City of Fresno
Employees Retirement System

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

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2014 and 2013

City of Fresno Employees Retirement System

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Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2014 and 2013

Stanley McDivitt
Retirement Administrator

Kathleen Riley Brown
Assistant Retirement Administrator

Yvonne Timberlake
Retirement Benefits Manager

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

City of Fresno Employees Retirement System

Fresno, California

The EMPLOYEES RETIREMENT SYSTEM was established on June 1, 1939 and is maintained and governed by Article 5 of the Fresno Municipal Code. The Employees Retirement System (the System) provides retirement benefits for all qualified non-sworn employees of the City of Fresno.

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.

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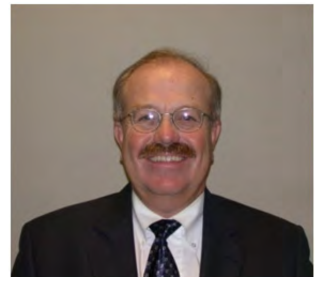
City of Fresno Employees Retirement System
Comprehensive Annual Financial Report
For Fiscal Years Ended June 30, 2014 and 2013

Introductory Section

City of Fresno Employees Retirement System

Letter of Transmittal


STANLEY L. McDIVITT
RETIREMENT ADMINISTRATOR

December 19, 2014

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, 2014 and 2013.

In a world recovering from financial crisis, rife with political discontent, extreme monetary easing and deep-seated prejudice some say that the key to successful investing is not seeing the future with some kind of mythical vision – it is seeing the present with clarity. This is more true today than ever. The monetary and fiscal policy shifts around the globe, while welcomed, come with a realization that it will take a delicate balancing act to boost growth in a more sustainable way throughout the world, raise inflationary expectations to beat deflation in countries where that exists and to secure the sustainability of huge public debt. In the United States, large imbalances had built up prior to the crisis and eventually erupted, but the economy has undergone significant adjustment, which is beginning to bear fruit. The combination of a repaired financial system and a revival in confidence has driven growth. The question of when interest rates are going to rise has dominated discussions in global markets over the past year. But for any long-term investor, the exact timing of the first rate rise in the U.S. and other advanced economies will be less important than the level of where interest rates eventually end up. It is not news that real interest rates have fallen since the global financial crisis: central banks slashed policy rates to record lows when the crisis hit in 2008 and 2009, and have largely kept them there.

Despite the persistent and overwhelming challenges of the global economy, the City of Fresno Employees Retirement System (the System) is well funded at a fully funded status on both a market value and actuarial basis at 114.3 percent and 104.6 percent, respectively. 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 2014, the System's gross of fee returns provided by its custodian Northern Trust, when compared to other institutional investors and weighted policy benchmarks, were very favorable. The System's gross of fees one-year return was 17.58 percent; 0.27 percent above its policy benchmark return of 17.31 percent; and outperforming its actuarial interest rate assumption of 7.50 percent by 10.08 percent. The five-year annualized gross of fees return of 13.73 percent was positive, above its policy benchmark return of 12.98 percent by 0.75 percent. The System's ten-year annualized gross of fees return at 7.64 percent slightly exceeding its policy benchmarks for that period by 0.01 percent while slightly outperforming its actuarial interest rate assumption by 0.14 percent for the same period.

The Employees Retirement System remains highly funded and well positioned to serve our members and retirees. The System's 20 and 25-year, long-term returns of 9.19 percent and 9.16 percent, respectively, as of June 30, 2014, 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, 2014 and 2013 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 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 services 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 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, NEPC, LLC 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 City of 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

The Board, jointly with the Fire & Police Retirement System Board (the Boards), performed an investment manager search, due diligence review and selection of a new Absolute Return Strategy implementing the new portfolio (Unconstrained Bond Fund) managed by PIMCO;

conducted a preliminary search for a Global Tactical Asset Allocation (GTAA) manager; reviewed and modified the Boards' Investment Objectives and Policy Statement to add policies for Global Tactical Asset Allocation and Absolute Return Strategies; and conducted an Emerging Markets Equity manager search which was completed in August 2014.

The Boards retained the services of the law firm of Ice Miller, LLP in July 2013 to assist with the filing of a new Tax Determination Letter. Applications were submitted and received by the IRS on August 8, 2013. The Boards received notification from the IRS dated March 26, 2014, that the IRS made a favorable determination. This letter of determination expires on January 31, 2019.

During fiscal year 2013, the Boards jointly approved a major two-year project to program and install an upgrade to our original pension administration system that was installed in 1997. The LRS Pension Gold Retirement Solutions' Version 3 project is an upgrade to a web based, fully integrated software administration system that includes imaging of documents, workflow processes and a new member portal allowing members secure access to their information in our system including Deferred Retirement Option Program (DROP) account information. This project began in fiscal year 2013 with the kickoff of the Project Work Plan Development and Requirements Confirmation phases of the project. Imaging of documents commenced in February 2013 and User Acceptance Testing for Member Basics and Employer Reporting started on June 3, 2013. Staff remarkably accomplished imaging of all active member records by fiscal year end 2013 and full implementation of the remaining retired and vested terminated records was completed by fiscal year end 2014. The new Pension Administration System is expected to be fully implemented by the end of 2015 calendar year.

With the assistance of its actuary and staff, the Board completed the annual actuarial valuation for June 30, 2014 and 2013 and assisted with the 2014 DROP Cost Neutrality Study. In addition, the actuaries implemented the new Governmental Accounting Standards Board (GASB) Statement No. 67 which redefines pension liability and expense for financial reporting purposes.

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, 2013. 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 sixteen 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 And Net Pension Liability

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, 2014, actuarial valuation is presented in this CAFR. As of June 30, 2014, the funded ratio of the Employees Retirement System was 104.6 percent. The ratio of the valuation value of assets to actuarial accrued liabilities was 99.9 percent as of the June 30, 2013 valuation. The funding ratios as of June 30, 2014 and 2013 if measured using the market value of assets instead of the valuation value of assets are 114.3 percent and 101.8 percent, respectively. The funded ratios were determined by using the actuarial value of the assets in accordance with actuarial standards.

Governmental Accounting Standards Board (GASB) Statement No. 67 became effective June 30, 2014 and is for Plan financial reporting. It replaces GASB Statement No. 25 which was previously the basis upon which the actuary determined the actuarial accrued liabilities. Statement No. 67 requires the utilization of slightly different assumption methodology for the calculation of the System's net pension liability. Statement 68 replaces Statement 27 and is effective June 30, 2015 for employer reporting. It is important to note that the new GASB Statement No. 67 redefines pension liability and expense for financial reporting purposes only, and does not apply to contribution amounts for pension funding purposes.

The actuarial accrued liability of the System at June 30, 2014, for funding purposes, amounted to \$950,274,000; the valuation value of assets amounted to \$993,640,520 and market value of assets amounted to \$1,086,198,000. At June 30, 2013, the actuarial value of assets amounted to \$934,947,000; the valuation value of assets amounted to \$933,722,000 and the market value of assets amounted to \$951,313,000.

Under the GASB Statement No. 67 Financial Reporting methodology, the net pension liability of the System as of June 30, 2014 indicates a surplus of $117,534,093; while on an actuarial funding basis the valuation value of assets basis reflects a surplus of $43,367,000 and a funding ratio of 104.6 percent.

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 internal controls are designed to provide reasonable but not absolute assurance that these objectives are met. 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. The objective is to provide a reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements given the prudent need to ensure that the cost of a control should not exceed the benefits to be derived.

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 and in Note 2 – Summary of Significant Accounting Policies (see section Investments).

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, 2014 and June 30, 2013, the System's investments provided a 17.58 percent and 13.59 percent gross of fees 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 Timberlake, Alberto Magallanes, Karen Espiritu, Pattie Laygo, Andrea Ketch, Patricia Basquez, Phillip Carbajal, Lori Salvador, Donna Gaab, Stanton Perkins 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

December 19, 2014

Retirement Board Members

As of June 30, 2014

Chair
Jeff Beatty
Appointed September 2012
Term Continuous
Appointed by the Mayor and Confirmed by the Fresno City Council

Vice Chair
Marvell French
Appointed July 2000
Term Continuous
Outside Member Appointed by the Retirement Board

Randy Nason
Elected July 2010
Term Expired July 2014
Represents Manual Worker Members

Phillip Hardcastle
Elected July 2012
Term Expires July 2016
Represents Clerical and Supervisory Members

TJ Miller
Appointed September 2013
Term Continuous
Appointed by the Mayor and Confirmed by the Fresno City Council

City of Fresno Employees Retirement System

Retirement Administrative Staff

(SEATED AT TABLE)

Stanley McDivitt (center)
Retirement Administrator

Kathleen Riley Brown (right)
Assistant Retirement Administrator

Yvonne Timberlake (left)
Retirement Benefits Manager

(left to right in photo)

Stanton Perkins
Programmer Analyst IV

Karen Espiritu
Accountant-Auditor

Andrea Ketch
Accountant-Auditor

Lorinda Salvador
Retirement Counselor

Phillip Carbajal
Retirement Counselor

Patti Basquez
Retirement Counselor

Kathryn Muzio
Senior Administrative Clerk (Temporary)

Alberto Magallanes
Senior Accountant-Auditor

Donna Gaab
Retirement Counselor (Temporary)

Pattie Laygo
Executive Assistant

City of Fresno Retirement Systems
Caring For Your Future

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 xiii and xiv for outside consultants and investment managers and page 71 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.

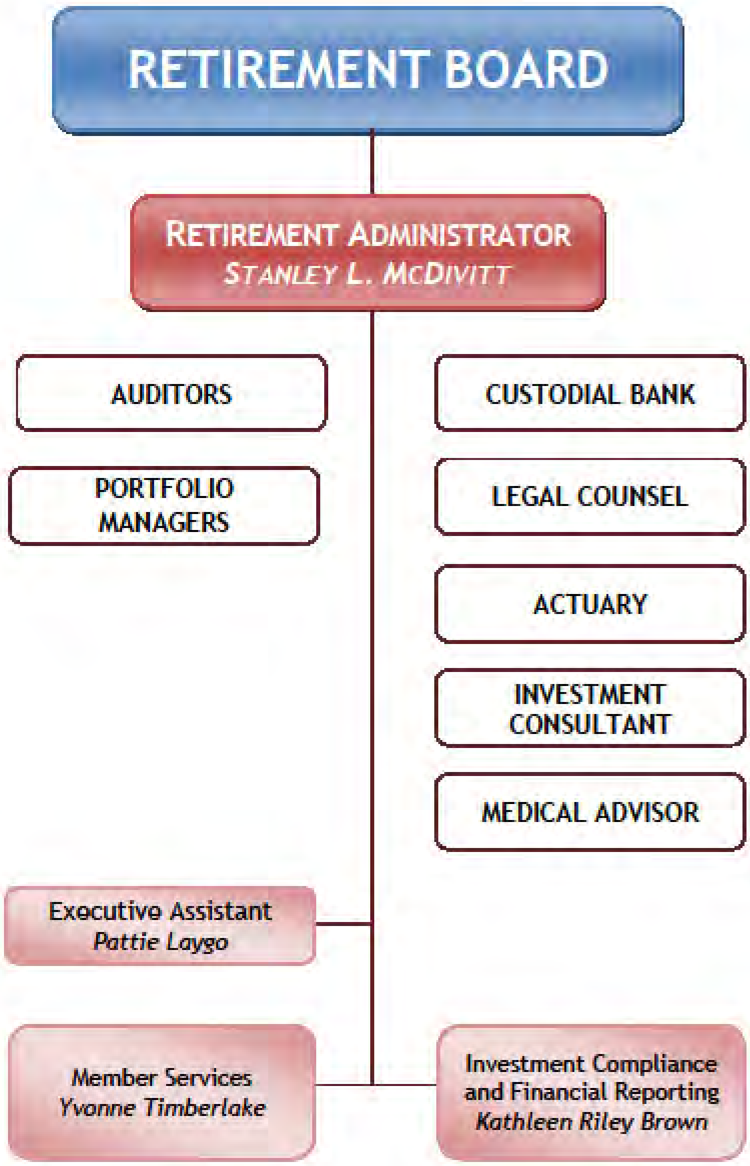
Investment Compliance and Financial Reporting

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 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.

Organizational Structure



Professional Services Consultants

Custodial Bank
NORTHERN TRUST
Chicago, Illinois

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

Tax Counsel
ICE MILLER LLP
Indianapolis, Indiana

Investment Legal Advisor
FOLEY & LARDNER LLP
Boston, Massachusetts

Investment Consultant
NEPC, LLC
Boston, Massachusetts

Actuary
THE SEGAL COMPANY
San Francisco, California

Medical Advisor
BENCHMARK, AN EXAMWORKS
COMPANY, INC.
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

International & Emerging Markets

International
BlackRock, San Francisco, CA
Baillie Gifford & Co., Edinburgh, Scotland
Principal Global Investors, DesMoines, IA

Emerging Market
Wellington Management Company, LLP,
Boston, MA

Fixed Income

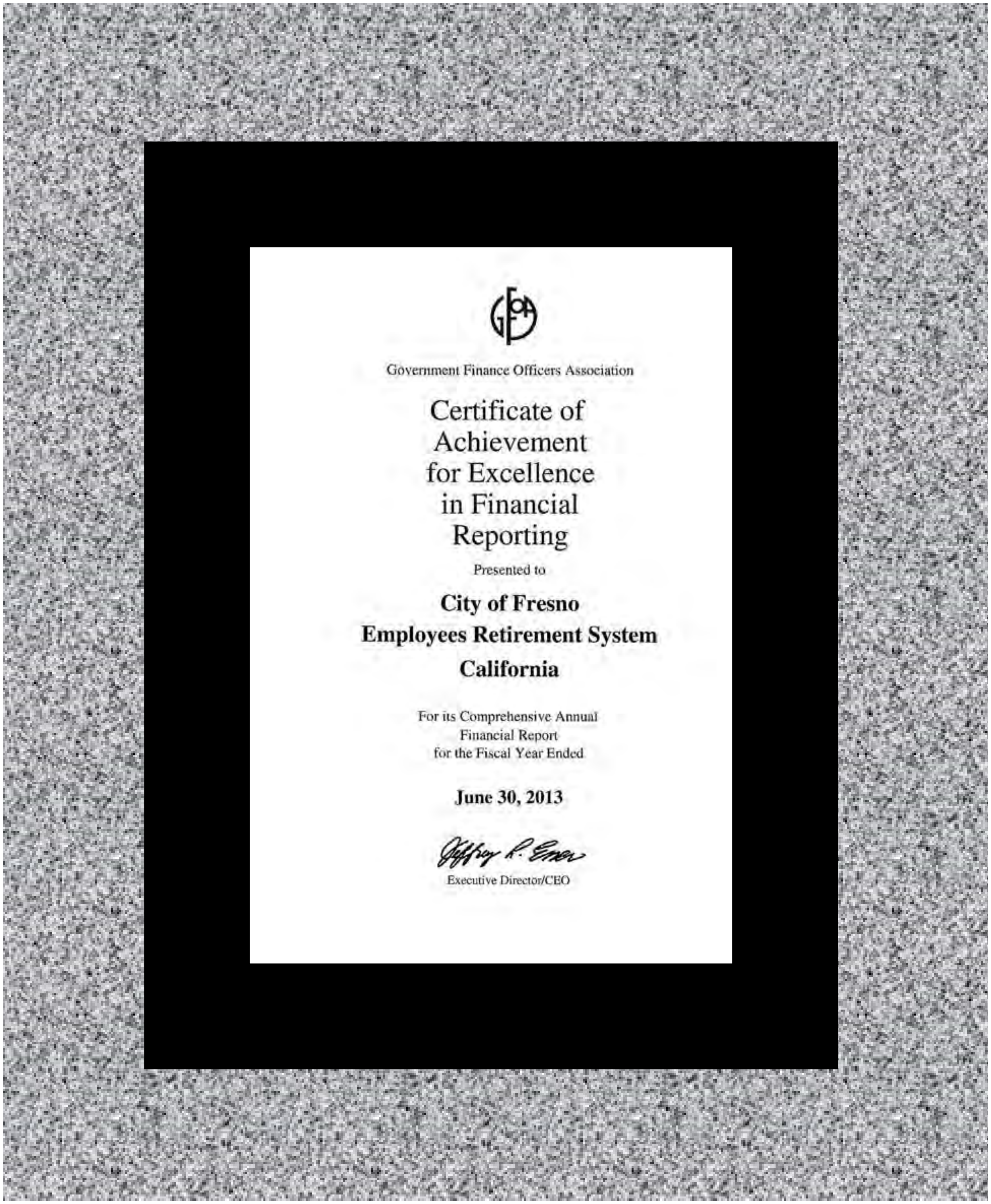
Core Fixed Income
Dodge & Cox, San Francisco, CA
Prudential Investment Mgt, Inc., Newark, NJ
PIMCO, Newport Beach, CA

High Yield
Loomis Sayles, Boston, MA
MacKay Shields, New York, NY

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.


Government Finance Officers Association

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, 2013

Executive Director/CEO

Also awarded 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

Financial Section

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Independent Auditor's Report

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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FAX 559.476.3593

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FAX 626.204.6547

5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective Fiduciary Net Position of the System, as of June 30, 2014 and 2013, and its Statement of Changes in Fiduciary Net Position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The Introductory Section; Other Supplementary Information; and Investment, Actuarial, and Statistical Sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 19, 2014

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, 2014 and 2013. 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 ii of this report.

Financial Highlights

The System's net position restricted for pension benefits are restricted for payment of pension benefits to participants and their beneficiaries and all of the net position is restricted to meet the System's ongoing obligations.

At the close of the fiscal year 2014, the assets of the System exceed its liabilities by $1,167,157,093; as of fiscal year 2013, the assets of the System exceed its liabilities by $1,024,655,557; and as of fiscal year 2012, the assets of the System exceeded its liabilities by $930,402,725.

The System's net position restricted for pension benefits increased by $142,491,536 or 13.91 percent for fiscal year 2014; increased $94,262,832 or 10.13 percent for fiscal year 2013; and decreased by $33,973,779 or 3.52 percent for fiscal year 2012 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, 2014, the date of the last actuarial valuation, the funded ratio for the System was 104.6 percent reflecting that the System has a valuation value of assets which is in excess of the actuarial accrued liability. In general, this indicates that for every dollar of benefits due we have approximately $1.05 of assets available for payment as of that date.

As of the June 30, 2013, the date of the previous annual actuarial valuation, the funded ratio for the System was 99.9 percent; and as of June 30, 2012, the funded ratio for the System was 102.2 percent.

Additions to Fiduciary Net Position

Additions for the fiscal year 2014 increased $49,716,872 or 34.90 percent over the prior year from $142,441,358 to $192,158,230 which includes member contributions of $7,945,519, employer contributions of $11,439,981, a net investment income gain of $172,305,191 and net securities lending income of $467,539.

Fiscal year 2013 increased $131,180,917 or 1,164.97 percent over the prior year from $11,260,441 to $142,441,358 which includes member contributions of $7,995,145, employer contributions of $13,329,655, a net investment income gain of $120,545,096 and net securities lending income of $571,462.

Fiscal year 2012 total additions 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.

Deductions from Fiduciary Net Position

Deductions from fiduciary net position for the fiscal year 2014 increased $1,488,168 or 3.09 percent over the prior fiscal year 2013 from $48,178,526 to $49,666,694.

Fiscal year 2013 deductions increased $2,944,306 or 6.51 percent over the prior fiscal year 2012 from $45,234,220 to $48,178,526.

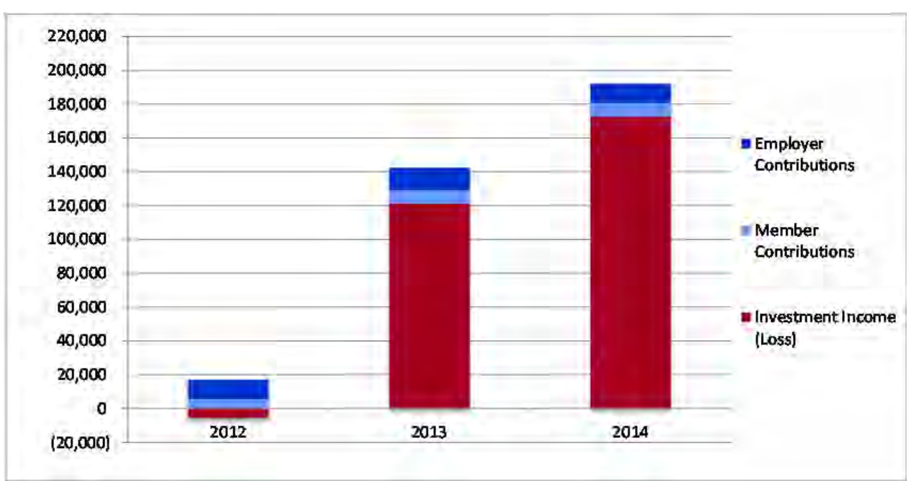
Fiscal year 2012 deductions increased $624,660 or 1.40 percent over the fiscal year 2011 from $44,609,560 to $45,234,220.

The current year increase in deductions is due primarily to the increases in retirees and the respective retirement benefits paid in 2014 even though there were no Post Retirement Supplemental Benefits (PRSB) paid during calendar year 2014.

Schedule and Graph of Additions By Source

For the Fiscal Years Ended June 30, 2014, 2013 and 2012 (In Thousands)

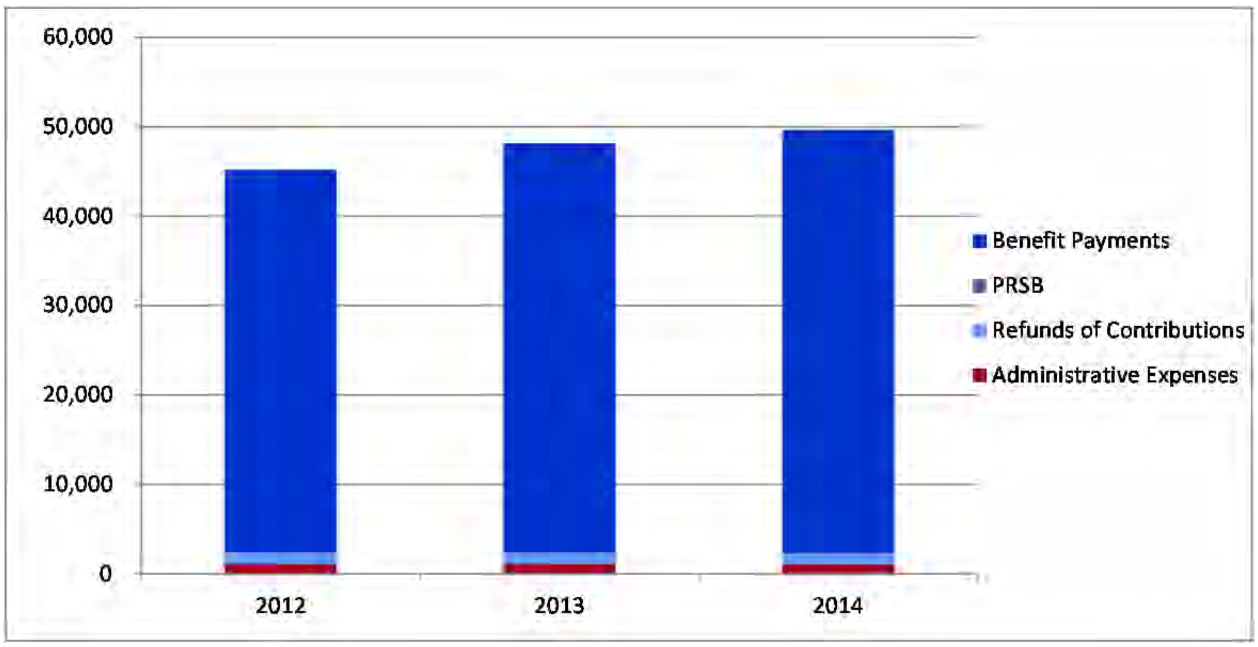
	2012	2013	2014
Employer Contributions	$ 11,374	$ 13,330	$ 11,440
Member Contributions	5,507	7,995	7,945
Investment Income (Loss)	(5,620)	121,116	172,773
Total	$ 11,261	$ 142,441	$ 192,158



Schedule and Graph of Deductions By Type

For the Fiscal Years Ended June 30, 2014, 2013 and 2012 (In Thousands)

	2012	2013	2014
Benefit Payments	$42,696	$45,807	$47,368
PRSB	138	76	9
Refunds of Contributions	1,313	1,157	1,204
Administrative Expenses	1,087	1,138	1,086
TOTAL	$45,234	$48,178	$49,667



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:

Statement of Fiduciary Net Position – The Statement of Fiduciary Net Position presents the major categories of assets and liabilities and their related value as of the System's fiscal year ended June 30, 2014. "Net Position Restricted for Pension Benefits" represents funds available to pay benefits and it 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 Fiduciary Net Position includes prior year-end balances for comparative purposes. Increases and decreases in Net Position Restricted for Pension Benefits, when analyzed over time, may serve as an indicator of whether the System's financial position is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the System's overall health.

Statement of Changes in Fiduciary Net Position – This Statement of Changes in Fiduciary Net Position provides information about the financial activities during the reporting period that increased and decreased the Net Position Restricted for Pension Benefits. For comparative purposes, prior year-end balances are also provided.

The two statements above 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 additions and deductions 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.

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 basis of accounting. The System complies with all material requirements of these pronouncements.

Notes to the Basic Financial Statements - The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to acquire a full understanding of the information and data provided in the two statements discussed above. The notes include further discussion and details regarding the System's key policies, programs, investments and activities that occurred during the year.

Required Supplementary Information – The Required Supplementary Information presents historical trend information concerning the changes in net pension liability, employer contributions and investment returns, and includes notes that explain factors that significantly affect trends in the amounts reported, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions over time. The information is based on actuarial valuations prepared for the plan. The actuarial valuation report includes additional actuarial information that contributes to the understanding of the changes in the net pension liability of the defined benefit pension plan over the past ten years as presented in the schedule. The actuarial information is based upon assumptions made regarding future events at the time the valuations are performed and are derived for both financial reporting and funding purposes.

Other Supplementary Information – The Other Supplementary Information presented immediately following the required supplementary information includes schedules pertaining to the System's administrative expenses, investment management fees and other investment related expenses, and payments to consultants and other professional service providers.

The System's funding ratio at June 30, 2014 was 104.6 percent, which means the System's fund has approximately $1.05 available for each $1.00 of liability. The

Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about the System's financial activities during the reporting period that increased and decreased the Net Position Restricted for Pension Benefits.

Financial Analysis

Net Position

As previously noted, the System's net position restricted for benefits may serve over time as a useful indication of the System's financial position. The System's net position restricted for pension benefit payments exceeded its liabilities at the close of the fiscal year 2014 by $1,167,157,093. All of the net position is available to meet the System's ongoing obligations to plan participants and their beneficiaries.

In fiscal year 2014, the System's restricted fiduciary net position, representing assets available to pay current and future member pension benefits, increased by 13.91 percent primarily due to the strong performance of the investment portfolio reflecting activity of the global investment markets and in 2013, the System's restricted fiduciary net position increased by 10.13 percent also due to strong investment performance ; while in 2012, the System's restricted fiduciary net position decreased by 3.52 percent, largely due to volatility and fluctuations lowering performance of the global investment markets. (See Table 1).

In order to determine whether the $1.167 billion in net position will be sufficient to meet future obligations, the System's independent actuary performed an actuarial valuation as of June 30, 2014. The result of this valuation determines what future contributions by Plan members and the City of Fresno are needed to pay all expected future benefits. The valuation takes into account the Board's funding policy which includes a provision to smooth the impact of market volatility by spreading each year's gains or losses over five years.

There has been extreme volatility in the various economies of the world and throughout the global financial markets over the past twenty to twenty-five years, therefore, it is of utmost importance to examine the System's investment returns with a long-term view rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. As an example, you cannot isolate the high returns during the Tech Bubble in the 1990's without including the Tech Bubble corrections in the early 2000's. 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 7.50 percent over long periods. As of June 30, 2014, the System's 25-year annualized return is 9.16 percent and its 20-year annualized return is 9.19 percent.

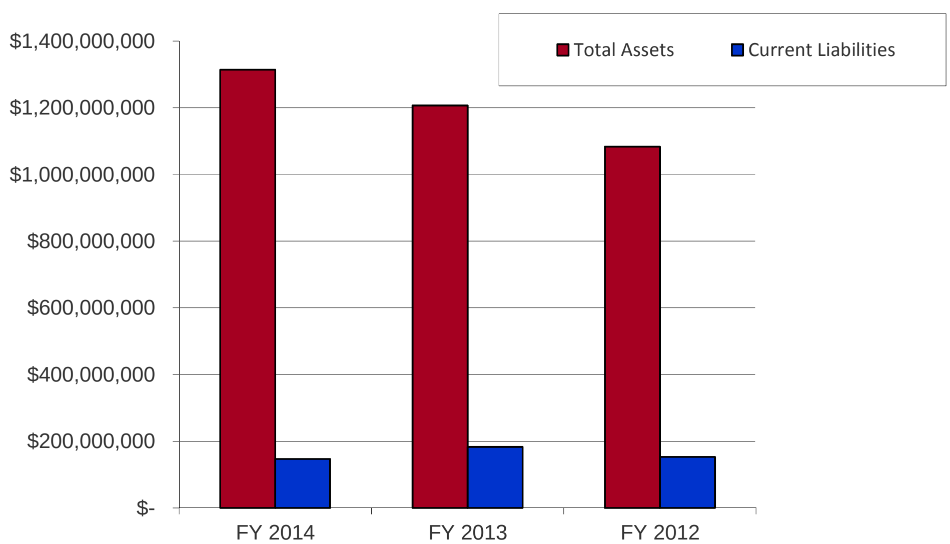
Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and carefully managed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

Table 1 - Employees Retirement System Fiduciary Net Position Restricted For Pension Benefits

For The Years Ended June 30, 2014, 2013 And 2012

	FY 2014	FY 2013	FY 2014 Increase/(Decrease) Amount	FY 2014 Increase/(Decrease) Percent
Current and Other Assets	$ 145,328,200	$ 172,726,684	$ (27,398,484)	(15.86%)
Investments at Fair Value	1,168,754,527	1,034,575,881	134,178,646	12.97%
Total Assets	$ 1,314,082,727	$ 1,207,302,565	$ 106,780,162	8.84%
Current Liabilities	146,925,634	182,637,008	(35,711,374)	(19.55%)
Net Position Restricted for Pension Benefits	$ 1,167,157,093	$ 1,024,665,557	$ 142,491,536	13.91%

	FY 2013	FY 2012	FY 2013 Increase/(Decrease) Amount	FY 2013 Increase/(Decrease) Percent
Current and Other Assets	$ 172,726,684	$ 156,472,558	$ 16,254,126	10.39%
Investments at Fair Value	1,034,575,881	926,803,350	107,772,531	11.63%
Total Assets	$ 1,207,302,565	$ 1,083,275,908	$ 124,026,657	11.45%
Current Liabilities	182,637,008	152,873,183	29,763,825	19.47%
Net Position Restricted for Pension Benefits	$ 1,024,665,557	$ 930,402,725	$ 94,262,832	10.13%



Capital Assets

The System's investment in capital assets increased from $527,534 to $680,391 (net of accumulated depreciation and amortization) between fiscal years 2013 and 2014 after increasing from $46,706 to $527,534 between fiscal years 2012 and 2013. This investment in capital assets includes office equipment, furniture, software, and technology infrastructure. The total increase in the System's investment in capital and intangible assets as of June 30, 2014 and 2013 was $152,857 and $480,828, respectively. The increases in both fiscal years are primarily due to the costs incurred for the development of software to program and install an upgrade to our original pension administration system that was originally installed in 1997, which is targeted for implementation in calendar year 2015.

Reserves

Reserves are not required, nor recognized, under accounting principles generally accepted in the United States of America (GAAP). The reserves are not shown separately on the Statement of Fiduciary Net Position, but they equate to and are accounts within the net position restricted for pension 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 5 – Net Position Restricted for Pension 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 retirees. 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 been allocated but not used as a reduction to offset or eliminate the City of Fresno's (the City) 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.

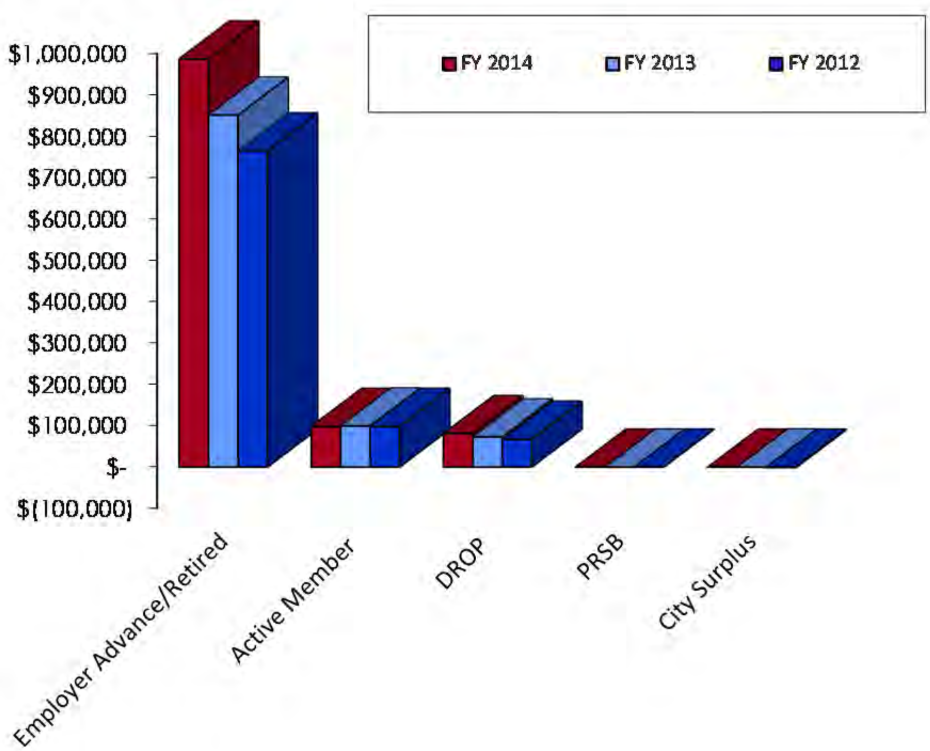
Additions and deductions from PRSB occur when surpluses and allocations occur, respectively. The City Surplus reserve represents that portion of distributable actuarial surpluses and accrued interest, reduced by required City normal pension contributions. The City Surplus Reserve Account shall be drawn upon in subsequent years if needed to reduce or eliminate the City's annual pension contribution requirement.

The City Surplus Reserve Account shows a slightly negative balance for fiscal year 2014, while fiscal year 2013 was positive and made up the negative balances that persisted in fiscal year 2012 due to the differences between the actual and estimated surplus allocation to the City for offsetting the City's contributions for 2012 and 2011. The City's normal contribution rate for fiscal year 2014 included an offset for excess funding that occurred during fiscal year 2013 which was designed to correct the deficit City Surplus Reserve balance for the prior year, and included an adjustment for phase-in of assumption changes in the actuarial assumed rate of return.

Table 2 - Employees Retirement System's Reserves

For The Years Ended June 30, 2014, 2013 And 2012 (In Thousands)

	FY 2014	FY 2013	FY 2012
Employer Advance/Retired Reserves	$ 987,708	$ 851,764	$ 765,298
Active Member Reserves	98,490	99,549	98,580
DROP Reserves	81,027	73,140	67,524
PRSB Reserves	-	9	82
City Surplus Reserves	(68)	204	(1,081)
Net Position Restricted for Pension Benefits	$ 1,167,157	$ 1,024,666	$ 930,403



System's Activities

Attributable in part to the continued growth in global financial markets, the System's assets increased $142,491,536 for the fiscal year 2014 resulting in a 13.91 percent increase in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2014. The System's fiduciary net position increased $94,262,832 for the fiscal year 2013 resulting in a 10.13 percent increase in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2013; and primarily attributable to the global economic and financial markets volatility in fiscal year 2012, the System's fiduciary net position decreased $33,973,779 resulting in a 3.52 percent decrease in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2012.

Key elements of the additions and deductions to Fiduciary Net Position for fiscal years 2014, 2013 and 2012 are described in the sections below.

Additions to System's Fiduciary Net Position

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income [net of investment expense]. Total additions to the System's fiduciary net position for the fiscal year ended June 30, 2014 totaled $192,158,230.

For the fiscal year ended June 30, 2014, overall additions had increased by $49,716,872 or 34.90 percent over fiscal year 2013, due in large part to the performance of the investment markets. For fiscal year 2013 overall additions had increased by $131,180,917 or 1,164.97 percent from the prior year, primarily due to the performance of the investment markets and changes in actuarial assumptions; and for fiscal year ended June 30, 2012, overall additions decreased by $191,154,753 or 94.44 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, 2014.

Deductions from System's Fiduciary Net Position

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 from the fiduciary net position for the fiscal year ended June 30, 2014, totaled $49,666,694 which was an increase of $1,488,168 or 3.09 percent over the prior fiscal year 2013 which increased $2,944,306 or 6.51 percent over the prior fiscal year 2012. The increase in benefits paid resulted primarily from an increase in the amount of 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 Fiduciary Net Position (Condensed)

For The Years Ended June 30, 2014, 2013 And 2012

	FY 2014	FY 2013	FY 2014 Increase/(Decrease) Amount	FY 2014 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$ 11,439,981	$ 13,329,655	$ (1,889,674)	(14.18%)
Employee Contributions	7,945,519	7,995,145	(49,626)	(0.62%)
Net Investment Income (Loss) *	172,772,730	121,116,558	51,656,172	42.65%
Total Additions (Declines)	$ 192,158,230	$ 142,441,358	$ 49,716,872	34.90%
Deductions				
Retiree Benefit Payroll	$ 47,367,501	$ 45,806,771	$ 1,560,730	3.41%
Post Retirement Supplemental Benefit	9,050	76,286	(67,236)	(88.14%)
Refunds of Contributions	1,203,979	1,157,287	46,692	4.03%
Administrative Expenses	1,086,164	1,138,182	(52,018)	(4.57%)
Total Deductions	$ 49,666,694	$ 48,178,526	$ 1,488,168	3.09%
Changes in Net Position	142,491,536	94,262,832	48,228,704	51.16%
Net Position Restricted for Pension Benefits				
Beginning of the Year	1,024,665,557	930,402,725	94,262,832	10.13%
End of the Year	$ 1,167,157,093	$ 1,024,665,557	$ 142,491,536	13.91%

* Net of investment expense of $5,320,294 and $4,971,025 for June 30, 2014 and 2013, respectively.

	FY 2013	FY 2012	FY 2013 Increase/(Decrease) Amount	FY 2013 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$ 13,329,655	$ 11,373,870	$ 1,955,785	17.20%
Employee Contributions	7,995,145	5,507,139	2,488,006	45.18%
Net Investment Income (Loss) *	121,116,558	(5,620,568)	126,737,126	2,254.88%
Total Additions (Declines)	$ 142,441,358	$ 11,260,441	$ 131,180,917	1,164.97%
Deductions				
Retiree Benefit Payroll	$ 45,806,771	$ 42,695,972	$ 3,110,799	7.29%
Post Retirement Supplemental Benefit	76,286	137,746	(61,460)	(44.62%)
Refunds of Contributions	1,157,287	1,313,292	(156,005)	(11.88%)
Administrative Expenses	1,138,182	1,087,210	50,972	4.69%
Total Deductions	$ 48,178,526	$ 45,234,220	$ 2,944,306	6.51%
Changes in Net Position	94,262,832	(33,973,779)	128,236,611	377.46%
Net Position Restricted for Pension Benefits				
Beginning of the Year	930,402,725	964,376,504	(33,973,779)	(3.52%)
End of the Year	$ 1,024,665,557	$ 930,402,725	$ 94,262,832	10.13%

* Net of investment expense of $4,971,025 and $4,568,601 for June 30, 2013 and 2012, 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

December 19, 2014

Basic Financial Statements

Statement of Fiduciary Net Position

As of June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash (Note 6)	$ 613,344	$ 933,365
Collateral Held for Securities Lent (Note 8)	116,502,167	149,473,656
Receivables		
Receivables for Investments Sold	6,709,195	9,808,701
Interest and Dividends	3,641,720	4,125,845
Other Receivables	17,181,270	7,806,925
Total Receivables	**27,532,185**	**21,741,471**
Prepaid Expenses	113	50,658
Total Current Assets	**144,647,809**	**172,199,150**
Investments at Fair Value (Note 6)		
Domestic Equity	497,564,794	361,076,718
International Developed Market Equities	187,583,403	203,884,343
Government Bonds	109,304,396	127,294,013
Corporate Bonds	177,790,385	167,180,693
Real Estate	131,280,719	115,099,623
International Emerging Market Equities	20,771,126	36,004,600
Short-Term Investments	44,459,704	24,035,891
Total Investments	**1,168,754,527**	**1,034,575,881**
Capital Assets Net of Accumulated Depreciation and Amortization (Note 11)	680,391	527,534
Total Assets	**1,314,082,727**	**1,207,302,565**
LIABILITIES		
Collateral Held for Securities Lent (Note 8)	116,502,167	149,473,656
Payable for Investments Purchased	11,883,072	24,287,538
Other Liabilities	1,255,231	1,069,356
Payable for Foreign Currency Purchased	17,285,164	7,806,458
Total Liabilities	**146,925,634**	**182,637,008**
Net Position Restricted for Pension Benefits (Note 5)	**$ 1,167,157,093**	**$ 1,024,665,557**

The notes in the financial statements on pages 19 through 48 are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

For The Years Ended June 30, 2014 and 2013

	2014	2013
ADDITIONS		
Contributions (Note 3)		
Employer	$ 11,439,981	$ 13,329,655
System Members	7,945,519	7,995,145
Total Contributions	**19,385,500**	**21,324,800**
Investment Income		
Net Appreciation in Value of Investments	152,233,093	101,242,874
Interest	14,092,987	13,126,640
Dividends	11,141,244	10,936,163
Other Investment Related	41,362	67,681
Total Investment Income	177,508,686	125,373,358
Less: Investment Expense	(5,203,495)	(4,828,262)
Total Net Investment Income	**172,305,191**	**120,545,096**
Securities Lending Income		
Securities Lending Earnings (Note 8)	584,338	714,225
Less: Securities Lending Expense	(116,799)	(142,763)
Net Securities Lending Income	**467,539**	**571,462**
Total Additions	**192,158,230**	**142,441,358**
DEDUCTIONS		
Benefit Payments	47,367,501	45,806,771
Post Retirement Supplemental Benefits (PRSB) (Note 10)	9,050	76,286
Refunds of Contributions	1,203,979	1,157,287
Administrative Expense	1,086,164	1,138,182
Total Deductions	**49,666,694**	**48,178,526**
Changes in Net Position	**142,491,536**	**94,262,832**
NET POSITION RESTRICTED FOR PENSIONS		
BEGINNING OF THE YEAR	**1,024,665,557**	**930,402,725**
END OF THE YEAR	**$ 1,167,157,093**	**$ 1,024,665,557**

The notes in the financial statements on pages 19 through 48 are an integral part of this statement.

Notes to the Basic Financial Statements

NOTE 1 - SIGNIFICANT PROVISIONS OF THE RETIREMENT SYSTEM

The City of Fresno Employees Retirement System ("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 is a single-employer, contributory, defined benefit plan. The System provides lifetime retirement, disability, and death benefits to the non-safety members employed by the City of Fresno, including substantially all full-time employees, other than sworn officers of the Fire and Police Departments.

The System is administered by the Employees Retirement Board (Board) which operates under the authority vested in Article 5 of Chapter 3 of the City of Fresno Municipal Code and the California Pension Protection Act of 1992 which 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 contribution thereto, and defraying reasonable expenses of administering the System."

The Employees Retirement Board does not operate under the control of the City Council. 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 members and their beneficiaries.

Fiduciary oversight of the Employees Retirement System is vested with the Board, which consists of 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 elected members serve a four-year term. The fifth and final member of the Board is a qualified elector of the County, not connected with its government, elected by the previously designated four members and serves at the pleasure of the Board.

The Board, in conjunction with the Fire and Police Retirement Board, appoints, directs and oversees a Retirement Administrator. The Retirement Administrator is responsible for the overall management and administration of the Employees and Fire and Police Retirement Systems in accordance with the direction, policy and goals set by the Boards and for providing highly responsible and complex administrative support to the Boards. The Retirement Administrator serves at the pleasure of the Boards.

Working closely with the Boards, the Retirement Administrator and his staff develop investment and benefits policies, coordinate member services and programs, and develop long-term strategies that fulfill the Systems' mission and goals.

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.

Membership and Benefit Eligibility

All permanent full-time employees of the City of Fresno, except sworn Fire and Police personnel, are eligible to participate in the plan. Employees become eligible for membership on their first day of regular employment, and members become fully vested after earning 5 years of service credit.

Total participants of the System were comprised as follows at June 30, 2014 and 2013:

	2014	2013
Active Members		
Vested	1,604	1,641
Non-vested	263	205
Total Active Members	1,867	1,846
Retirees and Beneficiaries of Deceased Retirees		
Currently Receiving Benefits	1,741	1,700
Inactive Vested Members	209	205
Total	3,817	3,751

Benefit Provisions

The System provides retirement allowances and other benefits such as disability and death benefits to the non-safety members employed by the City of Fresno.
The retirement (pension) benefits the member will receive are based upon a combination of age at retirement, years of credited service, final average monthly salary, and the distribution option selected by the participant.

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 between age 50-55 with an actuarially equivalent service retirement benefit.

Member Retirement Benefits

Members are eligible for service retirement benefits upon completion of at least five years of service, upon termination service, if you have left your contributions and interest with the System and are at least age 55. Or, if your termination from City service is permanent and was caused by a layoff due to an economic measure, lack of work, budget cut back or elimination of your position, you can retire at age 50 at a reduced benefit. You may also be eligible for service retirement benefit if you have less than five years of service with the City of Fresno, but have established reciprocity with a prior employer and are eligible to retire from that agency.

The service retirement benefit is calculated pursuant to the provisions of Section 3-541 of the Fresno Municipal Code. The monthly allowance for a member is equal to 2 percent of final compensation time each of the first 25 years of accrued retirement service credit plus 1 percent of final compensation times any years of accrued retirement service credit in excess of 25 years, multiplied by the age factor at retirement age.

Final average compensation consists of the highest average consecutive 36 months of compensation earnable calculated using the rate of pay in effect at the time of retirement.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 50% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse is one married to the member one year prior to the effective retirement date for members retiring on or before the effective date of Ordinance No. 2000-5. For members retiring after the effective date of Ordinance 2000-5, an eligible surviving spouse or domestic partner is one married to or registered with the member on or before the date of retirement.

There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

Deferred Retirement Option Program (DROP)

DROP is an optional voluntary program that allows a member to have his or her retirement benefits deposited in a special account within the System while the member continues to work in his or her current position. It is a voluntary method of receiving a distribution of your retirement benefits; it is not an additional retirement benefit.

DROP may not be beneficial to all members. Each member must determine how the DROP option will affect the member's retirement benefits prior to making an election to enter the DROP.

The member's retirement benefits are determined as of the date of entry into the DROP option and accumulate in the member's DROP account while the member continues to work. Members entering DROP, after January 27, 2011 in accordance with ordinances that amended sections of the Fresno Municipal Code, continue making employee contributions.

Eligibility: Any member who is eligible for a service retirement, is age 55 (or age 50 for an early retirement reduced benefit) with a minimum of 5 years of service.

Participation Period: The maximum participation period is ten years. Because the participation period cannot be extended the member must retire at its conclusion; however, the member may end participation in DROP and terminate employment with the City and begin retirement at any time prior to the end of the ten-year period.

DROP Account: A DROP account is set up for each participant; the monthly amount 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. Interest is also credit to the DROP account monthly at a rate which is set annually by the Retirement Board. The rate is based on the prior five-year moving average of net market returns of the Systems' investments in accordance with Municipal Code requirements. The Board is authorized to reduce the annual interest crediting rate up to 3 percent, if necessary, to maintain DROP's cost neutrality.

A DROP account is a nominal, bookkeeping account established within the System for each DROP participant.

Upon termination of DROP participation and retirement from the City, a member receives the amounts credited to their DROP account, including interest. In addition, you will also begin receiving your monthly retirement allowance in the amount being credited to your DROP account. You may select a method of withdrawing the money from your DROP account from the options provided.

DROP Reserves which represent funds reserved for DROP benefits accumulated by active members and retirees were $81,027,446 and $73,139,700 as of June 30, 2014 and 2013, respectively.

Terminated Member Benefits

If a member terminates before earning five years of credited service, the member forfeits the right to receive his or her service retirement benefit and is entitled to withdraw refundable contributions made, together with accumulated interest. If the member enters a reciprocal retirement system within 180 days (6 months) of terminating employment with the City of Fresno and elects to leave their accumulated contributions on deposit with the System, then the member will receive a deferred retirement allowance when eligible.

Death and Disability Benefits

Death benefits are based upon whether the death occurred before or after retirement. Disability benefits are based upon whether the member has at least ten years of credited service, over or under age 55 and whether the permanent incapacity is found to be service or non service-connected.

Cost of Living Benefits

Cost-of-living (COLA) increases for retirees under the Employees Retirement System are provided for in the Municipal Code, and are determined by annual changes in the Consumer Price Index (CPI) for each of the two immediately preceding calendar years. Retirement staff research the percentage change in CPI (United States city-average for urban wage earners and clerical workers – all items) and propose that percent to the Retirement Board as the COLA to be adopted for the following fiscal year. This procedure is completed by the end of April each year for implementation in July. The COLA is limited to a five percent (5.00%) maximum change per year and any excess over 5.00 percent is banked for the retiree for use in a year where the percent of CPI change is negative.

The Board adopted the annual COLA, pursuant to Section 3-553(b) of 1.7 percent, effective July 1, 2013 for the Fiscal Year 2014 and 3.2 percent effective July 1, 2012 for the Fiscal Year 2013.

NOTE 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's financial statements are prepared using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP), under which revenues are recognized when earned and deductions are recorded when the liability is incurred. Employer and employee contributions are recognized as revenue when due. Contributions are recorded in the period the related salaries are earned and become measurable. Investment income is recognized when it is earned. The net appreciation in fair value of investments held by the System is recorded as an increase to investment income based on the valuation of investments at fiscal year end, which includes both realized and unrealized gains and losses on investments. Retirement 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. Other expenses are recognized when the corresponding liabilities are incurred.

Securities lending transactions are accounted for in accordance with Government 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 GASB 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 Fiduciary Net Position. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Fiduciary Net Position.

Investments

The System is authorized by the Fresno Municipal Code and the policies of the Retirement Board to invest in any form or type of investment deemed prudent by the Board and does so through its Investment Objectives and Policy Statement which establishes and outlines the responsibilities of the various parties that are associated with managing assets of the Retirement System, consistent with applicable sections of the Municipal Code, Federal laws and Article XVI, Section 17(c) of the Constitution of the State of California which provides that "the member 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."

System investments are reported at fair value. Fair value is the amount that the System can reasonably expect to receive for an investment in a current sale between a willing seller, that is, other than in a forced or liquidation sale. Fair value for investments of publicly traded securities is stated at fair value based upon closing sales prices reported on recognized securities exchanges on the last business day of the period or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. All purchases and sales of securities are accounted for on a trade date basis and dividends declared but not received are accrued on the ex-dividend date. 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.

The asset allocation policy set by the Board, in conjunction with the Fire and Police Retirement Board, is outlined in the Boards' Investment Objectives and Policy Statement. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the System. The table below provides the Boards' adopted asset allocation policy as of June 30, 2014 and 2013.

Asset Allocation Policy
As of June 30, 2014 and 2013

Asset Class	As of June 30, 2014 and 2013 Target Allocation
Domestic Equity	
Large Cap	22.5%
Small Cap	7.5%
International Equity	
Developed Markets	22.8%
Emerging Markets	7.2%
Real Estate	15.0%
Domestic Fixed Income	15.0%
High Yield Bonds	10.0%
Cash	0.0%
	100%

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.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2014, the Board adopted and implemented all applicable new Government Accounting Standards Board (GASB) pronouncements in the fiscal years ended June 30, 2014 and 2013, as required by each statement. The most recent pronouncements, effective for fiscal year ended June 30, 2014, are provided below.

GASB Statement No. 66, *Technical Corrections-2012* (an amendment of GASB Statements No. 10 and No. 62), amends the accounting and financial reporting standards for fund type classifications and operating lease payments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. This statement has no material impact on the System's financial statements.

GASB Statement No.67, *Financial Reporting for Pension Plans*, (replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures*) revises existing guidance for the financial reports of most pension plans, replacing Statement No. 25 for plan reporting. GASB Statement No. 67 addresses accounting and financial reporting requirements for pension plans requiring changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 4 and in the Required Supplementary Information on page 49. This Statement is effective for financial statements for periods beginning after June 15, 2013. This Statement has a material impact on the System's financial statements beginning with the fiscal year ended June 30, 2014, as the disclosures, required supplementary information and notes to the required supplementary information were significantly altered to comply with GASB Statement No. 67.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, replacing Statement No. 27 for Employer reporting. This Statement is effective for financial statement for periods beginning after June 15, 2014 and will be implemented by the City of Fresno for its June 30, 2015 fiscal year-end.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions. The issuer of the guaranteed obligation can be legally separate entity or individual, including a blended or discretely presented component unit. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. This statement has no material impact on the System's financial statements.

Reclassifications

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

NOTE 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.

Contributions are made by the members and the employer at rates recommended by the System's independent actuary and adopted by the Retirement Board. Employee 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. All active members are required to make contributions to the System. The average member contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 7.67 percent of compensation.

The City of Fresno's (the City) employer 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. The average employer contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 11.01 percent of compensation.

One of the funding objectives of the System is to establish contribution rates which, over time, will remain level as a percentage of payroll unless the System benefit provisions are changed.

Funding Status & Method

Actuarial Funding Policy and Actuarial Cost Methodology for Funding Purposes

The Board adopted a Comprehensive Actuarial Funding Policy on November 7, 2012. For the Employees Retirement System that policy included 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 the EAN method is used by a substantial majority of the retirement systems in California and nationwide. More importantly, the Board made this change in actuarial cost methodology 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.

Goals of the Actuarial Funding Policy:

- To achieve long-term full funding of the cost of benefits provided by the System;
- To seek reasonable and equitable allocation of the cost of benefits over time; and
- To minimize any volatility of the City's contribution to the extent reasonably possible, consistent with other policy goals.

Funding Requirements and Policy Components

The System's annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability ("UAAL") if applicable. The Normal Cost and the amount of the payment on UAAL are determined by three components of the Board's funding policy: 1) Actuarial Cost Method – the techniques used to allocate the cost/liability of retirement benefits to a given period; 2) Asset Smoothing Method – the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and 3) Amortization Policy – the decisions on how, in terms of duration and pattern, to fund the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

Using Asset Smoothing Method, the investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, are recognized in level amounts over five (5) years in calculating the Actuarial Value of Assets.

As of June 30, 2014, the System does not have an Unfunded Actuarial Accrued Liability ("UAAL"). The Board's Amortization Policy sets forth the amortization procedures for funding any UAAL or amortization and allocation of any available Surplus in the System.

Any new UAAL as a result of actuarial gains or losses indentified in the annual valuation as of June 30 will be amortized over a period of fifteen (15) years. Any new UAAL as a result of any change in actuarial assumptions or methods will be amortized over a period of twenty-five (25) years. The amortization period for any increase in UAAL as a result of any amendments to the System will be amortized over a period of fifteen (15) years; while any increase in UAAL resulting from a temporary retirement incentive will be funded over a period not to exceed five (5) years.

UAAL shall be amortized over "closed" (separate) amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation. UAAL is amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.

If an overfunding status exists (i.e., the Valuation Value of Assets exceeds the Unfunded Actuarial Accrued Liability, the System is considered to have a Surplus in the

System as of a point in time), such actuarial surplus and any subsequent surpluses will be amortized over an "open" amortization period of twenty-five (25) years. This amortization period of twenty-five years shall be applicable to the provisions in Fresno Municipal Code Sections relating to the amortization period used in the calculation of the Post Retirement Supplemental Benefit (PRSB). Any prior Unfunded Actuarial Accrued Liability (UAAL) amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over fifteen (15) years as the first of a new series of amortization layers.

The System 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, 2014, the actuarial valuation value of assets was $993.6 million with a funded percentage of 104.6 percent on a valuation value of assets.

The progress being made towards meeting the System's funding objective through June 30, 2014 is illustrated in the Schedule of Funding Progress shown below.

Schedule of Funding Progress

For The Three Years Ending June 30, 2014
(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)
2014	$994	$950	104.6%	$(43)	$109	(39.8)%
2013	$934	$935	99.9%	$1	$112	1.1%
2012	$891	$872	102.2%	$(19)	$112	(17.3)%

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 entry age normal method applied to the projected benefits in determining the Normal Cost and Actuarial Accrued Liability. The Normal Cost is determined on an individual basis for each active member. If there is a positive (Surplus) or negative (Unfunded) difference between the Valuation of Assets and the Actuarial Accrued Liability, the amortization policy determines the amortization of the Unfunded Actuarial Accrued Liability (UAAL) on a level percentage of payroll needed to fund the UAAL or the amount of available surplus which would be distributable in any given year. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded (UAAL) or prefunded (PAAL) actuarial accrued liability.

These minimum contributions are recognized currently in the statement of changes in fiduciary net position. Employees' 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 (basic and cost-of-living adjustments (COLA)) to the System for fiscal year 2014 totaled $19,385,500. Employees contributed $7,945,519 and the City made contributions of $11,439,981.

Contributions aggregating $19,385,500 ($11,439,981 employer contributions and $7,945,519 employee contributions) were made in fiscal year 2014, based on an actuarial valuation determined as of June 30, 2012, which became effective for the year ended June 30, 2014. During fiscal year 2014, the Employer normal contribution rate was set at 11.28 percent. However, due to an adjustment for an excess contribution from the prior year Employer and System member basic and COLA contributions represented 11.01 percent and 7.67 percent, respectively, of the fiscal year 2014 covered payroll.

Contributions aggregating $21,324,800 ($13,329,655 employer contributions and $7,995,145 employee contributions) were made in fiscal year 2013, based on an actuarial valuation determined as of June 30, 2011, which became effective for the year ended June 30, 2013. Employer and System member contributions represented 12.63 percent and 7.58 percent, respectively, of the fiscal year 2013 covered payroll.

Contributions Required and Contributions Made

The employer's required normal contributions to the System has two components: basic and COLA; and for the first time in over a decade contributions to fund the COLA were required for fiscal year 2013 in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2011. For fiscal year 2014, the employer's required normal contributions (basic and COLA) to the System were as follows:

Normal Cost

	FY2014	FY2013
Member Contributions	$ 7,945,519	$ 7,995,145
Employer Contribution Rate	11.28%	11.37%
Employer Contributions	$ 11,718,836	$ 11,996,327
Prior Year Contribution (Surplus)/Shortfall	(278,855)	1,333,328
Net Employer Contributions	$ 11,439,981	$ 13,329,655
Pensionable Payroll	$ 103,890,391	$ 105,508,591

NOTE 4 - NET PENSION LIABILITY

The components of the net pension liability of the System is as follows:

Schedules of Changes in the System's Net Pension Liability (GASB 67)

Last Two Fiscal Years ended June 30, 2014 and 2013
(In Thousands)

	As of June 30, 2014	As of June 30, 2013
Total Pension Liability	$1,049,623	$1,031,741
Plan Fiduciary Net Position	($1,167,157)	($1,024,666)
Net Pension Liability	($117,534)	$7,075
Plan Fiduciary Net Position as a percentage of the total pension liability	111.20%	99.31%

The net pension liability was measured as of June 30, 2014 and June 30, 2013 and determined based upon the total pension liability (on a GASB 67 basis) from actuarial valuations as of June 30, 2014 and June 30, 2013, respectively.

Actuarial Assumptions

Key Methods and Assumptions Used in Valuation of Total Pension Liability

The total pension liability as of June 30, 2014 was determined by an actuarial valuation of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014[1]
Actuarial Experience Study	3 Year Period Ending June 30, 2012
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.

Actuarial Assumptions

Inflation	3.25%
Salary increases	3.75% to 12.25%, varying by service, including inflation
Discount Rate	7.50%, net of pension plan investment expense, including inflation
Other assumptions	See June 30, 2014 funding valuation and Appendix A for the service retirement rates after they have been adjusted to treat DROP participation as service retirement.
Mortality Rates	Mortality rates used in the latest actuarial valuation are based on the RP-2000 Combined Healthy Mortality Table projected with scale AA to 2021. For healthy members, the separate tables for males and females ages are set back one year. For members that are disabled, the ages are set forward three years. Beneficiaries are assumed to have the same mortality as a member of the opposite sex who is receiving a service (non-disability) retirement.

[1] Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. As such, the actuarial valuation dated June 30, 2014 will impact the contribution rates for the fiscal year ended June 30, 2016.

The valuation interest rate is 7.50 percent; total salary scale increases of 3.75 percent (3.25 percent for inflation) plus 0.50 percent across the board salary increase; plus merit and promotion increases based on completed years of service were based on the June 30, 2012 Experience Analysis and Economic Assumptions Reports.

Actuarial valuations of an ongoing plan involve estimates of the fair 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.

GASB Statement No. 67 addresses accounting and financial reporting requirements for pension plans and redefines pension liability and expense for financial reporting purposes, and does not apply to contribution amounts for pension funding purposes.

When measuring pension liability under GAS 67 the actuary uses the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as the System uses for funding. Note that, unrelated to the investment return assumption, the new rules use a version of the Entry Age method where the Total Pension Liability (TPL) for financial reporting purposes must be fully accrued by the time a member either enters DROP or is expected to elect the DROP. This is in contrast to the version of the Entry Age method used for funding, where the Actuarial Accrued Liability (AAL) does not have to be fully accrued until members retire from employment after participation in the DROP. Under GAS 67, active actives who are expected to enroll in the DROP in the future would report a Service Cost that is higher than the Normal Cost used for funding, while members already in the DROP would report no Service Cost even though their Normal Cost continues to accrue.

Long-Term Expected Real Rate of Return

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

Asset Class/Target Allocation/Long-term Expected Real Rate of Return Table

	As of June 30, 2014 and 2013	
Asset Class	Target Asset Allocation	Weighted Average Long-Term Expected Real Rate of Return* (Arithmetic)
Large Cap U.S. Equity	22.5%	6.09%
Small Cap U.S. Equity	7.5%	6.79%
Developed International Equity	22.8%	6.66%
Emerging Market Equity	7.2%	8.02%
Domestic Fixed Income	20.0%	0.83%
High Yield Fixed Income	10.0%	3.42%
Real Estate	10.0%	4.83%
Total	100.0%	

Mortality Rates

Mortality rates used in the latest actuarial valuation are based on the RP-2000 Combined Healthy Mortality Table projected with scale AA to 2021. For healthy members the separate tables for males and females ages are set back one year. For members that are disabled, the ages are set forward three years. Beneficiaries are assumed to have the same mortality as a member of the opposite sex who is receiving a service (non-disability) retirement.

Discount Rate

The discount rates used to measure the total pension liability were 7.50 percent as of June 30, 2014 and June 30, 2013. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on the System's investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

The following table presents the net pension liability of the Retirement System calculated using the discount rate of 7.50 percent as of June 30, 2014 and 2013, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower or 1.00 percent higher than the current rate:

* Based on June 30, 2012 Economic Study of Assumptions.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

As of June 30, 2014
(Amounts in Thousands)

Net Pension Liability	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
June 30, 2014	$5,812	($117,534)	($219,710)

NOTE 5 - NET POSITION RESTRICTED FOR PENSION BENEFITS

Net position restricted for pension benefits is 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 retirees and transfers to the DROP Reserve. Additions include contributions from the employer, transfers from Active Member Reserve and investment earnings; deductions include payments to retirees and transfers to the DROP Reserve.

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 RESERVE") 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 2014 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 years ended June 30, 2014 and 2013 consisted of the following (in thousands):

Reserves Table for 2014 and 2013

(In Thousands)

	2014	2013
Employer Advance/Retired Reserves	$ 987,708	$ 851,764
Active Member Reserves	98,490	99,549
DROP Reserves	81,027	73,140
PRSB Reserves	-	9
City Surplus Reserves	(68)	204
Net Position Restricted for Pension Benefits	$ 1,167,157	$ 1,024,666

NOTE 6 - 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 thirteen external investment managers, managing seventeen individual portfolios.

Investments at June 30, 2014 and 2013 consist of the following:

Investments at Fair Value 2014 and 2013

(In Thousands)

	2014	2013
Investments at Fair Value		
Domestic Equity	$ 497,565	$ 361,077
International Market Equities		
Developed Markets	187,583	203,884
Emerging Markets	20,771	36,004
Government Bonds	109,304	127,294
Corporate Bonds	177,790	167,181
Real Estate	131,281	115,100
Short-Term Investments	44,460	24,036
Total Investments at Fair Value	$ 1,168,754	$ 1,034,576

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 and Maximum Allocations

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 position 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 $67,907 and $35,469 at June 30, 2014 and 2013, 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, 2014.

Credit and Interest Rate Risk

Credit risk associated with the System's debt securities is identified by their ratings in the tables that follow. 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.

The average duration of the System's debt portfolios in years is also listed in the table that follows.

	2014			2013		
Type of Investment	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset Backed Securities	$ 3,849,371	AA-	1.76	$ 2,788,348	A+	2.66
Commercial Mortgage-Backed	3,737,240	A	2.46	4,405,888	A+	2.71
Corporate Bonds	157,998,883	BB	3.91	150,879,836	BB+	4.24
Corporate Convertible Bonds	4,221,232	B-	2.85	3,969,705	BB-	4.53
Funds - Corporate Bond	1,430,608	NR	0.00	-	-	-
Non-Government backed C.M.O.s	3,435,516	B+	1.62	2,622,740	CCC+	2.65
Bank Loans	312,931	B	0.00	-	-	-
Convertible Equity	306,073	BBB-	3.75	702,055	B-	4.76
Other Fixed Income	-	-	-	4,849	NR	-
Common Stock	453,271	BB	0.79	359,389	D	0.70
Preferred Stock	2,045,260	B+	1.37	1,447,883	B+	5.49
Government Agencies	3,024,240	AAA	3.65	5,150,110	AAA	3.87
Government Bonds	44,565,174	AAA	3.98	45,552,179	AAA	5.03
Government Mortgage Backed Securities	56,146,167	AAA	3.07	68,103,677	AAA	3.49
Fixed Income Derivatives - Futures	(1,340,186)	NR	3.27	-	-	-
Index Linked Government Bonds	-	-	-	267,542	BBB-	11.32
Municipal/Provincial Bonds	6,909,001	A	8.22	8,220,505	A	9.50
Total Credit Risk Fixed Income	$ 287,094,781			$ 294,474,706		

Per section 3.5.f.i. 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 3.5.f.ii. of the System's 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.

Concentration Risk

The investment portfolio as of June 30, 2014 and 2013 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 or fiduciary net position.

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 exchanged-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, 2014, and 2013.

Foreign Currency Risk Exposure

As of June 30, 2014

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Futures, Options & Swaps	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$ 9,716,338	$ -	$ -	$ -	$ 9,716,338
BRL	Brazilian Real	Brazil	1,481,490	-	-	3	1,481,493
CAD	Canadian Dollar	Canada	6,727,836	-	-	1,990	6,729,826
CHF	Swiss Franc	Switzerland	10,473,538	-	-	-	10,473,538
CLP	Chilean Peso	Chile	350,190	-	-	-	350,190
CZK	Czech Koruna	Czech Republic	95,411	-	-	-	95,411
DKK	Danish Krone	Denmark	7,172,601	314,097	-	(314,097)	7,172,601
EUR	Euro	Europe	51,818,176	395,677	(2,231,572)	(13,968,545)	36,013,736
GBP	British Pound Sterling	United Kingdom	43,806,887	424,479	4,091,595	(1,788,269)	46,534,692
HKD	Hong Kong Dollar	Hong Kong	10,529,664	-	-	222,418	10,752,082
IDR	Indonesian Rupiah	Indonesia	202,028	-	-	-	202,028
INR	Indian Rupee	India	2,580,001	-	-	-	2,580,001
JPY	Japanese Yen	Japan	28,046,448	-	-	34,440	28,080,888
KRW	South Korean Won	South Korea	9,370,762	-	-	(11,368)	9,359,394
MXN	Mexican Peso	Mexico	2,842,516	1,426,029	2,817	(133)	4,271,229
MYR	Malaysian Ringgit	Malaysia	449,049	-	-	-	449,049
NOK	Norwegian Krone	Norway	2,781,413	-	-	-	2,781,413
PHP	Philippine Peso	Philippines	749,247	-	-	-	749,247
PLN	Polish Zloty	Poland	48,320	-	-	-	48,320
SEK	Swedish Krona	Sweden	8,821,860	-	-	-	8,821,860
SGD	Singapore Dollar	Singapore	2,161,954	-	-	-	2,161,954
THB	Thai Baht	Thailand	356,129	-	-	-	356,129
TRY	Turkish Lira	Turkey	958,155	-	-	-	958,155
TWD	New Taiwan Dollar	Taiwan	4,893,039	-	-	-	4,893,039
USD	United States Dollar	United States	-	14,672,676	47,342,400	-	62,015,076
ZAR	South African Rand	South Africa	4,268,644	-	-	413	4,269,057
Total Equities (In USD)			210,701,696	17,232,958	49,205,240	(15,823,148)	261,316,746
Total Non-USD Equities (In USD)			$ 210,701,696	$ 2,560,282	$ 1,862,840	$ (15,823,148)	$199,301,670

Foreign Currency Risk Exposure

As of June 30, 2013

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$ 12,609,070	$ (45,668)	$ -	$ 47,525	$ 12,610,927
BRL	Brazilian Real	Brazil	2,730,353	-	6,247	(70,163)	2,666,437
CAD	Canadian Dollar	Canada	5,750,067	-	-	88	5,750,155
CHF	Swiss Franc	Switzerland	13,270,916	-	-	11	13,270,927
CLP	Chilean Peso	Chile	57,853	-	-	-	57,853
CZK	Czech Koruna	Czech Republic	121,189	-	-	-	121,189
DKK	Danish Krone	Denmark	4,117,680	(6,708)	-	6,708	4,117,680
EUR	Euro	Europe	48,420,725	(4,296,712)	6,371	673,025	44,803,409
GBP	British Pound Sterling	United Kingdom	46,253,458	(1,201,098)	-	526,571	45,578,931
HKD	Hong Kong Dollar	Hong Kong	15,756,559	-	-	571,393	16,327,952
HUF	Hungarian Forint	Hungary	180,140	-	-	-	180,140
IDR	Indonesian Rupiah	Indonesia	829,819	-	-	(40,341)	789,478
INR	Indian Rupee	India	3,445,382	-	-	765	3,446,147
JPY	Japanese Yen	Japan	38,671,637	(301,923)	-	324,431	38,694,145
KRW	South Korean Won	South Korea	7,810,990	-	-	25,744	7,836,734
MXN	Mexican Peso	Mexico	2,134,964	-	-	-	2,134,964
MYR	Malaysian Ringgit	Malaysia	767,620	-	-	(47)	767,573
NOK	Norwegian Krone	Norway	3,604,415	(141,814)	-	141,814	3,604,415
PHP	Philippine Peso	Philippines	611,064	-	-	-	611,064
PLN	Polish Zloty	Poland	277,398	(26,247)	-	26,248	277,399
SEK	Swedish Krona	Sweden	9,056,513	-	-	-	9,056,513
SGD	Singapore Dollar	Singapore	3,554,243	-	-	-	3,554,243
THB	Thai Baht	Thailand	1,176,455	-	-	-	1,176,455
TRY	Turkish Lira	Turkey	1,966,149	-	-	-	1,966,149
TWD	New Taiwan Dollar	Taiwan	4,606,060	-	-	(29,237)	4,576,823
USD	United States Dollar	United States	-	(1,207,955)	4,849	-	(1,203,106)
ZAR	South African Rand	South Africa	3,756,106	(60,088)	-	60,092	3,756,110
Total Equities (In USD)			231,536,825	(7,288,213)	17,467	2,264,627	226,530,706
Total Non-USD Equities (In USD)			$ 231,536,825	$ (6,080,258)	$ 12,618	$ 2,264,627	$ 227,733,812

Per section 3.5.e. 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 (American Depository Receipts (ADR's) and Global Depository Receipts (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.

Rate of Return

For the fiscal years ended June 30, 2014 and 2013, the annual money-weighted rate of return on the assets of the System, net of investment expense, was 17.16 percent and 13.20 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for timing of cash flows and the changing amounts actually invested.

NOTE 7 - 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. In certain circumstances it may be cheaper, quicker or easier to invest in a derivative instrument or security rather than transacting in cash or in the traditional security market.

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.

Allowable derivative financial instruments held by the System include stable and well-structured mortgage collateralized mortgage obligations (CMOs); centrally cleared instruments including, but not limited to, futures, swaps and options; and forwards including currency forwards. Derivative investments with allocation limits include mortgage derivatives (interest only and principal only CMOs); non centrally cleared derivatives; caps and floors; and inverse floating rate notes and bonds. Allocation limits will be determined and specified in portfolio guidelines with individual investment managers based on the objectives and risk tolerances of a given strategy.

Cash securities that contain derivative features include callable bonds, structural notes and collateralized mortgage obligations (CMOs). 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 fair 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 fair value is a positive market value, and the counterparty to such contract fails to perform under the terms of the instrument.

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, 2014 and 2013, the Employees Retirement System held a total fair value of $70,317,020 and $9,316,695, 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. Holdings also consist of futures – interest rate contracts, options and swaptions held as components of the System's absolute return fixed income strategy. 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 2014		FY 2013	
	Notional Amount	Fair Value	Fair Value	FY 2014 - FY 2013 Change in Fair Value
Rights/Warrants	-	$ -	$ 17,467	$ (17,467)
Foreign Currency Forward	$ (17,279,395)	17,232,958	7,345,696	9,887,262
Future Contracts - Domestic Equity Index	-	2,391,842	1,264,728	1,127,114
Future Contracts - International Equity Index	-	1,486,980	688,804	798,176
Futures - Interest Rate Contracts	(48,736,390)	48,749,581	-	48,749,581
Options/Swaption	-	(91,412)	-	(91,412)
Swaps	-	547,071	-	547,071
	Total	$ 70,317,020	$ 9,316,695	

Derivative Type:	FY 2013		FY 2012	
	Notional Amount	Fair Value	Fair Value	FY 2013 - FY 2012 Change in Fair Value
Rights/Warrants	13,519*	$ 17,467	$ 3,454	$ 14,013
Foreign Currency Forward	$ (7,288,213)	7,345,696	1,410,861	5,934,835
Future Contracts - Domestic Equity Index	-	1,264,728	2,502,845	(1,238,117)
Future Contracts - International Equity Index	-	688,804	583,723	105,081
	Total	$ 9,316,695	$ 4,500,883	

* Shares

NOTE 8 - 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 (the 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 the 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, 2014, had a weighted average duration of 91 days, average maturity of 37 days and an average monthly yield of 0.24 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, 2014, the Northern Trust CORE U.S.A. Cash Collateral Fund had zero 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 Systems' 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 65 days as of June 30, 2014.

The System's securities lending income is as follows:

Securities Lending Income

For the Years Ended June 30, 2014 and 2013

	2014	2013
Gross Income	$ 584,338	$ 714,225
Expenses:		
Bank Fees	116,799	142,763
Total Expenses	116,799	142,763
Net Income from Securities Lending	$ 467,539	$ 571,462

Fair Value of Loaned Securities

As of June 30, 2014 and 2013

	FY 2014			FY 2013		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$ 20,260,954	$1,070,977	$ 21,331,931	$ 34,464,032	$ -	$34,464,032
Domestic Equities	60,426,542	179,880	60,606,422	64,022,012	165,707	64,187,719
Domestic Fixed	23,758,454	112,386	23,870,840	30,057,632	-	30,057,632
International Equities	5,489,964	2,189,567	$7,679,531	15,620,618	883,182	16,503,800
Total Value	$109,935,914	$3,552,810	$113,488,724	$144,164,294	$1,048,889	$145,213,183

Fair Value of Collateral Received for Loaned Securities

As of June 30, 2014 and 2013

	FY 2014			FY 2013		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$ 20,665,064	$1,092,226	$ 21,757,290	$35,138,088	$ -	$35,138,088
Domestic Equities	61,797,535	183,633	61,981,168	65,646,696	170,150	65,816,846
Domestic Fixed	24,259,455	114,691	24,374,146	30,775,476	213,841	30,989,317
International Equities	5,805,951	2,583,612	$8,389,563	16,564,365	965,040	$17,529,405
Total Value	$112,528,005	$3,974,162	$116,502,167	$148,124,625	$1,349,031	$149,473,656

NOTE 9 - 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.

NOTE 10 - POST RETIREMENT SUPPLEMENTAL BENEFIT (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, 2014, there is a surplus (or prefunded actuarial accrued liability) as the System has a valuation value of assets which is in excess of the actuarial accrued liability. However, because the valuation value of assets at 104.6 percent of the actuarial accrued liability is less than the required 110 percent for declaration of a surplus, there is no actuarial surplus available to reduce the City's and member's COLA contributions and to fund new PRSB benefits. The PRSB Reserve Account was exhausted at the end of calendar year 2013. As of June 30, 2013, the City Surplus Reserve balance was $204,021 and the PRSB Reserve balance was approximately $8,774, of which $8,774 is committed for PRSB distribution for the months of July through December 2013.

NOTE 11 - CAPITAL ASSETS

Capital assets are carried at historical cost, net of accumulated depreciation. Capital assets are any items of equipment or furnishings purchased with a value of or an initial cost of $500 or greater and $5,000 for land, buildings and infrastructure and an estimated useful life in excess of two years. Accumulated depreciation shall be summarized and reflected on the System's annual financial statements. Capital assets shall be depreciated over their estimated useful lives using the straight-line depreciation method. Intangible assets with limited useful lives (e.g., by legal or contractual provisions) should be depreciated over their estimated useful lives. Depreciation of computer software begins when the program is placed into service.

The System's major two-year project to program and install an upgrade to our original pension administration system that was installed in 1997 (the LRS Pension Gold

Retirement Solutions' Version 3 project) includes software costs of $643,479 which are capitalized as of June 30, 2014, and will be amortized over a ten-year useful life period when it is placed into service.

Other capital assets consisting of office furniture and equipment for the System's Retirement Offices located at 2828 Fresno Street, Fresno, California, in the amount of $36,912 are capitalized and depreciated over a remaining estimated useful life of 2-15 years.

As of June 30, 2013, capital assets consisting of office furniture and equipment for the System's Retirement Offices in the amount of $42,389 were capitalized and depreciated over a remaining estimated useful life of 2-15 years.

NOTE 12 - LEASES

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.

NOTE 13 - 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 the System's 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 12 for a description of this arrangement.

Date of Management Review

The date to which events occurring after June 30, 2014, have been evaluated for possible adjustments to the financial statements or disclosures is December 19, 2014, which is the date the financial statements were available to be issued.

Required Supplementary Information

For the Years June 30, 2014 AND 2013

Schedule of Changes in the Net Pension Liability

(Dollars in Thousands)
For the Years Ended June 30

	GASB 67 Basis Financial Reporting	
Change in Net Pension Liability	2014	2013
Total Pension Liability		
Service Cost	$19,342	$18,903
Interest	77,009	76,279
Expected Increase from Prior Valuation	-	-
Salary Increase (Greater) Less than Expected	-	-
Asset Return (Less) Greater than Expected	-	-
COLA Increase Greater (Less) than Expected	-	-
Other Experience	(29,889)	(11,346)
Economic Assumption Changes	-	36,845
Noneconomic Assumption Changes	-	-
Change in Valuation Programs and Methods	-	-
Benefit Payments (including refunds, excluding PRSB)	(48,580)	(47,040)
Net Change in Total Pension Liability	$17,882	$73,641
Total Pension Liability - Beginning	$1,031,741	$958,100
Total Pension Liability - Ending (a)*	$1,049,623	$1,031,741
Plan Fiduciary Net Position		
Employee Contributions	$7,946	$7,995
Employer Contributions	11,440	13,330
Net Investment Income (Loss)	172,773	121,116
Benefit Payments (including Refunds, PRSB)	(48,581)	(47,040)
Administrative & Professional Expense	(1,086)	(1,138)
Net Change in Plan Fiduciary Net Position	$142,492	$94,263
Plan Fiduciary Net Position - Beginning	$1,024,666	$930,403
Plan Fiduciary Net Position - Ending (b)	$1,167,158	$1,024,666
System Net Pension Liability (Surplus) - Ending (a) - (b)	($117,535)	$7,075
Plan fiduciary net position as a percentage of total pension liability	111.20%	99.31%
Covered-Employee Payroll	103,597	105,509
Net Pension Liability as a percentage of covered employee payroll	(113.45%)	6.71%

* Data above, as of June 30, 2013 through June 30, 2014, are provided in accordance with provisions of GASB 67 for determining Total Pension Liability which for financial reporting purposes uses a version of the Entry Age method whereby the Actuarial Accrued Liability is fully accrued when a member either enters DROP or is expected to elect DROP.

Note: Data as of June 30, 2005 through June 30, 2012 are not available in a comparable format.

Schedule of Changes in the Net Pension Liability *(Continued)*

(Dollars in Thousands)
For the Years Ended June 30

				GASB 25 Basis Actuarial Funding				
Change in Net Pension Liability	2012	2011	2010	2009	2008	2007	2006	2005
Total Pension Liability								
Service Cost	$24,000	$21,730	$24,382	$24,386	$21,926	$21,724	$18,843	
Interest	67,000	59,000	57,000	55,000	51,000	50,000	46,000	
Expected Increase from Prior Valuation	-	-	-	-	-	-	-	-
Salary Increase (Greater) Less than Expected	(13,000)	(6,083)	(10,093)	-	8,000	7,000	-	4,592
Asset Return (Less) Greater than Expected	-	-	-	-	-	-	-	6,592
COLA Increase Greater (Less) than Expected	(1,000)	(8,787)	(3,931)	-	-	-	-	-
Other Experience	(4,000)	7,980	1,000	(19,000)	10,000	6,000	2,000	-
Economic Assumption Changes	-	-	10,000	-	-	(31,000)	-	-
Noneconomic Assumption Changes	-	-	-	-	-	-	-	-
Change in Valuation Programs and Methods	52,000	3,000	-	-	-	-	10,000	
Benefit Payments (including refunds, excluding PRSB)	(44,147)	(41,993)	(37,350)	(34,969)	(32,398)	(36,332)	(28,480)	
Net Change in Total Pension Liability	$80,853	$34,847	$41,008	$25,417	$58,528	$17,392	$48,363	$11,184
Total Pension Liability - Beginning	$791,105	$756,258	$715,250	$689,833	$631,305	$613,913	$565,550	$554,366
Total Pension Liability - Ending (a)**	$871,958	$791,105	$756,258	$715,250	$689,833	$631,305	$613,913	$565,550
Plan Fiduciary Net Position								
Employee Contributions	$5,507	$5,275	$5,740	$5,845	$5,666	$5,094	$4,643	$4,750
Employer Contributions	11,374	8,215	3,267	1,345	355	1,566	-	-
Net Investment Income (Loss)	(5,620)	188,925	104,511	(199,694)	(68,482)	156,546	100,087	83,471
Benefit Payments (including Refunds, PRSB)	(44,147)	(43,580)	(41,598)	(40,054)	(36,469)	(39,300)	(30,628)	(27,470)
Administrative & Professional Expense	(1,087)	(1,029)	(929)	(894)	(898)	(916)	(798)	(642)
Net Change in Plan Fiduciary Net Position	($33,973)	$157,806	$70,991	($233,452)	($99,828)	$122,990	$73,304	$60,109
Plan Fiduciary Net Position - Beginning	$964,376	$806,570	$735,579	$969,031	$1,068,859	$945,869	$872,565	$812,456
Plan Fiduciary Net Position - Ending (b)	$930,403	$964,376	$806,570	$735,579	$969,031	$1,068,859	$945,869	$872,565
System Net Pension Liability (Surplus) - Ending (a) - (b)	($58,445)	($173,271)	($50,312)	($20,329)	($279,198)	($437,554)	($331,956)	($307,015)
Plan fiduciary net position as a percentage of total pension liability	106.70%	121.90%	106.65%	102.84%	140.47%	169.31%	154.07%	154.29%
Covered-Employee Payroll	112,307	117,577	131,224	139,274	133,110	122,232	111,379	102,558
Net Pension Liability as a percentage of covered employee payroll	(52.04%)	(147.37%)	(38.34%)	(14.60%)	(209.75%)	(357.97%)	(298.04%)	(299.36%)

** Data above, as of June 30, 2005 through June 30, 2012, are provided in accordance with provisions of GASB 25 and the System's funding policy for determining Total Pension Liability which for funding purposes uses a version of the Entry Age method whereby the Actuarial Accrued Liability is fully accrued when a member retires from employment *after* participation in DROP.

Schedule of Employer Contributions
Last Ten Fiscal Years

(Dollars in Thousands)

Fiscal Year Ending June 30	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2014	11,440	11,440	-	103,597	11.04%
2013	13,330	13,330	-	105,509	12.63%
2012	11,374	11,374	-	110,492	10.29%
2011	8,215	8,215	-	119,260	6.89%
2010	3,267	3,267	-	129,258	2.53%
2009	1,345	1,345	-	132,512	1.02%
2008	355	355	-	129,440	0.27%
2007	1,566	1,566	-	114,234	1.37%
2006	-	-	-	106,483	0.00%
2005	-	-	-	102,002	0.00%

Schedule of Investment Returns
Last Ten Fiscal Years

Fiscal Year Ending June 30	Annual Money-Weighted Rate of Return Gross of Investment expenses	Annual Money-Weighted Rate of Return Net of Investment Expense
2014	17.61%	17.16%
2013	13.65%	13.20%
2012	(0.20%)	(0.57%)
2011	24.42%	23.88%
2010	15.13%	14.55%
2009	(20.14%)	(20.50%)
2008	(6.00%)	(6.44%)
2007	17.39%	16.81%
2006	12.18%	11.70%
2005	10.88%	10.48%

The Schedule of Investment Returns above shows the annual money-weighted rate of return on the assets of the System, both gross and net of investment expense for ten fiscal years (2005 – 2014). The money-weighted rate of return expresses investment performance adjusted for timing of cash flows and the changing amounts actually invested. These returns differ slightly from the time-weighted rate of returns calculated and reported by the System's custodian, Northern Trust (shown in the Transmittal Letter on page ii and within the Investment Section beginning on page 58) and as independently reported by the System's investment consulting firm, NEPC, (shown in the Investments Section on pages 64-66). The System's custodian and investment consulting firm must use time-weighted returns as opposed to money-weighted returns in order to meet Global Investment Performance Standards for the purposes of effectively evaluating and reporting the performance of the Systems' investment managers.

Schedule of Investment Returns *(Continued)*

The time-weighted return method is a measure of the compound rate of return of a portfolio over a stated period of time. It requires a set of sub-period returns to be calculated whenever there is an external cash flow, such as a deposit or withdrawal from the portfolio. In essence, it calculates the geometric total and mean return as opposed to the arithmetic total and mean return. This method does not include or have any distortions created when money is deposited or withdrawn from a portfolio. This is in contrast to Money-weighted returns.

Notes to the Required Supplementary Information

For the Years June 30, 2014 and 2013

Actuarial Assumption

The Segal Company, the System's actuary, performed the most recent annual actuarial valuation as of June 30, 2014, which computes the contribution requirements (employee and employer contributions rates for fiscal year 2016), and determines the funding status of the Plan.

Valuation Date:	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method:	Entry Age Actuarial Cost Method
Amortization Method:	Level percent of payroll for total Unfunded or Prefunded Actuarial Accrued Liability (UAAL or PAAL)
Remaining Amortization Period:	Effective with the June 30, 2013 valuation, any new UAAL established on each subsequent valuation as a result of actuarial gains or losses or plan amendments are amortized over separate 15-year declining periods (with the exception of temporary retirement incentives which are amortized over its own declining period of up to 5 years). Any new UAAL established as a result of changes in actuarial assumptions or methods at each valuation is amortized over separate 25-year declining periods. Any actuarial surplus (when the funded ratio is over 110%) will be amortized over a non-declining 25-year period.
Asset valuation method	Market value of assets less unrecognized returns from each of the last five years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2012 have been combined and will be recognized in equal amounts over a period of four years from that date.

Actuarial assumptions:

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.50%
Projected salary increases	Ranges from 4.25 percent to 11.75 percent based on years of service. Includes inflation at 3.25% plus real across-the-board salary increase of 0.50% plus merit and promotion increases.
Cost of living adjustments	3.25 percent of retirement income
Other assumptions	See June 30, 2014 funding valuation report and Appendix A for the service retirement rates after they have been adjusted to treat DROP participation as service retirement.
Post-Retirement Mortality Rates	RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with scale AA to 2021, set back one year for healthy members; set forward three years for disabled members; and set back one year for beneficiaries.

Other Supplementary Information

Schedule of Administrative Expenses

For The Years Ended June 30, 2014 And 2013

	2014	2013
Personnel Services		
Staff Salaries	$ 354,392	$ 338,665
Fringe Benefits	144,063	148,134
Total Personnel Services	$ 498,455	$ 486,799
Professional Services		
Actuarial	$ 68,433	$ 102,410
Legal Counsel	58,419	78,763
Information Systems Services	87,483	68,483
Specialized Services	89,876	103,667
Total Professional Services	$ 304,211	$ 353,323
Communication		
Telephone	5,811	7,419
Postage	630	2,351
Total Communication	$ 6,441	$ 9,770
Rentals		
Office Rent	$ 64,241	$ 64,241
Common Area Maintenance (CAM) Charges	28,314	28,309
Total Rentals	$ 92,555	$ 92,550
Other		
Education and Conference	$ 47,877	$ 34,046
Membership & Dues	3,038	2,759
Subscriptions & Publications	28	478
Office Supplies	5,102	5,565
Computer Equipment	12,211	-
Equipment Lease	5,852	2,779
Insurance	41,777	59,321
Miscellaneous	2,111	6,445
Reimbursement to City for Inter-Dept Services	61,029	78,910
Depreciation	5,477	5,437
Total Other	$ 184,502	$ 195,740
Total Administrative Expenses	$ 1,086,164	$ 1,138,182

Schedule of Investment Management Expenses

For The Years Ended June 30, 2014 And 2013

	2014	2013
Investment Manager Fees		
Equity		
Domestic	$ 1,043,581	$ 933,221
International	1,362,845	1,402,552
Fixed Income		
Domestic	806,621	712,697
Real Estate	1,015,499	852,232
Total Investment Manager Fees	4,228,546	3,900,702
Other Investment Expenses		
Foreign Income Taxes & Related Services, Charges	736,760	755,414
Custodial Services	109,972	41,305
Investment Consultant	102,773	110,929
Investment Legal Counsel	18,769	13,940
Analytical Database Service	6,675	5,972
Total Other Investment Expenses	974,949	927,560
Total Fees & Other Investment Expenses	5,203,495	4,828,262
Securities Lending Expenses		
Agent Fees	116,799	142,763
Total Securities Lending Expenses	116,799	142,763
Total Investment Expenses	$ 5,320,294	$ 4,971,025

Schedule of Payments To Consultants

For The Years Ended June 30, 2014 And 2013

	2014	2013
Actuarial Services	$ 68,433	$ 102,410
Audit Services	19,036	20,639
City Information Services	87,483	68,483
Legal Services	58,419	78,763
Medical Consultant	14,710	26,613
Miscellaneous	45,755	43,915
Securities Litigation Monitoring Services	10,375	12,500
Total Payments to Consultants	$ 304,211	$ 353,323

City of Fresno Employees Retirement System
Comprehensive Annual Financial Report
For Fiscal Years Ended June 30, 2014 and 2013

Investment Section

- Investment Report from the Retirement Administrator
- Investment Consultant's Report
- Investment Results
- Target Asset Allocation and Actual Asset Allocation
- Largest Stock and Bond Holdings
- Schedule of Commissions
- Investment Summary

Investment Report from the Retirement Administrator

For the Years June 30, 2014 and 2013

Analysis of Issues Affecting Our Portfolio in FY 2014

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.

The System is well funded at a fully funded status on both a market fair value and valuation value of assets 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.

It was a strong year for stocks – U.S. equities produced excellent returns over the last fiscal year. The U.S. economy grew at a modest pace in the second half of 2013, supported by the Federal Reserve's broadly accommodative monetary policy, improved housing and labor markets, low inflation, and reduced fiscal headwinds. Economic growth contracted in the first quarter of 2014, however, due in part to harsh winter weather and cyclical inventory corrections. As the period ended, major large-cap U.S. indexes reached all-time highs, as investors looked past the economic contraction, geopolitical tensions in Ukraine, and rising oil prices due to sectarian violence in Iraq.

Outside the U.S., European stocks benefited from reduced emphasis on austerity measures, progress on structural reforms in some countries, and data suggesting that an economic recovery was underway. In Japan, a series of fiscal and monetary reforms managed to jump-start the country's stagnant economy in 2013. However, investors remained concerned about a lack of progress on more challenging structural reforms. Conditions in emerging economies were mixed, with many implementing tighter monetary policies to defend their currencies and contain inflation. Overall, emerging markets stocks generated modest gains but trailed developed markets by a wide margin due to concerns that when the Federal Reserve started winding-down asset purchases in January 2014 that would also reduce global liquidity and increase risk aversion.

Investment Report from the Retirement Administrator *(Continued)*

The Federal Reserve started tapering its quantitative easing program in January and has reduced its monthly bond purchases in $10 billion increments.

Investment Performance

Highlighted Investment Performance of the City of Fresno Employees Retirement System (the System) Investment Portfolio for FY 2014:

	Return
Total Fund	17.58%
Domestic Equity	40.55%
International Equity	21.07%
Fixed Income	8.01%
Real Estate	14.81%

Fiscal Year End
Fund Value: $1,167,157,093

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

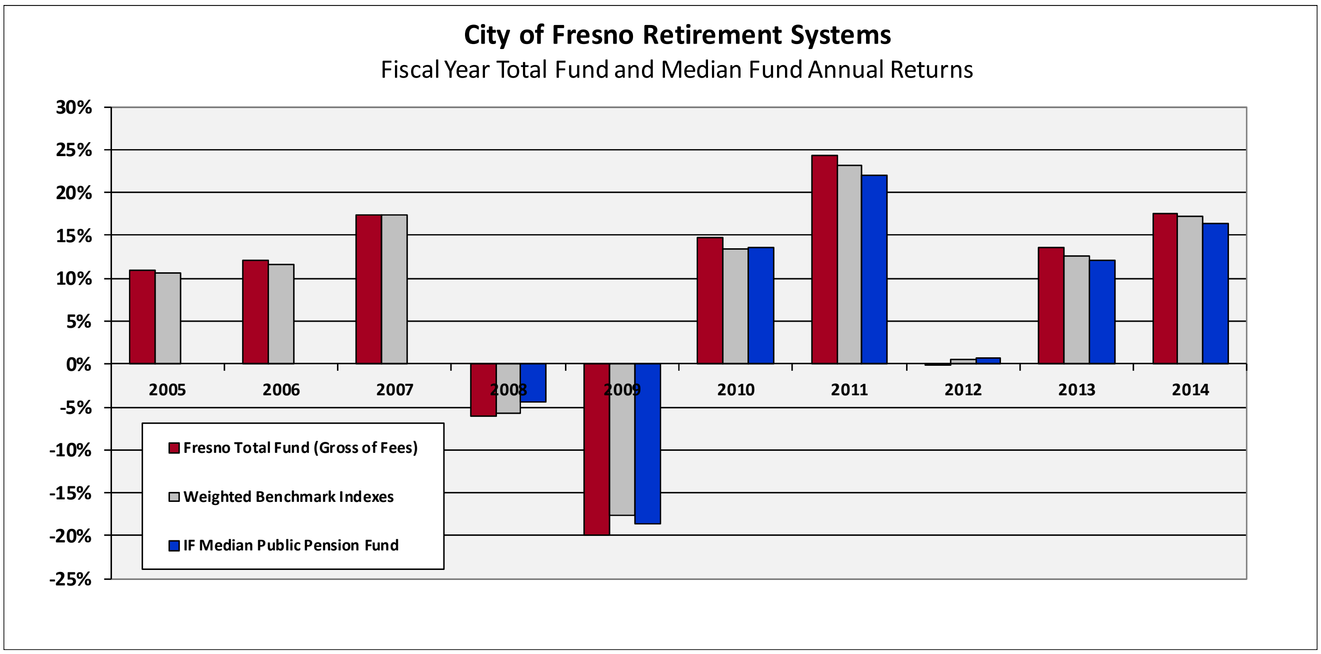
1) To fund the System's benefit payments
2) To assume a prudent risk posture to minimize the cost of meeting the obligations of the System;
3) To achieve rates of return above inflation;
4) To comply with legal statutes and regulations; and
5) To maintain a fully funded pension status.

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 NEPC LLC's InvestorForce (IF) Public Fund Universe (Gross of Fee) Returns for the one-year period ended June 30, 2014, ranked the System in the 2nd quartile (28th percentile) of our Investment Consultant's universe of all public funds ($1Billion + in assets). For the three years ended June 30, 2014, the System's Total Fund Returns of 10.09 percent ranked the System in the 2nd quartile (35th percentile), exceeding its policy weighted benchmark by 0.17 percent and also exceeding the Median IF Public Pension Funds ($1Billion+ in assets) return of 9.59 percent by 0.50 percent. Over the past ten years, the System's investment returns have remained sound and outperformed its policy benchmark in eight of the ten years and the median fund returns in five of the seven years as shown in the following chart.

Due to the extreme volatility in the various economies of the world and the global financial markets over the past twenty to twenty-five years it is of utmost importance to examine the System's investment returns with a long-term view rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. As an example, you cannot isolate the high returns during the Tech Bubble in the 1990's without including the Tech Bubble corrections in the early

2000's. The intermediate term (five, ten, and fifteen-year) performance rates demonstrate the extreme volatility of the markets; while the historical long-term performance rates of returns demonstrate that despite the short and intermediate term volatility the System has been able to meet or exceed its actuarial assumed rate of return of 7.50 percent over long periods. As of June 30, 2014, the System's 25-year annualized return is 9.16 percent and its 20-year annualized return is 9.19 percent.



Summary of Portfolio Results

The fiscal year ended June 30, 2014, marked another extraordinarily volatile year which ended with a decline from its peak fiscal year performance for the City of Fresno Employees Retirement System. The System experienced a total investment gain of 17.58 percent for the fiscal year ended June 30, 2014, outperforming the System's actuarial interest rate assumption of 7.50 percent by 10.08 percent and outperforming the System's policy benchmark (a weighted average of the fund's asset classes and their respective benchmarks) return of 17.31 percent by 0.27 percent. The System's ten-year annualized returns averaged 7.64 percent slightly outperforming its policy benchmarks return of 7.63 percent for the period by 0.01 percent. Over the longer term, our investment results remain sound with annualized returns of 9.19 percent and 9.16 percent, respectively, over the past twenty and twenty-five years. After paying all benefits and expenses of the System, the year-end value of the System reached $1.167 billion.

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 System. 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 System.

Specific Investment Results By Asset Classification

As of June 30, 2014, the Retirement System's portfolio was slightly over-weight in total equities, with 61.10 percent in total equities versus the target of 60.0 percent. Domestic equities were over-weight with 31.5 percent versus the target of 30.0 percent, and international equity with 23.41 percent developed and 6.28 percent emerging markets was slightly under-weight total international equity with 29.70 percent versus the target of 30.0 percent. Fixed income with 27.60 percent was 2.60 percent over-weight its target of 25.0 percent and real estate at 11.10 percent was 3.90 percent under-weight its target of 15.0 percent.

Investment Report from the Retirement Administrator *(Continued)*

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

Asset Classification	Actual	Target
Domestic Equities:		
Large-Cap	22.7%	22.5%
Small-Cap	8.8%	7.5%
International Equities:		
Developed Markets	23.4%	22.8%
Emerging Markets	6.3%	7.2%
Fixed Income:		
Domestic Fixed Income	17.5%	15.0%
High Yield Fixed Income	10.2%	10.0%
Real Estate:		
Private Real Estate	6.5%	12.0%
Public (REITs)	4.6%	3.0%
Cash:	0.0%	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

December 19, 2014

Investment Consultant's Report

For the Years June 30, 2014 and 2013

NEPC, LLC

Don Stracke, CFA, CAIA
Senior Consultant

November 24, 2014

Joint Board of Retirement
City of Fresno Retirement Systems
2828 Fresno Street Suite 201
Fresno, CA 93721

Dear Board Members:

The overall objective of the City of Fresno Retirement Systems Plan (the "Plan') ensure continued access to retirement, disability and survivor benefits for current and future CFRS participants. To ensure a solid foundation for the future of the Plan, CFRS carefully plans and implements an investment program designed to produce superior long-term investment returns, while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Retirement, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. The following is a report on the performance of the Plan for the fiscal year ending June 30, 2014 as well as the market environment.

Fiscal Year 2014 Market Review

Financial markets in fiscal year 2014 posted strong returns for investors seeking risk despite a myriad of macroeconomic concerns. The year was largely dominated by headline risks related to Fed policy, the economic and political environment in the Eurozone, partisan politics within the U.S., and reports of slowed economic growth in emerging markets and China in particular. Domestic equities closed out the first half of the fiscal year (July 2013 – December 2013) very strongly, with market participants citing improving fundamentals and an unabated continuation of quantitative easing, this resulted in strong gains despite uncertainty surrounding the U.S. government shutdown.

International equity markets, buoyed by positive news flow within the Eurozone and indicators of stabilizing growth from China, kept pace with their domestic counterparts. The latter half of the calendar year also saw investment grade fixed income markets nearly flat while lower grade credit issues continued to outperform. High yield bonds benefitted the most as investors seeking yield sought higher returns in the low interest rate environment, further compressing credit spreads.

Following a very strong 2013, the third quarter of fiscal year 2014 began with a drop in January amid concerns of Fed tapering; rebounded in February, hitting record highs as a result of dovish Fed comments; and oscillated in March as the Fed touched on the possibility of raising interest rates, further illustrating the Fed's impact on current market conditions. Global equities posted modest gains, with domestic equities outperforming broader international markets. Bond Markets rallied in the first quarter of 2014 as investors moved to safer, higher quality assets amid concerns regarding a slowdown in China, an unseasonably cold winter in the U.S. and geopolitical tensions in Europe.

The fourth quarter of fiscal year 2014 saw the continuation of a multi-year valuation expansion in growth assets. Markets shrugged off a severe downward revision of first quarter GDP and proved resilient to geopolitical tensions in the Middle East and Europe. Domestic equities, as measured by the S&P 500 Index, posted its sixth consecutive quarterly rise, the longest streak since 1998.

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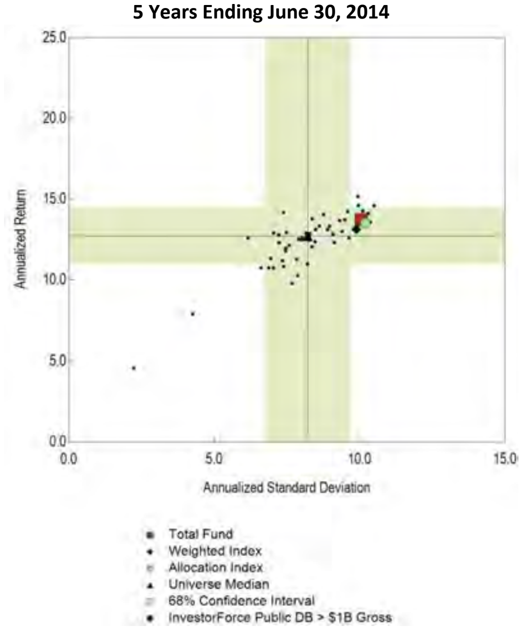
NEPC, LLC

In preparing our performance analysis for the Plan, we rely on the accuracy of financial data provided by the Plan's custodian bank and investment managers. Investment performance analysis and comparisons produced by NEPC have been calculated using standard performance evaluation methodologies and are consistent with industry standards. The Plan returned +17.1%, net of fees (17.5% gross of fees), for the fiscal year ending June 30, 2014, which ranked in the 28th percentile of the InvestorForce Public Funds Greater than $1 Billion Universe. Contributing to the relative outperformance for the fiscal year was the Plan's overweight to global equities relative to peers in a year when equity markets returned approximately 23%. Contributing negatively to performance during the fiscal year was the Plan's manager performance in International Equity.

Data as of June 30, 2014	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr
Fresno Total Fund (Gross of Fees)	17.5	10.1	13.7	7.6	6.5
Fresno Total Fund (Net of Fees)	17.1	9.6	13.3	7.2	6.0
Weighted Benchmark	17.2	9.9	13.1	7.6	6.2

For the five-year period ending June 30, 2014, the Plan returned 13.3% net of fees (13.7% gross of fees) per annum, above the actuarial target of 7.75%. On a relative basis, the Plan ranked in the 18th percentile of the InvestorForce Public Funds Greater than $1 Billion peer group universe. The Plan's five-year volatility, as measured by standard deviation, ranked in the 93rd percentile of its peers, while the risk-adjusted return of the portfolio as measured by the Sharpe Ratio, ranks in the 88th percentile of the universe.

ICC Public Funds Greater than $1 Billion Universe Risk-Return Comparison (Gross of Fees)
5 Years Ending June 30, 2014



[1]As of June 30, 2014, the InvestorForce Public Funds Greater than $1 Billion Universe was comprised of 52 total funds with approximately $503 billion in assets. Universe rankings are based on gross of fee performance.

2

NEPC, LLC

With the majority of the global capital markets experiencing robust valuations, increasing the potential for a market correction, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across a variety of asset classes with uncorrelated return patterns.

Sincerely,

Don Stracke, CFA, CAIA
Senior Consultant

Investment Results

Gross of Fees Ending June 30, 2014

	Market Value ($)	% of Portfolio	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	**2,531,547,352**	**100.00**	**17.53**	**10.06**	**13.72**	**7.63**
Weighted Index			*17.23*	*9.88*	*13.13*	*7.63*
Allocation Index			*17.33*	*9.55*	*13.49*	*7.88*
InvestorForce Public DB > $1B Gross Median			*16.43*	*9.59*	*12.71*	*7.22*
Total Equity Composite	**1,548,662,071**	**61.17**	**22.76**	**11.50**	**16.30**	**7.68**
MSCI ACWI			*22.95*	*10.25*	*14.28*	*7.46*
eA All Global Equity Gross Median			*24.14*	*11.97*	*16.16*	*9.29*
Domestic Equity Composite	**797,387,131**	**31.50**	**24.49**	**15.84**	**19.99**	**8.51**
Domestic Equity Index			*24.44*	*16.14*	*19.25*	*8.08*
eA All US Equity Gross Median			*25.47*	*16.04*	*20.03*	*9.57*
Large Cap Equity Composite	**574,386,324**	**22.69**	**25.31**	**16.90**	**19.67**	**8.13**
S&P 500			*24.61*	*16.58*	*18.83*	*7.78*
eA US Large Cap Equity Gross Median			*25.64*	*16.20*	*18.72*	*8.83*
Small Cap Equity Composite	**223,000,807**	**8.81**	**22.58**	**13.31**	**20.94**	**9.60**
Russell 2000			*23.64*	*14.57*	*20.21*	*8.70*
eA US Small Cap Equity Gross Median			*25.08*	*15.81*	*21.86*	*10.34*
International Equity Composite	**751,274,940**	**29.68**	**21.13**	**7.34**	**12.70**	**7.60**
International Equity Index			*22.05*	*6.41*	*11.53*	*8.06*
eA Non-US Diversified All Cap Eq Gross Median			*23.65*	*9.12*	*13.96*	*8.85*
International Developed Equity Composite	**704,768,511**	**27.84**	**22.55**	**8.73**	**13.35**	**6.63**
Developed Equity Index			*23.18*	*7.40*	*11.80*	*7.27*
eA All EAFE Equity Gross Median			*24.35*	*9.53*	*13.70*	*8.52*
ACWI ex US Equity Composite	**516,609,443**	**20.41**	**21.92**	**7.51**	**13.52**	**--**
MSCI ACWI ex USA Gross			*22.27*	*6.21*	*11.59*	*8.22*
eA ACWI ex-US All Cap Equity Gross Median			*21.75*	*8.60*	*14.11*	*9.48*
EAFE Equity Composite	**188,159,068**	**7.43**	**22.83**	**9.79**	**13.63**	**6.60**
MSCI EAFE Gross			*24.09*	*8.59*	*12.27*	*7.42*
eA All EAFE Equity Gross Median			*24.35*	*9.53*	*13.70*	*8.52*
International Emerging Markets Equity Composite	**46,506,429**	**1.84**	**13.29**	**0.90**	**8.38**	**11.76**
MSCI Emerging Markets Gross			*14.68*	*0.05*	*9.58*	*12.30*
eA Emg Mkts Equity Gross Median			*15.54*	*2.20*	*11.58*	*13.71*
Total Fixed Income Composite	**699,858,948**	**27.65**	**8.01**	**6.12**	**8.10**	**6.13**
Fixed Income Index			*6.78*	*5.36*	*6.81*	*5.91*
Barclays Aggregate			*4.37*	*3.66*	*4.85*	*4.93*
eA All US Fixed Inc Gross Median			*4.94*	*4.37*	*5.74*	*5.26*
Core Fixed Composite	**466,775,606**	**18.44**	**5.86**	**4.64**	**6.20**	**5.06**
Barclays Aggregate			*4.37*	*3.66*	*4.85*	*4.93*
eA US Core Fixed Inc Gross Median			*4.9*	*4.37*	*5.74*	*5.41*
High Yield Composite	**233,083,342**	**9.21**	**12.60**	**9.07**	**14.80**	**--**
Barclays High Yield			*11.73*	*9.48*	*13.98*	*9.05*
eA US High Yield Fixed Inc Gross Median			*11.65*	*9.54*	*13.69*	*8.89*
Real Estate Composite	**281,378,786**	**11.11**	**14.81**	**13.11**	**14.82**	**8.83**
Real Estate Index			*13.29*	*12.45*	*16.00*	*8.76*
eA US REIT Gross Median			*15.03*	*12.27*	*24.45*	*11.21*
Private Real Estate Composite	**165,245,849**	**6.53**	**14.08**	**13.46**	**10.38**	**8.34**
NCREIF-ODCE			*12.74*	*12.45*	*10.00*	*7.14*
Public Real Estate Composite	**116,132,936**	**4.59**	**15.87**	**12.63**	**24.17**	**--**
Wilshire REIT			*13.54*	*11.69*	*24.04*	*9.55*
eA US REIT Gross Median			*15.03*	*12.27*	*24.45*	*11.21*
Cash & Equivalents Composite	**1,647,547**	**0.07**	**14.09**	**4.58**	**2.81**	**3.09**
91 Day T-Bills			*0.03*	*0.05*	*0.07*	*1.51*

Calculations are prepared by NEPC, LLC using a time-weighted rate of return based on market values.

Investment Results

	Market Value ($)	% of Portfolio	Net of Fees Ending June 30, 2014 1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	**2,531,547,352**	**100.00**	**17.09**	**9.64**	**13.25**	**7.17**
Weighted Index			*17.23*	*9.88*	*13.13*	*7.63*
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Barclays High Yield			*11.73*	*9.48*	*13.98*	*9.05*
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Public Real Estate Composite	**116,132,936**	**4.59**	**15.32**	**12.04**	**23.51**	**--**
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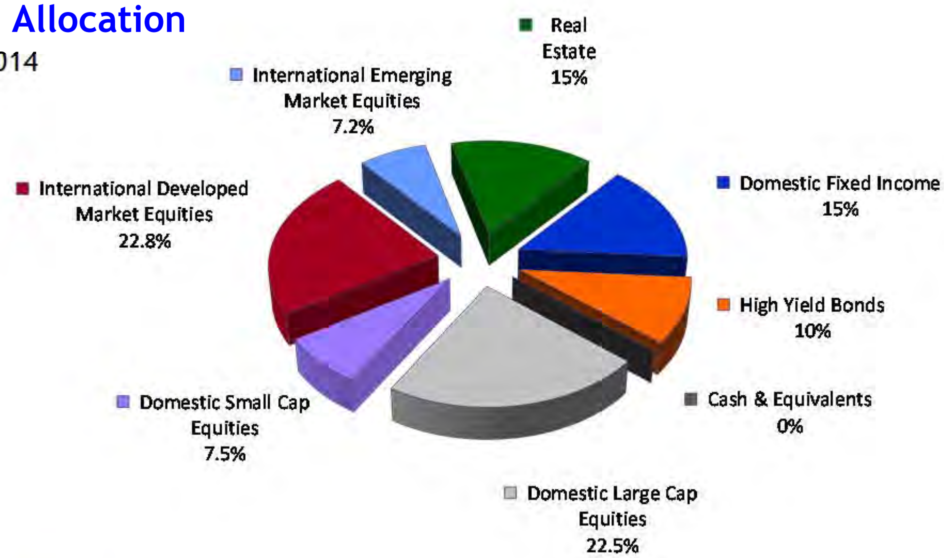
91 Day T-Bills			*0.03*	*0.05*	*0.07*	*1.51*

Calculations are prepared by NEPC, LLC using a time-weighted rate of return based on market values.

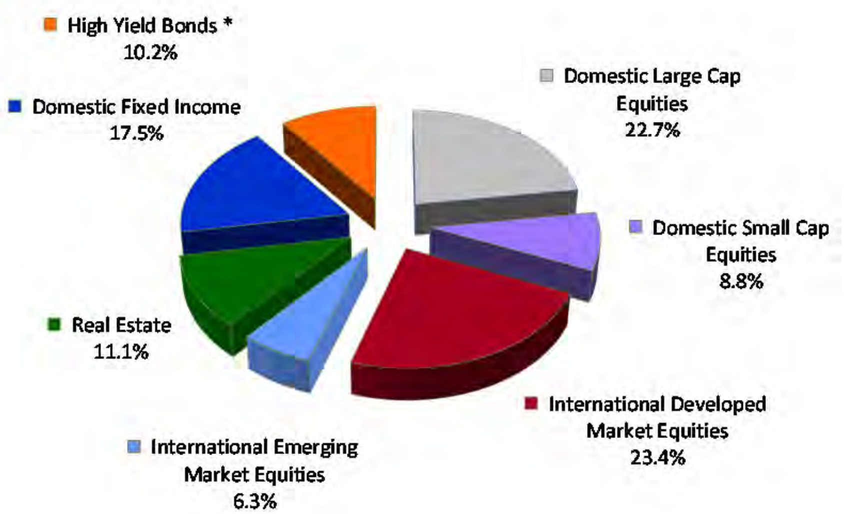
Target Asset Allocation

As of June 30, 2014



Actual Asset Allocation

As of June 30, 2014



Asset Class	Current Target	Allocation Range	Actual
Domestic Large Cap Equities	22.5%	17.0% - 25.0%	22.7%
Domestic Small Cap Equities	7.5%	4.0% - 12.0%	8.8%
International Developed Market Equities	22.8%	16.0% - 30.0%	23.4%
International Emerging Market Equities	7.2%	0.0% - 10.0%	6.3%
Real Estate	15.0%	5.0% - 24.0%	11.1%
Domestic Fixed Income	15.0%	10.0% - 25.0%	17.5%
High Yield Bonds*	10.0%	4.0% - 14.0%	10.2%

*1% High Yield Bonds Managed Within Domestic Fixed Income.

Largest Stock Holdings (By Market Value)

As of June 30, 2014

	Shares	Stock Holding		Market Value
1)	55,749	NESTLE SA CHF0.10(REGD)	$	4,318,823
2)	791,622	TAIWAN SEMICON MAN TWD10		3,353,882
3)	28,390	NASPERS 'N' ZAR0.02		3,340,981
4)	66,967	SVENSKA HANDELSBKN SER'A'SEK4.30		3,276,567
5)	54,927	BRITISH AMERICAN TOBACCO ORD GBP0.25		3,266,434
6)	2,335	SAMSUNG ELECTRONIC KRW5000		3,051,355
7)	131,584	PRUDENTIAL GBP0.05		3,017,111
8)	52,238	SAMPO PLC SER'A'NPV		2,642,725
9)	56,327	NOVO-NORDISK AS DKK0.2 SER'B'		2,592,274
10)	26,705	APPLE INC COM STK		2,481,741
Total Largest Stock Holdings			$	31,341,893

Largest Bond Holdings (By Market Value)

As of June 30, 2014

	Share/Par Value	Bond Holding	Coupon Rate	Maturity Date		Market Value
1)	4,045,797	UNITED STATES TREAS NTS	0.375%	15 Feb 2016	$	4,050,539
2)	3,384,930	UNITED STATES TREAS NTS	0.375%	15 Apr 2015		3,392,336
3)	3,223,743	UNITED STATES TREAS NTS DTD	1.625%	31 Mar 2019		3,233,063
4)	2,118,460	ITALY(REPUBLIC OF) 4.75% DUE 06-01-2017	4.750%	01 Jun 2017		3,223,531
5)	2,212,869	UNITED STATES TREAS NTS DTD	0.750%	28 Feb 2018		2,178,121
6)	1,904,311	FEDERAL HOME LN MTG CORP SR 4283 CL EW	6.462%	15 Dec 2043		2,110,470
7)	1,473,711	SPAIN(KINGDOM OF) 2.1% DUE 04-30-2017	2.100%	30 Apr 2017		2,093,231
8)	1,994,115	FEDERAL HOME LN MTG CORP POOL #849327	3.053%	01 May 2044		2,069,184
9)	1,554,305	VERIZON COMMUNICATIONS 6.55% BDS DUE	6.550%	15 Sep 2043		1,956,001
10)	1,271,076	CALIFORNIA ST 7.5% DUE 04-01-2034 BEO	7.500%	01 Apr 2034		1,810,800
Total Largest Bond Holdings					$	26,117,276

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 percent of the total commissions directed through the NTSI Network. For fiscal year 2014, the net income from Brokerage Commission Recapture was $33,615. During this period, the overall participating rate by the System's equity managers was 9.75 percent. 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, 2014

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
J.P. MORGAN SECURITIES PLC	$ 38,618	147,775,115	$ 0.0003
MERRILL LYNCH INTERNATIONAL LIMITED	25,753	4,398,796	0.0059
UBS AG LONDON BRANCH	21,535	2,477,646	0.0087
INVESTMENT TECHNOLOGY GROUP LTD.	19,987	1,947,120	0.0103
CITIGROUP GLOBAL MARKETS LIMITED	17,782	1,473,733	0.0121
MORGAN STANLEY AND CO., LLC	16,973	7,748,965	0.0022
INSTINET EUROPE LIMITED	16,189	983,237	0.0165
GOLDMAN, SACHS AND CO.	14,657	9,008,659	0.0016
DEUTSCHE BANK SECURITIES INC.	13,819	3,283,009	0.0042
CREDIT SUISSE FIRST BOSTON CORPORATION	12,523	51,731,847	0.0002
	$ 197,836	230,828,127	$ 0.0009
All Other Brokerage Firms	363,411	871,579,403	0.0004
TOTAL	$ 561,247	1,102,407,530	$ 0.0005

Investment Summary

For The Fiscal Year Ended June 30, 2014

	Investment Value	Percent of Fund	Investment Management Fees
Equity			
Domestic	$ 497,564,794	42.6%	$ 1,043,581
International Developed Market	187,583,403	16.0%	1,056,586
International Emerging Market	20,771,126	1.8%	306,259
Fixed Income			
Domestic	287,094,781	24.6%	806,621
Real Estate	131,280,719	11.2%	1,015,499
Short Term Investments	44,459,704	3.8%	-
Total	$ 1,168,754,527	100.0%	$ 4,228,546

Actuarial Section

Actuarial Certification Letter

For the Years June 30, 2014 and 2013

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

VIA E-MAIL

December 4, 2014

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, 2014 Actuarial Valuation

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2014 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 and the System's funding policy that was last reviewed with the Board in 2012. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

As part of the June 30, 2014 actuarial valuation, Segal conducted an examination of all participant data 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 actual investment return at market value and the expected investment return over a five-year period. Deferred gains and losses as of June 30, 2012 have been combined and will be recognized in four equal annual amounts over a period of four years from that date.

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

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City of Fresno Employees Retirement System
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Page 2

Effective with the June 30, 2013 valuation, any new UAAL established as a result of actuarial gains or losses or plan amendments are amortized over separate 15-year declining periods (with the exception of temporary retirement incentives which are amortized over a separate declining period of up to 5 years). Any new UAAL established as a result of changes in actuarial assumptions or methods at each valuation is amortized over separate 25-year declining periods. Any actuarial surplus (when the funded ratio is over 110%) will be amortized over a non-declining 25-year period. The progress being made towards meeting the funding objective through June 30, 2014 is illustrated in the Schedule of Funding Progress.

Notes number 1, 3 and 4 to the Basic Financial Statements and the Required Supplemental Information (RSI) included in the Financial Section were prepared by the System based on the results of the Governmental Accounting Standards Board Statement No. 67 (GASB 67) actuarial valuation as of June 30, 2014 prepared by Segal. For the Financial Section of the Comprehensive Annual Financial Report (CAFR), Segal provided the Schedule of Funding Progress, Schedule of Changes in Net Pension Liability and Schedule of Employer Contributions as shown in the RSI. A listing of the other supporting schedules Segal prepared for inclusion in the Actuarial and Statistical Sections of the System's CAFR is provided below. These schedules were prepared based on the results of the actuarial valuation as of June 30, 2014 for funding purposes.

1. Summary of Actuarial Assumptions and Methods;
2. Solvency Test; and
3. Actuarial Analysis of Financial Experience.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2012 Experience Analysis and the June 30, 2013 Economic Assumptions Report. It is our opinion that the assumptions used in the June 30, 2014 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2015 and those assumptions will be used in the June 30, 2016 valuation. 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.

5347016v1/09313.001

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City of Fresno Employees Retirement System
December 4, 2014
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In the June 30, 2014 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 99.9% to 104.6%. The employer's rate has increased from 11.65%[1] of payroll to 12.04%[2] of payroll, while the employee's rate has increased from 8.91% of payroll to 8.93% of payroll.

As a result of using the actuarial value of assets in the actuarial valuation, there were $92.6 million in unrecognized deferred investment gains as of June 30, 2014, which represented 8% of the market value of assets. This is an improvement from last year's amount of $17.6 million in unrecognized deferred investment gains. If $92.6 million in deferred investment gains were recognized immediately in the actuarial value of assets, the funded percentage would increase from 104.6% to 114.3% and the employer's rate would decrease from 12.04%[2] of payroll to 9.87%[2] of payroll.

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

Sincerely,

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

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

MYM/hy
Enclosures

[1] *This rate is before including the impact of an additional 0.53% of payroll contribution rate increase anticipated in the next two valuations as a result of phasing in the contribution rate impact from changes in actuarial assumptions over a three-year period.*

[2] *This rate is before including the impact of an additional 0.35% of payroll contribution rate increase anticipated in the next valuation as a result of phasing in the contribution rate impact from changes in actuarial assumptions over a three-year period.*

5347016v1/09313.001

Summary of Actuarial Assumptions and Funding Method

These actuarial assumptions and methods based on June 30, 2014 data were adopted by the Employees Retirement Board on November 25, 2014, and establishes the funding requirements for fiscal year 2015-16.

Assumptions

Valuation Interest Rate	7.50%
Inflation:	3.25%

Post-Retirement Mortality

(a) Service Retirement

Member RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with scale AA to 2021 set back one year.

Beneficiary: RP-2000 Combined Healthy Mortality Table projected with scale AA to 2021 set back one year weighted 35% male and 65% female.

(b) Disability Retirement

Member: RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with scale AA, set forward three years.

Pre-Retirement Mortality
Based upon the Analysis of Actuarial Experience during the period July 1, 2009 through June 30, 2012.

Withdrawal Rates
Based upon the Analysis of Actuarial Experience during the period July 1, 2009 through June 30, 2012.

Disability Rates
Based upon the Analysis of Actuarial Experience during the period July 1, 2009 through June 30, 2012.

Service Retirement Rates
Based upon the Analysis of Actuarial Experience during the period July 1, 2009 through June 30, 2012.

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 Entry Age Normal Actuarial Cost method. Entry age is the age of the member on their hire date. Normal Cost and Actuarial Accrued Liability are compensation, as if the current benefit formulas have always been in effect (i.e. "replacement life").

The System's funding policy for determining Total Pension Liability (for funding purposes) uses a version of the Entry Age method whereby the Actuarial Accrued Liability is fully accrued when a member retires from employment after participating in DROP. While for financial reporting purposes only, in accordance with GASB 67 provisions, for determining Total Pension Liability, the Actuarial Accrued Liability is fully accrued when a member either enters DROP or is expected to elect DROP. (See page 30 of the Financial Section and pages 49 and 50 of the Required Supplementary Information on the different actuarial assumptions used for financial reporting versus funding progress).

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 3 years younger than their husbands.

Cost-of-Living (COLA) Assumption
3.25% per year; Retiree COLA increases due to Consumer Price Index (CPI) are limited to maximum at 3.25% per year.

Salary Scale
Salary Scale is made up of merit and longevity, and inflation components. The inflation component is equal to 3.25%; 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	6.25%
2 years	4.75%
3 years	3.75%
4 years	3.15%
5 years	2.15%
6 years	1.20%
7 years	1.00%
8 years	0.90%
9 or more years	0.50%

Probabilities Of Separation Prior To Retirement

	Rate (%)	
	Mortality	
Age	Male	Female
25	0.03	0.01
30	0.04	0.02
35	0.06	0.04
40	0.09	0.05
45	0.11	0.07
50	0.14	0.11
55	0.21	0.20
60	0.42	0.40
65	0.84	0.78

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

	Rate (%)
	Disability
Age	All Members
20	0.00
25	0.00
30	0.01
35	0.06
40	0.16
45	0.32
50	0.49
55	0.67
60	1.20
65	1.50

All disabilities are assumed to be non-service connected.

	Rate (%)
	Total Termination
Age	All Members
20	7.50
25	7.50
30	6.90
35	6.05
40	5.30
45	4.70
50	0.00

Schedule of Active Member Valuation Data

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2014	Active Members	1,517	$ 87,842,034	$ 57,905	(3.6%)
	DROP Participants	350	21,100,432	60,808	(3.6%)
	Totals	1,867	$ 108,942,466	$ 58,352	
June 30, 2013	Active Members	1,535	$ 92,244,313	$ 60,094	3.0%
	DROP Participants	311	19,610,437	63,056	0.7%
	Totals	1,846	$ 111,854,750	$ 60,593	
June 30, 2012	Active Members	1,625	$ 94,766,049	$ 58,318	(0.2%)
	DROP Participants	280	17,540,903	62,646	(0.4%)
	Totals	1,905	$ 112,306,952	$ 58,954	
June 30, 2011	Active Members	1,739	$ 101,597,247	$ 58,423	2.4%
	DROP Participants	254	15,980,093	62,914	3.3%
	Totals	1,993	$ 117,577,340	$ 58,995	
June 30, 2010	Active Members	2,040	$ 116,427,736	$ 57,072	2.7%
	DROP Participants	243	14,796,085	60,889	3.3%
	Totals	2,283	$ 131,223,821	$ 57,479	
June 30, 2009	Active Members	2,217	$ 123,176,724	$ 55,560	5.9%
	DROP Participants	273	16,097,424	58,965	1.6%
	Totals	2,490	$ 139,274,148	$ 55,933	
June 30, 2008	Active Members	2,245	$ 117,793,489	$ 52,469	5.3%
	DROP Participants	264	15,316,424	58,017	2.9%
	Totals	2,509	$ 133,109,913	$ 53,053	
June 30, 2007	Active Members	2,195	$ 109,370,886	$ 49,827	4.6%
	DROP Participants	228	12,861,061	56,408	8.9%
	Totals	2,423	$ 122,231,947	$ 50,447	
June 30, 2006	Active Members	2,097	$ 99,875,529	$ 47,628	7.4%
	DROP Participants	222	11,502,836	51,815	4.6%
	Totals	2,319	$ 111,378,365	$ 48,029	
June 30, 2005	Active Members	2,061	$ 91,411,031	$ 44,353	1.7%
	DROP Participants	225	11,146,645	49,541	1.7%
	Totals	2,286	$ 102,557,676	$ 44,863	

Schedule of Retirees and Beneficiaries Added To Or Removed From Rolls

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number	Annual Allowance	Number	Annual Allowance	Number	Annual Allowance	Average Annual Allowance	% Increase (Decrease) in Retiree Allowance
June 30, 2014	110	$1,518,754	(69)	$(686,326)	1,741	$46,061,948	$26,457	(1.97)
June 30, 2013	104	$1,607,660	(66)	$(825,889)	1,700	$45,883,057	$26,990	4.72
June 30, 2012	99	$1,026,077	(59)	$(640,326)	1,662	$42,833,718	$25,772	0.76
June 30, 2011	160	$1,810,188	(41)	$(541,232)	1,622	$41,487,860	$25,578	(3.76)
June 30, 2010	151	$2,030,635	(48)	$(558,850)	1,503	$39,946,446	$26,578	(4.67)
June 30, 2009	85	$1,406,728	(48)	$(682,366)	1,400	$39,031,190	$27,879	7.47
June 30, 2008	113	$3,136,606	(49)	$(706,739)	1,363	$35,357,509	$25,941	(11.20)
June 30, 2007	94	$1,153,762	(45)	$(614,078)	1,299	$37,948,651	$29,214	24.17
June 30, 2006	99	$1,150,756	(44)	$(523,431)	1,250	$29,409,733	$23,528	6.32
June 30, 2005	97	$1,132,389	(56)	$(579,306)	1,195	$26,444,153	$22,129	(3.81)

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)
6/30/2014	$85,712	$694,761	$169,801	$993,641	100%	100%	100%
6/30/2013	86,768	663,832	184,347	933,722	100%	100%	100%
6/30/2012	86,590	609,218	176,150	891,366	100%	100%	100%
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%

Actuarial Analysis of Financial Experience
(Dollars in Millions)

	Plan Years 2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Prior Valuation Actuarial Accrued Liability	$935	$872	$791	$ 756	$ 715	$ 690	$ 631	$ 614	$ 566	$ 554
Expected Increase from Prior Valuation	-	-	-	-	-	-	-	-	-	-
Salary Increase (Greater) Less than Expected	(17)	(3)	(13)	(6)	(10)	-	8	7	-	5
Asset Return (Less) Greater than Expected	-	-	-	-	-	-	-	-	-	7
COLA Increase Greater (Less) than Expected	(10)	(9)	(1)	(9)	(4)	-	-	-	-	-
Other Experience	(1)	(2)	(4)	7	-	(20)	10	6	2	-
Economic Assumption Changes	-	33	-	-	10	-	-	(31)	-	-
Noneconomic Assumption Changes	-	-	-	-	-	-	-	-	-	-
Normal Cost	23	22	24	22	24	24	22	21	19	-
Interest	69	69	67	60	58	56	51	50	46	-
Payments	(49)	(47)	(44)	(42)	(37)	(35)	(32)	(36)	(29)	-
Change in Valuation Programs and Methods	-	-	52	3	-	-	-	-	10	-
Ending Actuarial Accrued Liability	$950	$935	$872	$ 791	$ 756	$ 715	$ 690	$ 631	$ 614	$ 566

Schedule of Funding Progress
(Dollars in Millions)

Actuarial Valuation As of June 30	(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)
2014	$994	$950	104.6%	($43)	$109	(39.8%)
2013	$934	$935	99.9%	$1	$112	1.1%
2012	$891	$872	102.2%	($19)	$112	(17.3%)
2011	$920	$791	116.3%	($129)	$118	(109.8)%
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	$931	146.8%	($295)	$122	(241.5)%
2006	$848	$614	138.1%	($234)	$111	(209.7)%
2005	$791	$566	139.8%	($225)	$103	(219.7)%

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 using the rate of pay in effect at the time of Retirement.

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 continuous 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. The eligibility age may be reduced to age 50 with 5 years of service if the employee elects an early retirement. 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 are based 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.

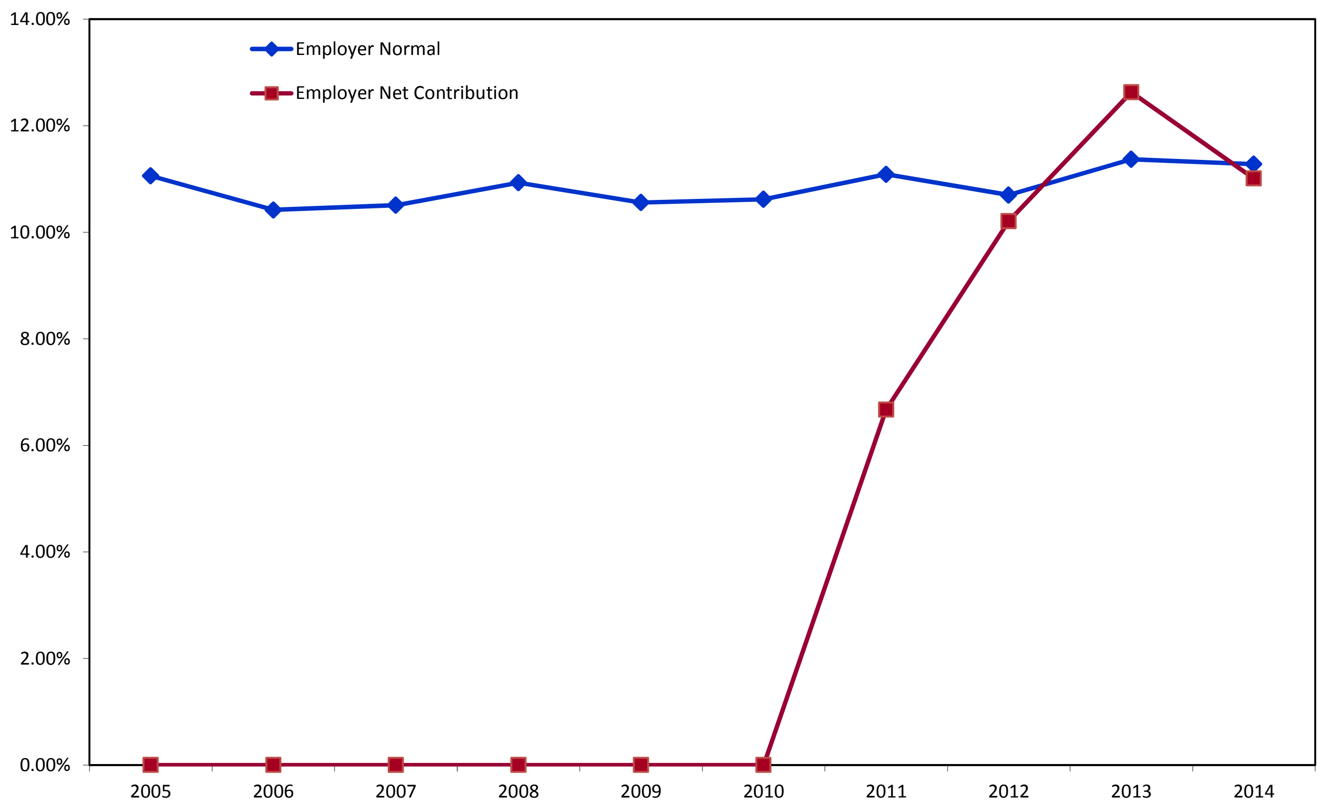
POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)

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 Net Contribution Rates



Fiscal Year Ending June 30	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Employer Normal	11.06%	10.42%	10.51%	10.93%	10.56%	10.62%	11.09%	10.70%	11.37%	11.28%
Prefunded Liability/Prepaid Contributions	11.06%	10.42%	10.51%	10.93%	10.56%	10.62%	4.42%	0.49%	(1.26%)	0.27%
Employer Net Contribution	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.67%	10.21%	12.63%	11.01%

City of Fresno Employees Retirement System
Comprehensive Annual Financial Report
For Fiscal Years Ended June 30, 2014 and 2013

Statistical Section

- Schedule of Changes in Fiduciary Net Position Last Ten Fiscal Years
- Schedule and Graph of Additions by Source
- Schedule and Graph of Deductions by Type
- Membership Information

Statistical Section

For the Years June 30, 2014 and 2013

Statistical Section Review

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 position, benefits, refunds, contribution rates and different types of retirement benefits.

The financial and operating trend information is located on the following pages.

Schedule of Changes In Fiduciary Net Position

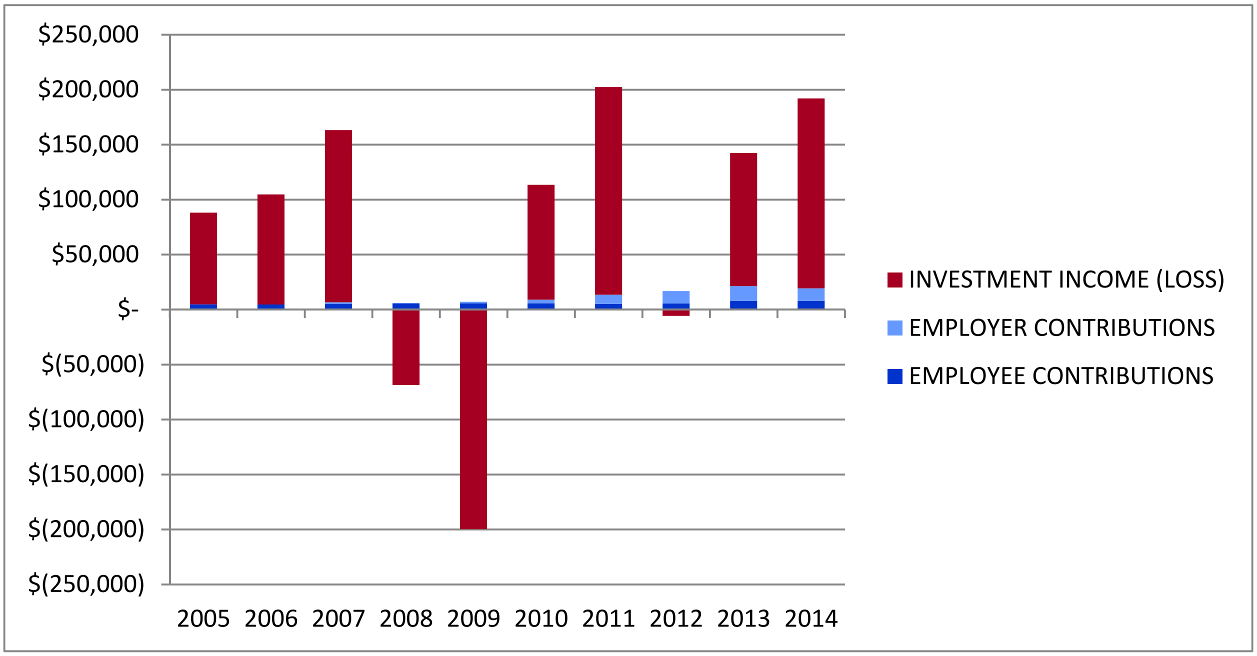
Last Ten Fiscal Years FY 2005-FY 2014
(Dollars In Millions)

	2014	2013	2012	2011	2010
Additions					
Employer Contributions	$ 11.4	$ 13.3	$ 11.4	$ 8.2	$ 3.3
Member Contributions	7.9	8.0	5.5	5.3	5.7
Investment Income (Loss)	172.9	121.1	(5.6)	188.9	104.5
Total Additions	$ 192.2	$ 142.4	$ 11.3	$ 202.4	$ 113.5
Deductions					
Benefit Payments	$ 47.4	$ 45.8	$ 42.7	$ 39.9	$ 35.7
Post Retirement Supplemental Benefits	-	0.1	0.1	1.6	4.2
Refunds	1.2	1.2	1.3	2.1	1.7
Administrative	1.1	1.1	1.1	1.0	0.9
Total Deductions	49.7	48.2	45.2	44.6	42.5
Change in Fiduciary Net Position	$ 142.5	$ 94.2	$ (33.9)	$ 157.8	$ 71.0

	2009	2008	2007	2006	2005
Additions					
Employer Contributions	$ 1.3	$ 0.4	$ 1.6	$ -	$ -
Member Contributions	5.8	5.7	5.1	4.6	4.7
Investment Income (Loss)	(199.7)	(68.5)	156.5	100.1	83.5
Total Additions	$ (192.6)	$ (62.4)	$ 163.2	$ 104.7	$ 88.2
Deductions					
Benefit Payments	$ 33.9	$ 31.3	$ 35.0	$ 27.3	$ 25.3
Post Retirement Supplemental Benefits	5.1	4.1	3.0	2.1	1.2
Refunds	1.0	1.1	1.4	1.2	1.0
Administrative	0.9	0.9	0.9	0.8	0.6
Total Deductions	40.9	37.4	40.3	31.4	28.1
Changes in Fiduciary Net Position	$ (233.5)	$ (99.8)	$ 122.9	$ 73.3	$ 60.1

Schedule and Graph of Additions By Source (In Thousands)

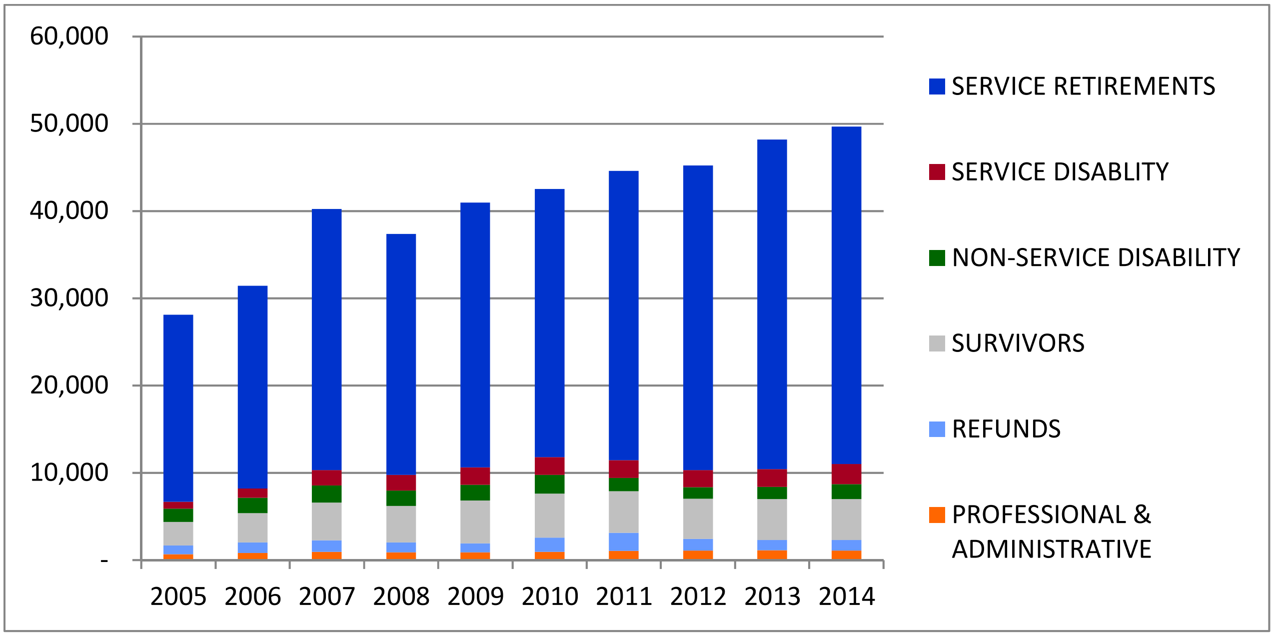
Last Ten Fiscal Years FY 2005-FY 2014



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EMPLOYEE CONTRIBUTIONS	$ 4,750	$ 4,643	$ 5,094	$ 5,666	$ 5,845	$ 5,740	$ 5,275	$ 5,507	$ 7,995	$ 7,945
EMPLOYER CONTRIBUTIONS			1,566	355	1,345	3,267	8,215	11,374	13,330	11,440
INVESTMENT INCOME (LOSS)	83,471	100,087	156,546	(68,482)	(199,694)	104,511	188,925	(5,620)	121,116	172,773
TOTAL	$88,221	$104,730	$163,206	$(62,461)	$(192,504)	$113,518	$202,415	$11,261	$142,441	$192,158

Schedule and Graph of Deductions By Type (In Thousands)

Last Ten Fiscal Years FY 2005-FY 2014



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SERVICE RETIREMENTS	$21,435	$23,251	$29,928	$27,631	$30,336	$30,751	$33,193	$34,944	$37,748	$38,677
SERVICE DISABLITY	799	1,020	1,751	1,771	1,989	2,014	1,997	1,940	2,042	2,286
NON-SERVICE DISABILITY	1,507	1,781	1,949	1,768	1,792	2,141	1,527	1,338	1,400	1,709
SURVIVORS	2,703	3,358	4,321	4,188	4,914	5,041	4,771	4,612	4,693	4,704
REFUNDS	1,026	1,218	1,351	1,111	1,022	1,651	2,092	1,313	1,157	1,204
PROFESSIONAL & ADMINISTRATIVE	642	798	916	898	894	929	1,029	1,087	1,138	1,086
TOTAL	$28,112	$31,426	$40,216	$37,367	$40,947	$42,527	$44,609	$45,234	$48,178	$49,666

Schedule of Average Benefit Payments

	Years of Credited Service						Fiscal Year Average/New Retirants
Retirement Effective Dates	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	
Period 7/1/13 to 6/30/14							
Average Monthly Pension Benefits	$ 1,060	$ 1,610	$ 2,144	$ 3,586	$ 3,258	$ 6,795	$ 3,076
Number of New Retirees	12	12	17	15	10	8	74
Period 7/1/12 to 6/30/13							
Average Monthly Pension Benefits	$ 864	$ 1,476	$ 2,315	$ 3,598	$ 4,335	$ 4,925	$ 2,919
Number of New Retirees	16	15	14	12	10	10	77
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 Retirees	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 Retirees	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 Retirees	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 Retirees	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 Retirees	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 Retirees	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 Retirees	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 Retirees	7	11	18	13	17	11	77

Data Source: PensionGold Administration System

Retirees By Type of Benefit

As of June 30, 2014

Amount of Monthly Benefit	Number of Retirees	Type of Retirement* 1	2	3
$1 - $1,000	339	187	2	150
$1,001 - $2,000	608	363	89	156
$2,001 - $3,000	397	323	29	45
$3,001 - $4,000	189	175	11	3
$4,001 - $5,000	105	96	4	5
$5,001 - $6,000	54	46	6	2
$6,001 - $7,000	20	20	0	0
> $7,000	29	27	0	2
Total	1741	1237	141	363

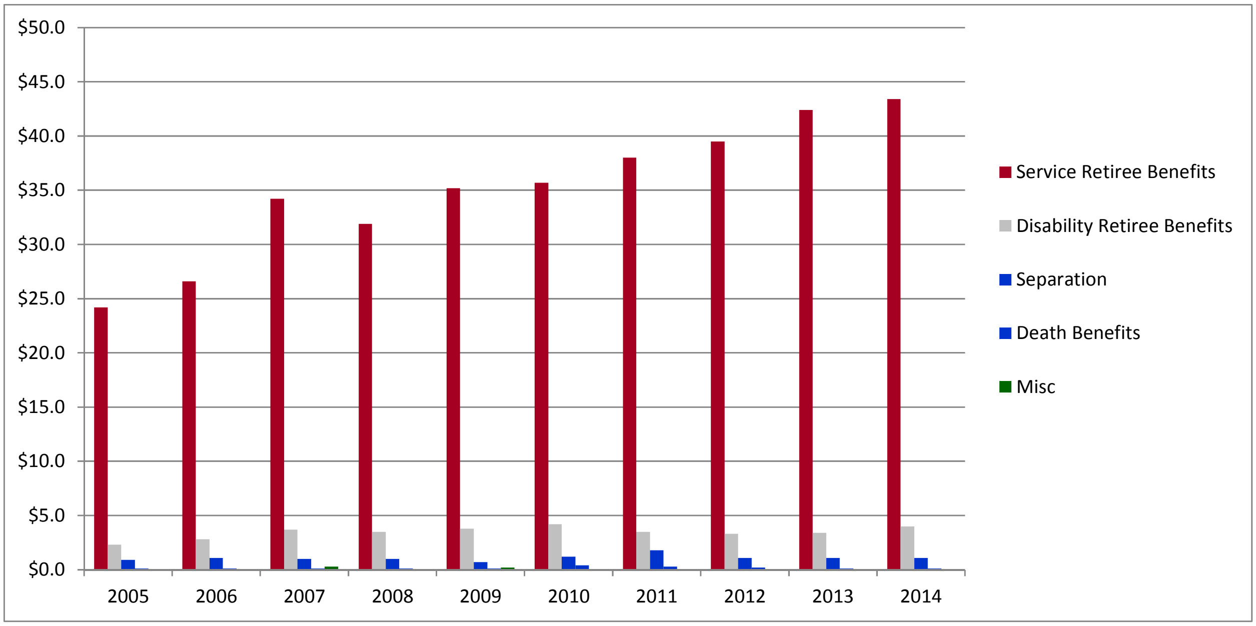
*Type of Retirement
1 - Service Retiree
2 - Disability Retiree
3 - Beneficiary/Continuant/Survivor

Amount of Monthly Benefit	Number of Retirees	Option Selected** Unmodified	Option 1	Option 2	Option 3
$1 - $1,000	339	199	70	53	17
$1,001 - $2,000	608	315	172	99	22
$2,001 - $3,000	397	198	104	74	21
$3,001 - $4,000	189	97	43	30	19
$4,001 - $5,000	105	51	24	20	10
$5,001 - $6,000	54	30	11	10	3
$6,001 - $7,000	20	14	2	2	2
> $7,000	29	10	4	12	3
Total	1741	914	430	300	97

**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

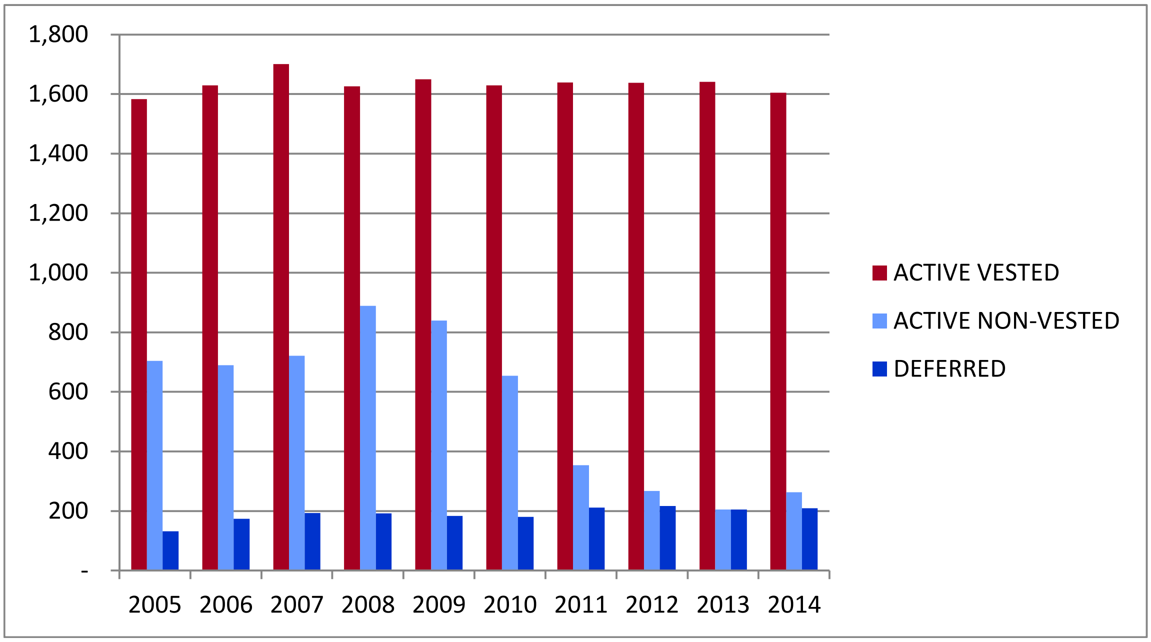
Schedule and Graph of Pension Benefit Payments - Deductions By Type

(DOLLARS IN MILLIONS)



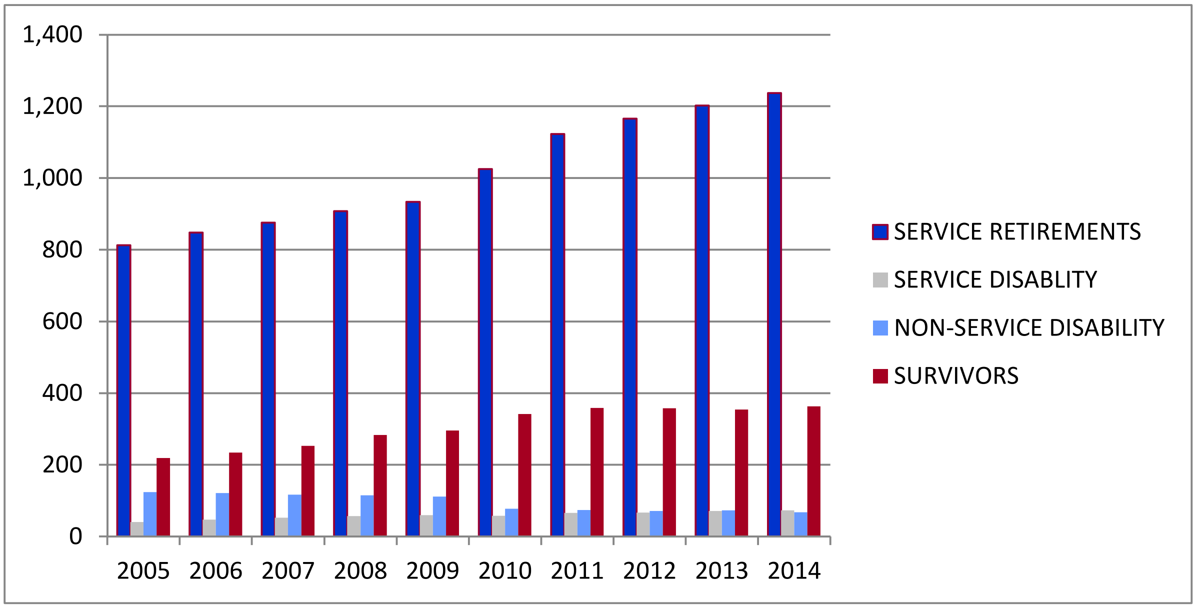
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Service Retiree Benefits	$24.2	$26.6	$34.2	$31.9	$35.2	$35.7	$38.0	$39.5	$42.4	$43.4
Disability Retiree Benefits	2.3	2.8	3.7	3.5	3.8	4.2	3.5	3.3	3.4	4.0
Separation	0.9	1.1	1.0	1.0	0.7	1.2	1.8	1.1	1.1	1.1
Death Benefits	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.2	0.1	0.1
Misc	0.0	0.0	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Total Benefit Deductions	$27.5	$30.6	$39.3	$36.5	$40.0	$41.5	$43.6	$44.1	$47.0	$48.6

Schedule and Graph of Active Vested, Active Non-Vested and Deferred Membership History



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ACTIVE VESTED	1,583	1,629	1,701	1,626	1,650	1,629	1,639	1,638	1,641	1,604
ACTIVE NON-VESTED	704	689	722	889	840	654	354	267	205	263
DEFERRED	132	174	193	192	184	180	212	217	205	209
TOTAL	2,419	2,492	2,616	2,707	2,674	2,463	2,205	2,122	2,051	2,076

Schedule and Graph of Retirees Pension Benefit Payments
By Type of Benefit



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SERVICE RETIREMENTS	812	848	876	908	933	1,025	1,123	1,166	1,202	1,237
SERVICE DISABLITY	40	47	53	57	60	58	66	67	71	73
NON-SERVICE DISABILITY	124	121	117	115	111	78	74	71	73	68
SURVIVORS	219	234	253	283	296	342	359	358	354	363
TOTAL	1,195	1,250	1,299	1,363	1,400	1,503	1,622	1,662	1,700	1,741

Summary of Active Participants

YEAR	NUMBER	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
2014	1,867	$ 103,596,902	$ 55,488	(2.92%)
2013	1,846	$ 105,508,591	$ 57,155	(1.46%)
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	4.78%
1996	1,927	$ 65,084,621	$ 33,775	0.51%
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

YEAR	NUMBER OF RETIREES	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
2014	1,741	$ 47,376,550	$ 27,212	0.82%
2013	1,700	$ 45,883,057	$ 26,990	4.72%
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 and City Contribution Rates

		Member Rates			City Contribution Rates				
		Basic at Entry Age					Total City	Less Prefunded Actuarial Accrued	Net City Contribution
Fiscal Year	Valuation Date	20	25	30	Basic	Cola	Rate	Liability (PAAL)	Rate
June 30, 2014	June 30, 2012	5.33%	6.28%	7.53%	8.63%	2.65%	11.28%	(0.27%)	11.01%
June 30, 2013	June 30, 2011	5.34%	6.29%	7.56%	8.75%	2.62%	11.37%	1.26%	12.63%
June 30, 2012	June 30, 2010	3.47%	4.09%	4.91%	8.20%	2.50%	10.70%	(0.49%)	10.21%
June 30, 2011	June 30, 2009	2.99%	3.59%	4.38%	8.48%	2.61%	11.09%	(4.42%)	6.67%
June 30, 2010	June 30, 2008	2.99%	3.59%	4.38%	8.09%	2.53%	10.62%	(10.62%)	0.00%
June 30, 2009	June 30, 2007	2.99%	3.59%	4.38%	8.02%	2.54%	10.56%	(10.56%)	0.00%
June 30, 2008	June 30, 2006	3.02%	3.62%	4.42%	7.96%	2.97%	10.93%	(10.93%)	0.00%
June 30, 2007	June 30, 2005	2.90%	3.48%	4.25%	7.39%	3.12%	10.51%	(10.51%)	0.00%
June 30, 2006	June 30, 2004	2.90%	3.48%	4.25%	7.31%	3.11%	10.42%	(10.42%)	0.00%
June 30, 2005	June 30, 2003	3.31%	3.90%	4.69%	7.73%	3.33%	11.06%	(11.06%)	0.00%
June 30, 2004	June 30, 2002	3.31%	3.90%	4.69%	8.33%	3.41%	11.74%	(11.74%)	0.00%
June 30, 2003	June 30, 2001	3.31%	3.91%	4.70%	8.53%	3.44%	11.97%	(11.97%)	0.00%
June 30, 2002	June 30, 2000	3.31%	3.91%	4.70%	8.49%	3.44%	11.93%	(11.93%)	0.00%
June 30, 2001	June 30, 1999	3.31%	3.91%	4.70%	7.98%	3.53%	11.51%	(11.51%)	0.00%
June 30, 2000	June 30, 1998	3.47%	4.06%	4.85%	8.09%	3.57%	11.66%	(11.66%)	0.00%
June 30, 1999	June 30, 1997	3.34%	3.91%	4.67%	6.83%	3.50%	10.33%	(9.01%)	1.32%
June 30, 1998	June 30, 1996	3.34%	3.91%	4.67%	6.41%	3.46%	9.87%	(8.09%)	1.78%
June 30, 1997	June 30, 1994	3.86%	3.95%	4.60%	6.29%	3.33%	9.62%	0%	9.62%
June 30, 1995	June 30, 1992	4.32%	4.86%	5.58%	8.52%	10.88%	19.40%	0%	19.40%
June 30, 1994	June 30, 1992	4.32%	4.86%	5.58%	8.34%	10.12%	18.46%	0%	18.46%
June 30, 1993	June 30, 1990	4.21%	4.74%	5.43%	11.72%	5.80%	17.52%	0%	17.52%
June 30, 1991	June 30, 1988	4.21%	4.74%	5.43%	11.92%	6.38%	18.30%	0%	18.30%
June 30, 1989	June 30, 1985	4.62%	5.13%	5.81%	10.47%	8.63%	19.10%	0%	19.10%
June 30, 1987	June 30, 1985	4.62%	5.13%	5.81%	10.47%	6.84%	17.31%	0%	17.31%
June 30, 1985	June 30, 1982	4.62%	5.13%	5.81%	10.10%	8.14%	16.70%	0%	16.70%
June 30, 1984	June 30, 1979	4.23%	4.58%	5.21%	9.67%	6.36%	16.03%	0%	16.03%
June 30, 1982	June 30, 1979	4.23%	4.58%	5.21%	12.56%	6.84%	15.11%	0%	15.11%
June 30, 1980	June 30, 1976	3.85%	4.35%	5.04%	12.41%	2.55%	14.96%	0%	14.96%

*PAAL = Prefunded Actuarial Accrued Liability - Surplus adjustment when assets are greater than the actuarial accrued liability.

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.

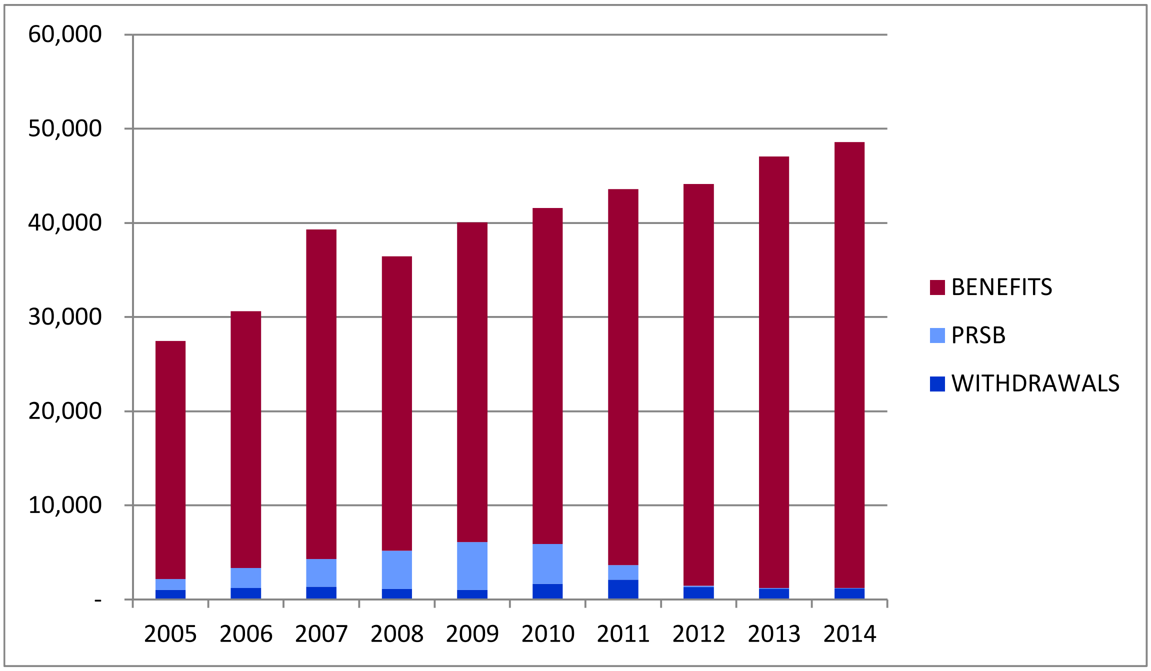
Data Source: Annual Actuarial Valuation Reports

Economic Assumptions and Funding Method

Valuation Date	Interest	Salary Scale	COLA	Inflation Component	Funding Method
June 30, 2014	7.50%	.60 - 8.5%	3.25%	3.25%	Entry Age Normal
June 30, 2013	7.50%	.60 - 8.5%	3.25%	3.25%	Entry Age Normal
June 30, 2012	8.00%	.60 - 8.5%	3.50%	3.50%	Entry Age Normal
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

Source: The Segal Company 06/30/2014 AAV/AA (pg. 31)

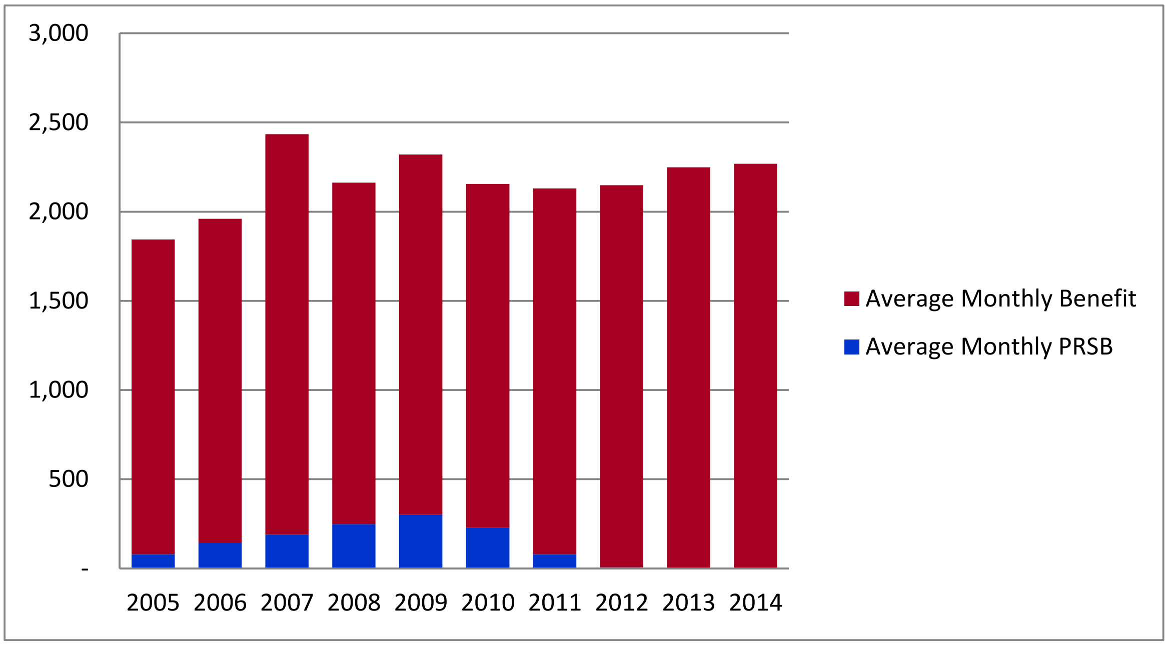
Benefits and Withdrawals Paid
(IN THOUSANDS)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
BENEFITS	$25,287	$27,261	$34,982	$31,286	$33,947	$35,699	$39,901	$42,696	$45,807	$47,368
PRSB	1,157	2,149	2,967	4,072	5,084	4,248	1,587	138	76	9
WITHDRAWALS	1,026	1,219	1,350	1,112	1,022	1,651	2,092	1,313	1,157	1,204

Average Monthly Benefits to Retirees

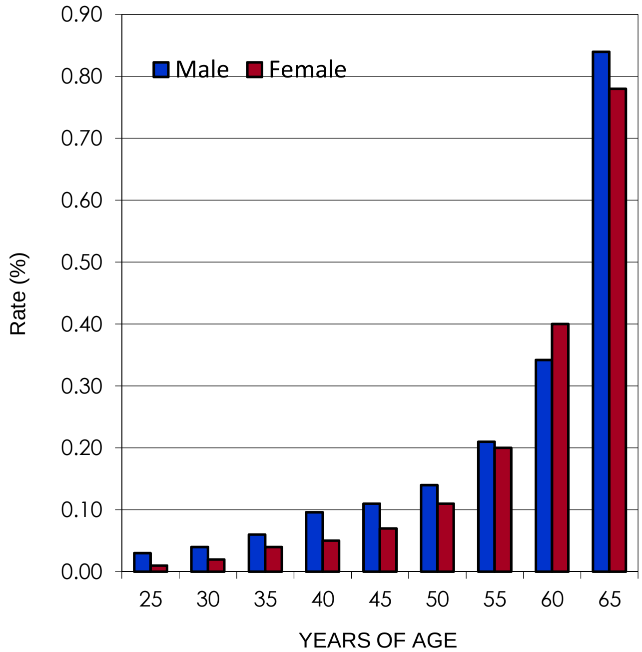
(IN THOUSANDS)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Average Monthly Benefit	$1,763	$1,817	$2,244	$1,913	$2,018	$1,927	$2,050	$2,141	$2,245	$2,267
Average Monthly PRSB	81	143	190	249	302	229	81	7	4	0
Average Monthly Benefit Total	$1,844	$1,960	$2,434	$2,162	$2,320	$2,156	$2,131	$2,148	$2,249	$2,267

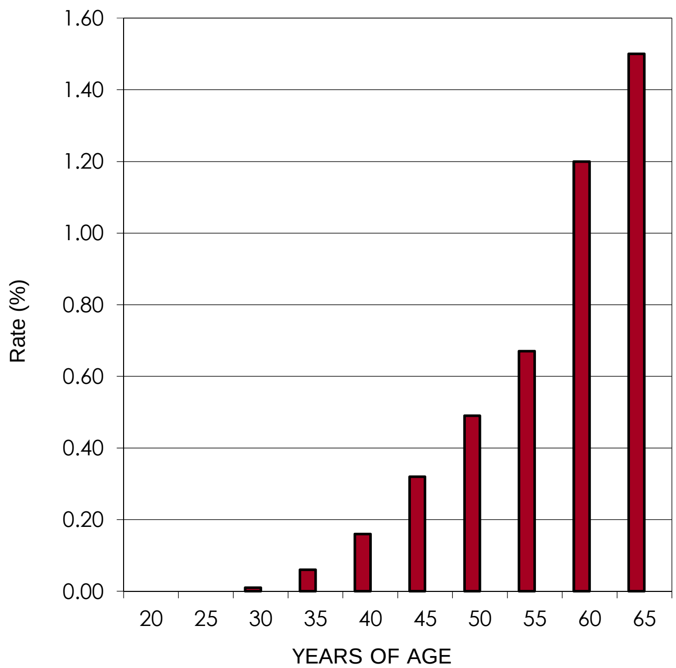
Data Source: PensionGold Administration System

EXPECTATION OF LIFE
(Age and Service Retirees)



EXPECTATION OF LIFE Age and Service Retirees RP-2000 Combined Healthy Mortality Table (x-1)		
Age	Male	Female
25	0.03	0.01
30	0.04	0.02
35	0.06	0.04
40	0.10	0.05
45	0.11	0.07
50	0.14	0.11
55	0.21	0.20
60	0.34	0.40
65	0.84	0.78

EXPECTATION OF LIFE
(Disabled Retirees)



EXPECTATION OF LIFE Disabled Retirees RP-2000 Combined Healthy Mortality Table (x+3)	
Age	Rate (%)
20	0.00
25	0.00
30	0.01
35	0.06
40	0.16
45	0.32
50	0.49
55	0.67
60	1.20
65	1.50

Compliance Section

- 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 Governmental Standards

Independent Auditor's Internal Control Letter

For the Years June 30, 2014 and 2013

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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, in accordance with the 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, the Statement of Fiduciary Net Position of the City of Fresno Employees Retirement System (the System), as of and for the years ended June 30, 2014 and 2013, and the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 19, 2014

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