comprehensive annual financial report

for the year ended June 30, 2007 and 2006

city of fresno fire and police retirement system

a pension trust fund of the City of Fresno

Fresno, California

City of Fresno Retirement Systems

Caring For Your Future

comprehensive annual financial report

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fresno, california 93721

Stanley L. McDivitt
RETIREMENT ADMINISTRATOR

Kathleen Riley
ASSISTANT RETIREMENT ADMINISTRATOR

Yvonne Arellano
BENEFITS MANAGER

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Section 1

Introduction

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

To improve the level of benefits and delivery of services provided to members and employees.

City of Fresno Retirement Systems

Caring For Your Future

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM

2828 Fresno Street, Suite 201, Fresno California 93721-1327 (559) 621-7080 FAX (559) 621-7081 www.CFRS-CA.org

Letter of Transmittal

Retirement Administrator
Stanley L. McDivitt

October 30, 2007

Dear Board Members*:*

As Retirement Administrator of the City of Fresno Fire and Police Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2007 and 2006.

We are entering the fourth year of a strong financial recovery in the investment markets despite volatile economic conditions and markets which are exceptionally vulnerable to financially distressing news such as the sub-prime mortgage losses, concerns about the credit market and continued recession in the housing market. The System experienced a total investment gain of 17.36 percent for the fiscal year ended June 30, 2007, exceeding the System's actuarial interest rate assumption of 8.25 percent by 9.11 percent while slightly underperforming the System's benchmark return of 17.64 percent by 0.28 percent. Our investment results remain solid with annualized returns in excess of 10 percent consistently over the past fifteen years. The System's ten-year annualized returns averaged 9.26 percent still exceeding its weighted policy benchmarks for that period by 0.51 percent and exceeding the actuarial interest rate assumption by 1.01 percent for that same period.

The Fire and Police System remains strong, well funded and well positioned to serve our members. The Board continues to demonstrate its commitment to our membership, ensuring that participants' future retirements are realized through the protection and efficient administration of the System.

The Comprehensive Annual Financial Report (CAFR)

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Fire and Police Retirement System for the years ended June 30, 2007 and 2006, 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 Fire and Police System's finances, please refer to Management's Discussion and Analysis letter in the Financial Section of this report. The CAFR consists of six sections:

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

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

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

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

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

The **Compliance Section** contains the Independent Auditor's Report on Compliance and Internal Control over Financial Reporting 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 Fire and Police Retirement System and Its Services

The Fire and Police Retirement System was established on July 1, 1955, under charter Section 910 and is governed by Article 17 and 17A of Chapter 2 of the City of Fresno Municipal Code. Effective August 27, 1990, the City added a Second Tier that includes all full-time sworn Fire, Police, and Airport Safety personnel hired on or after that date.

The System provides retirement allowances to all full-time sworn safety members employed by the City of Fresno. The System provides lifetime retirement, disability, and death benefits to its safety members. The Retirement Board is also responsible for the prudent investment of member and employer contributions, and defraying reasonable expenses of administration.

The Fire and Police 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 17 and 17A of Chapter 2 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that the "members of the Retirement Board of a public retirement system shall discharge their duties…solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has…"the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

The Retirement Board has five (5) members, two (2) management employees who are appointed by the Mayor and confirmed by the City Council, one (1) employee who is elected by the sworn Fire Department members of the System, and one (1) employee who is elected by the Police and Airport Safety Officers of the System, both of which serve a four-year term. The fifth and final member of the Board shall be a qualified elector of the County of Fresno, 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

During the fiscal year 2007, the Board, jointly with the Employees Retirement System Board prudently evaluated the performance of its portfolio managers, and adopted modifications to two of its policy guidelines: 1) the Investment Equity Portfolios – Developed and Emerging Markets policy, updating language of the policy to reflect the current market strategies in the asset classes and to restrict investment managers to investments in securities in countries contained in the MSCI EAFE and MSCI Emerging Markets Free Indexes respectively; and 2) the Proxy Voting policy, to simplify and update the language of the policy expressly in terms of the fiduciary responsibility delegated and imposed on the investment managers who are entrusted with the responsibility for Proxy Voting as these are the entities most knowledgeable about the real life impact and merit of the shareholder ballot measures being voted upon.

The Boards conducted an analysis, search and evaluation of core plus fixed income investment managers. However, with the Board's Investment Consultant expected to prepare an Asset Allocation Study upon completion of the Actuarial Experience Studies in June, the Committee decided to postpone its decision on the core plus fixed income investment manager search to the next fiscal year.

Professional Services

Professional Consultants and Investment 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 Fire and Police Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive financial annual 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 Fire and Police Retirement System has received a Certificate of Achievement for the last nine years. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Actuarial Funding Status

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

As of June 30, 2006, the funded ratio of the Fire and Police Retirement System was 125.4 percent. The funded ratio was determined by using the actuarial value of the assets in accordance with Governmental Accounting Standards Board Statement No. 25. The actuarial accrued liability of the System at June 30, 2006 amounted to $722,722,173. The actuarial value of assets at June 30, 2006 amounted to $906,222,782. The market value of the assets at June 30, 2006 amounted to $ 1,044,738,026.

The Board engages an independent actuarial consulting firm, to conduct annual actuarial valuations of the System. Recommendations are presented to the Board for consideration. The Segal Company is the System's independent actuarial consultant.

Accounting System & Reports

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that the 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.

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB") and its predecessor, the National Council on Governmental Accounting. The financial statements are presented in accordance with guidelines established by GASB No. 25, Financial Reporting for Defined Benefit Plans and incorporate the provisions of GASB No. 34, GASB No. 40, and GASB 44. GASB No. 43 is the Financial Reporting disclosure for Other Post-employment Benefits (OPEB). The System is not obligated to provide or fund any other post employment benefits.

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 standard may enable a fund to reduce overall risk and increase returns. A summary of the asset allocation can be found in the investment section of this report.

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

For the fiscal year ended June 30, 2007 and June 30, 2006, the System's investments provided a 17.36 percent and 12.12 percent rate of return, respectively. The System's annualized rate of return over the last three years was 13.43 percent; for the past five years the annualized return was 12.37 percent and for the past ten years, the annualized return was a strong 9.26 percent.

Acknowledgements

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, Yvonne Arellano, Karen Rolle, Pattie Laygo, Donna Gaab, Andrea Ketch, Patricia Basquez, Alexander Villa and to the Boards' 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

October 30, 2007

Retirement Board Members as of June 30, 2007

PAUL CLIBY
CHAIR
ELECTED BY FIRE MEMBERS

BRIAN BURRY
VICE-CHAIR
ELECTED BY POLICE MEMBERS

CARLA LOMBARDI
APPOINTED BY MAYOR & CITY COUNCIL

KEN NERLAND
APPOINTED BY MAYOR & CITY COUNCIL

DR. K.C. CHEN
APPOINTED BY RETIREMENT BOARD

Retirement Administrative Staff

STANLEY MCDIVITT
RETIREMENT ADMINISTRATOR

YVONNE ARELLANO
RETIREMENT BENEFITS MANAGER

KATHLEEN RILEY
ASSISTANT RETIREMENT ADMINISTRATOR

BACK ROW (LEFT TO RIGHT)

KAREN ROLLE, ACCOUNTANT AUDITOR, **PATTIE LAYGO**, EXECUTIVE ASSISTANT, **ANDREA KETCH**, RETIREMENT COUNSELOR
DONNA GAAB, RETIREMENT COUNSELOR, **PATTI BASQUEZ**, RETIREMENT COUNSELOR, **ALEX VILLA**, SENIOR ADMINISTRATIVE CLERK

Administration

The Administrative Section is responsible for the administration of the City of Fresno Fire and Police 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 page xiii for outside consultants and investment managers and page 51 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.

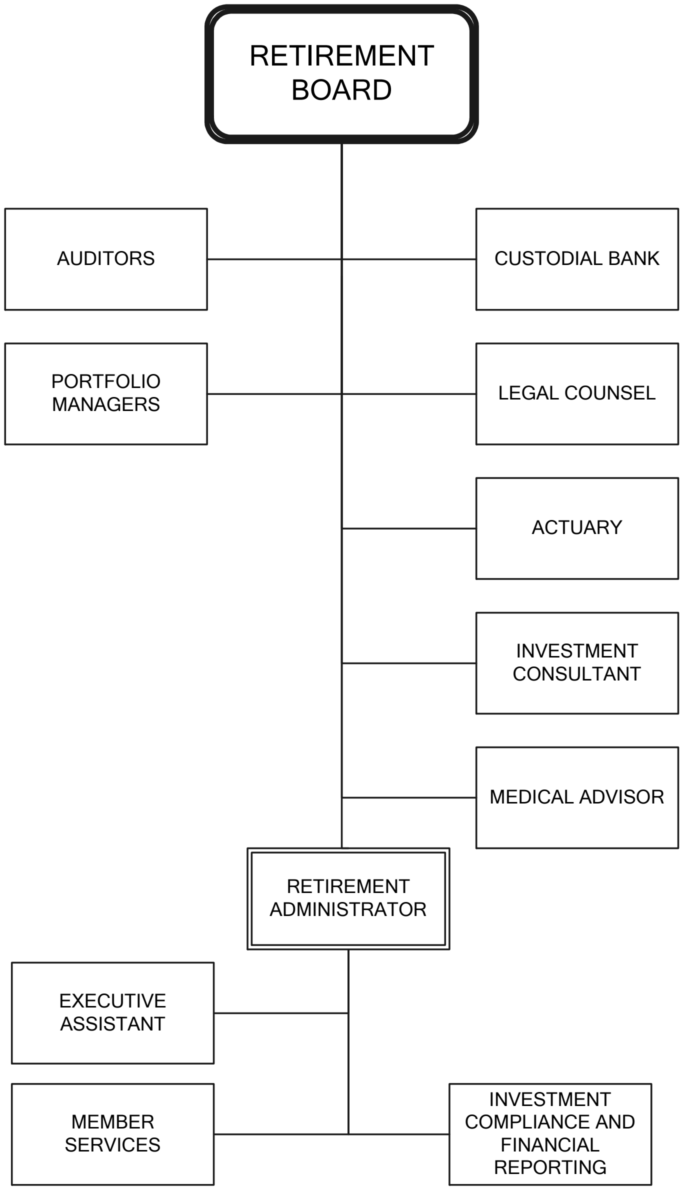
Investment Compliance and Financial Reporting

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

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

Organizational Structure



Professional Services

CUSTODIAL BANK
NORTHERN TRUST
Chicago, Illinois

LEGAL ADVISOR
SALTZMAN AND JOHNSON LAW CORPORATION
San Francisco, California

INVESTMENT CONSULTANT
WILSHIRE ASSOCIATES INC.
Santa Monica, California

ACTUARY
THE SEGAL COMPANY
San Francisco, California

MEDICAL ADVISOR
BENCHMARK MEDICAL CONSULTANTS
Sacramento, California

INDEPENDENT AUDITOR
BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH AND KEETER
ACCOUNTANCY CORPORATION
Bakersfield, California

Portfolio Managers

DOMESTIC EQUITY

Large Cap
Alliance Bernstein, New York, NY
AXA Rosenberg, Orinda, CA
Barclays Global Investors, San Francisco, CA
Capital Guardian, Los Angeles, CA
Goldman Sachs, New York, NY

Small Cap
Emerald Advisors Inc., Lancaster, PA
Kalmar Investments Inc., Wilmington, DE
Kennedy Capital Mgt. Inc., St. Louis, MO

INTERNATIONAL & EMERGING MARKETS

International
Acadian Asset Mgt., Boston, MA
The Boston Co. Asset Mgt, LLC., Boston, MA
Pyramis Global Advisors Trust Co., Boston, MA

Emerging Market
Genesis Asset Managers Ltd, London, England

FIXED INCOME

Aberdeen Asset Mgt., Philadelphia, PA
Dodge & Cox, San Francisco, CA
Prudential Investment Mgt, Inc., Newark, NJ

HIGH YIELD

Loomis Sayles, Boston, MA

REAL ESTATE

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

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno

Fire and Police Retirement System

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

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

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

President

Executive Director

ALSO AWARDED 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005

Section 2

Financial Section

To attract, develop and retain competent and professional staff.

We expect excellence in all activities. We will also be accountable and act in accordance with the law.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

INDEPENDENT AUDITOR'S REPORT

To The Board of Retirement
City of Fresno Fire and Police Retirement System
Fresno, California

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Fire and Police Retirement System as of June 30, 2007 and 2006, and the related Statement of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Fire and Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the City of Fresno Fire and Police Retirement System, as of June 30, 2007 and 2006, and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified as Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it. The RSI has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules and the Investment, Actuarial, and Statistical Sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial and Statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007, on our consideration of the City of Fresno Fire and Police Retirement System internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 30, 2007

2828 Fresno Street, Suite 201, Fresno California 93721-1327 (559) 621-7080 FAX (559) 621-7081 www.CFRS-CA.org

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Fire and Police Retirement System for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page iii of this report.

Financial Highlights

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

- At the close of the fiscal year 2007, the assets of the System exceed its liabilities by $1,193,398,333; fiscal year 2006, the assets of the System exceeded its liabilities by $1,044,738,026; and as of fiscal year 2005, the assets of the System exceeded its liabilities by $957,987,582.

- The System's total net assets held in trust for pension benefits increased by $148,660,307 or 14.23 percent as of fiscal year 2007; for the prior fiscal year total net assets increased by $86,750,444 or 9.06 percent, and for fiscal year 2005 the total net assets increased by $68,020,976 or 7.64 percent over the previous year, all primarily as a result of the recovery in the investment markets.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2006, the date of the last actuarial valuation, the funded ratio for the System was 125.4 percent. In general, this indicates that for every dollar of benefits due we have approximately $1.25 of assets available for payment as of that date.

Revenues are additions to Plan Net Assets:

- For fiscal year 2007, revenues, which include member contributions of $5,393,526, employer contributions of $10,806,791, net investment income of $172,876,811 and securities lending income of $607,597, increased $65,050,118 or 52.19 percent from $124,634,607 to $189,684,725 principally due to the 32 percent increase from securities lending income and investment returns.

- The prior fiscal year revenues, which included member contributions of $5,335,793, employer contributions of $8,885,866, an net investment income of $109,955,304 and securities lending income of $457,644, increased from $105,530,494 to $124,634,607 over fiscal year 2005, or approximately 18.10 percent.

Expenses are deductions in Plan Net Assets:

- Expenses for the current year increased by $3,140,255 or 8.29 percent to $41,024,418.

- Prior fiscal year expenses increased $374,645 or approximately 1.0 percent while fiscal year 2005 expenses increased $1,372,258 or 3.8 percent.

These increases are related to an increase in benefits paid over the prior year.

Overview of the Financial Statements

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

1. Statement of Plan Net Assets Available for Benefits

2. Statement of Changes in Plan Net Assets Available for Benefits

3. Notes to the Financial Statements

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

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

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

The System's funding ratio at June 30, 2006, was 125.4 percent, which means the System's fund has approximately $1.25 available for each $1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits reports information about the System's activities.

These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

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

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

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2007 by $1,193,398,333. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

The fund's combined net assets held in trust for pension benefits have generally increased each fiscal year since 1995 with the exception of losses incurred in fiscal years 2001 and 2002. In fiscal year 2007, net assets increased by 14.23 percent due to the continued recovery in the investment markets.

The System averaged an annualized investment return of 9.26 percent over the past ten years and has exceeded the actuarial assumption of 8.25 percent.

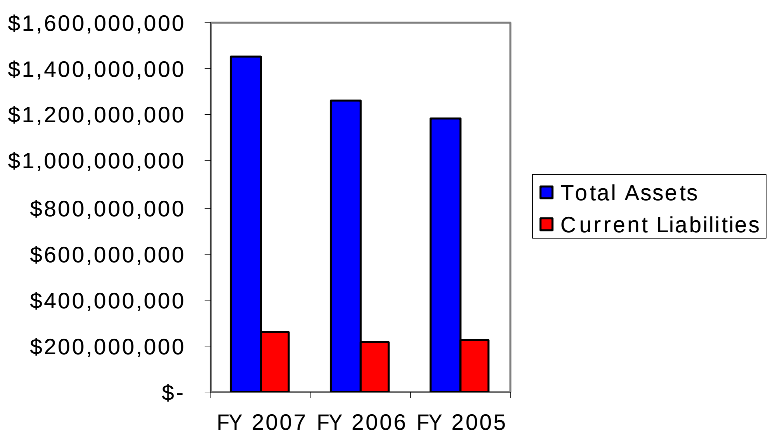
Despite various fluctuations the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and successful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

Table 1 - Fire and Police Retirement System Net Assets

For the years ended June 30, 2007, 2006 and 2005

	FY 2007	FY 2006	FY 2007 Increase/ (Decrease) Amount	FY 2007 Increase/ (Decrease) Percent
Current and Other Assets	$ 249,928,266	$ 209,336,311	$ 40,591,955	19.39%
Investments at Fair Value	1,202,730,887	1,051,191,780	151,539,107	14.42%
Total Assets	$ 1,452,659,153	$ 1,260,528,091	$ 192,131,062	15.24%
Current Liabilities	259,260,820	215,790,065	43,470,755	20.15%
Net Assets	$ 1,193,398,333	$ 1,044,738,026	$ 148,660,307	14.23%

	FY 2006	FY 2005	FY 2006 Increase/ (Decrease) Amount	FY 2006 Increase/ (Decrease) Percent
Current and Other Assets	$ 209,336,311	$ 221,877,357	$ (12,541,046)	-5.65%
Investments at Fair Value	1,051,191,780	962,430,886	88,760,894	9.22%
Total Assets	$ 1,260,528,091	$ 1,184,308,243	$ 76,219,848	6.44%
Current Liabilities	215,790,065	226,320,661	(10,530,596)	-4.65%
Net Assets	$ 1,044,738,026	$ 957,987,582	$ 86,750,444	9.06%



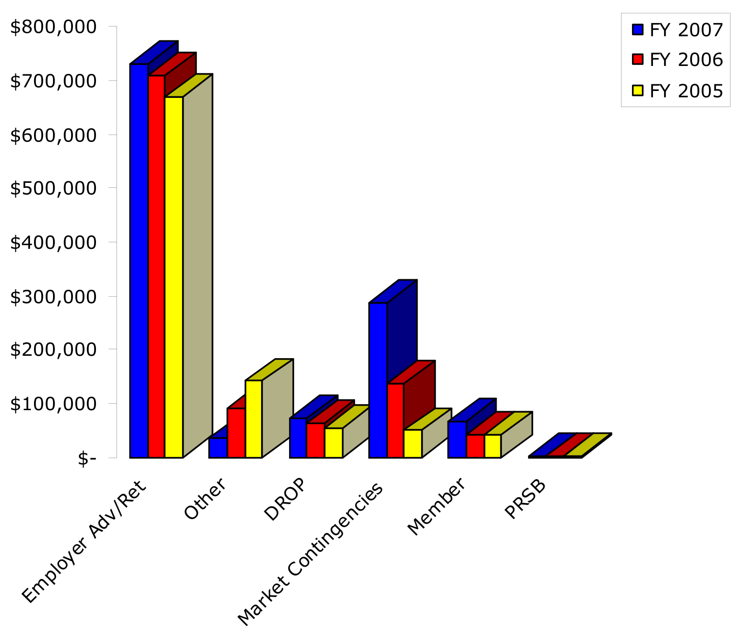
Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Under GASB No. 25, investments are stated at fair value instead of at cost and fair value includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are held in a reserve account called the Market Stabilization Reserve.

Table 2 – Fire and Police Retirement System's Reserves

For the years ended June 30, 2007, 2006 and 2005
(In Thousands)

	2007	2006	2005
Employer Advance/Retired Reserves	$ 730,098	$ 686,527	$ 655,608
Market Stabilization Reserve	287,378	137,144	49,130
Other Reserves	34,547	90,398	141,211
DROP Reserves	73,067	64,160	54,749
Member Reserves	66,082	64,409	55,573
PRSB Reserves	2,226	2,100	1,716
Net Assets Available for Benefits	$ 1,193,398	$ 1,044,738	$ 957,987



Capital Assets

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

System's Activities

Primarily due to a steady growth in real estate and equity market returns as well as an increase in revenue earned from securities lending, the System's assets increased $148,660,307 for the fiscal year resulting in a 14.23 percent increase in net assets for the fiscal year ended June 30, 2007. Key elements of this increase are described in the sections below

Revenues – Additions to System's Net Assets

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]. Revenues for the fiscal year ended June 30, 2007 totaled $189,684,725.

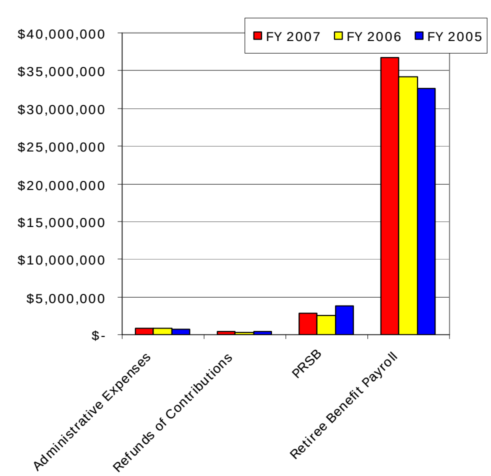
For the fiscal year ended June 30, 2007, overall revenues had increased by $65,050,118 or 52.19 percent from the prior year, primarily due to an increase in securities lending income and the performance of the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2007.

Expenses – Deductions from System's Net Assets

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

Deductions for the fiscal year ended June 30, 2007, totaled $41,024,418 which was an increase of 8.29 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the number of new retirees receiving benefits, and an increase in the average benefit.

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



Changes to Plan Net Assets (Condensed)

For the years ended June 30, 2007 and 2006

	FY 2007	FY 2006	FY 2007 Increase/(Decrease) Amount	FY 2007 Increase/(Decrease) Percent
Additions				
Employer Contributions	$ 10,806,791	$ 8,885,866	$ 1,920,925	21.62%
Employee Contributions	5,393,526	5,335,793	57,733	1.08%
Net Investment Income *	173,484,408	110,412,948	63,071,460	57.12%
Total Additions	$ 189,684,725	$ 124,634,607	$ 65,050,118	52.19%
Deductions				
Retiree Benefit Payroll	$ 36,810,507	$ 34,230,001	$ 2,580,506	7.54%
Refunds of Contributions	453,920	303,442	150,478	49.59%
PRSB	2,872,008	2,548,218	323,790	12.71%
Administrative Expenses	887,983	802,502	85,481	10.65%
Total Deductions	$ 41,024,418	$ 37,884,163	$ 3,140,255	8.29%
Increase (Decrease) in Plan Net Assets	148,660,307	86,750,444	61,909,863	71.37%
Beginning Plan Net Assets	1,044,738,026	957,987,582	86,750,444	9.06%
Ending Plan Net Assets	$ 1,193,398,333	$ 1,044,738,026	$ 148,660,307	14.23%

* Net of investment expenses of $17,683,323 and $13,716,680 for June 30, 2007 and 2006.

For the years ended June 30, 2006 and 2005

	FY 2006	FY 2005	FY 2006 Increase/(Decrease) Amount	FY 2006 Increase/(Decrease) Percent
Additions				
Employer Contributions	$ 8,885,866	$ 8,806,044	$ 79,822	0.91%
Employee Contributions	5,335,793	4,963,353	372,440	7.50%
Net Investment Income *	110,412,948	91,761,097	18,651,851	20.33%
Total Additions	$ 124,634,607	$ 105,530,494	$ 19,104,113	18.10%
Deductions				
Retiree Benefit Payroll	$ 34,230,001	$ 32,583,408	$ 1,646,593	5.05%
Refunds of Contributions	303,442	377,881	(74,439)	-19.70%
PRSB	2,548,218	3,859,816	(1,311,598)	-33.98%
Administrative Expenses	802,502	688,413	114,089	16.57%
Total Deductions	$ 37,884,163	$ 37,509,518	$ 374,645	1.00%
Increase (Decrease) in Plan Net Assets	86,750,444	68,020,976	18,729,468	27.53%
Beginning Plan Net Assets	957,987,582	889,966,606	68,020,976	7.64%
Ending Plan Net Assets	$ 1,044,738,026	$ 957,987,582	$ 86,750,444	9.06%

* Net of investment expenses of $13,716,680 and $8,971,111 for June 30, 2006 and 2005.

System's Fiduciary Responsibilities

The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets may 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 Fire and Police Retirement System's finances and to show accountability for the funds it receives. Questions concerning any of the provided in this report, or requests for additional financial information should be addressed to:

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

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

December 2, 2007

Statement of Plan Net Assets Available for Benefits

As of June 30, 2007 and 2006

		2007		2006
ASSETS				
Cash (Note 6)	$	2,699,001	$	4,470,309
Collateral Held for Securities Lent (Note 8)		228,692,383		194,049,403
Receivables				
Receivables for Investments Sold		12,039,613		5,574,713
Interest and Dividends		4,326,118		3,988,327
Other Receivables		2,006,771		1,073,489
Total Receivables		**18,372,502**		**10,636,529**
Prepaid Expenses		97,066		107,723
Total Current Assets		**249,860,952**		**209,263,964**
Investments at Fair Value (Note 6)				
(Cost of $1,025,524,935 in 2007 and $959,653,003 in 2006)				
Domestic Equity		480,637,775		430,281,908
International Equity		225,187,456		174,627,845
Government Bonds		164,105,954		155,570,189
Corporate Bonds		151,377,394		132,862,818
Real Estate		114,730,183		107,593,578
Emerging Market Equity		39,013,071		31,430,154
Short Term Investments		27,679,054		18,825,288
Total Investments		1,202,730,887		1,051,191,780
Capital Assets Net of Accumulated Depreciation (Note 11)		67,314		72,347
Total Assets		**1,452,659,153**		**1,260,528,091**
LIABILITIES				
Collateral Held for Securities Lent (Note 8)		228,692,383		194,049,403
Payable for Investments Purchased		20,999,379		11,677,294
Prepaid Employer Contributions (Note 4)		2,542,961		7,685,005
Other Liabilities		5,019,011		1,312,173
Payable for Foreign Currency Purchased		2,007,086		1,066,190
Total Liabilities		**259,260,820**		**215,790,065**
Net Assets Held In Trust for Benefits (Note 5)	$	**1,193,398,333**		**1,044,738,026**

(A schedule of funding progress is included on page 33)

The notes to the financial statements on pages 15 to 29 are an integral part of this statement.

Statement of Changes in Plan Net Assets Available for Benefits

For the Years Ended June 30, 2007 and 2006

	2007	2006
ADDITIONS		
Contributions (Note 3)		
Employer	$ 10,806,791	$ 8,885,866
System Members	5,393,526	5,335,793
Total Contributions	**16,200,317**	**14,221,659**
Investment Income		
Net Appreciation in Value of Investments	150,233,781	88,014,028
Interest	16,766,966	15,118,639
Dividends	12,745,292	12,943,492
Other Investment Related	136,975	168,978
Total Investment Income	179,883,014	116,245,137
Less: Investment Expense	(7,006,203)	(6,289,833)
Total Net Investment Income	**172,876,811**	**109,955,304**
Securities Lending Income		
Securities Lending Earnings (Note 8)	11,284,717	7,884,491
Less: Securities Lending Expense	(10,677,120)	(7,426,847)
Net Securities Lending Income	**607,597**	**457,644**
Total Additions	**189,684,725**	**124,634,607**
DEDUCTIONS		
Benefit Payments	36,810,507	34,230,001
Post Retirement Supplemental Benefits (Note 10)	2,872,008	2,548,218
Refunds of Contributions	453,920	303,442
Administrative Expenses	887,983	802,502
Total Deductions	**41,024,418**	**37,884,163**
Excess of Additions over Deductions	**148,660,307**	**86,750,444**
NET ASSETS HELD IN TRUST FOR BENEFITS		
July 1	**1,044,738,026**	**957,987,582**
June 30	**$ 1,193,398,333**	**$ 1,044,738,026**

The notes to the financial statements on pages 15 to 29 are an integral part of this statement.

Notes to the Financial Statements

1. Description of the System

The City of Fresno Fire and Police Retirement System ("System") was established on July 1, 1955, under provisions of the City of Fresno Ordinance Number 4611, and is maintained and governed by Article 17 and 17A of Chapter 2 of the Municipal Code of the City of Fresno but not under the control of the City Council. The System is a single employer public employee retirement system that includes all full time sworn fire, police and airport safety personnel. Effective August 27, 1990, the City added the Fire and Police Second Tier for all full time sworn fire, police and airport safety personnel hired on or after that date (and closed the Fire and Police First Tier to new entrants). Total participants of the System were comprised of the following, as of June 30, 2007 and 2006:

	2007	2006
Active Members:		
Vested	782	765
Non-Vested	360	330
	1,142	1,095
Retirees and Beneficiaries of Deceased Retirees, Currently Receiving Benefits	833	807
Inactive Vested Member	64	53
	897	860
Total	2,039	1,955

Pension benefits are based upon a combination of age, years of service, monthly salary and the option selected by the participant. Death and disability benefits are additionally based upon whether the disability was service connected and whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions do not become vested until completion of 10 years of credited service under the First Tier and five years of credited service under the Second Tier when they become 100 percent vested, but are not payable until the member attains the age of 50 under both tiers. Contributions are made by the members and the employer at rates recommended by the System's actuary and adopted by the Retirement Board.

Cost-of-living increases for the First Tier retirees are determined by the increases attached to ranks of active safety employees for those having retired under the rank-average option. For those retired under the 3-year average, cost-of-living is based on the percentage of change in the weighted mean average monthly compensation attached to all ranks of members, as compared with the prior fiscal year and limited to a maximum of 5 percent per year.

Cost-of-living (COL) increases for the Second Tier retirees will be determined by the change in Consumer Price Index with a maximum of 3 percent per year. Provisions for the COL increases are outlined in the City of Fresno Municipal Code and changes may be made only by code amendment.

2. Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Accounting

The System uses the accrual basis of accounting. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan and per Section 2-1717 and 2-1718 of the Municipal Code.

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

Valuation of Investments

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

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

Estimates

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

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 2-1715, 2-1718, and 2-1715A.

Funding Policy

The City 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 funding method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded liability. However, excess earnings and prepaid City contributions in the System have funded the fiscal year 2007 and 2006 City Contributions (see note 4).

These contributions are recognized currently in the statement of changes in net assets available for benefits. Employees' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary.

Total contributions to the System for fiscal year 2007 totaled $16,200,317. Employees (both tiers) contributed $5,393,526 and the City contribution of $10,806,791 includes cash contributions of $5,160,290 and $5,646,501 from prepaid contributions on deposit with the System. The remaining employer contributions were offset by the prefunded actuarial liability of the System.

First Tier

Contributions aggregating $3,843,158 (3,472,801 net employer and $370,357 employee) were made in fiscal year 2007, based on an actuarial valuation determined as of June 30, 2005, which became effective for the year ended June 30, 2007. For fiscal year 2007, the employer contribution rate was set at 25.71% however, only a cash contribution of $1,469,549 was required from the City due to the use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 14.59 percent and 1.56 percent, respectively, of the fiscal year 2007 covered payroll.

Contributions aggregating $3,932,539 ($3,438,618 employer and $493,921 employee) were made in fiscal year 2006, based on an actuarial valuation determined as of June 30, 2004, which became effective for the year ended June 30, 2006. For fiscal year 2006, the employer contribution rate was set at 25.12%; however, only $3,438,618 was required from the City due to the prefunded actuarial liability and prepaid contributions of the System. Employer and employee contributions represented 14.45 percent and 2.08 percent, respectively, of the fiscal year 2006 covered payroll.

Second Tier

Contributions aggregating $12,357,159 ($7,333,990 net employer and $5,023,169 employee) were made in fiscal year 2007, based on an actuarial valuation determined as of June 30, 2005, which became effective for the year ended June 30, 2007. The employer contribution rate was set at 17.43%; however, only $3,690,741 was required from the City due to the use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 12.02 percent and 8.23 percent, respectively, of the fiscal year 2007 covered payroll.

Contributions aggregating $10,289,120 ($5,447,248 employer and $4,841,872 employee) were made in fiscal year 2006, based on an actuarial valuation determined as of June 30, 2004, which became effective for the year ended June 30, 2006. The employer contribution rate was set at 17.43%; however, only $5,447,248 was required from the City due to the prefunded actuarial liability and prepaid

3. Contributions Continued

contributions of the System. Employer and employee contributions represented 10.19 percent and 9.06 percent, respectively, of the fiscal year 2006 covered payroll.

Contributions are made by the members and the employer at rates recommended by the System's independent actuary and adopted by the Board. Employee contribution rates vary in the First Tier according to entry age and are designed to provide funding for approximately one-third of the retirement benefits. Employee contribution rates in the Second Tier are established at 9 percent of pensionable base pay.

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

The City's normal contributions to the Fire and Police System for 2007 were estimated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2006, as follows:

Actuarial Rates as a Percentage of Pensionable Payroll

	Effective FY 07	Effective FY 06
Employer Normal (First Tier)	25.71%	25.12%
Employer Normal (Second Tier)	17.43%	17.43%

At June 30, 2006, actuarial valuation, the actuarial accrued liability of the Fire and Police System was $722,722,000. The actuarial value of the assets was $906,223,000 for a funding ratio of 125.4 percent.

FY2007	Tier 1	Tier 2	Total
Member Contributions	$ 370,357	5,023,169	$ 5,393,526
Employer Contribution Rate	25.71%	17.43%	
Employer Contributions	$ 6,356,896	$ 11,191,963	$ 17,548,859
Less: Prefunded Actuarial Accrued Liability	(2,884,095)	(3,857,973)	(6,742,068)
Net Employer Contributions	$ 3,472,801	$ 7,333,990	$ 10,806,791
Pensionable Payroll	$ 23,799,708	61,011,375	$ 84,811,083

FY2006	Tier 1	Tier 2	Total
Member Contributions	$ 493,921	4,841,872	$ 5,335,793
Employer Contribution Rate	25.12%	17.43%	
Employer Contributions	$ 6,050,574	$ 9,313,410	$ 15,363,984
Less: Prefunded Actuarial Accrued Liability	(2,611,956)	(3,866,162)	(6,478,118)
Net Employer Contributions	$ 3,438,618	$ 5,447,248	$ 8,885,866
Pensionable Payroll	$ 23,797,605	53,433,220	$ 77,230,825

4. Prepaid Employer Contributions

July of 1994, the City of Fresno deposited prepaid normal contributions which are classified as prepaid contributions to the Fire and Police Retirement System. The balance of the prepayment earns interest at the rate of 8.25 until prepaid contributions are used to fund the City's required contributions to the System. The annual interest earned is credited to the City prepaid contributions balance.

For fiscal year 2007, a portion of the City contributions were offset by prepaid contributions of $5,646,501 with the remainder of the City contributions offset by prefunded actuarial accrued liability. That portion of prepaid contributions used to offset the City's contribution for fiscal year 2007, received a prorated share of the annual interest earned which was credited to the City prepaid contributions balance.

Balance June 30, 2006	$7,685,005
Prepaid Employer Contributions Used	(5,646,501)
Interest Credited for Fiscal Year 2007	504,457
Balance at June 30, 2007	$2,542,961

5. Net Assets Available For Benefits

Net assets available for benefits are segregated into Active Members Reserve (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 members and the total accumulated transfers from Active Member Reserves, and investment earnings, less payments to retired members. Additions include contributions from the employer, transfers from Active Member Reserve, and investment earnings; deductions include payments to retired members.

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

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 2-1745 "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 2-1745 "Post-Retirement Supplemental Benefit."

MARKET STABILIZATION RESERVE represents unrealized gains or losses recognized in the financial statements as a result of reporting investments at fair value instead of cost.

5. Net Assets Available For Benefits Continued

OTHER RESERVE represents reserves accumulated for future earnings deficiencies and investment losses. The Other Reserve is funded entirely from investment earnings.

Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserve 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. Any remaining net investment earnings are allocated to Other Reserve.

The "other reserve account" is credited with all investment income and charged with investment and other expenses. Transfers from undistributed earnings to reserve accounts are made at an annual rate of 8.25 percent. Unrealized appreciation or depreciation of assets is recorded in a reserve for market fluctuation and reported in accordance with Government Accounting Standards Board Statement No. 25.

The amount of reserves for the year ended June 30, 2007 and 2006, consisted of the following (in thousands):

	2007	2006
Employer Reserves	$ 730,098	$ 686,527
Reserve for Market Stabilization	287,378	137,144
Reserve for DROP	73,067	64,160
Active Member Reserves	66,082	64,409
Other Reserve	34,547	90,398
Reserve for PRSB	2,226	2,100
Net Assets Held in Trust for Benefits	$ 1,193,398	$ 1,044,738

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, U.S. Fixed Income, International Fixed Income and Real Estate. Any class may be held in direct form, pooled form or both. The System has nineteen external investment managers, managing 20 individual portfolios.

Investments at June 30, 2007 and 2006 consist of the following (in thousands):

	2007	2006
Investments at Fair Value		
Domestic Equity	$ 480,638	$ 430,282
International Equity	225,187	174,628
Government Bonds	164,106	155,570
Corporate Bonds	151,377	132,863
Real Estate	114,730	107,594
Emerging Market Equity	39,013	31,430
Short Term Investments	27,679	18,825
Total Investments at Fair Value	$1,202,730	$ 1,051,192

The Board through it's Investment Policy Statement provides guidelines for investments and established the following target allocations with a minimum and maximum range for each of these asset classes.

6. Deposits and Investments Continued

Asset Class	Minimum	Target	Maximum
Large Cap Equities	27%	30%	33%
Small Capital Equities	8	10	12
International Equities	14	17	20
Emerging Market	0	3	5
Real Estate	8	10	12
Domestic Fixed Income	20	25	30
High Yield Bonds	0	5	8
Cash	0	0	2
		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 5 percent or more of System net assets invested in any one organization.

The Retirement Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the noncorrelated 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 Systems' name and held by the Systems' custodial bank.

Custodial credit risk for deposits is the risk that, in the event of the failure of the 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 is temporarily swept overnight to Northern Trust Collective Short-Term Investment Fund.

That portion of the System's cash held by the City as part of the City's cash investment pool totaled \$2,699,001 and \$4,470,309 at June 30, 2007 and 2006, 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, 2007.

Credit and Interest Rate Risk

Credit risk associated with the System's debt securities is identified by their ratings in the table below. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System 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 below:

6. Deposits and Investments Continued

Type of Investment	Fair Value	Credit Quality	Duration
Asset Backed Securities	$ 7,271,643	AA+	2.18
Commercial Mortgage-Backed	17,525,677	AA+	5.10
Corporate Bonds	100,652,448	BBB	6.88
Corporate Convertible Bonds	3,570,870	CCC+	5.75
Convertible Equity	984,157	CCC+	14.68
Preferred Stock	192,966	BB+	7.20
Government Agencies	13,626,191	AAA	3.76
Government Bonds	48,300,709	AAA	4.89
Government Mortgage Backed Securities	92,425,502	AAA	3.94
Gov't-Issued Commercial Mortgage-Backed	64,514	AAA	0.43
Municipal/Provincial Bonds	4,895,133	AA+	5.46
Non-Government backed C.M.O.s	25,973,538	AA+	2.79
Total Credit Risk Fixed Income	$ 315,483,348		

Per section 5.4(6) of the System's Investment Policy Statement, no more than 5 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). No securities rated below single B may be purchased at any time. Therefore, at least 95 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 AA- or better.

High yield fixed income portfolios, in accordance with section 5.4 (7) of the Systems' Investment Policy Statement, shall maintain an average credit quality rating of at least B1/B+ at all times. No more than 20 percent of a high yield manager's portfolio may be invested in bonds rated Caa1/CCC+ or lower with non-rated bonds limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of B1/B+.

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, 2007 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

Foreign Currency Risk

The following positions represent the System's exposure to foreign currency risk as of June 30, 2007.

6. Deposits and Investments Continued

Equities:

Base Currency:		Fair Value in USD	
Australian Dollar	AUD	$	14,011,052
Brazilian Real	BRL		2,209,496
Canadian Dollar	CAD		150,114
Swiss Franc	CHF		14,310,640
Chilean Peso	CLP		536,263
Colombian Peso	COP		314,099
Danish Krone	DKK		2,578,114
Egyptian Pound	EGP		1,399,661
Euro	EUR		90,118,811
British Pound Sterling	GBP		44,372,289
Hong Kong Dollar	HKD		2,401,104
Hungarian Forint	HUF		1,198,750
Indonesian Rupiah	IDR		3,360,206
Iceland Krona	ISK		98,092
Japanese Yen	JPY		44,256,413
South Korean Won	KRW		5,623,817
Mexican Peso	MXN		2,964,364
Malaysian Ringgit	MYR		854,221
Norwegian Krone	NOK		2,760,125
New Zealand Dollar	NZD		56,208
Philippine Peso	PHP		257,293
Swedish Krona	SEK		8,703,970
Singapore Dollar	SGD		2,576,011
Thai Baht	THB		788,519
Turkish Lira	TRY		1,665,573
New Taiwan Dollar	TWD		1,825,939
South African Rand	ZAR		4,708,399
Total Non-USD Equities (in USD)		$	254,099,543

Cash and Cash Equivalents:	Fair Value in USD	
Argentine Peso	$	10,003
Australian Dollar		66,954
Brazilian Real		143
Swiss Franc		192,848
Chilean Peso		35,469
Danish Krone		21,465
Euro		282,372
British Pound Sterling		222,122
Hong Kong Dollar		12,118
Japanese Yen		117,500
South Korean Won		11,398
Norwegian Krone		32,492
New Zealand Dollar		1,475
Swedish Krona		103,638
Singapore Dollar		10,125
New Taiwan Dollar		44,666
United States Dollar		26,628,496
South African Rand		113,214
Total Non-USD Cash (in USD)	$	27,906,498

6. Deposits and Investments Continued

Per section 5.4 (5) of the System's Investment Objectives and Policy Statement, assets in international equity portfolios will be primarily composed of foreign ordinary shares and ADR's. Primarily large capitalization securities may be held, although investments in small and mid capitalization securities 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

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.

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 with the manager's investment strategy and the System's investment guidelines, but could not be made through traditional investment securities.

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

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

- Cash securities containing derivative features, including callable bonds, structural notes, and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets.
- Financial instruments whose value is dependent upon a contractual price or rate relative to one or more reference prices or rates, applied to a notional amount, including interest rate futures, options, swaps and caps; and foreign currency futures and forward contracts. Some of these instruments are exchange-traded and others are traded over-the-counter (OTC).

7. Derivatives Continued

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

Credit Risk: Credit risk of cash securities containing derivative features, is based upon the credit worthiness of the issuers of such securities. The Retirement Board establishes minimum credit requirements for such securities. Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange's margin requirements.

As of June 30, 2007, the Fire and Police Retirement System's derivative holdings consisted of the following:

S&P 500 Equity Futures (as a component of Barclays Global Investors Equity Index Fund A)		$ 15,370
Swaps held in Securities Lending Cash Collateral Funds of Barclays Global Investors Equity Index Fund A		
Asset Swap	$ 7,130	
Total Return Swap	18,498	
Basis Swap	62,080	
Credit Derivative Swap	29,161	
Total Swaps		116,869
S&P 500 Equity Futures (as a component of Barclays Global Investors Alpha Tilts Fund)		294,423
Swaps held in Securities Lending Cash Collateral Funds of Barclays Global Investors Alpha Tilts Fund		
Total Return Swap	$ 26,542	
Basis Swap	70,922	
Credit Derivative Swap	2,994	
Total Swaps		100,458
Fair Value of Derivatives Held at June 30, 2007		$ 527,120

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

As designated by the Board, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2007, had a weighted average duration of 39 days and an average yield of 5.33 percent. The relationship between the maturities of the investment pool and the System's 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 System. There are no credit risks related to the securities lending transactions as of June 30, 2007.

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 System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the System against losses and will replace or reimburse the System for any borrowed securities not replaced. In general, the average term of all System loans is overnight or "on demand". All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the System's loans was approximately 81 days as of June 30, 2007.

Due to the nature of the securities lending program and Northern Trust's collateralization of loans at 102 percent and 105 percent plus accrued interest for fixed income securities, we believe that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40.

Securities Lending Income

	2007	2006
Gross Income	$ 11,284,717	$ 7,884,491
Expenses		
Borrower Rebates	10,474,747	7,274,422
Bank Fees	202,373	152,425
Total Expenses	10,677,120	7,426,847
Net Income from Securities Lending	$ 607,597	$ 457,644

Fair Value of Loaned Securities

as of June 30, 2007

Collateralized by	Cash	Securities	Totals
U.S. Government & Agency	$ 51,655,555	$ 1,673,526	$ 53,329,081
Domestic Equities	112,976,616	227,763	$ 113,204,379
Domestic Fixed	22,117,474	982,853	$ 23,100,327
International Equities	32,405,690	638,752	$ 33,044,442
Total	$ 219,155,335	$ 3,522,894	$ 222,678,228

Fair Value of Collateral Received for Loaned Securities

as of June 30, 2007

Collateralized by	Cash	Securities	Totals
U.S. Government & Agency	$ 52,672,003	$ 1,708,796	$ 54,380,799
Domestic Equities	115,716,533	252,116	$ 115,968,649
Domestic Fixed	22,604,440	978,250	$ 23,582,690
International Equities	34,092,848	667,397	$ 34,760,245
Total	$ 225,085,824	$ 3,606,559	$ 228,692,383

9. Administrative Expenses

Section 2-1719 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.

10. Post Retirement Supplemental Benefit Program (PRSB)

The Post-Retirement Supplemental Benefit ("PRSB") Program was created to provide assistance to eligible retirees 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 2-1745.

If an actuarial surplus is declared, 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 2-1745(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, 2007 the System distributed PRSB benefits in the amount of $2,872,008 to eligible recipients (including retirees and DROP participants) and offset required City pension contributions by $6,628,084. As of June 30, 2007, the City Surplus Reserve balance was $0 and the PRSB Reserve balance was $2,226,021.

11. Capital Assets

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

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.

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 salary and benefits of Retirement Staff members paid through the City, reimbursement to the City Personnel Department for personnel consulting services, and reimbursement to the City Information Services Department for computer and telephone support.

The Retirement Systems lease office space from the CFRS Realty Holding Corporation, a title holding company controlled jointly by the City of Fresno Employees and City of Fresno Fire and Police Retirement Systems. See note 12 for a description of this arrangement.

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Section 2

Financial Section

Required Supplemental Schedules

To improve communications with mambers and the employer.

City of Fresno Retirement Systems

Caring For Your Future

Required Supplemental Schedules

For the years June 30, 2007 and 2006

1. Schedule of Funding Progress

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

(DOLLARS IN MILLIONS)

Actuarial Valuation Date Year Ending June 30	(1) Actuarial 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)
1993	$ 242.0	$ 390.6	62.0%	$ 148.6	$ 32.9	(451.7%)
1995	450.4	403.7	111.6%	(46.6)	40.3	(115.6%)
1996	512.8	399.5	128.4%	(113.3)	41.7	(271.6%)
1997	601.6	413.9	145.3%	(187.7)	45.7	(410.3%)
1998	695.2	487.8	142.5%	(207.4)	47.6	(435.8%)
1999	779.5	501.2	155.5%	(278.2)	55.4	(501.4%)
2000	852.4	522.7	163.1%	(329.6)	57.9	(568.4%)
2001	859.1	562.1	152.8%	(296.9)	60.9	(487.0%)
2002	814.7	590.9	137.9%	(223.8)	64.9	(344.7%)
2003	749.5	617.9	121.3%	(131.6)	65.2	(201.7%)
2004	793.1	642.2	123.5%	(150.9)	68.5	(220.3%)
2005	846.7	670.1	126.4%	(176.6)	73.4	(240.6%)
2006	906.2	722.7	125.4%	(183.5)	82.5	(222.4%)

2. Schedule of Employer Contributions

(DOLLARS IN THOUSANDS)

Year Ended June 30	Actuarially Required Contribution (ARC)	Contributions as a % of ARC
2007	$ 10,807	100%
2006	$ 8,886	100%
2005	$ 8,806	100%
2004	$ 728	100%
2003	$ 0	100%
2002	$ 0	100%
2001	$ 0	100%
2000	$ 0	100%
1999	$ 0	100%
1998	$ 0	100%

Notes to the Required Supplemental Schedules

For the years June 30, 2007 and 2006

Actuarial Assumptions

The Segal Company, the System's actuary, performed an actuarial valuation as of June 30, 2006. The actuarial assumptions used to compute the contribution requirements and to determine funding status are as follows:

1. Annual inflation is assumed at 4.25%.
2. Annual investment return is assumed to be 8.25%.
3. The City contribution rate for the Fire and Police System is set at 25.66% for the First Tier and 16.28% for the Second Tier. The aggregate City contribution rate for the two tiers is 19.03. This normal cost of 19.03 is offset by a portion of the prefunded actuarial accrued liability and prepaid contributions for a net normal City contribution rate of 8.01 percent.
4. For the Fire and Police First Tier, employee contribution rates depend upon entry age with rates for ages 25, 35 and 45 being 4.99%, 6.36% and 6.68% respectively. Employee contribution rates for the Second Tier are set at 9% by the Fresno Municipal Code.
5. Accrued benefits and costs are calculated using the entry age normal cost method.
6. Withdrawal, disability, and salary increase assumptions are based on actual System experience.
7. Post retirement mortality assumptions are based on the Society of Actuaries' 1994 Group Annuity Mortality Tables, male/female. Male set back two years for member and females set forward one year for beneficiary.
8. Actuarial valuation of assets is based upon a five-year smoothed recognition of realized and unrealized capital gains and losses which are more or less than the actuarial assumed return of 8.25%.
9. Average annual salary increases were assumed to be 4.25% plus merit and longevity increases based on completed years of service.
10. The System's actuarial surplus is being amortized on a level percentage of projected payroll over a fixed 15-year open period.

These actuarial assumptions were adopted by the Retirement Board on December 13, 2006, for implementation as of July 1, 2007.

Section 2
Financial Section
Supplemental Schedules

Investments will be managed to balance the need for security with superior performance.

City of Fresno Retirement Systems
Caring For Your Future

Supplemental Schedules

Schedule of Administrative Expenses

For the Years Ended June 30, 2007 and 2006

	2007	2006
Personnel Services		
Staff Salaries	$ 279,471	$ 259,174
Fringe Benefits	37,492	34,197
Pension Contribution	8,250	8,604
Total Personnel Services	$ 325,213	$ 301,975
Professional Services		
Actuarial	$ 100,872	$ 69,554
Legal Counsel	47,468	59,079
Information Systems Services	31,441	36,405
Specialized Services	70,813	66,178
Total Professional Services	$ 250,594	$ 231,216
Communication		
Printing	$ 32,619	$ 24,690
Telephone	7,351	16,221
Postage	1,548	3,371
Total Communication	$ 41,518	$ 44,282
Rentals		
Office Rent	$ 64,241	$ 58,888
CAM Charges	41,351	-
Total Office Rent	$ 105,592	$ 58,888
Other		
Insurance	$ 100,221	$ 104,693
Education and Conference	25,685	22,141
Reimbursement to City for Services	21,924	19,453
Office Supplies	6,372	7,432
Depreciation	5,033	3,775
Miscellaneous	3,879	4,524
New Machinery & Equipment	-	2,500
Membership & Dues	1,815	1,475
Subscriptions & Publications	137	148
Total Other	$ 165,066	$ 166,141
Total Administrative Expenses	$ 887,983	$ 802,502

Schedule of Investment Management Fees and Other Investment Expenses

For the Years Ended June 30, 2007 and 2006

	2007	2006
Investment Manager Fees		
Equity		
Domestic	$ 2,319,193	$ 2,049,832
International	1,427,263	1,113,942
Fixed Income		
Domestic	774,352	638,783
Real Estate	1,052,494	790,052
Total Investment Managers Fees	5,573,302	4,592,609
Other Investment Expenses		
Prepaid Employer Contribution Interest Expense	504,457	886,812
Foreign Income Taxes	779,941	655,690
Investment Consultant	107,193	103,444
Custodial Services	41,310	51,278
Total Other Investment Expenses	1,432,901	1,697,224
Total Fees & Other Investment Expenses	7,006,203	6,289,833
Securities Lending Expenses		
Borrowers Rebates	10,474,747	7,274,422
Agent Fees	202,373	152,425
Total Securities Lending Expenses	10,677,120	7,426,847
Total Investment Manager Fees and Other Investment Expenses	$ 17,683,323	$ 13,716,680

Schedule of Payments to Consultants

For the Years Ended June 30, 2007 and 2006

	2007	2006
Actuarial Services	$ 100,872	$ 69,554
Legal Services	47,468	59,079
Medical Consultant	35,832	38,929
City Information Services	31,441	36,405
Miscellaneous	34,981	27,249
Total Payments to Consultants	$ 250,594	$ 231,216

Section 3

Investment Section

To achieve and maintain top quartile investment performance as measured by the Public fund Universe.

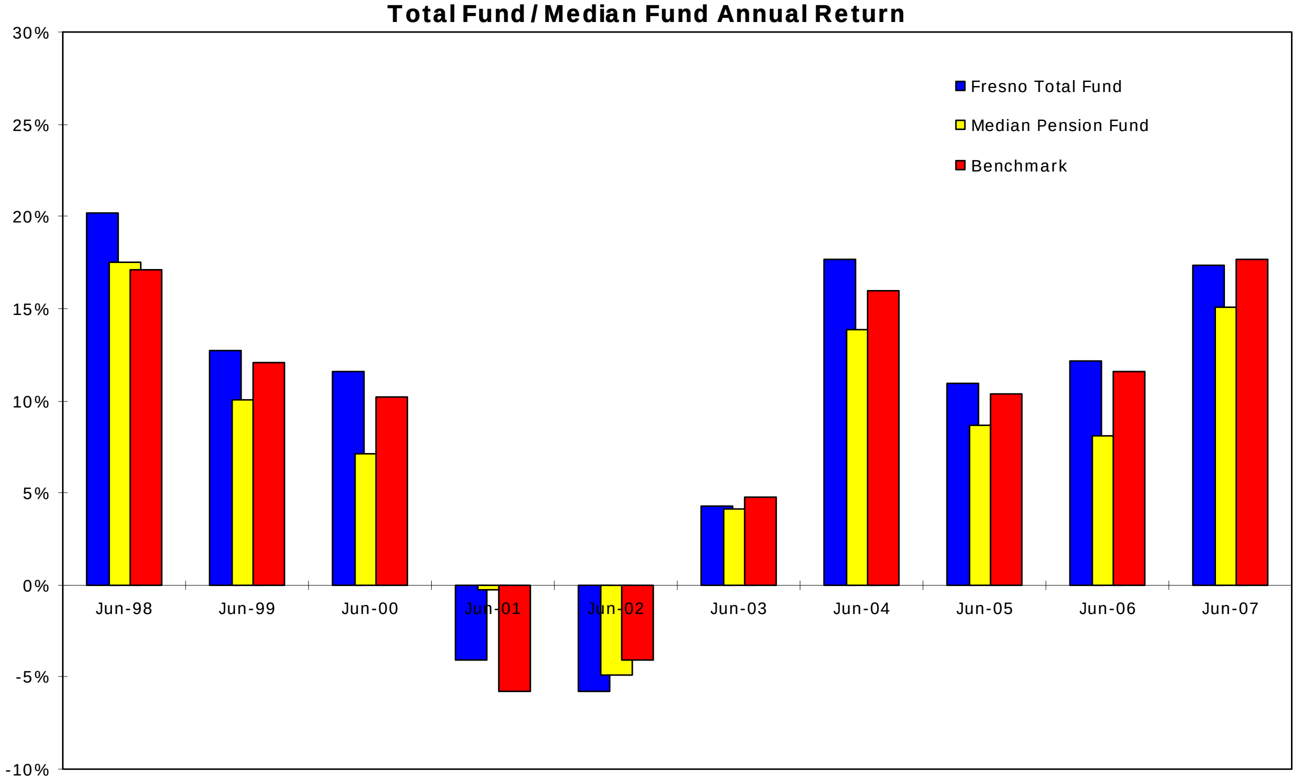
Investment Report from the Retirement Administrator

Highlighted Investment Performance of the City of Fresno Fire and Police Retirement System Investment Portfolio for FY 2007:

	Return
Total Fund	**17.36%**
Domestic Equity	16.55%
International Equity	33.44%
Fixed Income	7.55%
Real Estate	14.76%
Fiscal Year End Fund Value:	**$1,193,398,333**

The System's Total Fund Returns Versus Wilshire Associates Public Pension Funds (Gross of Fee) Returns for the Period Ended June 30, 2007, ranked the System in the top quartile (18th percentile) of our Investment Consultant's universe of public funds. Over the past ten years, the Systems' investment returns have remained sound and consistently outperformed its policy benchmark and the median fund returns as shown in the following chart .

City of Fresno Retirement Systems
Total Fund / Median Fund Annual Return



	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07
Fresno Total Fund	20.20%	12.70%	11.60%	-4.10%	-5.80%	4.31%	17.70%	10.94%	12.12%	17.36%
Median Pension Fund	17.50%	10.00%	7.10%	-0.30%	-4.90%	4.15%	13.83%	8.63%	8.08%	15.06%
Benchmark	17.10%	12.10%	10.20%	-5.80%	-4.10%	4.80%	15.93%	10.40%	11.62%	17.64%

Summary of Portfolio Results

The fiscal year, ended June 30, 2007, marks another outstanding year of performance for the City of Fresno Fire and Police Retirement System. The System experienced a total investment gain of 17.36 percent for the fiscal year ended June 30, 2007, exceeding the System's actuarial interest rate assumption of 8.25 percent by 9.11 percent and the System's policy benchmark (a weighted average of the Fund's asset classes and their respective benchmarks) return of 17.64 percent by -0.28 percent. Over the longer term, our investment results remain sound with annualized returns in excess of 10 percent consistently over the past fifteen years. The System's ten-year annualized weighted returns still averaged 9.26 percent exceeding its policy benchmarks for the period by 0.51 percent and the actuarial interest rate assumption by 1.01 percent. After paying all benefits and expenses of the System, the year-end value of the System reached $1.2 billion.

Another indicator of consistent long-term performance was the System's annualized risk-adjusted return, which outperformed its policy index on a five-year basis, ranking it in the top decile in our Investment Consultant's universe of public pension funds. This means that the City of Fresno Fire and Police Retirement System achieved higher investment returns than the policy index for every unit of risk it took in the last five years.

The System's 17.36 percent return for the Fiscal Year ended June 30, 2007, under performed the Wilshire 5000, a broad index of stock prices which rose 20.45 percent. This result indicates that the System did not perform as well as the broader US equity investment market over the shorter fiscal year period.

Many academic studies suggest that about 80-90 percent of a portfolio's investment results are derived from its asset allocation and that a well-diversified investment portfolio is more likely to produce better performance relative to its indexes. Our longer term success can be attributed to the well-thought-out asset allocation strategy adopted by the Fire and Police Retirement Board and to the System's investment staff's timely implementation and rigorous monitoring of the System's investments in collaboration with the outside investment consultant.

Analysis of Issues Affecting Our Portfolio in FY 2007

The prudent leadership of the Fire and Police Retirement System Board is undoubtedly the most important factor in the continued 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. To that end, the Board reviews its asset liability structure periodically to evaluate the appropriateness of the portfolio's assumptions and asset mix. The Board's Investment Committee is planning an update next fiscal year of the System's Asset Allocation Plan and assumptions.

In general, the System's portfolio correlates fairly well with the performance of the U.S. stock market. In fiscal year 2007, market sentiment as well as performance were affected by the following economic and market developments: (1) a two-year U.S. housing recession; (2) concerns with the credit markets and rising subprime mortgage defaults; (3) valuation of the dollar and relatively low long-term interest rates; (4) weakening consumer confidence and spending; (5) uncertainty and risks associated with geopolitical tensions; and (6) general concerns about the strength of the economy.

During the fiscal year 2007, the Board conducted an analysis, search and evaluation of core plus fixed income investment managers but postponed its decisions pending completion and implementation of the Board's new Asset Allocation Study.

The Investment Committee recommended and the Board adopted modifications to two of its investment policy guidelines. The policy for International Equity Portfolios – Developed and Emerging Markets was updated to reflect the current market strategies in the asset classes and to restrict investment managers to investments in securities in countries contained in the MSCI EAFE and MSCI Emerging Markets Free Indexes respectively.

The Board also reviewed and evaluated its policy on Proxy Voting making modifications to simplify and update the language of the policy expressly in terms of the fiduciary responsibility delegated to and imposed on the investment managers who are entrusted with the responsibility for Proxy Voting as these are the entities most knowledgeable about the real life impact and merit of the shareholder ballot measures being voted upon.

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 incorporated International equity proxy voting guidelines for share-blocking markets into its Proxy Voting policy in 2007. Share-blocking markets are markets of countries outside the US and Canada, which restrict trade activity by shareholders who vote proxies. For portfolio managers managing assets in these international developed and emerging market countries, the requirement to vote proxies may prevent the full exercise of their fiduciary duty to manage the portfolio in the best interest of the Systems. Therefore, under these circumstances, the portfolio manager is granted the authority to choose whether or not to vote proxies in share-blocking markets based upon the manager's determination of what is in the best interest of the Systems.

Specific Investment Results by Asset Classification

As of June 30, 2007, the Retirement System's portfolio was slightly over-weighted in total equities, with 63.5% in total equities versus the target of 60.0%. Domestic equities with 40.8% were close to the target of 40.0%, while international equity was over-weighted with 19.4% developed and 3.3% emerging markets – a total international of 22.7% versus the target of 20.0%. Fixed income with 26.9%, was under-weight its target of 30.0% and real estate with 9.4% was close to its target of 10.0% target. The investments were further diversified into the following asset classes and target percentages:

Asset Classification	Actual	Target
Domestic Equities:		
Large-Cap equities	30.1%	30.0%
Small-Cap equities	10.7%	10.0%
International Equities:		
Developed equities	19.4%	17.0%
Emerging Market equities	3.3%	3.0%
Fixed Income:		
Domestic Fixed Income	22.5%	25.0%
High Yield Fixed Income	4.4%	5.0%
Real Estate:		
Private Real Estate	6.1%	6.0%
Public (REITs)	3.3%	4.0%
Cash	0.2%	.0%
Total	100.0%	100%

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 2, 2007

WILSHIRE

November 6, 2007

Mr. Paul Cliby, Chairman
Ms. Carla Lombardi, Chairwoman
City of Fresno Retirement Systems
2828 Fresno Street, Suite 201
Fresno, California 93721-1327

Mr. Cliby and Ms. Lombardi:

Introduction and Overview

We are pleased to report that the investment markets and the City of Fresno Fire & Police and Employees Retirement Systems reported positive investment results for the fifth year in a row. For the fiscal year ended June 30, 2007, the combined systems experienced a total gain of +17.36% gross of fees, the fourth year in a row in which the systems' return exceeded the actuarial interest rate assumption. Over the last year, the fund underperformed its benchmark[1] return of +17.64% by 0.28% gross of fees. Due to the double digit returns of the past four years, and the experience with very high investment returns through the late 1990s, the combined systems remain significantly overfunded despite the weaker investment performance in 2000 – 2003 period.

The Systems' total return over the past five years has been an annualized average of +12.37% gross of fees versus the fund benchmark return of +12.26% and the 8.25% actuarial interest rate assumption. Over the past five years, the Systems have outperformed the benchmark by 0.11% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +9.26% gross of fees versus a return of 8.75% for the composite benchmark. Over this time period, the Systems outperformed the actuarial interest rate by 1.01% per year.

Summary of Investment Results

The investment information is presented in conformance with the Global Investment Performance Standards of the Chartered Financial Analyst Institute (CFAI, formerly AIMR).

The quarterly performance of the Systems' total fund composite was consistently positive for the past year. The Systems returned +3.77% gross of fees in the third calendar quarter of 2006 (first fiscal quarter), underperforming the benchmark return of +4.26%. This performance ranked the Systems in the top 29% of all pension funds in our database (29th percentile). When the equity markets grew in the fourth calendar quarter, the Systems assets rose, as well. In this quarter, the Systems returned +6.29% gross of fees, performing slightly ahead of the benchmark return of 6.24%, and ranking in the top 16% (16th percentile) of all pension funds in this quarter. In the first calendar quarter of 2007, the Systems slightly trailed their benchmark, returning +2.10% gross of fees versus +2.29% for the index. This performance placed the combined Systems in the top 35% our database (35th percentile). Finally, in the second calendar quarter of 2007, the

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Systems gained 4.23% gross of fees, outperforming the benchmark return of 3.70% and ranking the Systems in the top 40% of funds in our database (40th percentile).

For the year, the Systems' gross of fee performance of +17.36% trailed the benchmark return of 17.64% and ranked in the top quartile (18th percentile) of all public pension funds gross of fee performance in our database.

Asset Allocation

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

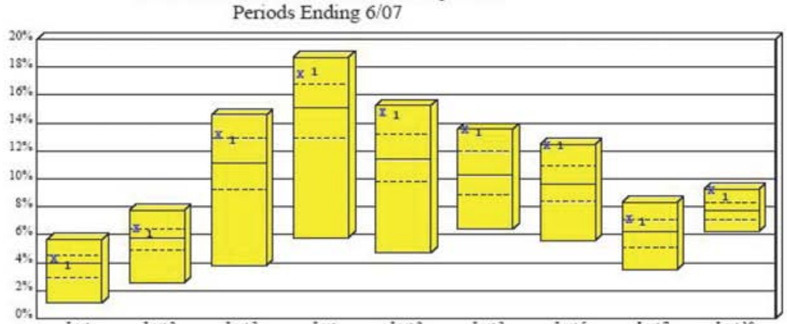
Brokerage Recapture Programs

A brokerage recapture program is in place with several brokerage firms. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.

Performance Comparison

The following chart compares the total return for the Systems to all other public pension funds in our universe and the Systems' benchmark. The graph illustrates that aside from the second quarter of 2007, the Systems have ranked in the top quartile of all public pension funds in all measured time periods ended 6/30/07. Over the last three-, five-, and ten-year periods, the Systems has ranked in the top decile consistently.

City of Fresno Retirement System
Cumulative Performance Comparison
Total Returns of Total Fund Public Sponsors
Periods Ending 6/07



	Last Qtr	Last 2 Qtrs	Last 3 Qtrs	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
5th Percentile	5.67	7.78	14.59	18.70	15.25	13.55	12.49	8.31	9.27
25th Percentile	4.58	6.46	12.91	16.77	13.19	11.96	10.98	7.08	8.35
Median	4.00	5.79	11.14	15.06	11.47	10.26	9.63	6.23	7.72
75th Percentile	2.97	4.88	9.23	12.89	9.79	8.86	8.37	5.15	7.06
95th Percentile	1.11	2.57	3.78	5.79	4.69	6.38	5.62	3.54	6.24
x Total Fund	4.23 (40)	6.41 (27)	13.12 (19)	17.36 (18)	14.71 (11)	13.43 (6)	12.37 (6)	7.02 (26)	9.26 (7)
1 Policy Index	3.70 (59)	6.08 (35)	12.73 (28)	17.64 (14)	14.55 (11)	13.29 (8)	12.26 (6)	6.98 (32)	8.75 (16)

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Summary

In conclusion, the Systems continue to earn significant gains over the long term, with inception returns of more than 10% per year. We remain confident that the Systems have an appropriate asset allocation mix that will maximize the potential for return while minimizing unwanted risks.

Over the last few years, the benefits of diversification were apparent as Non-U.S. equities outpaced both the U.S. equity and fixed income markets. Overall, we believe that the Systems' asset allocation will continue to help mitigate volatility within the fund while still maintaining and improving the Systems' strong financial position.

Sincerely,

Michael C. Schlachter, CFA
Managing Director

[1] City of Fresno Total Fund Policy Index

Policy Index	7/01/05 - 6/30/07	2/01/05 - 6/30/06	7/01/04 - 1/31/05	7/01/03 - 6/30/04	4/01/01 - 6/30/03	3/01/97 - 3/31/01	9/13/95 - 2/28/97
Dow Jones Wilshire 5000 Index	40.0%	40.0%	40.0%	42.0%	45.0%	46.0%	51.0%
MSCI EAFE Index	17.0%	17.0%	17.0%	15.0%	9.0%	10.0%	7.0%
MSCI EMF Index	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	
Lehman Aggregate	25.0%	25.0%	25.0%	28.0%	28.0%	25.0%	37.0%
Lehman High Yield	5.0%	5.0%	5.0%	4.0%	2.0%		
Lehman Gov/Credit/LB					7.0%	5.0%	
JPMorgan Non US Govt Bond						8.0%	4.0%
NCREIF	6.0%	7.5%	10.0%	8.0%	7.0%	4.0%	1.0%
DJ Wilshire Real Estate Securities Index	4.0%	2.5%					
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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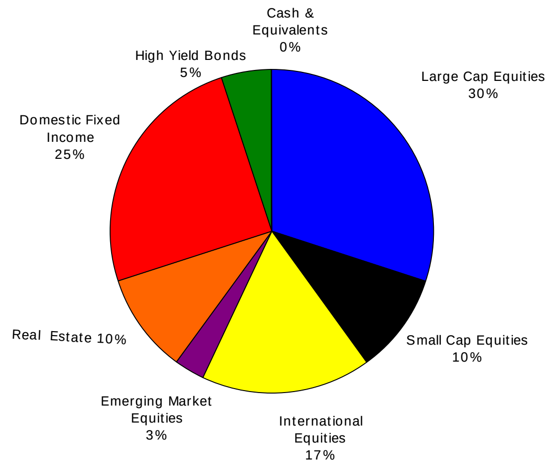
Investment Results

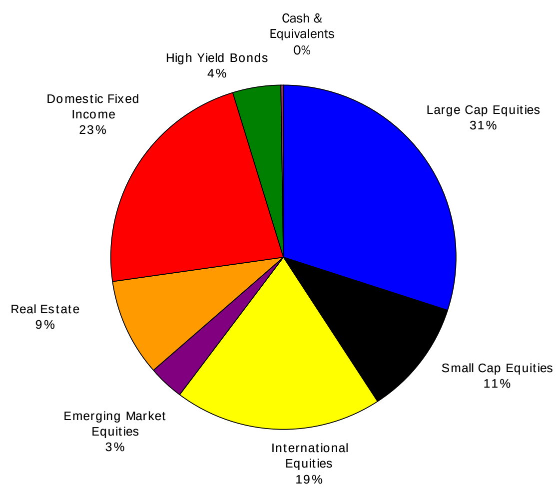
	Annualized			
	1 year	3 years	5 years	10 years
Domestic Equity				
Total Large Cap Domestic Equity	16.64	11.90	10.81	6.97
Median Large Cap Equity	20.29	12.94	11.66	8.63
Benchmark: S&P 500	20.59	11.68	10.71	7.13
Total Small Cap Domestic Equity	16.38	13.96	12.76	8.63
Median Small Cap Equity	18.12	14.98	15.59	12.61
Benchmark: Russell 2000	16.44	13.45	13.88	9.06
International Equity				
Total International Equity	31.68	21.93	16.86	-
Median International Equity	28.92	23.88	19.33	10.29
Benchmark: MSCI EAFE	27.54	22.75	18.21	8.04
Emerging Market Equity				
Total Emerging Market Equity	43.98	39.02	33.01	-
Median Emerging Market Equity	47.87	40.29	32.23	12.18
Benchmark: MSCI EMF	45.45	38.67	30.66	9.40
Fixed Income				
Total Fixed Income	7.75	5.36	5.87	6.30
Median Fixed Income	6.13	4.20	4.70	6.05
Benchmark: Lehman Aggregate Bond Index	6.12	3.98	4.48	6.02
Real Estate				
Total Real Estate	14.75	18.60	15.19	13.46
Median Real Estate	15.00	17.36	13.96	12.23
Benchmark: Weighted Indexes	15.21	19.82	16.42	13.48
Total Fund				
Retirement System	17.36	13.43	12.37	9.26
Median Total Wilshire Public Fund	15.06	10.26	9.63	7.72
Benchmark: Weighted Indexes	17.64	13.29	12.26	8.75

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

Target Allocation



Actual Asset Allocation



Asset Class	Current Target	Allocation Range	Actual
Large Cap Equities	30%	27% - 33%	30.1%
Small Cap Equities	10%	8% - 12%	10.7%
International Equities	17%	14% - 20%	19.4%
Emerging Market Equities	3%	0% - 5%	3.3%
Real Estate	10%	8% - 12%	9.4%
Domestic Fixed Income *	25%	20% - 30%	22.5%
High Yield Bonds	5%	0% - 8%	4.4%
Cash & Equivalents	0%	0% - 2%	0.2%

* 2% High Yield Bonds Managed Within Domestic Fixed Income

Largest Stock Holding (by Market Value)

As of June 30, 2007

	Shares	Stock	Market Value
1)	86,088	Exxon Mobil Corp Com	$ 7,221,096
2)	122,315	JPMorgan Chase & Co	5,926,177
3)	146,044	General Elec	5,590,582
4)	117,813	AT&T Inc	4,889,230
5)	100,500	ING Groep NV CVA EUR0.24	4,450,598
6)	23,156	SOC Generale EUR1.25	4,301,114
7)	35,586	BNP Paribas EUR2	4,246,616
8)	83,724	Bank Amer Corp	4,093,273
9)	154,657	Pfizer Inc	3,954,568
10)	133,585	Microsoft Corp	3,936,754
Total Largest Stock Holdings			$48,610,008

Largest Bond Holdings (by Market Value)

As of June 30, 2007

	Par	Bonds		Due	Market Value
1)	6,321,586	US Treas Nts	5.625%	15 Dec 2008	$ 6,182,315
2)	3,576,437	US Treas Bonds	6.000%	15 Feb 2026	3,903,903
3)	3,950,991	US Treas Nts	3.125%	15 Sept 2008	3,865,800
4)	3,533,240	US Treas Nts	4.625%	31 Dec 2011	3,489,350
5)	3,447,899	US Treas Nts	4.625%	29 Feb 2012	3,403,724
6)	3,079,045	FNMA Pool	Adj Rt	1 Jul 2035	3,051,897
7)	2,502,295	US Treas Nts	5.625%	15 May 2008	2,514,806
8)	2,562,394	FNMA Pool	5.500%	1 Aug 2023	2,505,311
9)	2,360,059	US Treas Nts	3.625%	15 Jul 2009	2,302,164
10)	2,344,777	FNMA Pool	4.500%	1 Oct 2033	2,139,023
Total Largest Bond Holdings					$33,358,293

A complete list of portfolio holdings is available upon request.

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 managers participating in the Brokerage Commission Recapture Program are to give consideration to executing a portion of their trades through the program with NTSI and its eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For FY 2007, the net income from Brokerage Commission Recapture was $94,862. During this period, the overall participating rate by the System's equity managers' was 16.58%. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.

Schedule of Commissions

For the Fiscal Year Ended June 30, 2007

Brokerage Firm		Total Commissions	Number of Shares		Commission Cost/Share
Merrill Lynch Pierce Fenner & Smith	$	38,836	6,167,469	$	0.006
JP Morgan Securities In		37,658	8,990,423		0.004
Credit Suisse First Boston Corporation		24,957	25,264,759		0.001
Deutsche Bank Securities Inc		18,515	33,892,418		0.001
Lehman Brothers Inc		16,077	10,930,212		0.001
Rochdale Securities Corporation		15,889	592,778		0.027
CSFB New York DTC 355		15,677	2,682,258		0.006
Lehman Brothers Inc New York		15,362	4,326,838		0.004
Citigroup Global Markets Inc/Smith Barn		15,325	697,442		0.022
Merrill Lynch Intl Ltd Equities		14,599	581,933		0.025
	$	212,895	94,126,530	$	0.002
All Other Brokerage Firms		664,165	1,224,449,374		0.0005
TOTAL	$	877,060	1,318,575,904	$	0.0007

Investment Summary

		Investment Value as of June 30, 2007	Percent of Fund
Equity			
Domestic	$	480,637,775	40.0%
International		225,187,456	18.7%
Emerging Market Equity		39,013,071	3.2%
Fixed Income			
Domestic		315,483,348	26.2%
Real Estate		114,730,183	9.6%
Short Term Investments		27,679,054	2.3%
Total	$	1,202,730,887	100.0%

Section 4

Actuarial Section

To carry out our Mission through competent, professional, impartial, and open decision-making process.

Actuarial Certification Letter

SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

November 15, 2007

Board of Retirement
City of Fresno Fire and Police Retirement System
2828 Fresno Street, Room 201
Fresno, CA 93721-1327

Re: **City of Fresno Fire and Police Retirement System**
June 30, 2006 Actuarial Valuation

Dear Members of the Board:

The Segal Company prepared the June 30, 2006 actuarial valuation of the City of Fresno Fire and Police Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2006 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data provided by the Plan's administrative staff for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

The funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any prefunded actuarial accrued liability (PAAL). Actuarial gains and losses are incorporated into the PAAL and are amortized over the same period.

Board of Retirement
City of Fresno Fire and Police Retirement System
November 15, 2007
Page 2

The PAAL is amortized as a level percentage of payroll over a 15-year period. The progress being made towards meeting the funding objective through June 30, 2006 is illustrated in the Schedule of Funding Progress.

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

1. Summary of Actuarial Assumptions and Methods;
2. Solvency test; 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, 2004 Experience Analysis or in conjunction with the June 30, 2006 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2006 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on a annual basis. An experience analysis is performed every two years. The next experience analysis is due to be performed as of June 30, 2006.

In the June 30, 2006 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 126.4% to 125.4%. The employer's rate has increased from 5.38% of payroll to 8.01% of payroll, while the employee's rate has increased from 8.25% of payroll to 8.35% of payroll.

Sincerely,

Paul Angelo, FSA, EA, MAAA, FCA	Andy Yeung, ASA, EA, MAAA
Senior Vice President & Actuary	Vice President & Associate Actuary

MAM/gxk
Enclosures

4003330v2/09328.001

Summary of Assumptions and Funding Method

These actuarial assumptions and methods based on June 30, 2006, data were adopted by the Fire and Police Retirement Board on December 13, 2006.

Assumptions

Valuation Interest Rate	8.25%
Inflation:	4.25%

Post Retirement Mortality

(a) Service

Males - 1994 Male Group Annuity Mortality Table setback two-years

Females - 1994 Female Group Annuity Mortality Table with one-year set forward for beneficiary

(b) Disability

1981 Safety Disability Mortality Table, setback five-years

Pre-Retirement Mortality

Based upon the 6/30/2004 Experience Analysis

Withdrawal Rates

Based upon the 6/30/2004 Experience Analysis

Disability Rates

Based upon the 6/30/2004 Experience Analysis

Service Retirement Rates

Based upon the 6/30/2004 Experience Analysis

Percentage Married at Retirement

85% of all active members are assumed to be married at retirement. Their spouses will be eligible for the 2/3 automatic survivor benefits.

Assets

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

Funding Method

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability amortized as a level percentage of payroll. There is no UAAL as of June 30, 2006.

COLA Assumptions

The annual cost-of-living adjustment is 2.75% for Tier 2 members and 4.25% for Tier 1 members and retirees who have retired with the final average formula, or with the career average formula.

DROP

The following probabilities are applied:

	Tier 1	Tier 2
1st year eligible	100%	50%
Following year	0%	25%
Next Following Year	0%	10%
Thereafter	0%	0%

Ultimate Salary Scales

5.25% for the first five years of service. Graded increases thereafter ranging from 5.90% at age 25 to 4.25% at ages 50 and over. Of the total salary increases, 4.25% is for inflation.

Probabilities of Separation Prior to Retirement

Mortality

	Tier 1		Tier 2	
Age	Duty	Non-Duty	Duty	Non-Duty
25	0.04	0.05	0.04	0.04
30	0.05	0.05	0.04	0.05
35	0.06	0.06	0.05	0.06
40	0.07	0.06	0.07	0.07
45	0.12	0.08	0.12	0.12
50	0.17	0.11	0.17	0.17
55	0.00	0.19	0.00	0.00
60	0.00	0.00	0.00	0.00

Disability

	Tier 1		Tier 2	
Age	Duty	Non-Duty	Duty	Non-Duty
20	0.09	0.00	0.30	0.00
25	0.28	0.01	0.42	0.01
30	0.31	0.01	0.60	0.01
35	0.70	0.03	0.84	0.03
40	0.95	0.12	1.22	0.12
45	1.25	0.25	1.76	0.25
50	2.50	0.20	1.71	0.20
55	7.00	0.00	2.53	0.00
60	0.00	0.00	0.00	0.00

Vested Termination (Deferred Vested Benefit)

Age	Tier 1	Tier 2
20	0.70	0.70
25	0.70	0.70
30	0.70	0.70
35	0.70	0.70
40	0.70	0.60
45	0.60	0.35
50	0.00	0.00
55	0.00	0.00
60	0.00	0.00

Source: The Segal Company

Schedule of Active Member Valuation Data

Valuation Date	Active/DROP	Number		Annual Payroll		Annual Average Pay	% Increase in Average Pay
June 30, 2006	Active Members	928	$	69,268,193	$	74,642	9.2%
	DROP Participants	169		13,224,715		78,253	8.8%
	Totals	1097	$	82,492,908	$	75,199	
June 30, 2005	Active Members	894	$	61,123,230	$	68,371	3.0%
	DROP Participants	171		12,299,275		71,926	0.0%
	Totals	1065	$	73,422,505	$	68,941	
June 30, 2004	Active Members	842	$	55,895,431	$	66,384	4.3%
	DROP Participants	175		12,588,060		71,932	0.8%
	Totals	1017	$	68,483,491	$	67,339	
June 30, 2003	Active Members	814	$	53,592,702	$	65,839	-1.1%
	DROP Participants	166		11,654,388		70,207	-10.0%
	Totals	980	$	65,247,090	$	66,579	
June 30, 2002	Active Members	781	$	51,992,000	$	66,571	3.1%
	DROP Participants	166		12,945,000		77,982	10.3%
	Totals	947	$	64,937,000	$	68,571	
June 30, 2001	Active Members	768	$	49,611,000	$	64,598	3.9%
	DROP Participants	164		11,374,000		69,354	-1.9%
	Totals	932	$	60,985,000	$	65,435	
June 30, 2000	Active Members	778	$	48,381,000	$	62,186	4.7%
	DROP Participants	136		9,615,000		70,699	8.5%
	Totals	914	$	57,996,000	$	63,453	
June 30, 1999	Active Members	796	$	47,289,000	$	59,408	7.1%
	DROP Participants	126		8,208,000		65,143	-1.2%
	Totals	922	$	55,497,000	$	60,192	
June 30, 1998	Active Members	730	$	40,486,000	$	55,460	-3.40%
	DROP Participants	108		7,122,000		65,944	Base Year
	Totals	838	$	47,608,000	$	56,811	-1.50%
June 30, 1997	Active Members	797	$	45,759,000	$	57,414	3.00%
June 30, 1996	Active Members	729	$	41,739,000	$	57,255	2.30%
June 30, 1995	Active Members	717	$	40,356,000	$	56,285	4.30%
June 30, 1993	Active Members	651	$	35,110,000	$	53,932	1.10%
June 30, 1991	Active Members	648	$	31,451,211	$	48,536	1.50%

Schedule of Retirees and Beneficiaries Added to or Removed from Rolls

Year Ended	Added to Rolls: Number	Added to Rolls: Annual Allowance*	Removed from Rolls: Number	Removed from Rolls: Annual Allowance*	Rolls at End of Year: Number	Rolls at End of Year: Annual Allowance	% Increase in Retiree Allowance	Average Annual Allowance
June 30, 2007	34	$ 1,196,861	(8)	$ (178,933)	833	$39,682,515	4.53	$ 47,638
June 30, 2006	54	$ 1,196,861	(31)	$ (673,117)	807	$36,778,219	(1.96)	$ 45,574
June 30, 2005	40	$ 1,167,252	(17)	$ (329,007)	784	$36,443,224	0.20	$ 46,484
June 30, 2004	50	$ 549,865	(23)	$ (592,613)	761	$35,304,472	0.93	$ 46,392
June 30, 2003	61	$ 1,936,470	(13)	$ (312,042)	734	$33,736,675	1.24	$ 45,963
June 30, 2002	43	$ 1,080,350	(20)	$ (563,907)	686	$31,144,834	5.36	$ 45,401
June 30, 2001	23	$ 23,125	(24)	$ (401,938)	663	$28,568,480	11.48	$ 43,090
June 30, 2000	32		(15)		664	$25,664,076	10.11	$ 38,651
June 30, 1999	15		(17)		647	$22,710,101	20.83	$ 35,101

* Annual allowance data not available prior to 2001.

Solvency Test (In Thousands)

Valuation Date	Aggregate Accrued Liabilities for: Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Asset: Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members
6/30/2006	$ 58,078	$ 561,039	$ 103,605	$ 906,223	100%	100%	100%
6/30/2005	53,011	508,568	108,522	846,718	100%	100%	100%
6/30/2004	47,981	492,227	101,986	793,059	100%	100%	100%
6/30/2003	46,881	461,688	109,310	749,505	100%	100%	100%
6/30/2002	44,161	443,037	103,657	814,680	100%	100%	100%
6/30/2000	39,133	381,062	102,603	852,444	100%	100%	100%
6/30/1999	37,816	366,529	96,928	779,518	100%	100%	100%
6/30/1998	32,261	358,814	96,729	695,258	100%	100%	100%
6/30/1997	45,412	254,805	113,745	601,693	100%	100%	100%
6/30/1996	42,424	247,231	109,888	512,889	100%	100%	100%
6/30/1994	43,083	242,180	118,525	450,429	100%	100%	100%
6/30/1992	34,526	224,361	131,709	242,039	100%	92%	0%

Actuarial Analysis of Financial Experience

(Amounts in Thousands)	Plan Years: 2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Prior Valuation Actuarial Accrued Liability	$ 670	$ 642	$ 618	$ 591	$ 562	$ 523	$ 501	$ 488	$ 414	$ 400
Salary Increase Greater/ (Less) than Expected	(6)	(8)	5	(12)	(3)	(3)	(3)	-	(1)	(2)
Asset Return (Greater)/ Less than Expected	-	(14)	(38)	29	26	30	40	31	27	16
Other Experience	(4)	47	43	-	-	(1)	(1)	-	1	-
Economic Assumption Changes	-	-	5	-	-	18	(5)	(9)	70	-
Non-economic Assumption Changes	-	3	9	10	6	(5)	(9)	(9)	(23)	-
Normal Cost	21									
Interest	54									
Payments	(35)									
Change in Valuation Programs and Methods	23									
Ending Actuarial Accrued Liability	$ 723	$ 670	$ 642	$ 618	$ 591	$ 562	$ 523	$ 501	$ 488	$ 414

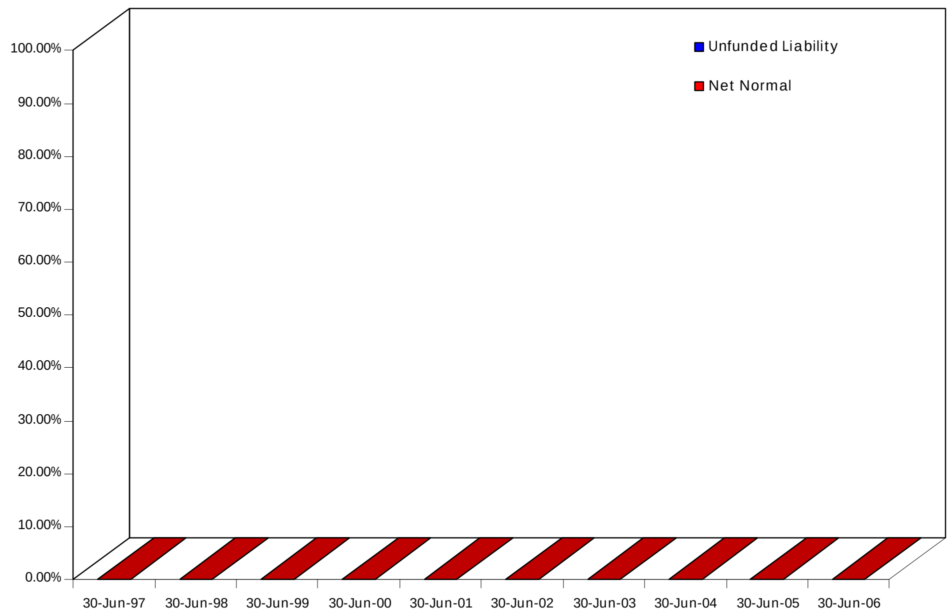
Major Provisions of the Retirement Plan

	Fire & Police First Tier	Fire & Police Second Tier
Coverage	All Fire and Police employees hired on or after October 27, 1927, and before August 27, 1990	All Fire and Police employees hired on or after August 27, 1990.
Final Average Salary (FAS)	a. Three-year final average salary; or b. Salary attached to rank average-service weighted compensation for each rank held.	a. Highest three consecutive year average
Service Retirement	a. Requirement: Age 50 and 10 years of Service, or age 60. b. Benefit: (1) and (2) (1) 2¾% of FAS times years of service before age 50, not to exceed 20 years (2) 2% of FAS times years of service after age 50, not to exceed 10 years Maximum Benefit: 75% of FAS	a. Requirement: Age 50 and 5 years of service. b. Benefit: Retirement Age — Benefit Formula 50 — 2.00% x FAS x service 51 — 2.14% x FAS x service 52 — 2.28% x FAS x service 53 — 2.42% x FAS x service 54 — 2.56% x FAS x service 55 and over — 2.70% x FAS x service c. Maximum Benefit : 75% of FAS
Deferred Retirement Option (DROP)	An employee who is age 50 with 10 years of service may join the DROP program which is in essence an alternative form of retirement distribution. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work for a maximum of 10 years.	An employee who is age 50 with 5 years of service may join the DROP program which is in essence an alternative form of retirement distribution. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work for a maximum of 10 years.
Disability Retirement	a. Requirements: (1) Service-Connected: None (2) Non-Service Connected: 10 years of service. b. Benefit: (1) Service-Connected: 55% of FAS or service retirement, if higher. (2) Non-Service Connected: 1.65% x FAS x years of service, if exceeds 36.67% of FAS; or 36.67% of FAS; or service retirement, if higher. Benefit reduced to the extent that income earned while on disability and the amount of the disability retirement benefits exceeds the current salary attached to the last rank held.	a. Requirements: (1) Service-Connected: None (2) Non-Service Connected: 10 years of service. b. Benefit: (1) Service-Connected: 50% of FAS or service retirement, if higher. (2) Non-Service Connected: 1½% x FAS x years of service, if exceeds 1/3 of FAS; or 1/3 of FAS; or service retirement, if higher. Benefit reduced to the extent that income earned while on disability and the amount of the disability retirement benefits exceeds the current salary attached to the last rank held.

Major Provisions of the Retirement Plan Continued

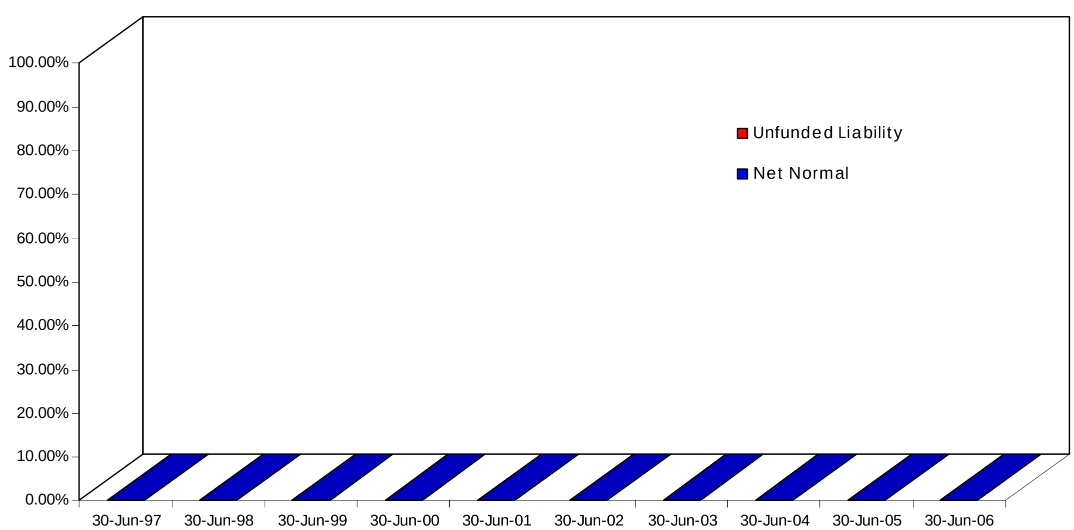
	Fire & Police First Tier	Fire & Police Second Tier
Death Before Retirement	a. Before eligible to retire for disability (less than 5 years). (1) One month's salary for each year of service, not-to-exceed 6 months. (2) Return of contributions with interest. b. While eligible to retire (after 10 years): 2/3 of Service or Non-Service-connected Disability Retirement Benefit c. Service-Connected Death: 55% of FAS	b. Before eligible to retire (less than 5 years). (1) One month's salary for each year of service, not-to-exceed 6 months. (2) Return of contributions with interest. b. While eligible to retire (after 5 years): 2/3 of Service or Non-Service-connected Disability Retirement Benefit c. Service-Connected Death: 50% of FAS
Death After Retirement	Two-thirds of the member's allowance continued to eligible spouse for life.	Two-thirds of the member's allowance continued to eligible spouse for life.
Withdrawal Benefits	a. If less than 10 years of service, return of contributions. b. If greater than 10 years of service, right to have vested deferred retirement benefit at normal retirement date.	c. If less than 5 years of service, return of contributions. d. If greater than 5 years of service, right to have vested deferred retirement benefit.
Post Retirement Supplemental Benfeit (PRSB)	On May 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.	On May 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	a. Based on the weighted mean average compensation attached to all ranks in the department, limited to a 5% maximum change per year, if based on three-year FAS. b. Based on salary increase for each rank held, if benefit was calculated on salary attached to average rank.	a. Based on the Consumer Price Index for all Urban Wage Earners and all Clerical Workers (U.S. City Average), limited to a 3% change per year.
Member Contribution Rates	Varies based on entry age.	9% of Compensation.

History of Employer Contribution Rates (Tier I)



Valuation Date	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06
Normal	21.32%	25.79%	25.29%	25.44%	25.52%	25.55%	25.26%	25.12%	25.71%	25.66%
Prefunded Liability	21.32%	25.79%	25.29%	25.44%	25.52%	25.55%	25.26%	25.12%	25.71%	11.21%
Prepaid Contributions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	13.33%	6.55%	14.45%
Net Normal	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unfunded Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Employer Contribution	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	14.45%

History of Employer Contribution Rates (Tier II)



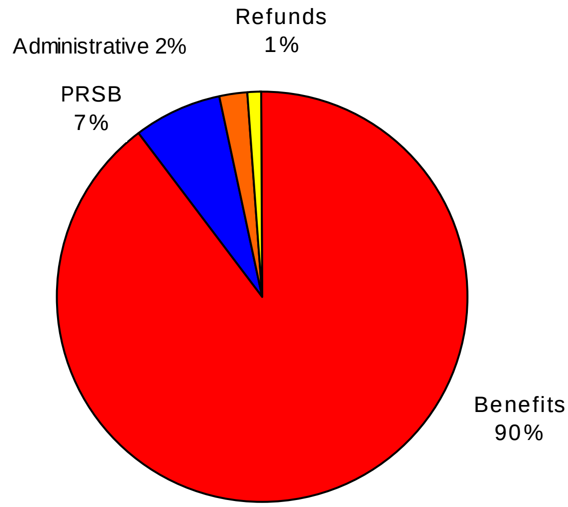
Valuation Date	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06
Normal	15.86%	14.44%	14.57%	14.52%	14.67%	14.73%	15.86%	17.43%	17.43%	16.28%
Prefunded Liability	15.86%	14.44%	14.57%	14.52%	14.67%	14.73%	15.86%	17.43%	17.43%	6.09%
Prepaid Contributions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	13.33%	6.55%	10.19%
Net Normal	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unfunded Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Employer Contribution	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Section 5

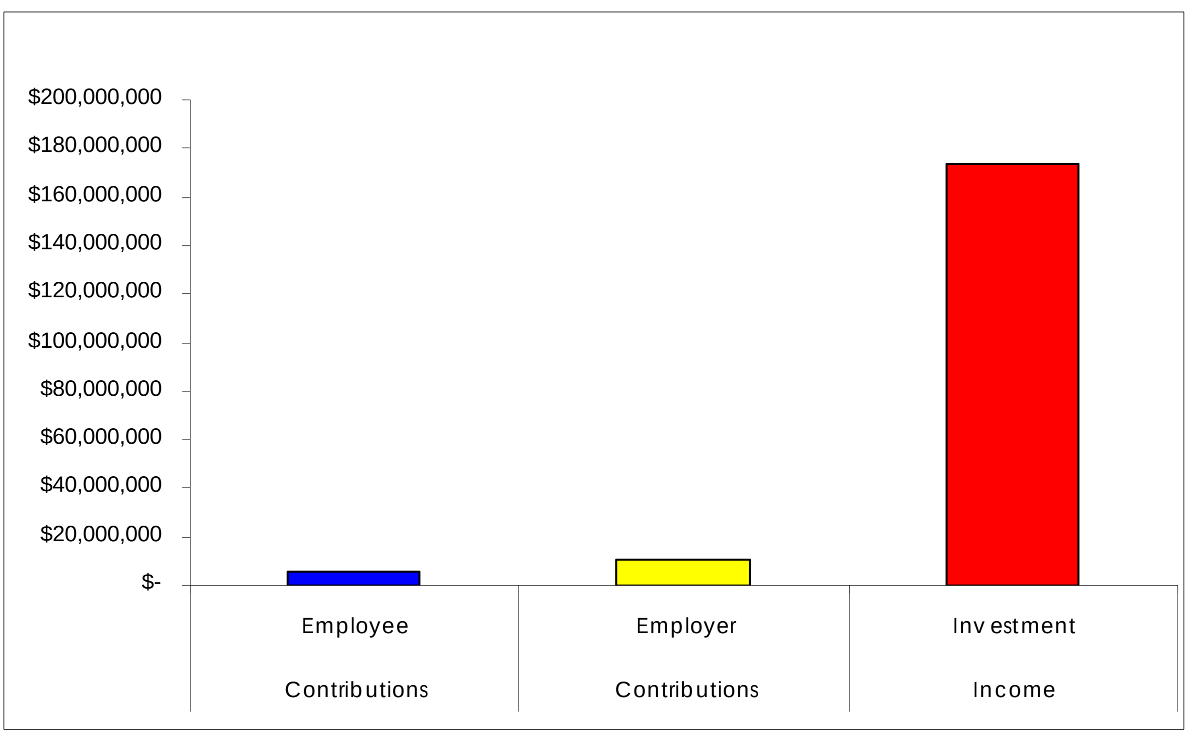
Statistical Section

To provide benefits and services, while treating all persons fairly and with courtesy and respect.

FY 2007
Expenses by Type



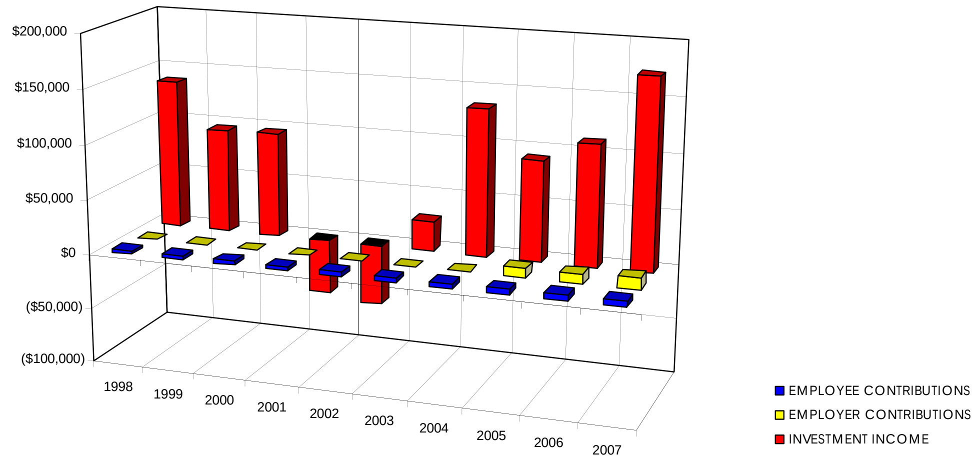
FY 2007
Revenues by Source



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

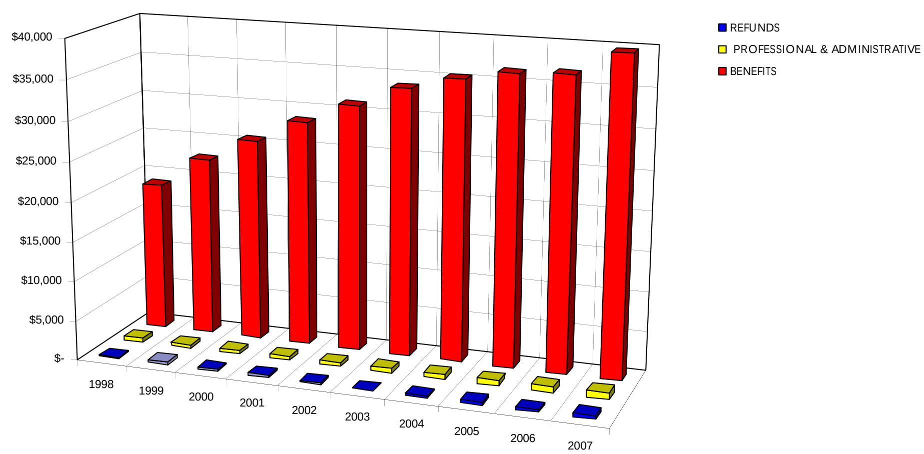
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Employer Contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.7	$ 8.8	$ 8.9	$ 10.8
Member Contributions	3.1	3.3	3.4	3.8	3.8	4.1	4.4	4.9	5.3	5.4
Net Investment Income	137.1	95.4	96.3	(49.6)	(55.2)	27.8	134.3	91.8	110.4	173.5
Total Revenues	$ 140.2	$ 98.7	$ 99.7	$ (45.8)	$ (51.4)	$ 31.9	$ 139.4	$ 105.5	$ 124.6	$ 189.7
Expenses										
Total Benefit Expenses	$ 18.9	$ 21.2	$ 22.0	$ 23.2	$ 25.3	$ 28.6	$ 30.1	$ 32.6	$ 34.2	$ 36.8
Administrative Expense	0.5	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.8	0.9
PRSB	-	1.5	3.7	5.3	5.8	5.1	5.2	3.9	2.5	2.9
Refunds	0.2	0.4	0.2	0.3	0.2	0.1	0.2	0.4	0.4	0.5
Total Deductions	20	24	26	29	32	34	36	38	38	41
Change in Plan Net Assets	$ 120.6	$ 75.2	$ 73.3	$ (75.1)	$ (83.2)	$ (2.5)	$ 103.3	$ 67.9	$ 86.7	$ 148.6

Revenues by Source
(in thousands)



		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007
EMPLOYEE CONTRIBUTIONS	$	3,134	$	3,329	$	3,429	$	3,780	$	3,848	$	4,081	$	4,409	$	4,963	$	5,336	$	5,394
EMPLOYER CONTRIBUTIONS		-		-		-		-		-		-		728		8,806		8,886		10,807
INVESTMENT INCOME		137,090		95,444		96,269		(49,576)		(55,177)		27,759		134,287		91,761		110,413		173,484
TOTAL	$	140,224	$	98,773	$	99,698	$	(45,796)	$	(51,329)	$	31,840	$	139,424	$	105,530	$	124,635	$	189,685

Expenses By Type
(in thousands)



		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007
REFUNDS	$	173	$	378	$	232	$	320	$	178	$	79	$	229	$	378	$	303	$	454
PROFESSIONAL & ADMINISTRATIVE		470		407		474		505		512		571		604		688		803		887
BENEFITS		18,853		22,710		25,664		28,568		31,145		33,737		35,304		36,443		36,778		39,683
TOTAL	$	19,496	$	23,495	$	26,370	$	29,393	$	31,835	$	34,387	$	36,137	$	37,509	$	37,884	$	41,024

Schedule of Average Benefit Payments

Retirement Effective Dates	Years of Credited Service 5-10	10-15	15-20	20-25	25-30	30+	Fiscal Year Average/Total Retirants
Period 7/1/06 to 6/30/07							
Average Monthly Benefit	$ 2,153	$ -	$4,594	$ 5,051	$ 5,117	$ 9,340	$ 5,251
Average Final Average Salary	5719.77	-	6001.3	5396.8	5967.8	6977.66	6,013
Number of Active Retirants	2	0	2	1	11	9	25
Period 7/1/05 to 6/30/06							
Average Monthly Benefit	$ 2,639	$ -	$3,759	$ 4,278	$ 5,595	$ 7,430	$ 4,740
Average Final Average Salary	5,300	-	5,557	5,620	5,096	5,676	5,450
Number of Active Retirants	5	0	7	6	5	10	33
Period 7/1/04 to 6/30/05							
Average Monthly Benefit	$ 3,077	$1,783	$2,897	$ 3,081	$ 6,481	$ 7,388	$ 4,941
Average Final Average Salary	5,614	6,099	9,863	5,571	5,486	5,690	7,665
Number of Active Retirants	2	2	1	3	7	12	27
Period 7/1/03 to 6/30/04							
Average Monthly Benefit	$ 3,246	$2,808	$3,412	$ 4,961	$ 5,616	$ 8,174	$ 5,643
Average Final Average Salary	5,231	5,335	5,636	5,547	5,440	4,882	6,414
Number of Active Retirants	11	2	3	2	8	15	41
Period 7/1/02 to 6/30/03							
Average Monthly Benefit	$ 3,068	$3,427	$3,637	$ 5,055	$ 6,186	$ 7,138	$ 5,702
Average Final Average Salary	4,917	5,549	5,926	5,012	4,829	5,577	6,362
Number of Active Retirants	4	8	4	7	5	19	47
Period 7/1/01 to 6/30/02							
Average Monthly Benefit	$ 3,849		$3,287	$ 3,938	$ 6,635	$ 7,416	$ 5,025
Average Final Average Salary	6,371		4,897	5,006	5,581	5,673	5,506
Number of Active Retirants	1		3	4	5	12	25
Period 7/1/00 to 6/30/01							
Average Monthly Benefit	$ 3,298	$3,658		$ 3,604	$ 3,583	$ 6,431	$ 4,115
Average Final Average Salary	5,130	4,985		4,244	4,776	5,458	4,919
Number of Active Retirants	2	1		5	3	5	16
Period 7/1/99 to 6/30/00							
Average Monthly Benefit	$ 3,107	$3,131	$3,247	$ 3,374	$ 4,134	$ 6,315	$ 3,884
Average Final Average Salary	5,040	4,757	4,414	4,582	5,603	6,971	5,228
Number of Active Retirants	2	3	1	3	1	3	13
Period 7/1/98 to 6/30/99							
Average Monthly Benefit			$1,941	$ 2,443		$ 4,609	$ 2,998
Average Final Average Salary			4,977	4,712		7,236	5,642
Number of Active Retirants			1	2		3	6
Period 7/1/97 to 6/30/98							
Average Monthly Benefit	$ 2,325	$2,365		$ 2,919	$ 2,961	$ 3,119	$ 2,738
Average Final Average Salary	4,650	4,731		5,976	5,776	4,901	5,207
Number of Active Retirants	2	1		1	3	2	9
Period 7/1/96 to 6/30/97							
Average Monthly Benefit		$2,345		$ 2,853	$ 2,363	$ 3,235	$ 2,699
Average Final Average Salary		4,690		5,391	4,918	5,494	5,123
Number of Active Retirants		2		3	5	2	12
Period 7/1/95 to 6/30/96							
Average Monthly Benefit	$ 2,216	$3,065		$ 2,014	$ 2,673	$ 3,251	$ 2,644
Average Final Average Salary	4,435	4,130		4,801	4,930	5,215	4,702
Number of Active Retirants	1	1		9	14	11	36

Retired Members by Type of Benefit

As of June 30, 2007

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3
$1 - $1,000	40	0	1	39
$1,001 - $2,000	53	11	9	33
$2,001 - $3,000	132	29	38	65
$3,001 - $4,000	290	98	168	24
$4,001 - $5,000	130	81	42	7
$5,001 - $6,000	65	42	20	3
$6,001 - $7,000	43	25	17	1
> $7,000	80	36	44	0
Total	833	322	339	172

Option Selected** Unmodified	Option 1	Option 2	Option 3
39	1	0	
43	1	5	1
78	33	9	5
204	89	10	
89	29	6	3
49	11	5	
24	7	11	1
62	3	15	
588	174	61	10

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

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

Data Source: PensionGold Administration System

Benefit Expenses by Type

(In Million Dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Service Retiree Payroll	$ 13.1	$ 15.6	$ 17.7	$ 19.7	$ 21.7	$ 22.6	$ 22.7	$ 23.9	$ 22.3	$ 23.8
Disability Retiree Payroll	5.7	7.1	8.0	8.9	9.5	11.1	12.6	12.6	14.5	15.8
Refunds	0.2	0.4	0.2	0.3	0.2	0.1	0.2	0.4	0.3	0.5
Total Benefit Expenses	$ 19.0	$ 23.1	$ 25.9	$ 28.9	$ 31.4	$ 33.8	$ 35.5	$ 36.9	$ 37.1	$ 40.1

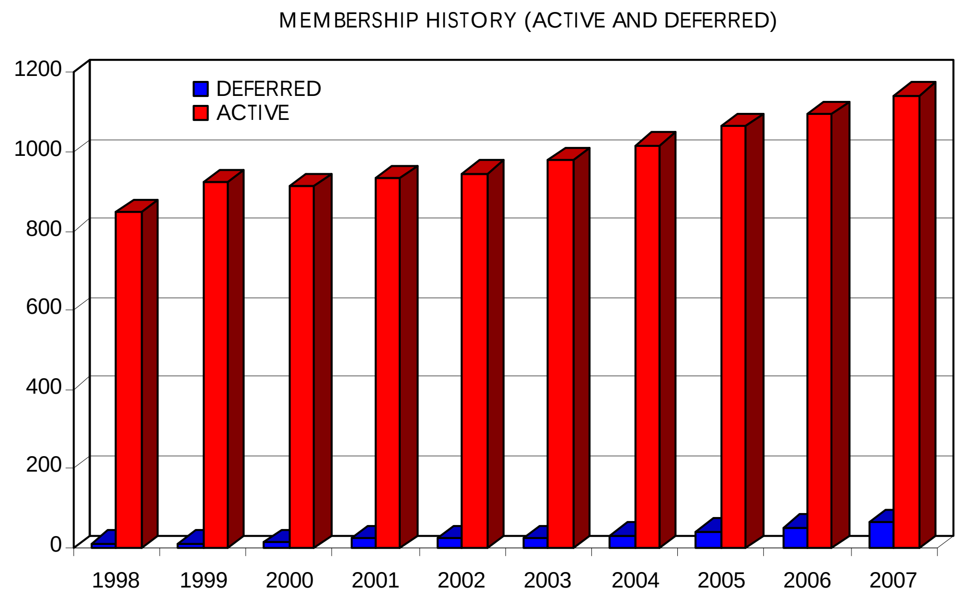
Active / Deferred Members

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Active Vested	426	554	593	628	698	717	759	763	765	782
Active Non Vested	423	368	321	306	248	263	258	303	330	360
Deferred	12	12	15	24	25	24	31	42	53	64
Total	861	934	929	958	971	1,004	1,048	1,108	1,148	1,206

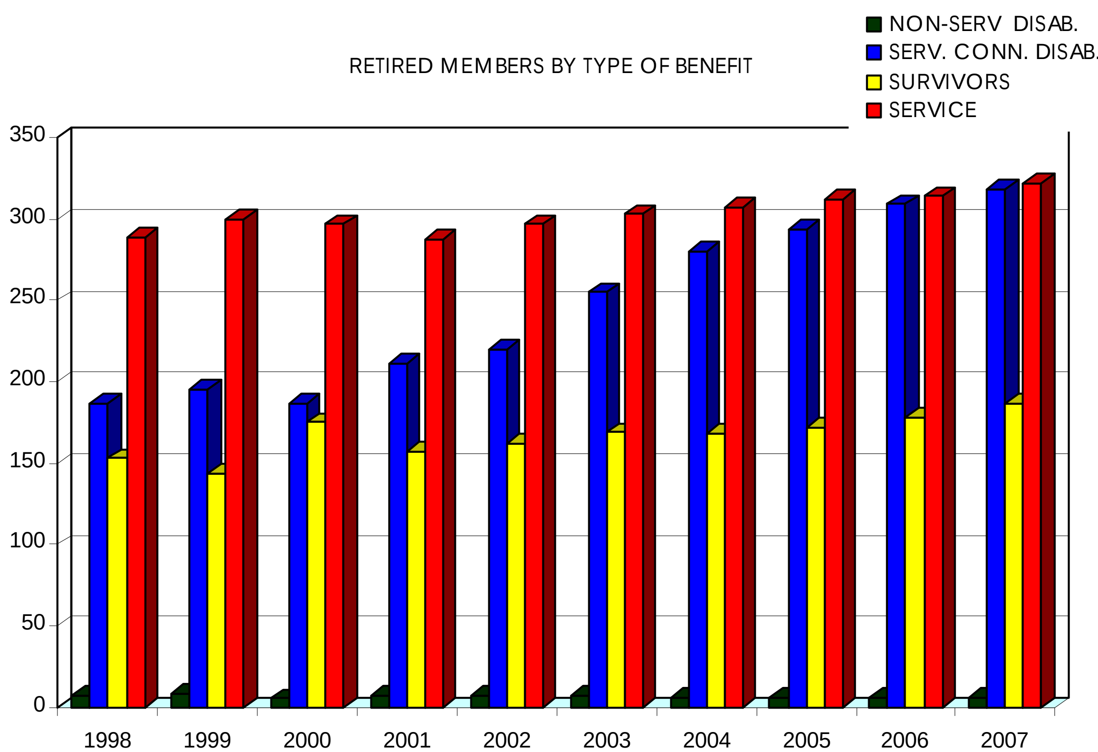
Retired Members

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Service	289	300	297	288	297	303	307	312	314	322
Service Connected Disability	187	195	187	211	220	255	280	294	309	318
Non Service Disability	7	8	5	7	7	7	6	6	6	6
Survivors	153	144	175	157	162	169	168	172	178	187
TOTAL	636	647	664	663	686	734	761	784	807	833

Membership History (Active and Deferred)



Schedule of Retired Members by Type of Benefit



Summary of Active Participants

YEAR	NUMBER OF MEMBERS	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
1997	798	$ 43,462,379	$ 54,464	-3.50%
1998	849	47,430,688	55,867	2.57%
1999	921	52,410,461	56,906	1.86%
2000	914	54,667,137	59,811	5.10%
2001	934	59,888,057	64,120	7.20%
2002	946	61,344,091	64,846	1.13%
2003	980	64,149,390	65,459	0.95%
2004	1017	66,899,509	65,781	0.49%
2005	1066	72,812,722	68,305	3.84%
2006	1095	77,230,825	70,530	3.26%
2007	1142	$ 84,811,083	$ 74,265	5.30%

Summary of Retired Membership

YEAR	NUMBER OF MEMBERS	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
1997	625	$ 18,182,008	$ 29,091	12.98%
	-	-	-	-
1998	649	18,852,815	29,049	-0.15%
	-	-	-	-
1999	647	22,710,101	35,101	20.83%
2000	664	25,664,076	38,651	10.11%
2001	663	28,568,480	43,090	11.48%
2002	686	31,144,834	45,401	5.36%
2003	734	33,736,675	45,963	1.24%
2004	761	35,304,472	46,392	0.93%
2005	784	36,443,224	46,484	0.20%
2006	807	36,778,219	45,574	-1.96%
2007	833	$ 39,682,515	$ 47,638	4.53%

Contribution Rates

Valuation Date		Effective	Member Rates: Basic at Entry Age 20	30	40	City Contribution Rates: Total City Rate	Less Prefunded Actuarial Accrued Liability (PAAL)	Net City Contribution Rate
June 30, 2006	Tier I	7/1/2007	3.86	6.75	5.99	25.66	17.65	8.01
	Tier II	7/1/2007	9.00	9.00	9.00	16.28	8.27	8.01
June 30, 2005	Tier I	7/1/2006	3.77	6.59	6.49	25.71	20.33	5.38
	Tier II	7/1/2006	9.00	9.00	9.00	17.43	12.05	5.38
June 30, 2004	Tier I	7/1/2005	3.77	6.59	5.82	25.12	25.12	0.00
	Tier II	7/1/2005	9.00	9.00	9.00	17.43	17.43	0.00
June 30, 2003	Tier I	7/1/2004	4.09	6.95	6.07	25.26	25.26	0.00
	Tier II	7/1/2004	9.00	9.00	9.00	15.86	15.86	0.00
June 30, 2002	Tier I	7/1/2003	4.09	6.95	6.07	25.55	-25.55	0.00
	Tier II	7/1/2003	9.00	9.00	9.00	14.73	-14.73	0.00
June 30, 2001	Tier I	7/1/2002	4.09	6.95	6.07	25.52	-25.52	0.00
	Tier II	7/1/2002	9.00	9.00	9.00	14.67	-14.67	0.00
June 30, 2000	Tier I	7/1/2001	4.06	6.90	6.03	25.44	-25.44	0.00
	Tier II	7/1/2001	9.00	9.00	9.00	14.52	-14.52	0.00
June 30, 1999	Tier I	7/1/2000	4.11	6.88	6.04	25.29	-25.29	0.00
	Tier II	7/1/2000	9.00	9.00	9.00	14.57	-14.57	0.00
June 30, 1998	Tier I	7/1/1999	4.14	7.08	6.28	25.79	-25.79	0.00
	Tier II	7/1/1999	9.00	9.00	9.00	14.44	-14.44	0.00
June 30, 1997	Tier I	7/1/1998	4.16	7.08	6.28	21.32	-21.32	0.00
	Tier II	7/1/1998	9.00	9.00	9.00	15.86	-15.86	0.00
June 30, 1996	Tier I	7/1/1997	4.16	7.09	6.34	22.72	-22.72	0.00
	Tier II	7/1/1997	9.00	9.00	9.00	14.66	-0.43	14.23
June 30, 1995	Tier I	7/1/1996	4.56	7.56	6.74	25.01	-9.34	15.67
	Tier II	7/1/1996	9.00	9.00	9.00	16.44	0.00	16.44
June 30, 1993	Tier I	7/1/1994	4.44	7.52	6.76	65.54	0.00	65.54
	Tier II	7/1/1994	9.00	9.00	9.00	18.99	0.00	18.99
June 30, 1991	Tier I	7/1/1992	5.71	8.86	8.18	62.58	0.00	62.58
	Tier II	7/1/1992	9.00	9.00	9.00	18.42	0.00	18.42
June 30, 1989	Tier I	7/1/1990	5.11	7.81	6.93	52.68	0.00	52.68
	Tier II	7/1/1990	9.00	9.00	9.00	18.42	0.00	18.42
June 30, 1988	Tier I	7/1/1989	5.11	7.81	6.93	50.96	0.00	50.96

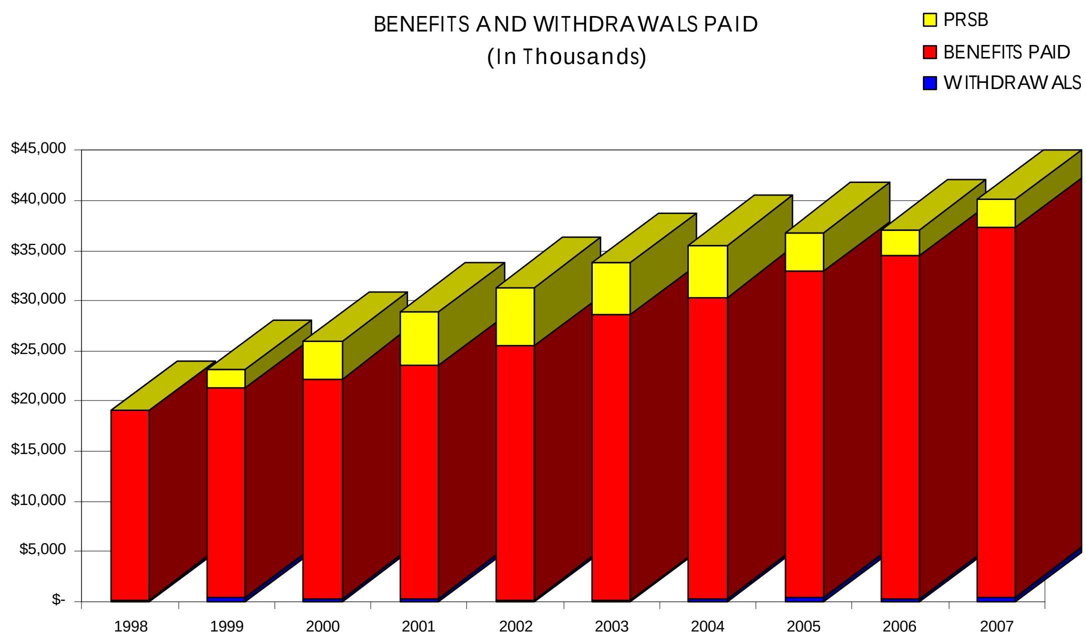
(1) Combined rates for Tier 1 and Tier II members and retirees.

Data Source: Annual Actuarial Valuation Reports.

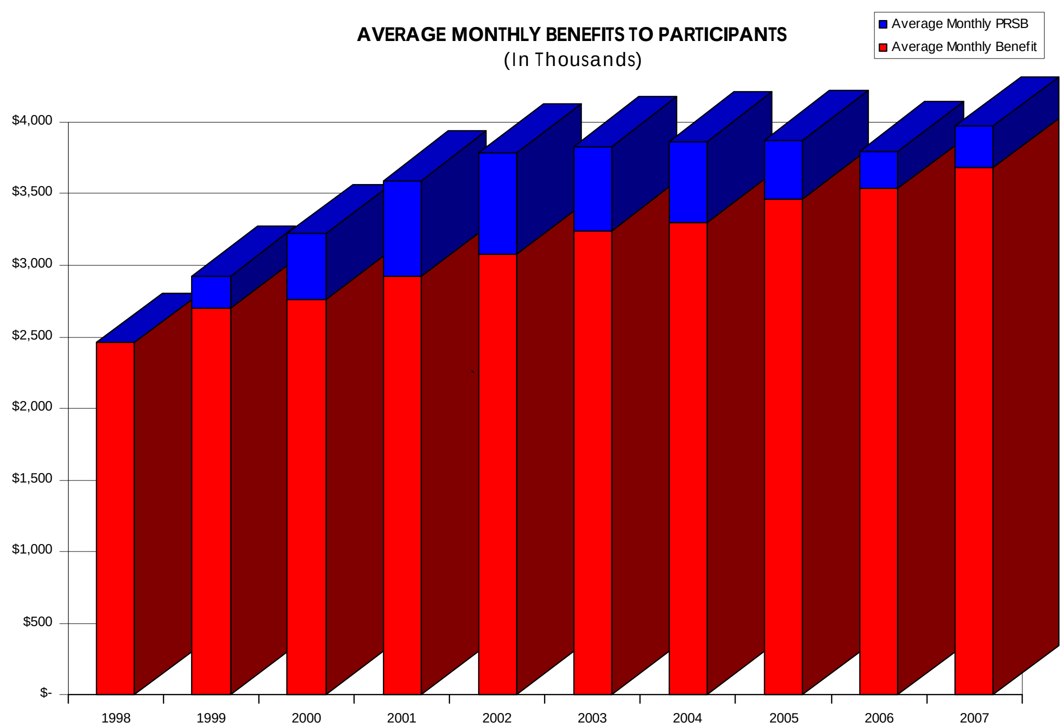
Economic Assumptions and Funding Method

Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2006	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2005	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2004	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2003	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2002	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2001	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2000	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 1999	8.25%	5.3% Avg.	4.9 - 6.0%	4.50%	Entry Age Normal
June 30, 1998	8.25%	10.75 - 4.95%	4.25%	4.75%	Entry Age Normal
June 30, 1997	8.25%	9.3 - 1.8%	4.75%	4.75%	Entry Age Normal
June 30, 1996	8.25%	10.75 - 4.95%	4.75%	4.75%	Entry Age Normal
June 30, 1995	8%	6.00 - .20%	5%	5%	Entry Age Normal
June 30, 1993	8%	9 - 5-1/4%	5%	5%	Entry Age Normal
June 30, 1991	8%	12 - 6-1/2%	5%	5%	Entry Age Normal
June 30, 1989	8%	12 - 6-1/2%	5%	5%	Entry Age Normal
June 30, 1987	8%	6-1/2%	6-1/2%	5%	Entry Age Normal

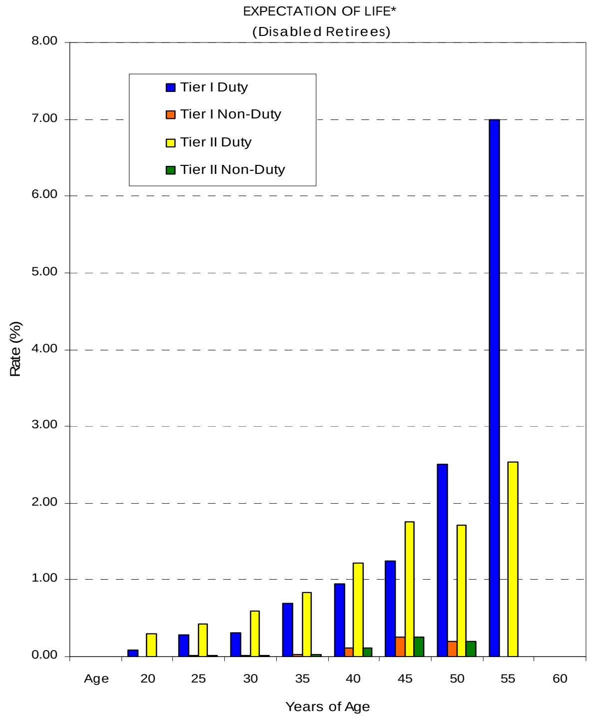
Data Source: Annual Actuarial Valuation Reports



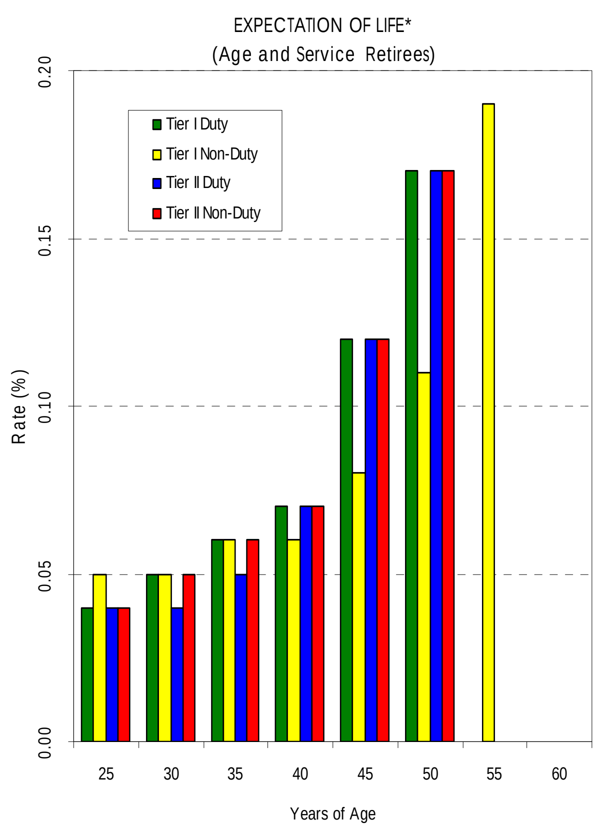
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
WITHDRAWALS	$ 173	$ 378	$ 231	$ 320	$ 178	$ 79	$ 229	$ 378	$ 303	$ 454
BENEFITS PAID	18,853	20,970	21,987	23,238	25,332	28,572	30,135	32,583	34,230	36,811
PRSB	-	1,740	3,677	5,330	5,813	5,165	5,169	3,860	2,548	2,872



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Average Monthly Benefit	$ 2,459	$ 2,701	$ 2,759	$ 2,921	$ 3,077	$ 3,244	$ 3,300	$ 3,463	$ 3,535	$ 3,683
Average Monthly PRSB	-	224	461	670	706	586	566	410	263	287
Average Monthly Benefit Total	$ 2,459	$ 2,925	$ 3,221	$ 3,591	$ 3,783	$ 3,830	$ 3,866	$ 3,874	$ 3,798	$ 3,970



EXPECTATION OF LIFE Disabled Retirees 1981Safety Disability Mortality Table (x-5) for Safety Members				
Age	Tier I Duty	Tier I Non-Duty	Tier II Duty	Tier II Non-Duty
20	0.09	0.00	0.30	0.00
25	0.28	0.01	0.42	0.01
30	0.31	0.01	0.60	0.01
35	0.70	0.03	0.84	0.03
40	0.95	0.12	1.22	0.12
45	1.25	0.25	1.76	0.25
50	2.50	0.20	1.71	0.20
55	7.00	0.00	2.53	0.00
60	0.00	0.00	0.00	0.00



EXPECTATION OF LIFE Age and Service Retirees 1994 Uninfured Pensioner Mortality Table Male (x-1), Female (x+1)				
Age	Tier I Duty	Tier I Non-Duty	Tier II Duty	Tier II Non-Duty
25	0.04	0.05	0.04	0.04
30	0.05	0.05	0.04	0.05
35	0.06	0.06	0.05	0.06
40	0.07	0.06	0.07	0.07
45	0.12	0.08	0.12	0.12
50	0.17	0.11	0.17	0.17
55	0.00	0.19	0.00	0.00
60	0.00	0.00	0.00	0.00

Source: The Segal Company

Section 6

Compliance Section

To create an environment in which Board Members can maximize their performance as trustees.

City of Fresno Retirement Systems

Caring For Your Future

Independent Auditor's Internal Control Letter

BROWN ARMSTRONG CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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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 Fire and Police Retirement System
Fresno, California

We have audited the basic financial statements of the City of Fresno Fire and Police Retirement System as of and for the year ended June 30, 2007, and have issued our report thereon dated October 30, 2007. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the City of Fresno Fire and Police Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we no not express an opinion on the effectiveness of the City of Fresno Fire and Police Retirement System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Fresno Fire and Police Retirement System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the City of Fresno Fire and Police Retirement System's financial statements that is more than inconsequential will not be prevented or detected by the City of Fresno Fire and Police Retirement System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fresno Fire and Police Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management and the Board of Retirement. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 30, 2007