



## Section 2 Financial

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

**WE EXPECT EXCELLENCE IN ALL ACTIVITIES.**

## INDEPENDENT AUDITOR'S REPORT

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MEMBER of the American Institute of  
Certified Public Accountants

**BROWN ARMSTRONG**

*Certified Public Accountants*

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statements of Plan Net Assets Available for Benefits of the City of Fresno Fire and Police Retirement System as of June 30, 2011 and 2010, and the related Statements 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

## INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
November 28, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### FINANCIAL HIGHLIGHTS

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

At the close of the fiscal year 2011, the assets of the System exceed its liabilities by \$1,109,211,576; as of fiscal year 2010, the assets of the System exceeded its liabilities by \$918,646,126; and as of fiscal year 2009, the assets of the System exceeded its liabilities by \$832,727,773.

The System's total net assets held in trust for pension benefits increased by \$190,565,450 or 20.74 percent as of fiscal year 2011; for the prior fiscal year total net assets increased by \$85,918,353 or 10.32 percent, and for fiscal year 2009 the total net assets decreased by \$255,326,650 or 23.47 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, 2010, the date of the last actuarial valuation, the funded ratio for the System was 110.8 percent. In general, this indicates that for every dollar of benefits due we have approximately \$1.11 of assets available for payment as of that date.

As of the June 30, 2009, the date of the previous annual actuarial valuation, the funded ratio for the System was 119.6 percent; and as of June 30, 2008, the funded ratio for the System was 128.5 percent.

### REVENUES ARE ADDITIONS TO PLAN NET ASSETS

Revenues for the fiscal year 2011 increased \$105,228,038 or 76.55 percent over the prior year from \$137,467,192 to \$242,695,230 which includes member contributions of \$7,304,036, employer contributions of \$19,397,178, a net investment income gain of \$215,445,496 and net securities lending income of \$548,520.

Prior fiscal year 2010 revenues increased \$344,478,921 or 166.41 percent over the previous fiscal year 2009 from (\$207,011,729) to \$137,467,192 which includes member contributions of \$7,354,890, employer contributions of \$12,094,355, a net investment income gain of \$117,579,634 and net securities lending income of \$438,313.

For fiscal year 2009 revenues decreased \$146,208,546 or 240.46 percent from (\$60,803,183) to (\$207,011,729) which included 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.

### EXPENSES ARE DEDUCTIONS IN PLAN NET ASSETS

Expenses for the fiscal year 2011 increased \$580,941 or 1.13 percent over the prior fiscal year from \$51,548,839 to \$52,129,780.

Prior fiscal year 2010 expenses increased \$3,233,918 or 6.69 percent over the fiscal year 2009 from \$48,314,921 to \$51,548,839.

Fiscal year 2009 expenses increased \$3,774,197 or approximately 8.47 percent from \$44,540,727 to \$48,314,921 over fiscal year 2008 expenses.

The current year increase in expenses is due primarily to the increase in retirees paid over the prior year and an increase in the amount of contributions refunded to terminated members.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The System's funding ratio at June 30, 2010, was 110.8 percent, which means the System's fund has approximately \$1.11 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.

## OTHER INFORMATION

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

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

## FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2011 by \$1,109,211,576. 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 2009. In fiscal years 2011 and 2010, net assets increased by 20.74 percent and 10.32 percent due to rebounds in global investment markets; while in 2009 and 2008, net assets decreased by 23.47 percent and 8.83 percent due to declines in the global investment markets.

The System averaged an annualized investment return of 6.11 percent over the past ten years. This means that the ten year average annualized return has underperformed the actuarial assumption of 8.00 percent by 1.89 percent, and it has only slightly underperformed the weighted policy benchmark return of 6.28 percent for that same period by 0.17 percent. Historical long-term performance rates of returns demonstrate that the System has been able to meet or exceed its actuarial assumed rate of return of 8.00 percent 8.25 percent. As of June 30, 2011, the System's 25-year annualized return is 8.86 percent and its 20-year annualized return is 9.06 percent.

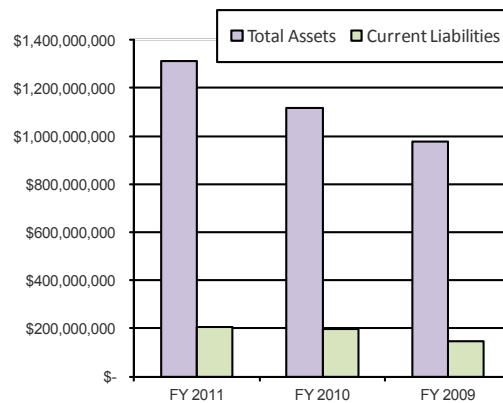
Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and carefully managed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

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

	FY 2011	FY 2010	FY 2011 Increase/(Decrease) Amount	FY 2011 Increase/(Decrease) Percent
Current and Other Assets	\$194,239,183	\$186,675,201	\$7,563,982	4.05%
Investments at Fair Value	1,118,946,526	930,284,313	188,662,213	20.28%
<b>Total Assets</b>	<b>\$1,313,185,709</b>	<b>\$1,116,959,514</b>	<b>\$196,226,195</b>	<b>17.57%</b>
Current Liabilities	203,974,133	198,313,388	5,660,745	2.85%
<b>Net Assets</b>	<b>\$1,109,211,576</b>	<b>\$918,646,126</b>	<b>\$190,565,450</b>	<b>20.74%</b>

	FY 2010	FY 2009	FY 2010 Increase/(Decrease) Amount	FY 2010 Increase/(Decrease) Percent
Current and Other Assets	\$186,675,201	\$141,530,694	\$45,144,507	31.90%
Investments at Fair Value	930,284,313	836,594,357	93,689,956	11.20%
<b>Total Assets</b>	<b>\$1,116,959,514</b>	<b>\$978,125,051</b>	<b>\$138,834,463</b>	<b>14.19%</b>
Current Liabilities	198,313,388	145,397,278	52,916,110	36.39%
<b>Net Assets</b>	<b>\$918,646,126</b>	<b>\$832,727,773</b>	<b>\$85,918,353</b>	<b>10.32%</b>



**RESERVES**

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

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

Deferred Retirement Option Program (DROP) Reserve represents funds reserved for Deferred Retirement Option Program benefits accumulated by active members and retired members. DROP is an alternate method of receiving retirement benefits. It is a voluntary program as described by the conditions and requirements of Municipal Code Section 3-353. A DROP account is a nominal, bookkeeping account established within the System for each DROP participant. Monthly amounts credited to DROP accounts include an amount which represents the service retirement allowance which the member would have received if the member had retired on the date the member commenced DROP participation and interest credited at the five year average interest rate as adopted by the Board in accordance with Municipal Code requirements.

Post Retirement Supplemental Benefit (PRSB) Reserve represents surplus earnings that have been allocated but not distributed to eligible participants in accordance with Municipal Code Section 3-354. PRSB is a supplemental benefit distributed to eligible participants in accordance with Municipal Code Section 3-354, if and only if distributable actuarial surplus is available to provide such a benefit. Actuarial surplus means the amount by which the actuarial value of the System's assets exceeds one hundred and ten percent (110%) of the System's actuarial accrued liabilities.

City Surplus Reserve represents that portion of distributable actuarial surplus that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-354 Post-Retirement Supplemental Benefits. The City Surplus Reserve Account accrues interest at the average gross rate of return earned by the System's entire investment portfolio for each of the three prior fiscal years, including realized and unrealized gains and losses and as reduced by all investment related expenses.

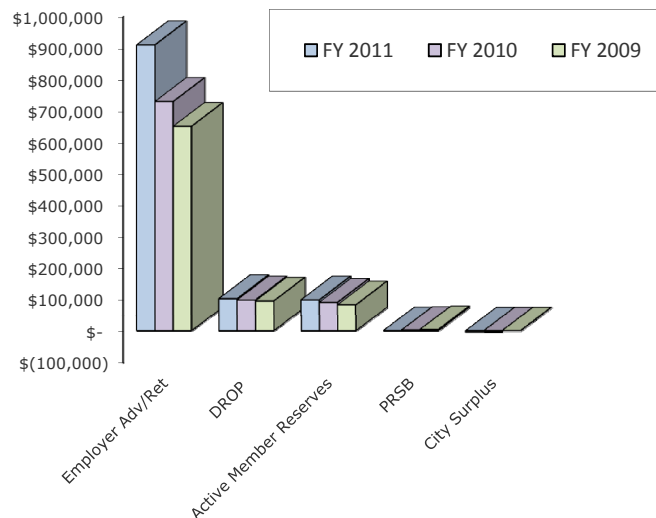
Table 2 shows that the vast majority of reserves are generated from Employer Advance and Retired reserves. DROP reserves

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

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

**TABLE 2 – FIRE AND POLICE RETIREMENT SYSTEM RESERVES  
FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009 (IN THOUSANDS)**

	FY 2011	FY 2010	FY 2009
Employer Advance/Retired Reserves	\$ 909,591	\$ 728,989	\$ 650,873
DROP Reserves	103,184	99,664	95,577
Active Member Reserves	99,261	91,414	83,324
PRSB Reserves	269	2,022	3,572
City Surplus Reserves	(3,093)	(3,443)	(618)
Net Assets Held in Trust for Benefits	\$ 1,109,212	\$ 918,646	\$ 832,728



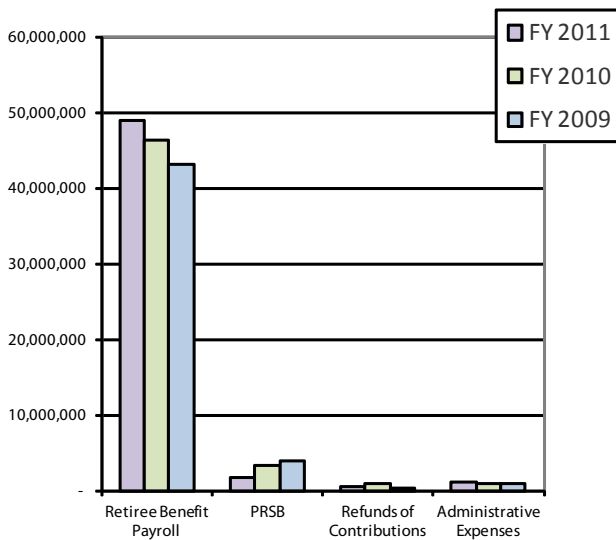
**CAPITAL ASSETS**

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 net assets increased \$190,565,450 for the fiscal year resulting in a 20.74 percent increase in net assets for the fiscal year ended June 30, 2011, primarily attributable to the global economic recovery from the Great Recession and a further rebound in performance of the global investment markets. Additionally, due to the global investment markets, which began their positive corrections in fiscal year 2010, the System's assets increased \$85,918,353 resulting in a 10.32 percent increase in net assets for the fiscal year ended June 30, 2010; and for fiscal year ended June 30, 2009, the System's assets decreased \$255,326,650 resulting in a 23.47 percent decrease in net assets due to the downturn in global financial markets.

Key elements of these increases are described in the sections below.



**REVENUES – ADDITIONS TO SYSTEM'S NET ASSETS**

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income [net of investment expense]. Revenues for the fiscal year ended June 30, 2011 totaled \$242,695,230.

For the fiscal year ended June 30, 2011, overall revenues had increased by \$105,228,038 or 76.55 percent from the prior year, primarily due to performance of the investment markets; for fiscal year ended June 30, 2010, overall revenues increased by \$344,478,921 or 166.41%; and for fiscal year ended June 30, 2009, overall revenues decreased by \$146,208,546 or 240.46 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, 2011.

**EXPENSES – DEDUCTIONS FROM SYSTEM'S NET ASSETS**

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

Deductions for the fiscal year ended June 30, 2011, totaled \$52,129,780 which was an increase of \$580,941, or 1.13 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 IN PLAN NET ASSETS (CONDENSED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	FY 2011	FY 2010	FY 2011 Increase/(Decrease) Amount	FY 2011 Increase/(Decrease) Percent
<b>Additions (Declines)</b>				
Employer Contributions	\$19,397,178	\$12,094,355	\$7,302,823	60.38%
Employee Contributions	7,304,036	7,354,890	(50,854)	(0.69%)
Net Investment Income *	215,994,016	118,017,947	97,976,069	83.02%
<b>Total Additions (Declines)</b>	<b>\$242,695,230</b>	<b>\$137,467,192</b>	<b>\$105,228,038</b>	<b>76.55%</b>
<b>Deductions</b>				
Retiree Benefit Payroll	\$48,894,173	\$46,327,487	\$2,566,686	5.54%
PRSB	1,662,077	3,311,087	(1,649,010)	(49.80%)
Refunds of Contributions	493,579	917,610	(424,031)	(46.21%)
Administrative Expenses	1,079,951	992,655	87,296	8.79%
<b>Total Deductions</b>	<b>\$52,129,780</b>	<b>\$51,548,839</b>	<b>\$580,941</b>	<b>1.13%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>190,565,450</b>	<b>85,918,353</b>	<b>104,647,097</b>	<b>121.80%</b>
<b>Beginning Plan Net Assets</b>	<b>918,646,126</b>	<b>832,727,773</b>	<b>85,918,353</b>	<b>10.32%</b>
<b>Ending Plan Net Assets</b>	<b>\$1,109,211,576</b>	<b>\$918,646,126</b>	<b>\$190,565,450</b>	<b>20.74%</b>

\* Net of investment expense of \$5,634,362 and \$5,365,352 for June 30, 2011 and 2010, respectively.

**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	FY 2010	FY 2009	FY 2010 Increase/(Decrease) Amount	FY 2010 Increase/(Decrease) Percent
<b>Additions (Declines)</b>				
Employer Contributions	\$12,094,355	\$8,938,488	\$3,155,867	35.31%
Employee Contributions	7,354,890	7,172,358	182,532	2.54%
Net Investment Income *	118,017,947	(223,122,575)	341,140,522	152.89%
<b>Total Additions (Declines)</b>	<b>\$137,467,192</b>	<b>\$(207,011,729)</b>	<b>\$344,478,921</b>	<b>166.41%</b>
<b>Deductions</b>				
Retiree Benefit Payroll	\$46,327,487	\$43,177,071	\$3,150,416	7.30%
PRSB	3,311,087	338,145	2,972,942	879.19%
Refunds of Contributions	917,610	3,847,601	(2,929,991)	(76.15%)
Administrative Expenses	992,655	952,104	40,551	4.26%
<b>Total Deductions</b>	<b>\$51,548,839</b>	<b>\$48,314,921</b>	<b>\$3,233,918</b>	<b>6.69%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>85,918,353</b>	<b>(255,326,650)</b>	<b>341,245,003</b>	<b>133.65%</b>
<b>Beginning Plan Net Assets</b>	<b>832,727,773</b>	<b>1,088,054,423</b>	<b>(255,326,650)</b>	<b>(23.47%)</b>
<b>Ending Plan Net Assets</b>	<b>\$918,646,126</b>	<b>\$832,727,773</b>	<b>\$85,918,353</b>	<b>10.32%</b>

\* Net of investment expense of \$5,365,352 and \$6,090,615 for June 30, 2010 and 2009, respectively.

## SYSTEM'S FIDUCIARY RESPONSIBILITIES

The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution, the assets 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 28, 2011

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

	2011	2010
<b>ASSETS</b>		
Cash (Note 5)	\$1,317,503	\$941,087
Collateral Held for Securities Lent (Note 7)	173,363,344	161,862,198
Receivables		
Receivables for Investments Sold	11,096,805	18,230,157
Interest and Dividends	3,757,293	3,796,789
Other Receivables	4,550,765	1,686,162
<b>Total Receivables</b>	<b>19,404,863</b>	<b>23,713,108</b>
Prepaid Expenses	102,840	103,540
<b>Total Current Assets</b>	<b>194,188,550</b>	<b>186,619,933</b>
Investments at Fair Value (Note 5)		
Domestic Equity	400,477,491	248,437,447
International Equity	221,750,417	230,832,905
Government Bonds	175,695,061	169,359,346
Corporate Bonds	136,784,237	126,276,366
Real Estate	105,837,124	84,463,534
Emerging Market Equity	48,997,718	43,644,354
Short Term Investments	29,404,478	27,270,361
<b>Total Investments</b>	<b>1,118,946,526</b>	<b>930,284,313</b>
Capital Assets Net of Accumulated Depreciation (Note 10)	50,633	55,268
<b>Total Assets</b>	<b>1,313,185,709</b>	<b>1,116,959,514</b>
<b>LIABILITIES</b>		
Collateral Held for Securities Lent (Note 7)	173,363,344	161,862,198
Payable for Investments Purchased	24,833,866	33,777,694
Other Liabilities	1,233,603	1,046,679
Payable for Foreign Currency Purchased	4,543,320	1,626,817
<b>Total Liabilities</b>	<b>203,974,133</b>	<b>198,313,388</b>
<b>Net Assets Held In Trust for Benefits</b>	<b>\$1,109,211,576</b>	<b>\$918,646,126</b>

THE NOTES TO THE FINANCIAL STATEMENTS ON PAGE 14 TO 28 ARE AN INTEGRAL PART OF THIS STATEMENT.

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

	2011	2010
<b>ADDITIONS</b>		
Contributions (Note 3):		
Employer	\$19,397,178	\$12,094,355
System Members	7,304,036	7,354,890
<b>Total Contributions</b>	<b>26,701,214</b>	<b>19,449,245</b>
Investment Income:		
Net Appreciation in Value of Investments	194,349,041	95,985,514
Interest	13,911,170	14,716,608
Dividends	12,758,726	12,151,201
Other Investment Related	48,344	38,933
Total Investment Income	221,067,281	122,892,256
Less: Investment Expense	(5,621,785)	(5,312,622)
<b>Total Net Investment Income</b>	<b>215,445,496</b>	<b>117,579,634</b>
Securities Lending Income		
Securities Lending Earnings (Note 7)	561,097	491,043
Less: Securities Lending Expense	(12,577)	(52,730)
<b>Net Securities Lending Income</b>	<b>548,520</b>	<b>438,313</b>
<b>Total Additions</b>	<b>242,695,230</b>	<b>137,467,192</b>
<b>DEDUCTIONS</b>		
Benefit Payments	48,894,173	46,327,487
Post Retirement Supplemental Benefits (Note 9)	1,662,077	3,311,087
Refunds of Contributions	493,579	917,610
Administrative Expenses	1,079,951	992,655
<b>Total Deductions</b>	<b>52,129,780</b>	<b>51,548,839</b>
<b>Net Increase</b>	<b>190,565,450</b>	<b>85,918,353</b>
<b>NET ASSETS HELD IN TRUST FOR BENEFITS</b>		
<b>Beginning of the Year</b>	<b>918,646,126</b>	<b>832,727,773</b>
<b>End of the Year</b>	<b>\$1,109,211,576</b>	<b>\$918,646,126</b>

THE NOTES TO THE FINANCIAL STATEMENTS ON PAGE 14 TO 28 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, 2011 and 2010:

	2011	2010
Active Members:		
Vested	884	880
Non-vested	194	255
	1,078	1,135
Retirees and Beneficiaries of Deceased		
Retirees, Currently Receiving Benefits	938	902
Inactive Vested Members	47	52
	985	954
Total	2,063	2,089

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

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

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

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

**Basis of Accounting**

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

## 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### ***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.

### ***Date of Management's Review***

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

## 3 - CONTRIBUTIONS

### ***Authority to Collect***

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

### ***Funding Status & Method***

The funding ratio as of June 30, 2010 was 110.8% 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, 2010, the actuarial value of assets was \$1.12 billion.

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

The liability is being funded on the 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, 2010 is illustrated in the Schedule of Funding Progress shown below and in the Required Supplemental Schedule on page 31.

## 3 - CONTRIBUTIONS CONTINUED

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

(DOLLARS IN MILLIONS)

Actuarial Valuation Date Year Ending June 30	(1) Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded)/Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded)/Unfunded AAL Percentage of Covered Payroll (4) / (5)
2008	\$1,066.78	830.0	128.5%	\$(236.70)	98.9	(239.3%)
2009	\$1,045.77	874.3	119.6%	\$(171.42)	102.3	(167.5%)
2010	\$1,018.61	919.3	110.8%	\$(99.31)	102.7	(96.7%)

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

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

**LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS**

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	15 Year Open (subject to change) non-declining period for all Prefunded Actuarial Accrued Liability; no UAAL currently exists.
Asset Valuation Method	Actuarial Value, 5 year Smoothed Market Value recognizing differences between the total market value and the expected investment return
Actuarial Assumptions	
Investment Rate of Return	8.00%
Projected Salary Increases	4.00% Plus Merit and Promotion increases (Service and Age)
Attributed to Inflation	3.50%
Cost of Living Adjustments	4.00% Tier I 3.00% Tier II

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

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

**3 - CONTRIBUTIONS CONTINUED**

**Funding Policy**

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

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 2011 totaled \$26,701,214. Employees (both tiers) contributed \$7,304,036 and the City contribution of \$19,397,178.

**First Tier**

Contributions aggregating \$3,684,570 (\$3,457,053 net employer and \$227,517 employee) were made in fiscal year 2011, based on an actuarial valuation determined as of June 30, 2009, which became effective for the year ended June 30, 2011. For fiscal year 2011, the employer contribution rate was set at 26.43%; however, only a cash contribution of \$3,457,053 was required from the City due to the use of the prefunded actuarial liability of the System. Employer and employee contributions represented 20.05 percent and 4.87 percent, respectively, of the fiscal year 2011 covered payroll.

Contributions aggregating \$2,856,690 (\$2,531,543 net employer and \$325,147 employee) were made in fiscal year 2010, based on an actuarial valuation determined as of June 30, 2008, which became effective for the year ended June 30, 2010. For fiscal year 2010, the employer contribution rate was set at 26.38%; however, only a cash contribution of \$2,531,543 was required from the City due to the use of the prefunded actuarial liability of the System. Employer and employee contributions represented 12.54 percent and 4.89 percent, respectively, of the fiscal year 2010 covered payroll.

**Second Tier**

Contributions aggregating \$23,016,644 (\$15,940,125 net employer and \$7,076,519 employee) were made in fiscal year 2011, based on an actuarial valuation determined as of June 30, 2009, which became effective for the year ended June 30, 2011. The employer contribution rate was set at 18.60 percent; however, due to a contribution shortfall from the prior year an additional \$1,149,917 was required from the City. Employer and employee contributions represented 20.04 percent and 9.00 percent, respectively, of the fiscal year 2011 covered payroll.

Contributions aggregating \$16,592,555 (\$9,562,812 net employer and \$7,029,743 employee) were made in fiscal year 2010, based on an actuarial valuation determined as of June 30, 2008, which became effective for the year ended June 30, 2010. The employer contribution rate was set at 18.49%; however, only \$9,562,812 was required from the City due to the use of prepaid contributions and the prefunded actuarial liability of the System. Employer and employee contributions represented 12.11 percent and 9.00 percent, respectively, of the fiscal year 2010 covered payroll.

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

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

The City's normal contributions to the Fire and Police Retirement System for 2011 were estimated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2009, as follows:

	Actuarial Rates as a Percentage of Pensionable Payroll	
	Effective FY 11	Effective FY 10
Employer Normal (First Tier)	26.43%	26.38%
Employer Normal (Second Tier)	18.60%	18.49%

**3 - CONTRIBUTIONS CONTINUED**

At June 30, 2010, actuarial valuation, the actuarial accrued liability of the Fire and Police Retirement System was \$919,285,576. The actuarial value of the assets was \$1,018,605,310 for a funding ratio of 110.8 percent.

	<b>FY2011</b>		
	Tier 1	Tier 2	Total
Member Contributions	\$227,517	\$7,076,519	\$7,304,036
Employer Contribution Rate	26.43%	18.60%	
Employer Contributions	\$4,556,650	\$14,790,208	\$19,346,858
Less: Prefunded Actuarial Accrued Liability	(1,099,597)	1,149,917	50,320
Net Employer Contributions	\$3,457,053	\$15,940,125	\$19,397,178
Pensionable Payroll	\$17,240,447	\$79,517,245	\$96,757,692

	<b>FY2010</b>		
	Tier 1	Tier 2	Total
Member Contributions	\$325,147	\$7,029,743	\$7,354,890
Employer Contribution Rate	26.38%	18.49%	
Employer Contributions	\$5,324,377	\$14,604,378	\$19,928,755
Less: Prefunded Actuarial Accrued Liability	(2,792,834)	(5,041,566)	(7,834,400)
Net Employer Contributions	\$2,531,543	\$9,562,812	\$12,094,355
Pensionable Payroll	\$20,182,969	\$78,983,033	\$99,166,002

**4- NET ASSETS AVAILABLE FOR BENEFITS**

Net assets available for benefits are segregated into Active Members Reserve (members' accumulated contributions) and reserves established by the Board for various benefit payments.

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

**ACTIVE MEMBER RESERVES** represent the total accumulated member contributions. Additions include member contributions and investment earnings; deductions include refunds of member contributions and transfers to Employer Advance/Retired Reserves.

**EMPLOYER ADVANCE/RETIRED RESERVES** represent the total accumulated employer contributions for future retirement payments to current active members and vested terminated members, and the total accumulated transfers from Active Member Reserves and investment earnings, less payments to retired members and transfers to the DROP Reserve. Additions include contributions from the employer, transfers from Active Member Reserve, and investment earnings; deductions include payments to retired members and transfers to the DROP Reserve.

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

**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.

**4- NET ASSETS AVAILABLE FOR BENEFITS CONTINUED**

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.

Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserve and the Employer Advance/Retired Reserves. Active members in the Deferred Retirement Option Program accrue interest on their accumulated DROP accounts monthly at an interest rate annually adopted by the Board.

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

	2011	2010
Employer Advance/Retired Reserves	\$909,591	\$728,989
DROP Reserves	103,184	99,664
Active Member Reserves	99,261	91,414
PRSB Reserves	269	2,022
City Surplus Reserves	(3,093)	(3,443)
<b>Net Assets Held in Trust for Benefits</b>	<b>\$1,109,212</b>	<b>\$918,646</b>

**5 - DEPOSITS AND INVESTMENTS**

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

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

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

	2011	2010
<b>Investments at Fair Value</b>		
Domestic Equity	\$400,477	\$248,438
International Equity	221,750	230,833
Government Bonds	175,695	169,359
Corporate Bonds	136,784	126,276
Real Estate	105,837	84,464
Emerging Market Equity	48,998	43,644
Short Term Investments	29,405	27,270
<b>Total Investments at Fair Value</b>	<b>\$1,118,946</b>	<b>\$930,284</b>

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

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

## 5 - DEPOSITS AND INVESTMENTS CONTINUED

Allowable securities must meet the reporting requirements of the Securities and Exchange Commission and must meet a “prudent expert” standard for investing. In no case may the System have 5 percent or more of System net assets invested in any one organization.

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

### **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Retirement System investment securities are not exposed to custodial credit risk since all securities are registered in the Systems’ name and held by the Systems’ custodial bank.

Custodial credit risk for deposits is the risk that, in the event of the failure of 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 in a Trust account as part of the City’s cash investment pool totaled \$57,784 and \$148,610 at June 30, 2011 and 2010, respectively. Accordingly the System’s Investments in the pool are held in the name of the City and are not specifically identifiable.

Disclosure of the legal and contractual provisions of the City’s investment policy and carrying amounts by type of investments may be found in the notes to the City’s separate Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

### **Credit and Interest Rate Risk**

Credit risk associated with the System’s debt securities is identified by their ratings in the table below. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System has no general policy on credit and interest rate risk. The System limits its investments in below investment grade bonds and monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio. The average duration of the system’s debt portfolios in years is also listed in the table below:

Type of Investment	2011			2010		
	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset Backed Securities	\$ 1,819,390	BBB-	1.89	\$ 1,729,074	BBB+	1.81
Commercial Mortgage-Backed	6,659,117	AA+	3.29	8,563,571	AA+	3.82
Corporate Bonds	114,664,970	BBB-	5.05	102,626,108	BBB-	5.56
Corporate Convertible Bonds	3,320,723	B-	6.21	3,747,877	B-	3.17
Guaranteed Fixed Income	621,425	AA+	1.11	1,910,449	AAA	1.58
Non-Government backed C.M.O.s	6,099,594	B+	3.19	6,550,241	B	2.17
Convertible Equity	1,185,017	B+	5.96	927,191	B	8.11
Other Fixed Income	6,363	NR	13.00	42,520	NR	0.00
Common Stock	1,274,617	NR	13.00	-	NR	0.00
Preferred Stock	1,133,021	BB-	4.67	179,335	CC	7.72
Government Agencies	8,554,664	AAA	3.67	10,964,940	AAA	4.32
Government Bonds	59,357,720	AAA	4.18	62,577,663	AAA	4.46
Government Mortgage Backed Securities	98,935,515	AAA	2.29	90,987,248	AAA	2.77
Index Linked Government Bonds	11,535	CC	1.32	149,482	BB-	1.00
Municipal/Provincial Bonds	8,835,627	A-	10.01	4,680,013	A	9.57
<b>Total Credit Risk Fixed Income</b>	<b>\$ 312,479,298</b>			<b>\$ 295,635,712</b>		

## 5 - DEPOSITS AND INVESTMENTS CONTINUED

Per section 5.4(6) of the System's Investment Policy Statement, no more than 5 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). Therefore, at least 85 percent of the manager's fixed income portfolio must be invested in investment grade securities. Intermediate Bond portfolios shall maintain an average credit quality of A+ or better.

High yield fixed income portfolios, in accordance with section 5.4(7) of the Systems' Investment Policy Statement, shall maintain an average credit quality rating of at least B1/B+ at all times. No more than 20 percent of a high yield manager's portfolio may be invested in bonds rated Caa1/CCC+ or lower with non-rated bonds limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of B1/B+. No more than 25 percent of a high yield manager's portfolio may be invested in foreign securities; and within this limit up to 15 percent of the portfolio may be invested in non-US dollar denominated securities.

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

### **Concentration Risk**

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

### **Foreign Currency Risk**

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

## 5 - DEPOSITS AND INVESTMENTS CONTINUED

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

2011			Equities /	Foreign	Rights &	Cash &	Total
Base Currency		Country	Fixed Income	Currency Contracts	Warrants	Cash Equivalents	
AUD	Australian Dollar	Australia	\$15,274,798	\$(1,181)	\$-	\$22,991	\$15,296,608
BRL	Brazilian Real	Brazil	5,172,271	-	-	502,342	5,674,613
CAD	Canadian Dollar	Canada	7,596,333	-	-		7,596,333
CHF	Swiss Franc	Switzerland	14,358,784	1,261	-	51,119	14,411,164
CLP	Chilean Peso	Chile	(139,285)	(806)	-		(140,091)
COP	Colombian Peso	Colombia	142,906	-	-		142,906
CZK	Czech Koruna	Czech Republic	241,226	-	-		241,226
DKK	Danish Krone	Denmark	5,549,608	(2,194)	-		5,547,414
EGP	Egyptian Pound	Egypt	29,820	-	-		29,820
EUR	Euro	Europe	54,963,140	(4,732)	-	5,724	54,964,132
GBP	British Pound Sterling	United Kingdom	42,390,813	29	-		42,390,842
HKD	Hong Kong Dollar	Hong Kong	16,744,483	(2)	-	30,660	16,775,141
HUF	Hungarian Forint	Hungary	648,883	-	-	4,092	652,975
IDR	Indonesian Rupiah	Indonesia	2,351,982	-	-	78,937	2,430,919
ILS	New Israeli Shekel	Israel	183,994	-	-		183,994
INR	Indian Rupee	India	2,497,733	-	-	3,411	2,501,144
JPY	Japanese Yen	Japan	35,688,424	37	-		35,688,461
KRW	South Korean Won	South Korea	10,489,200	-	-	3,129	10,492,329
MXN	Mexican Peso	Mexico	1,582,928	-	-	51,204	1,634,132
MYR	Malaysian Ringgit	Malaysia	1,089,318	-	-		1,089,318
NOK	Norwegian Krone	Norway	4,952,262	-	-		4,952,262
PHP	Philippine Peso	Phillipines	139,888	-	-		139,888
PLN	Polish Zloty	Poland	654,702	(12)	-		654,690
SEK	Swedish Krona	Sweden	8,871,123	-	-		8,871,123
SGD	Singapore Dollar	Singapore	5,030,396	-	-	18,112	5,048,508
THB	Thai Baht	Thailand	932,344	-	-	2	932,346
TRY	Turkish Lira	Turkey	1,627,270	-	-		1,627,270
TWD	New Taiwan Dollar	Taiwan	3,767,337	-	-		3,767,337
USD	United States Dollar	United States		3,822	6,363		10,185
ZAR	South African Rand	South Africa	5,376,837	(1,237)	-	54,033	5,429,633
Total Equities (In USD)			248,209,518	(5,015)	6,363	825,756	249,036,622
Total Non-USD Equities (In USD)			\$248,209,518	\$(8,837)	\$-	\$825,756	\$249,026,437

## 5 - DEPOSITS AND INVESTMENTS CONTINUED

## 2010

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	\$13,730,419	\$-	\$-	\$464	\$13,730,883
BRL	Brazilian Real	Brazil	4,886,741			39,067	4,925,808
CAD	Canadian Dollar	Canada	5,057,951			4,500	5,062,451
CHF	Swiss Franc	Switzerland	13,727,254			90,176	13,817,430
COP	Colombian Peso	Colombia	363,320			-	363,320
DKK	Danish Krone	Denmark	4,385,979			22,101	4,408,080
EGP	Egyptian Pound	Egypt	636,985			-	636,985
EUR	Euro	Europe	55,628,488	(307)		98,691	55,726,872
GBP	British Pound Sterling	United Kingdom	38,531,638	851		16,618	38,549,107
HKD	Hong Kong Dollar	Hong Kong	17,535,991		1,534	289,828	17,827,353
HUF	Hungarian Forint	Hungary	145,319	24,897		-	170,216
IDR	Indonesian Rupiah	Indonesia	2,274,177			19,243	2,293,420
ILS	New Israeli Shekel	Israel	581,233			-	581,233
INR	Indian Rupee	India	3,284,245			5,056	3,289,301
JPY	Japanese Yen	Japan	45,312,355	(84)		119,309	45,431,580
KRW	South Korean Won	South Korea	6,469,874			-	6,469,874
MXN	Mexican Peso	Mexico	2,005,886			-	2,005,886
MYR	Malaysian Ringgit	Malaysia	424,260			-	424,260
NOK	Norwegian Krone	Norway	3,295,986			26,404	3,322,390
NZD	New Zealand Dollar	New Zealand	205,774			9,502	215,276
PHP	Philippine Peso	Phillipines	141,995			-	141,995
PLN	Polish Zloty	Poland	435,282	(23)		-	435,259
SEK	Swedish Krona	Sweden	6,695,577			2,667	6,698,244
SGD	Singapore Dollar	Singapore	7,057,924		2,563	28,908	7,089,395
THB	Thai Baht	Thailand	1,156,871			-	1,156,871
TRY	Turkish Lira	Turkey	2,566,559	1,520		-	2,568,079
TWD	New Taiwan Dollar	Taiwan	4,120,692			42,329	4,163,021
USD	United State Dollar	United States		367		-	367
ZAR	South African Rand	South Africa	4,745,336	(2,222)		3,329	4,746,443
Total Equities (In USD)			245,404,111	24,999	4,097	818,192	246,251,399
Total Non-USD Equities (In USD)			\$245,404,111	\$24,632	\$4,097	\$818,192	\$246,251,032

## 5 - DEPOSITS AND INVESTMENTS CONTINUED

Per section 5.4(5) of the System's Investment Objectives and Policy Statement, assets in international equity portfolios will be primarily composed of foreign ordinary shares and ADR's. Primarily large capitalization securities may be held, although investments in small and mid capitalization securities are also allowed. Firms will continually monitor their country, currency, sector and security selection risks associated with their international portfolios. All of the risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

The System's complete Investment Objectives and Policy Statement can be found on the System's website at [www.CFRS-CA.org](http://www.CFRS-CA.org) or by contacting the Retirement Office at 2828 Fresno Street, Suite 201, Fresno, CA 93721.

## 6- DERIVATIVES

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

- a. Mitigation of risk (or risk reduction).
- b. A useful substitute for an existing, traditional investment.
- c. To provide investment value to the portfolio while being consistent with the System's overall and specific investment policies.
- d. To obtain investment exposure which is appropriate for the manager's investment strategy and the System's investment guidelines, but 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 Retirement Board establishes minimum credit requirements for such securities. The other derivative instruments described above are subject to credit risk to the extent their value is a positive market value, and the counterparty to such contract fails to perform under the terms of the instrument.

## 6 - DERIVATIVES CONTINUED

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 for speculating on future movement of the index.

As of June 30, 2011 and 2010, the Fire and Police Retirement System held a total value of \$3,157,853 and \$1,831,282, in derivative holdings. These holdings consisted of Right/Warrants and Foreign Currency Forwards and Futures designed to synthetically create equity returns and are held as components of the System's international equity investments, and S&P 500 E Mini Index Futures, S&P MidCap 400 E Mini Futures and a variety of ACWIexUS index related futures as components of the System's investments in BlackRock S&P 500 Equity Index, Russell 1000, and ACWIexUS Index 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.

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

### Derivative Type:

	FY 2011		FY 2010	FY 2011 - FY 2010 Change in Fair Value
	Notional Amount	Fair Value	Fair Value	
Rights/Warrants	499*	6,363	4,097	2,266
Foreign Currency Forward	\$ (5,015)	(5,015)	24,999	(30,014)
Future Contracts - Domestic Equity Index	-	2,665,993	1,802,186	863,807
Future Contracts - International Equity Index	-	490,512	-	490,512
Total		3,157,853	1,831,282	

### Derivative Type:

	FY 2010		FY 2009	FY 2010 - FY 2009 Change in Fair Value
	Notional Amount	Fair Value	Fair Value	
Rights/Warrants	242,407*	\$ 4,097	\$ 274,587	\$ (270,490)
Foreign Currency Forward	\$ 24,999	24,999	25,675	(676)
Future Contracts - Domestic Equity Index	-	1,802,186	486,201	1,315,985
Swaps	-	-	21,974	(21,974)
Total		1,831,282	808,437	

\* Shares

## 7 - SECURITIES LENDING

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

As designated by the Board, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2011, had a weighted average duration of 21 days, average maturity is 102 days and an average monthly yield of 0.29 percent. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the security loans made by other entities that use the Northern Trust Core U.S.A. Collateral Section and a definitive statement of that relationship cannot be formulated by the System. As of June 30, 2011, the CORE USA Cash Collateral Fund had 0.15 percent exposure in below investment grade long-term securities and there were no known credit risks related to the securities lending transactions.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the System against losses and will replace or reimburse the System for any borrowed securities not replaced. In general, the average term of all System loans is overnight or "on demand". All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the System's loans was approximately 88 days as of June 30, 2011.

The securities lending income is as follows:

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

	2011	2010
Gross Income	\$561,097	\$491,043
Expenses		
Borrower Rebates	(124,419)	(50,234)
Bank Fees	136,996	102,964
Total Expenses	12,577	52,730
Net Income from Securities Lending	\$548,520	\$438,313

## 7 - SECURITIES LENDING CONTINUED

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

Collateralized by	FY 2011			FY 2010		
	Cash	Securities	Totals	Cash	Securities	Total
U.S. Government & Agency	\$48,180,351	\$654,603	\$48,834,954	\$50,803,752	\$-	\$50,803,752
Domestic Equities	85,919,074	9,939	85,929,013	60,736,195	127,933	60,864,128
Domestic Fixed	16,754,412	-	16,754,412	15,139,062	-	15,139,062
International Equities	17,899,982	141,448	18,041,430	30,010,123	34,999	30,045,122
<b>Total</b>	<b>\$168,753,819</b>	<b>\$805,990</b>	<b>\$169,559,809</b>	<b>\$156,689,132</b>	<b>\$162,932</b>	<b>\$156,852,064</b>

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

Collateralized by	FY 2011			FY 2010		
	Cash	Securities	Totals	Cash	Securities	Total
U.S. Government & Agency	\$49,189,798	\$668,525	\$49,858,323	\$51,867,939	\$-	\$51,867,939
Domestic Equities	87,538,123	10,121	87,548,244	62,616,337	131,680	62,748,017
Domestic Fixed	17,080,262	-	17,080,262	15,562,215	-	15,562,215
International Equities	18,730,834	145,681	18,876,515	31,647,060	36,967	31,684,027
<b>Total</b>	<b>\$172,539,017</b>	<b>\$824,327</b>	<b>\$173,363,344</b>	<b>\$161,693,551</b>	<b>\$168,647</b>	<b>\$161,862,198</b>

## 8 - 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.

## 9- POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (PRSB)

The Post-Retirement Supplemental Benefit ("PRSB") Program was created as a contingent program to provide supplemental distributions to eligible retirees which they could use to pay for various post-retirement expenses. The Retirement Board will annually review the actuarial valuation report and declare an actuarial surplus if available in accordance with the procedures in Municipal Code Section 3-354.

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, 2011 the System distributed PRSB benefits in the total amount of \$1,936,537 to eligible recipients (including \$1,662,077 to retirees and \$274,460 to DROP participants) and offset required City pension contributions by \$440,134. As of June 30, 2011, the City Surplus Reserve balance was \$(3,092,969) and the PRSB Reserve balance was \$269,117.

The City Surplus Reserve balance as of June 30, 2011 represents a City contribution shortfall for fiscal year 2011. This contribution shortfall is a result of the difference between the actual and projected June 30, 2010 surplus which was allocated to the City in the June 30, 2009 actuarial valuation used for setting the City's contribution rate for fiscal year 2011. The City's normal contribution rate for fiscal year 2012 has factored in the contribution shortfall to recover the shortfall reflected in the City Surplus Reserve balance.

## 10 - CAPITAL ASSETS

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

## 11- LEASES

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

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

## 12 - RELATED PARTY TRANSACTIONS

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

The Retirement Systems lease office space from the CFRS Realty Holding Corporation, a title holding company controlled jointly by the City of Fresno Employees and City of Fresno Fire and Police Retirement Systems. See note 11 for a description of this arrangement.