

2010

Comprehensive Annual Financial Report

For the Years Ended June 30, 2010 and 2009



City of Fresno Employees Retirement System
(A Pension Trust Fund of the City of Fresno)

Fresno, California

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

Comprehensive Annual Financial Report

For the Years ended June 30, 2010 and 2009

STANLEY L. McDIVITT

Retirement Administrator

KATHLEEN RILEY BROWN

Assistant Retirement Administrator

YVONNE ARELLANO

Benefits Manager



A PENSION TRUST FUND FOR THE CITY OF FRESNO (CALIFORNIA)

2828 Fresno Street Suite 201 • Fresno, California 93721-1327

www.CFRS-CA.org

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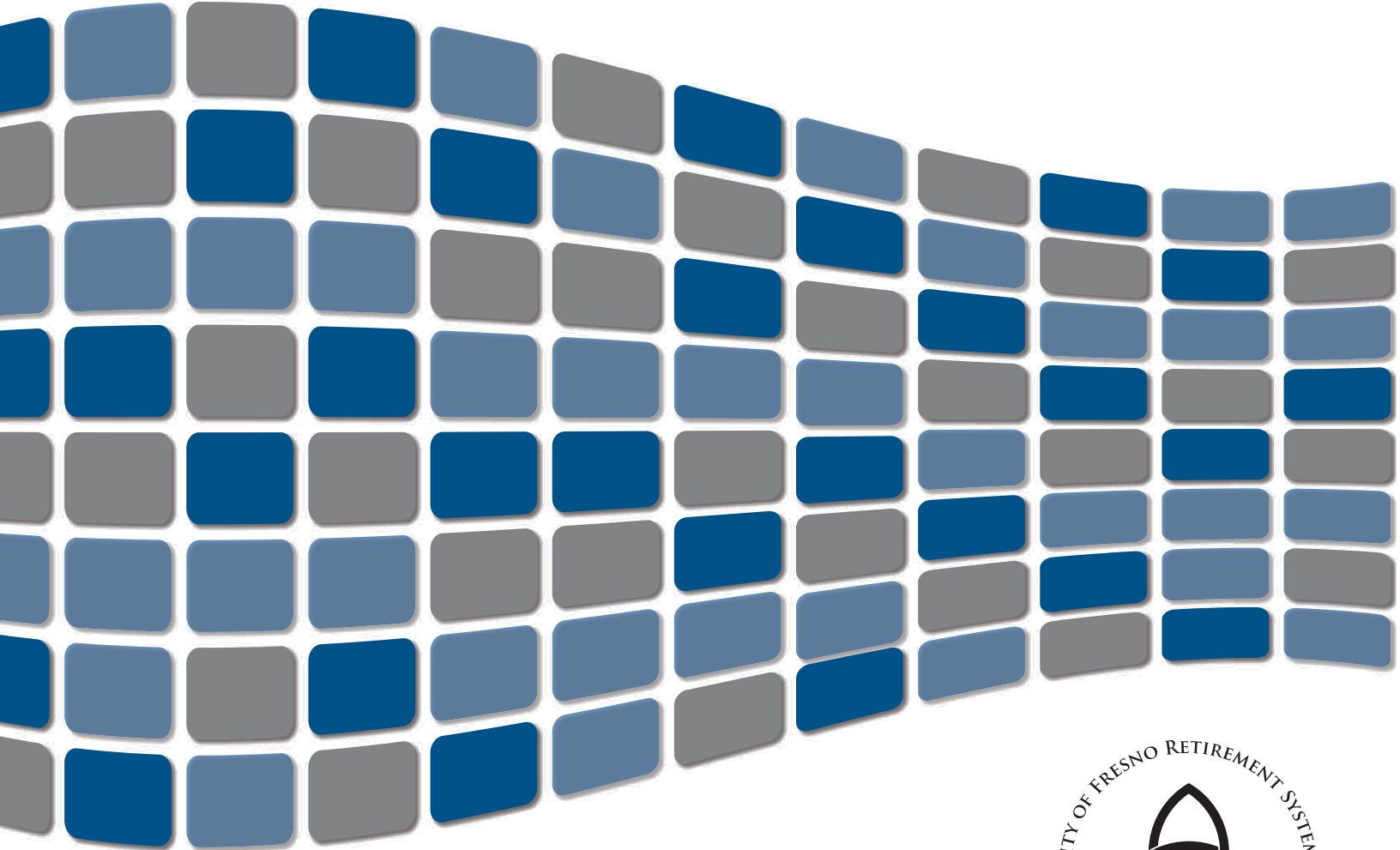
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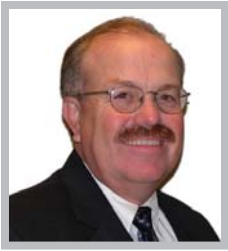
INTRODUCTION





CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

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



Stanley L. McDivitt
Retirement Administrator

LETTER OF TRANSMITTAL

November 30, 2010

Dear Board Members:

As Retirement Administrator of the City of Fresno Employees Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2010 and 2009.

Over the past three years, the global investment markets have experienced turbulence which culminated in the severe downturn of all equity, fixed income and real estate markets. Despite all of the known and unknown economic and financial market challenges that arose, the Board carefully managed the investment portfolio through last year's continued turbulence in the global markets. We remain confident that new investment opportunities will arise and the Boards with the required amount of due diligence and vigilance will position the Systems investments for future long-term growth.

In fiscal year 2010, the System's returns were favorable when compared to other institutional investors. The System's one-year return was 14.80 percent; 1.18 percent above its policy benchmark return of 13.62 percent; and outperforming its actuarial interest rate assumption of 8.25 percent by 6.55 percent. The five-year annualized return of 2.54 percent was positive but underperformed its actuarial interest rate assumption of 8.25 percent by 5.71 percent and its policy benchmark return of 3.11 percent by 0.57 percent. The System's fifteen-year annualized return at 7.41 percent exceeded its policy benchmarks for that period by 0.41 percent but underperformed the actuarial interest rate assumption by 0.84 percent for the same period.

The Employees System remains highly funded and well positioned to serve our members and retirees. The System's 15 year and 20 year long-term returns of 7.41 percent and 8.22 percent, respectively, as of June 30, 2010, illustrate the Systems' ability to achieve our long-term objectives over extended periods of time. On a market value basis, the portfolio along with all other public pension systems began to recover significant losses that occurred as of the end of the 2009 fiscal year. On an actuarial basis those losses will be fully recognized over a five-year period during which signs of a recovery have already begun occurring with the System's current 2011 fiscal-year-to-date return of approximately 13.22 percent as of October 20, 2010. Meanwhile, the System's actuarial and market value funding status continues to be the highest of any public pension defined benefit plan in California.

Given the dramatic downturn in the global financial markets over the previous two years, it is likely that the funding status will be decreased over the next five fiscal years from 133.9 percent as of June 30, 2009 to current market value levels leaving the System's future funding level somewhere near 100 percent. Although further deterioration of the funding status is expected in the near future there is the possibility that any underfunding status will be slight. 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 Employees Retirement System for the years ended June 30, 2010 and 2009 is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. For a general overview of the City of Fresno Employees Retirement System's finances, please refer to the Management's Discussion and Analysis letter in the Financial Section of this report. The CAFR consists of six sections:

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

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

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

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

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

The Compliance Section contains the Independent Auditor's Report on 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 EMPLOYEES RETIREMENT SYSTEM AND ITS SERVICES

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

The Employees Retirement Board is responsible for establishing policies governing the administration of the System, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 5 of Chapter 3 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that "the members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has ... "the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

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

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

MAJOR INITIATIVES

As responsible stewards of the public's money and trust, the Mayor of the City of Fresno established a Task Force Committee, during the fiscal year, to identify best practices and any needed reforms for the City's Retirement Systems. The Task Force had the full support of City staff, including the City Manager, Controller, Budget Director and City of Fresno Employees Retirement System Board's Retirement Administrator. In addition, the Best Practices Analysis was guided by an outside firm to provide expert, credible, neutral information and advice to assure the highest level of credibility and responsibility to the Task Force and the Fresno community. The outcome of the Task Force to date has been to determine that the City of Fresno Retirement Systems fall within the definition of plans that are a "healthy" retirement system.

The Boards retained the services of the law firm of Ice Miller to assist them in reviewing the Employees Retirement System from the perspective of tax compliance and in deciding whether it is appropriate to apply for a determination letter and to submit the plans into the IRS's voluntary compliance program. As part of the Board's Tax Review Project, staff and legal counsel brought together staff from Ice Miller and The Segal Company to review the proposed Ice Miller amendments to the Fresno Municipal Code. The Board recently approved proposed amendments to the FMC and will seek to apply for a determination letter.

During the fiscal year 2010, the Board, jointly with the Fire & Police Retirement System Board reviewed the Information Technology Risk Assessment and Long Term System Plan developed by the System's management as a high level strategic planning document that describes an IT Roadmap for the primary and secondary projects determined to be necessary for the search for and selection of a replacement pension administration system and the corresponding software systems. It has been determined that there are compelling reasons to replace the current Pension Administration System given the risks associated with an imminent loss of support of the current application. Thus the recommendation was made to replace or upgrade the current Pension Administration System within the next 2-3 years.

With the assistance of its actuary and staff, the Boards completed an Experience Study of the Retirement Systems and based upon the results of these Experience Studies the Boards adopted an actuarial investment return assumption of 8.00 percent for inclusion into the Annual Actuarial Valuation as of June 30, 2010.

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 Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive annual financial reports.

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

ACTUARIAL FUNDING STATUS

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

The June 30, 2009, actuarial valuation is presented in this CAFR. As of June 30, 2009, the funded ratio of the Employees Retirement System was 133.9 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, 2009 amounted to \$715,249,679. The actuarial value of assets at June 30, 2009 amounted to \$1,013,579,146 and the valuation value of assets amounted to \$958,632,146. The market value of the assets at June 30, 2009 amounted to \$735,578,804.

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

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

ACCOUNTING SYSTEM & REPORTS

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that 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. The System recognizes that even sound internal controls have their inherent limitations. Internal controls are reviewed to ensure that the System's operating policies and procedures are being adhered to and that controls are adequate to ensure accurate and reliable financial reporting and to safeguard the System's assets.

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

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

INVESTMENTS

Article XVI, Section 17(c) of the Constitution of the State of California, provides that "the members of the Retirement Board of a public pension or retirement system shall discharge their duties ... with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim." By permitting further diversification of investments within a fund, the prudent expert rule may enable a fund to reduce overall risk and increase returns. A summary of the asset allocation can be found in the Investment Section of this report.

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

For the fiscal years ended June 30, 2010 and June 30, 2009, the System's investments provided a 14.80 percent and (20.12) percent rate of return, respectively.

ACKNOWLEDGMENTS

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

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley Brown, Yvonne Arellano, Alberto Magallanes, Karen Rolle, Pattie Laygo, Donna Gaab, Andrea Ketch, Patricia Basquez; 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,

A handwritten signature in black ink, appearing to read 'Stanley L. McDivitt', with a large, stylized flourish at the end.

Stanley L. McDivitt
Retirement Administrator

November 30, 2010

RETIREMENT BOARD MEMBERS

As of June 30, 2010



KEN NERLAND
CHAIR
Appointed by
Mayor and City Council



JEFF BEATTY
VICE CHAIR
Elected by
Clerical and Supervisory Members



RANDY NASON
Elected by
Manual Worker Members



JOE GRAY
Appointed by
Mayor and City Council



MARVELL FRENCH
Appointed by
Retirement Board

RETIREMENT ADMINISTRATIVE STAFF



BACK ROW (LEFT TO RIGHT)

PATTI BASQUEZ, RETIREMENT COUNSELOR; ANDREA KETCH, RETIREMENT COUNSELOR, ALBERTO MAGALLANES, SENIOR ACCOUNTANT AUDITOR, DONNA GAAB, RETIREMENT COUNSELOR, KATHLEEN RILEY, ASSISTANT RETIREMENT ADMINISTRATOR

FRONT ROW (LEFT TO RIGHT)

KAREN ROLLE, ACCOUNTANT-AUDITOR, YVONNE ARELLANO, RETIREMENT BENEFITS MANAGER, STANLEY MCDIVITT, RETIREMENT ADMINISTRATOR, PATTIE LAYGO, EXECUTIVE ASSISTANT

ADMINISTRATION

The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xii for outside consultants, page xiii for investment managers, and page 49 for a schedule of brokerage commissions.)

MEMBER SERVICES

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

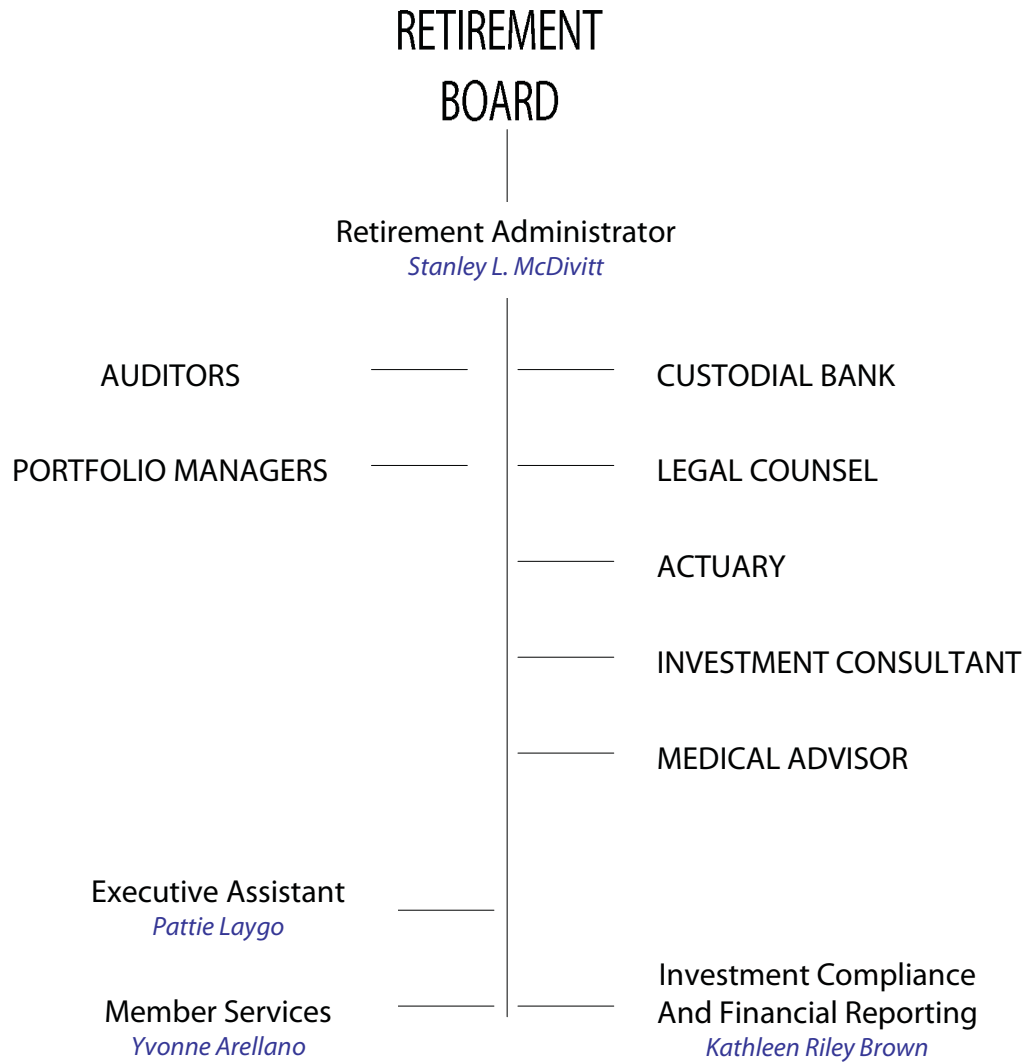
INVESTMENT COMPLIANCE AND FINANCIAL REPORTING

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

EXECUTIVE ASSISTANT

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

ORGANIZATIONAL STRUCTURE



See page xii for list of outside consultants, page xiii for the list of investment managers, and page 49 for a schedule of brokerage commissions.

PROFESSIONAL SERVICES

Custodial Bank

NORTHERN TRUST
Chicago, Illinois

Legal Advisor

SALTZMAN AND JOHNSON LAW CORPORATION
San Francisco, California

Investment Legal Advisor

K&L | GATES LLP
Boston, Massachusetts

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 ACCOUNTANCY CORPORATION
Bakersfield, California

PORTFOLIO MANAGERS

DOMESTIC EQUITY

Large Cap

Alliance Bernstein, New York, NY
 BlackRock, San Francisco, CA
 Capital Guardian, Los Angeles, CA

Small Cap

BlackRock, San Francisco, CA
 Kalmar Investments Inc., Wilmington, DE
 Kennedy Capital Mgt. Inc., St. Louis, MO

INTERNATIONAL & EMERGING MARKETS

International

Acadian Asset Mgt., Boston, MA
 Baillie Gifford & Co., Edinburgh, Scotland
 Principal Global Investors, Des Moines, IA
 Pyramis Global Advisors Trust Co., Boston, MA

Emerging Market

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

Fixed Income

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

High Yield

Loomis Sayles, Boston, MA

REAL ESTATE

Private Real Estate Investments

JP Morgan Fleming Asset Mgt, New York, NY

Real Estate Investment Trust (REIT)

Heitman, LLC., Chicago, IL
 Principal Real Estate Investors, Des Moines, IA

Certificate of Achievement for Excellence in Financial Reporting

Presented to
City of Fresno
Employees Retirement System
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

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.



A stylized, handwritten signature in black ink.

President

A stylized, handwritten signature in black ink.

Executive Director

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