

SECTION 2

FINANCIAL SECTION

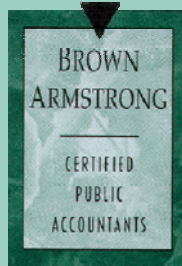
FINANCIAL SECTION

Caring For Your Future...



INDEPENDENT AUDITOR'S REPORT

Peter C. Brown, CPA
 Burton H. Armstrong, CPA, MST
 Andrew J. Paulden, CPA
 Steven R. Starbuck, CPA
 Chris M. Thornburgh, CPA
 Eric H. Xin, CPA, MBA
 Richard L. Halle, CPA, MST
 Aileen K. Keeter, CPA



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

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

■ 8365 N. Fresno Street, Suite 440
 Fresno, California 93720
 Tel 559.476.3592 Fax 559.476.3593

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Fire and Police Retirement System as of June 30, 2009 and 2008, and the related Statement of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Fire and Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, in 2008/09, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the City of Fresno Fire and Police Retirement System, as of June 30, 2009 and 2008, and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 Investment, Actuarial, and Statistical Sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The Supplemental Schedules have been subjected to the auditing procedures applied in the 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 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 25, 2009, on our consideration of the City of Fresno Fire and Police Retirement System 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 25, 2009



CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Fire and Police Retirement System for the fiscal year ended June 30, 2009. 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 2009, the assets of the System exceed its liabilities by \$832,727,773; as of fiscal year 2008, the assets of the System exceeded its liabilities by \$1,088,054,423; and as of fiscal year 2007, the assets of the System exceeded its liabilities by \$1,193,398,333.

The System's total net assets held in trust for pension benefits decreased by \$255,326,650 or -23.47 percent as of fiscal year 2009; for the prior fiscal year total net assets decreased by \$105,343,910 or -8.83 percent, and for fiscal year 2007 the total net assets increased by \$148,660,307 or 14.23 percent over the previous year, all 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, 2008, the date of the last actuarial valuation, the funded ratio for the System was 128.5 percent. In general, this indicates that for every dollar of benefits due we have approximately \$1.29 of assets available for payment as of that date.

As of the June 30, 2007, the date of the previous annual actuarial valuation, the funded ratio for the System was 129.5 percent; and as of June 30, 2006, the funded ratio for the System was 125.4 percent.

REVENUES ARE ADDITIONS TO PLAN NET ASSETS

Revenues for the fiscal year 2009 decreased \$146,208,546 or -240.46 percent over the prior year from \$-60,803,183 to \$-207,011,729 which includes member contributions of \$7,172,358, employer contributions of \$8,938,488, a net investment income loss of \$224,035,998 and net securities lending income of \$913,423.

Prior fiscal year 2008 revenues decreased \$250,487,908 or -132.05 percent over the previous fiscal year 2007 from \$189,684,725 to \$-60,803,183 which includes member contributions of \$6,788,227, employer contributions of \$8,766,066, a net investment income of \$-77,495,192 and net securities lending income of \$1,137,716.

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

EXPENSES ARE DEDUCTIONS IN PLAN NET ASSETS

Expenses for the fiscal year 2009 increased \$3,774,194 or 8.47 percent over the prior fiscal year from \$44,540,727 to \$48,314,921.

Prior fiscal year 2008 expenses increased \$3,516,309 or 8.57 percent over the fiscal year 2007 from \$41,024,418 to \$44,540,727.

Fiscal year 2007 expenses increased approximately 8.29 percent from \$37,884,163 to \$41,024,418 over fiscal year 2006 expenses.

The current year increase in expenses is due primarily to the increases in retirees and the respective retirement benefits paid in 2009 along with an increase in the Post Retirement Supplemental Benefits paid over the prior year.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The Statement of Changes in Plan Net Assets Available for Benefits, on the other hand, provides a view of current year additions to and deductions from the System. Both statements are in compliance with Governmental Accounting 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, 2008, was 128.5 percent, which means the System's fund has approximately \$1.29 available for each \$1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits reports information about the System's activities.

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

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

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

FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2009 by \$832,727,773. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

The fund's combined net assets held in trust for pension benefits have generally increased each fiscal year since 1995 with the exception of losses incurred in fiscal years 2001, 2002, 2008 and now 2009. In fiscal year 2009, net assets decreased by 23.47 percent; and in 2008, net assets decreased by 8.83 percent due to declines in the global investment markets, while in 2007, net assets increased by 14.23 percent.

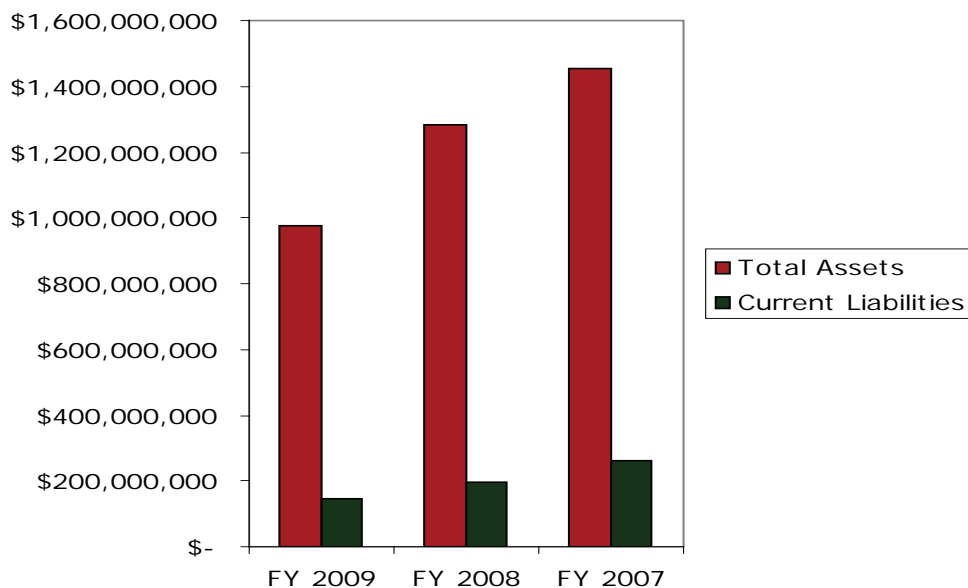
The System averaged an annualized investment return of 3.02 percent over the past ten years. While this means that the ten year average annualized return has underperformed the actuarial assumption of 8.25 percent by 5.23 percent, it has exceeded the weighted policy benchmark return for that same period by 0.09 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 - FIRE AND POLICE RETIREMENT SYSTEM NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009, 2008 AND 2007

	FY 2009	FY 2008	FY 2009 Increase/ (Decrease) Amount	FY 2009 Increase/ (Decrease) Percent
Current and Other Assets	\$ 141,530,694	\$ 195,436,115	\$ (53,905,421)	-27.58%
Investments at Fair Value	836,594,357	1,088,166,779	(251,572,422)	-23.12%
Total Assets	\$ 978,125,051	\$1,283,602,894	\$(305,477,843)	-23.80%
Current Liabilities	145,397,278	195,548,471	(50,151,193)	-25.64%
Net Assets	\$ 832,727,773	\$1,088,054,423	\$(255,326,650)	-23.47%

	FY 2008	FY 2007	FY 2008 Increase/ (Decrease) Amount	FY 2008 Increase/ (Decrease) Percent
Current and Other Assets	\$ 195,436,115	\$ 249,928,266	\$ (54,492,151)	-21.80%
Investments at Fair Value	1,088,166,779	1,202,730,887	(114,564,108)	-9.53%
Total Assets	\$1,283,602,894	\$1,452,659,153	\$(169,056,259)	-11.64%
Current Liabilities	195,548,471	259,260,820	(63,712,349)	-24.57%
Net Assets	\$1,088,054,423	\$1,193,398,333	\$(105,343,910)	-8.83%

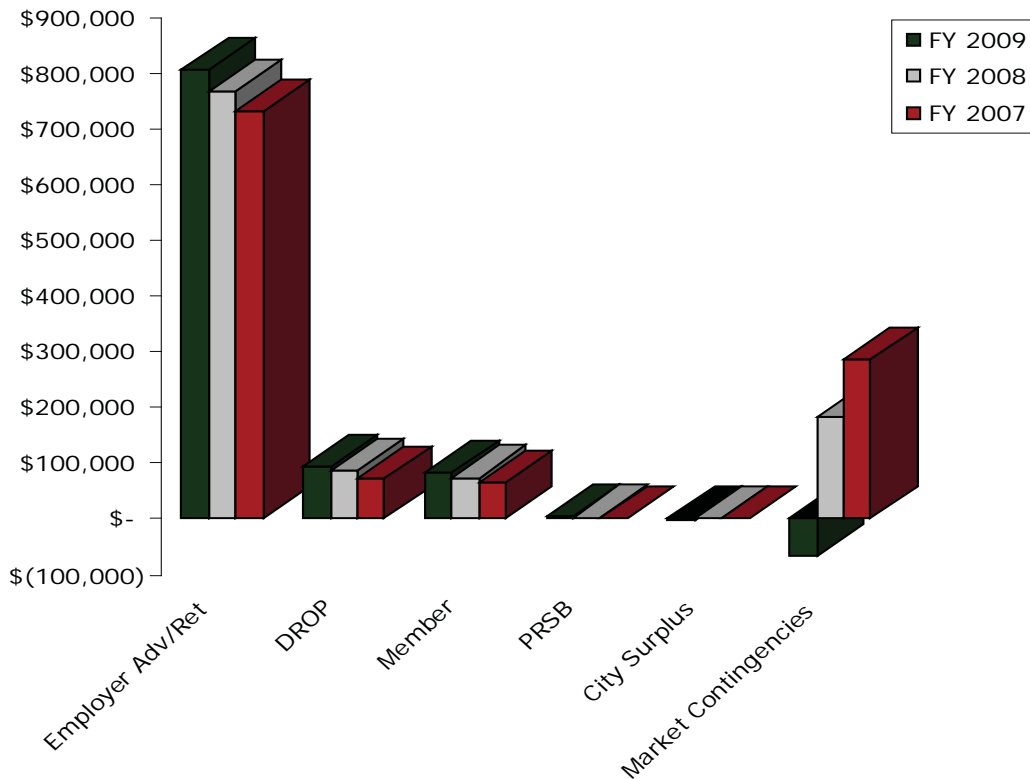


RESERVES

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

TABLE 2 – FIRE AND POLICE RETIREMENT SYSTEM'S RESERVES
FOR THE YEARS ENDED JUNE 30, 2009, 2008 AND 2007 (IN THOUSANDS)

	2009	2008	2007
Employer Advance/Retired Reserves	\$808,590	\$ 767,639	\$ 730,098
DROP Reserves	95,577	85,529	73,067
Member Reserves	83,324	74,391	66,082
PRSB Reserves	3,572	3,196	2,226
City Surplus Reserves	(618)	-	-
Market Stabilization Reserve	(65,329)	184,379	287,378
Other Reserves	(92,388)	(27,080)	34,547
Net Assets Available for Benefits	\$832,728	\$ 1,088,054	\$ 1,193,398



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

The System's assets decreased \$255,326,650 for the fiscal year resulting in a 23.47 percent decrease in net assets for the fiscal year ended June 30, 2009, primarily attributable to the unprecedented global credit and capital market crisis which led to a major downturn in the economy. In the prior fiscal year, the System's assets decreased \$105,343,910 resulting in an 8.83 percent decrease in net assets for the fiscal year ended June 30, 2008. While for fiscal year ended June 30, 2007, due to steady growth in real estate and equity markets returns as well as an increase in revenue earned from securiteis lending, the System's assets increased \$148,660,307 resulting in a 14.23 percent increase in net asets for the fiscal year ended June 30, 2007.

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, 2009 totaled \$-207,011,729.

For the fiscal year ended June 30, 2009, overall revenues had decreased by \$146,208,546 or 240.46 percent from the prior year, primarily due to performance of the investment markets; for fiscal year ended June 30, 2008, overall revenues decreased by \$250,487,908 or -132.05%; and for fiscal year ended June 30, 2007, overall revenues increased by \$65,050,118 or 52.19 percent from

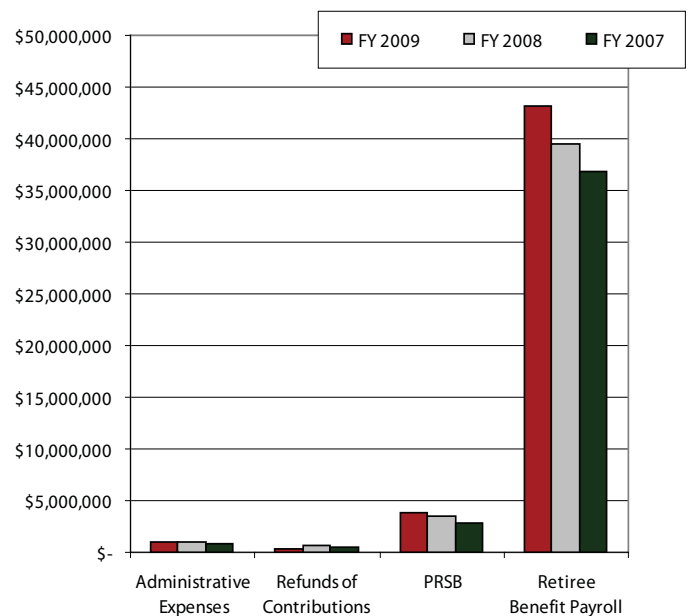
the prior year. The investment section of this report reviews the details of the results of investment activity for the fiscal year ended June 30, 2009.

EXPENSES – DEDUCTIONS FROM SYSTEM'S NET ASSETS

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

Deductions for the fiscal year ended June 30, 2009, totaled \$48,314,921 which was an increase of \$3,774,194, or 8.47 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the number of new retirees receiving benefits, and an increase in the average benefit.

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



CHANGES TO PLAN NET ASSETS (CONDENSED)

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	FY 2009	FY 2008	FY 2009 Increase/ (Decrease) Amount	FY 2009 Increase/ (Decrease) Percent
Additions (Declines)				
Employer Contributions	\$ 8,938,488	\$ 8,766,066	\$ 172,422	1.97%
Employee Contributions	7,172,358	6,788,227	384,131	5.66%
Net Investment Income *	(223,122,575)	(76,357,476)	(146,765,099)	-192.21%
Total Additions (Declines)	\$(207,011,729)	\$ (60,803,183)	\$ (146,208,546)	-240.46%
Deductions				
Retiree Benefit Payroll	\$ 43,177,071	\$ 39,493,929	\$ 3,683,142	9.33%
Refunds of Contributions	338,145	646,248	(308,103)	-47.68%
PRSB	3,847,601	3,455,951	391,650	11.33%
Administrative Expenses	952,104	944,599	7,505	0.79%
Total Deductions	\$ 48,314,921	\$ 44,540,727	\$ 3,774,194	8.47%
Increase (Decrease) in Plan Net Assets	(255,326,650)	(105,343,910)	(149,982,740)	-142.37%
Beginning Plan Net Assets	1,088,054,423	1,193,398,333	(105,343,910)	-8.83%
Ending Plan Net Assets	\$ 832,727,773	\$1,088,054,423	\$ (255,326,650)	-23.47%

* Net of investment expenses of \$6,090,615 and \$13,834,839 for June 30, 2009 and 2008.

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	FY 2008	FY 2007	FY 2008 Increase/ (Decrease) Amount	FY 2008 Increase/ (Decrease) Percent
Additions (Declines)				
Employer Contributions	\$ 8,766,066	\$ 10,806,791	\$ (2,040,725)	-18.88%
Employee Contributions	6,788,227	5,393,526	1,394,701	25.86%
Net Investment Income *	(76,357,476)	173,484,408	(249,841,884)	-144.01%
Total Additions (Declines)	\$ (60,803,183)	\$ 189,684,725	\$(250,487,908)	-132.05%
Deductions				
Retiree Benefit Payroll	\$ 39,493,929	\$ 36,810,507	\$ 2,683,422	7.29%
Refunds of Contributions	646,248	453,920	192,328	42.37%
PRSB	3,455,951	2,872,008	583,943	20.33%
Administrative Expenses	944,599	887,983	56,616	6.38%
Total Deductions	\$ 44,540,727	\$ 41,024,418	\$ 3,516,309	8.57%
Increase (Decrease) in Plan Net Assets	(105,343,910)	148,660,307	(254,004,217)	-170.86%
Beginning Plan Net Assets	1,193,398,333	1,044,738,026	148,660,307	14.23%
Ending Plan Net Assets	\$1,088,054,423	\$1,193,398,333	\$(105,343,910)	-8.83%

* Net of investment expenses of \$13,834,839 and \$17,683,323 for June 30, 2008 and 2007.

SYSTEM'S FIDUCIARY RESPONSIBILITIES

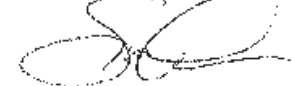
The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets may be used exclusively for the benefit of plan participants and their beneficiaries.

REQUESTS FOR INFORMATION

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

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

Respectfully submitted,



Stanley L. McDivitt
Retirement Administrator

November 25, 2009

STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

For the Years ended June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash (Note 6)	\$ 873,933	\$ 2,728,472
Collateral Held for Securities Lent (Note 8)	121,162,658	177,979,889
Receivables		
Receivables for Investments Sold	9,412,412	8,579,320
Interest and Dividends	3,920,569	4,120,809
Other Receivables	5,989,598	1,859,150
Total Receivables	19,322,579	14,559,279
Prepaid Expenses	110,992	106,194
Total Current Assets	141,470,162	195,373,834
Investments at Fair Value (Note 6)		
(Cost of \$886,521,429 in 2009 and \$1,059,647,135 in 2008)		
Domestic Equity	217,717,290	393,024,281
International Equity	207,726,613	209,000,818
Government Bonds	127,998,117	151,644,962
Corporate Bonds	143,272,743	168,795,829
Real Estate	82,120,425	117,380,747
Emerging Market Equity	39,477,963	31,124,104
Short Term Investments	18,281,206	17,196,038
Total Investments	836,594,357	1,088,166,779
Capital Assets Net of Accumulated Depreciation (Note 11)	60,532	62,281
Total Assets	978,125,051	1,283,602,894
LIABILITIES		
Collateral Held for Securities Lent (Note 8)	121,162,658	177,979,889
Payable for Investments Purchased	15,163,402	12,572,591
Prepaid Employer Contributions (Note 4)	-	1,550,587
Other Liabilities	3,121,354	1,594,679
Payable for Foreign Currency Purchased	5,949,864	1,850,725
Total Liabilities	145,397,278	195,548,471
Net Assets Held In Trust for Benefits	\$ 832,727,773	\$1,088,054,423

The notes to the financial statements on pages 15 to 31 are an integral part of this statement.

STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

for the Years ended June 30, 2009 and 2008

	2009	2008
ADDITIONS		
Contributions (Note 3):		
Employer	\$ 8,938,488	\$ 8,766,066
System Members	7,172,358	6,788,227
Total Contributions	16,110,846	15,554,293
Investment Income:		
Net Appreciation (Depreciation) in Value of Investments	(249,708,763)	(102,998,620)
Interest	18,757,747	18,470,760
Dividends	11,905,910	13,375,199
Other Investment Related	60,237	128,099
Total Investment Income (Loss)	(218,984,869)	(71,024,562)
Less: Investment Expense	(5,051,129)	(6,470,630)
Total Net Investment Income (Loss)	(224,035,998)	(77,495,192)
Securities Lending Income		
Securities Lending Earnings (Note 8)	1,952,909	8,501,925
Less: Securities Lending Expense	(1,039,486)	(7,364,209)
Net Securities Lending Income	913,423	1,137,716
Total Additions (Declines)	(207,011,729)	(60,803,183)
DEDUCTIONS		
Benefit Payments	43,177,071	39,493,929
Post Retirement Supplemental Benefits (Note 10)	3,847,601	3,455,951
Refunds of Contributions	338,145	646,248
Administrative Expenses	952,104	944,599
Total Deductions	48,314,921	44,540,727
Net Increase (Decrease)	(255,326,650)	(105,343,910)
NET ASSETS HELD IN TRUST FOR BENEFITS		
July 1	1,088,054,423	1,193,398,333
June 30	\$ 832,727,773	\$ 1,088,054,423

The notes to the financial statements on pages 15 to 31 are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1 DESCRIPTION OF THE SYSTEM

The City of Fresno Fire and Police Retirement System ("System") was established on July 1, 1955, under provisions of the City of Fresno Ordinance Number 4611, and is maintained and governed by Article 3 and 4 of Chapter 3 of the Municipal Code of the City of Fresno but not under the control of the City Council. The System is a single employer public employee retirement system that includes all full time sworn fire, police and airport safety personnel. Effective August 27, 1990, the City added the Fire and Police Second Tier for all full time sworn fire, police and airport safety personnel hired on or after that date (and closed the Fire and Police First Tier to new entrants).

Total participants of the System were comprised of the following, as of June 30, 2009 and 2008:

	2009	2008
Active Members:		
Vested	859	783
Non-vested	313	399
	1,172	1,182
Retirees and Beneficiaries of Deceased		
Retirees, Currently Receiving Benefits	865	854
Inactive Vested Members	67	67
	932	921
Total	2,104	2,103

Pension benefits are based upon a combination of age, years of service, monthly salary and the option selected by the participant. Death and disability benefits are additionally based upon whether the disability was service connected and whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions

do not become vested until completion of 10 years of credited service under the First Tier and five years of credited service under the Second Tier when they become 100 percent vested, but are not payable until the member attains the age of 50 under both tiers. Contributions are made by the members and the employer at rates recommended by the System's actuary and adopted by the Retirement Board.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Basis of Accounting

The System uses the accrual basis of accounting. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan and per Section 3-322 and 3-324 of the Municipal Code.

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

Valuation of Investments

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

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

Estimates

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

New Accounting Pronouncements

The provisions of Governmental Standards (GASB) Statement No. 52, Land and other Real Estate held as Investments by Endowments, is to be implemented as of June 30, 2009, however, this provision is not applicable to the City of Fresno Employees Retirement System.

Governmental Standards (GASB) Statements No. 55 and 56 were also implemented as of June 30, 2009. Statement No. 55, incorporating the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature, did not cause any real changes to the preparation process of the financial statements and did not have a significant impact on the financial statements, thus the Board does not expect this statement will result in a change in current practice. Statement No. 56, incorporating into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards, did not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. Thus, this provision did not cause any real changes to the preparation process of the financial statements and did not have a significant impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

For the prior fiscal year ended June 30, 2008, the System implemented the provisions of Governmental Standards (GASB) Statement No. 50 Pension Disclosures – the objective of which is to amend note disclosure and required supplementary information (RSI) standards of GASB Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with applicable changes adopted in Statements No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. GASB Statement No. 50 is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

For defined benefit pension plans, GASB Statement No. 50 requires disclosure of the funded status of the plan as of the most recent actuarial valuation date in the Notes to Financial Statements section and a reference linking the funding status disclosure in the notes to financial statements to the required schedule of funding progress in the Required Supplemental Schedules. It also requires defined benefit pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.

GASB Statement No. 50 also amends Statement No. 27 to require note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or if that cost-sharing plan is financed on a pay-as-you-go basis.

3 CONTRIBUTIONS

Reclassifications

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

Authority to Collect

The responsibility for both City and employee contributions to the System is mandated by the City of Fresno Municipal Code Sections 3-319, 3-324, and 3-405.

Funding Status & Method

The funding ratio as of June 30, 2008 was 128.5% using the Entry Age Normal Cost method. The System's actuary uses a five year smoothing of market gains and losses to derive the actuarial value of assets. As of the fiscal year ended June 30, 2008, the actuarial value of assets was \$1.07 billion. The Schedule of Fund Progress provided by the actuary (as shown on pages 18 and 35) does not include other designated reserves (other reserves) and the liabilities associated with these reserves. The Schedule of Fund 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 Entry Age Normal 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, 2008 is illustrated in the Schedule of Funding Progress shown on page 18 and in the Required Supplemental Schedule on page 35.

Funding Policy

The City currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the entry age normal funding method. This method produces an employer contribution rate consisting of amounts for (a)

3 CONTRIBUTIONS CONTINUED

SCHEDULE OF FUNDING PROGRESS

FOR THE YEARS JUNE 30, 2009 AND 2008

(DOLLARS IN MILLIONS)

Actuarial Valuation Date Year Ending June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
2006	\$906.20	722.7	125.4%	\$(183.50)	82.5	(222.4%)
2007	\$1,000.90	773.2	129.5%	\$(227.70)	89.5	(254.4%)
2008	\$1,066.78	830.0	128.5%	\$(236.70)	98.9	(239.3%)

The valuation interest rate is 8.25%; total salary scale increases of 3.75% (3.75% for inflation) plus 0.25% across the board salary increase; plus merit and promotion increases based on completed years of service were based on the June 30, 2006 Experience

Analysis and the June 30, 2007 Economic Assumptions Report. These actuarial assumptions were adopted by the Retirement Board on January 14, 2009, for implementation as of July 1, 2009.

LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Valuation Date June 30, 2008

Actuarial Cost Method Entry Age Normal Cost

Asset Valuation Method Actuarial Value, 5 year Smoothed Market Value recognizing differences between the total market value and the expected investment return.

Actuarial Assumptions

Investment Rate of Return 8.25%

Projected Salary Increases 4.00% to 10:00% Plus Merit and Promotion increases (Service and Age)

Attributed to Inflation 3.75%

Cost of Living Adjustments 4.00% Tier I
3.00% Tier II

3 CONTRIBUTIONS CONTINUED

normal cost and (b) amortization of any unfunded liability. However, excess earnings and prepaid City contributions in the System have funded the fiscal year 2009, 2008 and 2007 City Contributions (see note 4).

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

Total contributions to the System for fiscal year 2009 totaled \$16,110,846. Employees (both tiers) contributed \$7,172,358 and the City contribution of \$8,938,488 includes cash contributions of \$7,279,062 and \$1,659,426 from prepaid contributions on deposit with the System. The remaining employer contributions were offset by the prefunded actuarial liability of the System.

First Tier

Contributions aggregating \$2,592,387 (\$2,192,225 net employer and \$400,162 employee) were made in fiscal year 2009, based on an actuarial valuation determined as of June 30, 2007, which became effective for the year ended June 30, 2009. For fiscal year 2009, the employer contribution rate was set at 25.25%; however, only a cash contribution of \$1,767,817 was required from the City due to the use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 9.44 percent and 1.72 percent, respectively, of the fiscal year 2009 covered payroll.

Contributions aggregating \$2,965,079 (\$2,503,961 net employer and \$461,118 employee) were made in fiscal year 2008, based on an actuarial valuation determined as of June 30, 2006, which became effective for the year ended June 30, 2008. For fiscal year 2008, the employer contribution rate was set at 25.66%; however, only a cash contribution of \$1,851,376 was required from the City due to the

use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 9.63 percent and 1.77 percent, respectively, of the fiscal year 2008 covered payroll.

Second Tier

Contributions aggregating \$13,518,459 (\$6,746,263 net employer and \$6,772,196 employee) were made in fiscal year 2009, based on an actuarial valuation determined as of June 30, 2007, which became effective for the year ended June 30, 2009. The employer contribution rate was set at 17.34%; however, only \$5,810,359 was required from the City due to the use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 8.86 percent and 8.90 percent, respectively, of the fiscal year 2009 covered payroll.

Contributions aggregating \$12,589,214 (\$6,262,105 net employer and \$6,327,109 employee) were made in fiscal year 2008, based on an actuarial valuation determined as of June 30, 2006, which became effective for the year ended June 30, 2008. The employer contribution rate was set at 16.28%; however, only \$5,720,438 was required from the City due to the use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 8.57 percent and 8.66 percent, respectively, of the fiscal year 2008 covered payroll.

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

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

3 CONTRIBUTIONS CONTINUED

The City's normal contributions to the Fire and Police Retirement System for 2009 were estimated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2008, as follows:

	Actuarial Rates as a Percentage of Pensionable Payroll	
	Effective FY 09	Effective FY 08
Employer Normal (First Tier)	25.25%	25.66%
Employer Normal (Second Tier)	17.34%	16.28%

At June 30, 2008, actuarial valuation, the actuarial accrued liability of the Fire and Police Retirement System was \$830,036,000. The actuarial value of the assets was \$1,066,778,000 for a funding ratio of 128.5 percent. In July of 1994, the City of Fresno deposited prepaid normal contributions which are classified as prepaid

	FY2009		
	Tier 1	Tier 2	Total
Member Contributions	\$ 400,162	\$ 6,772,196	\$ 7,172,358
Employer Contribution Rate	25.25%	17.34%	
Employer Contributions	\$ 4,689,892	\$14,447,268	\$19,137,160
Less: Prefunded Actuarial Accrued Liability	(2,497,667)	(7,701,005)	(10,198,672)
Net Employer Contributions	\$ 2,192,225	\$ 6,746,263	\$ 8,938,488
Pensionable Payroll	\$23,216,805	\$76,110,329	\$99,327,134
	FY2008		
	Tier 1	Tier 2	Total
Member Contributions	\$ 461,118	\$ 6,327,109	\$ 6,788,227
Employer Contribution Rate	25.66%	16.28%	
Employer Contributions	\$ 5,102,885	\$12,761,702	\$17,864,587
Less: Prefunded Actuarial Accrued Liability	(2,598,924)	(6,499,597)	(9,098,521)
Net Employer Contributions	\$ 2,503,961	\$ 6,262,105	\$ 8,766,066
Pensionable Payroll	\$25,992,662	\$73,083,617	\$99,076,279

4 PREPAID EMPLOYER CONTRIBUTIONS

contributions to the Fire and Police Retirement System. The balance of the prepayment earns interest at the rate of 8.25 until prepaid contributions are used to fund the City’s required contributions to the System. The annual interest earned is credited to the City prepaid contributions balance.

For fiscal year 2009, a portion of the City required normal contributions were offset by the remaining balance of prepaid contributions in the amount of \$1,550,587 plus \$108,839, the prorated share of the annual interest earned and credited to the City prepaid balance. Therefore, as of June 30, 2009, the prepaid contribution balance has been fully utilized. Net assets available for benefits are segregated into Active Members Reserve (members’ accumulated

Balance June 30, 2008	\$ 1,550,587
Prepaid Employer Contributions Used	(1,659,426)
Interest Credited for Fiscal Year 2009	108,839
Balance at June 30, 2009	\$ (0)

5 NET ASSETS AVAILABLE FOR BENEFITS

contributions) and reserves established by the Board for various benefit payments.

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

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

retirement payments to current active members and the total accumulated transfers from Active Member Reserves, and investment earnings, less payments to retired members. Additions include contributions from the employer, transfers from Active Member Reserve, and investment earnings; deductions include payments to retired members.

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

POST RETIREMENT SUPPLEMENTAL BENEFIT (“PRSB”) RESERVE represents surplus earnings that have been allocated but not distributed to eligible participants in accordance with Municipal Code Section 3-354 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 3-354 Post-Retirement Supplemental Benefit.

MARKET STABILIZATION RESERVE represents accumulated unrealized gains or losses recognized in the financial statements as a result of reporting investments at fair value instead of cost. This unrealized appreciation or depreciation of assets is recorded in the Market Stabilization Reserve to reflect market fluctuations and is reported in accordance with Government Accounting Standards Board Statement No. 25.

OTHER RESERVE represents an accumulation of the market appreciation in the value of the System’s assets less investment income and charged with investment and other investment related expenses. The Other Reserve is funded entirely from investment earnings. Transfers of undistributed earnings from the Other Reserve account to reserve accounts are made at an annual rate of 8.25 percent of the average of the beginning and ending balances in the transferee reserve.

5 NET ASSETS AVAILABLE FOR BENEFITS CONTINUED

Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserve and the Employer Advance/Retired Reserves. Active members in the Deferred Retirement Option Program accrue interest on their accumulated DROP accounts monthly at an interest rate annually adopted by the Board. Any remaining net investment earnings are allocated to Other Reserve. The amount of reserves for the year ended June 30, 2009 and 2008, consisted of the following (in thousands):

The System's investment policy guidelines reflect the duties imposed by an investment standard known as the "prudent expert rule." The prudent

	2009	2008
Employer Reserves	\$808,590	\$ 767,639
Reserve for DROP	95,577	85,529
Active Member Reserves	83,324	74,391
Reserve for PRSB	3,572	3,196
Reserve for City Surplus	(618)	-
Reserve for Market Stabilization	(65,329)	184,379
Other Reserve	(92,388)	(27,080)
Net Assets Held in Trust for Benefits	\$832,728	\$1,088,054

6 DEPOSITS AND INVESTMENTS

expert rule establishes a standard for all fiduciaries, which includes anyone who has discretionary authority with respect to the System's investments.

Northern Trust serves as custodian of the System's investments. The System's asset classes include U.S. Equity, International Equity, U.S. Fixed Income, International Fixed Income and Real Estate. Any class may be held in direct form, pooled form or both. The System has 18 external investment managers, managing 20 individual portfolios. Investments at June 30, 2009 and 2008 consist of the following (in thousands):

The Board through its Investment Policy Statement provides guidelines for investments and established

	2009	2008
Investments at Fair Value		
Domestic Equity	\$ 217,717,290	\$ 393,024,281
International Equity	207,726,613	209,000,818
Government Bonds	127,998,117	151,644,962
Corporate Bonds	143,272,743	168,795,829
Real Estate	82,120,425	117,380,747
Emerging Market Equity	39,477,963	31,124,104
Short Term Investments	18,281,206	17,196,038
Total Investments at Fair Value	\$ 836,594,357	\$1,088,166,779

the following target allocations with a minimum and maximum range for each of these asset classes. Allowable securities must meet the reporting requirements of the Securities and Exchange Commission and must meet a "prudent expert"

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	21.0%	25.0%	29.0%
Emerging Market Equities	0.0%	5.0%	7.0%
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%	

standard for investing. In no case may the System have 5 percent or more of System net assets invested in any one organization. The Retirement Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the non

6 DEPOSITS AND INVESTMENTS CONTINUED

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

City as part of the City's cash investment pool totaled \$873,933 and \$2,728,472 at June 30, 2009 and 2008, 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, 2009.

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: Per section 5.4(6) of the System's Investment Policy Statement, no more than 5 percent of an investment manager's fixed income portfolio may be invested in

Type of Investment	Fair Value	Credit Quality	Duration
Asset Backed Securities	\$4,786,349	A	1.21
Commercial Mortgage-Backed	11,231,204	AA+	4.96
Corporate Bonds	115,861,145	BBB-	5.59
Corporate Convertible Bonds	3,858,965	CCC-	3.70
Guaranteed Fixed Income	910,499	AAA	2.44
Other Fixed Income	37,875	NR	0.00
Convertible Equity	395,722	B-	10.80
Preferred Stock	150,032	CC	0.00
Government Agencies	8,353,878	AAA	4.37
Government Bonds	29,150,938	AAA	5.05
Government Mortgage Backed Securities	81,466,311	AAA	3.57
Index Linked Government Bonds	94,635	BB-	1.08
Municipal/Provincial Bonds	4,527,422	A+	7.74
Non-Government backed C.M.O.s	10,445,885	BBB	1.54
Total Credit Risk Fixed Income	\$271,270,860		

6 DEPOSITS AND INVESTMENTS CONTINUED

below investment grade rated securities (BB or B rated bonds). No securities rated below single B may be purchased at any time. Therefore, at least 95 percent of the manager's fixed income portfolio must be invested in investment grade securities. Intermediate Bond portfolios shall maintain an average credit quality of AA- or better.

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

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

Concentration Risk

The Investment portfolio as of June 30, 2009 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.

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.

6 DEPOSITS AND INVESTMENTS CONTINUED

The following positions represent the System's exposure to foreign currency risk as of June 30, 2009.

Equities:			Cash and Cash Equivalents:	
Base Currency:		Fair Value in USD		Fair Value in USD
Australian Dollar	AUD	\$ 13,747,311	Australian Dollar	\$ 408
Brazilian Real	BRL	2,979,248	Canadian Dollar	19,983
Canadian Dollar	CAD	5,018,554	Swiss Franc	96,145
Swiss Franc	CHF	11,901,326	Danish Krone	3,233
Colombian Peso	COP	127,511	Euro	277,088
Danish Krone	DKK	3,151,441	British Pound Sterling	58,687
Egyptian Pound	EGP	585,774	Hong Kong Dollar	75,355
Euro	EUR	56,731,581	Indonesian Rupiah	1,209
British Pound Sterling	GBP	35,482,919	Iceland Krona	4,576
Hong Kong Dollar	HKD	14,350,075	Japanese Yen	223,556
Hungarian Forint	HUF	223,103	Malaysian Ringgit	164
Indonesian Rupiah	IDR	689,308	Norwegian Krone	104,545
New Israeli Shekel	ILS	88,579	New Zealand Dollar	10,662
Indian Rupee	INR	1,427,491	Swedish Krona	75,722
Japanese Yen	JPY	42,107,491	Singapore Dollar	65,257
South Korean Won	KRW	5,400,501	South African Rand	9,346
Mexican Peso	MXN	381,389	Total Non-USD Cash (in USD)	\$ 1,025,936
Malaysian Ringgit	MYR	323,845		
Norwegian Krone	NOK	2,977,694		
New Zealand Dollar	NZD	458,097		
Swedish Krona	SEK	4,225,219		
Singapore Dollar	SGD	5,883,828		
Thai Baht	THB	628,673		
Turkish Lira	TRY	1,499,417		
New Taiwan Dollar	TWD	3,372,002		
South African Rand	ZAR	4,053,676		
Total Non-USD Equities (in USD)		\$ 217,816,053		

6 DEPOSITS AND INVESTMENTS CONTINUED

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.

The Retirement Board has authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when, in the

7 DERIVATIVES

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 could not be made through traditional investment securities.

The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance

relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

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

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

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

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

Credit Risk: Credit risk of cash securities containing derivative features, is based upon the credit worthiness of the issuers of such securities. The

6 DEPOSITS AND INVESTMENTS CONTINUED

Retirement Board establishes minimum credit requirements for such securities.

Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange's margin requirements.

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 or stock market index. These futures can be used for hedging against an existing equity position, or speculating on future movements of the index. As of June 30, 2009, the Fire and Police Retirement System held a total value of \$508,175 in derivative holdings. These holdings consisted of the S&P

500 Equity Futures as a component of its investment in Barclay Global Investors (BGI) S&P500 Equity Index Fund, BGI's Alpha Tilts and BGI's Russell 2000 Growth Fund, and Swaps held in BGI's Securities Lending Cash collateral Funds for S&P 500 Equity Index and Russell 2000 Growth Funds. These derivatives are used for the purpose of synthetically creating equity returns, synthetically creating floating rates and to buy or sell credit protection on the assets.

The sum of all counterparty exposure for which there is a positive replacement cost to the fund is \$14,268; the amount of collateral held by the fund to secure the sum of all counterparty exposure is \$492; and the net exposure is \$13,776.

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

As of June 30, 2009, the Fire and Police Retirement System's derivative holdings consisted of the following:

S&P 500 Equity Futures (as a component of Barclays Global Investors Equity Index Fund A)		\$ 20,017
Swaps held in Securities Lending Cash Collateral Funds of Barclays Global Investors Equity Index Fund A		
Total Return Swap	\$1,596	
Credit Derivative Swap	1,310	
Total Swaps		2,906
S&P 500 Equity Futures (as a component of Barclays Global Investors Alpha Tilts Fund)		171,767
S&P 500 Equity Futures (as a component of Barclays Global Investors Russell 2000 Growth Fund)		294,417
Swaps held in Securities Lending Cash Collateral Funds of Barclays Global Investors Russell 2000 Growth Fund		
Total Return Swap	\$10,471	
Credit Derivative Swap	8,597	
		19,068
Fair Value of Derivatives Held at June 30, 2009		<u>\$508,175</u>

8 SECURITIES LENDING

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, 2009, had a weighted average

duration of 15 days, average maturity is 169 days and an average monthly yield of 0.622 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, 2009, the CORE USA Cash Collateral Fund had 0.663% exposure in subprime residential mortgage-backed securities, in the first-pay tripe A tranches (as rated by at least one rating agency) 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

8 SECURITIES LENDING CONTINUED

by either the lender or the borrower, although the average term of the System's loans was approximately 59 days as of June 30, 2009.

Prior to June 30, 2008, due to the nature of the securities lending program and Northern Trust's collateralization of loans at 102 percent and 105 percent plus accrued interest for fixed income securities, we believed that there was no material credit risk to the System as defined in GASB Statement No. 28 and GASB Statement No. 40 by our participation in the securities lending program. However, with the short-term illiquid and volatile environment for fixed income markets, we believe that there is more risk in the credit quality of the collateral pool than previously anticipated. Reduced demand in securities lending given recent brokerage firm failures is an indication of the overall increasing risks associated with securities lending.

As of September 2008, the System's share of the Northern Trust Securities Lending Core USA Cash Collateral Fund (short-term investment pool) contained a total collateral deficiency of \$2.0 million. The collateral deficiency in this securities lending collateral pool was determined following the bankruptcy of Lehman Brothers. The amount of the aggregate collateral deficiency was based on the difference between the market value of

the collateral pool's cash investment assets as of the close of business on September 18, 2008, and the book value of the assets. This value also includes realized losses from the segregation or sale of impaired or distressed assets.

Details of the securities lending collateral deficiency as of June 30, 2009, are as follows:

Total Collateral Deficiency Amount:	\$ 1,999,358
Total Realized Losses to Date:	\$ 273,992
Purchase of Sub-Fund Unit Assets to Date:	\$ 33,191
Amount Due to Custodian for Realized Losses And Purchases for Sub-Fund Unit Assets:	\$ 307,183
Remaining Collateral Deficiency Amount:	\$ 1,692,175

The remaining Collateral Deficiency amount is subject to relief through potential future positive changes in the difference between the market value of the collateral pool's cash investment assets and the book value of those assets.

8 SECURITIES LENDING CONTINUED

SECURITIES LENDING INCOME

FOR THE YEARS JUNE 30, 2009 AND 2008

The securities lending income is as follows:

	2009	2008
Gross Income	\$ 1,952,909	\$ 8,501,925
Expenses		
Borrower Rebates	850,305	7,052,875
Bank Fees	189,181	311,333
Total Expenses	1,039,486	7,364,209
Net Income from Securities Lending	\$ 913,423	\$ 1,137,716

FAIR VALUE OF LOANED SECURITIES

AS OF JUNE 30, 2009

Collateralized by	Cash	Securities	Totals
U.S. Government & Agency	\$ 26,690,108	\$ 361,223	\$ 27,051,331
Domestic Equities	55,535,477	(73,995)	55,461,482
Domestic Fixed	11,878,965	(219,220)	11,659,745
International Equities	26,709,868	280,232	26,990,100
Total	\$ 120,814,418	\$ 348,240	\$ 121,162,658

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES

AS OF JUNE 30, 2009

Collateralized by	Cash	Securities	Totals
U.S. Government & Agency	\$ 26,084,005	\$ 351,979	\$ 26,435,984
Domestic Equities	53,903,597	(73,550)	53,830,047
Domestic Fixed	11,568,860	(215,332)	11,353,528
International Equities	25,174,915	264,402	25,439,317
Total	\$ 116,731,377	\$ 327,499	\$ 117,058,876

9 ADMINISTRATIVE EXPENSES

Section 3-325 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. The Post-Retirement Supplemental Benefit ("PRSB")

10 POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (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 3-354.

If an actuarial surplus is declared, the surplus is allocated into two components, one component composed of two-thirds of the declared surplus, shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post-retirement supplemental benefit recipients in accordance with procedures in Municipal Code Section 3-354(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, 2009 the System distributed PRSB benefits in the total amount of \$4,660,788 to eligible recipients (including \$3,847,601 to retirees and \$813,187 to DROP participants) and offset required City pension contributions by \$9,300,335. As of June 30, 2009, the City Surplus Reserve balance was \$-618,063 and the PRSB Reserve balance was \$3,572,344.

11 CAPITAL ASSETS

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

12 LEASES

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

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

13 RELATED PARTY TRANSACTIONS

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

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

This page intentionally left blank.