	6.35
Median Small Cap Equity	-2.41	19.06	1.92	8.72	9.33
Benchmark: Russell 2000	-2.08	17.80	0.54	7.00	6.14
Total Domestic Equity	1.63	17.57	0.74	5.93	5.56
Median Total Domestic Equity	0.02	17.05	1.30	7.44	7.55
Benchmark: SP500/Russell 2000	3.58	16.83	0.37	5.88	5.32
International Equity (EAFE)	-11.07	8.37	-6.82	4.35	--
Median International Equity (EAFE)	-12.53	8.48	-4.16	7.08	--
Benchmark: MSCI EAFE ($g)	-13.38	6.45	-5.63	5.62	--
International Equity (ACWI ex-US)	-10.93	10.55	--	--	--
Median International Equity (ACWI ex-US)	-7.15	11.51	--	--	--
Benchmark: MSCI ACWI ex-US ($g)	-14.15	7.43	--	--	--
Emerging Market Equity	-17.75	8.12	-0.90	14.81	--
Median Emerging Market Equity	-13.99	11.85	0.96	15.60	--
Benchmark: MSCI EMF ($g)	-15.67	10.10	0.21	14.42	--
Total International Equity	-12.00	8.96	-5.37	6.48	5.23
Median International (Dev/EM) Equity	-10.64	10.35	-2.16	7.99	6.29
Benchmark: Weighted Indexes	-13.98	7.19	-4.57	7.09	3.92
Total Fixed Income	6.77	9.68	6.71	6.29	6.44
Median Fixed Income	6.94	8.13	7.14	6.14	6.66
Benchmark: Weighted Indexes	7.52	8.53	7.22	6.33	6.27
Total Real Estate	12.61	15.78	1.71	8.24	9.40
Median Real Estate	11.08	8.43	-0.76	8.05	9.90
Benchmark: Weighted Indexes	13.02	18.91	3.99	9.24	10.06

Calculations are prepared using a time-weighted rate of return based on the market values.

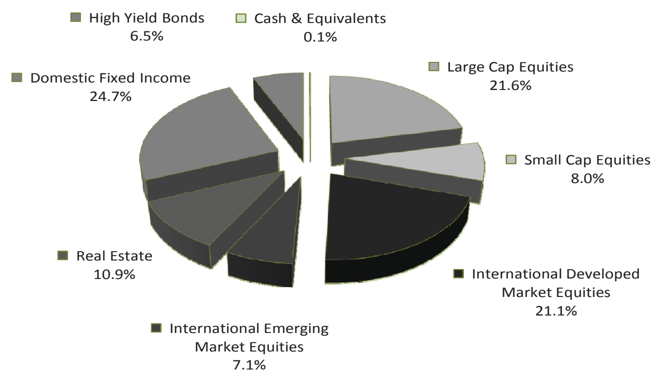
Target Asset Allocation

as of June 30, 2012



Actual Asset Allocation

as of June 30, 2012



Asset Class	Current Target	Allocation Range	Actual
Domestic Large Cap Equities	22.5%	17.0% - 25.0%	21.6%
Domestic Small Cap Equities	7.5%	4.0% - 12.0%	8.0%
International Developed Market Equities	22.8%	16.0% - 30.0%	21.1%
International Emerging Market Equities	7.2%	0% - 10.0%	7.1%
Real Estate	15.0%	5.0% - 24.0%	10.9%
Domestic Fixed Income	15.0%	10.0% - 25.0%	24.7%
High Yield Bonds	10.0%	4.0% - 14.0%	6.5%
Cash & Equivalents	0.0%	0% - 2%	0.1%

Largest Stock Holding (by market value)
as of June 30, 2012

	Shares	Stock Holding	Market Value
1)	75,412	NESTLE SA CHF0.10(REGD)	$4,505,591
2)	66,223	BRITISH AMERICAN TOBACCO ORD GBP0.25	3,366,867
3)	3,020	SAMSUNG ELECTRONIC KRW5000	3,166,474
4)	4,527	APPLE INC COM STK	2,643,951
5)	13,484	ROCHE HLDGS AG GENUSSCHEINE NPV	2,330,726
6)	113,457	BG GROUP ORD GBP0.10	2,313,376
7)	739,635	VODAFONE GROUP ORD USD0.11428571	2,079,443
8)	61,773	SVENSKA HANDELSBKN SER'A'SEK4.30	2,028,851
9)	223,159	HSBC HLDGS ORD USD0.50(UK REG)	1,963,923
10)	710,248	TAIWAN SEMICON MAN TWD10	1,932,178
Total Largest Stock Holdings			$26,331,380

Largest Bond Holdings (by market value)
as of June 30, 2012

	Shares/Par Value	Bond Holding	Coupon Rate	Maturity Date	Market Value
1)	5,552,714	UNITED STATES TREAS NTS DTD	0.750%	15 June 2015	$5,547,945
2)	3,098,745	FEDERAL HOME LN MTG CORP POOL #G02988	6.000%	01 May 2037	3,400,780
3)	2,915,175	UNITED STATES TREAS NTS DTD	0.375%	15 Mar 2015	2,913,353
4)	2,683,812	UNITED STATES TREAS NTS DTD	0.625%	31 Jan 2013	2,690,626
5)	2,263,831	FEDERAL NATL MTG ASSN GTD MTG POOL	5.500%	01 Jan 2025	2,475,635
6)	1,926,526	FNMA POOL #725162	6.000%	01 Feb 2034	2,169,386
7)	2,047,563	HCA INC 5.75%	5.750%	15 Mar 2014	2,142,263
8)	1,989,723	UNITED STATES TREAS NTS DTD	0.500%	15 Aug 2014	1,996,406
9)	1,492,292	UNITED STATES TREAS BDS DTD	4.375%	15 May 2041	1,993,142
10)	1,862,473	UNITED STATES TREAS NTS DTD	2.375%	28 Feb 2015	1,959,817
Total Largest Bond Holdings					$27,289,353

A complete list of portfolio holdings is available on our website at http://www.cfrs-ca.org.

The System participates in a commission recapture program offered by Northern Trust Securities Inc. (NTSI). Investment Managers are instructed to seek best execution and to seek to minimize omission and market impact costs when trading securities. Consistent with the pursuit of best execution, equity manager's participating in the Brokerage Commission Recapture Program are to give consideration to executing a portion of the trades for their account through brokerage firms identified by NTSI as eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For fiscal year 2012, the net income from Brokerage Commission Recapture was $46,878. During this period, the overall participating rate by the System's equity managers was 12.23%. The percentage of equity trading being executed through the program is generally at a low cost and has resulted over the years in a meaningful cost recapture.

Schedule of Commissions

For the Fiscal Year Ended June 30, 2012

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
INSTINET	$46,731	1,242,132	$ 0.0376
CREDIT SUISSE FIRST BOSTON CORPORATION	24,949	55,298,704	0.0005
UBS AG (LONDON)	17,664	1,523,461	0.0116
MERRILL LYNCH INTL LTD	16,035	1,110,011	0.0144
CREDIT SUISSE SECURITIES(EUROPE) LTD	15,250	1,170,770	0.0130
GOLDMAN, SACHS AND CO.	15,089	3,885,876	0.0039
KNIGHT EQUITY MARKETS LP	13,836	405,150	0.0342
MERRILL LYNCH FENNER & SMITH INC	13,747	2,441,935	0.0056
CREDIT SUISSE SECURITIES (USA) LLC	13,467	3,166,633	0.0043
J.P. MORGAN SECURITIES PLC	12,937	695,023,408	0.0000
	$189,705	765,268,080	$0.0002
All Other Brokerage Firms	388,437	11,000,529,180	0.0000
TOTAL	$578,142	11,765,797,260	$0.0001

Investment Summary

	Investment Value as of June 30, 2012	Percent of Fund
Equity		
Domestic	$322,738,059	34.8%
International Developed Market Equities	171,917,177	18.5%
International Emerging Market Equities	34,756,051	3.8%
Fixed Income		
Domestic	265,279,314	28.6%
Real Estate	102,835,465	11.1%
Short Term Investments	29,277,284	3.2%
Total	$926,803,350	100.0%

SECTION 4 - ACTUARIAL

ACTUARIAL CERTIFICATION LETTER

SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8283 F 415.263.8290 www.segalco.com

VIA E-MAIL AND USPS

October 24, 2012

Board of Retirement
City of Fresno Employees Retirement System
2828 Fresno Street, Suite 201
Fresno, CA 93721-1327

Re: City of Fresno Employees Retirement System
June 30, 2011 Actuarial Valuation

Dear Members of the Board:

The Segal Company prepared the June 30, 2011 annual actuarial valuation of the City of Fresno Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

As part of the June 30, 2011 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data provided by the Plan's administrative staff for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. 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.

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 Projected Unit Credit Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any prefunded actuarial accrued liability (PAAL). Actuarial gains and losses are incorporated into the PAAL and are amortized over the same period.

Board of Retirement
City of Fresno Employees Retirement System
October 24, 2012
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The PAAL is amortized as a level percentage of payroll over a 15-year period. The progress being made towards meeting the funding objective through June 30, 2011 is illustrated in the Schedule of Funding Progress.

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the System's CAFR is provided below:

1. Summary of Actuarial Assumptions and Methods;
2. Solvency Test;
3. Actuarial Analysis of Financial Experience; and
4. Schedule of Funding Progress.(1)

(1) *The schedule of funding progress is the only schedule that Segal has prepared for the Financial Section of the CAFR. The other schedules, such as the schedule of gross and net employer and employee contributions, in the Financial Section of the CAFR have been prepared by the Retirement System.*

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2009 Experience Analysis and the June 30, 2010 Economic Assumptions Report. It is our opinion that the assumptions used in the June 30, 2011 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, 2012. The Retirement System utilizes the actuarial surplus to provide contribution rate offsets and a PRSB benefit. The impact of the application of the actuarial surplus on the future financial condition of the Plan has not been explicitly measured in the valuation.

In the June 30, 2011 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 122.5% to 116.3%. The employer's contribution rate has increased from 10.21% of payroll to 12.63% of payroll, while the employee's contribution rate has increased from 5.53% of payroll to 8.48% of payroll.

As a result of using the actuarial value of assets in the actuarial valuation, there were $14.7 million in unrecognized deferred investment losses as of June 30, 2011, which represented 2% of the market value of assets. This is a significant reduction from last year's amount of $177.0 million. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 116.3% to 114.5% and the employer's rate would increase from 12.63% of payroll to 13.21% of payroll.

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Board of Retirement
City of Fresno Employees Retirement System
October 24, 2012
Page 3

The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements 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/kek
Enclosures

5168346v3/09313.001

Summary of Actuarial Assumptions and Funding Method

These actuarial assumptions and methods based on June 30, 2011 data were adopted by the Employees Retirement Board on December 14, 2011, and were effective for July 1, 2012.

Assumptions

Valuation Interest Rate	8.00%
Inflation:	3.50%

Post-Retirement Mortality

(a) Service Retirement
Member RP-2000 Combined Healthy Mortality Table (separate tables for males and females) set back two years.
Beneficiary: RP-2000 Combined Healthy Mortality Table set back two years weighted 35% male and 65% female.

(b) Disability Retirement
Member: RP-2000 Combined Healthy Mortality Table for General Members, set forward four years weighted 65% male and 35% female.

Pre-Retirement Mortality

Based upon the 6/30/2010 Experience Analysis

Withdrawal Rates

Based upon the 6/30/2010 Experience Analysis

Disability Rates

Based upon the 6/30/2010 Experience Analysis

Service Retirement Rates

Based upon the 6/30/2010 Experience Analysis

Assets:

Five-year smoothed recognition of realized and unrealized capital gains and losses greater or less than actuarial assumed rate.

Funding Method:

The System's liability is being funded on the Projected Unit Credit Actuarial Cost method.

DROP Rates

1st year eligible	35% participation
2nd year eligible	15% participation
3rd, 4th & 5th year eligible	10% participation
Thereafter	0% participation

Members are assumed to remain in DROP for 6 years.

Marriage Rates

It is assumed that 80% of all male members and 60% of all female members will be married at retirement.

Wives are 4 years younger than their husbands.

COLA Assumption

3.50% per year; Retiree COLA increases due to CPI are limited to maximum at 3.50% per year.

Salary Scale

Made up of merit and longevity and inflation components. The inflation component is equal to 3.50%; plus 0.50% real across-the-board salary increase. The merit and longevity component varies by service and is illustrated below:

Years Since Hire	Merit & Longevity Assumption
< 1 year	8.50%
1 year	6.50%
2 years	5.00%
3 years	4.00%
4 years	3.25%
5 years	2.25%
6 years	1.25%
7 years	1.00%
8 years	0.90%
9 or more years	0.60%

Probabilities of Separation Prior to Retirement

	Rate (%)	
	Mortality	
Age	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.10	0.06
45	0.13	0.09
50	0.19	0.14
55	0.29	0.22
60	0.53	0.39
65	1.00	0.76

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

Rate (%)	
Age	Disability
20	0.00
25	0.00
30	0.01
35	0.06
40	0.22
45	0.42
50	0.59
55	0.77
60	0.94

All disabilities are assumed to be non-service connected.

Vested Termination (Deferred Vested Benefit)	
Age	Rate (%)
20	2.00
25	2.00
30	2.00
35	2.00
40	2.00
45	2.00
50	2.00
55	0.00
60	0.00

Schedule of Active Member Valuation Data

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2011	Active Members	1739	$101,597,247	$58,423	2.4%
	DROP Participants	254	15,980,093	62,914	3.3%
	Totals	1993	$117,577,340	$58,995	
June 30, 2010	Active Members	2040	$116,427,736	$57,072	2.7%
	DROP Participants	243	14,796,085	60,889	3.3%
	Totals	2283	$131,223,821	$57,479	
June 30, 2009	Active Members	2217	$123,176,724	$55,560	5.9%
	DROP Participants	273	16,097,424	58,965	1.6%
	Totals	2490	$139,274,148	$55,933	
June 30, 2008	Active Members	2245	$117,793,489	$52,469	5.3%
	DROP Participants	264	15,316,424	58,017	2.4%
	Totals	2509	$133,109,913	$53,053	
June 30, 2007	Active Members	2195	$109,370,886	$49,827	4.6%
	DROP Participants	228	12,861,061	56,408	9.3%
	Totals	2423	$122,231,947	$50,447	
June 30, 2006	Active Members	2097	$99,875,529	$47,628	7.4%
	DROP Participants	222	11,502,836	51,815	4.6%
	Totals	2319	$111,378,365	$48,029	
June 30, 2005	Active Members	2061	$91,411,031	$44,353	1.7%
	DROP Participants	225	11,146,645	49,541	1.7%
	Totals	2286	$102,557,676	$44,863	
June 30, 2004	Active Members	2037	$88,877,515	$43,632	2.1%
	DROP Participants	223	10,867,428	48,733	2.0%
	Totals	2260	$99,744,943	$44,135	
June 30, 2003	Active Members	2044	$87,366,386	$42,743	1.3%
	DROP Participants	209	9,982,140	47,761	5.8%
	Totals	2253	$97,348,526	$43,208	
June 30, 2002	Active Members	1994	$84,149,313	$42,201	2.5%
	DROP Participants	198	8,936,515	45,134	0.3%
	Totals	2192	$93,085,828	$42,466	

Schedule of Retirees and Beneficiaries Added to or Removed from Rolls

Year Ended	Added to Rolls: Number	Added to Rolls: Annual Allowance	Removed from Rolls: Number	Removed from Rolls: Annual Allowance	Rolls at End of Year: Number	Rolls at End of Year: Annual Allowance	Average Annual Allowance	% Increase in Retiree Allowance
June 30, 2012	99	$1,026,077	(59)	$640,326	1662	$42,833,718	$25,772	0.76
June 30, 2011	160	$1,810,188	(41)	$(541,232)	1622	$41,487,860	$25,578	(3.76)
June 30, 2010	151	$2,030,635	(48)	$(558,850)	1503	$39,946,446	$26,578	(4.67)
June 30, 2009	85	$1,406,728	(48)	$(682,366)	1400	$39,031,190	$27,879	7.47
June 30, 2008	113	$3,136,606	(49)	$(706,739)	1363	$35,357,509	$25,941	(11.20)
June 30, 2007	94	$1,153,762	(45)	$(614,078)	1299	$37,948,651	$29,214	24.17
June 30, 2006	99	$1,150,756	(44)	$(523,431)	1250	$29,409,733	$23,528	6.32
June 30, 2005	97	$1,132,389	(56)	$(579,306)	1195	$26,444,153	$22,129	(3.81)
June 30, 2004	109	$521,390	(62)	$(689,676)	1154	$26,548,396	$23,006	(8.93)
June 30, 2003	83	$605,134	(40)	$(455,621)	1,107	$27,963,534	$25,261	(3.37)

Solvency Test (in thousands)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Valuation Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)
6/30/2011	$87,568	$572,959	$130,578	$920,217	100%	100%	100%
6/30/2010	94,746	525,289	136,223	926,370	100%	100%	100%
6/30/2009	95,047	480,189	140,014	958,032	100%	100%	100%
6/30/2008	90,891	475,565	123,377	980,961	100%	100%	100%
6/30/2007	91,230	421,463	118,612	926,525	100%	100%	100%
6/30/2006	88,538	414,218	111,157	847,516	100%	100%	100%
6/30/2005	88,322	360,303	116,925	790,858	100%	100%	100%
6/30/2004	87,756	352,680	113,930	741,766	100%	100%	100%
6/30/2003	87,876	334,590	123,221	698,885	100%	100%	100%
6/30/2002	85,532	324,254	120,019	748,762	100%	100%	100%

Actuarial Analysis of Financial Experience

	Plan Years									
(Amounts in Thousands)	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Prior Valuation Actuarial Accrued Liability	$756	$715	$690	$631	$614	$566	$554	$546	$530	$501
Expected Increase from Prior Valuation	-	-	-	-	-	-	-	-	29	28
Salary Increase (Greater) Less than Expected	(6)	(10)	0	8	7	-	5	5	(9)	3
Asset Return (Less) Greater than Expected	-	-	-	-	-	-	7	(34)	-	(7)
COLA Increase Greater/(Less) than Expected	(9)	(4)	-	-	-	-	-	-	-	-
Other Experience	8	1	(19)	10	6	2	-	17	-	-
Economic Assumption Changes	-	10	-	-	(31)	-	-	17	-	-
Noneconomic Assumption Changes	-	-	-	-	-	-	-	3	(4)	5
Normal Cost	22	24	24	22	21	19				
Interest	59	57	55	51	50	46				
Payments	(42)	(37)	(35)	(32)	(36)	(29)				
Change in Valuation Programs and Methods	3	-	-	-	-	10				
Ending Actuarial Accrued Liability	$791	$756	$715	$690	$631	$614	$566	$554	$546	$530

Major Benefit Provisions of the Retirement System

ELIGIBLE EMPLOYEES
All non-Fire and Police employees who enter service after July 1, 1952, and are certified from a civil service list for permanent employment.

FINAL AVERAGE SALARY (FAS)
Highest three consecutive-year average.

NORMAL RETIREMENT
Requirement: age 55 and 5 years of service.
Benefit: Sum of (1) and (2) times (3)

(1) 2% of FAS times years of service, not-to-exceed 25 years

(2) 1% of FAS times years of service in excess of 25 years

(3) RETIREMENT AGE FACTOR TABLE

Age	Factor	Age	Factor
55	1.000	61	1.140
56	1.020	62	1.180
57	1.040	63	1.220
58	1.060	64	1.260
59	1.080	65	1.300
60	1.100	Add .01 for every quarter after age 65.	

EARLY RETIREMENT PROVISION
An employee who is age 50 with 5 years of service may elect an early retirement and shall have his or her retirement allowance reduced by the early retirement actuarial adjustment factor.

DEFERRED RETIREMENT OPTION (DROP)
An employee who is age 55 with 5 years of service may DROP. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work up to maximum of 10 years.

DISABILITY RETIREMENT
Requirement: 10 years of service.
Benefit: 1.8 percent times FAS times years of service, if exceeds 1/3 of FAS; or 33-1/3%, or service retirement, if higher.

MEMBER CONTRIBUTION RATES
Basic rates on a formula reflecting the age at entry into the System. The rates are such as to provide an average annuity, at age 55, of 1/150 of FAS for each of the first 25 years of service, plus 1/300 of FAS for each year of service after 25. Member cost-of-living rates are designed to pay for one-half of the future cost-of-living increases.

DEATH BEFORE RETIREMENT

A. Before eligible to retire for disability (less than 5 years):

   (1) One month's salary for each year of service, not-to-exceed six months.

   (2) Return of contributions with interest.

B. While eligible for service retirement:

   Fifty percent (50%) of service retirement benefit to eligible beneficiary.

C. With 5 or more years:

   Fifty percent (50%) of service retirement benefit formula at age 55, based on years of service at death.

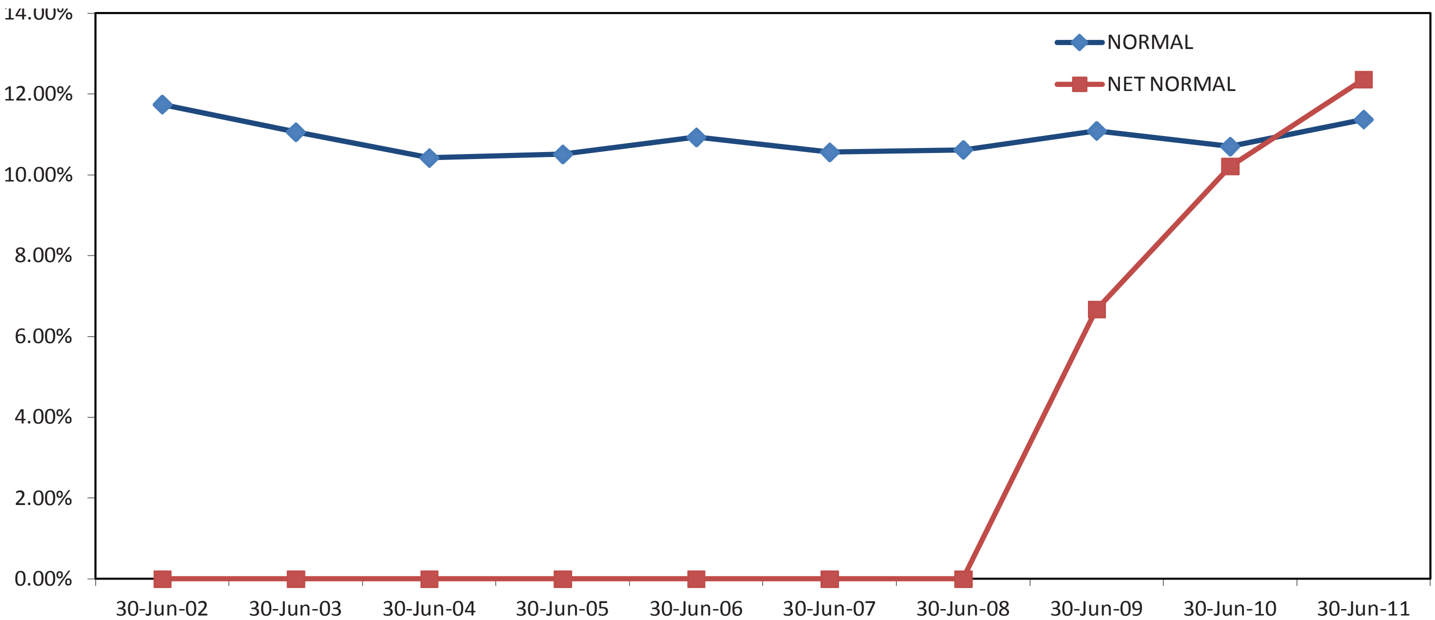
DEATH AFTER RETIREMENT
Fifty percent (50%) of the member's allowance continued to eligible spouse for life.

WITHDRAWAL OF BENEFITS
If less than five years of service, return of contributions. If more than five years of service, right to have vested deferred retirement benefit at normal retirement date.

POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)
On August 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit (PRSB) Program which is intended to provide assistance to retirees to pay for various post-retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year will begin in January.

COST-OF-LIVING BENEFITS
Based on the percentage change in Consumer Price Index (U.S. city-average for urban wage earners and clerical works – all items), limited to a five percent (5%) maximum change per year each July 1.

History of Employer Contribution Rates



VALUATION DATE	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11
NORMAL	11.74%	11.06%	10.42%	10.51%	10.93%	10.56%	10.62%	11.09%	10.70%	11.37%
PREFUNDED LIABILITY	11.74%	11.06%	10.42%	10.51%	10.93%	10.56%	10.62%	4.42%	0.49%	-0.99%
NET NORMAL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.67%	10.21%	12.36%

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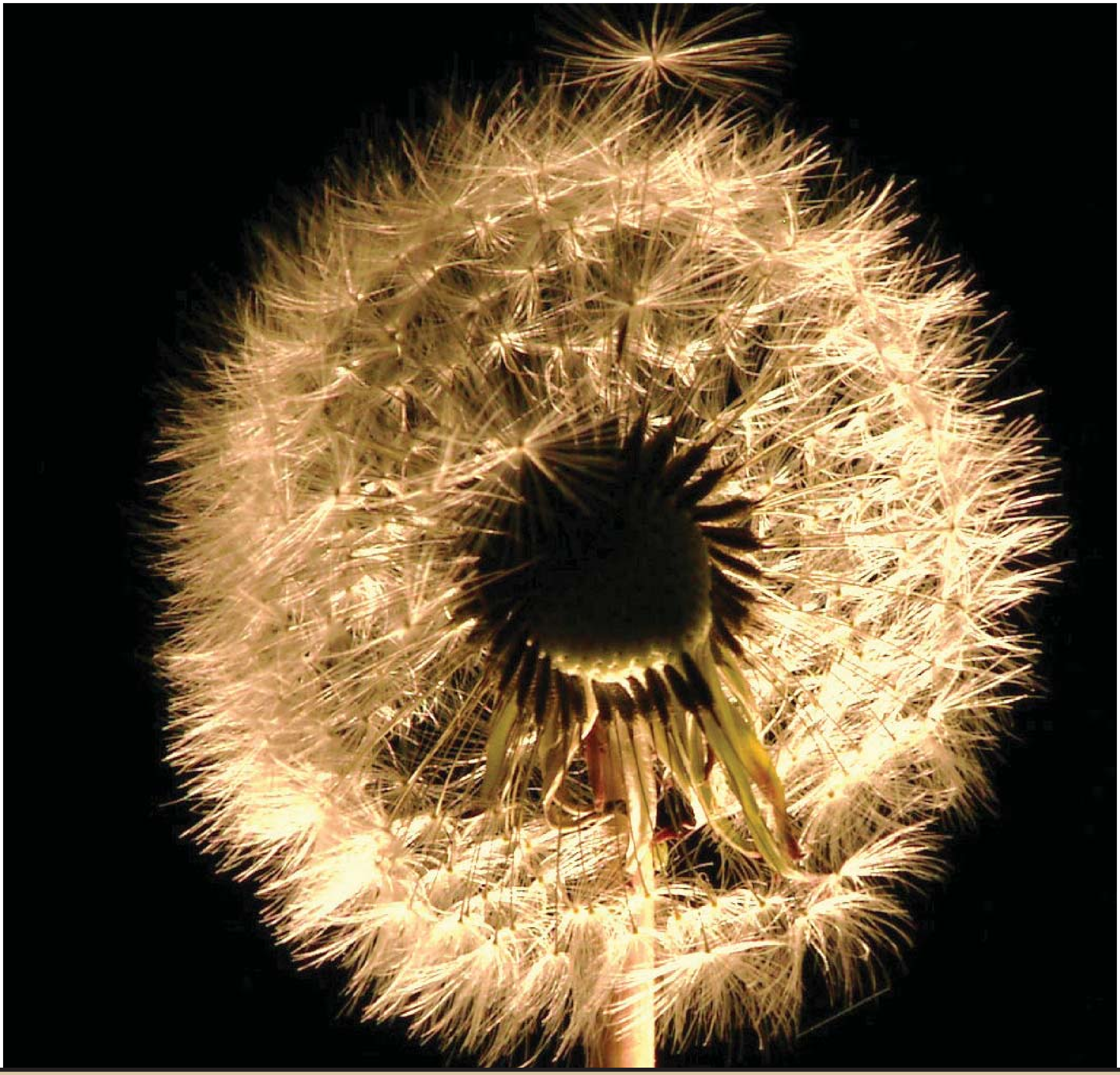
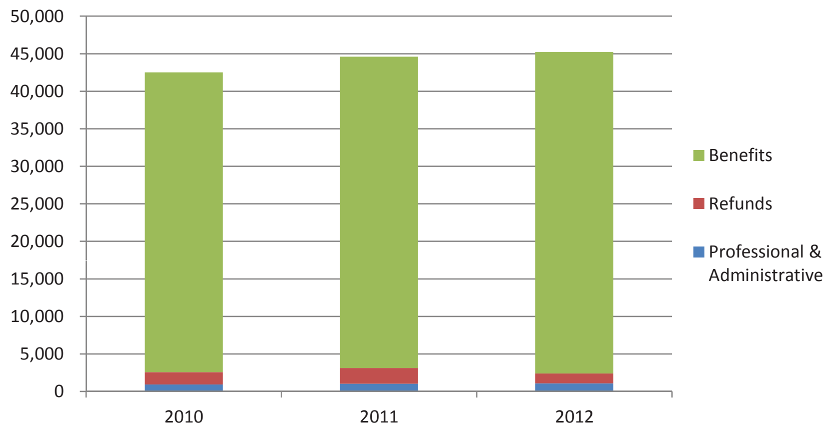


SECTION 5 - STATISTICAL

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information which covers the benefits provided by the City of Fresno Employees Retirement System. It also provides multi-year trend of financial and operation information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

FY 2012 Deductions by Type

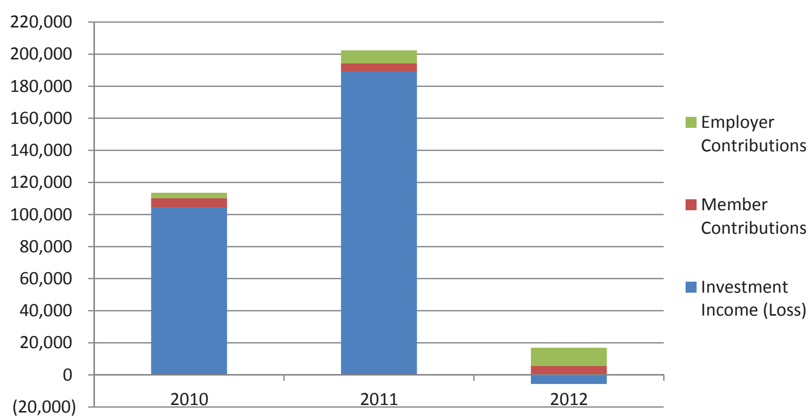
For the Fiscal Years Ended June 30, 2012, 2011 and 2010 (In Thousands)



	2010	2011	2012
Benefits	$39,947	$41,488	$42,834
Refunds	1,651	2,092	1,313
Professional & Administrative	929	1,029	1,087
TOTAL	$42,527	$44,609	$45,234

FY 2012 Additions by Source

For the Fiscal Years Ended June 30, 2012, 2011 and 2010 (In Thousands)



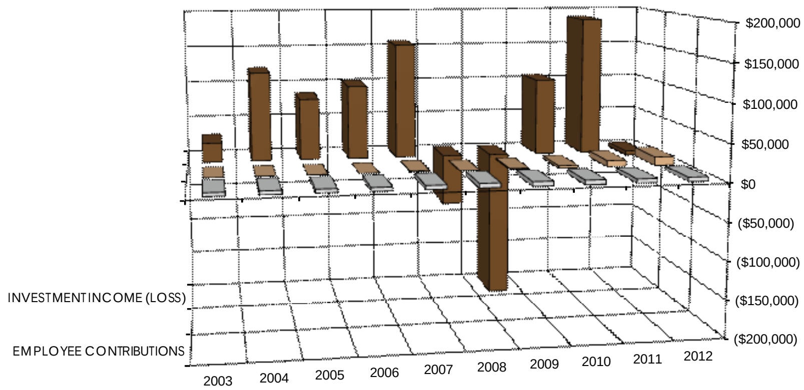
	2010	2011	2012
Employer Contributions	$3,267	$8,215	$11,374
Member Contributions	5,740	5,275	5,507
Investment Income (Loss)	104,511	188,925	(5,620)
Total	$113,518	$202,415	$11,261

Changes in Plan Net Assets Last Ten Fiscal Years (dollars in millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Employer Contributions	$-	$-	$-	$-	$1.6	$0.4	$1.3	$3.3	$8.2	$11.4
Member Contributions	4.5	4.7	4.7	4.6	5.1	5.7	5.8	5.7	5.3	5.5
Investment Income (Loss)	25.6	120.7	83.5	100.1	156.5	(68.5)	(199.7)	104.5	188.9	(5.6)
Total Additions	$30.1	$125.4	$88.2	$104.7	$163.2	$(62.4)	$(192.6)	$113.5	$202.4	$11.3
Deductions										
Benefit Payments	$22.3	$2.4	$25.3	$27.3	$35.0	$31.3	$33.9	$35.7	$39.9	$42.7
Post Retirement Supplemental Benefit	5.6	2.4	1.2	2.1	3.0	4.1	5.1	4.2	1.6	0.1
Refunds	1.3	0.7	1.0	1.2	1.4	1.1	1.0	1.7	2.1	1.3
Administrative	0.5	0.5	0.6	0.8	0.9	0.9	0.9	0.9	1.0	1.1
Total Deductions	29.7	6.0	28.1	31.4	40.3	37.4	40.9	42.5	44.6	45.2
Change in Plan Net Assets	$0.4	$119.4	$60.1	$73.3	$122.9	$(99.8)	$(233.5)	$71.0	$157.8	$(33.9)

FY 2012 Additions by Source

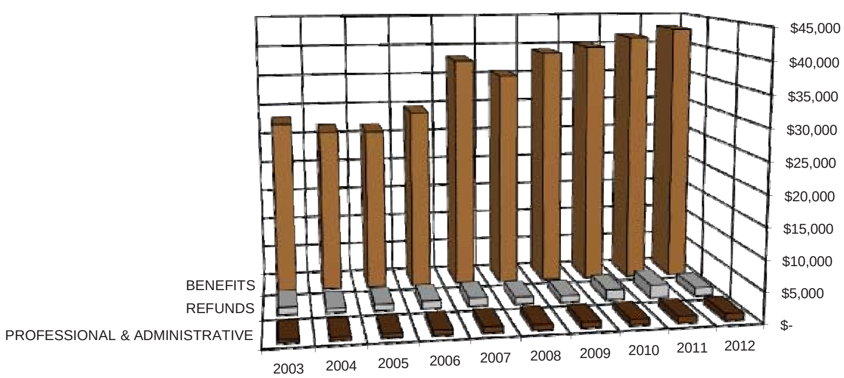
(in thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
MEMBER CONTRIBUTIONS	$4,483	$4,680	$4,750	$4,643	$5,094	$5,666	$5,845	$5,740	$5,275	$5,507
EMPLOYER CONTRIBUTIONS	-	-	-	-	1,566	355	1,345	3,267	8,215	11,374
INVESTMENT INCOME (LOSS)	25,645	120,679	83,471	100,087	156,546	(68,482)	(199,694)	104,511	188,925	(5,620)
TOTAL	$30,128	$125,359	$88,221	$104,730	$163,206	$(62,461)	$(192,504)	$113,518	$202,415	$11,261

FY 2012 Deductions by type

(in thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
BENEFITS	27,964	26,549	26,444	29,410	37,949	35,358	39,031	39,947	41,488	42,834
REFUNDS	1,282	710	1,026	1,218	1,351	1,111	1,022	1,651	2,092	1,313
PROFESSIONAL & ADMINISTRATIVE	$530	$535	$642	$798	$916	$898	$894	$929	$1,029	$1,087
TOTAL	$29,776	$27,794	$28,112	$31,426	$40,216	$37,367	$40,947	$42,527	$44,609	$45,234

Schedule of Average Benefit Payments

	Years of Credited Service						Fiscal Year
Retirement Effective Dates	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	**Average/New Retirants**
Period 7/1/11 to 6/30/12							
Average Monthly Pension Benefits	$568	$1,551	$2,341	$2,659	$4,268	$5,167	$2,759
Number of New Retired Members	22	13	17	13	7	5	77
Period 7/1/10 to 6/30/11							
Average Monthly Pension Benefits	$848	$1,231	$1,966	$2,966	$3,293	$4,409	$2,452
Number of New Retired Members	33	31	17	15	18	19	133
Period 7/1/09 to 6/30/10							
Average Monthly Pension Benefits	$839	$1,309	$2,731	$3,461	$3,626	$4,023	$2,665
Number of New Retired Members	13	20	20	24	27	14	118
Period 7/1/08 to 6/30/09							
Average Monthly Pension Benefits	$939	$1,464	$2,828	$3,028	$3,925	$4,449	$2,772
Number of New Retired Members	17	15	12	8	6	4	62
Period 7/1/07 to 6/30/08							
Average Monthly Pension Benefits	$711	$1,498	$2,346	$3,240	$3,008	$3,916	$2,453
Number of New Retired Members	12	13	19	10	12	7	73
Period 7/1/06 to 6/30/07							
Average Monthly Pension Benefits	$851	$1,585	$2,233	$2,368	$2,706	$2,284	$2,005
Number of New Retired Members	8	17	11	7	21	5	69
Period 7/1/05 to 6/30/06							
Average Monthly Pension Benefits	$690	$1,459	$1,818	$2,959	$3,663	$2,825	$2,235
Number of New Retired Members	15	15	10	12	10	12	74
Period 7/1/04 to 6/30/05							
Average Monthly Pension Benefits	$684	$1,244	$1,857	$2,294	$2,907	$3,140	$2,021
Number of New Retired Members	7	11	18	13	17	11	77
Period 7/1/03 to 6/30/04							
Average Monthly Pension Benefits	$611	$1,262	$1,314	$2,085	$2,760	$3,325	$1,893
Number of New Retired Members	8	14	7	11	17	13	70
Period 7/1/02 to 6/30/03							
Average Monthly Pension Benefits	$881	$1,447	$2,036	$2,340	$2,822	$3,716	$2,207
Number of New Retired Members	3	12	8	9	17	12	61

Retirees by Type of Benefit

(as of June 30, 2012)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3
$1 - $1,000	343	183	7	153
$1,001 - $2,000	594	355	88	151
$2,001 - $3,000	381	319	22	40
$3,001 - $4,000	173	155	12	6
$4,001 - $5,000	95	84	6	5
$5,001 - $6,000	41	38	2	1
$6,001 - $7,000	19	19	0	0
> $7,000	16	13	1	2
Total	1662	1166	138	358

*Type of Retirement
1 - Service Retiree
2 - Disability Retiree
3 - Beneficiary/Continuant/Survivor

Amount of Monthly Benefit	Number of Retired Members	Option Selected** Unmodified	Option 1	Option 2	Option 3
$1 - $1,000	343	198	82	49	14
$1,001 - $2,000	594	317	180	82	15
$2,001 - $3,000	381	197	102	57	25
$3,001 - $4,000	173	88	34	35	16
$4,001 - $5,000	95	52	24	13	6
$5,001 - $6,000	41	21	7	10	3
$6,001 - $7,000	19	15	1	1	2
> $7,000	16	7	2	5	2
Total	1662	895	432	252	83

**Option Selected
Unmodified - Beneficiary receives 50% of the member’s allowance
Option 1 - Beneficiary receives lump sum of member’s unused contributions
Option 2 - Beneficiary receives 100% of member’s reduced monthly benefit
Option 3 - Beneficiary receives 75% of member’s reduced monthly benefit

Data Source: PensionGold Administration System

FY 2012 Deductions by type

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Service Retiree Benefits	$25.3	$24.0	$24.2	$26.6	$34.2	$31.9	$35.2	$35.7	$38.0	$39.5
Disability Retiree Benefits	2.7	2.5	2.3	2.8	3.7	3.5	3.8	4.2	3.5	3.3
Separation	1.2	0.6	0.9	1.1	1.0	1.0	0.7	1.2	1.8	1.1
Death Benefit	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.2
Misc	0.0	0.0	0.0	0.0	0.3	0.0	0.2	0.0	0.0	0.0
Total Benefit Deductions	$29.3	$27.2	$27.5	$30.6	$39.3	$36.5	$40.0	$41.5	$43.6	$44.1

Membership History

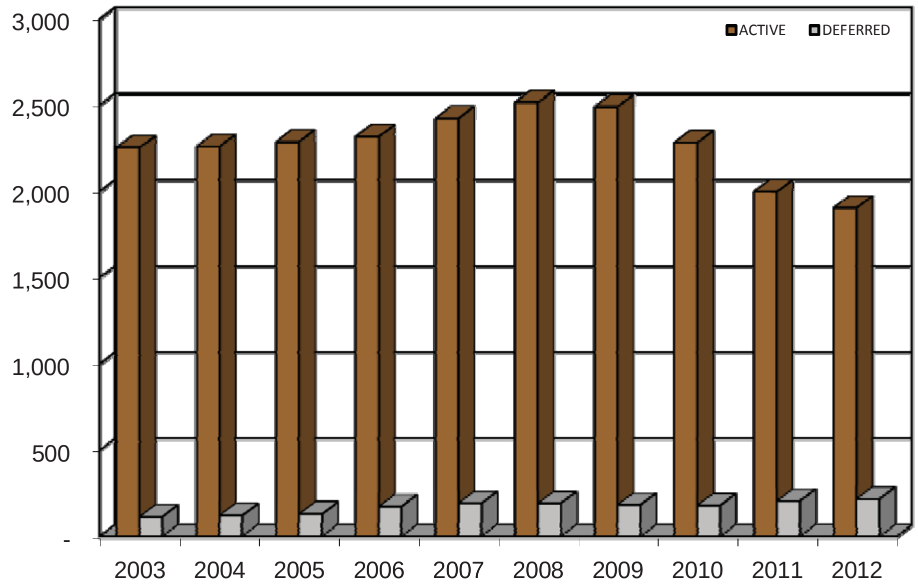
Active / Deferred Members

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Active Vested	1,468	1,536	1,583	1,629	1,701	1,626	1,650	1,629	1,639	1,638
Active Non-Vested	786	724	704	689	722	889	840	654	354	267
Deferred	114	123	132	174	193	192	184	180	212	217
Total	2,368	2,383	2,419	2,492	2,616	2,707	2,674	2,463	2,205	2,122

Retirees

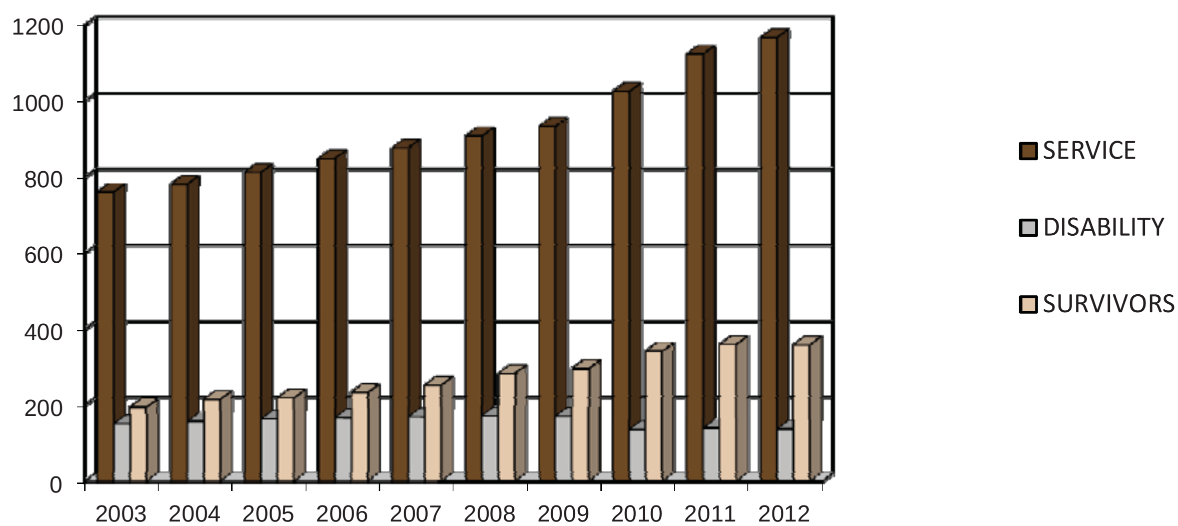
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Service	760	781	812	848	876	908	933	1,025	1,123	1,166
Disability	152	158	164	168	170	172	171	136	140	138
Survivors	195	215	219	234	253	283	296	342	359	358
TOTAL	1,107	1,154	1,195	1,250	1,299	1,363	1,400	1,503	1,622	1,662

Membership History (Active and Deferred)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ACTIVE	2,254	2,260	2,287	2,318	2,423	2,515	2,490	2,283	1,993	1,905
DEFERRED	114	123	132	174	193	192	184	180	212	217
TOTAL	2,368	2,383	2,419	2,492	2,616	2,707	2,674	2,463	2,205	2,122

Schedule of Retirees by Type of Benefit



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SERVICE	760	781	812	848	876	908	933	1025	1123	1166
DISABILITY	152	158	164	168	170	172	171	136	140	138
SURVIVORS	195	215	219	234	253	283	296	342	359	358
TOTAL	1,107	1,154	1,195	1,250	1,299	1,363	1,400	1,503	1,622	1,662

Summary of Active Participants

YEAR	NUMBER	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
2012	1,905	$110,492,026	$58,001	(3.07%)
2011	1,993	$119,260,220	$59,840	5.69%
2010	2,283	$129,258,191	$56,618	6.39%
2009	2,490	$132,511,895	$53,218	3.40%
2008	2,515	$129,440,108	$51,467	9.17%
2007	2,423	$114,233,621	$47,146	2.63%
2006	2,318	$106,482,630	$45,937	3.00%
2005	2,287	$102,001,794	$44,601	1.56%
2004	2,260	$99,251,574	$43,917	3.54%
2003	2,254	$95,602,991	$42,415	3.86%
2002	2,186	$89,275,955	$40,840	3.44%
2001	2,171	$85,715,989	$39,482	2.59%
2000	2,112	$81,285,066	$38,487	6.79%
1999	2,068	$74,529,074	$36,039	2.37%
1998	1,988	$69,986,473	$35,204	(0.52%)
1997	1,953	$69,115,258	$35,389	4.62%
1996	1,927	$65,084,621	$33,775	0.66%
1995	1,893	$63,613,482	$33,605	6.18%
1994	1,966	$62,221,292	$31,649	(3.62%)
1993	2,016	$66,199,898	$32,837	(1.16%)
1992	1,879	$62,422,933	$33,221	19.74%
1991	1,879	$52,133,387	$27,745	1.98%
1990	1,868	$50,822,514	$27,207	7.07%
1989	1,752	$44,520,591	$25,411	8.94%
1988	1,600	$37,321,719	$23,326	0.00%

The fiscal year 2008 increase in pensionable compensation is a reflection of the rare occurrence, approximately every 11 years, in which there are 27 rather than 26 payroll periods reportable.

Summary of Retirees Membership

YEAR	AT END OF YEAR	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
2012	1,662	$42,833,718	$25,772	(0.76%)
2011	1,622	$41,487,860	$25,578	(3.76%)
2010	1,503	$39,946,446	$26,578	(4.67%)
2009	1,400	$39,031,190	$27,879	7.47%
2008	1,363	$35,357,509	$25,941	(11.20%)
2007	1,299	$37,948,651	$29,214	24.17%
2006	1,250	$29,409,733	$23,528	6.32%
2005	1,195	$26,444,153	$22,129	(3.81%)
2004	1,154	$26,548,396	$23,006	(8.93%)
2003	1,107	$27,963,534	$25,261	(3.37%)
2002	1,064	$27,814,021	$26,141	11.50%
2001	1,002	$23,492,505	$23,446	7.45%
2000	991	$21,622,858	$21,819	12.92%
1999	936	$18,085,727	$19,322	9.64%
1998	916	$16,142,881	$17,623	6.00%
1997	915	$15,213,149	$16,626	5.06%
1996	907	$14,353,364	$15,825	1.74%
1995	852	$13,252,179	$15,554	4.54%
1994	836	$12,437,981	$14,878	3.82%
1993	811	$11,621,551	$14,330	4.59%
1992	784	$10,741,680	$13,701	2.46%
1991	749	$10,015,617	$13,372	7.70%
1990	751	$9,324,265	$12,416	2.19%
1989	723	$8,784,048	$12,149	(6.93%)
1988	637	$8,315,552	$13,054	14.54%

Fiscal year 2007 increase in benefits to participants was primarily due to the litigation settlement with retirees which required that certain items of pay previously not included in pensionable compensation be included.

Member Contribution Rates

VALUATION DATE	EFFECTIVE DATE	BASIC AT ENTRY AGE 20	25	30
JUNE 30, 2011	7/1/12- 6/30/13	5.28%	6.22%	7.47%
JUNE 30, 2010	7/1/11- 6/30/12	3.47%	4.09%	4.91%
JUNE 30, 2009	7/1/10- 6/30/11	2.99%	3.59%	4.38%
JUNE 30, 2008	7/1/09- 6/30/10	2.99%	3.59%	4.38%
JUNE 30, 2007	7/1/08- 6/30/09	2.99%	3.59%	4.38%
JUNE 30, 2006	7/1/07- 6/30/08	3.02%	3.62%	4.42%
JUNE 30, 2005	7/1/06- 6/30/07	2.90%	3.48%	4.25%
JUNE 30, 2004	7/1/05- 6/30/06	2.90%	3.48%	4.25%
JUNE 30, 2003	7/1/04 - 6/30/05	3.31%	3.90%	4.69%
JUNE 30, 2002	7/1/03 - 6/30/04	3.31%	3.90%	4.69%
JUNE 30, 2001	7/1/02 - 6/30/03	3.31%	3.91%	4.70%
JUNE 30, 2000	7/1/01 - 6/30/02	3.31%	3.91%	4.70%
JUNE 30, 1999	7/1/00 - 6/30/01	3.31%	3.91%	4.70%
JUNE 30, 1998	7/1/99 - 6/30/00	3.47%	4.06%	4.85%
JUNE 30, 1997	7/1/98 - 6/30/99	3.34%	3.91%	4.67%
JUNE 30, 1996	7/1/97 - 6/30/98	3.34%	3.91%	4.67%
JUNE 30, 1994	7/1/95 - 6/30/96	3.86%	3.95%	4.60%
JUNE 30, 1992	7/1/93 - 6/30/95	4.32%	4.86%	5.58%
JUNE 30, 1990	7/1/91 - 6/30/93	4.21%	4.74%	5.43%
JUNE 30, 1988	7/1/89 - 6/30/91	4.21%	4.74%	5.43%
JUNE 30 1985	7/1/86 - 6/30/89	4.62%	5.13%	5.81%
JUNE 30, 1982	7/1/84 - 6/30/86	4.62%	5.13%	5.81%
JUNE 30, 1979	4/16/80 - 6/30/84	4.23%	4.58%	5.21%
JUNE 30, 1976	7/01/77 - 4/15/80	3.85%	4.35%	5.04%

City Contribution Rates

VALUATION DATE	EFFECTIVE DATE	CITY RATE BASIC	CITY RATE COL	TOTAL CITY RATE	PREFUNDED ACTUARIAL ACCRUED LIAB. (PAAL)	PAAL ADJUSTED CONTRIBUTION RATES
JUNE 30, 2011	7/1/12- 6/30/13	8.75%	2.62%	11.37%	0.99%	12.36%
JUNE 30, 2010	7/1/11 - 6/30/12	8.20%	2.50%	10.70%	(0.49%)	10.21%
JUNE 30, 2009	7/1/10 - 6/30/11	8.48%	2.61%	11.09%	(4.42%)	6.67%
JUNE 30, 2008	7/1/09 - 6/30/10	8.09%	2.53%	10.62%	(10.62%)	0.00%
JUNE 30, 2007	7/1/08 - 6/30/09	8.02%	2.54%	10.56%	(10.56%)	0.00%
JUNE 30, 2006	7/1/07 - 6/30/08	7.96%	2.97%	10.93%	(10.93%)	0.00%
JUNE 30, 2005	7/1/06 - 6/30/07	7.39%	3.12%	10.51%	(10.51%)	0.00%
JUNE 30, 2004	7/1/05 - 6/30/06	7.31%	3.11%	10.42%	(10.42%)	0.00%
JUNE 30, 2003	7/1/04 - 6/30/05	7.73%	3.33%	11.06%	(11.06%)	0.00%
JUNE 30, 2002	7/1/03 - 6/30/04	8.33%	3.41%	11.74%	(11.74%)	0.00%
JUNE 30, 2001	7/1/02 - 6/30/03	8.53%	3.44%	11.97%	(11.97%)	0.00%
JUNE 30, 2000	7/1/01 - 6/30/02	8.49%	3.44%	11.93%	(11.93%)	0.00%
JUNE 30, 1999	7/1/00 - 6/30/01	7.98%	3.53%	11.51%	(11.51%)	0.00%
JUNE 30, 1998	7/1/99 - 6/30/00	8.09%	3.57%	11.66%	(11.66%)	0.00%
JUNE 30, 1997	71/98 -6/30/99	6.83%	3.50%	10.33%	(9.01%)	1.32%
JUNE 30, 1996	7/1/97 -6/30/98	6.41%	3.46%	9.87%	(8.09%)	1.78%
JUNE 30, 1994	7/1/96 - 6/30/97	6.29%	3.33%	9.62%	0%	9.62%
JUNE 30, 1992	7/1/94 - 6/30/95	8.52%	10.88%	19.40%	0%	19.40%
JUNE 30, 1992	7/1/93 - 7/1/94	8.34%	10.12%	18.46%	0%	18.46%
JUNE 30, 1990	7/1/91 - 6/30/93	11.72%	5.80%	17.52%	0%	17.52%
JUNE 30, 1988	7/1/89 - 6/30/91	11.92%	6.38%	18.30%	0%	18.30%
JUNE 30, 1985	7/1/87 - 6/30/89	10.47%	8.63%	19.10%	0%	19.10%
JUNE 30, 1985	7/1/85 - 6/30/87	10.47%	6.84%	17.31%	0%	17.31%
JUNE 30, 1982	7/1/84 - 6/30/85	10.10%	8.14%	18.24%	0%	16.70%
JUNE 30, 1979	3/1/82 - 6/30/84	9.67%	6.36%	16.03%	0%	16.03%
JUNE 30, 1979	4/16/80 - 2/28/82	12.56%	6.84%	19.40%	0%	15.11%
JUNE 30, 1976	7/1/77 - 4/15/80	12.41%	2.55%	14.96%	0%	14.96%

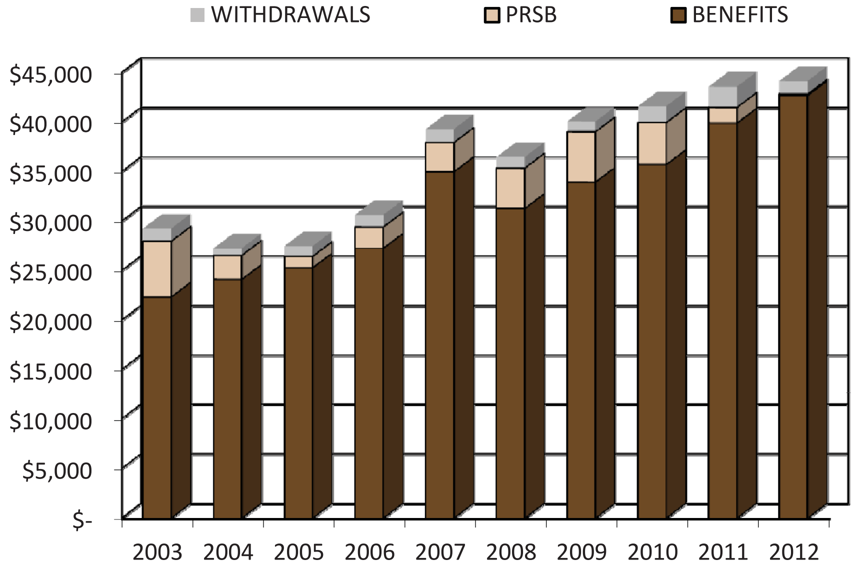
Due to surplus earnings in the System, a prefunded actuarial accrued liability emerged as of the actuarial report dated June 30, 1996. The City's normal contributions have been actuarially offset by the prefunded actuarial accrued liability.

Data Source: Annual Actuarial Valuation Reports

Economic Assumptions and Funding Method

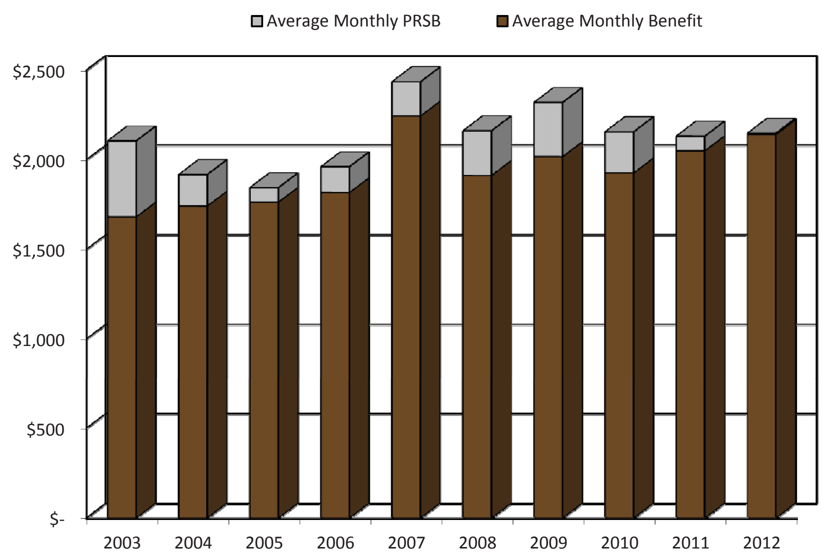
Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2011	8.00%	.60 - 8.5%	3.50%	3.50%	Projected Unit Credit
June 30, 2010	8.00%	.60 - 8.5%	3.50%	3.50%	Projected Unit Credit
June 30, 2009	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2008	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2007	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2006	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2005	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2004	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2003	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2002	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2001	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2000	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1999	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1998	8.25%	.30 - 8%	4.25%	4.75%	Projected Unit Credit
June 30, 1997	8.25%	.25 - 8%	5%	4.75%	Projected Unit Credit
June 30, 1996	8.25%	.25 - 8%	5%	4.5%	Projected Unit Credit
June 30, 1994	8%	.25 - 8%	5%	3 - 5%	Projected Unit Credit
June 30, 1992	8%	6%	5%	5%	Projected Unit Credit
June 30, 1990	8%	6%	5%	5%	Projected Unit Credit
June 30, 1988	8%	6%	5%	5%	Projected Unit Credit
June 30, 1985	7.50%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
June 30, 1982	7%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
Marples	8-1/2%	Merit +6%	5%	6%	Aggregate
June 30, 1979	6-1/2%	Merit 3-1/2%	3-1/2%	3-1/2%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1976	6%	Merit +1%	5% with partial funding	1%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1972	4-3/4	Merit Only	Not recognized	None	Entry Age Normal

BENEFITS AND WITHDRAWALS PAID (IN THOUSANDS)

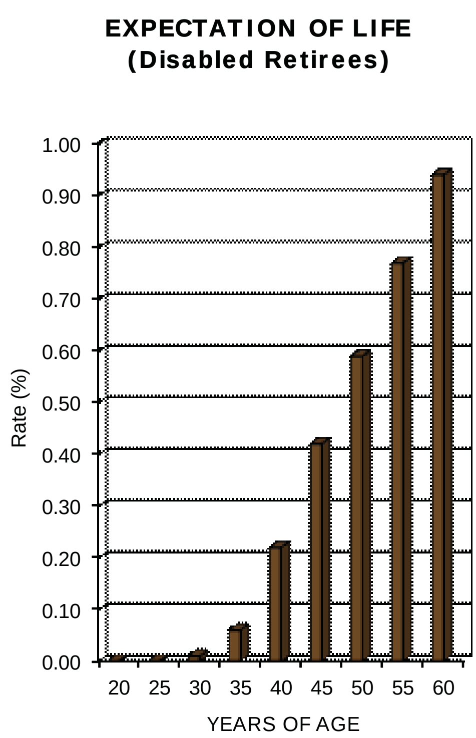


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
BENEFITS	$22,332	$24,118	$25,287	$27,261	$34,982	$31,286	$33,947	$35,699	$39,901	$42,696
PRSB	5,632	2,430	1,157	2,149	2,967	4,072	5,084	4,248	1,587	138
WITHDRAWALS	1,283	710	1,026	1,219	1,350	1,112	1,022	1,651	2,092	1,313

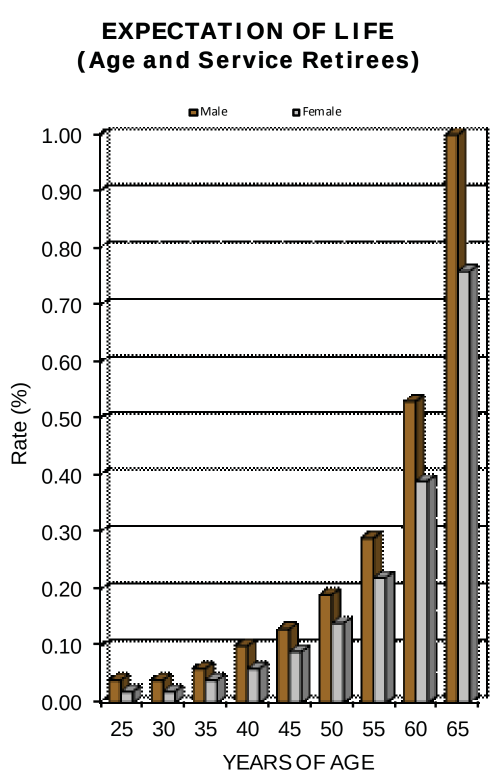
AVERAGE MONTHLY BENEFITS TO PARTICIPANTS (IN THOUSANDS)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average Monthly Benefit	$1,681	$1,742	$1,763	$1,817	$2,244	$1,913	$2,018	$1,927	$2,050	$2,141
Average Monthly PRSB	424	175	81	143	190	249	302	229	81	7
Average Monthly Benefit Total	$2,105	$1,917	$1,844	$1,960	$2,434	$2,162	$2,320	$2,156	$2,131	$2,148



EXPECTATION OF LIFE Disabled Retirees RP-2000 Combined Healthy Mortality Table Male (x+4), Female (x+4)	
Age	Rate (%)
20	0.00
25	0.00
30	0.01
35	0.06
40	0.22
45	0.42
50	0.59
55	0.77
60	0.94



EXPECTATION OF LIFE Age and Service Retirees RP-2000 Combined Healthy Mortality Table Male (x-2), Female (x-2)		
Age	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.10	0.06
45	0.13	0.09
50	0.19	0.14
55	0.29	0.22
60	0.53	0.39
65	1.00	0.76

SECTION 6 - COMPLIANCE

Independent Auditor's Internal Control Letter

BROWN
ARMSTRONG

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Retirement
City of Fresno Employees Retirement System
Fresno, California

We have audited the financial statements of the City of Fresno Employees Retirement System as of and for the year ended June 30, 2012, which collectively comprise the City of Fresno Employee Retirement System's basic financial statements and have issued our report thereon dated November 27, 2012. 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.

<u>Internal Control Over Financial Reporting</u>
Management of the City of Fresno Employees Retirement System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fresno Employees Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fresno Employees Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fresno Employees Retirement System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

<u>Compliance and Other Matters</u>
As part of obtaining reasonable assurance about whether the City of Fresno Employees Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted one matter that we reported to management of the City of Fresno Employees Retirement System in a separate letter dated November 27, 2012.

This report is intended solely for the information and use of management and the Board of Retirement and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 27, 2012