



Section 2 Financial

**INVESTMENTS WILL BE MANAGED TO BALANCE THE
NEED FOR SECURITY WITH SUPERIOR PERFORMANCE.**

WE EXPECT EXCELLENCE IN ALL ACTIVITIES.

INDEPENDENT AUDITOR'S REPORT

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Employees Retirement System as of June 30, 2011 and 2010, 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 Employees Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets Available for Benefits of the City of Fresno Employees Retirement System, as of June 30, 2011 and 2010, and its Changes in Plan Net Assets Available for Benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the City of Fresno Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
November 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

At the close of the fiscal year 2011, the assets of the System exceed its liabilities by \$964,376,504; as of fiscal year 2010, the assets of the System exceeded its liabilities by \$806,570,870 and as of fiscal year 2009, the assets of the System exceeded its liabilities by \$735,578,804.

The System's total net assets held in trust for pension benefits increased by \$157,805,634 or 19.57 percent for fiscal year 2011; increased by \$70,992,066 or 9.65 percent for fiscal year 2010; and decreased by \$233,451,780 or 24.09 percent for fiscal year 2009 primarily as a result of the performance of the investment markets.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2010, the date of the last actuarial valuation, the funded ratio for the Systems was 122.5 percent. In general, this indicates that for every dollar of benefits due we have approximately \$1.23 of assets available for payment as of that date.

As of the June 30, 2009, the date of the previous annual actuarial valuation, the funded ratio for the System was 133.9 percent; and as of June 30, 2008, the funded ratio for the System was 142.2 percent.

REVENUES ARE ADDITIONS TO PLAN NET ASSETS

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

Prior fiscal year 2010 revenues increased \$306,022,945 or 158.97 percent over the previous fiscal year 2009 from (\$192,504,080) to \$113,518,865 which includes member contributions of \$5,740,404, employer contributions of \$3,267,115, a net investment income loss of \$104,126,239 and net securities lending income of \$385,107.

For fiscal year 2009 revenues decreased \$130,042,744 or 208.2 percent from (\$62,461,336) to (\$192,504,080) which included member contributions of \$5,845,044, employer contributions of \$1,345,274, a net investment income loss of \$200,504,487 and securities lending income of \$810,089.

EXPENSES ARE DEDUCTIONS IN PLAN NET ASSETS

Expenses for the fiscal year increased \$2,082,761 or 4.90 percent over the prior fiscal year from \$42,526,799 to \$44,609,560.

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

Fiscal year 2009 expenses increased approximately 9.58 percent from \$37,367,426 to \$40,947,700 over fiscal year 2008 expenses.

The current year increase in expenses is due primarily to the increases in retirees and the respective retirement benefits paid in 2011 even though there was a decrease in the Post Retirement Supplemental Benefits paid over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The System's funding ratio at June 30, 2010 was 122.5 percent, which means the System's fund has approximately \$1.23 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 the System's net assets are indicators of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring the System's overall health.

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

OTHER INFORMATION

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

The schedules of administrative expenses, investment 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 2011 by \$964,376,504. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

In fiscal years 2011 and 2010, the System's net assets increased by 19.57 percent and 9.65 percent due to rebounds in the global investment markets while in 2009 net assets decreased by 24.09 percent due to declines in the global investment markets.

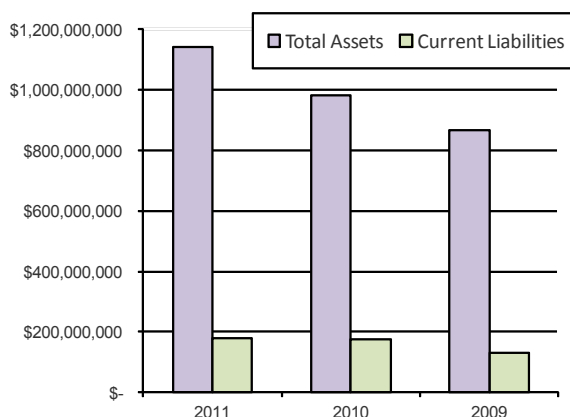
Historical long-term performance rates of returns demonstrate that the System has been able to meet or exceed its actuarial assumed rate of return of 8.00 percent. As of June 30, 2011, the System's 25-year annualized return is 8.86 percent and its 20-year annualized return is 9.06 percent.

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

**TABLE 1 – EMPLOYEES RETIREMENT SYSTEM NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009**

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

	FY 2010	FY 2009	FY 2010 Increase/(Decrease) Amount	FY 2010 Increase/(Decrease) Percent
Current and Other Assets	\$163,179,159	\$125,344,264	\$37,834,895	30.18%
Investments at Fair Value	817,641,097	742,266,253	75,374,844	10.15%
Total Assets	\$980,820,256	\$867,610,517	\$113,209,739	13.05%
Current Liabilities	174,249,386	132,031,713	42,217,673	31.98%
Net Assets	\$806,570,870	\$735,578,804	\$70,992,066	9.65%



RESERVES

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

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

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

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

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

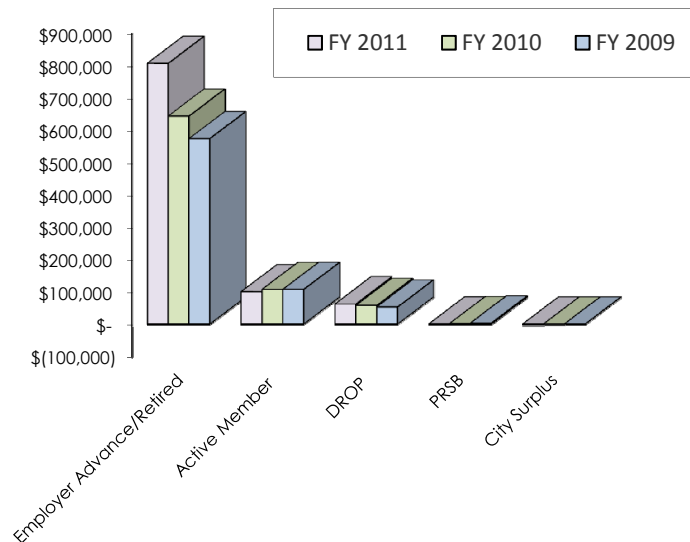
Table 2 shows that the vast majority of reserves are generated from Employer Advance and Retired reserves. DROP reserves

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

The City Surplus Reserve Account for fiscal years 2011 and 2010 were negative because of higher than expected payroll growth, and the actual sum of the allocated distributable actuarial surpluses and the balance in the prepaid contribution account were insufficient to fully satisfy the City’s annual pension contribution requirement for fiscal year 2009; thus for fiscal year 2011 and 2010 there was a shortfall in the projection of the City’s contribution requirement coupled with the addition of negative interest allocations. The City’s normal contribution rate for fiscal year 2012 includes funding of the deficit City Surplus Reserve balance.

TABLE 2 – EMPLOYEES RETIREMENT SYSTEM’S RESERVES FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009

		FY 2011	FY 2010	FY 2009
Employer Advance/Retired Reserves	\$	805,667	\$ 642,762	\$ 573,188
Active Member Reserves		99,819	106,658	106,844
DROP Reserves		61,642	57,178	52,494
PRSB Reserves		212	1,531	3,053
City Surplus Reserves		(2,963)	(1,558)	-
Net Assets Available for Benefits	\$	964,377	\$ 806,571	\$ 735,579



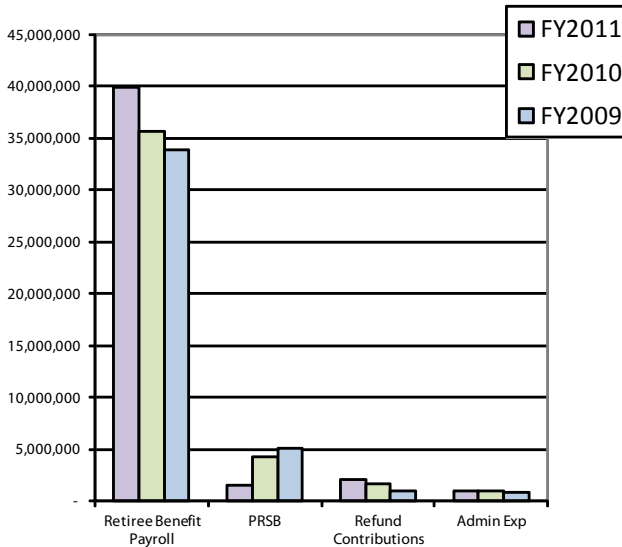
CAPITAL ASSETS

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 attributable to the global economic recovery from the Great Recession and a further rebound in performance of the global investment markets, the System's assets increased \$157,805,634 for the fiscal year resulting in a 19.57 percent increase in net assets for the fiscal year ended June 30, 2011. Additionally, due to the global investment markets which began their positive corrections in fiscal year 2010, the System's assets increased \$70,992,066 resulting in a 9.65 percent increase in net assets for the fiscal year ended June 30, 2010 and for the fiscal year ended June 30, 2009, the System's assets decreased \$233,451,780, resulting in a 24.09 percent decrease in net assets due to the downturn in global financial markets.

Key elements of these decreases 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, 2011 totaled \$202,415,194.

For the fiscal year ended June 30, 2011, overall revenues had increased by \$88,896,329 or 78.31 percent from the prior year, primarily due to the performance of the investment markets; for fiscal year ended June 30, 2010, overall revenues increased by \$306,022,945 or 158.97 percent; and for fiscal year ended June 30, 2009, overall revenues decreased by \$130,042,744 or 208.20 percent from the prior year. The investment section of this report reviews the details of results of investment activity for the fiscal year ended June 30, 2011.

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 plan, refunds of contributions to terminated employees, and the cost of administering the System.

Deductions for the fiscal year ended June 30, 2011, totaled \$44,609,560 which was an increase of \$2,082,761 or 4.90 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the amount of contributions refunded to terminated members and increased benefit payments due to the number of retirees from the prior year.

The System's increases in total expenses have closely paralleled inflation and are reflective of 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 IN PLAN NET ASSETS (CONDENSED)
FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009

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

* Net of investment expense of \$4,908,775 and \$4,919,526 for June 30, 2011 and 2010, respectively.

	FY 2010	FY 2009	FY 2010 Increase/(Decrease) Amount	FY 2010 Increase/(Decrease) Percent
Additions (Declines)				
Employee Contributions	\$ 5,740,404	\$ 5,845,044	\$ (104,640)	(1.79%)
Employer Contributions	3,267,115	1,345,274	1,921,841	142.86%
Net Investment Income (Loss) *	104,511,346	(199,694,398)	304,205,744	152.34%
Total Additions (Declines)	\$ 113,518,865	\$ (192,504,080)	\$ 306,022,945	158.97%
Deductions				
Retiree Benefit Payroll	\$ 35,698,609	\$ 33,946,712	\$ 1,751,897	5.16%
PRSB	4,247,837	5,084,478	(836,641)	(16.45%)
Refunds of Contributions	1,651,169	1,022,243	628,926	61.52%
Administrative Expenses	929,184	894,267	34,917	3.90%
Total Deductions	\$ 42,526,799	\$ 40,947,700	\$ 1,579,099	3.86%
Increase (Decrease) in Plan Net Assets	70,992,066	(233,451,780)	304,443,846	130.41%
Beginning Plan Net Assets	735,578,804	969,030,584	(233,451,780)	(24.09%)
Ending Plan Net Assets	\$ 806,570,870	\$ 735,578,804	\$ 70,992,066	9.65%

* Net of investment expense of \$4,919,526 and \$5,645,138 for June 30, 2010 and 2009, respectively.

SYSTEM'S FIDUCIARY RESPONSIBILITIES


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

REQUESTS FOR INFORMATION

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

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

Respectfully submitted,



Stanley L. McDivitt
Retirement Administrator

November 28, 2011

STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash (Note 5)	\$1,303,391	\$764,796
Collateral Held for Securities Lent (Note 7)	150,723,905	142,214,353
Receivables		
Receivables for Investments Sold	9,180,107	15,220,906
Interest and Dividends	3,324,085	3,393,367
Other Receivables	3,900,469	1,428,256
Total Receivables	16,404,661	20,042,529
Prepaid Expenses	102,840	102,213
Total Current Assets	168,534,797	163,123,891
Investments at Fair Value (Note 5)		
Domestic Equity	348,138,387	218,280,582
International Equity	192,794,516	202,815,365
Government Bonds	152,751,124	148,801,449
Corporate Bonds	118,962,688	110,948,213
Real Estate	92,317,681	74,491,333
Emerging Market Equity	42,596,639	38,344,041
Short Term Investments	25,564,561	23,960,114
Total Investments	973,125,596	817,641,097
Capital Assets Net of Accumulated Depreciation (Note 10)	50,633	55,268
Total Assets	1,141,711,026	980,820,256
LIABILITIES		
Collateral Held for Securities Lent (Note 7)	150,723,905	142,214,353
Payable for Investments Purchased	21,590,558	29,677,252
Other Liabilities	1,070,049	928,437
Payable for Foreign Currency Purchased	3,950,010	1,429,344
Total Liabilities	177,334,522	174,249,386
Net Assets Held In Trust for Benefits	\$964,376,504	\$806,570,870

THE NOTES TO THE FINANCIAL STATEMENTS ON PAGE 14 TO 27 ARE AN INTEGRAL PART OF THIS STATEMENT.

**STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
ADDITIONS		
Contributions (Note 3)		
Employer	\$8,214,569	\$3,267,115
System Members	5,275,219	5,740,404
Total Contributions	13,489,788	9,007,519
Investment Income		
Net Appreciation in Value of Investments	170,018,578	85,241,073
Interest	12,144,912	12,992,011
Dividends	11,137,342	10,719,644
Other Investment Related	45,526	46,707
Total Investment Income	193,346,358	108,999,435
Less: Investment Expense	(4,897,840)	(4,873,196)
Total Net Investment Income	188,448,518	104,126,239
Securities Lending Income		
Securities Lending Earnings (Note 7)	487,823	431,437
Less: Securities Lending Expense	(10,935)	(46,330)
Net Securities Lending Income	476,888	385,107
Total Additions	202,415,194	113,518,865
DEDUCTIONS		
Benefit Payments	39,900,410	35,698,609
Post Retirement Supplemental Benefits	1,587,450	4,247,837
Refunds of Contributions	2,092,260	1,651,169
Administrative Expense	1,029,440	929,184
Total Deductions	44,609,560	42,526,799
Net Increase	157,805,634	70,992,066
NET ASSETS HELD IN TRUST FOR BENEFITS		
BEGINNING OF THE YEAR	806,570,870	735,578,804
END OF THE YEAR	\$964,376,504	\$806,570,870

THE NOTES TO THE FINANCIAL STATEMENTS ON PAGE 14 TO 27 ARE AN INTEGRAL PART OF THIS STATEMENT.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF THE SYSTEM

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

Total participants of the System were comprised as follows at June 30, 2011 and 2010:

	2011	2010
Active Members		
Vested	1,605	1,629
Non-vested	394	654
Total Active Members	1,999	2,283
Retirees and Beneficiaries of Deceased Retirees		
Currently Receiving Benefits	1,606	1,503
Inactive Vested Members	206	180
Total	3,811	3,966

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED***Valuation of Investments***

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

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

Estimates

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

Date of Management's Review

Subsequent Events were evaluated through November 28, 2011, which is the date the financial statements were available to be issued.

NOTE 3. CONTRIBUTIONS***Authority to Collect***

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

Funding Status & Method

The funding ratio as of June 30, 2010 was 122.5% using the projected unit credit cost method. The System's actuary uses a five year smoothing of market gains and losses above and below the assumed actuarial rate of return to derive the actuarial value of assets. As of the fiscal year ended June 30, 2010, the actuarial value of assets was \$926.4 million.

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

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

The progress being made towards meeting the System's funding objective through June 30, 2010 is illustrated in the Schedule of Funding Progress shown below and in the Required Supplemental Schedule on page 31.

NOTE 3. CONTRIBUTIONS CONTINUED

SCHEDULE OF FUNDING PROGRESS
FOR THE THREE YEARS ENDING JUNE 30, 2011

(Dollars in Millions)

Actuarial Valuation Date	(1) Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
2008	\$981	\$690	142.2%	\$(291)	\$133	(218.7)%
2009	\$958	\$715	133.9%	\$(243)	\$139	(174.3)%
2010	\$926	\$756	122.5%	\$(170)	\$131	(129.6)%

The valuation interest rate is 8.00%; total salary scale increases of 3.50% (3.50% for inflation) plus 0.50% across the board salary increase; plus merit and promotion increases based on completed years of service were based on the June 30, 2009 Experience Analysis and the June 30, 2010 Economic Assumptions Report.

These actuarial assumptions were adopted by the Retirement Board on December 8, 2010 for implementation as of July 1, 2011.

LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2010
Actuarial Cost Method	Projected Unit Credit Actuarial Cost Method Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.
Amortization Method	Level Percentage of Payroll for UAAL or Prefunded Actuarial Accrued Liability
Remaining Amortization Period	15 Year open (subject to change) non-declining period for all Prefunded Actuarial Accrued Liability; No UAAL currently exists
Asset Valuation Method	Actuarial Value of Assets, determined by phasing in (5 year Smoothed Market Value) any differences between the actual and expected return on market value of assets over 5 years.
Actuarial Assumptions	
Investment Rate of Return	8.00%
Projected Salary Increases	4.60% Plus Merit and Promotion increases (Service and Age)
Attributed to Inflation	3.50%
Cost of Living Adjustments	3.50%

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

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

NOTE 3. CONTRIBUTIONS CONTINUED

Funding Policy

The Employer currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the projected unit credit method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded or prefunded actuarial accrued liability. However, prefunded actuarial accrued liability or excess earnings and prepaid City contributions deposited into the System have partially funded the fiscal year 2011, 2010 and 2009 City contributions.

These minimum 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. Costs of administering the System are charged against System assets.

Total contributions to the System for fiscal year 2011 totaled \$13,489,788. Employees contributed \$5,275,219 and the City contributions of \$8,214,569. The remaining Employer contributions were offset by the prefunded actuarial accrued liability of the System.

Contributions aggregating \$13,489,788 (\$8,214,569 employer contributions and \$5,275,219 employee contributions) were made in fiscal year 2011, based on an actuarial valuation determined as of June 30, 2009, which became effective for the year ended June 30, 2010. During fiscal year 2011, the Employer contribution rate was set at 11.09%; however, only a cash contribution of \$8,214,569 was required from the City due to the use of prefunded actuarial accrued liability of the System. Employer and System member contributions represented 6.89 percent and 4.42 percent, respectively, of the fiscal year 2011 covered payroll.

Contributions aggregating \$9,007,519 (\$3,267,115 employer prepaid contributions and \$5,740,404 employee contributions) were made in fiscal year 2010, based on an actuarial valuation determined as of June 30, 2008, which became effective for the year ended June 30, 2010. During fiscal year 2010, the Employer contribution rate was set at 10.62%; however, no cash contributions were required from the City as the employer contribution came from prepaid contributions of \$3,267,115 on deposit with the System and the prefunded actuarial accrued liability of the System. Employer and System member contributions represented 2.53 percent and 4.44 percent, respectively, of the fiscal year 2010 covered payroll.

Contributions Required and Contributions Made

The employer's required normal contributions to the System for fiscal year 2011 were partially offset by the System's prefunded actuarial accrued liability in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2009, as follows:

Normal Cost:

Required Annual Contribution Amount	\$13,225,958
Less: Prefunded Actuarial Accrued Liability Applied	(5,011,389)
<hr/>	
Net Employer Contributions	\$8,214,569
<hr/>	
Pensionable Payroll Amount (Fiscal Year 2011)	\$119,260,220
<hr/>	

NOTE 4. 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 and vested terminated members and the total accumulated transfers from Active Member Reserves and investment earnings, less payments to retired members and transfers to the DROP Reserve. Additions include contributions from the employer, transfers from Active Member Reserve and investment earnings; deductions include payments to retired members and transfers to the DROP Reserve.

NOTE 4. NET ASSETS AVAILABLE FOR BENEFITS CONTINUED

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

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

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-567 "Post-Retirement Supplemental Benefit."

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.

The amount of reserves for the year ended June 30, 2011 and 2010 consisted of the following (in thousands):

	2011	2010
Employer Advance/Retired Reserves	\$805,667	\$642,762
Active Member Reserves	99,819	106,658
DROP Reserves	61,642	57,178
PRSB Reserves	212	1,531
City Surplus Reserves	(2,963)	(1,558)
Net Assets Available for Benefits	\$964,377	\$806,571

NOTE 5. DEPOSITS AND INVESTMENTS

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

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

Investments at June 30, 2011 and 2010 consist of the following (in thousands):

	2011	2010
Investments at Fair Value		
Domestic Equity	\$348,138	\$218,281
International Equity	192,794	202,815
Government Bonds	152,751	148,802
Corporate Bonds	118,963	110,948
Real Estate	92,318	74,491
Emerging Market Equity	42,597	38,344
Short Term Investments	25,565	23,960
Total Investments at Fair Value	\$973,126	\$817,641

NOTE 5. DEPOSITS AND INVESTMENTS CONTINUED

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

Asset Class	Minimum	Target	Maximum
Large Cap Equities	18.5%	22.5%	26.5%
Small Capital Equities	4.5%	7.5%	10.5%
International Equities	18.0%	22.8%	29.0%
Emerging Market Equities	2.0%	7.2%	9.0%
Real Estate	8.0%	10.0%	12.0%
Domestic Fixed Income	20.0%	25.0%	30.0%
High Yield Bonds	0.0%	5.0%	8.0%
Cash	0.0%	0.0%	2.0%
		100%	

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

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

Custodial Credit Risk

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

That portion of the System's cash held by the City in a Trust account as part of the City's cash investment pool totaled \$29,473 and \$28,123 at June 30, 2011 and 2010, 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, 2011.

NOTE 5. DEPOSITS AND INVESTMENTS CONTINUED

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 has no general policy on credit and interest rate risk. The System limits its investments in below investment grade bonds and monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio.

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

Type of Investment	2011			2010		
	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset Backed Securities	\$ 1,581,796	BBB-	1.89	\$ 1,519,188	BBB+	1.81
Commercial Mortgage-Backed	5,789,506	AA+	3.29	7,524,071	AA+	3.82
Corporate Bonds	99,690,925	BBB-	5.05	90,168,710	BBB-	5.56
Corporate Convertible Bonds	2,887,071	B-	6.21	3,292,936	B-	3.17
Guaranteed Fixed Income	540,273	AA+	1.11	1,678,547	AAA	1.58
Non-Government backed C.M.O.s	5,303,051	B+	3.19	5,755,132	B	2.17
Convertible Equity	1,030,266	B+	5.96	814,642	B	8.11
Other Fixed Income	46,575	NR	13.00	37,422	NR	0.00
Common Stock	1,108,165	NR	13.00	-	NR	0.00
Preferred Stock	985,060	BB-	4.67	157,566	CC	7.72
Government Agencies	7,437,514	AAA	3.67	9,633,947	AAA	4.32
Government Bonds	51,606,222	AAA	4.18	54,981,595	AAA	4.46
Government Mortgage Backed Securities	86,015,572	AAA	2.29	79,942,647	AAA	2.77
Index Linked Government Bonds	10,029	CC	1.32	131,336	BB-	1.00
Municipal/Provincial Bonds	7,681,787	A-	10.01	4,111,923	A	9.57
Total Credit Risk Fixed Income	\$ 271,713,812			\$ 259,749,662		

Per section 5.4(6) of the System's Investment Policy Statement, no more than 15 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). Therefore, at least 85 percent of the manager's fixed income portfolio must be invested in investment grade securities. Intermediate Bond portfolios shall maintain an average credit quality of A+ or better.

High yield fixed income portfolios, in accordance with section 5.4(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 being limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of B1/B+. No more than 25 percent of a high yield manager's portfolio may be invested in foreign securities; and within this limit up to 15 percent of the portfolio may be invested in non-US dollar denominated securities.

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.

NOTE 5. DEPOSITS AND INVESTMENTS CONTINUED**Concentration Risk**

The Investment portfolio as of June 30, 2011 and 2010 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

Foreign Currency Risk

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

The following positions represent the System's exposure to foreign currency risk as of June 30, 2011, and 2010.

2011			Equities /	Foreign Currency	Rights &	Cash &	Total
Base Currency		Country	Fixed Income	Contracts	Warrants	Cash Equivalents	
AUD	Australian Dollar	Australia	\$13,280,069	\$(1,026)	\$-	\$19,989	\$13,299,032
BRL	Brazilian Real	Brazil	4,496,826	-	-	436,742	4,933,568
CAD	Canadian Dollar	Canada	6,604,332	-	-	-	6,604,332
CHF	Swiss Franc	Switzerland	12,483,677	1,096	-	44,444	12,529,217
CLP	Chilean Peso	Chile	(121,096)	(701)	-	-	(121,797)
COP	Colombian Peso	Colombia	124,244	-	-	-	124,244
CZK	Czech Koruna	Czech Republic	209,725	-	-	-	209,725
DKK	Danish Krone	Denmark	4,824,887	(1,908)	-	-	4,822,979
EGP	Egyptian Pound	Egypt	25,926	-	-	-	25,926
EUR	Euro	Europe	47,785,529	(4,114)	-	4,976	47,786,391
GBP	British Pound Sterling	United Kingdom	36,855,016	25	-	-	36,855,041
HKD	Hong Kong Dollar	Hong Kong	14,557,828	(2)	-	26,656	14,584,482
HUF	Hungarian Forint	Hungary	564,146	-	-	3,558	567,704
IDR	Indonesian Rupiah	Indonesia	2,044,838	-	-	68,629	2,113,467
ILS	New Israeli Shekel	Israel	159,966	-	-	-	159,966
INR	Indian Rupee	India	2,171,555	-	-	2,966	2,174,521
JPY	Japanese Yen	Japan	31,027,889	32	-	-	31,027,921
KRW	South Korean Won	South Korea	9,119,420	-	-	2,720	9,122,140
MXN	Mexican Peso	Mexico	1,376,214	-	-	44,517	1,420,731
MYR	Malaysian Ringgit	Malaysia	947,065	-	-	-	947,065
NOK	Norwegian Krone	Norway	4,305,549	-	-	-	4,305,549
PHP	Philippine Peso	Phillipines	121,620	-	-	-	121,620
PLN	Polish Zloty	Poland	569,205	(11)	-	-	569,194
SEK	Swedish Krona	Sweden	7,712,647	-	-	-	7,712,647
SGD	Singapore Dollar	Singapore	4,373,479	-	-	15,747	4,389,226
THB	Thai Baht	Thailand	810,590	-	-	2	810,592
TRY	Turkish Lira	Turkey	1,414,766	-	-	-	1,414,766
TWD	New Taiwan Dollar	Taiwan	3,275,363	-	-	-	3,275,363
USD	United States Dollar	United States	-	3,324	5,532	-	8,856
ZAR	South African Rand	South Africa	4,674,678	(1,075)	-	46,977	4,720,580
Total Equities (In USD)			215,795,953	(4,360)	5,532	717,923	216,515,048
Total Non-USD Equities (In USD)			\$215,795,953	\$(7,684)	\$-	\$717,923	\$216,506,192

NOTE 5. DEPOSITS AND INVESTMENTS CONTINUED

2010							
Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	\$ 12,063,735	-	-	\$ 408	\$ 12,064,143
BRL	Brazilian Real	Brazil	4,293,558	-	-	34,325	4,327,883
CAD	Canadian Dollar	Canada	4,443,985	-	-	3,954	4,447,939
CHF	Swiss Franc	Switzerland	12,060,954	-	-	79,230	12,140,184
COP	Colombian Peso	Colombia	319,218	-	-	-	319,218
DKK	Danish Krone	Denmark	3,853,582	-	-	19,418	3,873,000
EGP	Egyptian Pound	Egypt	559,664	-	-	-	559,664
EUR	Euro	Europe	48,875,954	\$ (269)	-	86,711	48,962,396
GBP	British Pound Sterling	United Kingdom	33,854,427	748	-	14,601	33,869,776
HKD	Hong Kong Dollar	Hong Kong	15,407,363	-	\$ 1,348	254,647	15,663,358
HUF	Hungarian Forint	Hungary	127,679	21,874	-	-	149,553
IDR	Indonesian Rupiah	Indonesia	1,998,123	-	-	16,907	2,015,030
ILS	New Israeli Shekel	Israel	510,679	-	-	-	510,679
INR	Indian Rupee	India	2,885,582	-	-	4,443	2,890,025
JPY	Japanese Yen	Japan	39,812,058	(74)	-	104,826	39,916,810
KRW	South Korean Won	South Korea	5,684,520	-	-	-	5,684,520
MXN	Mexican Peso	Mexico	1,762,399	-	-	-	1,762,399
MYR	Malaysian Ringgit	Malaysia	372,761	-	-	-	372,761
NOK	Norwegian Krone	Norway	2,895,899	-	-	23,199	2,919,098
NZD	New Zealand Dollar	New Zealand	180,796	-	-	8,349	189,145
PHP	Philippine Peso	Phillipines	124,759	-	-	-	124,759
PLN	Polish Zloty	Poland	382,444	(20)	-	-	382,424
SEK	Swedish Krona	Sweden	5,882,826	-	-	2,343	5,885,169
SGD	Singapore Dollar	Singapore	6,201,189	-	2,252	25,399	6,228,840
THB	Thai Baht	Thailand	1,016,443	-	-	-	1,016,443
TRY	Turkish Lira	Turkey	2,255,014	1,335	-	-	2,256,349
TWD	New Taiwan Dollar	Taiwan	3,620,497	-	-	37,191	3,657,688
USD	United States Dollar	United States	-	323	-	-	323
ZAR	South African Rand	South Africa	4,169,317	(1,953)	-	2,925	4,170,289
Total Equities (In USD)			215,615,425	21,964	3,600	718,876	216,359,865
Total Non-USD Equities (In USD)			\$ 215,615,425	\$ 21,641	\$ 3,600	\$ 718,876	\$ 216,359,542

NOTE 5. 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.

NOTE 6. DERIVATIVES

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

- a. Mitigation of risk (or risk reduction).
- b. A useful substitute for an existing, traditional investment.
- c. To provide investment value to the portfolio while being consistent with the System's overall and specific investment policies.
- d. To obtain investment exposure which is appropriate for the manager's investment strategy and the System's investment guidelines, but which could not be made through traditional investment securities.

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

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

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

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

Market Risk

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

Credit Risk

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

NOTE 6. DERIVATIVES CONTINUED

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

As of June 30, 2011 and 2010, the Employees Retirement System held a total value of \$2,745,470 and \$1,608,988 respectively in derivative holdings. These holdings consisted of Right/Warrants, Foreign Currency Forwards and Futures designed to synthetically create equity returns held as components of the System's international equity investments, and S&P 500 E Mini Index Futures, S&P MidCap 400 E MINI Index Futures and a variety of ACWixUS index related futures as components of the System's investments in its international equity portfolios, BlackRock S&P 500 Equity Index, Russell 1000, and ACWlexUS Funds. These derivatives are used for the purpose of synthetically creating equity returns, synthetically creating floating rates and to buy and sell credit protection on the assets.

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

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

Derivative Type:	FY 2010		FY 2009	FY 2010 - FY 2009 Change in Fair Value
	Notional Amount	Fair Value	Fair Value	
Rights/Warrants	212,983*	\$3,600	\$243,523	\$(239,923)
Foreign Currency Forward	\$21,964	21,964	22,770	(806)
Future Contracts - Domestic Equity Index	-	1,583,424	431,196	1,152,228
Swaps	-	-	19,488	(19,488)
Total		<u>1,608,988</u>	<u>716,977</u>	

* SHARES

NOTE 7. SECURITIES LENDING

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

As designated by the Board, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2011 had a weighted average duration of 21 days, average maturity is 102 days and

an average monthly yield of 0.29 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. As of June 30, 2011, the CORE USA Cash Collateral Fund had 0.15 percent exposure in below investment grade long-term securities and there were no known credit risks related to the securities lending transactions.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The 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 88 days as of June 30, 2011.

SECURITIES LENDING INCOME
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Gross Income	\$487,823	\$431,437
Expenses:		
Borrower Rebates	(108,171)	(44,136)
Bank Fees	119,106	90,466
Total Expenses	10,935	46,330
Net Income from Securities Lending	\$476,888	\$385,107

NOTE 7. SECURITIES LENDING CONTINUED

FAIR VALUE OF LOANED SECURITIES
AS OF JUNE 30, 2011 AND 2010

Collateralized by	FY 2011			FY 2010		
	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	\$ 41,888,501	\$ 569,119	\$ 42,457,620	\$ 44,636,875	\$ -	\$ 44,636,875
Domestic Equities	74,698,942	8,641	74,707,583	53,363,656	112,404	53,476,060
Domestic Fixed	14,566,461	-	14,566,461	13,301,388	-	13,301,388
International Equities	15,562,431	122,977	15,685,408	26,367,306	30,751	26,398,057
Total Value	\$ 146,716,335	\$ 700,737	\$ 147,417,072	\$ 137,669,225	\$ 143,155	\$ 137,812,380

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES
AS OF JUNE 30, 2011 AND 2010

Collateralized by	FY 2011			FY 2010		
	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	\$ 42,766,125	\$ 581,222	\$ 43,347,347	\$ 45,571,885	\$ -	\$ 45,571,885
Domestic Equities	76,106,560	8,800	\$ 76,115,360	55,015,574	115,696	55,131,270
Domestic Fixed	14,849,758	-	\$ 14,849,758	13,673,176	-	13,673,176
International Equities	16,284,783	126,657	\$ 16,411,441	27,805,542	32,479	27,838,021
Total Value	\$ 150,007,226	\$ 716,679	\$ 150,723,906	\$ 142,066,177	\$ 148,175	\$ 142,214,352

NOTE 8. ADMINISTRATIVE EXPENSES

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

NOTE 9. POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)

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

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

For the fiscal year ended June 30, 2011, the System distributed PRSB benefits in the amount of \$1,587,450 to eligible retirees and offset required City pension contributions by \$586,532. As of June 30, 2011, the City Surplus Reserve balance was (\$2,963,201) and the PRSB Reserve balance was approximately \$211,740, of which \$211,740 is committed for PRSB distribution for the months of July through December 2011.

The City Surplus Reserve balance as of June 30, 2011 represents a City contribution shortfall for fiscal year 2011. This contribution shortfall is a result of the difference between the actual and the projected June 30, 2010 surplus which was allocated to the City in the June 30, 2009 actuarial valuation used for setting the City's contribution rate for fiscal year 2011.

The City's normal contribution rate for fiscal year 2012 has factored in the contribution shortfall to recover the shortfall reflected in the City Surplus Reserve balance.

NOTE 10. CAPITAL ASSETS

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

NOTE 11. LEASES

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

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

NOTE 12. RELATED PARTY TRANSACTIONS

The Retirement System is involved in various business transactions with the City of Fresno, the primary plan sponsor. These include reimbursement to the City for the 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 11 for a description of this arrangement.

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